2019

ANNUAL REPORT

Together we make things happen

SpareBank 1 SMN

Contents

About the bank

Statement by the Group CEO

Our course set for 2023

On Friday 26 May 2023 it will be 200 years ago to the day since the bank was founded, as Trondhjems Sparebank. According to a study by McKinsey, the average lifetime of major companies is now barely 18 years, compared with 61 years in 1958. Although this trend is not equally marked among Norwegian firms, we rarely come across companies that have survived for 200 years. And we have done more than just survive. In 2019 we delivered our best ever profit performance, combined with a high pace of development. SMN is thus a youthful 200 year old.

Much of the secret has been down to an organisation reflecting a healthy balance between continuity and renewal. We have also developed our distinctive qualities through a quite special ownership model that combines stock exchange and society. Social ownership now stands at almost 40 per cent if we include ownership via the foundation Sparebankstiftelsen SMN. It also means that a corresponding share of the dividend is returned to the central Norwegian community.

Through our social dividend we have contributed to building local communities across the entire region throughout our history. The community as long-term owner has been crucial to building our strong position in Central Norway. The ownership model is also key to maintaining the bank’s independence and further growth. Social ownership and social dividend will therefore receive even greater prominence in the run-up to the anniversary in 2023. The strong profit performance we have delivered enables us to share almost half a billion kroner with the regional community. NOK 200 million will be invested at the local level throughout the region this year alone. The remainder goes to the foundation Sparebankstiftelsen SMN, which is the community’s ‘savings account’ enabling continued ownership of SMN. And if we accomplish the financial goals we have set ourselves, we will invest almost a billion kroner of our social dividend up to and including 2023. This will give the group a quite unique market position.

At the same time renewal has been crucial to the evolution of the bank. Today traditional banking operations account for about a third of the bank’s 1600 employees, and we are less dependent on net interest revenues than ever before. About half of our revenues now derive from sources other than the interest margin. This would not have been possible had we not ventured to develop new business lines. The most immediate example is Regnskapshuset (accounting and payroll services), which now accounts for almost as many employees as banking operations and delivers solid contributions to our results. Together with EiendomsMegler 1 Midt-Norge, Finans Midt-Norge, SpareBank 1 Markets, Spire and SMN Invest, the subsidiaries offer a product range that makes us a fully-fledged finance house. We are already engaged in getting all our strong specialist units to interact more closely across the group, and this will receive high priority in the year ahead. One of our foremost competitive edges is our spearhead competence residing in the region, combined with local decision making.

The 2019 profit performance is unparalleled in our 200 year long history. A post-tax profit of NOK 2.5 billion, with a return on equity far in excess of the 12 per cent target, puts SpareBank 1 SMN right at the top as one of the best performing banks in the country. With a dividend payout ratio of a good 50 per cent, we are accordingly paying a record high dividend to our EC holders. We are well pleased with that. But we have now set ourselves the ambitious goal of yet further improvement. Competition is tight and is felt across the entire group. That is why we intend to limit our annual cost growth in 2020 to a maximum of 2 per cent, which will enable us to continue to deliver competitive terms and good return to EC holders in the run-up to 2023.

In recent years we have focused heavily on technology and digital development, both in our own business and together with others. Most of our development work in the past 20 years has been in collaboration with the other banks making up the SpareBank 1 Alliance. Vipps, which after just a few years of operation has more users than Facebook in Norway, is a result of our cooperation with 124 other banks. In 2020 we will considerably expand our efforts both under our own auspices and together with others, as clearly manifested by the establishment of a dedicated position in the group management team with responsibility for digital development.

The banking market is rapidly changing, and requires new methods of working. We have long seen more and more people choose their bank through collective arrangements offered by organisations to which they are affiliated. We too are being challenged by other banks that have taken customers from us through such agreements. Hence the fact that last summer we were one of two banks to win the competition for an agreement for members of the Norwegian Trade Union Confederation (the LO), gives us a solid platform for further growth. This is the largest-ever banking agreement in Norwegian history, and gives us access to almost a million LO members across the country, of which 175,000 live in Central Norway.

From this year onwards sustainability will permeate SpareBank 1 SMN's entire business. This is a substantial project which imposes obligations. Put simply, sustainability has largely been a matter of fine words on grand websites. The time has now come to add substance to such words, well knowing that this will have corollaries. But we believe that the costs of inaction will be considerably larger

SpareBank 1 SMN has lived with and for the region for almost 200 years. We have now set our course for our 200th anniversary in 2023. We will position ourselves for further growth, we will enhance profitability throughout the group, and we will deliver solid results that benefit both private investors and the regional community as our largest stakeholder.

Jan-Frode Janson
Group CEO

Key goals and strategies

Vision and values

Our new vision is about creating energy, results, change and development. "Together we make things happen" is our vision. *Together* is the opening word, which is no coincidence. Achieving what we want to achieve is only possible together with others – with colleagues, customers, suppliers, partners and other local and regional resources. We want to build relations and team up. *Making things happen* is about creating energy, results, change and development. Things happen when we enter the scene.

Our values are:

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

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

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

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

The companies making up the SMN Group currently embrace a range of visions and values. The effort to bring about 'One SMN' (see below) gives priority to a vision and values that are shared across the group.

New strategy: One SMN

The board of directors adopted a new strategy for the group in December. The strategy describes the group's overarching ambitions and priorities for the period to 2023.

SpareBank 1 SMN intends to be the leading finance house in Central Norway, and among the best performers in the Nordic region. SpareBank 1 SMN will create financial value, build society and take its share of the responsibility for sustainable development.

SpareBank 1 SMN aims to be among the best performers in the Nordic region. This involves

- **Being profitable**, with a 12 per cent return on equity
- **Being financially sound**, with a CET1 ratio of 16.9 per cent. Payout ratio about 50 per cent
- **Being efficient**. Annual cost growth in the group to be limited to 2.0 per cent within existing business
- **A strengthened market position**. Ambition to be no. 1 in the group's business lines

- **The most satisfied customers**. Ambition to have the most satisfied customers in all business lines and market areas
- **A proud and committed staff.** Ambition to have the most committed workforce in the financial industry in Norway
- **Quality** in all our work

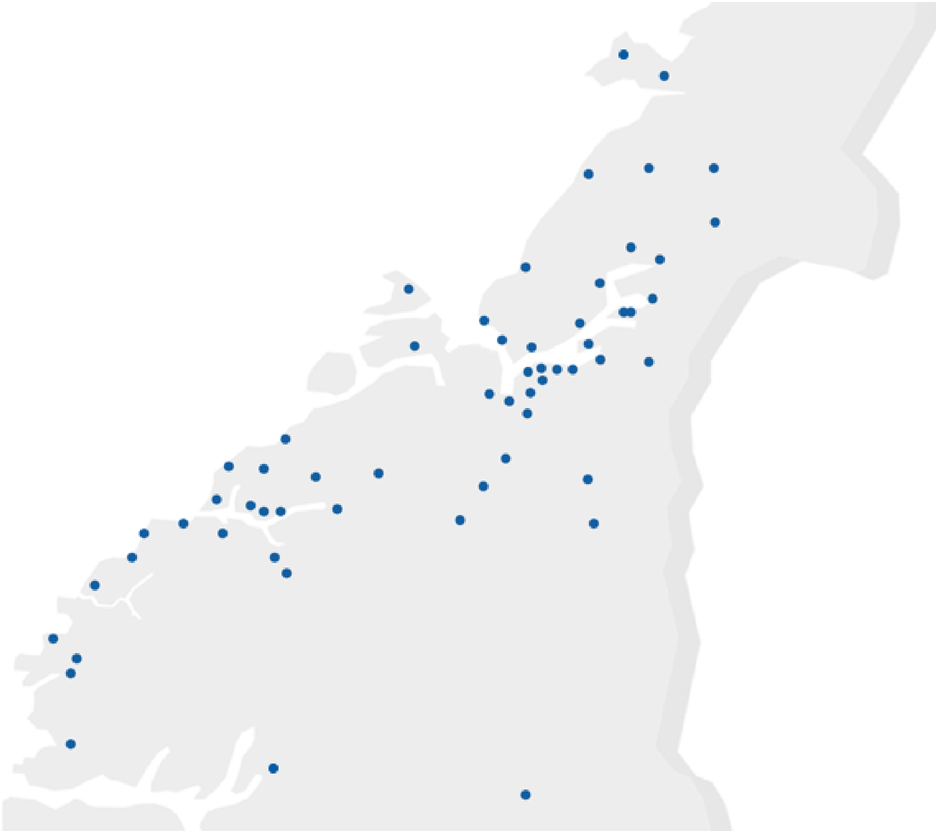
SpareBank 1 SMN will further develop its strong aspects – the group has delivered high return over time and has robust customer relationships. Five strategic priorities are highlighted for the strategy period. These entail:

- The creation of One SMN
- Increased digitalisation and use of insight
- A leading role in the development of Norway's savings banks
- Integrating sustainability into the business
- Exploiting the power present in the ownership model

In order to achieve the goals of the group strategy and to increase competitive power, a comprehensive enhancement programme termed One SMN has been initiated. One SMN is a comprehensive programme designed to enhance profitability through increased exploitation of synergies, increased incomes, cost efficiencies and improved capital utilisation.

Close at hand

We focus on a combination of skilled advisers across many locations and simple, good digital solutions. The SpareBank 1 SMN group is on hand with almost 1600 employees in 80 locations. A local presence and local-level decision making are our foundation.



Important events in 2019

First quarter

- Post-tax profit of NOK 401 million in the fourth quarter of 2018
- The bank's 'plastic waste clean-up project' crowned 'social commitment project of the year' by the Norwegian Sponsoring and Event Association
- The Supervisory Board adopts dividend of NOK 5.10 per equity certificate after 2018
- Kjell Bjordal re-elected board chairman for a two-year term

Second quarter

- Post-tax profit of NOK 1,046 million in the first quarter of 2019
- SpareBank 1 elected most sustainable brand in finance by Sustainable Brand Index
- Jan-Frode Janson takes over as Group CEO after Finn Haugan
- Møre and Romsdal county council reselect SpareBank 1 SMN as their main bank
- DeBank (now SpareBank 1 Spire Finans) integrated into SpareBank 1 SMN, offers invoice purchase as a new group product
- Moody's revise their rating outlook for SpareBank 1 SMN from negative to stable

Third quarter

- Post-tax profit of NOK 683 million in the second quarter of 2019
- The Norwegian Trade Union Confederation (LO) choose SpareBank 1 SMN as one of two recommended mortgage lending banks for their membership of almost one million
- SpareBank 1 SMN endorses the UN principles for responsible banking, one of five Norwegian banks to do so
- The bank issues the first Norwegian green senior bond in Europe, with NOK 5 billion earmarked for loans to sustainable commercial property, fisheries and aquaculture

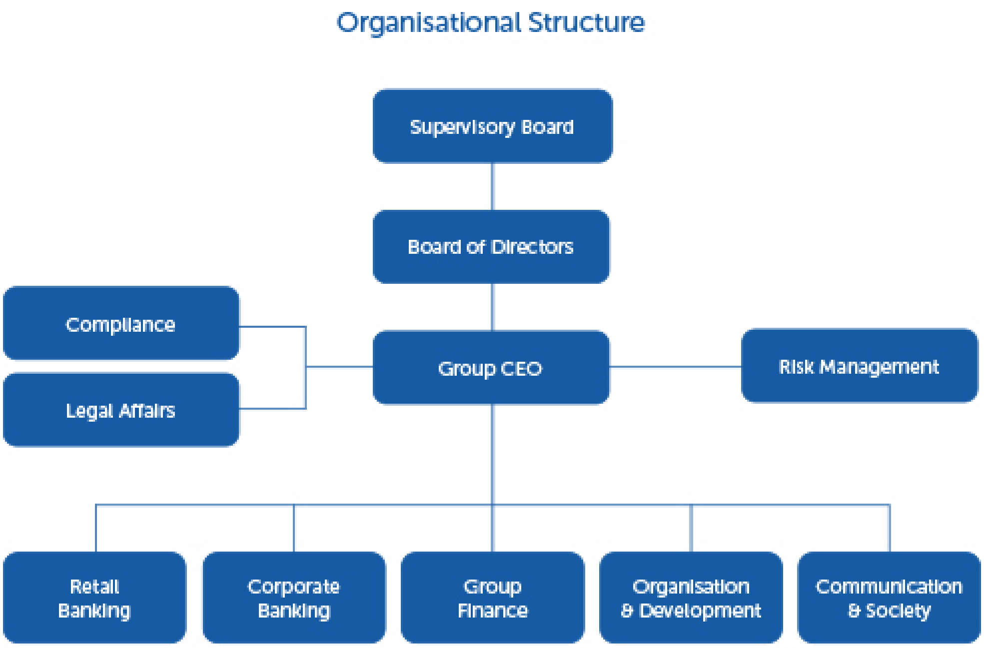
Fourth quarter

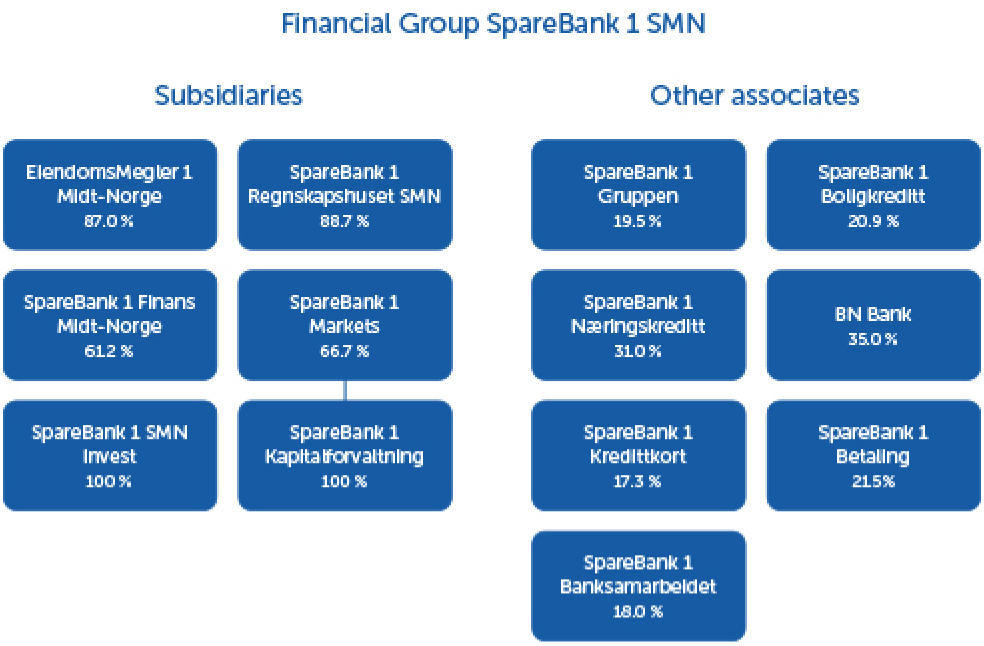
- Post-tax profit of NOK 488 million in the third quarter of 2019
- In the year's edition of Economic Barometer for Central Norway the bank revises its forecast for the coming year from positive to neutral, but predicts continued high activity
- EiendomsMegler 1 Midt-Norge and BN Bank sell all shares of BN Bolig to Eiendomsmegler Krogsveen
- Astrid Undheim appointed new executive director with responsibility for technology and development
- Launch of green loans to retail borrowers: green residential loan, green loan for energy initiatives and green consumer loan

The business

Business description

SpareBank 1 SMN is the region's leading financial services group and one of six owners of the SpareBank 1 Alliance. Its head office is in Trondheim and the group and its subsidiaries employ 1,600 staff. SpareBank 1 SMN is a regional independent savings bank with a local footing. Through the SpareBank 1 Alliance and its own subsidiaries, SpareBank 1 SMN has secured access to competitive products in the fields of financing, savings and investment, insurance and payment services. The bank is organised under the following structure:





Retail Banking

Together with product suppliers and subsidiaries, Retail Banking offers a broad range of financial products and services. Our aim is to provide customers with a sense of security and an overview of their finances, and to be on hand when needed. We intend to be the best at combining local proximity with digital simplicity in a way that makes a difference to people's daily life and through the various life phases.

Our advisers are well versed in personal finances, they care about their customers, and they enable the customer to be certain he or she is making the right financial choices. We are on hand when a customer encounters new financial milestones, whether related to moving into or out of their home, embarking on or ending working life, family expansion or contraction, insuring possessions, or helping out with a project.

We work hard to provide the industry's best digital solutions, and espouse innovation in order to develop our services and make them more accessible. In 2019, 48 per cent of our sales in Private Banking were digital, reflecting a substantial change in customer behaviour. At the same time we see the value of a local presence that gives the customer an opportunity to meet us for one-stop advice, and to feel that that we are something more than the sum of our products. Through a good interplay between digital solutions, the customer service centre and our local presence, we will help the customer make good financial choices.

In addition to following the industry's norms and requirements as regards good advisory practices, we must as a bank also utilise our knowledge and insight to continuously improve the quality and relevance of the services and advice we offer our customers.

Customers and market position
In 2019 SpareBank 1 SMN strengthened its position as the leading actor in all customer groups and all product areas in the retail segment.

Our business has a strong standing among our customers, and shows a good trend in customer satisfaction. The interaction with subsidiaries and the corporate banking division is important in enabling Retail Banking to attain its goal of continued growth.

In September we were chosen by the Norwegian Confederation of Trade Unions (LO) as one of two banks to provide LO members with residential mortgages. This led to heavy demand which generated 5.9 per cent growth for the year as a whole. The agreement with the LO gives us access to more than one million LO members, and there are high expectations of continued growth in this segment in 2020. We also recorded good growth of 4 per cent in deposits. The deposit growth is a result of a focused effort to ensure that all customers hold their salary and current accounts with us, and reflects a conscious desire on the part of many of our new borrowers to turn to us for their day-to-day banking.

Financial developments
Retail Banking posted an overall pre-tax profit of NOK 1,270 million.

The loan portfolio shows growth of 5.9 per cent in the retail segment in 2019. The growth is largely down to new borrowers joining us from other banks, but also to refinancing of loans in the existing portfolio. The substantial growth in the second half-year largely reflects the influx of new LO customers, while the agreement with the LO is also bringing in more customers from outside Central Norway. Growth in the number of multi-product customers was on a par with the preceding year.

We note an increase in the number customers in default, and the default volume has risen compared with previous years. More customers are struggling to honour their debt commitments. This applies to residential mortgages and unsecured credits alike. Since the introduction of the debt register in July 2019, the number of loan refusals has doubled. This indicates that the information now available to us on customers' overall debt burden contributes to more exacting assessments of creditworthiness. We are in our estimation in good control of the risk present in the loan portfolio, and losses on loans and guarantees in 2019 were at a low level of NOK 32 million. At year-end, compliance with both the residential mortgage lending regulations and the consumer lending regulations is good. The division's advisers and managers have ensured a healthier trend in loan approvals over the course of the year behind us. A systematic effort has been made across all aspects of the credit process – loan approval, monitoring and repayment.

Rise in digital channel sales

We aim to be best in combining local proximity and digital simplicity.

Nelly S. Maske, Executive director, Organisation and Development

Expectations of 2020

Global growth shows a number of signs of slowdown which may in turn mean reduced growth for Norway's open economy. Although the Norwegian economy continues to prosper, the rate of growth appears to have levelled out. We take a basis in an expectation of continued stable, low unemployment and a stable central bank base rate. Norwegian households' debt growth has slowed somewhat in the past two years or so, which may imply stronger competition among banks for residential mortgage borrowers. For 2020 a market growth rate (C2) of about 5 per cent is anticipated.

Households will also be affected by the substantial readjustment facing us if we are to meet the climate objectives set. This could on the one hand pose a threat to growth and financial stability because investors and consumers change their preferences. On the other hand the readjustment could provide business opportunities. SpareBank 1 SMN will need to handle and price climate risk correctly, while at the same time developing new products and services.

Recent years have seen major changes in, and tightening of, the regulatory framework in which Norwegian banks operate. This trend is expected to continue, and we will need to make allowance for it in the bank's realignment ahead. The area viewed with most suspense at the start of 2020 is savings and investment. The introduction of MiFID 2 will bring changes to the banks' business models, and the SpareBank 1 banks will launch new customer offerings in both the digital and human channel over the course of 2020.

Despite prospects of lower growth, we have set ambitious goals for 2020 with of course the LO as the chief driver. High growth is important in safeguarding the investments made by the bank in digital channels in recent years and in order to take this development forward.

Our planning incorporates relatively stable deposit margins, although we also note discussion on banks' practices with regard to higher margins on deposits versus loans.

A digital bank with a personal signature

2019 was another year confirming that our strategy as a one-stop provider of financial services that combines simple digital solutions with skilled advisers, is well-suited to the retail customer. Customers are making ever more demands of us as a bank, and we see these demands changing based on needs, situation and life phase. That is why we are offering more products and services across more channels than ever before.

Creating a good customer experience is our most important task. For us this is about knowing the customer, being relevant and offering good advice when the customer needs it. We build effective and efficient digital services that simplify families' daily life, we make products and services readily available, and we offer skilled advice in the more demanding situations that arise in a customer's life.

We retain our focus on a strong local presence. In 2019 we opened a new branch in Moholt in Trondheim which assembled our activities in that part of the city. We now have 46 locations offering advisory services in our region. In keeping with the transition to a more digital existence and fewer enquiries related to day-to-day banking (payments) and services, and a growing need for advice, we see a need to modify opening hours across our branch network. Customer service will to a greater degree be provided through good intuitive digital solutions and more and more often via the customer's mobile bank, the chat facility or the customer service centre.

In 2019 we further developed our CRM system with the aim of ensuring a good customer experience across the bank's channels. Customers must have assurance that we are fully updated on their accounts etc. and on their customer relationship and contact with us, irrespective of how this was established or took place.

The revised payment services directive, PSD2, was introduced in September, enabling each Norwegian banking customer to assemble his or her payment accounts in a single overview. Thus far most customers have opted to view their accounts with other banks in our digital interfaces, but PSD2 opens the door to a more open banking market, and we expect this to lead to a tighter competitive situation.

2020 awaits us with new, exciting opportunities. We will continue to seize our opportunities and provide our customers with better advice, our staff with a sense of achievement and a stimulating working day, and our investors with a good return.

Retail Banking	**2019**	**2018**
Deposits	41.6 bn	40.0 bn
Loan	119.4 bn	112.7 bn
No. of customers	226 000	223 000
No. of FTEs	353	316
Profit before tax	1,270 bn	1,206 bn

Corporate Banking

The business line Corporate Banking offers investment and operations finance, advisory services, domestic and foreign money transfers, fixed income and currency hedging, investment of surplus liquidity and insurance of individuals and buildings/operating equipment to businesses and industry. Much of the business is in close cooperation with Retail Banking, SpareBank 1 Markets and with subsidiaries and related companies offering leasing, factoring along with accountancy and advisory services. The business is physically located across the entire bank's market area to secure proximity to customers. The business line has units with specialised industry and product knowledge.

The bank is IRB approved and uses the advanced IRB approach to compute capital charges and credit risk. The bank has good credit scoring models, processes and tools along with its organisation of industry competence which ensures sound knowledge and management of the loan portfolio. This will assure that further growth is in keeping with the bank's responsibility as a market leader in the region and that risk exposure is consistent with the bank's credit strategy. Together with the other banks in the SpareBank 1 Alliance, the bank expends substantial resources on continuously improving the credit scoring models.

Customers and market position

In 2019, 1015 new corporate clients were registered. SpareBank 1 SMN has a market share of about 35 per cent of the corporate market in the region, measured in terms of customer numbers. The bank also services a number of customers in business lines such as insurance, capital market, leasing, factoring and accounting. The business sector in Trøndelag and in Møre and Romsdal features a large number of small and medium-sized companies. This structure has a clear bearing on the bank's organisation of its business.

Direct Corporate Banking provides clients with good follow up and relevant advice in selecting products and services and in the use of digital services. In a dedicated customer satisfaction poll, Direct Corporate Banking scores very highly in areas such as competence, service, information and initiative.

Financial developments

Corporate Banking increased its income by almost NOK 50 million to NOK 1.25 billion in 2019. Incomes are generated by a positive trend in all business lines, but in particular from increased deposit margins and higher guarantee commissions. Income from insurance (general and life) is rising and more and more businesses see the value of turning to a local provider offering local competence in all product areas.

In step with the digitalisation of our products and services, Corporate Banking has downsized its staff and thereby its costs in this business line. There is a strong focus on digitalisation of products and a continuous effort is made to improve process efficiency.

Since 2014 the oil price fall has led to a significant deterioration of prospects for companies working in oil and offshore. We have therefore booked a number of losses to this segment. The write-downs are in all essentials related to a portfolio of offshore service vessels. Little spread of contagion from the low oil price to other industries is in evidence and losses and defaults elsewhere in the portfolio are very low.

Full focus on SMBs

In 2020 we will contribute to an increased degree of self-service and provide more advice on digital channels.

Vegard Helland, executive director, Corporate Banking

Sustainability given greater prominence

The bank attaches much importance to having business advisers with a practical business understanding. For 2020 priority is given to competence requirements in the field of sustainability.

The bank will in the course of the year undertake an ESG classification of the loan portfolio, conduct risk assessments in each segment for implementation in the bank's credit scoring models and, not least, provide the individual client with necessary advice in order to move the bank towards climate neutrality. Interest on loans and deposits will to a greater degree be used both to reward and penalise clients depending on their ability to implement the sustainability goals in their own business.

Corporate Banking employs a systematic approach to attract new customers, and all customer advisers have specific customer recruitment objectives. Continuous improvement is key to freeing up time for the customer advisers to enable them to carry out their primary task of taking care of existing customers and recruiting new ones. In 2020 we will continue to focus on the SMB segment with a view to reducing industry or single name concentration.

The solution lies in having skilled advisers close at hand in the bank combined with development of new digitalised solutions that make day-to-day banking a simpler matter and that free up time and resources which can be devoted to providing good advice and to designing solutions tailored to the customer. In collaboration with other banks in the SpareBank 1 Alliance, the bank has developed new digital services for business and industry. This is done at an innovation unit whose mission is to launch concepts, products and services that are tailored throughout to the needs of small and medium-sized businesses and simplify their everyday life.

A continuous effort is being made to adapt our customer interface to business and industry's information needs. In 2020 we will contribute to a greater degree of self-service and provide more advice on digital channels.

An objective of the bank is to reduce losses from the levels seen in 2019. This, together with a profitability enhancement programme for the division, will improve profit and the risk adjusted return. The bank remains prepared to take the action needed to meet any problems that may arise in the oil and offshore sector. It is working closely with clients to find solutions that safeguard shared interests in the economic situation prevailing at any time. Corporate Banking will accordingly maintain the capacity and competence needed for the bank to remain a readily accessible and capable provider of financial services in the long term.

Although the macroeconomic picture is uncertain on a general level, challenges vary in the sectors to which the bank's clients are exposed. Again in 2019 the bank published its economic barometer for Central Norway which takes the pulse of the most important industries in the region and produces economic growth forecasts for our two counties. After two intense years in central Norwegian business and industry, there is greater uncertainty as to whether the pace of activity will be equally high in 2020. We therefore revise our forecast for the coming year from positive to neutral, but still anticipate high activity.

Næringsliv	**2 019**	**2 018**
Deposits	42.8	39.2 bn
Loans	40.2 bn	40.5 bn
No. of customers	15 000	15 000
No. of FTEs	158	148
Profit before tax	765 m	744 m

Sustainability report

Sustainability report

Responsible finance house

A: EQUAL RIGHTS
B: FINANCIAL SERVICES FOR ALL
C: STIMULATING INNOVATION AND DEVELOPMENT
D: SUSTAINABLE ADVICE
E: PREVENTING FINANCIAL CRIME

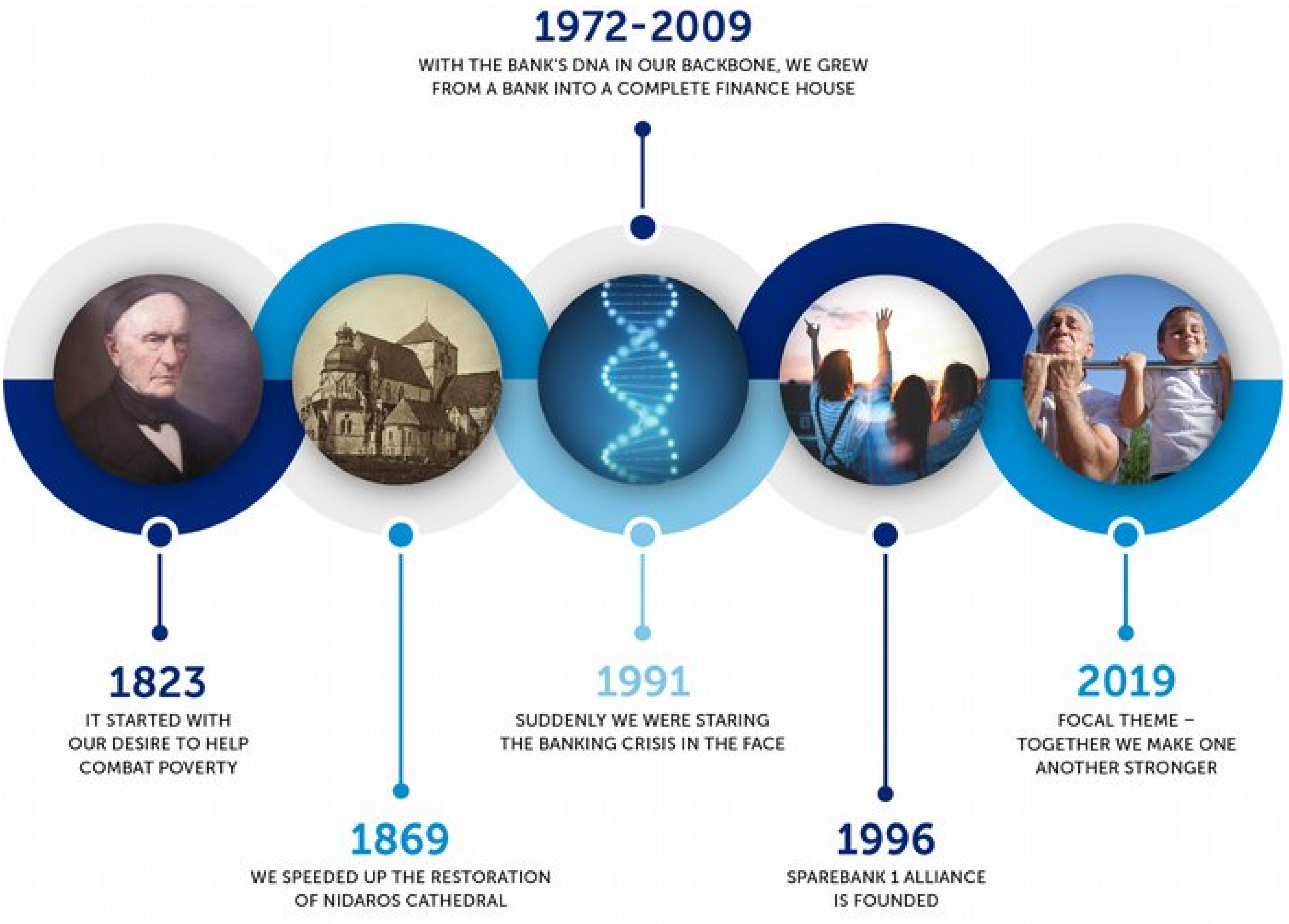
What characterised SpareBank 1 SMN in the year behind us?

In 2019 SpareBank 1 SMN changed more than we could foresee at the start of the year. We strengthened our position as a finance house through the acquisition of DeBank, the merger with Fremtind and several acquisitions by Regnskapshuset. In addition, the agreement with the Norwegian Trade Union Confederation (the LO) provides a solid foundation for further growth.

In parallel with this we intensified our systematic work on sustainability. The issuance of our first green bond and signing of the UN principles for responsible banking were two milestones in 2019.

ESG is an acronym for ‘environmental, social and governance’. A positive trend in our ESG rating confirms that we are on the right path

This inspires and motivates us. We go to work each day in order to make a difference for people who live and run a business in the region. In our sustainability report you can read more about what we have done in the year behind us.



The story of SpareBank 1 SMN

1823 | It started with our desire to help combat poverty

The year was 1823. There was much poverty and need in the country. Society needed a benevolent institution and 44 of Trondhjem's most prominent men raised capital for a common fund – to start a savings bank. They donated a total of 1,596 specidaler, and Trondhjem Sparebank was founded with an ownership model that took on a social responsibility from day one.

Trondhjem Sparebank was established on 26 May 1823, with the following objects clause:

"to encourage the common people to save so that the less fortunate might have something to engage in by starting a business, entering into marriage, in time of distress or in troublesome old age."

The bank's first manager was Jacob Roll, later to become the town's first mayor. Over the next hundred years savings banks were founded across the entire region. Thus starts the story of an undertaking that was to prove to be more than a bank – and its journey to what is today SpareBank 1 SMN.

1869 | We speeded up the restoration of Nidaros Cathedral
It became a custom early on to devote part of the bank's net profit to support worthwhile projects in the region. In 1869 the Nidaros Cathedral lay partially in ruins after fires and poor maintenance. There was much discussion about who should assume responsibility for restoring the national sanctuary. Then the board of representatives of Trondhjem Sparebank announced that each year, for the next 10 years, they would set aside 3,000 specidaler for the restoration of Nidaros Cathedral – with the important proviso that the government contributed 7,000 specidaler each year.

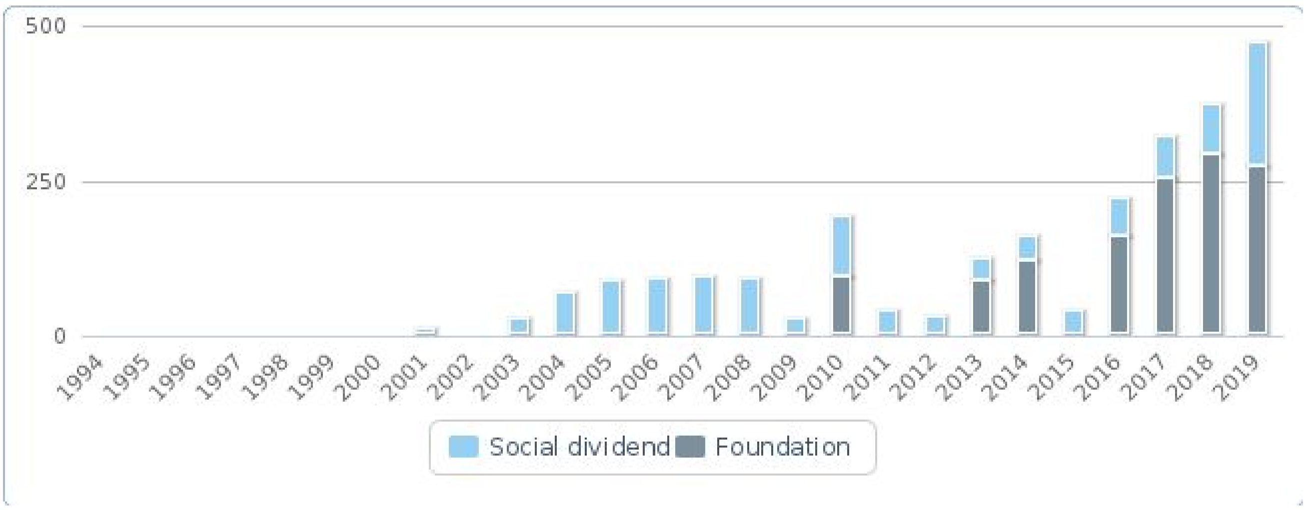
This speeded matters up! Not just as regards the restoration; it also led to the establishment of Nidaros Cathedral Restoration Workshop. And in 2019, when Nidaros Cathedral Restoration Workshop celebrated its 150th anniversary, it came to us: that we have played a part in making this happen.

Up to the present we have contributed close to a hundred million kroner to various projects in and around Nidaros Cathedral.

1972 | With the bank's DNA in our backbone, we grew from a bank into a complete finance house
SpareBank 1 SMN has been an important social actor right from its establishment, and behind our role in society there lies a strong basis in values. Our goal throughout has been to offer good financial advice and by that means safeguard people's and firms' everyday finances. Although the organisational set-up has changed, the goal lives on, and sits in the backbone of those who work here. It is the bank's DNA.

As from the mid-1970s many of the local savings banks in the region merged. We changed name to Trondhjems og Strindens Sparebank (1975), to Sparebanken Midt-Norge (1985) and then to SpareBank 1 SMN (2008). And, when the bank lost its equity capital (1991), SpareBank 1 SMN was admitted to the Oslo Stock Exchange (1994). Two years later the SpareBank 1 Alliance saw the light of day (1996). SpareBank 1 SMN acquired Romsdals Fellesbank (2005) and BN Bank Sunnmøre (2009).

Today the financial group SpareBank 1 SMN has the following subsidiaries: EiendomsMegler 1 Midt-Norge, SpareBank 1 Finans Midt-Norge, SpareBank 1 SMN Invest, SpareBank 1 Regnskapshuset SMN, SpareBank 1 Markets, SpareBank 1 Kapitalforvaltning and Spire Finans. We started as a bank, now we are a fully-fledged finance house.



Development in the size of social dividend

1991 | Suddenly we were staring the banking crisis in the face

The community was our sole owner right up to 1991. But with the onset of the financial crisis and the banking crisis in Norway, our entire equity capital was lost necessitating a bail out by the central government. SpareBank 1 Midt-Norge was refinanced by means of fresh equity from the Government Bank Insurance Fund. This entailed a new ownership model, although we had, and still have, substantial shared interests with the community of which we are a part. At the same time it is important for us to meet our shareholders' need for commercial and business-related assessments. This we have done by delivering good returns and by being a profitable investment for our investors.

Today the bank is 64 per cent owned by shareholders – private individuals, large financial investors and institutions, while 36 per cent is owned by the community, i.e. our customers. This means in practice that more than a third of our value creation is returned to the community. This is termed social dividend.

Social dividend is aimed at benefiting the entire region. Clubs, associations and organisations can apply to have social dividend allocated to worthwhile projects. We have two application deadlines per year and receive about 3,000 applications each year. More than 1,000 different projects receive support. In 2019 we distributed NOK 80 million to projects in the fields of sports, culture, and community and business life in our region.

1996 | SpareBank 1 Alliance is founded

Most people desire security, a good overview and a bank which is there when they need it. At SpareBank 1 SMN we aim to be best at combining local proximity and digital simplicity in a way that makes a difference in people's everyday life and through the various life phases.

We have advisers who are well versed in personal finances, who care about their customers, and enable the customer to be certain they are making good (financial) choices. We are on hand when a customer encounters new financial milestones, whether related to moving in or out, starting or ending working life, family expansion or contraction, insuring possessions, or helping out with a project.

Our bank espouses innovation. Through our collaboration in SpareBank 1 we develop the smartest solutions for our customers' everyday finances. Solutions which provide customers with a good overview and good advice and which make large or small online bank errands a simple matter.

Since 2017 SpareBank 1 SMN has supported the UN's work on sustainability by endorsing the UN Global Compact. Through this compact the bank undertook to work for continuous improvement in the areas of human rights, employee rights, the environment and anti-corruption. For us at SpareBank 1 SMN this is a natural extension of our own values, and is something we recognise and strive to improve our performance on.

2019 | Focal theme – together we make one another stronger

Life is lived at the local level. As a bank we are proud of the localities we hail from. From Årdal in the south to Rørvik in the north. We take the initiative for and support activities which promote people's well-being and the building of strong local communities. We kick-start entrepreneurs, disseminate knowledge, establish venues, sponsor and cheer on local initiatives.

Sustainability is on the way to being integrated into our business. We take corporate social responsibility by highlighting a specific theme anchored in the UN sustainability goals each year in the run-up to our 200th anniversary in 2023. In 2018 we focused on sustainability goal no. 14: life below water, in the shape of our ‘plastic waste clean-up project’. In 2019 our focus was on public health and sustainability goal no. 3: healthy lives and wellbeing, in the shape of ‘getting people out of their sofa’. Going forward we will keep hold of our experience of working together with the entire region. We will provide support to a variety of worthwhile projects, and in 2020 we will make an extra effort to reduce food waste, acclaim central-Norwegian food producers and focus on sustainability goal no. 2: zero hunger.

Together we make things happen.

Responsible finance house[1] for almost 200 years

The group’s social responsibility has two dimensions. One dimension is to operate a profitable and sustainable financial group. The other dimension is by virtue of being a community-owned financial group. In our ownership model the regional local community is represented on the bank’s highest body – the supervisory board – at the same time as the rightful portion of the net profit (36 per cent) is allocated to social dividend.

SpareBank 1 SMN is a finance house offering a complete range of financial products and services. We meet our customers with a local presence, knowledge and good digital solutions. SpareBank 1 SMN contributes to sustainable value creation and a strong regional social commitment, both through its own activities and in collaboration with others. Based on our history, business model and ownership model, the board of directors underscores that sustainability has been an integral and natural part of our operations and development for almost 200 years.

1) SpareBank 1 SMN is required d to comply with the CSR reporting requirements set out in the Accounting Act section 3-3(c). This provision requires SpareBank 1 SMN to describe “what the institution does to integrate the regard for human rights, worker rights and social conditions, the external environment and the combating of corruption into its business strategies, into its day-to-day operations and into its relationship with stakeholders.

We think globally and act locally
SpareBank 1 SMN’s financial products and services can play an important role in the efforts to resolve our era’s most pressing national and global challenges as they are defined in the UN Agenda 2030 for sustainable development. We have therefore committed ourselves to the UN principles for responsible banking and to the UN Global Compact. By supporting these global initiatives we will demonstrate how our business can contribute to promoting sustainable development:

1. Creating value
2. Building local communities
3. Preserving the planet

New group strategy – One SMN
The board of directors of SpareBank 1 SMN adopted a new group strategy in December 2019. The strategy sets out the group’s overarching priorities for the period to 2023, and lays a common basis for all companies

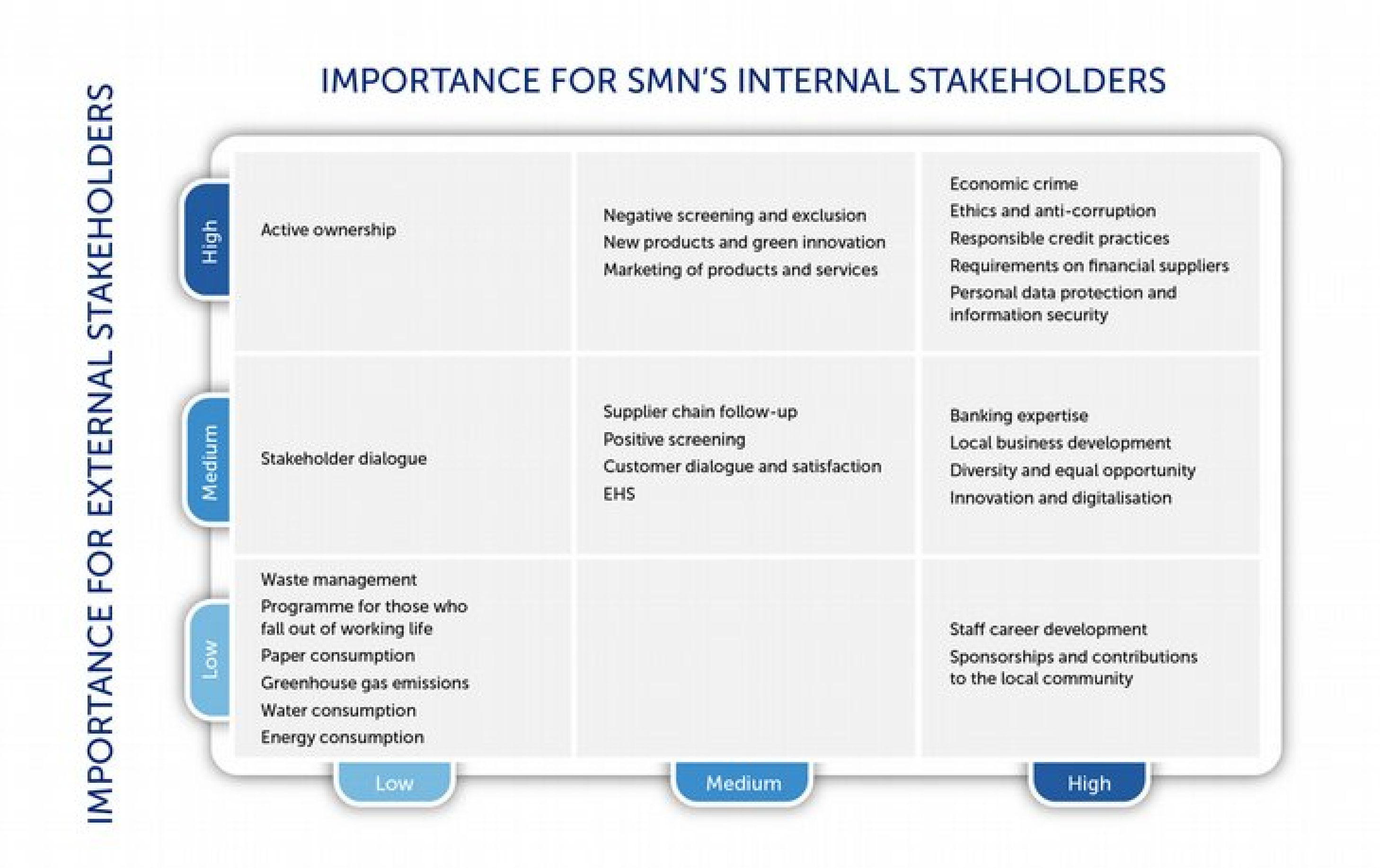
and business lines. One of five strategic priorities is to integrate sustainability into the business. This work is in its initial phase and will be further developed and fleshed out in the strategy period. Setting the level of ambition in prioritised areas is part of this process. Hence updating our materiality assessment is a planned initiative in 2020.

