

2018

ANNUAL REPORT

Together we make things happen



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About the bank



Statement by the Group CEO

2018 was a very active year, bringing good results for SpareBank 1 SMN. Solid growth was again recorded, in particular in the personal market. In the corporate market we achieved success with a strategy that increasingly makes us the natural choice of bank for the large number of small and medium-sized businesses in Central Norway.

We have thus consolidated our position as market leader in the region while at the same time devoting much time to prepare for even tougher competition in the years ahead. Several years of good banking operations and good results have provided SpareBank 1 SMN with a solid equity ratio and good dividend capacity – both in the form of dividend to the bank's equity certificate holders and dividend on the social capital that materialises in contributions to a range of worthy causes across the bank's entire market area.

We are well satisfied with the financial results of the group. The bank is very solid with a CET1 ratio of 14.6 per cent. This is well above the requirement set by the government authorities of 14.1 per cent, and well on the way towards our self-imposed target of 15.0 per cent. The equity capital has been built up to a substantial level, whilst at the same time we are also delivering satisfactory return on that capital. There is good reason to be pleased with a post-tax profit of well over NOK 2 billion and a return on equity of 12.2 per cent.

This is due, in addition to sound operations on the part of the parent bank, to revenue diversification achieved over time through a focus on developing subsidiaries. SpareBank 1 SMN Regnskapshuset, EiendomsMegler 1 Midt-Norge, SpareBank1 Finans Midt-Norge, SpareBank 1 SMN Invest and SpareBank 1 Markets all make a good contribution to the group's top line and increasingly to its bottom line. The same is true of related companies such as BN Bank and companies in SpareBank 1 Gruppen.

It is pleasing to note that since admission to stock exchange listing in 1994 we have delivered an average annual return to our equity certificate holders of 15.4 per cent, taking both dividends and capital appreciation into account. I believe a long period of capital build-up is now complete. We have attained our capitalisation objectives and are well placed for robust growth. Losses in 2018 are lower than in 2017, and are in all essentials within oil-related activities. A positive trend is noted in the bank's exposure within this portfolio. It is pleasing to note that the bank's wider loan portfolio comes across as very robust.

The board of directors recommends for 2018 a dividend payout of NOK 5.10 per equity certificate, totalling just over 50 per cent of the net profit. This shows the significance assigned by SpareBank 1 SMN to an investor-friendly shareholder and dividend policy.

Since 2000, we have disbursed more than NOK 1 billion as social dividend in the form of gifts to non-profit causes. Last year we clarified our strategy as regards social dividend. This included leading the fight against plastic waste, through the Plastic Waste Clean-Up Project. We sparked the participation of more than 12,000 volunteers – adults and children alike – and in the course of some hectic weeks in May gathered 18,000 sackfuls of plastic.

We greatly appreciate the foundation Sparebankstiftelsen SMN's move to follow up the bank's initiative and its decision to fund the effort to reduce the release of rubber granulate from synthetic turf soccer fields throughout the region. In 2019 public health will be the theme we spotlight to create commitment and awareness throughout the region.

Some years ago, we made a demanding strategic choice. At a time when many banks were comprehensively scaling back their branch network and embarking on extensive digitalisation of all processes and products, we opted for a migration strategy. Our choice was based on our experience of the fruitful interplay between skilled colleagues localised where our customers live, and first-rate digital solutions. The strategy was formulated with the aim of making SpareBank 1 SMN *a digital bank with a personal and local signature*. In practice, this meant retaining our branch network, albeit with a sharp reduction in physical presence costs, while at the same time developing the best digital solutions, either alone or together with our colleagues in the SpareBank 1 Alliance. The fact that our mobile bank was voted Norway's best mobile bank in 2018 was a fine confirmation of the success of our digital strategy.

We are very concerned to safeguard the bank's future competitive power and we evaluate our chosen strategy against the competitive picture on an ongoing basis. Our most important competitors are still banks with comparable strategies. However, we have a continuous eye to the major, international technology giants who may well develop demanding, disruptive concepts. However, it is my conviction that it is eminently possible to meet this potential challenge through a continued focus on developing digital solutions.

Vipps is also a visible outcome of the realisation arrived at by both SpareBank 1 and DNB, i.e. that it is very sensible for fiercely competing banks to collaborate in non-competition sensitive areas. Scale effects are achieved and the competitive power of both banking groups is strengthened.

In 2018, the same banks agreed to join forces on insurance. This is a direct consequence of the Vipps collaboration. DNB opted to acquire 35 per cent of SpareBank 1 Forsikring, partly by merging DNB Forsikring with SpareBank 1 Forsikring and partly through a cash consideration. There is reason to believe that DNB will avail itself of its option to increase its stake to 40 per cent in 2019. The new insurance company, Fremtind, received government approval and was formally established on 1 January this year. The ambition is to develop Fremtind into Norway's largest non-life insurer based on bank distribution of the products of SpareBank 1 Forsikring, DNB Forsikring and LOFavør Forsikring.

The holding company SpareBank 1 Gruppen was established in 1996 to safeguard the competitive power of each of the banks participating in the SpareBank 1 Alliance, based on the respective bank's strategy of autonomy. The alliance has proven to be highly sustainable. In my view, the focus on autonomy remains a sensible strategy for SpareBank 1 SMN. Should one subsequently arrive at the realisation that other models are better suited to promoting the social mission and profitability, we may witness a new wave of bank mergers in Norway. In my assessment, there is nothing in the current situation to suggest that this is a sensible course. SpareBank 1 SMN will do all that is possible to ensure the continuation of the alliance and will contribute to the banks' competitive power ahead. The fact that we have also created substantial value since the founding of the alliance in 1996 was amply confirmed in 2108. The valuation of SpareBank 1 Forsikring in connection with the merger with DNB Forsikring has provided the alliance banks with a substantial gain, which will be taken to income in 2019.

Over a span of almost 200 years, we have built the bank into Central Norway's leading finance house. The group has some 1500 high-skilled employees of whom around 550 are located in the parent bank. Our subsidiaries have shown a fantastic talent for profitable growth. We are right at the top in terms of the ability to generate commission income, and close to 50 per cent of the group's top line is down to subsidiaries and related companies and to commission on sales of savings and insurance products. We have established ourselves as one of the giants in Norway in the field of accounting and corporate advisory services. In the real estate agency field, we are now incurring substantial costs on establishing an effective and profitable

estate agency concept in Oslo under the BN Bolig brand. At Markets we have in the space of a few years developed our company into one of the leading operations in a very demanding market. There are substantial synergies between the bank and the bank's subsidiaries. We have only just seen the start of the synergy potential inherent in the group.

This is the last time I sign SpareBank 1 SMN's management report since taking over as group CEO in 1991. It has been a wonderful journey, which I am immensely grateful and proud to have participated in together with the most accomplished colleagues a CEO could wish for. On 1 May, the baton passes to Jan-Frode Janson. I am convinced that, with him at the helm, SMN will experience growth and development ensuring that SpareBank 1 SMN remains a regional power hub with solid profitability to the delight of employees, shareholders and the society that the group serves.

I would like to thank all colleagues, shareholders and partners for the part they have played in creating the finance house SpareBank 1 SMN!

Finn Haugan
Group CEO

Key goals and strategies

Vision and values

Our new vision, approved in February 2017, is about creating energy, results, change and development. For that reason we have chosen "Together we make things happen" as our vision. *Together* is the opening word, which is no coincidence. Achieving what we want to achieve is only possible together with others - with colleagues, customers, suppliers, partners and other local and regional capacities. We want to build relations and team up. *Making things happen* is about creating energy, results, change and development. Things happen when we enter the scene.

Our values are:

Wholehearted: It is wonderful being together with committed people, and nothing is more inspiring than working with wholehearted colleagues. There is a pulse, force and passion in a wholehearted person – not to speak of a bank that is full of them.

Responsible: Integrity, credibility, trust, broadmindedness and knowledge are all important qualities. We have summed them up in one word: Responsible. Being responsible is to say yes when it is right to do so and no when it is necessary.

Likeable: We are positive and easy to like. We are down-to-earth and straightforward. We are the real deal and on the customer's side. People choose a bank they like. One that is likeable.

Capable: Capable people are matter-of-fact and have no need to toss around grandiose terms and concepts. They exude professionalism and competence without setting themselves apart. Capable people win customers' confidence.

Strategic ambition

SpareBank 1 SMN will continue to be an independent, regional finance house, a powerhouse for the development of the region. We will be profitable and best for customer experience. SpareBank 1 SMN is unquestionably solid, and its return on equity puts it among the three best banks in Norway. SpareBank 1 SMN will strengthen its market position in particular in Trondheim, Molde and Ålesund – cities that will see strong population growth in the years ahead – and in the SMB market.

Our ambition is to remain an independent, regional, profitable bank that means more to firms and individuals in our market area than any other bank. The SpareBank 1 Alliance is the bank's strategic foundation and the basis for SpareBank 1 SMN's regional business strategies and independence. SpareBank 1 SMN will play an active role in developing the SpareBank 1 Alliance as a leading Norwegian financial services grouping.

Central themes

SpareBank 1 SMN will in the period 2017-2020 launch concrete projects to help promote an efficient, customer-oriented and forward-looking bank. The main underlying themes are:

- To create the bank of the future. Launch sub-projects and measures to strengthen the bank's dominant position in the region, enhance selling power across all channels while at the same time building an infrastructure that ensures cost-efficient sales, distribution, production and operation.
- The SpareBank 1 Alliance to be the bank's strategic platform for cost-efficient operation, development and innovation. SpareBank 1 SMN will contribute to developing profitable product companies in the banking collaboration.
- SpareBank 1 SMN to be a powerhouse for the region's development and long-term value creation. Its activities span a broad set of measures in which the bank collaborates with private individuals, businesses, clubs and associations.

Financial goals

SpareBank 1 SMN intends to be among the three best-performing banks in Norway by being:

- **Customer oriented:** The bank will be best for customer experience, and thereby strengthen its market position
- **Profitable:** The bank will post an annual return on equity of 12 per cent
- **Solid:** The bank will maintain a CET1 capital adequacy ratio of 15 per cent
- **Efficient:** The bank will post zero growth in nominal costs at the parent bank
- **Dividend:** The bank will pay its equity certificate holders a dividend of 50 per cent on their rightful portion of the profit

Close at hand

We put our faith in skilled advisers in multiple locations, combination with simple, good digital solutions.



Internet Bank



7,045,000
-630,000*
logins

Mobile Bank



37,217,000
13,917,000*
logins

smn.no



9,782,000
-418,000*
visitors

Vipps



123,300
23,300*
users

Facebook



65,200
1,200*
followers

Direct Bank

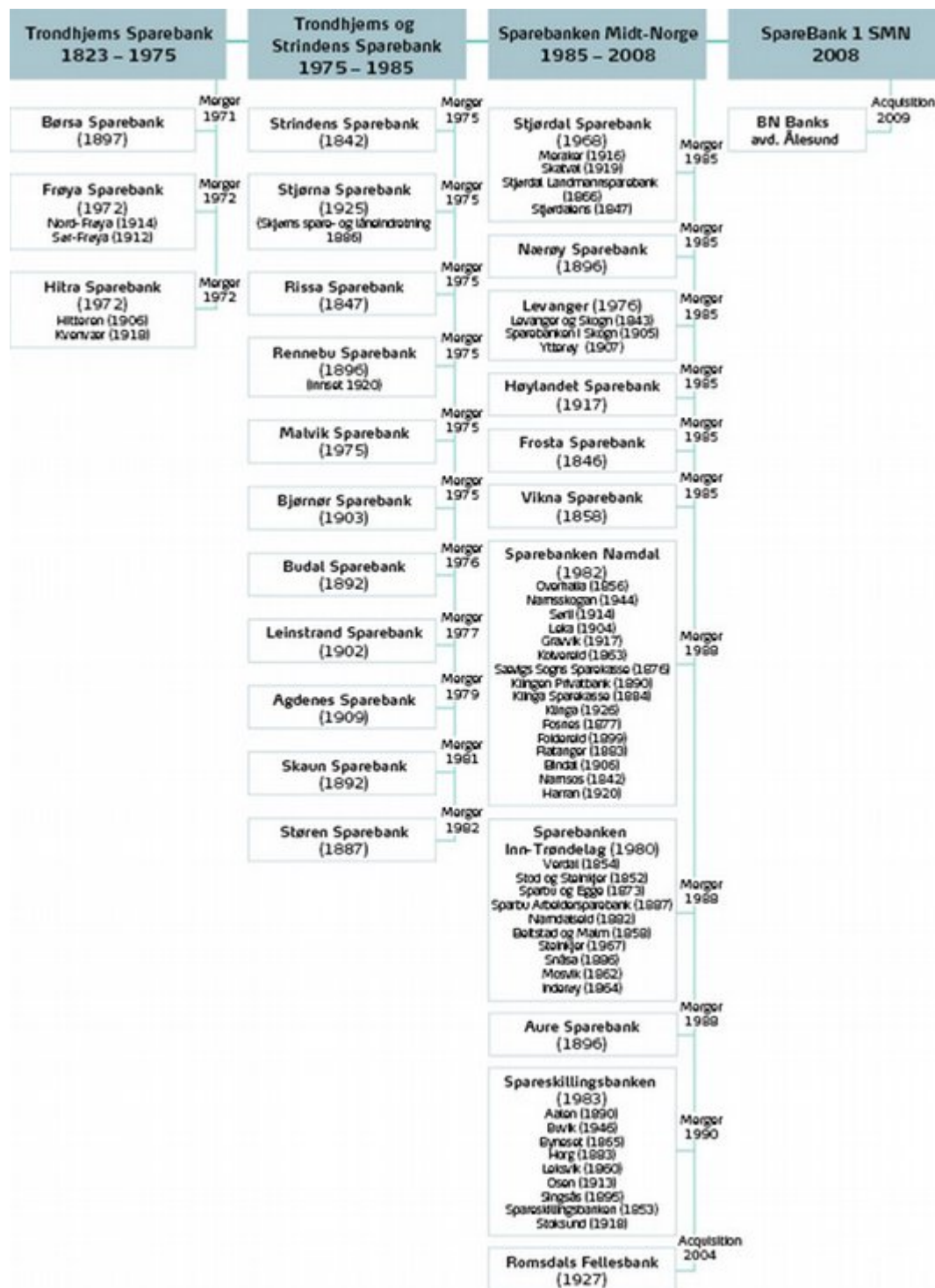


494,000
34,000*
enquiries

* Increase from 2017

The story of SpareBank 1 SMN

The first customers entered Trondhjems Sparebank in 1823. Our offering of financial services has evolved in keeping with society as a whole. Initially the bank's goal was to combat poverty and give ordinary people the opportunity to save. Today, SpareBank 1 SMN is one of Norway's largest banks and a complete financial department store.

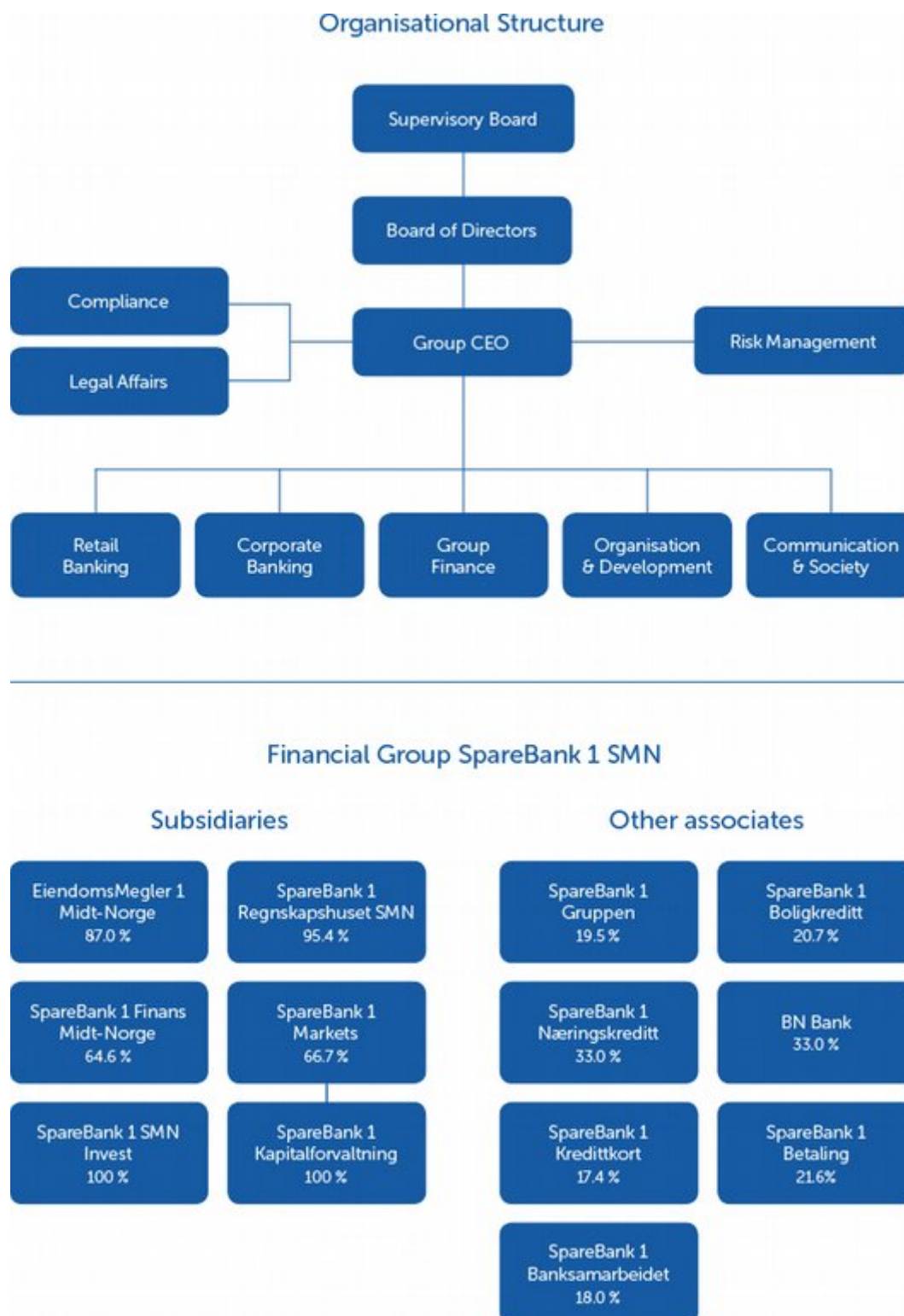


The business



Business description

SpareBank 1 SMN is the region's leading financial services group and one of six owners of the SpareBank 1 Alliance. Its head office is in Trondheim and the group and its subsidiaries employ just under 1,500 staff. SpareBank 1 SMN is a regional independent savings bank with a local footing. Through the SpareBank 1 Alliance and its own subsidiaries, SpareBank 1 SMN has secured access to competitive products in the fields of financing, savings and investment, insurance and payment services. The bank is organised under the following structure:



Retail Banking

The business line Retail Banking offers advice to personal customers, agricultural sector customers, clubs, associations and one-person businesses. Together with product suppliers and subsidiaries, we offer all products that are important in making customer finances simpler and more secure. A long and broad-based customer relationship provides us with the best basis for finding the best solutions together with the customer, tailored to the individual customer's needs. We believe that even though production tasks and solutions are becoming increasingly digital, there is a substantial need for advice that needs to be met in order to build and secure the present and the future for our respective customer groups.

Our ambition is to have the industry's best digital solutions, providing customers with straightforward day-to-day banking services and the opportunity to meet all their needs in the banking and insurance sphere. Nevertheless we still see the value of a local presence that gives the customer an opportunity to meet us for one-stop advice, and to feel that that we are something more than the sum of our products.

In addition to following the industry's norms and requirements regarding good advisory practices, we must as a bank also utilise our knowledge and insight to continuously improve the quality of the service and advice we offer our customers. The residential mortgage portfolio continues to show a positive risk trend.

Customers and market position

In 2018 SpareBank 1 SMN strengthened its position as the leading actor in all Retail Banking's customer groups, and all product areas.

Our business has a strong standing among our customers, and shows an excellent trend in customer satisfaction. The interaction with subsidiaries, Corporate Banking and the Norwegian Confederation of Trade Unions (LO) is important in enabling Retail Banking to attain the division's goal of continued growth in activity and in the customer base.

Financial developments

Retail Banking posted an overall pre-tax profit of NOK 1,206m.

The loan portfolio shows growth of about 10 per cent in the retail segment in 2018. The growth is largely down to new borrowers joining us from other banks, but also to refinancing of loans in the existing portfolio. Part of the growth is also due to an increased focus on collaboration with mortgage agents. The growth in sales of a broad range of products was on a par with results for 2017.

The loan portfolio consistently shows low risk. At the start of 2018, we saw a negative trend and a significant increase in long defaults. Later in 2018, a weak downward development was noted such that, relative to lending growth, we have a decline in the proportion of defaults. However, we still see a need for strengthened preparedness for an expected increase in defaults. Information on borrowers' unsecured debts that will become available via the debt registers in due course gives rise to uncertainty. Viewed in light of the growth in household debt, we expect a general increase in the number of borrowers with debt-servicing problems ahead. We see the need for a further tightening of our lending practices to ensure that we continue to maintain an acceptable level of quality in the credit area.

The Norwegian economy currently shows good growth, and prospects for business and industry in our region are also favourable. Capacity utilisation in the economy is high and growth is anticipated in employment and the labour supply, indicating that the labour market will feature low average unemployment

figures in 2019 as previously. Nonetheless, market prospects at the end of 2018 reflected some uncertainty, along with lower expectations of households' private consumption. The housing market has been sluggish, the time taken to sell a house has lengthened and the supply of existing dwellings is record-high. We expect somewhat lower growth in the portfolio in 2019.



Local and digital

We are moving step by step from being a traditional bank offering digital services to a digital bank with a personal and local signature.

Nelly S. Maske, executive director, Retail Banking

Customers are growing in number and meeting more of their needs with us

2018 was another year confirming that our strategy is well suited to the customers we want to cater to. We are moving step-by-step from being a traditional bank offering digital services to a digital bank with a personal and local signature. Customers are making ever more demands of us as a bank, and we see these demands change based on needs, situation and life phase. That is why we are offering more products and services across more channels than ever before. The customer experience is our main focus in a broad range of situations. This is about easy access to straightforward product purchases, secure establishment of new products and services, effective digital services that make daily life simpler for the banking customer and his/her family and competent advice in the more demanding situations that arise in a customer's life.

In 2018 we continued the sound growth trend. With a lending growth of more than 10 per cent we ended the year well above the target set for 2018, at the same time as growth in risk and quality is well in line with target. We also achieved good deposit growth of 6.7 per cent. The growth in deposits is a result of high activity aimed at ensuring that all customers hold their salary and current accounts with us, and of a conscious desire on the part of many borrowers to do their day-to-day banking with us as well.

We retain our local presence in 48 locations across our region while at the same time gradually adapting our office structure to a more digital day-to-day life. Specifically this entails an increase in advisory services related to life events and a drop in the number of enquiries related to day-to-day banking and services. The latter are to a greater extent provided through good intuitive digital solutions, increasingly frequently via the customer's mobile bank.

In 2018 we implemented a new CRM system that enables us to use customer data to develop on an ongoing basis new solutions for providing customers with relevant advice and service, whether the customer is in direct contact with our advisers or utilises our digital solutions. Customers must be assured that we are fully updated on their accounts etc. and on their contact with us, irrespective of the channel or platform on which this took place.

Moreover, good use was made of the year to prepare for various scenarios that may become a reality as a result of PSD2, the revised payment services directive. We will play a leading role on this front, and focus on new partner and business initiatives to the benefit of all our customers. The SpareBank 1 Alliance has

already opened the way for accounts with other SpareBank 1 banks and with Sbanken to be displayed using our mobile bank.

2019 awaits us. Another year of change. We will continue to seize our opportunities – providing our customers with better advice, our staff with a sense of achievement and an exciting working day, and our investors with a good return.

Retail Banking	2018	2017
Deposits	40.0 bn	37.2 bn
Loan	112.7 bn	103.1 bn
No. of customers	223 000	218 000
No. of FTEs	316	350
Profit before tax	1,206 bn	1,127 bn

Corporate Banking

The business area Corporate Banking provides the bank with advice in investment and operations financing, domestic and foreign money transfers, fixed income and currency hedging, investment of surplus liquidity and insurance of individuals and buildings/operating equipment. Much of the business is in close cooperation with Retail Banking, SpareBank 1 Markets and with subsidiaries offering leasing, factoring and accountancy services. The business is physically located across the entire market area to secure proximity to customers combined with satisfactory competence units.

The bank is IRB approved and uses the advanced IRB approach to compute capital charges and credit risk. The bank has good credit scoring models, processes and tools along with its organisation of industry competence which ensures sound knowledge and management of the loan portfolio. This will assure that further growth is in keeping with the bank's responsibility as a market leader in the region and that risk exposure is consistent with the bank's credit strategy. Together with the other alliance banks, substantial resources are expended on continuously improving the credit scoring models.

Customers and market position

The bank services some 15,000 corporate clients including the public sector. In 2018 about 1100 new corporate clients were registered. SpareBank 1 SMN has a market share of about 35 per cent of the corporate market in the region. The bank also services a number of customers in business lines such as insurance, capital market, leasing, factoring and accounting. The business sector in Trøndelag and in Møre and Romsdal features a large number of small and medium-sized companies. This structure has a clear bearing on the bank's organisation of its business.

The Corporate Customer Centre is a central business line in Corporate Banking, enabling corporate customers to receive good follow up and relevant advice in selecting products and services and in the use of digital services. In a customer satisfaction poll, the Corporate Customer Centre scores very highly in areas such as competence, service, information and initiative.

Financial developments

The business area Corporate Banking increased its income by almost NOK 20m to NOK 1.2bn last year. The income is generated by a positive trend in all business lines, but in particular from increased deposit margins and higher guarantee commission. It is especially gratifying that income from insurance (general and life) is rising and that more and more businesses see the value of turning to a local provider with local competence in all product areas to meet all their financial service needs.

Growth in lending has been low and in keeping with the bank's capital plan, and ended at 4.2 per cent for the year, while deposit growth was excellent with an increase of 16.5 per cent. We anticipate low lending growth again in 2019 while aspiring to a deposit growth in the region of 5 per cent.

In step with the digitalisation of our products and services, we have downsized our staff and thereby our costs in this business area. More focus will be given to digitalisation, improving the efficiency of processes and staff reductions in 2019.

The oil price fall has led to a significant deterioration of prospects for companies working in oil and offshore, and the business unit therefore recognised losses of NOK 212m in 2018. The write-downs are in all essentials related to a portfolio of offshore service vessels. Little spread of contagion from the low oil price to

other industries is in evidence and losses and defaults in other parts of the portfolio are very low.



Continuing focus on SMBs

SpareBank 1 SMN has clear ambitions to strengthen its position as the leading bank for small and medium-sized businesses in Central Norway.

Corporate Banking employs a systematic approach to attract new customers, and all customer advisers have specific customer recruitment objectives. Continuous improvement is key to freeing up time for the customer advisers to enable them to carry out their primary task of taking care of existing customers and recruiting new ones. In 2019 we will continue to focus on the SMB segment with a view to reducing industry or single name concentration.

The solution lies in having skilled advisers close at hand in the bank combined with development of new digitalised solutions that make day-to-day banking a simpler matter and that free up time and resources which can be devoted to providing good advice and to designing solutions tailored to the customer.

In collaboration with other banks in the SpareBank 1 Alliance, the bank has developed new digital services for business and industry. This is done at an innovation unit at the company SMB Lab whose mission is to launch concepts, products and services that are tailored throughout to the needs of small and medium-sized businesses and simplify their everyday life.

The bank's goal is to reduce losses from the levels seen in 2018. This, together with a profitability enhancement programme for the business unit, will improve profit and the risk adjusted return. The bank remains prepared to take the action needed to meet any problems that may arise in the oil and offshore sector. It is working closely with customers to find solutions that safeguard shared interests in the economic situation prevailing at any time. Corporate Banking will accordingly maintain the capacity and competence needed for the bank to remain a readily accessible and capable provider of financial services in the long term.

While the macroeconomic picture is uncertain on a general level, a variety of challenges are faced in the sectors to which the bank's clients are exposed. Again in 2018 the bank published its Economic Barometer which takes the pulse of the most important industries in the region and produces economic growth forecasts for Central Norway. Corporate Banking attaches great importance to having advisers with a practical business understanding of important industries. Cooperation with other SpareBank 1 banks is close.

In 2018 the business area has had a major focus on compliance, in particular on the anti-money laundering effort. Further, we have launched a major project to build a new customer interface that combines information from the bank and accounts and permits third parties to deliver services to our customers. The new customer interface will be made available to the market in the course of 2019 and will enable increased digital sales and, not least, distribution of new products and services.

Næringsliv	2 018	2 017
Deposits	39.2 bn	38.7 bn
Loans	40.5 bn	39.5 bn
No. of customers	15 000	15 000
No. of FTEs	148	145
Profit before tax	744 m	632 m

The people - the bank's greatest asset

Behind the strong accounting figures lie good economic conditions and solid banking. However, the bank's greatest asset by far is, and will continue to be, the skills and competence of its staff.

The people

Technological development and changing customer behaviour means the bank has to adapt to a new daily life and equip itself for the future. This influenced the work done on organisation development and management in 2018.

Reorganisation along with management and staff development with a view to building new competence and new skills for the bank of the future had high priority in the past year.

At the end of 2018 the bank employed 580.4 FTEs.

Vision and values

We have a keen focus on and awareness of our fundamental values: wholehearted, responsible, likeable and accomplished. Our values, together with the bank's vision "Together we make things happen", impart meaning, direction and energy to the people working at the bank. Moreover, we make active use of those values to build the bank's identity and to underpin a culture in which the staff thrive, working each day to create results for the good of our customers and the bank alike.

Recruitment and employer attractiveness

SpareBank 1 SMN is among the region's most attractive employers and draws keen interest when job vacancies are to be filled. In 2018 many new, high-quality staff were recruited who, together with the organisation as a whole, will be important contributors to the work of adapting and developing the bank in line with the considerable changes facing us.

The bank maintains a targeted focus on colleges and universities with a view to building relations with talented students. We attract many applicants and note keen interest both in our mentor programme for business and economics students and in the bank's summer project.

Reorganisation

Changing customer behaviour and technological opportunities call for adjustments to the organisation. Digitalisation and automation of customer and production processes lessen the need for people in parts of the business. Adjustments have accordingly been made in parts of the organisation, and 13 severance packages were agreed in 2018. The processes are described more fully in the chapter on corporate social responsibility.

Management and staff development

The bank's managers and staff are its most important resource and a crucial differentiating factor when it comes to realising goals and strategies. That is why the bank attaches great importance to developing competence and skills. Internal training activities are arranged on a substantial scale, and many of our talented managers and staff are offered opportunities for professional and personal development on external

courses and at educational institutions. The bank works continuously to identify competence needs in the short and long term to assure our ability to offer our customers advisory and other services of the highest quality.

SpareBank 1 SMN is affiliated to industry schemes for the financial industry, and all our financial advisers are required to complete the requisite certification programme. In 2018, a new industry scheme was introduced for the credit area. By the end of 2018, a large share of our advisers and managers had completed the new certification programme. All our retail market advisers must obtain certification by the end of March 2019.

In addition to the industry schemes and basic competence building in the various product areas, we maintain a keen focus on developing the skills needed to ensure a good customer experience and high quality advisory services. In 2018, we completed a project involving the use of virtual reality (VR) technology in training customer advisers in communication and relationship skills in the context of customer dialogue.

In 2018, we held the management development programme SKIFT2020. All managers with personnel responsibility have completed five modules focusing both on individual and collective management skills that we as an organisation need to master in order to attain our ambitious goals. The programme continues in 2019.

Health, environment and safety

The bank has a targeted focus on measures designed to promote a good work environment, and substantial resources are devoted to encouraging good health through physical activity and keeping fit. The programme "Better Shape" stimulates individuals and departments to keep fit by holding competitions and awarding prizes, by subsidising fitness centre membership and by organising fitness activities at work. Employees log their workouts in a digital fitness diary, and the share of employees who tracked their workouts in 2018 was 84 per cent.

Sickness absence in 2018 was 4.2 per cent, with sickness absence reported by the employees themselves and by a doctor accounting for 0.7 per cent and 3.5 per cent respectively.

Gender equality

SpareBank 1 SMN is concerned that women and men should have equal opportunities in terms of personal development, salary and career. At the pay settlement in 2018 correctives were applied to ensure that pay level imbalances between women and men were evened out. The gender distribution at the bank in 2018 was 49.7 per cent women and 50.3 per cent men. The proportion of female managers was 42.6 per cent. The group management team consists of six persons, of whom one is female. The bank's focus on diversity and gender equality/equal opportunity is described in detail in the chapter on corporate social responsibility.

Society/social conditions	2018	2 017
No. Of FTP equivalents	580	595
Sickness absence	4.20 %	4.00 %
Women's share of workforce	49.80 %	51.20 %
Womens's share of senior positions	42.60 %	418 %
Average age	46 år	46 yrs
Employee engagement	82	83

Digital Trend

Relevant customer communication and digital sales

SpareBank 1 SMN's most important competitive advantage is its combination of simple, user-friendly digital solutions and relevant advice offered both by our digital channels and our branch offices. Digital sales accounted for 34 per cent of overall sales in 2018, up from 24 per cent in 2017. By year-end more than 60 per cent of all loans applications from retail customers started in the digital channel.

New digital solutions for businesses are also an important focal area, and in autumn 2018, we launched, as the first bank in Norway to do so, an entirely new service that makes establishing one's own business a simple matter. This fully digital service is hooked up to the Brønnøysund Register Centre and the government internet portal Altinn. Since its launch, 83 businesses have been established by way of the new service.

In autumn 2017, the bank introduced the market's most powerful tool for coordinating relevant customer communication across the bank's channels. Through 2018, this has enabled the bank to initiate various follow-up programs designed to ensure that customers receive correct information tailored to their needs. Initiatives presented in the mobile channel and the internet channel are well received by customers. Correct use of data and a well-functioning and effective cross-channel interplay are crucial to creating a good customer experience, and to increasing sales across all channels. Advanced statistical prediction models substantially enhanced the level of precision. At the start of 2019, a project is under way to put the tool to use in the Corporate Banking business line too.

The client meeting with advisers is central to the bank's offering to retail customers and businesses alike. At the same time as more and more contact points between the client and the bank are being digitalised, the bank is working purposefully to ensure that we provide relevant and good advice in connection with important life events of our personal customers or with major changes at businesses. In 2018, the bank introduced virtual reality (VR) technology in its adviser training to imbue our competence-building measures with even greater learning effect for our advisers.

The financial industry of the future

SpareBank 1 SMN has set itself the ambitious goal of exploiting the opportunity provided by the revised Payment Services Directive, PSD2, to offer improved services and add more value for existing and new customers. In 2018, it became possible for our customers to view their account balance with other banks on their smartphone. This is the first step on the path towards an open system enabling us to offer banking services to both new and existing customers. This can be done through the bank's existing channels, new dedicated interfaces and ecosystems bringing in a number of partners.

Much of the development work will take place through the SpareBank 1 Alliance, which has a strong development unit, but the bank is also strengthening its in-house team with new skills designed to enable more customer centric innovation and development, in particular involving interaction with local innovation entities. The bank works closely together with start-up companies, partly through its fintech incubator F3 "Finance for the Future", located in the bank's head office building.

In 2018, the bank continued its work on cloud technology as a platform for new IT solutions. Cloud solutions provide opportunities for quicker access to new solutions or to adapt solutions to meet new needs. SpareBank 1 SMN participates in the Alliance's shared security strategy effort to address and respond to the changes this development brings.



Rise in digital channel sales

Digital sales accounted for 34 per cent of overall sales in 2018,
an increase from 24 per cent in 2017

Nelly S. Maske, Executive director, Organisation and Development

Corporate social responsibility



Corporate social responsibility

SpareBank 1 SMN aims to contribute to society's value creation through responsible banking operations that instil public confidence in the bank.

The four core values *wholehearted*, *responsible*, *likeable* and *highly competent* are all connected to corporate social responsibility. However, *responsible* singles itself out as the most important guide for SpareBank 1 SMN's CSR efforts.

The bank's focus on corporate social responsibility is designed to strengthen competitiveness, reduce risk, attract good customers, investors and skilled staff, boost innovation and contribute to the further development of the region of which the Group is a part. Thus, the bank creates value in a *responsible and sustainable manner* for all stakeholders. SpareBank 1 SMN's ambition is to use corporate social responsibility as a competitive advantage through integrating CSR into all corporate governance and incorporating CSR in all governing documents, relevant policies and guidelines.

We report on the bank's performance in the field of CSR and sustainability under the globally recognised standard Global Reporting Initiative (GRI), in accordance with the Core option. The bank reports each year its CSR results under the GRI standard together with the annual report.

Steering sustainability

SpareBank 1 SMN developed a new CSR strategy in 2017. The strategy builds on the bank's values, is rooted in the group management team and adopted by the board of directors. The board of directors was actively involved in developing the strategy, and is a key driver in its implementation.

The strategy applies to the entire Group including the subsidiaries, and will be revised every two years. The Group's executive directors are responsible for ensuring that each specialist area develops specific, measurable, relevant and timed measures that contribute to attaining the objectives of the CSR strategy. The head of corporate communications and society is responsible for integrating the strategy into action plans. The Group CEO has the overall responsibility for ensuring that plans and measures are acted on and implemented.

The strategy describes concrete objectives under the following themes:

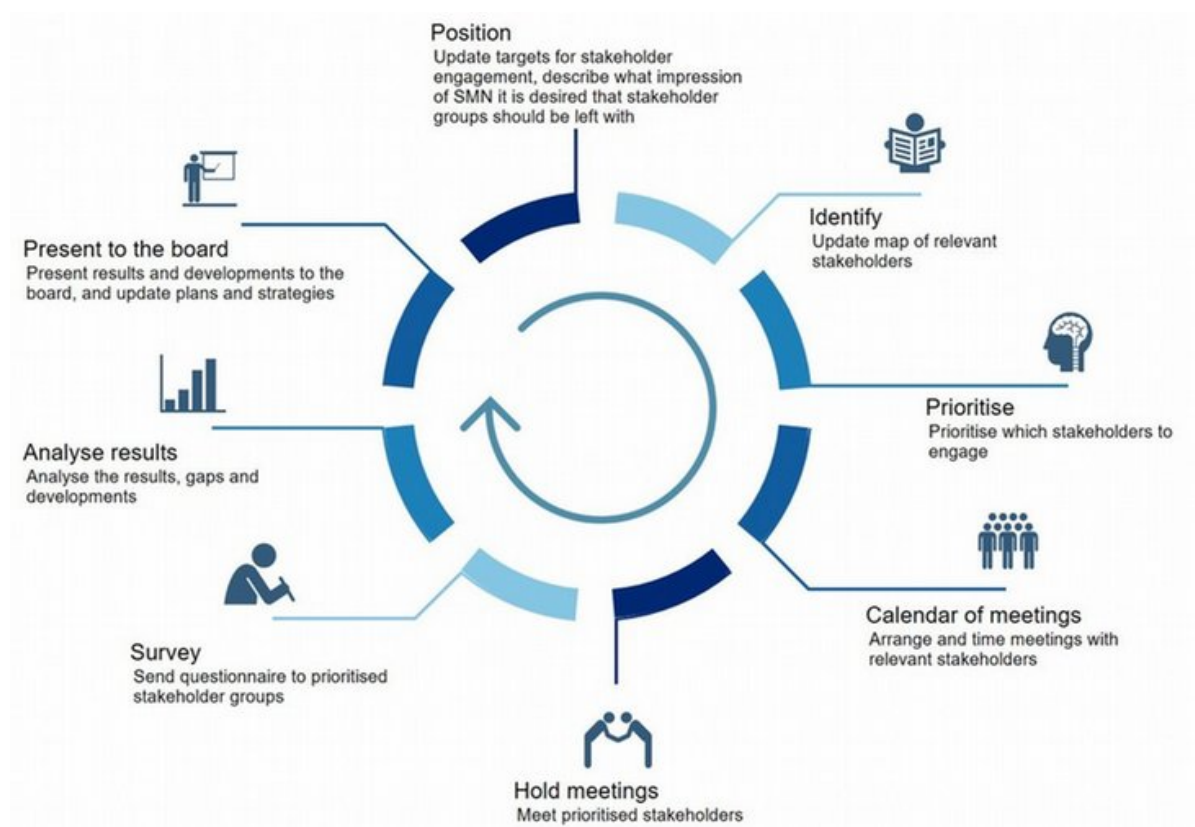
- Responsible products and services
- Communication and openness
- Ethics and anti-corruption
- Environment and climate
- Staff and organisation

In addition to the specific responsibility of the Group management team, all managers are responsible for ensuring that the work on sustainable development and corporate social responsibility is relevant to the Group's activities. The managers are also responsible for implementing adopted measures and for ensuring that all staff members within their particular area of responsibility are familiar with the measures concerned.

An annual internal control review is carried out to check compliance with and knowledge of the strategy. The result of this review is reported to the board of directors.

Involving stakeholders (GRI 102-43)

SpareBank 1 SMN's CSR strategy defines how the bank is to engage with its stakeholders. The bank endeavours on a continuous basis to identify and engage with its own surroundings, and to integrate inputs into important decision processes. The bank endeavours to meet the demands and expectations of the bank's stakeholders in an open and constructive manner. To this end, the bank has an annual process devoted to stakeholder activities, rooted in the board of directors:



In its approach to stakeholder engagement, SpareBank 1 SMN shall: (GRI 102-42)

1. Define stakeholders on a broad and strategic basis and seek opportunities
2. Prioritise stakeholders according to their value to the bank and their interest in the bank and be open about what the bank gains from the stakeholder dialogue
3. Be open, clear, inquisitive and constructive in dialogue with the stakeholders
4. Seek partnerships and share success stories with the stakeholders
5. Take the stakeholders' views on board in corporate governance

SpareBank 1 SMN engages in continuous dialogue with a number of stakeholders, including customers, investors, mayor, county governor, the Consumer Council, the Financial Supervisory Authority of Norway, Future in our Hands, the Norwegian Confederation of Trade Unions (LO) and Finance Norway to discuss the theme of sustainability. (GRI 102-40)

This dialogue has in particular lifted the bank's policy formulation regarding responsible investment and responsible credit practices, a theme that has been the subject of a number of discussions with Finance Norway, the Consumer Council and Future in our Hands. (GRI 102-44)

SpareBank 1 SMN will focus on themes of major importance for the bank's external and internal stakeholders, and will support the bank's overarching business strategy. The bank will throughout take on board the stakeholders' legitimate expectations in the strategy process. Through the stakeholder dialogue, the bank has identified material themes, reported selected indicators on these themes and explained how it handles the themes. The bank is a part of the SpareBank 1 Alliance and, where material themes are covered by the Alliance, the report describes the Alliance's assessments. (GRI 102-46)

In its materiality process the bank defined the following themes as top priority:

- Responsible investments, negative screening and exclusion and requirements on financial suppliers
- Responsible credit practices
- Responsible marketing of products and services and good banking
- Personal data protection and information security
- Staff development
- Diversity and equal opportunity
- Ethics and anti-corruption
- Economic crime
- Developing local business
- Innovation and digitalisation

(GRI 102-47)

Reporting of CSR and sustainability

SpareBank 1 SMN devoted 2018 to professionalising the bank's CSR efforts. The reporting process was an important aspect of this work. Inputs were received from external stakeholders, and all managers, the board of directors, the respective bank directors and the managements of the subsidiaries were involved.

The bank's specialists obtained information on each theme of the report and the chapters are quality assured by the bank's managers in the particular field.

The report is approved by the Group management and the board of directors, and adopted by the bank's highest body, the supervisory board, together with the annual report.

We report on the bank's performance in the field of CSR and sustainability under the globally recognised standard Global Reporting Initiative (GRI), in accordance with the Core option. (GRI 102-54) The bank will report its CSR results under the GRI standard on a yearly cycle together with the annual report. (GRI 102-52)

The information provided in the report is as balanced and correct as possible, and sufficiently precise and accessible to permit an evaluation of the bank's performance as regards to CSR. The report refers to management documents and makes documents in the public domain accessible via references to enable the reader to obtain further details to supplement the information offered by the report. The report is published as part of the adopted annual report to ensure timeliness and relevance. (GRI 102-46)

The GRI index can be downloaded from our webpage on corporate social responsibility.

Responsible investments

One of the bank's fundamental values is accountability. This term implies that the bank has an extended responsibility for how its actions affect the environment, people, jobs and management of assets now and in the future. Capital is an important input factor both in ethical and unethical activity. The bank intentionally channels capital to ethical activity and away from unethical activity in order to contribute to creating a better society and to reduce risk in its own asset management. In dialogue with our stakeholders, the bank has identified active ownership, negative screening and requirements on financial suppliers as material themes, which we must have under our control in order to ensure responsible asset management.

It is particularly important for us as a regional bank to assume a responsibility for sustainability in investments. We are duty bound to do what we can to support the UN's sustainability goals, and we are concerned that companies in which we invest or to whom we loan money should take account of themes such as responsible management of water resources, forests, mineral extraction, responsible oil extraction and refinement of petroleum products, and fishery resources.

The bank's geographical catchment area is Central Norway. Given this geographical demarcation, investments and lending are largely restricted to companies subject to Norwegian law. However, globalisation and digitalisation have changed the context in which the bank operates. The bank has accordingly in 2017 and 2018 undergone a comprehensive programme to structure its work on responsible investments.

All of SpareBank 1 SMN's direct investments, subsidiaries and companies in which it exerts majority control are now subject to a new policy from 2017 “ Our requirements on sustainability in our lending and our owner positions” and “ Our principles regarding ethics, corporate social responsibility, corporate governance and sustainability in asset management”. The policies describe the criteria underlying positive and negative screening over and above statutory requirements (GRI FS11) and the bank's requirements on its external asset managers.

The bank acts on its responsibility for customers' and the bank's owner interests through separate guidelines in order:

- Not to take owner positions or provide loans to companies that fail to abide by our principles, and to include caveats regarding follow-up and consequences in the event of any deviation (covenants) in funding where the companies concerned operate in industries, countries and regions posing a particularly high risk
- To exert pressure on customers and companies in which we invest to ensure that they maintain sound procedures and processes for making appropriate ethical, environmental and sustainable choices, and for influencing companies in which they hold owner positions through active owner management
- To require documentation that customers have taken action on circumstances that violate our principles
- To take the consequence of deviations that are not acted on by not renewing or prolonging loans, or by winding down owner positions.

Each year the bank will review developments in the documentation of compliance with anti-money laundering rules, requirements on transparency, ethics, corporate social responsibility, sustainability and

corporate governance at small companies in which the bank holds owner positions. The bank will also check necessary measures to improve procedures and processes for following up on its owner positions. All the bank's employees are required to annually review the bank's policy for sustainable and ethical investments and to be aware that the bank expects all credit cases and investment decisions regarding international companies and risk industries to be accompanied by an assessment of compliance with the bank's principles, and an account of control measures and opportunities for sanctions that are established in the event of breaches.

The Group's investments in money market paper and bonds for liquidity purposes total about NOK 20.3bn at the end of 2018. Investments in derivatives, shares and owner interests total NOK 12.0bn at the same point in time. (GRI FS11)

Investments at SpareBank 1 SMN can be divided into three categories:

- The bank's own direct investments
- Investments carried out by asset management services intermediated through the bank
- Investments carried out by the gift fund and SpareBank 1 SMN Utvikling.

The bank endorses the United Nations-supported Principles for Responsible Investment (PRI) in all its own investments, and works to ensure that the principles are also complied with by SpareBank 1 Gruppen's companies.

Own direct investments

Subsidiaries (and companies under majority control)

SpareBank 1 SMN controls EiendomsMegler 1 Midt-Norge, SpareBank 1 Finans Midt-Norge, SpareBank 1 Regnskapshuset SMN, SpareBank 1 SMN Invest and SpareBank 1 Markets. SpareBank 1

Markets manages own funds with total assets of about NOK 2.3bn. The subsidiary SpareBank 1

Kapitalforvaltning manages capital on behalf of its customers totalling about NOK 16bn. (GRI FS11).

SpareBank 1 SMN Invest is the bank's wholly-owned subsidiary, and manages own capital worth about NOK 400m (GRI FS11).

SpareBank 1 SMN Invest operates in Norway's technology capital, Trondheim, and through SpareBank 1 SMN Invest the bank meets a further need in the local community – for local capital for technology. SpareBank 1 SMN Invest invests exclusively in unquoted shares and mutual funds in the bank's geographical area.

Additionally, the company takes over shares in connection with bankruptcies and loan defaults in order to retain local business activity. Where required, its owner position is used to influence the company concerned to comply with the bank's principles as regards sustainability, ethics, governance and corporate social responsibility. The bank requires evidence of a positive development in the willingness of the company concerned to comply with the bank's principles in order to maintain its owner position. Owner positions in companies that breach the bank's principles are followed up in the form of a half-yearly report to the board of directors until the position has been wound down. (FS10)

Although new holdings are screened in accordance with the bank's requirements, existing portfolios have yet to undergo a structured screening process. (GRI FS11) Where the subsidiaries are concerned, the bank has

a continuous owner dialogue in which the bank also incorporates social or environmental themes. (GRI FS10)

The SpareBank 1 Alliance's companies (not under majority control)

SpareBank 1 SMN holds stakes through the SpareBank 1 SMN Alliance in Odin Forvaltning, SpareBank 1 Forsikring, SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, BN Bank and SpareBank 1 Gruppen.

The owner dialogue regarding responsible investments is simplified here since the other SpareBank 1 Alliance owners are savings banks with requirements and expectations similar to those of SpareBank 1 SMN. The banks coordinate their positions on social and environmental themes with these companies (GRI FS10), but the Alliance companies are not subject to the bank's own policy.

The savings and investment committee at SpareBank 1 Gruppen carry out a quality assessment of all savings and investment products distributed by SpareBank 1 Gruppen. The committee conducts an annual audit of the product portfolio. In 2018, the committee incorporated ESG criteria in the audit.

Odin Forvaltning

Odin Forvaltning is obliged to comply with the UN's principles for responsible investment. Odin combines ESG analyses with respect to investments with exclusion of companies that produce goods and services not in accordance with generally accepted ethical values. Odin has ongoing screening with the acknowledged research and ratings company, Sustainalytics. At Odin, the managers themselves are responsible for integrating corporate social responsibility and corporate governance into investment analyses and investment decisions. Odin's products are included in the audit done by SpareBank 1 Gruppen's savings and investment committee.

SpareBank 1 Forsikring

All but two of SpareBank 1 Forsikring's asset managers have signed the UN's principles for responsible investment. The company employs a broad range of instruments to ensure responsible investment of its portfolio. SpareBank 1 Forsikring describes its policy  here .

Investments done by management services intermediated through the bank

Odin Forvaltning delivers the bulk of the bank's mutual fund products. This also means that the majority of mutual funds that the bank offers its own customers adhere to Odin Forvaltning's policy for responsible investment, described in the previous chapter. As a distributor, the bank can exert influence on potential mutual fund providers through its negotiating power and through good, close dialogue with its customers. The bank cannot itself steer investment, but has at its disposal several instruments for influencing providers to follow up on their own positions so that the businesses make good choices.

