

# First half and second quarter report 2012



## Contents

Main figures .....	3
Report of the Board of Directors .....	5
Income statement .....	17
Balance sheet .....	19
Cash flow statement .....	20
Change in equity .....	21
Equity capital certificate ratio .....	24
Results from quarterly accounts .....	25
Key figures from quarterly accounts .....	26
Notes .....	27
Statement in compliance with the securities trading act, section 5-6 .....	43
Equity capital certificates .....	44
Auditor's report .....	46

## Main figures

From the profit and loss account	30 June 2012		30 June 2011		2011	
	NOKm	%	NOKm	%	NOKm	%
Net interest	720	1.40	700	1.44	1,392	2.83
Commission income and other income	524	1.02	453	0.92	919	0.93
Net return on financial investments	239	0.46	188	0.39	478	0.97
<b>Total income</b>	<b>1,483</b>	<b>2.89</b>	<b>1,341</b>	<b>2.77</b>	<b>2,789</b>	<b>2.83</b>
<b>Total operating expenses</b>	<b>799</b>	<b>1.55</b>	<b>708</b>	<b>1.45</b>	<b>1,482</b>	<b>1.51</b>
<b>Results</b>	<b>684</b>	<b>1.33</b>	<b>633</b>	<b>1.32</b>	<b>1,306</b>	<b>1.33</b>
Loss on loans, guarantees etc	25	0.05	-7	-0.03	27	0.03
<b>Results before tax</b>	<b>659</b>	<b>1.28</b>	<b>640</b>	<b>1.35</b>	<b>1,279</b>	<b>1.30</b>
Tax charge	149	0.29	135	0.29	255	0.26
<b>Net profit</b>	<b>510</b>	<b>0.99</b>	<b>505</b>	<b>1.06</b>	<b>1,024</b>	<b>1.04</b>
<b>Key figures</b>	<b>30 June 2012</b>		<b>30 June 2011</b>		<b>2011</b>	
<b>Profitability</b>						
Return on equity <sup>1)</sup>	11.7 %		13.0 %		12.8 %	
Cost-income ratio <sup>2)</sup>	54 %		53 %		53 %	
<b>Balance sheet</b>						
Gross loans to customers	73,595		68,559		73,105	
Gross loans to customers incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	100,552		90,939		95,232	
Deposits from customers	51,504		45,990		47,871	
Deposit-to-loan ratio excl. Boligkreditt	70 %		67 %		65 %	
Growth in loans incl. Boligkreditt and Næringskreditt	10.6 %		8.6 %		8.6 %	
Growth in deposits	12.0 %		11.4 %		11.9 %	
Average total assets	102,766		96,954		98,465	
Total assets	107,815		98,503		101,455	
<b>Losses and defaults in % of gross loans incl. Boligkreditt and Næringskreditt</b>						
Impairment losses ratio	0.05 %		-0.02 %		0.03 %	
Non-performing commitm. as a percentage of gross loans <sup>3)</sup>	0.34 %		0.40 %		0.36 %	
Other doubtful commitm. as a percentage of gross loans	0.20 %		0.20 %		0.21 %	
<b>Solidity</b>						
Capital adequacy ratio	12.4 %		12.3 %		12.0 %	
Core capital ratio	11.0 %		10.7 %		10.4 %	
Core capital	8,722		7,394		7,856	
Net equity and related capital	9,900		8,496		9,055	
<b>Branches and staff</b>						
Number of branches	52		54		54	
No. Of full-time positions	1,144		1,047		1,098	
<b>Key figures ECC<sup>4)</sup></b>	<b>30 June 2012</b>	<b>30 June 2011</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
ECC ratio	64.5 %	61.3 %	60.6 %	61.3 %	54.8 %	56.3 %
Number of certificates issued, millions	124.21	102.74	102.77	102.74	82.78	82.41
ECC price	32.10	45.18	36.31	49.89	45.06	21.00
Stock value (NOKM)	3,987	4,642	3,731	5,124	3,749	1,750
Booked equity capital per ECC (including dividend)	48.03	46.36	48.91	46.07	42.11	38.07
Profit per ECC, majority	2.63	2.99	6.04	5.94	6.37	4.16
Dividend per ECC			1.85	2.77	2.10	2.77
Price-Earnings Ratio	6.10	7.56	6.01	8.40	7.07	5.05
Price-Book Value Ratio	0.67	0.96	0.74	1.08	1.07	0.55

- 1) Net profit as a percentage of average equity
- 2) Total operating expenses as a percentage of total operating income
- 3) Defaults and doubtful loans are reported on the basis of gross lending, including loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, and guarantees drawn
- 4) The key figures are corrected for issues

# Report of the Board of Directors

## First half 2012

*(Consolidated figures. Figures in parentheses refer to the same period of 2011 unless otherwise stated)*

- Profit before tax: NOK 659m (640m)
- Net profit: NOK 510m (505m)
- Return on equity: 11.7 percent (13.0 percent)
- Growth in lending 10.6 percent (8.6 percent) and deposits 12.0 percent (11.4 percent) over past 12 months
- Loan losses: NOK 25m (7m taken to income)
- Tier 1 capital adequacy: 11.0 percent (10.7 percent)
- Earnings per equity capital certificate (ECC): NOK 2.63 (2.99)

## Second quarter 2012

- Profit before tax: NOK 319m (315m)
- Net profit: NOK 238m (250m)
- Return on equity: 10.7 percent (12.9 percent)
- Loan losses: NOK 17m (1m taken to income)
- Earnings per ECC: NOK 1.22 (1.51)

## Good result first half 2012

### Highlights:

- Profit growth compared with the same period of 2011
- Positive income trend in core business and good return on financial investments
- Lending margins strengthened
- Low loan losses
- Strong financial position and good funding
- Sound growth in deposits and lending

In the first half of 2012 SpareBank 1 SMN recorded a pre-tax profit of NOK 659m (640m). Net profit was NOK 510m (505m) and return on equity was 11.7 percent (13.0 percent).

Pre-tax profit in the second quarter in isolation was NOK 319m. Return on equity in the same period was 10.7 percent (12.9 percent).

Overall operating income in the first half was NOK 1,244m (1,153m), an increase of NOK 91m compared with the first half of 2011. Both net interest income and commission were higher than in the same period of 2011.

Return on financial investments was NOK 239m (188m), of which income on owner interests accounted for NOK 149m.

Operating expenses totalled NOK 799m in the first half of 2012, NOK 91m higher than in the same period of 2011.

Loan losses totalled NOK 25m (7m taken to income).

As of end-June 2012 12-month growth in lending was 10.6 percent (8.6 percent) and 12-month growth in deposits was 12.0 percent (11.4 percent). Overall growth in lending in the first half was 5.6 percent (3.7 percent) and overall deposit growth in the same period was 7.6 percent (7.5 percent).

In the first quarter of 2012 a rights issue was carried out in favour of existing ECC holders. The subscription period was 12-26 March 2012. The issue was registered with the Register of Business Enterprises on 11 April 2012, with accounting effect in the second quarter. ECCs were allocated in an amount of NOK 740m.

In the same period a placing was made in favour of the Bank's employees. ECCs worth NOK 21m were allocated in the placing.

The above stock issues have strengthened the Group's capital ratio by 1.0 percentage point. As of end-June 2012, the tier 1 capital ratio was 11.0 percent (10.3 percent as at 31 March 2012) and the total capital ratio was 12.4 percent (11.8 percent as at 31 March 2012). As a result of growth, the bank's risk weighted assets have increased in the second quarter, and net effect on the tier 1 capital ratio is 0.7 percentage point.

At the half-year mark the Bank's ECC was priced at NOK 32.10 (36.31 at end-2011). A cash dividend of NOK 1.85 per ECC was paid out for the year 2011 in the second quarter.

First-half earnings per ECC were NOK 2.63, and book value per ECC was NOK 48.03 at end-June.

### Higher net interest income

Net interest income in the first half came to NOK 720m (700m). Net interest income strengthened in the second quarter due to lower market interest rates (NIBOR) which enabled higher lending margins. Interest expenses rose upon renewal of the Bank's money market funding. Gross interest margins on loans and deposits are now broadly on a par with last year.

In 2012 as in 2011 banks are exempt from payment of the levy to the Banks' Guarantee Fund.

Commission on home mortgage loans transferred to SpareBank 1 Boligkreditt is recorded as commission income, not interest income. This amounted to NOK 74m (48m) for the first half.

As of end-June 2012 home mortgage loans worth NOK 26.2bn (22.4bn) had been transferred to SpareBank 1 Boligkreditt. Transfer of commercial property loans to SpareBank 1 Næringskreditt started in the current year, and as of 30 June 2012 NOK 750m has been transferred to this company.

### Increased commission income

Commission income and other operating income rose by 15 percent to reach NOK 524m in the first half of 2012 (NOK 453m). The increase is mainly due to higher income from SpareBank 1 Boligkreditt, real estate agency and accounting services.

Commission income, NOKm	30 June 2012	30 June 2011	Change
Payment transfers	94	100	-6
Savings	21	26	-5

Insurance	59	51	8
SpareBank 1 Boligkreditt	75	48	27
Guarantee commission	14	15	-1
Real estate agency	166	144	21
Accountancy services	52	36	16
Active management	5	6	-1
Income from new head office	17	13	4
Other commissions	22	15	7
<b>Total</b>	<b>524</b>	<b>453</b>	<b>71</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 90m (66 m).

In the first half of 2012 the Group's share portfolios showed a net value loss of NOK 10m (value increase of 40m), of which NOK 2m referred to SpareBank 1 SMN Invest (value increase of NOK 24m).

Overall gains on bonds and derivatives in the first half came to NOK 41m (7m). Capital gains on bonds and financial instruments at SpareBank 1 SMN Markets totalled NOK 59m (19m).

	30 June 2012	30 June 2011
<b>Return on financial investments, NOKm</b>		
Capital gains/dividends, shares	-10	40
Bonds and derivatives	41	7
SpareBank 1 SMN Markets	59	19
<b>Net return on financial investments</b>	<b>90</b>	<b>66</b>
SpareBank 1 Gruppen AS	60	50
SpareBank 1 Boligkreditt AS	25	10
SpareBank 1 Næringskreditt AS	5	4
Bank1 Oslo Akershus AS	19	9
BN Bank ASA	27	44
Polaris ASA	15	7
Other jointly controlled companies	-2	-3
<b>Income from investment in related companies</b>	<b>149</b>	<b>122</b>
<b>Total</b>	<b>239</b>	<b>188</b>

### SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit in the first half of 2012 was NOK 263m (249m). The main contributors to the profit are SpareBank 1 Livsforsikring (life insurer) and SpareBank 1 Skadeforsikring (non-life insurer). Of the profit taken to income in 2012, NOK 9m refers to correction of the profit for 2011. SpareBank 1 SMN's share of the profit was NOK 60m (50m).

### SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to secure funding through 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 ownership interest in SpareBank 1 Boligkreditt is 17.8 percent, and the Bank's share of that company's profit in the first half of 2012 was NOK 25m (10m). The holding reflects the Bank's relative share of transferred home mortgage loans.

### SpareBank 1 Næringskreditt

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

SpareBank 1 SMN's stake in the company is 37 percent, and the Bank's share of the company's profit in the first half of 2012 was NOK 5m (4m). The Bank's ownership interest reflects its relative share of transferred commercial property loans and its stake in BN Bank.

### **Bank 1 Oslo Akershus**

SpareBank 1 SMN has a 19.5 percent stake in Bank 1 Oslo Akershus. SpareBank 1 SMN's share of this bank's profit was NOK 19m (9m) in the first half of 2012. Of the profit taken to income in 2012, NOK 4m refers to correction of the profit for 2011.

### **BN Bank**

SpareBank 1 SMN has a 33 percent stake in BN Bank. SpareBank 1 SMN's share of the profit of BN Bank for the first half of 2012 came to NOK 27m (44m), which includes amortisation effects.

### **Polaris Media**

SpareBank 1 SMN has a 23.45 percent stake in Polaris Media. This is a media group with a leading position in mid- and northern Norway. 18.81 percent of Polaris Media's shares were acquired on 28 March 2012 after the failure of Roll Severin Gruppen in Trondheim. The company is classified for accounting purposes as an affiliate of SpareBank 1 SMN.

The shares' book value at end-June 2012 is NOK 327m including SpareBank 1 SMN's estimated share of the profit for the first half of 2012 in an amount of NOK 15m. Since Polaris Media's half-year accounts are yet to be published, the Bank's profit share is an approximation based on estimates from external brokers. The figure is therefore uncertain.

### **Other companies**

These are essentially companies established to handle corporate exposures taken over from other entities. A negative profit of NOK 2m is mainly due to a decline in the value of shares.

### **Operating expenses**

Overall costs came to NOK 799m (708m) in the first half of 2012. Group expenses rose by NOK 91m or 12.7 percent.

Parent bank cost growth was NOK 56m or 10 percent, mainly due to strengthening of the bank's capacity and competence in customer facing staff. The stock placing in favour of employees along with costs related to loan intermediaries in the home mortgage market, increased costs of developing the SpareBank 1 collaboration and management costs to SpareBank 1 Markets were further contributors to the cost growth.

The remainder of the growth in Group costs is due to an increased resource input at EiendomsMegler 1 and SpareBank 1 SMN Regnskap, where costs rose by 20 percent or NOK 35m spurring increased turnover and improved profit performances at both companies.

Operating expenses were 1.55 percent of average total assets (1.46 percent). The Group's cost-income ratio was 54 percent (53 percent).

Although the cost growth is in accordance with the Group's plans, a wide-ranging improvement programme is being implemented as from the second half of 2012 which is designed to improve the customer's experience, raise productivity and reduce relative operating expenses. The Board of Directors is in the process of establishing and entrenching ambitious goals for the implemented programmes and has decided to utilise LEAN as a process tool.

### **Low losses and reduced defaults**

Loan losses came to NOK 25m in the first half of 2012 (7m, net, taken to income).

The corporate portfolio showed a net loss of NOK 23m in the first half of 2012 (9m, net, taken to income), including a loss of NOK 1m (8m) at SpareBank 1 SMN Finans. New individual assessed impairment write-downs have been relatively low thus far in 2012 and write-backs have been recorded on individual exposures. On the retail portfolio a net loss of NOK 2m (2m) was recorded in the first half year.

Individually assessed loan impairment write-downs totalled NOK 166m (177m) in the first half of 2012.

Total problem loans (defaulted and doubtful) came to NOK 537m (539m), or 0.53 percent (0.60 percent) of gross outstanding loans at the half-year mark.

Defaults in excess of 90 days came to NOK 338m (361m), measuring 0.34 percent (0.40 percent) of gross lending. Defaults on the corporate portfolio totalled NOK 207m (235m) and on the retail portfolio NOK 131m (126m). Individually assessed write-downs on defaulted exposures came to NOK 99m (88m), equivalent to 29 percent (24 percent).

Other doubtful exposures totalled NOK 199m (178m), breaking down to NOK 187m (148m) on the corporate market and NOK 12m (30m) on the retail market. Of gross lending other doubtful exposures measures 0,20 percent (0,20 percent). Individual write-downs on these exposures were NOK 67m (90m) or 34 percent (51 percent).

A close watch is kept on the trend in defaults, and there are still no signs to suggest that the economic challenges witnessed in Europe will feed through to the Bank's market area. It is also pointed out that the Bank has good control and overview of its business, as confirmed by the fact that a very low proportion of bankruptcies in the market area involve the Bank's customers. The Bank's share of bankruptcies is below 10 percent while its share of the corporate market is between 35 and 40 percent.

### **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).

In the first half of 2012 no basis was found for revising collectively assessed write-downs at the parent bank. The aggregate volume of such write-downs is accordingly NOK 290m (290m).

**Total assets of NOK 107.8bn**

The Bank's assets totalled NOK 107.8bn as of end-June 2012 (98.4bn) having risen by NOK 9.3bn or 9.5 percent over the past 12 months. The increase is largely ascribable to lending growth.

As of the first half of 2012 home mortgage loans worth 26.2bn (22.4bn) had been transferred to SpareBank 1 Boligkreditt and commercial property loans worth 750m to SpareBank 1 Næringskreditt. These loans do not figure as lending in the Bank's balance sheet. Earnings on loans transferred to SpareBank 1 Boligkreditt are recorded as commission income. The comments covering lending growth include loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

**The Group's aggregate outstanding loans now in excess of NOK 100bn**

In the 12 months to end-June 2012, total outstanding loans rose by NOK 9.6bn (7.2bn) or 10.6 percent (8.6 percent) to reach NOK 100.6bn (including SpareBank 1 Boligkreditt) by end-June 2012. Growth in the first half-year in isolation was 5.6 percent (3.7 percent).

Lending to retail customers rose by NOK 5.6bn (4.7bn) to NOK 57.7bn in the 12 months to end-June 2012, corresponding to growth of 10.8 percent (10.0 percent). Growth in the first half was 4.9 percent (5.0 percent).

12-month growth in lending to corporates was NOK 4.0bn (2.5bn) or 10.3 percent (6.8 percent). Overall outstanding loans to corporates came to NOK 42.8bn as of end-June 2012. Growth in lending to corporate customers in the first half was 6.5 percent (2.1 percent).

Lending to retail customers accounted for 57 percent (57 percent) of ordinary loans to customers as of end-June 2012.

In the 12 months to end-June, total customer deposits rose by NOK 5.5bn (4.7bn) or 12.0 percent (11.4 percent) to reach NOK 51.5bn. Deposit growth in the first half of 2012 was 7.6 percent (7.5 percent).

Retail customer deposits rose by NOK 1.8bn (1.3bn) or 8.6 percent (6.7 percent) to NOK 22.4bn, while deposits from corporates rose by NOK 3.7bn (3.4bn) or 14.8 percent (15.6 percent) to NOK 29.1bn. In the first half –year deposit growth in the retail market and corporate market was respectively 7.5 percent (8.5 percent) and 7.6 percent (6.7 percent).

**Investment products**

The customer portfolio of off-balance sheet investment products totalled NOK 5.1bn (5.8bn) at end-June 2012, a decline of 11 percent since the first half of 2011. The decline essentially relates to falling values of underlying securities.

<b>Saving products, customer portfolio, NOKm</b>	<b>30 June 2012</b>	<b>30 June 2011</b>	<b>Change</b>
Equity funds	2,462	2,897	-435
Pension products	1,055	1,162	-107
Active management	989	1,013	-24
Energy fund management	170	253	-83
Property funds	447	447	0
<b>Total</b>	<b>5,123</b>	<b>5,772</b>	<b>-649</b>

### Insurance products

The Bank's insurance portfolio grew by 8 percent in the 12 months to end-June to reach a total premium volume of NOK 968m (896m). Non-life insurance showed 9 percent growth, personal insurance 6 percent and the occupational pensions segment 5 percent growth.

Insurance, premium volume, NOKm	30 June 2012	30 June 2011	Change
Non-life insurance	656	601	55
Personal insurance	175	165	10
Occupational pensions	137	130	7
<b>Total</b>	<b>968</b>	<b>896</b>	<b>72</b>

### Sound profit and strong growth for the Retail Division

The retail market business achieved a return on equity of 16.2 percent (17.6 percent) in the first half of 2012. The pre-tax profit was NOK 142m (138m).

Operating income declined somewhat, totalling NOK 464m in the first half of 2012 (448m). Net interest income totalled NOK 259m (268m) and commission income NOK 205m (180m). While lending margins are on a par with the same period of 2011, falling market interest rates in 2012 have strengthened margins compared with the second half of 2011. The increased commission income mainly comprises higher commissions from SpareBank 1 Boligkreditt and increased insurance income.

The lending margin in the first half of 2012 was 1.64 percent (1.34 percent), while the deposit margin was 0.25 percent (0.60 percent), measured against three-month NIBOR.

In the 12 months to end-June lending to retail customers rose by 12.2 percent (9.8 percent) and deposits from the same segment by 9.7 percent (4.7 percent).

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.

Retail market (NOKm)	30 June 2012	30 June 2011	Change
Net interest income	259	268	-9
Commission and other income	205	180	25
Total income	464	448	16
Operating expenses	320	307	13
Pre-loss profit	144	141	3
Losses	2	3	-1
<b>Profit before tax</b>	<b>142</b>	<b>138</b>	<b>4</b>
<b>ROE after tax</b>	<b>16.2 %</b>	<b>17.6 %</b>	
Loans (NOKbn)	55.3	49.3	6.0
Deposits (NOKbn)	22.6	20.7	2.0

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

### Corporate Division shows increased profitability

Return on equity at the Corporate Division was 13.8 percent (14.2 percent). The pre-tax profit was NOK 351m (370m).

Total operating income came to NOK 570m in the first half of 2012 (523m).

Net interest income was NOK 489m (443m), while other income amounted to NOK 81m (80m). Net interest income has risen due to continued growth with no impairment of margins. Risk in the loan portfolio is low, and first-half losses came to NOK 22m (19m taken to income).

Lending and deposit margins in the division were, respectively, 2.37 percent (2.14 percent) and 0.05 percent (0.20 percent). Lending growth was 7.9 percent (7.7 percent) and deposit growth was 9.5 percent (12.2 percent).

