

# Quarterly accounts Q2 2019

Bodø/Oslo 8 August 2019

SpareBank   
NORD-NORGE

# Accounts first half-year 2019

Pre-tax profit



1 635 MNOK

ROE



22.7 %

CET-1 ratio



15.3 %

C/I-ratio



31.5 %

Losses



- 2 MNOK



# Business strategy: Regional knowledge – national strength



Regional knowledge



National strength



Cooperation

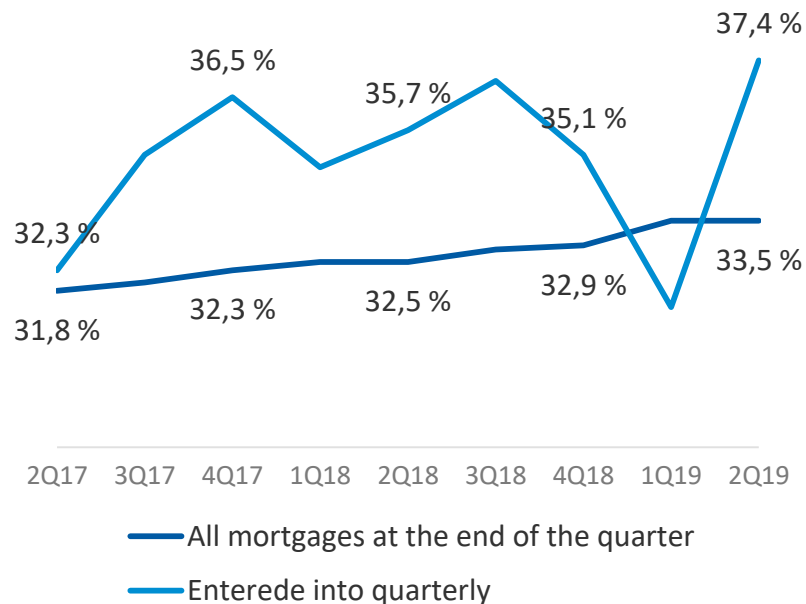


4,6  
120K  
vurderinger

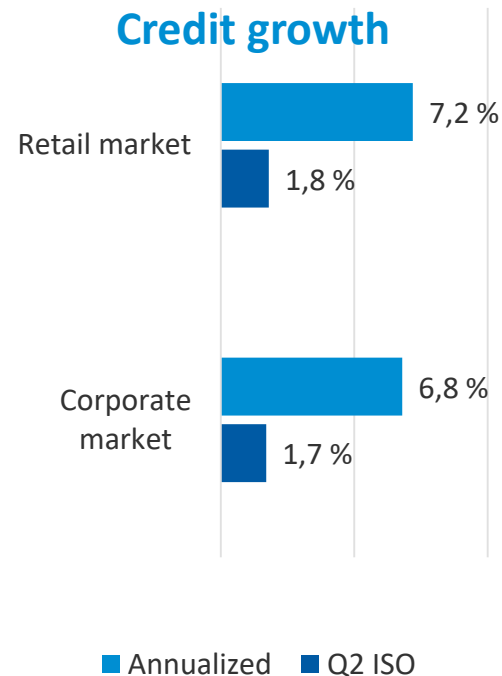


# Taking market share in all segments

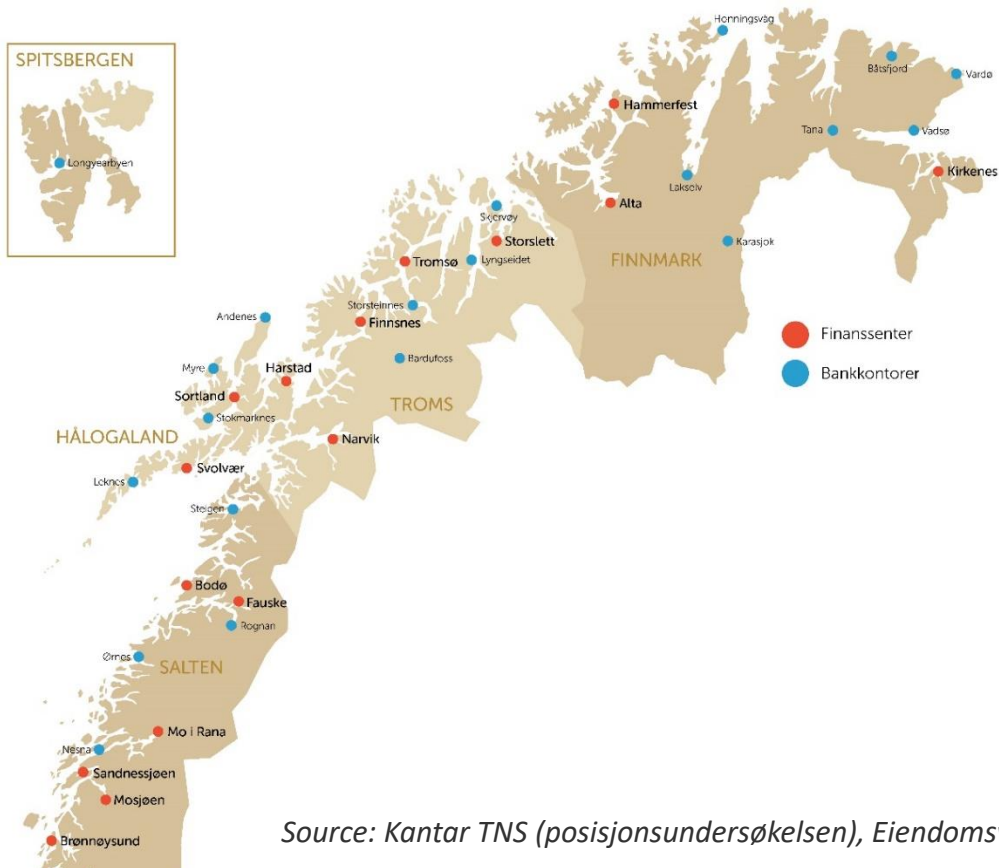
## Market share mortgage



## Credit growth



# SpareBank 1 Nord-Norge – number 1 in the north



1

**PM Bank**

- Main bank: 35 %

1

**SME Bank**

- Main bank: 41 %

2

**Large corporates - Bank**

1

**Real estate**

- Market share: 37 %

1

**Accounting services**

- Market share: 18 %

2

**Secured financing**

- Market share: 21 %

An aerial photograph of a coastal city in Northern Norway, likely Tromsø, with a large body of water in the foreground and rugged mountains in the background. The city is densely packed with buildings, and there are industrial structures and a harbor area visible. The water is a deep blue, and the sky is a pale, hazy blue.

# Expectations Survey for Northern Norway June 2019

**kbnn:**

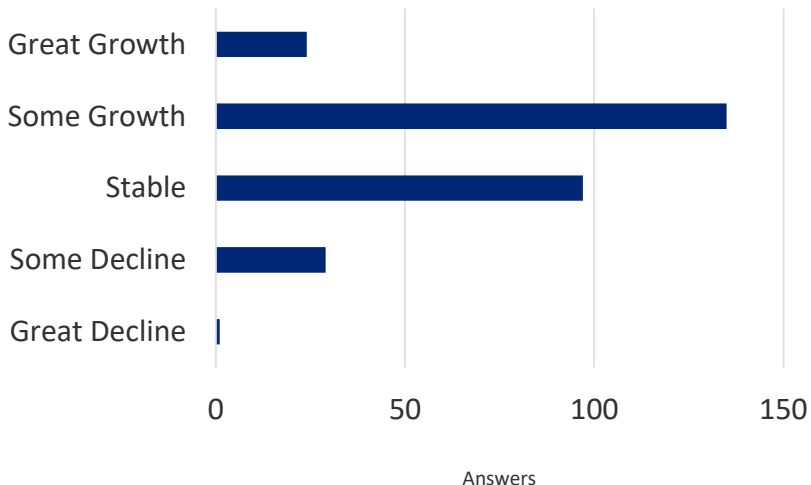
**SpareBank** **1**  
NORD-NORGE

# Optimism on behalf of the region

... but subdued optimism on behalf of own sector

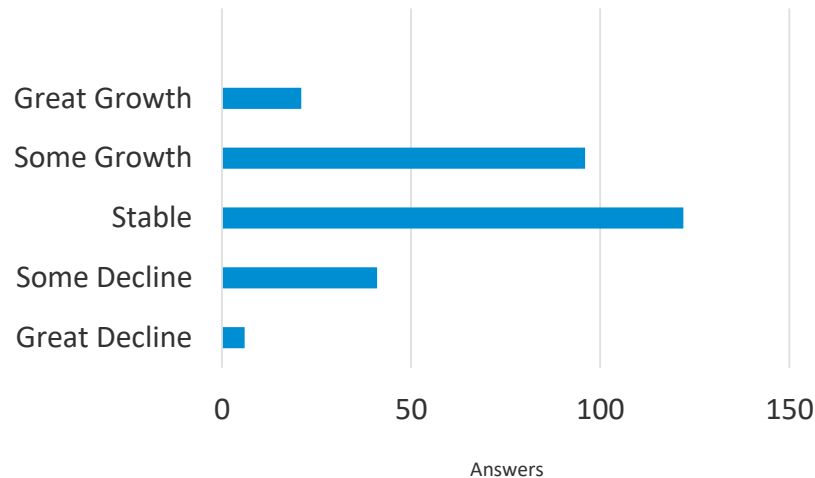
Diffusion Index 72,5

## Expected development in the region















Diffusion Index 62,2

## Expected growth in own sector



# Notthern Norwegian economy: low unemployment and steady growth

Sector	Status	Outlook
Macro		
Seafood		
Tourism		
Construction		
Retail		
Oil and gas		

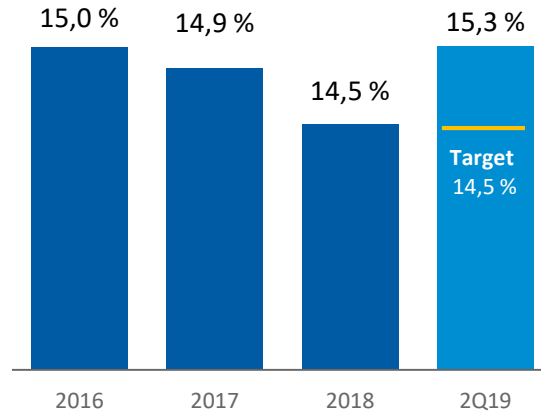
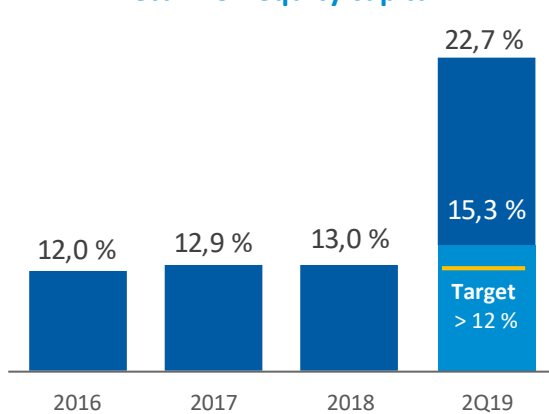
# Accounts first-half year 2019

PRE-TAX PROFIT	NOK 1 635 mill. (NOK 953 mill.)
RETURN ON EQUITY	22.7 % (13.3 %)   15.3 % adjusted for insurance merger gain
C/I-RATIO	31.5 % (41.9 %)   39 % adjusted for insurance merger gain
LOAN LOSSES	NOK - 2 mill. – return (NOK 36 mill.)
CET-1 RATIO	15.3 % (14.7 %)

