Report of the Board of Directors

Macroeconomic conditions

Global economic upswing is maturing and, like previous recoveries, will not last forever
Growth in the global economy slowed tentatively through 2018 after a solid upturn in the previous few years. Unemployment has fallen to a low level. Wage growth has picked up appreciably. Central banks in several countries have raised their base rates. Investments have risen to quite a high level. Up to the autumn of 2018 financial market sentiment was buoyant. Share prices were high and credit spreads low.

Towards the end of 2018 economists and market actors became more uneasy. Growth expectations were revised down, stock markets declined, credit spreads widened and some central banks, including the US Federal Reserve, signalled that further interest rate hikes were put on hold. The downward revision of expected growth was in line with data from the economy and corporate surveys published over the course of 2018.

The ongoing trade conflicts between the US and other countries, now notably China, along with Brexit, have affected growth prospects, and possibly also actual growth. So far the trade conflicts have not been sufficiently far-reaching to lead directly to a noticeable slowdown in global growth. However, the indirect effects may be far greater and materialise more rapidly. Uncertainty about the future trade policy regime could prompt firms to defer some investment decisions. This could contribute to the cooling down of a mature cyclical upturn, which could already be in process. Firms across much of the world, particularly in manufacturing, reporting somewhat slower – but as yet not low – growth.

The outlook is uncertain. A cyclical downturn in wealthy countries in the course of 2019 or 2020 is quite possible. The US is leading the upturn, with very low unemployment, and is for that reason vulnerable. Some signs of weakness are evident in the US economy. The housing market is somewhat impaired following interest rate increases. However, through 2018 growth in the euro countries and the UK has decelerated more than in the US, and the risk of a setback has risen here too. A ‘hard Brexit’ outcome for the UK could also prompt greater unease and lower growth.

In emerging economies the picture is mixed. The Chinese economy is slowing, probably more as a result of previous credit tightening than as a result of the uncertainty created by the trade war with the US. A continued high level of debt and investment poses a risk to financial stability, but the authorities are again trying to stimulate growth. Most observers expect a further damping of growth in China.

Good growth in the Norwegian economy – and good prospects
The decline in oil investment dampened growth in the mainland (non-oil) economy to almost zero in 2016. Well before the upturn in oil investment, at around the turn of 2018, growth in the Norwegian economy picked up. A weak Norwegian krone, very low interest rates and an expansionary fiscal policy contributed. Through 2018 investment in the oil sector picked up and, after some meagre years, the supplier industry reports higher activity levels. Mainland Norway’s GDP rose by 2.5 per cent last year, about the same margin as in 2017.

The growth of 2.5 per cent exceeds the growth in production capacity. Productivity growth remains low in Norway as elsewhere, and even today’s moderate growth spurs rapid growth in employment. Concurrently immigration has fallen and employment is growing faster than the population. The supply of labour – i.e. the labour force participation rate – is also rising but at a somewhat lower rate, and unemployment is falling, across the entire country. The labour force participation rate remains lower than normal and may rise further. Nor is unemployment as yet particularly low. Moreover, firms as a whole are not reporting difficulties of note in filling vacancies. Overall, this indicates that Norway has potential for further growth.

However, at the same time as unemployment is falling, wage growth is quickening to just under 3 per cent. This is below the norm in Norway. Like other countries, Norway cannot withstand normal growth in wages in a period of abnormally low productivity growth without problems in the form of pressure on corporate earnings or excessive price inflation.

Corporate surveys suggest that the growth in the Norwegian economy will continue in 2019. All main sectors and all regions report increased activity levels. Oil investments will contribute to growth again in 2019, but far less than through 2018, based on available estimates from oil companies, government authorities and organisations. Prospects for 2020 and further ahead are more uncertain, although the oil companies' portfolio of field developments indicates a decline in investments as the development of the Johan Sverdrup field approaches completion. Industrial firms will further increase their investments in 2019. Exports other than oil and gas rose through 2018, but are probably dependent on continued global growth. Moreover, many Norwegian export firms are highly dependent in the long term on a well-organised global trading regime, with the freest possible access to foreign markets. This regime is now under greater threat than in a long time.

Growth in households' real income has been low in recent years. This is due partly to low wage growth, partly to high price growth as a result of the krone depreciation and now, recently, also to high electricity prices. Growth in consumption has therefore been lower than previously, although households have compensated for low growth in real incomes by reducing their saving rate somewhat. Electricity prices will likely fall in 2019 and overall price inflation will be lower. Real income growth will thereby improve. Growth in consumption will not be particularly high regardless of the above.

Following the sharp increase in house prices up to the first quarter of 2017, prices fell slightly through 2017, but recovered somewhat during 2018. Prices are back to about the same level as in early 2017. Selling activity is high, but new housing completions are also at a high level. Housing construction fell through 2017, only to return to quite a high level over the course of 2018.

The growth in household debt has been gradually reduced in recent years but remains higher than the growth in households' disposable income, and the debt burden continues to rise. Tighter residential mortgage lending regulations appear to have helped to dampen the growth in household debt, while low mortgage lending rates pull in the opposite direction.

In September 2018 Norges Bank raised its base rate from 0.50 to 0.75 per cent. The base rate had up to then remained unchanged since 2016, and this was the first rate increase since 2011. Norges Bank's forecasts indicate that the base rate will be raised to 1.0 per cent in the course of the first quarter of 2019, and thereafter raised step-by-step to 2.0 per cent by the end of 2021. In the second half of 2018 and the first half of 2019, market expectations of future interest rate hikes have subsided, in Norway as elsewhere. In Norway uncertainty centres on how far the most heavily mortgaged households can absorb interest rate increases before reducing their demand in an effort to bring down their debt burden. Recent years' rapid growth in consumer borrowing is another uncertain factor. Government authorities have now made consumer loan banks subject to lending regulations, and debt registers will be introduced in the course of 2019.

