

Report of the Board of Directors

Macroeconomic conditions

World economy

International growth picked up somewhat in 2013, but remains at moderate levels. In the US, hefty public budget tightening and higher taxes contributed to weaker growth in the first half-year. However, growth picked up substantially in the second half-year, and several economic indicators show an underlying improvement in the economy. The Federal Reserve decided in December to start scaling back its monthly bond purchases. Some improvement is also in evidence in the euro area, but unemployment remains high and uncertainties are still felt regarding the economy ahead. Through the OMT (outright monetary transactions) programme the European Central Bank has dampened the risk of sovereign defaults, thereby improving access to capital for banks and firms. Growth in the emerging economies has held up relatively well, but volatile capital flows have caused some unease. The recovery abroad remains fragile, and both growth and interest rates could remain low for a long time.

Norway

Growth in the Norwegian economy slowed in 2013. Mainland Norway's GDP rose by 2.0 per cent in 2013, compared with 3.4 per cent in 2012. Household consumption growth was weak while the saving rate was very high. Through 2013 companies in Norges Bank's regional network reported smaller capacity problems than previously and lower expected growth ahead. Price growth in the housing market fell in the last half-year, after several years of vigorous growth. Debt growth remained fairly stable last year, and the key policy rate stood unchanged at 1.5 per cent. Unemployment continues at a stable low level. The krone exchange rate weakened through 2013, while underlying price growth (CPI-JAE – consumer price index adjusted for taxes and energy prices) picked up somewhat compared with the previous year. The oil price was USD 111 per barrel at the end of 2013.

Trøndelag and Møre and Romsdal

Trøndelag and Møre and Romsdal show a good, stable trend in population growth and unemployment is at low levels.

As elsewhere in Norway, house prices in the region showed a declining rate of growth through 2013. The number of bankruptcies in South Trøndelag and Møre and Romsdal rose compared with the previous year, whereas a decline was seen in North Trøndelag. Businesses in the region reported a more moderate outlook for the future to the regional network than at the same point of 2012.

Measured in corporate turnover, the Trondheim region and Sunnmøre are the most significant areas in the region with about 62 per cent of the total (based on 2012 figures). Wholesale and retail trade along with manufacturing are the largest industries in the region, accounting for about 40 per cent of overall turnover. The region's industry structure shows wide geographical variation. Agriculture is relatively largest in North Trøndelag, shipyards and shipbuilding and the furniture industry are largest in Møre and Romsdal, while wholesale and retail trade and construction are largest in South Trøndelag/Trondheim. In Møre and Romsdal much of the business activity is export-oriented whereas the Trøndelag counties are little exposed to the export industry and are protected by a relatively large public sector.

Annual accounts 2013

Consolidated figures. Figures in parentheses refer to the same period of 2012 unless otherwise stated. The Group accounts are presented on the going-concern assumption, and the Board of Directors hereby confirms the basis for continued operation.

Profit of NOK 1,400m after tax

- Profit before tax and assets held for sale: NOK 1,758m (1,355m)
- Net profit: NOK 1,400 m (1,077m)
- Return on equity: 13.3 per cent (11.7 per cent)
- CET1 ratio: 11.1 per cent (10.0 per cent)
- Growth in lending 6.8 per cent (10.2 per cent) and deposits 7.3 per cent (9.2 per cent) over past 12 months
- Loan losses: NOK 101m (58m)
- Earnings per equity certificate (EC): NOK 6.92 (5.21). Book value per EC: NOK 55.69 (50.09), incl. recommended dividend for 2013
- Recommended dividend: NOK 1.75 per EC. Allocation to non-profit causes: NOK 124m

Highlights

- Profit improvement of NOK 323m, or 30 per cent, compared with 2012
- Core business strengthened. Increased margins on lending both to retail customers and businesses
- Low cost growth
- Low loan losses
- Improved financial position through 2013 and ample funding
- Reduced lending growth as planned, but growth in home mortgage loans remains higher than growth in the market

In 2013 SpareBank 1 SMN achieved a post-tax profit of NOK 1,400m (1,077m) and a return on equity of 13.3 per cent (11.7 per cent). Profit before tax and assets held for sale was NOK 1,758m (1,355m).

In 2013 operating income increased by 18 per cent to reach an overall NOK 3,079m (2,616m). Income rose both at the Parent Bank and the subsidiaries.

Return on financial assets was NOK 502m (451m), of which the profit share on owner interests in associates was NOK 355m (244m).

Operating expenses came to NOK 1,722m (1,654m) in 2013, i.e. NOK 68m, or 4.1 per cent, higher than in 2012. Parent Bank costs were reduced by NOK 9m in 2013.

Net losses on loans and guarantees were NOK 101m (58m).

Lending growth was 6.8 per cent (10.2 per cent) and deposit growth was 7.3 per cent (9.2 per cent).

CET1 capital adequacy at 31 December 2013 was 11.1 per cent (10.0 per cent). 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.

