

Report of the Board of Directors

Accounts for first nine months of 2018

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

Main points first nine months of 2018

- Good profits from banking operations, subsidiaries and product companies
- Post-tax profit was NOK 1,689m, NOK 413m better than in the same period of 2017. The improvement is due to increased operating income, gains from sale of the Bank's headquarter, gains from the vipps-transaction, and reduced loan losses
- Common equity tier 1 (CET1) ratio at 30 September 2018 was 14.9 per cent
- Considerable increase in customer base and high growth in all product areas, especially in the retail segment
- SpareBank 1 Gruppen and DNB signed on 24 September 2018 an agreement to merge their insurance businesses, thereby creating one of the country's largest insurers

Net profit of NOK 1,689m in first nine months of 2018

- Pre-tax profit: NOK 1,937m (1,601m)
- Post-tax profit: NOK 1,689m (1,275m)
- Return on equity: 13.3 per cent (10.8 per cent)
- CET1 ratio: 14.9 per cent (14.6 per cent)
- Growth in lending: 7.3 per cent (9.4 per cent) and in deposits: 6.1 per cent (10.3 per cent) in the last 12 months
- Growth in lending to retail borrowers: 10.7 per cent in the last 12 months (10.3 per cent). Retail loans account for 68 per cent (66 per cent) of total lending
- Growth in lending to corporate borrowers: 0.8 per cent in the last 12 months (7.9 per cent)
- Losses on loans and guarantees: NOK 196m (263m), measuring 0.17 per cent (0.25 per cent) of gross lending
- Earnings per equity certificate (EC): NOK 8.07 (6.08). Book value per EC: NOK 82.57 (79.18)

Main points third quarter of 2018

- Pre-tax profit: NOK 592m (617m)
- Post-tax profit: NOK 480m (500m)
- Return on equity: 11.1 per cent (12.5 per cent)
- Net gain on financial assets: NOK 182m (235m)
- Loan losses: NOK 69m (88m), measuring 0.18 per cent (0.24 per cent) of gross lending
- Earnings per equity certificate (EC): NOK 2.32 (2.42)

Profit NOK 413m higher than in same period of 2017

SpareBank 1 SMN achieved a pre-tax profit of NOK 1,937m (1,601m) in the first nine months of 2018. The net profit is NOK 1,689m (1,275m) and return on equity is 13.3 per cent (10.8 per cent).

Aggregate operating income in the first nine months of 2018 came to NOK 3,393m (3,111m). This gives an increase of NOK 282m from the previous year. NOK 175m of the income growth derives from increased activity at the bank's subsidiaries SpareBank 1 Regnskapshuset SMN and SpareBank 1 Markets.

The profit share from owner interests and related companies was NOK 286m (290m). Dividends and return on financial instruments was NOK 376m (214m), of which NOK 90m to the gain resulting from the merger of the companies Vipps, Bank Asept and Bank ID.

Operating expenses totalled NOK 1,922m (1,751m) in the first nine months of 2018. The increase of NOK 171m derives mainly from increased activity on the part of subsidiaries.

Overall losses on loans and guarantees were NOK 196m (263m). Loss provisioning refers largely to oil-related activities.

Profit on assets held for sale comes to NOK 157m of which NOK 150m is a gain on the sale of the bank's head office 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 7.3 per cent (9.4 per cent) and deposits by 6.1 per cent (10.3 per cent) over the last 12 months.

As at 30 September 2018 the CET1 ratio was 14.9 per cent (14.6 per cent). The CET1 ratio target is 15.0 per cent.

Earnings per EC were NOK 8.07 (6.08). The book value per EC was NOK 82.57 (79.18).

The price of the bank's equity certificate (MING) at end-September was NOK 90.90 (81.25). 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 123m to NOK 1,759m (1,636m) in the first nine months of 2018. The increase is in all essentials attributable to increased lending to and deposits from both retail and corporate customers, and to increased loan establishment fees.

