

# Report of the Board of Directors

## First quarter accounts 2021

*(Consolidated figures. Figures in parenthesis refer to the same period of 2020 unless otherwise stated)*

- Pre-tax profit: NOK 901m (357m)
- Post-tax profit: NOK 768m (290m)
- Return on equity: 14.8 per cent (5.7 per cent)
- CET1 ratio: 18.0 per cent (16.3 per cent)
- Growth in lending: 8.5 per cent (6.0 per cent) and in deposits: 16.2 per cent (8.7 per cent). Growth in lending in the first quarter was 1.4 per cent (1.8 per cent) and in deposits 5.0 per cent (2.6 per cent)
- Growth in lending to personal customers rose by 0.8 per cent in the quarter (1.7 per cent), 0.8 percentage point lower growth than in the fourth quarter. Growth in lending to corporate clients rose by 2.6 per cent (1.9 per cent) which was 0.1 percentage point higher than in the fourth quarter
- Net result of ownership interests: NOK 128m (217m, including an insurance gain of NOK 340m)
- Excellent pre-tax profit of NOK 125m at SpareBank 1 Markets (minus 15m)
- Net result of financial instruments: NOK 158m (loss of 124m)
- Losses on loans and guarantees: NOK 59m (308m)
- Earnings per equity certificate (EC): NOK 3.40 (1.26). Book value per EC: NOK 96.70 (86.85)

## Events in the quarter

### **Vaccines rollout spurs optimism, but much uncertainty remains**

Economic developments are closely tied to the expected path and management of the Covid-19 pandemic. For Norway and the country's most important trading partners alike, it is now assumed that the adult section of the population will be vaccinated over the course of autumn 2021. Norges Bank (Norway's central bank) has revised growth for Mainland (non-oil) Norway up to 3.8 per cent for 2021. The downside is primarily unemployment which for the time being appears to be stuck at a higher-than-normal level, especially in sectors most affected by the disease protection measures (services, tourism and transportation). There are clear signs that growth is returning, but much uncertainty persists – in particular as regards the development of mutated viruses and vaccines' effect on them.

### **One SMN**

One SMN is central to achieving the group's strategy in 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.

A customer-oriented and simplified distribution system, increased digitalisation along with streamlining of support functions are set to reduce the number of FTEs by 100 in the course of 2021. As of the end of the first quarter a net reduction of FTE of 16 has been achieved, mainly at the bank. Group costs are down, both at the bank and among the subsidiaries as a result of downstaffing and lower operating expenses. Staff numbers will be further reduced over the year, and the resultant cost reduction will increase to year-end.

Simplifying and modernising the group's distribution of products and services has also had a high focus throughout the first quarter. This will strengthen the customer offering and increase sales efficiency. 17 regional centres are being established at which banking, estate agency and accounting services will be co-located.

Work on reinforcing the synergies between the bank's personal banking business and EiendomsMegler 1 Midt-Norge, and between the bank's corporate banking business and SpareBank 1 SMN Regnskapshuset, is well under way. Clear-cut effects are anticipated in the form of an increase in the proportion of house purchases financed by the bank, and an increase in the proportion of clientele that are customers of both banking and accounting services. Use of knowledge of the customer in developing new customer offerings and improved pricing models is a priority.

### **Sustainability**

In December 2020 the board of directors of SpareBank 1 SMN adopted a new strategy for sustainability. SpareBank 1 SMN aims through a responsible business model to stimulate sustainable development in the region by being a

1. Driver for the green transition
2. Partner for the inclusive development of society
3. Guide to building a responsible business culture

The group prioritises five key areas for 2021 as a first step in its transition plan for the period to 2030. The key areas are innovation, customer offering, climate footprint, competence and diversity.

1. Create green growth and business development through collaboration and partnerships. The group will engage customers and partners in the development of innovative local communities
2. Offer products and services that stimulate customers' transition and digitalisation. A target of ten per cent annual increase in loans to projects that qualify for green bond financing has been set
3. Reduce the climate imprint across the entire value chain. To achieve a halving of the group's climate footprint to 2030, a target of eight per cent annual reduction has been set (reference year: 2019)
4. Strengthen (climate risk) competence and reporting. The group will offer a competence-building programme for both customers and employees
5. Contribute to diversity and a fair transition. The group will work to strengthen equal opportunities in working life, everyday life and business and industry

Work is in progress on a broad front across all the group's business lines to concretise key results within the framework of a new, holistic group standard for sustainability.