Corporate market (NOKm)	30 June 2012	30 June 2011	Change
Net interest income	489	443	46
Commission and other income	81	80	1
Total income	570	523	47
Operating expenses	196	171	25
Pre-loss profit	374	351	23
Losses	22	-19	41
<b>Profit before tax</b>	<b>351</b>	<b>370</b>	<b>-19</b>
<b>ROE after tax</b>	<b>13.8 %</b>	<b>14.2 %</b>	
Loans (NOKbn)	40.2	37.2	2.9
Deposits (NOKbn)	25.9	23.6	2.2

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

### SpareBank 1 SMN Markets

SpareBank 1 Markets delivers a complete range of capital market products and services, and has strengthened staffing in its equity trading, forex and corporate finance areas.

SpareBank 1 Markets reports total income of NOK 68.5m (52.3m) for the first half of 2012. Fixed income products in particular showed increased income compared with 2011. SpareBank 1 SMN established an active asset management agreement with SpareBank 1 Markets in the second quarter of 2012. The agreement puts SpareBank 1 Markets in a stronger position to deliver forex and fixed income products in the primary and secondary market. The business volume is regulated through clear-cut limits on exposure in relation to products and counterparties and brings a significant change in the Bank's risk exposure. Incomes and expenses are distributed between the parties based on an established distribution formula.

Markets (NOKm)	30 June 2012	30 June 2011	Change
Currency trading	21.2	19.6	1.6
Fixed income products	38.0	15.2	22.8
Corporate	5.4	2.6	2.8
Securities, brokerage commission	6.3	6.2	0.1
Investments	-2.4	8.7	-11.1
<b>Total income</b>	<b>68.5</b>	<b>52.3</b>	<b>16.2</b>

*Of gross income of NOK 68,5m, NOK 17m has been transferred to the Corporate Division. This is the division's share of income on forex and fixed-income business on its own customers.*

## Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 67m (68m) in the first half of 2012.

Pre-tax profit, NOKm	30 June 2012	30 June 2011	Change
EiendomsMegler 1 Midt-Norge	41.8	33.3	8.5
SpareBank 1 SMN Finans	30.3	16.3	14.0
SpareBank 1 SMN Regnskap	8.6	5.0	3.6
Allegro Finans	-1.3	-1.1	-0.2
SpareBank 1 SMN Invest	-1.7	29.6	-31.3
SpareBank 1 Kvartalet	-10.9	-14.7	3.8
<b>Total</b>	<b>66.8</b>	<b>68.4</b>	<b>-1.6</b>

*The profits stated are the companies' comprehensive income. The Bank's stake in EiendomsMegler 1 is 86.7 percent and in Allegro 90.1 percent. It holds a 100 percent stake in the remaining companies.*

**EiendomsMegler 1 Midt-Norge** leads the field in its catchment area with a market share of about 40 percent. The company recorded an excellent profit performance in 2011 and a strong first-half 2012 with a pre-tax profits of NOK 41.8m (33.3m).

**SpareBank 1 SMN Finans** posted a profit of NOK 30.3m (16.3m) in the first half. The profit improvement is essentially ascribable to improved incomes and reduced losses. At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.1bn of which leases account for NOK 1.9bn.

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

An agreement has been established with SpareBank 1 Nordvest and SpareBank 1 Søre Sunnmøre bringing these banks in as owners with 9.9 percent of the shares of SpareBank 1 SMN Finans. The transaction was effected as of 1 July 2012 as a stock placing reflecting the book value of SpareBank 1 SMN Finans.

**SpareBank 1 SMN Regnskap** posted a pre-tax profit of NOK 8.6m (5.0m).

The acquisition of several local accounting firms in 2011 explains much of the increase. In 2012 the company has acquired 40 percent of the shares of the accounting chain Consis. The remaining 60 percent are owned by Sparebanken Hedmark.

**Allegro Finans** reported a first-half loss of NOK 1.3m (loss of 1.1m). The company has a portfolio of about NOK 2bn under active management.

**SpareBank 1 SMN Invest's** mission is to invest in shares, mainly in regional listed companies. The company posted a first-half loss of NOK 1.7m in 2012 (profit of 29.6m). The profit relates entirely to value changes on the company's overall shareholding.

## Satisfactory funding and good liquidity

The Bank has a conservative liquidity strategy. A part of this strategy is to maintain liquidity reserves that ensure the Bank's ability to conduct ordinary operations and lending activity for a period of 12 months without recourse to new external funding beyond that ensuing from the transfer of the mortgage loans to SpareBank 1 Boligkreditt.

As of 30 June 2012 the Bank has liquidity reserves of NOK 21bn and thus has the funding needed for 18 months of ordinary operations without fresh external finance.

The Bank's funding sources and products are amply diversified. At quarter-end the proportion of money market funding in excess of 1 year was 71 percent (84 percent).

SpareBank 1 Boligkreditt is the Bank's chief source of funding, and in the first half of 2012 loans totalling a further NOK 4.1bn were transferred to this residential mortgage company. As of end-June 2012 loans totalling NOK 26.2bn had been transferred to SpareBank 1 Boligkreditt. Transfer of commercial property loans to SpareBank 1 Næringskreditt started in the current year, and as of 30 June 2012 NOK 750m has been transferred to this company.

### Rating

SpareBank 1 SMN has a rating of A1 (negative outlook) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. In March the Bank, like several other financial institutions, was informed by Moody's of a possible downgrading of up to one notch.

### Financial position strengthened after stock issues

A rights issue has been carried out in 2012 in favour of existing ECC holders. The subscription period was 12-26 March 2012. ECCs were allocated in an amount of NOK 740m. The issue was registered with the Register of Business Enterprises on 11 April 2012, with accounting effect in the second quarter. In the same period a placing was made in favour of the Bank's employees. ECCs worth NOK 21m were allocated in this placing.

The stock issues have strengthened the tier 1 capital ratio by 1.0 percentage point, bringing this ratio to 11.0 percent as of 30 June 2012 (10.7 percent) and the total capital ratio to 12.4 percent (12.3 percent). Common equity tier 1 capital, i.e. tier 1 capital excluding hybrid equity, was at 9.5 percent.

The Group aims to maintain a tier 1 capital ratio of 11 percent and a total capital ratio of 12 percent.

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 by the end of 2012.

A planned placing up to NOK 200m in favour of the foundation Sparebankstiftelsen SMN has been postponed until further notice.

Figures in NOKm	30 June 2012	30 June 2011
Tier 1 capital	8,722	7,394
Subordinated loan	1,178	1,102
<b>Capital base</b>	<b>9,900</b>	<b>8,496</b>
<b>Required subordinated debt</b>	<b>6,371</b>	<b>5,522</b>
<b>Tier 1 capital ratio</b>	<b>11.0 %</b>	<b>10.7 %</b>
<b>Total capital ratio</b>	<b>12.4 %</b>	<b>12.3 %</b>

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

The book value of the Bank's ECC was NOK 48.03 at end-June 2012, and earnings per EC were NOK 2.63.

As of end-June 2012 the price was NOK 32.10, and dividend of NOK 1.85 per ECC has in 2012 been paid for 2011 (adjusted for the rights issues carried out in 2012).

The Price / Income ratio was 6.10, and the Price / Book ratio was 0.67 as of 31 June 2012.

**Risk factors**

The negative trend in the international economy has continued into 2012, and most countries are seeing a marked reduction in GDP growth, and in a number of cases also falling GDP. This will affect the Norwegian economy through reduced demand to its export-oriented industry. Norway's central government finances and petroleum ministry are in a solid position. Unemployment remains low and households are seeing real wage growth. This, combined with continued low interest rates, entails continued low risk of loss on the retail market.

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

The Bank is also exposed to risk related to access to external funding. This is reflected in the Bank's conservative liquidity strategy (see 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 very low by historical standards. The sluggish EU economy remains a factor of major uncertainty in spite of the temporary positive effects of a number of stimulatory measures on financial markets. However, the low international interest rates mean that further rate reductions could have a limited expansionary impact. A strong Norwegian economy entails a strong currency, which may pose cost challenges for parts of export-oriented manufacturing, although these challenges are offset by domestic growth.

The EBA's requirement of 9 per cent common equity tier 1 capital for major European banks has largely been achieved by recapitalisation and restructuring of banks. Whether this will help to mitigate uncertainty regarding parts of the European banking sector remains to be seen, and Moody's have downgraded a number of European banks. Differing approaches to the capital adequacy rules create uncertainty with regard to Norwegian banks' financial position compared with Nordic competitors. Overall this means that there are still factors ahead which may have a negative effect on the Bank's access to foreign funding.

**Outlook ahead**

Prospects for the European economy are demanding. The consequences for business in the Bank's market area have thus far been limited, as reflected in a low rate of defaults and low losses in the Bank's portfolio.

The Board of Directors is prepared for a change in this situation. However, unemployment in Norway is low, and there are few signs in the region's macroeconomy in isolation of any significant change in the risk picture in 2012.

In the first half of 2012 the Bank carried out a rights issue and a placing with employees which have significantly strengthened the Bank's financial position, and the Bank is even better positioned to exploit market potentials. The Bank's funding is robust, with considerable liquidity reserves.

The Bank has a strong market position, and achieved increased operating income in the first half-year despite the challenges facing it in terms of money market funding. To further reinforce this position the Board of Directors has initiated a programme designed to further strengthen the Bank's customer orientation and, by that means, efficiency and effectiveness across the Group.

The Board of Directors is pleased with the Group's profit performance for the first half of 2012, and expects 2012 to be another good year for SpareBank 1 SMN.

Trondheim, 9 August 2012  
The Board of Directors of SpareBank 1 SMN

Per Axel Koch  
(chair)

Kjell Bjordal  
(deputy chair)

Aud Skrudland

Arnhild Holstad

Bård Benum

Elbjørg Gui Standal

Paul E. Hjelm-Hansen

Venche Johnsen  
(employee rep.)

