

Report of the Board of Directors

Accounts for the nine months ended 30 September 2012

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

A limited audit has been conducted of the income statement and balance sheet of SpareBank 1 SMN, both the Company and the Group, as of 30 September 2012.

- Profit before tax: NOK 1,042m (946m)
- Net profit: NOK 816m (745m)
- Return on equity: 12.1 percent (12.6 percent)
- Growth in lending 11.4 percent (7.7 percent) and deposits 10.5 percent (19.1 percent) over past 12 months
- Loan losses: NOK 42m (1m)
- Tier 1 capital adequacy: 10.6 percent (10.4 percent)
- Earnings per equity certificate (EC): NOK 3.99 (4.41)

Third quarter 2012 in isolation

- Profit before tax: NOK 383m (306m)
- Net profit: NOK 306m (240m)
- Return on equity: 12.8 percent (12.0 percent)
- Loan losses: NOK 16m (8m)
- Earnings per EC: NOK 1.52 (1.42)

Good profit performance in first nine months of 2012

Highlights:

- Profit improvement compared with the same period of 2011
- Positive income trend in core business and good return on financial investments
- Increased lending margins
- Low loan losses
- Strong growth in deposits, lending and in risk-weighted assets

In the first nine months of 2012 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,042m (946m). Net profit was NOK 816m (745m) and return on equity was 12.1 percent (12.6 percent).

Pre-tax profit in the third quarter in isolation was NOK 383m which represents an improvement compared with both the first and second quarter. Return on equity in the third quarter in isolation was 12.8 percent.

Overall operating income in the first nine months was NOK 1,897m (1,741m), an increase of NOK 156m compared with the same period of 2011. Operating income rose at the parent bank and subsidiaries alike.

Return on financial investments was NOK 403m (276m) in the first nine months, of which income on owner interests accounted for NOK 234m (171m).

Operating expenses came to NOK 1,217m (1,070m) in the first nine months of 2012, NOK 147m higher than in 2011.

Net losses on loans and guarantees were NOK 42m (1m). An increase of NOK 5m was made in the provision for collectively assessed impairment write-downs in the third quarter.

As of end-September 2012 12-month growth in lending was 11.4 percent (7.7 percent) and 12-month growth in deposits was 10.5 percent (19.1 percent). Overall growth in lending in the first nine months was 8.4 percent (8.1 percent) and overall deposit growth was 6.2 percent (7.6 percent).

In the third quarter a placing of NOK 200m was made in favour of the foundation Sparebankstiftelsen SMN (NOK 141m) and an international investor (NOK 59m). In 2012 stock issues have generated proceeds totalling NOK 936m.

As of 30 September 2012 the Group's tier 1 capital ratio was 10.6 percent (10.4 percent) and the total capital ratio was 11.9 percent (12.1 percent).

At end-September the Bank's EC was priced at NOK 37.00 (36.31 at end-2011).

Earnings per EC for the first nine months were NOK 3.99 (4.41), and book value per EC was NOK 49.00 (48.45).

Improved net interest income in the third quarter

Net interest income in the first nine months came to NOK 1,079m (1,053m). Net interest income in the third quarter alone totalled NOK 358m, slightly down on the second quarter (369m). Net interest income including commissions from SpareBank 1 Boligkreditt has remained at a high level in 2012. This is due to lower market interest rates (NIBOR) which enabled higher lending margins. Gross interest margins on loans are now at a higher level than in the same period last year. Interest expenses rose upon renewal of the Bank's money market funding.

Net interest income from home mortgage loans transferred to SpareBank 1 Boligkreditt is recorded as commission income. This amounted to NOK 126m (63m) for the first nine months.

As of end-September 2012 home mortgage loans worth NOK 27.3bn (21.1bn) had been transferred to SpareBank 1 Boligkreditt. Transfer of loans to SpareBank 1 Næringskreditt started in the current year, and as of 30 September 2012 NOK 623m has been transferred to this company. As of the same date NOK 3m has been taken to income in commission income from SpareBank 1 Næringskreditt.

