

1st quarter 2016

2. May 2016

SpareBank1 SMN, the region's most important finance institution

Core market



Overview

- 200.000 retail customers and 14.000 corporates in Trøndelag and North-West Norway. Market leader in the region
- Norway's second largest savings bank with total assets of 168 billion *)
- Co-owner of SpareBank 1 Gruppen
- Finance group with a complete spectre of products

History

- Established in 1823
- Regional bank for Mid-Norway since 1985
- Listed Oslo Stock Exchange since 1994
- SpareBank 1 Alliance from 1996
- Located in Romsdal after acquisition of Romsdals Fellesbank AS in 2005
- In Sunnmøre from 2009 after acquisition of BN Bank
- Prime history of results and return on equity

*) including SpareBank 1 Boligkreditt

Strong underlying operations, but increase in collective write-downs

Core business is sound. Increased operating income and lower costs

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

Strong financial position. The bank is on course to meet its capital targets

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

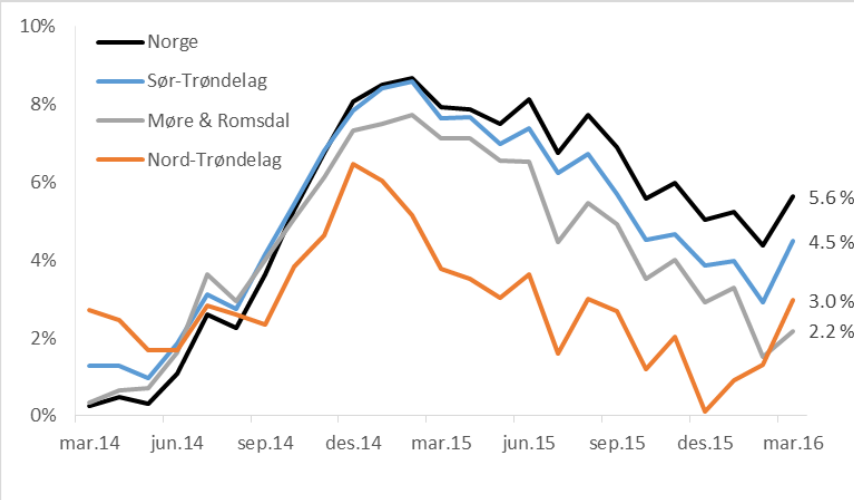
The bank has low individual losses. Increased collectively assessed write-downs associated with oil-related activity

The directors expect individual and collective write downs in total of NOK 450-500m in 2016 due to a challenging market also going forward

Midt-Norge 31. March 2016:

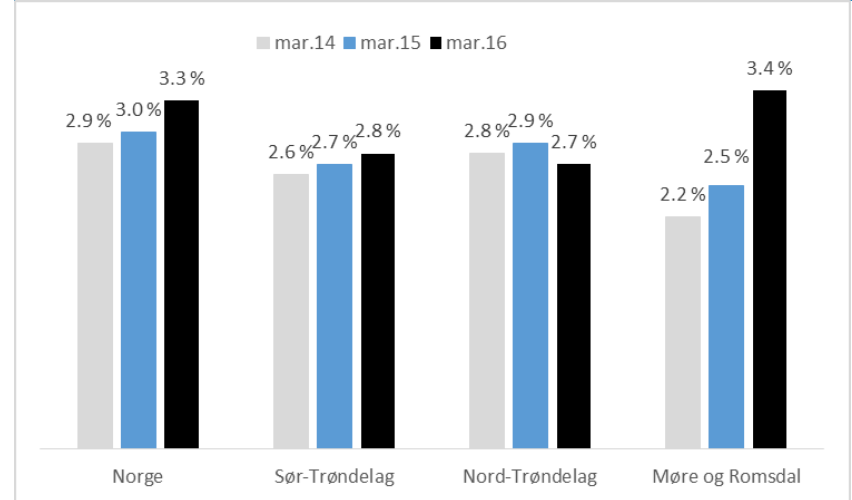
Growth in house prices below average. Increasing unemployment in Møre og Romsdal

12-month growth in house prices . Per cent.



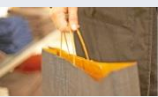
Sources: Eiendom Norge, FINN og Eiendomsverdi AS

Unemployment rate (NAV). Monthly figures.



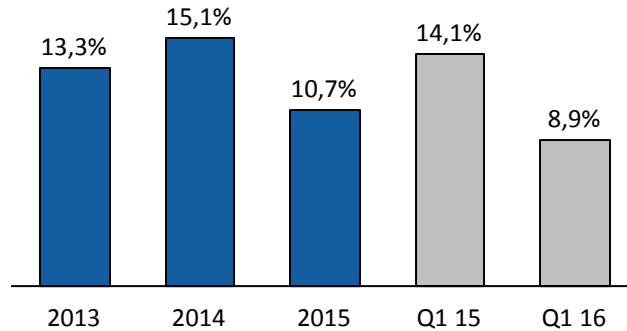
Source: NAV (Norwegian Labour and Welfare Administration)

Status for business and industry in the bank’s market area

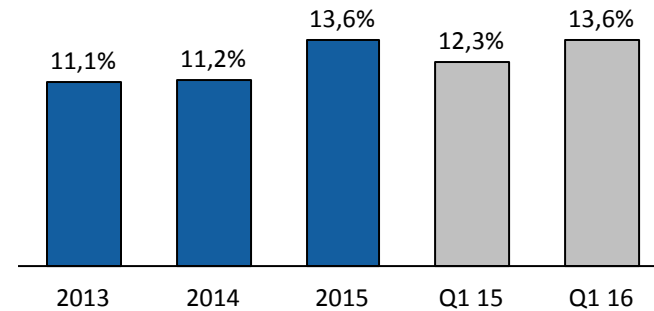
Area		Status	Outlook	Comments	Consequences / measures
Macro				• Weaker Norwegian growth due to reduced oil investments and lower oil price – growing pessimism among firms • Lower Norwegian and international interest rates • Krone depreciation reversed – 2-3% strengthening since year-end	• Weak outlook calls for continued preparedness • Growth prospects further weakened for Norwegian economy and we change the outlook to negative
Construction				• Continued good order backlog for construction – temporary differences reduced in Q4 for Mid-Norway • Macroecon. outlook suggests less construction activity, but continued good momentum in new home sales, and housing starts are rising. Commercial building starts declined in our region in 2015 • Bankruptcy rate remains high	• Macro suggests negative prospects ahead, but no news calling for change from yellow to red • Should stay on the alert when following up existing customers and acquiring new customers
Nærings-eiendom				• Stavanger has largest decline in rental prices in 2015, but rental price decline also gathered momentum in Trondheim during the autumn, especially for ‘upmarket’ buildings on the periphery. • Akershus Eiendom and EM1 estimate prime yield at 5.5% in Trondheim (normally 6.5-7%) • Jobless rate in Tr.heim rose again in Q415 and stands at 9.3% as of 16 January. Also large increase in Ålesund • Weaker macroeconomic outlook, reduced growth in oil inv. and fall in oil price negative.	• Yellow flag stays up in view of challenges in the Norwegian economy • Developments monitored more closely, and we should be on the alert when following up existing customers and acquiring new customers
Vare-handel				• Moderate growth in household consumption maintains nominal growth in retail trade. • Continued decline in volume growth gives ground for concern. • Internet and sports stores are growth winners, while textiles and gold/silver show negative growth. • Shopping centres growing more than retail trade in general, largely due to increased floorage.	• Yellow flag stays up • Weak prospects call for continued preparedness and alertness when following up existing customers and acquiring new customers.
Offshore Service Fartøy				• Very low oil price due to increased supply of oil and weaker demand – USD 30-40 p/b • Continued weak spot market for supply – just over 100 vessels laid up in North Sea • Several companies negotiating debt restructuring • Red flag stays up – no imminent improvement in sight	• Expectation of higher oil price and increased oil activity in the somewhat longer • PSV market particularly uncertain
Maritim industri				• Thin order book for 2016/2017 (large vessels). OSV contracting largely at a halt, but good activity in sea farming • Weak shipyard profitability in 2015 – extra weak for the large offshore yards • Large manpower cuts at actors that deliver to oil/gas activity • Yellow flag stays up due to good activity in fishery/sea farming – red for oil/gas	• Challenging market for oil/gas deliveries • Some shipyards forced into new segments/new design in order to maintain activity level – higher project risk • The strongest actors remain attractive
Havbruk				• Record high prices (70% higher in week 9 compared with last year). Correction expected. • Profitability negatively impacted by increased costs of combating salmon lice, but listed companies showed some profit growth in Q4. • Major problems in Chile due to algal blooms	• Expectation of good profits ahead • Resolving the health and environment challenge is the most important focal area for the industry in the years ahead.
Fiskeri				• Good resource situation for white fish and continued strong prices for cod, haddock and saithe/pollock. • Good resource situation for mackerel and blue whiting. Upturn for herring. • Positive price trend for all pelagic fish species thus far in 2016.	• Green flag stays up with a stable good outlook.

Strong capitalization, good profits and low risk

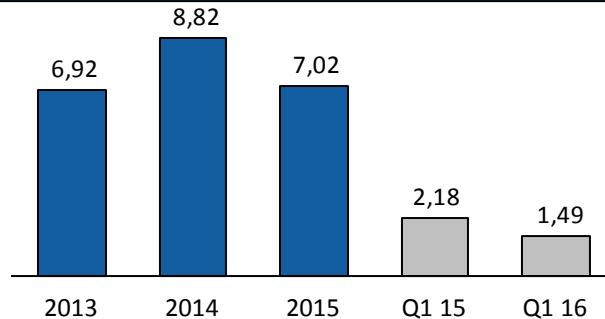
Return on equity



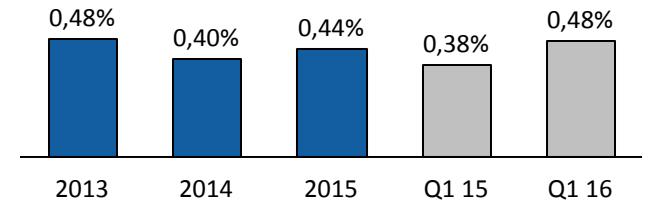
CET 1



Earnings per ECC

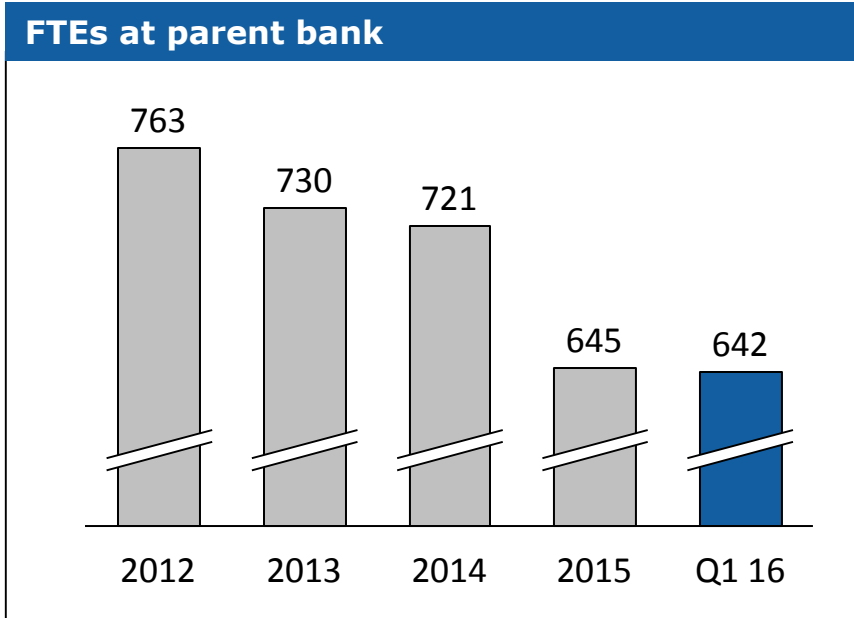


Loans in default and other problem loans as a percentage of total loans



Q1 2016

FTEs crucial to achieving costs goal Considerable reduction in 2015

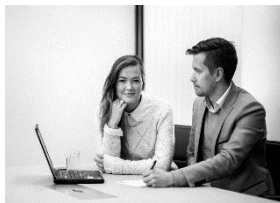


- At end-Marc there were 79 fewer FTEs at the parent bank than at year-end 2014
- This is mainly natural wastage
- A further reduction of about 45 FTEs is aimed for by the end of 2016

