

# Report of the Board of Directors

## Fourth 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 1,496m (932m)
- Net profit NOK 1,247m (768m)
- Return on equity 18.3 per cent (13.1 per cent)
- CET1 ratio 18.8 per cent (18.9 per cent)
- Growth in lending 0.9 per cent (1.1 per cent) and in deposits minus 3.9 per cent (1.2 per cent)
- Lending to retail customers of the bank rose 0.8 per cent in the quarter (1.4 per cent), 0.8 percentage points lower growth than in the third quarter. Lending to the bank's corporate clients rose 1.0 per cent (decline of 0.4 per cent) which was 1.8 percentage points higher growth than in the third quarter
- Deposits from retail customers rose 1.1 per cent (0.9 per cent), 1.9 percentage points higher growth than in the third quarter. Deposits from corporate clients were reduced by 10.0 per cent (0.4 per cent). This is 7 percentage points lower growth than in the third quarter, and is in all essentials due to a reduction in deposits from the public sector
- Net result of ownership interests was NOK 90m (195m)
- Net result of financial instruments (incl. dividends) was NOK 481m (minus 33m)
- Losses on loans and guarantees: NOK 20m (19m)
- Earnings per equity certificate (EC): NOK 5.62 (3.53)
- Book value per EC: NOK 120.48 (109.86)

## Preliminary annual accounts 2023

- Pre-tax profit: NOK 4,484m (3,324m)
- Net profit: NOK 3,688m (2,785m)
- Return on equity: 14.4 per cent (12.3 per cent)
- Growth in lending: 11.9% (8.1%) and in deposits: 8.9 per cent (9.6 per cent) in the last 12 months
- Growth in lending to the bank's retail customers was 13.1 per cent (7.1 per cent) in the last 12 months. Growth lending to corporates was 10.4 per cent (8.9 per cent) in the last 12 months
- Lending to wage earners accounts for 68 per cent (67 per cent) of total lending
- Deposits from retail customers rose 17.6 per cent (8.4 per cent) in the last 12 months. Deposits from corporate clients rose 0.1 per cent (5.5 per cent) in the last 12 months
- Net result of ownership interests: NOK 297m (442m)
- Net result of financial instruments (incl. dividends): NOK 502m (minus 61m)
- Losses on loans and guarantees: NOK 14m (net recovery of 7m), 0.01 per cent (-0.00 per cent) of gross lending
- Earnings per EC: NOK 16.88 (12.82)
- The board of directors proposes a dividend of NOK 12.00 per EC (NOK 6.50), equivalent to 74 per cent of the net profit, and a community dividend of NOK 860m (474m)

## Events in the quarter

### **Base rate at 4.50 per cent and continued decline in credit growth**

Norges Bank raised its base rate from 4.25 per cent to 4.50 per cent in December 2023. 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 December the central bank indicated that the base rate had probably reached its peak in the present interest rate cycle, and signalled a gradual decline in the base rate from autumn 2024.

The 12-month rate of growth in the consumer price index (CPI) was 4.8 per cent at the end of 2023. Underlying inflation in the same period in terms of the consumer price index adjusted for changes in indirect taxes and excluding energy products (CPI-ATE) was 5.5 per cent. The macroeconomic situation in Norway is complex, and the path of the economy ahead is uncertain. The building and construction industry is impacted by a sluggish market with fewer housing starts at the same time as energy-related manufacturing is experiencing an increased level of activity.

Growth in credit to households and non-financial undertakings fell further in the fourth quarter. As at December the national twelve-month rate of growth in credit to households and non-financial undertakings was 3.1 and 2.6 per cent respectively.

### **SpareBank 1 Markets strengthened and acquires regional ownership**

On 22 June 2022 SpareBank 1 SMN announced SpareBank 1 Markets' move to reinforce its focus in the capital market and to bring in SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge as major owners. This puts the SpareBank 1 banks on a more robust footing in Norway's capital market with a strong regional presence in Trondheim, Tromsø and Stavanger, in addition to Oslo. The transaction was carried through in December 2023.

SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge transferred their capital market businesses to SpareBank 1 Markets. In addition a private placement was made with SpareBank 1 SR-Bank. Upon completion of the transaction SpareBank 1 SMN owns 39.9 per cent, SpareBank 1 SR-Bank 33.34 per cent, and SpareBank 1 Nord-Norge 18.1 per cent of SpareBank 1 Markets.

The transaction brought a gain of NOK 414m for SpareBank 1 SMN in the fourth quarter.

