Fourth Quarter 2018

SpareBank 1 SR-BANK

Interim Financial Statements Q4 2018

Key figures SpareBank 1 SR-Bank Group (MNOK)

MAIN FIGURES	01.01 - 31.12 2018	2017	Q4 2018	Q4 2017
Net interest income	3.439	3.162	926	819
Net commission and other income	1.437	1.524	350	367
Net income on financial investments	569	634	68	204
Total income	**5.445**	**5.320**	**1.344**	**1.390**
Total operating costs	**2.229**	**2.167**	**576**	**570**
Operating profit before impairments	**3.216**	**3.153**	**768**	**820**
Impairments on loans and financial commitments	324	543	92	120
Pre-tax profit	**2.892**	**2.610**	**676**	**700**
Tax expense	596	524	149	141
Profit after tax	**2.296**	**2.086**	**527**	**559**
BALANCE SHEET				
Gross loans to customers	192.105	172.554		
Gross loans to customers including SB1 BK and SB1 NK [5)]	201.399	187.137		
Deposits from customers	98.814	95.384		
Total assets	234.061	216.618		
Average total assets	223.838	207.562		
Selected key figures (for further key figures see page 38 of the interim report)				
Return on equity [1)]	11,3 %	11,0 %	10,1 %	11,4 %
Cost ratio [1)]	40,9 %	40,7 %	42,9 %	41,0 %
Combined weighted total average spread for lending and deposits [1)]	1,54 %	1,52 %	1,59 %	1,50 %
Balance growth				
Growth in loans [1)]	11,3 %	9,5 %		
Growth in loans incl SB1 BK and SB1 NK [1)]	7,6 %	2,6 %		
Growth in deposits [1)]	3,6 %	11,0 %		
Solidity				
Common equity Tier 1 capital ratio	14,7 %	15,1 %		
Tier 1 capital ratio	15,9 %	16,0 %		
Capital ratio	17,6 %	17,9 %		
Tier 1 capital	20.743	19.278		
Risk weighted balance	130.869	120.160		
Leverage ratio	7,7 %	7,4 %		
Liquidity				
Liquidity Coverage Ratio (LCR) [2)]	167 %	168 %		
Deposit-to-loan ratio [1)]	51,4 %	55,3 %		
Deposit-to-loan ratio, incl loans SB1 BK and NK [1)]	49,1 %	51,0 %		
Impairments on loans and financial commitments [1)]				
Impairment ratio [1)]	0,18 %	0,33 %		
Impairment ratio, incl. loans SB1 BK and SB1 NK [1) 2)]	0,17 %	0,29 %		
Loans and financial commitments in Stage 3 [1) 4)]				
Loans and financial commitments in Stage 3, percentage of gross loans [1) 4)]	1,53 %	1,23 %		
Loans and financial commitments in Stage 3, percentage of gross loans, incl. loans SB1 BK and NK [1) 2) 4)]	1,46 %	1,13 %		

SpareBank 1 SR-Bank share	**31.12.18**	**31.12.17**	**31.12.16**	**31.12.15**
Market price	89,20	87,00	60,75	39,30
Market capitalisation (MNOK)	22.813	22.250	15.537	10.051
Book equity per share(including dividends) (group) [1)]	82,27	77,24	71,54	66,14
Earnings per share, NOK	8,98	8,16	6,87	6,83
Dividends per share	4,50	4,25	2,25	1,50
Price / Earnings per share [1)]	9,93	10,66	8,84	5,75
Price / Book equity [1)]	1,08	1,13	0,85	0,59
Effective return [5)]	7,4 %	46,9 %	58,4 %	-21,3 %

1) Defined as alternative performance targets (APMs), see the appendix to the interim report

2) SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are abbreviated to SB1 BK and SB1 NK

3) High quality liquid assets divided by total net cash outflows in a 30-day, serious stress scenario

4) Loans and financial commitments in Stage 3 in % of gross loans. Figures before 2018 is total non-performing and impaired loans according to IAS 39, % of gross loans

5) Percentage change in the market price in the last period, including paid share dividend

Strong result with income growth and good cost control

Q4 2018

- Pre-tax profit: NOK 676 million (NOK 700 million)
- Net profit for the quarter: NOK 527 million (NOK 559 million)
- Return on equity after tax: 10.1% (11.4%)
- Earnings per share: NOK 2.06 (NOK 2.18)
- Net interest income: NOK 926 million (NOK 819 million)
- Net commissions and other operating income: NOK 350 million (NOK 367 million)
- Net income from financial investments: NOK 68 million (NOK 204 million)
- Operating costs: NOK 576 million (NOK 570 million)
- Impairments on loans: NOK 92 million (NOK 120 million)

(Q4 2017 in brackets)

Preliminary annual result for 2018

- Pre-tax profit: NOK 2,892 million (NOK 2,610 million)
- Net profit for the year: NOK 2,296 million (NOK 2,086 million)
- Return on equity after tax: 11.3% (11.0%)
- Earnings per share: NOK 8.98 (NOK 8.16)
- Net interest income: NOK 3,439 million (NOK 3,162 million)
- Net commissions and other operating income: NOK 1,437 million (NOK 1,524 million)
- Net income from financial investments: NOK 569 million (NOK 634 million)
- Operating costs: NOK 2,229 million (NOK 2,167 million)
- Impairments on loans: NOK 324 million (NOK 543 million)
- Total lending growth over last 12 months: 7.6% (2.6%)
- Growth in deposits over last 12 months: 3.6% (11.0%)
- Common equity tier 1 capital ratio: 14.7% (15.1%)
- Tier 1 capital ratio: 15.9% (16.0%)
- The board proposes a dividend of NOK 4.50 per share (NOK 4.25).

(As at 31 December 2017 in brackets)

Financial performance – Q4 2018

The group's pre-tax profit was NOK 676 million (NOK 700 million), NOK 118 million lower than in the third quarter of 2018. The return on equity after tax for the quarter was 10.1% (11.4%) compared with 12.6% in the third quarter of 2018. The quarterly results were affected by reduced income from financial investments due to unrest in the financial market. The market development specially affected the interest portfolio, and caused capital losses due to widening credit spread. Underlying operations performed positively with increases in both net interest income and net commissions and other operating income. These were counteracted to some extent by an increase in operating costs. Impairments on loans and financial commitments increased compared with the third quarter of 2018.

Net interest income rose to NOK 926 million (NOK 819 million) in the fourth quarter of 2018. The NOK 55 million increase from the previous quarter was due to a rate increase in the retail market portfolio, effective from 7 November 2018, as well as increased lending volumes in both the retail and corporate market divisions. Net interest income was also positively impacted by NOK 12 million in reversed interest costs that were activated in the fourth quarter of 2018. These were related to the construction of a new head office, and were accumulated for the building period. The average interest margin (net interest income as a percentage of average total assets) was 1.59% (1.50%), compared with 1.53% in the third quarter of 2018. The average interest margin would have been 1.57% in the fourth quarter of 2018, exclusive of reversed interest cost regarding building of a new head office.

Net commissions and other operating income was NOK 350 million in the fourth quarter of 2018 (NOK 367 million), an increase of NOK 1 million compared with the third quarter of 2018. The income from EiendomsMegler 1 SR-Eiendom AS amounted to NOK 98 million (NOK 94 million), an increase of NOK 4 million compared with the third quarter of 2018, while the income from SpareBank 1 Regnskapshuset SR AS rose by NOK 4 million from the third quarter to NOK 24 million in the fourth quarter of 2018. Commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS amounted to NOK 16 million (NOK 36 million), NOK 3 million lower than in the third quarter of 2018. Income from guarantee commissions and money transfer services fell by a total of NOK 9 million compared with the previous quarter, while income from arrangement services rose by NOK 5 million.

Net income from financial investments was NOK 68 million (NOK 204 million) in the fourth quarter of 2018, down NOK 107 million compared with the previous quarter, primarily due to a negative return on the interest portfolio.

Operating costs rose by NOK 34 million from the previous quarter to NOK 576 million in the fourth quarter of 2018 (NOK 570 million). Personnel costs increased by NOK 8 million from the previous quarter, while other operating costs increased by NOK 26 million from the previous quarter due to increased activity in the fourth quarter of 2018.

Impairments on loans and financial commitments were NOK 92 million (NOK 120 million) compared with NOK 59 million in the third quarter of 2018.

Preliminary annual result for 2018

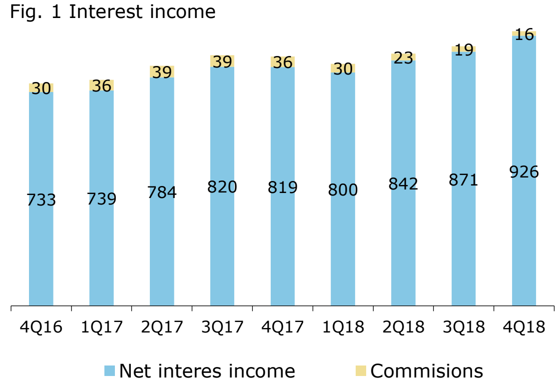
The group's pre-tax profit for 2018 was NOK 2,892 million (NOK 2,610 million), up NOK 282 million compared with 2017. Lower impairments on loans and financial commitments account for NOK 219 million of the increase. The return on equity for the year was 11.3% (11.0%). The cost/income ratio remained low and was 40.9% in 2018 (40.7%). The board proposes paying a dividend of NOK 4.50 per share, which is in line with the group's dividend policy.

The annual result for 2018 was impacted by an improving and growing market where the group saw a rise in net interest income due to good lending growth and lower impairments on loans and financial commitments. Commissions and income from financial investments were somewhat lower than in 2017, partly due to reduced income from insurance and negative value performance in the interest portfolio, especially in the fourth quarter of 2018. The group kept its growth in costs down to 2.9% in 2018 and this, together with a net increase in total income and lower impairments on loans and financial commitments, helped it achieve a good result for 2018.

Net interest income

The group's net interest income amounted to NOK 3,439 million in 2018 (NOK 3,162 million). Net interest income must be seen in the context of the commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. Commissions from these companies amounted to NOK 88 million in 2018 (NOK 149 million). The combined total of net interest income and commissions increased by NOK 216 million compared with 2017. The increase was mainly due to a higher lending volume.

Fig. 1 Interest income



The average interest margin rose to 1.54% in 2018, compared with 1.52% in 2017.

Net commissions and other operating income

Net commissions and other operating income totalled NOK 1,437 million in 2018 (NOK 1,524 million).

Table 1, Commission and other income

	31.12.18	31.12.17
Payment facilities	260	262
Savings/placements	196	198
Insurance products	189	208
Commission income real estate broking	382	389
Guarantee commission	108	107
Arrangement- and customer fees	99	93
Accounting services SpareBank 1 Regnskapshuset SR	99	96
Commission income SB1 Boligkreditt and SB1 Næringskreditt	88	149
Other	16	22
Total commission and other income	1.437	1.524

The NOK 87 million reduction compared with 2017 was primarily attributable to the fact that commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS were down NOK 61 million to NOK 88 million in 2018 (NOK 149 million). The reduction in commissions from the mortgage companies was largely a consequence of the group buying back NOK 5.3 billion in loans from SpareBank 1 Boligkreditt AS in the last 12 months. Income from insurance decreased by NOK 19 million to NOK 189 million (NOK 208 million) due, among other things, to lower profit commissions after a harsh winter in 2018 with many claims. Income from estate agency services decreased by NOK 7 million to NOK 382 million in 2018 (NOK 389 million) due to somewhat weaker overall markets for new builds and commercial property than in 2017.

The reduction in income from insurance, estate agency services and the mortgage companies were partially offset by arrangement fees, which increased by NOK 6 million from 2017 to NOK 99 million in 2018 (NOK 93 million) due, in part, to good activity, especially in the corporate market division.

Net income from financial investments

Net income from financial investments amounted to NOK 569 million in 2018 (NOK 634 million).

Table 2, Income on investment securities

	31.12.18	31.12.17
Dividends	12	11
Investment income, associates	366	425
Income from financial instruments	191	198
- Capital gains/losses on securities	*65*	*127*
- Captail gains/losses interest/currency	*126*	*71*
Total income on investment securities	569	634

Dividends increased by NOK 1 million from 2017 to NOK 12 million in 2018 (NOK 11 million), while income from ownership interests decreased by NOK 59 million to NOK 366 million in 2018 (NOK 425 million).

Table 3, Income from ownership interests

The share of net profit after tax	31.12.18	31.12.17
SpareBank 1 Gruppen AS	289	349
SpareBank 1 Boligkreditt AS	-3	-25
SpareBank 1 Næringskreditt AS	9	13
BN Bank ASA	65	70
SpareBank 1 Kredittkort AS	23	15
SpareBank 1 Betaling AS	-17	-14
Other	-	17
Total income from ownership interests	366	425

The share of the net profit from SpareBank 1 Gruppen AS decreased by NOK 60 million compared with 2017. The reduction in profit was to a large extent due to lower financial income and a weaker insurance result in the P&C insurance company due to a harsh winter with many claims. The life insurance company's result was slightly lower than last year due to lower financial income and an increase in insurance provisions. The weaker result in the life and P&C insurance company was offset by a positive tax charge where approximately NOK 330 million in deferred tax was reversed in the group due to changes in the tax rules for life and P&C insurance companies. The Group's share of this is approximately NOK 64 million.

The share of the net profit from SpareBank 1 Boligkreditt AS increased by NOK 22 million compared with 2017. The improvement in the result was primarily due to the negative effects of basis swaps[1] in 2017. On 1 January 2018, the company changed its accounting policies for recognising the effects of basis swaps due to the implementation of IFRS 9. The effects of basis swaps are now recognised through other comprehensive income in SpareBank 1 Boligkreditt AS and thereby do not affect the company's profit or the group's share of the profit.

The negative share of the result from SpareBank 1 Betaling AS of NOK 17 million is the group's share of the costs associated with Vipps AS, NOK 6 million of which came from correcting the company's expected result for 2017.

Net income from financial instruments amounted to NOK 191 million in 2018 (NOK 198 million). Capital gains on securities amounted to NOK 65 million (NOK 127 million), while capital gains from interest and currency trading amounted to NOK 126 million (NOK 71 million).

