



SpareBank
SMN 

3rd quarter 2016

24. October 2016

SpareBank1 SMN, the region's most important financial institution

Overview

- 200,000 retail customers and 14,000 corporates in three counties in Central Norway
- Norway's second largest savings bank with total loans of NOK 134 billion including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt
- Strong position with a physical and digital presence
- Financial group offering a complete range of products
- Founder and co-owner of SpareBank 1 Gruppen

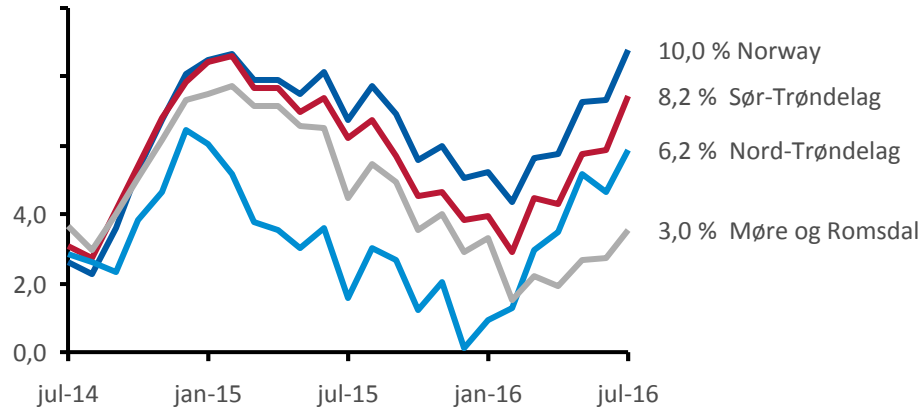
History

- Established in 1823
- Regional bank for Mid-Norway since 1985
- Listed on Oslo Stock Exchange since 1994
- SpareBank 1 Alliance from 1996
- Present in Romsdal after acquisition of Romsdals Fellesbank in 2005
- Present in Sunnmøre as from 2009 after acquisition of BN Bank
- **Excellent** history of financial results and solidity

Trøndelag and Møre og Romsdal

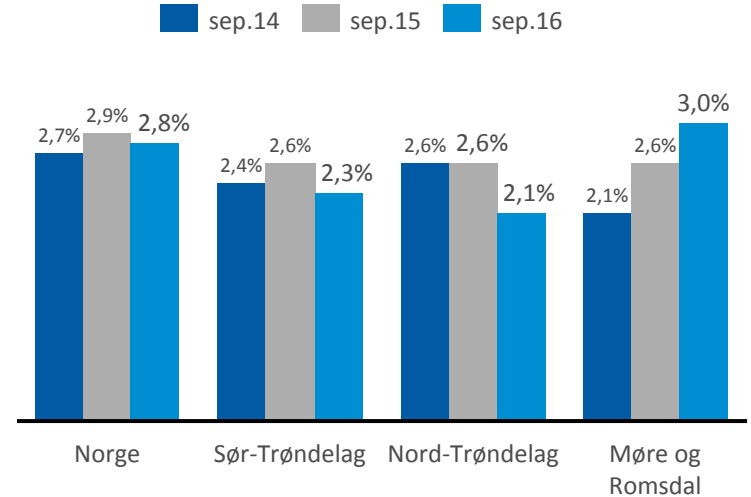
High Growth in house prices and low unemployment

12-month growth in house prices
Per cent, July 14 – September 16



3rd quarter 2016

Unemployment rate
Monthly figures, September 14 – September 16



Good profits, in spite of increase in loan losses in the offshore segment



Good profits



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



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



Increased losses on oil related activity. Previously announced loss expectation of approx. NOK 500m for the full year 2016 is maintained



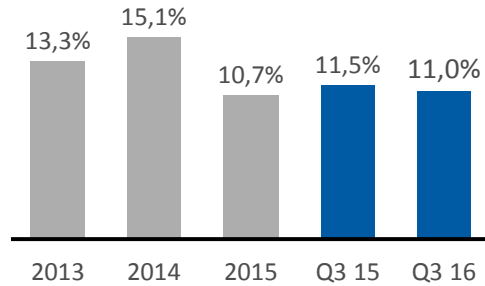
The bank is on course to meet its capital targets



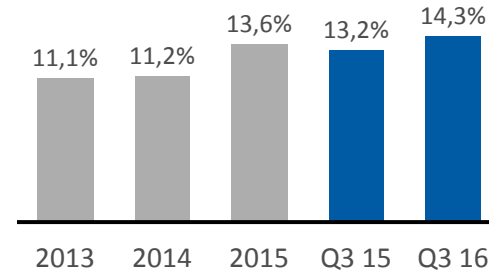
Good profits for subsidiaries, associated companies and high return on financial assets

Strong capitalization and good profits. Increased problem loans in the offshore segment

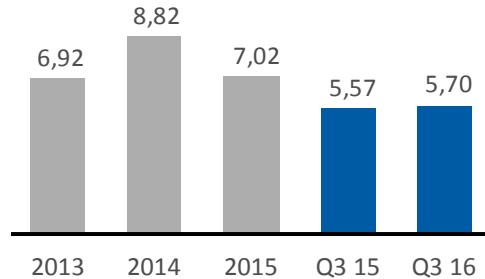
Return on equity



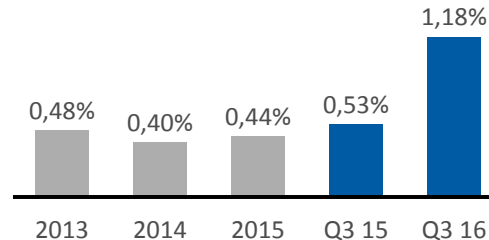
CET1



Earnings per ECC



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



The offshore segment is still demanding, but good collaboration with clients and other lenders is producing results

Offshore segment

1. Loans to offshore total NOK 6.2bn

- Offshore makes up 4.2% of total volume
- 108 vessels in 7 segments
- NOK 5.5bn secured in vessels, NOK 0.8bn in other items

2. Exposure reduced by NOK 1,051 last 12 months

- Sale of vessels
- Extraordinary in-payments
- Restructuring/negotiations/lasting solutions

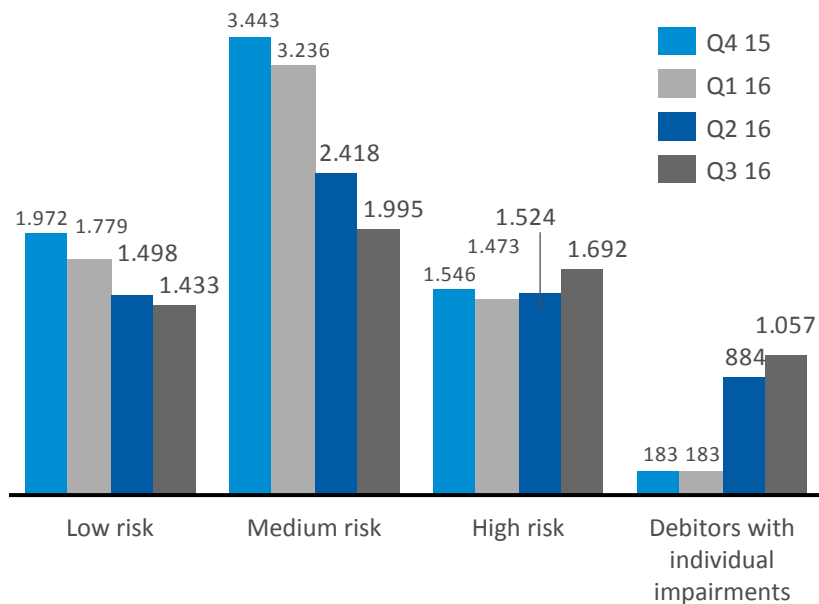
3. The Bank sees no basis for revising loss estimates of NOK 500m indicated at the start of the year

	Segment and volume (share of offshore in %)	No. of vessels	Distribution on risk categories
EAD Offshore: NOK 6,177m	Subsea 2,277 (37%)	18	Low risk 1,433
	PSV 1,781 (29%)	42	
	AHTS 613 (10%)	16	Medium risk 1,995
	Seismic 470 (8%)	10	
	Barges 267 (4%)	15	High risk 1,692
	Standby 141 (2%)	3	
	Other 628 (10%)	NA	Write-downs 1,057

Offshore Service Vessels

Risk class distribution

Q4 2015 – Q3 2016 (NOKm)



Impairments by risk class and share of EAD

30. September 2016

NOKm	EAD	Individual	Group	Total	Share of EAD
Low risk	1.433	0	3	3	0,2 %
Medium risk	1.995	0	16	16	0,8 %
High risk	1.692	0	96	96	5,7 %
Debtors with ind. impairments	1.057	394	0	394	37,3 %
Total	6.177	394	115	509	8,2 %

Offshore Service Vessels

Commentary

- At the end of the 3rd quarter 2016 write-downs related to the offshore portfolio total 8.2 per cent. Exposure to offshore has been reduced by NOK 1.1bn over the last 12 months.
- The industry is undergoing restructuring. The process is demanding since the companies' have a debt structure involving several banks with special loan facilities as well as bond debt. The solutions put forward include supply of fresh equity capital, deferral of instalment payments and renegotiation/cancellation/ conversion of bond debt.
- Thus far the efforts made have produced good results. SpareBank 1 SMN stresses that the solutions established should be of a lasting nature, provide a balanced burden between the credit institutions involved and curb the Bank's risk. The Bank has not observed contagion effects to other industries as at the end of the 3rd quarter 2016.
- SpareBank 1 SMN does not consider there is a basis for revising the loss estimates of approx. NOK 500 million for the current year that were indicated in connection with the presentation of the 1st quarter accounts.