As of 15 October the Bank has carried out general interest rate increases on loans to corporate customers.

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

Increased commission income

Commission income and other operating income rose by NOK 131m or 16 percent to reach NOK 818m (687m) as of end-September 2012. Income from SpareBank 1 Boligkreditt, real estate agency and accounting services has shown the largest increase. Commission income from SpareBank 1 Boligkreditt has increased due to the very low interest rate level and has resulted in increased margins on the company's loan portfolio.

Commission income, NOKm	30 Sept 2012	30 Sept 2011	Change
Payment transfers	148	150	-2
Savings	33	41	-8
Insurance	86	77	9
SpareBank 1 Boligkreditt and Næringskreditt	129	63	66
Guarantee commission	22	21	1
Real estate agency	255	226	30
Accountancy services	78	54	24
Active management	8	9	-1
Income from new head office	27	22	4
Other commissions	31	23	7
Total	818	687	130

Financial investments

Overall return on financial investments (excluding the Bank's share of the profit/loss of affiliates and joint ventures) was NOK 170m (105m) in the first nine months. Overall return breaks down as follows:

- Return on the Group's share portfolios totalled NOK 19m (66m)
- Net gains on bonds and derivatives came to NOK 56m (-NOK 17m)
- Gains on forex and fixed income trading at SpareBank 1 SMN Markets were NOK 95m (56m). NOK 17m of the increase is a result of the cooperation agreement with SpareBank 1 Markets Oslo

Return on financial investments, NOKm	30 Sept 2012	30 Sept 2011
Capital gains/dividends, shares	19	66
Bonds and derivatives	56	-17
SpareBank 1 SMN Markets	95	56
Net return on financial investments	170	105
SpareBank 1 Gruppen	104	50
SpareBank 1 Boligkreditt	37	15
SpareBank 1 Næringskreditt	8	6
Bank1 Oslo Akershus	34	14
BN Bank	41	73
Polaris	18	21
Other jointly controlled companies	-8	-8
Income from investment in related companies	234	171
Total	403	276

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit in the first nine months of 2012 was NOK 491m (245m). The main contributors 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 104m (50m).

The fiscal budget proposal for 2013 puts forward changes in the taxation of life insurers' collective portfolios. Provisional estimates show that this could entail tax charge increases of the order of NOK 175m to NOK 200m for SpareBank 1 Gruppen in 2012. som en engangseffekt i 4. kvartal

For SpareBank 1 SMN the effect of a possible reorganisation of the tax regime as described above would be reduction of about NOK 40m in profit contribution from SpareBank 1 Gruppen in the fourth quarter of 2012.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to take advantage of the market for covered bonds. By transferring their highest quality home mortgage loans to the company, the SpareBank 1 banks benefit from reduced funding costs and see 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 nine months of 2012 was NOK 37m (15m). The Bank's 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 nine months of 2012 was NOK 8m (6m). 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 34m (14m) in the first nine months 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 as of end-September 2012.

SpareBank 1 SMN's share of the profit of BN Bank for the first nine months of 2012 came to NOK 41m (73m), which includes amortisation effects. So far in 2012 the amortisation effect has increased the profit by NOK 8m (31m).

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-September 2012 is NOK 331m including SpareBank 1 SMN's estimated share of the profit for the first nine months of 2012 in an amount of NOK 18m (21m). Since Polaris Media's third quarter 2012 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.

Operating expenses

Overall costs came to NOK 1,217m (1,070m) in the first nine months of 2012. Group expenses have thus risen by NOK 147m or 13.7 percent.

Parent bank cost growth was NOK 89m or 11.1 percent. SpareBank 1 SMN has strengthened capacity and competence on the customer facing front, resulting in cost growth. Further contributors to cost growth are the stock placing in favour of employees along with costs related to loan intermediaries in the home mortgage market and increased costs of developing the SpareBank 1 collaboration.

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 NOK 58m or 21 percent. However, turnover has risen by a wider margin than this, bringing improved profit performances at both companies.

