

Q2 2014

August 13th 2014

# Good result in 1st half 2014

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- **A good first half-year, and an excellent 2nd quarter in isolation**
- **Implementation of capital plan with focus on profitability and management of risk weighted balance sheet assets. The CET1 target will be met without carrying out an ordinary stock issue**
- **SpareBank 1 SMN is solidly positioned as market leader and has maintained its market position despite capital restrictions**
- **Core business is on a positive trend with increased commission incomes and moderate cost growth**
- **The digital future will create better customer experiences and lower costs. The bank is taking the steps needed to achieve this**
- **SpareBank 1 Markets integrated with SpareBank 1 SMN**

# SB1 Markets and SMN Markets to be integrated to create a company with a robust and diversified income base and a profitable capital market environment

## 1 Wide-ranging improvement measures at SB1 Markets

- Substantially reduced cost base
- Increased focus on defined product and service areas
- Reduced risk and volatility in earnings as a result of adjustments to business model

## 2 Robust and diversified income platform

- The business being continued, providing a full-fledged array of products and services
- Profitable operations at currently expected income level
- Strengthened platform designed to achieve coordination gains

## 3 Integration of SB1 Markets and SMN Markets, with SMN increasing its stake

- Transaction expected to go ahead in the course of the 4th quarter 2014
- The companies valued relative to normalised results
- SMN's stake in SB1 Markets rises as a result of the transaction

## 4 Owners applying a long-term perspective to the SB1 Markets venture

- All owner banks support the venture and will participate in an already planned stock issue of NOK 65m in the course of September 2014
- Current collaboration agreements with the banks to be retained with a strengthened focus on realisation of business potentials

**Offensive measures to create a profitable capital market environment**

## Strong profit improvement

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**Net profit NOK 963m (606m)**

**Return on equity 16.8 % (11.9 %). Ex gain Nets 14.1 %**

**Result of core business NOK 706m (571m) up 24 %**

**Retail banking share of loans 62% (60%)**

**Cost growth parent bank 1.7 % (3.2%)**

**Growth in lending RM 4.0 % and CM -0.5 % in 1<sup>st</sup> half 2014**

**Booked equity capital per ECC NOK 58.32 (51.66)**

## Q2 2014

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**Profit NOK 464m (285m)**

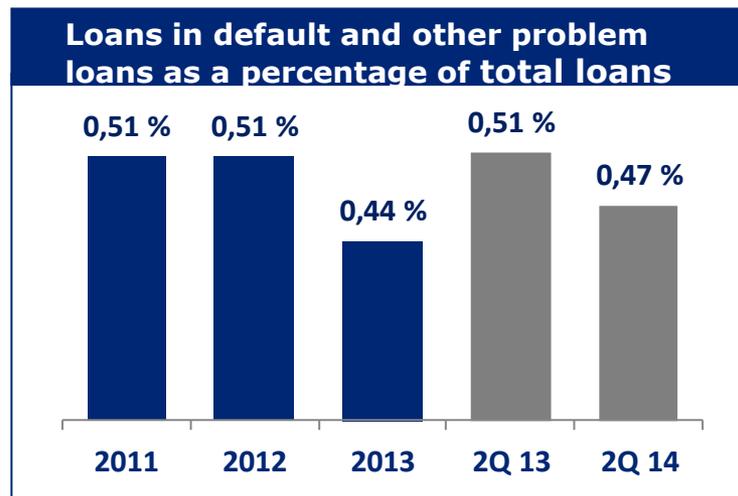
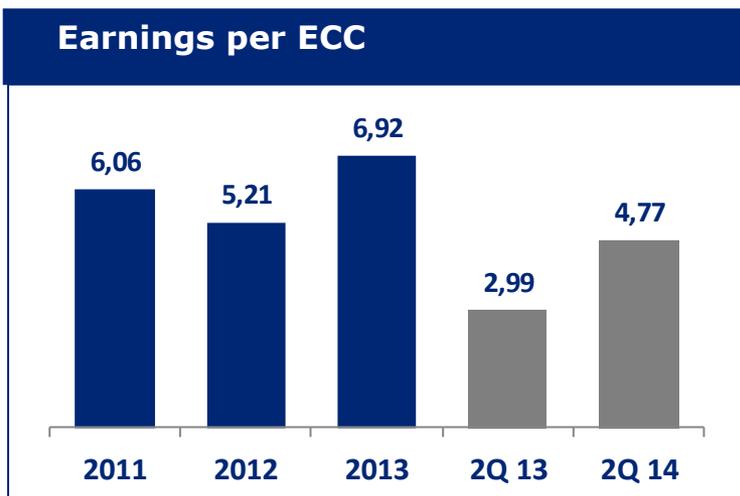
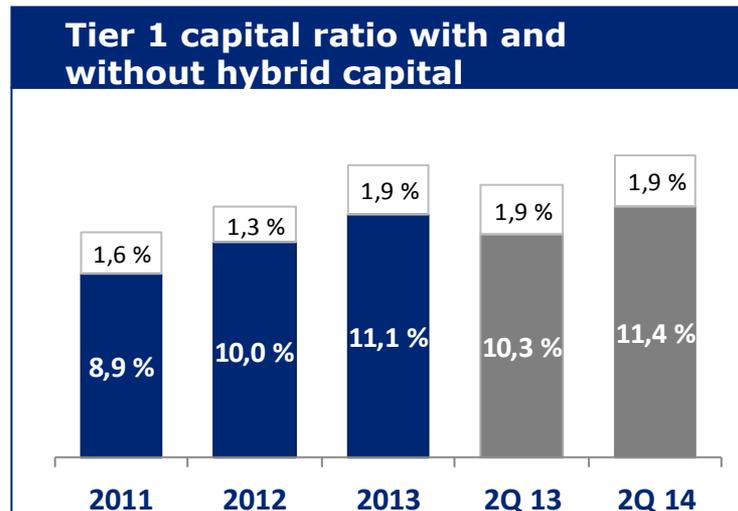
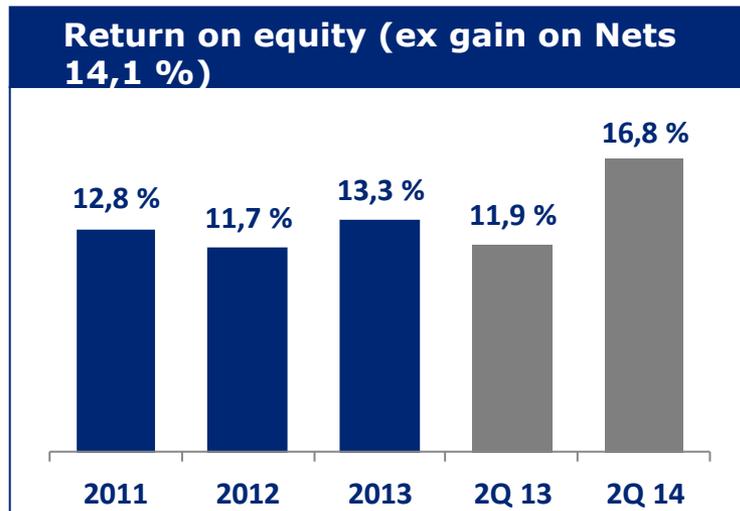
**ROE 16.0 % (11.1 %)**

