

Report of the Board of Directors

First half accounts 2019

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

Main points for the first half of 2019

- The post-tax profit was NOK 1,729m – NOK 520m better than in the first half of 2018. The improvement is largely due to a gain of NOK 460m on the establishment of Fremtind Forsikring and an increase of NOK 116m in the value of properties of SpareBank 1 Forsikring. In the first half of 2018 one-time gains of NOK 240m were recorded (Vipps merger and sale of the head office building)
- The core business delivered a good performance. Without one-time gains the profit would have been NOK 1,153m (969m) and return on equity would have been 12.4 per cent (11.5 per cent)
- CET1 ratio as at 30 June 2019: 15.0 per cent (15.0 per cent)
- Return on equity was 19.0 per cent (14.4 per cent)

Net profit of NOK 1,729m in first half of 2019

- Pre-tax profit: NOK 2,003m (1,345m)
- Post-tax profit: NOK 1,729m (1,209m)
- Return on equity: 19.0 per cent (14.4 per cent)
- CET1 ratio: 15.0 per cent (15.0 per cent)
- Growth in lending: 5.7 per cent (7.6 per cent), and in deposits: 7.7 per cent (6.3 per cent) in the last 12 months
- Growth in lending to retail borrowers: 6.7 per cent (10.6 per cent) in the last 12 months. Lending to retail borrowers accounts for 68 per cent (67 per cent) of total lending
- Growth in lending to corporate borrowers: 3.6 per cent (2.0 per cent) in the last 12 months
- Losses on loans and guarantees: NOK 126m (127m) – 0.16 per cent (0.17 per cent) of gross lending
- Earnings per EC: NOK 8.23 (5.75). Book value per EC: NOK 87.04 (80.21)

Main points second quarter 2019

- Pre-tax profit: NOK 683m (743m)
- Return on equity: 14.9 per cent (17.9 per cent)
- Without one-time gains the profit would have been NOK 567m (503m), and return on equity would have been 12.4 per cent (12.1 per cent)
- Net profit on financial assets and owner interests: NOK 336m (300m)
- Losses on loans: NOK 59m (78m) – 0.14 per cent (0.20 per cent of gross lending)
- Earnings per EC: NOK 3.21 (3.54)

Post-tax profit NOK 520m better than in the first half of 2018

In the first half of 2019 SpareBank 1 SMN achieved a pre-tax profit of NOK 2,003m (1,345m). The net profit is NOK 1,729m (1,209m) and return on equity 19.0 per cent (14.4 per cent).

Overall operating incomes in the first half of 2019 came to NOK 2,470m (2,297m). This represents an increase of NOK 173m compared with the previous year. NOK 117m of the income growth derives from banking operations and NOK 56m from the bank's subsidiaries.

Operating expenses totalled NOK 1,404m (1,306m) in the first half of 2019. The increase of NOK 98m breaks down to NOK 34m from banking operations and NOK 64m from increased activity at the subsidiaries.

The profit share on owner interests and related companies was NOK 786m (181m), including a gain of NOK 460m on the establishment of Fremtind. SpareBank 1 Gruppen posted a very good profit for the first half-year as a result of an increase in property values in the second quarter of 2019, and SpareBank 1 SMN's profit share was NOK 224m (117m), of which property appreciation accounted for NOK 116m.

Return on financial assets was NOK 277m (299m).

Losses on loans and guarantees totalled NOK 126m (127m), mainly in oil-related activities.

After a first quarter of weak growth in residential mortgage lending, growth picked up in the second quarter. Growth in lending in the 12 months to end-June was 5.7 per cent (7.6 per cent) on loans and 7.7 per cent (6.3 per cent) on deposits.

The CET1 ratio as at 30 June 2019 was 15.0 per cent (15.0 per cent). The targeted CET1 ratio is 15.0 per cent.

The price of the bank's equity certificate (MING) at the half-year mark end was NOK 97.70 (84.50). A cash dividend of NOK 5.10 (4.40) per EC has been paid in 2019 for the year 2018.

Earnings per EC were NOK 8.23 (5.75). The book value was NOK 87.04 (80.21) per EC.

Increased net interest incomes

Net interest incomes rose by NOK 164m to NOK 1,313m (1,149m) in the first half of 2019. The increase is attributable to increased lending to and deposits from both retail and corporate customers, at the same time as higher market interest rates have yielded improved return on the bank's equity capital and increased deposit margins.

