Fourth Quarter Report 2019

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Main figures

From the income statement	Jan-Dec 2019 NOKm	2019 %[1)]	2018 NOKm	2018 %[1)]
Net interest	2,687	1.63	2,403	1.53
Net commission income and other income	2,290	1.39	2,177	1.39
Net return on financial investments	1,201	0.73	757	0.48
Total income	**6,178**	**3.74**	**5,337**	**3.40**
Total operating expenses	**2,797**	**1.69**	**2,624**	**1.67**
Results before losses	**3,380**	**2.05**	**2,713**	**1.73**
Loss on loans, guarantees etc	299	0.18	263	0.17
Results before tax	**3,081**	**1.87**	**2,450**	**1.56**
Tax charge	518	0.31	509	0.32
Result investment held for sale, after tax	0	0.00	149	0.10
Net profit	**2,563**	**1.55**	**2,090**	**1.33**
Interest Tier 1 Capital	49		37	
Net profit excl. Interest Tier 1 Capital	2,514		2,052	

Key figures	31 Dec 2019	31 Dec 2018
Profitability		
Return on equity[2)]	13.7 %	12.2 %
Cost-income ratio[2)]	45 %	49 %
Balance sheet figures		
Gross loans to customers	126,277	120,473
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	167,777	160,317
Deposits from customers	85,917	80,615
Deposit-to-loan ratio excl. SB1 Boligkreditt and SB1 Næringskreditt	68 %	67 %
Deposit-to-loan ratio incl. SB1 Boligkreditt and SB1 Næringskreditt [2)]	51 %	50 %
Growth in loans (gross) last 12 months (incl. SB1 Boligkreditt and SB1 Næringskreditt) [2)]	4.7 %	7.8 %
Growth in deposits last 12 months	6.6 %	5.4 %
Average total assets	165,154	156,992
Total assets	166,662	160,704
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt		
Impairment losses ratio[2)]	0.18 %	0.17 %
Non-performing commitm. as a percentage of gross loans[2)]	0.26 %	0.19 %
Other doubtful commitm. as a percentage of gross loans[2)]	1.00 %	0.86 %
Solidity		
Capital ratio	21.6 %	18.5 %
Tier 1 capital ratio	19.3 %	16.3 %
Common equity Tier 1 capital ratio	17.2 %	14.6 %
Tier 1 capital	17,742	16,472
Total eligible capital	19,854	18,743
Liquidity Coverage Ratio (LCR)	148 %	183 %
Leverage Ratio	7.5 %	7.4 %
Branches and staff		
Number of branches	46	48
No. Of full-time positions	1,509	1,493

1) Calculated as a percentage of average total assets
2) Defined as alternative performance mesures, see attachment to the quarterly report

Key figures ECC	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
ECC ratio	64.0 %	64.0 %	64.0 %	64.0 %	64.0 %
Number of certificates issued, millions 2)	129.30	129.38	129.64	129.43	129.43
ECC share price at end of period (NOK)	100.20	82.25	64.75	50.50	50.50
Stock value (NOKM)	12,956	10,679	8,407	6,556	6,556
Booked equity capital per ECC (including dividend) 2)	90.75	78.81	73.35	67.39	67.39
Profit per ECC, majority 2)	12.14	8.71	7.93	6.96	6.96
Dividend per ECC	6.50	4.40	3.00	2.25	2.25
Price-Earnings Ratio 2)	8.26	9.44	8.17	7.26	7.26
Price-Book Value Ratio 2)	1.10	1.04	0.88	0.75	0.75

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

Report of the Board of Directors

Preliminary annual accounts 2019

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

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

Results in the fourth quarter of 2019

- Pre-tax profit: NOK 469m (513m)
- Post-tax profit: NOK 346m (401m)
- Return on equity: 7.1 per cent (9.0 per cent)
- Growth in lending: 1.4 per cent (1.6 per cent) and in deposits: 2.7 per cent (4.0 per cent)
- Lending to retail borrowers rose by 2.0 per cent in the quarter (1.4 per cent), 0.5 percentage points higher than in the third quarter. Lending to corporate borrowers rose by 0.3 per cent (1.9 per cent) which was 0.1 percentage point higher than in the third quarter.
- Net result of ownership interests: NOK 8m (130m)
- Net result of financial instruments: NOK 8m (minus 37m)
- Losses on loans: NOK 103m (67m), 0.25 per cent (0.18 per cent) of gross lending
- Earnings per EC: NOK 1.60 (1.90)

Events in the quarter

Technology and development director appointed

Astrid Undheim was appointed executive director responsible for technology and development at SpareBank 1 SMN. She takes up duties on 1 March 2020 and will be a member of the group management team. She was previously vice president analytics and artificial intelligence with Telenor**.**

SpareBank 1 SMN a preferred partner bank for the LO

In the second quarter of 2019 the LO (Norwegian Confederation of Trade Unions) 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 bank expects an influx of 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.

Since the signing of the agreement SpareBank 1 SMN has successfully attracted new customers in the LO segment, largely involving the entire customer relationship. Over the course of the fourth quarter of 2019 the bank has achieved high growth in the number of residential mortgages among LO members, at the same time as sales of other products to LO members have proven highly satisfactory.

Launching of green loans to retail borrowers

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

SpareBank 1 SMN Regnskapshuset continues strong growth

SpareBank 1 SMN Regnskapshuset continues to show strong growth, and has been named a 'gazelle company' by the Dagens Næringsliv newspaper for the fifth year running.

BN Bolig sold at year-end

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

Insurance merger

Fremtind Forsikring received on 2 September permission from Finanstilsynet to engage in life insurance business through its wholly owned subsidiary Fremtind Livsforskring. This involved transferring individual personal risk insurances from SpareBank 1 Forsikring and DNB Livsforsikring, as well as the company-paid personal risk insurances from SpareBank 1 Forsikring, to Fremtind Livsforsikring. The transaction went ahead on 1 January 2020.

Post-tax profit of NOK 346m for the fourth quarter (401m)

SpareBank 1 SMN posted a net profit of NOK 346m (401m), and a return on equity of 7.1 per cent (9.0 per cent), in the fourth quarter. The fourth quarter figure is NOK 142m lower than in the third quarter of 2019. Earnings per equity certificate (EC) in the fourth quarter were NOK 1.60 (1.90) and book value per EC was NOK 90.75 (83.87).

The fourth quarter operating profit was good, and better than in the same quarter of 2018. Compared with the preceding quarter, operating profit was slightly weaker, mainly as a result of increased loan losses.

Return on financial investments was lower in the fourth quarter than in the third quarter, concurrent with a weak fourth quarter profit performance by SpareBank 1 Gruppen.

Net interest income in the quarter was NOK 697m (644m), an improvement of NOK 19m on the third quarter. The residential mortgage lending rate was raised with effect from 8 November, but residential mortgage lending margins were nonetheless somewhat lower in the fourth quarter compared with the third quarter due to higher market interest rates. Increased deposit margins and growth made for higher net interest income than in the third quarter.

Commission income rose by NOK 25m from the previous quarter to reach a total of NOK 597m (543m). Higher income from savings products, securities services and accounting services was recorded compared with the third quarter. Incomes are NOK 36m higher than in the same quarter of 2018, and the income derives from payment services, savings products and accounting services.

Return on financial investments was relatively weak in the fourth quarter at NOK 8m (-37m) and was accordingly NOK 27m lower than in the third quarter. The decline from the third quarter is mainly ascribable to lower incomes on forex business.

At NOK 8m (130m), results recorded by related companies show a decline of NOK 77m from the third quarter. SpareBank 1 Gruppen's fourth quarter performance is heavily affected by a poor profit margin at SpareBank 1 Forsikring.

Operating expenses increased by NOK 47m from the third to the fourth quarter, reaching NOK 720m (701m).

Losses in the fourth quarter increased by NOK 32m from the third quarter, and totalled NOK 103m in the quarter (67m). Losses on loans to the Group's corporate clients totalled NOK 81m in the fourth quarter (64m). Losses on loans to retail borrowers in the fourth quarter totalled NOK 21m (3m).

Lending increased by 1.4 per cent in the fourth quarter of 2019 (1.6 per cent). Growth in lending to retail borrowers in the fourth quarter of 2019 was 2.0 per cent (1.4 per cent). The growth in the second half-year was higher than in the first half. Loans to corporates increased by 0.3 per cent (1.9 per cent) in the fourth quarter of 2019.

Deposits rose by 2.7 per cent (4.0 per cent) in the fourth quarter of 2019. Deposit growth in the fourth quarter at Retail Banking was 0.9 per cent (reduction of 1.7 per cent) and at Corporate Banking 4.0 per cent (4.0 per cent).

Overall profit at the subsidiaries in the fourth quarter came to NOK 61m (1m). The subsidiaries' performances were roughly speaking on a par with the third quarter. Compared with the fourth quarter of 2018, a better performance was recorded by EiendomsMegler 1 Midt-Norge, SpareBank 1 SMN Invest and SpareBank 1 Regnskapshuset SMN.

