

# Third Quarter Report 2019



## Contents

Main figures .....	3
Report of the Board of Directors .....	5
Income statement .....	22
Balance sheet .....	24
Cash flow statement .....	25
Change in equity .....	26
Notes .....	30
Results from quarterly accounts .....	56
Key figures from quarterly accounts .....	57
Equity capital certificates .....	58
Auditor's report .....	60

## Main figures

	January - September					
	2019		2018		2018	
	NOKm	% <sup>1)</sup>	NOKm	% <sup>1)</sup>	NOKm	% <sup>1)</sup>
<b>From the income statement</b>						
Net interest	1,991	1.61	1,759	1.50	2,403	1.53
Net commission income and other income	1,711	1.38	1,634	1.40	2,177	1.39
Net return on financial investments	1,185	0.96	662	0.57	757	0.48
<b>Total income</b>	<b>4,886</b>	<b>3.95</b>	<b>4,055</b>	<b>3.46</b>	<b>5,337</b>	<b>3.40</b>
<b>Total operating expenses</b>	<b>2,077</b>	<b>1.68</b>	<b>1,922</b>	<b>1.64</b>	<b>2,624</b>	<b>1.67</b>
<b>Results before losses</b>	<b>2,809</b>	<b>2.27</b>	<b>2,133</b>	<b>1.82</b>	<b>2,713</b>	<b>1.73</b>
Loss on loans, guarantees etc	198	0.16	196	0.17	263	0.17
<b>Results before tax</b>	<b>2,612</b>	<b>2.11</b>	<b>1,937</b>	<b>1.65</b>	<b>2,450</b>	<b>1.56</b>
Tax charge	395	0.32	405	0.35	509	0.32
Result investment held for sale, after tax	0	0.00	157	0.13	149	0.10
<b>Net profit</b>	<b>2,217</b>	<b>1.79</b>	<b>1,689</b>	<b>1.44</b>	<b>2,090</b>	<b>1.33</b>
Interest Tier 1 Capital	39		28		37	
Net profit excl. Interest Tier 1 Capital	2,178		1,661		2,052	
	<b>30 Sept</b>		<b>30 Sept</b>		<b>31 Dec</b>	
	<b>2019</b>		<b>2018</b>		<b>2018</b>	
<b>Key figures</b>						
<b>Profitability</b>						
Return on equity <sup>2)</sup>	16.0 %		13.3 %		12.2 %	
Cost-income ratio <sup>2)</sup>	43 %		47 %		49 %	
<b>Balance sheet figures</b>						
Gross loans to customers	123,967		118,044		120,473	
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	165,380		157,825		160,317	
Deposits from customers	83,641		77,529		80,615	
Deposit-to-loan ratio excl. SB1 Boligkreditt and SB1 Næringskreditt	67 %		66 %		67 %	
Deposit-to-loan ratio incl. SB1 Boligkreditt and SB1 Næringskreditt <sup>2)</sup>	51 %		49 %		50 %	
Growth in loans (gross) last 12 months (incl. SB1 Boligkreditt and SB1 Næringskreditt) <sup>2)</sup>	4.8 %		7.3 %		7.8 %	
Growth in deposits last 12 months	7.9 %		6.1 %		5.4 %	
Average total assets	164,777		156,064		156,992	
Total assets	166,475		159,337		160,704	
<b>Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt</b>						
Impairment losses ratio <sup>2)</sup>	0.16 %		0.17 %		0.17 %	
Non-performing commitm. as a percentage of gross loans <sup>2)</sup>	0.26 %		0.18 %		0.19 %	
Other doubtful commitm. as a percentage of gross loans <sup>2)</sup>	1.03 %		0.86 %		0.86 %	
<b>Solidity</b>						
Capital adequacy ratio	18.9 %		19.2 %		18.5 %	
Core capital ratio	16.7 %		16.7 %		16.3 %	
Common equity tier 1 ratio	15.1 %		14.9 %		14.6 %	
Core capital	17,417		16,542		16,472	
Net equity and related capital	19,765		18,969		18,743	
Liquidity Coverage Ratio (LCR)	181 %		150 %		183 %	
Leverage Ratio	7.4 %		7.5 %		7.4 %	
<b>Branches and staff</b>						
Number of branches	46		48		48	
No. Of full-time positions	1,639		1,467		1,493	

1) Calculated as a percentage of average total assets

2) Defined as alternative performance measures, see attachment to the quarterly report

<b>Key figures ECC</b>	<b>30 Sept 2019</b>	<b>30 Sept 2018</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
ECC ratio	64.0 %	64.0 %	64.0 %	64.0 %	64.0 %	64.0 %
Number of certificates issued, millions <sup>2)</sup>	129.48	129.44	129.62	129.38	129.64	129.43
ECC share price at end of period (NOK)	98.50	90.90	84.20	82.25	64.75	50.50
Stock value (NOKM)	12,754	11,780	10,914	10,679	8,407	6,556
Booked equity capital per ECC (including dividend) 2)	89.36	82.57	83.87	78.81	73.35	67.39
Profit per ECC, majority <sup>2)</sup>	10.54	8.07	9.97	8.71	7.93	6.96
Dividend per ECC			5.10	4.40	3.00	2.25
Price-Earnings Ratio <sup>2)</sup>	7.01	8.45	8.44	9.44	8.17	7.26
Price-Book Value Ratio <sup>2)</sup>	1.10	1.10	1.00	1.04	0.88	0.75

2) Defined as alternative performance measures, see attachment to quarterly report

# Report of the Board of Directors

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

## Third quarter 2019 in isolation

- Pre-tax profit: NOK 609m (592m)
- Post-tax profit: NOK 488m (480m)
- Return on equity: 10.2 per cent (11.1 per cent)
- Growth in lending: 1.1 per cent (2.0 per cent), and decline in deposits: 3.4 per cent (3.5 per cent decline)
- Growth in lending to retail borrowers: 1.5 per cent (2.4 per cent), 0.7 percentage points lower than in the second quarter. Growth in lending to corporate borrowers: 0.2 per cent (1.0 per cent) - 0.1 percentage point lower than in the second quarter
- Net result of financial instruments: NOK 121m (182m)
- Losses on loans: NOK 71m (69m), 0.17 per cent (0.18 per cent) of gross lending
- Earnings per EC: NOK 2.30 (2.32)

## Year to 30 September 2019

- Pre-tax profit: NOK 2,612m (1,937m)
- Post-tax profit: NOK 2,217 (1,689m)
- Return on equity: 16.0 per cent (13.3 per cent)
- CET1 ratio: 15.1 per cent (14.9 per cent)
- Growth in lending: 4.8 per cent (7.3 per cent), and in deposits: 7.9 per cent (6.1 per cent) in the last 12 months
- Growth in lending to retail borrowers: 5.8 per cent in the last 12 months (10.7 per cent). Retail lending accounts for 68 per cent (68 per cent) of overall lending
- Growth in lending to corporate borrowers of 2.8 per cent in the last 12 months (0.8 per cent)
- Losses on loans and guarantees: NOK 198m (196m), 0.16 per cent (0.17 per cent) of gross lending
- Earnings per EC: NOK 10.54 (8.07). Book value per EC: NOK 89.36 (82.57)

## Events in the quarter

### Base rate hike

Norges Bank raised its key policy rate by 0.25 per cent to 1.50 per cent at its interest rate meeting in September. SpareBank 1 SMN decided in light of this to raise its mortgage lending rate by up to 0.25 percentage points.

### Insurance merger

Fremtind Forsikring received on 2 September permission from Finanstilsynet to engage in life insurance business through its wholly owned subsidiary Fremtind Livsforsikring. Individual personal risk insurances from SpareBank 1 Forsikring and DNB Livsforsikring, as well as the company-paid personal risk insurances from SpareBank 1 Forsikring, will accordingly be transferred to Fremtind Livsforsikring. The transaction will go ahead on 1 January 2020.

**UN principles for Responsible Banking**

The UN's new environment initiative – Principles for Responsible Banking – was launched in New York on 22 September 2019. The new principles are designed to guide banks to align their business strategy with the UN's sustainability goals and the Paris Agreement. SpareBank 1 SMN is one of five Norwegian banks to have joined this global initiative and has endorsed the principles for responsible banking. Further information about the principles can be found in the Sustainability Library on the banks homepage.

**SpareBank 1 SMN is a preferred partner bank for the LO**

The LO (Norwegian Confederation of Trade Unions) has entered a three-year agreement with two preferred banking partners: SpareBank 1 SMN and SpareBank 1 Østlandet. All SpareBank 1 banks will preserve their good relationship with LO members and the trade union movement.

The LO is Norway's largest employee organisation. It has almost one million members nationally, and about 175,000 in the bank's catchment area. The bank expects many new customers linked to this agreement, in particular in the bank's own market area.

New customer relationships will be established through digital marketing and high activity targeting LO members at the local level.

**Green bonds**

The bank has issued its first senior green bond in the euro market under the bank's "green bond framework". The bond is linked to certified loans in the bank's corporate banking portfolio in the fishery, aquaculture and commercial real estate sectors.

**PSD2 – New Payment Services Directive for the EU and EEC**

The Revised Payment Services Directive entered into force across the EU on 1 April 2019. It became operative, and its functionalities available to customers, on 14 September. The directive requires all banks operating in the EU and EEC to grant qualified third parties access to customer transaction data and payment services. Should customers so wish, and give their consent, such third parties can act on the customer's behalf. The aim, among others, is to promote competition and innovation for the good of consumers. SpareBank 1 SMN is well prepared and has opened the way for all requirements of the directive. It has also given customers the opportunity to view and to operate their accounts with other banks directly in SpareBank 1 SMN's internet bank and mobile bank.

**Post-tax profit of NOK 488m for the third quarter (480m)**

In the third quarter SpareBank 1 SMN posted a profit of NOK 488m (480m), and a return on equity of 10.2 per cent (11.1 per cent). The third quarter profit is NOK 195m lower than in the second quarter of 2019. Earnings per EC in the third quarter were NOK 2.30 (2.32) and book value per EC was NOK 89.36 (82.57).

The operating profit in the third quarter is good, and substantially better than for the same period of 2018. Compared with the second quarter the operating profit is somewhat weaker. This is due to an expected profit decline at some subsidiaries in the holiday period concurrent with increased losses in the third quarter. The third quarter also saw weaker return on financial investments compared with the second quarter, at the same time as the second quarter brought a gain of NOK 116m on property revaluations at SpareBank 1 Gruppen.

Net interest income in the quarter totalled NOK 678m (610m), and is NOK 14m better than in the second quarter. Residential mortgage lending rates were raised with effect from 15 August, but lending margins

declined somewhat in the third quarter compared with the second quarter due to higher market rates. Increased deposit margins and growth brought higher net interest income than in the second quarter.

Commission income was NOK 52m down from the previous quarter at NOK 554m (486m). This is explained by lower incomes at the subsidiaries in the holiday period. Income is NOK 68m higher than in the same quarter of 2018, and derives from payment services, accounting services and securities services.

Return on financial investments was relatively weak in the third quarter at NOK 35m (77m), which was NOK 60m lower than in the second quarter. The decline from the second quarter is mainly ascribable to lower return on financial instruments and on bonds in the liquidity portfolio.

The financial result of related companies shows a decline of NOK 144m from the second quarter, and totalled NOK 85m (105m). The third-quarter result reflects a relatively weak underwriting result at Fremtind due to a high claims ratio following flood and landslide damage. SpareBank 1 SMN's share of the second-quarter profit of NOK 231m includes property revaluations of NOK 116m at SpareBank 1 Forsikring.

Operating expenses fell NOK 28m from the second to the third quarter and totalled NOK 673m (616m). The decline from the second quarter is due mainly to lower salary costs in the third-quarter related to the holiday period.

Losses in the third quarter were NOK 12m higher than in the second quarter and totalled NOK 71m (69m). Losses on loans to corporates in the third quarter totalled NOK 49m (48m). Losses on loans to retail borrowers in the third quarter came to NOK 22m (21m).

Lending growth in the third quarter of 2019 was 1.1 per cent (2.0 per cent). Growth in lending to retail customers in the third quarter of 2019 was 1.5 per cent (2.4 per cent). Growth in the second and third quarters was higher than in the first quarter. Lending to corporate customers increased by 0.2 per cent (1.0 per cent) in the third quarter of 2019.

Deposits showed a decline of 3.4 per cent in the third quarter (decline of 3.5 per cent) compared with a growth of 6.7 per cent in the second quarter. The fluctuations are related to the disbursement of holiday pay in the second quarter. In the third quarter of 2019, deposits with Retail Banking were reduced by 2.4 per cent (reduction of 2.1 per cent), compared with a growth of 6.3 per cent in the second quarter. In the third quarter of 2019 deposits with Corporate Banking were reduced by 4.1 per cent (reduction of 4.6 per cent), compared with a growth of 7.0 per cent in the second quarter.

The overall financial result of the subsidiaries in the third quarter was NOK 59m (27m). Profit growth was noted by most companies compared with the same period of last year, with the largest profit growth posted by SpareBank 1 Markets. The subsidiaries' financial result in the third quarter is NOK 88m lower than in the second quarter. This is largely due to lower profits at some of the companies in the holiday period.

The CET1 ratio as at 30 September 2019 was 15.1 per cent (14.9 per cent), having increased by 0.1 percentage point during the third quarter. There was marginal growth of 0.2 per cent in the risk-weighted balance sheet in the third quarter concurrent with an increase of 0.8 per cent in CET1 capital as a result of estimated profit retention for the quarter.

## Accounts for the first nine months

### **Profit as at 30 September 2019 is NOK 528m higher than in the same period of 2018**

Pre-tax profit for the first nine months of 2019 totalled NOK 2,612m (1,937m). The net profit is NOK 2,217m (1,689m) and return on equity is 16.0 per cent (13.3 per cent).

Overall operating income for the first nine months of 2019 totalled NOK 3,702m (3,393m), representing an increase of NOK 309m compared with the previous year. The income growth breaks down to NOK 190 from banking operations and NOK 119m from the bank's subsidiaries.

The profit share on owner interests and related companies was NOK 871m (286 m), including a gain of NOK 460m on the establishment of Fremtind and NOK 116m which is the bank's share of the revaluation of properties belonging to SpareBank 1 Forsikring.

Return on financial instruments (including dividends) was NOK 313m (376m).

Operating expenses totalled NOK 2,077m (1,922m) in the first nine months of 2019. The increase of NOK 155m breaks down to NOK 71m from banking operations and NOK 84m from increased activity at the subsidiaries.

