

# Report of the Board of Directors

## Third 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 figures adjusted for the merger are referred to under 'loans' and 'deposits')*

- Pre-tax profit NOK 996m (785m)
- Net profit NOK 740m (617m)
- Return on equity 11.1 per cent (10.9 per cent)
- CET1 ratio 19.7 per cent (19.2 per cent)
- Growth in lending 1.0 per cent (1.7 per cent) and in deposits minus 1.4 per cent (minus 2.6 per cent)
- Lending to retail customers rose 1.6 per cent in the quarter (1.3 per cent), 8.2 percentage points lower growth than in the second quarter. Lending to corporates fell 0.8 per cent (1.7 per cent) which was 8.0 percentage points lower growth than in the second quarter. Figures for the second quarter were affected by the merger with the former SpareBank 1 Søre Sunnmøre
- Deposits from retail customers fell 0.8 per cent (minus 2.5 per cent), 15.9 per cent lower growth than in the second quarter. Deposits from corporate clients were reduced by 3.0 per cent (minus 2.8 per cent), 16.4 percentage points lower growth than in the second quarter. Figures for the second quarter were affected by the merger with the former SpareBank 1 Søre Sunnmøre
- Net result of ownership interests was minus NOK 2m (108m)
- Net result of financial instruments (incl. dividends) was NOK 99m (minus 22m)
- Losses on loans and guarantees NOK 35m (NOK 22m)
- Earnings per equity certificate (EC) NOK 3.28 (2.89)
- Book value per EC NOK 116.39 (107.19)

## First nine months 2023

- Pre-tax profit NOK 2,988m (2,391m)
- Net profit NOK 2,441m (2,017m)
- Return on equity 13.0 per cent (12.0 per cent)
- Growth in lending 12.2 per cent (8.8 per cent) and in deposits 14.7 per cent (9.9 per cent) in the last 12 months. Growth in lending to personal customers was 13.8 per cent (7.5 per cent) in the last 12 months. Growth in lending to corporates was 8.8 per cent (11.1 per cent) in the last 12 months
- Lending to wage earners accounts for 68 per cent (67 per cent) of overall lending
- Deposits from personal customers rose 17.3 per cent (9.1 per cent) in the last 12 months. Deposits from corporate clients rose 11.8 per cent (6.2 per cent) in the last 12 months
- Net result of ownership interests NOK 207m (246m)
- Net result of financial instruments (incl. dividends) NOK 20m (minus 29m)
- Losses on loans and guarantees: a net recovery of NOK 6m (net recovery of NOK 26m), -0.00 per cent (-0.02 per cent) of gross outstanding loans
- Earnings per equity certificate (EC) NOK 11.14 (9.29)

## Events in the quarter

### Signs of subsiding inflationary pressures

Norges Bank raised its base rate from 3.75 per cent in the second quarter to 4.0 per cent in August and then to 4.25 per cent in September. SpareBank 1 SMN has like other banks raised mortgage interest rates and deposit rates in step with Norges Bank's base rate changes. At its interest rate meeting in September the central bank indicated a very probable base rate hike to 4.50 per cent in December. Inflation figures emerging since the publication of the central bank's monetary policy report have increased uncertainty as to the interest rate path ahead. Sustained pressure in the economy and a weaker krone exchange rate than expected could result in high inflation for a longer period than Norges Bank laid down as a basis.

The 12-month rate of growth in the consumer price index (CPI) was 3.3 per cent at the end of the quarter. 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 5.7 per cent. The macroeconomic picture in Norway is complex, and the path of the economy ahead is uncertain. The building and construction industry is affected by a sluggish market with fewer housing starts at the same time as energy-related manufacturing is experiencing an increased level of activity.

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) and non-financial undertakings has slowed further. Lower household purchasing power is expected to impact firms' activity levels in the period ahead. The number of customers turning to the bank for financial advice and mortgage payment holidays is rising slightly, but remains at a relatively low level. No significant increase in loan defaults is so far in evidence in any of the Group's business lines.

2022 was a good year for mid-Norwegian business, but now the mood has turned. With the exception of when the corona pandemic broke out in March 2020, mid-Norwegian business leaders have not been so pessimistic since the financial crisis. This is shown by the economic barometer from SpareBank 1 SMN.

