

First half and second quarter report 2014



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Main figures

From the profit and loss account	30 Jun 2014		30 Jun 2013		2013	
	NOKm	%	NOKm	%	NOKm	%
Net interest	843	1.46	746	1.35	1,616	1.44
Commission income and other income	780	1.35	713	1.29	1,463	1.31
Net return on financial investments	459	0.80	211	0.38	502	0.45
Total income	2,081	3.61	1,670	3.02	3,580	3.20
Total operating expenses	884	1.53	850	1.54	1,722	1.54
Results	1,197	2.08	820	1.48	1,859	1.66
Loss on loans, guarantees etc	32	0.05	38	0.07	101	0.09
Results before tax	1,165	2.02	782	1.41	1,758	1.57
Tax charge	202	0.35	179	0.32	388	0.35
Result investment held for sale, after tax	0	0.00	3	0.01	30	0.03
Net profit	963	1.67	606	1.09	1,400	1.25

Key figures	30 Jun 2014	30 Jun 2013	2013
Profitability			
Return on equity ¹⁾	16.8 %	11.9 %	13.3 %
Cost-income ratio ²⁾	42 %	51 %	48 %
Balance sheet			
Gross loans to customers	85,206	78,976	80,303
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	114,561	108,968	112,038
Deposits from customers	59,408	55,294	56,074
Deposit-to-loan ratio	70 %	70 %	70 %
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskreditt	5.1 %	8.4 %	6.8 %
Growth in deposits	7.4 %	7.3 %	7.3 %
Average total assets	115,243	110,626	111,843
Total assets	118,758	113,190	115,360
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt			
Impairment losses ratio	0.06 %	0.07 %	0.09 %
Non-performing commitm. as a percentage of gross loans ³⁾	0.29 %	0.38 %	0.34 %
Other doubtful commitm. as a percentage of gross loans	0.18 %	0.13 %	0.14 %
Solidity			
Capital adequacy ratio	15.0 %	13.8 %	14.7 %
Core capital ratio	13.3 %	12.2 %	13.0 %
Common equity tier 1	11.4 %	10.3 %	11.1 %
Core capital	11,635	10,508	10,989
Net equity and related capital	13,164	11,894	12,417
Branches and staff			
Number of branches	49	50	50
No. Of full-time positions	1,167	1,164	1,159

Key figures ECC 4)	30 Jun 2014	30 Jun 2013	2013	2012	2011	2010
ECC ratio	64.6 %	64.6 %	64.6 %	64.6 %	60.6 %	61.3 %
Number of certificates issued, millions	129.83	129.83	129.83	129.83	102.76	102.74
ECC price	54.25	46.50	55.00	34.80	36.31	49.89
Stock value (NOKM)	7,043	6,037	7,141	4,518	3,731	5,124
Booked equity capital per ECC (including dividend)	58.32	51.66	55.69	50.09	48.91	46.17
Profit per ECC, majority	4.77	2.99	6.92	5.21	6.06	5.94
Dividend per ECC			1.75	1.50	1.85	2.77
Price-Earnings Ratio	5.68	7.79	7.95	6.68	5.99	8.40
Price-Book Value Ratio	0.93	0.90	0.99	0.69	0.74	1.08

- 1) Net profit as a percentage of average equity
- 2) Total operating expenses as a percentage of total operating income
- 3) Defaults and doubtful loans are reported on the basis of gross lending, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, and guarantees drawn
- 4) The key figures are corrected for issues

Report of the Board of Directors

First half 2014

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

- Pre-tax profit: NOK 1,165m (782m)
- Net profit: NOK 963m (606m)
- Return on equity: 16.8 per cent (11.9 per cent)
- Growth in lending: 5.1 per cent (8.4 per cent) last 12 months
- Growth in deposits: 7.4 per cent (7.3 per cent) last 12 months
- Loan losses: NOK 32m (38m)
- CET1 capital adequacy: 11.4 per cent (10.3 per cent)
- Earnings per EC: NOK 4.77 (2.99)

Second quarter 2014

- Pre-tax profit: NOK 568m (391m)
- Net profit: NOK 464m (285m)
- Return on equity: 16.0 per cent (11.1 per cent)
- Loan losses: NOK 15m (21m)
- Earnings per EC: NOK 2.29 (1.43)

Good performance in first half 2014

Highlights:

- Profit improvement of NOK 357m compared with the same period last year. Gain of NOK 156m on sale of the bank's stake in Nets Holding, mainly taken to income in the first quarter
- Core business strengthened with a substantial increase in net interest income and limited cost growth
- Low loan losses
- Good return on financial investments
- Financial position in keeping with the Group's capital plan: CET1 ratio 11.1 per cent
- Zero growth in lending to corporates, continued growth in lending to retail customers

In the first half of 2014 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,165m (782m) and a return on equity of 16.8 per cent (11.9 per cent).

Second quarter profit was excellent totalling NOK 464m (285m). Return on equity in the quarter was 16.0 per cent (11.4 per cent).

The Group increased its operating income in the first half 2014 by NOK 164m to NOK 1,623m (1,459m). Both net interest income and commission income rose compared with the first half of 2013, largely a result of increased lending margins.

Return on financial investments was NOK 459m (211m), of which income from owner interests accounted for NOK 214m (137m). The unrealised gain resulting from the agreed sale of the bank's stake in Nets Holding was NOK 165m, including dividend received and foreign exchange gain, mainly taken to income in the first quarter.

The Group's operating expenses came to NOK 884m in the first half of 2014 (850m).

Loan losses totalled NOK 32m (38m) in the first half, corresponding to 0.06 per cent (0.07 per cent) of total outstanding loans.

As of 30 June 2014, 12-month lending growth was 5.1 per cent (8.4 per cent) and deposit growth was 7.4 per cent (7.3 per cent). Lending growth in the first half was 2.3 per cent (3.9 per cent) and deposit growth in the same period was 5.9 per cent (5.8 per cent).

CET1 capital adequacy at 30 June 2014 was 11.4 per cent (10.3 per cent). The CET1 ratio has strengthened by 0.3 percentage points since the end of the first quarter. An excellent profit for the period has strengthened CET1 capital by NOK 338m at the same time as risk weighted assets remained unchanged in the period.

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.

First-half earnings per EC were NOK 4.77. Book value per EC was NOK 58.32 at the half-year mark.

The market price of the bank's EC at the same point was NOK 54.25 (55.00 at year-end). A cash dividend of NOK 1.75 per EC was paid in the second quarter for the year 2013.

Increased net interest income

Net interest income strengthened substantially as from the second quarter 2013 as a result of interest rate increases on loans to both retail and corporate customers, and totalled NOK 843m (746m) in the first half. Margins on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are recorded as commission income. Loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt were also repriced, and commissions totalled NOK 233m (188m) in the first half-year.

Lending margins rose due to increased capital requirements for Norwegian banks. As a result more equity is needed to back each 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 negative NOK 30m. The rate changes had effect as from mid-June 2014.

The bank's deposit margins have been on a downward trend for a long period. A repricing is under way to gain a better balance between what the bank pays for deposits and the price of market funding.

Increased commission income

Net commission and other operating income came to NOK 780m (713m) in the first half of 2014. Increased income from SpareBank 1 Boligkreditt accounts for NOK 44m of an overall increase of NOK 66m. Other

growth in incomes is ascribable to a positive trend in income from payment services and accounting services. Income from real estate agency services weakened as a result of a slight decline in the second half of 2013 and into 2014. The housing market picked up again in the second quarter 2014.

Commission income (NOKm)	30 Jun 2014	30 Jun 2013	Change
Payment transfers	119	107	12
Savings	21	21	0
Insurance	66	60	6
Guarantee commission	29	30	-1
Real estate agency	156	174	-18
Accountancy services	101	73	28
Active management	7	6	1
Rent	21	22	-0
Other commissions	27	32	-5
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	547	525	22
Commissions SB1 Boligkreditt and SB1 Næringskreditt	233	188	44
Total commissions	780	713	66

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 245m (74m). This breaks down as follows:

- Return on the Group's share portfolios totalled NOK 214m (26m)
- Of which unrealised gain on the sale of, and dividend on, the bank's stake in Nets Holding amounted to 157m.
- Net loss on bonds and derivatives was NOK 3m (gain of 5m)
- Gains on foreign-exchange and fixed-income trading at SpareBank 1 SMN Markets was NOK 34m (42m)

Capital gains/dividends, shares (NOKm)	30 Jun 2014	30 Jun 2013	Change
Capital gains/dividends, shares	214	26	188
Bonds and derivatives	-3	5	-8
SpareBank 1 SMN Markets	34	42	-8
Net return on financial investments	245	74	171
SpareBank 1 Gruppen	150	79	71
SpareBank 1 Markets	-18	0	-18
SpareBank 1 Boligkreditt	12	13	-1
SpareBank 1 Næringskreditt	20	3	17
BN Bank	55	43	13
Other jointly controlled companies	-6	-1	-6
Income from investment in related companies	214	137	77
Total	459	211	248

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit in the first half of 2014 was NOK 785m (402m). The main contributor to the profit is the insurance business. In addition, the accounts for second quarter 2013 reflect a write down of NOK 147m at SpareBank 1 Markets. SpareBank 1 SMN's share of the profit in the first half of 2014 was NOK 150m (79m).

SpareBank 1 Markets

SpareBank 1 SMN has a 27.0 per cent stake in SpareBank 1 Markets, and in the second quarter 2014 increased this stake by three percentage points. The increase is due to a stock issue at the company in which the Norwegian Trade Union Confederation and employees were not participants. The company

recorded a deficit of NOK 69m in the first half of 2014, of which SpareBank 1 SMN's share is a negative NOK 18m.

