

# Report of the Board of Directors

## First quarter accounts 2020

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

- Operating profit before losses and return on financial assets: NOK 564m (496m)
- Pre-tax profit: NOK 357m (1,155m)
- Post-tax profit: NOK 290m (1,046m)
- Return on equity: 5.7% (23.3%)
- CET1 ratio: 16.3% (14.8%)
- Growth in lending: 6.0% (6.6%) and in deposits: 8.7% (6.8%)
- Lending to retail borrowers accounts for 69% (68%) of total lending
- Losses on loans and guarantees: NOK 308m (67m)
- Gain of NOK 340m on sales of personal risk products to Fremtind Forsikring (460m)
- Negative return on financial investments after increase in credit spreads in the liquidity portfolio of NOK 124m (plus 169m)
- Share of loss recorded by SpareBank 1 Gruppen: NOK 115m (gain of NOK 169m)
- Earnings per EC: NOK 1.26 (5.02). Book value per EC: NOK 86.85 (83.86)

SpareBank 1 SMN maintains a sound liquidity position and is well capitalised. The group has a strong foundation in the shape of a broad and well-diversified earnings platform. Core business excluding loan losses delivered good results in the first quarter with a strong revenue performance and moderate cost growth. The overall result nonetheless reflects the times of crisis by increased loan losses, losses on securities and losses recorded by SpareBank 1 Gruppen.

### Events in the quarter

#### Corona crisis and oil price fall

The crisis has triggered a broad-based international economic crisis accompanied by increased unemployment and a dramatic fall in demand despite highly expansionary monetary policies in the majority of countries. After the national lockdown, imposed on 12 March, the Norwegian economy has also been hard hit, even though Norway has a more robust economy than most countries. Oil prices have fallen heavily. SpareBank 1 SMN has low exposure to sectors that are directly affected by the oil price fall. The Norwegian krone has depreciated markedly in the first quarter. Norges Bank (Norway's central bank) has lowered its key policy rate to 0.25 per cent since 12 March. A number of industries have experienced a wave of layoffs, and as at 21 April 15 per cent of the labour force were registered as jobseekers and 10 per cent were registered as totally unemployed. In response to the crisis the Norwegian government has initiated a raft of measures to assist businesses and private individuals.

SpareBank 1 SMN is the region's leading finance house and shoulders its responsibility in a highly demanding situation. A number of measures have been taken to accommodate the needs of businesses and private individuals. The group offers among other things mortgage holidays to businesses and private individuals, and advances of unemployment benefit to private individuals. The group also provides advice on

support arrangements and relevant measures to personal customers, businesses and public authorities. SpareBank 1 SMN has been allocated government-guaranteed loans worth NOK 1.5bn for mediation to corporate clients in the region.

Through the group's social dividend model, NOK 364m of the net profit has been directed to the social capital. Of this sum, NOK 200m is being distributed as the community's share of the dividend. NOK 100m is earmarked to help voluntary bodies, clubs and associations in the region through the crisis.

The group's ambitions and strategies stand firm. SMN intends to remain among the best performing banks in the Nordic region.

### **Changed distribution for 2019**

In light of the economic outlook, the board of directors of SpareBank 1 SMN has decided to change the distribution of profit for 2019 and is lowering the payout ratio from 53.5 per cent to 41.2 per cent. The new dividend is NOK 5.00 per equity certificate, down from NOK 6.50 in the annual accounts for 2019.

The allocation to social capital is correspondingly reduced from NOK 474m to NOK 364m, while the share going to payment of social dividend is maintained at NOK 200m.

SpareBank 1 SMN is indisputably solid. The change in the distribution of profit reflects a sound balance between the need for stability and predictability for the bank's shareholders and investors, and the corporate social responsibility the group has towards its customers and the region's local communities.

### **Solid banking operations, but negative effect of the corona crisis**

The pre-tax profit for the first quarter of 2020 was NOK 357m (1,155m). The post-tax profit was NOK 290m (1,046m) and return on equity was 5.7 per cent (23.3 per cent). The profit includes a gain of NOK 340m on the transfer of personal risk products from SpareBank 1 Forsikring to Fremtind Livsforsikring as of 1 January 2020. In the first quarter of 2019 a gain of NOK 460m was included in connection with the establishment of Fremtind Forsikring.

