

Report of the Board of Directors

Preliminary annual accounts 2012

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

Profit of NOK 1,077m after tax

- Profit before tax: NOK 1,355m (1,236m)
- Net profit: NOK 1,077m (1,024m)
- Return on equity: 11.7 percent (12.8 percent)
- Tier 1 capital ratio: 11.3 percent (10.4 percent), common equity tier 1 ratio 10.0 percent (8.9 percent)
- Growth in lending 10.2 percent (8.6 percent) and deposits 9.2 percent (11.9 percent) over past 12 months
- Loan losses: NOK 58m (27m)
- Earnings per equity certificate (EC): NOK 5.21 (6.06). Book value per EC, incl. recommended dividend for 2012: NOK 50.09 (48.91)
- Recommended dividend: NOK 1.50 per EC. Allocation to non-profit causes: NOK 30m

Fourth quarter 2012

- Profit before tax: NOK 302m (285m)
- Net profit: NOK 260m (279m)
- Return on equity: 10.5 percent (13.6 percent)
- Loan losses: NOK 17m (26m)
- Earnings per EC: NOK 1.29 (1.65)
- Improved financial position; common tier 1 ratio 10.0 percent
- Increased lending margins

Good profit performance in 2012

- Profit improvement compared with 2011
- Strong income trend in core business and good return on financial investments
- Increased lending margins
- Low loan losses
- Sound growth in overall deposits and strong growth in lending to retail market
- Improved financial position and reduced growth
- Cost growth due to higher activity levels, both at parent bank and subsidiaries

In 2012 SpareBank 1 SMN achieved a post-tax profit of NOK 1,077m (1,024m) and a return on equity of 11.7 percent (12.8 percent). Pre-tax profit was NOK 1,355m (1,236m). The solid performance is due to a positive income trend, low losses and good return on financial assets.

Pre-tax profit in the fourth quarter in isolation was NOK 302m (285m). The quarter's figures reflect:

- Increased margins on lending and increased net interest income
- Increased commission income
- Low losses and low rate of defaults
- High growth in lending to retail customers
- Lending to corporates is reduced due to capital-related considerations

Return on equity in the quarter was 10.5 percent (13.6 percent).

In 2012 operating income increased by 13 percent to an overall of NOK 2,616m (2,311m).

Return on financial assets was NOK 451m (434m), of which the profit share on owner interests in associates was NOK 244m (248m).

Operating expenses totalled to NOK 1,654m in 2012 (1,482m), i.e. NOK 171m or 11.6 percent higher than in 2011.

Net losses on loans and guarantees were NOK 58m (27m). In the third quarter of 2012 an increase of NOK 5m was made in collectively assessed impairment write-downs.

Lending growth was 10.2 percent (8.6 percent) and deposit growth was 9.2 percent (11.9 percent). There was a good customer influx in 2012, particularly in the retail market.

As of year end tier 1 capital adequacy was 11.3 percent (10.4 percent) and the common equity tier 1 ratio was 10.0 percent (8.9 percent). After a thorough assessment, the Board of SpareBank 1 SMN has decided to revise the Bank's capital plan. As part of this process it plans to increase the common tier 1 ratio to 12.5 percent by the end of 2015. SpareBank 1 SMN's revised capital plan is further described in the section on financial strength on page 14 of this report.

At year-end the Bank's EC was priced at NOK 34.80 (36.31 at end-2011). A cash dividend of NOK 1.85 per EC was paid in 2012 for the year 2011 (2.77 for 2010).

Earnings per EC were NOK 5.21 (6.06), and book value was NOK 50.09 (48.91).

The Board of Directors recommends the Supervisory Board to set a cash dividend of NOK 1.50 per EC for 2012 and to set aside NOK 30m for gifts to non-profit causes. The level of dividend and gifts is enshrined in the Bank's capital plan and reflects a need to increase the Bank's tier 1 capital by means of a reduced payout ratio.

