

About the group



Statement by the Group CEO

We have been here through ups and downs for almost 200 years

2020 was one of the most singular years in our lifetime. Covid-19 also left its imprint on us at SpareBank 1 SMN. At the same time it is good to see that the organisation has maintained a high level of activity thanks to new ways of working. Indeed we have turned the crisis to account by gaining market shares and evolving further.

Banking and finance are used to economic fluctuations, but a pandemic that affects the entire society with the fear and the restrictions we are now witnessing is fortunately a very rare phenomenon. The goals we set for 2020 were accompanied by optimism and strong faith in the future. In mid-March we had to put all our plans aside and gear up for an emergency situation that no one could have planned for. With one exception: we were already under way, prior to the coronavirus pandemic, on a sizeable reorganisation project designed to give customers an even better experience of seamless offerings from all business lines in Central Norway's largest, and leading, finance house.

Having long-term owners and a loyal and motivated workforce with a thorough knowledge of people, businesses and local communities throughout Central Norway is of inestimable value in times of crisis. At the start of the year we were in an excellent financial position. The common equity Tier 1 ratio stood at over 15 per cent after many years spent building up equity capital through profitable operations and capital efficiencies.

When Norway went into lockdown, my message to the organisation was that we should tackle the crisis with a cool head and a warm heart. This was a continuation of an almost 200 year long tradition of standing by people, businesses, towns and local communities through crises as well as good times.

As in previous crises, we have shown that sharing our fate with the region in which we live and work is more than mere words. When Norway came to an abrupt halt in mid-March, record numbers were laid off and many lost their jobs. Several decades have elapsed since we last saw unemployment on the same scale in our region. While waiting for the government to process the large number of applications for unemployment benefit, we, as the first bank in the country to do so, put in place an arrangement to provide advance payments of unemployment benefit to those laid off. SpareBank 1 SMN was also the first bank in the country to issue a loan under the new governmental guarantee scheme. It is in times of crisis that the value of a management team with a local presence and very short decision paths truly comes into its own.

Businesses and individuals are not the only ones to have felt the crisis to the core this time round. The voluntary sector also stopped in its tracks. As a savings bank, the community is our largest single owner. SpareBank 1 SMN is still almost 40 per cent owned by the Central Norwegian community, supplemented by solid equity certificate holders via the Oslo Stock Exchange. This means that a corresponding share of dividends goes back to towns and local communities in our region. Thanks to good profit performances and a good financial position, the supervisory board was able to declare a substantial dividend payout to our owners, of which as much as NOK 200 million was to be distributed as community dividend. Of this, we earmarked 100 million solely needed kroner to the voluntary sector for collective Covid response efforts. Never before in our almost 200 year long history have we received so many applications from arts, culture, sports, outdoor recreation and charitable organisations. And never before have so many had a share in the community dividend.

The pandemic will also leave its mark on much of 2021. Fortunately the vaccines arrived earlier than expected, and are now being distributed across the entire world in a logistics operation the like of which has never previously been witnessed. Hence there is cause to hope that 2021 will prove better than the previous year. And even though the pandemic has had major consequences for individuals, businesses, communities, countries and the world economy alike, it seems that the landing may in economic terms be far softer than feared. Thus, despite the tough year now behind us, we have, this year too, achieved good earnings and built added solidity. However, the Ministry of Finance has imposed stringent limits to dividend payouts by Norwegian banks until the pandemic is over. This limits our scope to pay out dividends to our owners in the first three quarters of the current year.

At SpareBank 1 SMN we have utilised the crisis to take offensive action. We have implemented considerable changes to the organisation, integrating Regnskapshuset, EiendomsMegler 1 Midt-Norge, SpareBank 1 Markets and SpareBank 1 SMN Finans Midt-Norge more closely with the banking operation. This provides economies of scale and an improved customer offering. With one of the country's strongest development entities in the shape of SpareBank 1 Alliansen, we aim to be the obvious choice for people and businesses throughout our catchment area. SpareBank 1 SMN has strengthened its position over and above market growth in all business lines, thereby consolidating its position as the leading finance house in the region.