Overall operating revenues in the first quarter of 2020 came to NOK 1,280m (1,200m). This represents an increase of NOK 80m over the previous year. Banking operations account for the majority of the increase.

Return on financial assets was NOK 101m (727m). Of this figure, the profit share of owner interests and related companies was NOK 217m (555m), including a gain of NOK 340m on the transfer of personal risk products from SpareBank 1 Forsikring to Fremtind Livsforsikring (460m). The result excluding this gain is an overall loss of NOK 123m at related companies and a loss of NOK 124m on securities trading.

Operating expenses totalled NOK 716m (704m) in the first quarter of 2020.

Losses on loans and guarantees came to NOK 308m (67m). NOK 143m refers to write-downs on a single exposure reflecting a worsened situation due to the crisis. Write-downs in stage 1 and 2 have increased by NOK 102m, of which NOK 80m refers to changed assumptions in the loss model regarding the economy.

Lending and deposits have shown good growth. Overall lending rose by 6.0 per cent (6.6 per cent) and deposits by 8.7 per cent (6.8 per cent) in the last 12 months.

As at 31 March 2020 the CET1 ratio was 16.3 per cent (14.8 per cent). The target CET1 ratio is 15.4 per cent.

Earnings per EC were NOK 1.26 (5.02). The book value per EC was NOK 86.85 (83.86) per EC.

The price of the bank's equity certificate (MING) at quarter-end was NOK 67.60 (87.40). A cash dividend of NOK 5.0 (5.10) per EC has been paid in 2020 for the year 2019.

### Increased net interest income

Net interest income rose by NOK 61m to NOK 710m (649 m) in the first quarter of 2020. The increase over the first quarter of 2019 is in all essentials due to an increased lending volume, and to higher market interest rates which have yielded improved return on the bank's equity.

Three-month NIBOR was about 35 points higher in the first quarter of 2020 than in the first quarter of 2019. The bank made interest rate hikes over the course of 2019 to compensate for rising market rates. As a result of the interest rate changes, lending margins fell and deposit margins rose in 2019.

Since 13 March 2020 Norges Bank has reduced its key rate from 1.50 to 0.25. SpareBank 1 SMN lowered its mortgage lending rate by up to 0.85 points with effect from 5 April 2020.

A reduction in the interest rate level produces lower return on the group's equity and lower net interest earnings.

### Increased other income

Commission income and other operating income rose by NOK 19m to NOK 570m (551m) 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 91m (87m) in the first quarter of 2020.

An increase of NOK 15m in other commission income is mainly down to customer growth at SpareBank 1 SMN Regnskapshuset and increased incomes from payment services.

Maintaining a broad product range is an important strategy for the bank. It ensures good commission income and a high proportion of multi-product customers. A high proportion of multi-product customers signifies high customer satisfaction and provides the bank with a higher and more diversified income flow.

Commission income (NOKm)	Jan-March		Change
	2020	2019	
Payment transfers	59	50	9
Creditcard	16	15	1
Saving products	22	24	-2
Insurance	47	44	3
Guarantee commission	13	13	0
Real estate agency	83	84	-1
Accountancy services	148	131	17
Markets	81	87	-7
Other commissions	10	15	-5
<b>Commissions ex SB1 Boligkreditt and SB1 Næringskreditt</b>	<b>479</b>	<b>464</b>	<b>15</b>
Commissions SB1 Boligkreditt	88	83	5
Commissions SB1 Næringskreditt	4	4	0
<b>Total commissions</b>	<b>570</b>	<b>551</b>	<b>19</b>

### Return on financial investments

Overall return on financial investments in the first quarter was minus NOK 124m (plus 169m). This breaks down as follows:

- Losses on shares totalled NOK 42m (gain of NOK 84m)
- Wider credit margins on the liquidity portfolio brought a considerable loss in the first quarter, with net losses totalling NOK 104m (gain of NOK 51m)
- 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 57m (gain of 10m)
- Income of NOK 65m (9m) 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 14m (15m)