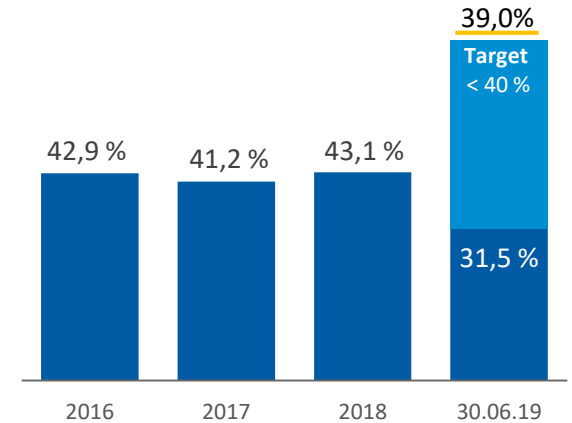
# Positive key financial figures

## CET 1 incl floor

### Return on equity capital



## Cost/income Group



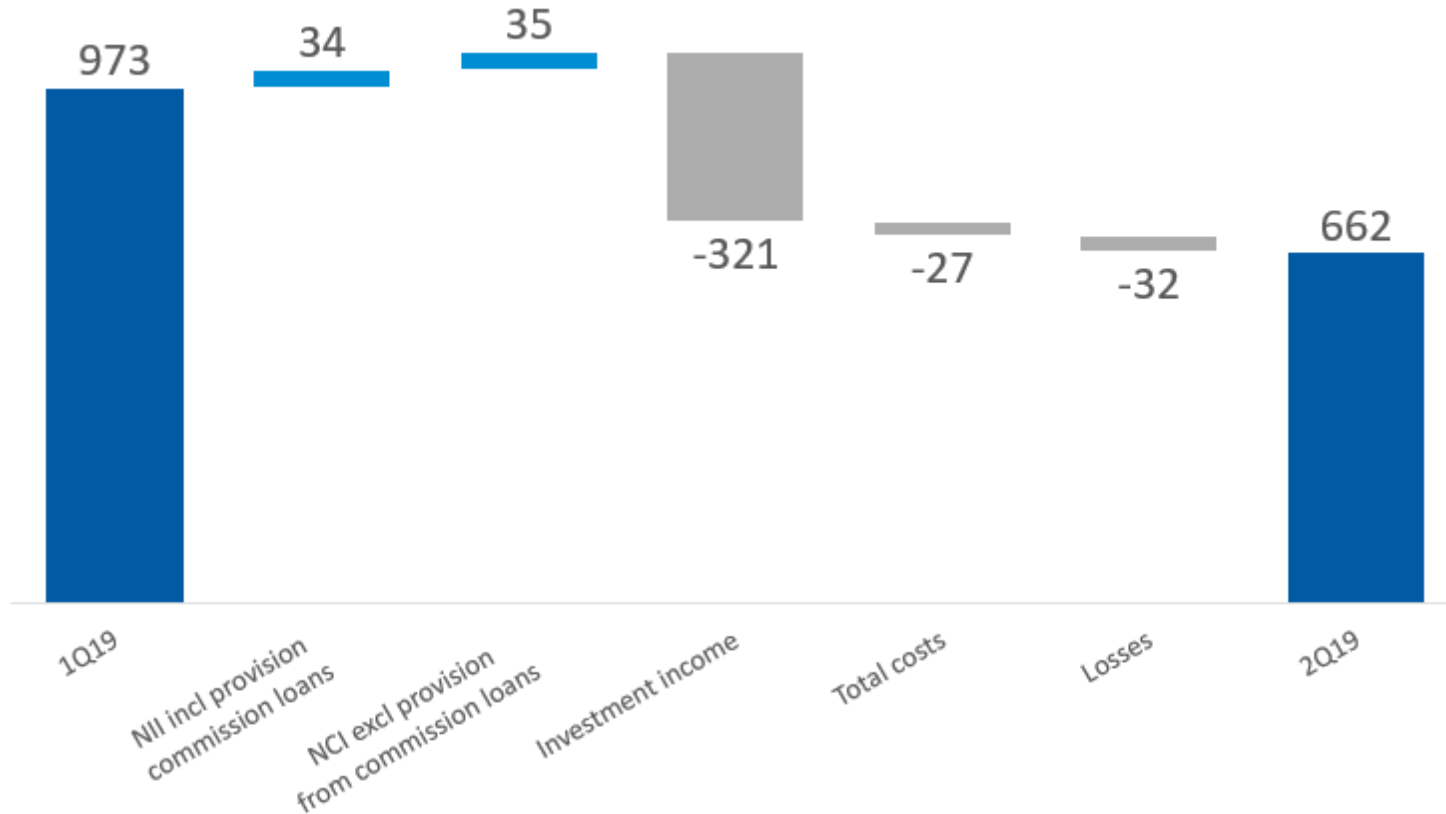
■ Return on equity capital

10 ■ Return on equity capital ex. gain Sp1 Gruppen

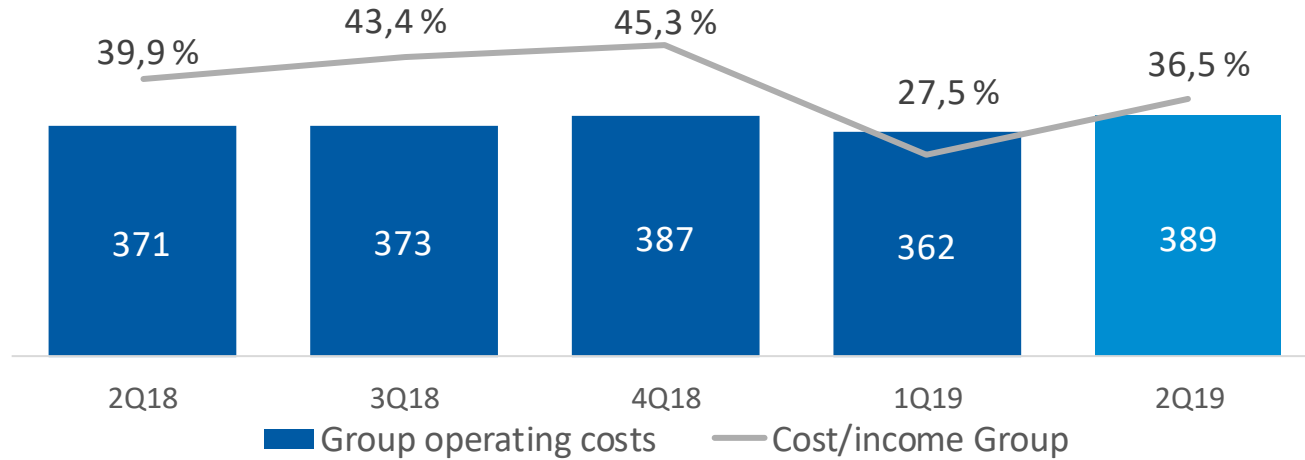
■ Cost/income Group ex. gain Sp1 Gruppen

■ Cost/income Group

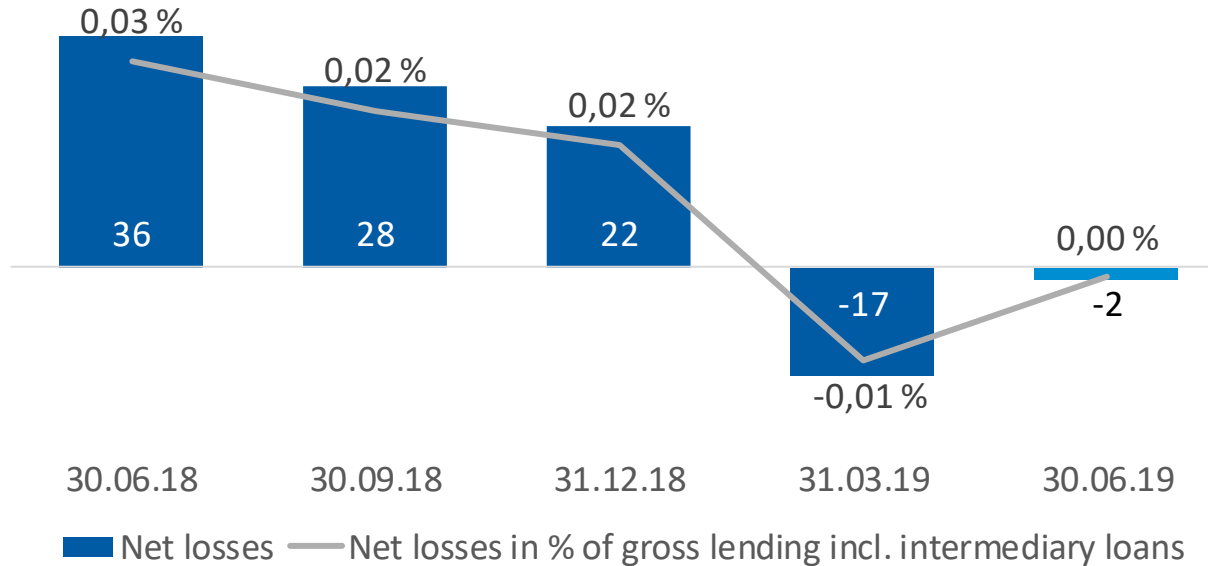
# Last quarter changes in profit and loss



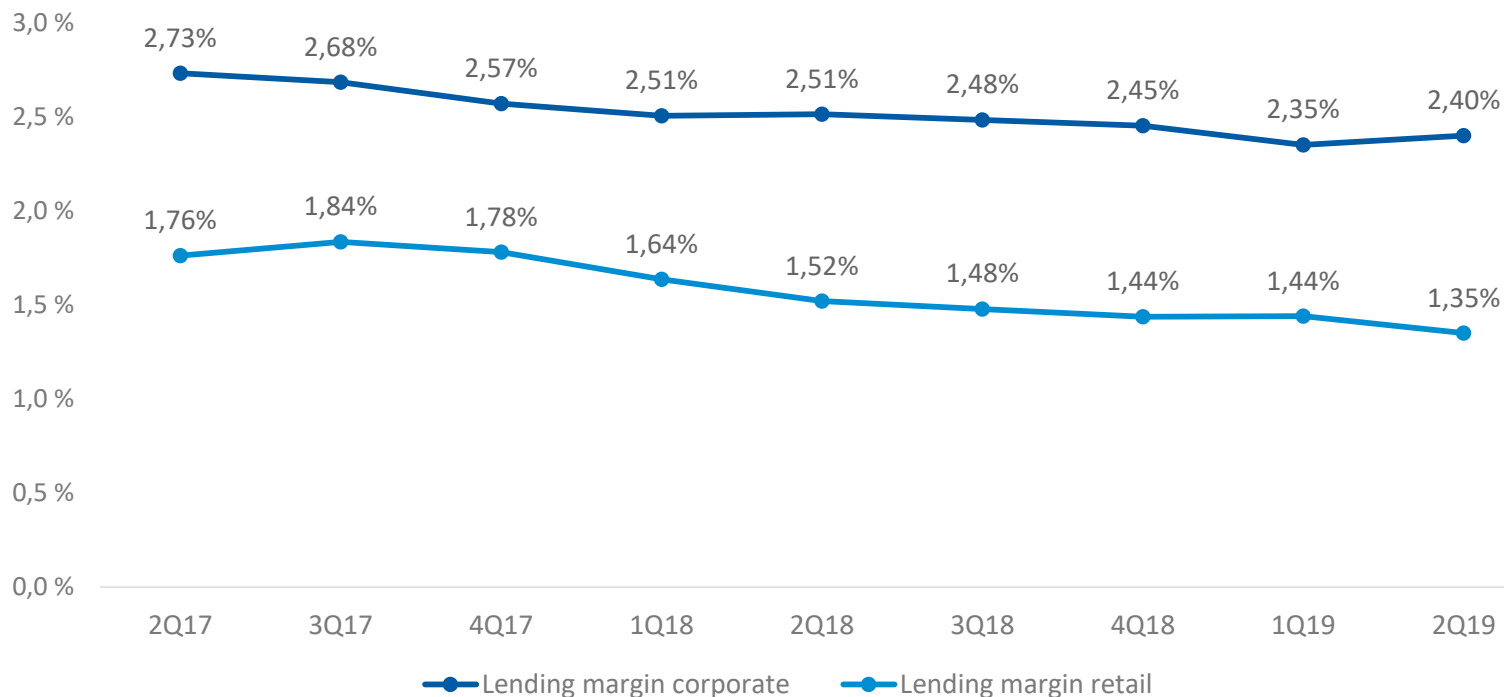
# Ambitious long-term cost target: C/I < 40 %