The market interest rate in terms of three-month NIBOR has risen in the 12 months to end-June by about 50 points. Although two general interest rate increases have been carried out in the period, the margins on mortgages have weakened in 2019, while deposit margins have strengthened somewhat. After Norges Bank's (Norway's central bank) decision to raise its base rate by a further 0.25 per cent, a new mortgage lending rate increase of up to 25 points has been announced with effect from 15 August 2019.

In view of the signals of further increases in Norges Bank's base rate, the bank will adjust its pricing of loans and deposits on an ongoing basis. The competition for mortgage borrowers has tightened, bringing both lower growth and pressure on lending rates.

Growth in other incomes

Commission incomes and other operating incomes have increased by NOK 9m to NOK 1,157m (1,149m) in 2019.

Net interest income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is recorded as commission income. Commission income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt totalled NOK 178m in the first half of 2019 (193m). Incomes from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt have declined by NOK 15m as a result of reduced margins.

Other commission incomes came to NOK 980m (956m). The growth of NOK 24m is driven by increased incomes on accounting services and securities services.

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

Commission income (NOKm)	First half		Change
	2019	2018	
Payment transfers	103	99	4
Creditcard	29	31	-1
Saving products	45	52	-7
Insurance	89	87	2
Guarantee commission	25	32	-8
Real estate agency	199	203	-4
Accountancy services	278	241	38
Markets	187	178	10
Other commissions	24	34	-10
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	980	956	24
Commissions SB1 Boligkreditt	169	185	-16
Commissions SB1 Næringskreditt	8	7	1
Total commissions	1,157	1,149	9

Good return on financial investments

Overall return on financial investments was NOK 277m (299m). This breaks down as follows:

- Financial derivatives have yielded gains of NOK 63m (142m). This essentially comprises gains on fixed income instruments and is ascribable to the interest rate upturn in the first half-year. Gains are also noted in the bond portfolio which showed overall gains of NOK 47m (loss of 36m)
- Losses on hedge accounting totalled NOK 5m (loss of 6m)
- A gain and dividend on shares of the bank and subsidiaries came to NOK 120m (123m). The gain relates mainly to share in Visa (NOK28m), goodwill connected to the acquisition of DeBank (NOK 30m) and gains on shares in SMN Invest (49m)
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans and showed a gain of NOK 6m (12m)
- Income of NOK 23m (26m) from forex transactions comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies
- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 23m (37m)

Capital gains/dividends, shares (NOKm)	First half		Change
	2019	2018	
Gain/(loss) on certificates and bonds	47	-36	83
Gain/(loss) on derivatives	63	142	-79
Gain/(loss) on financial instruments related to hedging	-5	-6	1
Capital gains shares (incl dividends)	120	123	-3
Gain/(loss) on other financial instruments at fair value (FVO)	6	12	-6
Foreign exchange gain/(loss)	23	26	-3
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	23	37	-14
Net return on financial instruments	277	299	-22

Product companies and other related companies

The product companies give the bank's customers access to a broader product range and the bank receives commission income. The product companies also provide the bank with a return on invested capital. The overall profit of the product companies and other related companies was NOK 326m (183m) in the first half of 2019. In addition, SpareBank 1 SMN posted a gain of NOK 460m related to the establishment of Fremtind in the first quarter of 2019.

Income from investment in associated companies	First half		Change
	2019	2018	
SpareBank 1 Gruppen	224	117	106
Gain Fremtind Forsikring	460	-	460
SpareBank 1 Boligkreditt	22	-5	28
SpareBank 1 Næringskreditt	10	8	2
SpareBank 1 Kredittkort	8	11	-4
BN Bank	51	53	-2
SpareBank 1 Betaling	10	-6	16
Other companies	1	5	-4
Income from investment in associated companies	786	183	603

SpareBank 1 Gruppen

SpareBank 1 SMN holds a 19.5 per cent stake in SpareBank 1 Gruppen. 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 as of first January 2019. DNB owns the remainder of the company.

SpareBank 1 Gruppen's post-tax profit for the first half of 2019 was NOK 1,287m (601m). The excellent profit performance is due to appreciation of properties in the life company totalling NOK 597m. The first-half profit also reflects high merger costs related to Fremtind, an increased claims ratio and good financial earnings.