Losses on loans and guarantees totalled NOK 198m (196 m), mainly in oil-related activities.

The growth in lending and deposits continues, and the bank is expanding its share of the retail market. Overall lending rose by 4.8 per cent (7.3 per cent) and deposits by 7.9 per cent (6.1 per cent) in the 12 months to end-September.

The CET1 ratio as at 30 September 2019 was 15.1 per cent (14.9 per cent). The targeted CET1 ratio is 15.0 per cent.

Earnings per EC were NOK 10.54 (8.07). The book value per EC was NOK 89.36 (82.57).

The price of the bank's equity certificate (MING) at quarter-end was NOK 98.50 (90.90). A cash dividend of NOK 5.10 (4.40) per EC has been paid in 2019 for the year 2018.

### **Increased net interest incomes**

Net interest incomes rose by NOK 232m to NOK 1,991m (1,759m) in the first nine months 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 brought improved return on the bank's equity capital and higher deposit margins.

The market interest rate in terms of three-month NIBOR has risen in the 12 months to end-September by about 70 points. Although three general interest rate increases have been carried out in the period, the margins on mortgages have weakened by about 20 points in 2019, while deposit margins have strengthened by about 30 points. The latest increase in residential mortgage rates was carried out with effect from 15 August 2019. Norges Bank's (Norway's central bank) decided at its interest rate meeting in September to



raise the base rate by a further 25 points, and SpareBank 1 SMN has announced a mortgage rate increase of up to 25 points with effect from 7 November 2019.

### Growth in other incomes

Commission incomes and other operating incomes have increased by NOK 77m to NOK 1,711m (1,634m) in the first nine months of 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 271m in the first nine months of 2019 (274m). Slightly weaker margins on the loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are compensated for by a higher volume of loans sold.

Other commission incomes came to NOK 1,440m (1,360m). The growth of NOK 79m was driven mainly 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)	January - September		Change
	2019	2018	
Payment transfers	167	152	16
Creditcard	44	45	-1
Saving products	69	87	-18
Insurance	136	130	6
Guarantee commission	37	48	-12
Real estate agency	298	298	0
Accountancy services	371	320	51
Markets	285	238	47
Other commissions	33	42	-8
<b>Commissions ex SB1 Boligkreditt and SB1 Næringskreditt</b>	<b>1,440</b>	<b>1,360</b>	<b>79</b>
Commissions SB1 Boligkreditt	259	263	-3
Commissions SB1 Næringskreditt	12	11	1
<b>Total commissions</b>	<b>1,711</b>	<b>1,634</b>	<b>77</b>

### Return on financial investments

Overall return on financial investments was NOK 300m (370m) as at 30 September 2019. This breaks down as follows:

- Financial derivatives have yielded gains of NOK 92m (192m). These are essentially gains on fixed income instruments and are ascribable to the interest rate upturn in the first half-year. Gains are also noted in the bond portfolio which shows overall gains of NOK 22m (loss of 81m)
- Losses on hedge accounting totalled NOK 1m (loss of 5m)
- A gain of NOK 108m (144m) on shares of the bank and subsidiaries, which refers mainly to gain on shares in Visa (NOK 28m), goodwill related 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 10m (23m)
- Income of NOK 32m from forex transactions (47m) 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 36m (52m)

Return on financial investments (NOKm)	January - September		
	2019	2018	Change
Gain/(loss) on certificates and bonds	22	-81	103
Gain/(loss) on derivatives	92	192	-100
Gain/(loss) on financial instruments related to hedging	-1	-5	4
Capital gains shares	108	144	-35
Gain/(loss) on other financial instruments at fair value (FVO)	10	23	-12
Foreign exchange gain/(loss)	32	47	-14
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	36	52	-15
<b>Net return on financial instruments</b>	<b>300</b>	<b>370</b>	<b>-71</b>

### 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 411m (286m) in the first nine months 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.

### 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 1 January 2019. DNB owns the remainder of the company.

SpareBank 1 Gruppen's post-tax profit for the first nine months of 2019 was NOK 1,515m (970m). The excellent profit performance is due to appreciation of properties of the life company totalling NOK 597m. The profit for the period also reflects merger costs related to Fremtind, an increased claims ratio and good financial earnings.

SpareBank 1 SMN's share of the profit for the first nine months of 2019 was NOK 264m (189m), of which property revaluations 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 September 2019 the bank had sold loans totalling NOK 39.7bn (37.7bn) to SpareBank 1 Boligkreditt, corresponding to 35.2 per cent (35.3 per cent) of the group's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 20.7 per cent, and the bank's share of that company's profit for the first nine months was NOK 26m (2m).

### SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 30 September 2019, loans worth NOK 1.7bn (2.1bn) 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 nine months was NOK 15m (10m). 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 sold from BN Bank.

### **SpareBank 1 Kredittkort**

The profit for the first nine months of 2019 was NOK 73m (96m). 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 nine months of 2019 is NOK 13m (17m), and the bank's share of the portfolio is NOK 924m (911m).

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 September 2019.

BN Bank recorded a profit of NOK 232m (212m) in the first nine months of 2019, providing a return on equity of 8.3 per cent (7.9 per cent). SpareBank 1 SMN's share of BN Bank's profit in the first nine months of 2019 was NOK 79m (73m).

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

SpareBank 1 Betaling posted a deficit for the first nine months of NOK 35m (39m) which constitutes the company's share of Vipps' financial result. SpareBank 1 SMN's share of the deficit is NOK 7m (NOK 8m). 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 7m from the company for the first nine months (deficit of 8m).

### **Operating expenses**

Overall group operating expenses for the first nine months of 2019 came to NOK 2,077m (1,922m), an increase of NOK 155m.

The bank's costs rose by NOK 71m to NOK 1,006m in the 12 months to end-September. 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 6.2 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 which will be phased out in the course of the first quarter of 2020.

Efficiency initiatives by the bank have enabled lower staffing, reduced cost growth and improved efficiency. Since 2014 the number of FTEs at the parent bank has been reduced by 120 to 610 at the end of the third quarter of 2019. Changing customer behaviour and new digital solutions will contribute to further efficiency gains.

Overall costs among the subsidiaries came to NOK 1,071m (987m), having risen by NOK 84m or 8.5 per cent in the 12 months to end-September. 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, DeBank is a subsidiary of SpareBank 1 SMN as from 2019.

The cost-income ratio was 43 per cent (47 per cent) for the group, 29 per cent (31 per cent) for the bank.

Tighter cost objectives for the group is being developed and will be communicated in connection with the profit presentation for the fourth quarter of 2019.

### **Stable losses and low defaults**

Loan losses of NOK 198m (196m) were recorded in the first nine months of 2019. Net loan losses measure 0.16 per cent of total outstanding loans (0.17 per cent).

Losses of NOK 150m were recorded on loans to the group's corporate clients (159m) in the first nine months of 2019, in all essentials on loans to oil-related activity.

Losses on loans to retail customers totalled NOK 48m (37m) in the first nine months of 2019.

Write-downs on loans and guarantees totalled NOK 1,065m (1,020m) in the same period.

Overall problem loans (defaulted and doubtful) came to NOK 2,123m (1,649m), or 1.28 per cent (1.04 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 424m (284m). Defaults measure 0.26 per cent (0.18 per cent) of gross outstanding loans. The increase is mainly in the retail portfolio.

Other doubtful exposures total NOK 1,700m (1,365m). Other doubtful exposures measure 1.03 per cent (0.86 per cent) of gross outstanding loans. The increase is mainly due to a few engagements in the offshore portfolio.

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

### **Total assets of NOK 166bn**

The bank's assets totalled NOK 166bn (159bn) as at 30 September 2019, having grown by NOK 7bn or 5.0 per cent in the last 12 months. The increase in total assets is mainly down to a higher lending volume.

As at end-September 2019 loans worth a total of NOK 41bn (40bn) 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 take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

### Good but declining growth in residential mortgage lending

Total outstanding loans rose by NOK 7.6bn (10.7bn) or 4.8 per cent (7.3 per cent) in the last 12 months to reach NOK 165.4bn (157.8bn) as at 30 September 2019.

- Lending to personal borrowers rose in the 12 months to 30 September 2019 by NOK 6.1bn (10.3bn) to NOK 112.8bn (106.6bn). Growth in the period was 5.8 per cent (10.7 per cent)
- Lending to corporate borrowers rose in the 12 months to 30 September 2019 by NOK 1.4bn (0.4bn) to NOK 52.6bn (51.2bn). Growth in the period was 2.8 per cent (0.8 per cent)
- Lending to personal borrowers accounted for 68 per cent (68 per cent) of total outstanding loans to customers as at 30 September 2019

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 growth in deposits

Customer deposits rose by NOK 6.1bn (4.4bn) in the 12 months to 30 September 2019 to reach NOK 83.6bn (77.5bn). This represents a growth of 7.9 per cent (6.1 per cent).

- Personal deposits rose by NOK 1.7bn (2.1bn) or 5.1 per cent (6.8 per cent) to NOK 35.3bn (33.6bn)
- Corporate deposits rose by NOK 4.4bn (2.3bn) or 10.0 per cent (5.6 per cent) to NOK 48.3bn (43.9bn)
- The deposit-to-loan ratio at SpareBank 1 SMN was 67 per cent (66 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 (49 per cent)

(For distribution by sector, see note 9).

### Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 11.0bn (10.8bn) as at end-September 2019. The increase of NOK 0.2bn is a result of good sales and value increases on equity funds.

Saving products, customer portfolio (NOKm)	January - September		Change
	2019	2018	
Equity funds	6,855	6,291	564
Pension products	742	785	-43
Active management	3,417	3,724	-307
<b>Total</b>	<b>11,013</b>	<b>10,800</b>	<b>213</b>

## Insurance

The bank's insurance portfolio increased by 8.5 per cent in the 12 months to end-September. Growth was satisfactory both for non-life insurance and occupational pensions.

Insurance, premium volume (NOKm)	January - September		Change
	2019	2018	
Non-life insurance	868	805	63
Personal insurance	367	348	19
Occupational pensions	307	268	39
<b>Total</b>	<b>1,542</b>	<b>1,421</b>	<b>121</b>

## Retail Banking

Outstanding loans to retail borrowers totalled NOK 117bn (111bn) and deposits totalled NOK 42bn (40bn) as at 30 September 2019. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships in the parent bank.

Operating income totalled NOK 1,612m (1,490m) in the first nine months of 2019. Net interest income accounted for NOK 1,015m (900m) and commission income for NOK 597m (590m). The income growth is mainly due to increased lending and improved margins on deposits. Gross income rose by NOK 122m. Return on capital employed in the retail banking segment was 13.7 per cent (13.1 per cent). Capital employed is regulatory capital of 15 per cent, corresponding to the group's targeted CET1 ratio.

The lending margin in the first nine months of 2019 was 1.53 per cent (1.68 per cent), while the deposit margin was 0.57 per cent (0.23 per cent) measured against three-month NIBOR. The market interest rate in terms of three-month NIBOR has risen in 2019.

Retail lending and retail deposits grew in the 12 months to 30 September by 5.1 per cent (10.4 per cent) and 4.5 per cent (7.9 per cent) respectively.

Lending to retail borrowers consistently carries low direct risk, and this is reflected in continued low losses. The portfolio is secured 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. 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 41bn (40bn) and deposits total NOK 41bn (37bn) as at 30 September 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 1,021m (993m) in the first nine months of 2019. Net interest income amounted to NOK 864m (827m), and commission income and return on financial investments came to NOK 157m (165m).

Overall net losses in the corporate banking segment have declined, totalling NOK 140m (153m) in the first nine months of 2019. The losses are in all essentials related to challenges 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 nine months of 2019. Capital employed is regulatory capital of 15 per cent, corresponding to the group's targeted CET1 ratio.

The lending margin was 2.58 per cent (2.69 per cent) and the deposit margin was minus 0.04 per cent (minus 0.05 per cent) in the first nine months of 2019.

Lending rose by 2.0 per cent (growth of 2.3 per cent) and deposits rose by 9.0 per cent (2.4 per cent) in the 12 months to 30 September 2019.

## Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 285.2m (225.2m) in the first nine months of 2019.

Pre-tax profit (NOKm)	January - September		Change
	2019	2018	
EiendomsMegler 1 Midt-Norge	7.6	6.4	1.2
SpareBank 1 Finans Midt-Norge	115.1	106.9	8.3
SpareBank 1 Regnskapshuset SMN	81.3	56.8	24.5
Sparebank 1 Markets	39.2	20.8	18.4
SpareBank 1 SMN Invest	44.0	27.6	16.4
DeBank	-13.5	-	-13.5
Other companies	11.5	6.8	4.7
<b>Total</b>	<b>285.2</b>	<b>225.2</b>	<b>59.9</b>

**Eiendomsmegler 1 Midt-Norge** is the market leader in Trøndelag and in Møre og Romsdal and aims to continue to strengthen its market share. EiendomsMegler 1 recorded a pre-tax profit of NOK 31.3m in the first nine months of 2019 (net profit of 33.6m). 5,153 dwelling units were sold in the first nine months of 2019 compared with 5,260 in the same period of 2018.

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 23.7m (deficit of 20.5m). The company's results has not been in line with expectations, and measures will be implemented in the fourth quarter.

EiendomsMegler 1 Midt-Norge consolidates the entire financial result of BN Bolig as a subsidiary, and the overall profit for EiendomsMegler 1 Midt-Norge including BN Bolig came to NOK 7.6m (6.4m).

**SpareBank 1 Finans Midt-Norge** delivered a pre-tax profit of NOK 115.1m in the first nine months of 2019 (106.9m), and shows profit growth due to high income growth and moderate growth in costs. The company's business lines are mainly leasing to the SMB market and car loans to retail customers. The company operates leasing and car loan agreements worth a total of NOK 7.5bn (7.5bn), of which leasing agreements account for NOK 3.3bn (3.3bn) and car loans for NOK 4.0bn (4.0bn). The company also offers consumer loans, and at quarter-end this portfolio was worth NOK 250m (250m).

Good growth is noted, in particular for car loans where growth in the 12 months to end-September was 25 per cent (21 per cent). The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge as at 30 September 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 81.3m (56.8m) in the first nine months 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 to profit growth along with a substantial increase in both incomes and costs.

The company caters to small businesses with good technological solutions and a broad range of services.

**Sparebanken SMN Invest** invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 44.0m in the first nine months of 2019 (27.6m).

