

Report of the Board of Directors

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

Third quarter 2019 in isolation

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

Year to 30 September 2019

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

Events in the quarter

Base rate hike

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

Insurance merger

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

UN principles for Responsible Banking

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

SpareBank 1 SMN is a preferred partner bank for the LO

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

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

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

Green bonds

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

PSD2 – New Payment Services Directive for the EU and EEC

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounts for the first nine months

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

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

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

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

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

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

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

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

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

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

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

Increased net interest incomes

Net interest incomes rose by NOK 232m to NOK 1,991m (1,759m) in the first nine months of 2019. The increase is attributable to increased lending to and deposits from both retail and corporate customers, at the same time as higher market interest rates have brought improved return on the bank's equity capital and higher deposit margins.

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

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

Growth in other incomes

Commission incomes and other operating incomes have increased by NOK 77m to NOK 1,711m (1,634m) in the first nine months of 2019.

Net interest income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is recorded as commission income. Commission income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt totalled NOK 271m in the first nine months of 2019 (274m). Slightly weaker margins on the loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are compensated for by a higher volume of loans sold.

Other commission incomes came to NOK 1,440m (1,360m). The growth of NOK 79m was driven mainly by increased incomes on accounting services and securities services.

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

Commission income (NOKm)	January - September		Change
	2019	2018	
Payment transfers	167	152	16
Creditcard	44	45	-1
Saving products	69	87	-18
Insurance	136	130	6
Guarantee commission	37	48	-12
Real estate agency	298	298	0
Accountancy services	371	320	51
Markets	285	238	47
Other commissions	33	42	-8
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,440	1,360	79
Commissions SB1 Boligkreditt	259	263	-3
Commissions SB1 Næringskreditt	12	11	1
Total commissions	1,711	1,634	77

Return on financial investments

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

- Financial derivatives have yielded gains of NOK 92m (192m). These are essentially gains on fixed income instruments and are ascribable to the interest rate upturn in the first half-year. Gains are also noted in the bond portfolio which shows overall gains of NOK 22m (loss of 81m)
- Losses on hedge accounting totalled NOK 1m (loss of 5m)
- A gain of NOK 108m (144m) on shares of the bank and subsidiaries, which refers mainly to gain on shares in Visa (NOK 28m), goodwill related to the acquisition of DeBank (NOK 30m) and gains on shares in SMN Invest (49m)
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans and showed a gain of NOK 10m (23m)
- Income of NOK 32m from forex transactions (47m) comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies

- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 36m (52m)

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

Product companies and other related companies

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

The overall profit of the product companies and other related companies was NOK 411m (286m) in the first nine months of 2019. In addition, SpareBank 1 SMN posted a gain of NOK 460m related to the establishment of Fremtind in the first quarter of 2019.

SpareBank 1 Gruppen

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

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

SpareBank 1 SMN's share of the profit for the first nine months of 2019 was NOK 264m (189m), of which property revaluations accounted for NOK 116m.

SpareBank 1 Boligkreditt

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

As at 30 September 2019 the bank had sold loans totalling NOK 39.7bn (37.7bn) to SpareBank 1 Boligkreditt, corresponding to 35.2 per cent (35.3 per cent) of the group's overall lending to retail borrowers.

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

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 30 September 2019, loans worth NOK 1.7bn (2.1bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.8 per cent, and the bank's share of the profit for the first nine months was NOK 15m (10m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank. 43 per cent of the loans residing in SpareBank 1 Næringskreditt have been sold from BN Bank.

SpareBank 1 Kredittkort

The profit for the first nine months of 2019 was NOK 73m (96m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN holds a stake of 17.3 per cent. SpareBank 1 SMN's share of the profit for the first nine months of 2019 is NOK 13m (17m), and the bank's share of the portfolio is NOK 924m (911m).

