

# Report of the Board of Directors

## First quarter 2013

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

- Profit before tax: NOK 390m (333m)
- Net profit first quarter: NOK 321m (272m)
- Return on equity: 12.7 per cent (13.0 per cent)
- 12-month growth in lending: 9.7 per cent (9.9 per cent)
- 12-month growth in deposits: 7.4 per cent (14.2 per cent)
- Common equity tier 1 ratio: 10.4 per cent (8.8 per cent)
- Earnings per EC: NOK 1.55 (1.41)

## Good result for first quarter 2013

### Highlights:

- Profit growth of NOK 49m compared with first quarter 2012
- Increased lending margins
- Strong income trend in core business, good return on financial investments and a positive trend at SpareBank 1 Gruppen
- Low loan losses
- Strengthened financial position in keeping with the Group's capital plan
- Dampened growth in lending to the corporate sector

In the first quarter of 2013 SpareBank 1 SMN achieved a post-tax profit of NOK 321m (272m) and a return on equity of 12.7 per cent (13.0 per cent). Pre-tax profit was NOK 390m (333m).

Operating income rose in the first quarter to NOK 660m (586m) largely as a result of higher commission income from SpareBank 1 Boligkreditt.

Return on financial assets was NOK 162m (153m), of which the profit share on owner interests was NOK 101m (92m).

Operating expenses came to NOK 414m in the first quarter of 2013 (398m).

Loan losses were NOK 17m (8m) in the first quarter.

On a 12-month basis lending growth was 9.7 per cent (9.9 per cent) and deposit growth was 7.4 per cent (14.2 per cent) in the first quarter of 2013.

The common equity tier 1 ratio at 31 March 2013 was 10.4 per cent (8.8 per cent). In December 2012 the Board of Directors decided to revise the Bank's capital plan. On 22 March 2013 the Ministry of Finance published parliamentary bill no. 96 proposing new capital requirements, a timetable for implementation as well as various alternatives for home mortgage loan weights. Different levels of common equity tier 1 capital

are proposed depending on the economic situation and whether the bank in question is considered systemically critical. Today the Board takes as its basis a capital plan in which all capital buffer requirements apply. We are accordingly now planning to increase the common equity tier 1 ratio to 14.5 per cent by 1 July 2016. The revised capital plan is further described in the section on financial strength in this report.

In the first quarter earnings per EC were NOK 1.55 (1.41), and at quarter-end the book value was NOK 51.90. The market price at the same point was NOK 46.90.

### Net interest income

Net interest income in the first quarter came to NOK 343m (351m). Lending margins rose through 2012, partly due to a low market interest rate (Nibor). Net interest income including commission from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt strengthened compared with the same period of 2012. Net interest income from home mortgage loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is recorded as commission income and amounted to NOK 85m (25m) in the first quarter.

An increase in lending rates has been signalled both for corporate and retail customers, effective as from the second quarter 2013. For home mortgage loans the increase is 30 basis points as from May, and for corporate loans the price increase is expected to have an overall effect of 40 basis points with effect partly from April and partly from May 2013.

From 2013 onwards banks are required to pay a levy to the Banks' Guarantee Fund. For SpareBank 1 SMN the levy for the first quarter comes to NOK 13m, and for the full year 2013 to NOK 54m.

### Increased commission income

Commission income, NOKm	31 Mar 13	31 Mar 12	Change
Payment transfers	51	46	5
Savings	9	10	-1
Insurance	29	31	-2
SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	85	25	59
Guarantee commission	11	8	3
Real estate agency	73	72	0
Accountancy services	33	26	6
Active management	3	3	0
Income from new head office	11	9	2
Other commissions	13	6	7
<b>Total</b>	<b>317</b>	<b>235</b>	<b>82</b>

Net commission income and other income totalled NOK 317m in the first quarter 2013 (235m). Income from SpareBank 1 Boligkreditt showed the largest increase. Commission income from SpareBank 1 Boligkreditt rose as a result of increased margins on home mortgage loans transferred to SpareBank 1 Boligkreditt.