### Result for the third quarter

The third quarter of 2023 reflects a good trend in underlying operations. However, a weak profit contribution from related companies, one-time costs and a correction for a low tax expense in the second quarter reduce return on equity in the quarter. Return on equity in the third quarter was 11.1 per cent, 1.9 percentage points below the target level for the group.

Net interest income has increased as a result of interest rate changes carried out and the full effect of the merger. The bank has announced two further rate hikes of up to 0.25 per cent with effect in the fourth quarter. The group's financing costs have risen due to a further increase in market interest rates.

Increased organic growth, acquisitions and an expanded product range have brought a strong increase in commission income from accounting services compared with the same quarter last year. Activity in the housing market has slowed and property sales are down on last year, while repricing and an expanded product range have contributed to higher commission income from estate agency services compared with the third quarter of 2022.

Results posted by related companies were reduced in the quarter, mainly as a result of a negative performance by SpareBank 1 Gruppen where extreme weather events have impacted Fremtind Forsikring's results. Portfolio write-downs at Kredinor also made a negative contribution. BN Bank continues to deliver good results.

The group's operating expenses came to NOK 741m in the quarter (583m). The increase is mainly down to the merger with SpareBank 1 Søre Sunnmøre and to price and wage growth.

Losses on loans and guarantees totalled NOK 35m in the quarter, breaking down to NOK 29m at the bank and NOK 6m at SpareBank 1 Finans Midt-Norge.

In connection with the merger with SpareBank 1 Søre Sunnmøre, SpareBank 1 SMN calculated a second-quarter tax expense that was NOK 71 million below the correct level. This brings a corresponding increase in the tax expense for the third quarter.

An increase in CET1 capital along with lower risk weighted assets make for a higher CET1 ratio, which at the end of the third quarter stood at 19.7 per cent. This is 2.5 percentage points above the group's long-term target.

### Net interest income

Market interest rates in terms of NIBOR rose from 4.37 per cent at the end of the second quarter to 4.72 per cent as of 30 September 2023. NIBOR averaged 4.62 per cent in the third quarter, 0.73 percentage points higher than in the preceding quarter. The bank raised its mortgage and deposit rates with effect from 9 August 2023, and has announced two further hikes for retail customers with effect from 25 October 2023 and 28 November 2023.

Net interest income totalled NOK 1,191m (814m) compared with NOK 1,094m in the second quarter. This is an increase of 8.9 per cent from the second quarter. Rising market rates through the quarter brought lower margins on loans and higher margins on deposits. Growth in lending, interest rate changes given effect in the quarter, along with higher return on equity, strengthened net interest income.

### Commission income and other operating income

SpareBank 1 SMN's strategy of exploiting the breadth present in the group and expanding interaction across the respective business lines stands firm. A high proportion of multi-product customers contributes to a capital efficient, diversified income flow and high customer satisfaction.

Commission income (NOKm)	3Q 23	2Q 23	3Q 22
Payment transfers	79	77	91
Creditcard	16	15	15
Saving products	10	12	9
Insurance	67	65	60
Guarantee commission	15	13	16
Real estate agency	110	119	105
Accountancy services	138	182	115
Other commissions	20	22	12
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	455	504	424
Commissions SB1 Boligkreditt	25	53	63
Commissions SB1 Næringskreditt	4	4	4
<b>Total commissions</b>	<b>484</b>	<b>561</b>	<b>491</b>

Commission income excluding the captive mortgage companies declined by NOK 49m measured against the second quarter. This is down to seasonal variations featuring in particular high accounting income in the second quarter. Compared with the third quarter of 2022, commission income excluding the captive mortgage companies have risen by NOK 31m.

In the case of loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt the bank receives a commission corresponding to the loan interest less the funding and operating expenses of those companies. The main reason for reduced commission income in the third quarter is higher funding costs.

### Return on financial investments

Return on financial investments in the third quarter was NOK 83m (minus 30m). The group's shareholdings showed a capital gain of NOK 17m, primarily as a result of value increases at SpareBank 1 SMN Invest. Financial instruments, including bonds and CDs, showed a capital gain of NOK 47m (6m) while income from foreign exchange transactions declined from NOK 30m in the third quarter of 2022 to NOK 20m in the third quarter of 2023.

