

# Report of the Board of Directors

## Second quarter 2023

*(Consolidated figures. Figures for the former SpareBank 1 Søre Sunnmøre are included as from the second quarter of 2023. Figures in parenthesis refer to the same period of 2022 unless otherwise stated. Growth adjusted for the merger is commented under lending and deposits)*

- Pre-tax profit NOK 1,045m (779m)
- Net profit NOK 923m (702m)
- Return on equity 15.1 per cent (12.9 per cent)
- CET1 ratio 19.1 per cent (18.8 per cent)
- Growth in lending 8.5 per cent (2.8 per cent) and in deposits 13.5 per cent (8.6 per cent)
- Lending to retail customers rose 9.8 per cent in the quarter (2.7 per cent), 9.2 percentage points higher growth than in the first quarter. Lending to corporates rose 6.8 per cent (2.9 per cent) which was 4.0 percentage points higher than in the first quarter
- Deposits from retail customers rose 15.1 per cent (6.7 per cent), 13.3 per cent higher growth than in the first quarter. Deposits from corporate clients rose 13.4 per cent (8.2 per cent), 12.3 percentage points higher than in the first quarter
- Net result of ownership interests NOK 85m (77m)
- Net result of financial instruments (incl. dividends) NOK 18m (minus 120m)
- Losses on loans and guarantees NOK 29m (net recovery of NOK 48m)
- Earnings per equity certificate (EC) NOK 4.21 (3.20)
- Book value per EC NOK 112.81 (102.91)

## First half 2023

- Pre-tax profit NOK 1,991m (1,606m)
- Net profit NOK 1,701m (1,400m)
- Return on equity 13.9 per cent (12.6 per cent)
- Growth in lending 12.9 per cent (8.7 per cent) and in deposits 13.2 per cent (12.4 per cent) in the last 12 months. In the first half-year growth in lending was 9.9 per cent (5.2 per cent) and in deposits 14.9 per cent (11.3 per cent)
- Lending to personal customers rose 13.4 per cent (7.9 per cent) in the last 12 months. In the first half-year growth was 10.4 per cent (4.3 per cent). Growth in lending to corporates was 11.0 per cent (9.0 per cent) in the last 12 months, in the first half-year 9.7 per cent (7.6 per cent)
- Loans to retail customers account for 70 per cent (70 per cent) of total outstanding loans
- Deposits from personal customers rose 15.4 per cent (8.8 per cent) in the last 12 months, In the first half-year 17.2 per cent (10.1 per cent). Deposits from corporate clients rose 12.1 per cent (11.7 per cent) in the last 12 months. In the first half-year 14.7 per cent (5.2 per cent)
- Net result of ownership interests NOK 209m (139m)
- Net result of financial instruments (incl. dividends) minus NOK 79m (minus 7m)
- Losses on loans and guarantees: a net recovery of NOK 42m (net recovery of NOK 48m), -0.04 per cent (-0.05 per cent) of gross outstanding loans

- Earnings per equity certificate (EC) NOK 7.82 (6.39).

## Events in the quarter

### **Inflationary pressures make for further increase in the base rate**

Norges Bank raised its base rate from 3.00 per cent in the first quarter to 3.25 per cent at the beginning of May and to 3.75 per cent in June. The base rate is now at its highest level since autumn 2008. SpareBank 1 SMN has like other banks raised mortgage interest rates and deposit rates. At its interest rate meeting in June the central bank indicated a further base rate hike in August, and forecasts suggest a base rate peak of about 4.25 per cent in the course of the fourth quarter of 2023.

The 12-month rate of growth in the consumer price index (CPI) was 6.4 per cent at the end of the quarter, and Norges Bank expects the CPI to remain above the target level of 2 per cent for the remainder of the forecasting period. Underlying inflation over the last 12 months in terms of the consumer price index adjusted for changes in indirect taxes and excluding energy products (CPI-ATE) was 7.0 per cent. The central bank points to the need for higher interest rates to avert rapidly rising wages and prices and entrenched inflation.

The labour market in Norway remains tight, and activity levels in the Norwegian economy are high, but edging down. Growth in credit to households (C2) has slowed by 0.9 percentage points over the past year, and stood at 3.7 per cent at the end of the second quarter. Lower purchasing power among households is expected to impact firms' activity levels in the period ahead. More customers are turning to the bank for financial advice and mortgage payment holidays, but the number of such approaches remains low. No significant increase in loan defaults is so far in evidence.

### **Merger completed**

SpareBank 1 SMN and SpareBank 1 Søre Sunnmøre merged on 2 May 2023 with accounting effect from the same date. The merger will help build a stronger regional bank with clear-cut growth ambitions in Sunnmøre and in Fjordane. The ratio of equity certificate (EC) capital to total equity increased from 64.0 to 66.8 per cent in connection with the merger.

As from the second quarter of 2023 'Sunnmøre and Fjordane' becomes a division in its own right on a par with Retail Banking and Corporate Banking. The division comprises the portfolio of the former SpareBank 1 Søre Sunnmøre along with SpareBank 1 SMN's portfolio in Sunnmøre and Vestland, and caters to personal and corporate customers alike. The division is headed by former CEO of SpareBank 1 Søre Sunnmøre, Stig Brautaset. The lending and deposit portfolio in SpareBank 1 Søre Sunnmøre amounted to NOK 10.4 bn and NOK 10 bn respectively at the time of the merger. Reference is made to note 3 for further information on the merger.

