

Report of the Board of Directors

Accounts for the nine months ended 30 September 2013

(Consolidated figures. Figures in parentheses refer to the same period of 2012 unless otherwise stated)

- Profit before tax: NOK 1,282m (1,053m)
- Net profit: NOK 1,038m (816m)
- Return on equity: 13.3 per cent (12.1 per cent)
- 12-month growth in lending: 6.7 per cent (11.4 per cent), in deposits: 5.1 per cent (10.5 per cent)
- Loan losses: NOK 68m (42m)
- Common equity tier 1 (CET1) ratio: 10.7 per cent (9.3 per cent)
- Earnings per EC: NOK 5.13 (3.99)

Third quarter 2013 in isolation

- Profit before tax: NOK 501m (392m)
- Net profit: NOK 433m (306m)
- Return on equity: 16.3 per cent (12.8 per cent)
- Loan losses: NOK 30m (16m)
- Earnings per EC: NOK 2.18 (1.54)

Very good result in first nine months of 2013

Highlights:

- Increased net profit of NOK 222m, or 27 per cent, compared with same period 2012
- Strong profit trend in core business. Increased margins on lending to retail customers and corporates alike
- Low cost growth
- Low loan losses
- Strong financial position and ample funding
- Relatively high growth in lending to retail market, zero growth in lending to corporates
- NOK 31m taken to income on disposal of acquired asset in offshore vessel

In the first nine months of 2013 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,282m (1,053m). Net profit was NOK 1,038m (816m) and return on equity was 13.3 per cent (12.1 per cent).

Pre-tax profit for the third quarter in isolation was NOK 501m (392m), representing an improvement on both the first and second quarter. Return on equity in the quarter in isolation was 16.3 per cent (12.8 per cent).

Overall operating income in the first nine months came to NOK 2,261m (1,897m), an increase of NOK 364m compared with the same period 2012. Operating income rose at the parent bank and subsidiaries alike.

Return on financial investments was NOK 346m (414m), of which the overall income from owner interests in associates was NOK 256m (242m) in the first nine months.

Operating expenses came to NOK 1,256m in the first nine months of 2013 (1,217m), NOK 39m or 3.2 per cent higher than in 2012.

Net losses on loans and guarantees were NOK 68m (42m).

On a 12-month basis lending growth was 6.7 per cent (11.4 per cent) and deposit growth was 5.1 per cent (10.5 per cent) in the first nine months of 2013. Total lending growth in the same period was 5.1 per cent (8.4 per cent) and total deposit growth in the period was 2.2 per cent (6.2 per cent).

The common equity tier 1 ratio at 30 September 2013 was 10.7 per cent (9.3 per cent) compared with a requirement of 9 per cent. The group CET1 ratio at the same point was 14.2 per cent (11.9 per cent), well within the required 12.5 per cent.

On 22 March 2013 the Ministry of Finance published a proposal for new capital requirements, a timetable for implementation as well as various alternatives for new home mortgage loan weights.

In connection with the presentation of the National Budget on 14 October it became clear that the outgoing government advocates regulating risk weights through adjustment of the LGD floor. The floor is concurrently retained with a basis in risk weighted assets under Basel I. Norges Bank (Norway's central bank) has announced that it will advise the Ministry of Finance regarding the countercyclical buffer in December 2013. Since Norges Bank's advice will not be known to the market, the size of the buffer and its role in the overall regulation of the Norwegian banking industry is a matter of much uncertainty.

SpareBank 1 SMN maintains its ambition in the adopted capital plan, and plans for an increase in CET1 capital to 14.5 per cent by 1 July 2016. The capital plan and underlying assumptions are further described in the section on financial strength.

By the end of the third quarter the Bank's ECC was priced at NOK 45.7 (34.80 at end-2012).

In the first nine months earnings per EC were NOK 5.13 (3.99). The book value is NOK 53.76 (49.00).