SpareBank 1 SMN's share of the profit for the first half of 2019 was NOK 224m (117m), 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 draw benefit from the market for covered bonds. The banks sell well-secured residential mortgages to the company and achieve reduced funding costs.

As at 30 June 2019 the bank had sold loans totalling NOK 40.0bn (37.2bn) to SpareBank 1 Boligkreditt, corresponding to 36.1 per cent (35.7 per cent) of the group's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 20.7 per cent, and the bank's share of that company's profit in the first half of 2019 was NOK 22m (minus 5m).

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 30 June 2019, loans worth NOK 1.7bn (1.8bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.8 per cent, and the bank's share of the profit for the first half of 2019 was NOK 10m (8m). The bank's holding reflects the bank's relative share of commercial property

loans sold and the bank's stake in BN Bank. 43 per cent of the loans residing in SpareBank 1 Næringskreditt have been transferred from BN Bank.

SpareBank 1 Kredittkort

The profit for the first half of 2019 was NOK 44m (65m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN holds a stake of 17.3 per cent. SpareBank 1 SMN's share of the profit for the first half of 2019 was NOK 8m (11m), and the bank's share of the portfolio is NOK 892m (893m).

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

BN Bank

SpareBank 1 SMN owns 35.0 per cent of BN Bank as at 30 June 2019.

BN Bank recorded a profit of NOK 152m (162m) in the first half of 2019, providing a return on equity of 7.5 per cent (8.7 per cent). SpareBank 1 SMN's share of BN Bank's profit in the first half of 2019 was NOK 51m (53m), adjusted for its share of BN Bolig's profit.

BN Bank's primary mission is to cater to the retail market in Oslo and south-eastern Norway.

BN Bank has, in collaboration with Eiendomsmegler 1 Midt Norge, established the company BN Bolig in which BN Bank holds a 50 per cent stake. The focus on estate agency in the Oslo market aims to promote stronger growth in mortgage lending for BN Bank.

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 is launching further services in 2019 designed to simplify bank customers' everyday life.

SpareBank 1 Betaling posted a first-half deficit of NOK 24m (deficit of 31m) which constitutes the company's share of Vipps' financial result. SpareBank 1 SMN's share of the deficit is NOK 5m. In the first quarter the company corrected the reported result for 2018 by NOK 72m. SpareBank 1 SMN accordingly has a positive profit share of NOK 10m from the company for the first half-year (deficit of 6m).

Operating expenses

Overall group operating expenses rose by NOK 98m in the first half of 2019 to NOK 1,404m (1,306m).

The bank's costs rose by NOK 34m in the 12 months to end-June. NOK 12m of the growth refers to costs incurred in allocating equity certificates (ECs) to the bank's employees. This aside, costs have risen by 3.5 per cent.

Continuous efficiency initiatives by the bank have enabled lower staffing, reduced cost growth and improved efficiency. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 140 to 580. Changing customer behaviour and new technology will contribute to further efficiency gains.

Overall costs among the subsidiaries came to NOK 738m (674m), having risen by NOK 64m in the 12 months to end-June. The increase is highest at SpareBank 1 Regnskapshuset SMN, SpareBank 1 Markets and BN Bolig. In addition, DeBank is a subsidiary of SpareBank 1 SMN as from 2019.

The cost-income ratio was 40 per cent (47 per cent) for the group, 26 per cent (29 per cent) for the bank.

The group is working to establish new, tighter cost objectives.

Reduced losses on loans and guarantee, low defaults

Loan losses of NOK 126m (127m) were recorded in the first half of 2019. Loan losses measure 0.16 per cent (0.17 per cent) of total outstanding loans.

Loan losses on loans to retail borrowers amount to 25m in the first half of 2019 (16m).

Write-downs on loans and guarantees totalled NOK 1,008m (1,205m) as at 30 June 2019.

Overall problem loans (defaulted and other doubtful) come to NOK 1,998m (1,752m), or 1.22 per cent (1.23 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 356m (275m). Defaults measure 0.22 per cent (0.18 per cent) of gross outstanding loans.

Other doubtful exposures total NOK 1,641m (1,477m). Other doubtful exposures measure 1.00 per cent (1.05 per cent) of gross outstanding loans.

