

Report of the Board of Directors

Macroeconomic conditions

Another turbulent year

In 2022 the international economy saw the highest inflation in several decades. The larger central banks tightened monetary policy more rapidly and forcefully than forecasts indicated at the start of the year. Russia's invasion of Ukraine brought further supply problems and contributed to higher energy and food prices. China's Covid restrictions have, in isolation, led to lower demand for raw materials and reduced global growth and inflation.

In 2022, the Norwegian economy reflected high activity, low unemployment, high electricity prices and inflation far above the central bank's operative target. Value creation in the mainland (non-oil) economy climbed 3.8 per cent over the course of the year and the wholly unemployed share of the labour force fell from 2.2 per cent to 1.6 per cent. Wage growth ended 2022 at 4.4 per cent.

Price growth quickened through 2022, but slowed somewhat towards year-end. The consumer price index (CPI) rose 5.8 per cent from 2021 to 2022, its highest level since the 1980s. Adjusted for taxes and excluding energy, price growth was 3.9 per cent. Norges Bank signalled at end-2021 that the base rate would be raised to just over 1 percentage point towards the end of 2022. The vigorous growth in prices prompted a more rapid and forceful tightening, with a base rate of 2.75 per cent at year-end. The banks have raised mortgage rates in step with Norges Bank's base rate hikes.

Credit growth to households (C2) declined from 5.0 per cent in 2021 to 4.2 per cent in 2022. The government resolved in December 2022 to continue the current lending regulations with moderate relaxations, but credit growth to households is expected to continue to slow in 2023.

Norges Bank's monetary policy report as of December 2022 indicated a base rate of 3 per cent in 2023. Subsequent economic key figures suggest a base rate rising above 3 per cent in 2023.

Prospects for 2023 are uncertain. Inflation is expected to fall both internationally and in Norway. The IMF expects global growth to slow from 3.4 to 2.9 per cent in 2023. Moreover, great uncertainty attends the economic effects of central banks' monetary policy tightening and the war in Ukraine.

Regional: Trøndelag and Møre and Romsdal

Activity levels and optimism were high in the aftermath of the pandemic. Unemployment has continued to fall in step with national unemployment to record-low levels. The wholly unemployed share of the labour force was 1.2 and 1.5 per cent respectively in Trøndelag and in Møre and Romsdal at the end of 2022.

Mid-Norway has, to a large degree, been shielded from the high electricity prices affecting Europe, but the region experienced abnormally high electricity prices in December. After a long period of upturn, house prices subsided somewhat in the second half of 2022.

According to SpareBank 1 SMN's economic barometer, Mid-Norwegian businesses' expectations for the future are at a low level. The risk trend in the Bank's corporate portfolio is nonetheless acceptable. Continued improvement is in evidence in the offshore segment, but increased risk is noted in the wider

business sector due to high inflation and higher interest rates. Industries viewed as more exposed than others are construction and commercial property.

Accounts 2022

(Consolidated figures. Figures in parenthesis refer to the same period of 2021 unless otherwise stated)

- Profit before tax and business held for sale: NOK 3,324m (3,266m)
- Net profit: NOK 2,758m (2,902m)
- Return on equity: 12.3% (13.5%)
- Growth in lending: 8.1% (6.9%) and in deposits: 9.6% (14.1%)
- Growth in lending to personal customers: 6.7% (6.8%) and in lending to corporate customers: 11.1% (7.1%)
- Lending to retail customers accounts for 67% (68%) of total lending
- Deposits from personal customers rose 8.4% (9.8%), and deposits from corporate customers by 10.5% (17.2%)
- Net result of ownership interests: NOK 442m (705m)
- Net result of financial instruments (incl. dividends): minus NOK 61m (gain of NOK 134m)
- NOK 7m, net, was recovered on losses on loans and guarantees (loss of NOK 161m), 0% (0.09%) of gross lending
- Earnings per equity certificate (EC): NOK 12.82 (13.31)
- The board of directors recommends a cash dividend of NOK 6.50 per equity certificate (NOK 7.50) representing 50.7 per cent of the net profit, and an allocation of NOK 474m (547m) to community dividend.

SpareBank 1 Markets

As from the fourth quarter of 2022, the subsidiary SpareBank 1 Markets is classified for accounting purposes as held for sale. The company's income and expenses are reclassified to the line 'Result investment held for sale' in the income statement accordingly. The group's profit remains unchanged. Historical figures are restated.

