

Q3 2014

October 31th 2014

ECONOMIC BAROMETER 2014

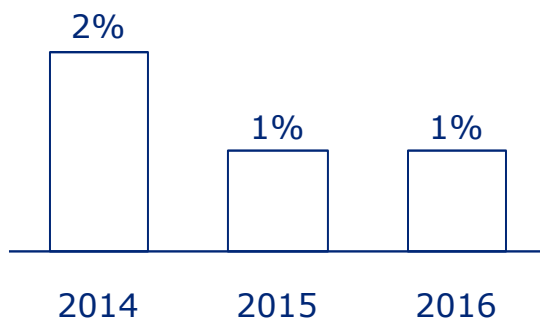
Moderate exposure to the consequences of reduced shelf activity



North Trøndelag

Deceleration in sight

GDP Development

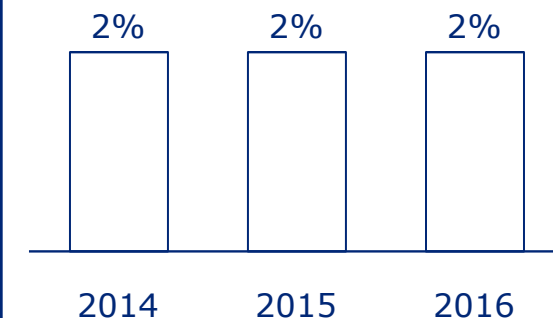


The overall picture for North Trøndelag is relatively pale, with modest growth this year and weak growth in 2015 and 2016. An undiversified business sector centred on primary industries and commerce makes for low capacity for growth.

South Trøndelag

Better placed than neighbouring counties

GDP Development

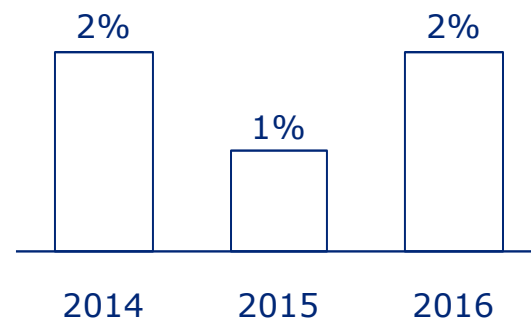


Overall growth prospects for the economy of South Trøndelag follow the national trend. The county will be less impacted than the rest of the region. As from the second half of 2015 the situation will stabilise, with quickening activity growth in 2016.

Møre and Romsdal

Lower growth ahead

GDP Development



All in all tougher economic times ahead in Møre and Romsdal after several years of high growth. The consequences of lower investment on the shelf will feed through in earnest in 2015, but the first signs will be seen this autumn

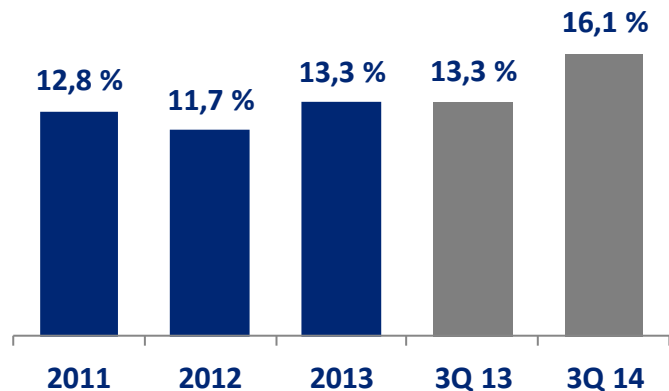
Very good result for first nine months

16,1 % ROE

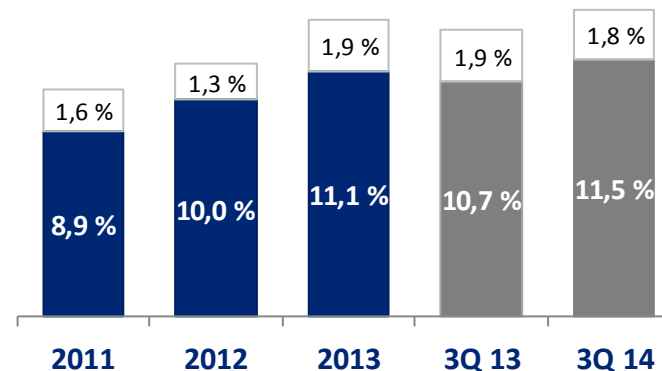
- Strong profit, 14.8% ROE in Q3
- CET1 target to be reached without ordinary stock issue.
- SpareBank 1 SMN has, and is further developing, a very solid market position throughout Mid-Norway.
- Core business on a positive trend with increased commission income and moderate cost growth.
- Digitalisation simplifies and enhances both customer experience and production processes.
- Digitalisation enables efficiency gains. New costs target entails zero growth at the parent bank as from 2015.
- SpareBank 1 Markets to be integrated with SpareBank 1 SMN from year-end. Reduced risk. Profitable as from 2015.

Improved profits and capitalization

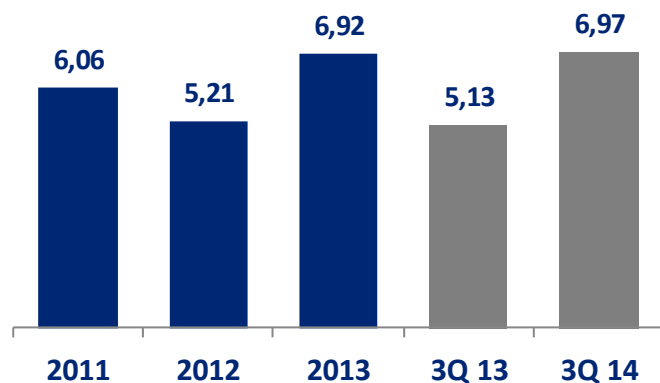
Return on equity (ex gain on Nets 14,3 %)



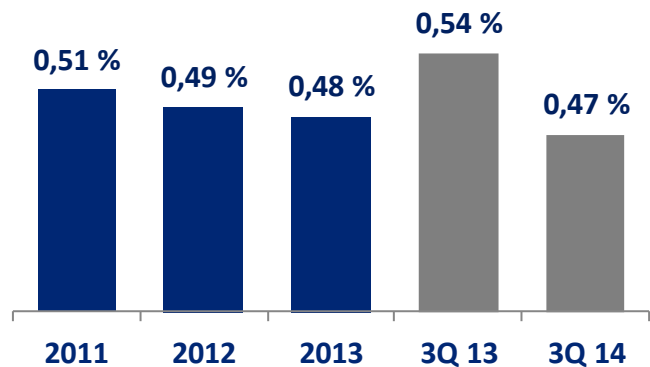
Tier 1 capital ratio with and without hybrid capital



Earnings per ECC



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



Strong profit improvement

Net profit NOK 1.407 (1.038m)

Return on equity 16.1 % (13.3 %)

Result of core business NOK 1.081m (936m)

Retail banking share of loans 62% (60%)

Cost growth parent bank 3.4 % (0.4%)

Growth in lending RM 7.6 % and CM 2.0 % last 12 months

Booked equity capital per ECC NOK 60.53 (53.76)

Q3 2014

Profit NOK 443m (433m)

ROE 14.8 % (16.3 %)

Result of core business NOK 374m (365m)

Growth in lending RM 1.7 % (2,3%) and CM 1.0 % (-0,5%) in Q3 2014

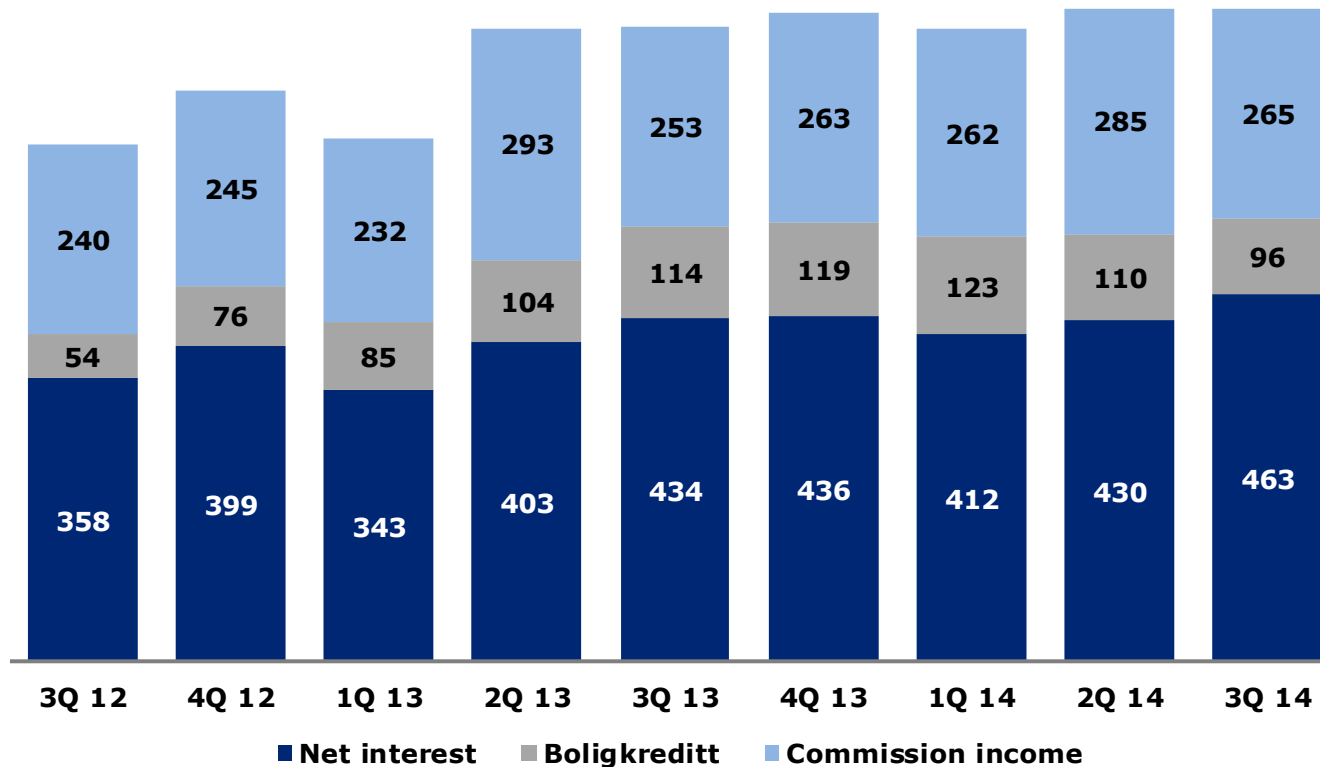
Earnings per ECC NOK 2.19 (2.14)

