

# Report of the Board of Directors

## First half 2017

(Consolidated figures. Figures in parenthesis refer to the same period of 2016 unless otherwise stated).

- Pre-tax profit: NOK 961m (930m)
- Net profit: NOK 759m (771m)
- Return on equity: 9.9 per cent (10.9 per cent)
- Growth in lending: 8.5 per cent (6.5 per cent) and in deposits: 12.7 per cent (1.3 per cent) in the last 12 months
- Loan losses: NOK 175m (287m), 0.25 per cent (0.44 per cent) of gross loans
- CET1 capital ratio: 15.0 per cent (14.1 per cent)
- Earnings per equity certificate (EC): NOK 3.65 (3.71)

## Second quarter 2017

- Pre-tax profit: NOK 507m (546m)
- Net profit: NOK 401m (460m)
- Return on equity: 10.5 per cent (12.9 per cent)
- Loan losses: NOK 86m (118m), 0.24 per cent (0.36 per cent) of gross loans
- Earnings per equity certificate (EC): NOK 1.92 (2.21)

## Good result for the first half of 2017

### Main points:

- Strengthened operating profit
- Reduced losses on loans to the offshore segment
- Good results at subsidiaries and affiliates
- Strong financial position
- High customer influx and good growth
- The Group's income and cost base has increased as a result of the acquisition by SpareBank 1 SMN Regnskapshuset, increased activity at SpareBank 1 SMN Markets and the establishment of BN Bolig

In the first half of 2017 SpareBank 1 SMN achieved a pre-tax profit of NOK 961m (930m). The net profit was NOK 759m (771m) and return on equity was 9.9 per cent (10.9 per cent).

Profit in the second quarter was NOK 401m (460m), an improvement of NOK 43m on the first quarter. Return on equity in the quarter came to NOK 10.5 per cent (12.9 per cent).

The Group increased its operating income in the first half of 2017 by NOK 246m to NOK 2,036m (1,791m), both as a result of increased net interest income and increased commission income. SpareBank 1 SMN Regnskapshuset's acquisition and income growth at SpareBank 1 SMN Markets explain much of the increase.

Return on financial investments was NOK 269m (443m), of which income from owner interests accounted for NOK 165m (246m).

Operating expenses came to NOK 1,169m in the first half of 2017 (1,016m). The bank is well placed to attain its target of zero cost growth at the parent bank again in 2017. The Group's cost growth is due to cost increases at the subsidiaries.

First-half loan losses totalled NOK 175m (287m), corresponding to 0.25 per cent (0.44 per cent) of total lending. The losses are in all essentials in the offshore segment and are in keeping with the level expected.

Growth in lending and deposits in the last 12 months was 8.5 per cent (6.5 per cent) and 12.7 per cent (1.3 per cent) respectively. In the first half-year lending rose by 4.6 per cent (4.1 per cent) and deposits by 12.6 per cent (4.6 per cent).

As at 30 June 2017 the CET1 ratio was 15.0 per cent (14.1 per cent), in keeping with the Group's target.

Earnings per EC were NOK 3.65 (3.71) in the first half-year. The book value per EC as at 30 June 2017 was NOK 73.85 (69.18).

The EC's market price at the half-year mark was NOK 71.75 (46.70 at the turn of the year). A cash dividend of NOK 3.00 per EC was paid in the second quarter for the year 2016.

#### **Increased net interest income**

Net interest income came to NOK 1,043m (942m) in the first half of 2017. The increase of NOK 101m is in large measure ascribable to growth in lending and improved margins both on residential mortgage loans and loans to corporates. The margin improvement is a result of lower market interest rates and repricing of parts of the corporate portfolio.

In January 2017 a general interest rate increase of up to 20 basis points was effectuated on residential loans. After the rate increase, the average lending rate on residential loans is still at a lower level than in the same period of last year.

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies in the first half of 2017 totalled NOK 166m (149m).

#### **Increased commission income**

Net commission and other operating income totalled NOK 993m (849m) in the first half of 2017, an increase of NOK 144m.

