

Report of the Board of Directors

Macroeconomic conditions

World economy

Since the crisis in 2008 the world economy has been driven by expansionary fiscal and monetary policy. The price has been unprecedented levels of sovereign debt in many OECD countries. Where the peripheral eurozone countries are concerned, financial markets have begun to doubt the ability of some of them to service their debt. This has pushed up their sovereign debt rates, thereby further exacerbating the situation. A key risk factor in 2012 is that government interest rates in debt-burdened countries will rise further, potentially leading to bankruptcies, a banking crisis and departure from the euro.

Norway

After falling from about USD 150 to around 35 per barrel in 2008, the oil price rose substantially in 2009 and 2010. It stabilised at well over USD 100 per barrel in the course of 2011, with the result that the Norwegian economy was far less affected by the international economic slowdown than first feared. Annualised GDP growth in the third quarter of 2011 was 3.7 per cent compared with 0.7 per cent in 2010.

Inflation declined towards the end of 2011 and annual consumer price growth at year-end was 0.2 per cent. Employment levels are high in Norway and the jobless rate is currently 3.4 per cent, the same as at the end of 2010.

Trøndelag and Nordvestlandet

In the period 2007-2011 the counties of Sør-Trøndelag, Nord-Trøndelag, Møre and Romsdal and Sogn and Fjordane showed a substantial increase both in population and company numbers. In all the above counties the growth in company numbers was above the national average. Unemployment fell throughout 2011 as did the bankruptcy rate. House prices in the region have risen substantially in the past two years, partly due to insufficient new housing construction, particularly in Trondheim.

In terms of company turnover, Trondheim and Sunnmøre are the most significant areas accounting for about 60 per cent of overall turnover in the counties of Sør-Trøndelag, Nord-Trøndelag, Møre and Romsdal and Sogn and Fjordane.

Agriculture is a substantial sector in the two Trøndelag counties with an annual value creation of about NOK 3bn and employing about 10,000 persons.

The aquaculture sector is important for the region, and accounts for 30 per cent of total Norwegian production in the aquaculture industry, with a turnover of NOK 7.5bn. Export prices fell markedly in the course of summer 2011, and have hovered around NOK 22-25 per kg since then, largely the result of Chilean producers' resumption of production after a halt due to disease. Prices are not expected to be cyclically dependent, and demand from emerging markets is expected to continue to rise in the years ahead.

Møre and Romsdal have greater exposure to the offshore sector than the Trøndelag counties, both through manufacturing activity and the sector's substantial vessel fleet. The sector is benefiting from the record-high level of oil investments in 2011, which is expected to remain high for a long period. Long-term fundamentals

point to a further rise in the oil price from the already high current levels.

The Trøndelag region has relatively low exposure to the export industry, and is protected by a large public sector. Retail turnover is fairly buoyant. Export businesses in the region's aquaculture and offshore segments could be affected by a long-lasting international economic contraction, but will probably handle this successfully in the long run.

Annual accounts 2011

Consolidated figures. Figures in parentheses refer to the same period of 2010 unless otherwise stated. The Group accounts are presented on the going-concern assumption, and the Board of Directors hereby confirms the basis for continued operation.

All-time profit of NOK 1,024m after tax

- Profit before tax: NOK 1,279m (NOK 1,282m).
- Profit: NOK 1,024m (NOK 1,022m).
- Return on equity: 12.8 per cent (14.6 per cent).
- Tier 1 capital ratio: 10.4 per cent (10.9 per cent), common tier 1 ratio: 8.9 per cent (9.3 per cent).
- 12-month growth in lending: 8.6 per cent (13.2 per cent), 12-month growth in deposits: 11.9 per cent (14.9 per cent).
- Earnings per equity capital certificate (ECC): NOK 6.61 (NOK 6.43); book value per ECC, incl. dividend recommended for 2011: NOK 54.44 (NOK 50.60).
- Recommended dividend: NOK 2.00 per ECC.
- The Board of Directors recommends the launch of an underwritten rights issue of up to NOK 750m, a placing of up to NOK 200m, mainly with Sparebankstiftelsen SpareBank 1 SMN, and a placing of up to NOK 60m with employees.

Good result in 2011

- good underlying operations and positive income trend
- high return on financial investments
- strong financial position and satisfactory funding
- very good growth in lending to the retail market and high growth in deposits both from retail and corporate customers
- rise in costs due to one-time events and increased activity levels, particularly at subsidiaries

In 2011 SpareBank 1 SMN recorded a profit of NOK 1,024m (NOK 1,022m) and a return on equity of 12.8 per cent (14.6 per cent). Profit before tax was NOK 1,279m (NOK 1,282m). The good profit performance is ascribable to a positive income trend, reduced losses and high return on financial assets.

Operating income rose by 6.5 per cent in 2011 to a total of NOK 2,200m (NOK 2,065m).

Return on financial assets was NOK 588m (NOK 490m), of which the overall share of profits on owner interests in affiliates was NOK 290m (NOK 249m).

Operating expenses totalled NOK 1,482m in 2011 (NOK 1,140m). Of the growth, NOK 128m is due to the write-back of AFP (early retirement) provision in 2010.

A net loss of NOK 27m (NOK 132m) was recorded on loans and guarantees.

The Group achieved good growth in lending and deposits in 2011. Lending rose by 8.6 per cent (13.2 per cent) and deposits by 11.9 per cent (14.9 per cent). Both retail and corporate banking divisions saw a good supply of customers in 2011.

