



**SpareBank**  
SMN



**1st half 2018**








**8. August 2018**

# SpareBank 1 SMN, the region's most important financial institution

## SpareBank 1 SMN

-  221,000 retail customers
-  14,800 corporate customers
-  Market leader in the region
-  Loan volume NOK 155bn
-  Finance house offering a wide range of products
-  A substantial co-owner of SpareBank 1 Alliance
-  Norway's largest equity-certificate-issuing bank

## History

-  Established in 1823
-  Sparebanken Midt-Norge since 1985
-  Listed on Oslo Børs since 1994
-  SpareBank 1 Alliance since 1996
-  Acquired Romsdals Fellesbank in 2005
-  Acquired BN Bank/Sunnmøre in 2009
-  Strong financial results over time

## Good profits 1<sup>st</sup> half 2018



Net profit NOK 1.209m (776m),  
return on equity 14.4 % (9.9 %)



CET1 15.0 % (14.9 %)  
Leverage ratio 7.4 % (7.2 %)



Pre loss result of core business  
NOK 991m (890m)  
Loan losses NOK 127m (NOK 175m)



Growth in lending RM 10.6 % (10.5  
%) and CM 2.0 % (4.8 %), deposits  
6.3 % (12.7 %) last 12 months



Decrease in FTEs parent bank and  
very low cost growth in parent  
bank

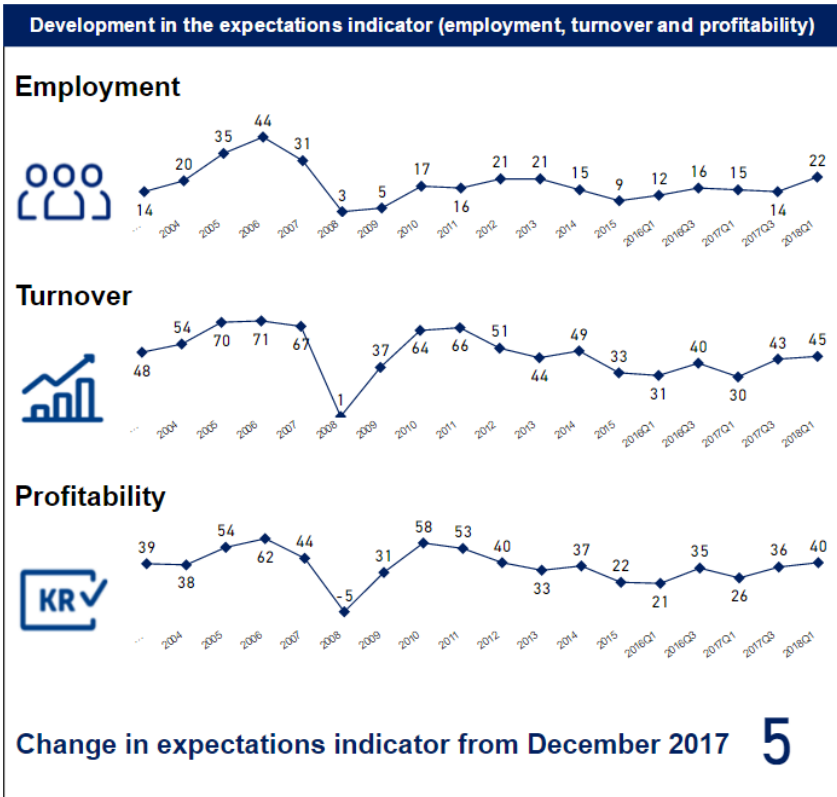
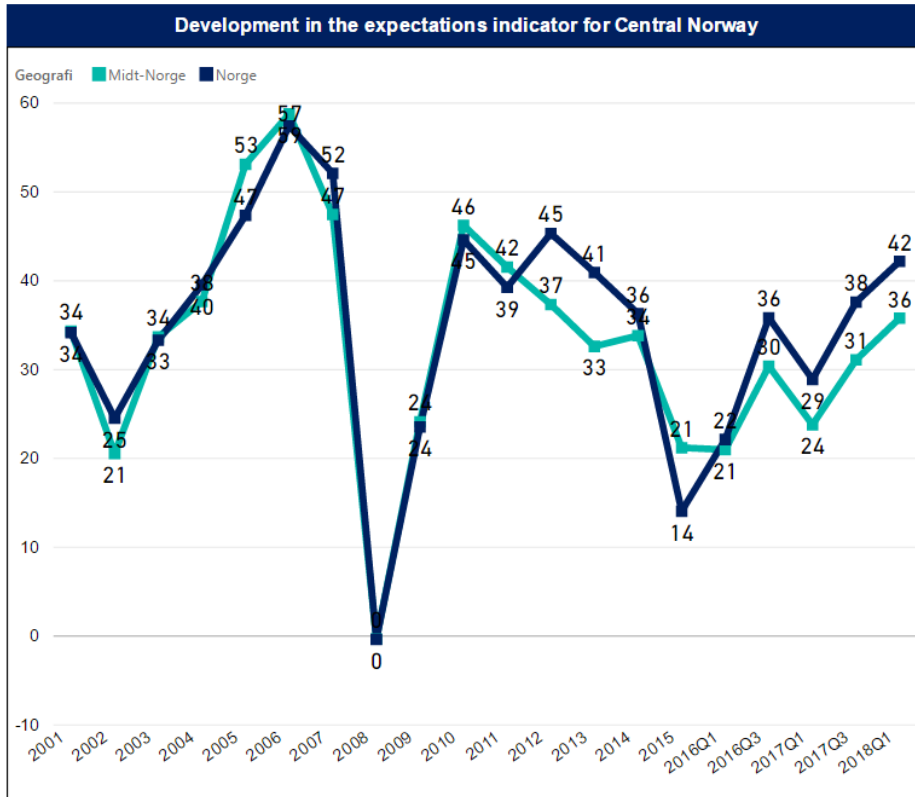


Booked equity capital per ECC NOK 80.21  
(75.40), profit per ECC NOK 5.75 (NOK  
3.66)

## Good first half-year for SpareBank 1 SMN

- Strong income growth, reduced losses along with one-time gains make for a very good profit performance and high return on equity
- Substantial profit improvement and strengthened market position for SB1 Markets, EM1, SMN Regnskapshuset and SB1 Finans
- Gains on disposal of head office building and merger between Vipps, Bank Asept and Bank ID in second quarter
- A CET1 ratio of 15 per cent and a leverage ratio of 7.4 per cent show a very solid bank
  
- More satisfied customers, in particular younger customers (KANTAR TNS)
- Many new retail and corporate customers. Strengthened market position in all product areas
- Reduced resource use and increased sales, PHYGITAL (physical and digital) distribution produces results
- Agreement of intent with DNB to merge non-life insurance arms

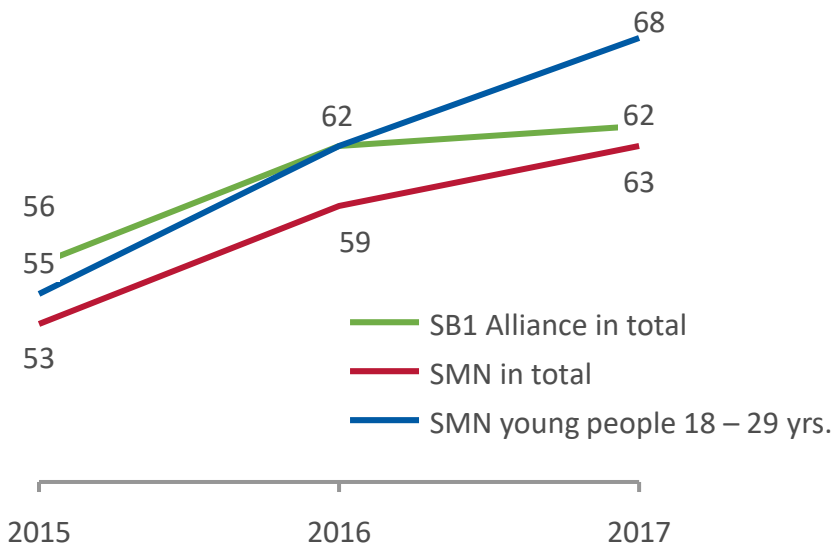
# The dawning pessimism last year has been replaced by greater faith in the future than has been seen in 6 years