SpareBank 1 SMN's group strategy is termed One SMN. In the strategy period we will build a common, solid foundation in which sustainability will be integrated into all business lines. This involves a project to establish a comprehensive and coherent method, process and standard for sustainability across the group.

Our contributions to the UN Agenda 2030 are in continuous development
In 2015 the 2030 Agenda with its 17 sustainability goals was adopted by all UN member states. The sustainability goals view the environment, economics and social development as a whole, and require a joint effort from government authorities, civil society, the private sector and academia in all countries. SpareBank 1 SMN is in process and is working continuously to develop our best possible contribution.

Our preliminary materiality assessment
SpareBank 1 SMN conducted a stakeholder and materiality analysis based on our CSR strategy in autumn 2017. The analysis describes the economic, social and environmental consequences of the company's operations that have greatest bearing on stakeholders' assessments and decisions. In this materiality analysis, our external and internal stakeholders gave emphasis to the following themes:

1. Economic crime
2. Responsible credit practices
3. Ethics and anti-corruption
4. Negative screening and exclusion through requirements on financial suppliers
5. New products and green innovation
6. Personal data protection and information security, innovation and digitalisation
7. Responsible marketing of products and services
8. Diversity and equality



SpareBank 1 SMN, Stakeholder Analysis 2017

In addition we have chosen to include greenhouse gas emissions as a key area in 2019, and we report on the GRI 305 indicators.

SpareBank 1 SMN’s contribution to achieving the sustainability goals

Based on the current materiality assessment, SpareBank 1 SMN has prioritised five of the seventeen sustainability goals of UN Agenda 2030.

With our 200 year long history, SpareBank 1 SMN is built on cooperation. Throughout our history we have shared our fate with the region, and we know better than anyone that our success is dependent on the success of others. That is why we collaborate on a broad front with voluntary bodies, associations, organisations and the public sector as well as with business and industry. UN sustainability goal no. 17, partnerships for the goals, is at the core of all our activity, and permeates our entire effort to ensure that our region's sustainability effort will reap success.

Organisation and responsibility anchored in the bank's values

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

We have a number of guidelines and reporting procedures coupled to our corporate responsibility. The main documents are approved by the board of directors, and the board also establishes the overarching goals for areas covered by this report. Our guidelines are published in our Sustainability Library.

The group CEO and the managing directors of our subsidiaries have the overarching responsibility for monitoring adherence to the company's goals. Their day-to-day implementation is a managerial responsibility at SpareBank 1 SMN. Corporate responsibility is thus an integral part of all activities in our group.

Internal control and risk management

The identification and management of risk and opportunities is an integral aspect of the group's business processes. Each member of the group management team along with the managing directors of our subsidiaries are responsible for internal control and risk assessment within their respective areas. The risk assessments are reviewed annually by the respective companies' management boards. The executive director in charge of risk management is responsible for the group's risk management framework.

We are expanding our steering committee for sustainability

In 2018 a dedicated steering committee for sustainability was established as part of the framework governing green bonds. We plan to expand the mandate for this committee to include responsibility for developing and implementing a comprehensive and coherent method, process and group standard for sustainability at SpareBank 1 SMN. The committee comprises key personnel from each business line and is headed by a sustainability officer. The current status of this work, relevant problem approaches and decisions are considered by the steering group for One SMN. The steering committee will as part of its remit ensure efficient implementation of the UN principles for responsible banking.

Dialogue with our most important stakeholders

SpareBank 1 SMN exercises its social responsibility by developing and running the business profitably and in a manner in keeping with fundamental ethical values, respect for the individual, society and the environment.

Inherent in this approach is also dialogue with the group's most important stakeholders. Good contact with our network of stakeholders is important in instilling trust in SpareBank 1 SMN and an understanding of the role we play in the local community.

The stakeholder analysis in autumn 2017 identified groups, organisations and individuals which are either affected by the company's business, or in various ways influence the company's strategy and goal attainment. SpareBank 1 SMN's most important stakeholders include owners, investors, existing and potential customers, existing and potential employees, start-up businesses and entrepreneurial entities, local communities, suppliers, partners, organisations, national and local authorities and the media. Our network of stakeholders is constantly expanding as a natural part of the work on sustainable value creation, and an updated stakeholder analysis will be carried out in 2020.

Comprehensive and coherent management model and reporting

SpareBank 1 SMN as a comprehensive and coherent management model that underpins central financial goals such as profitability, financial soundness and growth. A crucial principle of the management model is to allocate capital to where it provides the best return. This provides a basis for sound management of the group's resources. The management model provides comprehensive and consistent monitoring both of the group's overall performance and the individual business line's performance from a financial perspective.

One of several objectives of 'One SMN' (SpareBank 1 SMN's group strategy) is to integrate sustainability into all business lines. To support this objective, the management model will be further developed to also support our objectives along the three dimensions of sustainability: creating value, building local communities and preserving the planet. The financial main goals will remain unchanged.

Work started in 2019, and in the first instance involves the structuring of ESG data, further developing both internal and external reporting, and incorporating the sustainability perspective into the follow-up of all activities.

Main areas of our sustainability effort

SpareBank 1 SMN adhere to the UN principles for responsible banking and our sustainability profile builds on our values, with responsible mindedness being the most important.

We contribute to sustainable value creation and a strong regional social commitment, both through our own activities and in collaboration with others. Based on our history, business model and ownership model, the board of directors underscores that sustainability has been an integral and natural part of our operations and development for almost 200 years. Our sustainability effort focuses on five main areas.

A: Equal rights

Equal status is a human right. It is about giving both genders equal rights, the opportunity to decide over their own lives and abolishing discriminatory practices. In 2019 SpareBank 1 SMN has worked systematically to professionalise our business in keeping with our values, our stakeholders' expectations and the global initiatives to which we have committed ourselves.

Salary and bonus arrangements
Covered by the board of directors' declaration on remuneration to senior employees in note 21 to the annual accounts.

Worker rights, equal status and diversity
SpareBank 1 SMN respects and takes account of international worker and human rights. We have drawn up and published a policy document that specifies the most central conventions, frameworks and policies followed by the group's companies.

For SpareBank 1 SMN our employees' right to organise, and to freely join a trade union of their choice, is important. A substantial proportion of our employees are members of a trade union, and as an employer we attach great importance to good cooperation with trade unions of which our employees are members. The proportion of employees across the group who were covered by a collective bargaining agreement in 2019 was 71 per cent.

We seek in all contexts to promote equal status, and as an employer we consciously avoid discrimination and discriminatory treatment in all aspects of the employment relationship, from vacancy announcement to termination of the employment relationship. SpareBank 1 SMN wishes to maintain a wide diversity, and that employees in our business should reflect the community of which we are a part as regards cultural background, gender, age, ethnicity and sexual orientation. No instances of discrimination were reported in 2019.

38% OF WOMEN IN MANAGERIAL POSITIONS WITH PERSONNEL RESPONSIBILITY

Our business strives for a good balance between the genders at all levels of the organisation. The proportion of women in managerial positions with personnel responsibilities was 38 per cent in 2019. The group management team comprises seven persons, of which two are women. In recent years the business has focused on evening out the pay differences between women and men, and has set aside a 'women's pay equalisation fund' to that end. This has had a beneficial effect. Analyses of various position levels using the Fakis system show that women's share of men's pay varies from 94 to 100 per cent. Variables such as age, seniority and level of education are not corrected for.

The gap between women and men's pay has narrowed in recent years and, for employees paid according to a salary scale, women's share of men's pay rose from 88 per cent in 2017 to 93.5 per cent in 2019. Broken down on position levels, the distribution is as shown in the table below.

Position level	Women's share of men's pay
Fakis 5	100.2 %
Fakis 6	96.4 %
Fakis 7	98.8 %
Fakis 8	93.6 %

The table shows the distribution within the parent bank's salary scale.

SpareBank 1 SMN will again in 2020 give particular focus to gender equality as regards pay, but also in more general terms to equal salaries for equal work and performance.

In 2020 we will also launch initiatives designed to ensure equal career prospects for both genders, and have set a target of a minimum of 45 per cent for women's share of managerial positions. In our development programme for young managers a minimum share of 50 per cent women is targeted, and we aim to always have at least one candidate from each gender in the final assessment round for managerial appointments.

Ethical guidelines

The group's employees and elected officers must be recognised for their high ethical standard and must in all situations display conduct which is attractive, honest and fair and square. The group's ethical guidelines must contribute to awareness of and compliance with the ethical standard required of employees and elected officers in the group. The ethical guidelines embody four overarching principles: confidentiality, financial independence, loyalty and personal integrity.

Conduct and actions must underpin the group's role as a responsible and central social actor, and underpin our goals and strategies with regard to corporate social responsibility and sustainability.

All customer treatment and advice must be in accordance with the industry's requirements as to good practices, and customers' needs and interests must be safeguarded by means of good information and advice that enables them to make conscious and well-informed choices.

The group has drawn up separate guidelines to prevent bribery and corruption. The ethical guidelines also emphasise that group staff members may in no circumstance receive a financial benefit in any form from the group's clients or suppliers.

Each manager shall make his or her staff members aware of the ethical guidelines and must personally be a good role model. All new staff members at SpareBank 1 SMN receive at an early stage an introduction to, and run-through of, the ethical guidelines. A review of the ethical guidelines is also a part of the annual appraisal interview undergone by all employees with their manager.

The group's ethical guidelines are revised annually. In 2020 we will continue our task of instilling awareness of the ethical guidelines and will consider new ways to intensify our managers' and staff members' focus in this area.

Whistleblower programme
SpareBank 1 SMN has internal guidelines on whistleblowing. Employees are encouraged to report censurable circumstances of which they become aware or personally experience. Staff can report via a number of internal channels, including their immediate superior, the HR manager and legal services director. An external reporting channel has also been established for a whistleblower to report anonymously if he or she so wishes.

Information on employees' right and obligation to report censurable circumstances is readily accessible on the bank's intranet pages. One report was registered via the whistleblowing facility in 2019.

Commitment and staff development
SpareBank 1 SMN aims to be an attractive employer with a committed and competent workforce who experience a good balance between work and leisure. We set the stage for such a balance through flexible working hours and a life phase policy which accommodates staff members' need to adapt to their life situation.

We conduct organisation surveys on a regular basis. In 2019 two such polls were carried out, both showing good results. A sustainability module was incorporated in last autumn's survey.

In achieving success with our strategies and goals, our employees are our most important resource and a crucial factor in marking ourselves out from our competitors. Competence development, staff development and recruitment of new expertise accordingly have a high priority in the work of building the bank of the future.

In 2019 development programmes and competence-raising initiatives were carried through in all business units and companies in the group. All the bank's advisers, in both the retail and corporate divisions, have completed training and competence-updating programmes. The main focus for our retail banking advisers has been on updates on the established industry arrangements and certification under the new national authorisation scheme for staff involved in the credit process. The object of this competence-raising is to strengthen the quality of credit advice to, and creditworthiness assessments of, customers. For our advisers in the corporate segment an understanding of clients' business, and practical accounts analysis, has been a major focus in 2019. All advisers have participated.

All advisers must be certified in accordance with requirements set under Finance Norway's national authorisation scheme (FinAut) and in-house requirements. They must also have completed competence updates following on from certification.

In 2019, 242 advisers completed competence updates under the authorisation scheme for financial advisers (AFR), and 263 advisers completed competence updates under the accreditation scheme for sellers and advisors in non-life insurance (GOS).

A total of 46 new staff members are undergoing training on an individualised basis.

All the bank's managers have in recent years completed a comprehensive manager development programme. In 2019 the focus was on the theme of psychological security and how the individual manager can contribute to this through his/her behaviour.

Training programmes were also held in data and information security for all staff members, and in 2019 all employees completed a mandatory course in combating money laundering.

SpareBank 1 SMN is currently developing new training programmes in the field of sustainability and corporate social responsibility. These programmes will be differentiated based on position and role. All staff members are required to complete competence-raising programmes in this area in 2022.

We have a major focus on internal mobility and on employees' opportunity to develop and to take on new roles within the group. In 2019, 26 staff members moved to a new position within the group, while 206 persons were recruited externally.

Health and physical activity

SpareBank 1 SMN wishes to lay a basis for employees to stay in good physical shape, and in 2019 devoted substantial resources to this end through the Better Shape programme. The Better Shape programme encourages individuals and departments to keep fit by organising competitions and awarding prizes, by subsidising fitness centre membership and keep-fit activities in connection with work. We also encourage employees to spend their journey time to and from work keeping fit, and make available a bicycle garage with a workshop and bicycle wash station.

Trondheim Marathon was a communal keep-fit goal for employees of SpareBank 1 in 2019, and more than 600 employees took part. In 2020 the goal in terms of participation by group employees is 750.

Laying the basis for physical activity is an initiative designed to reduce sickness absence in the business. We are party to the Inclusive Employment Agreement and also maintain a targeted focus on other measures to reduce sickness absence. We consider it very important for employees on sick leave to stay in touch with their work colleagues, thereby making it as easy as possible to make a rapid return to work. In collaboration with the Norwegian Labour and Welfare Administration (NAV), the group accepts employees who need job training. Sickness absence in the group totalled 4.3 per cent in 2019.

Staffing

Group	2019
No. of FTEs, incl. subsidiaries	1 509
No. of FTEs, parent bank [1)]	619
Sickness absence	4.30 %
Proportion of women	50 %
Proportion of women in senior positions	38 %
Women's share of men's pay (FAKIS system)	94 %-100 %
Average age	43 yrs
Average length of employment	8,5 yrs
Number of recruitments, internal*	26
Number of recruitments, external	206
Turnover	11 %
Proportion of employees covered by	71 %
Collective bargaining agreement [2)]	86 av 100

1) The figures for the parent bank represent FTE consumption, i.e. exc. hired-in staff, temporary staff, percentage of FTEs and absences. Includes job changes

2) The companies in the group use differing tools to measure employee satisfaction. The score on 'commitment' at the parent bank in autumn 2019 was 86 out of 100

The age groups' gender distribution

The figures apply to the parent bank and represent the number of staff for whom SpareBank 1 SMN has an obligation.

18-29	**90**
Women	36
Men	54
30-39	**140**
Women	74
Men	30
40-49	**164**
Women	74
Men	90
50-59	**166**
Women	95
Men	71
60-69	**98**
Women	49
Men	49

Breakdown of new employees

In 2019 new employees totalled 85 (parent bank), of whom 41 were women and 44 men. Their age distribution is shown in the table below.

Woman	**41**
18-29	18
30-39	18
40-49	5
Men	**44**
18-29	25
30-39	13
40-49	3
50-59	3

Turnover

Turnover distributed by gender is shown in the table below (the figures represent the group):

Woman	5,50 %
Men	5,50 %
Totalt	**11,00 %**

Distribution of employment types, distributed by gender

The figures apply to the parent bank and represent the number of staff for whom SpareBank 1 SMN has an obligation, includes trainees and temporary staff.

Permanent staff	**647**
Woman	324
Man	323
Trainees	**8**
Woman	6
Man	2
Temporary staff	**3**
Woman	1
Man	2

B: Financial services for all

In 2019 we have intensified the process of integrating sustainability into the bank's business lines, i.e. lending activity, the deposits area and the other product areas. We consider this to be a crucial element in optimising long-term economic profitability.

Our product areas

Subordinated loans, corporate market

The bank sees a large need to increase many corporate clients' awareness of the need to assess and understand sustainability risk. We have made a good start to flesh out and operationalise subordinated lending to business activities on the basis that was adopted in 2017 and 2018. Through analyses of the most significant industries, an assessment was made of climate change effects, expectations as to government requirements and possible guidelines for influencing our customers in a sustainable direction.Our approach in the various industries varies. For some industries, guidelines have been established that affect the allocation and size of loans. This work will be a part of annual analyses ahead.

Templates for assessing credit applications of a certain size are further developed to capture general assessments and industry-specific assessments but also the individual customer's alignment within its industry. This provides a good basis for discussion and assessments by the credit committees, and has had a bearing both on dialogue with customers and decisions on credit applications.

The bank has designated industry officers for the most important industries. In addition to the work on industry analysis, the industry officers have been involved in the working out of control points and comments in credit applications and seminar has been held for the industry officers.

Through various forums and projects the bank gives guidance to industries and develops tools to quantify risk. This effort is expected to produce results ahead. Work is also underway on developing or modifying products to underpin the bank's goal of exerting positive influence.

Subordinated loans, retail market

We are in the process of shaping our credit business in order to make plain our contribution to building a sustainable society. Good corporate governance, the regulatory framework, prudent lending practices and a focus on business ethics, together with further development and fleshing out of climate risk measures ahead will contribute to a continuous focus on sustainability.

In 2019 both knowledge and maturity have increased in the organisation and we have made some progress in giving our effort a firm internal footing. We have worked to further develop steering documents and guidelines in the credit area. A project is planned to integrate climate risk assessments into loan approval, customer follow-up and pricing to ensure good assessment and management of the climate risk to which the bank is exposed.

In order for the bank to be in a position to issue green bonds, and to respond to possible demands for green deposits, it needs to increase the proportion of qualified green loans. Part of this work will involve establishing clear-cut objectives for the share of green customers among new customers. The bank will by this means contribute to raising customer awareness and develop tailored products that stimulate investments in sustainability.

The bank as a social actor will contribute to subordinate lending and sustainable consumption and finances for our personal customers. For customers in a difficult financial situation, or undergoing a life crisis, we will contribute to a sustainable society by assuming a supportive role. We are in addition developing digital and physical advisory solutions for relevant life phase finances. Our focus is on being good advisers in our customers' important life events. Pertinent examples are when moving in together, divorce and inheritance etc.

In 2019 the bank launched green residential mortgages and green loans for energy initiatives in the personal market. We grant mortgages to someone building or buying a new house, or renovating their home to the best energy standards A to C, or investing in energy-oriented projects in their dwelling. These loans are granted on interest terms better than those applying to ordinary residential mortgages. The bank provides support for initiatives that are part of Enova's support scheme for energy initiatives. (A state-owned enterprise that covers part of home owners' and firms' costs on measures that reduce energy consumption). In addition, short-term loans are provided for heat pumps, solar panel equipment, electric car chargers and removal of oil-fired heating boilers, as well as loans on improved terms for purchase of electric cars.

In collaboration with EiendomsMegler 1 Midt-Norge the bank embarked in 2019 on a number of housing projects targeting groups in need of financial impetus in order to enter the housing market. A relevant target group is young customers for whom housing projects, tailored funding solutions and a focus on savings and favourable borrowing rates provide an opportunity to invest in their first home.

E-signing and digital loan applications

Increased use is being made of e-signing and digital loan applications, where possible. All loan applications where no property settlement or real suretyship is involved are electronically signed. About 80 per cent of all loan applications are now digital. This reduces the use of physical documents and printouts in the loan process.

80% OF ALL LOAN APPLICATIONS WERE DIGITAL

Electronic property trading

Electronic property settlement enables banks and real estate agents to collaborate efficiently through the exchange of electronic data, documents and notifications. The ultimate goal is for all documents regarding property purchase to be transmitted electronically. In the initial phase the basis has now been laid for deeds of conveyance and security documents connected to the purchase of a new dwelling to be signed electronically. The Norwegian Mapping Authority and Real Estate Norway estimate that electronic property settlement could enable a saving to society of NOK 2.8 billion. The solution is at the testing stage and is expected to provide major savings due to reduced paper consumption in the years to come.

Digital cooperation between public and private sectors

The Tax Administration, the Police Service and the Labour and Welfare Administration obtain various accounting data for verification purposes. This is done in connection with collection and recovery cases or to clarify whether checks should be initiated. The solution has been implemented and has reduced the use of physical documents and postal dispatches by a large margin.

Socially sustainable banking services

In a modern society access to basic banking services is an absolute necessity. Even so there are social groups in our region that fall outside the scope of such services. For that reason SpareBank 1 SMN has developed the product “municipal payout card”. The card is a cash card, but functions as an ordinary bank card and can be reloaded with money from one’s online bank or directly from municipal support schemes. The system can disburse benefits from the Labour and Welfare Administration (NAV) to social welfare clients, asylum seekers and refugees. Many individuals belonging to this group cannot open an ordinary bank account because they are unable to provide documentary evidence of their identity. Users of the card are spared burdensome and stigmatising trips to the bank to take out cash, often together with a person in support who has to confirm their identity. The card is also popular among foreign students. The bank issued 2,730 municipal payout cards in 2019.

Green mutual fund products

SpareBank 1 SMN is concerned to offer mutual funds that safeguard the bank’s high ambitions as regards sustainability. The mutual fund offering has been built up through the fund manager ODIN, in which the bank has an indirect ownership stake, and mutual funds from other fund managers.

Our overall offering is assessed in conjunction with the other SpareBank 1 banks through periodic product revisions. Revision also includes criteria such as the environment, social factors and governance (ESG). The labelling of these criteria must be clear to the customer, and provide good information on how sustainable the mutual fund in question is.

When new mutual funds are to be selected and approved, their providers are required at minimum to have signed the UN principles for responsible investment. The corporate social responsibility and sustainability policies that govern the distribution of mutual funds are designed to ensure that the customer offering is in keeping with the bank's guidelines.

SpareBank 1 SMN wishes to strengthen the range and availability of its offering of sustainable mutual funds in 2020. This will be done both by including it as an active option in the customer's purchasing process, and through our active efforts to strengthen our product offering through our ownership of ODIN.

ODIN gives high priority to sustainability in its management philosophy and was among the first to sign the UN principles for responsible investment, but also to measure the carbon footprint of the mutual funds it manages. The company is also a member of the Norwegian forum for sustainable investment (NORSIF), the Norwegian Corporate Governance Board (NUES) and Sweden's forum for sustainable investment (SWESIF). In addition, external analysis agencies such as Sustainalytics are utilised to make objective assessments of all companies in which ODIN invests.

As an active and responsible fund manager, ODIN closely watches developments in the companies invested in; this also applies to the monitoring of investments in a sustainability perspective. In the course of 2019 ODIN cast 3,361 votes at 241 general meetings. In 209 cases ODIN voted against the company's recommendation. Instances in which ODIN has voted against companies' recommendations typically involve incentive programmes and compensation to the management team and board of directors, election of board members and restrictive shareholder rights. In addition, ODIN has voted in favour of resolutions relating to increased reporting, transparency and ESG guidelines.

Observation and exclusion are instruments used where circumstances arise which may be counter to ODIN's guidelines. Where the company improves its practices it will be eligible for removal from the observation list after a while. If neither the ability nor willingness to improve is in evidence, the company will be excluded.

As at 31 December 2019 ODIN had five companies on its observation list and one company on its exclusion list.

Insurance with a focus on prevention

"*Roadmap for Green* Competitiveness in the Norwegian *Financial Sector*" (Finance Norway) has identified industry-specific recommendations for the non-life insurance area: exchange of damage and climate data, the drawing up of climate-related requirements for restoration following natural damage, an increased focus on damage prevention and on climate-smart behaviour, the sharing economy and circular solutions. The insurance industry has sought a role in the sustainability sphere, and solutions and development initiatives are gradually taking shape. 'Damage prevention' denotes a proactive approach, and damage is wasteful of resources.

Our insurance company, Fremtind, has an important social mission in helping and motivating people to take care of their health, their assets and their surroundings, and to engage in and influence developments in society. Most people need help in making sustainable choices in their everyday life. This also applies to how we move from one place to another and to matters related to house and home. SpareBank 1 SMN contributes in these respects by insuring homes and cars etc.

Smart car insurance

Our insurance product Smart bilforsikring ('smart car insurance') includes an environmental profile and rewards drivers who drives safely and thereby reduce the risk of damage and accidents on Norwegian roads. The insurance is based on new technology and monitoring of data on how the car is driven. Data is collected via a smart plug and then transferred to the 'Spinn' app. The driver can choose to receive direct feedback on his/her driving behaviour there and then, or later in the app's driving diary.

Responsible marketing of products and services

SpareBank 1 SMN aims to ensure that customers make good financial choices. To that end the bank employs a structured approach whereby we proactively present important themes linked to various financial situations. This is done primarily via social media, on our webpages and through the work done in the media by our Retail Customer Service Adviser, Corporate Customer Service Adviser and Property Adviser. In addition, events regularly arranged at the local level put financial themes on the agenda. In 2019 the bank focused especially on themes related to young people and their finances.

SpareBank 1 SMN's strategy is to illuminate challenges related to marketing. In 2019 a management meeting was established specifically to discuss customer offerings and associated marketing. Work was done on marketing and advice in connection with important events in customers' life such as starting a business, moving in together, divorce and inheritance. The bank's webpages were updated on all these areas over the course of 2019.

The bank's marketing division has the overall responsibility for responsible marketing. Much importance is attached to the close connection between marketing and advice, to communicating in readily understandable Norwegian and to ensuring that all activity is compliant with the legislation bearing on the marketing concerned. The development of digital solutions focuses closely on ensuring that necessary information is available and comprehensible at the moment of purchase. In all marketing entailing the use of personal data, separate GDPR assessments are made which are duly documented.

SpareBank 1 SMN's products and services as well as labelling and marketing material are developed in close collaboration with the SpareBank 1 Alliance. The alliance's savings and investment committee makes a quality assessment of labelling and marketing for the bank. The bank's complaints arrangement is readily accessible to clients on the internet, by phone and via the Financial Services Complaints Board. The bank received one complaint concerning communication and marketing in 2019.

Before being launched or distributed by the bank, products are subject to a comprehensive impact assessment with respect to the product's target group. The bank performs a systematic risk assessment in which it makes assessments related to law, ethics and ease of understanding by the target group.

Product and service development in the SpareBank 1 Alliance

The SpareBank 1 Alliance comprises 14 independent banks. Together we own SpareBank 1 Utvikling, the company that develops digital products, services and solutions.

In 2019 investment funds worth NOK 250 million were granted to SpareBank 1 Utvikling, of which SpareBank 1 SMN's relative share equals its ownership stake of 20 per cent. The funds go to the retail and corporate divisions and to meeting compliance requirements.

The industry is changing rapidly and, in step with new technology and new competitors, we have to realign in order to meet changing customer behaviour. When developing new products and services we have with us customers and employees alike to ensure that our solutions are optimal. This requires new knowledge and new work processes, and promotes our efficiency and effectiveness.

Developing employee competence is crucial if the products, services and solutions that we launch are to have good effect. For training purposes, use is made of video conferences, e-learning courses and articles on the intranet. Customers receive information via the bank's internet pages, social media, the digital bank, email and the bank's advisers.

Digital sales

The banking market is changing, driven inter alia by technological advances. We accordingly need to continuously adapt our distribution model to meet changing customer behaviour and to improve the customer experience. The bank works in a structured manner to increase its distributive power by modifications made to the branch network and by enhancing servicing and selling ability in other channels. The objective is an efficient and effective distribution model that promotes competitiveness through lower costs and higher profitability. Increasing the proportion of digital sales is therefore key to implementing the bank's distribution strategy. This receives a high focus in the development of our common solutions at SpareBank 1 Utvikling. At the same time as a systematic adaptation of the bank's processes and procedures also aims to ensure fruitful interaction between the channels and to increase digital sales. The bank has in recent years invested heavily in tools for analysis-based digital customer communication, an area which contributes strongly to digital sales through relevant customer communication via the digital bank.

48% OF RETAIL MARKET SALES WERE DIGITAL

In 2019, 48 per cent of sales in the personal market were digital, representing a major change in customer behaviour in recent years. By digital sales is meant purchases of new products via digital solutions, the lending process being initiated digitally. Ensuring good digital solutions with advice and guidance is crucial to ensuring that customers make good financial choices and have all necessary information to hand at the moment of purchase. This has a high focus on the development of our common solutions at SpareBank 1 Utvikling.

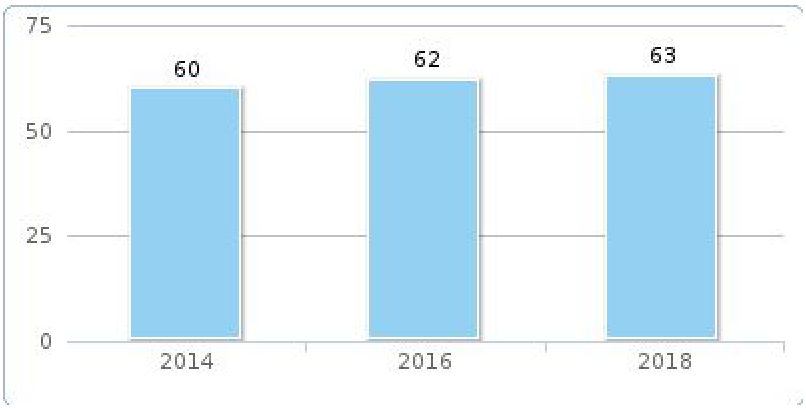
Customer surveys show increased satisfaction

In order to gauge customers' satisfaction with the bank, we regularly conduct customer and market surveys. Against the background of the surveys, the bank prioritises appropriate inputs to improve its services and products. The most important method is customer relationship polls of personal customers and firms which the SpareBank 1 banks conduct every second year, most recently in 2018. The bank also conducts regular customer satisfaction surveys at the customer service centre for personal customers and firms where all customers that have been in touch with us by telephone or chat are invited to give their feedback.

Among corporate clients the satisfaction survey shows a slight rising tendency from 60 points in 2014 to 63 points in 2018. As from 2014 the long-term trend shows signs of rising satisfaction in most delivery areas. Compared with 2016 we see a particular increase in satisfaction with the banks' knowledge of local business and industry, their response time, the bank as a local mainstay, the customer service centre, the internet bank and the mobile bank.

Among retail customers, SpareBank 1 SMN is the alliance bank that shows the largest advance in the strength of customer relationships if we look at the period since 2014 as a whole. From a somewhat weak level of 53 points on the TRIM index in 2014, SpareBank 1 SMN has now risen to a good level of 62 points. The bank sees a particularly strong increase, of 8 points, among the youngest (18-25yrs) as from 2016. Personal advice is important for the customer experience. In addition, excellent results are noted for service, technical competence and the mobile bank.

Where the customer service centres are concerned, the bank shows stable high customer satisfaction, although in 2019 response time posed a challenge that has affected the overall result. Steps have been taken to improve response time and a sharp improvement was noted towards year-end.



Development in the TRIM index

Expanded complaints service

In keeping with our values, and with support in the shape of the UN principles for responsible banking, we also expanded our complaints service in November 2019. We opened the way for customer reports of circumstances where our actions fail to match our words. 'Well done' remains better than 'well said' at SMN. Any approaches made to our common complaints reception centre in connection with this expansion follow the same procedure as other complaints. The approach is sent to a complaints officer for the business line concerned.

Continuous improvement of the customer experience

In 2019 the bank initiated a major improvement initiative in the bank's delivery units. The backdrop to this initiative was that we at times experienced queues, long delivery times to customers and at times a poor customer experience, with subsequent pressures on staff with undesirably high recourse to overtime and use of substitutes.

In the last two months of 2019 delivery time has been 1-2 days, compared with an average through last year of 6 days. Our staff have received an introduction to development methodology which has resulted in a more varied working day and an opportunity to influence how the work is to be done. The project has also reduced postal correspondence with customers, the banks and public authorities to a minimum. We have also sought to reduce to minimise the need to attend a bank branch in person in order to sign documents or the like. Pertinent examples are upon establishing new customer relationships, exchanging forms between banks when a customer changes bank, and ordering of bank cards for children and young people.

C: Stimulating innovation and development

Our goal is to make it easier to succeed in the transition to a low emission society, both for the local community and for business and industry in our region. Innovation and cooperation are important precepts if growth ahead is to take place in a responsible manner. While stimulating local development, we must at the same time set demands for ESG reporting by the companies we invest in.

Governance and responsible investment at SpareBank 1 SMN Invest

SpareBank 1 Invest's strategy is to invest in regional seedcorn, venture and private equity funds and to invest directly in growth companies with national and international potential in the same market area as the one in which SpareBank 1 Invest operates.

The company intends by that means to contribute to competence-based jobs and regional value creation. SpareBank 1 Invest contributes capital, networks and competence.

At the end of 2019, the company had 46 companies in its portfolio. Of these, 11 report their ESG status either via their annual report, homepage or via oral communication with us. These companies account for 37 per cent of SpareBank 1 Invest's invested capital.

Aktivity	Number	Share of capital
ESG reporting	11	37 %
Positive screening	10	5 %
Negative screening	10	5 %
No assessed	15	53 %
Total	**46**	**100 %**

Of the remaining portfolio, 20 companies have undergone a screening process based on best judgement prior to investment. This process has included an overall ESG assessment. For half of these companies (10 in number), our assessment is that they make a positive contribution to achieving the sustainability goals (positive screening), while the other half (10 in number) are considered not to negatively affect the achievement of the sustainability goals (negative screening). These 20 companies are relatively small start-ups accounting for a total of 10% of SpareBank 1 Invest's invested capital.

The remaining portfolio of 15 companies have neither formalised ESG reporting nor undergone a screening process in connection with investment. Several of these companies are being wound up/sold, and two companies account for 85% of the capital in this group. We expect to have in place satisfactory processes for two-thirds of these companies (and the majority of invested capital) in the course of 2020.

Our focal themes

Through our ownership model and distribution of social dividend we are in a position to support the UN sustainability goals. Each year we select a sustainability goal to which we prioritise allocation of funds, and around which we build a sense of involvement and commitment.

Plastic waste clean-up project

This project started in 2018, and highlighted UN sustainability goal no. 14: Life below water. More than 12,000 volunteers joined us in clearing up plastic waste in the environment. The project aroused enormous commitment across the entire region. Together with more than 12,000 volunteers our employees collected almost 180 tonnes of plastic waste in the environment in Central Norway. The project was crowned 'social commitment project of the year' by the Norwegian Sponsoring and Event Association.

Getting people off the sofa

In 2019 our focus was on goal no. 3: Good health and well-being, and we challenged Central Norway to join the 'Get people off the sofa' campaign. An important motivation was the Health Survey of North Trøndelag (HUNT), which shows a sedentary life to be a major challenge to society. More than 16,000 people took part in 'Get people off the sofa' events under the bank's auspices, with a focus on low-threshold physical activity suited to everyone. Social dividend worth just over NOK 8 million was spent on the campaign. In addition, support was granted to 389 projects designed to get more people engaged in physical activity. The 'Get people off the sofa' campaignalso stimulated participation within our own organisation. This was demonstrated not least during the Trondheim Marathon, in which more than 600 employees from across the group participated.

Hurrah for food producers and zero hunger

In 2020 we will make an extra effort both to reduce food waste and to acclaim Central Norway's food producers and products, with the focus on sustainability goal no. 2: Zero hunger. Our experience of working together with the entire region will be kept on board going forward. We will provide support to a variety of worthwhile projects and will also be launching our own projects.

SpareBank 1 SMN's sustainability barometer

Taking the temperature of the regional economy without a focus on sustainability would have been both irresponsible and inadequate in 2019. That is why sustainability was a key theme in the year's edition of SpareBank 1 SMN's economic barometer. Together with Sentio Research Norway, we interviewed 700 business leaders in the region about sustainability. The main findings of our survey:

- Three of four leaders attach varying or little importance to sustainability when choosing who to do business with
- Seven out of ten see no financial risk in sustainability
- Six of seven reply that they are not familiar with the UN sustainability goals
- One of two considers a specifically climate and environment programme to be of no strategic significance
- Owners and investors wield greater influence than customers and employees

Sustainability will be a set feature of our annual economic barometer in the period ahead as a contribution to supporting customers and suppliers in the transition to a low emission society.

@SpareBank1SMN_Ung

Today SpareBank 1 SMN can point to a positive trend in recruitment of young customers. Much of the reason for this is a solid local identity, large market share and high local knowledge. We see that the younger generation is shaped by other drivers than earlier generations. They are among other things worried about the future, concerned to create their own jobs, sensuous and emotional, and preoccupied with customer experience. In order for our brand to come across as modern and attractive to the young target group, we have since summer 2019 worked on a number of different initiatives targeting this group.

Initiatives:

- We have established a dedicated channel for young people on Instagram @SpareBank 1 SMN-_Ungon which we provide young people with tips and advice on how to save money, on the environment and having an even better life as a young person.
- We are launching an 18-year-olds' programme offering parents and young people information from the bank in this important transition.

In 2020 we will further entrench sustainability and the environment in the agenda through an event concept for young people termed 'Green food' and 'Green finances', this being a part of our focal theme for 2020.

Sustainability set into system – an innovation programme in collaboration with Ducky
Can we commit our customers to reducing their own footprint in order to strengthen SpareBank 1 SMN's handshake? This was our basic query when we entered a collaboration with Ducky, a small start-up company in Trondheim. In autumn 2019 we worked closely with Ducky to find the answer to our query. We looked into how we could develop digital solutions and green products with a view to committing our customers to changing their behaviour and take green products into use. It is a little early to draw a conclusion, but we are continuing our collaboration with Ducky to bring about an improved offering of services and products in the green transition which will affect all sectors.

Digital Twin
In 2019 we were a partner in the Digital Twin project. This is an innovation project in which SpareBank 1 SMN together with Trondheim municipality, Tieto, Evry and other partners look into how transaction data can be used both to show the municipality's total climate footprint, at the same time as we document changes and assist the municipality's populace in making climate-friendly choices. The object is to see if we can, together, construct a digital twin to the municipality, based on the individual's economic consumption and translate this into a CO2 account. So far this has been an introductory project aimed at examining the technical room for manoeuvre for integrations, and we have used a limited set of data from a small number of sources that have given their extra consent. The project is proof that the public and private sectors benefit from working together with a focus on innovation in the interest of a better and more sustainable society. The project is continuing in 2020 and will look into how it can be repeated on a somewhat larger scale and how we can solve the challenges we will then face.

Our sponsorships
Through the SpareBank 1 banks' main sponsorship of the Norwegian national cross-country ski team, we have worked on concepts addressing children and young people with a view to lowering the threshold for participation by focusing on second-hand equipment as the equal of new equipment. This is important in terms of family finances, but also in terms of the environment and social utility.

Sponsorship	Sustainability initiative	Sustainability goals
Norwegian Ski Association	1. Byttehelgen (exchange weekend) – Buying second-hand is smart. It cuts costs and encourages more children to take part	3, 10, 12, 13
	2. Outdoor time – Create joy in skiing by giving more children the inspiration and opportunity to go skiing	3, 10, 12
	3. Suppliers – Responsible production of goods without use of plastic	12, 13
Rosenborg Football	1. Football tuition – Create joy in playing football by giving more children inspiration and developing skills at local football clubs	3, 17
	2. Suppliers – Impose demands on our suppliers when making orders through our collaboration	12, 13
	3. Include partners in our focal theme every year	3, 17
Ranheim	1. Football tuition – Create joy in playing football by giving more children inspiration and developing skills at local football clubs	6, 12
	2. Include partners in our focal theme every year	6, 17

D: Sustainable advice

Climate change is the greatest challenge of our time – and our greatest opportunity. Our contribution is to share insight and experience, show the way and lay the basis for choices that are aligned with the future. Our aim is to be at the fore as a good example and to show climate leadership through our business.

Green bonds

In February 2019 we published our framework for green bonds. The aim was to make sustainable loans available to business and industry which can be financed by a green bond. The framework covers loans to the 15 per cent most energy-efficient commercial buildings. With reference to the Climate Bonds Initiative's standard and to firms offering products, technology or processes that are sustainability certified. The various certification schemes are:

- Nordic Swan Ecolabel
- Eco-Lighthouse
- Marine Stewardship Council (MSC)
- Aquaculture Stewardship Council (ASC)
- Best Aquaculture Practices (BAP)
- Global G.A.P. - The Worldwide Standard for Good Agricultural Practices

These certifications cover loans to a number of industries, the largest being fisheries and fish-farming.

With this framework, SpareBank 1 SMN supports the following UN's sustainability goals:

- Goal no. 7: Affordable and clean energy
- Goal no. 8: Decent work and economic growth
- Goal no. 11: Sustainable cities and communities
- Goal no. 12: Responsible consumption and production
- Goal no. 14: Life below water

The framework has been reviewed by an independent third party – Sustainalytics – which verifies that our framework is in conformity with the ICMA Green Bond Principles.

In September 2019 we became the first Norwegian bank to issue a green senior bond in the euro-market. It had a denomination of EUR 500 million and a term of 7 years. The bond attracted much attention and the order book acquired a large proportion of green investors. This shows that we have gained a more diversified investor base for our funding.

SpareBank 1 SMN owns, together with the other SpareBank 1 banks, SpareBank 1 Boligkreditt which issues covered bonds based on residential mortgages sold to the company by its parent banks. SpareBank 1 Boligkreditt has drawn up a framework for green covered bonds which enables it to issue green bonds to finance homes among the 15 per cent most energy-efficient dwellings in Norway and dwellings that have been upgraded, resulting in a reduction in energy consumption of at least 30 per cent (Climate Bond Initiative's standard). The framework has been reviewed by an independent third party – Sustainalytics - which verifies that our framework is in conformity with the ICMA Green Bond Principles. SpareBank 1 Boligkreditt has so far issued one green covered bond denominated in euro. The bond has a denomination of EUR 1,000,000,000 and a term of 7 years.

Focus on climate risk in our credit processes

The bank’s alignment of its credit strategy is designed to optimise long-term financial profitability. Sustainability, which includes climate risk, is at centre-stage in the assessment of credit risk. We are in the process of shaping our credit business to make clear our contribution to building a sustainable society. Through good governance, regulatory frameworks, prudent lending practices and a multi-year focus on business ethics, the bank has many elements of the sustainability perspective in place. For 2020 our main focus will be on climate risk, where we believe there is still a large potential. Our aim is to further develop, intensify and flesh out this work in step with the increase in knowledge and maturity with regard to this theme in the organisation. We will utilise a risk analysis recommended by the Task Force on Climate-related Financial Disclosures (TCFD). The entire credit organisation will be involved to ensure a sound footing. In order to flesh out the work, credit policy and guidelines will be further developed in the shape of concrete requirements which will in part be industry-specific. Through the integration of climate risk assessments into loan approvals, customer follow-up and pricing, the bank will ensure good monitoring and management of the climate risk to which the bank is exposed. The bank aims to conduct a sustainability classification of its own loan portfolio in the course of 2020.

Procurements and purchases

SpareBank 1 SMN is a substantial purchaser of goods and services, both locally and as an alliance bank. Thoroughgoing ESG assessments of our suppliers are accordingly an integral part of our purchasing practices. We have, in close cooperation with all the banks in the SpareBank 1 Alliance, revised our purchasing standards in 2019. The object of the revision was to create change and lay the basis for sustainable development both for our own part and our suppliers. The outcome of this effort is:

- New guidelines for sustainability as regards purchases
- A new contract annex dealing with requirements as to sustainability
- A supplier declaration for new and existing suppliers

Active use is made of the purchasing standards to reduce the risk of negative influence on people, the climate and environment in the supply chain. Through the alliance collaboration we have identified and risk-assessed 247 suppliers. The suppliers are classified to category 1 (little risk), 2 (medium risk) and 3 (large risk) after a risk assessment based on prioritised sustainability indicators.

Risk class 1	Risk class 2	Risk class 3
Others	Employee-related agreements	Office supplies
Industry and union agreements	Banking operations/payment services	
Data-processing agreements	Payment services	
Escrow agreements (source code deposits)	Property management	
Insurances/pensions	EVRY (info. technology company)	
IASDA agreements	Rental/rental expenses	
Purchase of information services	Fixtures	
Concession agreements	IT operations services	
Consultancy services	IT hardware	
Courses and training	Cash management	
Marketing and sponsorship agreements	Rental/service agreements	
Software/Licences	NETS (payment cards, electronic payment solutions)	
Recruitment services	Printing and dispatch	
Legal services	Travel (Flights/hotels/courses and conferences)	
Audit services	Security/guard services/fire	
Partner/shareholder agreements	Telephony and networks	
Cooperation agreements		
Sensitive agreements SB1 Banking cooperation		
SaaS (software-as-a-service) services		
System purchase, establishment and management		
Service agreement		
Substitute services		

Of the above suppliers, 89 were considered to represent a large or medium sustainability risk (category 2 and 3) through their products and services. Work following up on these suppliers' guidelines and their practical work on sustainability has been initiated.

Upon contract-signing or renegotiation with SpareBank 1 SMN's local suppliers, suppliers posing a risk of negative influence (category 2 and 3) have signed a supplier declaration as an enclosure to the contract. In this declaration they confirm that they follow our requirements.

We purchase office supplies from a shared internet shop solution in the SpareBank 1 Alliance. In 2019, 22 per cent of these products carry an environment label or environmental approval. SpareBank 1 SMN's aim is that 100 per cent of its product range as to office supplies should be environmentally approved by 2020.

