Third Quarter Report 2018

SpareBank 1 SMN

Contents

Main figures

	January - September					
	2018		2017		2017	
From the income statement	**NOKm**	**%[1)]**	**NOKm**	**%[1)]**	**NOKm**	**%[1)]**
Net interest	1,759	1.50	1,636	1.51	2,225	1.52
Net commission income and other income	1,634	1.40	1,475	1.36	2,005	1.37
Net return on financial investments	662	0.57	504	0.47	760	0.52
Total income	**4,055**	**3.46**	**3,615**	**3.34**	**4,989**	**3.42**
Total operating expenses	**1,922**	**1.64**	**1,751**	**1.62**	**2,369**	**1.62**
Results before losses	**2,133**	**1.82**	**1,864**	**1.72**	**2,621**	**1.80**
Loss on loans, guarantees etc	196	0.17	263	0.24	341	0.23
Results before tax	**1,937**	**1.65**	**1,601**	**1.48**	**2,279**	**1.56**
Tax charge	405	0.35	328	0.30	450	0.31
Result investment held for sale, after tax	157	0.13	2	0.00	-1	0.00
Net profit	**1,689**	**1.44**	**1,275**	**1.18**	**1,828**	**1.25**
Interest Tier 1 Capital	28		25		33	
Net profit excl. Interest Tier 1 Capital	1,661		1,250		1,795	

Key figures	**30 Sept 2018**	**30 Sept 2017**	**31 Dec 2017**
Profitability			
Return on equity [2)]	13.3 %	10.8 %	11.5 %
Cost-income ratio [2)]	47 %	48 %	47 %
Balance sheet figures			
Gross loans to customers	118,044	110,695	112,071
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	157,825	147,146	148,784
Deposits from customers	77,529	73,086	76,476
Deposit-to-loan ratio excl. SB1 Boligkreditt and SB1 Næringskreditt	66 %	66 %	68 %
Deposit-to-loan ratio incl. SB1 Boligkreditt and SB1 Næringskreditt [2)]	49 %	50 %	51 %
Growth in loans (gross) last 12 months (incl. SB1 Boligkreditt and SB1 Næringskreditt) [2)]	7.3 %	9.4 %	8.2 %
Growth in deposits last 12 months	6.1 %	10.3 %	13.9 %
Average total assets	156,064	144,121	145,948
Total assets	159,337	146,913	153,254
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt			
Impairment losses ratio [2)]	0.17 %	0.25 %	0.23 %
Non-performing commitm. as a percentage of gross loans [2)]	0.18 %	0.18 %	0.19 %
Other doubtful commitm. as a percentage of gross loans [2)]	0.86 %	0.83 %	0.80 %
Solidity			
Capital adequacy ratio	19.2 %	19.0 %	18.6 %
Core capital ratio	16.7 %	16.6 %	16.6 %
Common equity tier 1 ratio	14.9 %	14.6 %	14.6 %
Core capital	16,542	15,718	15,707
Net equity and related capital	18,969	18,004	17,629
Liquidity Coverage Ratio (LCR)	150 %	124 %	164 %
Leverage Ratio	7.5 %	7.4 %	7.2 %
Branches and staff			
Number of branches	48	48	48
No. Of full-time positions	1,467	1,415	1,403

1) Calculated as a percentage of average total assets
2) Defined as alternative performance mesures, see attachment to the quarterly report

Key figures ECC	30 Sept 2018	30 Sept 2017	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014
ECC ratio	64.0 %	64.0 %	64.0 %	64.0 %	64.0 %	64.6 %
Number of certificates issued, millions [2)]	129.44	129.40	129.38	129.64	129.43	129.83
ECC share price at end of period (NOK)	90.90	81.25	82.25	64.75	50.50	58.50
Stock value (NOKM)	11,780	10,549	10,679	8,407	6,556	7,595
Booked equity capital per ECC (including dividend) [2)]	82.57	79.18	78.81	73.35	67.39	62.04
Profit per ECC, majority [2)]	8.07	6.08	8.71	7.93	6.96	8.82
Dividend per ECC			4.40	3.00	2.25	2.25
Price-Earnings Ratio [2)]	8.45	10.02	9.44	8.17	7.26	6.63
Price-Book Value Ratio [2)]	1.10	1.03	1.04	0.88	0.75	0.94

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

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 Axept 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.

	January - September		
Commission income (NOKm)	**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 Axept 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)

	January - September		
Return on financial investments (NOKm)	**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 sertificates 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 Axept 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.

	January - September		
Pre-tax profit (NOKm)	**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)

Income statement

Parent bank							Group				
			January - September				January - September				
2017	3Q 17	3Q 18	2017	2018*	(NOKm)	Note	2018*	2017	3Q 18	3Q 17	2017
3,571	893	944	2,652	2,741	Interest income		2,975	2,836	1,025	959	3,825
		478		*1,401*	*Of which interest income at amortised cost*		*1,638*		*599*		
1,599	388	410	1,196	1,205	Interest expenses		1,217	1,200	414	389	1,600
1,972	**505**	**534**	**1,456**	**1,536**	**Net interest**	10	**1,759**	**1,636**	**610**	**570**	**2,225**
1,098	294	272	807	823	Commission income		1,044	1,018	344	360	1,390
98	25	24	70	70	Commission expenses		126	120	45	46	168
38	9	6	26	23	Other operating income		716	577	186	168	783
1,038	**278**	**253**	**763**	**776**	**Commission income and other income**		**1,634**	**1,475**	**486**	**482**	**2,005**
629	0	18	608	514	Dividends		6	5	0	1	6
-	-	-	-	-	Income from investment in related companies	3	286	290	105	126	437
146	64	35	97	204	Net return on financial investments	3	370	209	77	108	317
776	**64**	**53**	**705**	**718**	**Net return on financial investments**		**662**	**504**	**182**	**235**	**760**
3,786	**847**	**841**	**2,924**	**3,030**	**Total income**		**4,055**	**3,615**	**1,277**	**1,287**	**4,989**
575	146	143	449	448	Staff costs		1,193	1,063	376	357	1,426
634	155	160	465	487	Other operating expenses		729	688	240	225	943
1,209	**301**	**303**	**914**	**935**	**Total operating expenses**	11	**1,922**	**1,751**	**616**	**582**	**2,369**
2,577	**546**	**538**	**2,010**	**2,095**	**Result before losses**		**2,133**	**1,864**	**661**	**705**	**2,621**
323	85	60	252	172	Loss on loans, guarantees etc.	6, 7	196	263	69	88	341
2,253	**462**	**478**	**1,758**	**1,923**	**Result before tax**	3	**1,937**	**1,601**	**592**	**617**	**2,279**
403	114	113	288	354	Tax charge		405	328	119	118	450
-	-	-	-	80	Result investment held for sale, after tax	2, 3	157	2	6	-0	-1
1,850	**348**	**365**	**1,471**	**1,649**	**Net profit**		**1,689**	**1,275**	**480**	**500**	**1,828**
33	8	7	25	27	Attributable to additional Tier 1 Capital holders		28	25	7	8	33
1,162	217	229	925	1,038	Attributable to Equity capital certificate holders		1,044	787	301	313	1,128
655	123	129	521	585	Attributable to the saving bank reserve		588	444	170	176	636
					Attributable to non-controlling interests		29	19	2	2	32
1,850	**348**	**365**	**1,471**	**1,649**	**Net profit**		**1,689**	**1,275**	**480**	**500**	**1,828**
					Profit/diluted profit per ECC	17	8.07	6.08	2.32	2.42	8.71