An increase of NOK 81m in income from accounting services is in large measure ascribable to the acquisition of Økonomisenteret with effect from January 2017. In addition, income at SpareBank 1 Markets has shown a positive trend, having increased by NOK 42m. Incomes from SpareBank 1 Boligkreditt and Næringskreditt have increased by 17m as a result of a higher volume of loans sold to these companies.

Commission income (NOKm)	January-June		Change
	2017	2016	
Payment transfers	103	94	8
Creditcard	29	30	-1
Saving products	44	42	2
Insurance	84	79	5
Guarantee commission	32	40	-8
Real estate agency	200	197	4
Accountancy services	200	119	81
Markets	106	64	42
Other commissions	29	37	-8
<b>Commissions ex SB1 Boligkreditt and SB1 Næringskreditt</b>	<b>827</b>	<b>701</b>	<b>125</b>
Commissions SB1 Boligkreditt	158	144	14
Commissions SB1 Næringskreditt	8	5	3
<b>Total commissions</b>	<b>993</b>	<b>850</b>	<b>143</b>

### Result for financial investments

Overall return on financial investments was NOK 100m (124m).

- A net gain of NOK 31m on equities and financial derivatives (gain of NOK 90m)
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed rate loans, and have yielded a gain of NOK 15m (20m) in the period
- The Group's holding of commercial paper and bonds has yielded a gain of NOK 187m (3m)
- The prices of financial instruments used by the bank for hedging purposes are reduced, and the bank has recorded a loss of NOK 152m (17m) on hedging instruments of which NOK 93m (plus 4m) refers to losses on basis swaps

Result for financial investments (NOKm)	January-June		Change
	2017	2016	
Capital gains shares	34	69	-35
Gain/(loss) on derivatives	-3	21	-24
Gain/(loss) on other financial instruments at fair value (FVO)	15	20	-4
Foreign exchange gain / (loss)	19	28	-9
Gain/(Loss) on certificates and bonds	187	3	184
Gain/(loss) on financial instruments related to hedging	-152	-17	-135
<i>of which basis-swap</i>	-93	4	-98
<b>Net return on financial instruments</b>	<b>100</b>	<b>124</b>	<b>-23</b>

### Income from investment in associated companies

Income from investment in associated companies was NOK 165m (246m).

Income from investment in associated companies	January-June		Change
	2017	2016	
SpareBank 1 Gruppen	134	141	-7
SpareBank 1 Boligkreditt	-37	22	-59
SpareBank 1 Næringskreditt	13	15	-2
SpareBank 1 Kredittkort	7	14	-7
BN Bank	50	51	-1
SpareBank 1 Mobilbetaling	-14	-9	-5
Other companies	12	13	-1
<b>Income from investment in associated companies</b>	<b>165</b>	<b>246</b>	<b>-81</b>

**SpareBank 1 Gruppen**

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning, SpareBank 1 Medlemskort, SpareBank 1 Gruppen Finans and Conecto. SpareBank 1 SMN's holding in SpareBank 1 Gruppen at the end of the first half of 2017 was unchanged at 19.5 per cent.

SpareBank 1 Gruppen recorded a profit of NOK 711m in the first half of 2017 (694m). The profit growth is mainly ascribable to the non-life insurance business. The other companies report an approximately unchanged profit compared with 2016.

SpareBank 1 SMN's share of the first-half profit was NOK 134m (141m), down NOK 4m due to revisions between the preliminary and final accounts for 2016.

**SpareBank 1 Boligkreditt**

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to guarantee funding through the market for covered bonds. By selling their best secured residential mortgage loans to the company, the banks achieve reduced funding costs and more secure access to funding. As at 30 June 2017 the bank had sold loans totalling NOK 34bn (33bn) to SpareBank 1 Boligkreditt, corresponding to 36 per cent (39 per cent) of overall loans to wage earners.

The bank's stake in SpareBank 1 Boligkreditt is 19.1 per cent, and the bank's share of that company's profit in the first half of 2017 was minus NOK 37m (22m). The bank's holding reflects its relative share of total residential mortgage loans transferred to SpareBank 1 Boligkreditt by the end of 2016.