Margins on both loans and deposits have been stable in the last two quarters. Risk pricing and attention to efficient use of regulatory capital have brought improved margins on parts of the corporate portfolio, and work in this respect continues.

As expected, Norges Bank (the central bank) raised its base rate on 21 September 2018 – for the first time in seven years – by 0.25 percentage points to 0.75 per cent. Like most other banks, SpareBank 1 SMN has given notice of an increase of up to 0.25 per cent in its own lending rates. The change will be effective as from 8 November 2018 for existing loans.

Increased other income

Commission and other operating income have risen by NOK 159m to NOK 1,634m (1,475m) 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 in the first nine months of 2018 totalled NOK

274m (266m). Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt has risen by NOK 8m as a result of higher portfolio sales.

Other commission income totalled NOK 1,360 m (1,209m). The strong growth is a result of increased activity at SpareBank 1 Markets and acquisitions by SpareBank 1 Regnskapshuset SMN, along with increased incomes from sales of savings products.

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)	January - September		
	2018	2017	Change
Payment transfers	152	157	-5
Creditcard	45	44	2
Saving products	87	64	23
Insurance	130	128	2
Guarantee commission	48	54	-5
Real estate agency	298	289	9
Accountancy services	320	271	49
Markets	238	156	81
Other commissions	42	47	-5
Total commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,360	1,209	151
Commissions SB1 Boligkreditt	263	254	9
Commissions SB1 Næringskreditt	11	12	-1
Total commissions	1,634	1,475	159

Good return on financial investments

Overall dividends and return on financial investments was NOK 376m (214m). This breaks down as follows:

- Gain and dividend of NOK 150m (51m) 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 have yielded gains of NOK 192m (32m). This essentially comprises gains on fixed income instruments. The relatively large gains are ascribable to a rise in interest rates in 2018. This is partly neutralised by losses on the fixed income portion of the bond portfolio, which shows overall losses of NOK 81m (gain of NOK 81m)
- 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 23m (11m)
- Income of NOK 47m (26m) 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 52m (33m)
- Financial instruments used by the bank for hedging purposes show a loss of NOK 5m (loss of NOK 20m)

Return on financial investments (NOKm)	January - September		
	2018	2017	Change
Capital gains shares (incl dividends)	150	51	99
Gain/(loss) on derivatives	192	32	160
Gain/(loss) on other financial instruments at fair value (FVO)	23	11	12
Foreign exchange gain/(loss)	47	26	20
Gain/(loss) on certificates and bonds	-81	81	-162
Gain/(loss) on shares and equity derivatives at SpareBank 1 Markets	52	33	19
Gain/(loss) on financial instruments related to hedge accounting	-5	-20	15
Net return on financial instruments and dividends	376	214	163

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 banks with a good return on invested capital. The overall profit of the product companies and other related companies was NOK 286m (290m) for the first nine months of 2018.

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent 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 per cent at end-September 2018. SpareBank 1 Gruppen's post-tax profit for the first nine months of 2018 was NOK 970m (1,123m). SpareBank 1 Forsikring contributes 87 per cent of the profit. A weaker performance by the insurance business compared with an excellent first nine months of 2017 explains the profit decline shown by SpareBank 1 Gruppen.

SpareBank 1 SMN's share of the profit for the first nine months of 2018 was NOK 189m (214m).

Merger between SpareBank 1 Skadeforsikring and DNB Forsikring

SpareBank 1 Gruppen and DNB Forsikring signed on 24 September 2018 an agreement to amalgamate their insurance businesses, thereby creating one of the country's largest insurance companies.

As of the merger date, the company will hold a share of the risk insurance market in excess of 15 per cent. The company will be the country's third largest insurance company, and the country's largest in terms of distribution through banks.

The amalgamation will be achieved through the merger of 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 merger agreement incorporates a conversion ratio of 80 per cent for SpareBank 1 Gruppen and 20 per cent for DNB based on the value of the two non-life insurers.

