

Report of the Board of Directors

Preliminary annual accounts 2022

Fourth quarter 2022

(Consolidated figures. Figures in parenthesis refer to the same period of 2021 unless otherwise stated)

- Profit before tax and business held for sale: NOK932m (773m)
- Net profit: NOK 768m (703m)
- Return on equity: 13.1 per cent (12.7 per cent)
- CET1 ratio: 18.9 per cent (18.0 per cent)
- Growth in lending: 1.1 per cent (1.8 per cent) and in deposits: 1.2 per cent (growth of 1.5 per cent)
- Lending to personal customers rose 1.0 per cent in the quarter (1.6 per cent), 0.2 percentage points lower growth than in the third quarter. Lending to corporate clients rose 1.4 per cent (2.1 per cent) which was 1.0 percentage point lower growth than in the third quarter
- Deposits from personal customers rose 1.4 per cent (1.4 per cent), compared with a decline of 1.9 per cent in the third quarter. Deposits from corporate clients rose 1.1 per cent (1.5per cent), compared with a decline of 3.1 per cent in the third quarter
- Net result of ownership interests: NOK 195m (186m)
- Net result of financial instruments (incl. dividends): minus NOK 33m (minus 18m)
- Losses on loans and guarantees: NOK 19m (32m), 0.04 per cent of gross loans (0.07 per cent)
- Earnings per equity certificate (EC): NOK 3.53 (3.20). Book value per EC: NOK 109.86 (103.48)

Preliminary annual accounts 2022

- Profit before tax and business held for sale: NOK 3,324m (3,266m)
- Net profit: NOK 2,785m (2,902m)
- Return on equity: 12.3 per cent (13.5 per cent)
- Growth in lending: 8.1 per cent (6.9 per cent) and in deposits: 9.6 per cent (14.1 per cent)
- Growth in lending to personal customers was 6.7 per cent (6.8 per cent) and in lending to corporate clients 11.1 per cent (7.1 per cent)
- Lending to retail customers accounts for 67 per cent (68 per cent) of total lending
- Deposits from personal customers rose 8.4 per cent (9.8 per cent) and deposits from corporate clients rose 10.5 per cent (17.2 per cent)
- Net result of ownership interests: NOK 442m (705m)
- Net result of financial instruments (incl. dividends): minus NOK 61m (gain of 134m)
- Net recovery of losses on loans and guarantees: NOK 7m (loss of 161m), 0 per cent (0.09 per cent) of gross lending
- Earnings per EC: NOK 12.82 (13.31)
- The board of directors proposes a dividend of NOK 6.50 per EC (NOK 7.50) which is 50.7 per cent of the net profit, and a community dividend of NOK 474m (547m)

Events in the quarter

Signs of stabilising interest rates and inflation

Norges Bank raised its base rate to 2.50 per cent in November and to 2.75 per cent in December.

SpareBank 1 SMN has like other banks raised mortgage interest rates and deposit rates. At Norges Bank's interest rate meeting in January, which kept the base rate unchanged, the central bank indicated a base rate hike to 3.0 per cent in March 2023. This would leave the base rate close to the peak rate in Norges Bank's forecasting period.

The rate of annual growth in the consumer price index has slowed and the trend in core inflation is flat. The labour market remains tight, and activity levels in the Norwegian economy are high. At the same time there are signs that price growth and tighter monetary policy are reducing households' purchasing power. This is expected to impact on firms' activity in the period ahead. More customers turn to the bank for financial advice, but no increase in defaults has been observed so far.

According to SpareBank 1 SMN's economic barometer, Mid-Norwegian businesses' expectations for the future are at a low level. The risk trend in the corporate portfolio is nonetheless acceptable. Continued improvement is in evidence in the offshore segment, but increased risk is noted in the wider business sector due to high inflation and higher interest rates. Industries viewed as more exposed than others are construction and commercial property.

Merger with SpareBank 1 Søre Sunnmøre

The merger was approved by the general meeting of SpareBank 1 Søre Sunnmøre and the supervisory board of SpareBank 1 SMN in the year's final quarter. The Competition Authority cleared the merger transaction on 21 December 2022. The merger is scheduled for completion on 2 May 2023.

The overriding aim of the merged bank is to take its place as the leading banking actor in Sunnmøre and in Fjordane. A merged bank will provide greater competitive power, an increased presence and will be attractive to customers, employees and shareholders alike.

SpareBank 1 Markets

As from the fourth quarter of 2022 the subsidiary SpareBank 1 Markets is classified for accounting purposes as held for sale. The company's income and expenses are accordingly reclassified to the line 'Result investment held for sale' in the income statement. The group's profit remains unchanged. Historical figures are restated.

On 22 June 2022 SpareBank 1 SMN reported SpareBank 1 Markets' move to strengthen its focus in the capital market, SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge are to transfer their capital markets business to SpareBank 1 Markets, and are in addition buying into the company in the form of a cash payment. After completion of the transaction SpareBank 1 SMN will own 39.4 per cent and SpareBank 1 Markets will be treated as an affiliate. The transaction is dependent on approval from Finanstilsynet (the Financial Supervisory Authority) and the Competition Authority, and is scheduled to go ahead in March 2023.

Focus on sustainability at SpareBank 1 SMN Regnskapshuset

SpareBank 1 Regnskapshuset SMN has in the fourth quarter established a department for advisory services in the fields of sustainability reporting and climate accounting.

Event after 31 December 2022: Gross embezzlement of SpareBank 1 SMN's funds

On 19 January 2023 SpareBank 1 SMN reported a hired replacement employee to the police after falling victim to gross embezzlement. No customers are impacted. The police have arrested and charged the suspect, and the bank is actively involved in the ongoing investigation. The bank became aware of the offence itself and reported the matter to the Police and to Økokrim.