### Good return on financial investments

Overall return on financial investments (excluding the Bank's share of the profit/loss of affiliates and joint ventures) was NOK 61m (60m). Overall return breaks down as follows:

- Return on the Group's share portfolios totalled NOK 25m (3m).
- Net gains on bonds and derivatives came to NOK 17m (34m)
- Gains on forex and fixed income trading at SpareBank 1 SMN Markets amounted to NOK 20m (23m).

<b>Return on financial investments, NOKm</b>	<b>31 Mar 13</b>	<b>31 Mar 12</b>
Capital gains/dividends, shares	25	3
Bonds and derivatives	17	34
SpareBank 1 SMN Markets	20	23
<b>Net return on financial investments</b>	<b>62</b>	<b>60</b>
SpareBank 1 Gruppen	61	47
SpareBank 1 Boligkreditt	12	14
SpareBank 1 Næringskreditt	2	3
BN Bank	26	15
Other jointly controlled companies	-1	13
<b>Income from investment in related companies</b>	<b>101</b>	<b>92</b>
<b>Total</b>	<b>162</b>	<b>153</b>

### **SpareBank 1 Gruppen**

SpareBank 1 Gruppen's post-tax profit for the first quarter 2013 was NOK 315m (199m). The main contributors are SpareBank 1 Livsforsikring AS (life insurer) and SpareBank 1 Skadeforsikring AS (non-life insurer).

SpareBank 1 SMN's share of the profit was NOK 61m (47m).

### **SpareBank 1 Boligkreditt**

SpareBank 1 Boligkreditt AS was established by the banks participating in the SpareBank 1 Alliance to take advantage of the market for covered bonds. The banks transfer their highest quality home mortgage loans to the company, thereby reducing their funding costs. As of 31 March 2013 the Bank had transferred NOK 30bn to SpareBank 1 Boligkreditt, equivalent to 47 per cent of overall lending to the retail market.

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 quarter 2013 was NOK 12m (14m).

### **SpareBank 1 Næringskreditt**

The SpareBank 1 banks established SpareBank 1 Næringskreditt in 2009 along the same lines, and with the same administration, as SpareBank 1 Boligkreditt AS. As of the first quarter 2013 loans worth NOK 0.6bn had been transferred to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.8 per cent, and the Bank's share of the company's profit in the first quarter 2013 was NOK 2m (3m). The Bank's ownership interest mainly reflects SpareBank 1 SMN's stake in BN Bank.

### **BN Bank**

SpareBank 1 SMN has a 33 per cent stake in BN Bank as of 31 March 2013.

SpareBank 1 SMN's share of the profit of BN Bank in the first quarter 2013 came to NOK 26m (15m), including amortisation effects. The amortisation effect in 2013 increased the profit by NOK 4m (3m). BN Bank is repricing its loan portfolios in 2013 while reducing the rate of growth in lending to commercial property.

### **Shares held for sale**

### **Bank 1 Oslo Akershus**

In 2013 SpareBank 1 SMN signed an agreement to sell 475,594 shares to Sparebanken Hedmark. The sale, which is expected to be formally completed in the second quarter 2013, will reduce SpareBank 1 SMN's holding to 4.78 per cent. The sold holding in Bank 1 Oslo is classified as held for sale at the end of the first quarter. For this reason no profit share has been included in the books from the bank's stake in Bank 1 Oslo Akershus in the first quarter. Further, an option has been taken on a further reduction of the Bank's holding in Bank 1 Oslo Akershus. The option must be exercised by 31 December 2015.

Divestment from Bank 1 Oslo Akershus is included in the Bank's capital plan.

### **Polaris Media**

On 25 January 2013 SpareBank 1 SMN sold 5.88m shares of Polaris Media ASA at NOK 27.00 per share to NWT Media (Nya Wermlands-Tidningens AB), for a total of NOK 158.8m. This transaction reduced SpareBank 1 SMN's stake in Polaris Media from 23.4 per cent to 11.4 per cent. The sale is provided for in the Bank's capital plan. The gain made on the transaction was taken to income in the first quarter in an amount of NOK 5.9m. The remaining holding is booked at a value of NOK 27 per share.