**Result of core business NOK 367m (342m)**

**Growth in lending RM 2.5 % and CM 3.1 % in Q2 2014**

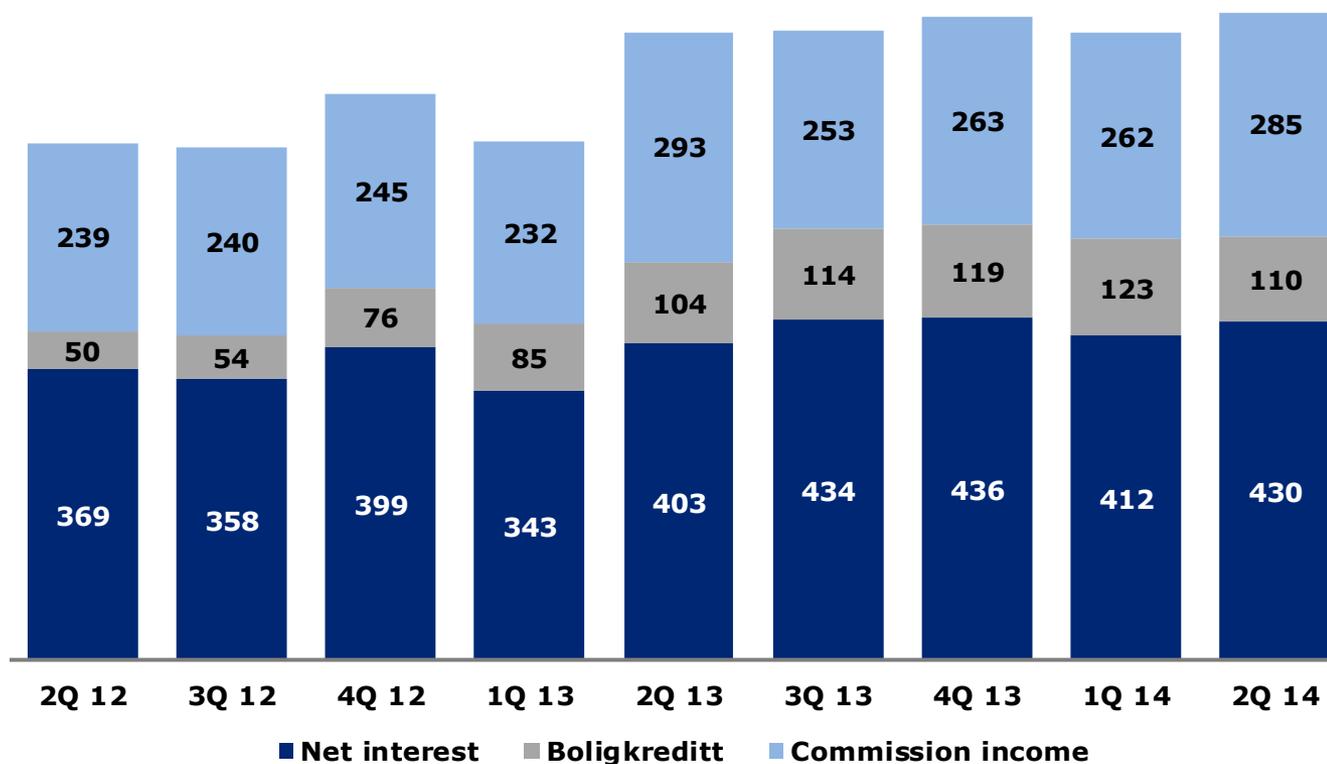
**Earnings per ECC NOK 2.29 (1.43)**

# Progress for all central profit elements



# Positive development operating income

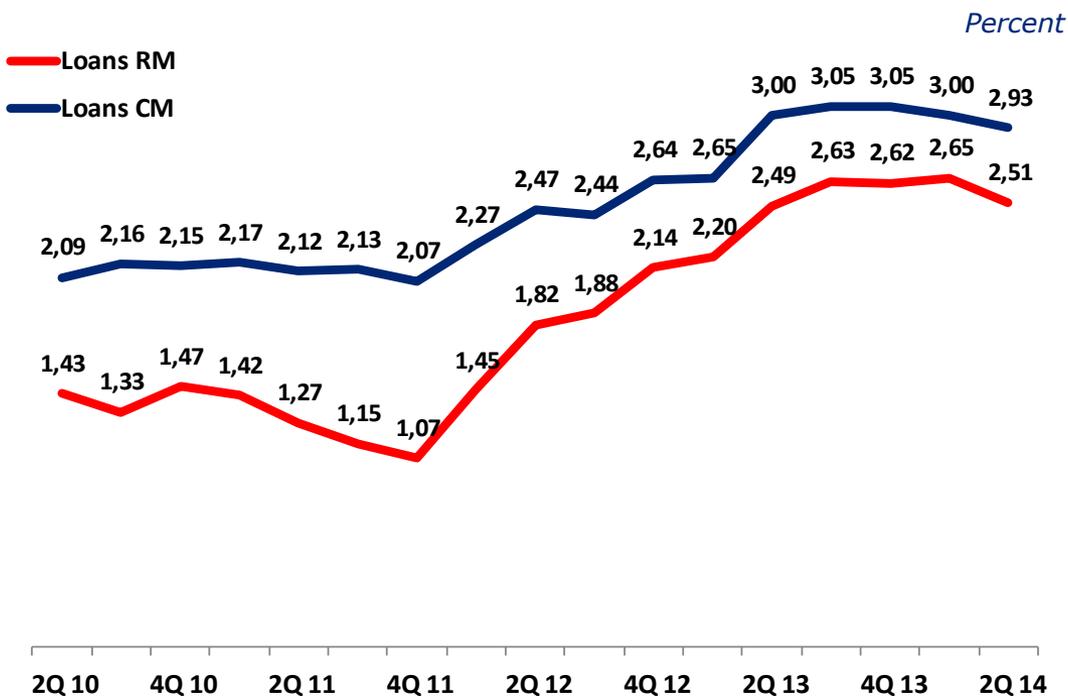
## Last two years per quarter



# Lending margins Retail and Corporate

## Increased capital requirements led to strengthened margins in 2013

### Per quarter from Q2 2010



### Comments

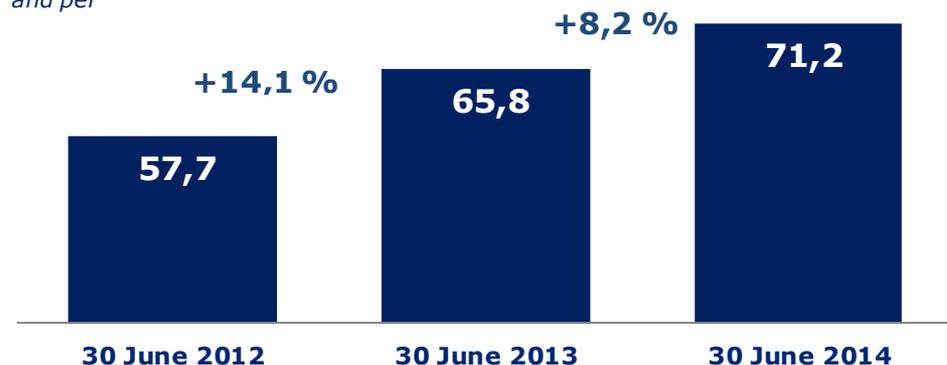
- Growing competition on lending to business and industry
- Interest rate changed on best home loans with effect from mid-June has reduced margin by 10 bp
- Interest rate level remains low. Increased NIBOR from Q1 to Q2 has reduced the margins

# Total growth lending 5.1 %

## Reduced growth in lending to corporates

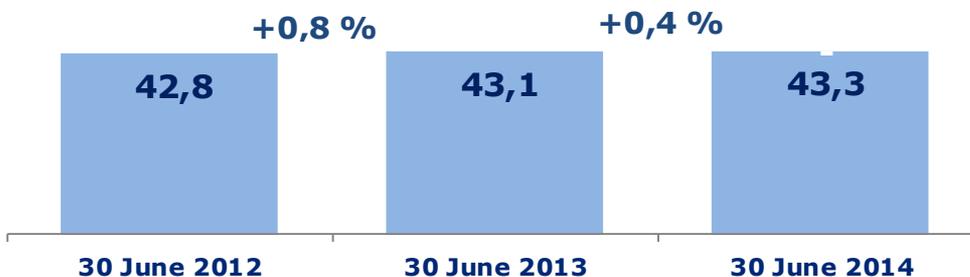
### Lending RM +8.2 % from Q2 13 to Q2 14

*NOKbn  
and per*

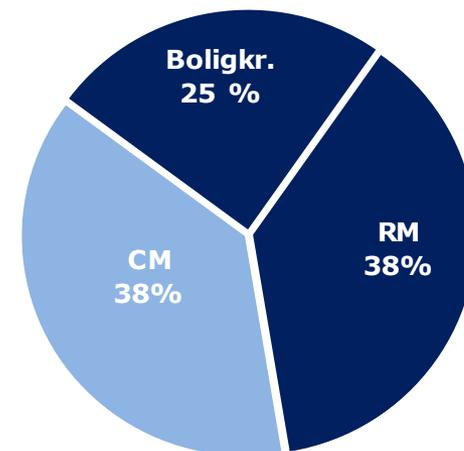


### Lending CM 0.4 % from Q2 13 to Q2 14

*NOKbn and*

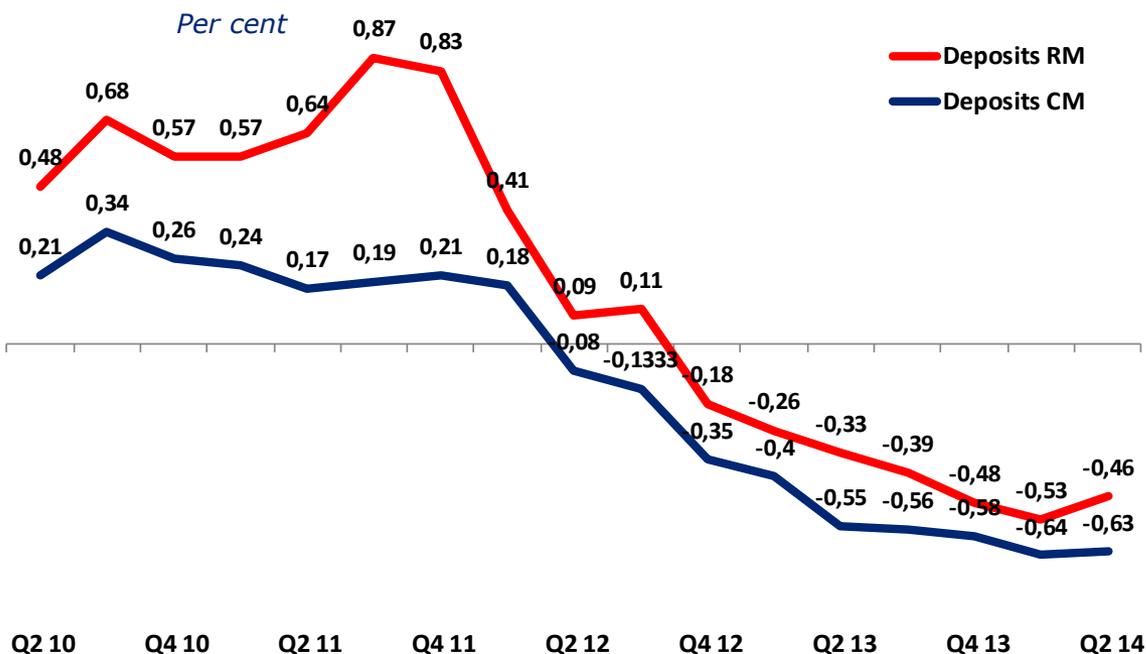


### Loans



# Deposit margins Retail and Corporate

## Per quarter from Q2 2010



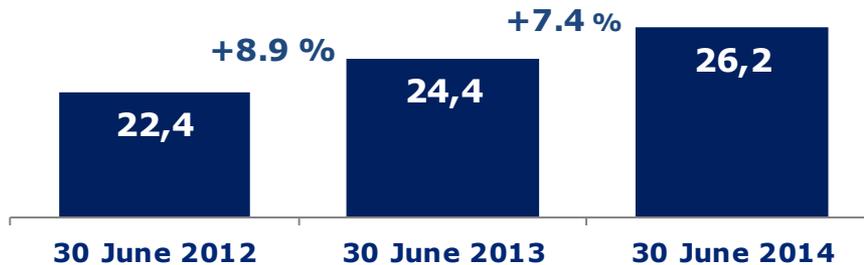
## Comments

- Measured against NIBOR, margins have declined through 2012 and 2013
- A repricing being carried out to provide a better balance between the price of deposits and the price of market funding

# Total growth deposits 7.4 %

## Deposits RM + 7.4 % from Q2 13 to Q2 14

NOK bn.  
and %

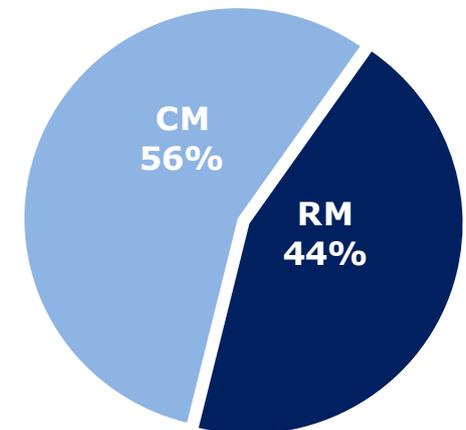


## Deposits CM + 7.6 % from Q2 13 to Q2 14

NOK bn.