## Strengthened reputation

Results from customer satisfaction and customer relationship survey (TRIM), conducted by KANTAR TNS

### Positive trend for SMN since 2015

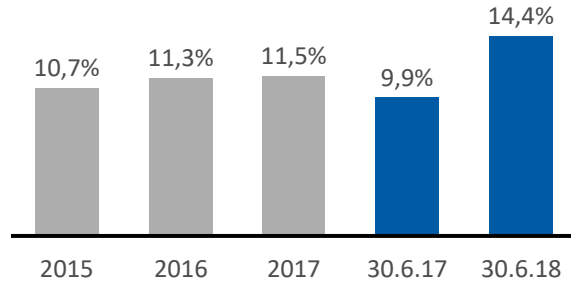


### Main findings of the survey

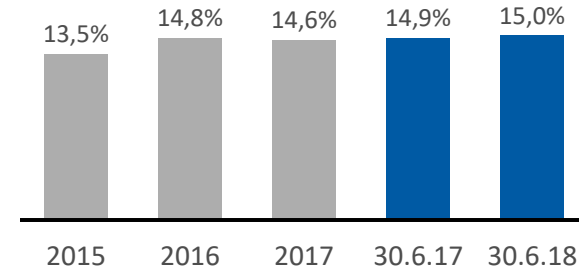
- SMN shows a strong trend in customer satisfaction and customer relationships
- The increasing satisfaction among young people is striking
- A growing share of customers place emphasis on good relations and local identity when choosing a bank
- Good self-service solutions are taken for granted to a greater extent than previously
- The bank must build relationships in both digital and staff-serviced channels

# Good profits and strong capitalization

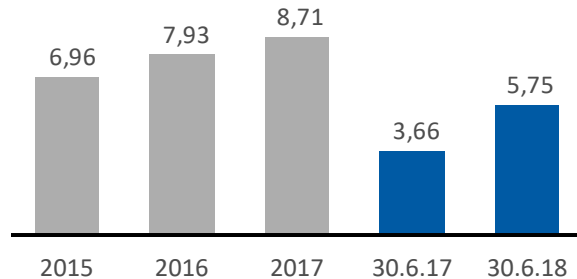
## Return on equity



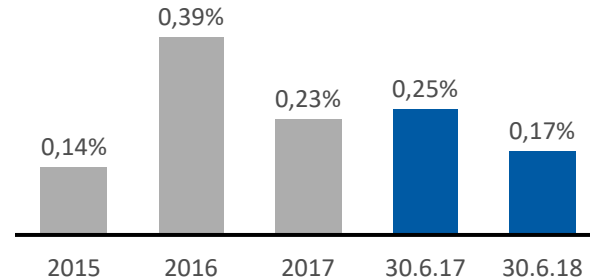
## CET1



## Earnings per ECC



## Loan losses as a percentage of total lending



## Strengthened profits from core business

NOK mill	1st half 2018	1st half 2017	Change	Q2 18	Q1 18	Q4 17	Q3 17	Q2 17
Net interest	1.149	1.066	83	581	568	589	570	532
Commission income and other income	1.149	993	156	607	542	529	482	538
<b>Operating income</b>	<b>2.297</b>	<b>2.059</b>	<b>239</b>	<b>1.188</b>	<b>1.110</b>	<b>1.118</b>	<b>1.052</b>	<b>1.070</b>
Total operating expenses	1.306	1.169	137	661	645	618	582	598
<b>Pre-loss result of core business</b>	<b>991</b>	<b>890</b>	<b>101</b>	<b>526</b>	<b>465</b>	<b>501</b>	<b>470</b>	<b>472</b>
Losses on loans and guarantees	127	175	-49	78	48	78	88	86
<b>Post-loss result of core business</b>	<b>864</b>	<b>714</b>	<b>150</b>	<b>448</b>	<b>416</b>	<b>423</b>	<b>383</b>	<b>386</b>
Related companies	181	165	16	102	79	147	126	94
Securities, foreign currency and derivatives	299	105	195	199	100	109	109	38
<b>Result before tax</b>	<b>1.345</b>	<b>984</b>	<b>361</b>	<b>748</b>	<b>596</b>	<b>678</b>	<b>617</b>	<b>518</b>
Tax	287	210	77	156	131	122	118	111
Result investment held for sale	151	2	149	150	1	-4	0	3
<b>Net profit</b>	<b>1.209</b>	<b>776</b>	<b>433</b>	<b>743</b>	<b>466</b>	<b>553</b>	<b>500</b>	<b>409</b>
<b>Return on equity</b>	<b>14,4 %</b>	<b>9,9 %</b>		<b>17,9 %</b>	<b>11,2 %</b>	<b>13,4 %</b>	<b>12,5 %</b>	<b>10,5 %</b>



# Improved profits and stronger market position for subsidiaries

## SpareBank 1 Finans Midt-Norge



- Pre-tax profit of NOK 72m (58m)
- Solid market position
- Leasing NOK 2.9bn, car loans 3.7bn
- Strong growth in car loans

## EiendomsMegler 1 Midt-Norge



- Pre-tax profit of NOK 18m (24m). The profit performance is weakened by start-up costs at BN Bolig
- 40% market share
- Strong synergy with the bank

## SpareBank 1 Regnskapshuset SMN



- Pre-tax profit of NOK 44m (36m)
- Stable and high growth in turnover
- Consolidating and digitalizing the industry
- Market share 26 %

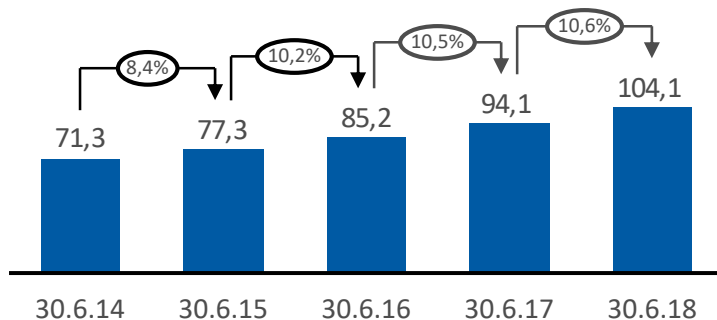
## SpareBank 1 Markets



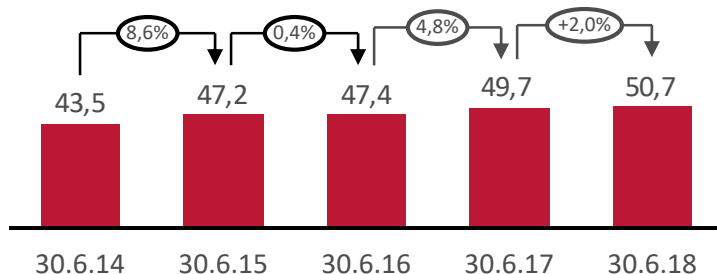
- Pre-tax profit NOK 36m (NOK 20m)
- Complete range of capital market services in cooperation with the owner banks
- High growth in income in 2018