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

Cost growth is in accordance with the Group's plans. A wide-ranging improvement programme has been initiated with the aim of improving the customer's experience, raising productivity and reducing 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. A key measure is the reorganisation of the Bank's organisational structure with effect from 1 January 2013 whose overarching aim is to bring about a clearly reinforced focus on the customer facing side of the business.

The Board of Directors has adopted an plan to reduce person-years worked at the parent bank from 800 to 725 in the period to 2015 as a part of the efficiency improvements. This will be achieved by natural wastage and will not disrupt the focus on the customer facing side. Annual cost growth at the parent bank is to be reduced to 3 percent.

Reduced losses and lower defaults

Net loan losses came to NOK 42m (1m) in the first nine months of 2012. This includes an increase of NOK 5m in collectively assessed impairment write-downs in the third quarter. Net individually assessed write-downs in the third quarter in isolation were NOK 11m (8m).

The corporate portfolio showed net individually assessed impairment write-downs of NOK 34m (5m) in the first nine months of 2012, including a loss of NOK 4m (11m) at SpareBank 1 SMN Finans. No significant new individual impairment write-downs have been made in 2012.

On the retail portfolio a net loss of NOK 3m (6m) was recorded in the first nine months of 2012.

Total individually assessed loan impairment write-downs recognised in the balance sheet came to NOK 148m (159m) in the first nine months.

Total problem loans (defaulted and doubtful) came to NOK 561m (555m), or 0.54 percent (0.60 percent) of gross outstanding loans including loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 398m (332m), measuring 0.39 percent (0.36 percent) of gross lending. Of total defaults, NOK 86m (79m) are loss provisioned, corresponding to 22 percent (24 percent).

Defaults total NOK 261m on the corporate portfolio and NOK 137m on the retail portfolio. The increase is attributable to increased defaults on a small number of individual exposures.

Other doubtful exposures totalled NOK 163m (223m), 0.16 percent (0.24 percent) of gross outstanding loans. Individual write-downs on these exposures were NOK 62m (81m) or 38 percent (36 percent).

Other doubtful exposures comprise NOK 147m on corporates and NOK 16m on retail customers.

Collectively assessed impairment write-downs

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

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

In the third quarter of 2012 provision for collectively assessed impairment write-downs was raised by NOK 5m due to somewhat increased uncertainty related to exposures in certain sectors. The aggregate volume of such write-downs is NOK 295m (290m).

Total assets of NOK 111bn

The Bank's assets totalled NOK 110.6bn (100.0bn) as of end-September 2012, having risen by NOK 10.6bn or 10.6 percent over the past 12 months.

In the first nine months of 2012 loans worth 27.9bn (21.1bn) had been transferred from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the Bank's balance sheet. Earnings on loans transferred to SpareBank 1 Boligkreditt are recorded in the accounts as commission income. The comments covering lending growth include loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Strong growth in lending to the retail segment

In the last 12 months, total outstanding loans rose by NOK 10.6bn (6.6bn) or 11.4 percent (12.4 percent) to reach NOK 103.3bn by end-September 2012. Growth in the third quarter 2012 was 8.4 percent (11.1 percent).

Lending to retail customers rose by NOK 6.8bn (5.0bn) or 12.7 percent (10.2 percent) to reach NOK 60.5bn in the last 12 months. Growth in lending to retail customers so far this year has been 9.9 percent (8.1 percent).

12-month growth in lending to corporates was NOK 3.8bn (1.6bn) or 9.7 percent (4.4 percent). Overall outstanding loans to corporates came to NOK 42.8bn as of end-September 2012. Growth in lending to corporate customers in 2012 in isolation has been 6.5 percent (2.6 percent). Growth has been relatively evenly spread across the market area.

Lending to retail customers accounted for 59 percent (58 percent) of ordinary loans to customers as of end-September 2012.

Good deposit growth

In the 12 months to end-September, customer deposits rose by NOK 4.8bn (1.1bn) to NOK 50.8bn. This represents a growth of 10.5 percent (19.1 percent) over this 12 month period.