The police investigation and the bank's own enquiries show that the embezzlement totals NOK 75m. The accused returned about NOK 9m to SpareBank 1 SMN before his arrest. The net amount taken out of SpareBank 1 SMN is accordingly just over NOK 66m. Of this sum, NOK 15m has been secured. Based on the information now known to the police and the bank, about NOK 50m of the embezzled amount has been lost. Although the amount is substantial, it does not impact the bank's financial situation. SpareBank 1 SMN has insurance that covers financial crime, including embezzlement. The insurance has a deductible of NOK 5 million.

Results in the fourth quarter 2022

The fourth quarter net profit was NOK 768m (703m), and return on equity was 13.1 per cent (12.7 per cent). The net profit is NOK 151m higher than in the third quarter. The profit growth from the previous quarter is in all essentials due to increased net interest income at the bank and profit growth in SpareBank 1 Gruppen. The profit growth compared with last year's fourth quarter is largely ascribable to increased net interest income.

Earnings per equity certificate (EC) were NOK 3.53 (3.20) and the EC's book value was NOK 109.86 (103.48). In the third quarter of 2022 earnings per EC were NOK 2.89.

Net interest income totalled NOK 961m (725m), which is NOK 147m higher than in the third quarter and NOK 237m better than in the same quarter of 2021. Market interest rates have risen substantially and NIBOR was about 90 points higher in the fourth quarter of 2022 than in the third quarter and 250 points higher than in the fourth quarter of 2021. This has resulted in lower margins on loans and higher margins on deposits. Increased lending and deposits, along with higher return on equity, have strengthened net interest income.

Net commission and other income was reduced from the previous quarter by NOK 18m to NOK 473m (521m), essentially as a result of reduced commissions on loans sold to SpareBank 1 Boligkreditt. This is also the main reason for the decline compared with the fourth quarter 2021. Reduced commissions from SpareBank 1 Boligkreditt are due to lower margins on residential mortgages sold to the mortgage company.

The group's share of the results of related companies was NOK 195m (186m). In the third quarter the profit share was NOK 108m. SpareBank Gruppen recorded a positive profit performance.

Return on financial investments (incl. dividends) was minus NOK 33m (minus 18m) and in the third quarter minus NOK 22m.

Operating expenses came to NOK 646m (609m) and in the third quarter to NOK 583m. About half of the increase from the third quarter relates to costs of facilitating the planned merger with SpareBank 1 Søre Sunnmøre along with increased technology costs and consumption-related costs.

Losses on loans and guarantees were NOK 19m (32m) in the fourth quarter and in the third quarter NOK 22m.

2022 saw good growth in lending and deposits. Overall lending grew by 8.1 per cent (6.9 per cent) and deposits by 9.6 per cent (14.1 per cent). In the fourth quarter lending growth was 1.1 per cent (1.8 per cent) and deposit growth 1.2 per cent (1.5 per cent). Personal and corporate deposits both increased in the fourth quarter.

As at 31 December 2022 the CET1 ratio was 18.9 per cent (18.0 per cent), a decline of 0.3 percentage points from the previous quarter. The CET1 ratio target is 17.2 per cent.

Earnings per EC were NOK 12.82 (13.31). The book value was NOK 109.86 (103.48) per EC including the proposed dividend for 2022 of NOK 6.50 (NOK 7.50).

The price of the bank's equity certificate (MING) at year-end was NOK 127.40 (149.00).

Proposed distribution of net profit

It is the group's results exclusive of interest on hybrid capital, along with non-controlling ownership interests' share of the profit, which comprise the basis for distribution of the net profit for the year; the distribution is done at the parent bank.

The net 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.

Earnings per equity certificate were NOK 12.82. 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 6.50 per EC, altogether totalling NOK 840m. This makes for a payout ratio of 50.7 per cent. The board of directors further recommends an allocation of NOK 474m to community dividend.

Of this amount NOK 230m is to be transferred to non-profit causes and NOK 244m to the foundation Sparebankstiftelsen SMN. NOK 781m and NOK 440m are to be transferred to the dividend equalisation fund and the ownerless capital respectively.

Difference between Group - Parent Bank	2022	2021
Profit for the year, Group	2,785	2,902
Interest hybrid capital (after tax)	-60	-48
Profit for the year excl interest hybrid capital, group	2,725	2,854
Profit, subsidiaries	-479	-693
Dividend, subsidiaries	422	309
Profit, associated companies	-443	-705
Dividend, associated companies	224	418
Group eliminations	-15	11
Profit for the year excl interest hybrid capital, Parent bank	2,434	2,194
Distribution of profit	2022	2021
Profit for the year excl interest hybrid capital, Parent bank	2,434	2,194
Transferred to/from revaluation reserve	101	68
Profit for distribution	2,535	2,262
Dividends	840	970
Equalisation fund	781	476
Saving Bank's fund	440	268
Gifts	474	547
Total distributed	2,535	2,262

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 net annual profit for distribution reflects changes of NOK 101m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 2,535m.

After distribution of the profit for 2022, the ratio of EC capital to total equity remains 64.0 per cent.

Increased net interest income

Norges Bank raised its base rate to 2.75 per cent in December 2022. Market interest rates in terms of NIBOR have risen substantially, and were approximately 3.30 per cent at end-2022 compared with 0.85 per cent at end-2021. The bank has raised mortgage and deposit rates in step with the changes in the base rate, most recently with effect from 21 December 2022. A further increase is announced with effect from 1 February 2023 following Norges Bank's base rate hike on 15 December 2022.

Net interest income totalled NOK 961m (725m) compared with NOK 814m in the third quarter. Margins on residential mortgages were at the same level in the fourth quarter as in the third quarter, while margins on corporate borrowing rose. Margins on deposits by personal customers also rose.

An increased deposit margin, growth in lending and deposits along with increased return on equity, strengthened net interest income in the fourth quarter as in the third quarter. These are also the main reasons for the change compared with the same quarter of 2021.

