

# Report of the Board of Directors

## First quarter 2012

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

- Profit before tax: NOK 340m (325m)
- First quarter profit: NOK 272m (255m)
- Return on equity: 13.0% (13.2%)
- Lending growth: 9.9% (11.4%) over past 12 months
- Deposit growth: 14.2% (14.1%) over past 12 months
- Tier 1 capital adequacy: 10.3% (10.6%). When stock issues carried out are included, tier 1 capital stands at 11.3%
- Earnings per equity capital certificate (ECC): NOK 1.42 (1.52)

## Good profit performance for the first quarter 2012

### Highlights:

- Profit growth compared with the same period of 2011
- Lending margins strengthened over the quarter
- Positive income trend in core business, good return on financial investments and positive development in SpareBank 1 Gruppen
- Very low loan losses
- Robust financial position and good funding
- High growth in home mortgage lending and high growth in both retail and corporate deposits

In the first quarter 2012 SpareBank 1 SMN recorded a profit of NOK 272m (255m) and a return on equity of 13.0% (13.2%). Pre-tax profit was NOK 340m (325m).

Operating income rose to NOK 586m (577m) in the first quarter as a result of increased commission income compared with the first quarter 2012.

Return on financial investments was NOK 160m (89m), of which income on owner interests came to NOK 99m (54m).

Operating expenses totalled NOK 398m in the first quarter 2012 (348m).

Loan losses totalled NOK 8m (6m, net, taken to income) in the first quarter.

As of end-March 2012 12-month growth in lending was 9.9% (11.4%) and 12-month growth in deposits was 14.2% (14.1%).

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

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

The above stock issues, together with a planned placing of NOK 200m mainly with the foundation Sparebankstiftelsen SpareBank 1 SMN, will strengthen the Group's capital ratio by about 1.3 percentage points, bringing the tier 1 capital ratio to about 11.6%.

Earnings per ECC were NOK 1.42 in the first quarter, and book value per ECC was NOK 46.93 at quarter-end. The Bank's ECC was priced at NOK 36.60.

### Net interest income

Net interest income in the first quarter came to NOK 351m (356m). Gross lending and deposit margins improved over the quarter against the background of interest rate increases and a reduced market rate level. At the same time the Bank's funding cost in the money market rose upon refinancing. 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 25.4m (28.0m) for the first quarter.

As of end-March 2012 home mortgage loans worth NOK 25.4bn (20.0bn) had been transferred to SpareBank 1 Boligkreditt. Transfer of loans to SpareBank 1 Næringskreditt commenced in 2012, and as of 31 March 2012 NOK 275m was transferred to SpareBank 1 Næringskreditt.

### Change of accounting policy

Value changes in the Bank's portfolio of treasury bills issued as zero coupon bonds have for accounting purposes been treated by SpareBank 1 SMN as capital gains, and accordingly classified as "return on financial assets". It has been decided to classify such value changes instead as interest income, since this provides a better picture of the accounts. The change was effective as from the first quarter 2012 with appurtenant changes in all historical data. The effect in the first quarter 2012 was an increase of NOK 9m in net interest income, in the first quarter 2011 an increase of NOK 29m (with a corresponding reduction in return on financial assets).

### Increased commission income

Commission income and other income was NOK 235m in the first quarter 2012 (221m), with increased income in several areas. Income from insurance, estate agency and accounting services shows the largest increase.

Commission income, NOKm	31 Mar 2012	31 Mar 2011	Change
Payment transfers	46	49	-3
Savings	10	14	-4
Insurance	31	25	6
SpareBank 1 Boligkreditt	25	26	0

Guarantee commission	8	8	0
Real estate agency	72	64	8
Accountancy services	26	18	8
Active management	3	3	-1
Income from new head office	9	4	5
Other commissions	6	11	-5
<b>Total</b>	<b>235</b>	<b>221</b>	<b>15</b>

### Good 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 60m (36m).

In the first quarter 2012 the Bank's share portfolios showed net capital gains of NOK 3m (30m), of which NOK 4m (NOK 21m) was capital gains on the portfolio at SpareBank 1 SMN Invest.

Capital gains on bonds and derivatives in the first quarter came to NOK 34m (-4m). SpareBank 1 SMN has a focus on investments in financially sound issuers with low market volatility. The Bank has a conservative approach to management of its bond portfolio, with little exposure to bank bonds. The bulk of its investments are in government and government-guaranteed bonds, municipalities and well rated covered bonds. Moreover, the Group's overall interest rate risk is kept to a low level.