# Total growth lending 7.6 % last 12 months

## Lending RM +10.6 % last 12 months



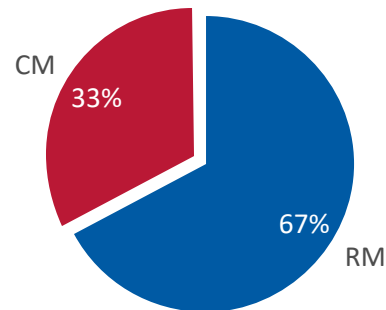
## Lending CM + 2.0 % last 12 months,



## High growth in home mortgage lending

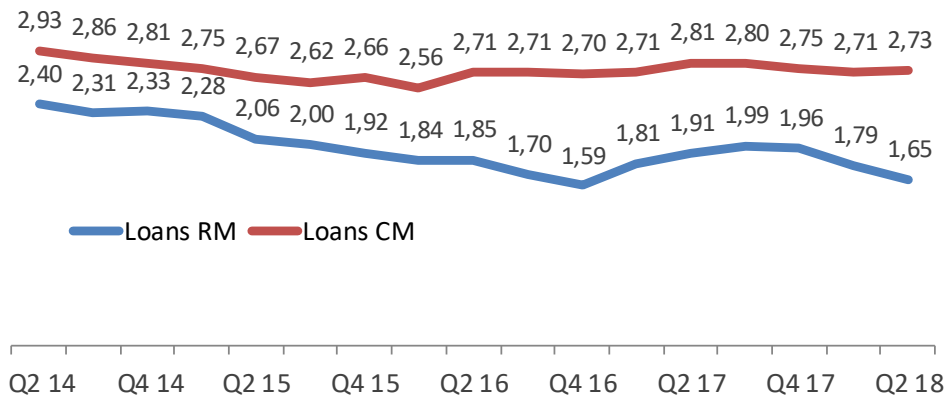
- Residential mortgage market share of about 5.8% (C2). Growth above this figure represents increased market share
- Share of loans to personal borrowers up from 61 to 67 per cent in last three years
- Growth to corporates is mainly to small businesses

## Share of lending



# Lending margins

## Increased Nibor in 2018



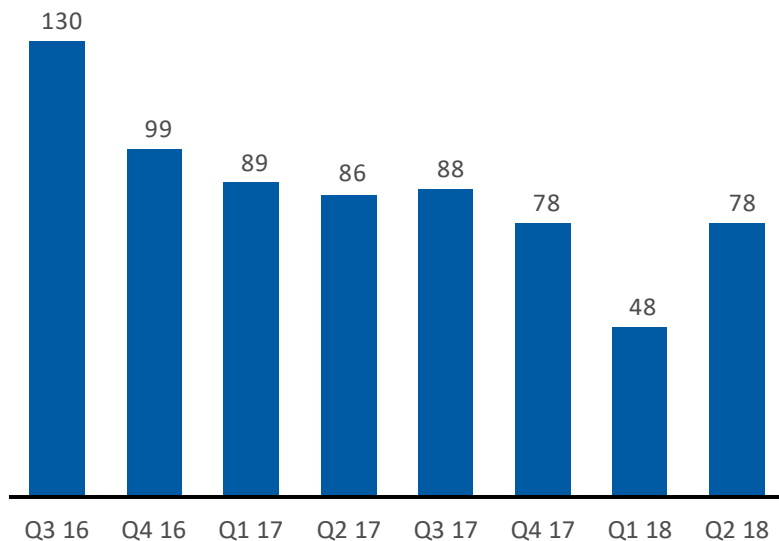
## Comments

- Reduced Nibor in 2017
- But Nibor has increased in 2018, and the margins on mortgages are under pressure

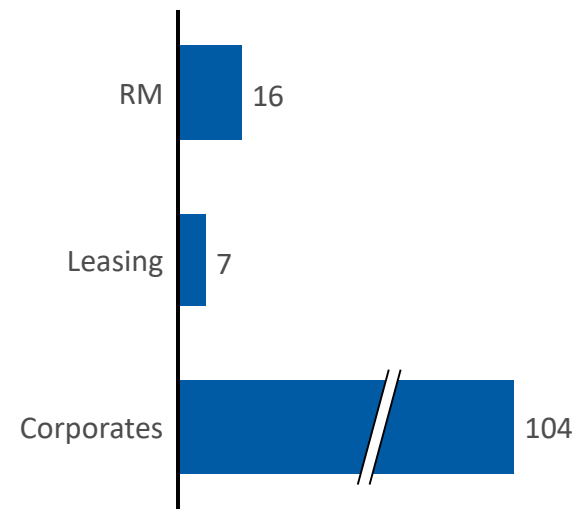
## Lower loan losses

Allowance being made for a possible new need for restructuring in the offshore industry

Losses per quarter, NOKm

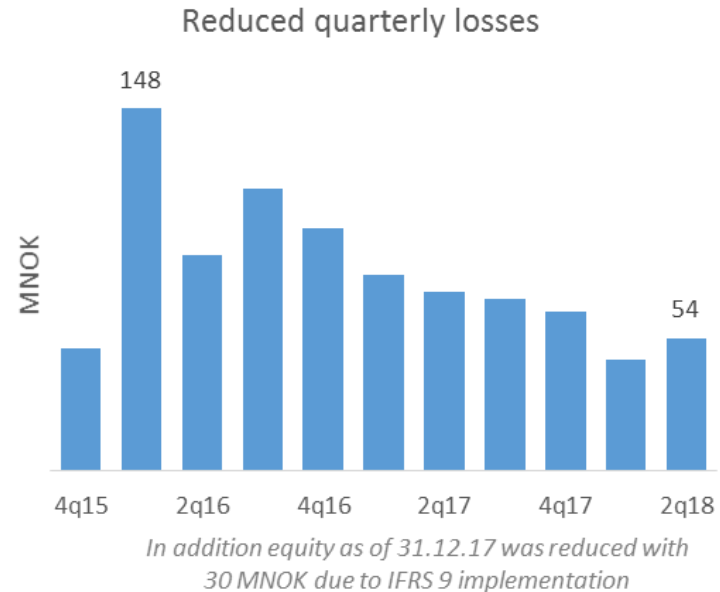
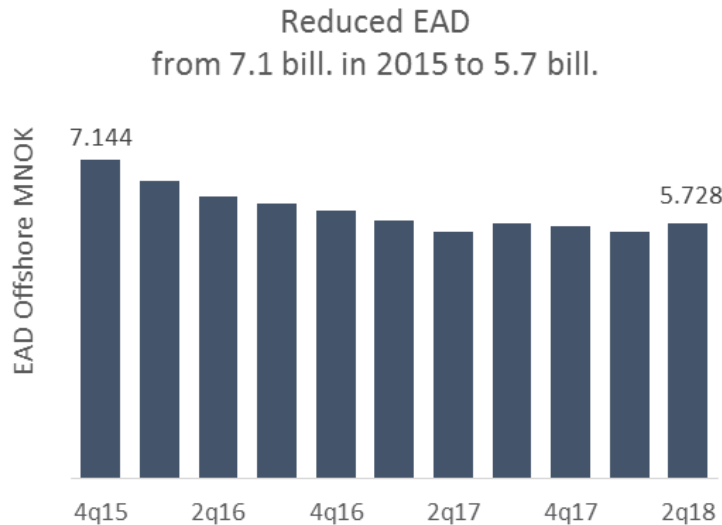


Distribution 1<sup>st</sup> half 2018



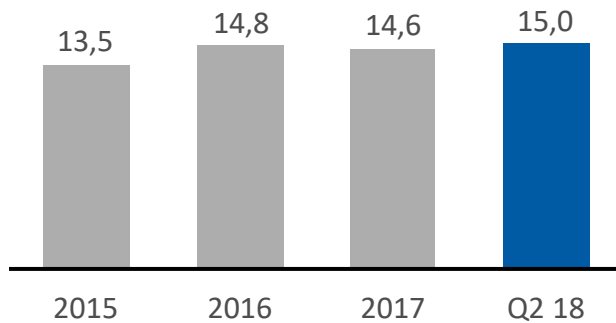
Loan losses including collective losses provisions 0.17 % (0.25 %) of gross lending as of 30.6.2018

