

# Second quarter 2022

11<sup>th</sup> of August 2022

Trond Søråas  
CFO





# Q2 2022

## Solid results

- **Solid Q2 results despite volatile financial markets**  
growth, revenue increase and good profitability from the bank and subsidiaries, but lower return on financial investments this quarter. Solidity remains strong
- **Net reversal of loan losses in Q2** due to reduction in stage 3 volume related to a large exposure and improved outlook within offshore. Strong credit quality in corporate and retail portfolio alike
- **Policy rate raised to 1.25% in June**, and SMN raised mortgage and deposit rates with effect from August 2022
- **SMN strengthens its position as the leading finance services group in Trøndelag and Møre og Romsdal**
- Agreement of intent to merge with SB 1 Søre Sunnmøre to increase the focus in Sunnmøre and in Fjordane
- SB1 Markets strengthens its position in the capital market and is joined by SpareBank 1 SR-bank and SpareBank 1 Nord-Norge



# Q2 2022

## Net profit

NOK 702m (755)

## Return on equity

12.9% (14.3)

## CET1 ratio

18.8% (18.3)

## Lending growth

2.8% (2.0) in Q2 and 8.7% (7.9) YoY

## Deposit growth

8.6% (7.6) in Q2 and 12.4% (16.8) YoY

Loan losses NOK +48m (NOK -59m)

Book value per EC NOK 102.91 (100.18)

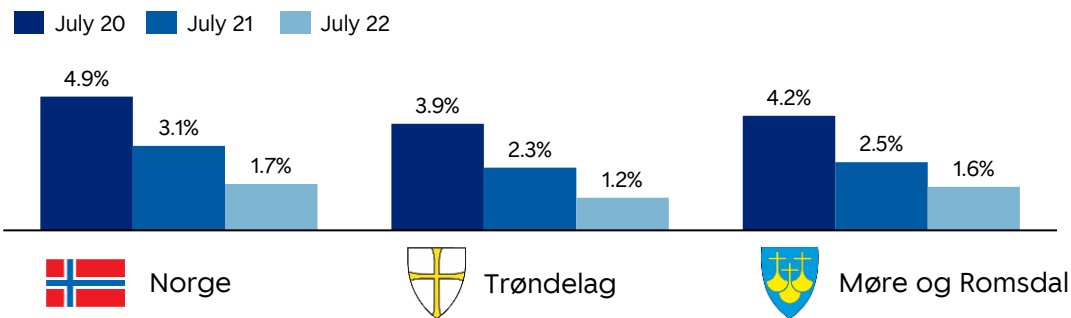
Result per EC NOK 3.20 (3.51)

# The Mid-Norwegian economy is robust facing international unrest

## Record low unemployment

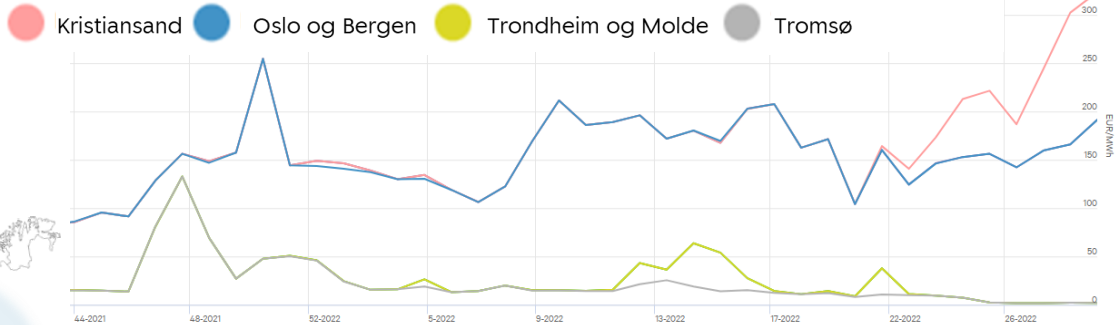
A strong labour market with labour shortage. Nordland and Trøndelag with the lowest unemployment

Wholly unemployed as a percentage of the labour force



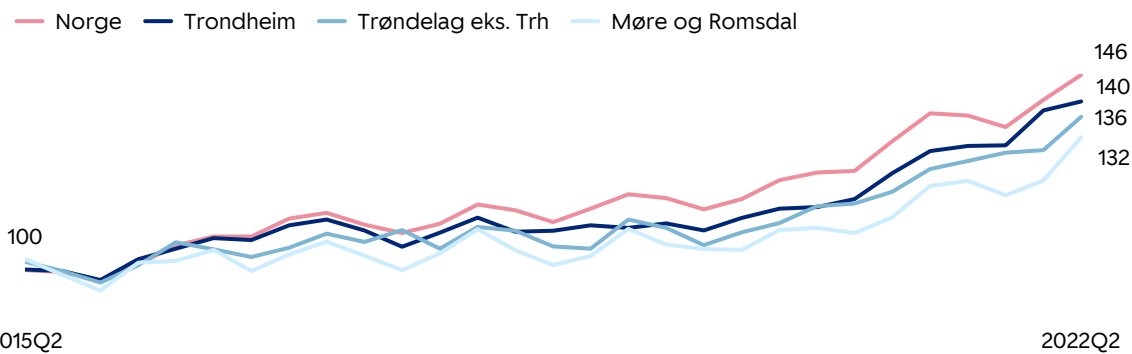
## Relatively low electricity prices in Mid-Norway

Increased hydro reservoir levels and lower influence from the European power market have resulted in lower electricity prices and volatility in Mid-Norway and Northern Norway compared to other Norwegian electricity price areas



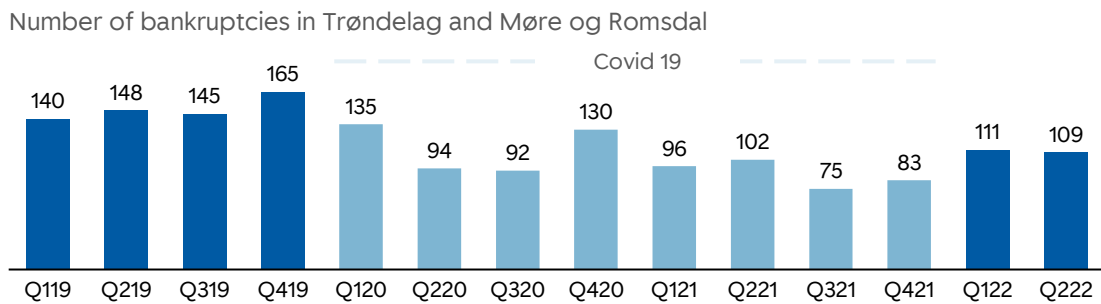
## Low housing supply and increased housing prices

Strong price growth in Trondheim, although below Norway as a whole



## Normalising number of bankruptcies

Bankruptcy rates remains lower than pre-pandemic levels. Construction and service industry have the most bankruptcies – SB 1 SMNs share of bankruptcies at 8.7% the last 12 months



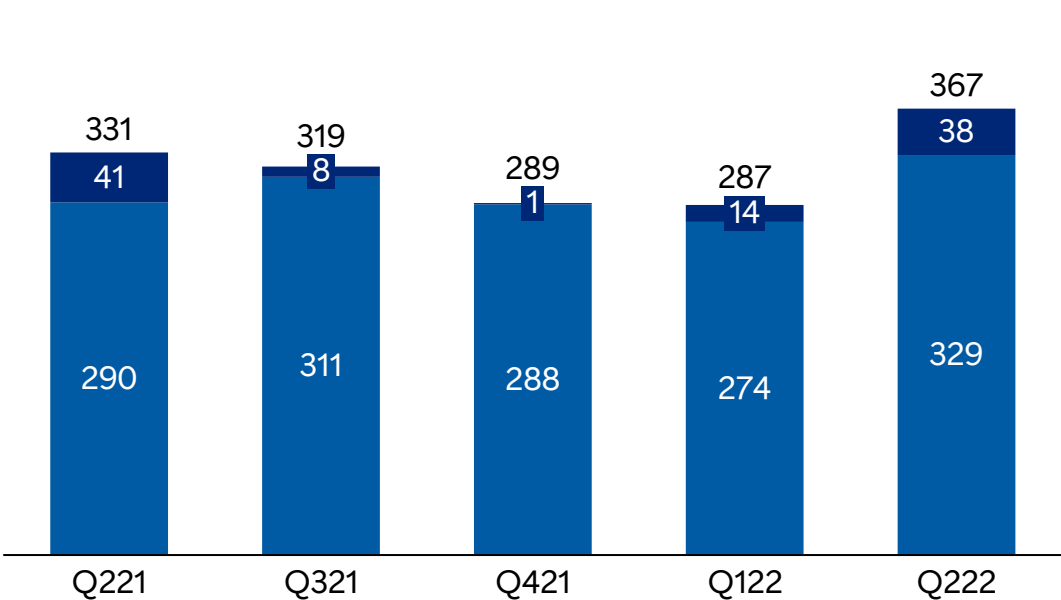
Sources: NAV, SSB, NordPool and Brønnøysundregisteret