Strong profit growth among subsidiaries, strengthening their market position

SpareBank 1 Finans Midt-Norge



- Pre-tax profit of NOK 74.9m (63.6m)
- Solid market position
- Leasing NOK 2.3bn, car loans 2.6bn
- Sparebanken Sogn og Fjordane part-owner from 2016



EiendomsMegler 1

- Excellent pre-tax profit of NOK 59.5m (39.5m)
- 40% market share, strong synergy with the bank

SpareBank 1 SMN Regnskapshuset



- Pre-tax profit of NOK 32.9m (26.0m)
- Stable and high growth in turnover
- Long-term strategy to consolidate accounting industry and build synergies with the bank
- Digitalising distribution model



SpareBank 1 Markets

- Pre-tax profit NOK 6,0m (NOK -62,7m)
- Complete range of capital market services in cooperation with the owner banks
- SpareBank 1 Markets subsidiary of SMN from Q2 2015

Tomorrow's bank being developed



New distribution model

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



Technology provides 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
- Robotic Process Automation ('RPA') in progress



Improving customer dialogue

- We still have potential to increase the time devoted to customer dialogue
- Through freed-up time and new tools we will improve our dialogue with our customers
- Continuous customer dialogue based on our knowledge of customer behaviour

SMN intends to be among the best performing banks



Customer orientation

Best on customer experience

Will continue to strengthen market position



Efficient

Zero growth in costs parent bank 2014 - 2016



Profitable

Among the best performing banks, ROE 12 % annually



Dividend

Real-terms payout ratio of 25% to 35%.

Strong focus on strengthening capital through retained profit



Solid

CET1 14.5% by the end of 2016

Financial results

3rd quarter 2016



3rd quarter 2016



Net profit NOK 1.185m (1.119m),
return on equity 11.0 % (11.5 %)



CET 1 14.3 % (13.2 %) .



Result of core business NOK 713m
(1.039m) exclusive of loan losses.
Loan losses NOK 417m (NOK 112m)



Growth in lending RM 10.8 % (8.7
%) and CM decrease 0.4 % (growth
7.8 %), deposits 4.2 % (8.5 %) last
12 months



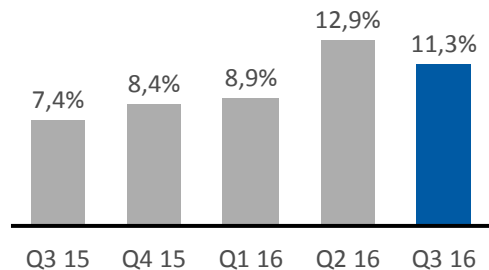
Decrease in FTEs parent bank - low
cost growth



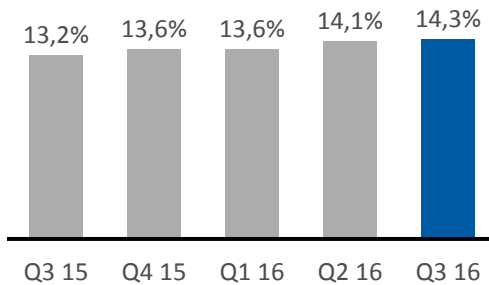
Booked equity capital per ECC NOK 71.17
(65.52), profit per ECC NOK 5.70 (NOK
5.57)

Key figures, quarterly

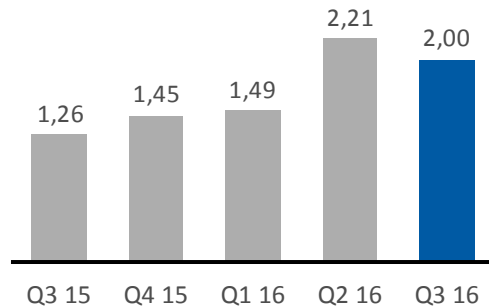
Return on equity



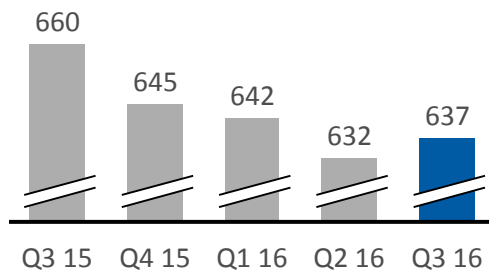
CET 1



Earnings per ECC



FTEs parent bank



3rd quarter 2016

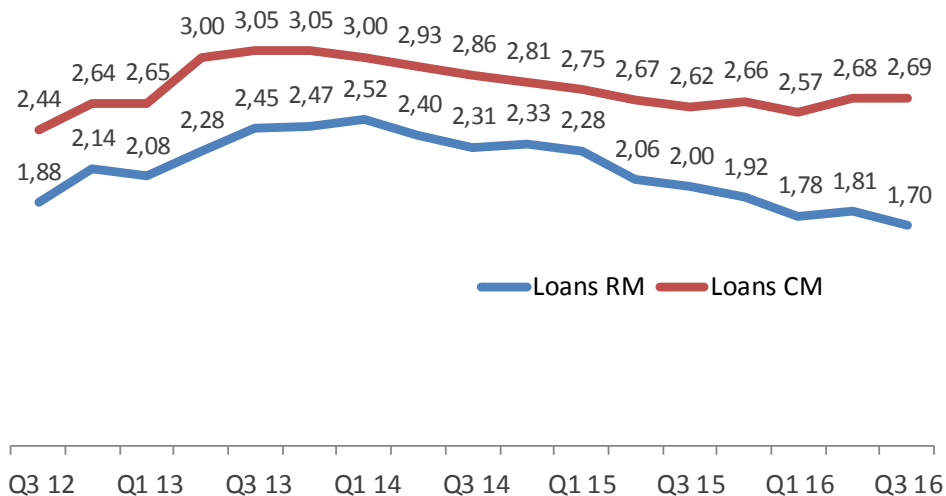
Profits

Profits as at 3rd quarter 2015 and 2016 and five last quarters

NOK mill	2016	2015	Change	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
Net interest	1.391	1.399	-9	449	472	469	473	466
Commission income and other income	1.260	1.168	93	412	448	401	378	378
Operating income	2.651	2.567	84	860	921	870	850	843
Total operating expenses	1.521	1.416	105	504	528	489	515	466
Pre-loss result of core business	1.130	1.151	-21	356	393	381	335	377
Losses on loans and guarantees	417	112	305	130	118	170	56	56
Post-loss result of core business	713	1.039	-326	227	276	211	279	321
Related companies, including held for sale	349	327	22	102	126	118	121	78
Securities, foreign currency and derivatives	368	23	344	170	144	53	-12	-91
Result before tax	1.430	1.389	41	499	545	383	387	309
Tax	245	270	-25	85	85	72	100	61
Net profit	1.185	1.119	66	414	460	311	287	248
Return on equity	11,0 %	11,5 %		11,3 %	12,9 %	8,9 %	8,4 %	7,4 %

Lending margins Retail and Corporate

Per quarter from Q3 2012

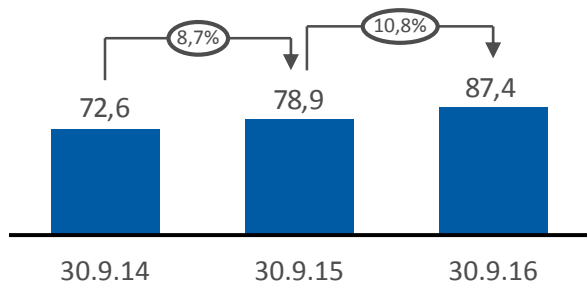


Comments

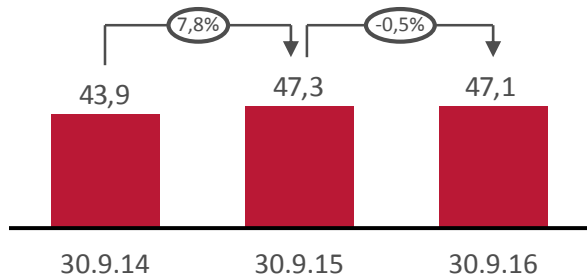
- Strong price competition on mortgages, margins decreased with 80 bp last 2.5 years
- Increased nibor last two quarters has increased the banks' funding costs