## Restructuring of the bank's offshore clients considered to have reached completion this time round

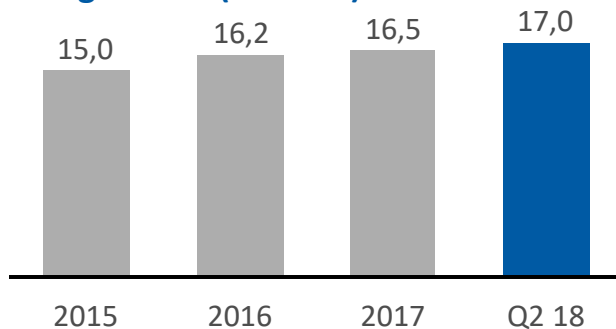


# Strong capitalization

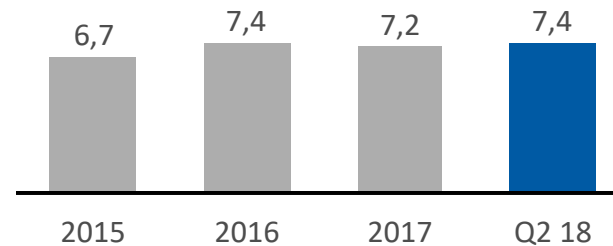
## Development CET1



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



## Development leverage ratio

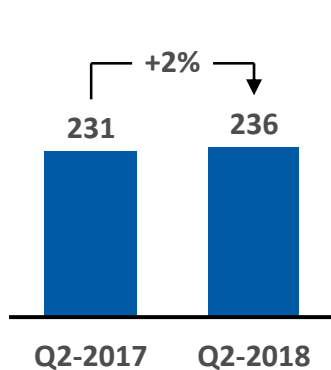


## The bank's phygital market approach generates strong growth in the retail segment



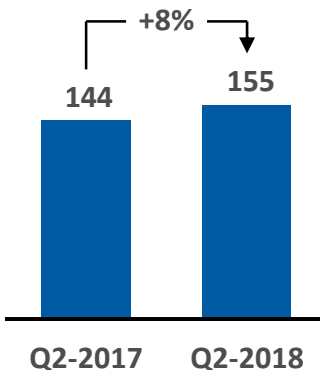
# Increased number of customers, volumes and incomes

### Number of customers



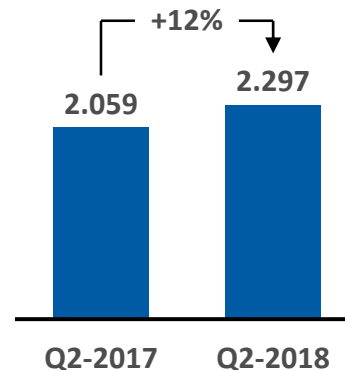
Stronger customer growth than population growth

### Total loan volume



Stronger lending growth than credit growth

### Operating income



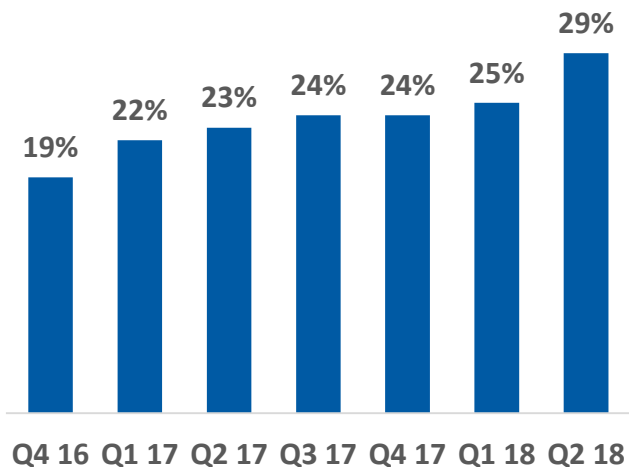
Strengthening incomes on a diversified platform



# 50% of overall sales on digital channels in 2020

New effective digital solutions is a key tool for achieving this target

52 % increase in digital sales from 2016 to 1st half 2018



Share of overall sales done on digital channels

New purchasing solutions on digital channels

Effective campaign tools offer the right product to the customer

Prediction models based on the bank's own data

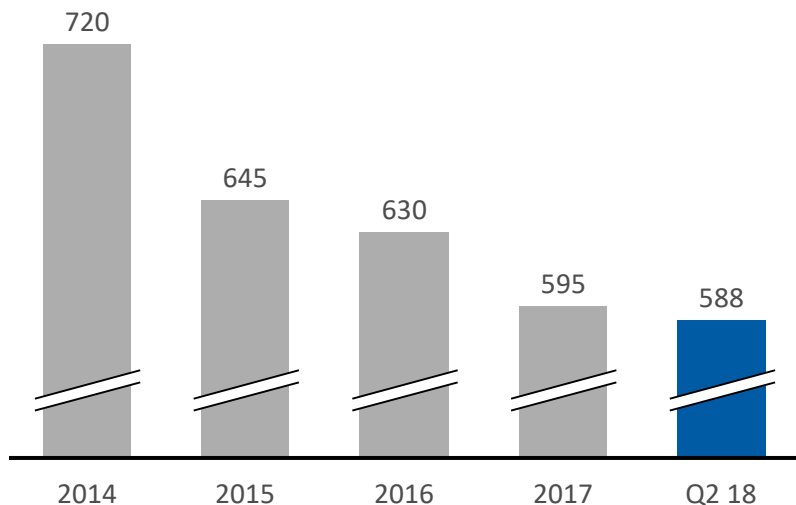
Effective channel interplay ensure a good customer experience

CRM solutions giving advisers improved insight

Effective interaction between technology and people

## Improving efficiency and effectiveness reduces number of FTEs in parent bank

### FTEs at parent bank



- No. of FTEs at the parent bank reduced substantially in recent years
- Both distribution and internal processes have gained efficiency
- At the same time the bank has greatly increased its customer base and its business volume
- Improving efficiency and effectiveness of the bank are to be continued

# SpareBank 1 Betaling: (Vipps + Bank ID + Bank Asept)

## Effective entity will ensure the development of tomorrow's payment systems for banks

The Competition Authority has approved the merger. Gain on NOK 90m in Q2 2018 resulting from the merger



## Communal project to clean up plastic waste, 2018: «Best» budget overrun of the year?

- With its 'Plastic Waste Clean-up Project 2018' the bank has played its part in the fight against plastic waste.
- The bank issued an invitation to join clean-up groups across entire Mid-Norway.
- Clubs and associations received support worth 100 kroner per sack of plastic waste collected.

Result:  
More than **12,000** volunteers took part.  
They gathered more than **17,000** sackfulls of plastic waste  
= **1.7 million kr. in support**



Picture taken on 13 May outside our branch office on the island of Frøya.

Plastic waste has oceans  
of time.  
We don't

[smn.no/plastdugnaden](http://smn.no/plastdugnaden)







«caring adds competitive power,  
especially in a digital world»



# SpareBank 1 SMN intends to be one of the best performing banks



## Customer oriented

Best for customer experience  
Continuing to strengthen market position



## Efficient

Nominal costs at the parent bank unchanged from 2014 to 2018



## Profitable

Return on equity among the best performing Norwegian banks: 12 per cent annually



## Dividend

Payout ratio in the region of 50 per cent



## Solid

15 per cent CET1 capital ratio



# Appendix

1st half 2018



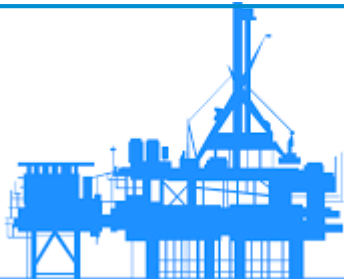
# Positive estimates economic growth

## Global GDP growth of 3.9% in coming years



IMF estimates global GDP growth of 3.9% in 2018 and 2019, and 5% in developing countries.

