

Report of the Board of Directors

Preliminary annual accounts 2020

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

- Pre-tax profit: NOK 2,378m (3,081m)
- Post-tax profit: NOK 1, 978m (2,563m)
- Return on equity: 10.0 per cent (13.7 per cent)
- CET1 ratio: 18.3 per cent (17.2 per cent)
- Growth in lending: 9.0 per cent (4.7 per cent) and in deposits: 13.5 per cent (6.6 per cent) over the last 12 months
- Growth in lending to retail borrowers was 8.2 per cent over the last 12 months (6.4 per cent), and retail loans account for 68 per cent (69 per cent) of total lending
- Growth in lending to corporate borrowers was 10.6 per cent in the last 12 months (1.1 per cent)
- Losses on loans and guarantees: NOK 951m (299m) or 0.54 per cent (0.18 per cent) of total lending
- Earnings per equity certificate (EC): NOK 8.87 (12.14). Book value per EC: NOK 94.71 (90.75)

Results for the fourth quarter of 2020

- Pre-tax profit: NOK 554m (469m)
- Post-tax profit: NOK 450m (346m)
- Return on equity: 8.9 per cent (7.1 per cent)
- Growth in lending: 1.9 per cent (1.4 per cent) and in deposits: 2.2 per cent (2.7 per cent)
- Lending to retail borrowers rose by 1.6 per cent in the quarter (2.0 per cent), 0.6 percentage points lower than in the third quarter. Lending to corporate borrowers rose by 2.5 per cent (0.3 per cent) which was 0.5 percentage point lower than in the third quarter
- Net result of ownership interests: NOK 117m (8m)
- Net result of financial instruments: NOK 53m (8m)
- Losses on loans: NOK 242m (103m), 0.54 per cent (0.25 per cent) of gross lending
- Earnings per EC: NOK 1.99 (1.60)

Events in the quarter

Vaccines rollout brightens economic prospects, but great uncertainty persists

Covid-19 has sparked a broad-based international and national economic crisis accompanied by increased unemployment and a dramatic fall in demand. The macroeconomic picture reflected immense uncertainty, and government authorities initiated a series of measures to assist businesses and private individuals.

Activity picked up through the summer and the unemployment rate receded, but a second wave of infection struck in the autumn putting a new brake on the economy. While the impact does not look to be as dramatic as in the spring, the negative effects on the economy will nonetheless be long-lasting. A rapid rollout of effective vaccines will help mitigate this and reduce the uncertainty, at the same time as low interest rates stimulate production and employment.

The housing market showed a positive development in the second half of 2020, but uncertainty remains in evidence. Individual sectors such as offshore and the hospitality industry still face challenges.

‘One SMN’ project brought to completion

The project was finalised in December 2020. A number of measures with associated gains will be carried through in 2021. SpareBank 1 SMN is establishing 17 regional centres in which the group’s business lines will be co-located. Strong specialist units under development in the regional centres will provide customers with an improved offering in accounting, estate agency and banking services. Joint support and development units in the group are being established to deliver services of high quality and efficiency.

A customer-oriented and simplified distribution system, increased digitalisation along with streamlining of support functions will enable group FTEs to be reduced by 100 in the course of 2021. Severance packages have been agreed with 75 staff members to that end. The costs thus incurred have been charged to the fourth quarter accounts for 2020 in an amount of NOK 80m. A provision of NOK 3m was also made for planned modifications to the branch network.

One SMN is central to achieving the group’s strategy for the period to 2023, and provides the basis for a united and forward-looking group. Overarching objectives are an improved customer experience, a strengthened market position and improved profitability. A profit improvement of NOK 400m before tax is targeted through increased synergies, increased revenues, cost efficiencies and improved capital utilisation.

In addition to the above changes, the measures include new customer offerings, improved pricing models along with increased use of knowledge about the customer.

Strategy for sustainability

The group’s sustainability profile will contribute to achieving the group’s goals and create values for customers, owners and employees. The board of directors of SpareBank 1 SMN has therefore adopted a new strategy for sustainability. SpareBank 1 SMN will stimulate sustainable development in the region through being a

- **Driver** for the green transition
- **Partner** for the inclusive development of society
- **Guide** to building a responsible business culture

In its role as a driver for the green transition, the group will reduce its direct and indirect CO2 emissions in keeping with Norway’s obligations under the Paris Agreement. The object is to reduce total emissions by at least 50 per cent by year 2030. The overarching indicator of sustainability will be the proportion of loans/turnover that qualify as sustainable economic activity.

In its partner role for the inclusive development of society, the group will profile international worker and human rights, and promote sustainable innovation and entrepreneurship. The object is to recruit a workforce that reflects the diversity of the population by year 2030.

In its role as guide to building a responsible business culture, the group will aspire to an efficient, responsible and open business culture at all levels and in all contexts. The object is to ensure zero tolerance of breaches of the group’s standards of ethics, marketing and purchases.

Efforts are being made to concretise goals both in the short and long term in order to realise the group's sustainability strategy. The goals will be presented when reporting the first quarter of 2021.