Positive development in profits

Profit	At Q3			per quarter				
NOK mill	30 Sept. 2014	30 Sept. 2013	Change	Q3 14	Q2 14	Q1 14	Q4 13	Q3 13
Net interest	1.305	1.180	125	463	430	412	436	434
Commission income and other income	1.140	1.081	60	361	394	385	382	367
Operating income	2.446	2.261	185	823	825	798	818	801
Total operating expenses	1.310	1.256	53	425	443	441	465	406
Pre-loss result of core business	1.136	1.005	132	398	382	356	352	395
Losses on loans and guarantees	55	68	-13	24	15	17	32	30
Post-loss result of core business	1.081	936	144	374	367	340	320	365
Related companies, including held for sale	383	290	93	169	131	84	94	150
Securities, foreign currency and derivatives	245	90	156	1	70	175	58	16
Result before tax	1.709	1.316	393	544	567	598	471	531
Tax	302	278	25	101	103	99	110	98
Net profit	1.407	1.038	368	443	464	500	361	433
Return on equity	16,1 %	13,3 %		14,8 %	16,0 %	17,7 %	13,1 %	16,3 %

Positive development operating income

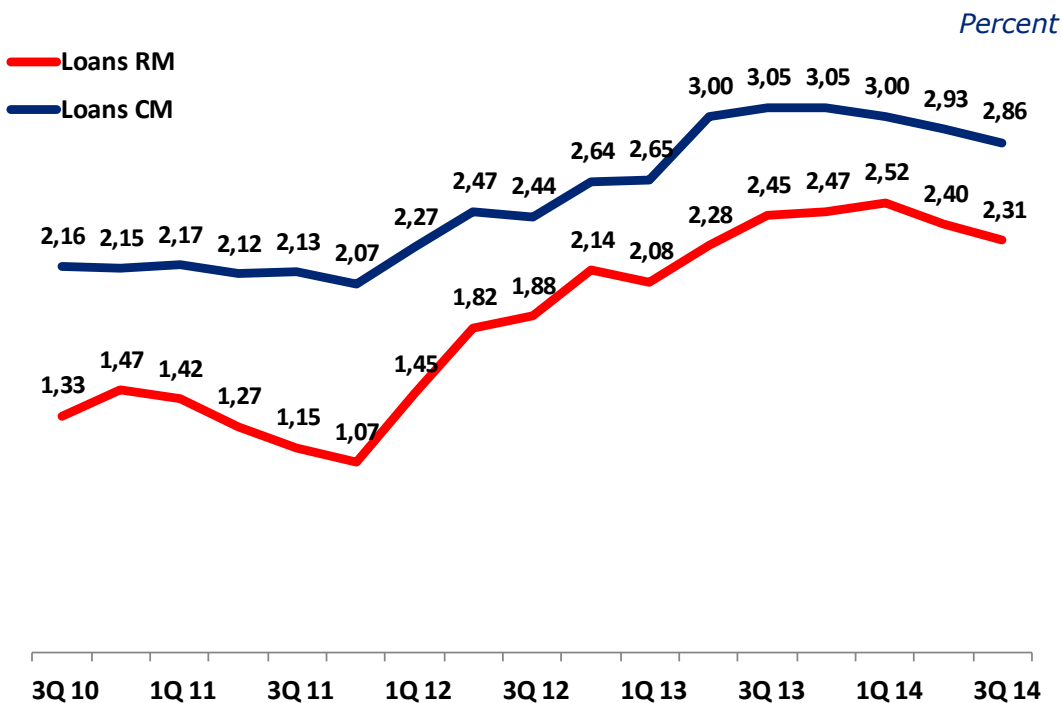
Last two years per quarter



Lending margins Retail and Corporate

Increased capital requirements led to strengthened margins in 2013

Per quarter from Q3 2010



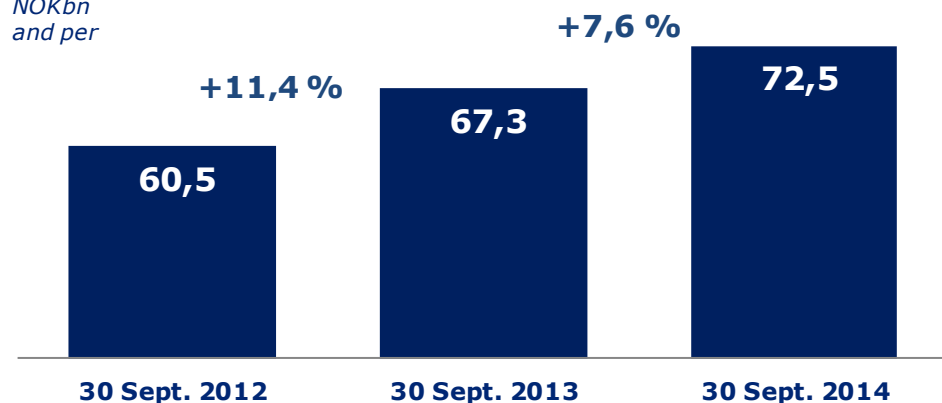
Comments

- Growing competition on lending to business and industry
- Interest rate changed on best home loans with effect from mid-June has reduced margin by 10 bp
- Further interest rate reduction on retail loans announced with effect from 1 December 2014. This is balanced by reductions in deposit rates
- Interest rate level remains low

Total growth lending 5.4 %

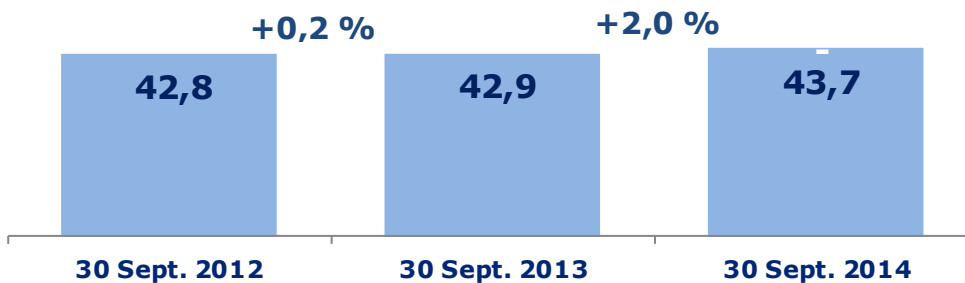
Lending RM +7.6 % from Q3 13 to Q3 14

*NOKbn
and per*

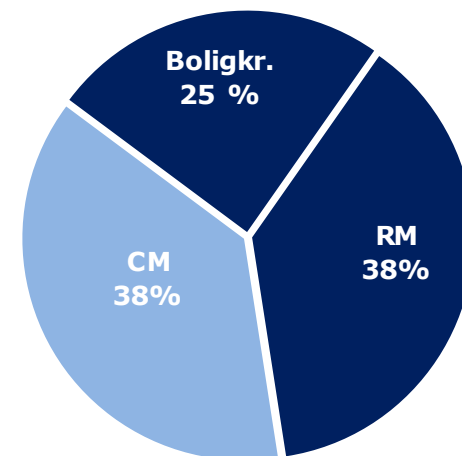


Lending CM 2.0 % from Q2 13 to Q3 14

NOKbn and

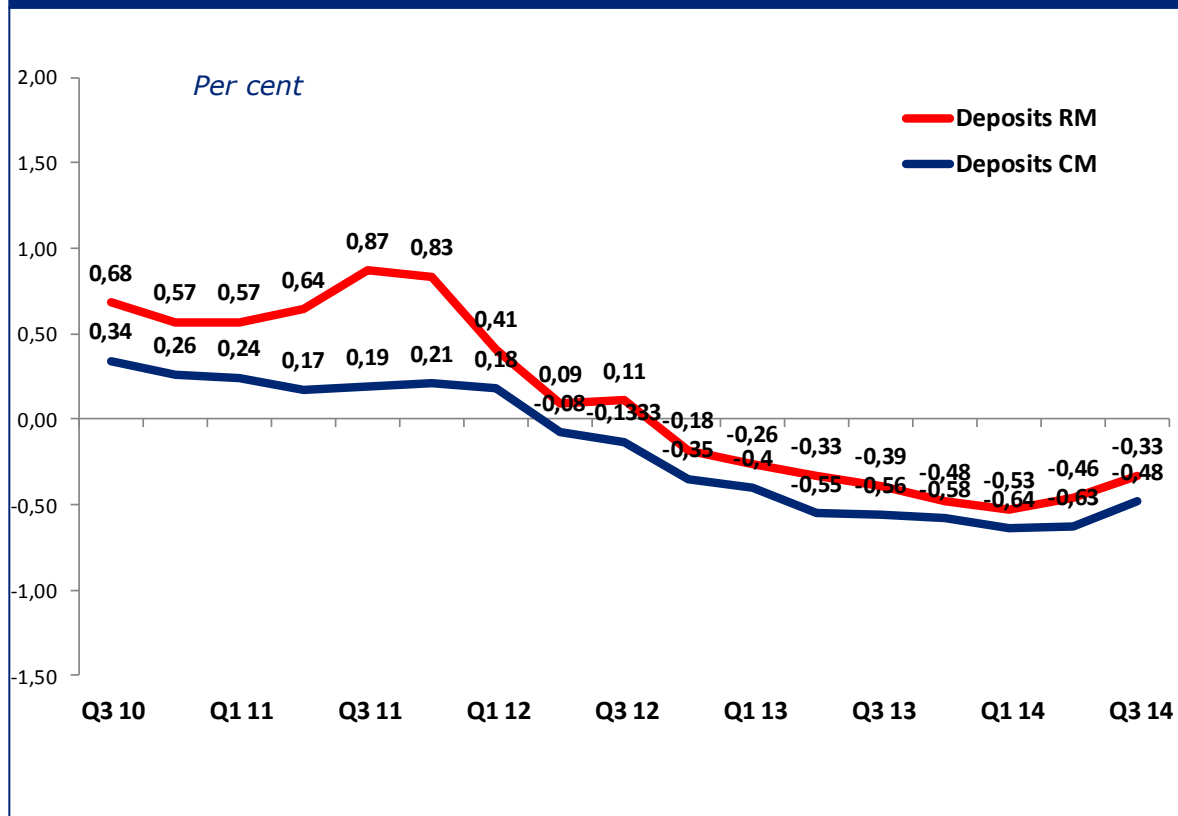


Loans



Deposit margins Retail and Corporate

Per quarter from Q3 2010



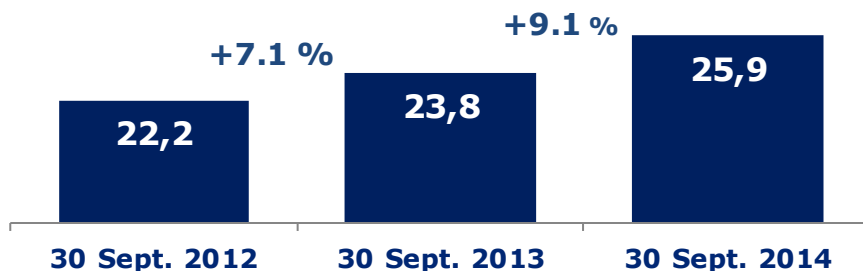
Comments

- Margin increases in last quarter due to repricing
- Further repricing to be carried out, both of corporate and retail deposits

Total growth deposits 8.5 %

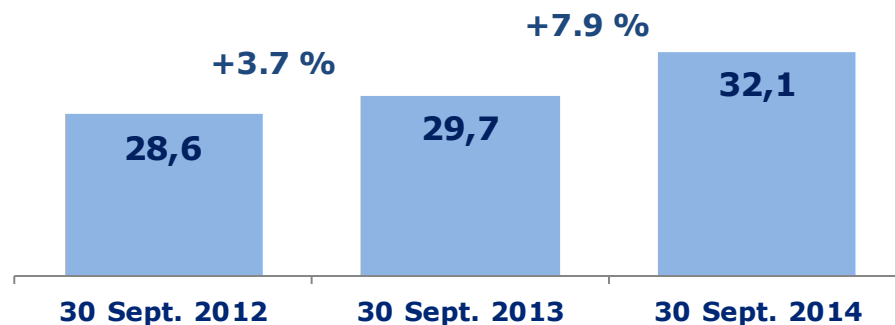
Deposits RM + 9.1 % from Q3 13 to Q3 14

*NOK bn.
and %*

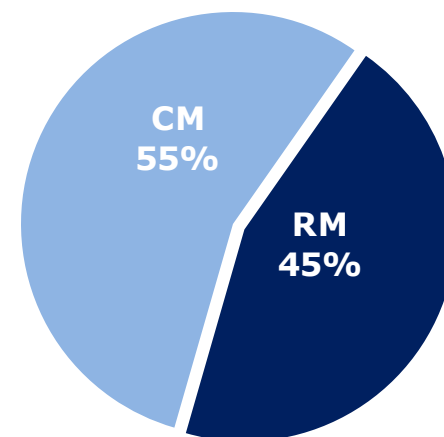


Deposits CM + 7.9 % from Q3 13 to Q3 14

NOK bn.