Commission income and other operating income

A high proportion of multi-product customers reflects high customer satisfaction and contributes to a diversified income flow for the group.

Commission income (NOKm)	4Q 22	3Q 22	4Q 21
Payment transfers	91	91	78
Creditcard	15	15	15
Saving products	11	9	13
Insurance	60	60	55
Guarantee commission	25	16	23
Real estate agency	94	105	100
Accountancy services	127	115	114
Other commissions	14	12	17
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	438	424	416
Commissions SB1 Boligkreditt	32	63	102
Commissions SB1 Næringskreditt	4	4	3
Total commissions	473	491	521

Commission income and other operating income totalled NOK 473m (521m) compared with NOK 491m in the third quarter of 2022.

Commission income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt altogether totalled NOK 36m (105m). In the third quarter of 2022 commissions came to NOK 67m. The decline in the fourth quarter 2022 compared with the preceding quarter and the fourth quarter 2021 is due to higher funding costs at SpareBank 1 Boligkreditt.

Other commission income totalled NOK 438m (416m) compared with NOK 424m in the third quarter. The increase of NOK 14m from the third quarter relates mainly to accounting services and guarantee commissions, at the same time as income from estate agency services was reduced in the quarter due to a somewhat hesitant housing market.

Return on financial investments

Return on financial investments in the fourth quarter was minus NOK 52m (minus 19m) and in the third quarter minus NOK 30m. The group's shareholdings showed a capital loss of NOK 23m (gain of 15m). Financial instruments, including bonds and CDs, showed a capital loss of NOK 55m (loss of 59m). The losses are ascribable to falling basis swap values, which are partially offset by changed credit margins on the bank's liquidity holdings. Income of NOK 25m (25m) from forex transactions refers to corporate clients' currency trading and agio on the bank's funding in foreign currencies.

	4Q 22	3Q 22	4Q 21
Capital gains/losses shares	-23	-67	15
Gain/(loss) on financial instruments	-55	6	-59
Foreign exchange gain/(loss)	25	30	25
Net return on financial instruments	-52	-30	-19

Product companies and other related companies

The product companies provide SpareBank 1 SMN with a broad product range and commission income along with return on invested capital. The overall profit share from the product companies and other related companies was NOK 195m (186m). In the third quarter the figure was NOK 108m.

Income from investment in associated companies (NOKm)	4Q 22	3Q 22	4Q 21
SpareBank 1 Gruppen (19.5%)	128	17	173
SpareBank 1 Boligkreditt (22.6%)	-1	10	-2
SpareBank 1 Næringskreditt (16.3%)	2	0	0
BN Bank (35.0 %)	54	53	42
SpareBank 1 Kreditt (18.7 %)	0	3	2
SpareBank 1 Betaling (20.8%)	22	-3	-9
SpareBank 1 Forvaltning (19.6%)	5	10	12
Other companies	-15	19	-32
Income from investment in associated companies	195	108	186

SpareBank 1 Gruppen

The company owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Factoring and SpareBank 1 Spleis. SpareBank 1 Gruppen owns 65 per cent of the non-life insurer Fremtind. The company also owns 50 per cent of Kredinor.

SpareBank 1 Gruppen's profit after tax for the fourth quarter of 2022 was NOK 752m (1.080m) and in the third quarter of 2022 NOK 207m. NOK 657m of the post-tax profit of NOK 752m accrues to the majority owners of SpareBank 1. Return on equity in the quarter was 20.8 per cent (29.6 per cent).

The group's share of SpareBank 1 Gruppen's profit was NOK 128m (173m) and in the third quarter of 2022 NOK 17m.

Fremtind Forsikring posted a fourth quarter profit of NOK 272m (550m) after tax. The quarter's underwriting result was NOK 137m (450m) and the claims ratio 71.1 per cent (60.2 per cent). The claims ratio rose partly as a result of an increase in the number of fires in December 2022. Financial incomes proved relatively low in the fourth quarter in a weak equities market, and property value adjustments made a negative contribution.

SpareBank 1 Forsikring reported a profit of NOK 173m (524m) after tax in the fourth quarter of 2022. The administration profit was minus NOK 26m (206m). In last year's fourth quarter a substantial income recognition of administration reserves was undertaken. The underwriting risk result was NOK 95m (48m). The quarter's return on financial assets came to NOK 104m (270m).

On 30 September 2022 Finanstilsynet gave permission for Modhi and Kredinor to merge with effect from 1 October 2022. As of the same date SpareBank 1 Gruppen made an in-kind contribution of Modhi valued at NOK 1.7bn and participated in a stock issue of NOK 117m. This entailed SpareBank 1 Gruppen becoming the owner of 50 per cent of the shares of the newly merged Kredinor. Modhi is accordingly no longer a subsidiary of SpareBank 1 Gruppen. The derecognition of Modhi brought a gain of NOK 382m. Kredinor is treated for accounting purposes as a joint venture as from 1 October 2022. A deficit of NOK 43m after tax was recognised in the fourth quarter of 2022.

SpareBank 1 Forvaltning

The company was established in 2021 to strengthen the SpareBank 1 banks' competitive power in the savings market. Odin Forvaltning, SpareBank 1 Kapitalforvaltning, SpareBank 1 SR Forvaltning and

SpareBank 1 Verdipapirservice make up the SpareBank 1 Forvaltning group. SpareBank 1 SMN owns 19.6 per cent of the company, and the profit share in the fourth quarter was NOK 5m (12m) and in the third quarter NOK 10m

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 2022 the bank had sold loans totalling NOK 56.9bn (46.7bn) to SpareBank 1 Boligkreditt, corresponding to 40.1 per cent (35.1 per cent) of the bank's overall lending to retail borrowers.