### **200th anniversary**

SpareBank 1 SMN celebrates its 200th anniversary in 2023. The anniversary is commemorated across all Mid Norway throughout the year. As part of the anniversary celebration, resources from the bank's community dividend fund were granted to projects that aim to create lasting value in the region.

September will see a youth conference and sailing trip aboard the three-masted tall ship Statsraad Lehmkuhl together with the United Nations Assembly of Norway and young people from all over the world.

**Såkorn 1 Midt**

SpareBank 1 SMN has established a seedcorn fund named 'Såkorn 1 Midt'. With NOK 150 million at the fund's disposal, this is the largest-ever investment of community dividend monies. Fund resources are earmarked for Mid-Norwegian entrepreneurs and business startups, above all in the field of green innovation. The object is to contribute to an attractive business sector in the region.

**Good result for the quarter**

The second quarter of 2023 was a good quarter for SpareBank 1 SMN with a return on equity of 15.1 per cent, 2.1 percentage points above the target level for the group. Measured against the first quarter 2023 and the second quarter of 2022, this represents an increase of 2.0 and 2.2 percentage points respectively.

Net interest income has increased as a result of the merger and the full effect of interest rate changes carried out in the first quarter along with the partial effect of two rate changes made in the course of the second quarter. A further rate increase of up to 0.5 percentage points has been announced with effect in the third quarter. Average three-month NIBOR was 0.6 percentage points higher than in the first quarter and market credit spreads have widened, which altogether has increased the bank's funding costs.

Commission income earned by the subsidiaries is seasonally strong in the second quarter. Increased organic growth and an expanded product range have brought 9 percentage higher commission income from accounting services than in the second quarter of 2022. Activity in the housing market has been high despite increased interest rates and living expenses. The number of houses sold is on a par with the previous year, but commission income is somewhat reduced.

Results posted by related companies were reduced in the quarter, mainly due to a negative performance by SpareBank 1 Gruppen where insurance activities in particular are affected by higher interest rates and inflation. These companies' fixed income and commercial property portfolios are negatively impacted by higher interest rates. At the same time a higher insurance claim frequency and higher costs bring lower underwriting results. A sluggish transaction market has normalised the results posted by SpareBank 1 Markets. BN Bank delivers good results with a return on equity above 12 per cent.

The group delivered a cost-income ratio of 39 per cent in the second quarter. The cost base has expanded due to the merger with SpareBank 1 Søre Sunnmøre. Costs are in addition impacted by merger costs and increased incurred by SpareBank 1 Utvikling. Underlying cost growth in the parent bank is in line with the general price growth over the last 12 months.

Losses on loans and guarantees came to NOK 29m in the quarter. About half of the losses relate to the disposal of a portfolio in default at SpareBank 1 Finans Midt-Norge. Changes have been made in the loss model to reflect increased credit risk in selected segments. The portfolio's credit quality remains good.

The CET1 ratio at the end of the second quarter was 19.1 per cent, 1.9 percentage points above the group's long-term target. Capital efficiency gains in connection with the merger, including the IRB effect on the

former SpareBank 1 Søre Sunnmøre's portfolio and a lower owner deduction in related companies, bring in isolation a higher Tier 1 ratio in the quarter. Moreover, Tier 1 capital is boosted by the increase of capital in connection with the merger and by a good profit performance.

A net profit of NOK 923m and a return on equity of 15.1 per cent in a quarter reflecting costs related to the merger and a negative result from SpareBank 1 Gruppen provides a good basis for delivering on financial objectives in 2023.

### Net interest income

In June 2023 Norges Bank raised its base rate by a further 50 points to 3.75 per cent. Market interest rates in terms of NIBOR continued upwards to reach 4.37 per cent at the end of June. The bank raised its mortgage and deposit rates following prior changes in the base rate with effect from 11 May and 23 June 2023, and has announced a further hike of up to 50 points with effect from 9 August.

Net interest income totalled NOK 1,094m (803m) compared with NOK 1,035m in the first quarter, an increase of 5.7 per cent. Increased market rates through the quarter brought lower margins on loans and higher margins on deposits. Increased lending and deposit volumes, along with higher return on equity, strengthened net interest income.

At its interest rate meeting in June the central bank signalled a further increase in the base rate in August. Norges Bank's forecast suggest a base rate peak of about 4.25 per cent in the course of the fourth quarter 2023.

### Commission income and other operating income

An important aspect of SpareBank 1 SMN's strategy is to exploit the breadth present in the group and expand interaction across the respective business lines. A high proportion of multi-product customers makes for a capital efficient, diversified income flow and high customer satisfaction.