# Very low losses on loans and guarantees

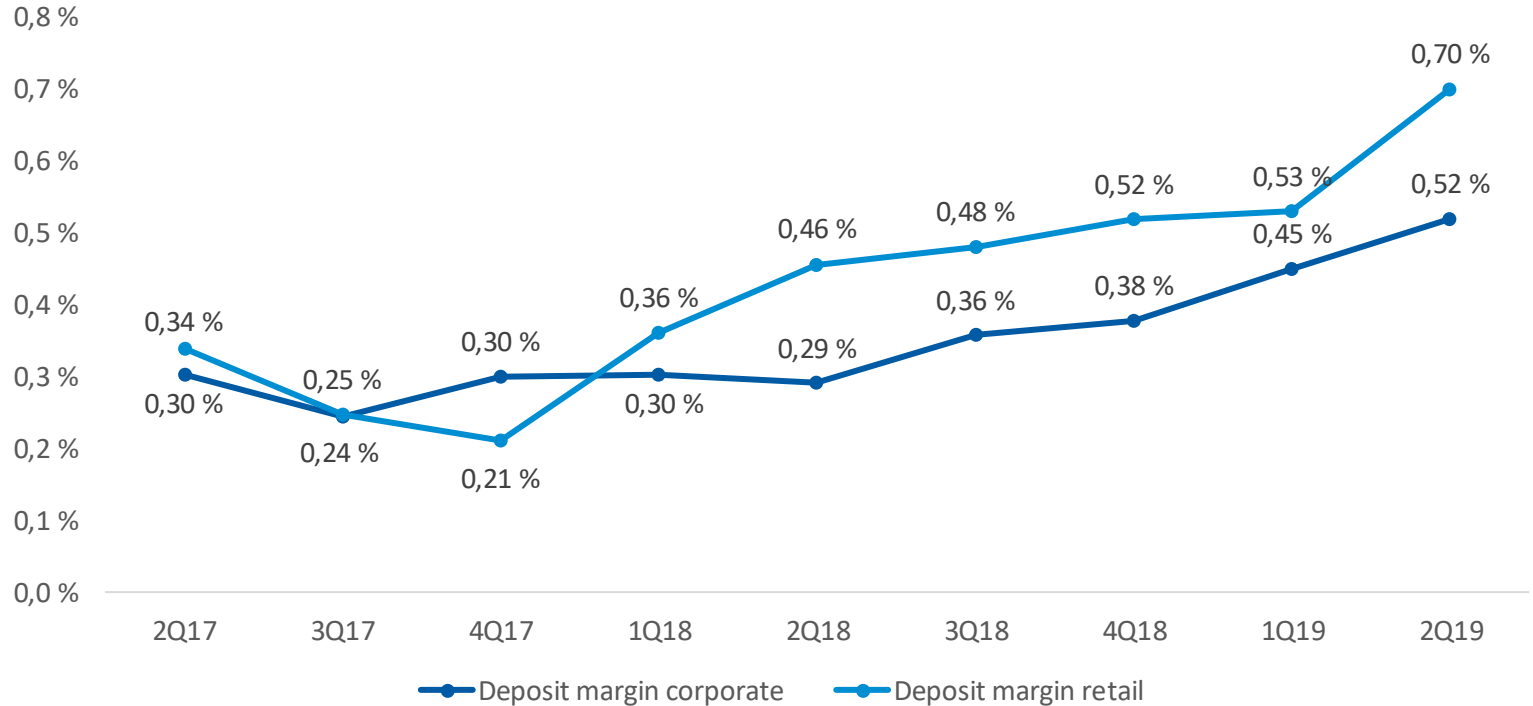


# Lending margin, parent bank



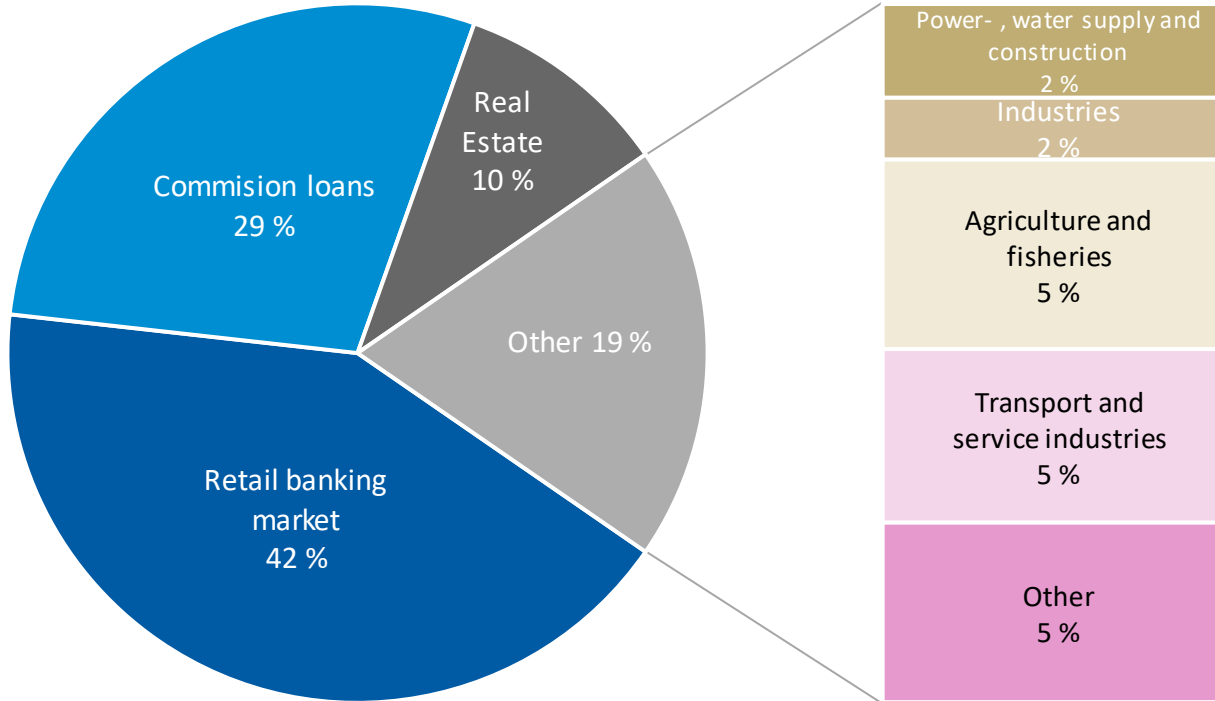
The interest margin is defined as the difference between the customer lending interest rate and average 3 month NIBOR

# Customer deposit, parent bank



The interest margin is defined as the difference between average 3 month NIBOR and the customer deposit interest rate

# Well diversified segment distribution

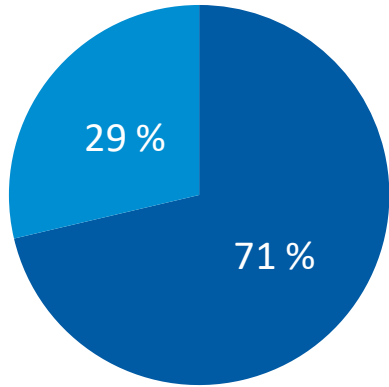


A high share of retail- and primary industry lending represent a risk mitigating factor.

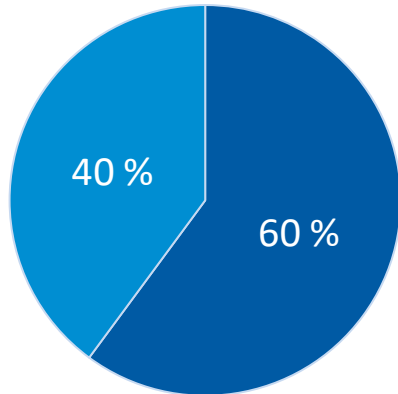
The Group has a well diversified corporate market lending portfolio.

No specific concerns related to the bank's loans to commercial property due to low interest rates and good occupancy rates in the bank's market area.

# Solid 12M growth in lending volume

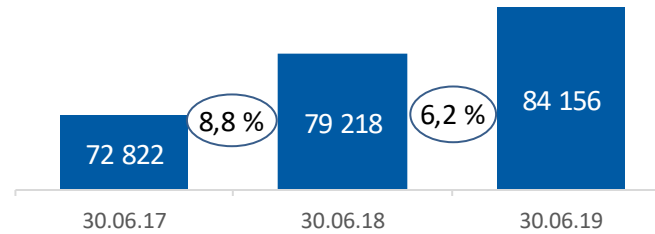


- Retail incl. commission loans
- Business/ incl. commission loans

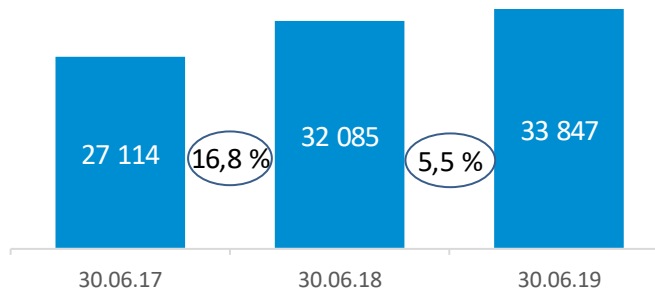


- Retail excl. commission loans
- Business excl. commission loans

## Retail market incl. commission loans

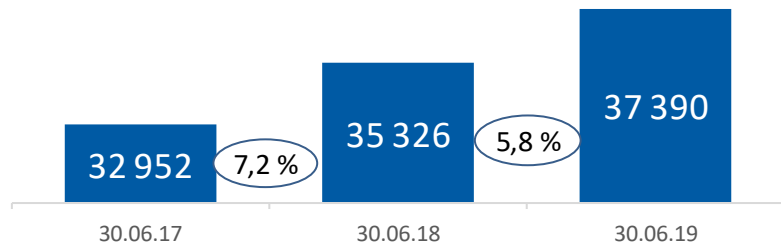


## Business/ incl. commission loans

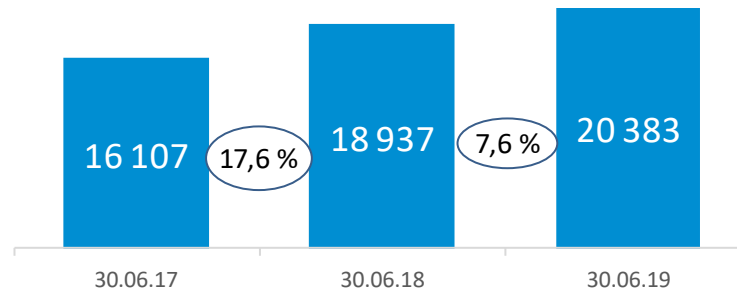


# Increased deposit volume in all sectors

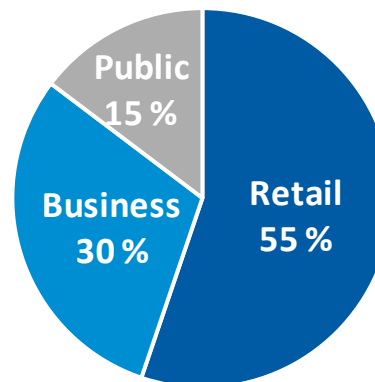
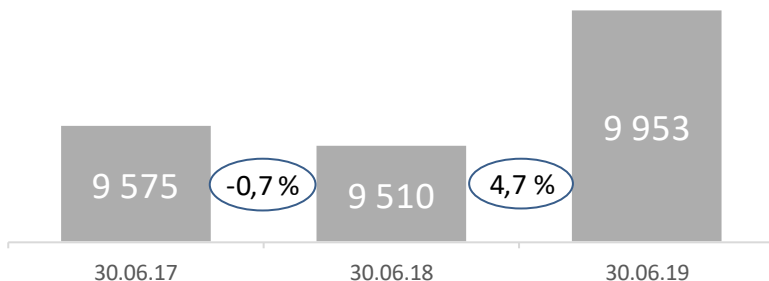
## Retail banking market



## Corporate market



## Public market



# Financial targets

ROE



> 12 %

CET-1 ratio



14.5 %

Dividend payout ratio



> 50 %

C/I ratio



< 40 %



# Financial outlook

## **NRI**

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Strong mortgage competition and a rising NIBOR puts pressure on the retail market lending margin. Rising central bank interest rates will however provide a basis for repricing of deposits and loans, with an increased emphasis on risk pricing.

## **ROE > 12 %**

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ROE targeted: Top-level profitability among comparable banks, currently > 12 %.

## **CET-1 RATIO 14.5 %**

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Common tier 1 Capital target one percentage point above regulatory minimum requirements, currently 14.5 %. SNN see no challenges in satisfying the coming capital regulatory changes.

## **C/I RATIO < 40 %**

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Status Q2 2019: 36.5 %. Total cost increase due to increased expenses regarding automation and digitalization, and due to growth in Groups companies. The goal is to facilitate cost savings and increase future revenues. Profitability project is underway.

## **CASH DIVIDEND > 50 %**

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Cash dividend for 2018 is considered very high. Extraordinary dividend from SpareBank 1 Group may provide basis for increased dividend at year end, but this must be considered when new regulatory requirements are established.