Capital gains on financial instruments at SpareBank 1 SMN Markets amounted to NOK 23m (10m).

Return on financial investments, NOKm	31 Mar 2012	31 Mar 2011
Capital gains/dividends, shares	3	30
Bonds and derivatives	34	-4
SpareBank 1 SMN Markets	23	10
<b>Net return on financial investments</b>	<b>60</b>	<b>36</b>
SpareBank 1 Gruppen AS	47	31
SpareBank 1 Boligkreditt AS	14	6
SpareBank 1 Næringskreditt AS	3	1
Bank1 Oslo Akershus AS	11	4
BN Bank ASA	15	14
Polaris ASA	2	-
Other jointly controlled companies	7	-3
<b>Income from investment in related companies</b>	<b>99</b>	<b>54</b>
<b>Total</b>	<b>160</b>	<b>89</b>

### SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit in the first quarter 2011 was NOK 199m (152m). The main contributors to the profit are SpareBank 1 Livsforsikring (life insurer) and SpareBank 1 Skadeforsikring (non-life insurer).

SpareBank 1 SMN's share of the profit was NOK 47m (31m). Of the profit taken to income in 2012, NOK 9m refers to correction of profit for 2011.

### 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 increased competitive power.

The Bank's stake in SpareBank 1 Boligkreditt is 17.8%, and the Bank's share of the company's profit in the first quarter 2012 was NOK 14m (6m).

**SpareBank 1 Næringskreditt**

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

SpareBank 1 SMN's stake in the company is 37%, and in the first quarter 2012 the Bank's share of the profit was NOK 3m (1m).

**Bank 1 Oslo Akershus**

SpareBank 1 SMN has a 19.5% stake in Bank 1 Oslo Akershus. SpareBank 1 SMN's share of Bank 1 Oslo Akershus' profit was NOK 11m (4m) in the first quarter 2012. Of the profit taken to income in 2012, NOK 4m refers to correction of profit for 2011.

**BN Bank**

SpareBank 1 SMN's stake in BN Bank was 33% as of end-March 2012.

SpareBank 1 SMN's share of the profit of BN Bank for the first quarter 2012 came to NOK 15m (14m), including amortisation effects.

**Polaris Media**

After acquiring 18.81% of the shares of Polaris Media on 28 March 2011, the SMN Group owns 23.45% of the shares of the company. The company is therefore classified as an affiliate of SpareBank 1 SMN.

The shares' book value at end-March is NOK 335m including SpareBank 1 SMN's estimated share of the profit for the first quarter 2012 in an amount of NOK 2.3m. Polaris Media's quarterly financial statements have not been available to the Bank when preparing the accounts for SpareBank 1 SMN. The Bank's profit share is therefore estimated against the background of assessments made by external brokers and is consequently encumbered with uncertainty

**Other companies**

These are essentially companies established to handle corporate exposures taken over from other entities. The profit of NOK 7m mainly refers to an increase in the value of the shares of one of these companies.

**Venture in Ålesund**

SpareBank 1 SMN took over BN Bank's operation in Ålesund in 2009. The loan portfolio was at the outset underwritten by BN Bank in return for a guarantee commission, and at the end of 2011 customers representing loans totalling NOK 3.1bn were covered by the guarantee.

On 1 February 2012 an agreement was signed with BN Bank whereby BN Bank cancelled its guarantee in respect of NOK 2.4bn of the portfolio, with the consequent lapse of the guarantee commission for this part of the portfolio with effect from the same date. This leaves NOK 0.7bn in the guarantee portfolio as of 31 March 2012. The guarantee will run for three years.

The BN Bank portfolio forms the basis for the Bank's operation in Sunnmøre.

**Higher operating expenses due to increased market facing activity**

Overall costs came to NOK 398m (348m) in the first quarter 2012, i.e. an increase of NOK 50m or 14%.

Parent bank cost growth was NOK 32m or 12%. The increase is ascribed to higher personnel costs due to an increase in customer facing staff and increased costs of developing the SpareBank 1 collaboration. Strengthening of staff has also resulted in somewhat higher wage growth.

Costs at the Bank's subsidiaries rose overall by NOK 19m, or 22%, essentially due to an increased resource input at EiendomsMegler 1 and SpareBank 1 SMN Regnskap. Both turnover and profit have risen in both companies.

Operating expenses were 1.59% of average total assets (1.45%). The Group's cost-income ratio was 53% (52%).

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

In the first quarter 2012 net loan losses came to NOK 8m (6m, net, taken to income).