Return on financial investments (NOKm)	3Q 23	2Q 23	3Q 22
Capital gains/losses shares	17	-7	-67
Gain/(loss) on financial instruments	47	-30	6
Foreign exchange gain/(loss)	20	38	30
<b>Net return on financial instruments</b>	<b>83</b>	<b>1</b>	<b>-30</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 minus NOK 2m (108m) in the third quarter. In the second quarter the corresponding figure was NOK 85m. The weak profit contribution from related companies is primarily due to a negative result on the part of SpareBank 1 Gruppen and a negative result at SpareBank 1 Mobilitet Holding.

Income from investment in associated companies (NOKm)	3Q 23	2Q 23	3Q 22
SpareBank 1 Gruppen (19.5 %) <sup>*)</sup>	-13	-5	17
SpareBank 1 Boligkreditt (24.1 %)	5	29	10
SpareBank 1 Næringskreditt (17.8 %)	4	3	0
BN Bank (35.0 %)	64	58	53
SpareBank 1 Kreditt (19.2 %)	-3	-2	3
SpareBank 1 Betaling (21.9 %)	-10	-11	-3
SpareBank 1 Forvaltning (20.9 %)	6	8	10
Other companies	-55	5	18
<b>Income from investment in associated companies</b>	<b>-2</b>	<b>85</b>	<b>108</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 Alliance

The SpareBank 1 Alliance is a collaboration between the SpareBank 1 banks. The Alliance's mission is to offer competitive financial services and products, and to exploit economies of scale. The Alliance collaboration is driven through its ownership and participation in SpareBank 1 Utvikling DA, which develops and delivers shared products and services, and through SpareBank 1 Gruppen, as owner of the product companies.

**SpareBank 1 Gruppen**

SpareBank 1 Gruppen posted a net profit of NOK 64m (444m) in the third quarter, of which SpareBank 1 SMN's share is minus NOK 13m (17m).

The most important companies in SpareBank 1 Gruppen (SpareBank 1 Gruppen's holding):

- **Fremtind Forsikring (65 per cent)** offers non-life and personal insurance coverage and is headquartered in Oslo. The company posted a profit of NOK 8m (444m) after tax in the third quarter. The decline is primarily due to extreme weather events in the quarter.
- **SpareBank 1 Forsikring (100 per cent)** is a pension company headquartered in Oslo. The company mainly offers contribution-based occupational pensions, collective disability insurance and private pension saving. SpareBank 1 Forsikring reported a profit of NOK 69m (minus 24m) after tax in the third quarter.
- **SpareBank 1 Factoring (100 per cent)** offers financial and administrative factoring services. The company is headquartered in Ålesund. The company posted a third-quarter profit of NOK 19m (16m) after tax.
- **Kreditor (50 per cent)** is Norway's largest debt collection company. The company's third-quarter result was a negative NOK 166m. Portfolio write-downs of NOK 180m were carried out in the quarter.

**SpareBank 1 Forvaltning** delivers products and services to a broad range of clients in the field of capital management and securities services. SpareBank 1 SMN's profit share in the third quarter was NOK 6m (10m).

**SpareBank 1 Boligkreditt** is a mortgage company that issues covered bonds secured by residential mortgages with a view to stable financing and low financing costs. SpareBank 1 SMN's profit share was NOK 5m (10m) in the third quarter.

**SpareBank 1 Næringskreditt** is a mortgage company that issues covered bonds secured by commercial mortgages with a view to stable financing and low financing costs. SpareBank 1 SMN's profit share was NOK 4m (0m) in the quarter.

**SpareBank 1 Kreditt** offers unsecured finance to retail customers. SpareBank 1 SMN's profit share in the third quarter was minus NOK 3m (3m).

**BN Bank** offers residential mortgages and loans to commercial property and its main market is south-eastern Norway. SpareBank 1 SMN's share of BN Bank's profit was NOK 64m (53m).

**SpareBank 1 Betaling** is the SpareBank 1 banks' holding company in Vipps AS. SpareBank 1 SMN's profit share was minus NOK 10m (minus 3m) in the third quarter.

**Other companies**

The negative profit contribution is attributable to SpareBank 1 Mobilitet Holding's write-down of its shareholding in the car subscription company Fleks. Car subscriptions, like the new car market, have experienced weaker demand in 2023.