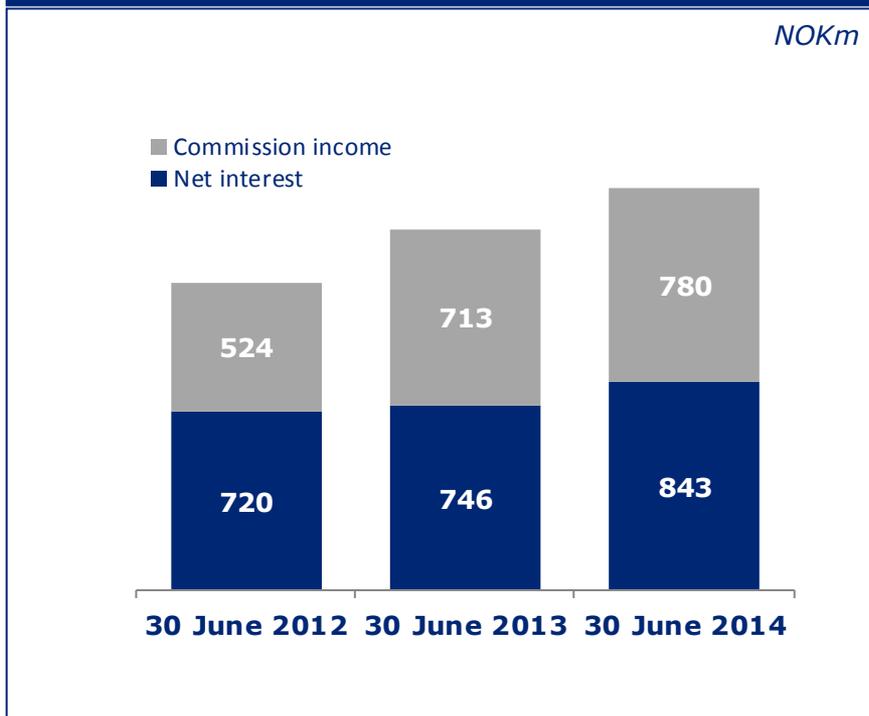
## Deposits



# Net interest, provision commission and other income

The Group's income has increased and become more diversified and sustainable

## Net interest and other income



## Commission income at Q2 13 and Q2 14

<i>mill kr</i>	30 June 2014	30 June 2013
Payment transmission income	119	107
Commissions savings	21	21
Commissions insurance	66	60
Guarantee commissions	29	30
Estate agency	156	174
Accountancy services	101	73
Assets management	7	6
Rental income	21	22
Other commissions	27	32
<b>Commissions ex. Bolig/Næringskreditt</b>	<b>547</b>	<b>525</b>
Boligkreditt and Næringskreditt	233	188
<b>Total commission income</b>	<b>780</b>	<b>713</b>

- The Group's income platform is robust
- Incomes derive from a wide range of products both from the parent bank, the subsidiaries, and the SpareBank 1 Group
- Increased margins on loans

# The group's subsidiaries hold a dominant position in the market and ensure a diversified income base and robust value creation

Position

Company

Business areas

1

EiendomsMegler 

- 40% market share, strong synergy with the bank
- Profit of NOK 25.5m (41.5m)

1

SpareBank   
FINANS MIDT-NORGE

- Leasing NOK 1.9bn, car loans NOK 1.6bn
- Profit of NOK 31.6m (29.1m)

1

SpareBank   
REGNSKAPSHUSET

- 30% growth over past year
- Profit of NOK 6.7m (3.7m)

1

SpareBank 1  
Markets

- Integration provides a full scale investment firm

# Subsidiaries

## Profit subsidiaries before tax last three years

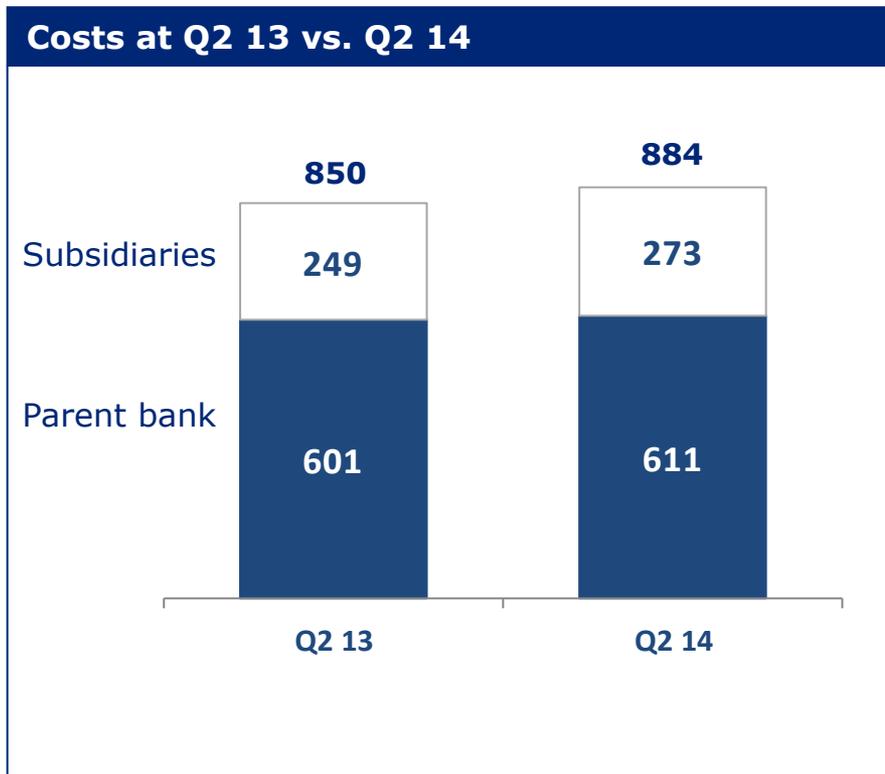
	30 June 2014	30 June 2013	30 June 2012
EiendomsMegler 1 Midt-Norge (87 %)	25,5	41,5	41,9
SpareBank 1 Regnskapshuset SMN	19,1	12,1	8,6
SpareBank 1 Finans Midt-Norge (90 %)	31,6	29,1	30,3
Allegro Finans (90 %)	-0,6	-0,7	-1,3
SpareBank 1 SMN Invest	38,8	19,2	-1,7

# Associated companies

## Profit shares after tax last three years

	30 June 2014	30 June 2013	30 June 2012
SpareBank 1 Gruppen (19,5 %)	150,5	79,2	59,9
SpareBank 1 Boligkreditt (18,4 %)	12,5	13,1	25,5
SpareBank 1 Næringskreditt (29,3 %)	19,9	2,8	4,5
BN Bank (33 %)	55,1	42,5	27,3
SpareBank 1 Markets (24 %)	-17,7		