Further development of our work methodology and assessment tools is a prioritised measure for 2020. Follow-up of suppliers will proceed at full strength, and those who fail to meet our requirements will be given deadlines for compliance.

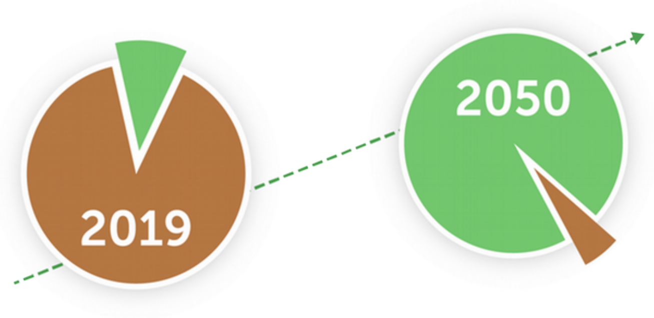
Sustainable Edge: Assessment of climate risk in the company

SpareBank 1 SMN was in 2019 a partner in the project Sustainable Edge under the auspices of Cicero and Enova. Through the preliminary project and the main project we are developing a practical tool for investors and lenders. The object of our participation is to understand climate risk in practice. The project is funded by Enova and other partners participating actively in the project.

The analysis methodology under development is a research-based evaluation of a business's activities based on Cicero's acknowledged Shades of Green methodology. Cicero has in the last 10 years provided independent assessments of green bonds. Through this work Cicero has built up unique experience in communicating to investors the 'greenness' of an investment. With a basis in climate research, an assessment is given on a scale ranging from dark green to pale green based on the extent to which the activities contribute to a low emission society. 'Sustainable Edge'takes its basis in this methodology and further develops it with a view to making assessments of companies. Investments, incomes and research and development activities will be assessed on a scale from dark green to dark brown based on the degree to which they contribute to a low emission society.

The tool under development in ‘Sustainable Edge’ will:

- Assess how companies change their incomes, investments and research and development activities over time towards a green transition, thus providing an opportunity to monitor the proportion of green investments and incomes over time.
- Provide an assessment of risk management in respect of physical climate risk and transition risk.
- Provide an assessment of the company’s use of climate scenarios and of the extent to which they comply with the guidelines on how companies should report climate risk from the Task Force on Climate-related Final Disclosures (TCFD).



The project has in the first instance focused on four sectors, and we have contributed data in close collaboration with our own customers. Climate risk analyses for commercial property, agriculture, transport and shipping are in process. Further sectors will be analysed in 2020.

Focus on greenhouse gas emissions in the bank’s branch structure

SpareBank 1 SMN is certified under the ‘Environmental Lighthouse’ scheme and utilises the head office model. This means that we assume a deliberate environmental responsibility and take steps to keep our house in order. Certification entails that our environmental standard and procedures are compliant with the criteria set by the Environmental Lighthouse Foundation (Stiftelsen Miljøfyrtårn). In 2019, 25 of our bank offices were certified, and recertification of five of our branches was completed. In 2020 the remaining 13 branches are to be certified. Our aim is for 100 per cent certification in the course of 2020.

25 OF 38 BANK BRANCHES ARE CERTIFIED UNDER THE ENVIRONMENTAL LIGHTHOUSE SCHEME

We have thus far not established an environmental management system. Work on establishing such a system started in 2019 and offers have been obtained from two suppliers. Central criteria are the systems’ flexibility in relation to energy/waste modules and reporting/exporting possibilities, along with the supplier’s competence/capacity. Evaluation, agreement-signing and implementation are a prioritised task for 2020.

The bank’s greenhouse gas emissions are documented in our climate and energy account. The recorded data show a decline in emissions compared with 2018.

Category	Explanation	Consumption	Unit	Energy (MWh)	Emissions (tCO2e)	Emissions (distribution)
Transport				57.9	13.6	2.3 %
Petrol		553.0	liter	5.3	1.3	0.2 %
Diesel (NO)		5,135.0	liter	52.6	12.3	2.1 %
Scope 1 total				**57.9**	**13.6**	**2.3 %**
Electricity*				**4,688.5**	**182.9**	**31.7 %**
Electricity Nordic mix		4,688,487.0	kWh	4688.5	182.9	31.7
Remote heating/cooling Nordic loc.				1,015.1	44.1	7.6 %
Remote heating Trondheim		1,015,100.0	kWh	1051	44.1	7.60 %
Scope 2 total				**5,703.6**	**226.9**	**39.30 %**
Air travel					**191.4**	**33.10 %**
Flights continental/Nordic region		95,398.0	pkm		8	1.40 %
Flights intercontinental		493,612.0	pkm		51	8.80 %
Flights doemstic		981,810.0	pkm		132.3	22.90 %
Business trips					124.3	21.50 %
Mileage reimb. car (NO)		888,105.0	km		124.3	21.50 %
Waste					6.7	1.20 %
Residual waste, incinerated		12,896.0	kg		6.5	1.10 %
Paper waste, recycled		1,265.0	kg			
Paper waste, recycled	Shredded	8,535.0	kg		0.2	
Metal waste, recycled		33.0	kg			
Plastic waste, recycled		444.0	kg			
EE-waste, recycled		111.0	kg			
Cardboard, recycled		424.0	kg			
Paper					14.7	2.50 %
Paper, office		12,863.8	kg		14.7	2.50 %
Scope 3 total					**337.1**	**58.40 %**
Total				**5,761.5**	**577.5**	**100 %**
Electricity market-based					956.5	
Scope 2 market-based					1,000.5	
Total market-based					1,351.1	

There are changes made to the year's climate account as compared with previous years which are important to note. In prior years only figures for those bank branches that are certified under the Environmental Lighthouse scheme were reported, whereas from 2019 onwards figures for all SMN's branches are reported. Further, mention must be made of the fact that several offices to not have their own electricity meter. This has given rise to uncertainty regarding the energy figures for previous years.

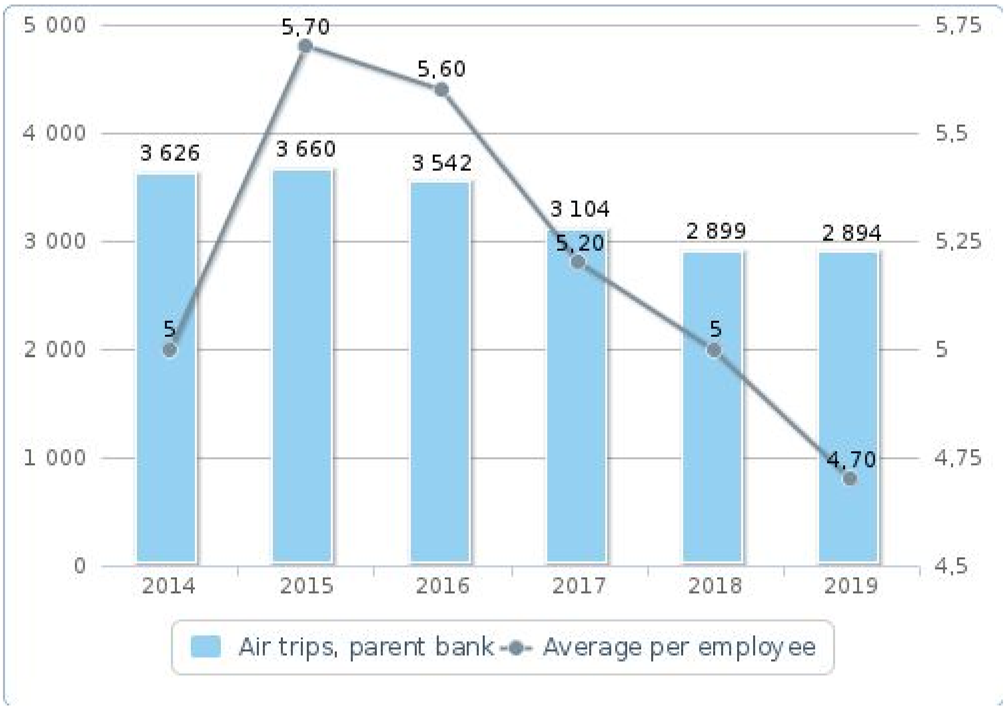
The aim in 2020 is a continued reduction of our own greenhouse gas emissions through a focus on fewer journeys (air travel and business trips by car), waste sorting as a percentage of total waste, reduced paper use, reduced energy use in our own buildings, our share of energy for the operation of shared technical facilities of our landlords, waste treatment, purchase of guarantees of origin, and improved data quality in respect of all areas on which we report under the criteria of the Environmental Lighthouse certification scheme.

In 2019 SpareBank 1 SMN initiated a project as regards the group's first climate and energy policy. This document has been circulated for comment to all management teams, and will be completed in 2020. The group management team is the decision-making body for this policy.

Air travel at SpareBank 1 SMN

The bank's travel policy remained unchanged in 2019. Staff members are encouraged to limit business trips as far as possible, and are encouraged to use telephone and video meetings. In cases where staff members nonetheless need to travel in their work, they are encouraged to use public transport where possible.

2,894 individual trips by air were registered by SpareBank 1 SMN in 2019. This amounts to 4.7 air trips on average per employee at the parent bank, and is the lowest level we have measured. In terms of number of kilometres, we see a decline of almost 5 per cent compared with 2018. This reduction is in all essentials due to the fact that emission factors for air travel have been reduced in the period. We are planning measures aimed at reducing our travel activity in 2020. See our climate and energy account at smn.no for further information.



Trend in number of air trips, parent bank

Increased availability of modern video room solutions

As part of the work on our sustainability profile, we are in the process of increasing the availability of modern video room facilities at our divisional offices and the head office. One of the main purposes of this measure is to simplify interaction between locations, thereby enabling us to reduce the need for travel in connection with meetings both internally and externally. In the fourth quarter of 2019 meeting rooms at head office were modernised, and video functionality was installed in these rooms. SpareBank 1 SMN has opted to purchase a Skype/Teams Rooms solution which is a standard in the market which among other things makes both internal and external interaction a simple matter. In total it is planned to establish 80 rooms with this solution at SpareBank 1 SMN. Completion is planned by the end of the second quarter of 2020.

Byttehelgen ('exchange weekend') – we applaud second-hand equipment!

'Byttehelgen' is a collaboration between the Norwegian Ski Association (cross country), SpareBank 1 and sports clubs throughout the country. SpareBank 1 works for simpler and better everyday finances in everything we do. 'Byttehelgen' in 2019 engaged 14 sports clubs in our region.

E: Preventing financial crime

SpareBank 1 SMN works continuously to expose and combat financial crime. Knowing the customer and the origin of the funds that pass through our system is key. Our policies and procedures provide clear-cut guides for SpareBank 1 SMN's compliance with the legislation. Our goal is retain the trust of our customers and society.

The bank's work to prevent money laundering and terrorist financing
The rise in organised, cross-border crime has changed the threat picture – also for financial criminality. The bank notes more transactions across national borders, a rising number of foreign customers, increased prevalence of virtual currency, new services and new actors in our own industry. Attempts to commit money laundering and fraud against the bank's customers are more widespread and more sophisticated by the year.

In tandem with a trend in society bringing increased risk exposure, the regulatory framework and international standards are constantly evolving. Greater requirements are being imposed throughout, along with more specific and stringent requirements as regards customer due diligence and customer monitoring.

Knowledge of the bank's and customers' activities is important with a view to ensuring a risk-based approach to financial crime and to complying with the requirements of legislation. The bank must know its customers, and must be familiar with the transactions the customer usually carries out so that we can effectively uncover transactions that are unusual or suspicious. The bank must also document that control measures are appropriate to the risk concerned. Public authorities, customers and competitors must have confidence in the bank's professionality and integrity.

Our management system is evaluated and updated annually to keep it in line with an updated risk picture and changes in anti-money laundering policy. In addition, the bank carries out ongoing checks on various levels, ranging from internal control within the business lines via ongoing transaction monitoring to checks done by the compliance function. Deviations and any need for improvement measures are considered on an ongoing basis, and are reported quarterly to the board of directors.

In November 2018 the bank underwent an on-site inspection by Finanstilsynet (Norway's FSA) that focused on the bank's management and control in the area of money laundering and terrorist financing. In 2019 the bank worked systematically both to make improvements in response to this inspection, and to continue to make the adjustments needed to handle money laundering risk and assure compliance with the new anti-money laundering law which entered into force in October 2018.

In 2019 we devoted considerable effort to updating customer identity verification and customer data across the entire customer portfolio in accordance with the requirements as to ongoing monitoring of customer relationships. In the course of 2019 more than 50 staff members were dedicated to tasks related to the bank's anti-money laundering and anti-terrorist financing effort.

The bank has also taken further steps to enhance its capacity to identify suspicious transactions for closer scrutiny, inter alia by participating in a joint machine learning project in the SpareBank 1 Alliance, and to ascertain how manual assessments can do more to expose risk.

In 2019, a total of 14,980 transactions were captured by the bank's transaction monitoring systems. All the identified transactions were considered by the bank's own anti-money laundering staff, who reported 126 of the suspicious transactions to the National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim).

The bank has a focus on knowledge and training in order to combat financial crime. All employees are required to undergo mandatory e-learning on combating money laundering and terrorist financing on a regular basis. In addition, classroom instruction on combating money laundering is provided to a large number of employees on an annual basis.

Ambitions for 2020 are to continue to strengthen the organisation of, and assignment of ultimate accountability for, roles and responsibilities related to money laundering. Further, the bank will continue to monitor changes in the risk picture and the regulatory framework. This is to ensure that we at all times retain satisfactory management and control in the anti-money laundering area, which is essential with a view to reducing the risk of the bank being exploited for money laundering purposes and to expose instances of attempted money laundering or terrorist financing.

Updating of customer information, Corporate Banking

In the course of 2018 and 2019 Corporate Banking has updated its customer data on all active corporate clients as well as clubs and associations. While the division has hired in numerous substitutes for this clean-up project, advisers and employees in support functions have also devoted considerable resources to ensure satisfactory quality of the work done. The project, which in formal terms has reached completion, has led to permanently improved procedures and processes in the bank's AML procedures.

Customers are followed via all conceivable channels such as ordinary post, e-mail, telephone and attendance in person, but it is considered important that the majority are able to respond digitally. This enables improved risk assessment of the portfolio and improved follow-up of customers and segments that are exposed to money laundering and terrorist financing.

In cases where customers have not updated their customer data, the information is incomplete or the bank considers the information to pose a latent risk, relevant measures are taken in relation to the degree of risk. This may vary from blocking an account, extending customer due diligence measures, to terminating the customer relationship. The clean-up project has brought a substantial improvement in AML competence among the bank's corporate advisers and substantially improved AML quality in the bank's corporate portfolio.

Updating of customer information, Retail Banking

SMN has in the past year devoted considerable resources to ensuring adequate identity verification and customer data with regard to its retail customers. This is an important step in preventing money laundering, terrorist financing, identity theft and other forms of economic and financial crime. Under the project, checks have been carried out of the entire customer portfolio. The work is still ongoing, and will be integrated in SpareBank 1 SMN's day-to-day operations ahead. Regular checks of and information updates on all customers is crucial to preventing financial crime. We consider this to be a part of our corporate social responsibility.

Anti-corruption

Our ethical guidelines make clear that we do not tolerate corruption. The guidelines state:

"Corruption is not tolerated, either in the group or among our partners. Staff members who are involved in bribery or other forms of corruption may be reported to the police and rendered personally liable."

All employees are familiarised with the guidelines regarding corruption both through e-learning and classroom training. Should the guidelines nonetheless be breached, sanctions will be imposed on the individuals concerned. No instances of corruption were uncovered at SpareBank 1 SMN in 2019.

New products, and existing products that undergo major changes, are subject to risk assessment. This assessment covers, among other matters, corruption. The question asked is: *"Does the product represent a risk of negative influence on our efforts to prevent corruption and terrorist financing? (Sustainability / ESG risk)".* The most significant corruption risks that have been identified relate to the financing process. An inherent risk may be the risk of irregularities/corruption related to the approval of credit exposures. In order to guard against this risk, specific questions about corruption are asked in connection with the approval of new credits. When a credit application is to be considered by the credit committee, the customer officer concerned must confirm the following statement: *"The company/financing does not contribute to corruption".*

When we purchase products from other suppliers we impose clear anti-corruption requirements on the supplier. These are formulated in a supplier declaration which is a standard annex to all contracts and is signed upon entry into a contract. Central points in this declaration are:

- SpareBank 1 does not accept employees of SpareBank 1 being offered or accepting gifts or other benefits that could be construed to be bribes. Equally, the supplier shall not accept such practices in relation to its own employees.
- The supplier shall actively ensure that SpareBank 1 is not complicit in corruption. The supplier shall not pay bribes on behalf of SpareBank 1, and the supplier shall also ensure that SpareBank 1 does not benefit from corruption carried out further back in the value chain.
- Suppliers who participate in tender competitions shall abide by the guidelines for fair competition, which includes making sure that confidential information is not divulged.
- The supplier shall distance himself from any form of money laundering and take necessary precautions to prevent other parties from using the supplier's financial transactions for money laundering purposes.

It is also fixed by contract that we can utilise a third party to audit compliance with the above.

Compliance programme

As part of its organisational set-up to ensure good internal control, the bank has a compliance function. This function's task is to

- Assess the bank's procedures and systems for ensuring regulatory compliance
- Provide advice to the management team and other employees on measures to be initiated to ensure compliance with the prevailing body of rules
- Assess the effects of any changes in the rules governing the bank
- Establish policies and processes to handle compliance risk
- Ensure that compliance is monitored and tested through a structured and well-defined monitoring programme

The compliance function makes a quarterly report to the group CEO, the risk committee and board of directors. The report contains an overview of new statutory requirements, a summary and review of controls carried out and proactive measures taken, non-compliance deviations, as well as complaints and correspondence with public authorities.

In 2019 the bank's main focus was on compliance with new statutory requirements in the areas of anti-money laundering, personal data protection and savings and investment advice. This focus will continue into 2020, the same time as the regulatory picture is continuously monitored to capture new requirements that require action on the part of the bank, such as the implementation of PSD2.

Personal data protection and information security

The bank is dependent on the trust of its customers, owners, partners and supervisory authorities and other stakeholders if it is to maintain and increase its own market position. Through the bank's services, large volumes of personal data are managed, and this imposes major requirements on the bank's handling of customer data and on its adherence to key principles of personal data protection. The development of digital services provides business opportunities and aims to of benefit to our customers. At the same time, digitalisation imposes requirements in terms of security and protection of individuals and their personal data. It is both an objective and a requirement that key personal data protection principles should be safeguarded in the development of our services and products.

The bank manages large quantities of customer data. In the bank's view, personal data protection is about securing the necessary confidentiality, integrity and accessibility of all personal data that are owned, processed or managed by the bank. The bank's policy on personal data protection forms the framework for the bank's requirements for the processing of personal data, including requirements as to the distribution of responsibilities and roles in the context of personal data protection.

The volume of information and the opportunities for its use and misuse are growing apace. The trust that we as a bank are dependent on – from customers, supervisory authorities and other stakeholders – will to an ever increasing degree rest on the safe and secure management of customer data. We have accordingly described the bank's obligations to its stakeholders in detail and made them available here: https://www.sparebank1.no/nb/smn/om-oss/personvern.html

The bank has appointed a personal data officer to assist the group CEO in matters of compliance with requirements on treatment of personal data.

A new Personal Data Protection Act that implements the *General Data Protection Regulation (GDPR) entered into force on 20 July 2018. In 2019 the bank's focus was among other things on the distribution of authority and responsibility and on improving its bodies of procedures and risk assessments. In all marketing involving the use of personal data, special GDPR assessments are undertaken which are duly documented. In 2019 we noted a tendency for increased focus on requirements on the processing of personal data, and the bank has improved its ability to identify breaches of legislation and procedures.*

The bank has a low threshold for reporting such breaches to the Data Inspectorate. 11 deviations in the form of breaches of personal data security were reported to the Data Inspectorate in 2019.

The bank received two complaints from customers related to personal data protection in 2019. No customer complaints regarding breaches of the personal data rules were addressed to the Data Inspectorate as supervisory authority. Five deviations classified as leaks or loss of personal data were reported.

The bank received no penalty charges or injunctions from the Data Inspectorate in 2019.

In autumn 2019 we published a new personal data protection declaration on SpareBank 1 SMN's webpages. The aim is to ensure good and readily accessible information and by that means to secure transparency as to the processing of customers' personal data and safeguarding their rights.

The aim for 2020 is to continue the task of providing training, to establish good data deletion procedures and continue the work on built-in personal data protection in our established and new systems alike. We will continue our efforts to close identified gaps, and to ensure involvement, accountability and good risk understanding across the organisation.

A key element of good personal data protection is good information security. Developing a security architecture and solutions geared to a more open business model is a challenge facing the entire financial industry. SpareBank 1 SMN accordingly participates in the Alliance's shared security strategy project in order to address and handle the changes brought by this development. Financial industry developments combined with accelerating technological development provides new opportunities, but also new threats and security challenges. The bank recognises the need to digitalise and simplify more services, at the same time as it is absolutely imperative to attend to personal data protection and information security.

SpareBank 1 is preoccupied with security, high business continuity and reliable services for the customer. Steps have been taken to strengthen capacity, robustness and further development in selected areas, in particular in the area of information security in the context of open banking, and coordination and securing of cloud services.

The bank has established a number of technical security measures with regard to information security. At the same time training and awareness-raising are at centre stage. The bank's competence and attitude-moulding programme for information security, Passopp, designed to strengthen the security culture across the entire organisation, was in train in 2019 and continues in 2020. Based on internal surveys, the bank conducts analyses and prioritises focal areas for the attitude-moulding programme.

The bank wishes to play its part in promoting safe and secure customer behaviour and in familiarising customers with information security. Customers find tips and advice on safe and secure use of the bank at https://www.sparebank1.no/nb/smn/privat/tips-og-rad/sikker-bruk-av-nettbank-og-mobilbank.html

Gradual strengthening of the group's sustainability profile

Our stakeholders are divided in their view of the group's sustainability profile in 2019. Our own perception is that assessments of our sustainability profile are valuable in our continuing enhancement effort. We are at the initial stage of a systematic process of integrating sustainability into all our business lines, and we do nothing to conceal this in our dialogue with our customers and stakeholders. Inspired by sustainability goal no. 17, we extend an invitation to our partners and competitors alike to collaborate and share their experience in this process.

Sustainable Brand Index

In February 2019 SpareBank 1 was crowned industry winner in finance by Sustainable Brand Index. This is Europe's largest, independent brand study on sustainability. The study has been conducted annually since 2011. In the 2019 study, 50,000 consumers across more than 20 industries were interviewed, distributed on 1,148 brands. The study is conducted in Sweden, Norway, Denmark, Finland and the Netherlands.

IN FEBRUARY 2019 SPAREBANK 1 WAS CROWNED INDUSTRY WINNER IN FINANCE BY SUSTAINABLE BRAND INDEX

Sustainalytics

Sustainalytics is a global provider of risk assessments related to sustainability for the investor market. Assessment entails measuring the risk present in a company's assets based on sustainability indicators. SpareBank 1 SMN achieved in 2019 a total score of 80 of 100 possible points, which is in the category of low financial risk. A risk factor of 17.1 out of 100 is categorised as low risk. The result for the year is a significant improvement from 2018 when we achieved a total score of 58 points and risk factor of 29.3 (medium risk).

Risk factors - sustainability	Weighting	2018	2019
Product strategy and marketing	28.60 %	8.4	4.4
Personal data protection and data security	18.00 %	5.3	2.4
Corporate governance	14.70 %	4.3	4.1
Investment and credit strategy	13.70 %	4.0	1.4
Business ethics	13.00 %	3.8	2.8
Human capital	12.00 %	3.5	2
Total	**100.00 %**	**29.3**	**17.1**

Risk factors

MSCI

Morgan Stanley Capital International (MSCI) is an American finance company that publishes risk assessments related to sustainability for the investor market. Assessment involves measuring risk present in financial assets based on 37 sustainability indicators on a ratings scale from A to triple C. SpareBank 1 SMN achieved an A rating in 2019. The result is somewhat better than in the 2018 assessment, but the rating is unchanged.

Risk factors - sustainability	Weighting	2018	2019
Funding and environmental impact	5.00 %	2.4	2.4
Access to capital	17.00 %	2.6	2.6
Responsible products	17.00 %	7.3	7.3
Staff development	13.00 %	3.1	3.1
Personal data protection and data security	13.00 %	2.2	2.7
Corporate governance	18.00 %	7.6	8.2
Financial instability	17.00 %	7.7	7.7
Total	**100.00 %**		

Ethical banking guide

The ethical banking guide is a part of the international initiative Fair Financing Guide, designed to give consumers, organisations and public authorities insight into where banks stand on important themes in the field of ethics and sustainability. The ethical banking guide in Norway is a collaboration between the non-profit organisation Framtiden i våre hender ('Future in our Hands') and the Consumer Council, and is based on a review of the banks' guidelines, requirements and policy documents.

SpareBank 1 SMN achieved a total score of 58 per cent in the 2019 survey. We recorded progress in five of seven areas of activity, and retain the same score as in 2018 in two areas. In the theme areas we show progress in five out of six, and retain the same score as in 2018 in one theme area.

Areas of activity	2018	2019
Climate change	35 %	41 %
Corruption	72 %	74 %
Gender equality and diversity	40 %	43 %
Human rights	63 %	69 %
Worker rights	82 %	82 %
Nature and environment	44 %	52 %
Taxiation	73 %	73 %

Theme areas	2018	2019
Weapons	81 %	81 %
Food	51 %	57 %
Forestry	29 %	30 %
Mining	53 %	55 %
Oil and gas	38 %	43 %
Powerproduction	50 %	58 %

Global Reporting Initiative (GRI)

SpareBank 1 SMN reports in accordance with Global Reporting Initiative Core which is the leading standard for sustainability reporting. In the GRI standard materiality is a main principle. We report on the key central themes from the materiality analysis of 2017. In addition, we have chosen to include greenhouse gas emissions as a significant area in 2019, and report on the GRI 305 indicators. GRI reporting is an integral part of the bank's annual report.

GRI Index

The table shows SpareBank 1 SMN's reporting for 2019 with reference to the GRI Standard's core requirements from GRI Standards 2016.

GRI Indicator	Name of indicator	Reply/Source
General disclosures		
Organizational profile		
102-1	Name of the organisation	SpareBank 1 SMN
102-2	Activities, brands, products, and services	Sustainability report - chapter the history of SpareBank 1 SMN
102-3	Location of headquarters	Trondheim, Norway
102-4	Location of operations	Norway
102-5	Ownership and legal form	Savingsbank with equity ceritficates
102-6	Markets served	Mid Norway
102-7	Scale of organisation	Annual report -chapter about us
102-8	Information on employees and other workers	Sustainability report - Chapter A
102-9	Supply chain	We have 1.000 suppliers mainly from Norway. IT services represents 41%, facility services 17%
102-10	Significant changes to the organisation and its supply chain	No significant changes
102-11	Precautionary Principle or approach	Sustainability report - Chapter responsible financial institution
102-12	External initiatives	Sustainability report - Attachment memberships
102-13	Membership of associations	Sustainability report - Attachment memberships
Strategy		
102-14	Statement from senior decision maker	Annual report - Statement from CEO
Ethics and integrity		
102-16	Values, standards, principles and norms	Annual report - chapter main goals and strategies
102-18	Governance structure	Annual report - chapter corporate governance
Stakeholder analysis		
102-40	List of stakeholder groups	Sustainability report - chapter organisation and responsibility based on our values
102-41	Collective bargaining agreements	Sustainability report - chapter A
102-42	Identifying and selecting stakeholders	Sustainability report - chapter responsible financial institution through almost 200 years
102-43	Approach to stakeholder engagement	Sustainability report - chapter responsible financial institution through almost 200 years
102-44	Key topics and concerns raised	Sustainability report - chapter responsible financial institution through almost 200 years
Reporting practice		
102-45	Entities included in the consolidated financial statements	Annal report - chapter financial results
102-46	Defining report content and topic Boundaries	Annal report - chapter financial results
102-47	List of material topics	Sustainability report - Chapter financial institution
102-48	Restatements of information	Sustainability report - Chapter financial institution
102-49	Changes in reporting	No significant changes
102-50	Reporting period	Fiscal year 2019
102-51	Date of previous report	March 2019
102-52	Reporting cycle	On a yearly basis
102-53	Contact point	Jan-Eilert Nilsen
102-54	Claims of reporting in accordance with the GRI Standards	Core option

102-55	GRI content index	GRI Index
102-56	External assurance	Verified by PwC

Material topics

Economic performance

103-1	Explanation of the material topic and its Boundary	Annual report -chapter financial results
103-2	The management approach and its components	Annual report - chapter financial results
103-3	Evaluation of the management approach	Annual report - chapter financial results
201-1	Direct economic value generated and distributed	Annual report - chapter financial results

Anti-corruption

103-1	Explanation of the material topic and its Boundary	Sustainability report -chapter A and E
103-2	The management approach and its components	Sustainability report -chapter A and E
103-3	Evaluation of the management approach	Sustainability report -chapter A and E
205-1	Operations assessed for risks related to corruption	Sustainability report - Chapter E
205-2	Communication and training about anti-corruption policies and procedures	Sustainability report - chapter A and E
205-3	Confirmed incidents of corruption and actions taken	No incidents.

Emissions

103-1	Explanation of the material topic and its Boundary	Sustainability report - chapter D
103-2	The management approach and its components	Sustainability report - chapter D
103-3	Evaluation of the management approach	Sustainability report - chapter D
305-1	Direct (Scope 1) GHG emissions	Sustainability report - chapter D
305-2	Energy indirect (Scope 2) GHG emissions	Sustainability report - chapter D
305-3	Other indirect (Scope 3) GHG emissions	Sustainability report - chapter D

Supplier environmental assessment

103-1	Explanation of the material topic and its Boundary	Sustainability report - chapter D
103-2	The management approach and its components	Sustainability report - chapter D.
103-3	Evaluation of the management approach	Sustainability report - chapter D.
308-2	Negative environmental impacts in the supply chain and actions taken	Sustainability report - chapter D.

Employment

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter A
103-2	The management approach and its components	Sustainability report chapter A
103-3	Evaluation of the management approach	Sustainability report chapter A
401-1	New employee hires and employee turnover	Sustainability report chapter A

Training and education

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter A
103-2	The management approach and its components	Sustainability report chapter A
103-3	Evaluation of the management approach	Sustainability report chapter A
404-2	Programs for upgrading employee skills and transition assistance programs	Sustainability report chapter A A. Upgraded skills for 10 employees. Other comments are answered in the sustainabilit report, chapter A. B. 1 employee provided coaching for termination for employment.

Diversity and equal opportunity

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter A
103-2	The management approach and its components	Sustainability report chapter A
103-3	Evaluation of the management approach	Sustainability report chapter A
405-1	Diversity of governance bodies and employees	Sustainability report chapter A
405-2	Ratio of basic salary and remuneration of women to men	Sustainability report chapter A

Non-discrimination

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter A
103-2	The management approach and its components	Sustainability report chapter A
103-3	Evaluation of the management approach	Sustainability report chapter A

406-1	Incidents of discrimination and corrective actions taken	No incidents

Marketing and labeling

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter B
103-2	The management approach and its components	Sustainability report chapter B
103-3	Evaluation of the management approach	Sustainability report chapter B
417-2	Incidents of non-compliance concerning product and service information and labeling	Sustainability report chapter B
417-3	Incidents of non-compliance concerning marketing communications	Sustainability report chapter B

Customer privacy

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter E
103-2	The management approach and its components	Sustainability report chapter E
103-3	Evaluation of the management approach	Sustainability report chapter E
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Sustainability report chapter E

Anti-money laundering

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter E
103-2	The management approach and its components	Sustainability report chapter E
103-3	Evaluation of the management approach	Sustainability report chapter E
SMN-1	Anti-money laundering	Sustainability report chapter E

Product responsibility

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter B and E
103-2	The management approach and its components	Sustainability report chapter B and E
103-3	Evaluation of the management approach	Sustainability report chapter B and E
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	Sustainability report chapter B
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	Sustainability report chapter B
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation as interacted on evironmental or social issues.	

Active ownership

103-1	Explanation of the material topic and its Boundary	Sustainabilit report chapter C
103-2	The management approach and its components	Sustainability report chapter C
103-3	Evaluation of the management approach	Sustainability report chapter C
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation as interacted on evironmental or social issues.	Sustainability report chapter C
FS11	Percentage of assets subject to positive and negative environmental or social screening	Sustainability report chapter C

Digital sales

103-1	Explanation of the material topic and its Boundary	Sustainability report chapter B
103-2	The management approach and its components	Sustainability report chapter B
103-3	Evaluation of the management approach	Sustainability report chapter B
SMN-2	Digital sales	Sustainability report chapter B

Our memberships

Our memberships

SpareBank 1 SMN supports or has given its support to the following external initiatives, charters principles for the economic, environmental or social area:

UNEPFIs Principles for Responsible Banking

- UN Global Compact
- Environmental Lighthouse

SpareBank 1 SMN is a member of the following industry organisations or other amalgamations, and national/international lobby organisations:

- Finance Norway
- Confederation of Norwegian Enterprise
- Norwegian Savings Banks Association
- Finance Industry Authorisation schemes (FinAut)
- Steinkjer Business Forum
- Verran Business Forum
- Norwegian Association of Real Estate Agents
- Rennebu Business Association
- Islamic Cultural Centre (ICC) Norway
- Windcluster Norway
- Norwegian Bar Association
- Supervisory Council for Legal Practice
- Vestnes Business Forum
- Molde Business Forum
- Vestnes Handelsstandsforening
- Kristiansund and Nordmøre Business Forum
- Fræna Business Forum
- Aukra Business Forum
- Molde Sentrum AS
- Sunndal Business Association
- Eide Business Forum
- Destinasjon Molde og Romsdal AS
- Nordic Arena Nettverk Møre AS
- Lean Forum Nordvest
- Surnadal Business Association
- Verdal Business Forum
- Namsos Business Association
- Business Association for the Trondheim Region
- Levanger Business Forum AS
- Samarbeidsgruppen Midtbyen

- Trondheim Craftsmen's Association
- Haram Business and Innovation Forum
- Næringshagen i Orkdalsregionen AS
- Shippingklubben Ålesund
- Business Association for the Ålesund Region
- Rauma Næringslag
- Maritimt Forum Nordvest
- Maritimt Forum Midt-Norge
- Fosnavåg Shippingklubb
- NCE iKuben

To: Board of Directors in SpareBank 1 SMN

Independent statement regarding SpareBank 1 SMN's sustainability reporting

We have examined whether SpareBank 1 SMN has developed GRI Index for 2019 and measurements and reporting of key performance indicators for sustainability (sustainability reporting).

> SpareBank 1 SMN's GRI Index is an overview of which principles, aspects and indicators from The Global Reporting Initiative guidelines that SpareBank 1 SMN use to measure and report on sustainability; together with a reference to where material sustainability information is reported. SpareBank 1 SMN's GRI Index 2019 is part of SpareBank 1 SMN's annual report for 2019. We have examined whether SpareBank 1 SMN has developed a GRI Index for 2019 and whether disclosures are presented according to the Standards published by The Global Reporting Initiative (www.globalreporting.org/standards) (criteria).
>
> Key performance indicators for sustainability are indicators for sustainability performance that SpareBank 1 SMN's GRI Index refer to, and that SpareBank 1 SMN measure and control. Key performance indicators for sustainability are available and included in SpareBank 1 SMN's annual report 2019. SpareBank 1 SMN has prepared the key performance indicators. We have examined the basis for the measurements, checked the calculations of the measurements, and examined whether key performance indicators are presented according to the Standards published by The Global Reporting Initiative (www.globalreporting.org/standards) (criteria).

Tasks and responsibilities of management

Management is responsible for SpareBank 1 SMN's sustainability reporting and that the reporting is developed in accordance with the Standards published by The Global Reporting Initiative. Their responsibility includes developing, implementing and maintaining internal controls that ensure the reporting of the GRI Index and key performance indicators for sustainability.

Our independence and quality control

We are independent of the company in accordance with applicable laws and regulations and the Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our independent statement, and we have fulfilled our ethical obligations in accordance with these requirements and IESBA Code. We use ISQC 1 - Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and maintains a comprehensive quality control system including documented policies and procedures of the ethical standards, professional standards and applicable legal and regulatory claim.

The Auditors responsibilities

Our responsibility is to express an opinion on the subject matter based on our control. We have performed our work and will issue our statement in accordance with the Standard on Assurance Engagements ISAE 3000: "Assurance engagements other than audits or review of historical financial information".

Our work involves performing procedures to obtain evidence that SpareBank 1 SMN's sustainability reporting is developed in accordance with the Standards published by The Global Reporting Initiative. The procedures selected depend on our judgement, including assessments of the risks that the sustainability reporting as a whole are free from material misstatement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the subject matter. Therefore, we design procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our control also includes an assessment of whether the applied criteria are appropriate and an assessment of the overall presentation of the subject matter.

Our controls include meetings with representatives from SpareBank 1 SMN that are responsible for the key areas covered by the sustainability reporting, including credit, HR, procurement, risk and compliance, to evaluate internal controls and procedures related to sustainability reporting; collecting and reviewing relevant information that supports the presentation of key performance indicators; evaluating the completeness and accuracy of the key performance indicators; and controlling the calculations of key performance indicators based on an assessment of the risk that the key performance indicators contain information that is incorrect.

In our opinion, sufficient evidence has been obtained and we consider that our work provides an appropriate basis to form our conclusion.

Conclusion

In our opinion

SpareBank 1 SMN's GRI Index is, in all material respects, developed and presented in accordance with the requirements of the Standards published by The Global Reporting Initiative; and

Key performance indicators for sustainability are, in all material aspects, developed, measured and reported in accordance with the requirements of the Standards published by The Global Reporting Initiative.

Trondheim, 5 March 2020
PricewaterhouseCoopers AS

Rune Kenneth S. Lædre
State authorized public accountant

(This document is signed electronically)

(This translation from Norwegian has been made for information purposes only)

Governance

Group Management

Jan-Frode Janson (1969)

Group CEO

Ph.D. in Industrial Economics and Technology Management from the Norwegian University of Science and Technology (NTNU). Master of Science in Business from the Graduate School of Business in Bodø (1992).

Group CEO of SpareBank 1 SMN as from 1 May 2019. Previously Group CEO of SpareBank 1 Nord-Norge and deputy managing director of Fokus Bank/Danske Bank. Has also held senior positions with Orkla and ABB.

Board positions with SpareBank 1 Gruppen AS, SpareBank 1 Utvikling and Vipps. Board chairman at SpareBank 1 SMN's subsidiaries (EiendomsMegler 1 Midt-Norge, SpareBank 1 Regnskapshuset SMN, SpareBank 1 Finans Midt-Norge, SpareBank 1 Markets og SpareBank 1 SMN Invest).

Kjell Fordal (1957)

Executive director – Finance and Strategy, deputy CEO

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

Joined SpareBank 1 SMN in 1982.

Chairman of SpareBank 1 Pensjonskasse, SpareBank 1 Næringskreditt, Prøven Eiendom, DeBank and Trondhjems Turistforening. Board member of SpareBank 1 Markets, SpareBank 1 Kredittkort, SpareBank 1 Regnskapshuset SMN, SpareBank 1 Pensjonsforsikring, SpareBank 1 SMN Invest and BN Kreditt.

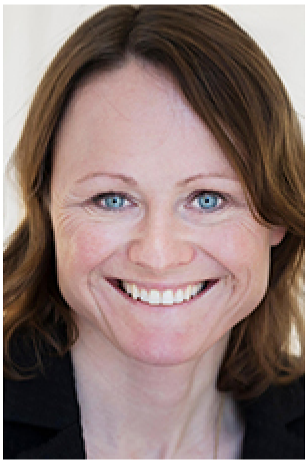
Vegard Helland (1975)

Executive director – Corporate Banking

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

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

Chairman of SpareBank 1 Factoring, Conecto and SMB Lab. Board member of SpareBank 1 Markets, SpareBank 1 Finans Midt-Norge, Modhi Finance, Modhi Collect and Mavi XV.



Nelly S. Maske (1975)

Executive director – Retail Banking and Organisation and Development

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

Joined SpareBank 1 SMN in 2013.

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

Rolf Jarle Brøske (1980)

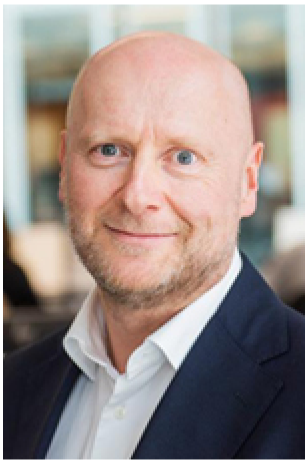
Executive director – Communications and Society

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

Joined SpareBank 1 SMN in October 2016.

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

Board chairman of Spleis and deputy board chair of Stiftelsen UNI. Member of the county board of the Trøndelag conservative party and member of Trondheim city council.



Ola Neråsen (1965)

Executive director – Risk Management

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

Joined SpareBank 1 SMN in 1997.

Board member of Betr AS.

Previously with Deloitte.

Kjersti Hønstad (1967)

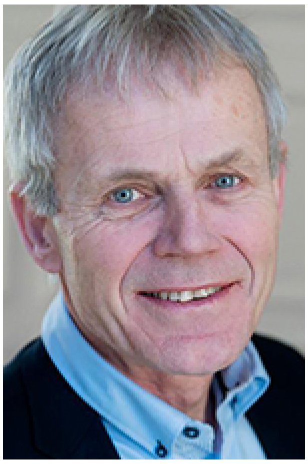
Executive director – Legal Services

Master of Laws from the University of Oslo (1995), business graduate from the Trondheim School of Economics.

Appointed legal counsel by SpareBank 1 SMN in 2005, executive director legal services as from 2009. Previous experience as lawyer with Deloitte Advokater.

Board member of SpareBank 1 Finans Midt-Norge, EiendomsMegler 1 Midt-Norge, SpareBank 1 Invest and observer at SpareBank 1 Markets.

Board of Directors



Kjell Bjordal (1953) Board chair

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

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

Self-employed.

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

Board chairman of Axess and Nordlaks produkter. Deputy board chair of Entra Eiendom.

Attended 18 of 19 meetings of the Board of Directors in 2019.

Bård Benum (1962) Deputy board chair

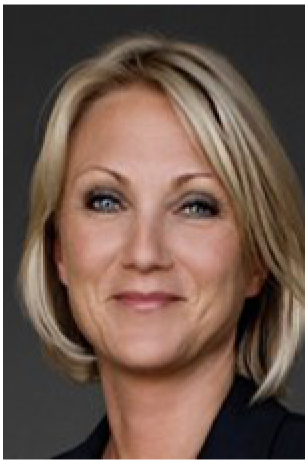
Graduate of the Norwegian University of Science and Technology (NTNU) (1987).

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

CEO at VitalThings.

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

Attended 19 of 19 meetings of the Board of Directors in 2019.



Mette Kamsvåg (1971)

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

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

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

Board chair at Maritech Systems AS and WebMed AS. Deputy board chair of SIVA (public funding agency for innovation) and board member of Wordline Group.

Attended 19 of 19 meetings of the board of directors in 2019.

Tonje Eskeland Foss (1971)

Post graduate degree in petroleum economics (1996).

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

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

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

Attended 16 of 19 meetings of the board of directors in 2019.

Morten Loktu (1960)

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

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

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

Joined Statoil in 1985 and has held various posts including in research and development. Executive director in charge of Statoil's technology organisation (2000-2002). Senior Vice President, research and development at Statoil (2005-2010). Area director, Statoil's production and development activity off Mid-Norway and North Norway (2011-2016). Group CEO, SINTEF Group (2002-2004).

Attended 17 of 19 meetings of the Board of Directors in 2019.

Janne T. Thomsen (1957)

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

Board member since 2014. Member of the audit and risk committee since 2014. Head of the risk committee since 2019.

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

Attended 19 of 19 meetings of the Board of Directors in 2019.

Christian Stav (1968)

Business economist from the Norwegian School of Economics and Business Administration NHH (1991), Master of Accounting NHH (1992), state authorised public accountant (1994), Master of Business Administration NHH (2003), Certified European Financial Analyst (AFA) NHH (2003).

Board member since 2019. Member of the internal audit committee and the risk committee since 2019. Head of the internal audit committee.

Group CEO at Nord-Trøndelag Elektrisitetsverk (NTE, a publicly owned power company serving northern Trøndelag). Experience from accounting and advisory services, partner at EY Transaction Advisory Services, financial director at NTE.

Attended 13 of 15 meetings of the Board of Directors in 2019.

Inge Lindseth (1963)

Employee-elected chief union representative as from 2019. Previously employee representative on the supervisory board.

Graduate in IT Management from Sør-Trøndelag University College (HiST) and in Project Management from BI Norwegian Business School.

Board member since 2019.

Previously specialist-in-charge / service desk manager in the technology, operations and security areas. Employed by SpareBank 1 SMN since 1982 in various positions and functions.

Attended 13 of 15 board meetings in 2019.

Christina Straub (1974)

Upper secondary school. Bankakademiet stage 1 and Insurance. Deputy head of the Finance Sector Union’s branch at SpareBank 1 SMN from 2019.

