

# Report of the Board of Directors

## Macroeconomic conditions

### **Rapid recovery in the Norwegian economy, despite high infection rates**

The virus outbreaks in the first half of 2021 were met with new containment measures. The impacts on the economy were far smaller than during the first outbreaks in 2020. Parts of the services sector were compelled to curb activity, but the decline in overall employment was moderate. The containment measures were eased through the second quarter and activity levels in the economy picked up rapidly. Mainland (non-oil) GDP climbed more than 6 per cent from the trough in March to year-end. Employment also rose sharply, and at year-end was 2.2 per cent higher than prior to the pandemic. The employment rate was the highest for almost ten years, and unemployment dropped to 2 per cent. That is lower than prior to the pandemic and clearly lower than the average level. Concurrently firms face a challenge in terms of an unusually large number of job vacancies.

Value creation in the mainland economy increased by 4.2 per cent in 2021 and at year-end GDP was 3.4 per cent above the level at the end of 2019. Sectors most affected by Covid faced considerable challenges again in 2021. Activity levels picked up rapidly in these sectors after infection protection measures were eased in the second quarter, up to the point where the omicron variant created new challenges in the second half of December. Given considerable relaxation of infection restrictions at the start of 2021 these sectors will in all likelihood rapidly approach normal activity through the first quarter of 2022.

Retail trade has been at a very high level throughout the pandemic, although volumes declined somewhat over the course of 2021. Further normalisation must be expected once consumption increases and travel abroad resumes. Housing investments have remained at a high level. Business investments have been more moderate, both in mainland Norway and in the oil and gas sector. Mainland firms' investments rose in the second half-year.

A strong increase in oil and gas prices has created substantial surpluses for Norway and for firms in that sector. Higher electricity prices have strengthened power producers whereas electricity consumers in southern Norway saw large price increases in the fourth quarter of 2021 and into the first quarter of 2022.

At the start of 2021 wage growth was forecast at about 2 per cent but ended at 3.4 per cent. A very tight labour market featuring high employment, low joblessness and very many job vacancies suggests that wage growth will continue as the signs are in other countries, in particular the United States.

Price growth quickened through 2021, reaching an overall 3.5 per cent. Wage growth was at the same level, and real wages remained unchanged after growth in both 2019 and 2020. In Mid and North Norway, price growth was lower, and here real wages increased also in 2021.

Overall credit growth was fairly stable through 2021, even though interest rates were very low. Firms' and household debt both increased by about 5 per cent. Lending regulation is still contributing to hold down the growth in household debt. House prices rose rapidly from April 2020 to February 2021. Thereafter price growth has slowed to about 5 per cent, even though very few dwellings are on the market. A policy rate hike by Norges Bank and expectations of further hikes have probably dampened demand somewhat.

Norges Bank signalled as early as at the end of 2020 that a policy rate of zero was a crisis measure that would fairly rapidly be dispensed with. In September the policy rate was raised to 0.25 per cent and in December to 0.50 per cent. Norges Bank's interest rate path indicates three to four policy rate increases through 2022. Three-month money market rates rose from 0.50 per cent at the start of 2021 to 1.0 per cent at year-end. The banks have raised their mortgage rates following Norges Bank's policy rate hike.

Prospects for 2022 are mixed. Norway is emerging from the pandemic in boom conditions. The upturn in the Norwegian economy continued through the autumn. Unemployment looks to remain lower than previously forecast. At the same time, Russia's invasion of Ukraine at the end of February 2022 has given rise to considerable challenges and uncertainty, both for the Norwegian and the international economy. The economic sanctions imposed on Russia are very far-reaching and their likely impact is highly uncertain, but Norwegian exports to Russia are modest.

Increased energy and commodity prices are negative for our trading partners and therefore also for us, in isolation. At the same time, higher energy prices are an advantage for Norway – and the Treasury. Norway is probably the country in Europe that is least vulnerable to potential, negative economic consequences of the war in Ukraine.

### **Regional: Trøndelag and Møre and Romsdal**

The Covid crisis impacted the economy of Mid Norway somewhat less than the country as a whole. Unemployment in Mid Norway rose sharply in spring 2020 but fell rapidly as and when most businesses opened up. At the end of 2021 unemployment stood at 2.1 per cent, together with Nordland county the lowest level in the country. Unemployment is thus at the same level as prior to the pandemic.

Most businesses have managed well through the pandemic. The number of bankruptcies in the bank's market area fell 25 per cent in 2021 compared with 2019, and a sharp decline is noted in both counties: 28 per cent in Trøndelag and 21 per cent in Møre and Romsdal. While the reduction in investments in the oil sector has affected some businesses, in general manufacturing has managed well. At the same time many businesses in the services sector have faced major challenges in terms of unstable activity as a result of infection protection measures.

The housing market in Mid Norway has by and large followed the house price trend elsewhere in the country through the pandemic. In 2021 prices rose 8 per cent in Trondheim, by a slightly higher margin than the national average of 5 per cent. In Ålesund prices rose 3 per cent.

