

Report of the Board of Directors

Preliminary annual accounts 2013

(Consolidated figures. Figures in parentheses refer to 2012 unless otherwise stated)

Profit of NOK 1,400m after tax

- Profit before tax and assets held for sale: NOK 1,758m (1,355m)
- Net profit: NOK 1,400 m (1,077m)
- Return on equity: 13.3 per cent (11.7 per cent)
- CET1 ratio: 11.1 per cent (10.0 per cent)
- Growth in lending 6.8 per cent (10.2 per cent) and deposits 7.3 per cent (9.2 per cent) over past 12 months
- Loan losses: NOK 101m (58m)
- Earnings per equity certificate (EC): NOK 6.92 (5.21). Book value per EC, incl. recommended dividend for 2013: NOK 55.69 (50.09)
- Recommended dividend: NOK 1.75 per EC. Allocation to non-profit causes: NOK 124m

Fourth quarter 2013

- Profit before tax and assets held for sale: NOK 476m (302m)
- Net profit: NOK 361m (260m)
- Return on equity: 13.1 per cent (10.5 per cent)
- Loan losses: NOK 32m (17m)
- Earnings per EC: NOK 1.79 (1.29)
- Improved financial position; CET1 ratio: 11.1 per cent (10.0 per cent)

Excellent profit performance in 2013

Highlights

- Profit improvement of NOK 323m, or 30 per cent, compared with 2012
- Core business strengthened. Increased margins on lending both to retail customers and businesses
- Low cost growth
- Low loan losses
- Improved financial position through 2013 and ample funding
- Reduced lending growth as planned, but growth in home mortgage loans remains higher than the growth in the market

In 2013 SpareBank 1 SMN achieved a post-tax profit of NOK 1,400m (1,077m) and a return on equity of 13.3 per cent (11.7 per cent). Profit before tax and assets held for sale was NOK 1,758m (1,355m).

Profit before tax and assets held for sale in the fourth quarter in isolation was NOK 476m (302m). The quarter's figures reflect:

- High margins on lending and good net interest income
- Increased commission income
- Increased costs as a result of one-off outlay on buyout of leases
- Low losses and low rate of defaults

In 2013 operating income increased by 18 per cent to reach an overall NOK 3,079m (2,616m). Income rose both at the parent bank and the subsidiaries.

Return on financial assets was NOK 502m (451m), of which the profit share on owner interests in associates was NOK 355m (244m).

Operating expenses came to NOK 1,722m (1,654m) in 2013, i.e. NOK 68m, or 4.1 per cent, higher than in 2012. Parent bank costs were reduced by NOK 9m in 2013.

Net losses on loans and guarantees were NOK 101m (58m).

Lending growth was 6.8 per cent (10.2 per cent) and deposit growth was 7.3 per cent (9.2 per cent).

CET1 capital adequacy at 31 December 2013 was 11.1 per cent (10.0 per cent). SpareBank 1 SMN is planning for a CET1 ratio of 13.5 per cent by 30 June 2016. SpareBank 1 SMN's capital plan is further described in the section on financial strength.

At year-end the bank's EC was priced at NOK 55.00 (34.80 at 31 December 2012). A cash dividend of NOK 1.50 per EC was paid in 2013 for the year 2012.

Earnings per EC were NOK 6.92 (5.21), and book value was NOK 55.69 (50.09).

Proposed distribution of profit

Distribution of the profit for the year is done on the basis of the parent bank's accounts. The parent bank's profit includes dividends from subsidiaries, affiliates and joint ventures.

Subsidiaries are fully consolidated in the group accounts, whereas profit shares from affiliates and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the group results.

| Difference between Group - Parent Bank | 2013 | 2012 |
|---|--------------|--------------|
| Profit for the year, Group | 1,400 | 1,077 |
| Profit, subsidiaries | -112 | -76 |
| Dividend, subsidiaries | 111 | 126 |
| Profit, associated companies | -355 | -264 |
| Dividend, associated companies | 328 | 163 |
| Elimination Bank 1 Oslo Akershus | -24 | 0 |
| Profit for the year, Parent bank | 1,348 | 1,026 |

Annual profit for distribution reflects changes of NOK -89m in the revaluation reserve, leaving the total amount for distribution at NOK 1,259m.