The CET1 ratio as at 31 December 2019 was 17.2 per cent (14.6 per cent). The introduction of a new capital requirements framework on 31 December 2019 means that the figures are not comparable. As a step in Norway's adjustment to CRD IV/CRR the Ministry of Finance resolved that the introduction of an SME rebate, and removal of the Basel I floor, should be implemented with effect from 31 December 2019. The effect of removal of the Basel I floor amounts to about 2.0 percentage points, and the introduction of the SME rebate to about 0.3 percentage points, in terms of improved CET1 capital adequacy.

Accounts 2019

Profit for 2019 is NOK 474m better than in the same period of 2018
Pre-tax profit for 2019 was NOK 3,081m (2,450m). The post-tax profit is NOK 2,563m (2,090m) and return on equity 13.7 per cent (12.2 per cent).

Overall operating income in 2019 came to NOK 4,967m (4,580m), an increase of NOK 396m from the previous year. Of the income growth, NOK 247m derives from banking operations and NOK 149m from the bank's subsidiaries.

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

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

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

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

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

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

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

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

Proposed distribution of profit
Distribution of the profit for the year is done on the basis of the parent bank's accounts. The parent bank's disposable profit includes dividends received from subsidiaries, related companies and joint ventures, and is adjusted for interest expenses on hybrid capital after tax.

Subsidiaries are fully consolidated in the group accounts, whereas profit shares from related companies and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the group results.

The annual profit for distribution reflects changes of NOK 34m in the unrealised gains reserve.

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

Difference between Group - Parent Bank	2019	2018
Profit for the year, Group	**2,563**	**2,090**
Interest hybrid capital (after tax)	-47	-36

Profit for the year excl interest hybrid capital, group	**2,516**	**2,054**
Profit, subsidiaries	-286	-165
Dividend, subsidiaries	162	151
Profit, associated companies	-879	-416
Dividend, associated companies	704	355
Group eliminations	-2	-93
Profit for the year excl interest hybrid capital, Parent bank	**2,216**	**1,887**

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

The profit is distributed between the ownerless capital and the equity certificate (EC) capital in proportion to their relative shares of the bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 64.0 per cent of the distributed profit.

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

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

Increased net interest income

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

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

Increased other income

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

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission income on loans sold to these two companies totalled NOK 365m (366m) as at 30 December 2019. Weaker margins on the loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are compensated for by higher loan volumes sold.

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

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

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

Return on financial investments

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

- Financial derivatives yielded gains of NOK 132m (187m). This essentially comprises gains on fixed income instruments and is ascribable to rising interest rates through 2019. Net losses on the bond portfolio amount to NOK 20m (loss of 77m)
- Losses on hedging accounting came to NOK 9m (loss of 4m)
- Gains on shares of the bank and subsidiaries totalled NOK 120m (96m). This refers mainly to a gain on shares in Visa (NOK 42m), badwill related to the acquisition of SpareBank 1 SMN Spire Finans (formerly DeBank) (NOK 31m) and gains on shares in SpareBank 1 SMN Invest (47m).
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans and show a gain of NOK 9m (10m)
- Income of NOK 22m (63m) from forex transactions comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies. In the fourth quarter an agio loss of NOK 18m was recognised relating to a system error concerning previous periods.
- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 54m (58m)

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

Product companies and other related companies

The product companies give the bank's customers access to a broader product range and provide the bank with commission income. The product companies also provide the bank with return on invested capital. The overall profit of the product companies and other related companies was NOK 418m (416m) in 2019. In addition SpareBank 1 SMN has a gain of NOK 460m related to the establishment of Fremtind in the first quarter of 2019.

SpareBank 1 Gruppen

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

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

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

SpareBank 1 Gruppen recorded a poor profit performance in the fourth quarter of 2019. This is largely ascribable to a negative profit margin at SpareBank 1 – partly the result of an increase of NOK 400m in the allocation to administration reserves for paid-up policies.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks making up the SpareBank 1 Alliance to draw benefit from the market for covered bonds. The banks sell well-secured residential mortgages to the company and achieve reduced funding costs.

As at 31 December 2019 the bank had sold loans totalling NOK 39.8bn (38.1bn) to SpareBank 1 Boligkreditt, corresponding to 34.6 per cent (35.2 per cent) of the Group's overall lending to retail borrowers.

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

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 December 2019, loans worth NOK 1.7bn (1.8bn) had been sold to SpareBank 1 Næringskreditt.

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

SpareBank 1 Kredittkort

The profit for 2019 was NOK 75m (131m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.3 per cent. SpareBank 1 SMN's share of the profit for 2019 is NOK 13m (23m), and the bank's share of the portfolio is NOK 946m (923m).

SpareBank 1 SMN Kredittkort manages the LOfavør credit card programme. This reinforces 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 31 December 2019.

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

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

SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for Vipps payments solutions. Vipps aims to take its place as the Nordic region's leading financial technology company, and for SpareBank 1 SMN a stake in, and close collaboration with, Vipps will be important with a view to retaining customer relationships after the introduction of PSD2 (Revised Payment Services Directive). Vipps launched further services in 2019 designed to simplify bank customers' everyday life.

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

Operating expenses

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

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

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

The cost-income ratio was 45 per cent (49 per cent) for the group, 32 per cent (33 per cent) at the parent bank.

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

Stable losses and low defaults

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

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

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

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

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

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

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

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

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

As at 31 December 2019 loans worth a total of NOK 42bn (40bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and to SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Good but declining growth in residential mortgage lending
Total outstanding loans rose by NOK 7.5bn (11.5bn) or 4.7 per cent (7.8 per cent) in the last 12 months to reach NOK 167.8bn (160.3bn) as at 31 December 2019.

- Lending to personal borrowers rose in the last 12 months by NOK 6.9bn (9.4bn) to NOK 115.0bn (108.1bn). Growth in the period was 6.4 per cent (9.6 per cent). Part of the growth in the second half of 2019 was recorded in the LO segment. This is described in the section on **Retail Banking** towards the end of this report.
- Lending to corporate borrowers rose in the last 12 months by NOK 0.6bn (2.1bn) to NOK 52.7bn (52.2bn). Growth in the period was 1.1 per cent (4.2 per cent).
- Lending to personal borrowers accounted for 69 per cent (67 per cent) of total outstanding loans to customers as at 31 December 2019.

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

(For distribution by sector, see note 5).

Deposits

Customer deposits rose in the last 12 months by NOK 5.3bn (4.1bn) to reach NOK 85.9bn (80.6bn). This represents a growth of 6.6 per cent (5.4 per cent).

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

(For distribution by sector, see note 9).

Investment products

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

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

Insurance

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

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

Retail banking

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

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

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

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

In August 2019 the group entered a three-year agreement with the LO (Norwegian Confederation of Trade Unions) making SpareBank 1 SMN a preferred partner bank for LO members. The agreement gives the bank access to 900,000 LO members who will be offered highly competitive residential mortgage prices.

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

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

The bank's distribution model for the retail market aims to ensure increased selling power and cost efficiencies. Sales will increase across all channels with a strong emphasis on increasing the share of digital sales. 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 totalled NOK 40bn (41bn) and deposits totalled NOK 43bn (39bn) as at 31 December 2019. This is a diversified portfolio of loans to and deposits from corporate clients in the counties of Trøndelag and Møre and Romsdal.

Operating income totalled NOK 1,388m (1,329m) in 2019. Net interest income was NOK 1,171m (1,110m), and commission income and return on financial investments came to NOK 217m (219m).

Losses in the corporate banking segment in 2019 totalled NOK 213m – the same level as in 2018 (212m). The losses are in all essentials related to the challenges faced in oil-related activities.

Return on capital employed for the corporate banking segment was 11.7 per cent in 2019 (11.3 per cent). Capital employed is regulatory capital of 15 per cent, corresponding to the Group's targeted CET1 ratio during 2019.

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

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

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 346.8m in 2019 (226.0m).

Pre-tax profit (NOKm)	2019	2018	Change

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

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

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

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

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

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

The strong profit growth is mainly ascribable to the following:

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

With 13 per cent growth in 2019, the company has expanded its market position to 25 per cent, representing an increase of close to 2 percentage points. This is calculated as the company's proportion of the accounting industry's overall turnover in Trøndelag, Møre and Romsdal and Gudbrandsdal.

Thus the company can point to significantly higher growth and profitability than the industry average. In addition, the company is well underway on creating new income flows beyond the traditional accounting industry.

Sparebank 1 SMN Invest invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 47.6m in 2019 (8.0m).

The company holds shares worth NOK 438m (591m) as at 30 December 2019.

Value changes and realisation of losses or gains on the company's overall shareholding account for NOK 56.6m of the company's net total income.

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

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

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

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

SpareBank 1 SMN Spire Finans (formerly DeBank)

SpareBank 1 SMN acquired all shares of SpareBank 1 SMN Spire Finans in the first quarter of 2019. SpareBank 1 SMN Spire Finans caters specifically to small and medium-sized businesses that specialise in factoring. SpareBank 1 SMN Spire Finans is headquartered in Trondheim and has 19 employees. As at 31 December 2019 the company had loanable capital of NOK 96m, operating income in 2019 of NOK 20.6m and a pre-tax profit in 2019 of minus NOK 19.8m. The company plans to move into positive territory over a two-year period. SpareBank 1 SMN Spire Finans will operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is increasing its focus on small and medium-sized businesses and will strengthen its offering in the factoring field through this acquisition.

