



**SpareBank**  
SMN 

**3<sup>rd</sup> quarter 2016**

**24. October 2016**

# SpareBank1 SMN, the region's most important financial institution

## Overview

- 200,000 retail customers and 14,000 corporates in three counties in Central Norway
- Norway's second largest savings bank with total loans of NOK 134 billion including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt
- Strong position with a physical and digital presence
- Financial group offering a complete range of products
- Founder and co-owner of SpareBank 1 Gruppen

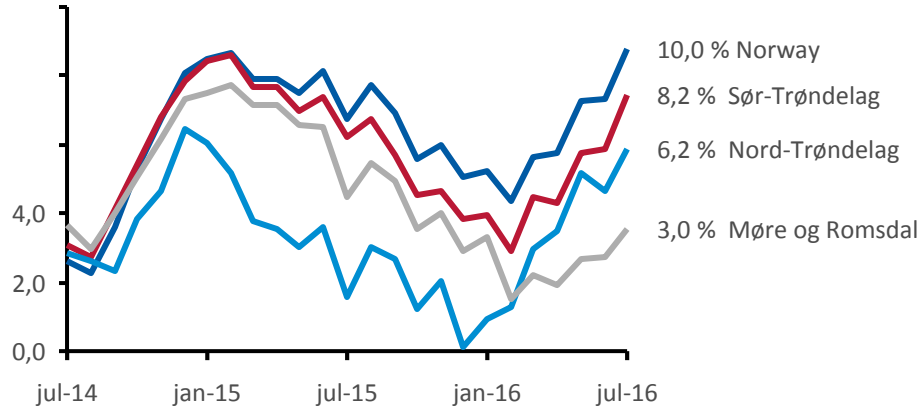
## History

- Established in 1823
- Regional bank for Mid-Norway since 1985
- Listed on Oslo Stock Exchange since 1994
- SpareBank 1 Alliance from 1996
- Present in Romsdal after acquisition of Romsdals Fellesbank in 2005
- Present in Sunnmøre as from 2009 after acquisition of BN Bank
- **Excellent** history of financial results and solidity

# Trøndelag and Møre og Romsdal

## High Growth in house prices and low unemployment

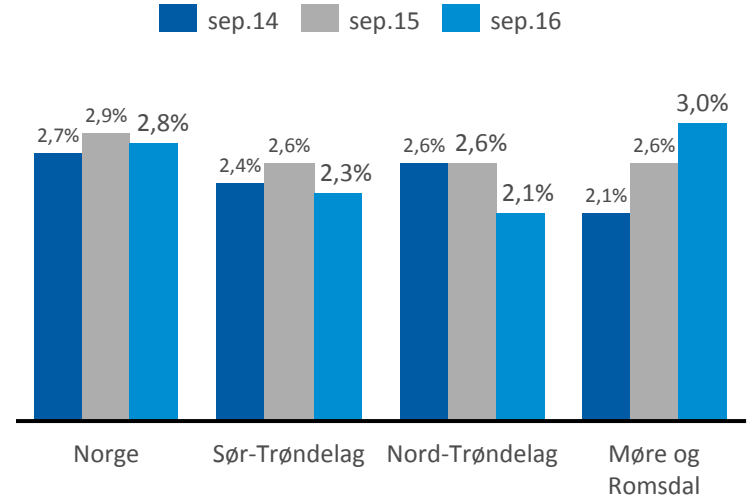
12-month growth in house prices  
Per cent, July 14 – September 16



3rd quarter 2016

Unemployment rate

Monthly figures, September 14 – September 16



3

## Good profits, in spite of increase in loan losses in the offshore segment



Good profits



The bank is enhancing efficiency and the number of FTEs is being reduced



The bank is growing in terms of lending, deposits, insurance, savings and investment, real estate agency and accounting services



Increased losses on oil related activity. Previously announced loss expectation of approx. NOK 500m for the full year 2016 is maintained



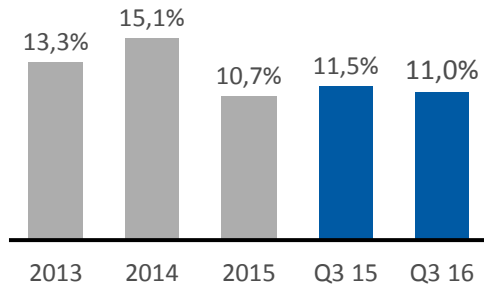
The bank is on course to meet its capital targets



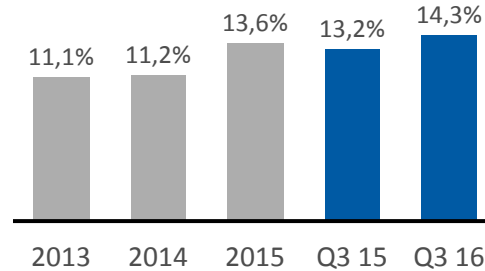
Good profits for subsidiaries, associated companies and high return on financial assets

# Strong capitalization and good profits. Increased problem loans in the offshore segment

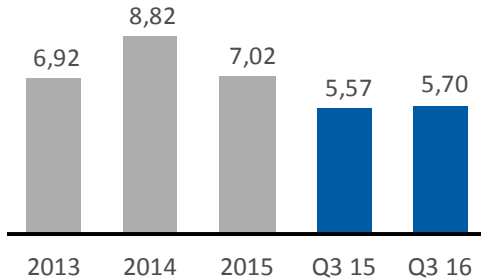
## Return on equity



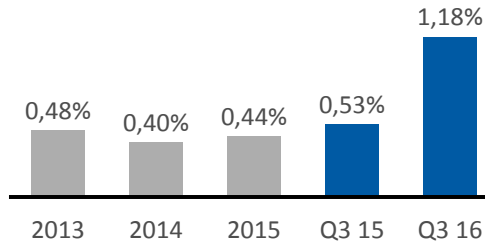
## CET1



## Earnings per ECC



## Loans in default and other problem loans as a percentage of total loans



# The offshore segment is still demanding, but good collaboration with clients and other lenders is producing results

## Offshore segment

### 1. Loans to offshore total NOK 6.2bn

- Offshore makes up 4.2% of total volume
- 108 vessels in 7 segments
- NOK 5.5bn secured in vessels, NOK 0.8bn in other items

### 2. Exposure reduced by NOK 1,051 last 12 months

- Sale of vessels
- Extraordinary in-payments
- Restructuring/negotiations/lasting solutions

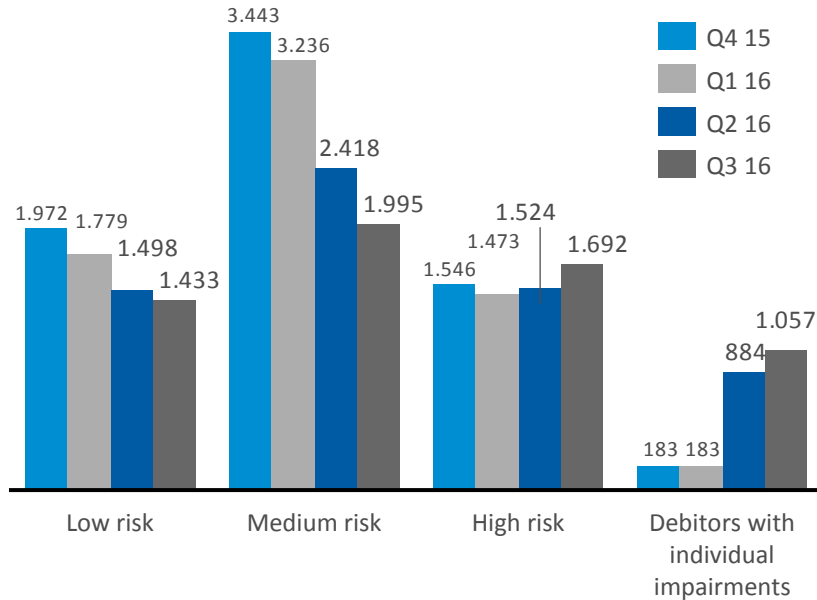
### 3. The Bank sees no basis for revising loss estimates of NOK 500m indicated at the start of the year

	Segment and volume (share of offshore in %)	No. of vessels	Distribution on risk categories
EAD Offshore: NOK 6,177m	Subsea 2,277 (37%)	18	Low risk 1,433
	PSV 1,781 (29%)	42	
	AHTS 613 (10%)	16	Medium risk 1,995
	Seismic 470 (8%)	10	
	Barges 267 (4%)	15	High risk 1,692
	Standby 141 (2%)	3	
	Other 628 (10%)	NA	Write-downs 1,057

# Offshore Service Vessels

## Risk class distribution

Q4 2015 – Q3 2016 (NOKm)



## Impairments by risk class and share of EAD

30. September 2016

NOKm	EAD	Individual	Group	Total	Share of EAD
Low risk	1.433	0	3	3	0,2 %
Medium risk	1.995	0	16	16	0,8 %
High risk	1.692	0	96	96	5,7 %
Debtors with ind. impairments	1.057	394	0	394	37,3 %
<b>Total</b>	<b>6.177</b>	<b>394</b>	<b>115</b>	<b>509</b>	<b>8,2 %</b>

# Offshore Service Vessels

## Commentary

- At the end of the 3rd quarter 2016 write-downs related to the offshore portfolio total 8.2 per cent. Exposure to offshore has been reduced by NOK 1.1bn over the last 12 months.
- The industry is undergoing restructuring. The process is demanding since the companies' have a debt structure involving several banks with special loan facilities as well as bond debt. The solutions put forward include supply of fresh equity capital, deferral of instalment payments and renegotiation/cancellation/ conversion of bond debt.
- Thus far the efforts made have produced good results. SpareBank 1 SMN stresses that the solutions established should be of a lasting nature, provide a balanced burden between the credit institutions involved and curb the Bank's risk. The Bank has not observed contagion effects to other industries as at the end of the 3rd quarter 2016.
- SpareBank 1 SMN does not consider there is a basis for revising the loss estimates of approx. NOK 500 million for the current year that were indicated in connection with the presentation of the 1st quarter accounts.



