

# Report of the Board of Directors

## First quarter 2023

*(Consolidated figures. Figures in parenthesis refer to the same period of 2022 unless otherwise stated)*

- Net profit: NOK 778m (698m)
- Return on equity: 13.0 per cent (12.6 per cent)
- CET1 ratio: 18.2 per cent (18.3 per cent )
- Growth in lending: 1.3 per cent (2.4 per cent) and in deposits: 1.2 per cent (growth of 2.5 per cent)
- Growth in lending over the past 12 months: 7.0 per cent (7.9 per cent) and in deposits: 8.3 per cent (11.4 per cent)
- Lending to personal customers rose by 0.7 per cent in the quarter (1.6 per cent), in the fourth quarter 2022 growth was 1.0 per cent. Lending to corporate clients rose by 2.5 per cent (4.0 per cent), compared with 1.4 per cent in the fourth quarter 2022.
- Deposits from personal customers rose by 1.3 per cent (2.2 per cent), compared with 1.4 per cent in the fourth quarter 2022. Deposits from corporate clients rose by 1.2 per cent (2.6 per cent), growth in the fourth quarter 2022 was 1.4 per cent.
- Net result of ownership interests: NOK 125m (62m)
- Net result of financial instruments (incl. dividends): minus NOK 97m (gain of 113m)
- Net recovery of losses on loans and guarantees: NOK 71m (0m), -0.13 per cent of gross lending (0 per cent)
- Earnings per equity certificate (EC): NOK 3.51 (3.20). Book value per EC: NOK 105.63 (99.55)
- In the first quarter of 2023, the accounts were debited by NOK 51 million as a result of the embezzlement committed against the bank in January 2023.

## Events in the quarter

### Interest rates continue to rise

Norges Bank raised its base rate to 3.00 per cent in March and to 3.25 per cent at the beginning of May. SpareBank 1 SMN has like other banks raised mortgage interest rates and deposit rates. At its interest rate meeting in March the central bank indicated a base rate hike to 3.50 – 3.75 per cent in the course of 2023.

The 12-month rate of growth in the consumer price index was 6.5 per cent at the end of the quarter, and Norges Bank expects the CPI to remain above the target level of 2 per cent up to 2026. 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 a tighter monetary policy stance are reducing households' purchasing power. This is expected to affect firms' activity in the period ahead. More customers are turning to the bank for financial advice, but so far no significant increase in loan defaults is in evidence.

Figures for the first quarter 2023 indicate that the number of bankruptcies in the region is nearing the level prior to the pandemic. For SpareBank 1 SMN's part the credit risk trend in the corporate portfolio is acceptable. While continued improvement is seen in the offshore segment, 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, retail trade and commercial property.

**Embezzlement case**

On 19 January SpareBank 1 SMN reported a hired replacement employee to the police for gross embezzlement. The matter was brought to light by the bank's own control systems. 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. NOK 15m was returned to the bank from the police after being placed in safekeeping. SpareBank 1 SMN has insurance cover against economic crime, including embezzlement. The claim against the insurer is a contingent asset under IAS 37 which is not recognised as income since the standard requires an absence of all uncertainty as to the claim settlement before recognition can take place. The insurance policy carries a deductible of NOK 5m.

**Merger with SpareBank 1 Søre Sunnmøre**

Over the course of the first quarter the banks carried out a comprehensive merger project, and a successful legal merger was completed on 2 May. SpareBank 1 Søre Sunnmøre is now a part of SpareBank 1 SMN, and work on achieving business gains of the merger is under way.

**Results for the first quarter of 2023**

The first quarter net profit was NOK 778m (698m), and return on equity was 13.0 per cent (12.6 per cent). The net profit is NOK 10m better than in the fourth quarter. The profit growth from last year's fourth quarter is largely due to increased net interest income and reduced losses.

Earnings per equity certificate (EC) were NOK 3.51 (3.20) and the EC's book value was NOK 105.63 (99.55). In the fourth quarter 2022 earnings per EC were NOK 3.53.

Net interest income totalled NOK 1,035m (759m), which is NOK 73m higher than in the fourth quarter and NOK 275m better than in the same quarter last year. In the first quarter 2023 a flattening of the base rate and the interest rate increases has resulted in increased margins on loans and reduced margins on deposits. Increased lending and deposit volumes, along with higher return on equity, have strengthened net interest income.

Net commission and other income rose from the previous quarter by NOK 68m to NOK 541m (522m). Increased incomes from accounting services are the main reason for the growth from the fourth quarter.

The group's share of the results from ownership interests and related companies was NOK 125m (62m). In the fourth quarter the profit share was NOK 195m. The decline from the fourth quarter is mainly down to a profit decline recorded by SpareBank 1 Gruppen. A positive profit performance was posted by BN Bank in which SpareBank 1 SMN holds a 35 per cent stake.