# Cost growth at parent bank in line with plan. Some growth at subsidiaries, at a large extent due to acquisitions



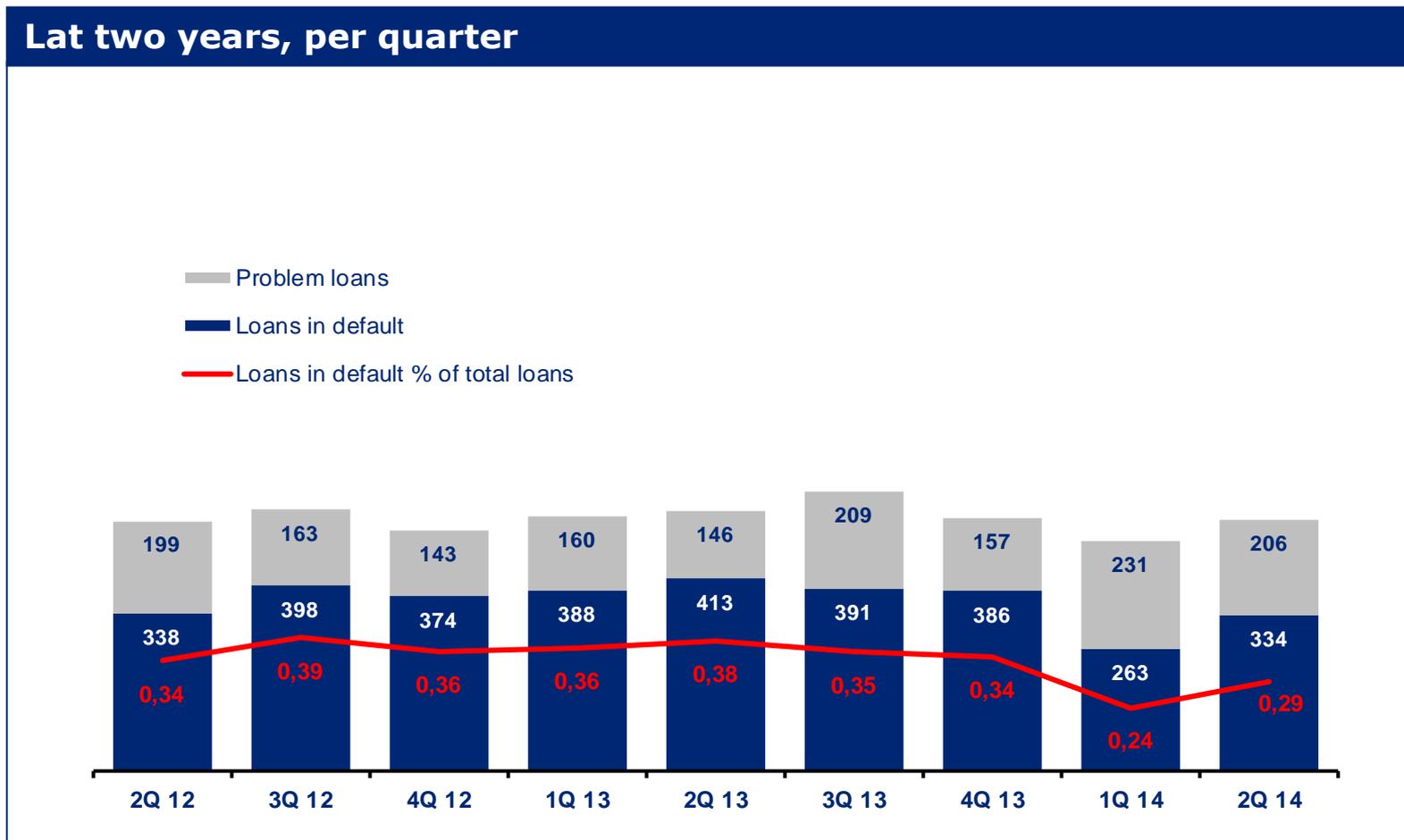
### Comments

Reduced growth in costs at parent bank

Cost growth at subsidiaries due to company acquisitions

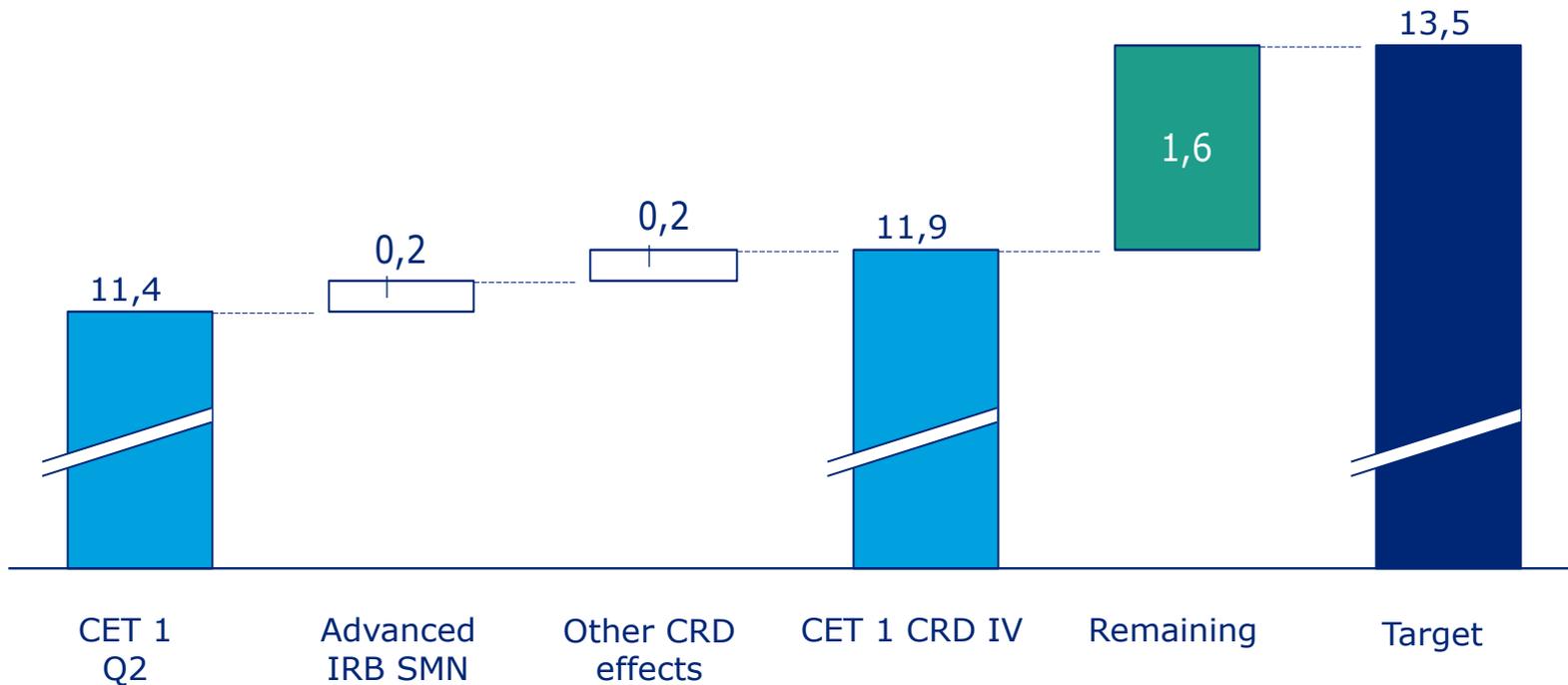
# Defaults and other problem loans

## Low levels



# Estimates CRD IV (new capital requirements directive)

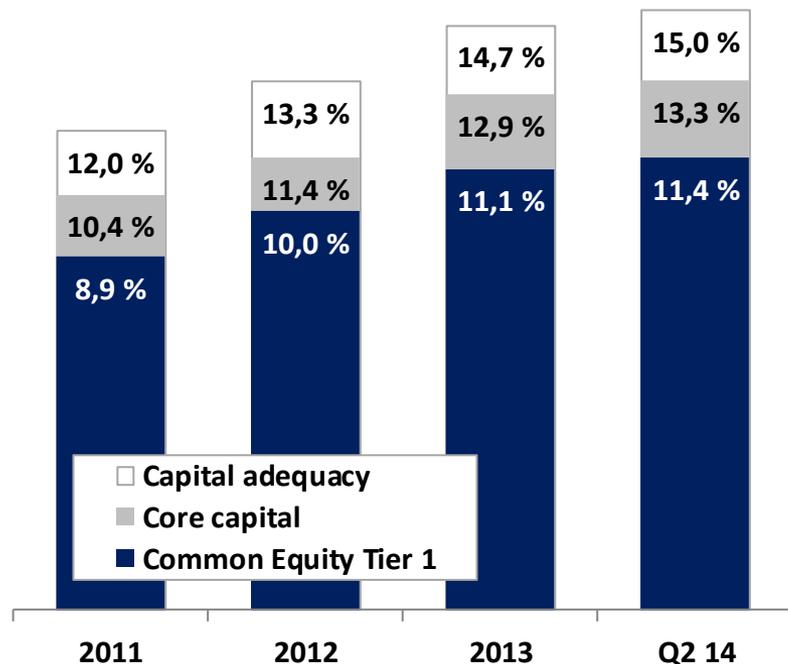
Estimates show that the bank will reach the 13.5% target



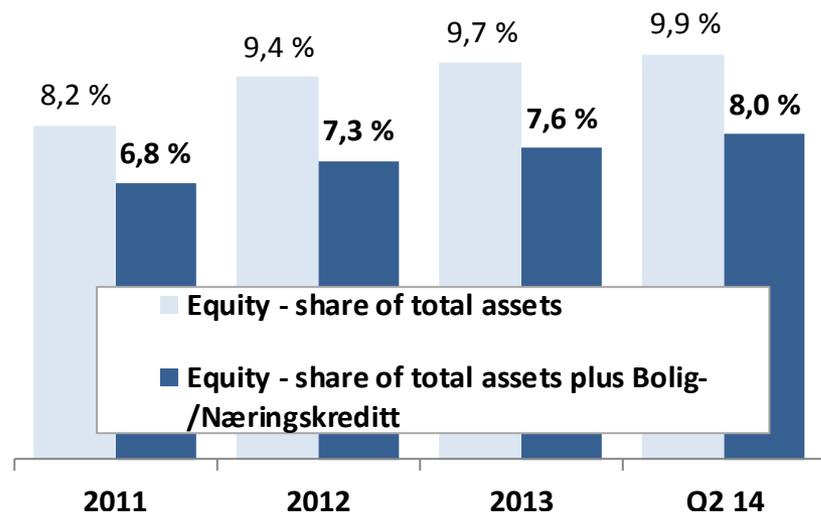
Profit retention, low dividend payouts and controlled growth will ensure that the bank reaches the capital plan target of 13.5%

# Strengthened capital. High equity ratio in relation to total assets

## Development capital adequacy



## Development share of equity



# SpareBank 1 SMN intends to be among the best performing banks

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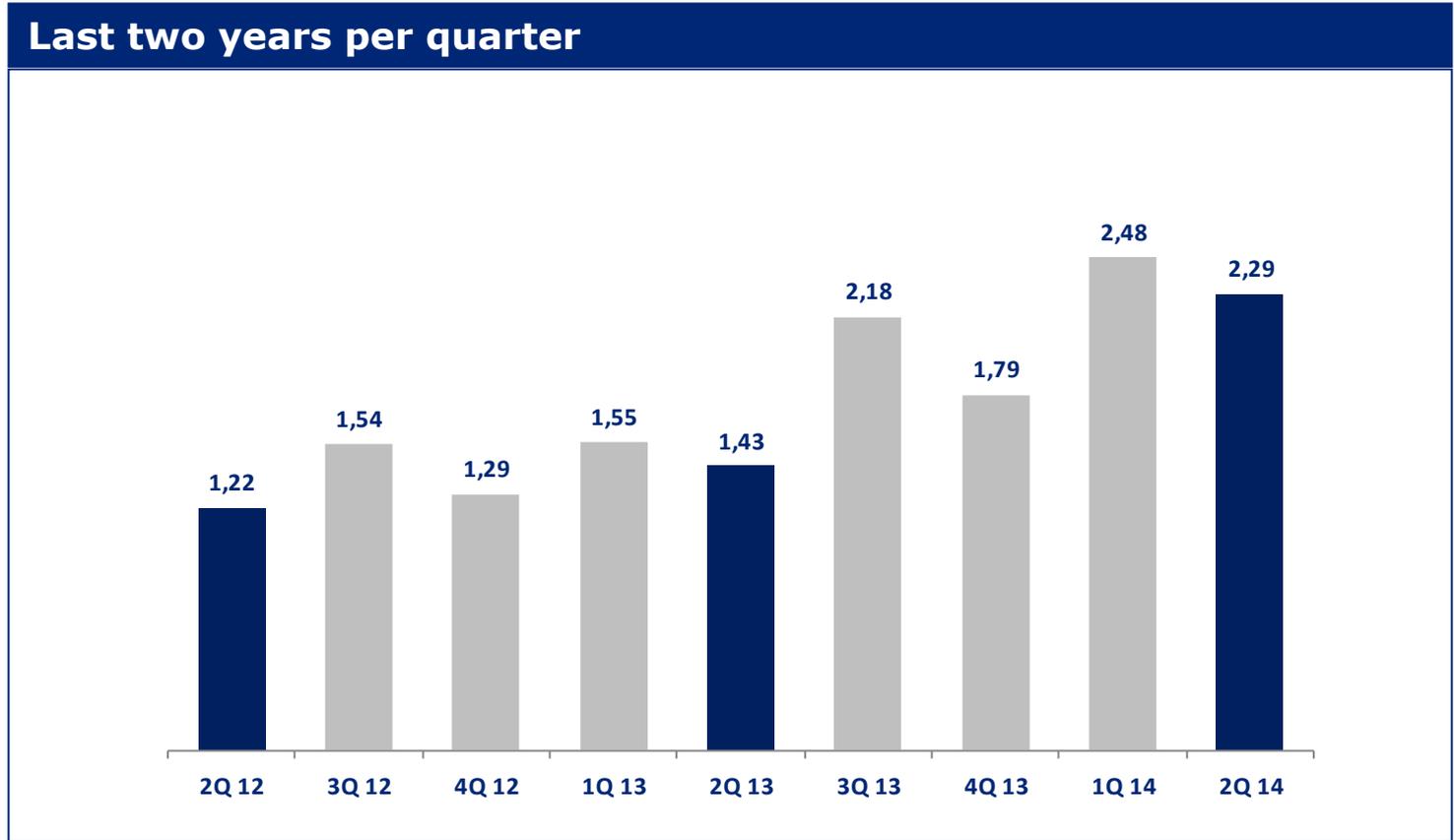
<b>Customer orientation</b>	Best on customer experience Will continue to strengthen market position
<b>Profitable</b>	In the area of 12 % - 14 % annually up towards 2015
<b>Solid</b>	13.5% by the end of 1. half 2016
<b>Efficient</b>	Maximum parent bank cost growth of 3% per annum up to 2015. Increased efficiency and productivity
<b>Dividend</b>	Real-terms payout ratio of 25% to 35%. Strong focus on strengthening capital through retained profit