Retail Banking at SpareBank 1 SMN is responsible for following up on mutual fund providers. As from 2018, the bank has overseen mutual fund providers' compliance with the bank's guidelines regarding negative screening on social and environmental criteria. This work will be followed up by continuous random checks on asset managers' products to verify compliance. (GRI FS11)

In actual practice, the mutual fund managers of followed up in the manner below:

Consequence	SpareBank 1 cannot recommend or distribute the asset manager's products	SpareBank 1 asks the manager for further documentation of measures and process in order to continue distribution and recommendation	SpareBank 1 can recommend and distribute the asset manager's products, and can point up elements of the company's work on ethics and sustainability	SpareBank 1 can recommend the asset manager's products, and confirm that it operates in keeping with our requirements as to ethics, corporate social responsibility and sustainability
Description	Does not follow the exclusion list or the exclusion process at least at the level of the Government Pension Fund Global ("Oil Fund") and/or has deficient documentation of a screening process and procedures for measures to identify and follow up on possible norm violations. Lacks strict ethical requirements and sustainability requirements in some areas and lacks a strategy on ethics and sustainability. Has outsourced management to sub-suppliers without obtaining and documenting a declaration of conformity from underlying suppliers at least on a par with SpareBank 1's own conformity statement, and is unable to document its own control measures and quality assurance	Follows the "Oil Fund's" exclusion list and/or stricter exclusion principles. Has its own strategy for sustainability and ESG. Publishes its exclusion list, but has some flaws in its procedure for identifying and acting on potential breaches.	Has a clear strategy for ESG and sustainability. Has a clear and documented process for identifying and acting on events and deviations, and can document that ethical guidelines have practical consequences for asset management.	Has ESG and sustainability strategies that cover all areas of SpareBank 1's requirements on ethical and sustainable management
Measures	New distribution of mutual funds under distribution is halted at two months' notice to the asset manager and customers. If the asset manager has not documented completion of measures, all customers with mutual funds bought through our channels are contacted and offered alternative products, and a description is given of the deficiencies that have been uncovered and of our efforts to improve the asset manager's compliance	The asset manager is followed up on with a view to remedying weaknesses in processes and strategy, and is given a reasonable period to make improvements	The asset manager's products can be pointed up in distribution channels as ethical or sustainable choices, with specification of those areas in which the manager has a good strategy on ethics and sustainability. We follow up on the manager to further develop the strategy	The manager's products can be recommended, and are pointed up in distribution channels as ethical <u>and</u> sustainable choices

Taken from  "Our principles with respect to ethics, corporate social responsibility, corporate governance and sustainability in management"

The bank is concerned to manage savings in mutual funds in a sustainable manner. This means that environmental, social and governance (ESG) factors are an important aspect of the bank's asset management. The bank aims to offer a range of sustainable mutual funds. The diagram below describes the supplier chain of mutual fund products. ODIN and other fund managers put together mutual fund products with investments in selected companies. The mutual fund products are then intermediated to customers through the bank.

In September 2017, the bank launched a share saving account functionality (Aksjesparekonto). By the end of 2018, we had established 18,169 share saving accounts. Individual pension saving (IPS) was launched in November 2018. By the end of 2018 we had 3,267 IPS customers. (GRI 102-10)

Investments carried out by SpareBank 1 SMN Utvikling and the gift fund

The foundation SpareBank 1 SMN Utvikling is engaged exclusively in operating appropriate investments in

projects designed to support a positive development of society. Initiatives that benefit the common good. SpareBank 1 SMN Utvikling has owner positions worth NOK 51.5m. (GRI FS11)

The gift fund is financed by the bank's net profit. The fund prioritises projects in the field of innovation, business development, culture, sports, the environment and humanitarian causes. The fund's resources are held in an account with the bank, and it annually donates about NOK 60m distributed fairly equally between grassroots sports, culture and business development. (GRI 201-1)

SpareBank 1 SMN Utvikling and the gift fund aim to develop a societal account with indicators in the course of 2019.

Responsible credit processes

The bank aspires to be a leading actor in terms of responsible lending, and to ensure that it fills its role as a guide for the bank's customers based on a regional and global perspective.

Responsible credit processes are important in ensuring that customers do not assume commitments they are unable to service, in contributing to the bank's support for energy transition and in providing customers with information on sustainable and competitive solutions.

The bank provides credit both to retail customers and business customers. Its approach to the two customer groups differs slightly.

Retail customers

SpareBank 1 SMN's credit strategy is adopted by the board of directors. The basic principle of sustainable lending to the retail market is enshrined in the bank's overall  strategy for sustainable lending (pdf) , and in the bank's credit policy with respect to retail customers. The requirements are operationalised through a credit practice manual that describes the bank's specific requirements as regards to combating money laundering and the black economy. Together with the bank's product policy, the credit practice manual sets restrictions for non-sustainable lending. This way, the bank helps to ensure that borrowers do not take on excessive debt commitments.

The bank also discourages customers from taking out loans, based on the purpose of the loan. This applies for example to customers who desire a loan in order to send money to unknown recipients, to free up a lottery win or inheritance, or other typical types of fraud.

The credit manager at Retail Banking has operative responsibility for product development and the associated sustainability. In 2017 the bank adopted a corporate social responsibility strategy which sets requirements for the development of green products, and operates credit procedures giving priority to socially responsible loans.

The bank has well-established complaint procedures. Filing a complaint is a simple matter, and all complaints are handled by complaints officers. Complaints officers conduct a review of whether the bank's policies and procedures are complied with in each case. The bank's complaints committee also conducts a quarterly review of lessons to be learned from complaints made. The committee considers any need to revise policy, procedures, marketing or products. The steering system for the product areas is evaluated annually, with a basis in complaints and events noted in the preceding year.

Socially sustainable banking services (GRI FS7)

It is particularly important for the bank as a regional bank to take on a social responsibility in the local

community. The bank is known for doing this through its investments and gift fund, but it also does so through specific social products.

Access to basic banking services is imperative in a modern society. Even so, there are social groups in Trøndelag that for various reasons fall outside the scope of such services. In response, the bank has developed the product “municipal payout card”. The card is a cash card, but functions as an ordinary bank card and can be reloaded with money from one’s online bank and directly from municipal support schemes. The system can disburse benefits from the Labour and Welfare Administration (NAV) to social welfare clients, asylum seekers and refugees. Many individuals belonging to this group cannot open an ordinary bank account because they are unable to provide documentary evidence of their identity. Users of the card are spared burdensome and stigmatising trips to the bank to take out cash, often together with a support person who has to confirm their identity. The card is also popular among foreign students. The bank issued 26,548 municipal payout cards in 2018, and 42 per cent of the region’s refugees and asylum seekers utilise this service through the bank.

Children are another group whose access to banking services is, and must be, limited. In 2018 the bank improved its product offering for this group with an app named Spink, where the child along with his/her bank card and personal savings account has a good overview over his/her finances and learns to handle digital money. The bank issued 6,200 cards to children between 8 and 15 years of age in 2018.

The bank collaborates with the Norwegian State Housing Bank on start-up mortgages. Start-up mortgages require smaller down payments than other first-home mortgages and carry low interest. Start-up mortgages are granted to social groups in a vulnerable situation described here. In 2018, the bank granted a total of 120 start-up mortgages worth NOK 250m, corresponding to 8 per cent of the net volume of first-home mortgages.

Environmentally sustainable banking services (GRI FS8)

The bank also develops services with an environmental profile. In 2018, we offered green loans for solar cell installations in collaboration with the power company North Trøndelag Elektrisitetsverk (NTE). In 2018, the bank granted four such loans to a total value of NOK 2.1m.

The bank also has a smart app for environment-friendly driving which reduces car insurance. The bank sold 2,515 such services in 2018 to a value of NOK 16.4m, corresponding to 5 per cent of sales.

Corporate customers

The bank gave the systematic effort to promote responsible lending to business activity a substantial boost in 2017 and 2018. The board of directors has adopted a new credit strategy and new requirements on sustainable lending: “ Our requirements on sustainability in lending and owner positions”. The bank has also developed an associated guide on how staff should handle credit cases in practice, how they should assess the requirements and how they should implement the requirements in their own work.

Everyone who is involved in lending to businesses or in decisions related to the bank’s own investment decisions or those of the SpareBank 1 Alliance are required to be acquainted with the bank’s principles. These principles govern the purposes to which the bank lends money. They also govern how the bank is to act and exert its influence in shared investment decisions where the bank itself is not in a dominant position.

The bank does not wish to finance activities or projects that do not operate in keeping with the bank’s requirements, and existing corporate clients are expected to take steps to rectify any circumstances that

breach these requirements. The bank is bound by loan contracts with existing clients, but any lack of action by clients to comply with the bank's requirements entails increased risk, which may result in new pricing for the borrower. The bank has imposed high requirements on sustainability in all lending, but for the time being has no sustainable products specifically for corporate clients beyond those offered in the retail market. (GRI FS7 FS8)

Standard credit tools are applied in smaller credit cases. As from 2018, sustainability assessments will be incorporated in the actual credit tool by means of control points linked to the theme. The authorisation system ensures that documentation of sustainability assessments is quality assured. In credit cases considered by the credit committees, a separate template has been devised for assessing sustainability in lending. Assessments will also be quality assured when considered by the credit committees.

Documentation of sustainability assessments is included as a theme in the internal audit, with regular reviews of the quality of credit processes. Credit strategy with the associated document  "Our requirements on sustainability in lending and owner positions" are part of a review process taking place at minimum annually.

Marketing and personal data protection

SpareBank 1 SMN is committed to take people, the environment and society into account to a greater degree than required by the financial market legislation.

Responsible marketing of products and services

Good banking requires SpareBank 1 SMN to inform the customer how best to relate to the financial products that are available. To that end the bank proactively presents important themes related to responsible marketing of the bank's products.

SpareBank 1 SMN's strategy is to illuminate challenges related to marketing. This sparks useful discussions and contributes to improvements. A pertinent example is the bank's work on good advice on the use of personal credit and responsible lending practices, for which the bank received the Consumer Council's acknowledgement in 2016.

SpareBank 1 SMN's products and services, and labelling and marketing material, are developed at central level in the SpareBank 1 Alliance. The savings and investment committee in the Alliance conducts a quality assessment of labelling and marketing for the bank. The bank's Markets division has overall responsibility for responsible marketing. The bank has a complaints arrangement readily available to its customers online, via a dedicated telephone number and to the Financial Services Complaints Board. The bank has not received complaints regarding its labelling of products and services. In 2018 the bank noted one breach of personal data security in connection with the marketing of an event. (GRI 417-2)

Before products are launched or distributed by the bank, they are subject to a wide-ranging assessment of their impact on the product's target group. The bank carries out a systematic risk assessment in which it obtains independent assessments related to law, ethics and the intelligibility of the product to the target group.

Personal data protection and information security

The bank is dependent on the confidence and trust of its customers, the supervisory authorities,

shareholders and other stakeholders. The bank manages large quantities of customer data via its services. This imposes major requirements on the bank's handling of customer information and compliance with key principles of personal data protection.

A new Personal Data Act that implements the General Data Protection Regulation (GDPR) entered into force on 20 July 2018. Work on complying with the personal data rules has continued into 2019. The bank has developed templates to support implementation of the requirements of the Personal Data Act. A separate template for data protection impact assessments (DPIAs) has been prepared by the SpareBank 1 Alliance. A new data protection declaration was published on the bank's website in 2018.

The bank worked on digitalisation measures in 2018. While acknowledging the need to digitalise and simplify more services, it considers it imperative to protect personal data and ensure information security.

The bank reported seven breaches personal data security to the Data Protection Authority in 2018. The mission for 2019 is to continue the training initiative, establish good deletion procedures and continue the process of incorporating personal data protection into our systems.

The bank manages large quantities of customer information. In the bank's view, personal data protection is about securing the necessary confidentiality, integrity and accessibility of all personal data that are owned, processed or managed by the bank. The quantity of information and the possibilities for its use and misuse are growing apace. The trust that we as a bank are dependent on – from customers, supervisory authorities and other stakeholders – will to an ever increasing degree rest on our secure management of customer data. We have accordingly described the bank's commitments in detail and made them available to the bank's stakeholders here: <https://www.sparebank1.no/en/smn/about-us/privacy-policy.html>

Further, the bank has a specific policy and overarching guidelines for personal data protection. The guidelines help the bank to comply with requirements on treatment of personal data, both in the current personal data legislation, but also in the EU's new General Data Protection Regulation (GDPR) which enters into force in May 2018. The guidelines describe how the bank's treatment of personal data, roles and responsibilities in the field of personal data protection and how necessary documentation is made available and updated.

The bank completed phase two in the Personal Data Act project in 2017. The project improved compliance with statutory requirements. Through the project the bank established clearer descriptions of roles and responsibilities. In addition the bank put in place a more robust internal control system featuring exceptions handling and control and follow-up activities enabling us to improve our management system over time.

The bank has appointed a personal data officer to assist the Group CEO in matters of compliance with requirements on treatment of personal data. The personal data officer acts as a specialist adviser, and has responsibilities related inter alia to oversight of compliance, handling of exceptions, risk assessment and reporting to the Data Protection Authority any unauthorised release of personal data.

The bank reported one breach of the requirements regarding treatment of personal data to the Data Protection Authority in 2018. In addition the bank reported one case of outsourcing to cloud computing to Finanstilsynet (Norway's Financial Supervisory Authority). The bank has received no complaints of personal data breaches. (GRI 418-1)

Training was given at various levels of the organisation in 2018, both electronically and in the classroom. We will continue the work on closing identified gaps and to secure involvement, responsibility assignment and

training across the organisation. In addition preparations continue for the introduction of the General Data Protection Regulation both in the bank and in the SpareBank 1 Alliance. The subsidiaries are also carrying through personal data projects in 2018.

Information security

Developing a security architecture and solutions geared to a more open business model is a challenge facing the entire financial industry. SpareBank 1 SMN accordingly participates in the Alliance's shared security strategy effort in order to address and handle the changes this development entails.

Financial industry developments combined with accelerating technological development poses new threats and security challenges. SpareBank 1 SMN is concerned with security, high operational continuity and reliable services for the customer. Action has been taken to strengthen capacity, robustness and further development in selected areas, in particular in information security as regards open banking, and coordination and securing of cloud services.

The SpareBank 1 Alliance's Information Security Policy is the basic steering document for all processing of information in the SpareBank 1 Alliance, and builds on the Alliance's overall security policy. The bank has a separate policy for the outsourcing of IT services as well as a joint security strategy that covers the entire alliance. Important decisions such as outsourcing are also considered by the board. The department for operative information security in the SpareBank 1 Alliance delivers SpareBank 1 SMN's technical solutions, including continuous monitoring of the bank's systems.

The ICT Regulations guide much of the work on information security and follow-up of the ICT area. SpareBank 1 SMN's internal and external audit functions both regularly review matters regulated by the ICT Regulations.

SpareBank 1 SMN has established a number of technical security measures with regard to information security, where training and raising of awareness are at centre stage. The bank's competence and attitude-moulding programme for information security, Passopp, designed to strengthen the security culture across the entire organisation, was in progress in 2018 and continues in 2019. Based on internal surveys, the bank conducts analyses and prioritises focal areas for the attitude-moulding programme.

The bank wishes to play its part in promoting safe and secure customer behaviour and in familiarising customers with information security. The website, smn.no, offers tips and advice on secure use of the bank.

Staff and diversity

Reorganisation, staff development and recruitment of new skills with a view to building the bank of the future, have a high priority.

Staff development

The banking market is changing. Technological progress alters customers' behaviour and opportunities, and the bank is experiencing competition from new actors with new business models. Reorganisation, staff development and recruitment of new skills in order to build the bank for the future have high priority. The Group management team express the clear view that staff will be the bank's most important resource and the most important factor in marking ourselves out from our competitors. That is why the bank attaches such importance to developing competence and skills. Internal training activities are arranged on a substantial

scale, and many of the bank's talented managers and staff are offered opportunities for professional and personal development on external courses and at educational institutions.

Ensuring that the bank accommodates the changes in customer preferences and behaviour is one of the bank's greatest challenges, and at the same time its greatest opportunity. Being a regional bank means that our staff are close to our customers, and capture new preferences, demands and wishes. Increased communication with customers on digital interfaces must maintain the same high quality as traditional advisory services. The bank seeks throughout to ensure good banking, also in its digital channels, and has a focus on developing customer advisers in both the retail and corporate areas.

The bank's intention is to follow their customers' life journey. A journey that in periods is secure and calm, but at times also difficult and turbulent. The bank can in many cases have a role to play in customers' lives in turbulent periods when difficult choices are to be made. The bank plays an important role in major decisions such as buying one's first house, saving for retirement, securing distribution of a deceased's estate or giving advice upon break-up of marriage etc.

For corporate clients the bank is a strategic partner that facilitates establishment, growth, generational shifts and innovation in the region. The bank's social mission is to facilitate economic development as a basis for our common welfare. This will be achieved through sound and sustainable growth. The competence of our staff has a major influence in relation to society, business and industry and private individuals. The bank's ambition and objective is that good advisory practices should guarantee the quality of advice and customer treatment, and create predictability and stability for all stakeholders.

Systems for staff development

The SpareBank 1 Alliance shares a common digital teaching platform (LMS), which makes courses and training programmes available to staff. The bank's own curriculums and the financial industry's authorisation schemes form the basis for the bank's objectives and responsibilities for developing staff competence. Together with good advisory practices, the industry's procedures and rules, and the bank's staff manual, provide the basis for policies, guidelines and commitments. The bank is affiliated to the authorisation scheme for financial advisers which requires certain programmes to be in place for developing the bank's staff. Read more about the scheme here. (GRI 404-2a)

The bank conducts each year the talent development programme Developmental Management, in collaboration with the SpareBank 1 Alliance and the BI Norwegian Business School. Three of the bank's staff members enrolled in this programme in 2018. (GRI 404-2a)

The bank has developed a comprehensive programme of further development for all managers. The programme started early in 2018 with a 360 degree evaluation of all managers. The programme includes both plenary gatherings and individual follow up of each manager based on the evaluation made and the individual's development plan. (GRI 404-2a)

Appraisal interviews are an important instrument for assuring follow-up and development of employees. The Group's remuneration policy document, point 4.2.5, establishes that all staff shall have appraisal interviews with their immediate superior on their personal development and performances. This also applies to staff members who are on leave. (GRI 404-3)

The bank also worked on a new process and new tools for competence development and competence management. The project New Workday is designed to ensure that the bank, in parallel with its development

and implementation of new systems and processes, develops the appropriate competence. All of the bank's development projects utilise the new tools to identify competence needs and to develop targeted competence initiatives.

Reorganisation

Major changes are ongoing in the banking industry, creating a major need to revise the bank's competence profile. In the future the bank will need fewer staff in production, more staff in digital development and more staff in digital sales, analysis and business development. The bank has accordingly carried out a structured staff reduction process over several years, and the proportion of staff that quit in 2018 is therefore significantly higher than the number of new appointments in 2018. Staff that are affected by change, either in the form of reorganisation of work tasks or reduction of capacity, are offered a severance package. A number of employees also build up new competence by participating in development projects that qualify them for other tasks. Those who quit receive financial advice, help in making life path choices and career guidance from well-established external providers in the field. (GRI 404-2b)

The bank ended 56 employment relationships in 2018: 28 women and 28 men. Distributed by age, 3 were below age 30, 30 between age 30 and 50 and 23 above age 50. Total turnover involving severance packages and pension was 9 per cent. (GRI 401-1b) The bank concurrently acquired new skills. The bank appointed a total of 45 persons in 2018: 17 women and 28 men, of whom 20 were below age 30, 22 between age 30 and 50 and 3 between age 50 and 70. (GRI 401-1a)

Diversity and equal opportunity

SpareBank 1 SMN's aim is that its staff should reflect the region's population structure. The bank has an active focus on recruitment and promotion in order to fill any gaps and redress any imbalances in this diversity.

The industry in which the bank operates has the widest pay discrepancies in Norway between women and men with higher education. The bank is particularly concerned to grant women and men equal opportunities for development, pay and career. Activities cover recruitment, pay and employment conditions, promotion, development opportunities and protection against harassment. Parental leave does not affect opportunities for career development or pay rises.

The Group's remuneration policy states that the Group abides by the equal pay principle, i.e. men and women are paid identically for the same work or for work of the same value. The bank employs the digital tool FAKIS to ensure that it assigns positions of the same value to the same pay grade. At the wage settlement in 2018 guides were laid down, and funds made available, for evening out differences in pay levels between women and men. Each year the internal auditor reviews the bank's report on compliance with the remuneration policy. The equal pay principal is also discussed with trade union representatives in connection with the annual local wage settlement.

The bank is nonetheless not satisfied with the results as regards compliance with the equal pay principle. Despite an increased focus over several consecutive years, excessive differences persist between women and men. Pay equality will accordingly remain in focus in the years ahead.

The bank's pay differences between women and men break down as follows: (GRI 405-2)

Type of position	Women's share of men's remuneration
Middle management	99 %
Operative management	89 %
Customer advisers	85 %
Direct channel customer service centre	93 %
Production	99 %
Specialists and support functions	87 %
Business development and digitalisation	88 %

Whereas the bank has most women in operative management (10 women and 4 men), men are in the majority in middle management positions (17 women and 29 men), and in the Group management team (1 woman and 6 men). (GRI 405-1). The bank is aware of the gender distribution challenge as regards managerial positions and wishes to increase the proportion of women in higher-level managerial positions. The bank has had a particular focus on increasing the proportion of female managers in recent years, but will continue to give priority to improving the gender balance in middle management and the Group management team.

Cases of discrimination are captured by the systems for the bank's ethical guidelines described in the next chapter. The bank recorded no cases of discrimination in 2018. (GRI 406-1). 85 per cent of the staff are on wage agreements negotiated under collective bargaining etc. (GRI 102-41)

Ethics and anti-corruption

The ethical guidelines are about attitudes and values, and aim to contribute to awareness of and compliance with the ethical standard required of employees and elected officers across the Group.

SpareBank 1 SMN operates in an industry posing a risk of internal illegalities. In light of the nature of the business and the scale of assets that are managed, the inherent risk of internal illegalities in banking is considered to be high.

Internal illegalities may arise in the form of infiltration attempts by criminal elements, pressure exerted by staff and illegalities motivated by personal gain. Hence it is important that the bank has implemented controls both to prevent and to identify irregularities. The bank must throughout maintain adequate and appropriate procedures for work sharing, restrictions and limits to authorisations, secure dual controls, satisfactory access controls and sound procedures for handling changes in IT systems.

Ethical guidelines

The bank's ethical guidelines describe the bank's attitudes and values with a basis in four overarching principles: confidentiality, financial independence, loyalty and personal integrity. The banks' employees, business partners and elected officers must have a conscious awareness of the bank's ethical guidelines in their day-to-day decisions. Each manager is duty bound to familiarise his staff with the ethical guidelines and to take up the theme in departmental meetings on a regular basis. The guidelines apply to the entire Group including the subsidiaries and are a feature of the bank's contracts with its suppliers.

The guidelines regulate each staff member's relationship to customers, suppliers, competitors and the world at large. Each staff member must avoid in any way entering into a relationship of dependence with the Group's customers and business connections, and must have a conscious awareness of any of any attempt to corrupt or to offer facilitation payments. The ethical guidelines require zero tolerance of corruption, and

staff members may in no circumstance receive gifts in the form of money or cash letter in the course of their work.

All new staff members are required to review the ethical guidelines as part of the introduction programme, and ethics is a theme at seminars for new staff members. The bank's Group management team in particular and employees in general have received coaching in ethics and anti-corruption. (GRI 205-2)

The bank adopted updated ethical guidelines (pdf) in 2017.

Whistleblowing procedure

In addition to the ethical guidelines the bank has established a procedure for whistleblowing. This procedure accommodates the requirements of the Working Environment Act as regards notifying censurable circumstances at enterprises. The whistleblowing procedure is designed to reduce the risk of internal illegalities and to ensure employees' right and duty to submit an expression of concern, or to warn about censurable circumstances.

The whistleblowing procedure cites examples of censurable circumstances that may provide a basis for expressions of concern, mentioning circumstances related to for example unprincipled conduct, corruption, illegalities, economic crime, unethical or harmful activity or violations of other ethical norms.

The whistleblowing procedure also enables employees to notify the bank's external reception centre for whistleblowers and to report anonymously if the whistleblower so wishes.

The bank conducts an annual survey of the organisation. The survey gives respondents the opportunity to report cases of bullying and harassment in their own department. Any such instances brought to light in any department will be acted on by the HR department.

Instructions for dealing with conflicts of interest with customers were also revised and approved by the Group executive board in 2018.

Follow-up of quality deviations

The bank's procedure for following up on quality deviations is designed to ensure a uniformity of response, reporting, filing and follow-up of censurable circumstances among employees across business lines.

The bank initiated in 2017 a process to establish a new system of event reporting in collaboration with an external supplier. The new system was implemented in 2018. The system enables an improved overview of events in all areas and documentation of how the events are responded to.

The sanctions committee is responsible for following up on deviations. The committee consists of the Group legal officer, the head of lending at Corporate Banking, the head of lending at Retail Banking, the head of security and the head of HR. Sanctions are considered based on internal controls carried out in the business areas and on reported and registered deviations in general. The committee meets in principle every quarter, but acute cases can be handled as they arise.

The bank's board of directors, Group management team and all staff have been informed of the bank's policy on anti-corruption and its ethical guidelines. It has not however been on the Supervisory Board's agenda. Business partners have not been specifically informed of the bank's policy, but an annex covering corporate social responsibility accompanies all supplier contracts, and applies to the entire SpareBank 1 Alliance. Read the annex  here . (GRI 205-2). The bank takes into account ethical issues when it enters

into contracts with customers. The bank has in some cases chosen not to establish customer relationships in the real estate industry due to suspicion of social dumping. This is steered by the bank's policy on responsible credit practices described in a separate chapter.

The bank responds in a consistent manner to violations of guidelines, and in 2018 it issued three warnings in writing as a result of two conflicts of interest and one case of harassment. The bank has not witnessed dismissals/resignations, litigation or breaches of contract as a result of corruption or violations of ethical guidelines. (GRI 205-3)

Economic crime

SpareBank 1 SMN works continuously to uncover and combat economic crime. The bank's overarching guidelines on anti-money laundering give clear guidance for SMN's work on this theme, assigning defined roles and responsibilities.

Insight into the bank and the customers' business activities is important in ensuring a risk-based approach to economic crime and in complying with the requirements of legislation. The bank has to know which transactions are customary for the customer to undertake in order to effectively uncover unusual or suspicious transactions. Documentation must also be provided showing that the control measure is appropriate to the risk concerned. Government authorities, customers and competitors must have confidence in the bank's professionalism and integrity.

An increased degree of organised cross-border crime has changed the threat picture where economic crime is concerned. The bank notes an increase in cross-border transactions, a rising number of foreign customers, increased prevalence of virtual currency, as well as new products, new services and new actors in the banking business. In sum, money laundering, fraud and attempted fraud of the bank's customers are becoming more widespread, and more sophisticated, year by year.

The bank seeks to ensure that its products and services are not used to criminal ends, and that its steering systems are evaluated and updated annually in step with the changing risk picture and changes in the anti-money-laundering guidelines. In addition, the bank carries out ongoing checks at various levels ranging from the business lines' internal controls, via ongoing transaction monitoring, to controls carried out by the compliance function. Deviations and improvements are assessed on an ongoing basis, and are reported to the board of directors quarterly.

In 2018 the bank worked on operationalising new procedures and processes from the bank's anti-money laundering project. The bank is increasingly accurate in its identification of transactions that require monitoring, and strengthened the processes for establishing customer relationships and ongoing customer due diligence. For example, the bank enquires into sources of customers' equity capital and income, in particular where the customer has significantly upgraded a dwelling, and wishes to raise a mortgage on the value increase. In such cases the bank asks for information on and documentation of who has done the work and how the refurbishing was financed, with the intention of combating economic crime and undeclared work.

In 2018 a total of 12,196 transactions were captured by the bank's transaction monitoring systems. All the identified transactions were examined by the bank's own anti-money-laundering staff who reported 148 of the suspicious transactions to the National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). (GRI SMN-1)

The bank also established its own clear-up projects. The clear-up projects obtain sufficient information from customer relationships established before the current *know-your-customer* requirements entered into force.

The bank has a focus on knowledge and training to combat economic crime. All staff members are required at regular intervals to undergo mandatory e-training with respect to money laundering and terrorist financing. In addition, classroom instruction in combating money laundering is provided annually for a large number of staff.

The ambition for 2019 is to strengthen the organisation and assignment of roles and responsibilities related to anti-money laundering. The bank will take steps to ensure continued compliance with laws and guidelines when the EU's fourth anti-money laundering directive enters into force.

Environment and procurement

SpareBank 1 SMN is certified under the 'Environmental Lighthouse' scheme. This means that we assume a deliberate environmental responsibility and institute measures to keep our house in order.

In-house environment and responsible procurement

It is particularly important for us as a regional bank to assume a responsibility for sustainable investment and lending. We are duty bound to do all we can to support the UN's sustainability goals, and we are concerned that companies we invest in or lend money to make sustainable choices. This is described in a separate chapter.

SpareBank 1 SMN's environment management system is certified under the 'Environmental Lighthouse' scheme, Norway's most used environmental certification scheme. The bank reports its energy consumption and climate emissions each spring to the *Environmental Lighthouse Foundation* (Stiftelsen Miljøfyrtårn). Certification entails systematic, targeted and continuous improvement in the areas of work environment, procurements, waste, transportation, energy, emissions and aesthetics. The bank thus complies with the sustainable precautionary principle. (GRI 102-11) The bank utilises a modern environmental reporting system with frequent and consistent logging of key figures. Health, environment and safety indicators are assessed against the bank's targets.

Consumption and climate

SpareBank 1 SMN works continuously to reduce its consumption of energy, paper, other resources and resource demanding travel. All technological equipment is handled as special waste and is delivered to an approved e-waste disposal facility. The bank strives throughout to ensure the right procurement of technological equipment and to that end includes energy and environmental requirements as specific assessment criteria. This is set out in a procurement guide and in our Environmental Lighthouse action plans.

All energy purchased by the bank that goes to heating and consumption for office operation is based on renewable energy sources such as remote heating and hydropower. Oil-fired heating and use of fossil energy sources has been entirely phased out.

The head office in Trondheim and the branch in Steinkjer, which are low-energy buildings, have contributed to lower consumption across the branch network. Improved energy monitoring will be established at all branches in 2019, putting the focus on further reducing consumption.

As from 2018 the bank will present a separate  climate account (pdf).

SpareBank 1 SMN's total energy consumption for 2018 was 5.9 GWh compared with 5.7 GWh in 2017. The increase of 300,000 kWh is down to seasonal variation and increased consumption at locations possibly as a result of technical systems that are due for replacement by more modern, energy-efficient systems. The location-based emission factor in 2018 was 0.018 kg CO² per kWh. SpareBank 1 SMN's own climate emissions arise essentially from energy consumption, transport and waste. Other climate emissions are negligible in comparison.

With emission factors from the UK's Department for Environment, Food and Rural Affairs (Defra), and the Norwegian Water Resources and Energy Directorate's (NVE) location-based power mix, SpareBank 1 SMN has an overall climate emission of 631 tonnes of CO² equivalents.

Responsible procurements

The bank's procurement policy requires all purchase contracts to include documentation of corporate social responsibility. Suppliers must abide by local, national and international laws, rules and principles (including provisions on matters such as pay, working time, health, environment, safety and anti-corruption). In the case of calls for tender and RFQs, SpareBank 1 SMN requires offerors to provide documentation of approved environmental certification.

Suppliers are subject to a notification obligation and SpareBank 1 SMN can carry out inspections and audits. Suppliers undertake to act in an ethically correct manner in their production and contracts for deliveries to SpareBank 1 SMN. The same requirements apply to a supplier's sub-suppliers and any partners connected to a contract to supply SpareBank 1 SMN. Any breach of the CSR provisions is regarded as a breach of contract and could provide a basis for contract cancellation.

Suppliers must at minimum satisfy and abide by local, national and international laws, rules and principles (including provisions on matters such as pay, working time and health, environment, safety and anti-corruption). A standard annex on CSR that underlies our procurements applies across the entire SpareBank 1 Alliance.  Read the annex her (pdf).

Local business development

SpareBank 1 SMN has traditionally had a strong local footing, and an important part of SpareBank 1 SMN's social mission is to facilitate growth and development as a basis for the community's welfare.

Through its core business, SpareBank 1 SMN covers many important needs in society: saving, credit, payment services, insurance, damage prevention, management of assets and investment. The fact that the bank operates this core business on a long-term and sustainable basis is possibly the bank's most important

contribution to local business development. Beyond its ordinary banking operations, SpareBank 1 SMN has many extraordinary initiatives with a view to developing the region in which the bank operates. SpareBank 1 SMN Invest develops local businesses by offering capital directly at the development stage. SpareBank 1 SMN Invest therefore invests exclusively in unquoted shares and mutual funds in the bank's geographical catchment area.

The foundation Sparebankstiftelsen SMN is a substantial owner of SpareBank 1 SMN. Its object is to preserve the social aspect of SpareBank 1 SMN's ownership. Read more about Sparebankstiftelsen SMN.

Stiftelsen SpareBank 1 SMN Utvikling

Stiftelsen SpareBank 1 SMN Utvikling invests in projects intended to support a positive development of society. Just over NOK 50m is invested in infrastructure projects and seedcorn and venture funds. (GRI 203-1)

In addition, SpareBank 1 SMN has a social commitment that is out of the ordinary, each year supporting more than 1,000 large and small causes through the gift fund. The gift fund distributes resources to grassroot sports, culture and business development.

Stiftelsen SpareBank 1 SMN Utvikling and the gift fund aim to establish a societal account in the course of 2019.

Governance



Group Management

**Finn Haugan (1953)**

Group CEO

Business economist from the Norwegian School of Management (1977).

Joined SpareBank 1 SMN as CEO in 1991. Group CEO from 2010. Chairman of BN Bank and the Norwegian Savings Banks Association, board member of Finance Norway (FNO). Chairman of SpareBank 1 Gruppen from 2017 and chairman of BankAxept.

Chairman of EiendomsMegler 1 Midt-Norge and SpareBank 1 Markets. Board member of Trondheim Stiftelse Til Nevrovitenskaplig Forskning (Kavlistiftelsen). Previously with Fokus Bank for 13 years, his final two years as deputy CEO.

**Vegard Helland (1975)**

Executive director – Corporate Banking

Business economist from the Bodø Graduate School of Business (1999), and authorised financial analyst (AFA) from the Norwegian School of Economics and Business Administration (2007).

Chairman of SpareBank 1 Finans Midt-Norge, SpareBank 1 Factoring, Conecto and SMB Lab. Board member of SpareBank 1 Markets, SpareBank 1 Portefølje, SpareBank 1 SMN Card Solutions and Mavi XV.

Joined SpareBank 1 SMN in 2003, and has focused primarily on major clients. Head of Corporate Banking since August 2010. Has chaired SpareBank 1 SMN's group credit committee since 2007. Previously with KPMG (aquaculture and fisheries).

**Kjell Fordal (1957)**

Executive director – Finance and Strategy

Business economist from the Norwegian School of Management (1981) and Master of Management from the same institution (2004).

Chairman of SpareBank 1 Regnskapshuset SMN, SpareBank 1 SMN Pensjonskasse, SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt, SpareBank 1 SMN Invest, GMA Invest, Prøven Eiendom, BN Bolig and Trondhjems Turistforening. Board member of SpareBank 1 Markets, SpareBank 1 Kredittkort, BN Kreditt. Joined SpareBank 1 SMN in 1982.

**Nelly S. Maske (1975)**

Executive director – Retail Banking and Organisation and Development

Master of Science from South Bank University in London 2000, Bachelor's degree in business and administration from Sør-Trøndelag University College (previously TØH) 1998.

Broad experience from the professional services firm Ernst & Young, latterly as director at Ernst & Young Advisory from 2010 to 2013.

Chairman of Odin Forvaltning to desember 2018. Board member of BN Bolig and Odin Forvaltning. Joined SpareBank 1 SMN in 2013.

**Rolf Jarle Brøske (1980)**

Executive director – Communications and Society

Studies in political science and history at Molde University College and the Norwegian University of Science and Technology (NTNU).

Previously industrial policy director at Det norske Oljeselskap ASA, and on the management team of Danske Bank (Fokus Bank). Adviser to the Minister of Trade and Industry, Børge Brende, and to the Mayor of Trondheim. Has held a number of political positions. Joined SpareBank 1 SMN in October 2016.

**Ola Neråsen (1965)**

Executive director – Risk Management

Business economist from the BI Norwegian School of Management (1977), state authorised public accountant from the Norwegian School of Economics and Business Administration (1994).

Board member of Betr AS.

Previously with Deloitte.

Joined SpareBank 1 SMN in 1997.

Board of Directors



Kjell Bjordal (1953) Board chair

Business economist from the Norwegian School of Economics and Business Administration NHH (1976), law studies and Advanced Management Program at Wharton Business School (1989).

Board member since 2007 and board chair since 2013. Member of the remuneration committee since 2012 and committee chair since 2013.

Self-employed.

Experience as CEO of EWOS Group and head of Cermaq's fish food division. CEO of NorAqua, finance director and CEO of the Glamox Group and director at Trøndelag Theatre.

Board chairman of Axess, Axess Nordlaks Oppdrett, Nordlaks Smolt and Nordlaks produkter. Broodstock Capital Partners, II and Norsk Landbrukskjemi. Deputy board chair of Entra Eiendom.

Attended 15 of 15 meetings of the Board of Directors in 2018.



Bård Benum (1962) Deputy board chair

Graduate of the Norwegian University of Science and Technology (NTNU) (1987).

Board member since March 2009, and deputy chair since 2013. Member of the internal audit committee since 2009 and member of the risk committee since 2013.

CEO at VitalThings.

Senior positions at Norsk Hydro, Statoil, Reitan Group. CEO at Cresco (1998-2000) and Vital Forsikring (2001-2007). CEO Powel 2007-2018.

Attended 15 of 15 meetings of the Board of Directors in 2018.



Paul E. Hjelm-Hansen (1962)

MBA from the University of Denver, USA (1988), Certified European Financial Analyst (AFA) from the Norwegian School of Economics and Business Administration (1996) and Authorised Portfolio Manager (Norwegian Society of Financial Analysts/Norwegian School of Economics and Business Administration) (2001).

Board member and chairman of the internal audit committee since 2008. Head of the risk committee since 2013.

Private investor and self-employed financial adviser.

Has held positions as financial analyst, as portfolio manager at Christiania Bank og Kreditkasse and Fokus Bank and as head of finance and finance director at, respectively, Bachke & Co and Det norske oljeselskap.

Chairman of Arild og Emilie Bachkes Fond, Trondhjems Kunstforenings legatstyre, Adolf Øiens Fond for almennyttige formål and Stiftelsen Karen og Adolf Øiens Aldershjem. Board member of Bachke & Co.

Attended 15 of 15 meetings of the Board of Directors in 2018.

**Mette Kamsvåg (1971)**

Business economist from the BI Norwegian School of Management (1994).

Board member since 2018. Member of the audit and risk committee as from 2018.

Self-employed. Fifteen years' experience from IT and payment systems through various management positions with the Norwegian banks' payment and clearing house (BBS) and NETS. CEO at NETS from 2011 to 2014.

Board chair at Maritech Systems AS and easy2you. Board member of VPS ASA (Norwegian securities depository) and SIVA (public funding agency for innovation).

Attended 10 of 11 meetings of the board of directors in 2018.

**Tonje Eskeland Foss (1971)**

Post graduate degree in petroleum economics (1996)

Board member since 2018. Member of the remuneration committee as from 2018.

Regional Director, Nord, at Atea since March 2017. Nineteen years' experience with the petroleum industry in the field of contracts and procurement, including with AkerBP ASA.

Previously board member of Det norske oljeselskap ASA (2012-2014) and BUE-stiftelsen (2007-2013).

Attended 11 of 11 meetings of the board of directors in 2018.

**Morten Loktu (1960)**

Master of Science, Norwegian University of Science and Technology (1984).

Board member since 2013. Member of the remuneration committee since 2013.

Senior Vice President with responsibility for LEAN & Operational Improvements at Statoil.

Joined Statoil in 1985 and has held various posts including in research and development. Executive director in charge of Statoil's technology organisation (2000-2002). Senior Vice President, research and development at Statoil (2005-2010). Area director, Statoil's production and development activity off Mid-Norway and North Norway (2011-2016).

Group CEO, SINTEF Group (2002-2004).

Attended 15 of 15 meetings of the Board of Directors in 2018.

**Janne T. Thomsen (1957)**

Cand. Jur. (law) degree, University of Copenhagen (1981). Graduate Diploma in Business Administration, Copenhagen Business School (1986).

Board member since 2014. Member of the audit and risk committee since 2014.

Consultant and owner at JT Targeting in Denmark.

Previously Senior Vice President at Moody's rating agency (1997–2012). Prior to that with Yamaichi International (Europe) Limited (1987–1995), with the Ministry of Finance, Government Debt Office (1984–1987) and with the Export Credit Council, Ministry of Industry (1981–1984).

Attended 15 of 15 meetings of the Board of Directors in 2018.



Erik Gunnes (1966)

Three-year business school. Bank-related training at Bankakademiet and BI Norwegian Business School.

Regularly attending alternate member for the employees since 2014-2016. Board member for the employees from 2016.

23 years' experience in various positions with SpareBank 1 SMN.

Board member of the Finance Sector Union in Trøndelag (2010–2012).

Attended 15 of 15 meetings of the Board of Directors in 2018.



Venche Jonsen (1952)

Varied education at Bankademiet and at university college level.

Board member 2004-2016.

Alternate member for the employees 2016 – March 2017. Permanent member for the employees from March 2017.

Group employee representative at the Finance Sector Union branch at SpareBank 1 SMN. 32 years' experience in various positions with SpareBank 1 Midt-Norge.

Attended 15 of 15 Board meetings in 2018.

Elected officers

Members elected by the equity certificate holders

	Residence	No. of equity certificates held*
Lars Bjarne Tvete	Trondheim	30 000
Marit Collin	Trondheim	4 655
Jøran Nyheim	Molde	3 965 391
Thor Arne Falkanger	Trondheim	179 255
Torgeir Svae	Os	2 500
Knut Solberg	Trondheim	293 887
Therese Bjørstad Karlsen	Trondheim	170
Nina Kleven	Trondheim	1 100
Nils Martin Williksen	Rørvik	10 049
Randi Borghild Dyrnes (leder)	Smøla	1 000
Frithjof Anderssen	Trondheim	26 797
Åsmund Skår	Nesbru	1 200

Members elected by the depositors

	Residence	No. of equity certificates held*
Per Olav Tyldum (nestleder)	Overhalla	0
Vegard Forbord	Steinkjer	0
Marit Dille	Abelvær	3 339
Anne Rita Bakken	Stjørdal	0
Randi Bakken	Trondheim	0
Jan-Yngvar Kiel	Bosberg	0
Wollert Krohn-Hansen	Trondheim	0
Elin Hagerup	Trondheim	0
Line Melkild	Sunndalsøra	0

Members elected by the county councils

	Residence	No. of equity certificates held*
Jan Inge Kaspersen	Stjørdal	0
Stig Kломsten	Bosberg	0
Tove-Lise Torve	Sunndalsøra	0

Members elected by the employees

	Residence	No. of equity certificates held*
Linda Renate Linmo	Grong	1 562
Anders Skrove	Steinkjer	1 437
Bjørn Larsen	Trondheim	3 338
Anne Valstad-Aalmo	Trondheim	912
Geir Tore Mathisen	Trondheim	2 597
Rolf Bratlie	Buvik	1 312
Bjørn Kristian Dyrseth	Molde	2 603
Berit Bøifot	Molde	4 828

Board of Directors

	Residence	No. of equity certificates held*
Kjell Bjordal (leder)	Molde	130 000
Bård Benum (nestleder)	Trondheim	0
Morten Loktu	Trondheim	5 000
Paul E. Hjelm-Hansen	Trondheim	49 219
Janne Thyø Thomsen	Danmark	3 000
Tonje Eskeland Foss	Trondheim	0
Mette Kamsvåg	Molde	5 600
Erik Gunnes	Trondheim	815
Venche Johnsen	Trondheim	24 996
Oddny Lysberg (varamedlem)	Grong	1 188

Election Committee

	Residence	No. of equity certificates held*
Lars Bjarne Tvete	Trondheim	30 000
Thor Arne Falkanger	Trondheim	179 255
Marit Dille	Kolvereid	3 339
Tove-Lise Torve	Sunndalsøra	0
Rolf Bratlie	Buvik	1 312

* Number of equity certificates held as of 31 December 2017 includes certificates held by the EC holder's related parties, by companies under the EC holder's control and by companies on whose behalf the EC holder is elected.

Corporate governance

Each year the management team and board of directors of SpareBank 1 SMN review its corporate governance policies and how they function across the group. The corporate governance policies and practice are prepared and presented in conformity with the Accounting Act (Regnskapsloven) section 3-3b and the Norwegian Code of Practice for Corporate Governance.

Accounting Act, section 3-3b, second subsection

The following explains how the Accounting Act section 3-3b, second subsection, is complied with at SpareBank 1 SMN. The numbering shows the numbering in the subsection concerned.

1. A statement of recommendations and rules for corporate governance which apply to the company or which it chooses to abide by.

Policies and practice for corporate governance at SpareBank 1 SMN are based on Norwegian law. The group abides by the Norwegian Code of Practice for Corporate Governance. Reference is made to point 1 of the Code of Practice below.

2. Information on where recommendations and rules as mentioned in no. 1 are publicly available.

The Code of Practice for Corporate Governance is available at nues.no.

3. A justification for any deviation from recommendations and rules as mentioned in no. 1.

Any deviations from the recommendation receive comment under the report on compliance with the Code of Practice below.

4. A description of the main elements in the undertaking's and – for entities that are under the obligation to maintain accounting records and that prepare consolidated accounts – in the event also the group's systems for internal control and risk management associated with the financial reporting process.

See the report regarding point 10 of the Code of Practice below.

5. Provisions of articles of association which in whole or in part expand or diverge from provisions of the Public Limited Companies Act chapter 5.

See the report regarding point 6 of the Code of Practice below.

6. The composition of the board of directors, corporate assembly, supervisory board and control committee; any working committees for these bodies, and a description of the main elements of applicable instructions and guidelines for the work of these bodies and any committees.

See the report regarding points 6, 7 and 8 of the Code of Practice below.

7. Provisions of articles of association which regulate the appointment and replacement of board members.

See the report regarding point 8 of the Code of Practice below.

8. Provisions of articles of association and authorisations that empower the board of directors to decide that the company shall repurchase or issue treasury shares or equity certificates.

See the report regarding point 3 of the Code of Practice below.

Norwegian Code of Practice for Corporate Governance

The following explains how the 15 points set out in the current Norwegian Code of Practice for Corporate Governance of 17 October 2018 are complied with at SpareBank 1 SMN.

Point 1: Report on corporate governance

There are no significant divergences between the Code of Practice and compliance with the Code of Practice at SpareBank 1 SMN.

The Code of Practice applies to the extent appropriate to savings banks with equity certificates. Any deviations are explained below.

SpareBank 1 SMN has a distinct corporate governance policy, and will further develop this policy within the framework of applicable laws and in keeping with recommendations emanating from influential sources.

Through its corporate governance policy the bank aims to assure sound management of its assets and to give added assurance that its stated goals and strategies will be realised. Good corporate governance encompasses the values, goals and overarching policies by which the bank is governed and controlled with a view to securing the interests of EC holders, depositors and other stakeholder groups in the bank. The bank adheres to the "Norwegian Code of Practice for Corporate Governance" to the extent appropriate to savings banks with equity certificates. The Code of Practice is available at nues.no.

Through its corporate governance the bank gives special emphasis to:

- a structure assuring targeted and independent management and control
- systems assuring monitoring and accountability
- effective risk management
- full information and effective communication
- non-discrimination of EC holders and a balanced relationship with other stakeholders
- compliance with laws, rules and ethical standards

The staff must be recognised for their high ethical standards. To this end they must display a conduct that is perceived to be confidence inspiring, honest and trustworthy and in compliance with the norms, rules and statutes by which the society is governed. The ethical rules deal inter alia with legal (in)capacity; relationships to customers, suppliers and competitors; securities trading; insider rules and relevant financial circumstances of the individual. This body of rules applies to all employees and elected officers in governing bodies.

All staff and elected officers at SpareBank 1 SMN are obliged to regard knowledge of the group's or a customer's circumstances as confidential. This duty of confidentiality applies not only in respect of third parties but also towards colleagues who have no need for the information in question in their work. Further, no SMN staff member may, via computer systems or by any other means, retrieve information about other colleagues or customers that is not necessary for their work. The bank's ethical rules stipulate that a staff

member must immediately inform his/her superior or other contact persons if he/she learns of circumstances that breach applicable statutes and rules or constitute **significant** violations of internal provisions.

Deviations from point 1 of the Code of Practice: None

Point 2: Operations

SpareBank 1 SMN's activities are made clear in the company's articles of association. SpareBank 1 SMN's object is to carry on business as a bank and to pursue and participate in activities that the savings bank is entitled to engage in under licences held and legislation in force at any and all times. The articles of association can be found in extenso on the bank's website, and SpareBank 1 SMN's goals and main strategies are set out in this annual report.

Long-range target rates of return are set for the business with a basis in adopted strategies and objectives. These are determinative for the bank's concrete goals, risk limits and capital management framework, budgets and so forth. Where it is natural to do so, risk-adjusted targets are set and the required rate of return reflects the various risks incurred by the bank. Risk and capital management are an integral part of the bank's management process and value creation.

Guidelines and various measurement variables have been developed by which the business units are measured and managed in order to achieve the business goals. Forecasting and budget management are also utilised as effective tools for attaining the strategic objectives.

See the relevant chapter in the annual report for a description of the bank's strategies and goals.

SpareBank 1 SMN wishes to promote a sustainable development of society through responsible business operations, which includes giving due consideration to ethics, the environment and social matters. A distinct strategy for managing the bank's corporate social responsibility (CSR) has been established.

Corporate social responsibility is an integral part of the bank's business activity and is given expression through strategies, measures and activities. Corporate social responsibility is reflected in the way resources are managed and through dialogue with the employees, shareholders, customers, local communities and other stakeholders. Furthermore, a purchasing strategy has been established which describes the bank's ethical framework, requirements on suppliers and the criteria underlying purchases and procurements.

See also the chapter on corporate social responsibility in the annual report.

Deviations from point 2 of the Code of Practice: None

Point 3: EC capital and dividends

The board of directors continuously assesses the capital situation in light of the group's goals, strategy and desired risk profile. As at 31 December 2018 SpareBank 1 SMN's common equity tier 1 (CET1) ratio was 14.6 per cent.

For detailed information on capital adequacy, see the relevant note in this annual report. For a further account of the rules governing capital adequacy and the principles on which SpareBank 1 SMN bases its assessment of capital need, see the Pillar 3 report published at smn.no.

Dividends

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

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

SpareBank 1 SMN's intention is that one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that one half of the ownerless capital's share of the net profit for the year should be utilised for distribution to non-profit causes or transferred to the foundation Sparebankstiftelsen SMN.

This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, of external framework conditions and of the need for tier 1 capital. The bank's supervisory board sets the annual dividend payout based on the board of directors' recommendation. The dividend policy is published on the bank's website.

