SpareBank 1 SMN

Preliminary accounts 2018
4th quarter 2018

7. February 2019

SpareBank 1 SMN, the most important financial institution in Trøndelag and Møre og Romsdal

SpareBank 1 SMN

- 222,850 retail customers
- 15,120 corporate customers
- Market leader in the region
- Loan volume NOK 160bn
- 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 in 2018

Net profit

NOK 2.090m (1.828m)

ROE

12,2 % (11,5)

Dividend

NOK 5,10 (4,40)

Pre loss result of core business NOK 1.956m (1.894m)
Loan losses NOK 263 m (341m)

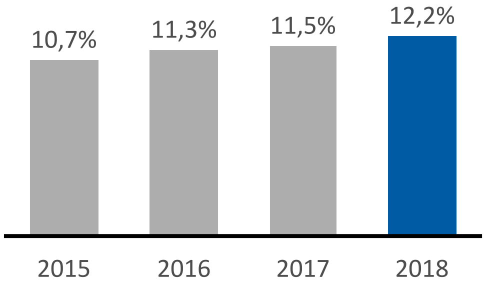
CET1 14,6 % (14,6)
Leverage ratio 7,4 % (7,2)

Growth in lending RM 9,6 % (10,4) **and CM 4,2 %** (4,1)
Growth in deposits 5,4 % (13,9)

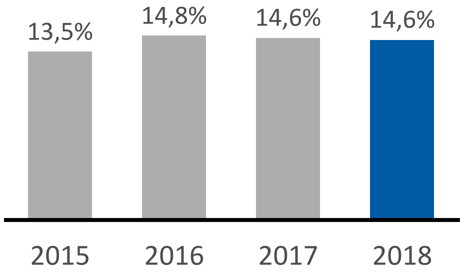
Booked equity capital per ECC NOK 83,87 (NOK 78,81)
Profit per ECC NOK 9,97 (NOK 8,71)

Good profits and strong capitalization

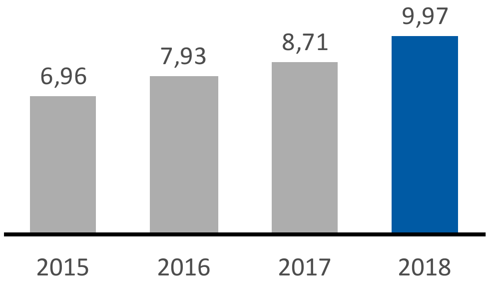
Return on equity



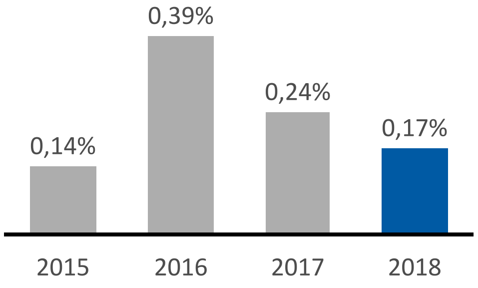
CET1



Earnings per ECC



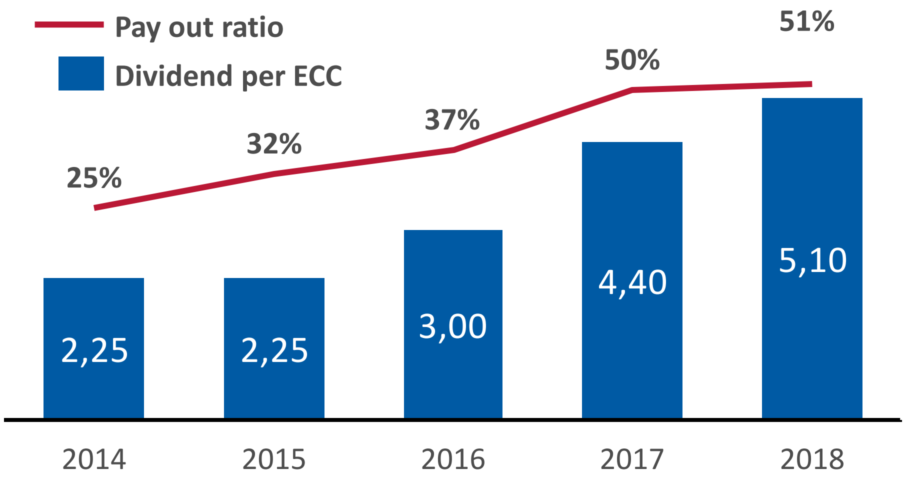
Loan losses as a percentage of total lending



SpareBank 1 SMN is fully focused on creating value for its owners

- Ambitious ROE targets
- Dividend policy : payouts about 50 per cent
- Substantial equity participation in the bank by the bank's top management
- More than 50 per cent of the group's employees participate in the group's equity certificate (EC) savings programme