Tier 1 capital adequacy at end-2011 was 10.4 per cent (10.9 per cent) and total capital adequacy was 12.0 per cent (13.0 per cent). In a press release dated 8 December 2011 Finanstilsynet announced its support for the European Banking Authority's new requirement for banks to maintain a common tier 1 capital (tier 1 capital excluding hybrid capital) ratio of 9.0 per cent. At end-2011 SpareBank 1 SMN has a common tier 1 ratio of 8.9 per cent (9.3 per cent).

At year-end the Bank's equity capital certificate (ECC) was priced at NOK 39.30 (NOK 54.00). A cash dividend of NOK 3.00 per ECC was paid in 2011 for the year 2010 (NOK 2.27).

Earnings per ECC were NOK 6.61 (NOK 6.43). Book value per ECC was NOK 54.44 (NOK 50.61).

The Board of Directors recommends the Supervisory Board to set a cash dividend of NOK 2.00 per ECC for 2011.

Proposed distribution of profit

Distribution of the profit for the year is done 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	2011	2010
Profit of the year, Group	1,024	1,022
Profit, subsidiaries	-144	-42
Dividend and group contributions, subsidiaries	68	108
Profit share, affiliates	-290	-249
Dividend from affiliates	162	44
Profit for the year, Parent Bank	820	882

Annual profit for distribution reflects changes of NOK -25m in the revaluation reserve, leaving the total amount for distribution at NOK 795m.

The profit is distributed between the ownerless capital and the equity 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 61.3 per cent of the distributed profit.

The Board of Directors recommends the Supervisory Board to set a cash dividend of NOK 2.00 per equity capital certificate, altogether totalling NOK 190m. This gives a payout ratio of 40 per cent. The Board of Directors further recommends the Supervisory Board to allocate NOK 40m as gifts to non-profit causes, representing a payout ratio of 13 per cent. NOK 297m and NOK 268m are added to the dividend equalisation fund and the ownerless capital respectively.

In light of new regulatory capital requirements and the expectation of more demanding market conditions, the Board of Directors has chosen to recommend lower payout ratios for 2011 than previous years.

The Board has further chosen to recommend a different payout ratio for the ownerless capital and the ECC capital this year in order to partially offset the equity dilution resulting from the proposed stock issue.

After distribution of the profit for 2011 the ECC-holder ratio (ECC-holders' share of total equity) is 60.6 per cent.

Distribution of profit, NOKm	2011	2010
Profit of the year, Parent Bank	820	882
Transferred from revaluation reserve	-25	65
Profit for distribution	795	947
Dividends	190	285
Equalisation fund	297	281
Ownerless capital	268	189
Gifts	40	192
Total distributed	795	947

Increased net interest income

Net interest income in 2011 was NOK 1,281m (NOK 1,210m), an increase of NOK 71m.

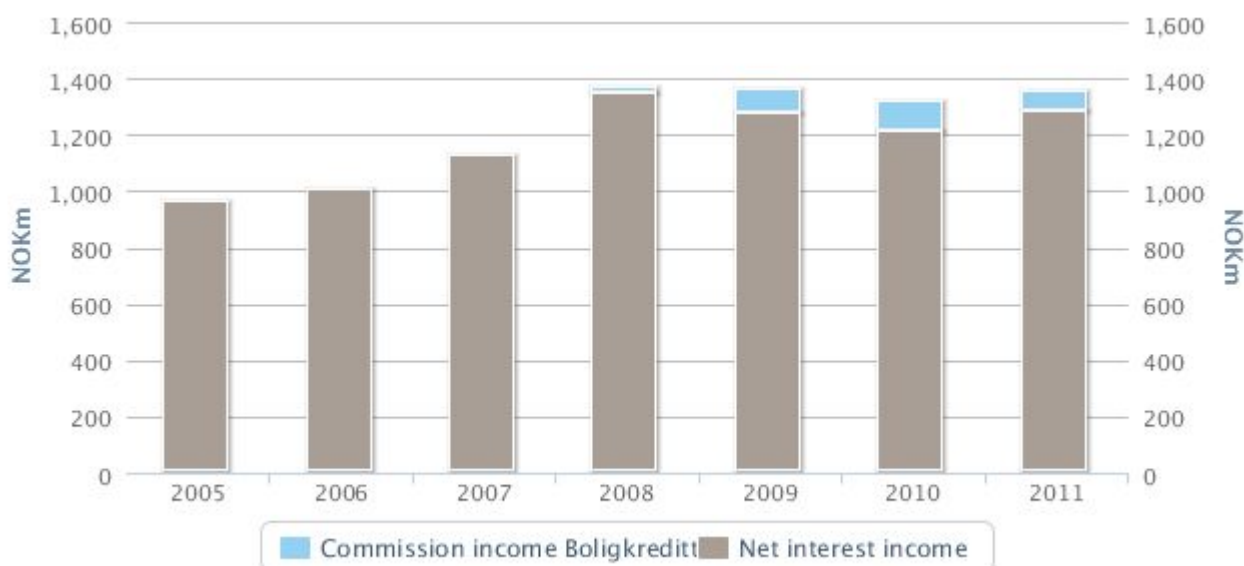
The increase is mainly due to

- higher loan and deposit volumes
- increased commissions on establishment of business loans
- Banks' exemption from payment of levies to the Banks' guarantee fund for 2011

The steadily rising cost of money market funding reduced the Bank's lending margins through the year. The Bank implemented a general interest rate increase on loans to retail and corporate customers alike in November 2011, and has chosen not to lower rates to customers after the reduction of market rates (NIBOR) at year-end.

Commission on home mortgage loans transferred to SpareBank 1 Boligkreditt is recorded as commission income, not as interest income. Commission income totalled NOK 71m in 2011 (NOK 107m).

