

Report of the Board of Directors

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

Main points for the first nine months of 2020

- Pre-tax profit: NOK 1,823m (2,612m)
- Post-tax profit: NOK 1,528m (2,217m)
- Return on equity: 10.4 per cent (16.0 per cent)
- CET1 ratio: 17.6 per cent (15.1 per cent)
- Growth in lending: 8.5 per cent (4.8 per cent) and in deposits: 14.0 per cent (7.9 per cent) over last 12 months
- Growth in lending to retail borrowers: 8.7 per cent (5.8 per cent) over last 12 months. Retail lending accounts for 68 per cent (68 per cent) of total lending
- Growth in lending to corporate borrowers: 8.1 per cent (2.8 per cent) over last 12 months
- Net result of financial instruments: NOK 754m (1,185m) including an insurance gain of NOK 340m (460m)
- Losses on loans and guarantees: NOK 709m (198m), 0.55 per cent (0.16 per cent) of gross outstanding loans
- Earnings per EC: NOK 6.88 (10.54). Book value per EC: NOK 92.73 (89.36)

Results for the third quarter of 2020

- Pre-tax profit: NOK 621m (609m)
- Post-tax profit: NOK 519m (488m)
- Return on equity: 10.5 per cent (10.2 per cent)
- Growth in lending: 2.5 per cent (1.1 per cent) and in deposits: 1.2 per cent (decline of 3.4 per cent)
- Lending to retail borrowers rose 2.2 per cent in the quarter (1.5 per cent), 0.2 percentage points less than in the second quarter
- Growth in lending to corporate borrowers: 3.0 per cent (0.2 per cent) 0.3 percentage points higher than in the second quarter
- Net result of financial instruments: NOK 205m (121m)
- Losses on loans: NOK 231m (71m), 0.52 per cent (0.17 per cent) of gross outstanding loans
- Earnings per EC: NOK 2.35 (2.30)

Events in the quarter

Economic outlook improved, but substantial uncertainty

The situation after lockdown in a number of countries at the end of the first quarter was a broad-based international economic crisis accompanied by rising unemployment and a dramatic fall in demand. The Norwegian economy was also hit hard by reduced oil prices and a weaker Norwegian krone. Norges Bank (Norway's central bank) lowered its base rate to 0 per cent, with ensuing interest rate cuts by the banks. Unemployment rose, and in April 10 per cent of the labour force were registered as wholly unemployed. The macroeconomic picture reflected considerable uncertainty and government authorities initiated a series of measures to assist firms and private individuals.

Activity levels have picked up through the summer and unemployment has declined, but the increased spread of the corona virus this autumn could slow the upturn. It will in all events take time for production and employment to return to the levels in effect prior to the pandemic. Low interest rates are stimulating production and employment, and contribute to holding down unemployment. The housing market has also improved, but uncertainty remains in evidence. Individual sectors such as the offshore and hospitality industries are still facing challenges.

One SMN – Customer-oriented and simplified distribution, increased digitalisation and more efficient operations

SpareBank 1 SMN is to establish seventeen regional centres in which the group's business lines will be co-located, while six smaller branches will be closed down. 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 are concurrently being set up to deliver services of high quality and efficiency across the group.

A customer-oriented and simplified distribution system, increased digitalisation along with streamlining of support functions will enable group FTEs to be reduced by about 100 in the course of 2021. The reduction will take place mainly in the bank and in support functions throughout the group.

The changes are part of the wide-ranging profitability and enhancement programme known as One SMN. The programme 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. SpareBank 1 SMN has identified measures designed to achieve a profit improvement of NOK 400m before tax through increased synergies, increased revenues, cost efficiencies and improved capital utilisation. The ambition is to deliver even better services to customers through stronger collective action both in terms of support functions at central level and in outreach to the customer.

In addition to the above changes the measures include new customer offerings and renewed service concepts for prioritised segments, improved price models along with increased application of analytical insight in the customer dialogue and reduction of operating and IT expenses.

SpareBank 1 SMN Spire Finans

SpareBank 1 SMN Spire Finans will be amalgamated with SpareBank 1 Finans Midt-Norge in the fourth quarter. Invoice purchasing will be a third product area alongside leasing and car financing. The intention is to reduce costs and strengthen distributive power.