The krone exchange rate remains at a low level, historically speaking, although the oil price has risen, even after falling in the second half of 2018. Many years of high wage growth peculiar to Norway lifted costs to a high level, and the exchange rate has helped to bring them down to a reasonable level.

Trøndelag and Møre and Romsdal

Economic trends across Norway's regions are normally very similar. The oil slump was an exception, hitting hard along the coast, from Agder up to Møre, but far more mildly in Trøndelag. Now the oil region is also reporting sound growth, and unemployment is falling fastest in this part of the region.

Unemployment in Trøndelag was low at 1.9 per cent of the labour force at the end of 2018, whereas it has fallen in Møre and Romsdal, standing at 2.3 per cent at year-end.

There was a flat trend in house prices in Central Norway in 2018. The twelve-month rate of growth in Central Norway in December 2018 was 0 per cent compared with a figure of 2.8 per cent for Norway overall. House prices fell 0.8 per cent in Trondheim while they increased by 0.4 per cent in Ålesund.

According to the firms that report to Norges Bank's regional network, growth in Trøndelag has subsided somewhat in recent quarters and expectations for the months ahead are now below the average for the country, after Trøndelag reported higher growth for a couple of years. Growth in Møre and Romsdal has picked up well in the last two years or so, but remains appreciably below the average for the country. Sentio's corporate expectations barometer and the Confederation of Norwegian Enterprise's (NHO) corporate survey report somewhat better growth in the region than does Norges Bank's network.

Møre and Romsdal will continue to be more dependent on oil and shipbuilding than the rest of the country – and prospects here are positive for the year ahead. Trøndelag is more diversified and, with the exception of aquaculture and the construction industry, both of which have good years behind them, there is hardly any downside risk beyond what follows from changes of a more structural nature, such as for example in retailing where the online share of retail trade is growing. In cyclical terms, greater uncertainty centres on the construction industry. Construction activity in Trøndelag has been higher than normal in the last few years, and higher than for the country as a whole. At the same time population growth, as in the country as a whole, has fallen to its lowest level for 14 years, and income growth is lower than normal.

Annual accounts 2018

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

(Consolidated figures. Figures in parentheses refer to the same period of 2017 unless otherwise stated.)

Main points for 2018

- Post-tax profit was NOK 2,090m, NOK 262m better than in 2017. The improvement is mainly due to increased operating income and reduced loan losses. In addition, the Group recorded a gain of NOK 144m on the sale of the bank's head office building

- Considerable increase in the customer base and high growth in all product areas
- Proposed dividend: NOK 5.10 (4.40) per equity certificate (EC) and an allocation of NOK 373m to non-profit causes (322m)

Post-tax profit of NOK 2,090m

- Pre-tax profit: NOK 2,450m (2,279m)
- Post-tax profit: NOK 2,090m (1,828m)
- Return on equity: 12.2 per cent (11.5 per cent)
- CET1 ratio: 14.6 per cent (14.6 per cent)
- Growth in lending: 7.8 per cent (8.2 per cent) and in deposits: 5.4 per cent (13.9 per cent)
- Share of lending to the retail market 67% (66%)
- Losses on loans and guarantees: NOK 263m (341m)
- Earnings per EC: NOK 9.97 (8.71). Book value per EC: NOK 83.87 (78.81), incl. dividend proposed for 2018

Profit growth of NOK 262m in 2018

In 2018 SpareBank 1 SMN achieved a pre-tax profit of NOK 2,450m (2,279m). The post-tax profit was NOK 2,090m (1,828m) and return on equity 12.2% (11.5%).

Overall operating income in 2018 came to NOK 4,580m (4,229m), an increase of NOK 349m from the previous year.

The profit share from SpareBank 1 Gruppen and other related companies was NOK 416m (437m). Dividend and return on financial instruments came to NOK 341m (322m), of which NOK 90m was accounted for by a gain resulting from the merger of Vipps, Bank-Axept and Bank ID.

Operating expenses came to NOK 2,624m (2,369m) in 2018. The growth in costs is largely ascribable to the focus on BN Bolig, capacity expansion at SpareBank 1 Markets and growth at SpareBank 1 Regnskapshuset SMN.

Losses on loans and guarantees totalled NOK 263m (341m), measuring 0.17 per cent (0.24%) of overall lending. The losses are mainly in oil-related activities.

Good growth was posted in lending and deposits in 2018. Lending rose by 7.8% (8.2%) and deposits by 5.4% (13.9%).

As at 31 December 2018 the CET1 ratio was 14.6 per cent (14.6 per cent). The CET1 ratio target is 15.0 per cent.

The price of the bank's equity certificate (MING) at year-end was NOK 84.20 (82.25). A cash dividend of NOK 4.40 per EC was paid in 2018 for the year 2017.

Earnings per EC were NOK 9.97 (8.71). The book value per EC was NOK 83.87 (78.81) including the proposed dividend of NOK 5.10. The proposed dividend represents a payout ratio of 50% (50%) of the Group profit.

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 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 29m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 1,857m.

Difference between Group - Parent Bank	2018	2017
Profit for the year, Group	**2,090**	**1,828**
Interest hybrid capital (after tax)	-36	- 33
Profit for the year excl interest hybrid capital, group	**2,054**	**1,795**
Profit, subsidiaries	-165	-196
Dividend, subsidiaries	151	364
Profit, associates and joint ventures	-416	-437
Dividend, associates and joint ventures	355	410
Elimination Group	-93	-119
Profit for the year excl interest hybrid capital, Parent bank	**1,887**	**1,817**

Distribution of profit	2018	2017
Profit for the year, Parent bank	1,887	1,817
Transferred to/from revaluation reserve	-29	17
Profit for distribution	**1,857**	**1,800**
Dividends	661	572
Equalisation fund	526	580
Ownerless capital	297	327
Gifts	373	322
Total distributed	**1,857**	**1,800**

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% of the distributed profit.

