



# Quarterly Report

Financial Statement Q2 2013

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# Key figures group

<b>Amounts in NOK million and in % of average assets</b>		<b>30.06.13</b>	<b>%</b>	<b>30.06.12</b>	<b>%</b>	<b>31.12.12</b>	<b>%</b>
<b>From the profit and loss account</b>							
Net interest income		<b>589</b>	<b>1.56 %</b>	566	1.58 %	1 166	1.60 %
Net fee-, commission and other operating income		<b>436</b>	<b>1.15 %</b>	282	0.79 %	656	0.90 %
Net income from financial investments		<b>155</b>	<b>0.41 %</b>	151	0.42 %	260	0.36 %
Total income		<b>1 180</b>	<b>3.12 %</b>	999	2.79 %	2 082	2.86 %
Total costs		<b>596</b>	<b>1.58 %</b>	559	1.56 %	1 120	1.54 %
Result before losses		<b>584</b>	<b>1.55 %</b>	440	1.23 %	962	1.32 %
Losses		<b>87</b>	<b>0.23 %</b>	48	0.13 %	195	0.27 %
Result before tax		<b>497</b>	<b>1.32 %</b>	392	1.09 %	767	1.05 %
Tax		<b>95</b>	<b>0.25 %</b>	93	0.26 %	172	0.24 %
Minority interests		<b>0</b>	<b>0.00 %</b>	1	0.00 %	0	0.00 %
Result after tax		<b>402</b>	<b>1.06 %</b>	298	0.83 %	595	0.82 %
<b>Profitability</b>							
Return on equity capital	1	<b>11.4 %</b>		9.2 %		9.0 %	
Interest margin	2	<b>1.56 %</b>		1.58 %		1.60 %	
Cost/income	3	<b>50.5 %</b>		56.0 %		53.8 %	
<b>Balance sheet figures *)</b>							
Gross lending		<b>54 561</b>		52 792		54 551	
Gross lending and advances to customers including agency loans		<b>77 282</b>		72 331		75 914	
Growth in loans and advances to customers past 12 months		<b>3.4 %</b>		2.6 %		5.6 %	
Growth in loans and advances to cust. incl. agency loans past 12 months		<b>6.8 %</b>		11.5 %		11.6 %	
Deposits from customers		<b>46 006</b>		43 745		41 220	
Growth in deposits from customers past 12 months		<b>5.2 %</b>		6.0 %		-1.3 %	
Deposits as a percentage of gross lending	4	<b>84.3 %</b>		82.9 %		75.6 %	
Deposits as a percentage of gross lending including agency loans		<b>59.5 %</b>		60.5 %		54.3 %	
Average assets	5	<b>75 524</b>		71 696		72 921	
Total assets		<b>76 759</b>		74 029		75 329	
<b>Losses on loans and commitments in default *)</b>							
Losses on loans to customers as a percentage of gross loans incl. agency loans		<b>0.23 %</b>		0.13 %		0.26 %	
Commitments in default as a percentage of gross loans incl. agency loans		<b>0.77 %</b>		0.72 %		0.52 %	
Commitments at risk of loss as a percentage of gross loans incl. agency loans		<b>0.36 %</b>		0.24 %		0.78 %	
Net comm. in default and at risk of loss as a per. of gross loans incl. agency loans		<b>0.79 %</b>		0.71 %		0.90 %	
<b>Solidity</b>							
Total regulatory Capital %	6	<b>12.43 %</b>		11.59 %		13.19 %	
Tier I Capital %	7	<b>11.35 %</b>		10.88 %		12.11 %	
Tier I capital		<b>6 478</b>		6 081		6 672	
Equity and related capital resources		<b>7 093</b>		6 474		7 270	
Adjusted risk-weighted assets base		<b>57 053</b>		55 882		55 098	
<b>Branches and full-time employees</b>							
Branches		<b>74</b>		74		74	
Manyyear		<b>911</b>		868		881	
<b>Equity Certificates **)</b>							
		<b>30.06.13</b>	<b>31.12.12</b>	<b>31.12.11</b>	<b>31.12.10</b>	<b>31.12.09</b>	<b>31.12.08</b>
Equity Certificate ratio overall	8	<b>41.59 %</b>	42.07 %	38.74 %	34.54 %	34.54 %	34.54 %
Quoted/market price NONG as at		<b>35.00</b>	27.75	32.30	45.00	41.25	16.50
Quotation value	9	<b>2 317</b>	1 837	2 139	2 149	1 970	788
Equity capital per Equity Certificate (NOK)	10	<b>38.09</b>	35.58	33.73	31.03	31.19	27.13
Equity capital per Equity Certificate - Group (NOK)	10	<b>44.98</b>	43.34	40.42	41.27	37.77	32.89
Result per Equity Certificate	11	<b>3.64</b>	3.27	2.55	4.32	5.19	1.55
Result per Equity Certificate (Group)	11	<b>2.53</b>	3.78	3.07	5.90	6.20	2.52
Cash dividend per Equity Certificate to be paid	12		1.15	1.40	2.16	2.53	1.13
P/E (Price/Earnings)	13	<b>4.8</b>	8.5	12.7	10.4	7.9	10.7
P/E (Price/Earnings) - Group	13	<b>6.9</b>	7.3	10.5	7.6	6.6	6.6
P/V (Price/Book Value)	14	<b>0.9</b>	0.8	1.0	1.5	1.3	0.6
P/V (Price/Book Value) - Group	14	<b>0.8</b>	0.6	0.8	1.1	1.1	0.5

\*) Agency loans includes loans transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

\*\*) All key figures are recalculated due to new total of EC's

- Profit for the period as a percentage of average total equity, calculated as average amount of quarterly equity and per 01.01. and 31.12.
- Total interest margin as a percentage of average total assets
- Total costs as a percentage of total net income
- Deposits from customers as a percentage of gross lending
- Average assets are calculated as average assets each quarter and at 01.01. and 31.12.
- Net subordinated capital as a percentage of calculated risk-weighted balance
- Core capital as a percentage of calculated risk-weighted balance
- EC holders share of equity capital as at 01.01.
- Quoted price on Oslo Stock Exchange multiplied by numbers of EC's outstanding
- EC-capital + Premium Fund + Dividend Equalisation Fund + Equity Certificates holders' share of the equity capital as at 01.01. x (other equity capital + Result for the period, divided by number of EC's outstanding
- Profit for the period (group) multiplied by Equity Certificates holders' share of the equity capital as at 01.01., in relation to total number of EC's
- Cash dividend per EC for the accounting year. Resolution made by Main Board of Directors
- Market price on Oslo Stock Exchange at end of period, divided by result for the period per EC
- Market price on Oslo Stock Exchange at end of period, divided by book value of equity capital per EC

## Interim report for Q2 2013 – Group

(Figures in brackets are for the same period in 2012)

### Highlights:

- Profit before tax NOK 497 million (NOK 392 million)
- Profit after tax NOK 402 million (NOK 299 million)
- Return on equity after tax of 11.4% (9.2%)
  - Earnings per equity certificate (Group) of NOK 2.53 (NOK 1.89).
- Good and improved underlying banking operations for the quarter with profit before losses of NOK 429 million (NOK 289 million).
- Net income from financial assets of NOK 155 million (NOK 151 million)
- Cost ratio 50.5% (56.0%)
- Loan losses NOK 87 million (NOK 48 million)
- Lending growth in last 12 months 6.8% (11.5%), including intermediary loans
  - Retail market 9.0% (11.0%).
  - Corporate market 2.1% (12.6%).
- Growth in deposits in last 12 months 5.2% (0.2%)
  - Retail market 7.1% (8.4%).
  - Corporate market 5.6% (5.9%).
  - Public sector market -0.3% (-26.2%)
- Deposit-to-loan ratio 84.3% (82.9%)
- Very good liquidity
- Satisfactory financial strength: Group's core capital adequacy 10.21% (9.96%) In order to meet future capital requirements and in order to take part in a profitable growth in this region, the Main Board of Directors recommends conducting a rights issue and private placement of NOK 750 million and NOK 200 million respectively.

### Macroeconomic trends

Northern Norway is enjoying a period of continued good economic growth. This can be seen in all sectors of society. The labour market is still tight. Despite the region's significant population growth and a higher percentage of labour migration than the rest of the country, new growth is being hampered to some extent by a shortage of skilled labour. The rapid growth is due to the region's access to and exploitation of valuable natural resources. Substantial oil and gas finds in the Norwegian Sea and Barents Sea have resulted in rapid growth in the oil industry, both directly and indirectly through many related industries.

There is still available capacity for growth in the aquaculture industry. The price trend for salmon has remained at a high level throughout the whole first half of the year, and both the market and price outlooks are good in the coming months. The fishing industry still faces challenges related to low raw material prices, a strong kroner and the economic problems in important markets. On the other hand, all of our most important fish stocks are in good shape. Historically, tourism has been important, especially in the summer season. Winter tourism is now becoming as significant as summer tourism, which is making this industry even more important. As a result of the above factors and a lot of public sector investment, the level of activity in the building and construction sector is also very high. This includes investment in housing, commodity trade and transport, for example. In addition to this, recoverable deposits of minerals and other valuable rocks have been discovered. At present, however, there is only modest activity in this industry.

There are signs that despite wage growth and low unemployment, Northern Norwegian households have become more reserved with respect to consumption. The willingness to save is high, and this is expected to continue. The high level of economic activity in Northern Norway is reflected in SpareBank 1 Nord-Norge's financial statements through the good growth in both loans and deposits for retail and corporate customers in 2012. However, towards the end of 2012 and in the first half of 2013, the lending growth slacked off somewhat. This was partly due to the above-mentioned factors and partly due to the bank's wish to curtail lending growth in the corporate market.

### Earnings performance

The financial statements as per the second quarter of 2013 show an operating profit before tax of NOK 497 million (NOK 392 million). Underlying banking operations before losses are good and have further improved with a profit of NOK 429 million, compared with NOK 289 million for the same period last year.

The Group's return on equity after tax as per 30 June 2013 was 11.4% (9.2%). The earnings per equity certificate were NOK 2.53 (NOK 1.89). The Group's return on equity for the 2nd quarter in isolation was 11.6%. Excluding the bank's share of the write-down in SpareBank 1 Markets (see below), the return on equity for the quarter was 13.1%.

### Net interest income

Net interest income as per 30 June 2013 amounted to NOK 589 million. This is NOK 23 million higher than the same period in 2012. The accounts were charged NOK 18 million for the Norwegian Banks Guarantee Fund. This was classified as an interest cost as per the second quarter of 2013. This charge was waived for the banks in 2012. SpareBank 1 Nord-Norge will recognise costs of around NOK 35 million for this in 2013.

Net interest income represented 1.56% of average total assets, which is 0.02 percentage points lower than last year.

Income from the loan portfolio transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt is entered under commissions. Commissions totalled NOK 151 million as per the second quarter of 2013. The corresponding figure for the same period in 2012 was NOK 65 million. Net interest income including the above-mentioned commission income for the second quarter in isolation showed an increase of NOK 46 million compared with Q1 2013.

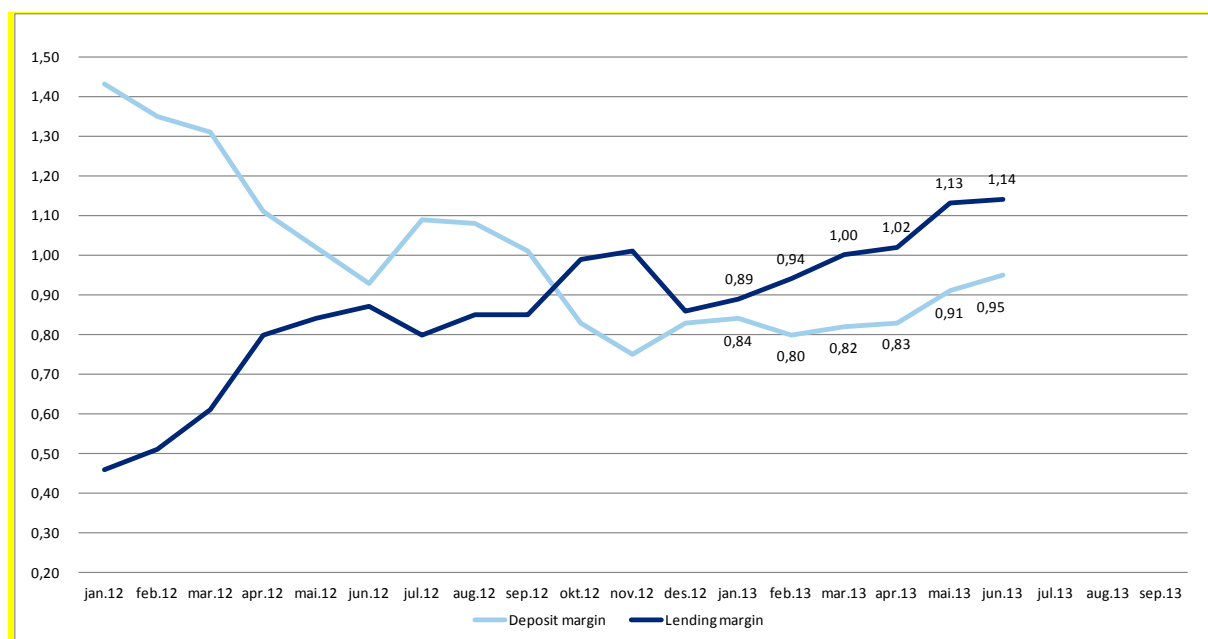
At the end of the second quarter of 2013, home mortgages worth NOK 22.4 billion were transferred to SpareBank 1 Boligkreditt (NOK 19 billion). As per 30 June 2013, loans amounting to NOK 0.3 billion have been transferred to SpareBank 1 Næringskreditt.