The capital gains on securities amounting to NOK 65 million (NOK 127 million) were due to a combination of capital losses of NOK 249 million (capital losses of NOK 152 million) in the interest portfolio, which were offset by positive effects totalling NOK 151 million (NOK 143 million) from hedging instruments, as well as capital gains of NOK 163 million (NOK 136 million) from the portfolio of shares and equity certificates. As far as the remainder of the capital gains from shares and equity certificates is concerned, NOK 72 million came from the merger of Vipps AS, BankAxept AS and

[1] Basis swaps are derivatives contracts that are entered into in connection with long-term funding in international capital markets where the currency is converted to Norwegian kroner. These are hedging instruments and seen over the instruments' term of maturity the changes in market value are zero. The accounting effects will therefore be reversed over time, unless the instrument is redeemed.

BankID Norge AS, NOK 70 million from capital gains on securities in FinStart Nordic AS and NOK 23 million from growth in the value of the investment in Visa Norge AS.

Capital gains from interest and currency trading amounted to NOK 126 million (NOK 71 million), of which capital gains from customer and own account trading accounted for NOK 135 million (NOK 104 million). The negative effects of basis swaps amounted to NOK 38 million (NOK 32 million in negative effects), while the sum of hedging recognition and other positive IFRS effects was NOK 29 million in 2018 (NOK -1 million). On 1 January 2018, the group changed its accounting policies for recognising the effects of basis swaps due to the implementation of IFRS 9. When a basis swap is designated as a hedging instrument for hedging a specifically identified loan, changes in the value of the hedging instrument linked to changes in the “basis spread” are recognised through other comprehensive income.

Operating costs

The group’s operating costs amounted to NOK 2,229 million in 2018 (NOK 2,167 million), an increase of NOK 62 million since 2017. The growth in costs in the past 12 months of 2.9% meets the group’s target of a maximum 3.0% growth in costs for 2018.

Table 4, Operating expenses

	31.12.18	31.12.17
Personnel expenses	1.297	1.263
IT expenses	331	317
Marketing	88	73
Other administrative expenses	99	88
Depreciation	82	74
Operating expenses from real estate	33	34
Other operating expenses	299	318
Total operating expenses	2.229	2.167

Personnel costs rose by NOK 34 million (2.7%) from 2017 to NOK 1,297 million in 2018. The increase can largely be attributed to ordinary wage growth, while increased pension costs of NOK 10 million were offset by bonus provisions, which were reduced by NOK 8 million.

Other operating costs increased by NOK 28 million (3.1%) to NOK 932 million in 2018, with the greatest increase in IT and marketing costs.

The group’s cost/income ratio, costs measured as a percentage of income, remained low and was 40.9% (40.7%) in 2018.

Impairments on loans and liabilities and loans in stage 3

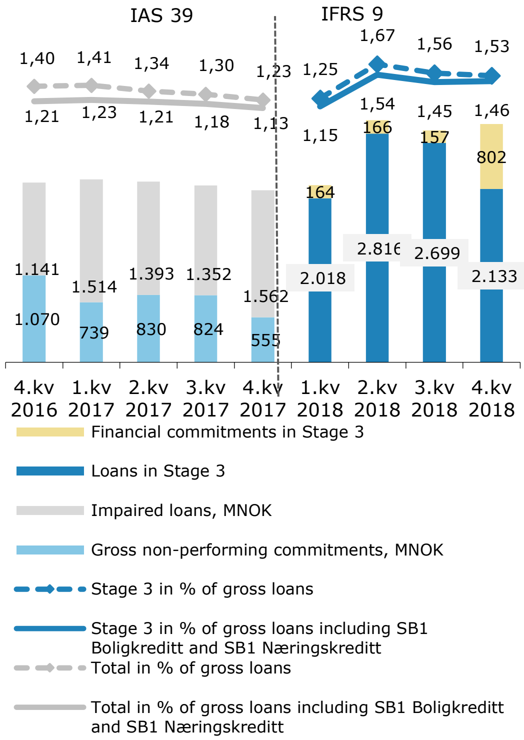
The group’s impairments on loans and financial commitments were reduced by NOK 219 million from 2017 to NOK 324 million in 2018. The reduction reflects the optimism registered in the group’s market area in 2018, and good quality of the loan portfolio. The rise in oil prices has been positive for the oil industry and has also resulted in positive ripple effects for the rest of the business sector. The group’s impairments on loans and financial commitments amounted to 0.18% of gross loans in 2018 (0.33%). Inclusive of loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, the write-down as a percentage of gross loans corresponded to 0.17% (0.29%).

Closely monitoring customers and preventive work remain important tools for maintaining a good risk profile in the group’s loan portfolio in order to reduce future losses.

IFRS 9 Financial Instruments replaced IAS 39 from 1 January 2018. In accordance with IFRS 9, the group’s lending is grouped into three groups: step 1, step 2 and step 3. Loans in stage 3 are loans that have seen a significant rise in credit risk since granting and where there is objective evidence of a loss event on the balance sheet date. For these loans the loss provision must cover expected losses over the lifetime. For further information about IFRS 9 rules and the effects of their implementation, please refer to note 1, note 3 and note 7 in this interim report, as well as note 42 in the annual report for 2017.

Gross loans and financial commitments defined as stage 3 amounted to NOK 2,935 million at the end of 2018. This corresponded to 1.53% of gross loans, and 1.46% inclusive of loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS.

Fig. 2 Gross loans and financial commitments defined in Stage 3



Loans to and deposits from customers

Gross loans amounted to NOK 192.1 billion at the end of 2018 (NOK 172.5 billion). Inclusive of loans totalling NOK 9.3 billion (NOK 14.6 billion) sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, gross loans amounted to NOK 201.4 billion at the end of the quarter (NOK 187.1 billion). Gross lending growth, inclusive of the mortgage companies, was 7.6% in the last 12 months (2.6%). The effect of exchange rate fluctuations accounted for NOK 0.5 billion (0.3%) of the NOK 14.3 billion growth in gross loans over the last 12 months.

Fig. 3 12 month lending growth (percentage)

* Following the merger with the parent bank on 1 January 2017, the volume from SR-Finans is included in the figures. The historical figures have been changed to provide comparable figures.

Loans to the retail market accounted for 60.7% of total loans (inclusive of loans sold to SpareBank 1 Boligkreditt AS) at the end of 2018 (63.1%).

The group's total loan exposure of NOK 201.4 billion (NOK 187.1 billion) included a majority of commitments with a probability of default of less than 0.5%. These commitments accounted for 60.7% (60.3%) of the portfolio. The total lending portfolio primarily consisted of commitments of less than NOK 10 million. These accounted for 66.7% (68.8%) of loan exposure and 98.3% (98.4%) of customers. 19.9% (17.8%) of the total loan exposure was to customers with loans in excess of NOK 100 million.

Over the last 12 months, deposits from customers rose by 3.6% (11.0%) to NOK 98.8 billion (NOK 95.4 billion). At the end of 2018, deposits from the corporate market and public sector accounted for 53.8% (53.6%) of the group's customer deposits. At year end 2018, the deposit coverage ratio, measured as deposits as a percentage of gross loans, was 51.4% (55.3%).

In addition to ordinary customer deposits, the group also has capital under management in alternative investment products. These amounted to NOK 20.7 billion (NOK 21.3 billion) at the end of 2018. This management is primarily performed by SR-Forvaltning AS and ODIN Forvaltning AS.

Business areas

SpareBank 1 SR-Bank's financial management is based on different business areas that are defined on the basis of their form of distribution, products and customers. The reporting format is based on the risk and return profile of the assets and is split into the retail market (including the self-employed and farming), corporate market, capital market and subsidiaries of significant importance. The retail market division's result and balance sheets include the figures from SR-Boligkreditt AS.

On 1 January 2018, the units that work with customer services and market communications were moved out of the business areas and established as a single separate area. The business areas' historical figures have been changed to provide comparable figures. The same has also been done in the segment note (note 11).

Retail market division[2]

The retail market division's contribution before impairments amounted to NOK 1,656 million in 2018 (NOK 1,655 million). The result was NOK 1 million higher than in 2017. The sum of net interest income and commissions was on a par with 2017. Commissions were lower than expected due to lower insurance commissions. The division's costs were reduced by NOK 4 million.

Table 5, Retail market

	31.12.18	31.12.17
Interest income	1.603	1.544
Commission and other income	594	654
Income on investment securities	6	8
Total income	2.203	2.206
Total operating expenses	547	551
Operating profit before impairments	1.656	1.655
Impairments on loans and financial commitments	-	63
Pre-tax profit	1.656	1.592

11% more products were sold than in 2017. Digital channels saw the largest growth in sales and the overall proportion of sales via digital channels passed 50% for 2018. In the fourth quarter of 2018, seen in isolation, 88% of all credit cases started on a digital channel. At the end of the fourth quarter of 2018, the retail market established a new and improved credit process, established an advice team in Oslo and started work on developing advice services.

Increased optimism in the business sector in Southern and Western Norway and lower unemployment have not resulted in noticeable changes in the housing market. Lending growth in the last 12 months, measured at the end of 2018, was 3.6%, while deposit growth in the last 12 months was 2.9%. Competition for residential mortgage customers is increasing in the retail market. The proportion of non-performing commitments over 30 days was 0.37% of total loans at end of 2018 (0.39%). No impairments on loans and financial commitments were recognised in 2018, compared with NOK 63 million in impairments on loans and financial commitments in 2017.

The quality of the retail market portfolio is considered to be very good with a low risk of losses. The proportion of loan exposure (including the portfolios in SpareBank 1 Boligkreditt AS and SR-Boligkreditt AS) within a loan-to-value ratio of 85% amounted to 89.1% at the end of 2018 (89.0%). The IRB risk weighting[3] for residential mortgages was 21.7% at the end of 2018 (21.6%), which reflected a solid, stable portfolio.

Corporate market division [4]

The corporate market division's contribution before impairments was NOK 1,748 million in 2018 (NOK 1,558 million), NOK 190 million higher than in 2017. The higher result is primarily due to increased interest income and other operating income.

Table 6, Corporate market

	31.12.18	31.12.17
Interest income	1.619	1.475
Commission and other income	343	316
Income on investment securities	26	6
Total income	1.988	1.796
Total operating expenses	240	238
Operating profit before impairments	1.748	1.558
Impairments on loans and financial commitments	324	480
Pre-tax profit	1.424	1.078

The division's lending growth in the last 12 months was 16.4% and the majority of this growth occurred outside Rogaland. The division's deposits increased by 5.6% in the last 12 months.

The quality of the corporate market portfolio is considered to be good. The proportion of commitments with a probability of default of less than 2.5% through a full loss cycle was 76.2% of the portfolio at the end of 2018 (72.4%). The property sector portfolio represents the group's largest concentration in a single sector and accounted for 15.9% (14.7%) of total loan exposure, inclusive of retail customers. A large portion of this portfolio consisted of financing commercial properties for leasing. The portfolio is characterised by long-term leases and financially solid tenants.

Impairments on loans and financial commitments amounting to NOK 324 million were recognised in 2018, compared with NOK 480 million in impairments om loans in 2017. The division's pre-tax profit was NOK 1,424 million, NOK 346 million higher than in 2017.

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[2]The interest on intercompany receivables for the retail market division and the corporate market division is determined on the basis of expected observable market interest rates (NIBOR) plus expected additional costs in connection with the group's long-term funding (credit premium). Differences between the group's actual funding costs and the applied interest on intercompany receivables are eliminated at the group level.

[3] The IRB rules define residential mortgage loans as commitments secured by collateral in residential/real property where the collateral in the real property amounts to at least 30%. The figures include portfolios in mortgage companies (SpareBank 1 Boligkreditt AS and SR-Boligkreditt AS).

The division prioritises closely monitoring risk in the portfolio. At the same time, it is important to ensure good, relevant customer services in relevant channels in order to maintain good customer relationships and customer growth. New digital purchasing solutions are being developed, which will ensure efficiency for both customers and the group.

The build-up of the Oslo branch is proceeding according to plan. Having a presence in this market is important with respect to geographical diversification and creating a greater basis for growth, and thus increased earnings. Together with correct risk pricing for loans and cost control, this will ensure competitiveness going forward.

Capital market division [4]

Securities activities are organised under the SR-Bank Markets brand and include customer and own account trading in fixed income instruments, foreign exchange and corporate finance services.

Table 7, Capital market

	31.12.18	31.12.17
Interest income	34	38
Commission and other income	77	83
Income on investment securities	107	80
Total income	218	201
- allocated to Corporate market	71	63
Total income after allocation	147	138
Total operating expenses	62	75
Pre-tax profit	85	63

SR-Bank Markets's pre-tax profit was NOK 85 million in 2018, NOK 22 million higher than in 2017. The income generated is recognised as income in the business areas to which the customers are assigned, primarily the corporate market division. NOK 71 million was recognised as income in the business areas in 2018, an increase of NOK 8 million compared with the previous year.

Prior to the allocation of customer income to other business areas, SR-Bank Markets had achieved operating income of NOK 218 million in 2018. This was an increase of NOK 17 million from 2017 and was primarily due to more activity within currency and interest trading. Income from sales of equities and bonds ceased in the fourth quarter of 2017 due to the equities desk being sold to SpareBank 1 Markets. Corporate Finance completed a number of projects in 2018, but posted a slightly weaker result than in 2017.

[4] The capital market division serves customers throughout the group and customer income is now recognised, in its entirety, in the business area to which the customer belongs.

Subsidiaries

EiendomsMegler 1 SR-Eiendom AS

The company's pre-tax profit amounted to NOK 10.8 million in 2018 (NOK 26.7 million). The reduction in the result was mainly due to somewhat weaker sales than expected within the new build market and commercial property. Write-down costs of NOK 6.4 million have also been recognised in connection with the termination of a contract for the delivery of a new IT system for estate agency services. The company expects the result to improve in 2019.

In 2018, 6,487 (6,565) properties were sold with a total value of around NOK 20.6 billion (NOK 20.6 billion). The supply of new assignments was good and rising, and higher than in the previous year.