Return on financial investments (NOKm)	Jan-March		Change
	2020	2019	
Gain/(loss) on certificates and bonds	-42	84	-126
Gain/(loss) on derivatives	50	32	18
Gain/(loss) on financial instruments related to hedging	-148	23	-171
Capital gains shares	-6	-4	-2
Gain/(loss) on other financial instruments at fair value (FVO)	-57	10	-67
Foreign exchange gain/(loss)	65	9	55
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	14	15	-1
<b>Net return on financial instruments</b>	<b>-124</b>	<b>169</b>	<b>-293</b>

### Product companies and other related companies

The product companies give the banks access to a broader product range and hence commission income, as well as return on invested capital. The overall result of the product companies and other related companies was a loss of NOK 123m (gain of 95m) in the first quarter 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. In the first quarter of 2019 a gain of NOK 460m was recorded on the establishment of Fremtind Forsikring.

Income from investment in associated companies	Jan-March		Change
	2020	2019	
SpareBank 1 Gruppen	-115	38	-153
Gain Fremtind	340	460	-120
SpareBank 1 Boligkreditt	-31	14	-45
SpareBank 1 Næringskreditt	2	8	-6
SpareBank 1 Kredittkort	0	3	-3
BN Bank	23	24	-1
SpareBank 1 Betaling	-2	12	-14
Other companies	0	-4	4
<b>Income from investment in associated companies</b>	<b>217</b>	<b>555</b>	<b>-338</b>

**SpareBank 1 Gruppen**

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

SpareBank 1 Gruppen owns 65 per cent of the non-life insurer Fremtind which was established on 1 January 2019. DNB owns the remainder of the company.

SpareBank 1 Gruppen's post-tax profit in the first quarter of 2020 was minus NOK 780m (gain of 240m). The corona crisis has strongly impacted financial results with substantial technical provisioning, high costs and negative financial return across all asset classes, along with write-downs on property portfolios.

SpareBank 1 SMN's share of the profit for the first quarter of 2019 was minus NOK 115m (gain of 38m).

**SpareBank 1 Boligkreditt**

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

As at 31 March 2020 the bank had sold loans totalling NOK 42.0bn (39.2bn) 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 quarter of 2020 was minus NOK 31m (gain of 14m). The weak performance is due to losses on the liquidity portfolio.

**SpareBank 1 Næringskreditt**

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 March 2020, loans worth NOK 1.5bn (1.8bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 31.0 per cent, and the bank's share of the company's profit for the first quarter of 2020 was NOK 2m (8m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank. Of the loans residing in SpareBank 1 Næringskreditt, 43 per cent have been transferred from BN Bank.

**SpareBank 1 Kredittkort**

The profit for the first quarter of 2020 was NOK 2.4m (18m). 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 quarter of 2020 was NOK 0.4m (3m), and the bank's share of the portfolio is NOK 882m (910m).

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

**BN Bank**

SpareBank 1 SMN owns 35.0 per cent of BN Bank as at 31 March 2020. BN Bank is primarily 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 quarter of 2020 was NOK 69m (74m), yielding a return on equity of 6.5 per cent (7.5 per cent). SpareBank 1 SMN's share of BN Bank's profit for the first quarter of 2020 was NOK 23m (24m) adjusted for interest on hybrid capital.

### **SpareBank 1 Betaling (Vipps)**

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). Vipps launched a number of services in 2019 designed to simplify bank customers' everyday life.

SpareBank 1 Betaling posted a deficit of NOK 11m in the first quarter of 2020, and SpareBank 1 SMN's share of the deficit is NOK 2,3m (gain of 12m).

### **Operating expenses**

Overall group operating expenses in the first quarter of 2020 amounted to NOK 716m (704m), an increase of NOK 12m compared with the same period of 2019, corresponding to 1.8 per cent.

The parent bank's costs rose by NOK 34m to NOK 367m compared with the first quarter of 2019, an increase of 10.2 per cent. The increase is attributable to staff increases in customer facing positions and to resources deployed to meet regulatory requirements.

Overall costs among the subsidiaries were reduced by NOK 21m to NOK 350m (371m) in the last 12 months. The decline in costs is down to the disposal of BN Bank in the fourth quarter of 2019, and to SpareBank 1 Markets' cost reduction due to a lower activity level. SpareBank 1 Regnskapshuset SMN shows increased costs after several business acquisitions in 2019.

