

Report of the Board of Directors

First quarter accounts 2019

(Consolidated figures. Figures in parenthesis refer to the same period of 2018 unless otherwise stated)

Main points for the first quarter 2019

- The post-tax profit was NOK 1,046m. This is an improvement of NOK 580m compared with the first quarter of 2018, essentially due to a gain of NOK 460m on the establishment of Fremtind. The owners of Fremtind are SpareBank 1 and DNB, with a stake of 65 per cent and 35 per cent respectively. The improvement over and above this figure is down to increased operating income and good return on financial investments.
- Return on equity is 23.3 per cent. Disregarding the above-mentioned gain, return on equity is 12.8 per cent
- A considerable increase in the customer base and high growth in all product areas

Post-tax profit of NOK 1,046m

- Pre-tax profit: NOK 1,155m (596m)
- Post-tax profit: NOK 1,046m (466m)
- Return on equity: 23.3 per cent (11.2 per cent)
- CET1 ratio: 14.8 per cent (14.6 per cent)
- Growth in lending: 6.6 per cent (7.9 per cent) and in deposits: 6.8 per cent (8.2 per cent)
- Lending to retail borrowers accounts for 68 per cent (67 per cent) of total lending
- Losses on loans and guarantees: NOK 67m (48m)
- Earnings per EC: NOK 5.02 (2.21). Book value per EC: NOK 83.86 (76.53)

Post-tax profit NOK 580m higher than in the first quarter of 2018

In the first quarter of 2019 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,155m (596m). The post-tax profit is NOK 1,046m (466m) and return on equity 23.3 per cent (11.2 per cent). The post-tax profit without the gain related to the establishment of Fremtind would have been NOK 586m and the return on equity 12.8 per cent.

Overall operating income in the first quarter of 2019 came to NOK 1,200m (1,110m). This represents a growth of NOK 90m compared with the previous year, about half of which is an increase in income among the bank's subsidiaries.

Return on financial assets was NOK 727m (180m). Of this, the profit share of ownership interests and related companies was NOK 555m (79m), including the gain of NOK 460m related to the establishment of Fremtind.

Operating expenses came to NOK 704m (645m) in the first quarter of 2019. Costs rose both at the bank and among the subsidiaries.

Losses on loans and guarantees totalled NOK 67m (48m). The losses are mainly in oil-related activities.

Low growth was recorded in residential mortgage lending in the first quarter of 2019, due in all essentials to increased competition. Growth in lending in the 12 months to 31 March 2019 was 6.6 per cent (7.9 per cent) and in deposits 6.8 per cent (8.2 per cent).

The CET1 ratio as at 31 March 2019 was 14.8 per cent (14.6 per cent). The CET1 ratio target is 15.0 per cent.

The price of the bank's equity certificate (MING) at quarter-end was NOK 87.40 (80.90). A cash dividend of NOK 5.10 per EC has been paid in 2019 for the year 2018.

Earnings per EC were NOK 5.02 (2.21). The book value was NOK 83.86 (76.53) per EC.

Increased net interest income

Net interest income rose by NOK 81m to NOK 649m (568m) in the first quarter of 2019. The increase is mainly attributable to increased lending to and deposits by both retail and corporate customers, at the same time as higher market interest rates have yielded improved return on the bank's equity capital.

The market interest rate in terms of three-month NIBOR has risen in the 12 months to 31 March 2019 by about 35 points. Even though a general interest rate increase has been carried out in the period, the margins on residential mortgages have weakened compared with the first quarter of 2018. After Norges Bank's (Norway's central bank) decision to raise its base rate by a further 0.25 per cent, a new mortgage lending rate increase of up to 25 points has been announced with effect from 15 May 2019.

In view of the signals of further increases in Norges Bank's base rate, maintaining the level of margins on mortgage lending will pose a challenge given a rising market interest rate and growing price competition. The competition for mortgage borrowers has tightened in Trondheim and the largest towns, bringing both lower growth and pressure on lending rates.

Growth in other income

Commission income and other operating income have rose by NOK 9m to NOK 551m (542m) in the first quarter of 2019.

