

# Report of the Board of Directors

## First half 2011

(Consolidated figures. Figures in parentheses refer to the same period of 2010 unless otherwise stated)

- Profit before tax: NOK 640m (582m)
- Profit: NOK 505m (449m)
- Return on equity: 13.0% (13.7%)
- Lending growth 8.6% (12.6%), deposit growth 11.4% (7.8%) over past 12 months
- NOK 7m taken to income on reversal of loan losses (loss of 96m)
- Tier 1 capital adequacy: 10.7% (10.8%)
- Earnings per equity capital certificate (ECC): NOK 3.26 (2.82)

## Second quarter 2011

- Profit before tax: NOK 315m (327m)
- Profit: NOK 250m (260m)
- Return on equity: 12.9% (15.5%)
- NOK 1m taken to income on reversal of loan losses (loss of 28m)
- Earnings per equity ECC: NOK 1.62 (1.68)

## Good profit performance in first half of 2011

### Highlights:

- Substantial increase in pre-tax profit compared with same period of 2010
- Positive income growth in core operations and good return on financial investments
- Net incomings on loan losses
- Strong financial position and good funding
- Sound growth in deposits and home mortgage lending

In the first half of 2011 SpareBank 1 SMN recorded a pre-tax profit of NOK 640m (582m). Net profit came to NOK 505m (449m) and return on equity was 13.0% (13.7%).

Pre-tax profit in the second quarter in isolation was NOK 315m which was NOK 10m below the first quarter figure. Return on equity in the quarter was 12.9% (13.2% in the first quarter).

Overall operating income came to NOK 1,098m (1,020m) in the first half-year, an increase of NOK 78m over the first half of 2010. Both net interest income and commission income rose compared with the first half of 2010.

Return on financial assets was NOK 243m (167m). This was mainly attributable to higher return on the Bank's bond portfolio.

Operating expenses totalled NOK 708m in the first half of 2011 (509m), NOK 199m higher than in 2010. NOK 117m of the increase is explained by income recognition of dissolved AFP (early retirement) liabilities in the first quarter of 2010. A large proportion of the expense growth is ascribable to increased activity at the subsidiaries.

Net income of NOK 7m (net loss of 96m) was recorded on loans and guarantees in the period.

As of mid-2011 12-month growth in lending was 8.6% (12.6%) and 12-month growth in deposits was 11.4% (7.8%). Growth in the first half in isolation was 3.7% (8.2%).

At the same point in time tier 1 capital adequacy was 10.7% (10.8%) and total capital adequacy was 12.3% (13.2%).

The price of the Bank's ECC at this point was NOK 48.90 (54.00 at end-2010). A cash dividend of NOK 3.00 per ECC was paid in the second quarter for the year 2010.

Earnings per ECC were NOK 3.26 in the first half-year, and book value per ECC was NOK 51.05 at the end of the second quarter.

### Increased net interest income

Net interest income in the first quarter came to NOK 645m (597m). The increase is mainly due to:

- Higher lending and deposit volumes
- As from 2011 banks are exempt from payment of levy to the Norwegian Banks' Guarantee Fund. This amounts to NOK 48m on an annual basis.

Relative net interest income shows a slight decline in the period. This is due to higher funding costs which, in view of the competitive situation, are not being fully passed on to the Bank's borrowers through higher lending rates.

Commission on home mortgage loans transferred to SpareBank 1 Boligkreditt is recorded as commission income, not interest income. It amounted to NOK 48m (58m) in the first half-year.

As of end-June 2011 home mortgage loans worth NOK 22.4bn (19.4bn) had been transferred to SpareBank 1 Boligkreditt. The commission received by the Bank from SpareBank 1 Boligkreditt corresponds to the margin on the loans transferred.

### Increased commission income

Commission income and other operating income rose by 7% to NOK 453m in the first half of 2011 (NOK 423m). The increase is mainly due to higher incomes from estate agency, insurance and accounting services. In addition, rental income is accruing from the new head office building.