Compared with the first quarter of 2013, net interest income, including commissions from the transferred loan portfolio but excluding the charge for the Norwegian Banks Guarantee Fund, developed as shown below:

Amounts in NOK million	Q2 2013	Change	Q1 2013
Net interest income incl. commissions from SB1 Boligkreditt	393	46	347
Lending and deposit volume		+ 0.3	
Lending and deposit margins		+ 34.5	
Effect of 2 fewer days		+ 3.5	
Other effects		+ 7.7	

The lending and deposit margins are measured against the bank's average funding costs in the financial market. The bank's net interest margin and net interest income increased in 2012. This was due to lower funding costs because of lower money market interest rates in the capital market and higher lending pricing within the corporate market. Following a temporary fall in the bank's lending margin in December 2012, due to the amortisation of loss provisions for 2012, the lending margin increased again measured in terms of average funding costs during the first half of 2013.

#### Trend in deposit and lending margin (measured in terms of average funding costs)



Stricter regulatory requirements for liquidity and equity have resulted in higher capital costs and higher earnings requirements for banks. Some of this must be recouped by increasing prices for the bank's products, primarily loans. At the start of 2013, the bank communicated that lending margins in the corporate market would increase by at least 0.80 percentage points. For the part of the loan portfolio that is covered by the price increase, the margin so far has increased by about 0.65 percentage points. The work on increased margins in the corporate market continues. Furthermore, effective the end of April, prices of the bank's loans in the retail market were increased. In addition, lower deposit prices were introduced in the second quarter.

The above-mentioned measures account for the main reason for the increase in net interest income. These measures will have effects throughout the whole third quarter and will therefore make a further positive contribution in isolation to net interest income.

#### Net commissions and other income

Net commissions and other income as per Q2 2013 were NOK 436 million, an increase of NOK 154 million when compared with the same quarter last year.

<i>Amounts in NOK million</i>	as per Q2 2013	Change	Q2 2012
<b>Net commissions and other income</b>	<b>436</b>	<b>+ 154</b>	<b>282</b>
Increased commissions from SpareBank 1 Boligkreditt		+ 86	
Increased commissions EiendomsMegler 1 Nord-Norge		+ 9	
Increased income from accountancy firm SNN Regnskapshuset		+ 38	
Increase in other commissions and other income		+ 21	

### **Income from financial investments**

Total net income from financial investments as per Q2 2013 amounts to NOK 155 million (NOK 151 million). This has developed as follows:

<i>Amounts in NOK million</i>	Q2 2013	Change	Q2 2012
<b>Net income from financial investments</b>	<b>155</b>	<b>+ 4</b>	<b>151</b>
Result from SpareBank 1 Gruppen	76	+16	60
Result from SpareBank 1 Boligkreditt	9	-10	19
Result from Bank 1 Oslo Akershus	0	-19	19
Result from BN Bank	30	+10	20
Result from SpareBank 1 Næringskreditt	1	-1	2
Result from SpareBank 1 VP-service	-1	-1	0
Share dividends	24	7	17
Net change in share value	29	106	-77
Net change in bond value	-16	-46	30
Net change in value of currency and financial derivatives	3	-58	61

### ***Profit contribution from joint venture companies***

#### *SpareBank 1 Gruppen*

SpareBank 1 Gruppen's profit after tax as per the second quarter of 2013 totalled NOK 402 million (NOK 267 million). The SpareBank 1 Nord-Norge Group's share of the profit, amounting to NOK 76 million (NOK 60 million), has been incorporated into the accounts. SpareBank 1 Livsforsikring and SpareBank 1 Skadeforsikring made the greatest contributions to SpareBank 1 Gruppen's profit. In the second quarter of 2013, SpareBank 1 Gruppen has undertaken a write-down of the shareholding in SpareBank 1 Markets. SpareBank 1 Nord-Norge's share of this write-down is NOK 24 million.

#### *SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt*

SpareBank 1 Boligkreditt was set up by the banks in the SpareBank 1 Alliance to benefit from capital market funding through the use of covered bonds. The banks transfer mortgagees with very good security to this company. This reduces funding costs and increases the competitiveness of the SpareBank 1 banks.

The bank owns a 13.46 % stake in SpareBank 1 Boligkreditt, and the share of its profit as per the second quarter of 2013 was NOK 9 million (NOK 19 million).

The SpareBank 1 banks established SpareBank 1 Næringskreditt in 2009 based on the same model and with the same management as SpareBank 1 Boligkreditt. SpareBank 1 Nord-Norge owns a 16.16% stake in the company, and its share of the profit as per the second quarter of 2013 was NOK 1 million (NOK 2 million).

#### *Bank 1 Oslo Akershus*

As per 31 December 2013, SpareBank 1 Nord-Norge owned a 19.5% stake in Bank 1 Oslo Akershus.

In January 2013, an agreement was entered into to reduce the bank's stake in Bank 1 Oslo Akershus to 4.8%. The agreement was signed together with SpareBank 1 SR-Bank and SpareBank 1 SMN with Sparebanken Hedmark as the buyer. The transaction's sale price matched the book value of Bank 1 Oslo Akershus AS as per

30 September 2012. This agreement has been approved by the Financial Supervisory Authority of Norway and the Norwegian Ministry of Finance, and the transaction was formally executed in the second quarter of 2013. Shares of the profit had not been incorporated as per the second quarter of 2013 (NOK 19 million).

#### *BN Bank*

SpareBank 1 Nord-Norge had a 23.5% stake in BN Bank as per 1 January 2013. The share of profit as per Q2 2013 amounted to NOK 30 million (NOK 20 million) including the effect of amortisation from the date of acquisition.

#### *Other companies*

The alliance companies SpareBank 1 Verdipapirservice and SpareBank 1 Kundesenter were established at the end of Q2 2012. SpareBank 1 Nord-Norge has stakes of 24.9% and 23.5% respectively in these two companies. Shares of the results from these companies totalling NOK -1.2 million had been incorporated as per the second quarter of 2013.

#### *The Group's equity portfolio*

The Group's equity portfolio as per 30 June 2013 amounted to NOK 664 million. A net NOK 29 million increase in the value of this portfolio was recognised as income as per the second quarter of 2013. The bank's equity portfolio increased by NOK 49 million, while its subsidiary SpareBank 1 Nord-Norge Invest saw a net change in value of NOK -20 million. The latter mainly applies to a write-down in the value of the equity portfolio in the company of NOK 17 million. Write-downs in the investment funds Nord I IS and Nord II IS constitute NOK 8 million of this write-down. The shareholding in Nord-Norge Eiendom IV was written down by NOK 8 million in the first quarter of 2013.

#### *Certificates and bonds*

As per 30 June 2013, the Group's holdings of certificates and bonds amounted to NOK 13,142 million, compared with NOK 12,141 million at the same time last year. The holdings of interest-bearing securities include covered bonds issued under the authorities' swap scheme.

On 1 July 2008, the bank completed a reclassification of many of the interest-bearing securities in the trading portfolio, from the category "At fair value through profit and loss" to categories that are assessed at amortised cost. The effects of this reclassification are discussed in a note to the quarterly accounts. The reclassified portfolio is continuously assessed with regard to the need for permanent impairment in value. As per 1 December 2012, such write downs totalling NOK 80 million had been executed. A further write-down of NOK 7.6 million was executed in the first quarter of 2013. No write-downs were executed on this part of the portfolio in the 2nd quarter of 2013.

The total net change in value of this portfolio as per the second quarter of 2013 amounted to NOK -16 million. This is primarily due to the write-down in value of two individual securities in the first quarter of 2013, one of which is in the reclassified portfolio, see preceding paragraph.

#### *Currency and derivatives*

The net change in value from currency and financial derivatives as per Q2 2013 amounted to NOK 3 million. This income includes part of the income from Markets, as well as changes in the value of the bank's own positions in currency and financial derivatives.

#### **SpareBank 1 Markets**

SpareBank 1 Markets, which previously had SpareBank 1 Gruppen AS as its principal shareholder, will be presented with a new ownership structure whereby SpareBank 1 Gruppen AS sells its stake in the company. SpareBank 1 Markets will thereafter be directly owned by SpareBank 1 SMN (24%), SpareBank 1 Nord-Norge (24%), SpareBanken Hedmark (15%), Samspar (24%), the Norwegian Federation of Trade Unions (12%) and employees (2%).

SpareBank 1 Markets shall be further integrated with the activities in the owner banks.

This includes an integration of the owner banks' activities in corporate finance and brokerage with the equivalent areas in SpareBank1 Markets.

In addition, the banks' business volumes shall be internalised to a greater extent. The aim is that this - together with other measures - shall help increase the profitability in the company.

In connection with the change in the ownership structure, SpareBank 1 Gruppen AS has undertaken a NOK 122 million write-down of the shareholding in SpareBank 1 Markets. SpareBank 1 Nord-Norge's share of this write-down is NOK 24 million.

### Subsidiaries

<i>Amounts in whole NOK 1000</i>	Stake in %	Profit before tax	
		30 June 2013	30 June 2012
SpareBank 1 Finans Nord-Norge AS	100	44 986	32 507
SpareBank 1 Nord-Norge Invest AS	100	-21 653	-65 753
EiendomsMegler 1 Nord-Norge AS	100	13 254	6 912
EiendomsMegler 1 Lofoten AS	60	134	0
SpareBank 1 Forvaltning AS	100	860	746
SpareBank 1 Regnskapshuset AS	100	6 685	-336
North-West 1 Alliance Bank	75	383	946

As per the second quarter of 2013, the Group's subsidiaries had a combined result before tax of NOK 45 million (NOK -25 million), which has been fully consolidated in the consolidated financial statements.

SpareBank 1 Finans Nord-Norge's profit before tax as per the second quarter of 2013 was NOK 45 million (NOK 33 million). The company has a good earnings base and total earnings year to date are NOK 115 million (NOK 101 million). Losses on leasing and loan commitments as per the second quarter of 2013 amounted to NOK 4 million (NOK 3 million). At year-end, the company managed leasing, consumer loans and vendor's security agreements totalling NOK 3,346 million in value, of which leasing agreements constituted NOK 1,742 million.

North West 1-Alliance Bank in St. Petersburg, Russia (75% stake) had a profit before tax as per the second quarter of 2013 of NOK 0.4 million (NOK 1 million).

SpareBank 1 Nord-Norge Invest has a portfolio of unlisted equities and investments in funds. The company's result before tax as per the second quarter of 2013 was NOK -22 million (NOK -66 million). The write-down in the company's equity portfolio has been commented on above in the section "The Group's equity portfolio". The plan is to restructure and/or liquidate SpareBank 1 Nord-Norge Invest.

EiendomsMegler 1 Nord-Norge had a profit before tax as per the second quarter of 2013 of NOK 13.2 million (NOK 6.9 million). The number of units sold to date in 2013 is 935 (778), representing a total market value of NOK 42.8 million, an increase of 27% compared with the same period in 2012. EiendomsMegler 1 Nord-Norge owned 60% of the company EiendomsMegler 1 Lofoten AS as per 30 June 2013. The share of the profit during the ownership period of NOK 0.13 million has been incorporated.

SpareBank 1 Nord-Norge Forvaltning, which manages a portfolio of NOK 1.8 billion, had a profit before tax of NOK 0.9 million as per the second quarter of 2013 (NOK 0.8 million).

SpareBank 1 Regnskapshuset Nord-Norge AS operates accountancy firms in Northern Norway. The company's profit contribution before tax was NOK 6.7 million as per the second quarter of 2013 (NOK -0.3 million).

### Operating expenses

Ordinary operating expenses as per the 2nd quarter of 2013 totalled NOK 596 million. Compared with the same period in 2012, this amounted to an increase of NOK 37 million.