Retail customer deposits rose by NOK 1.7bn (1.5bn) or 8.2 percent (8.1 percent) to reach NOK 22.2bn, while deposits from corporates rose by NOK 3.1bn (5.8bn) or 12.3 percent (29.7 percent) to NOK 28.6bn. Deposit growth in the corporate market is also relatively evenly spread in geographical terms.

Portfolio of investment products

The customer portfolio of off-balance sheet investment products totalled NOK 5.2bn (4.8bn) as of end-September 2012. Equity funds and pension products show higher values compared with last year. Energy funds are not attracting new buyers, and the portfolio is diminishing.

Saving products, customer portfolio, NOKm	30 Sept 2012	30 Sept 2011	Change
Equity funds	2,585	2,416	169
Pension products	996	732	264
Active management	998	951	47
Energy fund management	161	235	-74
Property funds	447	447	0
Total	5,187	4,781	406

Good growth in the Bank's insurance portfolio

The Bank's insurance portfolio grew by 9 percent in the 12 months to end-September. Non-life insurance showed 9 percent growth, personal insurance 6 percent and the occupational pensions segment 13 percent growth.

Insurance, premium volume, NOKm	30 Sept 2012	30 Sept 2011	Change
Non-life insurance	668	614	54
Personal insurance	179	169	10
Occupational pensions	141	125	16
Total	988	908	80

Strong profit and sound growth for the Retail Division

The retail market business achieved a return on equity of 19.5 percent (18.6 percent) in the first nine months of 2012.

Operating income totalled NOK 740m (668m) in the first nine months of 2012, an increase of NOK 72m. Net interest income came to NOK 408m (400m) and commission income NOK 333m (269m). Lending margins are higher than in the same period of 2011, largely due falling market interest rates in 2012. The increased commission income mainly comprises higher commissions from SpareBank 1 Boligkreditt and increased insurance income.

The lending margin as of 30 September 2012 was 1.75 percent (1.28 percent), while the deposit margin was 0.21 percent (0.70 percent), measured against three-month NIBOR.

In the 12 months to end-September lending to retail customers rose by 12.2 percent (10.2 percent) and deposits from the same segment by 8.9 percent (6.1 percent).

Lending to retail borrowers generally carries low risk, as reflected in continued very low losses. The loan portfolio consists in all essentials of well-secured residential mortgage loans. The trend in house prices is satisfactory throughout the market area.

Retail market (NOKm)	30 Sept 2012	30 Sept 2011	Change
Net interest income	408	400	8
Commission and other income	333	269	65
Total income	740	668	72
Operating expenses	488	457	32
Pre-loss profit	252	211	41
Losses	3	7	-4
Profit before tax	249	205	45
ROE after tax	19.5 %	18.6 %	
Loans (NOKbn)	56.9	50.7	6.2
Deposits (NOKbn)	22.3	20.5	1.8

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

Strong income trend for the Corporate Division

Return on equity at the Corporate Division was 13.1 percent (14.6 percent). The weakening is mainly attributable to increased losses and higher capital employed.

Total operating income came to NOK 848m (806m) in the first nine months of 2012, up NOK 42m compared with the same period of 2011. Net interest income was NOK 726m (680m), while other incomes totalled NOK 122m (126m).

Lending and deposit margins in the division were, respectively, 2.38 percent (2.13 percent) and 0 percent (0.20 percent). The margins are measured against three-month NIBOR.

Lending growth was 9.6 percent (5.3 percent) and deposit growth was 4.1 percent (26.5 percent).

Corporate market (NOKm)	30 Sept 2012	30 Sept 2011	Change
Net interest income	726	680	46
Commission and other income	122	126	-4
Total income	848	806	42
Operating expenses	290	256	34
Pre-loss profit	558	550	8
Losses	35	-17	52
Profit before tax	524	567	-44
ROE after tax	13.1 %	14.6 %	
Loans (NOKbn)	41.1	37.5	3.6
Deposits (NOKbn)	24.9	23.9	1.0

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

Income at SpareBank 1 SMN Markets

SpareBank 1 Markets delivers a complete range of capital market products and services.