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

BN Bank

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

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

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

SpareBank 1 Betaling

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

SpareBank 1 Betaling posted a deficit for the first nine months of NOK 35m (39m) which constitutes the company's share of Vipps' financial result. SpareBank 1 SMN's share of the deficit is NOK 7m (NOK 8m). In the first quarter the company corrected the reported result for 2018 by NOK 72m. SpareBank 1 SMN accordingly has a positive profit share of NOK 7m from the company for the first nine months (deficit of 8m).

Operating expenses

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

The bank's costs rose by NOK 71m to NOK 1,006m in the 12 months to end-September. NOK 12m of the growth refers to costs incurred in allocating equity certificates (ECs) to the bank's employees. This aside, costs have risen by 6.2 per cent. The increase is related to the development of new customer solutions and increased resource use with a view to meeting regulatory requirements. Part of this resource use relates to hired-in resources which will be phased out in the course of the first quarter of 2020.

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

Overall costs among the subsidiaries came to NOK 1,071m (987m), having risen by NOK 84m or 8.5 per cent in the 12 months to end-September. The increase is highest at SpareBank 1 Regnskapshuset SMN and SpareBank 1 Markets and is attributable to increased activity which has also brought improved profit performances. In addition, DeBank is a subsidiary of SpareBank 1 SMN as from 2019.

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

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

Stable losses and low defaults

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

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

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

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

Overall problem loans (defaulted and doubtful) came to NOK 2,123m (1,649m), or 1.28 per cent (1.04 per cent), of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. All loans classified to stage 3 in the expected credit loss model are defined as problem loans.

Defaults in excess of 90 days totalled NOK 424m (284m). Defaults measure 0.26 per cent (0.18 per cent) of gross outstanding loans. The increase is mainly in the retail portfolio.

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

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

Total assets of NOK 166bn

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

As at end-September 2019 loans worth a total of NOK 41bn (40bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Good but declining growth in residential mortgage lending

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

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

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

(For distribution by sector, see note 5).

Good growth in deposits

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

- Personal deposits rose by NOK 1.7bn (2.1bn) or 5.1 per cent (6.8 per cent) to NOK 35.3bn (33.6bn)
- Corporate deposits rose by NOK 4.4bn (2.3bn) or 10.0 per cent (5.6 per cent) to NOK 48.3bn (43.9bn)
- The deposit-to-loan ratio at SpareBank 1 SMN was 67 per cent (66 per cent) excluding SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 51 per cent (49 per cent)

(For distribution by sector, see note 9).

Investment products

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

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

Insurance

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

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

Retail Banking

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

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

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

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

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

The bank's distribution model for the retail market is designed to ensure increased selling power and cost efficiencies. Sales will increase across all channels with a strong emphasis on increasing the share of digital sales. Retail Banking introduced a new CRM system, 'Iver', in 2018. Iver has improved, and enhanced the efficiency of, the customer experience and strengthened the interplay between analogue and digital services. The bank will maintain a strong physical presence while at the same time continuing to make efficiency gains.

Corporate Banking

Outstanding loans to corporates total NOK 41bn (40bn) and deposits total NOK 41bn (37bn) as at 30 September 2019. This is a diversified portfolio of loans to and deposits from corporate clients in Trøndelag and in Møre og Romsdal.

Operating income totalled NOK 1,021m (993m) in the first nine months of 2019. Net interest income amounted to NOK 864m (827m), and commission income and return on financial investments came to NOK 157m (165m).

Overall net losses in the corporate banking segment have declined, totalling NOK 140m (153m) in the first nine months of 2019. The losses are in all essentials related to challenges in oil-related activities.

Return on capital employed for the corporate banking segment was 11.8 per cent (10.8 per cent) in the first nine months of 2019. Capital employed is regulatory capital of 15 per cent, corresponding to the group's targeted CET1 ratio.

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

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

Subsidiaries

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

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

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

In collaboration with BN Bank, the company established in 2016 the company BN Bolig in which EiendomsMegler 1 Midt-Norge and BN Bank each hold a 50 per cent stake. BN Bolig posted a deficit of NOK 23.7m (deficit of 20.5m). The company's results has not been in line with expectations, and measures will be implemented in the fourth quarter.