On 22 June 2022, SpareBank 1 SMN reported SpareBank 1 Markets' move to strengthen its focus on the capital market. SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge are to transfer their capital markets business to SpareBank 1 Markets, and in addition buying into the company in the form of a cash payment. After completion of the transaction, SpareBank 1 SMN will own 39.4 per cent and SpareBank 1 Markets will be treated as an affiliate. The transaction is dependent on approval from Finanstilsynet (Financial Supervisory Authority) and the Competition Authority, and is scheduled to go ahead in the second quarter of 2023.

Event after 31 December 2022: Gross embezzlement of SpareBank 1 SMN's funds

On 19 January 2023, SpareBank 1 SMN reported a hired replacement employee to the police after falling victim to gross embezzlement. No customers are impacted. The police have arrested and charged the suspect, and the bank is actively contributing to the ongoing investigation. The bank became aware of the offence itself and reported the matter to the Police and to Økokrim (National Authority for Investigation and Prosecution of Economic and Environmental Crime).

The police investigation and the bank's own enquiries show that the embezzlement totals NOK 75m. The accused returned about NOK 9m to SpareBank 1 SMN before his arrest. The net amount taken out of SpareBank 1 SMN is accordingly just over NOK 66m. Of this sum, NOK 15m has been secured. Based on the information now known to the police and the bank, about NOK 50m of the embezzled amount has been lost. Although the amount is substantial, it does not impact the bank's financial situation. The bank has insurance cover against economic crime including embezzlement. The insurance policy carries a deductible of NOK 5m. The board of directors of SpareBank 1 SMN has decided that the matter is to be scrutinised by an external expert body.

Good profit

SpareBank 1 SMN delivered a net profit of NOK 2,785m (2,902m), and a return on equity of 12.3 per cent (13.5 per cent). The profit is NOK 117m lower than in 2021 due to SpareBank 1 Gruppen's profit impairment and weaker return on financial investments. Increased operating income and lower losses strengthen the result. Earnings per equity certificate were NOK 12.82 (13.31).

Net interest income came to NOK 3,339m (2,805m). The bank's funding cost in terms of NIBOR rose substantially over the course of 2022, bringing changes in margins on loans and deposits. Return on equity rose.

Net commission income was NOK 2,042m (2,141m). The income decline of NOK 99m is due to lower margins on loans sold to SpareBank 1 Boligkreditt and reduced income from estate agency services, whereas income from banking and accounting services showed an increase.

Return on financial investments (incl. dividends) was minus NOK 61m (134m). The decline is largely due to reduced return on the equity portfolio of SpareBank 1 Invest.

The result from related companies was NOK 442m (705m). Fremtind Forsikring and SpareBank 1 Forsikring both reported weak results in 2022.

Operating expenses totalled NOK 2,443m (2,360m), an increase of NOK 83m or 3.5 per cent. The bank's expenses rose by NOK 107m, largely as a result of wage and price growth. In addition, there are higher IT costs and costs of purchased services, of which NOK 22m refers to costs of the planned merger with SpareBank 1 Søre Sunnmøre. Falling costs were noted in the subsidiaries as a result of reduced depreciation.

A net recovery of NOK 7m was recorded on losses on loans (loss of NOK 161m). Losses are low due to reversals in the offshore segment, continued low losses in other business and industry and the personal market.

Lending and deposits showed good growth in 2022 as previously. Lending grew by 8.1 per cent (6.9 per cent) and deposits by 9.6 per cent (14.1 per cent).

As at 31 December 2022, the CET1 ratio was 18.9 per cent (18.0 per cent). The CET1 ratio target is 17.2 per cent.

The book value per EC was NOK 109.86 (103.48) including the proposed cash dividend for 2022 of NOK 6.50 (NOK 7.50).

The market price of the bank's EC (MING) at year end was NOK 127.40 (149.00).

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, that comprise the basis for distribution of the net profit for the year, and 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 12.82. In keeping with the bank's dividend policy, the board of directors recommends the bank's supervisory board to declare a cash dividend of NOK 6.50 per EC, altogether totalling NOK 840m. This makes for a payout ratio of 50.7 per cent. The board of directors further recommends an allocation of NOK 474m to community dividend.

Of this amount, NOK 230m is to be transferred to non-profit causes and NOK 244m to the foundation Sparebankstiftelsen SMN. NOK 781m and NOK 440m are to be transferred to the dividend equalisation fund and the ownerless capital respectively.