SpareBank 1 SMN selected as the new main bank for Trondheim Municipality

Trondheim Municipality has opted for SpareBank 1 SMN as its main bank. This is a comprehensive agreement covering the areas of payment solutions, deposits, financing and securities services along with advisory services. Trondheim Municipality highlighted SpareBank 1 SMN's high ambitions as regards the environment and sustainability. Trondheim Municipality has 15,000 employees and an overall operating budget of NOK 16.6bn.

SpareBank 1 Forvaltning

The SpareBank 1 banks are pooling their forces in a joint undertaking focused on savings and investment, and establishing SpareBank 1 Forvaltning. Customer orientation, economies of scale and better utilisation of the SpareBank 1 banks' distributive power are at centre-stage. The company will comprise the subsidiaries ODIN Forvaltning, SpareBank 1 Kapitalforvaltning and SpareBank 1 Verdipapirservice.

New managing director at SpareBank 1 Finans Midt-Norge

Andreas Eieland (40) has been appointed new managing director at SpareBank 1 Finans Midt-Norge and took up duties at the turn of 2021. He was previously head of sales and marketing at the IT company Powel. He is a chartered engineer, graduating in technical cybernetics from the Norwegian University of Science and Technology (NTNU).

Profit of NOK 450m for the fourth quarter (346m)

SpareBank 1 SMN posted a net profit of NOK 450m (346m), and a return on equity of 8.9 per cent (7.1 per cent), in the fourth quarter. The fourth quarter figure is NOK 69m lower than in the third quarter of 2020. Earnings per equity certificate (EC) in the fourth quarter were NOK 1.99 (1.60) and book value per EC was NOK 94.71 (90.75).

Net interest income in the quarter came to NOK 688m (697m), NOK 8m down on the third quarter. The margins on residential mortgages and on loans to corporates were somewhat lower in the fourth quarter compared with the third quarter due to higher market interest rates. Increased deposit margins and growth kept net interest income at the same level as in the third quarter.

Commission income rose by NOK 119m from the previous quarter to reach a total of NOK 757m (579m). The increase from the third quarter is in all essentials down to higher income from securities services at SpareBank 1 Markets. Incomes are NOK 179m higher than in the same quarter of 2019; this is ascribable to higher income from securities services and commission income on loans sold to SpareBank 1 Boligkreditt.

Return on financial investments was NOK 53m in the fourth quarter (8 m), NOK 21m higher than in the third quarter.

At NOK 117m (8m), results recorded by related companies show a decline of NOK 53m from the third quarter.

Operating expenses increased by NOK 160m from the third to the fourth quarter, reaching NOK 845m (720m). Growth from the third quarter refers to increased costs at SpareBank 1 Markets as a result of increased variable pay due to high customer-focused activity in addition to provisions for readjustments at the bank.

Loan losses in the fourth quarter increased by NOK 11m from the third quarter, and totalled NOK 242m (103m). Losses on loans to the group's corporate clients totalled NOK 236m in the fourth quarter (81m). Losses on loans to retail borrowers in the fourth quarter totalled NOK 6m (21m).

Lending rose 1.9 per cent in the fourth quarter of 2020 (1.4 per cent). Growth in lending to retail borrowers was 1.6 per cent (2.0 per cent). Loans to corporates rose 2.5 per cent (0.3 per cent).

Deposits rose by 2.2 per cent (2.7 per cent). Deposits from retail customers rose by 0.1 per cent (0.9 per cent) and from corporate clients by 3.8 per cent (4.0 per cent).

Overall profit posted by the subsidiaries in the fourth quarter came to NOK 189m (62m), which was an increase of NOK 64m from the third quarter. The profit growth both from the previous quarter and from the same quarter of 2019 is due to an excellent profit performance at SpareBank 1 Markets.

Accounts 2020

Profit for 2020

The pre-tax profit for 2020 was NOK 2,378m (3,081m). The post-tax profit is NOK 1,978m (2,563m) and return on equity 10.0 per cent (13.7 per cent).

Overall operating income in 2020 came to NOK 5,331m (4,976m), an increase of 7.1 per cent from the previous year. Of the income growth, NOK 91m derives from banking operations and NOK 263m from the bank's subsidiaries.

The profit share from ownership interests and related companies was NOK 681m (879m), including an insurance gain of NOK 340m (460m).

Return on financial instruments totalled NOK 230m (307m).

Operating expenses came to NOK 2,952m (2,797m) in 2020. Of the increase of NOK 155m, NOK 83m refers to reorganisation expenses, NOK 30m to banking operations and NOK 42m to increased activity at the subsidiaries.

Losses on loans and guarantees totalled NOK 951m (299m).

Strong growth is noted in lending and deposits, and the bank is expanding its market share. Aggregate lending increased by 9.0 per cent (4.7 per cent) and deposits by 13.5 per cent (6.6 per cent) in 2020.

As at 31 December 2020 the CET1 ratio was 18.3 per cent (17.2 per cent). The CET1 ratio target is 16.9 per cent.

Earnings per EC were NOK 8.87 (12.14). The book value per EC was NOK 94.71 (90.75) including the proposed dividend for 2020 of NOK 4.40.