Board member since 2019.

Employed at Vår Bank & Forsikring (part of SpareBank 1 SMN from 2000) from 1998 to 2001, and at Evry from 2001 to 2006. Has held various functions in SpareBank 1 SMN since 2006, in recent years as brand manager (payments) and staff representative on various committees.

Four years’ experience as pre-school director at Saxenborg Barnehage.

Attended 15 of 15 board meetings in 2019.

Elected officers

Members elected by the equity certificate holders	Residence	No. of equity certificates held*
Lars Bjarne Tvete	Trondheim	15 115
Marit Collin	Trondheim	48 155
Jøran Nyheim	Molde	3 965 391
Thor Arne Falkanger	Trondheim	143 005
Torgeir Svae	Oslo	2 500
Knut Solberg	Trondheim	2 762
Therese Bjørstad Karlsen	Trondheim	170
Nina Kleven	Trondheim	1 100
Nils Martin Williksen	Rørvik	60 449
Berit Tiller	Trondheim	950
Frithjof Anderssen	Trondheim	30 095
Åsmund Skår	Nesbru	1200

Members elected by the depositors	Residence	No. of equity certificates held*
Per Olav Tyldum (nestleder)	Overhalla	0
Vegard Forbord	Steinkjer	0
Marit Dille	Kolvereid	3 339
Anne Rita Bakken	Stjørdal	850
Randi Bakken	Trondheim	0
Jan-Yngvar Kiel	Trondheim	0
Wollert Krohn-Hansen	Trondheim	0
Elin Hagerup	Trondheim	0
Line Melkild	Eidsvåg	0

Members elected by the county councils	Residence	No. of equity certificates held*
Jan Inge Kaspersen	Stjørdal	0
Stig Klomsten	Trondheim	0
Tove-Lise Torve	Sunndalsøra	0

Members elected by the employees	Residence	No. of equity certificates held*
Linda Renate Linmo	Grong	1 865
Anders Skrove	Steinkjer	2 088
Bjørn Larsen	Trondheim	3 887
Anne Valstad-Aalmo	Trondheim	1 461
Geir Tore Mathisen	Trondheim	2 900
Rolf Bratlie	Melhus	1 861
Berit Bøifot	Torvikbukt	5 224

Board of Directors	Residence	No. of equity certificates held*
Kjell Bjordal (leder)	Molde	130 000
Bård Benum (nestleder)	Trondheim	0
Morten Loktu	Trondheim	5 000
Christian Stav	Steinkjer	0
Janne Thyø Thomsen	Danmark	3 000
Tonje Eskeland Foss	Trondheim	0
Mette Kamsvåg	Molde	5 600
Inge Lindseth	Trondheim	4 034
Christina Straub	Trondheim	652
Oddny Lysberg (varamedlem)	Grong	1 491

Election Committee	Residence	No. of equity certificates held*
Lars Bjarne Tvete	Trondheim	15 115
Thor Arne Falkanger	Trondheim	143 005
Marit Dille	Kolvereid	3 339
Tove-Lise Torve	Sunndalsøra	0
Rolf Bratlie	Trondheim	1 861

* Number of equity certificates held as of 31 December 2019 includes certificates held by the EC holder's related parties, by companies under the EC holder's control and by companies on whose behalf the EC holder is elected.

Corporate governance

SpareBank 1 SMN provides below an overall account of the institution's corporate governance policies and practice in conformity with the Accounting Act (Regnskapsloven) and the Norwegian Code of Practice for Corporate Governance (NUES). SpareBank 1 SMN reports its compliance for each point of the Code of Practice. Where the Code of Practice is not followed, a justification for the deviation is given and the institution's arrangements are explained.

Accounting Act, section 3-3b, second subsection

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

1. A statement of recommendations and rules for corporate governance which apply to the undertaking or which it chooses to follow.
Policies and practice for corporate governance at SpareBank 1 SMN are based on Norwegian law. The group follows the Norwegian Code of Practice for Corporate Governance. Reference is made to point 1 of the Code of Practice below.

2. Information on where recommendations and rules as mentioned in no. 1 are publicly available.
The Code of Practice for Corporate Governance is available at nues.no.

3. A justification for any deviation from recommendations and rules as mentioned in no. 1.
Any deviations from the recommendation receive comment under the report on compliance with the Code of Practice below.

4. A description of the main elements in the undertaking's and – for entities that are under the obligation to maintain accounting records and that prepare consolidated accounts – in the event also the group's systems for internal control and risk management associated with the financial reporting process.
See the report regarding point 10 of the Code of Practice below.

5. Provisions of articles of association which in whole or in part expand or diverge from the provisions of the Public Limited Companies Act chapter 5.
See the report regarding point 6 of the Code of Practice below.

6. The composition of the board of directors, corporate assembly, supervisory board and control committee; any working committees for these bodies, and a description of the main elements of applicable instructions and guidelines for the work of these bodies and any committees.
See the report regarding points 6, 7 and 8 of the Code of Practice below.

7. Provisions of articles of association which regulate the appointment and replacement of board members.
See the report regarding point 8 of the Code of Practice below.

8. Provisions of articles of association and authorisations which empower the board of directors to decide that the company shall repurchase or issue treasury shares or equity certificates.
See the report regarding point 3 of the Code of Practice below.

Norwegian Code of Practice for Corporate Governance

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

Point 1: Report on corporate governance
There are no significant divergences between the Code of Practice and compliance with the Code of Practice at SpareBank 1 SMN.

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

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

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

Through its corporate governance the bank gives special emphasis to:

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

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

All staff and elected officers at SpareBank 1 SMN are obliged to regard knowledge of the group’s or a customer’s circumstances as confidential. This duty of confidentiality applies not only in respect of third parties but also towards colleagues who have no need for the information in question in their work. Further, no SMN staff member may, via computer systems or by any other means, retrieve information about other colleagues or customers that is not necessary for their work. The bank’s ethical rules stipulate that a staff member must immediately inform his/her superior or other contact persons if he/she learns of circumstances that breach applicable statutes and rules or constitute significant violations of internal provisions.

Deviations from point 1 of the Code of Practice: None

Point 2: Operations

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

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

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

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

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

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

Deviations from point 2 of the Code of Practice: None

Point 3: EC capital and dividends

The board of directors continuously assesses the capital situation in light of the group's goals, strategy and desired risk profile. As at 31 December 2019 SpareBank 1 SMN's common equity tier 1 (CET1) ratio was 17.2 per cent, and its total capital ratio was 21.6 per cent.

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

Dividends

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

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

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

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

Acquisition of treasury equity certificates
SpareBank 1 SMN's board of directors are authorised to buy treasury ECs for up to 5 per cent of the bank's owner capital, and such purchases shall be made by trading on the securities market via the Oslo Stock Exchange. The total volume of ECs held by the bank and/or in which it has a consensual security interest may not exceed 5 per cent of the bank's owner capital. Each EC may be bought at prices between NOK 1 and NOK 200. The authorisation is valid for 15 months as from the adoption of the resolution at the supervisory board's meeting on 28 March 2019.

Increase of capital
Authorisations to the board of directors to increase the bank's EC capital are given for specific and defined purposes. As at 31 December 2019 no authorisation is available to the board of directors to increase the capital of SpareBank 1 SMN.

Deviations from point 3 of the Code of Practice: None

Point 4: Non-discrimination of shareholders and transactions with related parties
SpareBank 1 SMN has one class of ECs. Through the articles of association, and in the work of the board of directors and management team, emphasis is given to equal treatment of all EC holders and equal opportunity for them to exercise influence. All ECs confer an identical voting right. The bank abides by provisions of the Financial Institutions Act regulating holdings and voting rights insofar as these provisions apply to savings banks with equity certificates.

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

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

Deviations from point 4 of the Code of Practice: None

Point 5: Shares and transferability

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

Deviations from point 5 of the Code of Practice: None

Point 6: General meeting

Supervisory board

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

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

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

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

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

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

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

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

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

Point 7: Election committee

The bank shall have an election committee consisting of five members and five alternates who are elected by the supervisory board for a two-year term. The election committee shall mirror the composition of members of the supervisory board and be composed as follows:

- Two members with two alternates shall be elected from among the members elected by the representatives of the equity certificate holders
- One member with one alternate shall be elected from among the members elected by the representatives of the customers
- One member with one alternate shall be elected from among the members elected by the representatives of the county councils
- One member with one alternate shall be elected from among the members elected by the representatives of the employees
- The supervisory board establishes further instructions for the holding of the elections.
- The election committee prepares the customers' and the equity certificate holders' election of members to the supervisory board.

The election committee also prepares the election of:

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

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

The election committee shall give grounds for its nominations.

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

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

Point 8: Board of directors, composition and independence

See point 6 for information about the supervisory board. As of 31 December 2019 the board of directors consists of nine regularly attending members of whom two are employee representatives. Four of the nine members of the board of directors are women. Members of the board of directors are appointed for two years at a time and can hold office for a maximum of 20 years, but not more than 12 years continuously in the same position. The group CEO is not a member of the board of directors. None of the members of the board of directors appointed by the supervisory board, with the exception of the two employee representatives, are in any employment relationship or independent contractor relationship with the group beyond their posts as elected officers. The board members' independence has been assessed by the election committee and the board members are deemed to be independent, with the exception of the board members elected by the employees. The chair and deputy chair are elected by the supervisory board at separate elections for a two-year term.

The composition of the board of directors shall be based on the bank's articles of association. In the election of board members the criteria of competence, capacity and diversity are in focus. The individual director’s background is described in the annual report. The board of directors meets at least 11 times each year, and the members’ attendance at meetings of the board is described in the annual report. The directors are encouraged to own the bank’s equity certificates, and their respective holdings of ECs in SpareBank 1 SMN are shown under the presentation of the board of directors in the annual report and on the bank’s website.

Deviations from point 8 of the Code of Practice: None

Point 9: Work of the board of directors

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

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

Independent consideration

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

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

Board committees

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

Audit committee

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

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

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

Risk committee

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

The committee shall inter alia:

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

The risk committee meets at least five times yearly.

Compensation committee

The board of directors has appointed a compensation committee which shall comprise at least three directors. In addition, the board of directors appoints one representative for the employees. The board chair is a permanent member of the committee and also chairs the committee. The committee members are appointed by the board of directors for two years at a time.

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

The compensation committee shall make a recommendation to the board of directors regarding compensation policy and regarding conditions applying to the group CEO. It shall also be possible to utilise the committee as an advisory body to the group CEO when establishing terms and conditions for the group management.

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

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

Deviations from point 9 of the Code of Practice: None

Point 10: Risk management and internal control

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

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

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

The board of directors reviews the group's development in the main risk areas on a quarterly basis and reviews the internal control system on an annual basis. The board of directors of SpareBank 1 SMN has the main responsibility for setting limits to and monitoring the group's risk exposure. The bank's risks are measured and reported in accordance with the principles and policy adopted by the board of directors.

Risk management at SpareBank 1 SMN underpins the group's strategic development and goal attainment. Managements at the various companies in the group are responsible for risk management and internal control, and this is intended to ensure:

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

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

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

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

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

The risk management department is organised independently of the business units and reports directly to the group CEO. The department is responsible for the group's risk models and for further developing effective risk management systems. The department is responsible for independent risk assessment, risk reporting and overall risk monitoring in the group and reports periodically to the group CEO and the board of directors.

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

Compliance

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

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

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

Internal control in relation to financial reporting

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

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

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

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

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

Internal audit

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

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

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

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

Ethics and whistleblowing

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

Deviations from point 10 of the Code of Practice: None

Point 11: Remuneration to the board of directors

The board members' fees that are recommended by the election committee and adopted by the supervisory board are not performance-related, and no options are issued to the directors. The board of directors' chair and deputy chair are remunerated separately, and directors participating in board committees receive additional remuneration for doing so. None of the directors appointed by the supervisory board perform tasks for the group beyond serving on the board of directors. Further information on compensation to the board of directors and board committees is shown in note 20 in the annual report.

Deviations from point 11 of the Code of Practice: None

Point 12: Remuneration to senior employees

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

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

A description of remuneration to the group CEO and senior employees is given in note 20 to the annual report. A further description of the bank's remuneration scheme is available on the bank's home page.

Deviations from point 12 of the Code of Practice: None

Point 13: Information and communication

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

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

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

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

Deviations from point 13 of the Code of Practice: None

Point 14: Takeover

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

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

Point 15: External auditor

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

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

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

Deviations from point 15 of the Code of Practice: None

MING

Equity capital certificate

At end-2019 the market price of SpareBank 1 SMN's EC (MING) was NOK 100.20 (NOK 84.20). With a cash dividend of NOK 6.50 for 2019, the direct return on the EC is 6.5 per cent.

At the end of 2019 SpareBank 1 SMN's equity certificate (EC) capital totalled NOK 2,597m distributed on 129,836,443 ECs with a nominal value of NOK 20 each. At the turn of the year the group had a treasury holding of ECs totalling NOK 10.6m distributed on 532,460 ECs.

Key figures and ratios	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Quoted price	100.20	84.20	82.25	64.75	50.50	58.50	55.00	34.80	36.31	49.89
No. of ECs issued, million	129.30	129.62	129.38	129.83	129.83	129.83	129.83	129.83	102.76	102.74
Market value (NOKm)	12,956	10,914	10,679	8,407	6,556	7,595	7,141	4,518	3,731	5,124
Dividend per EC	6.50	5.10	4.40	3.00	2.25	2.25	1.75	1.50	1.85	2.77
Book value per EC	90.75	83.87	78.81	73.26	67.65	62.04	55.69	50.09	48.91	46.17
Profit per EC	12.14	9.97	8.71	7.91	7.02	8.82	6.92	5.21	6.06	5.94
Price-Earnings Ratio	8.26	8.44	9.44	8.19	7.19	6.63	7.95	6.68	5.99	8.40
Price-Book Value Ratio	1.10	1.00	1.04	0.88	0.75	0.94	0.99	0.69	0.74	1.07
Payout ratio	54 %	51 %	50 %	38 %	25 %	25 %	25 %	29 %	30 %	47 %
EC fraction	64.0 %	64.0 %	64.0 %	64.0 %	64.0 %	64.6 %	64.6 %	64.6 %	60.6 %	61.3 %

Stock price compared with OSEBX and OSEEX

1 Jan 2018 to 31 Dec 2019

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

Dividend policy

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

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

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

Investor policy

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

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

Ownership

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

Financial results

Report of the Board of Directors

Macroeconomic conditions

Global economic growth stabilised in 2019, but the upside is considered low
Global growth stabilised at three per cent in 2019, after slowing down through the previous year. 2019 has been marked by trade conflict and geopolitical uncertainty, which have dampened global trade flows and business investments. Manufacturing output among our trading partners fell. Last autumn the trade conflicts calmed when the US and China signed a new agreement. Nor did a hard Brexit materialise this time round after the general election in the United Kingdom. While this has dampened uncertainty globally, considerable risk remains both as regards the relationship between the US and China, and as to how the agreement between the United Kingdom and the European Union will ultimately turn out.

Unemployment is low, and in the OECD area unemployment is at its lowest since 1980. Despite this, wage growth has levelled out or declined in many Western countries. Corporate profits are still under pressure in several countries due to lower productivity growth, in particular in the US and Germany. Core inflation in wealthy countries has increased, while lower energy prices have dampened overall price growth.

Towards year-end global growth indicators changed, and signalled somewhat higher global GDP growth into 2020. Despite an improvement in the short-term indicators, growth potentials in many wealthy countries are limited. High investment levels and low unemployment put pressure on earnings.

Stock markets were on a positive track in 2019. Fear of the effects of trade conflicts along with uncertainty prompted several central banks to take stimulatory action. In the US the Federal Reserve cut its base rate on three occasions in 2019, even though the economy strictly speaking did not need it. The European Central Bank reintroduced quantitative easing and cut its key policy rate. Many central banks are now signalling a pause mode. Nominal interest rates are very low – indeed many are negative – in the eurozone. Coronavirus has sparked uncertainty, disquiet and some decline in the financial markets. Should the confidence shock bring a deep and protracted decline, the effects on the real economy could become negative.

Norwegian economy passed its growth peak
The Norwegian economy saw a moderate cyclical upturn in 2019 with growth above the long-term growth potential. Mainland (non-oil) GDP rose by 2.4 per cent compared with 2.5 per cent in 2018. However, growth slowed in the fourth quarter and the business barometers signal a further deceleration. Unemployment has flattened out at a low level. Growth in employment is declining, but remains higher than the rate of population growth. The labour force has increased somewhat, possibly suggesting idle capacity in the economy. Productivity growth remains low. Wage growth quickened to 3.4 per cent in 2019, contributing to positive real wage growth after several years of zero growth.

Despite the quickening wage growth, growth in consumption has been moderate in the past year due to a higher saving rate after the decline of previous years. House prices are rising steadily at a moderate rate on a national basis, but growth in housing construction has diminished. Household credit growth has subsided, and the household debt-to-income ratio is now falling marginally.

In 2018 and 2019 oil investments made a solid contribution to growth in the mainland economy. The growth is now leveled out. Unless the oil companies increase their investment budgets, investments will fall through 2020. Investments by mainland businesses will probably decline at the same time. Manufacturing industry reports cuts after a sharp upswing. With little upside potential as regards consumption, GDP growth is set to decrease in 2020 and in 2021. Reports by firms to Norges Bank's regional network and other barometers confirm a change of pace in the Norwegian economy, to a GDP growth figure of just under two per cent in the first half of 2020.

The krone exchange rate fell further in 2019 and is extremely weak, also in historical terms. This is mainly due to global factors. The low krone exchange rate has contributed to an upturn in mainland exports. On the other hand the weak krone puts pressure on importers, who have not been able to fully pass on their costs to Norwegian customers. Core inflation has accordingly hovered around the inflation target of two per cent, despite the fall in the krone exchange rate.

Norges Bank went against the grain of central banks that cut their lending rates last year. After three base rate hikes to 1.5 per cent in 2019, the banks raised their deposit and lending rates. This, together with tighter regulation of consumer lending banks and the introduction of a debt register, has probably helped to dampen credit growth and to keep house price growth in check. Norges Bank signals that the base rate will be kept unchanged for a long period ahead.

Regional: Trøndelag and Møre and Romsdal

Businesses in Norges Bank's regional network reported somewhat lower, but still moderate, growth both in Trøndelag and in Møre and Romsdal in the fourth quarter. This is consistent with findings by SpareBank 1 SMN's economic barometer. However, a further deceleration in the first half of 2020, as signalled by businesses in other countries, is not expected. Unemployment in Trøndelag is among the lowest in the country, at 2.2 per cent. In recent months unemployment has shown signs of levelling out in Trøndelag whereas it continues to fall in Møre and Romsdal. Unemployment here is now down to 2.6 per cent, despite the continuing challenges faced by the county's shipbuilding industry.

House prices rose marginally in Central Norway, and more slowly than in the country as a whole. The annual growth rate is about one per cent. In Trondheim price growth is one per cent on an annual basis and in Ålesund 1.7 per cent. Prices in Ålesund have fallen marginally in recent months following an upturn through the first half 2019.

Møre and Romsdal are more dependent on the level of activity in oil and shipbuilding than the rest of the country – and the prospects here for the next few years are uncertain with many businesses looking towards new markets. Trøndelag is more diversified. For the construction industry the downside is probably larger than for other sectors. Expectations barometers report lower optimism, and housing construction in Trøndelag has declined in recent months after being higher than normal for a long period. Population growth is concurrently slowing, as in the case of the country as a whole, and income growth is lower than normal. This, combined with surplus capacity in wholesale and retail trade, creates challenges for businesses in this sector, in Central Norway as elsewhere.

Annual accounts 2019

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

(Consolidated figures. Figures in parentheses refer to the same period of 2018 unless otherwise stated.)

- Pre-tax profit: NOK 3,081m (2,450m)
- Post-tax profit: NOK 2,563m (2,090m)
- Return on equity: 13.7 per cent (12.2 per cent)
- CET1 ratio: 17.2 per cent (14.6 per cent)
- Growth in lending: 4.7 per cent (7.8 per cent) and in deposits: 6.6 per cent (5.4 per cent) in the last 12 months
- Growth in lending to retail borrowers was 6.4% over the last 12 months (9.6%). Retail loans account for 69% (67%) of total lending
- Growth in lending to corporate borrowers was 1.1% over the last 12 months (4.2%)
- Losses on loans and guarantees: NOK 299m (263m) or 0.18% (0.17%) of total lending
- Earnings per EC: NOK 12.14 (9.97). Book value per EC: NOK 90.75 (83.87)

Events in 2019

SpareBank 1 SMN a preferred partner bank for the LO
In the second quarter the LO (Norwegian Trade Union Confederation) entered a three-year agreement with two preferred banking partners: SpareBank 1 SMN and SpareBank 1 Østlandet. The bank has high expectations of this agreement, in particular in the bank's own market area. New customer relationships are being established through digital marketing and through high activity targeting LO members at the local level. Since the signing of the agreement, SpareBank 1 SMN has successfully attracted new customers in the LO segment, largely involving the entire customer relationship.

Major effort to combat money laundering
The government requires the banks to have in place procedures for combating money laundering and terrorist financing. SpareBank 1 SMN has made the adjustments needed to bring it into line with the new Anti-Money Laundering Act, and has devoted considerable effort to updating customer identity verification and customer data across the entire customer portfolio in accordance with the requirements as to ongoing monitoring of customer relationships.

UN principles for responsible banking
The UN's new environmental initiative, Principles for Responsible Banking, was launched in New York on 22 September. The new principles are designed to promote a development of the financial sector in keeping with the UN's sustainability goals and the Paris Agreement. SpareBank 1 SMN is one of 10 Norwegian banks to have joined this global initiative and to have endorsed the principles for responsible banking. Further information on the principles can be found in the sustainability library on the bank's webpages.

Green bonds
The bank issued its first green senior bond in the euro-market in September. The bond is linked to certified loans in the bank's corporate banking portfolio in the fisheries, sea farming and commercial property segments.

Launching of green loans to retail borrowers
In December three loan products for the retail segment were launched: green residential mortgages, green loans for energy projects and green consumer loans. The green residential mortgage is for borrowers who are building, buying or fully renovating homes to a high environmental standard. The green loan for energy projects is for borrowers who wish to engage in energy-oriented projects, and have collateral available in their dwelling. The green consumer loan is an unsecured loan for borrowers who wish to engage in energy-oriented projects, and are unable to mortgage their dwelling. SpareBank 1 Finans Midt-Norge has launched a loan on favourable terms for the purchase of electric cars.

PSD2 – revised Payment Services Directive for the EU and EEA
On 1 April the revised Payments Services Directive for the EU entered into force, and on 14 September it became operative and its functionality available to customers. The Directive requires all banks operating in the EU and the EEA to provide other approved actors with access to customers' accounts information and payment services. SpareBank 1 SMN has opened the way for all the Directive's requirements, and has also given its customers the opportunity to view and to operate their accounts residing in other banks directly in SpareBank 1 SMN's Internet bank and mobile bank.

Acquisition of DeBank
SpareBank 1 SMN acquired in the first quarter all the shares of DeBank. SpareBank 1 SMN Spire Finans (new name as from 2020) caters specifically to small and medium-sized firms that specialise in factoring. The group strengthened its offering of services to small and medium-sized firms through this acquisition.

BN Bolig sold at year-end
The group sold BN Bolig in the fourth quarter. The company was a joint project between BN Bank and EiendomsMegler 1 Midt-Norge with a view to acquiring a position in the estate agency market in Oslo. The business was sold after several years of deficit.

Insurance merger
Fremtind Forsikring received in September permission from Finanstilsynet to engage in life insurance business through its wholly-owned subsidiary Fremtind Livsforskring. This involved the transfer of individual personal risk insurances from SpareBank 1 Forsikring and DNB Livsforsikring, as well as the company-paid personal risk insurances from SpareBank 1 Forsikring, to Fremtind Livsforsikring. The transaction went ahead on 1 January 2020.

New group CEO
Jan-Frode Janson took up duties as group CEO of SpareBank 1 SMN on 1 May, following on from Finn Haugan. Mr Janson came from the same position at SpareBank 1 Nord-Norge.

Technology and development director appointed
In the fourth quarter Astrid Undheim was appointed executive director responsible for technology and development at SpareBank 1 SMN. She takes up duties on 1 March 2020 and will be a member of the group management team. She was previously Vice President, Analytics and Artificial Intelligence, at Telenor.

Accounts 2019

Profit growth of NOK 474m
Pre-tax profit for 2019 was NOK 3,081m (2,450m). The post-tax profit was NOK 2,563m (2,090m) and return on equity 13.7 per cent (12.2 per cent).

Overall operating income in 2019 came to NOK 4,967m (4,580m), an increase of NOK 397m from the previous year. Of the income growth, NOK 247m derived from banking operations and NOK 149m from the bank's subsidiaries.

The profit share from ownership interests and related companies was NOK 879m (416m), including a gain of NOK 460m on the establishment of Fremtind and the bank's share of NOK 116m of property appreciation at SpareBank 1 Forsikring.

Return on financial instruments totalled NOK 307m (334m).

Operating expenses came to NOK 2,797m (2,624m) in 2019. Of the increase of NOK 173m, NOK 102m derived from banking operations and NOK 71m from increased activities at the subsidiaries.

Losses on loans and guarantees totalled NOK 299m (263m), mainly in oil-related activities.

The growth in lending and deposits continued, and the bank expanded its share of the retail market. Aggregate lending increased by 4.7 per cent (7.8 per cent) and deposits by 6.6 per cent (5.4 per cent) over the last 12 months.

As at 31 December 2019 the CET1 ratio was 17.2 per cent (14.6 per cent). The new CET1 ratio target, prompted by rule changes, is 16.9 per cent.

Earnings per EC were NOK 12.14 (9.97). The book value per EC was NOK 90.75 (83.87) including the proposed dividend for 2019 of NOK 6.50.

The price of the bank's equity certificate (MING) at year-end was NOK 100.20 (84.20).

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 received 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 34m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 2,182m.

Difference between Group - Parent Bank	**2019**	**2018**
Profit for the year, Group	**2,563**	**2,090**
Interest hybrid capital (after tax)	-47	-36
Profit for the year excl interest hybrid capital, group	**2,516**	**2,054**
Profit, subsidiaries	-286	-165
Dividend, subsidiaries	162	151
Profit, associated companies	-879	-416
Dividend, associated companies	704	355
Group eliminations	-2	-93
Profit for the year excl interest hybrid capital, Parent bank	**2,216**	**1,887**

Distribution of profit	**2019**	**2018**
Profit for the year excl interest hybrid capital, Parent bank	2,216	1,887
Transferred to/from revaluation reserve	-34	-29
Profit for distribution	**2,182**	**1,857**
Dividends	840	661
Equalisation fund	555	526
Saving Bank's fund	313	297
Gifts	474	373
Total distributed	**2,182**	**1,857**

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 per cent of the distributed profit.

Earnings per equity certificate were NOK 12.14. Of this, the board of directors recommends the bank's supervisory board to set a cash dividend of NOK 6.50, altogether totalling NOK 840m. This gives the EC holders a payout ratio of 53.6 per cent of the earnings per EC. The board of directors further recommends the supervisory board to allocate NOK 474m to social dividend, also representing a payout ratio of 53.6 per cent. Of this amount it is proposed that NOK 274m be transferred to the foundation Stiftelsen SpareBank 1 SMN and NOK 200m to non-profit causes. NOK 555m and NOK 313m are transferred to the dividend equalisation fund and the ownerless capital respectively.

After distribution of the profit for 2019, the ratio of EC capital to total equity remains 64.0 per cent.

Increased net interest income

Net interest income rose by NOK 284m to NOK 2,687m (2,403 m) in 2019. The increase is mainly down to increased lending to and deposits from retail and corporate customers, higher deposit margins, at the same time as increased market interest rates have yielded improved return on the bank's equity.

The market interest rate in terms of three-month NIBOR has risen through 2019 by about 80 points. Although four general interest rate hikes were carried out in the period, margins on loans weakened by about 15 points in 2019, while deposit margins strengthened by about 30 points. The latest interest rate hike on residential mortgages was effective as from 7 November 2019, following Norges Bank's increase of the key policy rate in September.

Increased other income

Commission income and other operating income rose by NOK 113m to NOK 2,290m (2,177m) in 2019.

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 income on loans sold to these two companies in 2019 totalled NOK 365m (366m). Weaker margins on the loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are compensated for by higher loan volumes sold.

Other commission income totalled NOK 1,925m (1,811m). The growth of NOK 114m is driven mainly by increased incomes on payment, estate agency, accounting and securities services.

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 (NOKm)	2019	2018	Change
Payment transfers	233	208	25
Creditcard	59	60	0
Saving products	100	102	-2
Insurance	183	174	9
Guarantee commission	51	60	-8
Real estate agency	390	369	21
Accountancy services	473	411	62
Markets	386	350	36
Other commissions	49	78	-29
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,925	1,811	113
Commissions SB1 Boligkreditt	349	350	-1
Commissions SB1 Næringskreditt	16	16	0
Total commissions	**2,290**	**2,177**	**113**

Return on financial investments

Overall return on financial investments was NOK 307m (334m). This breaks down as follows:

- Financial derivatives yielded gains of NOK 132m (187m). This essentially comprises gains on fixed income instruments and is ascribable to rising interest rates through 2019. Net losses on the bond portfolio amount to NOK 20m (loss of 77m)
- Losses on hedging accounting came to NOK 9m (loss of 4m)
- Gains on shares of the bank and subsidiaries totalled NOK 120m (96m). This refers mainly to a gain on shares in Visa (NOK 42m), badwill related to the acquisition of DeBank (NOK 31m) and gains on shares in SpareBank 1 SMN Invest (47m).
- 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 9m (10m)
- Income of NOK 22m (63m) 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. An agio loss of NOK 18m was recognised in the fourth quarter, related to a system fault affecting previous periods.
- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 54m (58m)

Return on financial investments (NOKm)	2019	2018	Change
Gain/(loss) on sertificates and bonds	-20	-77	56
Gain/(loss) on derivatives	132	187	-55
Gain/(loss) on financial instruments related to hedging	-9	-4	-6
Capital gains shares	120	96	24
Gain/(loss) on other financial instruments at fair value (FVO)	9	10	-1
Foreign exchange gain/(loss)	22	63	-40
Gain/(loss) om shares and share derivatives at SpareBank 1 Markets	54	58	-5
Net return on financial instruments	**307**	**334**	**-27**

Product companies and other related companies

The product companies give the bank's customers access to a broader product range and provide the bank with commission income. The product companies also provide the bank with return on invested capital.

The overall profit of the product companies and other related companies was NOK 418m (416m) in 2019. In addition SpareBank 1 SMN recorded a gain of NOK 460m related to the establishment of Fremtind in the first quarter of 2019.

SpareBank 1 Gruppen

SpareBank 1 SMN's stake in SpareBank 1 Gruppen is 19.5 per cent. SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans. SpareBank 1 Gruppen owns 65 per cent of the non-life insurer Fremtind which was established on 1 January 2019. DNB owns the remainder of the company.

SpareBank 1 Gruppen's post-tax profit for 2019 was NOK 1,503m (1,480m). The profit is boosted by appreciation of properties of the life company totalling NOK 597m. The profit for 2019 also reflects merger costs related to Fremtind, an increased claims ratio and a poor profit margin at SpareBank 1 Forsikring.

SpareBank 1 SMN's share of the profit as at the fourth quarter of 2019 was NOK 252m (289m), of which property appreciation accounted for NOK 116m.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks making up the SpareBank 1 Alliance to derive 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 2019 the bank had sold loans totalling NOK 39.8bn (38.1bn) to SpareBank 1 Boligkreditt, corresponding to 34.6 per cent (35.2 per cent) of the Group's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 20.9 per cent, and the bank's share of that company's profit in 2019 was NOK 26m (minus 7m).

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 2019, loans worth NOK 1.7bn (1.8bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 31.0 per cent, and the bank's share of the company's profit for 2019 was NOK 21m (15m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank.

SpareBank 1 Kredittkort

The profit for 2019 was NOK 75m (131m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.3 per cent. SpareBank 1 SMN's share of the profit for 2019 is NOK 13m (23m), and the bank's share of the portfolio is NOK 946m (923m). The fall in profit is ascribable to a lower proportion of the balance being rolled over and earning interest.

SpareBank 1 SMN Kredittkort manages the LOfavør credit card programme. This reinforces the business relationship between the Norwegian Trade Union Confederation (LO) and the SpareBank 1 Alliance.

BN Bank

SpareBank 1 SMN owns 35.0 per cent of BN Bank as at 31 December 2019.

BN Bank recorded a profit of NOK 305m (278m) in 2019, providing a return on equity of 8.0 per cent (7.5 per cent) in 2019 including a share of the deficit recorded by BN Bolig. SpareBank 1 SMN's share of BN Bank's profit for 2019 was NOK 113m (97m).

BN Bank's caters primarily to retail borrowers and its main market is Oslo and south-eastern Norway.

SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for Vipps payments solutions. Vipps aims to take its place as the Nordic region's leading financial technology company, and for SpareBank 1 SMN a 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 further services in 2019 designed to simplify bank customers' everyday life.

SpareBank 1 Betaling posted a deficit of NOK 58m (deficit of 56m) in 2019 which constitutes the company's profit share from Vipps' business. SpareBank 1 SMN's share of the deficit is NOK 12m (deficit of 12m). At the start of 2019 the company corrected its reported result for 2018 by NOK 72m. SpareBank 1 SMN accordingly had a positive profit share of NOK 3m from the company for 2019.

Operating expenses

As at 31 December 2019 overall operating expenses came to NOK 2,797m (2,624m), an increase of NOK 174m corresponding to 6.6 per cent.

The bank's costs rose by NOK 102m to NOK 1,364m in the last 12 months. NOK 12m of the growth refers to costs incurred in allotting equity certificates (ECs) to the bank's employees. This aside, costs have risen by 7.1 per cent. The increase is related to the development of new customer solutions and increased resource use with a view to meeting regulatory requirements. Part of this resource use relates to hired-in resources to be phased out in the first quarter of 2020.

Overall costs among the subsidiaries came to NOK 1,433m (1,362m), having risen by NOK 71m or 5.2 per cent in the last 12 months. The increase is highest at SpareBank 1 Regnskapshuset SMN and SpareBank 1 Markets and is attributable to increased activity which has also brought improved profit performances. In addition, Spire Finans (previously DeBank) is a subsidiary of SpareBank 1 SMN as from 2019, which has increased the group's cost base.

The cost-income ratio was 45 per cent (49 per cent) for the group, 31 per cent (33 per cent) at the parent bank.

The group is not satisfied with the cost trend and has therefore set itself the target of restricting annual cost growth to 2 per cent on excisting business. To that end a profitability project has been established under the name 'One SMN'. The project will prioritise synergies between the group's business lines, digitalisation, process efficiencies and general cost reductions across the entire group.

Stable losses and low defaults
Net losses on loans in 2019 totalled NOK 299m (263m). Net loan losses measure 0.18 per cent of total outstanding loans (0.17 per cent).

A loss of NOK 231m (223m) was recorded on loans to corporates in 2019, in all essentials on loans to oil-related activities.

A loss of NOK 68m was recorded on loans to retail borrowers in 2019 (40m), of which NOK 32m is related to retail customers of the bank and NOK 36m to retail customers of SpareBank 1 Finans Midt-Norge.

Write-downs on loans and guarantees totalled NOK 1,121m (909m) as at 31 December 2019.

Overall problem loans (defaulted and doubtful) come to NOK 2,110m (1,682m), corresponding to 1.26 per cent (1.0 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. All loans classified to stage 3 in the expected-credit-loss model are defined as problem loans.

Defaults in excess of 90 days totalled NOK 429m (310m). Defaults measured 0.26 per cent of gross outstanding loans (0.19 per cent). The increase referred in all essentials to the retail market portfolio.

Other doubtful exposures totalled NOK 1,681m (1,372m). Other doubtful exposures measured 1.00 per cent (0.86 per cent) of gross outstanding loans. The increase is mainly due to a small number of commitments within the offshore portfolio.

Credit quality in the remaining loan portfolio is good.

Total assets of NOK 167bn
The bank's assets totalled NOK 167bn as at 31 December 2019 (161bn).

At the turn of the year loans worth a total of NOK 42bn (40bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and to SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank’s balance sheet. The comments covering lending growth take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Good, but abating, growth in residential mortgage lending
Total outstanding loans rose by NOK 7.5bn (11.5bn) or 4.7 per cent (7.8 per cent) in 2019 to reach NOK 167.8bn (160.3bn) as at 31 December 2019.

- Lending to personal borrowers rose in 2019 by NOK 6.9bn (9.4bn) to NOK 115.0bn (108.1bn). Growth in the period was 6.4 per cent (9.6 per cent). Part of the growth in the second half of 2019 was recorded in the LO segment. This is described in the section on **Retail Banking** towards the end of this report.
- Lending to corporate borrowers rose in 2019 by NOK 0.6bn (2.1bn) to NOK 52.7bn (52.2bn). Growth in the period was 1.1 per cent (4.2 per cent).
- Lending to personal borrowers accounted for 69 per cent (67 per cent) of total outstanding loans to customers as at 31 December 2019.

New loans to corporate borrowers are mainly to small businesses and are prioritised on the basis of profitability considerations.

(For distribution by sector, see note 4).

Good growth in deposits

Customer deposits rose in 2019 by NOK 5.3bn (4.1bn) to NOK 85.9bn (80.6bn). This represents a growth of 6.6 per cent (5.4 per cent).

- Personal deposits rose by NOK 2.6bn (1.3bn) or 7.9 per cent (4.0 per cent) to reach NOK 35.7bn (33.1bn).
- Corporate deposits rose by NOK 2.7bn (2.9bn) or 5.7 per cent (6.5 per cent) to reach NOK 50.3bn (47.6bn).
- The deposit-to-loan ratio at SpareBank 1 SMN was 68 per cent (67 per cent) excluding SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 51 per cent (50 per cent).

(For distribution by sector, see note 8).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 11.7bn (9.8bn) at the end of 2019. The increase of NOK 1.8bn is a result of good sales and value increases on equity funds.

Saving products, customer portfolio (NOKm)	2019	2018	Change
Equity funds	7,437	5,932	1,505
Pension products	740	755	-15
Active management	3,501	3,147	354
Total	**11,678**	**9,834**	**1,844**

Insurance

The bank's insurance portfolie grew by 9.0 per cent in 2019. The growth was satisfactory for all product areas.

Insurance, premium volume (NOKm)	2019	2018	Change
Non-life insurance	888	812	76
Personal insurance	376	351	25
Occupational pensions	319	289	30
Total	**1,583**	**1,452**	**131**

Retail banking
Outstanding loans to retail borrowers totalled NOK 119bn (113bn) and deposits totalled NOK 42bn (40bn) as at 31 December 2019. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships with the parent bank.

Operating income totalled NOK 2,177m (2,027m) in 2019. Net interest income accounted for NOK 1,372m (1,234m) and commission income for NOK 805m (793m). The income growth is mainly due to increased lending and higher margins on deposits. Overall income rose by NOK 150m. Return on capital employed in the retail banking segment was 13.1 per cent (13.2 per cent). Capital employed is regulatory capital of 15.0 per cent, corresponding to the Group's targeted CET1 ratio.

The lending margin in 2019 was 1.50 per cent (1.67 per cent), while the deposit margin was 0.61 per cent (0.27 per cent) measured against three-month NIBOR. The market interest rate in terms of three-month NIBOR rose in 2019.

Retail lending and retail deposits grew by 5.9 per cent (9.3 per cent) and 4.0 per cent (7.7 per cent) respectively in 2019.

In August 2019 the group entered a three-year agreement with the LO (Norwegian Trade Union Confederation) making SpareBank 1 SMN a preferred partner bank for LO members. The agreement gives the bank access to 1 million LO members who will be offered highly competitive residential mortgage rates.

Since the signing of the agreement SpareBank 1 SMN has successfully attracted new customers in the LO segment, largely involving the entire customer relationship. Over the course of the fourth quarter of 2019 the bank has achieved high growth in the number of new residential mortgages among LO members, concurrent with highly satisfactory sales of other products to LO members. The growth has been mainly in the bank's own market area, and there are high expectations of continued growth both in Central Norway and across the country as a whole.

Lending to retail borrowers consistently carries low risk, as reflected in continued low losses. The loan portfolio is secured by residential property.

The bank's distribution model for the retail market aims to ensure increased selling power and cost efficiencies. Sales will increase across all channels with a strong emphasis on increasing the share of digital sales. A new CRM system has improved, and enhanced the efficiency of, the customer experience and strengthened the interplay between personal and digital services. The bank will maintain a strong physical presence while at the same time continuing to make efficiency gains.

Corporate Banking
Outstanding loans to corporates totalled NOK 40bn (41bn) and deposits totalled NOK 43bn (39bn) as at 31 December 2019. 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 1,388m (1,329m) in 2019. Net interest income was NOK 1,171m (1,110m), and commission income and return on financial investments came to NOK 217m (219m).

Losses in the corporate banking segment in 2019 totalled NOK 213m – the same level as in 2018 (212m). 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 11.7 per cent in 2019 (11.3 per cent). Capital employed is regulatory capital of 15.0 per cent, corresponding to the Group's targeted CET1 ratio.

The lending margin was 2.57 per cent (2.69 per cent) and the deposit margin was 0.07 per cent (minus 0.04 per cent) in 2019.

Lending was reduced by 1.7 per cent (growth of 2.1 per cent) and deposits rose by 9.0 per cent (1.3 per cent) in 2019.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 346.5m in 2019 (226.0m).

Pre-tax profit (NOKm)	2019	2018	Change
EiendomsMegler 1 Midt-Norge	31.5	17.8	13.6
Bn Bolig	-30.2	-40.7	10.5
SpareBank 1 Finans Midt-Norge	108.3	70.6	37.7
SpareBank 1 Regnskapshuset SMN	149.9	148.5	1.4
Sparebank 1 Markets	43.4	15.1	28.3
SpareBank 1 SMN Invest	47.6	8.0	39.7
DeBank	-19.8	-	-19.8
Other companies	16.0	6.0	10.0
Total	**346.8**	**225.4**	**121.4**

EiendomsMegler 1 Midt-Norge is the market leader in Trøndelag and in Møre and Romsdal and aims to continue to strengthen its market share. Operating income rose in 2019 to total NOK 403m (393m), while operating expenses were stable at NOK 373m (372m). The pre-tax profit in 2019 was NOK 31.5m (17.8m). 6,652 dwelling units were sold in 2019 compared with 6,663 in the same period of 2018. The company's market share as at 31 December 2019 was 36.9 per cent (37.6 per cent).

In collaboration with BN Bank, the company established in 2016 the company BN Bolig in which EiendomsMegler 1 Midt-Norge and BN Bank each hold a 50 per cent stake. BN Bolig posted a deficit of NOK 30.2m in 2019 (deficit of 40.7m). The company's results have not measured up to expectations, and the company was sold in the fourth quarter. A deficit was also recorded in the start-up year 2017, and the BN Bank venture has resulted in a loss of NOK 109m for both owners.

SpareBank 1 Finans Midt-Norge delivered a pre-tax profit of NOK 149.9m in 2019 (148.5m). The company has shown good income growth with incomes totalling NOK 386m (337m). Some growth in costs has also been noted, and operating expenses in 2019 totalled NOK 184m (155m). Losses on car loans and consumer loans have risen in 2019, and totalled NOK 52m (34m), and are in line with expectations. The company's business lines are mainly leasing to the SMB market and car loans to retail customers. The company manages leasing and car loan agreements worth a total of NOK 8.9bn (7.8bn), of which leasing agreements account for NOK 3.5bn (3.3bn) and car loans for NOK 5.1bn (4.2bn). The company also offers consumer loans, and at year-end this portfolio was worth NOK 257m (259m).

Good growth is noted, in particular for car loans to retail customers where growth in the last 12 months was 22 per cent. The growth in leasing to the SMB market was 7 per cent. The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge as at 31 December 2019, while Sparebanken Sogn og Fjordane held a stake of 7.5 per cent. SpareBank 1 SMN holds 61.2 per cent of the shares of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 108.3m (70.6m) in 2019, thereby achieving a profit growth of 53 per cent compared with 2018. Operating income increased to NOK 502m, a growth of 13.1 per cent comprising 5.4 per cent organic growth and 7.7 per cent growth resulting from acquisitions.

The strong profit growth is mainly ascribable to the following:

- Initiated efficiency projects have contributed to increased operating income per FTE (the proportion of staff costs down from 65.6 per cent to 63.0 per cent)
- A continued strong focus on costs has contributed to a significant reduction in operating expenses (the proportion of operating expenses down from 14.9 per cent to 11.4 per cent)

With 13 per cent growth in 2019, the company has expanded its market position to 25 per cent, representing an increase of close to 2 percentage points. This is calculated as the company's proportion of the accounting industry's overall turnover in Trøndelag, Møre and Romsdal and Gudbrandsdal. Thus the company can point to significantly higher growth and profitability than the industry average. In addition, the company is well on the way as regards creating new income flows beyond the traditional accounting industry.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 47.6m in 2019 (8.0m). The company held shares worth NOK 438m (591m) as at 31 December 2019. Value changes and realisation of losses or gains on the company's overall shareholding account for NOK 56.6m (-1m) of the company's net total income.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN which holds a 66.7 per cent stake. Other owners are SpareBank 1 Nord-Norge, SpareBank 1 SR Bank, SpareBank 1 Østlandet and the SamSpar banks. SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has 147 employees.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning. The company is at centre-stage of SpareBank 1 Markets' focus on asset management with aggregate total assets of NOK 17bn. The company has a staff of 17.