Difference between Group - Parent Bank	2022	2021
Profit for the year, Group	2,785	2,902
Interest hybrid capital (after tax)	-60	-48
Profit for the year excl interest hybrid capital, group	2,725	2,854
Profit, subsidiaries	-479	-693
Dividend, subsidiaries	422	309
Profit, associated companies	-443	-705
Dividend, associated companies	224	418
Group eliminations	-15	11
Profit for the year excl interest hybrid capital, Parent bank	2,434	2,194
Distribution of profit	2022	2021
Profit for the year excl interest hybrid capital, Parent bank	2,434	2,194
Transferred to/from revaluation reserve	101	68
Profit for distribution	2,535	2,262
Dividends	840	970
Equalisation fund	781	476
Saving Bank's fund	440	268
Gifts	474	547
Total distributed	2,535	2,262

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 101m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 2,535m.

After distribution of the profit for 2022, the ratio of EC capital to total equity remains 64.0 per cent.

Net interest income

Net interest income totalled NOK 3,339m (2,805m). NIBOR rose about 240 points over the course of 2022, and was 160 points higher on average than the previous year. Margins on lending in terms of NIBOR declined by just over 65 points while margins on deposits rose by 75 points. Both lending and deposit volumes rose contributing, along with increased return on equity, to a strengthening of net interest income.

Norges Bank hiked the base rate several times in 2022, most recently in December, to 2.75 per cent. The bank raised mortgage and deposit rates in step with Norges Bank's base rate changes in 2022, most recently with effect from 1 February 2023 following Norges Bank's base rate change on 15 December 2022.

Commission income and other operating income

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

Commission and other income (NOKm)	2022	2021	Change
Payment transmission income	329	283	46
Credit cards	62	41	21
Commissions savings and asset mgmt	40	59	-18
Commissions insurance	236	214	22
Guarantee commissions	70	67	3
Estate agency	418	441	-23
Accountancy services	564	529	34
Other commissions	51	43	8
Commissions ex. Bolig/Næringskreditt	1,770	1,677	93
Commissions Boligkreditt (cov. bonds)	256	450	-194
Commissions Næringskreditt (cov. bonds)	16	14	2
Total commission income	2,042	2,141	-99

Income growth was recorded in 2022 on payment services, credit cards, insurance and accounting services, whereas income from savings products and estate agency services declined. Increased consumption after the pandemic impacted positively on income from payment and credit card services.

Net interest income from loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is recognised as commission income. Commission income totalled NOK 272m (464m), showing a decline as a result of reduced margins on loans sold to SpareBank 1 Boligkreditt.

Return on financial investments

Return on financial investments (excluding dividends) was minus NOK 94m (gain of 112m). The decline is largely the result of reduced return on the equity portfolio of SpareBank 1 SMN Invest. Financial instruments, including bonds and CDs, showed a loss of NOK 126m (loss of 58m), the decline being ascribable to changed credit margins on the bank's liquidity holding. Income of NOK 19m (1m) from forex transactions refers to corporate clients' currency trading and agio on the bank's funding in foreign currencies.

Return on financial instruments (NOKm)	2022	2021	Change
Net gain/(loss) on stocks	13	169	-156
Net gain/(loss) on financial instruments	-126	-58	-68
Net gain/(loss) on forex	19	1	18
Net return on financial instruments	-94	112	-206

Product companies and other related companies

The product companies provide SpareBank 1 SMN with a broad product range and commission income along with return on invested capital. The overall profit share from the product companies and other related companies was NOK 442m (705m).

Income from investment in associated companies (NOKm, SMN's share in parentheses)	2022	2021	Change
SpareBank 1 Gruppen (19.5 %)	175	471	-296
SpareBank 1 Boligkreditt (22.6 %)	1	16	-16
SpareBank 1 Næringskreditt (16.3 %)	3	7	-4
BN Bank (35.0 %)	203	164	39
SpareBank 1 Kreditt (18.7 %)	9	13	-4
SpareBank 1 Betaling (20.8 %)	13	-15	28
SpareBank 1 Forvaltning (19.6%)	33	32	1
Other companies	5	17	-11
Total associated companies	442	705	-263

SpareBank 1 Gruppen

The company owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Factoring and SpareBank 1 Spleis. SpareBank 1 Gruppen is the majority owner (65 per cent) of the non-life insurer Fremtind. The company also owns 50 per cent of Kredinor.

SpareBank 1 Gruppen's profit after tax in 2022 was NOK 1,196m (3,250m). Of the profit, NOK 895m (2,415 m) accrues to the majority owners of SpareBank 1. Return on equity in 2022 was 8.0 per cent (21.9 per cent).

The group's profit share from SpareBank 1 Gruppen was NOK 175m (471m).