### **Fremtind Forsikring and Eika Forsikring merge**

Fremtind Forsikring and Eika Forsikring, and their respective owners – SpareBank 1 Gruppen, DNB Bank and Eika Gruppen – entered on 12 December an agreement of intent to merge the two companies. The merged entity will be known as Fremtind Forsikring.

SpareBank 1 SMN owns 19.5 per cent of the shares of SpareBank 1 Gruppen, which upon completion of the transaction will own 51.44 per cent of the shares of Fremtind Holding. Based on figures as at 30 June 2023 and pro forma consolidated accounts, the transaction will entail an increase of about NOK 7bn in group equity for SpareBank 1 Gruppen. SpareBank 1 SMN's share of this increase comes to about NOK 470m, which will be recognised in the consolidated accounts upon completion of the transaction. The effect on the bank's capital adequacy will be close to neutral since the equity capital increase will be deductible for capital adequacy calculation purposes.

In order for the transaction to go ahead the parties need to formalise a transaction agreement and the required government approvals must not impose significantly burdensome terms or conditions. The transaction is expected to go ahead in summer 2024 at the earliest.

### **SpareBank 1 Kreditt and Eika Kreditbank pool their credit activities**

SpareBank 1 Kreditt and Eika Kreditbank, the credit-card and consumer-finance product companies of the two largest savings bank alliances in Norway, are pooling their credit businesses. The economies of scale the companies achieve by integrating their resources will contribute to increased competitiveness and even more prudent lending practices.

The two credit companies have more than one million customers combined, and an overall 6.3 per cent share of the market in credit cards and consumer loans. Assuming government approval, the product areas 'credit cards' and 'unsecured repayment loans' will be transferred from today's Eika Kreditbank to SpareBank 1 Kreditt. The amalgamated entity's business address will be in Trondheim and the company will be renamed.

### **New Pillar 2 requirement and revised capital target**

SpareBank 1 SMN received a new Pillar 2 requirement in the fourth quarter. The requirement was reduced to 1.7 percentage points and must be met with a minimum of 56.25 per cent common equity tier 1 (CET1) capital. Following the change the Group's long-term CET1 target has been reduced to 16.3 per cent.

### **Savings programme for employees**

SpareBank 1 SMN continued its equity certificate saving programme for employees in the fourth quarter. The object of the programme is to motivate employees to become co-owners of the bank and the same time to increase interest in the bank's strategy and results. As much as 74 per cent of the Group's employees are participating in the programme.

**Results in the fourth quarter**

The fourth quarter of 2023 reflects high earnings due to a good development in net interest income and a gain of NOK 414m from the amalgamation of the capital market units of SpareBank 1 Markets, SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge. Increased costs and SpareBank 1 Gruppen's write-down of shares in Kredinor have a negative impact on the result.

Net interest income has increased as a result of growth and implemented interest rate changes. The bank has announced a rate hike of up to 0.25 per cent with effect in the first quarter of 2024. In addition, net interest income is positively affected by the recognition of NOK 59m of previously unrecognised interest due to redemption of an exposure previously acquired at a discount.

A positive trend is noted in commission income again in the fourth quarter, driven mainly by accounting services and payments transmission services.

The group's operating expenses came to NOK 866m in the quarter (646m). The increase is mainly down to the merger with SpareBank 1 Søre Sunnmøre, an increase in the bank's workforce, acquisitions made in SpareBank 1 Regnskapshuset SMN and price and wage growth.

Return on financial investments in the fourth quarter was NOK 491m (minus 52m). The increase is primarily due to a gain of NOK 414m from disinvestment in SpareBank 1 Markets.

The result from related companies rose from the third quarter but is substantially reduced compared with the fourth quarter of 2022. BN Bank continues to deliver good results, but SpareBank 1 SMN profit share from SpareBank 1 Gruppen was minus NOK 51m (128m) due to the write-down of SpareBank 1 Gruppen's stake in Kredinor.

Losses on loans and guarantees came to NOK 20m in the quarter (19m), comprising a net recovery of NOK 27m at the bank and a loss of NOK 47m at SpareBank 1 SMN Finans Midt-Norge related to a corporate exposure.

The CET1 ratio was 18.8 per cent (18.9) at the end of the fourth quarter, which is well above regulatory requirements and the Group's long-term target.

**Proposed distribution of net profit**

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

The net profit is distributed between the ownerless capital and the equity certificate (EC) capital in proportion to their relative shares of the bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 74 per cent of the distributed profit. Earnings per equity certificate were NOK 16.88. Given the bank's solid capitalisation, but also its prospects for profitable operation in the period ahead, the board of directors recommends a cash dividend of NOK 12.00 per equity certificate (EC). This makes for a payout ratio of 71 per cent. The bank's long-term dividend policy is to distribute about 50 per cent of distributable profit.