At year-end the Bank's EC was priced at NOK 55.00 (34.80 at 31 December 2012). A cash dividend of NOK 1.50 per EC was paid in 2013 for the year 2012.

Earnings per EC were NOK 6.92 (5.21), and book value was NOK 55.69 (50.09).

Proposed distribution of profit

Distribution of the profit for the year is done on the basis of the Parent Bank's accounts. The Parent Bank's profit includes dividends from subsidiaries, affiliates and joint ventures.

Subsidiaries are fully consolidated in the Group accounts, whereas profit shares from affiliates and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the Group results.

Difference between Group - Parent Bank (NOKm)	2013	2012
Profit of the year, Group	1,400	1,077
Profit, subsidiaries	-112	-76
Dividend and group contributions, subsidiaries	111	126
Profit share, affiliates	-355	-264
Dividend from affiliates	328	163
Elimination Bank 1 Oslo Akershus	-24	0
Profit of the year, Parent Bank	1,348	1,025

Annual profit for distribution reflects changes of NOK -89m in the revaluation reserve, leaving the total amount for distribution at NOK 1,259m.

The profit is distributed between the ownerless capital and the equity certificate capital in proportion to their relative shares of the Bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 64.6 per cent of the distributed profit. The percentage used for the purpose of distribution is an average of the EC-holder ratio (EC-holders' share of total equity) over the year.

In keeping with the Bank's capital plan, the Board of Directors has opted to recommend a relatively low level of dividends and gift allocation.

The Board of Directors recommends the Supervisory Board to set a cash dividend of NOK 1.75 per equity certificate, altogether totalling NOK 227m. This gives a payout ratio of 25 per cent of the Group profit. The Board of Directors further recommends the Supervisory Board to allocate NOK 124m as gifts to non-profit causes, i.e. the same payout ratio as to the EC-holders. Of this sum, NOK 35m will be allocated to non-profit causes and NOK 89m donated to the foundation Sparebankstiftelsen SMN. NOK 587m and NOK 321m are added to the dividend equalisation fund and the ownerless capital respectively. The level of dividend and gifts is anchored in the Bank's capital plan and reflects the need to increase the Bank's core capital through a reduction in the payout ratio.

After distribution of the profit for 2013 the ECC-holder ratio (ECC-holders' share of total equity) is 64.6 per cent.

Distribution of profit, NOKm	2013	2012
Profit of the year, Parent Bank	1,348	1,025
Transferred from revaluation reserve	-89	-36
Profit for distribution	1,259	990
Dividends	227	195
Equalisation fund	587	432
Ownerless capital	321	333
Gifts	124	30
Total distributed	1,259	990

Increased net interest income

Net interest income in 2013 came to NOK 1,616m (1,477m).

Net interest income strengthened substantially through 2013 as a result of interest rates increases on loans to retail and corporate customers alike. Income from loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is recorded as commission income, not as interest income. Loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt were also repriced, and commissions totalled NOK 422m (205m) in 2013.

Lending margins rose due to increased capital requirements for Norwegian banks. As a result more equity is needed to back each interest-earning krone loaned.

By the end of 2013 home mortgage loans worth NOK 30.5bn (30bn) had been sold to SpareBank 1 Boligkreditt. Of the total mortgage loans to customers, 45 per cent have been sold to SpareBank 1 Boligkreditt. Sales of loans to SpareBank 1 Næringskreditt started in 2012, and as of 31 December 2013 NOK 1.2bn had been sold to the entity.

As from 2013 banks are required to pay a levy to the Banks' Guarantee Fund. For SpareBank 1 SMN this amounted to NOK 54m in 2013.



Increased commission income

Commission income and other operating income rose to NOK 1,463m (1,139m) in 2013, an increase of NOK 324m or 28 per cent.

The increase in income from SpareBank 1 Boligkreditt is due to higher margins on home mortgage loans.

Other growth in incomes is mainly ascribable to a positive trend in incomes from payment services, accounting services and guarantee commissions. Reduced income from estate agency services is due to a slower, more uncertain market in the second half of 2013.

Commission income, NOKm	2013	2012	Change
Payment transfers	233	197	36
Savings	50	48	2
Insurance	124	122	2
Guarantee commission	56	30	26
Real estate agency	319	336	-17
Accountancy services	125	100	25
Active management	30	11	19
Rent	45	37	7
Other commissions	59	53	7
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,041	934	107
Commissions SB1 Boligkreditt and SB1 Næringskreditt	422	205	217
Total commissions	1,463	1,139	324

Positive return on financial investments, including the result for assets held for sale

Overall return on financial investments (excluding the Bank's share of the profit/loss of affiliates and joint ventures) was NOK 147m (207m) in 2013. Overall return breaks down as follows:

Return on financial investments, NOKm	2013	2012
Capital gains/dividends, shares	114	24
Bonds and derivatives	-40	57
Forex and fixed income transactions, Markets	73	126
Value changes, financial investments	147	207
SpareBank 1 Gruppen	210	94
SpareBank 1 Boligkreditt	40	44
SpareBank 1 Næringskreditt	8	8
BN Bank	91	72
Other companies	6	25
Affiliates	355	264
Total	502	467

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for 2013 was NOK 1,110m (443m). The main contributors to the profit performance are SpareBank 1 Livsforsikring (life insurer) and SpareBank 1 Skadeforsikring (non-life insurer). The value of shares of SpareBank 1 Markets was written down in the second quarter by NOK 122m (see section below).