Fremtind Forsikring posted a profit of NOK 859m (2,386m) after tax in 2022. The profit impairment is due to both a weaker underwriting result and financial result. The underwriting result was NOK 1,263m (2,457 m), a weakening of NOK 1,193m compared with 2021. The claims ratio in 2022 was 65.5 per cent compared with 57.6% in 2021. The rise in the claims ratio relates to fires both early in the year and in December, and a higher claims ratio in retail car and travel insurance. Net financial income was minus NOK 106m (618m), NOK 724m lower than in 2021. The financial result is negatively impacted by a weak trend in equity markets and weaker interest yield due to higher interest rates and credit margins, along with impairment of investment properties.

SpareBank 1 Forsikring reported a profit of NOK 53m (778m) after tax. The underwriting risk result was NOK 219m (143m), an improvement of NOK 76m. An improvement is noted in the claims-incurred ratio for disability risk and dependants, which thus far this year amounts to 77.1 per cent.

The administration result was minus NOK 137m (plus 205m), a deterioration of NOK 342m from 2021. A capitalisation of reserves of NOK 270m was undertaken in 2021.

Weak financial results were also recorded at SpareBank 1 Forsikring, for the same reason as Fremtind Forsikring.

Modhi and Kredinor

On 30 September 2022, Finanstilsynet gave permission for Modhi and Kredinor to merge with effect from 1 October 2022. As of the same date SpareBank 1 Gruppen made an in-kind contribution of Modhi valued at

NOK 1.7bn and in addition participated in a stock issue of NOK 117m. This entailed SpareBank 1 Gruppen acquiring 50 per cent of the shares of the newly merged Kredinor. Modhi is accordingly no longer a subsidiary of SpareBank 1 Gruppen. The derecognition of Modhi brought a gain of NOK 382m. Kredinor, for accounting purposes, is treated as a joint venture as from 1 October 2022.

The debt collection company Mohdi Finance posted a profit of NOK 130m in 2022 (20m), due in part to portfolio value adjustments.

SpareBank 1 Factoring recorded a profit of NOK 54m (53m) in 2022.

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 verdipapirservise make up the SpareBank 1 Forvaltning group.

SpareBank 1 SMN owns 19.6 per cent of the company, and its profit share in 2022 was NOK 33m (32m).

The group's profit after tax as at 31 December 2022 was NOK 171.2m. The profit for 2022 was affected by lower incomes inasmuch as market uncertainty reduced average capital under management, and by somewhat higher expenses.

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 2022, the bank had sold loans totalling NOK 56.9bn (46.7bn) to SpareBank 1 Boligkreditt, corresponding to 40.1 per cent (35.1 per cent) of the bank's overall lending to retail borrowers.

The bank's share of the company's profit was NOK 1m (16m).

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 2022, loans worth NOK 1.7bn (1.4bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's share of the profit was NOK 3m (7m).

SpareBank 1 Kreditt

SpareBank 1 SMN's share of this company's profit for 2022 was NOK 9m (13m). SpareBank 1 SMN customers' portfolio of credit cards and consumer loans totalled NOK 1,248m (998m) and its stake was 18.7 per cent.

As at 31 December 2022 the company's overall portfolio was worth NOK 7.3bn (5.8bn). The growth is in all essentials ascribable to refinancing loans.

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 10.0 per cent in lending to personal customers in 2022 (13.8 per cent) and growth of 10.3 per cent in lending to corporate clients in 2022 (6.3 per cent). Total outstanding loans come to NOK 57bn (52bn).

BN Bank recorded a profit of NOK 595m (478m) in 2022, and a return on equity of 11.7 per cent (10.0 per cent). Increased net interest income is the main reason for the profit growth. SpareBank 1 SMN's share of BN Bank's profit was NOK 203m (164m).

SpareBank 1 Betaling

SpareBank 1 Betaling is the SpareBank 1 banks' parent company in Vipps AS. On 30 June 2021, Vipps entered an agreement to merge Vipps' mobile payments arm with Danish MobilePay and Finnish Pivo which opens the way for cross-border mobile payments. In the third quarter 2022, it became clear that the merger would proceed without Pivo after the European Commission raised concerns about the consolidation of mobile wallets in Finland.

The companies received the European Commission's approval in the fourth quarter 2022, but the merger is still pending. In parallel with the merger, BankAxept and BankID will be spun off from Vipps to become a new Norwegian-owned company which will remain under full ownership of the Norwegian banks.

A gain of NOK 140m was recognised on the merger in the fourth quarter of 2022. SpareBank 1 Betaling posted a profit of NOK 65m in 2022, of which SpareBank 1 SMN's profit share was NOK 13m (minus NOK 15m).