Commission income, NOKm	30 June 2011	30 June 2011	Change
Payment transfers	100	97	2
Savings	26	29	-3
Insurance	51	46	5
SpareBank 1 Boligkreditt	48	58	-10
Guarantee commission	15	15	0

Real estate agency	144	121	23
Accountancy services	36	28	7
Active management	6	6	0
Income from new head office	13	0	13
Other commissions	15	22	-7
<b>Total</b>	<b>453</b>	<b>423</b>	<b>30</b>

### Positive return on financial investments

Overall return on financial investments (excluding the Bank's share of the profit/loss of affiliates and joint ventures) was NOK 121m (69m).

The Bank's share portfolios showed a total gain of NOK 40m (40m), of which NOK 30m refers to Sparebanken Midt-Norge Invest (loss of NOK 24m).

Overall gains on bonds and derivatives in the first half-year came to NOK 62m (13m). Gains on financial instruments at SpareBank 1 SMN Markets totalled NOK 19m (16m).

Return on financial investments, NOKm	30 June 2011	30 June 2011
Capital gains/dividends, shares	40	40
Bonds and derivatives	62	13
SpareBank 1 SMN Markets	19	16
<b>Net return on financial investments</b>	<b>121</b>	<b>69</b>
SpareBank 1 Gruppen AS	50	49
SpareBank 1 Boligkreditt AS	10	10
SpareBank 1 Næringskreditt AS	4	2
Bank1 Oslo Akershus AS	9	24
BN Bank ASA	44	19
Polaris ASA	7	-
Other jointly controlled companies	-3	-6
<b>Income from investment in related companies</b>	<b>122</b>	<b>98</b>
<b>Total</b>	<b>243</b>	<b>167</b>

### SpareBank 1 Gruppen AS

SpareBank 1 Gruppen's post-tax profit in the first half of 2011 was NOK 249m (248m). SpareBank 1 Livsforsikring AS and SpareBank 1 Skadeforsikring AS are the main contributors to the profit.

SpareBank 1 SMN's share of the profit was NOK 50m (49m).

### SpareBank 1 Boligkreditt AS

SpareBank 1 Boligkreditt AS was established by the banks participating in the SpareBank 1 Alliance to take advantage of the market for covered bonds. By transferring their highest quality home mortgage loans to the company, the SpareBank 1 banks benefit from reduced funding costs and increased competitive power.

The Bank's equity stake in SpareBank 1 Boligkreditt AS is 19.6%, and the Bank's share of the company's profit in the first half of 2011 was NOK 10.3m (9.5m).

### SpareBank 1 Næringskreditt AS

The SpareBank 1 banks established SpareBank 1 Næringskreditt AS in the second quarter of 2009 - along the same lines, and with the same administration, as SpareBank 1 Boligkreditt AS.

As from January 2011 SpareBank 1 SMN's stake in the company was raised to 37%. In the first half of 2011 the company posted a profit of NOK 10.2m (6.1m) of which SpareBank 1 SMN's share was NOK 3.8m (2.0m).

As of end-March 2011 SpareBank 1 Næringskreditt AS had purchased loans worth NOK 8.2bn from BN Bank and issued covered bonds to a value of NOK 7.0bn. The bonds were utilised in the swap arrangement with Norges Bank.

### **Bank 1 Oslo AS Akershus AS**

SpareBank 1 SMN has a stake of 19.5% in Bank 1 Oslo AS Akershus AS. SpareBank 1 SMN's share of the profit of Bank 1 Oslo Akershus AS was NOK 9.4m (24.3m) in the first half of 2011.

### **BN Bank ASA**

SpareBank 1 SMN's equity stake in BN Bank ASA is 33% as of end-June 2011. SpareBank 1 SMN's share of the profit of BN Bank for the first half of 2011 came to NOK 44m (19m), including amortisation effects.

