

Report of the Board of Directors

Macroeconomic conditions

A year marked by inflation and higher market interest rates

In 2023 the international economy was marked by high, but subsiding, inflation. The larger central banks continued their monetary policy tightening through the year. The Norwegian economy was again, in 2023, marked by high activity, low unemployment and inflation far above the central bank's operating target. There are signs that industries such as building and construction and commercial property have been impacted by the high interest rate level, concurrent with a slight increase in unemployment over the year. Value creation in the mainland (non-oil) economy rose 0.7 per cent against 2022 and the wholly unemployed share of the labour force climbed from 1.6 per cent to 1.9 per cent. Wage growth ended 2023 at 5.3 per cent.

Price growth in Norway, in terms of the consumer price index (CPI), slowed through much of 2023. The annual rate of CPI growth was 5.5 per cent in 2023, a decline of 0.3 percentage point from 2022. Annual growth in the consumer price index adjusted for taxes and excluding energy (CPI-JAE) rose from 3.9 per cent in 2022 to 6.2 per cent in 2023. Growth in the CPI-JAE subsided through 2023, but not by the same margin as the CPI.

At the end of 2022, Norges Bank signalled a hike of about 3 percentage points in the base rate towards the end 2023. The vigorous rise in prices led to a more rapid and forceful tightening, with a base rate of 4.5 per cent at year-end. The bank has raised interest rates in step with Norges Bank's base rate hikes.

Twelve-month growth in credit to households (C2) declined from 4.2 per cent in 2022 to 3.1 per cent in 2023. Norges Bank anticipates a further decline in 2024.

Prospects for 2024 are uncertain. Norges Bank's monetary policy report of December 2023 indicated a base rate of about 4.25 per cent in the fourth quarter of 2024. A further reduction in inflation is anticipated internationally and in Norway.

The IMF expects global growth to remain stable at about 3 per cent in 2024, at the same time pointing out that risk present in the global economy is lower than previously.

Regional: Trøndelag and Møre and Romsdal

Unemployment edged up through 2023, from record-low levels. The wholly unemployed share of the labour force was 1.7 and 1.5 per cent respectively in Trøndelag and in Møre and Romsdal at the end of 2023.

SpareBank 1 SMN's economic barometer shows that Mid-Norwegian businesses' expectations for the future are at a very low level. The risk trend in the 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 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 last year unless otherwise stated. Growth figures adjusted for the merger are referred to under 'loans' and 'deposits')

- Profit before tax: NOK 4,484m (3,324m)
- Net profit: NOK 3,688m (2,785m)
- Return on equity: 14.4% (12.3%)
- Growth in lending: 11.9% (8.1%) and in deposits: 8.9% (growth of 9.6%) in the last 12 months
- Growth in lending to the bank's retail customers: 13.1% (7.1%) in the last 12 months. Growth in lending to corporate customers: 10.4% (8.9%) in the last 12 months
- Lending to wage-earners accounts for 68% (67%) of total lending
- Deposits from retail customers rose 17.6% (8.4%) in the last 12 months. Deposits from corporate customers rose 0.1% (5.5%) 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 of NOK 14m (net recovery of NOK 7m), 0.01% (-0.00%) of gross lending
- Earnings per equity certificate (EC) were NOK 16.88 (12.82)
- The book value of the bank's EC was NOK 120.48 (109.86) and the market price of the EC (MING) was NOK 141.80 (127.40)
- The board of directors recommends a cash dividend of NOK 12.00 per equity certificate (NOK 6.50) representing 74 per cent of the net profit, and an allocation of NOK 860m (474m) to community dividend.

Good profit

SpareBank 1 SMN delivered a net profit of NOK 3,688m (2,785m), and a return on equity of 14.4 per cent (12.3 per cent). The profit for 2023 is higher than in 2022 due 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). The bank has implemented general interest rate increases in step with Norges Bank's base rate hikes. Lending margins in the retail market have weakened while deposit margins have concurrently strengthened compared with 2022, and return on the bank's equity capital 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 rose 8.9 per cent (9.6 per cent). Personal deposits climbed 17.6 per cent (8.4 per cent). Corporate deposits rose 0.1 per cent (5.5 per cent).