Net interest income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is recorded as commission income. Commission income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt totalled NOK 87m in the first quarter of 2019 (103m). Reduced margins brought by higher funding costs for loans sold to SpareBank 1 Boligkreditt are behind the decline.

An increase of NOK 25m in other commission income is mainly a result of income growth at SpareBank 1 Markets and customer growth at SpareBank 1 Regnskapshuset. A reduction in other income is due to the loss of rental income due to the sale of the bank's head office building.

Maintaining a broad product offering is an important strategy for SpareBank 1 SMN which aims to secure good commission earnings and a high number of multi-product customers. A high number of multi-product customers signifies high customer satisfaction and provides the bank with a higher and more diversified income flow.

Commission income (NOKm)	January - March		Change
	2019	2018	
Payment transfers	52	52	0
Creditcard	15	15	0
Saving products	27	26	0
Insurance	44	43	0
Guarantee commission	14	17	-3
Real estate agency	84	83	2
Accountancy services	133	115	17
Markets	85	65	20
Other commissions	10	22	-12
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	464	439	25
Commissions SB1 Boligkreditt	83	99	-16
Commissions SB1 Næringskreditt	4	3	1
Total commissions	551	541	10

Good return on financial investments

Overall return on financial investments was NOK 172m (100m). This breaks down as follows:

- A gain and dividend of NOK 86m (7m) on shares, resulting essentially from the following:
 - SpareBank 1 SMN acquired in the first quarter the shares of DeBank for NOK 40m. The purchase entailed a negative goodwill of NOK 31m which is included in the gain on shares. The transaction led to a gain because the fair value of net assets was higher than the purchase price
 - SpareBank SMN Invest has gains of NOK 32m in its share portfolio, mainly through the disposal of shareholdings in the media group Polaris Media and an increase in the value of Viking Venture
- Financial derivatives have yielded gains of NOK 23m (119m). This essentially comprises gains on fixed income instruments. In addition, the fixed income portion of the bond portfolio showed overall gains of NOK 32m (loss of 59m)
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans and showed a gain of NOK 10m (4m)
- Financial instruments used by the bank for hedging purposes showed a loss of NOK 4m (gain of NOK 1m)
- Income of NOK 9m (11m) 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 15m (17m)

Capital gains/dividends, shares (NOKm)	January - March		Change
	2019	2018	
Gain/(loss) on certificates and bonds	32	-59	91
Gain/(loss) on derivatives	23	119	-95
Gain/(loss) on financial instruments related to hedging	-4	1	-5
Capital gains shares (incl dividends)	86	7	79
Gain/(loss) on other financial instruments at fair value (FVO)	10	4	6
Foreign exchange gain/(loss)	9	11	-2
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	15	17	-2
Net return on financial instruments	172	100	72

Product companies and other related companies

The product companies give the bank's customers access to a broader product range and hence 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 95m (79m) in the first

quarter of 2019. In addition, SpareBank 1 SMN posted a gain of NOK 460m related to the establishment of Fremtind in the first quarter of 2019.

Income from investment in associated companies	2019	2018	Change
SpareBank 1 Gruppen	38	36	2
Gain Fremtind	460	0	460
SpareBank 1 Boligkreditt	14	3	11
SpareBank 1 Næringskreditt	8	4	3
SpareBank 1 Kredittkort	3	5	-2
BN Bank	24	30	-6
SpareBank 1 Betaling	12	-3	15
Other companies	-4	4	-8
Income from investment in associated companies	555	79	476

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans. SpareBank 1 Gruppen also owns 65 per cent of the non-life insurer Fremtind which was established as of 1 January 2019. DNB owns the remainder of the company with a stake of 35 per cent. SpareBank 1 SMN's stake in SpareBank 1 Gruppen at the end of the first quarter of 2019 was 19.5 per cent.

SpareBank 1 Gruppen's post-tax profit in the first quarter of 2019 was NOK 240m (184m). Fremtind and SpareBank 1 Forsikring contribute 90 per cent of the profit.