Sparebank 1 SMN Invest

SpareBank 1 SMN is to wind up SpareBank 1 SMN Invest. Investment in shares is no longer within the group's strategy. The share portfolio of about NOK 400m will be managed together with the bank's other long-term shareholdings and will be wound down over time.

Profit of NOK 519m for the third quarter (488m)

In the third quarter SpareBank 1 SMN recorded a profit of NOK 519m after tax (488m), and a return on equity of 10.5 per cent (10.2 per cent). The third quarter profit is NOK 199m lower than in the second quarter of 2020 due to increased losses and weaker return on financial instruments. Earnings per equity certificate (EC) in the third quarter were NOK 2.35 (2.30) and book value per EC was NOK 92.73 (89.36).

Operating profit after losses in the third quarter was NOK 417m (487m). This was NOK 19m better than in the second quarter of 2020, due to higher revenues and lower expenses, but increased losses. Compared with the same quarter of 2019, post-loss operating profit was weaker – due to higher losses.

Net interest income in the quarter was NOK 695m (678m), which is NOK 29m better than in the second quarter. Since March, Norges Bank has lowered its base rate by 150 points to zero, and NIBOR has fallen about 140 points from the first to the third quarter. SMN has carried out two interest rate cuts on residential mortgages and deposits in the course of the second and third quarter. The changes in the margins on loans and deposits, along with the bank's cost of funding, were carried out at different points in time, leading to low interest earnings in the second quarter. In the third quarter, net interest income reflects the new interest rates.

Net commission income rose from the preceding quarter by NOK 31m to NOK 638m (554m). This is explained by increased commission income on loans sold to SpareBank 1 Boligkreditt. Reduced incomes are concurrently noted on accounting services in the holiday period.

Return on financial investments was relatively weak in the third quarter at NOK 32m (35m) which was NOK 237m lower than in the second quarter. Gains recorded in the second quarter were very high, due in part to reversal of losses resulting from financial turbulence in the first quarter.

At NOK 170m (85m), related companies' third-quarter profit was NOK 7m down on the second quarter. The profit for the third quarter is positively impacted by a good insurance performance at Fremtind Forsikring and by gains on forex and stocks at SpareBank 1 Forsikring.

Operating expenses were reduced by NOK 22m from the second to third quarter, and totalled NOK 685m (673m).

Losses on loans in the third quarter came to NOK 231m (71m) having risen by NOK 62m from the second quarter. Losses on loans to the group's corporate clients in the third quarter totalled NOK 210m (49m). Losses on loans to retail borrowers in the third quarter were NOK 21m (22m).

Lending grew in the third quarter of 2020 by 2.5 per cent (1.1 per cent). Growth in lending to retail borrowers in the third quarter of 2020 was 2.2 per cent (1.5 per cent). Lending to corporate borrowers increased by 3.0 per cent (0.2 per cent) in the third quarter of 2020.

Deposits rose by 1.2 per cent (decline of 3.4 per cent) in the third quarter compared with a growth of 7.0 per cent in the second quarter. Retail customer deposits fell 1.1 per cent (reduction of 2.4 per cent), compared with a growth of 10.2 per cent in the second quarter. High growth in the second quarter is down to holiday pay disbursements. Corporate customer deposits rose by 2.9 per cent (reduction of 4.1 per cent) compared with a growth of 4.6 per cent in the second quarter.

Profit of NOK 1,528m for the first nine months of 2020

A pre-tax profit of 1,823m (2,612m) was recorded in the first nine months of 2020. The net profit is NOK 1,528m (2,217m) and return on equity is 10.4 per cent (16.0 per cent).

Overall operating income as at 30 September 2020 totalled NOK 3,886m (3,702m), an increase of NOK 184m over the previous year. NOK 87m of the income growth derives from banking operations and NOK 97m from the bank's subsidiaries.

Operating expenses amounted to NOK 2,107 (2,077m) in the first nine months of 2020. The increase of NOK 30m comprises NOK 46m from banking operations and a reduction of NOK 16m at the subsidiaries.

The profit share from owner interests and related companies was NOK 564m (871m), including an insurance gain of NOK 340m (460m).

Return on financial instruments including dividends came to NOK 189m (314m).

Losses on loans and guarantees totalled NOK 709m (198m).

Good growth is noted in loans and deposits, and overall lending rose 8.5 per cent (4.8 per cent) and deposits by 14.0 per cent (7.9 per cent) in the last 12 months.