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

The result from related companies was NOK 297m (442m). A weaker profit share from SpareBank 1 Gruppen and a negative result at SpareBank 1 Mobilitet Holding are the main explanation for the decline.

The net result from financial instruments rose from minus NOK 94m in 2022 to NOK 476m in 2023. The increase is driven by the disinvestment from SpareBank 1 Markets, which produced a gain of NOK 414m in the fourth quarter of 2023.

The group's operating expenses came to NOK 3,017m (2,443m). Expenses are impacted by wage and price growth as well as merger costs and expensing of an operational loss of NOK 51m in the first quarter. The bank's cost-income ratio, measured as costs as a share of net interest income and commission income was 37.7 per cent (37.2).

As at 31 December, loan losses amount to NOK 14m (net recovery of 7m). Losses on loans to the group's corporate customers total NOK 6m in 2023 (net recovery of NOK 55m). The corresponding figure for personal customers is a loss of 8m (44m).

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

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

Net interest income totalled NOK 4,632m (3,339m). Norges Bank raised the base rate to 4.50 per cent in December 2023. At the end of the fourth quarter 2022, the base rate stood at 2.75 per cent. This has brought a considerable increase in banks' financing costs. NIBOR rose about 150 points over the course of 2023, and was 209 points higher on average than in 2022.

Compared with 2022, average margins on lending were approximately unchanged while margins on deposits rose. Growth in lending and deposits, driven partly by the merger with SpareBank 1 Søre Sunnmøre, has contributed to an increase in net interest income. In addition, a higher interest rate level has positively impacted return on equity. For retail customers a further interest rate hike has been announced with effect in the first quarter of 2024.

Commission income and other operating income

SpareBank 1 SMN's strategy of exploiting the breadth present in the group and of 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 and other income (NOKm)	2023	2022	Change
Payment transmission income	330	329	-
Credit cards	61	61	-
Commissions savings and asset mgmt	43	40	2
Commissions insurance	253	236	16
Guarantee commissions	60	70	-10
Estate agency	432	418	13
Accountancy services	661	564	97
Other commissions	76	51	26
Commissions ex. Bolig/Næringskreditt	1,915	1,770	145
Commissions Boligkreditt (cov. bonds)	155	256	-101
Commissions Næringskreditt (cov. bonds)	15	16	-1
Total commission income	2,084	2,042	43

Commission income excluding the captive mortgage companies rose 8.2 per cent, to NOK 1,915m (1,770 m). The trend in commission income is driven in particular by incomes from accounting services.

For 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 reduced commission income from these companies in 2023 is mainly due to higher funding costs.

Return on financial investments

Return on financial investments was NOK 476m (minus 94m). Capital gains of NOK 464m include NOK 414m related to the disinvestment from SpareBank 1 Markets. Other capital gains are related to SpareBank 1 SMN's share portfolio.

Financial instruments, including bonds and CDs, showed a capital loss of NOK 96m (capital loss of 198m) while income from foreign exchange transactions rose by NOK 17m from 2022, to NOK 108m (91m).

Return on financial instruments (NOKm)	2023	2022	Change
Net gain/(loss) on stocks	464	13	451
Net gain/(loss) on financial instruments	-96	-198	102
Net gain/(loss) on forex	108	91	17
Net return on financial instruments	476	-94	570

Related companies

SpareBank 1 SMN has a broad and well-diversified income platform. The group offers its customers a broad product range through a number of 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 297m (443m) in 2023.

Income from investment in associated companies (NOKm, SMN's share in parentheses)	2023	2022	Change
SpareBank 1 Gruppen (19.5 %)	-34	175	-208
SpareBank 1 Boligkreditt (23.9 %)	98	1	97
SpareBank 1 Næringskreditt (14.8 %)	10	3	7
BN Bank (35.0 %)	257	203	54
SpareBank1 Markets (39.9 %)	19	-	19
SpareBank 1 Kreditt (19.2 %)	-13	9	-22
SpareBank 1 Betaling (21.9 %)	-37	13	-51
SpareBank 1 Forvaltning (21.5 %)	35	33	1
Other companies	-36	6	-42
Total associated companies	297	443	-145

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 213m (1,796m) in 2023, of which SpareBank 1 SMN's share of the controlling interest's net profit was minus NOK 34m (175m).