Proposed distribution of profit

Distribution of the profit for the year is made on the basis of the Parent Bank's accounts. The Parent Bank's profit includes dividends from subsidiaries, affiliates and joint ventures.

Subsidiaries are fully consolidated in the Group accounts, whereas profit shares from affiliates and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the Group results.

Difference between Group - Parent Bank	2012	2011
Profit for the year, Group	1,077	1,024
Profit, subsidiaries	-76	-144
Dividend and contribution from subsidiaries	126	68
Profit, associated companies	-264	-290
Dividend, associated companies	163	162
Profit for the year, Parent bank	1,025	820

Annual profit for distribution reflects changes of NOK -36m in the revaluation reserve, leaving the total amount for distribution at NOK 990m.

The profit is distributed between the ownerless capital and the equity certificate capital in proportion to their relative shares of the Bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 63.3 percent of the distributed profit. In terms of the stock issues in 2012, the percentage for distribution is an average of the EC-holder ratio (EC-holders' share of total equity) over the year.

Based on the Bank's capital plan, the Board of Directors has suggested a relatively low level of dividends and gift allocation.

The Board of Directors recommends the Supervisory Board to set a cash dividend of NOK 1.50 per equity certificate, a total of NOK 195m. This gives a payout ratio of 31 percent. The Board of Directors further recommends the Supervisory Board to allocate NOK 30m as gifts to non-profit causes, representing a payout ratio of 8 percent. NOK 432m and NOK 333m are added to the dividend equalisation fund and the ownerless capital respectively. The Board of Directors are derogating from the principle of equal payout share to the EC-holder capital and the ownerless capital in recognition of the need to improve financial strength and because the EC Price-Book ratio is below 1.

After distribution of the profit for 2012 the ECC-holder ratio (ECC-holders' share of total equity) is 64.6 percent.

Distribution of profit	2012	2011
Profit for the year, Parent bank	1,025	820
Transferred to/from revaluation reserve	-36	-25
Profit for distribution	990	795
Dividends	195	190
Equalisation fund	432	297
Saving Bank's fund	333	268
Gifts	30	40
Total distributed	990	795

Increased net interest income

Net interest income in 2012 was NOK 1,477m (1,392m). Net interest income in the fourth quarter alone totalled to NOK 399m, an increase of NOK 41m over the third quarter. The strengthened net interest income in the last quarter is partly due to repricing of part of the corporate customer portfolio. In addition, lower market interest rates (NIBOR) caused higher lending margins in 2012, and net interest income, including commission from SpareBank 1 Boligkreditt remained high throughout the year. Net interest income from home mortgage loans transferred to SpareBank 1 Boligkreditt is recorded as commission income, which amounted to NOK 201m (71m).

A further repricing of the loan portfolio is planned in 2013. The retail market portfolio will need to be repriced as a result of the increased risk weights proposed for home mortgage loans and the corporate market portfolio due to higher capital requirements.

Increased commission income

Commission income and other operating income rose by NOK 220m, or 24 percent to NOK 1,139m (919m) in 2012. Income from SpareBank 1 Boligkreditt, real estate agency, accounting services and insurance showed the largest increase. Commission income from SpareBank 1 Boligkreditt rose as a result of very low interest rates, causing increased margins on the company's loan portfolio.

Commission income, NOKm	2012	2011	Change
Payment transfers	197	195	3
Savings	48	54	-6
Insurance	122	107	16
SpareBank 1 Boligkreditt and Næringskreditt	205	71	133
Guarantee commission	30	28	2
Real estate agency	336	308	28
Accountancy services	100	79	20
Active management	11	12	-1
Rent	37	34	4
Other commissions	53	32	21
Total	1,139	919	220

Positive return on financial investments, including result for assets held for sale

Overall return on financial investments (excluding the Bank's share of the profit/loss of affiliates and joint ventures) was NOK 204m (188m) in 2012. Overall return breaks down as follows:

- Return on the Group's share portfolios totalled to NOK 21m (102m)
- Net gains on bonds and derivatives came to NOK 57m (-NOK 10m)
- Gains on forex and fixed income trading at SpareBank 1 SMN Markets were NOK 126m (96m). NOK 8m of the increase is a result of the cooperation agreement with SpareBank 1 Markets Oslo
- Polaris Media is reclassified as assets held for sale; the amount shown in the following table includes the net result of this item for 2012

Return on financial investments, NOKm	2012	2011
Capital gains/dividends, shares	21	102
Bonds and derivatives	57	-10
SpareBank 1 SMN Markets	126	96
Net return on financial investments	204	188
SpareBank 1 Gruppen AS	94	95
SpareBank 1 Boligkreditt AS	44	16
SpareBank 1 Næringskreditt AS	8	9
Bank1 Oslo Akershus AS	26	15
BN Bank ASA	72	89
Polaris ASA	-14	23
Other jointly controlled companies	34	43
Income from investment in related companies	264	290
Total	467	478

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for 2012 was NOK 452m (526m). The main contributors are SpareBank 1 Livsforsikring AS (life insurer) and SpareBank 1 Skadeforsikring AS (non-life insurer). A tax charge increase due to changes expected in the legislation governing the taxation of tax-related investments in the management of customer assets at life insurers is calculated at NOK 193m for SpareBank 1 Gruppen for 2012. This sum is considered as a one-of effect in the fourth quarter of 2012.

SpareBank 1 SMN's profit share taken to income amounts to NOK 94m (94m). Of the profit taken to income in 2012, NOK 9m refers to correction of the profit for 2011.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt AS was established by the banks participating in the SpareBank 1 Alliance to take advantage of the market for covered bonds. The banks transfer their highest quality home mortgage loans to the company, which reduces the funding costs. As of end-December 2012 the Bank had transferred NOK 28bn to SpareBank 1 Boligkreditt, equivalent to 47 percent of overall lending to the retail market.

The Bank's ownership interest in SpareBank 1 Boligkreditt AS at end-year was 18.4 percent, and the Bank's share of the company's profit in 2012 was NOK 44m (16m). 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 2010 based on the same model and with the same administration as SpareBank 1 Boligkreditt AS.

SpareBank 1 SMN's stake in the company is 33.8 percent, and the Bank's share of the company's profit in 2012 was NOK 8m (9m). The Bank's ownership interest reflects its relative share of transferred commercial property loans and its stake in BN Bank.

Bank 1 Oslo Akershus

As a result of a stock issue placing with the Norwegian Confederation of Trade Unions (LO), SpareBank 1 SMN reduced its holding in Bank 1 Oslo Akershus from 19.5 percent to 15.18 percent at end-2012. SpareBank 1 SMN's share of this bank's profit was NOK 26.4m (15m) in 2012. Of the profit taken to income in 2012, NOK 4.4m refers to a correction of the profit for 2011. In 2013 SpareBank 1 SMN signed an agreement to sell 475,594 shares to Sparebanken Hedmark, which will reduce SpareBank 1 SMN's holding to 4.78 percent. An option has been taken on a further reduction of the Bank's holding in Bank 1 Oslo Akershus. The option must be exercised by 31 December 2015.

Divestment from Bank 1 Oslo Akershus is enshrined in the Bank's capital plan.

BN Bank

SpareBank 1 SMN has a 33 percent stake in BN Bank as of 31 December 2012.

SpareBank 1 SMN's share of the profit of BN Bank for 2012 came to NOK 72m (89m), including amortisation effects. The amortisation effect in 2012 increased the profit by NOK 11m (31m).

Polaris Media

At end-2012 SpareBank 1 SMN had a 23.45 percent stake in Polaris Media.

On 25 January 2013 SpareBank 1 SMN sold 5.88m shares of Polaris Media AS at NOK 27.00 per share to NWT Media (Nya Wermlands-Tidningens AB), for a total of NOK 158.8m. This transaction reduced SpareBank 1 SMN's stake in Polaris Media from 23.4 to 11.4 percent. The sale is enshrined in the Bank's capital plan.