# SpareBank 1 Nord-Norge

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Tel. + 47 975 89 560

## URLs

Website and internet bank: [www.snn.no](http://www.snn.no)

Equity certificate in general: [www.egenkapitalbevis.no](http://www.egenkapitalbevis.no)

## Financial calendar:

Q2 2019: 7. August 2019

Q3 2019: 24. October 2019

Preliminary results 2019: 12. February 2020

*Quarterly reports are published after the meeting of the board, normally after closing time of the Oslo Stock Exchange.*

*The investor presentation will normally follow the next business day.*



# Appendix

1. Financial figures – additional information
2. Credit area
3. Liquidity
4. Northern Norway: Macro and economic trends
5. SpareBank 1 Group and alliance

# Company structure

## Associated companies and joint ventures

<b>SpareBank 1 Gruppen AS</b> 19.5 %   Financial services	<b>SpareBank 1 Boligkreditt AS</b> 17.82 %   Covered Bond company	<b>SpareBank 1 Næringskreditt AS</b> 8 %   Funding/ property
<b>SpareBank 1 Banksamarbeidet DA</b> 17.74 %   System development	<b>SpareBank 1 Kredittkort AS</b> 16.89 %   Credit card	<b>SpareBank 1 Betaling AS</b> 18.57 %   Vipps/ mobile payment
	<b>SMB Lab AS</b> 20 %   Innovation	<b>Betr AS</b> 20 %   System development

## Subsidiaries and second tier subsidiaries

<b>SpareBank 1 Finans Nord-Norge AS</b> Loan/consumer finance/ leasing	<b>Eiendomsmegler 1 Nord-Norge AS</b> Real estate brokerage
<b>Fredrik Langesg 20 AS</b> Commercial building	<b>SpareBank 1 Regnskaps- huset Nord-Norge AS</b> Accounting
<b>SpareBank 1 Nord-Norge Portefølje AS</b> Investment company	<b>Rødbanken Holding AS*</b> Investment company
	<b>Rødbanken AS*</b> Commercial building

*\*Not consolidated*

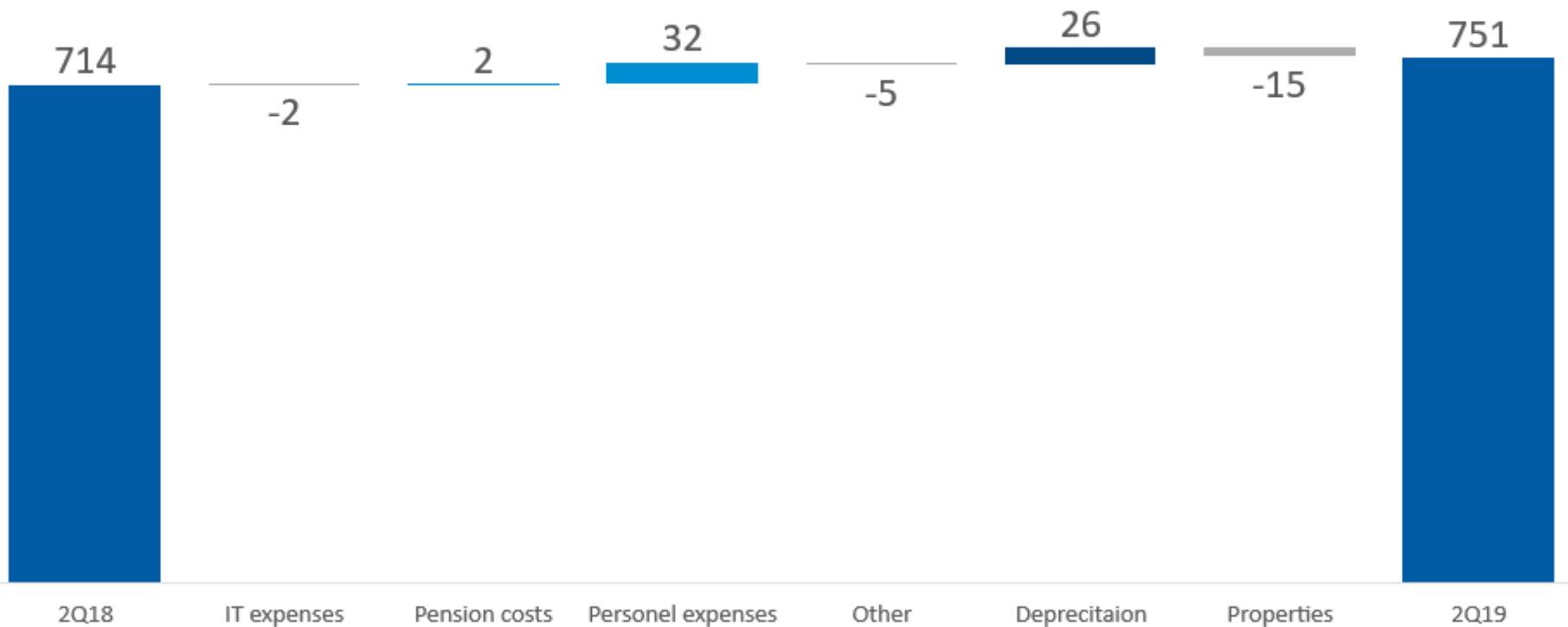
# Equity Certificates (EC) – geographic holder structure



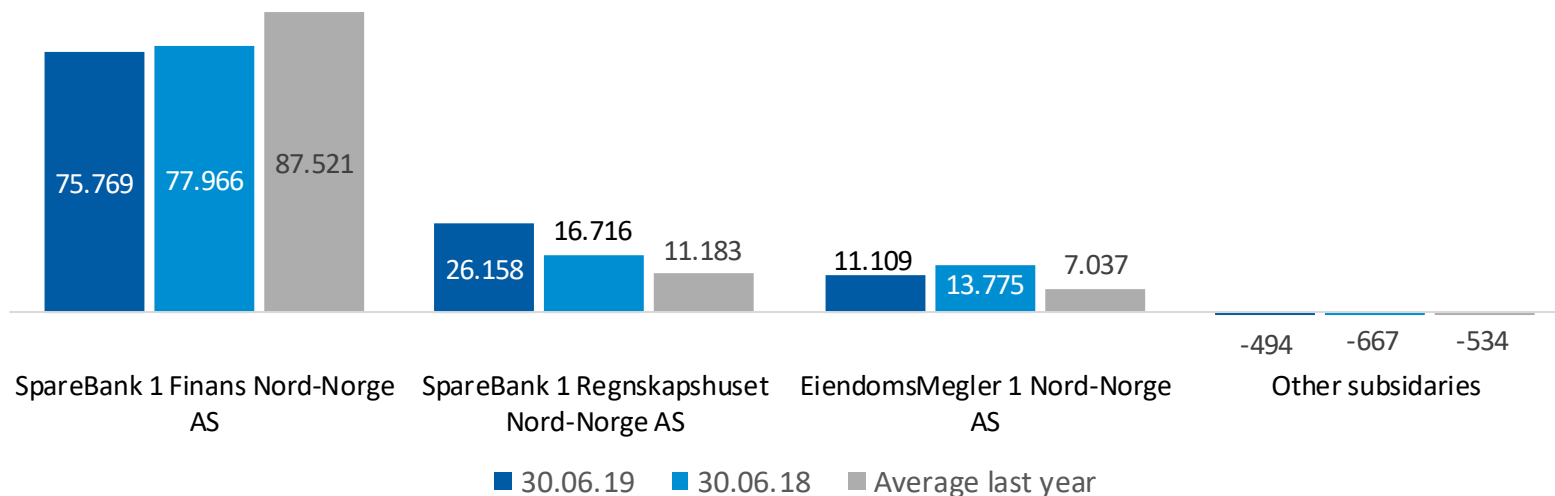
# The 20 largest EC holders

EC Holders	Number of ECs	Share of EC Capital
PARETO AKSJER NORGE VERDIPAPIRFOND	3.497.063	3,48%
State Street Bank and Trust Comp	3.001.731	2,99%
GEVERAN TRADING CO LTD	2.693.280	2,68%
MP PENSJON PK	2.384.322	2,37%
FLPS - PRINC ALL SEC STOCK SUB	2.302.660	2,29%
The Northern Trust Comp, London Br	2.047.347	2,04%
PARETO INVEST AS	1.789.072	1,78%
VPF EIKA EGENKAPITALBEVIS	1.734.833	1,73%
METEVA AS	1.614.670	1,61%
SPAREBANKSTIFTELSEN SPAREBANK 1 NO	1.411.606	1,41%
Euroclear Bank S.A./N.V.	1.397.394	1,39%
FORSVARETS PERSONELLSERVICE	1.391.630	1,39%
Landkreditt Utbytte	1.200.000	1,20%
State Street Bank and Trust Comp	1.163.181	1,16%
Morgan Stanley & Co. International	1.057.066	1,05%
SEB EUROPAFOND SMÅBOLAG	1.037.868	1,03%
ARCTIC FUNDS PLC	884.115	0,88%
J.P. Morgan Bank Luxembourg S.A.	844.726	0,84%
State Street Bank and Trust Comp	803.160	0,80%
J.P. MORGAN SECURITIES PLC	701.952	0,70%
<b>Total</b>	<b>32.957.676</b>	<b>32,83%</b>

# Operating expenses



# Group companies result before tax



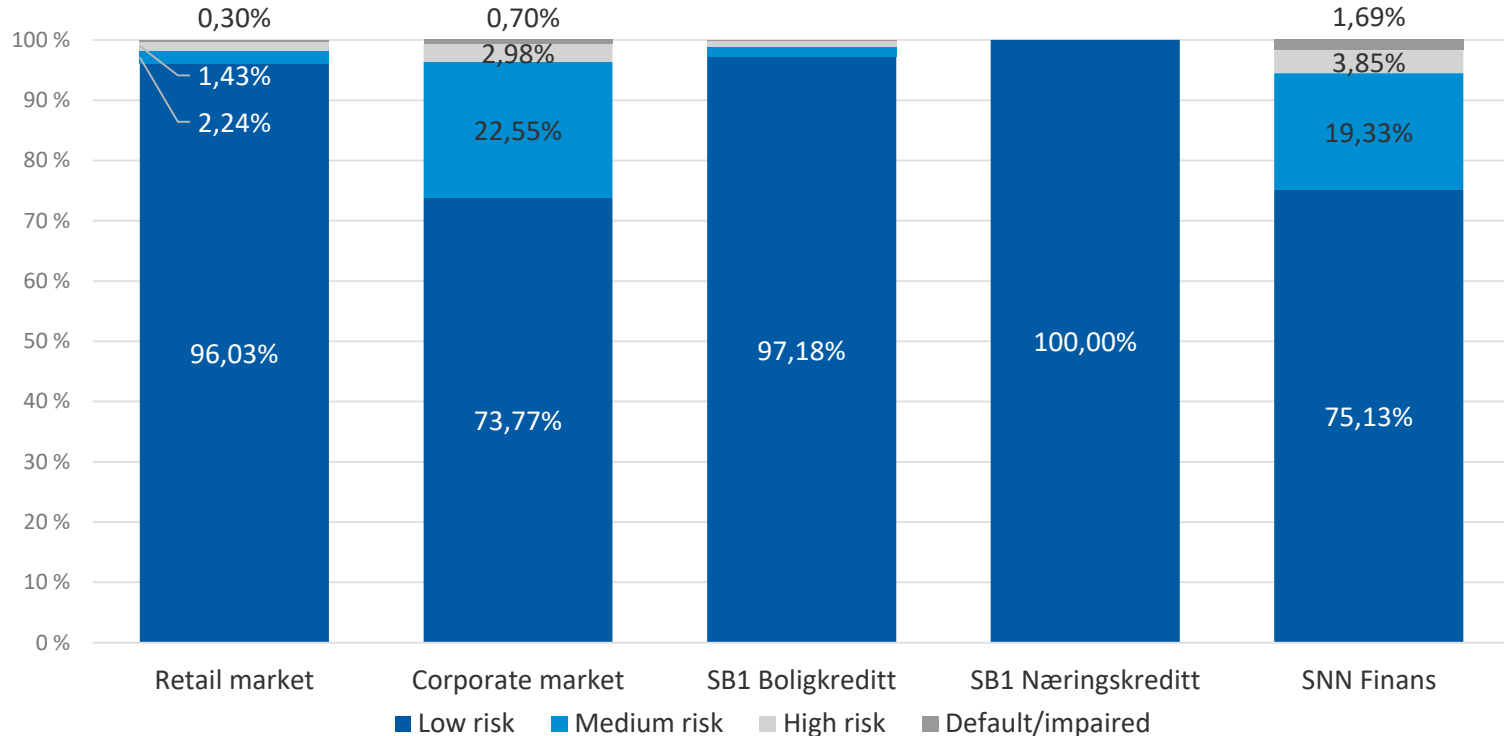
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Credit area