Increased net interest income

Net interest income in the first nine months came to NOK 1,180m (1,079m). Net interest income in the third quarter in isolation was NOK 434m (358m).

Net interest income strengthened substantially in the second and third quarter due to interest rate increases on loans to both retail and corporate customers. Margins on home mortgage loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are recognised as commission income, not as interest income. Loans transferred to these two mortgage companies were also significantly repriced in the first quarter 2013, and commissions total NOK 302m (129m) thus far this year.

Lending margins rose as a result of increased capital requirements for Norwegian banks. Increased capital requirements lead to increased equity subjected to return calculations.

By the end of the third quarter 2013, home mortgage loans worth NOK 29.5bn (27.3bn) had been sold to SpareBank 1 Boligkreditt. Of total loans to retail customers 44 per cent is sold to SpareBank 1 Boligkreditt. Sales of loans to SpareBank 1 Næringskreditt started in 2012, and as of 30 September 2013 NOK loans worth 892m had been sold to this company.

From 2013 onwards banks are required to pay a levy to the Banks' Guarantee Fund. For SpareBank 1 SMN the levy for the first nine months comes to NOK 39m, and for the full year 2013 to NOK 52m.

Increased commission income

Commission income and other operating income rose by NOK 263m, or 32 per cent, to total NOK 1,081m in the first nine months of 2013 (818m). The increase is mainly due to growth in income from SpareBank 1 Boligkreditt resulting from higher margins on home mortgage loans. In addition, a positive trend was seen above all in income from payment services, accountancy services and guarantee commissions.

Commission income, NOKm	30 Sep 2013	30 Sep 2012	Change
Payment transfers	169	148	21
Savings	36	33	3
Insurance	92	86	5
SpareBank 1 Boligkreditt and Næringskreditt	302	129	173
Guarantee commission	40	22	18
Real estate agency	255	255	0
Accountancy services	96	78	17
Active management	9	8	2
Income from new head office	32	27	6
Other commissions	48	31	17
Total	1,081	818	263

Financial investments

Overall return on financial investments (excluding the Bank's share of the profit/loss of affiliates and joint ventures) was NOK 90m (173m) in the first nine months of 2013. The overall return breaks down as follows:

- Gains on the Group's share portfolios totalled NOK 45m (22m)
- Net losses on bonds and derivatives in the first nine months of 2013 came to NOK 14m (56m).
- Gains on forex and fixed income trading at SpareBank 1 SMN Markets amounted to NOK 58m (95m).

Net return on financial investments (NOKm)	30 Sep 2013	30 Sep 2012
Capital gains/dividends, shares	45	22
Bonds and derivatives	-14	56
SpareBank 1 SMN Markets	58	95
Net return on financial investments	90	173
SpareBank 1 Gruppen	153	104
SpareBank 1 Boligkreditt	25	37
SpareBank 1 Næringskreditt	5	8
BN Bank	75	41
Other jointly controlled companies	-2	52
Income from investment in related companies	256	242
Total	346	415

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for the first nine months of 2013 was NOK 820m (491m). The main contributors were SpareBank 1 Livsforsikring AS (life insurer) and SpareBank 1 Skadeforsikring AS (non-life insurer). The value of shares at SpareBank 1 SMN Markets was written down by NOK 122m in the second quarter (see separate section below).

SpareBank 1 SMN's share of the profit was NOK 153m (104m).

Strengthened owner focus at SpareBank 1 Markets

SpareBank 1 Markets, whose main shareholder was previously SpareBank 1 Gruppen, has a new ownership structure as from 30 September following SpareBank 1 Gruppen's disposal of its holding in the company. SpareBank 1 Markets is accordingly owned directly by SpareBank 1 SMN (24 per cent), SpareBank 1 Nord Norge (24 per cent), SpareBanken Hedmark (15 per cent), Samspar (24 per cent), Norwegian Confederation of Trade Unions (12 per cent) and employees (2 per cent).