Satisfactory funding and good liquidity

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

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

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

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

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

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

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

Rating

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

Financial soundness

Finanstilsynet has adopted a decision on minimum requirements for the sum of own funds and eligible liabilities (MREL) for SpareBank 1 SMN. The SpareBank 1 SMN Group is required to hold own funds and eligible liabilities constituting in aggregate 33.3 per cent of adjusted risk weighted assets as at 31 December 2018, which amounts to NOK 27,235m. The requirement for lower priority (senior non-preferred debt) must be met by 31 December 2022.

As of 31 December 2019 the countercyclical buffer was raised from 2.0 per cent to 2.5 per cent, bringing the CET1 requirement to 12.5 per cent, including combined buffer requirements. Taking into account a Pillar 2 requirement of 1.9 per cent, the overall government requirement is 14.4 per cent. The add-on refers mainly to owner risk, market risk and credit concentration risk. The add-on is subject to review by Finanstilsynet (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. The Ministry of Finance has announced that the systemic risk buffer for IRB banks is to increase by 1.5 per cent to 4.5 per cent with effect from 31 December 2020. This brings the CET1 ratio requirement to 15.9 per cent. When a management buffer of 1 per cent is included, the bank's new target will be 16.9 per cent.

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

The CET1 ratio has risen by 2.7 percentage points in 2019. Risk weighted assets were reduced by 3 per cent as at 31 December, despite the growth in lending through 2019. The removal of the Basel I floor, and the introduction of the SMB rebate as of 31 December 2019, reduced in isolation risk-weighted assets by

NOK 15.4bn. CET1 capital has grown by 7.0 per cent in 2019 as a result of a good profit performance and dividend received from SpareBank 1 Gruppen in the second quarter. The leverage ratio of 7.5 per cent (7.4 per cent) shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and effectiveness with a view to strengthening its profitability and financial soundness.

The bank's equity certificate (MING)

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

The Price / Income ratio was 8.26 (8.44) and the Price / Book ratio was 1.10 (1.00). The group's quoted capital totalled NOK 13bn at year-end (10.9bn). Taking into account the ratio of EC capital to total equity, the group is worth NOK 19.7bn.

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

Risk factors

The Group's problem loans reflect the challenges related to the offshore industry. As at 31 December 2019, loans to oil-related activities accounted for 2.8 per cent of the Group's overall lending. The credit quality of the bank's wider loan portfolio is satisfactory. There have been no contagion effects from oil-related activities to other sectors and no other concentrations in non-performing and problem exposures are in evidence.

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

Growth in Norwegian household debt has slowed in recent years, and house price growth has been moderate. Interest rate increases could impact negatively on house prices, which will probably dampen credit demand. A situation of falling house prices and expectations of higher interest rates are likely to prompt a higher savings rate among Norwegian households, potentially resulting in reduced turnover for parts of Norwegian business and industry.

The bank's profits are affected directly and indirectly by fluctuations in securities markets, and the valuation of basis swaps in particular contributes to volatility. The indirect effect relates very largely to the bank's ownership interest in SpareBank 1 Gruppen whose insurance business and fund management activities are both affected by such fluctuations.

The bank is also exposed to risk related to access to external funding. This is reflected in the bank's conservative liquidity strategy (see the above section on funding and liquidity).

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 in 2019 focused on the adjustments needed to bring it into line with the new Anti-Money Laundering Act. The bank has also devoted considerable effort in 2019 to updating customer identity verification and customer data across the entire customer portfolio in accordance with the requirements as to ongoing monitoring of customer relationships. In the course of the year more than 50 staff members have been dedicated to tasks related to the bank's effort to combat money laundering and 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, were transferred to Fremtind Livsforsikring on 1 January 2020.

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

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

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

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

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

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

New strategy

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

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

The strategy establishes the following goals for the group:

SpareBank 1 SMN shall be among the best performers in the Nordic region.

- **Profitable** with a 12 per cent return on equity
- **Financially sound** with a CET1 ratio of 16.9 per cent. Payout ratio of about 50 per cent
- **Efficient**. Annual cost growth in the group shall be limited to 2.0 per cent within existing business
- **Strengthened market position**. Ambition to be no. 1 in the group's business lines
- **Greater number of satisfied customers**. Ambition to have the most satisfied customers in all business lines and market areas
- **Proud and committed staff.** Ambition to have the most committed staff in the financial industry in Norway
- **Quality** in all our work

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

Five strategic priorities are highlighted in the strategy period

- Create One SMN
- Increase digitalisation and use of insight
- Head up the development of Norway's savings banks
- Integrate sustainability into the business
- Exploit the power present in the ownership model

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

Outlook

The performance for the year as a whole was good with a return of 13.7 per cent. The results for the fourth quarter are not satisfactory, despite sound underlying operations. The fourth quarter reflects a deficit position in SpareBank 1 Gruppen, lower return on financial investments and higher loan losses.

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

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

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

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

"One SMN" is a comprehensive programme designed to enhance profitability through increased exploitation of synergies, increased incomes, cost efficiencies and improved capital utilisation. The programme covers all business lines and support functions across the group.

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

The cooperative agreement with the LO (Norwegian Confederation of Trade Unions) provides potentials for further growth in the retail market both in the region and nationally. A substantial sales effort will be required in order to recruit new customers and to ensure that customers are able to draw benefit from the group's broad product offering.

The bank shall continue to strengthen its position as the leading bank for small businesses through its broad product range, good digital solutions and skilled advisers. The ambition of growth in the corporate segment is primarily directed at small and medium-sized businesses.

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

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

The board of directors is well satisfied with the group's results in 2019. Initiatives related to the new strategy will further strengthen the group's competitiveness.

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

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

SpareBank 1 SMN

Income statement

Parent bank						Group			
		Jan-Dec				Jan-Dec			
4Q 18	**4Q 19**	**2018**	**2019**	**(NOKm)**	**Note**	**2019**	**2018**	**4Q 19**	**4Q 18**
884	991	3,335	3,732	Interest income effective interest method		4,121	3,660	1,091	971
112	146	401	509	Other interest income		505	398	145	111
434	532	1,640	1,916	Interest expenses		1,939	1,655	538	438
561	**605**	**2,097**	**2,325**	**Net interest**	**10**	**2,687**	**2,403**	**697**	**644**
280	294	1,102	1,127	Commission income		1,437	1,387	371	343
23	23	92	95	Commission expenses		193	168	47	42
9	10	32	30	Other operating income		1,046	958	255	242
266	**280**	**1,042**	**1,061**	**Commission income and other income**		**2,290**	**2,177**	**579**	**543**
2	70	516	884	Dividends		15	8	1	2
-	-	-	-	Income from investment in related companies	3	879	416	8	130
-52	-45	152	54	Net return on financial investments	3	307	334	8	-37
-50	**25**	**668**	**937**	**Net return on financial investments**		**1,201**	**757**	**17**	**95**
777	**911**	**3,807**	**4,324**	**Total income**		**6,178**	**5,337**	**1,292**	**1,282**
129	151	577	614	Staff costs		1,699	1,584	411	391
198	207	685	750	Other operating expenses		1,098	1,040	309	311
327	**358**	**1,262**	**1,364**	**Total operating expenses**	**11**	**2,797**	**2,624**	**720**	**701**
451	**553**	**2,546**	**2,960**	**Result before losses**		**3,380**	**2,713**	**572**	**580**
58	83	229	245	Loss on loans, guarantees etc.	6.7	299	263	103	67
393	**470**	**2,316**	**2,715**	**Result before tax**	**3**	**3,081**	**2,450**	**469**	**513**
102	99	456	452	Tax charge		518	509	123	104
-18	-	62	-	Result investment held for sale, after tax	2, 3	0	149	0	-8
273	**370**	**1,922**	**2,263**	**Net profit**		**2,563**	**2,090**	**346**	**401**
9	10	36	47	Attributable to additional Tier 1 Capital holders		49	37	10	9
169	231	1,207	1,417	Attributable to Equity capital certificate holders		1,572	1,291	207	247
95	130	680	799	Attributable to the saving bank reserve		886	727	117	139
				Attributable to non-controlling interests		56	34	12	6
273	**370**	**1,922**	**2,263**	**Net profit**		**2,563**	**2,090**	**346**	**401**
				Profit/diluted profit per ECC	17	12.14	9.97	1.60	1.90