Finn Haugan  
(Group CEO)

## Income statement

Parent bank					Group						
2011	2.Q 11	2.Q 12	30 June 2011	30 June 2012	(NOK million)	Note	30 June 2012	30 June 2011	2.Q 12	2.Q 11	2011
3,824	917	967	1,816	1,950	Interest income		1,998	1,851	989	936	3,891
2,502	593	619	1,153	1,276	Interest expenses		1,278	1,151	619	592	2,499
<b>1,322</b>	<b>324</b>	<b>348</b>	<b>663</b>	<b>675</b>	<b>Net interest</b>	1	<b>720</b>	<b>700</b>	<b>369</b>	<b>344</b>	<b>1,392</b>
544	142	169	283	310	Commission income		436	390	240	199	778
75	17	20	33	39	Commission expenses		43	37	22	19	83
39	8	13	15	21	Other operating income		131	99	71	52	224
<b>508</b>	<b>133</b>	<b>162</b>	<b>265</b>	<b>292</b>	<b>Commission income and other income</b>		<b>524</b>	<b>453</b>	<b>288</b>	<b>232</b>	<b>919</b>
260	255	280	261	306	Dividends		10	34	9	31	36
-	-	-	-	-	Income from investment in related companies		149	122	50	69	290
66	-7	29	6	82	Net return on financial investments	1	80	32	20	-1	152
<b>326</b>	<b>248</b>	<b>309</b>	<b>267</b>	<b>388</b>	<b>Net return on financial investments</b>		<b>239</b>	<b>188</b>	<b>79</b>	<b>99</b>	<b>478</b>
<b>2,156</b>	<b>705</b>	<b>820</b>	<b>1,195</b>	<b>1,355</b>	<b>Total income</b>		<b>1,483</b>	<b>1,341</b>	<b>737</b>	<b>675</b>	<b>2,789</b>
528	135	148	277	312	Staff costs	2	455	405	223	208	810
315	79	78	147	155	Administration costs		195	181	98	96	381
245	53	65	106	119	Other operating expenses		149	122	80	57	291
<b>1,089</b>	<b>267</b>	<b>291</b>	<b>530</b>	<b>586</b>	<b>Total operating expenses</b>	4	<b>799</b>	<b>708</b>	<b>401</b>	<b>361</b>	<b>1,482</b>
<b>1,068</b>	<b>438</b>	<b>529</b>	<b>665</b>	<b>769</b>	<b>Result before losses</b>		<b>684</b>	<b>633</b>	<b>336</b>	<b>314</b>	<b>1,306</b>
12	-6	18	-15	24	Loss on loans, guarantees etc.	2,6,7	25	-7	17	-1	27
<b>1,055</b>	<b>443</b>	<b>511</b>	<b>680</b>	<b>745</b>	<b>Result before tax</b>	3	<b>659</b>	<b>640</b>	<b>319</b>	<b>315</b>	<b>1,279</b>
235	59	70	124	130	Tax charge		149	135	81	65	255
<b>820</b>	<b>385</b>	<b>441</b>	<b>556</b>	<b>614</b>	<b>Net profit</b>		<b>510</b>	<b>505</b>	<b>238</b>	<b>250</b>	<b>1,024</b>
					Majority share		506	501	235	248	1,016
					Minority interest		4	4	3	2	8
					Profit per ECC		2.65	3.01	1.23	1.52	6.08
					Diluted profit per ECC		2.63	2.99	1.22	1.51	6.04

## Other comprehensive income

Parent bank					Group					
2011	2.Q 11	2.Q 12	30 June 2011	30 June 2012	(NOK million)	30 June 2012	30 June 2011	2.Q 12	2.Q 11	2011
820	385	441	556	614	Net profit	510	505	238	250	1,024
-	-	-	-	-	Available-for-sale financial assets	5	5	-2	-5	-6
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	3	0	3	-6	-19
-	-	-	-	-	Other comprehensive income	7	5	2	-10	-25
<b>820</b>	<b>385</b>	<b>441</b>	<b>556</b>	<b>614</b>	<b>Total other comprehensive income</b>	<b>518</b>	<b>510</b>	<b>240</b>	<b>240</b>	<b>999</b>
					Majority share of comprehensive income	514	506	237	238	991
					Minority interest of comprehensive income	4	4	3	2	8

\* Other comprehensive income comprise items reflected directly in equity capital that are not transactions with owners, cf. IAS 1

## Key figures

Parent bank					Group					
2011	2.Q 11	2.Q 12	30 June 2011	30 June 2012	Result as per cent of average total assets:	30 June 2012	30 June 2011	2.Q 12	2.Q 11	2011
1.37	1.37	1.37	1.39	1.33	Net interest	1.40	1.44	1.43	1.43	1.41
0.52	0.56	0.64	0.56	0.58	Commission income and other income	1.02	0.94	1.12	0.96	0.93
0.34	1.05	1.21	0.56	0.77	Net return on financial investments	0.46	0.39	0.30	0.41	0.48
1.12	1.13	1.14	1.11	1.16	Total operating expenses	1.55	1.46	1.55	1.50	1.51
1.10	1.85	2.07	1.39	1.52	Result before losses	1.33	1.31	1.30	1.30	1.33
0.01	-0.02	0.07	-0.03	0.05	Loss on loans, guarantees etc.	0.05	-0.01	0.06	0.00	0.03
1.09	1.87	2.00	1.43	1.47	Result before tax	1.28	1.32	1.23	1.31	1.30
0.50	0.38	0.36	0.44	0.43	Cost -income ratio	0.54	0.53	0.54	0.53	0.53
68 %			70 %	73 %	Loan-to-deposit ratio excl. Boligkredditt	70 %	67 %			65 %
12.3 %	23.8 %	23.7 %	17.1 %	16.9 %	Return on equity	11.7 %	13.0 %	10.7 %	12.9 %	12.8 %

## Balance sheet

Parent bank			(NOK million)	Note	Group		
2011	30 June 2011	30 June 2012			30 June 2012	30 June 2011	2011
1,519	3,922	1,152	Cash and receivables from central banks		1,152	3,922	1,519
5,033	3,958	5,254	Deposits with and loans to credit institutions		2,623	1,459	2,557
70,793	66,241	71,121	Gross loans to customers before write-down	5.8	73,595	68,559	73,105
-151	-141	-155	- Specified write-downs	6.7.8	-166	-177	-172
-273	-273	-273	- Write-downs by loan category	6	-290	-290	-290
70,369	65,827	70,693	Net loans to and receivables from customers		73,139	68,092	72,643
12,918	14,988	16,955	Fixed-income CDs and bonds at fair value		16,955	14,988	12,918
3,698	1,619	4,244	Derivatives		4,243	1,619	3,697
546	568	528	Shares, units and other equity interests	2	606	578	611
2,822	2,822	3,179	Investment in related companies		4,628	4,215	4,259
1,203	1,137	2,043	Investment in group companies		-	-	-
447	447	447	Goodwill		471	460	471
1,142	1,651	2,190	Other assets	9	3,998	3,170	2,779
<b>99,697</b>	<b>96,938</b>	<b>106,684</b>	<b>Assets</b>		<b>107,815</b>	<b>98,503</b>	<b>101,455</b>
6,232	7,635	6,968	Deposits from credit institutions		6,967	7,635	6,232
2,886	4,318	2,553	Funding, "swap" arrangement with the government		2,553	4,318	2,886
48,114	46,133	52,231	Deposits from and debt to customers	10	51,504	45,990	47,871
28,148	26,382	28,341	Debt created by issue of securities	11	28,341	26,382	28,148
3,158	1,559	4,097	Derivatives		4,097	1,559	3,158
1,544	1,734	1,784	Other liabilities	12	2,325	2,201	2,122
2,690	2,516	2,662	Subordinated loan capital	11	2,662	2,516	2,690
<b>92,773</b>	<b>90,278</b>	<b>98,634</b>	<b>Total liabilities</b>		<b>98,450</b>	<b>90,601</b>	<b>93,107</b>
2,373	2,373	2,484	Equity capital certificates		2,484	2,373	2,373
-0	-0	-0	Own holding of ECCs		-0	-0	-0
183	182	813	Premium fund		813	182	183
1,457	1,160	1,457	Dividend equalisation fund		1,457	1,160	1,457
190	-0	-	Recommended dividends		-	-0	190
40	-	-	Provision for gifts		-	-	40
2,611	2,345	2,611	Savings bank's reserve		2,611	2,345	2,611
70	45	70	Unrealised gains reserve		90	71	85
-	0	0	Other equity capital		1,264	1,138	1,274
-	556	614	Profit for the periode		510	505	-
			Minority interests		136	129	135
<b>6,924</b>	<b>6,660</b>	<b>8,050</b>	<b>Total equity capital</b>	13	<b>9,365</b>	<b>7,902</b>	<b>8,348</b>
<b>99,697</b>	<b>96,938</b>	<b>106,684</b>	<b>Total liabilities and equity</b>		<b>107,815</b>	<b>98,503</b>	<b>101,455</b>

## Cash flow statement

Parent bank				Group		
2011	30 June 2011	30 June 2012	(NOK million)	30 June 2012	30 June 2011	2011
820	556	614	Profit	510	505	1,024
38	18	20	Depreciations and write-downs on fixed assets	49	40	88
12	-15	24	Losses on loans and guarantees	25	-7	27
870	559	659	Net cash increase from ordinary operations	583	538	1,140
-1,656	-5	-1,562	Decrease/(increase) other receivables	-1,675	-112	-1,851
1,687	189	1,178	Increase/(decrease) short term debt	1,143	71	1,679
-3,398	1,172	-349	Decrease/(increase) loans to customers	-521	1,251	-3,335
-2,139	-1,064	-221	Decrease/(increase) loans credit institutions	-67	-1,040	-2,137
5,086	3,105	4,116	Increase/(decrease) deposits and debt to customers	3,633	3,204	5,086
-3,944	-1,108	403	Increase/(decrease) debt to credit institutions	402	-1,108	-3,944
4,118	2,048	-4,037	Increase/(decrease) in short term investments	-4,037	1,992	4,062
<b>624</b>	<b>4,895</b>	<b>188</b>	<b>A) NET CASH FLOW FROM OPERATIONS</b>	<b>-561</b>	<b>4,796</b>	<b>699</b>
-59	-30	-52	Increase in tangible fixed assets	-138	-87	-184
1	-	-	Reductions in tangible fixed assets	-	-	2
-900	-834	-1,196	Paid-up capital, associated companies	-369	-689	-734
79	57	18	Net investments in long-term shares and partnerships	5	40	7
<b>-879</b>	<b>-807</b>	<b>-1,230</b>	<b>B) NET CASH FLOW FROM INVESTMENTS</b>	<b>-477</b>	<b>-736</b>	<b>-909</b>
-68	-242	-29	Increase/(decrease) in subordinated loan capital	-29	-242	-68
-	-	741	Increase/(decrease) in equity	741	-	-
-285	-285	-190	Dividend cleared	-190	-285	-285
-192	-192	-40	To be disbursed from gift fund	-40	-192	-192
-	-	-	Correction of equity capital	-4	28	-45
207	-1,559	193	Increase/(decrease) in other long term loans	193	-1,559	207
<b>-338</b>	<b>-2,278</b>	<b>675</b>	<b>C) NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>671</b>	<b>-2,249</b>	<b>-383</b>
<b>-593</b>	<b>1,810</b>	<b>-367</b>	<b>A) + B) + C) NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>-367</b>	<b>1,810</b>	<b>-593</b>
2,112	2,112	1,519	Cash and cash equivalents at 01.01	1,519	2,112	2,112
1,519	3,922	1,152	Cash and cash equivalents at end of quarter	1,152	3,922	1,519
<b>593</b>	<b>-1,810</b>	<b>367</b>	<b>Net changes in cash and cash equivalents</b>	<b>367</b>	<b>-1,810</b>	<b>593</b>