The company holds shares worth NOK 440m (587m) as at 30 September 2019.

Value changes and realisation of losses or gains on the company's overall holding of shares account for NOK 51.7m 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 a staff of 147.

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

SpareBank 1 Markets' consolidated pre-tax profit for the first nine months of 2019 was NOK 39.2m (20.8m). Strong growth is noted in income from equity and bond issues, increased incomes from currency and fixed income derivatives, and somewhat lower incomes from share and bond broking in the first nine months.

SpareBank 1 Markets is the leading capital market unit in our 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.

### **DeBank**

SpareBank 1 SMN acquired all shares of DeBank in the first quarter of 2019. DeBank caters specifically to small and medium-sized businesses that specialise in factoring. DeBank is headquartered in Trondheim and has 19 employees. As at 30 September 2019 the company had loanable capital of NOK 105m, overall operating income of NOK 14.7m and a pre-tax profit of minus NOK 10.1m. The company plans to move into positive territory over a two-year period. DeBank will operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is heightening 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 27bn and has the funding needed for 25 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 181 per cent as at 30 September 2019 (150 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 30 September 2019, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 51 per cent (49 per cent).

The bank's funding sources and products are amply diversified. As at 30 September 2019 the proportion of the bank's overall money market funding in excess of one year was 89 per cent (84 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 30 September 2019.

### Rating

The bank has a rating of A1 (stable outlook) with Moody's and a rating of A- (stable outlook) 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

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. The countercyclical buffer will increase by 0.5 per cent to 2.5 per cent with effect from 31 December 2019.

The CET1 ratio at 30 September 2019 was 15.1 per cent compared with 14.6 per cent at the turn of 2019 and is in line with the targeted level. The authorities' CET1 ratio requirement is 13.9 per cent.

The CET1 ratio has risen by 0.5 percentage points in 2019. Risk weighted assets have increased by 3.3 per cent in the first nine months as a result of growth in residential mortgage lending at the parent bank and at BN Bank. CET1 capital has grown by 7.0 per cent as of 30 September as a result of a good profit performance and dividend received from SpareBank 1 Gruppen in the second quarter. The leverage ratio of 7.4 per cent (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 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 implementation of 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 about 2 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 September 2019 was NOK 89.36 (82.57) and earnings per EC were NOK 10.54 (8.07).

The Price / Income ratio was 7.01 (8.45) and the Price / Book ratio was 1.10 (1.10).

At quarter-end the EC was priced at NOK 98.50, 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 September 2019, loans to oil-related activity 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 activity to other sectors and no other significant concentrations in non-performing and problem exposures are in evidence.

International growth slowed somewhat through 2018 partly as a result of uncertainty related to trade conflicts and Brexit. In 2019 growth among Norway's trading partners has been weak, and growth expectations are revised down somewhat. There is considerable uncertainty regarding international developments. The Norwegian economy has received impetus from the international upturn, an improved oil price and increased oil investments. The Norwegian krone is at a relatively weak level, which is favourable for Norwegian export industries. The krone is expected to remain weak ahead. Real wage growth is expected to increase somewhat in 2019. Combined with a continued low interest rate level, the bank considers that loss risk in the bank's retail market portfolio will 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 likely have a dampening effect on 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, as reflected in a new Anti-Money Laundering Act which entered into force 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 currently dedicated to tasks related to the bank's anti-money laundering and terrorist financing effort. One such task is customer identity verification and updating of customer data across the entire customer portfolio in accordance with the requirements as to ongoing monitoring of customer relationships. These measures are preventive, and give the customer strengthened protection against criminal acts such as money laundering, terrorist financing, fraud and identity theft.

SpareBank 1 SMN has zero tolerance of money laundering and terrorist financing. The bank exercises 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 exposing attempts to perpetrate money laundering or terrorist financing.

**Insurance merger**

The merger between SpareBank 1 Skadeforsikring and DNB Forsikring AS 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, will accordingly be transferred to the merged company.

The demerger will be 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 group 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) is about NOK 332m which will be taken to income in the first quarter of 2020.

SpareBank 1 Gruppen AS will earn tax-free gain of about NOK 950m as a result of this transaction. SpareBank 1 Gruppen AS' basis for dividend distribution will increase by the same margin. SpareBank 1 SMN's share of a potential dividend of about NOK 950m (19.5 per cent) comes to NOK 185m.

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 will receive a gain of about NOK 850m. SpareBank 1 Gruppen's basis for dividend distribution will rise by the same margin. 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 governing extraordinary or ordinary dividend distributed by financial institutions at the relevant point in time.

Exercise of the option will also entail an increase in equity for SpareBank 1 Gruppen at group level. The majority's (the SpareBank 1 banks' and the Trade Union Confederation's) share of this increase will be about NOK 570m. SpareBank 1 SMN's share of this increase (19.5 per cent) comes to about NOK 111m which will in the event be taken to income in the course of 2020.

## Outlook

The profit performance for the first nine months of 2019 proved to be extraordinarily good after gains on the establishment of Fremtind Forsikring and appreciation of property owned by SpareBank 1 Forsikring. The profit posted excluding these gains is also good, with a return on equity approximately in line with the targeted level.

The directors are satisfied with the group's underlying operations in the third quarter, although the profit performance in the third quarter was lower than in the second quarter due to reduced return on financial instruments.

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 the growth rate is reported to have risen to 1.4 per cent, up from 1.3 per cent in the previous quarter, but at the same level as last year. Activity levels show the largest increase 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 proportion 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 agreement with the Norwegian Confederation of Trade Unions (LO) will strengthen the bank's market position.

The bank is reinforcing 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 potential efficiency gains to be made across the group through simplification and automation. The bank is well prepared for the introduction of PSD2 as from 15 September 2019.

The CET1 ratio has increased to 15.1 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 introduction of revised capital requirements rules as from the start of 2020 will entail higher reported capital adequacy, and capital targets will be adjusted accordingly.

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, 29. October 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)

# Income statement

Parent bank					Group						
January - September					January - September						
2018	3Q 18	3Q 19	2018	2019	(NOKm)	Note	2019	2018	3Q 19	3Q 18	2018
3,335	841	964	2,452	2,742	Interest income effective interest method		3,031	2,688	1,063	922	3,660
401	103	127	290	363	Other interest income		361	287	126	102	398
1,640	410	506	1,205	1,384	Interest expenses		1,401	1,217	512	414	1,655
<b>2,097</b>	<b>534</b>	<b>586</b>	<b>1,536</b>	<b>1,721</b>	<b>Net interest</b>	10	<b>1,991</b>	<b>1,759</b>	<b>678</b>	<b>610</b>	<b>2,403</b>
1,102	272	296	823	834	Commission income		1,066	1,044	374	344	1,387
92	24	29	70	73	Commission expenses		146	126	55	45	168
32	6	7	23	20	Other operating income		791	716	235	186	958
<b>1,042</b>	<b>253</b>	<b>274</b>	<b>776</b>	<b>781</b>	<b>Commission income and other income</b>		<b>1,711</b>	<b>1,634</b>	<b>554</b>	<b>486</b>	<b>2,177</b>
516	18	1	514	813	Dividends		14	6	1	0	8
-	-	-	-	-	Income from investment in related companies	3	871	286	85	105	416
152	35	3	204	98	Net return on financial investments	3	300	370	35	77	334
<b>668</b>	<b>53</b>	<b>4</b>	<b>718</b>	<b>912</b>	<b>Net return on financial investments</b>		<b>1,185</b>	<b>662</b>	<b>121</b>	<b>182</b>	<b>757</b>
<b>3,807</b>	<b>841</b>	<b>864</b>	<b>3,030</b>	<b>3,414</b>	<b>Total income</b>		<b>4,886</b>	<b>4,055</b>	<b>1,353</b>	<b>1,277</b>	<b>5,337</b>
577	143	149	448	463	Staff costs		1,288	1,193	404	376	1,584
685	160	191	487	543	Other operating expenses		789	729	269	240	1,040
<b>1,262</b>	<b>303</b>	<b>340</b>	<b>935</b>	<b>1,006</b>	<b>Total operating expenses</b>	11	<b>2,077</b>	<b>1,922</b>	<b>673</b>	<b>616</b>	<b>2,624</b>
<b>2,546</b>	<b>538</b>	<b>524</b>	<b>2,095</b>	<b>2,408</b>	<b>Result before losses</b>		<b>2,809</b>	<b>2,133</b>	<b>680</b>	<b>661</b>	<b>2,713</b>
229	60	59	172	163	Loss on loans, guarantees etc.	6.7	198	196	71	69	263
<b>2,316</b>	<b>478</b>	<b>465</b>	<b>1,923</b>	<b>2,245</b>	<b>Result before tax</b>	3	<b>2,612</b>	<b>1,937</b>	<b>609</b>	<b>592</b>	<b>2,450</b>
456	113	117	354	352	Tax charge		395	405	121	119	509
62	-	-	80	-	Result investment held for sale, after tax	2, 3	0	157	-0	6	149
<b>1,922</b>	<b>365</b>	<b>349</b>	<b>1,649</b>	<b>1,893</b>	<b>Net profit</b>		<b>2,217</b>	<b>1,689</b>	<b>488</b>	<b>480</b>	<b>2,090</b>
36	7	9	27	37	Attributable to additional Tier 1 Capital holders		39	28	10	7	37
1,207	229	217	1,038	1,187	Attributable to Equity capital certificate holders		1,365	1,044	299	301	1,291
680	129	122	585	669	Attributable to the saving bank reserve		769	588	168	170	727
					Attributable to non-controlling interests		44	29	11	2	34
<b>1,922</b>	<b>365</b>	<b>349</b>	<b>1,649</b>	<b>1,893</b>	<b>Net profit</b>		<b>2,217</b>	<b>1,689</b>	<b>488</b>	<b>480</b>	<b>2,090</b>
					Profit/diluted profit per ECC	17	10.54	8.07	2.30	2.32	9.97

## Other comprehensive income

Parent bank					Group					
January - September					January - September					
2018	3Q 18	3Q 19	2018	2019	(NOKm)	2019	2018	3Q 19	3Q 18	2018
1,922	365	349	1,649	1,893	Net profit	2,217	1,689	488	480	2,090
<b>Items that will not be reclassified to profit/loss</b>										
18	-	-	-	-	- Actuarial gains and losses pensions	-	-3	-	-	18
-6	-	-	-	-	- Tax	-	1	-	-	-6
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	3	1	1	0	1
<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>Total</b>	<b>3</b>	<b>-1</b>	<b>1</b>	<b>0</b>	<b>13</b>
<b>Items that will be reclassified to profit/loss</b>										
-	-7	-	-	-	- Fair value change on financial assets through other comprehensive income	-	-	-	-7	-
-2	-0	-2	-2	-2	- Value changes on loans measured at fair value	-2	-2	-2	-0	-2
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	-14	-13	-5	-3	-38
-	-	-	-	-	- Tax	-	-	-	0	-
<b>-2</b>	<b>-7</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>Total</b>	<b>-16</b>	<b>-15</b>	<b>-6</b>	<b>-9</b>	<b>-40</b>
<b>11</b>	<b>-7</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>Net other comprehensive income</b>	<b>-13</b>	<b>-16</b>	<b>-6</b>	<b>-9</b>	<b>-27</b>
<b>1,933</b>	<b>358</b>	<b>347</b>	<b>1,648</b>	<b>1,891</b>	<b>Total other comprehensive income</b>	<b>2,204</b>	<b>1,673</b>	<b>482</b>	<b>471</b>	<b>2,063</b>
36	7	9	27	37	Attributable to additional Tier 1 Capital holders	39	28	10	7	37
1,213	225	216	1,037	1,185	Attributable to Equity capital certificate holders	1,356	1,034	295	295	1,274
684	127	122	584	668	Attributable to the saving bank reserve	764	583	166	166	718
					Attributable to non-controlling interests	44	28	11	2	34
<b>1,933</b>	<b>358</b>	<b>347</b>	<b>1,648</b>	<b>1,891</b>	<b>Total other comprehensive Income</b>	<b>2,204</b>	<b>1,673</b>	<b>482</b>	<b>471</b>	<b>2,063</b>

## Balance sheet

Parent bank			(NOKm)	Note	Group		
31 Dec 2018	30 Sept 2018	30 Sept 2019			30 Sept 2019	30 Sept 2018	31 Dec 2018
883	1,129	1,279	Cash and receivables from central banks		1,279	1,129	883
11,178	12,821	11,267	Deposits with and loans to credit institutions		4,432	6,828	5,074
112,659	110,225	115,027	Net loans to and receivables from customers	5	123,037	117,153	119,728
20,428	19,801	21,205	Fixed-income CDs and bonds	15	21,125	19,721	20,348
3,914	2,666	3,917	Derivatives	15	4,052	2,686	4,119
391	355	360	Shares, units and other equity interests	15	2,386	2,662	1,873
4,309	4,160	4,560	Investment in related companies		6,487	5,865	6,098
2,610	2,619	2,752	Investment in group companies		-	-	-
82	82	82	Investment held for sale	2	41	44	43
533	538	515	Intangible assets		876	849	851
733	1,026	1,444	Other assets	12	2,760	2,401	1,687
<b>157,720</b>	<b>155,421</b>	<b>162,409</b>	<b>Total assets</b>		<b>166,475</b>	<b>159,337</b>	<b>160,704</b>
8,546	8,854	7,862	Deposits from credit institutions		8,942	10,106	9,214
81,448	78,317	84,822	Deposits from and debt to customers	9	83,641	77,529	80,615
44,269	44,113	44,889	Debt created by issue of securities	14	44,889	44,113	44,269
2,933	2,930	3,256	Derivatives	15	3,505	3,005	2,982
1,892	2,155	2,144	Other liabilities	13	3,339	3,264	2,670
-	-	-	Investment held for sale	2	0	0	1
2,224	2,625	2,207	Subordinated loan capital	14	2,254	2,668	2,268
<b>141,311</b>	<b>138,994</b>	<b>145,181</b>	<b>Total liabilities</b>		<b>146,571</b>	<b>140,687</b>	<b>142,018</b>
2,597	2,597	2,597	Equity capital certificates		2,597	2,597	2,597
-0	-0	-0	Own holding of ECCs		-7	-5	-4
895	895	895	Premium fund		895	895	895
5,602	5,079	5,602	Dividend equalisation fund		5,581	5,075	5,594
661	-	-	Recommended dividends		-	-	661
373	-	-	Provision for gifts		-	-	373
5,126	4,831	5,126	Ownerless capital		5,126	4,831	5,126
155	126	155	Unrealised gains reserve		155	126	155
-	-19	-3	Other equity capital		1,544	1,509	1,608
1,000	1,268	963	Additional Tier 1 Capital		1,004	1,310	1,043
-	1,649	1,893	Profit for the period		2,217	1,689	-
			Non-controlling interests		792	623	637
<b>16,409</b>	<b>16,428</b>	<b>17,228</b>	<b>Total equity capital</b>		<b>19,904</b>	<b>18,650</b>	<b>18,686</b>
<b>157,720</b>	<b>155,421</b>	<b>162,409</b>	<b>Total liabilities and equity</b>		<b>166,475</b>	<b>159,337</b>	<b>160,704</b>