The bank's share of the company's profit was minus NOK 1m (minus 2m).

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 2022, loans worth NOK 1.7bn (1.4bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's share of the profit was NOK 2m (0m).

SpareBank 1 Kreditt

SpareBank 1 SMN's share of the fourth quarter profit was minus NOK 0.3m (profit of 1.6m). SpareBank 1 SMN customers' portfolio of credit cards and consumer loans totalled NOK 1.248m (998m) and its stake was 18.7 per cent.

In the fourth quarter the company recorded a deficit of NOK 6.9m (profit of 10.8m). The decline was down to higher marketing costs and increased losses. As at 31 December 2022 the company's overall portfolio was worth NOK 7.3bn (5.8bn). The growth is in all essentials ascribable to refinancing loans.

BN Bank

BN Bank offers residential mortgage loans and loans to commercial property and its main market is Oslo and south-eastern Norway. BN Bank showed good growth of 10.0 per cent in lending to personal customers in 2022 (13.8 per cent) and growth of 0.1 per cent in the fourth quarter (3.5 per cent). The growth in lending to corporate clients was 10.3 per cent in 2022 (6.3 per cent) and 2.7 per cent in the last quarter (decline of 0.7 per cent). Total outstanding loans come to NOK 57bn (52bn).

BN Bank recorded a profit of NOK 160m (121m) in the fourth quarter, providing a return on equity of 12.1 per cent (10.5 per cent). Increased net interest income and commission income explain the profit growth. SpareBank 1 SMN's share of BN Bank's profit is NOK 54m (42m).

SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company in Vipps AS. On 30 June 2021 Vipps entered an agreement to merge Vipps' mobile payments arm with Danish MobilePay and Finnish Pivo which opens the way for cross-border mobile payments. In the third quarter 2022 it became clear that the merger would proceed without Pivo after the European Commission raised concerns about the consolidation of mobile wallets in Finland.

The companies received the European Commission's approval in the fourth quarter 2022, but the merger is still pending. In parallel with the merger, BankAxept and BankID will be spun off from Vipps to become a new Norwegian-owned company which will continue to be wholly owned by the Norwegian banks.

SpareBank 1 SMN's share of the profit was NOK 22m (minus 9m) in the fourth quarter.

Operating expenses

Operating expenses (NOKm)	4Q 22	3Q 22	4Q 21
Staff costs	333	348	342
IT costs	100	84	87
Marketing	24	18	21
Ordinary depreciation	33	26	35
Operating expenses, real properties	9	17	9
Purchased services	53	48	43
Merger expenses	22	0	0
Other operating expense	73	42	72
Total operating expenses	646	583	609

Overall expenses in the fourth quarter came to NOK 646m (609m), an increase of NOK 37m compared with the same period of 2021. Overall expenses in the third quarter were NOK 583m.

The bank recorded expenses of NOK 416m (368m) and in the previous quarter NOK 369m. Expenses at the bank rose by NOK 47m from the third to fourth quarter. Half of the growth in expenses relates to facilitation of the mergers with SpareBank 1 Søre Sunnmøre. There was also some increase in technological costs, increased use of consultants and higher consumption-related costs.

Some cost growth is also noted at SpareBank 1 Regnskapshuset SMN and at EiendomsMegler 1 Midt-Norge compared with the third quarter 2022.

The cost-income ratio was 40 per cent (43 per cent) for the group, 35 per cent (40 per cent) for the parent bank.

Low losses

Losses on loans totalled NOK 19m (32m) and in the third quarter NOK 22m.

Impairment losses (NOKm)	4Q 22	3Q 22	4Q 21
RM	31	17	4
CM	-12	5	27
Total impairment losses	19	22	32

A loss of NOK 31m was recorded on loans to retail customers (4m), breaking down to NOK 12m on residential mortgage borrowers, NOK 15m on agricultural customers and NOK 4m on retail customers of SpareBank 1 Finans Midt-Norge. The losses in fourth quarter is mainly due to negative migration in the portfolio. The actual losses in the retail market is still very low.

A net recovery of NOK 12m was recorded on loans to corporates (loss of NOK 27m), including a net recovery of NOK 60m (net recovery of NOK 27m) in the offshore portfolio and increased losses of NOK 48m

on loans to other business and industry. NOK 44m of the latter figure is in the bank and is distributed across a wide range of customers and segments as a result of migration to Stage 2. Losses on loans measure 0.04 per cent (0.07 per cent) of total outstanding loans.

In light of improved market prospects for the offshore industry a higher level of freight rates is employed in our impairment simulations for the offshore portfolio. Moreover, the downside scenario weighting is reduced for supply and subsea. This contributes significantly to lower impairments. Further, the singular treatment of clients in the hotel/tourism industry no longer applies. In the case of other corporates and personal customers no changes are made in scenario weights. The PD path for other corporates is raised early in the simulation period in the downside scenario, contributing to somewhat larger impairment write-downs.

Overall impairment write-downs on loans and guarantees total NOK 1,188m (1,520m).

Overall problem loans (Stage 3) come to NOK 2,044m (3,290m) corresponding to 0.97 per cent (1.68 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Much of the decline is due to the fact that a large offshore exposure completed its quarantine period in the second quarter 2022.

Total assets of NOK 223bn

The bank's total assets were NOK 223bn (199bn), having risen as a result of higher lending and higher liquidity holdings.

Loans totalling NOK 59bn (48bn) have 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.

Lending

Total outstanding loans rose in 2022 by NOK 15.9bn (12.6bn), corresponding to 8.1 per cent (6.9 per cent), and stood at NOK 211.2bn (195.4bn) at year-end. Growth in the fourth quarter was 1.1 per cent (1.8 per cent).