# High activity reflected in all parts off the group

## Personal banking

Pre-tax profit (NOKm)

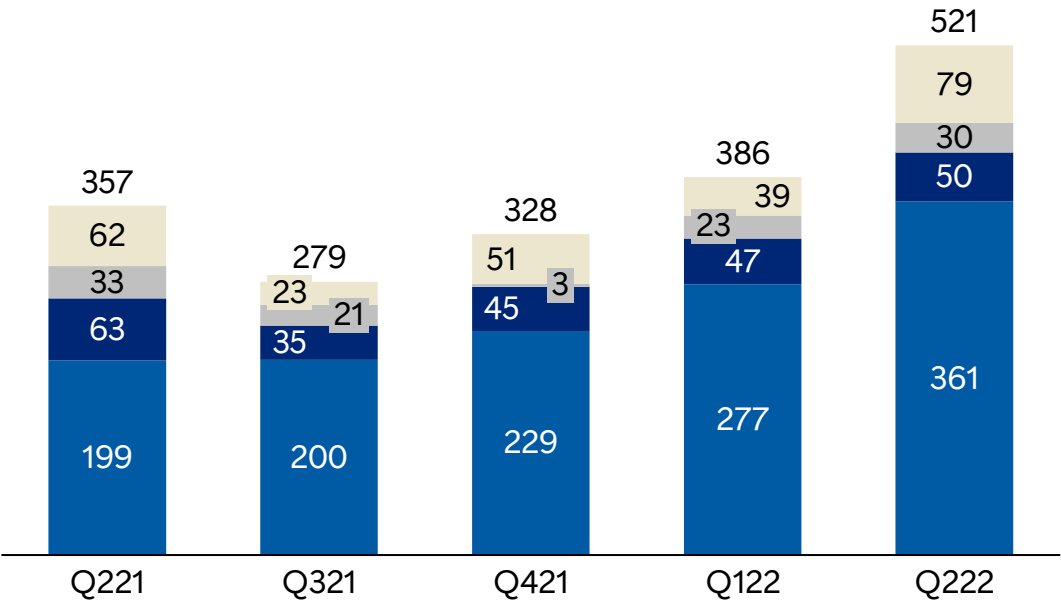
- EiendomsMegler 1 Midt-Norge
- Retail Market



## Corporate banking

Pre-tax profit (NOKm)

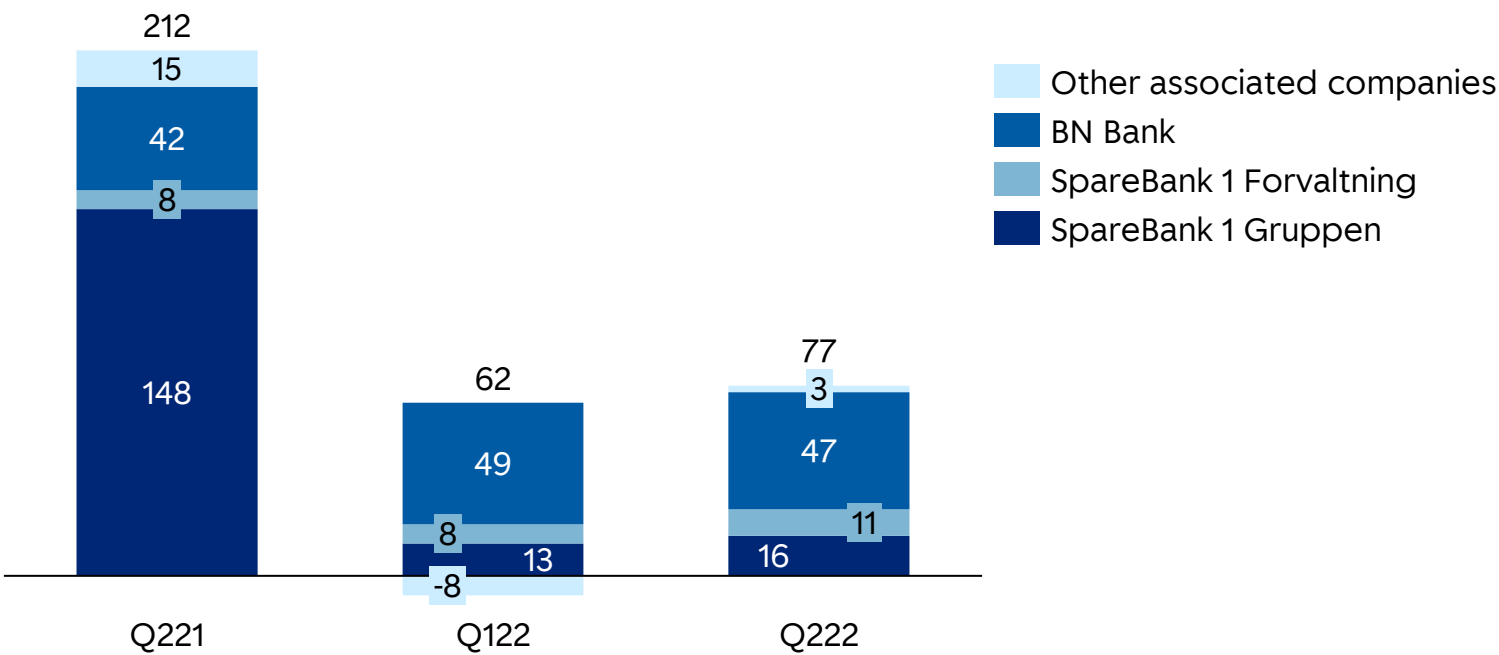
- SB1 Markets
- Regnskapshuset SMN
- SB1 Finans Midt-Norge
- Corporate Market



# Broad product range and diversified income platform from ownership interests

## Ownership interests

Profits after tax (NOKm)



## Strong brands



**SpareBank 1 Gruppen**  
Alliance collaboration on products under a joint brand, including Fremtind and SpareBank 1 Forsikring

**SpareBank 1 Forvaltning**  
ODIN Forvaltning  
SpareBank 1 Kapitalforvaltning

**SpareBank 1 Kreditt**

**SpareBank 1 Betaling**  
SpareBank 1's holding company for their share of Vipps payment solutions

**BN Bank**  
Nationwide bank in the retail and corporate market

**Mortgage companies**  
SpareBank 1 Boligkreditt  
SpareBank 1 Næringskreditt

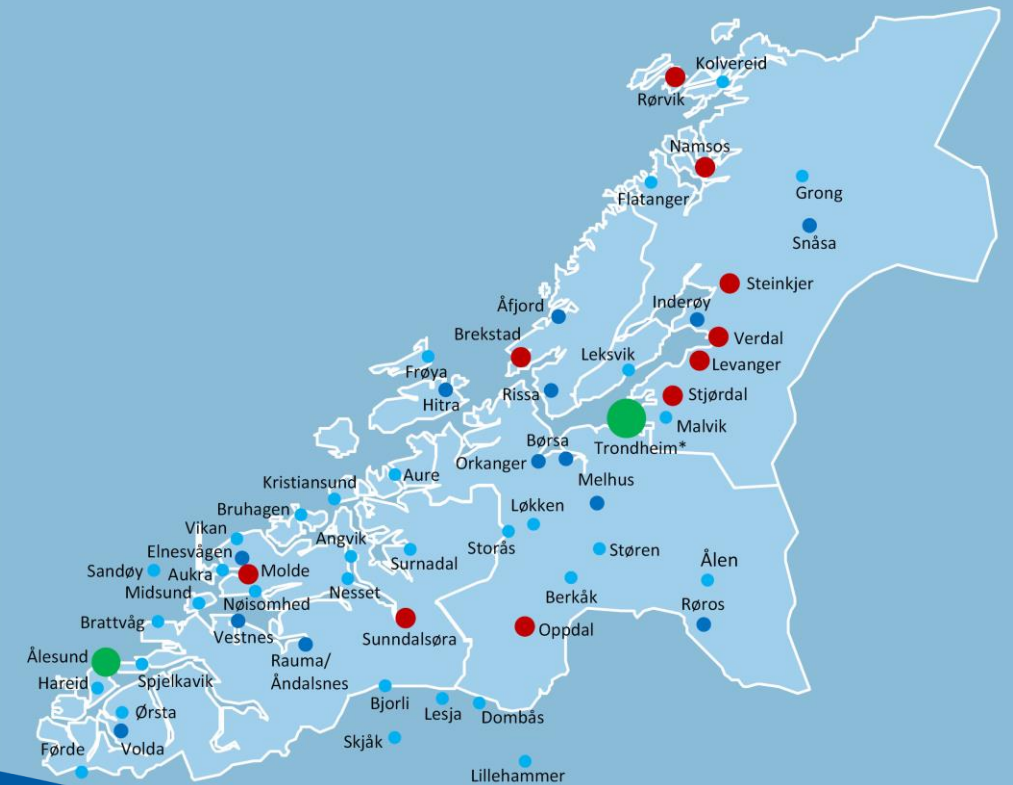




The goal is to build a stronger regional bank with growth ambitions in Sunnmøre and Fjordane

