SpareBank 1 SMN

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 Axept 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 sertificates 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 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 Axept 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)

SpareBank 1 SMN

Income statement

Parent Bank				Group	
2017	2018	(NOK million)	Notes	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

SpareBank 1 SMN

Other comprehensive income

Parent Bank				Group	
2017	**2018**	(NOK million)	Notes	**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.

SpareBank 1 SMN

Statement of Financial Position

Parent Bank				Group	
31 Dec 2017	31 Dec 2018	(NOK million)	Notes	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
104,769	112,659	Net loans to and receivables from customers	4,5,9,10,11,12, 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**

SpareBank 1 SMN

Statement of Changes in Equity

Parent Bank	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	Total equity
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	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	Total equity
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

	Attributable to parent company equity holders									
	Issued equity		Earned equity							
(NOK million)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised 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**

Notes

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, og 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 require 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 have 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 classify 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-regocnised. 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.

Repossessed 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. Repossessed 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 liabiltiy 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 inclued 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 rescores 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 I 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 Financial instruments	Category IAS 39	Amount IAS 39	Category IFRS 9	Amount 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.

Change in impairment provisions	**Loan loss provision under IAS 39 31 December 2017**	**Reclassification**	**Remeasurement**	**Expected credit losses under IFRS 9 1 January 2018**
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 liabilites 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 liabilites 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

**) Specification of net return on financial investments (NOK million)	31 Dec 2018	31 Dec 2017
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 sertificates 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**

***) Specification of gain/loss related to hedge accounting	31 Dec 2018	31 Dec 2017
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 rick 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 it 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 assessement 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			Group	
31 Dec 2017	**31 Dec 2018**	**Loans and advances to credit institutions** (NOK million)	**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	Deposits without agreed maturity or notice of withdrawal	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	Unutilised credits	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**	
Gross loan	**Stage 1**	**Stage 2**	**Stage 3**		**Total**
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 excisting 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**	
Gross loan	**Stage 1**	**Stage 2**	**Stage 3**		**Total**
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 excisting 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

	31 Dec 2018			31 Dec 2017		
Parent Bank (NOK million)	**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**

	31 Dec 2018			31 Dec 2017		
Group (NOK million)	**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

	31 Dec 2018			31 Dec 2017		
Parent Bank (NOK million)	**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**

	31 Dec 2018			31 Dec 2017		
Group (NOK million)	**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

	31 Dec 2018			31 Dec 2017		
(NOK million)	**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

	31 Dec 2018			31 Dec 2017		
(NOK million)	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 objetive evidence of impairment leading to reduced cash flows from the customer. See note 2 Accounting principles for further description of such exposures.

	Neither default or impaired						
Parent Bank 31 Dec 2018 (NOK million)	Lowest risk	Low risk	Medium risk	High risk	Highest risk	Default and written down	Total
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**

	Neither default or impaired						
Group 31 Dec 2018 (NOK million)	**Lowest risk**	**Low risk**	**Medium risk**	**High risk**	**Highest risk**	**Default and written down**	**Total**
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

	31 Dec 2018			31 Dec 2017		
(NOK million)	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

	31 Dec 2018			31 Dec 2017		
(NOK million)	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 lossen 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- provisons	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- provisons	68	80	-	148

Other comprehensive income - fair value adjustment	18	-2	-	17

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 Allowance for Credit Losses (NOK million)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
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

		31 Dec 2017	
Individual write-downs (NOK million)	**RM**	**CM**	**Total**
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'

		31 Dec 2017	
Collective write-downs (NOK million)	**RM**	**CM**	**Total**
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

		31 Dec 2017	
Individual write-downs (NOK million)	**RM**	**CM**	**Total**
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'

		31 Dec 2017	
Collective write-downs (NOK million)	**RM**	**CM**	**Total**
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**
Provision for credit losses specified by sector and industry	**Trinn 1**	**Trinn 2**	**Trinn 3**	**Total**	**2017**
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**				
Provision for credit losses specified by sector and industry	**Trinn 1**	**Trinn 2**	**Trinn 3**	**Total**	**31 Dec 17**
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

SpareBank 1 SMN

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.

	Probability of default					Collateral cover		
Credit quality step	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 31 Dec 2018	Total exposure 31 Dec 2018	Averaged unhedged exposure 31 Dec 2017	Total exposure 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 31 Dec 2018	Total exposure 31 Dec 2018	Averaged unhedged exposure 31 Dec 2017	Total exposure 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 spesified in the table below, see note 26 Categories of financial assets and financial liabilities.