An excellent effort across the organisation to develop tomorrow's bank

New distribution model

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



Technological developments provide new opportunities

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



Improving production efficiency

- Continuous improvement as a tool
- Streamlining processes and products
- Unify production processes where this is considered rational



Increased focus on customer dialogue

- We still have potential to increase the time devoted to customer dialogue
- Through freed-up time and new tools we will increase our dialogue with, and time spent on, our customers



The subsidiaries predominate in their markets and contribute to diversified and robust value creation

SpareBank 1 Finans



- Solid market position
- Leasing NOK 2.1bn, car loans 2.2bn
- Pre-tax profit of NOK 23.4m (21.3m)
- Sparebanken Sogn og Fjordane part-owner from 2016

No 1 position in market area

64.6% stake

EiendomsMegler 1



- 40% market share, strong synergy with the bank
- Pre-tax profit of NOK 10.0m (7.8m)

No 1 position in market area

87% stake

SpareBank 1 Regnskapshuset



- Stable and high growth in turnover
- Pre-tax profit of NOK 4.3m (7.9m)
- Long-term strategy to consolidate accounting industry and build synergies with the bank

No 1 position in market area

100% stake

SpareBank 1 Markets



- Pre-tax profit NOK 3,2m
- Complete spectre of capital market services in cooperation with the owner banks
- SpareBank 1 Markets subsidiary of SMN from Q2 2015

No 1 position in market area

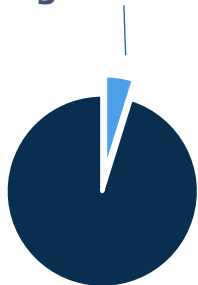
73.7% stake

The Offshore Segment in SpareBank1 SMN



Share of gross exposure

Olje og Offshore 4,6%



Offshore 6,7 bill. - total 144,9 bill.
incl. Boligkreditt/Næringskreditt

Number of vessels*

67

*) Excluding barges and tugs

Exposure

- 50% to PSV, AHTS, seismic
- 50% to barges, tugs, construction, standby and others

The Offshore Segment i SpareBank 1 SMN – further details

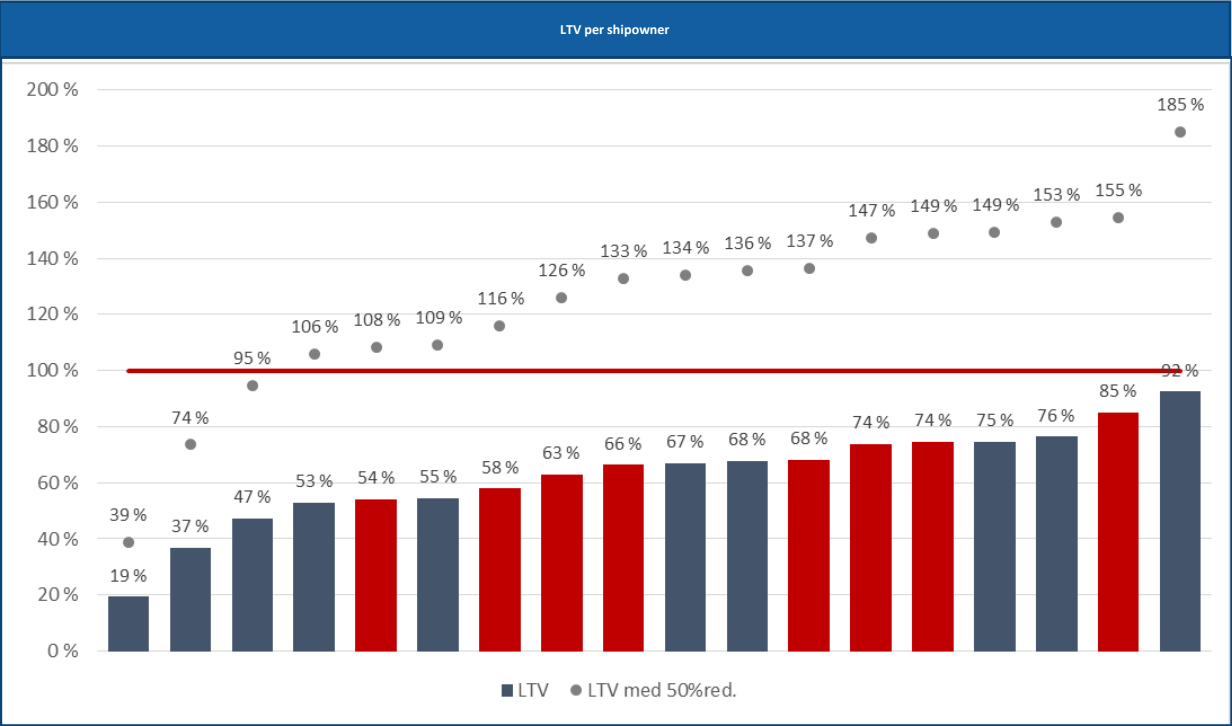
1. Exposure to the Offshore Service Vessel segment (OSV) – capital intensive industry
2. Shipyards - OSV, fishing vessels, wellboats and RoRo
3. Exposure to other maritime industries – mainly producers of maritime equipment and engineering companies. Less capital intensive activities and for the shipyards mainly project finance with low risk for SMN.
4. Directly and/or indirectly by tenants that are oil and gas related. SMN has a relatively small market share in the retail market in Møre og Romsdal where there are considerably more oil and gas related jobs than in Nord Trøndelag and Sør Trøndelag.



Our exposure are mainly related to Offshore Service Vessels

LTV per shipowner as of 30.06.15

Only vessels financed wholly og partly by SMN



Source: SpareBank1 SMN

Conclusion

- SpareBank 1 SMN has a very well diversified corporate portfolio. 4.6 % of the bank's total loan exposure is to petroleum-related activities. This is primarily funding of OSV vessels.
- The quality of the portfolio is broadly good – however, risk in the OSV segment is high
- SpareBank1 SMN has set aside NOK 431m for collectively assessed write-downs related to corporate loans, of which NOK 249m refers to petroleum-related business. Overall individually assessed write-downs on corporate exposures amount to NOK 163m, of which NOK 49m is petroleum related
- The bank's exposure is spread across 18 shipowners for five of which the situation is challenging, and the increase in collectively assessed write-downs largely refers to those five.
- The bank has good expertise on lending to oil service businesses and on handling crisis exposures. About 10 employees work full-time on these exposures. The bank's management has a substantial focus on this area
- SpareBank 1 SMN has a large capacity to withstand a further decline in the oil service market. This assessment is based on the bank's collateral, the bank's high collectively assessed loss provisions and its history showing a conservative loss assessment practice.
- SpareBank 1 SMN has very good earnings and capital adequacy and thus a very good ability to withstand loss.

SpareBank 1 SMN intends to be among the best performing banks

Customer orientation	Best on customer experience Will continue to strengthen market position
Profitable	Among the best performing banks, ROE 12 % annually
Solid	CET1 14.5% by the end of 2016
Efficient	Zero cost growth in parent bank 2014 – 2016
Dividend	Real-terms payout ratio of 25% to 35%. Strong focus on strengthening capital through retained profit

Financial results 1st quarter 2016

Q1 2016

Net profit NOK 311m (441m)

Return on equity 8.9 % (14.1 %)

Result of core business NOK 211m (279m)

Cost reduction parent bank 1.0 % (growth 0.7%)

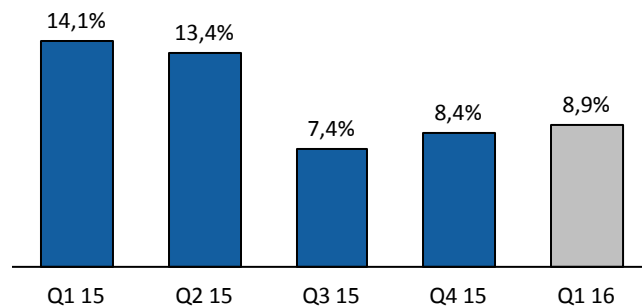
CET 1 13.6 % (12.3 %)

Growth in lending RM 9.5 % (8.0%) and CM reduction 1.2 % (growth 13.2%), deposits 5.4 % (10.9 %) last 12 months

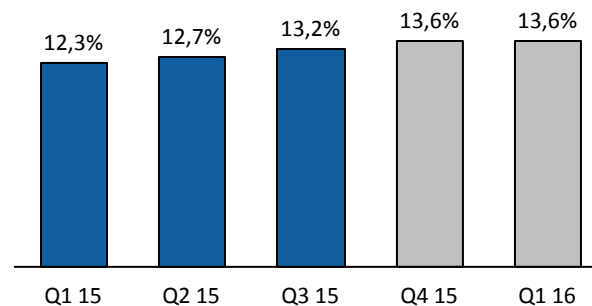
Booked equity capital per ECC NOK 67.37 (61.95), profit per ECC NOK 1.49 (NOK 2.18)