The CET1 ratio as at 30 September 2020 was 17.6 per cent (15.1 per cent). The target CET1 ratio is 15.4 per cent.

The price of the bank's equity certificate (MING) at quarter end was NOK 84.30 (98.50). A cash dividend of NOK 5.00 (5.10) per EC has been paid in 2020 for the year 2019.

Earnings per EC were NOK 6.88 (10.54). The book value per EC was NOK 92.73 (89.36).

Increased net interest income

Net interest income increased by NOK 80m to NOK 2,071m (1,991m) in the first nine months of 2020.

Changes in the net interest income are mainly ascribable to:

- increased lending to and deposits from retail and corporate clients
- increased lending margins
- reduced deposit margins
- NIBOR was 65 points lower in the first nine months of 2020 than in the same period of 2019, bringing lower return on the bank's equity capital

Since 13 March 2020 Norges Bank has lowered its base rate from 1.50 to zero. SpareBank 1 SMN lowered its mortgage lending rate by up to 125 points over the course of the second quarter. Deposit rates have been lowered in the second and third quarter. NIBOR has been reduced by about 160 points over the course of 2020.

The bank lowered its lending rates before the customary six-week notice period expired while the change in deposit rates was carried out in line with the ordinary eight-week notice period. It takes a while for reduced NIBOR to feed through to the cost of market funding. This has impacted negatively on net interest income in the second quarter. The third quarter saw greater balance between the cost of market funding and interest rates on loans and deposits, and this has contributed to an increase in net interest income from the second to the third quarter.

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

Increased other income

Commission income and other operating incomes rose in the first nine months of 2020 by NOK 104m to NOK 1,815m (1,711m).

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 282m (271m) in the first nine months of 2020. Commission income from SpareBank 1 Boligkreditt rose strongly in the third quarter.

Other commission income totalled NOK 1,533m (1,440m). The growth of NOK 94m is driven mainly by increased incomes on accounting services and securities services.

SpareBank 1 SMN has a high proportion of multi-product customers. This is important since it makes for high customer satisfaction and a diversified income flow for the bank.

Commission income (NOKm)	January - September		Change
	2020	2019	
Payment transfers	163	167	-4
Creditcard	45	44	1
Saving products	77	69	8
Insurance	144	136	8
Guarantee commission	42	37	5
Real estate agency	300	298	2
Accountancy services	395	371	24
Markets	332	285	47
Other commissions	36	33	3
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,533	1,440	94
Commissions SB1 Boligkreditt	272	259	13
Commissions SB1 Næringskreditt	9	12	-3
Total commissions	1,815	1,711	104

Return on financial investments

Overall return on financial investments in the first nine months of 2020 came to NOK 177m (300m). This breaks down as follows:

- Losses on shares of the bank and subsidiaries totalled NOK 2m (gain of NOK 108m)
- Gains on the bond and CD portfolio totalled NOK 166m (22m) due to a narrowing of credit spreads
- Financial derivatives have brought losses of NOK 78m (gain of NOK 92m). This is essentially gains on fixed income instruments ascribable to rising interest rates through the first nine months and must be viewed in the context of the above bullet point
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans, and show a loss of NOK 14m (gain of 10m)
- Income of NOK 79m (32m) 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 26m (36m)

Return on financial investments (NOKm)	January - September		Change
	2020	2019	
Capital gains/losses shares	-2	108	-110
Gain/(loss) on certificates and bonds	166	22	144
Gain/(loss) on derivatives	-78	92	-170
Gain/(loss) on financial instruments related to hedging	0	-1	2
Gain/(loss) on other financial instruments at fair value (FVO)	-14	10	-24
Foreign exchange gain/(loss)	79	32	47
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	26	36	-11
Net return on financial instruments	177	300	-122

Product companies and other related companies

The product companies give the banks access to a broader product range and the bank receives commission incomes, as well as return on invested capital. The overall result of the product companies and other related companies was NOK 224m (411m) in the first nine months of 2020. In addition SpareBank 1 SMN recorded a gain of NOK 340m on the transfer of personal risk products from SpareBank 1 Forsikring to Fremtind Livsforsikring as at 1 January 2020. A gain of NOK 460m was recorded on the establishment of Fremtind Forsikring in the first half of 2019.