A large share of the year's loss refers to oil-related activity. Credit quality in the wider loan portfolio is good.

Total assets of NOK 167bn

The bank's assets totalled NOK 167bn (160bn) as at the end of the first half of 2019, having grown by NOK 7bn or 4.4 per cent in the last 12 months. The increase in total assets is mainly a consequence of a higher lending volume.

As at 30 June 2019 loans worth a total of NOK 42bn (39bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

High, but declining, growth in residential mortgage lending

Total outstanding loans rose by NOK 8.8bn (11.0bn) or 5.7 per cent (7.6 per cent) in the last 12 months to reach NOK 163.6bn (154.8bn) as at 30 June 2019. Growth in the first half-year was 2.1 per cent (4.0 per cent).

- Lending to personal borrowers rose in the 12 months to 30 June 2019 by NOK 7.0bn (10.0bn) to NOK 111.1bn (104.1bn). Growth of 6.7 per cent (10.6 per cent). Growth in the first half-year was 2.8 per cent (5.5 per cent). Weak growth in the first half-year is ascribable to increased competition in parts of the bank's market area

- Lending to corporate borrowers rose in the 12 months to 30 June 2019 by NOK 1.8bn (1.0bn) to NOK 52.5bn (50.7bn). Growth of 3.6 per cent (2.0 per cent). Loans to corporates rose in the first half of 2019 by 0.6 per cent (1.2 per cent)
- Lending to personal borrowers accounted for 68 per cent (67 per cent) of total outstanding loans to customers as at 30 June 2019

There are no indications of higher loss and default levels in the bank's residential mortgage portfolio, and the quality of this portfolio is excellent.

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

(For distribution by sector, see note 5).

Good deposit growth and strengthened deposit-to-loan ratio

Customer deposits rose by NOK 6.2bn (4.8bn) in the 12 months to 30 June 2019 to reach NOK 86.6bn (80.3bn). This represents a growth of 7.7 per cent (6.3 per cent). Deposit growth in the first half of 2019 was 7.4 per cent (5.1 per cent).

- Personal deposits rose by NOK 1.8bn (2.3bn) or 5.4 per cent (7.2 per cent) to NOK 36.2bn. In the first half-year deposits with Retail Banking rose by 9.5 per cent (8.0 per cent)
- Corporate deposits rose by NOK 4.4bn (2.5bn) or 9.5 per cent (5.7 per cent) to NOK 50.4bn. In the first half-year deposits with Corporate Banking rose by 5.9 per cent (growth of 3.0 per cent)
- The deposit-to-loan ratio at SpareBank 1 SMN was 71 per cent (69 per cent). The deposit-to-loan ratio including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 53 per cent (52 per cent)

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 10.9bn (10.6bn) as at end-June 2019. The increase of NOK 0.4bn is a result of good sales and value increases on various equity funds.

Saving products, customer portfolio (NOKm)	First half		Change
	2019	2018	
Equity funds	6,790	6,152	638
Pension products	752	784	-32
Active management	3,372	3,616	-244
Total	10,914	10,552	362

Insurance

The bank's insurance portfolio increased by 8 per cent in the 12 months to end-June. Growth was satisfactory both for non-life and personal insurance.

Insurance, premium volume (NOKm)	First half		Change
	2019	2018	
Non-life insurance	846	794	52
Personal insurance	363	340	23
Occupational pensions	296	259	37
Total	1,505	1,393	112

Retail Banking

Outstanding loans to retail borrowers totalled NOK 115bn (109bn) and deposits totalled NOK 43bn (40bn) as at 30 June 2019. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships in the parent bank.

Operating income totalled NOK 1,049m (986m) in the first half of 2019, an increase of NOK 63m. Net interest income accounted for NOK 664m (589m) and commission income for NOK 385m (397m). The income growth is mainly due to increased lending and improved margins on deposits. Return on capital employed in the retail banking segment was 13.8 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 the first half of 2019 was 1.55 per cent (1.72 per cent), while the deposit margin was 0.52 per cent (0.21 per cent) measured against three-month NIBOR. The market interest rate in terms of three-month NIBOR has risen by about 50 points in the 12 months to end-June.

Retail lending and retail deposits grew in the 12 months to 30 June by 6.1 per cent (10.6 per cent) and 6.0 per cent (7.8 per cent) respectively.