Acquisition of treasury equity certificates

SpareBank 1 SMN's board of directors are authorised to buy treasury ECs for up to 5 per cent of the bank's owner capital, and such purchases shall be made by trading on the securities market via the Oslo Stock Exchange. The total volume of ECs held by the bank and/or in which it has a consensual security interest may not exceed 5 per cent of the bank's owner capital. Each EC may be bought at prices between NOK 1 and NOK 200. The authorisation is valid for 15 months as from the adoption of the resolution at the supervisory board's meeting on 22 March 2018.

Increase of capital

Authorisations to the board of directors to increase the bank's EC capital are given for specific and defined purposes. As at 31 December 2018 no authorisation is available to the board of directors to increase the capital of SpareBank 1 SMN.

Deviations from point 3 of the Code of Practice: None

Point 4: Non-discrimination of shareholders and transactions with related parties

SpareBank 1 SMN has one class of ECs. Through the articles of association, and in the work of the board of directors and management team, emphasis is given to equal treatment of all EC holders and equal opportunity for them to exercise influence. All ECs confer an identical voting right. The bank abides by provisions of the Financial Institutions Act regulating holdings and voting rights insofar as these provisions apply to savings banks with equity certificates.

In the event of an increase of owner capital, existing EC holders have pre-emptive rights unless special circumstances call for deviation from this rule. Any such deviation will be explained. SpareBank 1 SMN has at irregular intervals launched private placings with the employees, and such increases of capital have been designed to strengthen employees' ownership of the bank and interest in the bank's capital instrument. Any exercise of the board of directors' authorisation to acquire treasury certificates shall be by trading on the securities market via the Oslo Stock Exchange.

In order to strengthen the equity certificate as an attractive financial instrument and to increase investors' influence regarding decisions affecting the owner capital, the supervisory board voted in 2017 to amend the bank's articles of association such that a qualified majority of the representatives of the equity certificate holders must vote in favour of amendments concerning the owner capital in addition to a qualified majority of the supervisory board. A list of the matters to which this applies is set out in article 10-1 of the bank's articles of association which can be found on the bank's website.

Deviations from point 4 of the Code of Practice: None

Point 5: Shares and transferability

The bank's equity certificate is quoted on the Oslo Stock Exchange under the MING ticker symbol and is freely transferable. The articles of association contain no restrictions on transferability.

Deviations from point 5 of the Code of Practice: None

Point 6: General meeting**Supervisory board**

The governance structure and the composition of the governing bodies of a savings bank differ somewhat from those of public limited liability companies; see the Financial Institutions Act and what bodies a savings bank is required to have. The bank's highest body is the supervisory board comprising EC holders, customers, employees and representatives of the public authorities.

The supervisory board shall see to it that the bank operates in line with its mission and in conformity with law, its articles of association and decisions of the supervisory board.

The supervisory board has 32 members and 30 alternates with the following representation:

- EC holders: 12 members and 10 alternates
- the county councils of Trøndelag
- and Møre and Romsdal: 3 members and 3 alternates
- customers: 9 members and 9 alternates
- employees: 8 members and 8 alternates

The supervisory board approves the group's annual accounts and management report, including application of profit for the year/distribution of dividend, considers the board of directors' declaration regarding determination of pay and other remuneration to senior employees, and considers the report on good corporate governance. The supervisory board's tasks are further described in the bank's articles of association which are available at smn.no.

The members of the board of directors, the group CEO and the auditor are also summoned to meetings of the bank's supervisory board. They may participate in the proceedings but are not entitled to vote. The supervisory board chair presides over the meeting or, in the latter's absence, the deputy chair.

Notice of meetings of the supervisory board is sent to its members and is available on the bank's website at least 21 days ahead of the meeting. The intention is that proposals for resolutions and case documents that are dispatched should be sufficiently detailed to enable the members of the supervisory board to take a position on the matters to be considered. Minutes of the meetings of the supervisory board are also made available on the bank's website.

A list of supervisory board members can be found at smn.no.

Deviations from point 6 of the Code of Practice: Where the composition of the bank's bodies is concerned, SpareBank 1 SMN abides by laws and provisions that regulate financial institutions.

Point 7: Election committee

The bank shall have an election committee consisting of five members and five alternates who are elected

by the supervisory board for a two-year term. The election committee shall mirror the composition of members of the supervisory board and be composed as follows:

- Two members with two alternates shall be elected from among the members elected by the representatives of the equity certificate holders
- One member with one alternate shall be elected from among the members elected by the representatives of the customers
- One member with one alternate shall be elected from among the members elected by the representatives of the county councils
- One member with one alternate shall be elected from among the members elected by the representatives of the employees

The supervisory board establishes further instructions for the holding of the elections.

The election committee prepares the customers' and the equity certificate holders' election of members to the supervisory board.

The election committee also prepares the election of:

- the chair and deputy chair of the supervisory board
- the chair, deputy chair and other members of the board of directors
- the chair, members and alternates to the election committee as dealt with in this chapter

The directors with alternates to be elected from among the employees shall be nominated solely by the employee representatives on the election committee.

The election committee shall give grounds for its nominations.

The election committee proposes fees for members of the respective bodies.

Deviations from point 7 of the Code of Practice: All members of the election committee for the supervisory board are appointed from among the groups represented on the supervisory board, in accordance with provisions of the articles of association.

Point 8: Board of directors, composition and independence

See point 6 for information about the supervisory board. As of 31 December 2018 the board of directors consists of nine regularly attending members of whom two represent the employees. Four of the nine members of the board of directors are women. Members of the board of directors are appointed for two years at a time and can hold office for a maximum of 20 years, but not more than 12 years continuously in the same position. The group CEO is not a member of the board of directors. None of the members of the board of directors appointed by the supervisory board, with the exception of the two employee representatives, are in any employment relationship or independent contractor relationship with the group beyond their posts as elected officers. The board members' independence has been assessed by the election committee and the board members are deemed to be independent, with the exception of the board members elected by the employees. The chair and deputy chair are elected by the supervisory board at separate elections for a two-year term.

The composition of the board of directors shall be based on the bank's articles of association. In the election of board members the criteria of competence, capacity and diversity are in focus. The individual director's

background is described in this annual report and at smn.no. The board of directors meets at least 11 times each year, and the members' attendance at meetings of the board is described in this annual report. The directors are encouraged to own the bank's equity certificates, and their respective holdings of ECs in SpareBank 1 SMN are shown under the presentation of the board of directors in this annual report and on the bank's website.

Deviations from point 8 of the Code of Practice: None

Point 9: Work of the board of directors

The board of directors' work and procedures are regulated by board instructions, and annual plans are prepared for the work of the board. The board of directors manages the bank's operations in compliance with laws, articles of association and resolutions of the supervisory board. The board of directors is responsible for ensuring that the assets at the bank's disposal are managed in a safe and appropriate manner. The board of directors is also required to ensure that accounting and asset management are subject to satisfactory control. In addition the board of directors adopts the bank's strategy, budget, market and organisational objectives and risk profile. It is the board of directors that appoints and dismisses the group CEO.

The board of directors receives reports on profit performance and market developments, and on the status regarding the group's risk picture. The board of directors conducts an annual evaluation of its work and its competence. It reviews working method, case handling, meeting structure and prioritising of tasks, and this provides a basis for any changes and measures needed.

Independent consideration

Under instructions in force for the board of directors, a director is barred from participating in the consideration of, or decision in, any matter whose significance to him/herself or to any related party is such that the director is to be regarded as having, directly or indirectly, a particular personal or financial interest in that matter. The same follows from the group's ethical guidelines. Each director is obliged to personally verify that he or she is not disqualified from participating in the treatment of a matter.

Any agreement between the bank and a director or the group CEO must be approved by the board of directors, as must any agreement between the bank and a third party in which a director or the group CEO has a particular interest. Directors are required to disclose on their own initiative any interest the individual or related party concerned may have. Unless the director him/herself opts to step back from the consideration of or decision in a matter, the board of directors shall decide whether or not the director shall step back. The board's assessments of legal (in)capacity must be duly recorded.

Board committees

The board of directors has established a compensation committee, an audit committee and a risk committee consisting of members of the bank's board of directors. The members are appointed for a two-year term. The committees are preparatory and advisory working committees to the board of directors, and it is the board of directors that establishes the committees' mandates.

Audit committee

Pursuant to the Financial Institutions Act section 8-19 the audit committee's tasks are to:

- prepare the board of directors' follow-up of the financial reporting process,

- monitor the internal control and risk management systems and the bank's internal audit and issue an opinion on the election of the auditor,
- have ongoing contact with the bank's appointed auditor regarding the audit of the annual accounts,
- assess and monitor the auditor's independence and objectivity

The audit committee meets at least five times yearly ahead of the board of directors' consideration of quarterly and annual reports.

Risk committee

The risk committee's tasks are regulated in the Financial Institutions Act section 13-6(4) and the Financial Institutions Regulations section 13-2. The risk committee's task is to ensure that risk and capital management support the group's strategic development and goal attainment, and at the same time ensure financial stability and sound asset management. The risk committee shall ensure that the group's management and control arrangements are appropriate to the risk level and volume of the business.

The committee shall inter alia:

- ensure that risk management is in keeping with best practice and the board of directors' level of ambition
- review risk management strategies and policies as preparation for consideration by the board of directors
- ensure that the group's capital adequacy is satisfactory within the adopted group strategy
- ensure that laws and regulations and internal rules that regulate the group are identified, implemented, complied with and overseen.

The risk committee meets at least five times yearly.

Compensation committee

The board of directors has appointed a compensation committee which shall comprise at least three directors. In addition to these three, the board of directors appoints one board representative for the employees who participates in the committee. The board chair is a permanent member of the committee and also chairs the committee. The committee members are appointed by the board of directors for a two-year term.

The committee is a preparatory body to the board of directors in matters relating to the design and practice of guidelines and framework for the group's compensation policy. The group's compensation policy is intended to promote sound management and control of the group's risk, discourage excessive risk taking, encourage a long-term perspective, contribute to avoidance of conflicts of interest and be in compliance with applicable law and regulations.

The compensation committee makes a recommendation to the board of directors regarding compensation policy and regarding conditions applying to the group CEO. The committee also establishes limits with regard to variable compensation, and approves compensation arrangements for all business areas and subsidiaries. The committee can also be used as an advisory body to the group CEO in the determination of conditions for the group management.

The committee meets when convened by the chair, but at least once yearly and otherwise as and when required. The attendance of at least two members is required.

The board of directors has established the compensation committee's mandate.

Deviations from point 9 of the Code of Practice: None

Point 10: Risk management and internal control

Sound risk and capital management are central to SpareBank 1 SMN long-term value creation. Internal control aims to ensure efficient operation and proper management of risks of significance for the attainment of business goals.

The group's report on capital requirements and risk management, the Pillar 3 Report, contains a description of risk management, capital management and capital calculation. This report is available at smn.no.

SpareBank 1 SMN aims to maintain a moderate risk profile and to apply risk monitoring of such high quality that no single event will seriously impair the bank's financial position. The bank's risk profile is quantified through targets for rating, risk-adjusted return, expected loss, necessary economic capital and regulatory capital adequacy.

The board of directors reviews the group's development in the main risk areas on a quarterly basis and reviews the internal control system on an annual basis. The board of directors of SpareBank 1 SMN has the main responsibility for setting limits to and monitoring the group's risk exposure. The bank's risks are measured and reported in accordance with the principles and policy adopted by the board of directors. Risk management at SpareBank 1 SMN underpins the group's strategic development and goal attainment. Managements at the various companies in the group are responsible for risk management and internal control, and this is intended to ensure:

- targeted, safe, high-quality and cost-effective operations
- reliable and timely reporting
- compliance with applicable laws and regulations as well as internal procedures and policies

The board of directors receives annually from the internal auditor and external auditor an independent assessment of the group's risk and internal control function. The board monitors compliance with adopted frameworks, principles, and quality and risk objectives through:

- quarterly reports from the group CEO and the risk management department
- quarterly reports from the compliance function
- quarterly reports/annual report from the internal auditor

SpareBank 1 SMN utilises the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Framework and the Control Objectives for Information and Related Technology (CobiT) framework as a basis for its policies for internal control and risk management.

Risk management is an integral part of the management's decision processes, and a central element in regard to organisation, procedures and systems. A risk management department has been established at SpareBank 1 SMN.

The risk management department is organised independently of the business units and reports directly to the group CEO. The department is responsible for the group's risk models and for further developing

effective risk management systems. The department is responsible for independent risk assessment, risk reporting and overall risk monitoring in the group and reports periodically to the group CEO and the board of directors.

The bank's most important profit objective is to achieve a competitive return on equity. This is done through increased focus on risk-adjusted return. Principles and framework for internal control and risk management are enshrined in a risk management policy. This policy sets out guidelines for the group's overall approach to risk management and is designed to ensure that the group has an effective and appropriate process to that end.

Compliance

The compliance function is organised independently of the business units. The function assesses the undertaking's policies, procedures and systems to ensure regulatory compliance, and provides advice to the management and other relevant personnel on measures to be initiated to ensure compliance with the prevailing body of rules. The function shall also establish guidelines and processes for managing compliance risk and ensure that compliance is monitored and tested through a structured and well-defined monitoring programme. The head of the compliance function reports periodically to the Group CEO and the board of directors. Compliance reports are prepared on a quarterly basis.

The compliance function has established a specific responsibility for monitoring compliance with the Anti-Money Laundering Act and the Personal Data Act.

Business areas and support functions, along with subsidiaries, are required to attend to compliance by operationalising the policy for compliance and identified compliance risks adopted by the board of directors.

Internal control in relation to financial reporting

The board of directors of SpareBank 1 SMN has issued guidelines for the group's financial reporting. They apply within the current requirements imposed by the authorities and are designed to ensure relevant, reliable, up to date and simultaneous information to the bank's EC holders and the securities market in general. Group Finance is headed by the finance director and is organised independently of the business areas. The unit attends to financial reporting at both parent-bank and group level, and establishes guidelines for monthly, quarterly and annual reporting from the various business areas and subsidiaries. The finance director assesses the business areas' financial results and goal achievement on a continuous basis, and sees to it that all units perform in keeping with the group's overall financial objectives. The finance director reports directly to the group CEO.

The bank's Accounts Department and Finance Department are organised under Group Finance and prepare financial reports for the group. The departments see to it that reports are made in conformity with applicable legislation, accounting standards, the group's accounting policies and the board of directors' guidelines.

Group Finance has established processes to ensure that financial reporting is quality assured and that any errors and deficiencies are followed up and rectified as and when they occur. A number of control measures have been established to ensure that all financial reporting is correct, valid and complete.

Each quarter the external auditor conducts a limited audit of the group's interim financial statements. A full audit is conducted of the group's annual financial statements.

For further information on risk management and internal control, see note 6 in this annual report concerning financial risk management and the group's report on capital requirements and risk management, the Pillar 3 report, which is available at smn.no.

Internal audit

The internal audit function is a tool used by the board of directors and the administration to oversee that the risk management process is targeted, effective and functions as intended. Internal audit services are delivered by KPMG and these services cover the parent bank and subsidiaries subject to the risk management and internal control regulations.

The internal audit function's main task is to confirm that the established internal control system functions as intended, and to ensure that risk management measures are adequate to the bank's risk profile. The internal audit function reports quarterly to the board of directors and the internal audit's reports and recommendations are reviewed and improvements implemented on a continuous basis.

The board of directors adopts annual plans and budgets for the internal audit function.

The internal audit function carries out the operational audit of units and business areas, and does not conduct a financial audit of the group. Annual audit plans are prepared which are discussed with the group management, considered by the risk committee and approved by the board of directors. The audit function's risk assessments determine which areas are to be reviewed. Separate audit reports are prepared containing results and proposed improvement measures which are presented to the responsible manager and the group's management team. A summary of the reports is sent quarterly to the risk committee and the board of directors. Any consultancy services are provided within the scope of standards and recommendations applying to internal auditors (Institute of Internal Auditors Norway).

Ethics and whistleblowing

Ethical guidelines have been drawn up for the group and its employees, and ethics is a standard topic at seminars for all new staff members. This helps to ensure that the group's values and ethical guidelines are properly communicated and made known throughout the organisation. Clear-cut guidelines have been established for internal communication should any member of staff learn of circumstances that breach external or internal regulatory provisions or of other circumstances which are likely to harm the group's reputation or financial situation.

Deviations from point 10 of the Code of Practice: None

Point 11: Remuneration to the board of directors

The board members' fees that are recommended by the election committee and adopted by the supervisory board are not performance-related and no options are issued to the directors. The board of directors' chair and deputy chair are remunerated separately, and directors participating in board committees receive additional remuneration for doing so. None of the directors appointed by the supervisory board perform tasks for the group beyond serving on the board of directors.

Further information on compensation to the board of directors and board committees is shown in note 22 in the annual report.

Deviations from point 11 of the Code of Practice: None

Point 12: Remuneration to senior employees

The group has established a remuneration policy that is in accordance with the group's overarching objectives, risk tolerance and long-term interests. This policy is designed to promote and incentivise good management and control of the group's risk, to counter excessive or undesired risk-taking, to pre-empt conflicts of interest and to be in accordance with applicable law and regulations. See the requirements of Regulations on remuneration schemes at financial institutions, investment firms and fund management companies. The remuneration policy has special rules for senior employees. These rules also apply to other employees and elected officers with work tasks of material significance for the group's risk exposure and to employees and elected officers with control tasks.

The board of directors has appointed a compensation committee, which acts as a preparatory body for the board in cases relating to the assessment of, and compensation to, the group CEO. The committee also recommends to the board of directors guidelines for remuneration to senior employees (the group management). See also the account of the board of directors' compensation committee under point 9.

A description of remuneration to the group CEO and senior employees is given in note 22 to the annual report. A further description of the bank's remuneration scheme is available on the bank's home page.

Deviations from point 12 of the Code of Practice: None

Point 13: Information and communication

The bank's information policy is designed to underpin the relationship of trust between the bank's EC holders, board of directors and management, and to ensure that the bank's stakeholders are at all times able to assess and relate to the bank. The bank's information policy is based on active dialogue in which openness, predictability and transparency are at centre stage.

The open information practice is in conformity with the bank's internal and external guidelines, with such limitations as follow from the duty of confidentiality and stock exchange rules in effect at all times.

Correct, relevant and timely information on the bank's progress and performance aims to instil investor market confidence. Information is communicated to the market via quarterly investor presentations, an investor relations area on the bank's website and stock exchange notices. The group's financial calendar is published on the bank's website.

Presentations for international partners, lenders and investors are also arranged on a regular basis. The board of directors has adopted a communications strategy indicating who can make statements on behalf of SpareBank 1 SMN and in what areas.

Deviations from point 13 of the Code of Practice: None

Point 14: Takeover

SpareBank 1 SMN's equity capital consists of owner capital, ownerless capital and earned equity. The ownerless capital represents a 'self-owning' part of the savings bank which cannot be taken over by others through acquisition. A savings bank's ownership structure is also regulated by law such that approval is required for any acquisition entailing that a holding will represent 10 per cent or more of the bank's capital or voting rights. A list of the SpareBank 1 SMN's 20 largest EC holders is available on the bank's website at smn.no.

Deviations from point 14 of the Code of Practice: Statutory limit on equity holdings

Point 15: External auditor

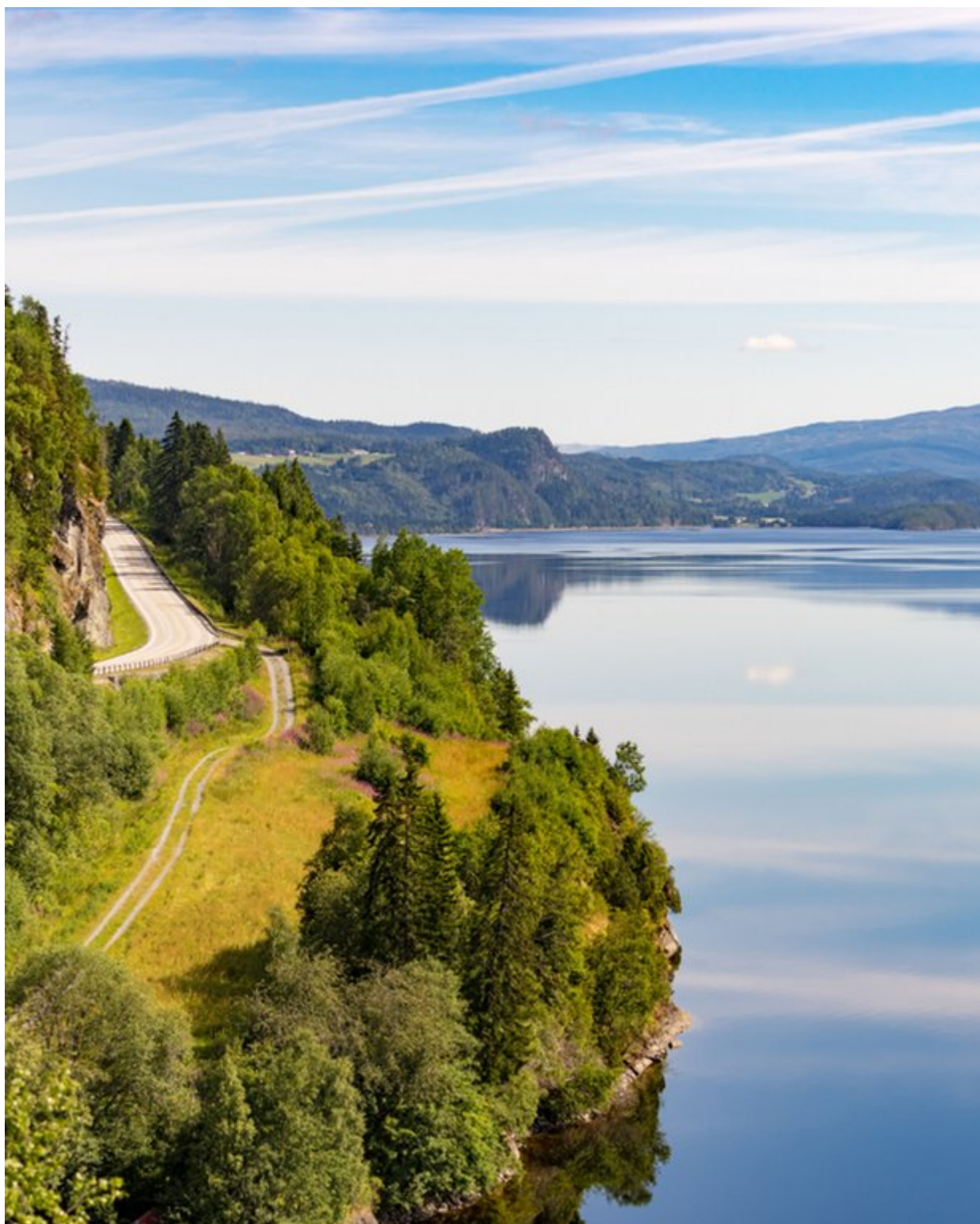
An external auditor is appointed by the supervisory board upon the recommendation of the audit committee and nomination by the board of directors, and the auditor is identical for all companies in the group. The external auditor performs the statutory confirmation of the financial information provided by the companies in their public financial statements. The external auditor presents each year the principal aspects of a plan for the conduct of the audit. The external auditor attends meetings of the board of directors at which the annual accounts are reviewed and also meetings of the audit committee where the accounts are reviewed.

The board of directors holds at least one meeting each year with the external auditor without the group CEO or others from the day-to-day management team being present. Guidelines have been established for the day-to day management team's right to utilise the external auditor for non-audit services. Any such services from the external auditor must at all times be within the scope of the Auditors Act. The board of directors informs the supervisory board of the external auditor's remuneration for the audit and any other services.

The external auditor provides the audit committee with a description of the main elements of the audit, including whether any significant weaknesses have been identified in the bank's internal control related to financial reporting processes. In addition the auditor confirms his independence and discloses whether any services other than statutory audit have been delivered to the group over the course of the accounting year.

Deviations from point 15 of the Code of Practice: None

MING



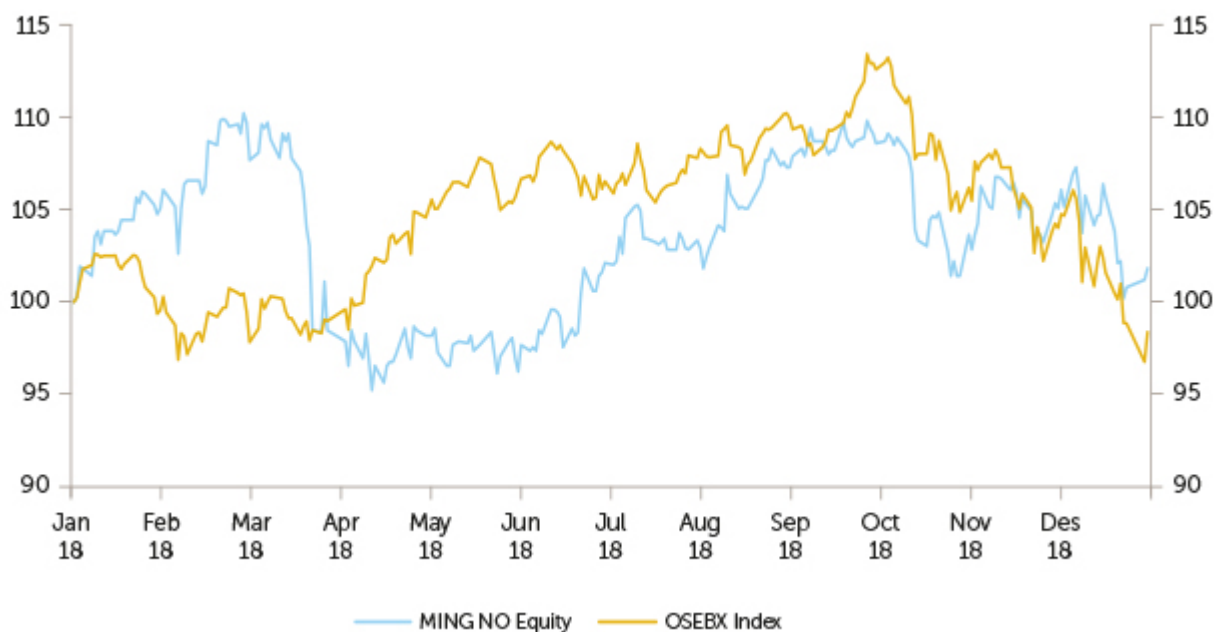
Equity capital certificate

At end-2018 the market price of SpareBank 1 SMN's EC (MING) was NOK 84.20. At end-2017 the price was NOK 82.25. With a cash dividend of NOK 5.10 for 2016, the direct return on the EC is 6.1 per cent.

At the end of 2018 SpareBank 1 SMN's equity certificate (EC) capital totalled NOK 2,597m distributed on 129,836,443 ECs with a nominal value of NOK 20 each. At the turn of the year the bank had a treasury holding of ECs totalling NOK 12,400 distributed on 620 ECs.

Key figures and ratios	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Quoted price	84.20	82.25	64.75	50.50	58.50	55.00	34.80	36.31	49.89	45.06
No. of ECs issued, million	129.62	129.38	129.83	129.83	129.83	129.83	129.83	102.76	102.74	82.78
Market value (NOKm)	10.914	10.679	8,407	6,556	7,595	7,141	4,518	3,731	5,124	3,749
Dividend per EC	5.10	4.4	3.00	2.25	2.25	1.75	1.50	1.85	2.77	2.10
Book value per EC	83.87	78.81	73.26	67.65	62.04	55.69	50.09	48.91	46.17	42.11
Profit per EC	9.97	8.71	7.91	7.02	8.82	6.92	5.21	6.06	5.94	6.37
Price-Earnings Ratio	8.44	9.44	8.19	7.19	6.63	7.95	6.68	5.99	8.40	7.29
Price-Book Value Ratio	1.00	1.04	0.88	0.75	0.94	0.99	0.69	0.74	1.07	1.09
Payout ratio	50 %	50 %	38 %	25 %	25 %	25 %	29 %	30 %	47 %	34 %
EC fraction	64.0 %	64.0 %	64.0 %	64.0 %	64.6 %	64.6 %	64.6 %	60.6 %	61.3 %	54.8 %

Stock price compared with OSEBX and OSEEX



OSEBX = Oslo Stock Exchange Benchmark Index (rebased equal to MING, 1 January 2018)

Dividend policy

A new act and regulations on equity certificates, which came into force on 1 July 2009, bring savings banks' ECs more into line with shares. The new legislation entails greater equality of treatment of savings banks' various owner groupings and minimises previous concerns related to dilution of EC holders upon payment of cash dividends.

In response to the new legislation, the following dividend policy was established in December 2009, adjusted in 2017*):

- SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide EC holders with a good, stable and competitive return in the form of dividend and a rising value of the bank's equity certificate.
- the net profit for the year will be distributed between the owner capital (the EC holders) and the ownerless capital in accordance with their respective shares of the Bank's total equity capital.
- SpareBank 1 SMN's intention is that *about** one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that *about** one half of the ownerless capital's share of the net profit for the year should be disbursed as gifts or transferred to a foundation. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, of external framework conditions and of any need for CET1 capital.

** The Supervisory Board resolved in 2017 to adjust the dividend policy by removing the cap on dividend payouts. The previous wording was "up to" instead of "about".*

Investor policy

The bank attaches importance to correct, relevant and timely information on the bank's progress and financial performance as a means of instilling investor market confidence. Information is communicated to the market via quarterly investor presentations and press releases. Presentations for international partners, lenders and investors are also arranged on a regular basis.

Updated information for investors, the press and brokers is available at all times at smn.no.

Ownership

SpareBank 1 SMN aims for good EC liquidity and to achieve a good spread across EC holders representing customers, regional investors and Norwegian and foreign institutions.

Financial results



Report of the Board of Directors

Macroeconomic conditions

Global economic upswing is maturing and, like previous recoveries, will not last forever

Growth in the global economy slowed tentatively through 2018 after a solid upturn in the previous few years. Unemployment has fallen to a low level. Wage growth has picked up appreciably. Central banks in several countries have raised their base rates. Investments have risen to quite a high level. Up to the autumn of 2018 financial market sentiment was buoyant. Share prices were high and credit spreads low.

Towards the end of 2018 economists and market actors became more uneasy. Growth expectations were revised down, stock markets declined, credit spreads widened and some central banks, including the US Federal Reserve, signalled that further interest rate hikes were put on hold. The downward revision of expected growth was in line with data from the economy and corporate surveys published over the course of 2018.

The ongoing trade conflicts between the US and other countries, now notably China, along with Brexit, have affected growth prospects, and possibly also actual growth. So far the trade conflicts have not been sufficiently far-reaching to lead directly to a noticeable slowdown in global growth. However, the indirect effects may be far greater and materialise more rapidly. Uncertainty about the future trade policy regime could prompt firms to defer some investment decisions. This could contribute to the cooling down of a mature cyclical upturn, which could already be in process. Firms across much of the world, particularly in manufacturing, reporting somewhat slower – but as yet not low – growth.

The outlook is uncertain. A cyclical downturn in wealthy countries in the course of 2019 or 2020 is quite possible. The US is leading the upturn, with very low unemployment, and is for that reason vulnerable. Some signs of weakness are evident in the US economy. The housing market is somewhat impaired following interest rate increases. However, through 2018 growth in the euro countries and the UK has decelerated more than in the US, and the risk of a setback has risen here too. A 'hard Brexit' outcome for the UK could also prompt greater unease and lower growth.

In emerging economies the picture is mixed. The Chinese economy is slowing, probably more as a result of previous credit tightening than as a result of the uncertainty created by the trade war with the US. A continued high level of debt and investment poses a risk to financial stability, but the authorities are again trying to stimulate growth. Most observers expect a further damping of growth in China.

Good growth in the Norwegian economy – and good prospects

The decline in oil investment dampened growth in the mainland (non-oil) economy to almost zero in 2016. Well before the upturn in oil investment, at around the turn of 2018, growth in the Norwegian economy picked up. A weak Norwegian krone, very low interest rates and an expansionary fiscal policy contributed. Through 2018 investment in the oil sector picked up and, after some meagre years, the supplier industry reports higher activity levels. Mainland Norway's GDP rose by 2.5 per cent last year, about the same margin as in 2017.

The growth of 2.5 per cent exceeds the growth in production capacity. Productivity growth remains low in Norway as elsewhere, and even today's moderate growth spurs rapid growth in employment. Concurrently

immigration has fallen and employment is growing faster than the population. The supply of labour – i.e. the labour force participation rate – is also rising but at a somewhat lower rate, and unemployment is falling, across the entire country. The labour force participation rate remains lower than normal and may rise further. Nor is unemployment as yet particularly low. Moreover, firms as a whole are not reporting difficulties of note in filling vacancies. Overall, this indicates that Norway has potential for further growth.

However, at the same time as unemployment is falling, wage growth is quickening to just under 3 per cent. This is below the norm in Norway. Like other countries, Norway cannot withstand normal growth in wages in a period of abnormally low productivity growth without problems in the form of pressure on corporate earnings or excessive price inflation.

Corporate surveys suggest that the growth in the Norwegian economy will continue in 2019. All main sectors and all regions report increased activity levels. Oil investments will contribute to growth again in 2019, but far less than through 2018, based on available estimates from oil companies, government authorities and organisations. Prospects for 2020 and further ahead are more uncertain, although the oil companies' portfolio of field developments indicates a decline in investments as the development of the Johan Sverdrup field approaches completion. Industrial firms will further increase their investments in 2019. Exports other than oil and gas rose through 2018, but are probably dependent on continued global growth. Moreover, many Norwegian export firms are highly dependent in the long term on a well-organised global trading regime, with the freest possible access to foreign markets. This regime is now under greater threat than in a long time.

Growth in households' real income has been low in recent years. This is due partly to low wage growth, partly to high price growth as a result of the krone depreciation and now, recently, also to high electricity prices. Growth in consumption has therefore been lower than previously, although households have compensated for low growth in real incomes by reducing their saving rate somewhat. Electricity prices will likely fall in 2019 and overall price inflation will be lower. Real income growth will thereby improve. Growth in consumption will not be particularly high regardless of the above.

Following the sharp increase in house prices up to the first quarter of 2017, prices fell slightly through 2017, but recovered somewhat during 2018. Prices are back to about the same level as in early 2017. Selling activity is high, but new housing completions are also at a high level. Housing construction fell through 2017, only to return to quite a high level over the course of 2018.

The growth in household debt has been gradually reduced in recent years but remains higher than the growth in households' disposable income, and the debt burden continues to rise. Tighter residential mortgage lending regulations appear to have helped to dampen the growth in household debt, while low mortgage lending rates pull in the opposite direction.

In September 2018 Norges Bank raised its base rate from 0.50 to 0.75 per cent. The base rate had up to then remained unchanged since 2016, and this was the first rate increase since 2011. Norges Bank's forecasts indicate that the base rate will be raised to 1.0 per cent in the course of the first quarter of 2019, and thereafter raised step-by-step to 2.0 per cent by the end of 2021. In the second half of 2018 and the first half of 2019, market expectations of future interest rate hikes have subsided, in Norway as elsewhere. In Norway uncertainty centres on how far the most heavily mortgaged households can absorb interest rate increases before reducing their demand in an effort to bring down their debt burden. Recent years' rapid

growth in consumer borrowing is another uncertain factor. Government authorities have now made consumer loan banks subject to lending regulations, and debt registers will be introduced in the course of 2019.

The krone exchange rate remains at a low level, historically speaking, although the oil price has risen, even after falling in the second half of 2018. Many years of high wage growth peculiar to Norway lifted costs to a high level, and the exchange rate has helped to bring them down to a reasonable level.

Trøndelag and Møre and Romsdal

Economic trends across Norway's regions are normally very similar. The oil slump was an exception, hitting hard along the coast, from Agder up to Møre, but far more mildly in Trøndelag. Now the oil region is also reporting sound growth, and unemployment is falling fastest in this part of the region.

Unemployment in Trøndelag was low at 1.9 per cent of the labour force at the end of 2018, whereas it has fallen in Møre and Romsdal, standing at 2.3 per cent at year-end.

There was a flat trend in house prices in Central Norway in 2018. The twelve-month rate of growth in Central Norway in December 2018 was 0 per cent compared with a figure of 2.8 per cent for Norway overall. House prices fell 0.8 per cent in Trondheim while they increased by 0.4 per cent in Ålesund.

According to the firms that report to Norges Bank's regional network, growth in Trøndelag has subsided somewhat in recent quarters and expectations for the months ahead are now below the average for the country, after Trøndelag reported higher growth for a couple of years. Growth in Møre and Romsdal has picked up well in the last two years or so, but remains appreciably below the average for the country. Sentio's corporate expectations barometer and the Confederation of Norwegian Enterprise's (NHO) corporate survey report somewhat better growth in the region than does Norges Bank's network.

Møre and Romsdal will continue to be more dependent on oil and shipbuilding than the rest of the country – and prospects here are positive for the year ahead. Trøndelag is more diversified and, with the exception of aquaculture and the construction industry, both of which have good years behind them, there is hardly any downside risk beyond what follows from changes of a more structural nature, such as for example in retailing where the online share of retail trade is growing. In cyclical terms, greater uncertainty centres on the construction industry. Construction activity in Trøndelag has been higher than normal in the last few years, and higher than for the country as a whole. At the same time population growth, as in the country as a whole, has fallen to its lowest level for 14 years, and income growth is lower than normal.

Annual accounts 2018

The annual accounts are presented on the going-concern assumption, and the board of directors hereby confirms the basis for going concern.

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

Main points for 2018

- Post-tax profit was NOK 2,090m, NOK 262m better than in 2017. The improvement is mainly due to increased operating income and reduced loan losses. In addition, the Group recorded a gain of NOK 144m on the sale of the bank's head office building

- Considerable increase in the customer base and high growth in all product areas
- Proposed dividend: NOK 5.10 (4.40) per equity certificate (EC) and an allocation of NOK 373m to non-profit causes (322m)

Post-tax profit of NOK 2,090m

- Pre-tax profit: NOK 2,450m (2,279m)
- Post-tax profit: NOK 2,090m (1,828m)
- Return on equity: 12.2 per cent (11.5 per cent)
- CET1 ratio: 14.6 per cent (14.6 per cent)
- Growth in lending: 7.8 per cent (8.2 per cent) and in deposits: 5.4 per cent (13.9 per cent)
- Share of lending to the retail market 67% (66%)
- Losses on loans and guarantees: NOK 263m (341m)
- Earnings per EC: NOK 9.97 (8.71). Book value per EC: NOK 83.87 (78.81), incl. dividend proposed for 2018

Profit growth of NOK 262m in 2018

In 2018 SpareBank 1 SMN achieved a pre-tax profit of NOK 2,450m (2,279m). The post-tax profit was NOK 2,090m (1,828m) and return on equity 12.2% (11.5%).

Overall operating income in 2018 came to NOK 4,580m (4,229m), an increase of NOK 349m from the previous year.

The profit share from SpareBank 1 Gruppen and other related companies was NOK 416m (437m). Dividend and return on financial instruments came to NOK 341m (322m), of which NOK 90m was accounted for by a gain resulting from the merger of Vipps, Bank-Axept and Bank ID.

Operating expenses came to NOK 2,624m (2,369m) in 2018. The growth in costs is largely ascribable to the focus on BN Bolig, capacity expansion at SpareBank 1 Markets and growth at SpareBank 1 Regnskapshuset SMN.

Losses on loans and guarantees totalled NOK 263m (341m), measuring 0.17 per cent (0.24%) of overall lending. The losses are mainly in oil-related activities.

Good growth was posted in lending and deposits in 2018. Lending rose by 7.8% (8.2%) and deposits by 5.4% (13.9%).

As at 31 December 2018 the CET1 ratio was 14.6 per cent (14.6 per cent). The CET1 ratio target is 15.0 per cent.

The price of the bank's equity certificate (MING) at year-end was NOK 84.20 (82.25). A cash dividend of NOK 4.40 per EC was paid in 2018 for the year 2017.

Earnings per EC were NOK 9.97 (8.71). The book value per EC was NOK 83.87 (78.81) including the proposed dividend of NOK 5.10. The proposed dividend represents a payout ratio of 50% (50%) of the Group profit.

Proposed distribution of profit

Distribution of the profit for the year is done on the basis of the parent bank's accounts. The parent bank's disposable profit includes dividends from subsidiaries, related companies and joint ventures, and is adjusted for interest expenses on hybrid capital after tax.

Subsidiaries are fully consolidated in the Group accounts, whereas profit shares from related companies and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the Group results.

The annual profit for distribution reflects changes of NOK 29m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 1,857m.

Difference between Group - Parent Bank	2018	2017
Profit for the year, Group	2,090	1,828
Interest hybrid capital (after tax)	-36	- 33
Profit for the year excl interest hybrid capital, group	2,054	1,795
Profit, subsidiaries	-165	-196
Dividend, subsidiaries	151	364
Profit, associates and joint ventures	-416	-437
Dividend, associates and joint ventures	355	410
Elimination Group	-93	-119
Profit for the year excl interest hybrid capital, Parent bank	1,887	1,817
Distribution of profit	2018	2017
Profit for the year, Parent bank	1,887	1,817
Transferred to/from revaluation reserve	-29	17
Profit for distribution	1,857	1,800
Dividends	661	572
Equalisation fund	526	580
Ownerless capital	297	327
Gifts	373	322
Total distributed	1,857	1,800

The profit is distributed between the ownerless capital and the equity certificate (EC) capital in proportion to their relative shares of the bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 64.0% of the distributed profit.

Earnings per equity certificate were NOK 9.97. Of this, the board of directors recommend the bank's supervisory board to set a cash dividend of NOK 5.10, altogether totalling NOK 661m. This gives the EC holders a payout ratio of 50.4% of the earnings per EC. The board of directors further recommends the supervisory board to allocate NOK 373m as gifts to non-profit causes, also representing a payout ratio of 50.4%. Of this amount it is proposed that NOK 293m be transferred to the foundation Stiftelsen SpareBank 1 SMN and NOK 80m as gifts to non-profit causes. NOK 526m and NOK 297m are transferred to the dividend equalisation fund and the ownerless capital respectively.

After distribution of the profit for 2018, the ratio of EC capital to total equity remains 64.0%.

Increased net interest income

Net interest income rose by NOK 178m to NOK 2,403m (2,225m) in 2018. The increase is mainly down to increased lending to and deposits from both retail and corporate customers, with particularly high growth noted in residential mortgage lending.

The three-month NIBOR averaged 1.07 per cent in 2018 compared with 0.89 per cent in 2017. Despite rising money market rates, the margin on loans to corporates has remained stable, whereas the margin on residential mortgages has narrowed somewhat. Margins were strengthened somewhat by a general increase in residential lending rates in the fourth quarter of 2014. Deposit margins rose in 2018.

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies totalled NOK 366m (370m) in 2018.

Risk pricing and attention to the use of regulatory capital have brought improved margins, and work in this respect continues in 2019. The bank's strong growth shows that its prices are in tune with the market.

Increased other income

Commission income and other operating income rose by NOK 172m to NOK 2.177m (2,005m) in 2018.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt fell by NOK 5m as a result of some decline in margins on residential mortgages.

Strong income growth at SpareBank 1 Markets and SpareBank 1 Regnskapshuset SMN is the main reason for the increase in other income.

A high number of multi-product customers is important for the bank. It signifies high customer satisfaction and provides the bank with a diversified income flow.

Commission income (NOK million)	2018	2017	Change
Payment transfers	207	207	0
Creditcard	60	59	0
Saving products	123	117	6
Insurance	174	172	2
Guarantee commission	61	69	-8
Real estate agency	376	365	11
Accountancy services	421	357	64
Markets	335	214	121
Other commissions	54	75	-21
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,811	1,635	177
Commissions SB1 Boligkreditt	350	353	-4
Commissions SB1 Næringskreditt	16	17	-1
Total commissions	2,177	2,005	172

Return on financial investments

Overall return on financial investments was NOK 341m (322m). This breaks down as follows:

- Gain of NOK 103m (67m) on shares of the bank and subsidiaries. Of this, NOK 90m refers to the gain resulting from the merger between Vipps, Bank Asept and Bank ID.
- Financial derivatives yielded gains of NOK 187m (124m). This essentially comprises gains on fixed income instruments. The rise in interest rates in 2018 brought relatively large gains. This is partly neutralised by losses on fixed income bonds, showing an overall loss of NOK 77m (gain of NOK 58m)
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans and show a gain of NOK 10m (7m)
- Income of NOK 63m (45m) from forex transactions comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies

- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 58m (43m)
- The prices of financial instruments used by the bank for hedging purposes were reduced and the bank has recognised a net loss of NOK 4m (loss of NOK 22m) on hedging instruments

Return on financial investments (NOK million)	2018	2017	Change
Capital gains shares (incl dividends)	103	67	36
Gain/(loss) on derivatives	187	124	63
Gain/(loss) on other financial instruments at fair value (FVO)	10	7	4
Foreign exchange gain/(loss)	63	45	18
Gain/(loss) on certificates and bonds	-77	58	-135
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	58	43	15
Gain/(loss) on financial instruments related to hedging	-4	-22	18
Net return on financial instruments	341	322	19

Product companies and other related companies

The product companies give the bank's customers access to a broad product range and thus provide the bank with commission income. The product companies also provide the banks with a good return on invested capital. The overall profit of the product companies and other related companies was NOK 416m (473m) in 2018.

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans. SpareBank 1 SMN's stake in SpareBank 1 Gruppen is 19.5 per cent.

SpareBank 1 Gruppen's post-tax profit in 2018 was NOK 1,480m (1,811m). SpareBank 1 Gruppen's pre-tax profit was impaired by lower financial income of the insurers as a whole and weaker operating profit of the non-life insurance business as a result of higher claims payments. The post-tax profit is heavily affected by changes in the tax rules governing life and non-life insurers. The rule change was adopted in December with effect for 2018, and resulted in a write-back of deferred tax worth NOK 330m for SpareBank 1 Gruppen in the fourth quarter.

SpareBank 1 SMN's share of the profit for 2018 was NOK 289m (349m).

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks making up the SpareBank 1 Alliance to draw benefit from the market for covered bonds. The banks sell well-secured residential mortgages to the company and achieve reduced funding costs.

As at 31 December 2018 the bank had sold loans totalling NOK 38.1bn (34.9bn) to SpareBank 1 Boligkreditt, corresponding to 35.2 per cent (35.3 per cent) of the Group's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt in 2018 was 19.9 per cent, and the bank's share of that company's profit in 2018 was minus NOK 7m (minus 41m).

The new stake as of 31 December 2018 is NOK 20.7 per cent.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 December 2018, loans worth NOK 1.8bn (1.8bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company in 2018 was 33.5 per cent, and the bank's share of the company's profit for 2018 was NOK 15m (19m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank. Of aggregate loans residing in SpareBank 1 Næringskreditt, 41 per cent have been sold from BN Bank. The new stake as of 31 December 2018 is 33.0%.

SpareBank 1 Kredittkort

The profit for 2018 was NOK 131m (84m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.4 per cent. SpareBank 1 SMN's share of the profit for 2018 was NOK 23m (15m), and the bank's share of the portfolio is NOK 923m (845m) as at 31 December 2018.

SpareBank 1 Kredittkort has managed the LOfavør credit card programme since 2017, thereby expanding the business relationship between the Norwegian Confederation of Trade Unions (LO) and the SpareBank 1 Alliance.

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank as at 31 December 2018.

BN Bank recorded a profit of NOK 294m (298m) in 2018, providing a return on equity of 7.5 per cent (8.3 per cent). SpareBank 1 SMN adjust its share of profit from BN Bank by interests hybridcapital and BN Bank's share of deficit in BN Bolig. SpareBank 1 SMN's share of BN Bank's profit 2018 was therefore NOK 97 million kroner (98m).

Since the decision was made to wind down the focus on financing of commercial property, the corporate portfolio has been reduced by NOK 17.6bn, or 56 per cent, since 30 September 2015. This has helped to improve SpareBank 1 SMN's financial solidity and to enhance the profitability of the remaining corporate portfolio of BN Bank.

BN Bank intends to cater primarily to the retail market in Oslo and south-eastern Norway.

BN Bank has resolved to strengthen its product platform through a cautious focus on consumer lending. In addition the company has, in collaboration with Eiendomsmegler 1 Midt Norge, established the company BN Bolig in which BN Bank holds a 50 per cent stake. The focus on estate agency in the Oslo market is intended to strengthen BN Bank's residential mortgage lending. To support the focus on estate agency, the bank's board of directors has also adopted a new programme for funding mainly housing projects. This will involve a controlled, gradual build-up of the portfolio.

SpareBank 1 Betaling (Vipps)

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for payment solutions, including Vipps. A decision to merge Bank ID and Bank Asept with Vipps was adopted in order to compete in the arena for future payment solutions, and the merger was carried out in the third quarter of 2018. Vipps aims to take its place as the Nordic region's leading financial technology company, and SpareBank 1 SMN's stake in, and close collaboration with, Vipps will be important with a view to retaining customer relationships after the introduction of PSD2 (Revised Payment Services Directive). Vipps launched a number of new products in 2018 designed to simplify bank customers' everyday life, and has high ambitions to develop this solution further.

SpareBank 1 Betaling posted in 2018 a deficit of NOK 56m, which constitutes the company's share of Vipps' financial result. SpareBank 1 SMN's share of this deficit is NOK 12m. In addition, SpareBank 1 SMN pays Vipps, annually and under the same principal as the other parent banks, NOK 9.5m in distribution costs.

SpareBank 1 SMN took to income a gain of NOK 90m in the second quarter related to the adopted merger.

Operating expenses

Overall Group operating expenses rose by NOK 255m in 2018 to total NOK 2,624m (2,369m).

Parent bank costs rose by NOK 53m to NOK 1,262m in 2018, of which NOK 11m relates to the sale of the bank's head office building in Trondheim. Excluding this one-time cost, parent bank costs have risen by 3.5 per cent.

Continuous efficiency gains by the bank have enabled lower staffing and reduced costs. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 153 to 575. Changing customer behaviour and new technology will contribute to further efficiency gains.

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

In 2018, staffing was reduced by 20 FTEs at the same time as the bank has recruited new staff in the areas of data warehousing, digital marketing, technology and compliance. Replacing expertise has brought increased wage growth.

Costs among the subsidiaries came to NOK 1,362m (1,160m), having risen by NOK 202m in 2018. Of this increase, NOK 58m refers to SpareBank 1 Regnskapshuset SMN's company acquisitions, NOK 93m to the build-up of SpareBank 1 Markets and NOK 42m to the BN Bolig undertaking. The subsidiaries maintain a continuous focus on cost control.

SpareBank 1 Regnskapshuset SMN's increased activity provides income growth and profit growth for the company. Capacity expansion has enabled strong income growth and profit improvement at SpareBank 1 Markets, and the potential for further growth is high.

The cost-income ratio was 49 per cent (47 per cent) for the Group, 33 per cent (32 per cent) for the parent bank.

Reduced losses and low defaults

IAS 39 Financial Instruments was replaced by IFRS 9: Financial Instruments -Recognition and Measurement on 1 January 2018. The implementation effect is reflected directly in equity as of 1 January 2018. See notes 2 and 4 in this report, for further details.

Loan losses of NOK 263m (341m) were recorded in 2018. Loan losses measure 0.17 per cent of total outstanding loans (0.24 per cent).

A loss of NOK 223m (324m) was recorded on loans to corporates in 2018, in all essentials related to loans to oil-related activity.