Key figures, quarterly

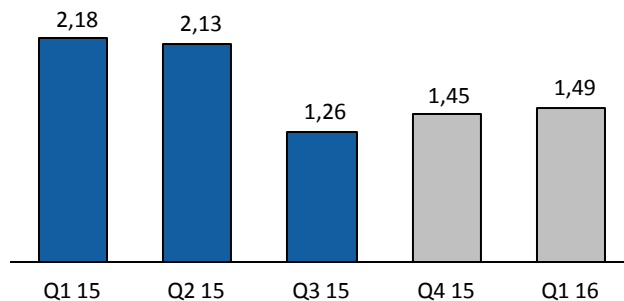
Return on equity



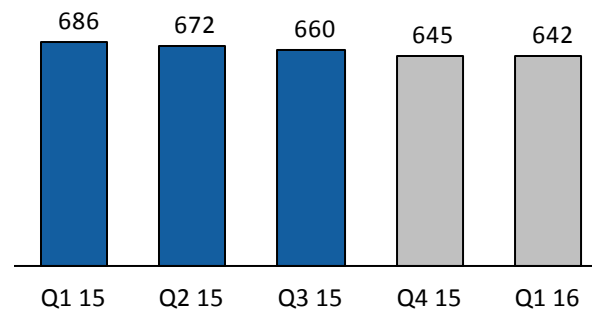
CET 1



Earnings per ECC



FTEs parent bank



Q1 2016

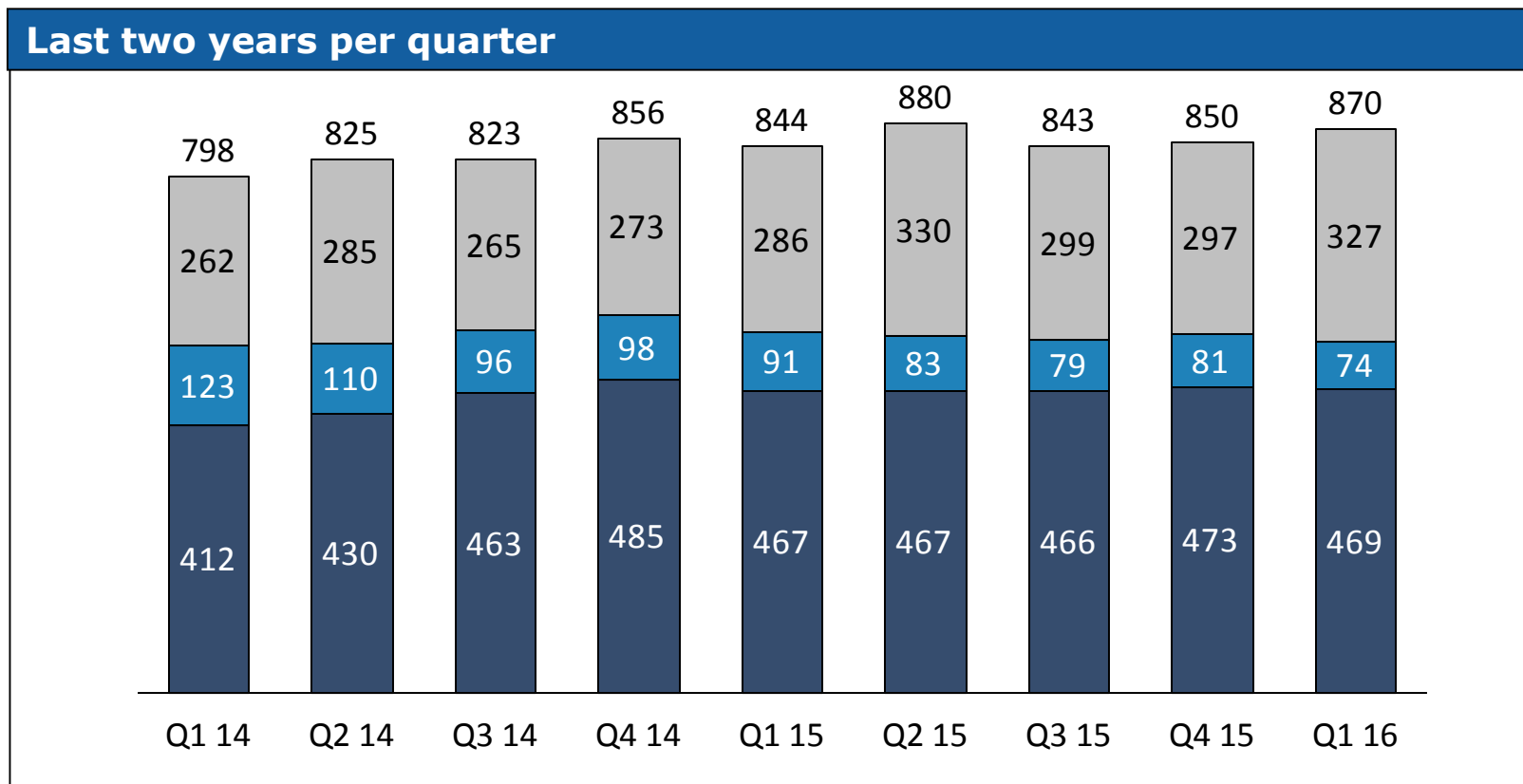
Profits

Profit per quarter

NOK mill	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Net interest	469	473	466	467	467
Commission income and other income	401	378	378	413	377
Operating income	870	850	843	880	844
Total operating expenses	489	515	466	496	454
Pre-loss result of core business	381	335	377	384	391
Losses on loans and guarantees	170	56	56	35	22
Post-loss result of core business	211	279	321	349	369
Related companies, including held for sale	118	121	78	120	128
Securities, foreign currency and derivatives	53	-12	-91	45	69
Result before tax	383	387	309	513	566
Tax	72	100	61	83	126
Net profit	311	287	248	430	441
Return on equity	8,9 %	8,4 %	7,4 %	13,4 %	14,1 %

Operating income

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

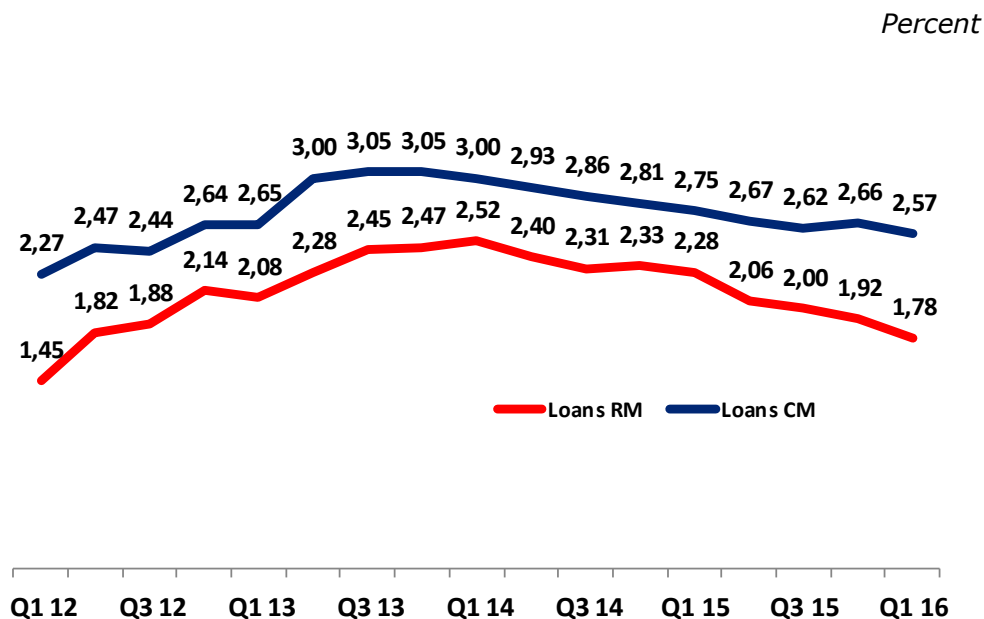


Change in net interest income

From Q1 15 – Q1 16		Comments
Net interest Q1 2015	467	
Net interest Q1 2016	469	
Change	2	- Increased lending volume and deposit margins strengthens net interest income - Lower lending margins weaken net interest income
Obtained as follows:		
Fees on lending	1	
Lending volume	20	
Deposit volume	-3	
Lending margin	-88	
Deposit margin	68	
Equity capital	-1	
Funding and liquidity buffer	-1	
SMN Finans	6	
Change	2	<i>Commission income from SpareBank 1 Boligkreditt are reduced in the period as well due to lower margins</i>

Lending margins Retail and Corporate

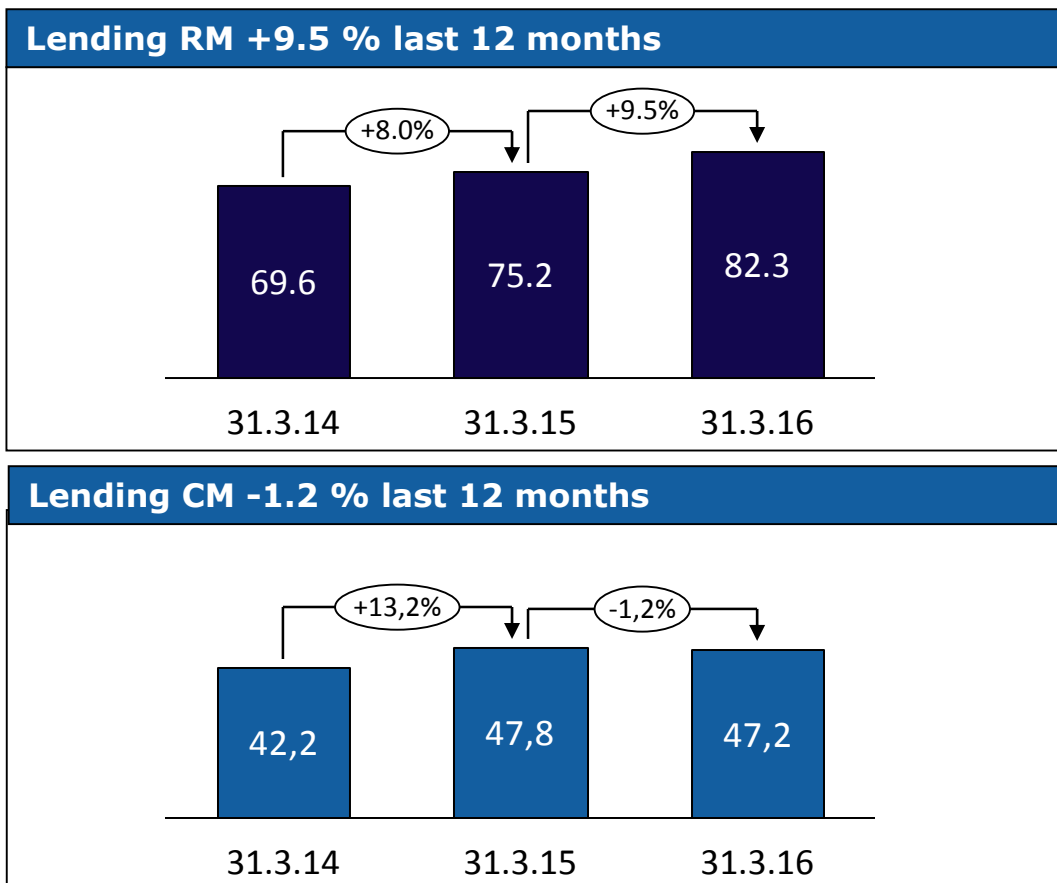
Per quarter from Q1 2012



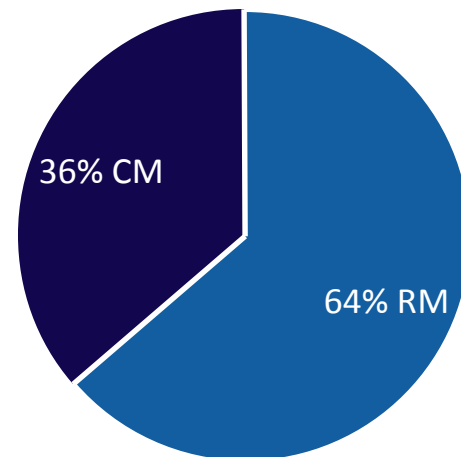
Comments

- Strong competition
- Interest rate changed five times on best home loans since June 2014, another reuction is announced with effect fro June 2016, effect up to 14 bps
- Actions to increase margins to corporates are carried out