The price of the bank's equity certificate (MING) at year-end was NOK 97.60 (100.20).

Proposed distribution of profit

It is the group's results that comprise the basis for distribution of the net profit for the year; the distribution is done at the parent bank. 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 50m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 1,250m.

Difference between Group - Parent Bank	2020	2019
Profit for the year, Group	1,978	2,563
Interest hybrid capital	-56	-47
Profit for the year excl interest hybrid capital, group	1,922	2,516
Profit, subsidiaries	-427	-286
Dividend, subsidiaries	220	162
Profit, associated companies	-681	-879
Dividend, associated companies	272	704
Group eliminations	-6	-2
Profit for the year excl interest hybrid capital, Parent bank	1,300	2,216
Distribution of profit	2020	2019
Profit for the year excl interest hybrid capital, Parent bank	1,300	2,216
Transferred to/from revaluation reserve	-50	-34
Profit for distribution	1,250	2,182
Dividends	569	647
Equalisation fund	230	749
Saving Bank's fund	130	422
Gifts	321	364
Total distributed	1,250	2,182

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.

The Ministry of Finance's recommendation in its press release dated 20 January 2021 implies curbs on the bank's dividend payouts. The recommendation rests on the ministry's assessment that the uncertainties afflicting the economy remain unusually large, and that banks could in time face substantial loan losses. The Ministry of Finance expects any Norwegian bank which – after a prudent assessment and based on the ESRB's recommendation – finds a basis for payouts, to limit its overall payouts to a maximum of 30 per cent of overall annual profit for the years 2019 and 2020 up to 30 September 2021.

Earnings per equity certificate were NOK 8.87. In keeping with the bank's dividend policy, the board of directors recommends the bank's supervisory board to declare a cash dividend of NOK 4.40, altogether totalling NOK 569m. In light of the Ministry of Finance's advisory, the board of directors recommends the disbursement of NOK 1.30, altogether NOK 168m, which is compliant with the limit of 30 per cent of the overall annual profit for 2019 and 2020. The board of directors further recommends the bank's supervisory board to allocate NOK 321m to community dividend, of which only NOK 95m is to be disbursed prior to 30

September 2021. The board is given authorisation to decide whether to distribute all or parts of the remaining dividend and community dividend after 30 September 2021 if the capital situation and government guidelines so permits and regulatory amendments adopted.

Of this amount it is proposed that NOK 121m be transferred to the foundation Stiftelsen SpareBank 1 SMN and NOK 200m as community dividend to non-profit causes. The amount of NOK 95m to be disbursed prior to 30 September goes in its entirety to non-profit causes. NOK 230m and NOK 130m are transferred to the dividend equalisation fund and the ownerless capital respectively.

After distribution of the profit for 2020, the ratio of EC capital to total equity remains 64.0 per cent.

Net interest income

Net interest income rose by NOK 72m to NOK 2,759m (2,687m) in 2020. Changes in net interest income are mainly ascribable to

- growth in lending to, and deposits from, retail and corporate customers
- increased lending margins, but reduced deposit margins
- a substantial reduction in the interest rate level in 2020 compared with 2019, yielding lower return on the bank's equity capital

In the spring of 2020 Norges Bank (Norway's central bank) reduced its key policy rate from 1.50 per cent to zero. SpareBank 1 SMN lowered its mortgage lending rate by up to 125 points in the course of the second quarter. Deposit rates were lowered in the second and third quarter. NIBOR was reduced by about 145 points over the course of 2020.

NIBOR was at low levels in the second and third quarter, but rose through the fourth quarter of 2020, thus narrowing lending margins from the third to fourth quarter. Growth in lending and deposits and improved margins on deposits from retail customers compensated for this, and net interest income in the fourth quarter was at the same level as in the third quarter.

Norges Bank retains an unchanged key policy rate, and signals that it will stand at zero per cent for over one year ahead. Thereafter Norges Bank expects a gradual increase in the key policy rate as conditions in the economy normalise.

Increased other income

Commission income and other operating income rose by NOK 283m to NOK 2,572m in 2020 (2,290m).

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 422m (365m) as at 31 December 2020. Both the margins on, and the volumes of, loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt have increased.

Other commission income totalled NOK 2,151m (1,925m). The growth of NOK 226m is driven essentially by incomes from securities services at SpareBank 1 Markets. Increased incomes from accounting services and insurance products are also noted, but payment transfers have decreased. It has also been good underlying growth in real estate when the closure of BN Bolig is taken into account.

