

# Report of the Board of Directors

## First quarter 2015

(Consolidated figures. Figures in parentheses refer to the same period of 2014 unless otherwise stated).

- Pre-tax profit: NOK 567m (597m)
- Net profit first quarter: NOK 441m (500m)
- Return on equity: 14.1 percent (17.7 percent)
- Growth in lending 10.0 percent (4.4 percent) in past 12 months
- Growth in deposits 10.9 percent (5.4 percent) in past 12 months
- CET1 capital ratio: 12.3 percent (11.1 percent)
- Earnings per equity certificate: NOK 2.18 (NOK 2.48)
- Book value per equity certificate: NOK 61.95 (NOK 56.39)

## Good performance first quarter 2015

### Main points:

- Profit from core business strengthened by 8 percent. Increased net interest income from both the retail and corporate segment
- Group profit down NOK 59m compared with first quarter 2014
- High capital gains in first quarter 2014
- Moderate cost growth
- Low loan losses
- CET1 ratio: 12.3 percent (11.1 percent). Advanced IRB and higher risk weights on home mortgage loans implemented in first quarter
- Strong growth in lending and deposits

In the first quarter 2015 SpareBank 1 SMN achieved a net profit of NOK 441m (500m) and a return on equity of 14.1 percent (17.7 percent). Profit before tax was NOK 567m (597m).

Operating income in the first quarter increased by NOK 46m to NOK 844m compared with the same period of 2014, largely due to increased lending and an improved deposit margin.

Return on financial assets was NOK 198m (257m), of which income on owner interests accounted for NOK 129m (82m). The first quarter 2014 includes an unrealised gain of NOK 148m resulting from the agreed disposal of the bank's stake in Nets Holding.

Operating expenses were NOK 454m in the first quarter 2015 (441m).

Loan losses totalled NOK 22m (17m) in the first quarter.

12-month lending growth was 10.0 percent (4.4 percent) and deposit growth was 10.9 percent (5.4 percent) in the first quarter 2015.

SpareBank 1 SMN is planning for a CET1 ratio of 13.5 percent by 30 June 2016. The capital plan is further described in the section on financial strength. Home mortgage loan weights for Norwegian IRB banks were raised as from the first quarter, which in isolation weakened capital adequacy. SpareBank 1 SMN received permission to use the advanced IRB approach to calculate regulatory capital charges against credit risk for corporate clients. This is implemented as of the first quarter of 2015. The net effect of increased home mortgage weights and implementation of advanced IRB is a 0.8 percentage point increase in the CET1 ratio, and the CET1 ratio is calculated at 12.3 percent as at end-March 2015 (11.1 percent).

In the first quarter earnings per EC were NOK 2.18 (NOK 2.48), and book value per EC was NOK 61.95 at quarter-end (NOK 56.39). At the same point the quoted price was NOK 59.50 (NOK 53.75). A cash dividend of NOK 2.25 per EC has been paid in 2015 for the year 2014.

### Net interest income

Net interest income came to NOK 467m (412m). The change from the first quarter 2014 is ascribed to:

- Increased lending to and deposits from retail and corporate customers alike
- Increased margins on deposits
- Reduced lending margins

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies in the first quarter 2015 totalled NOK 91m (123m).

In the course of 2014 and the first quarter 2015 three general interest rate reductions have been carried out on loans to retail customers, and the bank has thereby adapted its home mortgage rates to the competitive situation. Retail and corporate deposit rates have been reduced in the above period due to falling costs of money market funding.

Compared with the fourth quarter 2014, net interest income has fallen by NOK 18m. Half of this figure is ascribable to fewer interest days in the first quarter than in the fourth quarter. The remainder of the decline is related to reduced lending margins, mainly on home mortgages.

### Commission income

Net commission and other income came to NOK 377m (385m) in the first quarter 2015. Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt were down NOK 32m due to lower margins on loans sold to SpareBank 1 Boligkreditt. A positive trend is noted for income from real estate agency, accounting services, insurance and guarantee commissions.