SpareBank 1 Markets' consolidated pre-tax profit for 2019 was NOK 43.4m (15.1m). All business lines recorded higher income compared with 2018. Income growth is particularly strong in the case of equity and bond issues. Overall income including SpareBank 1 Kapitalforvaltning came to NOK 609m (551m).

SpareBank 1 Markets is the leading capital market unit in its market area. SpareBank 1 Markets' main focus is on clients in regard to which the group itself has a strong competitive position alone or in conjunction with the parent banks.

SpareBank 1 SMN Spire Finans (formerly DeBank)
SpareBank 1 SMN acquired all shares of SpareBank 1 SMN Spire Finans in the first quarter of 2019. SpareBank 1 SMN Spire Finans (new name as from 2020) caters specifically to small and medium-sized businesses that specialise in factoring. The company is headquartered in Trondheim and has 19 employees. As at 31 December 2019 the company had loanable capital of NOK 96m, operating income in 2019 of NOK 20.6m and a pre-tax profit in 2019 of minus NOK 19.8m. The company plans to move into positive territory

over a two-year period. SpareBank 1 SMN Spire Finans will operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is increasing its focus on small and medium-sized businesses and will strengthen its offering in the factoring field through this acquisition.

Satisfactory funding and good liquidity

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

The bank has liquidity reserves of NOK 26bn and has the funding needed for 24 months of ordinary operation without fresh external finance.

The government authorities require all credit institutions to maintain sufficient liquidity buffers to withstand periods of limited access to market funding. The liquidity coverage ratio (LCR) measures the size of banks' liquid assets relative to net liquidity outflow 30 days ahead given a stressed situation.

The LCR is calculated at 148 per cent as at 31 December 2019 (183 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 December 2019, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 51 per cent (50 per cent).

The bank's funding sources and products are amply diversified. At 31 December 2019 the proportion of the bank's overall money market funding in excess of one year's maturity was 83 per cent (89 per cent).

SpareBank 1 Boligkreditt is the bank's most important funding source, and residential mortgages totalling NOK 40bn (38bn) had been sold as at 31 December 2019.

Rating

The bank has a rating of A1 (stable outlook) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. Moody's revised in May 2019 its outlook for SpareBank 1 SMN and other Norwegian banks from a negative to a stable outlook.

Financial soundness

Finanstilsynet (Norway's FSA) has adopted a decision on minimum requirements for the sum of own funds and eligible debt (MREL). The SpareBank 1 SMN group is required to hold own funds and eligible debt totalling 33.3 per cent of adjusted risk-weighted assets as at 31 December 2018, i.e. a minimum of NOK 27.2bn. The requirement of lower priority (senior non-preferred debt) must be met by 31 December 2022.

As of 31 December 2019 the countercyclical buffer was raised from 2.0 per cent to 2.5 per cent, bringing the CET1 requirement to 12.5 per cent, including combined buffer requirements. Taking into account a Pillar 2 requirement of 1.9 per cent, the overall government requirement is 14.4 per cent. The add-on refers mainly to owner risk, market risk and credit concentration risk. The add-on is subject to review by Finanstilsynet every second year.

SpareBank 1 SMN aims for a management buffer of about 1 per cent over and above the combined Pillar 1 and Pillar 2 requirements with a view to absorbing fluctuations in risk weighted assets and in the group's financial results. The Ministry of Finance has announced that the systemic risk buffer for IRB banks is to increase by 1.5 per cent to 4.5 per cent with effect from 31 December 2020. This brings the CET1 ratio requirement to 15.9 per cent. When a management buffer of 1 per cent is included, the bank's new target will be 16.9 per cent.

The CET1 ratio at 31 December 2019 was 17.2 per cent (14.6 per cent) – in keeping with the targeted level. The authorities' CET1 ratio requirement is 14.4 per cent.

The CET1 ratio has risen by 2.7 percentage points in 2019. Risk weighted assets were down by 3 per cent as at 31 December, despite the growth in lending through 2019. The removal of the Basel I floor, and the introduction of the SMB rebate as of 31 December 2019, reduced in isolation risk-weighted assets by NOK 15.4bn. CET1 capital has grown by 7.0 per cent in 2019 as a result of a good profit performance and dividend received from SpareBank 1 Gruppen in the second quarter. The leverage ratio of 7.5 per cent (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 financial soundness.

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 31 December 2019 was NOK 90.75 (83.87), and earnings per EC were NOK 12.14 (9.97).

The Price / Income ratio was 8.26 (8.44) and the Price / Book ratio was 1.10 (1.00). The group's quoted capital totalled NOK 13.0bn at year-end (10.9bn). Taking into account the ratio of EC capital to total equity, the group is worth NOK 19.7bn.

At year-end the EC was priced at NOK 100.20, and dividend of NOK 5.10 per EC was paid in 2019 for the year 2018.

SpareBank 1 SMN's articles of association set no restrictions on owners' 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 2019, loans to oil-related activities accounted for 2.8 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 activities to other sectors and no other concentrations in non-performing and problem exposures are in evidence.

Growth among Norway's trading partners in 2019 was weak, although there are expectations of moderate growth ahead. There is continued uncertainty regarding international developments. The Norwegian economy has received impetus from increased oil investments, but lower growth is expected in oil investments in 2020. The Norwegian krone is at a relatively weak level, which is favourable for Norwegian export industries. The krone is expected to remain weak ahead. Wage growth is expected to remain stable. This, combined with a continued low interest rate level, prompts the bank to consider that loss risk in the bank's retail market portfolio will be low. Unemployment has declined in the bank's market area over the course of 2019, and the bank expects the level of unemployment to remain low ahead.

Growth in Norwegian household debt has slowed in recent years, and house price growth has been moderate. Interest rate increases could impact negatively on house prices, which will probably dampen credit demand. A situation of falling house prices and expectations of higher interest rates is 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).

Stronger focus on combating money laundering

The government requires the banks to strengthen their efforts to combat money laundering and terrorist financing. SpareBank 1 SMN has in the year behind us focused on the adjustments needed to bring it into line with the new Anti-Money Laundering Act. The bank has also devoted considerable effort in 2019 to updating customer identity verification and customer data across the entire customer portfolio in accordance with the requirements as to ongoing monitoring of customer relationships. In the course of the year more than 50 staff members have been dedicated to tasks related to the bank's anti-money laundering and anti-terrorist financing effort.

Insurance merger

The merger between SpareBank 1 Skadeforsikring and DNB Forsikring was implemented with accounting effect from 1 January 2019 with SpareBank 1 Skadeforsikring as the acquiring company. SpareBank 1 Gruppen has a stake of 65 per cent and DNB ASA a stake of 35 per cent in Fremtind Forsikring AS. See our financial statements for the first quarter of 2019 for details of the accounting and liquidity-related consequences of this transaction.

Fremtind Forsikring AS received on 2 September 2019 permission from Finanstilsynet to engage in life insurance business through its wholly-owned subsidiary Fremtind Livsforsikring AS. The individual personal risk insurances from SpareBank 1 Forsikring AS and DNB Life Insurance, and the company-paid personal risk insurances from SpareBank 1 Forsikring AS, were transferred to Fremtind Livsforsikring on 1 January 2020.

The demerger of SpareBank 1 Forsikring and DNB Livsforsikring, involving the transfer to Fremtind Livsforsikring and the consideration issued by Fremtind Livsforsikring, was implemented with accounting effect from 1 January 2020.

The personal risk area is valued overall at about NOK 6.25bn. The demerger will entail an increase in SpareBank 1 Gruppen's equity at the consolidated level. The majority's (the SpareBank 1 banks' and the Trade Union Confederation's) share of this increase is about NOK 1.7bn. SpareBank 1 SMN's share of this increase (19.5 per cent) comes to about NOK 331m which will be taken to income in the first quarter of 2020.

SpareBank 1 Gruppen AS (the parent company) will earn a tax-free gain of NOK 937m as a result of this demerger. SpareBank 1 Gruppen AS' basis for dividend distribution will increase by the same margin. SpareBank 1 SMN's share of a potential dividend of NOK 937m (19.5 per cent) is NOK 183m.

DNB has an option to increase its stake in Fremtind Forsikring AS from 35 per cent to 40 per cent by 31 March 2020. If DNB exercises this option, SpareBank 1 Gruppen (the parent company) will receive a gain of about NOK 890m. SpareBank 1 Gruppen's basis for dividend distribution will rise by the same margin.

Exercise of the option will also entail an increase in equity for SpareBank 1 Gruppen at the consolidated level. The majority's (the SpareBank 1 banks' and the Trade Union Confederation's) share of this increase will be about NOK 590m. SpareBank 1 SMN's share of this increase (19.5 per cent) comes to about NOK 115m which will in the event be taken to income in the course of 2020.

Any extraordinary or ordinary dividend from SpareBank 1 Gruppen will be conditional on the capital situation, decisions by the company's governing bodies and the rules applying to extraordinary dividend distributed by financial institutions at the point in time concerned.

New strategy

The board of directors adopted a new strategy for the group in December. The strategy describes the group's overarching ambitions and priorities in the period to 2023.

SpareBank 1 SMN intends to be the leading finance house in Central Norway, and among the best performers in the Nordic region. SpareBank 1 SMN will create financial value, build society and take its share of the responsibility for sustainable development.

The strategy establishes the following goals for the group:

SpareBank 1 SMN to be among the best performers in the Nordic region

- **Profitable** with a 12 per cent return on equity
- **Financially sound** with a CET1 ratio of 16.9 per cent. Payout ratio of about 50 per cent
- **Efficient**. Annual cost growth in the group shall be limited to 2.0 per cent within existing business
- **Strengthened market position**. Ambition to be number 1 in all business lines and market areas
- **Greater number of satisfied customers**. Ambition to have the most satisfied customers in all business lines and market areas
- **Proud and committed staff.** Ambition to have the most committed staff in the financial industry in Norway
- **Quality** in all our work

SpareBank 1 SMN intends to further develop its strong aspects. The group has delivered high return over time and has robust customer relationships. The customer offering and the bank's market position will be strengthened, and efficiency within the group will be improved. The interplay between the group's various businesses shall be strengthened.

Five strategic priorities are highlighted in the strategy period

- Create One SMN
- Increase digitalisation and use of insight
- Head up the development of Norway's savings banks

- Integrate sustainability into the business
- Exploit the power present in the ownership model

In order to achieve the goals of the group strategy and increase competitive power, an enhancement programme, One SMN, has been initiated. One SMN is a comprehensive programme designed to enhance profitability through increased exploitation of synergies, increased incomes, cost efficiencies and improved capital utilisation.

Sustainability

One of five strategic priorities for SpareBank 1 SMN is to integrate sustainability into the business. As a definition a basis is taken in the UN's 17 sustainability goals and the UN's six principles for sustainable banking, where SpareBank 1 SMN was among the first actors in Norway to give its endorsement. Work on integrating sustainability into the business is at the initial stage, and will be further developed and fleshed out in the strategy period. This also entails setting a level of ambition in prioritised areas.

SpareBank 1 SMN has prepared a sustainability report as a chapter in its own right in the annual report for 2019. As regards the Accounting Act's requirements as information on the work environment, gender equality and non-discrimination, the impact on the external environment and corporate social responsibility, attention is drawn to the sustainability report.

Outlook

The performance for the year as a whole was good with a return on equity of 13.7 per cent.

Losses in 2019 are higher than in 2018. They are mainly in oil-related activities. Losses on loans are at a low level, and the bank expects losses to remain low.

Developments in the regional economy are satisfactory with low unemployment and continued growth in the economy, although a shortage of labour is a limiting factor. The bank's expectations barometer shows receding optimism in business and industry.

The group's new strategy provides a good basis for strengthening competitive power and further developing the group's business lines. The group is well positioned with profitable business lines which, through their interaction within One SMN, embody a considerable potential and provide a sound basis for achieving the group's financial goals.

The group has improved efficiencies in its existing operations for many years. In 2019 the growth in costs has been excessive. The directors are not satisfied with this development, and have therefore set a target restricting annual cost growth to a maximum of 2 per cent for existing business.

SpareBank 1 SMN has assumed a key role in driving the development of the SpareBank 1 Alliance, Vipps and the establishment of Fremtind. Moreover, SpareBank 1 SMN offers products and services to a number of savings banks in and outside the SpareBank 1 Alliance. The board of directors considers SpareBank 1 SMN to be well-positioned in the event of structural changes.

The cooperation agreement with the LO (Norwegian Trade Union Confederation) provides potentials for further growth in the retail market both in the region and nationally. This requires a substantial sales effort in order to recruit new customers and to ensure that customers are able to derive benefit from the group's broad product offering.

The group will continue to strengthen its position as the leading bank for small businesses through its broad product range, good digital solutions and skilled advisers. Growth ambitions in the corporate market are primarily directed at small and medium-sized businesses.

The CET1 ratio has increased to 17.2 per cent, and is in line with the new target of 16.9 per cent. The leverage ratio of 7.5 per cent shows the bank to be financially solid.

The board of directors will recommend that 53.6 per cent of the group profit be disbursed as cash dividend corresponding to NOK 6.50 per equity certificate (NOK 5.10) and NOK 474m (373m) as social dividend. Of the social dividend, NOK 200m (80m) goes directly to dividend payouts and NOK 274m to the foundation Sparebankstiftelsen. This represents a realisation of the strategy aiming to strengthen the ownership model.

The directors are well satisfied with the group's performance in 2019. New strategic initiatives will further strengthen the group's competitive power.

Trondheim, 5. mars 2020
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal (chair)	Bård Benum (deputy chair)	Christian Stav
Mette Kamsvåg	Tonje Eskeland Foss	Morten Loktu
Janne T. Thomsen	Christina Straub (employee rep.)	Inge Lindseth (employee rep.)
		Jan-Frode Janson (Group CEO)

Income statement

Parent Bank				Group	
2018	**2019**	(NOK million)	Notes	**2019**	**2018**
3,335	3,732	Interest income effective interest method	17	4,121	3,660
401	509	Other interest income	17	505	398
1,640	1,916	Interest expenses	17	1,939	1,655
2,097	**2,325**	**Net interest**	4	**2,687**	**2,403**
1,102	1,127	Commission income	18	1,437	1,387
92	95	Commission expenses	18	193	168
32	30	Other operating income	18	1,046	958
1,042	**1,061**	**Commission income and other income**	4	**2,290**	**2,177**
516	884	Dividends	19,44	15	8
-	-	Income from investment in related companies	19,39	879	416
152	54	Net return on financial investments	19	307	334
668	**937**	**Net return on financial investments**	4	**1,201**	**757**
3,807	**4,324**	**Total income**		**6,178**	**5,337**
577	614	Staff costs	20,22	1,699	1,584
685	750	Other operating expenses	21,31,32, 33	1,098	1,040
1,262	**1,364**	**Total operating expenses**	4	**2,797**	**2,624**
2,546	**2,960**	**Result before losses**		**3,380**	**2,713**
229	245	Loss on loans, guarantees etc.	4,10	299	263
2,316	**2,715**	**Result before tax**		**3,081**	**2,450**
456	452	Tax charge	23	518	509
62	-	Result investment held for sale, after tax	39	0	149
1,922	**2,263**	**Profit for the year**		**2,563**	**2,090**
36	47	Attributable to additional Tier 1 Capital holders		49	37
1,207	1,417	Attributable to Equity capital certificate holders		1,572	1,291
680	799	Attributable to the saving bank reserve		886	727
		Attributable to non-controlling interests		56	34
1,922	**2,263**	**Profit for the year**		**2,563**	**2,090**
		Profit/Diluted profit per ECC (NOK)		12.14	9.97

Other comprehensive income

Parent Bank				Group	
2018	**2019**	(NOK million)	Notes	**2019**	**2018**
1,922	2,263	Net profit		2,563	2,090
		Items that will not be reclassified to profit/loss			
18	-33	Actuarial gains and losses pensions	22	-33	18
-6	8	Tax		8	-6
-	-	Share of other comprehensive income of associates and joint venture		21	1
12	**-25**	**Total**		**-4**	**13**
		Items that will be reclassified to profit/loss			
-	-	Fair value change on financial assets through other comprehensive income		-	-
-2	6	Value changes on loans measured at fair value		6	-2
-	-	Share of other comprehensive income of associates and joint venture		-12	-38
-	-	Tax		-	-
-2	**6**	**Total**		**-5**	**-40**
11	**-18**	**Net other comprehensive income**		**-9**	**-27**
1,933	**2,245**	**Total other comprehensive income**		**2,554**	**2,063**
36	47	Attributable to additional Tier 1 Capital holders		49	37
1,213	1,405	Attributable to Equity capital certificate holders		1,566	1,274
684	792	Attributable to the saving bank reserve		883	718
		Attributable to non-controlling interests		56	34
1,933	**2,245**	**Total other comprehensive income**		**2,554**	**2,063**

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

Statement of Financial Position

Parent Bank				Group	
31 Dec 2018	31 Dec 2019	(NOK million)	Notes	31 Dec 2019	31 Dec 2018
		ASSETS			
883	761	Cash and receivables from central banks	12,24	761	883
11,178	9,181	Deposits with and loans to credit institutions	7,12,13,24,26	2,110	5,074
112,659	117,033	Net loans to and receivables from customers	4,8,9,10,11,12,13, 24,25, 26	125,279	119,728
20,428	23,195	Fixed-income CDs and bonds	12,13,24,25,27	23,115	20,348
3,914	2,872	Derivatives	12,24,25,28,29	2,972	4,119
391	355	Shares, units and other equity interests	24,25,30	2,953	1,873
4,309	4,526	Investments in related companies	39,40,41,44	6,468	6,098
2,610	2,309	Investment in group companies	39,41	-	-
82	82	Investment held for sale	30,39	40	43
533	512	Intangible assets	31	872	851
733	1,241	Other assets	4,12,22,23,24,26, 32,33	2,092	1,687
157,720	**162,066**	**Total assets**	**14,15**	**166,662**	**160,704**
		LIABILITIES			
8,546	7,585	Deposits from credit institutions	7,24,26	8,853	9,214
81,448	86,870	Deposits from and debt to customers	4,24,26,35	85,917	80,615
44,269	43,014	Debt created by issue of securities	24,26,29,36	43,014	44,269
2,933	3,159	Derivatives	24,25,28,29	3,528	2,982
1,892	1,570	Other liabilities	22,23,24,25,26,37	2,841	2,670
-	-	Investment held for sale	39	0	1
2,224	2,047	Subordinated loan capital	5,24,26,38	2,090	2,268
141,311	**144,245**	**Total liabilities**	**16**	**146,243**	**142,018**
		EQUITY			
2,597	2,597	Equity capital certificates	43	2,597	2,597
-0	-0	Own holding of ECCs	43	-11	-4
895	895	Premium fund		895	895
5,602	6,144	Dividend equalisation fund		6,123	5,594
661	840	Allocated to dividends		840	661
373	474	Allocated to gifts		474	373
5,126	5,432	Ownerless capital		5,432	5,126
155	189	Unrealised gains reserve		189	155
-	-	Other equity capital		1,827	1,608
1,000	1,250	Additional Tier 1 Capital	5,38	1,293	1,043
		Non-controlling interests		761	637
16,409	**17,822**	**Total equity**	**5**	**20,420**	**18,686**
157,720	**162,066**	**Total liabilities and equity**	**14,15**	**166,662**	**160,704**

Statement of Changes in Equity

Parent Bank	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	Total equity
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									
Financial assets through OCI	-	-	-	-	-	-	-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	-	-	-	-	-	-	-	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	-878
Equity at 31 December 2018	**2,597**	**895**	**5,126**	**5,602**	**1,034**	**155**	**-**	**1,000**	**16,409**
Equity at 1 January 2019	**2,597**	**895**	**5,126**	**5,602**	**1,034**	**155**	**-**	**1,000**	**16,409**
Net profit	-	-	313	555	1,314	34	-	47	2,263
Other comprehensive income									
Value changes on loans measured at fair value	-	-	-	-	-	-	6	-	6
Actuarial gains (losses), pensions	-	-	-	-	-	-	-25	-	-25
Other comprehensive income	-	-	-	-	-	-	-18	-	-18
Total other comprehensive income	-	-	313	555	1,314	34	-18	47	2,245
Transactions with owners									
Dividend declared for 2018	-	-	-	-	-661	-	-	-	-661
To be disbursed from gift fund	-	-	-	-	-373	-	-	-	-373
Additional Tier 1 Capital	-	-	-	-	-	-	-	250	250
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-47	-47
Purchase and sale of own ECCs	-0	-	-	-0	-	-	-	-	-0
Direct recognitions in equity	-	-	-7	-12	-	-	18	-	-1
Total transactions with owners	-0	-	-7	-12	-1,034	-	18	203	-832
Equity at 31 December 2019	**2,597**	**895**	**5,432**	**6,144**	**1,314**	**189**	**-**	**1,250**	**17,822**

Group	Issued equity		Earned equity (Attributable to parent company equity holders)							
(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 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	-	-	-	-	-	-	-	-37	-	-37
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	-	0
Own ECC held by SB1 Markets[1)]	4	-	-	0	-	-	11	-	-	15
Direct recognitions in equity	-	-	-2	-4	-	-	-5	-	-	-11
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**

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

Group

(NOK million)	Attributable to parent company equity holders: Issued equity: EC capital	Premium fund	Earned equity: Owner-less capital	Equali-sation fund	Dividend and gifts	Un-realised gains reserve	Other equity	Additional Tier 1 Capital	Non-controlling interests	Total equity
Equity at 1 January 2019	**2,592**	**895**	**5,126**	**5,594**	**1,034**	**155**	**1,608**	**1,043**	**637**	**18,686**
Net profit	-	-	313	555	1,314	34	242	49	56	2,563
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	9	-	-	9
Value changes on loans measured at fair value	-	-	-	-	-	-	6	-	-	6
Actuarial gains (losses), pensions	-	-	-	-	-	-	-25	-	-	-25
Other comprehensive income	-	-	-	-	-	-	-9	-	-	-9
Total other comprehensive income	-	-	313	555	1,314	34	232	49	56	2,554
Transactions with owners										
Dividend declared for 2018	-	-	-	-	-661	-	-	-	-	-661
To be disbursed from gift fund	-	-	-	-	-373	-	-	-	-	-373
Additional Tier 1 capital issued	-	-	-	-	-	-	-	250	-	250
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-49	-	-49
Purchase and sale of own ECCs	-0	-	-	-0	-	-	-	-	-	-0
Own ECC held by SB1 Markets[1)]	-6	-	-	-14	-	-	-12	-	-	-33
Direct recognitions in equity	-	-	-7	-12	-	-	22	-	-	3
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-24	-	-	-24
Change in non-controlling interests	-	-	-	-	-	-	-	-	67	67
Total transactions with owners	-6	-	-7	-27	-1,034	-	-14	201	67	-820
Equity at 31 December 2019	**2,586**	**895**	**5,432**	**6,123**	**1,314**	**189**	**1,827**	**1,293**	**761**	**20,420**

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

Cash Flow Statement

Parent Bank			Group	
2018	**2019**	(NOK million)	**2019**	**2018**
1,922	2,263	Net profit	2,563	2,090
66	109	Depreciations and write-downs on fixed assets	172	98
229	245	Losses on loans and guarantees	299	263
2,218	**2,617**	**Net cash increase from ordinary operations**	**3,035**	**2,451**
366	869	Decrease/(increase) other receivables	1,235	170
575	-96	Increase/(decrease) short term debt	716	387
-8,138	-4,613	Decrease/(increase) loans to customers	-5,843	-9,059
-1,636	1,998	Decrease/(increase) loans credit institutions	2,964	-860
4,086	5,422	Increase/(decrease) deposits to customers	5,302	4,140
-501	-960	Increase/(decrease) debt to credit institutions	-361	-393
-533	-2,766	Increase/(decrease) in short term investments	-2,766	-613
-3,563	**2,471**	**A) Net cash flow from operations**	**4,280**	**-3,778**
-60	-66	Increase in tangible fixed assets	-109	-126
-	-	Reductions in tangible fixed assets	-11	-
140	84	Paid-up capital, associated companies	-312	232
-222	36	Net investments in long-term shares and partnerships	-1,080	-47
-141	**54**	**B) Net cash flow from investments**	**-1,512**	**59**
750	0	Increase/(decrease) in subordinated loan capital	0	750
-699	-164	Utbetalinger fra reduksjon i ansvarlig lånekapital	-164	-699
-	1	Increase/(decrease) in equity	-33	15
-571	-661	Dividend cleared	-661	-571
-322	-373	To be disbursed from gift fund	-373	-322
1,000	250	Additional Tier 1 Capital issued	250	1,000
-950	-	Buyback additional Tier 1 Capital issued	-	-950
-36	-47	Interest payments additional Tier 1 capital	-49	-37
12,781	6,230	Innbetalinger ved økning verdipapirgjeld	6,230	12,781
-9,815	-6,421	Utbetalinger til reduksjon verdipapirgjeld	-6,421	-9,815
-114	-1,461	Increase/(decrease) in other long term loans	-1,668	-113
1,274	**-2,646**	**C) Net cash flow from financial activities**	**-2,890**	**1,289**
-2,430	**-121**	**A) + B) + C) Net changes in cash and cash equivalents**	**-121**	**-2,430**
3,313	883	Cash and cash equivalents at 1.1	883	3,313
883	761	Cash and cash equivalents at end of the year	761	883
-2,430	**-121**	**Net changes in cash and cash equivalents**	**-121**	**-2,430**

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 2019 were approved by the Board of Directors on 5 March 2020.

Note 2 - Accounting principles

Basis for preparing the consolidated annual accounts

The Group accounts for 2019 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 20189

Implemented accounting standards and other relevant rule changes in 2019

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 2019 accounts that have been relevant, and the effect they have had on the group's annual accounts.

IFRS 16 Leases

IFRS 16 Leases are effective from 1 january 2019 and replaces IAS 17 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 has implemented the standard by applying a simplified method without restatement of prior year comparatives. Upon transition SpareBank 1 SMN have recognised 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 have been 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 other assets 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. This interest rate have been used as the discount rate for the Group's leases coming under IFRS 16. For 2019 a discount rate of 2.05 per cent is employed.

The Group's lease liability relates in all essentials to lease agreements for offices. Detailed information about the leases are included in note 33 Leases.

Amendments to IFRS 9, IAS 39 and IFRS 7 due to the IBOR reform

IASB released amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019. The amendments provide companies with temporary reliefs to certain requirements related to hedge accounting in the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The bank as chosen to early adopt the changes. This choice means that the bank's hedging relationships continues unaffected by the IBOR reform. The IBOR reform is an ongoing process where interest rate benchmark rates used in receivables, loans and derivates are replaced by new interest rates. Additional qualitative and quantitative information about the hedges have been included in note 29 Hedge accounting.

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. Unrealized gains on transactions between the group and its joint ventures are eliminated according to the ownership interest in the business. Unrealized 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 through profit or loss. 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.

Loan impairment write-downs

Loan loss provisions are 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.

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. The bank uses three macroeconomic scenarios to take account of non-linear aspects of expected losses. The various scenarios are used in order to adjust relevant parameters for calculating expected loss, and a probability-weighted average of expected loss under the respective scenarios is recognised as a loss.

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. This forms the basis for estimating future values for PD and 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 (PD) 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 or forbearance.

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. The same applies to assets in stage 3, if the basis for the placement in stage 3 is no longer present, the asset will be migrated to stage 1 or 2.

Stage 3:
Stage 3 of the loss model encompasses assets that show a significant increase in credit risk since loan approval and at the balance sheet date there is objective evidence of loss which will reduce the future cash flows. 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
- Customers with payments more than 90 days past due will always be transferred to stage 3

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.

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

Defaulted / non-performing loans
Total customer commitments are considered as defaulted and are included in the bank's list of defaulted commitments when past due installments or interest are not paid within 90 days of maturity or creditlines are overdrawn for 90 days or more. Loans and other commitments that are not in default, but where the customer's financial situation makes it likely that the bank will incur losses, are classified as non-performing loans.

Non-performing loans consist of total non-performing loans over 3 months and other non-performing loans (non-performing loans with individual impairment).

Write-downs
Write-down for losses are made when the bank has no reasonable expectations to recover the asset in its whole or partially. Criteria for write-down are as follows:

. Closed bankruptcy in limited liability companies
· Confirmed chord / debt negotiations
· Settlement for other companies with limited liability

· Ended living at death
· By lawful judgment
· Collateral is realized

The commitment will normally be placed on long-term monitoring in case the debtor should again become solvent and suable.

Impairment of assets 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.

Repossessed assets
As part of its treatment of defaulted loans and guarantees, the Bank in some 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 bad loans, and investments in subsidiaries held for sale. Fixed assets and groups of fixed assets and liabilities classified as held for sale are measured at the lowest value of book value and fair value less selling expenses. The result of such activity and appurtenant assets and liabilities are presented on a separate line as held for sale.

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. Derivatives are invariably recognised at fair value through profit/loss.

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 gain or losses 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 as loans and receivables or held to maturity are measured at amortised cost 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.

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. For debt securities on the asset side, recognised at amortised cost and written down as a result of objective evidence of loss, interest is recognised as income based on the net balance sheet amount.

In the case of interest-bearing instruments measured at fair value in profit or loss, the market value will be classified as income from other financial investments. 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.

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 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 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 5 Capital adequacy and capital management.

Financial guarantees issued

Financial guarantees are contracts that require the bank to reimburse the holder for a loss due to a specific debtor failure to pay in accordance with the terms is classified as issued financial guarantees. On initial recognition of issued financial guarantees, the guarantees are recognised in the balance sheet at the received consideration for the guarantee. Subsequent measurement assesses issued financials guarantees to the highest amount of the loss provision and the amount that was recognised at initial recognition less any cumulative income recognised in the income statement. When issuing financial guarantees, the consideration for the guarantee is recognised under "Other liabilities" in the balance sheet. Revenue from issued financial guarantees and costs related to purchased financial guarantees is amortised over the duration of the instrument and presented as "Commission income" or "Commission expenses". Changes in expected credit losses are included in the line «Losses on loans and guarantees» in the income statement.

Loan commitments

Expected credit losses are calculated for loan commitments and presented as "Other liabilities" in the balance sheet. Changes in the provision for expected losses are presented in the line «Losses on loans and guarantees» in the income statement. For instruments that have both a drawn portion and an unutilised limit, expected credit losses are distributed pro-rata between provisions for loan losses and provisions in the balance sheet based on the relative proportion of exposure.

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 22 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 2019

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.

Amendments to IFRS 3 Definition of a Business

The amendments will help companies determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

The amendments must be applied to transactions for which the acquisition date is on or after the first the beginning of the first annual reporting period beginning on or after 1 January 2020. Early application is permitted. The Group does not intend to early adopt the amendments.

It is not expected that the amendments will have significant effects for the group.

Amendments to IAS 1 and IAS 8 - Definition of Material

The International Accounting Standards Board has issued amendments to its definition of material to make it easier for companies to make materiality judgements. The definition of material, an important accounting concept in IFRS Standards, helps companies decide whether information should be included in their financial statements. The updated definition amends IAS 1 and IAS 8.

The amendments are a response to findings that some companies experienced difficulties using the old definition when judging whether information was material for inclusion in the financial statements.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The changes are effective for annual periods beginning on or after 1 January 2020, but companies can decide to apply them earlier. The Group does not intend to early adopt the amendments.

It is not expected that the amendments will have significant effects for the group.

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 bank uses the same PD model as in IRB, but with unbiased calibration, i.e. without safety margins, as a basis for assessment of increased credit risk. The PD estimate represents a 12-month probability.

Write-downs for exposures in stage 1 will be calculation of one-year's expected loss, while for exposures in stage 2, loss is calculated over lifetime.

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. 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. The base scenario have been developed with a starting point in observed defaults and losses over the past three years, adjusted to a forward-looking estimate of the development that is slightly above the observed defaults and losses over the past 3 years.

Each macroeconomic scenario that is used includes a projection on a five-year period. Our estimate of expected credit loss in stage 1 and 2 is a probability-weighted average of three scenarios: Baseline, Upside and Downside. The baseline scenario has been developed with a basis in observed defaults and losses over the past three years, discretionally adjusted to an unbiased estimate of the development that lies somewhat over observed non-performance and loss over the last three years. The development in the Upside and Downside scenario is prepared with the help of adjustment factors where the development in economic situation is projected with the help of assumptions regarding how much the probability of default (PD) or loss given default (LGD) will increase or be reduced compared with the baseline scenario over a five-year period. A basis is taken in observations over the past 15 years, where Downside reflects the expected default and loss level in a crisis situation with PD and LGD levels that are applied in conservative stressed scenarios for other purposes in the bank's credit management.

In addition, assumptions with regard to repayment profile for exposures classified to stage 2 are also employed. A lower rate of repayment is assumed in the weakest scenario than in the other two scenarios.

The scenarios are weighted with a basis in our best estimate of the probability of the various outcomes represented. The estimates are updated quarterly and were as follows as per the estimates at 31 December 2019:

Portfolio	Base Case	Worst Case	Best Case
Retail Market	80%	10%	10%
Corporate excl. Agriculture and offshore	80%	10%	10%
Agriculture	75%	15%	10%
Offshore	70%	15%	15%

For the offshore portfolio, separate assessments are made with regard to probability of default under various scenarios and associated realisation values. In these assessments the various offshore segments – supply, subsea and seismic – have different scenario weights. Consistent assumptions are used with regard to expected developments in rates, utilisation levels and realisation values for vessels in the various scenarios where the vessels' current and expected contractual situation is assessed.

If the downside scenario's probability were doubled at the expense of the baseline scenario at the end of 2019, this would have entailed an increase in loss provisions of NOK 98 million for the parent bank and NOK 113 million for the group. A corresponding doubling of the upside scenario's probability at the expense of the baseline scenario at the end of 2019 would have entailed a reduction in loss provisions of NOK 21 million for the parent bank and NOK 22 million for the group.

Portfolio	Increase in accrual for losses when probability for worst case is double	Increase in accrual for losses when probability for worst case is 100 percent	Reduction in accrual for losses when probability for best case is double	Reduction in accrual for losses when probability for best case is 100 percent
Retail Market	27 mill	242 mill	-3 mill	-53 mill
Corporate excl. Agriculture and offshore	43 mill	393 mill	-8 mill	-114 mill
Agriculture	8 mill	49 mill	-1 mill	-14 mill
Offshore	20 mill	121 mill	-9 mill	-122 mill
Total Parent Bank	**98 mill**	**805 mill**	**-21 mill**	**-255 mill**
SpareBank 1 Finans Midt-Norge	16 mill	153 mill	-1 mill	-2 mill
Total Group	**113 mill**	**958 mill**	**-22 mill**	**-257 mill**

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 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 or forbearance.
3. In addition, customers with payments between 30-90 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. Shares where fair value cannot be measured with reasonable security is continued at cost price.

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, the lowest level for the cash generating unit is the segments Retail Market and Corporate Market. Goodwill has been allocated to the segments based on their share of the loan portfolio. A net cash flow is estimated based on earnings in the Bank's loan and deposit portfolio. A five-year cash flow prognosis have been developed using expected growth, and a terminal value without growth thereafter. Cash flows are discounted with a discount rate (before tax rate) of 2 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 - 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 2019

Profit and loss account (NOKm)	RM	CM	SB 1 Markets	EM 1	SB 1 Finans MN	SB 1 Regnskaps-huset SMN	SB 1 Gruppen	BN Bank	Un-collated	Total
Net interest	1,160	1,024	-17	-1	313	-0	-	-	207	2,687
Interest from allocated capital	211	147	-	-	-	-	-	-	-358	-
Total interest income	**1,372**	**1,171**	**-17**	**-1**	**313**	**-0**	**-**	**-**	**-151**	**2,687**
Commission income and other income	805	205	509	540	73	502	-	-	-345	2,290
Net return on financial investments **)	0	12	117	-	-	-	252	107	714	1,201
Total income	**2,177**	**1,388**	**609**	**540**	**386**	**502**	**252**	**107**	**218**	**6,178**
Total operating expenses	**875**	**410**	**566**	**538**	**184**	**394**	**-**	**-**	**-169**	**2,797**
Ordinary operating profit	**1,302**	**978**	**43**	**1**	**202**	**108**	**252**	**107**	**386**	**3,380**
Loss on loans, guarantees etc.	32	213	-	-	52	-	-	-	2	299
Result before tax including held for sale	**1,279**	**838**	**43**	**1**	**150**	**108**	**252**	**107**	**384**	**3,081**
Post-tax return on equity*)	**13.1 %**	**11.7 %**								**13.7 %**
Balance										
Loans and advances to customers	119,381	40,162	-	-	8,897	-	-	-	-663	167,777
Adv. of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-40,122	-1,378	-	-	-	-	-	-	-0	-41,500
Allowance for credit losses	-119	-819	-	-	-56	-	-	-	-4	-998
Other assets	220	5,495	3,669	309	21	527	1,609	1,425	28,109	41,384
Total assets	**79,360**	**43,460**	**3,669**	**309**	**8,861**	**527**	**1,609**	**1,425**	**27,442**	**166,662**
Deposits to customers	41,639	42,756	-	-	-	-	-	-	1,522	85,917
Other liabilities and equity	37,721	704	3,669	309	8,861	527	1,609	1,425	25,920	80,745
Total liabilites and equity	**79,360**	**43,460**	**3,669**	**309**	**8,861**	**527**	**1,609**	**1,425**	**27,442**	**166,662**

Group 31 December 2018

Profit and loss account (NOKm)	RM	CM	SB 1 Markets	EM 1	SB 1 Finans MN	SB 1 Regnskaps-huset SMN	SB 1 Gruppen	BN Bank	Un-collated	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	276	9	394	1,569	1,238	30,850	40,975
Total assets	**74,552**	**42,560**	**2,258**	**276**	**7,723**	**394**	**1,569**	**1,238**	**30,134**	**160,704**
Deposits to customers	40,046	39,236	-	-	-	-	-	-	1,333	80,615
Other liabilities and equity	34,506	3,324	2,258	276	7,723	394	1,569	1,238	28,801	80,089
Total liabilites and equity	**74,552**	**42,560**	**2,258**	**276**	**7,723**	**394**	**1,569**	**1,238**	**30,134**	**160,704**

*) 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 2019

**) Specification of net return on financial investments (NOKm)	31 Dec 2019	31 Dec 2018
Dividends	**15**	**8**
Capital gains shares	120	96
Gain/(loss) on sertificates and bonds	-20	-77
Gain/(loss) on derivatives	132	187
Gain/(loss) on financial instruments related to hedging***	-9	-4
Gain/(loss) on other financial instruments at fair value (FVO)	9	10
Foreign exchange gain/(loss)	22	63
Gain/(loss) om shares and share derivatives at SpareBank 1 Markets	54	58
Net return on financial instruments	**307**	**334**
SpareBank 1 Gruppen	252	289
Gain Fremtind Forsikring	460	-
SpareBank 1 Boligkreditt	26	-7
SpareBank 1 Næringskreditt	21	15
BN Bank	113	97
SpareBank 1 Kredittkort	13	23
SpareBank 1 Betaling	3	-12
Other companies	-8	12
Income from investment in associates and joint ventures	**879**	**416**
Total net return on financial investments	**1,201**	**757**

***) Fair value hedging		
Changes in fair value on hedging instrument	-66	-46
Changes in fair value on hedging item	56	42
Net Gain or Loss from hedge accounting	**-9**	**-4**

Note 5 - 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 2019 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 2.5 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 12.5 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 1.9 per cent for SpareBank 1 SMN, however not below NOK 1,794 million in monetary terms. As at 31 December 2019, reduced risk weighted assets mean that the minimum monetary requirement of NOK 1,794 million is binding for the Pillar 2 requirement. The Pillar 2 requirement therefore rises from 1.9 per cent to 1.95 per cent. The overall minimum requirement as of 31 December 2019 has accordingly increased from 14.4 per cent to 14.45 per cent.

The EU capital adequacy framework (CRR/CRDIV) was incorporated into Norwegian law with effect from 31 December 2019. The Basel I floor was accordingly removed and an SME rebate introduced. At the same point the countercyclical buffer was raised by 0.5 per cent to 2.5 per cent. The systemic risk buffer will rise to 4.5 per cent with effect from 31 December 2020.

The 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 fouth quarter of 2019 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 will be subject to a write-down of 60 per cent in 2018 and 70 per cent in 2019. As at 31 December 2019 the bank held hybrid capital worth NOK 287 million subject to write-down.

Parent Bank			Group	
31 Dec 2018	**31 Dec 2019**	**(NOK million)**	**31 Dec 2019**	**31 Dec 2018**
16,409	**17,822**	**Total book equity**	**20,420**	**18,686**
-1,000	-1,250	Additional Tier 1 capital instruments included in total equity	-1,293	-1,043
-533	-512	Deferred taxes, goodwill and other intangible assets	-1,099	-1,079
-1,034	-1,314	Deduction for allocated dividends and gifts	-1,314	-1,034
-	-	Non-controlling interests recognised in other equity capital	-761	-637
-	-	Non-controlling interests eligible for inclusion in CET1 capital	438	366
-31	-33	Value adjustments due to requirements for prudent valuation	-45	-44
-268	-305	Positive value of adjusted expected loss under IRB Approach	-351	-286
-	-	Cash flow hedge reserve	3	5
-163	-185	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-168	-206
13,381	**14,222**	**Common equity Tier 1 capital**	**15,830**	**14,727**
1,000	1,250	Additional Tier 1 capital instruments	1,637	1,378
367	275	Additional Tier 1 capital instruments covered by transitional provisions	275	367
14,748	**15,747**	**Tier 1 capital**	**17,742**	**16,472**
		Supplementary capital in excess of core capital		
1,750	1,750	Subordinated capital	2,240	2,316
96	12	Subordinated capital covered by transitional provisions	12	96
-140	-140	Deduction for significant investments in financial institutions	-140	-140
1,705	**1,623**	**Additional Tier 2 capital instruments**	**2,113**	**2,272**
16,453	**17,370**	**Total eligible capital**	**19,854**	**18,743**

		Minimum requirements subordinated capital		
967	911	Specialised enterprises	1,101	1,116
1,156	1,139	Corporate	1,149	1,163
1,516	1,628	Mass market exposure, property	2,299	2,098
90	98	Other mass market	101	92
1,062	984	Equity investments	1	1
4,790	**4,760**	**Total credit risk IRB**	**4,651**	**4,470**
3	2	Central government	3	4
87	86	Covered bonds	132	124
390	419	Institutions	282	246
-	-	Local and regional authorities, state-owned enterprises	5	8
23	42	Corporate	239	221
73	22	Mass market	463	520
12	9	Exposures secured on real property	167	215
228	236	Equity positions	377	366
57	104	Other assets	151	107
873	**918**	**Total credit risk standardised approach**	**1,818**	**1,810**
30	31	Debt risk	34	31
-	-	Equity risk	15	7
-	-	Currency risk and risk exposure for settlement/delivery	3	3
370	407	Operational risk	720	575
39	29	Credit value adjustment risk (CVA)	115	122
-	-	Transitional arrangements	-	1,074
6,102	**6,145**	**Minimum requirements subordinated capital**	**7,357**	**8,093**
76,274	**76,817**	**Risk weighted assets (RWA)**	**91,956**	**101,168**
3,432	3,457	Minimum requirement on CET1 capital, 4.5 per cent	4,138	4,553
		Capital Buffers		
1,907	1,920	Capital conservation buffer, 2.5 per cent	2,299	2,529
2,288	2,305	Systemic rick buffer, 3.0 per cent	2,759	3,035
1,525	1,920	Countercyclical buffer, 2.5 per cent (2.0 per cent)	2,299	2,023
5,721	**6,145**	**Total buffer requirements on CET1 capital**	**7,357**	**7,588**
4,228	**4,620**	**Available CET1 capital after buffer requirements**	**4,335**	**2,587**
		Capital adequacy		
17.5 %	18.5 %	**Common equity Tier 1 capital ratio**	17.2 %	14.6 %
19.3 %	20.5 %	Tier 1 capital ratio	19.3 %	16.3 %
21.6 %	22.6 %	Capital ratio	21.6 %	18.5 %
		Leverage ratio		
153,395	161,905	Balance sheet items	230,048	216,240
7,110	6,830	Off-balance sheet items	7,897	9,086
-832	-851	Regulatory adjustments	-1,503	-1,474
159,673	167,885	Calculation basis for leverage ratio	236,441	223,853
14,748	15,747	Core capital	17.742	16,472
9.2 %	**9.4 %**	**Leverage Ratio**	**7.5 %**	**7.4 %**

Note 6 - 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 13 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-2019 the Group's ratio of deposits to loans was 51 per cent, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, compared with 50per cent at end-2018 (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 2019.