As of end-2011 home mortgage loans transferred to SpareBank 1 SMN Boligkreditt amounted to NOK 22bn (NOK 18bn).



Increased commission income

Commission income and other operating income came to NOK 919m in 2011 (NOK 855m), an increase of 7.5 per cent. The main contributors to the increase are property broking, accounting services and insurance. In addition, the Group earns rental income on the Bank's new Head Office. A decline in commissions from SpareBank 1 Boligkreditt is ascribable to higher costs of funding in the market for residential mortgage bonds. The competitive situation has thus far made it demanding to pass on this extra cost to borrowers.

Commission income (NOKm)	End 2011	End 2010	Change
Payment transfers	195	198	-3
Savings	54	61	-7
Insurance	107	96	10
SpareBank 1 Boligkreditt	71	107	-36
Guarantee commissions	28	29	-1
Real estate agency	308	245	64
Accountancy services	79	51	29
Active management	12	19	-7
Rental income	34	13	21
Other commissions	32	38	-6
Total	919	855	64

Positive return on financial investments

Overall return on financial investments (excluding the Bank's share of the profit of affiliates and joint ventures) was NOK 298m (NOK 240m) in 2011.

Return on the Group's share portfolios totalled NOK 102m (NOK 122m).

SpareBank 1 SMN Invest, which manages parts of the Bank's share portfolio, posted net capital gains of NOK 92m (loss of NOK 19m). A substantial part of this comprises a rise in the value of the company's portfolio in Det Norske Oljeselskap in the second half-year.

Gains on bonds and derivatives in 2011 came to NOK 101m (NOK 73m). SpareBank 1 SMN focuses on investing in solid issuers with low market volatility. The Bank adopts a conservative approach to bond portfolio management with little exposure to bank bonds; the bulk of investment is in government bonds, government guaranteed bonds, municipal bonds and well-rated covered bonds. The Group's overall interest rate risk is kept to a low level.

Gains on forex and fixed income trading at SpareBank 1 SMN Markets totalled NOK 96m (NOK 39m) after a very good second half-year.

Return on financial investments, NOKm	End 2011	End 2010
Capital gains/dividends, shares	102	129
Bonds and derivatives	101	73
Forex and fixed income transactions, Markets	96	39
Value changes, financial investments	298	241
SpareBank 1 Gruppen	94	164
SpareBank 1 Boligkreditt	16	16
SpareBank 1 Næringskreditt	9	2
SpareBank 1 Oslo Akershus	15	37
BN Bank	89	59
Polaris Media	23	-
Other companies	43	-29
Affiliates	290	249
Total	588	490

SpareBank 1 Gruppen

SpareBank 1 Gruppen's preliminary post-tax profit was NOK 482m (NOK 841m). SpareBank 1 Skadeforsikring and SpareBank 1 Livsforsikring are the main contributors to the profit growth.

SpareBank 1 SMN's share of the profit was NOK 94m (NOK 164m).

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 residential mortgage loans to the company, the SpareBank 1 banks benefit from reduced funding costs. As of 31 December 2011 the Bank had transferred NOK 22bn to SpareBank 1 Boligkreditt, corresponding to 40 per cent of all loans to retail customers.

The Bank's equity stake in SpareBank 1 Boligkreditt at end-2011 was 17.8 per cent, and the Bank's share of the company's profit in 2011 was NOK 16.0m (NOK 16.0m).

SpareBank 1 Næringskreditt

In 2010 the SpareBank 1 banks established SpareBank 1 Næringskreditt along the same lines, and with the same administration, as SpareBank 1 Boligkreditt.

SpareBank 1 SMN owns 37 per cent of the company, and SpareBank 1 SMN's share of the company's profit in 2011 was NOK 9m (NOK 2m).

SpareBank 1 Oslo Akershus

SpareBank 1 SMN has a stake of 19.5 per cent in SpareBank 1 Oslo Akershus. SpareBank 1 SMN's share of the profit of SpareBank 1 Oslo Akershus was NOK 15m (NOK 37m) in 2011.

BN Bank

SpareBank 1 SMN's equity stake in BN Bank at end-2011 is 33 per cent.

SpareBank 1 SMN's share of the profit of BN Bank for 2011 was NOK 89m (NOK 59m), including amortisation effects.

Polaris Media

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

The book value of the shares at end-2011 is NOK 332m. This includes SpareBank 1 SMN's estimated share of the profit from the date of acquisition of the shares, amounting to NOK 22.9m.

Other companies

These companies were essentially established to handle corporate exposures taken over from other entities. The positive result of NOK 43m essentially represents a tax benefit related to loss carried forward at the companies concerned.

Venture in Ålesund

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

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

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

Higher costs after increase in market activity

Overall costs came to NOK 1,482m (NOK 1,140m) in 2011, an increase of NOK 342m. Of the increase, the write-back in 2010 of pension liabilities accumulated under the AFP (early retirement) scheme accounts for NOK 128m.

Other staff and operating expenses in the Group grew by NOK 214m or 17 per cent compared with 2010 (2010 figures corrected for AFP).

Of the growth of NOK 214m, NOK 67m or 21 per cent comprises growth at the Bank's subsidiaries. The growth in costs is essentially ascribable to

- Increased activity at Eiendomsmeidler 1 Midt-Norge. NOK 30m of the growth at the subsidiaries is a result of a substantial increase in activity at Eiendomsmeidler 1 Midt-Norge. The pre-tax profit of NOK 76m posted in 2011 was the best ever reported by the company.
- Increased costs at SpareBank 1 SMN Regnskap as a result of the acquisition of several local accounting firms in 2011. This has increased Group operating expenses by NOK 27m. Turnover rose by NOK 30m in 2011.