Earnings per equity certificate were NOK 9.97. Of this, the board of directors recommend the bank's supervisory board to set a cash dividend of NOK 5.10, altogether totalling NOK 661m. This gives the EC holders a payout ratio of 50.4% of the earnings per EC. The board of directors further recommends the supervisory board to allocate NOK 373m as gifts to non-profit causes, also representing a payout ratio of 50.4%. Of this amount it is proposed that NOK 293m be transferred to the foundation Stiftelsen SpareBank 1 SMN and NOK 80m as gifts to non-profit causes. NOK 526m and NOK 297m are transferred to the dividend equalisation fund and the ownerless capital respectively.

After distribution of the profit for 2018, the ratio of EC capital to total equity remains 64.0%.

Increased net interest income

Net interest income rose by NOK 178m to NOK 2,403m (2,225m) in 2018. The increase is mainly down to increased lending to and deposits from both retail and corporate customers, with particularly high growth noted in residential mortgage lending.

The three-month NIBOR averaged 1.07 per cent in 2018 compared with 0.89 per cent in 2017. Despite rising money market rates, the margin on loans to corporates has remained stable, whereas the margin on residential mortgages has narrowed somewhat. Margins were strengthened somewhat by a general increase in residential lending rates in the fourth quarter of 2014. Deposit margins rose in 2018.

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 on loans sold to these two companies totalled NOK 366m (370m) in 2018.

Risk pricing and attention to the use of regulatory capital have brought improved margins, and work in this respect continues in 2019. The bank's strong growth shows that its prices are in tune with the market.

Increased other income

Commission income and other operating income rose by NOK 172m to NOK 2.177m (2,005m) in 2018.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt fell by NOK 5m as a result of some decline in margins on residential mortgages.

Strong income growth at SpareBank 1 Markets and SpareBank 1 Regnskapshuset SMN is the main reason for the increase in other income.

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 (NOK million)	**2018**	**2017**	**Change**
Payment transfers	207	207	0
Creditcard	60	59	0
Saving products	123	117	6
Insurance	174	172	2
Guarantee commission	61	69	-8
Real estate agency	376	365	11
Accountancy services	421	357	64
Markets	335	214	121
Other commissions	54	75	-21
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	**1,811**	**1,635**	**177**
Commissions SB1 Boligkreditt	350	353	-4
Commissions SB1 Næringskreditt	16	17	-1
Total commissions	**2,177**	**2,005**	**172**

Return on financial investments

Overall return on financial investments was NOK 341m (322m). This breaks down as follows:

- Gain of NOK 103m (67m) on shares of the bank and subsidiaries. Of this, NOK 90m refers to the gain resulting from the merger between Vipps, Bank Axept and Bank ID.
- Financial derivatives yielded gains of NOK 187m (124m). This essentially comprises gains on fixed income instruments. The rise in interest rates in 2018 brought relatively large gains. This is partly neutralised by losses on fixed income bonds, showing an overall loss of NOK 77m (gain of NOK 58m)
- 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 10m (7m)
- Income of NOK 63m (45m) from forex transactions comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies

- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 58m (43m)
- The prices of financial instruments used by the bank for hedging purposes were reduced and the bank has recognised a net loss of NOK 4m (loss of NOK 22m) on hedging instruments

Return on financial investments (NOK million)	**2018**	**2017**	**Change**
Capital gains shares (incl dividends)	103	67	36
Gain/(loss) on derivatives	187	124	63
Gain/(loss) on other financial instruments at fair value (FVO)	10	7	4
Foreign exchange gain/(loss)	63	45	18
Gain/(loss) on sertificates and bonds	-77	58	-135
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	58	43	15
Gain/(loss) on financial instruments related to hedging	-4	-22	18
Net return on financial instruments	**341**	**322**	**19**

Product companies and other related companies

The product companies give the bank's customers access to a broad product range and thus provide the bank with commission income. The product companies also provide the banks with a good return on invested capital. The overall profit of the product companies and other related companies was NOK 416m (473m) in 2018.

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans. SpareBank 1 SMN's stake in SpareBank 1 Gruppen is 19.5 per cent.

SpareBank 1 Gruppen's post-tax profit in 2018 was NOK 1,480m (1,811m). SpareBank 1 Gruppen's pre-tax profit was impaired by lower financial income of the insurers as a whole and weaker operating profit of the non-life insurance business as a result of higher claims payments. The post-tax profit is heavily affected by changes in the tax rules governing life and non-life insurers. The rule change was adopted in in December with effect for 2018, and resulted in a write-back of deferred tax worth NOK 330m for SpareBank 1 Gruppen in the fourth quarter.

SpareBank 1 SMN's share of the profit for 2018 was NOK 289m (349m).

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 2018 the bank had sold loans totalling NOK 38.1bn (34.9bn) 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 in 2018 was 19.9 per cent, and the bank's share of that company's profit in 2018 was minus NOK 7m (minus 41m).

The new stake as of 31 December 2018 is NOK 20.7 per cent.

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 2018, loans worth NOK 1.8bn (1.8bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company in 2018 was 33.5 per cent, and the bank's share of the company's profit for 2018 was NOK 15m (19m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank. Of aggregate loans residing in SpareBank 1 Næringskreditt, 41 per cent have been sold from BN Bank. The new stake as of 31 December 2018 is 33.0%.

SpareBank 1 Kredittkort

The profit for 2018 was NOK 131m (84m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.4 per cent. SpareBank 1 SMN's share of the profit for 2018 was NOK 23m (15m), and the bank's share of the portfolio is NOK 923m (845m) as at 31 December 2018.

SpareBank 1 Kredittkort has managed the LOfavør credit card programme since 2017, thereby expanding the business relationship between the Norwegian Confederation of Trade Unions (LO) and the SpareBank 1 Alliance.

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank as at 31 December 2018.

BN Bank recorded a profit of NOK 294m (298m) in 2018, providing a return on equity of 7.5 per cent (8.3 per cent). SpareBank 1 SMN adjust its share of profit from BN Bank by interests hybridcapital and BN Bank's share of deficit in BN Bolig. SpareBank 1 SMN's share of BN Bank's profit 2018 was therefore NOK 97 million kroner (98m).