### **Polaris Media ASA**

SpareBank 1 SMN acquired 18.81% of the shares of Polaris Media AS on 28 March 2011. The shares, posted as security for a loan, were taken over by the Bank as a result of the bankruptcy of Roll Severin Co AS. This brought the SpareBank 1 SMN Group's holding in Polaris Media ASA to 23.45%, and the company is therefore classified as an affiliate of SpareBank 1 SMN.

The shares were taken over to a total value of NOK 248m distributed on NOK 9.2m shares. In addition, dividends of NOK 13,8m were paid in the second quarter.

SpareBank 1 SMN's estimated share of the profit from the date of acquisition of the shares was taken to income in the second quarter in the amount of NOK 7m.

### **Ålesund**

SpareBank 1 SMN took over BN Bank's operation in Ålesund in 2009. The loan portfolio will for a period be guaranteed by BN Bank against a guarantee commission. At the end of the first half of 2011 customers representing loans totalling NOK 3.1bn were covered by the guarantee.

SpareBank 1 SMN also assumed responsibility for 36 employees, leases and other commitments in Ålesund. The Bank receives compensation from BN Bank ASA for its outlays in the initial years based on a phase-out model. The BN Bank portfolio forms the basis for SpareBank 1 SMN's venture in Sunnmøre.

**Operating expenses**

Overall costs came to NOK 708m (509m) in the first half of 2011.

The very low costs in the first half of 2010 were largely a result of the write-back of pension liabilities accumulated under the AFP (early retirement) scheme. For the SpareBank 1 SMN group this had an overall one-time effect of NOK 117m.

The write-back of pension liabilities carried out in the first quarter of 2010 amounted to NOK 117m, and comparable costs in the first quarter of 2010 are NOK 626m. The real increase in Group operating expenses was NOK 82m, corresponding to 13%.

Parent Bank costs rose by NOK 51m, corresponding to 11%, which is mainly ascribable to higher IT costs and increased costs related to the new head office.

Costs at the Bank's subsidiaries rose overall by NOK 31m, corresponding to 21%, essentially due to an increased resource input at Eiendomsmegler 1 and higher costs at SpareBank 1 SMN Regnskap resulting from the acquisition of local accountancy firms in 2011. Incomes rose by NOK 23m at Eiendomsmegler 1 and NOK 7m at SpareBank 1 SMN Regnskap in the same period.

By the end of the first half of 2011 the cumulative effect of measures implemented so far under the cost-reduction programme "170 million in 2012" was NOK 155m.

These are the most important measures in 2011:

- Simplifying and improving the credit process in the Retail and Corporate market Divisions
- Downscaling the branch network
- Streamlining support functions

Operating expenses were 1.46% of average total assets (1.43%). The Group's cost-income ratio was 53% (53%). The figures for 2010 are exclusive of the write-back of early retirement (AFP) liabilities.

**Losses and defaults**

In the first half of 2011 incomings of NOK 7m, net, were recorded on loan losses (loss of NOK 69m).

In the same period a net loss of NOK 9m was recorded on the Group's corporate customers (loss of NOK 92m), including losses of NOK 8m (17m) at SpareBank 1 SMN Finans. New individually assessed impairment write-downs in 2011 have been low and write-backs have been recorded on individual exposures. A net loss of NOK 2m was recorded on the retail portfolio (4m) in the first half of 2011.

Individual write-downs on loans came to NOK 177m (279m) in the first half of 2011.

Defaults in excess of 90 days came to NOK 361m (342m), measuring 0.40% (0.41%) of gross lending. Corporate customer defaults were NOK 235m (207m) and retail customer defaults were NOK 126m (135m). Individually assessed write-downs on defaults were NOK 88m (73m) corresponding to a share of 24% (21%).

