Second Quarter Report 2018

SpareBank 1 SMN

Contents

Main figures

From the income statement	First half 2018 NOKm	%1)	First half 2017 NOKm	%1)	2017 NOKm	%1)
Net interest	1,149	1.48	1,066	1.49	2,225	1.52
Net commission income and other income	1,149	1.48	993	1.39	2,005	1.37
Net return on financial investments	480	0.62	269	0.38	760	0.52
Total income	**2,778**	**3.58**	**2,328**	**3.25**	**4,989**	**3.42**
Total operating expenses	**1,306**	**1.69**	**1,169**	**1.63**	**2,369**	**1.62**
Results before losses	**1,471**	**1.90**	**1,159**	**1.62**	**2,621**	**1.80**
Loss on loans, guarantees etc	127	0.16	175	0.24	341	0.23
Results before tax	**1,345**	**1.74**	**984**	**1.37**	**2,279**	**1.56**
Tax charge	287	0.37	210	0.29	450	0.31
Result investment held for sale, after tax	151	0.20	2	0.00	-1	0.00
Net profit	**1,209**	**1.56**	**776**	**1.08**	**1,828**	**1.25**
Interest Tier 1 Capital	20		17		33	
Net profit excl. Interest Tier 1 Capital	1,189		759		1,795	

Key figures	30 June 2018	30 June 2017	31 Dec 2017
Profitability			
Return on equity 2)	14.4 %	9.9 %	11.5 %
Cost-income ratio 2)	47 %	50 %	47 %
Balance sheet figures			
Gross loans to customers	115,787	107,358	112,071
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	154,790	143,800	148,784
Deposits from customers	80,343	75,559	76,476
Deposit-to-loan ratio excl. SB1 Boligkreditt and SB1 Næringskreditt	69 %	70 %	68 %
Deposit-to-loan ratio incl. SB1 Boligkreditt and SB1 Næringskreditt 2)	52 %	53 %	51 %
Growth in loans (gross) last 12 months (incl. SB1 Boligkreditt and SB1 Næringskreditt) 2)	7.6 %	8.5 %	8.2 %
Growth in deposits last 12 months	6.3 %	12.7 %	13.9 %
Average total assets	154,973	143,190	145,948
Total assets	159,584	149,449	153,254
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt			
Impairment losses ratio 2)	0.17 %	0.25 %	0.23 %
Non-performing commitm. as a percentage of gross loans 2)	0.18 %	0.18 %	0.19 %
Other doubtful commitm. as a percentage of gross loans 2)	1.05 %	0.80 %	0.80 %
Solidity			
Capital adequacy ratio	19.0 %	19.0 %	18.6 %
Core capital ratio	17.0 %	16.8 %	16.6 %
Common equity tier 1 ratio	15.0 %	14.9 %	14.6 %
Core capital	16,488	15,526	15,707
Net equity and related capital	18,418	17,552	17,629
Liquidity Coverage Ratio (LCR)	150 %	160 %	164 %
Leverage Ratio	7.4 %	7.2 %	7.2 %
Branches and staff			
Number of branches	48	48	48
No. Of full-time positions	1,439	1,408	1,403

1) Calculated as a percentage of average total assets

2) Defined as alternative performance mesures, see attachment to the quarterly report

Key figures ECC	30 June 2018	30 June 2017	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014
ECC ratio	63.9 %	64.0 %	64.0 %	64.0 %	64.0 %	64.6 %
Number of certificates issued, millions [2)]	129.31	129.54	129.38	129.64	129.43	129.83
ECC share price at end of period (NOK)	84.50	71.75	82.25	64.75	50.50	58.50
Stock value (NOKM)	10,926	9,316	10,679	8,407	6,556	7,595
Booked equity capital per ECC (including dividend) [2)]	80.21	75.40	78.81	73.35	67.39	62.04
Profit per ECC, majority [2)]	5.75	3.66	8.71	7.93	6.96	8.82
Dividend per ECC			4.40	3.00	2.25	2.25
Price-Earnings Ratio [2)]	7.35	9.80	9.44	8.17	7.26	6.63
Price-Book Value Ratio [2)]	1.05	0.95	1.04	0.88	0.75	0.94

[2)] Defined as alternative performance measures, see attachment to the quarterly report

Report of the Board of Directors

First half accounts 2018

(Consolidated figures. Figures in parenthesis refer to the same period of 2017 unless otherwise stated).

Main points first half of 2018

- Good profits from banking operations, subsidiaries and product companies
- Profit was NOK 1,209m and NOK 433m better than in the first half of 2017. The improvement is due to increased operating income, improved return on financial assets and reduced loan losses
- Common equity tier 1 (CET1) ratio at 30 June 2018: 15.0%
- Considerable increase in customer base and high growth in all product areas

Post-tax profit of NOK 1,209m in first half of 2018

- Pre-tax profit: NOK 1,345m (984m)
- Post-tax profit: NOK 1,209m (776m)
- Return on equity: 14.4% (9.9%)
- CET1 ratio: 15.0% (14.9%)
- Growth in lending: 7.6% (8.5%) and in deposits: 6.3% (12.7%) in the last 12 months
- Growth in lending to retail borrowers: 10.6% in the last 12 months. Retail loans account for 67% (65%) of total lending
- Growth in lending to corporate borrowers: 2.0% in the last 12 months
- Losses on loans and guarantees: NOK 127m (175m), measuring 0.17% (0.25%) of gross lending
- Earnings per equity certificate (EC): NOK 5.75 (3.66). Book value per EC: NOK 80.21 (75.40)

Main points second quarter of 2018

- Pre-tax profit: NOK 748m (518m)
- Post-tax profit: NOK 743m (409m)
- Return on equity: 17.9% (10.5%)
- Net gain on financial assets: NOK 195 (35m)
- Loan losses: NOK 78m (86m), measuring 0.20% (0.24%) of gross lending
- Earnings per equity certificate (EC): NOK 3.54 (1.92).

Profit NOK 433m higher than in first half of 2017

SpareBank 1 SMN achieved a pre-tax profit of NOK 1,345m (984m) in the first half of 2018. The net profit is NOK 1,209m (776m) and return on equity is 14.4% (9.9%).

Aggregate operating income in the first half of 2018 came to NOK 2,297m (2,059m). This gives an increase of NOK 239m from the previous year. NOK 114m of the income growth derives from increased activity at the bank’s subsidiaries SpareBank 1 SMN Regnskapshuset and SpareBank 1 Markets.

Operating expenses totalled NOK 1,306m (1,169m) in the first half of 2018. The increase of NOK 137m derives mainly from increased activity on the part of subsidiaries.

The profit share from owner interests and related companies was NOK 181m (165m). Return on financial assets was NOK 299m (104m), of which NOK 90m is related to the gain resulting from the merger of the following companies: Vipps, Bank Axept and Bank ID.

Aggregate losses on loans and guarantees were NOK 127m (175m). Loss provisioning relates mainly to oil-related activity.

Result from investments held for sale is NOK 151m of which NOK 150m is related to the sale of the bank's head office building in Trondheim.

The sound growth in lending and deposits continues, and the bank is expanding its market share in the retail segment. Overall lending rose by 7.6% (8.5%) and deposits by 6.3% (12.7%).

As at 30 June 2018 the CET1 ratio was 15.0% (14.9%). The CET1 ratio target is 15.0%.

Earnings per EC were NOK 5.75 (3.66). The book value per EC was NOK 80.21 (75.40).

The price of the bank's equity certificate (MING) at the half-year mark was NOK 84.50 (71.75). A cash dividend of NOK 4.40 (3.00) per EC has been paid in 2018 for the year 2017.

Increased net interest income

Net interest income rose by NOK 83m to NOK 1,149m (1,066m) in the first half of 2018. The increase is in all essentials attributable to increased lending to and deposits from both retail and corporate customers.

Risk pricing and attention to the use of regulatory capital have brought improved margins on parts of the corporate portfolio, and work in this respect continues.

After a long period of decline, the market interest rate in terms of three-month NIBOR rose in the first quarter and in parts of the second quarter, but fell in the second half of the second quarter. Residential mortgage margins have thus come under pressure over the first half-year at the same time as the deposit margin has improved.

Increased other income

Commission and other operating income have risen by NOK 156m to NOK 1,149m (993m) in 2018.

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies combined totalled NOK 193m (166m) in the first half-year. Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt rose by NOK 27m as a result of higher portfolio sales and improved margins.

Other commission income totalled NOK 956m (827m). The strong growth is mainly a result of increased activity at SpareBank 1 Markets and acquisitions by SpareBank 1 Regnskapshuset SMN.

A high number of multi-product customers is important for the bank. It signifies high customer satisfaction and provides a diversified income flow for the bank.

Commission income (NOKm)	First half 2018	2017	Change
Payment transfers	99	102	-4
Creditcard	31	29	2
Saving products	52	44	8
Insurance	87	84	3
Guarantee commission	32	32	0
Real estate agency	203	200	2
Accountancy services	241	200	41
Markets	178	105	73
Other commissions	34	31	3
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	956	827	129
Commissions SB1 Boligkreditt	185	158	27
Commissions SB1 Næringskreditt	7	8	-1
Total commissions	**1,149**	**993**	**155**

Good return on financial investments

Overall return on financial investments was NOK 299m (105m). This breaks down as follows:

- Gain and dividend of NOK 124m (13m) on shares of the bank and subsidiaries. Of this, NOK 90m refers to a gain resulting from the agreed merger between Vipps, Bank Axept and Bank ID.
- Financial derivatives yielded gains of NOK 142m (22m). This essentially comprises gains on fixed income instruments. The relatively large gains are ascribable to an interest rate increase through the first half-year. This is partly neutralised by losses on the fixed income portion of the bond portfolio, which shows overall losses of NOK 36m (gain of NOK 58m)
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans and show a gain of NOK 12m (15m)
- Income of NOK 26m (19m) from forex transactions comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies
- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 37m (25m)
- Financial instruments used by the bank for hedging purposes show a loss of NOK 6m (loss of NOK 48m)

Capital gains/dividends, shares (NOKm)	First half 2018	2017	Change
Capital gains shares	124	13	111
Gain/(loss) on derivatives	142	22	120
Gain/(loss) on other financial instruments at fair value (FVO)	12	15	-3
Foreign exchange gain/(loss)	26	19	7
Gain/(loss) on sertificates and bonds	-36	58	-94
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	37	25	12
Gain/(loss) on financial instruments related to hedging	-6	-48	42
Net return on financial instruments	**299**	**105**	**194**

Product companies and other related companies

The product companies give the bank's customers access to a broad product range and thus provide the bank with commission income. The product companies also provide the bank with a good return on invested capital.

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100% of the shares of SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans. SpareBank 1 SMN's stake in SpareBank 1 Gruppen was unchanged at 19.5% at the end of the first half of 2018. SpareBank 1 Gruppen's post-tax profit in the first half of 2018 was NOK 601m (711m). SpareBank 1 Forsikring contributes 85% of the profit. A weaker performance by the insurance business compared with an excellent first half of 2017 explains the profit decline shown by SpareBank 1 Gruppen.

SpareBank 1 SMN's share of the profit for the first half of 2018 was NOK 117m (134m).

Possible merger between SpareBank 1 Skadeforsikring and DNB Forsikring

SpareBank 1 Gruppen and DNB signed on 20 June an agreement of intent to amalgamate their insurance businesses. This will be done by merging DNB Forsikring AS with SpareBank 1 Skadeforsikring AS. The merged entity will feature a virtually complete product portfolio in the field of risk insurance for the retail and SMB market.

The agreement of intent incorporates a conversion ratio of roughly 80 per cent for SpareBank 1 Gruppen and 20 per cent for DNB. This conversion ratio is based on the value of the two non-life insurers.

SpareBank 1 Gruppen will hold a stake of 60 per cent and DNB a stake of 40 per cent in the merged entity. Market value will be the basis on which DNB will raise its stake to 40 per cent by purchasing a further 20 per cent of the company's shares. As of the merger date, the company will hold a share in excess of 15 per cent of the risk insurance market, making it Norway's third largest insurance company, and the country's largest in terms of distribution through a bank. The company will uphold, through the LOfavør programme, SpareBank 1's agreement to deliver products to the 930,000 members of trade unions affiliated to the Norwegian Confederation of Trade Unions (LO). The SpareBank 1 banks will distribute insurances under the SpareBank 1 brand, while DNB will distribute insurances under its own brand. The merger is scheduled to take effect on 1 January 2019, assuming approval by government authorities.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to draw benefit from the market for covered bonds. The banks sell well-secured residential mortgages to the company and achieve reduced funding costs.

As of 30 June 2018 the bank has sold loans totalling NOK 37.2bn (34.2bn) to SpareBank 1 Boligkreditt, corresponding to 35.7% (36.3%) of the bank's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 19.9%, and the bank's share of that company's profit in the first half of 2018 was minus NOK 5m (minus 37m).

Valuation of the company's basis swaps is linked to currency hedging of the company's borrowings. These are valued semi-annually and may produce major profit fluctuations from one half-year to the next. Losses arise because the market cost of currency hedging is reduced and the effect of the loss is neutralised over the hedge period.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 30 June 2018, loans worth NOK 1.8bn (2.3bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.5%, and the bank's share of the company's profit for the first half of 2018 was NOK 8m (13m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank. Of aggregate loans residing in SpareBank 1 Næringskreditt, 43% have been sold from BN Bank.