Stronger collaboration will be put in place between the banks and SpareBank 1 Markets. This will include integration of the owner banks' corporate finance and stockbroking units with corresponding areas in SpareBank 1 Markets. In addition, the banks' business volumes will be internalised to a greater degree. This, together with other measures, will promote profitability for SpareBank 1 Markets and the banks alike.

In connection with the change in owner structure, SpareBank 1 Gruppen wrote down its holding in SpareBank 1 Markets by NOK 122m. SpareBank 1 SMN's portion of this write-down is NOK 23.8m.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt AS was established by the banks participating in the SpareBank 1 Alliance to draw benefit from the market for covered bonds. The banks sell their highest quality home mortgage loans to the company, thereby reducing funding costs and enhancing competitiveness.

The bank's ownership interest in SpareBank 1 Boligkreditt is 18.4 per cent, and the bank's share of that company's profit in the first nine months of 2013 was NOK 25m (37m). The bank's ownership interest reflects its relative share of total transferred home mortgage loans.

SpareBank 1 Næringskreditt

The SpareBank 1 banks established SpareBank 1 Næringskreditt in the second quarter of 2009 along the same lines, and with the same administration, as SpareBank 1 Boligkreditt AS.

SpareBank 1 SMN's stake in the company is 29.3 per cent, and the bank's share of the company's profit as at 30 September 2013 was NOK 5m (8m). The bank's ownership interest mainly reflects its relative share of transferred commercial property loans and the bank's stake in BN Bank.

BN Bank

SpareBank 1 SMN has a 33 per cent stake in BN Bank as of 30 September 2013.

SpareBank 1 SMN's share of the profit of BN Bank in the first nine months was NOK 75m (41m), including amortisation effects. The amortisation effect in 2013 has thus far increased the profit by NOK 7m (8m). BN Bank has repriced its loan portfolios in 2013 while reducing the rate of growth in lending to commercial property. Increased margins along with other measures have brought a considerable improvement in profit in 2013.

Other companies

The profit in 2012 largely comprises SMN's profit shares in Bank 1 Oslo Akershus and Polaris which, after disinvestment, are not classified as owner interests.

Business held for sale

As at end-September 2013 NOK 34m (-11m) is recognised as profit from business held for sale. Of the figure for 2013, NOK 31 was taken to income in the third quarter, mainly related to a realised gain on sale of units in offshore vessels to a value of NOK 32m.

Reduced cost growth

Total expenses came to NOK 1,256m (1,217m) in the first nine months of 2013. Group expenses accordingly rose by NOK 39m or 3.2 per cent.

Parent bank cost growth was a mere NOK 3m, well inside the parent bank's ambition to limit cost growth to 3 per cent per year up to and including 2015.

Cost growth in the subsidiaries was NOK 36m or 11 per cent. The increase is largely due to an increased cost base at SpareBank 1 Regnskapshuset SMN due to acquisition of local accountancy firms. This is in keeping with the strategic plan adopted by the company.

Operating expenses measured 1.51 per cent (1.55 per cent) of average total assets. The group's cost-income ratio was 48 per cent (53 per cent).

Low losses and low defaults

As of end-September 2013 net loan losses came to NOK 68m (42m). Net losses in the third quarter in isolation were NOK 30m (11m).

Net losses of NOK 64m (loss of 34m) were recorded on the corporate customer portfolio in the first nine months of 2013, including losses of NOK 11m (4m) at SpareBank 1 Finans Midt-Norge.

A net loss of NOK 5m (3m) was recorded on the retail portfolio in the first nine months of 2013.

Individually assessed loan impairment write-downs in the first nine months of 2013 totalled NOK 168m (148m).

Total problem loans (defaulted and doubtful) come to NOK 600m (561m), or 0.54 per cent (0.54 per cent) of gross outstanding loans including loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 391m (398m). Defaults measured 0.35 per cent (0.39 per cent) of gross lending. Of total defaults, NOK 79m (86m) – equivalent to 20 per cent (22 per cent) – are loss provisioned.

