

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)