

Report of the Board of Directors

Macroeconomic conditions

Global economic growth stabilised in 2019, but the upside is considered low

Global growth stabilised at three per cent in 2019, after slowing down through the previous year. 2019 has been marked by trade conflict and geopolitical uncertainty, which have dampened global trade flows and business investments. Manufacturing output among our trading partners fell. Last autumn the trade conflicts calmed when the US and China signed a new agreement. Nor did a hard Brexit materialise this time round after the general election in the United Kingdom. While this has dampened uncertainty globally, considerable risk remains both as regards the relationship between the US and China, and as to how the agreement between the United Kingdom and the European Union will ultimately turn out.

Unemployment is low, and in the OECD area unemployment is at its lowest since 1980. Despite this, wage growth has levelled out or declined in many Western countries. Corporate profits are still under pressure in several countries due to lower productivity growth, in particular in the US and Germany. Core inflation in wealthy countries has increased, while lower energy prices have dampened overall price growth.

Towards year-end global growth indicators changed, and signalled somewhat higher global GDP growth into 2020. Despite an improvement in the short-term indicators, growth potentials in many wealthy countries are limited. High investment levels and low unemployment put pressure on earnings.

Stock markets were on a positive track in 2019. Fear of the effects of trade conflicts along with uncertainty prompted several central banks to take stimulatory action. In the US the Federal Reserve cut its base rate on three occasions in 2019, even though the economy strictly speaking did not need it. The European Central Bank reintroduced quantitative easing and cut its key policy rate. Many central banks are now signalling a pause mode. Nominal interest rates are very low – indeed many are negative – in the eurozone. Coronavirus has sparked uncertainty, disquiet and some decline in the financial markets. Should the confidence shock bring a deep and protracted decline, the effects on the real economy could become negative.

Norwegian economy passed its growth peak

The Norwegian economy saw a moderate cyclical upturn in 2019 with growth above the long-term growth potential. Mainland (non-oil) GDP rose by 2.4 per cent compared with 2.5 per cent in 2018. However, growth slowed in the fourth quarter and the business barometers signal a further deceleration. Unemployment has flattened out at a low level. Growth in employment is declining, but remains higher than the rate of population growth. The labour force has increased somewhat, possibly suggesting idle capacity in the economy. Productivity growth remains low. Wage growth quickened to 3.4 per cent in 2019, contributing to positive real wage growth after several years of zero growth.

Despite the quickening wage growth, growth in consumption has been moderate in the past year due to a higher saving rate after the decline of previous years. House prices are rising steadily at a moderate rate on a national basis, but growth in housing construction has diminished. Household credit growth has subsided, and the household debt-to-income ratio is now falling marginally.

In 2018 and 2019 oil investments made a solid contribution to growth in the mainland economy. The growth is now leveled out. Unless the oil companies increase their investment budgets, investments will fall through 2020. Investments by mainland businesses will probably decline at the same time. Manufacturing industry reports cuts after a sharp upswing. With little upside potential as regards consumption, GDP growth is set to decrease in 2020 and in 2021. Reports by firms to Norges Bank's regional network and other barometers confirm a change of pace in the Norwegian economy, to a GDP growth figure of just under two per cent in the first half of 2020.

The krone exchange rate fell further in 2019 and is extremely weak, also in historical terms. This is mainly due to global factors. The low krone exchange rate has contributed to an upturn in mainland exports. On the other hand the weak krone puts pressure on importers, who have not been able to fully pass on their costs to Norwegian customers. Core inflation has accordingly hovered around the inflation target of two per cent, despite the fall in the krone exchange rate.

Norges Bank went against the grain of central banks that cut their lending rates last year. After three base rate hikes to 1.5 per cent in 2019, the banks raised their deposit and lending rates. This, together with tighter regulation of consumer lending banks and the introduction of a debt register, has probably helped to dampen credit growth and to keep house price growth in check. Norges Bank signals that the base rate will be kept unchanged for a long period ahead.

Regional: Trøndelag and Møre and Romsdal

Businesses in Norges Bank's regional network reported somewhat lower, but still moderate, growth both in Trøndelag and in Møre and Romsdal in the fourth quarter. This is consistent with findings by SpareBank 1 SMN's economic barometer. However, a further deceleration in the first half of 2020, as signalled by businesses in other countries, is not expected. Unemployment in Trøndelag is among the lowest in the country, at 2.2 per cent. In recent months unemployment has shown signs of levelling out in Trøndelag whereas it continues to fall in Møre and Romsdal. Unemployment here is now down to 2.6 per cent, despite the continuing challenges faced by the county's shipbuilding industry.