Parent Bank

31 Dec 2018 (NOK million)	Maximum exposure to credit risk	Collateral in property	Collateral in securities	Other collateral *)
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)	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	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 meber 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.

				d) Amount that is not netted		
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**	**Financial instruments*)**	**Cash collateral received**	**e (c-d) Net exposure**
Derivatives assets	979	-	979	- 611	- 80	288

				d) Amount that is not netted		
	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**	**Financial instruments*)**	**Cash collateral furnished**	**e (c-d) Net exposure**
Derivatives liabilities	939	-	939	- 611	-	328

				d) Amount that is not netted		
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**	**Financial instruments*)**	**Cash collateral received**	**e (c-d) Net exposure**
Derivatives assets	1,638	-	1,638	- 835	- 581	222

				d) Amount that is not netted		
	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**	**Financial instruments*)**	**Cash collateral furnished**	**e (c-d) Net exposure**
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 guidlines 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

31 Dec 2018		Neither defaulted nor impaired						
(NOK million)	Notes	**Lowest risk**	**Low risk**	**Medium risk**	**High risk**	**Highest risk**	**Defaulted or written down*)**	**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						
(NOK million)	Notes	**Lowest risk**	**Low risk**	**Medium risk**	**High risk**	**Highest risk**	**Defaulted or written down*)**	**Total**
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 Lowest risk	Low risk	Medium risk	High risk	Highest risk	Defaulted or written down*)	Total
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 Lowest risk	Low risk	Medium risk	High risk	Highest risk	Defaulted or written down*)	Total
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.

	Interest rate risk, 1 % change	
Basis risk Group (NOK million)	**2018**	**2017**
Currency		
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 risk, 1 % change	
Interest rate curve risk, Group (NOK million)	**2018**	**2017**
Maturity		
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**	**Group**	
2017	**2018**	(NOK million)	**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

SpareBank 1 SMN

Note 19 - Net interest income

Parent bank			Group	
2017	**2018**	**(NOK million)**	**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			Group	
2017	2018	(NOK million)	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 commision income and other operating income**	**2,177**	**2,005**

Note 21 - Net return on financial investments

Parent Bank 2017	Parent Bank 2018	(NOK million)	Group 2018	Group 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 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 employes 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 untill 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 Samdal	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

SpareBank 1 SMN

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 coveredd 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.

	2018		**2017**	
Actuarial assumptions	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			**Group**	
2017	**2018**	**Net pension liability in the balance sheet (NOK million). Financial position 1 Jan.**	**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
Interes 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 retur	19	22
Curtailment/ Settlement	0	0
Actuarial changes	8	0
CB market value of pension assets	**803**	**803**

Sensitivity, Group	Discount rate + 1 pp	Discount rate - 1 pp	Salary adjustment +1 pp	Salary adjustment - 1 pp	Pension adjustment + 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 2017	Parent Bank 2018	(NOK million)	Group 2018	Group 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 2017	Deferred tax in balance sheet 2018	Composition of deferred tax carried in the balance sheet (NOK million)	Deferred tax in balance sheet 2018	Deferred tax in balance sheet 2017
		Temporary differences:		
6	-	- Business assets	194	199
-	-	- Leasing items	288	250
134	158	- Pension liability	161	148
221	188	- Securities	189	225
79	219	- Hedge derivatives	219	79
-	-	- Other temporary differences	4	5
440	**565**	**Total tax-increasing temporary differences**	**1,055**	**906**
110	**141**	**Deferred tax**	**263**	**226**
		Temporary differences:		
-2	-2	- Business assets	-16	-14
-	-	- Pension liability	-	-
-28	-	- Securities	-	-28
-267	-209	- Hedge derivatives	-209	-267
-38	-21	- Other temporary differences	-117	-94
		- Deficit carried forward	-840	-867
-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			Recognised in income statement	
2017	**2018**	**Composition of deferred tax recognised in the income statement (NOK million)**	**2018**	**2017**
		Temporary differences:		
-12	7	- Business assets	5	13
-	-	- Leasing items	-38	-52
37	-6	- Pension liability	6	10
-280	48	- Securities	36	-200
-236	-51	- Hedge derivatives	-58	280
-20	-17	- Other temporary differences	0	-4
-511	**-18**	**Total tax-increasing temporary differences**	**-49**	**47**
-128	**-5**	**Deferred tax**	**-12**	**11**
		Temporary differences:		
-	-	- Business assets	2	
-	-0	- Pension liability	-	-
4	-42	- Securities	-28	-83
288	-149	- Hedge derivatives	-140	-227
		- Other temporary differences	-7	-158
-	-	- Deficit carried forward	28	124
293	**-191**	**Total tax-decreasing temporary differences**	**-145**	**-344**
73	**-48**	**Deferred tax asset**	**-36**	**-83**
-	-	Change in tax rate	2	0
-55	**-52**	**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					
31.12.18 (mill. kr)	Designated as such upon initial recognition	Mandatorily	Held for trading	Financial instruments at fair value through other comprehensive income	Financial instruments measured at amortised cost	Total
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				
31 Dec 2017 (NOK million)	Held for trading in acc with IAS 39	Designated as such upon initial recognition	Available for sale	Financial instruments measured at amortised cost	Total
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**