The profit share in the first half of 2017 is impaired by value changes of NOK 64m on the company's basis swaps. The portfolio of basis swaps is valued quarterly, and may produce wide profit/loss fluctuations from quarter to quarter. Key drivers are the currencies traded in, changes in exchange rates and issue maturities.

**SpareBank 1 Næringskreditt**

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 30 June 2017, loans worth NOK 2.3bn (1.8bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 36.5 per cent, and the bank's share of the company's profit for the first half of 2017 was NOK 13m (15m). The bank's holding reflects its relative share of sold loans to commercial property and its stake in BN Bank. Of aggregate loans at SpareBank 1 Næringskreditt, 78 per cent have been purchased from BN Bank.

**SpareBank 1 Kredittkort**

Profit for the first half of 2017 was NOK 39m (78m). SpareBank 1 Kredittkort (a credit card company) is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.9 per cent. SpareBank 1 SMN's share of the profit for the first half of 2017 was NOK 7m (14m), and the bank's share of the credit card portfolio is NOK 823m.

**BN Bank**

SpareBank 1 SMN owns 33.0 per cent of BN Bank. BN Bank recorded a first-half 2017 profit of NOK 144m (154m) SpareBank 1 SMN's share of the profit of BN Bank was NOK 50m (51m). Return on equity was 8.4 per cent (8.7 per cent).

In keeping with the decision to wind down the focus on financing of commercial property, the commercial portfolio has been reduced by NOK 18bn or 57 per cent since 30 June 2015. This has helped to improve SpareBank 1 SMN's financial position and to enhance the profitability of the remaining corporate portfolio of BN Bank.

BN Bank's main focus is on the personal market.

BN Bank has resolved to strengthen its product platform through a cautious focus on consumer lending. In addition the company has, in collaboration with Eiendomsmegler 1 Midt Norge, established the company BN Bolig, in which BN Bank holds a 50 per cent stake. The focus on estate agency in the Oslo market is aimed at strengthening residential lending for BN Bank in this market. To support the focus on estate agency, the bank's board of directors have also decided to embark on financing of housing projects. This will involve a controlled, gradual build-up of the portfolio.

**Vipps and SpareBank 1 Mobilbetaling (mCASH)**

On 13 February 2017 it was announced that SpareBank 1 SMN was to join 105 other banks in selecting Vipps as their mobile payment solution.

Vipps is now assigned to a company in which DNB is the largest owner with about 50 per cent of the shares. The SpareBank 1 Alliance is the second largest owner with 25 per cent, other savings banks with 13 per cent and the Eika Alliance with 10 per cent. The mCASH brand will accordingly be taken off the market in the course of 2017.

The new Vipps will be a strong Norwegian company, well equipped to compete against large Nordic and international actors in the mobile payments area. The company will develop and deliver simple, secure services at the lowest possible cost. Uniting competence with technology in one strong Norwegian company will benefit the customers. SpareBank 1's 550,000 mCASH customers will be invited to join Vipps. The customers will have the same options available as they had as mCASH users.

SpareBank 1 Mobilbetaling recorded a deficit of NOK 34m in the first half of 2017 of which SpareBank 1 SMN's share is NOK 7m. SpareBank 1 SMN has in addition recognised minus NOK 7m as a correction to the 2016 result.

**Operating expenses**

Overall operating expenses came to NOK 1,169m (1,016m) in the first half of 2017. Of the increase of NOK 153m, NOK 74m is ascribable to SpareBank 1 SMN Regnskap's acquisition, NOK 40m to SpareBank 1 Markets and NOK 12m to the start-up of BN Bolig. BN Bolig is consolidated as a subsidiary of EiendomsMegler 1 Midt-Norge.

Parent bank costs rose by NOK 10m to NOK 613m. A reduction of FTEs has in isolation reduced personnel costs. A new tax on financial institutions, effective as from 2017, has increased costs by NOK 9m in the first half-year. Other growth in costs compared with the first half of 2016 relates to technological developments.