The company has a strong position in Rogaland, with a market share of approximately 35% within sales of residential properties. The ambition is to strengthen this position further through growth in established markets. In order to facilitate this, the company has maintained its sales force in recent years despite a difficult housing market.

The business in the Agder counties faces challenges due to strong competition and other actors increasing their presence in these counties. Despite this, the company has increased its market share in the area, especially in Kristiansand. The aim is to strengthen this position further and be one of the two largest actors in the Agder counties.

Solid operations have now been established in Hordaland with offices in the centre of Bergen, Fana, Åsane, Sotra, Askøy and Stord. The company is aiming for substantial growth in Hordaland in the coming years.

Overall, the company is the largest actor in estate agency services in these four counties, with a market share of just under 20% in the company's market area.

Sales of new housing projects fell in 2018. 800 planned residential units were sold, which is fewer than in 2017. However, orders on hand and the supply of new projects for sale are good and sales are expected to improve significantly in 2019.

There was a good supply of commercial property for both lease and sale in the company's total market area for commercial property. The vacancy rate for office premises in the Stavanger region is falling and rental prices have risen slightly. The level of activity in the lease market especially is good and steadily more tenants are looking for premises suitable for the anticipated level of activity going forward. The levels of activity in Bergen are still good within both the sale and leasing of commercial properties and the company has maintained its position as a leading player in commercial estate agency in the Bergen region.

SpareBank 1 Regnskapshuset SR AS

SpareBank 1 Regnskapshuset SR AS achieved a pre-tax profit of NOK 4.2 million in 2018 (NOK 3.5 million). The result includes the depreciation of intangible assets amounting to NOK 1.9 million (NOK 1.9 million).

The company was established in 2015 and has since its start-up grown from NOK 0 to almost NOK 107 million in annual turnover. At year end 2018, the company had seven offices, four in Rogaland and three in Bergen, and around 1,800 customers.

Regnskapshuset has gained a solid market position in Rogaland and Hordaland and is experiencing a good influx of new customers who want modern, efficient accounting services. Business areas within advice and payroll/HR are also growing and the company is experiencing good demand for these types of services. At the same time, the company expends a lot of resources on development activities, both on streamlining work processes and customer-related services.

SR-Forvaltning AS

The company achieved a turnover of NOK 100.0 million in 2018 (NOK 97.9 million) and a pre-tax profit of NOK 34.7 million (NOK 33.5 million). It experienced good customer growth in discretionary mandates throughout the year, but somewhat lower growth in securities funds. The assets under management at year end 2018 amounted to NOK 11.4 billion (NOK 11.0 billion).

SR-Forvaltning AS is currently expanding operations by establishing more new securities funds. The company manages eight securities funds, of which three are unit trusts, two bond funds and three balanced funds. The company also manages discretionary portfolios for SpareBank 1 SR-Bank ASA's pension fund, as well as for external customers based on discretionary mandates. The external customer base comprises pension funds, public and private enterprises, and affluent individuals. Since its start-up in 1999, the company has produced a good, long-term, risk-adjusted return for its customers, in both absolute and relative terms.

SR-Forvaltning AS's investment philosophy is long-term and value-oriented. The company primarily invests in companies with a low share price in relation to book value and earnings, and which pay solid dividends.

SR-Boligkreditt AS

The company achieved a pre-tax profit of NOK 374.5 million in 2018 (NOK 272.8 million). The improved result was due to both net interest income, which increased by NOK 99.3 million compared with 2017, as well as a NOK 13.5 million improvement in the result for financial instruments. Net interest income primarily increased due to the increase in residential mortgages bought from SpareBank 1 SR-Bank ASA and the increase must therefore be viewed in the context of the development of net interest income in the retail market division in the parent bank. The increase in net income from financial investments by NOK 13.5 million was due to a NOK 36.7 million reduction in the negative effects of basis swaps and a NOK 23.2 million decrease in the value of other securities.

The company was established in 2015 and its purpose is to purchase residential mortgages from SpareBank 1 SR-Bank ASA and it funds this by issuing covered bonds. SR-Boligkreditt AS enables the parent bank to diversify and optimise its funding. Moody's has given SR-Boligkreditt AS its best rating, Aaa.

At year end 2018, the company had issued covered bonds with a nominal value of NOK 55.8 billion and bought loans worth NOK 58.8 billion from SpareBank 1 SR-Bank ASA.

FinStart Nordic AS

The company achieved a pre-tax profit of NOK 59.5 million in 2018 (NOK 6.5 million). The improvement in the result was due to the positive increase in value of the securities in the portfolio.

The company changed its name from SR-Investering AS to FinStart Nordic AS in September 2017 as part of the company's changed strategy. The company commenced operations in January 2018. The company is the group's innovative unit and has been established as an external arena for innovation and development. The company wants to invest in and/or establish companies that will engage in development and innovation work. This will help to the bank to grow in a market where the bank's activities are increasingly subject to competition from new actors, including as a result of changes to the framework conditions.

Associated companies

SpareBank 1 Alliance

The SpareBank 1 Alliance is Norway's second largest financial group and is a banking and product partnership in which the SpareBank 1 banks in Norway cooperate in order to keep them strong and independent. The purpose of the alliance is to procure and provide competitive financial services and products, and to exploit economies of scale in the form of lower costs and/or higher quality. The alliance is run through its ownership and participation in SpareBank 1 Banksamarbeidet, while the development and operation of product companies is organised through the banks' ownership of the holding company SpareBank 1 Gruppen AS.

SpareBank 1 Gruppen AS

SpareBank 1 Gruppen AS owns 100% of the shares in SpareBank 1 Forsikring AS, SpareBank 1 Skadeforsikring AS, ODIN Forvaltning AS, LO Favør AS, SpareBank 1 Factoring AS, Conecto AS, SpareBank 1 Portefølje AS and SpareBank 1 Spleis AS. SpareBank 1 SR-Bank ASA owned a 19.5% stake in SpareBank 1 Gruppen AS at the end of 2018.

SpareBank 1 Gruppen AS achieved a pre-tax profit of NOK 1,345 million in 2018 (NOK 2,210 million). The reduction in profit was mainly due to lower financial income and a weaker insurance result in the P&C insurance company due to a harsh winter with many claims. The life insurance company's result was slightly lower than last year due to lower financial income and an increase in insurance provisions. The net profit for 2018 amounted to NOK 1,480 million (NOK 1,811 million) due to a positive tax cost in 2018 resulting from changes to the tax rules for life and P&C insurance companies. The changes to the rules were approved in December 2018, with effect from 2018, and resulted in SpareBank 1 Gruppen AS reversing approximately NOK 330 million in deferred tax in the group.

On 24 September 2018, SpareBank 1 Gruppen AS and DNB ASA concluded an agreement to merge their insurance companies and will with this create one of the largest insurance companies in the country. The merger between SpareBank 1 Skadeforsikring AS and DNB Forsikring was approved by the Financial Supervisory Authority of Norway on 21 December 2018 and was effective from 1 January 2019. The merged company was named Fremtind Forsikring AS and will offer an almost complete product portfolio within risk insurance to the retail and SME markets.

As part of this transaction, the plan is to spin off the individual personal risk insurance cover from SpareBank 1 Forsikring AS (the life insurance company) and DNB Livsforsikring AS, as well as the personal risk insurance cover paid for by companies from SpareBank 1 Forsikring AS, to the merged company. This part of the transaction is scheduled for completion in the first quarter of 2019.

The merger agreement assumes a conversion ratio of around 80% for SpareBank 1 Gruppen AS and 20% for DNB ASA. This conversion ratio is based on the negotiated market value of the two P&C insurance companies, inclusive of the value of the transferred personal risk products in the planned merger. SpareBank 1 Gruppen AS will own 65% and DNB ASA will own 35% of the new company. DNB ASA has also secured an option to purchase up to a 40% stake. The company will remain a subsidiary of SpareBank 1 Gruppen AS.

The transaction values the new P&C insurance company at NOK 19.75 billion, inclusive of the value of personal risk products. Exclusive of the personal risk products, Fremtind Forsikring AS has been valued at NOK 13.5 billion, which is also the value originally assumed in the transaction.

Based on the figures as at 31 December 2017 and the pro forma consolidated financial statements, the merger and abovementioned transactions will in total result in increased equity for SpareBank 1 Gruppen AS as a group of about NOK 4.7 billion. The majority interest's (the SpareBank 1 banks and the Norwegian Federation of Trade Unions) share of this increase will be NOK 2.5 billion. SpareBank 1 SR-Bank ASA's share of this increase (19.5%) will amount to around NOK 488 million and will be recognised in the income statement or directly against equity in the consolidated financial statements in the first quarter of 2019. However, this will result in an almost unchanged common equity tier 1 capital ratio in the group. This is due to the fact that the higher book value of the stake in SpareBank 1 Gruppen AS will increase the deduction in common equity tier 1 capital and increase the risk-weighted basis for calculation. Overall, this will almost neutralise the effect of the higher book value.

SpareBank 1 Gruppen AS (the parent company) will, before taking account of the effect of any transfer of personal risk products, see a tax-free gain of around NOK 1.7 billion due to the selldown to DNB ASA. SpareBank 1 Gruppen AS's basis for dividends will increase proportionately with this gain. SpareBank 1 SR-Bank's share of any dividend on NOK 1.7 billion (19.5%) amounts to NOK 334 million. The dividend will reduce the book value of the group's investment in SpareBank 1 Gruppen AS and thereby also reduce the deduction in common equity tier 1 capital in the capital adequacy calculation (as described in the previous paragraph). The group's capital adequacy will thus increase. Based on the group's accounting figures as at 30 September 2018, this will increase the common equity tier 1 capital ratio by an estimated 0.3 percentage points. Any dividend from SpareBank 1 Gruppen AS's will be contingent on the capital situation and decisions in the company's governing bodies and cannot be implemented before the second quarter of 2019 at the earliest.

The new company, Fremtind Forsikring AS, will from 1 January 2019 be the third largest insurance company in the country and the largest that distributes its products via banks. The company will continue SpareBank 1's agreement to deliver products to the Norwegian Federation of Trade Unions' 930,000 members via the LOfavør brand. The SpareBank 1 banks will also distribute insurance products under the SpareBank 1 brand, while DNB ASA will distribute insurance products under the DNB ASA brand. Both DNB ASA and the SpareBank 1 Alliance intend to strengthen the distribution of insurance through banks. The new company will be better able to develop innovative, customer-friendly solutions and launch new products for customers onto the market even faster.

SpareBank 1 Banksamarbeidet DA

SpareBank 1 Banksamarbeidet DA is responsible for the SpareBank 1 Alliance's collaboration processes and delivery of services. The company develops and delivers, among other things, common IT/mobile solutions, brands and marketing concepts, business concepts, products and services, expertise, analyses, processes, best practice solutions and purchases. SpareBank 1 SR-Bank ASA owned a 18.0% stake in SpareBank 1 Banksamarbeidet DA at the end of the fourth quarter of 2018.

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are licensed mortgage companies that issue covered bonds secured by residential mortgage or commercial real estate portfolios sold by the owner banks. The companies are owned by the savings banks that make up the SpareBank 1 Alliance and help ensure the owner banks have access to stable, long-term funding at competitive rates.

SpareBank 1 Boligkreditt AS achieved a pre-tax result of NOK 7 million in 2018 (NOK -239 million). The improvement in the result was primarily due to the negative effects of basis swaps in 2017 amounting to NOK -389 million. On 1 January 2018, the company changed its accounting policies for recognising the effects of basis swaps due to the implementation of IFRS 9. The effects of basis swaps are now recognised through other comprehensive income in SpareBank 1 Boligkreditt AS and thereby do not affect the company's profit or the group's share of the profit. At year end 2018, the company's total lending volume amounted to NOK 184.1 billion (NOK 177.7 billion), NOK 8.9 billion (NOK 14.1 billion) of which were residential mortgages bought from SpareBank 1 SR-Bank ASA. The bank owned 4.8% of the company at the end of 2018. The stake was updated at year end 2018 in line with the proportion of sold volume at the same point in time.

SpareBank 1 Næringskreditt AS achieved a pre-tax profit of NOK 62 million in 2018 (NOK 79 million). At year end 2018, the company's total lending volume amounted to NOK 11.1 billion (NOK 9.9 billion), NOK 0.4 billion (NOK 0.5 billion) of which were loans bought from SpareBank 1 SR-Bank ASA. The bank owned 14.4% of the company at the end of 2018.

BN Bank ASA

BN Bank is a nationwide bank with its head office in Trondheim. The bank is owned by the banks in the SpareBank 1 Alliance. SpareBank 1 SR-Bank ASA owns a 23.5% stake. BN Bank ASA achieved a pre-tax profit of NOK 395 million in 2018 (NOK 395 million). Increased interest income was offset by lower returns on financial instruments, as well as a reduction in other operating income, and resulted in a pre-tax profit that was unchanged from 2017.

SpareBank 1 Kredittkort AS

SpareBank 1 Kredittkort AS is owned by the SpareBank 1 banks. SpareBank 1 SR-Bank ASA owns a stake of 17.9%. The company provides credit card solutions for the SpareBank 1 banks and achieved a pre-tax profit of NOK 176 million in 2018 (NOK 112 million). The improved result was due to a combination of higher interest income, net transaction income and commissions, all of which saw good increases in 2018 compared with 2017.

SpareBank 1 Betaling AS

The SpareBank 1 banks jointly own SpareBank 1 Betaling AS. SpareBank 1 SR-Bank ASA's stake is 19.8%. SpareBank 1 Betaling holds a 22.04% stake in VBB AS, which is the company formed by the merger of Vipps AS, BankID AS and Bank Axept AS in autumn 2018.

SpareBank 1 Betaling AS achieved a pre-tax result of NOK -56 million in 2018. The negative profit share was due to its share of the operating loss in VBB AS.

Funding and liquidity

SpareBank 1 SR-Bank had very good liquidity at year end 2018 and believes it will continue to have good access to long-term funding at competitive prices. The group strives to achieve an even maturity structure for funding and believes it is important to have good relations with Norwegian and international investors and banks. The liquidity buffer[5] was NOK 30.4 billion at year end 2018 and would cover normal operations for 20 months in the event of closed markets. NOK 11.6 billion of the bank's external funding will fall due in the next 12 months. In addition to the liquidity buffer, the bank has NOK 24.4 billion in residential mortgages ready for covered bond funding.