The board of directors further recommends an allocation of NOK 860m to community dividend. Of this amount, NOK 250m is to be transferred to non-profit causes and NOK 610m to the foundation Sparebankstiftelsen SMN. NOK 621m and NOK 308m are to be transferred to the dividend equalisation fund and the ownerless capital respectively.

	2023	2022
Profit for the year, Group	3,688	2,785
Interest hybrid capital (after tax)	-122	-60
<b>Profit for the year excl interest hybrid capital, group</b>	<b>3,566</b>	<b>2,725</b>
Profit, subsidiaries	-408	-479
Dividend, subsidiaries	302	422
Profit, associated companies	-297	-443
Dividend, associated companies	391	224
Group eliminations	2	-15
<b>Profit for the year excl interest hybrid capital, Parent bank</b>	<b>3,557</b>	<b>2,434</b>
<b>Distribution of profit</b>	<b>2023</b>	<b>2022</b>
Profit for the year excl interest hybrid capital, Parent bank	3,557	2,434
Transferred to/from revaluation reserve	-37	101
<b>Profit for distribution</b>	<b>3,520</b>	<b>2,535</b>
Dividends	1,731	840
Equalisation fund	621	781
Saving Bank's fund	308	440
Gifts	860	474
<b>Total distributed</b>	<b>3,520</b>	<b>2,535</b>

The parent bank's disposable profit includes dividends received from subsidiaries, related companies and joint ventures, and is adjusted for interest expenses on hybrid capital after tax.

Subsidiaries are fully consolidated in the group accounts, whereas profit shares from related companies and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the group results.

The net annual profit for distribution reflects changes of NOK 37m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 3,520m.

After distribution of the net profit for 2023, the ratio of EC capital to total equity remains 66.8 per cent.

### Net interest income

Market interest rates in terms of NIBOR were relatively stable in the fourth quarter. Three-month NIBOR averaged 4.72 per cent in the fourth quarter, 0.07 percentage points higher than in the preceding quarter. The bank raised its mortgage and deposit rates with effect from 25 October and 28 November, and has announced a further increase for personal customers with effect from 9 March 2024.

Net interest income totalled NOK 1,312m (961m) compared with NOK 1,191m in the third quarter. Stable market interest rates through the quarter and implemented interest rate increases brought higher margins on loans and lower margins on deposits. The quarter's net interest income includes NOK 59m related to redemption of an exposure previously acquired at a discount. Without this one-time effect, net interest income rose 5.3 per cent measured against the third quarter and 30 per cent against the fourth quarter of 2022.

### 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)	4Q 23	3Q 23	4Q 22
Payment transfers	101	79	91
Creditcard	14	16	15
Saving products	11	10	11
Insurance	61	67	60
Guarantee commission	16	15	25
Real estate agency	98	110	94
Accountancy services	152	138	127
Other commissions	23	20	14
<b>Commissions ex SB1 Boligkreditt and SB1 Næringskreditt</b>	<b>475</b>	<b>455</b>	<b>438</b>
Commissions SB1 Boligkreditt	19	25	32
Commissions SB1 Næringskreditt	4	4	4
<b>Total commissions</b>	<b>498</b>	<b>484</b>	<b>473</b>

Commission income excluding the captive mortgage companies rose by NOK 20m from the preceding quarter, and by NOK 37m from the same quarter of 2022. The good trend in commission income is driven in particular by incomes from payment services and accounting services.

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 fourth quarter is higher funding costs.

### Return on financial investments

Return on financial investments in the fourth quarter was NOK 491m (minus 52m). Capital gains of NOK 472m include NOK 414m related to disinvestment from SpareBank 1 Markets. Other capital gains are related to SpareBank 1 SMN Invest's share portfolio.

Financial instruments, including bonds and CDs, showed a capital loss of NOK 8m (capital loss of 55m) while income from foreign exchange transactions rose by NOK 7m from the preceding quarter to NOK 27m (NOK 25m).

Return on financial investments (NOKm)	4Q 23	3Q 23	4Q 22
Capital gains/losses shares	472	17	-23
Gain/(loss) on financial instruments	-8	47	-55
Foreign exchange gain/(loss)	27	20	25
<b>Net return on financial instruments</b>	<b>491</b>	<b>83</b>	<b>-52</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 90m (195m) in the quarter. In the third quarter the corresponding figure was minus NOK 2m.