SpareBank 1 SMN's share of the profit for the first quarter of 2019 was NOK 38m (36m).

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks making up 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 31 March 2019 the bank had sold loans totalling NOK 39.2bn (36.4bn) to SpareBank 1 Boligkreditt, corresponding to 36.1 per cent (36.2 per cent) of the group's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 20.7 per cent, and the bank's share of that company's profit in the first quarter of 2019 was NOK 14m (3m).

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 March 2019, loans worth NOK 1.8bn (1.5bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.0 per cent, and the bank's share of the profit for the first quarter of 2019 was NOK 8m (4m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank. 43 per cent of the loans in SpareBank 1 Næringskreditt have been transferred from BN Bank.

SpareBank 1 Kredittkort

The profit for the first quarter of 2019 was NOK 18m (30m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.3 per cent. SpareBank 1 SMN's share of the profit for the first quarter of 2019 was NOK 3m (5m), and the bank's share of the portfolio is NOK 910m (849m).

SpareBank 1 SMN Kredittkort manages the LOfavør credit card programme. This has strengthened the business relationship between the Norwegian Confederation of Trade Unions (LO) and the SpareBank 1 Alliance.

SpareBank 1 Kredittkort has an agreement with Vipps to deliver credit products to an expanded Vipps.

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank as at 31 March 2019.

BN Bank recorded a profit of NOK 74m (87m) in the first quarter of 2019, providing a return on equity of 7.5 per cent (9.8 per cent). SpareBank 1 SMN's share of BN Bank's profit in the first quarter of 2019 was NOK 24m (30m), adjusted for its share of BN Bolig's profit and interest on hybrid capital.

BN Bank's primary mission is to cater to the retail market in Oslo and south-eastern Norway.

BN Bank has, in collaboration with Eiendomsmeidler 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 is intended to strengthen BN Bank's residential mortgage lending. To support the focus on estate agency, the bank's board of directors has adopted a new programme for funding housing projects. This will involve a controlled, gradual build-up of the portfolio.

The SpareBank 1 banks have entered an agreement to revise BN Bank's ownership model. For SpareBank 1 SMN this involves raising its stake from 33.00 per cent to 35.02 per cent. The transaction is yet to be carried through.

SpareBank 1 Betaling (Vipps)

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for payments solutions, including Vipps. A decision to merge Bank ID and Bank Asept with Vipps was adopted in order to compete in the arena for payment solutions for the future, and the merger was carried out in the third quarter of 2018. Vipps aims to take its place as the Nordic region's leading financial technology company, and for SpareBank 1 SMN a 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 launched a number of new products in 2018 designed to simplify bank customers' everyday life, and has high ambitions to develop this solution further.

SpareBank 1 Betaling posted in the first quarter a deficit of NOK 15m (deficit of 14m) which constitutes the company's share of Vipps' financial result. The company has corrected the reported result for 2018 by NOK 72m. SpareBank 1 SMN accordingly has a positive profit share of NOK 12m from the company in the first quarter (deficit of 3m).

As from 2018 SpareBank 1 SMN pays Vipps, under the same principle as the other parent banks, NOK 9.5m in annual distribution costs.

Operating expenses

Overall group operating expenses rose by NOK 59m in the first quarter of 2019 to NOK 704m (645m) corresponding to 9.1 per cent.

Parent bank costs rose by NOK 26m to NOK 333m compared with the first quarter of 2018. NOK 12m of the growth refers to the allocation of equity certificates (ECs) to the bank's employees related to the gain on the

establishment of Fremtind and costs of the bank's EC saving scheme for employees. This aside, costs have risen by 4.6 per cent. The bank has a clear ambition to bring down the growth in costs to a lower level.

Continuous efficiency initiatives by the bank have enabled lower staffing, reduced cost growth and improved efficiency. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 150 to 570. Changing customer behaviour and new technology will contribute to further efficiency gains.