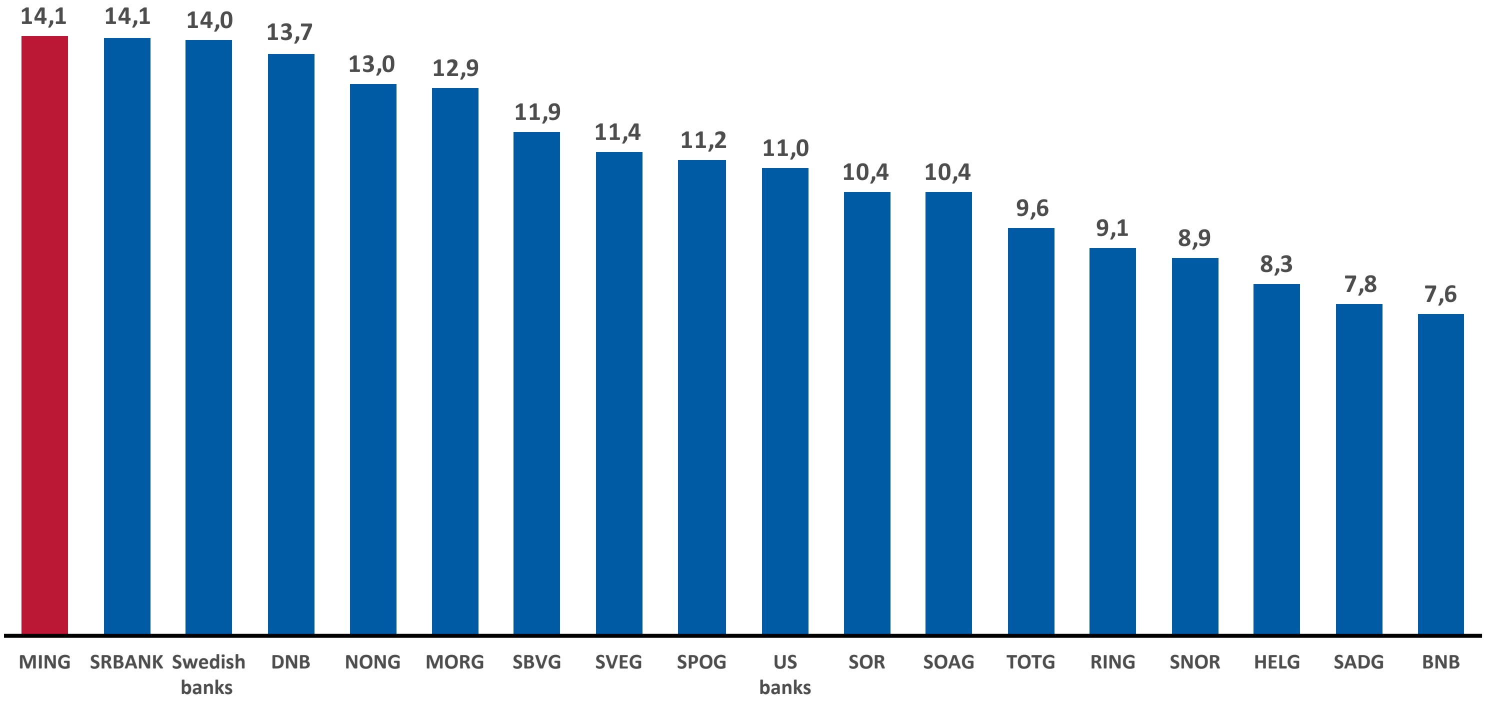
Dividend per ECC and payout ratio



SpareBank 1 SMN

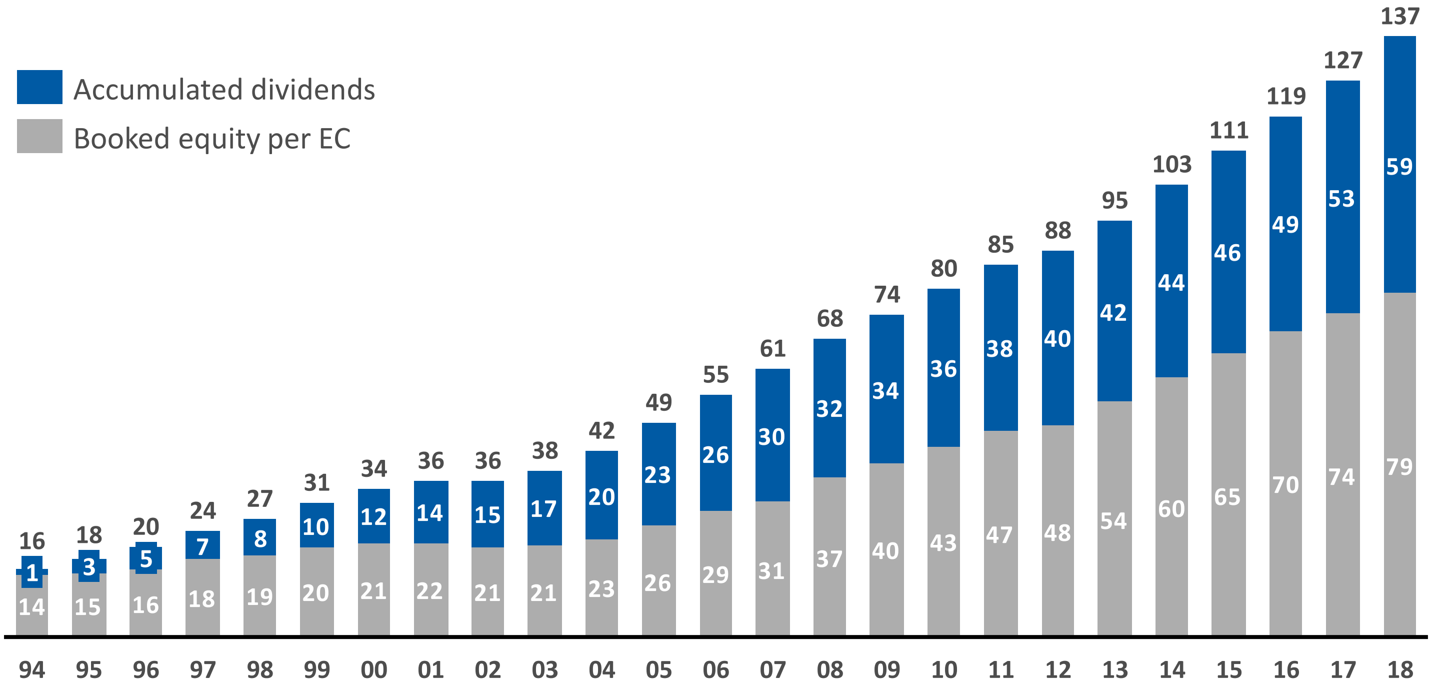
History shows very solid profitability in shifting times

…average return on equity of 14% over last 20 years



…and this profitability delivers strong value creation for SMN's shareholders

…the bank has paid NOK 53 in dividends since stock exchange listing. Book equity per EC from NOK 14 to NOK 79



SpareBank 1 SMN

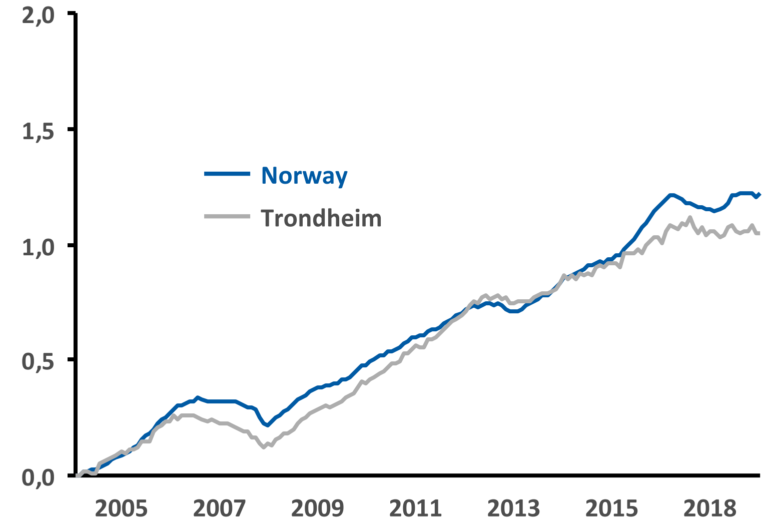
SpareBank 1 SMNs

Economic Barometer 2018

For Trøndelag and Møre og Romsdal

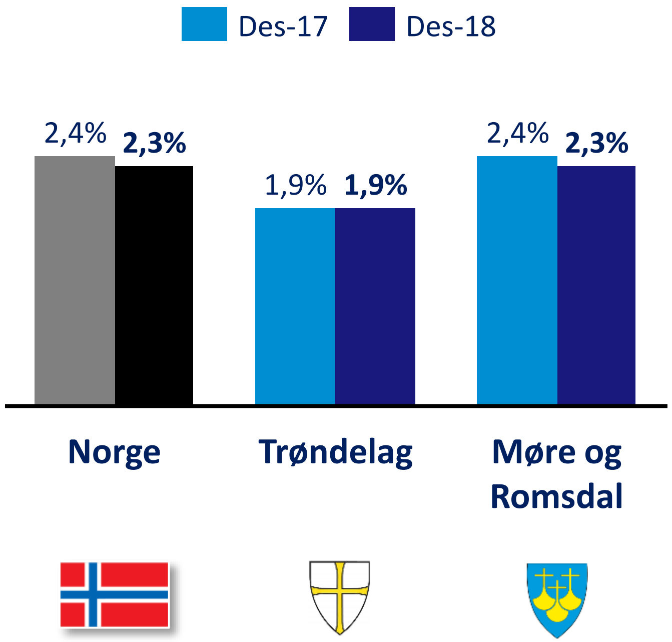
House process levelling out at a high level

House prices 2005 – 2018



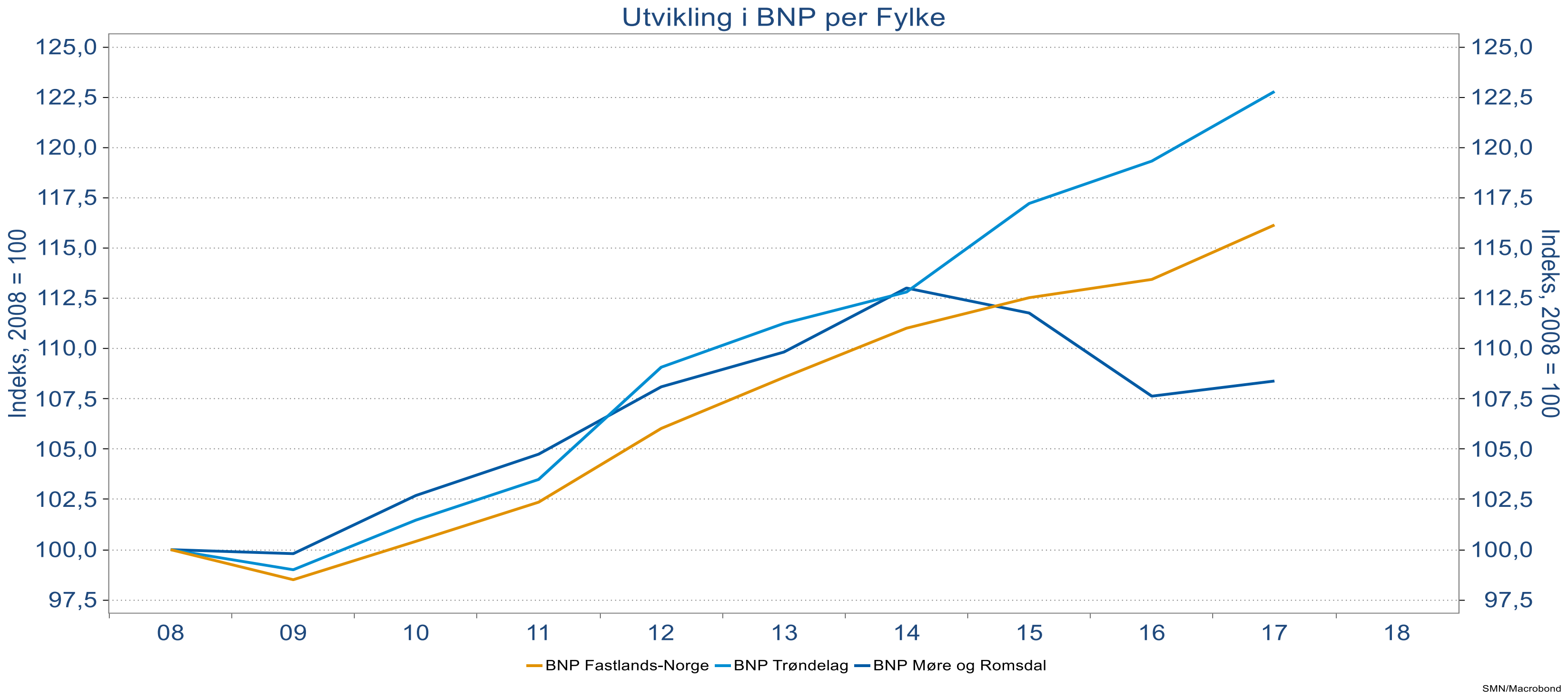
Low unemployment

Monthly figures December 2017 and December 2018



Sources: Statistics Norway for house prices, unemployment from NAV

Stable and good GNP-growth in Trøndelag



Industry indicator:

Change in prospects for maritime industry and retail trade, otherwise stable

Agriculture

Status

Prospects

Aquaculture

Status

Prospects

Offshore services

Status

Prospects

Maritime industry

Status

Prospects

Construction

Status

Prospects

Commercial property

Status

Prospects

Retail trade

Status

Prospects

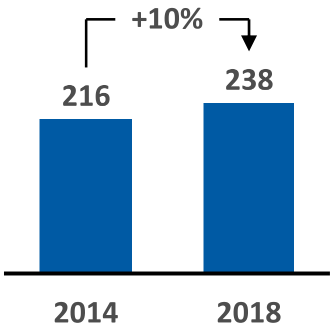
Fisheries

Status

Prospects

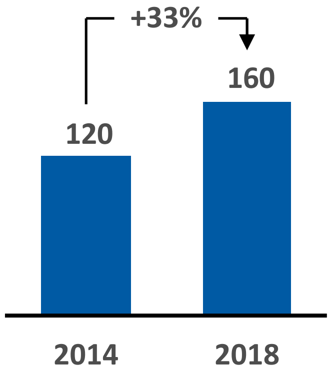
Increased number of customers, volumes and incomes

Number of customers



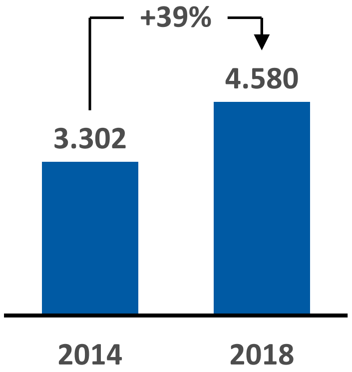
Stronger customer growth than population growth

Total loan volume



Stronger lending growth than credit growth

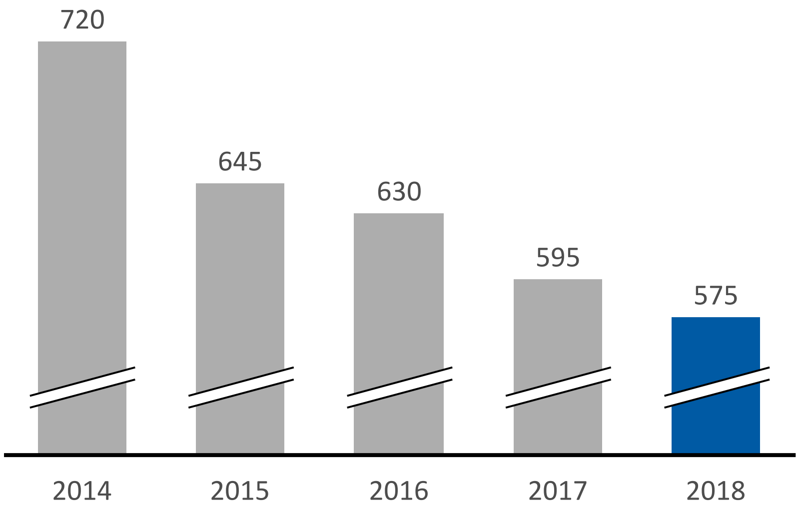
Operating income



Strengthening incomes on a diversified platform

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
- In the same period 100 new staff members have been recruited, in particular in the areas of digital development and control tasks

Improved profits and stronger market position for subsidiaries

Sparebank 1 Finans Midt-Norge NOK 149m (128m)

Solid market position. Leasing NOK 3,3bn and car loans 4,2 mrd. Strong growth in car loans

Sparebank 1 Regnskapshuset SMN NOK 71m (61m)

Turnover NOK 446m, high growth in turnover. Consolidating and digitalizing the industry. Market share 26 %

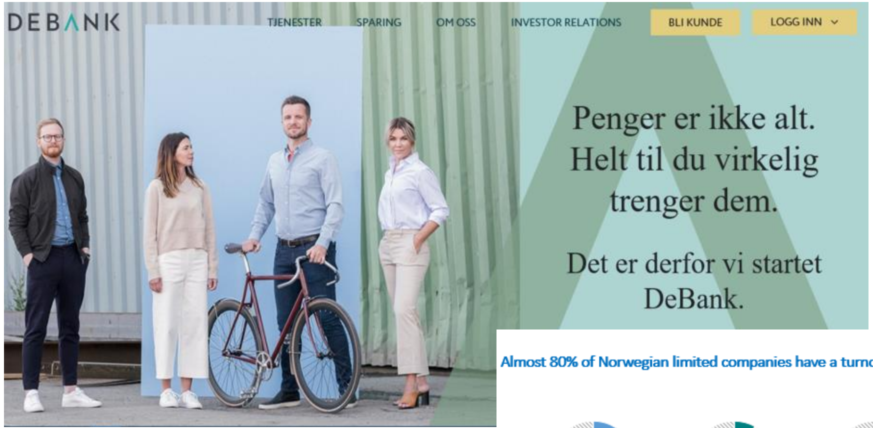
EiendomsMegler 1 Midt-Norge - NOK 23m (3m)

The profit performance is weakened by start-up costs at BN Bolig (NOK 40m). EM1 38 % marketshare. Strong synergy with the bank

Sparebank 1 Markets NOK 15m (2m)

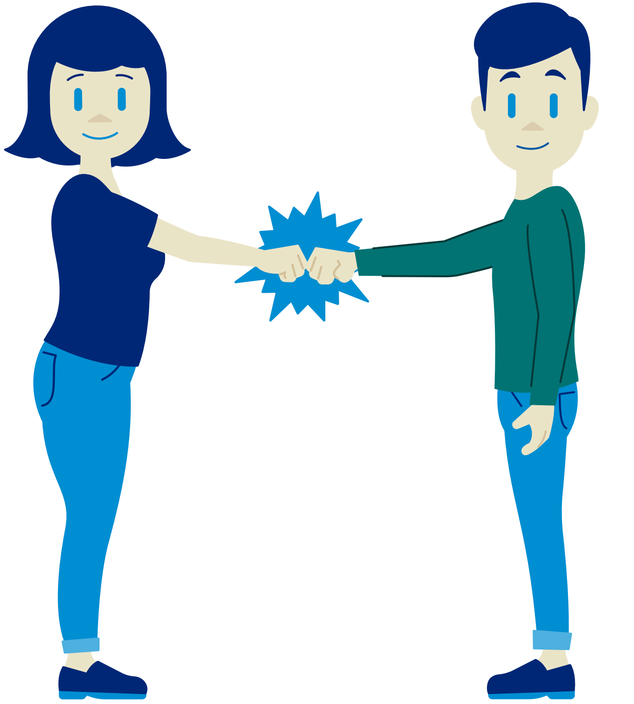
Complete range of capital market services in cooperation with the owner banks. High growth in income in 2018, turnover NOK 551m

DeBank and «Driv» and SpareBank 1 Regnskapshuset strengthen the position in the SME segment



Almost 80% of Norwegian limited companies have a turnover below NOK 5m (and probably very simple banking needs)

78%	8%	10%	2%	2%
< 5 mill	5 - 10 mill	10 - 50 mill	50 - 100 mill	> 100 mill
• Holding companies • Shops • Craftsmen • Lodging services	• Property • Contractors • Shops • Transport companies	• Restaurants • Plumbers • Advertising agencies • Law firms	• Fishery companies • Retail trade • Car dealers • Electrical firms	• Aquaculture • Equipment suppliers • Fishing industry • Shipyards



SpareBank 1

DNB

FREMTIND

ET FORSIKRINGSSELSKAP EIET AV SPAREBANK 1 OG DNB

vipps

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

An independent, regional and profitable bank that contributes to the region’s development and value creation