SpareBank 1 SMN's share of the profit was NOK 210m (94m).

Strengthened owner focus at SpareBank 1 Markets

As from 30 September 2013, SpareBank 1 Markets, whose previous main shareholder was SpareBank 1 Gruppen, acquired a new owner structure following SpareBank 1 Gruppen's disposal of its stake in the company. SpareBank 1 Markets is now owned directly by SpareBank 1 SMN (24 per cent), SpareBank 1 Nord-Norge (24 per cent), Sparebanken Hedmark (15 per cent), Samspar (24 per cent), the Norwegian Confederation of Trade Unions (12 per cent) and employees (2 per cent).

In connection with the change in owner structure, SpareBank 1 Gruppen wrote down its holding in SpareBank 1 Markets by NOK 122m in the second quarter of 2013. SpareBank 1 SMN's share of this write-down was NOK 23.8m.

For the period after the change in owner structure SpareBank 1 Markets reported a deficit of NOK 11.5m of which SpareBank 1 SMN's share was NOK 2.8m.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to take advantage of the market for covered bonds. The banks sell their best secured home mortgage loans to the company, giving them reduced funding costs.

The Bank's stake in SpareBank 1 Boligkreditt at 31 December 2013 was 17.48 per cent, and the Bank's share of that company's profit in 2013 was NOK 40m (44m). The Bank's holding reflects the Bank's relative share of home mortgage loans sold.

SpareBank 1 Næringskreditt

The SpareBank 1 banks established SpareBank 1 Næringskreditt in 2010 along the same lines, and with the same administration, as SpareBank 1 Boligkreditt.

As of 31 December 2013, SpareBank 1 SMN's stake in the company is 34.05 per cent, and the Bank's share of the company's profit in 2013 was NOK 8m (8m). The Bank's ownership interest reflects its relative share of commercial property loans sold and its stake in BN Bank.

BN Bank

SpareBank 1 SMN has a 33 per cent stake in BN Bank as of 31 December 2013. BN Bank achieved in 2013 a profit of NOK 251m and a return on equity of 6.2 per cent.

SpareBank 1 SMN's share of the profit of BN Bank for 2013 was NOK 91m (72m), including amortisation effects. The amortisation effect in 2013 increased the profit by NOK 7m (11m). In 2013 BN Bank took steps to improve profitability which have brought a large increase in lending margins and reduced costs. The profit after tax rose from NOK 188m to NOK 252m. Loan losses are than the expected long-term level due to specific aspects of a minority of loans in the corporate portfolio and losses on BN Bank's earlier portfolio in Ålesund (the guarantee portfolio). Work is under way both on structural solutions and further internal measures with a view to profit improvement and to a reduction of risk-weighted balance sheet assets. An application to for permission to use the advanced IRB approach is one such measure.

Other companies

After disinvestment in 2013, Bank 1 Oslo Akershus and Polaris Media are no longer classified as owner interests. The profit in 2012 largely comprises SMN's profit shares from these companies.

Assets held for sale

A profit of NOK 30m (16m) was recorded on assets held for sale in 2013. The 2013 figure relates mainly to the gain realised on the sale of shares in an offshore vessel.

Reduced cost growth

Overall costs came to NOK 1,722m (1,654m) in 2013. Group expenses have thus risen by NOK 68m or 4.1 per cent.

Parent Bank cost growth was reduced by NOK 9m, well within the Bank's cost ambition which is to limit cost growth to 3 per cent per year up to and including 2015.

In the fourth quarter the Group recognised a one-off amount of NOK 25m less tax related to buyout of leases.

For the subsidiaries, overall cost growth was NOK 51m or 11.5 per cent. The increase is largely attributable to an expanded cost base at SpareBank 1 Regnskapshuset SMN following acquisition of local accountancy firms. This is in keeping with the company's adopted strategy plan.

Operating expenses measured 1.54 per cent (1.57 per cent) of average total assets. The Group's cost-income ratio was 48 per cent (54 per cent).

Low losses and low defaults

Net loan losses came to NOK 101m (58m) for 2013. This represents 0.09 per cent of total loans (0.06 per cent).

Losses of NOK 95m (57m) were recorded on the Group's corporate customers, including losses at SpareBank 1 Finans Midt-Norge of NOK 20m (9m). On the retail portfolio a net loss of NOK 7m (1m) was recorded in 2013.

Total individually assessed loan impairment write-downs came to NOK 173m (144m) as of 31 December 2013, an increase of NOK 29m over the year.