DNB will acquire up to 35 per cent and SpareBank 1 Gruppen will own 65 per cent of the new company. DNB has in addition secured an option to acquire a stake of up to 40 per cent. 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. Norway's Competition Authority gave its approval on 16 October 2018.

Based on figures as at 31 December 2017 and pro forma consolidated financial statements, the merger and the above transactions will in aggregate entail an increase in equity of about NOK 6.9 bn for SpareBank 1 Gruppen at group level. The majority's (the SpareBank 1 banks and the LO) share of this increase is 4.3 bn. SpareBank 1 SMN's share of this increase (19.5 per cent) is about NOK 831m. This will in isolation entail an approximately unchanged CET1 ratio for the Group, the reason being that the increased book value of the stake in SpareBank 1 Gruppen increases the deduction in CET1 capital and increases risk weighted assets. In aggregate this will approximately neutralise the effect of higher book values.

SpareBank 1 Gruppen (the parent company) achieves a tax-free gain of about NOK 2.65bn as a result of DNB's disinvestment. SpareBank 1 Gruppen's basis for dividend payment increases by the same margin. SpareBank 1 SMN's share of a potential dividend of NOK 2.65bn is NOK 516m. The dividend will reduce the Group's book value of the investment in SpareBank 1 Gruppen, and thereby also reduce the deduction in CET1 capital in the calculation of capital adequacy. Based on the Group's accounting figures as at 30 September 2018, this will bring an increase of about 0.6 percentage points in the CET1 ratio. Any dividend payment from SpareBank 1 Gruppen will be conditional on the company's capital situation and on decisions adopted by the company's governing bodies, and cannot be implemented until the second quarter of 2019 at the earliest.

The Board of Directors expects a substantial improvement in the financial performance of the non-life company as a result of cost synergies and DNB's role as new distribution channel.

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 at 30 September 2018 the bank has sold loans totalling NOK 37.7bn (34.2bn) to SpareBank 1 Boligkreditt, corresponding to 35.3 per cent (35.5 per cent) of the bank's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 19.9 per cent, and the bank's share of that company's profit in the first nine months of 2018 was NOK 2m (minus 26m).

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 30 September 2018, loans worth NOK 2.1bn (2.3bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.5 per cent, and the bank's share of the company's profit for the first nine months of 2018 was NOK 10m (18m). 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 per cent have been sold from BN Bank.

SpareBank 1 Kredittkort

Profit for the first nine months of 2018 was NOK 96m (58m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.4 per cent. SpareBank 1 SMN's share of the profit in the first nine months of 2018 was NOK 17m (11m), and the bank's share of the portfolio is NOK 911m (839m).

SpareBank 1 Kredittkort has managed the LOfavør credit card programme since 1 January 2017. This agreement has expanded 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.

Ronny Remolen Smolan was appointed new CEO of the company as from 1 June 2018.

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank as at 30 September 2018.

BN Bank recorded a profit of NOK 212m (213m) in the first nine months of 2018, providing a return on equity of 7.9 per cent (7.4 per cent). SpareBank 1 SMN's share of BN Bank's profit in the first nine months of 2018 was NOK 73m (70m), 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 18.4bn or 58 per cent since 30 September 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 per cent stake. The focus on estate agency in the Oslo market aims to strengthen 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 resolved merged with Vipps in order to compete in the arena for payment solutions for the future, and the merger was completed in third quarter 2018. Vipps aims to take its place as the Nordic region's leading financial technology company, and 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). Vipps has launched a number of products in 2018 designed to simplify bank customers' everyday life, and has high ambitions to develop these solutions further.

SpareBank 1 Betaling posted in the first nine months a deficit of NOK 39m which constitutes the company's share of Vipps' profit. SpareBank 1 SMN's share of this deficit is NOK 8m. SpareBank 1 SMN took to income a gain of NOK 90m in the second quarter related to the adopted merger.