# Strong profit growth among subsidiaries, strengthening their market position



## SpareBank 1 Finans Midt-Norge

- Pre-tax profit of NOK 74.9m (63.6m)
- Solid market position
- Leasing NOK 2.3bn, car loans 2.6bn
- Sparebanken Sogn og Fjordane part-owner from 2016



## EiendomsMegler 1

- Excellent pre-tax profit of NOK 59.5m (39.5m)
- 40% market share, strong synergy with the bank



## SpareBank 1 SMN Regnskapshuset

- Pre-tax profit of NOK 32.9m (26.0m)
- Stable and high growth in turnover
- Long-term strategy to consolidate accounting industry and build synergies with the bank
- Digitalising distribution model



## SpareBank 1 Markets

- Pre-tax profit NOK 6,0m (NOK -62,7m)
- Complete range of capital market services in cooperation with the owner banks
- SpareBank 1 Markets subsidiary of SMN from Q2 2015

# Tomorrow's bank being developed



## New distribution model

- SMN working on a new distribution model
- Changing customer behavior presents new opportunities
- Bank to further increase its selling power



## Technology provides opportunities

- New webpages will create better interplay between the channels
- We are further developing the internet bank and the mobile bank
- We are investing in tools to expand dialogue with customers



## Improving production efficiency

- Continuous improvement as a tool
- Streamlining processes and products
- Unify production processes where this is considered rational
- Robotic Process Automation ('RPA') in progress



## Improving customer dialogue

- We still have potential to increase the time devoted to customer dialogue
- Through freed-up time and new tools we will improve our dialogue with our customers
- Continuous customer dialogue based on our knowledge of customer behaviour

## SMN intends to be among the best performing banks



### Customer orientation

Best on customer experience

Will continue to strengthen market position



### Efficient

Zero growth in costs parent bank 2014 - 2016



### Profitable

Among the best performing banks, ROE 12 % annually



### Dividend

Real-terms payout ratio of 25% to 35%.

Strong focus on strengthening capital through retained profit



### Solid

CET1 14.5% by the end of 2016

# Financial results

3rd quarter 2016



## 3<sup>rd</sup> quarter 2016



Net profit NOK 1.185m (1.119m),  
return on equity 11.0 % (11.5 %)



CET 1 14.3 % (13.2 %)



Result of core business NOK 713m  
(1.039m) exclusive of loan losses.  
Loan losses NOK 417m (NOK 112m)



Growth in lending RM 10.8 % (8.7  
%) and CM decrease 0.4 % (growth  
7.8 %), deposits 4.2 % (8.5 %) last  
12 months



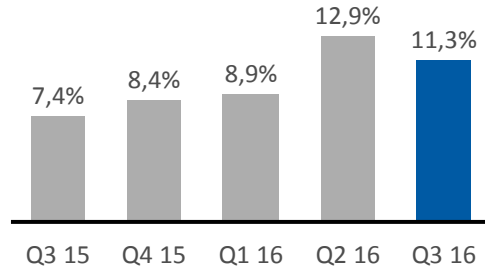
Decrease in FTEs parent bank - low  
cost growth



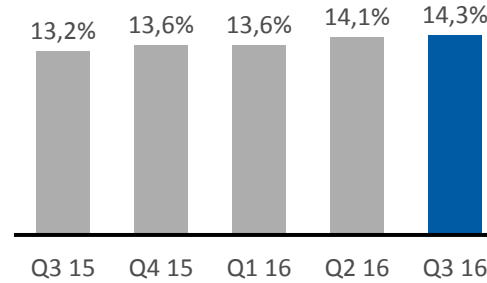
Booked equity capital per ECC NOK 71.17  
(65.52), profit per ECC NOK 5.70 (NOK  
5.57)

# Key figures, quarterly

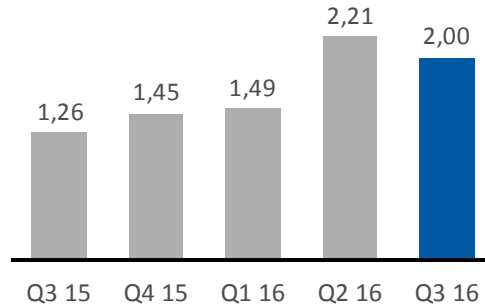
## Return on equity



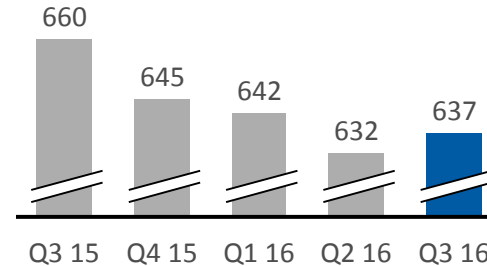
## CET 1



## Earnings per ECC



## FTEs parent bank



3rd quarter 2016

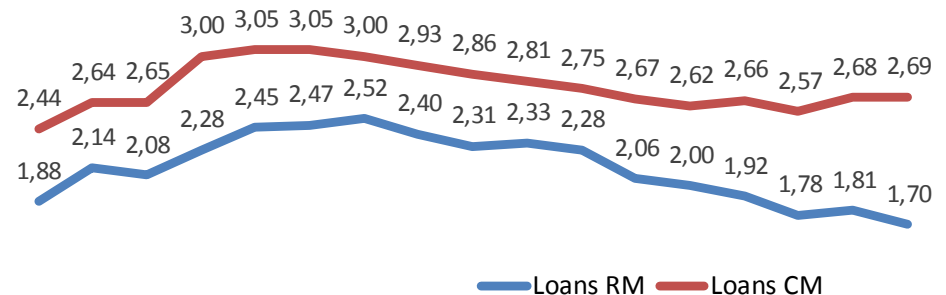
# Profits

## Profits as at 3<sup>rd</sup> quarter 2015 and 2016 and five last quarters

NOK mill	2016	2015	Change	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
Net interest	1.391	1.399	-9	449	472	469	473	466
Commission income and other income	1.260	1.168	93	412	448	401	378	378
<b>Operating income</b>	<b>2.651</b>	<b>2.567</b>	<b>84</b>	<b>860</b>	<b>921</b>	<b>870</b>	<b>850</b>	<b>843</b>
Total operating expenses	1.521	1.416	105	504	528	489	515	466
<b>Pre-loss result of core business</b>	<b>1.130</b>	<b>1.151</b>	<b>-21</b>	<b>356</b>	<b>393</b>	<b>381</b>	<b>335</b>	<b>377</b>
Losses on loans and guarantees	417	112	305	130	118	170	56	56
<b>Post-loss result of core business</b>	<b>713</b>	<b>1.039</b>	<b>-326</b>	<b>227</b>	<b>276</b>	<b>211</b>	<b>279</b>	<b>321</b>
Related companies, including held for sale	349	327	22	102	126	118	121	78
Securities, foreign currency and derivatives	368	23	344	170	144	53	-12	-91
<b>Result before tax</b>	<b>1.430</b>	<b>1.389</b>	<b>41</b>	<b>499</b>	<b>545</b>	<b>383</b>	<b>387</b>	<b>309</b>
Tax	245	270	-25	85	85	72	100	61
<b>Net profit</b>	<b>1.185</b>	<b>1.119</b>	<b>66</b>	<b>414</b>	<b>460</b>	<b>311</b>	<b>287</b>	<b>248</b>
<b>Return on equity</b>	<b>11,0 %</b>	<b>11,5 %</b>		<b>11,3 %</b>	<b>12,9 %</b>	<b>8,9 %</b>	<b>8,4 %</b>	<b>7,4 %</b>

# Lending margins Retail and Corporate

Per quarter from Q3 2012



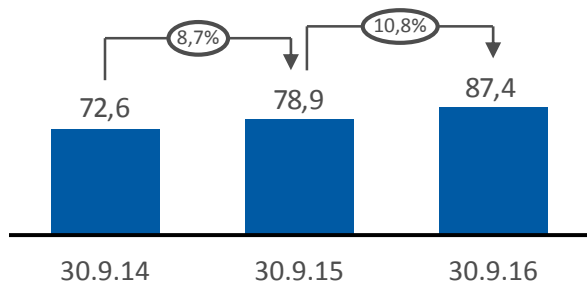
## Comments

- Strong price competition on mortgages, margins decreased with 80 bp last 2.5 years
- Increased nibor last two quarters has increased the banks' funding costs