Total growth lending 6.6 % last 12 months

Lending RM +10.8 % last 12 months



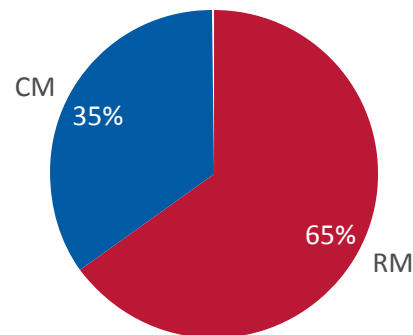
Lending CM reduced with 0.5 % last 12 months,



High growth in home mortgage lending

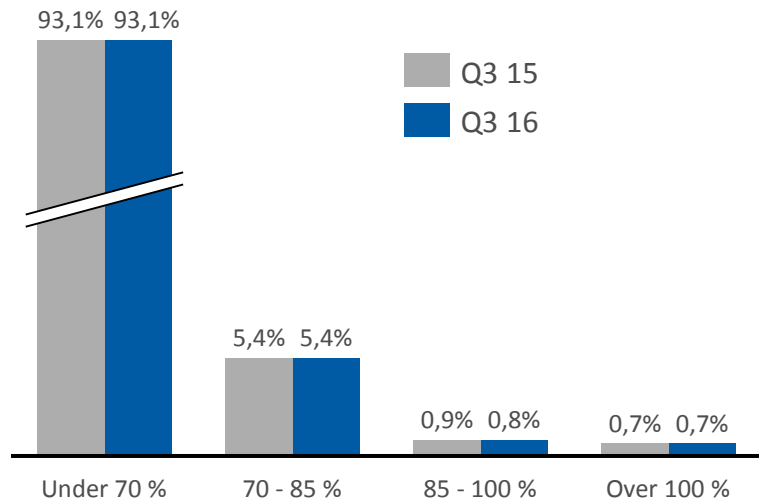
- Of the growth in home mortgage lending, 2/3 refers to established customers and 1/3 to new customers
- Limited growth in lending to corporates, in keeping with capital plan

Share of lending



Loan to value mortgages

Last two years



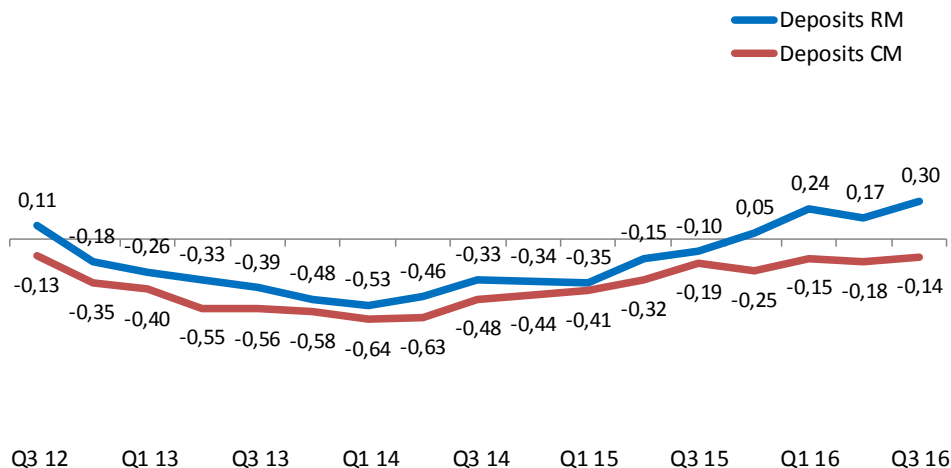
3rd quarter 2016

LTV mortgages

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

Deposit margins Retail and Corporate

Per quarter from Q3 2012

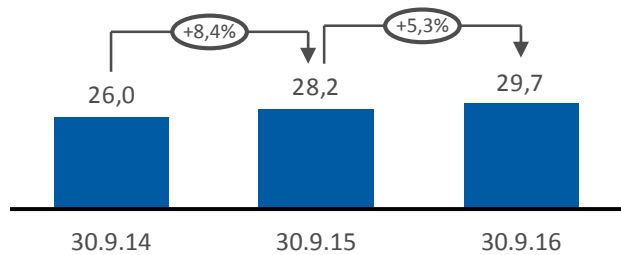


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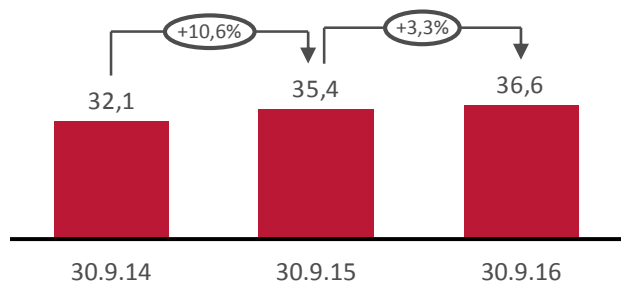
- Margins increased due to repricing and reduced nibor in Q2 and Q3

Total growth deposits 4.2 % last 12 months

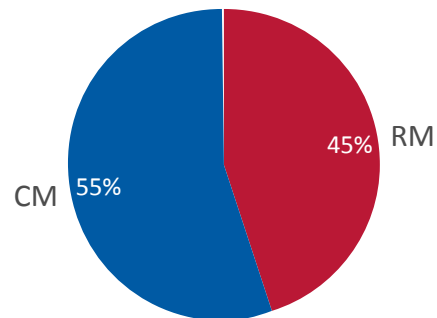
Deposits RM + 5.3 %



Deposits CM + 3.3 %

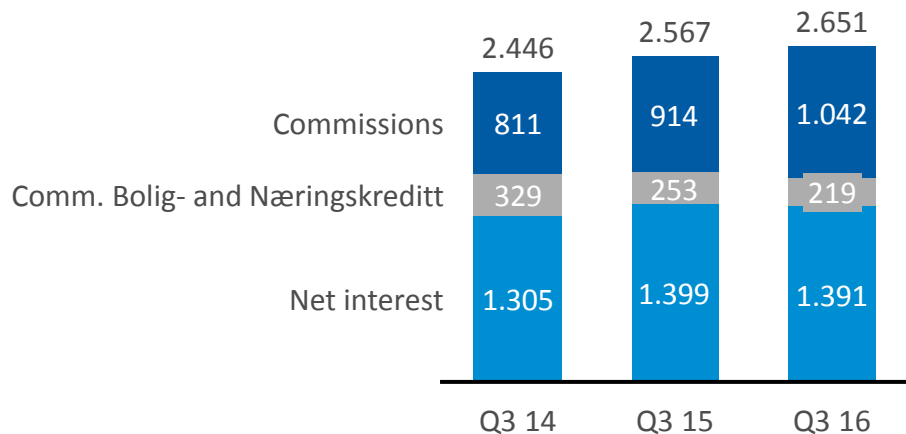


Share of deposits



Robust income platform and increased commission income

Net interest and other income



Commissions as at Q3 2015 and Q3 2016

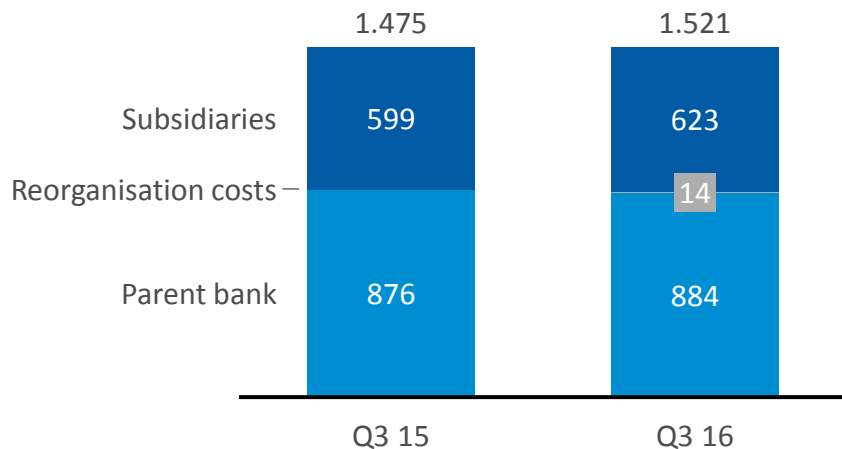
<i>mill kr</i>	2016	2015	Change
Payment transmission income	149	143	6
Creditcards	46	42	5
Commissions savings and asset management	66	58	9
Commissions insurance	119	114	5
Guarantee commissions	60	52	8
Estate agency	301	262	39
Accountancy services	161	143	18
Markets	86	43	43
Other commissions	54	58	-4
Commissions ex. Bolig/Næringskreditt	1.042	914	128
Commissions Boligkreditt	211	247	-36
Commissions Næringskreditt	8	7	1
Total commission income	1.260	1.168	93