Other comprehensive income

Parent bank					Group			
		Jan-Dec			Jan-Dec			
4Q 18	4Q 19	2018	2019	(NOKm)	2019	2018	4Q 19	4Q 18
273	370	1,922	2,263	Net profit	2,563	2,090	346	401
				Items that will not be reclassified to profit/loss				
18	-33	18	-33	Actuarial gains and losses pensions	-33	18	-33	-
-6	8	(6)	8	Tax	8	(6)	8	-
-	-	-	-	Share of other comprehensive income of associates and joint venture	21	1	18	0
12	**-25**	**12**	**-25**	**Total**	**-4**	**13**	**-6**	**0**
				Items that will be reclassified to profit/loss				
-7	-	-	-	Fair value change on financial assets through other comprehensive income	-	-	-	-7
-0	8	-2	6	Value changes on loans measured at fair value	6	-2	8	-0
-	-	-	-	Share of other comprehensive income of associates and joint venture	-12	-38	2	-3
-	-	-	-	Tax	-	-	-	0
-7	**8**	**-2**	**6**	**Total**	**-5**	**-40**	**10**	**-9**
6	**-16**	**11**	**-18**	**Net other comprehensive income**	**-9**	**-27**	**4**	**-9**
278	**354**	**1,933**	**2,245**	**Total other comprehensive income**	**2,554**	**2,063**	**350**	**392**
9	10	36	47	Attributable to additional Tier 1 Capital holders	49	37	10	9
172	220	1,213	1,405	Attributable to Equity capital certificate holders	1,566	1,274	209	241
97	124	684	792	Attributable to the saving bank reserve	883	718	118	136
				Attributable to non-controlling interests	56	34	12	6
278	**354**	**1,933**	**2,245**	**Total other comprehensive Income**	**2,554**	**2,063**	**350**	**392**

Balance sheet

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

Cash flow statement

Parent bank			Group	
January - December			January - December	
2018	2019	(NOKm)	2019	2018
1,922	2,263	Net profit	2,563	2,090
66	109	Depreciations and write-downs on fixed assets	172	98
229	245	Losses on loans and guarantees	299	263
2,218	**2,617**	**Net cash increase from ordinary operations**	**3,035**	**2,451**
366	869	Decrease/(increase) other receivables	1,235	170
575	-96	Increase/(decrease) short term debt	716	387
-8,138	-4,613	Decrease/(increase) loans to customers	-5,843	-9,059
-1,636	1,998	Decrease/(increase) loans credit institutions	2,964	-860
4,086	5,422	Increase/(decrease) deposits to customers	5,302	4,140
-501	-960	Increase/(decrease) debt to credit institutions	-361	-393
-533	-2,766	Increase/(decrease) in short term investments	-2,766	-613
-3,563	**2,471**	**A) Net cash flow from operations**	**4,280**	**-3,778**
-60	-66	Increase in tangible fixed assets	-120	-126
140	84	Paid-up capital, associated companies	-312	232
-222	36	Net investments in long-term shares and partnerships	-1,080	-47
-141	**54**	**B) Net cash flow from investments**	**-1,512**	**59**
66	-177	Increase/(decrease) in subordinated loan capital	-177	66
-	1	Increase/(decrease) in equity	-33	15
-571	-661	Dividend cleared	-661	-571
-322	-373	Disbursed from gift fund	-373	-322
14	203	Increase/(decrease) in Additional Tier 1 capital	201	13
2,087	-1,639	Increase/(decrease) in other long term loans	-1,846	2,088
1,274	**-2,646**	**C) Net cash flow from financial activities**	**-2,890**	**1,289**
-2,430	**-121**	**A) + B) + C) Net changes in cash and cash equivalents**	**-121**	**-2,430**
3,313	883	Cash and cash equivalents at 1.1	883	3,313
883	761	Cash and cash equivalents at end of period	761	883
-2,430	**-121**	**Net changes in cash and cash equivalents**	**-121**	**-2,430**

Change in equity

Parent Bank	Issued equity		Earned equity						
(NOKm)	EC capital	Premium fund	Owner-less capital	Equali-sation fund	Dividend and gifts	Un-realised gains reserve	Other equity	Additional Tier 1 Capital	Total equity
Equity at 1 January 2018	**2,597**	**895**	**4,831**	**5,079**	**893**	**126**	**-17**	**950**	**15,355**
Net profit	-	-	297	526	1,034	29	-	36	1,922
Other comprehensive income									
Financial assets through OCI	-	-	-	-	-	-	-2	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	12	-	12
Other comprehensive income	-	-	-	-	-	-	11	-	11
Total other comprehensive income	-	-	297	526	1,034	29	11	36	1,933
Transactions with owners									
Dividend declared for 2017	-	-	-	-	-571	-	-	-	-571
To be disbursed from gift fund	-	-	-	-	-322	-	-	-	-322
Additional Tier 1 Capital	-	-	-	-	-	-	-	1,000	1,000
Buyback Additional Tier 1 Capital issued	-	-	-	-	-	-	-	-950	-950
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-36	-36
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	0
Direct recognitions in equity	-	-	-2	-4	-	-	6	-	0
Total transactions with owners	0	-	-2	-4	-893	-	6	14	-878
Equity at 31 December 2018	**2,597**	**895**	**5,126**	**5,602**	**1,034**	**155**	**-**	**1,000**	**16,409**
Equity at 1 January 2019	**2,597**	**895**	**5,126**	**5,602**	**1,034**	**155**	**-**	**1,000**	**16,409**
Net profit	-	-	313	555	1,314	34	-	47	2,263
Other comprehensive income									
Value changes on loans measured at fair value	-	-	-	-	-	-	6	-	6
Actuarial gains (losses), pensions	-	-	-	-	-	-	-25	-	-25
Other comprehensive income	-	-	-	-	-	-	-18	-	-
Total other comprehensive income	-	-	313	555	1,314	34	-18	47	2,245
Transactions with owners									
Dividend declared for 2018	-	-	-	-	-661	-	-	-	-661
To be disbursed from gift fund	-	-	-	-	-373	-	-	-	-373
Additional Tier 1 Capital	-	-	-	-	-	-	-	250	250
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-47	-47
Purchase and sale of own ECCs	-0	-	-	-0	-	-	-	-	-0
Direct recognitions in equity	-	-	-7	-12	-	-	18	-	-1
Total transactions with owners	-0	-	-7	-12	-1,034	-	18	203	-832
Equity at 31 December 2019	**2,597**	**895**	**5,432**	**6,144**	**1,314**	**189**	**-**	**1,250**	**17,822**

Group	Attributable to parent company equity holders									
	Issued equity		Earned equity							
(NOKm)	EC capital	Premium fund	Owner-less capital	Equali-sation fund	Dividend and gifts	Un-realised gains reserve	Other equity	Additional Tier 1 Capital	Non-controlling interests	Total equity
Equity at 1 January 2018	**2,588**	**895**	**4,831**	**5,072**	**893**	**126**	**1,523**	**993**	**565**	**17,486**
Net profit	-	-	297	526	1,034	29	131	37	34	2,090

Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-38	-	-	-38
Value changes on loans measured at fair value	-	-	-	-	-	-	-2	-	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	13	-	-	13
Other comprehensive income	-	-	-	-	-	-	-27	-	-	-27
Total other comprehensive income	-	-	297	526	1,034	29	105	37	34	2,063
Transactions with owners										
Dividend declared for 2017	-	-	-	-	-571	-	-	-	-	-571
To be disbursed from gift fund	-	-	-	-	-322	-	-	-	-	-322
Additional Tier 1 Capital issued	-	-	-	-	-	-	-	1,000	-	1,000
Buyback Additional Tier 1 Capital issued	-	-	-	-	-	-	-	-950	-	-950
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-37	-	-37
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	-	0
Own ECC held by SB1 Markets*)	4	-	-	0	-	-	11	-	-	15
Direct recognitions in equity	-	-	-2	-4	-	-	-5	-	-	-11
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-24	-	-	-24
Change in non-controlling interests	-	-	-	-	-	-	-	-	38	38
Total transactions with owners	4	-	-2	-4	-893	-	-19	13	38	-863
Equity at 31 December 2018	**2,592**	**895**	**5,126**	**5,594**	**1,034**	**155**	**1,608**	**1,043**	**637**	**18,686**

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

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

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

Notes

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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 and IFRS 9 as described below.

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

IASB released amendments to IFRS 9, IAS 39 and IFRS 7 in september 2019. The amendments provide companies with temporary reliefs to certain requirements related to hedge accounting in the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. The amendments are effective from 2020, and can be early adopted in the accounts for 2019. SpareBank 1 SMN has chosen to early adopt these changes. This choice means that the bank's hedging relationships continues unaffected by the IBOR reform. The IBOR reform is an ongoing process where interest rate benchmark rates used in receivables, loans and derivates are replaced by new interest rates.

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 2019 are shown below. Comparables have not been restated.

Parent **31 Dec 2019**	**Right to use asset (NOKm)**	**Group** **31 Dec 2019**
379	Book value 1 January 2019	587
9	Additions	32
-	Derecognition	-43
4	Other changes	5
392	Book value 31 December 2019	581
-	Acc depreciation 1 January 2019	-
49	Depreciation in period	87
-	Derecognition	-5
49	Acc depreciation 31 December 2019	82
342	**Net book value right to use asset 31 December 2019**	**499**
379	Lease liability 1 January 2019	587
9	Additions	19
4	Other changes	-25
-54	Lease payments in the period	-88
10	Interest	12
347	**Lease liability 31 December 2019**	**505**
31 Dec 2019	**Profit and Loss**	**31 Dec 2019**
49	Depreciations	87
10	Interest	12
59	**Total lease expense**	**98**
	Effect of IFRS 16	
54	Reduced operating expenses under IAS 17	88
59	Increase lease expense under IFRS 16	98
-5	**Changes in profit before tax in the period**	**-11**

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

Sparebank1 SMN Group has one pension arrangements; defined contribution plan. For a further description of the pension scheme, see note 24 in the 2018 annual report.

