

Report of the Board of Directors

First half 2015

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

- Pre-tax profit: NOK 1,080 million (1,165 million)
- Net profit: NOK 871 million (963 million)
- Return on equity: 13.7 per cent (16.8 per cent)
- Growth in lending 8.4 per cent (5.1 per cent) and deposits 11.4 per cent (8.5 per cent) in past 12 months
- Loan losses NOK 56 million (32 million), 0.09 per cent (0.06 per cent) of gross lending
- CET1 capital ratio: 12.7 per cent (11.4 per cent)
- Earnings per equity certificate: NOK 4.31 (4.77)

Second quarter 2015

- Pre-tax profit: NOK 513 million (568 million)
- Net profit NOK 430 million (464 million)
- Return on equity: 13.4 per cent (16.0 per cent)
- Loan losses: NOK 35 million (15 million), 0.11 per cent (0.05 per cent) of gross loans
- Earnings per equity certificate: NOK 2.13 (2.29)

Good profit performance first half 2015

Main points:

- Pre-loss profit from core business up 5 per cent.
- Group profit down NOK 93 million compared with first half 2014. This is attributable to very high capital gains on sale of holding in Nets in first half of last year
- Low loan losses
- Low cost growth, in keeping with plan
- CET1 ratio: 12.7 per cent
- Good growth in lending and deposits

As from the second quarter of 2015 SpareBank 1 Markets is consolidated as a subsidiary of SpareBank 1 SMN, bringing an increase in the Group's gross incomes and expenses.

In the first half of 2015 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,080 million (1,165 million). Net profit was NOK 871 million (963 million) and return on equity was 13.7 per cent (16.8 per cent).

Net profit in the second quarter was a creditable NOK 430 million (464 million). Return on equity in the quarter was 13.4 per cent (16.0 per cent).

Group operating income rose in the first half by NOK 101 million to NOK 1,724 million (1,623 million), largely due to increased lending, improved deposit margins and SpareBank 1 Markets.

Return on financial investments was NOK 362 million (459 million), of which income from owner interests accounted for NOK 248 million (214 million). The sale of the bank's stake in Nets Holding in the first half of 2014 came to NOK 156 million.

Group operating expenses were NOK 950 million in the first half 2015 (884 million). Of the increase of NOK 66 million, the effect of the consolidation of SpareBank 1 Markets as a subsidiary accounts for NOK 46 million.

Loan losses totalled NOK 56 million (32 million) in the first half, corresponding to 0.09 per cent (0.06 per cent) of total lending.

At mid-year 12-month lending growth was 8.4 per cent (5.1 per cent) and deposit growth was 11.4 per cent (8.5 per cent). Lending growth in the first half was 3.4 per cent (2.3 per cent) and deposit growth in the same period was 9.1 per cent (5.9 per cent).

At the second quarter-end the CET1 ratio was 12.7 per cent (11.4 per cent). This was 0.4 percentage points higher than at the first quarter-end. An excellent result for the period has strengthened CET1 capital by NOK 314 million at the same time as growth in risk weighted assets in the period was marginal.

SpareBank 1 SMN is planning for a CET1 ratio of 13.5 per cent 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 of 2015, which in isolation weakened capital adequacy. In the first quarter SpareBank 1 SMN implemented the advanced IRB approach to calculate regulatory capital charges for credit risk from corporates. The net effect of higher home mortgage weights and implementation of advanced IRB was a 0.8 percentage point increase in the CET1 ratio.

In the first half-year earnings per EC were NOK 4.31. Book value per EC was NOK 64.18 at 30 June 2015.

At the half-year mark the quoted price of the bank's equity certificate was NOK 65.50 (NOK 58.50 at 31 dec 2014). A cash dividend of NOK 2.25 per EC was paid in in the second quarter for the year 2014.

Increased net interest income

Net interest income strengthened compared with the first half of 2014, and came to NOK 934 million (843 million). The change from the first half of 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 half of 2015 totalled NOK 175 million (233 million).

In the course of 2014 and the first quarter of 2015 three general interest rate reductions have been carried out on loans to retail customers in order to adjust home mortgage to a falling interest rate level. Retail and corporate deposit rates have been reduced through 2014 and 2015 as a result of falling costs of money market funding. A further reduction of home mortgage rates, and of retail and corporate deposit rates, has been signalled.