Income from investment in associated companies (NOKm)	4Q 23	3Q 23	4Q 22
SpareBank 1 Gruppen (19.5 %)*	-51	-13	128
SpareBank 1 Boligkreditt (23.9 %)	30	5	-1
SpareBank 1 Næringskreditt (14.8 %)	1	4	2
BN Bank (35.0 %)	73	64	54
SpareBank1 Markets (39.9 %)	19	-	-
SpareBank 1 Kreditt (19.2 %)	-3	-3	0
SpareBank 1 Betaling (21.9 %)	-8	-10	22
SpareBank 1 Forvaltning (21.5 %)	12	6	5
Other companies	16	-55	-15
<b>Income from investment in associated companies</b>	<b>90</b>	<b>-2</b>	<b>195</b>

\*) SpareBank 1 Gruppen has implemented IFRS 17 from 01 January 2023, comparable figures have not been restated but information about the effect is described 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 of 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 60m (518m) in the fourth quarter, of which SpareBank 1 SMN's share of the controlling interest's net profit was minus NOK 51m (128m). The non-controlling interests share of SpareBank 1 Gruppen's net profit relates to the results from Fremtind Forsikring.

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 912m (151m) after tax in the fourth quarter. The increase is attributable to a return of NOK 904m on net investments in the quarter and an estimate change in a loss component which resulted in NOK 177m being taken to income.
- **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 60m (65m) after tax in the fourth 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 22m (21m) after tax in the fourth quarter.
- **Related companies** in SpareBank 1 Gruppen posted a negative contribution of NOK 85m (minus 41m) to SpareBank 1 Gruppen's profit.
- **Kredinor (50 per cent)** is Norway's largest debt collection company, and is a related company in SpareBank 1 Gruppen. Write-downs of NOK 769m were made in the shares of Kredinor 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 fourth quarter was NOK 12m (5m).

**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 30m (minus 1m) in the fourth 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 1m (2m) in the quarter.

**SpareBank 1 Kreditt** offers unsecured finance to retail customers. SpareBank 1 SMN's profit share in the fourth quarter was minus NOK 3m (0m).

**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 73m (54m).

**SpareBank 1 Markets** is a leading Norwegian investment firm. The company offers services in the fields of equity and credit analysis, equity and bond trading and services in the corporate finance area. SpareBank 1 SMN's share of SpareBank 1 Markets' profit in December 2023 was NOK 19m. Other profit share from SpareBank 1 Markets in the fourth quarter is recognised as profit share from business held for sale.

**SpareBank 1 Betaling** is the SpareBank 1 banks' parent company in Vipps AS. SpareBank 1 SMN's profit share was minus NOK 8m (22m) in the fourth quarter.

### Other companies

The net profit of NOK 16m in the fourth quarter is driven by a positive contribution of NOK 38m (0m) from the development company Grilstad Marina and a negative contribution of NOK 12m (minus 5m) from SpareBank 1 Mobilitet Holding and minus NOK 11m (minus 9m) from SpareBank 1 Utvikling.

### Operating expenses

The group aims for a cost-income ratio below 40 per cent at the 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 net interest income and commission and other income.

The bank's cost-income ratio was 41 per cent in the quarter (37 per cent). The corresponding figures for EiendomsMegler 1 and Regnskapshuset were 107 (107) and 95 (85) per cent respectively.

NOKm	4Q 23	3Q 23	4Q 22
Staff costs	476	435	333
IT costs	132	93	100
Marketing	21	24	24
Ordinary depreciation	47	43	33
Operating expenses, real properties	11	15	9
Purchased services	71	62	53
Merger expenses	18	14	22
Other operating expense	90	56	73
<b>Total operating expenses</b>	<b>866</b>	<b>741</b>	<b>646</b>

Overall expenses rose by NOK 220m from the fourth quarter of 2022, of which NOK 41m of the increase refers to the subsidiaries. Price and wage growth along with acquisitions made by SpareBank 1 Regnskapshuset SMN are the chief driver behind the subsidiaries' expense growth.

The growth in costs seen by the bank in the quarter measured against last year's fourth quarter is driven by wage and price growth and also to some extent by technology investments through SpareBank 1 Utvikling and growth initiatives in selected geographical locations, primarily Trondheim, Oslo and Sunnmøre. The bank is also building a presence in the area of wealth management and private banking. These measures will strengthen the bank's market position and earnings. In addition, costs have risen with the inclusion of the former SpareBank 1 Søre Sunnmøre's cost base, celebration of the bank's 200th anniversary, and legal assistance related to court proceedings in the embezzlement affair.