Population growth in Trøndelag picked up somewhat in 2021 thanks to net immigration from abroad towards the end of the year. Population figures rose about 0.6 per cent, up from 0.5 per cent in 2020. Growth was nonetheless clearly lower than in the years prior to 2018 when it was just short of 1 per cent per year. In Møre and Romsdal the population rose by a mere 0.1 per cent in 2021 following zero growth in 2020. Here too, immigration from abroad picked up slightly towards the end of the year.

Møre and Romsdal are more dependent than the rest of the country on oil-related and shipbuilding activities. Here prospects remain uncertain, although the tax reform for the oil companies and a higher oil price have improved the outlook for investments in the oil sector. Many businesses are nonetheless orienting themselves towards new markets with far better long-term growth prospects. Trøndelag is more diversified, but the construction industry could be negatively impacted by lower population growth and lower earnings than in previous years.

The bank's own business outlook survey showed that optimism was back in business and industry in autumn 2021. Increased infection rates and the introduction of stringent measures later in the autumn dampened optimism around the turn of the year, but the situation in the region's business and industry is viewed as good after the removal of infection protection measures at the start of 2022.

## Annual accounts 2021

*(Consolidated figures. Figures in parenthesis refer to the year 2020 unless otherwise stated)*

- Net profit: NOK 2,902m (1,978m)
- Return on equity: 13.5% (10.0%)
- CET1 ratio: 18.0 per cent (18.3 per cent)
- Growth in lending: 6.9% (9.0%) and in deposits: 14.1% (13.5%)
- Lending to personal customers rose 6.8% (8.2%) in the last 12 months. Lending to corporate clients rose 7.1% (10.6%)
- Lending to personal customers accounts for 68% (68%) of total lending
- Deposits from personal customers rose by 9.8% (13.8%). Deposits from corporate clients rose 17.2% (13.3%)
- Net result of ownership interests: NOK 705m (681m)
- Net result of financial instruments (incl. dividends): NOK 321m (269m)
- Losses on loans and guarantees: NOK 161m (951m), 0.09% (0.54%) of gross lending
- Earnings per EC: NOK 13.31 (8.87)
- The board of directors proposes a cash dividend of NOK 7.50 per EC (NOK 4.40) which is 56.3% of the net profit, and a community dividend of NOK 547m (321m)

### Good profit

SpareBank 1 SMN delivered a net profit of NOK 2,902m (1,978m), and a return on equity of 13.5 per cent (10.0 per cent). The profit growth of NOK 924m compared with 2020 is a result of increased incomes and reduced losses. Earnings per equity certificate were NOK 13.31 (8.87).

Net interest income came to NOK 2,796m (2,759m). Banks' funding cost in terms of NIBOR rose substantially over the course of 2021, bringing changes in their margins on loans and deposits.

Net commission income was NOK 2,832m (2,516m). Of the increase of NOK 316m, NOK 108m refers to the bank and NOK 208m to the subsidiaries.

Return on financial investments (incl. dividends) was NOK 321m (269m). The increase is largely the result of a gain on the equity portfolio of SpareBank 1 Invest.

The result from related companies was NOK 705m (681m). The result was positively affected by good results at Fremtind Forsikring, SpareBank 1 Forsikring and BN Bank alike. The 2020 figures include a gain of NOK 340m from SpareBank 1 Forsikring.

Operating expenses totalled NOK 2,993m (2,904m) entailing an increase of NOK 89m or 3.1 per cent. High activity in the subsidiaries increased expenses by NOK 169m. The bank's expenses were reduced by NOK 82m. Expenses in 2020 include a provision of NOK 80m for reorganisation. When the reorganisation costs are adjusted for, growth in expenses at the bank in 2021 was zero.

Loan losses were NOK 161m (951m). The reduction in losses refers largely to the offshore segment.

Lending and deposits showed good growth in 2021 as in the previous year. Lending grew by 6.9 per cent (9.0 per cent) and deposits by 14.1 per cent (13.5 per cent).

As at 31 December 2021 the CET1 ratio was 18.0 per cent (18.3 per cent). The CET1 ratio target is 16.9 per cent.

The book value per EC was NOK 103.48 (94.71) including the proposed cash dividend for 2021 of NOK 7.50 (NOK 4.40).

The market price of the bank's EC (MING) at year end was NOK 149.00 (97.60).

### Proposed distribution of net profit

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

The net profit is distributed between the ownerless capital and the equity certificate (EC) capital in proportion to their relative shares of the bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 64.0 per cent of the distributed profit.

Earnings per equity certificate were NOK 13.31. In keeping with the bank's dividend policy, the board of directors recommends the bank's supervisory board to set a payout ratio of 56.3 per cent. This makes for a cash dividend of NOK 7.50 per EC, altogether totalling NOK 970m. The board of directors further recommends an allocation of NOK 547m to community dividend. Of this amount it is proposed that NOK 250m be transferred to non-profit causes and NOK 297m to the foundation Sparebankstiftelsen SMN. NOK 476m and NOK 268m are to be transferred to the dividend equalisation fund and the ownerless capital respectively.