The number of FTEs has been reduced from 630 to 609 so far in 2017 and will be further reduced to 590 over the course of the year. This will reduce staffing at the parent bank by 130 FTEs since 2014. Changing customer behaviour and new technology set the stage for increased efficiency, and the target of zero cost growth is retained for 2017.

The Group cost-income ratio was 51 per cent (46 per cent).

### **Reduced losses and continued low default rate**

Losses on loans and guarantees totalled NOK 175m in the first half of 2017 (287m).

A net loss of NOK 81m was recorded on loans to corporates in the second quarter of 2017 (116m). So far this year net losses total NOK 168m (275m). As in 2016, losses in the first half of 2017 relate in all essentials to a small number of exposures in the offshore segment. All major offshore exposures in need of restructuring have now been restructured, and it is on this basis that the current year's offshore-related losses are expected to prove lower than in 2016. Future developments in this industry remain uncertain.

A net loss of NOK 7m was recorded on the retail banking portfolio in the first half of 2017.

Individually assessed write-downs on loans and guarantees totalled NOK 625m at 30 June 2017 (415m), an increase of NOK 187m over the last 12 months.

Total problem loans (defaulted and doubtful) came to NOK 1,409m (1,453m), or 0.98 per cent (1.10 per cent), of gross outstanding loans at the half-year mark.

Defaults in excess of 90 days totalled NOK 258m (255m), measuring 0.18 per cent (0.19 per cent) of gross lending. Defaults break down to NOK 85m (36m) on corporates and NOK 173m (219m) on retail borrowers. Individually assessed write-downs on non-performing exposures totalled NOK 55m (31m) corresponding to a share of 21 per cent (12 per cent).

Other doubtful exposures totalled NOK 1,151m (1,198m), breaking down to NOK 1,128m (1,171m) on corporates and NOK 23m (28m) on retail borrowers. Other doubtful exposures measure 0.80 per cent (0.90 per cent) of gross lending. Individually assessed write-downs on these exposures totalled NOK 570m (384m), corresponding to a share of 50 per cent (32 per cent).

### **Collectively assessed impairment write-downs**

The calculation of collectively assessed impairment write-downs is based on two factors:

- Events that have affected the bank's portfolio (causing migration between risk categories)
- Events that have not yet affected the portfolio since the bank's credit risk models fail to capture the effects rapidly enough (e.g. macroeconomic factors)

Collectively assessed impairment write-downs connected to the offshore segment increased by NOK 10m in the first quarter of 2017 based on updated risk assessments of companies without individually assessed write-downs. No basis has been found for making changes in the second quarter of 2017. Overall collectively assessed impairment write-downs thus total NOK 351m (418m), measuring 0.25 per cent (0.41 per cent) of total loans. Collectively assessed write-downs break down to NOK 102m on retail exposures and NOK 249m

on corporates. Of the overall provision of NOK 249m on the corporate portfolio, the provision for oil-related activity accounts for NOK 70m. The remaining collectively assessed write-downs of NOK 179m on the corporate portfolio are fairly evenly spread across other sectors.

A substantial decline in collectively assessed write-downs in the last 12 months is related to individually assessed write-downs carried out on several offshore exposures. This reduced the basis for collective write-downs.

### **Total assets of NOK 149bn**

The Group's assets totalled NOK 149.4bn (141.1bn) at 30 June 2017, having risen by NOK 8.3bn or 6 per cent over the last 12 months. The increase is due primarily to lending growth.

As at 30 June 2017 residential mortgage loans totalling NOK 34.2bn (33.0bn) had been sold to SpareBank 1 Boligkreditt and commercial loans totalling NOK 2.3bn (1.4bn) to SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

### **Good growth in residential mortgage lending**

(For distribution by sector – see note 5 and note 9).

Total outstanding loans have risen by NOK 11.2bn (8.1bn) or 8.5 per cent (6.5 per cent) in the last 12 months to reach NOK 143.8bn (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) at the half-year mark. Growth in the first half-year was 4.6 per cent (4.1 per cent).