Increased commission income

Net commission and other operating income came to NOK 790 million (780 million) in the first half of 2015.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was down NOK 58 million due to lower lending volume and margins on loans sold to SpareBank 1 Boligkreditt. A positive trend is noted in other commission income, in particular from estate agency, accounting services and insurance. The main contributor to the increase of NOK 13 million on market income is the effect of consolidation of SpareBank 1 Markets.

Commission income (NOKm)	30 June 2015	30 June 2014	Change
Payment transfers	94	94	0
Creditcard	27	25	2
Saving products	26	21	4
Insurance	74	66	9
Guarantee commission	31	29	2
Real estate agency	179	156	23
Accountancy services	110	101	9
Markets	23	10	13
Active management	9	7	2
Rent	22	21	1
Other commissions	19	17	2
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	616	547	69
Commissions SB1 Boligkreditt	170	227	-57
Commissions SB1 Næringskreditt	5	5	-1
Total commissions	790	780	10

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 114 million (245 million). Overall return breaks down as follows:

- Return on the group's equity portfolios totalled NOK 70 million (214 million), which includes a gain of NOK 34 million on the transaction involving SpareBank 1 Markets
- Capital gains on bonds and derivatives were NOK 43 million (loss of NOK 3 million)
- As from the second quarter of 2015 a change was made to the reference rate in the model used to measure the fair value of fixed-rate loans, producing a one-time effect of minus NOK 64 million in this quarter.
- Income on forex and fixed income transactions was NOK 64 million (34 million)

	30 June 2015	30 June 2014	Change
Capital gains/dividends, shares (NOKm)			
Capital gains/dividends, shares	70	214	-144
Bonds and derivatives	43	-3	46
Change in reference rate in fair value model for fixed interest loans	-64	-	-64
Forex and fixed income business	64	34	30
Net return on financial investments	114	245	-131
SpareBank 1 Gruppen	128	150	-23
SpareBank 1 Markets	-2	-18	16
SpareBank 1 Boligkreditt	50	12	38
SpareBank 1 Næringskreditt	15	20	-5
SpareBank 1 Kredittkort	10	-5	15
BN Bank	35	55	-20
Companies owned by SpareBank 1 SMN Invest	13	-	13
Other companies	-0	-1	1
Income from investment in related companies	248	214	35
Total	362	459	-97

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for the first half of 2015 was NOK 653 million (785 million). The main contributor to the profit was the insurance business. SpareBank 1 SMN's share of the profit in the first half of 2015 was NOK 128 million (150 million).

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt AS was established by the banks participating in the SpareBank 1-alliance to secure funding by way 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 30 June 2015 the bank had sold loans worth NOK 29 billion (28 billion) to SpareBank 1 Boligkreditt, corresponding to 38 per cent (39 per cent) of overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt AS is 17.7 per cent, and the bank's share of that company's profit in the first half of 2015 was NOK 50 million (12 million). The profit for 2015 includes unrealised gains on the company's basis swaps in the first quarter. The bank's holding reflects the bank's relative share of total loans transferred to SpareBank 1 Boligkreditt at the end of 2014.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines, and with the same administration, as SpareBank 1 Boligkreditt. As of 30 June 2015, loans worth NOK 1.4 billion (1.2 billion) had been transferred to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.6 per cent, and the bank's share of the company's profit in the first half of 2015 was NOK 15 million (20 million). The holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank.

BN Bank

SpareBank 1 SMN had a 33.0 per cent stake in BN Bank as of 30 June 2015. SpareBank 1 SMN's share of the profit of BN Bank in the first half of 2015 was NOK 35 million (55 million), yielding a return on equity of 5.8 per cent. BN Bank received approval to apply the advanced IRB approach to its corporate portfolio in the second quarter of 2014, and to the retail portfolio as from the second quarter of 2015.

The board of directors of BN Bank has resolved to cultivate the bank as a retail bank and to wind down the corporate business which consists of lending to commercial property.

The background to this decision is a desire to further develop the retail banking business by cultivating BN Bank as an offensive bank for customers who prefer a self-service concept and favourable borrowing rates over time.

BN Bank's corporate banking business has focused on funding well secured commercial property exposures, and the corporate market has traditionally been an important area for BN Bank. However, capital adequacy rules specific to Norway cause return on equity on this low risk segment to be relatively low. There is no prospect of changes to this specifically Norwegian capital adequacy regime. As a result profitability will remain too low since the prices are set by actors operating under different framework conditions.