Commission income (NOKm)	2Q 23	1Q 23	2Q 22
Payment transfers	77	72	79
Creditcard	15	17	15
Saving products	12	10	10
Insurance	65	61	59
Guarantee commission	13	16	10
Real estate agency	119	105	125
Accountancy services	182	188	167
Other commissions	22	11	9
<b>Commissions ex SB1 Boligkreditt and SB1 Næringskreditt</b>	<b>504</b>	<b>480</b>	<b>475</b>
Commissions SB1 Boligkreditt	53	57	77
Commissions SB1 Næringskreditt	4	3	4
<b>Total commissions</b>	<b>561</b>	<b>541</b>	<b>555</b>

Commission income excluding the captive mortgage companies rose NOK 29m from the second quarter of 2022. This is primarily due to increased income from accounting services and other commissions, including foreign exchange earnings.

In the case of loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt the bank receives a commission corresponding to the lending rate less the funding and operating expenses of those companies. The reduced commission income in the second quarter is mainly down to higher funding costs.

### Return on financial investments

Return on financial investments in the second quarter was NOK 1m (minus NOK 123m). The group's shareholdings showed a capital loss of NOK 7m as a result of value losses at SpareBank 1 SMN Invest. Financial instruments, including bonds and CDs, showed a capital loss of NOK 30m (loss of 117m) while income from foreign exchange transactions increased from NOK 29m in the second quarter 2022 to NOK 38m in the quarter.

Return on financial investments (NOKm)	2Q 23	1Q 23	2Q 22
Capital gains/losses shares	-7	-17	-35
Gain/(loss) on financial instruments	-30	-105	-117
Foreign exchange gain/(loss)	38	23	29
<b>Net return on financial instruments</b>	<b>1</b>	<b>-99</b>	<b>-123</b>

### Product companies and other related companies

SpareBank 1 SMN has a broad and well-diversified income platform. The group offers its customers a broad product range through various product companies which provide commission income along with return on invested capital. The overall profit share from the product companies and other related companies was NOK 85m (77m). In the first quarter the figure was NOK 125m.

Income from investment in associated companies (NOKm)	2Q 23	1Q 23	2Q 22
SpareBank 1 Gruppen (19.5 %) <sup>*)</sup>	-5	34	16
SpareBank 1 Boligkreditt (24.1 %)	29	33	-4
SpareBank 1 Næringskreditt (17.8 %)	3	2	2
BN Bank (35.0 %)	58	62	47
SpareBank 1 Kreditt (19.2 %)	-2	-4	3
SpareBank 1 Betaling (21.9 %)	-11	-8	-0
SpareBank 1 Forvaltning (20.9 %)	8	8	11
Other companies	5	-3	2
<b>Income from investment in associated companies</b>	<b>85</b>	<b>125</b>	<b>77</b>

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

### SpareBank 1 Gruppen

This company owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Factoring and SpareBank 1 Spleis. SpareBank 1 Gruppen also owns 65 per cent of the shares of Fremtind Forsikring and 50 per cent of the shares of Kredinor.

**Fremtind Forsikring** posted a profit of NOK 6m (232m) after tax in the second quarter. The quarter's underwriting result was NOK 19m (599m). The combined ratio was 100.3 per cent (84.4 per cent), primarily due to a substantial natural damage event, increased travel activity and increased claim payments to personal customers.

The net result of investments was minus NOK 271m (minus 453m). The negative result is down to a negative trend in the value of fixed-income securities and investment properties in the quarter. The net underwriting-related financial result was NOK 286m (262m) in the quarter as a result of the interest rate increase from the previous quarter.

**SpareBank 1 Forsikring** reported a profit of NOK 35m (minus 45m) after tax in the second quarter. The underwriting result and net financial result were respectively NOK 25m and NOK 83m higher than in the same quarter last year.

**SpareBank 1 Factoring** posted a second-quarter profit of NOK 23m (18m) after tax.

**Kredinor** is for the SpareBank 1 Gruppen a joint venture in which it holds a 50 per cent stake. The company recorded a deficit of NOK 54m in the quarter. Portfolio write-downs of NOK 51m were recorded in the quarter, mainly a result of a lower-than-expected recovery rate.

### **SpareBank 1 Forvaltning**

This 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's profit share in the second quarter was NOK 8m (11m).

### **SpareBank 1 Boligkreditt**

SpareBank 1 Boligkreditt is a mortgage company 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 30 June 2023 the bank had sold loans totalling NOK 63.5bn (55.2bn) to SpareBank 1 Boligkreditt, corresponding to 39.2 per cent (38.6 per cent) of the bank's overall lending to retail borrowers.

The company's performance reflects an increase in interest income earned on the liquidity portfolio. SpareBank 1 SMN's profit share was NOK 29m (minus NOK 4m) in the second quarter.

### **SpareBank 1 Næringskreditt**

SpareBank 1 Næringskreditt is a mortgage company established along the same lines and with the same administration as SpareBank 1 Boligkreditt.

As at 30 June 2023, loans worth NOK 1.8bn (1.6bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's profit share was NOK 3m (2m).

### **SpareBank 1 Kreditt**

The company recorded a result of minus NOK 8m (14.8m) in the second quarter. The company's overall portfolio at quarter-end was NOK 8.3bn (6.6bn). The growth refers essentially to consumer loans and refinancing loans.

