

Report of the Board of Directors

Preliminary annual accounts 2019

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

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

Results in the fourth quarter of 2019

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

Events in the quarter

Technology and development director appointed

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

SpareBank 1 SMN a preferred partner bank for the LO

In the second quarter of 2019 the LO (Norwegian Confederation of Trade Unions) entered a three-year agreement with two preferred banking partners: SpareBank 1 SMN and SpareBank 1 Østlandet. All SpareBank 1 banks will preserve their good relationship with LO members and the trade union movement.

The bank expects an influx of many new customers linked to this agreement, in particular in the bank's own market area. New customer relationships will be established through digital marketing and high activity targeting LO members at the local level.

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

Launching of green loans to retail borrowers

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

SpareBank 1 SMN Regnskapshuset continues strong growth

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

BN Bolig sold at year-end

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

Insurance merger

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounts 2019

Profit for 2019 is NOK 474m better than in the same period of 2018

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

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

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

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

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

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

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

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

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

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

Proposed distribution of profit

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

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

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

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

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

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

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

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

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

Increased net interest income

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

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

Increased other income

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

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

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

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

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

Return on financial investments

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

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

Return on financial investments (NOKm)	2019	2018	Change
Gain/(loss) on 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

in addition SpareBank 1 SMN has a gain of NOK 460m related to the establishment of Fremtind in the first quarter of 2019.

SpareBank 1 Gruppen

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

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

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

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

SpareBank 1 Boligkreditt

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

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

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

SpareBank 1 Næringskreditt

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

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

SpareBank 1 Kredittkort

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

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

BN Bank

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

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

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

SpareBank 1 Betaling

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

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

Operating expenses

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

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

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

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

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

Stable losses and low defaults

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

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

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

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

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

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

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

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

Total assets of NOK 167bn

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

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

Good but declining growth in residential mortgage lending

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

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

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

(For distribution by sector, see note 5).

Deposits

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

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

(For distribution by sector, see note 9).

Investment products

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

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

Insurance

The bank's insurance 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 during 2019.

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

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

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

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

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

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

Corporate Banking

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

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

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

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

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

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

Subsidiaries

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

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

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

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

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

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

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

The strong profit growth is mainly ascribable to the following:

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

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

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

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

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

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

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

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

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

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

SpareBank 1 SMN Spire Finans (formerly DeBank)

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

Satisfactory funding and good liquidity

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

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

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

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

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

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

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

Rating

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

Financial soundness

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

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

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

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

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

The bank's equity certificate (MING)

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

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

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

Risk factors

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

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

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

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

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

Stronger focus on combating money laundering

The government requires the banks to strengthen their efforts to combat money laundering and terrorist financing, as reflected in a new Anti-Money Laundering Act which entered into force in October 2018.

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

Insurance merger

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

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

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

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

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

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

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

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

New strategy

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

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

The strategy establishes the following goals for the group:

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

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

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

Five strategic priorities are highlighted in the strategy period

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

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

Outlook

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

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

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

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

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

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

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

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

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

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

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

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

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)