## Cash flow statement

Parent bank				Group		
January - September				January - September		
2018	2018	2019 (NOKm)		2019	2018	2018
1,922	1,649	1,893	Net profit	2,217	1,689	2,090
66	47	83	Depreciations and write-downs on fixed assets	130	66	98
229	172	163	Losses on loans and guarantees	198	196	263
<b>2,218</b>	<b>1,868</b>	<b>2,139</b>	<b>Net cash increase from ordinary operations</b>	<b>2,545</b>	<b>1,951</b>	<b>2,451</b>
366	1,328	-368	Decrease/(increase) other receivables	-448	898	170
575	835	576	Increase/(decrease) short term debt	1,192	1,004	387
-8,138	-5,647	-2,534	Decrease/(increase) loans to customers	-3,508	-6,418	-9,059
-1,636	-3,279	-88	Decrease/(increase) loans credit institutions	642	-2,614	-860
4,086	955	3,374	Increase/(decrease) deposits to customers	3,025	1,054	4,140
-501	-193	-683	Increase/(decrease) debt to credit institutions	-272	500	-393
-533	94	-777	Increase/(decrease) in short term investments	-777	15	-613
<b>-3,563</b>	<b>-4,037</b>	<b>1,638</b>	<b>A) Net cash flow from operations</b>	<b>2,400</b>	<b>-3,611</b>	<b>-3,778</b>
-60	-53	-53	Increase in tangible fixed assets	-147	-103	-126
140	281	-393	Paid-up capital, associated companies	-295	545	232
-222	-186	31	Net investments in long-term shares and partnerships	-513	-836	-47
<b>-141</b>	<b>43</b>	<b>-774</b>	<b>B) Net cash flow from investments</b>	<b>-1,522</b>	<b>-394</b>	<b>59</b>
66	466	-17	Increase/(decrease) in subordinated loan capital	-14	467	66
-	-	1	Increase/(decrease) in equity	-15	12	15
-571	-571	-661	Dividend cleared	-661	-571	-571
-322	-322	-373	Disbursed from gift fund	-373	-322	-322
14	318	-37	Increase/(decrease) in Additional Tier 1 capital	-39	317	13
2,087	1,919	261	Increase/(decrease) in other long term loans	54	1,917	2,088
<b>1,274</b>	<b>1,811</b>	<b>-468</b>	<b>C) Net cash flow from financial activities</b>	<b>-482</b>	<b>1,820</b>	<b>1,289</b>
<b>-2,430</b>	<b>-2,184</b>	<b>396</b>	<b>A) + B) + C) Net changes in cash and cash equivalents</b>	<b>396</b>	<b>-2,184</b>	<b>-2,430</b>
3,313	3,313	883	Cash and cash equivalents at 1.1	883	3,313	3,313
883	1,129	1,279	Cash and cash equivalents at end of quarter	1,279	1,129	883
<b>-2,430</b>	<b>-2,184</b>	<b>396</b>	<b>Net changes in cash and cash equivalents</b>	<b>396</b>	<b>-2,184</b>	<b>-2,430</b>

## Change in equity

Parent Bank (NOKm)	Issued equity		Earned equity						Additional Tier 1 Capital	Total equity
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity			
<b>Equity at 1 January 2018</b>	<b>2,597</b>	<b>895</b>	<b>4,831</b>	<b>5,079</b>	<b>893</b>	<b>126</b>	<b>-17</b>	<b>950</b>	<b>15,355</b>	
Net profit	-	-	297	526	1,034	29	-	36	1,922	
<b>Other comprehensive income</b>										
Financial assets through OCI	-	-	-	-	-	-	-2	-	-2	
Actuarial gains (losses), pensions	-	-	-	-	-	-	12	-	12	
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>11</b>	
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>297</b>	<b>526</b>	<b>1,034</b>	<b>29</b>	<b>11</b>	<b>36</b>	<b>1,933</b>	
<b>Transactions with owners</b>										
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	
<b>Total transactions with owners</b>	<b>0</b>	<b>-</b>	<b>-2</b>	<b>-4</b>	<b>-893</b>	<b>-</b>	<b>6</b>	<b>14</b>	<b>-878</b>	
<b>Equity at 31 December 2018</b>	<b>2,597</b>	<b>895</b>	<b>5,126</b>	<b>5,602</b>	<b>1,034</b>	<b>155</b>	<b>-</b>	<b>1,000</b>	<b>16,409</b>	

(NOKm)	Issued equity		Earned equity					Additional Tier 1 Capital	Total equity
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity		
<b>Equity at 1 January 2019</b>	2,597	895	5,126	5,602	1,034	155	-	1,000	16,409
Net profit	-	-	-	-	-	-	1,893	-	1,893
<b>Other comprehensive income</b>									
Value changes on loans measured at fair value	-	-	-	-	-	-	-2	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-	-
<b>Other comprehensive income</b>	-	-	-	-	-	-	-2	-	-2
<b>Total other comprehensive income</b>	-	-	-	-	-	-	1,891	-	1,891
<b>Transactions with owners</b>									
Dividend declared for 2018	-	-	-	-	-661	-	-	-	-661
To be disbursed from gift fund	-	-	-	-	-373	-	-	-	-373
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-37	-37
Purchase and sale of own ECCs	-0	-	-	-0	-	-	-	-	-0
Direct recognitions in equity	-	-	-	-	-	-	-1	-	-1
<b>Total transactions with owners</b>	-0	-	-	-0	-1,034	-	-1	-37	-1,072
<b>Equity at 30 September 2019</b>	2,597	895	5,126	5,602	-	155	1,890	963	17,228

Group	Attributable to parent company equity holders									
	Issued equity		Earned equity					Additional Tier 1 Capital	Non-controlling interests	Total equity
(NOKm)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity			
<b>Equity at 1 January 2018</b>	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
<b>Other comprehensive income</b>										
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
<b>Other comprehensive income</b>	-	-	-	-	-	-	-27	-	-	-27
<b>Total other</b>										

<b>comprehensive income</b>	-	-	297	526	1,034	29	105	37	34	2,063
<b>Transactions with owners</b>										
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*)	4	-	-	0	-	-	11	-	-	15
Direct recognitions in equity	-	-	-2	-4	-	-	-5	-	-	-12
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-24	-	-	-24
Change in non-controlling interests	-	-	-	-	-	-	-	-	38	38
<b>Total transactions with owners</b>	<b>4</b>	<b>-</b>	<b>-2</b>	<b>-4</b>	<b>-893</b>	<b>-</b>	<b>-19</b>	<b>13</b>	<b>38</b>	<b>-863</b>
<b>Equity at 31 December 2018</b>	<b>2,592</b>	<b>895</b>	<b>5,126</b>	<b>5,594</b>	<b>1,034</b>	<b>155</b>	<b>1,608</b>	<b>1,043</b>	<b>637</b>	<b>18,686</b>

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

#### Attributable to parent company equity holders

(NOKm)	Issued equity		Earned equity							Total equity
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Additional Tier 1 Capital	Non-controlling interests	
<b>Equity at 1 January 2019</b>	<b>2,592</b>	<b>895</b>	<b>5,126</b>	<b>5,594</b>	<b>1,034</b>	<b>155</b>	<b>1,608</b>	<b>1,043</b>	<b>637</b>	<b>18,686</b>
Net profit	-	-	-	-	-	-	2,173	-	44	2,217
<b>Other comprehensive income</b>										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-11	-	-	-11
Value changes on loans measured at fair value	-	-	-	-	-	-	-2	-	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-	-	-
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-13</b>	<b>-</b>	<b>-</b>	<b>-13</b>
<b>Total other</b>										

<b>comprehensive income</b>	-	-	-	-	-	-	2,160	-	44	2,204
<b>Transactions with owners</b>										
Dividend declared for 2018	-	-	-	-	-661	-	-	-	-	-661
To be disbursed from gift fund	-	-	-	-	-373	-	-	-	-	-373
Additional Tier 1 capital issued	-	-	-	-	-	-	-	-	-	-
Buyback additional Tier 1 Capital issued	-	-	-	-	-	-	-	-	-	-
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-39	-	-39
Purchase and sale of own ECCs	-0	-	-	-0	-	-	-	-	-	-0
Own ECC held by SB1 Markets*)	-3	-	-	-13	-	-	0	-	-	-15
Direct recognitions in equity	-	-	-	-	-	-	15	-	-	15
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-22	-	-	-22
Change in non-controlling interests	-	-	-	-	-	-	-	-	111	111
<b>Total transactions with owners</b>	<b>-3</b>	<b>-</b>	<b>-</b>	<b>-13</b>	<b>-1,034</b>	<b>-</b>	<b>-7</b>	<b>-39</b>	<b>111</b>	<b>-985</b>
<b>Equity at 30</b>										
<b>September 2019</b>	<b>2,590</b>	<b>895</b>	<b>5,126</b>	<b>5,581</b>	<b>-</b>	<b>155</b>	<b>3,761</b>	<b>1,004</b>	<b>792</b>	<b>19,904</b>

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

# Notes

## Contents

Note 1 - Accounting principles .....	31
Note 2 - Critical estimates and assessment concerning the use of accounting principles .....	32
Note 3 - Account by business line .....	33
Note 4 - Capital adequacy .....	36
Note 5 - Distribution of loans by sector/industry .....	38
Note 6 - Losses on loans and guarantees .....	39
Note 7 - Losses .....	40
Note 8 - Gross loans .....	43
Note 9 - Distribution of customer deposits by sector/industry .....	45
Note 10 - Net interest income .....	46
Note 11 - Operating expenses .....	47
Note 12 - Other assets .....	48
Note 13 - Other liabilities .....	49
Note 14 - Debt created by issue of securities and subordinated debt .....	50
Note 15 - Measurement of fair value of financial instruments .....	51
Note 16 - Liquidity risk .....	54
Note 17 - Earnings per EC .....	55

## Note 1 - Accounting principles

### Accounting principles

SpareBank 1 SMN prepares and presents its quarterly accounts in compliance with the Stock Exchange Regulations, Stock Exchange Rules and International Financial Reporting Standards (IFRS) approved by EU, including IAS 34, Interim Financial Reporting. The quarterly accounts do not include all the information required in a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2018. The Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts, except implementing IFRS 16 as described below.

### Leases - IFRS 16

IFRS 16 Leases include principles for recognition, measurement, presentation and disclosures for leases for both parties in the arrangement, lessor and lessee. The standard requires lessees to recognise assets and liabilities for the majority of leases, a significant change from previous rules. The leases accounted for under IFRS 16 is mainly the Group rent of property. Discount rate applied is 2 per cent. The right to use asset has been presented as «fixed assets», while lease liability is presented as «other liabilities».

Refer to note 2 i annual accounts for 2018 for further details regarding implementation of IFRS 16. The effect on the accounts for first nine months 2019 are shown below. Comparables have not been restated.

<b>Parent</b>	<b>Group</b>
<b>30 Sept 2019 Right to use asset (NOKm)</b>	<b>30 Sept 2019</b>
374 Book value 1 January 2019	621
24 Additions	4
-7 Derecognition	-
<b>391 Book value 30 September 2019</b>	<b>625</b>
- Acc depreciation 1 January 2019	-
37 Depreciation in period	65
37 Acc depreciation 30 September 2019	65
<b>355 Net book value right to use asset 30 September 2019</b>	<b>560</b>
374 Lease liability 1 January 2019	621
25 Additions	-
-40 Lease payments in the period	-55
<b>358 Lease liability 30 September 2019</b>	<b>566</b>
<b>30 Sept 2019 Profit and Loss</b>	<b>30 Sept 2019</b>
37 Depreciations	65
7 Interest	11
<b>44 Total lease expense</b>	<b>75</b>
<b>Effect of IFRS 16</b>	
40 Reduced operating expenses under IAS 17	55
44 Increase lease expense under IFRS 16	75
<b>-3 Changes in profit before tax in the period</b>	<b>-20</b>

## Note 2 - Critical estimates and assessment concerning the use of accounting principles

When it prepares the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This accordingly affects recognised amounts for assets, liabilities, revenues and expenses. Last year's annual accounts give a closer explanation of significant estimates and assumptions in Note 3 Critical estimates and assessments concerning the use of accounting principles.

### Pensions

The Group has not obtained a new calculation of pensions as of 30 September since no factors have been identified that significantly alter the pension liability. For a further description of the various pension schemes, see note 24 in the 2018 annual report.

### Investment held for sale

SpareBank 1 SMN's strategy is that ownership due to defaulted exposures should at the outset be of brief duration, normally not longer than one year. Investments are recorded at fair value in the Parent Bank's accounts, and is classified as investment held for sale.

