

Report of the Board of Directors

Macroeconomic conditions

A demanding year, but better than feared

2020 proved a year for the history books. The global economy and the Norwegian economy were approaching a low point at the start of 2020. In March the Covid-19 pandemic brought a strong reduction in economic activity.

Most sectors were hit, but person-oriented services such as hotels and restaurants, culture and entertainment, along with passenger transport, were hit hardest. However, even with society under lockdown, the majority of the economy continued to function.

Over the course of spring 2020 the governments of all wealthy countries adopted extreme measures. Wide-ranging cuts were made in central banks' base rates, and steps were taken to ensure an ample supply of cheap liquidity to the banks. In a short space of time governments in most countries put together substantial crisis packages to secure household incomes and compensate businesses for their large fall in incomes.

A series of measures to restrict social contact reduced infection rates through April and into May. Restrictions were thereafter eased, and communities partially reopened. This, together with use of fiscal policy instruments, led to a very rapid recovery in much of the economy up until later in the autumn.

Despite local virus outbreaks and declining GDP in a few countries, the upturn in the global economy continued in the fourth quarter. The Covid-19 crisis gave rise to the steepest and deepest downturn ever, but is also the shortest. However, 2020 viewed as a whole brought a sharp setback. Global GDP contracted by about 3.5 per cent, although there are wide regional differences.

Substantial differences have been in evidence between sectors. In summer 2020 goods consumption in wealthy countries rose to a level above the norm. Global manufacturing output is now higher than prior to the pandemic. Firms report continued strong growth and rapidly rising prices on most products and services. The oil price plummeted in spring 2020 when demand fell more than 10 per cent overnight before Opec adopted production cuts. The oil price has since risen from USD 20 per barrel to more than USD 60.

However, activity in person-oriented service industries remains very low – 20-50 per cent below normal. Although unemployment plunged through the second quarter of 2020, it was still higher than normal at the end of last year.

Measures taken by central banks caused interest rates to fall sharply to an extremely low level. The combination of good growth prospects and extremely low interest rates made it very attractive to buy shares, commercial property and dwellings. In many markets prices climbed strongly, despite the Covid-19 crisis. Credit spreads in the bond markets for firms and banks rose sharply up to the end of March, but fell back again rapidly. At the end of 2020 stock markets were at very high levels, and credit spreads were at their lowest since prior to the financial crisis in 2008. Many countries have shown great flexibility as regards tax collection, and the number of bankruptcies has fallen markedly.

Alongside the Covid-19 crisis, the 'green transition' left its mark both on the economy and financial markets in 2020, and far more so than previously. Money flows are switching rapidly from coal, oil and gas to renewable energy and other climate investments. 'Green' companies' share prices have climbed rapidly.

Norwegian economy: Like the world as a whole, but better than the rest of Europe

The Norwegian economy decelerated sharply from mid-April, as was the case in almost all western countries. Mainland (non-oil) GDP contracted by almost 11 per cent in three weeks. Unemployment rose very rapidly from 3 per cent to 15 per cent, partly due to the adoption of flexible layoff rules. Norges Bank (Norway's central bank) and the government initiated extensive measures. As in the rest of the world, the economy recovered rapidly in April and May. At year-end Mainland GDP was a mere 1.1 per cent lower than at the start of the year.

In Norway too, large differences were noted between sectors, and to some extent also between regions. Person-oriented services are down 20-40 per cent, and air traffic down by up to 75 per cent. At the same time other sectors are faring better. Oil-independent manufacturing is at the same level as prior to the pandemic, in common with manufacturing in other countries. Mainland exports apart from tourism are higher than prior to the pandemic. The private and public sectors switched rapidly to extended use of working from home. Construction activity has held up well, and house prices have risen. Agriculture is little affected, and the aquaculture industry has maintained sales volumes – at somewhat lower prices. Interest rate cuts and government measures to stabilise the economy have both contributed to damping the detrimental effects of the pandemic.

The banks have reported increased losses, but not heavy when compared with the decline in a number of sectors. Bankruptcy numbers have fallen markedly, largely because public authorities are not collecting outstanding tax claims to the same extent as in a normal situation.

Norwegian households' domestic consumption rose through 2020. Households have largely maintained their income levels, leading to increased saving.

Mainland enterprises' investments fell 6 per cent in 2020, but rose through the second half-year. Investments in the oil sector dropped 5 per cent, but stabilised towards year-end. Prospects for 2021 remain uncertain, but enterprises surveys show expectations of improvement.