Defaults on the corporate portfolio totalled NOK 247m (261m) and on the retail portfolio NOK 144m (137m).

Other doubtful exposures totalled NOK 209m (163m), 0.19 per cent (0.16 per cent) of gross lending. Individually assessed write-downs on these exposures came to NOK 89m (62m) or 43 per cent (38 per cent).

Other doubtful exposures break down to NOK 193m (147m) on corporates and NOK 16m (16m) on retail customers.

Collectively assessed impairment write-downs

Collective assessment of impairment write-downs is based on two factors:

- events that have affected the Bank's portfolio (causing migration between risk categories)
- events that have not yet affected the portfolio since the Bank's credit risk models do not capture the effects rapidly enough (e.g. significant changes in macroeconomic factors)

In 2013 no basis has been found for any change in collectively assessed impairment write-downs in the Group. The aggregate volume of such write-downs is accordingly NOK 295m (295m).

Total assets of NOK 112bn

The bank's assets totalled NOK 112.0bn as of end-September 2013 (110.6bn), having risen by NOK 1.4bn or 1.3 per cent in the last 12 months.

As of end-September 2013 30.4bn (27.9bn) had been transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the bank's balance sheet. The comments covering lending growth do however include loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Reduced growth in lending to corporates and continued relatively high growth in lending for residential purposes

In the last 12 months, total outstanding loans rose by NOK 7.0bn (10.6bn) or 6.7 per cent (11.4 per cent) to reach NOK 110.2bn by end-September 2013. Growth in the first nine months of 2013 in isolation was 5.1 per cent (8.4 per cent) with 1.2 per cent growth in the third quarter.

Lending to retail customers rose by NOK 6.9bn (6.8bn) or 11.4 per cent (12.7 per cent) to reach NOK 67.4bn in the last 12 months. Growth in the first nine months of 2013 in isolation was 7.6 per cent (9.9 per cent) with 2.3 per cent growth in the third quarter.

In keeping with the Group's capital plan, growth in lending to corporates is substantially reduced, and as of end-September 2013 12-month growth in lending to corporates was NOK 92m (3.8bn) or 0.2 per cent (9.7 per cent). Overall loans to corporates came to NOK 42.9bn as of end-September 2013. Growth in lending to corporates in 2013 in isolation was 1.2 per cent (6.5 per cent) with -0.5 per cent growth in the third quarter

Lending to retail customers accounted for 61 per cent (59 per cent) of ordinary loans to customers as of end-September 2013.

Deposits

Total customer deposits rose by NOK 2.6bn (4.8bn) in the last 12 months to NOK 53.4bn as of end-September 2013. This corresponds to a growth of 5.1 per cent (10.5 per cent).

Retail customer deposits rose in the same period by NOK 1.6bn (1.7bn) or 7.1 per cent (8.2 per cent) to reach NOK 23.8bn, while corporate deposits rose by NOK 1.0bn (3.1bn) or 3.5 per cent (12.3 per cent) to reach NOK 29.6bn.

Investment products

The overall customer portfolio of off-balance sheet investment products totalled NOK 4.7bn (4.7bn) as of end-September 2013. New sales and increasing value of underlying securities explain the increase on equity funds.

Saving products, customer portfolio, NOKm	30 Sep 2013	30 Sep 2012	Change
Equity funds	2,994	2,585	409
Pension products	555	996	-441
Active management	1,071	998	73
Energy fund management	79	161	-82
Total	4,699	4,740	-41

Good growth in the bank's insurance portfolio

The bank's insurance portfolio grew by 9 per cent in the last 12 months. Non-life insurance rose by 4 per cent, personal insurance by 22 per cent and the occupational pension segment by 17 per cent.