## Operating expenses

The group aims for a cost-income ratio below 40 per cent at the parent bank and below 85 per cent at EiendomsMegler 1 Midt-Norge and SpareBank 1 Regnskapshuset SMN. The cost-income ratio is defined as the ratio of operating expenses to total income excluding net return on financial investments.

The parent bank's cost-income ratio was 35.8 per cent in the quarter (37.1 per cent). The corresponding figures for EiendomsMegler 1 Midt-Norge and SpareBank 1 Regnskapshuset SMN were 101.3 (88.7) and 92.7 (82.5) per cent respectively.

	3Q 23	2Q 23	3Q 22
Staff costs	435	383	348
IT costs	24	105	84
Marketing	24	25	18
Ordinary depreciation	43	35	26
Operating expenses, real properties	15	14	17
Purchased services	51	44	48
Merger expenses	14	18	0
Other operating expense	56	59	42
<b>Total operating expenses</b>	<b>741</b>	<b>683</b>	<b>583</b>

Overall group expenses rose by NOK 158m from last year's third quarter, of which respectively NOK 23m and NOK 12m of the increase refers to the wage and price growth in the bank and subsidiaries. Additional wage growth in subsidiaries of NOK 45m is attributed to organic growth and acquisitions made by SpareBank 1 Regnskapshuset SMN.

In addition to price and wage growth, the growth in costs seen by the bank in the quarter measured against last year's third quarter is driven mainly by the inclusion of the former SpareBank 1 Søre Sunnmøre's cost base by NOK 35m, and costs related to the implementation of the merger by NOK 14m. Further, higher costs have been incurred on technology development at SpareBank 1 Utvikling and growth initiatives in selected geographical locations.

Measured against the second quarter, personnel costs at the bank have risen by NOK 39m. This is attributable to the full effect of the merger with SpareBank 1 Søre Sunnmøre, an increased focus on selected geographical locations and costs related to the group's 200th anniversary and outcome of the national wage settlement.

## Losses on loans and guarantees

The group's losses on loans and guarantees in the third quarter of 2023 came to NOK 35m.

Losses in the third quarter break down to NOK 36m in Stage 1 and 2 and minus NOK 1m in Stage 3. Losses in the period measured 0.06 per cent of total outstanding loans (0.04 per cent).

Impairment losses (NOKm)	3Q 23	2Q 23	3Q 22
RM	1	-14	11
CM	27	18	1
SpareBank 1 Finans Midt-Norge	6	25	10
<b>Total impairment losses</b>	<b>35</b>	<b>29</b>	<b>22</b>

Overall impairment write-downs on loans and guarantees as at 30 September amounted to NOK 1,174m (1,199m).

The bank's loan portfolio is of good credit quality. The portfolio comprises NOK 166,651m (148.108m) in Stages 1 and 2 respectively, corresponding to 99.02 per cent. Problem loans (Stage 3) total NOK 2,289m (2,139m), corresponding to 0.98 per cent (1.02 per cent) of gross outstanding loans, including loans sold to the captive mortgage companies.

### **Total assets of NOK 243bn**

The bank's total assets as of the third quarter of 2023 were NOK 243bn (219bn), having risen by NOK 24bn, or 11 per cent, over the last 12 months. Total assets have grown as a result of the merger and lending growth.

As at 30 September 2023 loans totalling NOK 65bn (59bn) had been sold from SpareBank 1 SMN to the captive mortgage companies SpareBank 1 Boligkreditt and 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 the two mortgage companies.

### **Loans**

Total outstanding loans rose in the last 12 months by NOK 25.4bn (16.9bn), corresponding to 12.2 per cent (8.8 per cent), and stood at NOK 234.3bn (208.9bn) at the end of the third quarter. Lending growth in the quarter was 1.0 per cent (1.7 per cent).

Lending to retail customers climbed NOK 2.6bn in the quarter (1.9bn). This corresponds to a lending growth of 1.6 per cent (1.3 per cent). Lending growth in the last 12 months was 13.8 per cent (7.5 per cent), of which the merger with the former SpareBank 1 Søre Sunnmøre accounts for 8.5 percentage points. Total lending to the bank's retail customers came to NOK 165.5bn (145.4bn) at the end of the third quarter.