Parent Bank costs rose by NOK 146m or 15 per cent. Much of the growth is related to increased customer-facing activity. The growth roughly breaks down as follows (figures in millions of NOK):

Wage growth	35
IT and telephony	31
Premises, mainly new Head Office	27
Other operating expenses	33
Total	126

In addition an operational loss of NOK 20m related to a customer exposure in the Group's capital market business was recorded as a cost.

Operating expenses were 1.50 per cent of average total assets (1.39 per cent). The Group's cost-income ratio was 53 per cent (50 per cent, 2010 figures corrected for the effect of AFP).

Very low losses and low defaults

In 2011 net loan losses came to NOK 27m (NOK 132m). There has been no cause to revise collectively assessed impairment write-downs in 2011. Net loan losses in the fourth quarter were NOK 26m.

A net loss of NOK 20m was recorded in 2011 on the Group's corporate customers (NOK 128m). Of this, losses at SpareBank 1 SMN Finans came to NOK 15m (NOK 25m). A net loss of NOK 7m was recorded on the retail portfolio (NOK 4m).

Individually assessed impairment write-downs came to NOK 172m (NOK 222m), a fall of NOK 50m in the last 12 months.

Total problem loans (defaulted and doubtful) came to NOK 542m (NOK 710m), or 0.57 per cent (0.81 per cent) of gross outstanding loans.

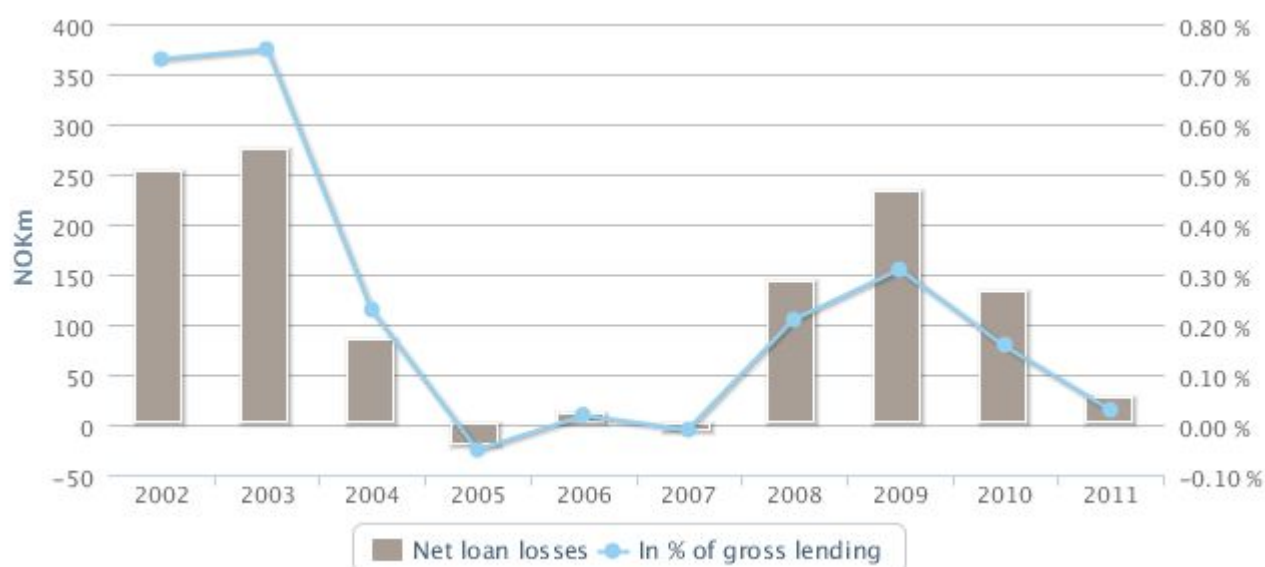
Defaults in excess of 90 days came to NOK 338m (NOK 499m). Defaults measure 0.36 per cent (0.57 per cent) of gross lending. Of overall defaults, NOK 89m (NOK 100m) or 26 per cent (20 per cent) are loss provisioned.

Other doubtful exposures totalled NOK 204m (NOK 211m), or 0.21 per cent (0.24 per cent) of gross lending. NOK 83m (NOK 122m) or 41 per cent (58 per cent) are loss provisioned.

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)

At end-2011 no basis has been found for revising collectively assessed write-downs. The aggregate volume of such write-downs is NOK 290m (NOK 290m).



Total assets of NOK 101bn

The Bank's assets totalled NOK 101bn as of end-2011 (NOK 98bn), having risen by NOK 3bn or 3.6 per cent. The increase in total assets is a consequence of lending growth.

As of end-2011, loans worth a total of NOK 22bn (NOK 18bn) had been transferred by SpareBank 1 SMN to SpareBank 1 Boligkreditt. These loans do not figure as lending in the Bank's balance sheet. However, the comments dealing with growth in lending include loans transferred to SpareBank 1 Boligkreditt.

Strong growth in retail lending, slower growth in corporate lending

Total outstanding loans rose by NOK 7.6bn (NOK 10.2bn) or 8.6 per cent (13.2 per cent) in 2011 to reach NOK 95.2bn at end-2011.

Demand for home mortgage loans has been heavy, and lending to retail customers rose by NOK 5.4bn (NOK 4.5bn) to NOK 55.0bn in 2011, equivalent to growth of 10.9 per cent (9.9 per cent). SpareBank 1 SMN is gaining shares in the home loan market in its market area. Growth in credit to norwegian households in 2011 look set to reach about 7.2 per cent.

