

# Report of the Board of Directors

## First quarter 2014

*(Consolidated figures. Figures in parentheses refer to the same period of 2013 unless otherwise stated)*

- Pre-tax profit: NOK 597m (390m)
- First quarter net profit: NOK 500m (321m)
- Return on equity: 17.7 per cent (12.7 per cent)
- Growth in lending: 4.4 per cent (9.7 per cent) last 12 months
- Growth in deposits: 4.1 per cent (7.4 per cent) last 12 months
- CET1 capital adequacy: 11.1 per cent (10.4 per cent)
- Earnings per EC: NOK 2.48 (1.55)

## Good performance in first quarter 2014

### Highlights

- Core business substantially strengthened. Increased net interest revenue from both retail and corporate segment
- Profit improvement of NOK 179m compared with first quarter 2013, of which unrealised gain on the agreed sale of the bank's stake in Nets Holding accounts for NOK 148m
- Low loan losses
- Financial position in keeping with the Group's capital plan: CET1 ratio 11.1 per cent (10.4 per cent)
- Reduced lending to corporate customers

In the first quarter of 2014 SpareBank 1 SMN achieved a net profit of NOK 500m (321m) and a return on equity of 17.7 per cent (12.7 per cent). Pre-tax profit was NOK 597m (390m).

In the first quarter operating income increased compared with the same period of 2013 to NOK 797m (660m), largely as a result of increased lending margins.

Return on financial assets was NOK 257m (162m), of which income from owner interests accounted for NOK 82m (101m). The gain resulting from the agreed sale of the Bank's stake in Nets Holding came to NOK 157m, including dividend received and a foreign exchange gain.

Operating expenses came to NOK 441m (414m) in the first quarter of 2014.

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

As of 31 March 2014, 12-month lending growth was 4.4 per cent (9.7 per cent) and deposit growth was 4.1 per cent (7.4 per cent).

CET1 capital adequacy at 31 March 2014 was 11.1% (10.4%). SpareBank 1 SMN is planning for a CET1 ratio of 13.5% by 30 June 2016. SpareBank 1 SMN's capital plan is further described in the section on financial strength. The CET1 ratio shows no change from year-end, the main reason being a doubling of the

LGD floor which had a negative effect of 0.6 percentage point on core capital adequacy as from 1 January 2014 (account being taken of the removal of the Basel I floor), at the same time a very good result for the period strengthened in isolation the financial position by 0.6 percentage point. This left CET1 capital adequacy at the same level as at 31 December 2013. Corrected for the effect of increased home loan weights, the bank's risk-weighted assets rose by 0.3% in the first quarter of 2014.

First-quarter earnings per EC were NOK 2.48 (1.55), and book value per EC was NOK 56.39 (50.32) at quarter-end. The market price at the same point was NOK 53.75 (46.90). A cash dividend of NOK 1.75 per EC was paid in 2014 for the year 2013.

### Net interest income

Net interest income in the first quarter came to NOK 412m (343m).

Net interest income strengthened substantially through 2013 as a result of interest rates increases on loans to retail and corporate customers in the second quarter of 2013. 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 123m (85m) in the first quarter of 2014.

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.

In March the bank adopted a reduction in its lending rate on selected home mortgage loans. It concurrently announced a reduction in its deposit rate on some deposit products. The net profit effect on an annual basis is calculated at NOK 30m. The rate changes will have effect as from mid-June 2014.

### Increased commission income

Net commission and other operating income came to NOK 385m (317m) in the first quarter of 2014. Increased income from SpareBank 1 Boligkreditt accounts for NOK 38m of an overall increase of NOK 68m. Commission income from SpareBank 1 Boligkreditt has risen as a result of higher margins on home mortgage loans transferred to SpareBank 1 Boligkreditt. Other growth in incomes is mainly ascribable to a positive trend in incomes from payment services and accounting services.