The group is not satisfied with the underlying cost trend and has therefore set itself the target of restricting annual cost growth to 2 per cent. A profitability project has been established under the name "One SMN". The project will prioritise synergies between the group's business lines along with digitalisation, process efficiencies and general cost reductions across the entire group. As a consequence of lower activity since the lockdown the 2020 cost target is tightened, the target now being to restrict growth to below 2 per cent.

The group's cost-income ratio was 52 per cent (37 per cent), while the parent bank's cost-income ratio was 44 per cent (27 per cent).

### **Losses and defaults**

Loan losses in the first quarter of 2020 totalled NOK 308m (67m). Net loan losses measure 0.73 per cent of total outstanding loans (0.17 per cent).

A loss of NOK 259m (57m) was recorded on loans to the group's corporate clients. NOK 143m of this figure relates to a single exposure. In addition, increased provisions of NOK 34m have been made in stage 1 and 2 in light of weaker prospects for the Norwegian economy and NOK 38m due to negative migration in the portfolio. Further, stage 3 write-downs are recorded in the offshore sector (NOK 25m) and in other sectors (NOK 26m).

Overall loan losses of NOK 49m are recorded on loans to retail borrowers (loss of 11m), of which NOK 43m is related to changed assumptions resulting from the bank's loss model.

Write-downs on loans and guarantees totalled NOK 1,276m (971m) as at 31 March 2020.

Overall problem loans (defaulted and doubtful) come to NOK 2,746m (1,880m), corresponding to 1.61 per cent (1.17 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 649m (288m). Defaults measure 0.38 per cent of gross outstanding loans (0.18 per cent). The increase in defaults has been greatest with regard to residential mortgages.

Other doubtful exposures total NOK 2,097m (1,591m). Other doubtful exposures measure 1.23 per cent (0.99 per cent) of gross outstanding loans.

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

### **Total assets of NOK 185bn**

The bank's assets totalled NOK 185bn as at 31 March 2020 (165bn), having risen by NOK 20bn, i.e. by 12.1 per cent, over the last 12 months. Total assets have risen as a result of a higher lending volume and liquidity holding, as well as an increase in the market value of derivatives.

As at 31 March 2020 loans worth a total of NOK 43bn (41bn) 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 account of loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

### **Lending**

Total outstanding loans rose by NOK 9.7bn (10.0bn) or 6.0 per cent (6.6 per cent) in the last 12 months to reach NOK 170.8bn (161.1bn) as at 31 March 2020.

- Lending to personal borrowers rose in the last 12 months by NOK 8.3bn (8.3bn) to NOK 117.0bn (108.7bn). Growth in the period was 7.6 per cent (8.3 per cent).
- Lending to corporate borrowers rose in the last 12 months by NOK 1.4bn (1.7bn) to NOK 53.8bn (52.4bn). Growth in the period was 2.7 per cent (3.4 per cent).
- Lending to personal borrowers accounted for 69 per cent (68 per cent) of total outstanding loans to customers as at 31 March 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).

(For distribution by sector, see note 5).

### **Deposits**

Customer deposits rose in the last 12 months by NOK 7.0bn (5.2bn) to reach NOK 88.2bn (81.1bn). This represents a growth of 8.7 per cent (6.8 per cent).

- Personal deposits rose by NOK 3.1bn (2.0bn) or 9.2 per cent (6.3 per cent) to reach NOK 37.2bn.
- Corporate deposits rose by NOK 3.9bn (3.2bn) or 8.3 per cent (7.2 per cent) to reach NOK 51.0bn.

- The deposit-to-loan ratio at SpareBank 1 SMN was 69 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 52 per cent (50 per cent).

(For distribution by sector, see note 9).

### Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 10.0bn (9.8bn) as 31 March 2020. Sales have been good, but are counteracted by value changes.