SpareBank 1 SMN's share of the second quarter net profit was minus NOK 2m (3m). and its share of the portfolio is NOK 1,426m (1,137m).

## BN Bank

BN Bank offers residential mortgages and loans to commercial property and its main market is south-eastern Norway. At the end of the second quarter outstanding loans totalled NOK 59bn (54bn), of which NOK 37bn (35bn) is loans to personal borrowers.

BN Bank showed growth in lending to personal customers and corporate customers of, respectively, 5.7 per cent (13.1 per cent) and 12.1 per cent (6.0 per cent).

BN Bank recorded a net profit of NOK 172m (139m), providing a return on equity of 12.3 per cent (11.0 per cent). The profit growth is mainly down to increased net interest income. SpareBank 1 SMN's share of BN Bank's profit is NOK 58m (47m).

## SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company in Vipps AS. SpareBank 1 SMN's profit share was minus NOK 11m (0m) in the second quarter.

## Operating expenses

The group aims for a cost-income ratio below 40 per cent at the parent bank (exc. finance) and below 85 per cent at the subsidiaries.

The parent bank's cost-income ratio was 34.5 per cent in the quarter (33.5 per cent). The corresponding figures for EiendomsMegler 1 and Regnskapshuset were 74.5 (71.5) and 77.5 (82.9) per cent respectively.

Operating expenses (NOKm)	2Q 23	1Q 23	2Q 22
Staff costs	383	398	350
IT costs	25	106	82
Marketing	25	23	26
Ordinary depreciation	35	29	29
Operating expenses, real properties	14	16	7
Purchased services	49	38	42
Merger expenses	13	15	0
Other operating expense	59	104	48
<b>Total operating expenses</b>	<b>683</b>	<b>728</b>	<b>585</b>

Overall group expenses increased by NOK 98m from last year's second quarter. The growth refers entirely to the parent bank and is essentially due to the inclusion of the former SpareBank 1 Søre Sunnmøre's cost base, and costs related to implementation of the merger. The Alliance's focus on technology through SpareBank 1 Utvikling has involved increased costs while the second quarter of 2022 featured one-time events. When adjustment is made for the latter, the cost growth in the quarter comes to about 5.6 per cent measured against last year's second quarter.

EiendomsMegler 1 Midt-Norge's costs were reduced by NOK 7m from the second quarter of last year. SpareBank 1 Regnskapshuset SMN's costs increased by NOK 7m, corresponding to 4.6 per cent measured against last year. Costs at SpareBank 1 Finans Midt-Norge increased by NOK 3m from the second quarter of 2022.

### Losses on loans and guarantees

The group's losses on loans and guarantees in the second quarter of 2023 came to NOK 29m. Of this figure, NOK 15m refers to a loss on the disposal of a portfolio of defaults in SpareBank 1 Finans Midt-Norge.

Losses in the second quarter break down to NOK 2m in Stage 1 and Stage 2, and NOK 27m in Stage 3. Losses in the period measured 0.05 per cent of total outstanding loans (-0.09 per cent).

Impairment losses (NOKm)	2Q 23	1Q 23	2Q 22
RM	-14	9	-2
CM	18	-86	-51
SpareBank 1 Finans Midt-Norge	25	7	5
<b>Total impairment losses</b>	<b>29</b>	<b>-71</b>	<b>-48</b>

In the second quarter of 2023 SpareBank 1 SMN made adjustments to the expected credit loss calculation model. Under the adjusted model's assumptions, impairment write-downs are to a greater degree allocated to capital-intensive segments with high interest-bearing debt. The bank's macro forecasts at the end of the second quarter were relatively stable and had no significant impact on the portfolio.

Overall impairment write-downs on loans and guarantees as at 30 June came to NOK 1,154m (1,181m).

The bank's loan portfolio is robust with NOK 164,528m (146,452m) in Stage 1 and Stage 2, corresponding to 99.01 per cent. Problem loans (Stage 3) total NOK 2,291m (2,229m), corresponding to 0.99 per cent (1.08 per cent) of gross outstanding loans, including loans sold to the captive mortgage companies.

### Total assets of NOK 249bn at quarter-end

The bank's total assets as of the second quarter of 2023 were NOK 249bn (217bn), having risen by NOK 31bn, or 14.4 per cent, over the past year. Total assets have grown as a result of the merger, lending growth and higher liquidity holdings.

As at 30 June 2023 loans totalling NOK 65bn (57bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and to SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

### Lending

Total outstanding loans rose in the last 12 months by NOK 26.6bn (16.5bn), corresponding to 12.9 per cent (8.7 per cent), and stood at NOK 232.1bn (205.5bn) at the end of the second quarter. Lending growth in the quarter was 8.5 per cent (2.8 per cent).

Lending to retail customers rose by NOK 14.5bn in the quarter (3.8bn). This corresponds to lending growth of 9.8 per cent (2.7 per cent), of which the merger with SpareBank 1 Søre Sunnmøre accounts for 8.3 percentage points. Lending growth in the last 12 months was 13.4 per cent (7.9 per cent). Parent bank loans to retail customers totalled NOK 162.8bn (143.5bn) at the end of the second quarter.