Commission income, NOKm	31 Mar 2014	31 Mar 2013	Change
Payment transfers	60	51	9
Savings	10	9	1
Insurance	31	29	2
Guarantee commission	13	11	1
Real estate agency	71	73	-2
Accountancy services	47	33	15
Active management	3	3	0
Rent	11	11	0
Other commissions	16	13	3
<b>Commissions ex SB1 Boligkreditt and SB1 Næringskreditt</b>	<b>262</b>	<b>232</b>	<b>30</b>
Commissions SB1 Boligkreditt and SB1 Næringskreditt	123	85	38
<b>Total commissions</b>	<b>385</b>	<b>317</b>	<b>68</b>

### 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 175m (61m). Overall return breaks down as follows:

- Return on the Group's share portfolios totalled NOK 156m (24m)
- Unrealised gain on the agreed sale of the bank's stake in Nets Holding NOK 148m and dividend received from Nets Holding amount to NOK 9m. SpareBank 1 SMN has signed an agreement to sell its stake in Nets Holding. The bank owns 2.2 per cent of Nets Holding, corresponding to 4,028,773 shares. The sale requires approval by the regulatory authorities. This process is expected to be completed in the second quarter of 2014. The shares are measured at fair value via profit and loss, and at the end of the first quarter were valued at the agreed sale price in Danish kroner converted to the price in effect on the balance sheet date
- Net loss on bonds and derivatives is NOK 1m (gain of 11m)
- Gains on foreign-exchange and fixed-income trading at SpareBank 1 SMN Markets was NOK 20m (25m)

	31 Mar 2014	31 Mar 2013
<b>Capital gains/dividends, shares</b>		
Capital gains/dividends, shares	156	24
Bonds and derivatives	-1	11
Forex and fixed income business, Markets	20	25
<b>Net return on financial investments</b>	<b>175</b>	<b>61</b>
SpareBank 1 Gruppen	46	61
SpareBank 1 Markets	-4	-
SpareBank 1 Boligkreditt	8	12
SpareBank 1 Næringskreditt	11	2
BN Bank	25	26
Other jointly controlled companies	-3	-1
Income from investment in related companies	82	101
<b>Total</b>	<b>257</b>	<b>162</b>

### SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit in the first quarter of 2014 was NOK 249m (315m). The main contributor to the profit is SpareBank 1 Forsikring.

SpareBank 1 SMN's share of the profit was NOK 46m (61m).

### SpareBank 1 Markets

SpareBank 1 SMN has a 24 per cent stake in SpareBank 1 Markets. The company recorded a deficit of NOK 17m in the first quarter of which SpareBank 1 SMN's share was NOK 4m.

### 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, and in so doing benefit from reduced funding costs. As of 31 March 2014 the bank had sold NOK 31bn (30bn) to SpareBank 1 Boligkreditt, corresponding to 45 per cent (47 per cent) of total lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 17.5 per cent, and the bank's share of that company's profit in the first quarter of 2014 was NOK 8m (12m).

**SpareBank 1 Næringskreditt**

SpareBank 1 Næringskreditt is established along the same lines, and with the same administration, as SpareBank 1 Boligkreditt. By the end of the first quarter of 2014, loans worth NOK 1.2bn (0.6 bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.7 per cent, and the bank's share of the company's profit in the first quarter of 2014 was NOK 11m (2m). The bank's ownership interest reflects its relative share of commercial property loans sold and its stake in BN Bank. The profit improvement is ascribable to the change in the interest rate applied between SpareBank 1 Næringskreditt and BN Bank. Being the price paid for commission, this rate reflects the capital costs for BN Bank's loans sold to SpareBank 1 Næringskreditt.

**BN Bank**

SpareBank 1 SMN has a 33 per cent stake in BN Bank as of 31 March 2014.