Extensive digitalisation creates opportunities, but also poses threats to the banking industry. The bank has invested heavily in new self-service solutions and customer-relationship management (CRM) system. This has increased the bank's technology costs. Increased regulatory requirements have brought a need for increased capacity and expertise. The bank devoted substantial resources in 2018 and early 2019 to combating money laundering, and this work will continue.

In 2018 and 2019 staffing has been reduced by 25 FTEs at the same time as the bank has recruited new staff in the areas of data warehousing, digital marketing, technology, compliance and control. Replacing expertise has brought increased wage growth.

Overall costs among the subsidiaries came to NOK 371m (338m), having risen by NOK 33m in the 12 months to 31 March 2019. The increase is highest at SpareBank 1 Regnskapshuset SMN, SpareBank 1 Markets and BN Bolig. In addition, DeBank is a subsidiary of SpareBank 1 SMN as from 2019 and represents an increased cost base of NOK 10m at the end of the first quarter of 2019.

Business acquisitions by SpareBank 1 Regnskapshuset SMN provide income growth and profit growth for the company. Capacity expansion through new appointments has enabled strong income growth at SpareBank 1 Markets, and the potential for further growth is high.

The cost-income ratio was 37 per cent (50 per cent) for the group, 27 per cent (38 per cent) for the parent bank.

Low losses and low defaults

Loan losses of NOK 67m (48m) were recorded in the first quarter of 2019. Net loan losses measure 0.17 per cent (0.13 per cent) of total outstanding loans.

A loss of NOK 53m (48m) was recorded on loans to corporates in the first quarter of 2019, in all essentials on loans to oil-related activity.

A loss of NOK 6m (3m, net, taken to income) was recorded on loans to retail borrowers in the first quarter of 2019.

Write-downs on loans and guarantees totalled NOK 971m (1,143m) as at 31 March 2019.

Overall problem loans (defaulted and doubtful) come to NOK 1,880m (1,647m), or 1.17 per cent (1.09 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. After the 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 288m (289m). Defaults measure 0.18 per cent (0.19 per cent) of gross outstanding loans.

Other doubtful exposures total NOK 1,591m (1,358m). The increase in other doubtful exposures is attributable to one single exposure which has been moved from stage 2 to stage 3 in the loss model. Other doubtful exposures measure 0.99 per cent (0.90 per cent) of gross outstanding loans.

Credit quality in the loan portfolio is good. While a very large share of the year's loan losses refers to oil-related activities, the trend in this part of the portfolio is also positive.

Total assets of NOK 165bn

The bank's assets totalled NOK 165bn (152bn) as at the end of the first quarter of 2019, having grown by NOK 13bn or 8.3 per cent in the past 12 months. The increase in total assets is mainly a consequence of a higher lending volume and a higher liquidity holding.

As at 31 March 2019 loans worth a total of NOK 41bn (38bn) had 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, but declining, growth in residential mortgage lending

Total outstanding loans rose by NOK 10.0bn (11.0bn) or 6.6 per cent (7.9 per cent) in the 12 months to 31 March 2019 to reach NOK 161.1bn (151.1bn) as at 31 March 2019.

- Lending to personal borrowers rose in the 12 months to 31 March 2019 by NOK 8.3bn (9.1bn) to NOK 108.7bn (100.4bn). Growth of 8.3 per cent (10.0 per cent). Growth in the first quarter of 2019 was 0.6 per cent (1.8 per cent). Weak growth in the first quarter is ascribable to growing competition in Trondheim and the largest towns
- Lending to corporates rose in the 12 months to 31 March 2019 by NOK 1.7bn (1.9bn) to NOK 52.4bn (50.6bn). Growth of 3.4 per cent (4.0 per cent). Growth in the first quarter was 0.3 per cent (1.1 per cent)
- Lending to personal borrowers accounted for 68 per cent (66 per cent) of total loans to customers as at 31 March 2019

There are no indications of higher loss and default levels in the bank's residential mortgage portfolio, and the quality of this portfolio is very good.

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 deposit growth

Customer deposits rose by NOK 5.2bn (5.8bn) in the 12 months to 31 March 2019 to reach NOK 81.1bn (75.9bn). This represents a growth of 6.8 per cent (8.2 per cent).