SpareBank 1 Kredittkort

Profit for the first half of 2018 was NOK 65m (39m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.4%. SpareBank 1 SMN's share of the profit in the first half of 2018 was NOK 11m (7m), and the bank's share of the portfolio is NOK 893m (823m).

SpareBank 1 Kredittkort has managed the LOfavør credit card programme since 1 January 2017. This agreement expands the business relationship between the Norwegian Confederation of Trade Unions (LO) and the SpareBank 1 Alliance.

SpareBank 1 Kredittkort was commissioned in 2017 to deliver credit products to an expanded Vipps. The agreement is to be implemented in the course of 2018.

BN Bank

SpareBank 1 SMN owns 33.0% of BN Bank as at 30 June 2018.

BN Bank recorded a profit of NOK 155m (144m) in the first half of 2018, providing a return on equity of 8.7% (8.4%). SpareBank 1 SMN's share of BN Bank's profit in the first half of 2018 was NOK 53m (50m), adjusted for its share of BN Bolig's profit.

After the decision to wind down the focus on financing of commercial property, the corporate portfolio has been reduced by NOK 18.9bn or 59% since 30 June 2015. This has helped to improve SpareBank 1 SMN's financial solidity and to enhance the profitability of the remaining corporate portfolio of BN Bank.

BN Bank will cater primarily to the retail market in Oslo and south-eastern Norway.

BN Bank has resolved to strengthen its product platform through a cautious focus on consumer lending. In addition the company has, in collaboration with Eiendomsmegler 1 Midt Norge, established the company BN Bolig in which BN Bank holds a 50% stake. The focus on estate agency in the Oslo market may contribute to boosting BN Bank's residential mortgage lending. To support the focus on estate agency, the bank's board of directors has also adopted a new programme for funding housing projects. This will involve a controlled, gradual build-up of the portfolio.

SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for payments solutions, including Vipps. Bank ID and Bank Axept are to merge with Vipps in order to compete in the arena for payment solutions for the future, and the merger was approved by the Competition Authority on 27 April 2018. Vipps aims to take its place as the Nordic region's leading financial technology company. SpareBank 1 SMN's stake in, and close collaboration with, Vipps will be important with a view to retaining customer relationships after the introduction of PSD2 (Revised Payment Services Directive). In the course of 2018 Vipps will launch a number of services designed to simplify bank customers' everyday life, and its integration of accounts will ensure that costs are kept down.

SpareBank 1 Betaling posted in the first half-year a deficit of NOK 31m which constitutes the company's share of Vipps' profit. SpareBank 1 SMN's share of this deficit is NOK 6m. SpareBank 1 SMN has also, in the second quarter, taken to income a gain of NOK 90m related to the adopted merger.

Operating expenses

Overall Group operating expenses rose by NOK 137m in the first half of 2018 to total NOK 1,306m (1,169m).

Parent bank costs rose by NOK 19m in the 12 months to end-June, of which NOK 11m relates to the sale of the bank's head office building in Trondheim. Efficiency gains by the bank have enabled lower staffing and reduced costs. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 132 to 588 at the end of the first half of 2018. Changing customer behaviour and new technology set the stage for further efficiency gains. In parallel, a focus on new technology has increased IT and development costs, and will continue to do so. The target of zero growth in parent bank costs will however stand firm.

Total costs among the subsidiaries came to NOK 674m (556m), having risen by NOK 118m in the 12 months to end-June. Of this, NOK 34m refers to SpareBank 1 Regnskapshuset SMN's company acquisitions, NOK 75m to the build-up of SpareBank 1 Markets and NOK 9m to the BN Bolig undertaking. The subsidiaries is also continuously focusing on cost control.

SpareBank 1 Regnskapshuset SMN's acquisitions provide income growth and profit growth for the company. An increase in capacity brought by new appointments has enabled strong income growth at SpareBank 1 Markets, and the potential for further growth is high.

The cost-income ratio was 47% (50%) for the Group, 29% (30%) for the parent bank.

Reduced losses and low defaults

IAS 39 Financial Instruments: Recognition and Measurement was replaced by IFRS 9 Financial Instruments on 1 January 2018. The implementation effect is reflected directly in equity as of 1 January 2018. See notes 2 and 45 in the annual report for 2017, and note 1 in this report, for further details.

Net loan losses of NOK 127m (175m) were recorded in the first half of 2018. Net loan losses measure 0.17% of total outstanding loans (0.25%).

A net loss of NOK 111m (168m) was recorded on loans to corporates in the first half of 2018, in all essentials related to loans to oil-related activity.

A net loss of NOK 16m (loss of 7m) was recorded on loans to retail borrowers in the first half of 2018.

Write-downs on loans and guarantees total NOK 1,166m (919m) at 30 June 2018.

Overall problem loans (defaulted and doubtful) come to NOK 1,907m (1,409m), or 1.23% (0.98%) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. After implementation of IFRS 9 as from 1 January 2018, all loans classified to stage 3 in the expected credit loss model are defined as problem loans.

Defaults in excess of 90 days totalled NOK 275m (258m), breaking down to NOK 44m on corporates and NOK 231m on retail borrowers. Defaults measure 0.18% (0.18%) of gross outstanding loans.

Other doubtful exposures total NOK 1,632m (1,151m), breaking down to NOK 1,221 on corporates and NOK 20m on retail borrowers. Other doubtful exposures measure 1.05% (0.80%) of gross outstanding loans.

Credit quality in the loan portfolio is good. A very large share of the year's loan losses refers to oil-related activity, but the trend is positive in that part of the portfolio too.

Total assets of NOK 160bn

The bank's assets totalled NOK 160bn (149bn) as at 30 June 2018, having risen by NOK 11bn or 6.8% in the past year. The increase in total assets is mainly a consequence of a higher lending volume.

As at 30 June 2018 loans worth a total of NOK 39bn (37bn) have been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

High growth in residential mortgage lending

Total outstanding loans have risen by NOK 11.0bn (11.2bn) or 7.6% (8.5%) in the 12 months to end-June to reach NOK 154.8bn (143.8bn) as at 30 June 2018. Growth in the first half-year was 4.0% (4.6%).

- Lending to personal borrowers rose in the 12 months to end-June by NOK 10.0bn (9.0bn), i.e. by 10.6% (10.5%), to reach NOK 104.1bn (94.1bn). Growth in the first half-year was 5.5% (5.3%). This brought an increase in the bank's market share.
- Lending to corporates rose in the 12 months to end-June by NOK 1.0bn (2.3bn), i.e. by 2.0% (4.8%), to reach NOK 50.7bn (49.7bn). Lending to corporate borrowers rose in the first half of 2018 by 1.2% (3.3%).
- Lending to personal borrowers accounted for 67% (65%) of total loans to customers at end-June 2018.

The growth in residential mortgage lending is high and the bank's market shares are growing. There are no indications of higher loss and default levels in the bank's residential mortgage portfolio, and the quality of this portfolio is excellent.

New loans to corporate borrowers are mainly to small businesses and are prioritised based on capital limitations and profitability requirements.

(For distribution by sector, see note 5).

Good deposit growth

Customer deposits rose by NOK 4.8bn (8.5bn) in the 12 months to end-June to reach NOK 80.3bn (75.6bn). This represents a growth of 6.3% (12.7%). Deposit growth in the first half of 2018 was 5.1% (12.5%).

- Personal customer deposits rose by NOK 2.3bn (1.9bn) or 7.2% (6.2%) to reach NOK 34.3bn. In the first half-year the retail banking division recorded an increase of 8.0% (7.6%) in deposits
- Corporate deposits rose by NOK 2.5bn (6.7bn) or 5.7% (18.0%) to NOK 46.0bn. In the first half-year the corporate banking division recorded an increase of 3.0% (16.4%) in deposits.
- The deposit-to-loan ratio at SpareBank 1 SMN was 69% (70%), excluding SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 52% (53%).

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 10.0bn (9.0bn) as at 30 June 2018. The increase of NOK 1.0bn is a result of good sales and value increases, especially as regards equity funds and active asset management.

	First half		
Saving products, customer portfolio (NOKm)	**2018**	**2017**	**Change**
Equity funds	6,152	5,970	182
Pension products	784	782	2
Active management	3,616	2,913	703
Total	**10,552**	**9,665**	**887**

Insurance

The bank's insurance portfolio increased by 9% in the 12 months to end-June. Growth was satisfactory both for non-life and personal insurance.

	First half		
Insurance, premium volume (NOKm)	**2018**	**2017**	**Change**
Non-life insurance	794	753	41
Personal insurance	340	318	22
Occupational pensions	259	221	38
Total	**1,393**	**1,292**	**101**

Retail Banking

Outstanding loans to retail borrowers totalled NOK 109bn (98bn) and deposits totalled NOK 40bn (37bn) as at 30 June 2018. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships at the parent bank.

Operating income totalled NOK 986m (894m) in the first half of 2018, of which net interest income accounted for NOK 589m (529m) and commission income for NOK 397m (364m). Income has increased mainly due to increased lending and higher commission income from SpareBank 1 Boligkreditt. Overall income rose by NOK 93m. Return on capital employed in the retail banking segment was 13.2% (16.2%). Regulatory capital of 15.0% is used as capital employed, corresponding to the Group's targeted CET1 ratio.

The lending margin in the first half of 2018 was 1.72% (1.86%), while the deposit margin was 0.21% (0.18%) measured against three-month NIBOR. The market interest rate expressed by three-month NIBOR has risen in 2018.

Retail lending and retail deposits grew by 10.6% (10.0%) and 7.8% (5.6%) respectively in the 12 months to end-June.

Lending to retail borrowers consistently carries low direct risk, as reflected in continued very low losses. There are no indications of increased loss and non-performance levels in the bank's residential mortgage portfolio. The portfolio is secured by residential property.

The bank has a clear plan for the design of a distribution model for the retail market which aims to ensure increased selling power and cost efficiencies. Sales will increase across all channels with a strong emphasis on expanding the share of digital sales. It is also important to continue to improve cost efficiency while at the same time ensuring that the bank maintains a strong physical presence.

Corporate Banking

Outstanding loans to corporates total NOK 39bn (40bn) and deposits total NOK 38bn (38bn) as at 30 June 2018. This is a diversified portfolio of loans to and deposits from corporate customers in Trøndelag and Møre and Romsdal.

Operating income totalled NOK 643m (645m) in the first half of 2018. Net interest income was NOK 541m (544m), while commission income and return on financial investments came to NOK 102m (101m).

Overall net losses in the corporate banking segment have declined and amounted to NOK 102m (166m) in the first half of 2018. The losses are in all essentials related to the challenges faced in oil-related activity.

Return on capital employed for the corporate banking segment was 10.8% (9.5%) in the first half of 2018. Regulatory capital of 15.0% is used as capital employed, corresponding to the Group’s targeted CET1 capital ratio.

The lending margin was 2.67% (2.83%) and the deposit margin was minus 0.05% (minus 0.08%) in the first half of 2018.

Lending declined by 1.1% (growth of 2.4%) and deposits rose by 1.9% (19.5%) in the 12 months to end-June.

The SMB segment is an important focal area for the bank, and targets have been set for growth in the customer base and higher market shares. It is essential to apply a differentiated service concept to this segment. The corporate banking division at SpareBank 1 SMN works continuously to improve, increase the efficiency of, and automate, processes.

Subsidiaries

The subsidiaries posted an overall pre-tax profit of NOK 198.5m (164.3m) in the first half of 2018.

	First half		
Pre-tax profit (NOKm)	**2018**	**2017**	**Change**
EiendomsMegler 1 Midt-Norge	17.7	23.5	-5.8
SpareBank 1 Finans Midt-Norge	72.3	57.6	14.7
SpareBank 1 Regnskapshuset SMN	44.0	35.7	8.3
Sparebank 1 Markets (proforma incl. Allegro)	36.0	20.4	15.6
SpareBank 1 SMN Invest	23.2	16.0	7.2
Other companies	5.3	11.2	-5.9
Total	**198.5**	**164.3**	**34.2**

Eiendomsmegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a very strong market position, in Trondheim in particular. The company aims to continue to strengthen its market share in the region. In collaboration with BN Bank, the company has established BN Bolig in which EiendomsMegler 1 and BN Bank each hold a 50 per cent stake. This represents a focus on estate agency in the Oslo market which, in addition to enhancing estate agency earnings, will contribute to stronger residential mortgage lending growth for BN Bank in this market.

EiendomsMegler 1’s pre-tax profit in the first half of 2018 came to NOK 17.7m (23.5m). The profit performance is weakened somewhat by an income reduction resulting from fewer dwelling units sold. 3,533 dwelling units were sold in the first half of 2018 compared with 3,695 in the same period of 2017. The performance is also affected by a negative profit of NOK 11.7m due to start-up costs for BN Bolig (minus 11.5m). EiendomsMegler 1 Midt-Norge consolidates BN Bolig's profit as a subsidiary.

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 72.3m in the first half of 2018 (57.6m), and shows strong profit growth as a result of high growth in income, moderate cost growth and good risk management. The company's business areas are mainly leasing to the SMB market and car loans to retail customers. The company operates leasing and car loan agreements worth a total of NOK 6.9bn (5.7bn), of which leasing agreements account for NOK 2.9bn (2.7bn) and car loans for NOK 3.7bn (3.0bn). The company also offers consumer loans, and at 30 June 2018 this portfolio was worth NOK 236m (163m).