SpareBank 1 SMN's share of the profit of BN Bank in the first quarter of 2014 was NOK 25m (26m), yielding a return on equity of 8.1 per cent. The profit is affected by the interest rate change mentioned in the preceding section. As from 2014 there are no amortisation effects related to BN Bank. In the first quarter of 2013 amortisation effects amounted to NOK 4m of the profit of NOK 26m. BN Bank's focus is on implementing profitability-enhancing measures, and it has achieved increased lending margins and cost reductions. Work continues on further internal measures with a view to profitability enhancement and to scaling back risk-weighted assets. BN Bank received approval to apply the advanced IRB approach to its corporate portfolio in April 2014.

**Other companies**

The profit in the first quarter of 2014 mainly comprises SpareBank 1 SMN's profit share in SpareBank 1 Kredittkort.

**Assets held for sale**

A profit of NOK 1m (7m) was recorded on assets held for sale in the first quarter of 2014.

**Reduced cost growth**

Overall costs came to NOK 441m (414m) in the first quarter of 2014, having risen by NOK 27m or 6.5 per cent.

Parent bank cost growth rose by NOK 10m or 3.3 per cent, in keeping with the cost ambition to limit cost growth to 3 per cent per year up to and including 2015. A project launched with the aim of ensuring continual improvement will contribute to enhancing the bank's efficiency.

The number of FTEs at the Parent bank has been reduced by about 40 since the start of 2013.

For the subsidiaries, overall cost growth was NOK 17m or 14.3 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 1.56 per cent (1.52 per cent) of average total assets. The Group's cost-income ratio was 42 per cent (50 per cent).

**Low losses and low defaults**

Loan losses came to NOK 17m (17m) in the first quarter of 2014.

Net losses of NOK 16m were recorded on loans to corporate customers, including losses at SpareBank 1 Finans Midt-Norge of NOK 2m. On the retail portfolio a net loss of NOK 1m was recorded in the first quarter of 2014.

Total individually assessed loan impairment write-downs came to NOK 173m (143m) in the first quarter of 2014, an increase of NOK 30m over the last 12 months.

Total problem loans (defaulted and doubtful) came to NOK 494m (548m), or 0.44 per cent (0.51 per cent) of gross outstanding loans as at 31 March 2014.

Defaults in excess of 90 days totalled NOK 263m (388m) – down NOK 125m. Defaults measure 0.24 per cent (0.36 per cent) of gross lending (including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt). Of total defaults, NOK 59m (71m) are loss provisioned, corresponding to 22 per cent (18 per cent).

Defaults break down to NOK 120m on corporate customers and NOK 143m on retail customers.

Other doubtful exposures totalled NOK 231m (160m), i.e. 0.21 per cent (0.15 per cent) of gross outstanding loans. NOK 114m (72m) or 49 per cent (45 per cent) are loss provisioned.

Other doubtful exposures break down to NOK 210m to corporate customers and NOK 21m 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 the first quarter 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 112bn**

The bank's assets totalled NOK 112bn at 31 March 2014 compared with NOK 111bn one year previously.

By quarter-end loans worth 32.2bn (30.4bn) 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 include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

**Reduced lending to corporates**

(Distributed by sector - see note 5 og note 10)

In the last 12 months, total outstanding loans rose by NOK 4.7bn (9.4bn) or 4.4 per cent (9.7 per cent) to reach NOK 111.6bn (incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) at the end of the first quarter of 2014.

Lending to corporates was reduced by NOK 0.9bn (growth of NOK 2.4bn) or 2.1 per cent (growth of 5.8 per cent) in the last 12 months. Overall loans to corporates totalled NOK 42.0bn at the end of the first quarter of 2014. In the same quarter, lending to corporates was reduced by NOK 1.5bn or 3.4 per cent. The reduction in lending to corporates is anchored in the Bank's capital plan and mainly attributable to reduced lending to large customers. Growth in lending to small and medium businesses is positive.

Lending to retail customers rose by NOK 5.6bn (7.1bn) or 8.8 per cent (12.5 per cent) to reach NOK 69.5bn in the past 12 months. Growth in the first quarter of 2014 was NOK 1bn or 1.5 per cent.

