

Report of the Board of Directors

First half 2020

(Consolidated figures. Figures in parenthesis refer to the same period of 2019 unless otherwise stated)

Main points for the first half of 2020

- Pre-tax profit: NOK 1,202m (2,003m)
- Post-tax profit: NOK 1,008m (1,729m)
- Return on equity: 10.3% (19.0%)
- CET1 ratio: 17.2% (15.0%)
- Growth in lending: 7.0% (5.7%) and in deposits: 8.9% (7.7%) over last 12 months
- Growth in lending to retail borrowers: 7.9% (6.7%) over last 12 months
- Growth in lending to corporate borrowers: 5.2% (3.6%) over last 12 months
- Lending to retail borrowers accounts for 68% (68%) of total lending
- Losses on loans and guarantees: NOK 478m (126m), 0.16% (0.16%) of gross outstanding loans
- Earnings per EC: NOK 4.53 (8.23). Book value per EC: NOK 90.37 (87.04)

Results for the second quarter of 2020

- Pre-tax profit: NOK 845m (848m)
- Post-tax profit: NOK 719m (683m)
- Return on equity: 15.1% (14.9%)
- Growth in lending: 2.5% (1.6%) and in deposits: 7% (6.7%)
- Lending to retail borrowers rose by 2.4% in the quarter (2.2%), 0.7 percentage points more than in the first quarter
- Lending to corporate borrowers rose by 2.7% (0.3%), 0.8 percentage points more than in the first quarter
- Net result of ownership interests: NOK 177m (231m)
- Net result of financial instruments: NOK 271m (106m)
- Losses on loans: NOK 170m (59m), 0.39% (0.14%) of gross outstanding loans
- Earnings per EC: NOK 3.27 (3.21)

Corona crisis continues to have an impact

The situation after lockdown in a number of countries at the end of the first quarter was a broad-based international economic crisis accompanied by rising unemployment and a dramatic fall in demand, despite highly expansionary fiscal policies in most countries. The Norwegian economy was also hit hard. The oil price was heavily reduced and the Norwegian krone depreciated considerably in the first quarter. Norges Bank (Norway's central bank) lowered its base rate to 0 per cent, with ensuing interest rate cuts by the banks. A wave of lay-offs was triggered in a number of sectors and in April 15 per cent of the labour force was registered as jobseekers and 10 per cent as wholly unemployed. Government authorities initiated a series of measures to assist firms and private individuals. The macroeconomic picture reflected considerable uncertainty, and concern as to how the infection situation would pan out was substantial.

At the end of the second quarter the uncertainty remains large. However, there is no doubt that positive trends have been in evidence in the second quarter and subsequently. The oil price and the Norwegian krone have strengthened. The securities market remains volatile, but has shown a substantial value increase since April. Unemployment has fallen from a very high level to about 4.5 per cent – which is true enough twice the level in effect prior to the crisis. The housing market has also improved, but the uncertainty remains. Individual sectors such as the offshore and hospitality industries also face challenges.

After a period of very stringent corona restrictions, society has gradually reopened, entailing a normalisation of society and business. SpareBank 1 SMN has throughout the period serviced its customers by means of extended working from home, thereby maintaining normal operations. In the period since March digitalisation of society and the bank alike has gathered pace, and a steadily increasing proportion of the bank's products are sold and utilised digitally.

SpareBank 1 SMN is the region's leading finance house and shouldered its responsibility in a highly demanding situation at an early stage. A number of measures were taken to accommodate the needs of businesses and private individuals. The group offered among other things mortgage payment holidays to businesses and private individuals, and advances of unemployment benefit to retail customers. SpareBank 1 SMN was allocated government-guaranteed loans worth NOK 1.5bn for mediation to corporate clients in the region. A special task force was set up to assist the group's corporate clients in a very demanding period. Moreover, through the group's social dividend model, NOK 100m was earmarked to help voluntary bodies, clubs and associations in the region through the crisis.

SpareBank 1 SMN has a robust and well-diversified business model which shows its strength above all in times of crisis. The bank's ambition and the strategies stand firm. SMN intends to remain one of the best performing banks in the Nordic region.

One SMN

Throughout the second quarter, the group has continued its work with a wide ranging profitability and enhancement project, One SMN. The project is an important step in realising the group's strategy, and will provide the basis for a united and forward-looking group. Overarching objectives are an improved customer experience, profitability improvements and a strengthened market position. Measures have been identified aimed at providing a profit improvement of NOK 400m through increased synergies, increased revenues, cost efficiencies and improved capital utilisation across the entire group. Some of these measures have been initiated; others will be decided on and implemented over the course of the autumn. The measures include:

- Development of new value propositions for the group's customers and of new concepts in collaboration between the business lines
- Improvement of price models and increased use of analytical insight in the customer dialogue
- Renewed service concepts to prioritised segments
- An increased degree of digitalisation for a forward-looking, simplified and more efficient distribution. SpareBank 1 SMN will retain a strong physical presence in its market area
- A group-oriented organisation set-up with a view to creating more business across the group and to achieving efficiency gains. The group management will be aligned to the new organisation, and joint group functions will be established
- Reduction of operating and IT expenses across all business lines

Management change at SpareBank 1 SMN Regnskapshuset

Jon Havdal has stepped down as CEO of SpareBank 1 SMN Regnskapshuset in order to build up his own business. Jon Havdal has presided over SpareBank 1 SMN Regnskapshuset during 13 years of strong growth and good results. Arne Nypan takes over as CEO of Regnskapshuset. Arne Nypan comes from the position of CEO of SpareBank 1 SMN Finans Midt-Norge. The process of recruiting a new head of SpareBank 1 SMN Finans Midt-Norge is under way.

Post-tax profit of NOK 719m for the second quarter

In the second quarter SpareBank 1 SMN posted a profit of NOK 719m after tax, and a return on equity of 15.1 per cent (14.9 per cent). The result for the second quarter is NOK 429m better than in the first quarter of 2020. Earnings per equity certificate (EC) in the second quarter were NOK 3.27 (3.21) and book value per equity certificate was NOK 90.37 (87.04).

The profit before financial investments in the second quarter of 2020 was NOK 397m. This was NOK 142m better than in the first quarter, mainly due to lower losses. The profit before financial investments was slightly weaker compared with the same quarter of 2019 – due to higher losses.

Net interest income in the second quarter was NOK 666m (664m), which is NOK 44m lower than in the first quarter. Since March, Norges Bank has lowered its base rate by 150 points to zero, and NIBOR fell 120 points from the first to the second quarter. This prompted two mortgage rate cuts in the second quarter with effect from 30 April and from 25 May, while deposit rates were reduced with effect from 22 May and 12 July. The result was an increase in margins on loans and a reduction in margins on deposits from the first to the second quarter, inasmuch as NIBOR fell more quickly than lending and deposit rates in the second quarter. A lower interest rate level brought lower return on equity in the second quarter.

Commission income rose from the previous quarter by NOK 37m to NOK 607m (606m). Increased incomes were noted from savings products, securities services and real estate agency compared with the previous quarter. Incomes are at the same level as in the corresponding quarter of 2019.

Return on financial investments was excellent in the second quarter at NOK 271m (106m) which was NOK 387m better than in the first quarter. Losses on financial investments in the first quarter as a result of the corona crisis were largely reversed in the second quarter at the bank, SpareBank 1 Markets, SpareBank 1 Boligkreditt and in SpareBank 1 Gruppen.

Related companies recorded a profit of NOK 177m (231m) which was an increase of NOK 300m over the first quarter, disregarding the insurance gain of NOK 340m in the first quarter. The change from the first to second quarter is in all essentials down to an improved profit performance by SpareBank 1 Gruppen due to an improved underwriting result and more positive securities markets.

Operating expenses were reduced by almost NOK 10m from the first to second quarter, and totalled NOK 706m (701m).

Losses on loans in the second quarter came to NOK 170m (59m), NOK 138m lower than in the first quarter. Losses on loans to the group's corporate clients totalled NOK 168m (44m). Losses on loans to retail borrowers in the second quarter were NOK 2m (14m).

Quickening growth in the second quarter

Lending grew in the second quarter of 2020 by 2.5 per cent (1.6 per cent). Growth in lending to retail borrowers in the second quarter of 2020 was 2.4 per cent (2.2 per cent). Lending to corporate borrowers increased by 2.7 per cent (0.3 per cent) in the second quarter of 2020.

Deposits rose by 7.0 per cent (6.7 per cent) in the second quarter. Retail customer deposits rose by 10.2 per cent (6.3 per cent) and corporate customer deposits by 4.6 per cent (7.0 per cent) in the quarter.

Profit of NOK 1,008m in the first half of 2020

SpareBank 1 SMN recorded a pre-tax profit of 1,202m (2,003m) in the first half of 2020. The net profit is NOK 1,008m (1,729m) and return on equity is 10.3 per cent (19.0 per cent).

Operating income in the first half of 2020 totalled NOK 2,553m (2,470m), an increase of NOK 83m over the previous year. NOK 55m of the income growth derives from banking operations and NOK 28m from the bank's subsidiaries.

Operating expenses amounted to NOK 1,422 (1,404m) in the first half of 2020. The increase of NOK 18m comprises NOK 40m from banking operations and an overall reduction of NOK 22m on the part of the subsidiaries.

The profit share from owner interests and related companies was NOK 394m (786m), including a one-time gain from insurance of NOK 340m (460m).

Return on financial instruments including dividends came to NOK 155m (277m).

Losses on loans and guarantees totalled NOK 478m (126m).