Total growth lending 5.4 % last 12 months

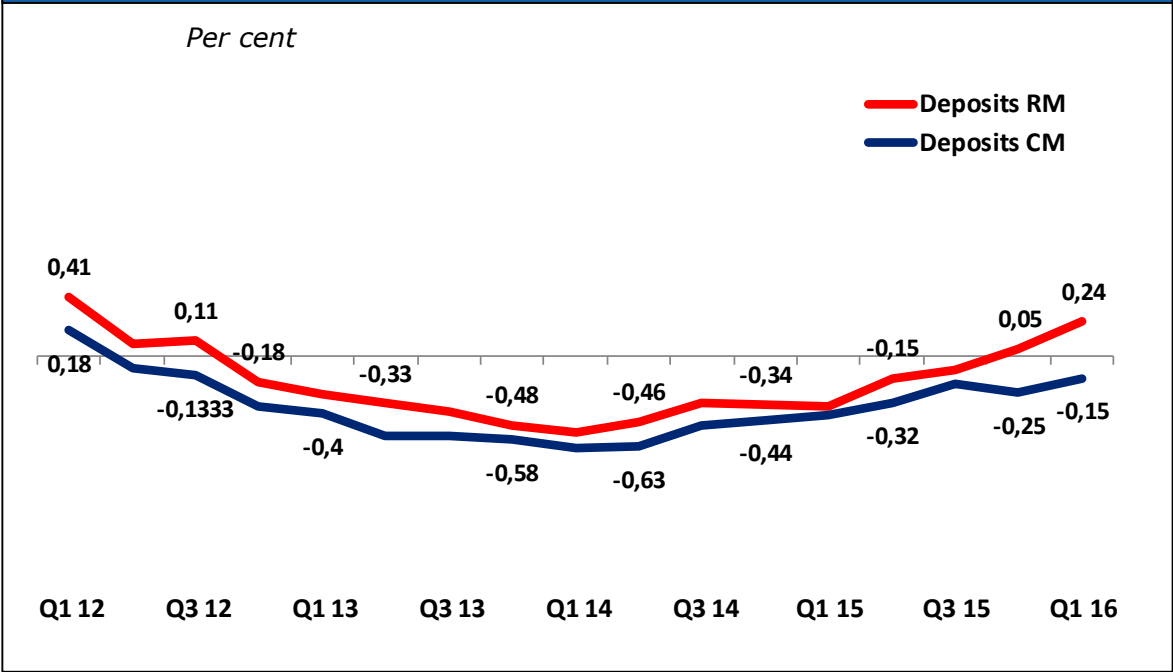


Share of lending



Deposit margins Retail and Corporate

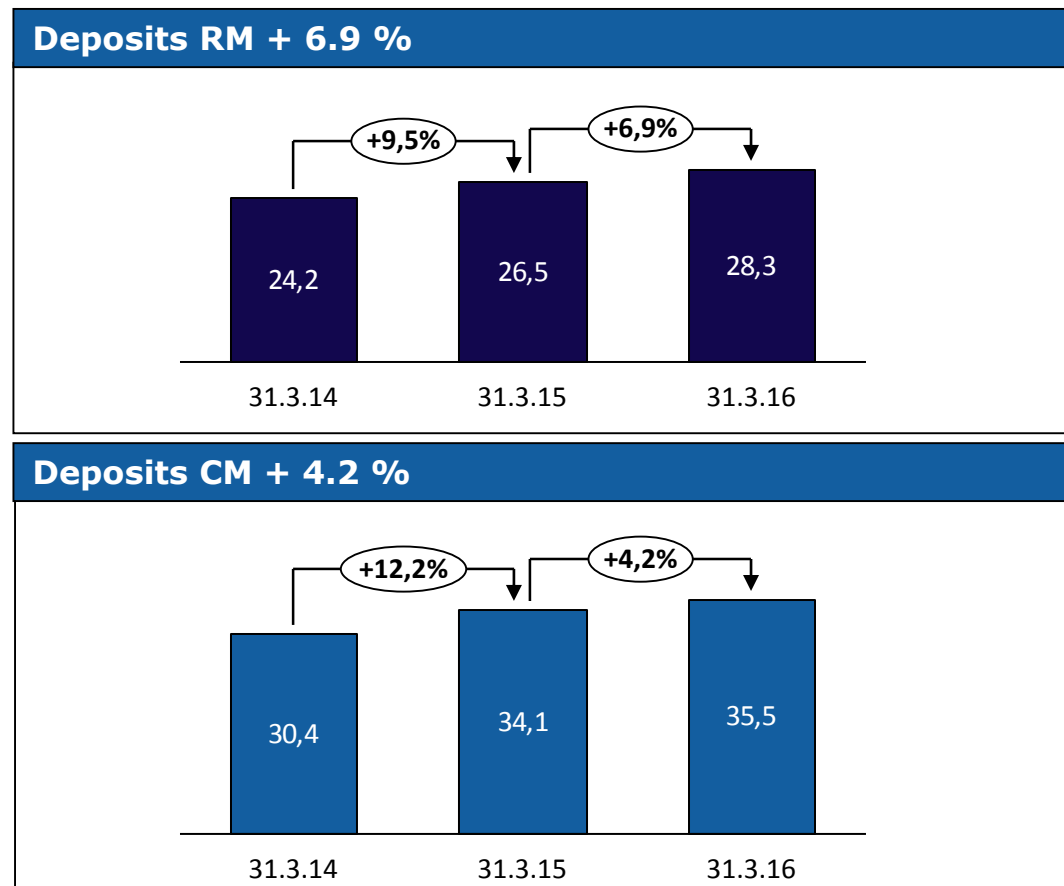
Per quarter from Q1 2012



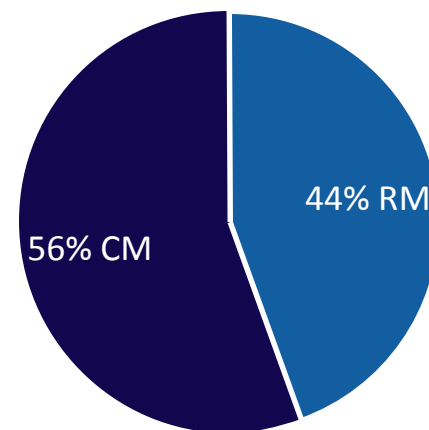
Comments

- Margins increased due to repricing
- Further repricing to be considered

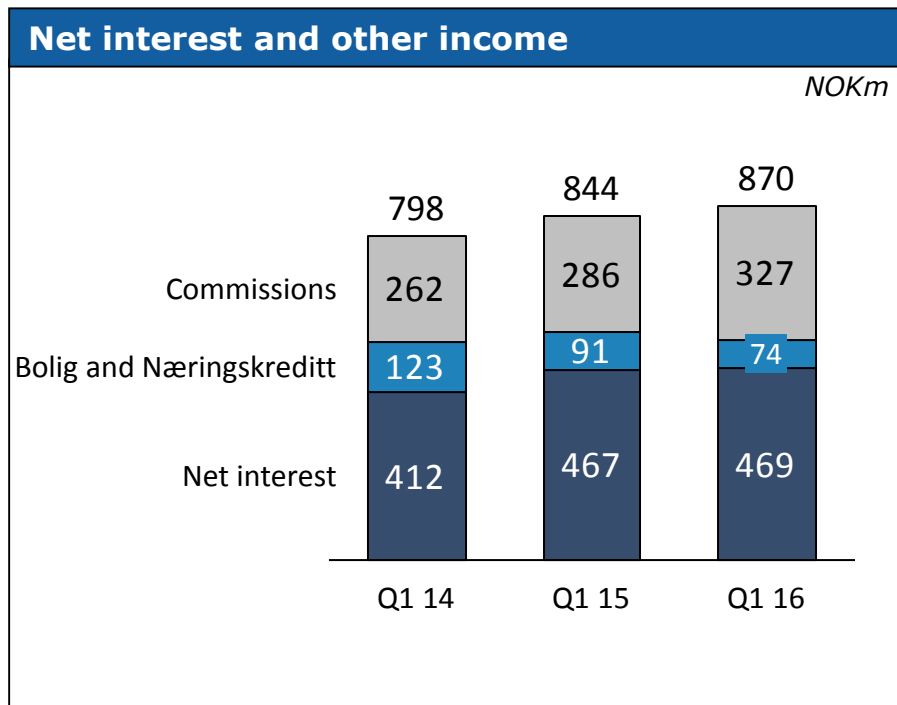
Total growth deposits 5.4 % in Q1 2016



Share of deposits



Robust income platform and increased commission income



Commission Q1 15 and Q1 16

mill kr	31 Mar. 2016	31 Mar. 2015	Change
Payment transmission income	47	47	0
Creditcards	14	13	1
Commissions savings	13	11	2
Commissions insurance	39	37	3
Guarantee commissions	21	16	4
Estate agency	80	83	-3
Accountancy services	50	53	-3
Markets	39	2	37
Assets management	6	4	1
Other commissions	17	19	-1
Commissions ex. Bolig/Næringskreditt	327	286	41
Boligkreditt	71	89	-18
Næringskreditt	2	2	0
Total commission income	401	377	24

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

Return on financial investments

Per quarter					
<i>NOKm</i>	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Net gain and dividends on securities	3	-17	9	61	10
Net gain on bonds and derivatives	25	-16	-116	32	11
Change in discount factor in fair value model for fixed interest loans				-64	
Net gain on trading and derivatives Markets	26	20	18	16	48
Return on financial investments	54	-13	-90	44	69

Subsidiaries

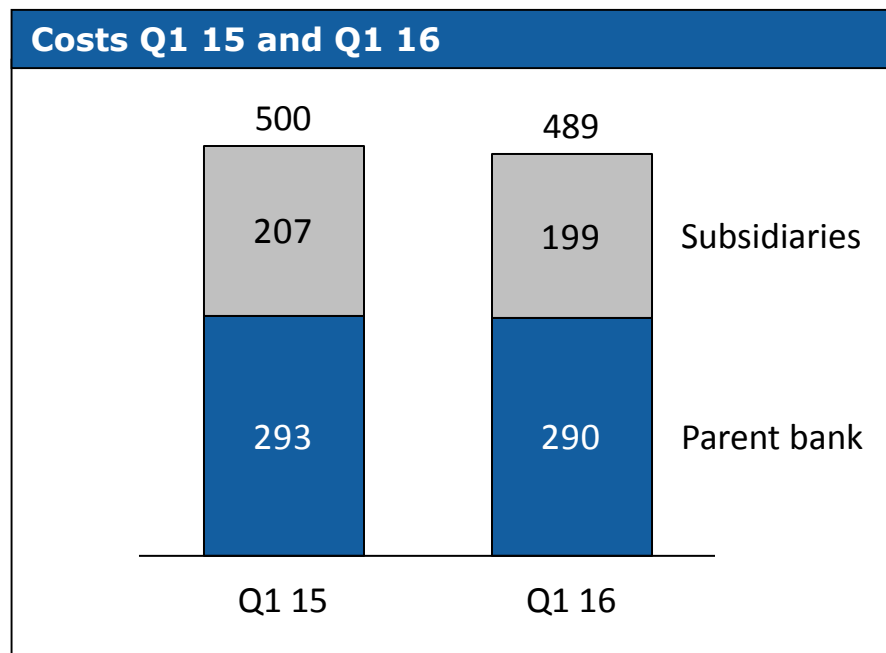
Profit subsidiaries pre tax		per quarter				
		Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
EiendomsMegler 1 Midt-Norge (87 %)		10,0	7,5	10,3	21,3	7,8
SpareBank 1 Regnskapshuset SMN		4,3	8,8	5,7	12,4	7,9
SpareBank 1 Finans Midt-Norge (90 %)		23,4	19,5	20,1	22,2	21,3
Allegro Kapitalforvaltning (90 %)		0,6	-0,7	0,7	1,0	0,3
SpareBank 1 SMN Invest		9,9	5,6	20,0	12,1	0,9
SpareBank 1 Markets (73 %)		3,2	-21,4	-52,6	-10,1	

Associated companies

Profit shares after tax		per quarter				
		Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
SpareBank 1 Gruppen (19,5 %)		61,0	68,0	55,8	68,2	59,4
SpareBank 1 Boligkreditt (18,4 %)		23,7	15,1	14,5	9,1	41,0
SpareBank 1 Næringskreditt (29,3 %)		8,0	8,0	6,6	7,3	8,1
BN Bank (33 %)		19,8	10,6	-4,1	16,5	18,3
SpareBank 1 Kredittkort (18,4 %)		6,2	5,3	5,6	5,8	3,8
SpareBank 1 Mobilbetaling (19,7 %)		-5,9				

Costs, parent bank and subsidiaries

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

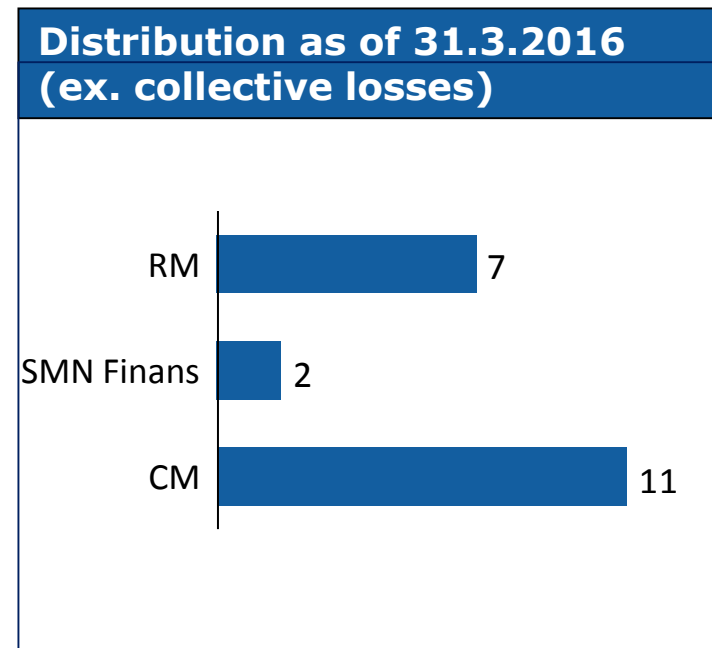
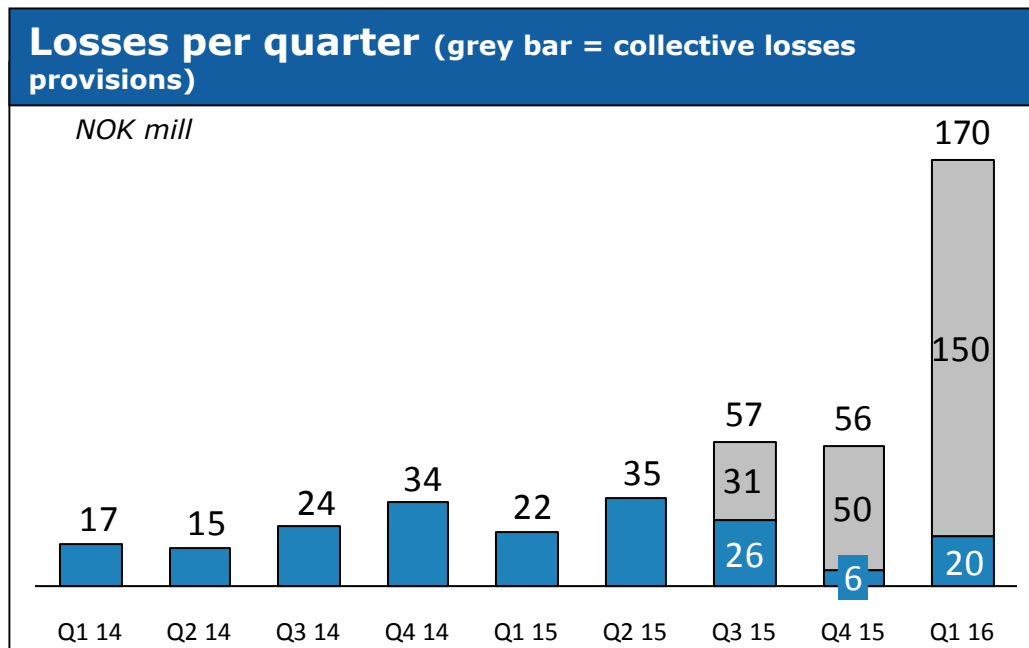