Return on financial investments (incl. dividends) was minus NOK 97m (gain of 113m) and in the fourth quarter minus NOK 33m.

Operating expenses came to NOK 728m (629m) and in the fourth quarter to NOK 646m. The first quarter 2023 accounts are debited by NOK 51m as a result of the embezzlement committed against the bank in January 2023, and NOK 15m in merger costs.

A net recovery of NOK 71m was (0m) was recorded on losses on loans and guarantees in the first quarter and a loss of NOK 19m in the fourth quarter. The first quarter saw a reversal of previous loss write-downs on offshore exposures totalling NOK 137m.

Overall lending grew by 7.0 per cent (7.9 per cent) and deposits by 8.3 per cent (11.4 per cent) in the last 12 months. In the first quarter lending growth was 1.3 per cent (2.4 per cent) and deposit growth 1.2 per cent (2.5 per cent). Growth in credit to households has slowed, and growth in SpareBank 1 SMN's mortgage lending has been on the decline, but above the credit growth to households in the past year.

As at 31 March 2023 the CET1 ratio was 18.2 per cent (18.3 per cent), a decline of 0.7 per cent from the previous quarter. The CET1 ratio target is 17.2 per cent.

### Increased net interest income

Norges Bank raised its base rate to 3.00 per cent in March 2023. Market interest rates in terms of NIBOR have risen substantially, and were approximately 3.30 per cent at the end of the first quarter 2023 compared with 1.18 at the end of the first quarter 2022. The bank has raised mortgage and deposit rates in step with the changes in the base rate, most recently with effect from 1 February 2023. A further increase is announced with effect from 11 May 2023 following Norges Bank's base rate hike on 23 March.

Net interest income totalled NOK 1,035m (759m) compared with NOK 961m in the fourth quarter 2022. The increase of NOK 73m from the fourth quarter is 7.6 per cent. Average market interest rates in the fourth quarter 2022 and the first quarter 2023 were at approximately the same level. Margins on residential mortgages and loans to corporates rose, while margins on deposits fell in the quarter. Compared with the first quarter 2022, increased deposit margins, growth in lending and deposits along with higher return on equity have strengthened net interest income.

Norges Bank has revised up its forecast for the base rate, and has signalled a rate of 3.50 per cent in summer 2023.

### Commission income and other operating income

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

Commission income (NOKm)	1Q 23	4Q 22	1Q 22
Payment transfers	72	91	69
Creditcard	17	15	15
Saving products	10	11	9
Insurance	61	60	57
Guarantee commission	16	25	19
Real estate agency	105	94	94
Accountancy services	188	127	156
Other commissions	11	14	14
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	480	438	434
Commissions SB1 Boligkreditt	57	32	84
Commissions SB1 Næringskreditt	3	4	4
<b>Total commissions</b>	<b>541</b>	<b>473</b>	<b>522</b>

Commission income and other operating income totalled NOK 541m (522m) compared with NOK 473m in the fourth quarter 2022.

Commission income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt altogether totalled NOK 60m (88m). In the fourth quarter 2022 commissions came to NOK 36m. The increase in the first quarter 2023 compared with the preceding quarter is due to higher margins on loans sold to SpareBank 1 Boligkreditt.

Other commission income totalled NOK 480m (434m) compared with NOK 438m in the fourth quarter. The increase from both the fourth quarter and first quarter of 2022 relates mainly to accounting services.

### Return on financial investments

Return on financial investments in the first quarter was minus NOK 99m (111m) and in the fourth quarter minus NOK 52m. The group's shareholdings showed a capital loss of NOK 17m (gain of 137m). Financial instruments, including bonds and CDs, showed a capital loss of NOK 105m (loss of 33m) as a result of increased credit margins and interest rate turbulence. Income of NOK 23m (8m) from forex transactions refers to corporate clients' currency trading and agio on the bank's funding in foreign currencies.

Return on financial investments (NOKm)	1Q 23	4Q 22	1Q 22
Capital gains/losses shares	-17	-23	137
Gain/(loss) on financial instruments	-105	-55	-33
Foreign exchange gain/(loss)	23	25	8
<b>Net return on financial instruments</b>	<b>-99</b>	<b>-52</b>	<b>111</b>

### 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 125m (62m). In the fourth quarter the figure was NOK 195m.

Income from investment in associated companies (NOKm)	1Q 23	4Q 22	1Q 22
SpareBank 1 Gruppen (19.5%)*	34	128	13
SpareBank 1 Boligkreditt (22.6%)	33	-1	-5
SpareBank 1 Næringskreditt (16.3%)	2	2	0
BN Bank (35.0 %)	62	54	49
SpareBank 1 Kreditt (18.0 %)	-4	0	3
SpareBank 1 Betaling (20.8%)	-8	22	-5
SpareBank 1 Forvaltning (19.6%)	8	5	8
Other companies	-3	-15	-1
<b>Income from investment in associated companies</b>	<b>125</b>	<b>195</b>	<b>62</b>

\* SpareBank 1 Gruppen has implemented IFRS 17 from 01 January 2023, comparison figures have not been reinstated but information about the effect is shown in Note 1.