# Appendix

## Positive development in profits

Profit	1. st half			per quarter				
	30 June 2014	30 June 2013	Change	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13
NOK mill								
Net interest	843	746	96	430	412	436	434	403
Commission income and other income	780	713	66	394	385	382	367	396
<b>Operating income</b>	<b>1.622</b>	<b>1.459</b>	<b>163</b>	<b>825</b>	<b>798</b>	<b>818</b>	<b>801</b>	<b>800</b>
Total operating expenses	884	850	34	443	441	465	406	436
<b>Pre-loss result of core business</b>	<b>738</b>	<b>609</b>	<b>129</b>	<b>382</b>	<b>356</b>	<b>352</b>	<b>395</b>	<b>364</b>
Losses on loans and guarantees	32	38	-7	15	17	32	30	21
<b>Post-loss result of core business</b>	<b>706</b>	<b>571</b>	<b>135</b>	<b>367</b>	<b>340</b>	<b>320</b>	<b>365</b>	<b>342</b>
Related companies, including held for sale	214	140	74	131	84	94	150	32
Securities, foreign currency and derivatives	245	74	171	70	175	58	16	13
<b>Result before tax</b>	<b>1.165</b>	<b>785</b>	<b>380</b>	<b>567</b>	<b>598</b>	<b>471</b>	<b>531</b>	<b>387</b>
Tax	202	179	22	103	99	110	98	102
<b>Net profit</b>	<b>963</b>	<b>606</b>	<b>358</b>	<b>464</b>	<b>500</b>	<b>361</b>	<b>433</b>	<b>285</b>
<b>Return on equity</b>	<b>16,8 %</b>	<b>11,9 %</b>		<b>16,0 %</b>	<b>17,7 %</b>	<b>13,1 %</b>	<b>16,3 %</b>	<b>11,1 %</b>

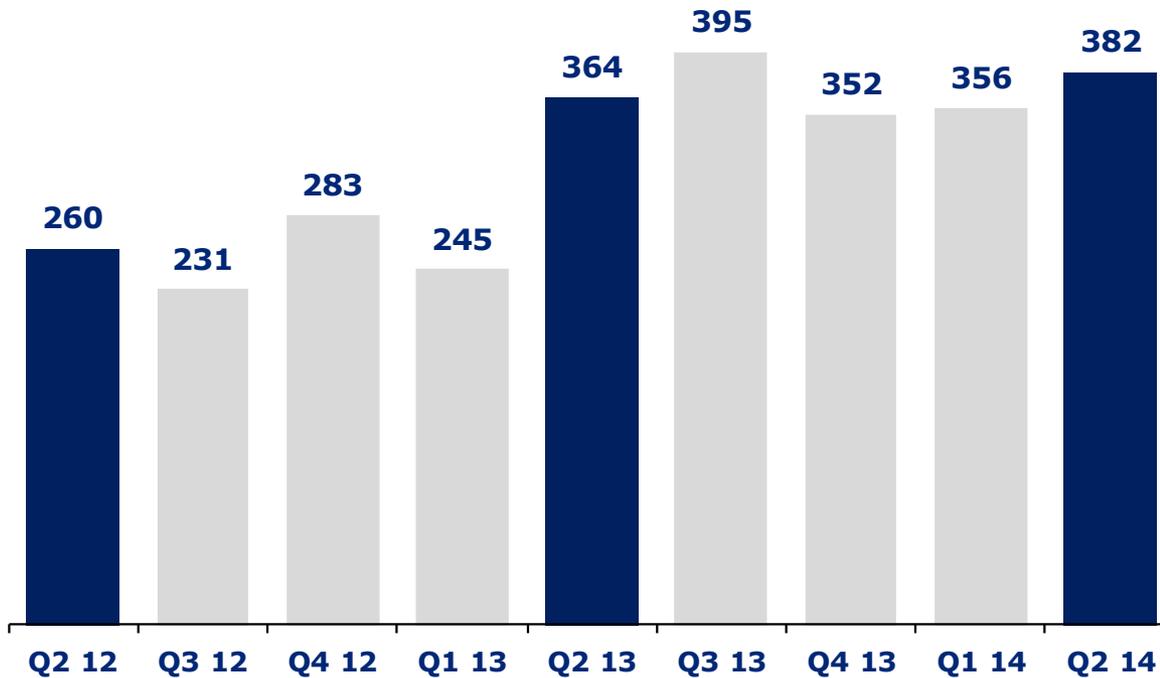
# Earnings per ECC



## Good profit trend for core business

### Last two years per quarter

*NOK mill.*



### Comments

Improvement in 2013 and 2014 at a high degree due to

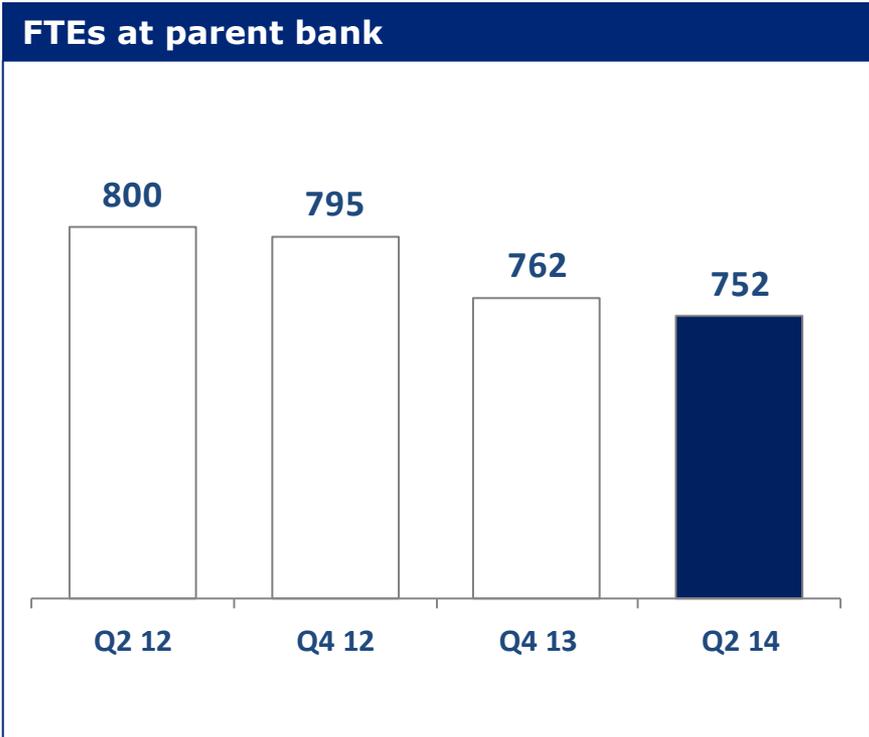
- Increased lending margins, both retail and corporates
- Positive development commission income
- Moderate cost growth

## Return on financial investments

<b>Satisfactory return. Securities include 156m from Nets</b>							
<i>NOKm</i>	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>Q2 14</b>	<b>Q1 14</b>	<b>Q4 13</b>	<b>Q3 13</b>	<b>Q2 13</b>
Share of profit in related companies	214	140	132	82	94	150	33
Net gain and dividends on securities	214	26	58	156	69	19	2
Net gain on bonds and derivatives	-3	5	-2	-1	-26	-19	-14
Net gain on trading and derivatives Markets	34	42	14	20	15	16	25
<b>Return on financial investments</b>	<b>459</b>	<b>214</b>	<b>202</b>	<b>257</b>	<b>151</b>	<b>166</b>	<b>45</b>

*Including held for sale*

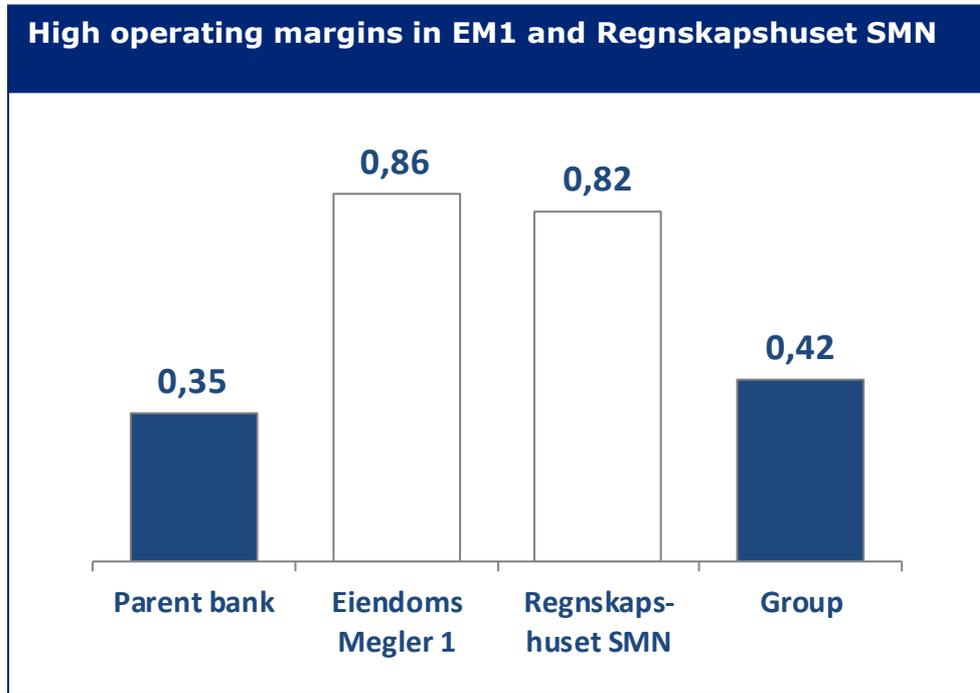
# Trend in full-time position equivalents (FTEs) on schedule. SpareBank 1 SMN will achieve goal of eliminating 25 FTEs per year in the period to 2015