Parent bank lending to corporate clients rose by NOK 3.6bn in the quarter (1.4bn), corresponding to 6.8 per cent (2.9 per cent). The merger increased the lending volume by NOK 1.8bn and accounted for 3.4



percentage points of the growth in the quarter. Growth in lending in the last 12 months was 11.0 per cent (9.0 per cent). Overall lending by the parent bank to corporates came to NOK 56.8bn (51.2bn) as at 30 June 2023.

SpareBank 1 Finans Midt-Norge's loan volume was NOK 12.6bn (11.1bn) at the end of the second quarter 2023.

## Deposits

Customer deposits rose in the last 12 months by NOK 16.3bn (13.7bn) to NOK 140.1bn (123.8bn), corresponding to a growth of 13.2 per cent (12.4 per cent). Growth in the second quarter was 13.5 per cent (8.6 per cent).

Personal deposits rose by NOK 8.5bn in the quarter (3.5bn), corresponding to deposit growth of 15.1 per cent (6.7 per cent), of which the merger with SpareBank 1 Søre Sunnmøre accounts for 10.5 percentage points. Deposit growth in the last 12 months was 15.4 per cent (8.8 per cent). Total deposits by personal customers came to NOK 64.4bn (55.8bn) at the end of the second quarter.

Deposits by corporate customers of the bank rose by NOK 8.5bn in the quarter (4.9bn), corresponding to 13.4 per cent (8.2 per cent). The merger increased the loan volume by NOK 4.4bn and accounted for 6.9 percentage points of the quarter's growth. Deposit growth in the last 12 months was 12.1 per cent (11.7 per cent). Overall corporate deposits with the parent bank were NOK 72.2bn (64.4bn) as at 30 June 2023.

## Retail Market

The **Retail Banking Division** achieved a pre-tax profit of NOK 493m in the second quarter of 2023 (329m). Return on capital employed was 20.3 per cent (13.5 per cent), an increase of 4.5 percentage points from the first quarter. The retail banking portfolio consists of wage earners, agricultural customers and sole proprietorships.

Profit and loss account (NOKm)	2Q 23	1Q 23	2Q 22
Net interest	570	524	335
Comission income and other income	190	181	206
<b>Total income</b>	<b>760</b>	<b>706</b>	<b>541</b>
<b>Total operating expenses</b>	<b>281</b>	<b>325</b>	<b>215</b>
<b>Ordinary operating profit</b>	<b>479</b>	<b>381</b>	<b>326</b>
Loss on loans, guarantees etc.	-14	9	-2
<b>Result before tax including held for sale</b>	<b>493</b>	<b>372</b>	<b>329</b>
<b>Balance</b>			
Loans and advances to customers	162,822	148,294	143,544
Adv.of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-63,769	-59,306	-55,464
Deposits to customers	64,398	55,948	55,829
<b>Key figures</b>			
Return on equity per quarter <sup>*)</sup>	20.3 %	15.8 %	13.5 %
Lending margin	0.57 %	0.93 %	1.09 %
Deposit margin	2.20 %	1.82 %	0.78 %

<sup>\*)</sup> Regulatory capital is used as a basis for calculating capital used in retail market (RM) and corporate market (CM).

Lending growth in the quarter was 9.8 per cent, of the which the merger with SpareBank 1 Søre Sunnmøre accounted for 8.3 percentage points. The corresponding figures for deposits were 15.1 per cent and 10.5 per cent respectively.

Two general interest rate increases on loans and deposits were carried out in the course of the quarter, with a further rate increase announced for the third quarter. Net interest income rose from the first quarter as a result of volume growth, an increased deposit margin along with higher return on the division's share of the group's equity.

Increased income from insurance, payments and savings products are noted compared with the first quarter. Compared with the second quarter of 2022, increased income from payments and insurance are noted, but reduced lending margins on loans sold to SpareBank 1 Boligkreditt bring a decline in net commission income and other incomes measured against the previous year.

Lending to personal customers consistently carries low risk, as reflected in continued low losses. The loan portfolio is largely secured by residential property, and risk weights employed in the portfolio are below the regulatory floor of 20 per cent.

The Retail Banking Division prioritises balance growth. A focus on deposits in advisory services to customers enables the bank to deliver robust earnings and increases customers' financial security in the form of increased buffer capital.

Since the launch of the One SMN project in 2020, Retail Banking has revised its distribution model, introducing co-location in finance centres and a transition from personal advisers to customer teams. Increased use of data and insight enables a closer interplay between the physical and digital advisory channels which in the longer run will provide customers with improved, and more efficient, advice.

**EiendomsMegler 1 Midt-Norge** is the market leader in Trøndelag and in Møre og Romsdal. Operating income came to NOK 120m (134m) and operating expenses in the second quarter totalled NOK 89m (96m), bringing a pre-tax profit of NOK 31m (38m).