Growth in lending has quickened, and overall lending growth in the last 12 months was 7.0 per cent (5.7 per cent). Overall deposits increased by 8.9 per cent (7.7 per cent).

The CET1 ratio as at 30 June 2020 was 17.2 per cent (15.0 per cent). The target CET1 ratio is 15.4 per cent.

The price of the bank's equity certificate (MING) at the half-year mark was NOK 78.30 (97.70). A cash dividend of NOK 5.0 (5.10) per EC has been paid in 2020 for the year 2019.

Earnings per EC were NOK 4.53 (8.23). The book value per EC was NOK 90.37 (87.04) per EC.

Increased net interest income

Net interest income rose by NOK 63m to NOK 1,376m (1,313m) in the first half of 2020. Changes in the net interest income are in all essentials ascribable to

- increased lending to and deposits from retail and corporate clients
- increased margins on loans to retail and corporate clients
- reduced margins on deposits from retail and corporate clients
- NIBOR was 30 points lower in the first half of 2020 than in the first half of 2019, bringing lower return on the bank's equity capital

Since 13 March 2020 Norges Bank has lowered its base rate from 1.50 to zero. SpareBank 1 SMN lowered its mortgage lending rate by up to 85 points with effect from 5 April 2020 and by a further 40 points as from 22 May 2020. Deposit rates have been lowered with effect from 22 May and 12 July. NIBOR has been reduced by 150 points over the course of 2020.

The bank lowered its lending rates ahead of the customary six-week deadline, while the change in deposit rates was in line with the ordinary deadline of eight weeks. It takes a while for reduced NIBOR to feed through to the cost of market funding. This has impacted negatively on net interest income in the quarter.

A lower interest rate level has brought lower net interest income from equity capital from the second quarter.

Norges Bank expects an unchanged base rate over the next couple of years. Norges Bank thereafter anticipates a gradual increase in the base rate as conditions in the economy normalise.

Increased other income

Commission income and other operating incomes have risen by NOK 20m to NOK 1,177m (1,157m) in 2020.

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 150m (178m) in the first half of 2020. Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt has fallen by NOK 28m as a result of reduced margins on the loans sold.

Other commission income totalled NOK 1,027m (980m). The growth of NOK 47m is distributed across most income groups.

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

Commission income (NOKm)	First half		Change
	2020	2019	
Payment transfers	109	103	7
Creditcard	31	29	1
Saving products	50	45	5
Insurance	95	89	5
Guarantee commission	28	25	3
Real estate agency	188	199	-11
Accountancy services	290	278	11
Markets	210	187	22
Other commissions	27	24	3
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,027	980	47
Commissions SB1 Boligkreditt	144	169	-25
Commissions SB1 Næringskreditt	6	8	-2
Total commissions	1,177	1,157	20

Return on financial investments

Overall return on financial investments excluding dividends was NOK 145m (264m). This breaks down as follows:

- Losses on shares in the group totalled NOK 6m (gain of NOK 107m)
- Gains on the bond and CD portfolio were NOK 174m (47m) after a narrowing of credit spreads
- Financial derivatives have brought losses of NOK 97m (gains of NOK 63m). These are essentially losses on fixed income instruments and are ascribable to falling interest rates through the first half-year.
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans, and show a loss of NOK 14m (1m)
- Income of NOK 68m (23m) from forex transactions comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies
- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 21m (23m)

Return on financial investments (NOKm)	First half		
	2020	2019	Change
Capital gains shares	-6	107	-113
Gain/(loss) on certificates and bonds	174	47	127
Gain/(loss) on derivatives	-97	63	-160
Gain/(loss) on financial instruments related to hedging	-3	-5	2
Gain/(loss) on other financial instruments at fair value (FVO)	-11	6	-17
Foreign exchange gain/(loss)	68	23	45
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	21	23	-2
Net return on financial instruments	145	264	-118

Product companies and other related companies

The product companies give the banks access to a broader product range and hence commission incomes, as well as return on invested capital. The overall result of the product companies and other related companies was NOK 54m (326m) in the first half of 2020. In addition SpareBank 1 SMN recorded a gain of NOK 340m on the transfer of personal risk products from SpareBank 1 Forsikring to Fremtind Livsforsikring as at 1 January 2020. A gain of NOK 460m was recorded on the establishment of Fremtind Forsikring in the first half of 2019.