SpareBank 1 Markets reports total income of NOK 97m (100m) for the first nine months of 2012. Incomes are increasing in most business areas. Fixed income products in particular show increased income compared with 2011. A weak performance in investments is related to declining share values.

SpareBank 1 SMN has established an active asset management agreement with SpareBank 1 Markets. 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 insignificant change in the Bank's risk exposure. Incomes and expenses are distributed between the parties based on an established distribution formula. The agreement was operationalised in April 2012, and SpareBank 1 SMN's net share of the incomes earned in the first nine months of 2012 was NOK 17m.

Markets (NOKm)	30 Sept 2012	30 Sept 2011	Change
Currency trading	23.7	38.2	-14.5
Fixed income products	42.4	30.7	11.7
Corporate	7.2	8.0	-0.8
Securities, brokerage commission	14.9	8.3	6.6
SpareBank 1 Markets	16.9	0.0	16.9
Investments	-8.4	14.7	-23.1
Total income	96.7	99.9	-3.2

Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 108.6m (111.7m) in the first nine months of 2012 (exc. minority interests).

Pre-tax profit, NOKm	30 Sept 2012	30 Sept 2011	Change
EiendomsMegler 1 Midt-Norge	57.4	55.1	2.3
SpareBank 1 SMN Finans	42.7	22.5	20.2
SpareBank 1 SMN Regnskap	12.6	5.4	7.2
Allegro Finans	-2.5	-3.3	0.8
SpareBank 1 SMN Invest	11.9	50.0	-38.1
SpareBank 1 Kvartalet	-12.2	-18.0	5.8
Total	109.9	111.7	-1.8

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. Profit growth in 2012 is again excellent, and the company posted a pre-tax profit of NOK 57.4m (55.1m) in the first nine months.

SpareBank 1 SMN Finans posted a profit of NOK 42.7m (22.5m) in the first nine months. The company has achieved strong profit growth while concurrently reducing losses. At quarter-end the company managed leases and car loan agreements worth a total of NOK 3.1bn (2.9bn) of which leases account for NOK 1.9bn (1.9bn) and car loans for NOK 1.2bn (1.0bn).

In July 2012 a preliminary agreement was established with SpareBank 1 Nordvest and SpareBank 1 Søre Sunnmøre regarding their acquisition of 9.9 percent of the shares of SpareBank 1 SMN Finans. The transaction will be carried through as a placing that reflects the fair value of SpareBank 1 SMN Finans.

SpareBank 1 SMN Regnskap posted a pre-tax profit of NOK 12.6m (5.4m).

The acquisition of several local accounting firms in 2011 and 2012 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.

Sparebanken SMN Invest's mission is to invest in shares, mainly in regional listed companies. The company posted a profit of NOK 11.9m (50.0m) in the first nine months of 2012.

Allegro Finans – engaged in active asset management – reported a loss of NOK 2.5m (loss of 3.6m) before tax for the first nine months of 2012.

The company has a portfolio of about NOK 2bn under active management.

Satisfactory funding and good liquidity

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

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 75 percent (75 percent).

SpareBank 1 Boligkreditt is the Bank's chief source of funding, and in the first nine months of 2012 loans totalling NOK 5.2bn were transferred to this residential mortgage company. As of end-September 2012 loans totalling NOK 27.3bn had been transferred to SpareBank 1 Boligkreditt.

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.

Stock issues carried out in 2012

- A rights issue has been carried out in 2012 in favour of existing EC holders. The subscription period was 12-26 March 2012. ECs were allocated in an amount of NOK 740m. The issue was registered with the Register of Business Enterprises in Norway on 11 April 2012, with accounting effect as from the second quarter
- In the same period a placing was made in favour of the Bank's employees. ECs worth NOK 21m were allocated in this placing
- In the third quarter a placing of NOK 200m was made in favour of the foundation Sparebankstiftelsen SMN and a large international investor

Financial strength

The above stock issues have in isolation strengthened the tier 1 capital ratio by 1.2 percentage points. Over the past 12 months risk weighted assets have increased substantially, bringing an increase of NOK 893m in the capital requirement. This increase has in isolation reduced the Bank's tier 1 capital ratio by 1.0 percentage point.