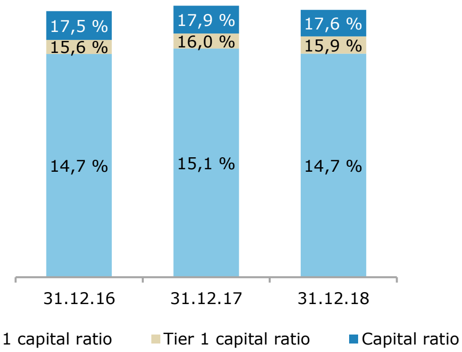
The group has continued to enjoy a high proportion of long-term funding in the last 12 months. The group's net stable funding ratio[6] (NSFR) was 121% at the end of 2018 (119%), and confirms the group's good funding situation.

The bank’s ratings at Moody’s and Fitch Ratings are A1 (outlook negative) and A- (outlook stable), respectively.

Capital adequacy

At year end 2018, the common equity tier 1 capital ratio was 14.7% (15.1%).

Fig. 4 Capital adequacy



All capital ratio figures are based on the transitional rule (Basel I-floor) that states that the capital requirement for using internal methods cannot be less than 80 per cent of the capital requirement according to the Basel I regulations. In 2019, the Basel I-floor is expected to be removed and a discount for small and medium-sized loans will be introduced. Calculated positive effect for CET 1 is 1.3%.

A countercyclical capital buffer requirement applies in Norway in the range of 0-2.5 percentage points in the form of common equity tier 1 capital. The purpose of the countercyclical capital buffer is to make the banks more solid and robust in relation to lending losses. The capital buffer requirement amounted to 2.0 percentage points at the end of 2018. On 13 December 2018, the Ministry of Finance decided to increase the capital buffer requirement for banks to 2.5 percentage points from 31 December 2019.

The Pillar 2 premium is an institution-specific premium intended to ensure that Norwegian banks have adequate capital to cover the risk associated with operations, including risks not covered by the regulatory minimum requirement. In its latest assessment in 2018, the Financial Supervisory Authority of Norway set an individual Pillar 2 premium of 1.7 percentage points, down from the 2.0 percentage points set in 2016. The new Pillar 2 premium will apply from 31 March 2019.

The total common equity tier 1 capital ratio requirement for SpareBank 1 SR-Bank ASA at the end of 2018 was 14.0%, inclusive of the countercyclical buffer and Pillar 2 premium, and will drop to 13.7% at the end of the first quarter of 2019. This requirement is met by a good margin. Banks classified as systemically important financial institutions are also

[5] Liquidity buffer: cash, short-term investments, and drawing rights in Norges Bank (bonds including covered bonds). Assuming deposits and lending remain unchanged and no new borrowing during the period.

[6]NSFR is calculated in accordance with guidelines from the Financial Supervisory Authority of Norway and is calculated as available stable funding relative to necessary stable funding.

subject to a special capital buffer requirement. SpareBank 1 SR-bank ASA was not defined as a systemically important financial institution at year end 2018, although in November 2018 the Financial Supervisory Authority of Norway recommended to the Ministry of Finance that institutions with a lending proportion of more than 10% to the corporate market in one or more defined regions should be regarded as systemically important. SpareBank 1 SR-Bank ASA is covered by this proposal.

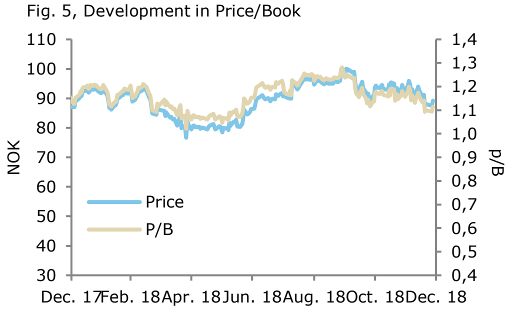
SpareBank 1 SR-Bank ASA's long-term goal at the end of 2018 is to achieve a common equity tier 1 capital ratio of 15.0%, which includes a management buffer of 1 percentage point. The board has approved a new common equity tier 1 capital ratio target of 14.6%, effective from 31 March 2019. The new target takes into account the lower Pillar 2 premium, as well as the management buffer of 0.9 percentage points. The target will be maintained through good profitability, balanced growth and competitive dividends.

The tier 1 capital ratio was 15.9% (16.0%), while the total capital ratio was 17.6% (17.9%) at the end of the fourth quarter of 2018. This is higher than the required capital adequacy of 17.5%.

The bank's share

The bank's share price (SRBANK) was NOK 89.20 at year end 2018. This represents an increase of 2.5% since year end 2017. The main Oslo Stock Exchange index fell by 1.8% in the same period. 8.4% of outstanding SRBANK shares were traded in the fourth quarter of 2018 (4.7%).

Fig. 5, Development in Price/Book



There were 10,804 shareholders of SRBANK at year end 2018 (10,834). The proportion owned by foreign companies and individuals was 26.6% (23.5%), while 43.5% (44.7%) were resident in Rogaland, the Agder counties and Hordaland. The 20 largest shareholders owned a combined total of 58.1% (56.6%) of the shares. The bank held 85,206 treasury shares, while group employees owned 1.5% (1.6%).

There were 10,804 shareholders of SRBANK at year end 2018 (10,834). The proportion owned by foreign companies and individuals was 26.6% (23.5%), while 43.5% (44.7%) were resident in Rogaland, the Agder counties and Hordaland. The 20 largest shareholders owned a combined total of 58.1% (56.6%) of the shares. The bank held 85,206 treasury shares, while group employees owned 1.5% (1.6%).

The table below shows the 20 largest shareholders as at 31 December 2018:

Table 8, 20 largest shareholders	Number of shares (1,000)	%
Sparebankstiftelsen SR-Bank	72.419	28,3 %
Folketrygdfondet	18.931	7,4 %
State Street Bank and Trust Co, U.S.A.	10.346	4,0 %
SpareBank 1-stiftinga Kvinnherad	6.227	2,4 %
Vpf Nordea Norge Verdi	4.633	1,8 %
Danske Invest Norske Instit. II	3.696	1,4 %
State Street Bank and Trust Co, U.S.A.	3.508	1,4 %
Odin Norge	3.406	1,3 %
JPMorgan Chase Bank N.A., U.S.A.	2.870	1,1 %
Clipper AS	2.565	1,0 %
Verdipapirfondet DNB Norge (IV)	2.485	1,0 %
Pareto Aksje Norge	2.428	0,9 %
JP Morgan Securities plc, U.K.	2.407	0,9 %
Morgan Stanley & Co, U.K.	2.035	0,8 %
Danske Invest Norske Aksjer Inst.	1.989	0,8 %
State Street Bank and Trust Co, U.S.A.	1.871	0,7 %
Verdipapirfondet Alfred Berg Gambak	1.867	0,7 %
Westco AS	1.702	0,7 %
KLP Aksjenorge Indeks	1.696	0,7 %
KAS Bank NV, Nederland	1.624	0,6 %
Total 20 largest	148.708	58,1 %

Accounting policies

Please refer to note 1 for a description of the accounting policies applied in the parent company's and consolidated financial statements. The group applies the same accounting policies in interim financial statements that it uses in annual financial statements, but has from 1 January 2018 replaced IAS 39 with IFRS 9 Financial Instruments. For more information see note 1.

Events after the balance sheet date

No material events have been registered after 31 December 2018 that affect the interim financial statements as prepared.

Outlook

The global economy is still expected to develop positively with an annual growth rate of 3.4% according to IMF. An expansive US fiscal policy will have a positive impact on the global economy, while a trade war between the US and other countries could result in lower exports and investments. Positive growth is still expected in the eurozone, although some uncertainty exists surrounding the Brexit negotiations and their possible outcome.

The upturn in the Norwegian economy is expected to continue in 2019. Continued high consumer consumption rates, increasing business investments and export growth are expected to improve growth in the mainland economy by 2.7% in 2019 according to the last forecast from SSB. The Norwegian Petroleum Directorate expects oil investments on the Norwegian Continental Shelf to grow by 10% in 2019, up from 2% in 2018. The growth in the Norwegian economy is expected to generate new jobs and falling unemployment. Wages growth is expected to be moderate, although industries that see especially high growth must expect increasing wages growth in the next few years. Inflation was low for large parts of 2018, but climbed towards 2% at the end of the year. Norges Bank raised its key rate by 0.25 percentage points in November 2018 and two new rate hikes are expected in 2019. The housing market is expected to be flat with stable prices and a moderate increase in the number of new housing projects starting up.

The group's long-term return on equity target is a minimum of 12%. The target for the return on equity in 2019 is 11.5%. A number of factors will contribute to the group achieving this goal, including profitable lending growth, moderate impairments on loans and financial commitments, growth in other operating income and greater cost-effectiveness through the automation of processes.

The group has a common equity tier 1 capital ratio target of 15.0% as at 31 December 2018 and 14.6% from 31 March 2019. SpareBank 1 SR-Bank ASA is a solid, profitable group and has in recent years increased its financial strength in line with the authorities' requirements. This was achieved through earnings via a business model involving good breadth in earnings and efficient operations. SpareBank 1 SR-Bank ASA is well-positioned to meet new regulatory changes, including Basel 4, which is expected to have a moderate impact as far as the group is concerned.
SpareBank 1 SR-Bank ASA's dividend policy is unchanged, with an expected dividend of around 50% of the profit for the year.

The group changed its organisation in 2018 and established, among other things, two separate business areas; one business area for marketing and customer services and one business area for strategy, innovation and development. This will boost the work on innovation and development in the group going forward and make sure more attention is paid to it. It will also help the group become one of the best in developing new products and services. Customers will notice this in the form of an even better customer experience, better accessibility and improved service. As part of the development of new technology, the group has established FinStart Nordic AS, a wholly owned subsidiary. FinStart Nordic AS will invest in companies that carry out development and innovation work and help to give the bank a competitive advantage. The group wants to strengthen its focus on customers in the central Eastern Norway region and at the end of the first quarter of 2018 it established its own branch in Oslo, which will serve key corporate and retail customers. Having a presence in this market is important with respect to geographical diversification and creating a greater basis for growth, and thus increased earnings. Together with correct risk pricing for loans and good cost control, this will ensure competitiveness going forward.

Stavanger, 7 February 2019
The Board of Directors of SpareBank 1 SR-Bank ASA

Income Statement

Parent bank					Note	Group			
Q4 2017	Q4 2018	01.01.17 - 31.12.17	01.01.18 - 31.12.18	**Income statement (MNOK)**		01.01.18 - 31.12.18	01.01.17 - 31.12.17	Q4 2018	Q4 2017
1.038	871	4.144	3.151	Interest income amortised cost		5.639	5.032	1.530	1.290
174	467	719	1.964	Interest income other		635	715	160	173
544	578	2.129	2.174	Interest expenses amortised cost		2.593	2.439	709	632
-27	-8	-34	5	Interest expenses other		242	146	55	12
695	**768**	2.768	**2.936**	**Net interest income**		**3.439**	3.162	**926**	819
268	236	1.069	1.002	Commission income		1.519	1.597	370	384
18	19	76	84	Commission expenses		87	79	20	19
3	2	8	8	Other operating income		5	6	0	2
253	**219**	1.001	**926**	**Net commission and other income**		**1.437**	1.524	**350**	367
0	0	9	11	Dividend income		12	11	0	0
19	0	500	619	Income from investment in associates		366	425	113	154
40	-33	238	147	Net gains/losses on financial instruments	12	191	198	-45	50
59	**-33**	747	**777**	**Net income on financial investments**		**569**	634	**68**	204
1.007	**954**	4.516	**4.639**	**Total income**		**5.445**	5.320	**1.344**	1.390
253	243	952	968	Personnel expenses	13	1.297	1.263	330	333
117	125	428	468	Administrative expenses		518	478	137	128
85	75	296	284	Other operating costs		414	426	109	109
455	**443**	1.676	**1.720**	**Total operating costs**		**2.229**	2.167	**576**	570
552	**511**	2.840	**2.919**	**Operating profit before impairments**		**3.216**	3.153	**768**	820
120	91	542	322	Impairments on loans and financial commitments	2 and 3	324	543	92	120
432	**420**	2.298	**2.597**	**Pre-tax profit**	11	**2.892**	2.610	**676**	700
111	109	439	479	Tax expense		596	524	149	141
321	**311**	1.859	**2.118**	**Profit after tax**		**2.296**	2.086	**527**	559
319	310	1.857	2.113	Shareholders' share of the profit		2.291	2.084	526	557
2	1	2	5	Hybrid capital owners' share of the profit		5	2	1	2
321	**311**	1.859	**2.118**	**Profit after tax**		**2.296**	2.086	**527**	559
				Other comprehensive income					
28	96	-12	231	Unrecognised actuarial gains and losses		240	-12	105	28
-7	-24	3	-58	Deferred tax concerning changed estimates/pension plan chang		-60	3	-26	-7
	0		-1	Change in value of ECL[1]) 12 months		0		0	
	0		0	Deferred tax concerning change in value of ECL 12 months		0		0	
	0		0	Basisswap spread		-26		-16	
21	**72**	-9	**172**	**Total items not reclassified through profit or loss**		**154**	-9	**63**	21
9	0	9	0	Change in value of financial assets available for sale		0	9	0	9
0	0	0	0	Share of profit associated companies and joint ventures		-5	8	-5	8
9	**0**	9	**0**	**Total items reclassified through profit or loss**		**-5**	17	**-5**	17
30	**72**	0	**172**	**Other comprehensive income**		**149**	8	**58**	38
351	**383**	1.859	**2.290**	**Total comprehensive income**		**2.445**	2.094	**585**	597
				Earnings per share (group)		**8,98**	8,16	**2,06**	2,18