Other doubtful exposures totalled NOK 178m (680m), breaking down to NOK 148m (655m) on the corporate market and NOK 30m (25m) on the retail market. Other doubtful exposures measure 0.20% (0.81%) of gross lending. Individually assessed write-downs on these exposures came to NOK 90m (207m) or 30% (29%).

Total problem loans (defaulted and doubtful) came to NOK 539m (1,022m), or 0.60% (1.22%) of gross outstanding loans. Overall individually assessed write-downs came to NOK 177m (279m), a share of 33% (27%).

### **Collectively assessed loss write-downs**

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

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

As of mid-2011 no basis has been found for revising collectively assessed write-downs at the Parent Bank. The aggregate volume of such write-downs is accordingly NOK 290m (289m).

### **Total assets of NOK 98.4bn**

The Bank's assets totalled NOK 98.4bn as of end-June 2011 (93.8bn), having risen by NOK 4.6bn or 4.9% over the last 12 months. The increase is mainly ascribable to lending growth.

As of the first half of 2011, NOK home mortgage loans worth 22.4bn (19.4bn) had been transferred by SpareBank 1 SMN to SpareBank 1 Boligkreditt AS. These loans do not figure as lending in the Bank's balance sheet. Commission on home mortgage loans transferred to SpareBank 1 Boligkreditt is recorded as commission income. The comments covering lending growth include loans transferred to SpareBank 1 Boligkreditt.

### **Good growth in lending and deposits**

As of the first half of 2011 total outstanding loans came to NOK 90.9bn (including SpareBank 1 Boligkreditt), having risen by NOK 7.2bn (9.3bn) or 8.6% (12.6%) over the preceding 12 months. Growth in the first half-year in isolation was 3.7% (8.2%).

Lending to retail customers rose by NOK 4.7bn (3.6bn) to NOK 52.1bn over the preceding 12 months, corresponding to growth of 10.0% (8.3%). Growth in the first half-year was 5.0% (4.9%).

12-month growth in lending to corporates was NOK 2.5bn (5.7bn) or 6.8% (18.6%). Overall outstanding loans to corporates came to NOK 38.8bn as of end-June 2011. Growth in lending to corporates in the first half-year was 2.1% (12.7%). The Group's venture in Sunnmøre through the takeover of BN Bank's operation in Ålesund accounts for a significant share of the growth in the past 12 months.

Lending to retail customers measured 57% (57%) of ordinary loans to customers as of mid-2011.

In the 12 months to mid-2011 total customer deposits rose by NOK 4.7bn (3.0bn) or 11.4% (7.8%) to reach NOK 46.0bn.

Retail customer deposits rose by NOK 1.3bn (0.6bn) or 6.7% (3.4%) to NOK 20.7bn, while deposits from corporates rose by NOK 3.4bn (NOK 2.4bn) or 15.6% (12.0%) to 25.3bn.

### **Investment products**

The customer portfolio of off-balance sheet investment products totalled NOK 5.1bn at end-June 2011 (4.6bn), an increase of 12% since the first half of 2010. The increase is essentially ascribable to higher values and new sales of equity funds and portfolios under management at Allegro Finans ASA.

<b>Saving products, customer portfolio, NOKm</b>	<b>30 June 2011</b>	<b>30 June 2011</b>	<b>Change</b>
Equity funds	2,897	2,219	678
Pension products	517	598	-81
Active management	1,013	874	139
Energy fund management	253	435	-182
Property funds	447	447	0
<b>Total</b>	<b>5,127</b>	<b>4,573</b>	<b>554</b>

### Insurance products

The Bank's insurance portfolio grew by 11% in the last 12 months, bringing overall premium volume to NOK 896m as of end-June 2011. Non-life insurance rose by 14% and personal insurance by 10%. In the occupational pensions segment, overall premium volume was NOK 130m, the same level as one year previously.