The changes in costs are as follows:

<i>Amounts in NOK million</i>	Q2 2013	Change	Q2 2012
<b>Operating expenses</b>	<b>596</b>	<b>+37</b>	<b>559</b>
Staff costs	313	+32	281
Admin. costs	167	+0	167
Depreciation	27	+2	25
Other expenses	89	+3	86

Expenses amounted to 1.58% of average total assets as per the second quarter of 2013, a decrease of 0.02 percentage points compared with the same period in 2012.

The parent bank's expenses as per 30 June 2013 amounted to NOK 486 million, NOK 2 million less than the same period in the previous year.

The Group's cost ratio was 50.5% as per the second quarter of 2013, compared with 51.7% as per the first quarter of 2013 and 56% as per the second quarter of 2012.

Compared with the 1st quarter of 2013, the operating expenses for the 2nd quarter of 2013 were NOK 8 million higher, whereas for the parent bank they were NOK 8 million lower.

The higher costs compared with the same period in 2012 were mainly attributable to higher staff costs, including general pay increases and higher payroll costs for new employees compared with the average for all employees. At the end of the second quarter of 2013, the number of full time equivalents was 43 more than at the same time last year: there were 61 more in subsidiaries and 18 fewer in the parent bank. The increase in the number of employees in the subsidiaries mainly relates to the Group's subsidiary in Russia (10 full time equivalents) and the acquisition of accountancy firms (41 full-time equivalents).

Group employees totalled 911 full time equivalents (FTE) at the end of Q2 2013, of which the parent bank accounted for 649. The corresponding figures for the previous year were 868 and 667 respectively.

The parent bank's goal is to hold average annual cost increases to a maximum of 2% for the period 2013-2016. A cost-reduction programme was started in the parent bank in 2012 and will continue in 2013. This includes rationalisation measures in both staffing and other cost areas.

### **Structured products**

As a result of the Norwegian Supreme Court's decision in the "Røeggen case", the bank has reviewed its sale of loan-financed structured products in previous years. No sale of products that is comparable to the sale of products that is covered by the Supreme Court's decision was discovered, and so the bank so far has not compensated any customers who have purchased loan-financed structured products. The bank has six cases pending with the Norwegian Complaints Board for Consumers in Banking and Finance Matters, which came in before the "Røeggen case", and it has received about 15 complaints after the decision. These complaints have been rejected by the bank, and so far, three customers have brought the case before the Norwegian Complaints Board for Consumers in Banking and Finance Matters. Even if the complaints cases should be found in favour of, the total claims are so modest that it is not considered to be appropriate to make any accounting provision for this matter as per 30 June 2013.

### **Net losses and non-performance**

The Group's losses on lending as per Q2 2013 amounted to NOK 87 million (NOK 48 million), which broke down to NOK 80 million from the corporate market and NOK 7 million from the retail market. Of the losses in the corporate market, NOK 27 million were losses on two individual commitments, on which there were also losses in 2012, whereas losses on two other individual commitments worth NOK 35 million have been confirmed in the second quarter of 2013.

Net non-performing and doubtful commitments totalled NOK 608 million (NOK 514 million) as per 30 June 2013, which amounts to 0.79% of gross lending, including intermediary loans. This is 0.08 percentage points higher than as per 30 June 2012.

The Group's total individual loss provisions as per 30 June 2013 were NOK 267 million (NOK 171 million). The provision was reduced by a net NOK 53 million in the last quarter.

Group write-downs as per 30 June 2013 amounted to NOK 201 million (NOK 221 million) and have increased by NOK 1 million compared with the previous quarter. Group write-downs totalled 0.36% of the Group's combined gross lending as per 30 June 2013 (0.26% of gross lending including intermediary loans).

The Group's risk classification system shows that the total credit risk in the loan portfolio improved during 2012. No new commitments exposed to a significant risk of losses were revealed in the first half of 2013. In the opinion of the Main Board of Directors, the quality of the bank's loan portfolio remains good, and the bank is doing high quality work in connection with Group's non-performing and doubtful commitments. There will still be a strong focus on this work in the coming months. The general level of losses is expected to be moderate in the near future.

### **Tax**

The Group's tax expenses were estimated at NOK 95 million as per Q2 2013. In the parent bank's accounts, the tax base has been reduced by permanent differences coupled with the effects of the exemption model.

### **Total assets**

The Group's total assets were NOK 76,759 million as per 30 June 2013. Total assets have increased by NOK 2,730 million, or 3.7%, in the last 12 months.

### **Lending**

As per 30 June 2013, lending totalling NOK 22.7 billion (NOK 19.5 billion) has been transferred to SpareBank1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not appear as lending on the bank's balance sheet. Comments that deal with the growth in lending include these intermediary loans.

The Group's gross lending to customers including intermediary loans totalled NOK 77,282 million as per 30 June 2013. Compared with 30 June 2012, this amounts to an increase of 6.8%. Retail banking loans showed growth of 9.0%, while corporate and public sector loans showed growth of 2.1%. Gross lending growth in the last quarter (annualised) amounted to 7.0%. This growth breaks down to 10.0% in the retail market and 0.2% in the corporate market. The percentage of lending to the retail market constitutes 70.3% of the total lending as per 30 June 2013.

In the case of new loans, particular emphasis is placed on customers' ability to service and repay their outstanding loans, and on a satisfactory level of collateral and other security to ensure that the credit risk is maintained at an acceptable level.

The bank's portfolio of fixed-interest loans amounted to NOK 7.6 billion as per 30 June 2013. The average term to maturity of this portfolio of loans is 3.5 years. These loans are assessed in the bank's balance sheet at market value (fair value). Following the implementation of increased margins on new fixed-interest loans in the first quarter of 2013 an estimate of fair value of this part of the loan portfolio will be evaluated more closely. Any accounting write-down of fair value will involve no changes in expected cash flows from the loan portfolio and any write-down will be recognised in income over the portfolio's remaining term to maturity.

### **Saving and investment**

The Group's deposits from customers totalled NOK 46,006 million as per 30 June 2013. The increase over the past 12 months was NOK 2,261 million, or 5.2%. Retail deposits showed growth of 7.1%, while corporate and public sector deposits showed growth of 5.6% and -0.3% respectively.

### **Liquidity**

Deposits from customers are the bank's main source of funding. At the end of the second quarter of 2013, the deposit-to-loan ratio (excluding intermediary loans) was 84.3%, which is 1.4 percentage points higher than at the same time last year. The bank's remaining funding, apart from equity and subordinated loan capital and deposits from customers, is mainly from long-term funding from the capital market. The bank's liquidity situation and access to liquidity is very good. One of the bank's strategic aims is to maintain overall liquidity risk at a low level.

### **The Bank's equity certificate holders**

As per 30 June 2012, the parent bank's equity certificate capital was NOK 1,655 million. The number of equity certificates as per 30 June 2013 was 66,208,987 each with a nominal value of NOK 25 and fully paid-up.

The equity certificate ratio as per 1 January 2013 was 41.59%. The number of equity certificate holders was 7,762 as per 30 June 2013, a reduction of 361 over the last 12 months. The percentage of equity certificate holders from northern Norway was 30%. A summary of the Bank's 20 largest equity certificate holders is provided in the notes to the interim financial statements.

Book value per equity certificate on 30 June 2013 was NOK 44.98 and the profit per equity certificate was NOK 2.53. As per 30 June 2013, the price was NOK 35.00. Price/Earnings was 6.9 and Price/Book was 0.78 as per 30 June 2013.

### **Financial strength and capital adequacy - raising of new equity through rights issue and private placements**

SpareBank 1 Nord-Norge uses an Internal Rating Based Approach for credit risk. The statutory minimum capital adequacy requirement for credit risk is based on the bank's internal risk assessment and approved regulatory risk models. The regulations make the statutory minimum requirement for capital adequacy more risk-sensitive, so that the capital requirement corresponds, to a larger extent, to the risk in the underlying portfolios. The use of internal measuring methods places great demands on the bank's organisation, competence, risk models and risk management systems.

The Group uses proportional consolidation for its capital adequacy reporting for SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt and BN Bank.

As a result of the transitional rules in the new regulations, the IRB banks were to benefit in full from the reduced regulatory capital adequacy requirements starting in 2010. This has been postponed until 2015, so the transitional rules also apply in 2013.

The European Parliament passed CRD IV on 16 April 2013, and the final CRD IV text was approved by the Council of Europe on 20 June 2013. CRD IV will be effective from 1 January 2014 and consists of a directive and a regulation and replaces the current capital adequacy directives. CRD IV will apply in Norway because of the EEA Agreement. On 10 June 2013, the Norwegian Ministry of Finance approved that the capital and buffer requirements shall apply to Norwegian institutions starting on 1 July 2013, though with a phasing in period up to 2016. This means most Norwegian banks will be expected to satisfy a pure core capital requirement of at least 14.5% by 1 July 2016.

In order to limit the consequences of system risk in the financial sector, the Norwegian authorities want to tighten the requirements for the calculation models that the banks use to calculate capital requirements for home mortgages. The Ministry of Finance has sent out a consultative paper concerning a changed basis for calculation for capital requirements (risk weightings) for home mortgages with a 31 May 2013 deadline for reply. Together with the other IRB banks in the SpareBank 1 Alliance, SpareBank 1 Nord-Norge sent a joint response to the consultative paper. A clarification of capital requirements for mortgages is expected in the autumn of 2013.

SpareBank 1 Nord-Norge submitted an application for IRB A approval to the Financial Supervisory Authority of Norway in mid-June 2013. This application is expected to be completely processed by the Financial Supervisory Authority of Norway in twelve months. Permission for the use of IRB-A in the calculation of capital requirements for lending to the corporate market is important in the context of the bank's on-going adaptation to new capital requirements for Norwegian financial institutions.

As per 30 June 2013, the Group's Tier 1 capital adequacy amounted to 11.35% (10.88%) of the calculation basis. The total capital adequacy ratio was 12.43% (11.59%). The Group's core Tier 1 capital adequacy ratio excluding the share of profit was 10.21%. Including the share of profit, the core Tier 1 core capital ratio was 10.67%. The Group's core Tier 1 capital excluding the share of profit has improved by NOK 243 million in the last quarter as a result of the sell-off of shareholdings in Bank 1 Oslo Akershus. With full IRB effect (without a 'floor') the core capital adequacy including the share of profit would be 12.49%. Reference is also made to the note in the quarterly accounts.

The bank's financial strength as per 30 June 2013 is deemed satisfactory.

As mentioned above, new requirements from the authorities for banks' capital adequacy needs entail a considerable improvement in the financial strength of banks. SpareBank 1 Nord-Norge has already implemented – and will continue to implement - a number of measures to improve the bank's capital adequacy ratio, including:

- various measures to increase earnings, including higher margins on loans
- reduced dividend pay-out ratio
- reduced lending growth, especially in the corporate market
- application for IRBA approval
- measures to increase utilisation of capital
- selling down the bank's stake in SpareBank 1 Oslo Akershus (done)
- utilisation of capital allocated to the foundation Sparebankstiftelsen SpareBank 1 Nord-Norge
- other measures

In the Bank's opinion, it is possible to achieve the new capital requirements through the measures mentioned above. However, this will impose strong constraints on the Group's loan growth — particularly in the corporate market. A continued substantial tightening of the growth in lending will be at the expense of short-term and long-term earning opportunities and the Group's long-term market position. In addition, a profitable participation in the growth in Northern Norway is an important part of the bank's socio-economic role as the region's own bank. On this basis, the bank's Main Board of Directors has decided to recommend that an equity issue (rights issue) of up to NOK 750 million be conducted. In addition, utilisation of up to NOK 200 million of the existing authorisation from the Supervisory Board for NOK 320 million private placements is being considered. The intention is that the private placement will be made to employees, to Sparebankstiftelsen SpareBank 1 Nord-Norge, and to any institutional investors. Thus, the total transaction volume is planned to amount to up to NOK 950 million.

The equity issue is guaranteed by a consortium consisting of SpareBank 1 SMN, SpareBank 1 SR-Bank, Sparebanken Hedmark, Samarbeidende Sparebanker AS and Sparebankstiftelsen SpareBank 1 Nord-Norge.

A volume of new issues of NOK 750-950 million is estimated to increase the Group's core capital adequacy by 1.3-1.7 percentage points based on the financial statements as per 30 June 2013.

### **Concluding remarks and outlook**

The bank's core operations report good and further improved earnings. The region's business sector remains optimistic. Following a substantial increase in demand for loans throughout most of 2012, demand decreased in the fourth quarter of 2012 and the first quarter of 2013. In the second quarter, the growth in lending increased, and the demand for loans especially in the corporate market is expected to increase somewhat in the rest of 2013. As a result of stricter regulatory requirements for banks' core capital, lending growth in the corporate market will nonetheless decrease compared with 2012. Deposits are expected to continue to show growth in 2013. It is the bank's ambition to maintain a strong position in the public sector. Deposit and lending margins are expected to be affected by competition, but with a strengthening of the net interest margin.