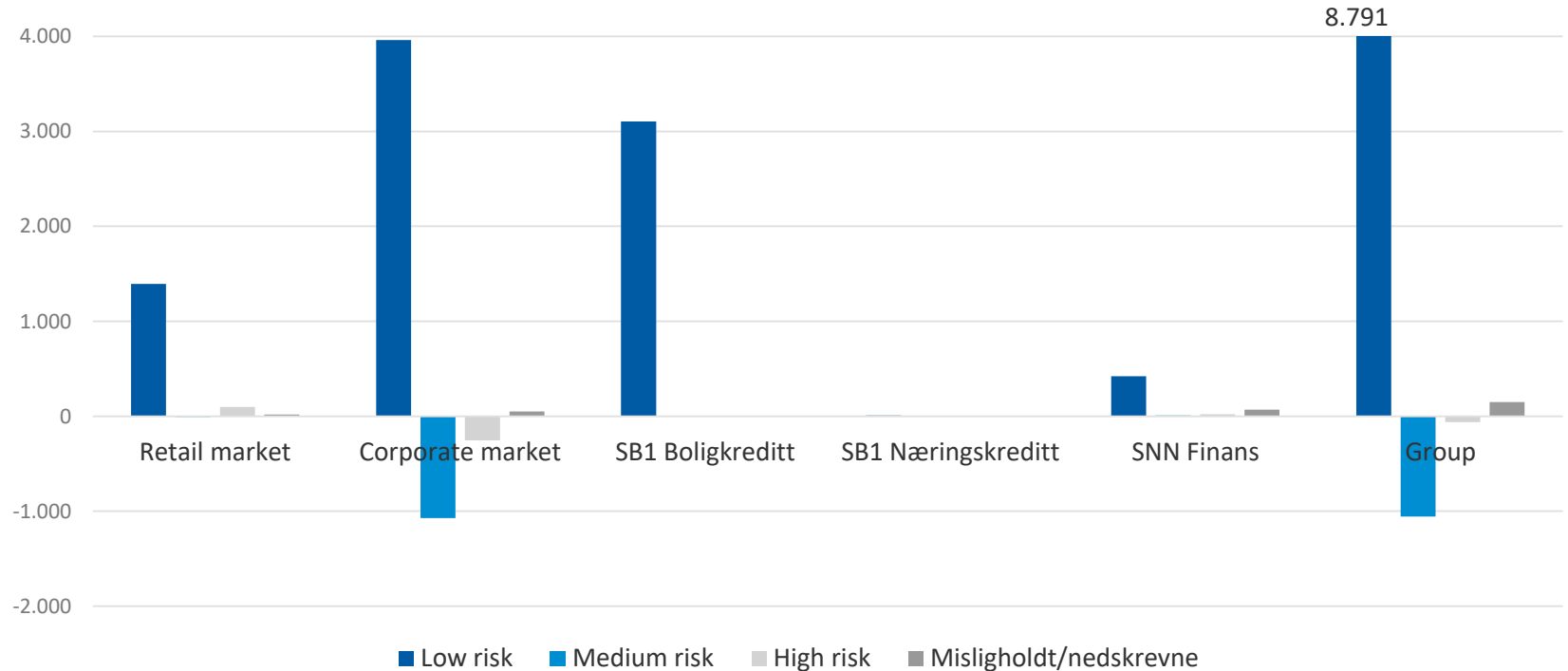
# Lending portfolio - comments

- Good growth in retail lending, with focus on commitments qualifying for SpareBank 1 Boligkreditt (covered bond company)
- Good growth in corporate market lending last 12 months
- The portfolio and new commitments in corporate sector lending are diversified
- Somewhat increased exposure in non-performing/impaired commitments
- Loan losses at low level

# Portfolio - exposure as of 30.06.19, the Group

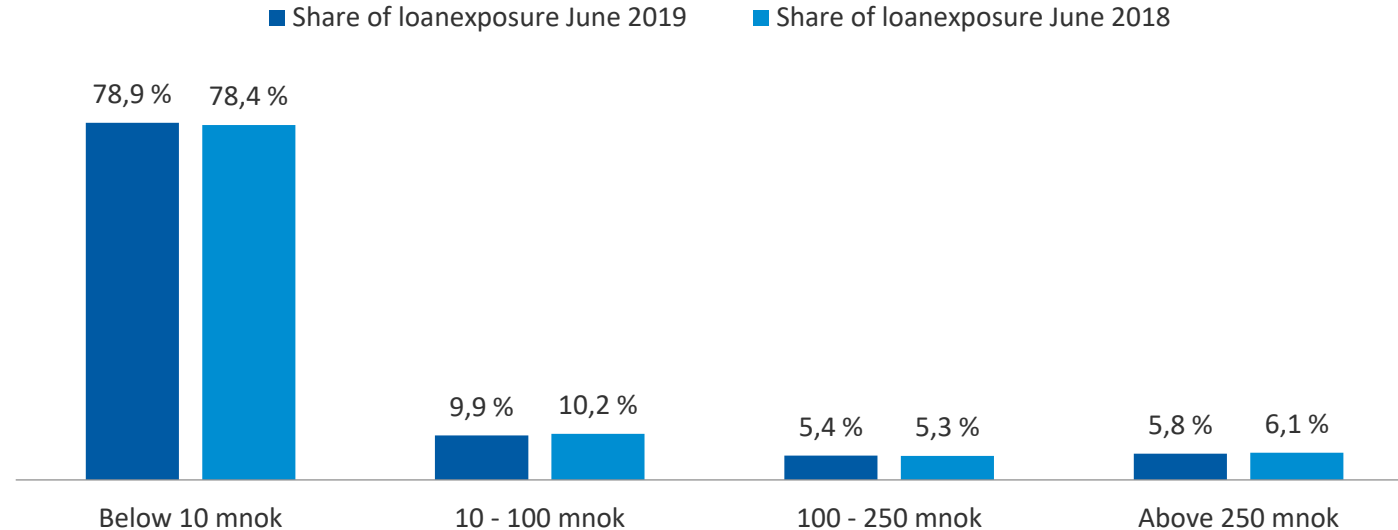


# Portfolio – changes last 12 months, the Group



# Portfolio - exposure distributed by size

Loans distributed by size of exposure and share of total exposure

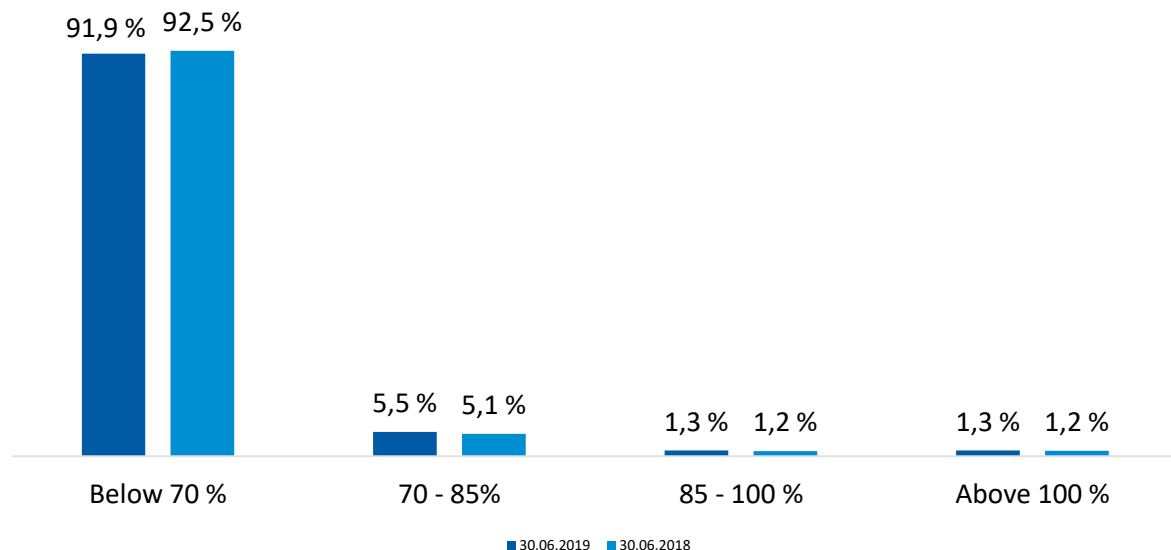


Numbers include SB 1 Bolig- and Næringskreditt

# Portfolio – LTV mortgage loans

97.4 % of exposures are within 85 % of the collaterals market value

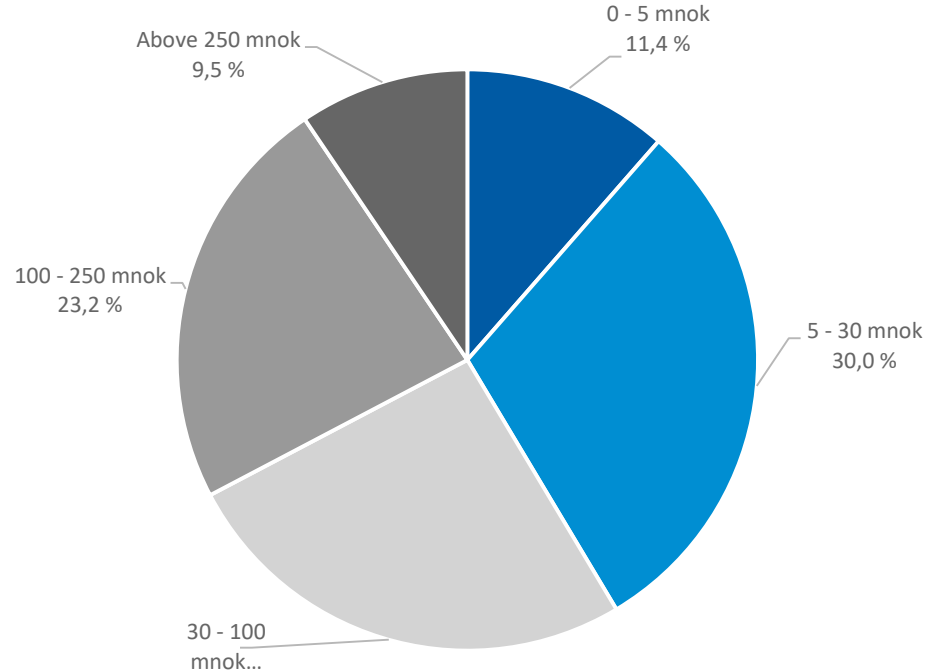
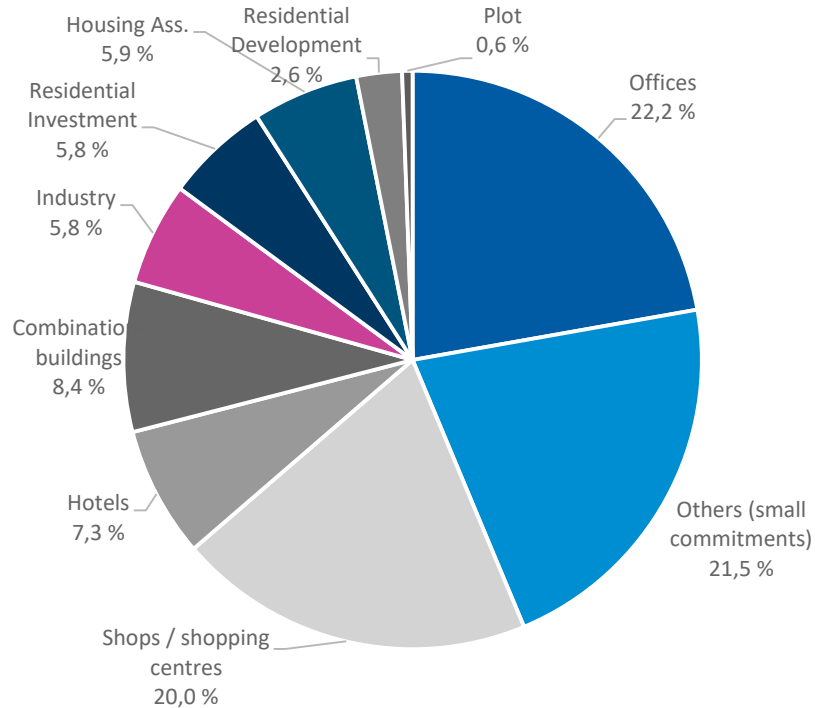
Exposures above 85 % are 2.6 %



Each loan is distributed in the different intervals. The numbers include the Group's share of SB1 Boligkreditt portfolio.