Commission income (NOKm)	31 Mar 2015	31 Mar 2014	Change
Payment transfers	47	48	-1
Creditcard	13	13	1
Saving products	11	10	1
Insurance	37	31	5
Guarantee commission	16	13	4
Real estate agency	83	71	12
Accountancy services	53	47	6
Active management	4	3	1
Rent	10	11	-0
Other commissions	11	16	-5
<b>Commissions ex SB1 Boligkreditt and SB1 Næringskreditt</b>	<b>286</b>	<b>262</b>	<b>24</b>
Commissions SB1 Boligkreditt and SB1 Næringskreditt	91	123	-32
<b>Total commissions</b>	<b>377</b>	<b>385</b>	<b>-8</b>

### Good return on financial investments

Overall return on financial investments (excluding the bank's share of the profit/loss of associates and joint ventures) was NOK 69m (175m). Overall return breaks down as follows:

- Return on the group's equity portfolios totalled NOK 10m (156m, including a gain of NOK 148m taken to income on the stake in Nets Holding)
- Net gain on bonds and derivatives came to NOK 11m (loss of 1m)
- Capital gains on forex and fixed income trading at SpareBank 1 SMN Markets was NOK 48m (20m)

Capital gains/dividends, shares (NOKm)	31 Mar 2015	31 Mar 2014	Change
Capital gains/dividends, shares	10	156	-146
Bonds and derivatives	11	-1	12
SpareBank 1 SMN Markets	48	20	28
<b>Net return on financial investments</b>	<b>69</b>	<b>175</b>	<b>-106</b>
SpareBank 1 Gruppen	59	46	14
SpareBank 1 Markets	-2	-4	2
SpareBank 1 Boligkreditt	41	8	33
SpareBank 1 Næringskreditt	8	11	-3
SpareBank 1 Kredittkort	4	-2	6
BN Bank	18	25	-6
Companies owned by SpareBank 1 SMN Invest	-	-	-
Other companies	-0	-1	1
<b>Income from investment in related companies</b>	<b>129</b>	<b>82</b>	<b>46</b>
<b>Total</b>	<b>198</b>	<b>257</b>	<b>-60</b>

### SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for the first quarter 2015 was NOK 303m (249m). The main contributor to the profit was SpareBank 1 Forsikring. SpareBank 1 SMN's share of the profit was NOK 59m (46m).

### SpareBank 1 Markets

At the end of the first quarter SpareBank 1 SMN held a stake of 27.3 percent in SpareBank 1 Markets. This company's financial result for the quarter was a loss of NOK 13m (loss of NOK 16m), of which SpareBank 1 SMN's share was minus NOK 2m (minus 4m).

As from 1 April 2015 the company was restructured with the integration of SpareBank 1 SMN's capital market activities into SpareBank 1 Markets. This brings SpareBank 1 SMN's stake to 73.3 percent. The

other owners are SpareBank 1 Nord-Norge (10.0 percent), SamSpar, i.e. Samarbeidende Sparebanker (10.0 percent), SpareBanken Hedmark (6.1 percent) and the Norwegian Confederation of Trade Unions and employee shareholders (0.6 percent). On a pro forma basis the overall business yields a profit of NOK 6m before tax in the first quarter. This is broadly in line with expectations.

### **SpareBank 1 Boligkreditt**

SpareBank 1 Boligkreditt AS was established by the banks participating in the SpareBank 1-alliance to take advantage of the market for covered bonds. The banks sell their best secured home mortgage loans to the company, affording them reduced funding costs. As of 31 March 2015 the bank had sold loans worth NOK 29bn (31bn) to SpareBank 1 Boligkreditt, corresponding to 39 percent (45 percent) of overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt AS is 17.67 percent, and the bank's share of that company's profit in the first quarter 2015 was NOK 41m (8m). Profit for the first quarter 2015 is heavily impacted by unrealised gains on the company's basis swaps.

### **SpareBank 1 Næringskreditt**

SpareBank 1 Næringskreditt was established along the same lines, and with the same administration, as SpareBank 1 Boligkreditt. As of 31 March 2015, loans worth NOK 1.5bn (1.2bn) had been transferred to SpareBank 1 Næringskreditt. In 2014 the interest rate applied to loans sold from BN Bank to SpareBank 1 Næringskreditt was changed. This rate now reflects the capital cost for BN Bank's loans sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.62 percent, and the bank's share of the company's profit in the first quarter 2015 was NOK 8m (11m).

### **SpareBank 1 Kredittkort**

The company was in ordinary operation as from the second half of 2014, and achieved a net profit of NOK 21m in the first quarter 2015. SpareBank 1 SMN share of the profit was NOK 4m. SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 18.43 percent. SpareBank 1 SMN's share of the portfolio is NOK 742m.