The owners plan to restructure SpareBank 1 Markets by having SpareBank 1 SMN integrate its own capital markets activity with that of SpareBank 1 Markets. After this, and a new stock issue at SpareBank 1 Markets, SpareBank 1 SMN will hold a stake of 73.3 per cent. SpareBank 1 Markets AS has carried out wide-ranging improvement measures enabling cost level to be halved since 2012/2013, and adjustments to the business model have reduced market risk. Schemes involving guaranteed bonuses have been terminated.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to secure funding via the market for covered bonds. The banks sell their best secured home mortgage loans to the company, thereby achieving reduced funding costs. As of 30 June 2014 the bank had sold NOK 28bn to SpareBank 1 Boligkreditt (29bn), corresponding to 39 per cent (45 per cent) of total outstanding loans 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 half of 2014 was NOK 12m (13m). The bank's stake reflects the bank's share of total transferred loans to SpareBank 1 Boligkreditt at the end of 2013.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines, and with the same administration, as SpareBank 1 Boligkreditt. As of mid-2014, loans worth NOK 1.2bn (0.6bn) 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 half of 2014 was NOK 20m (3m). The bank's stake 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. This rate reflects the capital cost for BN Bank's loans sold to SpareBank 1 Næringskreditt.

BN Bank

SpareBank 1 SMN has a 33.0 per cent stake in BN Bank as of 30 June 2014. SpareBank 1 SMN's share of the profit of BN Bank in the first half of 2014 was NOK 55m (43m), yielding a return on equity of 9.3 per cent. The profit is affected by the changed interest rate mentioned in the preceding section. As from 2014 there are no amortisation effects related to BN Bank. In the first half of 2013 amortisation effects amounted to NOK 6m of the profit of NOK 43m. 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 half of 2014 mainly comprises SpareBank 1 SMN's profit share in SpareBank 1 Kredittkort. In June this company carried out a successful conversion of the SpareBank 1 banks' credit card portfolio from Entercard. SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 18.1 per cent. SpareBank 1 SMN's share of the portfolio is about NOK 715m. After the conversion the company is in ordinary operation from 1 July 2014.

Assets held for sale

A net profit of NOK 0.3m (3.3m) was recorded on assets held for sale in the first half of 2014.

Operating expenses

Overall costs came to NOK 884m (850m) in the first half of 2014. Group costs have risen by NOK 34m or 4.0 per cent compared with the first half of 2013.

Parent bank cost growth amounted to NOK 10m or 1.7 per cent, in keeping with the bank's plan to limit cost growth to 3 per cent per year up to and including 2015. The bank has launched a lean project aiming for continual improvement designed to further enhance parent bank efficiency.

The number of FTEs at the parent bank has been reduced by 43 to 752 since the start of 2013.

For the subsidiaries, overall cost growth was NOK 24m or 9.7 per cent. NOK 20m of the growth is attributable to SpareBank 1 Regnskapshuset SMN and is a result of increased activity through company acquisitions. This is in keeping with the company's adopted strategy plan.

Operating expenses measured 1.53 per cent (1.54 per cent) of average total assets. The Group's cost-income ratio was 42 per cent (51 per cent).

Low losses and low defaults

Loan losses came to NOK 32m (38m) in the first half of 2014.

A net loss of NOK 31m (loss of 32m) was recorded on loans to corporates, including losses at SpareBank 1 Finans Midt-Norge of NOK 3m (6m). On the retail portfolio, a net loss of NOK 1m (6m) was recorded in the first half of 2014.

Individually assessed loan impairment write-downs totalled NOK 176m (153m) at the end of the first half of 2014.

Total problem loans (defaulted and doubtful) came to NOK 540m (559m), or 0.47 per cent (0.51 per cent) of gross outstanding loans at the half-year mark.

Defaults in excess of 90 days totalled NOK 334m (413m). Defaults measure 0.29 per cent (0.38 per cent) of gross lending. Defaults break down to NOK 144m (277m) on corporate customers and NOK 190m (136m) on retail customers. Individually assessed write-downs on defaulted exposures totalled NOK 86m (89m) corresponding to a share of 26 per cent (22 per cent).

Other doubtful exposures totalled NOK 206m (146m), breaking down to NOK 186m (131m) on corporates and NOK 20m (15m) to the retail segment. Other doubtful exposures measure 0.18 per cent (0.13 per cent) of gross outstanding loans. Individually assessed write downs on these exposures came to NOK 90m (64m) or 44 per cent (44 per cent).

Collectively assessed impairment write-downs

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

- events that have affected the bank's portfolio (causing migration between risk categories)

- events that have not yet affected the portfolio since the bank's credit risk models do not capture the effects rapidly enough (e.g. significant shifts in macroeconomic factors)

For the first half of 2014 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 119bn

The Group's assets totalled NOK 118.8bn (113.2bn) at 30 June 2014 having risen by NOK 5.6bn or 5 per cent over the last 12 months. The increase is due to lending growth.

By end-June 2014 home mortgage loans worth 28.1bn (29.4bn) had been sold to SpareBank 1 Boligkreditt and commercial loans worth NOK 1.2bn (0.6bn) to 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 growth in lending to corporates

(Distributed by sector – see note 5 and note 10).

In the last 12 months, total outstanding loans rose by NOK 5.6bn (8.4bn) or 5.1 per cent (8.4 per cent) to reach NOK 115bn (incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) at the half-year mark. Growth in first half in isolation was 2.3 per cent (3.9 per cent).

Lending to retail customers rose by NOK 5.4bn (8.1bn) or 8.2 per cent (14.0 per cent) to reach NOK 71.2bn in the past 12 months. Growth in the first half of 2014 was 4.0 per cent (5.2 per cent).

Growth in lending to corporates was NOK 0.2bn (0.3bn) or 0.4% (0.7%) in the last 12 months. Overall loans to corporates totalled NOK 43.3bn at the end of the first half of 2014. Lending to corporates in the first half of 2014 was reduced by NOK 0.5 per cent (growth of 1.9 per cent). This is in keeping with the Group's capital plan.

Loans to retail customers accounted for 62 per cent (60 per cent) of ordinary lending to customers as of 30 June 2014.

Total customer deposits rose by NOK 4.1bn (3.8bn) in the last 12 months to reach NOK 59.4bn at 30 June 2014. This represents a growth of 7.4 per cent (7.3 per cent). Deposit growth in the first half of 2014 was 5.9 per cent (5.8 per cent).

Retail customer deposits rose by NOK 1.8bn (2.0bn) or 7.4 per cent (8.7 per cent) to reach NOK 26.2bn, while deposits from corporates rose by NOK 2.3bn (1.8bn) or 7.5 per cent (6.2 per cent) to NOK 33.2bn over the last 12 months. In the first half-year deposit growth in Retail Banking and Corporate Banking was 9.8 per cent (9.5 per cent) and 3.1 per cent (3.0 per cent) respectively.

Investment products

The overall customer portfolio of off-balance sheet investment products totalled NOK 5.8bn (4.6bn) at 30 June 2014, an increase of 27.0 per cent over the last 12 months. The increase is largely related to value change of underlying securities in equity funds and active management portfolios. Portfolios in the energy fund management area have been terminated and the resources returned to the customers in the course of the second quarter of 2014.

Saving products, customer portfolio (NOKm)	30 Jun 2014	30 Jun 2013	Change
Equity funds	3,720	2,839	881
Pension products	536	573	-37
Active management	1,518	1,027	491
Energy fund management	-	111	-111
Total	5,774	4,550	1,224

Insurance products

The bank's insurance portfolio grew by 6 per cent in the last 12 months, bringing overall premium volume to NOK 1,113m (NOK 1,053m) as of 30 June 2014. Non-life insurance showed 1 per cent growth, personal insurance 23 per cent and the occupational pensions portfolio 5 per cent growth.

Insurance, premium volume (NOKm)	30 Jun 2014	30 Jun 2013	Change
Non-life insurance	698	690	8
Personal insurance	232	188	44
Occupational pensions	183	175	8
Total	183	1,053	60

Retail banking segment and corporate banking segment, parent bank

Organisational readjustments are being carried out as from 2014. The retail banking segment is to cover agricultural customers, associations etc and sole proprietorships. In 2013 these customers were part of the SMB segment. Other customers in the SMB segment are from 2014 included in the corporate banking 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. Economic capital is used to calculate return on capital employed.

Results (NOKm)	Retail Market	Corporate Market
Net interest	404	411
Interest from allocated capital	21	33
Total interest income	425	444
Commission income and other income	383	80
Net return on financial investments	0	13
Total income	809	537
Total operating expenses	380	150
Ordinary operating profit	428	387
Loss on loans, guarantees etc.	1	28
Result before tax including held for sale	427	359
Post-tax return on equity	39,3 %	18,0 %

Retail banking

Operating income has 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 809m at 30 June 2014. Net interest income came to NOK 425m and commission income to NOK 383m. Return on capital employed in the retail market segment was 39.3 per cent.

Retail banking exc. agricultural customers, associations etc and sole proprietorships:

The lending margin in the first half of 2014 was 2.54 per cent (2.23 per cent), while the deposit margin was -0.50 per cent (-0.31 per cent) (measured against three-month NIBOR). Average three-month NIBOR rose by 9 points in the second quarter compared with the first quarter.

In the last 12 months, lending to retail customers rose by 8.5 per cent (12.3 per cent) and deposits from the same segment by 10.8 per cent (8.7 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.

Corporate banking

Operating income totalled NOK 537m in the first half of 2014. Net interest income was NOK 444m, while commission income was NOK 93m, including NOK 13m 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 capital employed for the corporate segment was 18.0 per cent in the first half-year.

The lending margin was 2.97 per cent and the deposit margin was -0.65 per cent in the first half-year.

Lending was reduced by 1.0 per cent and deposits increased by 0.7 per cent in the first half of 2014.

SpareBank 1 SMN Markets

SpareBank 1 SMN Markets delivers a complete range of capital market products and services and is an integral part of the parent bank activity at SMN.

SpareBank 1 SMN Markets recorded total income of NOK 42.7m (55.8m) in the first half of 2014.

Markets (NOKm)	30 Jun 2014	30 Jun 2013	Change
Currency trading	32.5	39.2	-6.7
Corporate	-	11.1	-11.1
Securities, brokerage commission	15.4	14.9	0.5
SpareBank 1 Markets	-4.7	-2.5	-2.2
Investments	-0.5	-6.9	6.4
Total income	42.7	55.8	-13.1

Of gross income of NOK 42.7m, NOK 13m is transferred to Corporate Banking. This is Corporate Banking's share of income deriving from own customers on forex and fixed income business.

Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 115m (100m) in the first half of 2014.

Pre-tax profit (NOKm)	30 Jun 2014	30 Jun 2013	Change
EiendomsMegler 1 Midt-Norge	25.5	41.5	-16.0
SpareBank 1 Finans Midt-Norge	31.6	29.1	2.5
SpareBank 1 Regnskapshuset SMN	19.1	12.1	7.0
SpareBank 1 SMN Invest	38.8	19.2	19.6
Other companies	-0.4	-1.7	1.3
Total	114.6	100.2	14.4

The figures are the respective companies' results. The bank's stake in EiendomsMegler 1 is 86.7 per cent, in SpareBank 1 Finans Midt-Norge 90.1 per cent and in Allegro 90.1 per cent. The stake in the other companies is 100 per cent.

EiendomsMegler 1 Midt-Norge leads the field in its catchment area with a market share of about 40 per cent. The company recorded a good profit performance in 2013, but a slower market at year-end and at the start of the current year brought a weaker pre-tax profit than in the same period of 2013. Profit was NOK 25.5m (41.5m).

SpareBank 1 Finans Midt-Norge posted a profit of NOK 31.6m (29.1m) in the first half-year. At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.5bn of which leases accounted for NOK 1.9bn.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 19.1m (12.1m).

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. Together the SpareBank 1 banks will build 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, and four further accounting firms have been acquired in 2014. The growth strategy represents a consolidation of a fragmented accounting industry through the acquisition of small accounting businesses.

SpareBank 1 SMN Invest's mission is to invest in shares, mainly in regional businesses. The company is in addition part-owner of the housing project Grilstad Marina in Trondheim. The company posted a pre-tax profit of NOK 38.8m in the first half of 2014 (19.2m). The profit is a consequence of value changes and realisation of losses or gains on the company's overall shareholding along with gains on the sale of completed units in the Grilstad Marina property project.

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 of ordinary operations without requiring 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 the half-year mark the proportion of money market funding in excess of 1 year was 87 per cent (68 per cent).

SpareBank 1 Boligkreditt is the bank's most important funding source. As of 30 June 2014 the bank had transferred loans worth a total of NOK 28.1bn to SpareBank 1 Boligkreditt.

In the second quarter 2014 SpareBank 1 SMN raised a five-year loan of EUR 500m. The loan is distributed on about 220 investors mostly in Europe with a preponderance of German investors, although investors from Asia, Australia and the US are also represented.

Rating

SpareBank 1 SMN has a rating of A2 (negative outlook) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. In May 2014 the bank was put on Negative Outlook by Moody's, like several other Norwegian and European banks.

Financial strength

The CET1 capital ratio was 11.4 per cent (10.3 per cent) as of 30 June 2014. CET1 capital is core capital excluding hybrid capital.

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.

BN Bank received approval for use of the advanced IRB approach for its corporate portfolio in April 2014. This brought a reduction of NOK 134m in the capital requirement on BN Bank over the course of the quarter, mainly due reduced risk weights in BN Bank's corporate portfolio.

A countercyclical buffer of one per cent will be introduced at the end of the second quarter of 2015, and the Ministry of Finance decided on 27 June 2014 that no change would be made in the buffer. The decision was in keeping with Norges Bank's recommendation.

The Ministry of Finance announced on 12 May that SpareBank 1 SMN would not be defined as a SIFI bank. At the same time the Finance Minister commented that it was important for Finanstilsynet (Norway's FSA) to monitor capital adequacy at regional savings banks due to their significance for their regions. In light of this the board of directors has made no change to its goal of a CET1 ratio of 13.5 per cent.

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 planning for a CET1 requirement of 13.5 per cent, consisting of 12 per cent plus a countercyclical buffer of one per cent plus a reserve of 0.5 per cent.

SpareBank 1 SMN applied to use the advanced IRB approach in June 2013. By the end of the second quarter 2014 Finanstilsynet has yet to make a decision regarding approval. The net effect of approval will be limited by the transitional rules (the "floor").

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
- 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 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 58.32 at 30 June 2014, and earnings per EC were NOK 4.77.

At 30 June 2014 the EC was priced at NOK 54.25, and dividend of NOK 1.75 per EC has been paid in 2014 for the year 2013.

As of 30 June 2014 the Price / Income ratio was 5.68, and the Price / Book ratio was 0.93.

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 to be somewhat weaker than previously assumed. This is due to moderate activity growth resulting from very weak international growth impulses. We expect continued low Norwegian unemployment and, combined with continued good wage growth and low interest rates, the bank considers 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 to a large degree be affected by house prices. The bank expects that a margin increase home loans, due to higher capital requirements, could dampen the trend in house prices. The bank also expects moderate growth in mid-Norwegian business and industry ahead.

Steadily rising capital requirements combined with uncertainty particularly regarding the countercyclical buffer and possible continuation of the floor suggests that Norwegian banks will implement a more conservative credit policy with regard to business and industry.

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 so far this year and expect 2014 to be a good year for SpareBank 1 SMN.

Business and industry in the bank's market area are on satisfactory trend. Firms are adapting to changed market conditions on an ongoing basis and appear all in all to have robust earnings and good adaptability. Losses and defaults at the bank remain at a very low level and we do not see signs of imminent changes in this situation. After a slight weakening around the turn of 2014, house sales have again picked up.

The board of directors note with satisfaction that the bank's capital plan is being carried through in keeping with the directors' intentions and feel assured that SpareBank 1 SMN will achieve CET 1 target without issuing equity capital.

The board of directors expects SpareBank 1 SMN to continue to make a good showing despite increased competition thanks to first-rate customer service, a strong presence and digital distribution in tune with the times. This will assure high market shares in Trøndelag and in Nordvestlandet.

The board is pleased that important change processes have been launched to meet challenges related to changed customer behaviour. The change processes entail investments in new technology at the same time as distribution and production processes are being modernised and digitalised.

Trondheim, 13 August
The Board of Directors of 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)

Income statement

Parent bank					Group						
2013	2Q 13	2Q 14	30 Jun 2013	30 Jun 2014	(NOKm)	Note	30 Jun 2014	30 Jun 2013	2Q 14	2Q 13	2013
4,092	1,031	1,046	1,979	2,062	Interest income		2,082	1,990	1,055	1,036	4,118
2,604	658	651	1,294	1,287	Interest expenses		1,239	1,244	625	633	2,502
1,487	372	396	685	775	Net interest	1	843	746	430	403	1,616
970	244	259	449	518	Commission income		644	583	326	322	1,230
81	18	26	36	47	Commission expenses		53	41	28	21	94
57	17	11	31	25	Other operating income		189	171	96	96	327
946	243	244	444	497	Commission income and other income		780	713	394	396	1,463
371	311	248	358	311	Dividends		60	31	14	30	41
-	-	-	-	-	Income from investment in related companies		214	137	131	36	355
176	84	15	129	182	Net return on financial investments	1,2	185	43	56	-17	106
547	396	263	487	493	Net return on financial investments		459	211	201	49	502
2,981	1,011	903	1,616	1,764	Total income		2,081	1,670	1,026	849	3,580
592	153	152	310	313	Staff costs		500	477	245	237	923
357	92	105	170	203	Administration costs		248	214	126	117	447
248	61	50	121	95	Other operating expenses		136	159	72	81	352
1,197	306	306	601	611	Total operating expenses	4	884	850	443	436	1,722
1,783	705	596	1,015	1,153	Result before losses		1,197	820	583	413	1,859
82	18	14	33	29	Loss on loans, guarantees etc.	2,6,7	32	38	15	21	101
1,701	687	583	982	1,124	Result before tax	3	1,165	782	568	391	1,758
358	88	90	158	182	Tax charge		202	179	103	102	388
6	-	-	6	-	Result investment held for sale, after tax	3	0	3	-1	-4	30
1,348	599	492	830	942	Net profit		963	606	464	285	1,400
					Majority share		959	600	461	281	1,390
					Minority interest		5	6	3	4	10
					Profit per ECC		4.80	3.02	2.31	1.45	6.97
					Diluted profit per ECC		4.77	2.99	2.29	1.43	6.92

Other comprehensive income

Parent bank					(NOKm)	Group				
2013	2Q 13	2Q 14	30 Jun 2013	30 Jun 2014		30 Jun 2014	30 Jun 2013	2Q 14	2Q 13	2013
1,348	599	492	830	942	Net profit	963	606	464	285	1,400
					Items that will not be reclassified to profit/loss					
-9	-	-89	-	-89	Actuarial gains and losses pensions	-95	-	-95	-	-11
3	-	24	-	24	Tax	26	-	26	-	3
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	-2	7	-3	-4	11
-7	-	-65	-	-65	Total	-71	7	-73	-4	3
					Items that will be reclassified to profit/loss					
-	-	-	-	-	Available-for-sale financial assets	-	-	-	-	-6
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	-	-4	-	-0	14
-	-	-	-	-	Tax	-	-	-	-	-
-	-	-	-	-	Total	-	-4	-	-0	8
1,342	599	428	830	878	Total other comprehensive income	892	609	391	281	1,411
					Majority share of comprehensive income	887	603	388	277	1,401
					Minority interest of comprehensive income	5	6	3	4	10

Other comprehensive income comprise items reflected directly in equity capital that are not transactions with owners, cf. IAS 1.