<b>Insurance, premium volume, NOKm</b>	<b>30 June 2011</b>	<b>30 June 2011</b>	<b>Change</b>
Non-life insurance	601	525	76
Personal insurance	165	150	15
Occupational pensions	130	129	1
<b>Total</b>	<b>896</b>	<b>804</b>	<b>92</b>

### Strong profitability and good growth in the retail market

The retail market business achieved a return on equity of 24.7% (23.5%) in the first half of 2011. High profitability is ascribable both to a sound profit performance and low risk exposure in the retail market business. This results in a relatively low allocation of capital to be serviced. As of 31 June 2011 capital allocated to the Retail Market Division totalled NOK 890m (1,031m).

Operating income totalled NOK 458m in the first half of 2011 (448m). Net interest income totalled NOK 278m (264m) and commission income NOK 180m (184m).

The lending margin in the first half of 2011 was 1.51% (1.58%), while the deposit margin was 0.54% (0.46%). The decline in the lending margin is a result of market adjustments. This margin is defined as the average customer interest rate less the 3-month moving average of 3-month NIBOR.

In the last 12 months lending to retail customers rose by 9.8% and deposits from the same segment by 4.7%.

Lending to retail borrowers generally carries low risk, as reflected in continued very low losses. Losses and defaults are expected to remain low. The loan portfolio is secured by residential property, and the trend in house prices has been satisfactory throughout the market area.

<b>Retail market (NOKm)</b>	<b>30 June 2011</b>	<b>30 June 2011</b>	<b>Change</b>
Net interest income	278	264	15
Commission and other income	180	184	-4

Total income	458	448	11
Operating expenses	303	276	27
Pre-loss profit	156	172	-16
Losses	3	4	-1
<b>Profit before tax</b>	<b>153</b>	<b>168</b>	<b>-15</b>
<b>ROE after tax</b>	<b>24.7 %</b>	<b>23.5 %</b>	
Allocated capital (NOK mill)	890	1,031	
Loans (NOKbn)	49.3	44.9	4.4
Deposits (NOKbn)	20.7	19.7	0.9

The Retail market Division is part of the Parent Bank, and therefore does not include figures for the Bank's subsidiaries.

### Increased profitability but subdued lending growth in the Corporate market Division

The Corporate market Division reported a first-half return on equity of 18.0% (10.5%). The improvement is due both to increased income and substantially reduced loan losses.

Capital allocated to the corporate market business as end-June 2011 came to NOK 2,873m (2,869m).

Total operating income came to NOK 514m in the first half of 2011 (438m), which was NOK 76m higher than for the same period of 2010. The increase is ascribable to higher margins and higher lending volume.

Lending and deposit margins in the division were, respectively, 2.16% (2.11%) and 0.20% (0.22%). This margin is defined as the average customer interest rate less the 3-month moving average of 3-month NIBOR.

Lending grew by 7.7% and deposits by 12.2%. A substantial share of the growth in lending is a result of the Bank's takeover of BN Bank's operation in Ålesund.

Net interest income totalled NOK 434m (364m), while commission income came to NOK 80m (74m).

Corporate market (NOKm)	30 June 2011	30 June 2011	Change
Net interest income	434	364	70
Commission and other income	80	74	6
Total income	514	438	76
Operating expenses	174	154	20
Pre-loss profit	340	284	56
Losses	-19	75	-93
<b>Profit before tax</b>	<b>359</b>	<b>209</b>	<b>150</b>
<b>ROE after tax</b>	<b>18.0 %</b>	<b>10.5 %</b>	
Allocated capital (NOK mill)	2,873	2,869	
Loans (NOKbn)	37.2	34.6	2.6
Deposits (NOKbn)	23.6	21.1	2.6

The Corporate market Division is part of the Parent Bank, and therefore does not include figures for the Bank's subsidiaries.

### SpareBank 1 SMN Markets

SpareBank 1 Markets reports total income of NOK 52m (49m) for the first half of 2011. A decrease in income is noted from corporate business, while income from securities related business has increased.