A loss of NOK 40m (17m) was recorded on loans to retail borrowers in 2018. Of the losses on retail customers, NOK 17m relate to residential mortgages and NOK 23m to car loans and consumer loans at SpareBank 1 Finans Midt-Norge.

Write-downs on loans and guarantees totalled NOK 909m (1,155m) as at 31 December 2018. Of the net decline of NOK 246m, actual losses accounted for a reduction of NOK 417m and increased provisioning for expected loss for NOK 171m.

Overall problem loans (defaulted and doubtful) come to NOK 1,682m (1,468m), or 1.0 per cent (0.99 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 310m (284m). Defaults measure 0.19 per cent (0.19 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Of the overall default volume, NOK 30m is loss provisioned (55m), corresponding to 14 per cent (20 per cent).

Defaults break down to NOK 69m on corporates (75m) and NOK 242m on retail borrowers (209m).

Other doubtful exposures total NOK 1,373m (1,184m). Other doubtful exposures measure 0.86 per cent (0.80 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. NOK 527m (714m), or 52 per cent (60 per cent), has been written down.

Other doubtful exposures break down to NOK 1,018m (1,164m) on corporate borrowers and NOK 40m (21m) on retail borrowers.

Credit quality in the loan portfolio is good. A very large share of the year's loan losses refers to oil-related activities, but the trend is positive in that part of the portfolio too.

Total assets of NOK 161bn

The bank's assets totalled NOK 161bn (153bn) as at 31 December 2018, having grown by NOK 8bn or 4.9 per cent in the past year. The increase in total assets is mainly a consequence of a higher lending volume.

As at 31 December 2018 loans worth a total of NOK 40bn (37bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

High growth in residential mortgage lending

Total outstanding loans rose by NOK 11.5bn (11.2bn) or 7.8 per cent (8.2 per cent) in 2018 to reach NOK 160.3bn (148.8bn) as at 31 December 2018.

- Lending to personal borrowers rose in 2018 by NOK 9.4bn (9.3bn) to NOK 108.1bn (98.7bn). Growth of 9.6 per cent (10.4 per cent)
- Lending to corporates rose in 2018 by NOK 2.1bn (1.5bn) to NOK 52.2bn (50.1bn). Growth of 4.2 per cent (4.1 per cent).

Growth in residential mortgage lending is high and the bank's market shares are rising. There are no indications of higher loss and default levels in the bank's residential mortgage portfolio, and the quality of this portfolio is good.

New loans to corporate borrowers are mainly to farm enterprises and small businesses and are prioritised with a basis in capital limitations and profitability requirements.

SpareBank 1 SMN has in recent years increased the share of its loans going to personal customers, and personal loans accounted for 67 per cent (66 per cent) of total outstanding loans as at 31 December 2018.

(For distribution by sector, see note 5).

Deposits

Customer deposits rose by NOK 4.1bn (9.3bn) in 2018 to reach NOK 80.6bn (76.5bn). This represents a growth of 5.4 per cent (13.9 per cent).

- Personal deposits rose by NOK 1.3bn (2.0bn) or 4.0 per cent (6.8 per cent) to reach NOK 33.1bn.
- Corporate deposits rose by NOK 2.9bn (7.3bn) or 6.5 per cent (19.5 per cent) to NOK 47.6bn.
- The deposit-to-loan ratio at SpareBank 1 SMN was 67 per cent (68 per cent) as at 31 December 2018. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 50 per cent (51 per cent).

Deposit growth at the bank was satisfactory in 2018, both as regards personal and corporate customers.

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 9.8bn (10.0bn) at the end of 2018. The overall decline of NOK 0.3bn on equity funds was driven by the stock exchange decline in the second half of 2018.

Saving products, customer portfolio (NOK million)	2018	2017	Change
Equity funds	5,932	6,235	-303
Pension products	755	840	-85
Active management	3,147	2,989	158
Total	9,834	10,064	-230

Insurance

The bank's insurance portfolio grew by 9.3 per cent in 2018. Good growth was recorded across the various products, and was largest in the case of occupational pensions at 25 per cent.

Insurance, premium volume (NOK million)	2018	2017	Change
Non-life insurance	812	769	43
Personal insurance	351	327	24
Occupational pensions	289	232	57
Total	1,452	1,328	124

Retail Banking

Outstanding loans to retail borrowers totalled NOK 113bn (103bn) and deposits totalled NOK 40bn (37bn) as at 31 December. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income totalled NOK 2,027m (1,926m) in 2018. Net interest income accounted for NOK 1,234m (1,137m) and commission income for NOK 793m (789m). The income growth is mainly due to increased lending and deposit volumes. Overall income rose by NOK 101m. Return on capital employed in the retail

banking segment was 13.2 per cent (16.6 per cent). Capital employed is based on regulatory risk weights and a 15 per cent capital requirement, corresponding to the Group's targeted CET1 ratio.

The lending margin in 2018 was 1.69 per cent (1.93 per cent), while the deposit margin was 0.27 per cent (0.11 per cent) measured against three-month NIBOR. The average of average three-month NIBOR was 0.18 percentage points higher in 2018 than in 2017.

Retail lending and retail deposits grew by 9.3 per cent (10.0 per cent) and 7.7 per cent (6.7 per cent) respectively in 2018.

Costs in the retail segment increased by NOK 10m to NOK 804m in 2018, and staffing was reduced by 34 FTEs to 316 FTEs over the year. Retail Banking introduced a new CRM system, 'Iver', in 2018. Iver has improved, and enhanced the efficiency of, customer treatment and strengthened the interplay between analogue and digital services.

Lending to retail borrowers carries low risk, as reflected in low losses. There are no indications of increased loss and non-performance levels in the bank's residential mortgage portfolio. The mortgages are secured by residential property.

Retail Banking's executive director, Svein Tore Samdal, took over as CEO of BN Bank as from 1 December 2018. Nelly Maske is the new executive director of the retail banking business. She comes from the position of executive director of Organisation and Development.

Corporate Banking

Outstanding loans to corporates totalled NOK 41bn (39bn) and deposits totalled NOK 39bn (39bn) as at 31 December 2018. This is a diversified portfolio of loans to and deposits from corporate clients in the counties of Trøndelag and Møre and Romsdal.

Operating income totalled NOK 1,329m (1,315m) in 2018. Net interest income was NOK 1,110m (1,108m), and commission income came to NOK 219m (207m).

Expenses rose by NOK 8m to NOK 373m in 2018 while staffing was unchanged over the year, standing at 148 FTEs at year-end.

Overall losses in the corporate banking segment have declined and were NOK 212m (318m) in 2018. The losses are in all essentials related to the challenges faced in oil-related activities.

Return on capital employed for the corporate banking segment was 11.3 per cent in 2018 (10.5 per cent). Capital employed is based on regulatory risk weights and a 15 per cent capital requirement, corresponding to the Group's targeted CET1 ratio.

The lending margin was 2.73 per cent (2.80 per cent) and the deposit margin was minus 0.04 per cent (minus 0.11 per cent) as per the fourth quarter of 2018.

Lending rose by 2.2 per cent (1.5 per cent) and deposits rose by 1.3 per cent (19.5 per cent) in 2018.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 225.1m in 2018 (258.1m). The figures below are taken from the respective company accounts.

Pre-tax profit (NOK million)	2018	2017	Change
EiendomsMegler 1 Midt-Norge	-22.9	2.6	-25.5
SpareBank 1 Finans Midt-Norge	148.5	128.3	20.2
SpareBank 1 Regnskapshuset SMN	70.4	60.3	10.0
Sparebank 1 Markets	15.1	1.9	13.3
SpareBank 1 SMN Invest	8.0	43.3	-35.3
Other companies	6.0	21.6	-15.7
Total	225.1	258.1	-33.1

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a very strong market position, in Trondheim in particular. The company intends to continue to strengthen its market share in the region. In collaboration with BN Bank, the company has established BN Bolig in which EiendomsMegler 1 and BN Bank each hold a 50 per cent stake. The focus on estate agency in the Oslo market will, in addition to enhancing estate agency earnings, contribute to stronger residential mortgage lending growth for BN Bank.

EiendomsMegler 1 recorded a deficit of NOK 22.9m in 2018 (plus 2.6m). The profit performance is weakened mainly by:

- A weaker profit of NOK 20.2m for EiendomsMegler 1 (37.4m). Incomes are somewhat lower than in 2017 as a result of fewer dwelling units sold and lower income per unit. 6,633 dwelling units were sold in 2018 compared with 6,712 in 2017. The main reason for the profit impairment at EiendomsMegler 1 is higher costs due to ongoing readjustment projects related to digitalisation and a new business model along with extensive investment in a trainee programme to ensure correct and relevant estate agent capacity ahead.
- A negative pre-tax profit of NOK 40.7m (negative profit of NOK 32.3m) at BN Bank. EiendomsMegler 1 Midt-Norge consolidates BN Bolig's results as a subsidiary. BN Bolig has built up capacity to take a position in the estate agency market in Oslo.

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 148.5m in 2018 (128.3m). The good profit growth is due to high growth in income and limited growth in costs. The company's business areas are mainly leasing to the SMB market and car loans to retail customers. The portfolio of leasing and car loan agreements is worth a total of NOK 7.5bn, of which leasing agreements account for NOK 2.9bn (2.8bn) and car loans for NOK 4.6bn (3.7bn). The company also offers consumer loans, and at year-end that portfolio was worth NOK 0.3bn (0.2bn).

The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge at 31 December 2018 while Sparebanken Sogn og Fjordane held a stake of 7.5 per cent. The remaining shares are held by SpareBank 1 SMN.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 70.4m (60.3m) in 2018. The profit growth is ascribable to sound operations and to the fact that the company has undergone substantial expansion, mainly through the acquisition of accounting firms in Trøndelag and in Møre and Romsdal. The company has 450 employees and an annual turnover of NOK 445m. 10,000 businesses avail themselves of Regnskapshuset, which has offices in 40 locations and a market share of 26 per cent.

The company caters to the SMB segment with a technologically modern platform and broad range of services.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a net profit of NOK 8.0m in 2018 (43.3m) in 2018.

Value changes and realisation of losses or gains on the company's overall holding of shares account for minus NOK 0.9m of the company's total income. The company has in addition ownership interests in the property company Grilstad Marina, and its share of the latter's profit in 2018 was NOK 13.4m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 66.7 per cent. Other owners are SpareBank 1 Nord-Norge, SpareBank 1 SR Bank, SpareBank 1 Østlandet and the SamSpar banks. SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It had a staff of 143 at year-end.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning (formerly Allegro Kapitalforvaltning and SpareBank 1 Nord-Norge Forvaltning). The company is at centre-stage of SpareBank 1 Markets' focus on asset management with aggregate total assets of NOK 16bn. The company has a staff of 17.

SpareBank 1 Markets' consolidated pre-tax profit as per 31 December 2018 was NOK 15.1m (1.9m). A strong income trend is noted, particularly in income from equity and bond issues, share trading and forex/interest rate derivatives compared with the previous year.

DeBank

SpareBank 1 SMN acquired with effect from 1 January 2019 the shares of DeBank, which is headquartered in Trondheim and has a staff of 18. At the half-year mark the company had loanable capital of NOK 90m, operating income of NOK 6.0m and a negative pre-tax profit of NOK 13.2m. No employees of DeBank will be made redundant as a result of the acquisition. DeBank will until further notice operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is expanding its focus on SMBs and will strengthen its offering in the rapidly growing factoring market through this acquisition.

Søndre gate 4-10

SpareBank 1 SMN accepted on 9 November 2017 a bid for the property Søndre gate 4-10, the bank's head office. SpareBank 1 SMN with subsidiaries will lease back about 70 per cent of the floorage on a 15-year contract with an option to extend the lease. The estimated gross annual rent in 2018 is NOK 36.4m. The gross property value was NOK 755m, providing SpareBank 1 SMN with a gain of NOK 144m. The transaction was completed in the second quarter of 2018 in the form of the sale of the property company Søndre gate 4-10.

Satisfactory funding and good liquidity

The bank has a conservative liquidity strategy which attaches importance to maintaining liquidity reserves that ensure the bank's ability to survive 12 months of ordinary operation without need of fresh external funding.

As at 31 December 2018, the bank had liquidity reserves of NOK 26bn and the funding needed for 25 months of ordinary operation without fresh external finance.

The government authorities require credit institutions to maintain sufficient liquidity buffers to withstand periods of limited access to market funding. The liquidity coverage ratio (LCR) measures the size of banks' liquid assets relative to net liquidity outflow 30 days ahead given a stressed situation. The LCR was calculated at 183 per cent as at 31 December 2018 (164 per cent). The requirement is 100 per cent.

The Group's deposit-to-loan ratio at 31 December 2018, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 50 per cent (51 per cent).

The bank's funding sources and products are amply diversified. At end-December 2018, the proportion of the bank's overall money market funding in excess of 1 year was 89 per cent (80 per cent).

SpareBank 1 Boligkreditt is an important funding source, and residential mortgages totalling NOK 38bn had been sold as at 31 December 2018.

Rating

The bank has a rating of A1 (outlook negative) with Moody's and a rating of A- (outlook stable) with Fitch Ratings. Moody's revised in July 2017 its outlook for SpareBank 1 SMN and other Norwegian banks from a stable to a negative outlook. The change was triggered by the implementation of the EU's bank recovery and resolution directive (BRRD) in Norwegian legislation.

Financial soundness

The CET1 ratio at 31 December 2018 was 14.6 per cent (14.6 per cent). The Group's CET1 ratio target is 15.0 per cent. The government's CET1 ratio requirement is 14.1 per cent.

Risk weighted assets increased by 6.7 per cent in 2018 in all essentials, due to high growth in residential mortgage lending and an increased capital requirement related to the transitional arrangement under the capital requirements framework. CET1 capital rose by 7.0 per cent due to a good profit performance again in 2018.

The leverage ratio is 7.4 per cent (7.2 per cent).

The CET1 requirement including combined buffer requirements is 12 per cent. When a Pillar 2 requirement of 2.1 per cent is added, the government authorities' overall CET1 requirement comes to 14.1 per cent.

Finanstilsynet's (Norway's FSA) final assessment of the add-on for risks not adequately covered by Pillar 1 was set at 2.1 per cent in 2015. The add-on relates mainly to owner risk, market risk and concentration risk with regard to credit. SpareBank 1 SMN aims for a management buffer of about 1 per cent above overall Pillar 1 and Pillar 2 requirements in order to absorb fluctuations in risk-weighted assets and fluctuations in Group profit. In light of this, the Group's capital target at the end of 2018 is 15 per cent. In the fourth quarter of 2018, Finanstilsynet reduced the Pillar 2 add-on to 1.9 per cent, however not below NOK 1,794m, with effect from 2019.

Finanstilsynet recommended on 18 October 2018 by letter to the Ministry of Finance that SpareBank 1 SMN, as one of several regional banks, should be defined as systemically important (SIFI). If Finanstilsynet's view is upheld, SpareBank 1 SMN will need to meet a SIFI buffer requirement of 2 percentage points. This will bring the overall CET1 requirement to 16.1 per cent, given the present level of the countercyclical buffer and the current Pillar 2 add-on.

The CET1 capital ratio without transitional rules is 16.9 per cent as of 31 December 2018. The increased buffer requirement is offset by the effect SpareBank 1 SMN will achieve once the specifically Norwegian capital requirement connected to the transitional measures no longer applies.

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 31 December 2018 (including a recommended dividend of NOK 5.10) was NOK 83.87 (78.81) and earnings per EC were NOK 9.97 (8.71).

The Price / Income ratio was 8.44 (9.44) and the Price / Book ratio was 1.00 (1.04).

At year-end, the EC was priced at NOK 84.20, and dividend of NOK 4.40 per EC was paid in 2018 for the year 2017.

SpareBank 1 SMN's articles of association set no restrictions on investors' trade in ECs.

With regard to placings with employees, the latter are invited to participate under given guidelines. In placings where discounts are granted, a lock-in period applies before any sale can take place. The rights to ECs issued in placings with employees cannot be transferred.

SpareBank 1 SMN is not aware of any agreements between EC holders that limit the opportunity to trade ECs or to exercise voting rights attached to ECs.

See also the chapter Corporate Governance.

Risk factors

The Group's problem loans reflect the challenges related to the offshore industry. As at 31 December 2018, loans to oil-related activity accounted for 2.6 per cent of the Group's overall lending. The credit quality of the bank's wider loan portfolio is satisfactory. There have been no contagion effects from oil-related activity to other sectors and no other concentrations in non-performing and problem exposures are in evidence.

Positive growth signals are noted both internationally and in Norway, but there is increased uncertainty related to trade conflicts. The Norwegian krone appreciated through 2018, but weakened somewhat towards the end of the year. The krone remains at a relatively weak level, which is favourable for Norwegian export industries. Some strengthening of the krone is expected ahead. Real wage growth is expected to quicken somewhat. Combined with a continued low interest rate level, the bank considers loss risk in the bank's retail market portfolio to be low. Unemployment has declined in the bank's market area, and the bank expects the level of unemployment to remain relatively low ahead.

Credit growth among Norwegian households continues to outstrip household wage growth, but the rate of growth has declined through 2018. Interest rate increases could impact negatively on house prices, which will probably dampen credit demand. Falling house prices and expectations of higher interest rates are likely to prompt a higher savings rate among Norwegian households, potentially resulting in reduced turnover for parts of Norwegian business and industry.

The bank's profits are affected directly and indirectly by fluctuations in securities markets, and the valuation of basis swaps in particular contributes to volatility. The indirect effect relates very largely to the bank's ownership interest in SpareBank 1 Gruppen whose insurance business and fund management activities are both affected by such fluctuations.

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

Insurance merger

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

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

In the transaction the new non-life company is valued at NOK 19.75bn, including the value of personal risk products. Fremtind, without the personal risk products, is valued at NOK 13.5bn. Based on figures as at 31 December 2017 and pro forma consolidated accounts, the merger and DNB's acquisition from a 20 to a 35 per cent stake, will in aggregate entail an increase of about NOK 4.7bn in SpareBank 1 Gruppen's equity at group level. The majority's (the SpareBank 1 banks and the Trade Union Confederation) share of this increase is about NOK 2.5bn. SpareBank 1 SMN's share of this increase (19.5 per cent) is about NOK 488m. However, this brings virtually no change in the Group's CET1 ratio, the reason being that the increased book value of the stake in SpareBank 1 Gruppen AS increases the deduction from CET1 capital and increases risk weighted assets. Overall this virtually neutralises the effect of increased book values.

SpareBank 1 Gruppen (the parent company) will, before the effect of any transfer of personal risk products is taken into account, receive a tax-free gain of about NOK 1.71bn as a result of the disinvestment to DNB. SpareBank 1 Gruppen's basis for dividend payment increases by the same amount. SpareBank 1 SMN's share of any dividend comes to NOK 334m. The dividend payment will reduce the value of the Group's investment in SpareBank 1 Gruppen, thereby also reducing both the deduction from CET1 capital and the size of risk-weighted assets (see preceding paragraph). The Group's capital adequacy ratio will accordingly rise. Based on the Group's accounting figures as at 31 December 2018, the increase in the Group's CET1 ratio will be an estimated 0.3-0.4 percentage points. Any dividend from SpareBank 1 Gruppen AS will be conditional upon the capital situation and decisions of the company's governing bodies and cannot be implemented until the second quarter of 2019 at the earliest.

Corporate social responsibility

The four core values wholehearted, responsible, likeable and highly competent are all connected to corporate social responsibility. However, 'responsible' singles itself out as the most important guide for SpareBank 1 SMN's CSR efforts.

The bank's focus on corporate social responsibility is designed to strengthen competitiveness, reduce risk, attract good customers, investors and skilled staff, boost innovation and contribute to the further development of the region of which the Group is a part. Thus the bank creates value in a responsible and sustainable manner for all stakeholders.

SpareBank 1 SMN reports on the bank's performance in the field of CSR and sustainability under the globally recognised standard, the Global Reporting Initiative (GRI). Read more about the bank's social responsibility in a separate chapter in this annual report – go [here](#). SpareBank 1 SMN has seen a good sustainable development in 2018.

SpareBank 1 SMN has also endorsed the UN's Global Compact, with the commitments this entails. SpareBank 1 SMN developed a new strategy for corporate social responsibility in 2017. The strategy describes concrete objectives under the following themes:

- Responsible products and services
- Communication and openness
- Ethics and anti-corruption
- Environment and climate
- Staff and organisation

Responsible products and services

SpareBank 1 SMN has distinct policies for sustainability in lending, owner positions, and asset management. In addition, the bank is developing its own sustainable products. In day-to-day operations the policies entail inter alia that SMN will:

1. Not take owner positions in or grant loans to companies that do not abide by our principles, and will include caveats regarding follow-up and consequences in the event of any deviation in the event of funding where the companies concerned operate in industries, countries and regions posing a particularly high risk
2. Exert pressure on customers and companies in which we invest to ensure that they maintain sound procedures and processes for making appropriate ethical, environmental and sustainable choices, and for influencing companies in which they hold owner positions through active governance
3. Require documentation that customers have taken action on circumstances that violate our principles
4. Take the consequence of deviations that are not acted on by not renewing or prolonging loans, or by winding down owner positions.

The bank conducts an ongoing ESG screening of all the bank's existing mutual fund suppliers.

Communication and openness

SpareBank 1 SMN's CSR strategy defines how the bank is to engage its stakeholders. The bank endeavours on a continuous basis to identify and engage its own surroundings, and to integrate inputs into important decision processes. SpareBank 1 SMN meets legitimate demands and expectations of the bank's stakeholders in an open and constructive manner. To this end, the bank has its own defined process for stakeholder activities, rooted in the board of directors. For example, the strategy states that SpareBank 1 SMN shall:

1. Define stakeholders on a broad and strategic basis and seek opportunities
2. Prioritise stakeholders according to their value to the bank
3. Be open, clear, inquisitive and constructive in dialoguing with stakeholders
4. Seek partnerships and share success stories with the stakeholders
5. Take the stakeholders' views on board in company governance.

Ethics and anti-corruption

The bank adopted updated ethical guidelines in 2017. The guidelines regulate each staff member's relationship to customers, suppliers, competitors and the world at large.

In addition to the ethical guidelines, SpareBank 1 SMN has established a whistleblowing procedure. This procedure covers the requirements of the Working Environment Act as regards notifying censurable circumstances at enterprises.

The procedure also enables staff members to notify the bank's external reception centre, and to report anonymously if the whistleblower so wishes.

In 2018, SpareBank 1 SMN implemented a new system of event reporting in collaboration with an external supplier.

Environment and climate

It is particularly important for us as a regional bank to assume a responsibility for sustainability in investments and in lending. SpareBank 1 SMN is duty bound to do what it can to support the UN's sustainability objectives, and the bank is concerned that companies in which it invests or to which it lends money should make sustainable choices.

SpareBank 1 SMN's environment management system is certified under the 'Environmental Lighthouse' standard. The bank reports its energy consumption and climate emissions each spring to the Environmental Lighthouse Foundation (Stiftelsen Miljøfyrtårn). The environment management system ensures continuous improvement of the bank's own environmental performances.

Staff and organisation

Major changes are ongoing in the banking industry, creating a major need to revise the bank's competence profile. In the future, the bank will need fewer staff in production, more staff in digital development and more staff in digital sales, analysis and business development.

The SpareBank 1 Alliance has a shared digital teaching platform (LMS), which makes courses and training programmes available to staff. In 2017, SpareBank 1 SMN bank also worked on a new process and new tools for competence development and competence management. The project New Workday is designed to ensure that the bank, in parallel with its development and implementation of new systems and processes, develops the appropriate competence. See the chapter entitled The People, and note 22 Personnel expenses, for more information about the work environment, gender equality and other staff-related matters.

Outlook

Economic prospects in Central Norway are good. The bank's expectations barometer shows increased optimism on the part of business and industry.

The board of directors is pleased with the bank's continued strengthening of its position in the retail market accompanied by growth in the customer base and strong growth in residential mortgage lending. This confirms that the strategy of being a digital bank with a personal and local signature is a strategy that works. The bank expects a lending growth in excess of market growth again in 2019.

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

Losses in 2018 are lower than in 2017, and are in all essentials within oil-related activities. A positive trend is noted in the bank's exposure within this portfolio. Losses in the bank's portfolio of other loans remain very small. Loan losses are at a low level, and the bank expects losses in 2019 not to exceed those in 2018.

The financial industry faces major changes. The Revised Payment Services Directive, PSD2, will provide large opportunities to enhance the customer experience. The bank and the SpareBank 1 Alliance have set themselves the ambitious goal of offering better services and adding more value for existing and new customers. Although investments will increase as a consequence of this, the parent bank's ambition of zero growth in costs stands firm.

SpareBank 1 Gruppen and DNB's merger of their non-life insurance businesses confirms the value of the banks' distribution model, brings greater effectiveness and efficiency and further strengthens competitive power in the insurance market. The bank will post a substantial gain in 2019 as a result of the transaction.

The CET1 ratio stands at 14.6 per cent and is slightly below the Group's objective. The leverage ratio of 7.4 per cent shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and effectiveness with a view to strengthening its profitability and safeguarding its financial soundness. The board of directors expect the Group's capital target to be met through management of the capital-intensive activities. In the fourth quarter of 2018, Finanstilsynet lowered the bank's Pillar 2 requirement by 0.2 percentage points to 1.9 per cent, with effect from 2019.

CEO Finn Haugan will step down in spring 2019 after 28 years in the position. Jan Frode Jansson takes over as CEO from the same point in time.

The board of directors is well satisfied with the Group's achievements and financial results in 2018 and expects 2019 to be a good year bringing strengthened banking operations, sound growth and improved solidity.

Trondheim, 5. March 2019
The Board of Directors of SpareBank 1
SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Mette Kamsvåg

Tonje Eskeland Foss

Morten Loktu

Janne T. Thomsen

Erik Gunnes
(employee rep.)

Venche Johnsen
(employee rep.)

Finn Haugan
(Group CEO)

Income statement

Parent Bank		(NOK million)	Notes	Group	
2017	2018			2018	2017
3,173	3,335	Interest income effective interest method	5,19	3,660	3,434
399	401	Other interest income		398	395
1,599	1,640	Interest expenses	5,19	1,655	1,600
1,972	2,097	Net interest income		2,403	2,225
1,098	1,102	Commission income	5,20	1,387	1,390
98	92	Commission expenses	5,20	168	168
38	32	Other operating income	5,20	958	783
1,038	1,042	Commission income and other income		2,177	2,005
629	516	Dividends	21,44	8	6
-	-	Income from investment in related companies	5,21,39	416	437
146	152	Net return on financial instruments	5,21	334	317
776	668	Total net return on financial investments		757	760
3,786	3,807	Net operating income		5,337	4,989
575	577	Staff costs	22,24	1,584	1,426
634	685	Other operating expenses	23,32,33	1,040	943
1,209	1,262	Total operating expenses		2,624	2,369
2,577	2,546	Result before losses		2,713	2,621
323	229	Loss on loans, guarantees etc.	5,11	263	341
2,253	2,316	Result before tax		2,450	2,279
403	456	Tax charge	25	509	450
-	62	Result investment held for sale, after tax	39	149	-1
1,850	1,922	Profit for the year		2,090	1,828
33	36	Attributable to additional Tier 1 Capital holders		37	33
1,162	1,207	Attributable to Equity capital certificate holders		1,291	1,128
655	680	Attributable to the saving bank reserve		727	636
		Attributable to non-controlling interests		34	32
1,850	1,922	Profit for the year		2,090	1,828
		Profit/Diluted profit per ECC		9.97	8.71

Other comprehensive income

Parent Bank		(NOK million)	Notes	Group	
2017	2018			2018	2017
1,850	1,922	Net profit		2,090	1,828
Items that will not be reclassified to profit/loss					
-24	18	Actuarial gains and losses pensions	24	18	-20
6	-6	Tax		-6	5
-	-	Share of other comprehensive income of associates and joint venture		1	4
-18	12	Total		13	-11
Items that will be reclassified to profit/loss					
15	-	Fair value change on financial assets through other comprehensive income		-	15
-	-2	Value changes on loans measured at fair value		-2	-
-	-	Share of other comprehensive income of associates and joint venture		-38	4
15	-2	Total		-40	19
-3	11	Net other comprehensive income		-27	8
1,847	1,933	Total other comprehensive income		2,063	1,836
33	36	Attributable to additional Tier 1 Capital holders		37	33
1,160	1,213	Attributable to Equity capital certificate holders		1,274	1,132
654	684	Attributable to the saving bank reserve		718	638
		Attributable to non-controlling interests		34	32
1,847	1,933	Total other comprehensive income		2,063	1,836

Other comprehensive income comprise items reflected directly in equity capital that are not transactions with owners, cf. IAS 1.

Statement of Financial Position

Parent Bank		(NOK million)	Notes	Group	
31 Dec 2017	31 Dec 2018			31 Dec 2018	31 Dec 2017
		ASSETS			
3,313	883	Cash and receivables from central banks	4,26	883	3,313
9,543	11,178	Deposits with and loans to credit institutions	4,8,15,26,28	5,074	4,214
			4,5,9,10,11,12,		
104,769	112,659	Net loans to and receivables from customers	15,26,28	119,728	110,959
19,895	20,428	Fixed-income CDs and bonds	4,15,26,27,29	20,348	19,736
4,328	3,914	Derivatives	4,14,26,27,30	4,119	4,351
169	391	Shares, units and other equity interests	4,26,27,31	1,873	1,825
3,940	4,309	Investments in related companies	39,40,41,44	6,098	5,760
3,120	2,610	Investment in group companies	39,41	-	-
82	82	Investment held for sale	31,33,39	43	649
522	533	Intangible assets	32	851	793
703	733	Other assets	5,24,25,33,34	1,687	1,654
150,383	157,720	Total assets	13,16,17	160,704	153,254
		LIABILITIES			
9,047	8,546	Deposits from credit institutions	4,8,26,28	9,214	9,607
77,362	81,448	Deposits from and debt to customers	4,5,26,28,35	80,615	76,476
42,194	44,269	Debt created by issue of securities	4,26,28,36	44,269	42,194
3,341	2,933	Derivatives	14,26,27,30	2,982	3,343
909	1,892	Other liabilities	24,26,27,37	2,670	1,923
-	-	Investment held for sale	39	1	1
2,159	2,224	Subordinated loan capital	4,26,28,38	2,268	2,201
135,011	141,311	Total liabilities	18	142,018	135,744
		EQUITY			
2,597	2,597	Equity capital certificates	43	2,597	2,597
-0	-0	Own holding of ECCs	43	-4	-8
895	895	Premium fund		895	895
5,079	5,602	Dividend equalisation fund		5,594	5,072
571	661	Allocated to dividends		661	571
322	373	Allocated to gifts		373	322
4,831	5,126	Ownerless capital		5,126	4,831
126	155	Unrealised gains reserve		155	126
-	-	Other equity capital		1,608	1,547
950	1,000	Additional Tier 1 Capital	3,6	1,043	993
		Non-controlling interests		637	565
15,372	16,409	Total equity	6,44	18,686	17,510
150,383	157,720	Total liabilities and equity	16,17	160,704	153,254

Statement of Changes in Equity

Parent Bank (NOK million)	Issued equity		Earned equity						Total equity
	EC capital	Premium fund	Owner-less capital	Equalisation fund	Dividend and gifts	Un-realised gains reserve	Other equity	Additional Tier 1 Capital	
Equity at 1 January 2017	2,597	895	4,499	4,490	609	126	-	950	14,166
Net profit	-	-	327	580	893	17	-	33	1,850
Other comprehensive income									
Financial assets through OCI	-	-	-	-	-	-	15	-	15
Actuarial gains (losses), pensions	-	-	-	-	-	-	-18	-	-18
Other comprehensive income	-	-	-	-	-	-	-3	-	-3
Total other comprehensive income	-	-	327	580	893	17	-3	33	1,847
Transactions with owners									
Dividend declared for 2016	-	-	-	-	-389	-	-0	-	-390
To be disbursed from gift fund	-	-	-	-	-220	-	-	-	-220
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-33	-33
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	0
Direct recognitions in equity	-	-	5	9	-	-17	3	-	-
Total transactions with owners	0	-	5	9	-609	-17	3	-33	-642
Equity at 31 December 2017	2,597	895	4,831	5,079	893	126	-	950	15,372

Parent Bank (NOK million)	Issued equity		Earned equity						Total equity
	EC capital	Premium fund	Owner-less capital	Equalisation fund	Dividend and gifts	Un-realised gains reserve	Other equity	Additional Tier 1 Capital	
Equity at 31 December 2017	2,597	895	4,831	5,079	893	126	-	950	15,372
Transition to IFRS 9	-	-	-	-	-	-	-17	-	-17
Equity at 1 January 2018	2,597	895	4,831	5,079	893	126	-17	950	15,355
Net profit	-	-	297	526	1,034	29	-	36	1,922
Other comprehensive income									
Value changes on loans measured at fair value	-	-	-	-	-	-	-2	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	12	-	12
Other comprehensive income	-	-	-	-	-	-	11	-	11
Total other comprehensive income	-	-	297	526	1,034	29	11	36	1,933
Transactions with owners									
Dividend declared for 2017	-	-	-	-	-571	-	-	-	-571
To be disbursed from gift fund	-	-	-	-	-322	-	-	-	-322
Additional Tier 1 Capital issued	-	-	-	-	-	-	-	1,000	1,000
Buyback additional Tier 1 Capital issued	-	-	-	-	-	-	-	-950	-950
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-36	-36
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	0
Direct recognitions in equity	-	-	-2	-4	-	-	6	-	-0
Total transactions with owners	0	-	-2	-4	-893	-	6	14	-879
Equity at 31 December 2018	2,597	895	5,126	5,602	1,034	155	-	1,000	16,409

Group	Attributable to parent company equity holders	
	Issued equity	Earned equity

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

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

(NOK million)	Attributable to parent company equity holders									
	Issued equity		Earned equity							
	EC capital	Premium fund	Owner-less capital	Equalisation fund	Dividend and gifts	Un-realised gains reserve	Other equity	Additional Tier 1 Capital	Non-controlling interests	Total equity
Equity at 31 December 2017	2,588	895	4,831	5,072	893	126	1,547	993	565	17,510
Transition to IFRS 9	-	-	-	-	-	-	-24	-	-	-24
Equity at 1 January 2018	2,588	895	4,831	5,072	893	126	1,523	993	565	17,486
Net profit	-	-	297	526	1,034	29	131	37	34	2,090
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-38	-	-	-38
Value changes on loans measured at fair value	-	-	-	-	-	-	-2	-	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	13	-	-	13
Other comprehensive income	-	-	-	-	-	-	-27	-	-	-27
Total other comprehensive income	-	-	297	526	1,034	29	105	37	34	2,063
Transactions with owners										
Dividend declared for 2017	-	-	-	-	-571	-	-	-	-	-571
To be disbursed from gift fund	-	-	-	-	-322	-	-	-	-	-322
Additional Tier 1 capital issued	-	-	-	-	-	-	-	1,000	-	1,000
Buyback additional Tier 1 Capital issued	-	-	-	-	-	-	-	-950	-	-950
Interest payments additional Tier 1 capital	-	-	-	-	0	-	-	-37	-	-37
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	-	0
Own ECC held by SB1 Markets*)	4	-	-	0	-	-	11	-	-	15
Direct recognitions in equity	-	-	-2	-4	-	-	-5	-	-	-12
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-24	-	-	-24
Change in non-controlling interests	-	-	-	-	-	-	-	-	38	38
Total transactions with owners	4	-	-2	-4	-893	-	-19	13	38	-863
Equity at 31 December 2018	2,592	895	5,126	5,594	1,034	155	1,608	1,043	637	18,686

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

Cash Flow Statement

Parent Bank			Group	
2017	2018	(NOK million)	2018	2017
1,850	1,922	Net profit	2,090	1,828
50	66	Depreciations and write-downs on fixed assets	98	102
323	229	Losses on loans and guarantees	263	341
2,223	2,218	Net cash increase from ordinary operations	2,451	2,271
656	366	Decrease/(increase) other receivables	170	480
-455	575	Increase/(decrease) short term debt	387	-339
-8,593	-8,138	Decrease/(increase) loans to customers	-9,059	-9,946
-1,340	-1,636	Decrease/(increase) loans credit institutions	-860	-322
8,972	4,086	Increase/(decrease) deposits to customers	4,140	9,308
-1,252	-501	Increase/(decrease) debt to credit institutions	-393	-902
-2,259	-533	Increase/(decrease) in short term investments	-613	-2,179
-2,047	-3,563	A) Net cash flow from operations	-3,778	-1,629
-100	-60	Investments in tangible fixed assets	-126	383
5	-	Sale of tangible fixed assets	-	5
-145	140	Paid-up capital, associated companies	232	-685
94	-222	Net investments in long-term shares and partnerships	-47	-249
-146	-141	B) Net cash flow from investments	59	-546
-27	66	Increase/(decrease) in subordinated loan capital	66	-27
0	0	Increase/(decrease) in equity	15	-21
-390	-571	Dividend cleared	-571	-390
-220	-322	To be disbursed from gift fund	-322	-220
-	1,000	Additional Tier 1 Capital issued	1,000	-
-	-950	Buyback additional Tier 1 Capital issued	-950	-
-33	-36	Interest payments additional Tier 1 capital	-37	-33
5,860	2,087	Increase/(decrease) in other long term loans	2,088	5,862
5,191	1,274	C) Net cash flow from financial activities	1,289	5,173
2,998	-2,430	A) + B) + C) Net changes in cash and cash equivalents	-2,430	2,998
315	3,313	Cash and cash equivalents at 1.1	3,313	315
3,313	883	Cash and cash equivalents at end of the year	883	3,313
2,998	-2,430	Net changes in cash and cash equivalents	-2,430	2,998

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Note 1 - General information

Description of the business

See "Business description" presented in the annual report.

The SpareBank 1 SMN Group

SpareBank 1 SMN's head office is in Trondheim, no. 4 Søndre gate. The Bank's market areas are essentially Trøndelag and Nordvestlandet.

The Group accounts for 2018 were approved by the Board of Directors on 5 March 2019.

Note 2 - Accounting principles

Basis for preparing the consolidated annual accounts

The Group accounts for 2018 for SpareBank 1 SMN have been prepared in conformity with International Financial Reporting Standards (IFRS) which have been given effect in Norway. These include interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC). The measurement base for both the parent bank and group accounts is historical cost with the modifications described below. The accounts are presented based on IFRS standards and interpretations mandatory for accounts presented as at 31 December 2018.

Implemented accounting standards and other relevant rule changes in 2018

The applied accounting principles are consistent with the principles applied in the preceding accounting period, with the exception of those changes to IFRS which have been implemented by the group in the current accounting period. Below is a list of amendments to IFRS with effect for the 2018 accounts that have been relevant, and the effect they have had on the group's annual accounts.

The following new and amended accounting standards and interpretations were applied for the first time in 2018:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is that revenues are recognised in order to reflect the transfer of agreed goods or services to customers, and at an amount that reflects the compensation the company expects to be entitled to in exchange for such goods or services. The standard applies, with a small number of exceptions, to all remunerative contracts with customers and includes a model for recognition and measurement of sales of individual non-financial assets (for example sales of property, plant and equipment).

IFRS 15 require businesses to use judgment, and take into consideration all relevant facts and circumstances when assessing the customer contracts in each stage in the model. The standard specifies the accounting of marginal expenses related to achieving a contract, and the expenses relating to fulfilling the contract. The standard also requires comprehensive disclosures.

The Group implemented IFRS 15 under the full retrospective method. No disclosures about transition effects have been made due to practical expedients in IFRS 15.C4. The group has not utilized any other available practical expedients. The standard has no significant impact on the group's principles for revenue recognition.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 deals with recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 applies from 1 January 2018. For an overview of the quantitative impact of implementing IFRS 9, see note 4.

A description of new requirements under IFRS 9 and changes from earlier standards is set out below. That is followed by a description of the choices made by SpareBank 1 SMN. For description of the principles in IAS 39 used in 2017, refer to the annual report for 2017.

Classification and measurement

Financial assets

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

Financial assets that are debt instruments

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

Other debt instruments shall be measured at fair value with changes reported in profit/loss. This applies to instruments with cash flows that are not only payment of normal interest (time value of money, credit margin and other normal margins related to loans and receivables) and principal, and instruments held in a business model whose main purpose is not that of receiving contractual cash flows. Financial instruments at fair value are at about the same level as under previous rules.

Derivatives and investments in equity instruments

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

Financial liabilities

For financial liabilities the rules are essentially the same as under IAS 39. As a main rule financial liabilities shall continue to be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments forming part of a trading portfolio and financial liabilities accounted for at fair value with value changes recognised in profit/loss.

Hedge accounting

IFRS 9 simplifies the requirements on hedge accounting in that hedge effectiveness is linked more closely to the management's risk management and gives more scope for assessment. The requirement of hedge effectiveness of 80-125 per cent is removed and replaced with more qualitative requirements, including the requirement of an economic relation between the hedging instrument and the hedged object, and that credit risk shall not dominate the value changes in the hedging instrument. Under IFRS 9 a prospective effectiveness test is sufficient, whereas under IAS 39 hedge effectiveness must be considered both prospectively and retrospectively. Documentation of the hedging relationship is still required. The bank has continued to apply hedge accounting under IAS 39.

Loan impairment write-downs

Under previous rules, IAS 39, impairment write-downs shall only be made in cases where there is objective evidence that a loss event has occurred since first-time recognition. Under IFRS 9, on the other hand, loss provisions shall be recognised based on expected credit loss (ECL). Measurement of the provision for expected loss depends on whether credit risk has increased significantly since first-time recognition. Upon first-time recognition, and when credit risk has not increased significantly since first-time recognition, provision shall be made for a 12-month expected loss. If credit risk has risen significantly, provision shall be made for expected loss across the entire life. The methodology in the IFRS 9 standard entails somewhat larger volatility in write-downs, and write-downs are expected to be made at an earlier stage than previously. This will be particularly noticeable at the start of a cyclical downturn.

Further description of the bank's impairment write-down model

Loss estimates are prepared quarterly, and build on data in the data warehouse which has historical accounting and customer data for the entire credit portfolio. Loss estimates are computed based on 12-month and lifelong probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data warehouse contains historical data for observed PD and observed LGD. In keeping with IFRS 9 the bank groups its loans in three stages.

Stage 1:

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

Stage 2:

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

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has transferred to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1.

Stage 3:

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

Impairment must be a result of one or more events occurring after first-time recognition (a loss event), and it must be possible to measure the result of the loss event(s) reliably. Objective evidence of impairment of a financial asset includes observable data which come to the group's knowledge on the following loss events:

- significant financial difficulties on the part of the issuer or borrower
- a not insignificant breach of contract, such as failure to pay instalments and interest
- the group grants the borrower special terms in light of financial or legal aspects of the borrower's situation
- the debtor is likely to start debt negotiation or other financial restructuring
- active markets for the financial asset are closed due to financial problems.

The group assesses first whether individual objective evidence exists that individually significant financial assets have suffered impairment.

Where there is objective evidence of impairment, the size of the impairment is measured as the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through a provision account and the loss is recognised in the income statement.

Presentation currency

The presentation currency is the Norwegian krone (NOK), which is also the bank's functional currency. All amounts are stated in millions of kroner unless otherwise specified.

Consolidation

The consolidated accounts include the Bank and all subsidiaries which are not due for divestment in the near future and are therefore to be classified as held for sale under IFRS 5. All undertakings controlled by the Bank, i.e. where the Bank has the power to control the undertaking's financial and operational principles with the intention of achieving benefits from the undertaking's activities, are regarded as subsidiaries. Subsidiaries are consolidated from the date on which the Bank has taken over control, and are deconsolidated as of the date on which the Bank relinquishes control. Mutual balance sheet items and all significant profit elements are eliminated.

Upon takeover of control of an enterprise (business combination), all identifiable assets and liabilities are recognised at fair value in accordance with IFRS 3. A positive difference between the fair value of the consideration and the fair value of identifiable assets and liabilities is recorded as goodwill, while any negative difference is taken to income upon purchase. Accounting for goodwill after first-time recognition is described under the section on intangible assets.

All intra-group transactions are eliminated in the preparation of the consolidated accounts. The non-controlling interests' share of the group result is to be presented on a separate line under profit after tax in the income statement. In the statement of changes in equity, the non-controlling interests' share is shown as a separate item.

Associated companies

Associates are companies in which the Bank has substantial influence. As a rule, influence is substantial where the Bank has an ownership interest of 20 per cent or more. Associates are accounted for by the equity method in the consolidated accounts. The investment is initially recognised at acquisition cost and subsequently adjusted for the change in the Bank's share of the associated undertaking's net assets. The Bank recognises its share of the profit of the associated undertaking in its income statement. Associates are accounted for in the parent bank accounts by the cost method. See also note 39 Investments in owner interests.

Joint arrangements

Under IFRS 11 investments in Joint arrangements shall be classified as Joint operations or joint ventures depending on the right and obligations in the contractual arrangement for each investor. SpareBank 1 SMN has assessed its joint arrangements and concluded that they are joint ventures. Jointly controlled ventures are accounted for using the equity method in the group and the cost method in the parent bank.

When the equity method is used joint ventures are recognised at their original acquisition cost. The carrying amount is thereafter adjusted to recognise the share of the results after the acquisition and the share of comprehensive income. When the group's share of a loss in a joint venture exceeds the capitalized amount (including other long-term investments that are in reality part of the group's net investment in the venture), no further loss is recognized unless liabilities have been assumed or payments have been made on behalf of the joint venture. Unrealised gains on transactions between the group and its joint ventures are eliminated according to the ownership interest in the business. Unrealised losses are also eliminated unless the transaction gives evidence of a fall in value on the transferred asset. Amounts reported from joint ventures are, if necessary, restated to ensure they correspond with the accounting policies of the group. See also note 39 Investments in owner interests.

Loans and loan losses

Loans held in "hold to collect" business model are measured at amortised cost. Amortised cost is acquisition cost less repayments of principal, plus or minus cumulative amortisation resulting from the effective interest rate method, with deductions for any value fall or loss likelihood. The effective interest rate is the interest rate which precisely discounts estimated future cash in- or out-payments over the financial instrument's expected lifetime.

The Bank sells only parts of the loans qualified for transfer to SpareBank1 Boligkreditt. Loans included in business models (portfolios) with loans qualifying for transfer are therefore held both to collect cash flows and for sales. The Bank therefore classifies all residential mortgages at fair value over other comprehensive income. Fair value on such loans at initial recognition are measured at the transaction price, without reduction for 12 month expected credit loss.

Fixed interest loans to customers are recognised at fair value. Gains and losses due to changes in fair value are recognised in the income statement as fair value changes. Accrued interest and premiums/discounts are recognised as interest. Interest rate risk on fixed interest loans is managed through interest rate swaps which are recognised at fair value. It is the group's view that recognising fixed interest loans at fair value provides more relevant information on carrying values.

Write-downs

Amounts recorded on the Bank's non-financial assets are reviewed on the balance sheet date for any indications of value impairment. Should such indications be present, an estimate is made of the asset's recoverable amount. Each year on the balance sheet date recoverable amounts on goodwill, assets with unlimited useful lifetime, and intangible assets not yet available for use, are computed. Write-downs are undertaken when the recorded value of an asset or cash-flow-generating entity exceeds the recoverable amount. Write-downs are recognised in profit/loss. Write-down of goodwill is not reversed. In the case of other assets, write-downs are reversed where there is a change in the estimates used to compute the recoverable amount.

Impairment of loans recognised at fair value

At each balance sheet date the group assesses whether evidence exists that a financial asset or group of financial assets recognised at fair value is susceptible to impairment. Losses due to impairment are recognised in the income statement in the period in which they arise.

Actual losses

Where the balance of evidence suggests that the losses are permanent, the losses are classified as actual losses and de-recognised. Actual losses covered by earlier specified loss provisions are reflected in such loss provisions. Actual losses not covered by Stage 3 loss provisions, as well as surpluses and deficits in relation to earlier loss provisions, are recognised in the income statement.

Reposessed assets

As part of its treatment of defaulted loans and guarantees, the Bank in a number of cases takes over assets furnished as collateral for such exposures. Upon repossession the assets are valued at their presumed realisable value. Any deviation from the carrying value of a defaulted or written down exposure upon takeover is classified as a loan write-down. Reposessed assets are carried according to type. Upon final disposal, the deviation from carrying value is reported in profit or loss in accordance with the type of asset as per the accounts.

Non-current assets held for sale and discontinued operations

Assets which the board of directors of the bank has decided to sell are dealt with under IFRS 5 if it is highly likely that the asset will be sold within 12 months. This type of asset comprises for the most part assets taken over in connection with defaulted loans, and investments in subsidiaries held for sale. In the case of depreciable assets, depreciation ceases when a decision is taken to sell, and the asset is measured at fair value in accordance with IFRS 5. The result of such activity and appurtenant assets and liabilities are presented on a separate line as held for sale.

Leases

Financial leases are entered under the main item 'loans' in the balance sheet and accounted for at amortised cost. All fixed revenues within the lease's expected lifetime are included when computing the contract's effective interest.

Securities and derivatives

Securities and derivatives comprise shares and units, money market instruments and bonds, and derivative currency, fixed income and equity instruments. Shares and units are classified at fair value through profit/loss. Money market instruments and bonds are classified at fair value through profit/loss, fair value through OCI or amortised cost. Derivatives are invariably recognised at fair value through profit/loss unless they are part of a cash flow hedge. However the Bank does not avail itself of cash flow hedges.

All financial instruments classified at fair value through profit/loss are measured at fair value, and any change in value from the opening balance is recognised as revenue from other financial investments. Financial assets held for trading purposes are characterised by frequent trading and by positions being taken with the aim of short-term gain. Other such financial assets classified at fair value through profit/loss are investments defined upon first-time recognition as classified at fair value through profit/loss (fair value option).

Financial derivatives are presented as assets when fair value is positive, and as liabilities when fair value is negative.

Money market instruments and bonds classified at amortised cost are measured using the effective interest rate method; see the account of this method under the section on loans.

Intangible assets

Intangible assets mainly comprise goodwill in the SpareBank 1 SMN Group. Other intangible assets will be recognised once the conditions for entry in the balance sheet are present. Goodwill arises as the difference between the fair value of the consideration upon purchase of a business and the fair value of identifiable assets and liabilities; see description under Consolidation. Goodwill is not amortised, but is subject to an annual depreciation test with a view to revealing any impairment, in keeping with IAS 36. Testing for value impairment is done at the lowest level at which cash flows can be identified.

Intangible assets acquired separately are carried at cost. Useful economic life is either finite or infinite. Intangible assets with a finite economic life are depreciated over their economic life and tested for impairment upon any indication of impairment. The depreciation method and period are assessed at least once each year.

Property, plant and equipment

Property, plant and equipment along with property used by the owner are accounted for under IAS 16. The investment is initially recognised at its acquisition cost and is thereafter depreciated on a linear basis over its expected useful life. When establishing a depreciation plan, the individual assets are to the necessary extent split up into components with differing useful life, with account being taken of estimated residual value. Property, plant and equipment items which individually are of little significance, for example computers and other office equipment, are not individually assessed for residual value, useful lifetime or value loss, but are assessed on a group basis. Property used by the owner, according to the definition in IAS 40, is property that is mainly used by the Bank or its subsidiary for its own use.

Property, plant and equipment which are depreciated are subject to a depreciation test in accordance with IAS 36 when circumstances so indicate.