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

Other comprehensive income

Parent bank						Group				
			January - September			January - September				
2017	3Q 17	3Q 18	2017	2018	(NOKm)	2018	2017	3Q 18	3Q 17	2017
1,850	348	365	1,471	1,649	Net profit	1,689	1,275	480	500	1,828
					Items that will not be reclassified to profit/loss					
-24	-	-	-	-	Actuarial gains and losses pensions	-3	-	-	-	-20
6	-	-	-	-	Tax	1	-	-	-	5
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	1	-1	0	-1	4
-18	**-**	**-**	**-**	**-**	**Total**	**-1**	**-1**	**0**	**-1**	**-11**
					Items that will be reclassified to profit/loss					
15	-3	-7	6	-	Fair value change on financial assets through other comprehensive income	-	6	-7	-3	15
-	-	-0	-	-2	Value changes on loans measured at fair value	-2	-	-0	-	-
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	-13	1	-3	0	4
-	-	-	-	-	Tax	-	-	0	-	-
15	**-3**	**-7**	**6**	**-2**	**Total**	**-15**	**7**	**-9**	**-3**	**19**
1,847	**345**	**358**	**1,477**	**1,648**	**Total other comprehensive income**	**1,673**	**1,282**	**471**	**495**	**1,836**
33	8	7	25	27	Attributable to additional Tier 1 Capital holders	28	25	7	8	33
1,160	215	225	928	1,037	Attributable to Equity capital certificate holders	1,034	791	295	310	1,132
654	121	127	523	584	Attributable to the saving bank reserve	583	446	166	175	638
					Attributable to non-controlling interests	28	19	2	2	32
1,847	**345**	**358**	**1,477**	**1,648**	**Total other comprehensive Income**	**1,673**	**1,282**	**471**	**495**	**1,836**

Balance sheet

Parent bank					Group		
31 Dec 2017	30 Sept 2017	30 Sept 2018	(NOKm)	Note	30 Sept 2018	30 Sept 2017	31 Dec 2017
3,313	1,351	1,129	Cash and receivables from central banks		1,129	1,351	3,313
9,543	7,596	12,821	Deposits with and loans to credit institutions		6,828	2,310	4,214
104,769	103,647	110,225	Net loans to and receivables from customers	5	117,153	109,649	110,959
19,895	18,005	19,801	Fixed-income CDs and bonds	15	19,721	17,922	19,736
4,328	4,269	2,666	Derivatives	15	2,686	4,219	4,351
169	142	355	Shares, units and other equity interests	15	2,662	1,607	1,825
3,940	3,833	4,160	Investment in related companies		5,865	5,820	5,760
3,120	3,120	2,619	Investment in group companies		-	-	-
82	231	82	Investment held for sale	2	44	30	649
522	484	538	Intangible assets		849	720	793
703	1,466	1,026	Other assets	12	2,401	3,284	1,654
150,383	**144,144**	**155,421**	**Total assets**		**159,337**	**146,913**	**153,254**
9,047	9,167	8,854	Deposits from credit institutions		10,106	9,482	9,607
77,362	74,024	78,317	Deposits from and debt to customers	9	77,529	73,086	76,476
42,194	38,091	44,113	Debt created by issue of securities	14	44,113	38,091	42,194
3,341	3,612	2,930	Derivatives	15	3,005	3,645	3,343
909	1,735	2,155	Other liabilities	13	3,264	2,852	1,923
-	-	-	Investment held for sale	2	0	0	1
2,159	2,507	2,625	Subordinated loan capital	14	2,668	2,549	2,201
135,011	**129,135**	**138,994**	**Total liabilities**		**140,687**	**129,705**	**135,744**
2,597	2,597	2,597	Equity capital certificates		2,597	2,597	2,597
-0	-0	-0	Own holding of ECCs		-5	-8	-8
895	895	895	Premium fund		895	895	895
5,079	4,487	5,079	Dividend equalisation fund		5,075	4,477	5,072
571	-	-	Recommended dividends		-	-	571
322	-	-	Provision for gifts		-	-	322
4,831	4,498	4,831	Ownerless capital		4,831	4,498	4,831
126	126	126	Unrealised gains reserve		126	139	126
-	10	-19	Other equity capital		1,509	1,895	1,547
950	925	1,268	Additional Tier 1 Capital		1,310	925	993
-	1,471	1,649	Profit for the period		1,689	1,275	-
			Non-controlling interests		623	516	565
15,372	**15,009**	**16,428**	**Total equity capital**		**18,650**	**17,208**	**17,510**
150,383	**144,144**	**155,421**	**Total liabilities and equity**		**159,337**	**146,913**	**153,254**

Cash flow statement

Parent bank				Group		
	January - September			January - September		
2017	2017	2018	(NOKm)	2018	2017	2017
1,850	1,471	1,649	Net profit	1,689	1,275	1,828
50	34	47	Depreciations and write-downs on fixed assets	66	74	102
323	252	172	Losses on loans and guarantees	196	263	341
2,223	**1,732**	**1,868**	**Net cash increase from ordinary operations**	**1,951**	**1,587**	**2,271**
656	-59	1,328	Decrease/(increase) other receivables	898	-420	480
-455	640	835	Increase/(decrease) short term debt	1,004	890	-339
-8,593	-7,400	-5,647	Decrease/(increase) loans to customers	-6,418	-8,558	-9,946
-1,340	607	-3,279	Decrease/(increase) loans credit institutions	-2,614	1,582	-322
8,972	5,633	955	Increase/(decrease) deposits to customers	1,054	5,918	9,308
-1,252	-1,130	-193	Increase/(decrease) debt to credit institutions	500	-1,025	-902
-2,259	-354	94	Increase/(decrease) in short term investments	15	-351	-2,179
-2,047	**-331**	**-4,037**	**A) Net cash flow from operations**	**-3,611**	**-378**	**-1,629**
-100	-50	-53	Increase in tangible fixed assets	-103	-130	383
-145	-187	281	Paid-up capital, associated companies	545	51	-685
94	113	-186	Net investments in long-term shares and partnerships	-836	0	-249
-146	**-120**	**43**	**B) Net cash flow from investments**	**-394**	**-74**	**-546**
-27	321	466	Increase/(decrease) in subordinated loan capital	467	321	-27
0	0	0	Increase/(decrease) in equity	12	0	-21
-390	-390	-571	Dividend cleared	-571	-390	-390
-220	-220	-322	To be disbursed from gift fund	-322	-220	-220
-33	-25	318	Increase/(decrease) in Additional Tier 1 capital	317	-25	-33
5,860	1,775	1,919	Increase/(decrease) in other long term loans	1,917	1,775	5,862
5,191	**1,487**	**1,811**	**C) Net cash flow from financial activities**	**1,820**	**1,487**	**5,173**
2,998	**1,035**	**-2,184**	**A) + B) + C) Net changes in cash and cash equivalents**	**-2,184**	**1,035**	**2,998**
315	315	3,313	Cash and cash equivalents at 1.1	3,313	315	315
3,313	1,351	1,129	Cash and cash equivalents at end of quarter	1,129	1,351	3,313
2,998	**1,035**	**-2,184**	**Net changes in cash and cash equivalents**	**-2,184**	**1,035**	**2,998**