The bank has in recent years built up a substantial retail banking operation with satisfactory profitability. The board of directors of BN Bank sees a major development potential in this area, and will channel all effort and energy to the retail business. The bank aspires to increased growth and a further increase in profitability.

BN Bank will remain a part of the SpareBank 1-alliance. SpareBank 1 SMN will maintain its owner stake in BN Bank and will play its part in ensuring that the business change is carried through in a manner that secures creditors' interests.

The process of winding down the corporate banking business will be carried out in a controlled manner over time. For SpareBank 1 SMN this will in isolation reduce consolidated risk weighted assets, thereby improving capital adequacy. Of SpareBank 1 SMN's risk weighted assets of NOK 90 billion, about NOK 9 billion relate to corporate exposures in BN Bank, and BN Bank's exposures sold to SpareBank 1 Næringskreditt. For SpareBank 1 SMN this amounts to about 1.3 percentage points in terms of CET1 capital adequacy once the wind-down is complete.

SpareBank 1 Kredittkort

Net profit for the first half of 2015 was NOK 52 million. SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 18.4 per cent. SpareBank 1 SMN's share of the first half profit was NOK 10 million and its share of the portfolio is NOK 742 million. The company was in ordinary operation as from 1 July 2014.

Operating expenses

Overall operating expenses came to NOK 950 million (884 million) in the first half of 2015. Group expenses have increased by NOK 66 million compared with the first half of 2014. Of the Group's increase, NOK 46 million refers to the consolidation of SpareBank 1 Markets as a subsidiary as from the second quarter of 2015. Excluding the effect of SpareBank 1 Markets, the Group's growth in expenses was NOK 20 million, equivalent to 2.3 per cent.

The parent bank reduced costs by NOK 5 million in the 12 months to end-June. SpareBank 1 SMN transferred its capital market activities to SpareBank 1 Markets as from the second quarter. This represents a cost reduction of NOK 10 million for the parent bank in the second quarter, and, when this is taken into account, net cost growth at the parent bank comes to NOK 5 million, corresponding to 0.8 per cent. Parent bank costs will be kept to their 2014 level in 2015 and 2016.

At the parent bank the number of full time employee equivalents (FTEs) was reduced by 48 to 673 in the first half-year (there is an additional reduction of 32 FTEs due to the transfer of capital market activity to SpareBank 1 Markets).

Operating expenses measured 1.50 per cent of average total assets (1.53 per cent). The Group cost-income ratio was 46 per cent (42 per cent).

Low losses and low defaults

Loan losses came to NOK 56 million in the first half-year (32 million).

A net loss of NOK 50 million (24 million) was recorded on loans to corporate clients in the first half-year. A net loss of NOK 6 million (8 million) was recognised on the retail portfolio in the first half of 2015.

Individually assessed loan impairment write-downs came to NOK 168 million (176 million) at the end of the first half of 2015.

Total problem loans (defaulted and doubtful) came to NOK 655 million (540 million), or 0.53 per cent (0.47 per cent) of gross loans at the half-year mark.

Defaults in excess of 90 days totalled NOK 287 million (334 million), measuring 0.23 per cent (0.29 per cent) of gross lending. Defaults break down to NOK 105 million (121 million) on corporates and NOK 182 million (213 million) on retail customers. Individually assessed write-downs on defaulted exposures totalled NOK 58 million (86 million), corresponding to 20 per cent (26 per cent).

Other doubtful exposures totalled NOK 368 million (206 million), breaking down to NOK 357 million (185 million) to corporate customers and NOK 11 million (21 million) to retail customers. The increase in doubtful corporate exposures relates to the same single exposure that resulted in increased losses. Other doubtful exposures amount to 0.30 per cent (0.18 per cent) of gross lending. Individually assessed write-downs on these exposures came to NOK 110 million (90 million) or 30 per cent (44 per cent).

A lasting low oil price could over time pose debt-servicing problems for oil-price-dependent industries. However, direct and indirect exposure to oil-related manufacturing is relatively low and the bulk of lending with regard to oil and gas is concentrated on a newer fleet of offshore supply vessels which in the bank's assessment have acceptable contract coverage and a low debt to finance ratio.

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 after granting of loans)
- 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 2015 no basis is found for any change in collectively assessed impairment write-downs, whereas SpareBank 1 SMN Finans Midt-Norge has increased loss provisioning by NOK 1 million. The aggregate volume of such write-downs is accordingly NOK 296 million (295 million).