<b>Difference between Group - Parent Bank</b>	<b>2021</b>	<b>2020</b>
<b>Profit for the year, Group</b>	<b>2,902</b>	<b>1,978</b>
Interest hybrid capital (after tax)	-48	-56
<b>Profit for the year excl interest hybrid capital, group</b>	<b>2,854</b>	<b>1,922</b>
Profit, subsidiaries	-693	-427
Dividend, subsidiaries	309	220
Profit, associated companies	-705	-681
Dividend, associated companies	418	272
Group eliminations	11	-6
<b>Profit for the year excl interest hybrid capital, Parent bank</b>	<b>2,194</b>	<b>1,300</b>
<b>Distribution of profit</b>	<b>2021</b>	<b>2020</b>
Profit for the year excl interest hybrid capital, Parent bank	2,194	1,300
Transferred to/from revaluation reserve	68	-50
<b>Profit for distribution</b>	<b>2,262</b>	<b>1,250</b>
Dividends	970	569
Equalisation fund	476	230
Saving Bank's fund	268	130
Gifts	547	321
<b>Total distributed</b>	<b>2,262</b>	<b>1,250</b>

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 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.

The net annual profit for distribution reflects changes of NOK 68m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 2,262m.

After distribution of the profit for 2021, the ratio of EC capital to total equity remains 64.0 per cent.

### **Net interest income**

Net interest income totalled NOK 2,796m (2,759m). NIBOR rose about 50 points over the course of 2021 but was even so 20 points lower on average than the previous year. Margins on lending declined just over 20 points in 2021 while margins on deposits in total in 2021 were at about the same level as in 2020. Both lending and deposit volumes rose somewhat, contributing to strengthen net interest income.

In spring 2020 Norges Bank lowered its policy rate from 1.5 to 0.0 per cent with ensuing interest rate reductions on loans and deposits. In autumn 2021 Norges Bank, as expected, raised its policy rate to 0.50 per cent, with an ensuing increase in market interest rates. As from mid-November the bank raised its rates on loans and deposits by up to 25 points and a corresponding increase is due as from February 2022.

Norges Bank has signalled further increases in the policy rate in 2022 in view of brighter prospects for the economy and increased inflation. This could exert further pressure on residential mortgage margins, while margins on deposits and return on equity will increase.

### **Commission income and other operating income**

Net commission income and other operating income totalled NOK 2,832m (2,516m).

Income growth of NOK 316m is largely explained by increased incomes from securities services at SpareBank 1 Markets. Good growth was also noted in incomes from real estate agency, insurance, guarantee commissions, accounting services and payments.

Net interest income from loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is recognised as commission income. Commission income totalled NOK 464m in 2021 (421m), showing an increase as a result of total average balance on loans sold to SpareBank 1 Boligkreditt being higher in 2021 than in 2020.

Good customer offerings and a high proportion of multi-product customers make for customer satisfaction and a diversified income flow for the group.

<b>Commission and other income (NOKm)</b>	<b>2021</b>	<b>2020</b>	<b>Change</b>
Payment transmission income	238	219	19
Credit cards	56	59	-3
Commissions savings and asset mgmt	59	53	6
Commissions insurance	214	195	19
Guarantee commissions	64	48	16
Estate agency	441	392	49
Accountancy services	529	506	24
Securities	725	577	148
Other commissions	43	45	-3
<b>Commissions ex. Bolig/Næringskreditt</b>	<b>2.368</b>	<b>2.094</b>	<b>274</b>
Commissions Boligkreditt (cov. bonds)	450	408	41
Commissions Næringskreditt (cov. bonds)	14	13	1
<b>Total commission income</b>	<b>2.832</b>	<b>2.516</b>	<b>316</b>

### Return on financial investments

Return on financial investments (including dividends) was NOK 299m (23m). The increase is largely the result of a gain on the equity portfolio of SpareBank 1 SMN Invest. Financial instruments, including bonds and CDs, showed a gain of NOK 21m (125m), the decline being ascribable to changed credit margins on the bank's liquidity holding. Income of NOK 70m (82m) from forex transactions refers to currency trading at SpareBank 1 Markets.

<b>Return on financial investments (NOKm)</b>	<b>2021</b>	<b>2020</b>	<b>Change</b>
Net gain/(loss) on stocks	176	-4	180
Net gain/(loss) on financial instruments	21	125	-104
Net gain/(loss) on forex	70	82	-12
Net gain/(loss) on stocks and stock derivatives SB1 Markets	31	28	4
<b>Net return on financial instruments</b>	<b>299</b>	<b>230</b>	<b>69</b>

### Product companies and other related companies

The product companies provide SpareBank 1 SMN with a broad product range and commission income along with return on invested capital. The overall profit share from the product companies and other related companies amounted to NOK 705m (681m). The 2020 figure includes a gain of NOK 340m in connection with the transfer of personal risk products from SpareBank 1 Forsikring to Fremtind Livsforsikring.