Insurance, premium volume, NOKm	30 Sep 2013	30 Sep 2012	Change
Non-life insurance	696	668	28
Personal insurance	218	179	39
Occupational pensions	165	141	24
Total	1,079	988	91

Offices (Retail Market and SMEs)

As from 2013 the retail market business and the SME segment comprise a unit in its own right. SMEs were previously a part of the corporate business. Retail Market and SMEs are each commented on separately. The SME segment consists of corporate customers with an exposure size of up to about NOK 8m and agricultural customers. Owing to the reorganisation, historical data for the SME segment are not recreated and no comparison is made with last year's figures. Return on equity in the first nine months for the retail business and SME segment in total was 35.4 per cent with 37.0 per cent (19.5 per cent) reported by the retail business and 31.4 per cent by the SME segment. Return for Retail Market is calculated using existing risk weights for home mortgage loans. The Ministry of Finance's proposal of 14 October 2013 indicates an increase of 20–25 per cent in home loan weights, which for SMN's part means an increase of 80–100 per cent in capital charges for loans for residential purposes. This is announced to take effect as from January 2014.

	Retail marked	SME	Group Corporates
Net interest	457	213	509
Interest from allocated capital	7	2	20
Total interest income	464	214	529
Commission income and other income	505	58	58
Net return on financial investments	1	1	47
Total income	969	273	634
Total operating expenses	474	98	185
Ordinary operating profit	496	175	449
Loss on loans, guarantees etc.	6	6	49
Result before tax	490	169	400
Post-tax return on equity	37.0 %	31.4 %	13.8 %

Retail Market

Operating income – and return on equity – have risen substantially owing to increased margins on home mortgage loans, both on the bank's own books and on home mortgages transferred to SpareBank 1 Boligkreditt, and totalled NOK 969m (740m) as of end-September 2013. Net interest income came to NOK 464m (408m) and commission income to NOK 506m (333m), including income on forex and fixed income business.

The lending margin as of the third quarter 2013 was 2.46 per cent (1.76 per cent), while the deposit margin was -0.33 per cent (0.20 per cent) (measured against three-month Nibor).

In the last 12 months, lending to retail customers came to 11.4 per cent (12.7 per cent) and deposits from the same segment to 7.1 per cent (8.2 per cent).

Lending to retail borrowers generally carries low risk, as reflected in continued very low losses. Losses and defaults are expected to remain low. The loan portfolio is secured on residential properties, and the trend in house prices has been satisfactory throughout the market area.

SME segment

Operating income totalled NOK 273m, comprising net interest income of NOK 214m and commission income of NOK 59m.

The lending margin measured against three-month Nibor as of the third quarter was 3.37 per cent and the deposit margin was -0.25 per cent.

SME customers have loan capital totalling NOK 9.1bn and deposit capital totalling NOK 8.6bn. Growth in loans and deposits respectively as of the third quarter of 2013 was 7.2 per cent and 1.5 per cent.

Group customers

In connection with the reorganisation of the Bank as from 2013, SME customers have been separated out from the previous Corporate Market Division and the segment has changed name to Group Customers. Group customers are mainly customers with exposure sizes in excess of NOK 8m. Given the organisation changes, historical data on group customers are incomplete.

Return on equity for group customers was 13.8 per cent in the first nine months. For the entire corporate market business (SMEs and Group Customers), return on equity in the first nine months of 2013 was 16.5 per cent (12.8 per cent).

Total operating income for Group Customers was NOK 634m in the first nine months of 2013. Net interest income was NOK 529m, while commission income was NOK 58m. A net return of NOK 47m was recorded on financial investments.

Lending and deposit margins for Group Customers were, respectively, 2.79 per cent and -0.64 per cent. Lending growth for Group Customers in the first nine months of 2013 was -1.2 per cent and deposit growth was 5.1 per cent. For corporates overall (Group customers and SMEs) the lending margin was 2.92 per cent (2.41 per cent) and the deposit margin was -0.52 per cent (0.02 per cent).

12-month lending growth for corporates overall (Group Customers and SMEs) was 0.2 per cent (7.9 per cent) and deposit growth was 12.6 per cent (9.5 per cent).