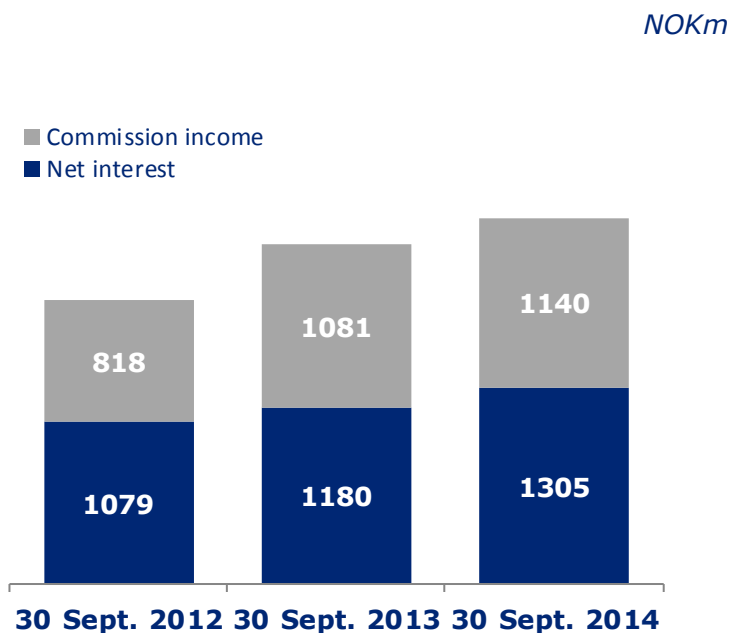
Deposits



Robust income platform and increased commission income

Continued potential for cross sales

Net interest and other income



Commission income at Q3 13 and Q3 14

<i>mill kr</i>	30 Sept. 2014	30 Sept. 2013
Payment transmission income	179	169
Commissions savings	34	36
Commissions insurance	101	92
Guarantee commissions	45	40
Estate agency	239	255
Accountancy services	134	96
Assets management	11	9
Rental income	32	32
Other commissions	37	48
Commissions ex. Bolig/Næringskreditt	811	778
Boligkreditt and Næringskreditt	329	302
Total commission income	1.140	1.081

- The Group's income platform is robust
- Incomes derive from a wide range of products both from the parent bank, the subsidiaries, and the SpareBank 1 Group

The group's subsidiaries hold a dominant position in the market and ensure a robust value creation

Position

Company

Business areas

1

EiendomsMegler 1

- 40% market share, strong synergy with the bank
- Profit before of NOK 42.2m (53.3m)

1

SpareBank
FINANS MIDT-NORGE

- Leasing NOK 1.9bn, car loans NOK 1.6bn
- Profit of NOK 49.9m (42.6m)

1

SpareBank
REGNSKAPSHUSET

- 39% growth in income over past year
- Profit of NOK 24.1m (12.2m)

Subsidiaries

Profit subsidiaries before tax last three years

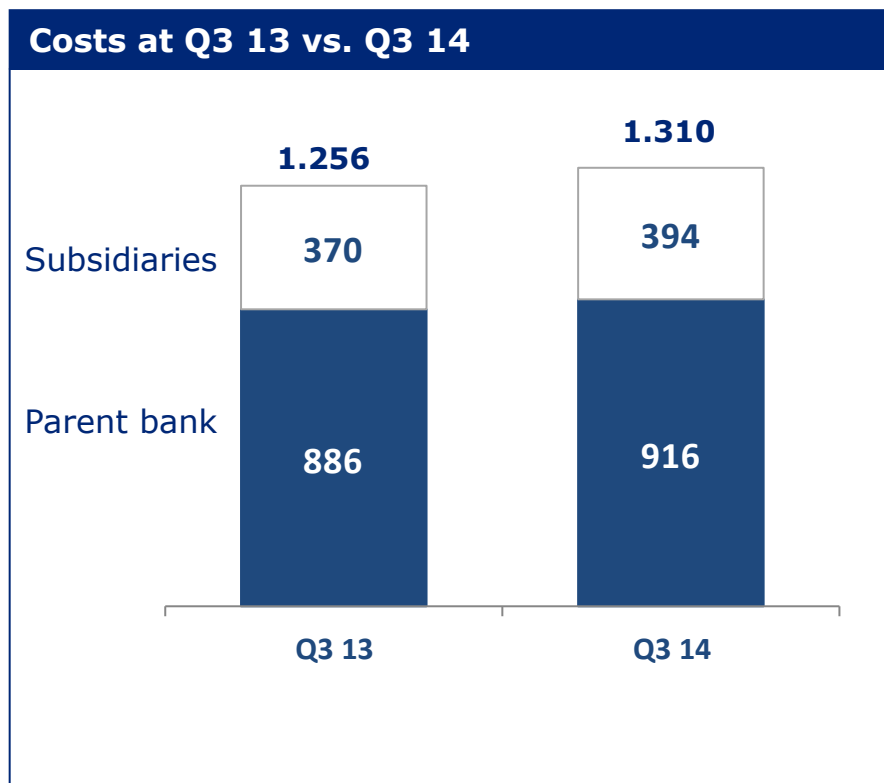
	30 Sept. 2014	30 Sept. 2013	30 Sept. 2012
EiendomsMegler 1 Midt-Norge (87 %)	42,2	53,3	57,4
SpareBank 1 Regnskapshuset SMN	24,1	12,2	12,6
SpareBank 1 Finans Midt-Norge (90 %)	49,9	42,6	42,7
SpareBank 1 SMN Invest	31,1	27,0	11,9
Other companies	1,6	-4,3	-14,7

Associated companies

Profit shares after tax last three years

	30 Sept. 2014	30 Sept. 2013	30 Sept. 2012
SpareBank 1 Gruppen (19,5 %)	259,5	153,1	104,3
SpareBank 1 Boligkreditt (18,4 %)	22,8	25,3	36,5
SpareBank 1 Næringskreditt (29,3 %)	30,4	4,8	7,9
BN Bank (33 %)	78,0	74,6	41,4
Companies owned by SpareBank 1 SMN Invest	17,8	0,0	0,0
SpareBank 1 Markets (24 %)	-22,3		
Other companies	-2,8	24,9	-8,1

Costs, parent bank and subsidiaries



Comments

Growth in costs at parent bank 3.4 %

Cost growth at subsidiaries due to company acquisitions

Zero growth in costs up to 2016

Efficiency gains needed if we are to maintain competitiveness

Continuous work on costs will enable zero cost growth up to 2016

Industrially rational

- Continuous attention to efficiency
- Exploit the potentials in the organisation
- Efficiency enhancement and industrialisation are rational

Tough and efficient competitors

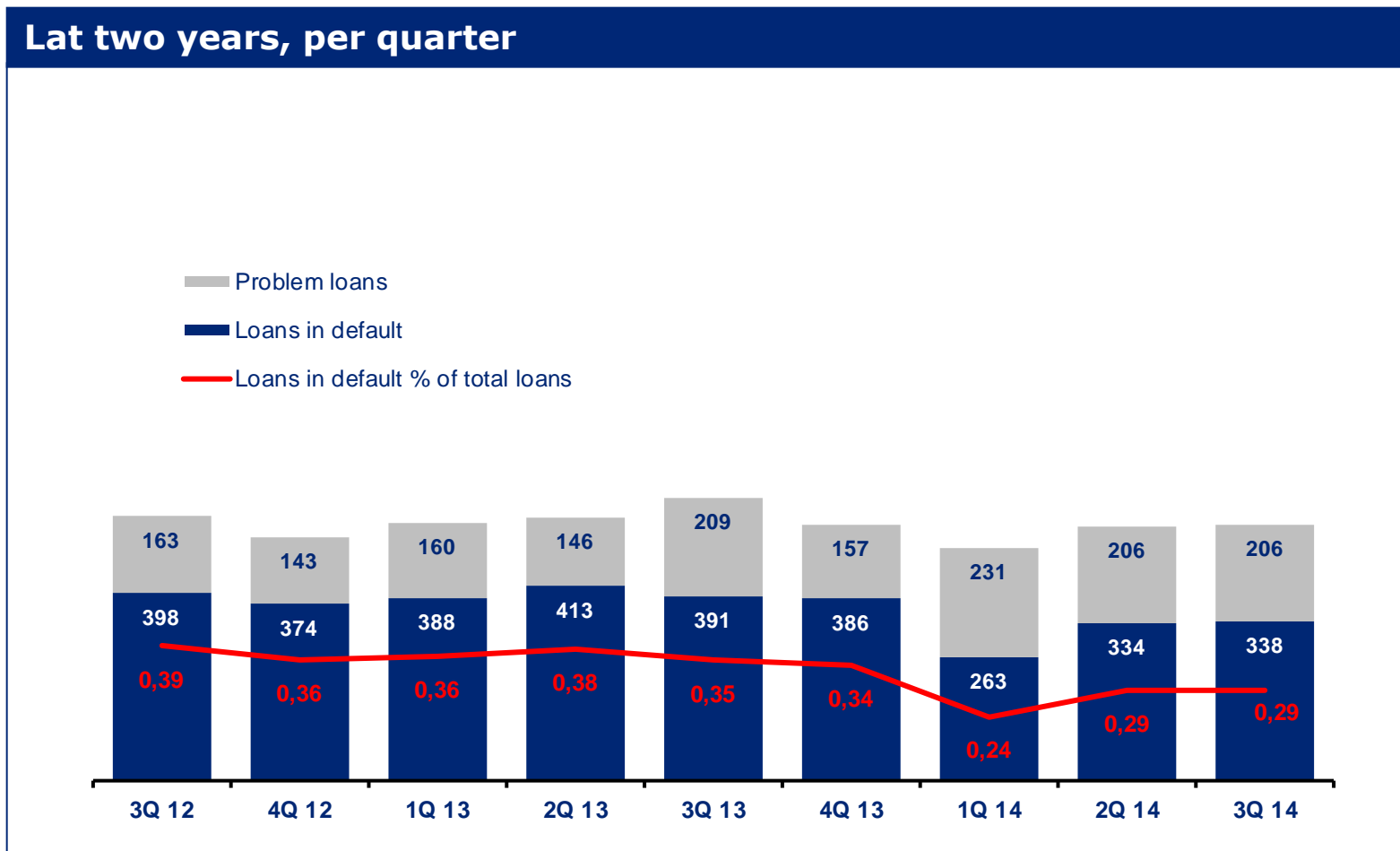
- Our competitors have ambitious cost plans
- If we are to compete on prices and terms, we must be efficient
- In the long term, customers will opt for efficient banks