Income from investment in associated companies	First half		
	2020	2019	Change
SpareBank 1 Gruppen	-7	224	-231
Gain Fremtind	340	460	-120
SpareBank 1 Boligkreditt	10	22	-12
SpareBank 1 Næringskreditt	9	10	-1
SpareBank 1 Kreditt	2	8	-6
BN Bank	50	51	-1
SpareBank 1 Betaling	-2	10	-12
Other companies	-9	1	-10
Income from investment in associated companies	394	786	-392

SpareBank 1 Gruppen

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

Profit share after tax from SpareBank 1 Gruppen was reduced by a total of NOK 351 million from first half of 2019, of which NOK 120 million is due to lower merger gains. In the first half of 2019 a gain of 460 million

kroner from the merger of Fremtind Forsikring, while in 2020 340 NOK million in profit effect of merger Fremtind Livsforsikring. Underlying profit share in the SpareBank 1 Group was reduced by NOK 231 million from 2019 to NOK -7 million in 2020. The deficit in the first half of 2020 is strongly affected by the Covid-19 situation. Significant insurance provisions and payments on travel insurance are partly offset by income from reinsurer related to Covid-19 damages. In addition, the company has had a negative return on financial instruments. In the first half of 2019, the share of profit from SpareBank 1 Gruppen included 116 million in revaluation of properties.

SpareBank 1 Boligkreditt

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

As at 30 June 2020 the bank had sold loans totalling NOK 43.1bn (40.0bn) to SpareBank 1 Boligkreditt, corresponding to 35.9 per cent (36.1 per cent) of the bank'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 the first half of 2020 was minus NOK 10m (22m).

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 30 June 2020, loans worth NOK 1.4bn (1.7bn) 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 the first half of 2020 was NOK 9m (10m). 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 Kreditt

SpareBank 1 Kredittkort has changed name to SpareBank 1 Kreditt. The company now delivers products for all types of unsecured credit, including credit cards, consumer loans, refinancing, part payment and payment deferment to retail customers in Norway. The company currently has 48 employees and is headquartered in Trondheim.

The profit for the first half of 2020 was NOK 11m (44m). 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 the first half of 2020 was NOK 2m (8m), and the bank's share of the portfolio is NOK 892m (892m).

SpareBank 1 Kredittkort also manages the LOfavør credit card programme and the Sparebanken Møre credit card programme.

BN Bank

SpareBank 1 SMN owns 35.0 per cent of BN Bank as at 30 June 2020. BN Bank is a bank for residential mortgages and commercial property, and its main market is Oslo and south-eastern Norway.

BN Bank's result for the first half of 2020 was NOK 150m (152m), yielding a return on equity of 7.5 per cent (7.5 per cent). SpareBank 1 SMN's share of BN Bank's profit for the first half of 2020 was NOK 50m (51m) adjusted for its share of the profit of BN Bolig.

SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for Vipps' payment 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).

SpareBank 1 Betaling posted a deficit of NOK 9m in the first half of 2020, and SpareBank 1 SMN's share of the deficit comes to NOK 2m (gain of 10m).

Operating expenses

Overall group operating expenses rose by NOK 18m, or 1.3 per cent, to NOK 1,422m (1,404m) in the first half of 2020.

The bank's expenses increased by NOK 40m to NOK 706m (666m) compared with the first half of 2019. The increase comes to 5.9 per cent. The focus on the LO (Norwegian Confederation of Trade Unions) segment has required additional FTEs in the retail banking arm in the first half of 2020. Moreover, increased costs have been incurred on digitalisation and modernisation of the bank.

Overall costs among the subsidiaries were reduced by NOK 22m to NOK 717m (739m) in the last 12 months. The decline in costs is down to the disposal of BN Bank in the fourth quarter of 2019. The subsidiaries report low cost growth compared with the same period last year.

While the group's cost growth is below the targeted level of 2 per cent, the trend in costs in the banking arm is not satisfactory. The profitability project 'One SMN' prioritises taking out synergies through efficiency gains and general cost reductions across the entire group. A simplified and more group-oriented organisation set-up will lay a substantial part of the basis for efficiency gains. The aim is cost reductions of NOK 200m on an annual basis, to be achieved over a two-year period. This entails staff reductions, a simplified distribution structure, increased digitalisation and reductions in IT-costs and other operating expenses.

As a consequence of lower activity since the lockdown, the 2020 cost target is tightened, the target being to keep cost growth in 2020 below 2 per cent.

The group's cost-income ratio was 46 per cent (40 per cent) while the parent bank's cost-income ratio was 33 per cent (26 per cent).

Losses and defaults

Loan losses in the first half of 2020 totalled NOK 478m (126m). Loan losses measure 0.56 per cent of total outstanding loans (0.16 per cent).

A loss of NOK 427m (231m) was recorded on loans to the group's corporate clients. NOK 163m of this figure relates to a single exposure. Offshore sector losses totalled NOK 167m. Increased provisions of NOK 41m and NOK 56m have been made in stage 1 and 2 in light of weaker prospects for the Norwegian economy due to negative migration in the remaining corporate portfolio.

Overall loan losses of NOK 51m (25m) are recorded on loans to retail borrowers in the first half of 2020, of which NOK 43m is related to changed assumptions prompted by changes in the bank's loss model in the first quarter. No basis was found for revising the assumptions in the second quarter.

Write-downs on loans and guarantees total NOK 2,414 m (1,008 m) as at 30 June 2020.