Since the decision was made to wind down the focus on financing of commercial property, the corporate portfolio has been reduced by NOK 17.6bn, or 56 per cent, since 30 September 2015. This has helped to improve SpareBank 1 SMN's financial solidity and to enhance the profitability of the remaining corporate portfolio of BN Bank.

BN Bank intends to cater primarily to the retail market in Oslo and south-eastern Norway.

BN Bank has resolved to strengthen its product platform through a cautious focus on consumer lending. In addition the company has, in collaboration with Eiendomsmegler 1 Midt Norge, established the company BN Bolig in which BN Bank holds a 50 per cent stake. The focus on estate agency in the Oslo market is intended to strengthen BN Bank's residential mortgage lending. To support the focus on estate agency, the bank's board of directors has also adopted a new programme for funding mainly housing projects. This will involve a controlled, gradual build-up of the portfolio.

SpareBank 1 Betaling (Vipps)

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for payment solutions, including Vipps. A decision to merge Bank ID and Bank Axept with Vipps was adopted in order to compete in the arena for future payment solutions, and the merger was carried out in the third quarter of 2018. Vipps aims to take its place as the Nordic region's leading financial technology company, and SpareBank 1 SMN's 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 a number of new products in 2018 designed to simplify bank customers' everyday life, and has high ambitions to develop this solution further.

SpareBank 1 Betaling posted in 2018 a deficit of NOK 56m, which constitutes the company's share of Vipps' financial result. SpareBank 1 SMN's share of this deficit is NOK 12m. In addition, SpareBank 1 SMN pays Vipps, annually and under the same principal as the other parent banks, NOK 9.5m in distribution costs.

SpareBank 1 SMN took to income a gain of NOK 90m in the second quarter related to the adopted merger.

Operating expenses

Overall Group operating expenses rose by NOK 255m in 2018 to total NOK 2,624m (2,369m).

Parent bank costs rose by NOK 53m to NOK 1,262m in 2018, of which NOK 11m relates to the sale of the bank's head office building in Trondheim. Excluding this one-time cost, parent bank costs have risen by 3.5 per cent.

Continuous efficiency gains by the bank have enabled lower staffing and reduced costs. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 153 to 575. Changing customer behaviour and new technology will contribute to further efficiency gains.

Extensive digitalisation creates new opportunities, but also poses threats to the banking industry. The bank has invested heavily in new self-service solutions and a customer-relationship management (CRM) system. Concurrently, increased regulatory requirements bring a need for increased capacity and expertise. The bank devoted substantial resources in 2018 to combating money laundering, and this work will continue.

In 2018, staffing was reduced by 20 FTEs at the same time as the bank has recruited new staff in the areas of data warehousing, digital marketing, technology and compliance. Replacing expertise has brought increased wage growth.

Costs among the subsidiaries came to NOK 1,362m (1,160m), having risen by NOK 202m in 2018. Of this increase, NOK 58m refers to SpareBank 1 Regnskapshuset SMN's company acquisitions, NOK 93m to the build-up of SpareBank 1 Markets and NOK 42m to the BN Bolig undertaking. The subsidiaries maintain a continuous focus on cost control.

SpareBank 1 Regnskapshuset SMN's increased activity provides income growth and profit growth for the company. Capacity expansion has enabled strong income growth and profit improvement at SpareBank 1 Markets, and the potential for further growth is high.

The cost-income ratio was 49 per cent (47 per cent) for the Group, 33 per cent (32 per cent) for the parent bank.

Reduced losses and low defaults

IAS 39 Financial Instruments was replaced by IFRS 9: Financial Instruments -Recognition and Measurement on 1 January 2018. The implementation effect is reflected directly in equity as of 1 January 2018. See notes 2 and 4 in this report, for further details.

Loan losses of NOK 263m (341m) were recorded in 2018. Loan losses measure 0.17 per cent of total outstanding loans (0.24 per cent).

A loss of NOK 223m (324m) was recorded on loans to corporates in 2018, in all essentials related to loans to oil-related activity.

A loss of NOK 40m (17m) was recorded on loans to retail borrowers in 2018. Of the losses on retail customers, NOK 17m relate to residential mortgages and NOK 23m to car loans and consumer loans at SpareBank 1 Finans Midt-Norge.

Write-downs on loans and guarantees totalled NOK 909m (1,155m) as at 31 December 2018. Of the net decline of NOK 246m, actual losses accounted for a reduction of NOK 417m and increased provisioning for expected loss for NOK 171m.

Overall problem loans (defaulted and doubtful) come to NOK 1,682m (1,468m), or 1.0 per cent (0.99 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 310m (284m). Defaults measure 0.19 per cent (0.19 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Of the overall default volume, NOK 30m is loss provisioned (55m), corresponding to 14 per cent (20 per cent).

Defaults break down to NOK 69m on corporates (75m) and NOK 242m on retail borrowers (209m).

Other doubtful exposures total NOK 1,373m (1,184m). Other doubtful exposures measure 0.86 per cent (0.80 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. NOK 527m (714m), or 52 per cent (60 per cent), has been written down.

Other doubtful exposures break down to NOK 1,018m (1,164m) on corporate borrowers and NOK 40m (21m) on retail borrowers.

Credit quality in the loan portfolio is good. A very large share of the year's loan losses refers to oil-related activities, but the trend is positive in that part of the portfolio too.

Total assets of NOK 161bn

The bank's assets totalled NOK 161bn (153bn) as at 31 December 2018, having grown by NOK 8bn or 4.9 per cent in the past year. The increase in total assets is mainly a consequence of a higher lending volume.

As at 31 December 2018 loans worth a total of NOK 40bn (37bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

High growth in residential mortgage lending

Total outstanding loans rose by NOK 11.5bn (11.2bn) or 7.8 per cent (8.2 per cent) in 2018 to reach NOK 160.3bn (148.8bn) as at 31 December 2018.