The Group's liquidity situation as of 31 December 2019 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 12: Maximum credit risk exposure
Note 14: Market risk related to interest rate risk
Note 15: Market risk related to currency exposure

Note 7 - Credit institutions - loans and advances

Parent Bank			Group	
31 Dec 18	31 Dec 19	**Loans and advances to credit institutions (NOK million)**	31 Dec 19	31 Dec 18
8,091	9,181	Loans and advances without agreed maturity or notice of withdrawal	2,110	1,987
3,087	-	Loans and advances with agreed maturity or notice of withdrawal	0	3,087
11,178	**9,181**	**Total**	**2,110**	**5,074**
		Specification of loans and receivables on key currencies		
17	7	CHF	7	17
770	1,010	EUR	1,010	770
95	89	GBP	89	95
19	0	ISK	0	19
36	1	JPY	1	36
10,071	7,985	NOK	943	4,007
78	67	SEK	31	33
84	12	USD	19	89
8	9	Other	9	8
11,178	**9,181**	**Total**	**2,110**	**5,074**
1.8 %	2.3 %	Average rate credit institutions	1.8 %	1.9 %

31 Dec 18	31 Dec 19	Deposits from credit institutions (NOK million)	31 Dec 19	31 Dec 18
7,338	7,299	Deposits without agreed maturity or notice of withdrawal	8,567	8,006
1,208	287	Deposits with agreed maturity or notice of withdrawal	287	1,208
8,546	**7,585**	**Total**	**8,853**	**9,214**
		Specification of deposits on key currencies		
9	10	DKK	10	9
1,604	343	EUR	343	1,604
-	19	JPY	19	-
6,904	7,143	NOK	8,411	7,572
13	14	SEK	14	13
12	50	USD	50	12
3	6	Other	6	3
8,546	**7,585**	**Total**	**8,853**	**9,214**
0.8 %	1.2 %	Average rate credit institutions	1.3 %	0.8 %

31 Dec 18	31 Dec 19	Other commitments to credit institutions (NOK million)	31 Dec 19	31 Dec 18
55	155	Unutilised credits	155	55
55	95	Financial guarantees	95	65
111	**250**	**Total**	**250**	**121**

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 8 - Loans and advances to customers

Parent Bank			Group	
31 Dec 2018	31 Dec 2019	(NOK million)	31 Dec 2019	31 Dec 2018
113,356	117,970	Gross Loans	126,277	120,473
697	937	Write-downs for expected credit losses	998	744
112,659	**117,033**	**Net loans to and advances to customers**	**125,279**	**119,728**
		Additional information		
38,062	39,833	Loans sold to SpareBank 1 Boligkreditt	39,833	38,062
614	608	- Of which loans to employees	1,061	1,013
1,782	1,667	Loans sold to SpareBank 1 Næringskreditt	1,667	1,782
48	43	Subordinated loan capital other financial institutions	43	48
888	998	Loans to employees [1)]	1,924	1,513

[1)] 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

Loans and commitments specified by type

Parent Bank			Group	
31 Dec 2018	31 Dec 2019	Loans and commitments specified by type (NOK million)	31 Dec 2019	31 Dec 2018
		Gross loans and advances		
-	-	Financial lease	5,849	2,934
13,657	13,222	Bank overdraft and operating credit	12,588	13,056
3,761	3,161	Construction loans	3,161	3,761
95,937	101,587	Amortizing loan	104,680	100,722
113,356	117,970	Total gross loans to and receivables from customers	126,277	120,473
		Other commitments		
4,009	4,538	Financial guarantees, of which:	4,538	4,009
699	1,064	Payment guarantees	1,064	699
1,125	1,108	Performance guarantees	1,108	1,125
1,960	1,172	Loan guarantees	1,172	1,960
85	100	Guarantees for taxes	100	85
141	1,093	Other guarantee commitments	1,093	141
918	998	Unutilised guarantee commitments	998	918
16,186	16,781	Unutilised credits	16,796	16,202
1,582	1,597	Loans approvals (not discounted)	1,692	1,706
40	12	Documentary credits	12	40
22,736	23,925	Total other commitments	24,036	22,875
136,092	**141,895**	**Total loans and commitments**	**150,313**	**143,348**

Loans and other commitments specified by sector and industry

Parent Bank (NOK million)	31 Dec 2019 Gross loans	31 Dec 2019 Other commitments	31 Dec 2019 Total loans and commitments	31 Dec 2018 Gross loans	31 Dec 2018 Other commitments	31 Dec 2018 Total loans and commitments
Wage earners	69,711	5,669	75,380	65,475	6,021	71,496
Public administration	2	513	515	44	603	647
Agriculture, forestry, fisheries and hunting	13,203	943	14,146	12,362	1,453	13,815
Sea farming industries	833	766	1,599	869	798	1,667
Manufacturing	2,212	3,069	5,282	3,438	2,379	5,818
Construction, power and water supply	3,157	2,707	5,864	2,947	2,951	5,898
Retail trade, hotels and restaurants	2,181	2,379	4,561	2,335	2,136	4,471
Maritime sector and offshore	4,660	3,227	7,887	4,227	2,560	6,787
Property management	13,133	855	13,988	13,324	1,029	14,353
Business services	2,445	874	3,319	2,531	931	3,462
Transport and other services provision	4,542	2,420	6,962	4,145	1,395	5,540
Other sectors	1,890	503	2,393	1,658	481	2,138
Total	**117,970**	**23,925**	**141,895**	**113,356**	**22,736**	**136,092**

Group (NOK million)	31 Dec 2019 Gross loans	31 Dec 2019 Other commitments	31 Dec 2019 Total loans and commitments	31 Dec 2018 Gross loans	31 Dec 2018 Other commitments	31 Dec 2018 Total loans and commitments
Wage earners	75,203	5,728	80,932	70,070	6,094	76,163
Public administration	12	513	525	55	603	658
Agriculture, forestry, fisheries and hunting	13,558	947	14,505	12,686	1,458	14,144
Sea farming industries	1,132	769	1,901	1,180	803	1,983
Manufacturing	2,595	3,073	5,668	3,787	2,385	6,172
Construction, power and water supply	3,970	2,716	6,686	3,661	2,962	6,623
Retail trade, hotels and restaurants	2,517	2,392	4,908	2,621	2,140	4,761
Maritime sector and offshore	4,660	3,227	7,887	4,227	2,560	6,787
Property management	13,211	856	14,067	13,386	1,030	14,416
Business services	2,146	877	3,023	2,162	943	3,105
Transport and other services provision	5,409	2,435	7,844	4,961	1,416	6,377
Other sectors	1,863	503	2,367	1,679	481	2,160
Total	**126,277**	**24,036**	**150,313**	**120,473**	**22,875**	**143,348**

Loans and other commitments specified by geographic area

Parent Bank (NOK million)	31 Dec 2019 Gross loans	31 Dec 2019 Other commitments	31 Dec 2019 Total loans and commitments	31 Dec 2018 Gross loans	31 Dec 2018 Other commitments	31 Dec 2018 Total loans and commitments
Trøndelag	76,405	13,927	90,331	74,312	13,820	88,132
Møre og Romsdal	24,428	8,504	32,932	23,993	7,051	31,044
Sogn og Fjordane	691	40	731	819	209	1,028
Nordland	1,158	40	1,198	984	47	1,031
Oslo	6,686	553	7,240	5,592	759	6,352
Rest of Norway	8,253	849	9,102	7,148	818	7,966
Abroad	349	13	362	507	31	538
Total	**117,970**	**23,925**	**141,895**	**113,356**	**22,736**	**136,092**

Group (NOK million)	31 Dec 2019 Gross loans	31 Dec 2019 Other commitments	31 Dec 2019 Total loans and commitments	31 Dec 2018 Gross loans	31 Dec 2018 Other commitments	31 Dec 2018 Total loans and commitments
Trøndelag	79,487	13,976	93,462	77,102	13,881	90,983
Møre og Romsdal	26,113	8,522	34,635	25,495	7,075	32,570
Sogn og Fjordane	1,159	45	1,204	1,262	216	1,477
Nordland	1,296	42	1,337	1,097	49	1,145
Oslo	6,276	555	6,831	5,151	762	5,913
Rest of Norway	11,597	884	12,481	9,859	861	10,720
Abroad	349	13	362	507	31	538
Total	**126,277**	**24,036**	**150,313**	**120,473**	**22,875**	**143,348**

Gross loans sold to SpareBank 1 Boligkreditt

(NOK million)	31 Dec 2019 Gross loans	31 Dec 2019 Other commitments	31 Dec 2019 Total loans and commitments	31 Dec 2018 Gross loans	31 Dec 2018 Other commitments	31 Dec 2018 Total loans and commitments
Trøndelag	29,451	1,822	31,274	28,208	1,938	30,145
Møre og Romsdal	5,844	426	6,270	5,790	453	6,244
Sogn og Fjordane	341	14	355	323	14	337
Nordland	179	6	185	157	6	163
Oslo	1,619	56	1,675	1,516	60	1,575
Rest of Norway	2,352	94	2,446	2,007	88	2,096
Abroad	45	1	46	60	1	61
Total	**39,833**	**2,419**	**42,252**	**38,062**	**2,560**	**40,621**

Gross loans sold to SpareBank 1 Næringskreditt

(NOK million)	31 Dec 2019 Gross loans	31 Dec 2019 Other commitments	31 Dec 2019 Total loans and commitments	31 Dec 2018 Gross loans	31 Dec 2018 Other commitments	31 Dec 2018 Total loans and commitments
Trøndelag	1,081	0	1,081	862	0	862
Møre og Romsdal	60	0	60	158	0	158
Sogn og Fjordane	0	0	0	0	0	0
Nordland	59	0	59	63	0	63
Oslo	419	0	419	650	0	650
Rest of Norway	48	0	48	50	0	50
Abroad	0	0	0	0	0	0
Total	**1,667**	**0**	**1,667**	**1,782**	**0**	**1,782**

Loans to and claims on customers related to financial leases (NOK million)

Group (NOK million)	31 Dec 2019	31 Dec 2018
Gross advances related to financial leasing		
- Maturity less than 1 year	129	118
- Maturity more than 1 year and less than 5 years	2,184	2,070
- Maturity more than 5 years	823	827
Total gross claims	**3,135**	**3,015**
Received income related to financial leasing, not yet earned	87	81
Net investments related to financial leasing	3,048	2,934
Net investments in financial leasing can be broken down as follows:		
- Maturity less than 1 year	121	110
- Maturity more than 1 year and less than 5 years	2,118	2,009
- Maturity more than 5 years	809	815
Total net claims	**3,048**	**2,934**

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 guarantees, unutilised credit lines and letters of credit.

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.

Parent Bank 31 Dec 2019 (NOK million)	Neither default or impaired Lowest risk	Low risk	Medium risk	High risk	Highest risk	Default and written down	Total
Gross Loans							
Fair value over OCI	**56,284**	**8,904**	**3,536**	**977**	**1,230**	**405**	**71,336**
Stage 1	56,284	7,839	1,480	306	200	-	66,109
Stage 2	-	1,065	2,056	671	1,030	-	4,822
Stage 3	-	-	-	-	-	405	405
Amortised cost	**20,473**	**7,922**	**10,468**	**1,135**	**408**	**1,552**	**41,957**
Stage 1	20,448	7,359	7,512	705	102	-	36,126
Stage 2	25	563	2,956	430	306	-	4,279
Stage 3	-	-	-	-	-	1,552	1,552
Fair value over Profit and Loss	**3,940**	**490**	**152**	**49**	**36**	**10**	**4,677**
Total Gross Loans	**80,697**	**17,316**	**14,156**	**2,161**	**1,674**	**1,967**	**117,970**
Other Commitments	**13,232**	**3,926**	**4,672**	**932**	**157**	**1,005**	**23,925**
Stage 1	13,232	3,244	3,663	807	68	-	21,014
Stage 2	-	682	1,009	126	90	-	1,907
Stage 3	-	-	-	-	-	1,005	1,005
Total loans and other commitments	**93,929**	**21,242**	**18,829**	**3,093**	**1,831**	**2,972**	**141,895**

Parent Bank 31 Dec 2018 (NOK million)	Neither default or impaired Lowest risk	Low risk	Mediu 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**

Group 31 Dec 2019 (NOK million)	Neither default or impaired Lowest risk	Low risk	Medium risk	High risk	Highest risk	Default and written own	Total
Gross Loans							
Fair value over OCI	**56,284**	**8,904**	**3,536**	**977**	**1,230**	**405**	**71,336**
Stage 1	56,284	7,839	1,480	306	200	-	66,109
Stage 2	-	1,065	2,056	671	1,030	-	4,822
Stage 3	-	-	-	-	-	405	405
Amortised cost	**19,924**	**9,363**	**16,424**	**1,845**	**1,003**	**1,704**	**50,264**
Stage 1	19,899	8,798	13,136	998	201	-	43,031
Stage 2	25	565	3,288	848	803	-	5,528
Stage 3	-	-	-	-	-	1,704	1,704
Fair value over Profit and Loss	**3,940**	**490**	**152**	**49**	**36**	**10**	**4,677**
Total Gross Loans	**80,148**	**18,757**	**20,112**	**2,871**	**2,269**	**2,119**	**126,277**
Other Commitments	**13,234**	**3,941**	**4,753**	**940**	**164**	**1,005**	**24,036**
Stage 1	13,234	3,259	3,739	807	68	-	21,106
Stage 2	-	682	1,014	133	96	-	1,926
Stage 3	-	-	-	-	-	1,005	1,005
Total loans and other commitments	**93,382**	**22,698**	**24,864**	**3,811**	**2,433**	**3,124**	**150,313**

Group 31 Dec 2018 (NOK million)	Neither default or impaired 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**

Gross loans and commitments sold to SpareBank 1 Boligkreditt

	31 Dec 2019			31 Dec 2018		
(NOK million)	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Lowest risk	34,808	2,410	37,217	33,532	2,551	36,083
Low risk	3,457	7	3,464	3,175	6	3,181
Medium risk	1,075	1	1,076	867	1	868
High risk	208	0	208	279	1	279
Highest risk	267	1	268	196	0	197
Default and written down	18	0	18	12	1	13
Total	**39,833**	**2,419**	**42,252**	**38,061**	**2,560**	**40,621**

Gross loans and commitments sold to SpareBank 1 Næringskreditt

	31 Dec 2019			31 Dec 2018		
(NOK million)	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Lowest risk	1,667	0	1,667	1,496	0	1,496
Low risk	0	0	0	0	0	0
Medium risk	0	0	0	287	0	287
High risk	0	0	0	0	0	0
Highest risk	0	0	0	0	0	0
Default and written down	0	0	0	0	0	0
Total	**1,667**	**0**	**1,667**	**1,782**	**0**	**1,782**

Note 9 - 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 20.89 per cent as of 31 December 2019 (20.69 per cent as of 31 December 2018). 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 2019 mortgage loans were bought and sold to a net value of NOK 1.7bn (3.1bn in 2018) to SpareBank 1 Boligkreditt. In total, mortgage loans to SpareBank 1 Boligkreditt were derecognised in an amount of NOK 39.8bn at the end of the financial year (NOK 38.0bn in 2018).

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 25.7 per cent own funds, of which about 22.9 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 31.01 per cent as at 31.12.2019 (32.97 per cent as at 31.12.2018). 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 115m in 2018 (reduced by NOK 45m in 2018). In total, mortgage loans to SpareBank 1 Næringskreditt were derecognised in an amount of NOK 1.7bn by the end of the financial year (NOK 1,8bn in 2018).

*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 10 - Losses on loans and guarantees

Parent Bank	2019			2018		
Losses on loans and guarantees (NOK million)	**RM**	**CM**	**Total**	**RM**	**CM**	**Total**
Change in provision for expected credit losses for the period	28	205	234	18	126	144
Actual loan losses on commitments exceeding provisions made	10	9	19	6	86	93
Recoveries on commitments previously written-off	-7	-1	-8	-7	-1	-8
Losses for the period on loans and guarantees	**32**	**213**	**245**	**17**	**212**	**229**

Group			2019		2018	
Losses on loans and guarantees (NOK million)	**RM**	**CM**	**Total**	**RM**	**CM**	**Total**
Change in provision for expected credit losses for the period	34	212	246	23	127	150
Actual loan losses on commitments exceeding provisions made	40	22	62	30	98	127
Recoveries on commitments previously written-off	-6	-2	-8	-13	-1	-15
Losses for the period on loans and guarantees	**68**	**231**	**299**	**40**	**223**	**263**

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 2019, and still subject to enforcement activities amount to NOK 243 million kroner for the Bank and NOK 303 million for the group.

Parent Bank (NOK million)	1 Jan 2019	Change in provision	Net write-offs/ recoveries	31 Dec 2019
Loans at amortised cost-CM	742	201	-27	916
Loans at amortised cost-RM	45	-6	-5	34
Loans at fair value over OCI-RM	75	34	-	109
Loans at fair value over OCI-CM		1	-	1
Provision for expected credit losses on loans and guarantees	**862**	**230**	**-32**	**1,060**
Presented as				
Provision for loan losses	697	272	-32	937
Other debt- provisons	148	-48	-	100
Other comprehensive income - fair value adjustment	17	6	-	23

Group (NOK million)	1 Jan 2019	Change in provision	Net write-offs/ recoveries	31 Dec 2019
Loans as amortised cost- CM	766	212	-31	948
Loans as amortised cost- RM	68	0	-5	63
Loans at fair value over OCI- RM	75	34	-	109
Loans at fair value over OCI- CM		1	-	1
Provision for expected credit losses on loans and guarantees	**909**	**248**	**-36**	**1,121**
Presented as				
Provision for loan losses	744	290	-32	937
Other debt- provisons	148	-48	-	100
Other comprehensive income - fair value adjustment	17	6	-	23

Parent Bank (NOKm)	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 (NOKm)	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

Development in allowance for credit losses during the period

Parent bank	**2019**				**2018**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Retail Market								
Opening Balance 1 January	**27**	**62**	**31**	**120**	19	45	34	97
Provision for credit losses								
Transfer to (from) stage 1	10	-10	-0	-	7	-7	-0	-
Transfer to (from) stage 2	-2	2	-0	-	-1	1	-0	-
Transfer to (from) stage 3	-0	-3	3	-	-0	-2	2	-
Net remeasurement of loss allowances	-11	24	18	30	-7	16	12	21
Originations or purchases	13	17	1	31	18	25	0	43
Derecognitions	-11	-20	-1	-33	-8	-17	-1	-26
Actual loan losses			-5	-5			-15	-15
Closing balance 31 December	**25**	**73**	**45**	**143**	**27**	**62**	**31**	**120**
Corporate Market								
Opening Balance 1 January	64	148	382	594	63	150	735	948
Provision for credit losses								
Transfer to (from) stage 1	19	-19	-0	-	23	-23	-	-
Transfer to (from) stage 2	-8	8	-	-	-4	4	-0	-
Transfer to (from) stage 3	-0	-0	1	-	-0	-1	1	-
Net remeasurement of loss allowances	-17	98	185	266	-22	34	50	62
Originations or purchases	27	20	1	48	28	49	0	77
Derecognitions	-20	-43	-0	-63	-24	-66	-4	-94
Actual loan losses	-	-	-27	-27			-400	-400
Closing balance 31 December	66	210	541	817	64	148	382	594
Total Allowance for credit losses	**91**	**283**	**586**	**961**	**91**	**210**	**413**	**714**

Development in Gross loans from Opening to Closing balance

Parent bank	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Retail marked								
Opening Balance 1 January	65,403	4,366	320	70,089	60,278	4,159	344	64,782
Transfer to (from) stage 1	893	-877	-15	-	974	-974	-	-
Transfer to (from) stage 2	-1,846	1,872	-25	-	-1,457	1,463	-6	-
Transfer to (from) stage 3	-60	-135	195	-	-35	-101	136	-
Net increase/(decrease) amount existing loans	-1,843	-123	-21	-1,986	-2,654	-458	-170	-3,282
New loans	43,549	1,588	178	45,315	35,775	765	36	36,576
Derecognitions	-37,048	-1,560	-133	-38,742	-27,477	-487	-9	-27,973
Financial assets with actual loan losses	-2	-1	-12	-14	-1	-	-12	-13
Closing balance 31 December	**69,045**	**5,129**	**487**	**74,661**	**65,403**	**4,366**	**320**	**70,088**
Corporate								
Opening Balance 1 January	32,055	5,521	1,223	38,800	30,796	5,771	1,215	37,782
Transfer to (from) stage 1	1,586	-1,561	-26	-	1,256	-1,256	-	-
Transfer to (from) stage 2	-1,405	1,446	-41	-	-1,180	1,181	-1	-
Transfer to (from) stage 3	-8	-227	234	-	-423	70	353	-
Net increase/(decrease) amount existing loans	-1,638	-91	-7	-1,736	-2,519	-38	166	-2,391
New Loans	11,323	205	319	11,848	10,445	1,373	142	11,960
Derecognitions	-8,723	-1,319	-203	-10,244	-6.319	-1,579	-623	-8,521
Financial assets with actual loan losses	-	-5	-30	-35	-	-1	-29	-30
Closing balance 31 December	**33,190**	**3,969**	**1,469**	**41,431**	**32,055**	**5,521**	**1,223**	**38,800**
Loans at fair value through profit and loss				4,677				4,467
Total Gross Loans	**102,235**	**9,101**	**1957**	**117,970**	**97,458**	**9,888**	**1,543**	**113,356**

Development in allowance for credit losses during the period

Group	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Retail Market								
Opening Balance 1 January	**33**	**71**	**39**	**143**	24	52	38	114
Provision for credit losses								
Transfer to (from) stage 1	12	-11	-0	-	8	-8	-0	-
Transfer to (from) stage 2	-2	4	-1	-	-2	2	-0	-
Transfer to (from) stage 3	-0	-3	4	-	-0	-3	3	-
Net remeasurement of loss allowances	-14	24	22	32	-8	17	16	25
Originations or purchases	17	23	3	44	21	28	2	51
Derecognitions	-13	-23	-5	-41	-9	-18	-5	-32
Actual loan losses	-	-	-5	-5	-	-	-15	-15
Closing balance 31 December	**32**	**84**	**56**	**172**	**33**	**71**	**39**	**142**
Corporate Market								
Opening Balance 1 January	70	152	397	619	68	154	749	970
Provision for credit losses								
Transfer to (from) stage 1	20	-20	-0	-	23	-23	-	-
Transfer to (from) stage 2	-9	9	-	-	-5	5	-0	-
Transfer to (from) stage 3	-0	-1	1	-	-0	-1	1	-
Net remeasurement of loss allowances	-19	100	188	268	-24	35	55	67
Originations or purchases	30	21	7	59	29	50	1	80
Derecognitions	-20	-44	-2	-66	-24	-67	-7	-98
Actual loan losses	-	-	-31	-31	-	-	-402	-400
Closing balance 31 December	71	218	560	849	**68**	**152**	**396**	619
Total Allowance for credit losses	**104**	**302**	**616**	**1,021**	**101**	**223**	**435**	**761**

Development in Gross loans from Opening to Closing balance

Group	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail marked								
Opening Balance 1 January	69,736	4,951	385	75,073	62,604	4,725	439	67,767
Transfer to (from) stage 1	1.053	-1,033	-19	-	1,118	-1,074	-44	-
Transfer to (from) stage 2	-2,184	2,217	-33	-	-1,594	1,602	-8	-
Transfer to (from) stage 3	-83	-164	248	-	-15	-124	138	-
Net increase/(decrease) amount existing loans	-2,867	-277	-31	-3,175	-2,024	-539	-140	-2,703
New Loans	45,617	1,901	196	47,715	37,832	945	49	38,826
Derecognitions	-37,596	-1,669	-165	-39,430	-28,183	-584	-36	-28,803
Financial assets with actual loan losses	-2	-1	-12	-14	-1	-	-12	-13
Closing balance 31 December	**73,675**	**5,924**	**570**	**80,169**	**69,737**	**4,951**	**386**	**75,073**
Corporate								
Opening Balance 1 January	33,897	5.881	1,299	41,076	33,682	6,130	1,214	41,025
Transfer to (from) stage 1	1,659	-1,631	-28	-	1,321	-1,317	-4	-
Transfer to (from) stage 2	-1,681	1,736	-55	-	-1,363	1,368	-5	-
Transfer to (from) stage 3	-42	-237	279	-	-449	52	397	-
Net increase/(decrease) amount existing loans	-1,682	-164	-22	-1,868	-4,064	-145	213	-3,997
New Loans	12,682	260	326	13,269	11,135	1,404	148	12,686
Derecognitions	-9,367	-1,414	-230	-11,011	-6,503	-1,611	-637	-8,751
Financial assets with actual loan losses	-	-5	-30	-35	-	-1	-29	-30
Closing balance 31 December	**35,466**	**4,426**	**1,539**	**41,431**	**33,758**	**5,879**	**1,296**	**40,933**
Loans at fair value through profit and loss				4,677				4,467
Total Gross Loans	**109.140**	**10.350**	**2.110**	**126,277**	**103,494**	**10,829**	**1,682**	**120,473**

Provision for credit losses on guarantees and unused credit lines

Parent Bank and Group	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening Balance 1 January	11	47	90	148	13	49	7	70
Provision for credit losses								
Transfer to (from) stage 1	3	-3	-0	-	2	-2	-0	-
Transfer to (from) stage 2	-1	1	-	-	-1	1	-0	-
Transfer to (from) stage 3	-0	-0	0	-	-0	-0	0	-
Net remeasurement of loss allowances	-2	3	-33	-33	-3	12	83	92
Originations or purchases	7	1	0	8	6	3	0	9
Derecognitions	-3	-20	-0	-24	-6	-17	-0	-23
Closing balance 31 December	**10**	**34**	**57**	**100**	**11**	**47**	**90**	**148**
of which								
RM				2				2
CM				98				147

Provision for credit losses specified by sector and industry[1)]

Parent	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Wage earners	25	53	29	107	20	44	24	88
Public administration	0	-	0	0	0	-	-	0
Agriculture, forestry, fisheries and hunting	4	23	7	34	8	16	5	30
Fish farming	1	0	-	1	1	0	-	1
Industry and mining	6	10	5	22	9	20	0	29
Building and construction, power and water supply	14	7	14	35	11	11	21	43
Wholesale and retail trade, hotel og restaurant industry	12	8	15	34	14	8	11	33
Maritime sector and offshore	9	114	527	649	4	84	378	465
Property management	16	45	23	84	19	37	20	76
Business services	8	53	22	83	7	31	21	59

Transport and other services provision	5	4	2	12	9	5	2	16
Other sectors	0	0	0	0	0	0	22	22
Total	**101**	**316**	**644**	**1,061**	**102**	**257**	**503**	**861**

Provision for credit losses specified by sector and industry[1)]		**2019**				**2018**		
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Wage earners	31	63	40	134	25	52	33	109
Public administration	0	-	0	0	0	-	-	0
Agriculture, forestry, fisheries and hunting	5	24	7	36	9	18	6	33
Fish farming	1	0	-	1	1	1	-	2
Industry and mining	7	13	9	29	9	21	3	34
Building and construction, power and water supply	16	9	17	41	12	13	24	49
Wholesale and retail trade, hotel og restaurant industry	12	9	15	36	15	8	12	35
Maritime sector and offshore	9	114	527	649	4	84	378	465
Property management	17	45	23	85	19	37	20	76
Business services	9	54	26	88	8	31	23	62
Transport and other services provision	6	6	7	19	10	6	6	23
Other sectors	0	0	0	0	0	0	22	22
Total	**113**	**335**	**671**	**1,120**	**112**	**271**	**526**	**909**

[1)]Provision for credit losses specified by sector includes provision for losses on guarantees and unused credit lines

Note 11 - 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 2010-2019.

Collateral cover represents the expected realisation value (RE value) of underlying collaterals. The value are determined using fixed models, and actual realisation value are validated to test their reliability of the model. 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 classes, 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 2019**	**Collateral class**	**Lower limit**	**Upper limit**
A	0.00 %	0.10 %	Aaa-A3	0.01 %	0.02 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.04 %	0.05 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.08 %	0.12 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.27 %	0.30 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.39 %	0.79 %	5	40	60
F	1.25 %	2.50 %		0.95 %	1.42 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.21 %	2.45 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.53 %	5.95 %			
I	10.00 %	99.99 %	B3-Caa3	11.65 %	16.81 %			
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

	31 Dec 2019		31 Dec 2018	
Parent Bank (NOK million)	**Averaged unhedged exposure**	**Total exposure**	**Averaged unhedged exposure**	**Total exposure**
Lowest risk	13.3 %	93,929	10.2 %	87,677
Low risk	9.6 %	21,242	8.5 %	21,176
Medium risk	10.0 %	18,829	11.4 %	18,783
High risk	11.6 %	3,093	11.8 %	3,743
Highest risk	5.7 %	1,831	3.0 %	2,387
Default and/or problem loans	15.1 %	2,972	11.3 %	2,326
Total		**141,895**		**136,092**

Group (NOK million)	31 Dec 2019 Averaged unhedged exposure	31 Dec 2019 Total exposure	31 Dec 2018 Averaged unhedged exposure	31 Dec 2018 Total exposure
Lowest risk	13.4 %	93,382	10.3 %	87,334
Low risk	9.3 %	22,698	8.4 %	22,546
Medium risk	9.3 %	24,864	9.0 %	23,836
High risk	11.9 %	3,811	11.3 %	4,362
Highest risk	7.3 %	2,433	2.5 %	2,803
Default and/or problem loans	16.0 %	3,124	10.6 %	2,466
Total		**150,313**		**143,348**

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 12 - 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 24 Categories of financial assets and financial liabilities

Parent Bank

31 Dec 2019 (NOK million)	Maximum exposure to credit risk, gross	Provision for expected credit losses	Collateral in property	Collateral in securities	Other collateral and netting agreements[1)]	Maximum exposure to credit risk, net
Assets						
Balances with central banks	706	-	-	-	-	706
Loans and advances to credit institutions	9,181	-	-	-	-	9,181
Loans and advances to customers at fair value through profit or loss	4,677	-	4,505	0	18	154
Loans and advances to customers at amortised cost	41,957	850	20,673	809	16,936	2,688
Loans and advances to customers at fair value through OCI	71,336	87	69,941	56	413	839
Securities and bonds	23,195	-	-	-	10,991	12,204
Derivatives	2,872	-	-	-	1,653	1,218
Earned income, not yet recieved	107	-	-	-	-	107
Accounts receivable, securities	13	-	-	-	-	13
Total assets	**154,042**	**937**	**95,119**	**865**	**30,011**	**27,109**
Liabilities						
Guarantee commitments and documentary credits	5,643	82	-	-	-	5,561
Unutilised credits and Loan approvals	18,533	18	3,038	137	516	14,824
Other exposures	2,904	-	-	-	-	2,904
Total liabilities	27,079	100	3,038	137	516	23,289
Total credit risk exposure	**181,121**					**50,398**

31 Dec 2018 (NOK million)	Maximum exposure to credit risk, gross	Provision for expected credit losses	Collateral in property	Collateral in securities	Other collateral and netting agreements[1)]	Maximum exposure to credit risk, net
Assets						
Balances with central banks	819	-	-	-	-	819
Loans and advances to credit institutions	11,178	-	-	-	-	11,178
Loans and advances to customers at fair value through profit or loss	4,467	-	4,253	18	20	177
Loans and advances to customers at amortised cost	47,536	639	26,195	1,105	17,687	1,909
Loans and advances to customers at fair value through OCI	61,353	58	60,430	97	136	631
Securities and bonds	20,428	-	-	-	11,375	9,053
Derivatives	3,914	-	-	-	2,077	1,836
Earned income, not yet recieved	67	-	-	-	-	67
Accounts receivable, securities	7	-	-	-	-	7
Total assets	**149,769**	**697**	**90,878**	**1,220**	**31,296**	**25,678**
Liabilities						
Guarantee commitments and documentary credits	5,022	134	-	-	-	4,888
Unutilised credits and loan approvals	17,824	14	2,347	26	967	14,470
Other exposures	2,478	-	-	-	-	2,478
Total liabilities	25,325	148	2,347	26	967	21,837
Total credit risk exposure	**175,094**					**47,514**

Group

31 Dec 19 (NOK million)	Maximum exposure to credit risk, gross	Provision for expected credit losses	Collateral in property	Collateral in securities	Other collateral and netting agreements[1)]	Maximum exposure to credit risk, net
Assets						
Balances with central banks	706	-	-	-	-	706
Loans and advances to credit institutions	2,110	-	-	-	-	2,110
Loans and advances to customers at fair value through profit or loss	4,677	-	4,505	0	18	154
Loans and advances to customers at amortised cost	50,264	911	20,691	809	17,346	10,506
Loans and advances to customers at fair value through OCI	71,336	87	69,941	56	413	839
Securities and bonds	23,115	-	-	-	10,991	12,124
Derivatives	2,972	-	-	100	1,653	1,218
Earned income, not yet recieved	132	-	-	-	-	132
Accounts receivable, securities	292	-	-	71	209	13
Total assets	**155,604**	**998**	**95,138**	**1,036**	**30,629**	**27,802**
Liabilities						
Guarantee commitments and documentary credits	5,643	82	-	-	-	5,561
Unutilised credits and loan approvals	18,643	18	3,038	223	531	14,834
Other exposures	3,097	-	-	-	-	3,097
Total liabilities	27,383	100	3,038	223	531	23,491
Total credit risk exposure	**182,987**					**51,294**

31 Dec 18 (NOK million)	Maximum exposure to credit risk, gross	Provision for expected credit losses	Collateral in property	Collateral in securities	Other collateral and netting agreements[1)]	Maximum exposure to credit risk, net
Assets						
Balances with central banks	819	-	-	-	-	819
Loans and advances to credit institutions	5,074	-	-	-	-	5,074
Loans and advances to customers at fair value through profit or loss	4,467	-	4,253	18	20	177
Loans and advances to customers at amortised cost	53,967	686	26,195	1,105	25,402	578
Loans and advances to customers at fair value through OCI	61,295	58	60,430	97	136	573
Securities and bonds	20,348	-	-	-	11,375	8,974
Derivatives	4,119	-	-	-	2,077	2,041
Earned income, not yet recieved	86	-	-	-	-	86
Accounts receivable, securities	277	-	-	94	183	0
Total assets	**150,451**	**744**	**90,878**	**1,314**	**39,193**	**18,321**
Liabilities						
Guarantee commitments and documentary credits	5,032	134	-	-	-	4,898
Unutilised credits and loan approvals	17,963	14	2,347	70	982	14,551
Other exposures	2,629	-	-	-	-	2,629
Total liabilities	25,624	148	2,347	70	982	22,077
Total credit risk exposure	**176,076**					**40,399**

[1)] 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.

For derivatives, cash has been provided as collateral, in addition to bilateral ISDA agreements on netting of derivatives.

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.

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 2019 the Bank has about 47 (46) 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.

The collateral is measured at fair value, limited to maximum credit exposure for the individual counterparty.

Note 13 - 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 6 Risk factors.

The table below shows credit quality per class of assets for loan-related assets in the balance sheet, based on the Bank's own credit rating system.The entire loan exposure is included when parts of the exposure are defaulted. Non-performance is defined in the note as default of payment of NOK 1,000 or more for more than 90 days.

Parent Bank

		Neither defaulted nor written down					Defaulted	
31 Dec 2019 (NOK million)	Notes	**Lowest risk**	**Low risk**	**Medium risk**	**High risk**	**Highest risk**	**or written down[1)]**	**Total**
Loans to and claims on credit institutions	7	**9,181**	**-**	**-**	**-**	**-**	**-**	**9,181**
Loans to and claims on customers	8							
Retail market		62,462	9,779	4,245	1,145	1,341	314	**79,286**
Corporate market		18,235	7,537	9,911	1,016	333	1,653	**38,685**
Total		**80,697**	**17,316**	**14,156**	**2,161**	**1,674**	**1,967**	**117,970**
				-	-	-	-	
Financial investments	27							
Quoted government and government guaranteed bonds		4,929	-	-	-	-	-	**4,929**
Quoted other bonds		9,801	1,524	1,159	14	-	-	**12,498**
Unquoted government and government guaranteed bonds		942	-	-	-	-	-	**942**
Unquoted other bonds		4,797	10	18	-	-	-	**4,826**
Total		**20,469**	**1,534**	**1,177**	**14**	**-**	**-**	**23,195**
Total		**110,347**	**18,850**	**15,333**	**2,175**	**1,674**	**1,967**	**150,345**

		Neither defaulted nor written down					Defaulted	
31 Dec 2018 (NOK million)	Notes	**Lowest risk**	**Low risk**	**Medium risk**	**High risk**	**Highest risk**	**or written down[1)]**	**Total**
Loans to and claims on credit institutions	7	**11,178**	**-**	**-**	**-**	**-**	**-**	**11,178**
Loans to and claims on customers	8							
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	27							
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**

Group

31 Dec 2019 (NOK million)	Notes	Neither defaulted nor written down: Lowest risk	Low risk	Medium risk	High risk	Highest risk	Defaulted or written down[1)]	Total
Loans to and claims on credit institutions	7	**2,110**	**-**	**-**	**-**	**-**	**-**	**2,110**
Loans to and claims on customers	8							
Retail market		62,468	10,349	8,392	1,502	1,685	398	**84,793**
Corporate market		17,681	8,408	11,719	1,369	584	1,722	**41,484**
Total		**80,148**	**18,757**	**20,112**	**2,871**	**2,269**	**2,119**	**126,277**
				-	-	-	-	
Financial investments	27							
Quoted government and government guaranteed bonds		4,929	-	-	-	-	-	**4,929**
Quoted other bonds		9,801	1,524	1,159	14	-	-	**12,498**
Unquoted government and government guaranteed bonds		942	-	-	-	-	-	**942**
Unquoted other bonds		4,718	10	18	-	-	-	**4,746**
Total		**20,389**	**1,534**	**1,177**	**14**	**-**	**-**	**23,115**
Total		**102,648**	**20,291**	**21,289**	**2,886**	**2,269**	**2,119**	**151,502**

31 Dec 2018 (NOK million)	Notes	Neither defaulted nor written down: Lowest risk	Low risk	Medium risk	High risk	Highest risk	Defaulted or written down[1)]	Total
Loans to and claims on credit institutions	7	**5,074**	**-**	**-**	**-**	**-**	**-**	**5,074**
Loans to and claims on customers	8							
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	27							
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**

[1)] Guarantees furnished by the Guarantee Institute for Export Credit are not taken into account

Note 14 - 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.

For further details regarding interest rate risk, see Note 6 Risk Factors.

	Interest rate risk, 1 percentage point change	
Basis risk Group (NOK million)	**2019**	**2018**
Currency		
NOK	-26	-40
EUR	-3	-3
USD	-1	2
CHF	-1	-2
GBP	-2	-1
Other	-1	-2
Total interest rate risk, effect on result before tax	**-34**	**-45**

Total interest rate risk suggest that the Bank will have losses from an increase in the interest rate in 2019. This is the same effect as in 2018.

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 percentage point change	
Interest rate curve risk, Group (NOK million)	**2019**	**2018**
Maturity		
0 - 2 month	-20	-15
2 - 3 months	-3	-1
3 - 6 months	-6	-13
6 - 12 months	5	1
1 - 2 years	0	-1
2 - 3 years	-5	-25
3 - 4 years	8	41
4 - 5 years	-17	-56
5 - 8 years	9	22
8 - 15 years	-5	3
Total interest rate risk, effect on result before tax	**-34**	**-45**

Note 15 - 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 (expressed as the highest of the sum of long and short positions). Overnight exchange rate risk for spot trading in foreign currency must not, exceed NOK 150 million on an aggregate basis.

Foreign exchange risk has been low throughout the year. For further details see note 6 on risk factors.

Parent Bank		**Net foreign exchange exposure NOK**	**Group**	
2018	**2019**	(NOK million)	**2019**	**2018**
28	22	EUR	22	28
4	1	USD	1	4
-11	0	SEK	0	-11
-10	-5	GBP	-5	-10
-3	2	Other	2	-3
7	**19**	**Total**	**19**	**7**
1,7	1,0	Result effect of 3% change	1,0	1,7

Note 16 - 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 6 on risk factors for a detailed description.

Group

At 31 Dec 2019 (NOK million)	On demand	Below 3 months	3-12 months	1 - 5 yrs	Above 5 yrs	Total
Cash flows related to liabilities[2)]						
Debt to credit institutions	8,567	245	-	-	42	8,853
Deposits from and debt to customers	64,441	14,481	3,524	3,471	-	85,917
Debt created by issuance of securities	-	1,210	7,389	29,599	6,589	44,787
Derivatives - contractual cash flow out	-	466	5,993	25,392	3,604	35,455
Other commitments	-	1,315	731	267	214	2,526
Subordinated debt[1)]	-	23	357	1,940	-	2,319
Total cash flow, liabilities	**73,008**	**17,740**	**17,993**	**60,669**	**10,447**	**179,857**
Derivatives net cash flows						
Contractual cash flows out	-	466	5,993	25,392	3,604	35,455
Contractual cash flows in	-	-223	-6,483	-26,501	-3,682	-36,889
Net contractual cash flows	**-**	**244**	**-490**	**-1,109**	**-79**	**-1,434**

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[2)]						
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[1)]	-	12	71	2,127	255	2,465
Total cash flow, liabilities	**70,339**	**14,659**	**24,092**	**68,904**	**7,679**	**185,674**
Derivatives net cash flows						
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**

Does not include value adjustments for financial instruments at fair value
[1)]For subordinated debt the call date is used for cash settlement
[2)]Contractual cash-flows include calculated interest and the total amount therefore deviate from recognised liabilities

Note 17 - Net interest income

Parent Bank 2018	Parent Bank 2019	(NOK million)	Group 2019	Group 2018
		Interest Income		
166	246	Interest income from loans to and claims on central banks and credit institutions (amortised cost)	103	62
1,641	1,693	Interest income from loans to and claims on customers (amortised cost)	2,177	2,042
1,528	1,792	Interest income from loans to and claims on customers (Fair value over OCI)	1,814	1,528
3,335	3,732	Total interest income effective interest method	4,121	3,660
106	134	Interest income from loans to and claims on customers (Fair value over Profit and loss)	134	106
295	375	Interest income from money market instruments, bonds and other fixed income securities (Fair value over Profit and loss)	371	291
0	-	Other interest income	26	28
401	509	Total other interest income	505	398
3,737	**4,241**	**Total interest income**	**4,626**	**4,057**
		Interest expense		
142	170	Interest expenses on liabilities to credit institutions	190	154
749	1,042	Interest expenses relating to deposits from and liabilities to customers	1,019	734
615	545	Interest expenses related to the issuance of securities	545	615
84	84	Interest expenses on subordinated debt	86	86
0	10	Other interest expenses	33	15
50	65	Guarantee fund levy	65	50
1,640	**1,916**	**Total interest expense**	**1,939**	**1,655**
2,097	**2,325**	**Net interest income**	**2,687**	**2,403**

Note 18 - Net commission income and other income

Parent Bank			Group	
2018	**2019**	(NOK million)	**2019**	**2018**
		Commission income		
73	61	Guarantee commission	59	72
-	-	Broker commission	252	225
60	48	Portfolio commission, savings products	117	113
350	349	Commission from SpareBank 1 Boligkreditt	349	350
16	16	Commission from SpareBank 1 Næringskreditt	16	16
369	397	Payment transmission services	393	360
174	183	Commission from insurance services	183	174
60	74	Other commission income	67	78
1,102	**1,127**	**Total commission income**	**1,437**	**1,387**
		Commission expenses		
78	84	Payment transmission services	101	93
15	11	Other commission expenses	92	75
92	**95**	**Total commission expenses**	**193**	**168**
		Other operating income		
25	21	Operating income real property	25	27
-	-	Property administration and sale of property	138	124
0	-	Securities trading	383	350
-	-	Accountant's fees	473	411
6	9	Other operating income	28	46
32	**30**	**Total other operating income**	**1,046**	**958**
1,042	**1,061**	**Total net commision income and other operating income**	**2,290**	**2,177**

Note 19 - Net return on financial investments

Parent Bank			Group	
2018	**2019**	(NOK million)	**2019**	**2018**
		Valued at fair value through profit/loss		
-208	-163	Value change in interest rate instruments	-16	-83
		Value change in derivatives/hedging		
-4	-9	Net value change in hedged bonds and derivatives	-9	-4
10	9	Net value change in hedged fixed rate loans and derivatives	9	10
277	132	Other derivatives	186	336
		Income from equity instruments		
-	-	Income from owner interests	879	416
506	866	Dividend from owner instruments	-	-
-8	22	Value change and gain/loss on owner instruments	1	-3
10	18	Dividend from equity instruments	15	8
16	44	Value change and gain/loss on equity instruments	119	9
599	**918**	**Total net income from financial assets and liabilities at fair value through profit/(loss)**	**1,183**	**688**
		Valued at amortised cost		
		Value change in interest rate instruments		
4	-6	Value change in interest rate instruments held to maturity	-6	4
-	-	Value change in interest rate instruments, loans and receivables	-	-
4	**-6**	**Total net income from financial assets and liabilities at amortised cost**	**-6**	**4**
65	**24**	**Total net gain from currency trading**	**24**	**65**
668	**937**	**Total net return on financial investments**	**1,201**	**757**

Note 20 - Personnel expenses and emoluments to senior employees and elected officers

Parent Bank			Group	
2018	**2019**	(NOK million)	**2018**	**2018**
497	527	Wages	1,525	1,423
46	50	Pension costs (Note 24)	105	96
34	37	Social costs	69	65
577	**614**	**Total personnel expenses**	**1,699**	**1,584**
623	633	Average number of employees	1,611	1,535
572	619	Number of man-labour years as at 31 December	1,509	1,493
608	658	Number of employees as at 31 December	1,634	1,588

Emoluments to Top Management
2019 (thousands of NOK)

Name	Title	Salary and other short-term benefits	Pension contribution for salaries above 12G	Of which share-based bonus payments 4)	Current value of pension liability	Pension rights accrued in past year 5)	Loans at 31.12 6)	No. of equity capital certificates 7)
Finn Haugan 1)	Group CEO	7,085	2,297	22	7,741	131	8,271	202,459
Jan-Frode Janson 2)	Group CEO	3,474	456	-	-	101	12	30,000
Kjell Fordal	Executive Director Group Finance	3,790	564	22	10,529	141	12,930	245,883
Vegard Helland	Executive Director Corporate	2,942	172	22	1,554	135	301	34,773
Ola Neråsen 5)	Executive Director Risk	2,339	126	22	2,785	144	827	42,335
Nelly Maske 4)	Executive Director Director Retail	2,850	152	22	-	149	5,447	23,554
Rolf Jarle Brøske	Executive Director Communication and Society	2,274	100	22	-	96	9,257	7,134
Kjersti Hønstad 3)	Executive Director Legal	1,986	58	22	-	152	1,745	4,485

1) Finn Haugan resigned from his position 30 April 2019. An early retirement agreement has been entered into with Finn Haugan in event of his stepping down before reaching the age of 67. Finn Haugans working with SpareBank 1 SMN ceased 31 December 2019. Therefore, Finn Haugan will receive early retirement pension within the period 1 January 2020-31 December 2020. This pension liability is a part of the Banks collective pension liability.