Balance sheet

Parent bank				Group	
31.12.17	31.12.18	**Balance sheet (MNOK)**	Note	31.12.18	31.12.17
207	717	Cash and balances with central banks		717	207
1.607	5.069	Balances with credit institutions		1.696	1.608
130.579	132.338	Loans to customers	3, 7	190.878	171.237
32.203	27.815	Certificates and bonds		29.340	31.909
6.033	5.574	Financial derivatives	9	5.268	5.541
507	517	Shares, ownership stakes and other securities	16	868	717
2.363	2.099	Investment in associates		3.713	3.953
4.853	6.128	Investment in subsidiaries		0	0
724	634	Other assets	4	1.581	1.446
179.076	**180.891**	**Total assets**	11	**234.061**	216.618
4.538	3.201	Balances with credit institutions		1.433	2.335
95.635	99.119	Deposits from customers	6	98.814	95.384
51.307	48.113	Listed debt securities	10	103.485	90.497
5.013	6.234	Financial derivatives	9	3.889	3.787
1.770	1.671	Other liabilities	5	1.904	1.962
2.764	2.951	Subordinated loan capital	10	2.951	2.764
161.027	**161.289**	**Total liabilities**		**212.476**	196.729
6.394	6.394	Share capital		6.394	6.394
1.587	1.587	Premium reserve		1.587	1.587
1.087	1.151	Proposed dividend		1.151	1.087
43	60	Fund for unrealised gains		60	43
150	550	Hybrid capital		550	150
8.788	9.860	Other equity		11.843	10.628
18.049	**19.602**	**Total equity**		**21.585**	19.889
179.076	**180.891**	**Total liabilities and equity**	11	**234.061**	216.618

Statement of changes in equity

SpareBank 1 SR-Bank Group (Amounts in NOK million)	Share-capital	Premium reserve	Hybrid-capital	Other equity	Reserve for unrealised gains	Total equity
Equity as of 31.12.2016	6.394	1.587		10.255	52	18.288
Profit after tax				2.095	-9	2.086
Unrecognised actuarial gains and losses after tax				-9		-9
Change in value of financial assets available for sale				9		9
Share of profit associated companies and joint ventures				8		8
Total items not reclassified through profit or loss				2.103	-9	2.094
Hybridcapital			150			150
Interest on hybridcapital				-3		-3
Deferred tax concerning interest on hybridcapital				1		1
Adjusted equity accosiates				-58		-58
Dividend 2016, resolved in 2017				-575		-575
Purchase/sale of own shares				-8		-8
Items reclassified through profit or loss				-583		-583
Equity as of 31.12.2017	**6.394**	**1.587**	**150**	**11.715**	**43**	**19.889**
Changes in equity due to IFRS 9, 1.1.2018				-69		-69
Profit after tax				2.279	17	2.296
Unrecognised actuarial gains and losses after tax				180		180
Change in value of ECL[1] 12 months				0		0
Change in value of financial assets available for sale				0		0
Basisswap spread				-26		-26
Share of profit associated companies and joint ventures				-5		-5
Total items not reclassified through profit or loss				2.428	17	2.445
Hybridcapital			400			400
Interest on hybridcapital				-6		-6
Deferred tax concerning interest on hybridcapital				1		1
Adjusted equity accosiates				1		1
Dividend 2017, resolved in 2018				-1.087		-1.087
Purchase/sale of own shares				11		11
Items reclassified through profit or loss				-1.076		-1.076
Equity as of 31.12.2018	**6.394**	**1.587**	**550**	**12.994**	**60**	**21.585**

[1] ECL - Expected credit loss

Cash flow statement

Parent bank			Group	
01.01.17 - 31.12.17	01.01.18 - 31.12.18	**Cash flow statement**	01.01.18 - 31.12.18	01.01.17 - 31.12.17
-10.609	-1.651	Change in gross lending to customers	-19.602	-14.916
4.313	4.596	Interest receipts from lending to customers	5.774	5.199
9.451	3.484	Change in deposits from customers	3.430	9.470
-829	-997	Interest payments on deposits from customers	-993	-823
9.279	-4.717	Change in receivables and deby from credit institutions	-910	738
-593	-391	Interest on receivables and debt to financial institutions	-619	-776
-10.196	4.388	Change in certificates and bonds	2.569	-10.901
445	458	Interest receipts from commercial paper and bonds	450	446
1.016	912	Commission receipts	1.416	1.540
-25	-2	Capital gains from sale of trading	-2	-43
-1.550	-1.693	Payments for operations	-2.186	-2.039
-621	-393	Taxes paid	-487	-683
3.911	1.375	Other accruals	1.547	3.697
3.992	**5.369**	**A Net change in liquidity from operations**	**-9.613**	-9.091
-50	-84	Investments in tangible fixed assets	-296	-156
8	3	Receipts from sale of tangible fixed assets	3	8
-2.145	-1.288	Change in long-term investments in equities	-93	-158
919	348	Receipts from sales of long-term investments in equities	350	756
509	630	Dividends from long-term investments in equities	358	387
-759	**-391**	**B Net cash flow, investments**	**322**	837
5.382	7.824	Debt raised by issuance of securities	22.535	16.303
-10.256	-11.051	Repayments - issued securities	-11.051	-9.471
-519	-563	Interest payments on securities issued	-1.007	-737
930	700	Additional subordinated loan capital issued	700	930
-825	-500	Repayments - additional capital instruments	-500	-825
-103	-103	Interest payments on subordinated loans	-103	-102
150	400	Increase in debt established by issuing hybrid capital	400	150
-3	-6	Interest payments on debt established by issuing hybrid capita	-6	-3
-511	-1.087	Dividend to share holders	-1.087	-511
-5.755	**-4.386**	**C Net cash flow, financing**	**9.881**	5.734
-2.522	**592**	**A+B+C Net cash flow during the period**	**590**	-2.520
3.393	871	Cash and cash equivalents as at 1 January	873	3.393
871	1.463	Cash and cash equivalents as at 31 March	1.463	873
		Cash and cash equivalents specified		
207	717	Cash and balances with central banks	717	207
664	746	Balances with credit institutions	746	666
871	**1.463**	**Cash and cash equivalents**	**1.463**	873

The cash and cash equivalents includes cash and claims on central banks, plus the share of the total of claims on credit institutions that pertains to placement solely in credit institutions. The cash flow statement shows cash provided and used by the parent bank and the group.

Note 1 Accounting policies

1.1 Basis of preparation

These interim financial statements for SpareBank 1 SR-Bank ASA cover the period 1 January - 31 December 2018. The interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements are unaudited. These interim financial statements were prepared in accordance with the applicable IFRS standards and IFRIC interpretations.

The interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for 2017.

New standards and interpretations that have not been adopted yet

A number of new standards, amendments to standards and interpretations will be compulsory in future annual financial statements. Among those the group has chosen not to apply early are the most important standards, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. The group has analyzed the effects of IFRS 15 Revenue from Contracts and IFRS 16 Leases, and do not expect these to have any material effect.

There are no other standards or interpretations that have not been adopted yet, that are expected to have any material effects on the Groups financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments have replaced IAS 39, with effect from 1 January 2018. SpareBank 1 SR-Bank has, in cooperation with other SpareBank 1 banks, been working on models, as well as clarifications concerning valuation, classification, etc., for the last couple of years. The group has calculated impairment losses based on IFRS 9 regulations as of 1 January 2018. Otherwise, please see note 42, IFRS 9 Financial Instruments, in the 2017 annual financial statements, as well as note 3 and note 7 in the interim financial statements for the fourth quarter of 2018.

1.2 Critical accounting estimates and judgements

The preparation of the consolidated financial statements entails the group executive management making estimates, judgements and assumptions that affect the effect of the application of the accounting policies and thus the amounts recognised for assets, liabilities, income and costs. Note 3 of the annual financial statements for 2017 explains in more detail the use of critical estimates and judgements when applying the accounting policies.

Note 2 Impairments on loans and financial commitments recognised in the income statement

Parent bank			Group	
01.01.17 - 31.12.17	**01.01.18 - 31.12.18**		**01.01.18 - 31.12.18**	**01.01.17 - 31.12.17**
	0	Change in impairments on loans	0	
	-20	Change in impairments on financial commitments	-20	
493	456	Actual loan losses on commitments	456	493
8	-2	Change in accrued interest	-3	8
1	1	Change in assets taken over for the period	1	1
-16	-41	Recoveries on commitments previously written-off	-41	-16
56		Change in individual impairments provisions for the period		56
0		Change in collective impairments provisions for the period		1
542	**322**	**The period's net impairments / (reversals) on loans and financial commitments**	**324**	543

[1] FVOCI - Fair value other comprehensive income

Note 3 Impairments on loans and financial commitments recognised in the balance sheet

Parent Bank	IFRS 9 01.01.18 - 31.12.18			
Impairments on loans and financial commitments	**01.01.2018**	**Changes in impairments on loans**	**Changes in impairments on financial commitments**	**Total 31.12.2018**
Impairments after amortised cost, corporate market	1.236	-48	-20	1.168
Impairments after amortised cost, retail market	96	-2	0	94
Mortgages at FVOCI [1)]	82	-22	0	60
Total impairments on loans and financial commitments	1.414	-72	-20	**1.322**
Presented as				
Impairments on loans	1.287	-72	0	1.215
Financial commitments - impairments on guarantees, undrawn credit, loan commitments	127	0	-20	107
Total impairments on loans and financial commitments	1.414	-72	-20	**1.322**

Group				
Impairments on loans and financial commitments	**01.01.2018**	**Changes in impairments on loans**	**Changes in impairments on financial commitments**	**Total 31.12.2018**
Impairments after amortised cost, corporate market	1.236	-48	-20	1.168
Impairments after amortised cost, retail market	187	-21	0	166
Mortgages at FVOCI [1)]	0	0	0	0
Total impairments on loans and financial commitments	1.423	-69	-20	**1.334**
Presented as				
Impairments on loans	1.296	-69	0	1.227
Financial commitments - impairments on guarantees, undrawn credit, loan commitments	127	0	-20	107
Total impairments on loans and financial commitments	1.423	-69	-20	**1.334**

1) FVOCI - Fair value other comprehensive income

Note 3 Impairments on loans and financial commitments recognised in the balance sheet (continued)

Parent Bank

Total impairments recognised on loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance 01.01.2018	189	397	701	1.287
Changes 01.01 - 31.12.2018				
Transfer to (from) stage 1	-133	128	5	0
Transfer to (from) stage 2	10	-15	5	0
Transfer to (from) stage 3	0	5	-5	0
Net new measurement of impairments	118	-44	-25	49
New issued or purchased loan	86	45	4	135
Loans that have been derecognised	-45	-156	-22	-223
Changes due to modifications that have not resulted in derecognition	0	0	0	0
Actual loan losses on commitments	0	0	456	456
Actual loan losses on commitments for which provisions have been made	0	0	-397	-397
Changes to models/risk parameters	0	0	0	0
Other movements	0	0	-92	-92
Balance 31.12.2018	225	360	630	**1.215**

Total impairments recognised on financial commitments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance 01.01.2018	42	70	15	127
Changes 01.01 - 31.12.2018				
Transfer to (from) stage 1	-14	14	0	0
Transfer to (from) stage 2	1	-1	0	0
Transfer to (from) stage 3	0	0	0	0
Net new measurement of impairments	4	-10	0	-6
New issued or purchased loan	13	5	0	18
Loans that have been derecognised	-15	-21	0	-36
Changes due to modifications that have not resulted in derecognition	0	0	0	0
Actual loan losses on commitments	0	0	4	4
Actual loan losses on commitments for which provisions have been made	0	0	0	0
Changes to models/risk parameters	0	0	0	0
Other movements	0	0	0	0
Balance 31.12.2018	31	57	19	**107**

Note 3 Impairments on loans and financial commitments recognised in the balance sheet (continued)

Group

Total impairments recognised on loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance 01.01.2018	192	402	702	1.296
Changes 01.01 - 31.12.2018				
Transfer to (from) stage 1	-135	130	5	0
Transfer to (from) stage 2	10	-15	5	0
Transfer to (from) stage 3	0	5	-5	0
Net new measurement of impairments	119	-52	-25	42
New issued or purchased loan	89	48	4	141
Loans that have been derecognised	-46	-151	-22	-219
Changes due to modifications that have not resulted in derecognition	0	0	0	0
Actual loan losses on commitments	0	0	456	456
Actual loan losses on commitments for which provisions have been made	0	0	-397	-397
Changes to models/risk parameters	0	0	0	0
Other movements	0	0	-92	-92
Balance 31.12.2018	229	367	631	**1.227**

Group

Total impairments recognised on financial commitments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance 01.01.2018	42	70	15	127
Changes 01.01 - 31.12.2018				
Transfer to (from) stage 1	-14	14	0	0
Transfer to (from) stage 2	1	-1	0	0
Transfer to (from) stage 3	0	0	0	0
Net new measurement of impairments	4	-10	0	-6
New issued or purchased loan	13	5	0	18
Loans that have been derecognised	-15	-21	0	-36
Changes due to modifications that have not resulted in derecognition	0	0	0	0
Actual loan losses on commitments	0	0	4	4
Actual loan losses on commitments for which provisions have been made	0	0	0	0
Changes to models/risk parameters	0	0	0	0
Other movements	0	0	0	0
Balance 31.12.2018	31	57	19	**107**

Note 4 Other assets

Parent bank 31.12.17	Parent bank 31.12.18		Group 31.12.18	Group 31.12.17
0	0	Intangible assets	95	96
329	303	Tangible fixed assets	798	572
11	6	Income earned but not received from SpareBank 1 Bolig- and Næringskreditt	7	11
14	33	Prepaid expences	43	18
1	1	Over funding of pension liabilities	1	1
200	200	Capital contribution SR-Pensjonskasse	200	200
0	1	Unsettled trades	1	0
169	90	Other assets	436	548
724	**634**	**Total other assets**	**1.581**	1.446

Note 5 Other liabilities

Parent bank 31.12.17	Parent bank 31.12.18		Group 31.12.18	Group 31.12.17
260	163	Accrued expenses and prepaid revenue	246	337
417	146	Deferred tax	124	393
383	164	Pension liabilities	175	402
13	107	Impairments on financial commitments	107	13
393	779	Taxes payable	896	487
0	0	Unsettled trades	0	0
304	312	Other liabilities	356	330
1.770	**1.671**	**Total other liabilities**	**1.904**	1.962