Total problem loans (defaulted and doubtful) came to NOK 543m (517m), or 0.48 per cent (0.49 per cent) of gross outstanding loans.

Defaults in excess of 90 days totalled NOK 386m (374m), measuring 0.34 per cent (0.36 per cent) of gross lending. Of total defaults, NOK 87m (83m) are loss provisioned, corresponding to 23 per cent (22 per cent).

Defaults break down to NOK 246m (226m) on corporate customers and NOK 140m (148m) on retail customers.

Other doubtful exposures totalled NOK 157m (143m), i.e. 0.14 per cent (0.14 per cent) of gross outstanding loans. NOK 86m (62m) or 55 per cent (43 per cent) are loss provisioned.

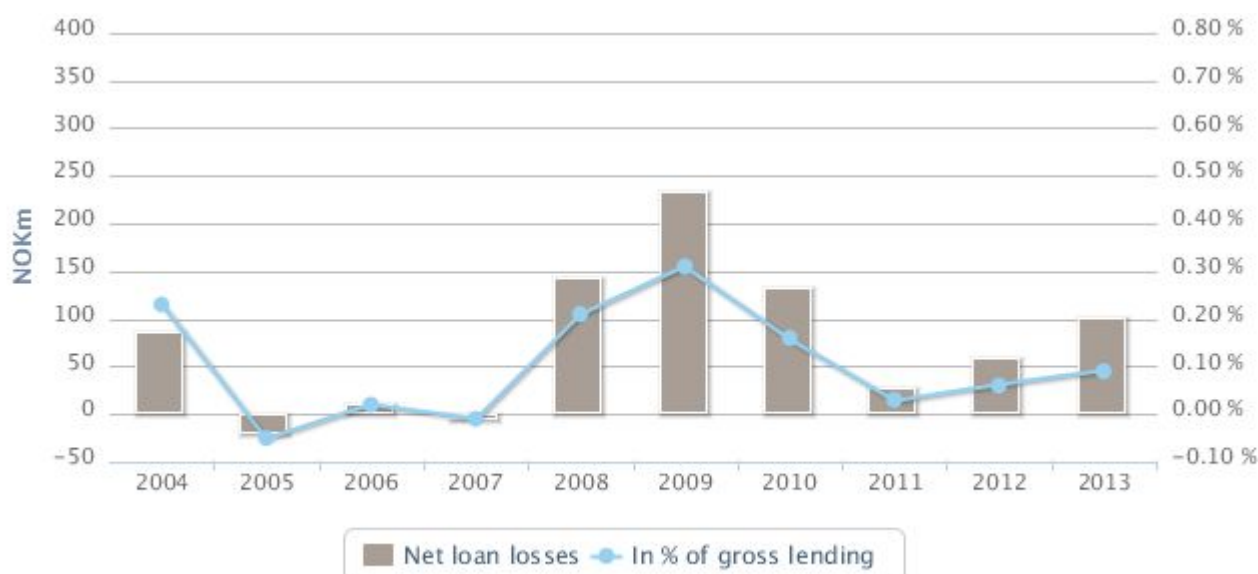
Other doubtful exposures break down to NOK 139m (131m) to corporate customers and NOK 18m (12m) to retail customers.

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 2013 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 115bn

The Bank's assets totalled NOK 115bn (108bn) at 31 December 2013, having risen by NOK 7bn or 6.5 per cent over the year. The rise in total assets is a consequence of increased lending and higher liquidity reserves.

As of 31 December 2013 loans worth 32bn (30bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the Bank's balance sheet. The comments covering lending growth do however include loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Reduced growth in keeping with the capital plan

In the last 12 months, total outstanding loans rose by NOK 7.1bn (9.7bn) or 6.8 per cent (10.2 per cent) to reach NOK 112.0bn (104.9m) as of 31 December 2013.

Lending to retail customers rose by NOK 5.9bn (7.6bn) or 9.5 per cent (13.7 per cent) to reach NOK 68.5bn in 2013.

Growth in lending to corporates in 2013 was NOK 1.2bn (2.1bn) or 2.8 per cent (5.3 per cent). Overall loans to corporates totalled NOK 43.5bn (42.3bn) at 31 December 2013.

Loans to retail customers accounted for 61 per cent (60 per cent) of ordinary loans to customers at the end of 2013.

Deposits

Customer deposits rose in 2013 by NOK 3.8bn (4.4bn) to reach NOK 56.1bn (52.3m) at 31 December 2013. This represents a growth of 7.3 per cent (9.2 per cent).

Retail customer deposits rose by NOK 1.6bn (1.4bn) or 7.1 per cent (9.5 per cent) to reach NOK 23.9bn, while deposits from corporates rose by NOK 2.2bn (3.0bn) or 7.5 per cent (11.0 per cent) to NOK 32.2bn.

The deposit-to-loan ratio at SpareBank 1 SMN was 70 per cent as of 31 December 2013 (70 per cent). When loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are included, the deposit-to-loan ratio was 50 per cent (50 per cent).