### **BN Bank**

SpareBank 1 SMN had a 33 percent stake in BN Bank as of 31 March 2015. SpareBank 1 SMN's share of the profit of BN Bank in the first quarter 2015 was NOK 18m (25m), yielding a return on equity of about 6 percent.

BN Bank's focus is on implementing profitability-enhancing measures. BN Bank received approval to apply the advanced IRB approach to its corporate portfolio in April 2014, and has a CET1 ratio of 13.9 percent at 31 March 2015.

### **Low cost growth**

Overall costs came to NOK 454m (441m) in the first quarter 2015. The increase of NOK 13m equals 2.8 percent. Parent bank costs rose by NOK 2m or 0.7 percent to reach NOK 307m.

Changing customer behaviour and far greater use of self-service solutions creates opportunities for significant efficiency enhancement. The bank plans for zero growth in costs at the parent bank in the period

to 2017. This will be achieved by a workforce reduction equivalent to about 100 full time positions over the course of 2015 and 2016.

In the course of the first quarter the number of FTEs at the parent bank was reduced by 34 to 719.

At the subsidiaries overall costs grew by NOK 10m or 7.5 percent, largely related to an increased cost base at SpareBank 1 Regnskapshuset SMN (accounting services). This is in keeping with the company's growthstrategy of acquiring local accounting businesses.

Operating expenses measured 1.45 percent (1.56 percent) of average total assets. The Group's cost-income ratio was 44 percent (42 percent).

### **Low losses and low defaults**

Loan losses came to NOK 22m in the first quarter 2015 (17m).

Net losses of NOK 18m were recorded on loans to corporate clients, including a loss of 1m at SpareBank 1 Finans Midt-Norge. On loans to retail customers loss of NOK 4m was recorded in the first quarter 2015.

Total individually assessed loan impairment write-downs in the first quarter came to NOK 160m (173m), a decline of NOK 13m over the last 12 months.

Total problem loans (defaulted and doubtful) came to NOK 463m (494m), or 0.38 percent (0.44 percent) of gross loans as of 31 March 2015.

Defaults in excess of 90 days totalled NOK 237m (263m), a decline of NOK 26m. In terms of gross lending (including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt), defaults measure 0.19 percent (0.24 percent). Of total defaults, NOK 59m (59m) are loss provisioned, corresponding to 25 percent (22 percent). Defaults break down to NOK 95m on corporates and NOK 142m on retail customers.

Other doubtful exposures totalled NOK 226m (231m), i.e. 0.18 percent (0.21 percent) of gross outstanding loans. NOK 92m (114m) or 41 percent (49 percent) are loss provisioned. Other doubtful exposures break down to NOK 212m to corporate customers and NOK 14m to retail customers.

### **Collectively assessed impairment write-downs**

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

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

For the first quarter 2015 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 124bn**

The bank's assets totalled NOK 124bn at 31 March 2015 compared with NOK 112bn as of the first quarter 2014. As of the same date loans worth a total of 30.6bn (32.2bn) has been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the bank's balance sheet. The comments covering lending growth do however include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

## Lending

In the 12 months to end-March total outstanding loans rose by NOK 11.1bn (4.7bn) or 10.0 percent (4.4 percent) to reach NOK 122.9bn (incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt). Lending grew in the first quarter by NOK 2.5bn or 2.1 percent.

Lending to corporates rose by NOK 5.6bn (reduced by NOK 0.9bn) or 13.2 percent (reduced by 2.1 percent) in the 12 months to end-March. Overall lending to corporates totalled NOK 47.8bn as of 31 March 2015. Growth is higher than envisaged in the bank's capital plan, and lending to corporates will be adjusted for the year as a whole. In the first quarter growth was NOK 1.4bn or 3.1 percent.

Loans to retail customers rose by NOK 5.6bn (5.6bn) to reach NOK 75.2bn in the last 12 months, equivalent to growth of 8.0 percent (8.8 percent). Loans to retail customers accounted for 61 percent (62 percent) of gross lending (incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) to customers at end-March 2015. In the first quarter lending to retail customers rose by NOK 1.1bn or 1.4 percent.

(For distribution by sector, see Note 5).

## Deposits

Customer deposits rose by NOK 5.9bn (2.1bn) to reach NOK 60.6bn in the 12 months to 31 March 2015. This represents a growth of 10.9 percent (5.4 percent). In the first quarter, overall deposits declined by NOK 0.1bn or 0.2 percent.