SpareBank 1 SMN issued in February 2021 a senior green bond of EUR 500m with a 7-year maturity. More than 100 investors participated.

SpareBank 1 SMN has launched Mitt Klimaspor, a solution in the online and mobile bank where customers get an overview and insight into their own climate footprint by translating purchases of products and services into climate footprints. The solution will make consumers aware by helping them to understand what creates emissions and understand how simple behavioral changes can create a reduction in the climate footprint.

**Results for the first quarter of 2021**

SpareBank 1 SMN posted a net profit of NOK 768m (290m), and a return on equity of 14.8 per cent (5.7 per cent), in the first quarter. The first quarter figure is NOK 318m higher than in the fourth quarter of 2020. The profit improvement compared with the preceding quarter and last year's first quarter is largely related to lower losses.

Earnings per equity certificate (EC) in the first quarter were NOK 3.40 (1.26) and book value per EC was NOK 96.70 (86.85). Earnings per EC in the fourth quarter of 2020 were NOK 1.99.

Overall operating income in the first quarter of 2021 totalled NOK 1,477m (1,280m), an increase of NOK 197m over the same period of the previous year and an increase of NOK 32m over the fourth quarter. Compared with the first quarter of 2020, the income growth derives from the bank's subsidiaries, mainly SpareBank 1 Markets.

The Group's profit share from owner interests and related companies was NOK 128m (217m, including an insurance gain of NOK 340m). The profit share in the fourth quarter was NOK 117m. SpareBank 1 Gruppen delivered a profit in line with the expectations, while BN Bank posted profit growth due to reduced losses.

Return on financial instruments was NOK 158m (minus 124m) in the first quarter of 2021 and NOK 53m in the fourth quarter of 2020. The first quarter of 2021 brought capital gains of NOK 102m, whereas the first quarter of last year was marked by the Covid-19 crisis.

Operating expenses totalled NOK 806m (716m) in the first quarter of 2021 compared with operating expenses of NOK 845m in the fourth quarter of 2020. The increase compared with last year's first quarter is down to higher expenses at SpareBank 1 Markets due to the excellent performance. Apart from this, the group recorded a reduction on costs compared with the first quarter of 2020.

Losses on loans and guarantees totalled NOK 59m (308m) in the first quarter and NOK 242m in the fourth quarter. Lower losses compared with the first quarter of last year are mainly related to high Covid-related losses last year recorded by Retail Banking and Corporate Banking alike, while the decline compared with the last quarter of 2020 is largely ascribable to reduced losses in the offshore portfolio.

Good growth was seen in loans and deposits, and overall lending rose by 8.5 per cent (6.0 per cent) and deposits by 16.2 per cent (8.7 per cent) in the 12 months to end-March. In the first quarter, lending grew by 1.4 per cent and deposits by 5.0 per cent. High growth in lending to and deposits from corporate clients draws attention.

The CET1 ratio as at 31 March 2021 was 18.0 per cent (16.3 per cent). The target CET1 ratio is 16.9 per cent. At yearend 2020 the CET1 ratio stood at 18.3 per cent.

The price of the bank's equity certificate (MING) at quarter end was NOK 107.40 (67.60). A cash dividend of NOK 4.40 (5.00) was declared for 2020. Of this, a dividend of NOK 1.30 per EC was paid for 2020 in light of the Ministry of Finance's recommendation. The board of directors is authorised to pay out all or parts of the remaining dividend and community dividend after 30 September 2021 if conditions permit.

### Increased net interest income

In spring 2020 Norges Bank lowered its base rate from 1.50 per cent to zero. SpareBank 1 SMN subsequently lowered its mortgage lending rate and deposit rates. NIBOR was reduced by about 145 points over the course of 2020.

Net interest income came to NOK 668m (710m) in the first quarter of 2021, and to NOK 688m in the fourth quarter of 2020. The change of NOK 20m in net interest income compared with the fourth quarter of 2020 is mainly ascribable to reduced margins on residential mortgages due to a higher NIBOR in the quarter and fewer interest days. This is partially compensated for by increased deposit margins and growth in lending and deposits. Weaker net interest income compared with the first quarter of 2020 is due to lower return on equity after a substantial fall in the interest rate level.