Property held in order to earn rentals or for capital appreciation is classified as investment property and is measured at fair value in accordance with IAS 40. The group has no investment properties.

Interest income and expenses

Interest income and expenses related to assets and liabilities which are measured at amortised cost or fair value over OCI are recognised in profit/loss on an ongoing basis using the effective interest rate method. Charges connected to interest-bearing funding and lending are included in the computation of effective interest rate and are amortised over expected lifetime. Interest income are calculated based on Gross loans in stage 1 and 2, and Net loans in Stage 3.

In the case of interest-bearing instruments measured at fair value in profit or loss, changes in market value will be classified as income from other financial investments, and interest income is presented as other interest income. In the case of interest-bearing instruments at amortised cost or fair value over OCI and not utilised for hedging, the premium/discount is amortised as interest income over the term of the contract.

Commission income and expenses

Commission income and expenses are generally accrued in step with the provision of the service. Charges related to interest-bearing instruments are not entered as commission, but are included in the calculation of effective interest and recognised in profit/loss accordingly. Consultancy fees accrue in accordance with a consultancy agreement, usually in step with the provision of the service. The same applies to ongoing management services. Fees and charges in connection with the sale or mediation of financial instruments, property or other investment objects which do not generate balance sheet items in the Bank's accounts are recognised in profit/loss when the transaction is completed. The Bank receives commission from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt corresponding to the difference between the interest on the loan and the funding cost achieved by SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. This shows as commission income in the Bank's accounts.

Transactions and holdings in foreign currency

Transactions in foreign currency are converted to Norwegian kroner at the transaction exchange rate. Gains and losses on executed transactions or on conversion of holdings of monetary items on the balance sheet date are recognised in profit/loss. Gains and losses on conversion of items other than monetary items are recognised in the same way as the appurtenant balance sheet item.

Hedge accounting

The Bank evaluates and documents the effectiveness of a hedge in accordance with IAS 39. The Bank employs fair value hedging to manage its interest rate risk. In its hedging operations the Bank protects against movements in the market interest rate. Changes in credit spread are not taken to account when measuring hedge effectiveness. In the case of fair value hedging, both the hedging instrument and the hedged object are recorded at fair value, and changes in these values from the opening balance are recognised in profit/loss.

Fair value option

The Parent Bank's fixed rate loans are recognised in profit/loss at fair value by using the fair value option, in accordance with IAS 39, and the Bank manages interest rate risk related to these loans through the use of derivatives.

Income taxes

Tax recorded in the income statement comprises tax in the period (payable tax) and deferred tax. Period tax is tax calculated on the taxable profit for the year. Deferred tax is accounted for by the liability method under IAS 12. Calculation of deferred tax is done using the tax rate in effect at any time. Liabilities or assets are calculated on temporary differences i.e. the difference between balance-sheet value and tax-related value of assets and liabilities. However, liabilities or assets are not calculated in the case of deferred tax on goodwill for which there is no deduction for tax purposes, nor on first-time-recognised items which affect neither the accounting nor the taxable profit.

A deferred tax asset is calculated on a tax loss carryforward. Deferred tax assets are recognised only to the extent that there is expectation of future taxable profits that enable use of the tax asset. Withholding tax is presented as period tax. Wealth tax is presented as an operating expense in the group accounts under IAS 12.

Deposits from customers

Customer deposits are recognised at amortised cost.

Debt created by issuance of securities

Loans not included in hedge accounting are initially recognised at acquisition cost. This is the fair value of the compensation received after deduction of transaction fees. Loans are thereafter measured at amortised cost. Any difference between acquisition cost and settlement amount at maturity is accordingly accrued over the term of loan using the effective rate of interest on the loan. The fair value option is not applied in relation to the group's debt.

Subordinated debt and hybrid capital

Subordinated debt and hybrid capital issued before 2012 are classified as liabilities in the statement of financial position and are measured at amortised cost like other long-term loans. Subordinated debt ranks behind all other debt. Hybrid capital denotes bonds with a nominal interest rate, but the Bank is not obliged to pay interest in a period in which no dividend is paid, nor does the investor subsequently have a right to interest that has not been paid, i.e. the interest does not accumulate. Hybrid Capital issued after 2012 have been classified as equity since these do not satisfy the definition of a financial liability in IAS 32. The bond is perpetual and SpareBank 1 SMN has the right to not pay interest to the investors. The interest will not be presented as an interest expense in the income statement, but as a reduction to equity. See also note 3 for a closer description. The treatment of subordinated debt and hybrid capital in the calculation of the group's capital adequacy is described in note 6 Capital adequacy and capital management.

Contingent liabilities

The Bank issues financial guarantees as part of its ordinary business. Loss assessments are made as part of the assessment of loan losses, are based on the same principles and are reported together with loan losses. Provisions are made for other contingent liabilities where there is a preponderant likelihood that the commitment will materialise and the financial consequences can be reliably measured. Information is disclosed on contingent liabilities which do not meet the criteria for recognition where such commitments are substantial. Restructuring expenses are provisioned in cases where the Bank has a contractual or legal obligation.

Pensions

The SpareBank 1 SMN Group has a pension scheme for its staff that meet the requirements set for mandatory occupational pensions. SpareBank 1 SMN had a defined benefit scheme previously. This was terminated from 1 January 2017. The settlement gain was in accordance with IAS 19 taken to the income statement in 2016 when the decision was made. The Group employees transferred to a defined contribution scheme.

Defined contribution scheme

Under a defined contribution pension scheme the group does not provide a future pension of a given size; instead the group pays an annual contribution to the employees' collective pension savings. The future pension will depend on the size of the contribution and the annual return on the pension savings. The group has no further obligations related to employees' labour contribution after the annual contribution has been paid. There is no allocation for accrued pension obligations under such schemes. Defined contribution schemes are directly expensed. Any pre-paid contributions are recognised as an asset (pension assets) to the extent the contribution can be refunded or reduce future inpayments.

The contributions are made to the pension fund for full-time employees, and the contribution is from 7 per cent from 0-7,1 G and 15 per cent from 7.1 – 12 G. The premium is expensed as incurred. See also note 24 Pensions.

Early retirement pension scheme ("AFP")

The banking and financial industry has established an agreement on an early retirement pension scheme ("AFP"). The scheme covers early retirement pension from age 62 to 67. The Bank pays 100 per cent of the pension paid from age 62 to 64 and 60 per cent of the

pension paid from age 65 to age 67. Admission of new retirees ceased with effect from 31 December 2010. The Act on state subsidies in respect of employees who take out contractual pension in the private sector (AFP Subsidies Act) entered into force on 19 February 2010. Employees who take out AFP with effect in 2011 or later will receive benefits under the new scheme. The new AFP scheme represents a lifelong add-on to National Insurance and can be taken out from age 62. Employees accumulate AFP entitlement at an annual rate of 0.314 per cent of pensionable income capped at 7.1G up to age 62. Accumulation under the new scheme is calculated with reference to the employee's lifetime income, such that all previous working years are included in the qualifying basis.

For accounting purposes the new AFP scheme is regarded as a defined benefit multi-employer scheme. This entails that each employer accounts for its pro rata share of the scheme's pension obligation, pension assets and pension cost. If no calculations of the individual components of the scheme and a consistent and reliable basis for allocation are available, the new AFP scheme will be accounted for as a defined-contribution scheme. At the present time no such basis exists, and the new AFP scheme is accordingly accounted for as a defined-contribution scheme. The new AFP scheme will only be accounted for as a defined-benefit scheme once reliable measurement and allocation can be undertaken. Under the new scheme, one-third of the pension expenses will be funded by the State, two-thirds by the employers. The employers' premium will be fixed as a percentage of salary payments between 1G and 7.1G.

In keeping with the recommendation of the Norwegian Accounting Standards Board, no provision was made for the group's de facto AFP obligation in the accounting year. This is because the office that coordinates the schemes run by the main employer and trade union organisations has yet to perform the necessary calculations.

Segment reporting

SpareBank 1 SMN has Retail Banking and Corporate Banking, along with the most important subsidiaries and associates as its primary reporting segments. The group presents a sectoral and industry distribution of loans and deposits as its secondary reporting format. The group's segment reporting is in conformity with IFRS 8.

Dividends and gifts

Proposed dividends on equity certificates and gifts are recognised as equity capital in the period to the declaration of dividends by the bank's supervisory board.

Events after the balance sheet date

The annual accounts are regarded as approved for publication once they have been considered by the board of directors. The supervisory board and regulatory authorities can thereafter refuse to approve the accounts, but not to change them. Events up to the time at which the accounts are approved for publication, and which relate to circumstances already known on the balance sheet date, will be included in the information base for accounting estimates and thus be fully reflected in the accounts. Events concerning circumstances that were not known on the closing date will be illuminated if significant.

The accounts are presented on the going-concern assumption. In the view of the board of directors this assumption was met at the time the accounts were approved for presentation.

The board of directors' proposal for dividends is set out in the directors' report and in the statement of changes in equity.

New or revised accounting standards approved but not implemented in 2018

Those standards and interpretations that have been adopted up to the date of presentation of the consolidated accounts, but whose entry into force is scheduled for a future date, are set out below. The group's intention is implement the relevant changes at the time of their entry into force, on the proviso that the EU approves the changes before presentation of the consolidated accounts.

IAS 12

IAS 12 has changed from 1 January 2019. The changes in IAS 12 entails that tax expensed related to equity items that for tax purposes are considered debt (hybrid capital) will no longer be included as part of the equity transaction, but be included as tax expense in profit and loss. If hybrid capital interest are on the same level as in 2018, the tax expense in profit and loss in 2019 will be reduced by NOK 14 million as a consequence of this change.

IFRS 16 Leases

IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease agreement, i.e. the customer (lessee) and the offeror (lessor). The new standard requires lessees to recognise assets and liabilities for the majority of leases, which is a significant change from today's principles. For lessors, IFRS 16 continues in all essentials the existing principles in IAS 17. Accordingly, a lessor must continue to classify its lease agreements as operating or finance leases, and to account for those two types of leases differently.

The Group expects to implement the standard by applying a simplified method without restatement of prior year comparatives. Upon transition SpareBank 1 SMN will recognise an obligation to make lease payments (lease liability) and an asset representing its right to use the underlying asset in the period of the lease (right-of-use asset). In the profit and loss account, depreciation of the right-of-use asset will be accounted for separately from the interest on the lease liability.

SpareBank 1 SMN has decided to apply the following practical expedients:

- to exempt assets of low value
- to omit to recognise non-lease components
- not to restate comparatives upon implementation. A right-of-use asset and a lease liability will be measured at the same amount, taking into account prepayments and provisions made as at 31 December 2018.

Method of measurement and recognition

Measurement of the lease liability

The lease liability is measured as the current value of the lease payments for the right to use the underlying asset in the lease term. The lease term is the non-cancellable period of the lease. The lease term also includes any option to extend the lease provided there is reasonable certainty that the option will be exercised. The same applies to an option to terminate the lease provided there is reasonable certainty that the option will be exercised.

Lease payments included in the measurement consist of:

- fixed lease payments (including in-substance fixed payments)
- variable lease payments that depend on an index or interest rate, initially measured using the index or interest rate at the commencement date
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option
- payments of penalties for terminating the lease if the lease term reflects the Group exercising an option to terminate the lease

The Group does not include in the lease liability variable lease payments that arise out of agreed-upon index regulation subject to future events, such as inflation. Instead the Group recognises these costs in profit/loss in the period in which the event or the circumstance that triggers the payments arises.

The lease liability is thereafter measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made and re-measuring the carrying amount to reflect any reassessment or lease modifications, or to reflect adjustments in lease payments due to adjustment of an index or rate.

The Group presents the lease liability together with other debt, whereas the right of use is presented together with property, plant and equipment in the consolidated balance sheet.

Recognition and discount rate

IFRS 16 refers to two different methods of determining the discount rate for lease payments:

- The rate implicit in the lease
- The lessee's incremental rate of borrowing, if the implicit rate is not readily determined

Lease contracts covered by IFRS 16 vary as regards term and option structure. Moreover, assumptions must be made as to the opening value of the underlying assets. Both of these items make an implicit interest calculation more complicated than an incremental borrowing rate calculation. SpareBank 1 SMN has a framework for transfer pricing that is designed to provide as correct a picture as possible of how various balance sheet items, business lines, segments or regions in the bank contribute to the bank's profitability. The starting point for the transfer pricing rates is the bank's historical cost of funding. The Group's cost of funding can be split up into a cost related to senior unsecured debt and a cost related to capital (hybrid capital and subordinated loan capital). The latter cost of funding shall, like other equity, be distributed on assets based on risk weights. The cost related to own funds (hybrid capital and subordinated loan capital) then appears as a further transfer price addition to the loan accounts. The bank also has indirect liquidity costs related to liquidity reserves. These are reserves that the bank is required to hold by the authorities along with reserves of surplus liquidity held by the bank for shorter periods. The liquidity reserves have a substantial negative return measured against the bank's cost of funding. This cost is distributed on balance sheet items that create a need for liquidity reserves, and appear as a reduction from the transfer price interest for deposits and an addition as regards loans.

Transfer Price rate = cost of funding + addition for liquidity reserve cost + addition for cost of capital

In the transfer pricing the bank's liquidity cost or cost of funding is distributed on assets and liabilities, and is actively utilised in the internal account. The transfer price is accordingly a well-established tool in the governance of the bank, and is regularly updated. The transfer price interest rate for an asset with the corresponding underlying, in this case commercial property, will therefore be a good representation of the incremental borrowing rate. This discount rate will include the material additions to the cost of funding, giving a more correct picture of the opportunity cost for the bank. It is recommended that this interest rate be used as the discount rate for the Group's leases coming under IFRS 16.

Accounting effect

For 2019 a discount rate of 2.05 per cent is employed.

Based on figures as at 31 December 2018, the implementation of IFRS 16 will entail a reduction in CET1 capital of 0.08 per cent for the Group.

Right-of-use assets are classified as non-current assets in the balance sheet whereas the lease liability is classified as other debt. The Group's lease liability relates in all essentials to lease agreements for offices. Total lease liabilities and right-of-use assets as at 1 January 2019 total NOK 645m for the Group. The effect on profit will vary over time, but the combination of interest cost and depreciation produces a somewhat larger amount than the lease cost at the start of the lease term and a lower amount towards the end of the lease term. For 2019 a negative profit effect of NOK 19m is expected for the Group in this respect.

Parent Bank		Group
1.Jan 2019	Balance sheet (NOK million)	1.Jan 2019
482	Lease commitments	645
482	Right-of-use asset	645
31.Dec 2019 Profit and Loss		31.Dec 2019
50	Depreciations	88
9	Interest	14
59	Total	102
Transition to IFRS 16		
41	Reduced operating expenses under IAS 17	83
59	Increased depreciation and interest under IFRS 16	102
-18	Changes in net profit before taxes	-19

Note 3 - Critical estimates and assessments concerning the use of accounting principles

In the preparation of the Group accounts the management makes accounting estimates, discretionary assessments and assumptions that bear on the effect of the application of the accounting principles and hence the amounts booked for assets, liabilities, income and expenses. Estimates and discretionary assessments are evaluated continuously and are based on empirical experience and expectations of events which, as of the balance sheet date, are deemed likely to occur in the future.

Classification of financial instruments

Financial assets are classified either at fair value through other comprehensive income (OCI), at amortised cost or at fair value through profit and loss. The bank determines the classification based on characteristics of the asset's contractual cash flows and the business model under which the asset is managed.

In order to classify a financial asset the bank must determine whether the contractual cash flows from the asset are exclusively payment of interest and principal on the outstanding amount.

Principal is measured at fair value of the asset upon first-time recognition. Interest consists of payment for the time value of money, for credit risk associated with outstanding principal in a particular period, and for other loan risks and costs, in addition to a profit margin. If the bank establishes that the contractual cash flows from an asset are not exclusively payment for interest and principal, the asset shall be classified as measured at fair value through profit and loss.

When classifying financial assets, the bank establishes the business model utilised for each portfolio of assets that are managed collectively to achieve the same business objective. The business model reflects how the bank manages its financial assets and the degree to which the cash flows are generated through collection of the contractual cash flows, sale of financial assets or both. The bank establishes the business model through use of scenarios that can with reasonable likelihood be expected to occur. Establishment of the business model requires the application of discretionary judgement and an assessment of all available information at the point in time in question.

A portfolio of financial assets is classified in a "hold to collect" business model where the bank's primary aim is to hold these assets in order to collect their contractual cash flows rather than to sell them. Where the bank's objective is obtained through both collecting and selling the assets, the assets will be classified in a "hold to collect and sell" business model. In such a business model, both collection of contractual cash flows and sale of assets will be integral elements for achieving the bank's objective for the portfolio concerned.

Financial assets are measured at fair value through profit and loss if they do not fall within either a "hold to collect" business model or a "hold to collect or sell" business model.

Losses on loans and guarantees

The Bank rescues its loan portfolio monthly. Customers showing objective evidence of loss due to payment default, impaired creditworthiness or other objective criteria are subject to individual assessment and calculation of loss. Should the Bank's calculations show that the present value of the discounted cash flow based on the effective interest rate at the time of estimation is below the book value of the loan, the loan is assigned to stage 3 and a write-down is performed for the calculated loss. A high degree of discretionary judgement is required in order to assess evidence of loss, and the estimation of amounts and timing of future cash flows with a view to determining a calculated loss is affected by this judgement. Changes in these factors could affect the size of the provision for loss. In cases where collateral values are tied to specific objects or industries that are in crisis, collateral will have to be realised in illiquid markets, and in such cases assessment of collateral values may be encumbered with considerable uncertainty.

For loans in stage 1 and 2 a calculation is made of the expected credit loss using the bank's loss model based on estimates of probability of default (PD) and loss given default (LGD), as well as exposure (EAD). The assessment of a write-down for expected loss will invariably be based on a considerable degree of discretionary judgement. Assumptions and estimates may well entail substantial changes in provisioning from period to period that affect the bank's results.

The most important input factors in the bank's loss model that contribute to significant changes in the loss estimate and are subject to a high degree of discretionary judgement are the following:

- Use of forward-looking information and projection of macroeconomic variables for multiple scenarios on a probability-weighted basis
- Establishing what constitutes a significant increase in credit risk for a loan.

Use of forward-looking information

Measurement of expected credit loss for each stage requires both information on events and current conditions as well as expected events and future economic conditions. Estimation and use of forward-looking information requires a high degree of discretionary judgement. PD and LGD inputs used to estimate stage 1 and stage 2 provisioning for loss are calculated based on the macroeconomic

variables that correlate with credit loss in the relevant portfolios. Each macroeconomic scenario that is utilised includes a projection for a five-year period. Our estimate of expected credit loss in stage 1 and 2 is a probability-weighted average of three scenarios: base case, best case and worst case. Our base case scenario is based on the Norwegian Central Bank's Monetary Policy Report. The best case and worst case scenarios are designed with the main emphasis on cyclical developments, highlighting unemployment, and are weighted with a basis in our best estimate of the likelihood of the various outcomes represented. The estimates are updated quarterly. If the probability of worst case is doubled from 10 to 20 per cent at yearend, the expected credit loss provision would increase by NOK 61 million for the Bank and NOK 68 million for the group.

Determination of significant increase in credit risk:

The assessment of what constitutes a significant increase in credit risk requires a large degree of discretionary judgement. Movements between stage 1 and stage 2 are based on whether the instrument's credit risk on the balance sheet date has increased significantly relative to the date of first-time recognition. This assessment is done with a basis in the instrument's lifetime PD, and not expected losses. The assessment is done for each individual instrument. Our assessment is performed at least quarterly, based on three factors:

1. The bank uses both absolute and relative changes in PD as criteria for removal to stage 2. A change of more than 150% in PD is considered to be a significant change in credit risk. In addition, the change in PD must at minimum be more than 0.6 percentage points.
2. An additional quantitative assessment is made based on whether the exposure has a significantly increased credit risk if it is subject to special monitoring.
3. In addition, customers with payments more than 30 days overdue will in all cases be moved to stage 2.

If any of the above factors indicate that a significant increase in credit risk has occurred, the instrument is moved from stage 1 to stage 2.

See also note 2 on accounting principles and note 7 on risk factors.

Fair value of equity interests

Assets recognised at fair value through profit and loss will mainly be securities traded in an active market. An active market is defined as a market where homogeneous products are traded, where willing buyers and sellers are normally present at all times, and where prices are accessible to the general public. Shares quoted in a regulated market place fit in with the definition of an active market. A market with a large spread between bid and ask prices and where trading is quiet may pose a challenge. Some key shares will be based on in-house valuations, transaction prices or external analyses of the company. Such shares are valued using acknowledged valuation techniques. These include the use of discounted cash flows or comparative pricing where similar, listed, companies are used (multiple pricing) to determine the value of the unlisted company. Such valuations may be encumbered with uncertainty. Market values will in the main be based on valuations or the latest known trade in the share.

Fair value of financial derivatives and other financial instruments

Fair value of derivatives is usually determined using valuation models where the price of the underlying, for example interest rates or exchange rates, is obtained in the market. When measuring financial instruments for which observable market data are not available, the Group makes assumptions regarding what market participants would use as the basis for valuing similar financial instruments. The valuations require extensive use of discretionary judgement inter alia when calculating liquidity risk, credit risk and volatility. Changes in these factors will affect the estimated fair value of the Group's financial instruments. For further information, see note 27 Measurement of fair value of financial instruments.

For options, volatilities will either be observed implicit volatilities or estimated volatilities based on historical movements in the price of the underlying instrument. In cases where the Bank's risk position is approximately neutral, middle rates will be used. "Neutral risk position" means for example that interest rate risk within a maturity band is virtually zero. Where market prices that are obtained are based on transactions with lower credit risk, this will be taken into account by amortising the original price difference measured against such transactions over the period to maturity.

Goodwill

The Group conducts tests to assess possible impairment of goodwill annually or in the event of indications of impairment. Assessment is based on the Group's value in use. The recoverable amount from cash-flow-generating units is determined by calculating discounted future cash flows. The cash flows are based on historical earnings and expectations of future factors and include suppositions and estimates of uncertain factors. The outcome of the impairment tests depends on estimates of discount rates which are set discretionarily based on information available on the balance sheet date.

Regarding goodwill related to Romsdals Fellesbank, the portfolio is regarded as integrated in the Bank's other lending and deposit operations, and, as from 2009, the lowest level for the cash generating unit is the parent bank level. A net cash flow is estimated based on earnings in the Bank's loan and deposit portfolio. Earnings are estimated based on average portfolio and margin, and average commission

income. Allocated costs are calculated with reference to the Bank's cost ratio in relation to total assets. A five-year average is employed in the calculation since this is considered to provide the best estimate of future cash flows. Expected loss on the loan portfolio is also calculated (0.3 per cent).

The cash flow is calculated over 20 years and is discounted by the risk-free interest rate + the risk premium for similar businesses (pre-tax interest rate 10 per cent). Calculations show that the value of discounted cash flows exceeds recognised goodwill by an ample margin.

Other goodwill in the Group is calculated based on average earnings in the market area and is discounted at the risk-free interest rate + the risk premium for similar businesses (12-14 per cent).

Acquisitions

Acquisition of another company is accounted for by the acquisition method. This method requires a full purchase price allocation (PPA) in which the purchase price is allocated to identified assets and liabilities in the acquired company. Excess values beyond those allocated to identified assets and liabilities are booked as goodwill. Any deficit values are, after careful assessment, recognised as income through profit/loss in the year of the acquisition (badwill). The analyses contain both concrete calculations and use of best judgement in arriving at the fairest possible value of the acquired companies at the time of acquisition. While some uncertainty invariably attends estimation items, they are supported by determinations of expected cash flows, comparable transactions in previous periods etc. See also note 40 on business acquisitions/business combinations.

Companies held for sale

SpareBank 1 SMN's strategy is that ownership resulting from defaulted exposures should at the outset be of brief duration, normally not longer than one year. Work on selling such companies is continuously ongoing, and for accounting purposes they are classified as held for sale. See also note 39 on investments in owner interests.

Sale of loan portfolios

In the sale of loan portfolios to Eksportfinans, SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, the Group considers whether the criteria for derecognition under IAS 39 are met. At the end of the accounting year all transferred portfolios were derecognised from the parent bank's balance sheet. See also note 10 on derecognition of financial assets.

Classification of hybrid capital

Sparebank 1 SMN has issued two hybrid capital instruments where the terms satisfy the requirements of CRD IV for inclusion in common equity tier 1 capital. As from 2017 these instruments are classified as equity in the financial statements since they do not meet the definition of financial liabilities under IAS 32. The instruments are perpetual and SpareBank 1 SMN is entitled not to pay interest to the investors. The interest is not presented as an expense in the income statement, but as a reduction in equity.

Note 4 - Transition disclosure IFRS 9

The following table shows changes in classification of financial instruments as a result of adopting IFRS 9

Group		Amount		Amount
Financial instruments	Category IAS 39	IAS 39	Category IFRS 9	IFRS 9
Cash and balances with central banks	Loans and receivables	3,313	Amortised cost	3,313
Deposits with and loans to credit institutions	Loans and receivables	4,214	Amortised cost	4,214
Net loans to and receivables from customers	Loans and receivables	107,681	Fair value over other comprehensive income	60,600
			Amortised cost	47,060
	Fair value through profit & loss (FVO)	3,278	Fair value through profit & loss (FVO)	3,278
Fixed-income CDs and bonds	Fair value through profit & loss (FVO)	19,736	Fair value through profit & loss	19,736
Derivatives	Fair value through profit & loss	4,351	Fair value through profit & loss	4,351
Shares, units and other equity interests	Available for sale	66	Fair value through profit & loss	1,825
	Fair value through profit & loss (FVO)	557		
	Fair value through profit & loss	1,202		
Deposits from and debt to credit institutions	Amortised cost	9,607	Amortised cost	9,607
Deposits from and debt to customers	Amortised cost	76,476	Amortised cost	76,476
Debt created by issue of securities	Amortised cost	42,194	Amortised cost	42,194
Derivatives	Fair value through profit & loss	3,343	Fair value through profit & loss	3,343
Subordinated loan capital	Amortised cost	2,201	Amortised cost	2,201

The following table show the effects of adopting ifrs 9

Group

Financial assets	Note	Carrying amount under IAS 39 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 1 January 2018
Amortised cost					
Cash and balances with central banks		3,313	-	-	3,313
Deposits with and loans to credit institutions		4,214	-	-	4,214
Net loans to and receivables from customers	A	107,680	-60,561	-59	47,060
Total amortised cost		115,207	-60,561	-59	54,587
Fair value over profit & loss					
Net loans to and receivables from customers		3,278	-	-	3,278
Fixed-income CDs and bonds	C	19,736	-	-	19,736
Derivatives		4,351	-	-	4,351
Shares, units and other equity interests	B	1,759	66	-	1,825
Total fair value over profit & loss		29,124	66	-	29,190
Fair value over OCI- with recycling					
Net loans to and receivables from customers	A	-	60,561	39	60,600
Shares, units and other equity interests	B	66	-66	-	-
Total fair value over OCI- with recycling		66	60,495	39	60,600
Total financial assets	D	144,397	0	-20	144,378
Financial liabilities					
Amortised cost					
Deposits from credit institutions		9,607	-	-	9,607
Deposits from and debt to customers		76,476	-	-	76,476
Debt created by issue of securities		42,194	-	-	42,194
Subordinated loan capital		2,201	-	-	2,201
Total amortised cost		130,478	-	-	130,478
Fair value over profit & loss					

Derivatives	3,343	-	-	3,343
Equity instruments	244	-	-	244
Total fair value over profit & loss	3,586	-	-	3,586
Total Financial liabilities	134,064	-	-	134,064

Note A

SpareBank 1 SMN utilises co-owned bond-issuing residential mortgage companies as funding tools. This entails that when the bank grants a mortgage secured on residential property that meets given criteria, it can be sold to the residential mortgage company either at once or at a later point in time. Sale of the loan to SpareBank 1 Boligkreditt entails derecognition of the mortgage at SpareBank 1 SMN and recognition of the mortgage at SpareBank 1 Boligkreditt. Mortgages carrying floating interest are measured under IAS 39 at amortised cost. Under IFRS 9 only debt instruments forming part of a business model that entails holding the instruments in order to receive contractual cash flows shall be measured at amortised cost. Mortgages forming part of a business model that entails that the instruments are held both in order to receive contractual cash flows and for sale shall be measured at fair value with value changes over OCI. Interest income and write-downs shall be reflected in profit/loss, and value changes entered against OCI shall be reclassified to profit/loss upon sale or the disposal (derecognition) of the mortgages.

SpareBank1 SMN has therefore reclassified all residential mortgages from amortisert cost to fair value over OCI from 1 January 2018.

Note B

The "Available- for-sale" category under IAS 39 no longer exists under IFRS 9. Equity instruments classified as available for sale under IAS 39 has been reclassified to fair value over profit & loss.

Note C

Short-term money market paper and bonds constitute parts of the bank's liquidity reserve. The portfolio is managed and measured on a fair value basis and shall under IFRS 9 be classified at fair value with value changes over profit/loss.

Note D

The impact of adopting IFRS 9 as at 1 January 2018 have been taken to equity net after tax. Total change in equity due to adopting IFRS 9 as a result of changed loss provision is NOK -15 million.

	Loan loss provision under IAS 39 31 December 2017	Reclassification	Remeasurement	Expected credit losses under IFRS 9 1 January 2018
Change in impairment provisions				
Loans and receivables and instruments held to maturity under IAS 39 to be measured at amortised cost under IFRS 9	-1,113	112	8	-993
Debt instruments measured at amortised cost under IFRS 9	-1,113	112	8	-993
Loans and receivables and instruments held to maturity under IAS 39 to be measured at fair value over OCI under IFRS 9	-	-112	39	-73
Debt instruments measured at FVOCI under IFRS 9	-	-112	39	-73
Financial guarantees	-4	-	-58	-63
Loan commitments	-	-	-7	-7
Letters of credit for customers	-	-	-1	-1
Total Guarantees, loan commitments and letters of credit	-4	-	-66	-70
Total changes in impairment provisions	-1,117	-	-20	-1,137

	31 Dec 2017						
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective	Total
Loan loss provision at 1 January 2018	-74	-217	-776	-1,067	-765	-347	-1,113
Guarantees, loan commitments and letters of credit	-13	-52	-6	-70	-4	-	-4
Total	-86	-269	-782	-1,137	-769	-347	-1,117

Note 5 - Segment information

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

Group 31 December 2018

Profit and loss account (NOK million)	RM	CM	SB1 Markets	EM 1	SB1 Finans MN	SB1 Regnskaps- huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	1,056	981	-14	-1	275	-0	-	-	105	2,403
Interest from allocated capital	177	129	-	-	-	-	-	-	-306	-
Total interest income	1,234	1,110	-14	-1	275	-0	-	-	-201	2,403
Commission income and other income	793	202	460	497	62	444	-	-	-282	2,177
Net return on financial investments **)	0	17	105	-	-	-	289	92	255	757
Total income	2,027	1,329	551	496	337	444	289	92	-228	5,337
Total operating expenses	804	373	536	519	155	373	-	-	-137	2,624
Ordinary operating profit	1,223	956	15	-23	182	71	289	92	-92	2,713
Loss on loans, guarantees etc.	17	212	-	-	34	-	-	-	0	263
Result before tax	1,206	744	15	-23	149	71	289	92	-92	2,450
Return on equity*)	13.2 %	11.3 %								12.2 %
Balance										
Loans and advances to customers	112,723	40,548	-	-	7,760	-	-	-	-714	160,317
Adv. of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-38,189	-1,656	-	-	-	-	-	-	0	-39,844
Allowance for credit losses	-103	-594	-	-	-45	-	-	-	-2	-744
Other assets	121	4,261	2,258	1,114	9	394	1,569	1,238	30,012	40,975
Total assets	74,552	42,560	2,258	1,114	7,723	394	1,569	1,238	29,296	160,704
Deposits to customers	40,046	39,236	-	-	-	-	-	-	1,333	80,615
Other liabilities and equity	34,506	3,324	2,258	1,114	7,723	394	1,569	1,238	27,963	80,089
Total liabilities and equity	74,552	42,560	2,258	1,114	7,723	394	1,569	1,238	29,296	160,704

Group 31 December 2017

Profit and loss account (NOK million)	RM	CM	Markets	EM 1	SB1 Finans MN	SB1 Regnskaps- huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	993	977	-15	3	228	-1	-	-	38	2,225
Interest from allocated capital	144	131	-	-	-	-	-	-	-274	-
Total interest income	1,137	1,108	-15	3	228	-1	-	-	-236	2,225
Commission income and other income	789	199	369	473	55	377	-	-	-257	2,005
Net return on financial investments **)	0	9	82	-0	-	-	349	94	226	760
Total income	1,926	1,315	437	477	283	376	349	94	-269	4,988
Total operating expenses	794	365	435	474	137	315	-	-	-152	2,369
Ordinary operating profit	1,132	950	2	3	146	61	349	94	-116	2,621
Loss on loans, guarantees etc.	5	318	-	-	18	-	-	-	-0	341
Result before tax	1,127	632	2	3	128	61	349	94	-116	2,279
Return on equity*)	16.6 %	10.5 %								11.5 %
Balance										
Loans and advances to customers	103,131	39,482	-	-	6,740	-	-	-	-569	148,784
Adv. of this sold to SpareBank 1 Boligkreditt	-35,047	-1,666	-	-	-	-	-	-	0	-36,713
Individual allowance for impairment on loan	-22	-729	-	-	-12	-	-	-	-2	-765
Group allowance for impairment on loan	-90	-218	-	-	-24	-	-	-	-15	-347
Other assets	168	4,141	2,242	612	20	323	1,569	1,149	32,070	42,295
Total assets	68,141	41,010	2,242	612	6,724	323	1,569	1,149	31,483	153,254
Deposits to customers	37,182	38,719	-	-	-	-	-	-	574	76,476
Other liabilities and equity	30,959	2,290	2,242	612	6,724	323	1,569	1,149	30,909	76,778
Total liabilities and equity	68,141	41,010	2,242	612	6,724	323	1,569	1,149	31,483	153,254

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

	31 Dec 2018	31 Dec 2017
**) Specification of net return on financial investments (NOK million)		
Dividends	8	6
Capital gains shares (incl dividends)	96	62
Gain/(loss) on derivatives	187	124
Gain/(loss) on other financial instruments at fair value (FVO)	10	7
Foreign exchange gain/(loss)	63	45
Gain/(loss) on certificates and bonds	-77	58
Gains/(Loss) on shares and share derivatives at SpareBank 1 Markets	58	43
Gain/(loss) on financial instruments related to hedging ***)	-4	-22
Net return on financial instruments	334	317
SpareBank 1 Gruppen	289	349
SpareBank 1 Boligkreditt	-7	-41
SpareBank 1 Næringskreditt	15	19
BN Bank	97	98
SpareBank 1 Kredittkort	23	15
SpareBank 1 Betaling	-12	-14
Other companies	12	12
Income from investment in associates and joint ventures	416	437
Total net return on financial investments	757	760

	31 Dec 2018	31 Dec 2017
***) Specification of gain/loss related to hedge accounting		
Changes in fair value on hedging instrument	-46	-214
Changes in fair value on hedging item	42	192
Net Gain or Loss from hedge accounting	-4	-22

Note 6 - Capital adequacy and capital management

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

As of 31 December 2018 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian countercyclical buffer is 2.0 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 12.0 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN. The total minimum requirement on CET1 capital is accordingly 14.1 per cent. From first quarter 2019 the Pillar 2 requirement is changed to 1.9 per cent for SpareBank 1 SMN.

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

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This has been subject to a write-down of 50 per cent in 2017 and 60 per cent in 2018. As at 31 December 2018 the bank held hybrid capital worth NOK 450 million subject to write-down.

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	(NOK million)	31 Dec 2018	31 Dec 2017
15,372	16,409	Total book equity	18,686	17,510
-950	-1,000	Additional Tier 1 capital instruments included in total equity	-1,043	-993
-522	-533	Deferred taxes, goodwill and other intangible assets	-1,079	-984
-893	-1,034	Deduction for allocated dividends and gifts	-1,034	-893
-	-	Non-controlling interests recognised in other equity capital	-637	-565
-	-	Non-controlling interests eligible for inclusion in CET1 capital	366	324
-30	-31	Value adjustments due to requirements for prudent valuation	-44	-41
-350	-268	Positive value of adjusted expected loss under IRB Approach	-286	-333
-	-	Cash flow hedge reserve	5	7
-	-163	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-206	-212
12,627	13,381	Total common equity Tier one	14,727	13,820
950	1,000	Additional Tier 1 capital instruments	1,378	1,427
459	367	Additional Tier 1 capital instruments covered by transitional provisions	367	459
14,036	14,748	Total core capital	16,472	15,707
		Supplementary capital in excess of core capital		
1,000	1,750	Subordinated capital	2,316	1,615
561	96	Subordinated capital covered by transitional provisions	96	561
-254	-140	Deduction for significant investments in financial institutions	-140	-254
1,307	1,705	Total supplementary capital	2,272	1,922
15,343	16,453	Net subordinated capital	18,743	17,629

Minimum requirements subordinated capital				
978	967	Specialised enterprises	1,116	1,107
1,098	1,156	Corporate	1,163	1,113
1,370	1,516	Mass market exposure, property	2,098	1,892
90	90	Other mass market	92	91
1,198	1,062	Equity investments	1	1
4,733	4,790	Total credit risk IRB	4,470	4,205
3	3	Central government	4	3
80	87	Covered bonds	124	146
431	390	Institutions	246	333
0	-	Local and regional authorities, state-owned enterprises	8	4
25	23	Corporate	221	226
18	73	Mass market	520	405
13	12	Exposures secured on real property	215	193
232	228	Equity positions	366	344
70	57	Other assets	107	166
872	873	Total credit risk standardised approach	1,810	1,820
16	30	Debt risk	31	18
-	-	Equity risk	7	22
-	-	Currency risk and risk exposure for settlement/delivery	3	1
341	370	Operational risk	575	510
52	39	Credit value adjustment risk (CVA)	122	117
-	-	Transitional arrangements	1,074	891
6,015	6,102	Minimum requirements subordinated capital	8,093	7,585
75,182	76,274	Risk weighted assets (RWA)	101,168	94,807
3,383	3,432	Minimum requirement on CET1 capital, 4.5 per cent	4,553	4,266
Capital Buffers				
1,880	1,907	Capital conservation buffer, 2.5 per cent	2,529	2,370
2,255	2,288	Systemic risk buffer, 3.0 per cent	3,035	2,844
1,504	1,525	Countercyclical buffer, 2.0 per cent	2,023	1,896
5,639	5,721	Total buffer requirements on CET1 capital	7,588	7,111
3,605	4,228	Available CET1 capital after buffer requirements	2,587	2,444
Capital adequacy				
16.8 %	17.5 %	Common equity Tier one ratio	14.6 %	14.6 %
18.7 %	19.3 %	Core capital ratio	16.3 %	16.6 %
20.4 %	21.6 %	Capital adequacy ratio	18.5 %	18.6 %
Leverage ratio				
145,821	153,395	Balance sheet items	216,240	210,764
7,112	7,110	Off-balance sheet items	9,086	9,295
-902	-832	Regulatory adjustments	-1,474	-1,580
152,032	159,673	Calculation basis for leverage ratio	223,853	218,479
14,036	14,748	Core capital	16,472	15,707
9.2 %	9.2 %	Leverage Ratio	7.4 %	7.2 %

Note 7 - Risk factors

Risk Management

SpareBank 1 SMN aims to maintain a moderate risk profile and to apply risk monitoring of such high quality that no single event will seriously impair the Group's financial position. The Group's risk profile is quantified through targets for rating, concentration, risk-adjusted return, loss ratios, expected loss, necessary economic capital, regulatory capital adequacy, and known and expected liquidity related regulatory requirements.

The principles underlying SpareBank 1 SMN's Risk Management are laid down in the risk management policy. The Group gives much emphasis to identifying, measuring, managing and monitoring central risks in such a way that the Group progresses in line with its adopted risk profile and strategies.

Risk management within the Group is intended to support the Group's strategic development and target attainment. The risk management regime is also designed to ensure financial stability and prudent asset management. This will be achieved through:

- A strong organisation culture featuring high risk-management awareness
- A sound understanding of the risks that drive earnings and risk costs, thereby creating a better basis for decision-making
- Striving for an optimal use of capital within the adopted business strategy
- Avoiding unexpected negative events which could be detrimental to the Group's operations and reputation in the market

The Group's risk is quantified by calculating expected loss and the need for risk-adjusted capital (economic capital) needed to meet unexpected losses.

Expected loss is the amount which statistically can be expected to be lost in a 12-month period. Risk-adjusted capital is the volume of capital the Group considers it needs to meet the actual risk incurred by the Group. The board has decided that the risk-adjusted capital should cover 99.9 per cent of all possible unexpected losses. Statistical methods are employed to compute expected loss and risk-adjusted capital, but the calculation requires expert assessments in some cases. In the case of risk types where no recognised methods of calculating capital needs are available, the Group defines risk management limits to ensure that the likelihood of an event occurring is extremely low. For further details see the Group's Pillar III reporting which is available on the Parent Bank's website.

The Group's overall risk exposure and risk trend are followed up through periodic risk reports to the administration and the board of directors. Overall risk monitoring and reporting are carried out by Risk Management which is independent of the Group's business areas.

Credit risk

Credit risk is the risk of loss resulting from the inability or unwillingness of customers or counterparties to honour their commitments to the Group.

The Group is exposed to credit risk through all customer and counterparty receivables. The main exposure is through ordinary lending and leasing activities, but the Group's credit risk also has a bearing on the liquidity reserve portfolio through counterparty risk arising from interest rate and foreign exchange derivatives.

Credit risk associated with the Group's lending activity is the largest area of risk facing the Group.

Through its annual review of the Parent Bank's credit strategy, the Board of Directors concretises the Group's risk appetite by establishing objectives and limits for the Parent Bank's credit portfolio. The Parent Bank's credit strategy and credit policy are derived from the Parent Bank's main strategy, and contain guidelines for the risk profile, including maximum expected loss (EL) for the retail market and corporate market divisions respectively, maximum portfolio default probability (PD) and maximum regulatory capital (UL) allocated to the credit business.

Concentration risk is managed by distribution between Retail Banking and Corporate Banking, limits on the size of loan and loss ratio on single exposures, limits on maximum exposure for the twenty largest grouped exposures, limits on maximum exposure to sectors, and limits on regulatory risk weighted assets for Retail Banking and Corporate Banking.

Compliance with credit strategy and limits adopted by the Board of Directors is monitored on a continual basis by Risk Management and reported quarterly to the Board of Directors.

The Parent Bank has approval to use internal models in its risk management and capital calculation (IRB), and in February 2015 was given permission to apply the advanced IRB approach.

The Parent Bank's risk classification system is designed to enable the Parent Bank's loan portfolio to be managed in conformity with the Parent Bank's credit strategy and to secure the risk-adjusted return. The Board of Directors delegates lending authorisation to the Group

CEO. The Group CEO can further delegate authorisations to levels below executive director level. Lending authorisations are graded by size of commitment and risk profile.

The Parent Bank has a division dedicated to credit support which assists in or takes over dealings with customers who are clearly unable, or are highly likely to become unable, to service their debts unless action is taken beyond ordinary follow-up.

The Group uses credit models for risk classification, risk pricing and portfolio management. The risk classification system builds on the following main components:

1. Probability of Default (PD)

The Group's credit models are based on statistical computations of probability of default. The calculations are based on scoring models that take into account financial position and behavioural data. The models are partly point-in-time oriented, and reflect the probability of default in the course of the next 12 months under current economic conditions. The Bank has also developed a cashflow based PD-model used for exposures in rental of commercial property. The Bank has applied Finanstilsynet to use this model in the calculation of capital requirements (IRB).

Customers are assigned to one of nine risk classes based on PD, in addition to two risk classes for exposures in default and/or subject to individual impairment write down.

The models are validated on an ongoing basis and at least once per year both with respect to their ability to rank customers and to estimate PD levels. The validation results confirm that the models' accuracy meets internal criteria and international recommendations.

2. Exposure at Default (EAD)

EAD is an estimation of the size of an exposure in the event of, and at the time of, a counterparty's default. For drawing rights, a conversion factor (CF) is used to estimate how much of the present unutilised credit ceiling will have been utilised at a future default date. For guarantees, CF is used to estimate what portion of issued guarantees will be brought to bear upon default. CF is validated monthly for drawing rights in the retail market and corporate market. The Group's EAD model takes account of differences both between products and customer types.

3. Loss Given Default (LGD)

The Group estimates the loss ratio for each loan based on expected recovery rate, realisable value of the underlying collateral, recovery rate on unsecured debt, as well as direct costs of recovery. Values are determined using standard models, and actual realised values are validated to test the models' reliability.

Estimated loss ratio shall take into account possible economic downturn. With limited downturn data, the Bank has entered significant margins in its calculations to ensure conservative estimates when calculating capital requirements.

The three above-mentioned parameters (PD, EAD and LGD) underlie the Group's portfolio classification and statistical calculation of expected loss (EL) and need for economic capital/risk-adjusted capital (UL).

Counterparty risk

Counterparty risk in derivatives trading is managed through ISDA and CSA contracts set up with financial institutions that are the Group's most used counterparties. ISDA contracts regulate settlements between financial counterparties. The CSA contracts limit maximum exposure through market evaluation of the portfolio and margin calls when the change in portfolio value exceeds the maximum agreed limit or threshold amount. The Group will continue to enter CSA contracts with financial counterparties to manage counterparty risk. See note 15 Financial Instruments and offsetting for further description of these contracts.

Counterparty risk for customers is hedged through use of cash depots or other collateral which, at all times, have to exceed the market value of the customer's portfolio. Specific procedures have been established for calling for further collateral or to close positions if market values exceed 80 per cent of the collateral.

SpareBank 1 Markets clears ordinary share trades executed at Oslo Børs through CCP settlements. The company is a direct clearing member of SIX X-Clear, and the counterparty risk is against SIX X-Clear.

Market risk

Market risk is a generic term for the risk of loss and reduction of future incomes as a result of changes in observable rates or prices of financial instruments. Market risk arises at SpareBank 1 SMN mainly in connection with the Group's investments in bonds, CDs and shares, including funding. SpareBank 1 SMN has outsourced customer trading in fixed income and foreign currency instruments to SpareBank 1 Markets. This customer activity, and SpareBank 1 Markets' use of the Parent Bank's balance sheet, also affect the Group's market risk.

Market risk is managed through limits for investments in shares, bonds and positions in the fixed income and currency markets. The Group's strategy for market risk lays the basis for management reporting, control and follow-up of compliance with limits and guidelines.

The Group defines limits on exposure to equity instruments with a basis in stress tests employed in Finanstilsynet's (Financial Supervisory Authority of Norway) models. Limits are reviewed at least once a year and adopted yearly by the Group's Board of Directors. Compliance with the limits is monitored by Risk Management and exposures relative to the adopted limits are reported monthly.

Interest rate risk is the risk of loss due to changes in interest rates in financial markets. The risk on all interest rate positions can be viewed in terms of the change in value of interest rate instruments resulting from a rate change of 1 percentage point on the yield curve for all balance sheet items. The Group utilises analyses showing the effect of this change for various maturity bands, with separate limits applying to interest rate exposure within each maturity band and across all maturity bands as a whole. Interest rate lock-ins on the Group's instruments are essentially short, and the Group's interest rate risk is low to moderate.

Spread risk is the risk of loss as a result of changes in market value/fair value of bonds due to general changes in credit spreads. The bond portfolio is managed based on an evaluation of the individual issuers. In addition, the Group has a separate limit for overall spread risk for all bonds. The Group calculates spread risk based on Finanstilsynet's module for market and credit risk. The loss potential for the individual credit exposure is calculated with a basis in rating and duration.

Exchange rate risk is the risk of loss resulting from exchange rate movements. The Group measures exchange rate risk on the basis of net positions in the various currencies. Limits on exchange rate risk are expressed in limits for the maximum aggregate foreign exchange position in individual currencies.

Equity risk is the risk of loss on positions as a result of changes in share prices. This risk is linked to positions in equity instruments as the underlying. Shares in subsidiaries and shares forming part of a consolidated or strategic assessment are not included.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to refinance its debt or unable to finance increases in its assets.

The Group's most important source of finance is customer deposits. At end-2018 the Group's ratio of deposits to loans was 50 per cent, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, compared with 51 per cent at end-2017 (Group).

The Group reduces its liquidity risk by diversifying funding across a variety of markets, funding sources, maturities and instruments, and by employing long-term funding. Excessive concentration of maturities heightens vulnerability with regard to refinancing. The Group seeks to mitigate such risk by applying defined limits.

The Parent Bank's finance division is responsible for the Group's financing and liquidity management. Compliance with limits is monitored by Risk Management which reports monthly to the Board of Directors. The Group manages its liquidity on an overall basis by assigning responsibility for funding both the Parent Bank and the subsidiaries to the finance division.

Governance is based in the Group's overall liquidity strategy which is reviewed and adopted by the board at least once each year. The liquidity strategy reflects the Group's moderate risk profile. As a part of the strategy, emergency plans have been drawn up both for the Group and the SpareBank 1 Alliance to handle the liquidity situation in periods of turbulent capital markets. These take into account periods of both bank-specific and system-related crisis scenarios as well as a combination of the two. An aim of the Group is to survive for 12 months of ordinary operation without fresh external funding. This assumes that the Parent Bank can continue to sell eligible loans to SpareBank 1 Boligkreditt, and that there will at all times be sufficient capacity in the stock of loans to cover a house price fall of up to 30 per cent and thus to maintain funding through the mortgage credit company. It also intends to succeed in surviving for 30 days under the most extreme crisis scenario. In such a scenario only the Parent Bank's holding of highly liquid assets may be utilised.

Access to capital has been satisfactory throughout 2018.

The Group's liquidity situation as of 31 December 2018 is considered satisfactory.

Operational risk

Operational risk can be defined as the risk of loss resulting from:

- People: Breaches of routines/guidelines, inadequate competence, unclear policy, strategy or routines, internal irregularities
- Systems: Failure of IT- and other systems
- External causes: Criminality, natural disaster, other external causes

Operational risk is a risk category that captures the great majority of costs associated with quality lapses in the Group's current activity.

Management of operational risk has acquired increased importance in the financial industry in recent years. Contributory factors are internationalisation, strong technological development and steadily growing demands from customers, public authorities and other interest groups. Many substantial loss events in the international financial industry have originated in failures in this risk area.

Identification, management and control of operational risk are an integral part of managerial responsibility at all levels of SpareBank 1 SMN. Managers' most important aids in this work are professional insight and leadership skills along with action plans, control routines and good follow-up systems. A systematic programme of risk assessments also contributes to increased knowledge and awareness of current needs for improvement in one's own unit. Any weaknesses and improvements are reported to higher levels in the organisation.

SpareBank 1 SMN attaches importance to authorisation structures, good descriptions of procedures and clear definition of responsibilities in supply contracts between the respective divisions as elements in a framework for handling operational risk.

Management consider the Bank's IT –systems to be central for the operation, accounting and reporting of transactions in addition to providing the support for important estimates and calculations. The IT- systems are mainly standardised, and the management and operation has been outsourced to a service provider.

The Parent Bank has put to use a registration and monitoring tool (Risk Information System) for better structure and follow up of risk, events and areas for improvement in the Group.