### SpareBank 1 Gruppen

The company owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Factoring and SpareBank 1 Spleis. The company is majority owner of Fremtind Forsikring with a 65 per cent stake, and owns 50 per cent of Kredinor.

SpareBank 1 Gruppen's profit share from SpareBank 1 Gruppen was NOK 34m (13m) and in the fourth quarter 2022 NOK 128m. The group has not restated comparatives, but the effect on the group's net profit is shown in note 1.

SpareBank 1 Gruppen's post-tax profit in the first quarter 2023 was NOK 272m (289m). Of the profit of NOK 272m, NOK 176m (188m) accrues to the majority owners of SpareBank 1. Return on equity in the first quarter 2023 was 7.8 per cent (8.3 per cent).

As at 1 January 2023, a negative implementation effect on equity upon the transition to IFRS 17 and IFRS 9 was recognised in an amount of NOK 1,045, of which SpareBank 1 SMN's share is NOK 202m. The effect of IFRS 17 will be reversed over time when incomes are recognised in step with the reduction in the insurance obligation. SpareBank 1 Gruppen has restated its comparatives.

**Fremtind Forsikring** posted a profit of NOK 274m (293m) after tax in the first quarter 2023 and a return on equity of 12.7 per cent (13.9 per cent).

The result of insurance services was NOK 267m (420m). The result from insurance services includes incomes, IFRS 17 expenses (operating expenses and commissions), claims paid, best estimate changes, risk adjustment, loss component and changes in self-supporting arrangements and the net result of reinsurance contracts.

Net income from investments came to NOK 295m (minus 318m), NOK 613m higher than in the same period last year. Incomes are affected by a positive development in equity markets and improved interest yield following the sharp interest rate rise in 2022. Premiums for sums insured increased by NOK 374m (218m) in the first quarter, corresponding to an annual growth of 10.2 per cent (6.8 per cent).

The net insurance-related financial result was minus NOK 147m (364m). The net financial result of insurance services comprises the discounting effect on provisions, and is affected by the negative trend in the interest rate curve.

**SpareBank 1 Forsikring** reported a profit of NOK 44m (minus 16m) after tax and a return on equity of 4.6 per cent (minus 1.9 per cent).

The result of insurance services came to NOK 6m (30m) in the first quarter, which is a reduction of NOK 24m from the same period last year. The fall is mainly due to increased expenses related to insurance services since actual expenses from insurance services were higher than expected.

Net income from investments was NOK 646m (minus 547m), an improvement of NOK 1,193m from the previous year. The improvement is due to improved return on financial assets. Financial income related to the company's funds accrues to the company in its entirety.

Net insurance-related financial costs were minus NOK 584m (plus 501m), a reduction of NOK 1,085m compared with the same period of 2022. The negative result and the decline from last year is attributable to the portion of net incomes from investments that accrues to insurance customers.

The sum of net income from investments and the net insurance-related financial result came to NOK 62m (minus 47m), an improvement of NOK 109m from the first quarter 2022.

**Kredinor** is for SpareBank 1 Gruppen a joint venture with an owner stake of 50 per cent. SpareBank 1 Gruppen's share of the company's deficit was NOK 15m after tax. By the end of the quarter, portfolios worth about NOK 50m had been written down in the Kredinor group.

**SpareBank 1 Factoring** posted a first-quarter profit of NOK 18m (17m) after tax, and has shown a positive trend in incomes and portfolios.

**SpareBank 1 Spleis** recorded pre-tax profit of minus NOK 5m (minus 4m).

### **SpareBank 1 Forvaltning**

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

verdipapirservice has been merged into the parent company SpareBank 1 Forvaltning, which also own Odin Forvaltning. SpareBank 1 SMN owns 19.6 per cent of the company, and the profit share in the first quarter was NOK 8m (8m) and in the fourth quarter NOK 5m.

Capital in managed funds has grown by NOK 11bn in 2023 and amounted to NOK 106bn as at 31 March 2023, the same level as one year ago. Net new subscription in the quarter totalled NOK 1.9bn.

### **SpareBank 1 Boligkreditt**

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

As at 31 March 2023 the bank had sold loans totalling NOK 59.1bn (51.2bn) to SpareBank 1 Boligkreditt, corresponding to 41.3 per cent (38.0 per cent) of the bank's overall lending to retail borrowers.