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 and other income (NOKm)	2020	2019	Change
Payment transfers	219	233	-14
Creditcard	59	59	-0
Saving products	109	100	9
Insurance	195	183	12
Guarantee commission	48	51	-3
Real estate agency	392	390	2
Accountancy services	506	473	33
Markets	577	386	191
Other commissions	45	49	-4
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	2,151	1,925	226
Commissions SB1 Boligkreditt	408	349	59
Commissions SB1 Næringskreditt	13	16	-3
Total commissions and other income	2,572	2,290	283

Return on financial investments

Overall return on financial investments was NOK 230m (307m) in 2020:

- Losses on shares of the bank and subsidiaries totalled NOK 4m (gain of 120m)
- Gains on the bond and certificate portfolio altogether totalling NOK 103m (loss of 20m) as a result of reduced credit margins
- Financial derivatives and financial instruments relating to hedge accounting yielded gains of NOK 33m (gain of 123m). This essentially comprises gains on fixed income instruments and is ascribable to declining interest rates over the 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 11m (gain of 9m)
- Income of NOK 82m (22m) 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 28m (54m)

Return on financial investments (NOKm)	2020	2019	Change
Gain/(loss) on shares	-4	120	-124
Gain/(loss) on certificates and bonds	103	-20	124
Gain/(loss) on derivatives	32	132	-100
Gain/(loss) on financial instruments related to hedging	1	-9	11
Gain/(loss) on other financial instruments at fair value (FVO)	-11	9	-20
Gain/(loss) on foreign exchange	82	22	59
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	28	54	-26
Net return on financial instruments	230	307	-77

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, as well as return on invested capital. The overall profit of the product companies and other related companies was NOK 341m (418m) in 2020. Also noted is a gain of NOK 340m upon the transfer of personal risk products from SpareBank 1 Forsikring to Fremtind Livsforsikring as of 1 January 2020. In the first half of 2019 a gain of NOK 460m was posted related to the establishment of Fremtind.

Income from investment in associated companies	2020	2019	Change
SpareBank 1 Gruppen	194	252	-58
Gain Fremtind	340	460	-120
SpareBank 1 Boligkreditt	18	26	-8
SpareBank 1 Næringskreditt	18	21	-2
SpareBank 1 Kreditt	2	13	-11
BN Bank	120	113	8
SpareBank 1 Betaling	-2	3	-4
Other companies	-10	-8	-2
Income from investment in associated companies	681	879	-197

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, SpareBank 1 Factoring and Modhi Finance. SpareBank 1 Gruppen owns 65 per cent of the insurer Fremtind, while DNB owns 35 per cent.

The profit share from SpareBank 1 Gruppen for 2020 was NOK 534m, down by a total of NOK 178m compared with the same period of 2019, of which NOK 120m is due to a smaller merger gain. 2019 saw a profit effect of NOK 460m from the Fremtind Forsikring merger, compared with a profit effect of NOK 340m from the merger of Fremtind Livsforsikring in 2020.

Fremtind Forsikring recorded good results in 2020 of NOK 1,168m (597m). Recognition of income from reinsurers is noted, along with run-off gains of NOK 345m. Claims ratios for the main segments – retail market house insurance and retail market car insurance – remain low. The quick clay landslide in Gjerdrum between Christmas and New Year affects the claims ratio overall by 1.6 percentage points, amounting to NOK 124m. The claims ratio on travel insurance remains relatively high due to Covid-19.

SpareBank 1 Forsikring reported a profit of NOK 234m (944m), reflecting a weak financial performance. A positive insurance risk result and return on the company portfolio partially compensate for this.

ODIN Forvaltning posted a profit of NOK 96m (71m). At the end of 2020 capital under management totalled NOK 81bn, an increase of NOK 16bn from 2019. The 35 per cent profit improvement is ascribable to net subscription in 2020 of NOK 3bn and increased capital under management due to value increases.

SpareBank 1 Factoring has some volume decline as a result of the corona crisis and delivers an annual result of NOK 53m (58m). The result for the Modhi Group was NOK 6m (48m), which is lower than last year and is mainly due to start-up costs in Finland and Sweden.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks making up SpareBank 1-alliansen 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 2020 the bank had sold loans totalling NOK 46.6bn (39.8bn) to SpareBank 1 Boligkreditt, corresponding to 37.5 per cent (34.6 per cent) of the bank's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 22.4 per cent, and the bank's share of that company's profit in 2020 was NOK 18m (26m).

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 2020, loans worth NOK 1.5bn (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 2020 was NOK 18m (21m). 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

This company delivers products for all types of unsecured credit, including credit cards, consumer loans, refinancing, part payments and payment deferrals to retail customers in Norway. It currently has 48 employees.

The profit for 2020 was NOK 12m (75m). SpareBank 1 Kreditt is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.5 per cent. SpareBank 1 SMN's share of the profit for 2020 is NOK 2m (13m), and the bank's share of the portfolio is NOK 946m (946m). The decline in profit is mainly due to lower consumption – for example foreign travel – by the general public and thus lower credit card turnover.

SpareBank 1 Kreditt also manages the LOfavør credit card programme.

BN Bank

SpareBank 1 SMN owns 35.0 per cent of BN Bank as at 31 December 2020. BN Bank is a bank for residential mortgages and commercial property and its main market is Oslo and south-eastern Norway.

BN Bank recorded a profit of NOK 354m in 2020 (327m), providing a return on equity of 8.1 per cent (8.3 per cent). SpareBank 1 SMN's share of BN Bank's profit for 2020 was NOK 120m (113m).

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).

SpareBank 1 Betaling posted a deficit of NOK 9m in 2020, and SpareBank 1 SMN's share of the deficit is NOK 2m (profit of 3m).