The krone exchange rate fell 18 per cent from the start of 2020 to the second half of March, but has thereafter strengthened and is now back to its pre-pandemic level. The Norwegian share market showed the same development, and is now at a record-high level, strengthened by a marked improvement in the world economy and continued extremely low interest rates. Credit spreads have concurrently fallen to their lowest levels in over 10 years.

Norges Bank cut its base rate last spring to 0 per cent. Money market rates followed the same downward path, and bank lending rates were lowered by an average of about 1.25 percentage points. Norges Bank signalled in December that the base rate may be raised as from the second quarter of 2022, if activity levels in the Norwegian economy have returned to a normal level.

Regional: Trøndelag and Møre og Romsdal

The Covid-19 crisis affected the economy of Mid-Norway less than it did the economy of the country as a whole. Unemployment in Mid-Norway rose markedly in spring 2020, but fell rapidly as the majority of enterprises opened up. At year-end unemployment was a mere one percentage point higher than prior to the

pandemic. In mid-Norway, unemployment according to the Labour and Welfare Administration (NAV) at the end of 2020 was 3.6 per cent, compared with 4.5 per cent for the country as a whole.

A large majority of enterprises in the region managed well through 2020, as in the rest of the country. The number of bankruptcies in the bank's market area is down 25 per cent compared with 2019, and a sharp decline is noted in both counties – 28 per cent in Trøndelag and 21 per cent in Møre og Romsdal respectively. The reduction in investments in the oil sector has affected some enterprises, but in general manufacturing industry has coped well. At the same time many businesses in the services sector have faced major challenges. Activity was high in July when households spent their holidays in Norway, but has been low and unstable both before and after. The housing market in Mid-Norway recovered rapidly after the initial decline, and prices rose 8 per cent through 2020, on a par with most of the country. In Trondheim, house prices rose 7 per cent and in Ålesund 9 per cent. In Norway as a whole, prices rose 9 per cent, heavily influenced by house price growth of 12 per cent in Oslo.

Population growth in Trøndelag was dampened in 2020 due to lower net immigration from abroad. Population growth was about 0.5 per cent, down from 0.6 per cent in 2019. Møre og Romsdal's population remained approximately unchanged through the year.

Møre og Romsdal are more dependent on activity levels in oil-related activities and shipbuilding than the rest of the country. While the outlook here remains uncertain, prospects for investments in the oil sector have improved thanks to the tax reform for oil companies and a higher oil price. Many enterprises are nonetheless orienting themselves towards new markets with better long-term growth prospects. Trøndelag is better diversified, but the construction industry may be affected by lower growth in population and incomes than in previous years.

The bank's own business survey showed that optimism in business and industry was back to normal levels in autumn 2020. There are grounds for assuming that increased infection rates and the introduction of stringent measures in later autumn have reduced optimism somewhat. Despite this, the situation in the region's business and industry is regarded as good, in part as a result of various support measures introduced by the government.

Annual accounts 2020

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

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

Accounts 2020

Satisfactory profit performance in a challenging year

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

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

The profit share from ownership interests and related companies was NOK 681m (879m), including an gain of NOK 340m (460m) upon the transfer of personal risk products to Fremtind Livsforsikring.

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

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

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

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

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

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

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

Proposed distribution of profit

It is the group's results that comprise the basis for distribution of the net profit for the year; the distribution is done at the parent bank. The parent bank's disposable profit includes dividends received from subsidiaries, related companies and joint ventures, and is adjusted for interest expenses on hybrid capital after tax.

Subsidiaries are fully consolidated in the group accounts, whereas profit shares from related companies and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the group results.

The annual profit for distribution reflects changes of NOK 50m in the unrealised gains reserve.

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

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

The profit is distributed between the ownerless capital and the equity certificate (EC) capital in proportion to their relative shares of the bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 64.0 per cent of the distributed profit.

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

Earnings per equity certificate were NOK 8.87. In keeping with the bank's dividend policy, the board of directors recommends the bank's supervisory board to declare a cash dividend of NOK 4.40, altogether totalling NOK 569m. In light of the Ministry of Finance's advisory, the board of directors recommends the disbursement of NOK 1.30, altogether NOK 168m, which is compliant with the limit of 30 per cent of the overall annual profit for 2019 and 2020. The board of directors further recommends the bank's supervisory board to allocate NOK 321m to community dividend, of which only NOK 95m is to be disbursed prior to 30 September 2021. The board is given authorisation to decide whether to distribute all or parts of the remaining dividend after 30 September 2021 if the capital situation and government guidelines permit, and the required regulatory changes have been adopted.

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

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

Net interest income

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

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

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

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

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

Increased other income

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

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission income on loans sold to these two companies totalled NOK 422m (365m) as at 31 December 2020. Both the margins on, and the volumes of, loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt have increased.