The market expects efficient operations

- Challenging to achieve significant price and volume effects
- Owners and analysts expect efficient operations
- Analysts concerned with cost efficiency and effectiveness

Defaults and other problem loans

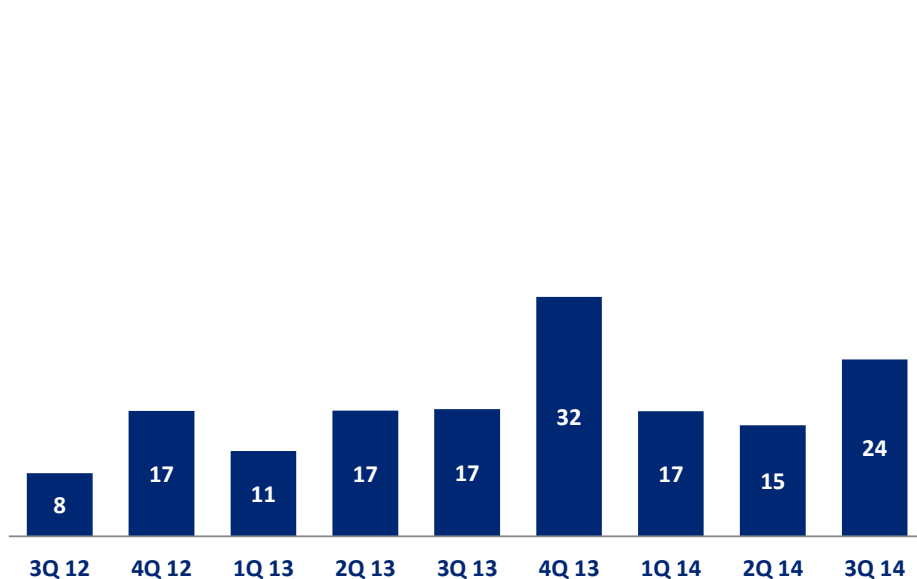
Low levels



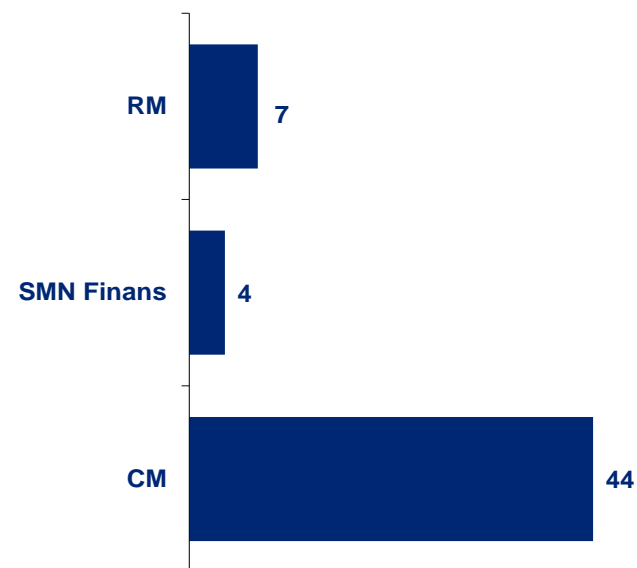
Low losses , 0.06 % of total gross lending

Losses per quarter

NOK mill



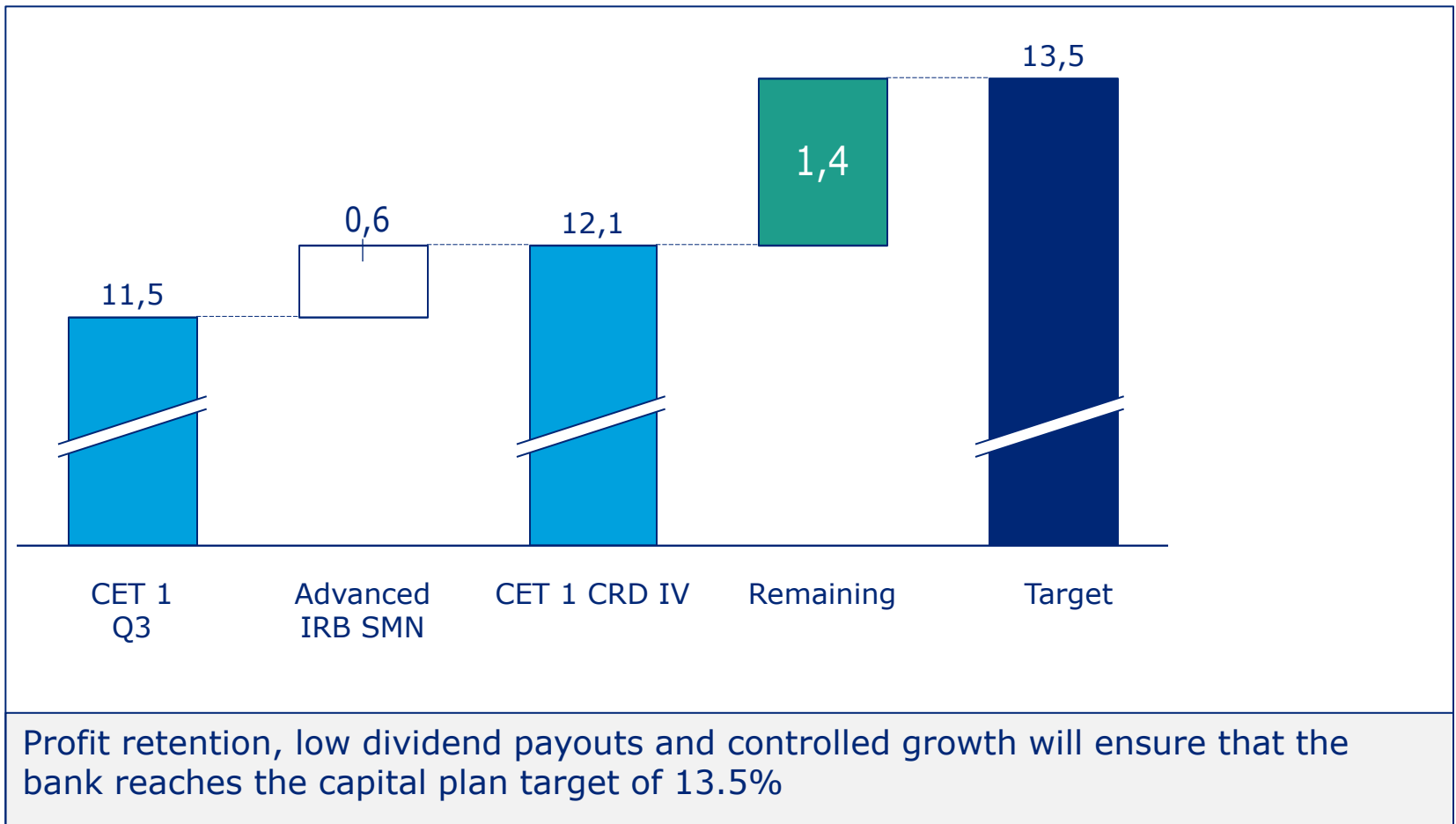
Distribution as at 30.9.2014



- Loan losses 0.06 % (0.08 %) of gross lending as at 30.9.2014

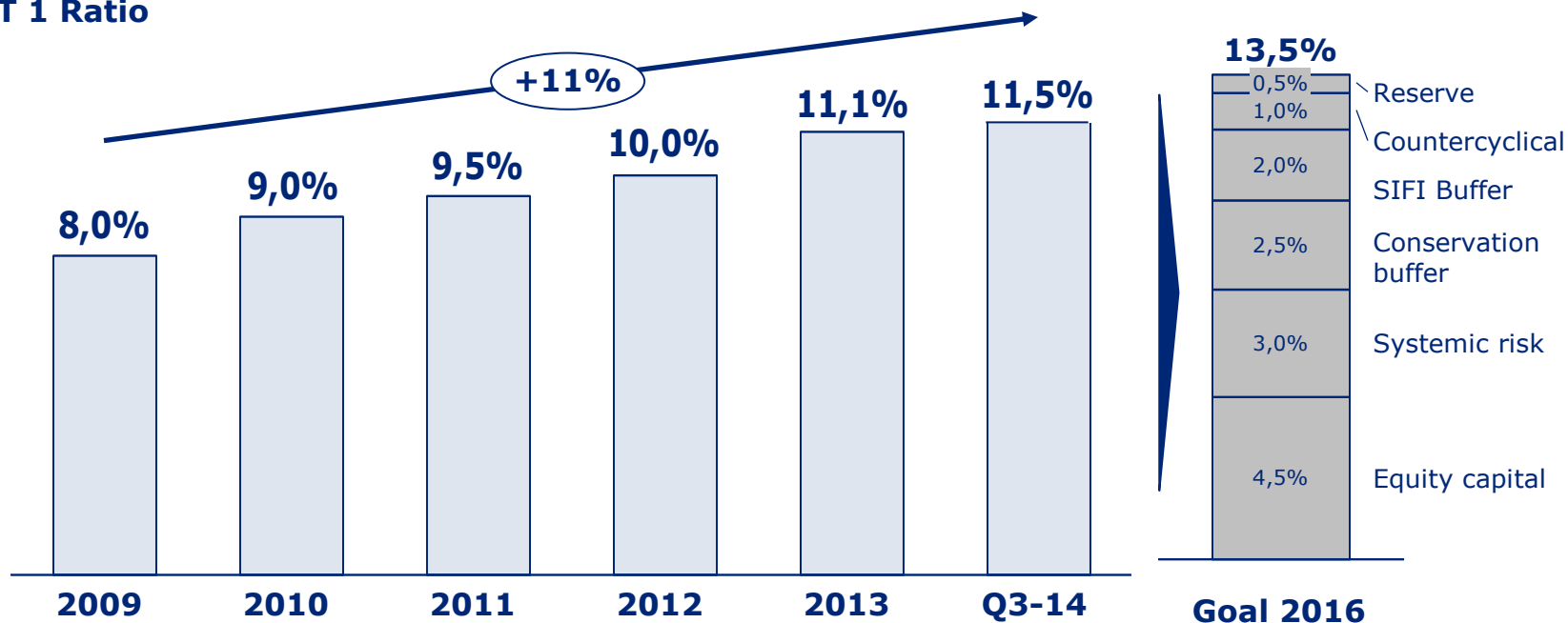
Estimates CRD IV (new capital requirements directive)