Ambitious goals

Profitable

12 % ROE

Financially solid

CET1 ratio of 15 %

Pay out ratio of about 50 %

Increased number of satisfied customers

35 % market share and 250 000 customers

Increased incomes

Increased volume, increased share of wallet, develop new income flows

Increased efficiency

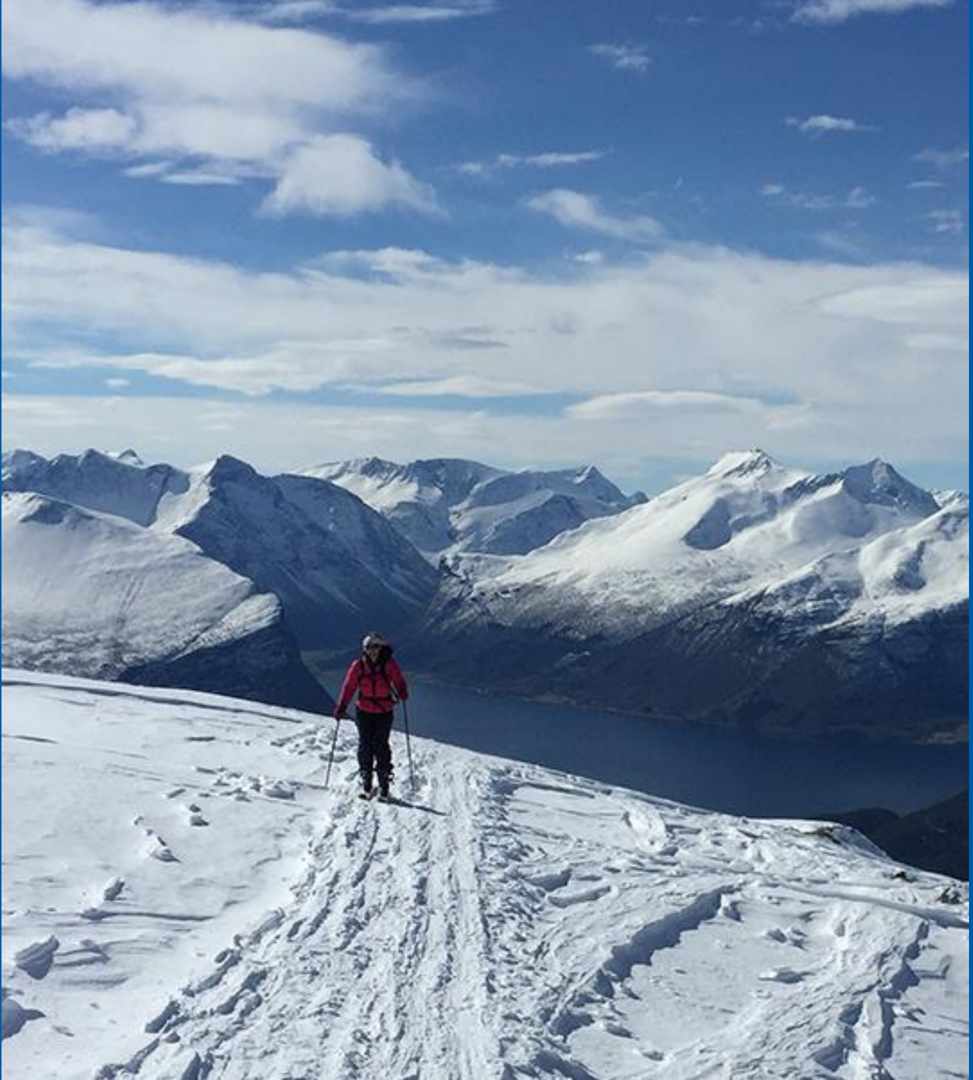
Zero growth in costs

Outlook

- Good economic prospects. Increased optimism in business and industry.
- More customers and strong growth in residential mortgage lending. Digital bank with a personal and local signature is a concept that works. Goal of lending growth in excess of market growth retained for 2019.
- Growth in lending to corporates is primarily to small and medium-sized businesses. This is expected to continue.
- Reduced losses in 2018, essentially in oil-related activities. Loan losse are at a low level, and the bank expects that losses in 2019 will not be higher than in 2018.
- The bank and the SpareBank 1 Alliance set themselves ambitious goals of offering better services and adding more value for existing and new customers.
- The establishment of Fremtind confirms the value of the banks' distribution model, brings increased efficiency and further strengthens competitive power. The bank will make a substantial gain in 2019 as a result of the transaction.
- The CET1 ratio stands at 14.6 per cent and is slightly below the Group's target. The leverage ratio is of 7.4 per cent shows the bank to be very solid. The Group's capital target will be attained through management of its capital-intensive activities.
- The board of directors expects 2019 to be a good year of strengthened banking operations, sound growth and improved financial soundness.

Finn Haugan steps down as CEO after 28 years
Jan Frode Janson takes up duties on 1 May 2019

Finn Haugan Jan Frode Janson



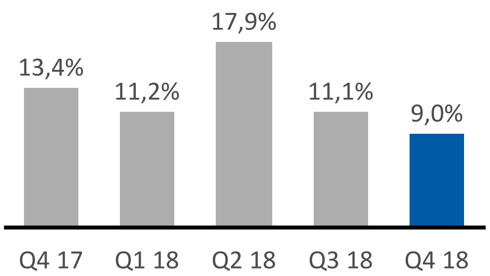
SpareBank 1 SMN

Financial information

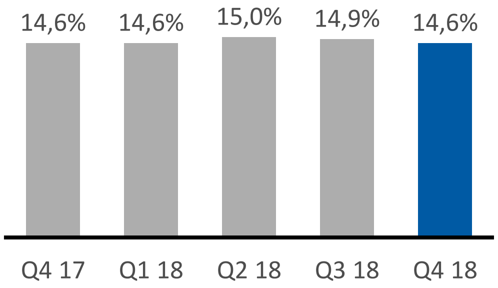
Kjell Fordal, CFO

Good profits and strong capitalization. Lower loan losses

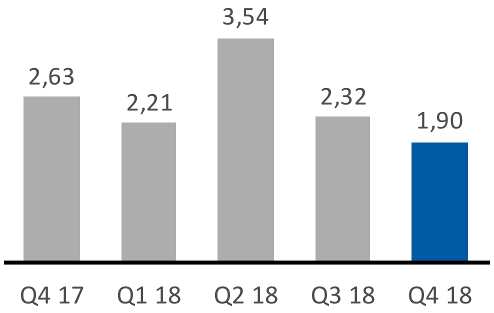
Return on equity



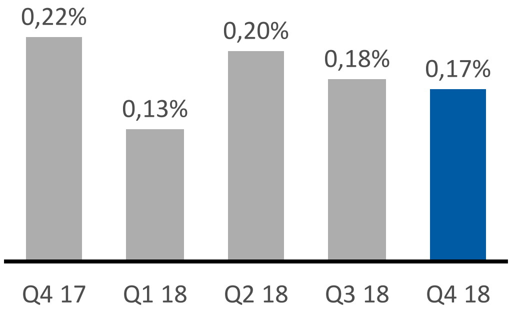
CET 1



Earnings per ECC



Loan losses as a percentage of total loans



Board of directors' proposal for distribution of profit provides a dividend of NOK 5.10

- **Profit after tax 1,857**
  - **EC holders 1,187 (63.95 %)**
    - Dividend: 661
    - Equalisation fund: 526
  - **Ownerless capital 670 (36.05 %)**
    - Non-profit causes: 373
      - Non-profit causes: 80
      - EC foundation 293
    - Ownerless capital: 297

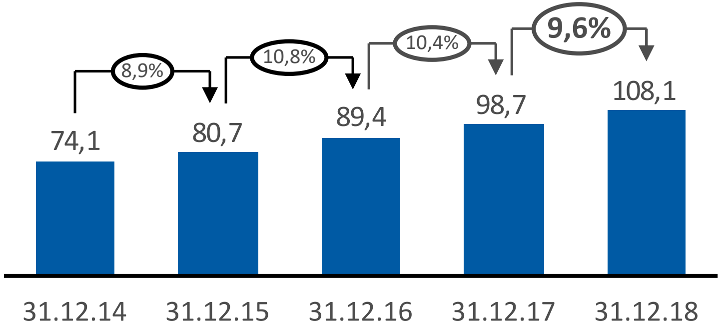
Pay-out ratio 51 % of group profit 2,027 NOKm (majority's share, adjusted for interest on hybrid capital)

Strengthened profits

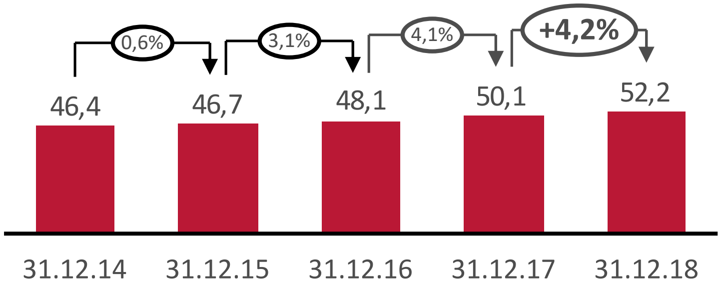
NOK mill	2018	2017	Change	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17
Net interest	2.769	2.595	174	644	610	581	568	589
Commission income and other income	1.811	1.635	176	543	486	607	542	529
Operating income	**4.580**	**4.229**	**350**	**1.187**	**1.096**	**1.188**	**1.110**	**1.118**
Total operating expenses	2.624	2.369	255	701	616	661	645	618
Pre-loss result of core business	**1.956**	**1.861**	**95**	**486**	**479**	**526**	**465**	**501**
Losses on loans and guarantees	263	341	-78	67	69	78	48	78
Post-loss result of core business	**1.693**	**1.520**	**173**	**418**	**410**	**448**	**416**	**423**
Related companies	416	437	-22	130	105	102	79	147
Securities, foreign currency and derivates	341	322	19	-35	77	199	100	109
Result before tax	**2.450**	**2.279**	**170**	**513**	**592**	**748**	**596**	**678**
Tax	509	450	60	104	119	156	131	122
Result investment held for sale	149	-1	151	-8	6	150	1	-4
Net profit	**2.090**	**1.828**	**262**	**401**	**480**	**743**	**466**	**553**
Return on equity	**12,2 %**	**11,5 %**		**9,0 %**	**11,1 %**	**17,9 %**	**11,2 %**	**13,4 %**

Total growth lending 7.8 % in 2018

Lending RM +10 % (CAGR)