An example I will draw attention to is Trondheim municipality, which just before the turn of 2021 opted to enter an agreement with us on both the banking and real estate agency side. This is one of the most important signal customers in Central Norway. Particularly gratifying is that one of the chief criteria for choosing us was our efforts with regard to sustainability and corporate social responsibility. The agreement with Trondheim municipality shows that sustainability has acquired major significance for customers' choice of bank. Moreover, sustainability has become an important criterion for our ability to raise funding on competitive terms. This year our work on sustainability is described closely in this annual report, with a summary in a GRI index enclosed. We will also be reporting on a on our sustainability effort more ongoing basis on the group's internet pages.

We are now all looking forward to the pandemic loosening its grip and to living a normal life once more. I look forward to being able to travel round Central Norway again, to meeting clients, employees and owners. And soon, very soon, we can all do so again. 2021 I hope will be an *annus mirabilis* – a wonderful year.

SpareBank 1 SMN is better equipped than ever to continue to grow and to accompany people, businesses and local communities through their ups and downs, as we have done for almost 200 years.

Jan-Frode Janson
Group CEO at SpareBank 1 SMN

Important events in 2020

Q1

- SpareBank 1 SMN posts a historically strong profit of NOK 2,563m for the year 2019
- The first-quarter profit was NOK 357m before tax. Loan losses came to NOK 308m in the first quarter, compared with NOK 67m for the same quarter of the previous year.
- Due to the uncertainty surrounding the economic consequences of the Covid-19 pandemic, the supervisory board opts to reduce the dividend payout to the owners in order to counter the cumulative effects of the Covid crisis.
- SpareBank 1 SMN maintains record-high distribution of community dividend of NOK 200m, and earmarks NOK 100m to the voluntary sector in Central Norway to help them through the crisis.
- SpareBank 1 SMN has established and published a framework for issuance of green bonds. The framework is approved by the rating agency Sustainalytics.

Q2

- The profit for the second quarter was NOK 845m before tax, approximately the same level as the same quarter of the previous year (NOK 848m).
- SpareBank 1 SMN is the first bank in the country to grant a crisis loan to a company through the government guarantee scheme as a result of the Covid crisis. In addition, the bank introduces a scheme whereby people who have lost their job or been laid off receive advance payments of unemployment benefit pending NAV's (the Labour and Welfare Administration's) consideration of their applications for benefit.
- SpareBank 1 SMN becomes a partner in new a new artificial intelligence research centre under the auspice of the Norwegian University of Science and Technology (NTNU).
- Arne Nypan takes over as new CEO of SpareBank 1 Regnskapshuset SMN. He comes from the equivalent position at SpareBank 1 Finans Midt-Norge.
- SpareBank 1 SMN and several other SpareBank 1 banks continue as the main partner of the Norwegian Cross-Country Ski Association.

Q3

- The profit for the third quarter was NOK 621m before tax compared with NOK 609m for the same quarter of the previous year.
- SpareBank 1 SMN climbs sharply on EPSI's annual survey of customer satisfaction compared with 2019, and reinforced its market position. Lending to personal customers rose by 8.7 per cent in the twelve months to end-September, to which the agreement with the LO (Trade Union Confederation) was an important contributor. Lending to corporate clients rose by 8.5 per cent in the same period.
- SpareBank 1 Regnskapshuset SMN takes over Orkla Økonomi in Orkanger and Orion Regnskap in Trondheim, and has thus made more than 50 acquisitions.
- CEO Arne Nypan (49) at SpareBank 1 Regnskapshuset SMN, and CEO Kjetil Reinsberg (59) at EiendomsMegler 1 Midt-Norge, join SpareBank 1 SMN's group management team. This signifies a transition from a bank-led group to a group with a complete management team.

Q4

- The profit for the fourth quarter was NOK 554m before tax compared with NOK 469m for the same quarter of the previous year. In its economic barometer for Central Norway, SpareBank 1 SMN revises its forecast for the coming year from neutral to wait-and-see. It is the coronavirus pandemic that makes the future more uncertain.
- The SpareBank 1 banks join forces in a combined focus on saving, and establish SpareBank 1 Forvaltning. This company will comprise the subsidiaries ODIN Forvaltning, SpareBank 1 Kapitalforvaltning and SpareBank 1 Verdipapirservice.
- SpareBank 1 SMN issues its first senior green bond, worth a total of NOK 3.25bn.
- SpareBank 1 Finans Midt-Norge and Spire Finans agree to merge in 2021. Invoice sales thereby become a separate department of SpareBank 1 Finans Midt-Norge and, for the group too, a major focal area.
- SpareBank 1 SMN's strategy defining the group's focal areas and ambitions for sustainability is adopted by the board of directors. It establishes the group's intention to stimulate sustainable development of Central Norway by being a driver for a green transition, a partner for the inclusive development of society and a guide for a responsible business culture.
- SpareBank 1 SMN optimises distribution and operational efficiency through the improvement programme 'One SMN'. A number of branches are closed and the group reduces the number of staff by 100 FTEs.