Estimates show that the bank will reach the 13.5% target



Development in common equity Tier 1 (capital and ratio), and ROE from 2009 to Q3 2014

CET 1 Ratio



	2009	2010	2011	2012	2013	Q3-14
CET 1 Capital	4.938	6.177	6.687	8.254	9.374	10.605
ROE	16,2%	14,6%	12,8%	11,7%	13,3%	16,1%
RWA	64.400	66.688	75.337	82.450	84.591	92.045

Goal for 2016 shall be achieved by 1st half 2016

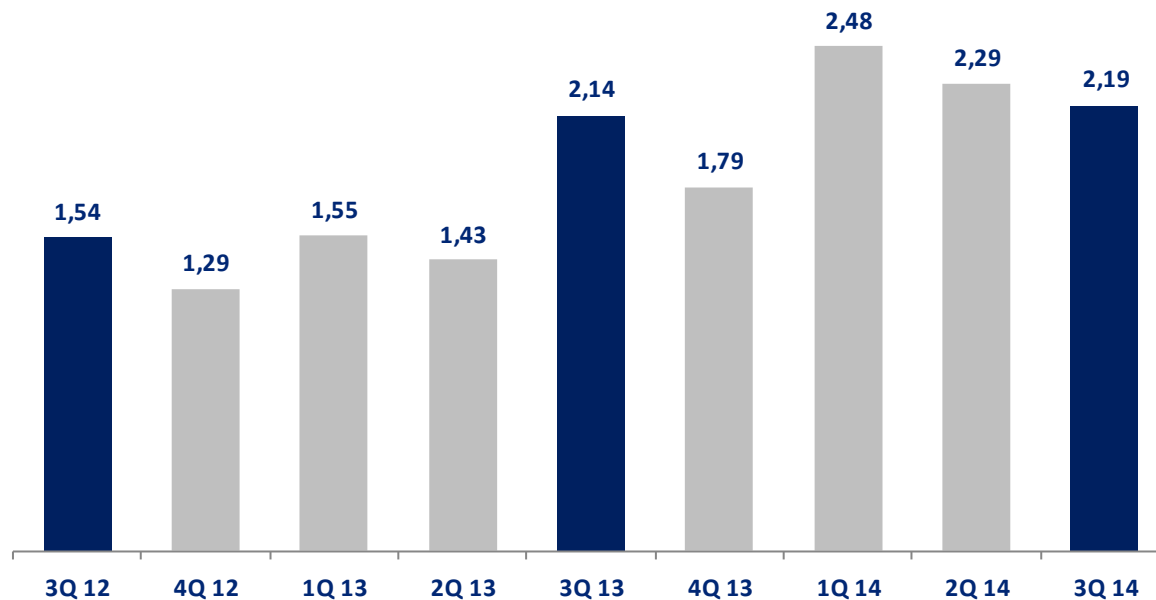
SpareBank 1 SMN intends to be among the best performing banks

Customer orientation	Best on customer experience Will continue to strengthen market position
Profitable	In the area of 12 % - 14 % annually up towards 2015
Solid	13.5% by the end of 1. half 2016
Efficient	Zero cost growth in parent bank 2014 – 2016
Dividend	Real-terms payout ratio of 25% to 35%. Strong focus on strengthening capital through retained profit

Appendix

Earnings per ECC

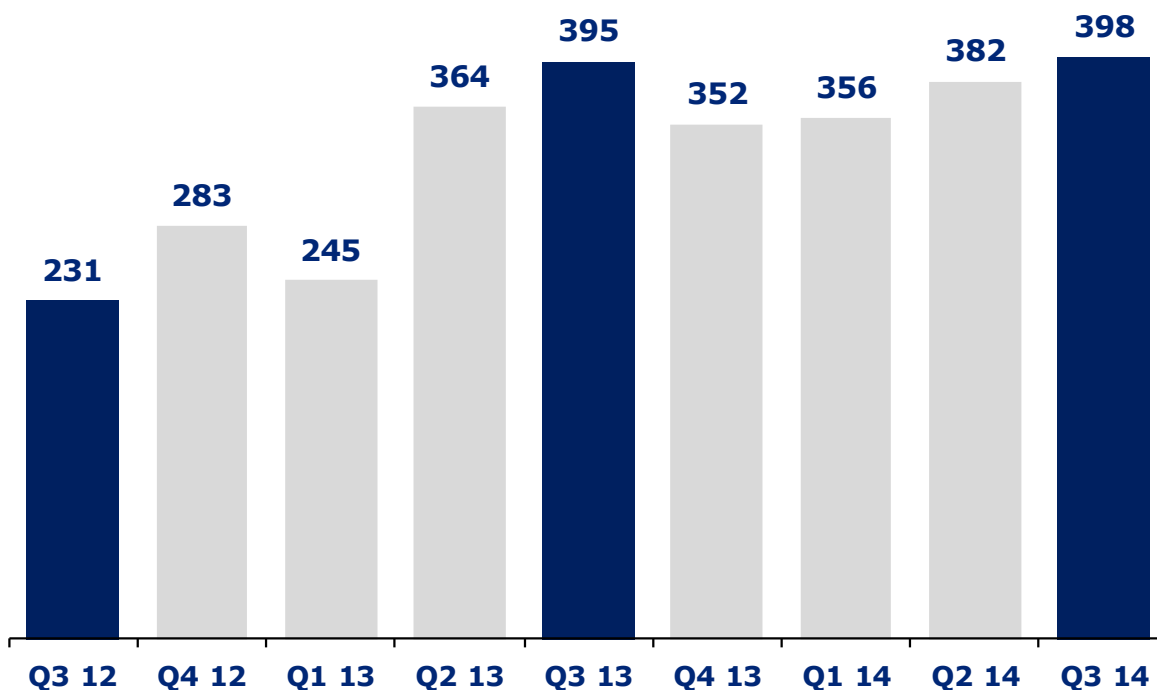
Last two years per quarter



Good profit trend for core business

Last two years per quarter

NOK mill.



Comments

Improvement in 2013 and 2014 at a high degree due to

- Increased lending margins, both retail and corporates
- Positive development commission income
- Moderate cost growth

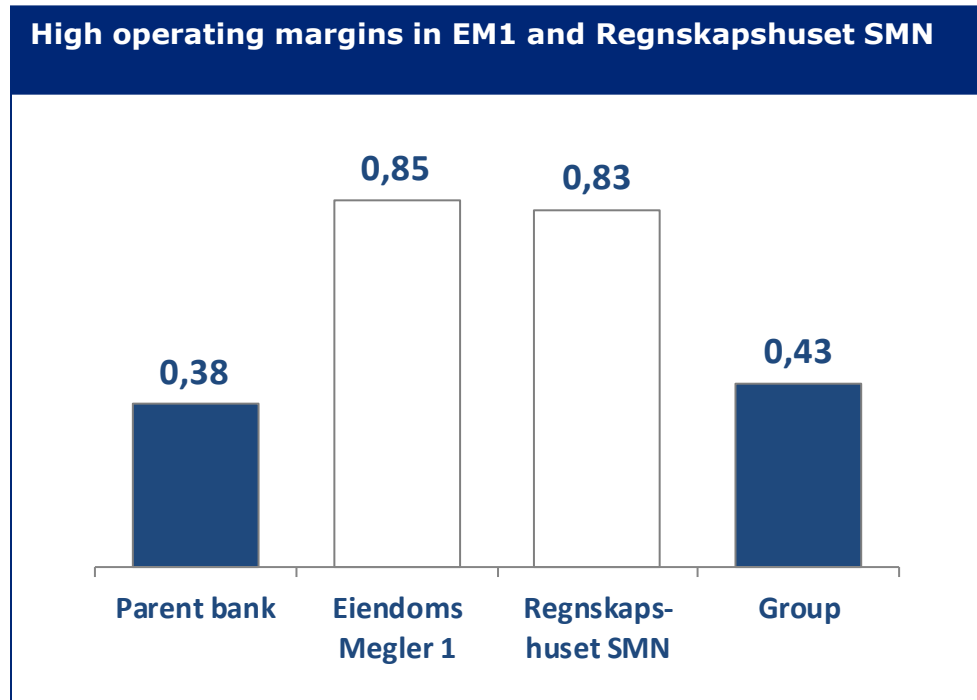
Return on financial investments

Satisfactory return. Securities include 156m from Nets

<i>NOKm</i>	30 Sept. 2014	30 Sept. 2013	Q3 14	Q2 14	Q1 14	Q4 13	Q3 13
Share of profit in related companies	383	290	169	132	82	94	150
Net gain and dividends on securities	216	45	2	58	156	69	19
Net gain on bonds and derivatives	-18	-14	-15	-2	-1	-26	-19
Net gain on trading and derivatives Markets	46	58	12	14	20	15	16
Return on financial investments	628	380	168	202	257	151	166

Including held for sale

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



Profitable and non-capital-intensive subsidiaries:

- ① Both EM1 and Regnskapshuset SMN are companies making a sound profit – and requiring little equity capital compared with the group's other businesses
- ② In their respective segments they are highly cost-efficient
- ③ But pose a challenge to the group's cost / income ratio

Reduced costs in parent bank, some growth in subsidiaries

Change in operating expenses Q3 2013 – Q3 2014

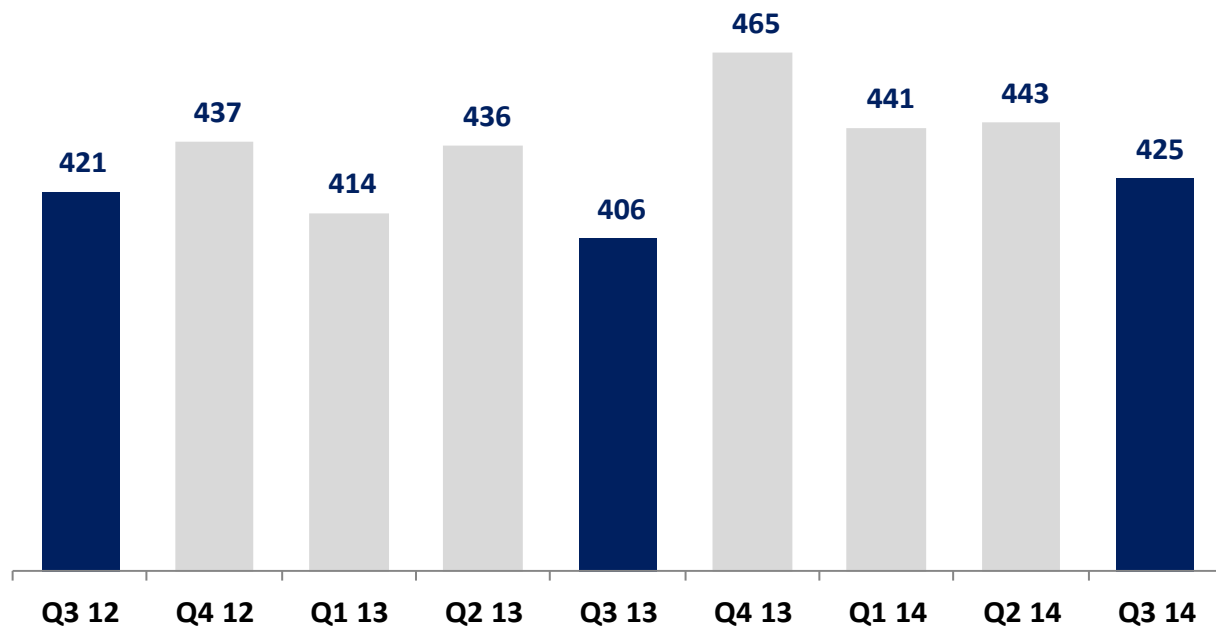
NOK mill	
Expenses at 3Q 2014	1.310
Expenses at 3Q 2013	1.256
Change	53
Obtained as follows:	
Parent bank	31
Personell costs	12
IT	25
Marketing	4
Depreciation	-7
Others	-3
Subsidiaries	22
Regnskapshuset SMN	27
EiendomsMegler 1	-9
SpareBank 1 Finans Midt-Norge	3
Other subsidiaries	1
Group	53