Overall problem loans (defaulted and doubtful) come to NOK 2,370m (1,998m), corresponding to 1.35 per cent (1.22 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. All loans classified to stage 3 of the expected loss model are defined as problem loans.

Defaults in excess of 90 days totalled NOK 678m (356m). Defaults measure 0.39 per cent of gross outstanding loans (0.22 per cent).

Other doubtful exposures total NOK 1,692m (1,641m). Other doubtful exposures measure 0.97 per cent (1.00 per cent) of gross outstanding loans.

Of the bank's overall loan exposure, a low proportion is to exposed industries as a result of the corona crisis and the oil crisis, and only 4.5 per cent of the exposure is to industries considered to be highly exposed – oil, offshore, retail trade, hotels and service industries.

Total assets of NOK 190bn

The bank's assets totalled NOK 190bn (167bn) as at 30 June 2020, having risen by NOK 23bn, i.e. by 13.9 per cent, over the last 12 months. Total assets have risen as a result of increased liquidity holdings and higher lending volume.

As at 30 June 2020 loans worth a total of NOK 44bn (42bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and to SpareBank 1 Næringskreditt. The comments covering lending growth take account of loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Lending

Total outstanding loans rose by NOK 11.5bn (8.8bn) or 7.0 per cent (5.7 per cent) in the last 12 months to reach NOK 175.1bn (163.6bn) as at 30 June 2020. Growth in the first half-year was 4.4 per cent (4.0 per cent).

- Lending to personal borrowers rose in the last 12 months by NOK 8.7bn (7.0bn) to NOK 119.9bn (111.1bn). Growth in the period was 7.9 per cent (6.7 per cent). The growth in the first half-year was NOK 4.2 per cent (2.8 per cent).
- Lending to corporate borrowers rose in the last 12 months by NOK 2.7bn (1.8bn) to NOK 55.2bn (52.5bn). Growth in the period was 5.2 per cent (3.6 per cent). Lending to corporate borrowers rose in the first half of 2020 by 4.7 per cent (0.6 per cent).
- Lending to personal borrowers accounted for 68 per cent (68 per cent) of total outstanding loans to customers as at 30 June 2020.

The group shows good growth in the retail market and is strengthening its market position, with particularly good growth in lending to members of the LO (Norwegian Trade Union Confederation). The growth in lending to corporate borrowers is largely to small and medium-sized businesses.

(For distribution by sector, see note 5).

Good growth in deposits and a strengthened deposit-to-loan ratio

Customer deposits rose in the last 12 months by NOK 7.7bn (6.2bn) to NOK 94.3bn (86.6bn). This represents a growth of 8.9 per cent (7.7 per cent). Deposits rose by 9.7 per cent (7.4 per cent) in the first half of 2020.

- Personal deposits rose by NOK 4.8bn (1.8bn), or 13.2 per cent (5.4 per cent), to reach NOK 41.0bn. In the first half-year deposits in Retail Banking rose by 14.9 per cent (9.5 per cent).
- Corporate deposits rose by NOK 2.9bn (4.4bn), or 5.9 per cent (9.5 per cent), to reach NOK 53.3bn. In the first half-year deposits in Corporate Banking rose by 6.1 per cent (5.9 per cent)
- The deposit-to-loan ratio at SpareBank 1 SMN was 72 per cent (71 per cent). The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 54 per cent (53 per cent).

The increased growth in deposits by retail customers is a consequence of reduced consumption resulting from the corona crisis.

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 10.9bn (10.9bn) as at 30 June 2020. Growth is noted in equity funds, but a corresponding decline is seen in active management products.

Saving products, customer portfolio (NOKm)	January - June		Change
	2020	2019	
Equity funds	7,478	6,790	688
Pension products	742	752	-10
Active management	2,649	3,372	-723
Total	10,869	10,914	-45

Insurance

The bank's overall insurance portfolios have increased by 8 per cent over the last 12 months. Growth has been satisfactory both for non-life and personal insurances.

Insurance, premium volume (NOKm)	January - June		Change
	2020	2019	
Non-life insurance	929	846	83
Personal insurance	386	363	23
Occupational pensions	314	296	18
Total	1,629	1,505	124

Retail Banking

Outstanding loans to retail borrowers total NOK 124bn (115bn) while deposits total NOK 48bn (43bn) as at 30 June 2020. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships with the bank.

Retail Banking's operating income totalled NOK 992m (1,049m) in the first half of 2020, a decline of NOK 57m. Net interest income amounted to NOK 622m (664m) and commission income to NOK 369 (385m). Return on capital employed in the retail banking segment was 11.4 per cent (13.8 per cent). Capital employed is regulatory capital of 15.4 per cent, corresponding to the Group's targeted CET1 ratio.