<b>EiendomsMegler 1 Midt-Norge (92.4%)</b>	<b>2Q 23</b>	<b>1Q 23</b>	<b>2Q 22</b>
Total income	120	107	134
Total operating expenses	89	89	96
<b>Result before tax (NOKm)</b>	<b>31</b>	<b>18</b>	<b>38</b>
Profit margin	26 %	17 %	28 %

Good activity has been noted in the housing market through the first half of 2023 despite increased mortgage interest rates and living expenses. 2,037 properties were sold in the second quarter (2,032). New assignments totalled 2,196, 93 more than in the second quarter of 2022. The company's market share at 30 June 2023 was 36.9 per cent (36.4 per cent). A lower activity level is expected in the second half-year due to a higher level of interest rates.

### Corporate Market

The **Corporate Banking Division** achieved a pre-tax profit of NOK 420m (361m). This is NOK 80m lower than in the previous quarter NOK 58m higher than in the second quarter of 2022. Return on capital employed was 23.0 per cent (18.4 per cent).

<b>CM, Profit and loss account (NOKm)</b>	<b>2Q 23</b>	<b>1Q 23</b>	<b>2Q 22</b>
Net interest	500	474	356
Comission income and other income	61	67	64
<b>Total income</b>	<b>561</b>	<b>541</b>	<b>420</b>
<b>Total operating expenses</b>	<b>124</b>	<b>127</b>	<b>109</b>
<b>Ordinary operating profit</b>	<b>438</b>	<b>413</b>	<b>311</b>
Loss on loans, guarantees etc.	18	-86	-51
<b>Result before tax including held for sale</b>	<b>420</b>	<b>500</b>	<b>361</b>
<b>Balance</b>			
Loans and advances to customers	56,846	53,245	51,193
Adv.of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-1,512	-1,481	-1,359
Deposits to customers	72,180	63,644	64,415
<b>Key figures</b>			
Return on equity per quarter <sup>*)</sup>	23.0 %	28.4 %	18.4 %
Lending margin	2.42 %	2.64 %	2.53 %
Deposit margin	0.37 %	0.27 %	-0.05 %

<sup>\*)</sup> Regulatory capital is used as a basis for calculating capital used in retail market (RM) and corporate market (CM)

The Corporate Banking Division's loan volume increased by 6.8 per cent (2.9 per cent) in the quarter, of which the merger accounted for 3.4 percentage points. Lending growth in the last 12 months was 11.0 per cent (9.0 per cent).

Deposits from the bank's corporate customers increased by NOK 8.2bn in the quarter (4.9bn), corresponding to 13.4 per cent (8.2 per cent). The merger increased the loan volume by NOK 4.4bn and accounted for 6.9 percentage points of the growth in the quarter. Deposit growth in the last 12 months was 12.1 per cent (11.7 per cent).

Increased market interest rates in the quarter reduced the lending margin and increased the deposit margin. For customers with lending and deposit products unrelated to interbank rates, two general interest rate increases were carried out in the course of the second quarter, with a further rate increase announced for the third quarter.

The credit quality of the loan portfolio is good. While the bankruptcy rate in the region has risen, this has negligible impact on the corporate portfolio.

A strengthened input of resources in Trondheim and greater coordination with SpareBank 1 Regnskapshuset is helping the division to acquire market shares in Mid-Norway. The establishment of an office in Oslo is expected to enable further growth in selected segments where SpareBank 1 SMN offers competencies and experience.

**SpareBank 1 Regnskapshuset SMN** posted a pre-tax profit of NOK 45m (30m).

<b>SpareBank 1 Regnskapshuset SMN (93.3%)</b>	<b>2Q 23</b>	<b>1Q 23</b>	<b>2Q 22</b>
Total income	198	202	177
Total operating expenses	154	158	147
<b>Result before tax (NOKm)</b>	<b>45</b>	<b>44</b>	<b>30</b>
Profit margin	22 %	22 %	17 %

Operating income increased by NOK 21m from the second quarter of 2022, driven by increased incomes from advisory and accounting services.

Increased organic customer growth has a high priority, and good result have been achieved in the second quarter of 2023. Customer recruitment has risen at the same time as the company has managed to reduce customer turnover. This is the principal driver of increased accounting incomes.

Substantial sums were invested in 2022 on continued development of the company's competitive power. This is starting to produce results, and covers issues ranging from strengthened advisory competencies and capacity to an increased focus on digitalisation and new income flows. Cloud-based solutions that simplify matters for the company, along with enhanced insights and process improvement for the customer, are at centre stage.

SpareBank 1 Regnskapshuset SMN is the market leader in Trøndelag and Møre og Romsdal.

**SpareBank 1 Finans Midt-Norge's** focal areas are leasing and invoice purchasing services to businesses and car loans to personal customers. SpareBank 1 Finans Midt-Norge achieved a pre-tax profit of NOK 43m (50m).

<b>SpareBank 1 Finans Midt-Norge (58.0%)</b>	<b>2Q 23</b>	<b>1Q 23</b>	<b>2Q 22</b>
Total income	96	90	81
Total operating expenses	29	30	26
<b>Loss on loans, guarantees etc.</b>	<b>25</b>	<b>7</b>	<b>5</b>
Result before tax (NOKm)	43	53	50

The company has in recent years developed new distribution channels with a special focus on the car dealer channel. More than 20 per cent of vendor's liens to personal customers now come directly from car dealers. In 2021 the company acquired its first customers on a new self-service, digital stock financing solution for second-hand car dealers. Since then the product has seen strong growth and is now an important element in SpareBank 1 Finans Midt-Norge's focus on the corporate segment and on car dealers.