Retail customer deposits rose in the last 12 months by NOK 2.3bn (1.3bn) or 9.4 percent (5.9 percent) to reach NOK 26.5bn, while deposits from corporates rose by NOK 3.7bn (0.8bn) or 12.0 percent (2.7 percent) to NOK 34.1bn. At the end of the first quarter retail deposits were unchanged from year-end, while corporate deposits were reduced by NOK 0.1bn or 0.3 percent.

(For distribution by sector, see Note 10).

## Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 7.2bn at 31 March 2015, an increase of 34 percent since the first quarter 2014. Excellent growth has been achieved both on equity funds and active management, driven by value increases and increased sales.

<b>Saving products, customer portfolio (NOKm)</b>	<b>31 Mar 2015</b>	<b>31 Mar 2014</b>	<b>Change</b>
Equity funds	4,765	3,635	1,130
Pension products	642	545	97
Active management	1,817	1,201	616
<b>Total</b>	<b>7,224</b>	<b>5,381</b>	<b>1,843</b>

## Insurance products

The bank's insurance portfolio showed growth of NOK 37m or 3 percent in the 12 months to end-March. Non-life insurance delivered 2 percent growth, personal insurance 11 percent while growth in the occupational pensions portfolio declined by 2 percent. Total incomes on the bank's insurance portfolio passed NOK 120m in 2014 and stable growth is forecast for 2015 too.

Insurance, premium volume (NOKm)	31 Mar 2015	31 Mar 2014	Change
Non-life insurance	711	695	16
Personal insurance	251	227	24
Occupational pensions	185	188	-3
<b>Total</b>	<b>1,147</b>	<b>1,110</b>	<b>37</b>

### Retail Banking

Operating income has increased considerably due to increased margins on home mortgages on the bank's own balance sheet and on mortgages sold to SpareBank 1 Boligkreditt, and in the first quarter totalled in aggregate NOK 411m. Net interest income came to NOK 239m and commission income to NOK 173m. Return on equity in the retail banking segment was 15.5 percent in terms of regulatory capital employed converted to 13.5 percent.

The lending margin in the first quarter 2015 was 2.36 percent (2.52 percent), while the deposit margin was minus 0.35 percent (minus 0.53 percent) (measured against three-month NIBOR). In the 12 months to end-March the growth in retail lending and deposits was 7.3 percent and 8.4 percent respectively.

Lending to retail borrowers generally carries low risk, as reflected in continued very low losses. Losses and defaults are expected to remain at a low level. The loan portfolio is secured on residential property, and the trend in house values has been relatively high throughout the market area. Demand for housing is high and is due to underlying demand growth brought about because housing production has not kept up with housing need.

### Corporate Banking

Operating income totalled NOK 282m in the first quarter 2015. Net interest income was NOK 235m, while commission income totalled NOK 47m including NOK 4m on fixed income and forex business. In the corporate banking segment too, net interest income increased after portfolio repricing in 2014.

Return on equity for the corporate banking segment was 11.9 percent in the first quarter in terms of regulatory capital employed converted to 13.5 percent.

The lending margin was 2.77 percent (3.00 percent) and the deposit margin was minus 0.41 percent (minus 0.64 percent) in the first quarter.

Lending increased by 15.0 percent and deposits by 13.4 percent in the last 12 months.

### SpareBank 1 SMN Markets

SpareBank 1 SMN Markets posted total income of NOK 45m (24m) in the first quarter 2015 after an excellent quarter for fixed income and forex business. As from the second quarter 2015 the activity of SpareBank 1 SMN Markets is being transferred to SpareBank 1 Markets (see section above on SpareBank 1 Markets).

From the same point in time SpareBank 1 Markets is to be a subsidiary of SpareBank 1 SMN in which SpareBank 1 SMN holds a stake of 73.3 percent. See also Note 16 – Events after the balance sheet date.

Markets (NOKm)	31 Mar 2015	31 Mar 2014	Change
Currency trading	46.0	16.6	29.4
Securities, brokerage commission	3.6	6.2	-2.6
SpareBank 1 Markets	-4.9	1.2	-6.1
VPS and other income	1.2	2.4	-1.2
Investments	-1.1	-2.4	1.3
<b>Total income</b>	<b>44.8</b>	<b>24.0</b>	<b>20.8</b>

## Subsidiaries

The subsidiaries posted an overall pre-tax profit of NOK 37.9m (27.5m) in the first quarter 2015.