Key figures

Parent bank					Group					
2013	2Q 13	2Q 14	30 Jun 2013	30 Jun 2014	Result as per cent of average total assets:	30 Jun 2014	30 Jun 2013	2Q 14	2Q 13	2013
1.34	1.34	1.39	1.25	1.36	Net interest	1.46	1.35	1.49	1.44	1.44
0.85	0.87	0.86	0.81	0.87	Commission income and other income	1.35	1.29	1.37	1.42	1.31
0.49	1.42	0.92	0.89	0.86	Net return on financial investments	0.80	0.38	0.70	0.17	0.45
1.08	1.10	1.08	1.10	1.07	Total operating expenses	1.53	1.54	1.54	1.56	1.54
1.61	2.54	2.09	1.85	2.02	Result before losses	2.08	1.48	2.02	1.47	1.66
0.07	0.06	0.05	0.06	0.05	Loss on loans, guarantees etc.	0.05	0.07	0.05	0.08	0.09
1.54	2.47	2.05	1.79	1.97	Result before tax	2.02	1.41	1.97	1.40	1.57
0.40	0.30	0.34	0.37	0.35	Cost -income ratio	0.42	0.51	0.43	0.51	0.48
73 %			74 %	73 %	Loan-to-deposit ratio	70 %	70 %			70 %
14.7 %	26.6 %	19.5 %	18.7 %	18.8 %	Return on equity	16.8 %	11.9 %	16.0 %	11.1 %	13.3 %

Balance sheet

Parent bank				Group			
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	Note	30 Jun 2014	30 Jun 2013	31 Dec 2013
4,793	1,333	2,940	Cash and receivables from central banks		2,940	1,333	4,793
4,000	4,871	4,114	Deposits with and loans to credit institutions		1,088	2,140	1,189
77,030	76,379	81,712	Gross loans to customers before write-down	5,8	85,206	78,976	80,303
-150	-139	-162	- Specified write-downs	6,7,8	-176	-153	-173
-278	-278	-278	- Write-downs by loan category	6	-295	-295	-295
76,602	75,961	81,271	Net loans to and receivables from customers		84,735	78,528	79,836
16,887	19,402	15,743	Fixed-income CDs and bonds	15	15,743	19,402	16,887
3,051	2,785	4,367	Derivatives	14	4,366	2,784	3,050
492	440	669	Shares, units and other equity interests	2,15	1,138	981	1,030
3,138	3,034	3,267	Investment in related companies		4,783	4,294	4,624
2,442	2,193	2,477	Investment in group companies		-	-	-
114	101	114	Investment held for sale		62	145	113
447	447	447	Goodwill		522	491	495
2,110	1,982	2,085	Other assets	9	3,380	3,090	3,344
114,074	112,550	117,495	Total assets		118,758	113,190	115,360
5,159	6,372	6,777	Deposits from credit institutions		6,774	6,371	5,159
1,220	2,273	-	Funding, "swap" arrangement with the government		-	2,273	1,220
56,531	56,198	59,808	Deposits from and debt to customers	10	59,408	55,294	56,074
33,762	30,936	31,667	Debt created by issue of securities	11	31,667	30,936	33,762
2,295	2,288	3,569	Derivatives	15	3,569	2,288	2,295
1,992	1,837	1,999	Other liabilities	12	2,222	2,210	2,303
-	-	-	Investment held for sale		-	31	-
3,304	3,345	3,338	Subordinated loan capital	11	3,338	3,345	3,304
104,263	103,251	107,158	Total liabilities		106,978	102,750	104,118
2,597	2,597	2,597	Equity capital certificates		2,597	2,597	2,597
-0	-0	-0	Own holding of ECCs		-0	-0	-0
895	895	895	Premium fund		895	895	895
2,496	1,889	2,496	Dividend equalisation fund		2,496	1,889	2,496
227	-0	-	Recommended dividends		-	-0	227
124	-	-	Provision for gifts		-	-	124
3,276	2,944	3,276	Savings bank's reserve		3,276	2,944	3,276
195	106	195	Unrealised gains reserve		206	123	206
-0	38	-65	Other equity capital		1,280	1,323	1,354
-	830	942	Profit for the periode		963	606	-
			Minority interests		66	63	67
9,811	9,299	10,337	Total equity capital	13	11,780	10,439	11,242
114,074	112,550	117,495	Total liabilities and equity		118,758	113,190	115,360

Cash flow statement

Parent bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
1,348	830	942	Profit	963	606	1,400
53	25	19	Depreciations and write-downs on fixed assets	55	57	118
82	33	29	Losses on loans and guarantees	32	38	101
1,484	887	990	Net cash increase from ordinary operations	1,050	701	1,619
-587	-171	-1,289	Decrease/(increase) other receivables	-1,390	-82	-652
-121	-283	1,280	Increase/(decrease) short term debt	1,192	-319	-244
-4,627	-3,937	-4,698	Decrease/(increase) loans to customers	-4,932	-4,063	-5,433
-2,580	748	4,086	Decrease/(increase) loans credit institutions	4,301	872	-2,376
3,344	3,011	3,278	Increase/(decrease) deposits and debt to customers	3,333	3,016	3,822
-1,031	1,235	398	Increase/(decrease) debt to credit institutions	395	1,234	-1,031
277	-2,238	1,143	Increase/(decrease) in short term investments	1,143	-2,238	277
-3,842	-748	5,188	A) NET CASH FLOW FROM OPERATIONS	5,094	-878	-4,018
-23	-16	-22	Increase in tangible fixed assets	-44	-16	-32
1	-	-	Reductions in tangible fixed assets	-	-	1
-58	308	-165	Paid-up capital, associated companies	-107	580	250
-137	-85	-177	Net investments in long-term shares and partnerships	-108	-204	-253
-217	207	-364	B) NET CASH FLOW FROM INVESTMENTS	-259	359	-34
264	305	34	Increase/(decrease) in subordinated loan capital	34	305	264
-	-	-	Increase/(decrease) in equity	-	-	-
-195	-195	-227	Dividend cleared	-227	-195	-195
-30	-30	-124	To be disbursed from gift fund	-124	-30	-30
31	38	-65	Correction of equity capital	-74	16	25
3,503	677	-2,095	Increase/(decrease) in other long term loans	-2,095	677	3,503
3,573	795	-2,477	C) NET CASH FLOW FROM FINANCIAL ACTIVITIES	-2,486	773	3,566
-486	255	2,348	A) + B) + C) NET CHANGES IN CASH AND CASH EQUIVALENTS	2,348	255	-486
1,079	1,079	593	Cash and cash equivalents at 1.1	593	1,079	1,079
593	1,333	2,940	Cash and cash equivalents at end of quarter	2,940	1,333	593
486	-255	-2,347	Net changes in cash and cash equivalents	-2,347	-255	486

Change in equity

Parent Bank (NOKm)	Issued equity			Earned equity			Unrealised gains reserve	Other equity	Total equity
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts			
Equity capital at 1 January 2013	2,597	895	2,944	1,889	195	30	106	38	8,694
Net Profit	-	-	321	587	227	124	89	-	1,348
Other comprehensive income									
Estimate deviation, pensions	-	-	11	20	-	-	-	-38	-7
Other comprehensive income	-	-	11	20	-	-	-	-38	-7
Total other comprehensive income	-	-	332	607	227	124	89	-38	1,342
Transactions with owners									
Dividend declared for 2012	-	-	-	-	-195	-	-	-	-195
To be disbursed from gift fund	-	-	-	-	-	-30	-	-	-30
Reduction of nominal value per equity certificate	0	-	-	-0	-	-	-	-	0
Total transactions with owners	0	-	-	-0	-195	-30	-	-	-225
Equity capital at 31 December 2013	2,597	895	3,276	2,495	227	124	195	-	9,811
Equity capital at 1 January 2014	2,597	895	3,276	2,495	227	124	195	-	9,811
Net Profit	-	-	-	-	-	-	-	942	942
Other comprehensive income									
Estimate deviation, pensions	-	-	-	-	-	-	-	-65	-65
Other comprehensive income	-	-	-	-	-	-	-	-65	-65
Total other comprehensive income	-	-	-	-	-	-	-	878	878
Transactions with owners									
Dividend declared for 2013	-	-	-	-	-227	-	-	-	-227
To be disbursed from gift fund	-	-	-	-	-	-124	-	-	-124
Sale of own ECCs	-0	-	-0	-	-	-	-	-	-0
Total transactions with owners	-0	-	-0	-	-227	-124	-	-	-352
Equity capital at 30 June 2014	2,597	895	3,276	2,495	-	0	195	878	10,337

Group (NOKm)	Majority share									
	Issued equity				Earned equity					
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Minority interest	Total equity
Equity capital at 1 January 2013	2,597	895	2,944	1,889	195	30	123	1,342	67	10,082
Net Profit	-	-	321	587	227	124	89	41	10	1,400
Other comprehensive income										
Available-for-sale financial assets	-	-	-	-	-	-	-6	-	-	-6
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	25	-	25
Estimate deviation, pensions	-	-	11	20	-	-	-	-39	-	-8
Other comprehensive income	-	-	11	20	-	-	-6	-15	-	11
Total other comprehensive income	-	-	332	607	227	124	84	27	10	1,411
Transactions with owners										
Dividend declared for 2012	-	-	-	-	-195	-	-	-	-	-195
To be disbursed from gift fund	-	-	-	-	-	-30	-	-	-	-30
Sale of own ECCs	0	-	-	-0	-	-	-	-	-	0
Direct recognitions in equity	-	-	-	-	-	-	-	-6	-	-6
Pension correction 1 January	-	-	-	-	-	-	-	1	-	1
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-12	-	-12
Change in minority share	-	-	-	-	-	-	-	-	-10	-10
Total transactions with owners	0	-	-	-0	-195	-30	-	-16	-10	-251
Equity capital at 31 December 2013	2,597	895	3,276	2,496	227	124	206	1,354	67	11,242

Group (NOKm)	Majority share									
	Issued equity				Earned equity					
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Minority interest	Total equity
Equity capital at 1 January 2014	2,597	895	3,276	2,496	227	124	206	1,354	67	11,242
Net profit	-	-	-	-	-	-	-	959	5	963
Other comprehensive income										
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-2	-	-2
Estimate deviation, pensions	-	-	-	-	-	-	-	-69	-	-69
Other comprehensive income	-	-	-	-	-	-	-	-71	-	-71
Total other comprehensive income	-	-	-	-	-	-	-	888	5	893
Transactions with owners										
Dividend declared for 2013	-	-	-	-	-227	-	-	-	-	-227
To be disbursed from gift fund	-	-	-	-	-	-124	-	-	-	-124
Sale of own ECCs	-0	-	-0	-	-	-	-	-	-	-0
Direct recognitions in equity	-	-	-	-	-	-	-	-0	-	-0
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	2	-	2
Change in minority share	-	-	-	-	-	-	-	-	-5	-5
Total transactions with owners	-0	-	-0	-	-227	-124	-	2	-5	-355
Equity capital at 30 June 2014	2,597	895	3,276	2,496	-	-	206	2,244	66	11,780