SpareBank 1 Finans Midt-Norge has a market share of about 10 per cent in vendor's liens in counties where parent banks are represented.

In the second quarter the company sold off parts of its portfolio of defaults and realised a loss of NOK 15m for that reason.

SpareBank 1 Finans Midt-Norge and other SpareBank 1 banks own, through SpareBank 1 Mobilitet Holding, 47 per cent of the shares of the car subscription company Fleks. Fleks is the market leader in Norway with regard to car subscriptions. Like the market for new cars, car subscriptions have seen a slow start to 2023, and in the second quarter SpareBank 1 Finans Midt-Norge recognised a profit share from Fleks of minus NOK 7m (minus 8m).

**SpareBank 1 Markets** is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It employs 168 FTEs.

SpareBank 1 Markets' pre-tax profit was NOK 41m (101m) in second quarter.

Revenues from advisory services and for management of stock issues is reduced compared with the same quarter of 2022. Earnings from the fixed income and forex business and debt capital have been higher than

same quarter of 2022. Overall income came to NOK 206m (276m). Operating expenses totalled NOK 164m (173m).

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 for the second half of 2023, but this is dependent on the government authorities' process.

### **SpareBank 1 SMN Invest**

This company owns shares in regional growth companies and funds. The portfolio is managed together with other long-term shareholdings of the bank and will be scaled down over time. The company's portfolio is worth NOK 545m (658m) as at 30 June 2023.

The company's pre-tax result in the second quarter of 2023 was minus NOK 4m (minus 29m) and in the first quarter minus NOK 31m. The second quarter result is ascribable to value adjustments in the equity portfolio.

## **First half 2023**

### **Good first-half result**

SpareBank 1 SMN posted a net profit NOK 1,701m (1,400m), and a return on equity of 13.9 per cent (12.6 per cent). The result is higher than in the first half of 2022 due to increased net interest income. Earnings per equity certificate (EC) were NOK 7.82 (6.39).

Net interest income came to NOK 2,129m (1,563m). Norges Bank raised its base rate to 3.75 per cent in June 2023. At the end of first half of 2022 the base rate was 1.25 per cent. This has brought a substantial increase in the bank's funding costs. Lending margins have narrowed concurrent with a widening of deposit margins compared with the first half of last year, at the same time as return on the bank's equity has increased.

Both loan and deposit volumes have risen, in part due the merger with SpareBank 1 Søre Sunnmøre, which has served to further strengthen net interest income. As from the second half of last year the bank has implemented general interest rate increases on mortgages and deposits in line with Norges Bank's base rate hikes. A further base rate hike has been announced, effective in the third quarter.

Net commission income was NOK 1,102m (1,077m). Income from accounting services has risen by NOK 48m measured against the first half of 2022. Incomes from insurance products, estate agency services and other commissions has increased concurrently. Net commission income excluding the captive mortgage companies has increased by NOK 76m compared with last year. Lower margins on loans sold to SpareBank 1 Boligkreditt have reduced commissions from this mortgage company by NOK 51m.

The profit from related companies was NOK 209m (139m). The profit growth from related companies is mainly down to stronger profit contributions from SpareBank 1 Boligkreditt and BN Bank.

The group's operating expenses were NOK 1,411m (1,214m). Expenses are impacted by wage and price growth along with merger-related work and expensing of the embezzlement affair in the first quarter.

A net recovery of NOK 42m was recorded on loan losses (48m) in the first half-year. The net amount recovered on losses on loans to the group's corporate customers in the first half-year was NOK 54m (net recovery of 44m). A loss of NOK 12m was recorded on loans to personal customers (net recovery of NOK 4m).

Lending growth in the group was 9.9 per cent (5.2 per cent). Growth in lending to the retail segment was 10.4 per cent (4.3 per cent). Lending to corporate customers rose 9.7 per cent (7.6 per cent).

Deposits increased by 14.9 per cent (11.3 per cent). Deposits from personal customers increased by 17.2 per cent (10.1 per cent). Deposits from corporate customers increased by 14.2 per cent (8.0 per cent).

### **Good funding and liquidity**

Price growth continued to accelerate in the second quarter. The central banks of several countries raised their base rates and credit spreads have widened. SpareBank 1 SMN has ample liquidity and access to 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 188 per cent as at 30 June 2023 (204 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 30 June 2023, including the mortgage companies SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 60 per cent (60 per cent).

The bank's funding sources and products are amply diversified. The share of the bank's overall money market funding with a maturity above one year was 91 per cent (88 per cent).

SpareBank 1 Boligkreditt and Næringskreditt are important funding sources for the bank, and loans totalling NOK 65bn (57bn) had been sold to these mortgage companies as of 30 June 2023.