Staffing plan communicated across, and anchored in, the bank

The bank is on the right path in terms of resource use. No. of FTEs cut by about 48 since Q2 2012

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



## Profitable and non-capital-intensive subsidiaries:

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

## Reduced costs in parent bank, some growth in subsidiaries

### Change in operating expenses Q2 2013 – Q2 2014

<b>NOK mill</b>	
Expenses at 2Q 2013	884
Expenses at 2Q 2014	850
<b>Change</b>	<b>34</b>
<b>Obtained as follows:</b>	
<b>Parent bank</b>	<b>10</b>
Personell costs	3
IT	13
Marketing	2
Depreciation	-6
Others	-3
<b>Subsidiaries</b>	<b>24</b>
Regnskapshuset SMN	21
EiendomsMegler 1	-2
SpareBank 1 Finans Midt-Norge	3
Other subsidiaries	2
<b>Group</b>	<b>34</b>

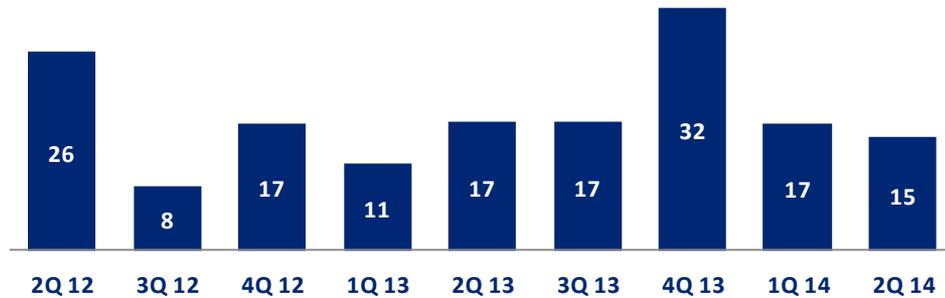
### Reduced cost growth

- Reduced cost growth in parent bank, growth 1.7 % last 12 months
- Number of FTEs shall be reduced with 75 in 3 years.
- Purchases of accountancy offices have caused "new" costs
- Some growth in other subsidiaries

# Low loan losses

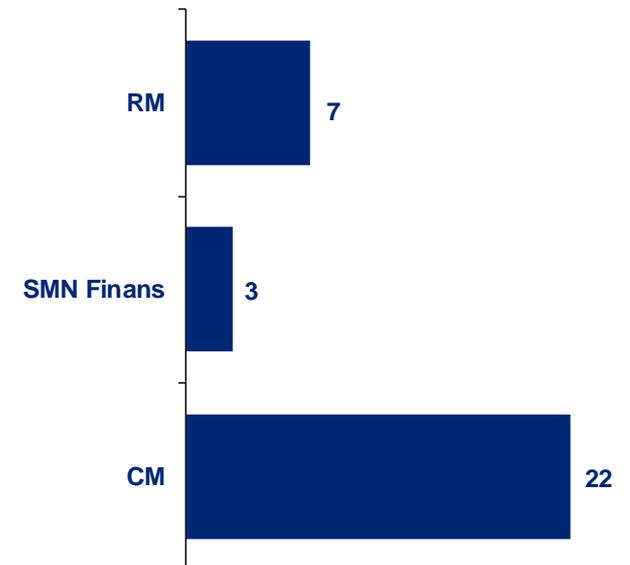
## Loan losses – quarterly trend

NOK mill



## Losses by business area:

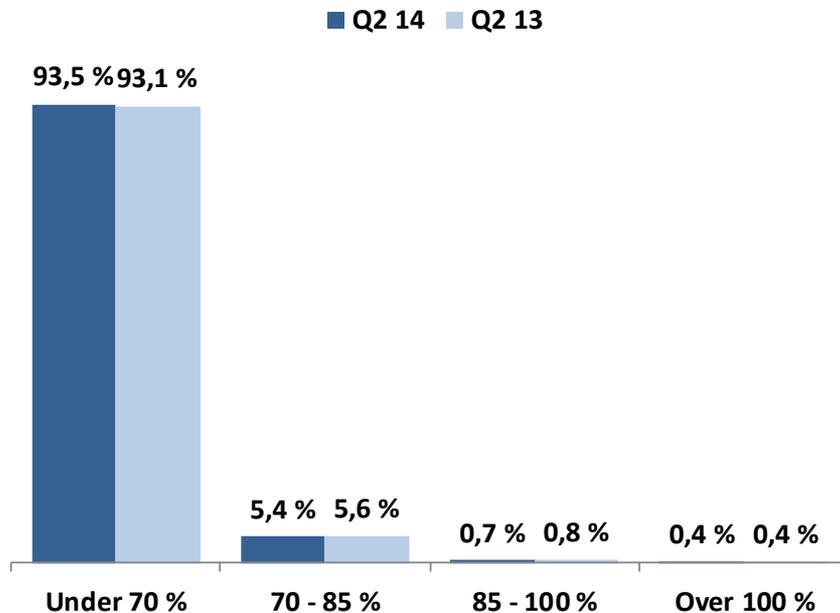
NOK mill



- Loan losses measure 0.06% (0.07%) of gross lending at 30 June 2014

# Loan to value mortgages

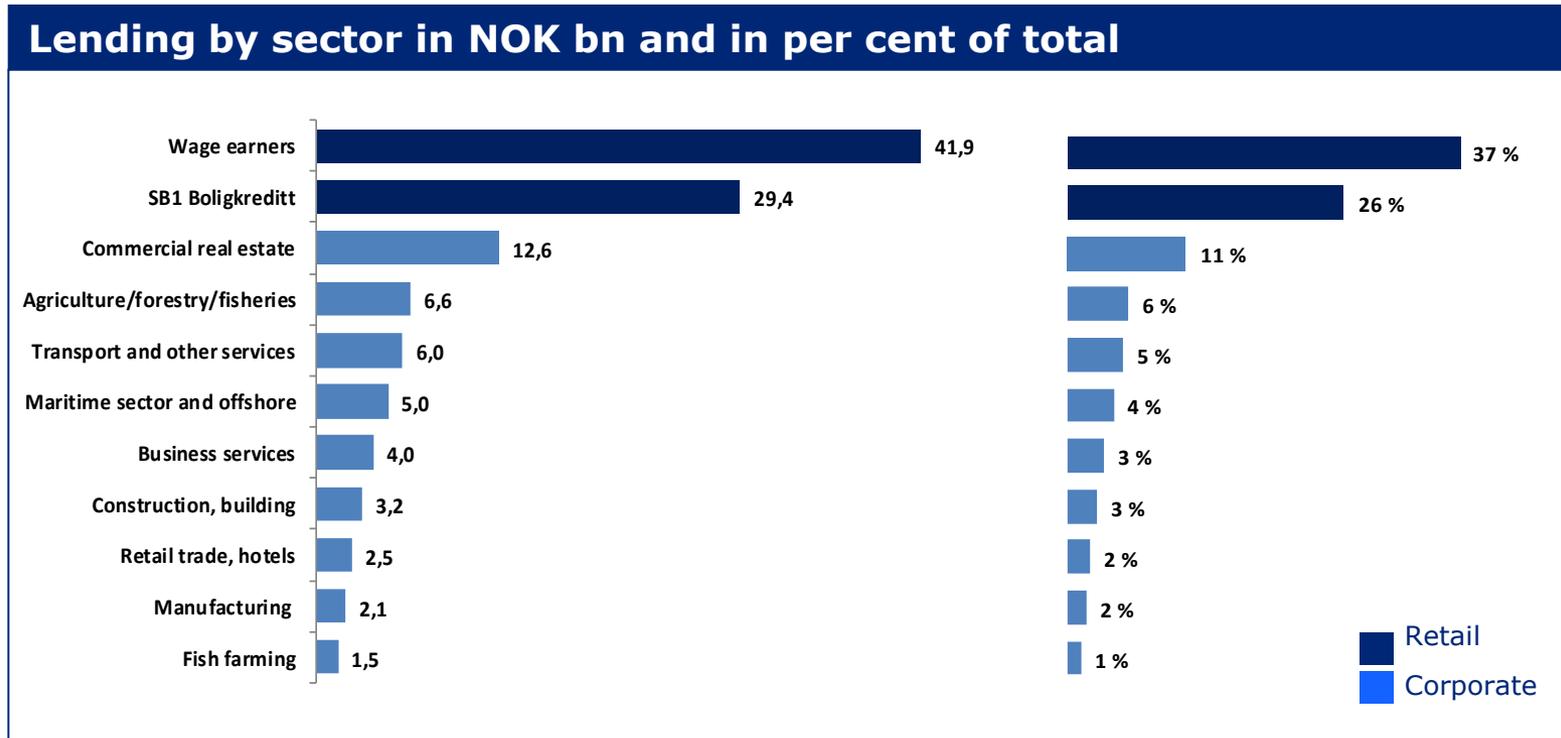
## Last two years



## Comments

- 98.9 % of the exposure has an LTV of less than 85 %
- Exposure with LTV higher than 85 % has been reduced by 0.1 %-points to 1.1 % last 12 months