Note 6 Customer deposits by sector and industry

Parent bank 31.12.17	Parent bank 31.12.18		Group 31.12.18	Group 31.12.17
464	485	Fishing/Fish farming	485	464
1.144	1.262	Industry	1.262	1.144
1.200	1.173	Agriculture/forestry	1.173	1.200
9.005	10.150	Service industry	9.845	8.754
2.262	2.427	Retail trade, hotels and restaurants	2.427	2.262
739	1.205	Energy, oil and gas	1.205	739
2.210	1.775	Building and construction	1.775	2.210
544	492	Power and water supply/	492	544
6.249	6.918	Real estate	6.918	6.249
1.989	2.203	Shipping and other transport	2.203	1.989
25.970	26.135	Public sector and financial services	26.135	25.970
51.776	**54.225**	**Total corporate sector**	**53.920**	51.525
44.246	**45.650**	**Retail customers**	**45.650**	44.246
12		Accrued interests corporate sector and retail customers [1)]		12
-399	-756	Net cooperate accounts currency	-756	-399
95.635	**99.119**	**Deposits from customers**	**98.814**	95.384

[1]) In 2017 interests were divided on separate lines. In 2018 interest are divided by sector

Note 7 Loans to customers by sector, industry and stages, and other financial commitments

Parent bank 31.12.17	Parent bank 31.12.18	Gross loans to customers by industry	Group 31.12.18	Group 31.12.17
860	1.704	Fishing/Fish farming	1.709	860
3.617	3.023	Industry	3.037	3.633
4.711	5.001	Agriculture/forestry	5.183	4.833
8.417	12.041	Service industry	12.142	8.593
2.895	3.159	Retail trade, hotels and restaurants	3.249	2.984
3.856	3.134	Energy, oil and gas	3.134	3.856
3.972	3.936	Building and construction	4.074	4.079
606	683	Power and water supply	683	606
27.034	31.699	Real estate	31.713	27.042
9.941	12.064	Shipping and other transport	12.162	9.849
1.869	1.896	Public sector and financial services	1.896	1.869
67.778	**78.340**	**Total corporate sector**	**78.982**	68.204
64.099	**55.959**	**Retail customers**	**113.879**	104.299
116		Unallocated (excess value fixed interest loans and amort. lending fees) [1]		116
297		Accrued interests corporate sector and retail customers [1]		334
-399	-756	Net cooperate accounts currency	-756	-399
131.891	**133.543**	**Gross loans**	**192.105**	172.554
	-1.215	- Impairments after amortised cost	-1.227	
	10	- Mortgages at FVOCI [2]	0	
-639		- Individual impairments provisions		-639
-674		- Collective impairments provisions		-678
130.578	**132.338**	**Loans to customers**	**190.878**	171.237

[1] In 2017 interests were divided on separate lines. In 2018 interest are divided by sector.

[2] FVOCI - Fair value other comprehensive income

Parent bank 31.12.17	Parent bank 31.12.18	**Financial commitments** [1]	Group 31.12.18	Group 31.12.17
9.043	9.566	Guarantees customers	9.627	9.120
18.978	18.166	Unused credit lines for customers	23.152	22.712
4.824	6.072	Approved loan commitments	6.072	4.749
32.845	**33.804**	**Total financial commitments**	**38.851**	36.581

[1] Financial commitments, not capitalized, basis for impairments

Parent bank 31.12.17	Parent bank 31.12.18	**Other guarantees issued and liabilities**	Group 31.12.18	Group 31.12.17
5.000	1.560	Unused credit lines for financial institutions	0	0
588	588	Guarantees other	588	588
45	20	Letters of credit	20	45
5.633	**2.168**	**Total other guarantees issued and liabilities**	**608**	633

Note 7 Loans to customers by sector, industry and stages, and other financial commitments (continued)

Loans to customers with incremental impairment by industry

Parent Bank	**Gross loans at amortised cost, 31 December 2018**	**Stage 1**	**Stage 2**	**Stage 3**	**Loans at fair value**	**Net loans 31.12.2018**
Fishing/Fish farming	1.672	-3	-1	0	32	1.700
Industry	2.946	-11	-27	-20	77	2.965
Agriculture/forestry	2.854	-2	-4	-5	2.147	4.990
Service industry	11.436	-59	-72	-56	605	11.854
Retail trade, hotels and restaurants	2.945	-13	-32	-15	214	3.099
Energy, oil and gas	3.134	-16	-34	-95	0	2.989
Building and construction	3.626	-8	-22	-8	310	3.898
Power and water supply	679	-1	-2	0	4	680
Real estate	31.428	-74	-95	-38	271	31.492
Shipping and other transport	11.921	-16	-47	-293	143	11.708
Public sector and financial services	1.896	0	0	0	0	1.896
Total corporate sector	74.537	-203	-336	-530	3.803	**77.271**
Retail customers	6.210	-22	-24	-100	49.749	**55.813**
Net cooperate accounts currency	-756	0	0	0	0	-756
Mortgages at FVOCI [2)]	10	0	0	0	0	10
Loans to customers	80.001	-225	-360	-630	53.552	**132.338**

Group	**Gross loans at amortised cost, 31 December 2018**	**Stage 1**	**Stage 2**	**Stage 3**	**Loans at fair value**	**Net loans 31.12.2018**
Fishing/Fish farming	1.704	-3	-1	0	5	1.705
Industry	3.035	-11	-27	-20	2	2.979
Agriculture/forestry	4.503	-2	-4	-5	680	5.172
Service industry	12.050	-59	-72	-56	92	11.955
Retail trade, hotels and restaurants	3.227	-13	-32	-16	22	3.188
Energy, oil and gas	3.134	-16	-34	-95	0	2.989
Building and construction	4.051	-8	-22	-8	23	4.036
Power and water supply	681	-1	-2	0	2	680
Real estate	31.546	-74	-95	-38	167	31.506
Shipping and other transport	12.144	-16	-47	-293	18	11.806
Public sector and financial services	1.896	0	0	0	0	1.896
Total corporate sector	77.971	-203	-336	-531	1.011	**77.912**
Retail customers	106.650	-26	-31	-100	7.229	**113.722**
Net cooperate accounts currency	-756	0	0	0	0	-756
Loans to customers	183.865	-229	-367	-631	8.240	**190.878**

Note 7 Loans to customers by sector, industry and stages, and other financial commitments (continued)

Parent Bank - Gross loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross loans 01.01.18 [1)]	115.659	14.240	1.992	131.891
Transfer to (from) stage 1	-5.480	4.612	868	0
Transfer to (from) stage 2	2.756	-3.890	1.134	0
Transfer to (from) stage 3	14	72	-86	0
Net increase/(decrease) balance existing loans	3.316	751	12	4.079
Originated or purchased during the period	42.182	1.324	33	43.539
Loans that have been derecognised	-39.264	-4.874	-1.828	-45.966
Gross loans 31.12.2018	119.183	12.235	2.125	**133.543**

Parent Bank - Gross financial commitments [2) 3)]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial commitments 01.01.2018 [1)]	27.771	4.980	94	32.845
Net increase/(decrease) during period	1.204	-952	707	959
Financial commitments 31.12.2018	28.975	4.028	801	**33.804**

Group - Gross loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross loans 01.01.18 [1)]	154.621	15.937	1.996	172.554
Transfer to (from) stage 1	-6.124	5.253	871	0
Transfer to (from) stage 2	3.371	-4.507	1.136	0
Transfer to (from) stage 3	15	72	-87	0
Net increase/(decrease) balance existing loans	1.573	790	13	2.376
Originated or purchased during the period	67.551	2.165	36	69.752
Loans that have been derecognised	-45.324	-5.421	-1.832	-52.577
Gross loans 31.12.2018	175.683	14.289	2.133	**192.105**

Group - Gross financial commitments [2) 3)]	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial commitments 01.01.2018 [1)]	31.358	5.128	95	36.581
Net increase/(decrease) during period	2.467	-904	707	2.270
Financial commitments 31.12.2018	33.825	4.224	802	**38.851**

[1)] Historical figures have been changed due to updated data source.

[2)] Other financial liabilities include guarantees, undrawn credit and loan commitments.

[3)] Financial liabilities provide the basis for impairment losses under IFRS 9.

Note 8 Capital adequacy

Capital adequacy is calculated and reported in accordance with the EU's capital requirements for banks and securities undertakings (CRD IV/CRR).

SpareBank 1 SR-Bank has permission from the Financial Supervisory Authority of Norway to use internal measurement methods (Internal Rating Based Approach) for quantifying credit risk. The use of IRB requires the bank to comply with extensive requirements relating to organisation, expertise, risk models and risk management systems.

All capital ratio figures are based on the transitional rule (Basel I floor) that states that the capital requirement for using internal methods cannot be less than 80 per cent of the capital requirement according to the Basel I regulations.

The total minimum common equity tier 1 capital ratio requirement for SpareBank 1 SR-Bank, inclusive of the countercyclical buffer and Pillar 2 premium, as at 31 December 2018 was 14.0%. The requirement consists of a 4.5% minimum requirement plus other buffer requirements, which consist of a capital conservation buffer of 2.5%, a systemic risk buffer of 3.0% and a countercyclical buffer of 2.0%. The Financial Supervisory Authority of Norway has also set an individual Pillar 2 requirement of 2.0%.

Investments in associated companies and joint ventures are recognised in the group using the equity method and in accordance with the cost method in the parent bank. The investments are treated identically for the purposes of determining the capital adequacy ratio except for the group's investments in SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, BN Bank and SpareBank 1 Kredittkort. A proportionate consolidation is carried out for the group's capital adequacy.

Parent bank			Group	
31.12.17	**31.12.18**		**31.12.18**	**31.12.17**
6.394	6.394	Share capital	6.394	6.394
1.587	1.587	Premium reserve	1.587	1.587
1.087	1.151	Allocated to dividend	1.151	1.087
43	60	Reserve for unrealised gains	60	43
150	550	Hybrid capital	550	150
8.788	9.860	Other equity	11.843	10.628
18.049	**19.602**	**Total book equity**	**21.585**	19.889
		Tier 1 capital		
0	0	Deferred taxes, goodwill and other intangible assets	-114	-116
-1.087	-1.151	Deduction for allocated dividends	-1.151	-1.087
-277	-242	Deduction for expected losses on IRB, net of write-downs	-334	-337
-150	-550	Hybrid capital that cannot be included in common equity tier 1 capital	-550	-150
0	0	Profit for the period that cannot be included in total Tier 1 capital	0	0
0	0	Deduction for common equity Tier 1 capital in essential investments in financial institutions	0	-72
	-147	Deduction for common equity Tier 1 capital in not essential investments in financial institutions	-129	
-42	-39	Value adjustment due to requirements concerning proper valuation	-39	-38
16.493	**17.473**	**Total Common equity Tier 1 capital**	**19.268**	18.089
150	550	Hybrid capital	677	392
797	798	Tier 1 capital instruments	798	797
17.440	**18.821**	**Total Tier 1 capital**	**20.743**	19.278
		Tier 2 capital		
1.897	2.097	Term subordinated loan capital	2.338	2.254
-43	-43	Deduction for essential investments in financial institutions	-43	-43
1.854	**2.054**	**Total Tier 2 capital**	**2.295**	2.211
19.294	**20.875**	**Net primary capital**	**23.038**	21.489

Note 3 Capital adequacy (continued)

Parent bank			Group	
31.12.17	**31.12.18**	**Credit risk Basel II**	**31.12.18**	**31.12.17**
19.218	23.695	SME	23.699	19.220
20.724	23.108	Specialised enterprises	24.477	21.916
6.735	7.956	Other corporations	8.023	6.868
1.115	1.092	Mass market SME	1.334	1.303
16.019	14.518	Mass market - mortgage on real estate	28.592	27.026
1.905	2.098	Other mass market	2.153	1.942
9.387	9.641	Equity positions	0	0
75.103	**82.108**	**Total credit and counterparty risk IRB**	**88.278**	78.275
51	28	States and central banks	35	51
118	19	Local and regional authorities, state-owned enterprises	93	140
1.803	2.050	Institutions	1.368	1.864
8.903	8.439	Enterprises	9.661	9.474
1.838	2.514	Mass market	3.264	2.531
0	0	Mass market - mortgage on real estate	1.226	1.353
2.330	1.992	Covered bonds	2.218	2.686
4.029	5.029	Equity positions	5.196	5.036
916	796	Other assets	1.789	1.678
19.988	**20.867**	**Total credit and counterparty risk standard method**	**24.850**	24.813
562	570	Credit value adjustment risk (CVA)	891	933
5.591	5.968	Operational risk	7.902	7.430
0	0	Transitional scheme	8.948	8.709
101.244	**109.513**	**Risk weighted balance**	**130.869**	120.160
4.556	4.928	Minimum requirement for common equtiy Tier 1 capital ratio 4,5 %	5.889	5.407
		Buffer requirement		
2.531	2.738	Capital conservation buffer 2,5 %	3.272	3.004
3.037	3.285	Systemic risk buffer 3 %	3.926	3.605
2.025	2.190	Countercyclical capital buffer 2,0 %	2.617	2.403
7.593	8.213	Total buffer requirement to common equity Tier 1 capital ratio	9.815	9.012
4.344	4.331	Available common equity Tier 1 capital ratio after buffer requirement	3.564	3.670
19,06 %	19,06 %	Capital ratio	17,60 %	17,88 %
17,23 %	17,19 %	Tier 1 capital ratio	15,85 %	16,04 %
1,83 %	1,88 %	Tier 2 capital ratio	1,75 %	1,84 %
16,29 %	15,96 %	Common equity Tier 1 capital ratio	14,72 %	15,05 %
19,06 %	19,06 %	Capital ratio, IRB	18,90 %	19,28 %
17,23 %	17,19 %	Tier 1 capital ratio, IRB	17,01 %	17,30 %
16,29 %	15,96 %	Common equity Tier 1 capital ratio, IRB	15,80 %	16,23 %
9,13 %	9,75 %	Leverage Ratio	7,68 %	7,37 %

Note 9 Financial derivatives

Group

At fair value through profit and loss	Contract amount 31.12.18	Fair value at 31.12.18 Assets	Liabilities
Currency instruments			
Currency forward contracts	7.000	194	101
Currency swaps	47.154	1.142	197
Currency basis swaps	31.135	730	175
Total currency instruments	**85.289**	**2.066**	**473**
Interest rate instruments			
Interest rate swaps	51.767	529	887
Other interest rate contracts	72	1	1
Total interest rate instruments	**51.839**	**530**	**888**
Hedging / Interest rate instruments			
Interest rate swaps (including cross currency)	78.374	1.829	138
Total hedging / Interest rate instruments	**78.374**	**1.829**	**138**
Security			
Security		843	2.390
Totalt security		**843**	**2.390**
Total currency and interest rate instruments			
Total currency instruments	85.289	2.066	473
Total interest rate instruments	130.213	2.359	1.026
		843	2.390
Total financial derivatives	**215.502**	**5.268**	**3.889**

Counterparty risk associated with derivatives is reduced via ISDA agreements and CSA supplements. The CSA supplement regulates the counterparty risk through payments of margins in relation to exposure limits.