Income from investment in associated companies	January - September		Change
	2020	2019	
SpareBank 1 Gruppen	107	264	-157
Gain Fremtind	340	460	-120
SpareBank 1 Boligkreditt	22	26	-4
SpareBank 1 Næringskreditt	14	15	-1
SpareBank 1 Kreditt	2	13	-11
BN Bank	84	84	0
SpareBank 1 Betaling	-3	7	-10
Other companies	-1	2	-3
Income from investment in associated companies	564	871	-307

SpareBank 1 Gruppen

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

SpareBank 1 SMN's post-tax share of the profit of SpareBank 1 Gruppen in the first nine months of 2020 was reduced by a total of NOK 277m compared with the same period of 2019, of which NOK 120m was due to a lower merger gain. The profit effect of the Fremtind Forsikring merger in the first nine months of 2019 was NOK 460m, whereas the profit effect of the merger in 2020 was NOK 340m. The underlying share of the profit from SpareBank 1 Gruppen was reduced by NOK 157m to NOK 107m from 2019 to 2020.

Fremtind's profit for the first nine months of 2020 is still marked by the Covid-19 situation requiring substantial technical provisions and travel insurance payouts. This is partly offset by income from reinsurers related to Covid-19 compensation, and run-off gains.

SpareBank 1 Boligkreditt

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

As at 30 September 2020 the bank had sold loans totalling NOK 44.2bn (39.7bn) to SpareBank 1 Boligkreditt, corresponding to 36.0 per cent (35.2 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 for the first nine months of 2020 was NOK 22m (26m).

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 30 September 2020, loans worth NOK 1.6bn (1.7bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 31.0 per cent, and the bank's share of the company's profit for the first nine months of 2020 was NOK 14m (15m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank.

SpareBank 1 Kreditt

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

The profit for the first nine months of 2020 was NOK 9m (73m). 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 nine months of 2020 was NOK 2m (13m), and the bank's share of the portfolio is NOK 856m (924m). The decline in profit is due mainly to lower consumption – for example as regards foreign travel – on the part of the general public and thus lower credit card turnover.

SpareBank 1 Kredittkort also manages the LOfavør credit card programme.

BN Bank

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

BN Bank's result for the first nine months of 2020 was NOK 241m (232m), yielding a return on equity of 8.3 per cent (8.3 per cent). SpareBank 1 SMN's share of BN Bank's profit for the first nine months of 2020 was NOK 84m (84m).

SpareBank 1 Betaling

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

SpareBank 1 Betaling posted a deficit of NOK 9m in the first nine months of 2020, and SpareBank 1 SMN's share of the deficit comes to NOK 3m (gain of 7m).

Operating expenses

Overall group operating expenses rose by NOK 30m, or 1.4 per cent, to NOK 2,107m (2,077m) in the first nine months of 2020.

The bank's expenses increased by NOK 46m to NOK 1,051m in the last 12 months. The increase is of 4.5 per cent. The focus on the LO (Norwegian Confederation of Trade Unions) segment has required additional

FTEs in the retail banking arm in 2020. Moreover, costs related to digitalisation and modernisation of the bank have risen.

Costs among the subsidiaries were reduced by NOK 15m to NOK 1.056m (1.071m) in the 12 months to end-September. The decline is largely down to the disposal of BN Bank in the fourth quarter of 2019 and reduced cost growth at the other subsidiaries.

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

The group's cost-income ratio was 45 per cent (43 per cent) while the parent bank's cost-income ratio was 34 per cent (29 per cent).

Provision for restructuring costs will be made in the fourth quarter as a result of costs of packages of instruments related to staff reductions and other phase-out costs.

High losses, but low default rate

Loan losses in the first nine months of 2020 totalled NOK 709m (198m). Net loan losses measure 0.55 per cent of total outstanding loans (0.16 per cent).

Losses of 637m (150m) were recorded on loans to the group's corporate customers as of 30 September 2020. Of this, 163m is related to a single exposure. Losses on offshore amount to 296m.

In the first quarter of 2020 the bank revised its assumptions for the baseline scenario in a negative direction. This revision was retained for the second and third quarter of 2020. Moreover, in the third quarter the bank's exposure to the hotel and hospitality industry was hived off to a separate portfolio entailing separate assessment of PD and LGD paths along with scenarios weighted to reflect this segment's vulnerability to the effects of the corona virus. In addition, the entire portfolio is assigned to stage 2 or 3. For further description, see note 2. The provision for expected loss on these loans amounts to NOK 54m. The increased provision due to negative migration in the remaining corporate banking portfolio amounts to NOK 107m.