The bank's ownership stake is 22.6 per cent and its share of the company's net profit was NOK 33m (minus 5m). The first quarter's high net profit is in all essentials related to reversal of unrealised capital losses on the company's own debt in the fourth quarter 2022.

### **SpareBank 1 Næringskreditt**

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 March 2023, loans worth NOK 1.7bn (1.7bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's share of the profit was NOK 2m (0m). SpareBank 1 SMN holds a stake of 16.3 per cent.

### **SpareBank 1 Kreditt**

SpareBank 1 SMN's share of the first quarter net profit was minus NOK 4m (gain of 3m). SpareBank 1 SMN customers' portfolio of credit cards and consumer loans totalled NOK 1,293m (1,076m) and its stake was 18.0 per cent.

In the first quarter the company recorded a deficit of NOK 22.5m (profit of 16.7m). The decline was down to increased interest expenses and losses. As at 31 March 2023 the company's overall portfolio was worth NOK 8.1bn (6.2bn). The growth is ascribable both to credit cards and repayment loans.

### **BN Bank**

BN Bank offers residential mortgages and loans to commercial property and its main market is Oslo and south-eastern Norway. BN Bank showed good growth of 8.1 per cent in lending to personal customers in the last 12 months (14.4 per cent) and growth of 0.5 per cent in the first quarter (2.3 per cent). The growth in lending to corporate clients was 6.9 per cent in the last 12 months (5.0 per cent) and 0.9 per cent in the first quarter (4.2 per cent). Total outstanding loans come to NOK 57bn (53bn).

BN Bank recorded a net profit of NOK 183m (143m) in the first quarter, providing a return on equity of 13.5 per cent (11.6 per cent). Increased net interest income and reduced losses explain the profit growth.

SpareBank 1 SMN's share of BN Bank's profit is NOK 62m (49m).



## SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company in Vipps AS. SpareBank 1 SMN has a 20.8 per cent stake in the company and its profit share was minus NOK 8m (minus 5m) in the first quarter. The result for the fourth quarter 2022 was affected by the merger with MobilePay by a gain of NOK 29 million.

## Operating expenses

Operating expenses (NOKm)	1Q 23	4Q 22	1Q 22
Staff costs	398	333	375
IT costs	106	100	89
Marketing	23	24	19
Ordinary depreciation	29	33	29
Operating expenses, real properties	16	9	22
Purchased services	38	53	52
Merger expenses	15	22	0
Other operating expense	104	73	44
<b>Total operating expenses</b>	<b>728</b>	<b>646</b>	<b>629</b>

Overall expenses in the first quarter came to NOK 728m (629m), an increase of NOK 99m compared with the same period of 2022. Overall expenses in the fourth quarter 2022 were NOK 646m. Adjusted for the costs related to the embezzlement committed against the bank in January 2023 and expenses related to the merger, the growth in costs and expenses from the first quarter 2022 was 5.3 per cent, mainly comprising growth in salaries and prices.

The subsidiaries show expense growth of NOK 19m compared with the same period of last year, with the highest growth reported by SpareBank 1 Regnskapshuset SMN. This company is carrying out a substantial change of strategy bringing increased personnel and technology costs but also substantial income growth.

The bank recorded expenses of NOK 469m (389m) and in the previous quarter NOK 416m. In the first quarter 2023 the accounts were debited by NOK 51m as a result of the embezzlement committed against the bank in January 2023. When adjusted for fraud and merger costs, growth from the first quarter 2022 was NOK 14m, corresponding to 4 per cent. The cost-income ratio was 45 per cent (43 per cent) for the group, 42 per cent (39 per cent) for the parent bank.

## Net recovery of losses

A net recovery of NOK 71m (0m) was recorded on losses and in the fourth quarter a loss of NOK 19m.

Impairment losses (NOKm)	1Q 23	4Q 22	1Q 22
RM	11	31	-5
CM	-82	-12	5
<b>Total impairment losses</b>	<b>-71</b>	<b>19</b>	<b>-0</b>

A net recovery of NOK 82m was recorded on loans to corporates (loss of NOK 5m), including a net recovery of NOK 137m (net recovery of NOK 12m) in the offshore portfolio and increased losses of NOK 55m (17m) on loans to other business and industry, distributed across a wide range of customers and segments. Losses on loans to other business and industry mainly comprise model losses resulting from a higher expected interest rate level and inflation.

A strong improvement is noted in the offshore segments, customers are achieving longer contracts on better terms and conditions and increasing use is made of vessels not on contract. A number of customers have excellent debt-servicing capacity, enabling reversal of parts of the bank's loss provisioning on those customers. Scenario weights in the offshore portfolio were normalised in the first quarter 2023 and are on a par with business and industry in general.