## Change in equity

Parent Bank (NOK million)	Issued equity			Earned equity			Total equity
	EC capital	Premium fund	Ownerless capital	Equalisation fund/dividend	Gifts	Unrealised gains reserve	
<b>Equity capital at 1 January 2010</b>	<b>1,734</b>	<b>0</b>	<b>2,155</b>	<b>1,050</b>	<b>27</b>	<b>110</b>	<b>- 5,076</b>
Net Profit	-	-	189	566	192	-65	882
Other comprehensive income	-	-	-	-	-	-	-
Total other comprehensive income	-	-	189	566	192	-65	882
<b>Transactions with owners</b>							
Dividend declared for 2009	-	-	-	-174	-	-	-174
To be disbursed from gift fund	-	-	-	-	-27	-	-27
Rights issue	624	178	-	-	-	-	803
Employee placing	13	4	-	-	-	-	17
Sale of own ECCs	2	-	-	2	-	-	4
Total transactions with owners	639	182	-	-172	-27	-	622
<b>Equity capital at 31 December 2010</b>	<b>2,373</b>	<b>182</b>	<b>2,345</b>	<b>1,444</b>	<b>192</b>	<b>45</b>	<b>- 6,581</b>
<b>Equity capital at 1 January 2011</b>	<b>2,373</b>	<b>182</b>	<b>2,345</b>	<b>1,444</b>	<b>192</b>	<b>45</b>	<b>- 6,581</b>
Net Profit	-	-	268	487	40	25	820
Other comprehensive income	-	-	-	-	-	-	-
Total other comprehensive income	-	-	268	487	40	25	820
<b>Transactions with owners</b>							
Dividend declared for 2010	-	-	-	-285	-	-	-285
To be disbursed from gift fund	-	-	-	-	-192	-	-192
Issue	1	0	-1	-	-	-	-
Total transactions with owners	1	0	-1	-285	-192	-	-476
<b>Equity capital at 31 December 2011</b>	<b>2,373</b>	<b>183</b>	<b>2,611</b>	<b>1,647</b>	<b>40</b>	<b>70</b>	<b>- 6,924</b>
<b>Equity capital at 1 January 2012</b>	<b>2,373</b>	<b>183</b>	<b>2,611</b>	<b>1,647</b>	<b>40</b>	<b>70</b>	<b>- 6,924</b>
Net Profit	-	-	-	-	-	-	614
Other comprehensive income	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	614
<b>Transactions with owners</b>							
Dividend declared for 2011	-	-	-	-190	-	-	-190
To be disbursed from gift fund	-	-	-	-	-40	-	-40
Rights issue	570	155	-	-	-	-	725
Employee placing	16	-	-	-	-	-	16
Reduction of nominal value per equity certificate	-475	475	-	-	-	-	-
Total transactions with owners	111	630	-	-190	-40	-	511
<b>Equity capital at 30 June 2012</b>	<b>2,484</b>	<b>813</b>	<b>2,611</b>	<b>1,457</b>	<b>-</b>	<b>70</b>	<b>614 8,050</b>

Group (NOK million)	Majority share								
	Issued equity			Earned equity					
	EC capital	Premium fund	Ownerless capital	Equalisation fund/dividend	Gifts	Unrealised gains reserve	Other equity	Minority interest	Total equity
<b>Equity capital at 1 January 2010</b>	<b>1,734</b>	<b>-0</b>	<b>2,155</b>	<b>1,050</b>	<b>27</b>	<b>124</b>	<b>1,052</b>	<b>42</b>	<b>6,183</b>
Net Profit	-	-	189	566	192	-65	134	5	1,022
Other comprehensive income									
Available-for-sale financial assets	-	-	-	-	-	7	-	-	7
Share of other comprehensive income of associates and joint venture	-	-	-	-	-	-	-29	-	-29
Other comprehensive income	-	-	-	-	-	7	-29	-	-22
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>189</b>	<b>566</b>	<b>192</b>	<b>-58</b>	<b>105</b>	<b>5</b>	<b>1,000</b>
<b>Transactions with owners</b>									
Dividend declared for 2009	-	-	-	-174	-	-	-	-	-174
To be disbursed from gift fund	-	-	-	-	-27	-	-	-	-27
Rights issue	624	178	-	-	-	-	-	-	803
Employee placing	13	4	-	-	-	-	-	-	17
Sale of own ECCs	2	-	-	2	-	-	-	-	4
Direct recognitions in equity	-	-	-	-	-	-	-10	-	-10
Change in minority share	-	-	-	-	-	-	-	50	50
<b>Total transactions with owners</b>	<b>639</b>	<b>182</b>	<b>-</b>	<b>-172</b>	<b>-27</b>	<b>-</b>	<b>-10</b>	<b>50</b>	<b>663</b>
<b>Equity capital at 31 December 2010</b>	<b>2,373</b>	<b>182</b>	<b>2,345</b>	<b>1,444</b>	<b>192</b>	<b>66</b>	<b>1,147</b>	<b>97</b>	<b>7,845</b>
<b>Equity capital at 1 January 2011</b>	<b>2,373</b>	<b>182</b>	<b>2,345</b>	<b>1,444</b>	<b>192</b>	<b>66</b>	<b>1,147</b>	<b>97</b>	<b>7,845</b>
Net Profit	-	-	268	487	40	25	196	8	1,024
<b>Other comprehensive income</b>									
Available-for-sale financial assets	-	-	-	-	-	-6	-	-	-6
Share of other comprehensive income of associates and joint venture	-	-	-	-	-	-	-19	-	-19
Other comprehensive income	-	-	-	-	-	-6	-19	-	-25
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>268</b>	<b>487</b>	<b>40</b>	<b>19</b>	<b>177</b>	<b>8</b>	<b>999</b>
<b>Transactions with owners</b>									
Dividend declared for 2010	-	-	-	-285	-	-	-	-	-285
To be disbursed from gift fund	-	-	-	-	-192	-	-	-	-192
Direct recognitions in equity	-	-	-	-	-	-	-50	-	-50
Change in minority share	-	-	-	-	-	-	-	30	30
Issue	1	0	-1	-	-	-	-	-	-
<b>Total transactions with owners</b>	<b>1</b>	<b>-</b>	<b>-1</b>	<b>-285</b>	<b>-192</b>	<b>-</b>	<b>-50</b>	<b>30</b>	<b>-496</b>
<b>Equity capital at 31 December 2011</b>	<b>2,373</b>	<b>183</b>	<b>2,611</b>	<b>1,647</b>	<b>40</b>	<b>85</b>	<b>1,274</b>	<b>135</b>	<b>8,348</b>

<b>Equity capital at 1 January 2012</b>	<b>2,373</b>	<b>183</b>	<b>2,611</b>	<b>1,647</b>	<b>40</b>	<b>85</b>	<b>1,274</b>	<b>135</b>	<b>8,348</b>
Net Profit	-	-	-	-	-	-	506	4	510
<b>Other comprehensive income</b>									
Available-for-sale financial assets	-	-	-	-	-	5	-	-	5
Share of other comprehensive income of associates and joint venture	-	-	-	-	-	-	3	-	3
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>3</b>	<b>-</b>	<b>8</b>
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>509</b>	<b>4</b>	<b>518</b>
<b>Transactions with owners</b>									
Dividend declared for 2011	-	-	-	-190	-	-	-	-	-190
To be disbursed from gift fund					-40	-	-	-	-40
Rights issue	570	155	-	-	-	-	-	-	725
Employee placing	16	-	-	-	-	-	-	-	16
Reduction of nominal value per equity certificate	-475	475	-	-	-	-	-	-	0
Sale of own ECCs	-	-	-	-	-	-	-	-	-
Direct recognitions in equity	-	-	-	-	-	-	-9	-	-9
Change in minority share	-	-	-	-	-	-	-	-3	-3
<b>Total transactions with owners</b>	<b>111</b>	<b>630</b>	<b>-</b>	<b>-190</b>	<b>-40</b>	<b>-</b>	<b>-9</b>	<b>-3</b>	<b>499</b>
<b>Equity capital at 30 June 2012</b>	<b>2,484</b>	<b>813</b>	<b>2,611</b>	<b>1,457</b>	<b>-</b>	<b>90</b>	<b>1,774</b>	<b>136</b>	<b>9,365</b>

## Equity capital certificate ratio

	30 June 2012	31 Dec 2011
ECC capital	2,484	2,373
Dividend equalisation reserve	1,457	1,457
Premium reserve	813	183
Unrealised gains reserve	45	43
<b>A. The equity capital certificate owners' capital</b>	<b>4,799</b>	<b>4,055</b>
Ownerless capital	2,611	2,611
Unrealised gains reserve	25	28
<b>B. The saving bank reserve</b>	<b>2,636</b>	<b>2,639</b>
To be disbursed from gift fund	-	40
Dividend declared	-	190
<b>Equity ex. profit</b>	<b>7,435</b>	<b>6,924</b>
<b>Equity capital certificate ratio A/(A+B)</b>	<b>64.5 %</b>	<b>60.6 %</b>

## Results from quarterly accounts

Group in NOKm	2Q	1Q	4Q	3Q	2Q	1Q	4Q	3Q	2Q
	2012	2012	2011	2011	2011	2011	2010	2010	2010
Interest income	989	1,009	1,029	1,011	936	915	924	894	827
Interest expenses	619	659	691	657	592	559	601	549	506
<b>Net interest</b>	<b>369</b>	<b>351</b>	<b>338</b>	<b>354</b>	<b>344</b>	<b>356</b>	<b>323</b>	<b>345</b>	<b>321</b>
Commission income	240	196	188	200	199	192	199	196	193
Commission expenses	22	21	25	21	19	18	23	21	19
Other operating income	71	60	69	56	52	47	47	35	54
<b>Commission income and other income</b>	<b>288</b>	<b>235</b>	<b>232</b>	<b>234</b>	<b>232</b>	<b>221</b>	<b>222</b>	<b>210</b>	<b>229</b>
Dividends	9	0	2	0	31	3	0	0	42
Income from investment in related companies	50	99	119	49	69	54	83	69	57
Net return on financial investments	20	60	81	39	-1	33	85	30	9
<b>Net return on financial investments</b>	<b>79</b>	<b>160</b>	<b>202</b>	<b>88</b>	<b>99</b>	<b>89</b>	<b>168</b>	<b>100</b>	<b>108</b>
<b>Total income</b>	<b>737</b>	<b>746</b>	<b>772</b>	<b>676</b>	<b>675</b>	<b>666</b>	<b>713</b>	<b>655</b>	<b>657</b>
Staff costs	223	232	196	209	208	198	137	191	177
Administration costs	98	97	114	86	96	86	98	76	81
Other operating expenses	80	69	103	66	57	65	76	52	45
<b>Total operating expenses</b>	<b>401</b>	<b>398</b>	<b>412</b>	<b>361</b>	<b>361</b>	<b>348</b>	<b>311</b>	<b>320</b>	<b>303</b>
<b>Result before losses</b>	<b>336</b>	<b>349</b>	<b>360</b>	<b>315</b>	<b>314</b>	<b>318</b>	<b>402</b>	<b>335</b>	<b>354</b>
Loss on loans, guarantees etc.	17	8	26	8	-1	-6	25	12	28
<b>Result before tax</b>	<b>319</b>	<b>340</b>	<b>333</b>	<b>306</b>	<b>315</b>	<b>325</b>	<b>377</b>	<b>323</b>	<b>327</b>
Tax charge	81	68	54	66	65	70	60	67	66
<b>Net profit</b>	<b>238</b>	<b>272</b>	<b>279</b>	<b>240</b>	<b>250</b>	<b>255</b>	<b>318</b>	<b>256</b>	<b>260</b>