Equity capital certificate ratio

(NOKm)	30 Jun 2014	31 Dec 2013
ECC capital	2,597	2,597
Dividend equalisation reserve	2,496	2,496
Premium reserve	895	895
Unrealised gains reserve	126	126
A. The equity capital certificate owners' capital	6,114	6,114
Ownerless capital	3,276	3,276
Unrealised gains reserve	69	69
B. The saving bank reserve	3,345	3,345
To be disbursed from gift fund	-	124
Dividend declared	-	227
Equity ex. profit	9,459	9,811
Equity capital certificate ratio A/(A+B)	64.64 %	64.64 %
Equity capital certificate ratio for distribution	64.64 %	64.64 %

Results from quarterly accounts

Group (NOKm)	2Q	1Q	Q4	Q3	Q2	Q1	4Q	3Q	2Q
	2014	2014	2013	2013	2013	2013	2012	2012	2012
Interest income	1,055	1,027	1,059	1,068	1,036	954	941	989	989
Interest expenses	625	615	624	634	633	611	543	630	619
Net interest	430	412	436	434	403	343	399	358	369
Commission income	326	318	323	323	323	262	280	252	240
Commission expenses	28	25	25	28	21	20	28	25	22
Other operating income	96	93	84	72	95	75	69	68	71
Commission income and other income	394	385	382	367	396	317	321	294	288
Dividends	14	46	0	11	30	0	2	0	9
Income from investment in related companies	131	82	98	120	36	101	3	91	59
Net return on financial investments	56	129	58	5	-17	61	32	86	17
Net return on financial investments	201	257	156	135	49	162	37	177	85
Total income	1,026	1,055	974	937	849	822	756	829	742
Staff costs	245	254	222	224	237	240	234	235	223
Administration costs	126	123	134	100	117	97	113	112	98
Other operating expenses	72	64	110	83	81	78	90	75	76
Total operating expenses	443	441	465	406	436	414	437	421	398
Result before losses	583	614	508	530	413	407	319	408	345
Loss on loans, guarantees etc.	15	17	32	30	21	17	17	16	17
Result before tax	568	597	476	501	391	390	302	392	328
Tax charge	103	99	110	98	102	77	69	77	81
Result investment held for sale, after tax	-1	1	-4	31	-4	7	27	-9	-9
Net profit	464	500	361	433	285	321	260	306	238

Key figures from quarterly accounts

Group (NOKm)	2Q 2014	1Q 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	4Q 2012	3Q 2012	2Q 2012
Profitability									
Return on equity per quarter	16.0%	17.7%	13.1%	16.3%	11.1%	12.7%	10.5%	12.8%	10.7%
Cost-income ratio	43 %	42%	48%	43%	51%	50%	58%	51%	54%
Balance sheet									
Gross loans to customers	85,206	79,366	80,303	79,842	78,976	76,425	74,943	75,357	73,595
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	114,561	111,560	112,038	110,237	108,968	106,830	104,909	103,274	100,552
Deposits from customers	59,408	54,736	56,074	53,423	55,294	52,603	52,252	50,836	51,504
Total assets	118,758	111,609	115,360	111,977	113,190	110,790	107,919	110,605	107,780
Average total assets	115,184	113,485	113,668	112,583	111,979	109,344	109,279	109,227	103,422
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskreditt last 12 months	5.1 %	4.4 %	6.8 %	6.7 %	8.4 %	9.7 %	10.2 %	11.4 %	10.6 %
Growth in deposits last 12 months	7.4 %	4.1 %	7.3 %	5.1 %	7.3 %	7.4 %	9.2 %	10.5 %	12.0 %
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt									
Impairment losses ratio	0.05 %	0.06 %	0.12 %	0.11 %	0.08 %	0.06 %	0.06 %	0.06 %	0.07 %
Non-performing commitm. as a percentage of gross loans	0.29 %	0.24 %	0.34 %	0.35 %	0.38 %	0.36 %	0.36 %	0.39 %	0.34 %
Other doubtful commitm. as a percentage of gross loans	0.18 %	0.21 %	0.14 %	0.19 %	0.13 %	0.15 %	0.14 %	0.16 %	0.20 %
Solidity									
Common equity tier 1	11.4 %	11.1 %	11.1 %	10.7 %	10.3 %	10.4 %	10.0 %	9.3 %	9.5 %
Core capital ratio	13.3 %	12.9 %	13.0 %	12.6 %	12.2 %	11.7 %	11.3 %	10.6 %	11.0 %
Capital adequacy ratio	15.0 %	14.8 %	14.7 %	14.2 %	13.8 %	13.3 %	13.3 %	11.9 %	12.4 %
Core capital	11,635	11,303	10,989	10,707	10,508	9,686	9,357	8,826	8,722
Net equity and related capital	13,164	12,893	12,417	12,053	11,894	10,971	10,943	9,891	9,900
Key figures ECC *)									
ECC price	54.25	53.75	55.00	45.70	46.50	46.90	34.80	37.00	32.10
Number of certificates issued, millions	129.83	129.83	129.83	129.83	129.83	129.83	129.83	129.83	124.21
Booked equity capital per ECC (including dividend)	58.32	56.39	55.69	53.76	51.66	50.32	50.09	49.00	47.97
Profit per ECC, majority	2.29	2.48	1.79	2.18	1.43	1.55	1.29	1.54	1.22
Price-Earnings Ratio	5.91	5.42	7.68	5.23	8.13	7.55	6.74	6.09	6.58
Price-Book Value Ratio	0.93	0.95	0.99	0.85	0.90	0.93	0.69	0.76	0.67

*) The key figures are corrected for issues

Notes

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Note 1 - Accounting principles

SpareBank 1 SMN prepares and presents its quarterly accounts in compliance with the Stock Exchange Regulations, Stock Exchange Rules and International Financial Reporting Standards (IFRS) approved by EU, including IAS 34, Interim Financial Reporting. As from 2007 the company accounts are also prepared and presented under IFRS. This entails that investments in associates and subsidiaries are recognised using the cost method. For this reason results recorded by associates and subsidiaries are not included in the parent bank's accounts.

The quarterly accounts do not include all the information required in a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2013. Further, the Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts, except:

IFRS 10 – Consolidated Financial Statements. This standard deals with defining “subsidiary”, and gives more weight to actual control than earlier rules. Control exists only where an investor has power over relevant activities of the investee, exposure to variable returns, and in addition the ability to use its power to affect the investee's returns. In cases where loan terms are breached, the Bank will consider whether it has achieved genuine power under IFRS 10. The standard is implemented from 1 January 2014.

IFRS 11 – Joint Arrangements replaces IAS 31 and SIC-13. IFRS 11 removes the opportunity to apply proportional consolidation for jointly-controlled entities. The Bank has considered the effect of the new standard, in particular in relation to the alliance Alliansesamarbeidet SpareBank 1 DA, and concluded that it will not be of essential significance for the Group's reporting. The standard is implemented from 1 January 2014.

IFRS 12 – Disclosure of Interests in Other Entities. This standard extends the disclosure requirement in next year's annual accounts as regards investments in subsidiaries, associates, jointly controlled entities and structured entities. The standard is implemented from 1 January 2014.

Amended IAS 27 – Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures. Due to the introduction of IFRS 10, 11 and 12, the IASB has revised IAS 27 and IAS 28 which coordinate the standards with the new accounting standards. Following the revision, IAS 27 only regulates separate financial statements, while IAS 28 regulates investments in both associates and joint ventures that are to be accounted for using the equity method.

Amendments to IAS 32 - offsetting financial assets and financial liabilities. The amendment to this standard concerns the presentation of financial assets and liabilities and does not entail significant changes in the offsetting of financial assets and liabilities in the financial statements.

Note 2 - Critical estimates and assessment concerning the use of accounting principles

When it prepares the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This accordingly affects recognised amounts for assets, liabilities, revenues and expenses. Last year's annual accounts give a closer explanation of significant estimates and assumptions in Note 4 Critical estimates and assessments concerning the use of accounting principles.

Nets Holding AS

SpareBank 1 SMN has entered an agreement to sell its stake in Nets Holding AS. The stake is 2.2 per cent, corresponding to 4,028,773 shares. The sale requires the approval of the regulatory authorities. The shares are measured at fair value via profit/loss and are valued at the end of the second quarter at the agreed sale price in Danish kroner converted using the exchange rate in effect on the balance sheet date. Unrealised gain including agio is recognised in an amount of NOK 156.2m. In addition, received dividend is recognised in an amount of NOK 8.8m. The transaction is completed in July 2014.

Pensions

The Group has obtained a new pension calculation as of 30 June 2014. For a description of the various pension schemes, see note 25 in annual report for 2013.

The Group's pension liabilities are accounted for under IAS 19R. Deviations from estimates are therefore reflected directly in equity capital and are presented under other income and expenses.