Losses of NOK 72m (47m) were recorded on loans to retail borrowers in the first nine months of 2020, of which NOK 49m was related to the changes made in the assumptions employed in the bank's loss model.

Write-downs on loans and guarantees total NOK 1,630m (1,065m) as at 30 September 2020.

Overall problem loans (defaulted and doubtful) come to NOK 2,332m (2,123m), corresponding to 1.30 per cent (1.28 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. All loans classified to stage 3 of the expected loss model are defined as problem loans.

Defaults in excess of 90 days totalled NOK 484m (424m). Overall defaults measure 0.27 per cent of gross outstanding loans (0.26 per cent). The increase refers in all essentials to the retail banking portfolio.

Other doubtful exposures total NOK 1,848m (1,700m). Total other doubtful exposures measure 1.03 per cent (1.03 per cent) of gross outstanding loans.

A small proportion of the bank's overall loan exposure is doubtful as a result of the corona crisis and the oil crisis. Loans in the hotel and hospitality industry portfolio amount to NOK 1.7bn, while the offshore portfolio totals NOK 3.6bn.

Total assets of NOK 187bn

The bank's assets totalled NOK 187bn (166bn) as at 30 September 2020, having risen by NOK 20bn, i.e. by 12 per cent, over the last 12 months. Total assets have risen mainly as a result of increased lending and liquidity reserves.

As at 30 September 2020 loans worth a total of NOK 46bn (41bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and to SpareBank 1 Næringskreditt. These loans are not recognised 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.

Increased growth in lending

Total outstanding loans rose by NOK 14.0bn (7.6bn), or 8.5 per cent (4.8 per cent) in the last 12 months to reach NOK 179.4bn (165.4bn) as at 30 September 2020.

- Lending to personal borrowers rose in the last 12 months by NOK 9.8bn (6.1bn) to NOK 122.5bn (112.8bn). Growth in the period was 8.7 per cent (5.8 per cent)
- Lending to corporate borrowers rose in the last 12 months by NOK 4.3bn (1.4bn) to NOK 56.9bn (52.6bn). Growth in the period was 8.1 per cent (2.8 per cent)
- Lending to personal borrowers accounted for 68 per cent (68 per cent) of total outstanding loans to customers as at 30 September 2020

The group shows good growth in the retail market and is strengthening its market position. SpareBank 1 SMN has a cooperation agreement with the LO (Norwegian Trade Union Confederation), and the LO segment accounts for a substantial proportion of the growth. The growth in lending to corporate borrowers is largely to small and medium-sized businesses.

(For distribution by sector, see note 5).

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

Customer deposits rose in the last 12 months by NOK 11.8bn (6.1bn) to NOK 95.4bn (83.6bn). This represents a growth of 14.0 per cent (7.9 per cent).

- Personal deposits rose by NOK 5.2bn (1.7bn), or 14.7 per cent (5.1 per cent), to reach NOK 40.5bn (35.3bn)
- Corporate deposits rose by NOK 6.5bn (4.4bn), or 13.6 per cent (10.0 per cent), to reach NOK 54.8bn (48.3bn)
- The deposit-to-loan ratio at SpareBank 1 SMN was 71 per cent (67 per cent) excluding SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 53 per cent (51 per cent)

The increased growth in deposits by retail customers is in large measure a consequence of reduced consumption due to the corona crisis.

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 11.7bn (11.0bn) as at 30 September 2020. The increase of NOK 0.7bn is a result of good sales and an increase in the value of equity funds.

Saving products, customer portfolio (NOKm)	January - September		Change
	2020	2019	
Equity funds	8,302	6,855	1,448
Pension products	760	742	18
Active management	2,625	3,417	-792
Total	11,687	11,013	674

Insurance

The bank's insurance portfolio has increased by 8.2 per cent over the last 12 months. Growth has been satisfactory for non-life insurance, personal insurance and occupational pensions alike.