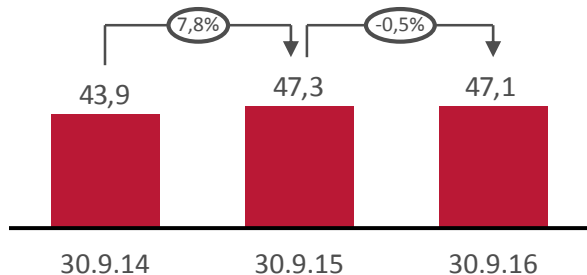


## Total growth lending 6.6 % last 12 months

### Lending RM +10.8 % last 12 months



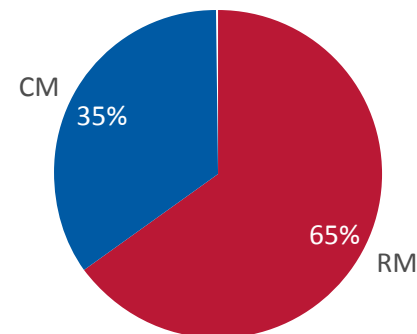
### Lending CM reduced with 0.5 % last 12 months,



### High growth in home mortgage lending

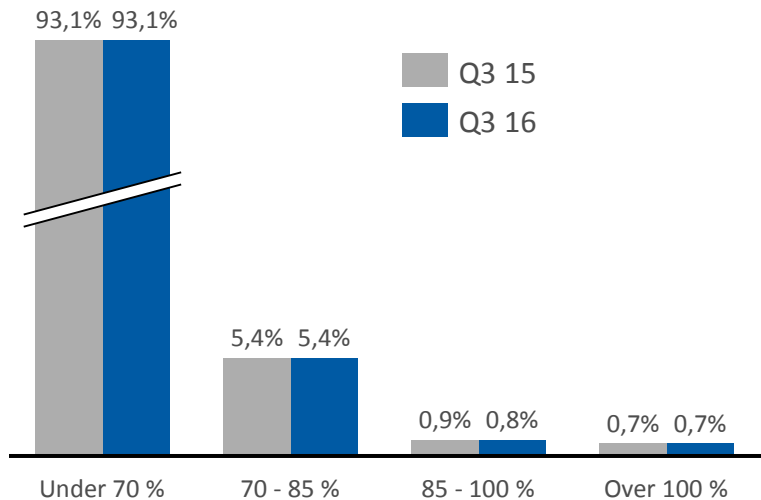
- Of the growth in home mortgage lending, 2/3 refers to established customers and 1/3 to new customers
- Limited growth in lending to corporates, in keeping with capital plan

### Share of lending



# Loan to value mortgages

## Last two years

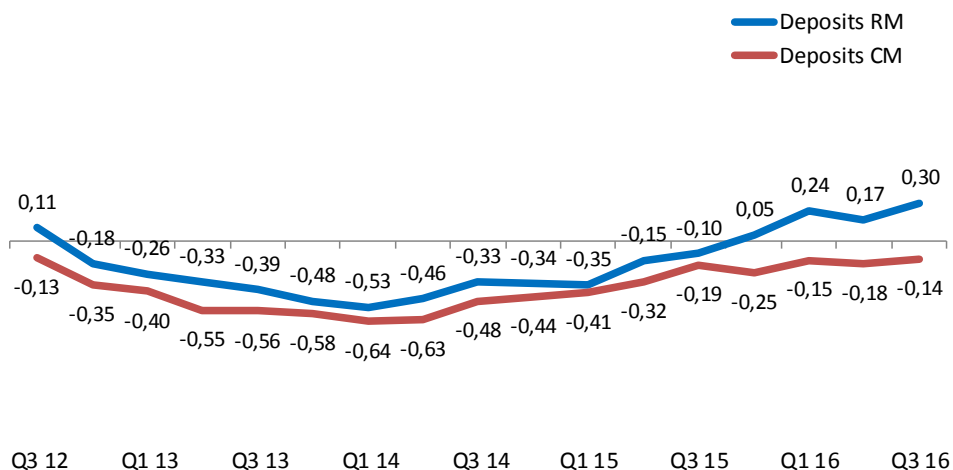


## LTV mortgages

- 98.5 % of the exposure has an LTV of less than 85 %
- Exposure with LTV higher than 85 points 1.5 %

# Deposit margins Retail and Corporate

Per quarter from Q3 2012

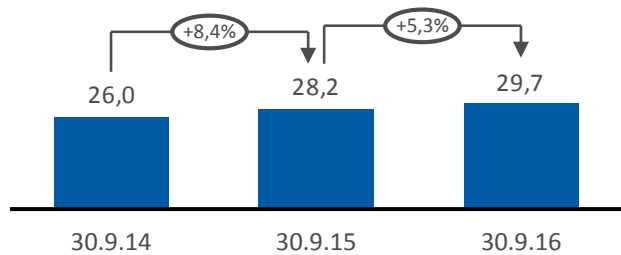


## Comments

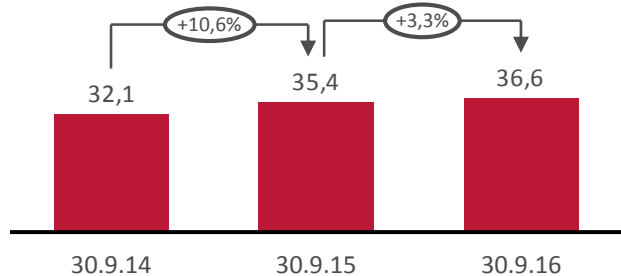
- Margins increased due to repricing and reduced nibar in Q2 and Q3

## Total growth deposits 4.2 % last 12 months

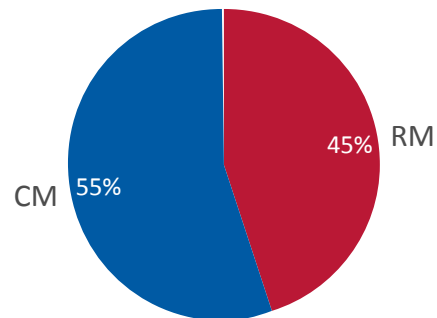
### Deposits RM + 5.3 %



### Deposits CM + 3.3 %

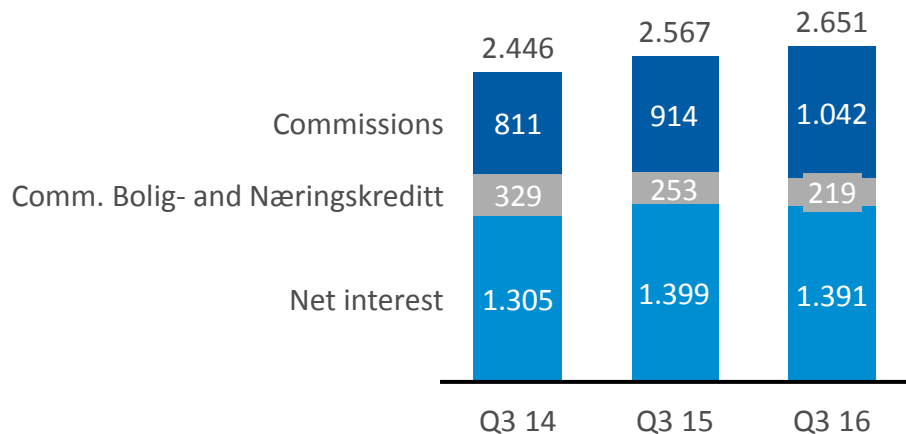


### Share of deposits



# Robust income platform and increased commission income

## Net interest and other income



## Commissions as at Q3 2015 and Q3 2016

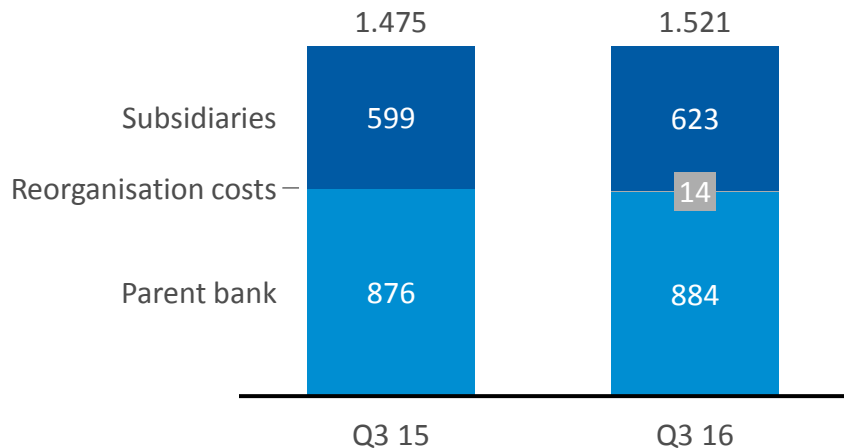
<i>mill kr</i>	<b>2016</b>	<b>2015</b>	<b>Change</b>
Payment transmission income	149	143	6
Creditcards	46	42	5
Commissions savings and asset management	66	58	9
Commissions insurance	119	114	5
Guarantee commissions	60	52	8
Estate agency	301	262	39
Accountancy services	161	143	18
Markets	86	43	43
Other commissions	54	58	-4
<b>Commissions ex. Bolig/Næringskreditt</b>	<b>1.042</b>	<b>914</b>	<b>128</b>
Commissions Boligkreditt	211	247	-36
Commissions Næringskreditt	8	7	1
<b>Total commission income</b>	<b>1.260</b>	<b>1.168</b>	<b>93</b>