The merger will enable better customer offerings with specialised entities and enhanced presence in the region

A savings bank foundation will be set up with its head office in Volda. The foundation will contribute to non-profit causes in Sunnmøre



SpareBank 1 SMN and SpareBank 1 Søre Sunnmøre have entered an agreement of intent to merge



## **SpareBank 1 Markets strengthens its position in the capital market – larger and more robust markets operation in Oslo, Trondheim, Tromsø and Stavanger**

- SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge are to transfer their markets business to SpareBank 1 Markets and are also buying into the company in the form of a cash payment
- SpareBank 1 Markets will become a more diversified and robust company with higher revenues and a strengthened organisation with experienced and competent employees, greater proximity to customers and improved coordination with the SpareBank 1 banks



# Strategy and actions 2020 - 2023



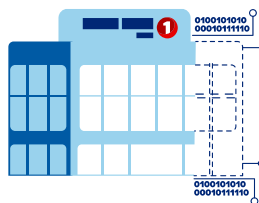
## Creating One SMN

**New group management team**  
drawing members from all business lines

**New distribution system**  
Co-location at 17 finance centres  
Strong local presence and digital leadership

**Improved coordination**  
«Housing journey» and Banking + Accounting

**Profitability project**  
Growth, streamlined operations and reduced cost base



## Greater digitalisation and use of insight

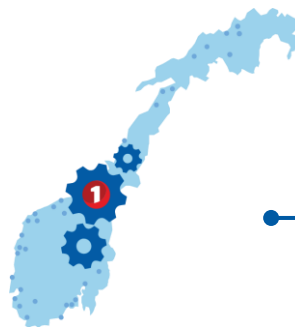
**Higher degree of digitalisation**  
Digital sales to retail customers up from 48% in 2019 to 66% so far in 2022

28% of all business start-ups in Mid-Norway have utilised our Business Start-up offering

**Data-driven growth**  
Increased use of analytical insight in customer recruitment, sales and customer care.

Home mortgage churn reduced by 0.4% from 2020 to 2021

**Simplification and automation**  
AML process improvements  
RPA production up 40% from 2020 to 2021



## Head up the development of Norway's savings banks system

Eight companies acquired by **Regnskapshuset SMN** in the last two years

**Establishing in Oslo in 2022**  
Synergy between banking and SB1 Markets

Agreement of intent with **SpareBank 1 Søre Sunnmøre**

**SpareBank 1 Markets strengthens its position**  
SB 1 Markets to take on the markets business of SB 1 SR-Bank and SB 1 Nord-Norge



## Integrating sustainability into the business

Signatory to the **UN Global Compact** and the **UN Principles for Responsible Banking**

Adoption of a **sustainability strategy, goals and key results**.  
Net zero emissions by 2050

**First step in the ESG effort**  
Innovation – customer offering – climate footprint – competence – diversity



## Exploiting the power in SMN's ownership model

**Priorities set for the community dividend**  
Community – sports and outdoor recreation – arts and culture – innovation and value creation – sustainability

**Support for non-profit causes**  
Amount distributed up from NOK 80m in 2019 to 250m in 2022

**Increase in public involvement**  
More than 10,000 suggestions received on how the community dividend should be invested



# SpareBank 1 SMN (MING)

## - an attractive investment

1

**High return over time** and solidly capitalised. Efficient banking operations and unrealised income and cost synergies in the group. Shareholder-friendly dividend policy

2

**Strong position and good growth** in an attractive region and in all business lines. Diversified customer portfolio and income base

3

**A good brand** with development potential based on ownership model, presence and sustainability

4

**Substantial underlying value** through ownership positions in and outside SpareBank 1-alliansen

5

**Well positioned in regards to consolidation** among Norwegian savings banks



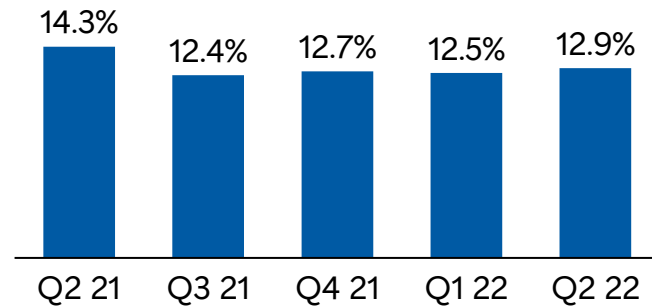
# Financial information



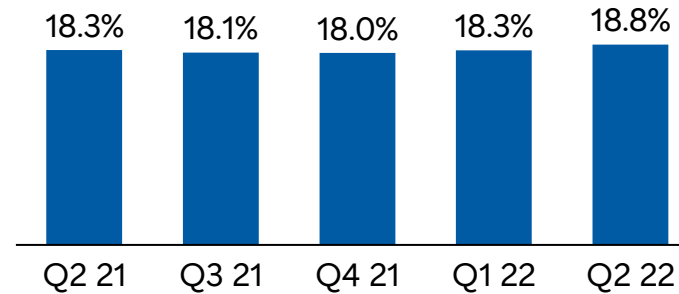


# Profitable and solid

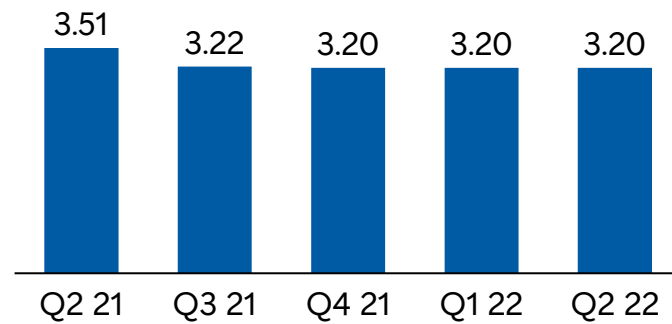
Return on equity



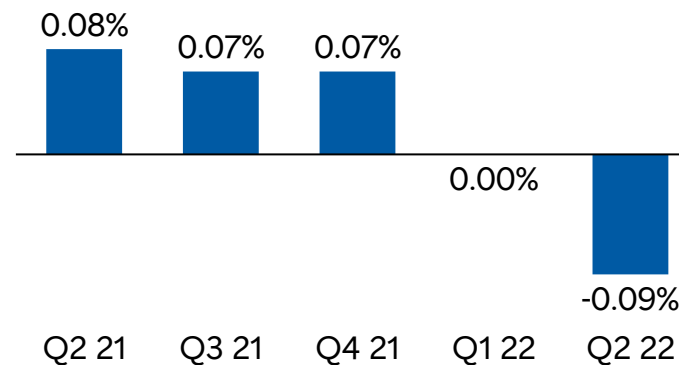
CET1 ratio



Earnings per equity certificate



Loan losses in per cent of total lending



# Profits

1st half and quarterly

NOK mill	2022	2021	Change	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21
Net interest income	1,559	1,366	193	801	758	723	707	698
Commission income and other income	1,382	1,538	-156	745	637	671	623	748
<b>Operating income</b>	<b>2,941</b>	<b>2,904</b>	<b>36</b>	<b>1,546</b>	<b>1,395</b>	<b>1,394</b>	<b>1,330</b>	<b>1,445</b>
Total operating expenses	1,520	1,531	-11	758	762	765	698	735
<b>Pre-loss result of core business</b>	<b>1,421</b>	<b>1,374</b>	<b>47</b>	<b>788</b>	<b>632</b>	<b>629</b>	<b>633</b>	<b>711</b>
Losses on loans and guarantees	-48	98	-146	-48	0	32	31	39
<b>Post-loss result of core business</b>	<b>1,469</b>	<b>1,276</b>	<b>193</b>	<b>836</b>	<b>632</b>	<b>597</b>	<b>601</b>	<b>672</b>
Related companies	139	340	-201	77	62	186	179	212
Securities, foreign currency and derivatives	141	220	-79	-33	173	33	69	59
<b>Result before tax</b>	<b>1,748</b>	<b>1,836</b>	<b>-87</b>	<b>880</b>	<b>868</b>	<b>816</b>	<b>849</b>	<b>942</b>
Tax	348	322	25	178	169	112	175	191
Result investment held for sale	-1	10	-10	0	-1	0	1	4
<b>Net profit</b>	<b>1,400</b>	<b>1,523</b>	<b>-123</b>	<b>702</b>	<b>698</b>	<b>703</b>	<b>675</b>	<b>755</b>
<b>Return on equity</b>	<b>12.6 %</b>	<b>14.5 %</b>		<b>12.9 %</b>	<b>12.5 %</b>	<b>12.7 %</b>	<b>12.4 %</b>	<b>14.3 %</b>