At the turn of the year the holding of Polaris Media shares was reclassified to shares held for sale. The investment is therefore not consolidated in the Bank's accounts, but is measured at fair value. Goodwill in Polaris Media's balance sheet has enabled a reduction in SpareBank 1 SMN's capital ratio. By the end of the first quarter 2013 the transaction has strengthened the Bank's tier 1 capital adequacy by NOK 175m.

### **Reduced cost growth**

Overall costs came to NOK 414m (398m) in the first quarter 2013. The increase of NOK 16m corresponds to 4 per cent.

Parent bank cost growth has been zero. Cost growth among the bank's subsidiaries was 15.9 per cent, the main contributors being SpareBank 1 SMN Regnskap and Eiendomsmegler 1. The growth at Eiendomsmegler 1 is related to an increased resource input at the company. At SpareBank 1 SMN Regnskap the growth in costs is largely a result of acquisitions carried out in 2012 where the full effect of both incomes and costs is seen in 2013.

Operating expenses measured 1.52 per cent (1.59 per cent) of average total assets. The Group's cost-income ratio was 50 per cent (54 per cent).

The Bank has initiated a wide-ranging improvement programme designed to improve the customer's experience, increase productivity and reduce relative operating expenses.

The Board of Directors has a tight focus on cost-reducing measures whose goal for 2013 is to bring down cost growth across the Group to below 3 per cent. The Board of Directors has decided on a reduction of at least 75 FTEs at the parent bank within 2015.

The Bank's organisational structure was changed with effect from 1 January 2013. The overarching aim is to manifestly reinforce the focus on the customer facing side of the business.

### **Low losses and defaults**

Loan losses came to NOK 17m (8m) in the first quarter of 2013.

Losses of NOK 14m (9m) were recorded on the Group's corporate customers in the first quarter 2013, including losses at SpareBank 1 SMN Finans of NOK 2m (2m). There were few new individually assessed write-downs in 2013. On the retail portfolio a net loss of NOK 3m (net gain of 1m) was recorded in the first quarter 2013.

Total individually assessed loan impairment write-downs in the first quarter 2013 came to NOK 143m (164m), a decline of NOK 21m over the last 12 months.

Total problem loans (defaulted and doubtful) came to NOK 548m (501m), or 0.51 per cent (0.51 per cent) of gross outstanding loans as of 31 March 2013.

Defaults in excess of 90 days totalled NOK 388m (318m), up NOK 70m. Defaults measure 0.36 per cent (0.33 per cent) of gross lending (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt). Of total defaults, NOK 71m (94m) are loss provisioned, corresponding to 18 per cent (30 per cent). Other doubtful exposures totalled NOK 160m (183m), i.e. 0.15 per cent (0.19 per cent) of gross outstanding loans. NOK 72m (70m) or 45 per cent (38 per cent) are loss provisioned.

#### **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).

In the first quarter no basis was found for any further change in collectively assessed impairment write-downs. The aggregate volume of such write-downs is NOK 295m (290m).

#### **Total assets of NOK 111bn**

The Bank's assets totalled NOK 111bn in the first quarter 2013 compared with NOK 99bn as of the first quarter 2012. The increase is ascribable to increased lending and higher liquidity reserves.

As of the first quarter 2013 home mortgage loans worth 30.4bn (25.7bn) had been transferred 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 transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

#### **Reduced growth in lending to the corporate market**

In the last 12 months, total outstanding loans rose by NOK 9.4bn (8.9bn) or 9.7 per cent (9.9 per cent) to reach NOK 106.8bn (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) as of the first quarter 2013.

Growth in 12-month lending to corporates in 2012 was NOK 2.4bn (2.5bn) or 5.8 per cent (6.7 per cent). Overall loans to corporates came to NOK 42.9bn as of the first quarter 2013. Growth in lending to corporates in 2013 is NOK 0.6bn or 1.4 per cent.

Lending to retail customers rose by NOK 7.1bn (6.2bn) or 12.5 per cent (12.4 per cent) to reach NOK 63.9bn in the last 12 months. Growth in lending to retail customers in the first quarter 2013 was NOK 1.3bn or 2.1 per cent.