Note 10 Securities issued and subordinated loan capital

Group

Change in debt raised through securities issued	Balance as at 31.12.18	Issued/ sale own 2018	Past due/ redeemed 2018	FX rate- and other changes 2018	31.12.17
Other long-term borrowing	2.420			84	2.336
Bonds and certificates, nominal value	99.062	22.535	-11.051	1.430	86.148
Adjustments and accrued interests	2.003			-10	2.013
Total debt raised through securities issued	**103.485**	22.535	-11.051	1.504	90.497

Change in additional Tier 1 and Tier 2 capital instruments	Balance as at 31.12.18	Issued/ sale own 2018	Past due/ redeemed 2018	FX rate- and other changes 2018	31.12.17
Term subordinated loan capital, nominal value	2.122	700	-500	5	1.917
Perpetual subordinated loan capital, nominal value	0				0
Tier 1 capital instruments, nominal value	800				800
Adjustments and accrued interests	29			-18	47
Total additional Tier 1 and Tier 2 capital instruments	**2.951**	700	-500	-13	2.764

The nominal value of the net outstanding covered bonds in SR-Boligkreditt is NOK 55.4 billion as of 31 December 2018.

Note 11 Segment reporting

The executive management team has assessed which segments are reportable based on the form of distribution, products and customers. The primary reporting format is based on the risk and returnprofile of the assets, and it is divided between the retail market (including self-employed people), the corporate market, the capital market and subsidiaries of significant importance. Staff/support covers all staff departments and treasury functions in the bank. The activities in SR-Boligkreditt AS are divided between the retail market and own account trading/staff/support in the parent bank segments. Commision income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are reported under 'Net commissions and other income'. On 1 January 2018, the units that work with customer services and market communications were moved out of the business areas and established as a single separate area. The business areas' historical figures have been changed to provide comparable figures.

	SpareBank 1 SR-Bank Group 01.01.18 - 31.12.18							
Income statement (MNOK)	**Retail Market**	**Corporate Market**	**Capital Market**	**Staff/ Support**	**Eiendoms-Megler 1**	**Other activities**	**Elimi-nations**	**Total**
Interest income	2.070	2.198	111	1.938	3	3	-49	6.274
Interest expense	467	579	77	1.763	0	7	-58	2.835
Net interest income [1)]	1.603	1.619	34	175	3	-4	9	**3.439**
Commission income [1)]	639	365	10	-13	382	207	-71	1.519
Commission expenses	45	22	4	47	0	37	-68	87
Other operating income	0	0	0	8	0	10	-13	5
Net commission and other income	594	343	6	-52	382	180	-16	**1.437**
Dividend income	0	0	0	11	0	0	1	12
Income from investment in associates	0	25	0	594	0	0	-253	366
Net gains/losses on financial instruments	6	1	107	-47	0	68	56	191
Net income on investment securities	6	26	107	558	0	68	-196	**569**
Personnel expenses	379	191	47	350	231	101	-2	1.297
Administrative expenses	73	16	12	368	40	10	-1	518
Other operating expenses	95	33	3	157	103	47	-24	414
Total operating expenses	547	240	62	875	374	158	-27	**2.229**
Operating profit before losses	1.656	1.748	85	-194	11	86	-176	**3.216**
Impairments on loans and financial commitments	0	324	0	0	0	0	0	324
Pre-tax profit	**1.656**	**1.424**	**85**	**-194**	**11**	**86**	**-176**	**2.892**
Net interest income [1)]								
External net interest income	1.603	1.619	34	175	0	0	8	3.439
Internal net interest income	0	0	0	0	3	-4	1	0
Net interest income	1.603	1.619	34	175	3	-4	9	3.439
				0				
Balance sheet (MNOK)				0				
Loans to customers	118.165	71.193	214	2.772	0	0	-239	192.105
Impairments on loans	-167	-1.060	0	0	0	0	0	-1.227
Certificates/bonds/financial derivatives	0	0	2.181	35.483	0	11	-3.067	34.608
Other assets	-1.831	1.814	913	16.069	155	1.465	-10.010	8.575
Total assets	**116.167**	**71.947**	**3.308**	**54.324**	**155**	**1.476**	**-13.316**	**234.061**
				0				
Deposits from customers	50.681	48.597	13	-172	0	0	-305	98.814
Other debt and equity [1)]	65.486	23.350	3.295	54.496	155	1.476	-13.011	135.247
Total debt and equity	**116.167**	**71.947**	**3.308**	**54.324**	**155**	**1.476**	**-13.316**	**234.061**
Loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	**8.877**	**417**						**9.294**

1) Other liabilities contains allocated arrangements between the segments. The interest on intercompany receivables for the retail market division and the corporate market division is determined on the basis of expected observable market interest rates (NIBOR) plus expected additional costs in connection with the group's long-term funding (credit premium). Deviations between the Group's actual funding costs and the applied interest on intercompany receivables are eliminated in the parent bank.

Note 11 Segment reporting (continued)

	SpareBank 1 SR-Bank Group 01.01.17 - 31.12.17							
Income statement (MNOK)	**Retail Market**	**Corporate Market**	**Capital Market**	**Staff/ Support**	**Eiendoms-Megler 1**	**Other activities**	**Elimi-nations**	**Total**
Interest income	1.992	1.922	135	1.724	2	3	-31	5.747
Interest expense	447	447	97	1.617	0	4	-27	2.585
Net interest income [1]	1.545	1.475	38	107	2	-1	-4	**3.162**
Commission income	697	340	24	7	389	199	-59	1.597
Commission expenses	44	25	4	29	0	35	-58	79
Other operating income	0	0	0	8	0	0	-2	6
Net commission and other income	653	316	20	-14	389	164	-3	**1.524**
Dividend income	2	0	0	7	0	2	0	11
Income from investment in associates	0	9	0	490	0	0	-74	425
Net gains/losses on financial instruments	6	-3	80	61	0	14	40	198
Net income on investment securities	8	6	80	558	0	16	-34	**634**
Personnel expenses	380	191	53	329	226	88	-4	1.263
Administrative expenses	76	15	16	321	37	12	1	478
Other operating expenses	95	32	6	164	101	54	-26	426
Total operating expenses	551	238	75	814	364	154	-29	**2.167**
Operating profit before losses	1.655	1.558	63	-163	27	25	-12	**3.153**
Individual impairments on loans	59	482	0	0			0	**541**
Collective impairments on loans	4	-2	0	0	0	0	0	2
Pre-tax profit	**1.592**	**1.078**	**63**	**-163**	**27**	**25**	**-12**	**2.610**
Net interest income [1]								
External net interest income	1.549	1.475	38	102	0	0	-2	3.162
Internal net interest income	-5	0	0	5	2	-1	-1	0
Net interest income	1.544	1.475	38	107	2	-1	-3	3.162
Balance sheet (MNOK)								
Loans to customers	108.700	61.060	293	2.668	0	0	-167	172.554
Individual impairments provisions	-93	-546	0	0	0	0	0	-639
Collective impairments provisions	-67	-611	0	0	0	0	0	-678
Certificates/bonds/financial derivatives	0	0	2.393	37.081	0	11	-2.035	37.450
Other assets	-490	1.440	169	11.327	173	1.020	-5.708	7.931
Total assets	**108.050**	**61.343**	**2.855**	**51.076**	**173**	**1.031**	**-7.910**	**216.618**
Deposits from customers	49.239	46.009	9	377	0	0	-250	95.384
Other debt and equity [1]	58.811	15.334	2.846	50.699	173	1.031	-7.660	121.234
Total debt and equity	**108.050**	**61.343**	**2.855**	**51.076**	**173**	**1.031**	**-7.910**	**216.618**
Loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	**14.114**	**469**						**14.583**

Note 12 Net income/losses from financial instruments

Parent bank 01.01.17 - 31.12.17	Parent bank 01.01.18 - 31.12.18		Group 01.01.18 - 31.12.18	Group 01.01.17 - 31.12.17
92	-2	Net gains/losses on equity instruments	91	136
-140	-231	Net gains/lossses for bonds and certificates	-249	-152
143	151	Net derivatives bonds and certificates	151	143
0	74	Net derivatives equity instruments	72	0
2	0	Net counterparty risk, inclusive of CVA	0	2
-2	15	Net derivatives other assets	15	-2
-28	10	Net derivatives liabilities	14	-1
67	-11	Net derivatives basis swap spread	-38	-32
104	141	Net gain currency	135	104
238	**147**	**Net income/losses from financial instruments**	**191**	198

Note 13 Pensions

The SpareBank 1 SR-Bank group has two types of pension scheme: defined benefit-based and contribution benefit-based pension schemes. For more information about the accounting treatment of the schemes see note 1 above and note 24 to the annual financial statements for 2017.

A decision was taken at the board meeting in June 2015 that employees who were members of the defined benefit scheme had to transfer to a defined contribution pension scheme from 1 January 2016. Upon transitioning to a contribution based pension scheme from 1 January 2016, employees who were in the defined benefit scheme received a paid-up policy for their earned rights from the defined benefit scheme.

Paid-up policies will be managed by the pension fund, which from 1 January 2016 was set as a paid-up fund. A framework agreement has been established between SpareBank 1 SR-Bank and the pension fund that covers things such as financing, capital management, etc. Because of the responsibilities SpareBank 1 SR-Bank still has, future liabilities will have to be incorporated in the financial statements. The board of the pension fund must consist of representatives of the group and pension scheme participants in accordance with the pension fund's articles of association.

The following economic assumptions have been used to calculate the obligations for the defined benefit-based pension scheme:

Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Parent bank and group
2,40 %	2,60 %	2,50 %	2,70 %	2,60 %	Discount rate
2,40 %	2,60 %	2,50 %	2,70 %	2,60 %	Expected return on assets
2,50 %	2,50 %	2,50 %	2,50 %	2,75 %	Forecast salary increase
2,25 %	2,25 %	2,25 %	2,25 %	2,50 %	National Insurance scheme's basic amount
2,00 %	2,00 %	2,00 %	2,00 %	0,80 %	Pension adjustment
1,60 %	1,60 %	1,60 %	1,60 %	0,80 %	Paid-up policy adjustment

Change in pension obligations (NOK million):

Parent bank Q4 2017	Parent bank Q4 2018	Parent bank 01.01.17 - 31.12.17	Parent bank 01.01.18 - 31.12.18		Group 01.01.18 - 31.12.18	Group 01.01.17 - 31.12.17	Group Q4 2018	Group Q4 2017
410	257	351	383	Net obligations opening balance	402	378	276	427
0		10	0	Merger SR-Finans	0	0		0
-28	-96	12	-231	Actuarial liabilities and losses recognised in comprehensive income	-240	12	-105	-28
5	4	17	17	Net pension cost	18	18	5	5
-1	0	-1	0	Company contributions	0	-1	0	-1
-3	-1	-6	-5	Payments from operations	-5	-5	-1	-1
383	**164**	383	**164**	**Net pension obligations closing balance**	**175**	402	**175**	402

Note 14 Sale of loans

In 2010, in association with the other owners of Sparebank 1 Boligkreditt, Sparebank 1 SR-Bank entered into an agreement to establish a liquidity facility for SpareBank 1 Boligkreditt. This implies that the banks undertake to buy mortgage bonds limited to a total value equal to 12 months' maturities in SpareBank 1 Boligkreditt. Each owner is primarily liable for its share of the need, secondarily for twice the amount of the primary liability under the same agreement. The bonds can be deposited with Norges Bank and represent, therefore, no significant increase in the bank's inherent risk.

SpareBank 1 SR-Bank has concluded agreements concerning the sale of loans with good security and collateral in real estate to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. For more information about the accounting treatment of the agreements see note 2 and note 9 in the 2017 annual financial statements.

SpareBank 1 SR-Bank has also concluded an agreement concerning the sale of loans with good security and collateral in real estate to its subsidiary SR-Boligkreditt AS. Such loans are derecognised from the parent bank's balance sheet, but are recognised in the consolidated financial statements, see note 2 in the 2017 annual financial statements.

Note 15 Liquidity risk

Liquidity risk is the risk that the group is not able to refinance its debt or is not able to finance an increase in assets. The bank's framework for managing liquidity risk shall reflect the bank's conservative risk profile. The board has adopted internal limits such that the bank has as balanced a maturity structure for its borrowing as possible. Stress testing is conducted for the various terms of maturity for bank-specific crises, system crises and combinations of these. A contingency plan has also been put in place to manage liquidity crises. The average remaining term to maturity in the portfolio of senior bond funding and covered bonds was 3.8 years at the end of the forth quarter of 2018. The total LCR was 167 % at the end of the forth quarter, and the average total LCR was 169 % in the quarter. The LCR in NOK and EUR at the end of the quarter was 90 % and 399 %, respectively.