- Personal deposits rose by NOK 2.0bn (2.3bn) or 6.3 per cent (7.7 per cent) to NOK 34.1bn
- Corporate deposits rose by NOK 3.2bn (3.5bn) or 7.2 per cent (8.6 per cent) to NOK 47.1bn
- The deposit-to-loan ratio at SpareBank 1 SMN was 68 per cent (67 per cent) excluding SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, the deposit-to-loan ratio was 50 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 11.3bn (9.7bn) as at the end of the first quarter of 2019. The increase of NOK 1.5bn is a result of good sales and value increases, on equity funds and active asset management.

Saving products, customer portfolio (NOKm)	January - December		Change
	2019	2018	
Equity funds	7,256	5,964	1.292
Pension products	770	828	-58
Active management	3,239	2,926	313
Total	11,265	9,718	1.547

Insurance

The bank's insurance portfolio grew by 8 per cent in the 12 months to 31 March 2019. Satisfactory growth was recorded on both non-life and personal insurances.

Insurance, premium volume (NOKm)	January - December		Change
	2019	2018	
Non-life insurance	812	766	46
Personal insurance	356	352	4
Occupational pensions	288	227	61
Total	1,456	1,345	111

Retail Banking

Outstanding loans to retail borrowers totalled NOK 113bn (105bn) and deposits totalled NOK 41bn (38bn) as at 31 March 2019. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income totalled NOK 518m (501m) in the first quarter of 2019. Of this, net interest income accounted for NOK 330m (296m) and commission income for NOK 188m (204m). The income growth is mainly due to increased lending and increased commission income from other funding income, investment products, payments and insurance. Overall income rose by NOK 17m. Return on capital employed in the retail banking segment was 12.7 per cent (14.5 per cent). Capital employed is regulatory capital of 15 per cent, corresponding to the group's targeted CET1 ratio.

The lending margin in the first quarter of 2019 was 1.60 per cent (1.79 per cent), while the deposit margin was 0.46 per cent (0.14 per cent) measured against three-month NIBOR. The market interest rate in terms of three-month NIBOR has risen in 2019 after a long period of decline.

Retail lending and retail deposits grew in the 12 months to 31 March 2019 by 7.6 per cent (10.0 per cent) and 7.9 per cent (8.2 per cent) respectively.

Staffing has been reduced by 36 FTEs to 314 FTEs since January 2018. Retail Banking introduced a new CRM system, 'Iver' in 2018. Iver has improved, and enhanced the efficiency of, customer treatment and strengthened the interplay between analogue and digital services.

Lending to retail borrowers consistently carries low direct risk, and this is reflected in continued 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.

Corporate Banking

Outstanding loans to corporates total NOK 39bn and deposits total NOK 39bn as at 31 March 2019. This is a diversified portfolio of loans to and deposits from corporate clients in the counties of Trøndelag and Møre and Romsdal.

Operating income totalled NOK 340m (314m) in the first quarter of 2019. Net interest income was NOK 284m (263m), and commission income and return on financial investments came to NOK 57m (51m).

Overall net losses in the corporate banking segment were NOK 53m (48m) in the first quarter of 2019. 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 10.9 per cent in 2018 (10.1 per cent) in the first quarter of 2019. Capital employed is regulatory capital of 15 per cent, corresponding to the group's targeted CET1 ratio.

The lending margin was 2.69 per cent (2.71 per cent) and the deposit margin was 0.02 per cent (minus 0.5 per cent) as at the end of the first quarter of 2019.

Lending rose by 1.6 per cent (0.7 per cent) and deposits rose by 6.8 per cent (17.9 per cent) in the 12 months to 31 March 2019.

Staffing at Corporate Banking is unchanged from January 2018, standing at 150 FTEs at the turn of the quarter.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 79.3m (64.2m) in the first quarter of 2019.