# Lending and deposits

## Lending

Total loans NOK 206bn,  
YoY growth of 8.7 per cent

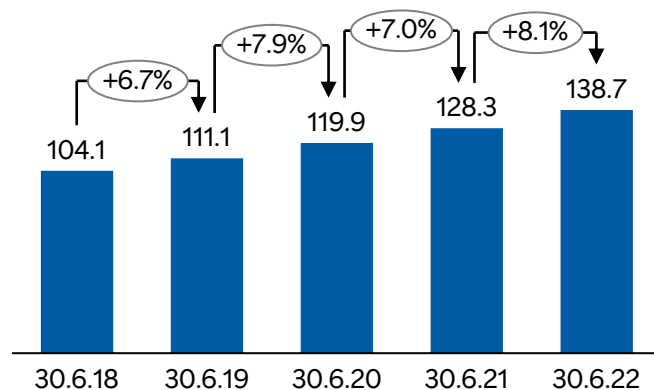
Market growth in mortgages 4.5  
per cent (C2) last 12 months (June  
2022)

## Deposits

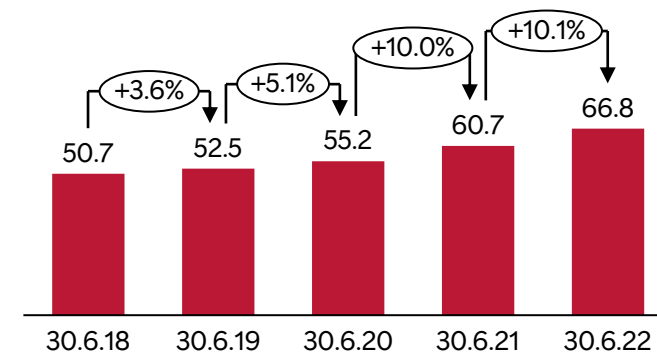
Total deposits of NOK 124bn,  
growth of 12.4 per cent YOY

Deposit-to-loan ratio 60 per cent  
(58 per cent)

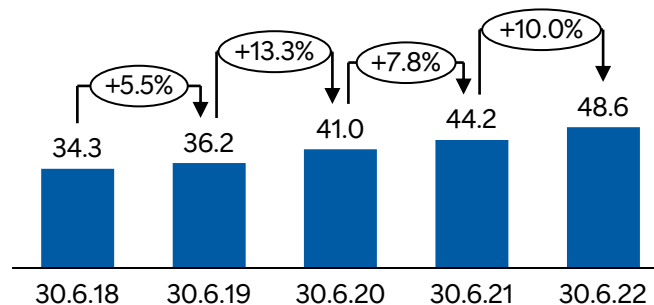
Lending growth RM 7.4 % (CAGR)



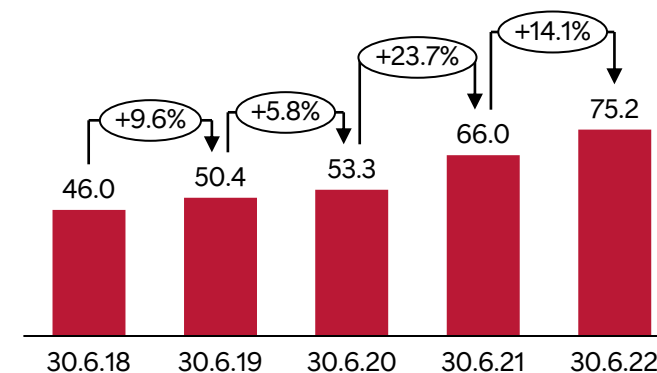
Lending growth CM 7.2 % (CAGR)



Deposit growth RM 9.1 % (CAGR)



Deposit growth CM 13.1 % (CAGR)





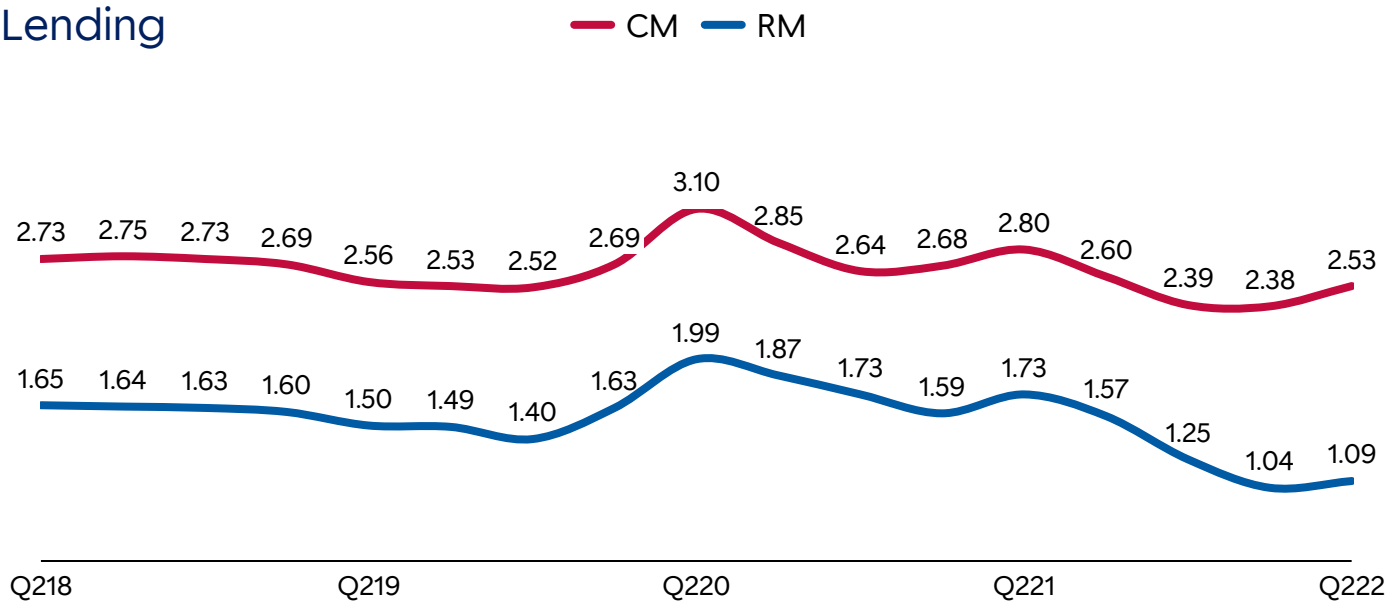
# Margins versus 3M NIBOR

Policy rate raised to 1.25% in June. Norges Bank revised its rate path upwards and are projecting a policy rate of 3.0% towards the summer of 2023