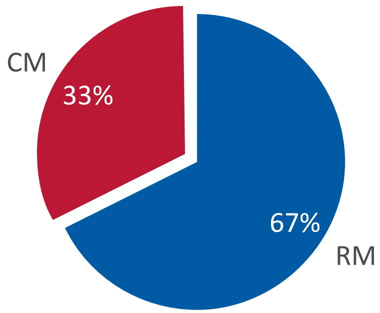
Lending CM + 3 % (CAGR)



High growth in home mortgage lending

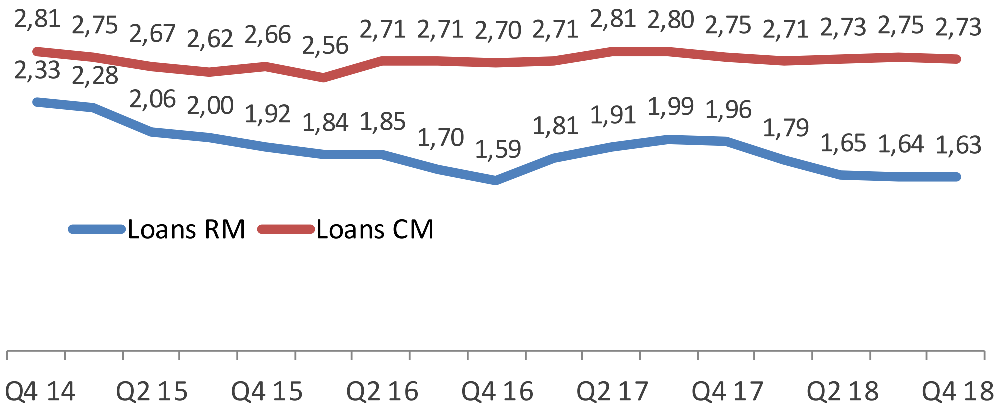
- Residential mortgage market share of about 5.4 % (C2). Growth above this figure represents increased market share
- Share of loans to personal borrowers up from 61 to 67 per cent in last three years
- Growth to corporates is mainly to small businesses

Share of lending



Lending margins

Increased nibor



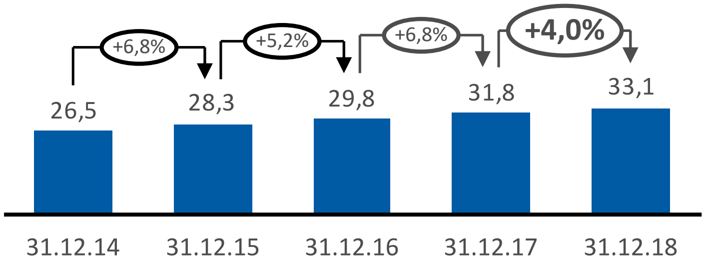
Comments

- Reduced Nibor in 2017
- Increased Nibor in 2018, and mortgage margins have been under pressure
- Base rate increased by 0.25 percentage points as from 21 September 2018
- General increase in residential lending rates carried out in the fourth quarter 2018

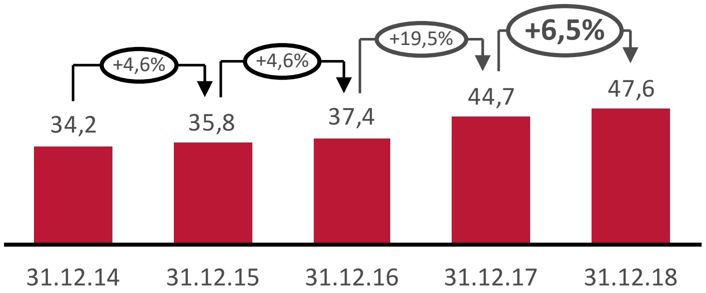
SpareBank 1 SMN

Total growth deposits 5.4 % in 2018

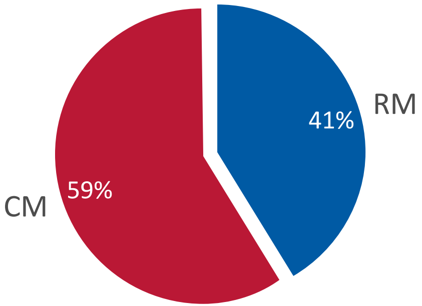
Deposits RM + 5.7 % (CAGR)



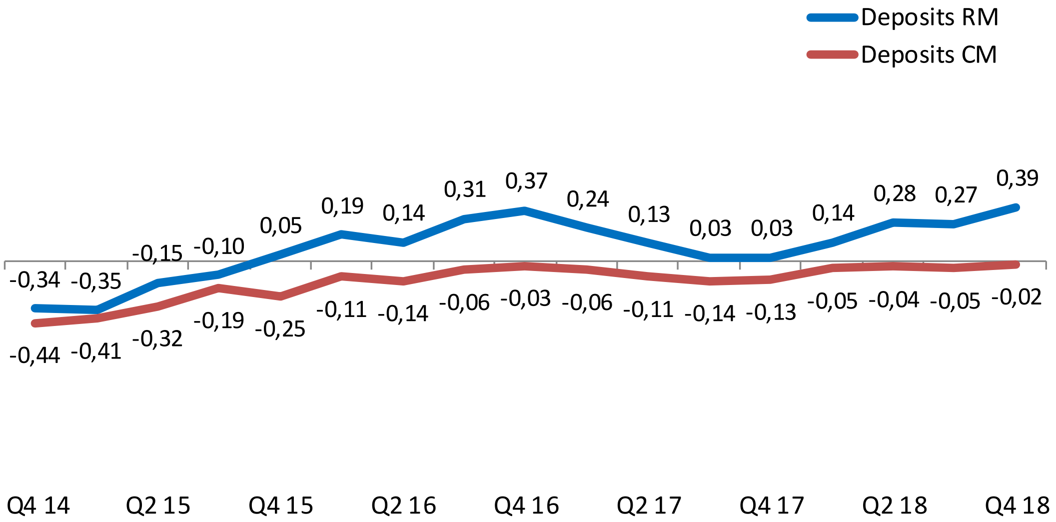
Deposits CM + 8.6 % (CAGR)



Share of deposits



Deposit margins Retail and Corporate



Comments

- Increased Nibor has strengthened the margins in 2018

Change in net interest income

2018 compared with 2017

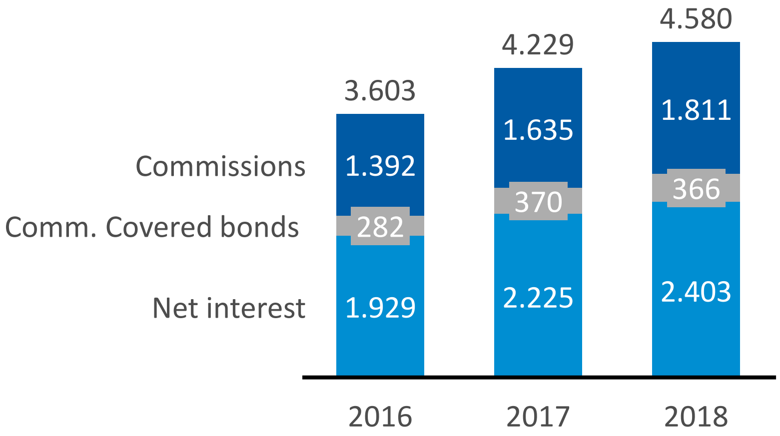
Net interest 2018	2.403
Net interest 2017	2.225
Change	**178**
Obtained as follows:	
Fees on lending	16
Lending volume	166
Deposit volume	0
Lending margin	-240
Deposit margin	94
Equity capital	23
Funding and liquidity buffer	65
Subsidiaries	53
Change	**178**

Comments

- Increased lending volume strengthened net interest income
- Increased Nibor in 2018 weakened the margins on mortgages compared with 2017
- General increase in residential lending rates carried out in the fourth quarter 2018

Robust income platform and increased commission income

Net interest and other income



Commissions 2018 and 2017

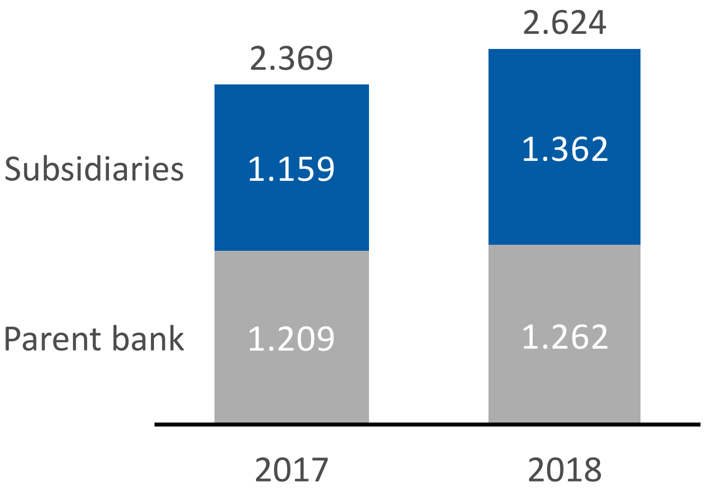
mill kr	**2018**	**2017**	**Change**
Payment transmission income	207	207	0
Creditcards	60	59	0
Commissions savings and asset management	123	117	6
Commissions insurance	174	172	2
Guarantee commissions	61	69	-8
Estate agency	376	365	11
Accountancy services	421	357	64
Markets	335	214	121
Other commissions	54	75	-21
Commissions ex. Bolig/Næringskreditt	**1.811**	**1.635**	**177**
Commissions Boligkreditt (cov. bonds)	350	353	-4
Commissions Næringskreditt (cov. bonds)	16	17	-1
Total commission income	**2.177**	**2.005**	**172**