Saving products, customer portfolio (NOKm)	January - March		Change
	2020	2019	
Equity funds	6.165	5.932	233
Pension products	766	755	11
Active management	3.083	3.147	-64
<b>Total</b>	<b>10.014</b>	<b>9.834</b>	<b>180</b>

### Insurance

The bank's insurance portfolio has increased by 11 per cent over the last 12 months. Growth has been satisfactory for non-life and personal insurances alike.

Insurance, premium volume (NOKm)	January - March		Change
	2020	2019	
Non-life insurance	904	812	92
Personal insurance	379	351	28
Occupational pensions	326	289	37
<b>Total</b>	<b>1.609</b>	<b>1.452</b>	<b>157</b>

### Retail Banking

Outstanding loans to retail borrowers total NOK 121bn (113bn) while deposits total NOK 44bn (41bn) as at 31 March 2020. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Retail Banking's operating income totalled NOK 550m (518m) in the first quarter of 2020. Net interest income accounted for NOK 354m (330m) and commission income for NOK 198m (188m). The income growth is mainly due to increased lending and improved margins on deposits. Overall income rose by NOK 32m. Return on capital employed in the retail banking segment was 9.5 per cent (12.7 per cent). Capital employed is regulatory capital of 16.9 per cent, corresponding to the Group's targeted CET1 ratio.

The lending margin in the first quarter of 2020 was 1.63 per cent (1.60 per cent), while the deposit margin was 0.50 per cent (0.46 per cent) measured against three-month NIBOR. The market interest rate in terms of three-month NIBOR was 35 points higher in the first quarter of 2020 than in the same quarter of 2019, even though NIBOR fell substantially in March.

Retail lending and retail deposits grew by 7.3 per cent (7.6 per cent) and 7.9 per cent (7.6 per cent) respectively in the last 12 months.

Lending to retail borrowers consistently carries low risk, as reflected in continued low losses. The loan portfolio is secured by residential property. In the second half of March, the number of mortgage deferred payments increased significantly, and then normalized during April.



## Corporate Banking

Outstanding loans to corporates total NOK 41bn (39bn) and deposits total NOK 43bn (39bn) as at 31 March 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 373m (340m) in the first quarter of 2020. Net interest income was NOK 308m (284m), and commission income and return on financial investments came to NOK 64m (57m). The lending margin was 2.67 per cent (2.69 per cent) and the deposit margin was 0.06 per cent (minus 0.02 per cent) in the first quarter of 2020. Lending rose by 1.2 per cent (1.6 per cent) and deposits rose by 8.2 per cent (6.8 per cent) in the last 12 months.

Net losses in the corporate banking segment total NOK 259m (57m) in the first quarter of 2020. NOK 143m of the losses refers to a single exposure. Also noted are increased provisioning as a result of lower expectations of the Norwegian economy along with a general negative migration in the portfolio. Mortgage payment holidays have been granted. The bank's business customers were granted installment deferrals at a much higher level than usual in March. In April, the number has fallen, but is still at a level that is far above the level in a normal situation.

Return on capital employed for the corporate banking segment was 0.2 per cent (10.9) in the first quarter 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 35.5m in the first quarter of 2020 (79.3m).

Pre-tax profit (NOKm)	January - March		Change
	2020	2019	
EiendomsMegler 1 Midt-Norge	0.0	-0.4	0.4
BN Bolig	-	-8.6	8.6
SpareBank 1 Finans Midt-Norge	27.3	20.7	6.6
SpareBank 1 Regnskapshuset SMN	46.7	39.6	7.2
Sparebank 1 Markets	-15.5	2.2	-17.6
SpareBank 1 SMN Invest	-18.8	26.0	-44.8
DeBank	-7.5	-4.9	-2.6
Other companies	3.3	4.8	-1.6
<b>Total</b>	<b>35.5</b>	<b>79.3</b>	<b>-43.8</b>

**Eiendomsmegler 1 Midt-Norge** is the market leader in Trøndelag and in Møre and Romsdal and aims to continue to strengthen its market share. Operating income was NOK 83m in the first quarter of 2020 (83m), while operating expenses were NOK 83m (83m). EiendomsMegler 1 pre-tax profit in the first quarter of 2020, as in the first quarter of 2019, was approximately zero. 1,459 dwelling units were sold in the first quarter of 2020 compared with 1,447 in the same period of 2019. The company's market share as at 31 March 2020 was 36.9 per cent (37.0 per cent).