Reduced cost growth

- Reduced cost growth in parent bank, growth 1.7 % last 12 months
- Number of FTEs shall be reduced with 75 in 3 years.
- Purchases of accountancy offices have caused "new" costs
- Some growth in other subsidiaries

Good cost control

Total costs per quarter last 2 years

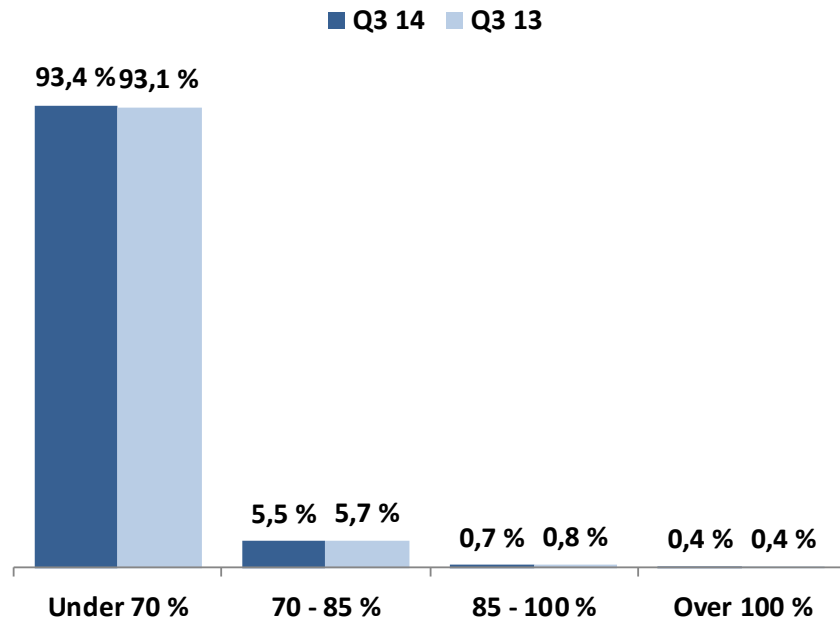


Comments

- Reduced costs through 2014
- Twelve-month cost growth is affected by low costs in the third quarter of 2013 resulting from reversal of accrued bonuses and income recognition of earlier provision for IT costs (total NOK 12m).

Loan to value mortgages

Last two years

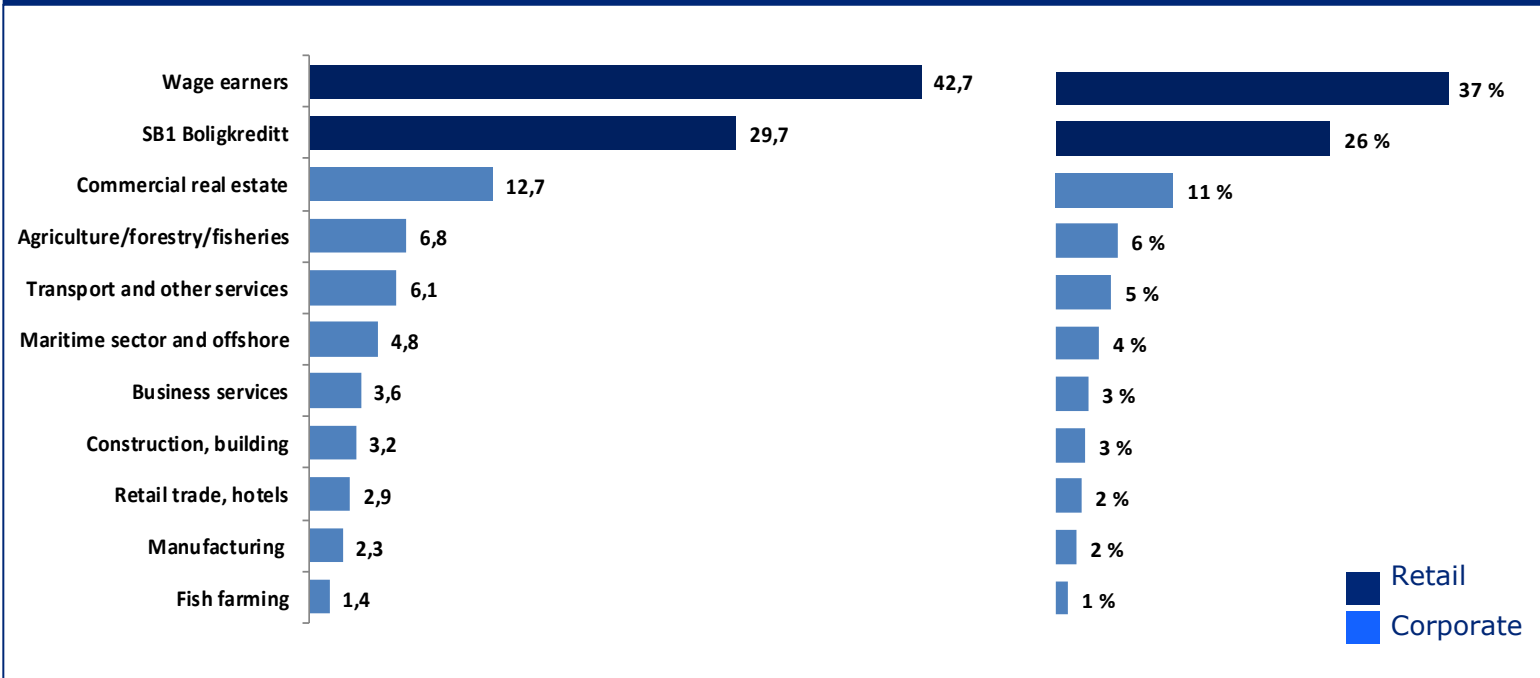


Comments

- 98.9 % of the exposure has an LTV of less than 85 %
- Exposure with LTV higher than 85 % has been reduced by 0.1 %-points to 1.1 % last 12 months

High and increased share mortgages and diversified portfolio SMEs

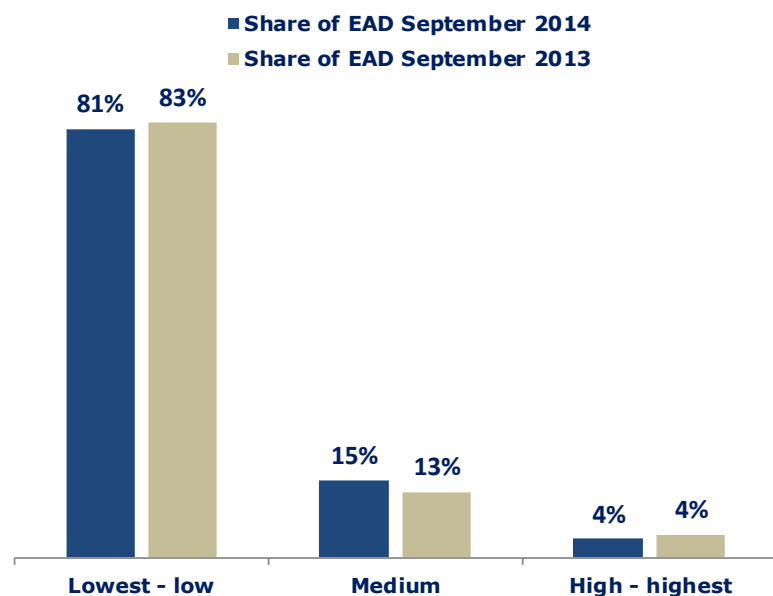
Lending by sector in NOK bn and in per cent of total



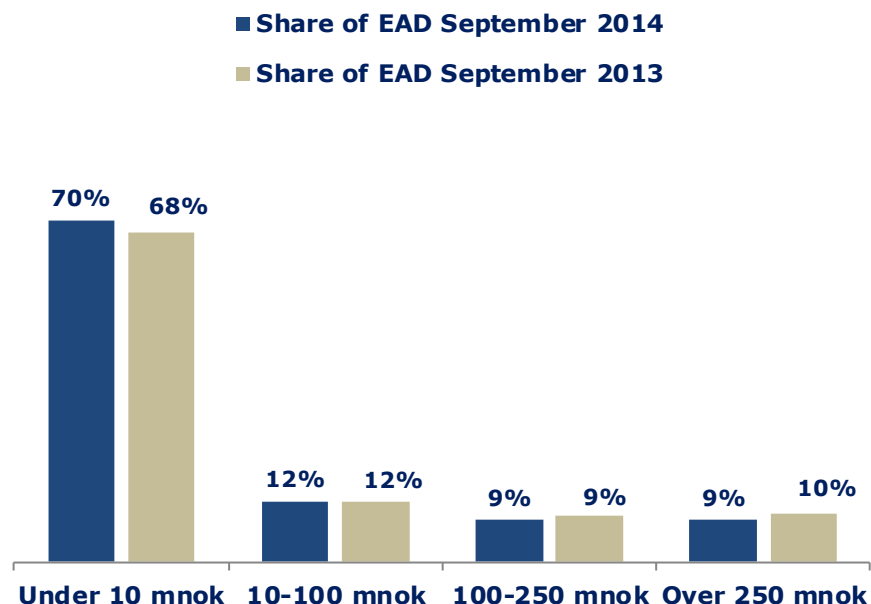
- Large portions of the retail market and primary industries are risk-dampening
- The Group has a well diversified corporate market portfolio
- No specific concerns related to the bank's loans to commercial real estate. Low interest rates and stable high occupancy rates in the bank's market area