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 1,200m (1,169m) after tax.
- **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 208m (minus 21m) after tax.
- **SpareBank 1 Factoring (100 per cent)** offers financial and administrative factoring services. The company is headquartered in Ålesund. The company posted a net profit of NOK 81m (73m) in 2023.
- **Related companies** in SpareBank 1 Gruppen posted a negative contribution of NOK 180m (minus 33m) to SpareBank 1 Gruppen's net 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 fourth 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 2023 was NOK 35m (33m).

SpareBank 1 Boligkreditt is a mortgage company that issues covered bonds secured by residential mortgages with a view to stable financing with low financing costs. SpareBank 1 SMN's profit share was NOK 98m (1m) in 2023.

SpareBank 1 Næringskreditt is a mortgage company that issues covered bonds secured by commercial mortgages with a view to stable financing with low financing costs. SpareBank 1 SMN's profit share was NOK 10m (3m).

SpareBank 1 Kreditt offers unsecured finance to retail customers. SpareBank 1 SMN's profit share was minus NOK 13m (9m).

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 257m (203m).

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 corporate finance. SpareBank 1 SMN's share of SpareBank 1 Markets' net profit in December 2023 was NOK 19m. Other profit share from SpareBank 1 Markets in 2023 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 37m (13m) in 2023.

Other companies

The net profit of minus NOK 36m (6m) is driven by SpareBank 1 Mobilitet Holding's write-down of its equity interest in the car subscription company Flex. Like the new car market, car subscriptions have experienced weaker demand in 2023.

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 parent bank's cost-income ratio was 38 per cent in 2023 (37 per cent). The corresponding figures for EiendomsMegler 1 and Regnskapshuset were 91 (86) and 85 (84) per cent respectively.

Operating expenses (NOKm)	2023	2022	Change
Personnel expenses	1,691	1,406	286
IT costs	413	355	58
Marketing	93	86	7
Ordinary depreciation	153	117	37
Operating expenses, real properties	57	55	2
Purchased services	238	195	43
Merger expenses	64	22	42
Other operating expense	309	208	100
Total operating expenses	3,017	2,443	574

Overall group expenses rose by NOK 574m compared with 2022, of which NOK 106m 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 of NOK 468m in the bank's costs relates primarily to inflation, inclusion of the former SpareBank 1 Søre Sunnmøre's cost base, and expensing of the embezzlement affair in the first quarter of 2023. Costs are also impacted by the merger, celebration of the bank's 200th anniversary, and new projects and initiatives.

Losses on loans and guarantees

The group's losses on loans and guarantees came to NOK 14m in 2023 (net recovery of NOK 7m).

Losses over the course of the year break down to NOK 8m to retail customers and NOK 6m to corporate customers. At the bank, there was a net recovery of NOK 72m on losses (net recovery of NOK 37m) and at SpareBank 1 Finance, a loss of NOK 86m was recognised (30m).

Losses in 2023 break down to a recovery of NOK 28m in Stage 1 and 2 and losses of NOK 42m in Stage 3. Losses over the course of the year measured 0.01 per cent of total outstanding loans (0.00 per cent).

Losses	2023	2022	Change
RM	8	44	-36
CM	6	-51	57
Total impairment losses	14	-7	21

Overall impairment write-downs on loans and guarantees as at 31 December 2023 amount to NOK 995m (1,188m).

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 at the end of 2023 were NOK 233bn (223bn), having risen by NOK 10bn, or 4.2 per cent. 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 SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Loans

In 2023 total outstanding loans rose 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 year.

Lending to the bank's retail customers climbed 13.1 per cent (7.1 per cent), of which the merger with the former SpareBank 1 Søre Sunnmøre accounted for 8.3 percentage points. Total lending to the bank's retail customers came to NOK 166.7bn (147.4bn) at the end of 2023.

Growth in lending to the bank's corporate segment in 2023 was 10.4 per cent (8.9 per cent), of which the merger accounted for 3.5 percentage points. Overall lending to the bank's corporate clients 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 2023. This corresponds to growth of 4.5 per cent.