Operating expenses

Overall Group operating expenses have risen by NOK 171m in 2018 to total NOK 1,922m (1,751m).

Parent bank costs rose by NOK 21m to NOK 935m in the 12 months to end-September, of which NOK 11m relates to the sale of the bank's head office building in Trondheim. Excluding this one-time cost, parent bank costs have risen by 1 per cent. Efficiency gains by the bank have enabled lower staffing and reduced costs. Between 31 December 2014 and end-September 2018 the number of FTEs at the parent bank has been reduced by 131 to 589. Changing customer behaviour and new technology will contribute to further efficiency gains. 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 987m (837m), having increased by NOK 150m in the 12 months to end-September. Of this increase, NOK 41m refers to SpareBank 1 Regnskapshuset SMN's

company acquisitions, NOK 90m to the build-up of SpareBank 1 Markets and NOK 17m to the BN Bolig undertaking. The subsidiaries also have a continuous focus on cost control.

SpareBank 1 Regnskapshuset SMN's acquisitions provide income growth and profit growth for the company. Increased capacity has enabled strong income growth at SpareBank 1 Markets, and the potential for further growth is high.

The cost-income ratio was 47 per cent (48 per cent) for the Group, 31 per cent (31 per cent) 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 196m (263m) were recorded in the first nine months of 2018. Net loan losses measure 0.17 per cent of total outstanding loans (0.25 per cent). Net losses in the third quarter came to NOK 69m (88m).

A net loss of NOK 159m (252m) was recorded on loans to corporates in the first nine months of 2018, in all essentials related to loans to oil-related activity.

A net loss of NOK 37m (loss of 11m) was recorded on loans to retail borrowers in the first nine months of 2018.

Write-downs on loans and guarantees total NOK 1,020m (1,053m) as at 30 September 2018.

Overall problem loans (defaulted and doubtful) come to NOK 1,649m (1,478m), or 1.04 per cent (1.00 per cent) 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-loss model are defined as problem loans.

Defaults in excess of 90 days totalled NOK 284m (263m). Defaults measure 0.18 per cent (0.18 per cent) of gross outstanding loans.

Other doubtful exposures total NOK 1,365m (1,215m). Other doubtful exposures measure 0.86 per cent (0.83 per cent) 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 activities, but the trend is positive in that part of the portfolio too.

Total assets of NOK 159bn

The bank's assets totalled NOK 159bn (147bn) as at 30 September 2018, having risen by NOK 12bn or 8.5 per cent in the past year. The increase in total assets is mainly a consequence of a higher lending volume.

As at 30 September 2018 loans worth a total of NOK 40bn (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 10.7bn (12.7bn) or 7.3 per cent (9.4 per cent) in the 12 months to end-September to reach NOK 157.8bn (147.1bn) as at 30 September 2018. Growth in the first nine months was 6.1 per cent (7.0 per cent).

- Lending to personal borrowers rose in the 12 months to end-September by NOK 10.3bn (9.0bn), i.e. by 10.7 per cent (10.3 per cent), to reach NOK 106.6bn (96.4bn). Growth in the first nine months was 8.0 per cent (7.8 per cent). This brought an increase in the bank's market share
- Lending to corporates rose in the 12 months to end-September by NOK 0.4bn (3.7bn), i.e. by 0.8 per cent (7.9 per cent), to reach NOK 51.2bn (50.8bn). Lending to corporate borrowers rose in the first nine months of 2018 by 2.2 per cent (5.5 per cent)
- Lending to personal borrowers accounted for 68 per cent (66 per cent) of total loans to customers at end-September 2018

Growth in residential mortgage lending is high and the bank's market shares are rising. 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 with a basis in capital limitations and profitability requirements.

(For distribution by sector, see note 5).

Good growth in retail deposits

Customer deposits rose by NOK 4.4bn (6.8bn) in the 12 months to end-September to reach NOK 77.5bn (73.1bn). This represents a growth of 6.1 per cent (10.3 per cent). Deposit growth in the first nine months of 2018 comes to 1.4 per cent (8.8 per cent).