- Lending to personal customers rose by NOK 8.9bn (8.4bn) to NOK 141.8bn (132.9bn) in the last 12 months. Growth in the period was 6.7 per cent (6.8 per cent). In the fourth quarter growth was 1.0 per cent (1.6 per cent)
- Lending to corporate clients rose by NOK 7.0bn (4.1bn) to NOK 69.4bn (62.5bn) in the last 12 months. Growth in the period was 11.1 per cent (7.1 per cent). Growth in the fourth quarter was 1.4 per cent (2.1 per cent)
- Lending to personal customers accounted for 67 per cent (68 per cent) of total outstanding loans to customers.

Good, albeit somewhat diminishing, growth is noted in lending to personal customers. Growth has over time exceeded credit growth to households (C2), and the group is strengthening its market position. The growth in lending to corporate clients is largely to small and medium-sized businesses throughout the market area. The growth is distributed across a number of segments, and industry and single name concentrations are avoided.

(For distribution by sector, [see note 5](#))

Deposits

Customer deposits rose in 2022 by NOK 10.7bn (13.8bn) to NOK 122.0bn (111.3bn). This represents a growth of 9.6 per cent (14.1 per cent). Growth in the fourth quarter was 1.2 per cent (1.5 per cent).

- Personal deposits rose by NOK 3.7bn (4.0bn) to NOK 48.3bn (44.6bn), corresponding to 8.4 per cent (9.8 per cent). In the fourth quarter growth was 1.4 per cent (1.4 per cent)
- Corporate deposits rose by NOK 7.0bn (9.8bn) to NOK 73.7bn (66.7bn), corresponding to 10.5 per cent (17.2 per cent). In the fourth quarter growth was 1.1 per cent (1.5 per cent)
- The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 58 per cent (57 per cent).

Deposit growth has been very high due to the pandemic, but normalised in 2022. Deposits are an important funding source for the bank, and the bank has made plans to strengthen deposit growth in the personal market.

(For distribution by sector, see [note 9](#)).

Personal customers

RM, Result before tax (NOKm)	4Q 22	3Q 22	4Q 21
Personal market	371	322	288
EiendomsMegler 1	-6	12	1

The Personal Banking Division and EiendomsMegler 1 Midt-Norge offer a broad range of financial services. Improved coordination between the bank and the real estate agency business affords customers a better service offering and contributes to increased growth and profitability.

Profit and loss account (NOKm)	4Q 22	3Q 22	4Q 21
Net interest	476	367	306
Comission income and other income	176	208	225
Total income	651	575	531
Total operating expenses	253	241	244
Ordinary operating profit	398	334	288
Loss on loans, guarantees etc.	27	11	0
Result before tax including held for sale	371	322	288
Balance			
Loans and advances to customers	147,426	145,433	137,672
Adv.of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-57,134	-57,299	-46,821
Deposits to customers	54,930	54,458	50,691
Key figures			
Return on equity per quarter *)	16.2 %	14.7 %	12.8 %
Lending margin	0.39 %	0.39 %	1.25 %
Deposit margin	2.19 %	1.67 %	0.43 %

*) Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 17.2 percent to be in line with the capital plan

The **Personal Banking Division** achieved a pre-tax profit of NOK 371m (288m), and NOK 322m in the previous quarter.

Loans granted by the Personal Banking Division total NOK 147bn (138bn) and deposits total NOK 55bn (51bn). These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income posted by the division totalled NOK 651m (531m) and NOK 575 in the previous quarter. Net interest income accounted for NOK 476m (306m) and NOK 367m in the third quarter. Commission income totalled NOK 176m (225m) and NOK 208m in the previous quarter. Net interest income has risen compared with the fourth quarter of 2021 as a result of growth and a strengthened deposit margin, while lower margins on loans have weakened net interest income and commissions from SpareBank 1 Boligkreditt.

The lending margin was 0.39 per cent (1.25 per cent) and in the third quarter of 2022 also 0.39 per cent. The deposit margin was 2.19 per cent (0.43 per cent) and 1.67 per cent in the previous quarter (measured against three-month NIBOR). The market interest rate in terms of three-month NIBOR rose from the third quarter of 2022 by about 90 basis points which strengthened the deposit margin in the fourth quarter.

Lending to and deposits from personal customers grew by 7.1 per cent (6.6 per cent) and 8.4 per cent (6.8 per cent) respectively in the last 12 months. In the fourth quarter growth in lending and deposits came to 1.4 per cent (1.7 per cent) and 0.9 per cent (1.6 per cent) respectively.

Lending to personal customers consistently carries low risk, as reflected in continued low losses. The loan portfolio is largely secured by residential property. Loan losses of NOK 27m (11m) were recorded in the fourth quarter 2022.

Eiendomsmegler 1 Midt-Norge is the market leader in Trøndelag and in Møre and Romsdal. Operating income came to NOK 93m in the fourth quarter (100m) and expenses totalled NOK 100m (100m), bringing a pre-tax profit of minus NOK 6m (0m). Weakly falling house prices due to higher mortgage interest rates were a feature of the second half of 2022 in which the transaction volume also fell slightly compared with the previous year. 1,486 properties were sold in the fourth quarter compared with 1,773 in the same period of 2021. The company's market share at 31 December 2022 was 37 per cent (36 per cent).

Corporate customers

CM, Result before tax (NOKm)	4Q 22	3Q 22	4Q 21
Corporate banking	443	322	229
SpareBank 1 Regnskapshuset SMN (88.7%)	20	22	3
SpareBank 1 Finans Midt-Norge (56.5%)	51	44	45

The corporate business at SpareBank 1 SMN consists of the bank's corporate banking arm, SpareBank 1 Regnskapshuset SMN and SpareBank 1 Finans Midt-Norge. These business lines service business and industry with a complete range of accounting, banking and capital market services.