<b>Income from investment in associated companies (NOKm, SMN's share in parentheses)</b>	<b>2021</b>	<b>2020</b>	<b>Change</b>
SpareBank 1 Gruppen (19.5%)	471	194	277
Gain SpareBank 1 Forsikring	0	340	-340
SpareBank 1 Boligkreditt (20.9%)	16	18	-2
SpareBank 1 Næringskreditt (12.8%)	7	18	-11
BN Bank (35.0%)	164	120	44
SpareBank 1 Kreditt (19.2%)	13	2	11
SpareBank 1 Betaling (21.5%)	-15	-2	-13
SpareBank 1 Forvaltning (19.9%)	32	0	32
Other companies	17	-10	27
<b>Total associated companies</b>	<b>705</b>	<b>681</b>	<b>24</b>

### SpareBank 1 Gruppen

The company owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Factoring, SpareBank 1 Spleis and Modhi Finance. SpareBank 1 Gruppen is majority owner of the non-life insurer Fremtind with a stake of 65 per cent.



SpareBank 1 Gruppen's profit after tax in 2021 was NOK 3,249m (1,393m). Of the profit, NOK 2,414m accrues to the majority owners of SpareBank 1. Return on equity in 2021 was 21.9 per cent (11.0 per cent).

Fremtind Forsikring posted a profit of NOK 2,386m (1,168m) after tax in 2021, with a considerably improved underwriting result and financial result than in 2020. The underwriting result rose due to a lower claims ratio and recognition of reserves from DNB Liv's portfolio. Financial incomes rose with higher return on the company's equity portfolios.

SpareBank 1 Forsikring showed a profit of NOK 778m (234m) after tax in 2021. Property value adjustments and capitalisation of reserves are the main reasons for the substantial profit growth in 2021.

The debt collection company Mohdi Finance posted a profit of NOK 130m in 2021 (20m), due in part to portfolio value adjustments. SpareBank 1 Factoring recorded a profit of NOK 54m (53m).

The group's profit share from SpareBank 1 Gruppen was NOK 471m (194m).

### **SpareBank 1 Forvaltning**

The company was established in 2021 to strengthen the SpareBank 1 banks' competitive power in the savings market. Odin Forvaltning, SpareBank 1 Kapitalforvaltning, SpareBank 1 SR Forvaltning and SpareBank 1 verdipapirservice make up the SpareBank 1 Forvaltning group. SpareBank 1 SMN owns 19.9 per cent of the company, and the profit share in 2021 was NOK 32m.

### **SpareBank 1 Boligkreditt**

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

As at 31 December 2021 the bank had sold loans totalling NOK 46.7bn (46.6bn) to SpareBank 1 Boligkreditt, corresponding to 35.1 per cent (37.5 per cent) of the bank's overall lending to personal customers.

The bank's share of the company's profit was NOK 16m (18m).

### **SpareBank 1 Næringskreditt**

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 December 2021, loans worth NOK 1.4bn (1.5bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's share of the profit was NOK 7m (18m). In 2021 SpareBank 1 SMN's stake in the company was reduced from 31.0 per cent to 12.8 per cent after ownership rebalancing. BN Bank has become an owner of SpareBank 1 Næringskreditt, with a stake reflecting BN Bank's share of loans to commercial property. The shares were previously held by the parent banks on behalf of BN Bank. The changes were made in order to achieve a more well-ordered group structure.

### **SpareBank 1 Kreditt**

SpareBank 1 SMN's share of this company's profit for 2021 was NOK 13m (2m). SpareBank 1 SMN customers' portfolio of credit cards and consumer loans totalled NOK 998m (946m) and its stake was 19.2 per cent.

## BN Bank

BN Bank offers residential mortgage loans and loans to commercial property and its main market is Oslo and south-eastern Norway. BN Bank showed good growth of 13.8 per cent in lending to personal customers in 2021 (8.7 per cent). The growth in lending to corporate clients was 6.3 per cent in 2021 (11.3 per cent). Outstanding loans total NOK 52bn (47bn).

BN Bank recorded a profit of NOK 478m (354m) in 2021, and a return on equity of 10.0 per cent (8.2 per cent). Increased net interest income and commission income, along with reduced losses, explain the profit growth. SpareBank 1 SMN's share of BN Bank's profit is NOK 164m (120m).

## SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for Vipps payments solutions. On 30 June 2021 Vipps signed an agreement to merge Vipps' mobile payments arm with Danish MobilePay and Finnish Pivo. The merger opens the way for cross-border mobile payments and even better solutions for users and businesses across Denmark, Finland and Norway. BankAxept and BankID will concurrently be spun off from Vipps to become a Norwegian-owned company with its own management. This company will remain 100 per cent owned by the Norwegian banks.

SpareBank 1 SMN's share of the deficit was minus NOK 15m (minus 2m) in 2021.