## Key figures from quarterly accounts

Group in NOKm	2Q	1Q	4Q	3Q	2Q	1Q	4Q	3Q	2Q
	2012	2012	2011	2011	2011	2011	2010	2010	2010
<b>Profitability</b>									
Return on equity per quarter	10.7%	13.0%	13.6%	12.0%	12.9%	13.2%	16.6%	13.9%	15.5%
Cost-income ratio	54 %	53 %	53 %	53 %	53 %	52 %	44 %	49 %	46 %
<b>Balance sheet</b>									
Gross loans to customers	73,595	71,681	73,105	71,570	68,559	68,553	69,847	67,069	64,390
Gross loans incl. SB1 Boligkreditt AS and SpareBank 1 Næringskreditt AS	100,552	97,387	95,232	92,671	90,939	88,606	87,665	86,046	83,767
Deposits from customers	51,504	48,974	47,871	46,024	45,990	42,900	42,786	38,643	41,273
Total assets	107,815	99,030	101,455	100,009	98,503	94,486	97,997	95,327	93,883
Average total assets	103,422	100,242	100,732	99,212	96,435	96,224	96,632	94,547	89,390
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskredtt last 12 months	10.6 %	9.9 %	8.6 %	7.7 %	8.6 %	11.4 %	13.2 %	12.4 %	12.6 %
Growth in deposits last 12 months	12.0 %	14.2 %	11.9 %	19.1 %	11.4 %	14.1 %	14.9 %	2.8 %	7.8 %
<b>Losses and defaults in % of gross loans incl. Boligkreditt and Næringskreditt</b>									
Impairment losses ratio	0.07 %	0.04 %	0.11 %	0.03 %	-0.01 %	-0.03 %	0.11 %	0.05 %	0.15 %
Non-performing commitm. as a percentage of gross loans	0.34 %	0.33 %	0.36 %	0.36 %	0.40 %	0.54 %	0.57 %	0.38 %	0.41 %
Other doubtful commitm. as a percentage of gross loans	0.20 %	0.19 %	0.21 %	0.24 %	0.20 %	0.23 %	0.24 %	0.84 %	0.81 %
<b>Solidity</b>									
Capital adequacy ratio	12.4 %	11.8 %	12.0 %	12.1 %	12.3 %	12.5 %	13,0 %	12.8 %	13.2 %
Core capital ratio	11.0 %	10.3 %	10.4 %	10.5 %	10.7 %	10.6 %	10.9 %	10.6 %	10.8 %
Core capital	8,722	7,902	7,856	7,504	7,394	7,330	7,286	7,033	6,960
Net equity and related capital	9,900	9,008	9,055	8,675	8,496	8,638	8,646	8,493	8,537
<b>Key figures ECC *)</b>									
ECC price	32.10	36.60	36.31	36.31	45.18	46.19	49.89	45.27	39.45
Number of certificates issued, millions	124.21	124.21	102.77	102.77	102.74	102.74	102.74	102.74	102.74
Booked equity capital per ECC (including dividend)	48.03	46.93	48.91	47.79	46.36	44.92	46.07	44.83	43.45
Profit per ECC, majority	1.22	1.41	1.79	1.42	1.51	1.48	1.82	1.50	1.50
Price-Earnings Ratio	6.58	6.49	5.07	6.39	7.48	7.80	6.85	7.55	6.58
Price-Book Value Ratio	0.67	0.78	0.74	0.75	0.96	1.03	1.07	1.02	0.91

\*) The key figures are corrected for issues

# Notes

## Contents

Note 1 - Accounting principles .....	28
Note 2 - Critical estimates and assessment concerning the use of accounting principles .....	29
Note 3 - Account by business line .....	30
Note 4 - Operating expenses .....	32
Note 5 - Distribution of loans by sector/industry .....	33
Note 6 - Losses on loans and guarantees .....	34
Note 7 - Losses .....	35
Note 8 - Defaults .....	36
Note 9 - Other assets .....	37
Note 10 - Distribution of customer deposits by sector/industry .....	38
Note 11 - Debt created by issue of securities .....	39
Note 12 - Other liabilities .....	40
Note 13 - Capital adequacy .....	41

## Note 1 - Accounting principles

SpareBank 1 SMN prepares and presents its quarterly accounts in compliance with the Stock Exchange Regulations, Stock Exchange Rules and International Financial Reporting Standards (IFRS), including IAS 34, Interim Financial Reporting. As from 2007 the company accounts are also prepared and presented under IFRS. This entails that investments in associates and subsidiaries are recognised using the cost method. For this reason results recorded by associates and subsidiaries are not included in the parent bank's accounts.

Further, the Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts. The quarterly accounts do not include all the information required in a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2010.

As from the first quarter of 2012, return on treasury bills is to be presented as net interest income instead of, as previously, capital gains or losses. Historical data have been correspondingly restated.

IAS 19 – Employee Benefits was adopted by the EU on 6 June 2012. See note 2 Estimates for further information.

## Note 2 - Critical estimates and assessment concerning the use of accounting principles

When it prepares the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This accordingly affects recognised amounts for assets, liabilities, revenues and expenses. Last year's annual accounts give a closer explanation of significant estimates and assumptions in Note 4 Critical estimates and assessments concerning the use of accounting principles.

### **Pensions**

The banking and financial industry has established an agreement on contractual early retirement (AFP) for employees reaching the age of 62. The Bank's contribution comprises the National Insurance Scheme's accumulation of disbursed pension for employees availing themselves of AFP. From age 62 to 64 the Bank's liability is 100 percent and 60 percent of the pension paid from age 65 to age 67. Admission of new retirees ceased with effect from 31 December 2010.

The Act relating to state subsidies in respect of employees who take out contractual pension in the private sector (AFP Subsidies Act) entered into force on 19 February 2010. Employees who take out AFP with effect in 2011 or later will receive benefits under the new scheme. The new AFP scheme represents a lifelong add-on to National Insurance and can be taken out from age 62. Employees accumulate AFP entitlement at an annual rate of 0.314 percent of pensionable income capped at 7.1 G up to age 62. Accumulation under the new scheme is calculated with reference to the employee's lifetime income, such that all previous working years are included in the qualifying basis.

For accounting purposes the new AFP scheme is regarded as a defined benefit multi-employer scheme. This entails that each employer accounts for its pro rata share of the scheme's pension obligation, pension assets and pension cost. If no calculations of the individual components of the scheme and a consistent and reliable basis for allocation are available, the new AFP scheme will be accounted for as a defined-contribution scheme. At the present time no such basis exists, and the new AFP scheme is accordingly accounted for as a defined-contribution scheme. The new AFP scheme will only be accounted for as a defined-benefit scheme once reliable measurement and allocation can be undertaken. Under the new scheme, one-third of the pension expenses will be funded by the State, two-thirds by the employers. The employers' premium will be fixed as a percentage of salary payments between 1 G and 7.1 G.

At year end no provision was made for the Group's de facto AFP (early retirement scheme) liability. The reason is that the Joint Office for the LO/NHO Schemes has not done the required calculations. Similarly, the year's AFP cost of the new scheme has not been booked. This is in keeping with the recommendation of the Norwegian Accounting Standards Board.

### **IAS Employee Benefits**

A new IAS 19 – Employee Benefits was adopted by the EU on 6 June 2012. Entry into force is scheduled for 1 January 2013, with scope for early implementation. SpareBank 1 SMN will implement the standard on 1 January 2013. Based on actuarial calculations as of 31 December 2011 the implementation effect is likely to be about NOK 50m, charged to Group equity capital. This is a discretionary estimate and final figures will differ somewhat since the implementation date is 1 January 2013.

### **Guarantee agreement with BN Bank**

On 1 February 2012 an agreement was signed whereby BN Bank waived its guarantee in respect of NOK 2.4bn of the portfolio, with the consequent lapse of the guarantee commission for this part of the portfolio with effect from the same date. This leaves NOK 0.7bn in the guarantee portfolio. The guarantee will run for three years.

## Note 3 - Account by business line

## Group 30 June 2012

Profit and loss account (NOK million)	Group 30 June 2012								Total
	RM	CM	Markets	EM 1	SMN Finans	Allegro	SMN Regnskap	Uncollated	
Net interest	251	433	-1	2	58	0	0	-22	720
Allocated	8	56	2	-	-	-	-	-66	-
<b>Total interest income</b>	<b>259</b>	<b>489</b>	<b>1</b>	<b>2</b>	<b>58</b>	<b>0</b>	<b>0</b>	<b>-88</b>	<b>720</b>
Commission income and other income	204	64	10	166	-1	5	52	23	524
Net return on financial investments (**)	1	17	41	0	0	-	1	180	239
<b>Total income *)</b>	<b>464</b>	<b>570</b>	<b>52</b>	<b>168</b>	<b>56</b>	<b>5</b>	<b>53</b>	<b>115</b>	<b>1,483</b>
<b>Total operating expenses</b>	<b>320</b>	<b>196</b>	<b>45</b>	<b>126</b>	<b>25</b>	<b>7</b>	<b>44</b>	<b>36</b>	<b>799</b>
<b>Ordinary operating profit</b>	<b>144</b>	<b>374</b>	<b>8</b>	<b>42</b>	<b>31</b>	<b>-1</b>	<b>9</b>	<b>80</b>	<b>684</b>
Loss on loans, guarantees etc.	2	22	-	-	1	-	-	0	25
<b>Result before tax</b>	<b>142</b>	<b>351</b>	<b>8</b>	<b>42</b>	<b>30</b>	<b>-1</b>	<b>9</b>	<b>80</b>	<b>659</b>
<b>Post-tax return on equity</b>	<b>16.2 %</b>	<b>13.8 %</b>							<b>11.7 %</b>
<b>Balance (NOK million)</b>									
Loans and advances to customers	55,338	40,163	-	72	2,997	29	8	1,944	100,552
Adv. of this to SpareBank 1 Boligkreditt	-24,921	-1,077	-	-	-	-	-	-959	-26,958
Individual allowance for impairment on loan	-31	-124	-	-	-11	-	-	0	-166
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	201	579	-	187	37	8	51	33,616	34,676
<b>Total assets</b>	<b>30,586</b>	<b>39,541</b>	<b>-</b>	<b>259</b>	<b>3,005</b>	<b>37</b>	<b>59</b>	<b>34,328</b>	<b>107,815</b>
Deposits to customers	22,644	25,871	-	-	-	-	-	2,990	51,504
Other liabilities and equity	7,943	13,670	-	259	3,005	37	59	31,338	56,310
<b>Total liabilities</b>	<b>30,586</b>	<b>39,541</b>	<b>-</b>	<b>259</b>	<b>3,005</b>	<b>37</b>	<b>59</b>	<b>34,328</b>	<b>107,815</b>