Operating expenses

Overall expenses rose by NOK 155m, or 5.5 per cent, in 2020 and totalled NOK 2,952m (2,797m). In the fourth quarter, reorganisation funds worth NOK 80m were set aside for the planned staff reduction of 100 FTEs in 2021, and NOK 3m for restructuring of the branch network. This provision aside, the growth in expenses was 2.7 per cent.

The bank's costs rose by NOK 30m (disregarding the provision for reorganisation) to NOK 1,477m in 2020. The increase corresponds to 2.2 per cent. The growth in costs refers to wage growth and increased costs related to digitalisation and modernisation of the bank.

Costs among the subsidiaries rose by NOK 42m in 2020 to NOK 1,476m (1,434m). Costs were reduced by NOK 72m as a result of the wind-up of BN Bolig in 2019. At SpareBank 1 Markets, high customer activity has brought strong income growth and cost growth of NOK 72m as a result of increased variable remuneration. Cost growth totalling NOK 42m is noted in the remaining subsidiaries.

The group's cost growth is approaching the target level of 2 per cent. The profitability project 'One SMN' prioritises taking out gains through improved efficiency and general cost reductions across the entire group. A simplified and more group-oriented organisation lays the basis for efficiency gains. Cost reductions of NOK 200m annually will be achieved over a two-year period. Staffing will be reduced by 100 FTEs in 2021. The group is in the process of simplifying the distribution structure, coordinating support functions and progressing digitalisation. In addition, IT and other operating expenses are to be reduced.

The cost-income ratio was 47 per cent (45 per cent) for the group, 37 per cent (32 per cent) for the parent bank.

High losses, but low default rate

Net losses on loans in 2020 totalled NOK 951m (299m). Net loan losses measure 0.54 per cent of total outstanding loans (0.18 per cent).

A loss of NOK 873m (231m) was recorded on loans to corporates in 2020. Of this figure, NOK 204m refers to a single exposure. Losses on the offshore segment total NOK 451m.

In the first quarter of 2020 the bank revised the assumptions underlying its baseline scenario in a negative direction. This position was retained for the remainder of 2020. As from the third quarter the bank's exposure to hotels and the hospitality industry was separated off into a portfolio where assessments of PD and LGD paths and special scenarios and associated weighting reflect this industry's vulnerability to the effects of Covid-19. Moreover, this entire portfolio is classified to stage 2 or 3. See Note 2 for a further description. The provision for expected loss on these loans amounts to NOK 58m. In the fourth quarter the bank also revised its weighting of the scenarios for the other portfolios, giving greater emphasis to the downside scenario. Provisions are increased due to negative migration of NOK 86m in the remaining corporate portfolio.

A loss of NOK 78m was recorded on loans to retail borrowers in 2020 (68m), of which NOK 50m is related to the changes made in assumptions employed in the bank's loss model.

Write-downs on loans and guarantees totalled NOK 1,630m as at 31 December 2020 (1,121m).

Overall problem loans (defaulted and doubtful) come to NOK 2,255m (2,110m), corresponding to 1.23 per cent (1.26 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 456m (429m). Defaults measure 0.25 per cent of gross outstanding loans (0.26 per cent). The increase refers in all essentials to the retail market portfolio.

Other doubtful exposures total NOK 1,800m (1,681m). Other doubtful exposures measure 0.98 per cent (1.00 per cent) of gross outstanding loans. The increase is mainly down to a small number of commitments in the offshore portfolio.

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

Total assets of NOK 188bn

The bank's assets totalled NOK 188bn as at 31 December 2020 (167bn).

As at 31 December 2020, loans worth a total of NOK 48bn (42bn) 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 growth in lending

Total outstanding loans rose by NOK 15.0bn (7.5bn), corresponding to 9.0 per cent (4.7 per cent), in the last 12 months to reach NOK 182.8bn (167.8bn) as at 31 December 2020.

- Lending to retail borrowers rose in 2020 by NOK 9.4bn (6.9bn) to NOK 124.5bn (115.0bn). Growth in the period was 8.2 per cent (6.4 per cent)
- Lending to corporate borrowers rose in the last 12 months by NOK 5.6bn (0.6bn) to NOK 58.3bn (52.7bn). Growth in the period was 10.6 per cent (1.1 per cent)
- Lending to retail borrowers accounted for 68 per cent (69 per cent) of total outstanding loans to customers as at 31 December 2020

The group shows good growth in lending to retail borrowers and is strengthening its market position, with a substantial portion of the growth in the LO (Norwegian Trade Unions Confederation) segment. The growth in lending to corporate clients is largely to small and medium-sized businesses.

Strong growth in deposits

Customer deposits rose in the last 12 months by NOK 11.6bn (5.3bn) to reach NOK 97.5bn (85.9bn). This represents a growth of 13.5 per cent (6.6 per cent).