At the turn of the year the holding of Polaris Media shares was reclassified to shares held for sale. The investment is therefore not consolidated in the Bank's accounts but measured at fair value. Goodwill in Polaris Media's balance sheet has enabled a reduction in SpareBank 1 SMN's capital ratio. By the end of the first quarter of 2013 the transaction will have strengthened the Bank's tier 1 capital adequacy by NOK 175m.

The net result of this investment for 2012 was NOK -14m.

Other companies

These are essentially companies established to handle corporate exposures taken over from other entities. The positive result of NOK 34m largely represents a tax benefit related to loss carried forward at one of the companies.

Higher costs as a result of increased effort towards the market

Overall costs came to NOK 1,654m (1,482m) in 2012, hence increasing Group expenses by NOK 171m or 11.6 percent.

Parent Bank cost growth was NOK 117m or 10.8 percent. SpareBank 1 SMN has strengthened its capacity and competence on the customer facing front, which is the main reason for the cost growth at the Parent Bank.

The remainder of the growth in Group costs is due to increased resources at Eiendomsmegler 1 and SpareBank 1 SMN Regnskap, where costs rose by NOK 54m or 13.7 percent. However, turnover has risen more than the costs and thus improved profit performances at both companies.

Operating expenses measured 1.57 percent (1.51 percent) of average total assets. The Group's cost-income ratio was 54 percent (54 percent).

In 2012 the Bank launched a wide-ranging improvement programme ("Ny giv") with the aim of improving the customer's experience, raising productivity and reducing relative operating expenses.

A key measure is the revamping of the Bank's organisational structure with effect from 1 January 2013 where the overarching aim is to clearly reinforce the focus on the customer facing side of the business.

To this end the Board of Directors has resolved to reduce person-years worked at the Parent Bank from 800 to 725 in the period to 2015. 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 will be at a maximum level of 3 percent.

Low losses and low defaults

Net loan losses came to NOK 58m (27m) for 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 fourth quarter in isolation were NOK 17m (26m).

Losses of NOK 57m (20m) were recorded on the Group's corporate customers, including losses at SpareBank 1 SMN Finans of NOK 7m (15m). On the retail portfolio a net loss of NOK 1m (7m) was recorded in 2012.

Total individually assessed loan impairment write-downs as of end-2012 came to NOK 144m (172m), a decline of NOK 28m over the year.

Total problem loans (defaulted and doubtful) came to NOK 517m (542m), or 0.49 percent (0.57 percent) of gross outstanding loans.

Defaults in excess of 90 days totalled NOK 374m (338m), accounting for 0.36 percent (0.36 percent) of gross lending. Of total defaults, NOK 83m (89m) are loss provisioned, corresponding to 22 percent (26 percent).

Other doubtful exposures totalled to NOK 143m (204m), 0.14 percent (0.21 percent) of gross outstanding loans. NOK 62m (83m) or 43 percent (41 percent) are loss provisioned.

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 increased uncertainty related to exposures in certain sectors. As of end-2012 no further change in collectively assessed impairment write-downs is considered necessary. The aggregate volume of such write-downs is NOK 295m (290m).

Total assets of NOK 108bn

The Bank's assets totalled NOK 108bn (101bn) at end-2012, representing an increase of NOK 7bn or 6.4 percent over the year. The rise in total assets is a consequence of increased lending and higher liquidity reserves.

As of end-2012 home mortgage loans worth 30bn (22bn) have been transferred from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not appear as lending in the Bank's balance sheet. The comments covering lending growth do however include loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Strong growth in lending to the retail segment, reduced growth to corporates

In the last 12 months, total outstanding loans rose by NOK 9.7bn (7.6bn) or 10.2 percent (8.6 percent) to reach NOK 104.9bn as of end-December 2012.