From the third to fourth quarter costs have risen as a result of aspects of the investments and initiatives mentioned above. In addition, costs related to the anniversary celebrations, including anniversary gifts to the group's employees, along with retrospective payment of local-level pay settlement awards, have impacted costs in the fourth quarter.

### Losses on loans and guarantees

The group's losses on loans and guarantees in the fourth quarter of 2023 came to NOK 20m.

Losses in the quarter break down to minus NOK 30m in Stage 1 and 2 and NOK 50m in Stage 3. Losses in the period measured 0.03 per cent of total outstanding loans (0.04 per cent).

Impairment losses (NOKm)	4Q 23	3Q 23	4Q 22
RM	-2	1	19
CM	-25	27	-12
SpareBank 1 Finans Midt-Norge	47	6	12
<b>Total impairment losses</b>	<b>20</b>	<b>35</b>	<b>19</b>

Overall impairment write-downs on loans and guarantees as at 31 December amount to NOK 995m (1,188 m).

The bank's loan portfolio is of good credit quality. The portfolio comprises NOK 167,777m (150.585m) in Stages 1 and 2 respectively, corresponding to 99.12 per cent. Problem loans (Stage 3) total NOK 2,085m (2,044m), corresponding to 0.88 per cent (0.97 per cent) of gross outstanding loans, including loans sold to the captive mortgage companies.

### Total assets of NOK 233bn

The bank's total assets as at the fourth quarter of 2023 were NOK 233bn (223bn), having risen by NOK 10bn, or 4.2 per cent, over the last 12 months. Total assets have grown as a result of the merger and lending growth.

As at 31 December 2023 loans totalling NOK 66bn (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 25.1bn (15.9bn), corresponding to 11.9 per cent (8.1 per cent), and stood at NOK 236.3bn (211.2bn) at the end of the fourth quarter. Lending growth in the quarter was 0.9 per cent (1.1 per cent).

Lending to the bank's retail customers climbed NOK 1.3bn in the quarter (2.0bn). This corresponds to a lending growth of 0.8 per cent (1.4 per cent). Lending growth in the last 12 months was 13.1 per cent (7.1 per cent), of which the merger with the former SpareBank 1 Søre Sunnmøre accounts for 8.3 percentage points. Total lending to the bank's retail customers came to NOK 166.7bn (147.4bn) at the end of the fourth quarter.

Lending to the bank's corporate clients rose by NOK 0.6bn in the quarter (decline of NOK 0.2bn), corresponding to 1.0 per cent (minus 0.4 per cent). Growth in lending in the last 12 months was 10.4 per cent (8.9 per cent), of which the merger accounts for 3.5 percentage points. Overall lending to the bank's corporate customers came to NOK 57.2bn (51.8bn) as at 31 December 2023.

SpareBank 1 Finans' gross loan volume was NOK 12.6bn (12.1bn) at the end of the fourth quarter 2023. This corresponds to a growth of 4.5 per cent in the last 12 months.

## Deposits

Customer deposits rose in the last 12 months by NOK 10.9bn (10.7bn) to NOK 132.9bn (122.0bn), corresponding to a growth of 8.9 per cent (9.6 per cent). Growth in the fourth quarter was minus 3.9 per cent (1.2 per cent).

Personal deposits rose NOK 0.7bn in the quarter (0.5bn), corresponding to deposit growth of 1.1 per cent (0.9 per cent). Deposit growth in the last 12 months was 17.6 per cent (8.4 per cent), of which the merger accounts for 10.7 percentage points. Total deposits from personal customers came to NOK 64.6bn (54.9bn) at the end of the fourth quarter.

Deposits from the bank's corporate segment were reduced by NOK 7.0bn in the quarter (increase of 0.3bn), corresponding to minus 10.0 per cent (growth of 0.4 per cent). The decline is attributable to increasing competition for corporate sector deposits. Deposit growth in the last 12 months was 0.1 per cent (5.5 per cent). When adjusted for the merger with SpareBank 1 Søre Sunnmøre, growth in deposits from the bank's corporate segment would have been minus 6.8 per cent. Total deposits from the bank's corporate segment were NOK 63.0bn (62.9bn) as at 31 December 2023.

The **Retail Banking Division** achieved a pre-tax profit of NOK 423m in the fourth quarter of 2023 (371m). Return on capital employed was 16.3 per cent (16.2 per cent), a reduction of 2.7 percentage points from the third quarter. The retail banking portfolio consists of wage earners, agricultural customers and sole proprietorships.