- Lending to personal borrowers rose in 2018 by NOK 9.4bn (9.3bn) to NOK 108.1bn (98.7bn). Growth of 9.6 per cent (10.4 per cent)
- Lending to corporates rose in 2018 by NOK 2.1bn (1.5bn) to NOK 52.2bn (50.1bn). Growth of 4.2 per cent (4.1 per cent).

Growth in residential mortgage lending is high and the bank's market shares are rising. There are no indications of higher loss and default levels in the bank's residential mortgage portfolio, and the quality of this portfolio is good.

New loans to corporate borrowers are mainly to farm enterprises and small businesses and are prioritised with a basis in capital limitations and profitability requirements.

SpareBank 1 SMN has in recent years increased the share of its loans going to personal customers, and personal loans accounted for 67 per cent (66 per cent) of total outstanding loans as at 31 December 2018.

(For distribution by sector, see note 5).

Deposits

Customer deposits rose by NOK 4.1bn (9.3bn) in 2018 to reach NOK 80.6bn (76.5bn). This represents a growth of 5.4 per cent (13.9 per cent).

- Personal deposits rose by NOK 1.3bn (2.0bn) or 4.0 per cent (6.8 per cent) to reach NOK 33.1bn.
- Corporate deposits rose by NOK 2.9bn (7.3bn) or 6.5 per cent (19.5 per cent) to NOK 47.6bn.
- The deposit-to-loan ratio at SpareBank 1 SMN was 67 per cent (68 per cent) as at 31 December 2018. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 50 per cent (51 per cent).

Deposit growth at the bank was satisfactory in 2018, both as regards personal and corporate customers.

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 9.8bn (10.0bn) at the end of 2018. The overall decline of NOK 0.3bn on equity funds was driven by the stock exchange decline in the second half of 2018.

Saving products, customer portfolio (NOK million)	2018	2017	Change
Equity funds	5,932	6,235	-303
Pension products	755	840	-85
Active management	3,147	2,989	158
Total	**9,834**	**10,064**	**-230**

Insurance

The bank's insurance portfolio grew by 9.3 per cent in 2018. Good growth was recorded across the various products, and was largest in the case of occupational pensions at 25 per cent.

Insurance, premium volume (NOK million)	2018	2017	Change
Non-life insurance	812	769	43
Personal insurance	351	327	24
Occupational pensions	289	232	57
Total	**1,452**	**1,328**	**124**

Retail Banking

Outstanding loans to retail borrowers totalled NOK 113bn (103bn) and deposits totalled NOK 40bn (37bn) as at 31 December. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income totalled NOK 2,027m (1,926m) in 2018. Net interest income accounted for NOK 1,234m (1,137m) and commission income for NOK 793m (789m). The income growth is mainly due to increased lending and deposit volumes. Overall income rose by NOK 101m. Return on capital employed in the retail banking segment was 13.2 per cent (16.6 per cent). Capital employed is based on regulatory risk weights and a 15 per cent capital requirement, corresponding to the Group's targeted CET1 ratio.

The lending margin in 2018 was 1.69 per cent (1.93 per cent), while the deposit margin was 0.27 per cent (0.11 per cent) measured against three-month NIBOR. The average of average three-month NIBOR was 0.18 percentage points higher in 2018 than in 2017.

Retail lending and retail deposits grew by 9.3 per cent (10.0 per cent) and 7.7 per cent (6.7 per cent) respectively in 2018.

Costs in the retail segment increased by NOK 10m to NOK 804m in 2018, and staffing was reduced by 34 FTEs to 316 FTEs over the year. Retail Banking introduced a new CRM system, 'Iver', in 2018. Iver has improved, and enhanced the efficiency of, customer treatment and strengthened the interplay between analogue and digital services.

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

Retail Banking's executive director, Svein Tore Samdal, took over as CEO of BN Bank as from 1 December 2018. Nelly Maske is the new executive director of the retail banking business. She comes from the position of executive director of Organisation and Development.

Corporate Banking

Outstanding loans to corporates totalled NOK 41bn (39bn) and deposits totalled NOK 39bn (39bn) as at 31 December 2018. 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 1,329m (1,315m) in 2018. Net interest income was NOK 1,110m (1,108m), and commission income came to NOK 219m (207m).

Expenses rose by NOK 8m to NOK 373m in 2018 while staffing was unchanged over the year, standing at 148 FTEs at year-end.

Overall losses in the corporate banking segment have declined and were NOK 212m (318m) in 2018. 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 11.3 per cent in 2018 (10.5 per cent). Capital employed is based on regulatory risk weights and a 15 per cent capital requirement, corresponding to the Group's targeted CET1 ratio.

The lending margin was 2.73 per cent (2.80 per cent) and the deposit margin was minus 0.04 per cent (minus 0.11 per cent) as per the fourth quarter of 2018.

Lending rose by 2.2 per cent (1.5 per cent) and deposits rose by 1.3 per cent (19.5 per cent) in 2018.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 225.1m in 2018 (258.1m). The figures below are taken from the respective company accounts.

Pre-tax profit (NOK million)	2018	2017	Change
EiendomsMegler 1 Midt-Norge	-22.9	2.6	-25.5
SpareBank 1 Finans Midt-Norge	148.5	128.3	20.2
SpareBank 1 Regnskapshuset SMN	70.4	60.3	10.0
Sparebank 1 Markets	15.1	1.9	13.3
SpareBank 1 SMN Invest	8.0	43.3	-35.3
Other companies	6.0	21.6	-15.7
Total	**225.1**	**258.1**	**-33,1**

Eiendomsmegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a very strong market position, in Trondheim in particular. The company intends to continue to strengthen its market share in the region. In collaboration with BN Bank, the company has established BN Bolig in which EiendomsMegler 1 and BN Bank each hold a 50 per cent stake. The focus on estate agency in the Oslo market will, in addition to enhancing estate agency earnings, contribute to stronger residential mortgage lending growth for BN Bank.