Lending to retail customers accounted for 60 per cent (58 per cent) of gross loans (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) to customers as of the first quarter 2013.

Customer deposits rose by NOK 3.6bn (6.1bn) in the last 12 months to NOK 52.6bn as of the first quarter 2013. This corresponds to a growth of 7.4 per cent (14.2 per cent).

Retail customer deposits rose by NOK 1.8bn (1.8bn) or 8.6 per cent (9.1 per cent) to reach NOK 22.8bn, while deposits from corporates rose by NOK 1.8bn (4.3bn) or 6.5 per cent (18.3 per cent) to NOK 29.8bn.

### Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 4.6bn as of the first quarter 2013, up 9 per cent since the first quarter 2012. Equity funds show the highest growth.

Saving products, customer portfolio, NOKm	31 Mar 13	31 Mar 12	Change
Equity funds	2,817	2,402	415
Pension products	648	695	-47
Active management	1,043	939	104
Energy fund management	127	203	-76
<b>Total</b>	<b>4,635</b>	<b>4,239</b>	<b>396</b>

### Insurance products

The Bank's insurance portfolio grew by 9 per cent in the last 12 months. Non-life insurance showed 10 per cent growth, personal insurance 4 per cent and the occupational pensions segment 34 per cent growth. Total incomes on the Bank's insurance portfolio passed NOK 120m in 2012 and are expected to show stable growth also in 2013.

Insurance, premium volume, NOKm	31 Mar 13	31 Mar 12	Change
Non-life insurance	685	639	46
Personal insurance	189	181	8
Occupational pensions	173	139	34
<b>Total</b>	<b>1,047</b>	<b>959</b>	<b>88</b>

### Retail market and SMEs

The retail market business and the SME segment now comprise a unit in its own right. SMEs were previously a part of the corporate business. The retail market and SMEs are each commented on separately. The SME segment consists of corporate customers with an exposure size of +/- NOK 8m and agricultural customers. Historical data for the SME segment are incomplete and no comparison is made with last year's figures. Return on equity in the first quarter for the retail business and SME segment in total was 27.5 per cent with 25.2 per cent (16.4 per cent) posted by the retail business and 33.8 per cent by the SME segment.

### Retail market

Operating income has risen substantially due to increased margins on home mortgage loans both on the Bank's own books and on mortgages transferred to SpareBank 1 Boligkreditt, and totalled NOK 274m (215m) in the first quarter 2013. Net interest income came to NOK 137m (125m) and commission income to NOK 137m (89m).

The lending margin in the first quarter 2013 was 2.20 per cent (1.45 per cent), while the deposit margin was -0.34 per cent (0.41 per cent) (measured against three-month Nibor).

In the last 12 months, lending to retail customers rose by 12.3 per cent (11.7 per cent) and deposits from the same segment by 8.6 per cent (10.8 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 88m with net interest income of NOK 70m and commission income of NOK 18m.

The lending margin measured against three-month Nibor in the quarter was 3.20 per cent and the deposit margin was -0.17 per cent. An increase of about 40 points is calculated over the first quarter.

SME customers have loan capital totalling NOK 8.6bn and deposit capital totalling NOK 8.8bn. Growth in loans and deposits respectively in the first quarter 2013 was 1.1 per cent and 2.5 per cent.

### **Large corporates**

In connection with the reorganisation of the Bank as from 2013, SME customers are now part of the same business area as the retail market business. Large corporates are mainly customers with exposure sizes in excess of NOK 8m. Given the organisational change, historical data on Large corporates are incomplete.

Return on equity for Large corporates was 10.1 per cent in the first quarter. For the entire corporate market business (SMEs and Large corporates), return on equity in the first quarter 2012 was 11.6 per cent.

Total operating income for Group customers was NOK 180m in the first quarter 2013. Net interest income was NOK 156m, while total commission income was NOK 24m including NOK 4m in income on forex and fixed-income business.