Lending to retail borrowers rose by NOK 8.9bn (7.9bn) in the last 12 months to reach NOK 94.1bn as at 30 June 2017. This represent a growth of 10.5 per cent (10.2 per cent). Growth in the first half-year was 5.3 per cent (5.5 per cent). With this growth the bank has increased its market share.

Lending to corporates increased by NOK 2.3bn (0.2bn) or 4.8 per cent (0.4 per cent) in the last 12 months. Overall lending to corporates came to NOK 49.7bn as at 30 June 2017. Lending to corporate borrowers grew by 3.3 per cent (1.6 per cent) in the first half-year.

Loans to retail borrowers accounted for 65 per cent (64 per cent) of ordinary loans to customers at the end of the first half of 2017.

### **Strong growth in deposits**

Customer deposits rose by NOK 8.5bn (0.8bn) in the last 12 months to reach NOK 75.6bn as at 30 June 2017. This represents a growth of 12.7 per cent (1.3 per cent). Deposits grew by NOK 12.5 per cent (4.6 per cent) in the first half-year.

Retail deposits rose by NOK 1.9bn (1.5bn) or 6.2 per cent (5.3 per cent) in the last 12 months to reach NOK 32.0bn at end-June 2017. Corporate deposits rose by NOK 6.7bn (fall of 0.7bn) or 18.0 per cent (fall of 1.8 per cent) to reach NOK 43.5bn in the last 12 months. In the first half of 2017 retail deposits rose by 7.6 per cent (6.4 per cent) and corporate deposits by 16.4 per cent (3.1 per cent).

### Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 9.7bn at 30 June 2017 (8.2bn), an increase of 17.5 per cent over the last 12 months. The growth is related to value changes on underlying securities and good sales, especially of active asset management products.

Saving products, customer portfolio (NOKm)	January-June		Change
	2017	2016	
Equity funds	5,970	5,177	793
Pension products	782	681	101
Active management	2,913	2,371	542
<b>Total</b>	<b>9,665</b>	<b>8,229</b>	<b>1,436</b>

### Insurance products

The bank's insurance portfolio grew by 5.7 per cent in the last 12 months and the overall premium volume as at 30 June 2017 came to NOK 1,292m (1,222m). Non-life insurance showed 3.0 per cent growth, personal insurance 11.2 per cent growth and occupational pensions 9.6 per cent growth. Overall income on the bank's insurance portfolio came to about NOK 160m in 2016 and growth is forecast again in 2017.

Insurance, premium volume (NOKm)	January-June		Change
	2017	2016	
Non-life insurance	753	731	22
Personal insurance	318	286	32
Occupational pensions	221	205	16
<b>Total</b>	<b>1,292</b>	<b>1,222</b>	<b>70</b>

### Retail Banking

Overall operating income came to NOK 894m (812m) of which net interest income accounted for NOK 529m (474m) and commission income for NOK 364m (338m). Incomes have risen in all product areas as a result of a good customer influx and an increase in the number of multi-product customers. Return on capital employed in the retail banking segment was 16.2 per cent (13.3 per cent). Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin in the first half of 2017 was 1.79 per cent (1.79 per cent), while the deposit margin was 0.21 per cent (0.21 per cent) (measured against three-month NIBOR). The average three-month NIBOR has fallen by about 50 basis points since the start of 2016.

In the last 12 months retail lending and retail deposits grew by 10.0 per cent (9.8 per cent) and 5.6 per cent (4.5 per cent) respectively.

Lending to retail borrowers consistently carries low risk, as reflected in continued very low losses. There are no indications of increased loss and default levels in the bank's residential mortgage loan portfolio. The portfolio is secured on residential property, and the trend in house values has been satisfactory across the bank's market area as a whole.

### Corporate Banking

Operating income totalled NOK 645m in the first half of 2017 (594m). Net interest income was NOK 544m (492m) and commission income totalled NOK 101m (103m), including NOK 5m (6m) on fixed-income and forex business. Operating income in the corporate segment has risen due in all essentials to a strong increase in deposit volume and improved lending margins.