The company has seen good growth, in particular in car loans with growth of 23% (42%) over the 12 months to end-June. The Samspar banks in SpareBank 1 held a 27.9% stake in SpareBank 1 Finans Midt-Norge at end-June 2018 and Sparebanken Sogn og Fjordane a stake of 7.5%. SpareBank 1 SMN holds 64.6% of the shares of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 44.0m (35.7m) in the first half of 2018. As from 2017 the company substantially expanded its business in Møre and Romsdal through the acquisition of a large company and has in 2018 acquired a further nine companies in Trøndelag and in Møre and Romsdal. It now has more than 440 employees, 10,000 customers and offices in 40 locations. This has contributed to profit growth and to a considerable increase in both income and expenses.

The company caters to the SMB segment with its technologically modern distribution model and broad range of services.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 23.2m (16.0m) in the first half of 2018.

Value changes and realisation of losses or gains on the company's overall holding of shares account for NOK 19.8m of the company's net total income. The company has in addition ownership interests in the property company Grilstad Marina and its share of the latter's profit in the first half of 2018 was NOK 3.4m (12.8m).

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 66.7%. The company is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has a staff of 137.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning (formerly Allegro Kapitalforvaltning and SpareBank 1 Nord-Norge Forvaltning). The company is at centre-stage in SpareBank 1 Markets' focus on asset management with aggregate total assets of NOK 13bn. The company has a staff of 15.

SpareBank 1 Markets' consolidated pre-tax profit for the first half of 2018 was NOK 36m (20.4m). The Group has seen a positive income trend across all businesses in the first half-year, including strong growth in income from equity and bond issues.

The company is the leading capital market entity in SpareBank 1 SMN's market area. SpareBank 1 Markets' main focus is on clients in regard to whom the company is in a strong competitive position alone or in collaboration with its parent banks.

Satisfactory funding and good liquidity

The bank has a conservative liquidity strategy which attaches importance to maintaining liquidity reserves that ensure the bank's ability to survive 12 months of ordinary operation without need of fresh external funding.

The bank has liquidity reserves of NOK 25bn and has the funding needed for 26 months of ordinary operation without fresh external financing.

The government authorities require all credit institutions to maintain sufficient liquidity buffers to withstand periods of limited access to market funding. The liquidity coverage ratio (LCR) measures the size of banks' liquid assets relative to net liquidity outflow 30 days ahead in time given a stressed situation.

The LCR is calculated at 150% as at 30 June 2018 (160%). The requirement is 100%.

The Group's deposit-to-loan ratio at 30 June 2018, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 52% (53%).

The bank's funding sources and products are amply diversified. At end-June 2018 the proportion of the bank's overall money market funding in excess of 1 year was 83% (80%).

SpareBank 1 Boligkreditt is the bank's most important source of funding, and loans totalling NOK 37bn had been sold as at 30 June 2018.

Rating

SpareBank 1 SMN has a rating of A1 (outlook negative) with Moody's and a rating of A- (outlook stable) with Fitch Ratings. Moody's revised in July 2017 its outlook for SpareBank 1 SMN and other Norwegian banks from a stable to a negative outlook. The change was triggered by the expected introduction of the EU's bank recovery and resolution directive (BRRD), which is likely to entail a lower probability of support from public authorities to Norwegian banks.

Financial soundness

The CET1 ratio at 30 June 2018 was 15.0% compared with 14.6% at the turn of the year. The Group's CET1 ratio target is 15.0 per cent. The government's CET1 ratio requirement is 14.1 per cent.

Risk weighted assets increased by 2.5% in the first half-year as a result of growth in residential mortgage lending and an increased need for capital related to the transitional arrangement. CET1 capital rose by 5.1% in the first half-year due to an excellent interim profit performance and dividend received from SpareBank 1 Gruppen in the second quarter. CET1 capital adequacy accordingly rose by 0.4 percentage points in the first half-year.

The leverage ratio is 7.4% (7.2%).

As of 31 December 2017 the countercyclical capital buffer increased from 1.5% to 2.0%, bringing the CET1 requirement to 12.0%, including combined buffer requirements. When a Pillar 2 requirement of 2.1% is added, the overall government requirement comes to 14.1%.

Finanstilsynet's final assessment of the add-on for risks not adequately covered by Pillar 1 was set at 2.1% in 2015. The add-on relates mainly to owner risk, market risk and concentration risk with regard to credit. This add-on is reviewed by Finanstilsynet every second year, and Finanstilsynet will set a new Pillar 2 add-on in the course of 2018. SpareBank 1 SMN aims for a management buffer of about 1% above overall Pillar 1 and Pillar 2 requirements in order to absorb fluctuations in risk-weighted assets and fluctuations in Group profit. In light of this the Group's capital target is 15%.

The bank's equity certificate (MING)

The book value of the bank's EC at 30 June 2018 was NOK 80.21 (75.40) and earnings per EC were NOK 5.75 (3.66).

The Price / Income ratio was 7.35 (9.80) and the Price / Book ratio was 1.05 (0.95).

As at 30 June 2018 the EC was priced at NOK 84.50 and dividend of NOK 4.40 per EC has been paid in 2018 for the year 2017.

Risk factors

The Group's level of problem loans are low, yet reflect the challenges facing the offshore industry. Loans to oil-related activity account for 3.0% of the Group's overall outstanding loans as at 30 June 2018. The credit quality of the bank's wider loan portfolio is satisfactory. There have been no contagion effects from oil-related activity to other sectors and no other concentrations in non-performing and problem exposures are in evidence.

Somewhat weaker growth signals are noted internationally. Norway's upturn continues. A weaker Norwegian krone has impacted positively on Norwegian export industries, but some strengthening of the krone is expected ahead. Real wage growth is expected to be moderate. The bank expects the loss risk in the bank's retail market portfolio to remain low – also in the event of some increase in the interest rate level. Unemployment has declined in the bank's market area, and the bank expects the level of unemployment to remain relatively low ahead.

Credit growth among Norwegian households has slowed somewhat, but remains considerably higher than their wage growth. The household debt level is high. An interest rate hike could prompt a higher savings rate among Norwegian households, potentially resulting in reduced turnover for parts of Norwegian business and industry.

The bank's profits are affected directly and indirectly by fluctuations in securities markets, and the valuation of basis swaps in particular contributes to volatility. The indirect effect relates very largely to the bank's ownership interest in SpareBank 1 Gruppen whose insurance business and fund management activities are both affected by such fluctuations.

The bank is also exposed to risk related to access to external funding. This is reflected in the bank's conservative liquidity strategy (see the above section on funding and liquidity).

Outlook

The accounts for the first half of 2018 show good sales, robust growth and good earnings. The profit performance reflects a gain on the disposal of the bank's head office building and effects of the merger of Vipps, Bank Axept and Bank ID. Underlying earnings have also improved.

A number of efforts have been started for further efficiency gains and profit growth across the Group.

Economic prospects for Trøndelag and Møre and Romsdal are good. The bank's expectations barometer shows increased optimism in business and industry.

There are grounds to expect the strong growth in residential mortgage lending to subside somewhat, but the board of directors expects the bank, due to its sound distribution concept and strong selling power, to continue to gain market shares in our catchment area in 2018 as previously. The board of directors is well satisfied by the positive development in the bank's reputation based on the TNS Gallup customer satisfaction survey. The development is especially positive among the younger customers.

The bank will continue its efforts to strengthen its market position among small and medium-sized businesses.

Loan losses are considerably lower in the first half of 2018 compared with the previous year. The bank's commitments in the oil service industry has been restructured. However, the directors do not rule out the possibility of new challenges arising in this segment. The bank's wider loan portfolio shows minimal losses and defaults, and the board of directors expects this picture to persist in 2018.

The agreement of intent between SpareBank 1 Gruppen and DNB to merge their non-life insurance businesses will give efficiency gains for the merged entity and a further strengthening of competitive power in the insurance market. The bank can also count on a substantial financial gain as a result of the transaction.

The CET1 ratio stands at 15.0% and is in keeping with the Group's objective. The leverage ratio of 7.4% shows that the bank is financially very solid. The bank will continue to focus on capital effectiveness with a view to strengthening its profitability and ensuring adequate capitalisation.

The board of directors is well satisfied with the Group's achievements and financial results thus far in 2018 and expects 2018 to be another good year for SpareBank 1 SMN.

Trondheim, 8. August 2018
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal (chair)	Bård Benum (deputy chair)	Paul E. Hjelm-Hansen
Mette Kamsvåg	Morten Loktu	Janne Thyø Thomsen
Tonje Eskeland Foss	Erik Gunnes (employee rep.)	Venche Johnsen (employee rep.)
		Finn Haugan (Group CEO)

Income statement

Parent bank							Group				
			First half				First half				
2017	2Q 17	2Q 18	2017	2018*	(NOKm)	Note	2018*	2017	2Q 18	2Q 17	2017
3,571	883	910	1,759	1,797	Interest income		1,951	1,877	989	945	3,825
		465		*923*	*Of which interest income at amortised cost*		*1,079*		*544*		
1,599	411	404	808	795	Interest expenses		802	811	408	413	1,600
1,972	**472**	**506**	**951**	**1,002**	**Net interest**	**10**	**1,149**	**1,066**	**581**	**532**	**2,225**
1,098	268	274	513	551	Commission income		700	658	361	349	1,390
98	24	26	45	45	Commission expenses		82	74	45	38	168
38	9	8	17	18	Other operating income		530	409	291	227	783
1,038	**253**	**256**	**485**	**523**	**Commission income and other income**		**1,149**	**993**	**607**	**538**	**2,005**
629	561	493	608	495	Dividends		6	4	4	3	6
-	-	-	-	-	Income from investment in related companies	3	181	165	102	94	437
146	25	130	33	169	Net return on financial investments	3	293	100	195	35	317
776	**586**	**623**	**641**	**664**	**Net return on financial investments**		**480**	**269**	**300**	**131**	**760**
3,786	**1,311**	**1,385**	**2,077**	**2,190**	**Total income**		**2,778**	**2,328**	**1,488**	**1,202**	**4,989**
575	150	150	302	305	Staff costs		817	706	413	362	1,426
634	158	176	311	327	Other operating expenses		490	463	248	236	943
1,209	**307**	**326**	**613**	**632**	**Total operating expenses**	**11**	**1,306**	**1,169**	**661**	**598**	**2,369**
2,577	**1,004**	**1,059**	**1,464**	**1,557**	**Result before losses**		**1,471**	**1,159**	**827**	**604**	**2,621**
323	80	67	167	112	Loss on loans, guarantees etc.	6.7	127	175	78	86	341
2,253	**924**	**992**	**1,296**	**1,445**	**Result before tax**	**3**	**1,345**	**984**	**748**	**518**	**2,279**
403	89	127	174	241	Tax charge		287	210	156	111	450
-	-	80	-	80	Result investment held for sale, after tax	2, 3	151	2	150	3	-1
1,850	**835**	**944**	**1,123**	**1,285**	**Net profit**		**1,209**	**776**	**743**	**409**	**1,828**
33	8	9	17	19	Attributable to additional Tier 1 Capital holders		20	17	9	8	33
1,162	529	598	707	809	Attributable to Equity capital certificate holders		743	474	457	247	1,128
655	298	338	399	457	Attributable to the saving bank reserve		419	267	258	139	636
-	-	-	-	-	Attributable to non-controlling interests		27	17	19	14	32
1,850	**835**	**944**	**1,123**	**1,285**	**Net profit**		**1,209**	**776**	**743**	**409**	**1,828**
					Profit/diluted profit per ECC	17	5.75	3.66	3.54	1.92	8.71

* The income statement for first half 2018 reflect IFRS 9 implementation from 1 January 2018. For further information about the transition, see note 2 and 45 in the annual report for 2017. Comparative figures have not been restated.