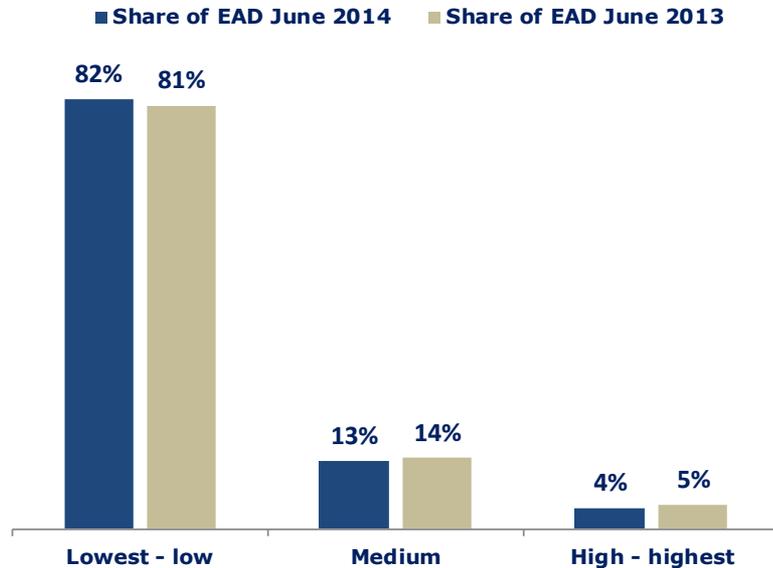
## High and increased share mortgages and diversified portfolio SMEs



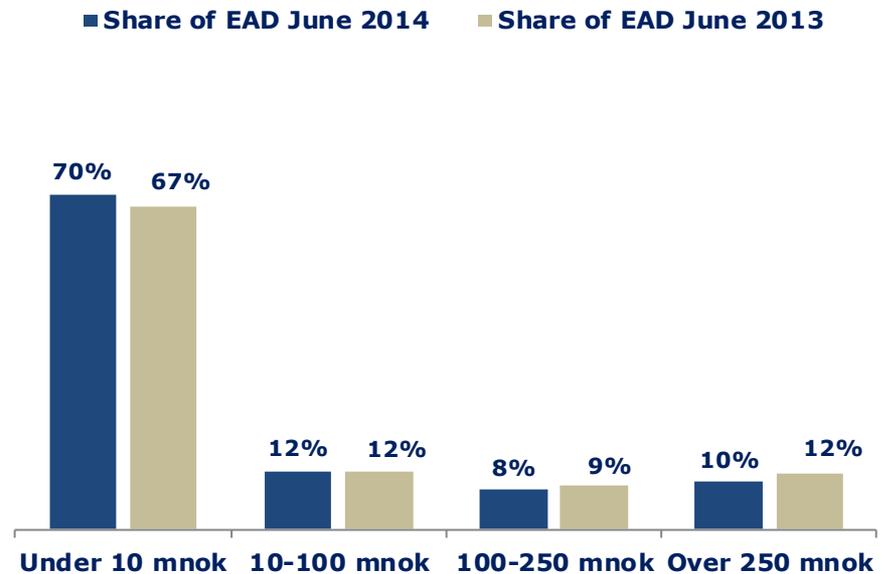
- Large portions of the retail market and primary industries are risk-dampening
- The Group has a well diversified corporate market portfolio
- No specific concerns related to the bank's loans to commercial real estate. Low interest rates and stable high occupancy rates in the bank's market area

# Improved 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**



# Capital adequacy

Last two years		
<i>NOKm</i>	30.6.14	30.6.13
<b>Core capital exclusive hybrid capital</b>	<b>9.945</b>	<b>8.882</b>
Hybrid capital	1.690	1.625
<b>Core capital</b>	<b>11.635</b>	<b>10.508</b>
Supplementary capital	1.529	1.386
<b>Total capital</b>	<b>13.164</b>	<b>11.894</b>
Total credit risk IRB	4.722	3.895
Debt risk, Equity risk	309	267
Operational risk	416	398
Exposures calculated using the standardised approach	1.682	2.106
Deductions	-130	-102
Transitional arrangements	0	322
<b>Minimum requirements total capital</b>	<b>6.998</b>	<b>6.886</b>
RWA	87.477	86.079
<b>Core capital ratio</b>	<b>11,4 %</b>	<b>10,3 %</b>
<b>Core capital ratio ex. hybrid capital</b>	<b>13,3 %</b>	<b>12,2 %</b>
<b>Capital adequacy ratio</b>	<b>15,0 %</b>	<b>13,8 %</b>

# SpareBank 1 SMN will now meet the core capital target of 13.5% by mid-2016 without an ordinary stock issue

## Capital a scarce factor

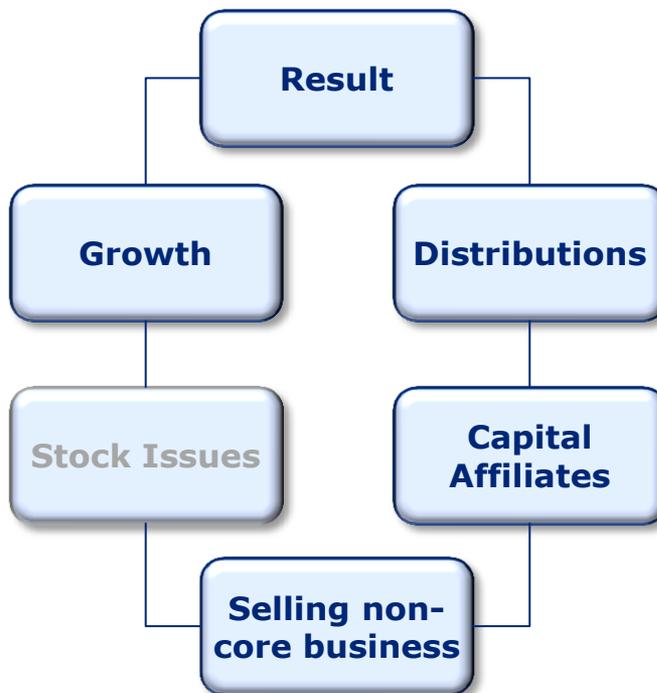
## The bank must balance

## Room for action

Regulatory conditions

Price of capital

Access to capital



1. Curb expansion in corporate market
2. Refine portfolio
3. Correct risk pricing
4. Dividend policy
5. Capital allocation within the group
6. Focus on risk-adjusted return

**Drivers:** Tougher requirements on common equity tier 1 capital, expanded risk-weighted assets and increased requirements on capital strength

# Development in common equity Tier 1 (capital and ratio), and ROE from 2009 to Q2 2014

## CET 1 Ratio

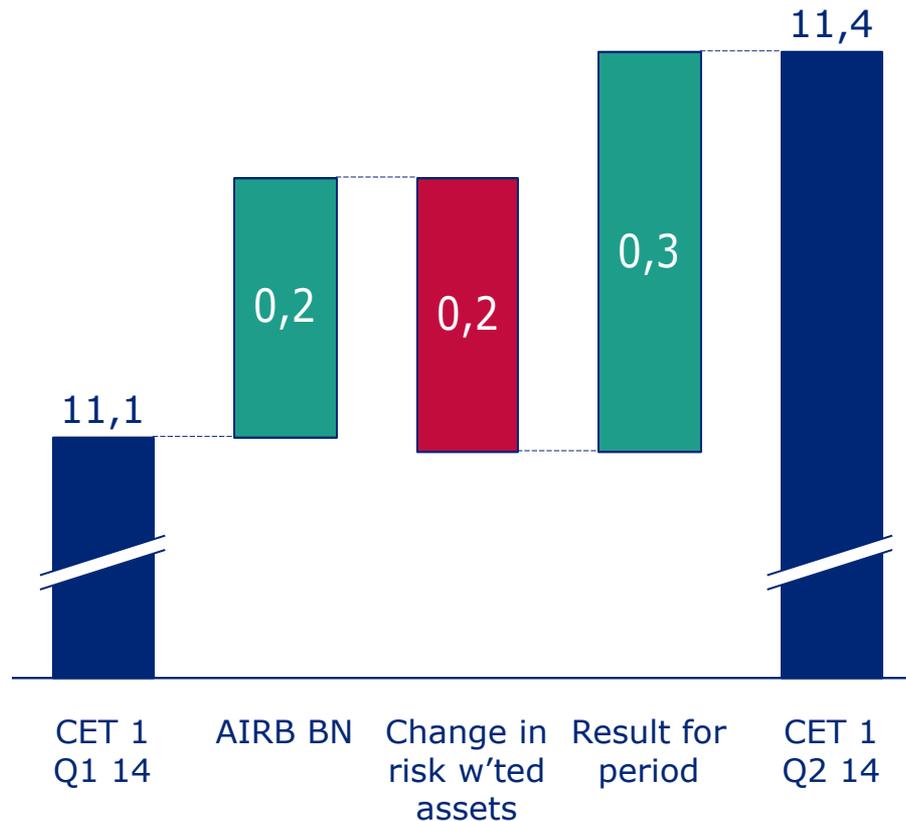


	2009	2010	2011	2012	2013	Q2-14
CET 1 Capital	4.938	6.177	6.687	8.254	9.374	9.945
ROE	16,2%	14,6%	12,8%	11,7%	13,3%	16,8%
RWA	64.400	66.688	75.337	82.450	84.591	87.477

Goal for 2016 shall be achieved by 1st half 2016

# Change in common equity tier 1 (CET1) capital adequacy

## Change in CET1 capital from Q1-14 to Q2-14



- Advanced IRB applied to BN Bank corporate portfolio strengthened CET1 by 0.2%
- Growth in Corporate and some growth in other off-balance sheet items increased risk weighted assets by 0.2%
- 2nd quarter profit had a positive effect of 0.3%.
- CET1 capital strengthened by 0.3% overall in the quarter