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

A high number of multi-product customers is important for the bank. It signifies high customer satisfaction and provides the bank with a diversified income flow.

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

Return on financial investments

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

- Losses on shares of the bank and subsidiaries totalled NOK 4m (gain of 120m).
- Gains on the bond and certificate portfolio altogether totalling NOK 103m (loss of 20m) as a result of reduced credit margins
- Financial derivatives and financial instruments relating to hedge accounting yielded gains of NOK 33m (gain of 123m). This essentially comprises gains on fixed income instruments and is ascribable to declining interest rates over the year.
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans and show a loss of NOK 11m (gain of 9m)
- Income of NOK 82m (22m) from forex transactions comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies.
- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 28m (54m)

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

Product companies and other related companies

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

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

SpareBank 1 Gruppen

SpareBank 1 SMN's stake in SpareBank 1 Gruppen is 19.5 per cent. SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, ODIN Forvaltning, SpareBank 1 Factoring and Modhi Finance. SpareBank 1 Gruppen owns 65 per cent of the non-life insurer Fremtind, while DNB owns 35 per cent.

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

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

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

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

SpareBank 1 Factoring reports some volume decline due to the Covid-19 crisis and delivered an annual profit of NOK 53m (58m). Modhi group's profit was NOK 6m (48m) which is lower than the previous year, due essentially to start-up costs in Finland and Sweden.

SpareBank 1 Boligkreditt

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

As at 31 December 2020 the bank had sold loans totalling NOK 46.6bn (39.8bn) to SpareBank 1 Boligkreditt, corresponding to 37.5 per cent (34.6 per cent) of the bank's overall lending to retail borrowers.

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

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 December 2020, loans worth NOK 1.5bn (1.7bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 31.0 per cent, and the bank's share of the company's profit for 2020 was NOK 18m (21m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank.

SpareBank 1 Kreditt

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

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

SpareBank 1 Kreditt also manages the LOfavør credit card programme.

BN Bank

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

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

SpareBank 1 Betaling

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

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

Operating expenses

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

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

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

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

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

High losses, but low default rate

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

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

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

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

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

Overall problem loans (defaulted and doubtful) come to NOK 2,255m (2,110m), corresponding to 1.23 per cent (1.26 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. All loans classified to stage 3 in the expected-credit-loss model are defined as problem loans.

Defaults in excess of 90 days totalled NOK 456m (429m). Defaults measure 0.25 per cent of gross outstanding loans (0.26 per cent). The increase refers in all essentials to the retail banking portfolio.

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

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

Total assets of NOK 188bn

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

As at 31 December 2020, loans worth a total of NOK 48bn (42bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and to SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Good growth in lending

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

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

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

Strong growth in deposits

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

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

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

(For distribution by sector, see note 8).

Investment products

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

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

Insurance

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

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

Retail Banking

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

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

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

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

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

Corporate Banking

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

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

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

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

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

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

Subsidiaries

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

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

EiendomsMegler 1 Midt-Norge is the market leader in Trøndelag and in Møre og Romsdal. Operating income in 2020 totalled NOK 394m (349m in 2019 without BN Bolig), while operating expenses were NOK 342m (317m in 2019 without BN Bolig). EiendomsMegler 1 recorded a pre-tax profit of NOK 52m in 2020 (32m). 7,164 dwelling units were sold in 2020 compared with 6,652 in 2019.

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

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

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

The SamSpar banks held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge as at 31 December 2020 while Sparebanken Sogn og Fjordane held a stake of 7.5 per cent. SpareBank 1 SMN holds 61.2 per cent of the shares of SpareBank 1 Finans Midt-Norge.

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

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

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

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

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

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

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

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN which holds a 66.7 per cent stake. Other owners are SpareBank 1 Nord-Norge, SpareBank 1 SR Bank, SpareBank 1 Østlandet and the SamSpar banks. SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has 141.5 FTEs.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning. The company is at centre-stage of SpareBank 1 Markets' focus on asset management with aggregate total assets of NOK 187bn. The company has 19.5 FTEs.

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

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

Satisfactory funding and good liquidity

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

The bank has liquidity reserves of NOK 26bn and has the funding needed for 24 months of ordinary operation without fresh external finance.

The government authorities require all credit institutions to maintain sufficient liquidity buffers to withstand periods of limited access to market funding. The liquidity coverage ratio (LCR) measures the size of banks' liquid assets relative to net liquidity outflow 30 days ahead given a stressed situation.

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

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

The bank's funding sources and products are amply diversified. At 31 December 2020 the proportion of the bank's overall money market funding in excess of one year's maturity was 83 per cent (83 per cent).