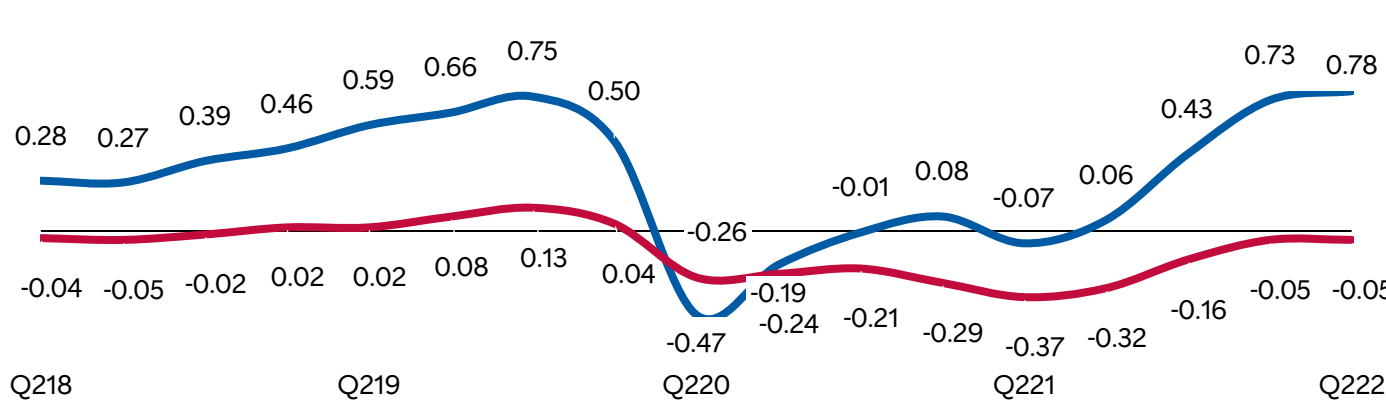
Repricing of mortgages with effect from mid-November 2021, February 2022 and May 2022. Further raise in August 2022

Deposit rates are increased as the key policy rate increases

Lending

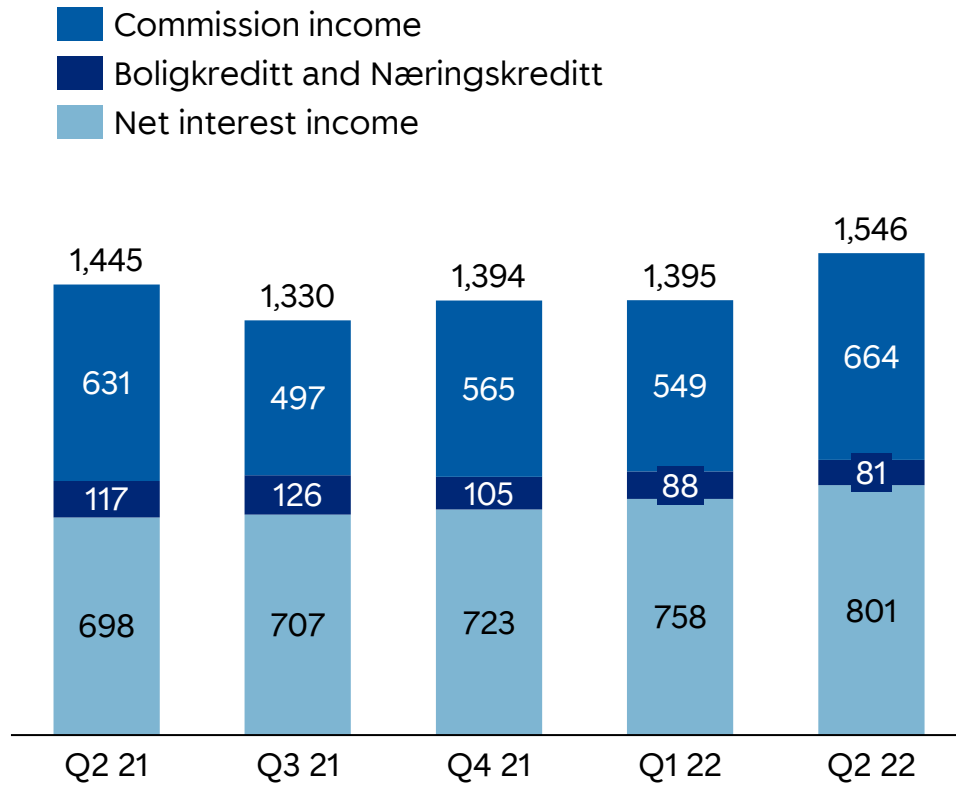


Deposits



# Robust income platform

## Net interest income and other income



## Commission income

<i>NOK mill</i>	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21
Payment transmission income	72	60	72	61	56
Credit cards	15	16	14	14	13
Commissions savings and asset mgmt	10	9	13	17	14
Commissions insurance	59	57	55	54	53
Guarantee commissions	8	18	22	13	14
Estate agency	125	94	100	107	131
Accountancy services	167	156	114	114	154
Securities	198	124	158	110	182
Other commissions	9	14	17	7	14
<b>Commissions ex. Bolig/Næringskreditt</b>	<b>664</b>	<b>549</b>	<b>565</b>	<b>497</b>	<b>631</b>
Commissions Boligkreditt (cov. bonds)	77	84	102	123	113
Commissions Næringskreditt (cov. bonds)	4	4	3	3	4
<b>Total commission income</b>	<b>745</b>	<b>637</b>	<b>671</b>	<b>623</b>	<b>748</b>

# Costs

Total costs around the same level as the previous quarter

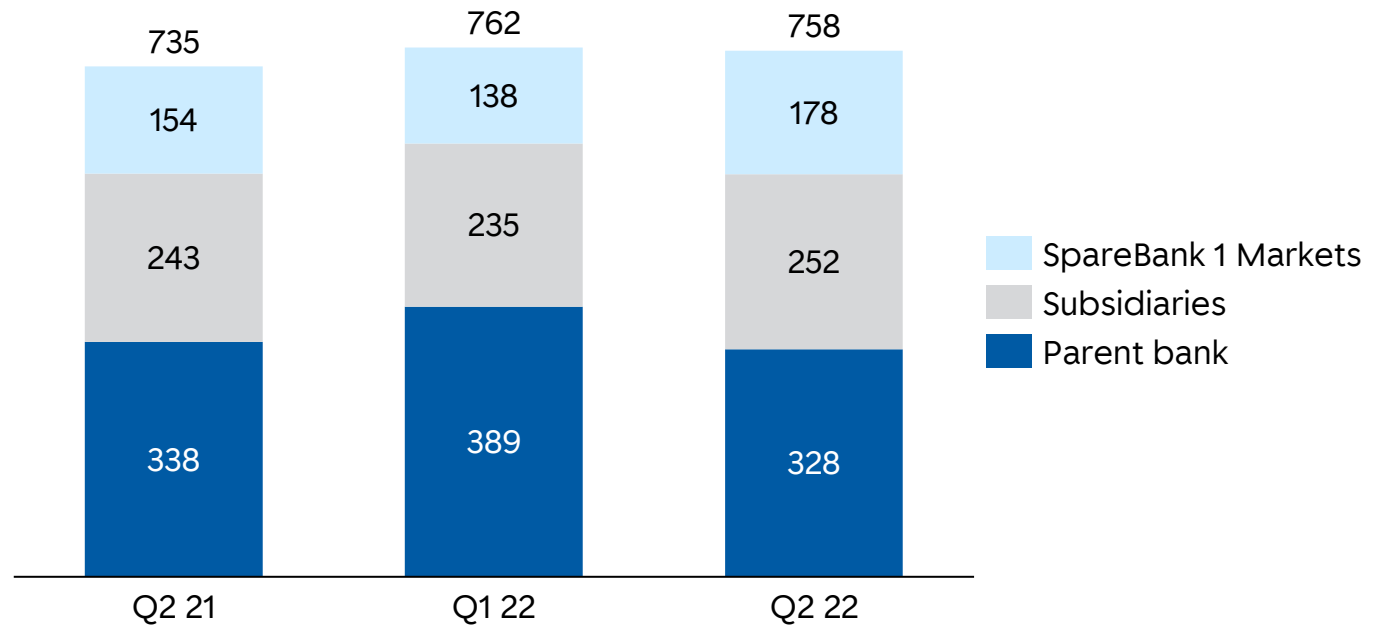
Increased costs in SpareBank 1 Markets and EiendomsMegler 1 following a quarter with high activity and increased revenue

Reduced costs in the parent bank compared to Q1 mainly due to:

- Costs related to regulatory requirements
- Technology costs
- Adaptation of office premises

In addition, some costs have been booked earlier in 2022 than in 2021

Total quarterly costs (NOKm)