Norges Bank retains an unchanged base rate, but has signalled a possible increase in autumn 2021. Norges Bank anticipates a gradual increase in the base rate thereafter as conditions in the economy normalise.

### Increased commission and other operating income

Commission income and other operating incomes totalled NOK 808m (570m) in the first quarter of 2021 and NOK 757m in the fourth quarter of 2020.

| Commission income (NOKm)                                      | 1Q 2021    | 4Q 2020    | 1Q 2020    |
|---|------------|------------|------------|
| Payment transfers   | 49         | 56         | 59         |
| Creditcard  | 14         | 14         | 16         |
| Saving products   | 32         | 32         | 22         |
| Insurance   | 52         | 51         | 47         |
| Guarantee commission  | 14         | 6          | 13         |
| Real estate agency  | 103        | 93         | 83         |
| Accountancy services  | 148        | 111        | 148        |
| Markets   | 275        | 245        | 81         |
| Other operating income  | 5          | 9          | 10         |
| <b>Commissions ex SB1 Boligkreditt and SB1 Næringskreditt</b> | <b>693</b> | <b>617</b> | <b>479</b> |
| Commissions SB1 Boligkreditt                                  | 112        | 136        | 88         |
| Commissions SB1 Næringskreditt                                | 4          | 4          | 4          |
| <b>Total commissions</b>                                      | <b>808</b> | <b>757</b> | <b>570</b> |

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 116m (91m) in the first quarter of 2020. In the fourth quarter of 2020 commissions totalled NOK 140m. The reduction from the fourth quarter is due to reduced margins on mortgages. The increase from last year is due to a larger volume of loans sold to SpareBank 1 Boligkreditt.

The increase of NOK 214m in other commission income compared with the first quarter of 2020 is mainly due to strong growth of NOK 194m in income on securities services at SpareBank 1 Markets. In addition, income growth of NOK 20m is recorded on estate agency services.

Reduced incomes from payments and credit cards are due to less travel and lower activity levels in general.

A high proportion of multi-product customers is important for SpareBank 1 SMN. It makes for high customer satisfaction and a diversified income flow for the group.

### Return on financial investments

Overall return on financial investments in the first quarter of 2021 came to NOK 158m (minus 124m). This breaks down as follows compared with last year's first quarter:

- Capital gains on shares came to NOK 102m (loss of 42m) and are gains on shareholdings in SpareBank 1 Invest
- Gains on financial instruments, including bonds and CDs, totalled NOK 20m in the first quarter (loss of 161m). The first quarter of 2020 was marked by substantial market uncertainty after the lockdown on 12 March
- Income of NOK 15m (65m) from forex transactions comprises income from currency trading at SpareBank 1 Markets
- Capital gains on shares and derivatives of shares at SpareBank 1 Markets totalled NOK 20m (14m)

| Return on financial investments (NOKm)                             | 1Q 2021    | 4Q 2020   | 1Q 2020     |
|--|------------|-----------|-------------|
| Capital gains/losses shares  | 102        | -3        | -42         |
| Gain/(loss) on financial instruments                               | 20         | 51        | -161        |
| Foreign exchange gain/(loss)                                       | 15         | 3         | 65          |
| Gain/(loss) on shares and share derivatives at SpareBank 1 Markets | 20         | 2         | 14          |
| <b>Net return on financial instruments</b>                         | <b>158</b> | <b>53</b> | <b>-124</b> |

### Product companies and other related companies

The product companies provide the banks with a broader product range and commission incomes, as well as return on invested capital. The overall result of the product companies and other related companies was a net profit of NOK 128m (217m) in the first quarter of 2021. In the first quarter of 2020 SpareBank 1 SMN recorded a gain of NOK 340m on the transfer of personal risk products from SpareBank 1 Forsikring to Fremtind Livsforsikring.

| Income from investment in associated companies        | 1Q 2021    | 4Q 2020    | 1Q 2020    |
|---|------------|------------|------------|
| SpareBank 1 Gruppen (19,5%)                           | 67         | 87         | -115       |
| Gain Fremtind   | -          | -          | 340        |
| SpareBank 1 Boligkreditt (22,4%)                      | 4          | -4         | -31        |
| SpareBank 1 Næringskreditt (29,8%)                    | 3          | 5          | 2          |
| SpareBank 1 Kreditt (19,2%)                           | 0          | 0          | 0          |
| BN Bank (35,0%)                                       | 40         | 36         | 23         |
| SpareBank 1 Betaling (21,5%)                          | -1         | 1          | -2         |
| Other companies                                       | 14         | -9         | 0          |
| <b>Income from investment in associated companies</b> | <b>128</b> | <b>117</b> | <b>217</b> |

### SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans, and 65 per cent of the non-life insurer Fremtind Forsikring. DNB owns the remainder shares in Fremtind.