Operating expenses

Operating expenses came to NOK 2,443m (2,360m), an increase of NOK 83m or 3.5 per cent. Expenses at the bank rose by NOK 107m while expenses among the subsidiaries were reduced by NOK 24m.

Increased price and wage growth bring, in isolation, growth in costs at the bank and the subsidiaries respectively of about NOK 78m and NOK 50m. There was also some increase in technological costs, use of consultants and consumption-related costs. Costs at the bank include NOK 22m related to the planned merger with SpareBank 1 Søre Sunnmøre. Reduced expenses at the subsidiaries are due above all to write-down of IT systems at SpareBank 1 Finans Midt-Norge in 2021.

Operating expenses (NOKm)	2022	2021	Change
Personnel expenses	1,406	1,378	27
IT costs	355	320	35
Marketing	86	75	11
Ordinary depreciation	117	170	-53
Operating expenses, real properties	55	53	2
Purchased services	195	173	22
Merger expenses	22	0	22
Other operating expense	208	192	17
Total operating expenses	2,443	2,360	83

The cost-income ratio was 42 per cent (41 per cent) for the group, 33 per cent (33 per cent) for the parent bank.

Reduced losses

A net recovery of NOK 7m was recorded on losses on loans (loss of NOK 161m). Loan losses measure 0.00 per cent (0.09 per cent) of total loans.

Impairment losses	2022	2021	Change
RM	44	1	43
CM	-51	159	-211
Total impairment losses	-7	161	-168

A net recovery of NOK 51m was recorded on losses on loans to corporates (loss of NOK 159m), including a net recovery of NOK 159m (net recovery of NOK 27m) in the offshore portfolio and increased losses of NOK 108m on loans to other business and industry. The losses are distributed across a wide range of customers and segments due to the risk trend in the portfolio.

A net loss of NOK 44m was recorded on loans to personal customers (1m), breaking down to NOK 28m on agricultural customers and NOK 16m on SpareBank 1 Finans Midt-Norge.

In light of improved market prospects for the offshore industry, a higher level of freight rates is employed in our impairment simulations for the offshore portfolio, and, in addition, the downside scenario weighting is reduced in the case of supply and subsea. This contributes significantly to lower impairments. Furthermore, the distinctive treatment of clients in the hotel/tourism industry in connection with the pandemic no longer applies. In the case of other corporates and personal customers no changes are made in scenario weights. The PD path for other corporates is raised early in the simulation period in the downside scenario, contributing to somewhat larger impairment write-downs.

Overall impairment write-downs on loans and guarantees total NOK 1,188m (1,520m).

Problem loans (Stage 3) come to NOK 2,044m (3,290m) corresponding to 0.97 per cent (1.68 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Much of the decline is due to the fact that a large offshore exposure completed its quarantine period in the second quarter 2022.

Total assets of NOK 223bn

The bank's total assets were NOK 223bn (199bn), having risen as a result of higher lending and higher liquidity holdings.

Loans totalling NOK 59bn (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 2022 by NOK 15.9bn (12.6bn), corresponding to 8.1 per cent (6.9 per cent), and stood at NOK 211.2bn (195.4bn) at year-end.

- Lending to personal customers rose by NOK 8.9bn (8.4bn) to NOK 141.8bn (132.9bn) in the last 12 months. Growth in the period was 6.7 per cent (6.8 per cent).
- Lending to corporate clients rose by NOK 7.0bn (4.1bn) to NOK 69.4bn (62.5bn) in the last 12 months. Growth in the period was 11.1 per cent (7.1 per cent).

- Lending to personal customers accounted for 67 per cent (68 per cent) of total outstanding loans to customers.

Good, albeit somewhat diminishing, growth is noted in lending to personal customers. Growth has over time exceeded credit growth to households (C2), and the group is strengthening its market position. The growth is distributed across a number of segments, and industry and single name concentrations are avoided.

(For distribution by sector, see note 8).

Deposits

Customer deposits rose in 2022 by NOK 10.7bn (13.8bn) to NOK 122.0bn (111.3bn). This represents a growth of 9.6 per cent (14.1 per cent).

- Personal deposits rose by NOK 3.7bn (4.0bn) to NOK 48.3bn (44.6bn), corresponding to 8.4 per cent (9.8 per cent).
- Corporate deposits rose by NOK 7.0bn (9.8bn) to NOK 73.7bn (66.7bn), corresponding to 10.5 per cent (17.2 per cent).
- The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 58 per cent (57 per cent).

Deposit growth was very high during the pandemic, but normalised in 2022. Deposits are an important funding source for the bank, and the bank has made plans to strengthen deposit growth in the personal market.