Insurance, premium volume (NOKm)	January - September		Change
	2020	2019	
Non-life insurance	950	868	82
Personal insurance	392	367	25
Occupational pensions	327	307	20
Total	1,669	1,542	127

Retail Banking

Outstanding loans to retail borrowers total NOK 127bn (117bn) while deposits total NOK 48bn (42bn) as at 30 September 2020. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Retail Banking's operating income totalled NOK 1,536m (1,612m) in the first nine months of 2020. Net interest income amounted to NOK 926m (1,015m) and commission income and return on financial investments to NOK 609 (597m). Overall incomes were reduced by NOK 76m. Return on capital employed in the retail banking segment was 12.6 per cent (13.7 per cent). Capital employed is regulatory capital of 15.4 per cent, corresponding to the Group's target CET1 ratio.

The lending margin in the first nine months of 2020 was 1.83 per cent (1.55 per cent), while the deposit margin was minus 0.04 per cent (0.57 per cent) measured against three-month NIBOR. The market interest rate in terms of three-month NIBOR was about 65 points lower up to and including the third quarter of 2020 than in the same period of 2019.

Retail lending and retail deposits grew by 8.6 per cent (5.1 per cent) and 14.2 per cent (4.5 per cent) respectively in the last 12 months.

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

Corporate Banking

Outstanding loans to corporates total NOK 44bn (41bn) and deposits total NOK 46bn (41bn) as at 30 September 2020. This is a diversified portfolio of loans to and deposits from corporate borrowers in Trøndelag and in Møre og Romsdal.

Operating income in the corporate segment came to NOK 1,079m (1,021m) as at 30 September 2020. Net interest income was NOK 896m (864m), and commission income and return on financial investments came to NOK 183m (157m).

The lending margin was 2.86 per cent (2.59 per cent) and the deposit margin was minus 0.14 per cent (plus 0.04 per cent) in the first nine months of 2020.

Lending rose by 10.4 per cent (growth of 2 per cent) and deposits rose by 14.5 per cent (9.0 per cent) in the last 12 months.

Net losses in the corporate banking segment have risen considerably and amounted to NOK 614m (140m) as at 30 September 2020. NOK 163m of the losses refers to a single exposure and NOK 296 m to the offshore sector. Also noted are increased provisioning as a result of lower expectations of the Norwegian economy and a general negative migration in the portfolio.

Return on capital employed for the corporate banking segment was 3.4 per cent (11.8 per cent) in the first nine months of 2020. Capital employed is regulatory capital of 15.4 per cent, corresponding to the group's target CET1 ratio.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 351.3m (285.2m) in the first nine months of 2020.

Pre-tax profit (NOKm)	January - September		Change
	2020	2019	
EiendomsMegler 1 Midt-Norge (87%)	49.8	31.2	18.6
BN Bolig	-	-23.6	23.6
SpareBank 1 Regnskapshuset SMN (88,7%)	88.1	81.3	6.7
SpareBank 1 Finans Midt-Norge (61,2%)	151.6	115.1	36.5
Sparebank 1 Markets (66,7%)	89.7	39.2	50.5
SpareBank 1 SMN Invest (100%)	-15.1	44.0	-59.1
SpareBank 1 SMN Spire Finans (100%)	-19.2	-13.5	-5.7
Other companies	6.5	11.5	-5.0
Total	351.3	285.2	66.1

EiendomsMegler 1 Midt-Norge is the market leader in Trøndelag and in Møre og Romsdal. Operating income in the first nine months of 2020 was NOK 300m (296m), while operating expenses were NOK 251m (288m). EiendomsMegler 1's pre-tax profit in the first nine months of 2020 was NOK 50m (31m). 5,497 dwelling units were sold in the first nine months of 2020 compared with 5,153 in the same period of 2019.

BN Bolig was sold in the fourth quarter of 2019.

SpareBank 1 Finans Midt-Norge delivered a pre-tax profit of NOK 152m in the first nine months of 2020 (115m). The company has shown strong income growth with incomes totalling NOK 255m (210m). Growth in costs has been moderate, and operating expenses in the first nine months of 2020 totalled NOK 67m (62m). Losses in the first nine months of 2020 came to NOK 36m (33m).

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 9.5bn (8.4bn), of which leasing agreements account for NOK 3.9bn (3.4bn) and car loans for NOK 5.4bn (4.8bn). The company also offers consumer loans, and at quarter-end this portfolio was worth NOK 190m (250m).