2019 Q3 (NOKm)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	41		0	3	3	100 %
<b>Total Held for sale</b>	<b>41</b>		<b>0</b>	<b>3</b>	<b>3</b>	

### Acquisition of DeBank

At 5. February 2019 SpareBank 1 SMN acquired 100 per cent of the shares in DeBank AS for MNOK 40. The acquisition led to a negativ 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 acquisition cost. The allocation of fair value is distributed as follows:

	Fair value recognised at acquisition date
<b>Assets</b>	
Loans	207
Other assets	14
<b>Total assets</b>	<b>221</b>
<b>Liabilities</b>	
Deposits	142
Accruals	5
Other liabilities	4
<b>Total liabilities</b>	<b>151</b>
<b>Net identifiable assets and liabilities</b>	<b>70</b>
Goodwill	-31
<b>Acquisition cost</b>	<b>40</b>



### Note 3 - Account by business line

For the subsidiaries the figures refer to the respective company accounts, while for 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 30 September 2019

Profit and loss account (NOKm)	RM	CM	SB1		SB1	SB1	SB1	BN	Uncollated	Total
			Markets	EM 1	Finans	Regnskaps-huset				
Net interest	862	757	-13	-1	231		-1	-	156	1,991
Interest from allocated capital	153	107	-	-	-		-	-	-260	-
<b>Total interest income</b>	<b>1,015</b>	<b>864</b>	<b>-13</b>	<b>-1</b>	<b>231</b>		<b>-1</b>	<b>-</b>	<b>-104</b>	<b>1,991</b>
Commission income and other income	597	148	376	418	54		391	-	-273	1,711
Net return on financial investments (**)	0	9	89	-	-		-	264	79	1,185
<b>Total income</b>	<b>1,612</b>	<b>1,021</b>	<b>452</b>	<b>418</b>	<b>285</b>		<b>390</b>	<b>264</b>	<b>79</b>	<b>4,886</b>
<b>Total operating expenses</b>	<b>654</b>	<b>307</b>	<b>412</b>	<b>410</b>	<b>137</b>		<b>309</b>	<b>-</b>	<b>-</b>	<b>2,077</b>
<b>Ordinary operating profit</b>	<b>958</b>	<b>714</b>	<b>39</b>	<b>8</b>	<b>148</b>		<b>81</b>	<b>264</b>	<b>79</b>	<b>2,809</b>
Loss on loans, guarantees etc.	23	140	-	-	33		-	-	3	198
<b>Result before tax including held for sale</b>	<b>936</b>	<b>575</b>	<b>39</b>	<b>8</b>	<b>115</b>		<b>81</b>	<b>264</b>	<b>79</b>	<b>2,612</b>
<b>Post-tax return on equity*)</b>	<b>13.7 %</b>	<b>11.8 %</b>								<b>16.0 %</b>
<b>Balance</b>										
Loans and advances to customers	116,882	40,502	-	-	8,710		-	-	-714	165,380
Adv. of this sold to SB1										
Boligkreditt and SB1										
Næringskreditt	-40,006	-1,408	-	-	-		-	-	-0	-41,414
Allowance for credit losses	-117	-756	-	-	-52		-	-	-5	-930
Other assets	214	5,876	3,145	446	22		519	1,603	1,397	30,215
<b>Total assets</b>	<b>76,974</b>	<b>44,214</b>	<b>3,145</b>	<b>446</b>	<b>8,680</b>		<b>519</b>	<b>1,603</b>	<b>1,397</b>	<b>29,496</b>
Deposits to customers	41,674	40,542	-	-	-		-	-	1,424	83,641
Other liabilities and equity	35,300	3,671	3,145	446	8,680		519	1,603	1,397	28,072
<b>Total liabilities and equity</b>	<b>76,974</b>	<b>44,214</b>	<b>3,145</b>	<b>446</b>	<b>8,680</b>		<b>519</b>	<b>1,603</b>	<b>1,397</b>	<b>29,496</b>

## Group 30 September 2018

Profit and loss account (NOKm)			SB1	EM	SB1	SB1	SB1		BN	Uncollated	Total
	RM	CM	Markets	1	Finans	Regnskaps-huset	SMN	Gruppen			
Net interest	768	730	-11	2	200		-0	-	-	70	1,759
Interest from allocated capital	132	98	-	-	-		-	-	-	-229	-
<b>Total interest income</b>	<b>900</b>	<b>827</b>	<b>-11</b>	<b>2</b>	<b>200</b>		<b>-0</b>	<b>-</b>	<b>-</b>	<b>-160</b>	<b>1,759</b>
Commission income and other income	590	150	337	389	46		337	-	-	-215	1,634
Net return on financial investments **)	0	15	75	-	-		-	189	70	313	662
<b>Total income</b>	<b>1,490</b>	<b>993</b>	<b>401</b>	<b>391</b>	<b>247</b>		<b>336</b>	<b>189</b>	<b>70</b>	<b>-62</b>	<b>4,055</b>
<b>Total operating expenses</b>	<b>597</b>	<b>278</b>	<b>380</b>	<b>385</b>	<b>115</b>		<b>280</b>	<b>-</b>	<b>-</b>	<b>-113</b>	<b>1,922</b>
<b>Ordinary operating profit</b>	<b>893</b>	<b>714</b>	<b>21</b>	<b>6</b>	<b>131</b>		<b>57</b>	<b>189</b>	<b>70</b>	<b>51</b>	<b>2,133</b>
Loss on loans, guarantees etc.	18	153	-	-	24		-	-	-	0	196
<b>Result before tax including held for sale</b>	<b>874</b>	<b>561</b>	<b>21</b>	<b>6</b>	<b>107</b>		<b>57</b>	<b>189</b>	<b>70</b>	<b>51</b>	<b>1,937</b>
<b>Post-tax return on equity*)</b>	<b>13.1 %</b>	<b>10.8 %</b>									<b>13.3 %</b>
<b>Balance</b>											
Loans and advances to customers	111,207	39,716	-	-	7,546		-	-	-	-644	157,825
Adv. of this sold to SpareBank 1 Boligkreditt	-37,796	-1,986	-	-	-		-	-	-	-	-39,782
Allowance for credit losses	-96	-749	-	-	-44		-	-	-	-	-889
Other assets	123	2,434	3,212	314	16		384	1,469	1,216	33,015	42,184
<b>Total assets</b>	<b>73,438</b>	<b>39,415</b>	<b>3,212</b>	<b>314</b>	<b>7,519</b>		<b>384</b>	<b>1,469</b>	<b>1,216</b>	<b>32,370</b>	<b>159,337</b>
Deposits to customers	39,879	37,201	-	-	-		-	-	-	450	77,529
Other liabilities and equity	33,559	1,967	3,212	314	7,519		384	1,469	1,216	32,167	81,808
<b>Total liabilities and equity</b>	<b>73,438</b>	<b>39,167</b>	<b>3,212</b>	<b>314</b>	<b>7,519</b>		<b>384</b>	<b>1,469</b>	<b>1,216</b>	<b>32,618</b>	<b>159,337</b>

\*) 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 during the year

	30 Sept 2019	30 Sept 2018
**) Specification of net return on financial investments (NOKm)		
<b>Dividends</b>	<b>14</b>	<b>6</b>
Capital gains shares	108	144
Gain/(loss) on certificates and bonds	22	-81
Gain/(loss) on derivatives	92	192
Gain/(loss) on financial instruments related to hedging	-1	-5
Gain/(loss) on other financial instruments at fair value (FVO)	10	23
Foreign exchange gain/(loss)	32	47
Gains/(Loss) on shares and share derivatives at SpareBank 1 Markets	36	52
<b>Net return on financial instruments</b>	<b>300</b>	<b>370</b>
SpareBank 1 Gruppen	264	189
Gain Fremtind Forsikring	460	-
SpareBank 1 Boligkreditt	26	2
SpareBank 1 Næringskreditt	15	10
BN Bank	84	73
SpareBank 1 Kredittkort	13	17
SpareBank 1 Betaling	7	-9
Other companies	2	4
<b>Income from investment in associates and joint ventures</b>	<b>871</b>	<b>286</b>
<b>Total net return on financial investments</b>	<b>1,185</b>	<b>662</b>
<b>Fair value hedging</b>		
Changes in fair value on hedging instrument	-250	-209
Changes in fair value on hedging item	249	204
<b>Net Gain or Loss from hedge accounting</b>	<b>-1</b>	<b>-5</b>

## Note 4 - Capital adequacy

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 30 September 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 2.0 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 12.0 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 1.9 per cent for SpareBank 1 SMN. The total minimum requirement on CET1 capital is accordingly 13.9 per cent.

It has been announced that the countercyclical capital buffer is to be increased to 2.5 per cent as from 31 December 2019. In addition, a consultation document dated 25 June 2019 from the Ministry of Finance proposes increasing the systemic risk buffer to 4.5 per cent with effect from 31 December 2019. This coincides with the removal of the Basel 1 floor and the proposed introduction of an SME discount. If this is introduced with effect from 31 December 2019, the total minimum requirement on CET1 capital including the Pillar 2 requirement will be 15.9 per cent.

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 first nine months 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 has been subject to a write-down of 60 per cent in 2018 and 70 per cent in 2019. As at 30 September 2019 the bank held hybrid capital worth NOK 450 million subject to write-down.

Parent Bank				Group		
31 Dec 2018	30 Sept 2018	30 Sept 2019	(NOKm)	30 Sept 2019	30 Sept 2018	31 Dec 2018
16,409	16,428	17,228	Total book equity	19,904	18,650	18,686
-1,000	-1,268	-963	Additional Tier 1 capital instruments included in total equity	-1,004	-1,310	-1,043
-533	-538	-515	Deferred taxes, goodwill and other intangible assets	-1,106	-1,059	-1,079
-1,034	-	-	Deduction for allocated dividends and gifts	-	-	-1,034
-	-	-	Non-controlling interests recognised in other equity capital	-792	-623	-637
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	450	371	366
-	-1,649	-1,893	Net profit	-2,217	-1,689	-
-	825	804	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2018)	1,128	864	-
-31	-29	-32	Value adjustments due to requirements for prudent valuation	-44	-47	-44
-268	-308	-353	Positive value of adjusted expected loss under IRB Approach	-383	-316	-286
-	-	-	Cash flow hedge reserve	5	2	5
-163	-163	-185	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-183	-147	-206
<b>13,381</b>	<b>13,298</b>	<b>14,091</b>	<b>Total common equity Tier one</b>	<b>15,758</b>	<b>14,697</b>	<b>14,727</b>
1,000	1,000	1,000	Additional Tier 1 capital instruments	1,384	1,478	1,378
367	367	275	Additional Tier 1 capital instruments covered by transitional provisions	275	367	367
<b>14,748</b>	<b>14,665</b>	<b>15,367</b>	<b>Total core capital</b>	<b>17,417</b>	<b>16,542</b>	<b>16,472</b>
			<b>Supplementary capital in excess of core capital</b>			
1,750	1,500	1,750	Subordinated capital	2,310	2,118	2,316
96	449	179	Subordinated capital covered by transitional provisions	179	449	96
-140	-140	-141	Deduction for significant investments in financial institutions	-141	-140	-140
<b>1,705</b>	<b>1,809</b>	<b>1,788</b>	<b>Total supplementary capital</b>	<b>2,348</b>	<b>2,427</b>	<b>2,272</b>
<b>16,453</b>	<b>16,473</b>	<b>17,155</b>	<b>Net subordinated capital</b>	<b>19,765</b>	<b>18,969</b>	<b>18,743</b>

			<b>Minimum requirements subordinated capital</b>			
967	951	948	Specialised enterprises	1,128	1,107	1,116
1,156	1,173	1,183	Corporate	1,194	1,181	1,163
1,516	1,508	1,518	Mass market exposure, property	2,169	2,070	2,098
90	91	103	Other mass market	106	94	92
1,062	1,045	1,118	Equity investments	1	1	1
<b>4,790</b>	<b>4,768</b>	<b>4,870</b>	<b>Total credit risk IRB</b>	<b>4,597</b>	<b>4,453</b>	<b>4,470</b>
3	2	2	Central government	2	3	4
87	95	90	Covered bonds	149	145	124
390	375	435	Institutions	301	217	246
-	-	-	Local and regional authorities, state-owned enterprises	5	10	8
23	30	38	Corporate	237	241	221
73	70	32	Mass market	532	510	520
12	15	18	Exposures secured on real property	200	181	215
228	228	236	Equity positions	371	358	366
57	53	89	Other assets	157	109	107
<b>873</b>	<b>868</b>	<b>939</b>	<b>Total credit risk standardised approach</b>	<b>1,955</b>	<b>1,774</b>	<b>1,810</b>
30	31	25	Debt risk	27	33	31
-	-	-	Equity risk	6	24	7
-	-	-	Currency risk and risk exposure for settlement/delivery	3	3	3
370	370	387	Operational risk	656	575	575
39	33	35	Credit value adjustment risk (CVA)	130	80	122
-	-	-	Transitional arrangements	983	971	1,074
<b>6,102</b>	<b>6,071</b>	<b>6,256</b>	<b>Minimum requirements subordinated capital</b>	<b>8,357</b>	<b>7,913</b>	<b>8,093</b>
<b>76,274</b>	<b>75,887</b>	<b>78,196</b>	<b>Risk weighted assets (RWA)</b>	<b>104,464</b>	<b>98,915</b>	<b>101,168</b>
3,432	3,415	3,519	Minimum requirement on CET1 capital, 4.5 per cent	4,701	4,451	4,553
			<b>Capital Buffers</b>			
1,907	1,897	1,955	Capital conservation buffer, 2.5 per cent	2,612	2,473	2,529
2,288	2,277	2,346	Systemic risk buffer, 3.0 per cent	3,134	2,967	3,035
1,525	1,518	1,564	Countercyclical buffer, 2.0 per cent	2,089	1,978	2,023
<b>5,721</b>	<b>5,692</b>	<b>5,865</b>	<b>Total buffer requirements on CET1 capital</b>	<b>7,835</b>	<b>7,419</b>	<b>7,588</b>
<b>4,228</b>	<b>4,191</b>	<b>4,708</b>	<b>Available CET1 capital after buffer requirements</b>	<b>3,222</b>	<b>2,827</b>	<b>2,587</b>
			<b>Capital adequacy</b>			
17.5 %	17.5 %	18.0 %	Common equity Tier one ratio	15.1 %	14.9 %	14.6 %
19.3 %	19.3 %	19.7 %	Core capital ratio	16.7 %	16.7 %	16.3 %
21.6 %	21.7 %	21.9 %	Capital adequacy ratio	18.9 %	19.2 %	18.5 %
			<b>Leverage ratio</b>			
153,395	150,853	159,426	Balance sheet items	228,285	213,761	216,240
7,110	7,629	6,774	Off-balance sheet items	7,939	9,595	9,086
-832	-1,170	-900	Regulatory adjustments	-1,546	-1,729	-1,474
159,673	157,313	165,301	Calculation basis for leverage ratio	234,678	221,628	223,853
14,748	14,665	15,367	Core capital	17,417	16,542	16,472
<b>9.2 %</b>	<b>9.3 %</b>	<b>9.3 %</b>	<b>Leverage Ratio</b>	<b>7.4 %</b>	<b>7.5 %</b>	<b>7.4 %</b>