Overall losses in the corporate banking division came to NOK 166m (274m). The losses are in all essentials related to the challenges in the offshore segment.

Return on capital employed for the corporate banking segment in the first half of 2017 was 9.5 per cent (2.4 per cent). Regulatory capital of 15.0 per cent is used as capital employed in the first half of 2017, corresponding to the Group's targeted CET1 capital ratio.

The lending margin was 2.69 per cent (2.63 per cent) and the deposit margin was minus 0.17 per cent (minus 0.17 per cent) in the first half-year.

Lending grew by 2.4 per cent and deposits by 19.5 per cent in the last 12 months.

## Subsidiaries

The subsidiaries posted an overall first-half profit of NOK 164,3m (147m) before tax.

Pre-tax profit (NOKm)	January-June		Change
	2017	2016	
EiendomsMegler 1 Midt-Norge	23.5	43.3	-19.8
SpareBank 1 Finans Midt-Norge	57.6	48.5	9.1
SpareBank 1 Regnskapshuset SMN	35.7	25.9	9.8
Sparebank 1 Markets (proforma incl. Allegro)	20.4	9.9	6.7
SpareBank 1 SMN Invest	16.0	22.5	-6.5
Other companies	11.2	-3.4	14.5
<b>Total</b>	<b>164.3</b>	<b>146.7</b>	<b>13.8</b>

**EiendomsMegler 1 Midt-Norge** leads the field in Trøndelag and in Møre and Romsdal with a very strong market share throughout the market area, in particular in Trondheim. Its ambition is to continue to strengthen its market share in the region. The company has, in cooperation with BN Bank, established BN Bolig in which EiendomsMegler 1 and BN Bank each hold a 50 per cent stake. BN Bolig targets the estate agency market in Oslo and is designed to enhance income from estate agency and to contribute to stronger growth in residential lending for BN Bolig in this market.

EiendomsMegler 1 Midt-Norge's pre-tax profit in the first half of 2017 was NOK 23.5m (43.3m). Its profit performance is weakened by start-up costs of NOK 11.5m at BN Bolig in as much as EiendomsMegler 1 Midt-Norge fully consolidates BN Bolig's results as a subsidiary.

Dwellings sold in the first half of 2017 totalled 3,695 compared with 3,846 in the same period of 2016.

**SpareBank 1 Finans Midt-Norge** delivered a pre-tax profit of NOK 57.6m in the first half-year (48.5m), and shows positive profit growth thanks to strong income growth, limited growth in costs and sound risk management. The company manages leases and car loan agreements worth a total of NOK 5.7bn, of which leases account for NOK 2.7bn and car loans for NOK 3.0bn.

Sound growth is noted, particularly in car loans where growth in the last 12 months stands at 42 per cent. At the half-year mark the Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge and Sparebanken Sogn og Fjordane a stake of 7.5 per cent. SpareBank 1 SMN owns 64.6 per cent of the shares of SpareBank 1 Finans Midt-Norge.

**SpareBank 1 Regnskapshuset SMN** posted a pre-tax profit of NOK 35.7m (25.9m) in the first half of 2017. The profit growth is related to business acquisition effects and to good operations.

The company caters to the SMB segment with its technologically modern distribution model and broad range of services.

SpareBank 1 Regnskapshuset SMN acquired all shares of Økonomisenteret and about 110 employees with effect from 1 January 2017. This brings the company's workforce to 360 and annual turnover to NOK 360m. Improved profit figures were recorded in the first half-year along with a substantial increase in both income and costs.

**Sparebanken SMN Invest** invests in shares, mainly in regional businesses. The company posted a net profit of NOK 16.0m (22.5m) in the first half of 2017.

Value changes and realisation of losses or gains on the company's overall holding of shares represent NOK 3.2m of the company's result. The company has in addition ownership interests in the property company Grilstad Marina and its share of the latter's profit in the first half of 2017 was NOK 12.8m.