- Personal customer deposits rose by NOK 2.1bn (1.8bn) or 6.8 per cent (6.2 per cent) to reach NOK 33.6bn (31.5bn). In 2018 Retail Banking has recorded an increase of 5.8 per cent (5.8 per cent) in deposits
- Corporate deposits rose by NOK 2.3bn (6.7bn) or 5.6 per cent (13.6 per cent) to NOK 43.9bn (41.6bn). In 2018 Corporate Banking has recorded a reduction of 1.7 per cent (growth of 11.2 per cent)
- The deposit-to-loan ratio at SpareBank 1 SMN was 66 per cent (66 per cent), excluding SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 49 per cent (50 per cent)

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 10.8bn (9.7bn) as at 30 September 2018. The increase of NOK 1.1bn is a result of good sales and value increases on equity funds and active asset management.

Saving products, customer portfolio (NOKm)	January - September		
	2018	2017	Change
Equity funds	6,291	5,964	327
Pension products	785	828	-43
Active management	3,724	2,926	798
Total	10,800	9,718	1,082

Insurance

The bank's insurance portfolio increased by 6 per cent in the 12 months to end-September. Growth was satisfactory both for non-life insurance and occupational pensions.

Insurance, premium volume (NOKm)	January - September		
	2018	2017	Change
Non-life insurance	805	766	39
Personal insurance	348	352	-4
Occupational pensions	268	227	41
Total	1,421	1,345	76

Retail Banking

Outstanding loans to retail borrowers totalled NOK 111bn (101bn) and deposits totalled NOK 40bn (37bn) as at 30 September 2018. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships recorded at the parent bank.

Operating income totalled NOK 1,490m (1,396m) in the first nine months of 2018. Net interest income accounted for NOK 900m (819m) and commission income for NOK 590m (576m). The income growth is mainly due to increased lending and higher commission income from SpareBank 1 Boligkreditt. Overall income rose by NOK 94m. Return on capital employed in the retail banking segment was 13.1 per cent (16.3 per cent). Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 ratio.

The lending margin in the first nine months of 2018 was 1.68 per cent (1.90 per cent), while the deposit margin was 0.23 per cent (0.13 per cent) 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 10.4 per cent (9.9 per cent) and 7.9 per cent (5.9 per cent) respectively in the 12 months to end-September.

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 40bn (40bn) and deposits total NOK 37bn (36bn) as at 30 September 2018. This is a diversified portfolio of loans to and deposits from corporate customers in the counties of Trøndelag and Møre og Romsdal.

Operating income totalled NOK 993m (974m) in the first nine months of 2018. Net interest income was NOK 827m (814m), while commission income and return on financial investments came to NOK 165m (160m).

Overall net losses in the corporate banking segment have declined and amounted to NOK 153m (249m) in the first nine months of 2018. The losses are in all essentials related to the challenges faced in oil-related activities.

Return on capital employed for the corporate banking segment was 10.8 per cent (10.1 per cent) in the first nine months of 2018. Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin was 2.69 per cent (2.81 per cent) and the deposit margin was minus 0.05 per cent (minus 0.10 per cent) in the first nine months of 2018.

Lending declined by 2.3 per cent (growth of 5.6 per cent) and deposits rose by 2.4 per cent (15.4 per cent) in the 12 months to end-September.

The SMB segment is an important focal area for the bank, and targets have been set for growth in the customer base and in market shares. It is essential to apply a differentiated service concept to this segment. Corporate Banking at SpareBank 1 SMN works continuously to improve, increase the efficiency of, and automate, processes. The bank has a strategy to reduce concentration risk, in part by scaling back large exposures, mainly in the area of commercial real estate. At the same time, increased focus is being given to small and medium sized businesses. This is expected to provide improved profitability in the longer term.

Subsidiaries

The bank's subsidiaries posted an overall profit of NOK 225.2m (192.9m) before tax.