Lending and deposit margins for Large corporates were, respectively, 2.50 per cent and -0.59 per cent. Lending growth for Large corporates in the first quarter 2013 was 1.3 per cent and deposit growth was 2.0 per cent. For corporates overall (SMEs and Large corporates) the lending margin was 2.65 per cent (2.27 per cent) and the deposit margin was -0.40 per cent (0.18 per cent).

12-month growth for corporates overall (SMEs and Large corporates) was 5.6 per cent (7.7 per cent) and deposit growth was 9.0 per cent (16.8 per cent).

### **SpareBank 1 SMN Markets**

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

SpareBank 1 SMN Markets reported total income of NOK 29.3m (27.2m) in the first quarter 2013.

SpareBank 1 SMN has established an active asset management agreement with SpareBank 1 Markets (owned by SpareBank 1 Gruppen). The agreement puts SpareBank 1 Markets in a stronger position to deliver forex and fixed income products in the primary and secondary market. The business volume is regulated through clear-cut limits on exposure in relation to products and counterparties and brings a insignificant change in the Bank's risk exposure. Incomes and expenses are distributed between the parties



based on an established distribution formula. The agreement was operationalised in April 2012, and SpareBank 1 SMN's net share of the incomes earned in the first quarter 2013 was NOK -3m.

<b>Markets (NOKm)</b>	<b>31 Mar 13</b>	<b>31 Mar 12</b>	<b>Change</b>
Currency trading and fixed income products	19.3	22.6	-3.3
Corporate	4.5	0.8	3.7
Securities, brokerage commission	8.5	6.6	1.9
SpareBank 1 Markets	-3.0	0.0	-3.0
Investments	0.0	-2.8	2.8
<b>Total income</b>	<b>29.3</b>	<b>27.2</b>	<b>2.1</b>

## Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 42.8m (33.4m) in the first quarter 2013.

<b>Pre-tax profit, NOKm</b>	<b>31 Mar 13</b>	<b>31 Mar 12</b>	<b>Change</b>
EiendomsMegler 1 Midt-Norge	10.7	14.1	-3.4
SpareBank 1 SMN Finans	15.2	14.1	1.1
SpareBank 1 SMN Regnskap	3.7	5.5	-1.8
SpareBank 1 SMN Invest	13.4	4.7	8.7
Other	-0.2	-5.0	4.8
<b>Total</b>	<b>42.8</b>	<b>33.4</b>	<b>9.4</b>

**Eiendomsmegler 1 Midt-Norge** leads the field in its catchment area with a market share of 40 per cent. The company's first quarter profit of NOK 10.7m (14.1m) is satisfactory. The number of units sold rose by 1.4 per cent and overall turnover value by 2 per cent to NOK 3.5bn compared with the first quarter 2012.

**SpareBank 1 SMN Finans** posted a first quarter profit of NOK 15.2m (14.1m). At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.1bn 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 SMN Finans in the fourth quarter 2012.

**SpareBank 1 SMN Regnskap** posted a pre-tax profit of NOK 3.7m (5.5m).

SpareBank 1 SMN Regnskap 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 other 60 per cent.

**SpareBank 1 SMN Invest's** mission is to invest in shares, mainly in regional businesses. The company posted a first quarter net profit of NOK 13.4m (profit of 4.7m). The result is entirely related to gains on the company's equity portfolio.

## 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 22bn 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. At year-end the proportion of money market funding in excess of 1 year was 72 per cent (73 per cent).

SpareBank 1 Boligkreditt is the Bank's chief source of funding. As of 31 March 2013 loans totalling NOK 29.8bn had been transferred to SpareBank 1 Boligkreditt.

In the first quarter of 2013 SpareBank 1 SMN raised a five-year loan of EUR 500m. 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. In the first quarter of 2013 this was changed to A2 (stable).

### Financial strength

As of 31 March 2013 the common equity tier 1 capital ratio was 10.4 per cent (8.8 per cent). Common equity tier 1 capital is tier 1 capital excluding hybrid capital.