The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge as at 30 September 2020, while Sparebanken Sogn og Fjordane held a stake of 7.5 per cent. SpareBank 1 SMN owns 61.2 per cent of the shares of SpareBank 1 Finans Midt-Norge. After quarter-end an agreement of intent was entered into with the local banking alliance under which they will distribute the company's products while at the same time buying into the company with a stake of 6 per cent.

SpareBank 1 Spire Finans offers invoice purchasing to the small business segment, and as at 30 September 2020 showed a deficit of NOK 19m (deficit of 14m). It has been decided to merge the company with SpareBank 1 Finans Midt-Norge in the fourth quarter 2020.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 88.1m (81.3m) as at 30 September. Operating income increased to NOK 415m (390m), a growth of 6.4 per cent. Expenses came to NOK 327m (309m).

The profit growth is mainly attributable to:

- Initiated efficiency projects, contributing to increased operating income per FTE
- A strong focus on costs, contributing to low growth in other operating expenses

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

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

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a pre-tax profit of minus NOK 15.1m in the first nine months of 2020 (plus 44.0m).

The company holds shares worth NOK 390m (414m) as at 30 September 2020. The portfolio profit from the company's shareholdings is minus NOK 10.2m (plus 51.7m) of the company's result as at 30 September 2020.

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 divisions in Trondheim, Ålesund and Stavanger. It has 142 FTEs.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning. The company is at centre-stage of SpareBank 1 Markets' focus on asset management and has aggregate total assets of NOK 18.5bn. The company has 18 employees.

SpareBank 1 Markets' consolidated pre-tax profit for the first nine months of 2020 was NOK 89.6m (39.2m). High activity in several areas has yielded incomes in excess of a normal third quarter. Incomes from Investment Banking have been strong with a number of sizeable consultancy assignments and stock issues.

Incomes from primary market trading and currency trading have been high. SpareBank 1 Kapitalforvaltning shows earnings on a par with the preceding quarters. Overall group income came to NOK 511m (452m) as at 30 September 2020, representing a growth of NOK 59m or 13.1 per cent. Operating expenses totalled NOK 421m (412m), a growth of NOK 9m or 2.2 per cent.

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

Satisfactory funding and good liquidity

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

The group has liquidity reserves of NOK 32bn and the funding needed for 30 months of ordinary operation without fresh external funding.

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 140 per cent as at 30 September 2020 (181 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 30 September 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. As at 30 September 2020 the proportion of the bank's overall money market funding in excess of one year's maturity was 80 per cent (89 per cent).

SpareBank 1 Boligkreditt is the bank's most important funding source, and mortgages totalling NOK 44bn (40bn) had been sold as at 30 September 2020.

Rating

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

Financial soundness

The CET1 ratio at 30 September 2020 was 17.6 per cent (15.1 per cent), well above the target level of 15.4 per cent.

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

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

SpareBank 1 SMN aims for a management buffer of about 1 per cent over and above the combined Pillar 1 and Pillar 2 requirements with a view to absorbing fluctuations in risk weighted assets and in the group's

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

The CET1 ratio rose by 0.4 percentage point in the third quarter. Risk weighted assets were reduced by 1 percentage point in the third quarter, mainly as a result of a reduction of deposits in other financial institutions and a reduced bondholding. The profit performance in the third quarter has contributed to a 1 per cent strengthening of CET1 capital. The bank intends to pay 50 per cent of its profits to EC holders.

A leverage ratio of 7.1 per cent (7.4 per cent) shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and effectiveness with a view to strengthening its profitability and financial soundness.

The bank's equity certificate (MING)

The book value of the bank's equity certificate (EC) at 30 September 2020 was NOK 92.73 (89.36), and earnings per EC were NOK 6.88 (10.54).

The Price / Earnings ratio was 9.19 (7.01) and the Price / Book ratio was 0.91 (1.10).

At quarter-end the EC was priced at NOK 84.30, and dividend of NOK 5.10 per EC has been paid in 2020 for the year 2019.

Risk factors

Growth prospects for the global economy are considerably impaired as a result of the corona epidemic. The infection protection measures introduced in a number of countries led to a lockdown of community life and jobs, and in turn to a considerable reduction in economic activity levels. Over the course of the second quarter many countries started to gradually reopen society, and this was reflected in activity levels. However, continuing infection outbreaks and lockdowns make for much uncertainty about developments ahead.