Lending to retail customers rose by NOK 7.6bn (5.4bn) or 13.7 percent (10.9 percent) to reach NOK 62.6bn in 2012.

Growth in lending to corporates in 2012 was NOK 2.1bn (2.2bn) or 5.3 percent (5.7 percent). Overall loans to corporates were reduced in the fourth quarter and totalled NOK 42.3bn at end-2012.

Lending to retail customers accounted for 60 percent (58 percent) of ordinary loans to customers at the end of 2012.

Strong deposit growth in both retail and corporate segments

Customer deposits rose in 2012 by NOK 4.4bn (5.1bn) to reach NOK 52.3bn at year-end. This represents a growth of 9.2 percent (11.9 percent).

Retail customer deposits rose by NOK 1.4bn (1.8bn) or 6.8 percent (9.5 percent) to reach NOK 22.3bn, while deposits from corporates rose by NOK 3.0bn (3.3bn) or 11.0 percent (14.1 percent) to NOK 30.0bn. 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 to NOK 4.8bn (4.8bn) at end-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	2012	2011	Change
Equity funds	2,570	2,284	286
Pension products	1,068	711	357
Active management	1,012	941	71
Energy fund management	139	218	-79
Total	4,789	4,154	635

Strong growth in the Bank's insurance portfolio

The Bank's insurance portfolio grew by 10 percent in 2012. Non-life insurance showed 32 percent growth, personal insurance 5 percent and the occupational pensions segment 29 percent growth.

Insurance, premium volume, NOKm	2012	2011	Change
Non-life insurance	680	621	59
Personal insurance	184	175	9
Occupational pensions	166	129	37
Total	1.030	925	105

Strong profit and growth for the Retail Division

The retail market business achieved a return on equity of 22.6 percent (16.8 percent) in 2012.

Operating income totalled NOK 1,037m (872m) in 2012. Net interest income came to NOK 552m (527m) and commission income to NOK 486m (345m). Lending margins are substantially higher than in 2011, largely due to 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 in 2012 was 1.86 percent (1.22 percent), while the deposit margin was 0.10 percent (0.73 percent). The margin is defined as the average customer rate less the three-month moving average of three-month NIBOR.

In the last 12 months, lending to retail customers rose by 13.1 percent (10.9 percent) and deposits from the same segment by 5.9 percent (10.9 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 on residential properties and the trend in house prices has been satisfactory throughout the market area.

Retail market (NOKm)	2012	2011	Change
Net interest income	552	527	25
Commission and other income	486	345	141
Total income	1,037	872	165
Operating expenses	653	608	45
Pre-loss profit	384	264	120
Losses	1	7	-6
Profit before tax	383	256	126

ROE after tax	22.6 %	16.8 %	
Loans (NOKbn)	58.9	52.1	6.8
Deposits (NOKbn)	22.4	21.2	1.3

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

Income growth for the Corporate Division and stable profitability

Return on equity at the Corporate Division was 13.8 percent (13.9 percent).

Total operating income came to NOK 1,174m (1,079m) at end-2012, up NOK 95m compared with 2011. Net interest income was NOK 1,003m (910m), while total commission income was NOK 171m (169m).

Lending and deposit margins in the division were 2.45 percent (2.13 percent) and -0.10 percent (0.20 percent) respectively. The margins are measured against three-month NIBOR.

Lending growth was 5.2 percent (5.3 percent) and deposit growth was 6.8 percent (26.5 percent). Total lending to corporates was reduced by NOK 400m in the fourth quarter.

Corporate market (NOKm)	2012	2011	Change
Net interest income	1,003	910	93
Commission and other income	171	169	2
Total income	1,174	1,079	95
Operating expenses	399	351	48
Pre-loss profit	775	728	47
Losses	45	5	40
Profit before tax	731	724	7
ROE after tax	13.8 %	13.9 %	
Loans (NOKbn)	40.7	38.7	2.0
Deposits (NOKbn)	27.1	25.3	1.7

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 and is an integral part of SMN's parent bank operation.