Losses of NOK 11m were recorded on retail customers (recovery of 5m).

Overall impairment write-downs on loans and guarantees total NOK 1,101m (1,351m).

Problem loans (Stage 3) total NOK 2,065m (3,243m) corresponding to 0.96 per cent (1.62 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Most of the decline from last year is due to improved market conditions in the offshore segment with an appurtenant reduction in problem loans.

### **Total assets of NOK 228bn**

The bank's total assets were NOK 228bn (207bn), having risen as a result of higher lending and higher liquidity holdings.

Loans totalling NOK 61bn (53bn) 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 the last 12 months by NOK 14.0bn (14.6bn), corresponding to 7.0 per cent (7.9 per cent), and stood at NOK 214.0bn (200.0bn) at quarter-end. Growth in the first quarter was 1.3 per cent (2.4 per cent).

- Lending to personal customers rose by NOK 7.8bn (9.5bn) to NOK 142.8bn (135.0bn) in the last 12 months. Growth of 5.8 per cent (7.6 per cent). In the fourth quarter 0.7 per cent (1.6 per cent)
- Lending to corporate clients rose by NOK 6.2bn (5.1bn) to NOK 71.1bn (65.0bn) in the last 12 months. Growth of 9.5 per cent (8.6 per cent). In the first quarter 2.5 per cent (4.0 per cent)
- Lending to personal customers accounted for 67 per cent (68 per cent) of total 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 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 the last 12 months by NOK 9.5bn (11.7bn) to NOK 123.5bn (114.1bn), corresponding to a growth of 8.3 per cent (11.4 per cent). Growth in the first quarter 1.2 per cent (2.5 per cent).

- Personal deposits rose by NOK 3.4bn (4.3bn) to NOK 48.9bn (45.6bn), corresponding to 7.4 per cent (10.3 per cent). In the fourth quarter 1.3 per cent (2.2 per cent)



- Corporate deposits rose by NOK 6.1bn (7.4bn) to NOK 74.6bn (68.5bn), corresponding to 8.9 per cent (12.1 per cent). In the first quarter 1.2 per cent (2.6 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 drawn up plans to strengthen the growth in personal deposits.

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

### Personal customers

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.

Result before tax (NOKm)	1Q 23	4Q 22	1Q 22
Personal market	372	371	274
EiendomsMegler 1	18	-6	14
<b>Total</b>	<b>390</b>	<b>365</b>	<b>287</b>

The **Personal Banking Division** achieved a pre-tax profit of NOK 372m (274m), and NOK 371m in the previous quarter.

Profit and loss account (NOKm)	1Q 23	4Q 22	1Q 22
Net interest	524	476	313
Commission income and other income	181	176	202
Total income	706	651	515
Total operating expenses	325	253	248
Ordinary operating profit	381	398	266
Loss on loans, guarantees etc.	9	27	-7
<b>Result before tax including held for sale</b>	<b>372</b>	<b>371</b>	<b>274</b>
<b>Balance</b>			
Loans and advances to customers	148,294	147,426	139,759
Adv. of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-59,306	-57,134	-51,477
Deposits to customers	55,948	54,930	52,321
<b>Key figures</b>			
Return on equity per quarter <sup>1)</sup>	15.8 %	16.2 %	13.0 %
Lending margin	0.93 %	0.39 %	1.04 %
Deposit margin	1.82 %	2.19 %	0.73 %

Loans granted by the Personal Banking Division total NOK 148bn (140bn) and deposits NOK 56bn (52bn). These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income posted by the division totalled NOK 706m (515m) and NOK 651m in the previous quarter. Net interest income accounted for NOK 524m (313m) and NOK 476m in the fourth quarter. Commission income totalled NOK 181m (202m) and NOK 176m in the previous quarter. Net interest income has risen compared with the first quarter 2022 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. A higher central bank base rate is the driver behind the margin changes. NIBOR stabilised in the first quarter 2023 and increases in lending rates had a positive effect.

The lending margin was 0.93 per cent (1.04 per cent) and in the fourth quarter 2022 0.39 per cent. The deposit margin was 1.82 per cent (0.73 per cent) and 2.19 per cent in the previous quarter.

Lending to and deposits from personal customers grew by 6.1 per cent (7.3 per cent) and 6.9 per cent (8.0 per cent) respectively in the last 12 months. In the first quarter growth in lending and deposits was 0.6 per cent (1.5 per cent) and 1.9 per cent (3.2 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. Net loan losses of NOK 9m (net recovery of 7m) were recorded in the first quarter.