Other comprehensive income

Parent bank						Group				
			First half			First half				
2017	2Q 17	2Q 18	2017	2018	(NOKm)	2018	2017	2Q 18	2Q 17	2017
1,850	835	944	1,123	1,285	Net profit	1,209	776	743	409	1,828
					Items that will not be reclassified to profit/loss					
-24	-	-	-	-	Actuarial gains and losses pensions	-3	-	-	-	-20
6	-	-	-	-	Tax	1	-	-	-	5
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	1	1	3	-2	4
-18	**-**	**-**	**-**	**-**	**Total**	**-1**	**1**	**3**	**-2**	**-11**
					Items that will be reclassified to profit/loss					
15	9	7	9	7	Fair value change on financial assets through other comprehensive income	7	9	7	9	15
-	-	-4	-	-2	Value changes on loans measured at fair value	-2	-	-4	-	-
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	-11	1	-18	1	4
-	-	-	-	-	Tax	-0	-	0	-	-
15	**9**	**3**	**9**	**5**	**Total**	**-6**	**10**	**-15**	**10**	**19**
1,847	**844**	**947**	**1,132**	**1,290**	**Total other comprehensive income**	**1,202**	**787**	**731**	**417**	**1,836**

Balance sheet

Parent bank					Group		
31 Dec 2017	30 June 2017	30 June 2018	(NOKm)	Note	30 June 2018	30 June 2017	31 Dec 2017
3,313	2,448	1,403	Cash and receivables from central banks		1,403	2,448	3,313
9,543	10,002	10,801	Deposits with and loans to credit institutions		5,078	4,997	4,214
104,769	100,733	108,020	Net loans to and receivables from customers	5	114,683	106,388	110,959
19,895	20,394	18,721	Fixed-income CDs and bonds	15	18,640	20,312	19,736
4,328	4,587	2,877	Derivatives	15	2,910	4,673	4,351
169	200	355	Shares, units and other equity interests	15	2,540	1,475	1,825
3,940	3,771	4,130	Investment in related companies		5,748	5,633	5,760
3,120	3,120	2,619	Investment in group companies		-	-	-
82	226	82	Investment held for sale	2	48	32	649
522	480	532	Intangible assets		842	709	793
703	991	6,414	Other assets	12	7,692	2,780	1,654
150,383	**146,952**	**155,956**	**Total assets**		**159,584**	**149,449**	**153,254**
9,047	9,261	8,708	Deposits from credit institutions		9,889	9,521	9,607
77,362	76,494	81,080	Deposits from and debt to customers	9	80,343	75,559	76,476
42,194	39,674	43,234	Debt created by issue of securities	14	43,234	39,674	42,194
3,341	3,751	2,849	Derivatives	15	2,974	3,761	3,343
909	912	2,042	Other liabilities	13	2,962	1,970	1,923
-	-	-	Investment held for sale	2	8	0	1
2,159	2,188	2,147	Subordinated loan capital	14	2,189	2,231	2,201
135,011	**132,281**	**140,060**	**Total liabilities**		**141,600**	**132,716**	**135,744**
2,597	2,597	2,597	Equity capital certificates		2,597	2,597	2,597
-0	-0	-0	Own holding of ECCs		-11	-6	-8
895	895	895	Premium fund		895	895	895
5,079	4,487	5,079	Dividend equalisation fund		5,075	4,482	5,072
571	-	-	Recommended dividends		-	-	571
322	-	-	Provision for gifts		-	-	322
4,831	4,498	4,831	Ownerless capital		4,831	4,498	4,831
126	126	126	Unrealised gains reserve		126	139	126
-	13	-12	Other equity capital		1,503	1,906	1,547
950	933	1,094	Additional Tier 1 Capital		1,136	933	993
-	1,123	1,285	Profit for the period		1,209	776	-
			Non-controlling interests		621	514	565
15,372	**14,672**	**15,895**	**Total equity capital**		**17,984**	**16,733**	**17,510**
150,383	**146,952**	**155,956**	**Total liabilities and equity**		**159,584**	**149,449**	**153,254**

Cash flow statement

Parent bank				Group		
	First half			First half		
2017	2017	2018	(NOKm)	2018	2017	2017
1,850	1,106	1,285	Net profit	1,209	759	1,828
50	22	30	Depreciations and write-downs on fixed assets	43	49	102
323	167	112	Losses on loans and guarantees	127	175	341
2,223	**1,295**	**1,427**	**Net cash increase from ordinary operations**	**1,378**	**983**	**2,271**
656	109	-4,268	Decrease/(increase) other receivables	-4,610	-348	480
-455	-41	642	Increase/(decrease) short term debt	678	126	-339
-8,593	-4,401	-3,382	Decrease/(increase) loans to customers	-3,878	-5,210	-9,946
-1,340	-1,800	-1,258	Decrease/(increase) loans credit institutions	-864	-1,105	-322
8,972	8,104	3,717	Increase/(decrease) deposits to customers	3,867	8,391	9,308
-1,252	-1,038	-339	Increase/(decrease) debt to credit institutions	282	-988	-902
-2,259	-2,757	1,174	Increase/(decrease) in short term investments	1,096	-2,756	-2,179
-2,047	**-529**	**-2,287**	**A) Net cash flow from operations**	**-2,050**	**-906**	**-1,629**
-100	-26	-33	Increase in tangible fixed assets	-79	-97	383
-145	-121	311	Paid-up capital, associated companies	661	239	-685
94	57	-180	Net investments in long-term shares and partnerships	-708	146	-249
-146	**-89**	**98**	**B) Net cash flow from investments**	**-126**	**288**	**-546**
-27	2	-12	Increase/(decrease) in subordinated loan capital	-12	2	-27
0	0	0	Increase/(decrease) in equity	-11	0	-21
-390	-389	-571	Dividend cleared	-571	-389	-390
-220	-220	-322	To be disbursed from gift fund	-322	-220	-220
-33	-	144	Increase/(decrease) in Additional Tier 1 capital	144	-	-33
5,860	3,358	1,040	Increase/(decrease) in other long term loans	1,038	3,358	5,862
5,191	**2,751**	**280**	**C) Net cash flow from financial activities**	**267**	**2,751**	**5,173**
2,998	**2,133**	**-1,910**	**A) + B) + C) Net changes in cash and cash equivalents**	**-1,910**	**2,133**	**2,998**
315	315	3,313	Cash and cash equivalents at 1.1	3,313	315	315
3,313	2,448	1,403	Cash and cash equivalents at end of quarter	1,403	2,448	3,313
2,998	**2,133**	**-1,910**	**Net changes in cash and cash equivalents**	**-1,910**	**2,133**	**2,998**

SpareBank 1 SMN

Change in equity

Parent Bank	Issued equity			Earned equity					
(NOKm)	EC-capital	Premium-fund	Additional-Tier 1 Capital	Ownerless-capital	Equalisation-fund	Dividend-and gifts	Unrealised-gains-reserve	Other-equity	Total-equity
Equity at 1 January 2017	**2,597**	**895**	**950**	**4,499**	**4,490**	**609**	**126**	**-**	**14,166**
Net profit	-	-	33	327	580	893	17	-	1,850
Other comprehensive income									
Financial assets through OCI	-	-	-	-	-	-	-	15	15
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-18	-18
Other comprehensive income	-	-	-	-	-	-	-	-3	-3
Total other comprehensive income	-	-	33	327	580	893	17	-3	1,847
Transactions with owners									
Dividend declared for 2016	-	-	-	-	-	-389	-	-0	-390
To be disbursed from gift fund	-	-	-	-	-	-220	-	-	-220
Interest payments additional Tier 1 capital	-	-	-33	-	-	-	-	-	-33
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	0
Direct recognitions in equity	-	-	-	5	9	-	-17	3	-
Total transactions with owners	0	-	-33	5	9	-609	-17	3	-642
Equity at 31 December 2017	**2,597**	**895**	**950**	**4,831**	**5,079**	**893**	**126**	**-**	**15,372**
Equity at 31 December 2017	**2,597**	**895**	**950**	**4,831**	**5,079**	**893**	**126**	**-**	**15,372**
Implementation effect IFRS 9	-	-	-	-	-	-	-	-17	-17
Equity at 1 January 2018	**2,597**	**895**	**950**	**4,831**	**5,079**	**893**	**126**	**-17**	**15,355**
Net profit	-	-	-	-	-	-	-	1,285	1,285
Other comprehensive income									
Financial assets through OCI	-	-	-	-	-	-	-	7	7
Value changes on loans measured at fair value	-	-	-	-	-	-	-	-2	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	5	5
Total other comprehensive income	-	-	-	-	-	-	-	1,290	1,290
Transactions with owners									
Dividend declared for 2017	-	-	-	-	-	-571	-	-	-571
To be disbursed from gift fund	-	-	-	-	-	-322	-	-	-322
Interest payments additional Tier 1 capital	-	-	324	-	-	-	-	-	324
Interest payments additional Tier 1 capital	-	-	-160	-	-	-	-	-	-160
Interest payments additional Tier 1 capital	-	-	-20	-	-	-	-	-	-20
Purchase and sale of own ECCs	0		-	-	0	-	-	-	-0
Direct recognitions in equity	-	-	-	-	-	-	-	-0	-0
Total transactions with owners	-	-	144	-	-	-893	-	-	-749
Equity at 30 June 2018	**2,597**	**895**	**1,094**	**4,831**	**5,079**	**-**	**126**	**1,273**	**15,894**

Group	Attributable to parent company equity holders									
	Issued equity			Earned equity						
(NOKm)	EC capital	Premium fund	Additional Tier 1 Capital	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Non controlling interests	Total equity
Equity at 1 January 2017	**2,593**	**895**	**950**	**4,499**	**4,487**	**609**	**139**	1,656	**425**	**16,253**
Net profit	-	-	33	327	580	893	17	-54	32	1,828
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	8	-	8
Financial assets through OCI	-	-	-	-	-	-	-	15	-	15
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-16	1	-15
Other comprehensive income	-	-	-	-	-	-	-	7	1	8
Total other comprehensive income	-	-	33	327	580	893	17	-46	32	1,836
Transactions with owners										
Dividend declared for 2016	-	-	-	-	-	-389	-	-0	-	-390
To be disbursed from gift fund	-	-	-	-	-	-220	-	-	-	-220
Additional Tier 1 Capital issued	-	-	43	-	-	-	-	-	-	43
Interest payments additional Tier 1 Capital	-	-	-33	-	-	-	-	-	-	-33
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	-	0
Own ECC held by SB1 Markets*)	-4	-	-	-	-4	-	-	-12	-	-21
Direct recognitions in equity	-	-	-	5	9	-	-30	-31	2	-44
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	-21	-	-21
Change in non-controlling interests	-	-	-	-	-	-	-	-	105	105
Total transactions with owners	-4	-	9	5	5	-609	-30	-63	107	-580
Equity at 31 December 2017	**2,588**	**895**	**993**	**4,831**	**5,072**	**893**	**126**	**1,547**	**565**	**17,510**

*) Holding of own equity certificates as part of SpareBank 1 Markets' trading activity

SpareBank 1 SMN

(NOKm)	EC capital	Premium fund	Additional Tier 1 Capital	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Non controlling interests	Total equity
	Attributable to parent company equity holders									
	Issued equity			Earned equity						
Equity at 31 December 2017	**2,588**	**895**	**993**	**4,831**	**5,072**	**893**	**126**	**1,547**	**565**	**17,510**
Implementation effect IFRS 9	-	-	-	-	-	-	-	-25	-	-25
Equity at 1 January 2018	**2,588**	**895**	**993**	**4,831**	**5,072**	**893**	**126**	**1,521**	**565**	**17,484**
Net profit	-	-	-	-	-	-	-	1,182	27	1,209
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-10	-	-10
Financial assets through OCI	-	-	-	-	-	-	-	7	-	7
Value changes on loans measured at fair value	-	-	-	-	-	-	-	-2	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-1	-1	-2
Other comprehensive income	-	-	-	-	-	-	-	-6	-1	-7
Total other comprehensive income	-	-	-	-	-	-	-	1,176	26	1,202
Transactions with owners										
Dividend declared for 2017	-	-	-	-	-	-571	-	-	-	-571
To be disbursed from gift fund	-	-	-	-	-	-322	-	-	-	-322
Additional Tier 1 capital issued	-	-	324	-	-	-	-	-	-	324
Interest payments additional Tier 1 capital	-	-	-160	-	-	-	-	-	-	-160
Interest payments additional Tier 1 capital	-	-	-20	-	-	-	-	-	-	-20
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	-	0
Own ECC held by SB1 Markets*)	-2	-	-	-	4	-	-	-12	-	-11
Direct recognitions in equity	-	-	-	-	-	-	-	34	-	34
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	-7	-	-7
Change in non-controlling interests	-	-	-	-	-	-	-	-	30	30
Total transactions with owners	-2	-	144	-	4	-893	-	15	30	-702
Equity at 30 June 2018	**-2,586**	**895**	**1,136**	**4,831**	**5,075**	**-**	**126**	**2,712**	**621**	**17,984**

*) Holding of own equity certificates as part of SpareBank 1 Markets' trading activity

Notes

Contents

Note 1 - Accounting principles

SpareBank 1 SMN prepares and presents its quarterly accounts in compliance with the Stock Exchange Regulations, Stock Exchange Rules and International Financial Reporting Standards (IFRS) approved by EU, including IAS 34, Interim Financial Reporting. The quarterly accounts do not include all the information required in a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2017. The Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts, except implementing IFRS 9 as described below.

IFRS 9

IFRS 9 Financial instruments deals with recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 is applicable from 1 January 2018 and is approved by the EU.

Detailed information about the implementation of IFRS 9 in SpareBank 1 SMN can be found in note 2 and 45 in the annual report for 2017.

As allowed in the transition rules in IFRS 9, the bank has chosen not to adjust the comparative figures, and these have been presented in line with previous accounting principles as described in the annual report for 2017. Adjustments in amounts recorded at the transition date 1 January 2018 has been made against equity, and new disclosures in line with IFRS 7 has been presented. Disclosure information using previous principles are the same as presented previous periods.

Classification and measurement

Financial assets

Under IFRS 9 financial assets are classified in three measurement categories: fair value with changes in fair value reported in profit/loss (FVPL), fair value with changes in fair value reported in other comprehensive income (OCI), and amortised cost. The measurement category is determined upon first-time recognition of the particular asset. For financial assets a distinction is drawn between debt instruments and equity instruments. The classification of financial assets is determined on the basis of contractual terms and conditions for the financial assets and the business model used to manage the portfolio of which the assets are a part.