Markets delivers a complete range of capital market products and services, and has strengthened staffing in its forex and corporate finance areas. A dedicated share trading unit has been set up and three forex and fixed-income brokers have been taken over from BN Bank's operation in Ålesund.

<b>Markets (NOKm)</b>	<b>30 June 2011</b>	<b>30 June 2011</b>	<b>Change</b>
Currency trading	19.6	20.5	-0.9
Fixed income products	15.2	14.9	0.3
Corporate	2.7	12.5	-9.8
Securities, brokerage commission	14.9	1.2	13.7
<b>Total income</b>	<b>52.4</b>	<b>49.1</b>	<b>3.3</b>

### Subsidiaries

The Bank's subsidiaries posted an aggregate pre-tax profit of NOK 68m (33m) in the first half of 2011.

<b>Pre-tax profit, NOKm</b>	<b>30 June 2011</b>	<b>30 June 2011</b>
EiendomsMegler 1 Midt-Norge AS	33.3	30.0
SpareBank 1 SMN Finans AS	16.3	20.7
SpareBank 1 SMN Regnskap AS	5.0	10.1
Allegro Finans ASA	-1.1	-0.8
SpareBank 1 SMN Invest AS	29.6	-24.3
SpareBank 1 Kvartalet AS	-14.7	-2.7
<b>Total</b>	<b>68.4</b>	<b>33.0</b>

*The above figures show the respective companies' comprehensive incomes. The Bank's equity stake in EM1 is 86.7% and in Allegro 90.1%. The other companies are wholly owned by the Bank.*

**Eiendomsmegler 1 Midt-Norge AS** leads the field in its catchment area with a market share of about 41%. The company posted an excellent profit performance in 2010 followed by a strong first half of 2011 with a pre-tax profit of NOK 33.3m (30.0m).

**SpareBank 1 SMN Finans AS** posted a first-half profit of NOK 16.3m (20.7m). The company has a robust earnings base, and first-half income totalled NOK 43m. Losses on leases came to NOK 9m in the first half-year compared with NOK 17m in the same period last year. At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.0bn of which leases account for NOK 2.0bn.

The business includes the subsidiary SpareBank 1 Bilplan AS which specialises in car fleet management and administers 3,200 vehicles.

**SpareBank 1 SMN Regnskap AS** posted a pre-tax profit of NOK 5.0m (10.1m). The result for 2010 reflects the write-back of early retirement (AFP) liabilities.

In the first quarter of 2011 SpareBank 1 SMN Regnskap AS acquired three accountancy firms in Namsos and Steinkjer and two in Trondheim. The company's turnover has risen by an estimated NOK 25m as a result of these acquisitions.

**Allegro Finans ASA** reported a loss of NOK 1.1m (loss of NOK 0.8m) before tax in the first half-year. The company has a portfolio of about NOK 2bn under active management.

**SpareBank Midt-Norge Invest AS**'s mission is to invest in shares, mainly in regional listed companies. The company posted a profit of NOK 29.6m in the first half of 2011 (loss of NOK 24.3m) after gains on its share portfolios.

### Satisfactory funding and good liquidity

The Bank has a conservative liquidity strategy. This strategy stresses the importance of maintaining liquidity reserves that ensure the Bank's ability to conduct ordinary operations for a period of 12 months without recourse to new external funding.

The Bank has liquidity reserves of NOK 15bn and thus has the funding needed for 16 months of ordinary operations without fresh external finance.

The Bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of 1 year was 84% (78%).

SpareBank 1 Boligkreditt is the Bank's chief source of funding, and in the first half of 2011 loans totalling a further NOK 4.6bn were transferred to this residential mortgage company. As of end-June 2011 loans totalling NOK 22.3 billion had been transferred to SpareBank 1 Boligkreditt.

### Rating

In March 2011 Fitch Ratings revised its long-term rating from 'A' with a negative outlook to 'A' with a stable outlook. In September 2010 Moody's Investor Service upgraded its outlook for the Bank's long-term debt (A1) from a negative outlook to a stable outlook (see issued stock exchange notices).