The group's pension liabilities are accounted for under IAS 19R. Estimate variances are therefore directly reflected in equity capital and are presented under other comprehensive income. It was decided to terminate the defined benefit scheme at a board meeting on 21 October 2016. Employees on this scheme transferred to the defined contribution scheme from 1 January 2017, and received a paid-up policy showing rights accumulated under the defined benefit scheme. Paid-up policies are managed by the pension fund, which has been a paid-up pension fund as from 1 January 2017. A framework agreement has been established between SpareBank 1 SMN and the pension fund which covers funding, asset management etc. In view of the responsibility still held by SpareBank 1 SMN, future liabilities will need to be incorporated in the accounts. The board of the pension fund is required to be composed of representatives from the Group and participants in the pension schemes in accordance with the articles of association of the pension fund.

A new calculation of the Group's pension liabilities has been carried out as per 31 December 2019:

Actuarial assumptions	**31 Dec 2018**	**1 January 2019**	**31 Dec 2019**
Discount rate	2.60 %	2.60 %	2.10 %
Expected rate of return on plan assets	2.60 %	2.60 %	2.10 %
Expected future wage and salary growth	2.50 %	2.50 %	2.00 %
Expected adjustment on basic amount (G)	2.50 %	2.50 %	2.00 %
Expected increase in current pension	0.00 %	0.00 %	0.00 %
Employers contribution	19.10 %	19.10 %	19.10 %

Demographic assumptions:	
Mortality base table	K2013 BE
Disability	IR73
Voluntary exit	2 % to 50 year, 0 % after 50 year

Movement in net pension liability in the balance sheet Group (NOKm)	**Funded**	**Unfunded**	**Total**
Net pension liability in the balance sheet 1.1	-179	21	-158
OCI accounting 1 Jan	-	-	-
OCI accounting 31 December	35	-3	33
Net defined-benefit costs in profit and loss account	-5	1	-4
Paid in pension premium, defined-benefit schemes	-	-	-
Paid in pension premium, defined-benefit plan	-	-3	-3
Net pension liability in the balance sheet 31 December 2019	**-148**	**16**	**-132**

Net pension liability in the balance sheet Group (NOKm)	**31 Dec 2019**	**31 Dec 208**
Net present value of pension liabilities in funded schemes	608	588
Estimated value of pension assets	-743	-749
Net pension liability in the balance sheet before employer's contribution	-135	-161
Employers contribution	3	3
Net pension liability in the balance sheet	**-132**	**-158**

Pension cost Group (NOKm)	**31 Dec 2019**	**31.12.18**
Present value of pension accumulated in the year	0	1
Net interest income	-4	-4
Net pension cost related to defined plans, incl unfunded pension commitment	-4	-3

Empolyer's contribution subject to accrual accounting	0	0
Cost of defined contribution pension and early retirement pension scheme	108	98
Total pension cost for the period	**105**	**96**

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 Q4 (NOK Million)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	40	0	5	5	-	100 %
Total Held for sale	**40**	**0**	**5**	**5**	**-**	

Acquisition of SpareBank 1 SMN Spire Finans (formerly DeBank)

At 5. February 2019 SpareBank 1 SMN acquired 100 per cent of the shares in SpareBank 1 SMN Spire Finans AS for MNOK 40. The acqusition led to a negative goodwill of MNOK 31 included as a gain in net return of financial investments. The reason for the gain from this transaction is that fair value of net assets is higher than the acqusition cost. The allocation of fair value is distributed as follows:

Assets	**Fair valuerecognised at acqusition date**
Loans	207
Other assets	14
Total assets	**221**
Liabilites	
Deposits	142
Accruals	5
Other liabilities	4
Total liabilites	**151**
Net identifiable assets and liabilities	**70**
Goodwill	-31
Acquisition cost	**40**

Note 3 - Account by business line

For the subsidiaries the figures refer to the respective company accounts, while for associates and joint ventures incorporated by the equity method the Group's profit share is stated, after tax, as well as book value of the investment at group level.

Group 31 December 2019

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

Group 31 December 2018

Profit and loss account (NOKm)	RM	CM	SB 1 Markets	EM 1	SB 1 Finans MN	SB 1 Regnskaps-huset SMN	SB 1 Gruppen	BN Bank	Un-collated	Total
Net interest	1,056	981	-14	-1	275	-0	-	-	105	2,403
Interest from allocated capital	177	129	-	-	-	-	-	-	-306	-
Total interest income	**1,234**	**1,110**	**-14**	**-1**	**275**	**-0**	**-**	**-**	**-201**	**2,403**
Commission income and other income	793	202	460	497	62	444	-	-	-282	2,177
Net return on financial investments **)	0	17	105	-	-	-	289	92	255	757
Total income	**2,027**	**1,329**	**551**	**496**	**337**	**444**	**289**	**92**	**-228**	**5,337**
Total operating expenses	**804**	**373**	**536**	**519**	**155**	**373**	**-**	**-**	**-137**	**2,624**
Ordinary operating profit	**1,223**	**956**	**15**	**-23**	**182**	**71**	**289**	**92**	**-92**	**2,713**
Loss on loans, guarantees etc.	17	212	-	-	34	-	-	-	0	263
Result before tax	**1,206**	**744**	**15**	**-23**	**149**	**71**	**289**	**92**	**-92**	**2,450**
Return on equity*)	**13.2 %**	**11.3 %**								**12.2 %**
Balance										
Loans and advances to customers	112,723	40,548	-	-	7,760	-	-	-	-714	160,317
Adv. of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-38,189	-1,656	-	-	-	-	-	-	0	-39,844
Allowance for credit losses	-103	-594	-	-	-45	-	-	-	-2	-744
Other assets	121	4,261	2,258	276	9	394	1,569	1,238	30,850	40,975
Total assets	**74,552**	**42,560**	**2,258**	**276**	**7,723**	**394**	**1,569**	**1,238**	**30,134**	**160,704**
Deposits to customers	40,046	39,236	-	-	-	-	-	-	1,333	80,615

Other liabilities and equity	34,506	3,324	2,258	276	7,723	394	1,569	1,238	28,801	80,089
Total liabilites and equity	**74,552**	**42,560**	**2,258**	**276**	**7,723**	**394**	**1,569**	**1,238**	**30,134**	**160,704**

*) Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 15.0 percent to be in line with the capital plan per 31 December 2019

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

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

Note 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 31 December 2019 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian countercyclical buffer is 2.5 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 12.5 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 1.9 per cent for SpareBank 1 SMN, however not below NOK 1,794 million in monetary terms. As at 31 December 2019, reduced risk weighted assets mean that the minimum monetary requirement of NOK 1,794 million is binding for the Pillar 2 requirement. The Pillar 2 requirement therefore rises from 1.9 per cent to 1.95 per cent. The overall minimum requirement as of 31 December 2019 has accordingly increased from 14.4 per cent to 14.45 per cent.

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

The countercyclical buffer is calculated using differentiated rates. For exposures in other countries the countercyclical buffer rate set by the authorities in the country concerned is applied. If that country has not set a rate, the same rate as for exposures in Norway is applied unless the Ministry of Finance sets another rate. For the fouth quarter of 2019 both the parent bank and the group is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 60 per cent in 2018 and 70 per cent in 2019. As at 31 December 2019 the bank held hybrid capital worth NOK 287 million subject to write-down.

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

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

Note 5 - Distribution of loans by sector/industry

Parent Bank			Group	
31 Dec 2018	**31 Dec 2019**	**(NOKm)**	**31 Dec 2019**	**31 Dec 2018**
12,362	13,203	Agriculture, forestry, fisheries, hunting	13,558	12,686
869	833	Sea farming industries	1,132	1,180
3,438	2,212	Manufacturing	2,595	3,787
2,947	3,157	Construction, power and water supply	3,970	3,661
2,335	2,181	Retail trade, hotels and restaurants	2,517	2,621
4,227	4,660	Maritime sector	4,660	4,227
15,107	14,800	Property management	14,878	15,168
2,531	2,445	Business services	2,146	2,162
4,145	4,542	Transport and other services provision	5,409	4,961
44	2	Public administration	12	55
1,658	1,890	Other sectors	1,863	1,679
49,663	**49,926**	**Gross loans in retail market**	**52,740**	**52,186**
103,537	109,544	Wage earners	115,036	108,131
153,200	**159,470**	**Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt**	**167,777**	**160,317**
38,062	39,833	of which SpareBank 1 Boligkreditt	39,833	38,062
1,782	1,667	of which SpareBank 1 Næringskreditt	1,667	1,782
113,356	**117,970**	**Gross loans in balance sheet**	**126,277**	**120,473**
639	850	- Loan loss allowance on amortised cost loans	911	686
58	87	- Loan loss allowance on loans at FVOCI	87	58
112,659	**117,033**	**Net loans to and receivables from customers**	**125,279**	**119,728**