Financial assets that are debt instruments

Debt instruments with contractual cash flows that are only payment of interest and principal on given dates and which are held in a business model whose purpose is to receive contractual cash flows shall in principle be measured at amortised cost. Instruments with contractual cash flows that are only payment of interest and principal on given dates and which are held in a business model whose purpose is both to receive contractual cash flows and sales shall in principle be measured at fair value with changes over OCI, with interest income, currency conversion effects and any write-downs reported in ordinary profit/loss. Fair value changes over OCI shall be reclassified to profit/loss upon the sale or other disposal of the assets.

Other debt instruments shall be measured at fair value with changes reported in profit/loss. This applies to instruments with cash flows that are not only payment of normal interest (time value of money, credit margin and other normal margins related to loans and receivables) and principal, and instruments held in a business model whose main purpose is not that of receiving contractual cash flows. Instruments that should basically be measured at amortised cost or at fair value with changes through OCI can be designated to be measured at fair with changes through profit or loss if this eliminates or significantly reduces an “accounting mismatch".

Derivatives and investments in equity instruments

All derivatives shall be measured at fair value with changes reported in profit/loss, but derivatives designated as hedging instruments shall be accounted for in keeping with the principles for hedge accounting. Investments in equity instruments shall be measured in the balance sheet at fair value. Value changes shall as a main rule be reported in ordinary profit/loss, but an equity instrument which is not held for trading purposes and is not a contingent consideration following a business transfer can be designated as measured at fair value with changes reported in OCI. When equity instruments are designated at fair value with value changes reported in OCI, ordinary proceeds shall be reported in profit/loss, whereas value changes shall not be reported in profit/loss either on an ongoing basis or upon disposal.

Financial liabilities

Financial liabilities shall continue to be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments forming part of a trading portfolio and financial liabilities accounted for at fair value with value changes recognised in profit/loss.

Loan impairment write-downs

Under IFRS 9 loss provisions shall be recognised based on expected credit loss (ECL). Measurement of the provision for expected loss depends on whether credit risk has increased significantly since first-time recognition. Upon first-time recognition, and when credit risk has not increased significantly since first-time recognition, provision shall be made for a 12-month expected loss. If credit risk has risen significantly, provision shall be made for expected loss across the entire life. The methodology in the IFRS 9 standard entails somewhat larger volatility in write-downs, and write-downs are expected to be made at an earlier stage than under current practice. This will be particularly noticeable at the start of a cyclical downturn.

Further description of the bank's future impairment write-down model

Loss estimates are to be prepared quarterly, and will build on data in the data warehouse which has historical accounting and customer data for the entire credit portfolio. The Bank has decided to use three macroeconomic scenarios to consider the non-linear aspects of expected credit losses. The different scenarios will be used to adjust the input parameters for calculating expected credit loss, and an probability weighted average expected calculated loss of the scenarios will be recorded as the loss.

Estimates will be computed based on 12-month and lifelong probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data warehouse contains historical data for observed PD and observed LGD. This will be the basis for preparing good estimates for the future values for PD og LGD. In keeping with IFRS 9 the bank groups its loans in three stages.

Stage 1:

This is the starting point for all financial assets covered by the general loss model. All assets that do not have significantly higher credit risk than at first-time recognition receive a loss provision corresponding to 12 months' expected loss. All assets that are not transferred to stage 2 or 3 reside in this category.

Stage 2:

Stage 2 of the loss model encompasses assets that show a significant increase in credit risk since first-time recognition, but where objective evidence of loss is not present. For these assets a provision for expected loss over the entire lifetime is to be made. In this group we find accounts with a significant degree of credit deterioration, but which at the balance sheet date belong to customers classified as performing. As regards delineation against stage 1, the bank defines 'significant degree of credit deterioration' by taking a basis in whether the exposure's calculated probability of default shows a significant increase. SpareBank 1 SMN has decided to utilise both absolute and relative changes in PD as criteria for transfer to stage 2. The most important factor for a significant change in credit risk is the quantitative change in PD on the period end compared to the PD at first time recognition. A change in PD by more than 150 per cent is considered to be a significant change in credit risk. The change will have to be over 0.6 percentage points. In addition, customers with payments 30 days past due will be transferred to stage 2. A qualitative assessment is also done when engagements have been put on watch list.

Stage 3:

Stage 3 of the loss model encompasses assets that show a significant increase in credit risk since loan approval and where there is objective evidence of loss at the balance sheet date. For these assets a provision shall be made for expected loss over the entire lifetime. These are assets which under current rules are defined as defaulted and written down.

SpareBank 1 SMN calculates the provision for credit loss for assets in stage 1 and 2 in accordance with IFRS 9 as the net present value of the exposure (EAS) multiplied by probability of default (PD) multiplied by loss given default (LGD). SpareBank 1 SMN has grouped the loans in three portfolios and make projections for a period of five years for each portfolio.

Note 2 - Critical estimates and assessment concerning the use of accounting principles

When it prepares the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This accordingly affects recognised amounts for assets, liabilities, revenues and expenses. Last year's annual accounts give a closer explanation of significant estimates and assumptions in Note 3 Critical estimates and assessments concerning the use of accounting principles.

Pensions

The Group has not obtained a new calculation of pensions as of 31 June since no factors have been identified that significantly alter the pension liability. For a further description of the various pension schemes, see note 24 in the 2017 annual report.

Investment held for sale

SpareBank 1 SMN's strategy is that ownership duse to defaulted exposures should at the outset be of brief duration, normally not longer than one year. Investments are recorded at fair value in the Parent Bank's accounts, and is classified as investment held for sale.

Assets and liabilities related to the property in Søndre Gate 4-10 in Trondheim City Centre (SpareBank 1 Kvartalet AS) has been reclassified as held for sale from Q4 2017 based on the approval from management and board of Directors for selling the property, in addition to the progress made in the sale process which made it highly probable that the sale would be completed in the coming 12 months.

SpareBank 1 SMN accepted a bid at Søndre gate no. 4-10 in Trondheim city centre at November 9, 2017. SpareBank 1 SMN and its subsidiaries will lease back about 70 per cent of the overall area on a 15 year lease with the option of a lease extension. Estimated gross annual rental in 2018 amounts to NOK 36.4 million. The gross property value underlying the bid is NOK 755 million and has given a net gain of NOK 150 million. The transaction was completed in Q2 2018 by sale of the company Søndre gate 4-10 AS.

Note 3 - Account by business line

For the subsidiaries the figures refer to the respective company accounts, while for joint ventures incorporated by the equity method the Group's profit share is stated, after tax, as well as book value of the investment at group level.

Group 30 June 2018

Profit and loss account (NOKm)	RM	CM	SB1-Markets	EM 1	SB1-Finans MN	SB1 Regnskaps-huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	498	477	-7	2	131	-0	-	-	48	1,149
Interest from allocated capital	86	64	-	-	-	-	-	-	-151	-
Total interest income	**584**	**541**	**-7**	**2**	**131**	**-0**	**-**	**-**	**-102**	**1,149**
Commission income and other income	397	98	245	261	30	253	-	-	-135	1,149
Net return on financial investments **)	0	4	58	-	-	-	117	51	401	632
Total income	**981**	**643**	**296**	**263**	**162**	**252**	**117**	**51**	**163**	**2,929**
Total operating expenses	**398**	**187**	**260**	**245**	**75**	**208**	**-**	**-**	**-67**	**1,306**
Ordinary operating profit	**583**	**456**	**36**	**18**	**87**	**44**	**117**	**51**	**230**	**1,622**
Loss on loans, guarantees etc.	10	102	-	-	15	-	-	-	-1	127
Result before tax including held for sale	**573**	**354**	**36**	**18**	**72**	**44**	**117**	**51**	**231**	**1,496**
Post-tax return on equity*)	**13.2 %**	**10.8 %**								**14.4 %**
Balance (NOKm)										
Loans and advances to customers	108,702	39,452	-	-	7,304	-	-	-	-668	154,790
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-37,304	-1,699	-	-	-	-	-	-	-	-39,003
Allowance for credit losses	-67	-997	-	-	-39	-	-	-	0	-1,103
Other assets	138	3,291	2,970	1,656	17	395	1,396	1,197	33,842	44,901
Total assets	**71,471**	**40,094**	**2,970**	**1,656**	**7,282**	**395**	**1,396**	**1,197**	**33,123**	**159,584**
Deposits to customers	40,372	38,390	-	-	-	-	-	-	1,581	80,343
Other liabilities and equity	31,099	1,704	2,970	1,656	7,282	395	1,396	1,197	31,542	79,241
Total liabilites and equity	**71,471**	**40,094**	**2,970**	**1,656**	**7,282**	**395**	**1,396**	**1,197**	**33,123**	**159,584**

Group 30 June 2017

Profit and loss account (NOKm)	RM	CM	Markets	EM 1	SB1 Finans MN	SB1 Regnskaps-huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	470	488	-4	1	106	-1	-	-	-16	1,043
Interest from allocated capital	59	56	-	-	-	-	-	-	-115	-
Total interest income	**529**	**544**	**-4**	**1**	**106**	**-1**	**-**	**-**	**-131**	**1,043**
Commission income and other income	364	96	156	254	27	210	-	-	-115	993
Net return on financial investments **)	0	5	35	-	-	-	134	48	50	272
Total income	**894**	**645**	**186**	**255**	**133**	**210**	**134**	**48**	**-196**	**2,308**
Total operating expenses	**391**	**194**	**170**	**235**	**67**	**174**	**-**	**-**	**-61**	**1,169**
Ordinary operating profit	**503**	**451**	**16**	**20**	**66**	**36**	**134**	**48**	**-135**	**1,139**
Loss on loans, guarantees etc.	1	166	-	-	8	-	-	-	-0	175
Result before tax including held for sale	**501**	**286**	**16**	**20**	**58**	**36**	**134**	**48**	**-135**	**964**
Post-tax return on equity*)	**16.2 %**	**9.5 %**								**9.9 %**
Balance (NOKm)										
Loans and advances to customers	98,262	39,895	-	-	6,207	-	-	-	-564	143,800
Adv. of this to SpareBank 1 Boligkreditt	-34,345	-2,097	-	-	-	-	-	-	-0	-36,442
Individual allowance for impairment on loan	-20	-584	-	-	-13	-	-	-	-2	-619
Group allowance for impairment on loan	-90	-218	-	-	-23	-	-	-	-20	-351
Other assets	177	2,486	1,915	1,509	31	323	1,379	1,103	34,137	43,061
Total assets	**63,984**	**39,483**	**1,915**	**1,509**	**6,202**	**323**	**1,379**	**1,103**	**33,550**	**149,449**
Deposits to customers	37,437	37,669	-	-	-	-	-	-	453	75,559
Other liabilities and equity	26,547	1,814	1,915	1,509	6,202	323	1,379	1,103	33,097	73,891
Total liabilites and equity	**63,984**	**39,483**	**1,915**	**1,509**	**6,202**	**323**	**1,379**	**1,103**	**33,550**	**149,449**

*) Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 15.0 percent to be in line with the capital plan.

**) Specification of net return on financial investments incl. Investment held for sale (NOKm)	30 June 2018	30 June 2017
Dividends	**6**	**4**
Capital gains shares	268	9
Gain/(loss) on derivatives	142	22
Gain/(loss) on other financial instruments at fair value (FVO)	12	15
Foreign exchange gain/(loss)	26	19
Gain/(loss) on sertificates and bonds	-36	58
Gains/(Loss) on shares and share derivatives at SpareBank 1 Markets	37	25
Gain/(loss) on financial instruments related to hedging	-6	-48
Net return on financial instruments	**444**	**100**
SpareBank 1 Gruppen	117	134
SpareBank 1 Boligkreditt	-5	-37
SpareBank 1 Næringskreditt	8	13
BN Bank	53	50
SpareBank 1 Kredittkort	11	7
SpareBank 1 Betaling	-6	-
Other companies	4	-
Income from investment in associates and joint ventures	**182**	**167**
Total net return on financial investments	**631**	**272**
Fair value hedging		
Changes in fair value on hedging instrument	-115	-177
Changes in fair value on hedging item	109	129
Net Gain or Loss from hedge accounting	**-6**	**-48**

Note 4 - Capital adequacy

SpareBank 1 SMN utilises the Internal Rating Based Approach (IRB) for credit risk. Use of IRB imposes wide-ranging requirements on the bank's organisational set-up, competence, risk models and risk management systems. As from 31 March 2015 the bank has received permission to apply the Advanced IRB Approach to those corporate portfolios that were previously reported under the Basic Indicator Approach.

As of 30 June 2018 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian countercyclical buffer is 2.0 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 12.0 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN. The total minimum requirement on CET1 capital is accordingly 14.1 per cent.

The countercyclical buffer increased from 1.5 per cent to 2.0 per cent with effect from 31 December 2017.

Countercyclical buffer is calculated using differentiated rates. For exposures in other countries the countercyclical buffer rate set by the authorities in the country concerned is applied. If that country has not set a rate, the same rate as for exposures in Norway is applied unless the Ministry of Finance sets another rate. For the second quarter of 2018 both the parent bank and the group is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 50 per cent in 2017 and 60 per cent in 2018. As at 30 June 2018 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure was NOK 659 million.