# Reduced losses

Net reversal of loan losses in Q2 2022

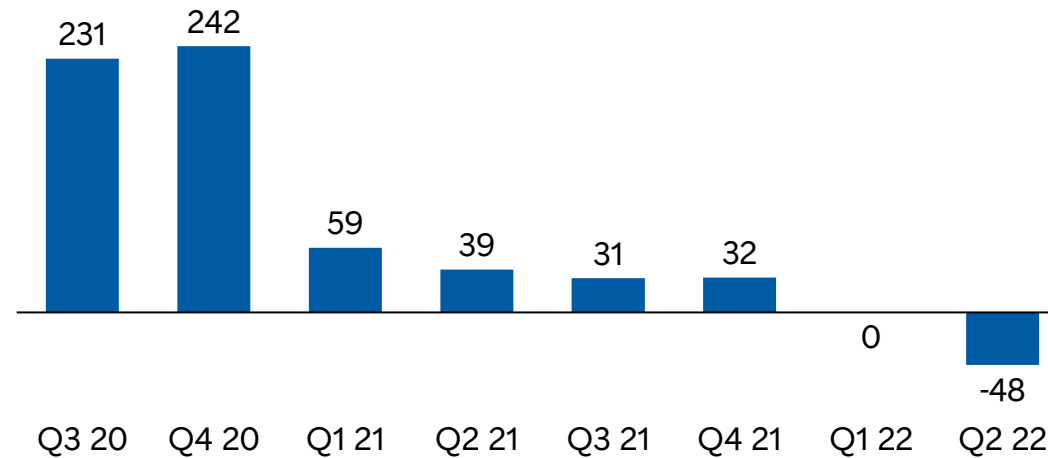
Improved earnings and outlook in offshore, and 54 NOKm reversal of loan losses in Q2

The credit quality in the corporate portfolio remains solid

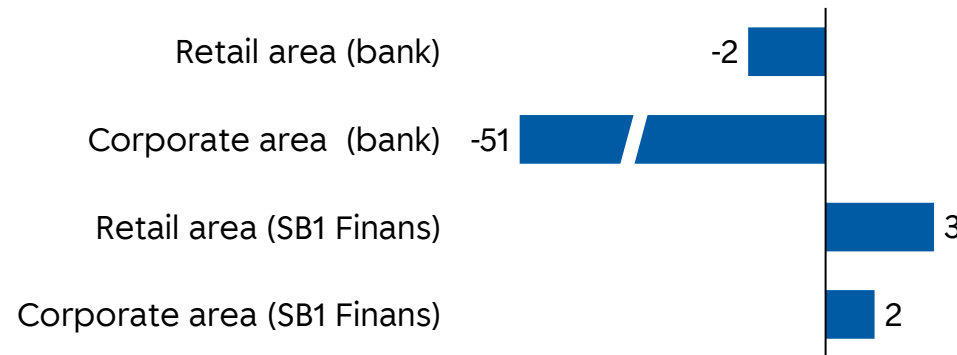
Low bankruptcy rates in Mid-Norway in 2021 and 2022

93 per cent (190.5 NOKbn) of the loan portfolio is in stage 1

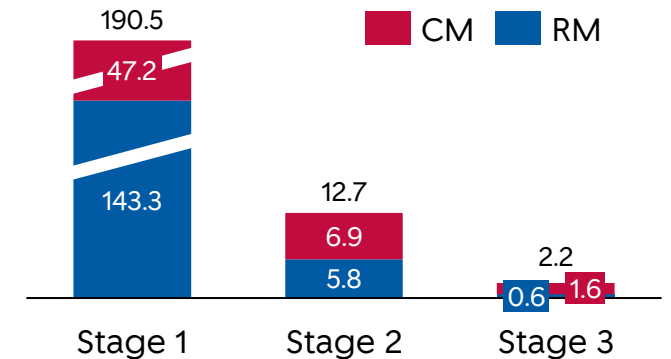
Loan losses (NOKm)



Distribution of losses Q2 22 (NOKm)

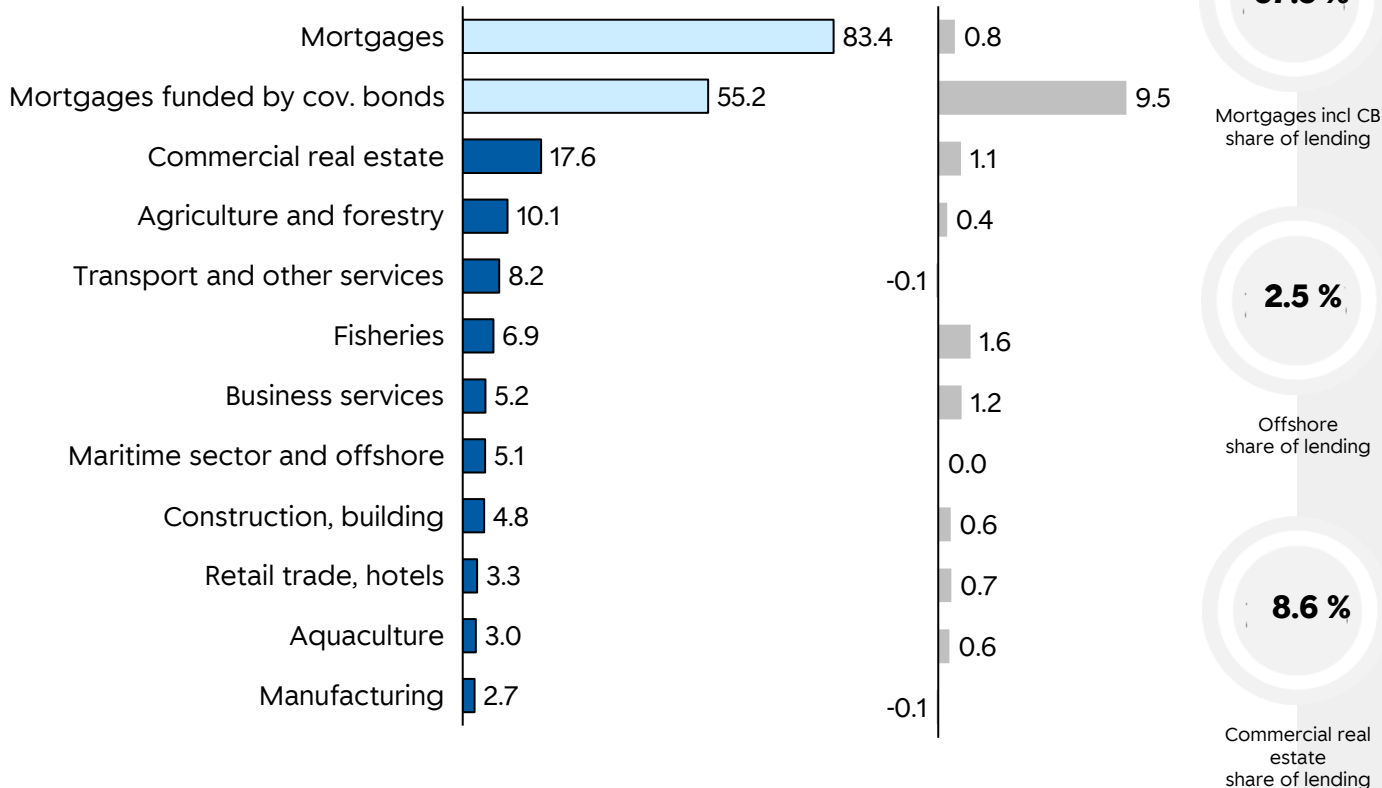


Distribution of loans 30.6.22 (NOKbn)



# Robust loan portfolio

Lending per 30.6.22 and change YoY (NOKbn)



The portfolio is dominated by mortgages, and the corporate portfolio reflects the composition of Mid-Norway's business sector

## High share of lending to wage-earners

- Low unemployment and a substantial share of customers employed in the public sector
- Sound mortgage portfolio (95% within 85% LTV)
- Low default rates

## Improvement within the offshore segment

- Increased activity in offshore service and subsea and increased investment spending within oil, gas and offshore wind
- Increase in rates and longer contracts within supply
- Seismic remains challenging, but there are new opportunities within carbon capture and offshore wind

## Commercial real estate will be impacted by higher interest rates and inflation

- A well functioning transaction market in Trøndelag with record transaction volume in 2021. Expect that higher interest rates will increase debt burden and yields
- Increased uncertainty in housing projects due to access and costs of materials and labour as well as higher interest rates
- Offices, hotels, restaurants and retail trade transitioning towards post-pandemic normalisation. In general there are labour shortage challenges and uncertainty with regards to possible change in spending patterns