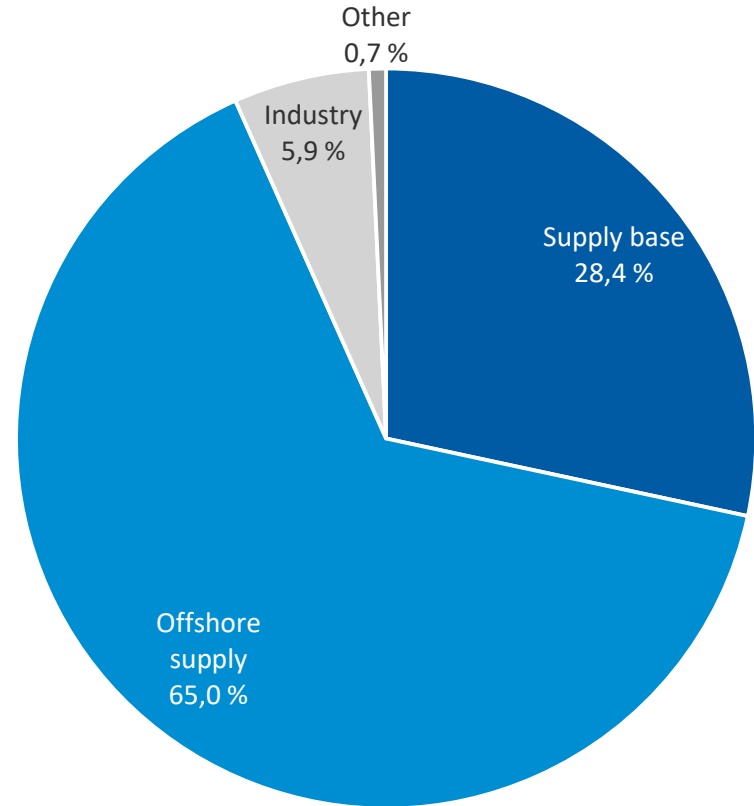
# Portfolio – Commercial Real Estate

(67.3 % of the portfolio are commitments smaller than NOK 100 mill)



# Portfolio – Oil related exposure

- Oil related exposure amounts to NOK 1,053 mill
- The exposure represents 0.89 % of total lending incl. Næring- and Boligkreditt
- Average weighted probability of default 1.14 %
- A total of NOK 35 mill are non-performing or impaired commitments
- The activity within oil and offshore consists of a small customer portfolio handled by a small group of advisors



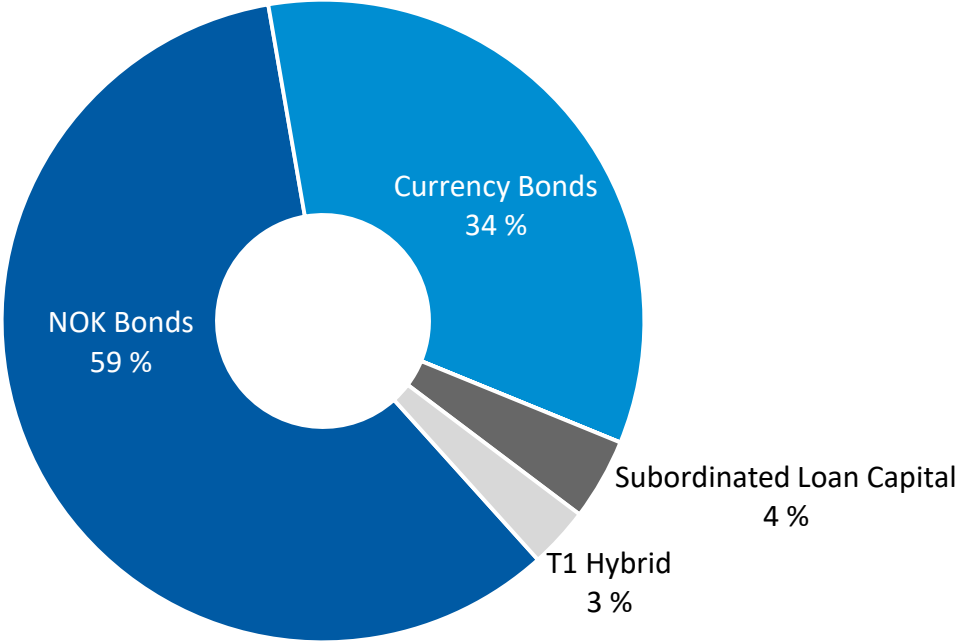
# The Group's loan losses

Losses	2019	Q2 19	Q1 19	2018	Q4 18	Q3 18	Q2 18
Individual losses Corporate market	3,9	5,4	-1,4	40,4	13,1	11,2	20,6
Individual losses Retail market	4,0	4,4	-0,4	14,3	2,0	2,2	2,9
Collective losses and other value change items	-9,7	5,8	-15,5	-32,5	-21,0	-15,9	-4,3
<b>Total losses on loans and guarantees</b>	<b>-1,7</b>	<b>15,5</b>	<b>-17,3</b>	<b>22,2</b>	<b>-5,8</b>	<b>-2,5</b>	<b>19,3</b>

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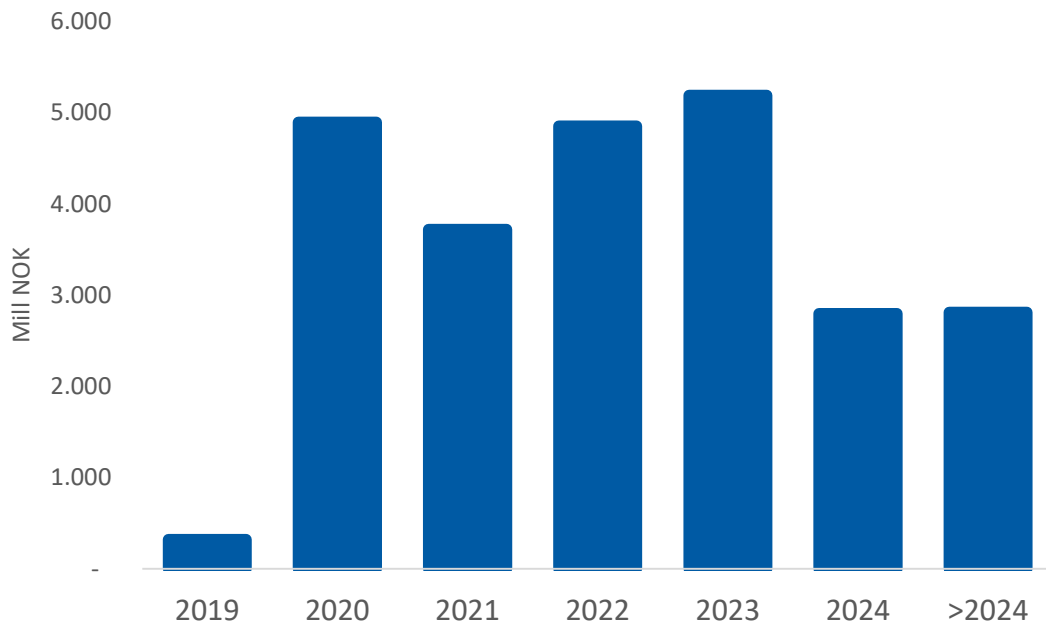
# Liquidity

# Funding instruments 30.06.2019



# Maturity profile 30.06.2019

## Capital markets funding (excl. SPABOL/SPACOM)

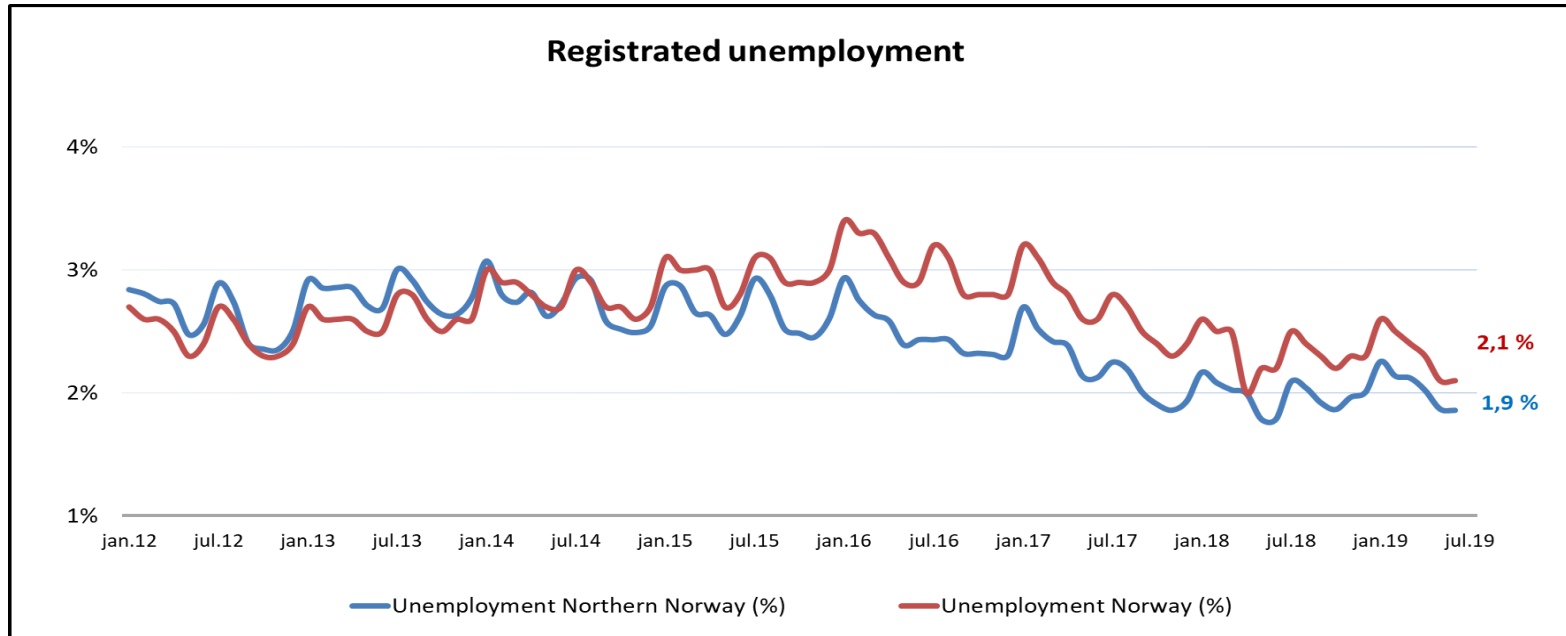


- NOK 24 779 mill in capital market funding exclusive of SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt
- SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is important funding sources. In total NOK 34 224 mill had been transferred as of 30.06.19
- Amount of gross maturities of capital market funding next 12 months is NOK 2 830 mill

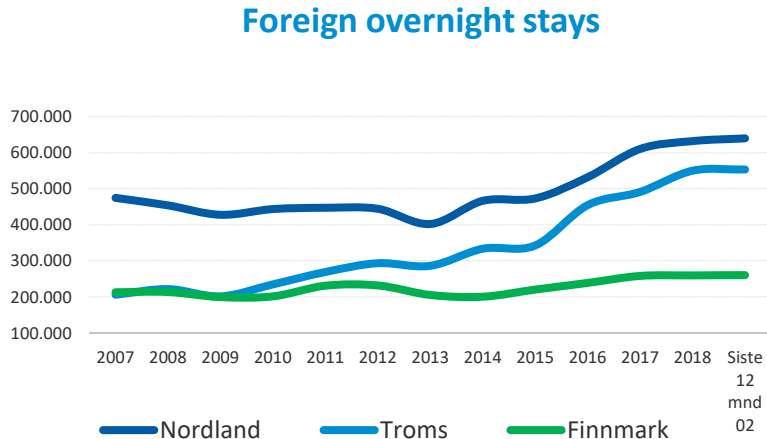
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# Macro and Economic trends