Pre-tax profit (NOKm)	January - December		Change
	2019	2018	
EiendomsMegler 1 Midt-Norge	-9.0	-7.6	-1.5
SpareBank 1 Finans Midt-Norge	39.6	38.0	1.6
SpareBank 1 Regnskapshuset SMN	20.7	16.8	3.9
Sparebank 1 Markets (proforma incl. Allegro)	2.2	7.1	-4.9
SpareBank 1 SMN Invest	26.0	4.3	21.7
Other companies	-0.1	5.6	-5.7
Total	79.3	64.2	15.1

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and Møre and Romsdal with a very strong market position, especially in Trondheim. The company intends 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. The focus is on estate agency in the Oslo market which, in addition to enhancing estate agency earnings, will contribute to stronger growth in residential mortgage lending for BN Bank in this market.

EiendomsMegler 1 recorded a pre-tax deficit of NOK 9.0m in the first quarter of 2019 (deficit of 7.6m). The profit performance is weakened by a negative result of NOK 8.6m (10m) related to start-up costs at BN Bank. EiendomsMegler 1 Midt-Norge consolidates the result from BN Bank as a subsidiary.

EiendomsMegler 1 Midt-Norge without BN Bank showed a break-even result in the first quarter of 2019, with both incomes and expenses at the same level as in the same period of 2018. 1,447 dwelling units were sold in the first quarter of 2019 compared with 1,458 in the first quarter of 2018.

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 39.6m in the first quarter of 2019 (38.0m), and shows strong profit growth due to high income growth, moderate growth in costs and good risk management. The company's business areas are mainly leasing to the SMB market and car loans to retail customers. The portfolio of leasing and car loan agreements is worth a total of NOK 7.3bn (6.4bn), of which leasing agreements account for NOK 2.9bn (2.9bn) and car loans for NOK 4.4bn (3.5bn). The company also offers consumer loans, and at year-end this portfolio was worth NOK 272m (266m).

Car loans have shown strong growth of 26 per cent in the 12 months to 31 March 2019. The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge as at 31 March 2019 while Sparebanken Sogn og Fjordane held 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 20.7m (16.8m) in the first quarter of 2019. The company has substantially strengthened its market position through acquisitions and organic growth, and now has more than 450 employees, 10,000 customers and offices in 40 locations. This has contributed profit growth and a substantial increase in both incomes and costs.

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

SpareBank 1 SMN Invest invests in shares, mainly in regional businesses. The company posted a profit of NOK 26.0m in the first quarter of 2019 (4.3m).

Value changes and realisation of losses or gains on the company's overall holding of shares account for NOK 30.5m (loss of 0.1m) of the company's net total income. SpareBank 1 Midt Norge Invest has gains of NOK 32m in its share portfolio, mainly through disposal of holdings in the media group Polaris Media, and a value increase at Viking Venture. The company has in addition ownership interests in the property company Grilstad Marina, and its share of the latter's financial result in the first quarter of 2019 was minus NOK 4.5m (plus 4.4m).

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 140.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning. The company is at centre-stage of 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 as at 31 March 2018 was NOK 2.2m (7.1m). A strong income trend is noted, particularly in income from equity and bond issues, somewhat lower in the case of share trading and forex/interest rate derivatives compared with the previous year.

DeBank

SpareBank 1 SMN acquired 100 per cent of the shares of DeBank in the first quarter of 2019. DeBank is a bank catering exclusively to small and medium-sized businesses that specialise in factoring. DeBank is headquartered in Trondheim and has a staff of 16. As at 31 March 2019 the company has loanable capital of NOK 135m, overall operating income of NOK 5.6m and a pre-tax profit of minus NOK 4.9m. DeBank will until further notice operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is increasing its focus on

small and medium-sized businesses and strengthening its offering in the factoring area through this acquisition.

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 24bn 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 180 per cent as at 31 March 2019 (162 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 December 2019, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 50 per cent (50 per cent).

The bank's funding sources and products are amply diversified. At 31 March 2019 the proportion of the bank's overall money market funding in excess of 1 year was 89 per cent (88 per cent).