The lending margin in the first half of 2020 was 1.81 per cent (1.58 per cent), while the deposit margin was 0.02 per cent (0.52 per cent) measured against three-month NIBOR. The market interest rate in terms of a three-month NIBOR was about 30 points lower in the first half of 2020 than in the first half of 2019.

Retail lending and retail deposits grew by 7.7 per cent (6.1 per cent) and 12.4 per cent (6.0 per cent) respectively in the last 12 months.

Lending to retail borrowers consistently carries low direct risk, as reflected in continued low losses. The loan portfolio is secured by residential property. The number of mortgage payment holidays granted rose substantially in the second half of March, normalising from April onwards.

Corporate Banking

Outstanding loans to corporates total NOK 42bn (38bn) and deposits total NOK 45bn (42bn) as at 30 June 2020. This is a diversified portfolio of loans to and deposits from corporate borrowers in Trøndelag and in Møre and Romsdal.

Operating income in the corporate segment came to NOK 747m (681m) in the first half of 2020. Net interest income was NOK 619m (576m), and commission income and return on financial investments came to NOK 128m (105m). The income growth is attributable to increased lending and improved lending margins, as well as to increased guarantee commissions and foreign exchange and payment incomes.

The lending margin was 2.88 per cent (2.61 per cent) and the deposit margin was minus 0.10 per cent (0.02 per cent) in the first half of 2020.

Lending rose by 5.5 per cent (1.3 per cent) and deposits rose by 5.5 per cent (10.4 per cent) in the last 12 months.

Net losses in the corporate banking segment total NOK 410m (93m) in the first half of 2020. NOK 163m of the losses refers to a single exposure and NOK 167m to the offshore sector. Also noted are increased provisioning as a result of lower expectations of the Norwegian economy and a general negative migration in the portfolio.

Return on capital employed for the corporate banking segment was 4.1 per cent (11.8 per cent) in the first half of 2020. Capital employed is regulatory capital of 15.4 per cent, corresponding to the Group's targeted CET1 ratio.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 226.4m (226.5m) in the first half of 2020.

Pre-tax profit (NOKm)	January - June		Change
	2020	2019	
EiendomsMegler 1 Midt-Norge	30.4	31.0	-0.7
BN Bolig	0.0	-16.8	16.8
SpareBank 1 Regnskapshuset SMN	66.9	61.8	5.1
SpareBank 1 Finans Midt-Norge	92.9	74.4	18.5
Sparebank 1 Markets	55.1	28.6	26.5
SpareBank 1 SMN Invest	-12.0	47.3	-59.3
SpareBank 1 SMN Spire Finans	-12.3	-8.2	-4.1
Other companies	5.4	8.4	-3.0
Total	226.4	226.5	-0.1

EiendomsMegler 1 Midt-Norge is the market leader in Trøndelag and in Møre and Romsdal. Operating income in the first half of 2020 was NOK 188m (199m), while operating expenses were NOK 158m (184m).

EiendomsMegler 1's pre-tax profit in the first half of 2020 was NOK 30.4m (31.0m). 3,368 dwelling units were sold in the first half of 2020 compared with 3,354 in the same period of 2019. The company's market share as at 30 June 2020 was 36.5 per cent (37.1 per cent).

BN Bolig was sold in the fourth quarter of 2019.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 66.9m (61.8m) in the first half of 2020. Operating income increased to NOK 303.5m (290.5), a growth of 4.4 per cent.

The strong profit growth is mainly ascribable to:

- Initiated efficiency projects having contributed to increased operating income per FTE
- A continued strong focus on costs having contributed to a significant reduction in other operating expenses

The company's market share in Trøndelag and in Møre and Romsdal is 25 per cent, an increase of more than 2 percentage points over the last 12 months.

The company can thus 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 Finans Midt-Norge delivered a pre-tax profit of NOK 92.9m in the first half of 2020 (74.4m). The company has shown good income growth with incomes totalling NOK 162.1m (138.5m). Moderate growth in costs has also been noted, and operating expenses in the first half of 2020 totalled NOK 44.8m (43.3m). Losses in the first half of 2020 came to NOK 24.5m (20.9m).

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 9.3bn (8.4bn), of which leasing agreements account for NOK 3.8bn (3.4bn) and car loans for NOK 5.3bn (4.7bn). The company also offers consumer loans, and at quarter-end this portfolio was worth NOK 203m (282m).

Good growth of 12 per cent in leasing and 11 per cent in car loans to retail customers is noted in the last 12 months.

The Samspar banks in SpareBank 1 held a 32.1 per cent stake in SpareBank 1 Finans Midt-Norge as at 31 December 2019, while Sparebanken Sogn og Fjordane held a stake of 6.7 per cent. SpareBank 1 SMN holds 61.2 per cent of the shares of SpareBank 1 Finans Midt-Norge.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a negative pre-tax profit of NOK 12.0m in the first half of 2020 (profit of 47.3m).

The company holds shares worth NOK 418m (443m) as at 30 June 2020.