Improved credit risk

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



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



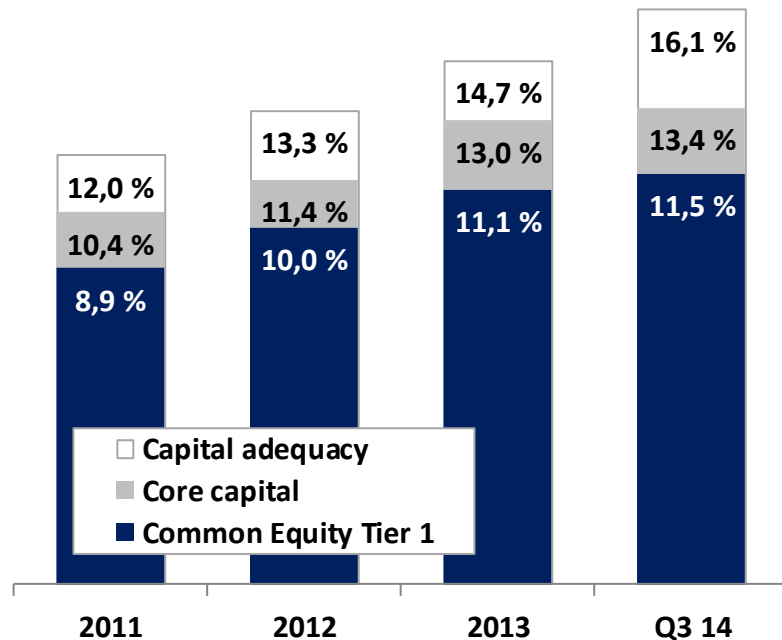
Capital adequacy

Last two years

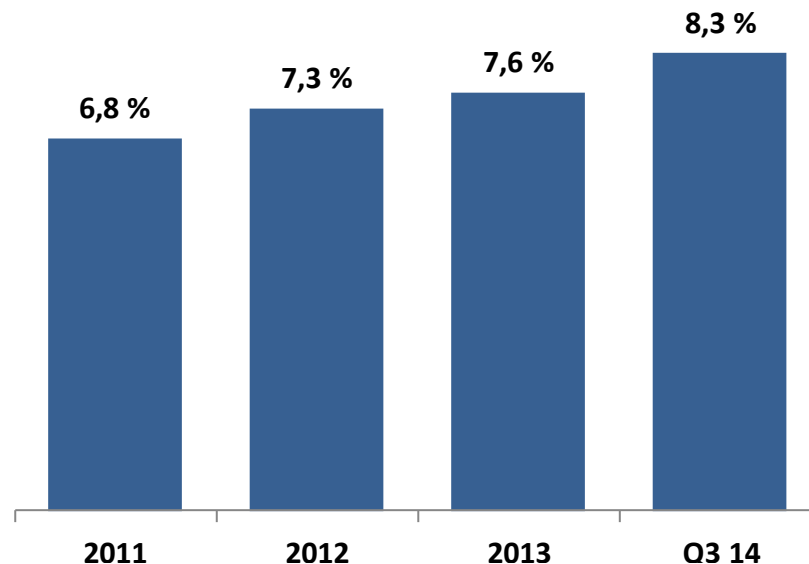
	30.9.14	30.9.13
Core capital exclusive hybrid capital	10.605	9.089
Hybrid capital	1.698	1.619
Core capital	12.302	10.707
Supplementary capital	2.523	1.346
Total capital	14.826	12.053
Total credit risk IRB	4.529	3.736
Debt risk, Equity risk	442	239
Operational risk	416	398
Exposures calculated using the standardised approach	1.860	2.135
CVA	116	-
Deductions	0	-110
Transitional arrangements	0	403
Minimum requirements total capital	7.364	6.802
RWA	92.045	85.019
CET 1 ratio	11,5 %	10,7 %
Core capital ratio	13,4 %	12,6 %
Capital adequacy ratio	16,1 %	14,2 %

Strengthened capital. High equity ratio in relation to total assets

Development capital adequacy



Development share of equity to total assets including loans sold to Bolig- / Næringskreditt



CET1 capital strengthened by NOK 660m

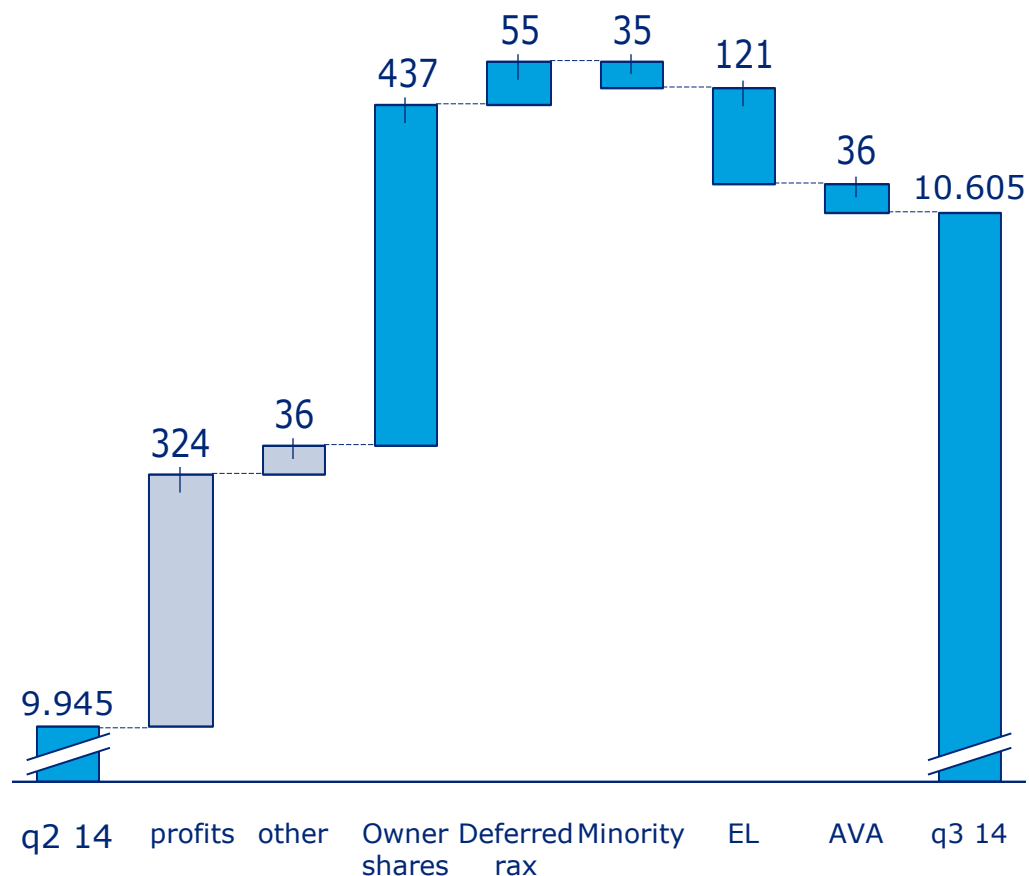
NOK 360m down to operations; the remainder down to CRD IV effects

Capital charges of about NOK 350m on assets are compensated for by reduced deductions

A good quarter has built up CET1 capital

Owner share in the group is large enough to allow deduction in CET1 capital

Restrictions on inclusion of minority share of equity



Capital requirement up 5.5% in Q3 2014

Main cause related to CRD IV

Reduced capital charge against credit risk, but increased charge against debt risk

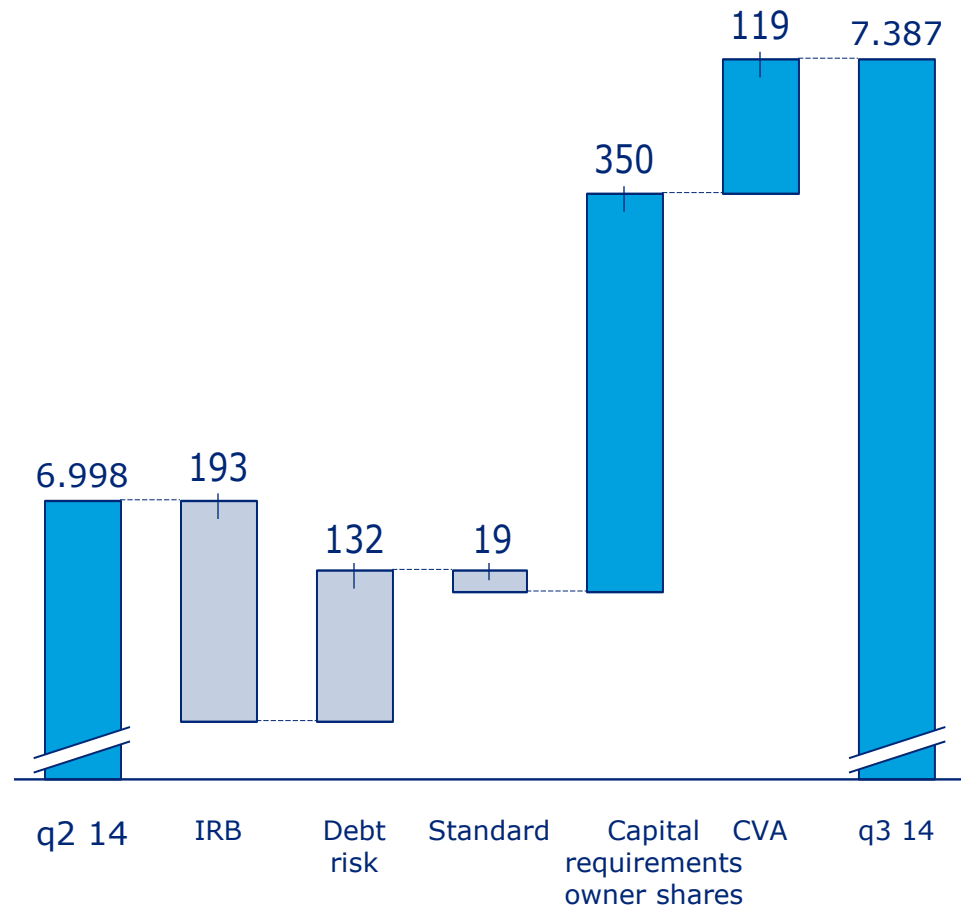
CVA capital charge is a new CRD IV requirement

Capital charge on assets compensated for by strengthened CET1 capital

Risk weights on IRB portfolios fell in Q3

CVA charge largely down to Boligkreditt

Charge on assets compensated for by strengthened CET1 capital



SpareBank 1 SMN will now meet the core capital target of 13.5% by mid-2016 without an ordinary stock issue

Capital a scarce factor

The bank must balance

Room for action



Drivers: Tougher requirements on common equity tier 1 capital, expanded risk-weighted assets and increased requirements on capital strength