It should be mentioned that continued international economic uncertainty may lead to reduced consumption and the postponement of investments, including those in Northern Norway.

The bank has initiated several measures to further improve profitability. Such measures include margin increases, other income increasing activities and various cost-cutting measures. The measures are expected to increase the Group's return on equity in 2013.

In addition to measures aimed at increasing profitability, the bank has also initiated various measures to increase financial strength. In connection with this, the Main Board of Directors recommends that an issue of up to NOK 950 million of new equity be conducted. This will help ensure that the Group meets internal and external requirements for financial strength and simultaneously enable the Group to take part in the regional growth through profitable banking business.

Tromsø, Norway, 13 August 2013

**The Main Board of Directors of SpareBank 1 Nord-Norge**

Kjell Olav Pettersen  
(Chairman of the Board)

Pål Andreas Pedersen  
(Deputy Chairman)

Sonja Djønne

Hans Tore Bjerås

Greger Mannsverk

Ann-Christine Nybacka

Anita Persen

Vivi-Ann Pedersen  
(employee-elected)

Jan-Frode Janson  
(CEO)

# Statement of income

Parent Bank

Group

(Amounts in NOK million)

31.12.12	2Q12	2Q13	30.06.12	30.06.13		30.06.13	30.06.12	2Q13	2Q12	31.12.12
2 722	673	678	1 371	1 334	Interest income	1 411	1 432	717	708	2 845
1 688	418	410	864	825	Interest costs	822	866	408	423	1 679
1 034	255	268	507	509	<b>Net interest income</b>	<b>589</b>	566	<b>309</b>	285	1 166
590	143	195	263	360	Fee- and commission income	421	310	230	169	686
72	18	23	39	33	Fee- and commission costs	33	40	23	19	74
22	4	4	7	7	Other operating income	48	12	31	6	44
540	129	176	231	334	<b>Net fee-, commision and other operating income</b>	<b>436</b>	282	<b>238</b>	156	656
16	15	22	15	23	Dividend	23	17	22	15	17
81	66	190	134	239	Income from investments	116	120	27	39	210
175	11	106	77	114	Net gain from investments in securities	16	14	15	- 52	33
272	92	318	226	376	<b>Net income from financial investments</b>	<b>155</b>	151	<b>64</b>	2	260
1 846	476	762	964	1 219	<b>Total income</b>	<b>1 180</b>	999	<b>611</b>	443	2 082
471	126	119	238	238	Personnel costs	313	281	162	148	581
291	75	75	152	152	Administration costs	167	167	83	83	319
51	11	12	23	25	Ordinary depreciation	27	25	13	12	54
141	27	33	75	71	Other operating costs	89	86	44	34	166
954	239	239	488	486	<b>Total costs</b>	<b>596</b>	559	<b>302</b>	277	1 120
892	237	523	476	733	<b>Result before losses</b>	<b>584</b>	440	<b>309</b>	166	962
224	5	44	45	76	Losses	87	48	47	6	195
668	232	479	431	657	<b>Result before tax</b>	<b>497</b>	392	<b>262</b>	160	767
153	50	46	84	78	Tax	95	93	56	55	172
515	182	433	347	579	<b>Result after tax</b>	<b>402</b>	299	<b>206</b>	105	595
					Majority interest	402	298	206	104	595
					Minority interests	0	1	0	1	0
					<b>Result per Equity Certificate</b>					
3.27	1.16	2.72	2.20	3.64	Result per Equity Certificate	2.53	1.89	1.29	0.66	3.78
3.27	1.16	2.72	2.20	3.64	Diluted result per Equity Certificate	2.53	1.89	1.29	0.66	3.78

## Other comprehensive income

515	182	433	347	579	<b>Result after tax</b>	<b>402</b>	299	<b>206</b>	105	595
0	0	0	0	0	Recalculation differences	0	-2	0	0	1
-1	-1	2	0	3	Effective part of change in fair market value in cash flow hedging	3	0	0	0	-1
153	0	0	0	0	Actuarial gains (losses) on benefit-based pension schemes	0	0	0	0	158
-43	0	-1	0	-1	Tax on other comprehensive income	-1	0	0	0	-44
109	-1	1	0	2	Other comprehensive income for the period	2	-2	0	0	114
624	181	434	347	581	<b>Total comprehensive income for the period</b>	<b>404</b>	297	<b>206</b>	105	709
					Majority interest	404	297	206	105	709
					Minority interests	0	0	0	0	0
					<b>Total result per Equity Certificate</b>					
3.27	1.15	2.73	2.20	3.65	Total result per Equity Certificate	2.54	1.89	1.29	0.67	3.78
3.27	1.15	2.73	2.20	3.65	Diluted total result per Equity Certificate	2.54	1.89	1.29	0.67	3.78
					<b>Tax on other comprehensive income:</b>					
-43	0	0	0	0	Actuarial gains (losses) on benefit-based pension schemes	0	0	0	0	-44
-43	0	1	0	-1	Tax on other comprehensive income	-1	0	0	0	-44

# Statement of financial position

## Parent Bank

## Group

(Amounts in NOK million)

31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
<b>Assets</b>						
244	504	743	Cash and balances with central banks	773	536	271
4 761	5 330	5 103	Loans and advances to credit institutions	1 930	2 584	1 871
50 670	49 370	50 500	Net loans and advances to customers	54 093	52 400	54 050
382	345	521	Shares	664	549	553
12 442	12 135	13 139	Certificates and bonds	13 142	12 141	12 444
1 240	1 115	1 171	Financial derivatives	1 166	1 111	1 234
402	344	438	Investments in Group Companies	0	0	0
2 407	2 278	2 325	Investments in associated companies and joint ventures	3 266	3 296	3 514
504	507	495	Property, plant and equipment	506	514	515
0	0	0	Intangible assets	77	49	53
782	777	1 049	Other assets	1 142	849	824
73 834	72 705	75 484	<b>Total assets</b>	<b>76 759</b>	74 029	75 329
<b>Liabilities</b>						
6 662	3 030	3 934	Deposits from credit institutions	3 932	3 037	6 663
41 182	43 727	45 966	Deposits from customers	46 006	43 745	41 220
16 534	17 021	15 497	Debt securities in issue	15 497	17 021	16 534
713	557	689	Financial derivatives	689	557	713
839	1 589	1 463	Other liabilities	1 596	1 749	1 021
173	54	173	Deferred tax liabilities	210	81	202
2 095	1 355	1 648	Subordinated loan capital	1 648	1 355	2 095
68 198	67 333	69 370	<b>Total liabilities</b>	<b>69 578</b>	67 545	68 448
<b>Equity</b>						
1 655	1 655	1 655	Equity Certificate capital	1 655	1 655	1 655
245	245	245	Equity Certificate premium reserve	245	245	245
456	240	381	Dividend Equalisation Fund	381	240	456
3 083	2 815	3 085	The Savings Bank's Fund	3 085	2 815	3 083
150	133	120	Donations	120	133	150
0	0	0	Fund for unrealised gains	- 3	- 6	- 3
47	- 63	49	Other equity capital	1 274	1 091	1 273
0	347	579	Result after tax	402	299	0
			Minority interests	22	12	22
5 636	5 372	6 114	<b>Total equity</b>	<b>7 181</b>	6 484	6 881
73 834	72 705	75 484	<b>Total liabilities and equity</b>	<b>76 759</b>	74 029	75 329

## Changes in equity

(Amounts in NOK million)

Group	PCC capital	Premium Fund	Dividend		Savings Bank's Fund	Donations Fund	Fair value reserve	Other equity	Period result	Total Majority interests	Minority interests	Total equity
			Equalisation Fund	Fund								
Equity at 01.01.12	1 655	245	333		2 898	133	- 4	1 083		6 343	13	6 356
<b>Total comprehensive income for the period</b>												
Period result			216		268	30	1	80		595		595
<i>Other comprehensive income:</i>												
Recalculation differences												
Actuarial gains (losses) on benefit-based pension schemes								158		158		158
Tax on other comprehensive income								- 44		- 44		- 44
Total other comprehensive income					- 1			114		113		113
<b>Total comprehensive income for the period</b>			216		267	30	1	194		708		708
<b>Transactions with owners</b>												
Set aside for dividend payments			- 76							- 76		- 76
Reversal of dividend payments			76							76		76
Dividend paid			- 93		- 83					- 176		- 176
Other transactions					1			- 4		- 3	9	6
Payments from Donations Fund						- 13				- 13		- 13
Total transactions with owners			- 93		- 82	- 13		- 4		- 192	9	- 183
<b>Equity at 31.12.2012</b>	<b>1 655</b>	<b>245</b>	<b>456</b>		<b>3 083</b>	<b>150</b>	<b>- 3</b>	<b>1 273</b>		<b>6 859</b>	<b>22</b>	<b>6 881</b>
Equity at 01.01.13	1 655	245	456		3 083	150	- 3	1 273		6 859	22	6 881
<b>Total comprehensive income for the period</b>												
Period result									402	402		402
<i>Other comprehensive income:</i>												
Recalculation differences												
Effective part of change in fair market value in cash flow hedging					3					3		3
Tax on other comprehensive income												
Total other comprehensive income	0	0	0		3	0	0	0		3		3
<b>Total comprehensive income for the period</b>					3				402	405		405
<b>Transactions with owners</b>												
Dividend paid			- 76							- 76		- 76
Other transactions			1		- 1			1		1		1
Payments from Donations Fund						- 30				- 30		- 30
Total transactions with owners			- 75		- 1	- 30		1		- 105		- 105
<b>Equity at 30.06.13</b>	<b>1 655</b>	<b>245</b>	<b>381</b>		<b>3 085</b>	<b>120</b>	<b>- 3</b>	<b>1 274</b>	<b>402</b>	<b>7 159</b>	<b>22</b>	<b>7 181</b>

## ECC ratio overall

### Parent Bank

(Amounts in NOK million)

	31.12.08	31.12.09	(01.01.11)	(01.01.12)	(01.01.13)
			31.12.10	31.12.11	31.12.12
Equity Certificate capital	896	896	1 275	1 655	1 655
Equity Certificate premium reserve	123	123	184	245	245
Dividend Equalisation Fund	277	471	408	319	453
Set aside dividend	- 54	- 121	- 103	- 93	- 76
Share Fund Fair Value Options	- 5	- 30	- 3	- 14	- 33
<b>A. Equity attributable to Equity Certificate holders of the Bank</b>	<b>1 237</b>	<b>1 339</b>	<b>1 761</b>	<b>2 112</b>	<b>2 244</b>
The Savings Bank's Fund	2 221	2 623	2 811	2 902	3 107
Allocated dividends to ownerless capital	0	- 161	- 154	- 107	- 30
Donations	133	133	133	133	120
Share Fund Fair Value Options	- 10	- 57	- 5	- 20	- 45
<b>B. Total ownerless capital</b>	<b>2 344</b>	<b>2 538</b>	<b>2 785</b>	<b>2 908</b>	<b>3 152</b>
<b>Equity Certificate Ratio overall (A/(A+B))</b>	<b>34.54 %</b>	<b>34.54 %</b>	<b>38.74 %</b>	<b>42.07 %</b>	<b>41.59 %</b>

# Statement of cash flows

Parent Bank

Group

(Amounts in NOK million)

31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
668	431	<b>657</b>	Result before tax	<b>497</b>	392	767
51	23	<b>25</b>	+ Ordinary depreciation	<b>27</b>	25	54
- 4	0	<b>0</b>	+ Write-downs, gains/losses fixed assets	<b>0</b>	0	- 4
224	45	<b>76</b>	+ Losses on loans and guarantees	<b>87</b>	48	195
153	79	<b>78</b>	- Tax	<b>95</b>	88	172
189	176	<b>106</b>	- Dividends/donations	<b>106</b>	176	189
597	244	<b>574</b>	Provided from the year's operations	<b>410</b>	201	651
184	619	<b>605</b>	Change in sundry liabilities: + increase/ - decrease	<b>563</b>	620	213
- 393	- 337	<b>- 198</b>	Change in various claims: - increase/ + decrease	<b>- 274</b>	- 421	- 448
-2 549	-1 070	<b>94</b>	Change in gross lending to and claims on customers: - increase/ + decrease	<b>- 130</b>	-1 238	-3 035
-1 238	- 894	<b>- 836</b>	Change in short term-securities: - increase/ + decrease	<b>- 809</b>	- 849	-1 156
- 566	- 389	<b>4 784</b>	Change in deposits from and debt owed to customers: + increase/ - decrease	<b>4 786</b>	- 388	- 545
212	-1 052	<b>-2 728</b>	Change in debt owed to credit institutions: + increase/ - decrease	<b>-2 731</b>	-1 041	217
-3 753	-2 879	<b>2 295</b>	A. Net liquidity change from operations	<b>1 815</b>	-3 116	-4 103
- 53	- 28	<b>- 16</b>	- Investment in fixed assets (incl merger effects)	<b>- 18</b>	- 31	- 61
4	0	<b>0</b>	+ Sale of fixed assets	<b>0</b>	0	4
- 470	- 283	<b>46</b>	Change in holdings of long-term securities: - increase/ + decrease	<b>248</b>	- 277	- 495
- 519	- 311	<b>30</b>	B. Liquidity change from investments	<b>230</b>	- 308	- 552
3 192	3 679	<b>-1 037</b>	Change in borrowings through the issuance of securities: + increase/ - decrease	<b>-1 037</b>	3 679	3 192
739	- 1	<b>- 447</b>	Change in Equity Certificate/subordinated loan capital: + increase/ - decrease	<b>- 447</b>	- 1	739
3 931	3 678	<b>-1 484</b>	C. Liquidity change from financing	<b>-1 484</b>	3 678	3 931
- 341	488	<b>841</b>	A + B + C. Total change in liquidity	<b>561</b>	254	- 724
5 346	5 346	<b>5 005</b>	+ Liquid funds at the start of the period	<b>2 142</b>	2 866	2 866
5 005	5 834	<b>5 846</b>	= Liquid funds at the end of the period	<b>2 703</b>	3 120	2 142

Liquid funds are defined as cash-in-hand, claims on central banks, plus loans to and claims on credit institutions.