**EiendomsMegler 1 Midt-Norge** is the market leader in Trøndelag and in Møre and Romsdal.

<b>EiendomsMegler 1 Midt-Norge (87%)</b>	<b>1Q 23</b>	<b>4Q 22</b>	<b>1Q 22</b>
Total income	107	93	95
Total operating expenses	89	100	81
<b>Result before tax (NOKm)</b>	<b>18</b>	<b>-6</b>	<b>14</b>
Operating margin	17 %	-7 %	15 %

Operating income came to NOK 107m in the fourth quarter (95m) and operating expenses ended at NOK 89m (81m), bringing a pre-tax profit of NOK 18m (14m). 1,587 properties were sold in the first quarter compared with 1,606 in the same period of 2022. The company continues to note good activity in the housing market despite higher interest rates and high inflation. However, much uncertainty attaches to how the market will absorb an even higher interest rate level after the summer.

Higher earnings per property sale compared with last year along with a stable cost trend contribute to an increase in the operating margin, from 15 per cent in the first quarter 2022 to 17 per cent in the first quarter 2023. The company's market share at 31 March 2023 was 38 per cent (37 per cent).

### Corporate customers

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 offer business and industry a complete range of accounting, banking and capital market services. Coordination between the business lines has a high priority and strengthens the group's position in the business sector.

<b>Result before tax (NOKm)</b>	<b>1Q 23</b>	<b>4Q 22</b>	<b>1Q 22</b>
Corporate banking	500	443	277
SpareBank 1 Regnskapshuset SMN (88.7%)	44	20	23
SpareBank 1 Finans Midt-Norge (54.3%)	53	51	53
<b>Total corporate customers</b>	<b>597</b>	<b>514</b>	<b>353</b>

The **Corporate Banking Division** achieved a pre-tax profit of NOK 500m (NOK 277m) and NOK 443m in the fourth quarter 2022. Lower losses strengthen the profit performance.

<b>CM, Profit and loss account (NOKm)</b>	<b>1Q 23</b>	<b>4Q 22</b>	<b>1Q 22</b>
Net interest	474	458	330
Comission income and other income	63	85	74
Total income	541	544	404
Total operating expenses	127	119	124
Ordinary operating profit	413	425	280
Loss on loans, guarantees etc.	-86	-19	3
<b>Result before tax including held for sale</b>	<b>500</b>	<b>443</b>	<b>277</b>
<b>Balance</b>			
Loans and advances to customers	53,245	51,822	49,764
Adv.of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-1,481	-1,481	-1,465
Deposits to customers	63,644	62,920	59,541
<b>Key figures</b>			
Return on equity per quarter <sup>1)</sup>	28.4 %	26.0 %	15.4 %
Lending margin	2.64 %	2.23 %	2.38 %
Deposit margin	0.27 %	0.47 %	-0.05 %

Outstanding loans to the bank's corporate customers total NOK 53bn (50bn) and deposits total NOK 64bn (60bn). This is a diversified portfolio of loans to and deposits from corporate clients in Trøndelag and in Møre and Romsdal.

Operating income came to NOK 541m (404m) and NOK 544m in the fourth quarter. Net interest income was NOK 474m (330m) and NOK 458m in the fourth quarter. Commission income totalled NOK 67m (74m) compared with NOK 85m in the fourth quarter. A levelling out of NIBOR combined with a lag in interest rate changes brought increased lending margins in the quarter, but reduced deposit margins. Increased loan and deposit volumes have strengthened the earnings base.

The lending margin was 2.64 per cent (2.38 per cent) and the deposit margin was 0.27 per cent (minus 0.05 per cent). Lending growth in the last 12 months was 7.0 per cent (7.7 per cent) while deposits rose 6.9 per cent (11.9 per cent). Lending growth in the quarter was 2.7 per cent (4.6 per cent) and deposit growth was 1.2 per cent (minus 0.1 per cent).

A net recovery of NOK 86m was recorded on loan losses to the bank's corporate clients (loss of 3m) and a net recovery of NOK 19m on losses in the third quarter. Market conditions in the offshore industry have improved markedly enabling a reversal of earlier impairment write-downs worth NOK 137m.

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 value of being a customer of both the bank and Regnskapshuset.

**SpareBank 1 Regnskapshuset SMN** posted a pre-tax profit of NOK 44m (23m) and an operating margin of 22 per cent (14 per cent). Operating income was NOK 202m (166m) and expenses were NOK 158m (143m).

<b>SpareBank 1 Regnskapshuset SMN (88.7%)</b>	<b>1Q 23</b>	<b>4Q 22</b>	<b>1Q 22</b>
Total income	202	139	166
Total operating expenses	158	119	143
<b>Result before tax (NOKm)</b>	<b>44</b>	<b>20</b>	<b>23</b>
Operating margin	22 %	15 %	14 %

The company is implementing a restructuring programme entitled "from accountant to accounting consultant". The object is to take into use modern technology to boost the efficiency of accounting and

reporting services for customers, while at the same time retaining the role as the customer's closest sparring partner. The programme develops advisers and launches new accounting advisory services in the field of taxes and duties, corporate transactions, IT solutions, HR services and Sustainability.