Portfolio of investment products

The customer portfolio of off-balance sheet investment products totalled NOK 5.2bn (4.4bn) at 31 December 2013. Compared with the previous year, the higher values on equity funds and active management are largely ascribable to increased stock exchange values. Energy funds are not attracting new buyers, and the portfolio is diminishing.

Investment products, customer portfolio, NOKm	2013	2012	Change
Equity fund	3,367	2,570	797
Pension products	555	653	-98
Active management	1,240	1,012	228
Energy fund management	67	139	-72
Total	5,229	4,374	855

Good growth in the Bank's insurance portfolio

The Bank's insurance portfolio grew by 6.6 per cent in 2013. Non-life insurance showed 2.2 per cent growth, personal insurance 20.1 per cent and the occupational pensions portfolio 9.6 per cent growth.

Insurance, premium volume, NOKm	2013	2012	Change
Non-life insurance	695	680	15
Personal insurance	222	184	37
Occupational pensions	182	166	16
Total	1,098	1,030	68

Profit centres at the Parent Bank

Offices (Retail market and SMEs)

As from 2013 the Retail market business and the SME segment comprise a unit in their own right. SMEs were previously a part of the corporate business. The Retail market and SMEs are each commented on separately. The SME segment consists of corporate customers with an exposure size of up to about NOK 8m and agricultural customers. Due to the reorganisation, historical data for the SME segment are incomplete and no comparison is made with the previous year's figures. Return on equity as of 31 December 2013 for the retail business and SME segment in total was 35.4 per cent with 38.7 per cent (22.6 per cent) posted by the Retail business and 29.4 per cent by the SME segment. Return on the retail market business is calculated using existing risk weights on home mortgage loans as at 31 December 2013.

	Retail-customers	SMEs	Large corporates
Net interest	630	284	695
Interest from allocated capital	11	3	34
Total interest income	641	286	729
Commission income and other income	704	79	91
Net return on financial investments	1	1	49
Total income	1,346	366	869
Total operating expenses	641	156	257
Ordinary operating profit	705	210	612
Loss on loans, guarantees etc.	6	5	71
Result before tax including held for sale	699	205	541

Post-tax return on equity	38.7 %	29.4 %	12.8 %
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Retail market

Operating income – and return on equity – have increased substantially as a result of increased margins on home mortgage loans, both on loans on the Bank's own books and on home mortgages sold to SpareBank 1 Boligkreditt, and totalled NOK 1,346m (1,037m) in 2013. Net interest income came to NOK 641m (552m) and commission income to NOK 705m (485m), including commissions from SpareBank 1 Boligkreditt and income on forex and fixed income business.

The lending margin in 2013 was 2.51 per cent (1.86 per cent), while the deposit-to-loan ratio was -0.37 per cent (0.10 per cent)(measured against three-month NIBOR).

In the last 12 months, lending to retail customers rose by 9.5 per cent (13.7 per cent) and deposits from the same segment by 7.1 per cent (9.5 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.

SME segment

Operating income totalled NOK 380m comprising net interest income of NOK 286m and commission income of NOK 80m.

The lending margin measured against three-month Nibor in 2013 was 3.40 per cent and the deposit margin was -0.29 per cent.

SME customers have loan capital totalling NOK 9.1bn and deposit capital totalling NOK 8.7bn. Growth in loans and deposits respectively in 2013 was 6.4 per cent and 1.9 per cent.

Group customers

In connection with the reorganisation of the Bank as from 2013, SME customers have been detached from the former corporate market division and the segment has changed name to Group Customers. Group customers are mainly customers with exposure sizes in excess of NOK 8m. Given the organisation changes, historical data on group customers are incomplete.

Return on equity for group customers was 12.8 per cent in 2013. For the entire corporate market business (SMEs and Group Customers), return on equity in 2013 was 15.4 per cent (14.4 per cent).

Total operating income for Group Customers was NOK 869m in 2013. Net interest income was NOK 729m, while commission income was NOK 91m. In addition, a net return of NOK 49m was posted on financial investments.

Lending and deposit margins for Group Customers were, respectively, 2.83 per cent and -0.66 per cent. Lending growth for Group Customers in 2013 was -0.8 per cent and deposit growth was 16.5 per cent. For corporates overall (SMEs and Group Customers) the lending margin was 2.95 per cent (2.45 per cent) and the deposit margin was -0.54 per cent (-0.10 per cent).

Growth in lending to corporates overall (SMEs and Group Customers) was 0.7 per cent (3.5 per cent) and deposit growth was 12.5 per cent (-5.7 per cent).

Income SpareBank 1 SMN Markets

SpareBank 1 Markets is an integral part of SMN's Parent Bank operation, and posted total income of NOK 100m (116m) in 2013. Income increased in the securities and corporate segments compared with 2012, while a decline was seen for fixed income and forex. As from the fourth quarter 2013, SpareBank 1 SMN's corporate business was transferred to SpareBank 1 Markets.