- Robust income platform
- A wide range of products both from the parent bank, the subsidiaries, and the SpareBank 1 Group

## Costs, parent bank and subsidiaries

Pro forma figures, Q1 15 includes costs SpareBank 1 Markets included in subsidiaries

Costs as at Q3 2015 and Q3 2016



Group cost growth also low

- FTEs in parent bank reduced
- Cost growth at subsidiaries at some extent due to acquisitions and high activity in the market
- Zero growth in parent bank costs aimed for in the period 2014 to 2016

## Subsidiaries

### Pre tax profit subsidiaries as at 3rd quarter 2015 and 2016 and five last quarters

	2016	2015	Change	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
EiendomsMegler 1 Midt-Norge (87 %)	59,5	39,5	20,0	16,2	33,3	10,0	7,5	10,3
SpareBank 1 Regnskapshuset SMN	32,9	26,0	6,9	6,9	21,6	4,3	8,8	5,7
SpareBank 1 Finans Midt-Norge (90 %)	74,9	63,6	11,4	26,4	25,1	23,4	19,5	20,1
Allegro Kapitalforvaltning (90 %)	5,1	2,1	3,0	0,7	3,8	0,6	-0,7	0,7
SpareBank 1 SMN Invest	36,7	33,0	3,7	14,1	12,6	9,9	5,6	20,0
SpareBank 1 Markets (73 %)	6,0	-62,7	68,6	0,5	2,3	3,2	-21,4	-52,6

## Associated companies

### Profit shares after tax, as at 3<sup>rd</sup> quarter 2015 and 2016 and and five last quarters

	2016	2015	Change	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
SpareBank 1 Gruppen (19,5 %)	220,3	183,4	36,9	79,4	79,9	61,0	68,0	55,8
SpareBank 1 Boligkreditt (18,4 %)	9,2	64,6	-55,4	-12,6	-1,9	23,7	15,1	14,5
SpareBank 1 Næringskreditt (29,3 %)	20,3	22,0	-1,7	5,4	6,9	8,0	8,0	6,6
BN Bank (33 %)	78,7	30,7	48,0	28,1	30,9	19,8	10,6	-4,1
SpareBank 1 Kredittkort (18,3 %)	20,2	15,2	5,0	6,0	8,1	6,2	5,3	5,6
SpareBank 1 Mobilbetaling (19,7 %)	-18,7		-18,7	-9,4	-3,4	-5,9		



## Return on financial investments

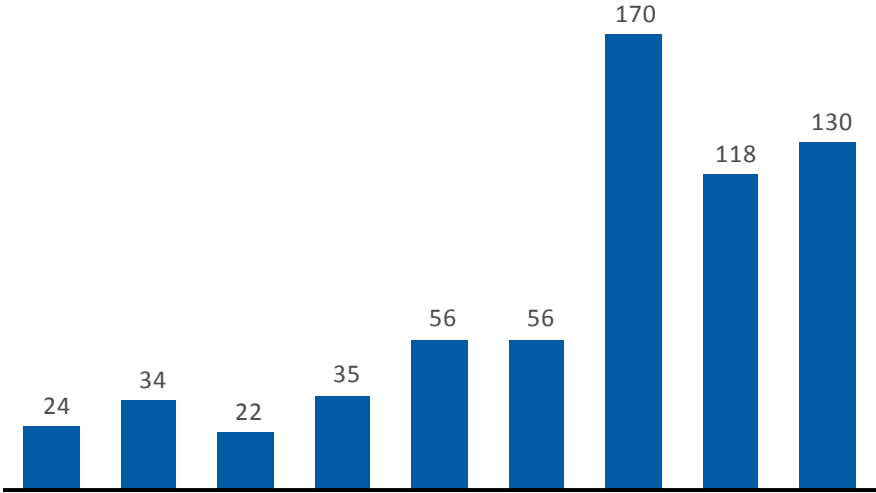
As at 3<sup>rd</sup> quarter 2015 and 2016 and five last quarters

*NOKm*

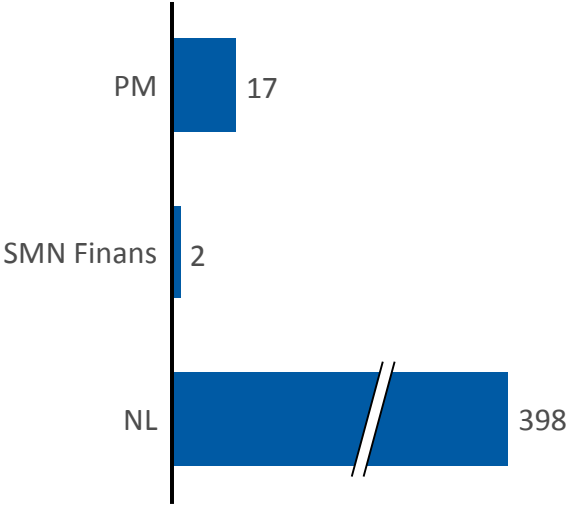
	2016	2015	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
Net gain and dividends on securities	110	79	45	62	3	-17	9
Net gain on bonds and derivatives	158	-137	80	53	25	-16	-116
Forex and fixed income business	99	82	45	28	26	20	18
<b>Net return on financial investments</b>	<b>368</b>	<b>24</b>	<b>171</b>	<b>143</b>	<b>54</b>	<b>-13</b>	<b>-90</b>

# Increased loan losses in 2016

Losses per quarter



Distribution as of 30.9.2016

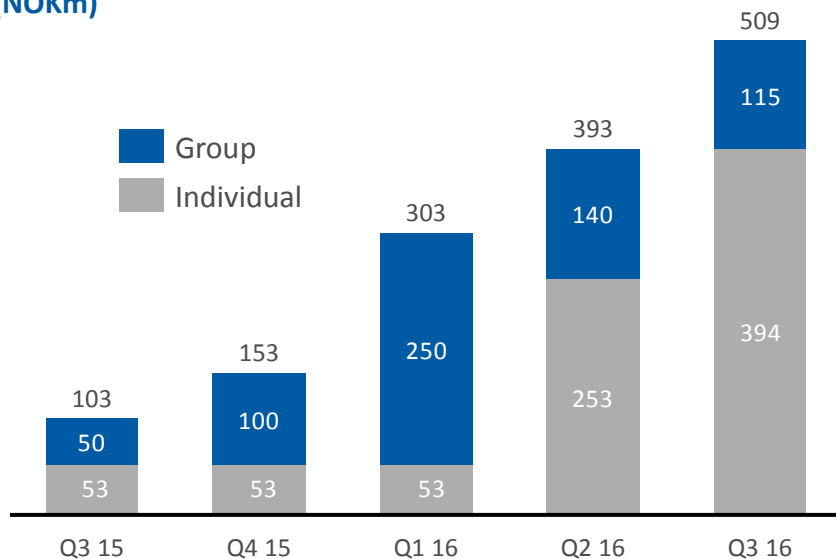


Loan losses including collective losses provisions 0.42 % (0.12 %) of gross lending as of 30.9.2016

# Offshore Service Vessels

## Development in total impairments Q3 2015 – Q3 2016

(NOKm)

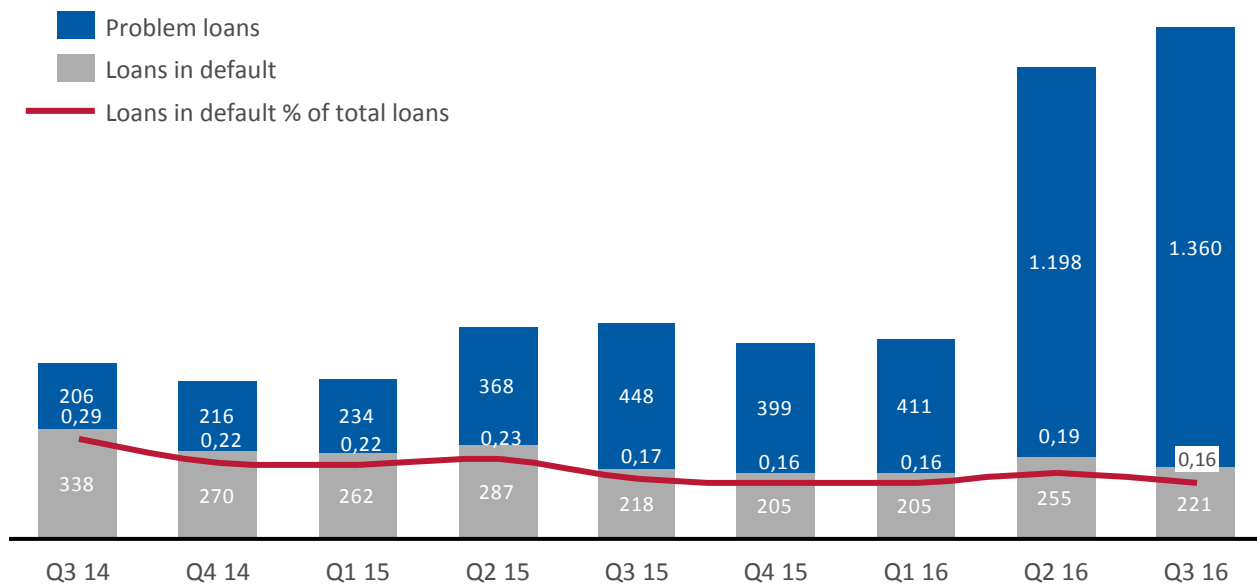


## Comments

- Constitutes 4,2% of total credit portfolio
  - 5,5 bill. with collateral in vessels
  - 0,7 bill. in other financing
- Exposure reduced by 1.050 mill. (-12 %) last 12 mnths
  - Sale of vessels
  - Agreed and extraordinary installments
- According to our evaluations 40 % of the portfolio is in the high risk category
- This is reflected in the individual and group impairments