Lending to the bank's corporate clients was reduced by NOK 0.5bn in the quarter (growth of NOK 0.9bn), corresponding to minus 0.8 per cent (1.7 per cent). Growth in lending in the last 12 months was 8.8 per cent (11.1 per cent), of which the merger accounts for 3.5 percentage points. Overall lending to the bank's corporate customers came to NOK 56.4bn (52.0bn) as at 30 September 2023.

SpareBank 1 Finans Midt-Norge's loan volume was NOK 12.6bn (11.6bn) at the end of the third quarter 2023.

### **Deposits**

Customer deposits rose in the last 12 months by NOK 17.7bn (10.9bn) to NOK 138.2bn (120.6bn), corresponding to a growth of 14.7 per cent (9.9 per cent). Growth in the third quarter was minus 1.4 per cent (minus 2.6 per cent).

Personal deposits were reduced by NOK 0.5bn in the quarter (reduction of 1.4bn), corresponding to deposit growth of minus 0.8 per cent (minus 2.5 per cent). Deposit growth in the last 12 months was 17.3 per cent (9.1 per cent), of which the merger accounts for 9.2 percentage points. Total deposits from personal customers came to NOK 63.9bn (54.5bn) at the end of the third quarter.

Deposits by corporate customers of the bank were reduced by NOK 2.2bn in the quarter (reduction of 1.8 bn), corresponding to minus 3.0 per cent (minus 2.8 per cent). Deposit growth in the last 12 months was 11.8 per cent (6.2 per cent), of which the merger accounts for 7.0 percentage points. Overall corporate deposits with the parent bank amounted to NOK 70.0bn (62.7bn) as at 30 September 2023.

## Result for the business areas

The **Retail Banking Division** achieved a pre-tax profit of NOK 481m in the third quarter of 2023 (322m). Return on capital employed was 18.9 per cent (14.7 per cent), a reduction of 1.4 percentage points from the second quarter. The retail banking portfolio consists of wage earners, agricultural customers and sole proprietorships.

<b>Profit and loss account (NOKm)</b>	<b>3Q 23</b>	<b>2Q 23</b>	<b>3Q 22</b>
Net interest	632	570	367
Comission income and other income	165	190	208
Total income	797	760	575
Total operating expenses	315	281	241
Ordinary operating profit	482	479	334
Loss on loans, guarantees etc.	1	-14	11
<b>Result before tax</b>	<b>481</b>	<b>493</b>	<b>322</b>
<b>Balance</b>			
Loans and advances to customers	165.454	162.822	145.433
Adv.of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-63.873	-63.769	-57.299
Deposits to customers	63.878	64.398	54.458
<b>Key figures</b>			
Return on equity per quarter <sup>*)</sup>	18,9 %	20,3 %	14,7 %
Lending margin	0,33 %	0,57 %	0,39 %
Deposit margin	2,58 %	2,20 %	1,67 %

<sup>1)</sup> Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital in accordance with the capital plan.

Lending growth in the quarter was 1.6 per cent and deposit growth was minus 0.8 per cent. The corresponding figures in the third quarter 2022 were 1.3 and minus 2.5 per cent respectively.

One general interest rate increase on loans and deposits was carried out in the course of the quarter, with two further rate increases announced for the fourth quarter. Net interest income rose from the second quarter as a result of volume growth, a higher deposit margin along with higher return on the division's allocated equity.

Increased income from the payments area is noted compared with the second quarter. Reduced lending margins on loans sold to SpareBank 1 Boligkreditt bring a decline in net commission income and other incomes measured against the same period of last 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 balanced growth. A focus on deposits in advisory services to customers enables the bank to deliver robust earnings and heightens customers' financial security through increased buffer capital.

The distribution model is enhanced by the introduction of co-location in finance centres and a transition from personal advisers to customer teams. Increased use of data and insights enables a closer interplay between the physical and digital advisory channels, providing customers with improved and more efficient advice.

**EiendomsMegler 1 Midt-Norge** is the market leader in Trøndelag and in Møre og Romsdal. The pre-tax profit was minus NOK 1m (12m) in the third quarter.