The profit is distributed between the ownerless capital and the equity certificate capital in proportion to their relative shares of the Bank's total equity, such that dividends and the allocation to the dividend equalisation

fund constitute 64.6 per cent of the distributed profit. The percentage used for the purpose of distribution is an average of the EC-holder ratio (EC-holders' share of total equity) over the year.

Based on the Bank's capital plan, the board of directors has opted to recommend a relatively low level of dividends and gift allocation.

The Board of Directors recommends the supervisory board to set a cash dividend of NOK 1.75 per equity certificate, altogether totalling NOK 227m. This gives a payout ratio of 25 per cent of the Group profit. The Board of Directors further recommends the supervisory board to allocate NOK 124m as gifts to non-profit causes, i.e. the same payout ratio as to the EC-holders. Of this sum, NOK 35m will be allocated to non-profit causes and NOK 89m donated to the foundation Sparebankstiftelsen SMN. NOK 587m and NOK 321m are added to the dividend equalisation fund and the ownerless capital respectively. The level of dividend and gifts is anchored in the bank's capital plan and reflects the need to increase the bank's core capital through a reduction in the payout ratio.

After distribution of the profit for 2013 the ECC-holder ratio (ECC-holders' share of total equity) remains 64.6 per cent.

| Distribution of profit | 2013 | 2012 |
|---|--------------|-------------|
| Profit for the year, Parent bank | 1,348 | 1,026 |
| Transferred to/from revaluation reserve | -89 | -36 |
| Profit for distribution | 1,259 | 990 |
| Dividends | 227 | 195 |
| Equalisation fund | 587 | 432 |
| Saving Bank's fund | 321 | 333 |
| Gifts | 124 | 30 |
| Total distributed | 1,259 | 990 |

Increased net interest income

Net interest income in 2013 came to NOK 1,616m (1,477m).

Net interest income strengthened substantially through 2013 as a result of interest rates increases on loans to retail and corporate customers alike. Income from loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is recorded as commission income, not as interest income. Loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt were also repriced, and commissions totalled NOK 422m (205m) in 2013.

Lending margins rose due to increased capital requirements for Norwegian banks. As a result more equity is needed to back each interest-earning krone loaned.

By the end of 2013 home mortgage loans worth NOK 30.5bn (30bn) had been sold to SpareBank 1 Boligkreditt. Of total loans to retail customers 45 per cent is sold to SpareBank 1 Boligkreditt. Sales of loans to SpareBank 1 Næringskreditt started in 2012, and as of 31 December 2013 NOK 1.2bn had been sold to the entity.

As from 2013 banks are required to pay a levy to the Banks' Guarantee Fund. For SpareBank 1 SMN this amounted to NOK 54m in 2013.

Increased commission income

Commission income and other operating income rose to NOK 1,463m (1,139m) in 2013, an increase of NOK 324m or 28 per cent.

The increase in income from SpareBank 1 Boligkreditt is due to higher margins on home mortgage loans.

Other growth in incomes is mainly ascribable to a positive trend in incomes from payment services, accounting services and guarantee commissions. Reduced income from estate agency services is due to a slower and more uncertain market in the second half of 2013.

| Commission income, NOKm | 2013 | 2012 | Change |
|---|--------------|--------------|---------------|
| Payment transfers | 233 | 197 | 36 |
| Savings | 50 | 48 | 2 |
| Insurance | 124 | 122 | 2 |
| Guarantee commission | 56 | 30 | 26 |
| Real estate agency | 319 | 336 | -17 |
| Accountancy services | 125 | 100 | 25 |
| Active management | 30 | 11 | 19 |
| Rental income | 45 | 37 | 7 |
| Other commissions | 59 | 53 | 7 |
| Commissions ex SB1 Boligkreditt and SB1 Næringskreditt | 1,041 | 934 | 107 |
| Commissions SB1 Boligkreditt and SB1 Næringskreditt | 422 | 205 | 217 |
| Total commissions | 1,463 | 1,139 | 324 |

Positive return on financial investments, including the result for assets held for sale