This is SpareBank 1 SMN

From Trondhjems sparebank to the finance house SpareBank 1 SMN

The year was 1823. There was much poverty and need in the country. 44 of Trondhjem's most prominent men resolved to raise capital for a common fund – for the purpose of starting a savings bank for the town's entire populace. The sum of 1,596 speciedaler was duly collected, and Trondhjem Sparebank was founded on 26 May 1823.

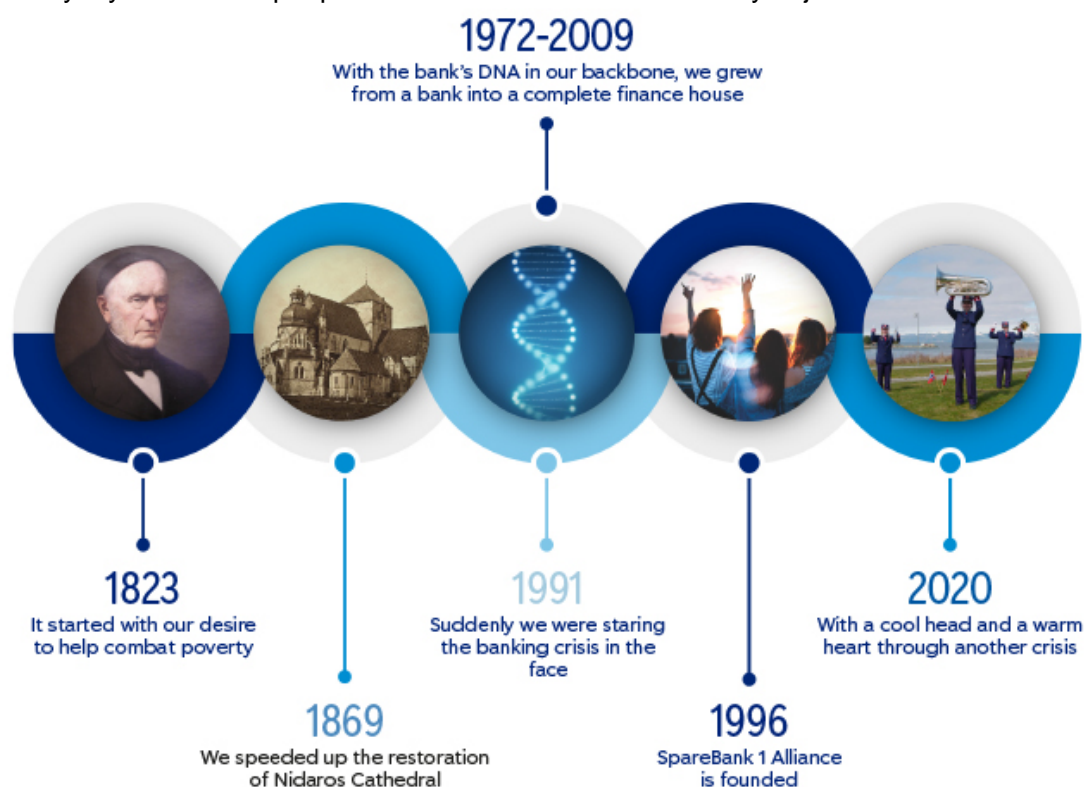
It was not those bank's 44 founders that took the reins of ownership. They wanted the community to own the bank. The objects clause reflected what they wished to achieve for their community:

"...to encourage the common people to save so that the less fortunate might have something to engage in by starting a business, entering into marriage, in time of distress or in troublesome old age."

The bank's first manager was Jacob Roll, later to become the town's first mayor. Over the next hundred years savings banks were founded across the entire region. In the past 30 years many of these savings banks have been amalgamated with Trondhjems Sparebank, and now make up SpareBank 1 SMN. In 1996 the regional savings banks further bolstered their standing by establishing a joint, nationwide alliance. All the banks that now make up the national SpareBank 1-alliance benefit from their shared developmental power, while maintaining an undisputed local footing and independence.