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

Costs, parent bank and subsidiaries

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

Costs as at Q3 2015 and Q3 2016



Group cost growth also low

- FTEs in parent bank reduced
- Cost growth at subsidiaries at some extent due to acquisitions and high activity in the market
- Zero growth in parent bank costs aimed for in the period 2014 to 2016

Subsidiaries

Pre tax profit subsidiaries as at 3rd quarter 2015 and 2016 and five last quarters

	2016	2015	Change	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
EiendomsMegler 1 Midt-Norge (87 %)	59,5	39,5	20,0	16,2	33,3	10,0	7,5	10,3
SpareBank 1 Regnskapshuset SMN	32,9	26,0	6,9	6,9	21,6	4,3	8,8	5,7
SpareBank 1 Finans Midt-Norge (90 %)	74,9	63,6	11,4	26,4	25,1	23,4	19,5	20,1
Allegro Kapitalforvaltning (90 %)	5,1	2,1	3,0	0,7	3,8	0,6	-0,7	0,7
SpareBank 1 SMN Invest	36,7	33,0	3,7	14,1	12,6	9,9	5,6	20,0
SpareBank 1 Markets (73 %)	6,0	-62,7	68,6	0,5	2,3	3,2	-21,4	-52,6

Associated companies

Profit shares after tax, as at 3rd quarter 2015 and 2016 and and five last quarters

	2016	2015	Change	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
SpareBank 1 Gruppen (19,5 %)	220,3	183,4	36,9	79,4	79,9	61,0	68,0	55,8
SpareBank 1 Boligkreditt (18,4 %)	9,2	64,6	-55,4	-12,6	-1,9	23,7	15,1	14,5
SpareBank 1 Næringskreditt (29,3 %)	20,3	22,0	-1,7	5,4	6,9	8,0	8,0	6,6
BN Bank (33 %)	78,7	30,7	48,0	28,1	30,9	19,8	10,6	-4,1
SpareBank 1 Kredittkort (18,3 %)	20,2	15,2	5,0	6,0	8,1	6,2	5,3	5,6
SpareBank 1 Mobilbetaling (19,7 %)	-18,7		-18,7	-9,4	-3,4	-5,9		

Return on financial investments

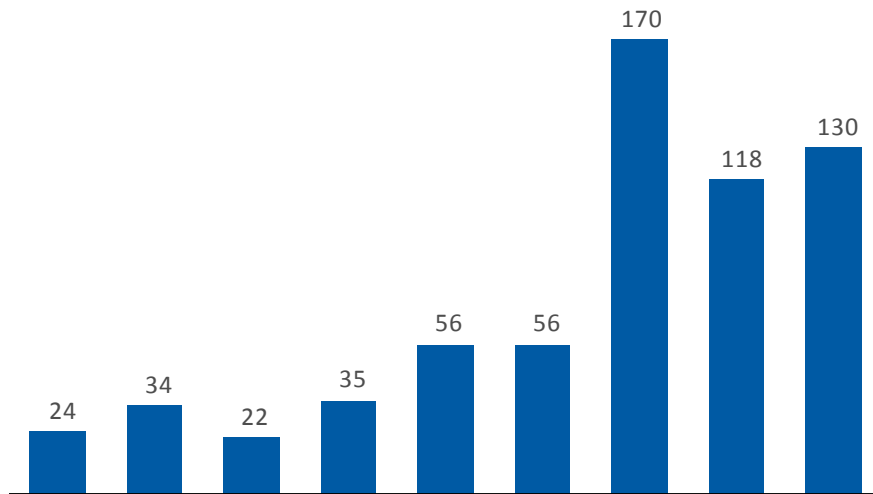
As at 3rd quarter 2015 and 2016 and five last quarters

NOKm

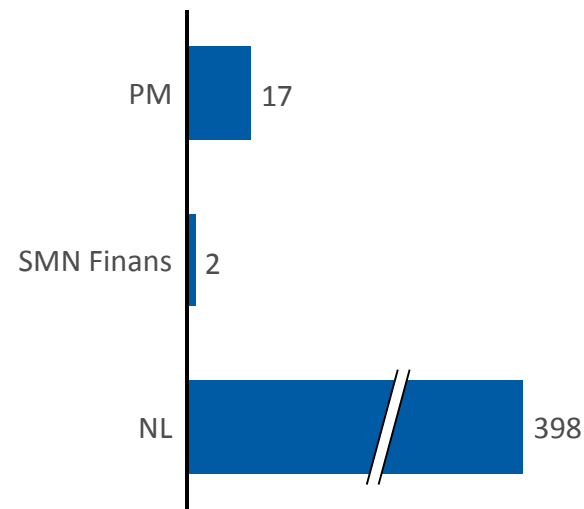
	2016	2015	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15
Net gain and dividends on securities	110	79	45	62	3	-17	9
Net gain on bonds and derivatives	158	-137	80	53	25	-16	-116
Forex and fixed income business	99	82	45	28	26	20	18
Net return on financial investments	368	24	171	143	54	-13	-90

Increased loan losses in 2016

Losses per quarter



Distribution as of 30.9.2016

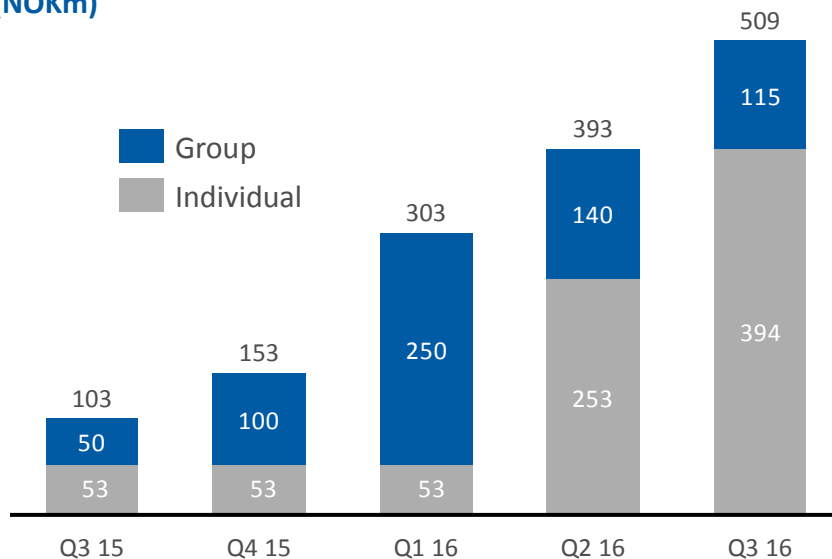


Loan losses including collective losses provisions 0.42 % (0.12 %) of gross lending as of 30.9.2016

Offshore Service Vessels

Development in total impairments Q3 2015 – Q3 2016

(NOKm)

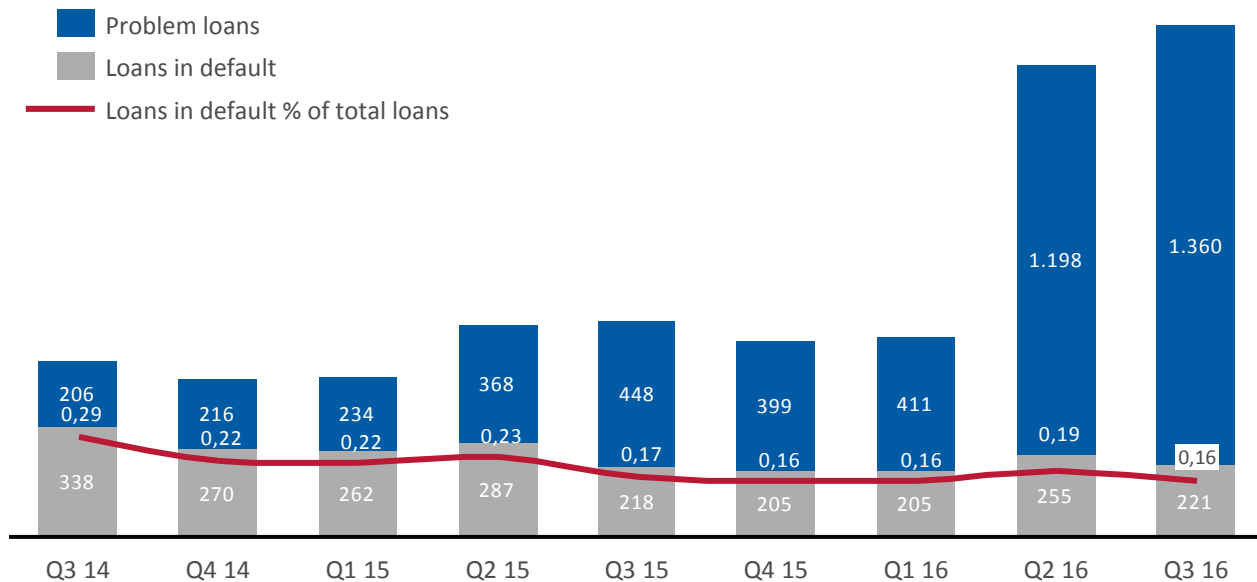


Comments

- Constitutes 4,2% of total credit portfolio
 - 5,5 bill. with collateral in vessels
 - 0,7 bill. in other financing
- Exposure reduced by 1.050 mill. (-12 %) last 12 mnths
 - Sale of vessels
 - Agreed and extraordinary installments
- According to our evaluations 40 % of the portfolio is in the high risk category
- This is reflected in the individual and group impairments