## Group 30 June 2011

Profit and loss account (NOK million)	Group 30 June 2011								Total
	RM	CM	Markets	EM 1	SMN Finans	Allegro	SMN Regnskap	Uncollated	
Net interest	257	378	6	2	48	0	-	9	700
Allocated	11	65	3	-	-	-	-	-79	-
<b>Total interest income</b>	<b>268</b>	<b>443</b>	<b>9</b>	<b>2</b>	<b>48</b>	<b>0</b>	<b>-</b>	<b>-70</b>	<b>700</b>
Commission income and other income	179	70	9	144	-1	6	36	11	453
Net return on financial investments (**)	1	11	25	-0	1	-	0	151	188
<b>Total income *)</b>	<b>448</b>	<b>523</b>	<b>43</b>	<b>146</b>	<b>48</b>	<b>7</b>	<b>36</b>	<b>92</b>	<b>1,341</b>
<b>Total operating expenses</b>	<b>307</b>	<b>171</b>	<b>38</b>	<b>113</b>	<b>23</b>	<b>8</b>	<b>31</b>	<b>17</b>	<b>708</b>
<b>Ordinary operating profit</b>	<b>141</b>	<b>351</b>	<b>5</b>	<b>33</b>	<b>25</b>	<b>-1</b>	<b>5</b>	<b>74</b>	<b>633</b>
Loss on loans, guarantees etc.	3	-19	-	-	8	-	-	0	-7
<b>Result before tax</b>	<b>138</b>	<b>370</b>	<b>5</b>	<b>33</b>	<b>17</b>	<b>-1</b>	<b>5</b>	<b>74</b>	<b>640</b>



## Note 4 - Operating expenses

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
528	277	312	Personnel expenses	455	405	810
167	80	81	IT costs	92	88	185
23	12	12	Postage and transport of valuables	13	14	27
38	18	17	Marketing	23	24	50
38	18	20	Ordinary depreciation	48	40	87
119	57	61	Operating expenses, real properties	48	45	95
47	19	22	Purchased services	26	24	55
129	49	61	Other operating expense	93	69	173
<b>1.089</b>	<b>530</b>	<b>586</b>	<b>Total other operating expenses</b>	<b>799</b>	<b>708</b>	<b>1.482</b>

## Note 5 - Distribution of loans by sector/industry

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
5.027	4.332	5.476	Agriculture/forestry/fisheries/hunting	5.652	4.525	5.217
1.883	2.287	1.966	Sea farming industries	2.096	2.426	2.026
2.644	2.543	3.099	Manufacturing	3.329	2.805	2.881
2.113	2.345	2.574	Construction, power and water supply	3.063	2.825	2.572
2.147	2.178	2.138	Retail trade, hotels and restaurants	2.324	2.407	2.337
5.974	5.384	5.939	Maritime sector	5.946	5.389	5.978
12.662	12.781	12.381	Property management	11.877	12.314	12.179
3.573	3.051	3.375	Business services	3.678	3.334	3.867
1.808	1.794	1.826	Transport and other services provision	2.164	2.055	2.078
63	23	27	Public administration	32	58	92
969	692	1.560	Other sectors	2.646	694	971
<b>38.861</b>	<b>37.411</b>	<b>40.362</b>	<b>Gross loans in retail market</b>	<b>42.807</b>	<b>38.832</b>	<b>40.198</b>
54.058	51.209	57.718	Wage earners	57.746	52.107	55.034
<b>92.919</b>	<b>88.620</b>	<b>98.079</b>	<b>Gross loans incl. Boligkreditt / Næringskreditt</b>	<b>100.552</b>	<b>90.939</b>	<b>95.232</b>
22.126	22.379	26.958	Boligkreditt / Næringskreditt	26.958	22.379	22.126
<b>70.793</b>	<b>66.241</b>	<b>71.121</b>	<b>Gross loans in balance sheet</b>	<b>73.595</b>	<b>68.559</b>	<b>73.105</b>

## Note 6 - Losses on loans and guarantees

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
-36	-45	4	Change in individual impairment losses provisions for the period	-6	-44	-50
-	-	-	Change in collective impairment losses provisions for the period	-	-	-
75	55	38	Actual loan losses on comm. for which provisions have been made	49	57	91
9	7	10	Actual loan losses on commitments for which no provision has been made	11	15	26
-37	-33	-28	Recoveries on commitments previously written-off	-29	-34	-39
<b>12</b>	<b>-15</b>	<b>24</b>	<b>Losses of the year on loans and guarantees</b>	<b>25</b>	<b>-7</b>	<b>27</b>

## Note 7 - Losses

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
186	186	151	Individual write-downs to cover loss on loans at 01.01	172	222	222
9	8	25	+Increased write-downs on provisions previously written down	25	8	10
26	20	6	- Reversal of provisions from previous periods	7	22	28
57	23	23	+Write-downs on provisions not previously written down	24	26	59
75	55	38	- Actual losses during the period for which provisions for individual impairment losses have been made previously	49	57	91
<b>151</b>	<b>141</b>	<b>155</b>	<b>Specification of loss provisions at end of period</b>	<b>166</b>	<b>177</b>	<b>172</b>
85	63	48	Actual losses	60	71	117

## Note 8 - Defaults

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
			<b>Total defaults</b>			
272	254	278	Loans in default for more than 90 days *)	338	361	338
73	58	92	- Individual write-downs	99	88	89
199	196	186	Net defaults	239	273	249
27 %	23 %	33 %	Provision rate	29 %	24 %	26 %
			<b>Problem Loans</b>			
191	161	183	Problem loans (not in default)	199	178	204
77	84	62	- Individual write-downs	67	90	83
113	77	121	Net problem loans	132	88	121
41 %	52 %	34 %	Provision rate	34 %	51 %	41 %

\*) Of which NOK 55 million relates to loans in the guarantee portfolio taken over from BN Bank ASA. These will not entail loss for SpareBank 1 SMN.

## Note 9 - Other assets

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
-	-	-	Deferred tax benefit	3	7	19
151	143	183	Fixed assets	1.199	1.074	1.109
-	-	-	Assets held for sale	559	1.037	481
956	1.037	1.043	Earned income not yet received	1.027	185	948
4	185	402	Accounts receivable, securities	402	461	4
30	287	563	Other assets	807	407	218
<b>1.142</b>	<b>1.651</b>	<b>2.190</b>	<b>Total other assets</b>	<b>3.998</b>	<b>3.170</b>	<b>2.779</b>

## Note 10 - Distribution of customer deposits by sector/industry

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
1,757	1,805	2,101	Agriculture/forestry/fisheries/hunting	2,101	1,805	1,757
402	485	272	Sea farming industries	272	485	402
1,079	1,325	1,915	Manufacturing	1,915	1,325	1,079
1,420	1,145	1,623	Construction, power and water supply	1,623	1,145	1,420
3,517	2,717	3,209	Retail trade, hotels and restaurants	3,209	2,717	3,517
1,103	770	899	Maritime sector	899	770	1,103
3,545	2,847	4,218	Property management	3,589	2,802	3,517
5,103	4,544	4,867	Business services	4,867	4,544	5,103
3,231	3,034	3,515	Transport and other services provision	3,446	2,960	3,036
3,920	4,356	3,164	Public administration	3,164	4,356	3,920
2,178	2,443	4,014	Other sectors	3,985	2,419	2,157
<b>27,254</b>	<b>25,470</b>	<b>29,797</b>	<b>Total</b>	<b>29,071</b>	<b>25,327</b>	<b>27,011</b>
20,860	20,663	22,433	Wage earners	22,433	20,663	20,860
<b>48,114</b>	<b>46,133</b>	<b>52,231</b>	<b>Total deposits</b>	<b>51,504</b>	<b>45,990</b>	<b>47,871</b>

## Note 11 - Debt created by issue of securities

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
219	319	1,230	Short-term debt instruments, nominal value	1,230	319	219
27,681	25,985	26,851	Bond debt, nominal value	26,851	25,985	27,681
248	78	260	Value adjustments	260	78	248
<b>28,148</b>	<b>26,382</b>	<b>28,341</b>	<b>Total</b>	<b>28,341</b>	<b>26,382</b>	<b>28,148</b>

## Change in securities debt, subordinated debt and hybrid equity

	30 June 2012	Issued	Fallen due / Redeemed	Other changes	30 June 2011
Short-term debt instruments, nominal value	1,230	1,061	49	-	219
Bond debt, nominal value	26,851	4,265	5,040	-55	27,681
Value adjustments	260	-	-	11	248
<b>Total</b>	<b>28,341</b>	<b>5,326</b>	<b>5,089</b>	<b>-44</b>	<b>28,148</b>
	30 June 2012	Issued	Fallen due / Redeemed	Other changes	30 June 2011
Ordinary subordinated loan capital, nominal value	1,328	-	-	-21	1,349
Perpetual subordinated loan capital, nominal value	300	-	-	0	300
Hybrid equity, nominal value	900	-	-	-3	902
Value adjustments	134	-	-	-5	139
<b>Total</b>	<b>2,662</b>	<b>-</b>	<b>-</b>	<b>-29</b>	<b>2,690</b>

## Note 12 - Other liabilities

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
40	21	40	Deferred tax	50	21	55
215	127	91	Payable tax	118	139	244
913	821	926	Accrued expenses and received, non-accrued income	1.278	1.080	1.213
101	136	112	Provision for accrued expenses and commitments	112	136	102
-	-	-	Pension liabilities	7	6	7
113	68	96	Drawing debt	96	68	113
10	3	1	Creditors	41	46	38
20	162	171	Debt from securities	171	162	20
-	-	-	Debt available for sale	79	414	151
130	395	347	Other liabilities	374	128	177
<b>1.544</b>	<b>1.734</b>	<b>1.784</b>	<b>Total other liabilities</b>	<b>2.325</b>	<b>2.201</b>	<b>2.122</b>

## Note 13 - Capital adequacy

New capital adequacy rules were introduced in Norway as from 1 January 2007 (Basel II - the EU's new directive on capital adequacy). SpareBank1 SMN applied to and received permission from Finanstilsynet (Financial Supervisory Authority of Norway) to use internal rating methods (Internal Rating Based Approach - Foundation) to calculate charges for credit risk from 1 January 2007 onwards. This will make the statutory minimum capital adequacy requirement more risk-sensitive, so that it better reflects the risk in the underlying portfolios. Using IRB demands high standards of the Bank's organisation, competence, risk models and risk management systems. Under interim regulations issued by Finanstilsynet, IRB banks are not yet seeing the full effect of the reduced capital requirements. As from 2009, a 20 per cent reduction of the risk-weighted basis of calculation was allowed.