Thus starts the story of an enterprise that was to prove to be more than a bank – and its journey to what is today SpareBank 1 SMN.

The set of values that took root in 1823 remain in force at SpareBank 1 SMN, in upturns as well as downturns in the region. The community is still the largest owner, and providing good financial advice to secure the everyday finances of people and businesses remains the key objective.



Vision and values

The companies making up the SpareBank 1 SMN group currently embrace differing visions and values. In the strategy period to 2023 our ambition is to assemble the entire group under the same vision and values.

"Together we make things happen" is the vision of SpareBank 1 SMN today, with the aim of creating energy, results, change and development. *Together* is the opening word, which is no coincidence. It acknowledges that everyone achieves greater success working together with others. With colleagues, customers, suppliers, partners and other local and regional resources. By building relations and teaming up. *Making things happen* is about creating energy, results, change and development.

SpareBank 1 SMN's values are:

- **Wholehearted:** It is wonderful being together with committed people, and nothing is more inspiring than working with wholehearted colleagues. There is a force and passion in a wholehearted person.
- **Responsible:** Integrity, credibility, trust, broadmindedness and knowledge are all important qualities. At SpareBank 1 SMN they are summed up in one word: Responsible. Being responsible is to say 'yes' when it is right to do so and 'no' when necessary.
- **Likeable:** Someone who is positive is also easy to like. SpareBank 1 SMN's staff members are down-to-earth and unpretentious. They are the 'real deal' and on the customer's side.
- **Capable:** Capable people are matter-of-fact and have no need to toss around grandiose terms and concepts. They exude professionalism and competence without setting themselves apart. Capable people win customers' confidence.

Strategic direction towards 2023

SpareBank 1 SMN aspires to be the leading financial group in Central Norway, and among the best performers in the Nordic region. SpareBank 1 SMN aims to create financial value, build the regional community and assume its share of the responsibility for sustainable development.

This involves:

- Being **profitable**, with a 12 per cent return on equity
- Being **financially solid**, with a CET1 ratio of 16.9 per cent. Payout ratio about 50 per cent
- Being **efficient**. Annual cost growth in the group to be limited to 2.0 per cent within existing business
- A **strengthened market position**. Ambition to be no. 1 in the group's business lines
- **More satisfied customers**. Ambition to have the most satisfied customers in all business lines and market areas
- **Proud and committed employees**. Ambition to have the most committed staff in the financial industry in Norway
- **Quality** in all our work

SpareBank 1 SMN has delivered high return over time and has robust customer relationships. The group will build further on this foundation. Five strategic priorities are highlighted for the strategy period:

- Create 'One SMN'

- Increase digitalisation and use of insight
- Take a leading role in the development of Norway's savings banks
- Integrate sustainability into the business
- Exploit the power inherent in the ownership model

In order to achieve the goals of the group strategy and to increase competitive power, a comprehensive enhancement programme termed One SMN has been initiated. One SMN is a comprehensive programme designed to enhance profitability through increased exploitation of synergies, increased incomes, cost efficiencies and improved capital utilisation.

SpareBank 1 SMN strengthens its position as the region's leading financial group

SpareBank 1 SMN is now bringing its business lines and subsidiaries closer together in order to strengthen customer offerings, simplify processes and make SpareBank 1 SMN an even more attractive place to work. The object is to achieve profit growth of NOK 400m after tax through increased synergies, increased incomes, reduced costs and improved capital utilisation.

More efficient distribution

Customer needs are changing. Customers no longer have the same need to visit physical branches since ever more services are provided more efficiently through customer self-service. At the same time, competition in the market is intense, heightening the need for greater efficiency and profitability. To meet customers' new needs, and to assemble the power inherent in the group's breadth and competence, SpareBank 1 SMN is now co-locating products and services in 13 market areas, while six smaller branches are being closed.

A strong local presence remains at centre-stage for SpareBank 1 SMN. The group will therefore maintain a physical presence throughout Central Norway with 61 offices once the new office structure is in place. Reinforcing specialist skills at the local level will ensure a better offering to even more customers. 90 per cent of customers will continue to have less than an hour's journey to their nearest bank office. This consolidates SpareBank 1 SMN's position as the region's leading finance house.