Very low levels on loans in default (0,16 %), but problem loans have increased in the offshore segment

Last two years, per quarter



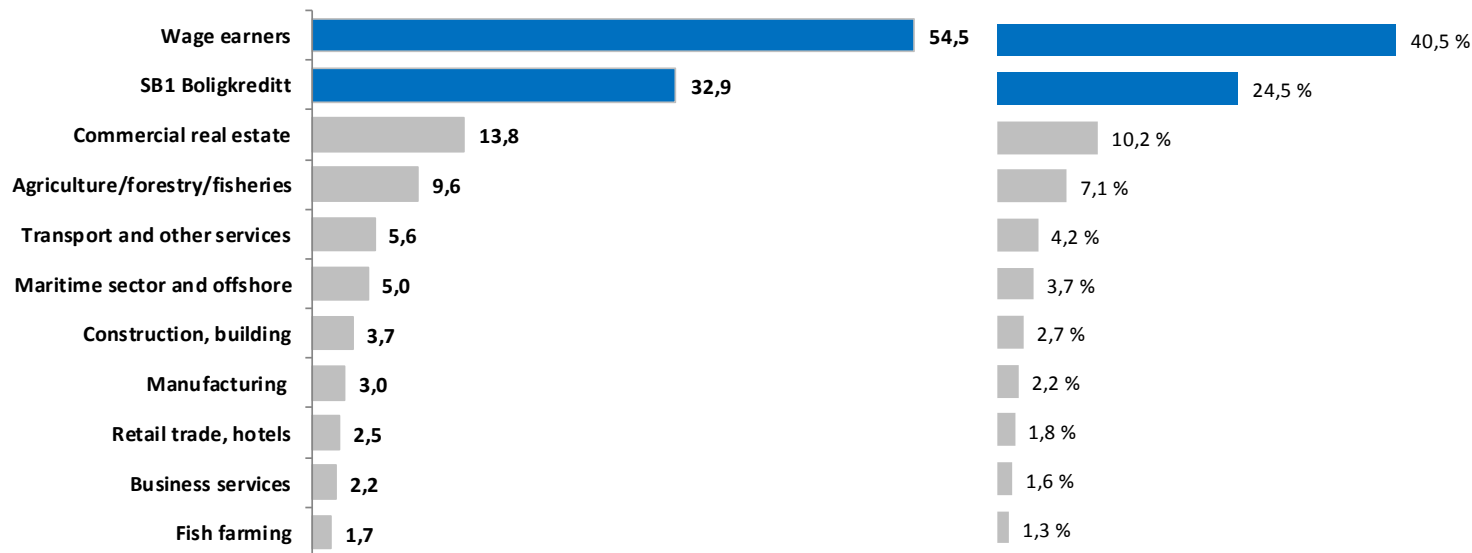
Balance sheet

Last three years

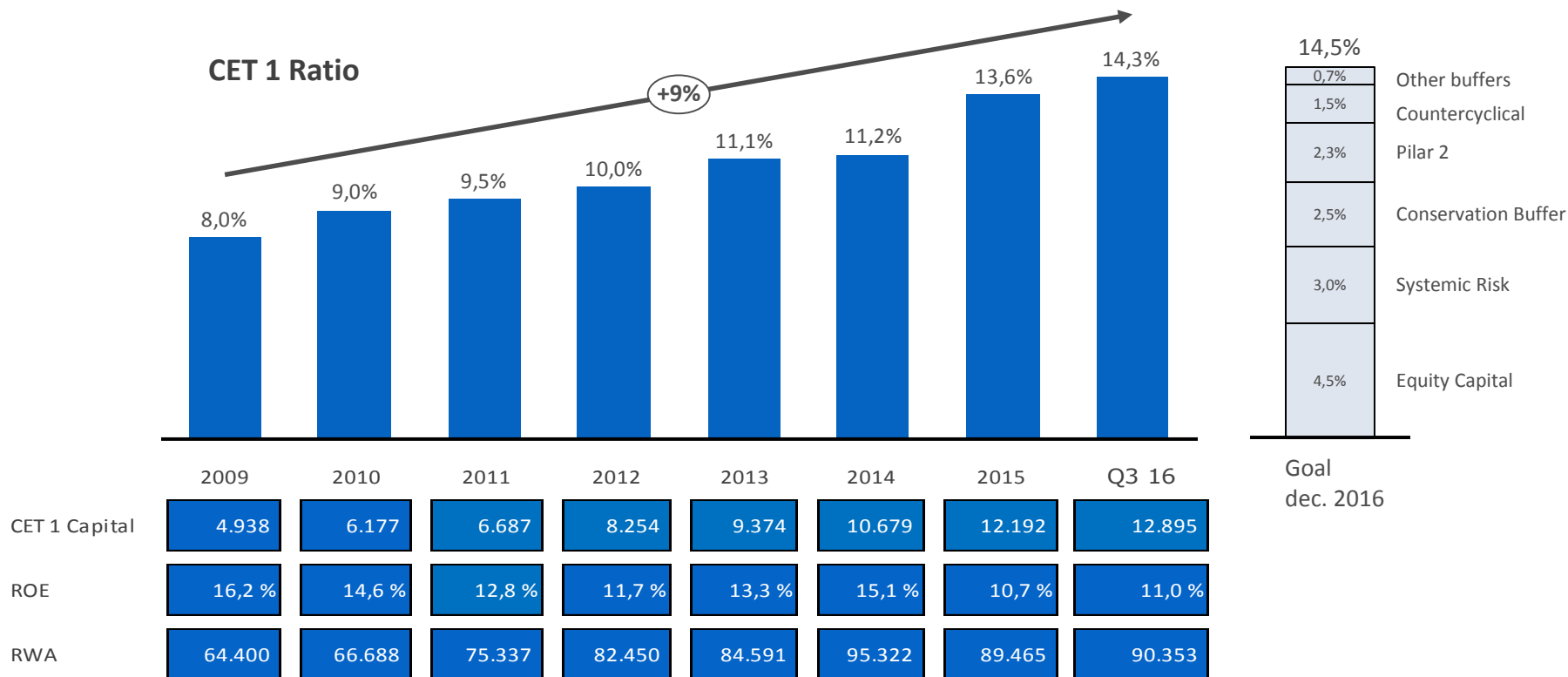
	30 September 2016	30 September 2015	30 September 2014
Funds available	24,6	18,5	17,3
Net loans	98,6	94,4	86,7
Securities	1,3	1,2	0,7
Investment in related companies	5,9	5,2	5,1
Goodwill	0,6	0,6	0,5
Other assets	8,8	9,4	7,4
TOTAL ASSETS	139,8	129,2	117,2
Capital market funding	47,7	41,9	36,5
Deposits	66,3	63,6	58,1
Other liabilities	7,4	6,8	7,0
Subordinated debt	3,5	3,5	3,3
Equity	14,9	13,5	12,2
TOTAL DEBT AND EQUITY	139,8	129,2	117,2
in addition loans sold to Boligkreditt and Næringskreditt	34,9	31,3	29,7