House prices rose marginally in Central Norway, and more slowly than in the country as a whole. The annual growth rate is about one per cent. In Trondheim price growth is one per cent on an annual basis and in Ålesund 1.7 per cent. Prices in Ålesund have fallen marginally in recent months following an upturn through the first half 2019.

Møre and Romsdal are more dependent on the level of activity in oil and shipbuilding than the rest of the country – and the prospects here for the next few years are uncertain with many businesses looking towards new markets. Trøndelag is more diversified. For the construction industry the downside is probably larger than for other sectors. Expectations barometers report lower optimism, and housing construction in Trøndelag has declined in recent months after being higher than normal for a long period. Population growth is concurrently slowing, as in the case of the country as a whole, and income growth is lower than normal. This, combined with surplus capacity in wholesale and retail trade, creates challenges for businesses in this sector, in Central Norway as elsewhere.

Annual accounts 2019

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

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

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

Events in 2019

SpareBank 1 SMN a preferred partner bank for the LO

In the second quarter the LO (Norwegian Trade Union Confederation) entered a three-year agreement with two preferred banking partners: SpareBank 1 SMN and SpareBank 1 Østlandet. The bank has high expectations of this agreement, in particular in the bank's own market area. New customer relationships are being established through digital marketing and through high activity targeting LO members at the local level. Since the signing of the agreement, SpareBank 1 SMN has successfully attracted new customers in the LO segment, largely involving the entire customer relationship.

Major effort to combat money laundering

The government requires the banks to have in place procedures for combating money laundering and terrorist financing. SpareBank 1 SMN has made the adjustments needed to bring it into line with the new Anti-Money Laundering Act, and has devoted considerable effort to updating customer identity verification and customer data across the entire customer portfolio in accordance with the requirements as to ongoing monitoring of customer relationships.

UN principles for responsible banking

The UN's new environmental initiative, Principles for Responsible Banking, was launched in New York on 22 September. The new principles are designed to promote a development of the financial sector in keeping with the UN's sustainability goals and the Paris Agreement. SpareBank 1 SMN is one of 10 Norwegian banks to have joined this global initiative and to have endorsed the principles for responsible banking. Further information on the principles can be found in the sustainability library on the bank's webpages.

Green bonds

The bank issued its first green senior bond in the euro-market in September. The bond is linked to certified loans in the bank's corporate banking portfolio in the fisheries, sea farming and commercial property segments.

Launching of green loans to retail borrowers

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

PSD2 – revised Payment Services Directive for the EU and EEA

On 1 April the revised Payments Services Directive for the EU entered into force, and on 14 September it became operative and its functionality available to customers. The Directive requires all banks operating in the EU and the EEA to provide other approved actors with access to customers' accounts information and payment services. SpareBank 1 SMN has opened the way for all the Directive's requirements, and has also given its customers the opportunity to view and to operate their accounts residing in other banks directly in SpareBank 1 SMN's Internet bank and mobile bank.

Acquisition of DeBank

SpareBank 1 SMN acquired in the first quarter all the shares of DeBank. SpareBank 1 SMN Spire Finans (new name as from 2020) caters specifically to small and medium-sized firms that specialise in factoring. The group strengthened its offering of services to small and medium-sized firms through this acquisition.

BN Bolig sold at year-end

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

Insurance merger

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

New group CEO

Jan-Frode Janson took up duties as group CEO of SpareBank 1 SMN on 1 May, following on from Finn Haugan. Mr Janson came from the same position at SpareBank 1 Nord-Norge.

Technology and development director appointed

In the fourth quarter Astrid Undheim was appointed executive director responsible for technology and development at SpareBank 1 SMN. She takes up duties on 1 March 2020 and will be a member of the group management team. She was previously Vice President, Analytics and Artificial Intelligence, at Telenor.

Accounts 2019

Profit growth of NOK 474m

Pre-tax profit for 2019 was NOK 3,081m (2,450m). The post-tax profit was NOK 2,563m (2,090m) and return on equity 13.7 per cent (12.2 per cent).