## Operating expenses

Operating expenses came to NOK 2,993m (2,904m), an increase of NOK 89m or 3.1 per cent. Expenses in 2020 include a provision of NOK 80m for reorganisation at the bank. Disregarding this provision the bank's expenses were unchanged in 2021.

SpareBank 1 Markets achieved excellent incomes in 2021 with an ensuing increase in expenses. High activity at EiendomsMegler 1 along with acquisitions and technology investments at SpareBank 1 SMN Regnskapshuset also produced expense growth. SpareBank 1 Finans Midt-Norge recorded a one-time expense on an IT system write-down.

Operating expenses (NOKm)	2 021	2 020	Change
Personnel expenses	1 883	1 850	32
IT costs	359	334	25
Marketing	77	73	4
Ordinary depreciation	186	164	22
Operating expenses, real properties	60	62	- 2
Purchased services	224	217	7
Other operating expense	204	205	- 1
<b>Total operating expenses</b>	<b>2 993</b>	<b>2 905</b>	<b>88</b>

The cost-income ratio was 47 per cent (51 per cent) for the group, 37 per cent (36 per cent) for the parent bank.

## Reduced losses

Losses on loans totalled NOK 161m (951m), are considerably reduced and appear to have stabilised at a lower level.

A loss of NOK 159m (873m) was recorded on loans to corporates. Lower losses in the offshore segment of NOK 159m (873m) in 2021 and loss incurred on a single exposure in 2020 explain much of the reduction.



Losses to other business and industry totalled NOK 104m, distributed across a wide range of customers and segments.

A net loss of NOK 1m was recorded on loans to personal customers (78m).

No changes were made in scenario weighting or other assumptions employed in the group's loss model.

The outlook in the offshore industry has brightened, and a large proportion of the exposures have been written down. The risk picture in lending to other business sector and personal customers is stable, reflecting a healthy trend in the region at the start of 2022.

Impairment losses	2021	2020
RM	1	78
CM	159	873
Of which: Offshore	55	455
<b>Total impairment losses</b>	<b>161</b>	<b>951</b>

Overall write-downs on loans and guarantees total NOK 1,520m (1,630m).

Problem loans (Stage 3) come to NOK 3,290m (2,255m) corresponding to 1.68 per cent (1.23 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The increase in problem loans refers essentially to the implementation of a new default definition as from 1 January 2021. See the description in [note 1](#).

The new default definition has not altered the group's assessment of the credit risk associated with the individual exposures, and the effect of the new definition on the group's losses is marginal.

### Total assets of NOK 199bn

The bank's total assets were NOK 199bn (188bn), having risen as a result of higher lending volumes and higher liquidity holdings.

Loans totalling NOK 48bn (48bn) have been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and to SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth take into account loans sold.

### Lending

Total outstanding loans rose in 2021 by NOK 12.6bn (14.0bn), corresponding to 6.9 per cent (9.0 per cent), and stood at NOK 195.4bn (182.8bn) at year-end.

- Lending to personal customers rose in the last 12 months by NOK 8.4bn (9.4bn) to NOK 132.9bn (124.5bn). Growth in the period was 6.8 per cent (8.2 per cent).
- Lending to corporate clients rose in the last 12 months by NOK 4.1bn (5.6bn) to NOK 62.5bn (58.3bn). Growth in the period was 7.1 per cent (10.6 per cent).
- Lending to personal customers accounted for 68 per cent (68 per cent) of total outstanding loans to customers.

The group shows good growth in lending to personal customers and is strengthening its market position. A substantial portion of the growth is to the LO (Norwegian Trade Unions Confederation) segment. The growth in lending to corporate clients is largely to small and medium-sized businesses throughout the market area.

The growth is distributed across a number of industries, and industry and single name concentrations are avoided.

(For distribution by sector, see note 8)

## Deposits

Customer deposits rose in 2021 by NOK 13.8bn (11.6bn) to NOK 111.3bn (97.5bn). This represents a growth of 14.1 per cent (13.5 per cent).

- Personal deposits rose by NOK 4.0bn (4.9bn) to NOK 44.6bn (40.6bn), corresponding to 9.8 per cent (13.8 per cent).
- Corporate deposits rose by NOK 9.8bn (6.7bn) to NOK 66.7bn (56.9bn), corresponding to 17.2 per cent (13.3 per cent).
- The deposit-to-loan ratio, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 57 per cent (53 per cent).

Deposit growth has been very high in the last two years due to the pandemic.

## Personal customers

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

Result before tax	2021	2020
Personal market	1,167	1,093
EiendomsMegler 1 Midt-Norge (87%)	71	52

The **Personal Banking Division** achieved a pre-tax profit of NOK 1,167m (1,093m) in 2021. Return on capital employed in the personal segment was 13.4 per cent (13.4 per cent).

Loans granted by the Personal Banking Division total NOK 138bn (129bn) and deposits total NOK 51bn (47bn). These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income posted by the division totalled NOK 2,074m (2,078m) of which net interest income accounted for NOK 1,165m (1,213m) and commission income for NOK 908m (865m). Commission income rose mainly as a result of higher commissions from SpareBank 1 Boligkreditt, but increased incomes are also noted from payments services and savings products.