<b>Profit and loss account (NOKm)</b>	<b>4Q 23</b>	<b>3Q 23</b>	<b>4Q 22</b>
Net interest	626	632	476
Comission income and other income	167	165	176
Total income	794	797	651
Total operating expenses	373	315	253
Ordinary operating profit	421	482	398
Loss on loans, guarantees etc.	-2	1	27
<b>Result before tax including held for sale</b>	<b>423</b>	<b>481</b>	<b>371</b>
<b>Balance</b>			
Loans and advances to customers	166,713	165,454	147,426
Adv.of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-64,892	-63,873	-57,134
Deposits to customers	64,601	63,878	54,930
<b>Key figures</b>			
Return on equity per quarter *)	16.3 %	18.9 %	16.2 %
Lending margin	0.68 %	0.33 %	0.39 %
Deposit margin	2.14 %	2.58 %	2.19 %

\*) Regulatory capital with reference to the capital target underlies the calculation of capital employed at Retail Banking and Corporate Banking.

Lending growth in the quarter was 0.8 per cent and deposit growth 1.1 per cent. The corresponding figures in the fourth quarter 2022 were 1.4 and 0.9 per cent respectively.

Two general interest rate increases on loans and deposits were implemented in the course of the quarter, with a further rate increase announced for the first quarter 2024.

Increased income from the payments area is noted compared with the third 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 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 in the form of 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 and Romsdal. The pre-tax profit was minus NOK 7m (minus 6m) in the fourth quarter.

<b>EiendomsMegler 1 Midt-Norge (92.4%)</b>	<b>4Q 23</b>	<b>3Q 23</b>	<b>4Q 22</b>
Total income	99	110	93
Total operating expenses	106	111	100
<b>Result before tax (NOKm)</b>	<b>-7</b>	<b>-1</b>	<b>-6</b>
Operating margin	-7 %	-1 %	-7 %

Higher mortgage rates have dampened activity in the housing market and the sales volume is somewhat lower than last year. EiendomsMegler 1 Midt-Norge is winning market shares, thereby compensating to some extent for the fall in sales volume. Higher incomes per sale make for increased turnover compared with the same period last year.

1,394 properties were sold in the fourth quarter (1,484), and new assignments totalled 1,310 (1,307). The company's market share at 31 December 2023 was 37.3 per cent, up from 36.5 per cent in the same period last year.

The **Corporate Banking Division** achieved a pre-tax profit of NOK 606m (443m). Return on capital employed was 33.1 per cent (26.0 per cent).

<b>Profit and loss account (NOKm)</b>	<b>4Q 23</b>	<b>3Q 23</b>	<b>4Q 22</b>
Net interest	659	537	458
Commission income and other income	90	77	85
Total income	749	614	544
Total operating expenses	168	135	119
Ordinary operating profit	581	480	425
Loss on loans, guarantees etc.	-25	27	-19
<b>Result before tax</b>	<b>606</b>	<b>452</b>	<b>443</b>
<b>Balance</b>			
Loans and advances to customers	57,191	56,605	51,822
Adv. of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-1,576	-1,503	-1,481
Deposits to customers	62,988	70,011	62,920
<b>Key figures</b>			
Return on equity per quarter <sup>*)</sup>	33.1 %	24.3 %	26.0 %
Lending margin	2.85 %	2.33 %	2.23 %
Deposit margin	0.63 %	0.60 %	0.47 %

\*) Regulatory capital with reference to the capital target underlies the calculation of capital employed in Retail Banking and Corporate Banking.

The Corporate Banking Division's loan volume climbed 1.0 per cent in the fourth quarter (reduction of 0.4 per cent) while the deposit volume was reduced by 10.0 per cent (increase of 0.4 per cent). The decline is attributable to growing competition for public sector deposits.

Effectuation of interest rate changes and recognition of unrecognised interest on an exposure acquired at a discount widened the lending margin in the quarter. When adjusted for the one-time effect of NOK 59m, the lending margin in terms of NIBOR averaged 2.45 per cent in the quarter. The change in portfolio composition brought a positive development in deposit margins.

Increased market interest rates and a change in portfolio composition in the quarter narrowed the lending margin and widened the deposit margin. For customers with lending and deposit products unrelated to interbank rates, two general interest rate increases were carried out in the third quarter, with a further rate increase 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 spurs Corporate Banking's acquisition of market shares in Mid-Norway. The establishment

of a presence in Oslo is expected to stimulate 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 and Romsdal. The company posted a pre-tax profit of NOK 8m (20m).