Figures in NOKm	31 Mar 13	31 Mar 12
Common equity Tier one	8,568	6,759
Hybrid capital, core capital	1,118	1,143
Supplementary capital	1,285	1,107
<b>Subordinated capital</b>	<b>10,971</b>	<b>9,008</b>
<b>Minimum requirements subordinated capital</b>	<b>6,606</b>	<b>6,127</b>
<b>Risk weighted assets (RWA)</b>	<b>82,578</b>	<b>76,590</b>
<b>Common equity Tier one ratio</b>	<b>10.4 %</b>	<b>8.8 %</b>
<b>Core capital ratio</b>	<b>11.7 %</b>	<b>10.3 %</b>
<b>Capital adequacy ratio</b>	<b>13.3 %</b>	<b>11.8 %</b>

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. All in all these proposals entail a tighter regime than was expected. Although there is uncertainty regarding several of the buffers, the Board of Directors of SpareBank 1 SMN have determined that planning must be on the assumption that all buffers must be in place by 1 July 2016. The Board of Directors plans to achieve a common equity tier 1 capital ratio of 14.5 per cent by 1 July 2016.

The following improvements will be implemented:

- Improved banking operation through improved efficiency and higher margins. Increased capital requirements for all banks provides a market basis for increased margins on lending
- A payout policy as for 2012 with an effective payout of 25 – 35 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 included in the core business
- Introduction of 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 cooperation with the other IRB banks in the SpareBank 1 alliance, the Bank has initiated a process to apply for permission to use the advanced IRB approach. The application is expected to be submitted in the course of the first half of 2013.

### **The Bank's equity certificate (MING)**

The book value of the Bank's EC was NOK 51.90 at the end of March 2013, and earnings per EC were NOK 1.55.

The Price / Income ratio was 7.55, and the Price / Book ratio was 0.90.

As of 31 March 2013 the price was NOK 46.90, and dividend of NOK 1.50 per EC was paid in 2013 for the year 2012.

### **Risk factors**

The credit quality of the Bank's loan portfolio is satisfactory, and loss and default levels are low.

The Bank expects the cyclical upturn to continue but to be somewhat weaker than previously assumed. This is on the expectation of moderate activity growth resulting from very weak international growth impulses. We expect continued low Norwegian unemployment which, combined with continued good income growth and low interest rates, suggests that the loss risk in the Bank's retail market portfolio will remain low. Credit demand from Norwegian households still outstrips wage growth and will in large measure be influenced by house price developments. The Bank also expects moderate growth in mid-Norway's business sector ahead.

Future capital requirements look likely to be even higher than previously expected. Along with uncertainty with regard to how Norwegian authorities will handle in particular the countercyclical buffer, Norwegian banks have signaled an intention to implement a more conservative credit policy towards business and industry.

The Bank's results are affected directly and indirectly by the 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).

### **Outlook ahead**

SpareBank 1 SMN has strengthened its market position and achieved sound profit growth in 2012. The profit performance in the first quarter 2013 is also satisfactory. The Group's funding is robust. This is in keeping with the Directors' ambitions.

The Board of Directors will focus strongly ahead on measures designed to strengthen the Bank's financial position to ensure that it attains a common equity tier 1 ratio of at least 14.5 per cent by 1 July 2016.

It is essential to strengthen earnings through increased margins in order to meet the market's return requirement at the same time as achieving the financial solidity targets. Cost efficiency will also have the Board's full and complete attention in 2013 and the years ahead.

Continuing turbulence in international financial markets heightens uncertainty in the national and regional economies. Again in 2012 there were no clear indications of the region's business sector being affected by the crisis in the euro area. Business life in the Bank's market area shows continued growth and profitability, and the outlook for 2013 remains good. Unemployment is low, and there are few signs in the region's macroeconomy in isolation to suggest a change in the risk picture for 2013.

SpareBank 1 SMN has a conservative liquidity strategy and intends to be able to maintain normal operations for at least 12 months without further access to external funding. The Board of Directors considers pressures in the funding market to be lighter at the start of 2013 than at the same point last year.

The Board of Directors is satisfied with the Group's profit performance for the first quarter 2013 and expects further profit growth in forthcoming quarters.

Trondheim, 24. april  
Styret i 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)