SpareBank 1 Gruppen's post-tax profit in the first quarter of 2021 was NOK 507m (minus 780m). The first quarter of 2020 was heavily affected by the Covid crisis, substantial insurance provisioning, high costs and negative financial return on all asset classes, along with write-downs of property portfolios.

Fremtind Forsikring recorded a creditable profit of NOK 624m (minus 659m) in the first quarter of 2021. Both the insurance result and the financial result were satisfactory.

SpareBank 1 Forsikring recorded a deficit of NOK 26m (minus 252m) due to a weak risk outcome.

ODIN Forvaltning achieved a profit of NOK 48m (25m). The profit growth is largely attributable to growth in new subscriptions in 2021.

The profit share from SpareBank 1 Gruppen in the first quarter of 2021 totalled NOK 67m (minus 115m). In 2020 a profit effect of NOK 340m from the Fremtind Forsikring merger was included in the profit.

### **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 March 2021 the bank had sold loans totalling NOK 46.3bn (42.0bn) to SpareBank 1 Boligkreditt, corresponding to 36.9 per cent (35.9 per cent) of the bank's overall lending to retail customers.

The bank's share of the company's profit for the first quarter of 2021 was NOK 4m (minus 31m).

### **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 2021, loans worth NOK 1.5bn (1.5bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's share of the company's profit for the first quarter of 2021 was NOK 3m (2m). The bank's holding reflects the bank's relative share of sold loans to commercial property and the bank's stake in BN Bank.

### **SpareBank 1 Kreditt**

SpareBank 1 SMN's share of the profit for the first quarter of 2021 was NOK 0.2m (0.4m), and the bank's share of the portfolio is NOK 882m (882m). A weak profit performance is due mainly to lower activity levels among the general public and thus lower credit card turnover.

### **BN Bank**

BN Bank specialises in residential mortgages and loans to commercial property, and its main market is Oslo and south-eastern Norway.

BN Bank's result for the first quarter of 2021 was NOK 117m (69m), yielding a return on equity of 10.5 per cent (6.5 per cent). The profit growth is attributable to lower losses. SpareBank 1 SMN's share of BN Bank's profit for the first quarter of 2021 was NOK 40m (23m) adjusted for interest on hybrid capital.

### **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 Vipps will be important with a view to retaining customer relationships after the introduction of PSD2 (Revised Payment Services Directive).

SpareBank 1 Betaling recorded a deficit of NOK 4m in the first quarter of 2021 (deficit of 11m), and SpareBank 1 SMN's share of the deficit is NOK 0.8m (minus 2.3m).

### Operating expenses

Overall group operating expenses came to NOK 806m (716m) in the first quarter of 2021, an increase of NOK 90m compared with the same period of 2020, corresponding to 12.6 per cent.

| Operating expenses                  | 1 Q 21     | 4 Q 20     | 1 Q 20     |
|-------------------------------------|------------|------------|------------|
| Staff costs                         | 538        | 570        | 443        |
| IT costs                            | 89         | 84         | 86         |
| Marketing                           | 20         | 15         | 24         |
| Ordinary depreciation               | 54         | 45         | 42         |
| Operating expenses, real properties | 18         | 21         | 9          |
| Purchased services                  | 47         | 56         | 53         |
| Other operating expense             | 41         | 55         | 58         |
| <b>Total operating expenses</b>     | <b>806</b> | <b>845</b> | <b>716</b> |

At the parent bank, costs were reduced by NOK 23m to NOK 344m compared with the first quarter of 2020. The reduction measures 6.2 per cent. Reduced costs are a result of efficiency gains, less travel and measures implemented under the improvement programme One SMN. Costs were NOK 39m lower than in the fourth quarter of 2020, however a provision of NOK 83m for readjustments was included in the fourth quarter. The cost growth in the first quarter refers in all essentials to SpareBank 1 Markets. In the first quarter of 2021 the company saw very strong income growth compared with the first quarter of 2020, and has set aside NOK 119m for variable remuneration (zero in the first quarter of 2020).