## Note 5 - Distribution of loans by sector/industry

Parent Bank				Group		
31 Dec 2018	30 Sept 2018	30 Sept 2019	(NOKm)	30 Sept 2019	30 Sept 2018	31 Dec 2018
12,362	12,022	12,772	Agriculture, forestry, fisheries, hunting	13,130	12,346	12,686
869	978	1,051	Sea farming industries	1,348	1,317	1,180
3,438	2,827	2,734	Manufacturing	3,097	3,158	3,787
2,947	2,823	2,909	Construction, power and water supply	3,719	3,536	3,661
2,335	2,143	2,213	Retail trade, hotels and restaurants	2,555	2,410	2,621
4,227	4,372	4,678	Maritime sector	4,678	4,372	4,227
15,107	14,678	14,457	Property management	14,530	14,737	15,168
2,531	2,763	2,443	Business services	2,053	2,463	2,162
4,145	4,062	4,595	Transport and other services provision	5,459	4,876	4,961
44	11	3	Public administration	14	23	55
1,658	1,923	2,062	Other sectors	2,026	1,955	1,679
<b>49,663</b>	<b>48,603</b>	<b>49,916</b>	<b>Gross loans in retail market</b>	<b>52,609</b>	<b>51,195</b>	<b>52,186</b>
103,537	102,248	107,398	Wage earners	112,772	106,631	108,131
<b>153,200</b>	<b>150,851</b>	<b>157,314</b>	<b>Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt</b>	<b>165,380</b>	<b>157,825</b>	<b>160,317</b>
38,062	37,669	39,713	of which SpareBank 1 Boligkreditt	39,713	37,669	38,062
1,782	2,112	1,701	of which SpareBank 1 Næringskreditt	1,701	2,112	1,782
<b>113,356</b>	<b>111,069</b>	<b>115,900</b>	<b>Gross loans in balance sheet</b>	<b>123,967</b>	<b>118,044</b>	<b>120,473</b>
639	785	808	- Loan loss allowance on amortised cost loans	865	831	686
58	60	65	- Loan loss allowance on loans at FVOCI	65	60	58
<b>112,659</b>	<b>110,225</b>	<b>115,027</b>	<b>Net loans to and receivables from customers</b>	<b>123,037</b>	<b>117,153</b>	<b>119,728</b>

## Note 6 - Losses on loans and guarantees

Parent Bank	January - September			January - September			2018		
	2019			2018			2018		
Losses on loans and guarantees (NOKm)	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in provision for expected credit losses for the period	21	137	157	20	104	124	18	126	144
Actual loan losses on commitments exceeding provisions made	7	4	11	4	50	54	6	86	93
Recoveries on commitments previously written-off	-4	-1	-5	-6	-1	-7	-7	-1	-8
<b>Losses for the period on loans and guarantees</b>	<b>24</b>	<b>140</b>	<b>163</b>	<b>18</b>	<b>153</b>	<b>172</b>	<b>17</b>	<b>212</b>	<b>229</b>

Group	January - September			January - September			2018		
	2019			2018			2018		
Losses on loans and guarantees (NOKm)	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in provision for expected credit losses for the period	24	141	165	24	104	128	23	127	150
Actual loan losses on commitments exceeding provisions made	28	11	39	24	57	81	30	98	127
Recoveries on commitments previously written-off	-4	-2	-6	-12	-1	-13	-13	-1	-15
<b>Losses for the period on loans and guarantees</b>	<b>47</b>	<b>150</b>	<b>198</b>	<b>37</b>	<b>159</b>	<b>196</b>	<b>40</b>	<b>223</b>	<b>263</b>

## Note 7 - Losses

Parent Bank (NOKm)	1 Jan 19	Change in provision	Net write-offs /recoveries	30 Sept 2019
Loans as amortised cost- CM	742	137	-5	874
Loans as amortised cost- RM	45	14	-5	54
Loans at fair value over OCI- RM	75	4	-	79
Loans at fair value over OCI- CM	-	1	-	1
<b>Provision for expected credit losses on loans and guarantees</b>	<b>862</b>	<b>156</b>	<b>-10</b>	<b>1,008</b>
<b>Presented as</b>				
Provision for loan losses	697	186	-10	873
Other debt- provisons	148	-28	-	120
Other comprehensive income - fair value adjustment	17	-2	-	15

Parent Bank (NOKm)	1 Jan 18	Change in provision	Net write-offs /recoveries	30 Sept 2018
Loans as amortised cost- CM	1,017	-153	-	864
Loans as amortised cost- RM	32	5	-	37
Loans at fair value over OCI- RM	65	12	-1	76
<b>Provision for expected credit losses on loans and guarantees</b>	<b>1,114</b>	<b>-136</b>	<b>-1</b>	<b>975</b>
<b>Presented as</b>				
Provision for loan losses	1,027	-181	-1	845
Other debt- provisons	68	46	-	115
Other comprehensive income - fair value adjustment	18	-2	-	17

Parent Bank (NOKm)	1 Jan 18	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
<b>Provision for expected credit losses on loans and guarantees</b>	<b>1,114</b>	<b>163</b>	<b>-415</b>	<b>862</b>
<b>Presented as</b>				
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 19	Change in provision	Net write-offs /recoveries	30 Sept 2019
Loans as amortised cost- CM	766	145	-7	905
Loans as amortised cost- RM	68	18	-5	80
Loans at fair value over OCI- RM	75	4	-	79
Loans at fair value over OCI- CM	-	1	-	1
<b>Provision for expected credit losses on loans and guarantees</b>	<b>909</b>	<b>167</b>	<b>-12</b>	<b>1,065</b>
<b>Presented as</b>				
Provision for loan losses	744	197	-12	930
Other debt- provisons	148	-28	-	120
Other comprehensive income - fair value adjustment	17	-2	-	15



Group (NOKm)	1 Jan 18	Change in provision	Net write-offs / recoveries	30 Sept 2018
Loans as amortised cost- CM	1,037	-153	2	886
Loans as amortised cost- RM	52	7	-	59
Loans at fair value over OCI- RM	65	12	-1	76
<b>Provision for expected credit losses on loans and guarantees</b>	<b>1,154</b>	<b>-134</b>	<b>1</b>	<b>1,020</b>
<b>Presented as</b>				
Provision for loan losses	1,068	-181	1	889
Other debt- provisions	68	46	-	115
Other comprehensive income - fair value adjustment	18	-2	-	17

Group (NOKm)	1 Jan 18	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
<b>Provision for expected credit losses on loans and guarantees</b>	<b>1,155</b>	<b>171</b>	<b>-417</b>	<b>909</b>
<b>Presented as</b>				
Provision for loan losses	1,068	93	-417	744
Other debt- provisions	68	80	-	148
Other comprehensive income - fair value adjustment	18	-2	-	17

#### Development in provision for expected credit losses on loans

Parent Bank (NOKm)	January - September 2019				January - September 2018				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Opening balance</b>	<b>91</b>	<b>210</b>	<b>413</b>	<b>714</b>	<b>83</b>	<b>207</b>	<b>754</b>	<b>1,044</b>	<b>83</b>	<b>207</b>	<b>755</b>	<b>1,044</b>
Provision for credit losses												
Transfer to (from) stage 1	28	-28	-0	-	26	-26	0	-	30	-30	0	-
Transfer to (from) stage 2	-5	5	-0	-	-6	6	0	-	-5	5	0	-
Transfer to (from) stage 3	-0	-3	4	-	0	-2	2	-	0	-2	3	-
Net remeasurement of loss allowances	-32	79	161	208	-32	46	-190	-176	-31	32	75	76
Originations or purchases	28	22	1	51	31	36	0	68	49	90	1	139
Derecognitions	-25	-49	-1	-75	-21	-50	-3	-74	-34	-92	-4	-130
Actual loan losses	-	-	-10	-10	-	-	-	-	-	-	-415	-415
<b>Closing balance</b>	<b>86</b>	<b>236</b>	<b>566</b>	<b>888</b>	<b>80</b>	<b>217</b>	<b>563</b>	<b>861</b>	<b>91</b>	<b>210</b>	<b>413</b>	<b>714</b>

#### Development in provision for expected credit losses on guarantees and unused credit lines

Parent Bank (NOKm)	January - September 2019				January - September 2018				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Opening balance</b>	<b>11</b>	<b>47</b>	<b>90</b>	<b>148</b>	<b>13</b>	<b>49</b>	<b>7</b>	<b>70</b>	<b>13</b>	<b>49</b>	<b>7</b>	<b>70</b>
Provision for credit losses												
Transfer to (from) stage 1	3	-3	-0	-	2	-2	-0	-	2	-2	-0	-
Transfer to (from) stage 2	-1	1	-	-	-1	1	-0	-	-1	1	-0	-
Transfer to (from) stage 3	-0	-0	0	-	-0	-0	0	-	-0	-0	0	-
Net remeasurement of loss allowances	-5	7	-14	-12	-5	16	40	51	-3	12	83	92
Originations or purchases	5	1	0	6	5	7	0	12	6	3	0	9
Derecognitions	-3	-19	-0	-22	-4	-14	-0	-18	-6	-17	-0	-23
<b>Closing balance</b>	<b>10</b>	<b>34</b>	<b>76</b>	<b>120</b>	<b>10</b>	<b>57</b>	<b>47</b>	<b>115</b>	<b>11</b>	<b>47</b>	<b>90</b>	<b>148</b>

## Development in provision for expected credit losses on loans

Group (NOKm)	January - September 2019				January - September 2018				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Opening balance</b>	<b>102</b>	<b>223</b>	<b>436</b>	<b>761</b>	<b>93</b>	<b>219</b>	<b>773</b>	<b>1,084</b>	<b>93</b>	<b>218</b>	<b>775</b>	<b>1,085</b>
Provision for credit losses												
Transfer to (from) stage 1	31	-30	-1	-	25	-24	-1	-	32	-31	-0	-
Transfer to (from) stage 2	-6	7	-1	-	-6	5	1	-	-6	7	-0	-
Transfer to (from) stage 3	-0	-5	5	-	-1	-3	4	-	-0	-3	4	-
Net remeasurement of loss allowances	-35	82	169	216	-35	49	-185	-171	-34	35	83	85
Originations or purchases	33	26	4	63	34	39	1	74	53	93	3	149
Derecognitions	-26	-51	-6	-83	-22	-52	-9	-83	-36	-94	-11	-140
Actual loan losses	-	-	-12	-12	-	-	-	-	-	-	-417	-417
<b>Closing balance</b>	<b>99</b>	<b>252</b>	<b>594</b>	<b>945</b>	<b>88</b>	<b>233</b>	<b>584</b>	<b>905</b>	<b>102</b>	<b>224</b>	<b>436</b>	<b>761</b>

## Development in provision for expected credit losses on guarantees and unused credit lines

Group (NOKm)	January - September 2019				January - September 2018				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Opening balance</b>	<b>11</b>	<b>47</b>	<b>90</b>	<b>148</b>	<b>13</b>	<b>49</b>	<b>7</b>	<b>70</b>	<b>13</b>	<b>49</b>	<b>7</b>	<b>70</b>
Provision for credit losses												
Transfer to (from) stage 1	3	-3	-0	-	2	-2	-0	-	2	-2	-0	-
Transfer to (from) stage 2	-1	1	-	-	-1	1	-0	-	-1	1	-0	-
Transfer to (from) stage 3	-0	-0	0	-	-0	-0	0	-	-0	-0	0	-
Net remeasurement of loss allowances	-5	7	-14	-12	-5	16	40	51	-3	12	83	92
Originations or purchases	5	1	0	6	5	7	0	12	6	3	0	9
Derecognitions	-3	-19	-0	-22	-4	-14	-0	-18	-6	-17	-0	-23
<b>Closing balance</b>	<b>10</b>	<b>34</b>	<b>76</b>	<b>120</b>	<b>10</b>	<b>57</b>	<b>47</b>	<b>115</b>	<b>11</b>	<b>47</b>	<b>90</b>	<b>148</b>

## Note 8 - Gross loans

Parent Bank	Loans subject to impairment			Fixed interest loans at FV	Total
	Stage 1	Stage 2	Stage 3		
<b>Gross loan - Total</b>					
<b>Balance at 1 January 2019</b>	<b>97,458</b>	<b>9,888</b>	<b>1,543</b>	<b>4,467</b>	<b>113,356</b>
Transfer to stage 1	2,402	-2,373	-28	-	-
Transfer to stage 2	-2,560	2,601	-40	-	-
Transfer to stage 3	-61	-364	425	-	-
Net increase/decrease amount existing loans	-2,256	-43	-39	-84	-2,422
New loans	41,405	829	352	836	43,422
Derecognitions	-35,528	-2,242	-257	-428	-38,455
<b>Balance at 30 September 2019</b>	<b>100,859</b>	<b>8,295</b>	<b>1,955</b>	<b>4,791</b>	<b>115,900</b>

Parent Bank	Loans subject to impairment			Fixed interest loans at FV	Total
	Stage 1	Stage 2	Stage 3		
<b>Gross loan - Total</b>					
<b>Balance at 1 January 2018</b>	<b>91,074</b>	<b>9,931</b>	<b>1,560</b>	<b>3,278</b>	<b>105,843</b>
Transfer to stage 1	1,882	-1,866	-16	-	-
Transfer to stage 2	-3,285	3,307	-22	-	-
Transfer to stage 3	-58	-320	378	-	-
Net increase/decrease amount existing loans	-5,288	-168	-6	0	-5,462
New loans	37,724	1,534	97	1,627	40,981
Derecognitions	-26,571	-2,388	-440	-893	-30,292
<b>Balance at 30 September 2018</b>	<b>95,478</b>	<b>10,029</b>	<b>1,551</b>	<b>4,013</b>	<b>111,071</b>

Parent Bank	Loans subject to impairment			Fixed interest loans at FV	Total
	Stage 1	Stage 2	Stage 3		
<b>Gross loan - Total</b>					
<b>Balance at 1 January 2018</b>	<b>91,074</b>	<b>9,931</b>	<b>1,560</b>	<b>3,278</b>	<b>105,843</b>
Transfer to stage 1	2,230	-2,230	-	-	-
Transfer to stage 2	-2,637	2,644	-7	-	-
Transfer to stage 3	-458	-31	489	-	-
Net increase/decrease amount existing loans	-5,487	-65	11	-148	-5,689
New loans	46,099	2,067	72	2,269	50,507
Derecognitions	-33,363	-2,428	-581	-933	-37,305
<b>Balance at 31 December 2018</b>	<b>97,458</b>	<b>9,888</b>	<b>1,543</b>	<b>4,467</b>	<b>113,356</b>