Growth in lending and deposits in the retail market was respectively 6.6 per cent (8.2 per cent) and 6.8 per cent (14.0) in the last 12 months.

The lending margin was 1.53 per cent (1.80 per cent), while the deposit margin was 0.13 per cent (minus 0.03 per cent) measured against three-month NIBOR. Lending margins were reduced by about 27 basis points in 2021 while deposit margins increased by 16 basis points. There were large fluctuations in NIBOR both in 2020 and 2021.

Lending to personal customers consistently carries low risk, as reflected in continued low losses. The loan portfolio is largely secured by residential property. There was a net recovery of NOK 10m on losses (loss of 56m) in 2021.

**Eiendomsmegler 1 Midt-Norge** is the market leader in Trøndelag and in Møre and Romsdal. Operating income totalled NOK 453m (394m), while operating expenses totalled NOK 382m (342m). EiendomsMegler 1 Midt-Norge's pre-tax profit was NOK 71m (52m).

The housing market showed high activity in the second half of 2020, and the company saw increased sales along with rising house prices. Sales (residential and commercial) totalled 7,763 in 2021 compared with 7,164 in 2020. The company's market share at 31 December 2021 was 36 per cent (36 per cent).

### Corporate customers

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

Result before tax	2021	2020
Corporate banking	795	113
SpareBank 1 Regnskapshuset SMN (88.7%)	85	110
SpareBank 1 Finans Midt-Norge (56.5%)	198	184
SpareBank 1 Markets (66.7%)	254	169

The **Corporate Banking Division** achieved a pre-tax profit of NOK 795m (NOK 113m) in 2021. The profit growth is attributable to lower losses. Return on capital employed for the corporate segment was 11.5 per cent (2.1 per cent).

Outstanding loans to corporates totalled NOK 48bn (45bn) and deposits totalled NOK 60bn (49bn) as at 31 December 2021. The portfolio is diversified, comprising loans to and deposits from corporate clients in Trøndelag and Møre and Romsdal.

Operating income came to NOK 1,386m (1,381m). Net interest income was NOK 1,120m (1,149m). Commission income (including income from forex transactions) totalled NOK 266m (232m), showing an increase in the payment services and guarantee commission areas.

Lending rose by 7.4 per cent (12.7 per cent) and deposits by 20.6 per cent (15.6 per cent) in 2021. Deposit growth was high and is fairly evenly distributed across market areas and industries.

The lending margin was 2.61 per cent (2.79 per cent) and the deposit margin was minus 0.29 per cent (minus 0.15 per cent). Lending margins were reduced by 17 points in 2021 while deposit margins were reduced by 14 points.

Net overall loan losses to the bank's corporate clients came to NOK 145m (846m), the decline being attributable to lower losses on the offshore portfolio in 2021 and a substantial loss on a single exposure in 2020.

SpareBank 1 SMN and SpareBank 1 Regnskapshuset SMN each have a large proportion of businesses in the market area as customers. The customer offering is developed with a view to ensuring that customers see the added value of being a customer of both the bank and Regnskapshuset.

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

**SpareBank 1 Finans Midt-Norge** delivered a pre-tax profit of NOK 198m (184m). Comparatives are restated to include SpareBank 1 Spire Finans which was merged into the company as from 1 January 2021.

The company's incomes totalled NOK 364m (364m). Expenses as at 31 December 2021 totalled NOK 141m (131m), the growth resulting from an IT system write-down. Losses totalled NOK 25m (49m).

The company has leasing agreements with and loans to corporate customers worth a total of NOK 4.2bn (3.9bn) and car loans worth NOK 6.0bn (5.5bn). Growth in 2021 was 8.2 per cent and 10.1 per cent respectively. The invoice sales portfolio from SpareBank 1 Spire Finans is included in the company as from 2021 and invoices totalling NOK 613m were purchased in 2021.

SpareBank 1 Finans Midt-Norge and other SpareBank 1 banks own 47 per cent of the shares of the car subscription company Fleks. Bertel O Stein holds a corresponding stake. Customer needs change rapidly and the sharing economy is expanding. Fleks offers flexible car subscription solutions. Electrification of the car population and the car subscription system contribute to emission reductions. Fleks currently has 1,700 cars and plans to expand to 6,000 cars by 2024.

**SpareBank 1 Regnskapshuset SMN** achieved a pre-tax profit of NOK 85m (110m). Operating income was NOK 562m (533m) and expenses were NOK 476m (423m). Relatively high cost growth compared to income growth is attributable to the costs of developing new services and a new technology platform.

The company aims to create a broader income platform beyond the traditional production of accounts. Over the course of 2021 the company invested heavily to ensure continued development of its competitive power. The investment programme covered everything from advisory competence and capacity to increased digitalisation and generation of new income flows.