# Stable, low unemployment

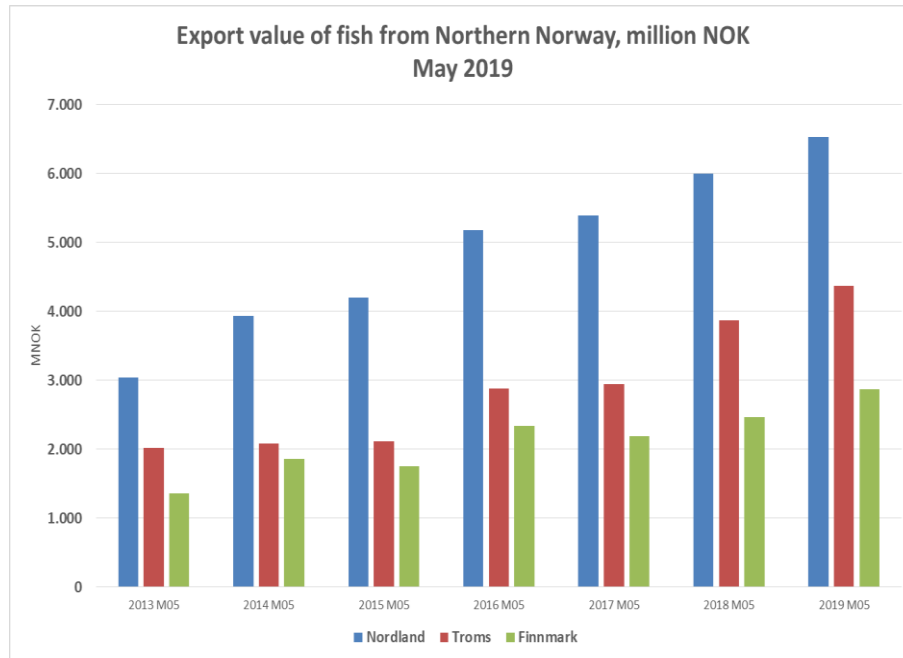


# Tourism – growth in foregin overnight stays



- Number of overnight stays is slowing down.
- Foreign overnight stays plays a more important role, but the growth is now slowing down in Finnmark and Nordland. Still growth in Troms, especially from winter tourism.
- Optimistic prospects for world economy and weak norwegian kroner is positive for the tourism industry.

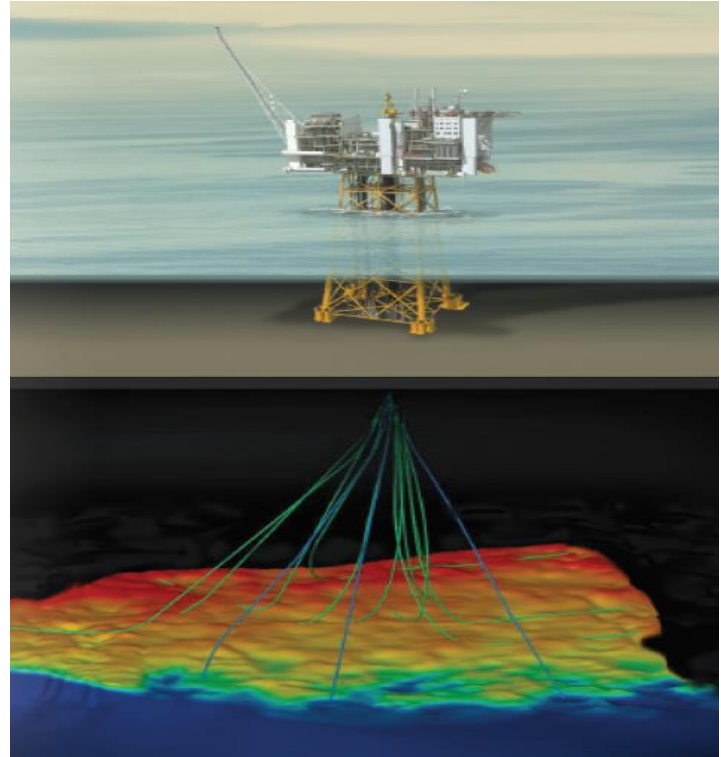
# 1st half 2019 - the best ever for export of fish from Norway



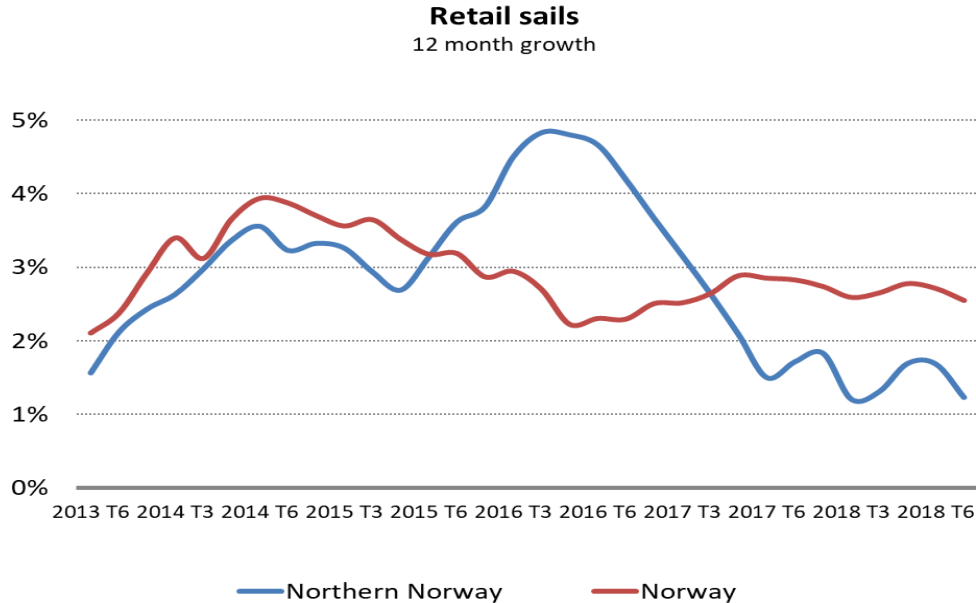
- 1st half 2019 was the best ever for export of fish from Norway.
- Growth in seafood export value from Northern Norway of 11,6 % per May.
- Good prices and weak norwegian kroner contribute.

# Oil and gas – new fields increase activity

- Five fields in production: Norne, Snøhvit, Skarv, Goliat and Aasta Hansteen.
- Alta/Gotha
  - Appraisal for development
- Johan Castberg
  - Building has startet, planning production start in 2022/2023
- 2019 is promising years for discovering
  - Several prospects in the Barents Sea
  - New fields in Norwegian Sea



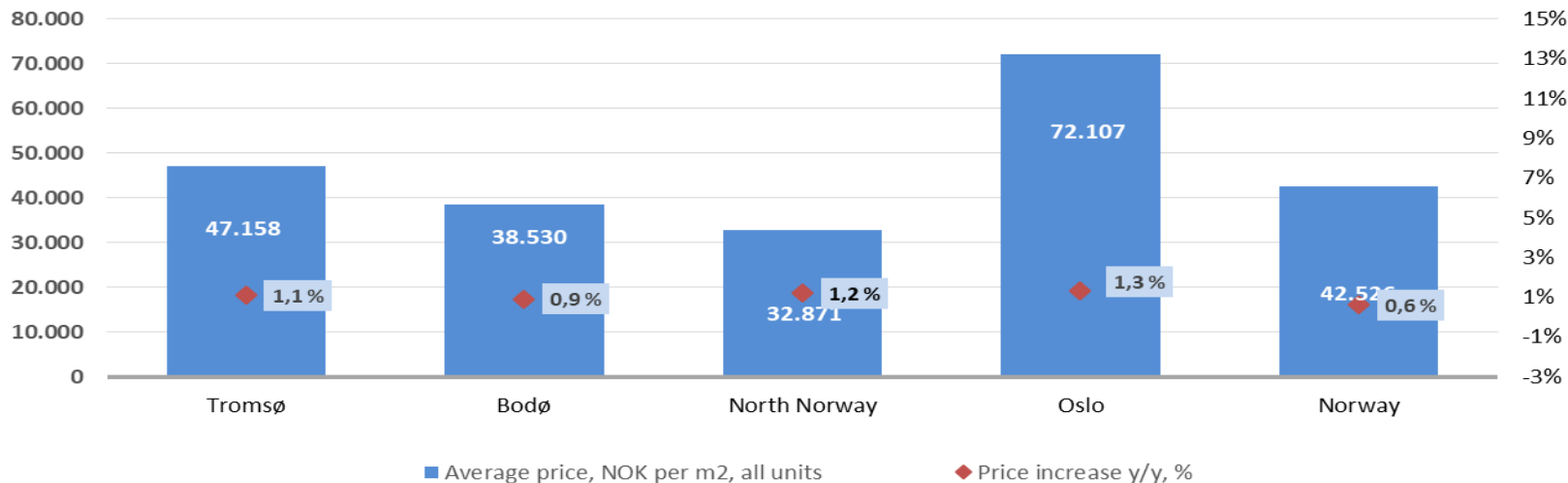
# Lower growth in retail sales, and now growth is lower than Norwegian average



Kilde: SSB, Omsetning i varehandelen

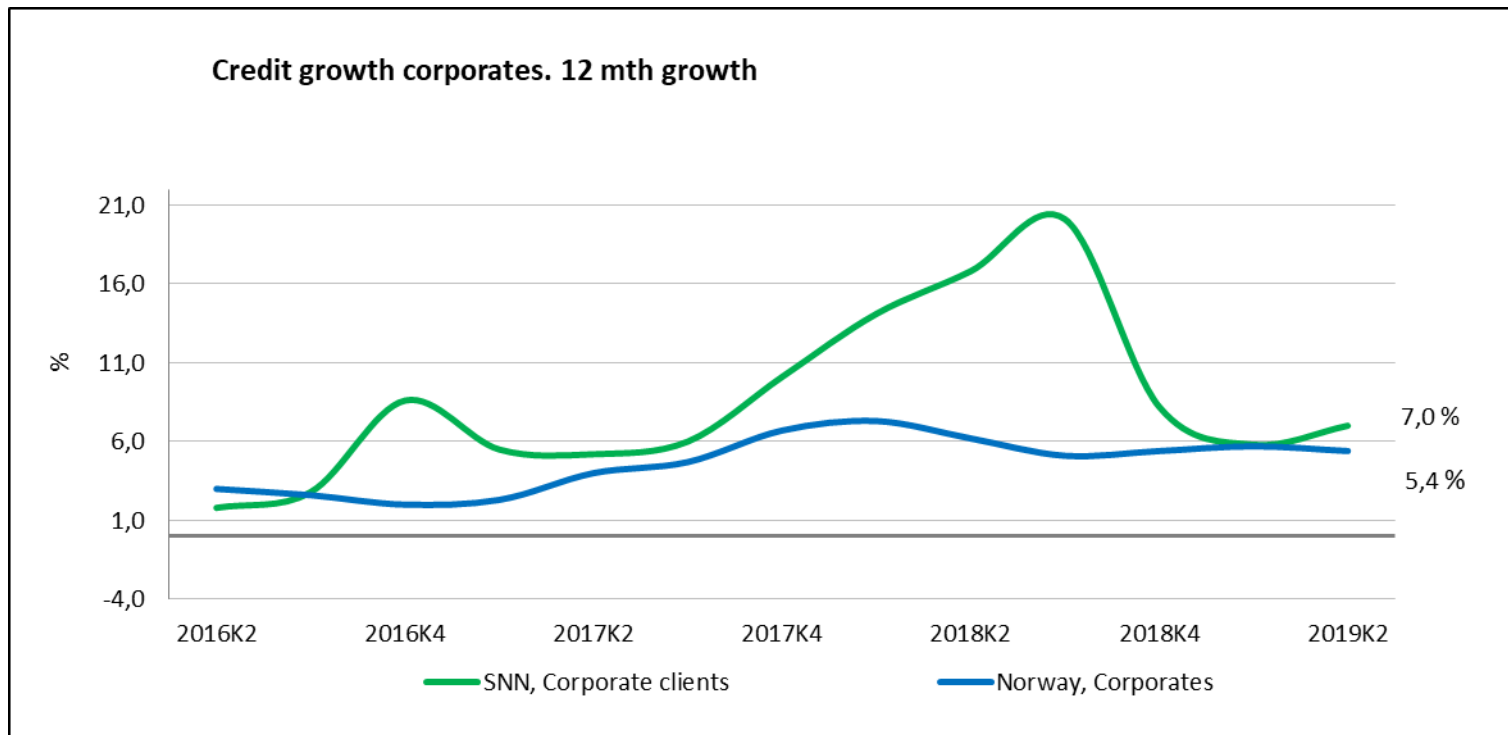
# Lower housing prices – gives lower downside risk