## Result from the Group's quarterly accounts

(Amounts in NOK million)

	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11	2Q11
Interest income	717	694	706	707	708	724	749	739	676
Interest costs	408	414	399	414	423	443	467	443	400
<b>Net interest income</b>	<b>309</b>	280	307	293	285	281	282	296	276
Fee- and commission income	230	191	197	179	169	141	143	146	140
Fee- and commission costs	23	10	15	19	19	21	24	19	18
Other operating income	31	17	20	12	6	6	6	0	12
<b>Net fee-, commission and other operating income</b>	<b>238</b>	198	202	172	156	126	125	127	134
Dividend	22	1	- 1	1	15	2	- 3	7	9
Income from investments	27	89	14	76	39	81	63	30	53
Net gain from investments in securities	15	1	17	2	- 52	66	- 222	9	- 4
<b>Net income from financial investments</b>	<b>64</b>	91	30	79	2	149	- 162	46	58
<b>Total income</b>	<b>611</b>	569	539	544	443	556	245	469	468
Personnel costs	162	151	153	147	148	133	141	131	123
Administration costs	83	84	83	69	83	84	85	75	85
Ordinary depreciation	13	14	16	13	12	13	13	11	12
Other operating costs	44	45	43	37	34	52	38	35	41
<b>Total costs</b>	<b>302</b>	294	295	266	277	282	277	252	261
<b>Result before losses</b>	<b>309</b>	275	244	278	166	274	- 32	217	207
Losses	47	40	32	115	6	42	53	23	15
<b>Result before tax</b>	<b>262</b>	235	212	163	160	232	- 85	194	192
Tax	56	39	54	25	55	38	23	48	38
Minority interests	0	0	0	- 1	1	0	0	0	0
<b>Result after tax</b>	<b>206</b>	196	158	139	104	194	- 108	146	154
<b>Profitability</b>									
Return on equity capital	11.62 %	11.29 %	9.35 %	8.40 %	6.40 %	12.07 %	-6.63 %	8.92 %	10.06 %
Interest margin	1.63 %	1.50 %	1.64 %	1.58 %	1.58 %	1.59 %	1.57 %	1.65 %	1.59 %
Cost/income	49.43 %	51.67 %	54.73 %	48.90 %	62.53 %	50.72 %	113.06 %	53.73 %	55.77 %
<b>Balance sheet figures</b>									
Loans and advances to customers	54 561	53 441	54 551	53 493	52 792	50 941	51 642	52 465	51 442
Growth in loans and advances to cust. incl. agency loans past 12 months	6.8 %	8.5 %	11.6 %	11.9 %	11.5 %	10.1 %	7.4 %	6.4 %	6.3 %
Deposits from customers	46 006	43 232	41 220	40 898	43 745	39 675	41 765	41 952	41 284
Growth in deposits from customers past 12 months	5.2 %	9.0 %	-1.3 %	-2.5 %	6.0 %	0.7 %	6.0 %	12.5 %	9.1 %
Deposits as a percentage of gross lending	84.3 %	80.9 %	75.6 %	76.5 %	82.9 %	77.9 %	80.9 %	80.0 %	80.3 %
Deposits as a percentage of gross lending including agency loans	59.5 %	56.9 %	54.3 %	54.8 %	60.5 %	56.7 %	61.4 %	62.9 %	63.6 %
Average assets	75 524	74 907	72 921	72 336	71 696	70 526	70 291	70 104	69 338
Total assets	76 759	74 484	75 329	74 251	74 029	69 997	71 032	72 402	71 033
<b>Losses on loans and commitments in default</b>									
Losses on loans to customers as a percentage of gross loans incl. agency loans	0.25 %	0.21 %	0.17 %	0.63 %	0.03 %	0.24 %	0.31 %	0.14 %	0.09 %
Commitments in default as a percentage of gross loans incl. agency loans	0.77 %	0.79 %	0.52 %	0.65 %	0.72 %	0.62 %	0.69 %	0.86 %	0.85 %
Commitments at risk of loss as a percentage of gross loans incl. agency loans	0.36 %	0.52 %	0.78 %	0.67 %	0.24 %	0.38 %	0.50 %	0.51 %	0.55 %
Net comm. in default and at risk of loss as a per. of gross loans incl. agency loans	0.79 %	0.88 %	0.90 %	0.92 %	0.71 %	0.69 %	0.88 %	0.96 %	1.00 %
<b>Solidity</b>									
Total regulatory Capital %	12.43 %	12.63 %	13.19 %	10.65 %	11.59 %	12.52 %	12.50 %	12.02 %	12.26 %
Tier I Capital %	11.35 %	11.88 %	12.11 %	10.14 %	10.88 %	11.67 %	11.61 %	11.08 %	11.30 %
Tier I capital	6 478	6 586	6 672	5 767	6 081	6 099	6 002	5 806	5 832
Equity and related capital resources	7 093	7 005	7 270	6 056	6 474	6 541	6 465	6 299	6 331
Adjusted risk-weighted assets base	57 053	55 450	55 098	56 849	55 882	52 253	51 704	52 399	51 628

# Notes

## Note 1 - Accounting policies

The Group's interim financial statements for the second quarter 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by EU, including IAS 34 relating to interim reporting.

The Group's accounting policies and calculation methods remain essentially unchanged from the accounting year 2012.

The interim financial statements do not cover all the information required in complete financial statements and should be read in conjunction with the annual financial statements for 2012.

A revised IAS 19 Employee Benefits applies from 1 January 2013 and means that the previously used corridor solution for estimate deviations of net future pension liabilities may no longer be used. Since the start of the year, estimate deviations have been booked against equity. Please see note 15 on pensions and the table of changes in equity.

The key figures for 2012 have been restated because of the adjustment in relation to the annual financial statements as presented for 2012.

In accordance with the regulations laid down by the Ministry of Finance of 16 October 2008, permission was given to reclassify securities in the trading portfolio from the category "at fair value through profit or loss" to categories "held to maturity" and "loans and receivables". The Group decided to reclassify large parts of the interest-bearing portfolio "held for sale" on 1 July 2008. Future measurements in these categories will be calculated at amortised cost, which means that earlier write-downs and interest will be amortised and recognised as interest income over the remaining term to maturity. Please see the separate note.

The interim financial statements have not been audited.

## Note 2 - Important accounting estimates and discretionary judgements

In preparing the consolidated financial statements the management makes estimates, discretionary judgements and assumptions that influence the application of the accounting policies. These could thus affect the stated amounts for assets, liabilities, income and costs. Note 3 to last year's annual financial statements provides a fuller explanation of the items subject to important estimates and judgements.

## Note 3 - Changes in group structure

SNN Økonomihus AS has changed its name to SpareBank 1 Regnskapshuset Nord-Norge AS.

In the last quarter the company acquired the following accounting firms, which will be merged with SpareBank 1 Regnskapshuset Nord-Norge AS:

- Origo Økonomipartner AS (100%)
- Økonomen Rana AS (100%)
- Økonomen Mosjøen AS (100%)
- Duett AS (100%)
- Helgeland Økonomi AS (100%)

Folk i husan AS has changed its name to EiendomsMegler 1 Lofoten AS.

#### Note 4 - Business Areas

The management has made an assessment of which business areas are deemed reportable with respect to form of distribution, products and customers. The primary format of reporting takes as a starting point risk and yield profiles of various assets and reporting is divided into private customers (Retail Banking Market), Corporate / Public Market, leasing and Markets. Apart from what is included in this list, the Group does not have any companies or segments which are of significant importance. The Bank operates mainly in a limited geographical area and reporting along the lines of geographic segments provides little additional information.

#### Group

(Amounts in NOK million)

						<b>30.06.13</b>
	Retail Banking	Corporate Banking	Leasing	Markets	Unallocated	<b>Total</b>
Net interest income	410	89	68	8	14	<b>589</b>
Net fee- and commission income	264	57	0	18	49	<b>388</b>
Other operating income	0	0	0	0	203	<b>203</b>
Operating costs	393	85	19	14	85	<b>596</b>
Result before losses	281	61	49	12	181	<b>584</b>
Losses	6	70	4	0	7	<b>87</b>
Result before tax	275	- 9	45	12	174	<b>497</b>
Loans and advances to customers	30 210	21 006	3 345	0	0	<b>54 561</b>
Individual write-downs for impaired value on loans and advances to customers	- 30	- 216	- 15	0	- 6	<b>- 267</b>
Collective write-downs for impaired value on loans and advances to customers	- 36	- 146	- 7	0	- 12	<b>- 201</b>
Other assets	0	396	0	0	22 270	<b>22 666</b>
Total assets per business area	30 144	21 040	3 323	0	22 252	<b>76 759</b>
Deposits from customers	24 966	21 040	0	0	0	<b>46 006</b>
Other liabilities and equity capital	5 178	0	3 323	0	22 252	<b>30 753</b>
Total equity and liabilities per business area	30 144	21 040	3 323	0	22 252	<b>76 759</b>
						<b>30.06.12</b>
Net interest income	266	237	53	6	4	566
Net fee- and commission income	136	120	0	0	13	269
Other operating income	0	0	0	35	129	164
Operating costs	256	228	17	15	43	559
Result before losses	146	129	36	26	103	440
Losses	- 2	47	3	0	0	48
Result before tax	148	82	33	26	103	392
Loans and advances to customers	30 024	19 751	3 017	0	0	52 792
Individual write-downs for impaired value on loans and advances to customers	- 28	- 130	- 11	0	- 2	- 171
Collective write-downs for impaired value on loans and advances to customers	- 46	- 157	- 8	0	- 10	- 221
Other assets	0	0	42	0	21 587	21 629
Total assets per business area	29 950	19 464	3 040	0	21 575	74 029
Deposits from customers	23 315	18 062	0	0	0	41 377
Other liabilities and equity capital	6 635	1 402	3 040	0	21 575	32 652
Total equity and liabilities per business area	29 950	19 464	3 040	0	21 575	74 029

## Note 5 - Capital Adequacy

New capital adequacy rules and regulations (Basel II – EU's new directives for capital adequacy) were implemented in Norway with effect from 1 January 2007. SpareBank 1 Nord-Norge has received permission from The Financial Supervisory Authority of Norway (FSAN) to apply internal calculation methods (Internal Rating-Based Approach) for credit risk from 1 January 2007. With effect from 2007, therefore, the statutory minimum capital adequacy requirement for credit risk will be based on the Bank's internal assessment of risk. This will make the statutory minimum capital adequacy requirement more risk-sensitive, which means that the capital requirement will to a larger extent correspond to the risk contained in the underlying portfolios in question. The use of internal calculation methods will involve comprehensive demands on the Bank's organisation, competence, risk models and risk management systems. As a result of transitional rules relating to the new directive mentioned above, IRB-banks would not experience the full impact of the reduced regulatory capital requirements until 2010. Until 2010, banks had to report on a parallel basis, both according to the old capital adequacy calculations and Basel II. During the period 2007-2010, an annual adjustment of the risk-adjusted calculation basis in relation to the old method (so-called correction of 'floor') was permitted. A resolution has now been reached to postpone this issue, and the transition rules for 2009 will continue to apply in 2010, 2011 and 2012. The calculation basis in 2013 therefore amounts to 80 per cent of the calculated basis according to the Basel I rules and regulations.