## Oil price has risen to \$70

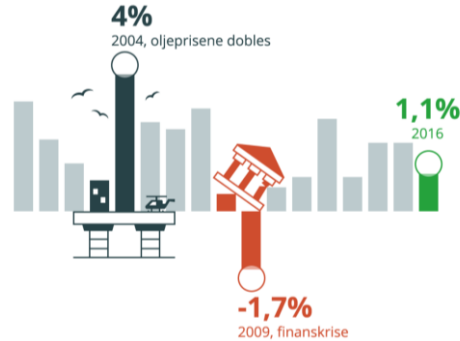


The oil price has risen from \$45 to \$70 since summer 2017 (price growth of 50% +)

Salmon price NOK 50-60 per kilo

1st half 2018

## Positive prospects for Norwegian economy



Statistics Norway estimates 2.5% GDP growth in Norway in 2018 and 2.8% in 2019.

Rising oil investments, growing mainland (non-oil) economy, falling unemployment and strengthening krone

## Norwegian business and industry in good shape

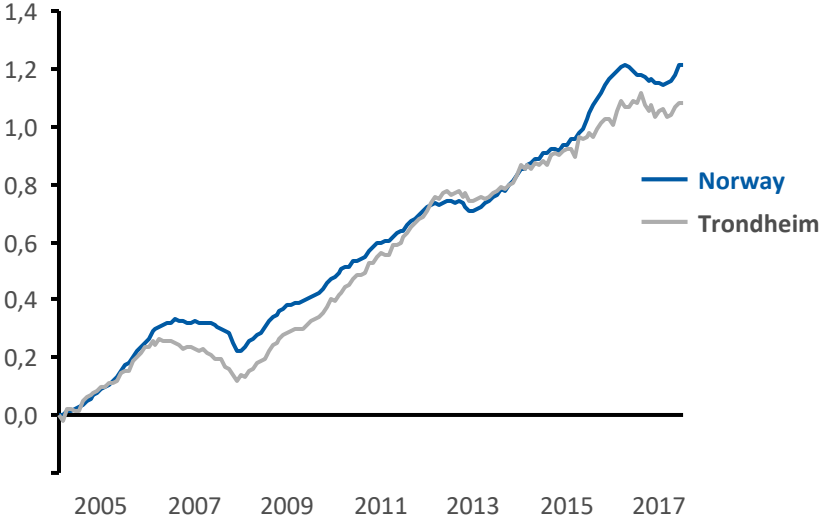


Norwegian business and industry are faring well; high expectations of a positive trend in coming years



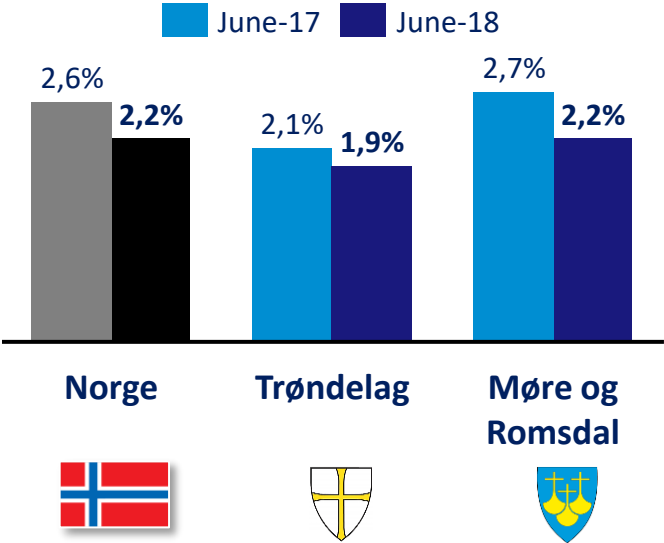
# House process levelling out at a high level