Overall operating income in 2019 came to NOK 4,967m (4,580m), an increase of NOK 397m from the previous year. Of the income growth, NOK 247m derived from banking operations and NOK 149m from the bank's subsidiaries.

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

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

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

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

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

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

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

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

Proposed distribution of profit

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

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

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

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

Difference between Group - Parent Bank	2019	2018
Profit for the year, Group	2,563	2,090
Interest hybrid capital (after tax)	-47	-36
Profit for the year excl interest hybrid capital, group	2,516	2,054
Profit, subsidiaries	-286	-165
Dividend, subsidiaries	162	151
Profit, associated companies	-879	-416
Dividend, associated companies	704	355
Group eliminations	-2	-93
Profit for the year excl interest hybrid capital, Parent bank	2,216	1,887
Distribution of profit	2019	2018
Profit for the year excl interest hybrid capital, Parent bank	2,216	1,887
Transferred to/from revaluation reserve	-34	-29
Profit for distribution	2,182	1,857
Dividends	840	661
Equalisation fund	555	526
Saving Bank's fund	313	297
Gifts	474	373
Total distributed	2,182	1,857

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

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

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

Increased net interest income

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

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

Increased other income

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

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

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

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

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

Return on financial investments

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

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

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

Product companies and other related companies

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

The overall profit of the product companies and other related companies was NOK 418m (416m) in 2019. In addition SpareBank 1 SMN recorded a gain of NOK 460m related to the establishment of Fremtind in the first quarter of 2019.

SpareBank 1 Gruppen

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

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

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

SpareBank 1 Boligkreditt

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

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

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

SpareBank 1 Næringskreditt

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

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

SpareBank 1 Kredittkort

The profit for 2019 was NOK 75m (131m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.3 per cent. SpareBank 1 SMN's share of the profit for 2019 is NOK 13m (23m), and the bank's share of the portfolio is NOK 946m (923m). The fall in profit is ascribable to a lower proportion of the balance being rolled over and earning interest.

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

BN Bank

SpareBank 1 SMN owns 35.0 per cent of BN Bank as at 31 December 2019.

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

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

SpareBank 1 Betaling

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

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

Operating expenses

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

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

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

The cost-income ratio was 45 per cent (49 per cent) for the group, 31 per cent (33 per cent) at the parent bank.

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

Stable losses and low defaults

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

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

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

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

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

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

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

Credit quality in the remaining loan portfolio is good.

Total assets of NOK 167bn

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

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

Good, but abating, growth in residential mortgage lending

Total outstanding loans rose by NOK 7.5bn (11.5bn) or 4.7 per cent (7.8 per cent) in 2019 to reach NOK 167.8bn (160.3bn) as at 31 December 2019.

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

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

(For distribution by sector, see note 4).

Good growth in deposits

Customer deposits rose in 2019 by NOK 5.3bn (4.1bn) to NOK 85.9bn (80.6bn). This represents a growth of 6.6 per cent (5.4 per cent).

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

(For distribution by sector, see note 8).

Investment products

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

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

Insurance

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

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

Retail banking

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

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

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

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

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

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

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

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

Corporate Banking

Outstanding loans to corporates totalled NOK 40bn (41bn) and deposits totalled NOK 43bn (39bn) as at 31 December 2019. This is a diversified portfolio of loans to and deposits from corporate clients in the counties of Trøndelag and Møre and Romsdal.

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

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

Return on capital employed for the corporate banking segment was 11.7 per cent in 2019 (11.3 per cent). Capital employed is regulatory capital of 15.0 per cent, corresponding to the Group's targeted CET1 ratio.

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

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

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 346.5m in 2019 (226.0m).

Pre-tax profit (NOKm)	2019	2018	Change
EiendomsMegler 1 Midt-Norge	31.5	17.8	13.6
Bn Bolig	-30.2	-40.7	10.5
SpareBank 1 Finans Midt-Norge	108.3	70.6	37.7
SpareBank 1 Regnskapshuset SMN	149.9	148.5	1.4
Sparebank 1 Markets	43.4	15.1	28.3
SpareBank 1 SMN Invest	47.6	8.0	39.7
DeBank	-19.8	-	-19.8
Other companies	16.0	6.0	10.0
Total	346.8	225.4	121.4

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

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

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

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

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

The strong profit growth is mainly ascribable to the following:

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

With 13 per cent growth in 2019, the company has expanded its market position to 25 per cent, representing an increase of close to 2 percentage points. This is calculated as the company's proportion of the accounting industry's overall turnover in Trøndelag, Møre and Romsdal and Gudbrandsdal. Thus the company can point to significantly higher growth and profitability than the industry average. In addition, the company is well on the way as regards creating new income flows beyond the traditional accounting industry.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 47.6m in 2019 (8.0m). The company held shares worth NOK 438m (591m) as at 31 December 2019. Value changes and realisation of losses or gains on the company's overall shareholding account for NOK 56.6m (-1m) of the company's net total income.