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 avaliable for sale				
- Equity instruments	-	-	66	66
Total assets	**3,902**	**21,566**	**3,722**	**29,190**

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

The following table presents the changes in the instruments classified in level 3 as at 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
Expectged 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 detoriation since first recognition is assessed at nominal amount. For loans with a significant increase in credit risk since first recognition or objective evidence of loss, the calculation of expected credit losses over the life of the asset is in line with loan losses for loans at amortised cost. Estimated fair value is the nominal amount reduced by expected lifetime credit loss. If the likelihood of the worst case scenario in the model is doubled, fair value is reduced by NOK 5 million.

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

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

Equity instruments (level 3)

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 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 assumtions
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

(NOK million)		31 Dec 2018 Book value	31 Dec 2018 Fair Value	31 Dec 2017 Book value	31 Dec 2017 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			Group	
31 Dec 2017	**31 Dec 2018**	**Money market certificates and bonds by issuer sector** (NOK million)	**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	Fair value		Contract	Fair value	
Currency instruments	amount	Assets	Liabilities	amount	Assets	Liabilities
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	Fair value		Contract	Fair value	
Currency instruments	amount	Assets	Liabilities	amount	Assets	Liabilities
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**

SpareBank 1 SMN

Note 31 - Shares, units and other equity interest

Parent bank			Group	
31 Dec 2017	**31 Dec 2018**	**Shares and units (NOK million)**	**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 unquoated 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				Group		
Buildings and other real property	**Machinery, inventory and vehicles**	**Total**	**(NOK million)**	**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				Group		
Buildings and other real property	**Machinery, inventory and vehicles**	**Total**	**(NOK million)**	**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			Group	
31 Dec 2017	31 Dec 2018	Deposits from and liabilities to customers (NOK million)	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

Change in securities debt	31 Dec 2018	Issued	Fallen due/ redeemed	Other changes	31 Dec 2017
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**

Change in securities debt	31 Dec 2017	Issued	Fallen due/ redeemed	Other changes	31 Dec 2016
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			Group	
31 Dec 2017	31 Dec 2018	Other debt and recognised liabilities (NOK million)	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	Pensjon 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			Group	
Cash deposit	Total	Securities pledged	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 permises, 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 gurarantees), 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 subordniated debt**	**1,796**	**1,718**
		Hybrid equity		
350	350	Hybrid capital10/99, fixed rate 8,25 % NOK (Call 2020) *)	350	350
100	100	Hybrid captial 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	Equtiy 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 partied of the Bank.

	Subsidiaries		Other related companies	
Loans (NOK million)	**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 a 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 investmens 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**

SpareBank 1 SMN

Financial summary (Group)