SpareBank 1 Boligkreditt is the bank's most important funding source, and residential mortgages totalling NOK 39bn (36bn) had been sold as at 31 March 2019.

SpareBank 1 SMN has established and published a framework for issuing green bonds. The framework has been approved by the rating agency Sustain Analytics.

Rating

The bank has a rating of A1 (negative outlook) with Moody's and a rating of A- (stable outlook) 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 implementation of the EU's bank recovery and resolution directive (BRRD) in Norwegian legislation.

Financial soundness

The CET1 ratio at 31 March 2019 was 14.8 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 group's capital target will be reviewed in the course of 2019 in order to accommodate an increased countercyclical buffer and changes resulting from any SIFI requirements.

Risk weighted assets have increased by 1.4 per cent in 2019. Part of the increase is ascribable to the implementation of IFRS 16 – introducing new accounting treatment of leases – in 2019. CET1 capital has risen by 2.7 per cent mainly as a result of a good profit performance in the first quarter of 2019. The Fremtind transaction has in addition expanded CET1 capital by about NOK 130m corresponding to 0.13 percentage points of the increase in CET1 ratio.

The CET1 requirement including buffer requirements as at 31 March 2019 was 12 per cent. With effect from the first quarter of 2019 the Pillar 2 requirement for SpareBank 1 SMN was revised from 2.1 per cent to 1.9 per cent, bringing the total minimum CET1 requirement including Pillar 2 requirements to 13.9 per cent.

SpareBank 1 SMN aims in addition for a management buffer of about 1 per cent over and above the combined Pillar 1 and Pillar 2 requirements in order to absorb fluctuations in risk weighted assets and in the group's financial results.

In December 2018, the authorities decided to increase the countercyclical buffer from 2.0 per cent to 2.5 per cent with effect from 31 December 2019. The minimum CET1 requirement including buffer requirements will accordingly increase by the same margin.

Finanstilsynet recommended by letter of 18 October 2018 to the Ministry of Finance that SpareBank 1 SMN, as one of several regional banks, should be defined as systemically important (SIFI).

The CET1 capital ratio without transitional rules is 16.6 per cent as of 31 March 2019.

The leverage ratio is 7.4 per cent (7.4 per cent at the turn of the year).

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 31 March 2019 was NOK 83.86 (76.53) and earnings per EC were NOK 5.02 (2.21).

The Price / Income ratio was 4.35 (9.16) and the Price / Book ratio was 1.04 (1.06).

At quarter-end the EC was priced at NOK 87.40, and dividend of NOK 5.10 per EC has been paid in 2019 for the year 2018.

Risk factors

The group's problem loans reflect the challenges related to the offshore industry. As at 31 March 2019, loans to oil-related activity accounted for 2.9 per cent of the group's overall lending. 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 significant concentrations in non-performing and problem exposures are in evidence.

International growth has slowed somewhat as a result of uncertainty related to trade conflicts and Brexit, and growth expectations have been revised down somewhat. The Norwegian economy has received impetus from the international upturn, an improved oil price and increased oil investments. The Norwegian krone has appreciated somewhat in the first quarter, but remains at a relatively weak level, which is favourable for Norwegian export industries. Some strengthening of the krone is expected ahead. Real wage growth is expected to increase somewhat in 2019. Combined with a continued low interest rate level, the bank considers loss risk in the bank's retail market portfolio to be low. Unemployment has declined in the bank's market area, and the bank expects the level of unemployment to remain relatively moderate ahead.

Credit growth among Norwegian households continues to outstrip household wage growth, but the rate of growth has declined through 2018 and thus far in 2019. Interest rate increases could impact negatively on house prices, which will probably dampen credit demand. A situation of falling house prices and expectations of higher interest rates is likely to 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 the 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 the fluctuations.

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

Insurance merger

SpareBank 1 Gruppen AS and DNB ASA signed on 24 September 2018 an agreement to amalgamate their insurance businesses. The merger was approved by Finanstilsynet on 21 December and entered into force with effect from 1 January 2019. The merged entity's name is Fremtind Forsikring AS. As part of the transaction, it is planned to demerge the individual personal risk insurances from SpareBank 1 Forsikring AS (life company) and DNB Life Insurance, and the company-paid personal risk insurances from SpareBank 1 Forsikring AS, to the merged company. This part of the transaction awaits approval by the authorities.

