

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
Total	524	453	71

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
Return on financial investments, NOKm		
Capital gains/dividends, shares	-10	40
Bonds and derivatives	41	7
SpareBank 1 SMN Markets	59	19
Net return on financial investments	90	66
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
Income from investment in related companies	149	122
Total	239	188

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.

Saving products, customer portfolio, NOKm	30 June 2012	30 June 2011	Change
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
Total	5,123	5,772	-649

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
Total	968	896	72

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
Profit before tax	142	138	4
ROE after tax	16.2 %	17.6 %	
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
Profit before tax	351	370	-19
ROE after tax	13.8 %	14.2 %	
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
Total income	68.5	52.3	16.2

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
Total	66.8	68.4	-1.6

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
Capital base	9,900	8,496
Required subordinated debt	6,371	5,522
Tier 1 capital ratio	11.0 %	10.7 %
Total capital ratio	12.4 %	12.3 %

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)