Loans to retail customers accounted for 62 per cent (60 per cent) of gross lending (incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) to customers at 31 March 2014.

Customer deposits rose by NOK 2.1bn (3.6bn) in the last 12 months to reach NOK 54.7bn at 31 March 2014. This represents a growth of 4.1 per cent (7.4 per cent).

Retail customer deposits rose by NOK 1.3bn (1.8bn) or 5.9 per cent (8.6 per cent) to reach NOK 24.2bn, while deposits from corporates rose by NOK 0.8bn (1.8bn) or 2.7 per cent (6.5 per cent) to NOK 30.6bn.

### Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 5.4bn at 31 March 2013, an increase of 18 per cent since the first quarter of 2013. Growth is largest in the equity fund portfolio and is driven both by value increases and new sales.

<b>Saving products, customer portfolio, NOKm</b>	<b>31 Mar 2014</b>	<b>31 Mar 2013</b>	<b>Change</b>
Equity funds	3,635	2,817	818
Pension products	545	648	-103
Active management	1,201	1,043	158
Energy fund management	67	127	-60
<b>Total</b>	<b>5,448</b>	<b>4,635</b>	<b>813</b>

### Insurance products

The bank's insurance portfolio grew by 6 per cent in the last 12 months. Non-life insurance showed 1 per cent growth, personal insurance 20 per cent and the occupational pensions portfolio 9 per cent growth. Total incomes on the bank's insurance portfolio passed NOK 120m in 2013 and are expected to show the stable growth again in 2014.

<b>Insurance, premium volume, NOKm</b>	<b>31 Mar 2014</b>	<b>31 Mar 2013</b>	<b>Change</b>
Non-life insurance	695	685	10
Personal insurance	227	189	38
Occupational pensions	188	173	15
<b>Total</b>	<b>1,110</b>	<b>1,047</b>	<b>63</b>

### Retail banking segment and corporate banking segment

As from 2014 organisational readjustments take effect. The retail segment is to cover agricultural customers, associations etc and sole proprietorships. In 2013 these customers were part of the SME segment. Other

customers in the SME segment are included in the corporate segment. Historical data for the retail segment and the corporate segment are therefore incomplete and in the following no comparison is made with the previous year's figures for each of the segments overall.

	Retail Market	Corporate Market
Net interest	197	206
Interest from allocated capital	9	14
<b>Total interest income</b>	<b>206</b>	<b>220</b>
Commission income and other income	194	38
Net return on financial investments	0	9
<b>Total income</b>	<b>400</b>	<b>267</b>
Total operating expenses	204	84
<b>Ordinary operating profit</b>	<b>196</b>	<b>182</b>
Loss on loans, guarantees etc.	1	14
<b>Result before tax including held for sale</b>	<b>195</b>	<b>169</b>
<b>Post-tax return on equity</b>	<b>36.3 %</b>	<b>16.5 %</b>

### Retail banking

Operating income – and return on equity – have increased substantially due to increased margins on home loans on the Bank's own books and on home loans sold to SpareBank 1 Boligkreditt, and totalled NOK 400m at 31 March 2014. Net interest income came to NOK 206m and commission income to NOK 194m. Return on equity in the retail market segment was 36.3 per cent.

For the retail market exc. agricultural customers, associations etc and sole proprietorships

The lending margin in the first quarter of 2014 was 2.65 per cent (2.20 per cent), while the deposit margin was -0.52 per cent (-0.34 per cent)(measured against three-month NIBOR).

In the last 12 months, lending to retail customers rose by 9.0 per cent (12.3 per cent) and deposits from the same segment by 4.9 per cent (8.6 per cent).

Lending to retail customers 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.

### Corporate banking

Operating income totalled NOK 267m in the first quarter of 2014. Net interest income was NOK 220m, while commission income was NOK 47m, incl. NOK 9m on fixed-income and foreign exchange business. In the corporate segment, too, net interest income has risen after the portfolio was repriced in 2013.