CM, Profit and loss account (NOKm)	4Q 22	3Q 22	4Q 21
Net interest	458	361	291
Comission income and other income	85	75	78
Total income	544	436	370
Total operating expenses	119	114	120
Ordinary operating profit	425	322	249
Loss on loans, guarantees etc.	-19	1	20
Result before tax including held for sale	443	322	229
Balance			
Loans and advances to customers	51,822	52,047	47,585
Adv.of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-1,481	-1,354	-1,231
Deposits to customers	62,920	62,638	59,619
Key figures			
Return on equity per quarter *)	26.0 %	18.4 %	13.5 %
Lending margin	2.23 %	2.05 %	2.39 %
Deposit margin	0.47 %	0.27 %	-0.16 %

*) Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 17.2 percent to be in line with the capital plan

The **Corporate Banking Division** achieved a pre-tax profit of NOK 443m (NOK 229m) and NOK 322m in the fourth quarter of 2022. Lower losses strengthen the profit performance.

Outstanding loans to corporates totalled NOK 52bn (46bn) and deposits totalled NOK 63bn (60bn) as at 31 December 2022. This is a diversified portfolio of loans to and deposits from corporate clients in Trøndelag and Møre and Romsdal.

Operating income came to NOK 544m (370m) and NOK 436m in the third quarter. Net interest income was NOK 458m (291m) and NOK 361m in the third quarter. Commission income totalled NOK 85m (78m) compared with NOK 75m in the third quarter. Lending margins increased in the quarter while deposit margins were at the same level as the previous quarter. Increased loan and deposit volumes have strengthened the earnings base. Good growth in commission income refers to increased guarantee commissions and payments incomes.

The lending margin was 2.23 per cent (2.39 per cent) and the deposit margin was 0.47 per cent (minus 0.16 per cent). Lending growth in 2022 was 8.9 per cent (6.1 per cent) while deposits rose 5.5 per cent (20.6 per cent). Lending growth in the quarter was minus 0.4 per cent (growth of 1.6 per cent) and deposit growth was 0.4 per cent (1.0 per cent).

A net recovery of NOK 19m was recorded on loans to the bank's corporate clients (loss of 20m) and NOK 1m in the third quarter.

SpareBank 1 SMN and SpareBank 1 Regnskapshuset SMN each have a large proportion of businesses in the market area as customers. Development of the customer offering aims to ensure that customers see the added value of being a customer of both the bank and Regnskapshuset.

As a result of the strengthened focus on SMBs, many new customers have opted for SpareBank 1 SMN as their bank in 2022 and 2021. Corporate customers have strong links with the bank and customer turnover is extremely low.

SpareBank 1 Finans Midt-Norge delivered a pre-tax profit of NOK 51m (45m). The company's focal areas are leasing and invoice purchasing services to businesses and car loans to personal customers.

The company's incomes totalled NOK 87m (93m). Costs in the fourth quarter of 2022 totalled NOK 25m (35m). Losses totalled NOK 11m (12m).

The company has leasing agreements with and loans to corporate customers worth a total of NOK 5.2bn (4.2bn) and car loans worth NOK 7.0bn (6.0bn). Growth in 2022 was 23.8 per cent and 16.7 per cent respectively.

SpareBank 1 Finans Midt-Norge and other SpareBank 1 banks own 47 per cent of the shares of the car subscription company Fleks. Fleks offers flexible car subscription solutions. Along with electrification of the car population, the car subscription system makes for reduced emissions. Fleks currently has 3,000 cars and is the market leader in Norway. SpareBank 1 Finans Midt-Norge recognised a profit share from Flex of minus NOK 5m in the fourth quarter (plus 6m).

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 20m (3m). Operating income was NOK 139m (122m) and expenses were NOK 119m (118m).

The company is making a considerable change to its business model involving digitalisation and a revamp of its organisation. Modern cloud-based subscription solutions are offered along with a broad range of accounting advisory services.

The company acquired five accountancy firms in 2022 with a view to expanding its presence in the company's catchment area, and achieved organic turnover growth of 8 per cent.

Customer recruitment has risen accompanied by a reduction in customer turnover. Income from advisory services rose 22 per cent in 2022 and a large number of companies had switched to modern cloud-based accounting systems by year-end.

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

SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It employs 160 FTEs.

SpareBank 1 Markets' pre-tax profit was NOK 70m (51m).

Activity levels in the respective business lines were high in the quarter. The market in particular for advisory services and to some extent for management of stock issues has picked up compared with the previous quarter, providing good incomes for Investment Banking but to a lesser degree for stockbroking. Earnings from fixed income and forex business were on the increase. Overall incomes came to NOK 251m (215m). Operating expenses totalled NOK 116m (108m).

SpareBank 1 Markets has developed into one of the largest Norwegian brokerages with a strong position in several product areas, and is the leading capital market unit in SpareBank 1 SMN's market area. The announced amalgamation of the capital market units of SpareBank 1 Markets, SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge is under preparation and is expected to contribute to higher and more diversified earnings. The merger is currently scheduled to take place in March 2023, but this is dependent on the government authorities' process.

SpareBank 1 SMN Invest

The company owns shares in regional businesses. The portfolio is managed together with other long-term shareholdings of the bank and will be scaled down.

The pre-tax profit was minus NOK 21m (minus 4m) and in the previous quarter minus NOK 30m.

The company held shares worth NOK 580m (592m) as at 31 December 2022.

At 31 December 2022

Good profit

SpareBank 1 SMN reports a net profit of NOK 2,785m (2,902m), and a return on equity of 12.3 per cent (13.5 per cent). The profit is NOK 117m lower than in 2021 due to weaker results from SpareBank 1 Gruppen and weak return on financial investments. At the same time operating income has risen and losses have fallen. Earnings per equity certificate were NOK 12.82 (13.31).