2) Jan-Frode Janson took up his position as Group CEO 1 May 2019

3) Executive Director Legal took up the position in the Top Management 1 May 2019

4) Amount of bonus-Ming received 2019 in conjunction with MING-saving scheme and bonus received thru profit sharing of the Fremtind-transaction. MING-saving scheme is an arrangement open for all employees and all employes have the same conditions. Profit-sharing of Fremtind-transaction to employees, gave all employees employed at SMN 31 Dec 2018 150 bonus-MING.

5) Defined-contribution pension scheme

6) Top Management has the same loan conditions as all the employees - this also applies to the resigned CEO in the period receiving retirement pension

7) Number of equity capital certificates also includes certificates owned by related persons and companies in wich one has significant influence

Emoluments to Top Management
2018 (thousands of NOK)

Name	Title	Salary and other short-term benefits	Pension contribution for salaries above 12G	Of which share-based bonus payments [4]	Current value of pension liability	Pension rights accrued in past year [5]	Loans at 31.12 [6]	No. of equity capital certificates [7]
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 [1]	Executive Director Retail	2,855	174	8	-	139	7,819	23,461
Nelly Maske [2]	Executive Director Director Retail	2,612	135	-	-	143	5,587	23,005
Ola Neråsen [3]	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] Svein Tore Samdal resigned from his position 30 November 2018

[2] Nelly Maske was Executive Director Business Operation and Development untill 30 November 2018 and took over Executive Director Retail 1 December 2018

[3] Executive Director Risk was established 1 May 2018

[4] 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

[5] Defined-contribution pension scheme

[6] Top Management has the same loan conditions as all the employees - this also applies to the resigned CEO in the period receiving retirement pension

[7] Number of equity capital certificates also includes certificates owned by related persons and companies in wich one has significant influence

SpareBank 1 SMN has an individual top pension scheme for employees with salaries above 12G employed before 1th of July 2017. These employees receive pension add-on of 15 per cent of salary above 12G. Employees can decide investement profile and the savings are locked up until retirement age in an individual retirement account in SpareBank 1 Forsikring. This benefit is a part of the amount of the pension rights accrued in the table above.

Emoluments to the Board of Directors and the Supervisory Board
2019 (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	495	38	13	-	130,000
Bård Benum	Deputy chair	262	88	8	8,053	-
Mette Kamsvåg	Board member	226	88	7	1,437	5,600
Tonje Eskeland Foss	Board member	226	26	3	5,202	-
Paul E. Hjelm-Hansen [1]	Board member	53	28	8	-	49,219
Janne Thyø Thomsen	Board member	226	99	8	-	3,000
Morten Loktu	Board member	226	26	8	-	5,000
Christian Stav [3]	Board member	173	79	-	-	-
Christina Straub [2], [3]	Board member, employee representative	173	-	784	5,863	652
Inge Lindseth [2], [3]	Board member, employee representative	192	1	854	3,622	4,034
Venche Johnsen [1], [2]	Board member, employee representative	53	6	805	347	25,392
Erik Gunnes [1], [2]	Board member, employee representative	53	-	847	1,261	1,364

[1] Resigned in 2019

[2] Other emoluments include salary in employment relationships

[3] Was selected in 2019

[4] Number of equity capital certificates also includes certificates owned by related persons and companies in wich one has significant influence

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) Number of equity capital certificates also includes certificates owned by related persons and companies in wich one has significant influence

The Board chairman has neither a bonus agreement nor any agreement on post-employment salary. The number of equity capital certificates includes certificates owned by related parties and companies over which the individual exerts substantial influence.

Fees to the Supervisory Board (thousands of NOK)	2019	2018
Knut Solberg, Supervisory Board Chair	93	67
Other members	300	271

Remuneration of employees 1)	Number	Rmuneration	Of which variable remuneration
Senior employees	56	79,298,683	-
Employees and officers with tasks of material significance for the institutions's risk exposure	7	6,063,120	-
Employees responsible for the independent control function	3	2,474,821	-
Officers	4	2,212,897	-

1) Categories of employees coevered by the Financial Institutions Regulations

Board of directors’ declaration regarding determination of salary and other remuneration to senior employees

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 excessive risk taking and contribute to the avoidance of conflicts of interest.

The group’s overarching objectives for the current strategy period are the basis for our remuneration policy. The business lines’ strategies and action plans shall support those objectives. Different business lines may accordingly have different remuneration arrangements within the framework of the group’s remuneration policy.

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 or 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 inter alia 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 shorter 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 group has no remuneration arrangements for control functions that encourage conduct that poses a challenge to legal 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

A. Guidelines for the coming 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.

The group CEO is a member of the collective defined contribution pension scheme under the Act on Defined Contribution Pensions, on a par with other employees of the company. The group CEO has in addition an agreement on 23 per cent pension accrual in respect of remuneration above 12G (12 times the basic amount available under the National Insurance Fund Scheme).

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 up to 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 this savings arrangement on an equal footing with other employees.

Upon appointment the CEO was granted the option of purchasing up to 30,000 MING at a 30 per cent discount over the course of his first year of employment (1 May 2019 – 1 May 2020). The CEO has availed himself of this option, and purchased 15,000 MIN at a discount on two different occasions in 2019.

The CEO has an agreement on 12 months' post-employment benefit in the event that the employer chooses to terminate his employment relationship. Should the CEO enter another employment relationship in this period, his post-employment benefit shall be reduced by the pay received in the new employment relationship. This does not apply to any directors' fees received in the period.

Renuneration 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 after assessment 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). They have in addition a top pension scheme 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).

An agreement has also been entered into with the executive director concerned entailing an increase in that director's individual top pension scheme from 15 to 30 per cent up to and including the month that the director reaches age 64.5.

Executive directors have post-employment benefit agreements lasting *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 car for business purposes.

Determination of variable remuneration for 2020

In 2020 SpareBank 1 Finans, EiendomsMegler 1, SpareBank 1 Markets and SpareBank 1 Kapitalforvaltning will employ compensation models involving variable remuneration. Criteria for allotting variable remuneration will be applied in conformity with the guides following from the group's remuneration policy and determined by the board of directors of the respective companies.

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.

Currently no employees of SpareBank 1 SMN that are covered by the special rules have arrangements involving profit- or performance-based remuneration

B. 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.

C. Statement of management pay policy for the preceding financial year

The group's standards established in 2011, as subsequently revised with effect from 2019, have been followed.

D. Statement on the effect on the company and shareholders of agreements on remuneration in the form of allotment of shares, subscription rights, options etc.

Measured against the total number of shares of the company, it is the board of directors' assessment that the allotment of shares to senior employees does not have any negative consequences for the company or the shareholders.

Note 21 - Other operating expenses

Parent Bank			Group	
2018	2019	(NOK million)	2019	2018
217	234	IT costs	321	293
12	19	Postage and transport of valuables	23	17
53	63	Marketing	101	106
66	109	Ordinary depreciation (note 31.32 and 33)	172	99
108	42	Operating expenses, real properties	57	153
93	134	Purchased services	193	151
134	149	Other operating expense	231	221
685	**750**	**Total other operating expenses**	**1,098**	**1,040**
		Audit fees (NOK 1000)		
1,104	654	Financial audit	1,764	2,386
72	191	Other attestations	279	159
38	14	Tax advice	47	395
33	301	Other non-audit services	379	108
1,247	**1,160**	**Total incl. value added tax**	**2,468**	**3,049**

Note 22 - 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 148 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 21 on personnel expenses and emoluments to senior employees and elected officers.

	2019		**2018**	
Actuarial assumptions	Costs	Commitment	Costs	Commitment
Discount rate	2.6%	2.3%	2.4%	2.6%
Expected rate of return on plan assets	2.6%	2.3%	2.4%	2.6%
Expected future wage and salary growth	2.50%	2.00 %	2.25%	2.50%
Expected adjustment of basic amount (G)	2.50%	2.00 %	2.25%	2.50%
Expected increase in current pension	0%/2.5%	0%/2.0%	0%/2.25%	0%/2.5%
Employers contribution	19.1%	19.1%	19.1%	19.1%
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**	
2018	**2019**	**Net pension liability in the balance sheet (NOK million). Financial position 1 Jan.**	**2019**	**2018**
611	588	Net present value of pension liabilities in funded schemes	588	611
-748	-749	Estimated value of pension assets	-749	-748
-138	-161	Net pension liability in funded schemes	-161	-138
4	3	Employer's contribution	3	4
-134	**-158**	**Net pension liability in the balance sheet**	**-158**	**-134**

Distribution of liability between unfunded and funded pension scheme, Group 1 Jan.

Group	2019			2018		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of pension liability in funded schemes	570	17	588	590	20	611
Fair value of pension assets	-749	-	-749	-748	-	-748
Net pension liability in the balance sheet before employer's contribution	-179	17	-161	-158	20	-138
Employer's contribution	0	3	3	0	4	4
Net pension liability in the balance sheet after employer's contribution	-179	21	-158	-158	24	-134

2018	2019	Pension cost for the year	2019	2018
1	0	Present value of pension accumulated in the year	0	1
-3	-4	Interest cost of pension liabilities	-4	-4
-2	-4	Net defined-benefit pension cost without employer's contribution	-4	-3
0	0	Employer's contribution - subject to accrual accounting	0	0
-2	-4	Net pension cost related to defined benefit plans	-4	-2
5	7	Early retirement pension scheme, new arrangement	12	5
43	43	Cost of defined contribution pension	96	93
46	**46**	**Total pension cost**	**105**	**96**

Other comprehensive income for the period	2019			2018		
	Unfunded	Funded	Total	Unfunded	Funded	Total
Change in discount rate	0	26	26	0	-17	-18
Change in other economic assumptions	-0	-	-0	-	-	-
Changing other factors, DBO	-3	14	12	-1	7	6
Change in other factors, pension assets	-	-3	-3	-	-8	-8
Other comprehensive income for the period	**-3**	**37**	**34**	**-2**	**-18**	**-19**

2018	2019	Movement in net pension liability in the balance sheet	2019	2018
-134	-158	Net pension liability in the balance sheet 1.1	-158	-134
-18	33	Actuarial gains and losses for the year	33	-18
-2	-4	Net defined-benefit costs in profit and loss account incl. Curtailment/settlement	-4	-2
-3	-3	Paid-in pension premium, defined-benefit schemes	-3	-3
-158	**-132**	**Net pension liability in the balance sheet 31.12**	**-132**	**-158**

2018	2019	Financial status 31.12	2019	2018
588	608	Pension liability	608	588
-749	-743	Value of pension assets	-743	-749
-161	-135	Net pension liability before employer's contribution	-135	-161
3	3	Employer's contribution	3	3
-158	**-132**	**Net pension liability after employer's contribution**	**-132**	**-158**

Distribution of financial status 31 Dec between unfunded and funded pension scheme, Group

Group	2019			2018		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Pension liability	595	13	608	570	17	588
Value of pension assets	-743	-	-743	-749	-	-749
Net pension liability before employer's contribution	**-148**	**13**	**-135**	**-179**	**17**	**-161**
Employer's contribution	-	3	3	-	3	3
Net pension liability after employer's contribution	**-148**	**16**	**-132**	**-179**	**21**	**-158**

Fair value of pension liability, Group	2019	2018
OB pension liability (PBO)	588	611
Present value of pension accumulated in the year	0	1
Payout/release from scheme	-29	-28
Interes costs of pension liability	15	14
Actuarial gain or loss	34	-10
CB pension liability (PBO)	**608**	**588**

Fair value of pension assets, Group	2019	2018
OB pension assets	749	748
Paid in	3	3
Payout/release from fund	-29	-28
Expected retur	19	18
Actuarial changes	1	8
CB market value of pension assets	**743**	**749**

	Discount rate		Salary adjustment		Pension adjustment
Sensitivity, Group	**+ 1 pp**	**- 1 pp**	**+1 pp**	**- 1 pp**	**+ 1 pp**
2019					
Change in accumulated pension rights in course of year	0	0	0	0	0
Change in pension liability	-81	101	0	0	103
2018					
Change in accumulated pension rights in course of year	0	0	0	0	0
Change in pension liability	-77	96	0	0	89

2018	2019	Members	2019	2018
764	749	Numbers of persons included in pension scheme	749	764
253	242	of which active	242	253
511	507	of which retirees and disabled	507	511

Investment and pension assets in the pension fund	2019	2018
Current bonds	38 %	38 %
Bonds held to maturity	5 %	5 %
Money market	23 %	24 %
Equities	27 %	27 %
Real estate	7 %	6 %
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 23 - Income tax

Parent Bank			Group	
2018	**2019**	(NOK million)	**2019**	**2018**
2,379	2,715	Result before tax	3,121	2,382
-535	-955	+/- permanent differences	-1,091	-443
-228	139	+/- change in temporary differences as per specification	124	-205
-	-	Loss carried forward	37	0
1,615	**1,899**	**Year's tax base/taxable income**	**2,191**	**1,733**
404	475	Tax payable on profit for the year	547	462
-	4	Excess/too little tax accrued previous year	-	-
404	479	Total taxes payable	547	462
404	479	Tax payable on profit for the year	547	462
52	-28	+/- change in deferred tax	-30	47
456	**452**	**Tax charge for the year**	**518**	**509**
		Change in net deferred tax liability		
52	-28	Deferred tax shown through profit/loss	-30	48
5	-8	Deferred tax shown through equity	-8	3
-	-	Reclassification tax payable/deferred tax[1)]	23	12
57	**-36**	**Total change in net deferred tax liability**	**-15**	**63**

[1)]Due to group contribution

2018	**2019**	**Composition of deferred tax carried in the balance sheet (NOK million)**	**2018**	**2018**
		Temporary differences:		
-	-	- Business assets	14	194
-	-	- Leasing items	281	288
158	132	- Pension liability	133	161
188	107	- Securities	109	189
219	125	- Hedge derivatives	125	219
-	-	- Other temporary differences	5	4
565	**364**	**Total tax-increasing temporary differences**	**668**	**1,055**
141	**91**	**Deferred tax**	**169**	**263**
		Temporary differences:		
-2	-10	- Business assets	-28	-16
-209	-156	- Hedge derivatives	-156	-209
-21	-6	- Other temporary differences	-86	-117
-	-	- Deficit carried forward	-572	-840
-232	**-172**	**Total tax-decreasing temporary differences**	**-842**	**-1,182**
-58	**-43**	**Deferred tax asset**	**-212**	**-292**
82	**48**	**Net deferred tax (-asset)**	**-43**	**-28**

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:

	2019	**2018**
Tax benefit recorded 31 Dec	**158**	175
Deferred tax recorded 31 Dec	**-115**	-147

2018	2019	Reconciliation of tax charge for the period recognised against profit and loss to profit before tax	2019	2018
595	679	25 % of profit before tax	775	659
-134	-239	Non-taxable profit and loss items (permanent differences) [1)]	-272	-158
-5	8	Tax effect of costs reflected in equity	8	-1
-	4	Too little taxes accrued previous year	7	1
-	-	Change in tax assets not recognised	-	7
456	**452**	**Tax for the period recognised in the income statement**	**518**	**509**
19 %	**17 %**	**Effective tax rate**	**17 %**	**21 %**

[1)] 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 24 - Categories of financial assets and financial liabilities

Group	Financial instruments at fair value through profit or loss			Financial instruments at fair value through other comprehensive income	Financial instruments measured at amortised cost	Total
31 Dec 2019 (NOK million)	Designated as such upon initial recognition	Mandatorily	Held for trading			
Assets						
Cash and receivables from central banks	-	-	-	-	761	761
Deposits with and loans to credit institutions	-	-	-	-	2.110	2.110
Loans to and receivables from customers	4.679	-	-	71.336	49.264	125.279
Shares, units and other equity interests	-	447	2.506	-	-	2.953
Fixed-income CDs and bonds	-	23.115	-	-	-	23.115
Derivatives	-	-	2.972	-	-	2.972
Earned income not yet received	-	-	-	-	132	132
Accounts receivable, securities	-	-	-	-	292	292
Total financial assets	**4.679**	**23.562**	**5.477**	**71.336**	**52.560**	**157.614**
Liabilities						
Deposits from credit institutions	-	-	-	-	8.853	8.853
Deposits from and debt to customers	-	-	-	-	85.917	85.917
Debt created by issue of securities	-	-	-	-	43.014	43.014
Derivatives	-	-	3.528	-	-	3.528
Subordinated loan capital	-	-	-	-	2.090	2.090
Equity instruments	-	-	244	-	-	244
Lease liabilities	-	-	-	-	505	505
Debt from securities	-	-	-	-	197	197
Total financial liabilities	**-**	**-**	**3.772**	**-**	**140.576**	**144.349**

Group	Financial instruments at fair value through profit or loss			Financial instruments at fair value through other comprehensive income	Financial instruments measured at amortised cost	Total
31 Dec 2018 (NOK million)	Designated as such upon initial recognition	Mandatorily	Held for trading			
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**

Note 25 - 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 2019:

Assets (NOK million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	3	2,969	-	2,972
- Bonds and money market certificates	2,913	20,202	-	23,115
- Equity instruments	2,506	43	405	2,953
- Fixed interest loans	-	43	4,636	4,678
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	71,336	71,336
Total assets	**5,421**	**23,256**	**76,377**	**105,054**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	2	3,525	-	3,528
- Equity instruments	244	-	-	244
Total liabilities	**247**	**3,525**	**-**	**3,772**

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 changes in the instruments classified in level 3 as at 31 December 2019:

(NOK million)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Opening balance 1 January	550	4,425	61,294	66,269
Investment in the period	24	1,054	44,421	45,499
Disposals in the period	-256	-818	-34,350	-35,424
Expected credit loss	-	-	-36	-36
Gain or loss on financial instruments	87	-25	6	68
Closing balance	**405**	**4,636**	**71,336**	**76,377**

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	-13,584	-	-14,683
Expectged credit loss	-	-	-10	-	-10
Gain or loss on financial instruments	8	-2	-2	-	5
Closing balance	**550**	**4,425**	**61,294**	**-**	**66,269**

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 from 10 to 20 per cent, fair value is reduced by NOK 7 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 282 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.

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 2019:

(NOK million)	Book value	Effect from change in reasonable possible alternative assumtions
Fixed interest loans	4,636	-11
Equity instruments through profit/loss[1)]	405	-
Loans at fair value through other comprehensive income	71,336	-7

[1)] As described above, the information to perform alternative calculations are not available

Note 26 - 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 IFRS 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. The effect of changes in credit quality in the portfolio is accounted for through collectively assessed impairment write-downs, therefore giving a good expression of fair value in that part of the portfolio where individual write-down assessments have not been made.

Individual write-downs 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.

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 2019		31 Dec 2018	
(NOK million)	**Level 1)**	**Book value**	**Fair Value**	**Book value**	**Fair Value**
Assets					
Loans to and claims on credit institutions	2	9,181	9,181	11,178	11,178
Loans to and claims on customers at amortised cost	3	41,105	41,173	46,897	46,972
Earned income not yet received	2	107	107	67	67
Accounts receivable, securities	2	13	13	7	7
Total financial assets at amortised cost		**50,406**	**50,474**	**58,149**	**58,224**
Liabilities					
Debt to credit institutions	2	7,585	7,585	8,546	8,546
Deposits from and debt to customers	2	86,870	86,870	81,448	81,448
Securities debt at amortised cost	2	9,440	9,425	10,256	10,237
Securities debt, hedging	2	33,573	33,374	34,013	32,284
Subordinated debt at amortised cost	2	1,831	1,826	1,854	1,850
Subordinated debt, hedging	2	216	212	370	363
Lease liabilities	2	347	347	-	-
Debt from securities	2	9	9	699	699
Total financial liabilities at amortised cost		**139,872**	**139,649**	**137,185**	**135,426**

Group

(NOK million)	Level 1)	31 Dec 2019 Book value	31 Dec 2019 Fair Value	31 Dec 2018 Book value	31 Dec 2018 Fair Value
Assets					
Loans to and claims on credit institutions	2	2,110	2,110	5,074	5,074
Loans to and claims on customers at amortised cost	3	49,351	49,431	53,967	54,052
Earned income not yet received	2	132	132	86	86
Accounts receivable, securities	2	292	292	277	277
Total financial assets at amortised cost		**51,886**	**51,966**	**59,403**	**59,488**
Liabilities					
Debt to credit institutions	2	8,853	8,853	9,214	9,214
Deposits from and debt to customers	2	85,917	85,917	80,615	80,615
Securities debt at amortised cost	2	9,440	9,425	10,256	10,237
Securities debt, hedging		33,573	33,374	34,013	32,284
Subordinated debt at amortised cost	2	1,874	1,869	1,898	1,893
Subordinated debt, hedging	2	216	212	370	363
Lease liabilities	2	505	505	-	-
Debt from securities	2	197	197	809	809
Total financial liabilities at amortised cost		**140,576**	**140,352**	**137,175**	**135,415**

1) Fair value is determined by using different methods in three levels. See note 27 for a definition of the levels.

Note 27 - Money market certificates and bonds

Bonds and money market instruments are classified in the category fair value through profit/loss at 31 December 2019.

Parent Bank			Group	
31 Dec 2018	31 Dec 2019	Money market certificates and bonds by issuer sector (NOK million)	31 Dec 2019	31 Dec 2018
		State		
2,089	1,985	Nominal value	1,985	2,089
2,759	2,637	Book value	2,637	2,759
		Other public sector		
3,687	7,613	Nominal value	7,613	3,687
3,705	7,663	Book value	7,663	3,705
		Financial enterprises		
13,118	11,481	Nominal value	11,404	13,040
13,880	12,765	Book value	12,685	13,800
		Non-financial enterprises		
1	15	Nominal value	15	1
9	26	Book value	26	9
18,894	**21,095**	**Total fixed income securities, nominal value**	**21,017**	**18,817**
76	103	Accrued interest	103	76
20,428	**23,195**	**Total fixed income securities, booked value**	**23,115**	**20,348**

Note 28 - 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 6 on risk factors. For further details concerning market risk linked to interest rate risk, see note 14 on market risk related to interest rate risk, and for market risk related to currency exposure, see note 15 on market risk related to currency exposure.

Parent Bank

Fair value through profit and loss (NOK million)	**31 Dec 2019**			**31 Dec 2018**		
	Contract	Fair value		Contract	Fair value	
Currency instruments	amount	Assets	Liabilities	amount	Assets	Liabilities
Foreign exchange derivatives (forwards)	2,664	18	-38	4,089	78	-49
Currency swaps	7,718	202	-62	7,541	256	-26
FX-options	-	-	-	40	0	-0
Total currency instruments	10,382	221	-100	11,670	334	-76
Interest rate instruments						
Interest rate swaps (including cross currency)	238,327	1,761	-2,221	214,485	2,374	-1,878
Short-term interest rate swaps (FRA)	9,000	1	-1	9,000	2	-2
Total interest rate instruments	247,327	1,762	-2,221	223,485	2,376	-1,880
Commodity-related contracts						
Stock-exchange-traded standardised forwards and futures contracts	1,441	145	-145	1,190	415	-415
Total commodity-related contracts	1,441	145	-145	1,190	415	-415
Hedging						
Interest rate instruments						
Interest rate swaps (including cross currency)	35,848	387	-216	31,548	282	-49
Total interest rate instruments	35,848	387	-216	31,548	282	-49
Total						
Total interest rate instruments	283,175	2,149	-2,437	255,033	2,658	-1,929
Total currency instruments	10,382	221	-100	11,670	334	-76
Total commodity-related contracts	1,441	145	-145	1,190	415	-415
Accrued interest		357	-476		508	-514
Total financial derivatives	**294,999**	**2,872**	**-3,159**	**267,893**	**3,914**	**-2,933**

Group

Fair value through profit and loss (NOK million)	31 Dec 2019			31 Dec 2018		
	Contract	Fair value		Contract	Fair value	
Currency instruments	amount	Assets	Liabilities	amount	Assets	Liabilities
Foreign exchange derivatives (forwards)	2,664	18	-38	4,089	78	-49
Currency swaps	7,718	202	-62	7,541	256	-26
FX-options	-	-	-	40	0	-0
Total currency instruments	10,382	221	-100	11,670	334	-76
Interest rate instruments						
Interest rate swaps (including cross currency)	238,327	1,761	-2,221	214,485	2,374	-1,878
Short-term interest rate swaps (FRA)	9,000	1	-1	9,000	2	-2
Total interest rate instruments	247,327	1,762	-2,221	223,485	2,376	-1,880
Equity instruments						
Equity options	25	12	-10	36	8	-11
Equity forwards/futures	1,884	88	-359	1,155	197	-38
Total equity instruments	1,910	100	-369	1,191	205	-49
Commodity-related contracts						
Stock-exchange-traded standardised forwards and futures contracts	1,441	145	-145	1,190	415	-415
Total commodity-related contracts	1,441	145	-145	1,190	415	-415
Hedging						
Interest rate instruments						
Interest rate swaps (including cross currency)	35,848	387	-216	31,548	282	-49
Total interest rate instruments	35,848	387	-216	31,548	282	-49
Total						
Total interest rate instruments	283,175	2,149	-2,437	255,033	2,658	-1,929
Total currency instruments	10,382	221	-100	11,670	334	-76
Total equity instruments	1,910	100	-369	1,191	205	-49
Total commodity-related contracts	1,441	145	-145	1,190	415	-415
Accrued interest		357	-476		508	-514
Total financial derivatives	**296,908**	**2,972**	**-3,528**	**269,084**	**4,119**	**-2,982**

Note 29 - Hedge Accounting for Debt created by issue of securities

The bank has established hedge accounting in order to achieve accounting treatment that reflects how interest rate risk and foreign exchange risk are managed in the case of large long-term borrowings. The hedged objects consist exclusively of debt created by the issuance of financial instruments and are implemented in conformity with IFRS 9 by fair value hedging. For those debt instruments that are included in the hedging portfolio, separate interest rate and exchange rate swaps are entered into with corresponding principle and maturity structure. Inefficiency may nonetheless arise as a result of random market variations in the evaluation of object and instrument.

The hedging instruments (interest rate and exchange rate swaps) are recognised at fair value, whereas the hedged objects are recognised at fair value in respect of the risks that are hedged (interest rate risk and exchange rate risk). Hedge inefficiency, defined as the difference between the value adjustment of the hedging instruments and the value adjustment of the hedged risks in the objects is recognised through profit/loss on an ongoing basis.

	Nominal amount at 31 December 2019			**Nominal amount at 31 December 2018**		
Group (NOK million)	**Hedging instrument**	**Hedging object**	**Ineffectivity**	**Hedging instrument**	**Hedging object**	**Ineffectivity**
Accounting line in Balance sheet	Derivatives	Debt created by issue of securities		Derivatives	Debt created by issue of securities	
Debt at fixed interest	*Interest Swap*			*Interest Swap*		
Nominal NOK	7,789	7,650	140	8,184	8,068	116
Debt in currency at fixed interest	*Interest and currency swap*			*Interest and currency swap*		
Nominal EUR	23,429	23,429	-	23,460	22,547	913
Nominal SEK	846	846	-	291	291	-
Nominal CHF	1,586	1,586	-	1,544	1,544	-

	Book value at 31 December 2019			**Book value at 31 December 2019**		
	Hedging instrument	**Hedging object**	**Ineffectivity in PL**	**Hedging instrument**	**Hedging object**	**Ineffectivity in PL**
Recorded amount Assets	387			282		
Recorded amount Liabilities	218	33,790		49	32,891	
Accumulated value changes ending balance	169	154		233	217	
Accumulated value changes opening balance	235	209		278	259	
Changes in fair value	**-66**	**-56**	**- 10**	**-46**	**-42**	**-4**
Accounting line in profit /loss			Net return on financial investments			Net return on financial investments

IBOR reform

In recent years, reform of and alternatives to IBOR rates have become a priority area for governments across the world. However, there is uncertainty as to the timing and method for any changes. All SpareBank 1 SMN's interest rate derivatives have IBOR rates as their benchmark, and thus could be affected by changes. The most significant positions are held in EURIBOR and NIBOR. The bank follows market developments closely, and participates in several projects in order to monitor and facilitate any changes. The table below shows exposure and nominal amount for derivatives in hedge relationships that may be affected by the IBOR reform, split on the IBOR rate in question.

	Nominal amount		
Interest- and currency instrument (NOK million)	**Hedging object**	**Hedging instrument**	**Net exposure**
CHFLIB 3M		227	227
EURIBOR 3M	1,480	19,817	21,297
EURIBOR 6M	-	257	257
NIBOR 3M	-	10,453	10,453
STIBOR 3M	846	846	-
USD LIBOR 3M	-	1,316	1,316
Total exposure	**2,326**	**32,916**	**33,550**

Note 30 - Shares, units and other equity interest

Parent bank			Group	
31 Dec 2018	**31 Dec 2019**	**Shares and units (NOK million)**	**31 Dec 2019**	**31 Dec 2018**
186	**235**	**At fair value through profit or loss**	**2,912**	**1,745**
84	112	Listed	2,506	1,332
102	123	Unlisted	405	413
186	**235**	**Total shares and units**	**2,912**	**1,745**
		Subordinated bond		
86	-	Listed	-	86
119	120	Unlisted	41	42
205	**120**	**Total subordinated debt**	**41**	**128**
		Business held for sale - of which shares		
82	82	Unlisted	40	43
82	**82**	**Total shares held for sale (see note 39)**	**40**	**43**
170	112	Total listed companies	2,506	1,418
302	325	Total unlisted companies	487	498

Specification of 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	104,228
Total quoted shares			**6,750**	**104,228**
SpareBank 1 Nordvest		69,423	7,455	7,984
Total quoted credit institutions			**7,455**	**7,984**
Unlisted companies				
VN Norge SMN		26,373,402	37,338	47,736
Eksportfinans		1,857	12,888	38,726
Visa C preferanseaksje		1,298	-	24,833
Molde Kunnskapspark		2,000	2,030	2,083
Spama		2,305	-	1,563
Swift eur		44	855	1,489
Other subordinated bonds			1,129	1,167
Total unquoted shares and units			**54,241**	**117,597**
Sparebank 1 Søre Sunnmøre		48,070	4,999	5,071
Total unquoted credit institutions			**4,999**	**5,071**
SpareBank1 Finans Midt-Norge			77,496	79,072
SpareBank 1 Boligkreditt			41,000	41,422
Total unquoated subordinated bonds			**118,496**	**120,494**
Total shares, units and equity capital certificates, parent bank			**191,941**	**355,374**

Specification of Group

Listed companies	Stake over 10 %	Our holding (no.)	Acquisition cost (NOK 1000)	Market value/ book value (NOK 1000)
Bonheur		1,531,564	129,287	304,781
Aker BP		687,829	169,250	198,095
Solon Eiendom		4,000,000	146,800	162,400
Scanship Holding/ VOW		5,328,178	90,579	159,845
Crayon Group Holding		2,833,000	68,609	147,316
Kongsberg gruppen		920,000	126,751	126,960
Panoro Energy		3,456,668	60,935	79,158
Norwegian Energy Company		343,530	72,720	77,466
Olav Thon Eiendomsselskap		391,900	63,570	65,761
Magnora	14.7 %	7,719,497	60,918	54,036
Subsea 7		512,701	54,459	53,808
Mowi		232,058	52,840	52,956
BW Offshore Limited		745,235	49,758	49,186
Yara International		134,354	49,026	49,066
Itera		3,350,000	30,717	38,626
Norway Royal Salmon		150,000	9,765	35,880
Scandic Hotels Group		350,000	32,573	34,506
Norsk Hydro		964,809	38,014	31,491
Lerøy Seafood Group		507,977	29,286	29,615
Okea		1,679,760	31,809	29,396
Equinor		160,756	27,585	28,213
Norwegian Air Shuttle		664,248	29,515	25,075
Ocean Yield		493,263	27,881	23,677
Polaris Media		586,016	14,995	20,628
Austevoll Seafood		220,500	20,500	19,856
Borgestad		750,000	15,000	15,000
Archer		3,020,000	15,390	9,604
Borregaard		100,000	9,166	9,500
Webstep		350,000	8,170	8,540
Goodtech		1,000,000	6,500	6,950
Akastor		601,700	10,694	5,981
Gaming Innovation Group		630,883	3,035	5,047
Nordic Semiconductor		86,711	4,572	4,830
Magseis Fairfield		800,000	15,250	4,640
Havila		1,454,880	16,901	4,365
Others			40,457	34,435
Total quoted shares			**1,633,274**	**2,006,687**

Komplett Bank		9,060,000	84,392	113,069
Insr Insurance Group		11,000,000	87,340	76,780
Sparebank 1 Østlandet		701,813	60,581	64,918
Sparebank 1 BV		698,399	24,831	27,657
Sparebank 1 Ringerike Hadeland		110,400	21,655	24,950
Sparebanken Telemark		147,000	17,163	19,110
Melhus Sparebank		100,834	12,347	14,167
B2Holding		1,295,000	18,668	12,367
Helgeland Sparebank		140,000	12,044	11,760
Others			20,458	22,752

Total quoted credit institutions			**359,480**	**387,530**
Unlisted companies				
Viking Venture III	17.0 %	955,039	34,745	100,444
Salvesen & Thams		22,300	25,730	71,516
Moldekraft		10,545	11,600	14,837
Norsk Innovasjonskapital III		600	7,950	12,885
Sintef Venture IV		18,101	10,725	11,553
Crayo Nano AS		13,876	5,436	11,129
Proventure Seed II		11,608,357	9,674	8,717
Numascale		4,320,117	7,020	7,519
Novelda		18,280	6,143	5,814
Sintef Venture V		9,000	4,137	4,137
Real Estate Central Europe		3,000	5,500	4,000
Herkules Capital 3		1	3,232	3,902
Novela Kapital		300,003	3,000	3,000
Vectron Biosolutions		220,000	6,000	2,750
North Bridge Nordic Property II		51,340	1,996	2,153
Wellstarter		3,538	2,000	2,000
Idletechs		1,593	1,593	1,593
Way		23,175	1,500	1,500
Happybites		12,062	1,495	1,495
Wellcem		40,036	1,361	1,201
Sentrumsbyen Molde		1,000	1,000	1,000
Others			21,559	9,351
Total unquoted shares and units			**173,395**	**282,494**
Elimination of subordinated bond SpareBank 1 Finans Midt-Norge			-77,496	-79,072
Total shares, units and equity capital certificates, Group			**2,280,595**	**2,953,013**

Note 31 - Intangible assets

2019

Parent Bank				Group		
Other intangible assets	**Goodwill**	**Total**	**(NOK million)**	**Total**	**Goodwill**	**Other intangible assets**
175	447	622	Cost of acquisition at 1 January	1.034	730	303
19	-	19	Additions	60	21	39
-	-	-	Disposals	-4	-	-4
-	-	-	Subsidiaries acquisitions	16	16	
194	447	640	Cost of acquisition at 31 December	1.106	767	338
89	-	89	Accumulated depreciation and write-downs as at 1 January	183	34	149
34	-	34	Current period's depreciation	46	-	46
0	-	0	Current period's write-down	0	-	0
-	-	-	Disposals	-1	-	-1
5	-	5	Subsidiaries` acquisitions	6	-	6
128	-	128	Accumulated depreciation and write-down as at 31 December	233	34	199
66	**447**	**512**	**Book value as at 31 December**	**872**	**734**	**139**

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	Additions	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**

Note 32 - Property, plant and equipment

2019

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**
104	181	285	Cost of acquisition at 1 January	569	268	301
-	-	-	Cost of acq. as a result of business combinations	3	3	-
-15	11	26	Acquisitions	44	19	25
-	-27	-27	Disposals	-35	-35	-1
-	-	-	Corrections	-	-0	-0
119	165	284	Cost of acquisition at 31 December	580	255	325
58	130	188	Accumulated depreciation and write-downs as at 1 January	336	201	135
-	-	-	Acc. depreciations as a result of business combinations	3	3	-
9	18	26	Current period's depreciation	39	24	15
2	0	3	Current period's write-down	3	0	3
-	-19	-19	Disposals	-24	-24	-
2	-	2	Reversal of accumulated depreciation and write-downs	1	-	1
71	128	199	Accumulated depreciation and write-down as at 31 December	358	204	154
48	**37**	**85**	**Book value as at 31 December**	**222**	**52**	**171**

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**

Depreciation

With a basis in acquisition cost less any residual value, assets are depreciated on a straight-line basis over expected lifetime as follows:

- Machinery 3-5 years
- Fixtures 5-10 years
- Technical installations 5-10 years
- Means of transport 10 years
- Buildings and other real property 25 years

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 2019 is NOK 83 million (NOK 114 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 2019.

Note 33 - Leases

Parent 2019	Right-of-use assets	Group 2019
379	Acquisition cost 1 January	587
9	Addition of right-of-use assets	32
0	Disposals	-43
4	Transfers and reclassifications	5
392	Acquisition cost 31 December	581
	Accumulated depreciation and impairment 1 January	
49	Depreciation	87
0	Disposals	-4
49	Accumulated depreciation and impairment 31 December	82
342	**Carrying amount of right-of-use assets 31 December**	**498**

Lease liabilities

Parent 2019	Undiscounted lease liabilities and maturity of cash outflows	Group 2019
42	Less than 1 year	78
41	1-2 years	72
37	2-3 years	63
36	3-4 years	59
31	4-5 years	51
197	More than 5 years	245
383	**Total undiscounted lease liabilities at 31 December**	**567**

Parent 2019	Summary of the lease liabilities	Group 2019
379	At initial application 1 January	587
12	New lease liabilities recognised in the year	33
-44	Cash payments for the principal portion of the lease liability	-76
-10	Cash payments for the interest portion of the lease liability	-13
10	Interest expense on lease liabilities	13
	Other changes	-39
347	**Total lease liabilities at 31 December**	**505**
41	Current lease liabilities (note 37)	65
306	Non-current lease liabilities (note 37)	440
-43	Total cash outflows for leases	-76

Parent	Summary of other lease expenses recognised in profit or loss	Total
9	Variable lease payments expensed in the period	34
4	Operating expenses in the period related to short-term leases (including short-term low value assets)	11
0	Operating expenses in the period related to low value assets (excluding short-term leases included above)	1
13	**Total lease expenses included in other operating expenses**	**46**

Note 34 - Other assets

Parent Bank			Group	
31 Dec 2018	**31 Dec 2019**	**(NOK million)**	**31 Dec 2019**	**31 Dec 2018**
-	-	Deferred tax asset	158	175
97	85	Fixed assets	222	234
-	342	Right to use assets	499	-
67	107	Earned income not yet received	132	86
7	13	Accounts receivable, securities	292	277
179	148	Pensions	148	179
384	546	Other assets	640	737
733	**1,241**	**Total other assets**	**2,092**	**1,687**

Note 35 - Deposits from and liabilities to customers

Parent Bank			Group	
31 Dec 2018	31 Dec 2019	Deposits from and liabilities to customers (NOK million)	31 Dec 2019	31 Dec 2018
63,179	63,177	Deposits from and liabilities to customers without agreed maturity	62,224	62,346
18,269	23,693	Deposits from and liabilities to customers with agreed maturity	23,693	18,269
81,448	**86,870**	**Total deposits from and liabilities to customers**	**85,917**	**80,615**
0.9 %	1.2 %	Average interest rate	1.2 %	0.9 %

Fixed interest deposits account for 5.1 per cent (4.4 per cent in 2018) of total deposits.

31 Dec 2018	31 Dec 2019	Deposits specified by sector and industry	31 Dec 2019	31 Dec 2018
33,055	35,664	Wage earners	35,664	33,055
12,202	13,162	Public administration	13,162	12,202
3,066	3,064	Agriculture, forestry, fisheries and hunting	3,064	3,066
742	645	Sea farming industries	645	742
1,696	1,582	Manufacturing	1,582	1,696
3,541	3,363	Construction, power and water supply	3,363	3,541
4,663	4,197	Retail trade, hotels and restaurants	4,197	4,663
996	1,059	Maritime sector	1,059	996
4,949	5,027	Property management	4,718	4,644
6,883	7,643	Business services	7,643	6,883
6,572	8,186	Transport and other services provision	7,819	6,210
3,083	3,278	Other sectors	3,001	2,917
81,448	**86,870**	**Total deposits from customers broken down by sector and industry**	**85,917**	**80,615**

31 Dec 2018	31 Dec 2019	Deposits specified by geographic area	31 Dec 2019	31 Dec 2018
52,718	55,495	Trøndelag	54,712	51,952
14,908	15,705	Møre og Romsdal	15,705	14,908
2,577	2,326	Sogn og Fjordane	2,326	2,577
655	698	Nordland	698	655
5,331	6,653	Oslo	6,482	5,264
4,425	4,696	Other counties	4,696	4,425
835	1,298	Abroad	1,298	835
81,448	**86,870**	**Total deposits broken down by geographic area**	**85,917**	**80,615**

Note 36 - Debt securities in issue

Parent Bank			Group	
31 Dec 2018	31 Dec 2019	(NOK million)	31 Dec 2019	31 Dec 2018
392	-	Money market instrument and other short-term borrowings	-	392
43,877	43,014	Bond debt	43,014	43,877
44,269	**43,014**	**Total debt securities in issue**	**43,014**	**44,269**
2.9 %	3.1 %	Average interest, money market certificates	3.1 %	2.9 %
1.4 %	1.3 %	Average interest, bond debt	1.3 %	1.4 %

31 Dec 2018	31 Dec 2019	Securities debt specified by maturity [1)]	31 Dec 2019	31 Dec 2018
5,284	-	2019	-	5,284
9,463	7,833	2020	7,833	9,463
8,448	8,713	2021	8,713	8,448
5,854	5,805	2022	5,805	5,854
8,921	8,918	2023	8,918	8,921
4,000	4,500	2024	4,500	4,000
-	4,935	2026	4,935	-
500	499	2029	499	500
299	296	2031	296	299
249	247	2032	247	249
299	296	2033	296	299
-	148	2034	148	-
259	257	2035	257	259
279	276	2044	276	279
18	19	Currency agio	19	18
140	54	Premium and discount, market value of structured bonds	54	140
256	218	Accrued interest	218	256
44,269	**43,014**	**Total securities debt**	**43,014**	**44,269**

[1)] Less own bonds. At year-end 2019 there is no own holding (NOK 65 million)

31 Dec 2018	31 Dec 2019	Securities debt distributed on significant currencies	31 Dec 2019	31 Dec 2018
15,548	13,315	NOK	13,315	15,548
26,512	27,270	EUR	27,270	26,512
2,209	2,429	Other	2,429	2,209
44,269	**43,014**	**Total securities debt**	**43,014**	**44,269**

Parent Bank and Group

Change in securities debt	31 Dec 2019	Issued	Fallen due/ redeemed	Other changes	31 Dec 2018
Money market instrument	-	-	385	-7	391
Bond debt	42,722	6,230	6,036	-934	43,463
Adjustments	73	-	-	-85	158
Accrued interest	218	-	-	-38	256
Total	**43,013**	**6,230**	**6,421**	**-1,064**	**44,269**

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	**44,269**	**12,781**	**9,815**	**-891**	**42,194**

Note 37 - Other debt and liabilities

Parent Bank			Group	
31 Dec 18	**31 Dec 19**	**Other debt and recognised liabilities (NOK million)**	**31 Dec 19**	**31 Dec 18**
84	48	Deferred tax	115	147
389	475	Payable tax	546	448
10	10	Capital tax	10	10
30	76	Accruals	455	413
115	127	Provisions	127	115
148	100	Tapsavsetninger garantier	100	148
21	16	Pension liabilities	16	21
-	347	Lease liabilities	505	-
97	68	Drawing debt	68	97
11	6	Creditors	57	66
699	9	Debt from securities	197	809
-	-	Equity instruments	244	31
288	287	Other	401	366
1,892	**1,570**	**Total other debt and recognised liabilities**	**2,841**	**2,670**
		Other liabilities, not recognised		
2,478	2,904	Credit limits, trading	3,059	2,556
-	-	Other commitments	38	73
2,478	**2,904**	**Total other commitments**	**3,097**	**2,629**
4,370	**4,474**	**Total commitments**	**5,937**	**5,299**

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 Euro, US dollar, British pound, Japanese yen, Norwegian kroner, 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 as clearing broker. The bank has also entered an agreement with 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.