In collaboration with BN Bank, the company established in 2016 BN Bolig in which EiendomsMegler 1 Midt-Norge and BN Bank each hold a 50 per cent stake. BN Bolig's results did not measure up to expectations, and the company was sold in the fourth quarter of 2019.

**SpareBank 1 Finans Midt-Norge** delivered a pre-tax profit of NOK 46.7m in the first quarter of 2020 (36.9m). The company has shown good income growth with incomes totalling NOK 76.0m (68.8m). Moderate growth in costs has also been noted, and operating expenses in the first quarter of 2020 totalled NOK 24.4m (21.6m). Losses in the first quarter of 2020 came to NOK 4.9m (7.6m).

The company's business lines are mainly leasing to the SMB market and car loans to retail customers. The company manages leasing and car loan agreements worth a total of NOK 8.7bn (7.8bn), of which leasing agreements account for NOK 3.5bn (3.4bn) and car loans for NOK 5.2bn (4.4bn). The company also offers consumer loans, and at quarter-end this portfolio was worth NOK 216m (272m).

Good growth is noted, in particular for car loans where growth in the last 12 months was 19 per cent. The growth in leasing to the SMB market was 6 per cent. The corona crisis situation as from mid-March is expected to impact the company negatively through lower demand and sales. This will primarily affect the top line. It may, combined with somewhat higher defaults and losses, bring lower profitability.

The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge as at 31 December 2019, while Sparebanken Sogn og Fjordane held a stake of 7.5 per cent. SpareBank 1 SMN holds 61.2 per cent of the shares of SpareBank 1 Finans Midt-Norge.

**SpareBank 1 Regnskapshuset SMN** posted a pre-tax profit of NOK 27.3m (20.7m) in the first quarter of 2020, thereby achieving a profit growth of 32 per cent compared with the same period of 2019. Operating income increased to NOK 156.3m, a growth of 11.7 per cent comprising 2.5 per cent organic growth and 9.2 per cent growth resulting from acquisitions.

The strong profit growth is mainly ascribable to the following:

- Initiated efficiency projects have contributed to increased operating income per FTE (the proportion of staff costs down from 70.7 per cent to 68.9 per cent)
- A continued strong focus on costs has contributed to a significant reduction in operating expenses (the proportion of operating expenses down from 11.2 per cent to 10.5 per cent)

With 12 per cent growth from the first quarter of 2019, the company has expanded its market position to 25 per cent, an increase of more than 2 percentage points over the last 12 months. This is calculated as the company's proportion of the accounting industry's overall turnover in Trøndelag, Møre and Romsdal and Gudbrandsdal.

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.

The company is maintaining approximately the same activity level as prior to the coronavirus outbreak and no so significant long-term effects of the outbreak are expected. The company's ambitions of continued strong growth stand firm.

**SpareBank 1 SMN Invest** invests in shares, mainly in regional businesses. The company posted a negative pre-tax result of NOK 18.8m in the first quarter of 2020 (profit of 26.0m).

The company holds shares worth NOK 405m (447m) as at 31 March 2020.

Value changes and realisation of losses or gains on the company's overall shareholding account for a net loss of NOK 17.4m 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 151 full time equivalents.

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

SpareBank 1 Markets' consolidated pre-tax result for the first quarter of 2020 was a loss of NOK 15.5m (profit of 2.2m). First-quarter incomes reflect effects of the coronavirus. Incomes from investment banking and own account trading have fallen, at the same time as incomes from secondary equity market trading and currency trading rose sharply. SpareBank 1 Kapitalforvaltning also shows lower commission earnings after the stock exchange fall. Overall income including SpareBank 1 Kapitalforvaltning came to NOK 105m (144m).

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 regard to which the group itself has a strong competitive position alone or in conjunction with the parent banks.