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

The bank's distribution model for the retail market is designed 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. Retail Banking introduced a new CRM system, 'Iver', in 2018. Iver has improved, and enhanced the efficiency of, the customer experience and strengthened the interplay between analogue and digital services. Staffing has been reduced by 32 FTEs to 318 FTEs since January 2018. The bank will maintain a strong physical presence while at the same time continuing to make efficiency gains.

Corporate Banking

Outstanding loans to corporates total NOK 38bn (39bn) and deposits total NOK 42bn (38bn) as at 30 June 2019. This is a diversified portfolio of loans to and deposits from corporate clients in Trøndelag and in Møre og Romsdal.

Operating income totalled NOK 681m (643m) in the first half of 2019. Net interest income amounted to NOK 576m (541m), and commission income and return on financial investments came to NOK 105m (102m).

Overall net losses in the corporate banking segment have declined to NOK 93m (104m) in the first half of 2019. The losses are in all essentials related to clients in oil-related activities.

Return on capital employed for the corporate banking segment was 11.8 per cent (10.8 per cent) in the first half of 2019. Capital employed is regulatory capital of 15.0 per cent, corresponding to the group's targeted CET1 ratio.

The lending margin was 2.61 per cent (2.67 per cent) and the deposit margin was minus 0.02 per cent (minus 0.05 per cent) in the first half of 2019.

Lending rose by 1.3 per cent (reduction of 1.1 per cent) and deposits rose by 10.4 per cent (1.9 per cent) in the 12 months to 30 June 2019.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 226.5m (198.8m) in the first half of 2019.

Pre-tax profit (NOKm)	First half		Change
	2019	2018	
EiendomsMegler 1 Midt-Norge	14.2	17.7	-3.5
SpareBank 1 Finans Midt-Norge	74.4	72.3	2.1
SpareBank 1 Regnskapshuset SMN	61.8	44.0	17.8
Sparebank 1 Markets (proforma incl. Allegro)	28.6	36.0	-7.4
SpareBank 1 SMN Invest	47.3	23.2	24.1
DeBank	-8.2	-	-8.2
Other companies	8.4	5.3	3.1
Total	226.5	198.5	28.0

Eiendomsmegler 1 Midt-Norge is the market leader in Trøndelag and in Møre og Romsdal and intends to continue to strengthen its market share. EiendomsMegler 1 Midt-Norge recorded a pre-tax profit of NOK 30.4m in the first half of 2019 (33.6m). 3,367 dwelling units were sold in the first half of 2019 compared with 3,479 in the first half of 2018.

In collaboration with BN Bank, the company has established 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 16.8m (deficit of 15.4m).

EiendomsMegler 1 Midt-Norge consolidates the entire financial result from BN Bank as a subsidiary, and the overall profit for EiendomsMegler 1 Midt-Norge including BN Bolig came to NOK 14.2m (17.7m).

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 74.4m in the first half of 2019 (72.3m), and shows strong profit growth due to high income growth and moderate growth in costs. The company's business lines are mainly leasing to businesses and car loans to retail customers. The portfolio of leasing and car loan agreements is worth a total of NOK 8.4bn (7.3bn), of which leasing agreements account for NOK 3.4bn (3.3bn) and car loans for NOK 4.7bn (3.7bn). The company also offers consumer loans, and at the half-year mark this portfolio was worth NOK 0.3bn (0.2bn).

Car loans have shown good growth of 27 per cent (23 per cent) in the 12 months to end-June. The Samspar banks in SpareBank 1 held a 32.1 per cent stake in SpareBank 1 Finans Midt-Norge as at 30 June 2019, while Sparebanken Sogn og Fjordane held a stake of 6.7 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 61.8m (44.0m) in the first half of 2019. The company has acquired several businesses in Trøndelag and Møre og Romsdal in 2019. It now has more than 500 employees, 11,000 customers and offices in 41 locations. This has contributed profit growth along with a substantial increase in both incomes and costs.

The company caters to the SMB segment with good technological solutions and broad range of services.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a profit of NOK 47.3m in the first half of 2019 (23.2m).

The company holds shares worth NOK 443m (573m) as at 30 June 2019.

Value changes and realisation of losses or gains on the company's overall holding of shares account for NOK 53.9m of the company's net total income.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 66.7 per cent. Other owners are SpareBank 1 Nord-Norge, SpareBank 1 SR Bank, SpareBank 1 Østlandet and the SamSpar banks. SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has a staff of 136.