- Retail deposits rose by NOK 4.9bn (2.6bn) to NOK 40.6bn (35.7bn), corresponding to 13.8 per cent (7.9 per cent)
- Corporate deposits rose by NOK 6.7bn (2.7bn) to NOK 56.9bn (50.3bn), corresponding to 13.3 per cent (5.7 per cent)
- The deposit-to-loan ratio at SpareBank 1 SMN was 72 per cent (68 per cent) excluding SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 53 per cent (51 per cent)

Increased growth in deposits from retail customers is largely a consequence of reduced consumption resulting from the Covid-19 situation. The growth in deposits from corporate clients is fairly evenly distributed between businesses and public sector clients.

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 12.9bn (11.7bn) at the end of 2020. The increase of NOK 1.2bn is a result of good sales and value increases on equity funds.

Saving products, customer portfolio (NOKm)	2020	2019	Change
Equity funds	9,223	7,437	1,786
Pension products	724	740	-16
Active management	3,005	3,501	-496
Total	12,952	11,678	1,274

Insurance

The bank's insurance portfolio grew 7.1 per cent in 2020. Satisfactory growth was noted in all product groups.

Insurance, premium volume (NOKm)	2020	2019	Change
Non-life insurance	962	888	74
Personal insurance	398	376	22
Occupational pensions	336	319	17
Total	1,696	1,583	113

Retail Banking

Outstanding loans to retail borrowers total NOK 129bn (119bn) and deposits total NOK 47bn (42bn) as at 31 December 2020. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships at the parent bank.

Operating income posted by Retail Banking totalled NOK 2,078m (2,177m) in 2020. Net interest income accounted for NOK 1,213m (1,372m) and commission and other income for NOK 865m (805m). Net interest income declined due to weakened deposit margins and low return on the retail market share of the return on the bank's equity capital. On the other hand, increased lending and deposits, along with higher lending margins, have strengthened net interest income. Commission income has risen as a result of growth in incomes from investment and insurance products. Overall income fell by NOK 99m. Return on capital employed in the retail banking segment was 13.4 per cent (13.1 per cent). Capital employed is regulatory capital of 15.4 per cent, corresponding to the Group's targeted CET1 ratio through 2020.

The lending margin in 2020 was 1.80 per cent (1.50 per cent), while the deposit margin was minus 0.03 per cent (0.61 per cent) measured against three-month NIBOR. The market interest rate in terms of three-month NIBOR fell markedly in 2020.

Retail lending and retail deposits grew by 8.2 per cent (5.9 per cent) and 14.0 per cent (4.0 per cent) respectively in 2020.

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

Corporate Banking

Outstanding loans to corporates totalled NOK 45bn (40bn) and deposits totalled NOK 49bn (43bn) as at 31 December 2020. This is a diversified portfolio of loans to and deposits from corporate clients in the counties of Trøndelag and Møre and Romsdal.

Operating income in the corporate segment totalled NOK 1,381m (1,388m) in 2020. Net interest income was NOK 1,149m (1,171m), and commission income and return on financial investments came to NOK 232m (217m). Higher lending margins and growth have strengthened net interest income while reduced deposit margins and lower return on the corporate share of return on the bank's equity capital have had a negative impact.

The lending margin was 2.79 per cent (2.57 per cent) and the deposit margin was minus 0.15 per cent (minus 0.06 per cent) in 2020.

Lending growth was 11.7 per cent (reduction of 1.3 per cent) and deposits rose 15.6 per cent (9.0 per cent) in 2020.

Net overall losses in the corporate banking segment rose substantially in 2020, totalling NOK 846m (213bn) as at 31 December 2020. Of the losses, NOK 204m refer to a single exposure and NOK 455m to the offshore segment. Increased provisions as a result of lower expectations of the Norwegian economy, and a general negative migration in the portfolio, are also noted.

Return on capital employed for the corporate banking segment was 2.1 per cent in 2020 (11.7 per cent). Capital employed is regulatory capital of 15.4 per cent, corresponding to the Group's targeted CET1 ratio in 2020.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 540.0m in 2020 (346.8m).

Pre-tax profit (NOKm)	2020	2019	Change
EiendomsMegler 1 Midt-Norge (87 per cent)	52.2	31.5	20.7
BN Bolig	-	-30.2	30.2
SpareBank 1 Regnskapshuset SMN (88,7 per cent)	110.2	108.3	1.9
SpareBank 1 Finans Midt-Norge (61,2 per cent)	214.2	149.9	64.3
Sparebank 1 Markets (66,7 per cent)	179.4	43.4	135.9
SpareBank 1 SMN Invest (100 per cent)	5.8	47.6	-41.9
SpareBank 1 SMN Spire Finans (100 per cent)	-29.8	-19.8	-10.0
Other companies	8.2	16.0	-7.8
Total	540.0	346.8	193.2

EiendomsMegler 1 Midt-Norge is the market leader in Trøndelag and in Møre and Romsdal. Operating income in 2020 totalled NOK 394m (349m in 2019 disregarding BN Bolig), while operating expenses were NOK 342m (317m in 2019 disregarding BN Bolig). EiendomsMegler 1 Midt-Norge recorded a pre-tax profit of NOK 52m in 2020 (32m). 7,164 dwelling units were sold in 2020 compared with 6,652 in 2019.

BN Bolig was sold in the fourth quarter of 2019. In 2019 the company posted income of NOK 41m and expenses of NOK 72m, leaving a pre-tax profit of minus NOK 30m.