Comments

- Reduced costs by 1 per cent at the bank are the result of the cost-cutting programme
- Overall costs at the subsidiaries are also reduced compared with the first quarter of 2015
- Group costs are reduced by 2 per cent

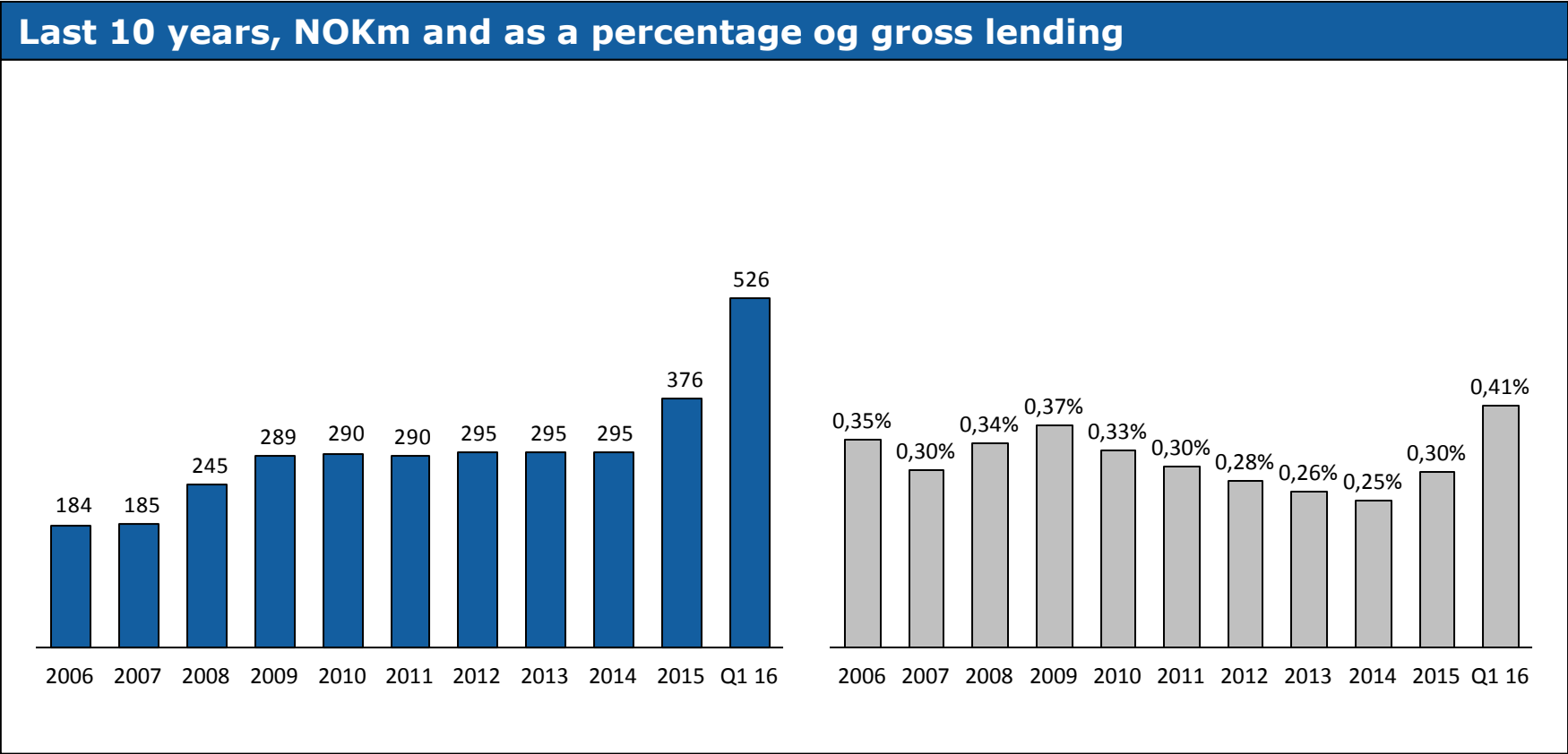
Low individual losses in Q1 16 : 20 mNOK

Collective losses provisions increased with 150 mNOK in Q1 16



- Loan losses including collective losses provisions 0.53 % (0.08 %) of gross lending as of 31.3.2016

Collectively assesses write-downs



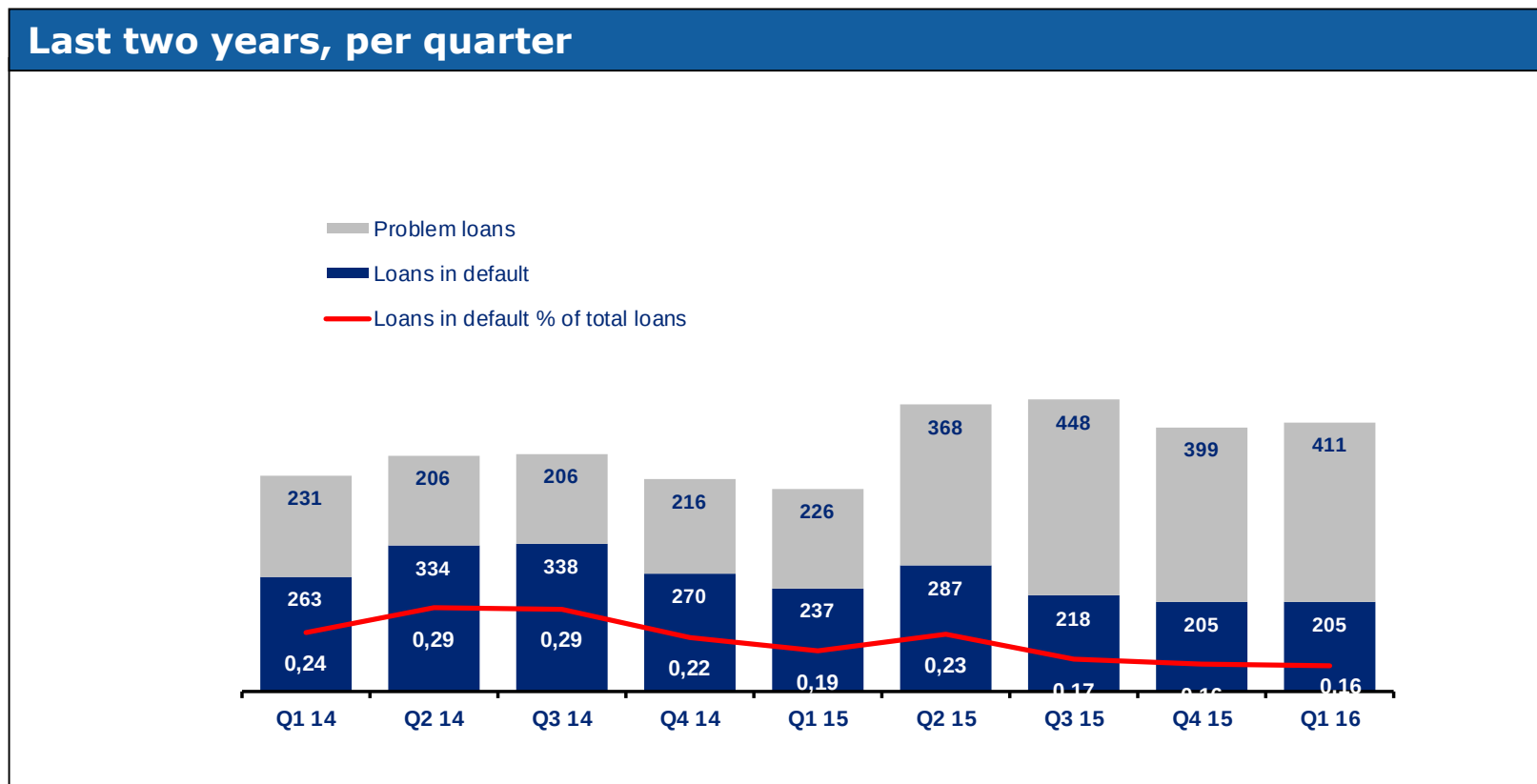
Collectively assessed write-downs, Corporate (parent bank)

Comment
• Collective write-downs related to offshore are estimated with a basis in stressed PDs and sharp falls in boat values, based on value-fall matrices • Where the bank considers there is a preponderant likelihood that a customer will default, an individual write-down will be undertaken. Such exposures will in such cases be removed from the portfolio covered by collective write-downs

By sector	
Offshore	249
Commercial property	71
Services	33
Construction	22
Retail trade and hotels	15
Primary industries	11
Other	17
Total collective write-downs NL	418