- 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 2017 and 2018



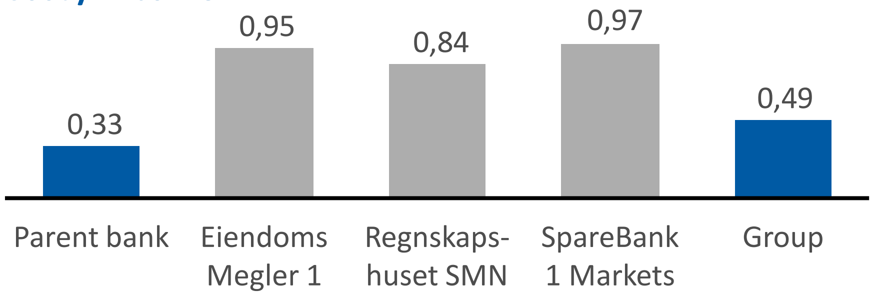
NOK 11m of the parent bank's cost growth is a one-time cost related to disposal of the head office

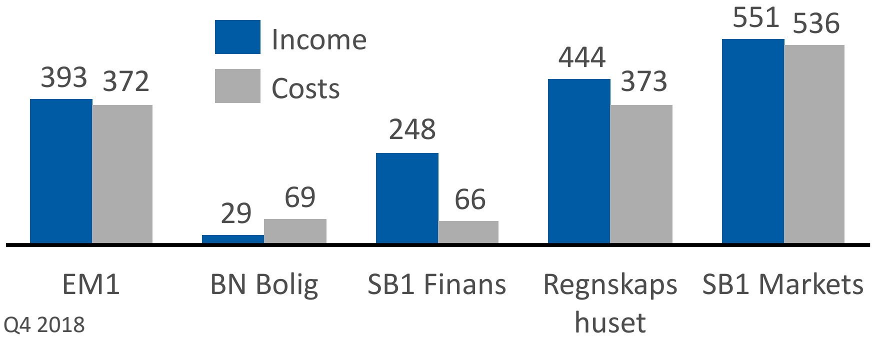
Cost growth due to focus on subsidiaries

- Cost growth in the subsidiaries
  - Increased activity in 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
- Cost growth at the parent bank
  - new self-service solutions and CRM system.
  - regulatory requirements bring a need for increased capacity and expertise.
  - Combating money laundering has a high priority and is reource-demanding
- 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 parentheseis	2018	2017	Change	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17
EiendomsMegler 1 Midt-Norge (87 %)	-23	3	-25	-29	-11	25	-8	-10
SpareBank 1 Regnskapshuset SMN (95 %)	71	61	10	14	13	27	17	15
SpareBank 1 Finans Midt-Norge (65 %)	149	128	20	42	35	34	38	35
SpareBank 1 Markets (67 %)	15	2	13	-6	-15	29	7	8
SpareBank 1 SMN Invest (100%)	8	43	-35	-20	4	19	4	12
Other companies	6	22	-16	-1	2	0	6	5
Subsidiaries	**226**	**259**	**-33**	**1**	**27**	**134**	**64**	**65**

The results refer to the respective company accounts

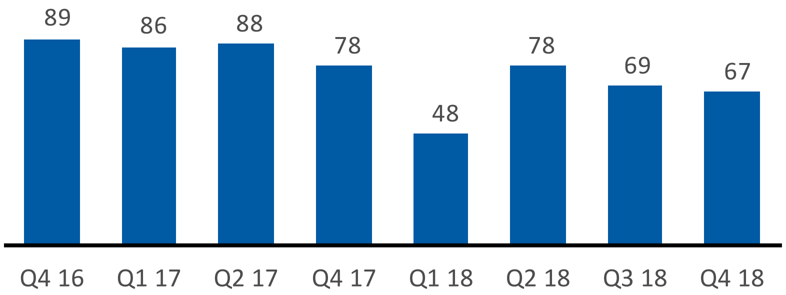
Associated companies

Profit shares after tax

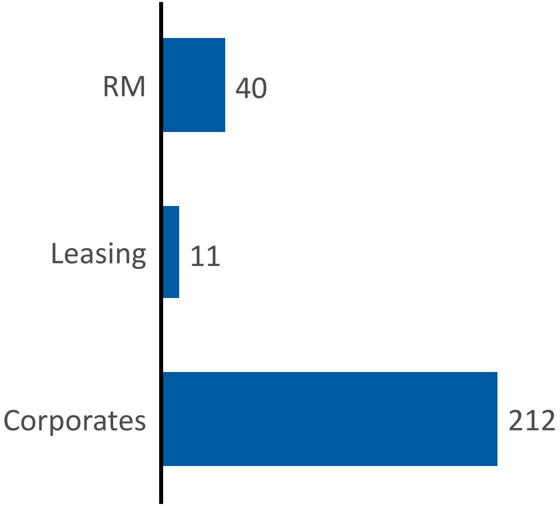
mNOK, SMN's share in parentheseis	2018	2017	Change	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17
SpareBank 1 Gruppen (19,5 %)	289	349	-60	99	72	81	36	134
SpareBank 1 Boligkreditt (19,0 %)	-7	-41	34	-9	7	-8	3	-15
SpareBank 1 Næringskreditt (36,5 %)	15	19	-4	4	2	4	4	1
BN Bank (33 %)	97	98	-1	24	20	23	30	28
SpareBank 1 Kredittkort (17,9 %)	23	15	7	6	5	6	5	5
SpareBank 1 Betaling (19,5 %)	-12	-14	2	-3	-3	-3	-3	-7
Other companies	-1	12	-13	-1	-4	1	3	1
Associated companies	**402**	**437**	**-35**	**120**	**100**	**103**	**79**	**147**

Lower loan losses
Losses mainly the offshore industry

Losses per quarter, NOKm



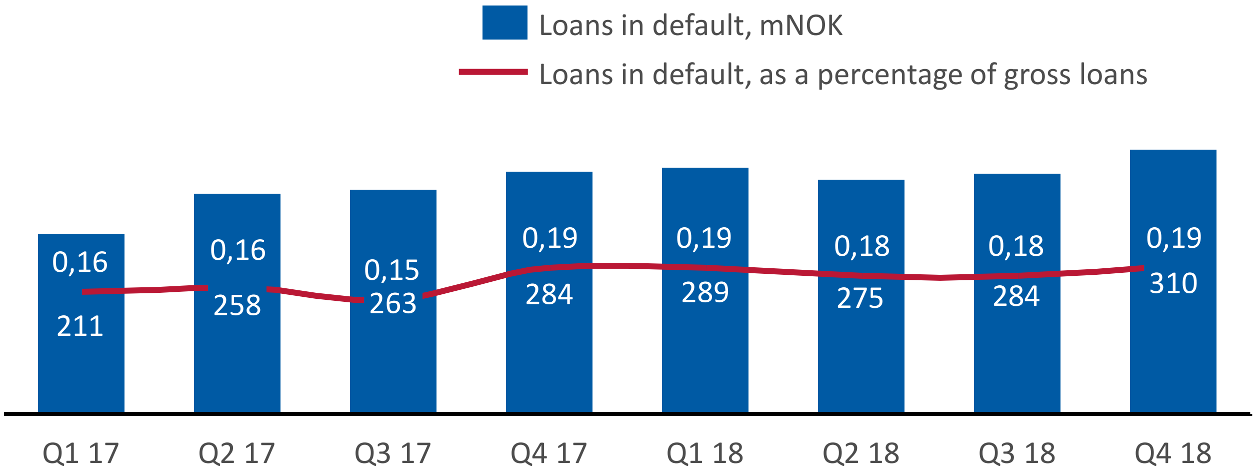
Distribution 2018



Loan losses including collective losses provisions 0.17 % (0.24 %) of gross lending as of 31.12.2018