Value changes and realisation of losses or gains on the company's overall shareholding account for a net loss of NOK 8.4m 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 124 FTEs.

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 17.5bn. The company has a staff of 18.

SpareBank 1 Markets' consolidated pre-tax profit for the first half of 2020 was NOK 55.1m (28.6m). High activity in several areas in the second quarter has strengthened incomes, concurrent with a reversal of first-quarter losses on own account trading. Incomes from Investment Banking have been strong with a number of sizeable consultancy assignments and stock issues. Incomes from secondary equity market trading and currency trading have been high. SpareBank 1 Kapitalforvaltning shows somewhat lower commission earnings after the stock exchange fall.

Overall income in the group came to NOK 341m (313m) in the first half year.

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

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 38bn and the funding needed for 36 months of ordinary operation with limited access to market funding. At the start of the corona crisis steps were taken to strengthen the bank's liquidity position. This is the reason for the bank's continued very strong liquidity position.

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 163 per cent as at 30 June 2020 (165 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 30 June 2020, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 54 per cent (53 per cent).

The bank's funding sources and products are amply diversified. As at 30 June 2020 the proportion of the bank's overall money market funding in excess of one year's maturity was 75 per cent (83 per cent).

SpareBank 1 Boligkreditt is the bank's most important funding source, and mortgages totalling NOK 43bn had been sold as at 30 June 2020.

Rating

The bank has an A1 rating with Moody's (stable outlook).

Financial soundness

The CET1 ratio at 30 June 2020 was 17.2 per cent (15.0 per cent), well above the targeted level of 15.4 per cent.

In March the countercyclical buffer was lowered from 2.5 per cent to 1 per cent, bringing the bank's CET1 target down from 16.9 per cent to 15.4 per cent.

The CET1 requirement is 11 per cent, including combined buffer requirements. Taking into account the Pillar 2 requirement of 1.9 per cent, the overall government requirement is 12.9 per cent. Finanstilsynet (Norway's FSA) has announced that it will not be setting new Pillar 2 requirements for SMN until 2021.

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 rise by 1.5 per cent to 4.5 per cent with effect from 31 December 2020. The CET1 ratio requirement will accordingly rise to 14.4 per cent at end-2020, and to 15.4 per cent including the management buffer. Any increase of the countercyclical buffer requires a notice period of at least 12 months. In the current situation the board of directors considers the likelihood of an increase of the countercyclical buffer to be low.

The CET1 ratio rose by 0.9 percentage points in the second quarter. Risk weighted assets were reduced by 2.7 per cent in the second quarter, mainly as a result of reduced risk weights in parts of the IRB portfolio. Further, capital requirements related to CVA have been reduced through the quarter in keeping with expectations. The profit performance in the second quarter is significantly better than for the first quarter, contributing to a 2.4 per cent strengthening of CET1 capital. The bank intends to pay 50 per cent of its second quarter profits to EC holders.

A leverage ratio of 6.9 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 bank's equity certificate (EC) at 30 June 2020 was NOK 90.37 (87.04), and earnings per EC were NOK 4.53 (8.23).

The Price / Earnings ratio was 8.65 (5.94) and the Price / Book ratio was 0.87 (1.12).

At the half-year mark the EC was priced at NOK 78.30, and dividend of NOK 5.00 per EC has been paid in 2020 for the year 2019.

Insurance gain of NOK 340m in the first quarter

The demerger of personal risk products as of 1 January 2020 has brought an increase in equity capital for SpareBank 1 Gruppen at consolidated level. The majority's (the SpareBank 1 banks and the Trade Union Confederation (LO)) share of this increase was about NOK 1.7bn. SpareBank 1 SMN's share of the increase (19.5 per cent) amounted to NOK 340m and has been taken to income in the first half of 2020.

Risk factors

Growth prospects for the global economy are considerably impaired due to the coronavirus pandemic. The

infection protection measures introduced in a number of countries led to a lockdown of community life and jobs and in turn to a considerable reduction in economic activity levels. Over the course of the second quarter many countries have started to gradually reopen society.

There is still much uncertainty regarding the likely depth of the crisis and its duration. Macroeconomic estimates therefore vary widely, but most observers expect growth to pick up gradually towards the end of 2020 and the start of 2021. Fear of new waves of infection, increased saving rates and changes in consumer patterns may contribute to damping the upturn. The IMF expects activity levels in industrialised countries to fall by 8 per cent in the current year, and to recover by 4.8 per cent in 2021.

Since the end of the first quarter of the oil price has strengthened considerably, the Norwegian krone has appreciated, and the record level of unemployment has halved. Norges Bank has lowered interest rates on several occasions, and the base rate was set to zero in May. The base rate is expected to remain at the current level for some time ahead.