In the second quarter the bank issued hybrid equity worth NOK 300m, subordinated debt worth NOK 750m and MREL worth NOK 1,150m. At the end of the second quarter SpareBank 1 SMN held NOK 9.0bn in senior non-preferred debt (MREL) and 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 30 June 2023 was 19.1 per cent (18.8 per cent) compared with 18.2 per cent as at 31 March 2023. 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 0.9 percentage point increase in the first quarter. Risk weighted assets grew 5.3 per cent in the second quarter. The merger with SpareBank 1 Søre Sunnmøre accounts for about half of this increase. In addition, lending growth brings a continued increase in risk weighted assets.

CET1 capital increased by 10.5 per cent in the first quarter. Equity capital increased by NOK 1,971m in connection with the merger. This, along with a strong profit performance, has contributed to a clear strengthening of CET1 capital. A payout ratio of 50 per cent of the group' net profit for 2023 is assumed.

A leverage ratio of 7.2 per cent (6.9 per cent) shows the bank to be very solid. See note 5 for details.

### **Sustainability**

SpareBank 1 SMN has over the course of the quarter actively sought to enhance its understanding of the group's ESG risks and opportunities. Corporate Banking has launched transition plans for fisheries and commercial property, and has incorporated monitoring of ESG factors into its credit process and quarterly reviews. Retail Banking has taken a further step in as regards energy labelling of the loan portfolio as a basis for product development and customer dialogue. Moreover, the group has established its first version of climate reporting on day-to-day operations with a view to identifying drivers and behavioural changes needed to achieve the ambition of total net zero emissions by 2050. The work of integrating sustainability into the group's governance will continue to be a key task in the period ahead.

The focus on innovation of the customer offering has brought into being a new sustainability unit at SpareBank 1 Regnskapshuset SMN. The department of sustainability reporting and consulting has been launched, and is receiving an excellent response in the market. Further, the green bond framework is under revision, and a new Green Bond Committee has already been appointed as part of this effort. Corporate Banking, Retail Banking and Technology and Development are all under way on exploring new business opportunities in the ESG field.

The group's strategies and objectives stand firm and we will strengthen our effort ahead to engage our customers and partners through our advisory capabilities, transition plans and product development.

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

The book value per EC at 30 June 2023 was NOK 112.81 (102.91) and earnings per EC in the first half-year were NOK 7.82 (6.39).

The Price / Income ratio was 9.01 (9.06) and the Price / Book ratio was 1.25 (1.13).

### **Outlook ahead**

SpareBank 1 SMN delivered another good profit performance in the second quarter of 2023, and is on target in terms of profitability, efficiency and capitalisation. The group's market position is strengthened through the merger with SpareBank 1 Søre Sunnmøre and through good performances on the part of the bank's business lines and subsidiaries.

Inflation remains above target both in Norway and a number of other countries. Central banks are responding by raising base rates, and Norges Bank raised its base rate by 0.5 at its interest rate meeting in June. The further path of interest rates will depend on economic developments but, at the end of the second quarter, further interest rate increases are not anticipated. That said, activity in the Norwegian economy remains high and the labour market is tight. The latest report from Norges Bank's regional network indicates

that activity levels are expected to continue to rise ahead, but there are regional and industry differences and economic uncertainties have grown.

Growth in credit to households and non-financial enterprises alike has slowed over the past year, but SpareBank 1 SMN's ambition to increase market shares stands firm. The growth ambition will be realised through a prioritisation of segments and industries in the group's market area, a continued strengthening of synergies in the group's business lines, and an increased focus on deposits and saving and investment. The legal merger with SpareBank 1 Søre Sunnmøre was completed in the beginning of May, and the group's market position will be further strengthened through profitable growth and expanded market shares in Sunnmøre and in Fjordane. At the same time the group sees good opportunities for growth as a result of structural changes in Norway's banking industry.

The risk trend in SpareBank 1 SMN's loan portfolio is satisfactory. Higher interest rates entail uncertainty as to the trend in commercial property and construction. Bankruptcies in the region are increasing in number, but the bank has so far not seen a significant increase in defaults in the corporate portfolio. Enquiries from personal customers regarding payment holidays have risen in the past quarter, but the number of enquiries is no higher than at the same time last year and gives no indication of any deterioration of credit quality in the portfolio.

SpareBank 1 SMN aspires to be among the best performers in the Nordic region, and the group's overriding financial goal is deliver a return on equity of 13 per cent over time. Together with a strong contribution from all parts of the group and good cost control, further repricings resulting from expected interest rate changes will help to achieve that goal.

The group aims for a CET1 ratio of 17.2 per cent in the longer term. At the end of the second quarter the CET1 ratio was 19.1 per cent which meets both the group's own objective and regulatory expectations. The group's dividend policy requiring about one half of net profit to be disbursed as dividends stands firm. When setting the size of the annual dividend payment, account is taken of the group's need for capital, prospects for profitable growth and strategic plans.

The group continues its endeavour to put in place transition plans at industry level. It will by this means ensure that sustainability is incorporated into all business lines in the group. Transition plans are an important tool in the effort to secure long-term profitability and to reduce the group's emissions. They will ensure that the group confronts the challenges to which stakeholders have drawn attention in the group's materiality analysis and are an important precondition for achieving the goal of net zero emissions by 2050.

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



Trondheim, 9 August 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)