Growth in lending to corporates has slowed, with an increase of NOK 2.2bn (NOK 5.8bn) in 2011, equivalent to 5.7 per cent (17.9 per cent). Overall lending to corporates came to NOK 40.2bn at end-2011.

Lending to retail customers accounted for 58 per cent (57 per cent) of ordinary loans to customers as at end-2011.

High growth in both retail and corporate customer deposits

In the last 12 months customer deposits rose by NOK 5.1bn (NOK 5.6bn) or 11.9 per cent (14.9 per cent) to NOK 47.9bn as of end-2011.

Retail customer deposits rose by NOK 1.8bn (NOK 1.2bn) or 9.5 per cent (6.5 per cent) to NOK 20.9bn, while deposits from corporates rose by NOK 3.3bn (NOK 4.4bn) or 14.1 per cent (22.8 per cent) to NOK 27.0bn. Substantially higher corporate deposits are ascribable to an increased focus on institutions and foundations.

Reduced portfolio of investment products

Off-balance sheet investment products totalled NOK 4.6bn (NOK 5.1bn) at end-2011. Some decline was seen in portfolio values during the autumn, bringing the total decline since 2010 to NOK 473m.

Investment products, customer portfolio, NOKm	End 2011	End 2010	Change
Equity funds	2,284	2,416	-132
Pension products	711	876	-165
Active management	941	1,018	-77
Energy fund management	218	317	-99
Property funds	447	447	0
Total	4,601	5,074	-473

Sound growth in the Bank's insurance portfolio

The Bank's insurance portfolio grew by 9 per cent in the last 12 months, with a rise of 10 per cent for non-life and 13 per cent for personal insurance. A 3 per cent increase was recorded on the occupational pensions portfolio.

Insurance, premium volume, NOKm	End 2011	End 2010	Change
Non-life insurance	621	567	54
Personal insurance	175	155	20
Occupational pensions	129	125	4

Total	925	847	78
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Profitability and growth in the retail market

The retail market business achieved a return on equity of 21.3 per cent (25.5 per cent) in 2011.

Operating income came to NOK 883m (NOK 913m) in 2011. Net interest income totalled NOK 551m (NOK 592m) and commission income NOK 333m (NOK 321m). The lending margin is under heavy pressure from intense competition and stable low interest rates, but is partly compensated for by high growth and an increased deposit margin.

The lending margin in 2011 was 1.2 per cent (1.43 per cent), while the deposit margin was 0.73 per cent (0.54 per cent). The margin is defined as the average customer interest rate minus the three-month moving average of three-month NIBOR.

In the last 12 months lending to retail customers rose by 10.9 per cent (8.7 per cent) and deposits from the same segment by 10.9 per cent (4.3 per cent).

The high cost growth from 2010 to 2011 is largely a result of the write-back of early retirement (AFP) liabilities in 2010.

Lending to retail borrowers generally carries low risk, as reflected in continued 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)	End 2011	End 2010	Change
Net interest income	551	592	-42
Commission and other income	333	321	12
Total income	883	913	-30
Operating expenses	603	468	135
Pre-loss profit	280	445	-165
Losses	7	4	3
Profit before tax	273	441	-168
ROE after tax	21.3 %	25.5 %	
Allocated capital (NOKm)	890	1,031	
Loans (NOKbn)	52.1	46.9	5.1
Deposits (NOKbn)	21.2	19.1	2.1

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

Income growth, low losses and reduced growth in lending to corporates

The Corporate market Division reported a return on equity of 13.8 per cent (12.0 per cent). The improvement is due mainly to increased income and reduced loan losses.

Total operating income came to NOK 1,069m in 2011 (NOK 921m).

Lending and deposit margins in the division were, respectively, 2.12 per cent (2.14 per cent) and 0.20 per cent (0.26 per cent). The margins are measured with reference to three-month NIBOR. Lending grew by 6.3 per cent (20.7 per cent) and deposits by 11.5 per cent (22.1 per cent).

Net interest income totalled NOK 900m (NOK 770m), while commission income came to NOK 169m (NOK 151m). The increase in net interest income is ascribable to a stable lending margin, higher loan and deposit volumes and high establishment commissions.

Commission incomes rose by NOK 18m. The increase is mainly related to incomes from forex transactions and to fruitful collaboration with the Bank's capital markets division.

The high cost growth from 2010 to 2011 is largely a result of the write-back of early retirement (AFP) liabilities in 2010.

Corporate market (NOKm)	End 2011	End 2010	Change
Net interest income	900	770	130
Commission income	169	151	18
Total income	1,069	921	148
Operating expenses	352	278	73
Pre-loss profit	717	642	75
Losses	5	104	-99
Profit before tax	712	539	174
ROE after tax	13.8 %	12.0 %	
Allocated capital (NOKm)	2,873	2,869	
Loans (NOKbn)	38.7	36.4	2.3
Deposits (NOKbn)	25.3	22.7	2.6

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

Income growth for SpareBank 1 SMN Markets

SpareBank 1 Markets reported total income of NOK 139.1m (NOK 93.4m) in 2011. Activity was high in all business areas, resulting in substantial income growth especially in the second half-year.

SpareBank 1 SMN Markets delivers a complete range of capital market products and services, and has strengthened staffing in its forex and corporate finance areas. It has also set up in Ålesund.