The transaction agreement incorporates a swap ratio of 80 per cent for SpareBank 1 Gruppen AS and 20 per cent for DNB ASA. This swap ratio is based on the negotiated market value of the two non-life insurers, including the value of the personal risk products in the planned demerger. DNB ASA has thereafter acquired a 35 per cent stake in the company. DNB has in addition secured an option to purchase a stake of up to 40 per cent.

In the transaction the new non-life company is valued at NOK 19.75bn, including the value of personal risk products. When personal risk products are excluded, Fremtind is valued at NOK 13.5bn. The merger and DNB's acquisition from a 20 per cent stake up to a 35 per cent stake have in aggregate entailed an increase of about NOK 4.7bn in SpareBank 1 Gruppen's equity at group level. The majority's (the SpareBank 1 banks' and the Trade Union Confederation's) share of this increase is about NOK 2.5bn. SpareBank 1 SMN's share of this increase (19.5 per cent) is NOK 460m. This brings virtually no change in the group's CET1 ratio, the reason being that the increased book value of the stake in SpareBank 1 Gruppen AS increases the deduction from CET1 capital and increases risk weighted assets. Overall, this virtually neutralises the effect of the gain.

SpareBank 1 Gruppen AS has received a tax-free gain of NOK 1.71bn as a result of the disinvestment to DNB ASA. SpareBank 1 Gruppen AS's basis for dividend payment increased by the same amount. This has been paid out as extraordinary dividend in the first quarter of 2019, and SpareBank 1 SMN's share of this payout was NOK 332m. The dividend payment reduces the value of the group's investment in SpareBank 1 Gruppen, and thereby also reduces both the deduction from CET1 capital and the size of risk-weighted assets (see preceding paragraph). The group's capital adequacy ratio has accordingly risen by 0.13 percentage point.

Outlook

The outlook for the Norwegian economy and for Central Norway's economy is good, with low unemployment and great optimism in business and industry.

The board of directors is well pleased with the performance in the first quarter of 2019. The gain on the establishment of Fremtind brings into relief the value of the structural capital built up through the SpareBank 1 Alliance and the banks' distribution capacity. Ordinary operations are also showing progress, evidenced by sound income growth and good return on equity.

The bank is experiencing growing competition for residential mortgage borrowers, and growth in the first quarter is below target. The bank will implement measures to deliver improved growth ahead. The strategy of being a digital bank with a personal and local signature stands firm.

The bank is strengthening its position as the leading bank for small businesses through its broad product range, good digital solutions and skilled advisers. The integration of DeBank expands the range of products available to corporate clients in the factoring area. The growth in lending to corporate clients is primarily to small and medium-sized businesses. This is expected to continue.

Losses are expected to be lower in 2019 than in 2018. Losses are still essentially in oil-related activities. Losses in the bank's portfolio of other loans remain very small.

The CET1 ratio has increased to 14.8 per cent, but is slightly below the group's target of 15 per cent. The leverage ratio of 7.4 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 financial soundness. The board of directors expect the group's capital target to be met through management of its capital-intensive activities. In the fourth quarter of 2018 Finanstilsynet lowered the bank's Pillar 2 requirement by 0.2 percentage points to 1.9 per cent, with effect from 2019.

Jan-Frode Janson took up duties as Group CEO on 1 May. Finn Haugan stepped down on the same date after 28 years as Group CEO.

The board of directors expects 2019 to be another good year for SpareBank 1 SMN, with good results also being delivered by ordinary operations.

Trondheim, 8. May 2019
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Christian Stav

Mette Kamsvåg

Morten Loktu

Janne Thyø Thomsen

Tonje Eskeland Foss

Inge Lindseth
(employee rep.)

Christina Straub
(employee rep.)

Finn Haugan
(Group CEO)