Group	Loans subject to impairment			Fixed interest loans at FV	Total
	Stage 1	Stage 2	Stage 3		
<b>Gross loan - Total</b>					
<b>Balance at 1 January 2019</b>	<b>103,493</b>	<b>10,829</b>	<b>1,683</b>	<b>4,467</b>	<b>120,473</b>
Transfer to stage 1	2,667	-2,632	-34	-	-
Transfer to stage 2	-3,142	3,194	-52	-	-
Transfer to stage 3	-101	-412	513	-	-
Net increase/decrease amount existing loans	-3,109	-221	-60	-84	-3,473
New loans	44,236	1,066	373	836	46,511
Derecognitions	-36,422	-2,394	-299	-428	-39,543
<b>Balance at 30 September 2019</b>	<b>107,623</b>	<b>9,430</b>	<b>2,123</b>	<b>4,791</b>	<b>123,967</b>

Group	Loans subject to impairment			Fixed interest loans at FV	Total
	Stage 1	Stage 2	Stage 3		
<b>Gross loan - Total</b>					
<b>Balance at 1 January 2018</b>	<b>96,286</b>	<b>10,855</b>	<b>1,652</b>	<b>3,278</b>	<b>112,071</b>
Transfer to stage 1	2,044	-2,026	-18	-	-
Transfer to stage 2	-3,770	3,802	-32	-	-
Transfer to stage 3	-78	-352	430	-	-
Net increase/decrease amount existing loans	-5,817	-294	-13	-	-6,124
New loans	39,744	1,705	105	1,627	43,180
Derecognitions	-27,243	-2,472	-476	-893	-31,084
<b>Balance at 30 September 2018</b>	<b>101,166</b>	<b>11,217</b>	<b>1,649</b>	<b>4,013</b>	<b>118,044</b>

Group	Loans subject to impairment			Fixed interest loans at FV	Total
	Stage 1	Stage 2	Stage 3		
<b>Gross loan - Total</b>					
<b>Balance at 1 January 2018</b>	<b>96,286</b>	<b>10,855</b>	<b>1,652</b>	<b>3,278</b>	<b>112,071</b>
Transfer to stage 1	2,439	-2,391	-48	-	-
Transfer to stage 2	-2,957	2,970	-13	-	-
Transfer to stage 3	-464	-71	536	-	-
Net increase/decrease amount existing loans	-6,397	-260	89	-148	-6,716
New loans	48,841	2,283	89	2,269	53,483
Derecognitions	-34,253	-2,556	-622	-933	-38,365
<b>Balance at 31 December 2018</b>	<b>103,494</b>	<b>10,829</b>	<b>1,682</b>	<b>4,467</b>	<b>120,473</b>

## Note 9 - Distribution of customer deposits by sector/industry

Parent Bank				Group		
31 Dec 2018	30 Sept 2018	30 Sept 2019	(NOKm)	30 Sept 2019	30 Sept 2018	31 Dec 2018
3,066	2,965	3,074	Agriculture, forestry, fisheries, hunting	3,074	2,965	3,066
742	689	713	Sea farming industries	713	689	742
1,696	1,627	1,399	Manufacturing	1,399	1,627	1,696
3,541	2,523	3,063	Construction, power and water supply	3,063	2,523	3,541
4,663	3,983	3,589	Retail trade, hotels and restaurants	3,589	3,983	4,663
996	1,079	1,088	Maritime sector	1,088	1,079	996
4,949	5,705	5,622	Property management	5,319	5,403	4,644
6,883	6,507	7,449	Business services	7,449	6,507	6,883
6,572	6,036	8,020	Transport and other services provision	7,442	5,676	6,210
12,202	11,008	11,595	Public administration	11,595	11,008	12,202
3,083	2,562	3,869	Other sectors	3,567	2,436	2,917
<b>48,393</b>	<b>44,684</b>	<b>49,479</b>	<b>Total</b>	<b>48,298</b>	<b>43,897</b>	<b>47,561</b>
33,055	33,633	35,343	Wage earners	35,343	33,633	33,055
<b>81,448</b>	<b>78,317</b>	<b>84,822</b>	<b>Total deposits</b>	<b>83,641</b>	<b>77,529</b>	<b>80,615</b>

## Note 10 - Net interest income

Parent bank				Group		
January - September				January - September		
2018	2018	2019	(NOKm)	2019	2018	2018
<b>Interest income</b>						
166	121	178	Interest income from loans to and claims on central banks and credit institutions (amortised cost)	77	45	62
1,641	1,213	1,267	Interest income from loans to and claims on customers (amortised cost)	1,620	1,334	2,042
1,528	1,117	1,296	Interest income from loans to and claims on customers (FVOCI)	1,314	1,288	1,528
106	76	100	Interest income from loans to and claims on customers (FVPL)	100	76	106
295	214	264	Interest income from money market instruments, bonds and other fixed income securities	261	211	291
-	0	-	Other interest income	20	21	28
<b>3,736</b>	<b>2,741</b>	<b>3,105</b>	<b>Total interest income</b>	<b>3,392</b>	<b>2,975</b>	<b>4,057</b>
<b>Interest expense</b>						
142	104	121	Interest expenses on liabilities to credit institutions	134	113	154
749	546	732	Interest expenses relating to deposits from and liabilities to customers	716	537	734
615	458	411	Interest expenses related to the issuance of securities	412	458	615
84	59	64	Interest expenses on subordinated debt	65	61	86
-	0	7	Other interest expenses	25	11	15
50	38	49	Guarantee fund levy	49	38	50
<b>1,640</b>	<b>1,205</b>	<b>1,384</b>	<b>Total interest expense</b>	<b>1,401</b>	<b>1,217</b>	<b>1,654</b>
<b>2,096</b>	<b>1,536</b>	<b>1,721</b>	<b>Net interest income</b>	<b>1,991</b>	<b>1,759</b>	<b>2,403</b>

## Note 11 - Operating expenses

Parent bank				Group		
January - September				January - September		
2018	2018	2019	(NOKm)	2019	2018	2018
217	158	181	IT costs	251	215	293
12	9	15	Postage and transport of valuables	19	12	17
53	34	46	Marketing	78	76	106
66	47	83	Ordinary depreciation	130	66	99
108	79	31	Operating expenses, real properties	40	112	153
93	71	89	Purchased services	127	101	151
134	88	99	Other operating expense	143	147	221
<b>685</b>	<b>487</b>	<b>543</b>	<b>Total other operating expenses</b>	<b>789</b>	<b>729</b>	<b>1,040</b>

## Note 12 - Other assets

Parent Bank			(NOKm)	Group		
31 Dec 2018	30 Sept 2018	30 Sept 2019		30 Sept 2019	30 Sept 2018	31 Dec 2018
-	-	-	Deferred tax asset	182	155	175
97	104	89	Fixed assets	231	244	234
-	-	355	Right to use assets	560	-	-
67	83	78	Earned income not yet received	123	116	86
7	465	467	Accounts receivable, securities	848	1,108	277
179	158	179	Pension assets	179	171	179
384	217	276	Other assets	636	607	737
<b>733</b>	<b>1,026</b>	<b>1,444</b>	<b>Total other assets</b>	<b>2,760</b>	<b>2,401</b>	<b>1,687</b>



## Note 13 - Other liabilities

Parent Bank			(NOKm)	Group		
31 Dec 2018	30 Sept 2018	30 Sept 2019		30 Sept 2019	30 Sept 2018	31 Dec 2018
84	21	84	Deferred tax	148	85	147
389	419	394	Payable tax	476	460	448
10	9	10	Capital tax	10	9	10
30	14	58	Accrued expenses and received, non-accrued income	472	342	413
115	127	143	Provision for accrued expenses and commitments	143	127	115
148	115	120	Losses on guarantees and unutilised credits	120	115	148
21	24	21	Pension liabilities	21	24	21
-	-	358	Lease liabilities	566	-	-
97	69	29	Drawing debt	29	69	97
11	15	7	Creditors	45	84	66
699	998	358	Debt from securities	614	1,477	809
-	-	-	Equity Instruments	26	71	31
288	343	562	Other liabilities	668	401	366
<b>1,892</b>	<b>2,155</b>	<b>2,144</b>	<b>Total other liabilities</b>	<b>3,339</b>	<b>3,264</b>	<b>2,670</b>

## Note 14 - Debt created by issue of securities and subordinated debt

<b>Change in securities debt (NOKm)</b>	<b>31 Dec 2018</b>	<b>Issued</b>	<b>Fallen due/ Redeemed</b>	<b>Other changes</b>	<b>30 Sept 2019</b>
Certificate, nominal value	391	-	385	-7	-
Bond debt, nominal value	43,463	6,230	4,640	-740	44,313
Value adjustments	158	-	-	232	390
Accrued interest	256	-	-	-70	187
<b>Total</b>	<b>44,269</b>	<b>6,230</b>	<b>5,025</b>	<b>-585</b>	<b>44,889</b>

<b>Change in subordinated debt and hybrid equity (NOKm)</b>	<b>31 Dec 2018</b>	<b>Issued</b>	<b>Fallen due/ Redeemed</b>	<b>Other changes</b>	<b>30 Sept 2019</b>
Ordinary subordinated loan capital, nominal value	1,793	-	-	-	1,793
Hybrid equity, nominal value	450	1	1	-	450
Value adjustments	13	-	-	-8	4
Accrued interest	12	-	-	-5	7
<b>Total</b>	<b>2,268</b>	<b>1</b>	<b>1</b>	<b>-14</b>	<b>2,254</b>

## Note 15 - 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 30 September 2019:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	3	4,049	-	4,052
- Bonds and money market certificates	2,292	18,833	-	21,125
- Equity instruments	1,936	55	395	2,386
- Fixed interest loans	-	43	4,749	4,791
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	67,516	67,516
<b>Total assets</b>	<b>4,231</b>	<b>22,980</b>	<b>72,660</b>	<b>99,871</b>
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	4	3,501	-	3,505
- Equity instruments	26	-	-	26
<b>Total liabilities</b>	<b>30</b>	<b>3,501</b>	<b>-</b>	<b>3,532</b>

The following table presents the Group's assets and liabilities measured at fair value at 30 September 2018:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	4	2,681	-	2,686
- Bonds and money market certificates	2,980	16,741	-	19,721
- Equity instruments	2,037	79	546	2,662
- Fixed interest loans	-	43	3,970	4,013
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	60,894	60,894
<b>Total assets</b>	<b>5,021</b>	<b>19,544</b>	<b>65,410</b>	<b>89,975</b>
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	16	2,990	-	3,005
- Equity instruments	70	1	-	71
<b>Total liabilities</b>	<b>86</b>	<b>2,991</b>	<b>-</b>	<b>3,077</b>

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2018:

<b>Assets (NOKm)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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
<b>Total assets</b>	<b>3,982</b>	<b>21,850</b>	<b>66,269</b>	<b>92,102</b>
	-	-	-	-
<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial liabilities through profit/loss				
- Derivatives	4	2,977	-	2,982
- Equity instruments	31	-	-	31
<b>Total liabilities</b>	<b>36</b>	<b>2,977</b>	<b>-</b>	<b>3,013</b>

The following table presents the changes in the instruments classified in level 3 as at 30 September 2019:

<b>(NOKm)</b>	<b>Equity instruments through profit/loss</b>	<b>Fixed interest loans</b>	<b>Loans at fair value through OCI</b>	<b>Total</b>
Opening balance 1 January	550	4,425	61,294	66,269
Investment in the period	21	851	33,536	34,408
Disposals in the period	-231	-529	-27,314	-28,074
Expected credit loss	-	-	-2	-2
Gain or loss on financial instruments	55	2	2	59
<b>Closing balance</b>	<b>395</b>	<b>4,749</b>	<b>67,516</b>	<b>72,660</b>

The following table presents the changes in the instruments classified in level 3 as at 30 September 2018:

<b>(NOKm)</b>	<b>Equity instruments through profit/loss</b>	<b>Fixed interest loans</b>	<b>Loans at fair value through OCI</b>	<b>Equity instruments through OCI</b>	<b>Total</b>
Closing balance 31 December	419	3,236	-	66	3,722
Implementation effect IFRS 9	66	-	56,743	-66	56,743
<b>Opening balance 1 January</b>	<b>486</b>	<b>3,236</b>	<b>56,743</b>	<b>-</b>	<b>60,464</b>
Investment in the period	54	1,632	20,470	-	22,155
Disposals in the the period	-13	-893	-16,318	-	-17,224
Expected credit loss	-	-	-2	-	-2
Gain or loss on financial instruments	19	-5	2	-	17
<b>Closing balance</b>	<b>546</b>	<b>3,970</b>	<b>60,894</b>	<b>-</b>	<b>65,410</b>

The following table presents the changes in the instruments classified in level 3 as at 31 December 2018:

<b>(NOKm)</b>	<b>Equity instruments through profit/loss</b>	<b>Fixed interest loans</b>	<b>Loans at fair value through OCI</b>	<b>Equity instruments through OCI</b>	<b>Total</b>
Closing balance 31 December	419	3,236	-	66	3,722
Implementation effect IFRS 9	66	-	56,743	-66	56,743
<b>Opening balance 1 January</b>	<b>486</b>	<b>3,236</b>	<b>56,743</b>	<b>-</b>	<b>60,464</b>
Investment in period	76	2,269	18,147	-	20,492

Disposals in the period	-20	-1,079	-13,596	-	-14,694
Expected credit loss	-	-	-2	-	-2
Gain or loss on financial instruments	8	-2	2	-	8
<b>Closing balance</b>	<b>550</b>	<b>4,425</b>	<b>61,294</b>	<b>-</b>	<b>66,269</b>

### Valuation method

The valuation method applied is adapted to each financial instrument, and is intended to utilise as much of the information that is available in the market as possible.

The method for valuation of financial instruments in level 2 and 3 is described in the following:

#### *Fixed interest loans to customers (level 3)*

The loans consist for the most part of fixed interest loans denominated in Norwegian kroner. The value of the fixed interest loans is determined such that agreed interest flows are discounted over the term of the loan by a discount factor that is adjusted for margin requirements. The discount factor is raised by 10 points when calculating sensitivity.

#### *Loans at fair value through other comprehensive income (level 3)*

Property Loans at floating interest classified at fair value over other comprehensive income is valued based on nominal amount reduced by expected credit loss. Loans with no significant credit risk deterioration since first recognition is assessed at nominal amount. For loans with a significant increase in credit risk since first recognition or objective evidence of loss, the calculation of expected credit losses over the life of the asset is in line with loan losses for loans at amortised cost. Estimated fair value is the nominal amount reduced by expected lifetime credit loss. If the likelihood of the worst case scenario in the model is doubled, fair value is reduced by NOK 5 million.