Net interest income came to NOK 3,339m (2,805m). Average NIBOR in 2022 was about 160 basis points higher than in the previous year, and Norges Bank raised its base rate to 2.75 per cent over the year. Lending margins were on average reduced by about 65 basis points compared with 2021, while deposit margins rose about 80 points. Both loans and deposits have risen, which together with higher return on equity has strengthened net interest income.

Net commission income was NOK 2,042m (2,141m). The income decline of NOK 99m is mainly explained by reduced commissions from Boligkreditt resulting from lower margins on loans sold to the company. Increased income was achieved on payment, insurance and accounting services.

Return on financial investments (incl. dividends) was minus NOK 61m (gain of 134m). The decline is ascribable to reduced return on the group's equity portfolios and weak return on the liquidity holding.

The result from related companies was NOK 442m (705m). The insurance businesses in

SpareBank 1 Gruppen show a decline in profit while BN Bank reports profit growth.

Operating expenses totalled NOK 2,443m (2,360m), an increase of NOK 83m or 3.5 per cent. Of this figure, NOK 22m refers to costs of the planned merger with SpareBank 1 Søre Sunnmøre.

A net recovery of NOK 7m was recorded on loan losses (161m). On loans to corporate clients there was a net recovery of NOK 51m (159m). Lower losses in the offshore segment explain much of the reduction. Loans to personal customers saw a net loss of NOK 44m (1m).

Lending grew 8.1 per cent (6.9 per cent). Growth in lending to personal customers was 6.7 per cent (6.8 per cent). Lending to corporate clients increased by 11.1 per cent (7.1 per cent).

Deposits rose 9.6 per cent (14.1 per cent). Deposits from personal customers rose 8.4 per cent (9.8 per cent) while deposits from corporate clients rose 10.5 per cent (17.2 per cent).

Personal customers

Result before tax	Jan- Dec 2022	Jan- Dec 2021
Personal market	1,296	1,167
EiendomsMegler 1 Midt-Norge (87%)	58	71

The bank's **personal banking arm** achieved a pre-tax profit of NOK 1,296m (1,167m) in 2022. Return on capital employed in the retail segment was 13.6 per cent (13.4 per cent).

Overall operating income came to NOK 2,283m (2,074m). Net interest income accounted for NOK 1,491m (1,165m) and commission income for NOK 792m (908m). Commission income is weakened mainly as a result of lower commissions from SpareBank 1 Boligkreditt, but incomes from payments services and insurance products concurrently rose.

Growth in lending to and deposits from the personal segment was 7.1 per cent (6.6 per cent) and 8.4 per cent (6.8 per cent) respectively in the last 12 months.

The lending margin was 0.72 per cent (1.53 per cent), while the deposit margin was 1.34 per cent (0.13 per cent) measured against three-month NIBOR. Lending margins were reduced by about 80 basis points in 2022 while deposit margins increased by about 120 basis points.

Loan losses of NOK 29m were recorded (recovery of NOK 10m).

EiendomsMegler 1 Midt-Norge. Operating income was NOK 429m (453m), while operating expenses were NOK 371m (382m). EiendomsMegler 1 Midt-Norge's pre-tax profit was NOK 58m (71m). Somewhat lower activity in the housing market in 2022 resulted in 6,887 property sales in 2022 compared with 7,771 in 2021.

Corporate customers

Result before tax	Jan-Dec 2022	Jan-Dec 2021
Corporate banking	1,403	795
SpareBank 1 Regnskapshuset SMN (88.7%)	96	85
SpareBank 1 Finans Midt-Norge (56.5%)	191	198

The bank's **corporate banking arm** achieved a pre-tax profit of NOK 1,403m (795m) in 2022. The profit improvement is due to good growth, a strong increase in operating income and lower losses. Return on capital employed for the corporate segment was 20.8 per cent (11.5 per cent).

Operating income was NOK 1,804m (1,386m). Net interest income came to NOK 1,505m (1,120m) and commission income (including income from forex business) to NOK 299m (266m).

Lending increased by 10.2 per cent (7.4 per cent) and deposits by 5.5 per cent (20.6 per cent) in 2022.

The lending and deposit margins were 2.31 per cent (2.61 per cent) and 0.15 per cent (minus 0.29 per cent) respectively. Lending margins were reduced by 30 basis points in 2022 while deposit margins increased by 44 points.

A net recovery of NOK 66m was recorded on losses in the bank's corporate segment (loss of 145m).

SpareBank 1 Finans Midt-Norge reported a pre-tax profit of NOK 191m (198m).

The company's earnings totalled NOK 329m (364m). Expenses as at 31 December 2022 came to NOK 108m (141m). Losses were NOK 30m (25m).

SpareBank 1 Regnskapshuset SMN achieved a pre-tax profit of NOK 96m (85m). Operating income was NOK 607m (562m) and expenses were NOK 511m (476m).

SpareBank 1 Markets' pre-tax profit for 2022 was NOK 206m (254m). The company's incomes in 2022 totalled NOK 780m (901m) while expenses came to NOK 574m (633m). High activity in the business lines generated high incomes in 2021 and 2022 alike.

Good funding and liquidity

Price growth accelerated through 2022. Central banks have raised base rates substantially in a short space of time and signalled further rate increases. Rapid price growth and higher interest rates have served to dampen economic activity. There are now signs that price growth has peaked in many countries. In the fourth quarter activity in the Norwegian economy remained high and the labour market was tight. Many businesses anticipate lower activity ahead. Uncertainty as to growth and inflation prospects and the geopolitical situation has contributed to substantial fluctuations in financial markets over the year. Credit spreads have risen markedly, but narrowed somewhat towards the end of the year.

The bank is in a good liquidity position and has ample access to long-term funding.

The bank has a conservative liquidity strategy, with liquidity reserves that ensure the bank's survival for 12 months of ordinary operation without need of fresh external funding.

The bank is required 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 was 239 per cent as at 31 December 2022 (138 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 December 2022 was 58 per cent (57 per cent).