As of end-September 2012 the tier 1 capital ratio was 10.6 percent (10.4 percent) and the total capital ratio 11.9 percent (12.1 percent). Common equity tier 1 capital, i.e. tier 1 capital excluding hybrid equity, was at 9.3 percent (8.8 percent) at the same point in time.

Over the course of the third quarter negative migration of some corporate exposures has adversely affected the credit quality of the Bank's loan portfolio. The Bank has not found it necessary to make impairment write-downs on these exposures, but the capital requirement is rising due to migration.

The Group's equity capital position was in isolation reduced in the third quarter by NOK 111m (minority interests) due to the restructuring of a subsidiary.

The Board of Directors of SpareBank 1 SMN has a close focus on the capitalisation of the Group. Expectations of a further increase in tier 1 capital requirements ahead call for an added focus on effective application of capital resources across the Group. This includes limited and controlled credit growth, particularly in the corporate banking business.

SpareBank 1 SMN has no plans to launch equity capital issues.

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 in the course of 2013.

Figures in NOKm	30 Sept 2012	30 Sept 2011
Tier 1 capital	8,826	7,504
Subordinated loan	1,066	1,171
Capital base	9,891	8,496
Required subordinated debt	6,638	5,748
Tier 1 capital ratio	10.6 %	10.4 %
Total capital ratio	11.9 %	12.1 %

The Bank's equity certificate (MING)

The book value of the Bank's EC was NOK 49.00 (48.13) at end-September 2012, and earnings per EC were NOK 3.99 (4.41). As of end-September 2012 the price was NOK 37.00 (36.31 at end-2011). Dividend of NOK 1.85 per EC has in 2012 been paid for 2011 (adjusted for stock issues carried out in 2012).

The Price / Income ratio was 6.96 (6.68), and the Price / Book ratio was 0.76 (0.81).

Risk factors

The negative trend in the international economy has continued through the first nine months of 2012. This affects the Norwegian economy primarily through reduced demand to its export-oriented industry, but Norway enjoys solid central government finances and high demand in the petroleum industry.

Unemployment remains low and households are seeing real wage growth. This, combined with continued low interest rates, entails a 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 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 pace of the regulatory changes announced for Europe's financial sector is a major uncertain factor, but Norwegian authorities are signalling a clear ambition to introduce new requirements at an early stage. Norwegian banks' competitiveness relative to other banks could be affected. This challenge is compounded by inconsistent approaches to the capital adequacy rules, prompting uncertainty about Norwegian banks' financial position compared with Nordic competitors.

Outlook ahead

SpareBank 1 SMN has strengthened its market position and achieved sound profit growth in 2012. The Group's funding is robust. This is in keeping with the Directors' ambitions.

The Board of Directors will focus strongly ahead on correct risk pricing of the Bank's corporate portfolio, on implementing the new organisational model and on achieving the announced cost ambitions.

Continuing turbulence in international financial markets heightens uncertainty in the national and regional economies. Business and industry in the Bank's market area continue, all in all, to show growth and sound profits, despite the reduced demand seen by parts of the export-oriented sector. Unemployment is low, and there are few signs in the region's macroeconomy in isolation to suggest a change in the risk picture for the rest of 2012.

SpareBank 1 SMN has a conservative liquidity strategy and has the ability to maintain normal operations for 18 months without further access to external funding. SpareBank 1 SMN has negligible international exposure in its ordinary business and limited direct exposure to the securities markets.

The Board of Directors is satisfied with the Group's profit performance for the first nine months of 2012, in particular with its sound underlying operations and high quality risk management. The Board expects a good performance also for 2012.

Trondheim, 25 October 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)