Operational losses are reported to the Board of Directors. The Board of Directors receives each year from the internal audit and the statutory auditor an independent assessment of the Group's risk and of whether the internal control functions in an appropriate and adequate manner. The Board's assessment of the operational risk is moderate, including the risk related to the accounting and reporting process.

For further information see the Bank's Pilar III-report available at <https://www.sparebank1.no/en/smn/about-us/investor/financial-info/capital-adequacy.html> and notes:

Note 13: Maximum credit risk exposure

Note 14: Financial instruments and offsetting

Note 16: Market risk related to interest rate risk

Note 17: Market risk related to currency exposure

Note 8 - Credit institutions - loans and advances

Parent Bank		Loans and advances to credit institutions (NOK million)	Group	
31 Dec 2017	31 Dec 2018		31 Dec 2018	31 Dec 2017
6,903	8,091	Loans and advances without agreed maturity or notice of withdrawal	1,987	1,575
2,639	3,087	Loans and advances with agreed maturity or notice of withdrawal	3,087	2,639
9,543	11,178	Total	5,074	4,214
Specification of loans and receivables on key currencies				
7	17	CHF	17	7
231	770	EUR	770	231
7	95	GBP	95	7
19	19	ISK	19	19
7	36	JPY	36	7
9,074	10,071	NOK	4,007	3,747
119	78	SEK	33	118
68	84	USD	89	68
10	8	Other	8	10
9,543	11,178	Total	5,074	4,214
1,5 %	1,8 %	Average rate credit institutions	1,9 %	0,9 %

31 Dec 2017	31 Dec 2018	Deposits from credit institutions (NOK million)	31 Dec 2018	31 Dec 2017
7,729	7,338		8,006	8,289
1,318	1,208	Deposits with agreed maturity or notice of withdrawal	1,208	1,318
9,047	8,546	Total	9,214	9,607
Specification of deposits on key currencies				
2,098	1,604	EUR	1,604	2,098
6,919	6,904	NOK	7,572	7,479
6	13	SEK	13	6
19	12	USD	12	19
5	12	Other	12	5
9,047	8,546	Total	9,214	9,607
0,6 %	0,8 %	Average rate credit institutions	0,8 %	0,6 %

31 Dec 2017	31 Dec 2018	Other commitments to credit institutions (NOK million)	31 Dec 2018	31 Dec 2017
2,288	55		55	2,288
55	55	Financial guarantees	55	55
2,344	111	Total	111	2,344

Deposits from and loans to credit institutions with mainly floating interest.

The average interest rate is calculated based on the interest income/expense of the holding accounts' average balance for the given year. This is, however, limited to holdings in NOK denominated accounts.

Note 9 - Loans and advances to customers

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	(NOK million)	31 Dec 2018	31 Dec 2017
105,843	113,356	Gross Loans	120,473	112,071
	697	Write-downs for expected credit losses	744	
751		Specified write-downs		765
323		Collectively assessed write-downs		347
104,769	112,659	Net loans to and advances to customers	119,728	110,959
Additional information				
34,885	38,062	Loans sold to SpareBank 1 Boligkreditt	38,062	34,885
615	603	- Of which loans to employees	993	956
1,828	1,782	Loans sold to SpareBank 1 Næringskreditt	1,782	1,828
48	48	Subordinated loan capital other financial institutions	48	48
648	646	Loans to employees *)	1,132	1,149

*) Interest rate subsidies on loans to employees are included in net interest income. The lending rate for employees is 75 per cent of the best mortgage rate for other customers

Parent Bank (NOK million)		Loans subject to impairment			Fixed interest loans at FV	Total
Gross loan		Stage 1	Stage 2	Stage 3		
Balance at 1 January 2018		91,074	9,931	1,560	3,278	105,843
Transfer to stage 1		2,230	-2,230	0	-	-
Transfer to stage 2		-2,637	2,644	-7	-	-
Transfer to stage 3		-458	-31	489	-	-
Net increase/decrease amount existing loans		-5,487	-65	11	-148	-5,689
New loans		46,099	2,067	72	2,269	50,507
Derecognitions		-33,363	-2,428	-581	-933	-37,305
Balance at 31 December 2018		97,458	9,888	1,543	4,467	113,356

Group (NOK million)		Loans subject to impairment			Fixed interest loans at FV	Total
Gross loan		Stage 1	Stage 2	Stage 3		
Balance at 1 January 2018		96,286	10,855	1,652	3,278	112,071
Transfer to stage 1		2,439	-2,391	-48	-	-
Transfer to stage 2		-2,957	2,970	-13	-	-
Transfer to stage 3		-464	-71	536	-	-
Net increase/decrease amount existing loans		-6,397	-260	89	-148	-6,716
New loans		48,841	2,283	89	2,269	53,483
Derecognitions		-34,253	-2,556	-622	-933	-38,365
Balance at 31 December 2018		103,494	10,829	1,682	4,467	120,473

Loans and commitments specified by type

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	Loans and commitments specified by type (NOK million)	31 Dec 2018	31 Dec 2017
Gross loans and advances				
-	-	Financial lease	2,934	2,839
12,797	13,657	Bank overdraft and operating credit	13,056	12,330
4,186	3,761	Construction loans	3,761	4,186
88,860	95,937	Amortizing loan	100,722	92,716
105,843	113,356	Total gross loans to and receivables from customers	120,473	112,071

		Other commitments		
4,210	4,009	Financial guarantees, of which:	4,009	4,210
714	699	Payment guarantees	699	714
1,286	1,125	Performance guarantees	1,125	1,286
1,994	1,960	Loan guarantees	1,960	1,994
84	85	Guarantees for taxes	85	84
132	141	Other guarantee commitments	141	132
1,018	918	Unutilised guarantee commitments	918	1,018
11,677	16,186	Unutilised credits	16,202	11,688
1,896	1,582	Loan approvals (not discounted)	1,706	2,148
62	40	Documentary credits	40	62
18,863	22,736	Total other commitments	22,875	19,126
124,706	136,092	Total loans and commitments	143,348	131,197

Loans and other commitments specified by sector and industry

Parent Bank (NOK million)	31 Dec 2018			31 Dec 2017		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Wage earners	65,475	6,021	71,496	60,099	6,193	66,292
Public administration	44	603	647	226	855	1,081
Agriculture, forestry, fisheries and hunting	12,362	1,453	13,815	11,305	1,002	12,307
Sea farming industries	869	798	1,667	1,311	978	2,289
Manufacturing	3,438	2,379	5,818	2,850	1,625	4,475
Construction, power and water supply	2,947	2,951	5,898	2,794	1,398	4,193
Retail trade, hotels and restaurants	2,335	2,136	4,471	2,432	2,399	4,830
Maritime sector and offshore	4,227	2,560	6,787	4,639	1,510	6,149
Property management	13,324	1,029	14,353	12,462	1,203	13,665
Business services	2,531	931	3,462	2,510	797	3,307
Transport and other services provision	4,145	1,395	5,540	3,547	593	4,140
Other sectors	1,658	481	2,138	1,669	310	1,978
Total	113,356	22,736	136,092	105,843	18,863	124,706

Group (NOK million)	31 Dec 2018			31 Dec 2017		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Wage earners	70,070	6,094	76,163	63,812	6,332	70,144
Public administration	55	603	658	240	855	1,095
Agriculture, forestry, fisheries and hunting	12,686	1,458	14,144	11,606	1,013	12,619
Sea farming industries	1,180	803	1,983	1,697	992	2,689
Manufacturing	3,787	2,385	6,172	3,157	1,637	4,794
Construction, power and water supply	3,661	2,962	6,623	3,419	1,421	4,841
Retail trade, hotels and restaurants	2,621	2,140	4,761	2,700	2,409	5,109
Maritime sector and offshore	4,227	2,560	6,787	4,639	1,510	6,149
Property management	13,386	1,030	14,416	12,521	1,205	13,726
Business services	2,162	943	3,105	2,260	811	3,070
Transport and other services provision	4,961	1,416	6,377	4,322	630	4,951
Other sectors	1,679	481	2,160	1,699	310	2,010
Total	120,473	22,875	143,348	112,071	19,126	131,197

Loans and other commitments specified by geographic area

Parent Bank (NOK million)	31 Dec 2018			31 Dec 2017		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Trøndelag	74,312	13,820	88,132	70,137	12,106	82,243

Møre og Romsdal	23,993	7,051	31,044	22,319	5,078	27,397
Sogn og Fjordane	819	209	1,028	608	333	941
Nordland	984	47	1,031	1,216	37	1,253
Oslo	5,592	759	6,352	5,037	653	5,690
Rest of Norway	7,148	818	7,966	6,070	615	6,685
Abroad	507	31	538	456	42	498
Total	113,356	22,736	136,092	105,843	18,863	124,706

Group (NOK million)	31 Dec 2018			31 Dec 2017		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Trøndelag	77,102	13,881	90,983	73,017	12,227	85,243
Møre og Romsdal	25,495	7,075	32,570	23,670	5,128	28,798
Sogn og Fjordane	1,262	216	1,477	981	347	1,328
Nordland	1,097	49	1,145	1,295	40	1,334
Oslo	5,151	762	5,913	4,710	658	5,368
Rest of Norway	9,859	861	10,720	7,942	685	8,627
Abroad	507	31	538	456	42	498
Total	120,473	22,875	143,348	112,071	19,126	131,197

Gross loans sold to SpareBank 1 Boligkreditt

(NOK million)	31 Dec 2018			31 Dec 2017		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Trøndelag	28,208	1,938	30,145	25,483	1,934	27,418
Møre og Romsdal	5,790	453	6,244	5,645	439	6,084
Sogn og Fjordane	323	14	337	317	21	339
Nordland	157	6	163	124	7	131
Oslo	1,516	60	1,575	1,270	47	1,317
Rest of Norway	2,007	88	2,096	1,997	89	2,087
Abroad	60	1	61	48	1	49
Total	38,062	2,560	40,621	34,885	2,539	37,424

Gross loans sold to SpareBank 1 Næringskreditt

(NOK million)	31 Dec 2018			31 Dec 2017		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Trøndelag	862	-	862	1,164	-	1,164
Møre og Romsdal	158	-	158	158	-	158
Sogn og Fjordane	-	-	-	-	-	-
Nordland	63	-	63	87	-	87
Oslo	650	-	650	366	-	366
Rest of Norway	50	-	50	52	-	52
Abroad	-	-	-	-	-	-
Total	1,782	-	1,782	1,828	-	1,828

Loans to and claims on customers related to financial leases (NOK million)

Group (NOK million)	31 Dec 2018	31 Dec 2017
Gross advances related to financial leasing		
- Maturity less than 1 year	118	233
- Maturity more than 1 year and less than 5 years	2,070	2,105
- Maturity more than 5 years	827	581
Total gross claims	3,015	2,919
Received income related to financial leasing, not yet earned	81	80
Net investments related to financial leasing	2,934	2,839
Net investments in financial leasing can be broken down as follows:		
- Maturity less than 1 year	110	185
- Maturity more than 1 year and less than 5 years	2,009	2,081
- Maturity more than 5 years	815	573
Total net claims	2,934	2,839

Loans and other commitments to customers specified by risk group

The Bank calculates default probabilities for all customers in the loan portfolio at the loan approval date. This is done on the basis of key figures on earnings, financial strength and behaviour. Default probability is used as a basis for risk classification of the customer. Further, risk classification is used to assign each customer to a risk group. See note 12 on credit risk exposure for each internal risk rating.

Customers are rescored in the Bank's portfolio system on a monthly basis.

Other commitments include documentary credits, guarantees, unutilised credit lines and loan approvals.

Exposures are monitored with a basis in the exposure's size, risk and migration. Risk pricing of business exposures is done with a basis in expected loss and economic capital required for each exposure.

The Bank uses macro-based stress tests to estimate write-downs required as a result of objective events that were not reflected in portfolio quality at the time of measurement.

Risk group default and written down consist of customers default by over 90 days and or objective evidence of impairment leading to reduced cash flows from the customer. See note 2 Accounting principles for further description of such exposures.

Parent Bank 31 Dec 2018 (NOK million)	Neither default or impaired					Default and written down	Total
	Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Gross Loans							
Fair value over OCI	50,134	7,035	2,542	598	801	242	61,353
Stage 1	50,134	6,212	1,051	139	94	-	57,630
Stage 2	-	823	1,491	459	707	-	3,480
Stage 3	-	-	-	-	-	242	242
Amortised cost	22,009	9,228	11,070	2,582	1,347	1,300	47,536
Stage 1	21,984	8,323	8,074	1,305	141	-	39,828

Stage 2	25	905	2,996	1,277	1,205	-	6,408
Stage 3	-	-	-	-	-	1,300	1,300
Fair value over Profit and Loss	3,785	468	152	23	39	-	4,467
Total Gross Loans	75,928	16,731	13,765	3,203	2,186	1,543	113,356
Other Commitments	11,749	4,445	5,018	540	201	783	22,736
Stage 1	11,749	3,715	3,305	303	24	-	19,096
Stage 2	-	729	1,713	237	177	-	2,857
Stage 3	-	-	-	-	-	783	783
Total loans and other commitments	87,677	21,176	18,783	3,743	2,387	2,326	136,092

Group 31 Dec 2018 (NOK million)	Neither default or impaired					Default and written down	Total
	Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Gross Loans							
Fair value over OCI	50,134	7,035	2,542	598	801	242	61,353
Stage 1	50,134	6,212	1,051	139	94	-	57,630
Stage 2	-	823	1,491	459	707	-	3,480
Stage 3	-	-	-	-	-	242	242
Amortised cost	21,662	10,576	16,028	3,191	1,755	1,441	54,653
Stage 1	21,637	9,668	12,740	1,608	209	-	45,863
Stage 2	25	908	3,287	1,583	1,546	-	7,349
Stage 3	-	-	-	-	-	1,441	1,441
Fair value over Profit and Loss	3,785	468	152	23	39	-	4,467
Total Gross Loans	75,581	18,079	18,722	3,812	2,595	1,683	120,473
Other Commitments	11,754	4,466	5,114	550	208	783	22,875
Stage 1	11,754	3,737	3,305	303	24	-	19,123
Stage 2	-	729	1,808	247	184	-	2,969
Stage 3	-	-	-	-	-	783	783
Total loans and other commitments	87,334	22,546	23,836	4,362	2,803	2,466	143,348

31 Dec 2017

Parent Bank (NOK million)	Gross loans	Other commitments	Total loans and commitments
Lowest risk	69,528	10,852	80,379
Low risk	16,855	3,693	20,548
Medium risk	12,676	3,294	15,970
High risk	2,507	419	2,926
Highest risk	2,708	478	3,185
Default and written down	1,570	128	1,698
Total	105,843	18,863	124,706

31 Dec 2017

Group (NOK million)	Gross loans	Other commitments	Total loans and commitments
Lowest risk	69,415	10,868	80,283
Low risk	18,307	3,750	22,057
Medium risk	15,696	3,413	19,109
High risk	3,532	460	3,991

Highest risk	3,470	508	3,978
Default and written down	1,651	128	1,779
Total	112,071	19,126	131,197

Gross loans and commitments sold to SpareBank 1 Boligkreditt

(NOK million)	31 Dec 2018			31 Dec 2017		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Lowest risk	33,533	2,551	36,083	30,082	2,523	32,604
Low risk	3,175	6	3,181	3,556	12	3,568
Medium risk	867	1	868	865	2	868
High risk	279	1	279	227	1	228
Highest risk	196	0	197	147	0	147
Default and written down	12	1	13	8	1	9
Total	38,062	2,560	40,621	34,885	2,539	37,424

Gross loans and commitments sold to SpareBank 1 Næringskreditt

(NOK million)	31 Dec 2018			31 Dec 2017		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Lowest risk	1,496	-	1,496	1,465	-	1,465
Low risk	-	-	-	96	-	96
Medium risk	287	-	287	267	-	267
High risk	-	-	-	-	-	-
Highest risk	-	-	-	-	-	-
Default and written down	-	-	-	-	-	-
Total	1,782	-	1,782	1,828	-	1,828

Note 10 - Derecognition of financial assets

In its ordinary business the Bank undertakes transactions that result in the sale of financial assets. The Bank transfers such financial assets mainly through sales of customers' home mortgage loans to SpareBank 1 Boligkreditt or commercial property loans to SpareBank 1 Næringskreditt.

Payment received for loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt corresponds to book value and is deemed to equal the loans' fair value at the time of sale.

In accordance with the management agreement with the above mortgage companies, the Bank is responsible for management of the loans and maintains customer contact. The Bank receives payment in the form of commission for the obligations ensuing from management of the loans.

The above mortgage companies can sell the loans bought from the Bank, while the Bank's right to service the customers and receive commission continues to apply. Should the Bank be unable to service customers, its right to service and commission may lapse. The Bank may have the option to repurchase the loans under given conditions.

If the mortgage companies incur losses on purchased loans, they have a certain right to settle such loss against commissions from all banks that have sold the loans. Hence a limited residual involvement exists related to sold loans in the event of a possible limited settlement of loss against commission. However, this opportunity of settlement is not considered to be of such a nature as to alter the conclusion that the great majority of risk and advantages is transferred. The Bank's maximum exposure to loss is represented by the highest amount reimbursable under the agreements.

The Bank has considered the accounting implications such that great majority of risk and advantages related to the sold loans is transferred to the mortgage companies. This entails full derecognition of sold loans. The Bank recognises all right and obligations that are created or retained in connection with the sale separately as assets or liabilities.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt AS is owned by savings banks participating in the SpareBank 1 Alliance. The Bank has a stake of 20.69 per cent as of 31 December 2018 (19.85 per cent as of 31 December 2017). SpareBank 1 Boligkreditt AS acquires loans secured on dwellings and issues covered bonds within the applicable rules that were established in 2007. Loans sold to SpareBank 1 Boligkreditt are secured on dwellings at up to 75 per cent of property valuation. Sold loans are legally owned by SpareBank 1 Boligkreditt and the Bank has, over and above the right to be responsible for management and receipt of commission, and the right to take over written-down loans in whole or in part, no right to make use of the loans. The Bank is responsible for management of the sold loans and receives commission based on the net of the return on the loans that the Bank has sold and the mortgage company costs.

In 2018 mortgage loans were bought and sold to a net value of NOK 3.1bn (1.7bn in 2017) to SpareBank 1 Boligkreditt. In total, mortgage loans to SpareBank 1 Boligkreditt were derecognised in an amount of NOK 38.0bn at the end of the financial year (NOK 34.9bn in 2017).

Liquidity facility

SpareBank 1 SMN has, together with the other owners of SpareBank 1 Boligkreditt, entered an agreement for the establishment of a liquidity facility for SpareBank 1 Boligkreditt. Under this agreement the Banks undertake to purchase covered bonds issued by the mortgage company limited to the overall value of amounts falling due over the next 12 months at SpareBank 1 Boligkreditt.

The liability is limited to the mortgage company's obligation to redeem issued covered bonds after the company's own holding of liquidity at the due date is subtracted. Each owner is liable principally for its share of the need, subsidiarily for twice the primary liability under the same agreement. The bonds may be deposited in Norges Bank and therefore entail no significant increase in risk for the Bank. Under its liquidity strategy, SpareBank 1 Boligkreditt holds liquidity in compliance with the Net Stable Funding Ratio requirements. This liquidity reserve is taken into account in assessing the Banks' liability. Hence it is only in cases where the company no longer has sufficient liquidity to meet amounts falling due over the next 12 months that the Bank will report any exposure in this regard.

Financial strength

Together with the other owners of SpareBank 1 Boligkreditt, SpareBank 1 SMN has also entered an agreement to ensure that SpareBank 1 Boligkreditt has at all times a common equity Tier 1 capital ratio of at least 9 per cent. The shareholders are required to supply sufficient core capital within 3 months of receiving a written request to do so, unless other initiatives are taken to reduce the capital need.

The shareholders' undertaking to supply such core capital is on a pro rata rather than a solitary basis, and is based on each shareholder's pro rata portion of the shares of SpareBank 1 Boligkreditt. Each owner is liable principally for its share of the need, subsidiarily for twice

the primary liability under the same agreement. At year-end the company has about 16.8 per cent own funds, of which about 14.7 per cent is core capital. Viewed in light of the mortgage company's very low risk profile, the Bank considers it unlikely that capital will be called up under this agreement and has opted not to maintain reserves to that end.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt AS is owned by savings banks in the SpareBank 1 Alliance. The Bank has a stake of 32.97 per cent as at 31.12.2018 (33.53 per cent as at 31.12.2017). SpareBank 1 Næringskreditt AS acquires loans secured on dwellings and issues covered bonds within the applicable rules that were established in 2007. Loans sold to SpareBank 1 Næringskreditt are secured on commercial property at up to 60 per cent of property valuation. Sold loans are legally owned by SpareBank 1 Næringskreditt and the Bank has, over and above the right to be responsible for management and receipt of commission, and the right to take over written-down loans in whole or in part, no right to make use of the loans. The Bank is responsible for management of the sold loans and receives commission based on the net of the return on the loans that the Bank has sold and the mortgage company costs.

Commercial property loans sold to SpareBank 1 Næringskreditt were reduced by NOK 45m in 2018 (reduced by NOK 241m in 2017). In total, mortgage loans to SpareBank 1 Næringskreditt were derecognised in an amount of NOK 1.8bn by the end of the financial year (NOK 1,8bn in 2017).

Liquidity facility

As described above with regard to SpareBank 1 Boligkreditt, a similar agreement has been entered with SpareBank 1 Næringskreditt.

Financial strength

An agreement to secure a core capital ratio of at least 9 per cent at SpareBank 1 Næringskreditt has been similarly entered into. See the above account concerning SpareBank 1 Boligkreditt.

Note 11 - Losses on loans and guarantees

Parent Bank Losses on loans and guarantees (NOK million)	2018			2017		
	RM	CM	Total	RM	CM	Total
Change in provision for expected credit losses for the period	18	126	144	7	278	285
Actual loan losses on commitments exceeding provisions made	6	86	93	3	41	45
Recoveries on commitments previously written-off	-7	-1	-8	-5	-1	-6
Losses for the period on loans and guarantees	17	212	229	5	318	323

Group Losses on loans and guarantees (NOK million)	2018			2017		
	RM	CM	Total	RM	CM	Total
Change in provision for expected credit losses for the period	23	127	150	11	279	290
Actual loan losses on commitments exceeding provisions made	30	98	127	12	46	58
Recoveries on commitments previously written-off	-13	-1	-15	-6	-1	-7
Losses for the period on loans and guarantees	40	223	263	17	324	341

Expected credit loss for loans to credit institutions and central bank have been calculated, but the amount is immaterial and therefore not included in the provision.

Contractual amount outstanding on financial assets that were written off during 2018, and still subject to enforcement activities amount to NOK 734 million kroner for the Bank and NOK 776 million for the group.

Provision for expected credit loss on loans and guarantees are presented after implementation of IFRS 9 from January 1, 2018. See note 2 and 4 for detailed information about the implementation effect and transition. Comparative figures have not been restated, and the information about 2017 has been presented in accordance with previous rules in IAS 32.

Parent Bank (NOK million)	1 Jan 2018	Change in provision	Net write-offs/ recoveries	31 Dec 2018
Loans as amortised cost- CM	1,017	125	-400	742
Loans as amortised cost- RM	32	28	-15	45
Loans at fair value over OCI- RM	65	10	-	75
Provision for expected credit losses on loans and guarantees	1,114	163	-415	862
Presented as				
Provision for loan losses	1,027	86	-415	697
Other debt- provisions	68	80	-	148
Other comprehensive income - fair value adjustment	18	-2	-	17

Group (NOK million)	1 Jan 2018	Change in provision	Net write-offs/ recoveries	31 Dec 2018
Loans as amortised cost- CM	1,041	128	-402	766
Loans as amortised cost- RM	49	34	-15	68
Loans at fair value over OCI- RM	65	10	-	75
Provision for expected credit losses on loans and guarantees	1,155	171	-417	909
Presented as				
Provision for loan losses	1,068	93	-417	744
Other debt- provisions	68	80	-	148

Other comprehensive income - fair value adjustment	18	-2	-	17
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Parent Bank	2018			
Total Allowance for Credit Losses (NOK million)	Stage 1	Stage 2	Stage 3	Total
Opening balance 1 January	96	256	762	1,114
Provision for credit losses				
Transfer to (from) stage 1	32	-32	-0	-
Transfer to (from) stage 2	-6	6	-0	-
Transfer to (from) stage 3	-0	-2	3	-
Net remeasurement of loss allowances	-34	45	158	168
Originations or purchases	55	93	1	148
Derecognitions	-40	-108	-4	-153
Actual loan losses	-	-	-415	-415
Closing balance 31 December	102	257	503	862

Group	2018			Total
	Stage 1	Stage 2	Stage 3	
Total Allowance for Credit Losses (NOK million)				
Opening balance 1 January	106	267	782	1,155
Provision for credit losses				
Transfer to (from) stage 1	34	-33	-0	-
Transfer to (from) stage 2	-7	7	-0	-
Transfer to (from) stage 3	-0	-4	4	-
Net remeasurement of loss allowances	-37	47	167	177
Originations or purchases	59	96	3	158
Derecognitions	112	271	526	-163
Actual loan losses	-	-	-417	-417
Closing balance 31 December	112	271	526	909

Parent Bank

Individual write-downs (NOK million)	31 Dec 2017		Total
	RM	CM	
Individual write-downs to cover loss on loans and guarantees at 1.1*)	24	602	625
- Actual losses during the period for which provisions for individual impairment losses have been made previously	8	146	155
- Reversal of provisions from previous periods	4	8	13
+ Increased write-downs on provisions previously written down	0	191	191
+ Write-downs on provisions not previously written down	6	100	106
Individual write-downs to cover loss on loans and guarantees at period end	18	738	755

*) Individually assessed impairment write-downs on guarantees, totalling NOK 4.2m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOK million)	31 Dec 2017		Total
	RM	CM	
Collective write-downs to cover loss on loans, guarantees at 1.1	90	228	318
Period's collective write-downs to cover loss on loans, guarantees etc	-	5	5
Collective write-downs to cover loss on loans and guarantees at period end	90	233	323

Group

Individual write-downs (NOK million)	31 Dec 2017		Total
	RM	CM	
Individual write-downs to cover loss on loans and guarantees at 1.1*)	27	611	638
- Actual losses during the period for which provisions for individual impairment losses have been made previously	9	147	157
- Reversal of provisions from previous periods	5	9	14
+ Increased write-downs on provisions previously written down	0	191	191
+ Write-downs on provisions not previously written down	7	104	111
Individual write-downs to cover loss on loans and guarantees at period end	20	750	769

*) Individually assessed impairment write-downs on guarantees, totalling NOK 4.2m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOK million)	31 Dec 2017		Total
	RM	CM	
Collective write-downs to cover loss on loans, guarantees at 1.1	100	239	339
Period's collective write-downs to cover loss on loans, guarantees etc	5	4	9
Collective write-downs to cover loss on loans and guarantees at period end	104	243	347

Parent Bank (NOK million)	31 Dec 2018				31 Dec 2017
	Trinn 1	Trinn 2	Trinn 3	Total	
Provision for credit losses specified by sector and industry					
Wage earners	20	44	24	88	20
Public administration	0	-	-	0	-

Agriculture, forestry, fisheries and hunting	8	16	5	30	5
Fish farming	1	0	-	1	-
Industry and mining	9	20	0	29	14
Building and construction, power and water supply	11	11	21	43	16
Wholesale and retail trade, hotel og restaurant industry	14	8	11	33	24
Maritime sector and offshore	4	84	378	465	617
Property management	19	37	20	76	14
Business services	7	31	21	59	45
Transport and other services provision	9	5	2	16	1
Other sectors	0	0	22	22	-
Undistributed *)				-	323
Total	102	257	503	862	1,078

*) Undistributed is for 2017 completely related to collective write-downs. Refer to table above for specification of write downs per segment

Group (NOK million)	31 Dec 2018				31 Dec 17
	Trinn 1	Trinn 2	Trinn 3	Total	
Provision for credit losses specified by sector and industry					
Wage earners	25	52	33	109	20
Public administration	0	-	-	0	-
Agriculture, forestry, fisheries and hunting	9	18	6	33	6
Fish farming	1	1	-	2	-
Industry and mining	9	21	3	34	16
Building and construction, power and water supply	12	13	24	49	17
Wholesale and retail trade, hotel og restaurant industry	15	8	12	35	26
Maritime sector and offshore	4	84	378	465	617
Property management	19	37	20	76	14
Business services	8	31	23	62	47
Transport and other services provision	10	6	6	23	6
Other sectors	0	0	22	22	-
Undistributed *)					347
Total	112	271	526	909	1,116

*) Undistributed is for 2017 completely related to collective write-downs. Refer to table above for specification of write downs per segment

Note 12 - Credit risk exposure for each internal risk rating

The Bank uses a special classification system for monitoring credit risk in the portfolio. Risk classification is based on each individual exposure's probability of default. In the table below this classification is collated with corresponding rating classes at Moody's.

Historical default data are Parent Bank figures showing the default ratio (DR) per credit quality step. The figures are an unweighted average of customers with normal scores in the period 2010-2018.

Collateral cover represents the expected realisation value (RE value) of underlying collaterals. The values are determined using fixed models, and actual realisation values are validated to test the models' reliability. In accordance with the capital requirements regulations, the estimates are downturn estimates. Based on the collateral cover (RE value / EAD), the exposure is classified to one of seven credit quality steps, the best of which has a collateral cover above 120 per cent, and the lowest has a collateral cover below 20 per cent.

Credit quality step	Probability of default			Collateral cover				
	From	To	Moody's	Historical default	Default 2018	Collateral class	Lower limit	Upper limit
A	0.00 %	0.10 %	Aaa-A3	0.01 %	0.01 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.04 %	0.04 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.07 %	0.06 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.27 %	0.47 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.37 %	0.52 %	5	40	60
F	1.25 %	2.50 %		0.92 %	0.93 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.18 %	2.02 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.41 %	3.99 %			
I	10.00 %	99.99 %	B3-Caa3	11.28 %	13.78 %			
J	Default							
K	Problem loans							

The Bank's exposures are classified into risk groups based on credit quality step.

Credit quality step	Risk groups
A - C	Lowest risk
D - E	Low risk
F - G	Medium risk
H	High risk
I	Highest risk
J - K	Default and written down

Parent Bank (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2018	31 Dec 2018	31 Dec 2017	31 Dec 2017
Lowest risk	10.2 %	87,677	9.5 %	80,379
Low risk	8.5 %	21,176	9.9 %	20,548
Medium risk	11.4 %	18,783	12.2 %	15,970
High risk	11.8 %	3,743	8.6 %	2,926
Highest risk	3.0 %	2,387	4.2 %	3,185
Default and/or problem loans	11.3 %	2,326	32.0 %	1,698
Total		136,092		124,706

Group (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2018	31 Dec 2018	31 Dec 2017	31 Dec 2017
Lowest risk	10.3 %	87,334	9.5 %	80,283
Low risk	8.4 %	22,546	9.2 %	22,057

Medium risk	10.9 %	23,836	10.2 %	19,109
High risk	11.4 %	4,362	6.3 %	3,991
Highest risk	4.5 %	2,803	3.4 %	3,978
Default and/or problem loans	13.2 %	2,466	30.5 %	1,779
Total		143,348		131,197

The realisation value of furnished collateral is determined such that they, on a conservative assessment, reflect the presumed realisation value in an economic downturn.

Note 13 - Maximum credit risk exposure

The table below shows maximum exposure to credit risk for balance sheet components, including derivatives. Exposures are shown on a gross basis before collateral and permitted set-offs.

For disclosure of classes of financial instruments where this is not specified in the table below, see note 26 Categories of financial assets and financial liabilities.

Parent Bank				
	Maximum exposure to credit risk	Collateral in property	Collateral in securities	Other collateral *)
31 Dec 2018 (NOK million)				
Assets				
Balances with central banks	819	-	-	-
Loans and advances to credit institutions	11,178	-	-	-
Loans and advances to customers at fair value through profit or loss	4,467	4,253	18	20
Loans and advances to customers at amortised cost	46,897	26,195	1,105	16,960
Loans and advances to customers at fair value through OCI	61,295	60,430	97	136
Securities and bonds	20,428	-	-	11,375
Derivatives	3,914	-	-	1,466
Earned income, not yet received	67	-	-	-
Accounts receivable, securities	7	-	-	-
Total assets	149,072	90,878	1,220	29,957
Liabilities				
Guarantee commitments and documentary credits	5,022	-	-	-
Unutilised credits	16,242	2,347	26	967
Loan approvals	1,582	-	-	-
Other exposures	474	-	-	-
Total liabilities	23,321	2,347	26	967
Total credit risk exposure	172,392	93,225	1,246	30,924
31 Dec 2017 (NOK million)				
Assets				
Balances with central banks	3,231	-	-	-
Loans and advances to credit institutions	9,543	-	-	-
Loans and advances to customers	104,769	83,692	1,620	15,910
Securities - designated at fair value through profit/loss	20,014	-	-	10,092
Derivatives	4,328	-	-	2,408
Securities - available for sale	50	-	-	-
Earned income, not yet received	61	-	-	-
Accounts receivable, securities	35	-	-	-
Total assets	142,031	83,692	1,620	28,409
Liabilities				
Guarantee commitments and documentary credits	5,346	-	-	-
Unutilised credits	13,965	4,817	47	2,010
Loan approvals	1,896	-	-	-
Other exposures	579	-	-	-
Total liabilities	21,786	4,817	47	2,010
Total credit risk exposure	163,817	88,509	1,667	30,420

Group

Maximum

31 Dec 2018 (NOK million)	exposure to credit risk	Collateral in property	Collateral in securities	Other collateral *)
Assets				
Balances with central banks	819	-	-	-
Loans and advances to credit institutions	5,074	-	-	-
Loans and advances to customers at fair value through profit or loss	4,467	4,253	18	20
Loans and advances to customers at amortised cost	53,967	26,195	1,105	24,675
Loans and advances to customers at fair value through OCI	61,295	60,430	97	136
Securities and bonds	20,348	-	-	11,375
Derivatives	4,119	-	-	1,466
Earned income, not yet recieved	86	-	-	-
Accounts receivable, securities	277	-	94	184
Total assets	150,451	90,878	1,314	37,856
Liabilities				
Guarantee commitments and documentary credits	5,032	-	-	-
Unutilised credits	16,257	2,347	70	982
Loan approvals	1,706	-	-	-
Other exposures	625	-	-	-
Total liabilities	23,620	2,347	70	982
Total credit risk exposure	174,071	93,225	1,383	38,838

31 Dec 2017 (NOK million)	Maximum exposure to credit risk	Collateral in property	Collateral in securities	Other collateral *)
Assets				
Balances with central banks	3,231	-	-	-
Loans and advances to credit institutions	4,214	-	-	-
Loans and advances to customers	110,959	83,692	1,620	22,614
Securities - designated at fair value through profit/loss	21,494	-	-	10,092
Derivatives	4,351	-	23	2,408
Securities - available for sale	66	-	-	-
Earned income, not yet recieved	104	-	-	-
Accounts receivable, securities	322	-	84	203
Total assets	144,741	83,692	1,726	35,316
Liabilities				
Guarantee commitments and documentary credits	5,346	-	-	-
Unutilised credits	13,976	4,817	47	2,021
Loan approvals	2,148	-	-	251
Other exposures	764	-	63	-
Total liabilities	22,233	4,817	110	2,272
Total credit risk exposure	166,974	88,509	1,836	37,589

*) Other collateral includes cash, movables, ship and guarantees received. For covered bonds the cover pool comprises loans to customers in the company that has issued the bond.

The Bank's maximum credit exposure is shown in the above table. SpareBank 1 SMN provides wholesale banking services to BN Bank and the Samspar banks. In this connection a guarantee agreement has been established which assures full settlement for exposures connected to these agreements.

For retail and corporate customers, use is made of framework agreements requiring provision of collateral. For customers engaged in trading activity, only cash deposits are accepted as collateral. Customers furnish cash deposits and/or assets as collateral for their trade in power and salmon derivatives at NASDAQ OMX Oslo ASA and Fish Pool ASA. See note 37, Other debt and liabilities, for a closer description of NASDAQ.

The collateral is measured at fair value, limited to maximum credit exposure for the individual counterparty.

Note 14 - Financial instruments and offsetting

In the financial statement the group has no financial instruments that are entered on a net basis.

SpareBank 1 SMN enters into standardised and mainly bilateral ISDA agreements on netting of derivatives with financial institutions as counterparties. Additionally the Bank has entered into supplementary agreements on provision of collateral (CSA) with the most central counterparties. As of 31 December 2018 the Bank has about 46 (25) active ISDA agreements. As from 1 March 2017 the Bank was required under EMIR to have in place a CSA with daily exchange of margin collateral etc. with all financial counterparties with which the bank deals domiciled (inter alia) in an EU member state. The Bank only enters into agreements with cash as collateral. The Bank has delegated responsibility for handling these agreements to SEB Prime Collateral Services which handles margin requirements on behalf of the Bank. More about collateral and encumbrances in note 37 Other debt and liabilities.

Parent Bank and Group are identical.

31 Dec 2018 (NOK million)	a) Gross amount for asset in balance sheet	b) Gross amount of debt that can be netted	c (a-b) Net amount of assets in balance sheet	d) Amount that is not netted		e (c-d) Net exposure
				Financial instruments*)	Cash collateral received	
Derivatives assets	979	-	979	- 611	- 80	288

	a) Gross amount for debt in balance sheet	b) Gross amount of assets that can be netted	c (a-b) Net amount of debt in balance sheet	d) Amount that is not netted		e (c-d) Net exposure
				Financial instruments*)	Cash collateral furnished	
Derivatives liabilities	939	-	939	- 611	-	328

31 Dec 2017 (NOK million)	a) Gross amount for asset in balance sheet	b) Gross amount of debt that can be netted	c (a-b) Net amount of assets in balance sheet	d) Amount that is not netted		e (c-d) Net exposure
				Financial instruments*)	Cash collateral received	
Derivatives assets	1,638	-	1,638	- 835	- 581	222

	a) Gross amount for debt in balance sheet	b) Gross amount of assets that can be netted	c (a-b) Net amount of debt in balance sheet	d) Amount that is not netted		e (c-d) Net exposure
				Financial instruments*)	Cash collateral furnished	
Derivatives liabilities	1,076	-	1,076	- 835	-	242

*) Recognised financial instruments that do not meet some or all the criteria for net presentation under IAS 32 or contingent offsetting rights that can only be enforced and exercised in case of default, insolvency or bankruptcy on the part of the individual counterparties.

Note 15 - Credit quality per class of financial assets

The Bank handles the credit quality of financial assets by means of its internal guidelines for credit ratings. See section entitled credit risk under Note 7 Risk factors.

The table below shows credit quality per class of assets for loan-related assets in the balance sheet, based on the Bank's own credit rating system. The entire loan exposure is included when parts of the exposure are defaulted. Non-performance is defined in the note as default of payment of NOK 1,000 or more for more than 90 days.

Parent Bank		Neither defaulted nor impaired						Defaulted or written down*)	
31 Dec 2018		Lowest risk	Low risk	Medium risk	High risk	Highest risk			
(NOK million)	Notes							Total	
Loans to and claims on credit institutions	8	11,178	-	-	-	-	-	11,178	
Loans to and claims on customers	9								
Retail market		60,055	8,552	3,712	860	1,095	291	74,566	
Corporate market		15,873	8,179	10,052	2,342	1,091	1,252	38,790	
Total		75,928	16,731	13,765	3,203	2,186	1,543	113,356	
Financial investments	29								
Quoted government and government guaranteed bonds		5,478	-	-	-	-	-	5,478	
Quoted other bonds		9,629	1,985	797	9	-	-	12,421	
Unquoted government and government guaranteed bonds		99	-	-	-	-	-	99	
Unquoted other bonds		2,205	216	9	-	-	-	2,430	
Total		17,412	2,201	807	9	-	-	20,428	
Total		104,518	18,932	14,571	3,212	2,186	1,543	144,962	

31 Dec 2017		Neither defaulted nor impaired					Defaulted or written down*)	
(NOK million)	Notes	Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	8	9,543	-	-	-	-	-	9,543
Loans to and claims on customers	9							
Retail market		55,734	6,917	3,485	822	923	233	68,115
Corporate market		13,793	9,939	9,190	1,685	1,784	1,336	37,728
Total		69,528	16,855	12,676	2,507	2,708	1,570	105,843
Financial investments	29							
Quoted government and government guaranteed bonds		4,339	-	-	-	-	-	4,339
Quoted other bonds		10,056	263	640	-	-	-	10,959
Unquoted government and government guaranteed bonds		53	-	-	-	-	-	53
Unquoted other bonds		4,545	-	-	-	-	-	4,545
Total		18,993	263	640	-	-	-	19,895
Total		98,063	17,118	13,315	2,507	2,708	1,570	135,281

Group 31 Dec 2018 (NOK million)	Notes	Neither defaulted nor impaired					Defaulted or written down ^{*)}	Total
		Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	8	5,074	-	-	-	-	-	5,074
Loans to and claims on customers	9							
Retail market		60,141	9,460	6,803	1,069	1,350	357	79,180
Corporate market		15,440	8,619	11,919	2,743	1,245	1,326	41,293
Total		75,581	18,079	18,722	3,812	2,595	1,683	120,473
Financial investments	29							
Quoted government and government guaranteed bonds		5,478	-	-	-	-	-	5,478
Quoted other bonds		9,629	1,985	797	9	-	-	12,421
Unquoted government and government guaranteed bonds		99	-	-	-	-	-	99
Unquoted other bonds		2,126	216	9	-	-	-	2,351
Total		17,332	2,201	807	9	-	-	20,348
Total		97,987	20,281	19,529	3,821	2,595	1,683	145,895

31 Dec 2017 (NOK million)	Notes	Neither defaulted nor impaired					Defaulted or written down ^{*)}	Total
		Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	8	4,214	-	-	-	-	-	4,214
Loans to and claims on customers	9							
Retail market		55,855	7,773	5,477	1,142	1,366	269	71,882
Corporate market		13,560	10,533	10,219	2,389	2,105	1,382	40,189
Total		69,415	18,307	15,696	3,532	3,470	1,651	112,071

Financial investments 29
Quoted government and

government guaranteed bonds	4,339	-	-	-	-	-	4,339
Quoted other bonds	10,056	263	640	-	-	-	10,959
Unquoted government and government guaranteed bonds	53	-	-	-	-	-	53
Unquoted other bonds	4,385	-	-	-	-	-	4,385
Total	18,833	263	640	-	-	-	19,736
Total	92,463	18,569	16,336	3,532	3,470	1,651	136,021

*) Guarantees furnished by the Guarantee Institute for Export Credit are not taken into account

Note 16 - Market risk related to interest rate risk

This note is a sensitivity analysis based on relevant balance sheet items as of 31 December and thereafter for the year concerned. The Bank's interest rate risk is calculated by simulating a parallel interest rate shift for the entire interest rate curve of one percentage point on all balance sheet items.

Interest rate risk has varied somewhat through 2018. Interest rate risk is volatile and such variations are not unusual. Interest rate risk has throughout 2018 been within the overall limit set by the Board of Directors, NOK 132m as at 31 December 2018. For further details regarding interest rate risk, see Note 7 Risk Factors.

Basis risk Group (NOK million)	Interest rate risk, 1 % change	
	2018	2017
<i>Currency</i>		
NOK	-40	-39
EUR	-3	-8
USD	2	-1
CHF	-2	-1
Other	-2	-3
Total interest rate risk, effect on result before tax	-45	-52

Total interest rate risk suggest that the Bank will have losses from an increase in the interest rate in 2018. This is the same effect as in 2017.

The table below shows the effect of an interest rate curve shift on various time intervals and the associated gains or losses within the respective maturities.

Interest rate curve risk, Group (NOK million)	Interest rate risk, 1 % change	
	2018	2017
<i>Maturity</i>		
0 - 1 month	-15	-17
1 - 3 months	-1	9
3 - 6 months	-13	-12
6 - 12 months	1	-8
1 - 2 years	-1	-5
2 - 3 years	-25	-3
3 - 4 years	41	15
4 - 5 years	-56	-27
5 - 7 years	22	2
7 - 10 years	3	-5
Total interest rate risk, effect on result before tax	-45	-52

Note 17 - Market risk related to currency exposure

Foreign exchange risk arises when there are differences between the Group's assets and liabilities in a given currency. Currency trading must at all times be conducted within adopted limits and authorisations. The Group's limits define quantitative measures for maximum net foreign currency exposure, measured in Norwegian kroner.

The Group has established limits for net exposure in each individual currency, as well as for aggregate net foreign currency exposure (expressed as the highest of the sum of long and short positions). Overnight exchange rate risk for spot trading in foreign currency must not, on a net basis, exceed NOK 127.5 million per individual currency or NOK 150 million on an aggregate basis.

Foreign exchange risk has been low throughout the year. For further details see note 7 on risk factors.

Parent Bank		Net foreign exchange exposure NOK (NOK million)	Group	
2017	2018		2018	2017
-8	28	EUR	28	-8
-0	4	USD	4	0
-19	-11	SEK	-11	-19
-2	-10	GBP	-10	-2
-30	-3	Other	-3	-30
-59	7	Total	7	-59
150	150	Overall currency limit	150	150
128	128	Total per currency	128	128
1.8	1.7	Result effect of 3% change	1.7	1.8

Note 18 - Liquidity risk

Liquidity risk is the risk that the group will be unable to refinance its debt or unable to finance increases in its assets. See note 7 on risk factors for a detailed description.

Group

At 31 Dec 2018 (NOK million)	On demand	Below 3 months	3-12 months	1-5 yrs	Above 5 yrs	Total
Cash flows related to liabilities**						
Debt to credit institutions	8,006	1	498	647	62	9,214
Deposits from and debt to customers	62,333	9,873	2,554	5,855	-	80,615
Debt created by issuance of securities	-	1,730	5,139	32,665	6,200	45,733
Derivatives - contractual cash flow out	-	1,425	15,209	27,449	1,154	45,237
Other commitments	-	1,619	621	162	8	2,410
Subordinated debt *)	-	12	71	2,127	255	2,465
Total cash flow, liabilities	70,339	14,659	24,092	68,904	7,679	185,674
Contractual cash flows out	-	1,425	15,209	27,449	1,154	45,237
Contractual cash flows in	-	-2,479	-15,110	-26,554	-1,294	-45,436
Net contractual cash flows	-	-1,054	99	895	-140	-200

Group

At 31 Dec 2017 (NOK million)	On demand	Below 3 months	3-12 months	1-5 yrs	Above 5 yrs	Total
Cash flows related to liabilities**						
Debt to credit institutions	8,288	737	-	491	90	9,607
Deposits from and debt to customers	62,284	6,783	2,171	5,238	-	76,476
Debt created by issuance of securities	-	4,828	5,543	28,812	3,886	43,069
Derivatives - contractual cash flow out	-	4,334	3,139	29,475	2,607	39,555
Other commitments	2	1,126	554	17	5	1,804
Subordinated debt *)	-	6	726	1,335	260	2,327
Total cash flow, liabilities	70,574	17,814	12,134	65,467	6,849	172,838
Contractual cash flows out	-	4,334	3,139	29,475	2,607	39,555
Contractual cash flows in	-	-3,597	-2,646	-29,587	-2,804	-38,633
Net contractual cash flows	-	737	494	-112	-197	922

Does not include value adjustments for financial instruments at fair value

*) For subordinated debt the call date is used for cash settlement

**) Contractual cash-flows include calculated interest and the total amount therefore deviate from recognised liabilities

Note 19 - Net interest income

Parent bank		(NOK million)	Group	
2017	2018		2018	2017
		Interest income		
137	166	Interest income from loans to and claims on central banks and credit institutions	62	44
3,150	3,275	Interest income from loans to and claims on customers	3,676	3,476
284	295	Interest income from money market instruments, bonds and other fixed income securities	291	281
-	0	Other interest income	28	23
3,571	3,737	Total interest income	4,057	3,825
		Interest expense		
133	142	Interest expenses on liabilities to credit institutions	154	137
654	749	Interest expenses relating to deposits from and liabilities to customers	734	636
668	615	Interest expenses related to the issuance of securities	615	668
95	84	Interest expenses on subordinated debt	86	97
-0	0	Other interest expenses	15	13
49	50	Guarantee fund levy	50	49
1,599	1,640	Total interest expense	1,655	1,600
1,972	2,097	Net interest income	2,403	2,225

Note 20 - Net commission income and other income

Parent Bank		(NOK million)	Group	
2017	2018		2018	2017
		Commission income		
82	73	Guarantee commission	72	80
-	-	Broker commission	225	223
56	60	Portfolio commission, savings products	113	115
353	350	Commission from SpareBank 1 Boligkreditt	350	353
17	16	Commission from SpareBank 1 Næringskreditt	16	17
369	369	Payment transmission services	360	362
172	174	Commission from insurance services	174	172
49	60	Other commission income	78	67
1,098	1,102	Total commission income	1,387	1,390
		Commission expenses		
83	78	Payment transmission services	93	103
16	15	Other commission expenses	75	65
98	92	Total commission expenses	168	168
		Other operating income		
31	25	Operating income real property	27	47
-	-	Property administration and sale of property	124	118
-0	0	Securities trading	350	227
-	-	Accountant's fees	411	342
7	6	Other operating income	46	49
38	32	Total other operating income	958	783
1,038	1,042	Total net commission income and other operating income	2,177	2,005

Note 21 - Net return on financial investments

Parent Bank			Group	
2017	2018	(NOK million)	2018	2017
		Valued at fair value through profit/loss		
- 49	- 208	Value change in interest rate instruments	- 83	62
		Value change in derivatives/hedging		
- 22	- 4	Net value change in hedged bonds and derivatives	-4	-22
7	10	Net value change in hedged fixed rate loans and derivatives	10	7
117	277	Other derivatives	336	167
		Income from equity instruments		
-	-	Income from owner interests	416	437
626	506	Dividend from owner instruments	-	-
48	-8	Value change and gain/loss on owner instruments	-3	30
3	10	Dividend from equity instruments	8	6
3	16	Value change and gain/loss on equity instruments	9	31
733	599	Total net income from financial assets and liabilities at fair value through profit/(loss)	688	718
		Valued at amortised cost		
		Value change in interest rate instruments		
- 4	4	Value change in interest rate instruments held to maturity	4	- 4
-	-	Value change in interest rate instruments, loans and receivables	-	-
- 4	4	Total net income from financial assets and liabilities at amortised cost	4	- 4
		Valued at fair value - available for sale		
		Income from equity instruments		
1	-	Gain/loss on realisation of financial assets	-	1
1	0	Total net income from financial assets available for sale	0	1
45	65	Total net gain from currency trading	65	45
776	668	Total net return on financial investments	757	760

Note 22 - Personnel expenses and emoluments to senior employees and elected officers

SpareBank 1 SMN's remuneration arrangements

All remuneration at SpareBank 1 SMN shall contribute to goal achievement and the desired conduct. The remuneration arrangements shall at the same time promote and incentivise good management and control of Group risk, counteract high risk taking and contribute to the avoidance of conflicts of interest.

All remuneration arrangements at SpareBank 1 SMN are formulated in accordance with the Financial Institutions Act and associated regulations on remuneration arrangements at financial institutions, investment firms and mutual fund management companies.