Overall return on financial investments (excluding the Bank's share of the profit/loss of affiliates and joint ventures) was NOK 147m (207m) in 2013. Overall return breaks down as follows:

| Return on financial investments | 2013 | 2012 |
|---|-------------|-------------|
| Capital gains/dividends, shares | 114 | 24 |
| Bonds and derivatives | -40 | 57 |
| SpareBank 1 SMN Markets | 73 | 126 |
| Net return on financial investments | 147 | 207 |
| SpareBank 1 Gruppen | 210 | 94 |
| SpareBank 1 Boligkreditt | 40 | 44 |
| SpareBank 1 Næringskreditt | 8 | 8 |
| BN Bank | 91 | 72 |
| Other jointly controlled companies | 6 | 25 |
| Income from investment in related companies | 355 | 244 |
| Total | 502 | 451 |

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for 2013 was NOK 1,110m (443m). The main contributors to the profit performance are SpareBank 1 Livsforsikring (life insurer) and SpareBank 1 Skadeforsikring (non-life insurer). The value of shares of SpareBank 1 Markets was written down in the second quarter by NOK 122m (see section below).

SpareBank 1 SMN's share of the profit was NOK 210m (94m).

Strengthened owner focus at SpareBank 1 Markets

As from 30 September 2013, SpareBank 1 Markets, whose previous main shareholder was SpareBank 1 Gruppen, acquired a new owner structure following SpareBank 1 Gruppen's disposal of its stake in the company. SpareBank 1 Markets is now 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), the Norwegian Confederation of Trade Unions (12 per cent) and employees (2 per cent).

In connection with the change in owner structure, SpareBank 1 Gruppen wrote down its holding in SpareBank 1 Markets by NOK 122m in the second quarter of 2013. SpareBank 1 SMN's share of this write-down was NOK 23.8m.

In the final quarter of 2013 SpareBank 1 Markets reported a deficit of NOK 11.5m of which SpareBank 1 SMN's share was NOK 2.8m.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to take advantage of the market for covered bonds. The banks sell their best secured home mortgage loans to the company, giving them reduced funding costs.

The bank's stake in SpareBank 1 Boligkreditt at 31 December 2013 was 17.48 per cent, and the Bank's share of that company's profit in 2013 was NOK 40m (44m). The Bank's holding reflects the Bank's relative share of home mortgage loans sold.

SpareBank 1 Næringskreditt

The SpareBank 1 banks established SpareBank 1 Næringskreditt in 2010 along the same lines, and with the same administration, as SpareBank 1 Boligkreditt.

As of 31 December 2013, SpareBank 1 SMN's stake in the company is 34.05 per cent, and the bank's share of the company's profit in 2013 was NOK 8m (8m). The Bank's ownership interest reflects its relative share of commercial property loans sold and its stake in BN Bank.

BN Bank

SpareBank 1 SMN has a 33 per cent stake in BN Bank as of 31 December 2013. BN Bank achieved in 2013 a profit of NOK 251m and a return on equity of 6.2 per cent.

SpareBank 1 SMN's share of the profit of BN Bank for 2013 was NOK 91m (72m), including amortisation effects. The amortisation effect in 2013 increased the profit by NOK 7m (11m). In 2013 BN Bank has taken steps to improve profitability which have brought a considerable increase in lending margins and reduced expenses. Post-tax profit rose from NOK 188m to NOK 252m. Loan losses are higher than the expected long-term level due to specific factors related to a small number of exposures in the corporate market portfolio and losses in BN

Bank's earlier portfolio in Ålesund (guarantee portfolio). Work is in progress both on structural solutions and further internal measures with a view to profitability improvements and to a reduction of risk-weighted assets. The application for permission to use the advanced IRB approach is one of these measures.

Other companies

The profit in 2012 mainly comprised SpareBank 1 SMN's profit shares in Bank 1 Oslo and Polaris Media, which after disinvestment in 2013 are no longer classified as owner interests.

Assets held for sale

A profit of NOK 30m (16m) was recorded on assets held for sale in 2013. The 2013 figure relates mainly to the gain realised on the sale of shares in an offshore vessel.

Reduced cost growth

Overall costs came to NOK 1,722m (1,654m) in 2013. Group expenses have thus risen by NOK 68m or 4.1 per cent.