## House prices 2005 – Q2 2018



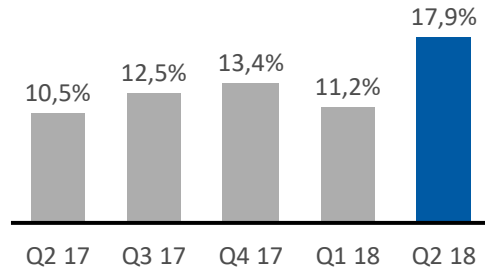
# Low unemployment

## Monthly figures – June 2017 and June 2018

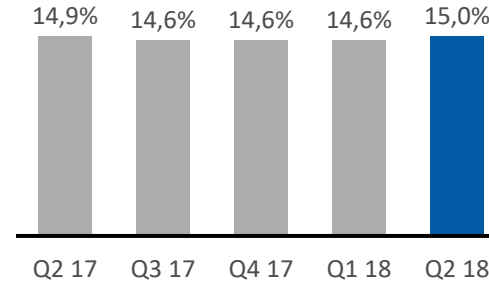


# Good profits and strong capitalization. Lower loan losses

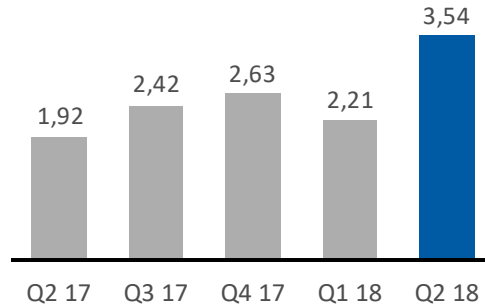
## Return on equity



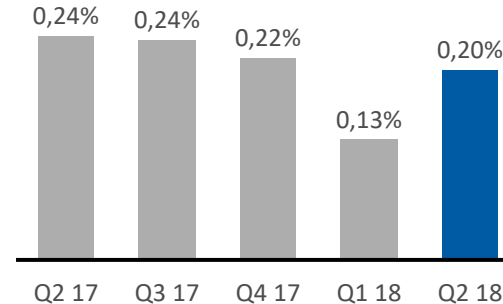
## CET 1



## Earnings per ECC

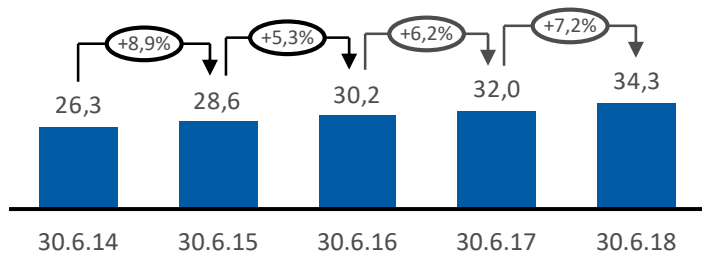


## Loan losses as a percentage of total loans

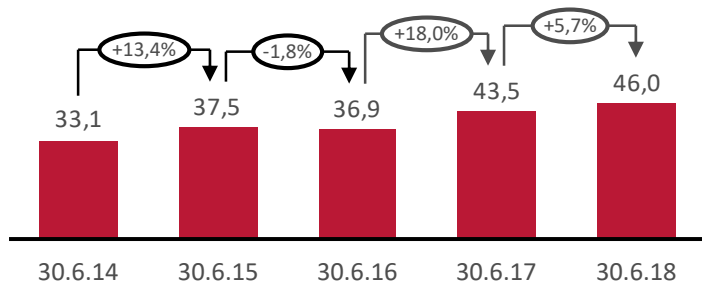


# Total growth deposits 6.3 % last 12 months

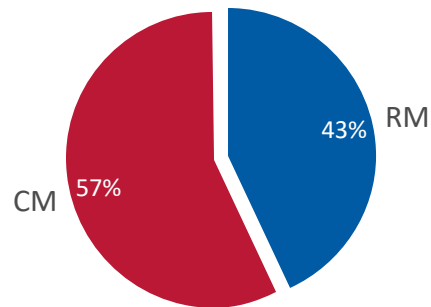
## Deposits RM + 7.2 %



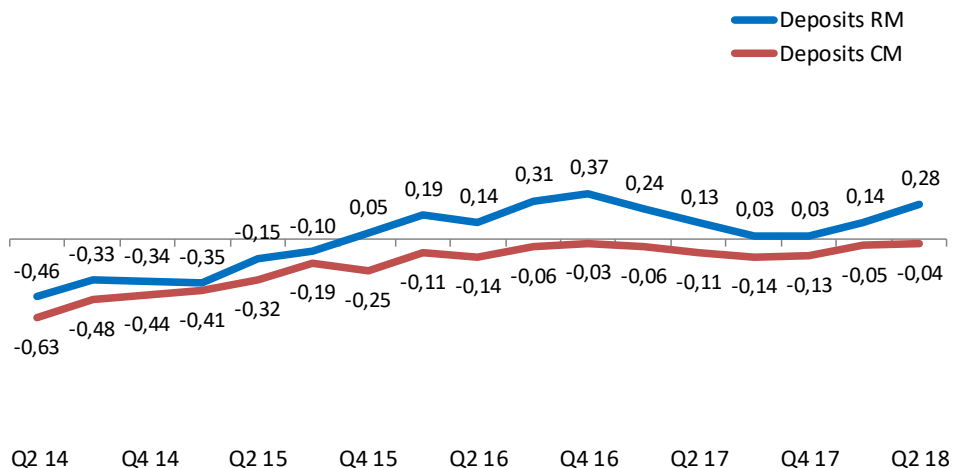
## Deposits CM + 5.7 %



## Share of deposits



## Deposit margins Retail and Corporate



### Comments

- Increased Nibor has strengthened the margins in 2018

## Change in net interest income

### 1<sup>st</sup> half 2018 compared with 1<sup>st</sup> half 2017

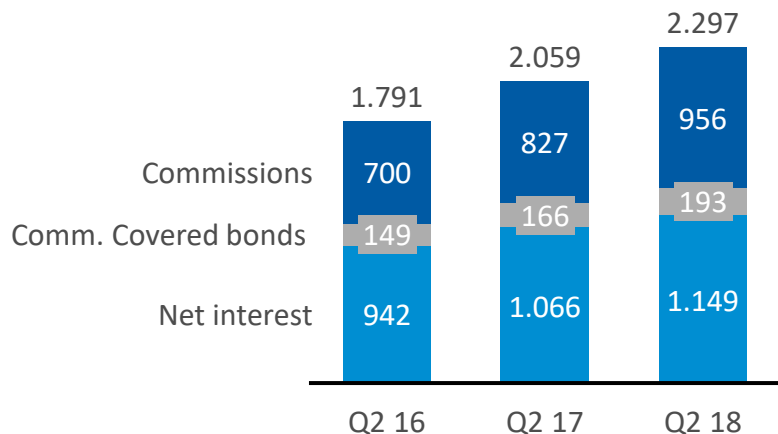
Net interest 1st half 2018	1.149
Net interest 1st half 2017	1.066
<b>Change</b>	<b>83</b>
<b>Obtained as follows:</b>	
Fees on lending	6
Lending volume	87
Deposit volume	1
Lending margin	-96
Deposit margin	11
Equity capital	5
Funding and liquidity buffer	36
Subsidiaries	32
<b>Change</b>	<b>83</b>

### Comments

- Increased lending volume strengthens net interest income
- Increased Nibor in 2018 weakens the margins on mortgages compared with 2017

# Robust income platform and increased commission income

## Net interest and other income



## Commissions 1<sup>st</sup> half 2018 and 2017

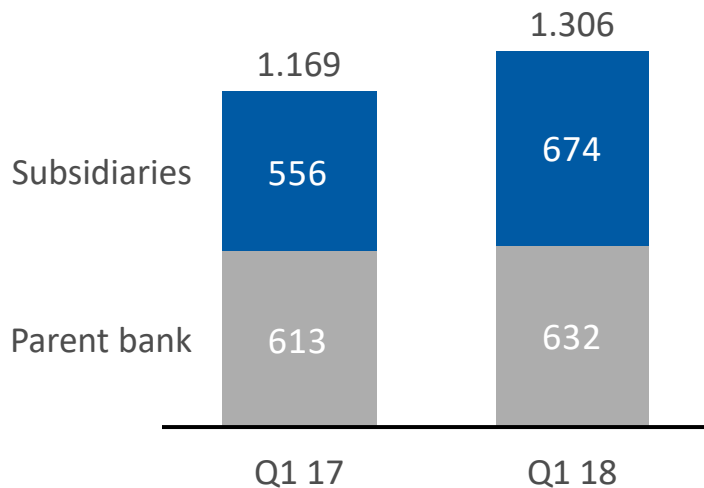
<i>mill kr</i>	Q2 18	Q2 17	Change
Payment transmission income	99	102	-4
Creditcards	31	29	2
Commissions savings and asset management	52	44	8
Commissions insurance	87	84	3
Guarantee commissions	32	32	0
Estate agency	203	200	2
Accountancy services	241	200	41
Markets	178	105	73
Other commissions	34	31	3
<b>Commissions ex. Bolig/Næringskreditt</b>	<b>956</b>	<b>827</b>	<b>129</b>
Commissions Boligkreditt (cov. bonds)	185	158	27
Commissions Næringskreditt (cov. bonds)	7	8	-1
<b>Total commission income</b>	<b>1.149</b>	<b>993</b>	<b>155</b>

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

# Banking operations made more efficient, increased activity in the subsidiaries

## Parent bank target of zero growth in costs stands firm

### Costs in group 1<sup>st</sup> half 2017 and 2018



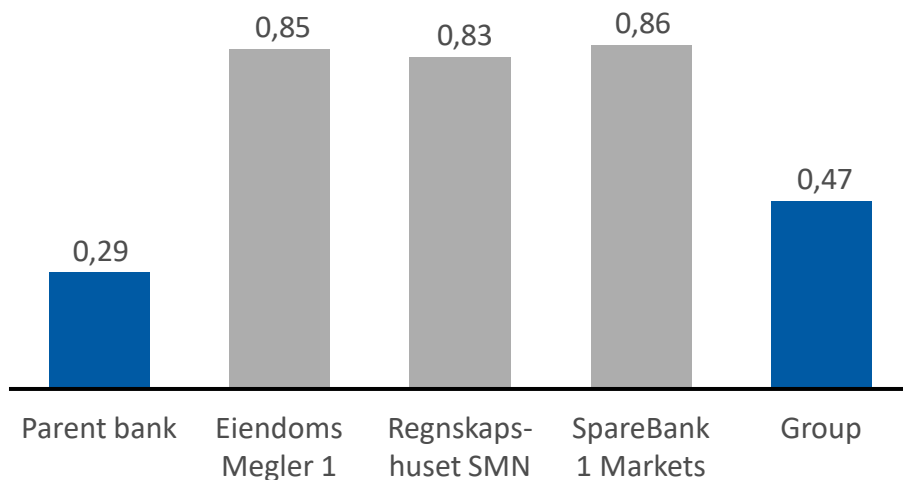
*NOK 11m of the parent bank's cost growth is a one-time cost related to disposal of the head office*