Note 6 - Losses on loans and guarantees

Parent Bank	Jan-Dec			Jan-Dec		
	2019			2018		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Total**	**RM**	**CM**	**Total**
Change in provision for expected credit losses for the period	28	205	234	18	126	144
Actual loan losses on commitments exceeding provisions made	10	9	19	6	86	93
Recoveries on commitments previously written-off	-5	-1	-7	-7	-1	-8
Losses for the period on loans and guarantees	**32**	**213**	**245**	**17**	**212**	**229**

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

Note 7 - Losses

Parent Bank (NOKm)	1 January 19	Change in provision	Net write-offs/ recoveries	31 Dec 2019
Loans as amortised cost- CM	742	201	-27	916
Loans as amortised cost- RM	45	-6	-5	34
Loans at fair value over OCI- RM	75	34	-	109
Loans at fair value over OCI- CM	-	1	-	1
Provision for expected credit losses on loans and guarantees	**862**	**230**	**-32**	**1,060**
Presented as				
Provision for loan losses	697	272	-32	937
Other debt- provisons	148	-48	-	100
Other comprehensive income - fair value adjustment	17	6	-	23

Parent Bank (NOKm)	1 January 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
Provision for expected credit losses on loans and guarantees	**1,114**	**163**	**-415**	**862**
Presented as				
Provision for loan losses	1,027	86	-415	697
Other debt- provisons	68	80	-	148
Other comprehensive income - fair value adjustment	18	-2	-	17

Group (NOKm)	1 January 19	Change in provision	Net write-offs/ recoveries	31 Dec 2019
Loans as amortised cost- CM	766	212	-31	948
Loans as amortised cost- RM	68	0	-5	63
Loans at fair value over OCI- RM	75	34	-	109
Loans at fair value over OCI- CM	-	1	-	1
Provision for expected credit losses on loans and guarantees	**909**	**248**	**-36**	**1,121**
Presented as				
Provision for loan losses	744	290	-36	998
Other debt- provisons	148	-48	-	100
Other comprehensive income - fair value adjustment	17	6	-	23

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

Development in provision for expected credit losses on loans

	Jan-Dec 2019				Jan-Dec 2018			
Parent Bank (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**

Opening balance	**91**	**210**	**413**	**714**	**83**	**207**	**755**	**1,044**
Provision for credit losses								
Transfer to (from) stage 1	29	-29	-0	-	30	-30	-0	-
Transfer to (from) stage 2	-10	10	-0	-	-5	5	-0	-
Transfer to (from) stage 3	-0	-15	15	-	-0	-2	3	-
Net remeasurement of loss allowances	-29	122	191	285	-31	32	75	76
Originations or purchases	40	37	1	79	49	90	1	139
Derecognitions	-31	-52	-1	-85	-34	-92	-4	-130
Actual loan losses	-	-	-32	-32			-415	-415
Closing balance	**91**	**283**	**586**	**961**	**91**	**210**	**413**	**714**

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

	Jan-Dec 2019				**Jan-Dec 2018**			
Parent Bank (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance	**11**	**47**	**90**	**148**	**13**	**49**	**7**	**70**
Provision for credit losses								
Transfer to (from) stage 1	3	-3	-0	-	2	-2	-0	-
Transfer to (from) stage 2	-1	1	-	-	-1	1	-0	-
Transfer to (from) stage 3	-0	-0	0	-	-0	-0	0	-
Net remeasurement of loss allowances	-2	3	-33	-33	-3	12	83	92
Originations or purchases	7	1	0	8	6	3	0	9
Derecognitions	-3	-20	-0	-24	-6	-17	-0	-23
Actual loan losses	-	-	-	-	-	-	-	-
Closing balance	**14**	**29**	**57**	**100**	**11**	**47**	**90**	**148**

Development in provision for expected credit losses on loans

	Jan-Dec 2019				**Jan-Dec 2018**			
Group (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance	**102**	**223**	**436**	**761**	**93**	**218**	**775**	**1,085**
Provision for credit losses								
Transfer to (from) stage 1	32	-31	-1	-	32	-31	-0	-
Transfer to (from) stage 2	-11	13	-2	-	-6	7	-0	-
Transfer to (from) stage 3	-1	-16	16	-	-0	-3	4	-
Net remeasurement of loss allowances	-34	125	198	290	-34	35	83	85
Originations or purchases	48	44	10	102	53	93	3	149
Derecognitions	-33	-55	-7	-96	-36	-94	-11	-140
Actual loan losses	-	-	-36	-36	-	-	-417	-417
Closing balance	**104**	**302**	**616**	**1,021**	**102**	**224**	**436**	**761**

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

	Jan-Dec 2019				**Jan-Dec 2018**			
Group (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance	**11**	**47**	**90**	**148**	**13**	**49**	**7**	**70**
Provision for credit losses								
Transfer to (from) stage 1	3	-3	-0	-	2	-2	-0	-
Transfer to (from) stage 2	-1	1	-	-	-1	1	-0	-
Transfer to (from) stage 3	-0	-0	0	-	-0	-0	0	-
Net remeasurement of loss allowances	-2	3	-33	-33	-3	12	83	92
Originations or purchases	7	1	0	8	6	3	0	9
Derecognitions	-3	-20	-0	-24	-6	-17	-0	-23
Actual loan losses	-	-	-	-	-	-	-	-
Closing balance	**14**	**29**	**57**	**100**	**11**	**47**	**90**	**148**

Note 8 - Gross loans

Parent Bank	Loans subject to impairment			Fixed interest	
Gross loan - Total	**Stage 1**	**Stage 2**	**Stage 3**	**loans at FV**	**Total**
Balance at 1 January 2019	**97,458**	**9,888**	**1,543**	**4,467**	**113,356**
Transfer to stage 1	2,479	-2,438	-41	-	-
Transfer to stage 2	-3,252	3,318	-66	-	-
Transfer to stage 3	-67	-361	429	-	-
Net increase/decrease amount excisting loans	-3,481	-213	-28	-133	-3,856
New loans	54,871	1,793	497	1,022	58,184
Derecognitions	-45,771	-2,879	-335	-678	-49,665
Financial assets with actual loan losses	-2	-6	-41	-	-49
Balance at 31 December 2019	**102,235**	**9,101**	**1,957**	**4,677**	**117,970**

Parent Bank	Loans subject to impairment			Fixed interest	
Gross loan - Total	**Stage 1**	**Stage 2**	**Stage 3**	**loans at FV**	**Total**
Balance at 1 January 2018	**91,074**	**9,931**	**1,560**	**3,278**	**105,843**
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 excisting loans	-5,487	-65	11	-148	-5,689
New loans	46,099	2,067	72	2,269	50,507
Derecognitions	-33,363	-2,428	-581	-933	-37,305
Balance at 31 December 2018	**97,458**	**9,888**	**1,543**	**4,467**	**113,356**

Group	Loans subject to impairment				
Gross loan - Total	**Stage 1**	**Stage 2**	**Stage 3**	**Fixed interest loans at FV**	**Total**
Balance at 1 January 2019	**103,494**	**10,829**	**1,683**	**4,467**	**120,473**
Transfer to stage 1	2,712	-2,665	-47	-	-
Transfer to stage 2	-3,865	3,953	-88	-	-
Transfer to stage 3	-126	-402	527	-	-
Net increase/decrease amount excisting loans	-4,553	-441	-53	-133	-5,180
New loans	58,443	2,164	524	1,022	62,153
Derecognitions	-46,963	-3,082	-396	-678	-51,119
Financial assets with actual loan losses	-2	-6	-41	-	-49
Balance at 31 December 2019	**109,140**	**10,350**	**2,110**	**4,677**	**126,277**

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

Note 9 - Distribution of customer deposits by sector/industry

Parent Bank			Group	
31 Dec 2018	31 Dec 2019	(NOKm)	31 Dec 2019	31 Dec 2018
3,066	3,064	Agriculture, forestry, fisheries, hunting	3,064	3,066
742	645	Sea farming industries	645	742
1,696	1,582	Manufacturing	1,582	1,696
3,541	3,363	Construction, power and water supply	3,363	3,541
4,663	4,197	Retail trade, hotels and restaurants	4,197	4,663
996	1,059	Maritime sector	1,059	996
4,949	5,027	Property management	4,718	4,644
6,883	7,643	Business services	7,643	6,883
6,572	8,186	Transport and other services provision	7,819	6,210
12,202	13,162	Public administration	13,162	12,202
3,083	3,278	Other sectors	3,001	2,917
48,393	**51,206**	**Total**	**50,253**	**47,561**
33,055	35,664	Wage earners	35,664	33,055
81,448	**86,870**	**Total deposits**	**85,917**	**80,615**