Parent Bank				Group		
31 Dec 2017	**30 June 2017**	**30 June 2018**	**(NOKm)**	**30 June 2018**	**30 June 2017**	**31 Dec 2017**
15,372	14,672	15,895	Total book equity	17,984	16,733	17,510
-950	-933	-1,094	Additional Tier 1 capital instruments included in total equity	-1,136	-1,198	-993
-522	-480	-532	Deferred taxes, goodwill and other intangible assets	-1,044	-872	-984
-893	-	-	Deduction for allocated dividends and gifts	-	-	-893
-	-	-	Non-controlling interests recognised in other equity capital	-621	-514	-565
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	357	241	324
-	-1,106	-1,285	Net profit	-1,209	-759	-
-	726	690	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2018)	614	380	-
-30	-32	-28	Value adjustments due to requirements for prudent valuation	-46	-50	-41
-350	-195	-298	Positive value of adjusted expected loss under IRB Approach	-299	-257	-333
-	-	-	Cash flow hedge reserve	4	7	7
-	-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-74	-3	-212
12,627	**12,653**	**13,349**	**Total common equity Tier one**	**14,528**	**13,709**	**13,820**
950	950	1,114	Additional Tier 1 capital instruments	1,592	1,358	1,427
459	459	367	Additional Tier 1 capital instruments covered by transitional provisions	367	459	459
14,036	**14,062**	**14,830**	**Total core capital**	**16,488**	**15,526**	**15,707**
			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,621	1,710	1,615
561	561	449	Subordinated capital covered by transitional provisions	449	561	561
-254	-245	-141	Deduction for significant investments in financial institutions	-141	-245	-254
1,307	1,317	1,308	Total supplementary capital	1,930	2,026	1,922
15,343	**15,378**	**16,138**	**Net subordinated capital**	**18,418**	**17,552**	**17,629**

			Minimum requirements subordinated capital			
978	1,106	951	Specialised enterprises	1,072	1,232	1,107
1,098	1,031	1,115	Corporate	1,128	1,045	1,113
1,370	1,277	1,459	Mass market exposure, property	2,010	1,759	1,892
90	91	93	Other mass market	96	94	91
1,198	1,234	1,037	Equity investments	1	1	1
4,733	**4,739**	**4,655**	**Total credit risk IRB**	**4,307**	**4,131**	**4,205**
3	5	2	Central government	2	5	3
80	74	84	Covered bonds	146	131	146
431	489	407	Institutions	262	429	333
0	5	-	Local and regional authorities, state-owned enterprises	9	9	4
25	23	46	Corporate	255	142	226
18	17	16	Mass market	438	418	405
13	16	14	Exposures secured on real property	195	306	193
232	221	260	Equity positions	359	339	344
70	64	66	Other assets	128	164	166
872	**914**	**895**	**Total credit risk standardised approach**	**1,796**	**1,942**	**1,820**
16	28	21	Debt risk	23	29	18
-	-	-	Equity risk	11	6	22
-	-	-	Currency risk and risk exposure for settlement/delivery	4	1	1
341	341	370	Operational risk	575	510	510
52	67	45	Credit value adjustment risk (CVA)	110	123	117
-	-	-	Transitional arrangements	946	634	891
6,015	**6,089**	**5,986**	**Minimum requirements subordinated capital**	**7,771**	**7,376**	**7,585**
75,182	**76,107**	**74,823**	**Risk weighted assets (RWA)**	**97,137**	**92,202**	**94,807**
3,383	3,425	3,367	Minimum requirement on CET1 capital, 4.5 per cent	4,371	4,149	4,266
			Capital Buffers			
1,880	1,903	1,871	Capital conservation buffer, 2.5 per cent	2,428	2,305	2,370
2,255	2,283	2,245	Systemic rick buffer, 3.0 per cent	2,914	2,766	2,844
1,504	1,142	1,496	Countercyclical buffer, 2.0 per cent (1,5 per cent)	1,943	1,383	1,896
5,639	**5,327**	**5,612**	**Total buffer requirements on CET1 capital**	**7,285**	**6,454**	**7,111**
3,605	**3,900**	**4,370**	**Available CET1 capital after buffer requirements**	**2,872**	**3,106**	**2,444**
			Capital adequacy			
16.8 %	16.6 %	17.8 %	Common equity Tier one ratio	15.0 %	14.9 %	14.6 %
18.7 %	18.5 %	19.8 %	Core capital ratio	17.0 %	16.8 %	16.6 %
20.4 %	20.2 %	21.6 %	Capital adequacy ratio	19.0 %	19.0 %	18.6 %
			Leverage ratio			
145,821	145,532	152,080	Balance sheet items	216,406	207,760	210,764
7,112	7,555	7,235	Off-balance sheet items	9,345	9,400	9,295
-902	-707	-858	Regulatory adjustments	-1,480	-1,190	-1,580
152,032	152,380	158,457	Calculation basis for leverage ratio	224,271	215,969	218,479
14,036	14,062	14,830	Core capital	16,488	15,526	15,707
9.2 %	**9.2 %**	**9.4 %**	**Leverage Ratio**	**7.4 %**	**7.2 %**	**7.2 %**

Note 5 - Distribution of loans by sector/industry

Parent Bank				Group		
31 Dec 2017	**30 June 2017**	**30 June 2018**	**(NOKm)**	**30 June 2018**	**30 June 2017**	**31 Dec 2017**
11,305	10,959	11,825	Agriculture, forestry, fisheries, hunting	12,137	11,213	11,606
1,311	1,298	1,204	Sea farming industries	1,556	1,708	1,697
2,850	3,115	2,461	Manufacturing	2,794	3,415	3,157
2,794	3,407	2,649	Construction, power and water supply	3,349	4,018	3,419
2,432	1,340	2,633	Retail trade, hotels and restaurants	2,902	1,589	2,700
4,639	4,532	4,706	Maritime sector	4,706	4,532	4,639
14,289	14,692	14,564	Property management	14,623	14,749	14,348
2,510	2,482	2,514	Business services	2,195	2,230	2,260
3,547	3,421	3,747	Transport and other services provision	4,545	4,142	4,322
226	269	7	Public administration	19	282	240
1,669	1,788	1,820	Other sectors	1,852	1,819	1,699
47,572	**47,303**	**48,128**	**Gross loans in retail market**	**50,676**	**49,698**	**50,087**
94,984	90,804	99,959	Wage earners	104,114	94,101	98,697
142,556	**138,107**	**148,087**	**Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt**	**154,790**	**143,800**	**148,784**
34,885	34,181	37,172	of which SpareBank 1 Boligkreditt	37,172	34,181	34,885
1,828	2,261	1,831	of which SpareBank 1 Næringskreditt	1,831	2,261	1,828
105,843	**101,665**	**109,084**	**Gross loans in balance sheet**	**115,787**	**107,358**	**112,071**
		1,012	- Loan loss allowance on amortised cost loans	1,052		
		52	- Loan loss allowance on loans at FVOCI	52		
751	551		- Specified write-downs		564	765
323	328		- Collective write-downs		349	347
104,769	**98,056**	**108,020**	**Net loans to and receivables from customers**	**114,683**	**103,204**	**110,959**

Note 6 - Losses on loans and guarantees

Parent Bank	First half		
	2018		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Totalt**
Change in provision for expected credit losses for the period	8	63	71
Actual loan losses on commitments exceeding provisions made	3	41	45
Recoveries on commitments previously written-off	-3	-0	-4
Losses for the period on loans and guarantees	**7**	**104**	**112**

Parent Bank	First half		
	2017		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Totalt**
Change in individual impairment losses provisions for the period	-4	-17	-20
+ Change in collective impairment losses provisions for the period	-	10	10
+ Actual loan losses on commitments for which provisions have been made	5	165	170
+ Actual loan losses on commitments for which no provision has been made	2	7	9
- Recoveries on commitments previously written-off	2	0	2
Losses of the year on loans and guarantees	**1**	**166**	**167**

Group	First half		
	2018		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Totalt**
Change in provision for expected credit losses for the period	7	62	70
Actual loan losses on commitments exceeding provisions made	17	50	66
Recoveries on commitments previously written-off	-8	-1	-9
Losses for the period on loans and guarantees	**16**	**111**	**127**

Group	First half		
	2017		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Totalt**
Change in individual impairment losses provisions for the period	-4	-14	-18
+ Change in collective impairment losses provisions for the period	2	10	12
+ Actual loan losses on commitments for which provisions have been made	5	165	170
+ Actual loan losses on commitments for which no provision has been made	5	8	13
- Recoveries on commitments previously written-off	2	0	2
Losses of the year on loans and guarantees	**7**	**168**	**175**

Note 7 - Losses

Provision for expected credit lossen on loans and guarantees are presented after implementation of IFRS 9 from january 1, 2018. See note 2 and 45 in the annual report for 2017 for detailed information about the implementation effect and transition. Comparative figures have not been restated, and the information about first half 2017 has been presented below in accordance with previous rules in IAS 32.

Parent Bank

		30 june 2018		
(NOKm)	**1 January 18**	**Change in provision**	**Net write-offs/ recoveries**	**30 June 18**
Loans as amortised cost- CM	1,017	33	14	1,063
Loans as amortised cost- RM	32	3	0	35
Loans at fair value over OCI- RM	65	3	-0	68
Provision for expected credit losses on loans and guarantees	**1,114**	**39**	**13**	**1,166**
Presented as				
Provision for loan losses				1,064
Other debt- provisons				85
Other comprehensive income- fair value adjustment				17

Group

		30 June 2018		
(NOKm)	**1 January 18**	**Change in provision**	**Net write-offs/ recoveries**	**30 June 18**
Loans as amortised cost- CM	1,037	33	13	1,083
Loans as amortised cost- RM	52	3	-1	22
Loans at fair value over OCI- RM	65	3	-0	100
Provision for expected credit losses on loans and guarantees	**1,154**	**39**	**13**	**1,205**
Presented as				
Provision for loan losses				1,103
Other debt- provisons				85
Other comprehensive income- fair value adjustment				17

Parent Bank

		30 June 2018		
Total Allowance for Credit Losses	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance 1 January	**96**	**256**	**762**	**1,114**
Provision for credit losses				
Transfer to (from) stage 1	24	-24	-0	-
Transfer to (from) stage 2	-5	5	-0	-
Transfer to (from) stage 3	-0	-2	2	-
Net remeasurement of loss allowances	-30	48	49	67
Originations or purchases	28	21	1	50
Derecognitions	-15	-47	-3	-65
Write-offs	-	-	-	-
Closing balance 30 June	**98**	**257**	**811**	**1,166**

Group

Total Allowance for Credit Losses	30 June 2018 Stage 1	Stage 2	Stage 3	Total
Opening balance 1 January	**105**	**269**	**780**	**1,154**
Provision for credit losses				
Transfer to (from) stage 1	27	--26	0	-
Transfer to (from) stage 2	-4	4	-0	-
Transfer to (from) stage 3	0	-3	3	-
Net remeasurement of loss allowances	-31	49	47	65
Originations or purchases	31	23	1	55
Derecognitions	-16	-48	-4	-69
Write-offs	-	-	-	-
Closing balance 30 June	**112**	**266**	**827**	**1,205**

Parent Bank

Individual write-downs (NOKm)	30 June 2017 RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1	28	597	625
- Actual losses during the period for which provisions for individual impairment losses have been made previously	5	165	170
- Reversal of provisions from previous periods	4	6	10
+ Increased write-downs on provisions previously written down	1	102	103
+ Write-downs on provisions not previously written down	0	62	62
Individual write-downs to cover loss on loans and guarantees at period end *)	**20**	**590**	**610**

*) Individually assessed impairment write-downs on guarantees, totalling NOK 6.1m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	30 June 2017 RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	90	228	318
Period's collective write-downs to cover loss on loans, guarantees etc	-	10	10
Collective write-downs to cover loss on loans and guarantees at period end	**90**	**238**	**328**

Group

Individual write-downs (NOKm)	30 June 2017 RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1	31	607	638
- Actual losses during the period for which provisions for individual impairment losses have been made previously	5	165	170
- Reversal of provisions from previous periods	4	6	10
+ Increased write-downs on provisions previously written down	1	102	103
+ Write-downs on provisions not previously written down	0	64	64
Individual write-downs to cover loss on loans and guarantees at period end *)	**23**	**602**	**625**

*) Individually assessed impairment write-downs on guarantees, totalling NOK 6.1m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	30 June 2017 RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	100	239	339
Period's collective write-downs to cover loss on loans, guarantees etc	2	10	12
Collective write-downs to cover loss on loans and guarantees at period end	**102**	**249**	**351**

Note 8 - Gross loans

Parent Bank

Gross loans	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 18	94,352	9,931	1,560	105,843
Transfer to stage 1	1,599	-1,592	-7	-
Transfer to stage 2	-2,110	2,133	-24	-
Transfer to stage 3	-34	-175	210	-
Net increase/decrease amount excisting loans	-4,120	-92	105	-4,107
New loans	27,975	765	67	28,807
Derecognitions	-19,415	1,956	-88	-21,459
Balance at 30 June 18	**98,248**	**9,013**	**1,823**	**109,084**

Group

Gross loans	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 18	99,564	10,855	1,652	112,071
Transfer to stage 1	1,859	-1,851	-8	-
Transfer to stage 2	-2,415	2,451	-36	-
Transfer to stage 3	-43	-203	247	-
Net increase/decrease amount excisting loans	-4,651	-191	92	-4,750
New loans	29,693	853	71	30,617
Derecognitions	-19,990	-2,049	-111	-22,150
Balance at 30 June 18	**104,018**	**9,864**	**1,907**	**115,787**