SpareBank 1 Finans Midt-Norge delivered a pre-tax profit of NOK 214.2m in 2020 (149.9m). The company has shown good income growth with incomes totalling NOK 349m (287m). Moderate growth in costs was noted in 2020, and operating expenses totalled NOK 86m (85m). Losses totalled NOK 48.9m in 2020 (52.3m).

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 9.6bn (8.9bn), of which leasing agreements account for NOK 3.9bn (3.6bn) and car loans for NOK 5.5bn (5.1bn). The company also offers consumer loans, and at year-end this portfolio was worth NOK 168m (257m). An agreement has been entered into for the sale of the consumer loan portfolio to SpareBank 1 Kreditt. Growth in leasing and car loans in 2020 was 10.9 per cent and 7.4 per cent respectively.

The SamSpar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge as at 31 December 2020 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.

Andreas Eikeland is appointed new managing director of the company, and took up his duties on 2 January 2021. He replaced Arne Nypan, now managing director of SpareBank 1 SMN Regnskapshuset.

SpareBank 1 Spire Finans offers invoice purchasing to the SMB segment, and recorded a deficit of NOK 29.8m in 2020 (deficit of NOK 19.8m). The company was sold to SpareBank 1 Finans Midt-Norge in December 2020. The company will be merged with SpareBank 1 Finans Midt-Norge in the course of 2021.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 110.2m (108.3m). Operating income increased to NOK 533m (502m), a growth of 6.2 per cent. Expenses totalled NOK 423m (394m).

SpareBank 1 SMN Regnskapshuset works continuously to achieve efficiency gains in order to increase operating income per person-year, at the same time as a strong focus on costs provides good control of the underlying cost trend. The company can point to growth and profitability in excess of the industry average. In addition, the company is working to create new income flows beyond the traditional accounting industry.

The company's market share in Trøndelag, Møre and Romsdal and Gudbrandsdal is 25 per cent.

Sparebank 1 SMN Invest invests in shares, mainly in regional businesses. In 2020 the company posted a pre-tax profit of NOK 5.8m (47.6m).

The company holds shares worth NOK 468m (438m) as at 31 December 2020. The portfolio result from the company's shareholding amounts to NOK 12.0m (56.6m) of the company's result for 2020. SpareBank 1 SMN is to wind up SpareBank 1 SMN Invest. Investing in shares is no longer a part of the group's strategy. The share portfolio will be managed together with other long-term shareholdings of the bank and will be scaled back over time.

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 141.5 FTEs.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning. The company has total assets of NOK 187bn. The company has 19.5 FTEs.

SpareBank 1 Markets' consolidated pre-tax profit at 31 December 2020 was NOK 179.3m (43.4m). Very high activity in a number of areas yielded higher incomes than a normal fourth quarter. Incomes from Investment Banking have been strong, with a number of sizeable advisory assignments and stock issues. Incomes from primary share trading have been high. SpareBank 1 Kapitalforvaltning's income is on a par with preceding quarters. Overall group income came to NOK 816m (609m) as per the fourth quarter of 2020, a growth of NOK 207m corresponding to 33.9 per cent. Operating expenses were NOK 637m (566m), a growth of NOK 71m corresponding to 12.5 per cent.

SpareBank 1 Markets is the leading capital market unit in SpareBank 1 SMN's market area.

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 171 per cent as at 31 December 2020 (148 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 December 2020, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 53 per cent (51 per cent).

The bank's funding sources and products are amply diversified. At end-December 2020 the proportion of the bank's overall money market funding in excess of one year's maturity was 83 per cent (83 per cent).

SpareBank 1 Boligkreditt is the bank's most important funding source, and residential mortgages totalling NOK 47bn (40bn) had been sold as at 31 December 2020.

Rating

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

Financial soundness

The CET1 ratio at 31 December 2020 was 18.3 per cent (17.2 per cent).

The CET1 requirement is 14.4 per cent, including combined buffer requirements, and a Pillar 2 requirement of 1.9 per cent. Finanstilsynet (Norway's FSA) has announced that it will not set new Pillar 2 requirements for SpareBank 1 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 raised the systemic risk buffer for IRB banks by 1.5 per cent to 4.5 per cent with effect from 31 December 2020. In its planning the group includes a full countercyclical buffer.

The CET1 ratio rose 0.7 percentage points in the fourth quarter. Risk weighted assets were reduced by 2 percentage points in the fourth quarter, mainly as a result of reduced risk weights, reduced counterparty risk and a reduced capital need related to liquidity and bond holdings. The fourth quarter result contributed to a 2 per cent strengthening of CET1 capital. A payout ratio of 50 per cent of net profit is assumed.

A leverage ratio of 7.1 per cent (7.5 per cent) shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and effectiveness with a view to strengthening its profitability and financial soundness.

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 31 December 2020 was NOK 94.71 (90.75), and earnings per EC were NOK 8.87 (12.14).

The Price / Income ratio was 11.01 (8.26) and the Price / Book ratio was 1.03 (1.10). The group's quoted capital totalled NOK 12.6bn at year-end (13.0bn). 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 97.60, and a dividend of NOK 5.00 per EC was paid in 2020 for the year 2019.