## Very low levels on loans in default (0,16 %), but problem loans have increased in the offshore segment

Last two years, per quarter



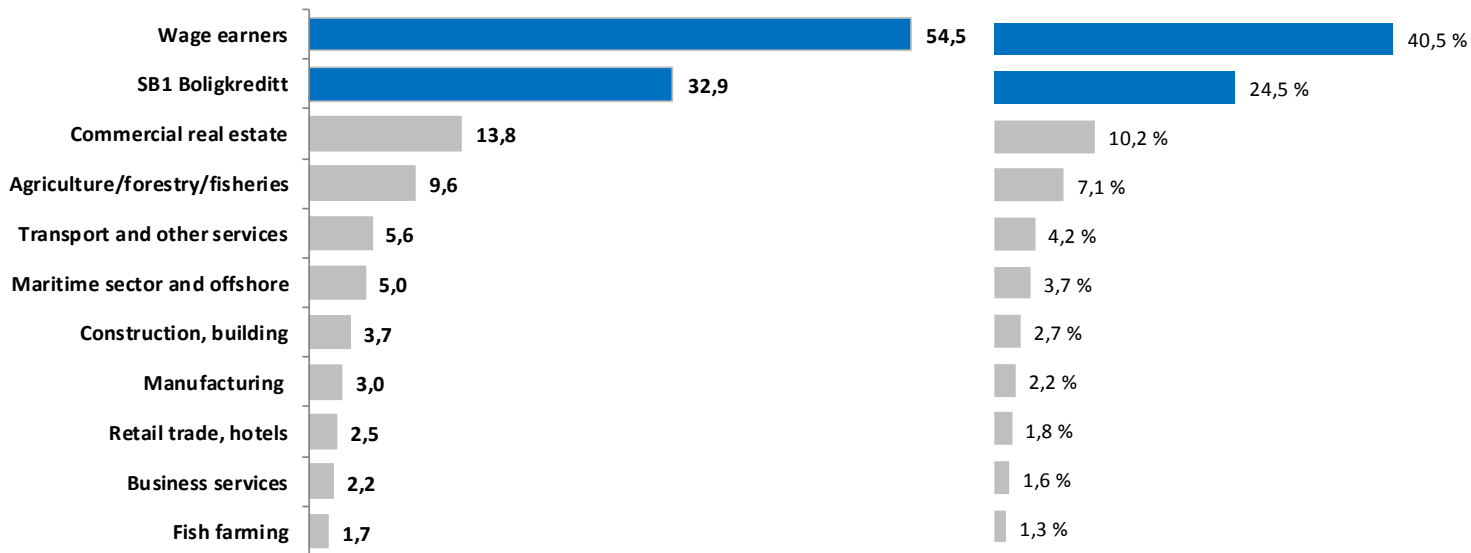
# Balance sheet

## Last three years

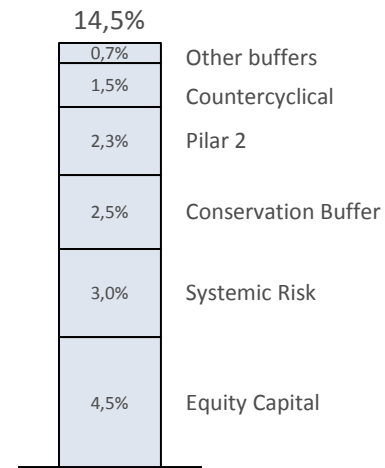
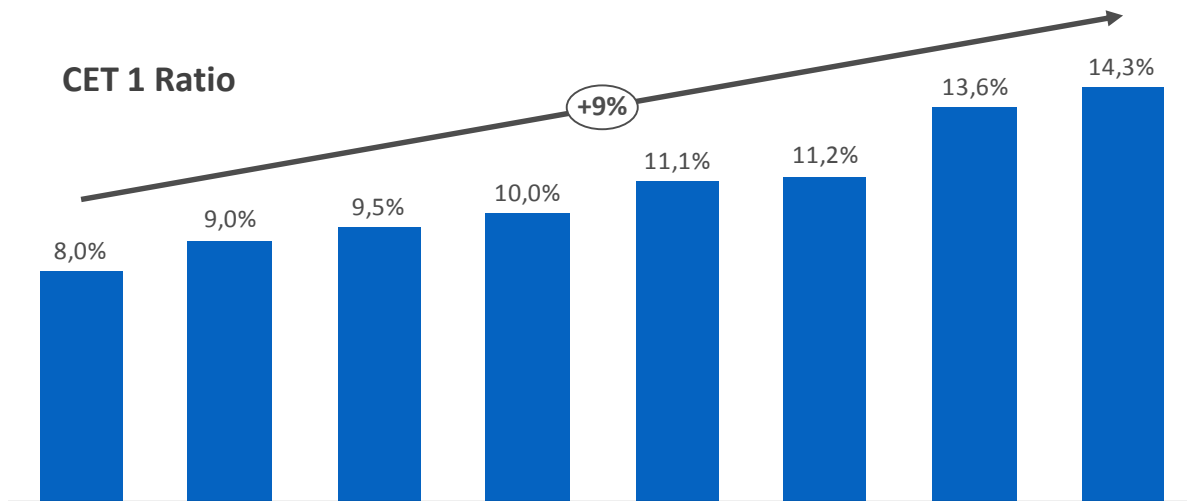
	30 September 2016	30 September 2015	30 September 2014
Funds available	24,6	18,5	17,3
Net loans	98,6	94,4	86,7
Securities	1,3	1,2	0,7
Investment in related companies	5,9	5,2	5,1
Goodwill	0,6	0,6	0,5
Other assets	8,8	9,4	7,4
<b>TOTAL ASSETS</b>	<b>139,8</b>	<b>129,2</b>	<b>117,2</b>
Capital market funding	47,7	41,9	36,5
Deposits	66,3	63,6	58,1
Other liabilities	7,4	6,8	7,0
Subordinated debt	3,5	3,5	3,3
Equity	14,9	13,5	12,2
<b>TOTAL DEBT AND EQUITY</b>	<b>139,8</b>	<b>129,2</b>	<b>117,2</b>
in addition loans sold to Boligkreditt and Næringskreditt	34,9	31,3	29,7

# High share mortgages and diversified portfolio SMEs

## Lending by sector in NOK billion and share of total loans



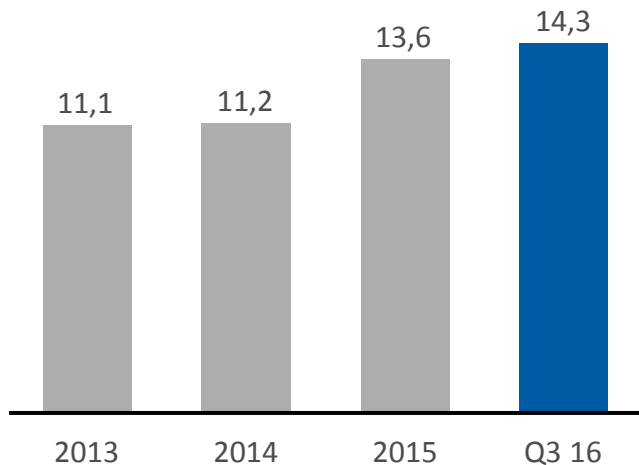
# Strong development in CET 1 (capital and ratio). Goal 14.5 %



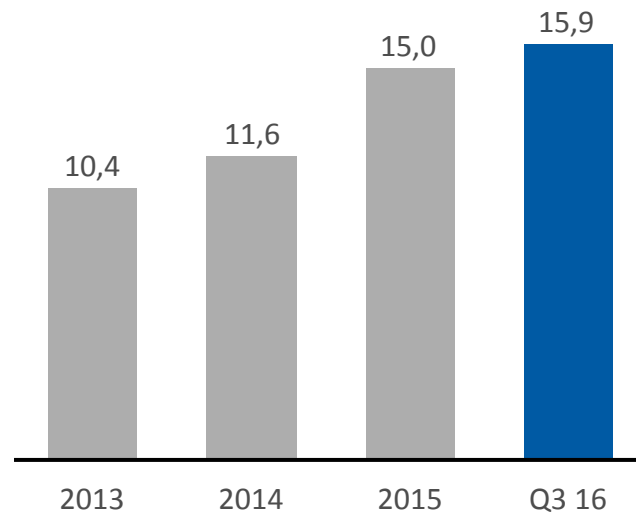
	2009	2010	2011	2012	2013	2014	2015	Q3 16
CET 1 Capital	4.938	6.177	6.687	8.254	9.374	10.679	12.192	12.895
ROE	16,2 %	14,6 %	12,8 %	11,7 %	13,3 %	15,1 %	10,7 %	11,0 %
RWA	64.400	66.688	75.337	82.450	84.591	95.322	89.465	90.353