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 16bn. The company has a staff of 15.

SpareBank 1 Markets' consolidated pre-tax profit for the first half of 2019 was NOK 28.6m (36.0m). Strong growth is noted in income from equity and bond issues, and stable incomes in other business lines in the group in the first half-year.

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

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 30bn and has the funding needed for 29 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 165 per cent as at 30 June 2019 (150 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 30 June 2019, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 53 per cent (52 per cent).

The bank's funding sources and products are amply diversified. At 30 June 2019 the proportion of the bank's overall money market funding in excess of one year was 83 per cent (83 per cent).

SpareBank 1 Boligkreditt is the bank's most important funding source, and residential mortgages totalling NOK 40bn had been sold as at 30 June 2019.

Rating

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

Financial soundness

The CET1 ratio at 30 June 2019 was 15.0 per cent compared with 14.6 per cent at the turn of the year. The group's CET1 ratio target is 15.0 per cent. The authorities' CET1 ratio requirement is 13.9 per cent.

Risk weighted assets increased by 3.0 per cent in the first half-year as a result of growth in residential mortgage lending and increased capital needs related to the transitional arrangement. The CET1 ratio rose by 6.0 per cent in the first half-year as a result of a very good half-year performance and dividend received from SpareBank 1 Gruppen in the second quarter. This raised the CET1 ratio by 0.4 percentage points in the first half-year.

The leverage ratio is 7.5 per cent (7.4 per cent).

As of 31 December 2018 the countercyclical buffer was raised from 1.5 per cent to 2.0 per cent, bringing the CET1 requirement to 12.0 per cent, including combined buffer requirements. Taking into account a Pillar 2 requirement of 1.9 per cent, the overall government requirement is 13.9 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 (Norway's FSA) 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. In light of the above, the group's capital target is set at 15 per cent. It has been recommended to increase the countercyclical buffer from 2.0 per cent to 2.5 per cent with effect from 31 December 2019.

The CET1 ratio has increased to 15.0 per cent, and is on a level with the group's 15.0 per cent target. The leverage ratio of 7.5 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 board of directors expect the group's capital target to be met through management of its capital-intensive activities.

The Ministry of Finance circulated on 25 June 2019 a consultation paper concerning measures to counter the effects of the removal of the Basel 1 floor and the SME discount. For SpareBank 1 SMN the proposal will entail a 1.5 per cent increase in the systemic risk buffer with effect from 31 December 2019. It is further proposed that the average risk weight for IRB exposures secured by residential property should be set at a minimum of 20 per cent, and for commercial property at a minimum of 35 per cent. This will have no impact on SpareBank 1 SMN's risk weighted assets.

The removal of the Basel 1 floor will strengthen the CET1 ratio by 2.1 percentage points. In addition to this comes a positive effect of the SME discount of about 0.3 percentage points.

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 30 June 2019 was NOK 87.04 (80.21) and earnings per EC were NOK 8.23 (5.75).

The Price / Income ratio was 5.94 (7.35) and the Price / Book ratio was 1.12 (1.05).

At the half-year mark the EC was priced at NOK 97.70, and dividend of NOK 5.10 per EC has been paid in 2019 for the year 2018.

Risk factors

The group's problem loans reflect the challenges related to the offshore industry. As at 30 June 2019, loans to oil-related activity accounted for 2.9 per cent of the group's overall lending. The credit quality of the bank's wider loan portfolio is satisfactory. There have been no contagion effects from oil-related activity to other sectors and no other significant concentrations in non-performing and problem exposures are in evidence.

International growth slowed somewhat through 2018 as a result of uncertainty related to trade conflicts and Brexit. So far this year growth has proved higher than expected, but growth expectations have been revised down somewhat. The Norwegian economy has received impetus from the international upturn, an improved oil price and increased oil investments. The Norwegian krone appreciated somewhat in the first quarter of 2019, and is relatively unchanged at the end of the period. The krone remains at a relatively weak level, which is favourable for Norwegian export industries. Some strengthening of the krone is expected ahead as a result of a higher Norwegian interest rate level. Real wage growth is expected to increase somewhat in 2019. Combined with a continued low interest rate level, the bank considers loss risk in the bank's retail market portfolio to be low. Unemployment has declined in the bank's market area, and the bank expects the level of unemployment to remain relatively moderate ahead.