In the sustainability field a strong increase is noted in demand from customers for assistance in empowering businesses for the green transition.

The company has seen a very positive development since the restructuring programme was launched in 2021. Figures for the first quarter 2023 show turnover growth of 21 per cent from last year, of which close to 17 per cent is organic. The company notes a substantial net customer influx of more than 200 new customers in the quarter.

Income from advisory services rose as much as 30 per cent from the first quarter 2022, showing the company's ability to deliver relevant advisory services. In tandem with the development of advisors, the business model is also being revamped through the introduction of subscriptions to replace traditional time recording.

In total the company delivered an operating margin of 22 per cent (14 per cent) for the quarter – putting it in a class of its own in the accounting industry. The company's market share in Trøndelag, Møre and Romsdal and Gudbrandsdal is about 25 per cent.

**SpareBank 1 Finans Midt-Norge** delivered a pre-tax profit of NOK 53m (47m). The company's focal areas are leasing and invoice factoring services to businesses and car loans to personal customers.

<b>SpareBank 1 Finans Midt-Norge (54.3%)</b>	<b>1Q 23</b>	<b>4Q 22</b>	<b>1Q 22</b>
Total income	90	87	80
Total operating expenses	30	25	28
Loss on loans, guarantees etc.	7	11	4
<b>Result before tax (NOKm)</b>	<b>53</b>	<b>51</b>	<b>47</b>

The company's incomes altogether totalled NOK 90m (80m). Costs in the first quarter 2023 were NOK 30m (28m). Losses amounted to NOK 7m (4m).

The company has leasing agreements with and loans to corporate customers worth NOK 5.3bn (4.3bn) and car loans worth NOK 7.1bn (6.4bn). Growth in the last 12 months was 19.6 per cent and 11.5 per cent respectively. Invoice factoring is an important product for the company and invoices worth NOK 167m (154m) were purchased in the first quarter 2023.

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 7m in the first quarter (minus 6m).

### **SpareBank 1 Markets**

SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It employs 164 FTEs.

SpareBank 1 Markets' pre-tax profit was NOK 38m (39m).

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 same quarter of 2022, but was somewhat quieter than in the previous quarter. This has provided good incomes for Investment Banking but to a lesser degree for stockbroking. Earnings from the fixed income and forex business and debt capital have been high. Overall income came to NOK 194m (176m). Operating expenses totalled NOK 125m (99m).

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 the second quarter 2023, but this is dependent on the government authorities' process. SpareBank 1 Markets has been classified as held for sale, see further description in note 2.

### **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 company's shares are worth NOK 560m (686m) as at 31 March 2023.

The pre-tax result was minus NOK 31m (net profit of 132m) and in the previous quarter minus NOK 4m. The deficit is mainly down to unrealised losses on the company's shareholdings.

### **Good funding and liquidity**

Price growth remains high, and base rates have been raised further both abroad and in Norway. The Norwegian currency has depreciated. In the first quarter 2023, problems at some banks in the USA and Switzerland have led to substantial movements in financial markets. Credit spreads have narrowed somewhat after the fluctuations in the wake of the banking turbulence.

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 194 per cent as at 31 March 2023 (155 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 March 2023 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 61bn (53bn) had been sold to these mortgage companies as at 31 March 2023.

In the first quarter the bank raised new senior non-preferred debt (MREL) in Japanese yen at three years' maturity, equivalent to NOK 760m.

As at 31 March 2023 SpareBank 1 SMN held NOK 7.9bn 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 March 2023 was 18.2 per cent (18.3 per cent) compared with 18.9 per cent as at 31 December 2022. The CET1 requirement is 15.9 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. The provisional add-on of 0.7 per cent is not included in the bank's long-term target.

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 0.7 percentage point decline in the first quarter. Risk weighted assets grew 4.4 per cent in the first quarter. This is a result of lending growth, an increased liquidity portfolio, increased customer positions linked to derivatives, and a higher capital requirement related to CVA. In addition, BN Bank has been instructed by Finanstilsynet to increase security margins in its corporate portfolio.

A good profit performance has in isolation strengthened CET1 capital, but implementation of IFRS 17 at SpareBank 1 Forsikring has adversely affected equity capital. This is partially offset by a reduced deduction on the bank's holding in SpareBank 1 Gruppen. CET1 capital rose 0.9 per cent in the first quarter. A payout ratio of 50 per cent of the group's net profit for 2023 is assumed.

A leverage ratio of 6.9 per cent (7.0 per cent) shows the bank to be very solid. See note 4 for further details.