<b>SpareBank 1 Regnskapshuset SMN (93.3%)</b>	<b>4Q 23</b>	<b>3Q 23</b>	<b>4Q 22</b>
Total income	167	153	139
Total operating expenses	159	141	119
<b>Result before tax (NOKm)</b>	<b>8</b>	<b>11</b>	<b>20</b>
Operating margin	5 %	7 %	15 %

Operating income climbed NOK 28m from the fourth quarter of 2022, driven by increased incomes from advisory and accounting services. The cost increase is in all essentials driven by higher personnel costs due to wage growth and acquisitions.

Substantial sums have been invested in developing the company's competitive power. This is producing results ranging from strengthened advisory competencies and capacity to a greater focus on digitalisation and 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 spurred 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 12m (51m).

<b>SpareBank 1 Finans Midt-Norge (56.5%)</b>	<b>4Q 23</b>	<b>3Q 23</b>	<b>4Q 22</b>
Total income	85	40	87
Total operating expenses	26	31	25
Loss on loans, guarantees etc.	47	6	11
<b>Result before tax (NOKm)</b>	<b>12</b>	<b>3</b>	<b>51</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 parent banks are represented.

The company has made a sizeable provision for loss on a corporate exposure in the quarter. Other losses are in accordance with a normal market development.

### **SpareBank 1 SMN Invest**

The 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 608m (584m) as at 31 December 2023.

The company's pre-tax profit in the fourth quarter 2023 was NOK 66m (minus 21m). The fourth quarter result is ascribable to profit shares from the development company Grilstad Marina and an increased value of the equity portfolio.

## At 31 December 2023

### Good profit

SpareBank 1 SMN posted a net profit NOK 3,688m (2,785m) and a return on equity of 14.4 per cent (12.3 per cent). The result for 2023 is higher than in 2022 due primarily to increased net interest income and a gain on the disinvestment from SpareBank 1 Markets.

Net interest income came to NOK 4,632m (3,339m). Norges Bank raised its base rate to 4.50 per cent in December 2023. At the end of the fourth quarter 2022 the base rate was 2.75 per cent. This has brought a substantial increase in banks' funding costs. The bank has carried out 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, taking effect in the first quarter 2024. Lending margins in the retail market have weakened concurrently with a widening of deposit margins compared with 2022, and return on the bank's equity has risen.

Lending growth in the group was 11.9 per cent (8.1 per cent) in 2023. Growth in lending to the bank's retail segment was 13.1 per cent (7.1 per cent). Lending to the bank's corporate customers rose 10.4 per cent (8.9 per cent).

Deposits increased by 8.9 per cent (9.6 per cent). Deposits from personal customers rose 17.6 per cent (8.4 per cent). Deposits from corporate customers rose 0.1 per cent (5.5 per cent).

Net commission income was NOK 2,084m (2,042m). Incomes from accounting services have climbed NOK 97m measured against 2022. Incomes from insurance products and estate agency services have concurrently risen. Net commission income excluding the captive mortgage companies has increased by NOK 145m from 2022. Lower margins on loans sold to SpareBank 1 Boligkreditt have reduced commissions from this mortgage company by NOK 101m.

Profits from related companies came to NOK 297m (442m). A weaker profit share from SpareBank 1 Gruppen and a negative performance posted by SpareBank 1 Mobilitet Holding are the main explanation for the decline.

Net return on financial investments increased from minus NOK 94m in 2022 to NOK 476m in 2023. The increase is primarily due to a gain of NOK 414m from disinvestment in SpareBank 1 Markets in the fourth quarter 2023.

The group's operating expenses were NOK 3,017m (2,443m). Expenses are impacted by wage and price growth, merger expenses and by the expensing of an operational loss of NOK 51m in the first quarter.

The bank's cost-income ratio, measured as operating expenses divided by net interest income and net commission income, was 37,7 per cent (37,2).

Overall loan losses of NOK 14m were recorded as at 31 December 2023 (net recovery of NOK 7m). Losses of NOK 6m were recorded on the Group's corporate customers in 2023 (net recovery of NOK 55m). The corresponding figure for personal customers is a loss of NOK 8m (44m).

**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 175 per cent as at 31 December 2023 (239 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 December 2023, including the captive mortgage companies SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 56 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 89 per cent (90 per cent) at 31 December 2023.

SpareBank 1 Boligkreditt and Næringskreditt are important funding sources for the bank, and loans totalling NOK 66bn (59bn) had been sold to these mortgage companies as at 31 December 2023.