Deposits

Customer deposits rose by NOK 10.9bn (10.7bn) over the course of the year to NOK 132.9bn (122.0bn). This corresponds to growth of 8.9 per cent (9.6 per cent).

Personal deposits rose by 17.6 per cent (8.4 per cent), of which the merger accounts for 10.7 percentage points. Total deposits from personal customers were NOK 64.6bn (54.9bn) at the end of the fourth quarter.

Deposits from the bank's corporate segment climbed 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. The weak growth in deposits is related to a decline of 10 per cent in the fourth quarter, which is attributable to increasing competition for deposits from public sector customers. Total deposits from the bank's corporate segment came to NOK 63.0bn (62.9bn) as at 31 December 2023.

The **Retail Banking Division** achieved a pre-tax profit of NOK 1,770m (1,297m). Return on capital employed was 22.2 per cent (13.6 per cent). The retail banking portfolio consists of wage earners, agricultural customers and sole proprietorships.

Lending to the bank's retail customers rose 13.1 per cent (7.1 per cent), of which the merger with the former SpareBank 1 Søre Sunnmøre accounted for 8.3 percentage points. Total lending to the bank's retail customers came to NOK 166.7bn (147.4bn) at the end of 2023. Personal deposits rose 17.6 per cent (8.4 per cent), of which the merger accounts for 10.7 percentage points. Total personal deposits were NOK 64.6bn (54.9bn) at the end of the fourth quarter.

The Retail Banking Division implemented general interest rate increases on loans and deposits in step with Norges Bank's base rate hikes, with a further rate increase announced for the first quarter 2024.

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 NOK 40m (58m) in 2023.

EiendomsMegler 1 Midt-Norge (92.4%)	2023	2022
Total revenues	435	429
Total operating expenses	395	371
Pre-tax profit (NOKm)	40	58
Operating margin	9 %	14 %

Higher mortgage rates have dampened activity in the housing market and the sales volume was somewhat down from the previous 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 2022.

6,651 properties were sold in 2023 (6,881), and new assignments totalled 7,474 (7,450). The company's market share at year-end was 37.3 per cent, up from 36.5 per cent at end-2022.

The **Corporate Banking Division** achieved a pre-tax profit of NOK 1,955m (1,403m). Return on capital employed was 36.3 per cent (20.8 per cent).

Growth in lending to the bank's corporate customers in 2023 was 10.4 per cent (8.9 per cent), of which the merger accounted for 3.5 percentage points. Total lending to the bank's corporate customers came to NOK 57.2bn (51.8bn) as at 31 December 2023.

Deposits from the bank's corporate customers climbed 0.1 per cent (5.5 per cent) in 2023. 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. The weak growth in deposits is related to a decline of 10 per cent in the fourth quarter, which is attributable to increasing competition for deposits from public sector customers. Total deposits from the bank's corporate customers were NOK 63.0bn (62.9bn) as at 31 December 2023.

The division's result is positively impacted by the recognition of unrecognised interest on an exposure acquired at a discount and by a net recovery of losses.

For customers with lending and deposit products unrelated to interbank rates, two general interest rate increases were carried out in step with Norges Bank's base rate hikes.

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 spur Corporate Banking's acquisition of market shares in Mid-Norway. The establishment of a presence in Oslo in 2024 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 108m (96m).

SpareBank 1 Regnskapshuset SMN (93.3%)	2023	2022
Total revenues	720	607
Total operating expenses	612	511
Pre-tax profit (NOKm)	108	96
Operating margin	15 %	16 %

Operating income climbed NOK 103m from 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 111m (191m).

SpareBank 1 Finans Midt-Norge (56.5%)	2023	2022
Total revenues	311	329
Total operating expenses	115	108
Losses on loans and guarantees	86	30
Pre-tax profit (NOKm)	111	191

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 share of about 10 per cent of the market for vendor's liens in the counties where parent banks are represented.

SpareBank 1 Finans Midt-Norge and other SpareBank 1 banks own, through SpareBank 1 Mobilitet Holding, 47.2 per cent of the car subscription company Flex, which leads the car subscription market in Norway. Like the new car market, car subscriptions have experienced weaker demand in 2023, and SpareBank 1 Mobilitet Holding wrote down its stake in Flex in the third quarter of 2023. The write-down is presented as net return on financial investments and is included in overall incomes in the segment information.