Pre-tax profit (NOKm)	31 Mar 2015	31 Mar 2014	Change
EiendomsMegler 1 Midt-Norge	7.8	3.5	4.4
SpareBank 1 Finans Midt-Norge	21.3	16.6	4.7
SpareBank 1 Regnskapshuset SMN	7.9	6.7	1.2
Allegro Kapitalforvaltning	0.3	-0.6	0.9
SpareBank 1 SMN Invest	0.9	0.7	0.2
Other companies	-0.3	0.7	-1.0
<b>Total</b>	<b>37.9</b>	<b>27.5</b>	<b>10.4</b>

**EiendomsMegler 1 Midt-Norge** leads the field in its catchment area with a market share of 40 percent. The first quarter profit of NOK 7.8m (3.5m) is satisfactory and NOK 4.4m better than in the first quarter 2014.

**SpareBank 1 Finans Midt-Norge** reported a profit of NOK 21.3m in the first quarter (16.6m) and shows profit growth due to increased income from both car loans and leasing, and reduced losses. At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.7bn of which leases accounted for NOK 1.9bn and car loans for NOK 1.8bn. Samspar will become a co-owner of SpareBank 1 Finans Midt-Norge in June 2015. The Samspar banks will thereafter hold a stake of about 30 percent in SpareBank 1 Finans Midt-Norge, entailing a substantial increase in distribution power.

**SpareBank 1 Regnskapshuset SMN** posted a pre-tax profit of NOK 7.9m (6.7m).

SpareBank 1 SMN Regnskapshuset SMN has a growth strategy based on the acquisition of small accounting firms. This represents a consolidation of a fragmented accounting industry.

**Allegro Kapitalforvaltning** is an active management company that manages portfolios for clients primarily in SpareBank 1 SMN and the SamSpar banks. These banks are the company's distribution channel. The company posted a profit of NOK 0.3m in the first quarter 2015 (minus 0.6m). The company manages a portfolio of NOK 1.8bn.

**Sparebank 1 SMN Invest** invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 0.9m in the first quarter 2015 (profit of 0.7m). The profit is a consequence of value changes and realisation of losses or gains on the company's overall shareholding, and is the profit shown in the company's financial statements. In addition the company has owner interests in the property companies Grilstad Marina and Hommelvik Sjøside. No profits were taken to income at these companies in the first quarter.



### 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 12 months of ordinary operation without need of fresh external funding. The bank has liquidity reserves of NOK 14bn and thus has the funding needed for 18 months of ordinary operation without fresh external finance.

The bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of 1 year was 85 percent (72 percent).

### Rating

SpareBank 1 SMN has a rating of A2 (outlook review for upgrade) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. The bank was placed on outlook review for upgrade by Moody's in March 2015, as were several other Norwegian and European banks.

### Financial position

The CET1 capital ratio at 31 March 2015 was 12.3 percent (11.1 percent). CET1 capital is core capital excluding hybrid capital.

(NOKm)	31 Mar 2015	31 Mar 2014
Tier 1 capital	11,008	9,655
Hybrid capital	1,705	1,647
Subordinated loan	2,435	1,591
<b>Capital base</b>	<b>15,147</b>	<b>12,893</b>
Required subordinated debt	7,134	6,989
<b>Risk weighted assets</b>	<b>89,171</b>	<b>87,361</b>
Tier 1 capital ratio	12.3 %	11.1 %
Core capital ratio	14.3 %	12.9 %
Capital adequacy ratio	17.0 %	14.8 %

In the first quarter 2015 SpareBank 1 SMN received permission to apply the advance IRB approach to calculate regulatory capital charges against credit risk on corporate clients. An important premise of the group's capital plan is accordingly in place.

The permission entails that the regulatory capital requirement will now be more in line with the actual credit risk incurred by the bank in its overall loan portfolio. The risk weight for the bank's corporate portfolio was reduced from about 90 percent to 66 percent. With effect from the first quarter 2015, risk weights for home mortgages are raised as a result of Finanstilsynet's (Norwegian FSA's) tightening. The risk weighting on mortgages the consolidated level increased to about 23 percent. As a result of reduced risk weights on corporates, a capital requirement has arisen related to the transitional rules. The overall effect of these changes is to strengthen CET1 capital adequacy by about 0.8 percentage point.