**SpareBank 1 Markets** is a subsidiary of SpareBank 1 SMN with a stake of 70.6 per cent. The company is headquartered in Oslo and has offices in Trondheim and Ålesund. It has a staff of 130.

SpareBank 1 Markets AS is an investment firm offering a complete product range. The company aspires to being a profitable capital market unit able to deliver all capital market services in collaboration with its parent banks.

SpareBank 1 Markets has acquired Allegro Kapitalforvaltning in Trondheim and SpareBank 1 Nord-Norge Forvaltning in Tromsø from, respectively, SpareBank 1 SMN and Sparebank 1 Nord-Norge. The two companies are being merged to become a central element in SpareBank 1 Markets' new asset management venture with combined assets totalling NOK 10bn.

The company's pre-tax profit for the first half of 2017 was NOK 20.4m (9.9m). The company has recorded positive profit growth in recent quarters, in particular in equity and derivatives trading and in the external capital area. NOK 20.4m (9.9m) are pro forma figures that include profit figures for Allegro Kapitalforvaltning. Allegro's profit for the first half of 2017 was NOK 3.2m (4.4m).

SpareBank 1 Markets has made a number of new appointments in the first quarter of 2017 which are expected to strengthen the company's earnings once the appointments achieve normalised earning power.

The company is the leading capital market unit in SpareBank 1 SMN's market area. SpareBank 1 Markets' main focus is on clients where the company holds a strong competitive position alone or in collaboration with its parent banks.

#### **Other companies**

Other companies comprise mainly property companies in which SpareBank 1 SMN and its subsidiaries are the principal tenant.

#### **Considering sale of Søndre gate 4-10 (head office complex)**

SpareBank 1 SMN is considering selling its entire head office complex, or parts of it, in Trondheim. The property is located in the city centre, at Søndre gate 4-10, and extends from Kongens gate to Dronningens gate. The complex, which was brought to completion in 2010, has a total floorage of about 22,000 sq.m. accommodating offices, shop premises and parking. In the event of a sale, the intention is to lease back the

floorage currently occupied by SpareBank 1 SMN and its subsidiaries. SpareBank 1 SMN has engaged SpareBank 1 Markets as adviser in this process.

### **Satisfactory funding and good liquidity**

The bank has a conservative liquidity strategy. The strategy attaches importance to maintaining liquidity reserves that ensure the bank's ability to survive 12 months of ordinary operation without need of fresh external funding.

The bank has liquidity reserves of NOK 28bn and thus has the funding needed for 32 months of ordinary operation without fresh external finance.

The Ministry of Finance requires all credit institutions to maintain sufficient liquidity buffers to withstand periods of limited access to market funding. The Liquidity Coverage Ratio (LCR) measures the size of the banks' liquid assets relative to net liquidity outflow 30 days ahead in time given a stressed situation.

The LCR is calculated at 160 per cent as at 30 June 2017 (149 per cent).

The group's deposit-to-loan ratio as of 30. June 2017 has increased to 53 per cent (51 per cent) as a result of high growth in deposits.

The bank's funding sources and products are amply diversified. At the half-year mark the proportion of the bank's overall money market funding in excess of 1 year was 80 per cent (83 per cent).

### **Rating**

Moody's revised in July 2017 its outlook for SpareBank 1 SMN and other Norwegian banks from stable to negative. The change was triggered by expectations of the introduction of the EU's Bank Recovery and Resolution Directive, which will likely lessen the probability of support from government authorities to Norwegian banks.

### **Financial position**

The CET1 capital ratio at 30 June 2017 was 15.0 per cent (14.1 per cent). The change over the last 12 months is ascribable to:

- An increase of NOK 1.0bn, corresponding to 8 per cent, in CET1 capital. This is in all essentials retained profit
- The overall capital need has risen by NOK 139m, corresponding to 1.9 per cent, in the last 12 months. Lending to commercial property has been scaled back at BN Bank
- Residential mortgage lending growth has been relatively high at the parent bank
- Risk weighted assets calculated under IRB with respect to corporates are reduced somewhat, but this is in large measure offset by the added need for capital under the transitional arrangement

As at 30 June 2017 the regulatory requirement on CET1 capital is 11.5 per cent, including combined buffer requirements.