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

**SpareBank 1 Markets'** pre-tax profit for 2021 was NOK 254m (169m). Incomes totalled NOK 901m (759m) in 2021 while costs came to NOK 647m (590m).

Activity levels were particularly high in the business lines Investment Banking and Aksjemegling (stockbroking). SpareBank 1 Markets facilitated a number of major transactions over the course of the year. Earnings from fixed income and forex business were on a par with the previous year, while Fremmedkapital (debt capital) shows somewhat reduced incomes. Overall incomes increased strongly in 2021, and the year's profit performance is the best in the company's history.

SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. SpareBank 1 Markets is the leading capital market unit in SpareBank 1 SMN's market area.

### **SpareBank 1 SMN Invest**

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

The pre-tax profit was NOK 187m (6m). The company's portfolio profit was NOK 163m and the profit share from the company's stake in Grilstad Marina was NOK 24 million. The portfolio profit includes an unrealised gain of NOK 90m due to upward adjustment of the value of a single share.

The company held shares worth NOK 592m (430m) as at 31 December 2021.

**Good funding and liquidity**

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 138 per cent as at 31 December 2021 (171 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 December 2021 was 57 per cent (53 per cent).

The bank's funding sources and products are amply diversified. The proportion of the bank's overall money market funding in excess of one year's maturity is 89 per cent (83 per cent).

SpareBank 1 Boligkreditt and Næringskreditt are the bank's most important funding sources, and loans totalling NOK 48bn (48bn) had been sold to these mortgage companies as at 31 December 2021.

SpareBank 1 SMN has established and published a framework for the issuance of green bonds. The framework is verified by the rating agency Sustainalytics. In 2021 SpareBank 1 SMN issued a senior green bond of EUR 500m with a seven year maturity.

As at 31 December 2021 SpareBank 1 SMN held NOK 3.5bn in senior non-preferred debt (MREL).

**Rating**

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

**Financial soundness**

The CET1 ratio at 31 December 2021 was 18.0 per cent (18.3 per cent). The CET1 requirement is 14.4 per cent, including combined buffer requirements and a Pillar 2 requirement of 1.9 per cent. Finanstilsynet (Norway's FSA) will set new Pillar 2 requirements for SpareBank 1 SMN with effect from the first quarter of 2022.

SpareBank 1 SMN aims for a management buffer of about 1 per cent over and above the combined capital requirements with a view to absorbing fluctuations in risk weighted assets and in the group's profits. That target will be evaluated once Finanstilsynet has announced its Pillar 2 guidance.

The group includes a full countercyclical buffer in its capital planning, and at the end of 2021 aims for a CET1 ratio of 16.9 per cent.

The CET1 ratio showed a 0.3 percentage point decline in 2021. Risk weighted assets grew 6.0 per cent in 2021 and CET1 capital by 4.4 per cent. A payout ratio of 56.3 per cent of the group' net profit for 2021 is assumed.

A leverage ratio of 6.9 per cent (7.1 per cent) shows the bank to be very solid.

## Sustainability

Sustainability is one of five strategic priorities in the overall group strategy. SpareBank 1 SMN is in the process of implementing the sustainability strategy in the five target areas of innovation, customer offering, climate footprint, competence and diversity.

The following progress in the sustainability effort may be highlighted:

- An A- rating achieved in the report “Bærekraft på Børs” (*How the largest 100 companies on the Oslo Stock Exchange report on ESG*). This means that SpareBank 1 SMN reports in keeping with best practice and standards underpinned by a clear strategy with well-defined objectives
- SpareBank 1 SMN issued in February 2021 a senior green bond of EUR 500m with a seven year maturity
- The launch of an offer of financial support for expert assistance from SINTEF and SpareBank 1 SMN. This helps small and medium-sized businesses to digitalise, automate and become more sustainable
- ‘Purchase of homes in green housing projects’ with attractive mortgage terms and broker fees is established as a concept by the bank and EiendomsMegler 1
- Strong growth in the proportion of green residential mortgages in 2021. New mortgages have increased by NOK 0.5bn
- New product offering launched for green agricultural loans
- ‘Guide against greenwashing’ endorsed by SpareBank 1 SMN
- Sustainability an integral part of the credit process for corporate loans
- Mandatory training package in sustainability completed by group employees
- Improved procedures and charges introduced for customer relationships for refugees as part of the work on financial inclusion
- The Sustainability Barometer for Trøndelag and Møre and Romsdal presented for the third year running as part of SpareBank 1 SMN’s Economic Barometer

2021 saw the start of a programme to revise the methodology employed in the energy and climate account and in the calculation of the loan portfolio’s climate burden.

- Preliminary project on the calculation of the loan portfolio’s greenhouse gas burden now completed
- Partnership established with Partnership for Carbon Accounting Financials (PCAF)
- The methodology for calculating the group’s direct and indirect greenhouse gas emissions is improved by the use of Klimakost (an environmentally extended input-output model)

In 2022 the group is to introduce a new method for measuring and controlling the group’s climate risk. Improved estimation of the loan portfolio’s greenhouse gas burden, as well as the group’s own direct and indirect greenhouse gas emissions, will provide the basis for an energy and climate account of better quality and relevance. New insight gained could call for adjustment and concretisation of the group’s climate objectives within the framework of the Paris Agreement goals. SpareBank 1 SMN will continue to stimulate innovation and competence development among the group’s customers in the sustainability sphere.