SpareBank 1 Finans Midt-Norge and SpareBank 1 Spire Finans were merged in the first quarter, and the merged entity carries lower costs. The group's cost-income ratio was 46 per cent (52 per cent) while the parent bank's cost-income ratio was 36 per cent (44 per cent). The other subsidiaries report the same cost level as in 2020, although the activity level is higher.

### Reduced losses

Loan losses in the first quarter of 2021 totalled NOK 59m (308m).

| Impairment losses              | 1 Q 21    | 4 Q 20     | 1 Q 20     |
|--------------------------------|-----------|------------|------------|
| RM                             | -2        | 6          | 49         |
| CM                             | 61        | 236        | 259        |
| Of which                       |           |            |            |
| Offshore                       | 56        | 155        | 42         |
| Tourism                        | -         | 8          | -          |
| <b>Total impairment losses</b> | <b>59</b> | <b>242</b> | <b>308</b> |

Losses of NOK 61m (259m) were recorded on loans to the group's corporate customers. The losses refer mainly to customers in the offshore portfolio. Net loan losses measure 0.13 per cent (0.73 per cent) of total outstanding loans.

Overall losses on loans to retail customers totalled minus NOK 2m (loss of 49m). This is largely attributable to migration from stage 2 which entails reduced loss provisioning.

Write-downs on loans and guarantees totalled NOK 1,665m (1,276m) as at 31 March 2021.

Problem loans (stage 3) amount to NOK 3,073m (2,746m), corresponding to 1.66 per cent (1.61 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

The increase in problem loans relates essentially to the implementation of a new default definition as from 1 January 2021. See the description in note 1.

The new default definition has not altered the group's assessment of credit risk attending the individual exposures, and thus has no significant effect on the group's first-quarter losses.

No changes are made in scenario weighting or other assumptions in the group's loss model.

A small proportion of the bank's overall loan exposure is in sectors most affected by the Covid crisis and the oil crisis, and only 5 per cent of the overall exposure is to sectors regarded as highly exposed – oil, offshore, wholesale and retail trade, hotels and service industries.

### **Total assets of NOK 194bn**

The bank's assets totalled NOK 194bn (185bn) as at 31 March 2021, having risen by NOK 9bn, i.e. by 4.7 per cent, over the last 12 months. Total assets have risen as a result of higher lending and higher liquidity reserves.

As at 31 March 2021 loans worth a total of NOK 48bn (43bn) 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 do however take account of loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

### **Lending**

Total outstanding loans rose in the last 12 months by NOK 14.6bn (9.7bn) to reach NOK 185.3bn (170.8bn) as at 31 March 2021. This corresponds to growth of 8.5 per cent (6.0 per cent). Growth in the first quarter was 1.4 per cent (1.8 per cent).

- Lending to personal customers rose in the last 12 months by NOK 8.5bn (8.3bn) to NOK 125.5bn (117.0bn). Growth in the period was 7.3 per cent (7.6 per cent). Growth in the first quarter was 0.8 per cent (1.7 per cent)
- Lending to corporate customers rose in the last 12 months by NOK 6.1bn (1.4bn) to NOK 59.8bn (53.8bn). Growth in the period was 11.3 per cent (2.7 per cent). Growth in the first quarter was 2.6 per cent (1.9 per cent)
- Lending to personal customers accounted for 68 per cent (69 per cent) of total outstanding loans to customers as at 31 March 2021

The group shows good growth in loans to personal customers and is strengthening its market position, and a substantial portion of the growth is in the LO (Norwegian Trade Union Confederation) segment. The growth in lending to corporate customers is mainly to small and medium-sized businesses across the entire market area. In addition growth is noted in lending to a small number of large customers in the property and aquaculture segments, with no consequent increase in concentration risk in the portfolio.

(For distribution by sector, see note 5).

### **Deposits**

Customer deposits increased in the last 12 months by NOK 14.2bn (7.0bn) to NOK 102.4bn (88.2bn). This represents a growth of 16.2 per cent (8.7 per cent). Growth in the first quarter was 5.0 per cent (2.6 per cent).