<b>EiendomsMegler 1 Midt-Norge (92.4%)</b>	<b>3Q 23</b>	<b>2Q 23</b>	<b>3Q 22</b>
Total income	110	120	107
Total operating expenses	111	89	95
<b>Result before tax (NOKm)</b>	<b>-1</b>	<b>31</b>	<b>12</b>
Profit margin	-1 %	26 %	11 %

As expected, higher mortgage rates have changed the tempo of the housing market since the summer. A large supply of properties and lower demand have resulted in longer selling periods and an increase in the number of properties sold below the asking price. Overall sales have nonetheless remained at a stable level.

1,632 properties were sold in the third quarter (1,763), and new assignments totalled 1,962 (1,944), 18 more than in the third quarter of 2022. The company's market share at 30 September 2023 was 37.0 per cent, up from 36.4 per cent in the same period last year.

The **Corporate Banking Division** achieved a pre-tax profit of NOK 452m (322m). Return on capital employed was 24.3 per cent (18.4 per cent).

<b>CM, Profit and loss account (NOKm)</b>	<b>3Q 23</b>	<b>2Q 23</b>	<b>3Q 22</b>
Net interest	537	483	361
Comission income and other income	77	57	75
Total income	614	540	436
Total operating expenses	135	124	114
Ordinary operating profit	480	415	322
Loss on loans, guarantees etc.	27	15	1
<b>Result before tax</b>	<b>452</b>	<b>400</b>	<b>322</b>
<b>Balance</b>			
Loans and advances to customers	56.605	57.077	52.047
Adv.of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-1.503	-1.512	-1.354
Deposits to customers	70.011	72.180	62.638
<b>Key figures</b>			
Return on equity per quarter <sup>1)</sup>	24,3 %	22,0 %	18,4 %
Lending margin	2,33 %	2,40 %	2,05 %
Deposit margin	0,60 %	0,37 %	0,27 %

<sup>1)</sup> Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital in accordance with the capital plan.

The Corporate Banking Division's loan volume was reduced by 0.8 per cent in the quarter (increase of 1.7 per cent) while the deposit volume was reduced by 3.0 per cent (reduction of 2.8 per cent).

Increased market interest rates in the quarter narrowed the lending margin and widened the deposit margin. For customers with lending and deposit products unrelated to interbank rates, one general interest rate increase was carried out in the third quarter, with two further rate increases announced for the fourth quarter.

The credit quality of the loan portfolio is good. The bankruptcy rate in the region has risen, but so far with limited impact on the loan portfolio.

A strengthened input of resources in Trondheim and greater coordination with SpareBank 1 Regnskapshuset SMN is contributing to Corporate Banking's acquisition of market shares in Mid-Norway. The establishment of a presence in Oslo is expected to spur lending growth in selected segments where SpareBank 1 SMN offers competencies and experience.

**SpareBank 1 Regnskapshuset SMN** is the market leader in Trøndelag and in Møre og Romsdal. The company posted a pre-tax profit of NOK 11m (22m).

<b>SpareBank 1 Regnskapshuset SMN (93.3%)</b>	<b>3Q 23</b>	<b>2Q 23</b>	<b>3Q 22</b>
Total income	153	198	125
Total operating expenses	141	154	103
<b>Result before tax (NOKm)</b>	<b>11</b>	<b>45</b>	<b>22</b>
Profit margin	7 %	22 %	17 %

Operating income climbed by NOK 28m from the third quarter of 2022, driven by increased incomes from advisory and accounting services.

Substantial sums have been invested in developing the company's competitive power. This is producing results ranging from strengthened advisory competencies and capacity, greater focus on digitalisation to new income flows. Cloud-based solutions that simplify matters for the company, along with enhanced insights and improvements in the customer process, are at centre stage. This has brought customer growth and reinforced existing customers' loyalty.

**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 recorded a pre-tax profit of NOK 3m (44m).

<b>SpareBank 1 Finans Midt-Norge (58.0%)</b>	<b>3Q 23</b>	<b>2Q 23</b>	<b>3Q 22</b>
Total income	40	96	83
Total operating expenses	31	29	28
Loss on loans, guarantees etc.	6	25	10
<b>Result before tax (NOKm)</b>	<b>3</b>	<b>43</b>	<b>44</b>

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

SpareBank 1 Finans Midt-Norge and other SpareBank 1 banks own, through SpareBank 1 Mobilitet Holding, 47.2 per cent of the shares of the car subscription company Fleks which is the market leader in Norway with regard to car subscriptions. Like the market for new cars, car subscriptions have experienced

weaker demand in 2023, prompting SpareBank 1 Finans Midt-Norge to write down its holding in Fleks in the third quarter. The write-down is presented as net return on financial investments and is included in total income in the segment information.