Personal customers

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

Result before tax (NOKm)	2022	2021
Personal market	1,296	1,167
EiendomsMegler 1 Midt-Norge (87%)	58	71

The **Personal Banking Division** achieved a pre-tax profit of NOK 1,296m (1,167m) in 2022. Return on capital employed in the retail segment was 13.6 per cent (13.4 per cent).

Operating income posted by the division totalled NOK 2,283m (2,074m) of which net interest income accounted for NOK 1,491m (1,165m) and commission income for NOK 792m (908m). Reduced lending margins lowered net interest income, while growth in lending and deposits, wider deposit margins and higher return on personal customers' share of total equity strengthened net interest income. Commission income declined as a result of lower margins on loans sold to SpareBank 1 Boligkreditt, while increased incomes are noted from payment and insurance services.

At the turn of the year, loans granted by the Personal Banking Division totalled NOK 147bn (138bn) and deposits total NOK 55bn (51bn). These are loans to and deposits from wage earners, agricultural customers and sole proprietorships. Growth in retail lending and deposits respectively was 7.1 per cent (6.6 per cent) and 8.4 per cent (6.8 per cent) in 2022.

The lending margin was 0.72 per cent (1.53 per cent), while the deposit margin was 1.34 per cent (0.13 per cent) measured against three-month NIBOR. Lending margins were reduced by 83 points in 2022 while deposit margins increased by 121 points. Norges Bank's base rate increased several times in 2022, and NIBOR rose substantially over the course of the year. Interest changes were made in 2022 in step with Norges Bank's base rate hikes.

Lending to personal customers consistently carries low risk, as reflected in continued low losses. The loan portfolio is largely secured by residential property. Loan losses of NOK 29m were recorded in 2022 (net recovery of NOK 10m).

Eiendomsmegler 1 Midt-Norge is the market leader in Trøndelag and in Møre and Romsdal. Operating income totalled NOK 429m (453m), while operating expenses totalled NOK 371m (382m). Eiendomsmegler 1 Midt-Norge's pre-tax profit was NOK 58m (71m).

Slight fall in house prices due to higher mortgage interest rates were a feature of the second half of 2022 in which the transaction volume also fell slightly compared with the previous year. Somewhat lower activity in 2022 resulted in 6,887 property sales compared with 7,771 in 2021. The company's market share at 31 December 2022 was 37 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 and SpareBank 1 Finans Midt-Norge. These business lines provide business and industry with a complete range of accounting, banking and capital market services.

Result before tax (NOKm)	2022	2021
Corporate banking	1,403	795
SpareBank 1 Regnskapshuset SMN (88.7%)	96	86
SpareBank 1 Finans Midt-Norge (56.5%)	191	198

The **Corporate Banking Division** achieved a pre-tax profit of NOK 1,403m (NOK 795m) in 2022. The profit growth is mainly attributable to increased net interest income and lower losses. Return on capital employed for the corporate segment was 20.8 per cent (11.5 per cent).

Outstanding loans to the bank's corporate clients totalled NOK 52bn (46bn) and deposits totalled NOK 63bn (60bn) as at 31 December 2022. The portfolio is diversified, comprising loans to and deposits from corporate clients in Trøndelag and in Møre and Romsdal.

Lending rose by 8.9 per cent (6.1 per cent) and deposits by 5.5 per cent (20.6 per cent) in 2022. The growth is fairly evenly distributed across market areas and industries.

Operating income came to NOK 1,804m (1,386m). Net interest income was NOK 1,505m (1,120m). Net interest income climbed as a result of growth in lending and deposits, increased deposit margins and higher return on the banking arm's share of equity capital. Interest rates on loans and deposits were adjusted in step with Norges Bank's changes in the base rate. Commission income (including income from forex transactions) totalled NOK 299m (266m).

The lending margin was 2.31 per cent (2.61 per cent) and the deposit margin was 0.15 per cent (minus 0.29 per cent). Lending margins were reduced by 30 points in 2022 while deposit margins increased by 44 points.

A net recovery of NOK 66m was recorded on losses on loans to the bank's corporate clients (loss of 145m), the decline being largely due to reversal of earlier write-downs on the offshore portfolio in 2022.

SpareBank 1 SMN and SpareBank 1 Regnskapshuset SMN each have a large proportion of businesses in the market area as customers. Development of the customer offering aims to ensure that customers see the value of utilising the services of both.

As a result of the strengthened focus on SMBs, many new customers have opted for SpareBank 1 SMN as their bank in 2022 and 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 191m (198m), including a negative profit share of NOK 23m from its stake in the car subscription company Fleks.