Actuarial assumptions	31 Dec 2013	1 January 2014	30 June 2014
Discount rate	4.00 %	4.00 %	3.25 %
Expected rate of return on plan assets	4.00 %	4.00 %	3.25 %
Expected future wage and salary growth	3.50 %	3.50 %	3.50 %
Expected adjustment on basic amount (G)	3.50 %	3.50 %	3.50 %
Expected increase in current pension	0.60 %	0.60 %	0.60 %
Employers contribution	14.10 %	14.10 %	14.10 %

Demographic assumptions:

Mortality base table	K2013 BE
Disability	IR73
Voluntary exit	2 % up to 50 year, 0 % after 50 year

Movement in net pension liability in the balance sheet Group (NOKm)

	Funded	Unfunded	Total
Net pension liability in the balance sheet 1.1	-107	27	-79
OCI accounting 1 Jan	-5	-	-5
OCI accounting 30 June	98	1	99
Net defined-benefit costs in profit and loss account	12	1	13
Paid in pension premium, defined-benefit schemes	-28	-	-28
Paid in pension premium, defined-benefit plan	-	-3	-3
Net pension liability in the balance sheet 30 June 14	-29	27	-3

	30 June 2014	31 Dec 2013
Net pension liability in the balance sheet Group (NOKm)		
Net present value of pension liabilities in funded schemes	729	638
Estimated value of pension assets	-736	-721
Net pension liability in the balance sheet before employer's contribution	-7	-83
Employers contribution	4	4
Net pension liability in the balance sheet	-3	-79

	30 June 2014	31 Dec 2013
Pension cost 30 June 14 Group (NOKm)		
Present value of pension accumulated in the year	12	22
Net interest income	-2	-4
Net pension cost related to defined plans, incl unfunded pension commitment	10	18
Employer's contribution subject to accrual accounting	4	4
Cost of defined contribution pension and early retirement pension scheme, new arrangement	14	30
Total pension cost	27	52

Note 3 - Account by business line

As from 1 January 2014 the Bank's SMB portfolio is split up and assigned to Retail Banking and Corporate Banking respectively. Limited companies are transferred to Corporate Banking. Sole proprietorships, agricultural customers and associations etc are transferred to Retail Banking. Historical data have not been reworked owing to the difficulty of reconstructing such data at a sufficiently precise level.

For the subsidiaries the figures refer to the respective company accounts, while for joint ventures incorporated by the equity method the Group's profit share is stated, after tax, as well as book value of the investment at group level.

Group 30 June 2014

Profit and loss account (NOKm)	RM	CM	Markets	EM 1	SB1	SB1	SB1	BN	Uncollated	Total
					Finans	Regnskaps-				
					MN	huset	SMN			
Net interest	404	411	-3	1	62	-0	-	-	-33	843
Interest from allocated capital	21	33	0	-	-	-	-	-	-54	-
Total interest income	425	444	-3	1	62	-0	-	-	-87	843
Commission income and other income	383	80	12	177	-2	106	-	-	25	780
Net return on financial investments (**)	0	13	20	-	-	-	150	55	219	459
Total income *)	809	537	30	178	60	106	150	55	156	2,081
Total operating expenses	380	150	31	152	26	87	-	-	57	884
Ordinary operating profit	428	387	-2	26	34	19	150	55	99	1,197
Loss on loans, guarantees etc.	1	28	0	-	3	-	-	-	0	32
Result before tax including held for sale	427	359	-2	26	32	19	150	55	99	1,165
Post-tax return on equity	39.3 %	18.0 %								16.8 %
Balance (NOKm)										
Loans and advances to customers	75,490	34,656	-	-	3,511	-	-	-	903	114,561
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-28,208	-1,146	-	-	-	-	-	-	-1	-29,355
Individual allowance for impairment on loan	-28	-134	-	-	-13	-	-	-	-0	-176
Group allowance for impairment on loan	-90	-188	-	-	-16	-	-	-	-	-295
Other assets	239	134	-	256	12	138	1,228	1,164	30,851	34,023
Total assets	47,403	33,322	-	256	3,494	138	1,228	1,164	31,753	118,758
Deposits to customers	32,150	25,872	-	-	-	-	-	-	1,386	59,408
Other liabilities and equity	15,253	7,450	-	256	3,494	138	1,228	1,164	30,367	59,351
Total liabilities	47,403	33,322	-	256	3,494	138	1,228	1,164	31,753	118,758

Group 30 June 2013

Profit and loss account (NOKm)	RM	SME	Group			SB1	SB1	SB1	BN	Uncollated	Total
			Corporates	Markets	EM 1	Finans MN	Regnskaps- huset SMN				
Net interest	285	139	325	-2	2	58	-0	-	-	-61	746
Interest from allocated capital	5	1	19	-0	-	-	-	-	-	-25	-
Total interest income	291	140	344	-2	2	58	-0	-	-	-86	746
Commission income and other income	310	38	42	19	174	-1	73	-	-	58	713
Net return on financial investments **)	0	1	11	27	-	-	-	79	43	53	214
Total income *)	601	179	397	44	176	57	73	79	43	25	1,673
Total operating expenses	325	67	138	41	134	21	61	-	-	61	850
Ordinary operating profit	277	112	259	2	42	35	12	79	43	-36	823
Loss on loans, guarantees etc.	6	3	24	-	-	6	-	-	-	-1	38
Result before tax including held for sale	270	109	235	2	42	29	12	79	43	-35	785
Post-tax return on equity	31.9 %	31.5 %	10.0 %								11.9 %
Balance (NOKm)											
Loans and advances to customers	63,875	8,827	32,420	-	-	3,224	-	-	-	622	108,968
Adv. of this to SpareBank 1 Boligkreditt	-30,485	-402	-577	-	-	-	-	-	-	1,471	-29,992
Individual allowance for impairment on loan	-27	-18	-95	-	-	-13	-	-	-	0	-153
Group allowance for impairment on loan	-73	-30	-175	-	-	-16	-	-	-	-0	-295
Other assets	254	28	171	-	190	12	49	957	1,136	32,278	35,074
Total assets	33,544	8,405	31,744	-	190	3,207	49	957	1,136	33,958	113,190
Deposits to customers	24,695	8,640	20,601	-	-	-	5	-	-	1,354	55,294
Other liabilities and equity	8,850	-235	11,143	-	190	3,207	44	957	1,136	32,604	57,896
Total liabilities	33,544	8,405	31,744	-	190	3,207	49	957	1,136	33,958	113,190

*) A portion of capital market income (Markets) is distributed on RM and CM

	30 Jun 2014	30 Jun 2013
**) Specification of net return on financial investments (NOKm)		
Capital gains/dividends, shares	214	26
Bonds and derivatives	-3	5
Forex and fixed income business, Markets	34	42
Net return on financial investments	245	74
SpareBank 1 Gruppen	150	79
SpareBank 1 Boligkreditt	12	13
SpareBank 1 Næringskreditt	20	3
BN Bank	55	43
SpareBank 1 Markets	-18	-
Other jointly controlled companies	-6	2
Income from investment in related companies	214	140
Total	459	214

Note 4 - Operating expenses

Parent bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
592	310	313	Personnel expenses	500	477	923
187	93	106	IT costs	119	103	206
24	11	10	Postage and transport of valuables	13	14	29
38	18	21	Marketing	40	26	58
53	25	19	Ordinary depreciation	55	57	118
120	62	58	Operating expenses, real properties	45	49	118
58	24	25	Purchased services	31	31	71
125	57	58	Other operating expense	82	94	199
1,197	601	611	Total other operating expenses	884	850	1,722

Note 5 - Distribution of loans by sector/industry

Parent bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
6,208	5,862	6,406	Agriculture, forestry, fisheries, hunting	6,552	6,025	6,359
2,334	2,024	1,361	Sea farming industries	1,497	2,175	2,463
1,946	2,225	1,804	Manufacturing	2,056	2,435	2,142
2,693	3,041	2,681	Construction, power and water supply	3,201	3,571	3,207
2,275	2,518	2,320	Retail trade, hotels and restaurants	2,473	2,694	2,442
5,395	5,553	4,954	Maritime sector	4,961	5,561	5,402
12,048	12,585	12,549	Property management	12,622	12,052	12,118
3,646	3,447	3,715	Business services	3,954	3,687	3,867
2,284	2,416	2,282	Transport and other services provision	2,701	2,737	2,706
400	169	201	Public administration	220	195	423
2,391	1,983	3,074	Other sectors	3,075	1,989	2,395
41,619	41,823	41,346	Gross loans in retail market	43,312	43,123	43,523
67,146	64,548	69,721	Wage earners	71,249	65,846	68,515
108,765	106,371	111,067	Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt	114,561	108,968	112,038
30,514	29,382	28,128	SpareBank 1 Boligkreditt	28,128	29,382	30,514
1,221	611	1,227	SpareBank 1 Næringskreditt	1,227	611	1,221
77,030	76,379	81,712	Gross loans in balance sheet	85,206	78,976	80,303

Note 6 - Losses on loans and guarantees

Parent bank			(NOKm)	Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014		30 Jun 2014	30 Jun 2013	31 Dec 2013
22	12	12	Change in individual impairment losses provisions for the period	3	10	29
-	-	-	Change in collective impairment losses provisions for the period	-	-	-
34	21	17	Actual loan losses on commitments for which provisions have been made	23	25	40
39	4	10	Actual loan losses on commitments for which no provision has been made	16	8	45
-13	-4	-10	Recoveries on commitments previously written-off	-11	-4	-14
82	33	29	Losses of the year on loans and guarantees	32	38	101

Note 7 - Losses

Parent bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
129	129	150	Individual write-downs to cover loss on loans at 1.1*	173	144	144
			+ Increased write-downs on provisions previously written down	10	10	15
12	10	10				
16	6	13	- Reversal of provisions from previous periods	18	7	18
59	29	33	+ Write-downs on provisions not previously written down	35	32	71
			- Actual losses during the period for which provisions for individual impairment losses have been made previously	23	26	40
34	22	17				
150	139	162	Specification of loss provisions at end of period	176	153	173
73	25	27	Actual losses	39	33	85

*) Individually assessed impairment write-downs on guarantees, totalling NOK 1m, are shown in the balance sheet as a liability under 'Other liabilities'.

Note 8 - Defaults

Parent bank			(NOKm)	Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014		30 Jun 2014	30 Jun 2013	31 Dec 2013
Total defaults						
311	381	274	Loans in default for more than 90 days *)	334	413	386
73	84	79	- individual write-downs	86	89	87
238	297	195	Net defaults	248	324	299
24 %	22 %	29 %	Provision rate	26 %	22 %	23 %
Problem Loans						
146	128	189	Problem loans (not in default)	206	146	157
76	56	84	- individual write-downs	90	64	86
70	72	105	Net problem loans	116	82	71
52 %	44 %	44 %	Provision rate	44 %	44 %	55 %

*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q2.