#### **SpareBank 1 SMN Spire Finans (formerly DeBank)**

SpareBank 1 SMN holds 100 per cent of the shares of SpareBank 1 SMN Spire Finans. SpareBank 1 SMN Spire Finans caters specifically to small and medium-sized businesses that specialise in factoring. SpareBank 1 SMN Spire Finans is headquartered in Trondheim and has 19 employees. As at 31 March 2020 the company had loanable capital of NOK 76m, operating income of NOK 3.7m and a pre-tax result in 2019 of minus NOK 7.5m (minus 4.9m). SpareBank 1 SMN Spire Finans will operate as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN is increasing its focus on small and medium-sized businesses and will strengthen its offering in the factoring field through this acquisition.

#### **Satisfactory funding and good liquidity**

The bank has a conservative liquidity strategy. The strategy 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.

At the turn of the quarter the bank has liquidity reserves of NOK 30bn and the funding needed for 26 months of ordinary operation without fresh external finance. In the first quarter of 2020 a loss of NOK 104m was recorded on the liquidity portfolio as a result of increased credit margins.

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 182 per cent as at 31 March 2020 (180 per cent). The requirement is 100 per cent.

The Group's deposit-to-loan ratio at 31 March 2020, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 50 per cent (50 per cent).

The bank's funding sources and products are amply diversified. As at end-March 2020 the proportion of the bank's overall money market funding in excess of one year's maturity was 89 per cent (89 per cent).

SpareBank 1 Boligkreditt is the bank's most important funding source, and mortgages totalling NOK 39bn (36bn) had been sold as at 31 March 2020.

SpareBank 1 SMN has established and published a framework for green bond issuance. The framework is approved by the rating agency Sustainalytics.

### Rating

The bank has a rating of A1 (stable outlook) with Moody's and a rating of A- (negative outlook) with Fitch Ratings.

### Financial soundness

As of 31 March 2020 the countercyclical buffer was lowered from 2.5 per cent to 1 per cent, bringing the CET1 requirement down to 11 per cent, including combined buffer requirements. Taking into account a Pillar 2 requirement of 1.9 per cent, the overall government requirement is 12.9 per cent. The add-on refers mainly to owner risk, market risk and credit concentration risk. The add-on is subject to review by Finanstilsynet (Norway's FSA) every second year.

SpareBank 1 SMN aims for a management buffer of about 1 per cent over and above the combined Pillar 1 and Pillar 2 requirements with a view to absorbing fluctuations in risk weighted assets and in the group's financial results. The Ministry of Finance has announced that the systemic risk buffer for IRB banks is to increase by 1.5 per cent to 4.5 per cent with effect from 31 December 2020. 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 at 31 March 2020 was 16.3 per cent (14.8 per cent) – in keeping with the targeted level. The authorities' CET1 ratio requirement is 14.4 per cent.

The CET1 ratio has fallen by 0.8 per cent in the first quarter. The changed distribution of the net profit for 2019 has strengthened CET1 capital by 0.3 per cent. In the CET1 calculation, the entire net profit for the first quarter is included. Risk weighted assets have increased by 7 per cent as of 31 March 2020. A significant portion of the growth, about 4 per cent, relates to higher market values of derivative positions, along with an increase in capital needed to cover CVA risk on the same positions.

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 equity certificate (EC) at 31 March 2020 was NOK 86.85 (83.86), and earnings per EC were NOK 1.26 (5.02).

The Price / Income ratio was 13.46 (4.35) and the Price / Book ratio was 0.78 (1.04).

At quarter-end the EC was priced at NOK 67.60, and dividend of NOK 5.00 per EC has been paid in 2020 for the year 2019.

**Transfer of personal insurance products from SpareBank 1 Forsikring to Fremtind Livsforsikring**

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 is about NOK 1.7bn. SpareBank 1 SMN's share of the increase (19.5 per cent) amounts to NOK 340m and has been taken to income in the first quarter of 2020.

SpareBank 1 Gruppen (parent company) has made a tax-free gain of NOK 937m as a result of this demerger. SpareBank 1 Gruppen's basis for dividend payments increases by the same margin as this gain. SpareBank 1 Gruppen's share of any future dividend of NOK 937m (19.5 per cent) amounts to NOK 183m.

Due to the circumstances related to the coronavirus situation, DNB chose not to exercise the option expiring on 31 March 2020 to increase its stake in Fremtind Forsikring from 35 per cent to 40 per cent.