EiendomsMegler 1 recorded a deficit of NOK 22.9m in 2018 (plus 2.6m). The profit performance is weakened mainly by:

- A weaker profit of NOK 20.2m for EiendomsMegler 1 (37.4m). Incomes are somewhat lower than in 2017 as a result of fewer dwelling units sold and lower income per unit. 6,633 dwelling units were sold in 2018 compared with 6,712 in 2017. The main reason for the profit impairment at EiendomsMegler 1 is higher costs due to ongoing readjustment projects related to digitalisation and a new business model along with extensive investment in a trainee programme to ensure correct and relevant estate agent capacity ahead.
- A negative pre-tax profit of NOK 40.7m (negative profit of NOK 32.3m) at BN Bank. EiendomsMegler 1 Midt-Norge consolidates BN Bolig’s results as a subsidiary. BN Bolig has built up capacity to take a position in the estate agency market in Oslo.

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 148.5m in 2018 (128.3m). The good profit growth is due to high growth in income and limited growth in costs. The company’s business areas are mainly leasing to the SMB market and car loans to retail customers. The portfolio of leasing and car loan agreements is worth a total of NOK 7.5bn, of which leasing agreements account for NOK 2.9bn (2.8bn) and car loans for NOK 4.6bn (3.7bn). The company also offers consumer loans, and at year-end that portfolio was worth NOK 0.3bn (0.2bn).

The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge at 31 December 2018 while Sparebanken Sogn og Fjordane held a stake of 7.5 per cent. The remaining shares are held by SpareBank 1 SMN.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 70.4m (60.3m) in 2018. The profit growth is ascribable to sound operations and to the fact that the company has undergone substantial expansion, mainly through the acquisition of accounting firms in Trøndelag and in Møre and Romsdal. The company has 450 employees and an annual turnover of NOK 445m. 10,000 businesses avail themselves of Regnskapshuset, which has offices in 40 locations and a market share of 26 per cent.

The company caters to the SMB segment with a technologically modern platform and broad range of services.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a net profit of NOK 8.0m in 2018 (43.3m) in 2018.

Value changes and realisation of losses or gains on the company's overall holding of shares account for minus NOK 0.9m of the company's total income. The company has in addition ownership interests in the property company Grilstad Marina, and its share of the latter's profit in 2018 was NOK 13.4m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 66.7 per cent. Other owners are SpareBank 1 Nord-Norge, SpareBank 1 SR Bank, SpareBank 1 Østlandet and the SamSpar banks. SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It had a staff of 143 at year-end.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning (formerly Allegro Kapitalforvaltning and SpareBank 1 Nord-Norge Forvaltning). The company is at centre-stage of SpareBank 1 Markets' focus on asset management with aggregate total assets of NOK 16bn. The company has a staff of 17.

SpareBank 1 Markets' consolidated pre-tax profit as per 31 December 2018 was NOK 15.1m (1.9m). A strong income trend is noted, particularly in income from equity and bond issues, share trading and forex/interest rate derivatives compared with the previous year.

DeBank

SpareBank 1 SMN acquired with effect from 1 January 2019 the shares of DeBank, which is headquartered in Trondheim and has a staff of 18. At the half-year mark the company had loanable capital of NOK 90m, operating income of NOK 6.0m and a negative pre-tax profit of NOK 13.2m. No employees of DeBank will be made redundant as a result of the acquisition. DeBank will until further notice operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is expanding its focus on SMBs and will strengthen its offering in the rapidly growing factoring market through this acquisition.

Søndre gate 4-10

SpareBank 1 SMN accepted on 9 November 2017 a bid for the property Søndre gate 4-10, the bank's head office. SpareBank 1 SMN with subsidiaries will lease back about 70 per cent of the floorage on a 15-year contract with an option to extend the lease. The estimated gross annual rent in 2018 is NOK 36.4m. The gross property value was NOK 755m, providing SpareBank 1 SMN with a gain of NOK 144m. The transaction was completed in the second quarter of 2018 in the form of the sale of the property company Søndre gate 4-10.

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.

As at 31 December 2018, the bank had liquidity reserves of NOK 26bn and the funding needed for 25 months of ordinary operation without fresh external finance.

The government authorities require 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 was calculated at 183 per cent as at 31 December 2018 (164 per cent). The requirement is 100 per cent.

The Group's deposit-to-loan ratio at 31 December 2018, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 50 per cent (51 per cent).

The bank's funding sources and products are amply diversified. At end-December 2018, the proportion of the bank's overall money market funding in excess of 1 year was 89 per cent (80 per cent).

SpareBank 1 Boligkreditt is an important funding source, and residential mortgages totalling NOK 38bn had been sold as at 31 December 2018.

Rating
The bank has a rating of A1 (outlook negative) with Moody's and a rating of A- (outlook stable) with Fitch Ratings. Moody's revised in July 2017 its outlook for SpareBank 1 SMN and other Norwegian banks from a stable to a negative outlook. The change was triggered by the implementation of the EU's bank recovery and resolution directive (BRRD) in Norwegian legislation.

Financial soundness
The CET1 ratio at 31 December 2018 was 14.6 per cent (14.6 per cent). The Group's CET1 ratio target is 15.0 per cent. The government's CET1 ratio requirement is 14.1 per cent.

Risk weighted assets increased by 6.7 per cent in 2018 in all essentials, due to high growth in residential mortgage lending and an increased capital requirement related to the transitional arrangement under the capital requirements framework. CET1 capital rose by 7.0 per cent due to a good profit performance again in 2018.

The leverage ratio is 7.4 per cent (7.2 per cent).

The CET1 requirement including combined buffer requirements is 12 per cent. When a Pillar 2 requirement of 2.1 per cent is added, the government authorities' overall CET1 requirement comes to 14.1 per cent.