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

Rating

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

Financial soundness

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

The CET1 requirement is 14.4 per cent, including combined buffer requirements, and a Pillar 2 requirement of 1.9 per cent. Finanstilsynet (Norway's FSA) has announced that it will not set new Pillar 2 requirements for SpareBank 1 SMN until 2021.

SpareBank 1 SMN aims for a management buffer of about 1 per cent over and above the combined Pillar 1 and Pillar 2 requirements with a view to absorbing fluctuations in risk weighted assets and in the group's financial results. The Ministry of Finance raised the systemic risk buffer for IRB banks by 1.5 per cent to 4.5 per cent with effect from 31 December 2020. In its planning the group includes a full countercyclical buffer.

The CET1 ratio rose 1.1 percentage point to 18.3 per cent in 2020. Risk weighted assets increased by a mere 1.2 per cent in 2020 despite lending growth, mainly as a result of reduced risk weights in the IRB portfolios. CET1 capital has risen by 7.7 per cent in 2020. In addition to retained profit for 2020, this is also due to a reduction of NOK 303m in distribution of profit for 2019 compared with the original proposal for distribution. A leverage ratio of 7.1 per cent (7.5 per cent) shows that the bank is financially very solid. The bank will continue its focus on capital efficiency and effectiveness with a view to strengthening profitability and financial soundness.

The bank's equity certificate (MING)

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

The Price / Income ratio was 11.01 (8.26) and the Price / Book ratio was 1.03 (1.10). The group's quoted capital totalled NOK 12.6bn at year-end (13.0bn). Taking into account the ratio of EC capital to total equity, the group is worth NOK 19.7bn.

At year-end the EC was priced at NOK 97.60, and a dividend of NOK 5.00 per EC was paid in 2020 for the year 2019.

SpareBank 1 SMN's articles of association include no restrictions on the transferability of equity certificates.

With regard to placings with employees, the latter are invited to participate under given guidelines. In placings where discounts are granted, a lock-in period applies before any sale can take place. The rights to ECs issued in placings with employees cannot be transferred.

SpareBank 1 SMN is not aware of any agreements between EC holders that limit the opportunity to trade ECs or to exercise voting rights attached to ECs.

See also the chapter Corporate Governance.

Sustainability

One of five strategic priorities for SpareBank 1 SMN is to integrate sustainability into the business. As a definition a basis is taken in the UN's 17 sustainability goals and the UN's six principles for sustainable banking, to which SpareBank 1 SMN has given its endorsement.

The group's sustainability profile shall contribute to realising the group's financial goals and to creating value for customers, owners, and employees. The board of directors of SpareBank 1 SMN has adopted a new strategy for sustainability. SpareBank 1 SMN will stimulate sustainable development in the region by being a

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

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

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

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

Work is in progress to concretise goals in both the short and long term to realise the group's sustainability strategy. These goal will be presented in the first quarter report 2021.

Risk factors

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

Since the end of the third quarter the oil price has strengthened and the Norwegian krone has appreciated. The record-high unemployment rate has been halved. Unemployment is expected to remain at a higher level than prior to the Covid-19 crisis, and in some industries, such as hospitality and transport, unemployment remains very high. The key policy interest rate was lowered to zero per cent in May, and Norges Bank expects the policy rate to remain at the present level for a good while to come.

Due to deferred tax and duty payments and other support arrangements, along with lower interest rates, there were surprisingly few bankruptcies in 2020. There is reason to believe the scale of bankruptcies will increase ahead since it will take time for capacity utilisation to return to its pre-crisis level, and an excess of expenses over revenues eats into equity and lenders' goodwill alike. The largest factor of uncertainty for the growth level in the economy is the likely path of the pandemic, which is now largely a matter of the pace of the vaccine rollout and the vaccines' effectiveness.

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

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

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

The bank's profits are affected directly and indirectly by fluctuations in the securities markets. The indirect effect relates very largely to the bank's ownership interest in SpareBank 1 Gruppen whose insurance business and fund management activities are both affected by such fluctuations.

The group's funding situation was good at the turn of the year, with an LCR of 171 per cent. The bank has ample access to funding via SpareBank 1 Boligkreditt, and will consider its choice of funding source in the light of market prices.

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

Outlook ahead

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

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

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

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

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

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

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

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

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

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Christian Stav

Mette Kamsvåg

Tonje Eskeland Foss

Morten Loktu

Janne T. Thomsen

Christina Straub
(employee rep.)

Inge Lindseth
(employee rep.)

Jan-Frode Janson
(Group CEO)