Change in equity

Parent Bank	Issued equity			Earned equity					
(NOKm)	EC capital	Premium fund	Additional Tier 1 Capital	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Total equity
Equity at 1 January 2017	**2,597**	**895**	**950**	**4,499**	**4,490**	**609**	**126**	**-**	**14,166**
Net profit	-	-	33	327	580	893	17	-	1,850
Other comprehensive income									
Financial assets through OCI	-	-	-	-	-	-	-	15	15
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-18	-18
Other comprehensive income	-	-	-	-	-	-	-	-3	-3
Total other comprehensive income	-	-	33	327	580	893	17	-3	1,847
Transactions with owners									
Dividend declared for 2016	-	-	-	-	-	-389	-	-0	-390
To be disbursed from gift fund	-	-	-	-	-	-220	-	-	-220
Interest payments additional Tier 1 capital	-	-	-33	-	-	-	-	-	-33
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	0
Direct recognitions in equity	-	-	-	5	9	-	-17	3	-
Total transactions with owners	0	-	-33	5	9	-609	-17	3	-642
Equity at 31 December 2017	**2,597**	**895**	**950**	**4,831**	**5,079**	**893**	**126**	**-**	**15,372**
Equity at 31 December 2017	**2,597**	**895**	**950**	**4,831**	**5,079**	**893**	**126**	**-**	**15,372**
Implementation effect IFRS 9	-	-	-	-	-	-	-	-17	-17
Equity at 1 January 2018	**2,597**	**895**	**950**	**4,831**	**5,079**	**893**	**126**	**-17**	**15,355**
Net profit	-	-	-	-	-	-	-	1,649	1,649
Other comprehensive income									
Financial assets through OCI	-	-	-	-	-	-	-	-	-
Value changes on loans measured at fair value	-	-	-	-	-	-	-	-2	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-2	-2
Total other comprehensive income	-	-	-	-	-	-	-	1,648	1,648
Transactions with owners									
Dividend declared for 2017	-	-	-	-	-	-571	-	-	-571
To be disbursed from gift fund	-	-	-	-	-	-322	-	-	-322
Additional Tier 1 capital issued	-	-	1,000	-	-	-	-	-	1,000
Buyback additional Tier 1 capital	-	-	-655	-	-	-	-	-	-655
Interest payments additional Tier 1 capital	-	-	-27	-	-	-	-	-	-27
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	0
Direct recognitions in equity	-	-	-	-	-	-	-	-0	-0
Total transactions with owners	0	-	318	-	0	-893	-	-0	-575
Equity at 30 September 2018	**2,597**	**895**	**1,268**	**4,831**	**5,079**	**-**	**126**	**1,631**	**16,428**

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

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

(NOKm)	Issued equity: EC capital	Issued equity: Premium fund	Additional Tier 1 Capital	Earned equity: Ownerless capital	Earned equity: Equalisation fund	Earned equity: Dividend and gifts	Earned equity: Unrealised gains reserve	Earned equity: Other equity	Non-controlling interests	Total equity
	Attributable to parent company equity holders									
Equity at 31 December 2017	**2,588**	**895**	**993**	**4,831**	**5,072**	**893**	**126**	**1,547**	**565**	**17,510**
Implementation effect IFRS 9	-	-	-	-	-	-	-	-25	-	-25
Equity at 1 January 2018	**2,588**	**895**	**993**	**4,831**	**5,072**	**893**	**126**	**1,521**	**565**	**17,484**
Net profit	-	-	-	-	-	-	-	1,660	29	1,689
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-12	-	-12
Financial assets through OCI	-	-	-	-	-	-	-	-	-	-
Value changes on loans measured at fair value	-	-	-	-	-	-	-	-2	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-1	-1	-2
Other comprehensive income	-	-	-	-	-	-	-	-15	-1	-16
Total other comprehensive income	-	-	-	-	-	-	-	1,645	28	1,673
Transactions with owners										
Dividend declared for 2017	-	-	-	-	-	-571	-	-	-	-571
To be disbursed from gift fund	-	-	-	-	-	-322	-	-	-	-322
Additional Tier 1 capital issued	-	-	1,000	-	-	-	-	-	-	1,000
Buyback additional Tier 1 capital	-	-	-655	-	-	-	-	-	-	-655
Interest payments additional Tier 1 capital	-	-	-28	-	-	-	-	-	-	-28
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	-	0
Own ECC held by SB1 Markets*)	3	-	-	-	3	-	-	5	-	12
Direct recognitions in equity	-	-	-	-	-	-	-	34	-	34
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	-7	-	-7
Change in non-controlling interests	-	-	-	-	-	-	-	-	30	30
Total transactions with owners	3	-	317	-	3	-893	-	32	30	-507
Equity at 30 September 2018	**2,592**	**895**	**1,310**	**4,831**	**5,075**	**-**	**126**	**3,198**	**623**	**18,650**

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

Notes

Contents

Note 1 - Accounting principles

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

IFRS 9

IFRS 9 Financial instruments deals with recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 is applicable from 1 January 2018. Detailed information about the implementation of IFRS 9 in SpareBank 1 SMN can be found in note 2 and 45 in the annual report for 2017.

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

Classification and measurement

Financial assets

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

Financial assets that are debt instruments

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

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

Derivatives and investments in equity instruments

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

Financial liabilities

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

Loan impairment write-downs

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

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

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

Stage 1:
This is the starting point for all financial assets covered by the general loss model. All assets that do not have significantly higher credit risk than at first-time recognition receive a loss provision corresponding to 12 months' expected loss. All assets that are not transferred to stage 2 or 3 reside in this category.

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

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

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

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

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

Pensions

The Group has not obtained a new calculation of pensions as of 30 September since no factors have been identified that significantly alter the pension liability. For a further description of the various pension schemes, see note 24 in the 2017 annual report.

Investment held for sale

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

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

SpareBank 1 SMN accepted a bid at Søndre gate no. 4-10 in Trondheim city centre at November 9, 2017. SpareBank 1 SMN and its subsidiaries will lease back about 70 per cent of the overall area on a 15 year lease with the option of a lease extension. Estimated gross annual rental in 2018 amounts to NOK 36.4 million. The gross property value underlying the bid is NOK 755 million and will provide SpareBank 1 SMN with a net gain after an estimated tax rebate and transaction costs of NOK 150 million. The transaction was completed in 2Q 2018.

Note 3 - Account by business line

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

Group 30 September 2018

Profit and loss account (NOKm)	RM	CM	SB1 Markets	EM 1	SB1 Finans MN	SB1 Regnskaps-huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	768	730	-11	2	200	-0	-	-	70	1,759
Interest from allocated capital	132	98	-	-	-	-	-	-	-229	-
Total interest income	**900**	**827**	**-11**	**2**	**200**	**-0**	**-**	**-**	**-160**	**1,759**
Commission income and other income	590	150	337	389	46	337	-	-	-215	1,634
Net return on financial investments **)	0	15	75	-	-	-	189	70	470	820
Total income	**1,490**	**993**	**401**	**391**	**247**	**336**	**189**	**70**	**96**	**4,212**
Total operating expenses	**597**	**278**	**380**	**385**	**115**	**280**	**-**	**-**	**-113**	**1,922**
Ordinary operating profit	**893**	**714**	**21**	**6**	**131**	**57**	**189**	**70**	**209**	**2,290**
Loss on loans, guarantees etc.	18	153	-	-	24	-	-	-	0	196
Result before tax including held for sale	**874**	**561**	**21**	**6**	**107**	**57**	**189**	**70**	**209**	**2,094**
Post-tax return on equity*)	**13.1 %**	**10.8 %**								**13.3 %**
Balance										
Loans and advances to customers	111,207	39,716	-	-	7,546	-	-	-	-644	157,825
Adv. of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-37,796	-1,986	-	-	-	-	-	-	-	-39,782
Allowance for credit losses	-96	-749	-	-	-44	-	-	-	-	-890
Other assets	123	2,434	3,212	1,534	16	384	1,469	1,216	32,043	42,184
Total assets	**73,438**	**39,167**	**3,212**	**1,534**	**7,519**	**384**	**1,469**	**1,216**	**31,398**	**159,337**
Deposits to customers	39,879	37,201	-	-	-	-	-	-	450	77,529
Other liabilities and equity	33,559	1,967	3,212	1,534	7,519	384	1,469	1,216	30,948	81,808
Total liabilites and equity	**73,438**	**39,167**	**3,212**	**1,534**	**7,519**	**384**	**1,469**	**1,216**	**31,398**	**159,337**