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

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

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

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

SpareBank 1 SMN Spire Finans (formerly DeBank)

SpareBank 1 SMN acquired all shares of SpareBank 1 SMN Spire Finans in the first quarter of 2019. SpareBank 1 SMN Spire Finans (new name as from 2020) caters specifically to small and medium-sized businesses that specialise in factoring. The company is headquartered in Trondheim and has 19 employees. As at 31 December 2019 the company had loanable capital of NOK 96m, operating income in 2019 of NOK 20.6m and a pre-tax profit in 2019 of minus NOK 19.8m. The company plans to move into positive territory

over a two-year period. SpareBank 1 SMN Spire Finans will operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is increasing its focus on small and medium-sized businesses and will strengthen its offering in the factoring field through this acquisition.

Satisfactory funding and good liquidity

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

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

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

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

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

The bank's funding sources and products are amply diversified. At 31 December 2019 the proportion of the bank's overall money market funding in excess of one year's maturity was 83 per cent (89 per cent).

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

Rating

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

Financial soundness

Finanstilsynet (Norway's FSA) has adopted a decision on minimum requirements for the sum of own funds and eligible debt (MREL). The SpareBank 1 SMN group is required to hold own funds and eligible debt totalling 33.3 per cent of adjusted risk-weighted assets as at 31 December 2018, i.e. a minimum of NOK 27.2bn. The requirement of lower priority (senior non-preferred debt) must be met by 31 December 2022.

As of 31 December 2019 the countercyclical buffer was raised from 2.0 per cent to 2.5 per cent, bringing the CET1 requirement to 12.5 per cent, including combined buffer requirements. Taking into account a Pillar 2 requirement of 1.9 per cent, the overall government requirement is 14.4 per cent. The add-on refers mainly to owner risk, market risk and credit concentration risk. The add-on is subject to review by Finanstilsynet every second year.

SpareBank 1 SMN aims for a management buffer of about 1 per cent over and above the combined Pillar 1 and Pillar 2 requirements with a view to absorbing fluctuations in risk weighted assets and in the group's financial results. The Ministry of Finance has announced that the systemic risk buffer for IRB banks is to

increase by 1.5 per cent to 4.5 per cent with effect from 31 December 2020. This brings the CET1 ratio requirement to 15.9 per cent. When a management buffer of 1 per cent is included, the bank's new target will be 16.9 per cent.

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

The CET1 ratio has risen by 2.7 percentage points in 2019. Risk weighted assets were down by 3 per cent as at 31 December, despite the growth in lending through 2019. The removal of the Basel I floor, and the introduction of the SMB rebate as of 31 December 2019, reduced in isolation risk-weighted assets by NOK 15.4bn. CET1 capital has grown by 7.0 per cent in 2019 as a result of a good profit performance and dividend received from SpareBank 1 Gruppen in the second quarter. The leverage ratio of 7.5 per cent (7.4 per cent) shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and effectiveness with a view to strengthening its profitability and financial soundness.

The bank's equity certificate (MING)

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

The Price / Income ratio was 8.26 (8.44) and the Price / Book ratio was 1.10 (1.00). The group's quoted capital totalled NOK 13.0bn at year-end (10.9bn). Taking into account the ratio of EC capital to total equity, the group is worth NOK 19.7bn.

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

SpareBank 1 SMN's articles of association set no restrictions on owners' 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 2019, loans to oil-related activities accounted for 2.8 per cent of the group's overall lending. The credit quality of the bank's wider loan portfolio is satisfactory. There have been no contagion effects from oil-related activities to other sectors and no other concentrations in non-performing and problem exposures are in evidence.