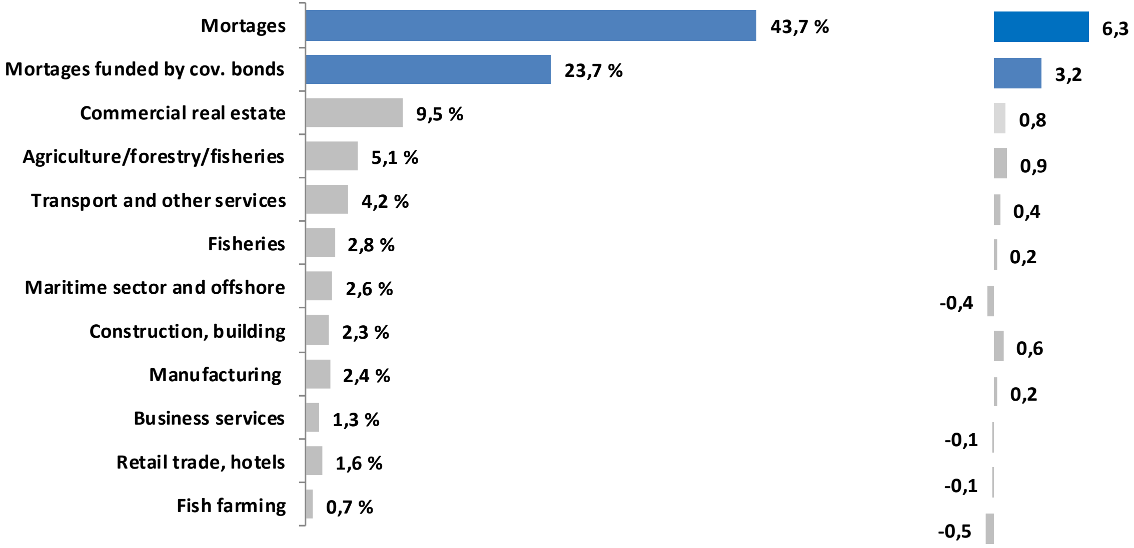
Very low levels on loans in default (0,19 %)

Last two years, per quarter

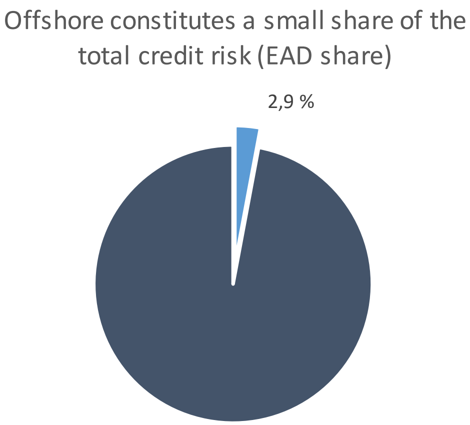


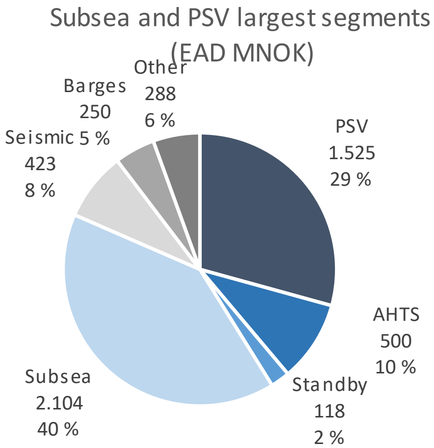
High share mortgages of 67 % and diversified portfolio SMEs. Total lending NOK 160bn

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



Offshore constitutes a small share of total credit risk - subsea and PSV largest segments
Impairment level corresponds to 9.4% of offshore portfolio





mill kr	EAD	Indivi-duelle	IFRS 9	Sum nedskr	Andel av EAD
Low risk	881	0	1	1,3	0,2 %
Medium risk	2.630	0	57	57	2,2 %
High risk	428	0	32	32	7,4 %
Obligors with impairments / defaulted	1.269	397	0	397	31,3 %
Total	**5.208**	**397**	**90**	**488**	**9,4 %**

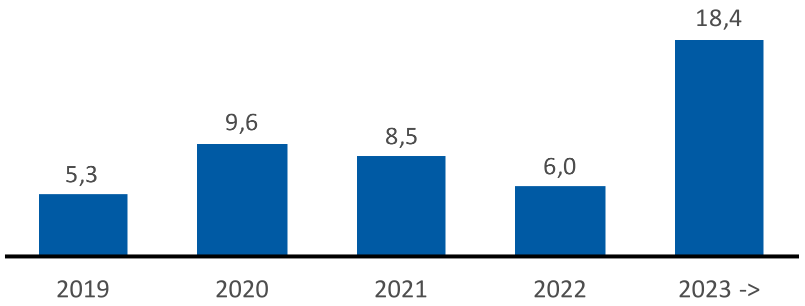
SpareBank 1 SMN

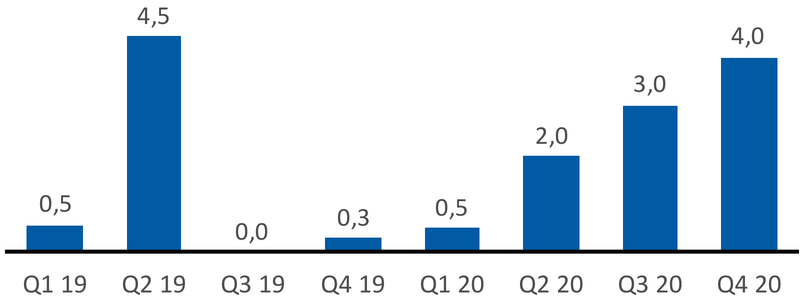
Balance sheet

	31.12.18	31.12.17	31.12.16
Funds available	26,3	27,3	21,8
Net loans	119,7	111,0	101,4
Securities	1,9	1,8	1,5
Investment in related companies	6,1	6,4	5,7
Goodwill	0,9	0,8	0,6
Other assets	5,8	6,0	7,1
Total Assets	**160,7**	**153,3**	**138,1**
Capital market funding	53,5	51,8	46,8
Deposits	80,6	76,5	67,2
Other liabilities	5,7	5,3	5,6
Subordinated debt	2,3	2,2	2,2
Equity ex hybrid bonds	17,6	16,5	15,3
Hybrid bonds	1,0	1,0	1,0
Total liabilities and equity	**160,7**	**153,3**	**138,1**
in addition loans sold to Boligkreditt and Næringskreditt	39,8	36,7	35,2

Satisfying access to capital market funding

Funding maturity 31.December 2018 (NOK bn)



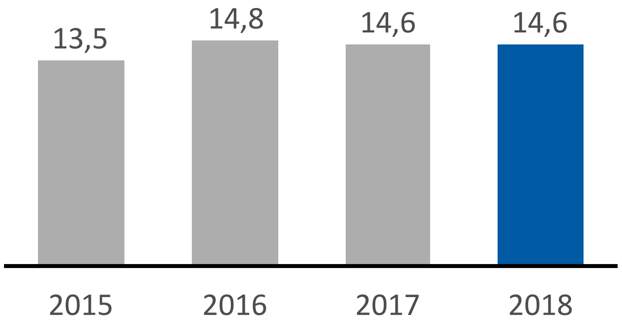


Comments

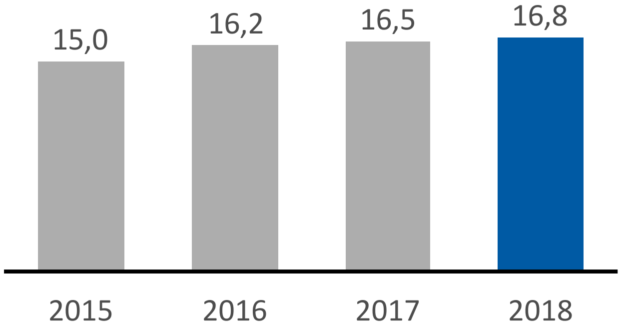
- SpareBank 1 Boligkreditt is the main funding source through covered bonds. NOK 38 billion transferred as of 31. December 2018
- Maturities next two years NOK 14.8 bn:
  - NOK 5.3 bn in 2019
  - NOK 9.5 bn in 2020
- LCR 183 % as at 31. December 2018
- MREL (minimum requirement for own funds and eligible liabilities) introduced as from 2019. The bank will fulfil the MREL requirement by 2022 within the framework of ordinary maturities
- Green Bond framework published