### Capital adequacy

As of end-June 2011 the tier 1 capital adequacy ratio was 10.7% (10.8%) and the total capital adequacy ratio was 12.3% (13.2%).

The Group aims for a tier 1 capital adequacy ratio of 9% and a total capital adequacy ratio of 12%.

The Bank is IRB approved and uses the IRB foundation approach to compute capital charges for credit risk. In cooperation with the other IRB banks in the SpareBank 1 alliance, the Bank has started a process to apply for permission to use the advanced IRB approach in its calculations. The application is expected to be submitted in the first half of 2012.

Figures in NOKm	30 June 2011	30 June 2011
Tier 1 capital	7,394	6,960
Subordinated loan	1,102	1,577
<b>Capital base</b>	<b>8,496</b>	<b>8,537</b>
<b>Required subordinated debt</b>	<b>5,522</b>	<b>5,175</b>
<b>Tier 1 capital ratio</b>	<b>10.7 %</b>	<b>10.8 %</b>
<b>Total capital ratio</b>	<b>12.3 %</b>	<b>13.2 %</b>

**The Bank's equity capital certificate (MING)**

The book value of the Bank's ECC was NOK 51.05 at end-June 2011, and earnings per ECC were NOK 3.26.

The price at end-June 2011 was NOK 48.90, and a dividend of NOK 3.00 per ECC has been paid in 2011 for the year 2010.

The Price / Income ratio was 7.50, and the Price / Book ratio was 0.96 as of end-June 2011.

**Establishment of Sparebankstiftelsen SpareBank 1 SMN**

On 25 May 2011 the Supervisory Board voted to set up a savings bank foundation, Sparebankstiftelsen SpareBank 1 SMN. The foundation will be allocated portions of the donations made to non-profit causes. The foundation has been established primarily to participate in issues of equity capital certificates placed with the foundation.

**Risk factors**

The international financial crisis affected the Norwegian economy as it did the economy of other countries. However, joblessness showed no increase in Norway in the course of 2010, and employment is expected to rise in 2011. This, together with increased wage growth, may spur private consumption.

The Bank's financial results are affected directly and indirectly by the fluctuations in securities markets. The indirect effect is due to the Bank's stake in SpareBank 1 Gruppen AS.

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

The credit quality of the Bank's loan portfolio is satisfactory, and loss and default levels are low. The cooling of the Norwegian economy as from 2008 brought higher loss levels at Norwegian financial institutions, but loss levels have again subsided in the last two years.

The increasing turbulence in global financial markets heightens uncertainty with regard to economic framework conditions, including the situation in the national and regional economies.

**Outlook ahead**

SpareBank 1 SMN is well capitalised and has robust funding. Developments thus far in 2011, confirm the Bank's market position, growth capacity and portfolio quality.

The Board of Directors will also focus the remainder of 2011 on maintaining sound growth and strengthening the Group's market position.

Business and industry in the Bank's market area report good growth and profit trend. Unemployment is low, and the regional macroeconomy in isolation shows few signals of any change in the risk picture for the remainder of 2011.

The consequences for the national and regional economies of growing turbulence in the international financial markets are still unclear. The Board is of the view that both the regional business sector and SpareBank 1 SMN are well prepared to handle any deterioration in the economy resulting from turmoil in the international arena.

The Board is satisfied with the Group's profit for the first half of 2011 and, assuming a stable trend in the national and regional economies, the Board anticipates a good profit performance for the full year 2011.

Trondheim, 10. august 2011

The Board of Directors at SpareBank 1 SMN

Per Axel Koch  
Chair

Eli Arnstad  
Deputy Chair

Paul E. Hjelm-Hansen

Aud Skrudland

Bård Benum

Kjell Bjordal

Arnhild Holstad

Venche Johnsen  
Staff rep.

Finn Haugan  
Group CEO