Note 9 - Distribution of customer deposits by sector/industry

Parent Bank				Group		
31 Dec 2017	30 June 2017	30 June 2018	(NOKm)	30 June 2018	30 June 2017	31 Dec 2017
3,061	2,944	3,001	Agriculture, forestry, fisheries, hunting	3,001	2,944	3,061
1,021	974	669	Sea farming industries	669	974	1,021
2,736	1,994	1,789	Manufacturing	1,789	1,994	2,736
3,046	2,769	3,532	Construction, power and water supply	3,532	2,769	3,046
4,152	3,627	3,404	Retail trade, hotels and restaurants	3,404	3,627	4,152
1,269	1,309	1,097	Maritime sector	1,097	1,309	1,269
4,595	5,243	5,522	Property management	5,282	5,002	4,405
6,429	5,940	6,550	Business services	6,550	5,940	6,429
5,846	6,530	6,452	Transport and other services provision	6,086	6,095	5,414
11,284	11,153	11,852	Public administration	11,852	11,153	11,284
2,127	1,988	2,866	Other sectors	2,735	1,728	1,863
45,565	**44,470**	**46,734**	**Total retail market**	**45,997**	**43,534**	**44,678**
31,797	32,024	34,346	Wage earners	34,346	32,024	31,797
77,362	**76,494**	**81,080**	**Total deposits**	**80,343**	**75,559**	**76,476**

Note 10 - Net interest income

Parent bank				Group		
	First half			First half		
2017	**2017**	**2018**	**(NOKm**	**2018**	**2017**	**2017**
			Interest income			
137	68	76	Interest income from loans to and claims on central banks and credit institutions	28	39	44
3,150	1,538	1,584	Interest income from loans to and claims on customers	1,774	1,676	3,476
284	153	137	Interest income from money market instruments, bonds and other fixed income securities	136	151	281
-	-	0	Other interest income	14	10	23
3,571	**1,759**	**1,797**	**Total interest income**	**1,951**	**1,877**	**3,825**
			Interest expense			
133	69	65	Interest expenses on liabilities to credit institutions	70	70	137
654	325	356	Interest expenses relating to deposits from and liabilities to customers	351	318	636
668	338	310	Interest expenses related to the issuance of securities	310	338	668
95	53	39	Interest expenses on subordinated debt	40	54	97
-0	-0	0	Other interest expenses	6	7	13
49	24	25	Guarantee fund levy	25	24	49
1,599	**808**	**795**	**Total interest expense**	**802**	**811**	**1,600**
1,972	**951**	**1,002**	**Net interest income**	**1,149**	**1,066**	**2,225**

Note 11 - Operating expenses

Parent bank				Group		
	First half			First half		
2017	**2017**	**2018**	**(NOKm)**	**2018**	**2017**	**2017**
203	105	107	IT costs	145	138	266
17	9	6	Postage and transport of valuables	9	12	22
50	23	22	Marketing	50	47	104
50	22	30	Ordinary depreciation	43	49	102
118	59	56	Operating expenses, real properties	77	55	118
77	37	48	Purchased services	65	70	139
118	56	58	Other operating expense	100	92	192
634	**311**	**327**	**Total other operating expenses**	**490**	**463**	**943**

Note 12 - Other assets

Parent Bank				Group		
31 Dec 2017	30 June 2017	30 June 2018	(NOKm)	30 June 2018	30 June 2017	31 Dec 2017
-	27	-	Deferred tax asset	148	193	178
115	114	107	Fixed assets	250	884	263
61	87	40	Earned income not yet received	91	151	104
35	253	4,921	Accounts receivable, securities	5,351	540	322
158	198	158	Pension assets	171	208	171
333	312	1,188	Other assets	1,681	804	615
703	**991**	**6,414**	**Total other assets**	**7,692**	**2,780**	**1,654**

Note 13 - Other liabilities

Parent Bank				Group		
31 Dec 2017	30 June 2017	30 June 2018	(NOKm)	30 June 2018	30 June 2017	31 Dec 2017
21	0	21	Deferred tax	85	34	81
337	48	310	Payable tax	339	99	367
9	8	9	Capital tax	9	8	9
70	77	-4	Accrued expenses and received, non-accrued income	383	467	444
112	141	224	Provision for accrued expenses and commitments	224	141	112
24	26	24	Pension liabilities	24	26	24
88	86	87	Drawing debt	87	86	88
16	31	28	Creditors	116	89	82
0	134	74	Debt from securities	353	359	162
-	-	-	Equity Instruments	8	226	244
232	361	1,269	Other liabilities	1,334	436	311
909	**913**	**2,042**	**Total other liabilites**	**2,962**	**1,970**	**1,923**

Note 14 - Debt created by issue of securities and subordinated debt

Group

Change in securities debt (NOKm)	30 June 2018	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2017
Bond debt, nominal value	42,955	8,818	5,839	-1,687	41,663
Value adjustments	108	-	-	-99	207
Accrued interest	171	-	-	-153	324
Total	**43,234**	**8,818**	**5,839**	**-1,939**	**42,194**

Change in subordinated debt and hybrid equity (NOKm)	30 June 2018	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2017
Ordinary subordinated loan capital, nominal value	1,705	-	-	4	1,701
Hybrid equity, nominal value	450	-	-	-	450
Value adjustments	25	-	-	-15	40
Accrued interest	10	-	-	-0	10
Total	**2,189**	**-**	**-**	**-11**	**2,201**

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

Level 1: Valuation based on quoted prices in an active market
Fair value of financial instruments that are traded in the active markets is based on market price on the balance sheet date. A market is considered active if market prices are easily and regularly available from a stock exchange, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring market transactions at an arm's length. This category also includes quoted shares and Treasury bills.

Level 2: Valuation based on observable market data
Level 2 consists of instruments that are valued by the use of information that does not consist in quoted prices, but where the prices are directly or indirectly observable for the assets or liabilities concerned, and which also include quoted prices in non-active markets.

Level 3: Valuation based on other than observable data
If valuation data are not available for level 1 and 2, valuation methods are applied that are based on non-observable information.

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2018:

Assets (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit/loss				
- Derivatives	7	2,903	-	2,910
- Bonds and money market certificates	2,926	15,714	-	18,640
- Equity instruments	1,930	94	461	2,485
- Fixed interest loans	-	43	3,522	3,565
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	59,480	59,480
- Equity instruments	-	-	54	54
Total assets	**4,863**	**18,754**	**63,518**	**87,135**
Liabilities				
Financial liabilities through profit/loss				
- Derivatives	13	2,960	-	2,974
- Equity instruments	7	1	-	8
Total liabilities	**20**	**2,961**	**-**	**2,982**

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2017:

Assets (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit/loss				
- Derivatives	2	4,672	-	4,673
- Bonds and money market certificates	3,225	17,087	-	20,312
- Equity instruments	992	-	413	1,405
- Fixed interest loans	-	43	3,631	3,673
Financial assets avaliable for sale				
- Equity instruments	-	-	70	70
Total assets	**4,219**	**21,801**	**4,114**	**30,134**
Liabilities				
Financial liabilities through profit/loss				
- Derivatives	7	3,755	-	3,761
- Equity instruments	222	4	-	226
Total liabilities	**229**	**3,758**	**-**	**3,987**

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2017:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	16	4,334	-	4,351
- Bonds and money market certificates	2,547	17,189	-	19,736
- Equity instruments	1,339	-	419	1,759
- Fixed interest loans	-	43	3,236	3,278
Financial assets avaliable for sale				
- Equity instruments	-	-	66	66
Total assets	**3,902**	**21,566**	**3,722**	**29,190**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	14	3,328	-	3,343
- Equity instruments	239	4	-	244
Total liabilities	**254**	**3,332**	**-**	**3,586**

The following table presents the changes in the instruments classified in level 3 as at 30 June 2018:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Equity instruments through OCI	Total
Closing balance 31 December	419	3,236	-	66	3,722
Implementation effect IFRS 9	18	-	56,743	-18	56,743
Opening balance 1 January	437	3,236	56,743	49	60,464
Investment in periode	40	987	14,762	-	15,790
Disposals in the periode	-18	-694	-12,025	-	-12,737
Nedskrivning forventet tap på utlån	-	-	-2	-	-2
Gain or loss on financial instruments	2	-7	2	6	3
Closing balance	**461**	**3,522**	**59,480**	**54**	**63,518**

The following table presents the changes in the instruments classified in level 3 as at 30 June 2017:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Equity instruments available for sale	Total
Opening balance 1 January	3,783	524	60	4,367
Investment in periode	219	11	-	230
Disposals in the periode	-386	-141	-	-528
Gain or loss on financial instruments	15	19	10	44
Closing balance	**3,631**	**413**	**70**	**4,114**

The following table presents the changes in the instruments classified in level 3 as at 31 December 2017:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Equity instruments available for sale	Total
Opening balance 1 January	524	3,783	60	4,367
Investment in periode	20	304	-	323
Disposals in the periode	-157	-849	-20	-1,026
Gain or loss on financial instruments	33	-2	27	57
Closing balance	**419**	**3,236**	**66**	**3,722**

Valuation method

The valuation method applied is adapted to each financial instrument, and is intended to utilise as much of the information that is available in the market as possible.

The method for valuation of financial instruments in level 2 and 3 is described in the following:

Fixed interest loans to customers (level 3)

The loans consist for the most part of fixed interest loans denominated in Norwegian kroner. The value of the fixed interest loans is determined such that agreed interest flows are discounted over the term of the loan by a discount factor that is adjusted for margin requirements. The discount factor is raised by 10 points when calculating sensitivity.

Loans at fair value through other comprehensive income (level 3)

Property Loans at floating interest classified at fair value over other comprehensive income is valued based on nominal amount reduced by expected credit loss. Loans with no significant credit risk detoriation since first recognition is assessed at nominal amount. For loans with a significant increase in credit risk since first recognition or objective evidence of loss, the calculation of expected credit losses over the life of the asset is in line with loan losses for loans at amortised cost. Estimated fair value is the nominal amount reduced by expected lifetime credit loss. If the likelihood of the worst case scenario in the model is doubled, fair value is reduced by NOK 4 million

Short-term paper and bonds (level 2 and 3)

Valuation on level 2 is based for the most part on observable market information in the form of interest rate curves, exchange rates and credit margins for the individual credit and the bond's or certificate's characteristics. For paper valued under level 3 the valuation is based on indicative prices from a third party or comparable paper.

Equity instruments (level 3)

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 365 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank 1 Invest. The valuations are in all essentials based on reporting from managers of the funds who utilise cash flow based models or multiples when determining fair value. The Group does not have full access to information on all the elements in these valuations and is therefore unable to determine alternative assumptions. Determination of fair value for the shares of Polaris Media is based on valuation undertaken by SpareBank 1 Markets. The latter is based on value-adjusted equity capital.

The owner interest in Visa Norge FLI is considered to be a financial asset and is classified to the category 'available for sale'. SpareBank 1 SMN has calculated the fair value of its portion of Visa Norge FLI at NOK 31.5 million. Sensitivity at level 3 measurement: Since the estimated value of Visa Norge is calculated by the association we do not have access to all significant inputs, but SpareBank 1 SMN has taken into account a liquidity discount on the shares of Visa Inc. of 20 per cent. Had this been adjusted to 25 per cent, the fair value measurement would have been 4.1 million lower.

Financial derivatives (level 2)

Financial derivatives at level 2 include for the most part currency futures and interest rate and exchange rate swaps. Valuation is based on observable interest rate curves. In addition the item includes derivatives related to FRAs. These are valued with a basis in observable prices in the market. Derivatives classified to level 2 also include equity derivatives related to SpareBank 1 Markets' market-making activities. The bulk of these derivatives refer to the most sold shares on Oslo Børs, and the valuation is based on the price of the actual/underlying share and observable or calculated volatility.

Sensitivity analyses, level 3 as of 30 June 2018

(NOKm)	Book value	Effect from change in reasonable possible alternative assumtions
Fixed interest loans	3,522	-9
Equity instruments through profit/loss	462	-
Loans at fair value through other comprehensive income	59,480	-4
Equity instruments through other comprehensive income	54	-4

* As described above, the information to perform alternative calculations are not available

Note 16 - Liquidity risk

Liquidity risk is the risk that the group will be unable to refinance its debt or to finance asset increases. Liquidity risk management starts out from the group's overall liquidity strategy which is reviewed and adopted by the board of directors at least once each year. The liquidity strategy reflects the group's moderate risk profile.

The group mitigates liquidity risk by diversifying its funding across different markets, funding sources, maturities and instruments and through the use of long-term funding. Contingency plans exist both for the group and the SpareBank 1 alliance for managing the liquidity situation in periods of capital market turbulence. These plans address both bank-specific and systemic crises and a combination of the two. The group's objective is to survive twelve months of ordinary operations without access to fresh external funding while housing prices fall 30 per cent. In the same period minimum requirements to LCR shall be fulfilled.

The average residual maturity on the portfolio of senior bonds and covered bonds at the end of the first half was 2.98 years. The overall LCR at the same point was 150 per cent and the average overall LCR in the second quarter was 151 per cent. The LCR in Norwegian kroner at quarter-end was 117 and for euro there is net cash flows in.