MREL worth NOK 700m was issued in the third quarter. At the end of the fourth quarter SpareBank 1 SMN held NOK 12.4bn in senior non-preferred debt (MREL) and met the MREL requirements at the end of 2023.

**Rating**

The bank has a rating of Aa3 (stable outlook) with Moody's.

**Financial soundness**

The CET1 ratio at 31 December 2023 was 18.8 per cent (18.9 per cent) compared with 19.7 per cent as at 30 September 2023.

SpareBank 1 SMN received a new Pillar 2 requirement in the fourth quarter. The requirement was reduced to 1.7 percentage points and must be met with a minimum of 56.25 per cent CET1 capital. As a result of this change the group's long-term CET1 target is revised to 16.3 per cent, including a Pillar 2 guidance. 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.

A leverage ratio of 7.2 per cent (7.1 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. SpareBank 1 SMN has over the course of the quarter initiated preparations for updating its

dual materiality analysis. This process will follow the requirements of the new Corporate Sustainability Reporting Directive, and will involve a broad range of our stakeholders. The work will be ongoing in the first half of 2024.

Revision of the green bond framework was completed in the fourth quarter, with Sustainalytics as SPO (second-party opinion). At year-end, 87 per cent of corporate portfolio loans above NOK 10m were classified under the ESG model. Moreover, a pre-project for green transition in the SpareBank 1 Alliance has been established to attend to both the customer and the advisor perspective through central aspects of the corporate market value chain (distribution, marketing, product development, customer advice and tools). Work on transition plans for Corporate Banking and Retail Banking is ongoing.

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

The book value per EC at 31 December 2023 was NOK 120.48 (109.86) and earnings per EC in 2023 were NOK 16.88 (12.82).

The Price / Income ratio was 8.40 (9.94) and the Price / Book ratio was 1.18 (1.16).

### **Outlook**

SpareBank 1 SMN delivered a very good performance in 2023 reflecting strong profitability and financial soundness. Operating profit was satisfactory while the gain from disinvestment in SpareBank 1 Markets strengthened return on equity.

At the start of 2024 uncertainty continues to affect the economy, with reduced household purchasing power and decreasing credit growth. Inflation remains above target, despite having slowed. Norges Bank raised the base rate to 4.50 per cent at its interest rate meeting in December, and the base rate may now have peaked. The further path of interest rates will in any case depend on economic developments.

Unemployment remains low in Mid-Norway, but showed a weak rising trend through 2023 and Norges Bank's regional network survey indicates a negative trend for the region.

SpareBank 1 SMN's ambition to expand its market shares stands firm. The bank's growth aspirations will be realised through initiatives taken in selected geographical locations and industries. Work on strengthening synergies across the group's business lines continues, along with a reinforced focus on deposits and saving. At the same time the board of directors sees growth opportunities through ongoing structural changes in Norway's financial industry. Investments in technology development and competence are reflected in the bank's cost growth in 2023. Effects of the efforts made are expected to strengthen earnings, the group's market position and efficiency in 2024 and beyond. There will be a tight focus on the trend in costs across the group in 2024.

The risk picture in SpareBank 1 SMN's corporate loan portfolio is satisfactory, although higher interest rates and price growth have increased uncertainty in particular 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. So far there are few indications of any deterioration of the portfolio's credit quality, as reflected in continued low losses.

In view of changes in regulatory requirements set by Finanstilsynet in November 2023, the group's long-term CET1 target is lowered from 17.2 per cent to 16.3 per cent with effect from the fourth quarter of 2023.

The group's long-term dividend policy requiring about one half of net profit to be disbursed as dividends stands firm. When setting the size of the annual dividend payout, account is taken of the group's need for capital, prospects for profitable growth and strategic plans. The board of directors will recommend the bank's supervisory board to set a record cash dividend of NOK 12.00 per equity certificate (NOK 6.50) which is equivalent to 74 per cent of the net profit, and a community dividend of NOK 860m (474m). The size of the dividend for 2023 should be viewed in light of the group's solidity, which at the end of the fourth quarter remains well above regulatory requirements and the group's long-term target.

SpareBank 1 SMN aspires to be among the best performers in the Nordic region, and the group's overriding financial goal is to 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 in 2023. The group is well positioned to strengthen its market position with an efficient distribution of products and services. The board of directors expects 2024 to be another good year for the group.

Trondheim, 7 February 2024  
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

Kristin Sætre

Christina Straub  
(employee rep.)

Inge Lindseth  
(employee rep.)

Jan-Frode Janson  
(Group CEO)