SpareBank 1 SMN Markets

SpareBank 1 SMN Markets delivers a complete range of capital market products and services and is an integral part of SMN's parent bank operation.

SpareBank 1 SMN Markets reported total income of NOK 85.7m (94.8m) as of 30 September 2013.

Markets (NOKm)	30 Sep 2013	30 Sep 2012	Change
Currency trading	56.1	67.9	-11.8
Corporate	12.4	5.6	6.8
Securities, brokerage commission	20.5	14.5	6.0
SpareBank 1 Markets	4.7	16.9	-12.2
Investments	-8.0	-10.1	2.1
Total income	85.7	94.8	-9.1

Of gross income of NOK 85.7m, NOK 18m is transferred to Group Customers, NOK 1m to SMEs and NOK 1m to the retail business. These amounts are the respective entities' share of income on forex and fixed income business derived from their own customers.

Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 132.7m (109.9m) in the first nine months of 2013.

Pre-tax profit, NOKm	30 Sep 2013	30 Sep 2012	Change
EiendomsMegler 1 Midt-Norge	53.3	57.4	-4.1
SpareBank 1 Finans Midt-Norge	42.6	42.7	-0.1
SpareBank 1 Regnskapshuset SMN	12.2	12.6	-0.4
SpareBank 1 SMN Invest	27.0	11.9	15.1
Other	-2.4	-13.4	11.0
Total	132.7	111.2	21.5

The above results show the companies' comprehensive income. The bank's stake in EiendomsMegler 1 Midt-Norge is 86.98 per cent and in SpareBank 1 Finans Midt-Norge 90.1 per cent. Its stake in the other companies is 100 per cent.

EiendomsMegler 1 Midt-Norge leads the field in its catchment area with a market share of about 40 per cent. The company posted an excellent profit performance in 2012 and a strong performance thus far in 2013 with a pre-tax profit of NOK 53.3m (57.4m).

SpareBank 1 Finans Midt-Norge posted a profit of NOK 42.6m (42.7m) in the first nine months. At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.2bn of which leases account for NOK 1.8bn.

SpareBank 1 Nordvest and SpareBank 1 Søre Sunnmøre took over by agreement 9.9 per cent of the shares of SpareBank 1 Finans Midt-Norge in the fourth quarter 2012.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 12.2m (12.6m). SpareBank 1 Regnskapshuset SMN took over five accounting firms over the course of 2012 and aspires to continued strong growth. With a growth rate three times higher than the industry average, the company is market

leader in Mid-Norway and among the leading accounting operations in Norway. It has in addition acquired a strategic owner position of 40 per cent in the accounting chain Consis. The company's alliance partner Sparebanken Hedmark owns the remaining 60 per cent.

In collaboration with other SpareBank 1 banks, SpareBank 1 Regnskapshuset SMN has launched a nationwide drive in the accounting business through SpareBank 1 Regnskapshuset. SpareBank 1 Regnskapshuset intends to take its place as one of Norway's leading actors in the accounting industry by building up a national accounting enterprise based on regional ownership, strong links to the owner banks and closeness to the market.

Sparebanken SMN Invest's mission is to invest in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 27.0m (11.9m) as of the third quarter. The profit is entirely related to value changes and realisation of losses or gains on the company's overall shareholding.

Satisfactory funding and ample liquidity

The bank has a conservative liquidity strategy. The strategy attaches importance to maintaining liquidity reserves that ensure the bank's ability to survive for 12 months carrying on ordinary operations without need of fresh external funding.

The bank has liquidity reserves of NOK 21bn and thus has the funding needed for 18 months of ordinary operations without fresh external finance.

The bank's funding sources and products are amply diversified. As of 30 September 2013 the proportion of money market funding in excess of 1 year was 65 per cent (75 per cent).