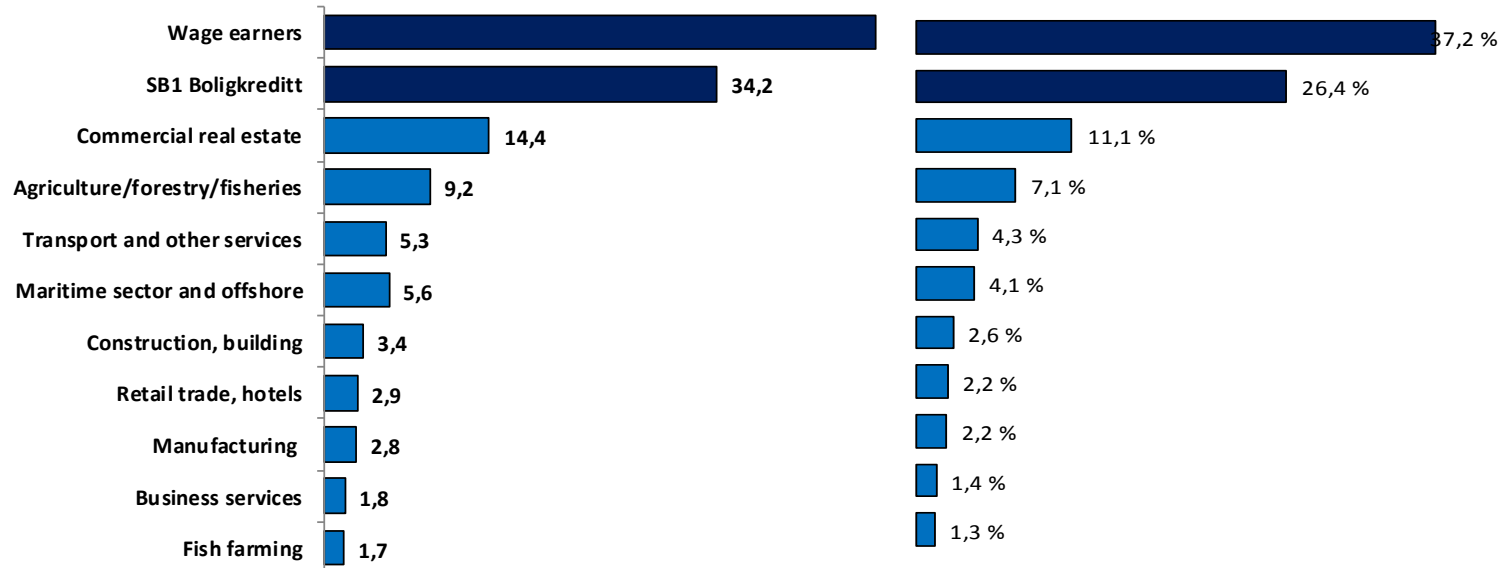
Defaults and other problem loans

Low levels



High share mortgages and diversified portfolio SMEs

Lending and change last 12 months by sector in mNOK



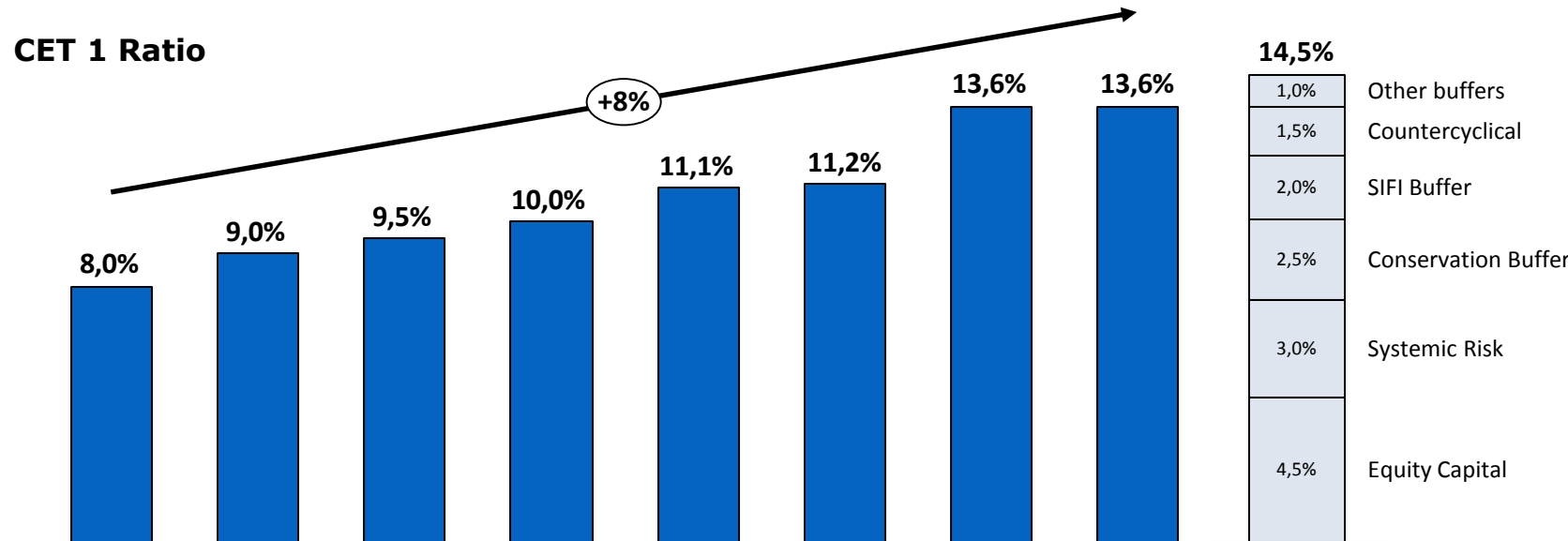
- Large portions of the retail market and primary industries are risk-dampening. The Group has a well diversified corporate market portfolio
- The growth is relatively diversified

Balance sheet

Last three years

	31 Mar. 2016	31 Mar. 2015	31. Mar. 2014
Funds available	19,5	16,5	20,0
Net loans	94,6	91,9	79,1
Securities	1,6	0,7	1,1
Investment in related companies	6,0	5,2	4,8
Goodwill	0,5	0,5	0,5
Other assets	12,1	8,9	6,0
TOTAL ASSETS	134,3	123,7	111,6
Capital market funding	44,4	39,6	36,0
Deposits	63,9	60,6	54,6
Other liabilities	8,5	7,6	6,3
Subordinated debt	3,5	3,4	3,3
Equity	14,1	12,5	11,4
TOTAL DEBT AND EQUITY	134,3	123,7	111,6
in addition loans sold to Boligkreditt and Næringskreditt	34,2	30,6	32,2

Development in common equity Tier 1 (capital and ratio), and ROE from 2009 to Q1 2016

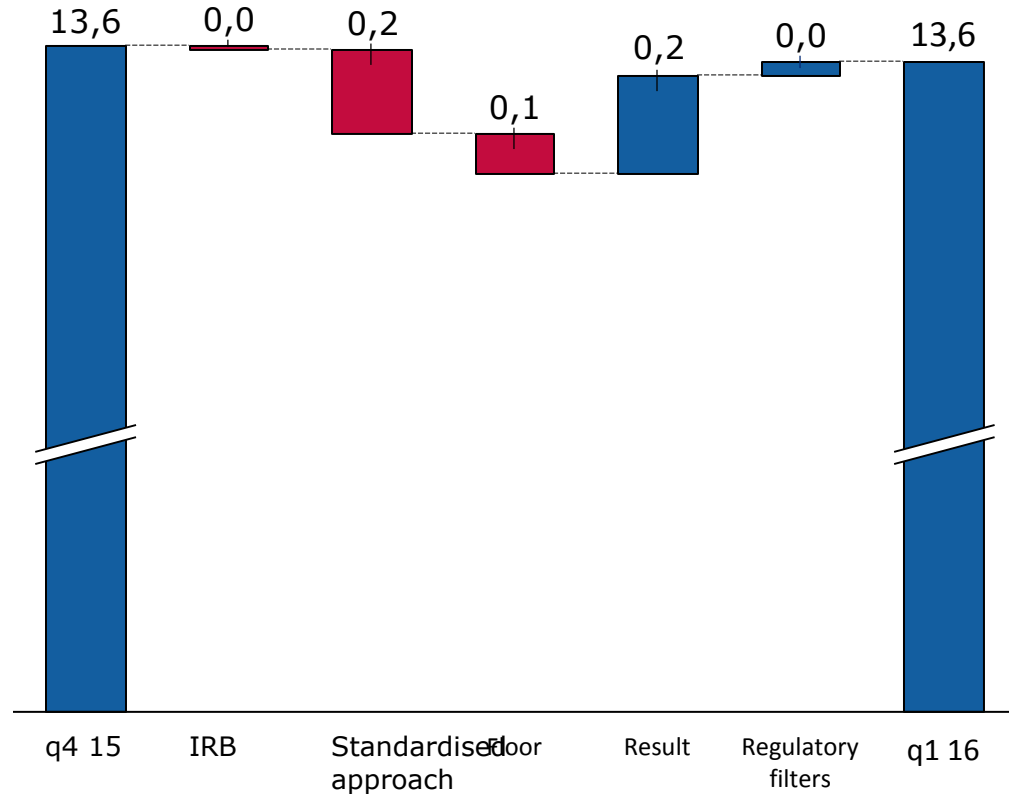


	2009	2010	2011	2012	2013	2014	2015	Q1 16	Goal dec. 2016
CET 1 Capital	4.938	6.177	6.687	8.254	9.374	10.679	12.192	12.440	
ROE	16,2 %	14,6 %	12,8 %	11,7 %	13,3 %	15,1 %	10,7 %	8,9 %	
RWA	64.400	66.688	75.337	82.450	84.591	95.322	89.465	91.286	

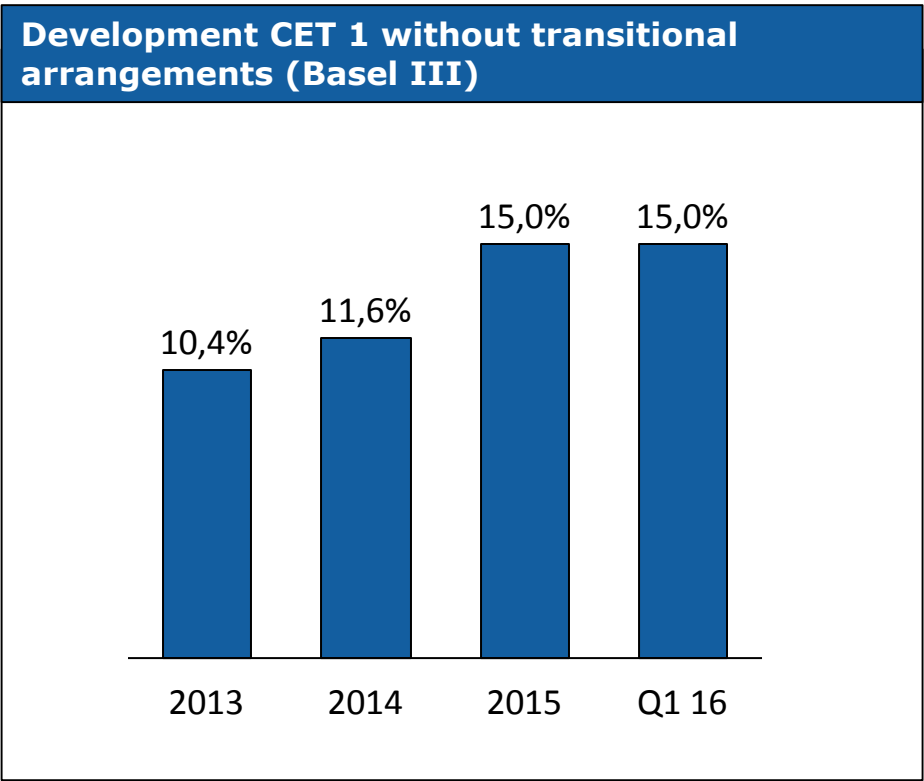
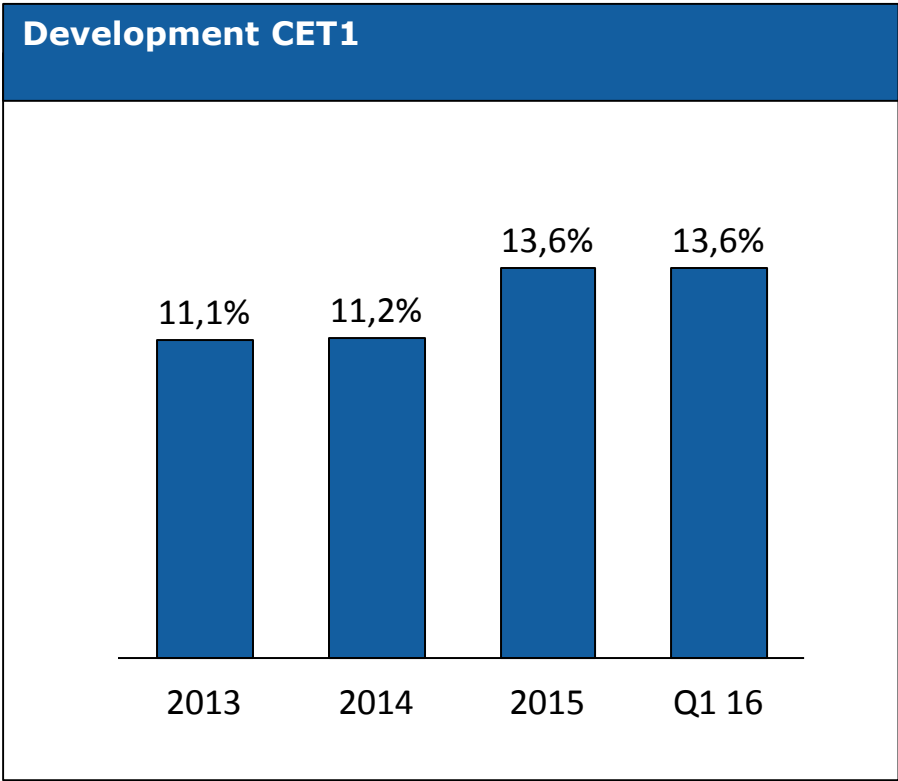
CET1 capital adequacy unchanged from 31 December 2015

Comment

- Increased capital requirements under the standardised approach
- Little change in capital from operations



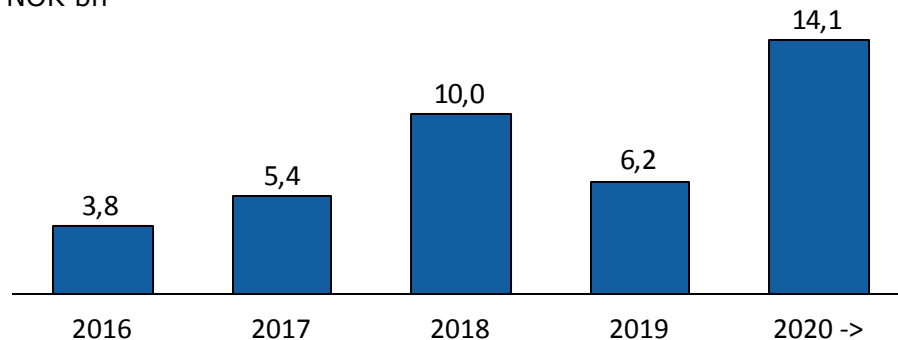
Strong capitalization



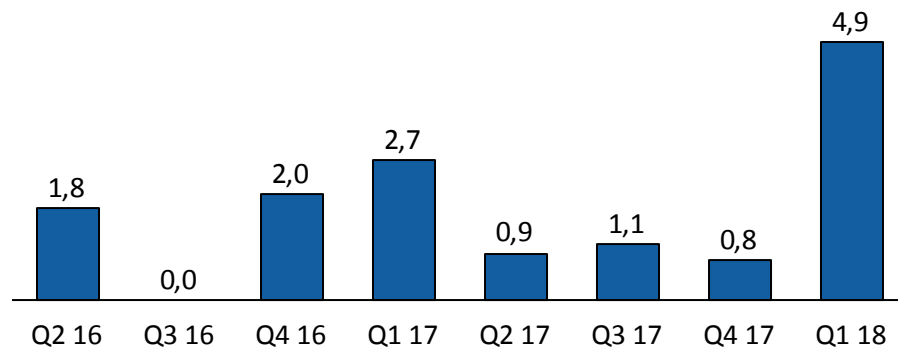
Satisfying access to capital market funding