**SpareBank 1 Markets** is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It employs 167 FTEs.

SpareBank 1 Markets' pre-tax profit was NOK 24m (minus 3m) in the third quarter.

The third quarter is traditionally marked by lower activity. The third quarter of 2023 showed consistently higher incomes in the business lines compared with the same quarter of recent years. Overall incomes in the quarter amounted to NOK 166m (108m) and expenses to NOK 142m (105m).

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, more diversified earnings. The merger is currently scheduled for completion in 2023, but this is dependent on government approvals.

#### **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 565m (604m) as at 30 September 2023.

The company's pre-tax profit in the third quarter of 2023 was NOK 36m (minus 30m). The third quarter result is ascribable to dividends received and value adjustments to the equity portfolio.

## First nine months of 2023

#### **Good result**

SpareBank 1 SMN posted a net profit NOK 2,441m (2,017m) and a return on equity of 13.0 per cent (12.0 per cent). The result is higher than in the same period of 2022 due primarily to increased net interest income.

Net interest income came to NOK 3,319m (2,377m). Norges Bank raised its base rate to 4.25 per cent in August 2023. At the end of the third quarter of 2022 the base rate was 2.25 per cent. This has brought a substantial increase in banks' funding costs. Lending margins in the retail market have narrowed concurrent with a widening of deposit margins compared with 2022, and return on the bank's equity has risen.

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. The bank has carried out general interest rate increases on mortgages and deposits in line with Norges Bank's base rate hikes. Two further base rate hikes have been announced, taking effect in the fourth quarter.

Net commission income was NOK 1,586m (1,568m). Incomes from accounting services have climbed NOK 71m measured against the first nine months of 2022. Incomes from insurance products and estate agency services and other commissions have concurrently risen. Net commission income excluding the captive

mortgage companies has increased by NOK 107m from last year. Lower margins on loans sold to SpareBank 1 Boligkreditt have reduced commissions from this mortgage company by NOK 88m.

The profit from related companies was NOK 207m (246m). A weaker performance by SpareBank 1 Gruppen and a negative performance by SpareBank 1 Mobilitet Holding are the main explanation for the decline.

The group's operating expenses were NOK 2,152m (1,797m). Expenses are impacted by wage and price growth along with the merger with the former SpareBank 1 Søre Sunnmøre and expensing of the embezzlement affair in the first quarter.

A net recovery of NOK 6m was recorded on loan losses (net recovery of 26m) in the nine months to 30 September. A net amount of NOK 22m was recovered on losses on loans to the group's corporate customers in the same period (net recovery of 39m). The corresponding figure for personal customers is a loss of NOK 16m (14m).

Lending growth in the group was 10.9 per cent (6.9 per cent) in the year's first nine months. Growth in lending to the retail segment was 12.2 per cent (5.6 per cent). Lending to corporate customers climbed 9.2 per cent (9.4 per cent).

Deposits increased by 13.3 per cent (8.3 per cent). Deposits from personal customers rose 16.3 per cent (7.4 per cent). Deposits from corporate customers climbed 11.3 per cent (5.1 per cent).

### **Good funding and liquidity**

The central banks of several countries raised their base rates, but credit spreads have narrowed somewhat over the quarter. SpareBank 1 SMN has ample liquidity and access to funding. The bank follows 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 estimated at 173 per cent as at 30 September 2023 (239 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 30 September 2023, including the captive mortgage companies SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 59 per cent (58 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 90 per cent (90 per cent) at 30 September 2023.

SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are important funding sources for the bank, and loans totalling NOK 65bn (59bn) had been sold to these mortgage companies as of 30 September 2023.

MREL worth NOK 2,875m was issued in the third quarter. At the end of the third quarter SpareBank 1 SMN held NOK 12.1bn in senior non-preferred debt (MREL) and will meet the MREL requirements by the end of 2023.

### **Rating**

The bank's rating with Moody's was upgraded from A1 to Aa3 in October 2023.