Return on equity for corporate customers was 16.5 per cent in the first quarter.

The lending margin was 3.0 per cent and the deposit margin was -0.6 per cent in the first quarter.

Lending was reduced by 4.5 per cent and deposits were reduced by 3.8 per cent in the first quarter of 2014.

### SpareBank 1 SMN Markets

SpareBank 1 Markets posted total income of NOK 24m (30m) in the first quarter of 2014. Incomes are relatively stable. As from the fourth quarter of 2013, SpareBank 1 SMN's corporate business was transferred to SpareBank 1 Markets. Customer margins account for NOK 7.8m (6.6m) of income from fixed-income and foreign exchange business.



Markets (NOKm)	31 Mar 2014	31 Mar 2013	Change
Currency trading	16.6	19.3	-2.7
Corporate	0.0	4.5	-4.5
Securities, brokerage commission	8.6	8.5	0.1
SpareBank 1 Markets	1.3	-2.4	3.7
Investments	-2.4	0.0	-2.4
<b>Total income</b>	<b>24.1</b>	<b>29.9</b>	<b>-5.8</b>

## Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 28.2m (43.0m) in the first quarter of 2014.

Pre-tax profit, NOKm	31 Mar 2014	31 Mar 2013	Change
EiendomsMegler 1 Midt-Norge	3.5	10.7	-7.3
SpareBank 1 Finans Midt-Norge	16.6	15.2	1.4
SpareBank 1 Regnskapshuset SMN	6.7	3.7	3.0
SpareBank 1 SMN Invest	0.7	13.9	-13.2
Other companies	0.7	-0.6	1.3
<b>Total</b>	<b>28.2</b>	<b>43.0</b>	<b>-14.8</b>

**EiendomsMegler 1 Midt-Norge** leads the field in its catchment area with a market share of about 40 per cent. The company's profit of NOK 3.5m (10.7m) in the first quarter reflects an expected weak start to the year. Profit picked up in March.

**SpareBank 1 Finans Midt-Norge** posted a profit of NOK 16.6m (15.2m) in the first quarter. At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.4bn of which leases account for NOK 1.9bn and car loans for NOK 1.5bn.

**SpareBank 1 Regnskapshuset SMN** posted a pre-tax profit of NOK 6.7m (3.7m).

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.

SpareBank 1 Regnskapshuset SMN took over six accounting firms in 2013. Two further accounting firms were acquired in the first quarter of 2014. The strategy of growth through acquisitions represents a consolidation of a fragmented accounting industry.

**Sparebanken SMN Invest's** mission is to invest in shares, mainly in regional businesses. The company posted a net profit of NOK 0.7m (13.9m) in the first quarter of 2014, and manages a portfolio worth about NOK 500 million.

## 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 20bn 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 76 per cent (72 per cent).

### 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

The CET1 capital ratio was 11.1 per cent (10.4 per cent) as of 31 March 2014. CET1 capital is core capital excluding hybrid capital.

<b>Figures in NOKm</b>	<b>31 Mar 2014</b>	<b>31 Mar 2013</b>
Tier 1 capital	9,655	8,568
Hybrid capital	1,647	1,118
Subordinated loan	1,591	1,285
<b>Capital base</b>	<b>12,893</b>	<b>10,971</b>
Required subordinated debt	6,989	6,606
<b>Risk weighted assets</b>	<b>87,361</b>	<b>82,578</b>
Tier 1 capital ratio	11.1 %	10.4 %
Core capital ratio	12.9 %	11.7 %
Capital adequacy ratio	14.8 %	13.3 %

The Group has shifted lending growth more over to the retail market segment. Since this means that growth in risk-weighted assets will be lower than the underlying growth in credit, it is in isolation 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.

With effect from 1 January 2014 the risk weights for SpareBank 1 SMN's home loans under IRB were effectively doubled. This is because the LGD floor was doubled from 10 per cent to 20 per cent. The change brings an increase of about NOK 550m in capital charges on home loans. Due to this increase, SpareBank 1 SMN no longer has capital charges linked to the transitional arrangement at the end of the first quarter of 2014.