Pre-tax profit (NOKm)	January - September		
	2018	2017	Change
EiendomsMegler 1 Midt-Norge	6.4	12.5	-6.1
SpareBank 1 Finans Midt-Norge	106.9	93.5	13.3
SpareBank 1 Regnskapshuset SMN	56.8	45.0	11.7
Sparebank 1 Markets (proforma incl. Allegro)	20.8	-5.9	26.7
SpareBank 1 SMN Invest	27.6	31.5	-3.9
Other companies	6.8	16.2	-9.4
Total	225.2	192.9	32.3

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and in Møre og 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 Midt-Norge 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.

EiendomsMegler 1 Midt-Norge's pre-tax profit in the first nine months of 2018 was NOK 6.4m (12.5m). The profit performance is weakened somewhat by an income reduction resulting from fewer dwelling units sold. 5,260 dwelling units were sold in the first nine months of 2018 compared with 5,302 in the same period of 2017. The performance is also affected by negative profit related to start-up costs for BN Bolig (minus NOK 16.4m). EiendomsMegler 1 Midt-Norge consolidates BN Bolig's profit as a subsidiary.

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 106.9m in the first nine months of 2018 (93.5m), and shows strong profit growth thanks to 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 7.5bn (6.5bn), of which leasing agreements account for NOK 3.3bn (3.0bn) and car loans for NOK 4.0bn (3.3bn). The company also offers consumer loans, and at quarter-end this portfolio was worth NOK 250m (184m).

The company has seen good growth, in particular in car loans with growth of 21 per cent (27 per cent) over the 12 months to end-September. The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge at end-September 2018 and Sparebanken Sogn og Fjordane a stake of 7.5 per cent. SpareBank 1 SMN holds 64.6 per cent of the shares of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 56.8m (45.0m) in the first nine months of 2018. As from 2017 the company substantially expanded its business in Møre og Romsdal through the acquisition of a major company and has in 2018 acquired a further nine companies in Trøndelag and in Møre og 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-profit of NOK 27.6m (31.5m) in the first nine months of 2018.

Value changes and realisation of losses or gains on the company's overall holding of shares account for NOK 22.2m of the company's profit. The company has in addition ownership interests in the property company Grilstad Marina and its share of the latter's profit in the first nine months of 2018 was NOK 4.7m (15.5m).

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 66.7 per cent. Other owners are SpareBank 1 Nord-Norge, SpareBank 1 SR Bank, SpareBank 1 Østlandet and the SamSpar banks. SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has a staff of 136.

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 16bn. The company has a staff of 17.

SpareBank 1 Markets' consolidated pre-tax profit for the first nine months of 2018 was NOK 20.8m (minus 5.9m). The Group has seen a positive income trend across all businesses in income from equity and bond issues, share trading and forex/interest rate derivatives.

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 28bn and has the funding needed for 26 months of ordinary operation without fresh external finance.

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 given a stressed situation.

The LCR is calculated at 150 per cent as at 30 September 2018 (160 per cent). The requirement is 100 per cent.

The Group's deposit-to-loan ratio at 30 September 2018, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 50 per cent (53 per cent).

The bank's funding sources and products are amply diversified. At end-September 2018 the proportion of the bank's overall money market funding in excess of 1 year was 84 per cent (80 per cent).

SpareBank 1 Boligkreditt is the bank's most important source of funding, and loans totalling NOK 38bn (34bn) had been sold as at 30 September 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 September 2018 was 14.9 per cent compared with 14.6 per cent 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 4.1 per cent in the first nine months in all essentials due to high growth in residential mortgage lending and an increased capital requirement related to the transitional arrangement under the capital requirements framework. CET1 capital has risen by 6.5 per cent in the first nine months due to an excellent profit performance and dividend received from SpareBank 1 Gruppen in the second quarter. The CET1 ratio has risen by 0.3 percentage points in 2018.

The leverage ratio is 7.5 per cent (7.2 per cent at the turn of the year).