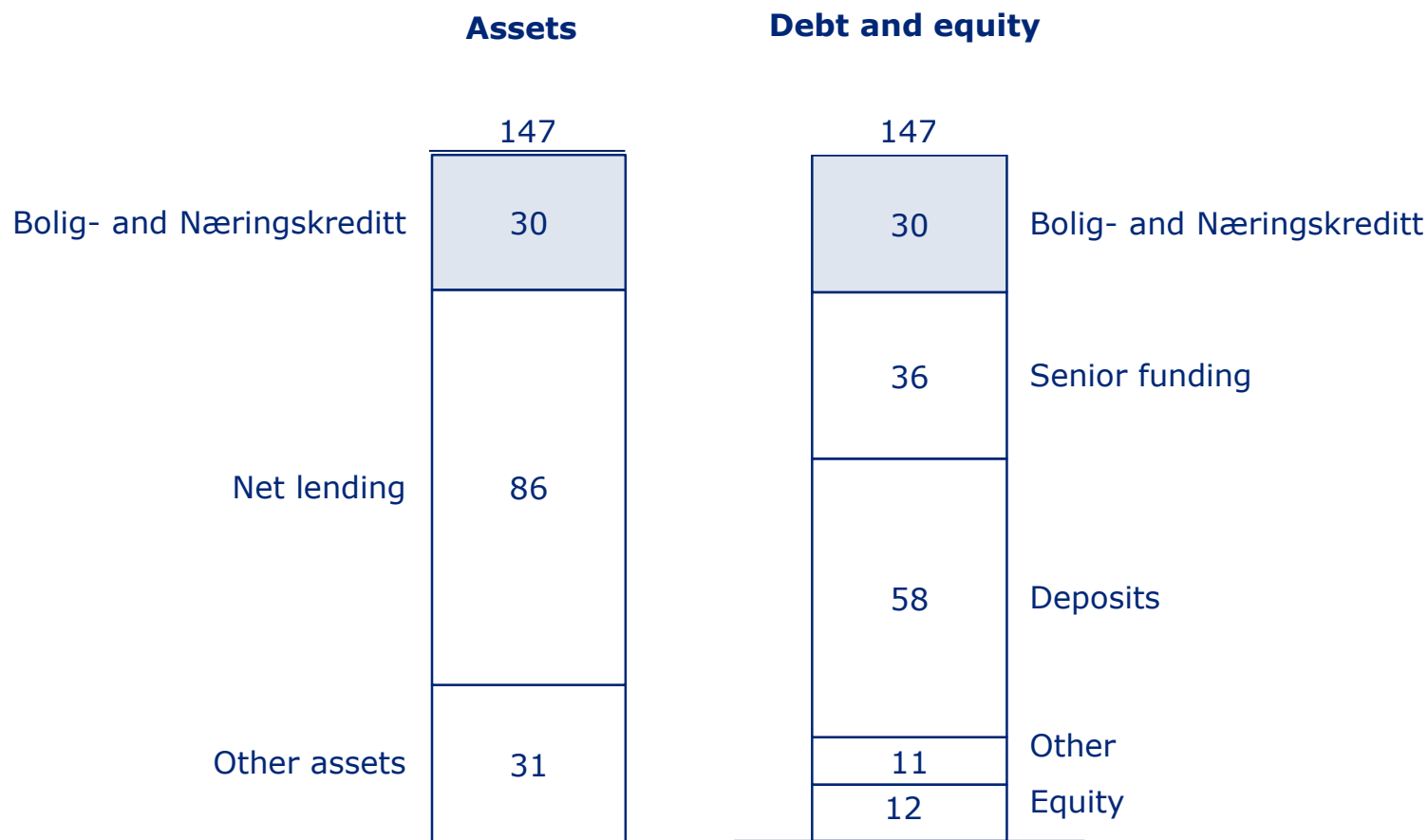
Balance sheet

Last three years

	30 Sept. 2014	30 Sept. 2013	30 Sept. 2012
Funds available	17,2	20,4	21,2
Net loans	86,0	79,4	74,9
Securities	0,7	1,0	0,7
Investment in related companies	5,1	4,6	5,0
Goodwill	0,5	0,5	0,5
Other assets	7,7	6,2	8,2
TOTAL ASSETS	117,2	112,0	110,6
Capital market funding	36,1	35,2	36,5
Deposits	58,0	53,5	50,8
Funding, "swap" arrangement with the government	0,0	2,3	2,6
Other liabilities	7,5	6,8	8,4
Subordinated debt	3,3	3,3	2,6
Equity	12,2	10,9	9,7
TOTAL DEBT AND EQUITY	117,2	112,0	110,6
 *) in addition loans sold to Boligkreditt and Næringskreditt	 29,7	 30,4	 27,9

Divercified funding

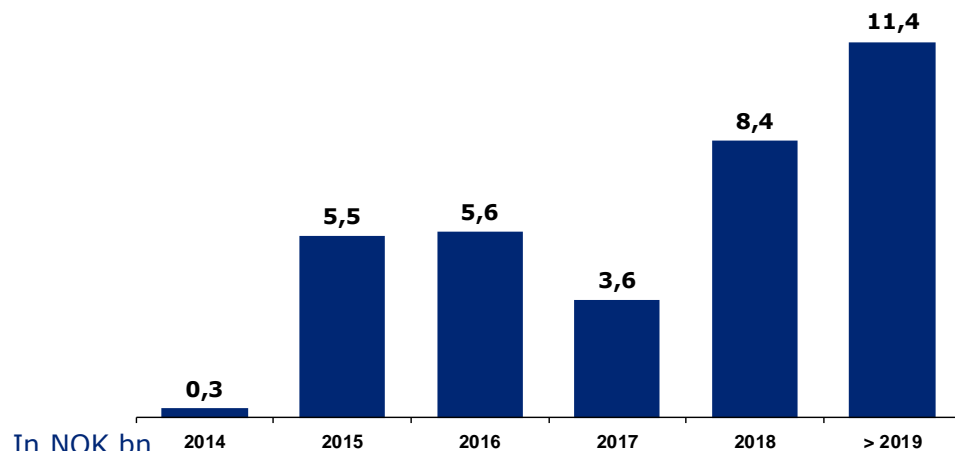
Balance sheet items including Bolig- and Næringskreditt 30.9.2014



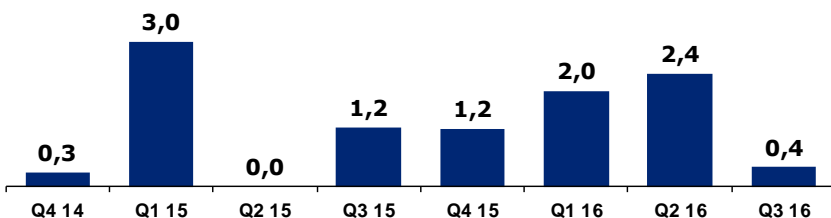
Satisfying access to capital market funding

Funding maturity 30 September 2013

In NOK bn



In NOK bn



Comments

- SpareBank 1 Boligkreditt is the main funding source through covered bonds. NOK 28 billion transferred as of 30 June 2014
- Maturities next two years
- NOK 10.5 bn
 - NOK 0.3 bn in 2014
 - NOK 5.4 bn in 2015
 - NOK 4.8 bn in Q1 16
- In the second quarter SpareBank 1 SMN raised a five-year loan of EUR 500m

Establishment of a wholly-owned residential mortgage company

- The board of directors of SpareBank 1 SMN have like other alliance banks resolved to apply for a licence for a wholly-owned residential mortgage company.
- This company will be a supplement to SpareBank 1 Boligkreditt which remain the alliance banks' main instrument for borrowing through covered bonds.
- The residential mortgage company will be entitled to utilise loans beyond SpareBank 1 Boligkreditt's credit policy.
- Moreover, the establishment of a wholly-owned residential mortgage company will eliminate the issue posed by the regulations on large exposures which regulate maximum outstandings between SpareBank 1 SMN and SpareBank 1 Boligkreditt.

SB1 Markets and SMN Markets to be integrated to create a company with a robust and diversified income base and a profitable capital market environment

1	Wide-ranging improvement measures at SB1 Markets	<ul style="list-style-type: none">• Substantially reduced cost base• Increased focus on defined product and service areas• Reduced risk and volatility in earnings as a result of adjustments to business model
2	Robust and diversified income platform	<ul style="list-style-type: none">• The business being continued, providing a full-fledged array of products and services• Profitable operations at currently expected income level• Strengthened platform designed to achieve coordination gains
3	Integration of SB1 Markets and SMN Markets, with SMN increasing its stake	<ul style="list-style-type: none">• Transaction expected to go ahead in the course of the 4th quarter 2014• The companies valued relative to normalised results• SMN's stake in SB1 Markets rises as a result of the transaction
4	Owners applying a long-term perspective to the SB1 Markets venture	<ul style="list-style-type: none">• All owner banks support the venture and will participate in an already planned stock issue of NOK 65m in the course of September 2014• Current collaboration agreements with the banks to be retained with a strengthened focus on realisation of business potentials

Offensive measures to create a profitable capital market environment

Key figures

Last three years

	30 Sept. 2014	30 Sept. 2013	30 Sept. 2012
Net interest	1,50	1,42	1,37
Comm. income and net retur on fin. inv.	2,04	1,71	1,57
Operating expenses	1,51	1,51	1,55
Net profit as a percentage of ATA	2,03	1,62	1,39
CET 1 ratio	11,5 %	10,7 %	9,3 %
Core capital ratio	13,4 %	12,6 %	10,6 %
Growth in loans incl.Boligkreditt	5,4 %	6,7 %	11,4 %
Growth in deposits	8,5 %	5,1 %	10,5 %
Deposit-to-loan ratio	67 %	67 %	67,5 %
RM share loans	62 %	61 %	59 %
Cost-income ratio	43 %	48 %	53 %
Return of equity	16,1 %	13,3 %	12,1 %
Impairment losses ratio	0,06 %	0,08 %	0,06 %
ECC price	59,25	45,70	37,00
Booked equity capital per ECC	60,53	53,76	49,00

Key figures ECC

Including effects of issues

Last five years						
	Q3 14	Q3 13	2013	2012	2011	2010
ECC ratio	64,6 %	64,6 %	64,6 %	64,6 %	60,6 %	61,3 %
Total issued ECCs (mill)	129,83	129,83	129,83	129,83	102,76	102,74
ECC price	59,25	45,70	55,00	34,80	36,31	49,89
Market value (NOKm)	7.692	5.933	7.141	4.518	3.731	5.124
Booked equity capital per ECC	60,53	53,76	55,69	50,09	48,91	46,17
Post-tax earnings per ECC, in NOK	6,97	5,13	6,92	5,21	6,06	5,94
Dividend per ECC			1,75	1,50	1,85	2,77
P/E	6,38	6,68	7,95	6,68	8,40	5,99
Price / Booked equity capital	0,98	0,85	0,99	0,69	0,74	1,08

Dividend policy

- SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide equity certificate holders with a good, stable and competitive return in the form of dividend and a rising value of the bank's equity certificate.
- The net profit for the year will be distributed between the owner capital (the equity certificate holders) and the ownerless capital in accordance with their respective shares of the bank's total equity capital.
- SpareBank 1 SMN's intention is that up to one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that up to one half of the owner capital's share of the net profit for the year should be disbursed as gifts or transferred to a foundation. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, external framework conditions and the need for tier 1 capital.

10 largest ECC holders

At 30 September 2014

Owner	Number	Share
Verdipapirfond Odin Norge	4.042.430	3,11 %
Sparebankstiftelsen SpareBank 1 SMN	3.965.391	3,05 %
Verdipapirfondet DNB Norge (IV)	3.522.096	2,71 %
Verdipapirfond Pareto Aksje Norge	3.477.008	2,68 %
Verdipapirfondet Nordea Norge Verdi	3.103.939	2,39 %
Verdipapirfond Odin Norden	2.854.979	2,20 %
Vind LV AS	2.736.435	2,11 %
State Street Bank and Trust CO (nominee)	2.654.032	2,04 %
Wimoh Invest AS	2.359.388	1,82 %
MP Pensjon PK	2.058.415	1,59 %

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Equity capital certificates in general:
www.grunnfondsbevis.no

Financial calender 2014

Q3	31. October 2014
Q4	5. February 2015