Markets (NOKm)	2013	2012	Change
Currency trading	67.3	86.1	-18.8
Corporate	10.6	7.6	3.0
Securities, brokerage commission	26.8	17.0	9.8
SpareBank 1 Markets	3.1	16.2	-13.1
Investments	-7.4	-10.6	3.2
Total income	100.4	116.3	-15.9

Of gross income of NOK 100m, a total of NOK 25m is transferred to Group customers, NOK 1m to the SME segment and NOK 1m to Retail market. These amounts are the respective entities' share of income on forex and fixed income business derived from their own customers. The Retail market is part of the Parent Bank, and therefore does not include figures for the Bank's subsidiaries.

Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 147.6m (116.1m) in 2013.

Pre-tax profit, NOKm	2013	2012	Change
EiendomsMegler 1 Midt-Norge	60.7	76.2	-15.5
SpareBank 1 Finans Midt-Norge	50.7	55.8	-5.1
SpareBank 1 Regnskapshuset SMN	14.0	13.8	0.6
SpareBank 1 SMN Invest	46.6	-15.0	61.6
Other companies	-24.4	-14.7	-9.7
Total	147.6	116.1	31.9

EiendomsMegler 1 Midt-Norge leads the field in its catchment area with a market share of about 40 per cent. Profit was weaker in 2013 than in 2012 as a result of a weaker market in the second half-year. Pre-tax profit was NOK 60.7m (76.2m) in 2013.

SpareBank 1 Finans Midt-Norge posted a profit of NOK 50.7m (55.8m) as of 31 December 2013. The company posted good income growth in 2013 although increased losses brought a net profit impairment.

At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.3bn (3.1bn) of which leases account for NOK 1.9bn (1.9bn) and car loans for NOK 1.4bn (1.2bn).

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 14.0m (13.8m) and turnover growth of 27 per cent. With a growth rate far higher than the industry average, the company leads the market in mid-Norway and is a leading accounting services entity in Norway as a whole.

SpareBank 1 Regnskapshuset SMN took over six accounting firms in 2013 and aspires to continued strong growth.

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 be one of Norway's leading actors in the accounting industry by building up a national accounting enterprise based on regional ownership, strong links to the owner banks and closeness to the market.

SpareBank 1 SMN Invest's mission is to invest in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 46.6m in 2013 (loss of 15.0m).

Satisfactory funding and good liquidity

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

The Bank has liquidity reserves of NOK 18bn and thus has the funding needed for 24 months of ordinary operations without fresh external finance.

The Bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of 1 year was 72 per cent (80 per cent).

SpareBank 1 Boligkreditt is the Bank's chief source of funding, and as of 31 December 2013 loans totalling NOK 30bn had been sold to SpareBank 1 Boligkreditt.

Rating

SpareBank 1 SMN has a rating of A2 (stable) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. The Bank was downgraded by Moody's from A1 to A2 (under review) in December. In the first quarter of 2013 this was changed to A2 (stable).

Stronger financial position

After distribution of the profit for 2013, the CET1 capital ratio is 11.1 per cent (10.0 per cent).

The Group has shifted lending growth more over to the retail market segment which, in isolation, is positive for the Bank's capital charges. Due to the transitional rules in the capital requirements regulations, this has resulted in higher regulatory minimum capital requirements.

Tier 1 capital adequacy is strengthened as a result of hybrid capital worth NOK 500m raised in June 2013 and NOK 450m raised in October 2013.

Figures in NOKm	2013	2012
Tier 1 capital	9,374	8,254
Hybrid capital	1,615	1,103
Subordinated loan	1,428	1,586
Capital base	12,417	10,943
Required subordinated debt	6,767	6,596
Risk weighted assets	84,591	82,446
Tier 1 capital ratio	11.1 %	10.0 %

Core capital ratio	13.0 %	11.3 %
Capital adequacy ratio	14.7 %	13.3 %

In the fourth quarter 2013 several matters related to future capital requirements were clarified. Finanstilsynet increased the LGD floor to 20 per cent with effect from 1 January. As a result the risk weights for home mortgage loans under IRB will increase. The effect of this will be partly offset by the Basel 1 floor. The Ministry of Finance decided that countercyclical buffer of 1 per cent is to be introduced at the end of the second quarter of 2015. The countercyclical buffer can be increased if the authorities find this necessary. In its statement on systemically important financial institutions (SIFIs), Finanstilsynet (Norway's FSA) has recommended that SpareBank 1 SMN be defined as an SIFI bank on account of its importance for the region. This is in keeping with the Group's own assessments, and implies no change in capital requirements in relation to the levels on which SpareBank 1 SMN has based its capital plan.

The Board of Directors of SpareBank 1 SMN continually assesses the capital situation and future capital requirements. The board considers it important for the Group to be sufficiently capitalised to fulfil all regulatory requirements. The Board of Directors are planning for a CET1 requirement of 13.5 per cent, comprising 12 per cent plus a countercyclical buffer of 1 per cent plus a reserve of 0.5 per cent.