The company's incomes totalled NOK 329m (364m). Costs as at 31 December 2022 totalled NOK 108m (141m), the reduction being mainly attributable to a write-down of the IT system in 2021. Losses totalled NOK 30m (25m).

The company has leasing agreements with and loans to corporate customers worth a total of NOK 5.2bn (4.2bn) and car loans worth NOK 7.0bn (6.0bn). Growth in 2022 was 23.8 per cent and 16.7 per cent respectively.

SpareBank 1 Finans Midt-Norge and other SpareBank 1 banks own 47 per cent of the shares of the car subscription company Fleks. Fleks offers flexible car subscription solutions. Electrification of the car population and the car subscription system contribute to reduced emissions. Fleks currently has 3,000 cars and is the market leader in Norway.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 96m (86m).

Operating income was NOK 607m (562m) and expenses were NOK 511m (476m).

The company is making a considerable change to its business model involving digitalisation and a revamp of its organisation. Modern cloud-based subscription solutions are offered along with a broad range of accounting advisory services.

The company acquired five accountancy firms in 2022 with a view to expanding its presence in the company's catchment area, and achieved organic turnover growth of 8 per cent.

Customer recruitment has risen, accompanied by a reduction in customer turnover. Income from advisory services rose 22 per cent in 2022 and a large number of companies had switched to modern cloud-based accounting systems as at 31 December 2022.

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

SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It employs 160 FTEs.

SpareBank 1 Markets' pre-tax profit was NOK 206m (254m). The company's incomes in 2022 came to NOK 780m (901m), costs were NOK 574m (633m). High activity levels in the business lines have brought high incomes and good results in both 2021 and 2022.

SpareBank 1 Markets has developed into one of the largest Norwegian brokerages with a strong position in several product areas, and is the leading capital market unit in SpareBank 1 SMN's market area. The announced amalgamation of the capital market units of SpareBank 1 Markets, SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge is under preparation and is expected to contribute to higher and more diversified earnings. The merger is planned to take place in the second quarter of 2023, although this is dependent on the government authorities' consideration of the matter.

SpareBank 1 SMN Invest

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

The pre-tax profit was NOK 52m (187m), of which the profit share from the company's stake in Grilstad Marina was NOK 22m.

The company's shares are valued at NOK 580m (592m) as at 31 December 2022.

Good funding and liquidity

Price growth accelerated through 2022. Central banks raised base rates substantially in a short span of time and signalled further rate hikes. Rapid price growth and rising interest rates have dampened economic activity. There are now signs that price growth has peaked in many countries. Towards year-end, activity in the Norwegian economy remained high and the labour market was tight. Many businesses anticipate lower activity ahead. Uncertainty as to growth and inflation prospects and the geopolitical situation has contributed to substantial fluctuations in financial markets over the year. Credit spreads have widened significantly, but narrowed somewhat towards the end of the year.

The bank is in a good liquidity position and has ample access to long-term funding.

The bank pursues 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 239 per cent as at 31 December 2022 (138 per cent). The requirement is 100 per cent.

The group's deposit-to-loan ratio at 31 December 2022 was 58 per cent (57 per cent).

The bank's funding sources and products are amply diversified.

SpareBank 1 Boligkreditt and Næringskreditt are the bank's most important funding sources, and loans totalling NOK 59bn (48bn) had been sold to these mortgage companies as at 31 December 2022.

As at 31 December 2022, SpareBank 1 SMN held NOK 7.1bn in senior non-preferred debt (MREL), SpareBank 1 SMN will meet the MREL requirements by the end of 2023.

Rating

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

Financial soundness

The CET1 ratio at 31 December 2022 was 18.9 per cent (18.0 per cent). The CET1 ratio requirement is 15.4 per cent, including combined buffer requirements and a Pillar 2 requirement of 1.9 per cent. Finanstilsynet set a new Pillar 2 requirement for SpareBank 1 SMN on 30 April 2022. The 1.9 per cent rate is unchanged, but the bank is subject to a provisional add-on of 0.7 per cent to its Pillar 2 requirement until its application for adjustment of IRB models has been processed. The provisional add-on of 0.7 per cent is not included in the Bank's long term target.

Finanstilsynet has resolved that SpareBank 1 SMN is to have a Pillar 2 guidance of 1.25 per cent over and above overall capital requirements. This brings the bank's long-term CET1 ratio target to 17.2 per cent.