There is still much uncertainty as to the likely depth and duration of the crisis. Macroeconomic estimates therefore vary widely, but most observers expect growth to pick up gradually towards the end of 2020 and the start of 2021, after the major setback this spring. Fear of new waves of infection, increased saving rates and changes in consumer patterns may contribute to damping the upturn. Statistics Norway expects activity levels among Norway's trading partners to fall by 6.9 per cent in the current year, and to rise by 5.2 per cent in 2021.

Since the end of the second quarter the oil price has strengthened and the Norwegian krone has appreciated since the turbulence seen in March. The record level of unemployment has halved, but one can fear this will hover at a higher level than prior to the corona crisis. In some segments such as the hospitality industry and transportation it remains very high. The base rate was set to zero in May, and Norges Bank expects the base rate to remain at the current level for a good while yet.

When businesses in Norges Bank's regional network were interviewed in August, more than half of them reported that the corona pandemic continued to have a dampening effect on the economy. For 2021 even more businesses expect to be negatively impacted. The uncertainty is reflected in downward adjustment of investment plans for 2021. The economic effects of the virus outbreak and the infection protection measures

have been mitigated by very wide-ranging support arrangements and expansionary monetary policies. Improved infection tracking and management mean that activity levels are affected to a lesser degree by the infection protection measures. In its latest forecasts, Statistics Norway revised the fall in Mainland Norway's GDP from 4 per cent to 3.2 per cent for the current year. The bank assumes and expects Norway's very strong financial position to provide the government authorities with good opportunities to implement compensatory measures. That will help to dampen the negative impacts of the corona crisis.

The regional economy is also clearly impacted by the negative effects of the infection protection measures taken. Unemployment in Trøndelag and in Møre og Romsdal was just over 9 per cent at the end of the first quarter, but has been cut by more than half and stood at 3.1 per cent in Trøndelag and 3.7 per cent in Møre og Romsdal in September 2020. After a house price fall at the end of the first quarter house prices have recovered slightly, well assisted by record-low mortgage lending rates.

The influx of customers applying for mortgage payment holidays has fallen through the second and third quarter, both for the retail market and corporates. The instruments applied are primarily mortgage payment holidays and government guaranteed loans. Around NOK 1.7bn of the loans to the business sector are to industries heavily affected by the infection protection measures. In the bank's assessment a high retail share will have a positive impact on expected loss levels.

The group's financial results are affected both directly and indirectly by the fluctuations in the securities markets. The indirect effect is in all essentials due to the bank's ownership interest in SpareBank 1 Gruppen in which both the insurance business and asset management activities are affected by the fluctuations.

The group's funding situation is good, with an LCR of 140 per cent and an NSFR of 121 per cent. The bank has ample access to funding via SpareBank 1 Boligkreditt, and will consider its choice of funding source in light of market prices.

At the end of the third quarter of 2020 the group's CET1 ratio stands at 17.6 per cent as compared with the regulatory requirement of 12.9 per cent. This represents a substantial buffer. The Ministry of Finance lowered the countercyclical buffer from 2.5 per cent to 1 per cent on 13 March 2020.

Although developments through the second and third quarter have been positive, the board of directors still views economic uncertainty as high. However, in view of the bank's capital situation, and its good liquidity position, the board considers the bank to be well equipped to help viable customers through the crisis.

Outlook

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

One SMN is a key aspect of the overall strategy and is now progressing to an implementation stage. One SMN aims to achieve a profit improvement of NOK 400m. The group's efficiency will be strengthened through a customer-oriented and simplified distribution approach featuring a greater degree of digital sales and service and more efficient staff and support functions. SpareBank 1 SMN will maintain a physical presence at the local level with all business lines.

SpareBank 1 SMN is experiencing strong growth and is taking market shares in all its lines of business. A strengthened market position and enhanced customer offering provide a basis for further growth.

The board of directors expect operations in the group's business lines to be on a positive trend in 2021. However, the uncertainties due to the corona situation can again bring relatively high losses next year.

The group's write-down assessments incorporate a gradual normalisation in most sectors, but the bank considers the hospitality industry to be particularly vulnerable and has carried out its own loss assessments for that segment. The situation in the offshore sector is negatively impacted by low oil prices and continues to call for a separate loss assessment for that industry.

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

Trondheim, 29. October 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)