Finanstilsynet's (Norway's FSA) final assessment of the add-on for risks not adequately covered under Pillar 1 was set at 2.1 per cent. The add-on is mainly related to owner risk, market risk and credit concentration

risk. In December 2016 the Ministry of Finance decided that the countercyclical buffer should be increased by a further 0.5 per cent, to 2.0 per cent with effect from 31 December 2017. The board of directors has therefore decided to raise the capital target to 15 per cent to secure a sufficient buffer.

The board of directors of SpareBank 1 SMN assesses the capital situation and future capital requirements on a continuous basis.

### **The bank's equity certificate (MING)**

The book value of the bank's EC as at 30 June 2017 was NOK 73.85 (69.18), and earnings per EC were NOK 3.65 (3.71).

As at 30 June 2017 the EC was priced at NOK 71.75 (46.70) and dividend of NOK 3.00 per EC has been paid in 2017 for the year 2016 (NOK 2.25).

The Price / Income ratio was 9.82 (6.30) and the Price / Book ratio was 0.97 (0.68) at end-June 2017.

### **Risk factors**

The Group's problem loans reflect the challenges connected to the offshore industry. As at 30 June 2017, loans to oil-related activity account for 4.1 per cent of the Group's overall lending. Credit quality in the bank's remaining loan portfolio is satisfactory, there have been no spillover effects from offshore to other industries, and no other concentrations in non-performing and doubtful exposures are in evidence.

Mainland (non-oil) GDP rose in the first quarter. A weaker Norwegian krone has impacted favourably on Norwegian exports. Real wage growth is expected to be low but positive. Combined with a persistent low interest rate level, the bank considers loss risk in the bank's retail portfolio to be low. Unemployment has fallen and the bank expects unemployment to be relatively moderate in the bank's market areas as a whole.

Credit demand from Norwegian households remains higher than wage growth and will be influenced by the trend in house prices. If house prices stagnate, or fall, there is a risk that the saving rate will rise among households with a high debt ratio, which could bring reduced turnover for parts of Norwegian business and industry. Following a very strong rise in house prices in Oslo, we are now observing a flattening in the market.

The bank's results are affected directly and indirectly by fluctuations in the securities markets. The indirect effect is due primarily to the bank's stake in SpareBank 1 Gruppen, where both the insurance business and asset management activities are affected by the fluctuations.

The bank is also exposed to risk connected to its access to external funding. This is reflected in the bank's conservative liquidity strategy (see also the above section on funding and liquidity).

### **Outlook**

SpareBank 1 SMN has shown positive profit growth in 2017. A good trend is noted in all business areas with improved margins and growth. The banking business is making efficiency gains on a continuous basis.

The bank's loan losses amounted to a mere 0.25 per cent in the first half-year, in spite of the difficult situation in the offshore industry. This shows that the bank's loan portfolio is robust and amply diversified. The trend in the offshore industry is nonetheless a matter of uncertainty.

In order to attain the Group's profitability objectives, a number of measures have been set in train to put the use of capital on a more efficient and effective footing, improve risk pricing and increase the number of multi-product customers. The bank intends to achieve cost-effective operation by streamlining distribution and work processes. Use of new technology will contribute to increased selling power and to enhancing the efficiency and effectiveness of processes. SpareBank 1 SMN is aiming for zero growth in parent bank costs in 2017.

The bank expects to distribute 50 per cent of its profit for 2017 as dividend and donations.

The board of directors is well pleased with the Group's achievements and results thus far in 2017.

Trondheim, 8. August 2017  
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal  
(chair)

Bård Benum  
(deputy chair)

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Janne Thyø Thomsen

Arnhild Holstad

Erik Gunnes  
(employee rep.)

Venche Johnsen  
(employee rep.)

Finn Haugan  
(Group CEO)