Funding maturity 31. March 2016

In NOK bn



In NOK bn



Comments

- SpareBank 1 Boligkreditt is the main funding source through covered bonds. NOK 34 billion transferred as of 31. March 2016
- Maturities next two years NOK 14.2 bn :
 - NOK 3.8 bn in 2016
 - NOK 5.5 bn in 2017
 - NOK 4.9 bn in Q1 18

SpareBank 1 SMN

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SMN home page and internet bank: www.smn.no

Hugin-Online: www.huginonline.no

Equity capital certificates in general:
www.grunnfondsbevis.no

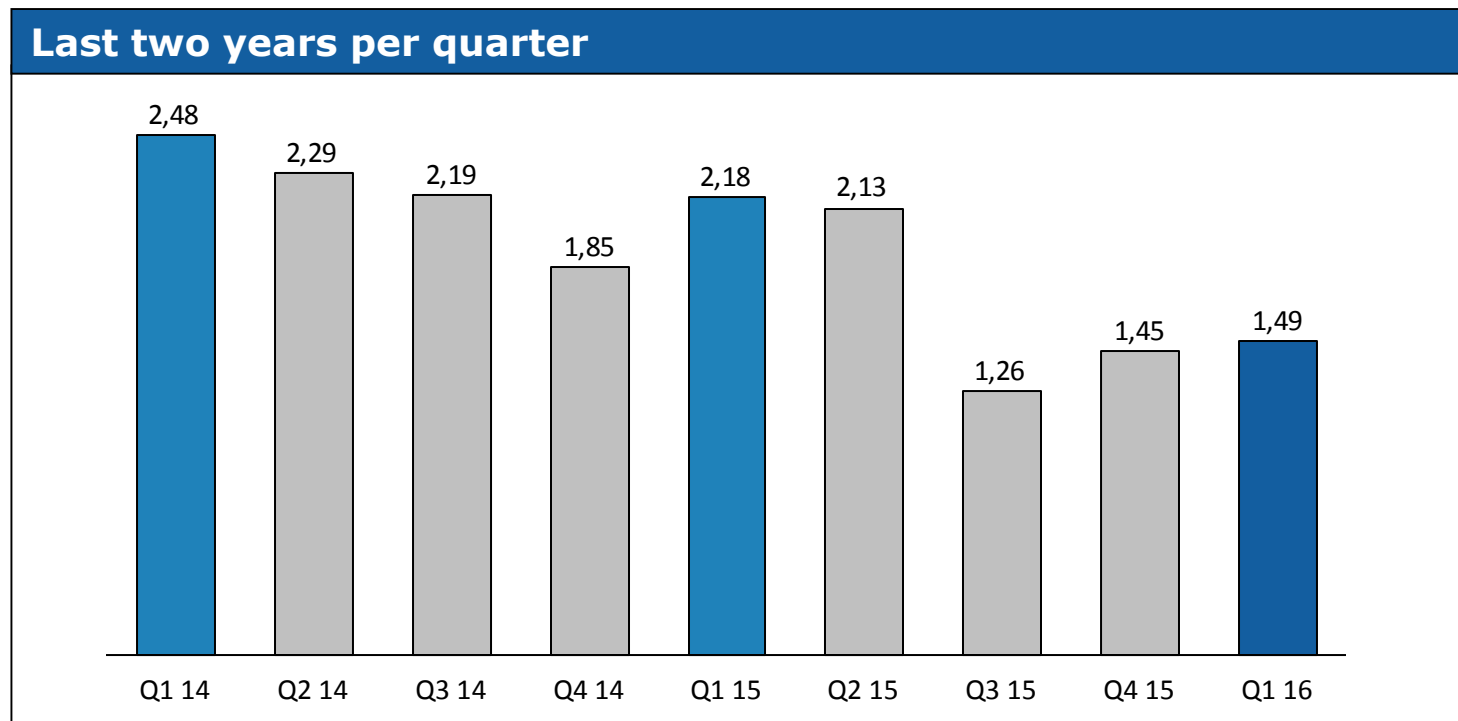
Financial calender 2016

1. Quarter: 29. April 2015
2. Quarter: 11. august 2016
3. Quarter: 28. October 2016

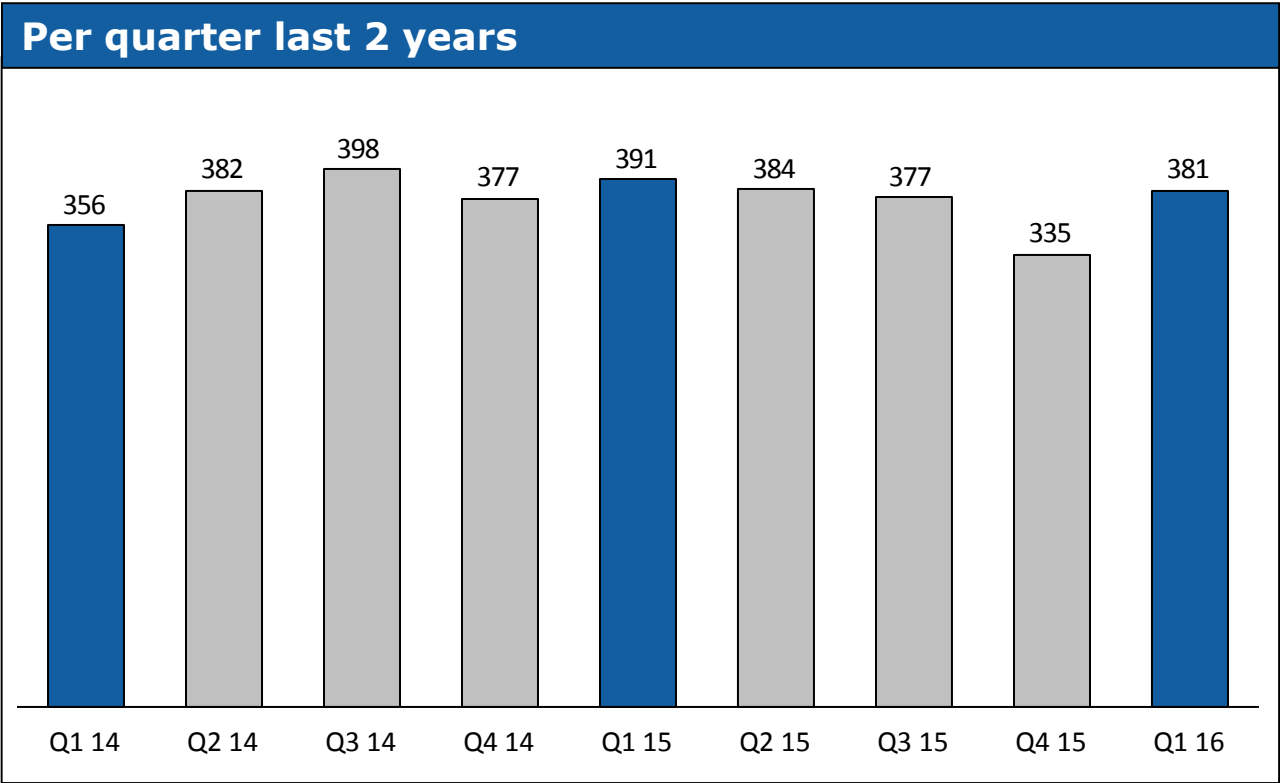
Appendix



Earnings per ECC



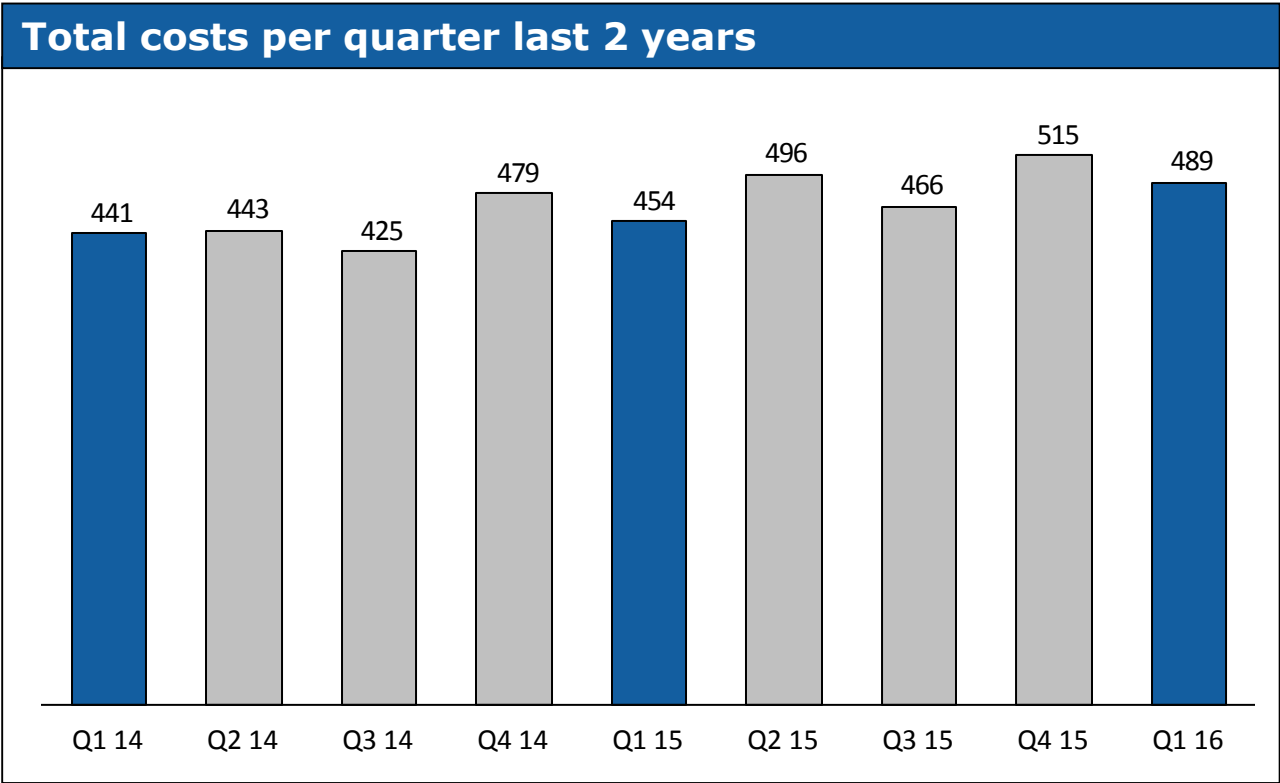
Profit trend in core business



Commentary

- Good income trend, both net interest income and commission income
- Cost development in line with plan

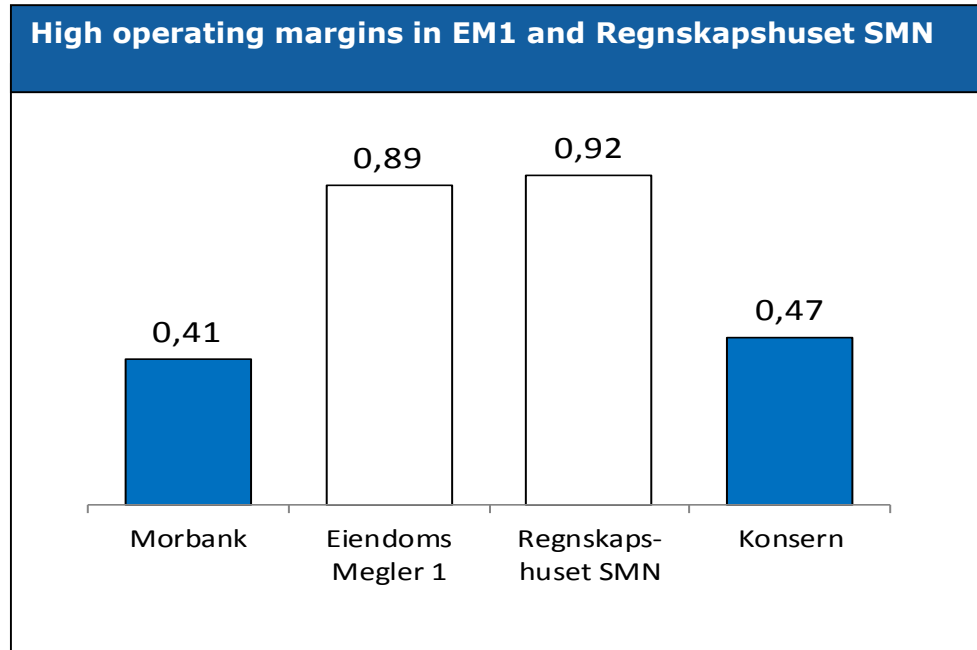
Cost development



Comments

- Stable costs quarter by quarter
- High costs in Q4 15, but largely of a one-time nature