Credit growth among Norwegian households continues to outstrip household wage growth, but the rate of growth has declined through 2018 and thus far in 2019. 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 the 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 the fluctuations.

The bank is also exposed to risk related to its 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, and issued new regulations pursuant to the Anti-Money Laundering Act in October 2018. SpareBank 1 SMN has strengthened its efforts in this area through a clearer organisational set-up and increased resource use. A total of 50 staff members in the bank are now dedicated to this task.

One of the measures taken is to obtain updated information on all personal customers, corporate customers and clubs and associations. This is in keeping with new requirements as to a concrete risk assessment of each individual customer. These measures are preventive, and provide the customer with strengthened protection against criminal acts such as money laundering, terrorist financing and identity theft.

SpareBank 1 SMN has zero tolerance of money laundering and terrorist financing, and has established sound procedures to ensure that money laundering and terrorist financing cannot take place through our bank. We have no suspicion that the bank has been exploited for criminal purposes of this nature.

Insurance merger

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

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

In the transaction the new non-life company is valued at NOK 19.75bn, including the value of personal risk products. When personal risk products are excluded, Fremtind is valued at NOK 13.5bn. The merger along with DNB's acquisition from a 20 per cent stake up to a 35 per cent stake have in aggregate entailed an increase of about NOK 4.7bn in SpareBank 1 Gruppen's equity at group level. The majority's (the SpareBank 1 banks' and the Trade Union Confederation's) share of this increase is about NOK 2.4bn. SpareBank 1 SMN's share of this increase (19.5 per cent) is NOK 460m.

Outlook

The profit performance for the first half of 2019 proved to be extraordinarily good after gains related to the establishment of Fremtind Forsikring and appreciation of property owned by SpareBank 1 Forsikring. The profit recorded excluding these gains is also good, with a return on equity in excess of the target of 12 per cent.

The bank's fine performance reflects the buoyancy of Central Norway's economy. According to Norges Bank's (the central bank) regional network as of May 2019, business and industry activity in the region is on the upgrade. In Trøndelag the companies in the network report a rate of growth of 2.5 per cent in May, up from 1.9 per cent in the preceding quarter. In Møre og Romsdal rate of growth increases to 1.4 per cent, from 1.3 per cent previous quarter, but at the same level as last year. Activity is growing most rapidly in the oil supplier, services and construction industries.

SpareBank 1 SMN plays an active role in the development of joint solutions and companies in the Norwegian banking industry. An important strategy for SpareBank 1 SMN has been to develop a diversified business model through a broad-based service offering. This promotes a high number of multi-product customers, thereby contributing to customer satisfaction and robust earnings. This will continue.

The rising market interest rate contributes to improved return on equity through repricing of customer interest rates and higher returns on the group's equity capital.

The bank attaches much importance to maintaining its position as market leader in its catchment areas, and plans to expand its lending to personal borrowers to a level in excess of market growth.

The bank is strengthening its position as the leading bank for small businesses through a broad-based product range, good digital solutions and highly competent advisers. The integration of DeBank expands the

product offering to businesses engaged in factoring. The growth in lending to corporate clients is primarily to small and medium-sized businesses. This is expected to continue.

The strategy of being a digital bank with a personal and local signature stands firm. There are still potentials efficiency gains to be made across the group through simplification and automation.

Loan losses are expected to be lower in 2019 than in 2018. Losses are still mainly in evidence in oil-related activity. Losses in the bank's wider loan portfolio are very low.

The CET1 ratio has increased to 15 per cent, and is as targeted. The leverage ratio of 7.5 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 board of directors expect the group's capital target to be met through management of its capital-intensive activities.

Jan-Frode Janson took up duties as Group CEO on 1 May.

The board of directors expects 2019 to be a good year for SpareBank 1 SMN, with at least 50 per cent of the profit being disbursed as dividend to investors and the society at large.

Trondheim, 7 August 2019
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Christian Stav

Mette Kamsvåg

Morten Loktu

Janne Thyø Thomsen

Tonje Eskeland Foss

Inge Lindseth
(employee rep.)

Christina Straub
(employee rep.)

Jan-Frode Janson
(Group CEO)