The Group's guidelines on variable compensation are designed to assure that employees, groups and the business as a whole are compliant with the risk management strategies, processes and tools implemented by the Group to protect assets and values. The remuneration arrangements are formulated in such a way as to ensure that neither individuals nor the organisation take unacceptable risk in order to maximise the variable remuneration. This entails that the basis for variable remuneration connected to the entity's risk adjusted profit shall be a period of at least one year, and that the earning period shall not be less than one year. SpareBank 1 SMN has no remuneration arrangements for customer facing units that encourage conduct which challenges the Bank's risk tolerance, ethical guidelines or which may contribute to conflicts of interest. The Bank has no remuneration arrangements for control functions that encourage conduct that poses a challenge to competence.

It is SpareBank 1 SMN's policy that, as a rule, profit- or performance-based variable remuneration arrangements shall not be established for employees.

Where variable remuneration arrangements are nonetheless established for employees, the following guidelines apply:

- There shall be an appropriate balance between fixed and variable remuneration, and the fixed component shall be sufficiently high to allow the undertaking the possibility of paying no variable component at all.
- The variable component shall as a rule not exceed 50% of the fixed remuneration.
- Alternative arrangements may be established by way of exception where this is considered to be a necessary alignment with the "industry standard" among competing undertakings.

Reduction clauses have been introduced for any instances where breaches of applicable rules or guidelines are brought to light.

Remuneration to senior employees of SpareBank 1 SMN may contain the following elements:

- Fixed pay
- Variable remuneration based on performance
- Pension scheme
- Post-employment benefits
- Other benefits

The total remuneration shall be competitive but not wage leading. It shall ensure that the Group over time has the ability to attract and retain senior employees with the desired expertise and experience.

Decision process

The board of directors of SpareBank 1 SMN has established a remuneration committee comprising three members of the board of directors and a representative for the employees.

The remuneration committee's responsibilities include:

- Annually reviewing and recommending the total salary and other remuneration of the Group CEO
- Acting as adviser to the Group CEO in matters of salary and other remuneration of the executive directors
- Annually reviewing the Group's remuneration arrangement
- Ensuring that the implementation of the remuneration arrangement is annually reviewed by an independent control function.

Guidelines for the forthcoming financial year

Remuneration of the Group CEO

The Group CEO's salary and other financial benefits are determined annually by the board of directors following a recommendation by the remuneration committee. The assessment is based on results achieved, individual performances and the trend in salaries in comparable positions.

The Group CEO does not have variable remuneration based on results or performance.

An early retirement agreement has been entered into with the CEO in the event of his stepping down before reaching the age of 67. The agreement applies to the end of the month in which the CEO reaches age 67. The early retirement pension shall provide a benefit of 68% of the CEO's fixed annual pay at the time of retirement.

An agreement has also been entered into with the CEO to the effect that all pension liabilities shall have been met upon his reaching the age of 67. The CEO therefore receives an annual sum which up to his reaching the age of 67 provides an overall disbursement corresponding to 68% of his total pensionable income. The sum is disbursed as an addition to salary.

The CEO is entitled, on a par with other employees of the Group, to participate in private placings directed at the Group's employees. The board of directors imposes a lock-in period of three years for senior employees who acquire equity certificates at a discount.

The Group operates a savings arrangement whereby employees are entitled to purchase equity certificates (MING) up to a value of NOK 24,000 per year. Under the arrangement one bonus equity certificate is allotted for every two equity certificates purchased provided the employee holds the equity certificates for a minimum of two years. The CEO is entitled to participate in the savings arrangement on an equal footing with other employees.

The CEO has no agreement on post-employment benefit in the event of his stepping down before reaching retirement age.

Remuneration of other members of the Group management team

The CEO establishes the remuneration of members of the Group management team after discussion with the remuneration committee. The remuneration is determined on the basis of results achieved, individual performances and conditions in the market for the respective business lines.

Executive directors do not have variable remuneration based on results or performances.

Executive directors are members of the bank's general pension scheme for salaries up to 12G (12 times the basic amount available under the National Insurance Fund Scheme). In addition a top pension scheme has been introduced corresponding to 15 per cent of salary above 12G. Up to 1 July 2017 the arrangement was a collective arrangement, but was closed with effect from that date. Employees on salaries above 12G appointed after 1 July 2017 are therefore not included in the scheme.

An early retirement agreement has been established with one of the executive directors, granting this person the right to retire on reaching age 62 with a benefit of 68 per cent of pensionable income, including pension from SpareBank 1 SMN's pension fund, the National Insurance Scheme Fund and AFP (the financial industry's contractual early retirement pension scheme).

Executive Directors have severance packages of up to 12 months as from the agreed retirement date. The size of any post-employment benefit will be subject to assessment under the remuneration rules in force at any and all times.

Other benefits to the Group CEO and senior employees

Other benefits to the Group CEO and senior employees may be granted to the extent such benefits are related to their function in the Group and are in line with market practice in general. A flat rate car allowance is available to members of the bank's Group management team who use their private cars for business purposes.

Special guidelines on remuneration of senior employees, employees with functions of material significance for the undertaking's risk exposure, employees with control functions and elected officers

SpareBank 1 SMN has adopted separate guidelines for senior employees, employees with functions of material significance for the undertaking's risk exposure, employees with control functions and elected officers.

Pursuant to the Financial Institutions Act and the Financial Institutions Regulations, the Group has defined which employees are covered by the special rules based on the defined criteria.

Today no employees of SpareBank 1 SMN covered by the special rules have arrangements involving profit- or performance-based remuneration.

Binding guidelines for shares, subscription rights, options etc., for the coming financial year

The Group CEO and senior employees are permitted to participate in private placings/share saving programmes on an equal footing with other employees of the Group. The board of directors imposes a lock-in period of three years on senior employees who acquire equity certificates at a discount.

Of the variable remuneration of the Group CEO, senior employees and other risk takers, a share corresponding to 50 per cent of the accumulated variable remuneration is invested in equity certificates of SpareBank 1 SMN with a lock-in period of one year for one-third, two years for one-third and three years for one-third.

Statement of management pay policy for the preceding financial year

The Group's standards established in 2011, as subsequently revised, have been followed in 2018.

Parent Bank			Group	
2017	2018	(NOK million)	2018	2017
501	497	Wages	1,423	1,284
40	46	Pension costs (Note 24)	96	79
35	34	Social costs	65	62
575	577	Total personnel expenses	1,584	1,426
656	623	Average number of employees	1,535	1,405
595	572	Number of man-labour years as at 31 December	1,493	1,399
637	608	Number of employees as at 31 December	1,588	1,482

Emoluments to Top Management

2018 (thousands of NOK)

Name and title	Title	Salary and other short-term benefits	Pension contribution for salaries above 12G	Of which share-based bonus payments ¹⁾	Current value of pension liability	Pension rights accrued in past year ²⁾	Loans at 31.12	No. of equity capital certificates
Finn Haugan	Group CEO	7,269	2,297	8	10,250	130	8,520	201,910
Kjell Fordal	Executive Director Group Finance	3,430	344	8	11,480	136	12,995	245,334
Vegard Helland	Executive Director Corporate	2,941	169	8	1,300	140	1,263	34,224
Svein Tore Samdal ³⁾	Executive Director Retail	2,855	174	8	-	139	7,819	23,461
Nelly Maske ⁴⁾	Executive Director Retail	2,612	135	-	-	143	5,587	23,005
Ola Neråsen ⁵⁾	Executive Director Risk and Compliance	2,215	117	-	2,438	138	-	41,786
Rolf Jarle Brøske	Executive director Communication and Society	2,164	95	-	-	129	9,602	6,585

1) Amount of bonus-Ming received 2019 in conjunction with MING-saving scheme. This is an arrangement open for all employees and all employees have the same conditions

2) Defined-contribution pension scheme

3) Svein Tore Samdal resigned from his position 30.11.19

4) Nelly Maske was Executive Director Business Operation and Development until 30.11.19 and took over Executive Director Retail 01.12.19

5) Executive Director Risk and Compliance was established 01.05.19

6) The number of equity certificates includes equity certificates owned by close associates and companies where you have considerable influence

2017 (thousands of NOK)

Name and title	Title	Salary and other short-term benefits	Pension contribution for salaries above 12G	Of which share-based bonus payments	Current value of pension liability	Pension rights accrued in last year ¹⁾	Loans at 31.12	No. of equity capital certificates
Finn Haugan	Group CEO	7,041	2,297	0	12,653	115	3,693	200,521
Kjell Fordal	Executive Director Group Finance	3,269	424	0	11,304	115	8,925	244,945
Vegard Helland	Executive Director Corporate	2,822	246	0	1,338	115	1,254	33,835
Svein Tore Sandal	Executive Director Retail	2,936	275	0	0	115	7,344	23,141
Nelly Maske	Executive Director Business Operation and Development	2,377	171	0	-	115	6,864	20,305
Rolf Jarle Brøske	Executive director Communication and Society	1,960	137	0	-	115	9,937	5,305

¹⁾ Defined-contribution pension scheme, pension rights accrued is paid amount for the year.

**Emoluments to the Board of Directors and the Supervisory Board
2018 (thousands of NOK)**

Name	Title	Fee	Fees to audit, risk and remuneration committee	Other benefits	Loans as of 31 December	No. of equity capital certificates ⁴⁾
Kjell Bjordal	Board chairman	457	35	4	-	130,000
Bård Benum	Deputy chair	242	82	-	8,311	-
Mette Kamsvåg ¹⁾	Board member	158	62	2	-	5,600
Tonje Eskeland Foss ¹⁾	Board member	158	18	-	5,181	5,000
Paul E. Hjelm-Hansen	Board member	209	109	-	-	49,219
Janne Thyø Thomsen	Board member	209	82	-	-	3,000
Morten Loktu	Board member	209	24	-	-	5,000
Arnhild Holstad ²⁾	Board member	51	-	1	-	-
Aud Skrudland ²⁾	Board member	51	6	-	-	7,265
Venche Johnsen ³⁾	Board member, employee representative	238	12	788	405	24,996
Erik Gunnes ³⁾	Board member, employee representative	209	-	802	1,277	815

¹⁾ Was selected in 2018

²⁾ Resigned in 2018

³⁾ Other emoluments include salary in employment relationships

⁴⁾ The number of equity certificates includes equity certificates owned by close associates and companies where you have considerable influence

**Emoluments to the Board of Directors and the Supervisory Board
2017 (thousands of NOK)**

Name	Title	Fee	Fees to audit, risk and remuneration committee	Other benefits	Loans as of 31 December	No. of equity capital certificates ¹⁾
Kjell Bjordal	Board chairman	442	34	5	-	130,000
Bård Benum	Deputy chair	234	79	-	8,578	-
Aud Skrudland	Board member	203	23	1	-	6,765
Arnhild Holstad	Board member	203	-	2	2,229	-
Paul E. Hjelm-Hansen	Board member	203	105	0	-	49,219
Janne Thyø Thomsen	Board member	203	79	-	-	3,000
Morten Loktu	Board member	203	23	-	-	5,000
Venche Johnsen ²⁾	Board member, employee representative	154	-	757	577	24,716
Erik Gunnes ²⁾	Board member, employee representative	203	-	787	966	535
Oddny Lysberg ²⁾	Board member, employee representative	49	-	540	2,515	939

1) The number of equity certificates includes equity certificates owned by close associates and companies where you have considerable influence

2) Other emoluments include salary in employment relationships

**Fees to the Supervisory Board
(thousands of NOK)**

	2018	2017
Knut Solberg, Supervisory Board Chair	67	81
Other members	271	277

Remuneration of employees ¹⁾	Number	Remuneration	Of which variable remuneration
Senior employees	25	44779 129	0
Employees and officers with tasks of material significance for the institution's risk exposure	10	9262 773	0
Employees responsible for the independent control function	12	10262 684	0
Officers	10	2201 987	0

1) Categories of employees covered by the Financial Institutions Regulations

Note 23 - Other operating expenses

Parent Bank			Group	
2017	2018	(NOK million)	2018	2017
203	217	IT costs	293	266
17	12	Postage and transport of valuables	17	22
50	53	Marketing	106	104
50	66	Ordinary depreciation (note 32 og 33)	99	102
118	108	Operating expenses, real properties	153	118
77	93	Purchased services	151	139
118	134	Other operating expense	221	192
634	685	Total other operating expenses	1,040	943
Audit fees (NOK 1000)				
877	1.104	Financial audit	2.386	2.028
62	72	Other attestations	159	204
8	38	Tax advice	395	239
29	33	Other non-audit services	108	580
976	1,247	Total incl. value added tax	3,049	3,051

Note 24 - Pension

Defined benefit scheme

This pension scheme is administered by a pension fund conferring entitlement to specific future pension benefits from age 67. The schemes include children's pension and disability pension under further rules. The Group's defined benefit pension scheme assures the majority of employees a pension of 68 percent of final salary up to 12G. The defined benefit scheme is closed to new members.

It was decided to terminate the defined benefit scheme at a board meeting on 21 October 2016. Employees on this scheme will transfer to the defined contribution scheme as from 1 January 2017, and will receive a paid-up policy showing rights accumulated under the defined benefit scheme. The termination resulted in reduced pension obligations, which has been treated as a settlement gain and reduced the pension expense for 2016.

Paid-up policies are managed by the pension fund, which becomes a paid-up pension fund as from 1 January 2017. A framework agreement has been established between SpareBank 1 SMN and the pension fund which covers funding, asset management etc. In view of the responsibility still held by SpareBank 1 SMN, future liabilities will need to be incorporated in the accounts. At yearend 2018 the scheme is overfunded by NOK 172 million

The board of the pension fund is required to be composed of representatives from the Group and participants in the pension schemes in accordance with the articles of association of the pension fund. In addition to the pension obligations covered by the pension fund, the group has unfunded pension liabilities which can not be funded by the assets in the collective arrangements. The obligations entails employees not registered as member of the pension fund, additional pensions above 12 G, early retirement pension schemes and contractual early retirement schemes in new arrangement (AFP Subsidies Act).

For further details of the Group's pension schemes see Note 2 on accounting principles and Note 22 on personnel expenses and emoluments to senior employees and elected officers.

Actuarial assumptions	2018		2017	
	Costs	Commitment	Costs	Commitment
Discount rate	2.4%	2.4%	2.6%	2.4%
Expected rate of return on plan assets	2.4%	2.4%	2.6%	2.4%
Expected future wage and salary growth	2.25%	2.25%	2.25%	2.25%
Expected adjustment of basic amount (G)	2.25%	2.25%	2.25%	2.25%
Expected increase in current pension	0%/2.25%	0%/2,25%	0%/2,25%	0%/2,25%
Employers contribution	19.1%	19.1%	14.1%	14.1%
Expected voluntary exit before/after 50 yrs	2/0 %	2/0 %	2/0 %	2/0 %
Estimated early retirement outtake at age 62/64	25/50 %	25/50 %	25/50 %	25/50 %
Mortality base table	K2013BE			
Disability	IR73			

Parent Bank		Net pension liability in the balance sheet (NOK million). Financial position 1 Jan.	Group	
2017	2018		2018	2017
602	611	Net present value of pension liabilities in funded schemes	651	641
-789	(748)	Estimated value of pension assets	-802	-842
11	-	Opening balance adjustment	-	15
-176	(138)	Net pension liability in funded schemes	-151	-186
4	4	Employer's contribution	4	4
0	-	Settlement	0	0
-172	-134	Net pension liability in the balance sheet	-147	-182

Distribution of liability between unfunded and funded pension scheme, Group 1.1

Group	2018			2017		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of pension liability in funded schemes	631	20	651	619	22	641
Fair value of pension assets	-802	-	-802	-842	0	-842
Opening balance adjustment	0	0	0	15	0	15
Net pension liability in the balance sheet before employer's contribution	-171	20	-151	-208	22	-186
Employer's contribution	0	4	4	0	4	4
Settlement	0	0	0	0	0	0
Net pension liability in the balance sheet after employer's contribution	-171	24	-147	-208	26	-182

2017	2018	Pension cost for the year	2018	2017
1	0	Present value of pension accumulated in the year	1	1
-5	0	Interest cost of pension liabilities	-4	-5
-4	0	Net defined-benefit pension cost without employer's contribution	-3	-4
0	0	Employer's contribution - subject to accrual accounting	0	0
0	0	Settlement	-	-
-4	0	Net pension cost related to defined benefit plans *	-2	-4
7	7	Early retirement pension scheme, new arrangement	5	10
37	37	Cost of defined contribution pension	93	74
40	44	Total pension cost	96	79

Other comprehensive income for the period

	2018			2017		
	Unfunded	Funded	Total	Unfunded	Funded	Total
Change in discount rate	-0	-17	-18	0	18	18
Change in other economic assumptions	-	-	-	-	-	-
Change in mortality table	-	-	-	-	-	-
Change in other demographic assumptions	-	-	-	-	-	-
Changing other factors, DBO	-1	7	6	-2	3	1
Change in other factors, pension assets	-	-8	-8	0	-15	-15
Other comprehensive income for the period	-2	-18	-19	-2	6	4

2017	2018	Movement in net pension liability in the balance sheet	2018	2017
-172	-134	Net pension liability in the balance sheet 1.1	-147	-182
24	-18	Actuarial gains and losses for the year	-19	21
-4	-2	Net defined-benefit costs in profit and loss account incl. Curtailment/settlement	-2	-4
-1	-3	Paid-in pension premium, defined-benefit schemes	-3	-1
36	-	Transfer to defined contribution scheme	0	36
-17	-	Paid-in pension premium, defined-benefit plans	0	-17
-134	-158	Net pension liability in the balance sheet 31.12	-172	-147

2017	2018	Financial status 31.12	2018	2017
611	588	Pension liability	628	651
-749	-749	Value of pension assets	-803	-803
-138	-161	Net pension liability before employer's contribution	-175	-151
4	3	Employer's contribution	3	4
-134	-158	Net pension liability after employer's contribution	-172	-147

* Presented gross in the Group accounts

Distribution of financial status between unfunded and funded pension scheme, Group

Group	2018			2017		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Pension liability	610	17	628	631	20	651
Value of pension assets	-803	-	-803	-803	0	-803
Net pension liability before employer's contribution	-193	17	-175	-171	20	-151
Employer's contribution	0	3	3	0	4	4
Net pension liability after employer's contribution	-193	21	-172	-171	24	-147

Fair value of pension liability, Group	2018	2017
OB pension liability (PBO)	651	641
Present value of pension accumulated in the year	1	1
Payout/release from scheme	-28	-26
Interest costs of pension liability	15	16
Curtailment/ Settlement		0
Actuarial gain or loss	-11	19
CB pension liability (PBO)	628	651

Fair value of pension assets, Group	2018	2017
OB pension assets	802	842
Paid in	3	1
Payout/release from fund	-28	-62
Expected return	19	22
Curtailment/ Settlement	0	0
Actuarial changes	8	0
CB market value of pension assets	803	803

Sensitivity, Group	Discount rate		Salary adjustment		Pension adjustment
	+ 1 pp	- 1 pp	+1 pp	- 1 pp	+ 1 pp
2018					
Change in accumulated pension rights in course of year	0	0	0	0	0
Change in pension liability	-77	96	0	0	89
2017					
Change in accumulated pension rights in course of year	0	0	0	0	0
Change in pension liability	-83	104	0	0	105

2017	2018	Members	2018	2017
764	764	Numbers of persons included in pension scheme	784	799
253	253	of which active	274	286
511	511	of which retirees and disabled	510	513

Investment and pension assets in the pension fund	2018	2017
Current bonds	38 %	31 %
Bonds held to maturity	5 %	10 %
Money market	24 %	20 %
Equities	27 %	33 %
Real estate	6 %	7 %
Other	0 %	0 %
Total	100 %	100 %

The pension scheme arrangement is located in its own pension fund, which has a long-term horizon on the management of its capital. The pension fund seeks to achieve as high a rate of return as possible by composing an investment portfolio that provides the maximum

risk-adjusted return. The pension fund seeks to spread its investments on various issuers and asset classes in order to reduce company-specific and market-specific risk. The portfolio thus comprises equity investments in Norwegian and foreign shares. The bond portfolio is essentially invested in Norwegian bonds. Bank deposits are placed in Norwegian Banks.

Note 25 - Income tax

Parent Bank			Group	
2017	2018	(NOK million)	2018	2017
2,236	2,379	Result before tax	2,382	2,269
-630	-535	+/- permanent differences *	-443	-242
-215	-228	+/- change in temporary differences as per specification	-205	-
-	-	+ deficit to be brought forward	0	45
1,391	1,615	Year's tax base/taxable income	1,733	2,073
348	404	Tax payable on profit for the year	462	378
-11	-14	Reduced tax payable due to hybrid capital dividends	-14	-11
337	389	Taxes payable in balance sheet	448	367
348	404	Tax payable on profit for the year	462	378
55	52	+/- change in deferred tax	47	72
403	456	Tax charge for the year	509	450
Change in net deferred tax liability				
55	52	Deferred tax shown through profit/loss	47	72
-2	5	Deferred tax shown through equity	4	1
		Reclassification tax payable/deferred tax*	12	
54	57	Total change in net deferred tax liability	63	72

* Due to group contribution

Deferred tax in balance sheet			Deferred tax in balance sheet	
2017	2018	Composition of deferred tax carried in the balance sheet (NOK million)	2018	2017
6	-	Temporary differences:	194	199
-	-	- Business assets	288	250
134	158	- Leasing items	161	148
221	188	- Pension liability	189	225
79	219	- Securities	219	79
-	-	- Hedge derivatives	4	5
		- Other temporary differences		
440	565	Total tax-increasing temporary differences	1,055	906
110	141	Deferred tax	263	226
-2	-2	Temporary differences:	-16	-14
-	-	- Business assets	-	-
-28	-	- Pension liability	-	-28
-267	-209	- Securities	-209	-267
-38	-21	- Hedge derivatives	-117	-94
		- Other temporary differences	-840	-867
		- Deficit carried forward		
-335	-232	Total tax-decreasing temporary differences	-1,182	-1,271
-84	-58	Deferred tax asset	-292	-317
25	82	Net deferred tax (-asset)	-28	-92

The above table comprises temporary differences from all consolidated companies shown gross. At the company level tax-increasing and tax-reducing temporary differences are shown net. At the group level recognition is on a gross basis in conformity with IAS 12 with each company being presented separately in the calculation of the Group's tax benefit and deferred tax:

	2018	2017
Tax benefit recorded 31.12	175	155
Deferred tax recorded 31.12	-147	-85

Recognised in income statement		Composition of deferred tax recognised in the income statement (NOK million)	Recognised in income statement	
2017	2018		2018	2017
-12	7	Temporary differences:	5	13
-	-	- Business assets	-38	-52
37	-6	- Leasing items	6	10
-280	48	- Pension liability	36	-200
-236	-51	- Securities	-58	280
-20	-17	- Hedge derivatives	0	-4
-511	-18	- Other temporary differences		
-128	-5	Total tax-increasing temporary differences	-49	47
		Deferred tax	-12	11
-	-	Temporary differences:	2	-
-	-0	- Business assets	-	-
4	-42	- Pension liability	-28	-83
288	-149	- Securities	-140	-227
-	-	- Hedge derivatives	-7	-158
-	-	- Other temporary differences	28	124
293	-191	- Deficit carried forward		
73	-48	Total tax-decreasing temporary differences	-145	-344
-	-	Deferred tax asset	-36	-83
-55	-52	Change in tax rate	2	0
		Net	-47	-72

2017	2018	Reconciliation of tax charge for the period recognised against profit and loss to profit before tax	2018	2017
559	595	25 % of profit before tax	659	639
-158	-134	Non-taxable profit and loss items (permanent differences) *	-158	-191
2	-5	Tax effect of costs reflected in equity	-1	-
		Change in tax rate	1	1
		Change in tax assets not recognised	7	-
403	456	Tax for the period recognised in the income statement	509	450
18 %	19 %	Effective tax rate	21 %	20 %

* Includes non-deductible costs and and deduction for profit share related to associates and joint ventures (profit shares are taken out having already been taxed at the respective companies).

Note 26 - Categories of financial assets and financial liabilities

Group	Financial instruments at fair value through profit or loss			Financial instruments at fair value through other comprehensive income	Financial instruments measured at amortised cost	Total
	Designated as such upon initial recognition	Mandatorily	Held for trading			
31.12.18 (mill. kr)						
Assets						
Cash and receivables from central banks	-	-	-	-	883	883
Deposits with and loans to credit institutions	-	-	-	-	5,074	5,074
Loans to and receivables from customers	4,467	-	-	61,295	53,967	119,728
Shares, units and other equity interests	-	678	1,195	-	-	1,873
Fixed-income CDs and bonds	-	20,348	-	-	-	20,348
Derivatives	-	-	4,119	-	-	4,119
Earned income, not yet received	-	-	-	-	86	86
Account receivable, securities	-	-	-	-	277	277
Total financial assets	4,467	21,026	5,314	61,295	60,286	152,388
Liabilities						
Deposits from credit institutions	-	-	-	-	9,214	9,214
Deposits from and debt to customers	-	-	-	-	80,615	80,615
Debt created by issue of securities	-	-	-	-	44,269	44,269
Derivatives	-	-	2,982	-	-	2,982
Subordinated loan capital	-	-	-	-	2,268	2,268
Equity instruments	-	-	31	-	-	31
Account payable, securities	-	-	-	-	809	809
Total financial liabilities	-	-	3,013	-	137,175	140,188

Group	Financial instruments at fair value				Financial instruments measured at amortised cost	Total
	Held for trading in acc with IAS 39	Designated as such upon initial recognition	Available for sale			
31 Dec 2017 (NOK million)						
Assets						
Cash and receivables from central banks	-	-	-	3,313	3,313	
Deposits with and loans to credit institutions	-	-	-	4,214	4,214	
Loans to and receivables from customers	-	3,278	-	107,680	110,959	
Shares, units and other equity interests	1,202	557	66	-	1,825	
Fixed-income CDs and bonds	-	19,736	-	-	19,736	
Derivatives	4,351	-	-	-	4,351	
Earned income, not yet received	-	-	-	104	104	
Account receivable, securities	-	-	-	322	322	
Total financial assets	5,553	23,571	66	115,633	144,823	
Liabilities						
Deposits from credit institutions	-	-	-	9,607	9,607	
Deposits from and debt to customers	-	-	-	76,476	76,476	
Debt created by issue of securities	-	-	-	42,194	42,194	
Derivatives	3,343	-	-	-	3,343	
Subordinated loan capital	-	-	-	2,201	2,201	
Equity instruments	244	-	-	-	244	
Account payable, securities	-	-	-	161	161	

Total financial liabilities	3,586	-	-	130,638	134,225
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Note 27 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

Level 1: Valuation based on quoted prices in an active market

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

Level 2: Valuation based on observable market data

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

Level 3: Valuation based on other than observable data

If valuation data are not available for level 1 and 2, valuation methods are applied that are based on non-observable information.

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2018:

Assets (NOK million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	1	4,117	-	4,119
- Bonds and money market certificates	2,786	17,563	-	20,348
- Equity instruments	1,195	128	550	1,873
- Fixed interest loans	-	43	4,425	4,467
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	61,295	61,295
Total assets	3,982	21,850	66,269	92,102
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	4	2,977	-	2,982
- Equity instruments	31	-	-	31
Total liabilities	36	2,977	-	3,013

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

Assets (NOK million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	16	4,334	-	4,351
- Bonds and money market certificates	2,547	17,189	-	19,736
- Equity instruments	1,339	-	419	1,759
- Fixed interest loans	-	43	3,236	3,278
Financial assets available for sale				
- Equity instruments	-	-	66	66
Total assets	3,902	21,566	3,722	29,190
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	14	3,328	-	3,343
- Equity instruments	239	4	-	244
Total liabilities	254	3,332	-	3,586

The following table presents the changes in the instruments classified in level 3 as at 31 December 2018:

(NOK million)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Equity instruments through OCI	Total
Closing balance 31 December	419	3,236	-	66	3,722
Implementation effect IFRS 9	66	-	56,743	-66	56,743
Opening balance 1 January	486	3,236	56,743	-	60,464
Investment in periode	76	2,269	18,147	-	20,492
Disposals in the periode	-20	-1,079	-13,596	-	-14,694
Expected credit loss	-	-	-2	-	-2
Gain or loss on financial instruments	8	-2	2	-	8
Closing balance	550	4,425	61,294	-	66,269

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

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

Valuation method

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

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

Fixed interest loans to customers (level 3)

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

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

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

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

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

Equity instruments (level 3)

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 311 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank SMN 1 Invest. The valuations are in all essentials based on reporting from managers of the funds who utilise cash flow based models or multiples when determining fair value. The Group does not have full access to information on all the elements in these valuations and is therefore unable to determine alternative assumptions. Determination of fair value for the shares of Polaris Media is based on valuation undertaken by SpareBank 1 Markets. The latter is based on value-adjusted equity capital.

Financial derivatives (level 2)

Financial derivatives at level 2 include for the most part currency futures and interest rate and exchange rate swaps. Valuation is based on

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

Sensitivity analyses, level 3 as at 31 December 2018:

(NOK million)	Book value	Effect from change in reasonable possible alternative assumptions
Fixed interest loans	4,425	-12
Equity instruments through profit/loss	550	-
Loans at fair value through other comprehensive income	61,295	-5

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

Note 28 - Fair value of financial instruments at amortised cost

Financial instruments measured at amortised cost

Financial instruments that are not measured at fair value are recognised at amortised cost or are in a hedging relationship. For further details, see note 2 Accounting principles. Amortised cost entails valuing balance sheet items after initially agreed cash flows, adjusted for impairment.

Amortised cost will not always be equal to the values that are in line with the market assessment of the same financial instruments. This is due to different perceptions of market conditions, risk and discount rates.

Methods underlying the determination of fair value of financial instruments that are measured at amortised cost are described below:

Loans to and claims on customers

Current-rate loans are exposed to competition in the market, indicating that possible excess value in the portfolio will not be maintained over a long period. Fair value of current-rate loans is therefore set to amortised cost for loans in stage 2 and 3. The effect of changes in credit quality in the portfolio is accounted for through expected credit loss write-downs, therefore giving a good expression of fair value. Impairment for Stage 3 losses are determined through an assessment of future cash flow, discounted by effective interest rate. Hence the discounted value gives a good expression of the fair value of these loans. For loans without significant increase in credit risk since initial recognition (stage 1) the fair value has been set at nominal amount.

Bonds held to maturity

Change to fair value is calculated by reference to a theoretical valuation of market value based on interest rate and spread curves.

Loans to and claims on credit institutions, debt to credit institutions and debt to customers

For loans to and claims on credit institutions, as well as debt to credit institutions and deposits from customers, fair value is estimated equal to amortised cost.

Securities debt and subordinated debt

The calculation of fair value in level 2 is based on observable market values such as on interest rate and spread curves where available.

Parent Bank		31 Dec 2018		31 Dec 2017	
(NOK million)	Level 1)	Book value	Fair Value	Book value	Fair Value
Assets					
Loans to and claims on credit institutions	2	11,178	11,178	9,543	9,543
Loans to and claims on customers at amortised cost	3	46,897	46,972	101,490	101,490
Earned income, not yet received	2	67	67	61	61
Account receivable, securities	2	7	7	35	35
Total financial assets at amortised cost		58,149	58,244	111,129	111,129
Liabilities					
Debt to credit institutions	2	8,546	8,546	9,047	9,047
Deposits from and debt to customers	2	81,448	81,448	77,362	77,362
Securities debt at amortised cost	2	10,256	10,237	11,003	11,040
Securities debt, hedging	2	34,013	32,284	31,191	31,472
Subordinated debt at amortised cost	2	1,854	1,850	1,102	1,104
Subordinated debt, hedging	2	370	363	1,057	1,060
Account payable, securities	2	699	699	-1	-1
Total financial liabilities at amortised cost		137,185	135,426	130,712	131,084

Group		31 Dec 2018		31 Dec 2017	
(NOK million)		Book value	Fair Value	Book value	Fair Value
Assets					
Loans to and claims on credit institutions	2	5,074	5,074	4,214	4,214
Loans to and claims on customers at amortised cost	3	53,967	54,052	107,680	107,680
Earned income, not yet received	2	86	86	104	104
Account receivable, securities	2	277	277	322	322
Total financial assets at amortised cost		59,403	59,488	112,320	112,320
Liabilities					
Debt to credit institutions	2	9,214	9,214	9,607	9,607
Deposits from and debt to customers	2	80,615	80,615	76,476	76,476
Securities debt at amortised cost	2	10,256	10,237	11,003	11,040
Securities debt, hedging	2	34,013	32,284	31,191	31,472
Subordinated debt at amortised cost	2	1,898	1,893	1,144	1,148
Subordinated debt, hedging	2	370	363	1,057	1,060
Account payable, securities	2	809	809	161	161
Total financial liabilities at amortised cost		137,175	135,415	130,638	130,963

¹⁾ Fair value is determined by using different methods in three levels. See note 26 for a definition of the levels.

Note 29 - Money market certificates and bonds

Bonds and money market instruments are classified in the category fair value through profit/loss at 31 December 2018.

Parent Bank		Money market certificates and bonds by issuer sector (NOK million)	Group	
31 Dec 2017	31 Dec 2018		31 Dec 2018	31 Dec 2017
		State		
1,974	2,089	Nominal value	2,089	1,974
2,520	2,759	Book value	2,759	2,520
		Other public sector		
4,940	3,687	Nominal value	3,687	4,940
4,955	3,705	Book value	3,705	4,955
		Financial enterprises		
10,753	13,118	Nominal value	13,040	10,598
12,327	13,880	Book value	13,800	12,168
		Non-financial enterprises		
20	1	Nominal value	1	20
30	9	Book value	9	30
17,686	18,894	Total fixed income securities, nominal value	18,817	17,531
63	76	Accrued interest	76	62
19,895	20,428	Total fixed income securities, booked value	20,348	19,736

Note 30 - Financial derivatives

All derivatives are booked at fair value through profit and loss. Gains are carried as assets and losses as liabilities in the case of all interest rate derivatives. This applies both to derivatives used for hedging purposes and held for trading purposes. The Bank does not employ cash flow hedging.

The contract amount shows absolute values for all contracts.

For a description of counterparty risk and market risk, see note 7 on risk factors. For further details concerning market risk linked to interest rate risk, see note 16 on market risk related to interest rate risk, and for market risk related to currency exposure, see note 17 on market risk related to currency exposure.

Parent Bank

Fair value through profit and loss (NOK million)	31 Dec 2018			31 Dec 2017		
	Contract amount	Fair value		Contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency instruments						
Foreign exchange derivatives (forwards)	4,089	78	-49	3,661	86	-51
Currency swaps	7,541	256	-26	11,654	321	-70
FX-options	40	0	-0	59	0	-0
Total currency instruments	11,670	334	-76	15,375	407	-122
Interest rate instruments						
Interest rate swaps (including cross currency)	214,485	2,374	-1,878	178,023	2,532	-2,463
Short-term interest rate swaps (FRA)	9,000	2	-2	9,000	2	-1
Total interest rate instruments	223,485	2,376	-1,880	187,023	2,534	-2,464
Commodity-related contracts						
Stock-exchange-traded standardised forwards and futures contracts	1,190	415	-415	246	60	-60
Total commodity-related contracts	1,190	415	-415	246	60	-60
Hedging						
Interest rate instruments						
Interest rate swaps (including cross currency)	31,548	282	-49	33,623	780	-230
Total interest rate instruments	31,548	282	-49	33,623	780	-230
Total						
Total interest rate instruments	255,033	2,658	-1,929	220,645	3,314	-2,693
Total currency instruments	11,670	334	-76	15,375	407	-122
Total commodity-related contracts	1,190	415	-415	246	60	-60
Accrued interest		508	-514		548	-466
Total financial derivatives	267,893	3,914	-2,933	236,266	4,328	-3,341

Group

Fair value through profit and loss (NOK million)	31 Dec 2018			31 Dec 2017		
	Contract amount	Fair value Assets	Liabilities	Contract amount	Fair value Assets	Liabilities
Currency instruments						
Foreign exchange derivatives (forwards)	4,089	78	-49	3,661	86	-51
Currency swaps	7,541	256	-26	11,654	321	-70
FX-options	40	0	-0	59	0	-0
Total currency instruments	11,670	334	-76	15,375	407	-122
Interest rate instruments						
Interest rate swaps (including cross currency)	214,485	2,374	-1,878	178,023	2,532	-2,463
Short-term interest rate swaps (FRA)	9,000	2	-2	9,000	2	-1
Total interest rate instruments	223,485	2,376	-1,880	187,023	2,534	-2,464
Equity instruments						
Equity options	36	8	-11	37	12	-13
Equity forwards/futures	1,155	197	-38	1,535	10	11
Total equity instruments	1,191	205	-49	1,573	23	-2
Commodity-related contracts						
Stock-exchange-traded standardised forwards and futures contracts	1,190	415	-415	246	60	-60
Total commodity-related contracts	1,190	415	-415	246	60	-60
Hedging						
Interest rate instruments						
Interest rate swaps (including cross currency)	31,548	282	-49	33,623	780	-230
Total interest rate instruments	31,548	282	-49	33,623	780	-230
Total						
Total interest rate instruments	255,033	2,658	-1,929	220,645	3,314	-2,693
Total currency instruments	11,670	334	-76	15,375	407	-122
Total equity instruments	1,191	205	-49	1,573	23	-2
Total commodity-related contracts	1,190	415	-415	246	60	-60
Accrued interest		508	-514		548	-466
Total financial derivatives	269,084	4,119	-2,982	237,839	4,351	-3,343

Note 31 - Shares, units and other equity interest

Parent bank		Shares and units (NOK million)	Group	
31 Dec 2017	31 Dec 2018		31 Dec 2018	31 Dec 2017
119	186	At fair value through profit or loss	1,745	1,758
73	84	Listed	1,332	1,492
46	102	Unlisted	413	266
50		Available for sale		67
50	-	Unlisted	-	67
169	186	Total shares and units	1,745	1,825
		Subordinated bond		
-	86	Listed	86	-
-	119	Unlisted	42	-
-	205	Total subordinated debt	128	-
		Business held for sale - of which shares		
82	82	Unlisted	43	49
82	82	Total shares held for sale (see note 39)	43	49
73	170	Total listed companies	1,418	1,492
178	302	Total unlisted companies	498	382

Subordinated bonds are considered to be equity instruments and were reclassified from debt instruments as of 1st of January 2018.

Specification of shares, units and equity capital certificates Parent Bank

Listed companies	Stake over 10 %	Our holding (no.)	Acquisition cost (NOK 1000)	Market value/book value (NOK 1000)
Visa Inc. C-shares		63,536	6,750	71,964
Total quoted shares			6,750	71,964
SpareBank 1 Nordvest		69,423	7,455	7,359
SpareBank 1 Søre Sunnmøre		48,070	4,999	5,071
Total quoted credit institutions			12,454	12,430
DNB Bank		20,000,000	21,122	21,068
SpareBank 1 SR-Bank		17,000,000	16,920	16,901
Askim & Spydeberg Sparebank		10,500,000	10,389	10,264
Jæren Sparebank		10,000,000	9,831	9,814
Jernbanepersonalets Sparebank		4,000,000	3,932	3,947
Sparebank DIN		2,000,000	2,090	2,044
Bank Norwegian		2,000,000	2,006	1,987
SpareBank 1 Østfold Akershus		2,000,000	1,974	1,984
Gjensidige Bank		3,500,000	3,485	3,485
Orkla Sparebank		2,000,000	1,987	1,977
Andebu Sparebank		2,000,000	1,970	1,975
Eika Boligkreditt		1,500,000	1,506	1,504
Other subordinated bonds			9,155	9,160
Total quoted subordinated bonds			86,367	86,109
Unlisted companies				
Eksportfinans		1,857	12,888	37,764
Molde Kunnskapspark		2,000	2,030	2,083
Spama		2,305	-	1,563
Swift Eur		44	855	1,503
Visa Norge		-	-	39,726
Visa C preference share		-	-	17,793
Others			1,120	1,122

Total unquoted shares and units		16,894	101,554
SpareBank1 Finans Midt-Norge	77,496,000	77,496	77,307
SpareBank 1 Bolikreditt	41,000,000	41,000	41,725
Total unquoted subordinated bonds		118,496	119,032
Total shares, units and equity capital certificates, parent bank		240,961	391,090

Specification of shares, units and equity capital certificates Group

Listed companies	Stake over 10 %	Our holding (no.)	Acquisition cost (NOK 1000)	Market value/book value (NOK 1000)
Polaris Media	11.3 %	5,584,508	145,080	136,820
Bonheur		1,250,000	87,576	117,000
Yara International		210,802	74,855	70,302
Data Respons		2,624,947	68,661	59,061
Olav Thon Eiendomsselskap		415,100	67,333	58,114
Subsea 7		657,598	73,500	55,422
Norwegian Air Shuttle		316,496	73,185	54,896
Kongsberg Gruppen		450,000	51,119	52,920
Magnora	14.7 %	7,719,497	60,918	50,177
Norwegian Royal Salmon		250,000	15,462	44,750
Scandic Hotel		450,000	40,617	40,617
Norsk Hydro		889,780	42,923	34,888
Panoro Energy		2,795,031	45,000	33,540
Equinor		164,756	33,119	30,274
Itera		3,350,000	30,717	28,140
MOWI		137,898	24,887	25,194
Aker BP		186,028	26,927	40,554
Crayon Group Holding		919,500	18,489	14,951
Borregaard		193,454	15,014	14,470
B2 Holding		920,000	14,422	11,316
TGS - NOPEC Geophysical Company		51,000	12,264	10,649
Nordic Semiconductor		359,212	11,945	10,381
Solstad Offshore		5,729,026	39,473	9,739
DNB		69,784	9,917	9,641
Ocean Yield		147,889	9,679	8,755
Webstep		350,000	8,575	8,750
Akastor		625,000	11,108	8,163
Tomra		38,032	7,104	7,409
Havila		64,384,332	16,901	4,888
Archer		1,020,000	9,690	4,432
Others			61,063	42,179
Total quoted shares			1,207,522	1,098,394
SpareBank 1 Østlandet		823,874	69,775	68,382
SpareBank 1 BV		730,718	24,704	26,014
SpareBank 1 Telemark		168,900	19,671	19,559
SpareBank 1 Ringerike Hadeland		82,400	15,652	16,109
Norwegian Finans Holding		120,451	9,451	8,070
Helgeland Sparebank		100,000	8,825	6,925
Others			4,013	4,057
Total quoted credit institutions			152,091	149,115
Unlisted companies				
Viking Venture III	17.0 %	862,878	48,160	85,166
Salvesen & Thams		223	25,730	46,230
Okea		162,730	31,804	37,665
Herkules Capital 3		1	37,748	27,994
Norsk Innovasjonskapital III		600	10,200	19,372
Moldekraft	12.9 %	10,545	11,600	14,837
Crayo Nano		13,876	5,436	11,129
Sintef Venture IV		18,101	8,745	10,374
Numascale		4,382,117	6,320	6,819
Vectron Biosolutions		220,000	6,000	6,000
Novelda		18,280	6,143	5,814

Avexxin	184,505	5,605	5,586
Proventure Seed II	6,695,673	5,498	5,498
Real Estate Central Europe	3,000	5,500	4,000
Wellcem AS	40,036	1,361	2,965
North Bridge Nordic Property II	51,340	1,996	2,153
Sintef Venture V	9,000	2,001	2,001
Way AS	23,175	1,500	1,500
Viking Venture II C-shares	8,301	830	1,465
Viking Venture II (Cshares and Venture 2)	250,972	19,123	1,054
DeBank	400,000	1,000	1,000
Sentrumsbyen Molde	1,000	1,000	1,000
Wellstarter	2,000	1,000	1,000
Others		16,469	10,790
Total unquoted shares and units		260,768	311,413
Elimination of subordinated bond SpareBank 1 Finans Midt-Norge		-77,496	-77,307
Total shares, units and equity capital certificates, Group		1,783,846	1,872,704

Note 32 - Intangible assets

2018

Parent Bank				Group		
Other intangible assets	Goodwill	Total	(NOK million)	Total	Goodwill	Other intangible assets
128	447	575	Cost of acquisition at 1 January	935	681	254
47	-	47	Acquisitions	113	50	63
-0	-	-0	Disposals	-14	-	-14
175	447	622	Cost of acquisition at 31 December	1,034	730	303
54	-	54	Accumulated depreciation and write-downs as at 1 January	141	28	113
36	-	36	Current period's depreciation	49	-	49
-	-	-	Current period's write-down	4	4	-
-0	-	-0	Disposals	-13	-	-13
-	-	-	Subsidiaries' acquisitions	2	2	-
89	-	89	Accumulated depreciation and write-down as at 31 December	183	34	149
86	447	533	Book value as at 31 December	851	697	154

2017

Parent Bank				Group		
Other intangible assets	Goodwill	Total	(NOK million)	Total	Goodwill	Other intangible assets
59	447	506	Cost of acquisition at 1 January	737	573	164
70	-	70	Additions	239	108	131
-0	-	-0	Disposals	-2	-	-2
-	-	-	Subsidiaries disposal	-39	-	-39
128	447	575	Cost of acquisition at 31 December	935	681	254
36	-	36	Accumulated depreciation and write-downs as at 1 January	97	7	90
18	-	18	Current period's depreciation	24	-	24
-	-	-	Current period's write-down	1	1	-
-0	-	-0	Disposals	-0	-	-0
-	-	-	Subsidiaries' acquisitions	19	19	-
54	-	54	Accumulated depreciation and write-down as at 31 December	141	28	113
75	447	522	Book value as at 31 December	793	653	141

Note 33 - Property, plant and equipment

31 Dec 2018

Parent Bank			(NOK million)	Group		
Buildings and other real property	Machinery, inventory and vehicles	Total		Total	Machinery, inventory and vehicles	Buildings and other real property
111	187	298	Cost of acquisition at 1 January	594	276	318
-	-	-	Cost of acq. as a result of business combinations	8	7	1
2	11	13	Acquisitions	19	17	2
-10	-17	-27	Disposals	-53	-32	-21
1	0	1	Corrections	1	0	1
104	181	285	Cost of acquisition at 31 December	569	268	301
58	125	183	Accumulated depreciation and write-downs as at 1 January	331	196	135
-	-	-	Acc. depreciations as a result of business combinations	6	6	-
8	21	29	Current period's depreciation	47	28	19
1	1	2	Current period's write-down	2	2	1
-8	-19	-27	Disposals	-52	-33	-19
-1	2	1	Reversal of accumulated depreciation and write-downs	1	2	-1
58	130	188	Accumulated depreciation and write-down as at 31 December	336	201	135
46	51	97	Book value as at 31 December	234	67	167

31 Dec 2017

Parent Bank			(NOK million)	Group		
Buildings and other real property	Machinery, inventory and vehicles	Total		Total	Machinery, inventory and vehicles	Buildings and other real property
117	198	315	Cost of acquisition at 1 January	1,431	266	1,164
-	-	-	Cost of acq. as a result of business combination	191	11	180
-	-	-	Reclassification to held for sale	-854	-9	-845
5	24	29	Acquisitions	55	50	5
-8	-34	-42	Disposals	-223	-40	-182
-3	-1	-4	Corrections	-2	-1	-3
111	187	298	Cost of acquisition at 31 December	598	276	318
54	140	194	Accumulated depreciation and write-downs as at 1 January	524	198	327
-	-	-	Acc. depreciations as a result of business combinations	76	27	49
-	-	-	Reclassification to held for sale	-211	-	-211
8	19	27	Current period's depreciation	44	25	19
3	1	4	Current period's write-down	4	1	3
-4	-34	-38	Disposals	-101	-53	-48
-3	-1	-4	Reversal of accumulated depreciation and write-downs	-4	-1	-3
58	125	183	Accumulated depreciation and write-down as at 31 December	331	196	135
52	63	115	Book value as at 31 December	263	80	183

Depreciation

With a basis in acquisition cost less any residual value, assets are depreciated on a straight-line basis over expected lifetime as follows:

- Technical installations 10 yrs
- Machinery 3 - 5 yrs
- Fixtures 5 - 10 yrs
- IT equipment 3 yrs
- Means of transport 10 yrs
- Buildings and other real property 25 - 33 yrs

Collateral

The Group has not provided security or accepted any other infringements on its right of disposal of its fixed tangible assets with the exception of SpareBank 1 Markets which has pledged inter alia business assets to DNB in connection with banking services related to the securities settlement.

Acquisition cost of depreciated assets

The acquisition cost of fully depreciated assets still in use in the Bank in 2018 is NOK 114 million (NOK 119 million).

Gross value of non-current assets temporarily out of operation

The Group has no significant non-current assets out of operation as at 31 December 2018.

Note 34 - Other assets

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	(NOK million)	31 Dec 2018	31 Dec 2017
-	-	Deferred tax asset	175	178
115	97	Fixed assets	234	263
61	67	Earned income not yet received	86	104
35	7	Accounts receivable, securities	277	322
158	179	Pensions	179	171
333	384	Other assets	737	615
703	733	Total other assets	1,687	1,654

Note 35 - Deposits from and liabilities to customers

Parent Bank		Deposits from and liabilities to customers (NOK million)	Group	
31 Dec 2017	31 Dec 2018		31 Dec 2018	31 Dec 2017
63,180	63,179	Deposits from and liabilities to customers without agreed maturity	62,346	62,293
14,182	18,269	Deposits from and liabilities to customers with agreed maturity	18,269	14,182
77,362	81,448	Total deposits from and liabilities to customers	80,615	76,476
0.9 %	0.9 %	Average interest rate	0.9 %	0.9 %

Fixed interest deposits account for 4.4 per cent (4.4 per cent) of total deposits.