Strong capitalization

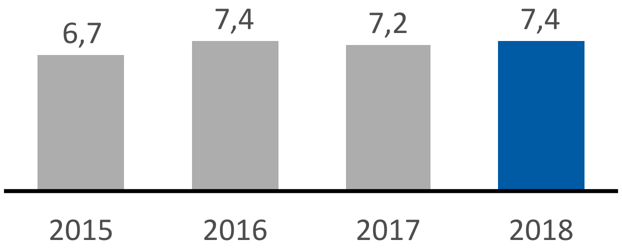
CET1



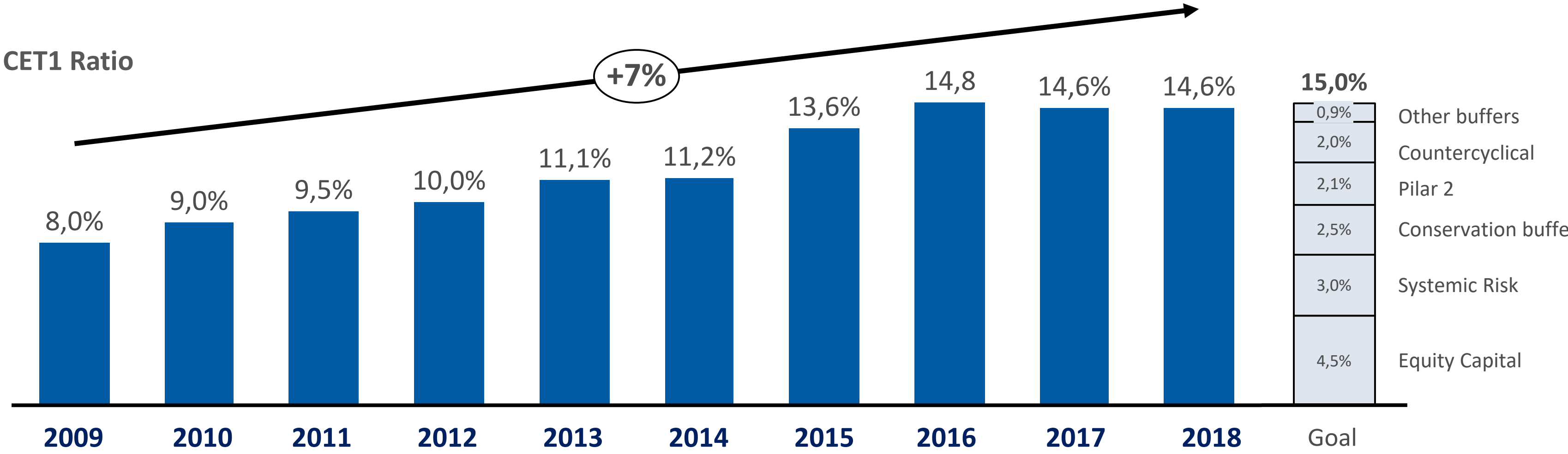
CET 1 without transitional arrangements (Basel III)



Leverage ratio



Strong development in CET 1 (capital and ratio)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CET1 Capital	4.938	6.177	6.687	8.254	9.374	10.679	12.192	13.115	13.820	14.727
ROE	16,2 %	14,6 %	12,8 %	11,7 %	13,3 %	15,1 %	10,7 %	11,3 %	11,5 %	12,2%
RWA	64.400	66.688	75.337	82.450	84.591	95.322	89.465	88.788	94.807	101.168

SpareBank 1 SMN

Financial soundness

- CET1 ratio of 14.6% at end-2018 is below the board of directors' target
- The Fremtind transaction will strengthen the CET1 ratio by about 0.3 percentage points, given a 50 % distribution of the gain upon disinvestment
- Increased countercyclical buffer of 0.5 percentage points, and reduced Pillar 2 add-on of 0.2 percentage points, entail a new capital target of 15.4 % at the end of 2019
- The bank awaits the Finance Ministry's review of Finanstilsynet's recommendation of SIFI status for SMN
- Removal of the specifically Norwegian Basel I floor, and the introduction of the SMB discount, will strengthen the CET1 ratio by about 2.7 percentage points

Financial consequences of establishing Fremtind

Finans

DNB og Sparebank 1 lager forsikringskjempe

Nytt skadeselskap gir milliarder i kassen for begge parter.

1 min   Publisert: 24.09.18 – 08.53   Oppdatert: en måned siden

Banktoppene Turid Grotmoll i Sparebanken 1 (til venstre) og Rune Bjerke i DNB signerer avtalen om forsikringsfusjonen som ble varslet i juni. (Foto: Sparebank 1)

- DNB Insurance merges with SpareBank 1 Skadeforsikring. Turid Grotmoll appointed CEO
- DNB acquires up to 35 prosent and SpareBank 1 Gruppen will own 65 per cent of the new company. DNB has in addition secured an option to acquire a stake of up to 40 per cent
- Finanstilsynet approved the merger of the two non-life businesses in December 2018 , and the merger was carried through as per 1 January 2019.
- The accounting gain of the non-life merger for SMN is NOK 488m, of which the capital adequacy effect is NOK 334m
- The amalgamation of personal risk products is planned to take place in the course of 2019
- The accounting gain of this is NOK 343m. The capital adequacy effect is NOK 182m

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HuginOnline:	www.huginonline.no
Equity capital certificates in general:	www.grunnfondsbevis.no

Financial calendar 2019

Q1:	9. may 2019
Q2:	8. august 2019
Q3:	30. october 2019

Appendix

Return on financial investments

NOKm	2018	2017	Change	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17
Capital gains shares	96	62	34	-48	26	113	5	53
Gain/(loss) on derivatives	187	124	63	-5	50	23	119	55
Gain/(loss) on other financial instruments at fair value	10	7	4	-13	11	8	4	-4
Foreign exchange gain / (loss)	63	45	18	16	21	15	11	16
Gain/(Loss) on sertificates and bonds	-77	58	-135	5	-45	23	-59	-20
Gains/(Loss) on shares and share derivatives at SpareBank 1 Markets	58	43	15	7	14	20	17	10
Gain/(loss) on financial instruments related to hedging	-4	-23	18	1	1	-7	1	2
Net return on financial instruments	**334**	**317**	**16**	**-37**	**77**	**195**	**99**	**112**

Key figures ECC

Last five years

	2018	2017	2016	2015	2014
ECC ratio	64,0 %	64,0 %	64,0 %	64,0 %	64,6 %
Total issued ECCs (mill)	129,62	129,38	129,64	129,43	129,83
ECC price	84,20	82,25	64,75	50,50	58,50
Market value (NOKm)	10.914	10.679	8.407	6.556	7.595
Booked equity capital per ECC	83,87	78,81	73,35	67,39	62,04
Post-tax earnings per ECC, in NOK	9,97	8,71	7,93	6,96	8,82
Dividend per ECC	5,10	4,40	3,00	2,25	2,25
P/E	8,44	9,44	8,17	7,26	6,63
Price / Booked equity capital	1,00	1,04	0,88	0,75	0,94

Key figures

Last three years

	31.12.18	31.12.17	31.12.16
CET 1 ratio	14,6 %	14,6 %	14,9 %
Core capital ratio	16,3 %	16,6 %	17,0 %
Capital adequacy	18,5 %	18,6 %	19,4 %
Leverage ratio	7,4 %	7,2 %	7,4 %
Growth in loans (incl.Boligkreditt and Næringskreditt)	7,8 %	8,2 %	8,0 %
Growth in deposits	5,4 %	13,9 %	4,8 %
Deposit-to-loan ratio	66,9 %	68,2 %	65,6 %
RM share loans	67,4 %	66,3 %	65,0 %
Cost-income ratio	49,2 %	47,5 %	44,5 %
Return of equity	12,2 %	11,5 %	11,3 %
Impairment losses ratio	0,17 %	0,24 %	0,39 %

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

Traditional bank digitalised

Digital bank with a personal and local signature

Important instruments for taking an even clearer position in the region among target groups: the family and small and medium businesses

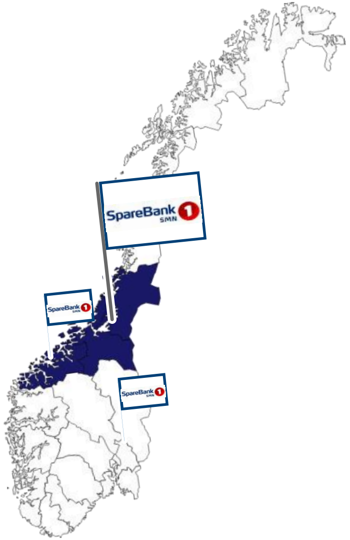
Battle arena:
Prioritised target groups

FAMILIES

YOUNG PEOPLE

SMBs

Battle arena:
Geographical catchment area



Battle arena:
Channels

Kraftfull distribusjon

- Serviced channel
- Remote channel
- Digital channel

Battle arena:
Customer needs

Everyday
Payments, Digital Bank, Vipps

Business
Invoicing, accounts, financing

Owning
Loan, dwelling, car, credit card

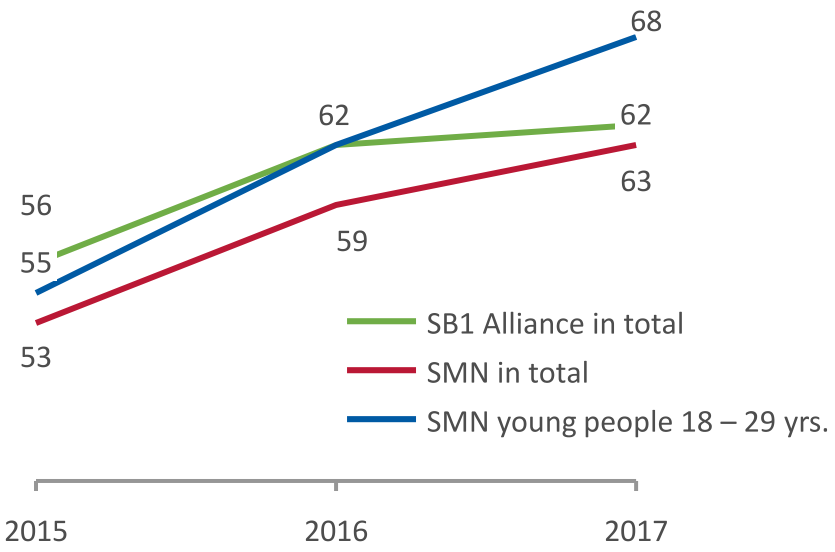
Security
Insurance

Future
Saving, pension, share savings account, mutual funds, deposits

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