### Parent Bank

### Group

(Amounts in NOK million)

31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
1 655	1 655	1 655	Equity certificates	1 655	1 655	1 655
0	0	0	- Own equity certificates	0	0	0
245	245	245	Premium reserve	245	245	245
456	240	381	Equalisation reserve	381	240	456
3 083	2 815	3 085	Savings bank's reserve	3 085	2 815	3 083
150	133	120	Endowment fund	120	133	150
0	0	49	Other equity	1 274	1 091	1 224
0	0	0	Deduction Fund for unrealised gains	- 3	- 6	- 3
0	0	0	Minority interests	22	12	22
0	347	579	Period result	402	299	0
5 589	5 435	6 114	Total equity	7 181	6 484	6 832
0	0	0	Minority interests	-22	- 12	- 22
0	- 347	- 579	Period result	- 402	- 299	0
			<b>Tier 1 Capital</b>			
0	0	0	Adjusted Tier 1 Capital from consolidated financial institutions	- 43	173	- 59
- 30	8	- 97	Intangible assets	- 188	- 71	- 94
0	0	0	Fund for unrealised gains	41	45	41
- 106	0	0	Deduction for allocated dividends	0	0	- 106
- 542	- 533	- 477	50 % deduction for subordinated capital in other financial institutions	- 131	- 87	- 106
- 95	- 98	- 82	50 % deduction for expected losses on IRB, net of writedowns	- 76	- 94	- 97
0	0	0	50 % Total regulatory capital reserve	- 535	- 637	- 706
836	359	500	Hybrid Tier 1 bonds	653	514	989
5 652	4 808	5 379	Total Tier 1 Capital	6 478	6 081	6 672
			<b>Tier 2 Capital</b>			
1 259	996	1 147	Nonperpetual subordinated capital	1 357	1 211	1 507
- 542	- 533	- 477	50% deduction for subordinated capital in other financial institutions	- 131	- 87	- 106
- 95	- 98	- 82	50% deduction for expected losses on IRB, net of writedowns	- 76	- 94	- 97
0	0	0	50% Total regulatory capital reserve	- 535	- 637	- 706
622	365	588	Total Tier 2 Capital	615	393	598
6 274	5 173	5 967	<b>Equity and related capital resources</b>	<b>7 093</b>	6 474	7 270
			<b>Minimum requirements subordinated capital, Basel I I</b>			
921	942	834	Specialised lending exposure	834	942	921
646	603	619	Other corporations exposure	620	603	646
18	15	18	SME exposure	21	17	21
277	280	287	Property retail mortgage exposure	481	446	456
32	36	47	Other retail exposure	51	38	34
318	276	384	Equity investments	0	0	0
2 212	2 152	2 189	Total credit risk IRB	2 007	2 046	2 077
890	771	649	Credit risk standardised approach	1 678	1 726	1 867
12	6	16	Debt risk	16	6	11
11	15	12	Equity risk	35	47	38
32	29	37	Currency risk	38	29	32
226	226	223	Operational risk	239	265	265
0	10	51	Transitional arrangements	667	485	256
- 88	- 85	- 77	Deductions	- 117	- 134	- 139
3 295	3 124	3 100	Minimum requirements subordinated capital	4 563	4 470	4 408
15.23 %	13.25 %	15.40 %	Total regulatory Capital	12.43 %	11.59 %	13.19 %
13.72 %	12.31 %	13.88 %	Tier 1 Capital	11.35 %	10.88 %	12.11 %
1.51 %	0.94 %	1.51 %	Tier 2 Capital	1.08 %	0.70 %	1.08 %
11.69 %	11.97 %	13.79 %	Common Equity Tier I IRB- incl share og period result	12.49 %	11.56 %	10.95 %

**Parent Bank**
**Group**
**Note 6 -Net bad and doubtful commitments**
*(Amounts in NOK million)*

31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
357	491	547	Non-performing commitments	598	520	397
586	175	277	+ Other doubtful commitments	277	175	592
943	666	824	+ Total commitments in default and doubtful commitments	875	695	989
104	103	204	- Individual write-downs in default	225	120	120
183	61	42	- Other doubtful individual write-downs	42	61	183
287	164	246	+ Total individual write-downs	267	181	303
656	502	578	= <b>Net commitments in default and doubtful commitments</b>	608	514	686
30 %	25 %	30 %	Loan loss provision ratio	31 %	26 %	31 %

\*Individual write-downs for impaired value on guarantees are included in the Balance Sheet as liabilities under 'Other liabilities'.

**Note 7 - Losses incorporated in the accounts**

31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
94	- 30	- 50	+ Period's change in individual write-down for impaired value	- 45	- 28	97
- 40	- 15	1	+ Period's change in collective write-down for impaired value	4	- 15	- 40
141	93	128	+ Period's confirmed losses against which individual write-downs were previously made	131	94	144
40	3	0	+ Period's confirmed losses against which individual write-downs were previously not made	0	3	5
11	6	3	- Recoveries in respect of previously confirmed losses	3	6	11
224	45	76	= <b>Total losses on loans</b>	87	48	195

**Note 8 - Losses broken down by sector and industry**
*(Amounts in NOK million)*

Parent Bank				Group		
31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
1	- 4	- 1	Mining and quarrying	- 1	- 4	- 1
3	4	- 6	Construction	- 6	5	4
1	0	- 1	Building of ships and boats	- 1	0	1
0	1	3	Electricity, gas, steam an air conditioning supply	3	0	1
4	2	- 4	Professional, scientific and technical activities	- 4	2	4
35	- 3	0	Financial and insurance activities	0	- 3	- 1
- 1	3	1	Fishing	1	3	0
1	1	0	Marine aquaculture	0	1	1
- 3	- 3	0	Other business support activities	4	- 3	- 1
0	0	0	Activities auxiliary to financial services and insurance activities	0	0	0
0	0	0	County municipalities and municipalities	0	0	0
4	3	30	Manufacturing	32	3	3
2	2	0	Information and communication	0	2	2
4	4	1	Crop and animal production	1	4	4
0	0	16	Foreign industrial	16	0	0
96	8	8	Real estate activities	8	7	96
0	- 2	1	Accommodation and food service activities	1	- 2	0
0	0	0	Forestry and logging	0	0	0
0	0	0	Central government and social security funds	0	0	0
0	0	0	Support activities for petroleum and natural gas extraction	0	0	0
- 1	- 4	- 1	Other service industries	0	- 3	1
- 2	- 1	22	Transportation and storage	21	0	- 1
10	- 4	0	International shipping and pipeline transport	0	- 4	10
49	0	0	Development of building projects	0	0	49
- 3	- 5	- 8	Extraction of crude oil and natural gas	- 8	- 5	- 3
0	0	0	Unspecified	0	0	0
40	35	0	Water supply; sewerage, waste management and remediation activities	0	36	39
- 2	11	9	Wholesale and retail trade; repair of motor vehicles and motorcycles	9	11	- 1
- 3	3	9	Retail banking market - domestic	14	4	- 1
235	51	79	Losses on loans to customers	90	54	206
11	6	3	Recoveries from previously written off losses	3	6	11
224	45	76	<b>Net losses</b>	<b>87</b>	<b>48</b>	<b>195</b>

**Note 9 - Loans broken down by sector and industry**
*(Amounts in NOK million)*

Parent Bank				Group		
31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
54	58	53	Mining and quarrying	82	74	81
724	682	539	Construction	849	979	1 037
10	76	6	Building of ships and boats	8	79	12
1 429	1 239	1 340	Electricity, gas, steam an air conditioning supply	1 345	1 245	1 434
678	642	647	Professional, scientific and technical activities	697	662	705
0	0	0	Finanical and insurance activities	0	0	0
1 609	1 680	1 004	Fishing	1 013	1 691	1 619
144	155	120	Marine aquaculture	250	278	257
356	377	375	Other business support activities	598	603	577
978	909	1 007	Activities auxiliary to financial services and insurance activities	839	909	807
176	106	140	County municipalities and municipalities	163	129	199
1 532	1 129	1 652	Manufacturing	1 779	1 270	1 677
145	157	141	Information and communication	145	163	150
876	823	829	Crop and animal production	920	919	971
37	38	0	Foreign industrial	289	38	286
7 026	7 026	6 997	Real estate activities	7 052	7 068	7 081
345	363	365	Accomodation and food service activities	378	379	359
6	8	4	Forestry and logging	9	13	11
0	0	0	Central government and social security funds	1	1	1
0	0	0	Support activities for petroleum and natural gas extraction	18	0	0
682	646	667	Other service industries	748	733	766
2 119	1 744	2 408	Transportation and storage	2 963	2 254	2 689
671	716	647	International shipping and pipeline transport	647	716	671
703	673	633	Development of building projects	635	674	704
0	117	0	Extraction of crude oil and natural gas	0	117	0
0	0	0	Unspecified	0	0	0
210	82	213	Water supply; sewerage, waste management and remediation activities	288	135	290
1 239	1 370	931	Wholesale and retail trade; repair of motor vehicles and motorcycles	1 224	1 639	1 527
29 344	28 876	30 167	Retail banking market - domestic	31 442	29 985	30 506
46	39	43	Retail banking market - international	179	39	134
29 390	28 915	30 210	Total retail market	31 621	30 024	30 640
21 573	20 710	20 578	Total public market	22 776	22 638	23 711
176	106	140	Total government	164	130	200
51 139	49 731	50 928	Total gross lending to cuustomers	54 561	52 792	54 551
287	158	246	Individual write-downs for impaired value	267	171	303
182	203	182	Collective write-downs for impaired value	201	221	198
50 670	49 370	50 500	<b>Net loans to customers</b>	<b>54 093</b>	<b>52 400</b>	<b>54 050</b>

## Note 10 - SpareBank 1 Boligkreditt

In the third quarter 2010, SpareBank 1 Nord-Norge agreed, together with the other shareholders of SpareBank 1 Boligkreditt, to provide a liquidity facility to SpareBank 1 Boligkreditt. This involves the banks committing themselves to buying residential mortgage bonds with a maximum net value of SpareBank 1 Boligkreditt's debt maturing over the next twelve months. The agreement means that each shareholder has principal responsibility for his share of the requirement, and secondary responsibility for double the value of his principal responsibility. The bonds can be deposited with Norges Bank, which means that they do not significantly increase the Bank's risk exposure.

The bank has concluded agreements concerning the sale of loans with good security and collateral in real estate to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. For more information about the accounting treatment of the agreements see note 2 and note 13 to the annual financial statements.

## Note 11 - Investment in bonds

As a result of extraordinary market conditions, parts of the Bank's ordinary securities portfolio became illiquid in 2008. Following the changes in international accounting standards in October 2008 (see note 1), the SNN Group decided to reclassify parts of the Bank's bond portfolio as at 01.07.08 from the category 'Market value with inclusion of value changes over the profit and loss account' to the categories 'Hold until maturity' and 'Loans and claims' as the securities in question no longer was expected to be sold before maturity. In the category 'Hold until maturity' the Bank includes quoted securities, whereas unquoted securities has been put into the category of 'Loans and claims.'

In the categories 'Hold until maturity' and 'Loans and claims' the securities are assessed at amortized cost. After the reclassification, the writedowns made earlier will be reversed over the portfolio's remaining life, which on average is 2.4 year as at 30.06.13, and included in the profit and loss account as interest income. For the period 01.01.13-30.06.13 such reversed writedowns has been included in the profit and loss account with NOK 0.6 million. Total inclusion of income are NOK 76,5 million for the period 01.07.08-31.12.12. If this reclassification had not been made, the Group would have charged NOK 212 million to the profit and loss account in the third and fourth quarter of 2008 due to increased credit spreads. This would have been an unrealised gain NOK 3.0 million as at 30.06.13. It was necessary to apply a NOK 80 million write-down due to the permanent impairment of value in this portfolio as at 31.12.12. Further writedowns has been made in 2013 with NOK 8 million.

<i>(Amounts in NOK million)</i>	01.07.08	31.12.09	31.12.10	31.12.11	31.12.12	<b>30.06.13</b>
<b>Hold until maturity</b>						
Book value	3 109	2 650	1 624	858	355	<b>178</b>
Nominal value (nominal amount)	3 182	2 689	1 644	869	366	<b>182</b>
Theoretical market value	3 109	2 623	1 615	842	355	<b>180</b>
<b>Loans and claims</b>						
Book value	698	629	464	262	142	<b>103</b>
Nominal value (nominal amount)	737	656	489	279	156	<b>118</b>
Theoretical market value	698	599	443	250	134	<b>100</b>
<b>Total book value</b>	<b>3 807</b>	<b>3 279</b>	<b>2 088</b>	<b>1 120</b>	<b>497</b>	<b>281</b>

## Note 12 - Financial derivatives

### Parent Bank and Group

(Amounts in NOK million)

#### Interest rate swaps:

Commitments to exchange one set of cash flow for another over an agreed period.