The minimum CET1 capital requirement as of 31 March 2015 was 10 percent, of which overall buffer requirements accounted for 5.5 percent. A countercyclical buffer of 1 percent will be introduced at the end of the second quarter 2015. The Ministry of Finance decided on 27 March 2015 that the countercyclical buffer would not be changed. The required period of notification for an increase is normally 12 months.

The board of directors of SpareBank 1 SMN continually assesses the capital situation and future capital requirements. The board considers it important for the group to be sufficiently capitalised to fulfil all regulatory requirements, as well as market expectations. The practical consequence is that the bank's CET1

capital target remains unchanged, even though SMN was not defined as a SIFI. The board of directors is planning for a CET1 ratio of 13.5 percent including a countercyclical buffer of 1.0 percent plus a reserve of 0.5 percent.

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 percent of the group profit
- Moderate growth in the bank's asset-intensive activities, with priority given to lending to the retail segment

SpareBank 1 SMN currently has no plans to issue equity capital, and the board of directors is of the view that other measures are sufficient to attain the goal of a CET1 ratio of 13.5 percent by 30 June 2016.

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

The book value of the bank's EC as of 31 March 2015 was NOK 61.95 (56.39), and earnings per EC were NOK 2.18 (2.48).

As at 31 March 2015 the EC was priced at NOK 59.50 (NOK 53.75), and dividend of NOK 2.25 per EC has been paid in 2015 for the year 2014 (NOK 1.75).

The Price/Income ratio was 6.81 and the Price/Book ratio was 0.96 at 31 March 2015.

### **Risk factors**

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

The bank expects a falling rate of GDP growth as a result of reduced oil investment. This will be partly offset by international growth and a weaker Norwegian krone which will impact positively on export industries. The bank also expects moderate growth in lending to mid-Norway's business sector ahead as a result of the low level of investment.

The bank expects unemployment to show a slight increase, but to remain relatively low. This, combined with continued real wage growth and a low interest rate level, suggests that loss risk in the bank's retail banking portfolio will remain low.

Credit demand from Norwegian households remains higher than income growth and will be heavily affected by the trend in house prices. If house prices stagnate, or fall, there is a risk that the household saving rate will quicken and that this will result in reduced turnover and sales for parts of Norwegian business and industry.

Norges Bank recommended that the countercyclical buffer should be continued unchanged. The financial imbalances used by Norges Bank as assessment criteria are historically high, but the growth appears to have halted. Finanstilsynet considers that households' debt growth indicates that the countercyclical buffer should have been increased by 0.5 percentage point. If credit growth or house price growth increases once again it could prompt Norges Bank to recommend the Ministry of Finance to increase the countercyclical buffer.

The bank's results are affected directly and indirectly by fluctuations in the securities markets. The indirect effect relates above all to the bank's stake in SpareBank 1 Gruppen, where both the insurance business and fund management activities are affected by the fluctuations.

The bank is also exposed to risk related to access to external funding. This is reflected in the bank's conservative liquidity strategy (see the above section on funding and liquidity).

### **Outlook ahead**

The directors are satisfied with the performance for the first quarter 2105. The core business has achieved good income growth while at the same time cost growth is moderate and losses are still very low.

Growth in lending to business and industry has been higher than assumed in the capital plan, and lending to this sector in 2015 and 2016 will reflect the intention to keep lending within the bounds of the capital plan. The aim is achieve a CET1 ratio of 13.5% in 2016 through profit retention and moderate growth.

The falling oil price and a somewhat more negative economic situation have focused greater attention on risk in banks' loan exposures. SpareBank 1 SMN has low exposure to the oil price in the bank's market area and the directors assumes that SpareBank 1 SMN will be less affected by the ongoing restructuring of oil-related activity than many other banks. Defaults at SpareBank 1 SMN are at a very low level, and no basis has been found for increasing collectively assessed impairment write-downs.

Changing customer behaviour with increasing use of digital channels and fewer visits to bank branches create a need for a new design for the distribution of the bank's products and services. The bank will optimise resource use between the channels and continuously adjust the distribution model so as to tailor the bank's distribution to customer behaviour and customers' use of the channels. This change provides a sound basis for reduced resource use at the bank. An effective and efficient branch structure staffed by competent advisers, combined with a customer-oriented direct bank and sound self-service solutions, will provide the customer with a sound, future-oriented service offering.

SpareBank 1 SMN has through the SpareBank 1 Alliance a good platform on which to implement the system adjustments that are needed in a cost-efficient manner.

The directors expect a good performance in 2015.

Trondheim, 8. May 2015  
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal  
(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)