The Group's expectation is that the applications of both BN Bank and SpareBank 1 SMN to use the advanced IRB approach will be granted. This will in isolation strengthen capital adequacy by about 0.9 per cent.

The following are the most important measures in the Group's capital plan:

- Continued sound banking operation through efficiency enhancements and prioritisation of profitable segments. Increased capital requirements for all banks provide a market basis for increased margins on lending
- The dividend policy to entail an effective payout ratio of 25-35 per cent
- Moderate growth in the Bank's asset-intensive activities, including lending to the retail and corporate segments by the Parent Bank and BN Bank
- Introduction of the advanced IRB approach at SpareBank 1 SMN and BN Bank
- Strong focus on profitability with a return-on-equity target of 12-14 per cent.

The Board of Directors expects SpareBank 1 SMN to attain the target of a 13.5 per cent CET1 ratio by 30 June 2016 without ordinary stock issues. The Board may consider a private placing with the foundation Sparebankstiftelsen SMN.

The Bank is IRB approved and uses the IRB foundation approach to compute capital charges for credit risk.

In June 2013 SpareBank 1 SMN applied to Finanstilsynet for permission to use the advanced IRB approach to compute capital charges. Preparatory work on the application was done in conjunction with the other banks in the SpareBank 1 alliance.

The Bank's equity certificate (MING)

The book value of the Bank's EC was NOK 55.69 (50.09) at 31 December 2013, and earnings per EC were NOK 6.92 (5.21).

The Price / Income ratio was 7.95 (6.68), and the Price / Book ratio was 0.99 (0.69).

At year-end the EC was priced at NOK 55.00, and dividend of NOK 1.50 per EC was paid in 2013 for the year 2012.

SpareBank 1 SMN's articles of association do not impose trading restrictions on its EC holders. With regard to placings with employees, the latter are invited to participate under given guidelines. In placings where discounts are granted, a lock-in period applies before sale can take place. The rights to ECs issued in placings with employees cannot be transferred.

SpareBank 1 SMN is not aware of any agreements between EC holders that limit the opportunity to trade ECs or to exercise voting rights attached to ECs.

See also the chapter Corporate Governance.

Risk factors

A weaker krone exchange rate in the second half of 2013 has had a positive effect for Norwegian export industries, but this effect is limited by weak growth in the euro area. Very solid government finances and high demand in the petroleum industry lead us to expect Norwegian GDP to remain higher than GDP for Europe as a whole. Unemployment remains low, and households are experiencing real wage growth. This, combined with continued low interest rates, means that loss risk posed by the retail market remains low. House prices are levelling off, but houses are still in short supply in relation to expected population growth.

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 capital management connected with the insurance business and fund management activities are both 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).

The credit quality of the Bank's loan portfolio is satisfactory, and loss and default levels are very low in historical terms.

Much uncertainty attends the pace of the announced regulatory changes for the European financial sector, but Norwegian authorities are signalling a clear ambition to introduce new requirements at an early stage. This may affect Norwegian banks' competitiveness relative to other banks. This challenge is compounded by non-uniform approaches to the capital adequacy rules which creates uncertainty about Norwegian banks' financial strength compared with Nordic competitors.

Corporate social responsibility

The Bank aims to contribute to society's value creation by assuring profitable and sound banking, prudent capital allocation and sustainable management of inputs. Healthy growth provides the 'lift' that enables the Bank to attract good customers and skilled staff and to contribute to the further development of the region of which we are a part.

SpareBank 1 SMN aims to balance financial growth against the need for rational use of inputs and resources consumed by the Bank. Consideration for society is integrated in all aspects and at all levels of our business, extending to matters touched on in the Accounting Act section 3-3 which deals with human rights, employee rights, social conditions, external environment and the combating of corruption. This ensures that ethics, the environment and important social issues are on the agenda throughout.

SpareBank 1 SMN has established a strategy for its corporate social responsibility that brings together three themes: finance, social responsibility and environment. Under each main theme, important areas are defined and clear targets are set for the Bank's contribution to responsible development.

This is further described in the chapter Corporate Social Responsibility in this annual report, which includes meeting the requirements of the Accounting Act section 3-3C.

HR and competence

SpareBank 1 SMN is a competence-intensive business. This means that the individual staff member's, department's and the organisation's combined competence are key inputs for securing sound value creation at all levels. The Bank's advisers are the core of the business and the most important competitive advantage in combination with the values 'close at hand' and 'capable'.

Knowledge, skills and mindsets

SpareBank 1 SMN makes heavy demands on its advisers to ensure that customers experience the best the market has to offer in terms of personal financial and corporate financial advice. The Bank has developed good training arenas for its advisers and has a continual focus on professional development, improvement of customer processes and a high standard of ethics among all members of staff. The SpareBank 1 Alliance has jointly developed a comprehensive certification programme for advisers and is thus well placed to adapt to new industry requirements. At the end of 2013 all the Bank's advisers were approved non-life insurance advisers, and the Bank is well into the process of authorisation of advisers in the field of financial advice. A further 48 advisers were authorised over the course of 2013, and annual updating of previously authorised advisers was completed.