Group 30 September 2017

Profit and loss account (NOKm)	RM	CM	Markets	EM 1	SB1 Finans MN	SB1 Regnskaps-huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	728	730	-11	1	165	-1	-	-	23	1,636
Interest from allocated capital	92	84	-	-	-	-	-	-	-175	-
Total interest income	**819**	**814**	**-11**	**1**	**165**	**-1**	**-**	**-**	**-152**	**1,636**
Commission income and other income	576	151	239	371	41	285	-	-	-189	1,475
Net return on financial investments **)	-	9	50	-	-	-	214	70	162	507
Total income	**1,396**	**974**	**279**	**373**	**206**	**284**	**214**	**70**	**-179**	**3,618**
Total operating expenses	**598**	**276**	**289**	**360**	**101**	**239**	**-**	**-**	**-111**	**1,751**
Ordinary operating profit	**798**	**699**	**-10**	**12**	**105**	**45**	**214**	**70**	**-68**	**1,867**
Loss on loans, guarantees etc.	3	249	-	-	12	-	-	-	-	263
Result before tax including held for sale	**796**	**450**	**-10**	**12**	**94**	**45**	**214**	**70**	**-68**	**1,604**
Post-tax return on equity*)	**16.3 %**	**10.1 %**								**10.8 %**
Balance										
Loans and advances to customers	100,745	40,419	-	-	6,502	-	-	-	-520	147,146
Adv. of this sold to SpareBank 1 Boligkreditt	-34,361	-2,090	-	-	-	-	-	-	-	-36,451
Individual allowance for impairment on loan	-20	-665	-	-	-12	-	-	-	-2	-700
Group allowance for impairment on loan	-90	-218	-	-	-23	-	-	-	-15	-346
Other assets	157	928	2,076	899	15	307	1,460	1,126	30,297	37,265
Total assets	**66,430**	**38,374**	**2,076**	**899**	**6,482**	**307**	**1,460**	**1,126**	**29,759**	**146,913**
Deposits to customers	36,974	36,275	-	-	-	-	-	-	-164	73,086
Other liabilities and equity	29,456	2,099	2,076	899	6,482	307	1,460	1,126	29,923	73,828
Total liabilites and equity	**66,430**	**38,374**	**2,076**	**899**	**6,482**	**307**	**1,460**	**1,126**	**29,759**	**146,913**

*) Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 15.0 percent to be in line with the capital plan per 31 December 2018

**) Specification of net return on financial investments incl. Investment held for sale (NOKm)	**30 Sept 2018**	**30 Sept 2017**
Dividends	**6**	**5**
Capital gains shares (incl dividends)	144	46
Gain/(loss) on derivatives	192	32
Gain/(loss) on other financial instruments at fair value (FVO)	23	11
Foreign exchange gain/(loss)	47	26
Gain/(loss) on sertificates and bonds	-81	81
Gains/(Loss) on shares and share derivatives at SpareBank 1 Markets	52	33
Gain/(loss) on financial instruments related to hedging	-5	-20
Net return on financial instruments	**370**	**209**
SpareBank 1 Gruppen	189	214
SpareBank 1 Boligkreditt	2	-26
SpareBank 1 Næringskreditt	10	18
BN Bank	73	70
SpareBank 1 Kredittkort	17	11
SpareBank 1 Betaling	-9	-14
Other companies	162	19
Income from investment in associates and joint ventures	**443**	**293**
Total net return on financial investments	**820**	**507**

Fair value hedging		
Changes in fair value on hedging instrument	-209	-147
Changes in fair value on hedging item	204	127
Net Gain or Loss from hedge accounting	**-5**	**-20**

Note 4 - Capital adequacy

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

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

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

Countercyclical buffer is calculated using differentiated rates. For exposures in other countries the countercyclical buffer rate set by the authorities in the country concerned is applied. If that country has not set a rate, the same rate as for exposures in Norway is applied unless the Ministry of Finance sets another rate. For the third quarter of 2018 the parent bank is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures. For groups, the risk-weighted countercyclical capital buffer is 2.0 per cent.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 50 per cent in 2017 and 60 per cent in 2018. As at 30 September 2018 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure was NOK 652 million.

Parent Bank				Group		
31 Dec 2017	**30 Sept 2017**	**30 Sept 2018**	**(NOKm)**	**30 Sept 2018**	**30 Sept 2017**	**31 Dec 2017**
15,372	15,009	16,428	Total book equity	18,650	17,208	17,510
-950	-925	-1,268	Additional Tier 1 capital instruments included in total equity	-1,310	-1,187	-993
-522	-484	-538	Deferred taxes, goodwill and other intangible assets	-1,059	-888	-984
-893	-	-	Deduction for allocated dividends and gifts	-	-	-893
-	-	-	Non-controlling interests recognised in other equity capital	-623	-516	-565
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	371	303	324
-	-1,446	-1,649	Net profit	-1,689	-1,250	-
-	821	825	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2018)	864	625	-
-30	-28	-29	Value adjustments due to requirements for prudent valuation	-47	-46	-41
-350	-200	-308	Positive value of adjusted expected loss under IRB Approach	-316	-264	-333
-	-	-	Cash flow hedge reserve	2	8	7
-	-	-163	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-147	-92	-212
12,627	**12,746**	**13,298**	**Total common equity Tier one**	**14,697**	**13,901**	**13,820**
950	950	1,000	Additional Tier 1 capital instruments	1,478	1,358	1,427
459	459	367	Additional Tier 1 capital instruments covered by transitional provisions	367	459	459
14,036	**14,155**	**14,665**	**Total core capital**	**16,542**	**15,718**	**15,707**
			Supplementary capital in excess of core capital			
1,000	1,368	1,500	Subordinated capital	2,118	1,979	1,615
561	561	449	Subordinated capital covered by transitional provisions	449	561	561
-254	-254	-140	Deduction for significant investments in financial institutions	-140	-254	-254
1,307	**1,675**	**1,809**	**Total supplementary capital**	**2,427**	**2,286**	**1,922**
15,343	**15,830**	**16,473**	**Net subordinated capital**	**18,969**	**18,004**	**17,629**