Parent bank cost growth was reduced by NOK 9m, well within the bank's cost ambition which is to limit cost growth to 3 per cent per year up to and including 2015.

In the fourth quarter the Group recognised a one-off amount of NOK 25m less tax related to buyout of leases.

For the subsidiaries, overall cost growth was NOK 51m or 11.5 per cent. The increase is largely attributable to an expanded cost base at SpareBank 1 Regnskapshuset SMN following acquisition of local accountancy firms. This is in keeping with the company's adopted strategy plan.

Operating expenses measured 1.54 per cent (1.57 per cent) of average total assets. The Group's cost-income ratio was 48 per cent (54 per cent).

Low losses and low defaults

Net loan losses came to NOK 101m (58m) for 2013. This represents 0.09 per cent of total loans (0.06 per cent). Net losses in the fourth quarter in isolation were NOK 32m (17m).

Losses of NOK 95m (57m) were recorded on the Group's corporate customers, including losses at SpareBank 1 SMN Finans of NOK 20m (9m). On the retail portfolio a net loss of NOK 7m (1m) was recorded in 2013.

Total individually assessed loan impairment write-downs came to NOK 173m (144m) as of 31 December 2013, an increase of NOK 29m over the year.

Total problem loans (defaulted and doubtful) came to NOK 543m (517m), or 0.48 per cent (0.49 per cent) of gross outstanding loans.

Defaults in excess of 90 days totalled NOK 386m (374m), measuring 0.34 per cent (0.36 per cent) of gross lending. Of total defaults, NOK 87m (83m) are loss provisioned, corresponding to 23 per cent (22 per cent).

Defaults break down to NOK 246m (226m) on corporate customers and NOK 140m (148m) on retail customers.

Other doubtful exposures totalled NOK 157m (143m), i.e. 0.14 per cent (0.14 per cent) of gross outstanding loans. NOK 86m (62m) or 55 per cent (43 per cent) are loss provisioned.

Other doubtful exposures break down to NOK 139m (131m) to corporate customers and NOK 18m (12m) to 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. macroeconomic factors)

For 2013 no basis is found for any change in collectively assessed impairment write-downs. The aggregate volume of such write-downs is NOK 295m (295m).

Total assets of NOK 115bn

The bank's assets totalled NOK 115bn (108bn) at 31 December 2013, having risen by NOK 7bn or 6.5 per cent over the year. The rise in total assets is a consequence of increased lending and higher liquidity reserves.

As of 31 December 2013 loans worth 32bn (30bn) had been sold from SpareBank 1 SMN 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 sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Reduced growth in keeping with the capital plan

In the last 12 months, total outstanding loans rose by NOK 7.1bn (9.7bn) or 6.8 per cent (10.2 per cent) to reach NOK 112.0bn (104.9m) as of 31 December 2013.

Lending to retail customers rose by NOK 5.9bn (7.6bn) or 9.5 per cent (13.7 per cent) to reach NOK 68.5bn in 2013.

Growth in lending to corporates in 2013 was NOK 1.2bn (2.1bn) or 2.8 per cent (5.3 per cent). Overall loans to corporates totalled NOK 43.5bn (42.3bn) at 31 December 2013.

Loans to retail customers accounted for 61 per cent (60 per cent) of ordinary loans to customers at the end of 2013.

Deposits

Customer deposits rose in 2013 by NOK 3.8bn (4.4bn) to reach NOK 56.1bn (52.3m) at 31 December 2013. This represents a growth of 7.3 per cent (9.2 per cent).

Retail customer deposits rose by NOK 1.6bn (1.4bn) or 7.1 per cent (9.5 per cent) to reach NOK 23.9bn, while deposits from corporates rose by NOK 2.2bn (3.0bn) or 7.5 per cent (11.0 per cent) to NOK 32.2bn.

The deposit-to-loan ratio at SpareBank 1 SMN was 70 per cent as of 31 December 2013.