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

Finanstilsynet's final assessment of the add-on for risks not adequately covered by Pillar 1 was set at 2.1 per cent 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 the fourth quarter 2018. SpareBank 1 SMN aims for a management buffer of about 1 per cent 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 per cent.

Finanstilsynet (Norway's FSA) proposed in a letter of 18 October 2018 to the Ministry of Finance that SpareBank 1 SMN, as one of a number of regional banks, should be defined as a systemically important institution (SIFI). If Finanstilsynet's view is endorsed, SpareBank 1 SMN will be required to fulfil a SIFI buffer requirement of 2 percentage points. This will bring the overall CET1 requirement to 16.1 per cent, given the current level of the countercyclical buffer, and applicable Pillar 2 add-ons. The CET1 ratio without transitional rules is 16.9 per cent as at 30 September 2018. The increased buffer requirement will be offset by the effect SpareBank 1 SMN will achieve when the specifically Norwegian capital requirement related to the transitional rules lapses. Finanstilsynet has also previously proposed that the regional banks should be defined as SIFIs without the Ministry of Finance opting to follow the recommendation.

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 30 September 2018 was NOK 82.57 (79.18) and earnings per EC were NOK 8.07 (6.08).

The Price / Income ratio was 8.45 (10.02) and the Price / Book ratio was 1.10 (1.03).

At quarter-end the EC was priced at NOK 90.90 and dividend of NOK 4.40 per EC has been paid in 2018 for the year 2017.

Risk factors

Somewhat weaker growth signals are noted internationally, and increased uncertainty as a result of trade conflicts. Norway's upturn continues, featuring buoyant growth in the economy and rising employment. 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.

The Group's problem loans are at a low level, yet reflect the challenges facing the offshore industry. Loans to oil-related activities account for 2.8 per cent of the Group's overall outstanding loans as at 30 September 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.

Credit growth among Norwegian households has slowed somewhat, but remains considerably higher than their wage growth. Household debt is at a high level. Norges Bank decided to raise its base rate in September, and signals further rate increases in 2019. Higher interest expenses could prompt a higher savings rate among Norwegian households, potentially resulting in reduced turnover for parts of Norwegian business and industry. However, quickening wage growth is expected to have a positive impact on household consumption.

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).

The new Money Laundering Act and anti-money regulations took effect on 15 October 2018. The new regulations replace the Money Laundering Act and regulations from 2009 and incorporate EU's fourth money-laundering directive into Norwegian law. Prevailing law is largely continued, with a tightening of rules on some key points (including e.g. a new way of identifying beneficial owners, as well as an extension of the definition of politically exposed persons (PEPs) to include national PEPs). SMN has actively been working, also in close cooperation with the Sparebank 1 Alliance, on reviewing and adjusting existing routines, systems and processes to ensure that they are in compliance with the new regulation

Outlook

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

The board of directors is pleased with the bank's continued strengthening of its position in the retail market as reflected in the expanded customer base and the strong growth in residential mortgage lending. The bank has a strategy of protecting its position as the leading bank for small businesses through a broad product range, good digital solutions and skilled advisers. The relatively low growth in lending to corporate customers is satisfactory in that context.

The bulk of Group's loan losses remain in all essentials in oil-related activities. Losses in 2018 are lower than in 2017. The board of directors considers the outlook for oil-related activities to be better today than for a long time. Losses across the bank's portfolio of other loans remain very low.

The agreement between SpareBank 1 Gruppen and DNB to merge their non-life insurance businesses will entail efficiency gains for the new company and a further strengthening of competitive power in the insurance market. The bank will obtain a substantial gain as a result of the transaction.

The board of directors expects the non-life company's results to improve considerably as a result of cost synergies and DNB's role as new distribution channel.

The CET1 ratio stands at 14.9 per cent and is in keeping with the Group's objective. The leverage ratio of 7.5 per cent shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and 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, 25. October 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)