High share mortgages and diversified portfolio SMEs

Lending by sector in NOK billion and share of total loans

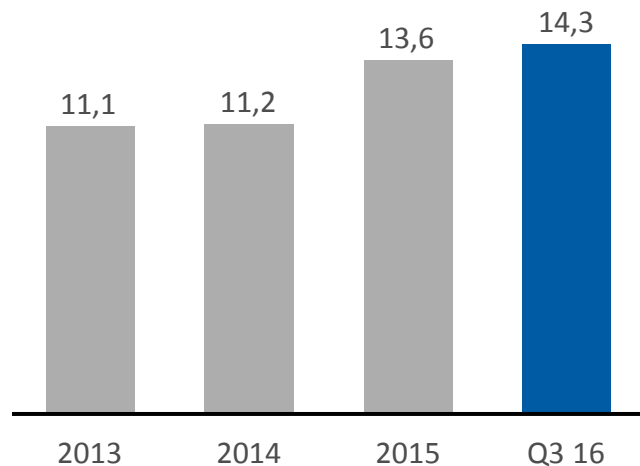


Strong development in CET 1 (capital and ratio). Goal 14.5 %

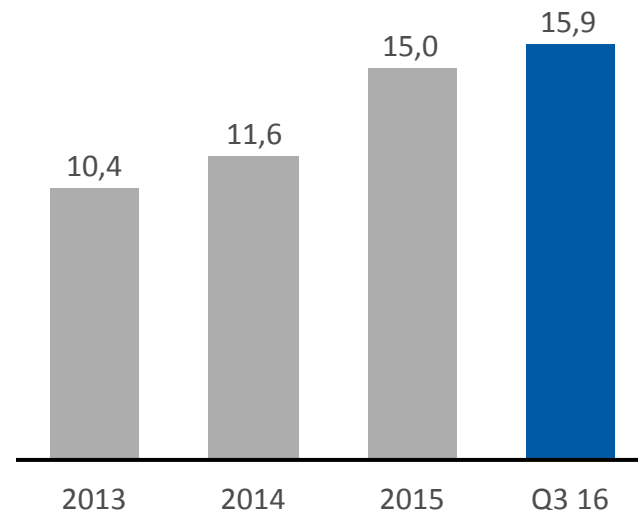


Strong capitalization

Development CET1

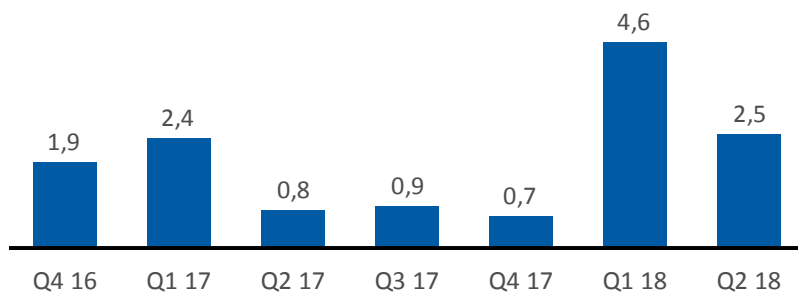
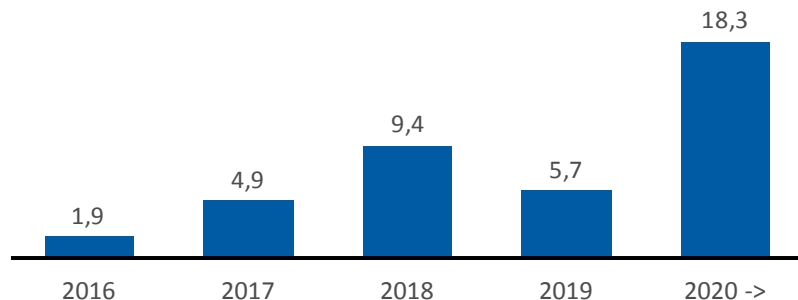


Development CET 1 without transitional arrangements (Basel III)



Satisfying access to capital market funding

Funding maturity 30. September 2016



3rd quarter 2016

Comments

- SpareBank 1 Boligkreditt is the main funding source through covered bonds. NOK 33 billion transferred as of 30. September 2016
- In June the bank raised a new five-year loan in the Euro market of EUR 500 million
- Maturities next two years NOK 13.8 bn:
 - NOK 1.9 bn in 2016
 - NOK 4.8 bn in 2017
 - NOK 7.1 bn in Q1 and Q2 18

Key figures

Last three years

	30 September 2016	30 September 2015	30 September 2014
CET 1 ratio	14,3 %	13,2 %	11,5 %
Core capital ratio	16,3 %	15,2 %	13,4 %
Capital adequacy	18,8 %	17,9 %	16,1 %
Leverage ratio	7,1 %	6,7 %	
Growth in loans incl.Boligkreditt	6,6 %	8,3 %	5,4 %
Growth in deposits	4,2 %	9,5 %	8,5 %
Deposit-to-loan ratio	67 %	67 %	67 %
RM share loans	65 %	63 %	62 %
Cost-income ratio	45 %	49 %	43 %
Return of equity	11,0 %	11,5 %	16,1 %
Impairment losses ratio	0,42 %	0,12 %	0,06 %

Key figures ECC

Last five years (including effects of issues)

	Q3 16	Q3 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	55,75	54,00	50,50	58,50	55,00	34,80
Market value (NOKm)	7.238	7.011	6.556	7.595	7.141	4.518
Booked equity capital per ECC	71,17	65,52	67,65	62,04	55,69	50,09
Post-tax earnings per ECC, in NOK	5,70	5,57	7,02	8,82	6,92	5,21
Dividend per ECC	-	-	2,25	2,25	1,75	1,50
P/E	7,33	7,27	7,19	6,63	7,95	6,68
Price / Booked equity capital	0,78	0,82	0,75	0,94	0,99	0,69

SpareBank 1 SMN

7467 TRONDHEIM



CEO Finn Haugan

Tel +47 900 41 002
E-mail finn.haugan@smn.no

CFO Kjell Fordal

Tel +47 905 41 672
E-mail kjell.fordal@smn.no

Switchboard

Tel +47 07300



Internett addresses:

SMN homepage og internet bank: www.smn.no
HuginOnline: www.huginonline.no
Equity capital certificates in general: www.grunnfondsbevis.no



Financial calendar 2016

Q3 2016 24. October 2016

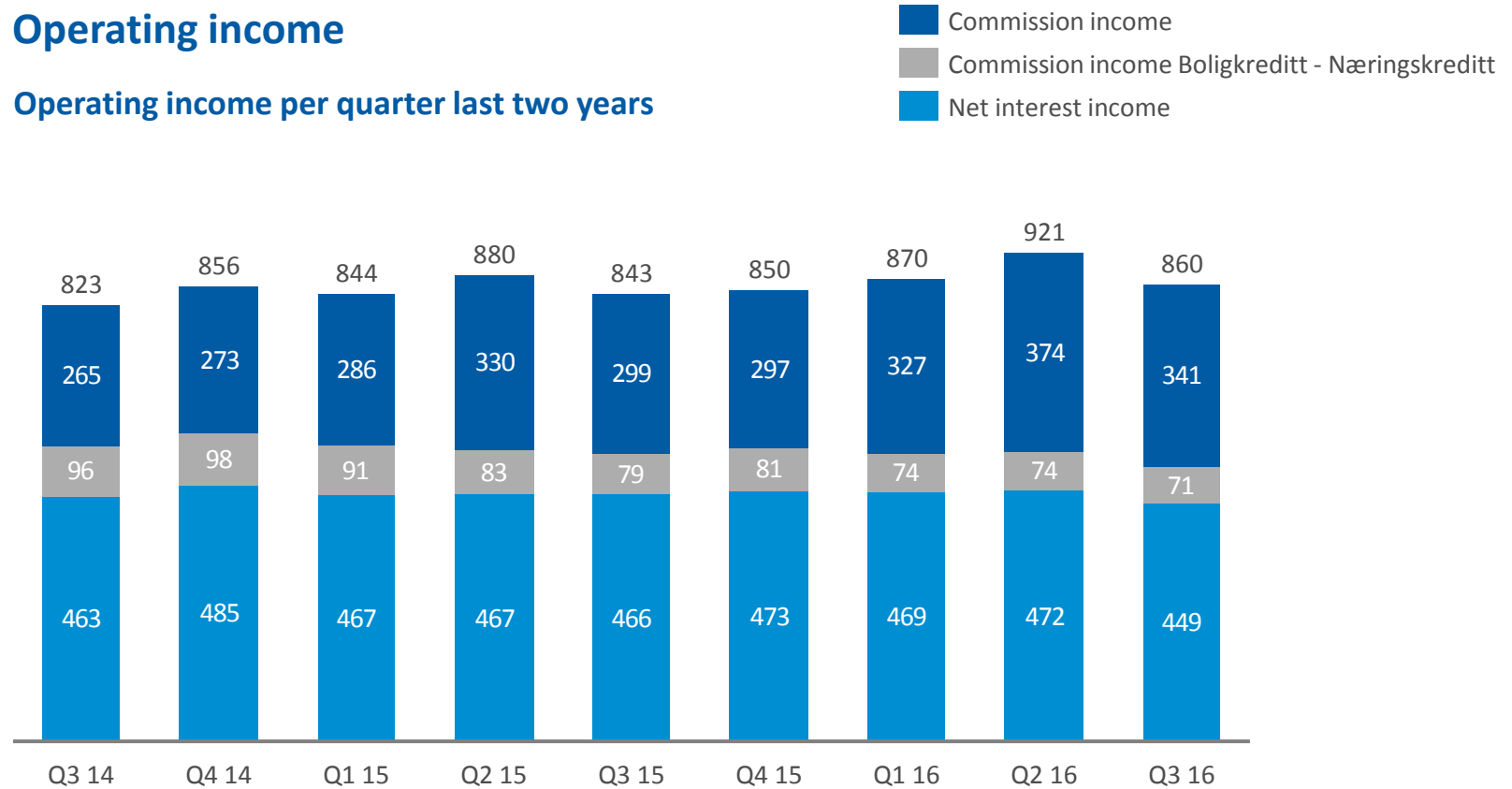
Appendix

3rd quarter 2016



Operating income

Operating income per quarter last two years



Change in net interest income

At Q3 2016 compared with same period 2015

Net interest at Q3 2015	1.391
Net interest at Q3 2016	<u>1.399</u>
Change	9

Obtained as follows:

Fees on lending	-8
Lending volume	53
Deposit volume	-5
Lending margin	-172
Deposit margin	147
Equity capital	-3
Funding and liquidity buffer	-43
SMN Finans	<u>22</u>
Change	-9

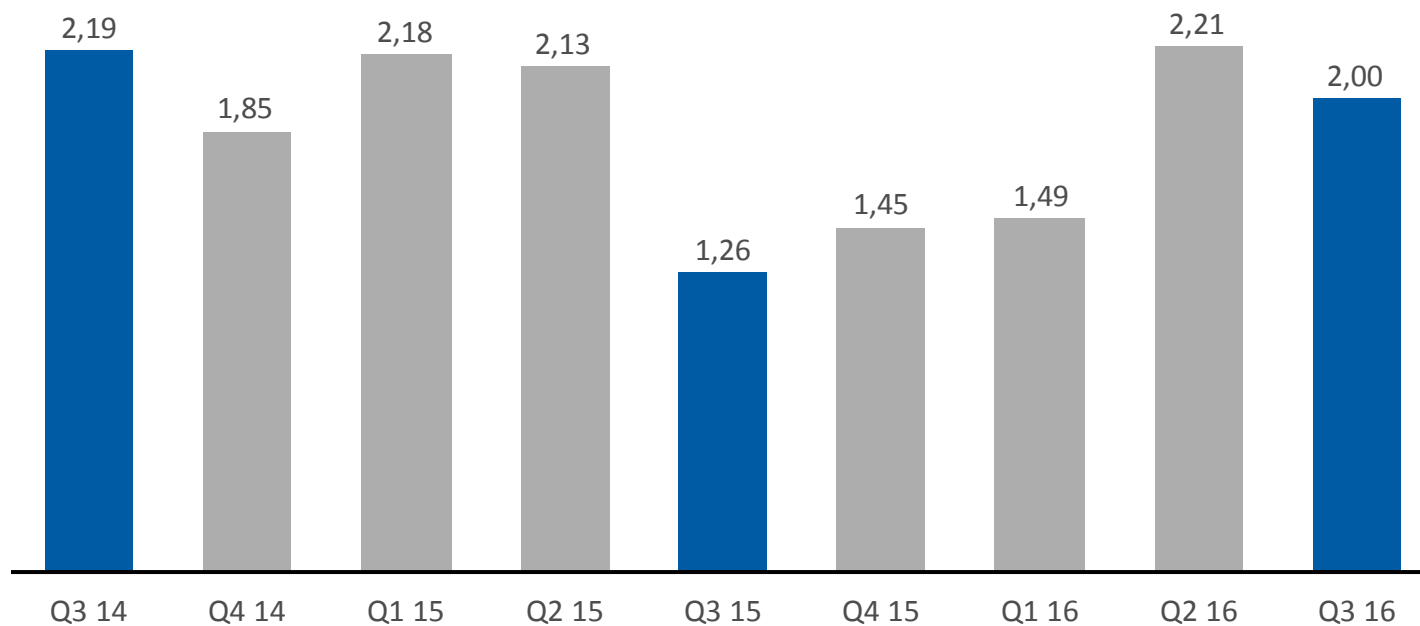
Substantial gross movements

- Increased lending volume and deposit margins strengthens net interest income
- Lower lending margins weaken net interest income

Commission income from SpareBank 1 Boligkreditt are reduced in the period as well due to lower margins

Earnings per ECC

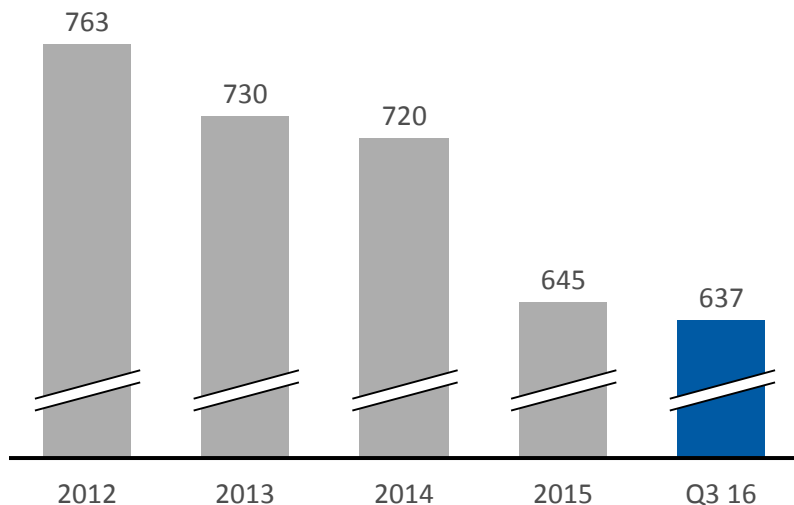
Last two years per quarter



FTEs crucial to achieving costs goal

Considerable reduction in 2015

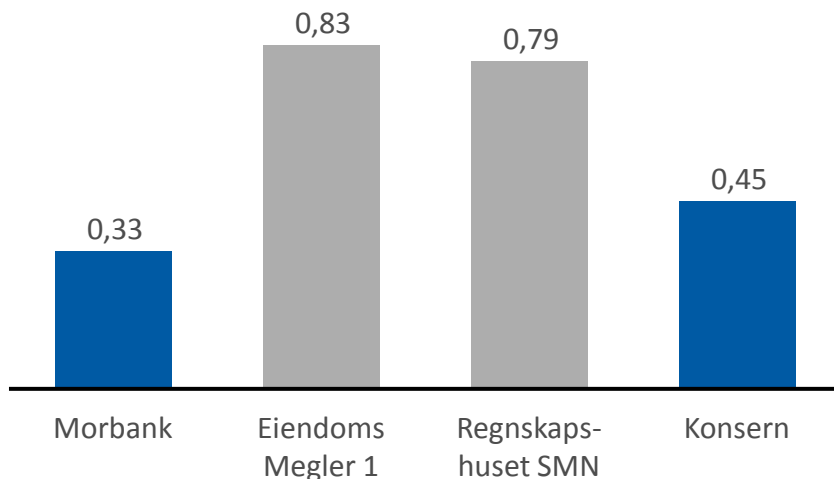
FTEs at parent bank



- At end-September there were 83 fewer FTEs at the parent bank than at year-end 2014
- This is mainly natural wastage
- A further decline to 600 FTEs is targeted by year-end 2016

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

High operating margins in EM1 and Regnskapshuset SMN

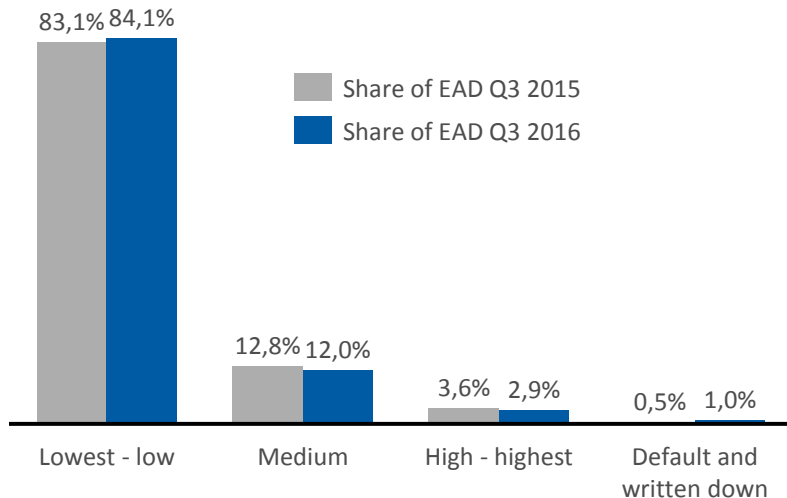


Profitable and non-capital-intensive subsidiaries:

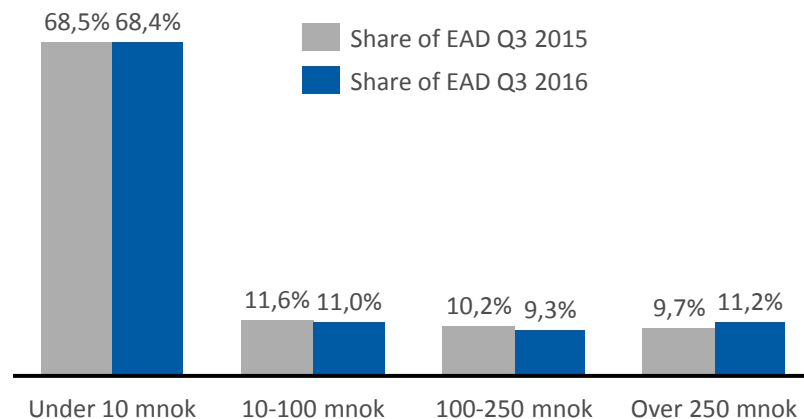
- Both EM1 and Regnskapshuset SMN are companies making a sound profit – and requiring little equity capital compared with the group's other businesses
- In their respective segments they are highly cost-efficient
- But pose a challenge to the group's cost / income ratio

Stable credit risk

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

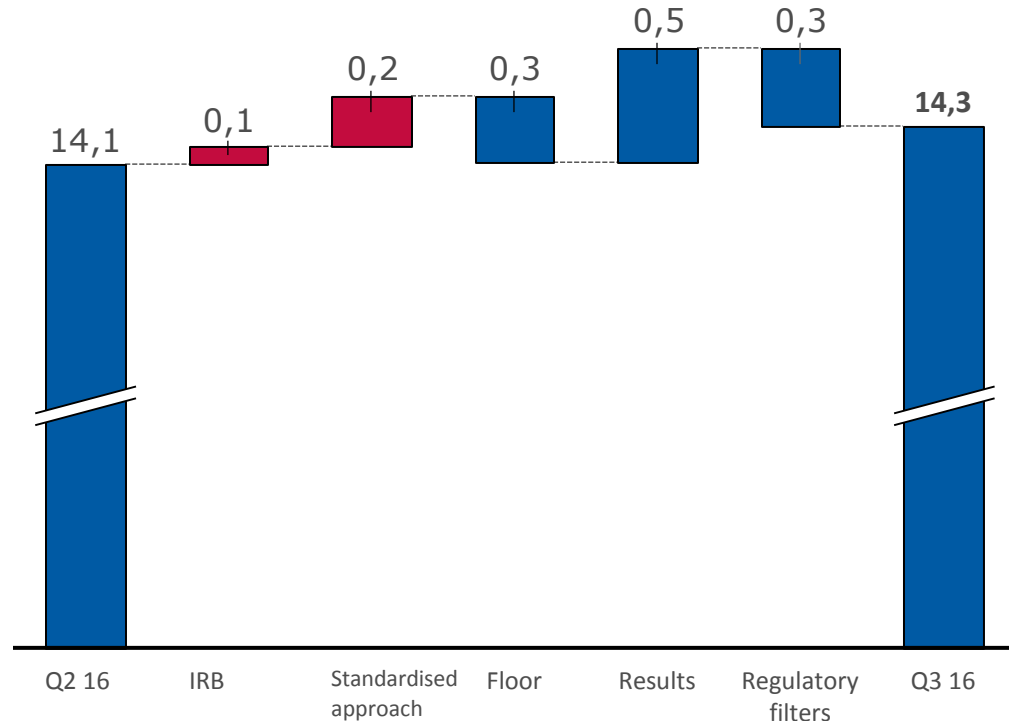


SpareBank 1 SMN's loans distributed on size of customer engagement and share of Exposure At Default



The Group strengthened CET1 capital adequacy by 17 points in the 3rd quarter 2016

- Shift from corporates to retail gives virtually unchanged IRB capital requirement for high retail growth
- Floor growth as a result of retail growth
- Negative effect of regulatory filters, increased goodwill, equity capital changes at the residential mortgage company and increased deduction for stake in SpareBank 1 Gruppen



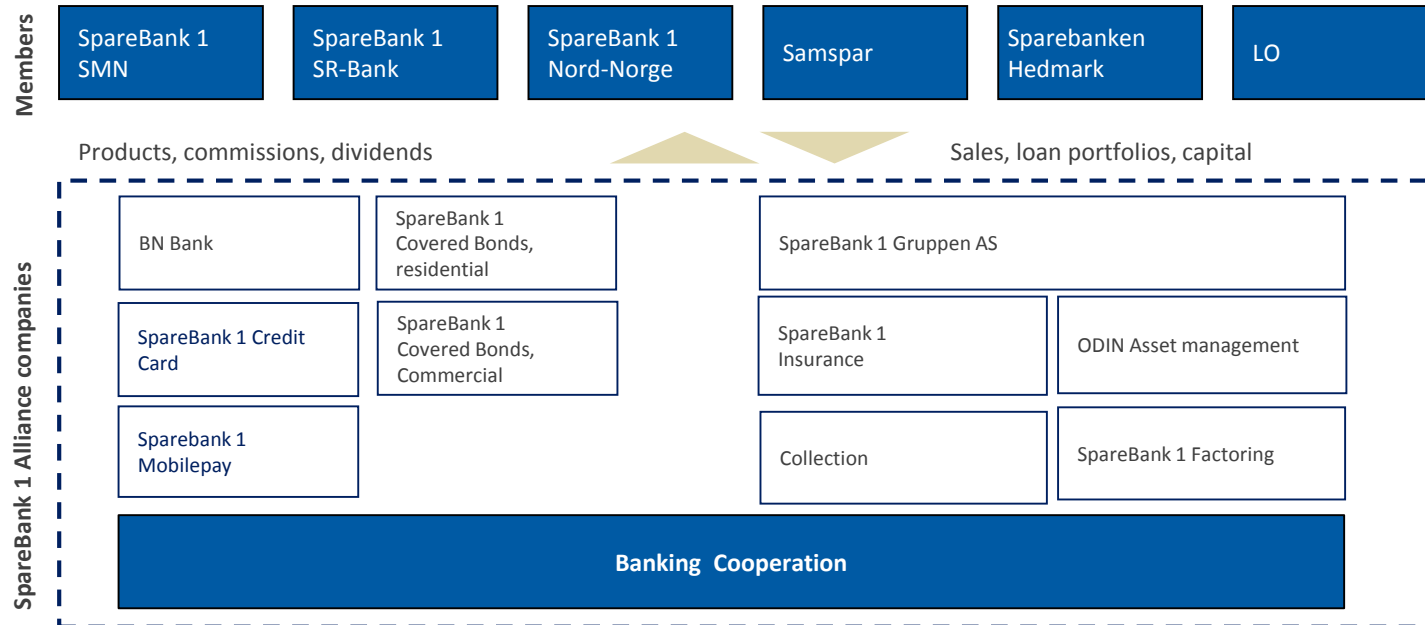
Strengthened capital adequacy

As at Q3 2016 and Q3 2015

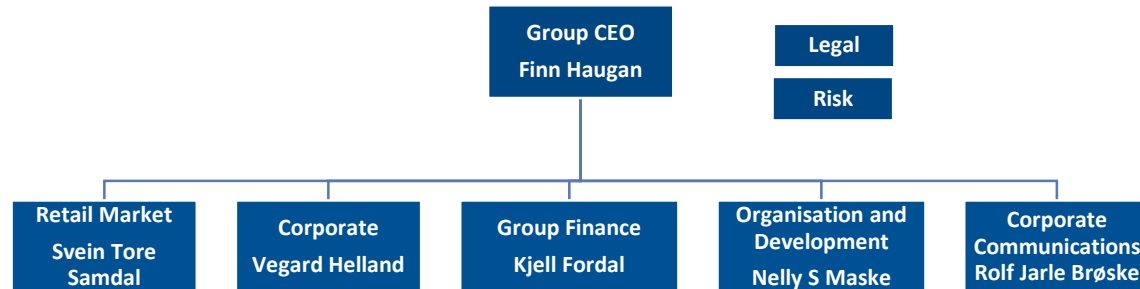
NOKm

	30.9.16	30.9.15
Core capital exclusive hybrid capital	12.895	11.652
Hybrid capital	1.840	1.798
Core capital	14.736	13.451
Supplementary capital	2.275	2.435
Total capital	17.011	15.886
Total credit risk IRB	4.080	4.073
Debt risk, Equity risk	30	105
Operational risk	479	457
Exposures calculated using the standardised approach	1.828	1.827
CVA	88	92
Transitional arrangements	723	533
Minimum requirements total capital	7.228	7.087
RWA	90.353	88.586
CET 1 ratio	14,3 %	13,2 %
Core capital ratio	16,3 %	15,2 %
Capital adequacy ratio	18,8 %	17,9 %

SpareBank 1 Alliance



Organisational set-up SpareBank 1 SMN



Overall organisation