SpareBank 1 Boligkreditt is the Bank's chief source of funding. As of 30 September 2013 loans totalling NOK 29.5bn had been transferred to SpareBank 1 Boligkreditt.

In the first quarter of 2013 SpareBank 1 SMN raised a five-year loan of EUR 500bn. The loan is spread across about 180 investors in Europe and Asia. The loan was raised in order for the bank to broaden its geographical spread of funding sources and thereby reduce its funding risk.

Rating

SpareBank 1 SMN has a rating of A2 (stable) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. The bank was downgraded by Moody's from A1 to A2 (under review) in December 2012. In the first quarter of 2013 this was changed to A2 (stable).

Financial strength

As of 30 September 2013 the CET1 capital ratio was 10.7 per cent (9.3 per cent). CET1 capital is tier 1 capital excluding hybrid capital. The CET1 ratio strengthened through the third quarter based on a good profit performance and reduced capital charges, above all on the bank's corporate customer portfolio.

The group has shifted lending growth more over to the retail customer segment which, in isolation, is positive for the bank's capital charges. Due to the transitional rules in the capital requirements regulations, this has resulted in higher regulatory minimum capital requirements.

Tier 1 capital adequacy is strengthened as a result of hybrid capital worth NOK 500m raised in June 2013. In October 2013 the Bank has issued hybrid debt of NOK 450m which will effect the Bank's core capital from the fourth quarter.

Figures in NOKm	30 Sep 2013	30 Sep 2012
Tier 1 capital	9,089	7,717
Hybrid capital	1,619	1,108
Subordinated loan	1,346	1,066
Capital base	12,053	9,891
Required subordinated debt	6,802	6,638
Risk weigheted assets	85,019	82,976
Tier 1 capital ratio	10.7 %	9.3 %
Core capital ratio	12.6 %	10.6 %
Capital adequacy ratio	14.2 %	11.9 %

On 22 March 2013 the Ministry of Finance published a proposal for new capital requirements, a timetable for implementation as well as various alternatives for home mortgage loan weights.

In connection with the presentation of the National Budget on 14 October it became clear that the outgoing government advocates regulating risk weights through adjustment of the LGD floor. This is with effect from January 2014. The floor is concurrently retained with a basis in risk weighted assets under Basel I. As a result Norwegian IRB banks will face a stricter regulatory framework than foreign banks; moreover, the capital charge for marginal home loans at an IRB bank is higher than for a bank using the standardised approach. For SpareBank 1 SMN's part, this entails effective home loan weights of 20-25 per cent, an increase in the capital charge for such loans of 80-100 per cent from today's level.

Norges Bank has announced that it will be advising the Ministry of Finance regarding the countercyclical buffer in December 2013. Since Norges Bank's advice will not be known to the market, the size of the buffer and its role in the overall regulation of the Norwegian banking industry is a matter of much uncertainty.

As a result of the introduction of the LGD floor the group faces a temporary weakening of its capital adequacy by 0.4 per cent. The group expects both BN Bank and SpareBank 1 SMN to have their applications to use the advanced IRB approach approved; this will in isolation strengthen capital adequacy by about 0.9 per cent.

Hence uncertainty remains with regard to several of the buffers. Based on our current knowledge, our target of a 14.5 per cent CET1 ratio as of 1 July 2016 is retained.

The following measures are, or will be put, in place:

- Improved banking operation through improved efficiency and higher margins. Increased capital requirements for all banks provide a market basis for increased margins on lending
- A dividend policy as for 2012 with an effective payout of 30 per cent
- Moderate growth in the bank's asset-intensive activities, including lending to the retail and corporate segments by the parent bank and BN Bank
- Sale of asset items not forming part of the core business
- Introduction of the advanced IRB approach at SpareBank 1 SMN and BN Bank

SpareBank 1 SMN currently has no plans with regard to equity capital issues.

The bank is IRB approved and uses the IRB foundation approach to compute capital charges for credit risk.