Portfolio of investment products

The customer portfolio of off-balance sheet investment products totalled NOK 5.2bn (4.4bn) at 31 December 2013. Compared with the previous year, higher values on equity funds and active management largely relate to increased stock exchange values. Energy funds are not attracting new buyers, and the portfolio is diminishing.

| Saving products, customer portfolio, NOKm | 2013 | 2012 | Change |
|--|--------------|--------------|---------------|
| Equity funds | 3,367 | 2,570 | 797 |
| Pension products | 555 | 653 | -98 |
| Active management | 1,240 | 1,012 | 228 |
| Energy fund management | 67 | 139 | -72 |
| Total | 5,229 | 4,374 | 855 |

Good growth in the Bank's insurance portfolio

The Bank's insurance portfolio grew by 6.6 per cent in 2013. Non-life insurance showed 2.2 per cent growth, personal insurance 20.1 per cent and the occupational pensions portfolio 9.6 per cent growth.

| Insurance, premium volume, NOKm | 2013 | 2012 | Change |
|---------------------------------|--------------|--------------|-----------|
| Non-life insurance | 695 | 680 | 15 |
| Personal insurance | 222 | 184 | 37 |
| Occupational pensions | 182 | 166 | 16 |
| Total | 1,098 | 1,030 | 68 |

Offices (Retail Market and SMBs)

As from 2013 the retail market business and the SMB segment comprise a unit in their own right. SMBs were previously a part of the corporate business. The retail market and SMBs are each commented on separately. The SMB segment consists of corporate customers with an exposure size of up to about NOK 8m and agricultural customers. Due to the reorganisation, historical data for the SMB segment are incomplete and no comparison is made with the previous year's figures. Return on equity as of 31 December 2013 for the retail business and SMB segment in total was 35.4 per cent with 38.7 per cent (22.6 per cent) posted by the retail business and 29.4 per cent by the SMB segment. Return on the retail market business is calculated using existing risk weights on home mortgage loans as at 31 December 2013.

| | Retail- customers | SMEs | Large corporates |
|--|----------------------|---------------|---------------------|
| Net interest | 630 | 284 | 695 |
| Interest from allocated capital | 11 | 3 | 34 |
| Total interest income | 641 | 286 | 729 |
| Commission income and other income | 704 | 79 | 91 |
| Net return on financial investments | 1 | 1 | 49 |
| Total income | 1,346 | 366 | 869 |
| Total operating expenses | 641 | 156 | 257 |
| Ordinary operating profit | 705 | 210 | 612 |
| Loss on loans, guarantees etc. | 6 | 5 | 71 |
| Result before tax including held for sale | 699 | 205 | 541 |
| Post-tax return on equity | 38.7 % | 29.4 % | 12.8 % |

Retail Market

Operating income – and return on equity – have increased substantially as a result of increased margins on home mortgage loans, both on loans on the Bank's own books and on home mortgages sold to SpareBank 1 Boligkreditt, and totalled NOK 1,322m (1,037m) in 2013. Net interest income came to NOK 641m (552m) and commission income to NOK 691m (485m), including commissions from SpareBank 1 Boligkreditt and income on forex and fixed income business.

The lending margin in 2013 was 2.51 per cent (1.86 per cent), while the deposit-to-loan ratio was -0.37 per cent (0.10 per cent) (measured against three-month NIBOR).

In the last 12 months, lending to retail customers rose by 9.5 per cent (13.7 per cent) and deposits from the same segment by 7.1 per cent (9.5 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.

SMB segment

Operating income totalled NOK 380m comprising net interest income of NOK 286m and commission income of NOK 94m.

The lending margin measured against three-month Nibor in 2013 was 3.40 per cent and the deposit margin was -0.29 per cent.

SMB customers have loan capital totalling NOK 9.1bn and deposit capital totalling NOK 8.7bn. Growth in loans and deposits respectively in 2013 was 6.4 per cent and 1.9 per cent.

Group customers

In connection with the reorganisation of the bank as from 2013, SMB customers have been detached from the former 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 12.8 per cent in 2013. For the entire corporate market business (SMBs and Group Customers), return on equity in 2013 was 15.4 per cent (14.4 per cent).

Total operating income for Group Customers was NOK 869m in 2013. Net interest income was NOK 729m, while commission income was NOK 91m. In addition, net return of NOK 49m was posted on financial investments.