Finanstilsynet's (Norway's FSA) final assessment of the add-on for risks not adequately covered by Pillar 1 was set at 2.1 per cent in 2015. The add-on relates mainly to owner risk, market risk and concentration risk with regard to credit. SpareBank 1 SMN aims for a management buffer of about 1 per cent above overall Pillar 1 and Pillar 2 requirements in order to absorb fluctuations in risk-weighted assets and fluctuations in Group profit. In light of this, the Group's capital target at the end of 2018 is 15 per cent. In the fourth quarter of 2018, Finanstilsynet reduced the Pillar 2 add-on to 1.9 per cent, however not below NOK 1,794m, with effect from 2019.

Finanstilsynet recommended on 18 October 2018 by letter to the Ministry of Finance that SpareBank 1 SMN, as one of several regional banks, should be defined as systemically important (SIFI). If Finanstilsynet's view is upheld, SpareBank 1 SMN will need to meet a SIFI buffer requirement of 2 percentage points. This will bring the overall CET1 requirement to 16.1 per cent, given the present level of the countercyclical buffer and the current Pillar 2 add-on.

The CET1 capital ratio without transitional rules is 16.9 per cent as of 31 December 2018. The increased buffer requirement is offset by the effect SpareBank 1 SMN will achieve once the specifically Norwegian capital requirement connected to the transitional measures no longer applies.

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 31 December 2018 (including a recommended dividend of NOK 5.10) was NOK 83.87 (78.81) and earnings per EC were NOK 9.97 (8.71).

The Price / Income ratio was 8.44 (9.44) and the Price / Book ratio was 1.00 (1.04).

At year-end, the EC was priced at NOK 84.20, and dividend of NOK 4.40 per EC was paid in 2018 for the year 2017.

SpareBank 1 SMN's articles of association set no restrictions on investors' trade in ECs.

With regard to placings with employees, the latter are invited to participate under given guidelines. In placings where discounts are granted, a lock-in period applies before any sale can take place. The rights to ECs issued in placings with employees cannot be transferred.

SpareBank 1 SMN is not aware of any agreements between EC holders that limit the opportunity to trade ECs or to exercise voting rights attached to ECs.

See also the chapter Corporate Governance.

Risk factors

The Group's problem loans reflect the challenges related to the offshore industry. As at 31 December 2018, loans to oil-related activity accounted for 2.6 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 concentrations in non-performing and problem exposures are in evidence.

Positive growth signals are noted both internationally and in Norway, but there is increased uncertainty related to trade conflicts. The Norwegian krone appreciated through 2018, but weakened somewhat towards the end of the year. The krone remains at a relatively weak level, which is favourable for Norwegian export industries. Some strengthening of the krone is expected ahead. Real wage growth is expected to quicken somewhat. Combined with a continued low interest rate level, the bank considers loss risk in the bank's retail market portfolio to be low. Unemployment has declined in the bank's market area, and the bank expects the level of unemployment to remain relatively low ahead.

Credit growth among Norwegian households continues to outstrip household wage growth, but the rate of growth has declined through 2018. Interest rate increases could impact negatively on house prices, which will probably dampen credit demand. 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).

Insurance merger

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

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

In the transaction the new non-life company is valued at NOK 19.75bn, including the value of personal risk products. Fremtind, without the personal risk products, is valued at NOK 13.5bn. Based on figures as at 31 December 2017 and pro forma consolidated accounts, the merger and DNB's acquisition from a 20 to a 35 per cent stake, will in aggregate entail an increase of about NOK 4.7bn in SpareBank 1 Gruppen's equity at group level. The majority's (the SpareBank 1 banks and the Trade Union Confederation) share of this increase is about NOK 2.5bn. SpareBank 1 SMN's share of this increase (19.5 per cent) is about NOK 488m. However, this brings virtually no change in the Group's CET1 ratio, the reason being that the increased book value of the stake in SpareBank 1 Gruppen AS increases the deduction from CET1 capital and increases risk weighted assets. Overall this virtually neutralises the effect of increased book values.

SpareBank 1 Gruppen (the parent company) will, before the effect of any transfer of personal risk products is taken into account, receive a tax-free gain of about NOK 1.71bn as a result of the disinvestment to DNB. SpareBank 1 Gruppen's basis for dividend payment increases by the same amount. SpareBank 1 SMN's share of any dividend comes to NOK 334m. The dividend payment will reduce the value of the Group's investment in SpareBank 1 Gruppen, thereby also reducing both the deduction from CET1 capital and the size of risk-weighted assets (see preceding paragraph). The Group's capital adequacy ratio will accordingly rise. Based on the Group's accounting figures as at 31 December 2018, the increase in the Group's CET1 ratio will be an estimated 0.3-0.4 percentage points. Any dividend from SpareBank 1 Gruppen AS will be conditional upon the capital situation and decisions of the company's governing bodies and cannot be implemented until the second quarter of 2019 at the earliest.

Corporate social responsibility

The four core values wholehearted, responsible, likeable and highly competent are all connected to corporate social responsibility. However, 'responsible' singles itself out as the most important guide for SpareBank 1 SMN's CSR efforts.

The bank's focus on corporate social responsibility is designed to strengthen competitiveness, reduce risk, attract good customers, investors and skilled staff, boost innovation and contribute to the further development of the region of which the Group is a part. Thus the bank creates value in a responsible and sustainable manner for all stakeholders.

SpareBank 1 SMN reports on the bank's performance in the field of CSR and sustainability under the globally recognised standard, the Global Reporting Initiative (GRI). Read more about the bank's social responsibility in a separate chapter in this annual report – go here. SpareBank 1 SMN has seen a good sustainable development in 2018.