**Financial soundness**

The CET1 ratio at 30 September 2023 was 19.7 per cent (19.2 per cent) compared with 19.1 per cent as at 30 June 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 capital 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 rose by 0.6 percentage point in the third quarter. Risk weighted assets were reduced by 1.2 per cent in the same quarter. The reduction is explained by a decline in loan volume to corporates, lower exposure to institutions and reduced CVA risk.

CET1 capital climbed 1.6 per cent in the third quarter. A payout ratio of 50 per cent of the group's net profit for 2023 is assumed.

A leverage ratio of 7.3 per cent (7.3 per cent) shows the bank to be very solid. See note 5 for details.

**Sustainability**

The group's strategies and objectives stand firm, and our effort to engage our customers and partners through our advisory capabilities, transition plans and product development will be strengthened in the period ahead.

Work on developing transition plans towards net zero emissions at industry level is ongoing and transition plans for fishing, agriculture and property has been published. Plans for most other significant industries and residential property will be published during 2024. To strengthen this effort, SpareBank 1 SMN has signed and endorsed the Science-Based Targets initiative (SBTi). SBTi is a framework for setting net zero targets in line with climate science, and this commitment is a natural follow-up to the group's strategic objective of net zero emissions by 2050. The validation process is expected to take a minimum of two years, and SpareBank 1 Regnskapshuset SMN will act as advisor in that process.

SpareBank 1 SMN has over the course of the quarter continued to prepare for the implementation of new sustainability reporting requirements. Corporate Banking has strengthened the credit department by appointing a sustainability officer to join the group's sustainability unit. Retail Banking has established a financial health team as part of its customer offering. The financial health team is a pilot project designed to assist customers experiencing acute stress and crisis reactions due to unmanageable debt or financial problems.

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

The book value per EC at 30 September 2023 was NOK 116.39 (107.19) and earnings per EC in the year's first nine months were NOK 11.14 (9.29).

The Price / Income ratio was 9.24 (9.00) and the Price / Book ratio was 1.18 (1.04).

## Outlook

SpareBank 1 SMN achieved a good operating profit in the third quarter with strong income growth, low losses and strengthened financial soundness.

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 0.25 percentage points at its interest rate meeting in September. The further path of interest rates will depend on economic developments. That said, activity in the Norwegian economy remains high and the labour market is tight. However, the latest report from Norges Bank's regional network indicates that activity levels are expected to edge down ahead driven by reduced construction activity and lower demand, albeit with regional and industry differences. This picture is confirmed by the bank's own assessment of industries in SpareBank 1 SMN's market area.

Growth in credit to households and non-financial enterprises alike has slowed over the past year, but SpareBank 1 SMN's ambition to expand its market shares stands firm. The bank's growth aspirations will be realised through growth initiatives in selected geographical locations and industries. In addition, work continues to strengthen synergies in the group's business lines, along with an increased focus on deposits and saving. Moreover, the group sees good opportunities for growth in the wake of structural changes in Norway's banking industry. Major improvements have been made in the distribution model for both private and business customers that lays the foundation for that the growth ambition will be realised in a profitable and efficient way.

The risk picture in SpareBank 1 SMN's loan portfolio is satisfactory. Higher interest rates make for an uncertain trend in commercial property, building and construction and retail trade. Bankruptcies in the region are increasing in number, but remain at a lower level than prior to the pandemic. Parts of the business sector are flourishing and the bank has not observed an increase in defaults in the corporate portfolio. Enquiries from personal customers regarding payment holidays showed a further increase in the third quarter. The number of enquiries is nonetheless low and only marginally higher than at the same time last year. So far there are few indications of any deterioration of the portfolio's credit quality, and neither defaults nor losses have increased.

The group aims for a CET1 ratio of 17.2 per cent in the longer term. At the end of the third quarter the CET1 ratio was 19.7 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.

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. The group's strategy stands firm, and the focus is on implementation and realisation of desired effects. The board of directors is pleased with results achieved thus far in 2023, and expects the merger with SpareBank 1 Søre Sunnmøre to further strengthen the group's market position ahead.

Trondheim, 1 November 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

Inge Lindseth  
(employee rep.)

Christina Straub  
(employee rep.)

Jan-Frode Janson  
(Group CEO)