The group's presence as of the 31st December 2020

More power in shared functions

On 11 August 2020 SpareBank 1 SMN took an important step to infuse greater focus on customers and business when the group's largest subsidiaries – EiendomsMegler 1 and Regnskapshuset – joined the group management team. This ensures stronger interaction and coordination across the group, and an improved ability to meet the needs of personal customers and corporate clients alike.

The group's staff, support and development units have also been reorganised to increase efficiency and improve resource use. This makes for highly competent entities able to assist customers and business lines alike in the group. Group-wide units have been set up in several areas, among them digital and business development, data and analysis, branding, market and digital sales, HR and IT.

Need for new skills

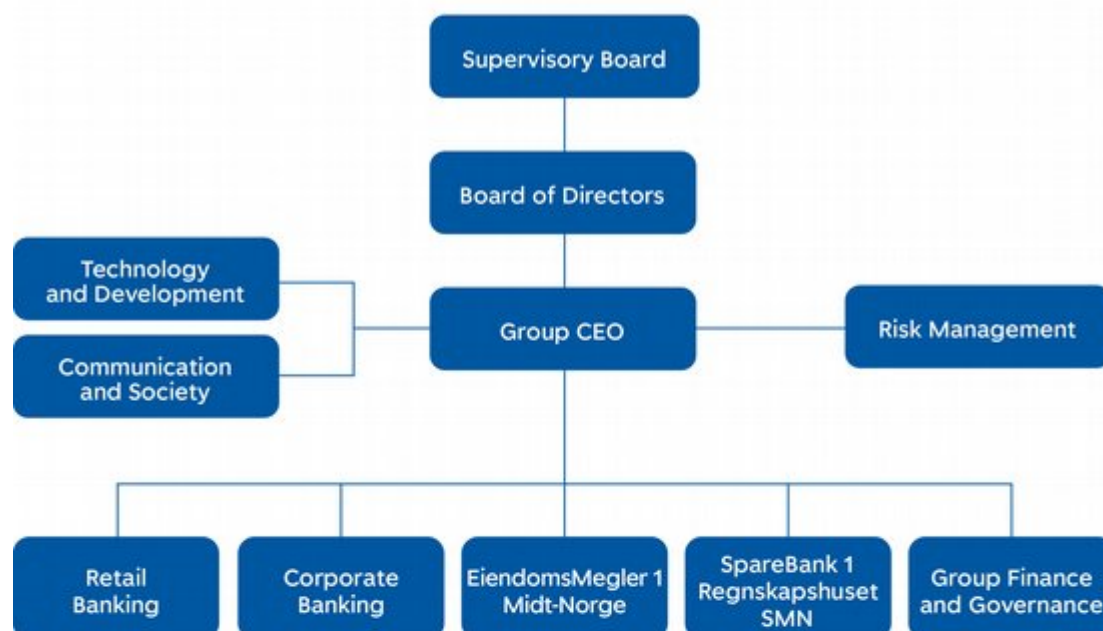
Constantly changing customer needs and increased demands on efficiency call for a reduction in SpareBank 1 SMN's staff. A reduction of about 100 FTEs will be carried out in the group over the course of the coming year. The reduction will mainly be seen in the bank and in the group's staff and support units, and will be achieved on a voluntary basis. In some areas there will be a need for more, and new, skills to achieve efficiency gains and the power needed to expand market shares. This will be done through a combination of competence development, mobility within the group and new recruitment.

SpareBank 1 SMN's organisational set-up

SpareBank 1 SMN is the region's leading financial services group and one of six owners of the SpareBank 1 Alliance. Its head office is in Trondheim and the group and its subsidiaries employ 1,600 staff. SpareBank 1 SMN is a regional independent savings bank with a local footing. Through the SpareBank 1 Alliance and its own subsidiaries, SpareBank 1 SMN has secured access to competitive products in the fields of financing,

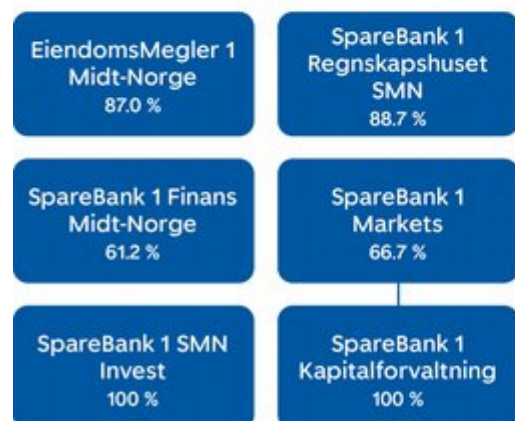
savings and investment, insurance and payment services. SpareBank 1 SMN is organized under the following structure:

Organisational Structure

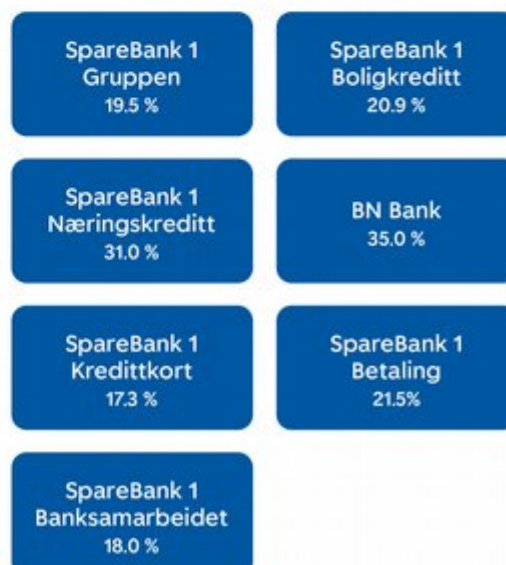


Financial Group SpareBank 1 SMN

Subsidiaries



Other associates



SpareBank 1 SMN Markets

SpareBank 1 SMN Markets AS is an investment firm offering a complete range of products. The company's aspires to be a leading Norwegian capital market institution able in collaboration with its parent banks to deliver all capital market services. Advisory services and facilitating external and equity financing for clients are important service areas. Client trading and proprietary trading in shares and derivatives, fixed income and currency instruments along with bonds is also performed. The subsidiary SpareBank 1 Kapitalforvaltning AS offers active portfolio management. SpareBank 1 SMN owns 66.70% of the company. In 2020 the company strengthened its market position and posted considerable income growth. 2020 was marked by increased incomes in all business lines. Collaboration with the parent banks was good, and this generated incomes in all business areas. SpareBank 1 Markets has acquired a substantial position for raising capital for tech companies and companies that contribute to a sustainable economy. In total, the company participated in issues with a nominal value of NOK 37bn in these sectors. At the end of 2020 the company had 151 employees.

SpareBank 1 Kapitalforvaltning

SpareBank 1 Kapitalforvaltning manages discretionary portfolios. Portfolio management for the clients – including private individuals, businesses, foundations and municipalities – is based on a risk profile which defines the distribution between shares and interest-bearing placements. SpareBank 1 Kapitalforvaltning tailors client portfolios through tactical deviations from the long-term distribution between shares and fixed income instruments, and assists clients' implementation through choice of mutual funds and/or direct investments in shares/bonds.

The company has established a methodology for identifying ESG-related issues and performs an independent assessment both of the individual company and the mutual fund's compliance in this area. The focus is on exercising active ownership with a view to influencing actors' compliance. SpareBank 1 Kapitalforvaltning has prepared an ESG report summarising this analysis to provide clients with good insight into the work done. At the start of 2021 the company manages about NOK 20bn on behalf of its clients.

SpareBank 1 Finans Midt-Norge

SpareBank 1 Finans Midt-Norge offers leasing, vendor's lien and invoice sale services to about 38,000 retail customers and 4,000 corporate clients. The company markets its products through parent banks, car dealers and to some extent makes direct sales. SpareBank 1 Finans Midt-Norge has total assets of NOK 9.6bn and is represented in the counties of Trøndelag, Møre and Romsdal, Vestland, Vestfold and Telemark, Innlandet and Viken.

The proportion of objects financed with electric or hybrid transmissions is increasing strongly both in the case of leasing and vendor's liens. A good 20 per cent of the retail market portfolio comprises electric or hybrid transmissions, and the share is also rising in the corporate market. SpareBank 1 Finans Midt-Norge is concerned to offer competitive products through 'Green Financing'. The company's credit policy sets clear guidelines as to various requirements on businesses, products and sectors. In addition, particular account of sustainability is taken in relation to objects and customers alike, and sustainability/ESG is an important aspect of the templates employed by the company when assessing creditworthiness.