### Sustainability

In the first quarter SpareBank 1 SMN published its consolidated carbon account as part of its annual report for 2022. The carbon account contains for the first time the group's estimated greenhouse gas emissions, both from its own operations and from the loan portfolio. Greenhouse gas emissions from its own operations are estimated using the Klimakost model, whereas portfolio emissions are estimated using the PCAF framework. The carbon account is our best basis for developing and updating the group's action plans towards net zero emissions by 2050.

Follow-up and management of sustainability are integrated into the group's corporate governance, at the same time as the group's competencies and capacity in this area are being strengthened. Important tasks for Personal Banking and Corporate Banking in the period ahead are to prepare and implement transition plans for households and industries. These will be significant contributions to reaching the group's overarching goal of zero emissions in 2050. At the same time all reporting requirements must be met, and work has started on identifying and structuring data needed in order to satisfy regulatory requirements and to meet the need for management information in the ESG field.

The sustainability strategy stands firm and we will in the period ahead intensify efforts to stimulate a sustainable development of Trøndelag, Møre and Romsdal, Sunnmøre and Fjordane.



**The bank's equity certificate (MING)**

The market price of the equity certificate (EC) as at 31 March 2023 was NOK 123.60 (141.20), and the book value per EC was NOK 105.63 (99.55). Earnings per EC were NOK 3.51 (3.20). In 2023 a cash dividend of NOK 6,50 (NOK 7.50) per EC has been paid for the year 2022.

The Price / Income ratio was 8.79 (11.05) and the Price / Book ratio was 1.17 (1.42).

**Outlook**

SpareBank 1 SMN delivered a good profit performance in the first quarter 2023, and achieved its goals in terms of profitability and capitalisation. The business lines performed extremely well and the group's market position is strengthened even though the growth in residential mortgage lending is subsiding.

Uncertainty in the economy persists with an expectation of further base rate increases by Norges Bank and high price growth. Households' purchasing power is impaired and a reduction in private consumption is expected in 2023. Increased pessimism is noted in business and industry, although there wide variations between sectors. Unemployment nonetheless remains extremely low in Mid Norway and activity levels in the Norwegian economy are high. At the same time as there are signs that inflation is levelling off.

Increased earnings and the prospect of strengthened market balance in the offshore segment have provided a basis for reversal of earlier loss provisions. At the same time the bank is increasing its provision for losses on loans to business and industry in general due to higher expected interest rates and inflation. The risk trend in SpareBank 1 SMN's loan portfolio is satisfactory. Increased risk is noted in commercial property and construction, but as yet no significant increase in defaults is in evidence.

Activity in the housing market continues at a high level. However, uncertainty attaches to the market's ability to absorb an even higher interest rate level after the summer. More customers are in dialogue with the bank for financial advice, and the number of enquiries about mortgage payment holidays has risen somewhat, although no increase is seen in defaults. The bank is well equipped with highly competent advisers who are close to the customer and are present throughout Trøndelag and Møre and Romsdal.

SpareBank 1 SMN aspires to be among the best performers in the Nordic region and aims for a return on equity of 13 per cent, and achieving the group's strategy objectives has the board of directors' close attention.

The growth ambition will be realised through a prioritisation of segments and industries in the group's business lines, synergies between the real estate business, bank and accounting business along with an increased focus on deposits and saving. Competitive pricing of all products and services in the group is important in the implementation of the strategy. The merger with SpareBank 1 Søre Sunnmøre has reached completion, and the group's market position will be further strengthened through profitable growth and expanded market shares in Sunnmøre and Fjordane.

Sustainability is being integrated into all the group's business lines. This ensures that the group will meet the challenges to which the stakeholders have drawn attention in the group's materiality analysis. Transition plans at industry level are being drawn up and implemented with a view to attaining the goal of net zero emissions in 2050.

Exploiting the strength of SpareBank 1 Alliance is an important strategic foundation for SpareBank 1 SMN. Highest on the agenda in 2023 are simplification of loan approval processes in the personal market and

corporate market alike, setting the stage for improving customer service centres' efficiency, and establishing a shared data platform for increased use of data in and insight into business processes.

The board of directors is well pleased with the work done to implement the group strategy and with results achieved in the first quarter of 2023. Although the economic prospects are uncertain, 2023 is expected to be another good year for SpareBank 1 SMN.

Trondheim, 9. May 2023  
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal  
(chair)

Christian Stav  
(deputy chair)

Mette Kamsvåg

Freddy Aursø

Tonje Eskeland Foss

Ingrid Finboe Svendsen

Kristian Sætre

Christina Straub  
(employee rep.)

Inge Lindseth  
(employee rep.)

Jan-Frode Janson  
(Group CEO)