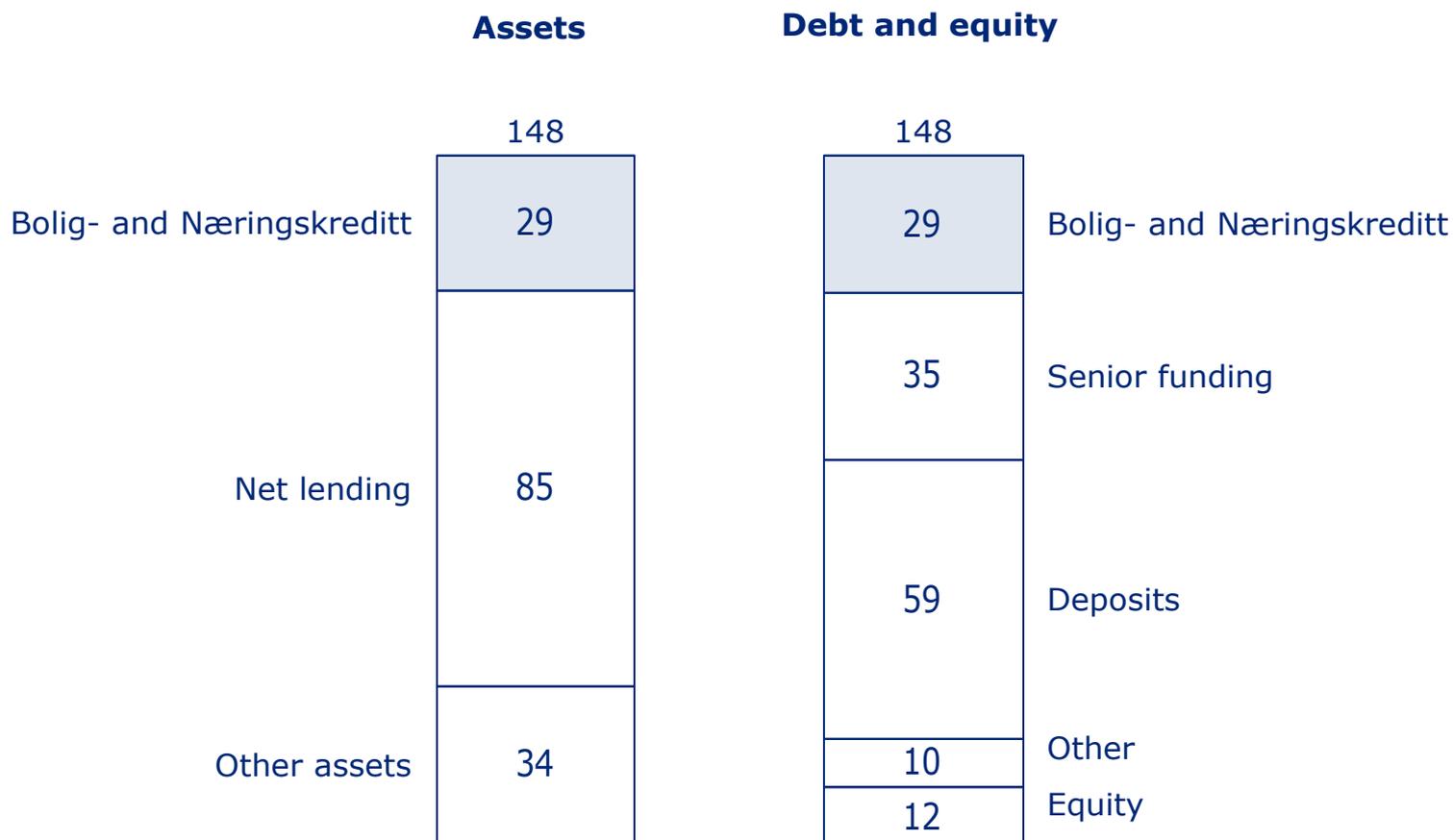
## Balance sheet

### Last three years

	30 June 2014	30 June 2013	30 June 2012
Funds available	19,8	22,9	20,7
Net loans	84,7	78,5	73,1
Securities	1,1	1,0	0,6
Investment in related companies	4,8	4,4	5,2
Goodwill	0,5	0,5	0,5
Other assets	7,7	5,9	7,6
<b>TOTAL ASSETS</b>	<b>118,8</b>	<b>113,2</b>	<b>107,8</b>
Capital market funding	38,4	37,3	35,3
Deposits	59,4	55,3	51,5
Funding, "swap" arrangement with the government	0,0	2,3	2,6
Other liabilities	5,8	4,5	6,5
Subordinated debt	3,3	3,3	2,7
Equity	11,8	10,4	9,3
<b>TOTAL DEBT AND EQUITY</b>	<b>118,8</b>	<b>113,2</b>	<b>107,8</b>
*) in addition loans sold to Boligkreditt and Næringskreditt	29,4	30,0	27,0

# Diversified funding

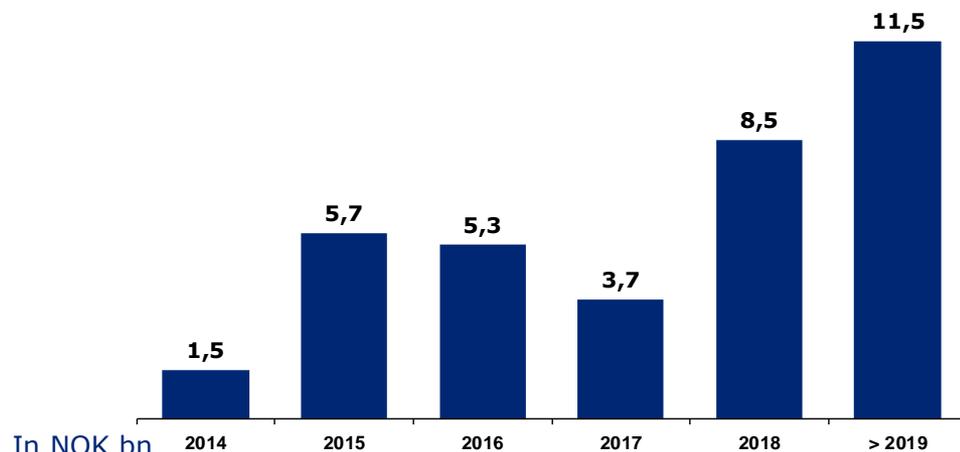
Balance sheet items including Bolig- and Næringskreditt 30.6.2014



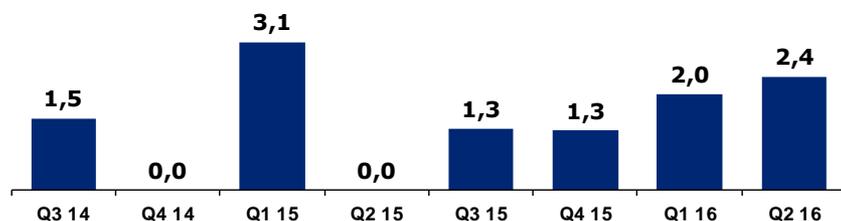
# Satisfying access to capital market funding

## Funding maturity 30 June 2013

In NOK bn



In NOK bn



## Comments

- SpareBank 1 Boligkreditt is the main funding source through covered bonds. NOK 28 billion transferred as of 30 June 2014
- Maturities next two years
  - NOK 11.6 bn
  - NOK 1.5 bn in 2014
  - NOK 5.7 bn in 2015
  - NOK 4.4 bn in Q1 16
- In the second quarter SpareBank 1 SMN raised a five-year loan of EUR 500m

# Key figures

## Last three years

	30 June 2014	30 June 2013	30 June 2012
Net interest	1,46	1,35	1,40
Comm. income and net retur on fin. inv.	2,15	1,67	1,48
Operating expenses	1,53	1,54	1,55
Net profit as a percentage of ATA	2,08	1,48	1,34
Capital adequacy ratio	11,4 %	10,3 %	9,5 %
Core capital ratio	13,3 %	12,2 %	11,0 %
Growth in loans incl. Boligkreditt	5,1 %	8,4 %	10,6 %
Growth in deposits	7,4 %	7,3 %	12,0 %
Deposit-to-loan ratio	70 %	70 %	70,0 %
RM share loans	62 %	60 %	57 %
Cost-income ratio	42 %	51 %	54 %
Return of equity	16,8 %	11,9 %	11,7 %
Impairment losses ratio	0,06 %	0,07 %	0,05 %
ECC price	54,25	46,50	32,10
Booked equity capital per ECC	58,32	51,66	47,97

## Key figures ECC

### Including effects of issues

Last five years						
	Q2 14	Q2 13	2013	2012	2011	2010
ECC ratio	64,6 %	64,6 %	64,6 %	64,6 %	60,6 %	61,3 %
Total issued ECCs (mill)	129,83	129,83	129,83	129,83	102,76	102,74
ECC price	54,25	46,50	55,00	34,80	36,31	49,89
Market value (NOKm)	7.043	6.037	7.141	4.518	3.731	5.124
Booked equity capital per ECC	58,32	51,66	55,69	50,09	48,91	46,17
Post-tax earnings per ECC, in NOK	4,77	2,99	6,92	5,21	6,06	5,94
Dividend per ECC	-	-	1,75	1,50	1,85	2,77
P/E	5,68	7,79	7,95	6,68	8,40	5,99
Price / Booked equity capital	0,93	0,90	0,99	0,69	0,74	1,08

## Dividend policy

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- SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide equity certificate holders with a good, stable and competitive return in the form of dividend and a rising value of the bank's equity certificate.
- The net profit for the year will be distributed between the owner capital (the equity certificate holders) and the ownerless capital in accordance with their respective shares of the bank's total equity capital.
- SpareBank 1 SMN's intention is that up to one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that up to one half of the owner capital's share of the net profit for the year should be disbursed as gifts or transferred to a foundation. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, external framework conditions and the need for tier 1 capital.

## 10 largest ECC holders

At 30 June 2014

<u>Owner</u>	<u>Number</u>	<u>Share</u>
Verdipapirfond Odin Norge	4.042.430	3,11 %
Sparebankstiftelsen SpareBank 1 SMN	3.965.391	3,05 %
Verdipapirfondet DNB Norge (IV)	3.576.856	2,75 %
Verdipapirfond Pareto Aksje Norge	3.462.308	2,67 %
Verdipapirfondet Nordea Norge Verdi	2.899.724	2,23 %
Verdipapirfond Odin Norden	2.854.979	2,20 %
State Street Bank and Trust CO (nominee)	2.757.847	2,12 %
Vind LV AS	2.736.435	2,11 %
Wimoh Invest AS	2.359.388	1,82 %
MP Pensjon PK	2.058.415	1,59 %

# SpareBank 1 SMN

7467 TRONDHEIM

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## CEO

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### Internett addresses:

SMN home page and internet bank: [www.smn.no](http://www.smn.no)

Hugin-Online: [www.huginonline.no](http://www.huginonline.no)

Equity capital certificates in general:  
[www.grunnfondsbevis.no](http://www.grunnfondsbevis.no)

### Financial calendar 2014

Q2	13. August
Q3	30. October