			Minimum requirements subordinated capital			
978	1,050	951	Specialised enterprises	1,107	1,177	1,107
1,098	1,040	1,173	Corporate	1,181	1,054	1,113
1,370	1,284	1,508	Mass market exposure, property	2,070	1,763	1,892
90	87	91	Other mass market	94	89	91
1,198	1,222	1,045	Equity investments	1	1	1
4,733	**4,683**	**4,768**	**Total credit risk IRB**	**4,453**	**4,084**	**4,205**
3	4	2	Central government	3	4	3
80	74	95	Covered bonds	145	136	146
431	454	375	Institutions	217	380	333
0	5	-	Local and regional authorities, state-owned enterprises	10	11	4
25	22	30	Corporate	241	234	226
18	16	70	Mass market	510	394	405
13	14	15	Exposures secured on real property	181	198	193
232	227	228	Equity positions	358	342	344
70	63	53	Other assets	109	172	166
872	**880**	**868**	**Total credit risk standardised approach**	**1,774**	**1,870**	**1,820**
16	22	31	Debt risk	33	24	18
-	-	-	Equity risk	24	18	22
-	-	-	Currency risk and risk exposure for settlement/delivery	3	-	1
341	341	370	Operational risk	575	510	510
52	74	33	Credit value adjustment risk (CVA)	80	134	117
-	-	-	Transitional arrangements	971	956	891
6,015	**6,000**	**6,071**	**Minimum requirements subordinated capital**	**7,913**	**7,595**	**7,585**
75,182	**75,000**	**75,887**	**Risk weighted assets (RWA)**	**98,915**	**94,938**	**94,807**
3,383	3,375	3,415	Minimum requirement on CET1 capital, 4.5 per cent	4,451	4,272	4,266
			Capital Buffers			
1,880	1,875	1,897	Capital conservation buffer, 2.5 per cent	2,473	2,373	2,370
2,255	2,250	2,277	Systemic rick buffer, 3.0 per cent	2,967	2,848	2,844
1,504	1,125	1,518	Countercyclical buffer, 2.0 per cent (1.5 per cent)	1,978	1,424	1,896
5,639	**5,250**	**5,692**	**Total buffer requirements on CET1 capital**	**7,419**	**6,646**	**7,111**
3,605	**4,121**	**4,191**	**Available CET1 capital after buffer requirements**	**2,827**	**2,983**	**2,444**
			Capital adequacy			
16.8 %	17.0 %	17.5 %	Common equity Tier one ratio	14.9 %	14.6 %	14.6 %
18.7 %	18.9 %	19.3 %	Core capital ratio	16.7 %	16.6 %	16.6 %
20.4 %	21.1 %	21.7 %	Capital adequacy ratio	19.2 %	19.0 %	18.6 %
			Leverage ratio			
145,821	142,840	150,853	Balance sheet items	213,761	203,155	210,764
7,112	7,535	7,629	Off-balance sheet items	9,595	9,506	9,295
-902	-713	-1,170	Regulatory adjustments	-1,729	-1,301	-1,580
152,032	149,662	157,313	Calculation basis for leverage ratio	221,628	211,361	218,479
14,036	14,155	14,665	Core capital	16,542	15,718	15,707
9.2 %	**9.5 %**	**9.3 %**	**Leverage Ratio**	**7.5 %**	**7.4 %**	**7.2 %**

Note 5 - Distribution of loans by sector/industry

Parent Bank				Group		
31 Dec 2017	**30 Sept 2017**	**30 Sept 2018**	**(NOKm)**	**30 Sept 2018**	**30 Sept 2017**	**31 Dec 2017**
11,305	11,217	12,022	Agriculture, forestry, fisheries, hunting	12,346	11,486	11,606
1,311	1,352	978	Sea farming industries	1,317	1,745	1,697
2,850	3,256	2,827	Manufacturing	3,158	3,560	3,157
2,794	2,712	2,823	Construction, power and water supply	3,536	3,341	3,419
2,432	2,288	2,143	Retail trade, hotels and restaurants	2,410	2,546	2,700
4,639	4,678	4,372	Maritime sector	4,372	4,678	4,639
14,289	14,807	14,678	Property management	14,737	14,867	14,348
2,510	2,415	2,763	Business services	2,463	2,216	2,260
3,547	3,588	4,062	Transport and other services provision	4,876	4,332	4,322
226	211	11	Public administration	23	226	240
1,669	1,766	1,923	Other sectors	1,955	1,796	1,699
47,572	**48,289**	**48,603**	**Gross loans in retail market**	**51,195**	**50,794**	**50,087**
94,984	92,818	102,248	Wage earners	106,631	96,352	98,697
142,556	**141,107**	**150,851**	**Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt**	**157,825**	**147,146**	**148,784**
34,885	34,196	37,669	of which SpareBank 1 Boligkreditt	37,669	34,196	34,885
1,828	2,255	2,112	of which SpareBank 1 Næringskreditt	2,112	2,255	1,828
105,843	**104,656**	**111,069**	**Gross loans in balance sheet**	**118,044**	**110,695**	**112,071**
		785	- Loan loss allowance on amortised cost loans	831		
		60	- Loan loss allowance on loans at FVOCI	60		
751	685		- Specified write-downs		700	765
323	323		- Collective write-downs		346	347
104,769	**103,647**	**110,225**	**Net loans to and receivables from customers**	**117,153**	**109,649**	**110,959**

Note 6 - Losses on loans and guarantees

Parent Bank

Losses on loans and guarantees (NOKm)	Jan-Sept 2018 RM	Jan-Sept 2018 CM	Jan-Sept 2018 Total
Change in provision for expected credit losses for the period	20	104	124
Actual loan losses on commitments exceeding provisions made	4	50	54
Recoveries on commitments previously written-off	-6	-1	-7
Losses for the period on loans and guarantees	**18**	**153**	**172**

Group

Losses on loans and guarantees (NOKm)	Jan-Sept 2018 RM	Jan-Sept 2018 CM	Jan-Sept 2018 Total
Change in provision for expected credit losses for the period	24	104	128
Actual loan losses on commitments exceeding provisions made	24	57	81
Recoveries on commitments previously written-off	-12	-1	-13
Losses for the period on loans and guarantees	**37**	**159**	**196**

Note 7 - Losses

Parent Bank

	1 January 18	Change in provision	Net write-offs /recoveries	30 Sept 2018
Loans as amortised cost- CM	1,017	-153	-	864
Loans as amortised cost- RM	32	5	-	37
Loans at fair value over OCI- RM	65	12	-1	76
Provision for expected credit losses on loans and guarantees	**1,114**	**-136**	**-1**	**975**
Presented as				
Provision for loan losses				845
Other debt- provisons				115
Other comprehensive income - fair value adjustment				17

Group

	1 January 18	Change in provision	Net write-offs /recoveries	30 Sept 2018
Loans as amortised cost- CM	1,037	-153	2	886
Loans as amortised cost- RM	52	7	-	59
Loans at fair value over OCI- RM	65	12	-1	76
Provision for expected credit losses on loans and guarantees	**1,154**	**-134**	**1**	**1,020**
Presented as				
Provision for loan losses				890
Other debt- provisons				115
Other comprehensive income - fair value adjustment				17

Parent Bank

Total Allowance for Credit Losses	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance 1 January 2018	**96**	**256**	**762**	**1,114**
Provision for credit losses				
Transfer to (from) stage 1	29	-28	-0	-
Transfer to (from) stage 2	-7	7	-0	-
Transfer to (from) stage 3	-0	-2	2	-
Net remeasurement of loss allowances	-37	62	-150	-125
Originations or purchases	36	43	1	80
Derecognitions	-25	-64	-3	-93
Closing balance 30 September 2018	**91**	**274**	**611**	**975**

Group

Total Allowance for Credit Losses	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance 1 January 2018	**106**	**268**	**780**	**1,154**
Provision for credit losses				
Transfer to (from) stage 1	27	-27	-1	-
Transfer to (from) stage 2	-7	6	1	-
Transfer to (from) stage 3	-1	-3	4	-
Net remeasurement of loss allowances	-40	65	-146	-120
Originations or purchases	39	46	2	87
Derecognitions	-26	-66	-9	-101
Closing balance 30 September 2018	**98**	**290**	**631**	**1,020**