### Subordinated debt and hybrid capital

Subordinated debt ranks behind all other liabilities. Dated subordinated loans cannot constitute more than 50 percent of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans cannot constitute more than 100 percent of tier 1 capital. Subordinated loans are classified as a liability in the balance sheet and are measured at amortised cost in the same way as other long-term loans.

Hybrid capital denotes bonds with a nominal interest rate, but the bank is not obliged to pay interest in a period where dividends are not paid, and neither is the investor subsequently entitled to interest that has not been paid, i.e. interest does not accumulate. Hybrid capital is approved as an element of tier 1 capital up to limit of 15 percent of aggregate tier 1 capital. Finanstilsynet (Norway's FSA) can require hybrid capital to be written down in proportion with equity capital should the bank's tier 1 capital adequacy fall below 5 percent or total capital adequacy falls below 6 percent. Written-down amounts on hybrid capital must be written up before dividends can be paid to shareholders or before equity capital is written up. Hybrid capital is shown as other long-term debt at amortised cost.

For detailed information regarding subordinated debt and hybrid capital, see note 34 in the Bank's annual report.

Parent bank				Group		
	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
2,373	2,373	2,484	Equity capital certificates	2,484	2,373	2,373
0	0	0	- Own holding of ECCs	0	0	0
183	182	813	Premium fund	813	182	183
1,457	1,160	1,457	Dividend equalisation fund	1,457	1,160	1,457
2,611	2,345	2,611	Savings bank's reserve	2,611	2,345	2,611
190	-	-	Recommended dividends	-	-	190
40	-	-	Provision for gifts	-	-	40
70	45	70	Unrealised gains reserve	90	71	85
-	-	0	Other equity and minority interest	1,400	1,267	1,409
-	556	614	Net profit	510	505	-
<b>6,924</b>	<b>6,660</b>	<b>8,050</b>	<b>Total book equity</b>	<b>9,365</b>	<b>7,902</b>	<b>8,348</b>
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-670	-643	-692
-	-	-	Part of reserve for unrealised gains, associated companies	64	65	64
-230	-	-0	Deduction for allocated dividends and gifts	-	-	-230
-387	-386	-460	50 % deduction for subordinated capital in other financial institutions	-2	-	-
-137	-142	-139	50 % deduction for expected losses on IRB, net of write-downs	-153	-151	-147
-	-	-	50 % capital adequacy reserve	-682	-636	-656
-	-	-82	Surplus financing of pension obligations	-74	-	-
-	-556	-614	Net profit	-510	-505	-
-	278	307	Year-to-date profit included in core capital (50% pre tax)	255	252	-
956	893	950	Hybrid capital, core capital	1.130	1.110	1.170
<b>6.680</b>	<b>6.300</b>	<b>7.564</b>	<b>Total core capital</b>	<b>8.722</b>	<b>7.394</b>	<b>7.856</b>
			<b>Supplementary capital in excess of core capital</b>			
0	0	0	Hybrid capital, supplementary capital	37	0	0
326	315	324	Perpetual subordinated capital	325	315	328
1.409	1.310	1.388	Non-perpetual subordinated capital	1.653	1.574	1.674
-387	-386	-460	50 % deduction for subordinated capital in other financial institutions	-2	-	-
-137	-142	-139	50 % deduction for expected losses on IRB, net of write-downs	-153	-151	-147

-	-	-	50 % capital adequacy reserve	-682	-636	-656
<b>1,211</b>	<b>1,097</b>	<b>1,112</b>	<b>Total supplementary capital</b>	<b>1,178</b>	<b>1,102</b>	<b>1,199</b>
<b>7,891</b>	<b>7,397</b>	<b>8,676</b>	<b>Net subordinated capital</b>	<b>9,900</b>	<b>8,496</b>	<b>9,055</b>
			<b>Minimum requirements subordinated capital, Basel II</b>			
1,456	1,408	1,584	Involvement with specialised enterprises	1,584	1,408	1,456
1,313	1,195	1,511	Other corporations exposure	1,511	1,203	1,313
40	56	38	SME exposure	41	59	42
324	292	318	Retail mortgage exposure	541	451	513
31	31	28	Other retail exposure	30	33	33
653	634	1,008	Equity investments	-	-	-
<b>3,818</b>	<b>3,616</b>	<b>4,487</b>	<b>Total credit risk IRB</b>	<b>3,707</b>	<b>3,154</b>	<b>3,357</b>
182	98	223	Debt risk	223	98	182
49	41	48	Equity risk	15	15	16
-	-	-	Currency risk	-	-	-
293	293	315	Operational risk	420	400	400
653	528	609	Exposures calculated using the standardised approach	2,121	1,962	2,184
-65	-65	-76	Deductions	-115	-107	-111
-	-	-	Transitional arrangements	-	-	-
<b>4,930</b>	<b>4,512</b>	<b>5,607</b>	<b>Minimum requirements subordinated capital</b>	<b>6,371</b>	<b>5,522</b>	<b>6,029</b>
10.8 %	11.2 %	10.8 %	Capital adequacy	11.0 %	10.7 %	10.4 %
12.8 %	13.1 %	12.4 %	Core capital ratio	12.4 %	12.3 %	12.0 %

# Statement in compliance with the securities trading act, section 5-6

## Statement by the Board of Directors and CEO

We hereby declare that to the best of our knowledge the half-yearly financial statements for the period 1 January to 30 June 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting, and that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank and the group taken as a whole.

We also declare that to the best of our knowledge the half-yearly management report gives a fair review of important events in the reporting period and their impact on the financial statements, the principal risks and uncertainties facing the business in the next reporting period, and **significant** transactions with related parties.

Trondheim, 9 August 2012  
The Board of Directors of SpareBank 1 SMN

Per Axel Koch  
(chair)

Kjell Bjordal  
(deputy chair)

Aud Skrudland

Arnhild Holstad

Bård Benum

Elbjørg Gui Standal

Paul E. Hjelm-Hansen

Venche Johnsen  
(employee rep.)

Finn Haugan  
(Group CEO)

## Equity capital certificates

### Stock price compared with OSEBX and OSEEX

1 July 2010 to 30 June 2012

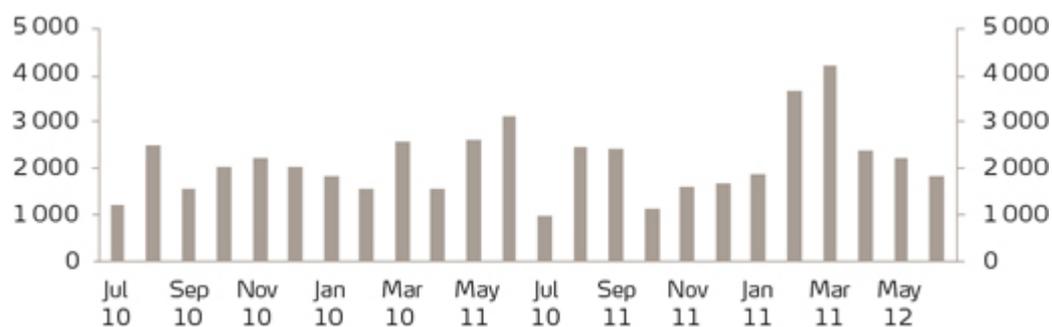


*OSEBX = Oslo Stock Exchange Benchmark Index (rebased)*

*OSEEX = Oslo Stock Exchange ECC Index (rebased)*

### Trading statistics

1 July 2010 to 30 June 2012



*Total number of ECCs traded (1000)*

<b>20 largest ECC holders</b>	<b>Number</b>	<b>Share</b>
Reitangruppen AS	9,019,108	7.31 %
Aker ASA / The Resource Group TRG	3,719,255	3.01 %
Odin Norge	3,505,454	2.84 %
Odin Norden	2,894,751	2.35 %
Frank Mohn AS	2,876,968	2.33 %
Vind LV AS	2,736,435	2.22 %
Rasmussengruppen AS	2,278,455	1.85 %
MP Pensjon PK	1,893,415	1.53 %
Citibank N.A New York Branch (nominee)	1,806,870	1.46 %
Danske Invest Norske Aksjer Inst	1,715,512	1.39 %
Stiftelsen Uni	1,370,917	1.11 %
I.K. Lykke, T.Lykke m.fl.	1,161,567	0.94 %
Tonsenhagen Forretningssentrum AS	1,135,193	0.92 %
Verdipapirfondet Fondsfinans Spar	1,040,000	0.84 %
Forsvarets personellservice	1,034,246	0.84 %
Stenshagen Invest	1,014,587	0.82 %

Morgan Stanley & Co.	987,123	0.80 %
KLP Aksje Norden VPF	977,006	0.79 %
State Street Bank & Trust Company (nominee)	938,361	0.76 %
Odin Europa SMB	831,041	0.67 %
<b>The 20 largest ECC holders in total</b>	<b>42,936,264</b>	<b>34.57 %</b>
Others	81,282,202	65.43 %
<b>Total issued ECCs</b>	<b>124,218,466</b>	<b>100.00 %</b>

### Dividend policy

SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide equity certificate holders with a good, stable and competitive return in the form of dividend and a rising value of the bank's equity certificate.

The net profit for the year will be distributed between the owner capital (the equity certificate holders) and the ownerless capital in accordance with their respective shares of the bank's total equity capital.

SpareBank 1 SMN's intention is that up to one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that up to one half of the owner capital's share of the net profit for the year should be disbursed as gifts or transferred to a foundation. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, external framework conditions and the need for tier 1 capital.

## Auditor's report

**Deloitte.**Deloitte AS  
Postboks 5670 Sluppen  
N-7485 Trondheim  
NorwayBesøksadresse:  
Dyro Høises gate 1 ATlf: +47 73 87 89 00  
Faks: +47 73 87 89 01[www.deloitte.no](http://www.deloitte.no)

Translation from the original Norwegian version

To the Board of Directors of SpareBank 1 SMN

**Report on Review of Interim Financial Information of SpareBank 1 SMN  
as of June 30 2012**

We have reviewed the accompanying balance sheet of SpareBank1 SMN as of June 30 2012 and the related statements of income for the group, showing a profit of 518,000,000, changes in equity and cash flows for the three month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34, as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

We have conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at June 30, 2012, and of its financial performance and its cash flows for the three month period then ended in accordance with International Accounting Standard 34, as adopted by the EU.

We have also checked the bank's assessment of losses and write-downs on loans and found that this is undertaken in accordance with IAS 39.

Trondheim 09. August 2012  
Deloitte ASMette Estenstad (Signed)  
State Authorised Public Accountant (Norway)

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