### Cost growth due to focus on subsidiaries

- Cost growth in the subsidiaries
  - Acquisitions by SMN Regnskapshuset
  - Stronger focus on SpareBank 1 Markets
  - Start-up costs, BN bolig
- The investments are aimed at consolidating and developing the subsidiaries' strong position in their respective segments
- Low growth in costs growth in parent bank, in line with target
- Improving efficiency and effectiveness of the bank are to be continued

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

### Cost / Income



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

- The subsidiaries are making a sound profit – and requiring little equity capital compared with the group’s other businesses
- In their respective segments they are cost-efficient
- But pose a challenge to the group’s cost / income ratio



## Subsidiaries

### Pre tax profit subsidiaries

mNOK, SMN's share in parentheses	1st half 2018	1st half 2017	Change	Q2 18	Q1 18	Q4 17	Q3 17	Q2 17
EiendomsMegler 1 Midt-Norge (87 %)	18	23	-6	25	-8	-10	-11	19
SpareBank 1 Regnskapshuset SMN (95 %)	44	36	8	27	17	15	9	20
SpareBank 1 Finans Midt-Norge (65 %)	72	58	15	34	38	35	36	30
SpareBank 1 Markets (67 %)	36	20	16	29	7	8	-26	17
SpareBank 1 SMN Invest (100%)	23	16	7	19	4	12	15	15
Other companies	5	11	-6	0	6	5	5	6
<b>Subsidiaries</b>	<b>199</b>	<b>164</b>	<b>34</b>	<b>134</b>	<b>64</b>	<b>65</b>	<b>29</b>	<b>107</b>

*The results refer to the respective company accounts*

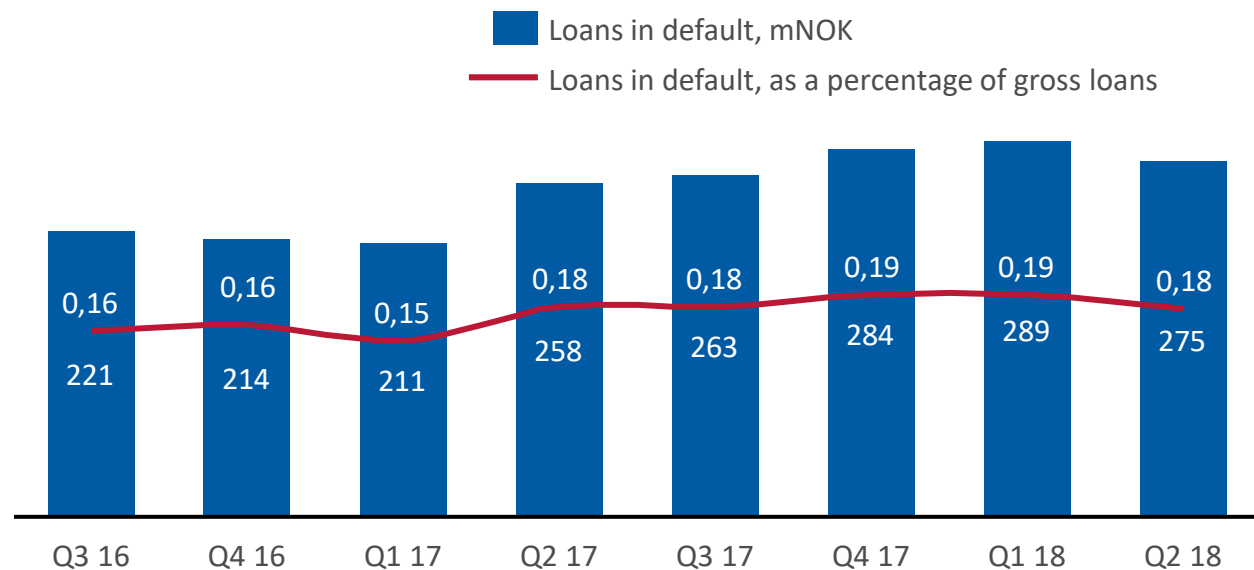
## Associated companies

### Profit shares after tax

<b>mNOK, SMN's share in parentheses</b>	<b>1st half 2018</b>	<b>1st half 2017</b>	<b>Change</b>	<b>Q2 18</b>	<b>Q1 18</b>	<b>Q4 17</b>	<b>Q3 17</b>	<b>Q2 17</b>
SpareBank 1 Gruppen (19,5 %)	117	134	-17	81	36	134	80	68
SpareBank 1 Boligkreditt (19,0 %)	-5	-37	32	-8	3	-15	11	-13
SpareBank 1 Næringskreditt (36,5 %)	8	13	-5	4	4	1	5	5
BN Bank (33 %)	53	50	3	23	30	28	21	20
SpareBank 1 Kredittkort (17,9 %)	11	7	4	6	5	5	3	5
SpareBank 1 Betaling (19,5 %)	-6	0	-6	-3	-3	-7	0	0
Other companies	4	0	4	1	3	1	5	8
<b>Associated companies</b>	<b>183</b>	<b>167</b>	<b>16</b>	<b>103</b>	<b>79</b>	<b>147</b>	<b>126</b>	<b>94</b>

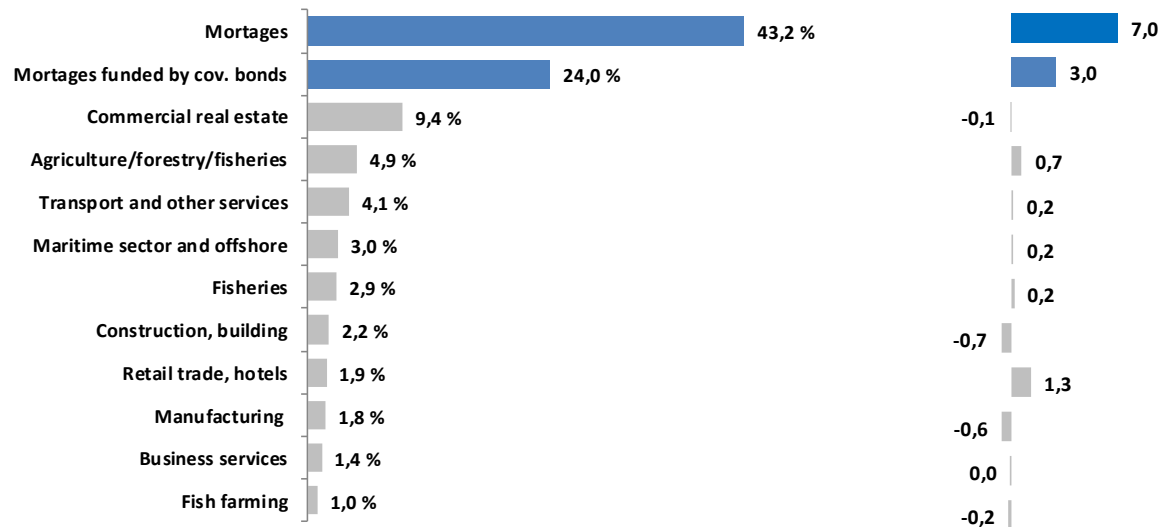
## Very low levels on loans in default (0,18 %)

Last two years, per quarter



# High share mortgages and diversified portfolio SMEs

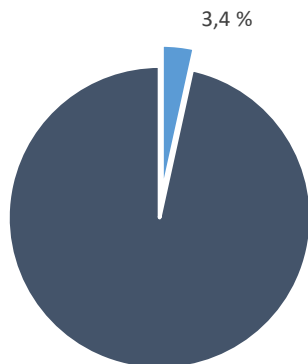
Lending by sector as a share of total lending and change last 12 months, NOKbn