Risk factors

Growth prospects in the global economy are heavily impacted by the Covid-19 pandemic. Infection protection measures introduced in a number of countries entailed lockdown of social life and business, leading in turn to a substantial reduction in economic activity. The start-up of vaccination strengthens the likelihood that the economy will pick up again through 2021, but continued contagion outbreaks and lockdowns make for great uncertainty as to developments ahead. The bank has limited exposure to industries that are particularly exposed.

The oil price and the Norwegian krone has strengthened since the end of the third quarter. The record-high unemployment rate has been halved. Unemployment is expected to remain at a higher level than prior to the coronavirus crisis, and in some industries, such as hospitality and transport, unemployment remains very high. The key policy interest rate was lowered to zero per cent in May, and Norges Bank expects the policy rate to remain at the present level for a good while to come.

When businesses in Norges Bank's regional network were interviewed in November, they expressed continued great uncertainty. This uncertainty is reflected in low investment plans for 2021. The economic effects of the virus outbreak and the infection protection measures have been dampened by very wide-ranging support measures and an expansionary monetary policy. In its latest forecasts, Statistics Norway revised the fall in Mainland (non-oil) GDP from 3.2 per cent to 3 per cent for 2020, and GDP growth of 3.7 per cent in 2021. The bank assumes and expects Norway's very strong financial position to provide government authorities with unique opportunities to implement compensatory measures. This will contribute to mitigating the negative effects of the Covid-19 crisis.

The regional economy is also clearly impacted by the negative effects of the infection protection measures. Unemployment in Trøndelag and Møre and Romsdal was just over 9 per cent at the end of the first quarter, but has more than halved and stood at 3 per cent in Trøndelag and 3.5 per cent in Møre and Romsdal in December 2020. After a house price fall at the end of the first quarter, house prices picked up somewhat, well assisted by record-low mortgage rates.

The influx of customers requesting mortgage payment holidays diminished through the second, third and fourth quarter, on both the retail and corporate fronts. Use of policy instruments primarily comprises mortgage payment holidays and government-guaranteed loans. About NOK 3.1bn of outstanding loans to businesses are to segments heavily impacted by the infection protection measures. In the bank's assessment, a high retail market share will have a positive effect on the expected loss levels.

The bank's profits are affected directly and indirectly by fluctuations in the securities markets. 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 group's funding situation is good, with an LCR of 171 per cent. The bank has ample access to funding via SpareBank 1 Boligkreditt, and will consider its choice of funding source in the light of market prices.

At the end of the fourth quarter of 2020, the group's CET1 ratio is 18.3 per cent, compared with regulatory requirements of 14.4 per cent. This represents a substantial buffer.

Outlook

SpareBank 1 SMN achieved a return on equity of 10 per cent in 2020, despite increased losses and reorganisation costs. Underlying operations have been sound, and all business lines have serviced customers from home offices for much of the year. Lending and deposit growth in both the retail and corporate market has been very good and the other business areas have achieved a very satisfactory income growth in an unusual year.

In 2020 a substantial effort was devoted to the profitability improvement project 'One SMN'. The project was carried through in a demanding year and will enable better distribution of the group's services, a strengthened market position and increased efficiency for all business lines.

Loan losses in 2020 primarily reflect the situation in the offshore industry, and future prospects for this industry remain uncertain. In other industries losses are limited, but loss provisions have nonetheless risen due to the uncertainty regarding the path of the pandemic.

SpareBank 1 SMN is an instigator of the development of SpareBank 1-alliansen, with a view to achieving economies of scale and to offering our customers a broad range of financial services. SpareBank 1 SMN also offers products and services to a number of savings banks within and outside SpareBank 1-alliansen. The board of directors considers the bank to be well positioned for structural changes.

Through its adopted sustainability strategy, the group has laid a basis for stimulating sustainable development in the region through its role as a driver for the green transition, as a partner for the inclusive development of society and as a guide to building a responsible business culture.

The CET1 ratio has increased to 18.3 per cent, and is in keeping with the new target of 16.9 per cent. A leverage ratio of 7.1 per cent bears witness to the bank's solidity.

The board of directors will recommend that 49.6 per cent of the group profit be allocated to cash dividend, corresponding to NOK 4.40 per equity certificate (NOK 5.0). Of this, NOK 1.30 per equity certificate is recommended for disbursement, in keeping with the Ministry of Finance's recommendation to limit payouts to 30 per cent of overall profits for 2019 and 2020. NOK 321m (364m) is recommended for allocation to community dividend, of which NOK 95m is to be disbursed. Of the community dividend, NOK 200m (200m) will go directly to non-profit causes and NOK 121m to the foundation Sparebankstiftelsen.

The board of directors is well pleased with the group's results in 2020.

Trondheim, 4 february 2021
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Christian Stav

Mette Kamsvåg

Tonje Eskeland Foss

Morten Loktu

Janne T. Thomsen

Christina Straub
(employee rep.)

Inge Lindseth
(employee rep.)

Jan-Frode Janson
(Group CEO)