Markets (NOKm)	End 2011	End 2010	Change
Currency trading	53.8	45.2	8.6
Fixed income products	42.2	16.5	25.7
Corporate	14.6	20.0	-5.4
Securities trading, CSD, misc.	17.4	12.7	4.7
Investments	11.1	-1.0	12.1
Total income	139.1	94.4	33.6

Of gross income of NOK 139m, a total of NOK 36m and NOK 6m respectively was transferred to the corporate market and retail market divisions. These figures are the respective divisions' share of incomes from forex and fixed income transaction on their own customers.

Subsidiaries

The Bank's subsidiaries posted an aggregate pre-tax profit of NOK 167.8m (NOK 73.9m) in 2011.

Pre-tax profit (NOKm)	End 2011	End 2010	Change
EiendomsMegler 1 Midt-Norge	75.6	50.8	24.8
SpareBank 1 SMN Finans	26.3	35.1	-8.8

SpareBank 1 SMN Regnskap	5.0	11.4	-6.4
Allegro Finans	-5.3	2.2	-7.5
SpareBank 1 SMN Invest	87.5	-21.6	109.1
Property companies	-21.3	-4.0	-17.3
Total	167.8	73.9	93.9

Eiendomsmeidler 1 Midt-Norge leads the field in its market area with a market share of some 40 per cent. Profit growth in 2011, as previously, was very good, with a pre-tax profit of NOK 75.6m (NOK 50.8m) in 2011.

SpareBank 1 SMN Finans posted a pre-tax profit of NOK 26.3m in 2011 (NOK 35.1m). At year-end the company managed leases and car loan agreements worth a total of NOK 2.9bn of which leases accounted for NOK 1.9bn.

SpareBank 1 SMN Regnskap posted a pre-tax profit of NOK 5.0m (NOK 11.4m). The company increased its turnover by NOK 32m to NOK 83m compared with 2010. The acquisition of several local accounting firms in 2011 explains much of the increase. SpareBank 1 SMN Regnskap wrote back AFP (early retirement scheme) liabilities worth NOK 5.9m in 2010. 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 5.3m (profit of NOK 2.2m) before tax in 2011. The company has a portfolio of about NOK 2bn under active management.

The mission of **SpareBank 1 SMN Invest** is to invest in shares, mainly in regional businesses. The company posted a profit of NOK 87.5m in 2011 (loss of NOK 21.6m) as a result of capital gains on its share portfolio, the main contributor being the rise in the market price of Det Norske Oljeselskap (included in net change in the value of financial assets in the Group's income statement).

Satisfactory funding and good liquidity

The Bank has a conservative liquidity strategy. This strategy stresses the importance of maintaining liquidity reserves sufficient to 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 17bn, which corresponds to the funding needed for 18 months including expected lending growth and ordinary operations in general.

The Bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of one year was 81 per cent (79 per cent).

SpareBank 1 Boligkreditt is the Bank's chief funding source, and in 2011 loans totalling NOK 4.3bn were transferred to this residential mortgage company. As of end-2011 loans totalling NOK 22bn had been transferred to SpareBank 1 Boligkreditt.

Good financial position

As of end-2011 the tier 1 capital ratio was 10.4 per cent (10.9 per cent) and the total capital ratio was 12.0 per cent (13.0 per cent).

The Group aims for a tier 1 capital ratio of 11 per cent and a total capital ratio of 12 per cent. The tier 1 target was revised in autumn 2011 in light of the foreshadowed increase in regulatory capital requirements. The tier 1 ratio target was previously 9 per cent.

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

Figures in NOKm	End 2011	End 2010
Tier 1 capital	7,856	7,283
Subordinated debt	1,199	1,360
Own funds	9,055	8,643
Capital requirement	6,027	5,335
Tier 1 capital ratio	10.4 %	10.9 %
Total capital ratio	12.0 %	13.0 %

The Bank's primary capital certificate (MING)

The book value of the Bank's ECC was NOK 54.44 (NOK 50.60) at end-2011, and earnings per ECC were NOK 6.61 (NOK 6.43).

The Price / Income ratio was 5.94 (8.40), and the Price / Book ratio 0.72 (1.07).

The price at year-end was NOK 39.30, and a dividend of NOK 3.00 per ECC was paid in 2011 for the year 2010.

SpareBank 1 SMN's articles of association do not impose trading restrictions on its ECC holders.

With regard to placings with employees, the latter are invited to participate under given guidelines. In placings where discounts are granted, a lock-in period applies before sale can take place. The rights to ECCs issued in placings with employees cannot be transferred.

SpareBank 1 SMN is not aware of any agreements between ECC holders that limit the opportunity to trade ECCs or to exercise voting rights attached to ECCs.

See also the chapter Corporate Governance

Sparebankstiftelsen SpareBank 1 SMN

The Supervisory Board resolved in May 2011 to establish a savings bank foundation named Sparebankstiftelsen SpareBank 1 SMN. The foundation's mission is to secure long-term ownership of SpareBank 1 SMN through participation in private placings. Based on the Supervisory Board's resolution, the foundation will be allotted portions of the provision for donations to non-profit causes.

Stock issues

The Bank's Board of Directors has resolved to recommend the Supervisory Board to approve a rights issue of up to NOK 750m in favour of existing owners and a placing of up to NOK 60m with employees of the Group .

The Board of Directors also recommends the launch of a placing of NOK 200m with Sparebankstiftelsen SpareBank 1 SMN.

The Bank intends through these proposed stock issues to strengthen its core capital and the financial basis for profitable growth and for exploiting business potentials in its market area. The Bank considers it valuable for employees of the Group to have the opportunity to subscribe for equity capital certificates through a private placing. A private placing with the foundation is in keeping with the Bank's strategy behind the establishment of Sparebankstiftelsen SpareBank 1 SMN.