- Personal deposits rose by NOK 8.5bn (3.1bn), or 7.3 per cent (9.2 per cent), to reach NOK 37.2bn. Growth in the first quarter was 1.8 per cent (4.3 per cent)
- Corporate deposits rose by NOK 10.1bn (3.9bn), or 19.8 per cent (8.3 per cent), to reach NOK 61.1bn. Growth in the first quarter was 7.3 per cent (1.4 per cent)
- The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 55 per cent (52 per cent)

The growth in deposits by retail customers was very high in 2020 due to reduced consumption. Growth is expected to be somewhat lower in 2021 as the economy reopens. Very high growth in deposits by corporate customers is also noted. Growth in deposits by public sector customers is noted, but also by other corporate customers across the entire market area.

(For distribution by sector, see note 9).

### Retail Banking

Of the group's business lines, the bank's personal banking business and EiendomsMegler 1 offer private individuals a broad range of financial services. Continual improvement of the interaction between the banking and estate agency arms aims to provide customers with a better service offering and to contribute to increased growth for the group.

| Result before tax                 | 1Q 21 | 4Q 20 | 1Q 20 |
|-----------------------------------|-------|-------|-------|
| Personal market                   | 280   | 320   | 260   |
| EiendomsMegler 1 Midt-Norge (87%) | 21    | 2     | -0    |

**The Bank's Personal banking business** achieved a profit before tax of the first quarter of 2021 of NOK 280m (260m). Return on capital employed in the personal segment was 12.5 per cent (12.0 per cent).

Overall lending to personal customers stands at NOK 130bn (121bn) and deposits total NOK 48bn (44bn) as at 31 March 2021. These are loans to and deposits by wage earners, agricultural customers and sole proprietorships.

Operating income totalled NOK 496m (550m) in the first quarter of 2021. Net interest income accounted for NOK 346m (354m) and commission income for NOK 149m (196m). Net interest income declined mainly as a result of lower return on the business line's share of the group's equity capital and a reduced deposit margin. Increased lending and deposits partially compensate for this. Commission income is reduced as a result of lower commissions from SpareBank 1 Boligkreditt.

The lending margin in the first quarter of 2021 was 1.59 per cent (1.63 per cent), while the deposit margin was 0.08 per cent (0.50 per cent) measured against three-month NIBOR. The market interest rate in terms of three-month NIBOR rose in the fourth quarter of 2020 and the first quarter of 2021, which has reduced the lending margin and increased the deposit margin in the latest quarters.

Lending to and deposits by personal customers grew by 7.4 per cent (7.3 per cent) and 10.2 per cent (7.9 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. Net incomings of NOK 12m (loss of 44m) were noted on loan losses in the first quarter of 2021.

In the first quarter, adjustments as regards organisation and distribution structure have been at centre-stage at the same time as staffing reductions are being carried out. 17 finance houses are under establishment with the key aim of co-locating banking, estate agency and accounting services. This is a demanding process which has yet to realise gains. Gains will however ensue, and customer recruitment, sales efficiencies and gains resulting from increased interaction between the personal banking business and EiendomsMegler 1 will be strengthened.

**Eiendomsmegler 1 Midt-Norge** is the market leader in Trøndelag and in Møre and Romsdal. Operating income in the first quarter of 2021 totalled NOK 114m (83m), while operating expenses were NOK 93m (83m). EiendomsMegler 1 Midt-Norge recorded a pre-tax profit of NOK 21m (NOK 0) in the first quarter of 2021. Activity in the housing market is very high, and sales (dwelling and commercial units) in the first quarter of 2021 totalled 1,830 compared with 1,459 in the same period of 2020. The company's market share as at 31 March 2020 was 36 per cent (37.0 per cent).

### Corporate Banking

The Corporate Banking business at SpareBank 1 SMN comprises the bank's corporate banking arm, SpareBank 1 SMN Regnskapshuset, SpareBank 1 Finans Midt-Norge and SpareBank 1 Markets. These lines provide business and industry in the region with a complete range of banking and capital market services. There is a particular potential for additional growth in clientele that are customers of both the bank's corporate banking arm and SpareBank 1 SMN Regnskapshuset.

| Result before tax                      | 1Q 21 | 4Q 20 | 1Q 20 |
|--|-------|-------|-------|
| Corporate banking                      | 167   | -31   | 3     |
| SpareBank 1 Regnskapshuset SMN (88,7%) | 27    | 22    | 27    |
| SpareBank 1 Finans Midt-Norge (61,2%)  | 55    | 52    | 39    |
| SpareBank 1 Markets (66,7%)            | 125   | 90    | -15   |

**The bank's corporate banking arm** achieved a profit before tax of NOK 167m (3m) for the first quarter. The profit growth is due to lower losses. Return on capital employed for the corporate segment was 9.6 per cent (0.2 per cent) in the first quarter of 2021.