DNB states that it is pleased with the collaboration and with the progress of Fremtind Forsikring, and is of a mind to expand its ownership interest in the longer term.

**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 have led to lockdown of community life and jobs and consequent reduction of economic activity levels. The uncertainties have brought a significant fall in stock market values, which affected the group's financial performance both directly and indirectly in the first quarter of 2020.

There is much uncertainty regarding the likely depth of the crisis and its duration, and macroeconomic estimates vary widely. Most observers expect a sharp economic setback in the current year before growth gradually resumes towards the end of 2020 and in 2021. Fear of new waves of infection, increased saving rates and changes in consumer patterns could contribute to damping the upturn. The IMF expects activity levels to fall by 6 per cent in the current year, and to recover by 4.5 per cent in 2021.

In addition to the impact of the infection protection measures, the substantial fall in oil prices has strengthened the negative effects for the Norwegian economy. Norges Bank has lowered its key policy rate to 0.25 per cent, and the krone exchange rate has depreciated markedly. Unemployment in Norway has risen to just over 10 per cent. When businesses in Norges Bank's regional network were interviewed in April, more than one third of them reported impaired growth prospects as a result of the coronavirus 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 counteracted by very wide-ranging support arrangements and expansionary monetary policies, they will be very large nonetheless. Statistics Norway expects Norway's very strong financial position to provide the government with unique opportunities to put in place compensatory measures. That will help to dampen the negative impacts.

The regional economy is also heavily marked by the negative effects of the infection protection measures taken. Unemployment in Trøndelag and in Møre and Romsdal stands at just over 9 per cent, and house prices fell in the month of March. SpareBank 1 SMN's corporate expectations barometer as of March 2020 shows a steep change of sentiment throughout Central Norway with 75 per cent of business leaders fearing negative consequences of the corona crisis.

The marked decline in activity levels has also led to increased uncertainty and impaired profitability among portions of SMN's clients. The bank's advisers are in close dialogue with clients, and have surveyed the

volume of exposed businesses. Instruments employed are primarily mortgage payment holidays and provision of loans backed by state guarantee. SpareBank 1 SMN has a robust loan portfolio of which 69 per cent consists of loans to retail borrowers. About NOK 8bn of the loans to corporates relate to industries that are hard hit by the infection protection measures and the low oil price.

### **Outlook**

The corona crisis and low oil price creates considerable uncertainty as regards developments ahead. The group assumes and expects that activity levels will 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 expects unemployment to remain at a higher level going forward. Combined with an expectation of lower wage growth, and the risk of negative growth in real wages, the bank considers house prices ahead to be a matter of increased uncertainty. This could affect credit demand. The bank monitors the situation in the credit markets carefully and is able to adapt the business to different scenarios.

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

The board of directors recommended reducing the payout ratio from 53.4 per cent to 41.2 per cent when the annual profit for 2019 is distributed, in light of the uncertain macroeconomic situation. The changed distribution reflects a good balance between the need for stability and predictability for the bank's shareholders and investors, and the corporate social responsibility that the group has towards its customers and local communities.

At the end of the first quarter of 2020 the group's CET1 ratio stands at 16.3 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 as from 13 March 2020.

The group's funding situation is good, with an LCR of 182 per cent and an NSFR of 123 per cent. The bank has ample access to funding via SpareBank 1 Boligkreditt, and will base its choice of funding source on funding costs.

The group's capital situation, and its good liquidity situation, mean that the bank is well prepared to help viable customers through the crisis, and SpareBank 1 SMN is well placed to strengthen its market position and create financial value for its shareholders and investors. A profitability enhancement project has been established under the name "One SMN" which is designed to expand synergies between the groups' business lines, digitalisation, process efficiencies and general cost reductions.

The board of directors considers the level of uncertainty to be higher than at the end of 2019. The board expects 2020 to be a demanding year bringing increased credit losses and low demand for credit. Further, lower earnings are expected in parts of the group along with lower operating expenses due to reduced activity levels and measures prompted by "One SMN".

The group is conscious of its central role as an important social actor in the region, and accordingly chooses to devote large parts of its social dividend to support the voluntary sector within the region.

Trondheim, 7. May 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)