SpareBank 1 SMN has also endorsed the UN's Global Compact, with the commitments this entails. SpareBank 1 SMN developed a new strategy for corporate social responsibility in 2017. The strategy describes concrete objectives under the following themes:

- Responsible products and services
- Communication and openness
- Ethics and anti-corruption
- Environment and climate
- Staff and organisation

Responsible products and services

SpareBank 1 SMN has distinct policies for sustainability in lending, owner positions, and asset management. In addition, the bank is developing its own sustainable products. In day-to-day operations the policies entail inter alia that SMN will:

1. Not take owner positions in or grant loans to companies that do not abide by our principles, and will include caveats regarding follow-up and consequences in the event of any deviation in the event of funding where the companies concerned operate in industries, countries and regions posing a particularly high risk
2. Exert pressure on customers and companies in which we invest to ensure that they maintain sound procedures and processes for making appropriate ethical, environmental and sustainable choices, and for influencing companies in which they hold owner positions through active governance
3. Require documentation that customers have taken action on circumstances that violate our principles
4. Take the consequence of deviations that are not acted on by not renewing or prolonging loans, or by winding down owner positions.

The bank conducts an ongoing ESG screening of all the bank's existing mutual fund suppliers.

Communication and openness

SpareBank 1 SMN's CSR strategy defines how the bank is to engage its stakeholders. The bank endeavours on a continuous basis to identify and engage its own surroundings, and to integrate inputs into important decision processes. SpareBank 1 SMN meets legitimate demands and expectations of the bank's stakeholders in an open and constructive manner. To this end, the bank has its own defined process for stakeholder activities, rooted in the board of directors. For example, the strategy states that SpareBank 1 SMN shall:

1. Define stakeholders on a broad and strategic basis and seek opportunities
2. Prioritise stakeholders according to their value to the bank
3. Be open, clear, inquisitive and constructive in dialoguing with stakeholders
4. Seek partnerships and share success stories with the stakeholders
5. Take the stakeholders' views on board in company governance.

Ethics and anti-corruption
The bank adopted updated ethical guidelines in 2017. The guidelines regulate each staff member's relationship to customers, suppliers, competitors and the world at large.

In addition to the ethical guidelines, SpareBank 1 SMN has established a whistleblowing procedure. This procedure covers the requirements of the Working Environment Act as regards notifying censurable circumstances at enterprises.

The procedure also enables staff members to notify the bank's external reception centre, and to report anonymously if the whistleblower so wishes.

In 2018, SpareBank 1 SMN implemented a new system of event reporting in collaboration with an external supplier.

Environment and climate
It is particularly important for us as a regional bank to assume a responsibility for sustainability in investments and in lending. SpareBank 1 SMN is duty bound to do what it can to support the UN's sustainability objectives, and the bank is concerned that companies in which it invests or to which it lends money should make sustainable choices.

SpareBank 1 SMN's environment management system is certified under the 'Environmental Lighthouse' standard. The bank reports its energy consumption and climate emissions each spring to the Environmental Lighthouse Foundation (Stiftelsen Miljøfyrtårn). The environment management system ensures continuous improvement of the bank's own environmental performances.

Staff and organisation
Major changes are ongoing in the banking industry, creating a major need to revise the bank's competence profile. In the future, the bank will need fewer staff in production, more staff in digital development and more staff in digital sales, analysis and business development.

The SpareBank 1 Alliance has a shared digital teaching platform (LMS), which makes courses and training programmes available to staff. In 2017, SpareBank 1 SMN bank also worked on a new process and new tools for competence development and competence management. The project New Workday is designed to ensure that the bank, in parallel with its development and implementation of new systems and processes, develops the appropriate competence. See the chapter entitled The People, and note 22 Personnel expenses, for more information about the work environment, gender equality and other staff-related matters.

Outlook

Economic prospects in Central Norway are good. The bank's expectations barometer shows increased optimism on the part of business and industry.

The board of directors is pleased with the bank's continued strengthening of its position in the retail market accompanied by growth in the customer base and strong growth in residential mortgage lending. This confirms that the strategy of being a digital bank with a personal and local signature is a strategy that works. The bank expects a lending growth in excess of market growth again in 2019.

The bank is strengthening its position as the leading bank for small businesses through its broad product range, good digital solutions and skilled advisers. The acquisition of DeBank expands the range of products available to corporate clients. The growth in lending to corporate clients is primarily in the area of small and medium-sized businesses. This is expected to continue.

Losses in 2018 are lower than in 2017, and are in all essentials within oil-related activities. A positive trend is noted in the bank's exposure within this portfolio. Losses in the bank's portfolio of other loans remain very small. Loan losses are at a low level, and the bank expects losses in 2019 not to exceed those in 2018.

The financial industry faces major changes. The Revised Payment Services Directive, PSD2, will provide large opportunities to enhance the customer experience. The bank and the SpareBank 1 Alliance have set themselves the ambitious goal of offering better services and adding more value for existing and new customers. Although investments will increase as a consequence of this, the parent bank's ambition of zero growth in costs stands firm.

SpareBank 1 Gruppen and DNB's merger of their non-life insurance businesses confirms the value of the banks' distribution model, brings greater effectiveness and efficiency and further strengthens competitive power in the insurance market. The bank will post a substantial gain in 2019 as a result of the transaction.

The CET1 ratio stands at 14.6 per cent and is slightly below the Group's objective. The leverage ratio of 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 safeguarding its financial soundness. The board of directors expect the Group's capital target to be met through management of the capital-intensive activities. In the fourth quarter of 2018, Finanstilsynet lowered the bank's Pillar 2 requirement by 0.2 percentage points to 1.9 per cent, with effect from 2019.

CEO Finn Haugan will step down in spring 2019 after 28 years in the position. Jan Frode Jansson takes over as CEO from the same point in time.

The board of directors is well satisfied with the Group's achievements and financial results in 2018 and expects 2019 to be a good year bringing strengthened banking operations, sound growth and improved solidity.

Trondheim, 5. March 2019
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal (chair)	Bård Benum (deputy chair)	Paul E. Hjelm-Hansen
Mette Kamsvåg	Tonje Eskeland Foss	Morten Loktu
Janne T. Thomsen	Erik Gunnes (employee rep.)	Venche Johnsen (employee rep.)
		Finn Haugan (Group CEO)