Note 16 Information about fair value

Group

The table below shows financial instruments at fair value according to their valuation method. The different levels are defined as follows:

Level 1: Listed price in an active market for an identical asset or liability

Level 2: Valuation based on observable factors other than listed price (used in level 1) either direct (price) or indirect (deduced from prices)

Level 3: Valuation based on factors not obtained from observable markets (non-observable assumptions)

Fair value 31.12.2018	Level 1	Level 2	Level 3	**Total**
Assets				
Net lending to customers 1)			8.240	**8.240**
Commercial paper and bonds at fair value	17.210	6.134		**23.344**
Financial derivatives		5.268		**5.268**
Equities, units and other equity interests	412	25	431	**868**
Operations that will be sold				**0**
Liabilities				
Financial derivatives		3.889		**3.889**

No transfers between levels 1 and 2

1) Net lending to customers in parent bank, level 3 53.552

Note 16 Information about fair value (continued)

Fair value 31.12.2017	Level 1	Level 2	Level 3	**Total**
Assets				
Net lending to customers			7.610	**7.610**
Commercial paper and bonds at fair value	21.711	6.992		**28.703**
Financial derivatives		5.541		**5.541**
Equities, units and other equity interests	419	27	271	**717**
Operations that will be sold				**0**
Liabilities				
Financial derivatives		3.787		**3.787**

No transfers between levels 1 and 2

Change in holding during the financial year of assets valued on the basis of factors other than observable market data

Group	**Loans to customers**	**Shares, ownership stakes and other securities**	**Business available for sale**
Balance 01.01	7.610	271	0
Additions	2.814	73	
Disposals	-2.122	-2	
Transferred from or to measurement according to prices in an active market or observable market data			
Change in value [1]	-62	89	
Balance 31.12.2018	**8.240**	**431**	**0**
Nominal value/cost price	8.125	302	0
Fair value adjustment	115	129	0
Balance 31.12.2018	**8.240**	**431**	**0**

[1] Value changes are recognised in net income from financial instruments

SpareBank 1 SR-Bank is a member of Visa Norge FLI. Visa Norge FLI is, as a group member of Visa Europe, also a shareholder in Visa Europe Ltd. In November 2015, an agreement was announced concerning the sale of Visa Europe Ltd to Visa Inc. The transaction significantly increased the equity in Visa Norge IFS. SpareBank 1 SR-Bank's ownership interests in Visa Norge IFS are considered a financial asset in the available for sale category (AFS investment) and must therefore be recognised at fair value as long as this can be reliably measured. The remuneration consists of shares in Visa Inc., a cash settlement and a postponed cash payment. On 31 December 2015, the estimated value of the shares resulted in income in other comprehensive income of NOK 95 million. SpareBank 1 SR-Bank received the cash settlement in the second quarter of 2016. This amounted to NOK 94 million, compared with the amount calculated at the end of 2015 of NOK 72 million. The cash settlement was posted as dividends via the income statement in the second quarter of 2016. In the fourth quarter of 2017, a further proportion of shares with a value of NOK 19 million were recognised, where NOK 15 million was recognised through profit or loss. SpareBank 1 SR-Bank still has an ownership item linked to the postponed cash payment and shares in Visa Norge totalling NOK 60 million. This item is posted in other comprehensive income and have after the switch to IFRS 9 in 2018 no effect on the result upon realisation.

The transaction in which the SpareBank 1 Alliance's mCASH payment solution was merged with Vipps AS was completed in the third quarter of 2017. Following the transaction, SpareBank 1 SR-Bank owns 19.8 % of SpareBank 1 Betaling AS, which in turn owns 22% of VBB AS. The value of the stake provided the basis for the transaction with Vipps AS and the analysis group in SpareBank 1 Gruppen has conducted an evaluation of the stake. The evaluation was based on a business case that was produced in connection with the negotiations surrounding Vipps and the expected value of the stake as an independent company. The value calculated is considered to be almost equal to SpareBank 1 SR-Bank's share of the equity in SpareBank 1 Betaling AS following the transaction, and the group recognised income of NOK 4 million in 2017 due to the transaction. SpareBank 1 SR-Bank's ownership interest in SpareBank 1 Betaling AS is included in the group as an associated company.

Note 16 Information about fair value (continued)

Other assets are measured using various methods such as last known transaction price, earnings per share, dividend per share, EBITDA and discounted cash flows.

Fixed-rate loans are measured on the basis of the interest rate agreed with the customer. Loans are discounted using the applicable interest curve, having taken into account a market premium, which is adjusted for the profit margin. The conducted sensitivity analyses indicate an increase in the discount rate of 10 basis points would have a negative effect on the result amounting to NOK 26 million.

Fair value of financial instruments at amortised cost

Group	**Balance 31.12.2018**	**Fair value 31.12.2018**
Assets		
Cash and balances with central banks	717	717
Balances with credit institutions	1.696	1.696
Loans to customers [1]	182.638	182.638
Certificates and bond held to maturity	5.996	6.011
Total assets at amortised cost	**191.047**	**191.062**
Liabilities		
Balances with credit institutions	1.433	1.433
Deposits from customers [1]	98.814	98.814
Listed debt securities	103.484	103.592
Subordinated loan capital	2.951	2.835
Total liabilities at amortised cost	**206.682**	**206.674**

[1] Loans to customers and deposits at amortised cost, amount to book value best estimate at fair value.

Note 17 Events after the balance sheet date

No material events that have influence on the prepared interim financial statements have been registered after 31 December 2018.

Quarterly income statement

SpareBank 1 SR-Bank Group, MNOK	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**
Interest income	1.690	1.586	1.544	1.454	1.463	1.455	1.437	1.392	1.400
Interest expense	764	715	702	654	644	635	653	653	667
Net interest income	**926**	**871**	**842**	**800**	**819**	**820**	**784**	**739**	**733**
Commission income	370	370	390	389	384	407	417	389	372
Commission expenses	20	22	24	21	19	22	19	19	18
Other operating income	0	1	4	0	2	1	2	1	1
Net commission and other income	**350**	**349**	**370**	**368**	**367**	**386**	**400**	**371**	**355**
Dividend income	0	0	1	11	0	2	4	5	5
Income from investment in associates	113	94	102	57	154	127	81	63	78
Net gains/losses on financial instrument	-45	81	110	45	50	69	58	21	56
Net income on financial investments	**68**	**175**	**213**	**113**	**204**	**198**	**143**	**89**	**139**
Total income	**1.344**	**1.395**	**1.425**	**1.281**	**1.390**	**1.404**	**1.327**	**1.199**	**1.227**
Personnel expenses	330	322	326	319	333	312	312	306	293
Administrative expenses	137	126	132	123	128	111	127	112	133
Other operating costs	109	94	114	97	109	107	109	101	114
Total operating cost	**576**	**542**	**572**	**539**	**570**	**530**	**548**	**519**	**540**
Operating profit before impairments	**768**	**853**	**853**	**742**	**820**	**874**	**779**	**680**	**687**
Impairments on loans and financial commitments	92	59	99	74	120	124	131	168	162
Pre-tax profit	**676**	**794**	**754**	**668**	**700**	**750**	**648**	**512**	**525**
Tax expense	149	160	137	150	141	140	134	109	96
Profit after tax	**527**	**634**	**617**	**518**	**559**	**610**	**514**	**403**	**429**
Profitability									
Return on equity per quarter [1]	10,1 %	12,6 %	12,3 %	10,3 %	11,4 %	12,9 %	11,0 %	8,7 %	9,5 %
Cost percentage [1]	42,9 %	38,9 %	40,1 %	42,1 %	41,0 %	37,7 %	41,3 %	43,3 %	44,0 %
Combined weighted total average spread for lending and deposits [1]	1,59 %	1,53 %	1,52 %	1,50 %	1,50 %	1,54 %	1,52 %	1,53 %	1,50 %
Balance sheet figures from quarterly accounts									
Gross loans to customers	192.105	183.014	178.927	174.292	172.554	167.105	164.958	159.843	157.638
Gross loans to customers including SB1 BK and SB1 NK [2]	201.399	196.445	193.474	188.924	187.137	185.150	184.317	183.182	182.332
Growth in loans over last 12 months [1]	11,3 %	9,5 %	8,5 %	9,0 %	9,5 %	6,2 %	5,2 %	3,0 %	1,6 %
Growth in loans incl SB1 BK and SB1 NK [1] [2]	7,6 %	6,1 %	5,0 %	3,1 %	2,6 %	1,2 %	0,5 %	-0,4 %	-0,9 %
Deposits from customers	98.814	100.320	105.824	99.626	95.384	98.602	99.758	93.125	85.914
Growth in deposits over last 12 months [1]	3,6 %	1,7 %	6,1 %	7,0 %	11,0 %	13,0 %	11,3 %	7,0 %	-3,9 %
Total assets	234.061	226.023	223.954	217.370	216.618	215.309	212.879	200.182	193.408
Average total assets	231.062	225.472	221.838	215.940	217.202	211.111	207.389	195.967	194.963
Impairments on loans and financial commitments									
Impairment ratio, annualized [1]	0,20 %	0,13 %	0,22 %	0,17 %	0,28 %	0,30 %	0,32 %	0,42 %	0,41 %
Impairment ratio, including loans SB1 BK and SB1 NK [1] [2]	0,18 %	0,12 %	0,21 %	0,16 %	0,26 %	0,27 %	0,29 %	0,37 %	0,35 %

[1] Defined as alternative performance targets (APMs), see the appendix to the interim report

[2] SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are abbreviated to SB1 BK and SB1 NK

Quarterly income statement (continued)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Loans and financial commitments in Stage 2 and Stage 3 [3]									
Loans and financial commitments in Stage 3 in % of gross loans [1]	1,53 %	1,56 %	1,67 %	1,25 %					
Loans and financial commitments in Stage 3 in % of gross loans, including loans SB1 BK and SB1 NK [1) 2)]	1,46 %	1,45 %	1,54 %	1,15 %					
Loans and financial commitments in Stage 2 in % of gross loans [1]	9,64 %								
Loans and financial commitments in Stage 2 in % of gross loans, including loans SB1 BK og SB1 NK [1) 2)]	9,19 %								
Non-performing commitments as a percentage of gross loans [1]					0,32 %	0,49 %	0,50 %	0,46 %	0,68 %
Non-performing commitments as a percentage of gross loans, including loans SB1 BK and SB1 NK [1) 2)]					0,30 %	0,45 %	0,45 %	0,40 %	0,59 %
Other doubtful commitments as a percentage of gross loans [1]					0,91 %	0,81 %	0,84 %	0,95 %	0,72 %
Other doubtful commitments as a percentage of gross loans, including loans SB1 BK and SB1 NK [1) 2)]					0,83 %	0,73 %	0,76 %	0,83 %	0,62 %
Solidity									
Common equity Tier 1 capital ratio	14,7 %	14,7 %	14,8 %	15,0 %	15,1 %	14,8 %	14,7 %	14,7 %	14,7 %
Tier 1 capital ratio	15,9 %	16,0 %	15,7 %	16,0 %	16,0 %	15,8 %	15,7 %	15,6 %	15,6 %
Capital ratio	17,6 %	17,8 %	17,8 %	18,1 %	17,9 %	17,7 %	17,9 %	17,5 %	17,5 %
Tier 1 capital	20.743	20.613	19.959	19.645	19.278	19.214	18.938	18.482	18.227
Net primary capital	23.038	23.026	22.571	22.257	21.489	21.515	21.623	20.744	20.443
Risk weighted balance	130.869	129.216	126.826	122.786	120.160	121.818	120.683	118.410	116.651
Leverage ratio	7,7 %	7,7 %	7,5 %	7,4 %	7,4 %	7,2 %	7,2 %	7,1 %	7,3 %
Liquidity									
Liquidity Coverage Ratio (LCR) [4]	167 %	151 %	157 %	177 %	168 %	212 %	212 %	200 %	174 %
Deposit-to-loan ratio [1]	51,4 %	54,8 %	59,1 %	57,2 %	55,3 %	59,0 %	60,5 %	58,3 %	54,5 %
Deposit-to-loan ratio, incl loans SB1 BK and NK [1) 29]	49,1 %	51,1 %	54,7 %	52,7 %	51,0 %	53,3 %	54,1 %	50,8 %	47,1 %
Branches and staff									
Number of branches	36	36	36	36	36	36	36	36	36
Number of man-years	1.178	1.176	1.153	1.156	1.142	1.148	1.120	1.141	1.127
Number of man-years including temps	1.251	1.266	1.230	1.200	1.218	1.225	1.181	1.187	1.172
SpareBank 1 SR-Bank share									
Market price at end of quarter	89,20	99,00	86,40	86,20	87,00	85,75	71,50	64,25	60,75
Market capitalisation	22.813	25.319	22.097	22.046	22.250	21.931	18.286	16.432	15.537
Number of shares issued, millions	255,75	255,75	255,75	255,75	255,75	255,75	255,75	255,75	255,75
Book equity per share(including dividends) [1]	82,27	80,02	77,28	79,24	77,24	75,07	72,72	72,91	71,54
Earnings per share, NOK (annualised)	2,06	2,48	2,41	2,03	2,18	2,39	2,01	1,58	1,68
Price/earnings per share [1]	10,81	9,98	8,96	10,62	9,98	8,97	8,89	10,17	9,04
Price / Book equity (group) [1]	1,08	1,24	1,12	1,09	1,13	1,14	0,98	0,88	0,85
Annualised turnover rate in quarter [5]	8,4 %	6,1 %	6,1 %	5,3 %	4,7 %	4,2 %	8,6 %	15,1 %	12,9 %
Effective return [6]	-9,9 %	14,6 %	5,2 %	-0,9 %	1,5 %	19,9 %	14,8 %	5,8 %	33,2 %

1) Defined as alternative performance targets (APMs), see the appendix to the interim report

2) SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are abbreviated to SB1 BK and SB1 NK

3) Loans in Stage 2 and Stage 3 in % of gross loans. Figures before 1 January 2018 is total non-performing and impaired loans according to IAS 39, in % of gross loans

4) High quality liquid assets divided by total net cash outflows in a 30-day, serious stress scenario

5) Annualised turnover of the share during the period, measured as a percentage of the number of outstanding shares

6) Percentage change in the market price in the last period, including paid share dividend

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2018 -2019 Financial Calendar

Q3 2018	Thursday 25 October
Preliminary annual results for 2018	Friday 8 February
Annual General Meeting	Wednesday 24 April
Ex-dividend	Thursday 25 April
Dividend payment date	Friday 3 May
Q1 2019	Thursday 9 May
Q2 2019	Thursday 8 August
Q3 2019	Thursday 31 October