Outstanding loans to corporates total NOK 46bn (41bn) and deposits total NOK 53bn (43bn) as at 31 March 2021. This is a diversified portfolio of loans to and deposits from corporate customers in Trøndelag and in Møre and Romsdal.

Operating income totalled NOK 337m (373m) in the first quarter of 2021. Net interest income came to NOK 273m (308m), and commission income to NOK 64m (65m). Reduced return on the business line's share of the group's equity capital and reduced deposit margins explains most of the decline. This is partially compensated for by increased lending and deposits.

The lending margin was 2.68 per cent (2.69 per cent) and the deposit margin was minus 0.29 per cent (plus 0.04 per cent) in the first quarter of 2021. Lending increased by 13.0 per cent (1.2 per cent) and deposits by 24.6 per cent (8.2 per cent) in the last 12 months.

Net losses in the corporate segment amounted to NOK 62m (258m) in the first quarter.

SpareBank 1 SMN and SpareBank 1 SMN Regnskapshuset each have a large share of businesses in the market area as customers. The bank wishes to develop the customer offering to encourage customers to avail themselves to a greater degree of the services of both entities.

The first quarter of 2021 has seen good recruitment of new customers both in the branch network and in digital channels. This is a result of a heightened focus on the SMB segment. Corporate customers have strong links to the bank, and customer turnover is very low.

Increased interaction between the banking and the accounting business has a high priority. This work is still at an early stage, but the bank is seeing an increase in the number of shared customers.

**SpareBank 1 Finans Midt-Norge** delivered a pre-tax profit of NOK 55m in the first quarter of 2021 (39m). In the first quarter SpareBank 1 Finans Midt-Norge merged with SpareBank 1 Spire Finans. SpareBank 1 Finans Midt-Norge's focal areas are accordingly leasing to SMB customers, car loans to personal customers and invoice purchases from small businesses. Last year's figures include SpareBank 1 Spire Finans.

The company has shown good income growth with incomes totalling NOK 90.9m (76.0m). Cost gains were achieved by the merger, and costs in the first quarter of 2021 came to NOK 29m. Losses in the first quarter of 2021 totalled NOK 7.1m (4.9m).

As at 31 March 2021 the company manages leases worth NOK 3.9bn (3.5bn) and car loan worth NOK 5.5bn (5.2bn).

**SpareBank 1 Regnskapshuset SMN** posted a pre-tax profit of NOK 27.0m (27.3m) in the first quarter of 2021. Both operating income and expenses are at the same level as in last year's first quarter, i.e. NOK 150m and NOK 123m respectively.

SpareBank 1 SMN Regnskapshuset works continuously to achieve efficiency gains in order to increase operating income per person-year, while at the same time maintaining a strong focus on costs to keep the underlying cost trend well under control. 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 Markets** is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has 138 FTEs. SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning. That company has assets of NOK 20bn under management and 21 FTEs.

SpareBank 1 Markets' pre-tax profit was NOK 125m (minus 15m). High activity in the business areas has yielded higher incomes than a normal first quarter. Incomes from Investment Banking have been strong due to a large number of stock issues. SpareBank 1 Markets was largest in terms of stock exchange introductions in the first quarter. This also entailed high earnings from primary share trading. SpareBank 1 Kapitalforvaltning's income is on a par with preceding quarters. Overall group income came to NOK 357m (105m). This is the company's best ever quarter. The first quarter of 2020 was affected by Covid-19 which had a markedly negative impact on profit. Operating expenses were NOK 227m (118m). The increase in operating expenses is due to allocations to variable remuneration as a result of the good results achieved.

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

#### **Other businesses**

Other business consists of SpareBank 1 SMN Invest and the real estate companies SpareBank 1 SMN Kvartalet, SpareBank 1 Bygget Steinkjer and St. Olavs plass.

**Sparebank 1 SMN Invest** invests in shares, mainly in regional businesses. In the first quarter of 2021 the company posted a pre-tax profit of NOK 108.5m (minus 18.8m). The first-quarter profit is mainly related to unrealised capital gains on the share portfolio, and to contributions from a stake in a development project.

