

# Auditor's report



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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.

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Organisasjonsnummer: 990 211 282

**IT Systems and Internal Controls relevant for Financial Reporting**

| Key audit matter  | How the matter was addressed in the audit  |
|---|--|
| <p>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.</p> <p>The IT systems are standardized, and the management and operation of the systems are to a great extent outsourced to external service providers.</p> <p>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.</p> <p>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.</p> | <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> |

**Corporate loan loss provisions**

| Key audit matter   | How the matter was addressed in the audit   |
|--|---|
| <p>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.</p> <p>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.</p> <p>SpareBank 1 SMN has considered the need for loan loss provisions as per the</p> | <p>SpareBank 1 SMN has established control activities related to the calculation of loan loss provisions in the corporate market segment.</p> <p>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.</p> <p>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</p> |



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| <p>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.</p> <p>The judgement is related to forward-looking assessments of probability of default and loss given default, in order to estimate the expected loss.</p> <p>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.</p> | <p>these loans. For a sample of these control activities, we tested if they operated effectively during the period.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• documentation of the models</li> <li>• determination of probability of default, loss given default and exposure at default, and</li> <li>• validation of the models against historical losses</li> </ul> <p>We considered if the disclosures on loan loss provisions in the corporate market segment is in accordance with requirements set forth in IFRS 7.</p> |
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**Note information on capital requirement**

| Key audit matter  | How the matter was addressed in the audit  |
|---|--|
| <p>SpareBank 1 SMN is subject to the regulations on capital requirement in Financial Enterprises Act and associated regulations.</p> <p>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.</p> <p>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.</p> <p>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</p> | <p>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.</p> <p>We assessed SpareBank 1 SMN's interpretations of the capital adequacy regulations on selected areas against the capital adequacy regulations and industry practice.</p> <p>Furthermore, we tested the accuracy of calculation of selected items included in regulatory capital.</p> <p>We also assessed whether other information in the note on capital requirement was adequate.</p> |

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| 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.

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- 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.

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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.*