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

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

Good growth is noted, in particular for car loans where growth in the 12 months to end-September was 25 per cent (21 per cent). The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge as at 30 September 2019, while Sparebanken Sogn og Fjordane held a stake of 7.5 per cent. SpareBank 1 SMN holds 61.2 per cent of the shares of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 81.3m (56.8m) in the first nine months of 2019. The company has acquired several businesses in Trøndelag and Møre og Romsdal in 2019. It now has more than 500 employees, 11,000 customers and offices in 41 locations. This has contributed to profit growth along with a substantial increase in both incomes and costs.

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

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

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

Value changes and realisation of losses or gains on the company's overall holding of shares account for NOK 51.7m of the company's net total income.

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

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

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

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

DeBank

SpareBank 1 SMN acquired all shares of DeBank in the first quarter of 2019. DeBank caters specifically to small and medium-sized businesses that specialise in factoring. DeBank is headquartered in Trondheim and has 19 employees. As at 30 September 2019 the company had loanable capital of NOK 105m, overall operating income of NOK 14.7m and a pre-tax profit of minus NOK 10.1m. The company plans to move into positive territory over a two-year period. DeBank will operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is heightening its focus on small and medium-sized businesses and will strengthen its offering in the factoring field through this acquisition.

Satisfactory funding and good liquidity

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

The bank has liquidity reserves of NOK 27bn and has the funding needed for 25 months of ordinary operation without fresh external finance.

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

The LCR is calculated at 181 per cent as at 30 September 2019 (150 per cent). The requirement is 100 per cent.

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

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

SpareBank 1 Boligkreditt is the bank's most important funding source, and residential mortgages totalling NOK 40bn (38bn) had been sold as at 30 September 2019.

Rating

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

Financial soundness

As of 31 December 2018 the countercyclical buffer was raised from 1.5 per cent to 2.0 per cent, bringing the CET1 requirement to 12.0 per cent, including combined buffer requirements. Taking into account a Pillar 2 requirement of 1.9 per cent, the overall government requirement is 13.9 per cent. The add-on refers mainly to owner risk, market risk and credit concentration risk. The add-on is subject to review by Finanstilsynet (Norway's FSA) every second year. SpareBank 1 SMN aims for a management buffer of about 1 per cent over and above the combined Pillar 1 and Pillar 2 requirements with a view to absorbing fluctuations in risk weighted assets and in the group's financial results. In light of the above, the group's capital target is set at 15 per cent. The countercyclical buffer will increase by 0.5 per cent to 2.5 per cent with effect from 31 December 2019.

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

The CET1 ratio has risen by 0.5 percentage points in 2019. Risk weighted assets have increased by 3.3 per cent in the first nine months as a result of growth in residential mortgage lending at the parent bank and at BN Bank. CET1 capital has grown by 7.0 per cent as of 30 September as a result of a good profit performance and dividend received from SpareBank 1 Gruppen in the second quarter. The leverage ratio of 7.4 per cent (7.5 per cent) shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and effectiveness with a view to strengthening its profitability and financial soundness.

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

The removal of the Basel 1 floor will strengthen the CET1 ratio by about 2 percentage points. In addition to this comes a positive effect of the SME discount of about 0.3 percentage points.

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 30 September 2019 was NOK 89.36 (82.57) and earnings per EC were NOK 10.54 (8.07).

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

At quarter-end the EC was priced at NOK 98.50, and dividend of NOK 5.10 per EC has been paid in 2019 for the year 2018.

Risk factors

The group's problem loans reflect the challenges related to the offshore industry. As at 30 September 2019, loans to oil-related activity accounted for 2.8 per cent of the group's overall lending. The credit quality of the bank's wider loan portfolio is satisfactory. There have been no contagion effects from oil-related activity to other sectors and no other significant concentrations in non-performing and problem exposures are in evidence.