Parent Bank				Group		
Cash deposit	**Securities**	**Total**	**Securities pledged**	**Total**	**Securities**	**Cash deposit**
1,283	245	1,528	Securities pledged 31 Dec 19	1,543	245	1,298
1,827	245	2,072	Relevant liabilities 31 Dec 19	2,088	245	1,843
561	-	561	Securities pledged 31 Dec 18	589	-	589
955	-	955	Relevant liabilities 31 Dec 18	982	-	982

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 2019.

Provisions

The group has made provisions for pension liabilities, see note 23, specified losses on guarantees, see note 11, 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 2019	21	21	94
Additional provisions in the period	-	-	80
Amounts used in the period	-3	-15	-53
Amounts unused reversed in the period	-	-	-
The increase during the period in the discounted amount that occurs over time, and the effect of any changes in the discount rate	-3	-	-
Provisions at 31 Dec 2019	**16**	**6**	**121**

Parent Bank/Group (NOK million)	Pension liabilities	Restructuring provision	Gifts
Provisions at 1 Jan 2018	24	39	69
Additional provisions in the period	-	-	70
Amounts used in the period	-3	-18	-45
Amounts unused reversed in the period	-	-	-
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 2018	**21**	**21**	**94**

Note 38 - Subordinated debt and hybrid capital issue

Parent bank			Group	
31 Dec 2018	31 Dec 2019	(NOK million)	31 Dec 2019	31 Dec 2018
		Dated subordinated debt		
-	-	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	250	2028 floating rate NOK (Call 2023)	250	250
500	500	2028 floating rate NOK (Call 2023)	500	500
3	4	Accrued interest	5	4
1,753	**1,754**	**Total dated subordniated debt**	**1,797**	**1,796**
		Hybrid equity		
350	211	10/99, fixed rate 8.25 % NOK (Call 2020)[1)]	211	350
100	76	10/99, floating rate NOK (Call 2020)	76	100
13	1	Discount perpetual hybrid equity	1	13
8	5	Accrued interest	5	8
471	**293**	**Total hybrid equity**	**293**	**471**
2,224	**2,047**	**Total subordinated loan capital and hybrid equity**	**2,090**	**2,268**
3.5 %	3.6 %	Average rate NOK	3.6 %	3.5 %
		Additional Tier 1 Capital		
-	-	5/99 SpareBank 1 Finans Midt-Norge floating rate NOK (Call 2022)	43	43
300	300	5/99 floating rate NOK (Call 2023)	300	300
200	200	7/99 fixed rate 5.0 % NOK (Call 2025)*[)]	200	200
300	300	5/99 floating rate NOK (Call 2023)	300	300
200	200	5/99 floating rate NOK (Call 2023)	200	200
-	250	5/99 floating rate NOK (Call 2024)	250	-
1,000	**1,250**	**Total additional Tier 1 Capital**	**1,293**	**1,043**
3.8 %	4.5 %	Average rate NOK	4.5 %	3.8 %

[1)]Fixed rate funding changed to floating rate by means of interest rate swaps

Group

Changes in subordinated debt and hybrid equity issue	31 Dec 2019	Issued	Fallen due/ redeemed	Other changes	31 Dec 2018
Ordinary subordinated debt, NOK	1,793	-	-	-	1,793
Hybrid capital loan, NOK	287	-	164	-	450
Adjustments	1	-	-	-11	13
Accrued interest	10	-	-	-2	12
Total subordinated debt and hybrid equity issue	**2,090**	**-**	**164**	**-14**	**2,268**

Changes in additional Tier 1 Capital	31 Dec 2019	Issued	Fallen due/ redeemed	Other changes	31 Dec 2018
Additional Tier 1 Capital, NOK	1,293	250	-	-	1,043
Total subordinated debt and hybrid equity issue	**1,293**	**250**	**-**	**-**	**1,043**

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 additional Tier 1 Capital	31 Dec 2018	Issued	Fallen due/ redeemed	Other changes	31 Dec 2017
Additional Tier 1 Capital, NOK	1,043	1,000	950	-	993
Total subordinated debt and hybrid equity issue	**1,043**	**1,000**	**950**	**-**	**993**

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	88.7
SpareBank 1 Invest	990961867	Trondheim	100.0
SpareBank 1 Finans Midt-Norge	938521549	Trondheim	61.2
SpareBank 1 SMN Kvartalet	990283443	Trondheim	100.0
SpareBank 1 Bygget Steinkjer	934352718	Trondheim	100.0
St. Olavs Plass	999263380	Trondheim	100.0
SpareBank 1 Bilplan	979945108	Trondheim	100.0
SpareBank 1 Markets	992999101	Oslo	66.7
SpareBank 1 SMN Spire Finans	916585837	Trondheim	100.0
Shares owned by subsidiaries and sub-subsidiaries			
GMA Invest	994469096	Trondheim	100.0
Sentrumsgården	975856828	Leksvik	24.0
Aqua Venture	891165102	Trondheim	37.6
Omega-3 Invest	996814262	Namsos	33.6
Tjeldbergodden Utvikling	979615361	Aure	35.3
Grilstad Marina	991340475	Trondheim	35.0
GMN 6	994254707	Trondheim	30.0
GMN 51	996534316	Trondheim	30.0
GMN 52	996534413	Trondheim	30.0
GMN 53	996534502	Trondheim	30.0
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
Viken Regnskap	976108418	Stjørdal	100.0
Reinheim Regnskap	974376113	Lesja	100.0
Investment in joint ventures			
SpareBank 1 Gruppen	975966372	Tromsø	19.5
SpareBank 1 Utvikling	986401598	Oslo	18.0
Investment in associates			
SpareBank 1 Boligkreditt	988738387	Stavanger	20.9
BN Bank	914864445	Trondheim	35.0
SpareBank 1 Næringskreditt	894111232	Stavanger	31.0
Bjerkeløkkja	998534976	Oppdal	40.7
SpareBank 1 Kredittkort	975966453	Trondheim	17.3
SMB Lab	917143501	Trondheim	20.0
Proaware	995756080	Tromsø	20.0
SpareBank 1 Betaling	919116749	Oslo	21.5
Investment in companies held for sale			
Mavi XV	890899552	Trondheim	100.0
Mavi XXV	999239242	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.

2019 (NOK million)	Company's share capital (NOK 000's)	No. Of shares	Nominal value (NOK 000's)	Assets	Liabilities	Equity	NCI of equity[1)]	Total income	Total expenses	Profit or loss	NCI of profit or loss [1)]	Book value 31.12
SpareBank 1 Finans Midt-Norge AS	922,590	92,259	10.0	8,861	7,567	1,295	458	527	413	114	43	666
Total investments in credit institutions												**666**
EiendomsMegler 1 Midt-Norge	66,611	5,505	12.1	309	140	169	22	390	389	1	0	155
SpareBank 1 SMN Kvartalet	30,200	30,200	1.0	318	221	97	0	34	26	7	-	126
SpareBank 1 Regnskapshuset SMN	19,278	238	81.0	527	161	367	42	505	420	85	10	231
SpareBank 1 Invest	457,280	457,280	1.0	603	39	564	-	52	6	47	-	540
SpareBank 1 Bygget Steinkjer	6,100	100	61.0	50	14	36	-	4	3	1	-	40
SpareBank 1 Card Solution	10,000	100,000	0.1	80	26	54	-	7	5	3	-	50
St. Olavs Plass	5,769	41,206	0.1	5	1	4	-	4	2	1	-	4
SpareBank 1 Bilplan	529,221	3,168,991	0.2	3,669	2,950	718	239	626	583	43	14	456
SpareBank 1 Markets	4,503	75,044,932	0.0	106	56	51	-	21	40	- 20	-	41
Total investments in other subsidiaries												**1,643**
Total investments in Group companies, Parent Bank												**2,309**

1)Non-controlling interests

2018 (NOK million)	Company's share capital (NOK 000's)	No. Of shares	Nominal value (NOK 000's)	Assets	Liabilities	Equity	NCI of equity[1)]	Total income	Total expenses	Profit or loss	NCI of profit or loss [1)]	Book value 31.12
SpareBank 1 Finans Midt-Norge AS	772,590	77,259	10.0	7,723	6,580	1,143	364	337	226	111	39	602
Total investments in credit institutions												**602**
EiendomsMegler 1 Midt-Norge	66,611	5,505	12.0	276	91	186	24	496	517	-20	-3	143
SpareBank 1 SMN Kvartalet	98,753	30,200	0.0	310	10	300	-	30	24	5	-	332
SpareBank 1 Regnskapshuset SMN	18,564	238	78,0	394	112	282	13	444	390	54	2	201
SpareBank 1 Invest	457,280	457,280	1.0	793	45	748	-	13	6	7	-	739
SpareBank 1 Bygget Steinkjer	6,100	100	61.0	49	1	49	-	4	3	1	-	53
SpareBank 1 Card Solution	200	2,000	0.1	5	0	5	-	2	2	0	-	5
St. Olavs Plass	10,000	100,000	0.1	78	1	77	-	7	6	1	-	75
SpareBank 1 Bilplan	5,759	41,206	0.1	5	3	3	-	8	10	-2	-	4
SpareBank 1 Markets	529,221	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**

1) Non-controlling interests

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	
2018	2019	(NOK million)	2019	2018
3,940	4,309	As at 1 January	6,098	5,638
369	221	Acquisition/sale	210	168
	-4	Write-down	-	-
-	-	Equity capital changes	-15	-74
-	-	Profit share	879	437
-	-	Dividend paid	-704	-410
4,309	**4,526**	**Book value as at 31 December**	**6,468**	**6,098**

Specification of year's change, Group	Additions/disposal	Equtiy change
SpareBank 1 Gruppen	-	2
SpareBank 1 Boligkreditt	153	-12
SpareBank 1 Næringskreditt	-40	-1
SpareBank 1 Kredittkort	-1	2
Sparebank 1 Betaling	22	-0
BN Bank	83	-4
Other companies	-7	-3
Sum	**210**	**-15**

Dividends from investments in associates and joint ventures

(NOK million)	2019	2018
SpareBank 1 Gruppen	663	287
SpareBank 1 Boligkreditt	-	14
BN Bank	-	-
SpareBank 1 Næringskreditt	15	17
SpareBank 1 Kredittkort	25	38
Total income from associates and joint ventures	**704**	**355**

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.

2019 (NOK million)	Assets	Liabilities	Total income	Total costs	Profit share	Book value 31.12	No. of shares
SpareBank 1 Gruppen	93,560	82,689	25,820	24,317	712[1)]	1,609	381,498
SpareBank 1 Boligkreditt	245,621	233,340	260	92	26	2,319	15,898,802
SpareBank 1 Næringskreditt	11,411	9,316	92	30	21	650	5,034,161
SpareBank 1 Kredittkort	5,817	4,794	548	473	13	177	498,720
Sparebank 1 Betaling	773	4	0	58	3	166	3,980,651
BN Bank	31,917	27,620	768	441	107	1,425	4,943,072
Other companies	-	-	-	-	-2	123	-
Total					**879**	**6,468**	

[1)] incl earnings sale ownership interest to DNB in Fremtind Forsikring NOK 460 million

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**	

Companies held for sale

SpareBank 1 SMN owns 100 per cent of Mavi XV AS due to defaulted loans. 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. In the Group accounts one-line consolidation is undertaken.

2019 (NOK million)	Assets	Liabilities	Total income	Total costs	Company's result of the year	No. of shares
Mavi XV AS konsern	40	0	5	-5	0	100%

2018 (NOK million)	Assets	Liabilities	Total income	Total costs	Company's result of the year	No. of shares
Mavi XV AS konsern	43	1	5	-1	5	100%
SpareBank 1 Kvartalet AS	-	-	144	-	144	100%
	43	**1**	**148**	**-1**	**149**	

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 2019 acquired Reinheim Regnskap AS, Viken Regnskap and the assets of Taraldsen Regnskap. Taraldsen are fully integrated into SpareBank 1 Regnskapshuset SMN AS from 1 May 2019, while Reinheim and Viken will be integrated into SpareBank 1 Regnskapshuset SMN AS from 2020 .

Spjelkavik Regnskap AS, Flatanger Regnskapskontor AS and Grongstad Regnskap AS have been integrated with SpareBank1 Regnskapshuset SMN in 2019.

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.

Acquisition of SpareBank 1 SMN Spire Finans (formerly DeBank)

At 5 February 2019 SpareBank 1 SMN acquired 100 per cent of the shares in SpareBank 1 SMN Spire Finans AS for MNOK 40. The acqusition led to a negative goodwill of MNOK 31 included as a gain in net return of financial investments. The reason for the gain from this transaction is that fair value of net assets is higher than the acqusition cost. The allocation of fair value is distributed as follows:

	Fair value recognised at acqusition date
Assets	
Loans	207
Other assets	14
Total assets	**221**
Liabilites	
Deposits	142
Accruals	5
Other liabilities	4
Total liabilites	**151**
Net identifiable assets and liabilities	**70**
Goodwill	-31
Acquisition cost	**40**

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 8 on loans and advances to customers and note 20 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)	**2019**	**2018**	**2019**	**2018**
Outstanding loans as at 1 January	6,833	5,909	4,583	4,609
Loans issued in the period	1,617	1,200	1	31
Repayments	600	276	3	45
Outstanding loans as at 31 December	**7,850**	**6,833**	**4,581**	**4,595**
Interest rate income	140	130	139	125
Bonds and subordinated loans as at 31 December	159	158	623	858
Deposits (NOK million)				
Deposits as at 1 January	1,292	938	1,388	2,061
Contribution received during the period	45,304	42,985	55,805	52,419
Withdrawals	45,047	42,684	56,242	52,936
Deposits as at 31 December	**1,549**	**1,238**	**951**	**1,544**
Interest rate expenses	27	19	13	13
Securities trading	348	28	108	204
Commission income SpareBank 1 Boligkreditt	-	-	348	340
Commission income SpareBank 1 Næringskreditt	-	-	16	16
Issued guarantees and amount guaranteed	111	110	20	23

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 2019 there was 10 267 ECC holders (9 371 as at 31 December 2018).

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	No. of ECCs	Holding
State Street Bank and Trust CO (nominee)	5,596,264	4.31 %
VPF Nordea Norge	4,911,723	3.78 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,442,919	2.65 %
Danske Invest Norske Aksjer Institusjon II	3,314,149	2.55 %
VPF Pareto Aksje Norge	2,368,292	1.82 %
VPF Alfred Berg Gambak	2,254,451	1.74 %
Morgan Stanley & Co. International	2,084,858	1.61 %
State Street Bank and Trust Comp (nominee)	2,044,622	1.57 %
JPMorgan Chase Bank, N.A., London (nominee)	2,023,423	1.56 %
Pareto Invest AS	1,815,271	1.40 %
Forsvarets Personellservice	1,779,246	1.37 %
VPF Nordea Kapital	1,503,225	1.16 %
Danske Invest Norske Aksjer Institusjon I	1,372,975	1.06 %
J.P. Morgan Bank Luxembourg (nominee)	1,370,104	1.06 %
MP Pensjon PK	1,352,771	1.04 %
VPF Eika Egenkapitalbevis	1,349,141	1.04 %
Handelsbanken Nordiska Småbolagsfond	1,316,359	1.01 %
Citibank N.A (nominee)	1,293,691	1.00 %
VPF Nordea Avkastning	1,249,111	0.96 %
The 20 largest ECC holders in total	**46,407,986**	**35.74 %**
Others	83,428,457	64.26 %
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.

	Jan-Dec	
(NOK million)	**2019**	**2018**
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve 1)	2,458	2,018
Allocated to ECC Owners 2)	1,572	1,291
Issues Equity Captial Certificates adjusted for own certificates	129,496,367	129,411,807
Earnings per Equity Captial Certificate	**12.14**	**9.97**

	Jan-Dec	
1) Adjusted Net Profit	**2019**	**2018**
Net Profit for the group	2,563	2,090
adjusted for non-controlling interests share of net profit	-56	-34
Adjusted for Tier 1 capital holders share of net profit	-49	-37
Adjusted Net Profit	**2,458**	**2,018**

2) Equity capital certificate ratio (parent bank)		
(NOK million)	**31 Dec 2019**	**31 Dec 2018**
ECC capital	2,597	2,597
Dividend equalisation reserve	6,144	5,602
Premium reserve	895	895
Unrealised gains reserve	121	99
Other equity capital	-	-
A. The equity capital certificate owners' capital	**9,758**	**9,193**
Ownerless capital	5,432	5,126
Unrealised gains reserve	68	56
Other equity capital	-	-
B. The saving bank reserve	**5,500**	**5,182**
To be disbursed from gift fund	474	373
Dividend declared	840	661
Equity ex. profit	**16,572**	**15,409**
Equity capital certificate ratio A/(A+B)	**64.0 %**	**64.0 %**
Equity capital certificate ratio for distribution	**64.0 %**	**64.0 %**

Note 44 - Dividends from subsidiaries

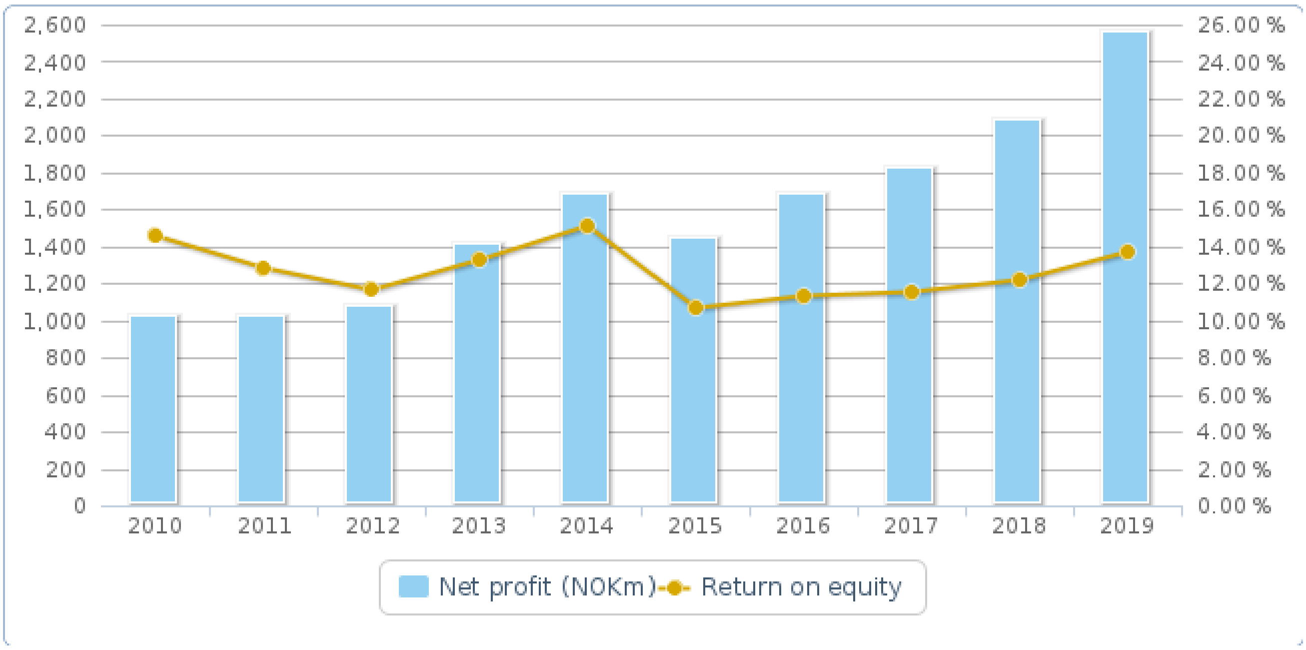
Dividends (NOK million)	2019	2018
SpareBank 1 Finans Midt-Norge AS	68	62
EiendomsMegler 1 Midt-Norge AS	12	23
SpareBank 1 Regnskapshuset SMN AS	44	-
SpareBank 1 SMN Invest AS	31	63
SpareBank 1 SMN Card Solutions AS	-	1
SpareBank 1 SMN Kvartalet AS	5	-
St. Olavs Plass 1 SMN AS	1	-
Sparebank 1 Bygget Steinkjer AS	1	1
Total dividends	**162**	**151**

Financial summary (Group)

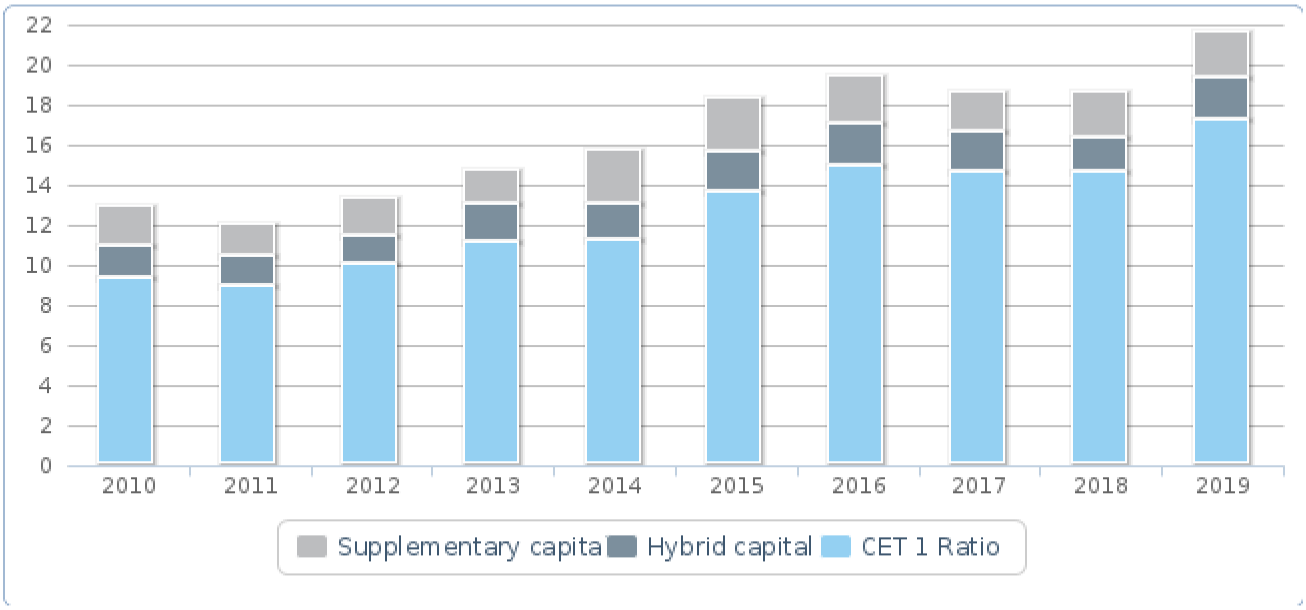
Income statement NOKm	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Interest income	4,626	4,057	3,825	3,597	4,031	4,265	4,118	3,928	3,891	3,422
Interest expenses	1,939	1,655	1,600	1,668	2,111	2,424	2,483	2,451	2,499	2,105
Net interest and credit comissionincome	**2,687**	**2,403**	**2,225**	**1,929**	**1,920**	**1,841**	**1,635**	**1,477**	**1,392**	**1,317**
Commision and fee income	2,290	2,177	2,005	1,674	1,545	1,512	1,463	1,139	919	855
Income from investment in relatedcompanies	879	423	437	423	448	527	355	244	248	276
Return on financial investements	322	334	322	521	11	193	147	207	186	133
Total income	**6,178**	**5,337**	**4,989**	**4,547**	**3,924**	**4,073**	**3,599**	**3,067**	**2,746**	**2,582**
Salaries, fees and otherpersonnel costs	1,699	1,584	1,426	1,159	1,093	1,002	914	924	810	583
Other operating expenses	1,098	1,040	943	844	838	787	807	730	672	557
Total costs	**2,797**	**2,624**	**2,369**	**2,003**	**1,931**	**1,789**	**1,722**	**1,654**	**1,482**	**1,140**
Operating profit before losses	**3,380**	**2,713**	**2,621**	**2,544**	**1,993**	**2,284**	**1,877**	**1,413**	**1,264**	**1,441**
Losses on loans and guarantees	299	263	341	516	169	89	101	58	27	132
Operating profit	**3,081**	**2,450**	**2,279**	**2,029**	**1,824**	**2,195**	**1,776**	**1,355**	**1,236**	**1,309**
Taxes	518	509	450	352	383	376	393	295	255	260
Held for sale	0	149	-1	4	-1	0	30	16	43	-27
Profit of the year	**2,563**	**2,090**	**1,828**	**1,681**	**1,441**	**1,819**	**1,413**	**1,077**	**1,024**	**1,022**
Dividend	**840**	**661**	**571**	**389**	**292**	**292**	**227**	**195**	**190**	**285**
Balance sheet NOKm										
Cash and loans to and claims on credit institutions	2,871	5,957	7,527	4,207	5,677	5,965	5,984	4,091	4,075	2,532
CDs, bonds and other interest-bearing securities	35,508	32,438	31,672	29,489	30,282	27,891	26,358	25,614	21,485	22,948
Loans before loss provisions	126,277	120,473	112,071	102,325	93,974	90,578	80,548	74,943	73,105	69,847
- Loan loss impairments/ Specified Loan loss provisions	998	744	765	632	183	172	173	144	172	222
- Unspecified loan loss provisions	0	0	347	339	376	295	295	295	290	290
Other assets	3,004	2,581	3,096	3,030	2,540	2,080	2,938	3,766	3,251	3,182
Total assets	**166,662**	**160,704**	**153,254**	**138,080**	**131,914**	**126,047**	**115,360**	**107,975**	**101,455**	**97,997**
Debt to credit institutions	8,853	9,214	9,607	10,509	8,155	9,123	6,581	7,410	9,118	13,062
Deposits from and debt to customers	85,917	80,615	76,476	67,168	64,090	60,680	55,927	52,252	47,871	42,786
Debt created by issuance of securities	46,541	47,251	45,537	40,390	40,569	39,254	36,806	33,121	31,306	29,625
Other debt and accrued expences etc.	2,841	2,671	1,924	1,532	1,734	1,095	1,485	2,070	2,122	1,922
Subordinated debt	2,090	2,268	2,201	2,228	2,509	2,417	2,365	3,040	2,690	2,756
Total equity	20,420	18,686	17,510	16,253	14,258	13,478	12,197	10,082	8,348	7,846
Total liabilities and equity	**166,662**	**160,704**	**153,254**	**138,080**	**131,914**	**126,047**	**115,360**	**107,975**	**101,455**	**97,997**
Key figures										
Total assets	166,662	160,704	153,254	138,080	131,914	126,047	115,360	107,919	101,455	97,997
Average total assets	165,154	156,992	145,948	137,060	128,355	117,794	111,843	105,500	98,465	91,317
Gross loans to customers	126,277	120,473	112,071	102,325	93,974	90,578	80,548	74,943	73,105	69,847
Gross loans to customers incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	167,777	160,317	148,748	137,535	127,378	120,435	112,283	104,925	95,232	87,665
Gross loans in retail market	115,036	108,131	98,697	89,402	80,725	74,087	68,591	62,587	55,034	49,619
Gross loans in corporate market	52,740	52,186	50,087	48,133	46,653	46,348	43,692	42,322	40,198	38,046
Deposits from and debt to customers	85,917	80,615	76,476	67,168	64,090	60,680	55,927	52,252	47,871	42,786
Deposits from retail market	35,664	33,055	31,797	29,769	28,336	26,496	23,891	22,279	20,860	19,052
Deposits from corporate market	50,253	47,561	44,678	37,398	35,754	34,184	32,036	29,973	27,011	23,734
Ordinary lending financed by ordinary deposits	68 %	67 %	68 %	66 %	68 %	67 %	69 %	70 %	65 %	61 %
Ordinary lending incl. SpareBank 1 Boligkreditt and SpareBank 1										

Næringskreditt financed by ordinary deposits	51 %	50 %	51 %	49 %	50 %	50 %	50 %	50 %	50 %	49 %
Capital adequacy										
CET1 Capital	15,830	14,727	13,820	13,229	12,192	10,679	9,374	8,254	6,687	6,177
Core capital	17,742	16,472	15,707	15,069	13,988	12,382	10,989	9,357	7,856	7,286
Primary capital	19,854	18,743	17,629	17,185	16,378	14,937	12,417	10,943	9,055	8,646
Risk weighted volume	91,956	101,168	94,807	88,788	89,465	95,317	84,591	82,446	75,337	66,688
CET 1 Ratio	17.2 %	14.6 %	14.6 %	14.9 %	13.6 %	11.2 %	11.1 %	10.0 %	8.9 %	9.3 %
Core capital ratio	19.3 %	16.3 %	16.6 %	16.9 %	15.6 %	12.9 %	12.9 %	11.3 %	10.4 %	10.9 %
Capital ratio	21.6 %	18.5 %	18.6 %	19.4 %	18.3 %	15.6 %	14.7 %	13.3 %	12.0 %	12.9 %
Leverage ratio	7.5 %	7.4 %	7.2 %	7.4 %	6.7 %	6.0 %				
Cost/income ratio	45 %	49 %	47 %	44 %	50 %	44 %	48 %	54 %	53 %	44 %
Losses on loans	0.18 %	0.17 %	0.23 %	0.39 %	0.14 %	0.08 %	0.09 %	0.06 %	0.03 %	0.16 %
ROE	13.7 %	12.2 %	11.5 %	11.3 %	10.7 %	15.1 %	13.3 %	11.7 %	12.8 %	14.6 %
Growth in lending (gross)	4.7 %	7.8 %	8.2 %	8.0 %	5.8 %	7.3 %	7.0 %	10.2 %	8.6 %	13.2 %
Growth in deposits	6.6 %	5.4 %	13.9 %	4.8 %	5.6 %	8.5 %	7.0 %	9.2 %	11.9 %	14.9 %
Number of staff	1 588	1 588	1 482	1 328	1 298	1 273	1 238	1 216	1 153	1 117
Number of FTEs	1 509	1 493	1 403	1 254	1 208	1 192	1 159	1 135	1 109	1 035
Number of branches	46	48	48	48	49	49	50	51	54	54

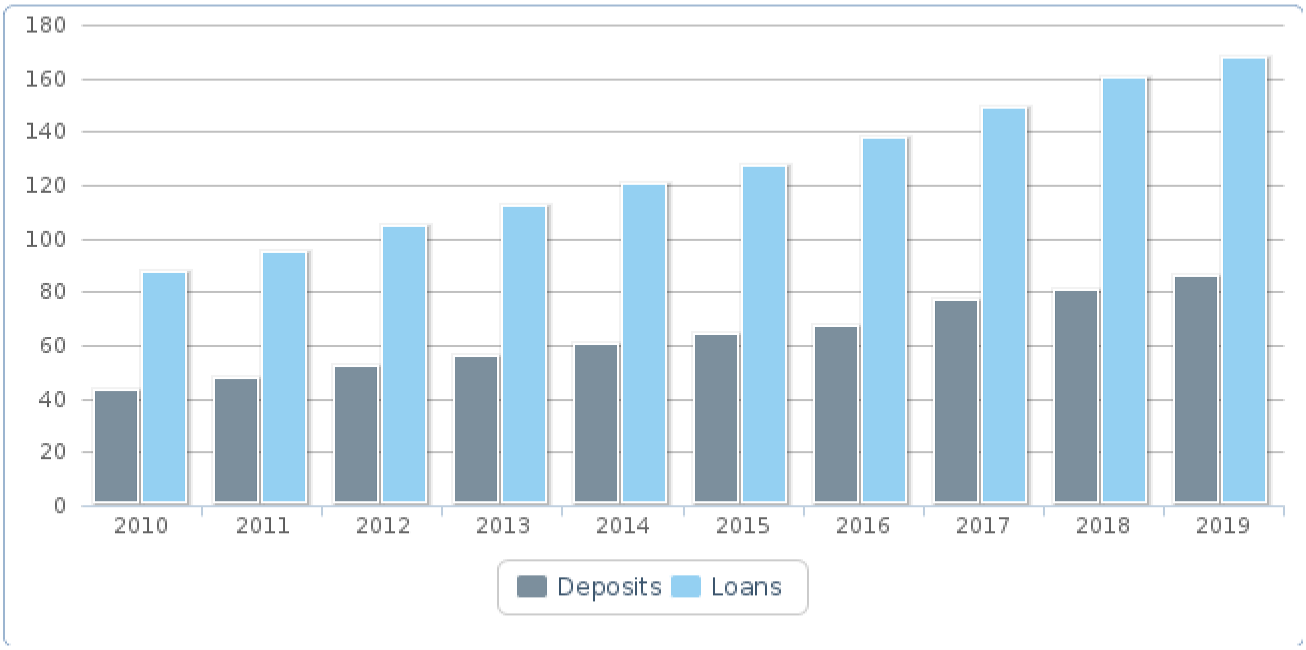
Net profit and return on equity



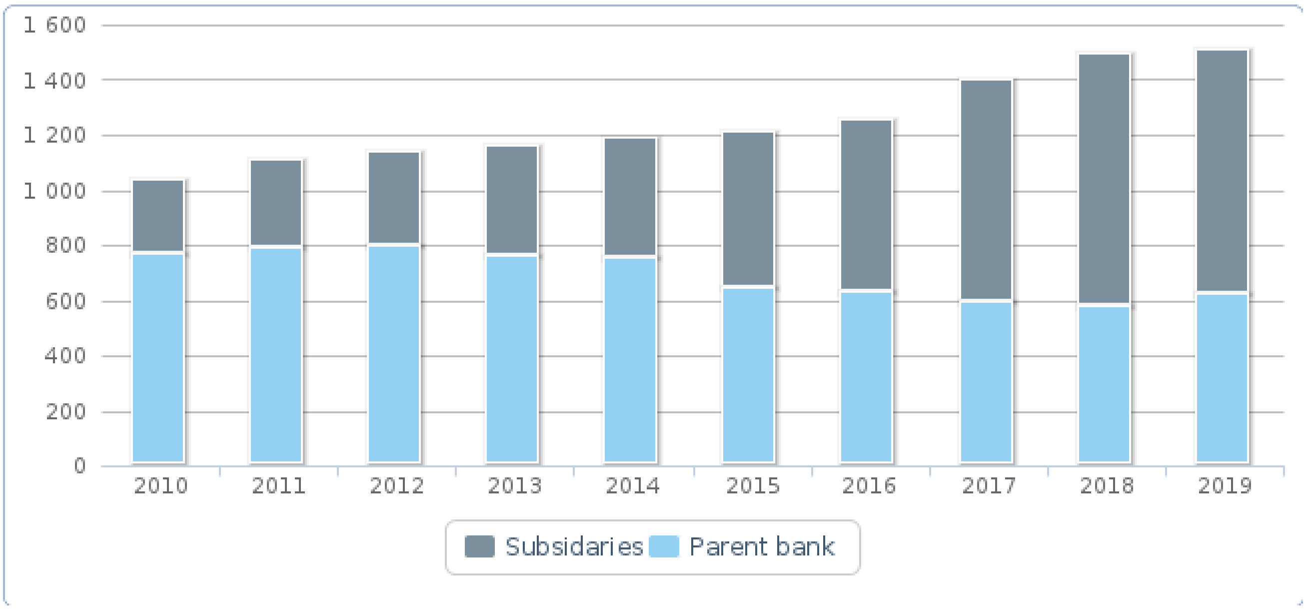
Capital ratio



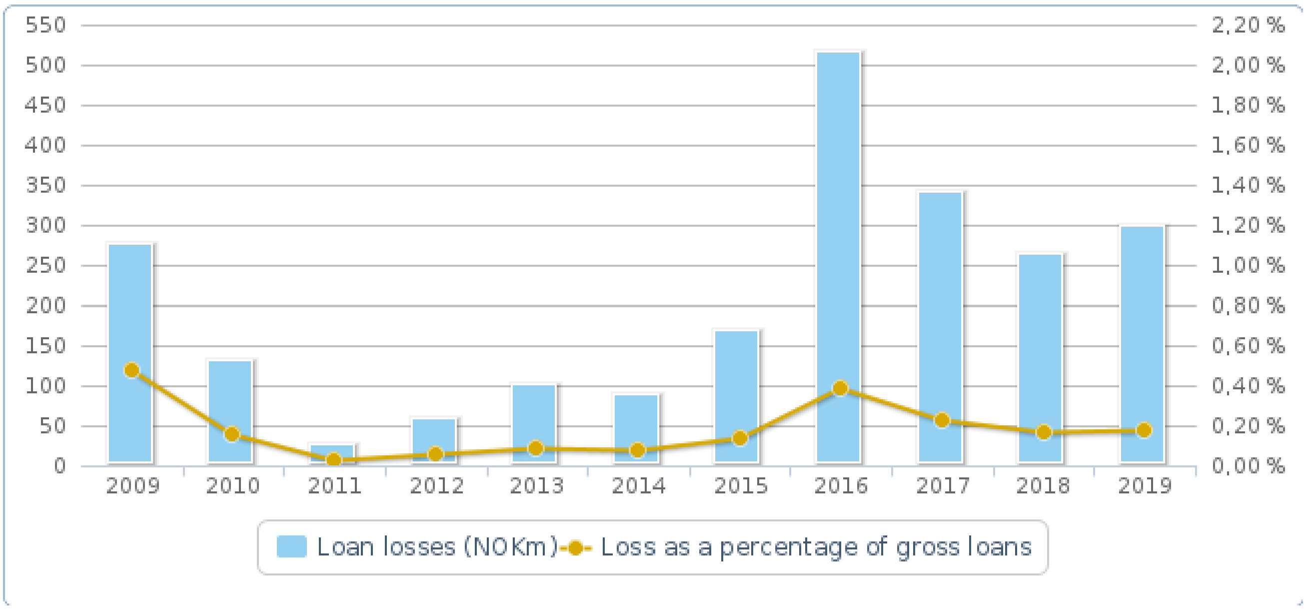
Loans and deposits (NOKbn)



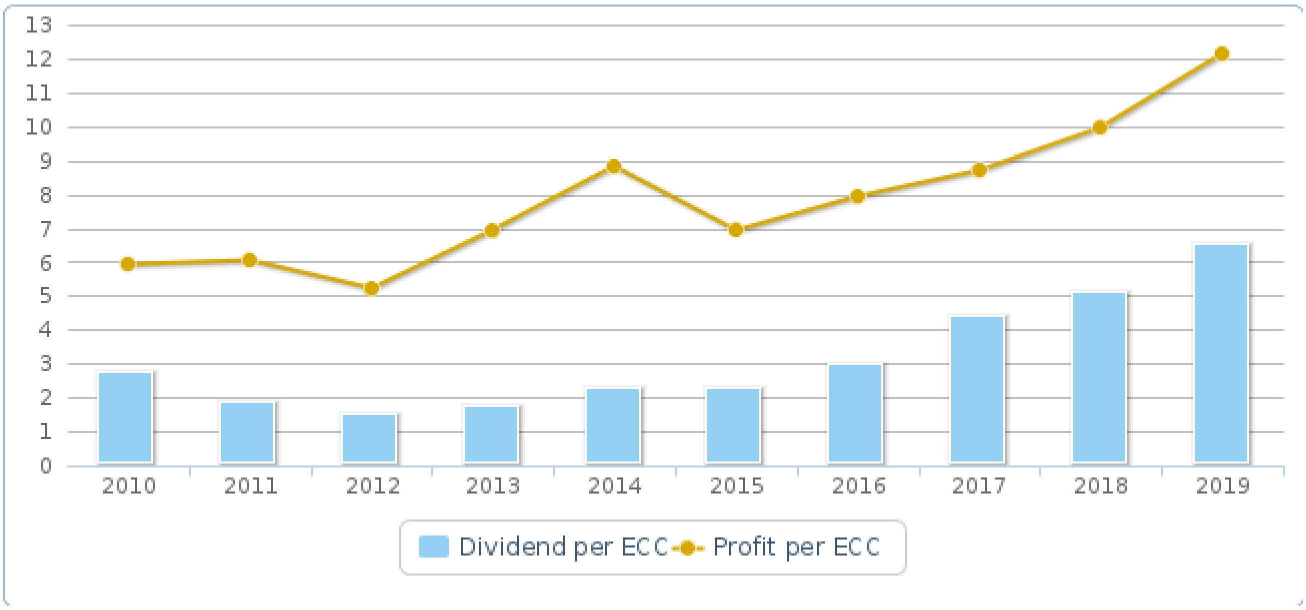
FTEs



Loan losses



Dividend and profit per ECC (NOK)



Statement in compliance with the securities trading act, section 5-5

Statement by the Board of Directors and the Group CEO

We hereby declare that to the best of our knowledge

- the financial statements for 2019 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, 5. March 2020
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal (chair)	Bård Benum (deputy chair)	Christian Stav
Mette Kamsvåg	Tonje Eskeland Foss	Morten Loktu
Janne T. Thomsen	Christina Straub (employee rep.)	Inge Lindseth (employee rep.)
		Jan-Frode Janson (Group CEO)

To the Supervisory Board of SpareBank 1 SMN

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SpareBank 1 SMN, which comprise:

- The financial statements of the parent company SpareBank 1 SMN (the Company), which comprise the balance sheet as at 31 December 2019, 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 2019, 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 2019, 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 2019, 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 financial statements of the current period. 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
The value of loans to customers	
Loans to customers represents a considerable part of the company's total assets. The assessment of loan loss provisions is a model-based framework	In our audit of expected loss allowance, we evaluated and tested the design and effectiveness of controls for quality assurance relating to the applied assumptions and models used in the calculations. Furthermore, we tested the input

which includes assessments with elements of management judgment. The framework, is complex, includes considerable volumes of data and judgmental parameters.

We focused on this area due to the significance of the impairment considerations for the value of loans in the financial statements, and the fact that the use of judgement has a potential to affect the profit for the period. Furthermore there is an inherent risk of errors because of the complexity and quantity of data involved in the modelling.

The use of models to determine expected credit losses entails judgement, specifically with respect to:

- classification of the various credit portfolios by risk and asset type;
- identification of impaired loans or loans presenting a significant increase in credit risk;
- the categorisation of loans into stages; and
- the parameters such as the probability of default and loss given default and loss scenarios.

In the case of loans where there is objective evidence of impairment, an individual allowance for credit loss is recognized. For the offshore portfolio, separate assessments are made with regard to probability of default under various scenarios and associated realisation values. The assessments requires management to use judgement.

Please refer to note 2, 3, 6 and 10 in the annual report for a description of the company's impairment model and how the company estimates their expected credit losses using IFRS 9.

used in the model-based calculation of allowances as well as the individually calculated allowances.

For loans considered on a collective basis the calculation is based on a framework model. We tested the model and considered the relevance and the reasonableness of important assumptions used in the calculation.

We obtained a detailed understanding of the process and tested relevant controls directed at ensuring:

- Calculations and the applied method;
- That the applied model is designed according to the framework, and working as planned;
- The reliability and accuracy of the data used in the model.

Our controls testing gave no indication of material misstatements in the model, or deviations from IFRS 9.

Our work included tests of the company's financial reporting systems relevant to financial reporting. The company uses external service providers to operate some of the important IT systems. The auditor at the relevant service organization are used to evaluate the design and efficiency of the established control systems, and tests the controls designed to ensure the integrity of the IT system that are relevant to financial reporting. The auditor have issued a report that included testing of whether central calculations performed by core systems was performed according to expectations, hereunder interest calculations and mortifications. The testing included the integrity of data, changes of and access to the systems.

To assess whether we could rely on the work performed by other auditors, we satisfied ourselves regarding the auditors' competence, capacity and objectivity and examined the reports received and assessed potential weaknesses and remediation initiatives. We also performed our own testing of access controls related to the company's IT systems and segregation of duties where this was considered necessary to our audit. Our assessments and testing showed that we could rely on the data handled and calculations performed within the IT systems that are relevant to financial reporting.For loans with objective evidence of impairment and where the impairment amounts were individually calculated, we tested a sample by assessing the estimated future cash flows used by management to substantiate the impairment calculation. It is explained in the annual report that troublesome loans have increased from 1.0% to 1,26% of total loans. We challenged management's assumptions by interviewing key credit personnel and management both to assess the information received from customers and to assess how the reliability of the information were evaluated. We compared the assumptions made by management to external documentation when available.

We obtained a detailed understanding of the scenario modelling for the offshore portfolio and the calculation methodology used. It is explained in the annual report that the increased share of other doubtful loans mainly is due to a few loans within the offshore portfolio. We assessed the assumptions for loss provisions under the different scenarios and challenged management and credit personnel about these. We made our own sensitivity analyses. Further, we tested important factors in the model, such as rates and utilization, towards external sources.

In addition, we tested the appropriateness of the classification within the model and evaluated the reasonableness of the total allowance for credit losses. The result of the testing showed that management's assumptions in the calculation of impairment amounts were reasonable.

We have read the notes and found that the information provided was sufficient and appropriate.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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 the Board of Directors 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 the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 5 March 2020

PricewaterhouseCoopers AS

Rune Kenneth S. Lædre
State Authorised Public Accountant

(This document is signed electronically)

Note: This translation from Norwegian has been prepared for information purposes only.