In June 2013 SpareBank 1 SMN applied to Finanstilsynet (Norway's FSA) for permission to use the advanced IRB approach to compute capital charges. Preparatory work on the application was done in conjunction with the other banks in the SpareBank 1 alliance.

The bank's equity certificate (MING)

The book value of the bank's EC was NOK 53.76 (49.00) as of 30 September 2013, and earnings per EC were NOK 5.13 (3.99). As of the same date the price was NOK 45.70 (34.80 as of end-December 2012). Dividend of NOK 1.50 per EC was paid in 2013 for the year 2012.

The Price / Income ratio was 6.68 (6.96), and the Price / Book ratio was 0.85 (0.76).

Risk factors

The negative trend in the international economy has continued through the first three quarters of 2013. The effect on the Norwegian economy is seen primarily through reduced demand for the export-oriented segment of business and industry, but we enjoy solid government finances and high demand in the petroleum industry. Unemployment remains low, and households are experiencing real wage growth. This, combined with continued low interest rates, means that loss risk posed by the retail market remains low.

The bank's results are affected directly and indirectly by fluctuations in the securities markets. The indirect effect relates above all to the bank's stake in SpareBank 1 Gruppen, where both the insurance business and asset management activities are affected by the fluctuations.

The bank is also exposed to risk related to access to external funding. This is reflected in the Bank's conservative liquidity strategy (see the above section on funding and liquidity).

The credit quality of the bank's loan portfolio is satisfactory, and loss and default levels are very low in historical terms.

Much uncertainty attends the pace of the announced regulatory changes for the European financial sector, but Norwegian authorities are signalling a clear ambition to introduce new requirements at an early stage, which may affect Norwegian banks' competitiveness relative to other banks. This challenge is compounded by varying approaches to capital adequacy rules which create uncertainty about Norwegian banks' financial strength compared with Nordic competitors.

Other factors

Changes have been made in the bank's group management in the period. Deputy CEO Tore Haarberg has taken up a similar position with SpareBank 1 Gruppen. Executive Director Wenche Seljeseth has taken over Mr Haarberg's area of responsibility, "Products and Processes". Svein Tore Samdal is appointed new Executive Director responsible for the bank's advisers, offices and sales.

Outlook ahead

The profit performance for the first nine months of 2013 is, as expected, excellent and reflects the fact that measures implemented under the group's capital plan are having effect. The directors are particularly pleased by the trend in the core business with increased margins on lending and reduced cost growth. This shows that the group is in a position to generate satisfactory return on the increased capital required.

The group has a strong focus on improvement and good work is being done both on initiatives in the project “best in customer experience” and on continuous improvement. The directors expect this to produce positive profit effects over time accompanied by increased efficiency and strengthened sales.

SpareBank 1 SMN sees no indications that the region’s business sector faces a significant change in the economic climate. The key industries in the bank’s market area show rising activity levels and sound profits. The group sees somewhat lower housing demand, mainly as a consequence of the authorities’ regulatory measures. Slower growth in retail trade is also reported. SpareBank 1 SMN keeps a continuous watch on the state of the region’s economy so that steps can be taken if necessary. Businesses in the market area are generally enjoying sound profits, and the prospects for 2013 continue to appear good. Unemployment is low, and there are few signs in the regional macroeconomy in isolation to suggest major changes in the risk picture for 2013 or the first part of 2014.

The Directors stand by the previously announced capital plan and note that continuation of the floor and higher home mortgage loan weights in isolation represent increased capital requirements. The size of the countercyclical buffer is a matter of uncertainty. The directors maintain their ambition to meet the established capital requirements by adapting business volumes, and are therefore not planning for a stock issue.

The directors are well pleased with the group’s profit trend and expect 2013 to be a very good year for the bank.

Trondheim, 30. oktober
The Board of Directors of SpareBank 1 SMN

Kjell Bordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Bente Karin Trana

Arnhild Holstad

Venche Johnsen
(employee rep.)

Finn Haugan
(Group CEO)