## Strong capitalization

### Development CET1



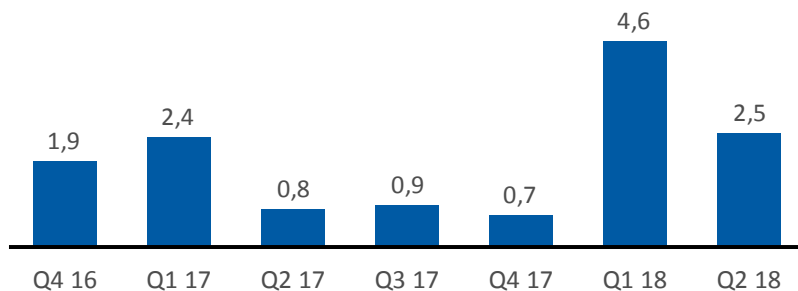
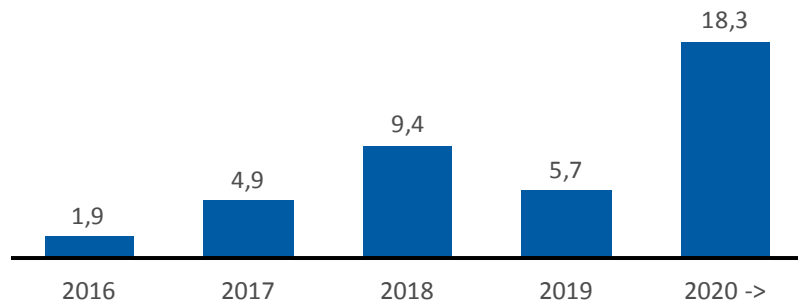
### Development CET 1 without transitional arrangements (Basel III)





# Satisfying access to capital market funding

## Funding maturity 30. September 2016



3rd quarter 2016

## Comments

- SpareBank 1 Boligkreditt is the main funding source through covered bonds. NOK 33 billion transferred as of 30. September 2016
- In June the bank raised a new five-year loan in the Euro market of EUR 500 million
- Maturities next two years NOK 13.8 bn:
  - NOK 1.9 bn in 2016
  - NOK 4.8 bn in 2017
  - NOK 7.1 bn in Q1 and Q2 18

# Key figures

## Last three years

	30 September 2016	30 September 2015	30 September 2014
CET 1 ratio	14,3 %	13,2 %	11,5 %
Core capital ratio	16,3 %	15,2 %	13,4 %
Capital adequacy	18,8 %	17,9 %	16,1 %
Leverage ratio	7,1 %	6,7 %	
Growth in loans incl. Boligkredditt	6,6 %	8,3 %	5,4 %
Growth in deposits	4,2 %	9,5 %	8,5 %
Deposit-to-loan ratio	67 %	67 %	67 %
RM share loans	65 %	63 %	62 %
Cost-income ratio	45 %	49 %	43 %
Return of equity	11,0 %	11,5 %	16,1 %
Impairment losses ratio	0,42 %	0,12 %	0,06 %

## Key figures ECC

### Last five years (including effects of issues)

	<b>Q3 16</b>	<b>Q3 15</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
ECC ratio	64,0 %	64,6 %	64,0 %	64,6 %	64,6 %	64,6 %
Total issued ECCs (mill)	129,83	129,83	129,83	129,83	129,83	129,83
ECC price	55,75	54,00	50,50	58,50	55,00	34,80
Market value (NOKm)	7.238	7.011	6.556	7.595	7.141	4.518
Booked equity capital per ECC	71,17	65,52	67,65	62,04	55,69	50,09
Post-tax earnings per ECC, in NOK	5,70	5,57	7,02	8,82	6,92	5,21
Dividend per ECC	-	-	2,25	2,25	1,75	1,50
P/E	7,33	7,27	7,19	6,63	7,95	6,68
Price / Booked equity capital	0,78	0,82	0,75	0,94	0,99	0,69

# SpareBank 1 SMN

## 7467 TRONDHEIM



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### Switchboard

Tel +47 07300



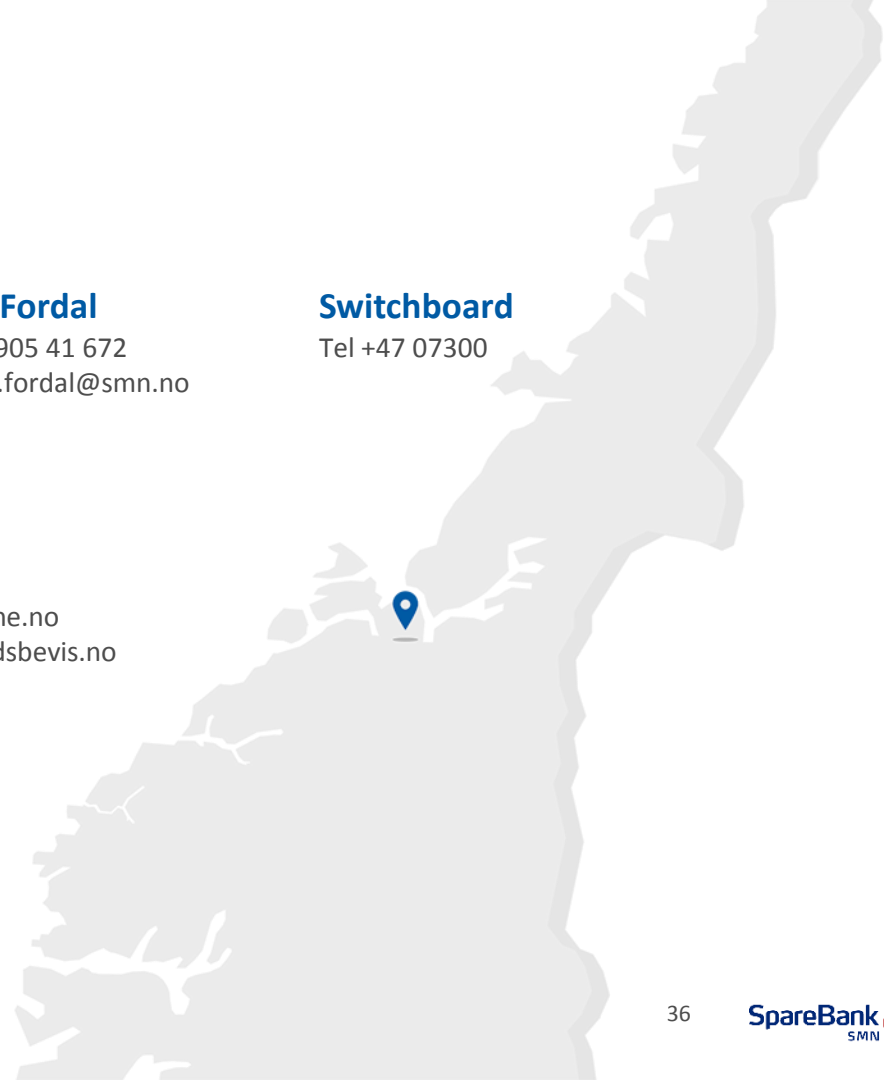
### Internett addresses:

SMN homepage og internet bank: [www.smn.no](http://www.smn.no)  
HuginOnline: [www.huginonline.no](http://www.huginonline.no)  
Equity capital certificates in general: [www.grunnfondsbevis.no](http://www.grunnfondsbevis.no)



### Financial calendar 2016

Q3 2016 24. October 2016



# Appendix

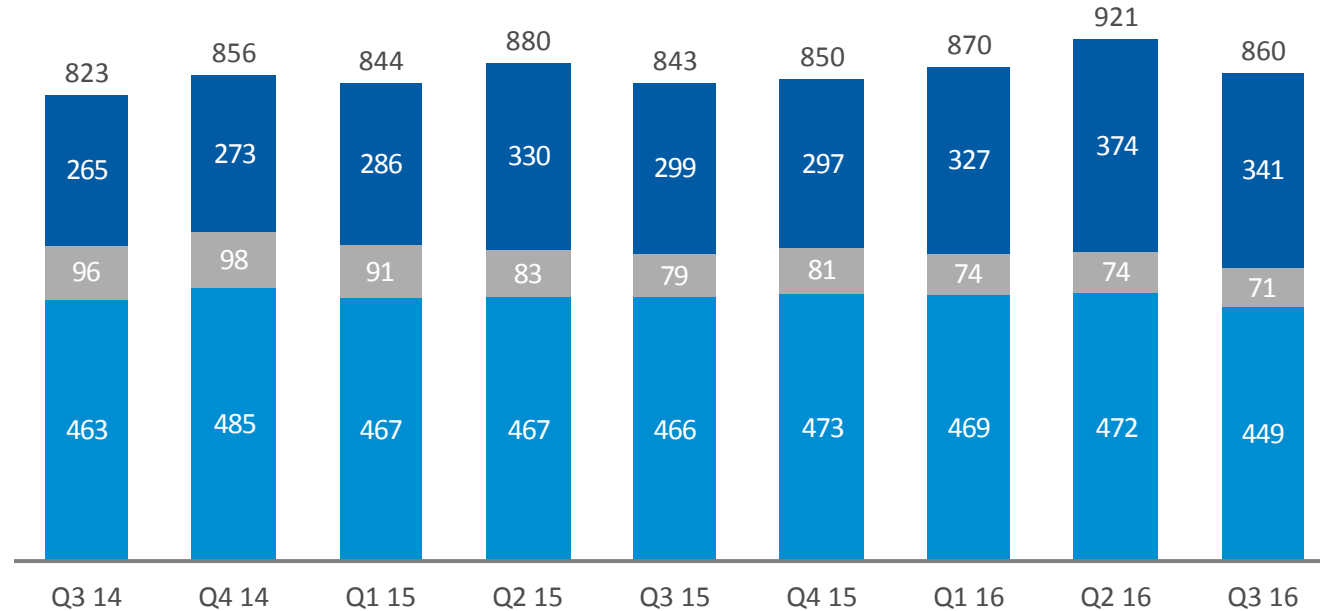
3rd quarter 2016



# Operating income

## Operating income per quarter last two years

- Commission income
- Commission income Boligkreditt - Næringskreditt
- Net interest income