On the corporate portfolio there was a net loss of NOK 9m in the first quarter 2012 (7m, net, taken to income), including a loss of NOK 2m at SpareBank 1 SMN Finans (4m). New individual assessed impairment write-downs were low in 2012 and write-backs were recorded on two individual exposures. On the retail portfolio NOK 1m, net, was taken to income in the first quarter 2012 (loss of 1m).

Individually assessed impairment write-downs totalled NOK 164m (217m) in the first quarter 2012, a decline of NOK 53m over the last 12 months.

Total problem loans (defaulted and doubtful) came to NOK 501m (680m), or 0.53% (0.77%) of gross outstanding loans, as of end-March 2012.

Defaults in excess of 90 days came to NOK 318m (477m), a decline of NOK 159m. Defaults measure 0.33% (0.54%) of gross lending. Of total defaults, NOK 94m (96m) are loss provisioned, corresponding to 30% (20%). Other doubtful exposures totalled NOK 183m (202m), measuring 0.19% (0.23%) of gross lending. NOK 70m (122m) or 38% (60%) is loss provisioned.

### **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 quarter no basis was found for revising collectively assessed write-downs at the Group. The aggregate volume of such write-downs is accordingly NOK 290m (290m).

### **Total assets of NOK 99bn**

The Bank's assets totalled NOK 99bn as of end-March 2012 (95bn). The increase is mainly ascribable to lending growth.

As of the first quarter 2012, home mortgage loans worth 25.7bn (20.1bn) had been transferred by SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the Bank's balance sheet. The comments covering lending growth include loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

### High growth in lending to retail market

In the 12 months to end-March 2012, total outstanding loans rose by NOK 8.9bn (9.0bn) or 9.9% (11.4%) to reach NOK 97.4bn (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) at end-March 2012.

12-month growth in lending to corporates was NOK 2.5bn (4.6bn) or 6.7% (13.9%). Overall outstanding loans to corporates came to NOK 41.0bn as of end-March 2012.

Lending to retail customers rose by NOK 6.2bn (4.4bn) to NOK 56.8bn in the 12 months to end-March 2012, corresponding to growth of 12.4% (9.6%).

Lending to retail customers accounted for 58% (57%) of ordinary loans to customers as of end-March 2012.

In the 12 months to end-March, customer deposits rose by NOK 6.1bn (5.3bn) or 14.2% (14.1%) to reach NOK 49.0bn.

Retail customer deposits rose by NOK 1.8bn (1.2bn) or 9.1% (6.8%) to NOK 21.0bn, while deposits from corporates rose by NOK 4.3bn (4.1bn) or 18.3% (20.8%) to NOK 27.9bn.

### Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 4.7bn at end-March 2012, a decline of 5% since the first quarter 2011. The decline is ascribed essentially to disposals related to pension products and energy funds.

<b>Saving products, customer portfolio, NOKm</b>	<b>31 Mar 2012</b>	<b>31 Mar 2011</b>	<b>Change</b>
Equity funds	2,402	2,416	-14
Pension products	695	810	-115
Active management	939	977	-38
Energy fund management	203	291	-88
Property funds	447	447	0
<b>Total</b>	<b>4,686</b>	<b>4,941</b>	<b>-255</b>

### Insurance products

The Bank's insurance portfolio grew by 10% in the 12 months to end-March. Non-life insurance showed 10% growth, personal insurance 14% and the occupational pensions segment 7% growth.

<b>Insurance, premium volume, NOKm</b>	<b>31 Mar 2012</b>	<b>31 Mar 2011</b>	<b>Change</b>
Non-life insurance	639	581	58
Personal insurance	181	159	22
Occupational pensions	139	130	9
<b>Total</b>	<b>959</b>	<b>870</b>	<b>89</b>

### Retail market Division

The retail market business achieved a return on equity of 16.4% (22.3%) in the first quarter 2012.

Operating income declined somewhat, totalling NOK 215m in the first quarter 2012 (234m). Net interest income totalled NOK 126m (144m) and commission income NOK 89m (89m). The income reduction is largely related to higher funding costs.

The lending margin in the first quarter 2012 was 1.45% (1.48%), while the deposit margin was 0.41% (0.49%), measured against three-month NIBOR.

In the 12 months to end-March lending to retail customers rose by 11.7% (9.4%) and deposits from the same segment by 10.8% (4.9%).