House prices, June 2019  
Average price, NOK per m2, all units

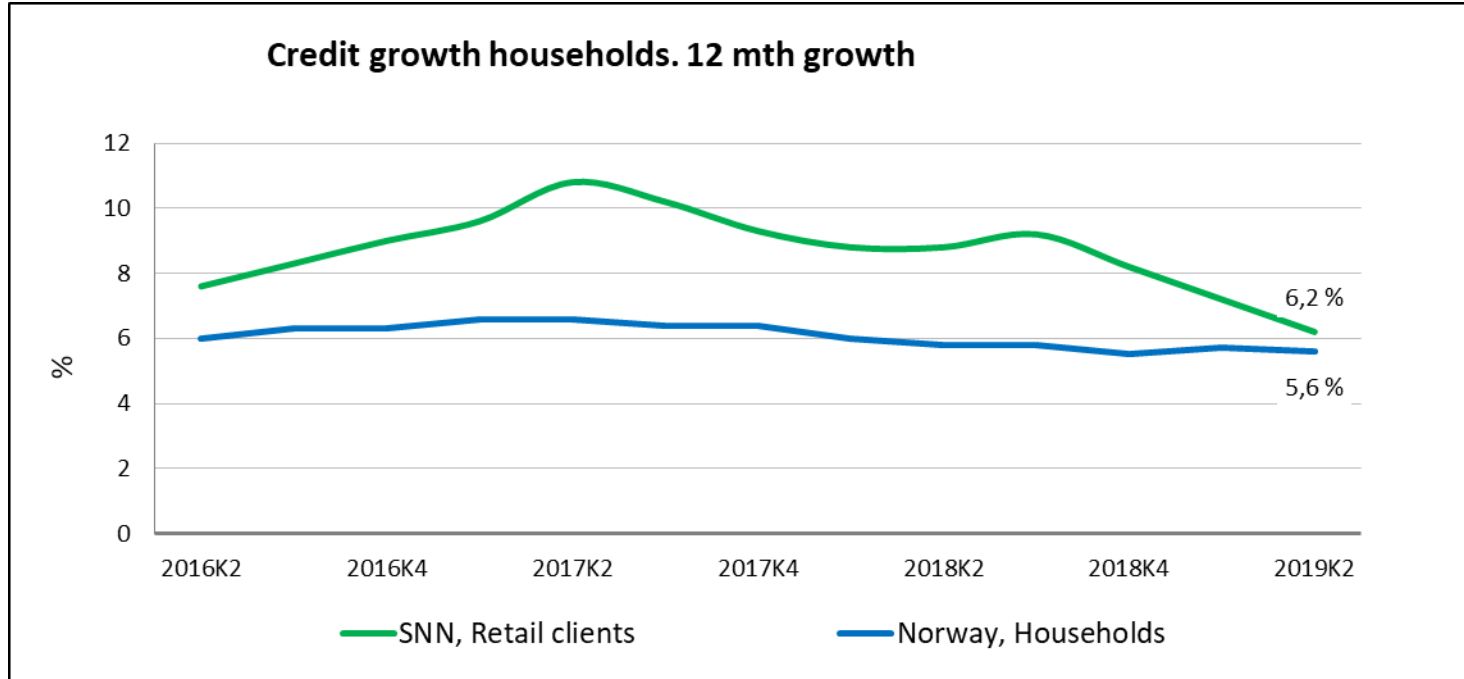


Source: Eiendom Norge, *Boligprisstatistikk*

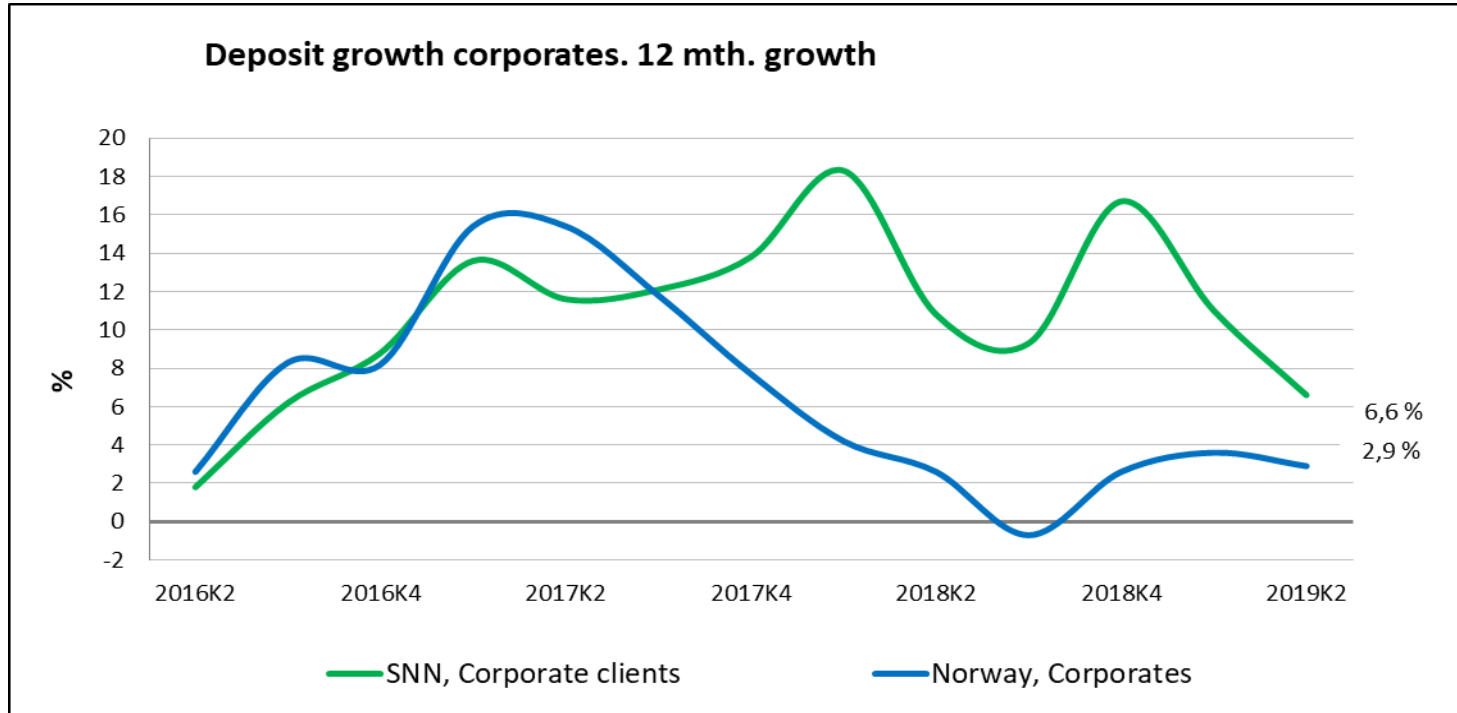
# Credit growth corporates



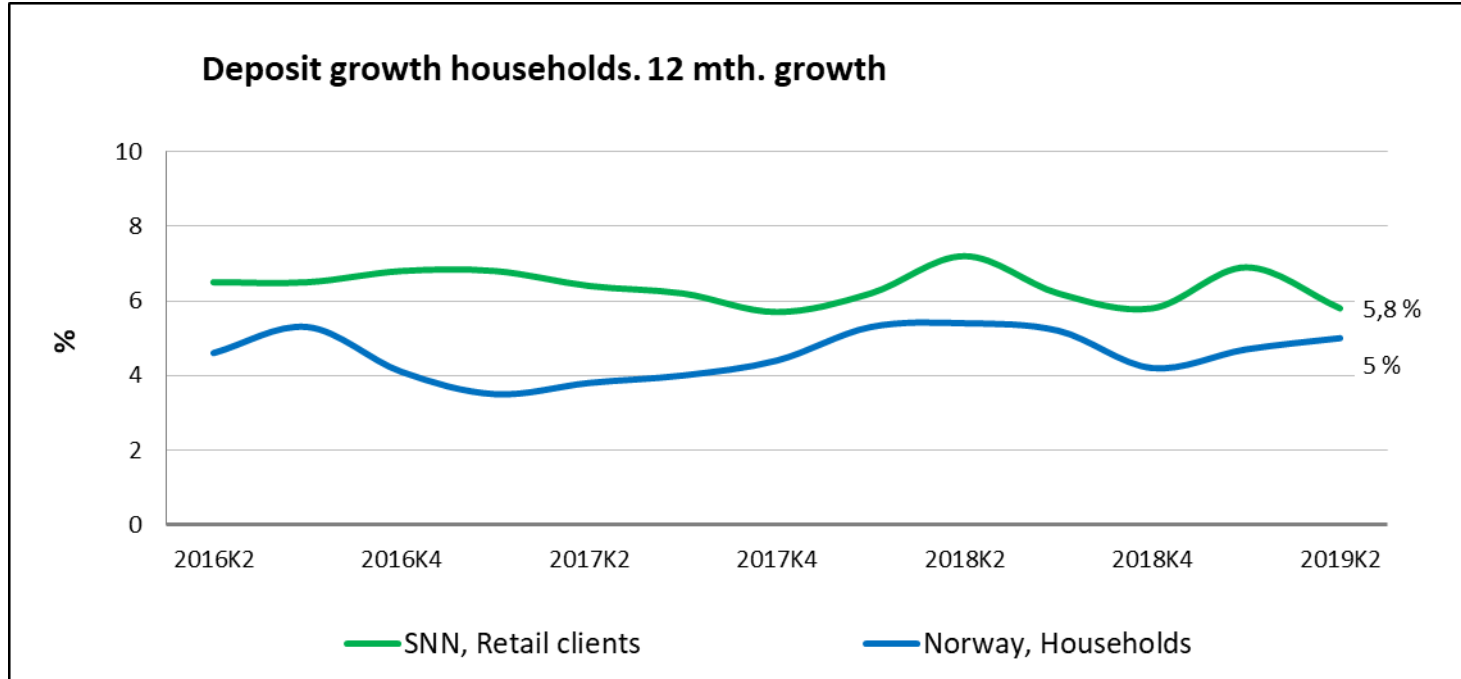
# Credit growth households



# Deposit growth corporates



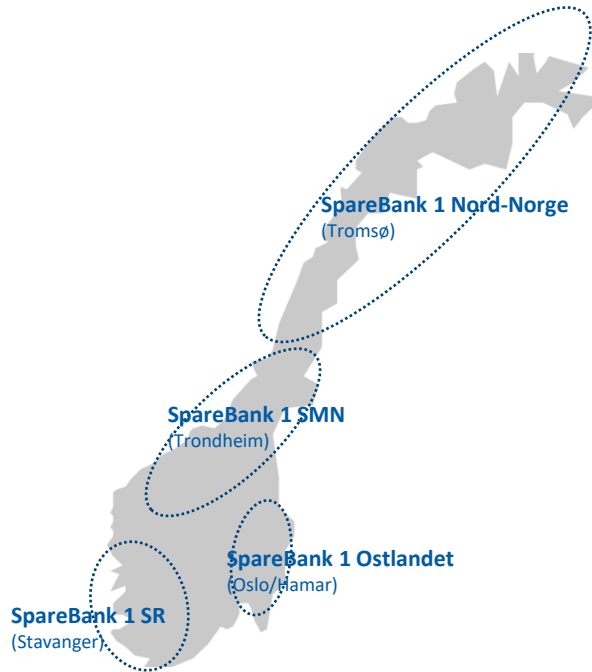
# Deposit growth households



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# SpareBank 1 Group and Alliance

# SpareBank 1 Alliance: National champion, regional focus



- **The SpareBank 1 alliance consists of 14 banks;** independent in each their region. Decisions are made close to the customer, and each bank continues to develop its link with its local community
- **Operate exclusively in Norway** – Norway’s most extensive branch network
- **Work as if one integrated concern.** SpareBank 1 banks are at the forefront of incorporating technological innovation into its distribution channels. Best rated mobil banking in Norway
- Offer banking products through **jointly owned product companies**
- **Market leaders** in their core regional markets 30-50%

# SpareBank 1 Alliance