### The bank’s equity certificate (MING)

The market price of the equity certificate (EC) as at 31 December 2021 was NOK 149.0 (97.60), the book value was NOK 103.48 (94.71), and earnings per EC were NOK 13.31 (8.87). A total cash dividend of NOK 4.40 was paid per EC in 2021.



The Price / Income ratio was 11.19 (11.01) and the Price / Book ratio was 1.44 (1.03).

SpareBank 1 SMN's articles of association include no restrictions on the transferability of equity certificates.

With regard to placings with employees, the latter are invited to participate under given guidelines. In placings where discounts are granted, a lock-in period applies before any sale can take place. The rights to ECs issued in placings with employees cannot be transferred.

SpareBank 1 SMN is not aware of any agreements between EC holders that limit the opportunity to trade ECs or to exercise voting rights attached to ECs.

See also the chapter [Corporate Governance](#).

### **Insurance policy for board members and the CEO**

A liability insurance policy has been taken out for board members and the CEO.

The policy covers insured persons' liability for any economic loss that is the subject of a claim brought in the insured period as the result of an alleged tortious act or omission. In addition to covering the economic loss proper, the policy covers the cost of necessary proceedings to decide the question of compensatory damages provided that the claim for damages is covered by the policy. The policy also covers necessary and reasonable expenses on advisers in the event of public investigation. Such expenses will be expenses incurred by the insured person before a claim is brought against that person.

Furthermore, the policy covers any claim directed at an insured party by, or on behalf of, an employee as a result of discrimination, harassment or other illegality committed during the duration of employment, or failure to introduce or implement an adequate personnel policy or procedures. The policy has been taken out with Willis Towers Watson.

### **Outlook**

In 2021 SpareBank 1 SMN achieved its best results ever. All business lines performed well and strengthened their market position. This provides a good basis on which to attain the group's ambitions.

Despite high infection rates the outlook for the Norwegian economy is good. The Omicron variant of the virus brings high infection rates but few hospital admissions, and infection protection measures have been considerably relaxed. Unemployment has been further reduced and a general optimism is in evidence in the business sector in the Norwegian and regional economies. However, labour shortages in some sectors pose a challenge and may curb growth.

A problematic situation in the relationship between Russia and Ukraine and high energy prices are factors liable to create uncertainty.

Norges Bank has raised its policy rate to 0.50 per cent and further increases are expected ahead. The policy rate increase reflects the improvement in the economy. The bank is well positioned to draw benefit from the rate hike.

Improved prospects in the offshore segment brought substantially lower loan losses in 2021. Losses have stabilised at a lower level and the outlook in the industry is brighter. The risk picture in other business and industry and among personal customers is stable, reflecting a healthy trend in the region. SpareBank 1 SMN has low exposure to the industries hardest hit by Covid.

SpareBank 1 SMN is profitable and very solid. The entire organisation has been substantially revamped. This, together with an intensified focus on data-driven innovation, has enabled a modern, customer-oriented and efficient distribution system. With profitable subsidiaries and product companies, SpareBank 1 SMN has developed a broad product platform designed to increase sales, attract more customers and expand market shares, both in Mid-Norway and the country as a whole.

SpareBank 1 SMN has an implicit market value of NOK 30bn and is the country's second largest savings bank. This position will be strengthened through organic and structural growth.

In 2021 SpareBank 1 SMN focused on initiatives under the five target areas of the sustainability strategy. The work on sustainability will require intensified effort and innovation in interaction with the customers.

The fight against economic and financial crime is an important societal responsibility requiring ever increasing efforts on the part of SpareBank 1 SMN.

The board of directors will recommend the supervisory board to set a cash dividend of NOK 7.50 per equity certificate (NOK 4.40) representing 56.3 per cent of the net profit, and to allocate NOK 547m (321m) to community dividend. The community dividend contributes to strengthening the region, and the bank's market position.

The board of directors is highly pleased with 2021. The results were excellent, at a time when a demanding reorganisation process was reaching completion. SpareBank 1 SMN has a good starting point, good market prospects and numerous ongoing development initiatives. The directors expect the favourable trend to continue, but the uncertainty surrounding the situation that has recently arisen in Ukraine may impact the Norwegian economy and thus also SpareBank 1 SMN's results.

Trondheim, 2 March 2022  
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal  
(chair)

Christian Stav  
(deputy chair)

Janne T. Thomsen

Mette Kamsvåg

Tonje Eskeland Foss

Morten Loktu

Freddy Aursø

Christina Straub  
(employee rep.)

Inge Lindseth  
(employee rep.)

Jan-Frode Janson  
(Group CEO)