Note 10 - Net interest income

Parent Bank January - Desember 2018	Parent Bank January - Desember 2019	(NOKm)	Group January - Desember 2019	Group January - Desember 2018
		Interest Income		
166	246	Interest income from loans to and claims on central banks and credit institutions (amortised cost)	103	62
1,641	1,693	Interest income from loans to and claims on customers (amortised cost)	2,177	2,042
1,528	1,792	Interest income from loans to and claims on customers (Fair value over OCI)	1,814	1,528
106	134	Interest income from loans to and claims on customers (Fair value over Profit and loss)	134	106
295	375	Interest income from money market instruments, bonds and other fixed income securities (Fair value over Profit and loss)	371	291
0	-	Other interest income	26	28
3,737	**4,241**	**Total interest income**	**4,626**	**4,057**
		Interest expense		
142	170	Interest expenses on liabilities to credit institutions	190	154
749	1,042	Interest expenses relating to deposits from and liabilities to customers	1,019	734
615	545	Interest expenses related to the issuance of securities	545	615
84	84	Interest expenses on subordinated debt	86	86
0	10	Other interest expenses	33	15
50	65	Guarantee fund levy	65	50
1,640	**1,916**	**Total interest expense**	**1,939**	**1,655**
2,097	**2,325**	**Net interest income**	**2,687**	**2,403**

Note 11 - Operating expenses

Parent Bank January - December			Group January - December	
2018	**2019**	**(NOKm)**	**2019**	**2018**
217	234	IT costs	321	293
12	19	Postage and transport of valuables	23	17
53	63	Marketing	101	106
66	109	Ordinary depreciation	172	99
108	42	Operating expenses, real properties	57	153
93	134	Purchased services	193	151
134	149	Other operating expense	231	221
685	**750**	**Total other operating expenses**	**1,098**	**1,040**

Note 12 - Other assets

Parent Bank			Group	
31.12.2018	31.12.19	(NOKm)	31.12.19	31.12.18
-	-	Deferred tax asset	158	175
97	85	Fixed assets	225	234
-	342	Right to use assets	499	-
67	107	Earned income not yet received	132	86
7	13	Accounts receivable, securities	292	277
179	148	Pensions	148	179
384	546	Other assets	640	737
733	**1,241**	**Total other assets**	**2,092**	**1,687**

SpareBank 1 SMN

Note 13 - Other liabilities

Parent Bank			Group	
31.12.18	31.12.19	(NOKm)	31.12.19	31.12.18
84	48	Deferred tax	115	147
389	475	Payable tax	546	448
10	10	Capital tax	10	10
30	76	Accrued expenses and received, non-accrued income	412	461
115	127	Provision for accrued expenses and commitments	127	115
148	100	Losses on guarantees and unutilised credits	100	148
21	16	Pension liabilities	16	21
-	347	Lease liabilities	505	-
97	68	Drawing debt	68	97
11	6	Creditors	57	66
699	9	Debt from securities	197	809
-	-	Equity Instruments	244	31
239	287	Other liabilities	317	317
1,892	**1,570**	**Total other liabilites**	**2,841**	**2,670**

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

Group

Change in securities debt (NOKm)	31 Dec 2018	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2019
Certificate, nominal value	391	-	385	-7	-
Bond debt, nominal value	43,463	6,230	6,036	-934	42,722
Value adjustments	158	-	-	-85	73
Accrued interest	256	-	-	-38	218
Total	**44,269**	**6,230**	**6,421**	**-1,064**	**43,014**

Change in subordinated debt and hybrid equity (NOKm)	31 Dec 2018	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2019
Ordinary subordinated loan capital, nominal value	1,793	-	-	-	1,793
Hybrid equity, nominal value	450	-	164	-	287
Value adjustments	13	-	-	-11	1
Accrued interest	12	-	-	-2	10
Total	**2,268**	**-**	**164**	**-14**	**2,090**

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 31 December 2019:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	3	2,969	-	2,972
- Bonds and money market certificates	2,913	20,202	-	23,115
- Equity instruments	2,506	43	405	2,953
- Fixed interest loans	-	43	4,636	4,678
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	71,336	71,336
Total assets	**5,421**	**23,256**	**76,377**	**105,054**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	2	3,525	-	3,528
- Equity instruments	244	-	-	244
Total liabilities	**247**	**3,525**	**-**	**3,772**

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

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	1	4,117	-	4,119
- Bonds and money market certificates	2,786	17,563	-	20,348
- Equity instruments	1,195	128	550	1,873
- Fixed interest loans	-	43	4,425	4,467
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	61,295	61,295
Total assets	**3,982**	**21,850**	**66,269**	**92,102**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	4	2,977	-	2,982
- Equity instruments	31	-	-	31
Total liabilities	**36**	**2,977**	**-**	**3,013**

The following table presents the changes in the instruments classified in level 3 as at 31 December 2019:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Total
Opening balance 1 January	550	4,425	61,294	66,269
Investment in the period	24	1,054	44,421	45,499
Disposals in the period	-256	-818	-34,350	-35,453
Expected credit loss	-	-	-36	-6
Gain or loss on financial instruments	87	-25	6	68
Closing balance	**405**	**4,636**	**71,336**	**76,376**

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

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Equity instruments through OCI	Total
Closing balance 31 December	419	3,236	-	66	3,722
Implementation effect IFRS 9	66	-	56,743	-66	56,743
Opening balance 1 January	**486**	**3,236**	**56,743**	**-**	**60,464**
Investment in periode	76	2,269	18,147	-	20,492
Disposals in the periode	-20	-1,079	-13,584	-	-14,683
Expectged credit loss	-	-	-10	-	-10
Gain or loss on financial instruments	8	-2	-2	-	5
Closing balance	**550**	**4,425**	**61,294**	**-**	**66,269**

Valuation method

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

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

Fixed interest loans to customers (level 3)

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

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

Property Loans at floating interest classified at fair value over other comprehensive income is valued based on nominal amount reduced by expected credit loss. Loans with no significant credit risk detoriation since first recognition is assessed at nominal amount. For loans with a significant increase in credit risk since first recognition or objective evidence of loss, the calculation of expected credit losses over the life of the asset is in line with loan losses for loans at amortised cost. Estimated fair value is the nominal amount reduced by expected lifetime credit loss. If the likelihood of the worst case scenario in the model is doubled from 10 to 20 per cent, fair value is reduced by NOK 7 million.

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

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

Equity instruments (level 3)

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 282 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank SMN 1 Invest. The valuations are in all essentials based on reporting from managers of the funds who utilise cash flow based models or multiples when determining fair value. The Group does not have full access to information on all the elements in these valuations and is therefore unable to determine alternative assumptions.

Financial derivatives (level 2)

Financial derivatives at level 2 include for the most part currency futures and interest rate and exchange rate swaps. Valuation is based on observable interest rate curves. In addition the item includes derivatives related to FRAs. These are valued with a basis in observable prices in the market. Derivatives classified to level 2 also include equity derivatives related to SpareBank 1 Markets' market-making activities. The bulk of these derivatives refer to the most sold shares on Oslo Børs, and the valuation is based on the price of the actual/underlying share and observable or calculated volatility.

Sensitivity analyses, level 3 as at 31 December 2019:

(NOKm)	Book value	Effect from change in reasonable possible alternative assumtions
Fixed interest loans	4,636	-11
Equity instruments through profit/loss*	405	-
Loans at fair value through other comprehensive income	71,336	-7

* 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 fourth quarter 2019 was 3.4 years. The overall LCR at the same point was 148 per cent and the average overall LCR in the fourth quarter was 172 per cent. The LCR in Norwegian kroner and the euro at quarter-end was 131 and 540 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.

	Jan-Dec	
(NOKm)	**2019**	**2018**
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve 1)	2,458	2,018
Allocated to ECC Owners 2)	1,572	1,291
Issues Equity Captial Certificates adjusted for own certificates	129,496,367	129,358,825
Earnings per Equity Captial Certificate	**12.14**	**9.98**

	Jan-Dec	
1) Adjusted Net Profit	**2019**	**2018**
Net Profit for the group	2,563	2,090
adjusted for non-controlling interests share of net profit	-56	-34
Adjusted for Tier 1 capital holders share of net profit	-49	-37
Adjusted Net Profit	**2,458**	**2,018**

2) Equity capital certificate ratio (parent bank)

(NOKm)	**31 Dec 2019**	**31 Dec 2018**
ECC capital	2,597	2,597
Dividend equalisation reserve	6,144	5,079
Premium reserve	895	895
Unrealised gains reserve	121	81
Other equity capital	-	-
A. The equity capital certificate owners' capital	**9,758**	**8,652**
Ownerless capital	5,432	4,831
Unrealised gains reserve	68	45
Other equity capital	-	-
B. The saving bank reserve	**5,500**	**4,877**
To be disbursed from gift fund	474	-
Dividend declared	840	-
Equity ex. profit	**16,572**	**13,529**
Equity capital certificate ratio A/(A+B)	**64.0 %**	**64.0 %**
Equity capital certificate ratio for distribution	**64.0 %**	**64.0 %**