## Change in net interest income

### At Q3 2016 compared with same period 2015

Net interest at Q3 2015	1.391
Net interest at Q3 2016	<u>1.399</u>
<b>Change</b>	<b>9</b>
<b>Obtained as follows:</b>	
Fees on lending	-8
Lending volume	53
Deposit volume	-5
Lending margin	-172
Deposit margin	147
Equity capital	-3
Funding and liquidity buffer	-43
SMN Finans	<u>22</u>
<b>Change</b>	<b>-9</b>

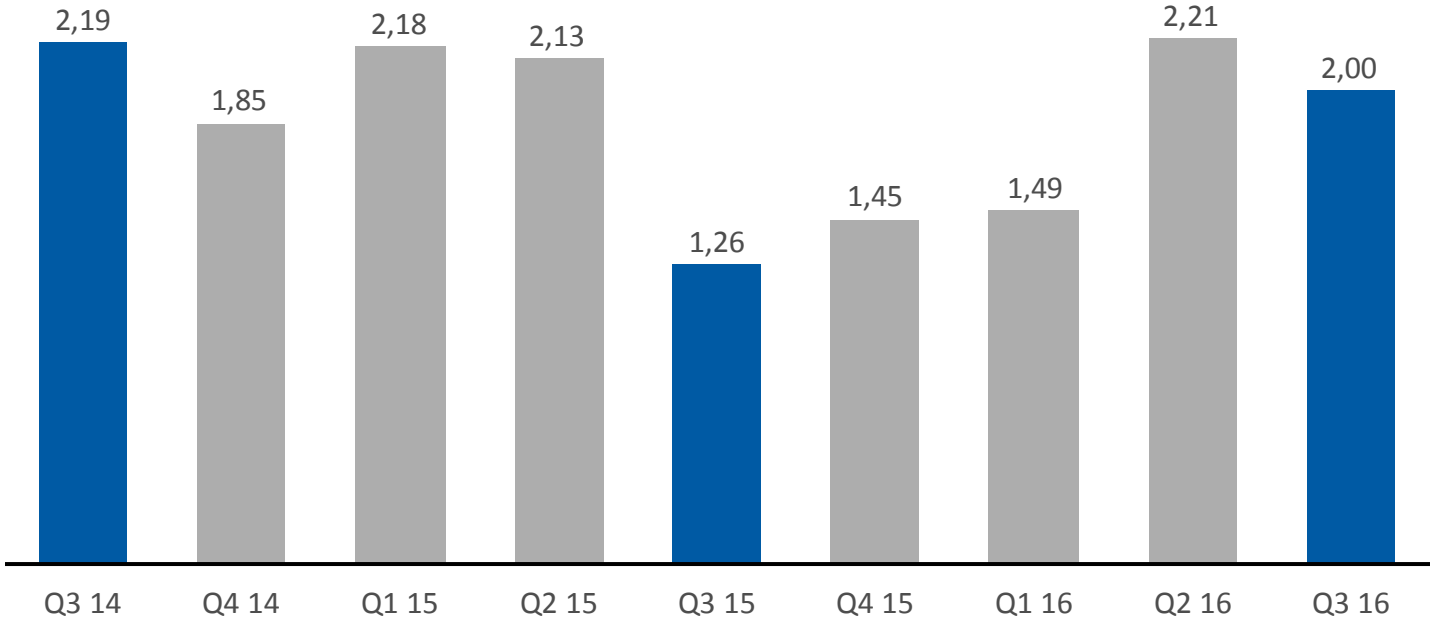
### Substantial gross movements

- Increased lending volume and deposit margins strengthens net interest income
- Lower lending margins weaken net interest income

*Commission income from SpareBank 1 Boligkreditt are reduced in the period as well due to lower margins*

# Earnings per ECC

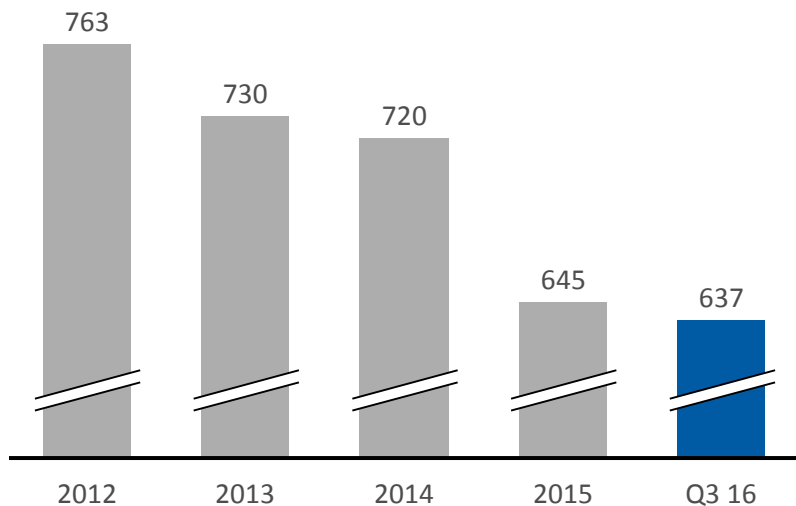
Last two years per quarter





## FTEs crucial to achieving costs goal Considerable reduction in 2015

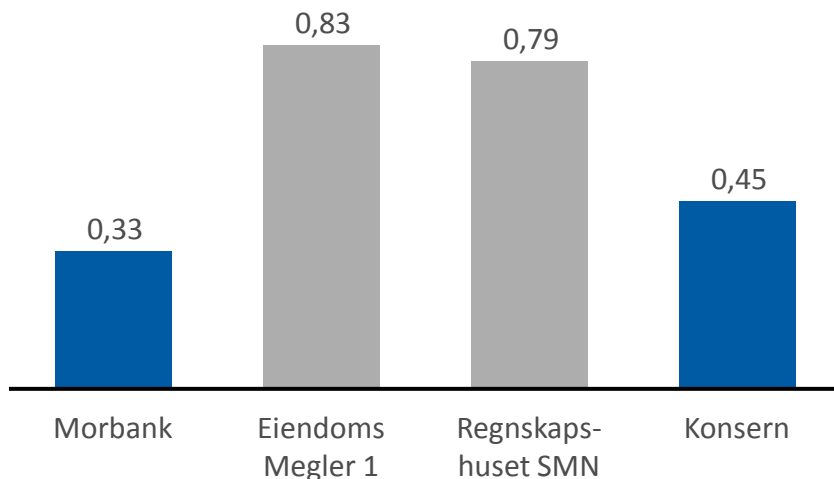
### FTEs at parent bank



- At end-September there were 83 fewer FTEs at the parent bank than at year-end 2014
- This is mainly natural wastage
- A further decline to 600 FTEs is targeted by year-end 2016

## SpareBank 1 SMN will come across as cost-efficient not just on an individual basis but also as a group

### High operating margins in EM1 and Regnskapshuset SMN

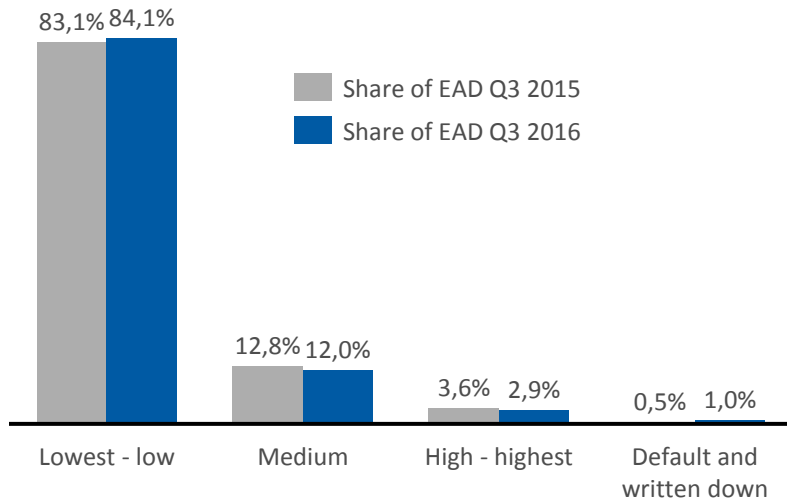


### Profitable and non-capital-intensive subsidiaries:

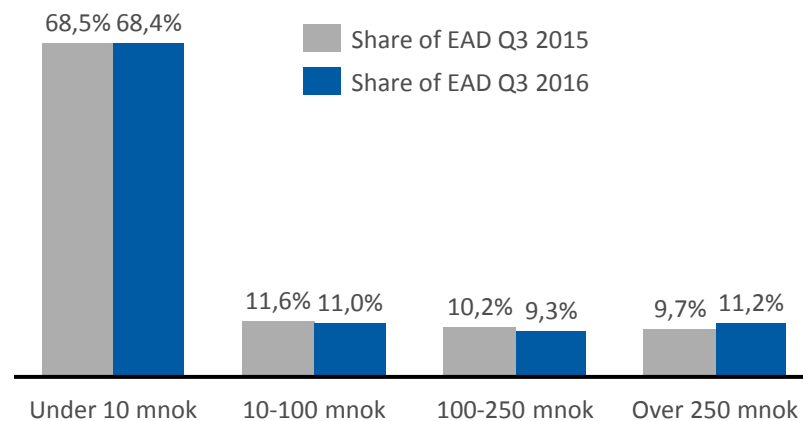
- Both EM1 and Regnskapshuset SMN are companies making a sound profit – and requiring little equity capital compared with the group's other businesses
- In their respective segments they are highly cost-efficient
- But pose a challenge to the group's cost / income ratio