The company holds shares worth NOK 548m (405m) as at 31 March 2021. The portfolio result from the company's shareholding accounts for NOK 100m, and incomes from the stake in Grilstad Marina for NOK 9m, of the company's result for the first quarter. SpareBank 1 SMN is in the process of winding 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.

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

The bank follows a conservative liquidity strategy maintaining liquidity reserves that ensure the bank's ability to survive 12 months of ordinary operation without need of 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 190 per cent as at 31 March 2021 (185 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 March 2021, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 55 per cent (52 per cent).

The bank's funding sources and products are amply diversified. At end-March 2021 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 residential mortgages totalling NOK 46bn (42bn) had been sold to the company as at 31 March 2021.

SpareBank 1 SMN has established a framework for issuing green bonds. The framework is verified by the rating agency Sustainalytics.

SpareBank 1 SMN issued in February 2021 a senior green bond of EUR 500m with a 7-year maturity. More than 100 investors participated. The issuance supports the bank's ESG strategy, provides a broader investor base and reduces the bank's funding risk in euros.

### **Rating**

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

### **Financial soundness**

The CET1 ratio at 31 March 2021 was 18.0 per cent (16.3 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) will set new Pillar 2 requirements for SpareBank 1 SMN in the course of 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 increased the systemic risk buffer for IRB banks by 1.5 per cent to 4.5 per cent with effect from 31 December 2020. The group includes a full countercyclical buffer in its planning, and aims for a CET1 ratio of 16.9 per cent.

The CET1 ratio declined by 0.3 percentage point to 18 per cent in the first quarter of 2021. Risk weighted assets increased by 1.7 percentage point in the first quarter of 2021. CET1 capital remains unchanged in 2021 despite a sound performance in the first quarter. This is mainly due to one-time effects of the introduction of a new default definition entailing an increased deduction for expected loss in the IRB models. A payout ratio of 50 per cent of the period's net profit is assumed.

A leverage ratio of 7.0 per cent (6.9 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 2021 was NOK 96.70 (86.85), and earnings per EC were NOK 3.40 (1.26).

The Price / Income ratio was 7.91 (13.46) and the Price / Book ratio was 1.11 (0.78).

At quarter-end the EC was priced at NOK 107.40 (67.60). A dividend of NOK 4.40 (5.00) per EC was set for 2020. Of this, a dividend of NOK 1.30 per EC was paid for the year 2020 in light of the Ministry of Finance's recommendation. The board of directors is authorised to pay out all or parts of the remaining dividend and community dividend after 30 September 2021 if conditions permit.

### **Outlook**

Good progress made in the rollout of vaccines in Norway gives cause for increased optimism. There are clear signs that society can return to normal, with a positive impact on the Norwegian economy. Norges Bank has signalled an interest rate hike in the autumn, which is expected to increase the bank's net interest income.

Disease-protection measures have created challenges for some industries. Covid-related loan losses have thus far been low. Unemployment has fallen from a high level, but the development ahead will depend on the pace of reopening. The bank has limited exposure to industries that are particularly exposed, but monitors these closely with any measures.

Good results across all business lines provided a very high return on equity in the first quarter of 2021, and have demonstrated the value of a broadly diversified business model.

The improvement project One SMN has progressed to an implementation phase. The board of directors expect better interaction between the business lines to provide increased customer recruitment, increased cross-sales, an improved customer offering and reduced costs.

Sustainability is important for ensuring long-term return and a basis for value creation. The group will stimulate sustainable development by being a driver for the green transition, a partner for the inclusive development of society and a guide to building a responsible business culture. In the first quarter the strategy was concretised in terms of five main goals with associated key targets.

At the end of the first quarter the bank is well positioned in the market, very solid, and its liquidity position is good. This provides the scope for action needed to achieve the group's ambitions. The group's financial goals remain unchanged.

Of the dividend of NOK 4.40 set aside for 2020, NOK 1.30 has been paid per equity certificate. The board of directors is authorised to pay out all or parts of the remaining dividend and community dividend, and assume that it will be disbursed in the course of the fourth quarter given the present assessment of prospects for the future.

Trondheim, 6. May 2021  
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal  
(chair)

Christian Stav  
(deputy chair)

Freddy Aursø

Mette Kamsvåg

Morten Loktu

Janne Thyø Thomsen

Tonje Eskeland Foss

Inge Lindseth  
(employee rep.)

Christina Straub  
(employee rep.)

Jan-Frode Janson  
(Group CEO)