The CET1 ratio climbed 0.9 percentage points in 2022. Risk weighted assets grew 6.1 per cent. A good profit performance for the year strengthened the bank's financial position. A payout ratio of 50.7 per cent of the group's net profit for 2022 is assumed.

A leverage ratio of 7.1 per cent (6.9 per cent) shows the bank to be extremely solid. See [note 5](#) for further details.

Sustainability

SpareBank 1 SMN has finalised its calculations for 2022 of greenhouse gas emissions from the loan portfolio and from its own operations. According to the figures, the loan portfolio represents a greenhouse gas emission of 1.1 million tonnes of CO₂ in 2022, about 98 per cent of the group's total emissions.

Emissions increased by 5.6 per cent from the previous year, mainly due to a higher lending volume. The group's emissions from its own operations amount to about 20,000 tonnes of CO₂ equivalents in 2022. The increase of about 8,000 tonnes from 2021 is due to a change in calculation methodology.

The work on drawing up transition plans for the bank's loan segments has been intensified. This, together with good underlying data, will be an important foundation for the group's effort to achieve its objective of net zero emissions by 2050.

The group's materiality analysis was updated at year-end. In keeping with best practice, a double materiality analysis was performed which takes the environment, social materiality and financial materiality into account. The analysis shows that several of the expectations from the previous materiality analysis stand firm, but that the group should do more to contribute to regional development, circular economy and public health.

The chapter titled [sustainability and corporate social responsibility](#) gives a further account of the group's work on sustainability in 2022.

The bank's equity certificate (MING)

The market price of the equity certificate (EC) as at 31 December 2022 was NOK 127.40 (149.00), and the book value per EC was NOK 109.86 (103.48). Earnings per EC were NOK 12.82 (13.31). A cash dividend of NOK 7.50 was paid per EC in 2022.

The Price / Income ratio was 9.94 (11.19) and the Price / Book ratio was 1.16 (1.44).

SpareBank 1 SMN's articles of association contain 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.

Outlook ahead

SpareBank 1 SMN delivered a very good profit performance in 2022, and achieved its goals in terms of profitability and capitalisation. The business lines performed well and the group's market position is strengthened.

At the start of 2023 uncertainty in the economy persists with reduced household purchasing power and increased pessimism in business and industry. Unemployment nonetheless remains extremely low in Mid-Norway, at the same time as there are signs that inflation is levelling off and expectations that the base rate is close to peaking.

The risk trend in SpareBank 1 SMN's loan portfolio is satisfactory. There is continued improvement in the offshore segment, but signs of increased risk in commercial real estate and construction. At the same time the business sector signals increased pessimism. This has not yet affected observed defaults in the loan portfolio. The trend in house prices and decreasing demand for residential mortgages are a matter of uncertainty. A number of customers are in dialogue with the bank for financial advice, and some increase is noted in enquiries about mortgage payment holidays. The bank's advisers are skilled in the field of personal finances, are close to the customer and are present throughout Trøndelag and Møre and Romsdal.

SpareBank 1 SMN has a broad product platform and profitable subsidiaries and product companies which are expected to deliver good results, also in a situation of lower economic growth. In the second quarter of 2023 SpareBank 1 Markets is to merge with the capital market units in SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge, thereby creating the footing for a larger and more diversified income base.

SpareBank 1 SMN is one of the country's largest savings banks. This position will be further reinforced through organic and structural growth. The merger with SpareBank 1 Søre Sunnmøre is important in this context and is expected to reach completion at the start of May 2023.

The board of directors will recommend the supervisory board to set a cash dividend of NOK 6.50 per equity certificate (NOK 7.50) representing 50.7 per cent of the net profit, and to allocate NOK 474m (547m) to community dividend. The community dividend contributes to strengthening the region and the bank's market position. The proposed distribution is in line with the group's dividend policy.

The return expected by market participants has risen as a result of among other things higher interest rates and a general rise in banks' earnings. SpareBank 1 SMN aspires to be among the best performers in the Nordic region. The board of directors has resolved to raise the group's profitability target to 13 per cent return on equity, while at the same time adjusting the cost target to support the targeted return. SpareBank 1 SMN's group strategy stands firm on achieving sustainable and profitable growth, further efficiency gains and good risk management. The board of directors is well pleased with results achieved for 2022, and expects 2023 to be another good year for SpareBank 1 SMN.

Trondheim, 1 March 2023

The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Christian Stav
(deputy chair)

Morten Loktu

Mette Kamsvåg

Tonje Eskeland Foss

Eli Skrøvset

Freddy Aursø

Christina Straub
(employee rep.)

Inge Lindseth
(employee rep.)

Jan-Frode Janson
(Group CEO)