Results from quarterly accounts

Group (NOKm)	**4Q 2019**	**3Q 2019**	**2Q 2019**	**1Q 2019**	**4Q 2018**	**3Q 2018**	**2Q 2018**	**1Q 2018**	**4Q 2017**
Interest income effective interest method	1,235	1,190	1,127	1,075	1,082	1,025	989	962	989
Interest expenses	538	512	463	426	438	414	408	394	400
Net interest	**697**	**678**	**664**	**649**	**644**	**610**	**581**	**568**	**589**
Commission income	371	374	363	329	343	344	361	339	372
Commission expenses	47	55	51	40	42	45	45	36	49
Other operating income	255	235	294	262	242	186	291	239	206
Commission income and other income	**579**	**554**	**606**	**551**	**543**	**486**	**607**	**542**	**529**
Dividends	1	1	11	2	2	0	4	2	0
Income from investment in related companies	8	85	231	555	130	105	102	79	147
Net return on financial investments	8	35	95	169	-37	77	195	99	108
Net return on financial investments	**17**	**121**	**336**	**727**	**95**	**182**	**300**	**180**	**256**
Total income	**1,292**	**1,353**	**1,607**	**1,926**	**1,282**	**1,277**	**1,488**	**1,290**	**1,374**
Staff costs	411	404	438	447	391	376	413	403	362
Other operating expenses	309	269	263	257	311	240	248	241	255
Total operating expenses	**720**	**673**	**701**	**704**	**701**	**616**	**661**	**645**	**618**
Result before losses	**572**	**680**	**907**	**1,223**	**580**	**661**	**827**	**645**	**756**
Loss on loans, guarantees etc.	103	71	59	67	67	69	78	48	78
Result before tax	**469**	**609**	**848**	**1,155**	**513**	**592**	**748**	**596**	**678**
Tax charge	123	121	165	109	104	119	156	131	122
Result investment held for sale, after tax	0	-0	0	0	-8	6	150	1	-4
Net profit	**346**	**488**	**683**	**1,046**	**401**	**480**	**743**	**466**	**553**

Key figures from quarterly accounts

Group (NOKm)	4Q 2019	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018	2Q 2018	1Q 2018	4Q 2017
Profitability									
Return on equity per quarter [1)]	7.1%	10.2%	14.9%	23.3%	9.0%	11.1%	17.9%	11.2%	13.4%
Cost-income ratio [1)]	56 %	50 %	44 %	37 %	55 %	48 %	44 %	50 %	45 %
Balance sheet figures									
Gross loans to customers	126,277	123,967	121,895	120,100	120,473	118,044	115,787	113,174	112,071
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	167,777	165,380	163,627	161,091	160,317	157,825	154,790	151,065	148,784
Deposits from customers	85,917	83,641	86,553	81,111	80,615	77,529	80,343	75,937	76,476
Total assets	166,662	166,475	167,289	164,641	160,704	159,337	159,584	152,083	153,254
Quarterly average total assets	166,569	166,882	165,965	162,673	160,021	159,460	155,833	152,668	150,083
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskredtt last 12 months [1)]	6.3 %	6.8 %	5.7 %	6.6 %	7.8 %	7.3 %	7.6 %	7.9 %	8.2 %
Growth in deposits last 12 months	10.8 %	4.1 %	7.7 %	6.8 %	5.4 %	6.1 %	6.3 %	8.2 %	13.9 %
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt									
Impairment losses ratio [1)]	0.18 %	0.17 %	0.14 %	0.17 %	0.17 %	0.18 %	0.20 %	0.13 %	0.22 %
Non-performing commitm. as a percentage of gross loans [1)]	0.26 %	0.26 %	0.22 %	0.18 %	0.19 %	0.18 %	0.18 %	0.19 %	0.19 %
Other doubtful commitm. as a percentage of gross loans [1)]	1.00 %	1.03 %	1.00 %	0.99 %	0.86 %	0.86 %	0.95 %	0.90 %	0.80 %
Solidity									
Common equity Tier 1 capital ratio	17.2 %	15.1 %	15.0 %	14.8 %	14.6 %	14.9 %	15.0 %	14.6 %	14.6 %
Tier 1 capital ratio	19.3 %	16.7 %	16.6 %	16.4 %	16.3 %	16.7 %	17.0 %	16.3 %	16.6 %
Capital ratio	21.6 %	18.9 %	18.8 %	18.6 %	18.5 %	19.2 %	19.0 %	18.2 %	18.6 %
Tier 1 capital	17,742	17,417	17,284	16,775	16,472	16,542	16,488	15,697	15,707
Total eligible capital	19,854	19,765	19,634	19,115	18,743	18,969	18,418	17,518	17,629
Liquidity Coverage Ratio (LCR)	148 %	181 %	165 %	180 %	183 %	150 %	150 %	162 %	164 %
Leverage Ratio	7.5 %	7.4 %	7.5 %	7.4 %	7.4 %	7.5 %	7.4 %	7.3 %	7.2 %
Key figures ECC									
ECC share price at end of period (NOK)	100.20	98.50	97.70	87.40	84.20	90.90	84.50	80.90	82.25
Number of certificates issued, millions [1)]	129.30	129.48	129.66	129.41	129.62	129.44	129.31	129.38	129.38
Booked equity capital per ECC (including dividend) [1)]	90.75	89.36	87.04	83.86	83.87	82.57	80.21	76.53	78.81
Profit per ECC, majority [1)]	1.60	2.30	3.21	5.02	1.90	2.32	3.54	2.21	2.63
Price-Earnings Ratio [1)]	15.67	10.69	7.61	4.35	11.05	9.77	5.97	9.16	7.81
Price-Book Value Ratio [1)]	1.10	1.10	1.12	1.04	1.00	1.10	1.05	1.06	1.04

[1)] Defined as alternative performance measures, see attachment to the quarterly report

Equity capital certificates

Stock price compared with OSEBX and OSEEX

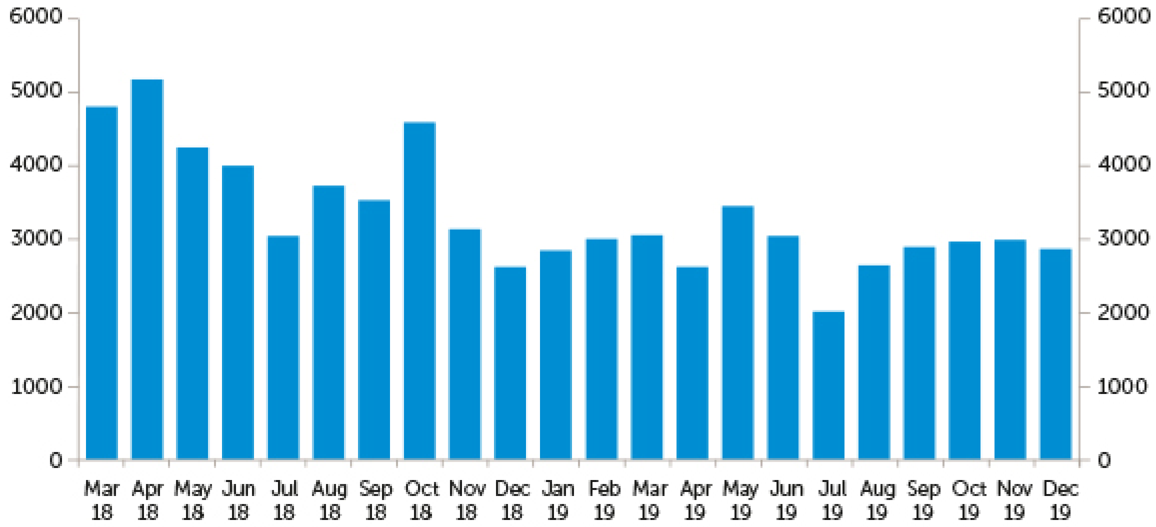
1 Jan 2018 to 31 Dec 2019

OSEBX = Oslo Stock Exchange Benchmark Index (rebased)

OSEEX = Oslo Stock Exchange ECC Index (rebased)

Trading statistics

1 Jan 2018 to 31 Dec 2019



Total number of ECs traded (1000)

20 largest ECC holders at 31 December 2019	No. Of ECCs	Holding
State Street Bank and Trust CO (nominee)	5,596,264	4.31 %
VPF Nordea Norge	4,911,723	3.78 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,442,919	2.65 %
Danske Invest Norske Aksjer Institusjon II	3,314,149	2.55 %
VPF Pareto Aksje Norge	2,368,292	1.82 %
VPF Alfred Berg Gambak	2,254,451	1.74 %
Morgan Stanley & Co. International	2,084,858	1.61 %
State Street Bank and Trust Comp (nominee)	2,044,622	1.57 %
JPMorgan Chase Bank, N.A., London (nominee)	2,023,423	1.56 %
Pareto Invest AS	1,815,271	1.40 %
Forsvarets Personellservice	1,779,246	1.37 %
VPF Nordea Kapital	1,503,225	1.16 %
Danske Invest Norske Aksjer Institusjon I	1,372,975	1.06 %
J.P. Morgan Bank Luxembourg S.A. (nominee)	1,370,104	1.06 %
MP Pensjon PK	1,352,771	1.04 %
VPF Eika Egenkapitalbevis	1,349,141	1.04 %
Handelsbanken Nordiska Småbolagsfond	1,316,359	1.01 %
Citibank N.A (nominee)	1,293,691	1.00 %
VPF Nordea Avkastning	1,249,111	0.96 %
The 20 largest ECC holders in total	**46,407,986**	**35.74 %**
Others	83,428,457	64.26 %
Total issued ECCs	**129,836,443**	**100.00 %**

Dividend policy

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

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

SpareBank 1 SMN's intention is that up to one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that up to 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.