The issues will strengthen the Group's tier 1 capital ratio by about 1.2 per centage points to 11.6 per cent. The common tier 1 ratio excluding hybrid capital will approach 10.1 per cent after the issues.

The Board of Directors recommends transferring parts of the ECC capital prescribed by the articles of association to the Bank's ECC premium reserve through lowering the nominal value of the Bank's ECC from NOK 25 to NOK 20. This will facilitate stock issues on market terms and a more appropriate distribution of the savings bank's ECC capital. Changing the nominal value will not affect the 'owner fraction' (ratio of ECC capital to total equity capital) or the market value of the ECC.

Risk factors

The international financial crisis affected the economy of Norway as of other countries. Unemployment subsided in 2010 and into 2011, but showed signs of levelling out in summer 2011. Forecasts indicate continued low unemployment ahead. This, together with an expectation of continued low interest rates, suggests little risk of increased losses on the retail market.

The Bank's results are affected directly and indirectly by securities market fluctuations. The indirect effect relates essentially to the Bank's equity stake in SpareBank 1 Gruppen where both the insurance business and mutual fund management activities are affected by the fluctuations.

The Bank is also exposed to risk with regard to access to external funding. This is reflected in the Bank's conservative liquidity strategy (see also the preceding section on funding and liquidity).

The credit quality of the Bank's loan portfolio is satisfactory, and loss and default levels are low. The cooling of the Norwegian economy as from 2008 brought increased loss levels among Norwegian financial institutions, but the last two years have again shown falling loss levels among banks.

The continuing turmoil in global financial markets makes economic framework conditions increasingly uncertain, and growth impulses from a debt-stricken EU are very weak which, although offset by domestic growth, will make for low export growth. Mid-Norwegian businesses anticipate reduced growth.

Although Norwegian banks are negligibly exposed to the PIIGS countries, the disquiet associated with European banks' loss risk may cause lack of confidence to feed through to Norwegian banks. New tier 1 capital requirements from the European Banking Authority are prompting substantial stock issues in Europe, at the same time as financial institutions are likely to deleverage in order to meet the new capital targets. There is a risk that deleveraging will compound uncertainty and volatility, and that the Bank's ability to access foreign funding will continue to be affected in the period ahead.

Corporate social responsibility

The Bank wishes to contribute to society's value creation by assuring profitable and sound banking, prudent capital allocation and sustainable management of inputs. Healthy growth provides the 'lift' that enables the Bank to attract good customers and skilled staff and to contribute to the further development of the region of which we are a part.

SpareBank 1 SMN wishes to balance financial growth against the need for rational use of inputs and resources consumed by the Bank.

SpareBank 1 SMN has established a strategy for its social responsibility that brings together three themes: finance, social responsibility and environment. Under each main theme important work areas are defined and clear targets are set for the Bank's contribution to responsible development.

The Bank's commitment to its customers, the region and its staff pervades its business activity. The Bank is involved with its customers and their success, it is concerned with the region's development and believes its staff should enjoy interesting and career-developing work. The Bank's focus on public issues is integrated in our ongoing planning work to ensure that ethics, the environment and important social questions are themes to which we give consideration on a continuous basis.

As an independent local bank, SpareBank 1 SMN shares a community of interests with the region. In recent years SpareBank 1 SMN has taken a number of steps to give something back to the society of which it is a part. They include grants to talented individuals in the arts and sports, support for local associations and organisations, and building up commercial foundations in Trøndelag and Nordvestlandet that will lay a basis for value creation and new jobs.

SpareBank 1 SMN is working to create added value in areas touching on the environment and energy. The Group consistently implements measures designed to reduce consumption of electricity, paper and other resources and to ensure that limits are imposed on resource-demanding travel. Handling of e-waste and purchase of environment-friendly solutions also receives much attention.

SpareBank 1 SMN relocated to its new Head Office in Trondheim in autumn 2010. Our energy consumption target for the new office premises part of the building was 85 kWh per square metre. After the first year of operation energy consumption is below 60 kWh per square metre. No other office building in Norway can match these results.

By end-2011 the Trondheim Head Office and the office in Ålesund had achieved certification under the 'Environmental Lighthouse' scheme. Offices in which about 450 staff work on a daily basis are now certified in the following areas: work environment, procurements/materials use, energy, transport, waste, emissions and aesthetics. Further offices will achieve certification in the course of 2012.

Any pollution of the external environment by SpareBank 1 SMN is negligible.

For further information, see the chapter Corporate Social Responsibility.

Leadership and competence

SpareBank 1 SMN is a competence-intensive business. The combined competence of each staff member and department, and of the organisation, is accordingly a key factor in securing sound value creation at all levels. The Bank's advisers are the core of the business and our most important competitive advantage in combination with our precepts of closeness to the customer and competence.

Appointment policy in tune with the market

At end-2011 the Parent Bank had 828 employees, distributed on 786 FTEs. Women account for 51 per cent of total staff and 27 per cent of managerial staff. 64 new staff were appointed in 2011 while 49 left.

Main figures, Parent Bank	2011	2010
No. of FTEs	786	764
No. of staff	828	825
Turnover	5.9 %	6.9 %
Female managers	27 %	28 %
New staff	64	51
Average age	46 yrs	46 yrs
Sickness absence rate	4.0 %	4.0 %

Demographic data for the Parent Bank

Attractive employer

Vacancy announcement have attracted many applicants and keen interest in the Bank's company presentations, and recruitment agencies report unequivocally that the Bank has a good reputation in the labour market. The Bank is continuously engaged in developing and improving its appointment policy with a view to ensuring the recruitment of staff with the right knowledge, skills and mindsets and to coming across as an attractive employer in the labour market.