Total assets of NOK 131 billion

The Group's assets totalled NOK 130.9 billion at 30 June 2015 (118.8 billion), having risen by NOK 12.1 billion or 10 per cent over the preceding 12 months. The increase is due to lending growth and the effect of SpareBank 1 Markets assets becoming part of the Group's balance sheet as from the second quarter.

As of mid-year 2015 home mortgage loans worth a total of 29.0 billion (28.1 billion) had been sold to SpareBank 1 Boligkreditt and commercial loans worth NOK 1.4 billion to SpareBank 1 Næringskreditt (1.2 billion). 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.

Reduction in lending to corporates in second quarter

(For distribution by sector, see note 5 and note 10).

In the 12 months to end-June total outstanding loans rose by NOK 9.7 billion (5.6 billion) or 8.4 per cent (5.1 per cent) to reach NOK 125 billion (incl. SpareBank 1 SMN and SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt). Lending grew in the first quarter in isolation by 3.4 per cent (2.3 per cent).

Loans to retail customers rose by NOK 6.0 billion (5.4 billion) to reach NOK 77.3 billion in the last 12 months, equivalent to growth of 8.4 per cent (8.2 per cent). The growth in the first half-year was 4.3 per cent (4.0 per cent).

Lending to corporates rose by NOK 3.7 billion (0.2 billion) or 8.6 per cent (0.4 per cent) in the 12 months to end-March. Overall lending to corporates totalled NOK 47.2 billion as of 30 June 2015. Lending to corporates increased in the first half of 2015 by 1.9 per cent (0.5 per cent reduction). In the second quarter loans to corporates were reduced by NOK 0.6 billion. This is in keeping with the bank's capital plan.

Loans to retail customers accounted for 62 per cent (62 per cent) of ordinary lending to customers as of 30 June 2015.

Total customer deposits rose by NOK 6.8 billion (4.7 billion) to reach NOK 66.2 billion in the 12 months to 30 June 2015. This represents a growth of 11.4 per cent (8.5 per cent). Deposit growth in the first half-year was 9.1 per cent (5.9 per cent).

Retail customer deposits rose in the last 12 months by NOK 2.4 billion (1.8 billion) or 9.1 per cent (7.4 per cent) to reach NOK 28.6 billion, while corporate deposits rose by NOK 4.4 billion (2.3 billion) or 13.3 per cent (7.5 per cent) to NOK 37.5 billion. In the first half-year retail customer deposits grew by 8.1 per cent (9.8 per cent), while corporate deposits grew by 9.8 per cent (3.1 per cent).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 7.5 billion (5.8 billion) at 30 June 2015, an increase of 31 per cent over the preceding 12 months. The increase is related to value changes in underlying securities and good sales.

Saving products, customer portfolio (NOKm)	30 June 2015	30 June 2014	Change
Equity funds	5,001	3,720	1,281
Pension products	658	536	122
Active management	1,886	1,518	368
Total	7,545	5,774	1,771

Insurance products

The bank's insurance portfolio increased by 4 per cent in the 12 months to end-June to reach an overall premium volume of NOK 1,113 million (1,113 million). Non-life insurance delivered 2 per cent growth, personal insurance 11 per cent and occupational service pensions 2 per cent.

Insurance, premium volume (NOKm)	30 June 2015	30 June 2014	Change
Non-life insurance	713	698	15
Personal insurance	258	232	26
Occupational pensions	187	183	4
Total	1,158	1,113	45

Retail banking segment and corporate banking segment, parentbank

Results (NOKm)	Retail Market	Corporate Market
Net interest income	442	450
Interest from allocated capital	31	37
Total interest income	473	487
Commission income and other income	348	84
Net return on financial investments	0	7
Total income	821	578
Total operating expenses	370	175
Ordinary operating profit	451	403
Loss on loans, guarantees etc.	3	49
Result before tax	448	354
Post-tax return on equity**)	17.0 %	13.0 %

Retail Banking

Operating income has increased due to increased lending and improved deposit margins, and increased commission income from insurance sales. Concurrently reduced lending margins have in isolation reduced incomes. Operating income in the first half-year totalled NOK 821 million of which net interest income accounted for NOK 473 million and commission income for NOK 348 million. Return on equity in the retail banking segment was 17.0 per cent in terms of regulatory capital employed converted to 13.5 per cent.

The lending margin in the first half of 2015 was 2.17 per cent (2.46 per cent), while the deposit margin was minus 0.25 per cent (minus 0.50 per cent) (measured against three-month NIBOR).