Note 8 - Gross loans

Parent Bank

Gross loan	Loans subject to impairment Stage 1	Stage 2	Stage 3	Fixed interest loans at FV	Total
Balance at 1 January 2018	**91,074**	**9,931**	**1,560**	**3,278**	**105,843**
Transfer to stage 1	1,882	-1,866	-16	-	-
Transfer to stage 2	-3,285	3,307	-22	-	-
Transfer to stage 3	-58	-320	378	-	-
Net increase/decrease amount excisting loans	-5,288	-168	-6	-	-5,462
New loans	37,724	1,534	97	1,627	40,981
Derecognitions	-26,571	-2,388	-440	-893	-30,292
Balance at 30 September 2018	**95,478**	**10,029**	**1,551**	**4,013**	**111,069**

Group

Gross loan	Loans subject to impairment Stage 1	Stage 2	Stage 3	Fixed interest loans at FV	Total
Balance at 1 January 2018	**96,286**	**10,855**	**1,652**	**3,278**	**112,071**
Transfer to stage 1	2,044	-2,026	-18	-	-
Transfer to stage 2	-3,770	3,802	-32	-	-
Transfer to stage 3	-78	-352	430	-	-
Net increase/decrease amount excisting loans	-5,817	-294	-13	-	-6,124
New loans	39,744	1,705	105	1,627	43,180
Derecognitions	-27,242	-2,472	-476	-893	-31,084
Balance at 30 September 2018	**101,167**	**11,217**	**1,649**	**4,013**	**118,044**

Note 9 - Distribution of customer deposits by sector/industry

Parent Bank				Group		
31 Dec 2017	30 Sept 2017	30 Sept 2018	(NOKm)	30 Sept 2018	30 Sept 2017	31 Dec 2017
3,061	2,896	2,965	Agriculture, forestry, fisheries, hunting	2,965	2,896	3,061
1,021	848	689	Sea farming industries	689	848	1,021
2,736	1,915	1,627	Manufacturing	1,627	1,915	2,736
3,046	2,287	2,523	Construction, power and water supply	2,523	2,287	3,046
4,152	3,509	3,983	Retail trade, hotels and restaurants	3,983	3,509	4,152
1,269	1,288	1,079	Maritime sector	1,079	1,288	1,269
4,595	4,786	5,705	Property management	5,403	4,535	4,405
6,429	6,199	6,507	Business services	6,507	6,199	6,429
5,846	5,898	6,036	Transport and other services provision	5,676	5,438	5,414
11,284	11,106	11,008	Public administration	11,008	11,106	11,284
2,127	1,788	2,562	Other sectors	2,436	1,560	1,863
45,565	**42,518**	**44,684**	**Total**	**43,897**	**41,580**	**44,678**
31,797	31,506	33,633	Wage earners	33,633	31,506	31,797
77,362	**74,024**	**78,317**	**Total deposits**	**77,529**	**73,086**	**76,476**

Note 10 - Net interest income

Parent bank	January - September			Group January - September		
2017	2017	2018	(NOKm	2018	2017	2017
			Interest income			
137	100	121	Interest income from loans to and claims on central banks and credit institutions	45	31	44
3,150	2,331	2,406	Interest income from loans to and claims on customers	2,698	2,570	3,476
284	221	214	Interest income from money market instruments, bonds and other fixed income securities	211	219	281
-	-	0	Other interest income	21	17	23
3,571	**2,652**	**2,741**	**Total interest income**	**2,975**	**2,836**	**3,825**
			Interest expense			
133	97	104	Interest expenses on liabilities to credit institutions	113	100	137
654	490	546	Interest expenses relating to deposits from and liabilities to customers	537	479	636
668	499	458	Interest expenses related to the issuance of securities	458	499	668
95	73	59	Interest expenses on subordinated debt	61	75	97
-0	12	13	Other interest expenses	23	23	13
49	24	25	Guarantee fund levy	25	24	49
1,599	**1,196**	**1,205**	**Total interest expense**	**1,217**	**1,200**	**1,600**
1,972	**1,456**	**1,536**	**Net interest income**	**1,759**	**1,636**	**2,225**

Note 11 - Operating expenses

Parent bank				Group		
	January - September			January - September		
2017	2017	2018	(NOKm)	2018	2017	2017
203	156	158	IT costs	215	205	266
17	13	9	Postage and transport of valuables	12	17	22
50	35	34	Marketing	76	73	104
50	34	47	Ordinary depreciation	66	74	102
118	90	79	Operating expenses, real properties	112	84	118
77	55	71	Purchased services	101	102	139
118	81	88	Other operating expense	147	133	192
634	**465**	**487**	**Total other operating expenses**	**729**	**688**	**943**

Note 12 - Other assets

Parent Bank				Group		
31 Dec 2017	30 Sept 2017	30 Sept 2018	(NOKm)	30 Sept 2018	30 Sept 2017	31 Dec 2017
-	27	-	Deferred tax asset	155	202	178
115	118	104	Fixed assets	244	877	263
61	66	83	Earned income not yet received	116	109	104
35	628	465	Accounts receivable, securities	1,108	1,032	322
158	198	158	Pensions	171	208	171
333	428	217	Other assets	607	856	615
703	**1,466**	**1,026**	**Total other assets**	**2,401**	**3,284**	**1,654**

Note 13 - Other liabilities

Parent Bank				Group		
31 Dec 2017	30 Sept 2017	30 Sept 2018	(NOKm)	30 Sept 2018	30 Sept 2017	31 Dec 2017
21	0	21	Deferred tax	85	34	81
337	159	419	Payable tax	460	222	367
9	8	9	Capital tax	9	8	9
70	202	14	Accrued expenses and received, non-accrued income	342	586	444
112	130	242	Provision for accrued expenses and commitments	242	130	112
24	26	24	Pension liabilities	24	26	24
88	72	69	Drawing debt	69	72	88
16	17	15	Creditors	84	104	82
0	652	998	Debt from securities	1,477	940	162
-	-	-	Equity Instruments	71	217	244
232	470	343	Other liabilities	401	511	311
909	**1,735**	**2,155**	**Total other liabilites**	**3,264**	**2,852**	**1,923**

SpareBank 1 SMN

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

Group

Change in securities debt (NOKm)	30 Sept 2018	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2017
Bond debt, nominal value	43,921	11,018	7,057	-1,704	41,663
Value adjustments	-12	-	-	-218	207
Accrued interest	204	-	-	-120	324
Total	**44,113**	**11,018**	**7,057**	**-2,042**	**42,194**

Change in subordinated debt and hybrid equity (NOKm)	30 Sept 2018	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2017
Ordinary subordinated loan capital, nominal value	2,191	500	-	-10	1,701
Hybrid equity, nominal value	450	-	-	-	450
Value adjustments	19	-	-	-21	40
Accrued interest	8	-	-	-2	10
Total	**2,668**	**500**	**-**	**-33**	**2,201**

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

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

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

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

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

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	4	2,681	-	2,686
- Bonds and money market certificates	2,980	16,741	-	19,721
- Equity instruments	2,037	79	546	2,662
- Fixed interest loans	-	43	3,970	4,013
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	60,894	60,894
Total assets	**5,021**	**19,544**	**65,410**	**89,975**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	16	2,990	-	3,006
- Equity instruments	70	1	-	71
Total liabilities	**86**	**2,992**	**-**	**3,078**

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

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	7	4,212	-	4,219
- Bonds and money market certificates	2,840	15,083	-	17,922
- Equity instruments	1,137	-	409	1,546
- Fixed interest loans	-	43	3,459	3,502
Financial assets avaliable for sale				
- Equity instruments	-	-	61	61
Total assets	**3,983**	**19,337**	**3,929**	**27,250**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	5	3,640	-	3,645
- Equity instruments	217	-	-	217
Total liabilities	**223**	**3,640**	**-**	**3,862**