Note 17 - Earnings per EC

(Nokm)	January - June 2018	January - June 2017
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve 1)	1,163	741
Allocated to ECC Owners 2)	744	474
Issues Equity Captial Certificates adjusted for own certificates	129,331,186	129,552,433
Earnings per Equity Captial Certificate	**5.75**	**3.66**

1) Adjusted Net Profit	January - June 2018	January - June 2017
Net Profit for the group	1,209	776
adjusted for non-controlling interests share of net profit	-27	-17
Adjusted for Tier 1 capital holders share of net profit	-20	-17
Adjusted Net Profit	**1,163**	**741**

2) Equity capital certificate ratio (parent bank)

(NOKm)	30 June 2018	31 Dec 2017
ECC capital	2,597	2,597
Dividend equalisation reserve	5,079	4,487
Premium reserve	895	895
Unrealised gains reserve	81	81
Other equity capital	-8	8
A. The equity capital certificate owners' capital	**8,644**	**8,068**
Ownerless capital	4,831	4,498
Unrealised gains reserve	45	45
Other equity capital	-4	5
B. The saving bank reserve	**4,872**	**4,548**
To be disbursed from gift fund	-	-
Dividend declared	-	-
Equity ex. profit	13,517	12,616
Equity capital certificate ratio A/(A+B)	**63.95 %**	**63.95 %**
Equity capital certificate ratio for distribution	**63.95 %**	**63.95 %**

Results from quarterly accounts

Group (NOKm)	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016	2Q 2016
Interest income	989	962	989	959	945	931	917	874	896
Interest expenses	408	394	400	389	413	398	413	414	412
Net interest	**581**	**568**	**589**	**570**	**532**	**533**	**504**	**460**	**483**
Commission income	361	339	372	360	349	308	300	326	331
Commission expenses	45	36	49	46	38	35	35	34	36
Other operating income	291	239	206	168	227	182	149	120	154
Commission income and other income	**607**	**542**	**529**	**482**	**538**	**455**	**414**	**412**	**448**
Dividends	4	2	0	1	3	1	1	13	73
Income from investment in related companies	102	79	147	126	94	71	74	103	127
Net return on financial investments	195	99	108	108	35	66	153	157	71
Net return on financial investments	**300**	**180**	**256**	**235**	**131**	**138**	**228**	**274**	**271**
Total income	**1,488**	**1,290**	**1,374**	**1,287**	**1,202**	**1,126**	**1,146**	**1,145**	**1,203**
Staff costs	413	403	362	357	362	345	251	294	318
Other operating expenses	248	241	255	225	236	227	231	210	209
Total operating expenses	**661**	**645**	**618**	**582**	**598**	**571**	**482**	**504**	**528**
Result before losses	**827**	**645**	**756**	**705**	**604**	**555**	**664**	**641**	**675**
Loss on loans, guarantees etc.	78	48	78	88	86	89	99	130	118
Result before tax	**748**	**596**	**678**	**617**	**518**	**466**	**565**	**512**	**558**
Tax charge	156	131	122	118	111	99	102	87	88
Result investment held for sale, after tax	150	1	-4	-0	3	-0	7	-1	-1
Net profit	**743**	**466**	**553**	**500**	**409**	**367**	**470**	**423**	**468**

Key figures from quarterly accounts

Group (NOKm)	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016	2Q 2016
Profitability									
Return on equity per quarter [1]	17.9%	11.2%	13.4%	12.5%	10.5%	9.4%	12.2%	11.3%	12.9%
Cost-income ratio [1]	44 %	50 %	45 %	45 %	50 %	51 %	42 %	44 %	44 %
Balance sheet figures									
Gross loans to customers	115,787	113,174	112,071	110,695	107,358	104,117	102,325	99,569	97,790
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	154,790	151,065	148,784	147,146	143,800	140,038	137,535	134,462	132,583
Deposits from customers	80,343	75,937	76,476	73,086	75,559	70,176	67,168	66,290	67,031
Total assets	159,584	152,083	153,254	146,913	149,449	142,042	138,080	139,815	141,145
Average total assets	155,833	152,668	150,083	148,181	145,746	140,061	138,948	140,480	137,745
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskredtt last 12 months [1]	7.6 %	7.9 %	8.2 %	9.4 %	8.5 %	8.1 %	8.0 %	6.6 %	6.5 %
Growth in deposits last 12 months	6.3 %	8.2 %	13.9 %	10.3 %	12.7 %	9.9 %	4.8 %	4.2 %	1.3 %
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt									
Impairment losses ratio [1]	0.20 %	0.13 %	0.22 %	0.24 %	0.24 %	0.26 %	0.28 %	0.39 %	0.36 %
Non-performing commitm. as a percentage of gross loans [1]	0.18 %	0.19 %	0.19 %	0.18 %	0.18 %	0.15 %	0.16 %	0.16 %	0.19 %
Other doubtful commitm. as a percentage of gross loans [1]	1.05 %	0.90 %	0.80 %	0.83 %	0.80 %	0.77 %	1.07 %	1.01 %	0.90 %
Solidity									
Common equity tier 1	15.0 %	14.6 %	14.6 %	14.6 %	14.9 %	14.7 %	14.8 %	14.2 %	13.9 %
Core capital ratio	17.0 %	16.3 %	16.6 %	16.6 %	16.8 %	16.7 %	16.8 %	16.2 %	16.0 %
Capital adequacy ratio	19.0 %	18.2 %	18.6 %	19.0 %	19.0 %	18.9 %	19.2 %	18.7 %	18.5 %
Core capital	16,488	15,697	15,707	15,718	15,526	15,149	14,956	14,646	14,455
Net equity and related capital	18,418	17,518	17,629	18,004	17,552	17,183	17,072	16,921	16,733
Liquidity Coverage Ratio (LCR)	150 %	162 %	164 %	124 %	160 %	136 %	129 %	138 %	149 %
Leverage Ratio	7.4 %	7.3 %	7.2 %	7.4 %	7.2 %	7.3 %	7.4 %	7.1 %	6.7 %
Key figures ECC									
ECC share price at end of period (NOK)	84.50	80.90	82.25	81.25	71.75	66.50	64.75	55.75	46.70
Number of certificates issued, millions [1]	129.31	129.38	129.38	129.40	129.54	129.48	129.64	129.66	129.47
Booked equity capital per ECC (including dividend) [1]	80.21	76.53	78.81	79.18	75.40	72.31	73.35	74.71	71.53
Profit per ECC, majority [1]	3.54	2.21	2.63	2.42	1.92	1.74	2.21	2.00	2.22
Price-Earnings Ratio [1]	5.97	9.16	7.81	8.40	9.32	9.58	7.32	6.97	5.26
Price-Book Value Ratio [1]	1.05	1.06	1.04	1.03	0.95	0.92	0.88	0.75	0.65

[1] Defined as alternative performance measures, see attachment to the quarterly report

Statement in compliance with the securities trading act, section 5-6

Statement by the Board of Directors and CEO

We hereby declare that to the best of our knowledge the half-yearly financial statements for the period 1 January to 30 June 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting, and that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank and the group taken as a whole.

We also declare that to the best of our knowledge the half-yearly management report gives a fair review of important events in the reporting period and their impact on the financial statements, the principal risks and uncertainties facing the business in the next reporting period, and significant transactions with related parties.

Trondheim, 8. August 2018
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Mette Kamsvåg

Morten Loktu

Janne Thyø Thomsen

Tonje Eskeland Foss

Erik Gunnes
(employee rep.)

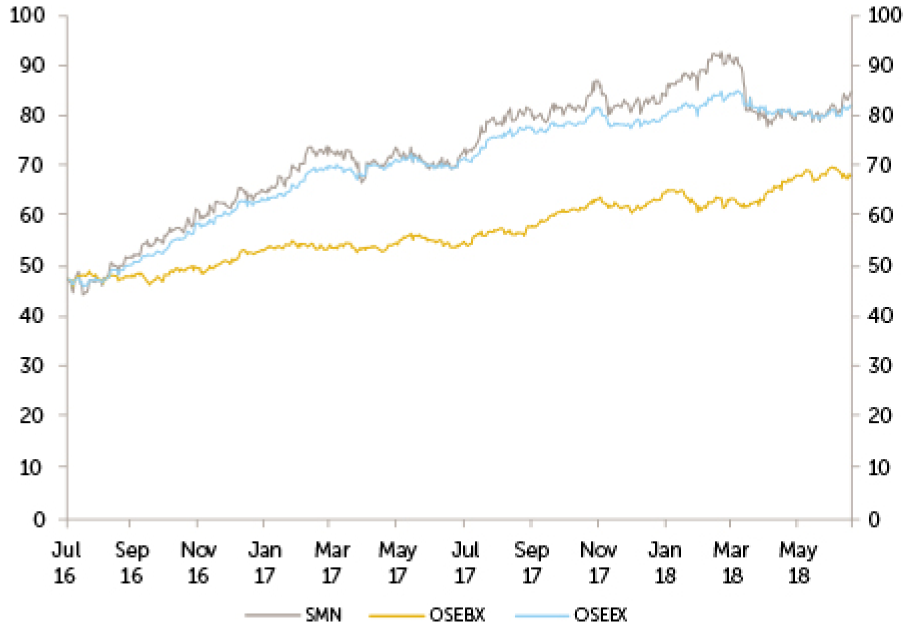
Venche Johnsen
(employee rep.)

Finn Haugan
(Group CEO)

Equity capital certificates

Stock price compared with OSEBX and OSEEX

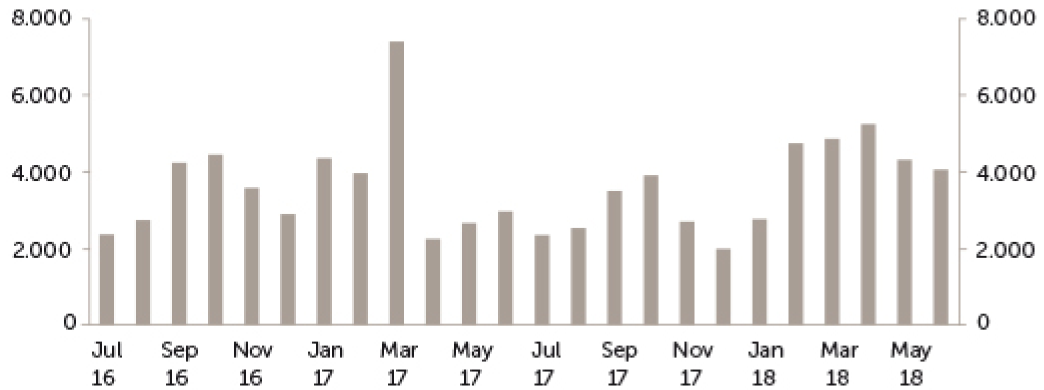
1 July 2016 to 30 June 2018



OSEBX = Oslo Stock Exchange Benchmark Index (rebased)
OSEEX = Oslo Stock Exchange ECC Index (rebased)

Trading statistics

1 July 2016 to 30 June 2018



Total number of ECs traded (1000)

20 largest ECC holders	Number	Share
VPF Nordea Norge Verdi	6,578,299	5.07 %
State Street Bank and Trust CO (nominee)	4,526,676	3.49 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,542,919	2.73 %
VPF Danske Invest Norske Aksjer Inst. II	3,253,849	2.51 %
JP Morgan Chase Bank (nominee)	2,688,015	2.07 %
Verdipapirfondet DNB Norge (IV)	2,431,902	1.87 %
State Street Bank and Trust CO (nominee)	2,080,580	1.60 %
VPF Pareto Aksje Norge	1,821,202	1.40 %
VPF Alfred Berg Gambak	1,759,692	1.36 %
Pareto AS	1,755,225	1.35 %
Morgan Stanley And Co Intl plc	1,746,411	1.35 %
VPF Danske Invest Norske Aksjer Inst. I	1,727,730	1.33 %
JP Morgan Chase Bank (nominee)	1,717,046	1.32 %
Forsvarets Personellservice	1,568,771	1.21 %
MP Pensjon PK	1,438,701	1.11 %
VPF Nordea Kapital	1,384,632	1.07 %
JP Morgan Securities	1,361,137	1.05 %
VPF Storebrand Norge I	1,321,665	1.02 %
VPF Nordea Avkastning	1,289,111	0.99 %
The 20 largest ECC holders in total	**47,958,954**	**36.94 %**
Others	81,877,489	63.06 %
Total issued ECCs	**129,836,443**	**100.00 %**

Dividend policy

SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide equity certificate holders with a good, stable and competitive return in the form of dividend and a rising value of the bank's equity certificate.

The net profit for the year will be distributed between the owner capital (the equity certificate holders) and the ownerless capital in accordance with their respective shares of the bank's total equity capital.

SpareBank 1 SMN's intention is that about one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that about one half of the owner capital's share of the net profit for the year should be disbursed as gifts or transferred to a foundation. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, external framework conditions and the need for tier 1 capital.

Auditor's report

Deloitte.

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Translation from the original Norwegian version

To the Board of Directors of SpareBank 1 SMN

Report on Review of Interim Financial Information of SpareBank 1 SMN as of June 30 2018

We have reviewed the accompanying balance sheet of the parent company and the group as of June 30 2018 for SpareBank 1 SMN and the related statements of income for the parent company and the group, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34, as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

We have conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at June 30 2018, and of its financial performance and its cash flows for the six month period then ended in accordance with International Accounting Standard 34, as adopted by the EU.

Trondheim, August 8th 2018
Deloitte AS

Morten Alsos(Signed)
State Authorised Public Accountant (Norway)