In the 12 months to end-June retail lending and retail deposits grew by 7.7 per cent and 5.7 per cent 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 prices has been relatively high throughout the market area. Housing demand remains high due to underlying demand growth caused by several years' failure of housing construction to keep pace with the need for housing.

Corporate Banking

Operating income totalled NOK 578 million in the first half of 2015. Net interest income was NOK 487 million, while commission income totalled NOK 91 million including NOK 7 million on interest and forex trading. Operating income in the corporate segment has increased very largely due to higher lending volume and increased deposit margins.

Return on equity for the corporate banking segment was 13.0 per cent in the first half-year in terms of regulatory capital employed converted to 13.5 per cent.

The lending margin was 2.71 per cent (2.97 per cent) and the deposit margin was minus 0.37 per cent (minus 0.64 per cent) in the first half-year.

Lending increased by 9.4 per cent and deposits by 21.1 per cent in the 12 months to end-June.

Subsidiaries

The subsidiaries posted an overall pre-tax profit of NOK 99 million (115 million) in the first half of 2015.

Pre-tax profit (NOKm)	30 June 2015	30 June 2014	Change
EiendomsMegler 1 Midt-Norge	29.2	25.5	3.6
SpareBank 1 Finans Midt-Norge	43.4	31.6	11.9
SpareBank 1 Regnskapshuset SMN	20.3	19.1	1.3
Allegro Finans	1.3	-0.6	1.9
SpareBank 1 SMN Invest	25.9	38.8	-12.9
Sparebank 1 Markets	-10.1	-	-10.1
Other companies	1.5	0.2	1.2
Total	111.5	114.6	-3.0

The figures are the respective companies' results. The bank's stake in EiendomsMegler 1 Midt-Norge is 86.7 per cent, in SpareBank 1 Finans Midt-Norge 72.1 per cent, in Allegro 90.1 per cent and in SpareBank 1 Markets 73.4 per cent. The stake in the other companies is 100 per cent.

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a market share of 40 per cent, and in Trondheim about 50 per cent. The company's first half profit of NOK 29.2 million (25.5 million) is excellent and NOK 3.6 million better than in the first half of 2014. The second quarter profit was considerably better than in the first quarter, as expected. The number of dwellings sold totalled 3,615 in the first half of 2015 compared with 3,210 in the first half of 2014.

SpareBank 1 Finans Midt-Norge reported a profit of NOK 43.4 million in the first half-year (31.6 million) and shows profit growth due to increased income from both car loans and leasing. At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.9 billion of which leases accounted for NOK 2.0 billion and car loans for NOK 1.9 billion. The SpareBank 1 banks in Møre and Romsdal had a 9.1 per cent stake in SpareBank 1 Finans Midt-Norge. The remaining Samspar banks joined as owners in June 2015, after which the Samspar banks' stake in SpareBank 1 Finans Midt-Norge was 27.9 per cent. This considerably boosts the company's distribution power.

SpareBank 1 Regnskapshuset SMN earned a pre-tax profit of NOK 20.3 million (19.1 million) in the first half-year.

SpareBank 1 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 1.3 million in the first half of 2015 (minus 0.6 million). The company manages a portfolio worth NOK 5.0 billion including management of the bank's pension fund of NOK 0.8 billion.

SpareBank 1 SMN Invest invests in shares, mainly in regional businesses. The company posted a net profit of NOK 25.9 million in the first half of 2015 (38.8 million). The result is a consequence of value changes and realisation of losses or gains on the company's overall shareholding measuring NOK 13.0 million. The company has in addition owner interests in the property companies Grilstad Marina and Hommelvik Sjøside and its share of those companies' profits in the first half of 2015 was NOK 12.9 million.

SpareBank 1 Markets has been a subsidiary of SpareBank 1 SMN since 1 April 2015 and is consolidated in the Group accounts as the other subsidiaries from the same date. SpareBank 1 SMN's capital market activities were transferred to SpareBank 1 Markets as part of the transaction. SpareBank 1 SMN's stake is 73.4 per cent.

The company's result in the second quarter was a loss of NOK 10.1 million.

Satisfactory funding and good liquidity

The bank has a conservative liquidity strategy. The strategy attaches importance to maintaining liquidity reserves that ensure the bank's ability to survive 12 months of ordinary operation without need of fresh external funding.