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

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

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

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

(NOKm)	**Equity instruments through profit/loss**	**Fixed interest loans**	**Loans at fair value through OCI**	**Equity instruments through OCI**	**Total**
Closing balance 31 December	419	3,236	-	66	3,722
Implementation effect IFRS 9	66	-	56,743	-66	56,743
Opening balance 1 January	**486**	**3,236**	**56,743**	**-**	**60,464**
Investment in the period	54	1,632	20,470	-	22,155
Disposals in the period	-13	-893	-16,318	-	-17,224
Expected credit loss	-	-	-2	-	-2
Gain or loss on financial instruments	19	-5	2	-	17
Closing balance	**546**	**3,970**	**60,894**	**-**	**65,411**

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

(NOKm)	**Equity instruments through profit/loss**	**Fixed interest loans**	**Equity instruments available for sale**	**Total**
Opening balance 1 January	3,783	524	60	4,367
Investment in the period	269	10	-	279
Disposals in the period	-601	-149	-	-751
Gain or loss on financial instruments	9	24	2	34
Closing balance	**3,459**	**409**	**61**	**3,929**

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

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

Valuation method

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

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

Fixed interest loans to customers (level 3)

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

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

Property Loans at floating interest classified at fair value over other comprehensive income is valued based on nominal amount reduced by expected credit loss. Loans with no significant credit risk detoriation since first recognition is assessed at nominal amount. For loans with a significant increase in credit risk since first recognition or objective evidence of loss, the calculation of expected credit losses over the life of the asset is in line with loan losses for loans at amortised cost. Estimated fair value is the nominal amount reduced by expected lifetime credit loss. If the likelihood of the worst case scenario in the model is doubled, fair value is reduced by NOK 5 million.

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

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

Equity instruments (level 3)

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 287 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank 1 SMN Invest. The valuations are in all essentials based on reporting from managers of the funds who utilise cash flow based models or multiples when determining fair value. The Group does not have full access to information on all the elements in these valuations and is therefore unable to determine alternative assumptions. Determination of fair value for the shares of Polaris Media is based on valuation undertaken by SpareBank 1 Markets. The latter is based on value-adjusted equity capital.

Financial derivatives (level 2)

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

Sensitivity analyses, level 3 as at 30 September 2018:

(NOKm)	Book value	Effect from change in reasonable possible alternative assumtions
Fixed interest loans	3,970	-10
Equity instruments through profit/loss*	546	-
Loans at fair value through other comprehensive income	60,894	-5

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

Note 16 - Liquidity risk

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

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

The average residual maturity on the portfolio of senior bonds and covered bonds at the end of the third quarter was 2.82 years. The overall LCR at the same point was 150 per cent and the average overall LCR in the third quarter was 161 per cent. The LCR in Norwegian kroner at quarter-end was 164 per cent and for euro there is net cash flows in.

Note 17 - Earnings per EC

ECC owners share of profit has been calculated based on Net Profit allocated in accordance with the average number of certificates outstanding in the period. There is no option agreements in relation to the Equity Capital certificates, diluted Net Profit is therefore equivalent to Net Profit per ECC

	January - September	
(Nokm)	**2018**	**2017**
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve **1)**	1,632	1,231
Allocated to ECC Owners, using the ECC Ratio **2)**	1,044	788
Issued Equity Capital Certificates adjusted for own certificates	129,331,186	129,552,433
Earnings per Equity Capital Certificate	**8.07**	**6.08**

1) Adjusted Net Profit	**2018**	**2017**
Net Profit for the group	1,689	1,275
Adjusted for non-controlling interests share of net profit for the period	-29	-19
Adjusted for Tier 1 capital holders share of net profit for the period	-28	-25
Adjusted Net Profit for the period	**1,632**	**1,231**

2) Equity capital certificate ratio (parent bank)

(NOKm)	**30 Sept 2018**	**31 Dec 2017**
ECC capital	2,597	2,597
Dividend equalisation reserve	5,079	4,487
Premium reserve	895	895
Unrealised gains reserve	81	81
Other equity capital	-12	6
A. The equity capital certificate owners' capital	**8,640**	**8,066**
Ownerless capital	4,831	4,498
Unrealised gains reserve	45	45
Other equity capital	-7	3
B. The saving bank reserve	**4,870**	**4,546**
To be disbursed from gift fund	-	-
Dividend declared	-	-
Equity ex. Hybridcapital	13,510	12,613
Equity capital certificate ratio A/(A+B)	**63.95 %**	**63.95 %**
Equity capital certificate ratio for distribution	**63.95 %**	**63.95 %**

Results from quarterly accounts

Group (NOKm)	**3Q 2018**	**2Q 2018**	**1Q 2018**	**4Q 2017**	**3Q 2017**	**2Q 2017**	**1Q 2017**	**4Q 2016**	**3Q 2016**
Interest income	1,025	989	962	989	959	945	931	917	874
Interest expenses	414	408	394	400	389	413	398	413	414
Net interest	**610**	**581**	**568**	**589**	**570**	**532**	**533**	**504**	**460**
Commission income	344	361	339	372	360	349	308	300	326
Commission expenses	45	45	36	49	46	38	35	35	34
Other operating income	186	291	239	206	168	227	182	149	120
Commission income and other income	**486**	**607**	**542**	**529**	**482**	**538**	**455**	**414**	**412**
Dividends	0	4	2	0	1	3	1	1	13
Income from investment in related companies	105	102	79	147	126	94	71	74	103
Net return on financial investments	77	195	99	108	108	35	66	153	157
Net return on financial investments	**182**	**300**	**180**	**256**	**235**	**131**	**138**	**228**	**274**
Total income	**1,277**	**1,488**	**1,290**	**1,374**	**1,287**	**1,202**	**1,126**	**1,146**	**1,145**
Staff costs	376	413	403	362	357	362	345	251	294
Other operating expenses	240	248	241	255	225	236	227	231	210
Total operating expenses	**616**	**661**	**645**	**618**	**582**	**598**	**571**	**482**	**504**
Result before losses	**661**	**827**	**645**	**756**	**705**	**604**	**555**	**664**	**641**
Loss on loans, guarantees etc.	69	78	48	78	88	86	89	99	130
Result before tax	**592**	**748**	**596**	**678**	**617**	**518**	**466**	**565**	**512**
Tax charge	119	156	131	122	118	111	99	102	87
Result investment held for sale, after tax	6	150	1	-4	-0	3	-0	7	-1
Net profit	**480**	**743**	**466**	**553**	**500**	**409**	**367**	**470**	**423**