BN Bank received approval for use of the advanced IRB approach for its corporate portfolio in April 2014. This will on a consolidated basis reduce SMN's risk weighted assets by around NOK 1.5bn. If approval had been received by 31 March 2014, the Group's CET1 ratio would have strengthened by 0.2 percentage points.

A countercyclical buffer of 1 per cent will be introduced at the end of the second quarter of 2015, and the Ministry of Finance decided on 4 April that no change would be made in the buffer. The decision was in keeping with Norges Bank's recommendation. 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 Directors consider it important for the Group to be sufficiently capitalised to fulfil all

regulatory requirements. The Directors are working on the assumption of a CET1 requirement of 13.5 per cent, consisting of 12 per cent plus a countercyclical buffer of 1 per cent plus a reserve of 0.5 per cent.

SpareBank 1 SMN applied to use the advanced IRB approach in June 2013 and expects Finanstilsynet's response within 12 months. The effect of approval will be limited by the transitional rules. 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 activities, giving priority to lending to households and firms in the Bank's catchment area
- Introduction of the advanced IRB approach at SpareBank 1 SMN

SpareBank 1 SMN currently has no plans to issue equity capital, and the Directors are 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.

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

The book value of the bank's EC was NOK 56.39 (50.32) at 31 March 2014, and earnings per EC were NOK 2.48 (1.55).

At 31 March 2014 the EC was priced at NOK 53.75 (46.90), and dividend of NOK 1.75 per EC (1.50) was paid in 2014 for the year 2013.

As of 31 March 2014 the Price / Income ratio was 5.42, and the Price / Book ratio was 0.95.

#### **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 recovery in Norway to continue, but, based inter alia on signals from the latest report from Norges Bank's regional network, it appears that growth ahead could be weaker than previously assumed. Growth abroad is somewhat higher than previously expected, and this, together with a weaker Norwegian krone, could have a positive effect on export industries. The Directors expect continued low Norwegian unemployment which, combined with continued good wage growth and low interest rates, indicates that loss risk in the bank's retail portfolio will remain low. Credit demand from Norwegian households is still higher than wage growth and will be greatly affected by the path of house prices. The Bank expects moderate growth in lending to mid-Norwegian business and industry ahead due to the low level of investment.

Norges Bank recommended that no change should be made in the countercyclical buffer. While the financial imbalances used by Norges Bank as assessment criteria are historically high, growth in the imbalances appears to have halted. This could be because banks have adapted to tighter capital requirements by reducing lending growth. Should credit growth or house price growth once again increase, it could prompt Norges Bank to recommend the Ministry of Finance to increase the countercyclical buffer.

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 fund 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

The Directors are well satisfied with the results for the first quarter of 2014. The Directors are particularly pleased that the measures described in the Bank's capital plan are being carried through with visible effect and that the trend in the core business is still very good. The first quarter performance shows that the Group is in a position to generate satisfactory return on the increased capital.

SpareBank 1 SMN still sees few indications that the business sector in Trøndelag and in Møre and Romsdal faces a 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 2014 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. However, the directors observe a slight weakening which is reflected in reduced lending growth.

The Directors see increasing competition in the financial market, but expect SpareBank 1 SMN to make a good showing with its competitive products and first-rate customer service. Recently decided interest rate reductions are an adjustment to market conditions and are considered to be sufficient to maintain competitiveness ahead.

The Directors are satisfied with the profit performance for the first quarter of 2014 and expect 2014 as a whole to be another good year for SpareBank 1 SMN.

Trondheim, 8. May  
Styret i SpareBank 1 SMN

Kjell Bordal  
(chair)

Bård Benum  
(deputy chair)

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Janne Thyø Thomsen

Arnhild Holstad

Venche Johnsen  
(employee rep.)

Finn Haugan  
(Group CEO)