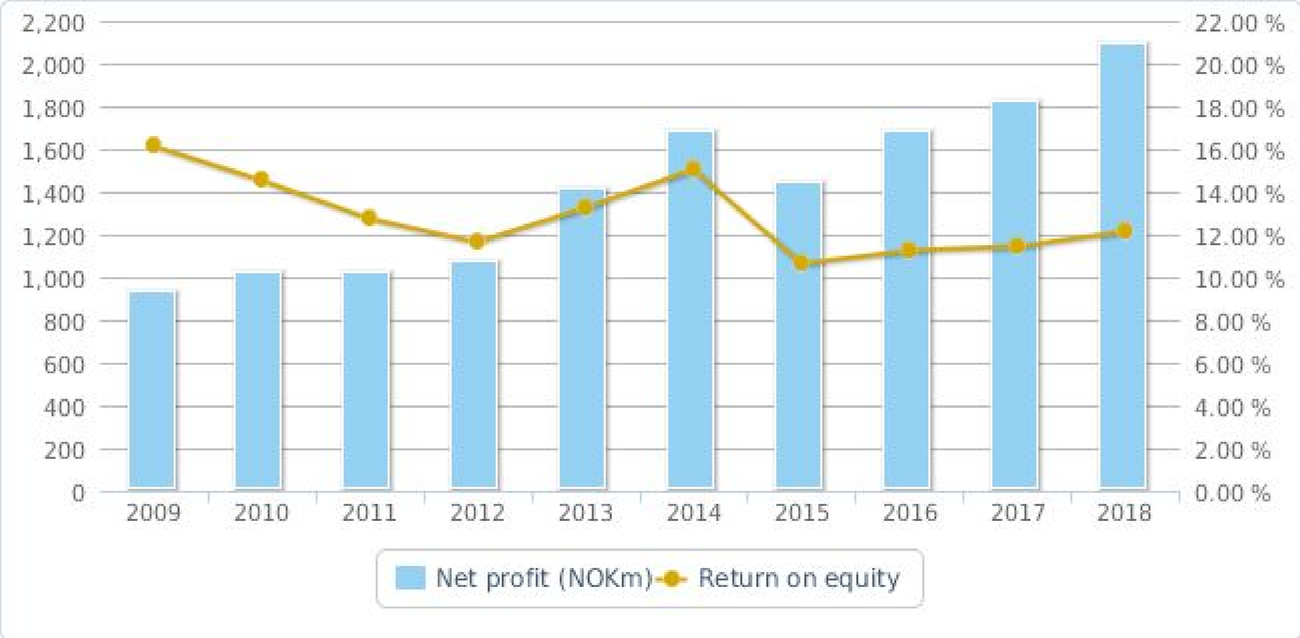
Income statement NOKm	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Interest income	4,057	3,825	3,597	4,031	4,265	4,118	3,928	3,891	3,422	3,462	4,827
Interest expenses	1,655	1,600	1,668	2,111	2,424	2,483	2,451	2,499	2,105	2,137	3,477
Net interest and credit comissionincome	**2,403**	**2,225**	**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 investements	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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
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