SpareBank 1 SMN's website gives existing and new colleagues a concise picture of all the positive aspects of working at the Bank. Active use is made of these web pages in preparing presentations and they put future jobseekers in a good position to judge whether SpareBank 1 SMN is the right employer for them.

The Bank's staff turnover rate

The staff turnover rate was 5.9 per cent as of 31 December 2011. In the Bank's view, a balanced replacement of staff benefits the organisation by adding new competencies and experience. It indicates that SMN staff are attractive and competitive in the labour market.

The Group's internal labour market

Job changes across divisions and subsidiaries are needed to promote circulation of competencies and experience within the organisation, at the same time as staff seeking in-house openings are attended to. 54 staff members went to new jobs within the Group in 2011.

The overall aim of the internal recruitment processes is to get the right person into the right job at the right time and at the right salary. Inherent in this objective is the clear-cut aim of a good gender balance at all levels of the organisation. A healthy gender equality perspective is a precept of the Bank's HR policy.

The Group's remuneration policy

All remuneration arrangements at SpareBank 1 SMN are formulated in accordance with the Financial Institutions Act, and with the Securities Trading Act with associated regulations concerning remuneration arrangements at financial institutions, investment firms and mutual fund management companies.

The Group's guidelines for variable remuneration are designed to assure that employees, groups and the business as a whole are compliant with the risk management strategies, processes and tools that the Group

has put in place to protect assets and values. The remuneration arrangements are formulated in such a way as to ensure that neither individuals nor the organisation takes unacceptable risk in order to maximise the variable remuneration.

For further information, see note 9 Personnel expenses and emoluments to senior employees.

Non-discrimination

SpareBank 1 SMN works to prevent discrimination in spheres including recruitment, pay and employment conditions, promotion, career development, and protection against harassment. SpareBank 1 SMN aims to reflect the population structure in its catchment area.

Knowledge, skills and mindsets

SpareBank 1 SMN makes heavy demands on its advisers to ensure that customers experience the best the market has to offer in terms of personal financial and corporate financial advice. The SpareBank 1 Alliance has jointly developed a comprehensive certification programme for advisers. The programme meets the competence requirements set for financial advice by the industry. The approval scheme for non-life insurance and the authorisation scheme for financial advisers were key activities in 2010. At the end of 2011 the Bank's advisers are now approved non-life insurance advisers, and the Bank is well into the process of authorising advisers in the field of financial advice.

SpareBank 1 SMN is well placed to adapt to new industry requirements. The Bank has developed good training arenas for its advisers and maintains a continuous focus on professional development and on improvement of customer processes.

Manager 1 – the Group's focus on leadership

Manager 1 has in the period 2009-2011 been the Group's tailor-made manager development programme. The programme has several goals over and above promoting development of the individual manager:

- to heighten manager quality in the Bank
- to improve coherence between the various manager levels
- to contribute to increased change and implementation capacity
- to promote cross-disciplinary sharing of competence and experience among the Group's managers

'Practical management' is the Bank's arena for continuous focus on HR-related themes. Annual seminars are held for the Bank's managers, and are facilitated by the HR Division.

Health, environment and safety

Collaboration for a common goal

SpareBank 1 SMN's vision is to be the recommended bank. This vision entails a weighty commitment on the part of the Bank to its customers, partners, staff and owners, and requires competent and healthy staff. The Pentagon project is a collaboration model bringing together MOT, Aktimed and SpareBank 1 SMN. Its object is reduced sickness absence to 3.4 per cent in 2012. MOT's philosophy and focus on attitude-moulding work will reinforce the effort to further develop a healthy corporate culture.

Sickness absence

The Bank's overall sickness absence has been fairly stable in the past two years, and was 4.0 per cent in 2011 (4.0 per cent). Sickness absence at SpareBank 1 SMN is lower than in the banking industry for all types of sickness absence, and the Bank aspires to maintain a stable low rate of such absence. Seasonal variations in sickness absence have levelled off somewhat. Self-reported absence has stabilised at a lower level, while short-term doctor-reported absence is marginally rising. Long-term doctor-reported absence remains low.

Key measures:

Corporate initiatives

- procedures and frameworks
- 'Better Shape' keep fit programme
- AktiMed's corporate health service
- targeted health follow-up (ergonomics, work environment, health)
- organisation analysis, TNS Gallup

Individual initiatives

- more and more staff turning to healthful leisure activities
- substantial support for company sports activities

Sickness absence across the Group is fairly evenly distributed between women and men.

Outlook ahead

The outlook for the international economy is demanding. Consequences for business in the Bank's market area have thus far been limited, as reflected by low levels of defaults and losses in the Bank's portfolio.

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

The Bank is seeking to strengthen its already sound core capital situation by means of planned stock issues which will position it to exploit business opportunities. Moreover, the Bank's funding situation is robust.

The Bank has a strong market position. To reinforce this position the Board of Directors will launch a programme designed to further strengthen the Group's customer orientation.

The Board of Directors is satisfied with the Group's profit performance in 2011. SpareBank 1 SMN has a sound basis for achieving another good performance in 2012.

Trondheim, 20 February 2012

The Board of Directors of SpareBank 1 SMN

Per Axel Koch
Chair

Eli Arnstad
Deputy chair

Paul E. Hjelm-Hansen

Aud Skrudland

Bård Benum

Kjell Bjordal

Arnhild Holstad

Venche Johnsen
Employee rep.

Finn Haugan

Group CEO