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

<b>Retail market (NOKm)</b>	<b>31 Mar 2012</b>	<b>31 Mar 2011</b>	<b>Change</b>
Net interest income	126	144	-18
Commission and other income	89	89	0
<b>Total income</b>	<b>215</b>	<b>234</b>	<b>-19</b>
Operating expenses	163	151	12
Pre-loss profit	52	82	-31
Losses	-1	1	-2
<b>Profit before tax</b>	<b>53</b>	<b>82</b>	<b>-29</b>
<b>ROE after tax</b>	<b>16,4 %</b>	<b>22,3 %</b>	
Loans (NOKbn)	53,5	47,9	5,6
Deposits (NOKbn)	21,4	19,3	2,1

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

### Corporate market Division

Return on equity at the Corporate market Division was 11.6% (18.9%). The decline is related to somewhat higher losses and higher operating costs.

Total operating income came to NOK 257m in the first quarter 2012 (259m).

Net interest income was NOK 218m (218m), while commission income amounted to NOK 39m (41m).

Lending and deposit margins in the division were, respectively, 2.27% (2.18%) and 0.18% (0.24%). Lending growth was 7.7% (15.4%) and deposit growth was 16.8% (15.9%).

<b>Corporate market (NOKm)</b>	<b>31 Mar 2012</b>	<b>31 Mar 2011</b>	<b>Change</b>
Net interest income	218	218	0
Commission and other income	39	41	-2
<b>Total income</b>	<b>257</b>	<b>259</b>	<b>-2</b>
Operating expenses	100	86	14
Pre-loss profit	157	173	-16
Losses	8	-11	18
<b>Profit before tax</b>	<b>149</b>	<b>184</b>	<b>-34</b>
<b>ROE after tax</b>	<b>11,6 %</b>	<b>18,9 %</b>	
Loans (NOKbn)	39,3	36,5	2,8
Deposits (NOKbn)	25,5	21,8	3,7

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

### SpareBank 1 SMN Markets

SpareBank 1 Markets 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 30m (24.9m) for the first quarter 2012. Increased income is noted on forex and fixed income trading compared with 2011.

Markets (NOKm)	31 Mar 2012	31 Mar 2011	Change
Currency trading	6,4	3,5	2,9
Fixed income products	22,4	12,1	10,3
Corporate	0,8	1,1	-0,3
Securities, brokerage commission	3,2	3,7	-0,5
Investments	-2,8	4,5	-7,3
<b>Total income</b>	<b>30,0</b>	<b>24,9</b>	<b>5,1</b>

*Of gross income of NOK 30, NOK 6.8m has been transferred to the Corporate Market Division and NOK 0.3m to the Retail Market Division. These are the respective divisions' share of income on forex and fixed-income business on their own customers.*

### Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 31m (38m) in the first quarter 2012.

Pre-tax profit, NOKm	31 Mar 2012	31 Mar 2011
EiendomsMegler 1 Midt-Norge	14,1	12,4
SpareBank 1 SMN Finans	14,1	8,6
SpareBank 1 SMN Regnskap	5,5	2,1
Allegro Finans	-1,1	-0,6
SpareBank 1 SMN Invest	3,1	21,0
SpareBank 1 Kvartalet	-4,8	-5,4
<b>Total</b>	<b>30,9</b>	<b>38,1</b>

**EiendomsMegler 1 Midt-Norge** leads the field in its catchment area with a market share of 40%. The company's first quarter profit of NOK 14.1m (12.4m) is highly satisfactory. The number of units sold rose by 7.6% and overall turnover value by 27% to NOK 3.3bn compared with the first quarter 2011.

**SpareBank 1 SMN Finans** posted a profit of NOK 14.1m (8.6m) in the first quarter. The company has a robust earnings base, and first quarter incomes totalled NOK 29.1m (23.9m). Losses on lease agreements came to 1.8m in the first quarter compared with NOK 3.6m in the same period of 2011. At quarter-end the company managed leases and car loan agreements worth a total of NOK 2.9bn of which leases account for NOK 1.8bn.

**SpareBank 1 SMN Regnskap** posted a pre-tax profit of NOK 5.5m (2.1m). The acquisition of several local accounting firms in 2011 explains much of the increase. In 2012 the company has acquired 40 per cent of the shares of the accounting chain Consis. The remaining 60 per cent are owned by Sparebanken Hedmark.

**Allegro Finans** reported a loss of NOK 1.1m (loss of 0.6m) in the first quarter of 2012. The company has a portfolio of about NOK 2bn under active management.

**Sparebanken SMN Invest's** mission is to invest in shares, mainly in regional listed companies. The company posted a profit of NOK 3.1m in the first quarter 2012 (21.0m). The profit relates entirely to gains on the company's share portfolios.