Key figures from quarterly accounts

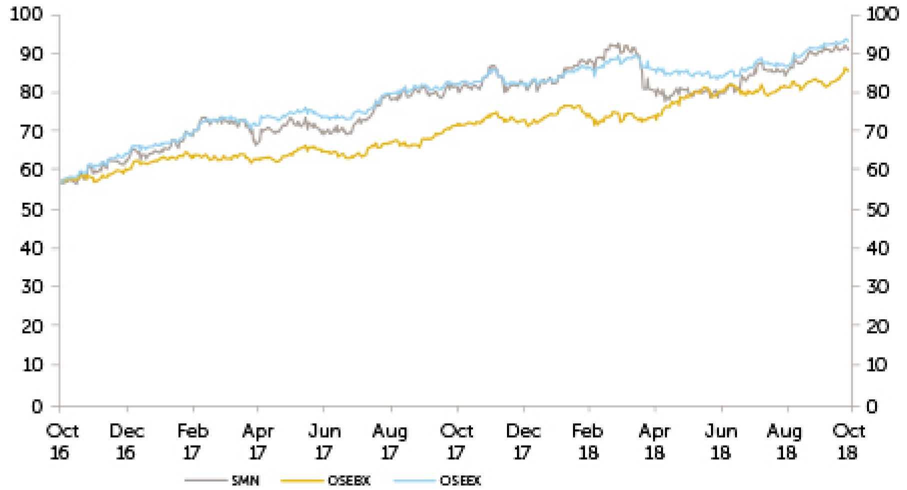
Group (NOKm)	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016
Profitability									
Return on equity per quarter 1)	11.1%	17.9%	11.2%	13.4%	12.5%	10.5%	9.4%	12.2%	11.3%
Cost-income ratio 1)	48 %	44 %	50 %	45 %	45 %	50 %	51 %	42 %	44 %
Balance sheet figures									
Gross loans to customers	118,044	115,787	113,174	112,071	110,695	107,358	104,117	102,325	99,569
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	157,825	154,790	151,065	148,784	147,146	143,800	140,038	137,535	134,462
Deposits from customers	77,529	80,343	75,937	76,476	73,086	75,559	70,176	67,168	66,290
Total assets	159,337	159,584	152,083	153,254	146,913	149,449	142,042	138,080	139,815
Quarterly average total assets	159,460	155,833	152,668	150,083	148,181	145,746	140,061	138,948	140,480
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskredtt last 12 months 1)	7.3 %	7.6 %	7.9 %	8.2 %	9.4 %	8.5 %	8.1 %	8.0 %	6.6 %
Growth in deposits last 12 months	6.1 %	6.3 %	8.2 %	13.9 %	10.3 %	12.7 %	9.9 %	4.8 %	4.2 %
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt									
Impairment losses ratio 1)	0.18 %	0.20 %	0.13 %	0.22 %	0.24 %	0.24 %	0.26 %	0.28 %	0.39 %
Non-performing commitm. as a percentage of gross loans 1)	0.18 %	0.18 %	0.19 %	0.19 %	0.18 %	0.18 %	0.15 %	0.16 %	0.16 %
Other doubtful commitm. as a percentage of gross loans 1)	0.86 %	0.95 %	0.90 %	0.80 %	0.83 %	0.80 %	0.77 %	1.07 %	1.01 %
Solidity									
Common equity tier 1	14.9 %	15.0 %	14.6 %	14.6 %	14.6 %	14.9 %	14.7 %	14.8 %	14.2 %
Core capital ratio	16.7 %	17.0 %	16.3 %	16.6 %	16.6 %	16.8 %	16.7 %	16.8 %	16.2 %
Capital adequacy ratio	19.2 %	19.0 %	18.2 %	18.6 %	19.0 %	19.0 %	18.9 %	19.2 %	18.7 %
Core capital	16,542	16,488	15,697	15,707	15,718	15,526	15,149	14,956	14,646
Net equity and related capital	18,969	18,418	17,518	17,629	18,004	17,552	17,183	17,072	16,921
Liquidity Coverage Ratio (LCR)	150 %	150 %	162 %	164 %	124 %	160 %	136 %	129 %	138 %
Leverage Ratio	7.5 %	7.4 %	7.3 %	7.2 %	7.4 %	7.2 %	7.3 %	7.4 %	7.1 %
Key figures ECC									
ECC share price at end of period (NOK)	90.90	84.50	80.90	82.25	81.25	71.75	66.50	64.75	55.75
Number of certificates issued, millions 1)	129.44	129.31	129.38	129.38	129.40	129.54	129.48	129.64	129.66
Booked equity capital per ECC (including dividend) 1)	82.57	80.21	76.53	78.81	79.18	75.40	72.31	73.35	74.71
Profit per ECC, majority 1)	2.32	3.54	2.21	2.63	2.42	1.92	1.74	2.21	2.00
Price-Earnings Ratio 1)	9.77	5.97	9.16	7.81	8.40	9.32	9.58	7.32	6.97
Price-Book Value Ratio 1)	1.10	1.05	1.06	1.04	1.03	0.95	0.92	0.88	0.75

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

Equity capital certificates

Stock price compared with OSEBX and OSEEX

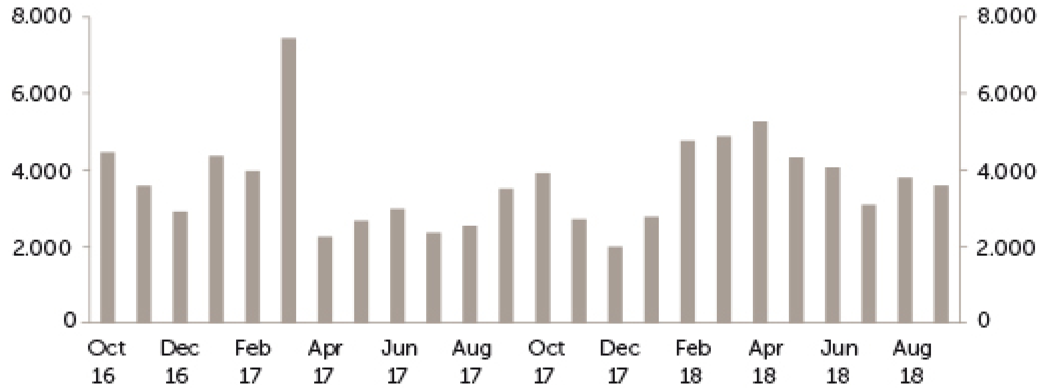
1 October 2016 to 30 September 2018



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

Trading statistics

1 October 2016 to 30 September 2018



Total number of ECs traded (1000)

20 largest ECC holders	Number	Share
VPF Nordea Norge Verdi	6,173,081	4.75 %
State Street Bank and Trust CO (nominee)	4,435,549	3.42 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,542,919	2.73 %
VPF Danske Invest Norske Aksjer Inst. II	3,352,849	2.58 %
VPF Pareto Aksje Norge	2,613,547	2.01 %
VPF Alfred Berg Gambak	1,931,139	1.49 %
State Street Bank and Trust CO (nominee)	1,832,328	1.41 %
JP Morgan Chase Bank (nominee)	1,830,966	1.41 %
Pareto AS	1,774,312	1.37 %
VPF Danske Invest Norske Aksjer Inst. I	1,759,692	1.36 %
Forsvarets Personellservice	1,717,046	1.32 %
JP Morgan Chase Bank (nominee)	1,661,137	1.28 %
State Street Bank and Trust CO (nominee)	1,556,648	1.20 %
MP Pensjon PK	1,552,771	1.20 %
VPF Nordea Kapital	1,438,701	1.11 %
JP Morgan Securities	1,378,218	1.06 %
VPF Storebrand Norge I	1,373,165	1.06 %
MSIP Equity	1,314,359	1.01 %
VPF Nordea Avkastning	1,289,111	0.99 %
The 20 largest ECC holders in total	**46,492,929**	**35.81 %**
Others	83,343,514	64.19 %
Total issued ECCs	**129,836,443**	**100.00 %**

Dividend policy

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

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

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

Auditor's report

Deloitte.

Deloitte AS
Dyre Halses gate 1A
NO-7042 Trondheim
Norway

Tel: +47 73 87 69 00
www.deloitte.no

Translation from the original Norwegian version

To the Board of Directors of SpareBank 1 SMN

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

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

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

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

Trondheim, October 25th 2018
Deloitte AS

Mette Estenstad (Signed)
State Authorised Public Accountant (Norway)