When businesses in Norges Bank's regional network were interviewed in April and May, more than one third of them reported impaired growth prospects as a result of the virus outbreak, the measures taken to curb the spread of the disease and the oil price fall. While the damaging economic effects of the virus outbreak and the infection protection measures are being dampened by very wide-ranging support arrangements and expansionary monetary policies, they will be very large nonetheless. In its latest forecasts, Statistics Norway revised the fall in Mainland Norway's GDP from 5.5 per cent to 4 per cent for the current year. The bank assumes and expects Norway's very strong financial position to provide the government authorities with unique opportunities to implement compensatory measures. That will help to dampen the negative impacts of the corona crisis.

The regional economy is also clearly impacted by the negative effects of the infection protection measures taken. Unemployment in Trøndelag and in Møre and Romsdal was just over 9 per cent at the end of the first quarter, but has been cut by half to July 2020 to 3.9 per cent in Trøndelag and 4.2 per cent in Møre and Romsdal. After a house price fall at the end of the first quarter house prices have recovered slightly, well assisted by record-low mortgage lending rates.

The influx of customers applying for mortgage payment holidays has fallen over the course of the second quarter, both for the retail market and corporates. The instruments applied are primarily mortgage payment holidays and government guaranteed loans. Around NOK 2.6bn of the loans to the business sector are to industries heavily affected by the infection protection measures. In the bank's assessment a high retail share will have a positive impact on the expected loss levels.

The group's results are directly and indirectly affected by the fluctuations in the securities markets. The indirect effect is mainly due to the bank's ownership interest in SpareBank 1 Gruppen, where both the insurance business and the fund management activities are affected by the fluctuations.

The group's funding situation is good, with an LCR of 163 per cent and an NSFR of 122 per cent. The bank has ample access to funding via SpareBank 1 Boligkreditt, and will consider its choice of funding source in light of market prices.

At the end of the second quarter of 2020 the group's CET1 ratio stands at 17.2 per cent, compared with the regulatory requirement of 12.9 per cent. This represents a substantial buffer. The Ministry of Finance reduced the countercyclical buffer from 2.5 per cent to 1 per cent on 13 March 2020.

Although developments through the second quarter have been positive, the board of directors considers that while the level of uncertainty is higher than at the end of 2019, the bank's capital situation, and its good liquidity situation, put the bank in a good position to help viable customers through the crisis.

Outlook

The board of directors considers that the group's strategies provide a good basis for strengthening market position, improving efficiency and over time for attaining the goal of a return on equity of 12 per cent. SpareBank 1 SMN is strongly capitalised and in a good liquidity position. The group's robust and diversified business model shows its strength, particularly in times of crisis. SpareBank 1 SMN intends to be one of the best performing banks in the Nordic region.

The project One SMN is the first stage towards realising SMN's strategy. The project establishes a more group-oriented business model and makes adjustments to the management team that lay the basis for SMN to unleash its potential gains. The group's efficiency will be strengthened through a customer-oriented and simplified distribution approach featuring a greater degree of digital sales and service. SpareBank 1 SMN will maintain a physical presence at the local level, and its branches will cover all the group's business lines. Moreover, the efficiency of staff and support functions will be enhanced across the entire group.

The income side will be strengthened through improved price models. Increased use of customer data will contribute to higher product coverage among the group's customers. The market shares of the group's various business lines will be expanded.

Although the infection situation thus far is being handled well in Norway, there is considerable uncertainty about developments ahead due to the corona crisis and the low oil price. The group expects activity levels to gradually normalise over the course of the year. The impact of the infection protection measures, both in Norway and in the world at large, will nonetheless have negative consequences for the Norwegian economy in the years immediately ahead. The group is keeping a close watch on the state of the economy, and is in a position to adapt its operations to a variety of scenarios.

The group's write-down assessments incorporate a gradual normalisation in most sectors, but expect the path of the baseline scenario to be weaker than under the assumptions employed at the end of the fourth quarter of 2019. Good compensation arrangements from the government authorities will ease the consequences. The situation in the offshore sector is negatively impacted by low oil prices and continues to call for a separate loss assessment for that industry.

The board considers the financial position to be sound with a CET1 ratio well above the target level at the half-year mark, which is important given a situation of substantial uncertainty as to the likely development of the economy and the longer-term consequences of the corona pandemic.

The group is conscious of its central role as an important social actor in the region. Thanks to its solid financial situation, the group is well equipped to assist viable customers. SpareBank 1 SMN has the ability to strengthen its market position and to create financial value for its owners. The ownership model makes possible a social dividend in support of the region's voluntary sector.

The board of directors considers the uncertainties to be higher than at the end of 2019. The board expects 2020 to be a demanding year of increased credit losses and volatile securities markets.

Trondheim, 11 August 2020
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Christian Stav

Mette Kamsvåg

Morten Loktu

Janne Thyø Thomsen

Tonje Eskeland Foss

Inge Lindseth
(employee rep.)

Christina Straub
(employee rep.)

Jan-Frode Janson
(Group CEO)