# Strong solidity

CET1 ratio of 18.8% (18.3) as at 30. june 2022

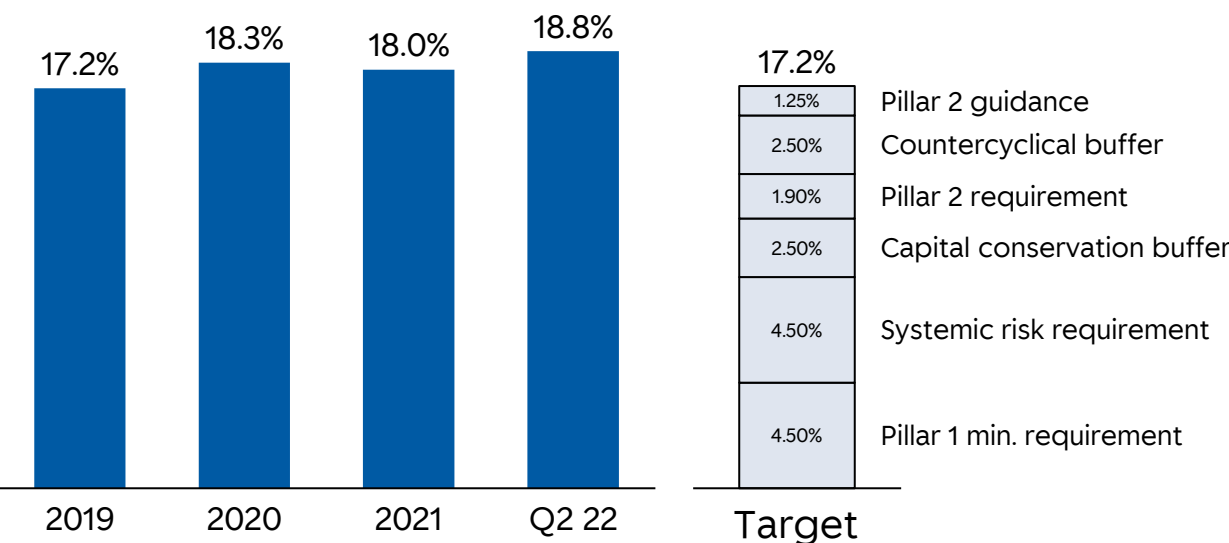
FSA announced on 30. April 2020 that SpareBank 1 SMN is to have a temporary 0.7 per cent in additional Pillar 2-requirement and Pillar 2 guidance of 1.25 per cent in addition to CET1-requirements.

Following this, the groups long term CET1 target is 17.2 per cent

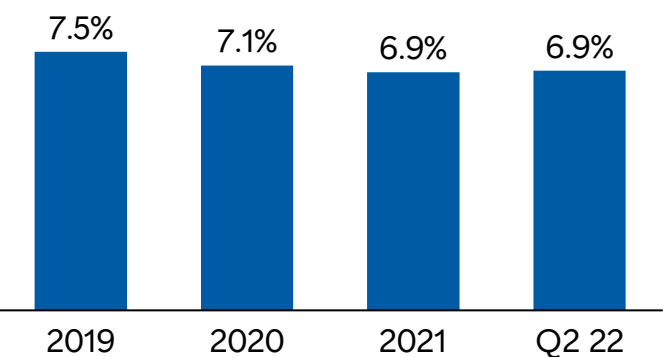
CET1 ratio increased in Q2 following:

- Strong retained earnings
- Increased SME-discount
- Dividends from SpareBank 1 Gruppen
- A large exposure removed from probation

## CET1



## Leverage ratio





# Goals

SpareBank 1 SMN aims to be the leading finance house in Central Norway and among the best performers in the Nordic region

12%

## Profitable

Return on equity 12%

17.2%

## Solid

CET1 ratio 17.2%

Payout ratio approx. 50%

< 2%

## Efficient

Annual growth in group costs limited to 2% within existing business

↓ 50%

## Responsible

Net zero emissions by 2050

Halve the group's climate footprint by 2030

# SpareBank 1 SMN

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# Appendix



# Commission income

1st half and quarterly

<i>NOK mill</i>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>Q2 22</b>	<b>Q1 22</b>	<b>Q4 21</b>	<b>Q3 21</b>	<b>Q2 21</b>
Payment transmission income	132	105	27	72	60	72	61	56
Credit cards	30	27	3	15	16	14	14	13
Commissions savings and asset mgmt	19	29	-10	10	9	13	17	14
Commissions insurance	116	105	12	59	57	55	54	53
Guarantee commissions	27	29	-2	8	18	22	13	14
Estate agency	219	234	-15	125	94	100	107	131
Accountancy services	323	301	22	167	156	114	114	154
Securities	322	457	-134	198	124	158	110	182
Other commissions	24	19	5	9	14	17	7	14
<b>Commissions ex. Bolig/Næringskreditt</b>	<b>1,213</b>	<b>1,306</b>	<b>-93</b>	<b>664</b>	<b>549</b>	<b>565</b>	<b>497</b>	<b>631</b>
Commissions Boligkreditt (cov. bonds)	161	225	-64	77	84	102	123	113
Commissions Næringskreditt (cov. bonds)	8	8	0	4	4	3	3	4
<b>Total commission income</b>	<b>1,382</b>	<b>1,538</b>	<b>-156</b>	<b>745</b>	<b>637</b>	<b>671</b>	<b>623</b>	<b>748</b>

# Product companies in the SpareBank 1-alliance

1st half and quarterly

Profit share after tax

NOK mill, SMN's share in parentheses	2022	2021	Change	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21
SpareBank 1 Gruppen (19.5%)	29	215	-186	16	13	173	83	148
SpareBank 1 Boligkreditt (20.9%)	-8	7	-15	-4	-5	-2	11	3
SpareBank 1 Næringskreditt (14.9%)	2	7	-6	2	0	0	-1	4
BN Bank (35.0%)	96	82	14	47	49	42	40	42
SpareBank 1 Kreditt (18.7%)	0	0	0	3	3	2	10	1
SpareBank 1 Betaling (21.5%)	-6	-6	0	0	-5	-9	0	-5
SpareBank 1 Forvaltning (19.6%)	18	8	11	11	8	12	13	8
Other companies	1	25	-24	2	-1	-32	-2	11
<b>Sum associated companies</b>	<b>139</b>	<b>340</b>	<b>-201</b>	<b>77</b>	<b>62</b>	<b>186</b>	<b>179</b>	<b>212</b>



# Subsidiaries

1st half and quarterly

## Profit before tax

NOK mill, SMN's share in parentheses	2022	2021	Change	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21
EiendomsMegler 1 Midt-Norge (87%)	52	62	-10	38	14	1	8	41
SpareBank 1 Regnskapshuset SMN (89%)	54	60	-6	30	23	3	21	33
SpareBank 1 Finans Midt-Norge (56.5%)	97	118	-22	50	47	45	35	63
SpareBank 1 Markets (67%)	118	179	-61	79	39	51	23	62
SpareBank 1 SMN Invest (100%)	104	130	-26	-29	132	-4	61	21
Other companies	3	3	0	1	1	0	1	2
<b>Subsidiaries</b>	<b>427</b>	<b>553</b>	<b>-125</b>	<b>170</b>	<b>257</b>	<b>97</b>	<b>149</b>	<b>223</b>

# Return on financial investments

1st half and quarterly

<i>NOK mill</i>	<b>2022</b>	<b>2021 Change</b>		<b>Q2 22</b>	<b>Q1 22</b>	<b>Q4 21</b>	<b>Q3 21</b>	<b>Q2 21</b>
Net gain/(loss) on stocks	102	125	-22	-35	137	15	36	23
Net gain/(loss) on financial instruments	-92	16	-108	-82	-10	-9	14	-4
Net gain/(loss) on forex	37	31	6	29	7	24	16	15
Net gain/(loss) on stocks and stock derivatives SB1 Markets	89	28	61	52	37	1	2	8
<b>Net return on financial instruments</b>	<b>136</b>	<b>199</b>	<b>-63</b>	<b>-36</b>	<b>172</b>	<b>32</b>	<b>68</b>	<b>42</b>

# Equity certificate, key figures

Key figures	Q2 22	Q2 21	2021	2020	2019	2018
ECC ratio	64.0 %	64.0 %	64.0 %	64.0 %	64.0 %	64.0 %
Total issued ECCs (mill)	129.31	129.36	129.39	129.39	129.30	129.62
ECC price	115.80	119.20	149.00	97.60	100.20	84.20
Market value (NOKm)	14.974	15.420	19.279	12.629	12.956	10.914
Booked equity capital per ECC	102.91	100.18	103.48	94.71	90.75	83.87
Post-tax earnings per ECC, in NOK	6.39	6.90	13.31	8.87	12.14	9.97
Dividend per ECC			7.50	4.40	6.50	5.10
P/E	9.06	8.50	11.19	11.01	8.26	8.44
Price / Booked equity capital	1.13	1.19	1.44	1.03	1.10	1.00