The bank has liquidity reserves of NOK 19 billion and thus has the funding needed for 23 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 83 per cent (87 per cent).

Rating

SpareBank 1 SMN has a rating of A1 (stable outlook) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. The bank was upgraded by Moody's in May 2015, as were several other Norwegian banks.

Financial position

At the end of the second quarter 2015 the minimum CET1 requirement was 11.0 per cent, of which overall buffer requirements constitute 6.5 per cent. The buffer requirements include a countercyclical buffer of 1.0 per cent.

The CET1 capital ratio at 30 June 2015 was 12.7 per cent (11.4 per cent), an increase of 0.4 percentage points compared with the first quarter. The increase is due primarily to good results and very moderate growth in overall risk weighted assets. Capital need in the corporate portfolio is reduced as a result of reduced lending in the quarter and lower risk in the portfolio. This has brought an increase in the capital requirement based on the Basel 1 floor.

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

The regulatory capital requirement is accordingly now 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 61 per cent at the end of the second quarter. As from the first quarter of 2015, risk weights for home mortgages were raised as a

result of Finanstilsynet's (Norwegian FSA's) tightening, and the risk weighting on mortgages at the consolidated level increased to about 23 per cent. Reduced risk weights on corporates have generated a capital requirement related to the Basel 1 floor.

The Ministry of Finance, in line with advice from Norges Bank (the central bank) and Finanstilsynet (Norway's FSA), decided that the requirement on the countercyclical buffer would be increased to 1.5 per cent as from 30 June 2016. In the assessment greatest weight was given to households' debt burden and that more capital will make the banks more robust to future loan losses.

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, despite SMN not being defined as a SIFI. The board of directors is planning for a CET1 ratio of 13.5 per cent by 30 June 2016 including a countercyclical buffer of 1.5 per cent. The aim thereafter is to increase the CET1 ratio to 14.0 per cent by the end of 2016.

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

The board of directors of BN Bank has decided to wind down its portfolio of loans to commercial property. SpareBank 1 SMN's share of this portfolio represents about NOK 9 billion of its risk weighted assets. Winding down this portfolio will be done over a number of years. Once the wind-down is complete the effect on the CET1 capital ratio is calculated to about 1.3 percentage points, and thus makes a considerable contribution to the group's attainment of its capital target, and will enable the Group to normalise its dividend policy at an earlier stage than would otherwise have been the case.

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 per cent by 30 June 2016.

The bank's equity certificate (MING)

The book value of the bank's EC as of 30 June 2015 was NOK 64.18 (NOK 58.32), and earnings per EC were NOK 4.31 (NOK 4.77).

As at 30 June 2015 the EC was priced at NOK 65.50 (NOK 54.25), 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 7.60 (5.68) and the Price / Book ratio was 1.02 (0.93) at 30 June 2015.

Risk factors

The credit quality of the bank's loan portfolio is satisfactory, loss and default levels are low, and there are no concentrations in non-performing and problem exposures.

The bank expects a falling rate of GDP growth as a result of declining oil investment. A weaker Norwegian krone has impacted positively on export industries, and will partially offset some of these effects. 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 continue to be low.

Credit demand from Norwegian households remains higher than wage 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 for parts of Norwegian 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 satisfied with the performance for the second quarter of 2015. The bank's first half accounts reflect income growth for core business, moderate cost growth and low loan losses.

In the second quarter growth in lending to business and industry declined to the level premised in the bank's capital plan, and lending growth will be tightly controlled ahead. The goal of a CET1 ratio of 13.5 per cent in the first half of 2016 will be achieved by profit retention and moderate growth. For the end of 2016 a CET1 ratio of 14.0 per cent is targeted. Refocusing BN Bank's loan portfolio will make a positive contribution to the capital plan and strengthen the bank's growth and dividend capacity. This will also reduce the risk of concentration in the commercial property segment.

The board of directors maintains its high focus on risk in the bank's loan exposure. The oil-related sector in particular is the object of ongoing reporting to the board. SpareBank 1 SMN has low direct exposure to oil-related activities beyond offshore vessels. Defaults at SpareBank 1 SMN are at a very low level, and the board has found no basis for increasing collectively assessed impairment write-downs at the parent bank.

Major change projects are under way with respect to distribution and working processes to strengthen the bank's competitive power. This will enhance banking operations' efficiency and heighten the quality of customers' experience of the bank. The board expects 2015 to be a good year for SpareBank 1 SMN.

Trondheim, 12. August 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)