The bank's funding sources and products are amply diversified.

SpareBank 1 Boligkreditt and Næringskreditt are the bank's most important funding sources, and loans totalling NOK 57bn (48bn) had been sold to these mortgage companies as at 31 December 2022.

In the fourth quarter the bank issued senior debt worth NOK 1.8bn and hybrid capital worth NOK 700m. As at 31 December 2022 SpareBank 1 SMN held NOK 7.1bn in senior non-preferred debt (MREL), SpareBank 1 SMN will meet the MREL requirements by the end of 2023.

Rating

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

Financial soundness

The CET1 ratio at 31 December 2022 was 18.9 per cent (18.0 per cent). The CET1 requirement is 15.4 per cent, including combined buffer requirements and a Pillar 2 requirement of 1.9 per cent. Finanstilsynet set a new Pillar 2 requirement for SpareBank 1 SMN on 30 April 2022. The 1.9 per cent rate is unchanged, but the bank is subject to a provisional add-on of 0.7 per cent to its Pillar 2 requirement until its application for adjustment of IRB models has been processed.

Finanstilsynet has resolved that SpareBank 1 SMN is to have a Pillar 2 guidance of 1.25 per cent over and above overall capital requirements. This brings the bank's long-term CET1 ratio target to 17.2 per cent.

The CET1 ratio shows a 0.3 percentage point decline from the third quarter. Risk weighted assets grew 2.3 per cent in the fourth quarter. A good profit performance has in isolation strengthened CET1 capital, but reversed basis swap effects at SpareBank 1 Boligkreditt and an increased deduction in respect of holdings in other group entities have brought a 0.5 per cent strengthening of CET1 capital overall. A payout ratio of 50.7 per cent of the group's net profit for 2022 is assumed.

A leverage ratio of 7.3 per cent (6.9 per cent) shows the bank to be very solid.

Sustainability

Over the course of the fourth quarter SpareBank 1 SMN finalised its calculation of greenhouse gas emissions from the loan portfolio and its own operations. The figures show that the loan portfolio represents a greenhouse gas emission of 1.1 million tonnes of CO₂ in 2022, around 98 per cent of the group's total emissions. Emissions increased by 5.6 per cent from the previous year, mainly as a result of increased lending volumes. The group's emissions from its own operations amount to around 20,000 tonnes of CO₂ equivalents in 2022. The increase from 2021 of around 8,000 tonnes is due to a change in calculation methodology.

The work on drawing up transition plans for the bank's loan segments has been intensified. This, together with a good database, will be an important basis for the group's effort to achieve net zero emissions by 2050.

The group's materiality analysis was updated in the fourth quarter. In keeping with best practice a double materiality analysis was performed which takes the environment, social materiality and financial materiality into account. The analysis shows that several of the expectations from the previous materiality analysis remain, but that the group should do more to contribute to regional development, a circular economy and public health.

The bank's equity certificate (MING)

The market price of the equity certificate (EC) as at 31 December 2022 was NOK 127.40 (149.00), and the book value per EC was NOK 109.86 (103.48). Earnings per EC were NOK 12.82 (13.31). A total cash dividend of NOK 7.50 was paid per EC for 2021.

The Price / Income ratio was 9.94 (11.19) and the Price / Book ratio was 1.16 (1.44).

Outlook

SpareBank 1 SMN delivered a very good profit performance in 2022, and achieved its goals in terms of profitability and capitalisation. The business lines performed well and the group's market position is strengthened.

At the start of 2023 uncertainty in the economy persists with a reduction in households' purchasing power and increased pessimism in business and industry. Unemployment nonetheless remains extremely low in Mid-Norway, at the same time as there are signs that inflation is levelling off and expectations that the base rate is close to peaking.

The risk trend in SpareBank 1 SMN's loan portfolio is good. There is continued improvement in the offshore segment, but signs of increased risk in some industries. Uncertainty attends house prices and the demand for residential mortgages is diminishing. A number of customers are in dialogue with the bank for financial advice, and some increase is noted in enquiries about forbearance. The bank's advisers are skilled in the field of personal finances, are close to the customer and are present throughout Trøndelag and Møre and Romsdal.

SpareBank 1 SMN has a broad product platform with profitable subsidiaries and product companies which are expected to deliver good results, also in a situation of lower economic growth. In the course of the first quarter of 2023 SpareBank 1 Markets is to merge with the capital market units in SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge, thereby creating the basis for a larger and more diversified income base.

SpareBank 1 SMN is one of the country's largest savings banks. This position will be further reinforced through organic and structural growth. The merger with SpareBank 1 Søre Sunnmøre is important in this context and is expected reach completion in the beginning of May 2023.

The board of directors will recommend the supervisory board to set a cash dividend of NOK 6.50 per equity certificate (NOK 7.50) representing 50.7 per cent of the net profit, and to allocate NOK 474m (547m) to community dividend. The community dividend contributes to strengthening the region and the bank's market position. The proposed distribution is in line with the group's dividend policy.

The return expected by the market has risen partly as a result of higher interest rates and a general rise in banks' earnings. SpareBank 1 SMN aspires to be among the best performers in the Nordic region. The board of directors has resolved to raise the group's profitability target to 13 per cent return on equity, while at the same time adjusting the cost target. SpareBank 1 SMN's group strategy stands firm on achieving sustainable and profitable growth, further efficiency gains and good risk management. The board of directors is content with results achieved for 2022, and expects 2023 to be another good year for SpareBank 1 SMN.

Trondheim, 7 february 2023
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Christian Stav
(deputy chair)

Morten Loktu

Mette Kamsvåg

Tonje Eskeland Foss

Eli Skrøvset

Freddy Aursø

Christina Straub
(employee rep.)

Inge Lindseth
(employee rep.)

Jan-Frode Janson
(Group CEO)