Lending and deposit margins for Group Customers were, respectively, 2.83 per cent and -0.66 per cent. Lending growth for Group Customers in 2013 was -0.8 per cent and deposit growth was 16.5 per cent. For corporates overall (SMBs and Group Customers) the lending margin was 2.95 per cent (2.45 per cent) and the deposit margin was -0.54 per cent (-0.10 per cent).

Growth in lending to corporates overall (SMBs and Group Customers) was 0.7 per cent (3.5 per cent) and deposit growth was 12.5 per cent (-5.7 per cent).

Income SpareBank 1 SMN Markets

SpareBank 1 SMN Markets is an integral part of SMN's parent bank operation.

SpareBank 1 SMN Markets posted total income of NOK 100m (116m) in 2013. Income increased in the securities and corporate segments compared with 2012, while a decline was seen for fixed income and forex. As from the fourth quarter 2013, SpareBank 1 SMN's corporate business was transferred to SpareBank 1 Markets.

| Markets (NOKm) | 2013 | 2012 | Change |
|----------------------------------|--------------|--------------|--------------|
| Currency trading | 67.3 | 86.1 | -18.8 |
| Corporate | 10.6 | 7.6 | 3.0 |
| Securities, brokerage commission | 26.8 | 17.0 | 9.8 |
| SpareBank 1 Markets | 3.1 | 16.2 | -13.1 |
| Investments | -7.4 | -10.6 | 3.2 |
| Total income | 100.4 | 116.3 | -15.9 |

Of gross income of NOK 100m, a total of NOK 25m is transferred to Group Customers, NOK 1m to the SMB segment and NOK 1m to Retail Market. 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 147.6m (116.1m) in 2013.

| Pre-tax profit, NOKm | 2013 | 2012 | Change |
|--------------------------------|--------------|--------------|-------------|
| EiendomsMegler 1 Midt-Norge | 60.7 | 76.2 | -15.5 |
| SpareBank 1 Finans Midt-Norge | 50.7 | 55.8 | -5.1 |
| SpareBank 1 Regnskapshuset SMN | 14.0 | 13.8 | 0.2 |
| SpareBank 1 SMN Invest | 46.6 | -15.0 | 61.6 |
| Other | -24.4 | -14.7 | -9.7 |
| Total | 147.6 | 116.1 | 31.5 |

Eiendomsmegler 1 Midt-Norge leads the field in its catchment area with a market share of about 40 per cent. Profit was weaker in 2013 than in 2012 as a result of a weaker market in the second half-year. Pre-tax profit was NOK 60.7m (76.2m) in 2013.

SpareBank 1 Finans Midt-Norge posted a profit of NOK 50.7m (55.8m) as of 31 December 2013. The company posted good income growth in 2013 although increased losses brought a net profit impairment.

At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.3bn (3.1bn) of which leases account for NOK 1.9bn (1.9bn) and car loans for NOK 1.4bn (1.2bn).

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 14.0m (13.8m) and turnover growth of 27 per cent. With a growth rate far higher than the industry average, the company leads the market in mid-Norway and is a leading accounting services entity in Norway as a whole.

SpareBank 1 Regnskapshuset SMN took over six accounting firms in 2013 and aspires to continued strong growth.

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 be 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 46.6m in 2013 (loss of 15.0m).

Satisfactory funding and good 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 18bn and thus has the funding needed for 24 months of ordinary operations without fresh external finance.

The Bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of 1 year was 72 per cent (80 per cent).

SpareBank 1 Boligkreditt is the Bank's chief source of funding, and as of 31 December 2013 loans totalling NOK 30bn had been sold to SpareBank 1 Boligkreditt.

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).

Strengthened capital adequacy

After distribution of the profit for 2013, the CET1 capital ratio is 11.1 per cent (10.0 per cent). In the year's last quarter the CET1 ratio was improved thanks to a good profit performance and a reduction in risk weighted assets.