Any default in this portfolio will not entail loss for SpareBank 1 SMN.

Note 9 - Other assets

Parent bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
-	-	7	Deferred tax benefit	25	13	18
169	190	165	Fixed assets	1,139	1,225	1,176
1,568	1,295	1,504	Earned income not yet received	1,521	1,307	1,591
207	101	238	Accounts receivable, securities	238	101	207
82	-	11	Pensions	11	74	82
84	396	160	Other assets	447	371	270
2,110	1,982	2,085	Total other assets	3,380	3,090	3,344

Note 10 - Distribution of customer deposits by sector/industry

Parent bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
2,059	2,128	2,202	Agriculture, forestry, fisheries, hunting	2,202	2,128	2,059
406	258	641	Sea farming industries	641	258	406
1,239	1,252	1,463	Manufacturing	1,463	1,252	1,239
1,808	1,532	1,706	Construction, power and water supply	1,706	1,532	1,808
4,313	3,085	3,481	Retail trade, hotels and restaurants	3,481	3,085	4,313
2,150	1,687	1,605	Maritime sector	1,605	1,687	2,150
4,142	4,872	3,858	Property management	3,740	4,234	4,033
4,885	4,889	4,037	Business services	4,037	4,915	4,885
4,320	3,823	4,399	Transport and other services provision	4,149	3,558	3,999
4,723	5,350	6,900	Public administration	6,900	5,350	4,723
2,620	2,927	3,318	Other sectors	3,285	2,900	2,594
32,666	31,805	33,609	Total	33,208	30,900	32,209
23,865	24,394	26,200	Wage earners	26,200	24,394	23,865
56,531	56,198	59,808	Total deposits	59,408	55,294	56,074

Note 11 - Debt created by issue of securities

Parent bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
2,750	107	775	Short-term debt instruments, nominal value	775	107	2,750
30,718	30,558	30,337	Bond debt, nominal value	30,337	30,558	30,718
294	271	555	Value adjustments	555	271	294
33,762	30,936	31,667	Total	31,667	30,936	33,762

Change in securities debt, subordinated debt and hybrid equity (NOKm)

	30 Jun 2014	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2013
Short-term debt instruments, nominal value	775	-	1,977	2	2,750
Bond debt, nominal value	30,337	5,995	6,317	-58	30,718
Value adjustments	555	-	-	261	294
Total	31,667	5,995	8,295	205	33,762
	30 Jun 2014	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2013
Ordinary subordinated loan capital, nominal value	1,547	-	-	25	1,522
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	1,400	-	-	-	1,400
Value adjustments	91	-	-	9	82
Total	3,338	-	-	34	3,304

Note 12 - Other liabilities

Parent bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
17	98	-	Deferred tax	6	107	23
438	282	251	Payable tax	294	321	476
8	12	8	Capital tax	8	12	8
883	962	1,042	Accrued expenses and received, non-accrued income	1,177	1,208	1,091
48	69	65	Provision for accrued expenses and commitments	65	69	48
-	-	-	Pensions	7	2	2
73	107	67	Drawing debt	67	107	73
7	4	8	Creditors	43	51	29
339	88	244	Debt from securities	244	88	339
179	217	314	Other liabilities	311	246	213
1,992	1,837	1,999	Total other liabilities	2,222	2,210	2,303

Note 13 - Capital adequacy

SpareBank 1 SMN has used IRB (Internal Rating Approach – Foundation) to calculate charges for credit risk since January 2007. Using IRB imposes wide-ranging requirements on the bank's organisation, competence, risk models and risk management systems. In June 2013 the bank applied for permission to switch to Advanced IRB for enterprise portfolios currently reported using the foundation approach. The effect of the risk weights under IRB is limited due to transitional rules set out in regulations issued by Finanstilsynet.

As from Q2 2013 the measurement method for operational risk was changed from the basic approach to the standardised approach at the Parent Bank. At the Group level, subsidiaries are still measured using the basic approach.

As from 1 July 2013 new buffer requirements have been introduced; see the Financial Institutions Act section 2-9e. As of 30 June 2014 the capital conservation buffer requirement is 2.5 per cent and the systemic risk buffer requirement is 2 per cent. These requirements are in addition to the requirement that own funds should constitute at least 4.5 per cent common equity tier 1 (CET1) capital, bringing the overall minimum CET1 requirement to 9 per cent. The systemic risk buffer requirement will increase by a further 1 percentage point from 1 July, bringing the overall CET1 to 10 per cent. As of 30 June 2015, a countercyclical buffer requirement of 1 percentage point will be applicable.

BN Bank received approval for use of the advanced IRB approach for its corporate portfolio in April 2014.

Hybrid capital denotes bonds with a nominal interest rate, but the bank is not obliged to pay interest in a period where dividends are not paid, and neither is the investor subsequently entitled to interest that has not been paid, i.e. interest does not accumulate. Hybrid capital characterised by moderate repayment incentives is approved as an element of tier 1 capital up to limit of 15 per cent of aggregate tier 1 capital. If, on the other hand, hybrid capital has no fixed term to maturity and has no repayment incentives, it may be included as an element of core capital up to limit of 35 per cent of aggregate core capital.

Finanstilsynet (Norway's FSA) can require hybrid capital to be written down in proportion with equity capital should the bank's tier 1 capital adequacy fall below 5 per cent or total capital adequacy falls below 8 per cent. Written-down amounts on hybrid capital must be written up before dividends can be paid to shareholders or before equity capital is written up. Hybrid capital is recognised as other long-term debt at amortised cost.

In connection with change requirements regarding the conditions for hybrid capital, hybrid capital that does not satisfy the new requirements over time will not be eligible for inclusion in other core capital. Such hybrid capital will be reduced by 20 per cent in 2014 and 10 per cent thereafter. As of 30 June 2014, SpareBank 1 SMN held NOK 450m in hybrid capital which will be subject to reduction.

Subordinated debt ranks behind all other liabilities. Dated subordinated loans cannot constitute more than 50 per cent of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans cannot constitute more than 100 per cent of tier 1 capital. Subordinated loans are classified as a liability in the balance sheet and are measured at amortised cost in the same way as other long-term loans.

For detailed information regarding subordinated debt and hybrid capital, see note 38 in the banks's annual report.

Parent Bank				Group		
31 Dec 2013	30 Jun 2013	30 Jun 2014	(NOKm)	30 Jun 2014	30 Jun 2013	31 Dec 2013
2,597	2,597	2,597	Equity capital certificates	2,597	2,597	2,597
-0	-0	-0	- Own holding of ECCs	-0	-0	-0
895	895	895	Premium fund	895	895	895
2,496	1,889	2,496	Dividend equalisation fund	2,496	1,889	2,496
3,276	2,944	3,276	Savings bank's reserve	3,276	2,944	3,276
227	-	-	Recommended dividends	-	-	227
124	-	-	Provision for gifts	-	-	124
195	106	195	Unrealised gains reserve	206	123	206
-	38	-65	Other equity and minority interest	1,347	1,386	1,421
-	830	942	Net profit	963	606	-
9,811	9,299	10,337	Total book equity	11,780	10,439	11,242
-447	-447	-454	Deferred taxes, goodwill and other intangible assets	-620	-531	-582
-	-	-	Part of reserve for unrealised gains, associated companies	98	57	98
-352	-	-	Deduction for allocated dividends and gifts	-	-	-361
-401	-381	-442	50 % deduction for subordinated capital in other financial institutions	-101	-93	-106
-240	-203	-251	50 % deduction for expected losses on IRB, net of write-downs	-246	-219	-214

-	-	-	50 % capital adequacy reserve	-685	-500	-595
-109	-109	-28	Surplus financing of pension obligations	-21	-107	-107
-	-830	-942	Net profit	-963	-606	-
-	606	688	Year-to-date profit included in core capital (73% pre tax)	703	442	-
8,262	7,935	8,908	Total common equity Tier one	9,945	8,882	9,374
1,431	1,441	1,439	Hybrid capital, core capital	1,690	1,625	1,615
9,693	9,376	10,347	Total core capital	11,635	10,508	10,989
			Supplementary capital in excess of core capital			
-	-	-	State Finance Fund, supplementary capital	-	31	31
304	307	306	Perpetual subordinated capital	306	307	363
1,569	1,598	1,593	Non-perpetual subordinated capital	2,254	1,861	1,950
-401	-381	-442	50 % deduction for subordinated capital in other financial institutions	-101	-93	-106
-240	-203	-251	50 % deduction for expected losses on IRB, net of write-downs	-246	-219	-214
-	-	-	50 % capital adequacy reserve	-685	-500	-595
1,231	1,320	1,206	Total supplementary capital	1,529	1,386	1,428
10,924	10,696	11,553	Net subordinated capital	13,164	11,894	12,417
			Minimum requirements subordinated capital, Basel II			
1,573	1,672	1,576	Involvement with specialised enterprises	1,863	1,672	1,573
1,478	1,504	1,394	Other corporations exposure	1,472	1,504	1,479
70	63	138	SME exposure	146	68	74
363	348	765	Retail mortgage exposure	1,170	613	628
28	32	41	Other retail exposure	43	37	33
1,157	1,139	1,241	Equity investments	27	-	-
4,669	4,758	5,155	Total credit risk IRB	4,722	3,895	3,787
224	255	307	Debt risk	308	255	224
8	12	-	Equity risk	1	13	10
-	-	-	Currency risk	-	-	-
297	297	292	Operational risk	416	398	398
560	544	617	Exposures calculated using the standardised approach	1,682	2,106	2,151
-67	-64	-73	Deductions	-130	-102	-119
-	-	-	Transitional arrangements	-	322	316
5,690	5,803	6,297	Minimum requirements subordinated capital	6,998	6,886	6,767
71,130	72,536	78,712	Risk weighted assets (RWA)	87,477	86,079	84,591
			Capital adequacy			
11.6 %	10.9 %	11.3 %	Common equity Tier one ratio	11.4 %	10.3 %	11.1 %
13.6 %	12.9 %	13.1 %	Core capital ratio	13.3 %	12.2 %	13.0 %
15.4 %	14.7 %	14.7 %	Capital adequacy ratio	15.0 %	13.8 %	14.7 %

Note 14 - Financial instruments and offsetting

As from 2013 the Bank is required to disclose financial instruments which the Bank considers to fulfil the requirements for netting under IAS 32.42, and financial instruments in respect of which offsetting agreements have been entered into. Both in accordance with IFRS 7.13 A-F.