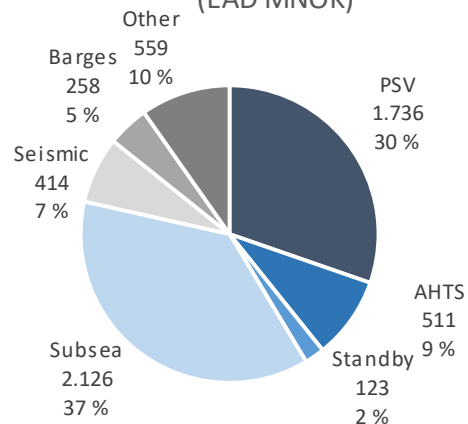
# Offshore constitutes a small share of total loans

## Impairment level corresponds to 14 % of offshore portfolio

Offshore constitutes a small share of the total credit risk (EAD share)



Subsea and PSV largest segments (EAD MNOK)

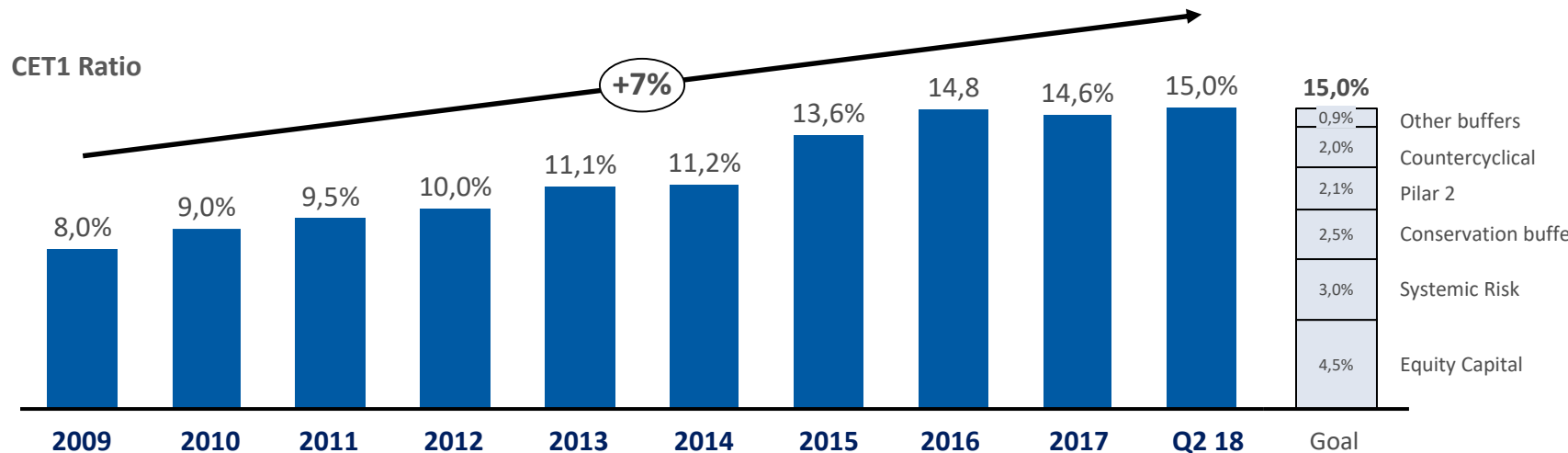


mill kr	EAD	Individuele	IFRS 9	Sum nedskr	Andel av EAD
Low risk	923	0	0	0,4	0,0 %
Medium risk	2.826	0	51	51	1,8 %
High risk	670	0	47	47	7,0 %
Obligors with impairments / defaulted	1.309	689	0	689	52,7 %
<b>Total</b>	<b>5.728</b>	<b>689</b>	<b>98</b>	<b>788</b>	<b>13,8 %</b>

## Balance sheet

	30.6.18	30.6.17	30.6.16
Funds available	25,1	27,8	27,1
Net loans	114,7	106,4	97,0
Securities	2,5	1,5	1,5
Investment in related companies	5,8	5,7	5,7
Goodwill	0,8	0,7	0,6
Other assets	10,6	7,5	9,3
<b>Total Assets</b>	<b>159,6</b>	<b>149,4</b>	<b>141,1</b>
Capital market funding	53,1	49,2	48,4
Deposits	80,3	75,6	67,0
Other liabilities	5,9	5,7	7,7
Subordinated debt	2,2	2,2	3,6
Equity ex hybrid bonds	16,8	15,8	13,5
Hybrid bonds	1,1	0,9	1,0
<b>Total liabilities and equity</b>	<b>159,6</b>	<b>149,4</b>	<b>141,1</b>
in addition loans sold to Boligkreditt and Næringskreditt	39,0	36,4	34,8

# Strong development in CET 1 (capital and ratio)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	Q2 18
<b>CET1 Capital</b>	4.938	6.177	6.687	8.254	9.374	10.679	12.192	13.115	13.820	14.528
<b>ROE</b>	16,2 %	14,6 %	12,8 %	11,7 %	13,3 %	15,1 %	10,7 %	11,3 %	11,5 %	14,4 %
<b>RWA</b>	64.400	66.688	75.337	82.450	84.591	95.322	89.465	88.788	94.807	97.137

## SpareBank 1 and DNB will create the country's strongest insurance company

### SpareBank 1 Gruppen and DNB are to amalgamate their insurance businesses, thereby creating one of Norway's largest non-life insurers

- The amalgamation of the insurance businesses will be achieved through the merger of DNB Forsikring AS with SpareBank 1 Skadeforsikring AS. Transfer of some personal risk insurances to the new company ahead of the merger is being considered. The company will be given a new and independent name
- SpareBank 1 Gruppen will hold a 60 per cent stake and DNB a 40 per cent stake. Pending approval by government authorities, the merger will take effect on 1 January 2019
- SpareBank 1 Forsikring AS will be a pure pension insurance company after the merger. The company is likely to change name to SpareBank 1 Pensjon AS



## Key figures ECC

### Last five years

	<b>30.6.18</b>	<b>30.6.17</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
ECC ratio	63,9 %	64,0 %	64,0 %	64,0 %	64,0 %	64,6 %
Total issued ECCs (mill)	129,31	129,54	129,38	129,64	129,43	129,83
ECC price	84,50	71,75	82,25	64,75	50,50	58,50
Market value (NOKm)	10.926	9.316	10.679	8.407	6.556	7.595
Booked equity capital per ECC	80,21	75,40	78,81	73,35	67,39	62,04
Post-tax earnings per ECC, in NOK	5,75	3,66	8,71	7,93	6,96	8,82
Dividend per ECC			4,40	3,00	2,25	2,25
P/E	7,35	9,80	9,44	8,17	7,26	6,63
Price / Booked equity capital	1,05	0,95	1,04	0,88	0,75	0,94

# Key figures

## Last three years

	<b>30.6.18</b>	<b>30.6.17</b>	<b>30.6.16</b>
CET 1 ratio	15,0 %	14,9 %	14,1 %
Core capital ratio	17,0 %	16,8 %	16,1 %
Capital adequacy	19,0 %	19,0 %	18,7 %
Leverage ratio	7,4 %	7,2 %	6,8 %
Growth in loans (incl.Boligkreditt and Næringskreditt)	7,6 %	8,5 %	6,5 %
Growth in deposits	6,3 %	12,7 %	1,3 %
Deposit-to-loan ratio	69,4 %	70,4 %	68,5 %
RM share loans	67,3 %	65,4 %	64,2 %
Cost-income ratio	47,0 %	50,2 %	45,5 %
Return of equity	14,4 %	9,9 %	10,9 %
Impairment losses ratio	0,17 %	0,25 %	0,44 %

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HuginOnline:  
Equity capital certificates in general:

[www.smn.no](http://www.smn.no)  
[www.huginonline.no](http://www.huginonline.no)  
[www.grunnfondsbevis.no](http://www.grunnfondsbevis.no)



### Financial calendar 2018

Q2 2018 8. August 2018  
Q3 2018 26. October 2018