Attractive employer

Vacancy announcements have attracted many applicants and keen interest is shown in the Bank's company presentations, and recruitment agencies report unequivocally that the Bank has a positive reputation in the labour market. The Bank is continuously engaged in developing and improving its appointment policy to ensure the recruitment of staff with the right knowledge, skills and mindsets and to come across as an attractive employer in the labour market. In 2013 this was especially in focus through the development of an employer branding strategy in collaboration with the banks in the SpareBank 1 Alliance.

The Bank collaborates with relevant educational institutions in our market area and participates both in company presentations and as a mentor enterprise for certain lines of study.

The Group's internal labour market

Job changes are facilitated across business areas and subsidiaries to stimulate circulation of competencies and experience in the organisation. Twenty-seven staff members went to new jobs within the Group in 2013.

The overarching objective of the internal recruiting processes is to get the right person into the right job and to offer interesting development opportunities for our staff. Inherent in this objective is a clear-cut aim of a good gender balance at all levels of the organisation. A healthy gender equality perspective is a precept of the Bank's HR policy.

Staff turnover at the Bank

The Bank's staff turnover rate in 2013 was 8.4 per cent. This is excluding staff that have retired. In the Bank's view, a balanced replacement of staff adds new competencies and experience. It also indicates that the Bank's staff are attractive and competitive in the labour market.

Staff 2012-2013

At the end of 2013 the Parent Bank had 805 employees, distributed on 757 FTEs. Women account for 51 per cent of total staff and 32 per cent of managerial staff.

Sickness absence

The Bank's overall sickness absence was 4.1 per cent in 2013 compared with 4.6 per cent in 2012. The Bank makes an active effort to keep sickness absence as low as possible. Initiatives at various levels have been important and are viewed as key explanations for our relatively moderate rate of sickness absence.

Corporate initiatives

- 'Better Shape' workout/activities programme
- close cooperation with the corporate health service
- targeted health follow-up (ergonomics, work environment, health)
- organisation analysis (TNS Gallup)

Individual initiatives

- more and more staff turning to healthful leisure activities
- substantial support for company sports activities
- close follow-up of staff on sick leave

Main figures, Parent Bank	2013	2012
No. of FTEs	757	793
No. of staff	805	838
Turnover	8.4 %	8.7 %
Female managers	31.6 %	29.0 %
New staff	38	63
Average age	46 year	46 year
Sickness absence rate	4.1 %	4.6 %

Demographic data for the Parent Bank

Non-discrimination

SpareBank 1 SMN works to prevent discrimination in spheres including recruitment, pay and employment conditions, promotion, career development, and protection against harassment. SpareBank 1 SMN aims to reflect the population structure in its catchment area.

The Group's remuneration policy

All remuneration arrangements at SpareBank 1 SMN are formulated in accordance with the Financial Institutions Act, and with the Securities Trading Act with associated regulations on remuneration arrangements at financial institutions, investment firms and fund management companies.

The Group's guidelines for variable remuneration are designed to assure that employees, groups and the business as a whole are compliant with the risk management strategies, processes and tools that the Group has put in place to protect assets and values. The remuneration arrangements are formulated in such a way as to ensure that neither individuals nor the organisation will take unacceptable risk in order to maximise the variable remuneration.

For further information, see note 23 Personnel expenses and emoluments to senior employees.

Prospects

The profit performance for 2013 was excellent and confirms that measures implemented under the Group's capital plan are having a good effect. The Directors are particularly pleased by the trend in the core business with increased operating income, reduced cost growth and continued low losses. This shows that the Group is in a position to generate satisfactory return on the increased capital.

SpareBank 1 SMN still sees no indications that the business sector in Trøndelag and in Møre and Romsdal faces a change in the economic climate. The key industries in the Bank's market area show rising activity levels and sound profits, and prospects for 2014 appear good. Unemployment is low, and there are few signs in the regional macroeconomy to suggest major changes in the risk picture for the first half of 2014.

The Directors see growing competition in the financial market, but expect SpareBank 1 SMN to make a good showing with competitive products and first-rate customer service.

The Directors are concerned that the Bank should be a good partner for households and businesses in the region. At the same time they expect the Group to meet the capital requirements set without ordinary stock issues. The Directors may consider a private placing with the foundation Sparebankstiftelsen SMN. The Directors are well pleased with the profit performance for 2013 and expect 2014 to be another good year for SpareBank 1 SMN.

Trondheim, 3 March 2014
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
Board chair

Bård Benum
Deputy chair

Paul E. Hjelm-Hansen

Arnhold Holstad

Aud Skrudland

Bente Karin Trana
Alternate

Morten Loktu

Venche Johnsen
Employee representative

Finn Haugan
Group CEO