SpareBank 1 Markets reported total income of NOK 131m (148m) in 2012. The securities area shows higher income compared with 2011, while other business areas show some decline.

SpareBank 1 SMN has established an active asset management agreement with SpareBank 1 Markets (owned by SpareBank 1 Gruppen). 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 2012 was NOK 8m.

Markets (NOKm)	2012	2011	Change
Forex and fixed income, trading	48.8	53.5	-4.7
Forex and fixed income, risk	45.3	55.8	-10.5
Corporate	12.3	14.6	-2.3
Securities, brokerage commission	20.4	13.0	7.4
SpareBank 1 Markets	7.6	0.0	7.6
Investments	-2.9	11.0	-13.9
Total income	131.5	147.9	-16.4

Of gross income of NOK 132m, a total of NOK 34m and NOK 1m are transferred to the Corporate Division and Retail Division. This constitutes the respective divisions' share of income from forex and fixed income transactions with their own customers.

Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 116.1m (167.8m) in 2012.

Pre-tax profit, NOKm	2012	2011	Change
EiendomsMegler 1 Midt-Norge	76.2	75.6	0.6
SpareBank 1 SMN Finans	55.8	26.3	29.5
SpareBank 1 SMN Regnskap	13.8	5.0	8.8
Allegro Finans	-3.7	-5.3	1.6
SpareBank 1 SMN Invest	-15.0	87.5	-102.5
SpareBank 1 Kvartalet	11.0	-21.3	10.3
Total	116.0	167.8	-51.7

EiendomsMegler 1 Midt-Norge is the market leader in its area with a market share of about 40 percent. As in 2011, profit for 2012 was excellent with a pre-tax profit of NOK 76.2m (75.6m) in 2012.

SpareBank 1 SMN Finans posted a profit of NOK 55.8m (26.3m) as of end-2012. The company has achieved strong profit growth while simultaneously reducing losses. The subsidiary Bilplan AS was taken over by the parent bank in the fourth quarter.

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).

SpareBank 1 Nordvest and SpareBank 1 Søre Sunnmøre have by agreement acquired 9.9 percent of the shares of SpareBank 1 SMN Finans. The transaction was carried through as a placing that reflects the fair value of SpareBank 1 SMN Finans.

SpareBank 1 SMN Regnskap posted its historically best pre-tax profit of NOK 13.8m and turnover growth close to 30 percent. With a growth rate three times higher than the industry average, the company leads the market in mid-Norway and is a leading accounting services entity in Norway as a whole.

SpareBank 1 SMN Regnskap acquired five accounting firms in 2012 and aspires to continue the strong growth. It has in addition acquired a strategic owner position of 40 percent in the accounting chain Consis. The company's alliance partner Sparebanken Hedmark owns the remaining 60 percent.

Allegro Finans – engaged in active asset management – reported a loss of NOK 3.7m (loss of 5.3m) before tax for 2012. The company has a portfolio of some NOK 2bn under active management.

Sparebanken SMN Invest's mission is to invest in shares, mainly in regional listed companies. The company posted a loss of NOK 15.0m (profit of 87.5m) in 2012.

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 well diversified. At year-end the proportion of money market funding in excess of 1 year was 80 percent (81 percent).

SpareBank 1 Boligkreditt is the Bank's chief source of funding, and in 2012 loans totalling NOK 7.2bn were transferred to this residential mortgage company. As of end-2012 loans totalling NOK 29bn had been transferred to SpareBank 1 Boligkreditt.

Rating

SpareBank 1 SMN has a rating of A2 (under review) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. The bank was downgraded by Moody's from A1 to A2 in December (under review).

Stock issues carried out in 2012

- A rights issue was 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 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

Figures in NOKm	2012	2011
Tier 1 capital	9,357	7,856
Subordinated loan	1,586	1,199
Capital base	10,943	9,055
Required subordinated debt	9,596	6,027
Tier 1 capital ratio	11.3 %	10.4 %
Total capital ratio	13.3 %	12.0 %

The above stock issues in isolation strengthened the tier 1 capital ratio by 1.2 percentage points.