The Group has shifted lending growth more over to the retail market 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 and NOK 450m raised in October 2013.

| Figures in NOKm | 2013 | 2012 |
|-----------------------------------|---------------|---------------|
| Tier 1 capital | 9,374 | 8,254 |
| Hybrid capital | 1,615 | 1,103 |
| Subordinated loan | 1,428 | 1,586 |
| Capital base | 12,417 | 10,943 |
| Required subordinated debt | 6,767 | 6,596 |
| Risk weighted assets | 84,591 | 82,446 |
| Tier 1 capital ratio | 11.1 % | 10.0 % |
| Core capital ratio | 13.0 % | 11.3 % |
| Capital adequacy ratio | 14.7 % | 13.3 % |

In the fourth quarter 2013 several matters related to future capital requirements were clarified. Risk weights on home loans would be adjusted with effect from 1 January 2014. The effect of this will be partly offset by the Basel 1 floor. A countercyclical buffer of 1 per cent will be introduced at the end of the second quarter 2015. In its statement on systemically important financial institutions (SIFIs), Finanstilsynet (Norway's FSA) has recommended that SpareBank 1 SMN be defined as an SIFI bank on account of its importance for the region. This is in keeping with the Group's own assessments, and implies no change in capital requirements in relation to the levels on which SpareBank 1 SMN has based its capital plan.

The Board of Directors of SpareBank 1 SMN continually assesses the capital situation and future capital requirements. The Board considers it important for the Group to be sufficiently capitalised to fulfil all regulatory requirements. The Board of Directors is planning for common equity tier 1 (CET1) ratio of 13.5 per cent, comprising 12 per cent plus a countercyclical buffer of 1 per cent plus a reserve of 0.5 per cent.

The Group's expectation is that the applications of both BN Bank and SpareBank 1 SMN to use the advanced IRB approach will be granted. This will in isolation strengthen capital adequacy by about 0.9 per cent.

The following are the most important measures in the Group's capital plan:

- Continued sound banking operation through efficiency enhancements and prioritisation of profitable segments. Increased capital requirements for all banks provide a market basis for increased margins on lending
- The dividend policy to entail an effective payout ratio of 25–35 per cent

- Moderate growth in the Bank's asset-intensive businesses, giving priority to loans to households and firms in the Bank's catchment area.
- Introduction of the advanced IRB approach at SpareBank 1 SMN and BN Bank

SpareBank 1 SMN currently has no plans to issue equity capital, and the Board of Directors is of the view that other measures are sufficient to attain the goal of a CET1 ratio of 13.5 per cent by 30 June 2016.

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 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 55.69 (50.09) at 31 December 2013, and earnings per EC were NOK 6.92 (5.21).

The Price / Income ratio was 7.95 (6.68), and the Price / Book ratio was 0.99 (0.69).

At year-end the EC was priced at NOK 55.00, and dividend of NOK 1.50 per EC was paid in 2013 for the year 2012.

Risk factors

A weaker krone exchange rate in the second half of 2013 has had a positive effect for Norwegian export industries, but this effect is limited by weak growth in the euro area. Very solid government finances and high demand in the petroleum industry lead us to expect Norwegian GDP to remain higher than GDP for Europe as a whole. 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. Growth in house prices has been negative in the last quarter, but houses are still in short supply compared with expected population growth.

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 capital management connected with the insurance business and fund management activities are both 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. This may affect Norwegian banks' competitiveness relative to other banks. This challenge is compounded by non-uniform approaches to the capital adequacy rules which creates uncertainty about Norwegian banks' financial strength compared with Nordic competitors.

Outlook ahead

The profit performance for 2013 was excellent and confirms that measures implemented under the Group's capital plan are having a good effect. The directors are particularly pleased by the trend in the core business with increased margins on lending, reduced cost growth and continued low losses. This shows that the Group is in a position to generate satisfactory return on the increased capital.

SpareBank 1 SMN still sees no indications that the business sector in Trøndelag and in Møre og Romsdal faces a significant change in the economic climate. The key industries in the Bank's market area show rising activity levels and sound profits, and the prospects for 2013 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 the first half of 2014.

The Board of Directors notes the growing competition in the financial market, but expects SpareBank 1 SMN to perform well with competitive products and first-rate customer service.

The Board of Directors are keen for the Bank to be a good partner for households and firms in the region. At the same time it is assumed that the group will now meet the capital requirements set without ordinary share issues. The Board of Directors may consider a private placing with the foundation Sparebankstiftelsen SMN. The Board of Directors are satisfied with the result for 2013 and assume that 2014 also will be a good year for SpareBank 1 SMN.

Trondheim, 4 February 2014
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)