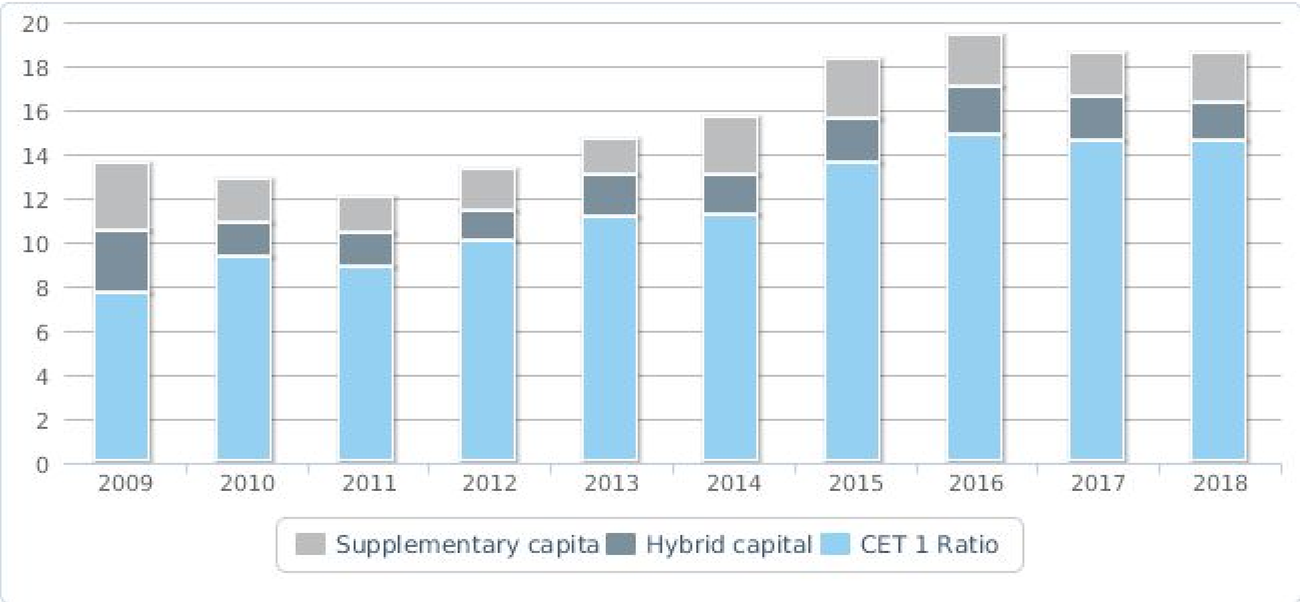
SpareBank 1 SMN

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

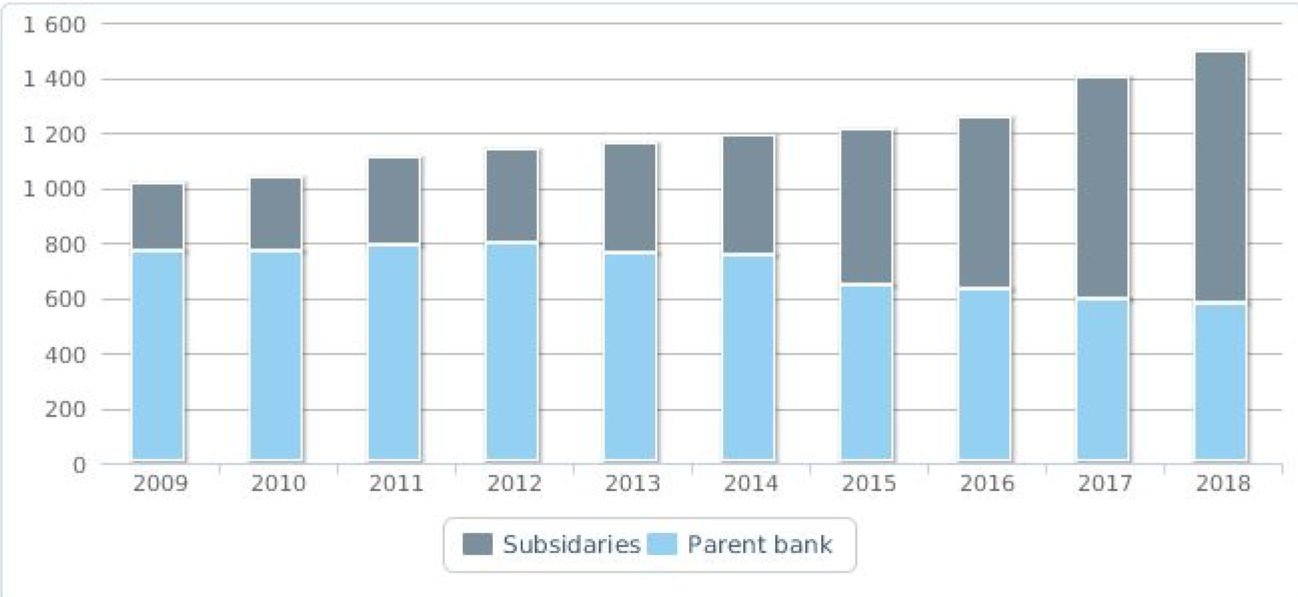


Capital ratio

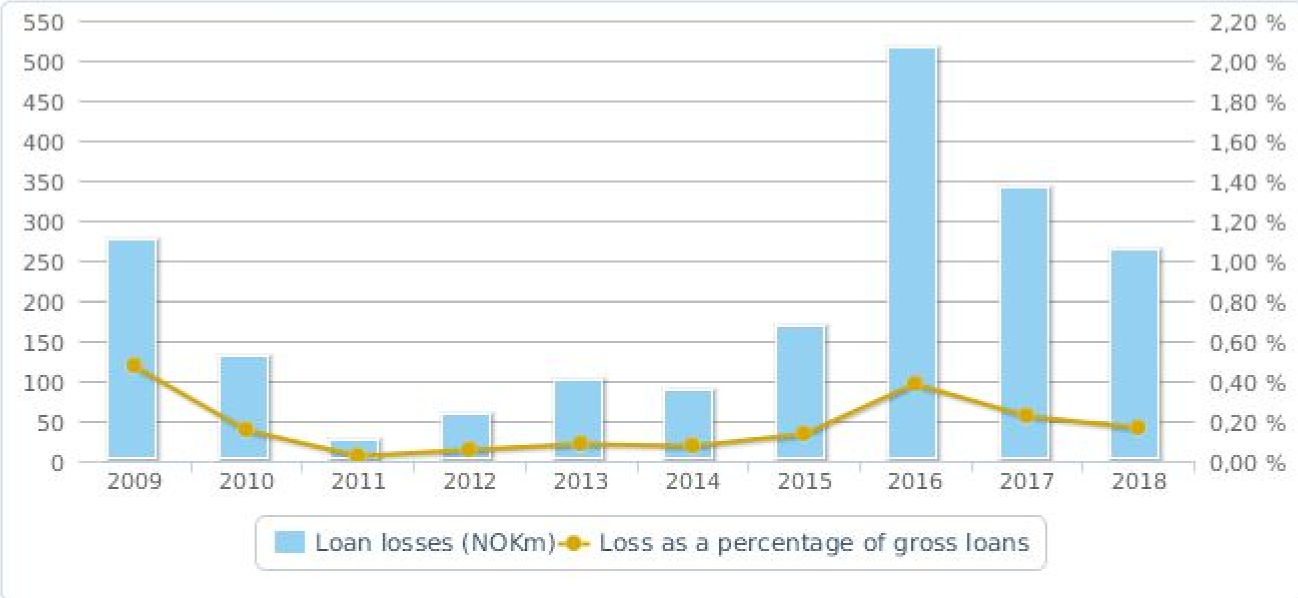


Loans and deposits (NOKbn)

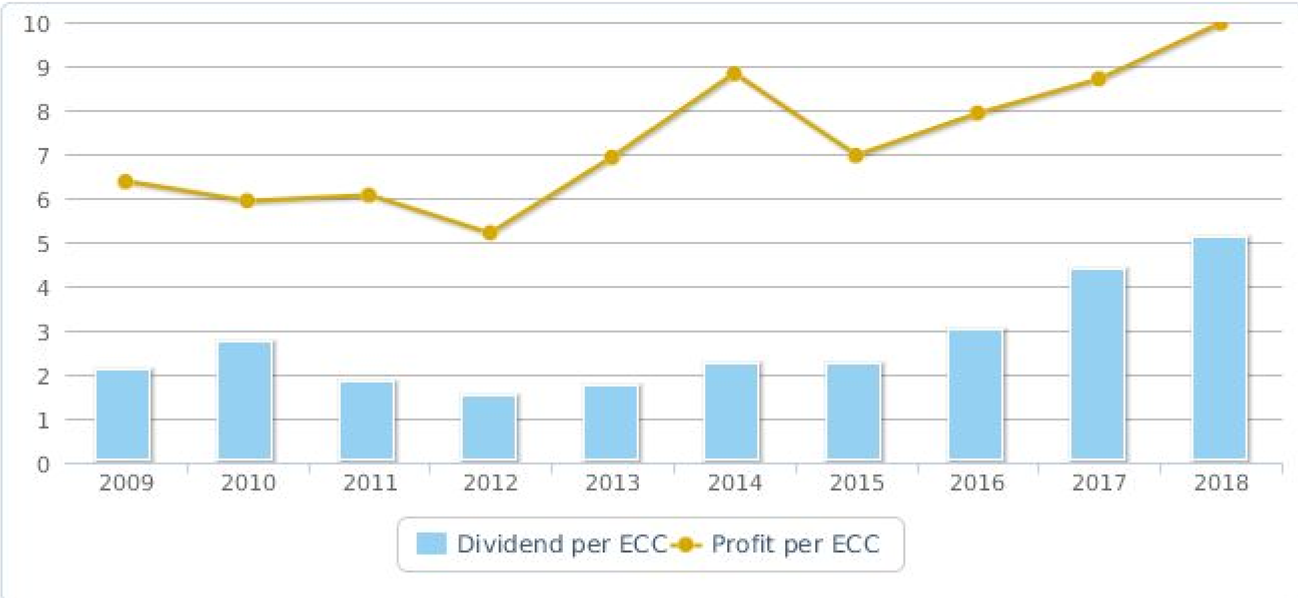
FTEs



Loan losses



Dividend and profit per ECC (NOK)



SpareBank 1 SMN

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)

Auditor's report

Deloitte.

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Dyre Halses gate 1A
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Norway

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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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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

SpareBank 1 SMN

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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.

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.

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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.	

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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Independent Auditor's Report – SpareBank 1 SMN

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.