SpareBank 1 SMN Invest

This company owns shares in regional growth companies and funds. The portfolio is managed together with other long-term shareholdings of the bank and will be scaled down over time. The company's portfolio was worth NOK 608m (584m) as at 31 December 2023.

The company's pre-tax profit in 2023 was NOK 68m (52m).

Good funding and liquidity

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 calculated 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.

At the end of 2023, SpareBank 1 SMN held NOK 12.4bn in senior non-preferred debt (MREL) and meets the MREL requirements.

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 7.1 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 ahead.

We have over the course of the year actively sought to further develop our understanding of the group's ESG risk and opportunities. The Retail Banking Division has launched transition plans for fishery and commercial property, and has established monitoring of ESG factors as part of its credit process. During the year, the division has strengthened the credit department by hiring a sustainability manager who is part of the group's sustainability team.

Retail Customer Division has taken a step further by estimating energy labeling of the loan portfolio, providing a basis for product development and customer dialogue. The division has also established a financial health team as part of its customer offering. The financial health team is a pilot project designed to assist customers experiencing acute stress and crisis responses to unmanageable debt or financial problems.

In our work on the climate account, we face a number of challenges related in particular to data quality and measurement uncertainty. An area to which we have devoted special attention is the availability of reliable, updated data. Moreover, calculation methodology and standards are under constant development, which may lead to inconsistency as to how emissions are calculated and reported over time. This affects the reliability of the group's climate account.

The climate account shows a decline in our emissions which is not necessarily due to a decline in economic activity or to more climate-efficient operations, but we are aware of these challenges and of the uncertainties present in our climate account. Integrating sustainability into the group's corporate governance remains an important task.

The focus on innovation of the customer offering has resulted in a new sustainability unit at SpareBank 1 Regnskapshuset SMN. A 'department of sustainability reporting and advisory services' has been launched, receiving an excellent response in the market. Corporate Banking, Retail Banking and Technology and Development are all in the process of exploring new business opportunities in the ESG sphere.

With a view to strengthening efforts to develop transition plans at industry level, SpareBank 1 SMN has, in 2023, signed and endorsed the Science Based Targets initiative (SBTi). The SBTi is a framework for corporate net-zero target setting in line with climate science, and the bank's commitment is a natural follow-up to the group's strategic objective of net zero emissions by 2050. The validation process is expected to take at least 2 years, and SpareBank 1 Regnskapshuset SMN will perform an advisory role in the process.

In the fourth quarter of 2023 SpareBank 1 SMN started preparations for updating its double materiality analysis. This work complies with the requirements of the new Corporate Sustainability Reporting Directive (CSRD), and will involve a broad range of our stakeholders. The work will be ongoing in the first half of 2024.

The chapter [Our sustainability effort](#) gives further details of the group's work on sustainability.

The bank's equity certificate (MING)

The market price of the equity certificate (EC) as at 31 December 2023 was NOK 120.48 (109.86), and earnings per EC were NOK 16.88 (12.82). A cash dividend of NOK 6.50 was paid per EC in 2023.

The Price / Income ratio was 8.40 (9.94) and the Price / Book ratio was 1.17 (1.16).

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 employee 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 performance in 2023 reflecting strong profitability and financial soundness. Operating profit was satisfactory while the gain from divestment 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, although 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 in 2024 and beyond, and the group's market position and efficiency in the longer term. There will be a tight focus in 2024 on the trend in costs across the group.

The risk picture in SpareBank 1 SMN's corporate loan portfolio is satisfactory, although higher interest rates and price growth have increased uncertainty above all 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 has recommended the bank's supervisory board to set a 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 2023 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, 29 february 2024

The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Christian Stav
(deputy chair)

Mette Kamsvåg

Tonje Eskeland Foss

Ingrid Finboe Svendsen

Kristian Sætre

Freddy Aursø

Christina Straub
(employee rep.)

Inge Lindseth
(employee rep.)

Jan-Frode Janson
(Group CEO)