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

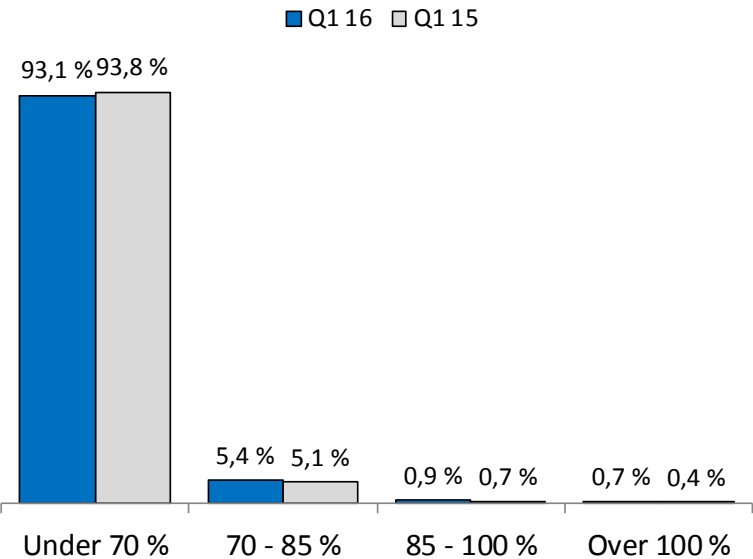


Profitable and non-capital-intensive subsidiaries:

- 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

Loan to value mortgages

Last two years

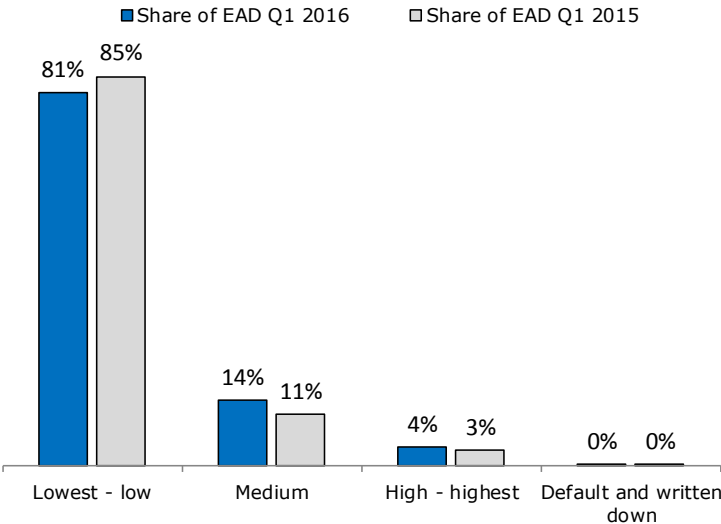


Comments

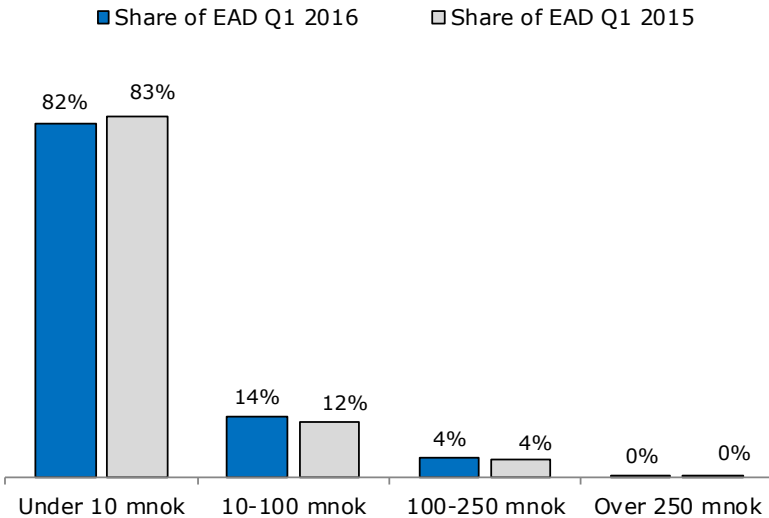
- 98.5 % of the exposure has an LTV of less than 85 %
- Exposure with LTV higher than 85 points 1.5 %

Stable credit risk

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



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



Capital adequacy

Last two years

NOKm

	31.3.16	31.3.15
Core capital exclusive hybrid capital	12.440	11.008
Hybrid capital	1.797	1.705
Core capital	14.237	12.713
Supplementary capital	2.279	2.435
Total capital	16.516	15.147
Total credit risk IRB	4.135	4.194
Debt risk, Equity risk	39	202
Operational risk	479	452
Exposures calculated using the standardised approach	1.893	2.025
CVA	91	97
Transitional arrangements	666	163
Minimum requirements total capital	7.303	7.134
RWA	91.286	89.171
CET 1 ratio	13,6 %	12,3 %
Core capital ratio	15,6 %	14,3 %
Capital adequacy ratio	18,1 %	17,0 %

Key figures

Last three years

	31 Mar. 2016	31 Mar. 2015	31 Mar. 2014
Net interest	1,41	1,50	1,45
Comm. income and net retur on fin. inv.	1,72	1,84	2,27
Operating expenses	1,47	1,45	1,56
Net profit as a percentage of ATA	1,66	1,88	2,16
CET 1 ratio	13,6 %	12,3 %	11,1 %
Core capital ratio	15,6 %	14,3 %	12,9 %
Capital adequacy	18,1 %	17,0 %	15,7 %
Growth in loans incl.Boligkreditt	5,4 %	10,0 %	4,4 %
Growth in deposits	5,4 %	10,9 %	5,4 %
Deposit-to-loan ratio	67 %	66 %	69 %
RM share loans	64 %	61 %	62 %
Cost-income ratio	47 %	44 %	42 %
Return of equity	8,9 %	14,1 %	17,7 %
Impairment losses ratio	0,53 %	0,07 %	0,06 %

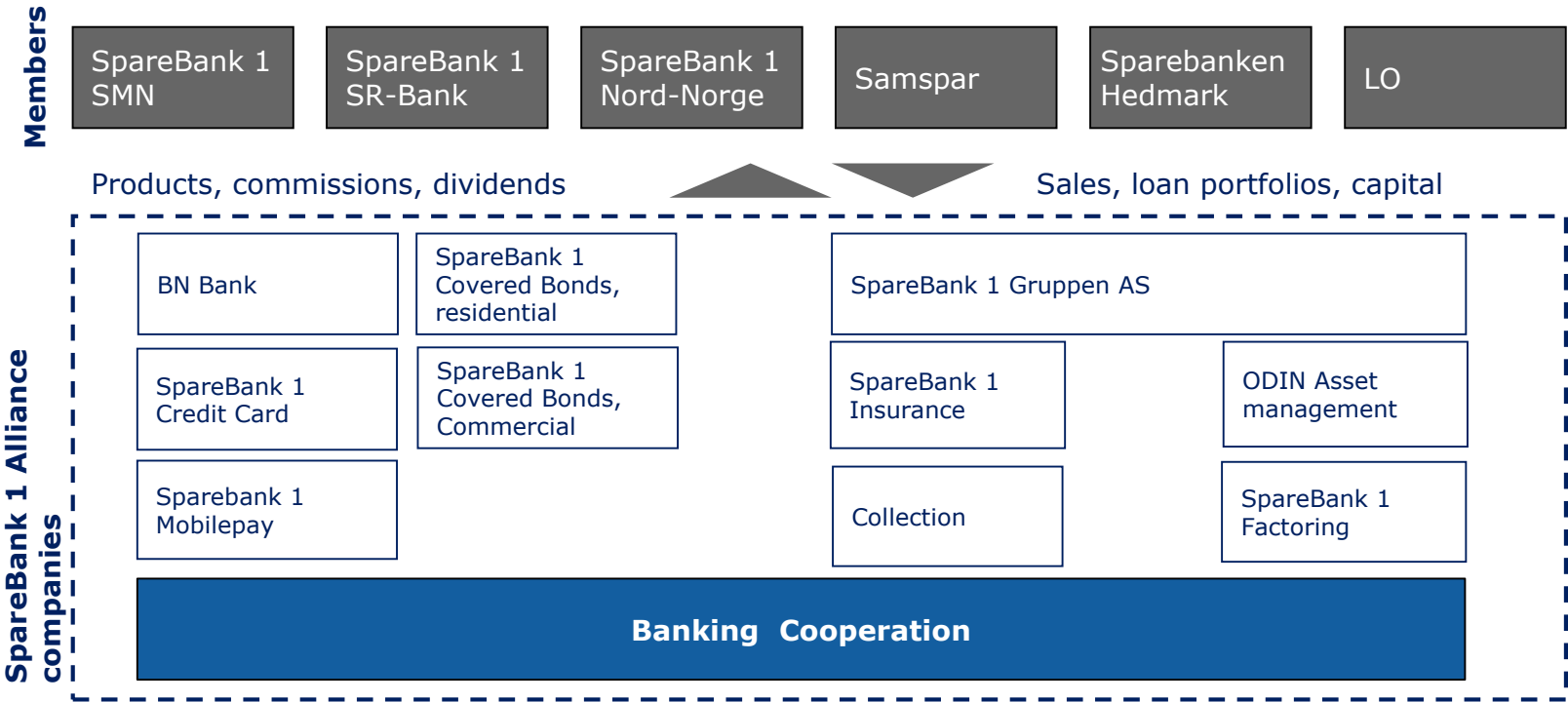
Key figures ECC

Including effects of issues

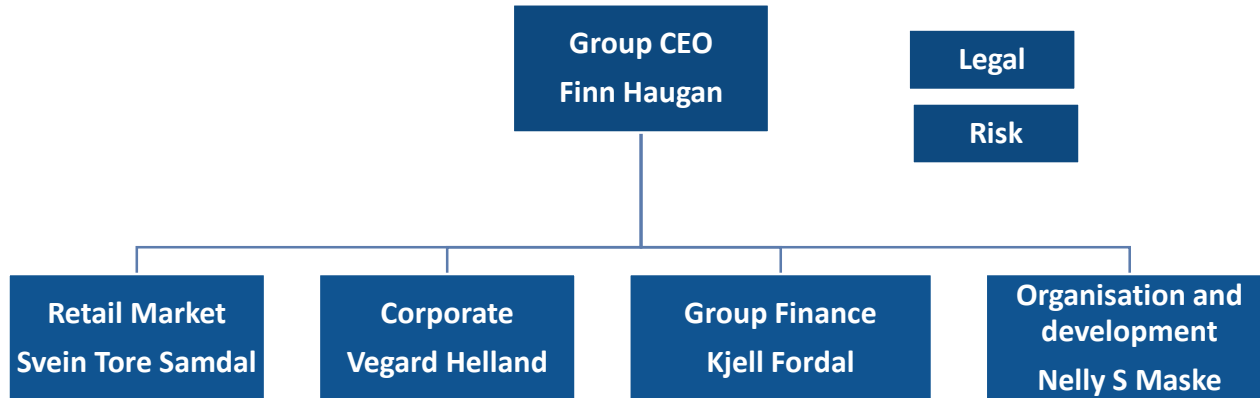
Last five years

	Q1 16	Q1 15	2015	2014	2013	2012
ECC ratio	64,0 %	64,6 %	64,0 %	64,6 %	64,6 %	64,6 %
Total issued ECCs (mill)	129,83	129,83	129,83	129,83	129,83	129,83
ECC price	52,75	59,50	50,50	58,50	55,00	34,80
Market value (NOKm)	6.849	7.725	6.556	7.595	7.141	4.518
Booked equity capital per ECC	67,37	61,95	67,65	62,04	55,69	50,09
Post-tax earnings per ECC, in NOK	1,49	2,18	7,02	8,82	6,92	5,21
Dividend per ECC	-	-	2,25	2,25	1,75	1,50
P/E	8,83	6,81	7,19	6,63	7,95	6,68
Price / Booked equity capital	0,78	0,96	0,75	0,94	0,99	0,69

SpareBank 1 Alliance



Organisational set-up SpareBank 1 SMN



Overall organisation