International growth slowed somewhat through 2018 partly as a result of uncertainty related to trade conflicts and Brexit. In 2019 growth among Norway's trading partners has been weak, and growth expectations are revised down somewhat. There is considerable uncertainty regarding international developments. The Norwegian economy has received impetus from the international upturn, an improved oil price and increased oil investments. The Norwegian krone is at a relatively weak level, which is favourable for Norwegian export industries. The krone is expected to remain weak ahead. Real wage growth is expected to increase somewhat in 2019. Combined with a continued low interest rate level, the bank considers that loss risk in the bank's retail market portfolio will be low. Unemployment has declined in the bank's market area, and the bank expects the level of unemployment to remain relatively moderate ahead.

Credit growth among Norwegian households continues to outstrip household wage growth, but the rate of growth has declined through 2018 and thus far in 2019. Interest rate increases could impact negatively on house prices, which will likely have a dampening effect on credit demand. A situation of falling house prices and expectations of higher interest rates is likely to prompt a higher savings rate among Norwegian households, potentially resulting in reduced turnover for parts of Norwegian business and industry.

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

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

Stronger focus on combating money laundering

The government requires the banks to strengthen their efforts to combat money laundering and terrorist financing, as reflected in a new Anti-Money Laundering Act which entered into force in October 2018. SpareBank 1 SMN has strengthened its efforts in this area through a clearer organisational set-up and increased resource use.

A total of 50 staff members in the bank are currently dedicated to tasks related to the bank's anti-money laundering and terrorist financing effort. One such task is customer identity verification and updating of customer data across the entire customer portfolio in accordance with the requirements as to ongoing monitoring of customer relationships. These measures are preventive, and give the customer strengthened protection against criminal acts such as money laundering, terrorist financing, fraud and identity theft.

SpareBank 1 SMN has zero tolerance of money laundering and terrorist financing. The bank exercises satisfactory management and control in the anti-money laundering area, which is essential with a view to reducing the risk of the bank being exploited for money laundering purposes and to exposing attempts to perpetrate money laundering or terrorist financing.

Insurance merger

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

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

The demerger will be implemented with accounting effect from 1 January 2020.

The personal risk area is valued overall at about NOK 6.25bn. The demerger will entail an increase in SpareBank 1 Gruppen's equity at group level. The majority's (the SpareBank 1 banks' and the Trade Union Confederation's) share of this increase is about NOK 1.7bn. SpareBank 1 SMN's share of this increase (19.5 per cent) is about NOK 332m which will be taken to income in the first quarter of 2020.

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

DNB has an option to increase its stake in Fremtind Forsikring AS from 35 per cent to 40 per cent by 31 March 2020. If DNB exercises this option, SpareBank 1 Gruppen will receive a gain of about NOK 850m. SpareBank 1 Gruppen's basis for dividend distribution will rise by the same margin. Any extraordinary or

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

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

Outlook

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

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

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

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

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

The bank attaches much importance to maintaining its position as market leader in its catchment areas, and plans to expand its lending to personal borrowers to a level in excess of market growth. The agreement with the Norwegian Confederation of Trade Unions (LO) will strengthen the bank's market position.

The bank is reinforcing its position as the leading bank for small businesses through a broad-based product range, good digital solutions and highly competent advisers. The integration of DeBank expands the product offering to businesses engaged in factoring. The growth in lending to corporate clients is primarily to small and medium-sized businesses. This is expected to continue.

The strategy of being a digital bank with a personal and local signature stands firm. There are still potential efficiency gains to be made across the group through simplification and automation. The bank is well prepared for the introduction of PSD2 as from 15 September 2019.

The CET1 ratio has increased to 15.1 per cent, and is as targeted. The leverage ratio of 7.5 per cent shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and effectiveness

with a view to strengthening its profitability and financial soundness. The introduction of revised capital requirements rules as from the start of 2020 will entail higher reported capital adequacy, and capital targets will be adjusted accordingly.

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

Trondheim, 29. October 2019
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Christian Stav

Mette Kamsvåg

Morten Loktu

Janne Thyø Thomsen

Tonje Eskeland Foss

Inge Lindseth
(employee rep.)

Christina Straub
(employee rep.)

Jan-Frode Janson
(Group CEO)