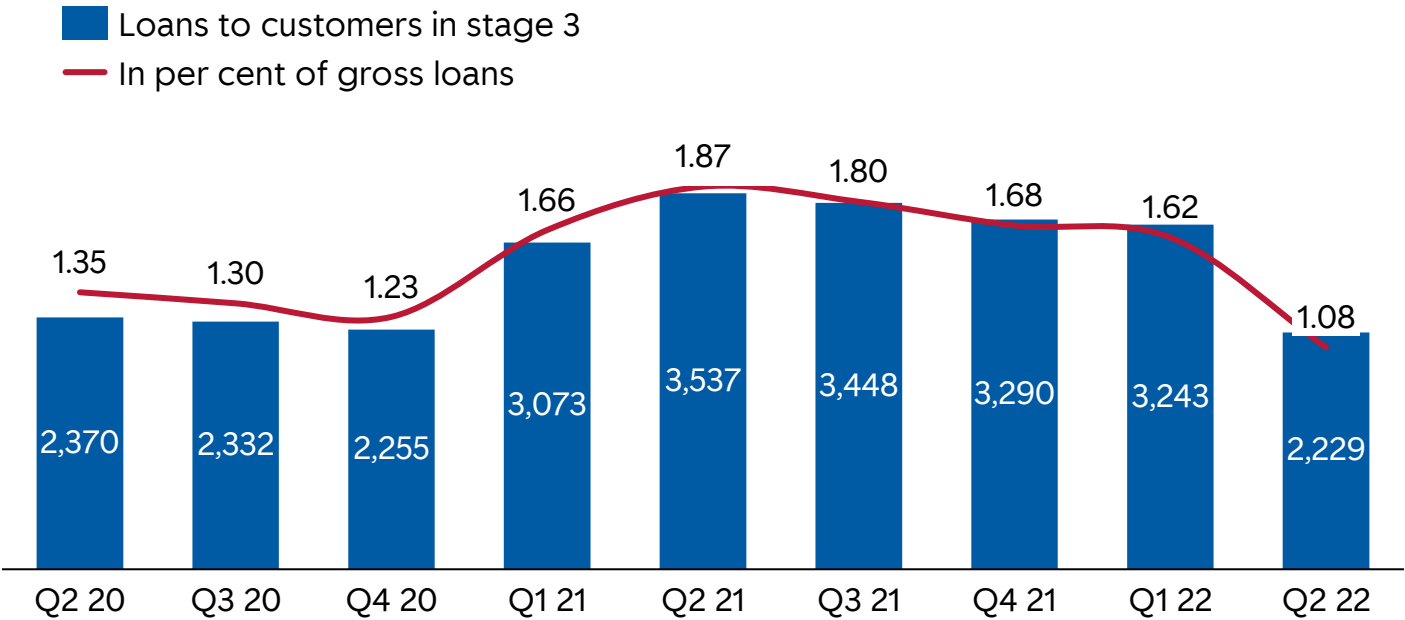
# Balance sheet

	30/6/22	30/6/21	30/6/20
Funds available	49.7	41.7	38.3
Net loans	147.6	140.4	129.4
Securities	2.4	2.0	1.7
Investment in related companies	7.5	7.3	6.8
Goodwill	0.9	0.9	0.9
Other assets	9.4	8.1	13.4
<b>Total Assets</b>	<b>217.5</b>	<b>200.4</b>	<b>190.5</b>
Capital market funding	57.6	57.9	60.0
Deposits	123.8	110.1	94.3
Other liabilities	10.9	8.1	14.1
Subordinated debt	2.1	1.8	1.8
Equity ex hybrid bonds	21.7	21.1	19.1
Hybrid bonds	1.3	1.3	1.3
<b>Total liabilities and equity</b>	<b>217.5</b>	<b>200.4</b>	<b>190.5</b>
In addition loans sold to Boligkreditt and Næringskreditt	56.8	47.1	44.5

# Potential problem loans

Decrease in Q2 22 following a recovery in several exposures

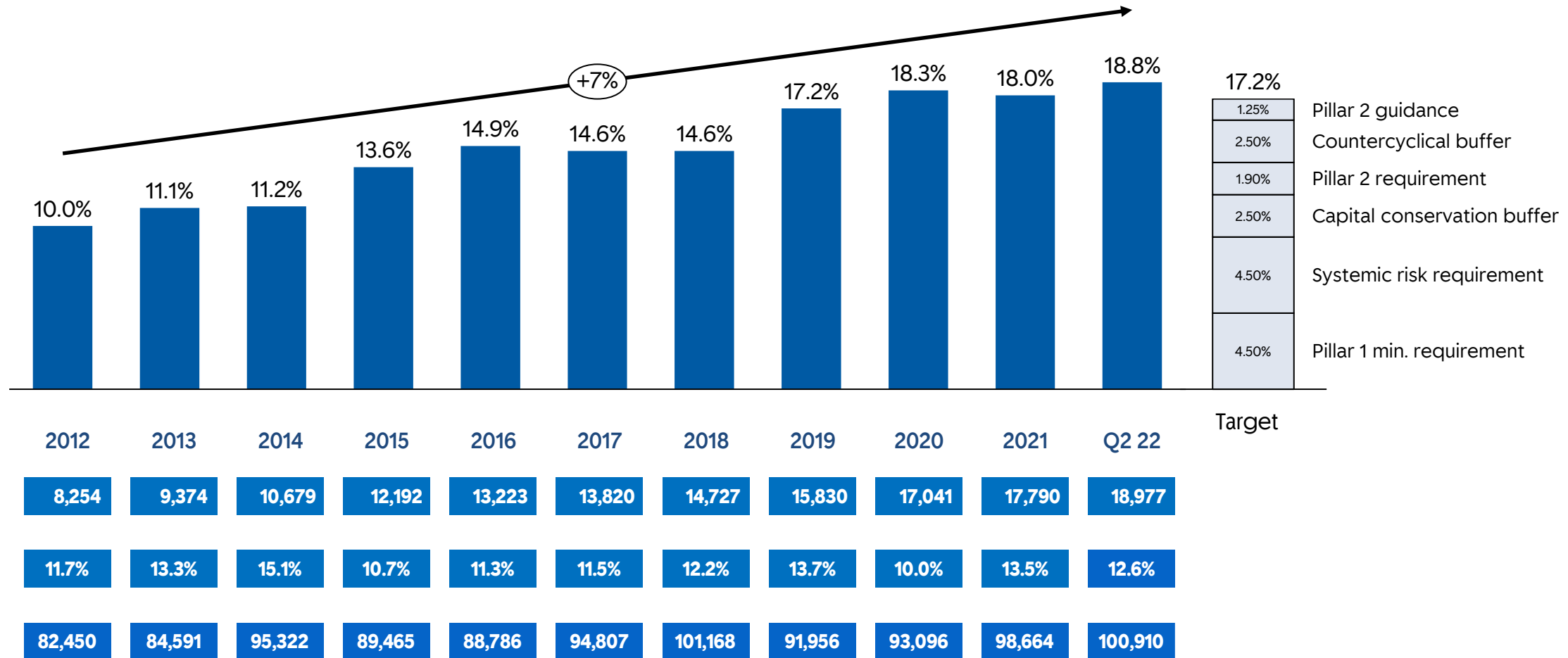
Loans to customers in stage 3





# Development in CET1 capital and capital adequacy

CET1 ratio in per cent



# Funding and liquidity

Uncertain growth and inflation prospects internationally have contributed to substantial fluctuations in financial markets and credit spreads have widened.

The bank has ample liquidity and the markets for the bank's financial instruments are functioning satisfactorily.

The bank has a conservative liquidity strategy. The LCR is 204 per cent as at 30 June 2022 (190 per cent).

The bank's funding sources and products are well diversified. SpareBank 1 Boligkreditt and Næringskreditt are important funding sources. Loans totalling NOK 57bn (47bn) had been sold to these mortgage companies as at 30 June 2022

In the second quarter SpareBank 1 SMN issued a senior bond of NOK 1.8bn with a five-year maturity and MREL funding of NOK 1.5bn.

As at 30 June 2022 SpareBank 1 SMN held NOK 5.5bn in senior non-preferred debt (MREL). SpareBank 1 SMN will meet the MREL requirements by the end of 2023.

Maturity structure as at June 30 2022 (NOKbn)