31 Dec 2017	31 Dec 2018	Deposits specified by sector and industry	31 Dec 2018	31 Dec 2017
31,797	33,055	Wage earners	33,055	31,797
11,284	12,202	Public administration	12,202	11,284
3,061	3,066	Agriculture, forestry, fisheries and hunting	3,066	3,061
1,021	742	Sea farming industries	742	1,021
2,736	1,696	Manufacturing	1,696	2,736
3,046	3,541	Construction, power and water supply	3,541	3,046
4,152	4,663	Retail trade, hotels and restaurants	4,663	4,152
1,269	996	Maritime sector	996	1,269
4,595	4,949	Property management	4,644	4,405
6,429	6,883	Business services	6,883	6,429
5,846	6,572	Transport and other services provision	6,210	5,414
2,127	3,083	Other sectors	2,917	1,863
77,362	81,448	Total deposits from customers broken down by sector and industry	80,615	76,476

31 Dec 2017	31 Dec 2018	Deposits specified by geographic area	31 Dec 2018	31 Dec 2017
49,685	52,718	Trøndelag	51,952	48,822
14,898	14,908	Møre og Romsdal	14,908	14,898
2,067	2,577	Sogn og Fjordane	2,577	2,067
563	655	Nordland	655	563
5,876	5,331	Oslo	5,264	5,853
3,449	4,425	Other counties	4,425	3,449
824	835	Abroad	835	824
77,362	81,448	Total deposits broken down by geographic area	80,615	76,476

Note 36 - Debt securities in issue

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	(NOK million)	31 Dec 2018	31 Dec 2017
-	392	Money market instrument and other short-term borrowings	392	-
42,194	43,877	Bond debt	43,877	42,194
42,194	44,269	Total debt securities in issue	44,269	42,194
-	2.9 %	Average interest, money market certificates	2.9 %	-
1.5 %	1.3 %	Average interest, bond debt	1.3 %	1.5 %

31 Dec 2017	31 Dec 2018	Securities debt specified by maturity ^{*)}	31 Dec 2018	31 Dec 2017
9,266	-	2018	-	9,266
5,983	5,284	2019	5,284	5,983
9,386	9,463	2020	9,463	9,386
7,600	8,448	2021	8,448	7,600
5,785	5,854	2022	5,854	5,785
2,075	8,921	2023	8,921	2,075
-	4,000	2024	4,000	-
498	500	2029	500	498
295	299	2031	299	295
246	249	2032	249	246
-	299	2033	299	-
255	259	2035	259	255
275	279	2044	279	275
20	18	Currency agio	18	20
187	140	Premium and discount, market value of structured bonds	140	187
324	256	Accrued interest	256	324
42,194	44,269	Total securities debt	44,269	42,194

^{*)} Less own bonds. Total nominal own holding in 2018 comes to NOK 65 m (NOK 505 m)

31 Dec 2017	31 Dec 2018	Securities debt distributed on significant currencies	31 Dec 2018	31 Dec 2017
13,683	15,548	NOK	15,548	13,683
25,360	26,512	EUR	26,512	25,360
1,114	392	USD	392	1,114
2,037	1,817	Other	1,817	2,037
42,194	44,269	Total securities debt	44,269	42,194

Parent Bank and Group

	31 Dec 2018	Issued	Fallen due/ redeemed	Other changes	31 Dec 2017
Change in securities debt					
Money market instrument	391	391	-	-	-
Bond debt	43,463	12,390	9,815	-775	41,663
Adjustments	158	-	-	-49	207
Accrued interest	256	-	-	-68	324
Total	43,877	12,390	9,815	-891	42,194

	31 Dec 2017	Issued	Fallen due/ redeemed	Other changes	31 Dec 2016
Change in securities debt					
Bond debt	41,663	11,490	6,332	970	35,535
Adjustments	207	-	-	-246	453
Accrued interest	324	-	-	-4	328
Total	42,194	11,490	6,332	720	36,317

Note 37 - Other debt and liabilities

Parent Bank		Other debt and recognised liabilities (NOK million)	Group	
31 Dec 2017	31 Dec 2018		31 Dec 2018	31 Dec 2017
21	84	Deferred tax	147	81
337	389	Payable tax	448	367
9	10	Capital tax	10	9
70	30	Accruals	413	444
108	115	Provisions	115	108
4	148	Losses on guarantees and unutilised credits	148	4
24	21	Pension liabilities	21	24
88	97	Drawing debt	97	88
16	11	Creditors	66	82
0	699	Debt from securities	809	161
-	-	Equity instruments	31	244
232	288	Other	366	311
909	1,892	Total other debt and recognised liabilities	2,670	1,923
Other liabilities, not recognised				
579	474	Credit limits, trading	551	731
-	-	Other commitments	73	33
579	474	Total other commitments	625	764
1,488	2,366	Total commitments	3,295	2,686

Collateral

As from 1 March 2017 the bank is required under the European market infrastructure regulation (EMIR) to have in place a CSA with daily exchange of margin collateral etc. with all financial counterparties with which the bank deals domiciled (inter alia) in an EU member state.

The Emir regulation regulates OTC derivatives and entails inter alia that SpareBank 1 SMN will be entitled to clear certain derivatives transactions through a central counterparty. This applies to interest rate derivatives in the major currencies Norwegian kroner, euro, British pound, Japanese yen, US dollar, Swedish kronor and Polish zloty. Derivatives are cleared through London Clearing House as central counterparty where cash is the only collateral at present. SpareBank 1 SMN is not a direct member of London Clearing House, but has entered an agreement with Commerzbank and SEB as clearing broker.

SpareBank 1 Markets clears ordinary share trades executed at Oslo Børs through CCP settlements. The company is a direct clearing member of SIX X-Clear. The company furnishes cash as collateral for the daily margin payments.

SpareBank 1 SMN is registered as a GCM member of NASDAQ OMX Clearing AB. The bank offers customers clearing representation related to their trade in electricity and salmon derivatives on NASDAQ OMX Oslo ASA and Fish Pool ASA. Clearing representation entails that the bank substitutes itself in the place of the client as counterparty to NASDAQ OMX Clearing AB and takes on the obligation towards NASDAQ to furnish margin collateral and to execute settlement of contracts and pay charges. For the bank's exposure as a GCM, clients will furnish collateral in the form of a deposit of cash and/or encumbrance of other assets.

SpareBank 1 Markets clears ordinary share trades executed at Oslo Børs through CCP settlements. The company is a direct clearing member of SIX X-Clear. The company furnishes cash as collateral for the daily margin payments.

Parent Bank		Securities pledged	Group	
Cash deposit	Total		Total	Cash deposit
561	561	Securities pledged 31 Dec 2018	589	589
955	955	Relevant liabilities 31 Dec 2018	982	982
1,157	1,157	Securities pledged 31 Dec 2017	1,204	1,204
1,226	1,226	Relevant liabilities 31 Dec 2017	1,273	1,273

Ongoing lawsuits

The Group is not involved in legal disputes considered to be of substantial significance for the Group's financial position. No provision for loss has been made as of 31 December 2018.

Operational leases

The group has entered a number of different lease agreements regarding premises, car park and cars. Most of the agreements include a lease extension option.

Lease costs comprised:

Parent Bank			Group	
2017	2018	(NOK million)	2018	2017
92	84	Ordinary lease payments	116	83
28	22	Payment received from sub-lease	24	44
64	61	Total lease costs	92	39

Future minimum lease payments related to non-cancellable lease agreements fall due as follows:

(NOK million)	Parent Bank	Group
Within 1 year	43	103
1-5 years	191	293
Above 5 years	300	342
Total	536	965

Provisions

The group has made provisions for pension liabilities, see note 24, specified losses on guarantees (see note 11 on movement in losses on guarantees), restructuring and gifts. The provision for restructuring is made based on the downsizing plan. Provision on gifts is the part of previous year's profit to be allocated to non-profit causes. More on this topic in the section corporate social responsibility

Parent Bank/Group (NOK million)	Pension liabilities	Restructuring provision	Gifts
Provisions at 1 Jan	24	39	69
Additional provisions in the period	-	-	70
Amounts used in the period	-3	-18	-45
The increase during the period in the discounted amount that occurs over time, and the effect of any changes in the discount rate	0	-	-
Provisions at 31 Dec	21	21	94

Note 38 - Subordinated debt and hybrid capital issue

Parent bank			Group	
31 Dec 2017	31 Dec 2018	(NOK million)	31 Dec 2018	31 Dec 2017
Dated subordinated debt				
659	-	2036 fixed rate 2,94 %, JPY (Call 2018) *)	-	659
-	-	2026 SpareBank 1 Finans Midt-Norge 16/26	43	43
150	150	2027 floating rate NOK (Call 2022)	150	150
600	600	2027 floating rate NOK (Call 2022)	600	600
250	250	2029 floating rate NOK (Call 2024)	250	250
-	250	2028 floating rate NOK (Call 2023)	250	-
-	500	2028 floating rate NOK (Call 2023)	500	-
11	-	Premium/discount/market value	-	11
4	-	Currency agio debt	-	4
1	3	Accrued interest	4	1
1,676	1,753	Total dated subordinated debt	1,796	1,718
Hybrid equity				
350	350	Hybrid capital 10/99, fixed rate 8,25 % NOK (Call 2020) *)	350	350
100	100	Hybrid capital 10/99, floating rate NOK (Call 2020)	100	100
25	13	Discount perpetual hybrid equity	13	25
8	8	Accrued interest	8	8
483	471	Total hybrid equity	471	483
2,159	2,224	Total subordinated loan capital and hybrid equity	2,268	2,201
4.5 %	3.5 %	Average rate NOK	3.5 %	4.5 %
4.2 %	4.2 %	Average rate JPY	4.2 %	4.2 %

*) Fixed rate funding changed to floating rate by means of interest rate swaps

Group					
Changes in subordinated debt and hybrid equity issue	31 Dec 2018	Issued	Fallen due/ redeemed	Other changes	31 Dec 2017
Ordinary subordinated debt, NOK	1,793	750	-	-	1,043
Ordinary subordinated debt, Currency	-	-	699	40	659
Hybrid capital loan, NOK	450	-	-	-	450
Adjustments	13	-	-	-27	40
Accrued interest	12	-	-	3	10
Total subordinated debt and hybrid equity issue	2,268	750	699	15	2,201

Changes in subordinated debt and hybrid equity issue	31 Dec 2017	Issued	Fallen due/ redeemed	Other changes	31 Dec 2016
Ordinary subordinated debt, NOK	1,043	1,000	1,000	-	1,043
Ordinary subordinated debt, Currency	659	-	-	-3	662
Hybrid capital loan, NOK	450	-	-	-	450
Adjustments	40	-	-	-24	64
Accrued interest	10	-	-	-1	10
Total subordinated debt and hybrid equity issue	2,201	1,000	1,000	-27	2,228

Note 39 - Investments in owner interests

Subsidiaries, associates, joint ventures and companies held for sale.

Company	Company number	Registered office	Stake in per cent
Investment in significant subsidiaries			
EiendomsMegler 1 Midt-Norge	936159419	Trondheim	87.0
SpareBank 1 Regnskapshuset SMN	936285066	Trondheim	95.4
SpareBank 1 Invest	990961867	Trondheim	100.0
SpareBank 1 Finans Midt-Norge	938521549	Trondheim	64.6
SpareBank 1 SMN Kvartalet	990283443	Trondheim	100.0
SpareBank 1 Bygget Steinkjer	934352718	Trondheim	100.0
SpareBank 1 Card Solution	990222991	Trondheim	100.0
St. Olavs Plass	999263380	Trondheim	100.0
SpareBank 1 Bilplan	979945108	Trondheim	100.0
SpareBank 1 Markets	992999101	Oslo	66.7
Shares owned by subsidiaries and sub-subsidiaries			
GMA Invest	994469096	Trondheim	100.0
Sentrumsgården	975856828	Leksvik	24.0
Aqua Venture	891165102	Trondheim	37.6
BrainImage	917956146	Trondheim	34.5
Omega-3 Invest	996814262	Namsos	33.6
Tjeldbergodden Utvikling	979615361	Aure	35.3
Grilstad Marina	991340475	Trondheim	35.0
GMN 6	994254707	Trondheim	35.0
GMN 51	996534316	Trondheim	30.0
GMN 52	996534413	Trondheim	30.0
GMN 53	996534502	Trondheim	30.0
BN Bolig	917463069	Oslo	50.0
Brauten Eiendom	917066221	Trondheim	100.0
SpareBank 1 Kapitalforvaltning	980300609	Trondheim	100.0
SpareBank 1 Capital Markets		New York	100.0
Leksvik Regnskapskontor	980491064	Leksvik	50.0
Spjelkavik Regnskap	936731716	Ålesund	100.0
Grongstad Regnskap	971193808	Namsos	100.0
Flatanger Regnskapskontor	983734219	Flatanger	100.0
Investment in joint ventures			
SpareBank 1 Gruppen	975966372	Tromsø	19.5
SpareBank 1 Banksamarbeidet	986401598	Oslo	18.0
SpareBank 1 Betaling	919116749	Oslo	19.7
Investment in associates			
SpareBank 1 Boligkreditt	988738387	Stavanger	20.7
BN Bank	914864445	Trondheim	33.0
SpareBank 1 Næringskreditt	894111232	Stavanger	33.0
Bjerkeløkkja	998534976	Oppdal	40.7
SpareBank 1 Kredittkort	975966453	Trondheim	17.4
SMB Lab	917143501	Trondheim	20.0
BETR	995756080	Tromsø	20.0
Investment in companies held for sale			
Mavi XV	890899552	Trondheim	100.0
Mavi XI	990899568	Trondheim	100.0
Mavi XXIV	999211062	Trondheim	100.0
Mavi XXV	999239242	Trondheim	100.0
Mavi XXVI	999239331	Trondheim	100.0
Mavi XXVII	999239390	Trondheim	100.0
Mavi XXVIII	999239455	Trondheim	100.0
Byscenen Kongensgt 19	992237899	Trondheim	94.0

Shares in subsidiaries, Parent Bank

Recorded at acquisition cost in the Parent Bank. Full consolidation in the Group accounts. Total costs include tax charge. The booked value of subsidiaries in the tables below is the Parent Bank's booked value. Profit or loss show the company's net profit.

2018 (NOK million)	Company's share capital (NOK 000's)	No. Of shares	Nominal value (NOK 000's)	Assets	Liabilities	Equity	NCI of equity *)	Total income	Total expenses	Profit or loss	NCI of profit or loss *)	Book value 31.12
SpareBank 1 Finans Midt-Norge AS	772,590	61,259	10.0	7,723	6,580	1,143	364	337	226	111	39	602
Total investments in credit institutions												602
EiendomsMegler 1 Midt-Norge	66	4,788	10.5	276	91	186	24	496	517	-20	-3	143
SpareBank 1 SMN Kvartalet	99	30,200	0.0	310	10	300	-	30	24	5	-	332
SpareBank 1 Regnskapshuset SMN	18	238	75.0	394	112	282	13	444	390	54	2	201
SpareBank 1 Invest	457	457,280	1.0	793	45	748	-	13	6	7	-	739
SpareBank 1 Bygget Steinkjer	6	100	61.0	49	1	49	-	4	3	1	-	53
SpareBank 1 Card Solution	200	2,000	0.1	5	-	5	-	2	2	-0	-	5
St. Olavs Plass	10	100,000	0.1	78	1	77	-	7	6	1	-	75
SpareBank 1 Bilplan	6	41,206	0.1	5	3	3	-	8	10	-2	-	4
SpareBank 1 Markets	529	3,168,991	0.2	2,258	1,582	676	225	551	535	16	5	456
Total investments in other subsidiaries												2,008
Total investments in Group companies, Parent Bank												2,610

*) Non-controlling interests

**) Parts of the company's assets are classified as held for sale

2017 (NOK million)	Company's share capital (NOK 000's)	No. Of shares	Nominal value (NOK 000's)	Assets	Liabilities	Equity	NCI of equity *)	Total income	Total expenses	Result	NCI of profit or loss *)	Book value 31.12
SpareBank 1 Finans Midt-Norge AS	612,590	61,259	10,0	6,724	5,745	979	304	392	295	96	34	499
Total investments in credit institutions												499
EiendomsMegler 1 Midt-Norge	57,803	4,788.0	10,5	278	97	181	28	395	367	27	-8	120
SpareBank 1 SMN Kvartalet **)	326,160	30,200.0	10,8	869	11	857	-	78	64	14	2	994
SpareBank 1 Regnskapshuset SMN	17,850	238.0	75,0	323	110	212	10	377	315	62	-	154
SpareBank 1 Invest	457,280	457,280	1,0	854	49	805	-	48	5	43	-	739
SpareBank 1 Bygget Steinkjer	6,100	100.0	61,0	49	1	49	-	4	3	1	-	53
SpareBank 1 Card Solution	200	2,000.0	0,1	7	1	6	-	5	4	1	-	9
St. Olavs Plass	10,000	100,000.0	0,1	77	1	76	-	6	6	0	-	75
SpareBank 1 Bilplan	5,769	41,206.0	0,1	32	28	5	-	112	112	0	-	9
Jernbanegata												

19	1,000	10,000.0	0,1	10	0	10	-	-	0	0	-	13
SpareBank 1												
Markets	529,221	3,168,991	0,2	2,242	1,573	669	223	452	440	12	4	456
Total investments in other subsidiaries												2,621
Total investments in Group companies, Parent Bank												3,120

Shares in associates and joint ventures

Associates and joint ventures are recorded at acquisition cost in the Parent Bank. Group figures are presented by the equity method.

Parent Bank			Group	
2017	2018	(NOK million)	2018	2017
3,766	3,940	As at 1 January	5,760	5,638
174	369	Acquisition/sale	344	168
-	-	Equity capital changes	-66	-74
-	-	Profit share	416	437
-	-	Dividend paid	-355	-410
3,940	4,309	Book value as at 31 December	6,098	5,760

Specification of year's change, Group	Additions/ disposal	Equity change
SpareBank 1 Gruppen	-	-11
SpareBank 1 Boligkreditt	216	-67
SpareBank 1 Næringskreditt	58	-3
SpareBank 1 Kredittkort	-5	-16
Sparebank 1 Betaling	100	-15
BN Bank	-	90
Other companies	-26	17
Sum	344	-6

Profit share from associates and joint ventures is specified in the table below. Badwill and amortisation effects related to acquisitions are included in the profit share.

Dividends from investments in associates and joint ventures

(NOK million)	31 Dec 2018	31 Dec 2017
SpareBank 1 Gruppen	287	228
SpareBank 1 Boligkreditt	14	22
BN Bank	-	132
SpareBank 1 Næringskreditt	17	29
SpareBank 1 Kredittkort	38	0
Total income from associates and joint ventures	355	410

Company information on the Group's stakes in associates and joint ventures

The tables below contain company or Group accounting figures on a 100 per cent share basis, except for profit share which is stated as the SMN Group's share. Booked value is the consolidated value in the SMN Group.

2018 (NOK million)	Assets	Liabilities	Total income	Total costs	Profit share	Book value 31.12	No. of shares
SpareBank 1 Gruppen	75,383	67,177	13,719	12,239	289	1,558	381,498
SpareBank 1 Boligkreditt	245,521	233,938	3,578	3,573	-7	2,152	14,879,609
SpareBank 1 Næringskreditt	13,365	11,287	262	211	15	685	5,353,070
SpareBank 1 Kredittkort	5,948	4,867	1,122	991	23	188	502,131
Sparebank 1 Betaling	656	0	-	57	-12	141	1,635
BN Bank	29,021	24,739	658	364	92	1,239	4,658,389
Other companies					17	135	
Total					416	6,098	

2017 (NOK million)	Assets	Liabilities	Total income	Total costs	Profit share	Book value 31.12	No. of shares
SpareBank 1 Gruppen	70,650	62,385	17,911	15,703	349	1,569	381,498
BN Bank	262,196	250,924	3,529	3,709	-41	2,003	13,039,586
SpareBank 1 Boligkreditt	12,479	10,426	274	213	19	629	4,895,248
SpareBank 1 Næringskreditt	5,972	4,806	1,049	965	15	209	517,253

SpareBank 1 Kredittkort	26,168	22,285	646	363	98	1,147	4,658,389
Other companies					-2	202	
Total					437	5,760	

Companies held for sale

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

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

SpareBank 1 SMN accepted a bid at Søndre gate no. 4-10 in Trondheim city centre at November 9, 2017. SpareBank 1 SMN and its subsidiaries will lease back about 70 per cent of the overall area on a 15 year lease with the option of a lease extension. Estimated gross annual rental in 2018 amounts to NOK 36.4 million. The gross property value underlying the bid is NOK 755 million and provided SpareBank 1 SMN with a net gain after an estimated tax rebate and transaction costs of NOK 144 million. The transaction was completed in 2Q 2018.

2018 (NOK million)	Assets	Liabilities	Total income	Total costs	Company's result of the year	Ownership share
Mavi XV konsern	43	1	5	-1	5	100%
Søndre gate 4-10	-	-	144	0	144	-
Total	43	1	148	-1	149	

2017 (NOK million)	Assets	Liabilities	Total income	Total costs	Company's result of the year	Ownership share
Mavi XV konsern	49	1	6	-7	-1	100%
Søndre gate 4-10	600	-	6	-6	0	100%
Total	649	1	12	-13	-1	

Note 40 - Business acquisitions/business combinations

General

Upon acquisition of businesses a purchase price analysis is prepared in accordance with IFRS 3 where identifiable assets and liabilities are recognised at fair value on the acquisition date.

Acquisition of accounting firms

SpareBank 1 Regnskapshuset SMN AS has in 2018 acquired Rauma Regnskapsservice AS, Aktiva Regnskap AS, Tinde Økonomi AS, Fosenøkonomen Regnskapsbyrå AS, Admit Systemer AS and Admit Regnskap AS. These businesses are fully integrated into SpareBank 1 Regnskapshuset SMN AS in 2018.

The company has also acquired Spjelkavik Regnskap AS, Flatanger Regnskapskontor AS and Grongstad Regnskap AS, which will be integrated with SpareBank1 Regnskapshuset SMN in 2019.

Økonomisenteret Kunderegnskap AS og SpareBank 1 Regnskapshuset Brekstad AS have been merged with SpareBank1 Regnskapshuset SMN in 2018.

Purchase price allocations have been prepared in accordance with IFRS 3 in which identifiable assets and liabilities are recognised at fair value on the acquisition date. The difference between the group's acquisition cost and book value of net assets is allocated to goodwill.

Note 41 - Significant transactions with related companies

In this context 'related parties' means subsidiaries, associated companies, joint ventures and companies held for sale over which the Bank exercises substantial influence, as well as SpareBank 1 SMN Pensjonskasse (pension fund) and companies owned by the Bank's personal related parties. The Bank's outstanding accounts with employees and members of the Board of Directors are shown in note 9 on loans and advances to customers and note 22 on personnel expenses and emoluments to senior employees and elected officers. The opening balance may differ from the previous year's closing balance as the opening balance includes companies that during the fiscal year have been classified as related parties of the Bank.

Loans (NOK million)	Subsidiaries		Other related companies	
	2018	2017	2018	2017
Outstanding loans as at 1.1	5,909	4,780	4,609	4,049
Loans issued in the period	1,200	1,445	31	515
Repayments	276	317	45	3
Outstanding loans as at 31.12	6,833	5,909	4,595	4,561
Interest income	130	119	125	121
Bonds and subordinated loans as at 31.12	158	160	858	1,749
Deposits (NOK million)				
Deposits as at 1.1	938	1,158	3,950	3,950
Contribution received during the period	42,985	30,304	53,459	53,459
Withdrawals	42,684	30,514	55,346	55,346
Deposits as at 31.12	1,238	947	2,063	2,063
Interest expenses	19	14	13	14
Securities trading	28	25	204	468
Commission income SpareBank 1 Boligkreditt	-	-	340	322
Commission income SpareBank 1 Næringskreditt	-	-	16	17
Issued guarantees and amount guaranteed	110	110	23	89

Loans and deposits

All loans and deposits for related parties are booked in the Parent Bank.

Securities trading

SpareBank 1 SMN's treasury department and subsidiary SpareBank 1 Markets, through outsourced business, carry out a large number of transactions with the Bank's related companies. Transactions are executed on an ongoing basis in the fixed income and forex area, payments transmission, bond trading etc. These transactions are part of ordinary bank operations and all agreements are contracted on market terms. Numbers above includes net investments in derivatives, bond transactions and deposits.

Other transactions

SpareBank 1 SMN has signed supply agreements with several related companies in order to safeguard ordinary banking operations and further development of the SpareBank 1 Alliance. This includes development of data-technical solutions for alliance collaboration, commission from insurance and savings and investment products, administrative services, leasing of premises etc. The agreements are considered to be on market terms. In addition the Bank participates in increases of capital in related companies; see note 39 on investment in owner interests.

Note 42 - ECC capital and ownership structure

ECC capital

The Bank's ECC capital totals NOK 2,596,728,860 distributed on 129,836,443 equity capital certificates (ECCs), each with a face value of NOK 20. As at 31 December 2018 there was 9,371 ECC holders (8,788 as at 31 December 2017).

ECC capital has been raised by the following means:

Year	Change	Change in ECC capital (NOK)	Total ECC capital (NOK)	No. of ECCs
1991	Placing	525,000,000	525,000,000	5,250,000
1992	Placing	75,000,000	600,000,000	6,000,000
2000	Employee placing	5,309,900	605,309,900	6,053,099
2001	Employee placing	4,633,300	609,943,200	6,099,432
2002	Employee placing	4,862,800	614,806,000	6,148,060
2004	Bonus Issue	153,701,500	768,507,500	7,685,075
2005	Placing	217,424,200	985,931,700	9,859,317
2005	Employee placing	23,850,000	1,009,781,700	10,097,817
2005	Split	-	1,009,781,700	40,391,268
2005	Rights issue	252,445,425	1,262,227,125	50,489,085
2007	Dividend issue	81,752,950	1,343,980,075	53,752,203
2007	Employee placing	5,420,000	1,349,400,075	53,976,003
2008	Dividend issue	90,693,625	1,440,093,700	57,603,748
2008	Employee placing	6,451,450	1,446,545,150	57,861,806
2009	Bonus issue	289,309,025	1,735,854,175	69,434,167
2010	Employee placing	12,695,300	1,748,549,475	69,941,979
2010	Rights issue	624,082,675	2,372,632,150	94,905,286
2011	Rights issue	625,000	2,373,257,150	94,930,286
2012	Reduction in nominal value	-474,651,430	1,898,605,720	94,930,286
2012	Rights issue	569,543,400	2,468,149,120	123,407,456
2012	Employee placing	16,220,200	2,484,369,320	124,218,466
2012	Placing	112,359,540	2,596,728,860	129,836,443

20 largest ECC holders at 31 Des 2018	No. Of ECCs	Holding
VPF Nordea Norge Verdi	5,734,807	4.42 %
State Street Bank and Trust CO (nominee)	4,442,606	3.42 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,542,919	2.73 %
VPF Danske Invest Norske Aksjer Inst. II	3,274,149	2.52 %
VPF Pareto Aksje Norge	2,578,447	1.99 %
VPF Alfred Berg Gambak	2,156,139	1.66 %
State Street Bank and Trust CO (nominee)	1,919,043	1.48 %
JP Morgan Chase Bank (nominee)	1,871,849	1.44 %
State Street Bank and Trust CO (nominee)	1,768,901	1.36 %
VPF Danske Invest Norske Aksjer Inst. I	1,750,292	1.35 %
Forsvarets Personellservice	1,717,046	1.32 %
Pareto AS	1,707,998	1.32 %
Handelsbanken Nordiska Småbolagsfond	1,701,137	1.31 %
MP Pensjon PK	1,552,771	1.20 %
JP Morgan Securities	1,459,686	1.12 %
VPF Nordea Kapital	1,438,701	1.11 %
VPF Nordea Avkastning	1,260,717	0.97 %
Euroclear Bank S.A/N.V (nominee)	1,119,647	0.86 %
VPF Storebrand Norge I	1,096,565	0.84 %
The 20 largest ECC holders in total	46,058,811	35.47 %
Others	83,777,632	64.53 %
Total issued ECCs	129,836,443	100.00 %

Dividend policy

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

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

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

Note 43 - Earnings per ECC

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

(Nok million)	2018	2017
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve 1)	2,018	1,763
Allocated to ECC Owners 2)	1,291	1,128
Issues Equity Capital Certificates adjusted for own certificates	129,411,807	129,487,830
Earnings per Equity Capital Certificate	9.97	8.71

Adjusted Net Profit 1)	2018	2017
Net Profit for the group	2,090	1,828
Adjusted for non-controlling interests share of net profit	-34	-32
Adjusted for Tier 1 capital holders share of net profit	-37	-33
Adjusted Net Profit	2,018	1,763

Equity capital certificate ratio (parent bank) 2) (NOK million)	31 Dec 2018	31 Dec 2017
ECC capital	2,597	2,597
Dividend equalisation reserve	5,602	5,079
Premium reserve	895	895
Unrealised gains reserve	99	81
Other equity capital	-	-
A. The equity capital certificate owners' capital	9,193	8,652
Ownerless capital	5,126	4,831
Unrealised gains reserve	56	45
Other equity capital	-	-
B. The saving bank reserve	5,182	4,877
To be disbursed from gift fund	373	322
Dividend declared	661	571
Equity ex. profit	15,409	14,422
Equity capital certificate ratio A/(A+B)	63.95 %	63.95 %
Equity capital certificate ratio for distribution	63.95 %	63.95 %

Note 44 - Dividends from subsidiaries

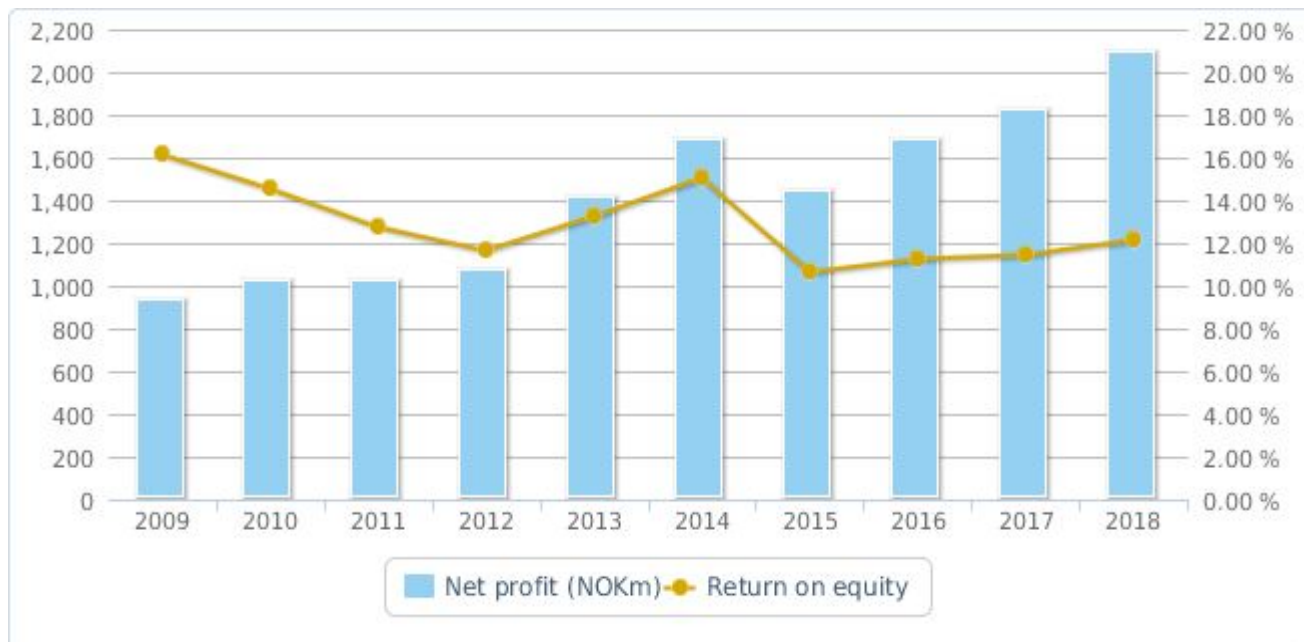
Dividends (NOK million)	2018	2017
SpareBank 1 Finans Midt-Norge	62	51
EiendomsMegler 1 Midt-Norge	23	42
SpareBank 1 Regnskapshuset SMN	-	30
Allegro Kapitalforvaltning	-	20
MAVI XV	-	148
SpareBank 1 SMN Invest	63	58
SpareBank 1 SMN Card Solutions	1	1
SpareBank 1 SMN Kvartalet	-	10
Sparebank 1 Bygget Trondheim	-	4
Sparebank 1 Bygget Steinkjer	1	1
Total dividends	151	364

Financial summary (Group)

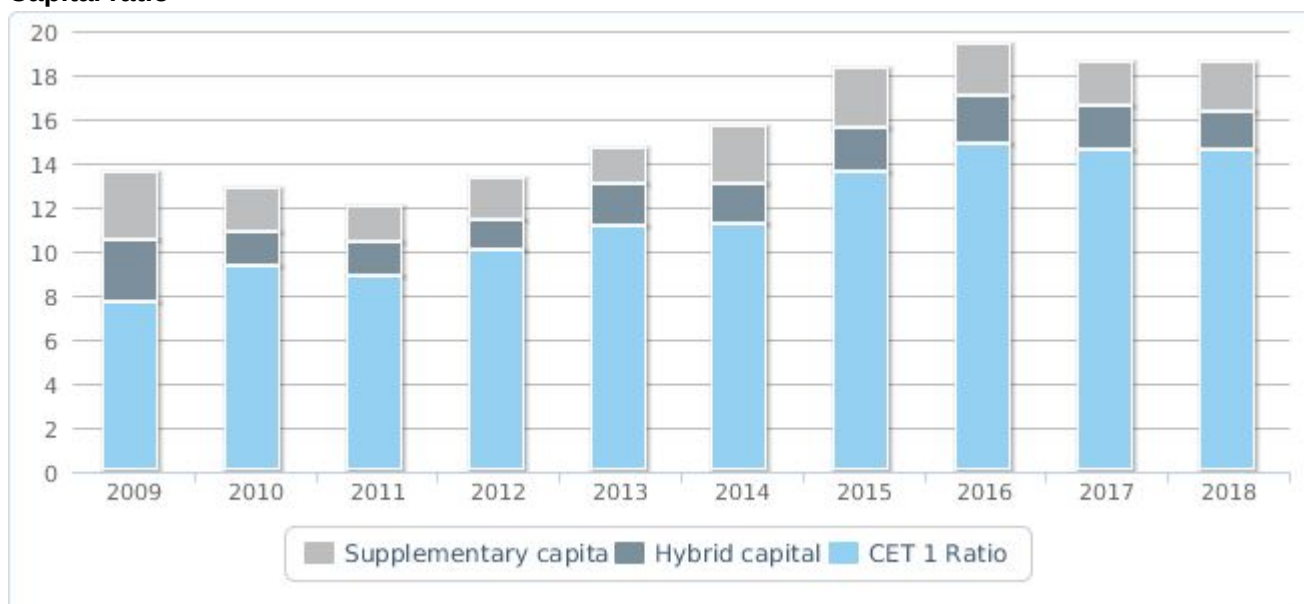
Income statement NOKm	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Interest income	4,057	3,825	3,597	4,031	4,265	4,118	3,928	3,891	3,422	3,462	4,827
Interest expenses	1,655	1,600	1,668	2,111	2,424	2,483	2,451	2,499	2,105	2,137	3,477
Net interest and credit comissionincome	2,403	2,225	1,929	1,920	1,841	1,635	1,477	1,392	1,317	1,325	1,350
Commision and fee income	2,177	2,005	1,674	1,545	1,512	1,463	1,139	919	855	756	610
Income from investment in relatedcompanies	423	437	423	448	527	355	244	248	276	349	393
Return on financial investments	334	322	521	11	193	147	207	186	133	247	- 186
Total income	5,337	4,989	4,547	3,924	4,073	3,599	3,067	2,746	2,582	2,677	2,167
Salaries, fees and otherpersonnel costs	1,584	1,426	1,159	1,093	1,002	914	924	810	583	725	623
Other operating expenses	1,040	943	844	838	787	807	730	672	557	528	571
Total costs	2,624	2,369	2,003	1,931	1,789	1,722	1,654	1,482	1,140	1,253	1,194
Operating profit before losses	2,713	2,621	2,544	1,993	2,284	1,877	1,413	1,264	1,441	1,424	975
Losses on loans and guarantees	263	341	516	169	89	101	58	27	132	277	202
Operating profit	2,450	2,279	2,029	1,824	2,195	1,776	1,355	1,236	1,309	1,147	773
Taxes	509	450	352	383	376	393	295	255	260	210	156
Held for sale	149	- 1	4	- 1	-	30	16	43	- 27		
Profit of the year	2,090	1,828	1,681	1,441	1,819	1,413	1,077	1,024	1,022	937	617
Dividend	661	571	389	292	292	227	195	190	285	201	116
Balance sheet NOKm											
Cash and loans to and claims on credit institutions	5,957	7,527	4,207	5,677	5,965	5,984	4,091	4,075	2,532	1,260	4,548
CDs, bonds and other interest-bearing securities	32,438	31,672	29,489	30,282	27,891	26,358	25,614	21,485	22,948	19,302	2,035
Loans before loss provisions	120,473	112,071	102,325	93,974	90,578	80,548	74,943	73,105	69,847	61,782	64,016
- Loan loss impairments/ Specified Loan loss provisions	744	765	632	183	172	173	144	172	222	219	215
- Unspecified loan loss provisions	-	347	339	376	295	295	295	290	290	289	245
Other assets	2,581	3,096	3,030	2,540	2,080	2,938	3,766	3,251	3,182	2,704	4,540
Total assets	160,704	153,254	138,080	131,914	126,047	115,360	107,975	101,455	97,997	84,541	84,649
Debt to credit institutions	9,214	9,607	10,509	8,155	9,123	6,581	7,410	9,118	13,062	11,310	9,000
Deposits from and debt to customers	80,615	76,476	67,168	64,090	60,680	55,927	52,252	47,871	42,786	37,227	35,280
Debt created by issuance of securities	47,251	45,537	40,390	40,569	39,254	36,806	33,121	31,306	29,625	24,070	29,680
Other debt and accrued expences etc.	2,671	1,924	1,532	1,734	1,095	1,485	2,070	2,122	1,922	1,876	2,045
Subordinated debt	2,268	2,201	2,228	2,509	2,417	2,365	3,040	2,690	2,756	3,875	3,156
Total equity	18,686	17,510	16,253	14,258	13,478	12,197	10,082	8,348	7,846	6,183	5,518
Total liabilities and equity	160,704	153,254	138,080	131,914	126,047	115,360	107,975	101,455	97,997	84,541	84,679
Key figures											
Total assets	160,704	153,254	138,080	131,914	126,047	115,360	107,919	101,455	97,997	84,541	84,679

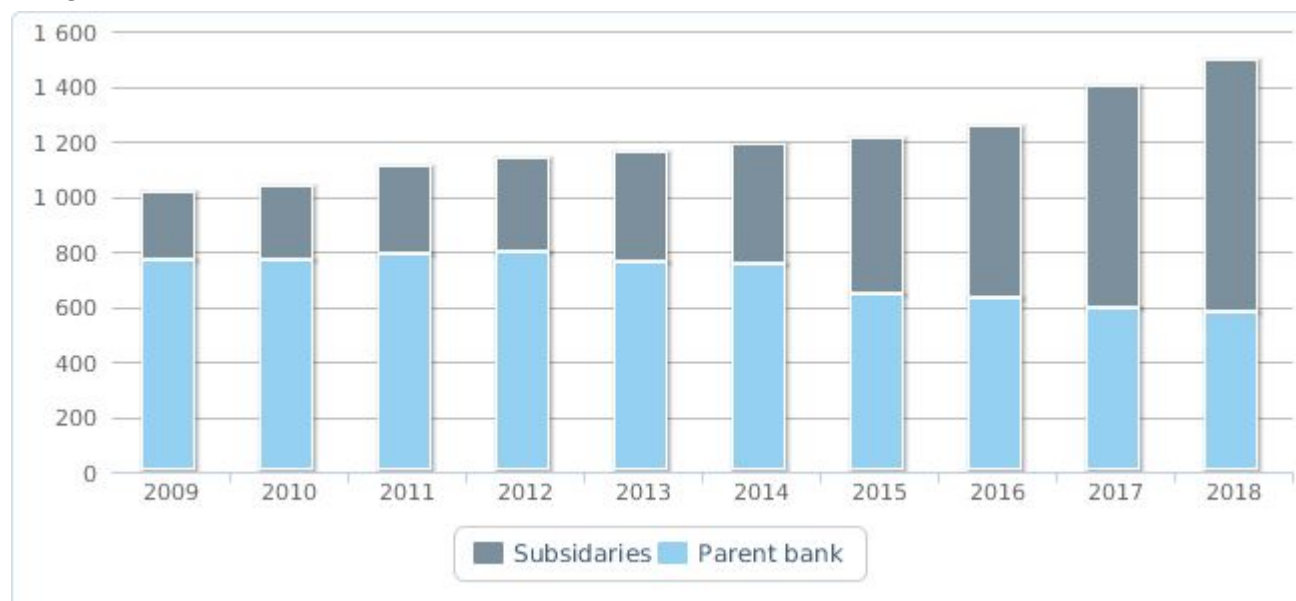
Average total assets	156,992	145,948	137,060	128,355	117,794	111,843	105,500	98,465	91,317	86,679	75,820
Gross loans to customers	120,473	112,071	102,325	93,974	90,578	80,548	74,943	73,105	69,847	61,782	64,016
Gross loans to customers incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	160,317	148,748	137,535	127,378	120,435	112,283	104,925	95,232	87,665	77,429	71,317
Gross loans in retail market	108,131	98,697	89,402	80,725	74,087	68,591	62,587	55,034	49,619	45,157	42,679
Gross loans in corporate market	52,186	50,087	48,133	46,653	46,348	43,692	42,322	40,198	38,046	32,272	28,638
Deposits from and debt to customers	80,615	76,476	67,168	64,090	60,680	55,927	52,252	47,871	42,786	37,227	35,280
Deposits from retail market	33,055	31,797	29,769	28,336	26,496	23,891	22,279	20,860	19,052	17,898	17,566
Deposits from corporate market	47,561	44,678	37,398	35,754	34,184	32,036	29,973	27,011	23,734	19,330	17,715
Ordinary lending financed by ordinary deposits	67 %	68 %	66 %	68 %	67 %	69 %	70 %	65 %	61 %	60 %	55 %
Ordinary lending incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt financed by ordinary deposits	50 %	51 %	49 %	50 %	50 %	50 %	50 %	50 %	49 %	48 %	49 %
Capital adequacy											
CET1 Capital	14 727	13 820	13 229	12 192	10 679	9 374	8 254	6 687	6 177	4 938	4 356
Core capital	16 472	15 707	15 069	13 988	12 382	10 989	9 357	7 856	7 286	6 730	4 967
Primary capital	18 743	17 629	17 185	16 378	14 937	12 417	10 943	9 055	8 646	8 730	7 312
Risk weighted volume	101 168	94 807	88 788	89 465	95 317	84 591	82 446	75 337	66 688	64 400	61 538
CET 1 Ratio	14.6 %	14.6 %	14.9 %	13.6 %	11.2 %	11.1 %	10.0 %	8.9 %	9.3 %	7.7 %	7.1 %
Core capital ratio	16.3 %	16.6 %	16.9 %	15.6 %	12.9 %	12.9 %	11.3 %	10.4 %	10.9 %	10.4 %	8.1 %
Capital ratio	18.5 %	18.6 %	19.4 %	18.3 %	15.6 %	14.7 %	13.3 %	12.0 %	12.9 %	13.5 %	119 %
Leverage ratio	7.4 %	7.2 %	7.4 %	6.7 %	6.0 %						
Cost/income ratio	49 %	47 %	44 %	50 %	44 %	48 %	54 %	53 %	44 %	47 %	55 %
Losses on loans	0.17 %	0.23 %	0.39 %	0.14 %	0.08 %	0.09 %	0.06 %	0.03 %	0.16 %	0.31 %	0.21 %
ROE	12.2 %	11.5 %	11.3 %	10.7 %	15.1 %	13.3 %	11.7 %	12.8 %	14.6 %	16.2 %	11.9 %
Growth in lending (gross)	7.8 %	8.2 %	8.0 %	5.8 %	7.3 %	7.0 %	10.2 %	8.6 %	13.2 %	8.6 %	15.2 %
Growth in deposits	5.4 %	13.9 %	4.8 %	5.6 %	8.5 %	7.0 %	9.2 %	11.9 %	14.9 %	5.5 %	8.8 %
Number of staff	1 588	1 482	1 328	1 298	1 273	1 238	1 216	1 153	1 117	1 108	1 062
Number of FTEs	1 493	1 403	1 254	1 208	1 192	1 159	1 135	1 109	1 035	1 017	973
Number of branches	48	48	48	49	49	50	51	54	54	55	56

Net profit and return on equity



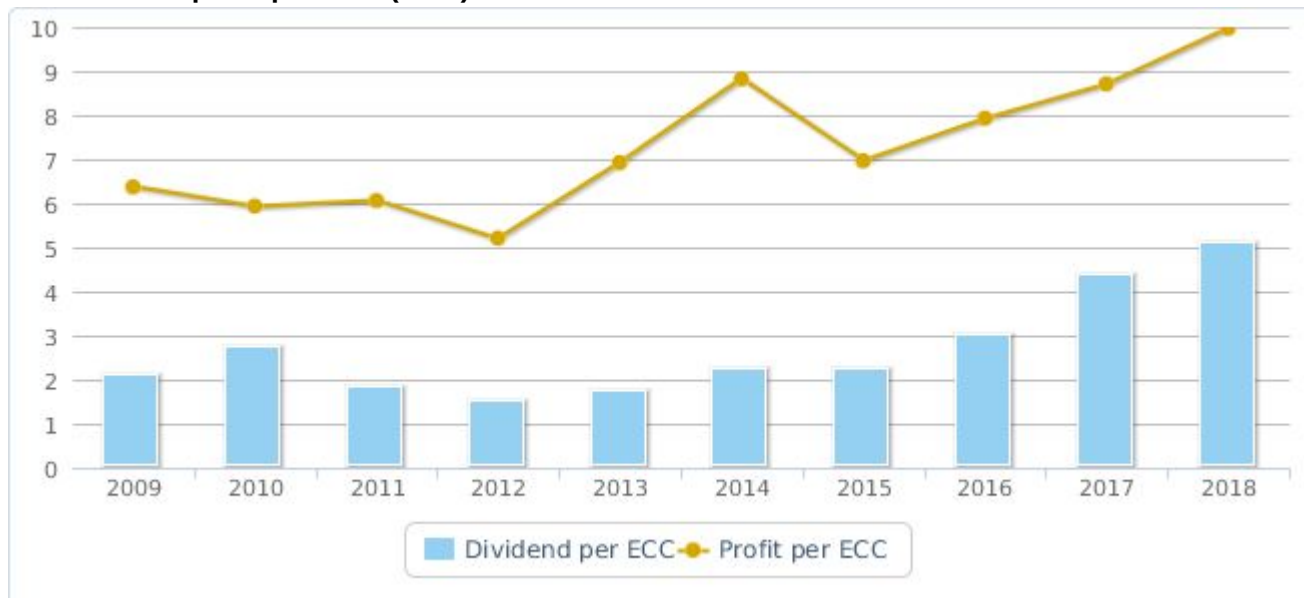
Capital ratio



Loans and deposits (NOKbn)**FTEs****Loan losses**



Dividend and profit per ECC (NOK)



Statement in compliance with the securities trading act, section 5-5

Statement by the Board of Directors and the Group CEO

We hereby declare that to the best of our knowledge

- the financial statements for 2018 for the Parent Bank and the Group have been prepared in conformity with IFRS as determined by the EU, with such additional information as required by the Accounting Act.
- the accounting information gives a true and fair view of the assets, liabilities, financial position and profit/loss of the Parent Bank and the Group taken as a whole, and that
- the Directors' report gives a fair review of developments, profit/loss and position of the Parent Bank and the Group, together with a description of the principal risks and uncertainties facing the Group.

Trondheim, 7 March 2019
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Mette Kamsvåg

Tonje Eskeland Foss

Morten Loktu

Janne Thyø Thomsen

Erik Gunnes
(employee rep.)

Venche Johnsen
(employee rep.)

Finn Haugan
(Group CEO)

To the Supervisory Board of SpareBank 1 SMN

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SpareBank 1 SMN, which comprise:

- The financial statements of the parent company SpareBank 1 SMN (the Company), which comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of SpareBank 1 SMN and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 2018 financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IT Systems and Internal Controls relevant for Financial Reporting

Key audit matter	How the matter was addressed in the audit
The IT systems within SpareBank 1 SMN are key in the accounting and reporting of completed transactions, in obtaining the basis for key estimates and calculations, and in obtaining relevant information to be disclosed. The IT systems are standardized, and the management and operation of the systems are to a great extent outsourced to external service providers. Reference is made to note 7 in the financial statements, for a description of the management and operation of the IT systems in SpareBank 1 SMN. Proper management and control of these IT systems both at SpareBank 1 SMN and their service providers are of high importance in order to ensure precise, complete and reliable financial reporting, and this area is therefore a key audit matter.	SpareBank 1 SMN has established a general governance model and internal controls on its IT systems. We have obtained an understanding of SpareBank 1 SMNs IT governance model relevant for financial reporting. We assessed and tested the design of selected internal control activities relevant for financial reporting, including selected controls related to IT operations, change management and information security. For a sample of these controls, we tested their operating effectiveness in the reporting period. We also considered the third party attestation report (ISAE 3402 Report) on one of SpareBank 1 SMN's service providers focusing on whether they had adequate internal controls on areas that are of importance for the financial reporting of SpareBank 1 SMN. In addition, we considered a third party confirmation (ISRS 4400 Agreed-upon procedures) related to the service provider with regards to whether selected automated control activities in the IT systems, including among others the calculation of interests and fees, as well as system generated reports were satisfactorily designed and if they had operated effectively in the period. We engaged our internal IT experts in the work related to understanding the governance model on IT systems and in assessing and testing the internal control activities related to IT systems.

Corporate loan loss provisions

Key audit matter	How the matter was addressed in the audit
SpareBank 1 SMN has loans in the corporate segment, and reference is made to note 3, 4, 7 and 11 for disclosures on implementation effects following IFRS 9, credit risk and loss provisions on loans and guarantees. Effective from 1. January 2018, the bank has implemented IFRS 9, and the models for calculation of loan losses is changed from objective evidence for losses to an expected loss model. SpareBank 1 SMN has considered the need for loan loss provisions as per the	SpareBank 1 SMN has established control activities related to the calculation of loan loss provisions in the corporate market segment. We considered the reasonability of the loan loss provisions and the changes in these provisions during the year, and collected and assessed SpareBank 1 SMNs reasoning for these changes. We assessed and tested the design of selected control activities concerning individual loss provisions on impaired loans. The control activities we assessed and tested the design of, were related to identification of impaired loans and the assessment of the expected future cash flows from

implementation date of IFRS 9 and as per 31.12.2018. There is considerable judgement in the bank's assessment of the size of the loan loss provisions in the corporate market segment. As a result of the current market situation for oil-related activity there is a significant uncertainty related to impairment losses within this industry. The judgement is related to forward-looking assessments of probability of default and loss given default, in order to estimate the expected loss. The assumptions and estimates used in these assessments are crucial for the size of these provisions, and loan loss provisions in the corporate market segment are therefore a key audit matter in the audit.	these loans. For a sample of these control activities, we tested if they operated effectively during the period. For a sample of impaired loans, we tested if these were timely identified, and assessed the expected future cash flows that bank estimated on these loans. For remaining loan loss provisions calculated by use of models and information from the service provider, we assessed the third party confirmation with regards to: • documentation of the models • determination of probability of default, loss given default and exposure at default, and • validation of the models against historical losses We considered if the disclosures on loan loss provisions in the corporate market segment is in accordance with requirements set forth in IFRS 7.
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Note information on capital requirement

Key audit matter	How the matter was addressed in the audit
SpareBank 1 SMN is subject to the regulations on capital requirement in Financial Enterprises Act and associated regulations. The accounting regulations for banks require information on capital requirement in the notes to the financial statements. Note 6 to the financial statements provides information on, among other methods used, net capital, total calculation base and capital requirement. With the exception of engagements with governments and central banks, SpareBank 1 SMN utilizes internal measurement methods (IRB) for assessing credit risk. The use of IRB imposes wide-ranging requirement on the bank's organizational set-up, competence, risk models risk, management systems. SpareBank 1 SMN is required to comply, and at all times, satisfy the minimum capital requirement on entity and group level. The fact that compliance with the minimum capital requirement ratio is a	SpareBank 1 SMN has established internal control activities related to the calculation of net subordinated capital, total calculation base and capital requirement. We have assessed and tested the design of the internal control activities that we deemed most significant. The internal control activities we tested were related to the completeness of the data transfer and the calculation of the risk-weighted calculation base. We tested the operating effectiveness for a sample of these controls in the reporting period. We assessed SpareBank 1 SMN's interpretations of the capital adequacy regulations on selected areas against the capital adequacy regulations and industry practice. Furthermore, we tested the accuracy of calculation of selected items included in regulatory capital. We also assessed whether other information in the note on capital requirement was adequate.

condition for the Bank's operations and that the calculations are complex and based on a number of assumptions and estimates, makes it a key audit matter.	
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Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 5 March 2019
Deloitte AS

Mette Estenstad
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.