SpareBank 1 SMN Invest

SpareBank 1 SMN Invest' strategy has been to invest in regional seedcorn, venture and private equity funds, and directly in growth companies with national and international potential. The company holds shares worth NOK 468m at the end of 2020. Investing in shares is no longer part of the group's strategy, and SpareBank 1 SMN Invest will be wound up. The portfolio will be managed together with other long-term shareholdings of the bank and be scaled back over time.

SpareBank 1 SMN Invest's portfolio comprised 48 companies at the end of 2020. Of these, 13 report their ESG status either via their annual report, home page or in dialogues with SpareBank 1 SMN Invest. These companies account for 58 per cent of invested capital. Of the remaining portfolio, 29 companies have undergone a discretionary screening process. Ten of them are considered to make a positive contribution to attaining the sustainability goals (positive screening), while 19 are considered not to affect attainment of the sustainability goals negatively (negative screening). The remaining portfolio of six companies have neither formalised ESG reporting nor undergone screening in connection with investment.

SpareBank 1-alliansen's companies

SpareBank 1 SMN's has a stake of 19.5 per cent in SpareBank 1 Gruppen. SpareBank 1 Gruppen wholly owns SpareBank 1 Forsikring, ODIN Forvaltning, SpareBank 1 Factoring and Modhi Finance. SpareBank 1 Gruppen holds a 65 per cent stake in the insurer Fremtind. In addition, SpareBank 1 SMN, together with the other SpareBank1 banks, directly owns SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, SpareBank 1 Kreditt, SpareBank 1 Betaling and BN Bank. In December 2020 it was decided that the SpareBank 1 banks should join forces to establish SpareBank 1 Forvaltning with a focus on saving. This company will comprise the subsidiaries ODIN Forvaltning, SpareBank 1 Kapitalforvaltning and SpareBank 1 Verdipapirservice.

The saving and investment committee at SpareBank 1 Gruppen evaluates the quality of saving and investment products distributed by SpareBank 1 Gruppen. The committee is responsible for an annual audit of the product portfolio.

SpareBank 1 SMN's stakeholders

SpareBank 1 SMN wishes to identify and engage with stakeholders on a continual basis with a view to developing the group's knowledge base and assignment of priorities. The ownership model ensures that the local community is represented on the group's governing bodies, and the business model builds on local knowledge and relations with the populace throughout the region.

Good stakeholder management provides SpareBank 1 SMN with valuable information and a better foundation for good decision making. The group meets requirements and expectations from the group's various stakeholders in an open and constructive manner. An overview of significant stakeholders is shown in the figure below.

A summary of our latest stakeholder analysis is published in Sustainability Library at smn.no.



Memberships

SpareBank 1 SMN supports or has given its endorsement to the following external initiatives, charters or principles in the economic, environmental or societal area:

- UNEPFI's Principles for Responsible Banking
- UN Global Compact
- Environmental Lighthouse

SpareBank 1 SMN is a member of the following industry organisations or other amalgamations, and national/international lobby organisations:

Finance Norway
Norwegian Savings Banks Association
Finance Industry Authorisation schemes (FinAut)
Steinkjer Business Forum
Norwegian Association of Real Estate Agents
Real Estate Norway
Rennebu Business Association
Islamic Cultural Centre (ICC) Norway
Windcluster Norway
Norwegian Bar Association
Supervisory Council for Legal Practice
Vestnes Business Forum
Molde Business Forum
Vestnes Handelsstandsforening
Kristiansund and Nordmøre Business Forum
Hustadvika Business Forum
Aukra Business Forum
Molde Sentrum
Sunndal Business Association
Destinasjon Molde og Romsdal
Nordic Arena Nettverk Møre
Lean Forum Nordvest
Surnadal Business Association
Verdal Business Forum
Namsos Business Association

Business Association for the Trondheim Region
Levanger Business Forum
Samarbeidsgruppen Midtbyen
Trondheim Craftsmen's Association
Haram Business and Innovation Forum
Næringsshagen i Orkdalsregionen
Shippingklubben Ålesund
Business Association for the Ålesund Region
Rauma Næringslag
Maritimt Forum Nordvest
Maritimt Forum Midt-Norge
Fosnavåg Shippingklubb
NCE iKuben
Mid-Norway European Office
Namdalskysten Business Association
Inderøy Business Association
Orkladal Business Association
NiT Melhus
Frøya Næringsforum
Hitra Business Association
NiT Indre Fosen
Ørland Business Association
Oppdal Business Association
UT Project Trondheim
United Future Lab Ålesund