#### Foreign exchange derivatives:

Agreements to buy or sell a fixed amount of currency at an agreed future date at a rate of exchange which has been agreed in advance

#### Currency swaps:

Agreements relating to the swapping of currency- and interest rate terms and conditions, periods and amounts having been agreed in advance.

#### Interest rate- and currency swap agreements:

Agreements involving the swapping of currency- and interest rate terms and conditions, periods and amounts having been agreed in advance.

#### Options:

Agreements where the seller gives the buyer a right, but not an obligation to either sell or buy a financial instrument or currency at an agreed date or before, and at an agreed amount.

SpareBank 1 Nord-Norge enters into hedging contracts with respected Norwegian and foreign banks in order to reduce its own risk. Financial derivatives transactions are related to ordinary banking operations and are done in order to reduce the risk relating to the Bank's funding loans from the financial markets, and in order to cover and reduce risk relating to customer-related activities. Only hedging transactions relating to the Bank's funding loan operations are defined as 'fair value hedging' in accordance with IFRS standard IAS 39. Other hedging transactions are defined as ordinary accounts-related hedging. The Bank does not use cash flow hedging.

	30.06.13	30.06.12	31.12.12
Fair value hedging transactions			
Net loss charged to the statement of comprehensive income in respect of hedging instruments in connection with actual value	64	205	266
Total gain from hedging objects relating to the hedged risk	- 64	- 202	- 267
<b>Total fair value hedging transactions</b>	<b>0</b>	<b>3</b>	<b>- 1</b>

The Bank's main Board of Directors has determined limits for maximum risk for the Bank's interest rate positions. Routines have been established to ensure that positions are maintained within these limits.

(Amounts in NOK million)

Fair value through statement of comprehensive income	30.06.13 Fair value			30.06.12 Fair value			31.12.12 Fair value		
	Contract	Assets	Liabilities	Contract	Assets	Liabilities	Contract	Assets	Liabilities
<b>Foreign currency instruments</b>									
Foreign exchange financial derivatives (forwards)	3 029	58	30	2 873	42	26	1 678	39	6
Currency swaps	6 420	184	88	6 419	181	61	4 996	146	67
Currency options									
Total non-standardised contracts	9 449	242	118	9 292	223	87	6 674	185	73
Standardised foreign currency contracts (futures)									
Total foreign currency instruments	9 449	242	118	9 292	223	87	6 674	185	73
<b>Interest rate instruments</b>									
Interest rate swaps (including cross currency)	25 287	393	564	13 289	339	443	23 275	448	618
Short-term interest rate swaps (FRA)									
Other interest rate contracts	665	2	2	3 012	2	3	1 811	8	7
Total non-standardised contracts	25 952	395	566	16 301	341	446	25 086	456	625
Standardised interest rate contracts (futures)									
Total interest rate instruments	25 952	395	566	16 301	341	446	25 086	456	625
<b>Hedging of funding loans</b>									
<b>Foreign currency instruments</b>									
Foreign exchange financial derivatives (forwards)									
Currency swaps									
Total, non-standardised contracts									
Standardised foreign currency contracts (futures)									
Total foreign currency instruments									
<b>Interest rate instruments</b>									
Interest rate swaps (including cross currency)	8 155	529	5	8 741	547	25	8 318	593	15
Short-term interest rate swaps (FRA)									
Other interest rate contracts									
Total, non-standardised contracts	8 155	529	5	8 741	547	25	8 318	593	15
Standardised interest rate contracts (futures)									
Total interest rate instruments	8 155	529	5	8 741	547	25	8 318	593	15
Total interest rate instruments	34 107	924	571	25 042	888	471	33 404	1 049	640
Total foreign currency instruments	9 449	242	118	9 292	223	87	6 674	185	73
<b>Total</b>	<b>43 556</b>	<b>1 166</b>	<b>689</b>	<b>34 334</b>	<b>1 111</b>	<b>557</b>	<b>40 078</b>	<b>1 234</b>	<b>713</b>

**Note 13 - Net accounting of financial derivatives and related set-off agreements.**

Financial derivatives are presented as gross on the balance sheet. As a result of ISDA agreements that have been entered into with contracting parties with regard to financial derivatives transactions, set-off rights are obtained if the contracting party defaults on the cash flow.

At 30.06.13 the net figures were:

Category/counterpart	Gross amount	Offset amount	Net amount	Net amount to be posted at bankruptcy or default	Net credit exposure
<i>(Amounts in NOK million)</i>	A	B	C=A+B	D	E=C-D
Financial derivatives - assets	14 671	14 307	364	0	<b>364</b>
Financial derivatives - liabilities	15 181	14 796	385	0	<b>385</b>

**Note 14 - Liquidity risk**

Liquidity risk is the risk that the bank will be unable to meet its payment obligations, and/or the risk of not being able to fund a desired growth in assets. SpareBank 1 Nord-Norge prepares an annual liquidity strategy that encompasses, for example, the bank's liquidity risk.

The Group's liquidity risk is revealed through the bank's liquidity reserve/buffer.

The principal objective for SpareBank 1 Nord-Norge is to maintain the bank's ability to survive in a normal situation without any external funding for a period of 12 months. In addition, the bank should be able to survive for a minimum of 90 days in a "major stress" situation, where no funding is available from the capital markets. The bank's day-to-day management is guided by the above goal.

The average remaining maturity of the bank's borrowings in senior unsecured bond issues and covered bonds (SpareBank 1 Boligkreditt) was at 30.06.2013 2.5 years and 4.08 years, respectively.

## Note 15 Pensions

The SpareBank 1 Nord-Norge Group has two types of pension agreements for its employees: defined benefit-based and defined contribution-based plans. The plans are described in more detail in the note 25 to the annual financial statements.

From 1 January 2013 IAS 10 "Employee Benefits" was revised with respect to the basis for calculating pension liabilities and pension costs. IAS 19 shall be applied retrospectively and comparative figures must be restated if necessary.

The Group has previously used the corridor method for recognising unamortised estimate deviations. The corridor method is no longer permitted and all estimate deviations must be recorded in the statement covering other operating income and costs under comprehensive income items, so-called OCI (Other Comprehensive Income). The corridor, which amounted to NOK 89 million for groups, was zeroed as of 1 January 2012. Pension liabilities increased correspondingly as of 1 January 2012, while equity was reduced by NOK 64 million after tax. The change was made with retroactive effect so that figures in 2013 would be comparable.

Previously the return on pension assets was calculated using a long-term expected return on pension assets. Due to the application of the revised IAS 19, the period's net interest cost is now calculated by applying the discount rate for the liabilities at the beginning of the period to the net liabilities. Therefore, net interest costs consist of the interest on liabilities and the return on assets, both calculated using the discount rate. Changes in net pension liabilities due to premium payments and pension payments are taken into account. The difference between the actual return on pension assets and the recorded return is recognised immediately against OCI.

The Group's pension costs for defined benefit-based plans in 2012 according to the previous policy amounted to NOK 17 million. Due to the revised policy for the treatment of unamortised estimate deviations and the calculation of the net interest costs, the recognised pension costs increased to NOK 24 million. The change is not regarded as material and the pension costs recognised in 2012 were not changed.

As is evident from note 25 to the annual financial statements, the Group's basis for the discount rate used in pension calculations changed at year-end 2012 to the covered bonds rate. The Group's net pension assets as of 31 December 2012 increased to NOK 89 million. Changes in estimate deviations throughout 2012 are now set up under comprehensive income items and recognised against equity in the fourth quarter 2012.

The following assumptions were made for defined benefit-based plans:

	2Q13	1Q13	2Q12
<i>Assumptions</i>	3.90 %	3.90 %	3.90 %
Discount rate	3.90 %	3.90 %	3.90 %
Expected return on pension assets	2.50 %	2.50 %	2.50 %
Future salary growth rate	3.25 %	3.25 %	3.25 %
Adjustment of NI basic amount (G)	0.20 %	0.20 %	0.20 %
Pension adjustment	6.00 %	6.00 %	6.00 %
Employer's NI liability	6.00 %	6.00 %	6.00 %
Employer's NI cost	0.00 %	0.00 %	0.00 %
Voluntary leaving over 50 years old	2.00 %	2.00 %	2.00 %
Voluntary leaving up to 50 years old	60.00 %	60.00 %	60.00 %
Expected statutory early retirement pension (AFP) acceptance from age 62	K2005	K2005	K2005
Mortality, marriage probability, etc.	IR2003	IR2003	IR2003

Group			(recalculated)	(recalculated)
Amounts in NOK million			31.12.12	31.12.12
<b>Net pension liabilities in the balance sheet</b>	<b>30.06.13</b>	30.06.12		
Present value of future pension liabilities	660	800	660	660
Estimated value of pension assets	750	750	750	758
Net pension liabilities in fund-based plans	-90	50	-90	-98
Unrecognised estimate deviations (possible actuarial gains and losses)	0	0	0	-69
Employer's NI contributions	1	1	1	1
<b>Net pension liabilities/assets in the balance sheet</b>	<b>-89</b>	51	-89	-28
<b>Pension costs for the period</b>	<b>2Q13</b>	4Q12	2012	2012
Accrued defined benefit-based pensions	8	10	21	21
Interest costs on pension liabilities	12	10	20	20
Expected return on pension assets	-14	-10	-19	-36
Estimate deviations recognised in the period				11
Effect of changed pension plan				
Net defined benefit-based pension costs without employer's NI contributions	6	10	22	16
Accrued employer's NI contributions	1	0	1	1
Net defined benefit-based pension costs recognised through profit or loss	7	10	23	17
Curtailed/settlement				
Other pension costs	10	9	17	17
<b>Total pension costs including employer's NI Insurance contribution</b>	<b>17</b>	19	40	34
<b>Movement in net pension liabilities from benefit-based plan recognised in balance sheet</b>	<b>30.06.13</b>	30.06.12	31.12.12	31.12.12
Net pension liabilities in the balance sheet as of 01.01	-89	-7	-7	-7
Correction against equity OB		90	90	
Correction against equity CB			-157	
Net defined benefit-based pension costs recognised through profit or loss	4	1	23	17
Curtailed/settlement				
Paid directly from operations	-1	-2	-7	-7
Receipts - pension premiums defined benefit-based plans	-11	-31	-31	-31
Net pension liabilities/assets in the balance sheet	-97	51	-89	-28
Other pension liabilities (early retirement pensions)	44	41	41	41
<b>Net total pension liabilities</b>	<b>-53</b>	92	-48	13

## Note 16 Classification of financial instruments stated at fair value

Financial instruments at fair value are classified at different levels:

Level 1 covers financial instruments that are valued using listed prices in active markets for identical assets and liabilities. This level includes listed equities, units, commercial paper and bonds that are traded in active markets.

Level 2 covers instruments that are valued using information that is not listed prices, but where prices are directly or indirectly observable for assets and liabilities, and which also include listed prices in inactive markets. This level includes instruments for which Reuters or Bloomberg publish prices.

Level 3 covers instruments that are valued in manner other than on the basis of observable market data. This includes instruments in which credit margins constitute a material part of the basis for adjusting market value.

