

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 Asept 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		Change
	2018	2017	
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 Asept 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		Change
	2018	2017	
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 certificates 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 Asept 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.

Saving products, customer portfolio (NOKm)	First half		Change
	2018	2017	
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.

Insurance, premium volume (NOKm)	First half		Change
	2018	2017	
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.

Pre-tax profit (NOKm)	First half		
	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

Eiendomsmeidler 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 Asept 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)