After distribution of the profit for 2012, the tier 1 capital ratio is 11.3 percent (10.4 percent) and the total capital ratio 13.3 percent (12.0 percent). In the year's last quarter the tier 1 ratio was improved as a result of a reduced payout ratio, and a reduction in risk weighted assets in both the corporate market and related business. The common equity tier 1 capital ratio, i.e. tier 1 capital excluding hybrid equity, was 10.0 percent (8.9 percent) at year-end.

The Board of Directors of SpareBank 1 SMN pays close attention to the Group's capitalisation. Like other Norwegian banks, SpareBank 1 SMN expects of higher capital requirements, given the prevailing signals of

higher capital charges on home mortgage loans through higher risk weights. SpareBank 1 SMN has intensified its focus on effective application of capital across the Group, and plans to achieve a common equity tier 1 ratio of 12.5 percent by the end of 2015.

- Improved banking operation through improved efficiency and higher margins. Increased capital requirements for all banks provides a market basis for increased margins on lending
- The payout policy will be conducted as in 2012 with an effective payout ratio of 25 - 35 percent
- Moderate growth in the Bank's asset-intensive activities, including lending to the retail and corporate segments by the Parent bank and BN Bank
- Sale of asset items not included in the core business
- Introduction of advanced IRB approach at SpareBank 1 SMN and BN Bank

SpareBank 1 SMN has currently no plans with regard to equity capital issues.

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 initiated a process to apply for permission to use the advanced IRB approach. The application is expected to be submitted in the course of the first half of 2013.

The Bank's equity certificate (MING)

The book value of the Bank's EC was NOK 50.09 (48.91) at end-2012, and earnings per EC were NOK 5.21 (6.06).

The Price / Income ratio was 6.68 (5.99), and the Price / Book ratio was 0.69 (0.74).

At year-end the EC was priced at NOK 34.80, and dividend of NOK 1.85 per EC was paid in 2012 for the year 2011 (adjusted for stock issues carried out in 2012).

Risk factors

The credit quality of the Bank's loan portfolio is satisfactory, and loss and default levels are low.

The Bank expects the cyclical upturn to continue, but activity growth to be moderate due to very weak international growth impulses. Unemployment in Norway is expected to remain low and this, combined with continued strong income growth and low interest rates, suggest that the loss risk in the Bank's retail market portfolio will remain low. The Bank also expects moderate growth in mid-Norway's business sector ahead.

Expectations of higher capital requirements have led Norwegian banks to signal their intention to adopt a more conservative credit policy towards business and industry. The proposed adjustment of LCR rules represents an easing for the European banking sector.

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 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).

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.

Going forward, The Board of Directors will focus strongly on measures designed to strengthen the Bank's financial position in order to achieve a common equity tier 1 ratio of at least 12.5 percent by 31 December 2015. The Board will continuously monitor the adopted capital plan and the corresponding measures defined in the plan. Strengthening earnings through increased margins, reduced costs and following up the "Ny giv" project will have the Board's full and complete attention in 2013 and the years ahead.

Continuing turbulence in international financial markets increases uncertainty in the national and regional economies. Again, in 2012 there were no clear indications of the region's business sector being affected by the crisis in the euro area. Business life in the Bank's market area shows continued growth and profitability, and the outlook for 2013 remains good. Unemployment is low and there are few signs in the region's macroeconomy in isolation to suggest a change in the risk picture for 2013.

SpareBank 1 SMN has a conservative liquidity strategy and intends to be able to maintain normal operations for 12 months without further access to external funding. The Board of Directors considers pressures in the funding market to ease at the start of 2013 compared to the same period last year. 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 2012, in particular with its sound underlying operations and high quality risk management. SpareBank 1 SMN is well placed to achieve a good performance also in 2013.

Trondheim, 5 February 2013
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)