The Bank has no financial instruments booked on a net basis in the financial statements.

SpareBank 1 SMN has two sets of agreements which regulate counterparty risk and netting of derivatives. For retail and corporate customers, use is made of framework agreements requiring provision of collateral. For customers engaged in trading activity, only cash deposits are accepted as collateral. The agreements are unilateral, i.e. it is only the customers that provide collateral. As regards financial institutions, the Bank enters into standardised and mainly bilateral ISDA agreements. Additionally the Bank has entered into supplementary agreements on provision of collateral (CSA) with the most central counterparties. As of the second quarter 2014 the Bank has 26 active CSA agreements. The Bank only enters into agreements with cash as collateral. The Bank has delegated responsibility for handling these agreements to SEB Prime Collateral Services which handles margin requirements on behalf of the Bank.

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default
30 Jun 2014	Derivatives	1,249
30 Jun 2013	Derivatives	738
31 Dec 2013	Derivatives	1,488

Parent Bank and Group are identical.

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

Level 1: Valuation based on quoted prices in an active market

Fair value of financial instruments that are traded in the active markets is based on market price on the balance sheet date. A market is considered active if market prices are easily and regularly available from a stock exchange, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring market transactions at an arm's length. This category also includes quoted shares and Treasury bills.

Level 2: Valuation based on observable market data

Level 2 consists of instruments that are valued by the use of information that does not consist in quoted prices, but where the prices are directly or indirectly observable for the assets or liabilities concerned, and which also include quoted prices in non-active markets.

Level 3: Valuation based on other than observable data

If valuation data are not available for level 1 and 2, valuation methods are applied that are based on non-observable information.

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2014:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	227	4,139	-	4,366
- Bonds and money market certificates	3,711	11,945	-	15,655
- Equity instruments	49	-	1,038	1,087
- Fixed interest loans	-	-	2,522	2,522
Financial assets available for sale				
- Equity instruments	-	-	36	36
Total assets	3,987	16,084	3,596	23,667
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	763	2,806	-	3,569
Total liabilities	763	2,806	-	3,569

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2013:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	101	2,683	-	2,784
- Bonds and money market certificates	4,260	12,682	-	16,942
- Equity instruments	98	-	821	919
- Fixed interest loans	-	-	2,752	2,752
Financial assets available for sale				
- Equity instruments	-	-	46	46
Total assets	4,459	15,365	3,619	23,444
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	100	2,188	-	2,288
Total liabilities	100	2,188	-	2,288

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2013:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	111	2,939	-	3,050
- Bonds and money market certificates	4,003	11,539	-	15,542
- Equity instruments	67	-	909	976
- Fixed interest loans	-	-	2,648	2,648
Financial assets available for sale				
- Equity instruments	-	-	40	40
Total assets	4,181	14,477	3,597	22,256
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	334	1,961	-	2,295
Total liabilities	334	1,961	-	2,295

The following table presents the changes in the instruments classified in level 3 as at 30 June 2014:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	2,648	909	40	3,597
Investment in periode	21	16	-	37
Disposals in the periode	-153	-80	-	-233
Gain or loss on financial instruments	6	192	-3	195
Closing balance 30 June 14	2,522	1,038	36	3,596

The following table presents the changes in the instruments classified in level 3 as at 30 June 2013:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	2,585	601	46	3,231
Investment in periode	330	249	-	579
Disposals in the periode	-166	-4	-	-170
Gain or loss on financial instruments	3	-24	-	-21
Closing balance 30 June 13	2,752	821	46	3,619

The following table presents the changes in the instruments classified in level 3 as at 31 December 2013:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	2,585	601	46	3,231
Investment in periode	413	388	-	801
Disposals in the periode	-343	-151	-	-495
Gain or loss on financial instruments	-6	72	-6	61
Closing balance 31 December 13	2,648	909	40	3,597

Note 16 - Subsequent events

On 11 August 2014 SpareBank 1 SMN announced that SpareBank 1 SMN Markets in Trondheim is to be fully integrated with SpareBank 1 Markets. This will increase SpareBank 1 SMN's stake in SpareBank 1 Markets.

SpareBank 1 SMN will integrate its markets operation into SpareBank 1 Markets. The settlement will be in SpareBank 1 Markets shares. Consequently, SpareBank 1 SMN will become the principal shareholder in the combined company. Following the merger and a planned equity issue of MNOK 65 in September 2014, the ownership structure in SpareBank 1 Markets will be as follows:

SpareBank 1 SMN: 73,3 per cent (27,0 per cent)
SpareBank 1 Nord-Norge: 10,0 per cent (27,0 per cent)
SamSpar: 10,0 per cent (27,0 per cent)
Sparebanken Hedmark: 6,1 per cent (16,6 per cent)
Other shareholders: 0,6 per cent (2,2 per cent)

The operations of the two companies will primarily continue as-is, with 70 employees in Oslo and 40 employees in Trondheim. The merged company will be led by Stein Husby. The business area 'Foreign Exchange and Derivatives', as well as certain supporting functions, will be located in Trondheim.

The transaction is expected to be completed within 4(th) quarter of 2014, subject to regulatory approval and final Board approvals. For further information see the stock exchange notice of 11 August 2014.

Statement in compliance with the securities trading act, section 5-6

Statement by the Board of Directors and CEO

We hereby declare that to the best of our knowledge the half-yearly financial statements for the period 1 January to 30 June 2013 have been prepared in accordance with IAS 34 Interim Financial Reporting, and that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank and the group taken as a whole.

We also declare that to the best of our knowledge the half-yearly management report gives a fair review of important events in the reporting period and their impact on the financial statements, the principal risks and uncertainties facing the business in the next reporting period, and significant transactions with related parties.

Trondheim, 13 August
The Board of Directors of 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)

Equity capital certificates

Stock price compared with OSEBX and OSEEX

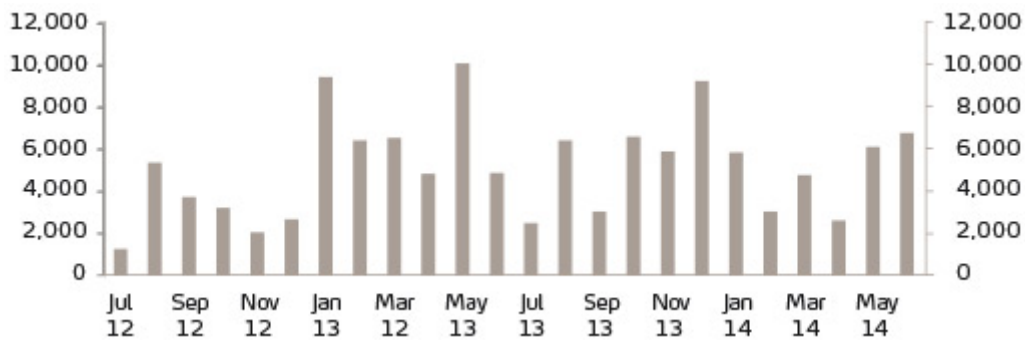
1 July 2012 to 30 June 2014



OSEBX = Oslo Stock Exchange Benchmark Index (rebased)
 OSEEX = Oslo Stock Exchange ECC Index (rebased)

Trading statistics

1 July 2012 to 30 June 2014



Total number of ECs traded (1000)

20 largest ECC holders	Number	Share
Verdipapirfond Odin Norge	4.042.430	3,11 %
Sparebankstiftelsen SpareBank 1 SMN	3.965.391	3,05 %
Verdipapirfondet DNB Norge (IV)	3.576.856	2,75 %
Verdipapirfond Pareto Aksje Norge	3.462.308	2,67 %
Verdipapirfondet Nordea Norge Verdi	2.899.724	2,23 %
Verdipapirfond Odin Norden	2.854.979	2,20 %
State Street Bank and Trust CO (nominee)	2.757.847	2,12 %
Vind LV AS	2.736.435	2,11 %
Wimoh Invest AS	2.359.388	1,82 %
MP Pensjon PK	2.058.415	1,59 %
Verdipapirfondet Danske Invest Norske Aksjer Inst. II	1.913.767	1,47 %
The Bank of New York Mellon (nominee)	1.887.323	1,45 %
Verdipapirfondet Fondsfinans Spar	1.500.000	1,16 %
Forsvarets Personellservice	1.491.146	1,15 %
Verdipapirfond Pareto Aktiv	1.413.900	1,09 %
DNB Livsforsikring ASA	1.314.507	1,01 %
Verdipapirfondet Nordea Kapital	1.161.289	0,89 %
Verdipapirfondet Danske Invest Norske Aksjer Instit. I	1.124.723	0,87 %
Aksjefondet Handelsbanken Norge	1.100.000	0,85 %
The Bank of New York Mellon (nominee)	1.077.331	0,83 %
The 20 largest ECC holders in total	44.697.759	34,43 %
Others	85.138.684	65,57 %
Total issued ECCs	129.836.443	100,00 %

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.

Auditor's report

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Translation from the original Norwegian version

To the Board of Directors of SpareBank 1 SMN

**Report on Review of Interim Financial Information of SpareBank 1 SMN
as of June 30 2014**

We have reviewed the accompanying balance sheet of SpareBank1 SMN as of June 30 2014 and the related statements of income for the group, showing a profit of 892.000.000, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34, as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

We have conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at June 30 2014, and of its financial performance and its cash flows for the six month period then ended in accordance with International Accounting Standard 34, as adopted by the EU.

Trondheim 13.8.2014
Deloitte ASMette Estenstad (Signed)
State Authorised Public Accountant (Norway)

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