### Satisfactory funding and good liquidity

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



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

The Bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of 1 year was 73% (71%).

SpareBank 1 Boligkreditt is the Bank's chief source of funding, and in the first quarter 2012 loans totalling a further NOK 3.6bn were transferred to this residential mortgage company. As of end-March 2012 loans totalling NOK 25.4 billion had been transferred to SpareBank 1 Boligkreditt. Transfer of loans to SpareBank 1 Næringskreditt commenced in 2012, and as of 31 March 2012 NOK 275 was transferred to Sparebank 1 Næringskreditt.

### 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 other financial institutions, was informed by Moody's of a possible downgrading by up to one notch.

### Financial position strengthened by raising fresh equity

As of end-March 2012 the tier 1 capital adequacy ratio was 10.3% (10.6%) and the total capital adequacy ratio was 11.8% (12.5%).

The Group aims for a tier 1 capital ratio of at least 11% and a total capital ratio of 12%.

The Bank is IRB approved and uses the IRB foundation approach to compute capital charges for credit risk.

Figures in NOKm	31 Mar 2012	31 Mar 2011
Tier 1 capital	7,902	7,330
Subordinated loan	1,107	1,308
<b>Capital base</b>	<b>9,008</b>	<b>8,638</b>
<b>Required subordinated debt</b>	<b>6,127</b>	<b>5,537</b>
<b>Tier 1 capital ratio</b>	<b>10,3 %</b>	<b>10,6 %</b>
<b>Total capital ratio</b>	<b>11,8 %</b>	<b>12,5 %</b>

### Stock issues

A rights issue has in 2012 been carried out in favour of existing ECC holders. ECCs were assigned in an amount of NOK 740m. 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.

In the same period a placing was made with the Bank's employees. ECCs worth NOK 21m were assigned in the employee placing.

A placing of up to NOK 200m will be made mainly with the foundation Sparebankstiftelsen SpareBank 1 SMN.

Tier 1 capital will be strengthened overall by about NOK 960m and the tier 1 capital ratio will increase from 10.3% to 11.6%. Common tier 1 ratio will be 10.1%.

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

The book value of the Bank's ECC was NOK 46.93 at end-March 2012, and earnings per ECC were NOK 1.42.

As of end-March 2012 the price was NOK 36.60, and dividend of NOK 1.85 per ECC has in 2012 been paid for 2011.

The Price / Income ratio was 6.46, and the Price / Book ratio was 0.78 as of 31 March 2012.

The key ratios are corrected for stock issues.

### **Risk factors**

The international financial crisis affected the economy of Norway as that of other countries. Unemployment subsided through 2010 and into 2011, but showed signs of levelling off in the second half of 2011. Forecasts indicate continued low unemployment ahead, and our assumption is that households will see quicker growth in real wages in 2012. Although interest rate increases can be expected from Norges Bank ahead, interest rates will still be low relative to historical trend levels. This suggests continued low risk of higher losses 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 low. 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. 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.

Although Norwegian banks are negligibly exposed to the PIIGS, the turbulence related to the risk of losses at European banks may cause the lack of confidence to infect Norwegian banks. New tier 1 capital requirements from the European Banking Authority entail a need for substantial stock issues in Europe, at the same time as financial institutions will be cutting back their balance sheets in order to comply with the new capital targets. There is a risk that balance sheet reductions will spur increased uncertainty and volatility. Further, 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 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, but there are signs of improvement in the wider international economy. The consequences for business in the Bank's market area have thus far been limited, as reflected by 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 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 quarter 2012 the Bank carried out a rights issue and a placing with employees which have significantly strengthened the Bank's financial position and positioned the Bank to exploit business potentials. The Bank's funding is robust, with considerable liquidity reserves.

The Bank has a strong market position. To 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 quarter 2012, and SpareBank 1 SMN is well placed to achieve a good result for 2012.

Trondheim, 26 April 2012

The Board of Directors of SpareBank 1 SMN

<i>Holstad</i>	<i>Bård Benum</i>	<i>Per Axel Koch</i>	<i>Kjell Bjordal</i>	<i>Aud Skrudland</i>	<i>Arnhild</i>
		<i>(chair)</i>	<i>(deputy chair)</i>		
<i>Haugan</i>		<i>Elbjørg Gui Standal</i>	<i>Paul E. Hjelm-Hansen</i>	<i>Venche Johnsen</i>	<i>Finn</i>
				<i>(employee rep.)</i>	
<i>(Group CEO)</i>					