### Group

<i>(Amounts in NOK million)</i>	Level 1	Level 2	Level 3	Total
<b>Assets 30.06.13</b>				
Loans to and receivables from customers at fair value (fixed-rate loans)			7 772	<b>7 772</b>
Shares	77		339	<b>416</b>
Bonds	4 891	5 710	30	<b>10 631</b>
Financial derivatives		1 166		<b>1 166</b>
<b>Total assets</b>	<b>4 968</b>	<b>6 876</b>	<b>8 141</b>	<b>19 985</b>

### Liabilities as of 30.06.13

Financial derivatives		689		<b>689</b>
<b>Total liabilities</b>		<b>689</b>		<b>689</b>

### Assets 30.06.12

Loans to and receivables from customers at fair value (fixed-rate loans)		6 592		6 592
Shares	70		171	241
Bonds	3 590	5 352	30	8 972
Financial derivatives		1 111		1 111
<b>Total assets</b>	<b>3 660</b>	<b>13 055</b>	<b>201</b>	<b>16 916</b>

### Liabilities as of 30.06.12

Financial derivatives		557		557
<b>Total liabilities</b>	<b>0</b>	<b>557</b>	<b>0</b>	<b>557</b>

### Changes in instruments at fair value, level 3:

<i>(Amounts in NOK million)</i>	Financial assets				Financial liabilities Financial derivatives
	Fixed-rate loans	Shares	Bonds	Financial derivatives	
Carrying amount as of 30.06.12		171	30		
Net gains on financial instruments	38	56			
Additions/acquisitions	1 990	112			
Disposals	-848				
Transferred from level 1 or level 2	6 592				
<b>Carrying amount as of 30.06.13</b>	<b>7 772</b>	<b>339</b>	<b>30</b>	<b>0</b>	<b>0</b>

**Note 17 - Subsidiaries**
*(Amounts in NOK 1 000)*

	Share of Eq.%	Profit from ordinary operations before tax			Equity		
		30.06.13	30.06.12	31.12.12	30.06.13	30.06.12	31.12.12
SpareBank 1 Finans Nord-Norge AS	100	44 986	32 507	75 575	354 871	310 292	374 038
SpareBank 1 Nord-Norge Invest AS	100	-21 653	-65 753	-147 523	16 506	25 321	17 378
EiendomsMegler 1 Nord-Norge AS	100	13 254	6 912	7 291	34 231	29 000	29 236
SpareBank 1 Nord-Norge Forvaltning ASA	100	860	746	1 259	6 300	2 618	6 589
SpareBank 1 Regnskapshuset Nord-Norge AS (including result from subsidiaries)	100	6 685	- 336	-1 163	17 672	6 493	6 401
North-West 1 Alliance Bank	75	383	946	647	63 658	31 665	62 774
EiendomsMegler 1 Lofoten AS (owned by EM1 60%)	60	134	0	- 285	1 051	0	1 109
<b>Total</b>		<b>44 650</b>	<b>-24 978</b>	<b>-64 199</b>	<b>494 289</b>	<b>405 389</b>	<b>497 525</b>

**Parent Bank**
**Group**
**Note 18 - Other assets**
*(Amounts in NOK million)*

	31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
	7	12	8	Reposessed assets	8	0	7
	323	362	409	Accrued income	451	399	357
	159	140	170	Prepayments	180	164	167
	293	263	462	Other assets	503	286	293
	782	777	1 049	<b>Total other assets</b>	<b>1 142</b>	<b>849</b>	<b>824</b>

**Note 19 - Other liabilities**

	31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
	426	945	840	Costs incurred	963	1 056	557
	0	84	0	Provisioning against incurred liabilities and costs	11	90	4
	413	560	623	Other liabilities	622	603	460
	839	1 589	1 463	<b>Total other liabilities</b>	<b>1 596</b>	<b>1 749</b>	<b>1 021</b>

**Note 20 - Deposits broken down by sector and industry**
*(Amounts in NOK million)*

Parent Bank				Group		
31.12.12	30.06.12	30.06.13		30.06.13	30.06.12	31.12.12
33	28	31	Mining and quarrying	31	28	33
948	745	805	Construction	805	745	948
1	3	3	Building of ships and boats	3	2	2
853	731	781	Electricity, gas, steam an air conditioning supply	781	730	853
1 155	981	1 057	Professional, scientific and technical activities	1 057	981	1 155
0	0	0	Financial and insurance activities	0	0	0
731	736	707	Fishing	707	736	731
45	17	21	Marine aquaculture	21	17	45
325	322	412	Other business support activities	412	322	325
397	405	353	Activities auxiliary to financial services and insurance activities	364	424	412
5 873	6 575	6 843	County municipalities and municipalities	6 843	6 575	5 871
447	424	439	Manufacturing	439	424	447
229	293	271	Information and communication	271	294	229
353	416	402	Crop and animal production	402	416	353
27	15	27	Foreign industrial	47	15	50
1 360	1 575	1 550	Real estate activities	1 550	1 575	1 360
235	261	243	Accommodation and food service activities	243	261	235
11	10	11	Forestry and logging	11	11	11
10	2 398	2 102	Central government and social security funds	2 102	2 398	10
0	0	0	Support activities for petroleum and natural gas extraction	0	0	1
2 228	2 168	2 289	Other service industries	2 289	2 168	2 228
522	529	744	Transportation and storage	744	529	522
15	11	18	International shipping and pipeline transport	18	11	15
173	225	165	Development of building projects	165	225	173
450	195	450	Extraction of crude oil and natural gas	450	195	450
0	0	0	Unspecified	0	0	0
211	181	177	Water supply; sewerage, waste management and remediation activities	177	180	211
1 235	1 168	1 108	Wholesale and retail trade; repair of motor vehicles and motorcycles	1 108	1 168	1 235
23 014	23 033	24 630	Retail banking market - domestic	24 630	23 033	23 014
301	282	327	Retail banking market - international	336	282	301
23 315	23 315	24 957	Total retail market	24 966	23 315	23 315
11 984	11 439	12 064	Total public market	12 095	11 457	12 024
5 883	8 973	8 945	Total government	8 945	8 973	5 881
41 182	43 727	45 966	<b>Total deposits</b>	<b>46 006</b>	43 745	41 220

**Note 21 - Securities issued and subordinated loan capital**
**Parent Bank and Group**
*(Amounts in NOK million)*
**Securities issued**

	31.12.12	30.06.12	30.06.13
Certificates and other short-term borrowings			
Bond debt	16 534	17 021	15 497
<b>Total debt securities in issue</b>	16 534	17 021	15 497

	Statement of financial position 31.12.12	Issued 30.06.13	Matured/ redeemed 30.06.13	Exchange rate movements 30.06.13	Other adjustments 30.06.13	Statement of financial position 30.06.13
Changes in securities issued						
Certificates and other short-term borrowings						
Bond debt	16 534	1 485	-2 583	104	- 43	15 497
<b>Total debt securities issued</b>	16 534	1 485	-2 583	104	- 43	15 497

**Subordinated loan capital and hybrid Tier 1 instruments**

	31.12.12	30.06.12	30.06.13
<b>Hybrid Tier 1 instruments</b>			
2033 6 mnd Nibor + 2,30 (USD 60 mill.) (Call opsj 2013)	370	370	
2099 3 mnd Nibor + 4,75 (Call opsjon 2017)	500		500
Hybrid Tier 1 instruments - foreign currency	- 34	- 11	
Total hybrid Tier 1 instruments	836	359	500
<b>Subordinated loan capital</b>			
Subordinated loan capital with definite maturities	1 259	996	1 148
Total subordinated loan capital	1 259	996	1 148
<b>Total subordinated loan capital and hybrid Tier 1 instruments</b>	2 095	1 355	1 648

	Statement of financial position 31.12.12	Issued 30.06.13	Matured/ redeemed 30.06.13	Exchange rate movements 30.06.13	Other adjustments 30.06.13	Statement of financial position 30.06.13
Changes in subordinated loan capital and hybrid Tier 1 instruments						
Subordinated loan capital with definite maturities	1 259		- 111			1 148
Hybrid Tier 1 instruments	836		- 370	34		500
<b>Total subordinated loan capital and hybrid Tier 1 instruments</b>	2 095		- 481	34		1 648

**Note 22 - Equity Certificates (ECs)**

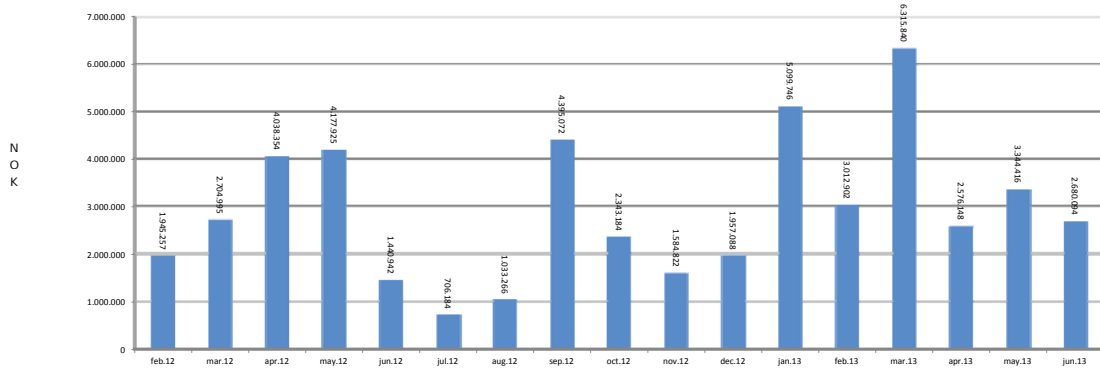
The 20 largest EC holders as at 30.06.13

EC Holders	Number of ECs	Share of EC Capital
Pareto Aksje Norge	3 453 305	5.19%
Mp Pensjon Pk	1 766 431	2.67%
Pareto Aktiv	1 455 279	2.20%
Citibank Na New York Branch	1 355 745	2.09%
Frank Mohn A/S	1 336 210	2.05%
Morgan Stanley & Co Llc	1 134 493	1.99%
Tonsenhagen Forretningsentrum as	1 010 401	1.71%
Sparebankstiftelsen Sparebank 1 Nord-Norge	923 995	1.38%
Framo Developments as	916 561	1.28%
Pareto Verdi	848 925	1.16%
Forsvarets personellservice	794 024	0.94%
Sparebank 1 SR-Bank pensjonskasse	620 854	0.89%
Sparebankstiftelsen DnB Nor	590 946	0.82%
Trond Mohn	545 614	0.77%
Goldman Sachs & Co - equity	509 354	0.75%
Consept Eiendom as	480 169	0.73%
Jpmorgan Chase Bank, na	459 243	0.70%
Karl Ditlefsen	444 188	0.69%
Norges Råfisklag	438 587	0.66%
Sparebank 1 Markets as	409 224	0.66%
<b>TOTAL</b>	<b>19 493 548</b>	<b>29.44%</b>

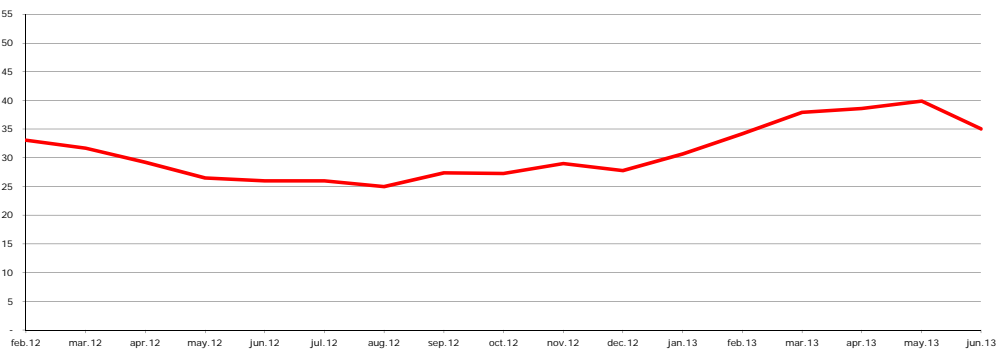
**Dividend policy**

In consideration of the Bank's solidity, the Bank anticipates that up to 50% of the profit for the year can be distributed as a dividend (cash dividends and donations to charitable causes). In years to come dividend most likely will be lower due to increased regulatory requirements.

Trading statistics



Price trend NONG



Note 23 - Events occurring after the end of the quarter

No information has come to light about important events that have occurred between the balance sheet date, 30 Jun 2013, and the Board's final consideration of the financial statements on 13 August 2013.

## **The SpareBank 1 Nord-Norge Group – a Statement from the Board of Directors and Chief Executive Officer**

The Board of Directors and Chief Executive Officer have today discussed and approved the accounts and the abridged consolidated half-year report and accounts for SpareBank 1 Nord-Norge as at 30 June 2013, including abridged consolidated comparative figures as at 30 June 2012 and for the year of 2012.

According to our full and firm conviction, the half-year report and accounts have been prepared in compliance with the requirements contained in IAS approved by the EU, and in compliance with Norwegian supplementary requirements forming part of the Securities Trading Act.

According to our full and firm conviction, the 2013 half-year report and accounts have been prepared in compliance with currently valid accounting standards, and the information provided in the report and accounts gives a true and correct picture of the Group's assets, liabilities and financial position and result as a whole as at 30 June 2013 and 30 June 2012. Furthermore, according to our full and firm conviction, the half-year report and accounts provide a true and correct

- overview of important events during the accounting period in question and their impact on the half-year report and accounts
- description of the most central risk- and uncertainty factors facing the operations during the next accounting period
- a description of close individuals' significant transactions

Tromsø, 13 August 2013

### **The main Board of Directors of SpareBank 1 Nord-Norge**

Kjell Olav Pettersen

Paal A. Pedersen

Sonja Djonne

Hans Tore Bjerkås

Anita Persen

Greger Mannsverk

Ann-Christine Nybacka

Vivi Ann Pedersen

Jan-Frode Janson  
(Chief Executive Officer)