Growth among Norway's trading partners in 2019 was weak, although there are expectations of moderate growth ahead. There is continued uncertainty regarding international developments. The Norwegian economy has received impetus from increased oil investments, but lower growth is expected in oil investments in 2020. The Norwegian krone is at a relatively weak level, which is favourable for Norwegian export industries. The krone is expected to remain weak ahead. Wage growth is expected to remain stable. This, combined with a continued low interest rate level, prompts the bank to consider that loss risk in the

bank's retail market portfolio will be low. Unemployment has declined in the bank's market area over the course of 2019, and the bank expects the level of unemployment to remain low ahead.

Growth in Norwegian household debt has slowed in recent years, and house price growth has been moderate. Interest rate increases could impact negatively on house prices, which will probably dampen credit demand. A situation of falling house prices and expectations of higher interest rates 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 securities markets, and the valuation of basis swaps in particular contributes to volatility. The indirect effect relates very largely to the bank's ownership interest in SpareBank 1 Gruppen whose insurance business and fund management activities are both affected by such fluctuations.

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

Stronger focus on combating money laundering

The government requires the banks to strengthen their efforts to combat money laundering and terrorist financing. SpareBank 1 SMN has in the year behind us focused on the adjustments needed to bring it into line with the new Anti-Money Laundering Act. The bank has also devoted considerable effort in 2019 to updating customer identity verification and customer data across the entire customer portfolio in accordance with the requirements as to ongoing monitoring of customer relationships. In the course of the year more than 50 staff members have been dedicated to tasks related to the bank's anti-money laundering and anti-terrorist financing effort.

Insurance merger

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

Fremtind Forsikring AS received on 2 September 2019 permission from Finanstilsynet to engage in life insurance business through its wholly-owned subsidiary Fremtind Livsforsikring AS. The individual personal risk insurances from SpareBank 1 Forsikring AS and DNB Life Insurance, and the company-paid personal risk insurances from SpareBank 1 Forsikring AS, were transferred to Fremtind Livsforsikring on 1 January 2020.

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

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

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

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

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

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

New strategy

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

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

The strategy establishes the following goals for the group:

SpareBank 1 SMN to be among the best performers in the Nordic region

- **Profitable** with a 12 per cent return on equity
- **Financially sound** with a CET1 ratio of 16.9 per cent. Payout ratio of about 50 per cent
- **Efficient.** Annual cost growth in the group shall be limited to 2.0 per cent within existing business
- **Strengthened market position.** Ambition to be number 1 in all business lines and market areas
- **Greater number of satisfied customers.** Ambition to have the most satisfied customers in all business lines and market areas
- **Proud and committed staff.** Ambition to have the most committed staff in the financial industry in Norway
- **Quality** in all our work

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

Five strategic priorities are highlighted in the strategy period

- Create One SMN
- Increase digitalisation and use of insight
- Head up the development of Norway's savings banks

- Integrate sustainability into the business
- Exploit the power present in the ownership model

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

Sustainability

One of five strategic priorities for SpareBank 1 SMN is to integrate sustainability into the business. As a definition a basis is taken in the UN's 17 sustainability goals and the UN's six principles for sustainable banking, where SpareBank 1 SMN was among the first actors in Norway to give its endorsement. Work on integrating sustainability into the business is at the initial stage, and will be further developed and fleshed out in the strategy period. This also entails setting a level of ambition in prioritised areas.

SpareBank 1 SMN has prepared a sustainability report as a chapter in its own right in the annual report for 2019. As regards the Accounting Act's requirements as information on the work environment, gender equality and non-discrimination, the impact on the external environment and corporate social responsibility, attention is drawn to the sustainability report.

Outlook

The performance for the year as a whole was good with a return on equity of 13.7 per cent.

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

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

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

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

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

The cooperation agreement with the LO (Norwegian Trade Union Confederation) provides potentials for further growth in the retail market both in the region and nationally. This requires a substantial sales effort in order to recruit new customers and to ensure that customers are able to derive benefit from the group's broad product offering.

The group will continue to strengthen its position as the leading bank for small businesses through its broad product range, good digital solutions and skilled advisers. Growth ambitions in the corporate market are primarily directed at small and medium-sized businesses.

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

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

The directors are well satisfied with the group's performance in 2019. New strategic initiatives will further strengthen the group's competitive power.

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

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Christian Stav

Mette Kamsvåg

Tonje Eskeland Foss

Morten Loktu

Janne T. Thomsen

Christina Straub
(employee rep.)

Inge Lindseth
(employee rep.)

Jan-Frode Janson
(Group CEO)