## Stable credit risk

SpareBank 1 SMN's loans distributed on risk class and share of Exposure At Default

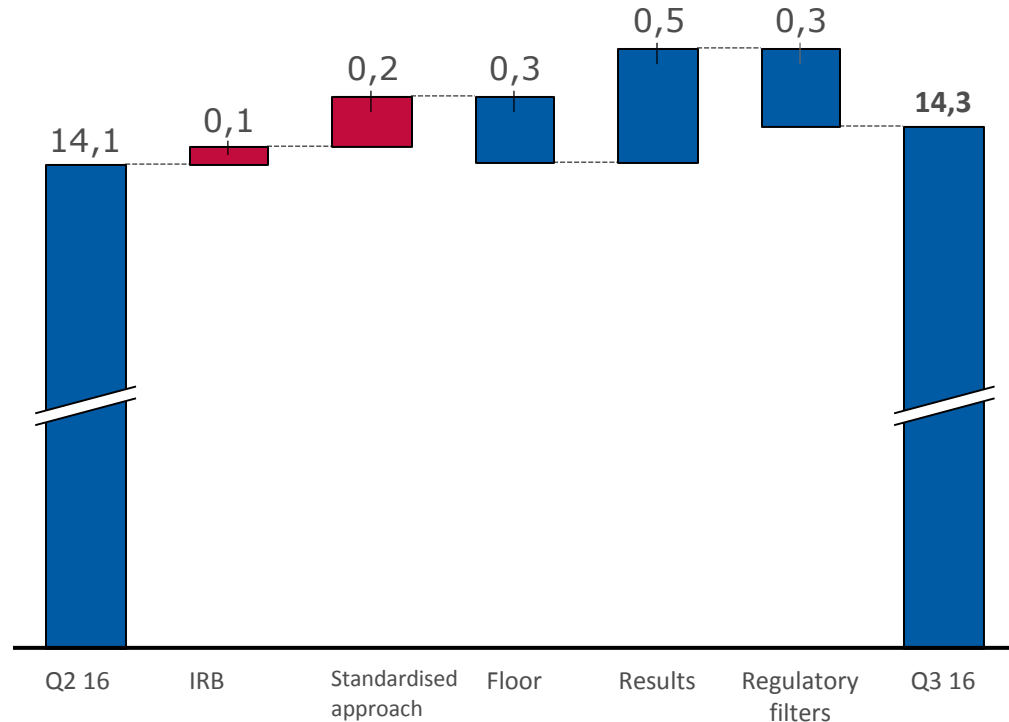


SpareBank 1 SMN's loans distributed on size of customer engagement and share of Exposure At Default



# The Group strengthened CET1 capital adequacy by 17 points in the 3rd quarter 2016

- Shift from corporates to retail gives virtually unchanged IRB capital requirement for high retail growth
- Floor growth as a result of retail growth
- Negative effect of regulatory filters, increased goodwill, equity capital changes at the residential mortgage company and increased deduction for stake in SpareBank 1 Gruppen



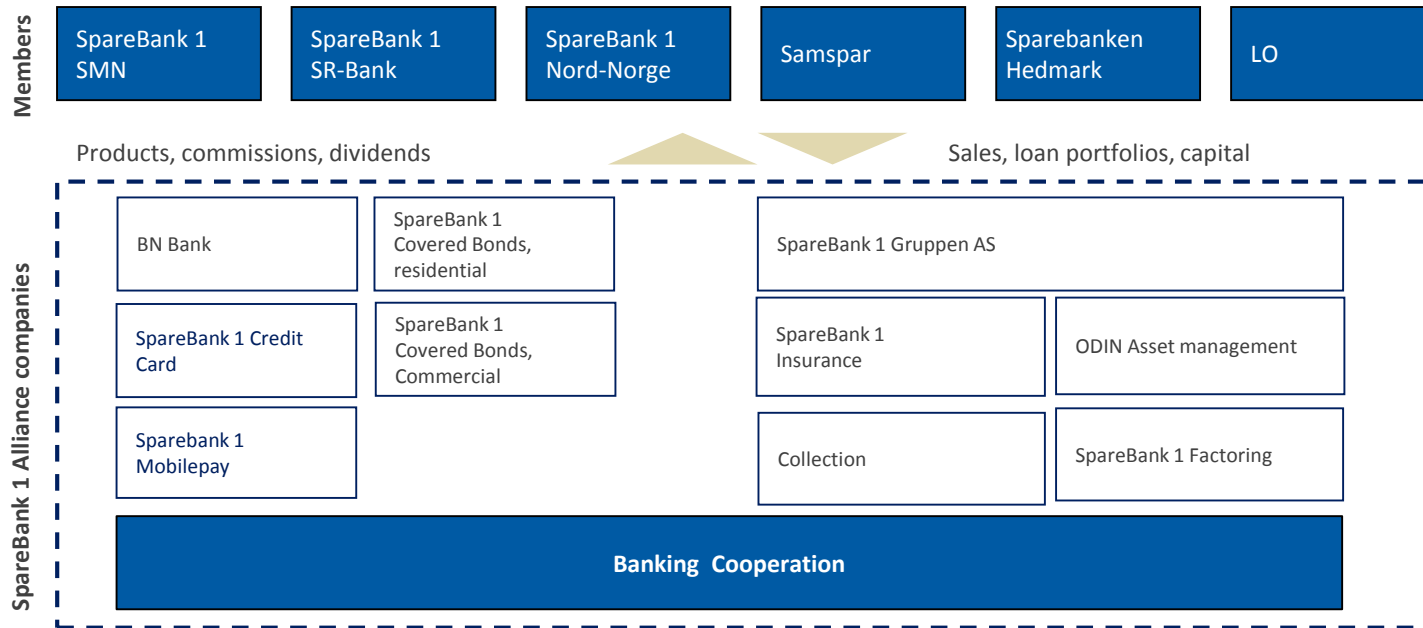
# Strengthened capital adequacy

As at Q3 2016 and Q3 2015

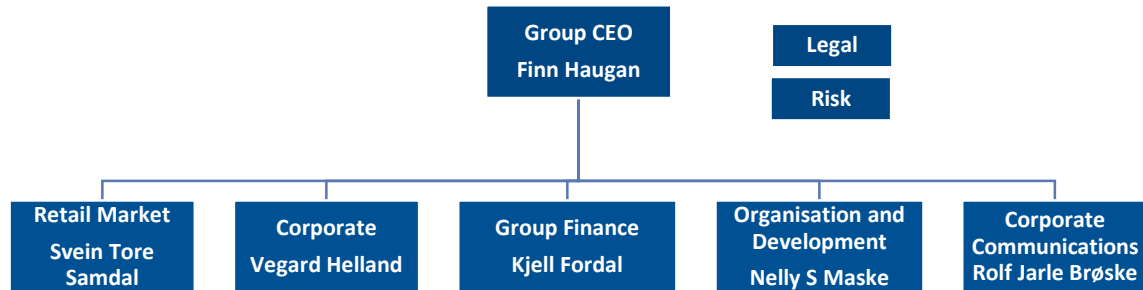
NOKm

	<b>30.9.16</b>	<b>30.9.15</b>
<b>Core capital exclusive hybrid capital</b>	<b>12.895</b>	<b>11.652</b>
Hybrid capital	1.840	1.798
<b>Core capital</b>	<b>14.736</b>	<b>13.451</b>
Supplementary capital	2.275	2.435
<b>Total capital</b>	<b>17.011</b>	<b>15.886</b>
Total credit risk IRB	4.080	4.073
Debt risk, Equity risk	30	105
Operational risk	479	457
Exposures calculated using the standardised approach	1.828	1.827
CVA	88	92
Transitional arrangements	723	533
<b>Minimum requirements total capital</b>	<b>7.228</b>	<b>7.087</b>
RWA	90.353	88.586
<b>CET 1 ratio</b>	<b>14,3 %</b>	<b>13,2 %</b>
<b>Core capital ratio</b>	<b>16,3 %</b>	<b>15,2 %</b>
<b>Capital adequacy ratio</b>	<b>18,8 %</b>	<b>17,9 %</b>

# SpareBank 1 Alliance



## Organisational set-up SpareBank 1 SMN



# Overall organisation