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

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

#### *Equity instruments (level 3)*

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 276 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 30 September 2019:

(NOKm)	Book value	Effect from change in reasonable possible alternative assumptions
Fixed interest loans	4,749	-12
Equity instruments through profit/loss*	395	-
Loans at fair value through other comprehensive income	67,516	-5

\* As described above, the information to perform alternative calculations are not available

## Note 16 - Liquidity risk

Liquidity risk is the risk that the group will be unable to refinance its debt or to finance asset increases. Liquidity risk management starts out from the group's overall liquidity strategy which is reviewed and adopted by the board of directors at least once each year. The liquidity strategy reflects the group's moderate risk profile.

The group reduces its liquidity risk through guidelines and limits designed to achieve a diversified balance sheet, both on the asset and liability side. Preparedness 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. The bank's liquidity situation is stress tested on a monthly basis using various maturities and crisis scenarios: bank-specific, for the financial market in general or a combination of internal and external factors. The group's objective is to survive twelve months of ordinary operations without access to fresh external funding while housing prices fall 30 per cent. In the same period minimum requirements to LCR shall be fulfilled.

The average residual maturity on debt created by issue of securities at the end of the third quarter 2019 was 3.6 years. The overall LCR at the same point was 181 per cent and the average overall LCR in the third quarter was 168 per cent. The LCR in Norwegian kroner and the euro at quarter-end was 166 and 279 per cent respectively.

## Note 17 - Earnings per EC

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.

(NOKm)	January - September		
	2019	2018	2018
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve 1)	2,134	1,632	2,018
Allocated to ECC Owners 2)	1,365	1,044	1,291
Issues Equity Capital Certificates adjusted for own certificates	129,544,464	129,358,825	129,411,807
<b>Earnings per Equity Capital Certificate</b>	<b>10.54</b>	<b>8.07</b>	<b>9.97</b>

1) Adjusted Net Profit	January - September		
	2019	2018	2018
Net Profit for the group	2,217	1,689	2,090
Adjusted for non-controlling interests share of net profit	-44	-29	-34
Adjusted for Tier 1 capital holders share of net profit	-39	-28	-37
<b>Adjusted Net Profit</b>	<b>2,134</b>	<b>1,632</b>	<b>2,018</b>

2) Equity capital certificate ratio (parent bank) (NOKm)	30 Sept 2019	30 Sept 2018	31 Dec 2018
ECC capital	2,597	2,597	2,597
Dividend equalisation reserve	5,602	5,079	5,602
Premium reserve	895	895	895
Unrealised gains reserve	99	81	99
Other equity capital	-2	-12	-
<b>A. The equity capital certificate owners' capital</b>	<b>9,191</b>	<b>8,640</b>	<b>9,193</b>
Ownerless capital	5,126	4,831	5,126
Unrealised gains reserve	56	45	56
Other equity capital	-1	-7	-
<b>B. The saving bank reserve</b>	<b>5,181</b>	<b>4,870</b>	<b>5,182</b>
To be disbursed from gift fund	-	-	373
Dividend declared	-	-	661
<b>Equity ex. profit</b>	<b>14,372</b>	<b>13,510</b>	<b>15,409</b>
<b>Equity capital certificate ratio A/(A+B)</b>	<b>64.0 %</b>	<b>64.0 %</b>	<b>64.0 %</b>
<b>Equity capital certificate ratio for distribution</b>	<b>64.0 %</b>	<b>64.0 %</b>	<b>64.0 %</b>

## Results from quarterly accounts

Group (NOKm)	3Q	2Q	1Q	4Q	3Q	2Q	1Q	4Q	3Q
	2019	2019	2019	2018	2018	2018	2018	2017	2017
Interest income effective interest method	1,190	1,127	1,075	1,082	1,025	989	962	989	959
Interest expenses	512	463	426	438	414	408	394	400	389
<b>Net interest</b>	<b>678</b>	<b>664</b>	<b>649</b>	<b>644</b>	<b>610</b>	<b>581</b>	<b>568</b>	<b>589</b>	<b>570</b>
Commission income	374	363	329	343	344	361	339	372	360
Commission expenses	55	51	40	42	45	45	36	49	46
Other operating income	235	294	262	242	186	291	239	206	168
<b>Commission income and other income</b>	<b>554</b>	<b>606</b>	<b>551</b>	<b>543</b>	<b>486</b>	<b>607</b>	<b>542</b>	<b>529</b>	<b>482</b>
Dividends	1	11	2	2	0	4	2	0	1
Income from investment in related companies	85	231	555	130	105	102	79	147	126
Net return on financial investments	35	95	169	-37	77	195	99	108	108
<b>Net return on financial investments</b>	<b>121</b>	<b>336</b>	<b>727</b>	<b>95</b>	<b>182</b>	<b>300</b>	<b>180</b>	<b>256</b>	<b>235</b>
<b>Total income</b>	<b>1,353</b>	<b>1,607</b>	<b>1,926</b>	<b>1,282</b>	<b>1,277</b>	<b>1,488</b>	<b>1,290</b>	<b>1,374</b>	<b>1,287</b>
Staff costs	404	438	447	391	376	413	403	362	357
Other operating expenses	269	263	257	311	240	248	241	255	225
<b>Total operating expenses</b>	<b>673</b>	<b>701</b>	<b>704</b>	<b>701</b>	<b>616</b>	<b>661</b>	<b>645</b>	<b>618</b>	<b>582</b>
<b>Result before losses</b>	<b>680</b>	<b>907</b>	<b>1,223</b>	<b>580</b>	<b>661</b>	<b>827</b>	<b>645</b>	<b>756</b>	<b>705</b>
Loss on loans, guarantees etc.	71	59	67	67	69	78	48	78	88
<b>Result before tax</b>	<b>609</b>	<b>848</b>	<b>1,155</b>	<b>513</b>	<b>592</b>	<b>748</b>	<b>596</b>	<b>678</b>	<b>617</b>
Tax charge	121	165	109	104	119	156	131	122	118
Result investment held for sale, after tax	-0	0	0	-8	6	150	1	-4	-0
<b>Net profit</b>	<b>488</b>	<b>683</b>	<b>1,046</b>	<b>401</b>	<b>480</b>	<b>743</b>	<b>466</b>	<b>553</b>	<b>500</b>



## Key figures from quarterly accounts

Group (NOKm)	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017
<b>Profitability</b>									
Return on equity per quarter <sup>1)</sup>	10.2%	14.9%	23.3%	9.0%	11.1%	17.9%	11.2%	13.4%	12.5%
Cost-income ratio <sup>1)</sup>	50 %	44 %	37 %	55 %	48 %	44 %	50 %	45 %	45 %
<b>Balance sheet figures</b>									
Gross loans to customers	123,967	121,895	120,100	120,473	118,044	115,787	113,174	112,071	110,695
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	165,380	163,627	161,091	160,317	157,825	154,790	151,065	148,784	147,146
Deposits from customers	83,641	86,553	81,111	80,615	77,529	80,343	75,937	76,476	73,086
Total assets	166,475	167,289	164,641	160,704	159,337	159,584	152,083	153,254	146,913
Quarterly average total assets	166,882	165,965	162,673	160,021	159,460	155,833	152,668	150,083	148,181
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskreditt last 12 months <sup>1)</sup>	6.8 %	5.7 %	6.6 %	7.8 %	7.3 %	7.6 %	7.9 %	8.2 %	9.4 %
Growth in deposits last 12 months	4.1 %	7.7 %	6.8 %	5.4 %	6.1 %	6.3 %	8.2 %	13.9 %	10.3 %
<b>Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt</b>									
Impairment losses ratio <sup>1)</sup>	0.17 %	0.14 %	0.17 %	0.17 %	0.18 %	0.20 %	0.13 %	0.22 %	0.24 %
Non-performing commitm. as a percentage of gross loans <sup>1)</sup>	0.26 %	0.22 %	0.18 %	0.19 %	0.18 %	0.18 %	0.19 %	0.19 %	0.18 %
Other doubtful commitm. as a percentage of gross loans <sup>1)</sup>	1.03 %	1.00 %	0.99 %	0.86 %	0.86 %	0.95 %	0.90 %	0.80 %	0.83 %
<b>Solidity</b>									
Common equity tier 1	15.1 %	15.0 %	14.8 %	14.6 %	14.9 %	15.0 %	14.6 %	14.6 %	14.6 %
Core capital ratio	16.7 %	16.6 %	16.4 %	16.3 %	16.7 %	17.0 %	16.3 %	16.6 %	16.6 %
Capital adequacy ratio	18.9 %	18.8 %	18.6 %	18.5 %	19.2 %	19.0 %	18.2 %	18.6 %	19.0 %
Core capital	17,417	17,284	16,775	16,472	16,542	16,488	15,697	15,707	15,718
Net equity and related capital	19,765	19,634	19,115	18,743	18,969	18,418	17,518	17,629	18,004
Liquidity Coverage Ratio (LCR)	181 %	165 %	180 %	183 %	150 %	150 %	162 %	164 %	124 %
Leverage Ratio	7.4 %	7.5 %	7.4 %	7.4 %	7.5 %	7.4 %	7.3 %	7.2 %	7.4 %
<b>Key figures ECC</b>									
ECC share price at end of period (NOK)	98.50	97.70	87.40	84.20	90.90	84.50	80.90	82.25	81.25
Number of certificates issued, millions <sup>1)</sup>	129.48	129.66	129.41	129.62	129.44	129.31	129.38	129.38	129.40
Booked equity capital per ECC (including dividend) <sup>1)</sup>	89.36	87.04	83.86	83.87	82.57	80.21	76.53	78.81	79.18
Profit per ECC, majority <sup>1)</sup>	2.30	3.21	5.02	1.90	2.32	3.54	2.21	2.63	2.42
Price-Earnings Ratio <sup>1)</sup>	10.69	7.61	4.35	11.05	9.77	5.97	9.16	7.81	8.40
Price-Book Value Ratio <sup>1)</sup>	1.10	1.12	1.04	1.00	1.10	1.05	1.06	1.04	1.03

<sup>1)</sup> Defined as alternative performance measures, see attachment to the quarterly report

# Equity capital certificates

## Stock price compared with OSEBX and OSEEX

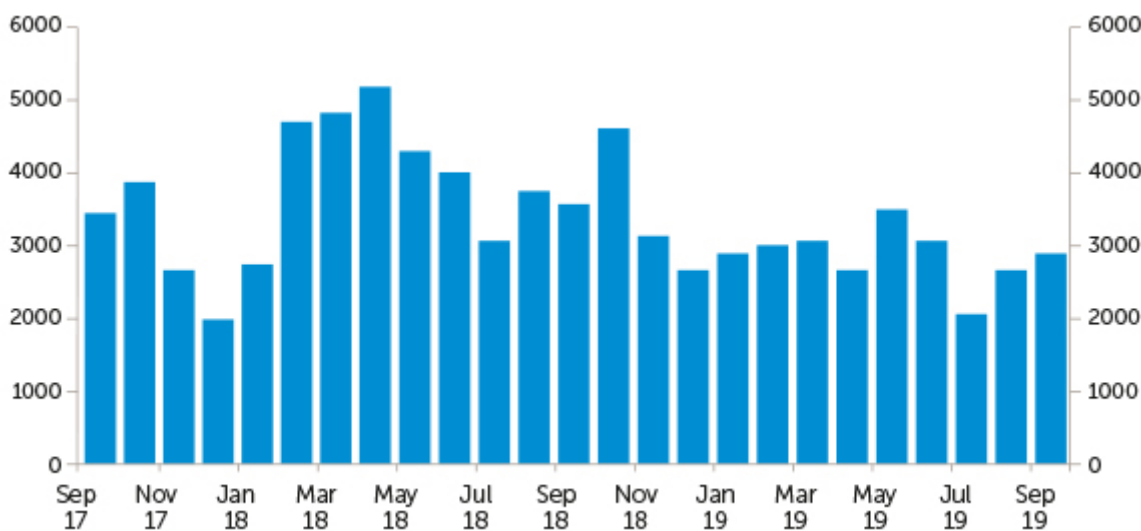
1 October 2017 to 30 September 2019



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

## Trading statistics

1 October 2017 to 30 September 2019



Total number of ECs traded (1000)

<b>20 largest ECC holders</b>	<b>Number</b>	<b>Share</b>
VPF Nordea Norge	4,760,884	3.67 %
State Street Bank and Trust CO (nominee)	4,163,455	3.21 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
Odin Norge	3,442,919	2.65 %
Danske Invest Norske Aksjer Institusjon II	3,321,149	2.56 %
VPF Alfred Berg Gambak	2,401,892	1.85 %
VPF Pareto Aksje Norge	2,320,692	1.79 %
JPMorgan Chase Bank, N.A., London (nominee)	2,023,423	1.56 %
Morgan Stanley & Co. International	1,985,526	1.53 %
State Street Bank and Trust Comp (nominee)	1,954,086	1.51 %
Forsvarets Personellservice	1,779,246	1.37 %
Pareto Invest AS	1,755,983	1.35 %
Danske Invest Norske Aksjer Institusjon I	1,537,592	1.18 %
VPF Nordea Kapital	1,449,741	1.12 %
State Street Bank and Trust CO (nominee)	1,436,989	1.11 %
J.P. Morgan Bank Luxembourg S.A. (nominee)	1,382,836	1.07 %
MP Pensjon PK	1,352,771	1.04 %
VPF Nordea Avkastning	1,249,111	0.96 %
VPF Eika Egenkapitalbevis	1,245,315	0.96 %
Handelsbanken Nordiska Småbolagsfond	1,241,359	0.96 %
<b>The 20 largest ECC holders in total</b>	<b>44,770,360</b>	<b>34.48 %</b>
Others	85,066,083	65.52 %
<b>Total issued ECCs</b>	<b>129,836,443</b>	<b>100.00 %</b>

### 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 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 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.

# Auditor's report



To the Board of Directors of SpareBank 1 SMN

## Report on Review of Interim Financial Information

### Introduction

We have reviewed the accompanying consolidated interim balance sheet of SpareBank 1 SMN as of 30 September 2019, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISAs), and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not present fairly, in all material respects, the financial position of the entity as at 30 September 2019, and its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34 Interim Financial Reporting.

Trondheim, 29 October 2019  
PricewaterhouseCoopers AS

Rune Kenneth S. Lædre  
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

---

PricewaterhouseCoopers AS, Brattørkaia 17 B, Postboks 6365 Torgard, NO-7492 Trondheim  
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no  
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap