Annual report 2012

Best for customer experience by 2015. This is SpareBank 1 SMN's strategic goal. It explains why we are transferring as much power and authority as possible to our 51 branches and more than 500 advisers. They are where value creation takes place.

SpareBank 1 SMN

Contents

General information

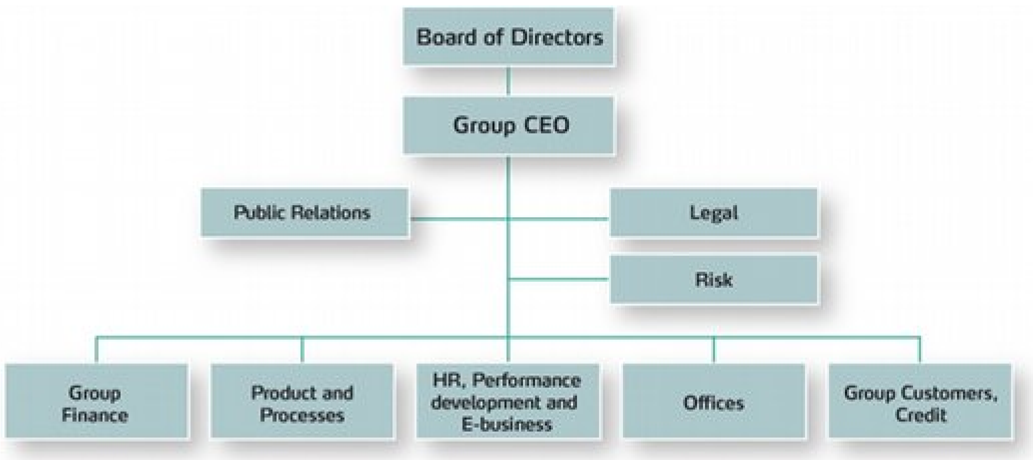
SpareBank 1 SMN intends to be the recommended bank based on its being close at hand and its competence.

This is SpareBank 1 SMN

SpareBank 1 SMN is the region’s leading financial services group and one of six owners of the SpareBank 1 Alliance. Its Head Office is in Trondheim and the Group and its subsidiaries have 1,200 staff. SpareBank 1 SMN is a regional independent savings bank with a local footing. Closeness and competence characterize our relationship to the market.

The region’s largest financial services group

- One of Norway´s oldest banks, founded in 1823
- Present in 51 locations across 43 municipalities in both Trøndelag counties, Møre and Romsdal, and Sogn and Fjordane
- One-stop provider in the field of financing, saving and investment, insurance and payment service to retail customers and corporates
- 188,000 retail customers
- 13,000 corporate customers
- The region´s leading real estate agent through EiendomsMegler 1
- The region´s leading leasing company through SpareBank 1 SMN Finans
- The region´s only full-fledged investment firm through SpareBank 1 SMN Markets
- The region´s largest private contributor to business development and non-profit causes, through SpareBank 1 SMN's monetary gift work



Financial summary, last ten years

From the income statement (NOKm)	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Net interest and credit commission income	1,477	1,392	1,317	1,325	1,350	1,139	1,024	974	877	871
Commision and fee income	1,139	919	855	756	610	671	580	537	443	332
Operating expenses	-1,654	-1,482	-1,140	-1,253	-1,194	-1,103	-990	-906	-729	-733
Operating profit before losses and return on financial investments	962	829	1,032	828	766	707	613	605	590	470
Income from investment in related companies	244	248	276	349	393	233	190	119	23	-5
Return on financial investements	207	186	133	247	-186	99	229	157	42	74
Loan losses and gains/write-downs on disposals of fixed assets	58	27	132	277	202	-6	-84	-38	81	229
Pre-tax operating profit	**1,355**	**1,236**	**1,309**	**1,147**	**771**	**1,045**	**1,116**	**919**	**574**	**311**
From the balance sheet (NOKm)										
Total assets	107,919	101,455	97,992	84,541	84,679	71,503	63,178	54,327	38,505	36,876
Outstanding loans (gross)	74,943	73,105	69,847	61,782	64,016	59,178	52,819	45,280	34,226	32,553
Outstanding loans including transf. SpareBank 1 Boligkreditt (gross)	104,909	95,232	87,665	77,429	71,317	61,910	-	-	-	-
Gross loans in retail market	62,587	55,034	49,619	45,157	42,679	38,872	33,898	29,032	21,491	20,008
Gross loans in corporate market	42,322	40,198	38,046	32,272	28,638	23,038	18,921	16,248	12,735	12,545
Deposits	52,252	47,871	42,786	37,227	35,280	32,434	30,136	27,048	20,725	19,876
Deposits from retail market	22,279	20,860	19,052	17,898	17,566	16,070	14,707	14,080	11,256	11,252
Deposits from corporate market	29,973	27,011	23,734	19,330	17,715	16,364	15,429	12,968	9,469	8,624
Growth in lending, %	10.2 %	8.6 %	13.2 %	8.6 %	15.2 %	17.2 %	16.6 %	32.3 %	5.1 %	4.7 %
Growth in deposits, %	9.2 %	11.9 %	14.9 %	5.5 %	8.8 %	7.6 %	11.4 %	30.5 %	4.3 %	4.3 %
Key figures and ratios										
Return on equity	11.7 %	12.8 %	14.6 %	16.2 %	11.9 %	18.9 %	23.7 %	23.3 %	20.0 %	10.2 %
Cost-income ratio	54.0 %	53.2 %	44.2 %	46.8 %	55.1 %	51.5 %	49.0 %	50.7 %	52.7 %	57.6 %
Tier 1 ratio	11.4 %	10.4 %	10.9 %	10.5 %	8.1 %	8.4 %	8.6 %	8.8 %	10.8 %	10.1 %
Capital adequacy ratio	13.3 %	12.0 %	13.0 %	13.6 %	11.9 %	12.1 %	11.9 %	10.9 %	12.7 %	13.9 %
No. of staff	1,216	1,153	1,117	1,108	1,062	1,017	950	898	772	772
No. of person-years worked	1,135	1,109	1,035	1,017	973	940	841	806	637	713
No. of branches	51	54	54	55	56	56	58	62	56	56
Key figures EC 1)										
EC ratio	64.6 %	60.6 %	61.3 %	54.8 %	56.3 %	54.2 %	53.7 %	56.1 %	49.8 %	51.4 %
EC price (NOK)	34.80	36.31	49.89	45.06	21.00	50.28	56.72	54.46	38.27	26.72
Market value (NOKm)	4,518	3,731	5,124	3,749	1,750	3,900	4,140	3,951	2,113	1,476
Profit per EC (NOK)	50.09	48.91	46.17	42.11	38.07	36.43	33.31	30.26	24.99	22.85
Dividend per EC (NOK)	5.21	6.06	5.94	6.37	4.16	5.86	6.24	5.35	2.77	2.22
Booked equity capital per EC (including dividend)	1.50	1.85	2.77	2.10	2.77	3.90	3.04	3.34	1.85	2.00
P/E	6.68	5.99	8.40	7.07	5.05	8.59	9.08	10.19	13.83	12.03
Price/Booked equity capital	0.69	0.74	1.08	1.07	0.55	1.38	1.70	1.80	1.53	1.17

Key goals and strategies

Vision and values

Vision

We intend to be the recommended bank. This vision entails a weighty commitment to our customers, partners, staff and EC holders. To fulfil this vision we must strive continuously to improve ourselves and to stay abreast of market and customer needs.

Values

We want our customers to perceive us as close at hand and capable. This means being close to our customers through personal contact, taking the initiative to meet the customer with the best advice and products, and being an active mainstay of the region. 'Capable' means offering a broad product range that is right for the times, and employing staff with solid professional competence and first rate skills. We aim to maintain a high ethical standard in everything we do, and want our customers to feel that their needs for financial advice and services are met in a professional manner. Our values of being close at hand and capable are our guiding principle, qualities we strive for every single day. They help us to achieve our goals and to make the right priorities.

Strategic ambition

At the end of the strategy period SpareBank 1 SMN will continue to be an independent, regional finance house, a powerhouse for development of the region. SpareBank 1 SMN will be profitable and best for customer experience. SpareBank 1 SMN is unquestionably solid and its return on equity puts it among the three best banks in Norway. In 2015 SpareBank 1 SMN will have strengthened its market position and significantly improved market shares in Trondheim, Molde and Ålesund, as well as its position in the SMB market and the deposit market.

Our ambition is to remain an independent, regional, profitable bank that means more to firms and individuals in our market area than any other bank.

The SpareBank 1 Alliance is the bank's strategic foundation and the basis for SpareBank 1 SMN's regional business strategies and independence. SpareBank 1 SMN will play an active role in developing the SpareBank 1 Alliance as a leading financial services grouping.

Main strategy themes in the period 2012-2015

- Solid and profitable with a return on equity among the three best-performing comparable banks
- A common equity tier 1 capital ratio of at least 12.5 per cent by period's end
- Continued growth in market shares
- Developing a position as best for customer experience
- Further develop and renew the brand and position in the market area
- Further develop an organisation that generates commitment and good performances
- Continuous improvement of efficiency and work processes to create maximum customer value

SpareBank 1 SMN intends to be unquestionably solid with funding that enables it to survive at least 12 months without access to external funding. SpareBank 1 SMN has a good supply of deposit financing and aims to continue to increase shares in the savings and deposit markets.

Continued growth in market shares

SpareBank 1 SMN is the clear cut market leader in Trøndelag and in Møre and Romsdal but sees further growth potentials in retail markets and the corporate market. Growth will be achieved by further developing customer portfolios across the Group and increasing customer migration from competitors. SpareBank 1 SMN sees potentials in further developing and strengthening the group's position in the larger towns and urban areas and in maintaining a very strong market position in the districts. Skilled advisers that meet customer needs by identifying the right product range and product coverage for the individual customer will promote continued sound growth for SpareBank 1 SMN.

Key goals and strategies

Best for customer experience

Based on an assessment of opportunities present in the market, the competitive situation and customers' expectations, the bank will in the strategy period launch measures to develop and take its place as the best bank for customer experience. A strategic position in which the bank is regarded as the best for customer experience is a position that affords competitive power and considerable potential for continued growth.

Further develop and renew the brand and position in the market area

SpareBank 1 SMN holds a prominent position and is the most familiar banking group to existing and potential customers in the bank's market area and the one of which people are most aware. We see further potential for growth by strengthening the content of the SpareBank 1 SMN brand and the market's awareness of what it stands for.

Further develop an organisation that generates commitment and good performances

Further development of organisational and managerial capability will be a central area for development in the strategy period. Opportunities exist to strengthen and further develop customer relationships by profiling the competence and skills possessed by staff at SpareBank 1 SMN.

Coming across as service-minded and enthusiastic

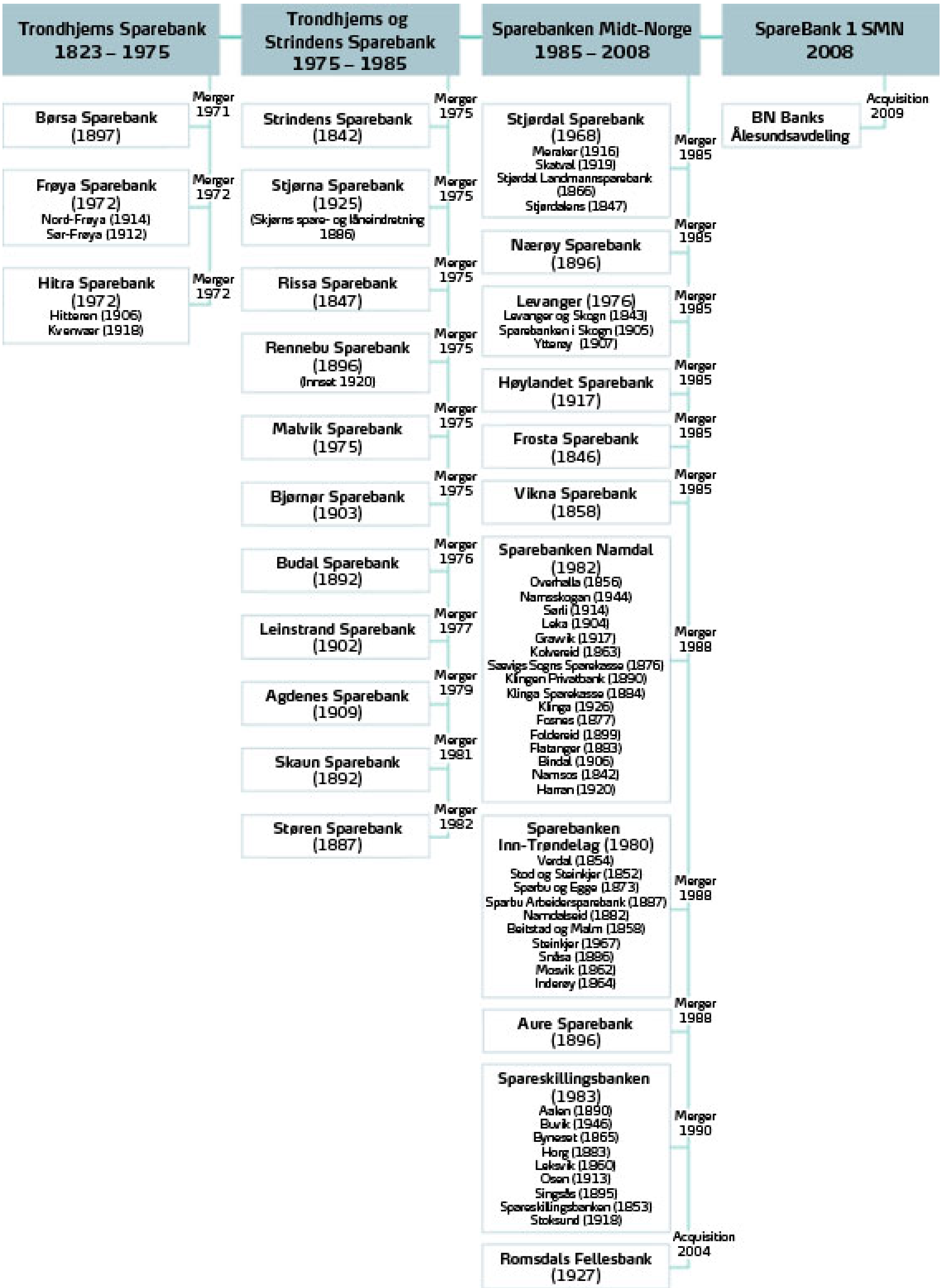
SpareBank 1 SMN sees possibilities for and potentials in strengthening customers' experience of the bank and their meeting with the bank's staff. Through the programme "Best for customer experience" we wish to generate a commitment and passion in the organisation that inspires us to turn every point of contact with the customer into an opportunity to confirm and reinforce their choice of SpareBank 1 SMN as their main bank.

Continuous improvement

Potential gains can be made by applying a structured approach to optimise, on a continuous basis, processes and tasks that create customer value. The Group will launch improvement projects designed to create increased value for the customer, shorten delivery times and establish a consistent and predictable customer experience. By intensifying its effort to continuously improve, SpareBank 1 SMN will develop processes to assure a constant effort to create maximum value for our customers.

The story of SpareBank 1 SMN

The first customers entered Trondhjems Sparebank in the year 1823. Our offering of financial services has evolved in keeping with society as a whole. Initially the Bank's goal was to combat poverty and give ordinary people the opportunity to save. Today SpareBank 1 SMN is one of Norway's largest banks and a complete financial department store.



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Business 2012

Robust customers combined with solid banking skills have enabled SpareBank 1 SMN to exceed a net profit of NOK 1 billion for the third year in a row.

Statement by the Group CEO

2012 proved to be another very good year for SpareBank 1 SMN. A Group pre-tax profit of NOK 1,355m and a post-tax return on equity of 11.7 per cent are above the levels planned for the year. At the start of 2013 there are grounds for optimism for the profit trend this year too.

Profitable growth

In 2012 we saw continued sound growth in all customer segments. This confirms the Bank's solid position as market leader and the strength of the SpareBank 1 concept. For 2013 and coming years the Bank's new tier 1 capital target and capital plan will impose restrictions on lending growth, especially to corporates. We are however in a position to meet the financing needs of our customers in Trøndelag and in Møre and Romsdal in view of the slight reduction in demand in evidence at the start of 2013. SpareBank 1 SMN will not weaken the solid market position it has established. We are also prepared to meet the need for house building and home loans in towns in our catchment area where the housing market is out of balance and shows a major need for new housing construction.

New regulatory requirements, application for advanced IRB status

In the fourth quarter of 2011 the Norwegian authorities gave very clear signals of tighter capital requirements for Norwegian banks. A common equity tier 1 ratio of at least 9 per cent was to be achieved by 1 July 2012. We met this requirement, but the authorities subsequently gave notice of a far higher level of financial strength for banks in the slightly longer term. This has so far not been clarified. Moreover, the authorities signalled an early introduction of Basel III in Norway, based on the supposition that Norwegian banks are in a far better position to adapt to this new, more stringent regulatory regime than the European banking and financial system which still faces major challenges related to the European sovereign debt crisis. We share the Norwegian authorities' assessment of the respective positions. Even so, we believe that early introduction in Norway will weaken Norwegian banks' competitiveness vis-à-vis foreign competitors.

At the end of 2012 signals emerged of the Norwegian authorities' wish to reduce the risk of a possible home loan bubble by imposing on Norwegian banks a large increase in risk weights on home mortgage loans. For our part this entails an increase from 11 to 35 per cent in mortgage weights, corresponding to a tier 1 capital effect of 1.5 percentage points. Part of the idea behind this is that higher capital charges will limit the growth of lending for residential purposes and thereby reduce the risk of a housing bubble developing in Norway. We agree that bubble tendencies in the Norwegian economy should be prevented, likewise that a sharp reduction of house prices in Norway could have negative consequences for the wider economy. We are however uncertain whether introducing a mortgage weighting specific to Norway will have the intended effect. Both we and other Norwegian banks adjust by curbing loans to corporates with the highest risk weights. In addition we will ensure that a higher proportion of the profit for the year is retained, which among other things reduces funds available for non-profit causes. And, with 35 per cent mortgage weightings, the Bank's risk models are undermined, since the risk to banks posed by home mortgage loans is low, indeed far lower than this risk weight level would imply.

SpareBank 1 SMN is concerned to act responsibly and to come across as indisputably solid. This year we will apply for permission to use the advanced IRB approach and must reasonably be able to count on risk weights on corporate loans that better reflect the underlying risk than the today's IRB models do. The Bank's trend in defaults and losses in recent years confirms the Bank's professionality where risk management is concerned. We would like to see this reflected in risk weights and bring us to par with our competitors now enjoying advanced IRB status.

Capital plan and new common equity tier 1 target

In spring 2012 we launched a rights issue which was oversubscribed by more than 50 per cent. Later we made a stock placing with the foundation Sparebankstiftelsen SMN and a smaller placing with the US-based Wellington Management Company. This put us in adherence with the required minimum 9 per cent tier 1 ratio by 1 July 2012.

In keeping with signals from the Norwegian authorities, the Board of Directors have adopted a new common equity tier 1 ratio target of a minimum of 12.5 per cent by the end of 2015. The Board has at several board meetings discussed its way to a plan for how the new capital target is to be attained. The capital plan was published in conjunction with the preliminary financial statements for 2012. The plan was well received, and the price of the Bank's equity certificate rose firmly. The plan outlines a series of measures to attain the above goal. A rights issue is not a part of the capital plan. In other words, we propose to achieve a 12.5 per cent common equity tier 1 ratio by:

- increased incomes
- continued low losses on lending
- increased retention ratio, i.e. a lower level of gifts to non-profit causes and a level of cash dividend limited to 25-30 per cent of equity certificate holders' share of net profit
- sale of assets that tie up core capital, but are not critical to Group operations
- increased return from SpareBank 1 Gruppen
- use of advanced IRB and thereby some adjustment of risk weights on loans to corporates etc.

The capital plan incorporates the assumption of 35 per cent risk weights on home mortgage loans and retention of our 33 per cent stake in BN Bank. Since the New Year we have divested shares in Polaris Media and signed an agreement to sell our stake in Bank 1 Oslo Akershus. These measures are enshrined in the capital plan.

Money market funding not a particular challenge for SpareBank 1 SMN

At the end of last year we saw far better access to money market funding. Both access to funding and the market price are substantially improved for our part. This led to our decision in February 2013 to issue a senior bond of EUR 500m. We will continue our effort to ensure that SpareBank 1 SMN is well known and carries out issues in this market; by that means we expect our relative pricing to improve. Through the year we also saw favourable conditions for SpareBank 1 Boligkreditt and an increase in customer deposits. Given somewhat limited lending growth ahead, we expect funding in the years ahead to continue to be available at steadily lower cost.

Best for customer experience

There was a tight focus on the Bank's strategic improvement projects in 2012 and these projects will be carried forward into 2013.

As from 1 January 2013 the Bank's organisation plan is changed. We have left the divisional model and established a model comprising three customer-facing units (Group Customers, Offices and E-business), two supply units (Products and Processes, HR) and Group Finance. We have concurrently redefined the manager role and reduced the number of managers from 116 to 48 at the parent bank. In 2013 we will focus on the adviser role. Our aim is for these projects to inject new energy into the organisation and make added resources available for value creation and fewer resources to support functions. We already see indications of increased productivity in the organisation, thereby assuring a better customer experience as well as reducing resource use and cost growth at the Bank.

Our ability to upgrade the adviser role is absolutely key. The adviser is the creator of value and the owner of the customer relationship. We want as many as possible of our capable staff to work with customers and sales, and to experience a personal development in the adviser role that is as at least as interesting and rewarding as taking on an executive role. By redefining the manager role and reducing the number of managers we have freed up many of our best staff to work with customers. We are making more adviser capacity available to small and large corporates, in particular in Trondheim and Ålesund. It is my conviction that our customers will enjoy a better customer experience and that we will achieve increased sales and increased earnings.

We will reduce the Group's operating expenses

We have seen strong cost growth in recent years. This is an unsustainable trend. We have built up the capacity and competence needed to ensure our profitability and market leader position. This has cost us. In terms of competence the Bank is now at a very high level. We have invested heavily in authorisation of our advisers and a high degree of professionality is present in all core processes. Good risk management and low losses are also a feature of our business. That is why we now venture to reduce cost growth by reducing the number of person-years worked, putting in place improvements and streamlining work processes as well as reintroducing stronger cost management at all levels. The aim is to reduce cost growth at the parent bank to below 3 per cent annually and to reduce the number of person-years worked at the parent bank by a minimum of 75 by year 2015.

Well-functioning subsidiaries

The Group's subsidiaries showed solid progress in 2012, as previously. The largest ones, EiendomsMegler 1 Midt-Norge, SpareBank 1 SMN Finans and SpareBank 1 SMN Regnskap, are strengthening their market position and profitability.

The Bank's monetary gift work

We will ahead allocate less to monetary gifts than we have done in recent years, and we will seek to put our gift work to maximum effect despite reduced appropriations. We are still unparalleled as the largest private contributor to business and community development in Trøndelag, and have an important role to play in Møre and Romsdal where other savings banks also have substantial gift activities. The challenge is to find a good combination of causes of that benefit the community and a strengthening of the donor's market position through monetary gift work.

SpareBank 1 alliance – our most important strategic foundation

Disregarding a tax-related one-time effect for SpareBank 1 Livsforsikring, SpareBank 1 Gruppen's companies together delivered a satisfactory profit contribution in 2012. Prospects for 2013 are even better. We are working with an amalgamation of our insurers, a major improvement programme has been initiated at ODIN Forvaltning and SpareBank 1 SMN Markets has taken its place as one of the country's leading brokerage houses. Further, SpareBank 1 Gruppen's board of directors established in January 2013 a comprehensive improvement programme in response to clear signals from all owners in favour of simplification, reduced costs and a greater effect of the banking collaboration.

I view the cohesion in the alliance as very strong, and there are currently no significant challenges on the owner-front, rather a strong consensus and will to further develop SpareBank 1 as the country's second largest financial group and as leading banks for the regions of Norway. There is reason to believe that SpareBank 1 SMN in 2013 and further ahead will see significantly higher profit contributions and effects of the collaboration within the SpareBank 1 Alliance.

Concluding comment

We have delivered solid performances in recent years, made an active contribution to the development of our market area and delivered good return to our owners through dividend and, more recently, a higher value of our equity instrument. The Bank has good risk management and incurs low defaults and low losses. We are continually strengthening our position in both the retail market and the corporate market. The entire financial industry will need increased income as a result of new capital requirements, and there are grounds to expect that SpareBank 1 SMN will also have a basis for raising the Bank's interest margins and income. We believe there are grounds for optimism 2013 too.

What path the economy will take is the ever present uncertainty. So far our market area has been negligibly affected by the international sovereign debt and financial crisis. With brighter prospects in evidence in Europe, there is no reason to believe that we will be affected in 2013 either. But it is important to have in place sound emergency plans in the event of an economic reversal. We expect continued growth and profit improvement in the current year, as previously.

Important events in 2012

First quarter

- Post-tax profit of NOK 1,024m in 2011
- Supervisory Board declares dividend of NOK 2.00 per equity certificate for 2011
- Randi Dyrnes elected new chair of the Supervisory Board for a one-year term
- Rights issue and private placing with employees strengthen the Bank's equity capital by NOK 761m
- Tæl Prize of Honour awarded to Ann-Elise Breivik, dedicated Salvation Army member and manager of the Warming House in Ålesund

Second quarter

- Post-tax profit of NOK 272m in the first quarter 2012
- Board of Directors adopts the reorganisation programme "Ny giv" ("New Possibilities") in which the divisional model is replaced by a new structure with the following business units: Offices, Group Customers, Group Finance, Products and Processes along with HR/Performance Development /E-business
- New office opened in Steinkjer
- Tæl Prize of Honour awarded to Birgit Røkkum Skarstein, a participant in the TV series "Uten grenser" (No Limits)

Third quarter

- Post-tax profit of NOK 510m in the second quarter 2012
- Private placing with Sparebankstiftelsen SMN (foundation) and a small number of large new institutional investors abroad which strengthens the Bank's equity capital by NOK 200m
- The Bank bestows NOK 25m for a new cancer assessment machine at the St Olavs Hospital in Trondheim. Trøndelag's business community provided the money, while the Bank organised the fundraising campaign and itself contributed NOK 5m
- Board of Directors decides to erect a new course and conference centre in Oppdal. Due for completion in the fourth quarter 2013
- The Bank celebrates 125 years' presence in Støren

Fourth quarter

- Post-tax profit of NOK 816m in the third quarter 2012
- Tæl Prize of Honour awarded to Vardesenteret avdeling St Olavs Hospital (cancer care) in Trondheim
- Through a private placing SpareBank 1 Nordvest and SpareBank 1 Søre Sunnmøre each acquire 4.95 per cent of the shares of SpareBank 1 SMN Finans. SpareBank 1 SMN retains a stake of 90.1 per cent
- The Bank purchases the magnificent building No. 1 St Olavs Plass in Ålesund in which it is the largest tenant

Business description

Overview

SpareBank 1 SMN is the leading bank in Trøndelag and Møre and Romsdal with total assets of NOK 108bn at the end of 2012. The head office is in Trondheim and the Group employs 1,200 staff. As one of six members of the SpareBank 1 Alliance, the Bank forms part of Norway's second largest financial services grouping.

Through the SpareBank 1 Alliance and its own subsidiaries, SpareBank 1 SMN has secured access to competitive products in the fields of financing, savings and investment, insurance and money transfer services.

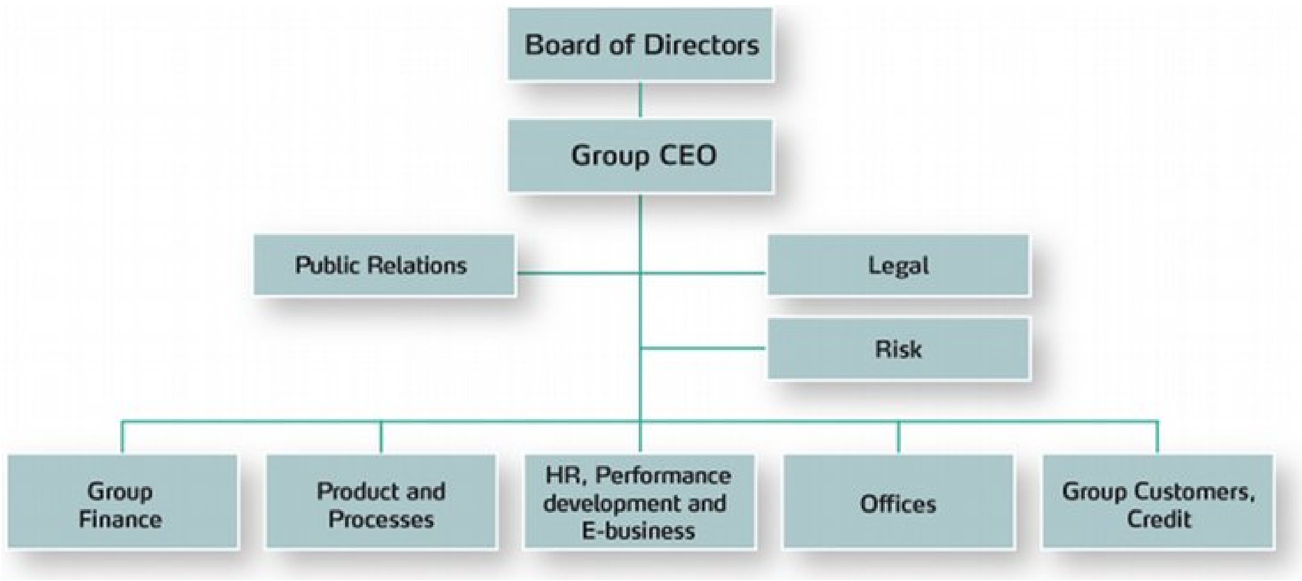
As from 1 January 2013 the Bank is organised on a new model. The organisational change is in keeping with the Bank's aim of being best for customer experience by 2015. We have coined a collective term Ny giv ("New Possibilities") to cover all strategic projects completed to ensure that we maintain and develop the Bank's unique position. An important aspect of New Possibilities is to realign the Bank's organisational arrangement.

The division model introduced by the Bank in 2001 has been highly successful. Year after year we have performed in the very top echelons of banks both in Norway and the Nordic region. We have significantly raised our game in terms of competence, risk management and sales over these eleven years.

Even so, we have decided to replace the division model. Inherent in this decision is a clear desire for better interaction and coordination, a stronger focus on value creation and hence a clear upgrading of the office and the adviser role.

The new model will start out from our 188,000 retail customers and 13,000 corporate customers, where power and authority will as far as possible to transferred to our 51 offices and advisers, i.e. closer to the customer than in the previous organisational set-up. The office network is the very bedrock of our distribution, we will now give the offices even more impetus. It is here that value is created, and it is here that we have the greatest potential to improve performance.

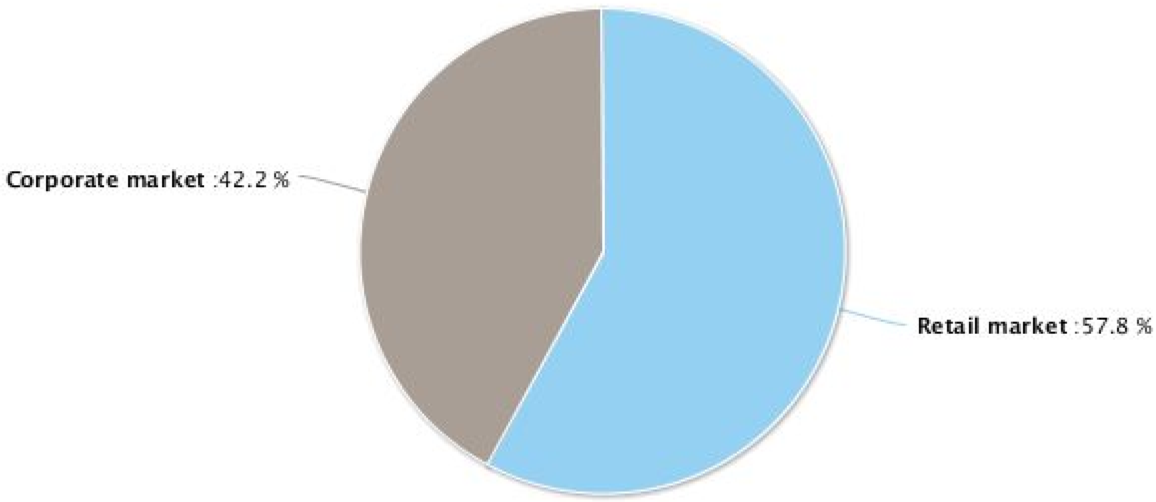
The new model builds on the following structure:



Accessibility

A key aspect of SpareBank 1 SMN's strategy is to maintain a presence via a variety of office solutions in municipal and administrative centres in its natural catchment area. This, combined with round-the-clock access via the internet bank and telephone bank and our customer centre, gives the Bank a unique competitive edge.

SpareBank 1 SMN is present in 51 localities in 43 municipalities. Its presence extends from Øvre Årdal in Sogn and Fjordane county in the south to Bindal in Nordland county in the north. The Bank's offices service the various customer categories via a variety of office solutions.



Distribution of lending

Retail market

The business

Retail market is responsible for all activity directed at retail customers. The unit provides personal financial advice.

The Bank offers a broad-based and modern product range in the fields of financing, savings and investment, insurance and payment services. This enables the customer to meet all his or her financial needs in one spot, and makes it securer and simpler for the customer to keep tabs on and to manage his/her personal finances.

Taking our place as the recommended bank places high demands on our staff. The Bank has a continuous focus on developing expertise, skills and good mindsets to meet the demands of today's financial market and to give the best possible assistance to our customers. The Bank operates a wide-ranging competence building programme and takes care to ensure that advice is provided in compliance with statutory requirements and good advisory practice.

The Bank's customer contact points comprise an extensive network of offices throughout its market area and a dedicated customer centre, putting our advisors within easy reach of the customer. We also offer self-service facilities giving extensive access to our banking services. Activity and contact with the customer are a prerequisite for meeting customer requirements and expectations. Our high activity level features thematic meetings on topical themes, and individual advisory sessions are a key element.

Basic facts	2012	2011
Loanable capital (NOKm)	58,892	52,055
Deposits (NOKm)	22,440	21,185
No. of debit cards	150,760	144,174
No. of credit cards	88,223	87,347
No. of internet bank customers	140,999	131,056
No. of telephone bank customers	143,466	138,375
No. of multi-relationship customers	188,011	184,825
No. of FTEs	374	392

Customers and market position

The Bank leads the retail market in Trøndelag and in Møre and Romsdal, with a strong position in all product areas and market segments. Three out of ten adult inhabitants report SpareBank 1 SMN as their main bank in the overall market while just under four in ten have a customer relationship with the Bank. Despite the intense competition the Bank shows a positive market trend and a growing customer base.

Financial developments

The Division achieved a return on equity of 22.6 per cent in 2012. The pre-tax profit was NOK 383m, an improvement of NOK 126m on the previous year.

Incomes were NOK 165m higher than the previous year. The positive margin trend resulting from falling market interest rates is the main reason for the strong income trend. A net loss of NOK 1m was recorded. Risk in the loan portfolio is very low.

Prospects for 2013

Good framework conditions for households remain in evidence at the start of 2013. Households' credit demand is closely tied to the trend in the housing market, indicating continued good demand for loans. A continued moderate interest rate level will help to maintain debt servicing ability and to hold down losses and defaults. We anticipate a positive trend in income from savings and investment products, insurance and payments with a basis in our competitive power.

Retail market result overview, NOKm	2012	% of total income	2011	% of total income
Loan contribution	297	29 %	215	25 %
Deposit contribution	243	23 %	296	34 %
Interest on allocated capital	11	1 %	16	2 %
Net interest income	**552**	**53 %**	**527**	**60 %**
SpareBank 1 Boligkreditt	201	19 %	77	9 %
Other financing income	22	2 %	4	0 %
Investment products	44	4 %	52	6 %
Insurance	101	10 %	81	9 %
Payments transmission	118	11 %	123	14 %
Fixed income and forex	1	0 %	8	1 %
Other income	0	0 %	1	0 %
Commission income	**485**	**47 %**	**345**	**40 %**
Total income	**1,037**	**100 %**	**872**	**100 %**
Operating expenses *)	**654**		**608**	
Result before loss and tax	**383**		**264**	
Loss on loans/guarantees	1		7	
Estimated tax	-107		-72	
Results after tax	**275**		**185**	

*) Contains both direct and distributed expenses

Return on allocated capital	22.6 %		16.8 %	

Corporate market

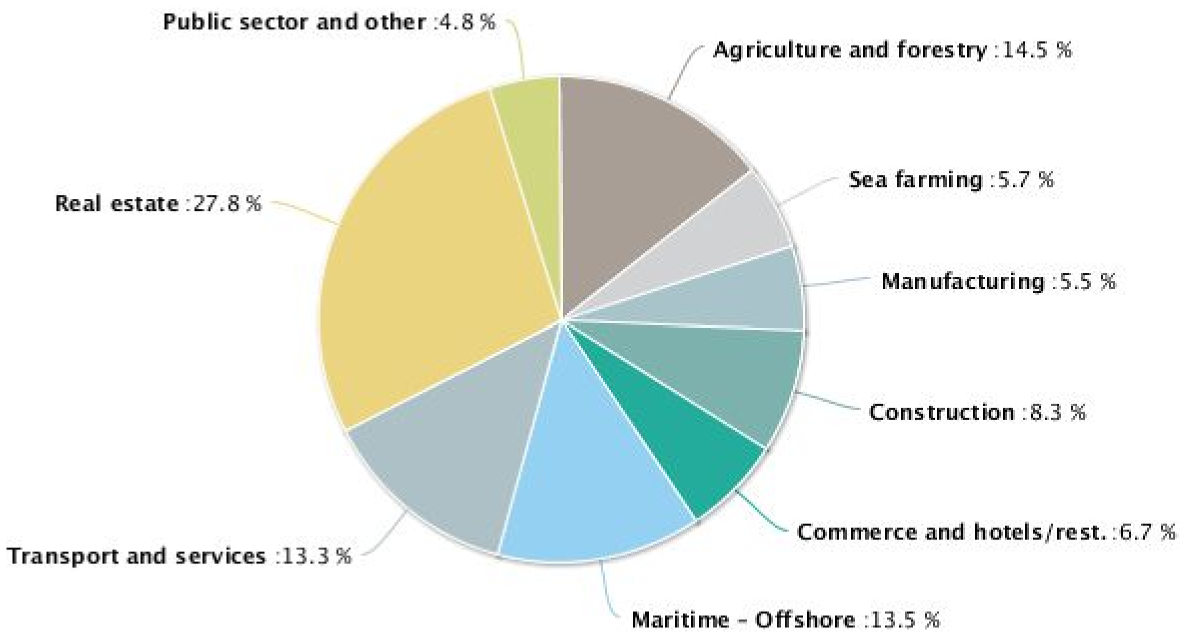
The business

The corporate market business focuses on financial counselling in investment and operations financing, domestic and foreign money transfers, fixed income and currency hedging, investment of surplus liquidity and insurance of individuals and buildings/operating equipment. Much of the business is in close cooperation with the retail market division, SpareBank 1 SMN Markets along with subsidiaries offering leasing, factoring and accountancy services.

The business is physically located across the entire market area to secure proximity to customers, while bearing in mind the need for competence units of sufficient size. The business is skills-intensive, and much emphasis is given to training in practical understanding of business in segments in which the Bank is heavily exposed such as real estate, sea farming, fishery, offshore, energy and the public sector.

The Bank is IRB approved and uses IRB foundation approaches to compute capital charges and credit risk. This, combined with high knowledge of relevant industries and local expertise, will assure that further growth is in keeping with the Bank's responsibility as a regional actor, at the same time as exposed risk is consistent with the Bank's credit policy. Substantial resources are expended, together with the other alliance banks, on continuously improving the scoring models.

Distribution of corporate lending by sector



Customers and market position

The Bank services around 13,000 corporate customers, farm sector customers, sole proprietorships, pools/associations and customers in the public sector. SpareBank 1 SMN's share of this market segment in the region is close to 40 per cent. The Bank also services a number of customers in insurance, capital market, leasing and factoring. The corporate sector in Trøndelag features a large number of small and mid-size companies in a variety of segments. This structure has a clear impact on the Bank's organisation of its corporate market operations.

SpareBank 1 SMN has built up specialist competence in non-life insurance, asset allocation in addition to further developing its occupational pension solutions. In close conjunction with the bank's business advisers, corporate clients in the region will have access to professional advice and solutions tailored to individual needs.

Basic facts	2012	2011
Loanable capital (NOKm)	40,671	38,655
Deposits (NOKm)	27,064	25,345
No. of multi-relationship customers	12,977	12,868
No. of FTEs	199	187

Financial developments

The Corporate market Division achieved a return on equity of 13.8 per cent in 2012. The pre-tax profit was NOK 731m, an improvement of NOK 7m on the previous year.

Income is NOK 95m higher than in 2011. Positive margins resulting from falling market interest rates and repricing of the portfolio are the main reasons for the positive income trend. A loss of NOK 45m, net, was recorded, corresponding to 0.11 per cent gross outstanding loans.

Prospects for 2013

Prospects for 2013 are uncertain and heavily affected by developments in the EU. This is especially true of export firms with exposure to Europe. There are however still positive expectations in the maritime industry, offshore, aquaculture and the fisheries, segments in which SpareBank 1 SMN's market share is growing. The Bank is still prepared to take requisite steps to meet any problems that arise, and works closely with customers to find solutions that support common interests in the business conditions prevailing at any given time.

Corporate market result overview (NOKm)	2012	% of total income	2011	% of total income
Loan contribution	670	57 %	561	52 %
Deposit contribution	235	20 %	221	20 %
Interest on allocated capital	98	8 %	128	12 %
Net interest income	**1,003**	**85 %**	**910**	**84 %**
SpareBank 1 Boligkreditt and Næringskreditt	8	1 %	2	0 %
Other financing income	32	3 %	34	3 %
Saving and investment	2	0 %	2	0 %
Insurance	21	2 %	25	2 %
Payments transmission	67	6 %	69	6 %
Fixed income and forex	34	3 %	36	3 %
Other income	7	1 %	1	0 %
Commission income	**171**	**15 %**	**169**	**16 %**
Total income	**1,174**	**100 %**	**1,079**	**100 %**
Operating expenses *)	**399**		**351**	
Result before loss and tax	**775**		**729**	
Loss on loans/guarantees	45		5	
Estimated tax	-204		-203	
Result after tax	**526**		**521**	

*) Contains both direct and distributed expenses

Return on allocated capital	13.8 %	13.9 %

SpareBank 1 SMN Markets

The business

SpareBank 1 SMN Markets is an investment firm comprising the following units: fixed income/foreign exchange, securities, corporate finance and operations. SpareBank 1 SMN Markets has three staff members employed at Head Office in Trondheim who conduct risk operations in fixed income derivatives, forward contracts, forex and securities. This makes it possible to offer customers competitive trade prices without price-raising intermediaries. Activity at the offices in Molde and Ålesund is in the hands of customer brokers who primarily provide services in the fixed income and foreign exchange area.

SpareBank 1 SMN Markets' ambition is to be the leading capital market operation in Trøndelag and in Møre and Romsdal. This ambition will be achieved through a continuous focus on specialist competence and knowledge of customer needs in close interaction with advisers affiliated to the Bank's corporate market business.

Customers and market position

Our customers are mainly corporates situated in Trøndelag and in Møre and Romsdal. Most of them report SpareBank 1 SMN as their main bank. We also deliver capital market services to customers of eleven

SpareBank 1 banks affiliated to Samarbeidende Sparebanker (Samspar). We are experiencing an increase in customer numbers and therefore see a considerable potential for strengthening our market position.

Financial developments

SpareBank 1 SMN Markets recorded total income in 2012 of NOK 132m, a decline of NOK 16m compared with the previous year. Incomes are dominated by customer trading and risk refinement in fixed income and forex instruments. The securities business has undergone reorganisation in which the main focus is shifting from equities to bonds. We note an increase in incomes from bond trading.

Prospects for 2013

The fixed income/forex division comprises three function areas: market making, transaction-intensive customers and customer trades for hedging purposes. We expect a positive effect of strengthening advisory services within risk advisory for customer trades for hedging purposes. We also hope that a new regulatory framework and greater focus on bond trading will strengthen income from securities in 2013.

Markets (NOKm)	2012	2011	Change
Fixed income and currency, trading	48.8	53.5	-4.7
Fixed income and currency, 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, various	-2.9	11.0	-13.9
Total income	**131.5**	**147.9**	**-16.4**

Affiliates and subsidiaries

The SpareBank 1 Alliance

The Norwegian SpareBank 1 banks operate an alliance and develop products through the jointly owned holding company SpareBank 1 Gruppen.

The paramount objective of the SpareBank 1 Alliance is to assure the individual bank's independence and regional identity through strong competitiveness, profitability and financial soundness. The Alliance is among the largest providers of financial services in Norway and a fully-fledged alternative to traditional financial groups.

SpareBank 1 Alliance's vision
The Alliance's vision is for SpareBank 1 to be the recommended bank for private individuals and small and mid-sized businesses in Norway, offering a full product range. It wants customers to feel that SpareBank 1 is the best in terms of our closeness, local identity and competence. Our key core values are closeness to the customer and capableness.

About SpareBank 1 Gruppen
SpareBank 1 Gruppen owns and develops companies that deliver financial services and products. It is owned by SpareBank 1 SR-Bank (19.5 per cent), SpareBank 1 Nord-Norge (19.5 per cent), SpareBank 1 SMN (19.5 per cent), Sparebanken Hedmark (12 per cent), Samarbeidende Sparebanker (19.5 per cent, comprising 11 savings banks in southeast Norway and in Møre and Romsdal), and the Norwegian Confederation of Trade Unions and affiliated unions (10 per cent).

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Livsforsikring (life insurer), SpareBank 1 Skadeforsikring (non-life insurer, includes Unison Forsikring), ODIN Forvaltning (fund manager) and SpareBank 1 Gruppen Finans (which includes Conecto). In addition SpareBank 1 Gruppen owns 97.5 per cent of SpareBank 1 Markets and is a partner in SpareBank 1 Utvikling.

SpareBank 1 Gruppen has administrative responsibility for collaborative processes within the SpareBank 1 Alliance in which technology, brand-building, communication, competence building, shared processes/exploitation of best practice and procurement are at centre stage. The Alliance is also engaged in development work through three competence centres for training (in Tromsø), the cash management area (in Trondheim) and the credit area (in Stavanger).

The SpareBank 1 banks also own SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, SpareBank 1 Oslo Akershus, BN Bank and EiendomsMegler 1.

The SpareBank 1 Alliance consists of the following banks as of December 2012:

- SpareBank 1 Nord-Norge
- SpareBank 1 SMN
- SpareBank 1 SR-Bank
- Sparebanken Hedmark
- SpareBank 1 Ringerike Hadeland
- SpareBank 1 Østfold Akershus
- SpareBank 1 Valdres
- SpareBank 1 Buskerud-Vestfold
- SpareBank 1 Gudbrandsdal
- SpareBank 1 Nordvest
- SpareBank 1 Telemark
- SpareBank 1 Modum
- SpareBank 1 Lom og Skjåk
- SpareBank 1 Nøtterøy-Tønsberg
- SpareBank 1 Søre Sunnmøre
- SpareBank 1 Oslo Akershus
- BN Bank

BN Bank

SpareBank 1 SMN is the largest shareholder in BN Bank with a 33 per cent stake. Other owners are SpareBank 1 SR-Bank (23.5 per cent), SpareBank 1 Nord-Norge (23.5 per cent) and SamSpar Bankinvest (20 per cent). The SpareBank 1 banks have owned BN Bank since December 2008 when the Ministry of Finance authorised the SpareBank 1 banks' purchase of all shares of Glitnir Bank which changed its name to BN Bank.

BN Bank's strategy is to be an effective specialised bank in selected segments of the retail market and corporate market. It intends to offer our customers competitive products, concepts and terms and its owners a good return. BN Bank operates nationwide, but has most of its customers in Trondheim, Oslo and southeast Norway.

In the retail market BN Bank intends to be a specialised self-service bank for competent customers who want efficient, straightforward and predictable banking services on competitive terms. That is why BN Bank is developing effective, leading-edge services for mobile, tablet and internet usage. Specialisation and self-service will make BN Bank one of the country's cost-effective banks. In the corporate market BN Bank will be a specialised bank in the field of commercial real estate finance. The bank is an efficient, competent, prompt and predictable partner for selected real estate actors with its main focus on Oslo and southeast Norway. This will ensure competitive terms for customers and good return for owners over time.

As at 31 December 2012 BN Bank had 116 members of staff, deposits totalling NOK 16.9bn and loans worth NOK 49.5bn (including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt). Total assets at the same point came to NOK 58bn including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt.

Subsidiaries

EiendomsMegler 1 Midt-Norge

EiendomsMegler 1 Midt-Norge has a solid market-leader position in Trøndelag and in Møre and Romsdal. This position was further reinforced in 2012.

The company delivered in 2012 a profit of NOK 76m before tax. The Bank's profit share was NOK 66m before tax.

In 2012 the company featured on Great Place to Work's list of the country's best employers, has a very high customer satisfaction rating and can safely vouch for the vision of being Norway's most profitable real estate agency for its customers, staff and owners alike.

Its strategy of taking on, developing and retaining the best staff in the business was further reinforced in 2012, and person-years worked rose substantially over the year, in keeping with a strategy of growth.

The company has specialised operations which include separate units for project and commercial property broking. These operations complement its traditional residential agency business which to a greater degree will be a specialist function maintaining a local presence, co-located with banking, in various parts of Trondheim and the surrounding district.

EiendomsMegler 1 Midt-Norge sold 6,467 properties in 2012, representing a market share of more than 40 per cent in our region. The company is equipped for further growth both in profit and market shares ahead. The company is owned by SpareBank 1 SMN (87 per cent), SpareBank 1 Nordvest (7.6 per cent) and SpareBank 1 Søre Sunnmøre (5.4 per cent).

SpareBank 1 SMN Finans

SpareBank 1 SMN Finans is the region's leading finance company and an active partner for businesses and private individuals. SpareBank 1 SMN Finans emphasises local competence, and works for greater value creation in Trøndelag and in Møre and Romsdal. The company services the market through its own sales operation and through the Bank's offices and dealers/suppliers.

SpareBank 1 SMN offers leasing and car fleet management services to corporate customers and the public sector, and vendor's liens mainly to private individuals. The organisation is distinctly sales- and customer-oriented, and is designed to be a close-at-hand and accessible finance partner with short decision-making paths.

At year-end the company managed leasing and car finance agreements worth NOK 3.2bn. The company has 30 employees in Trondheim, Steinkjer, Verdal, Molde and Ålesund. The company posted a profit of NOK 55.8m before tax in 2012, which is its best-ever performance.

Integration and a structured business approach with the retail market and corporate market businesses at SpareBank 1 SMN are reaping results. The company again expanded its car loan portfolio in 2012 and the proportion of internet applications is rising. The leasing portfolio showed no change from the start of 2012.

In 2012 SpareBank 1 SMN Finans worked in a purposeful manner to streamline and improve business processes, which is expected to provide substantial rationalisation and other gains in 2013. The company has launched a car loan app and new front systems for dealers/suppliers of cars and other capital goods. The business has high competence and highly motivated staff.

The general meeting voted on 13 December 2012 to invite SpareBank 1 Søre Sunnmøre and SpareBank 1 Nordvest to join the company as owners. It was concurrently decided to terminate the supervisory board. The increase of capital led to the following owner structure: SpareBank 1 Søre Sunnmøre 4.95 per cent, SpareBank 1 Nordvest 4.95 per cent and SpareBank 1 SMN 90.1 per cent. New owners will mean an even stronger footing for the company's products in Møre and Romsdal.

SpareBank 1 Bilplan

SpareBank 1 Bilplan delivers car fleet management solutions to the public and private sectors nationwide. The company services the market through its own sales operation and through cooperation with SpareBank 1 SMN Finans, SpareBank 1 SR-Finans, SpareBank 1 Finans Nord-Norge and through the Bank's offices.

Up to the fourth quarter 2012 the company was a subsidiary of SpareBank 1 SMN Finans, but has now been taken over by the parent bank.

The organisation is sales- and customer-oriented, and focuses on being close-at-hand and accessible to customers. SpareBank 1 Bilplan's main mission is to ensure problem-free car maintenance for its customers. In 2012 SpareBank 1 SMN Finans worked in a purposeful manner to streamline and improve business processes, which is expected to provide substantial rationalisation and other gains in 2013.

The company has 12 employees, all working out of Trondheim. The business has high competence and highly motivated staff. In 2012 the company recorded a loss of NOK 1.8m before tax.

SpareBank 1 SMN Regnskap

In 2012 SpareBank 1 SMN Regnskap posted its best ever pre-tax profit of NOK 13.8m on a turnover of NOK 104.7m. With 26 per cent turnover growth, the company's market share in Trøndelag is has reached 11 per cent. SpareBank 1 SMN Regnskap is now among the five largest actors in the accountancy business in Norway with close to 160 staff.

The company is experiencing a growing influx of new customers. In 2012 about 200 new customer agreements were established. While the bulk of the growth is in the corporate market, new customers are also being attracted in the other three customer segments; farm operators, housing cooperatives/co-ownerships and a variety of associations.

Over the course of 2012 two acquisitions were completed: KL Røros Regnskap and Calculus, which are subsidiaries of the SpareBank 1 SMN Regnskap group. The subsidiaries are to be absorbed and coordinated with SpareBank 1 SMN Regnskap's existing business in 2013. Agreements have been signed to acquire Snåsa Regnskapslag, Økonor Interdata Berkåk and Widar Nyheim. SpareBank 1 SMN Regnskap owns 50 per cent of the shares of Leksvik Regnskapskontor.

As from January 2012 onwards alliance partner Sparebanken Hedmark and SpareBank 1 SMN Regnskap are sharing ownership of the accounting house Consis on a 60-40 basis. Consis' preliminary annual accounts for 2012 show a turnover of around NOK 100m and a pre-tax profit of NOK 4m.

In conjunction with other banks in the SpareBank 1 Alliance in the region, the company will focus on building a strong national brand in the accounting industry. This focus will serve to consolidate and strengthen SpareBank 1 SMN Regnskap's position in Trøndelag and in Møre and Romsdal.

As a subsidiary in the SpareBank 1 SMN group, SpareBank 1 SMN Regnskap is constantly taking out synergies on both the customer and cost front.

SpareBank 1 SMN Regnskap's vision is to create a new division for financial services. This will require the company to invest substantial resources in order to offer customers forward-looking competence and ICT solutions.

SpareBank 1 SMN Regnskap laid in 2012 a good basis for further growth in 2013.

Allegro Finans

Allegro Finans, headquartered inTrondheim, is the largest management company in the region. The company is owned by SpareBank 1 SMN (90.1 per cent) and the Reitan Group (9.9 per cent).

The company is licensed to carry on active asset management. It manages assets for external public, private and institutional clients. The company's services are sold exclusively through external distributors who are licensed to engage in such activity. In 2012 the company signed distribution agreements with a number of banks in the SpareBank 1 Alliance.

The company has 11 employees and assets totalling just under NOK 2.5bn.

The company offers a broad range of services designed to capture changes in market conditions. The portfolio array includes both specialised portfolios and allocation portfolios. Management volumes are highest in dynamic asset allocation portfolios. The company's allocation portfolios performed in line with the benchmark portfolios in 2012.

The accounts show a deficit of NOK 3.7m before tax, of which the Bank's share was NOK 3.3m.

SpareBank 1 SMN Card Solutions

SpareBank 1 SMN Card Solutions sells and operates prepaid cards based on the Visa and MasterCard payment networks. The company is a wholly-owned subsidiary of SpareBank 1 SMN and operates under the trademark SpendOn in Norway, Sweden and Denmark. In addition the company offers operating services related to the issue of prepaid cards for actors in the retail, telecom, banking/finance and public sector fields.

The compay sells its payment products and services principally through convenience stores and grocery stores throughout Scandinavia. The market for prepaid cards in Scandinavia is rapidly expanding.The bulk of the deposit volumes are from the Norwegian market, but the company expects increased market persuasion in both Sweden and Denmark to provide SpareBank 1 SMN Card Solutions with good conditions for growth in the years ahead.

In 2012 the company delivered a profit of NOK 3.0m before tax.

Property companies

SpareBank 1 SMN Kvartalet was responsible for the construction of SpareBank 1 SMN's new head office in Søndre gate, Trondheim. The building was ready on 20 October 2010. SpareBank 1 Kvartalet SMN is responsible for the operation, maintenance and cleaning of the entire head office complex. The company has no employees.

The new head office meets the expectations imposed on a low energy building. Average energy consumption for the new office premises section of the building is measured at just under 66 kWh per square metre. According to regulations, the energy consumption limit for office buildings is 144 kWh per square metre. The office premises section is certified in energy class A.

SpareBank 1 Bygget Steinkjer completed in May 2012 a new office building of about 1,800m^2 for the group in Steinkjer. The building is on lease to SpareBank 1 SMN which subleases it to EiendomsMegler 1 Midt-Norge and SpareBank 1 SMN Regnskap. The principles underlying the low energy head office in Trondheim are also applied to this building.

Brannstasjonen SMN was founded on 3 January 2012 for the purpose of owning, operating and developing property. The company acquired Trondheim Brannstasjon (fire station) at Kongens gate 2 from the City of Trondheim.

Trondheim Fire and Rescue Service are the tenant up to mid-2015. An architectural competition will held to further clarify the possibilities for developing the bulding into a modern office building. Since the building is protected, the ground floor will be devoted to outward facing activity. The fire station is classified as a building of high antiquarian value.

St Olavs Plass 1 SMN was founded on 26 November 2012 for the purpose of owning, operating and developing property. The company acquired an office building at St Olavs Plass 1 in Ålesund. In addition to SpareBank 1 SMN, the following undertakings are tenants in the building: Innovation Norway, Salmar Sales and Golden Energy Offshore Management.

Corporate social responsibility

As a major regional bank, SpareBank 1 SMN shares a common destiny with its region. Ever since the Bank was established in 1823, further developing the society of which we are a part has been a central focus of our policy choices and dispositions. With our local knowledge and closeness to our customers, we base our assessments not on economics and risk alone but also on a social perspective, and we work closely with our customers and local communities to foster sound businesses and good living conditions.

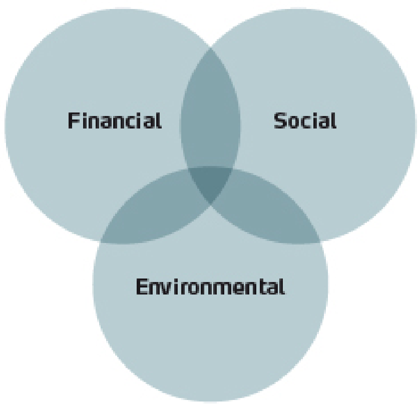
The Bank's focus on public issues is integrated in our ongoing planning work. This ensures that ethics, the environment and important social issues are on the agenda throughout. Through the Bank's gift fund we have for many years returned funds to the region we are a part of. This has been done through grants to talented individuals in the arts and sports, support for local associations and organisations, well-being measures at neighbourhood level and contributions to business development in Trøndelag and in Møre and Romsdal.

An active interplay between research, development, education and the business sector is important for the region's development. Each year SpareBank 1 SMN devotes substantial resources to stimulating innovation and to bringing together industry, business and knowledge institutions. Our collaboration with the Norwegian University of Science and Technology (NTNU) and the Foundation for Scientific and Industrial Research (SINTEF), both in Trondheim, along with iKuben in Molde and Aalesund University College, is key to this effort.

The three-part bottom line

Solid banking creates a foundation for responsible social development. As a basis for our work, we have sought a balance between the financial, social and environmental aspects of the three-part bottom line. Under each theme we have defined key areas on which we maintain a special focus, and goals and initiatives have been developed for each area.

Our thinking on social responsibility: basic structure



FINANCIAL	SOCIAL	ENVIRONMENTAL
Strategy and plans	Organisation, staff	Resource use
Financial key figures	Customers, market	Purchasing policy
Ethics, legislation	Suppliers	Energy
Relationship to owners	Social commitment	Pollution
Risk management	Technology, security	Waste management

CSR status and goal achievement 2008-2012

Parent company figures

		2008	2009	2010	2011	2012
Strategy/ financial	Group strategy	Updated	Continued	Continued	Continued	Continued
	Develop CSR strategy	Established	Continued	Continued	Continued	Continued
	Pre-tax profit (NOKm)	778	1,147	1,282	1,279	1,355
	Total assets (NOKm)	84,670	84,541	97,992	101,455	107,919
	Return on equity	11.9 %	16.2 %	14.6 %	12.8 %	11.7 %
	Core capital ratio	8.10 %	10.40 %	10.90 %	10.43 %	11.34 %
	No. of ECCs issued (mill.)	82.41	82.78	102.74	102.76	129.83
	Quoted price 31.12	38.07	45.06	49.89	36.31	34.80
	Market capitalisation (NOKm) 31.12	1,750	3,749	5,124	3,731	4,518
	Direct return	5.10 %	4.60 %	5.60 %	5.10 %	4.30 %
	No. of owners	9,123	9,500	9,654	9,532	9,749
	Knowledge of bank's ethical rules at least 90 %	96 %	96 %	96 %	96 %	96 %
Society/social conditions	No. of FTP equivalents	775	805	793	794	819
	Sickness absence	3.84 %	4.22 %	4.00 %	4.00 %	4.60 %
	Women's share of workforce	51.5 %	51.5 %	51.0 %	52.0 %	51.9 %
	Women's share of senior positions	26 %	28 %	28 %	27 %	28.70 %
	Average age	45	45	46	46	46
	Employee satisfaction	75	75	I/T	715 *	730 *
	Agreement on inclusive employment	Continued	Continued	Continued	Continued	Continued
	Strategy on life phase policy	Continued	Further developed	Further developed	Continued	Continued
	Managerial development programme	Continued	Continued	Continued	Continued	Not implemented
	No. of offices	56	56	54	54	51
	No. of customers	192,000	194,000	194,500	196,500	200,900
	Share of internet banking customers	54 %	57 %	73 %	81 %	95 %
	Share of electronic bill payments	91 %	92 %	99 %	99 %	99 %
	Share allocated to culture	22 %	24 %	22 %	24 %	17 %
	Share allocated to sports	16 %	20 %	23 %	23 %	21 %
	Share allocated to humanitarian work	6 %	4 %	6 %	6 %	12 %
	Share allocated to business development	56 %	52 %	43 %	38 %	35 %
Environment	Purchase of paper (tonnes)**	46.5	35.9	39.1	35.7	26.9
	Energy consumption (kWh)	6,193,000	6,580,000	7,004,400	6,900,500	6,135,000
	No. of flights	3,984	3,585	3,816	3,910	3,524
	E-waste return scheme (tonnes)	5.30	2.90	3.43	3.40	3.25
	Waste sorting at source	Continued	Continued	Continued	Continued	Continued
	Printer and toner return scheme	Continued	Continued	Continued	Continued	Continued
	No. of videoconferencing rooms	3	6	6	8	10
	Strategy/action plan for energy and the environment at the new head office	Continued	Continued	Continued	Continued	Continued
	No. of offices certified under the 'Environmental Lighthouse' scheme	N/A	1	1	2	4

* New system for organisational analysis as from 2011 ** Reduction of approx. 8.8 tonnes from 2011 to 2012, essentially due to switch to secure print and increased electronic communication

Environment

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 receive much attention. The Bank strives throughout to ensure the right procurement of technological equipment. To this end, energy and environmental requirements are included as specific assessment criteria.

All technological equipment is handled as special waste, and is thereby subject to environmentally correct disposal. In 2012 3.25 tonnes of technological waste were returned. Increased use of electronic communication and the introduction of new print solutions have reduced paper consumption from 35.7 tonnes in 2011 to 26.9 tonnes in 2012.

Growing use of technological solutions imposes greater demands on safety and personal protection. The following measures are being put in place to ensure a focus on, and competence in, safety.

- Regular internal safety courses
- National safety exercises (disaster preparedness exercises)
- Free-of-charge software for enhanced customer safety
- Instructing older users in safe internet banking and in becoming more self-reliant bank customers

SpareBank 1 SMN made 3,524 business trips in 2012 compared with 3,910 in 2011. Despite increased customer activity and the bank's involvement in committees and projects under the auspices of the SpareBank 1 Alliance, air travel has been reduced. Videoconferencing, telephone conferencing and digital tools to support teamworking and knowledge sharing are the main factors behind the reduced travel activity.

Very low energy consumption at the new head office

SpareBank 1 SMN relocated to its new head office in Trondheim in autumn 2010. Our energy consumption target was an ambitious 85 kWh per square metre for the new office premises section of the building. Measurements show energy consumption averaging below 66 kWh per square metre per year, which is far below the limit of 150 kWh per square metre set by the authorities. So far no other office building in Norway comes close to this figure. Compared with a figure above 150 kWh per square metre consumed by the old bank building, the operating expense economies are substantial. The causes of the low energy consumption are numerous and complex, but the main individual factors are:

- a well isolated and efficient building envelope
- a highly energy-efficient ventilation system
- a sophisticated control and operation-monitoring system
- organisation of the workplace and monitoring by the building's users

The principles underlying the new head office were also applied during the construction of a new SpareBank 1 SMN office in Steinkjer which was taken into use in May 2012.

Environmental lighthouse

SpareBank 1 SMN has opted for certification under 'Environmental Lighthouse', a national certification scheme catering to the private and public sectors. By end-2012 the Trondheim head office and the offices in Ålesund, Stjørdal and Steinkjer were duly certified. This meant that offices in which about 500 staff work on a daily basis were now certified in the following areas: work environment, procurements/materials use, energy, transport, waste, emissions and aesthetics. In 2013 the offices in Levanger, Namsos, Molde and Verdal will achieve certification and work will start on certification of ten further offices.

Ethics

The Group's business activities are dependent on the confidence of customers, public authorities and the wider society. Staff at SpareBank 1 SMN must be recognised for their high ethical standards. To this end each of us, in any context where we are identified with SpareBank 1 SMN, must display a conduct that is perceived to be confidence inspiring, honest and trustworthy and in compliance with the norms, rules and statutes by which the society is governed.

SpareBank 1 SMN intends to provide factual, correct information in an honest, trustworthy and open manner about the Bank's business and services.

SpareBank 1 SMN has set up the following formalised and recurring review of the Bank's ethical guidelines vis-à-vis the Group's employees; this, in sum, constitutes the formal framework tool for the practical conduct of all staff of the Bank.

- The ethical guidelines are a part of the staff handbook, and thus a part of the employment contract
- The ethical guidelines are reviewed at induction sessions for new staff
- Ethics is a compulsory module at the Bank's educational facility and must be successfully completed by all staff
- Ethical guidelines are a central part of the Bank's managerial development programme

Organisation and staff
SpareBank 1 SMN intends to be an attractive and inclusive employer for staff in all age groups and life phases. The Bank sets the stage for all staff to experience a good balance between work, home and leisure. We also encourage staff to maintain good health by promoting physical activity. This is based on the belief that staff members whose needs are catered for put in a better performance in the best interest of themselves and the enterprise.

SpareBank 1 SMN has relatively low sickness absence, and we believe this is to some extent ascribable to staff who are motivated by challenging and stimulating work at the same time as many stay in shape through various types of physical activity.

We currently have a good gender and age balance. The Bank is working to raise the proportion of women in senior positions. In 2012 28.7 per cent of senior positions were held by women (27 per cent in 2011).

The Group has established a robust framework in the trade union area:

- staff handbook, health, environment and safety (HES) handbook, inclusive employment agreement
- internal committees fixed by agreement: liaison committee, appointments committee and negotiating committee
- ethical guidelines, procedure for reporting concerns and procedure for handling conflicts
- management development programme, adviser programme and educational facility
- framework for professional development sessions
- annual staff survey
- induction sessions for new staff
- phase-of-life policy

The Group has established a project known as 'Better Shape' to promote good health, increased motivation and well-being. The project is a targeted drive aimed at motivating staff to raise their level of physical activity.

SpareBank 1 SMN's monetary gifts
SpareBank 1 SMN's gift work is based on the precept that the Bank's monetary gifts should be non-profit,

i.e. all financial support should be for the common good and benefit as many as possible. The emphasis is on awards that contribute to building, supporting and developing the region. In order to create new value and make the region an attractive place to live, we employ two main models:

- we apply a process-oriented approach in which individuals, ideas and resources are brought together to create the symbiosis that produces value creation
- we supply capital through donations to activities that promote our social objectives

We impose the same ethical and environmental demands on our partners as on ourselves. In processes, and in the case of awards of some size, written agreements are established to ensure that our social requirements are complied with. Our main focal areas are the following:

Business development:

- innovation
- competence transfer to the region's business and industry
- assisting infrastructure development
- developing entrepreneurship
- start-up assistance (seedcorn and venture capital)

Culture/sports:

- cultural, sports, health, environmental, ethical and humanitarian purposes
- special focus on children and young people
- helping to strengthen the region's identity and historical foundation based on the St. Olav tradition and legacy
- helping to stimulate talented individuals, young people and enthusiasts in the spheres of culture and sports

SpareBank 1 SMN disbursed almost NOK 65m to non-profit causes in 2012.

Governance

SpareBank 1 SMN builds its business on short decision paths, and strengthens its independence by being a SpareBank 1 Alliance partner.

Group management

Finn Haugan (1953)
Group CEO

Business economist from the Norwegian School of Management (1977).

Joined SpareBank 1 SMN as CEO in 1991. Title changed to Group CEO in 2010. Experience from managerial positions at Fokus Bank, his final two years as Deputy CEO.

Chairman of SpareBank 1 Gruppen, the Norwegian Banks' Guarantee Fund and BN Bank. Deputy Chairman of Finance Norway (FNO). Board member of NETS and the Norwegian Savings Banks Association.

Chairman of Fotograf Schrøders Stiftelse and Foto Schrøder. Chairman of the Supervisory Board of Selskabet for Trondhjems Bys Vel.

Tore Haarberg (1966)
Deputy CEO and Executive Director Product and Processes from 1 January 2013. In 2012 Executive Director Retail market Division.

Business economist from Heriot-Watt University, UK (1991). Authorised fixed income analyst, Norwegian Society of Financial Analysts (NFF) (1996).

Joined SpareBank 1 SMN in 2000. Appointed deputy CEO in 2003.

Held various positions with Arthur Andersen Business Consulting, BN Bank and Fokus Bank. Chairman of EiendomsMegler 1 Midt-Norge, board member of ODIN Forvaltning, board member of SpareBank 1 Alliance and chairman of the Supervisory Board of BN Bank.

Vegard Helland (1975)
Executive Director Group Customers, Credit from 1 January 2013. In 2012 Executive Director Corporate market Division.

Business economist from the Bodø Graduate School of Business (1999), authorised financial analyst (AFA) from the Norwegian School of Economics and Business Administration (2007).

Joined SpareBank 1 SMN in 2003. Primarily responsible for major clients. Head of the SpareBank 1 SMN's Corporate market Division since August 2010. Head of the SpareBank 1 SMN's group credit committee since 2007. Previously with KPMG and the Centre for Aquaculture and Fishery.

Board member of SpareBank 1 SMN Finans and SpareBank 1 Gruppen Finans.

Kjell Fordal (1957)
Executive Director Finance Division

Business economist from the Norwegian School of Management (1981) and Master of Management from the same institution (2004).

Joined SpareBank 1 SMN in 1982.

Chairman of SpareBank 1 SMN Regnskap, SpareBank 1 SMN Pensjonskasse, SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt. Board member of SpareBank 1 Markets, SpareBank 1 Kredittkort, SpareBank 1 SMN Invest, SpareBank 1 SMN Kvartalet, BN Boligkreditt, Bolig og næringskreditt and Prøven Eiendom.

Tina Steinsvik Sund (1970)
Executive Director HR, Performance Development and E-business from 1 January 2013. In 2012 Executive Director, Business Support and Business Development.

Graduate engineer, Industrial Economics, from the Norwegian University of Science and Technology (1995), MBA from INSEAD, France (2000).

Joined SpareBank 1 SMN in 2006. Previously with Accenture and Intel Capital. Board chair of SpareBank 1 SMN Invest, SpareBank 1 SMN Card Solutions, SpareBank 1 SMN Kvartalet, SpareBank 1 Bygget Trondheim, Brannstasjonen SMN and SpareBank 1 Bygget Steinkjer. Board member of ProVenture Seed and Argentum Fondsinvesteringer.

Wenche Margaretha Seljeseth (1964)
Executive Director Offices from 1 January 2013. In 2012 Executive Director, Marketing and Public Relations.

Law graduate, University of Oslo (1996). Bachelor of Business Administration, Norwegian School of Management (BI) (2002).

Joined SpareBank 1 SMN in 2008. Executive Director in 2011. Various senior positions with Vital Forsikring and Gjensidige.

Board member of SpareBank 1 Livsforsikring.

Board of Directors

Per Axel Koch (1961) Board Chairman
Business economist from the Norwegian School of Economics and Business Administration, NHH (1985) and higher degree from the same institution (1987).

Board member since 1994, chairman since 2001.

Group CEO at Polaris Media since 2008.

Prior to that, ten years as Managing Director and three years as Group CEO with the Adresseavisen newspaper. Previously project consultant with Wilh. Wilhelmsen Ltd and consultant with Mckinsey. Chairman of Papirkjøp, Board member of FINN.no, Board member of Trønder-Avisa and chair of the Supervisory Board of SpareBank 1 Gruppen.

Attended 18 of 20 meetings of the Board of Directors in 2012 (18 meetings convened owing to disqualifications at two meetings).

Owns 45,930 ECCs as of 31 December 2012.

Kjell Bjordal (1953) Deputy Chair
Business economist from the Norwegian School of Economics and Business Administration NHH (1976), law studies and Advanced Management Program at Wharton Business School (1989).

Board member since 2007.

CEO of EWOS Group and head of Cermaq’s fish food division. Experience as director of Trøndelag Theatre, finance director and CEO of the Glamox Group and CEO of NorAqua.

Chairman of Brødrene Dyrøy, Norsk Landbrukskjemi, EWOS Norway and EWOS Innovation. Board member of Entra Eiendom and Axess.

Attended 19 of 20 meetings of the Board of Directors in 2012.

Owns 50,000 ECCs as of 31 December 2012.

Bård Benum (1962)
Graduate of the Norwegian University of Science and Technology (NTNU) (1987).

Board member since March 2009.

Group CEO at Powel. Senior positions at Norsk Hydro, Statoil, Reitan Group. CEO at Cresco (1998-2000) and Vital Forsikring (2001-2007).

Attended 15 of 20 meetings of the Board of Directors in 2012.

Owns 0 ECCs as of 31 December 2012.

Paul E. Hjelm-Hansen (1962)
MBA from the University of Denver, USA (1988), Certified European Financial Analyst (AFA) from the Norwegian School of Economics and Business Administration (1996) and Authorised Portfolio Manager (Norwegian Society of Financial Analysts/Norwegian School of Economics and Business Administration) (2001).

Board member and chairman of the Internal Audit Committee since 2008.

Private investor and self-employed financial adviser. Has held positions as financial analyst, as portfolio manager at Christiania Bank og Kreditkasse and Fokus Bank and as head of finance and finance director at Bachke & Co and Det norske oljeselskap respectively.

Chairman of Arild og Emilie Bachkes Fond, Trondhjems Kunstforenings legatstyre and Generalkonsul Adolf Øiens Donationsfond. Board member of Bachke & Co.

Attended 19 of 20 Board meetings in 2012.

Owns 49,219 ECCs as of 31 December 2012.

Arnhild Holstad (1963)
Cand.mag degree and journalist.

Board member since 2010.

Communication manager at Statskog since 2007. Political adviser at the Ministry of Labour and Social Inclusion (2005-2007). Project manager at Olav Duun Innovasjon (2003-2005). Journalist with the Namdalsavisa newspaper (1991-2003). Refugee advisor, Aukra municipality (1988-1989). Teacher at Oppegård upper secondary school (1987-1988). Deputy chair, Norwegian State Council on Disability. Board member of NTE Holding.

Attended 17 of 20 Board meetings in 2012.

Owns 0 ECCs as of 31 December 2012.

Aud Skrudland (1959)
Veterinary doctor, Norwegian School of Veterinary Science, 1984. Specialist in fish diseases. Additional training in marketing and public law.

Board member since 2010.

Special inspector with the Norwegian Food Safety Authority, Steinkjer. Experience from the fish farming industry in the fields of fish health and product development, marketing and sale of medicinal products for fish.

Former member of the Averøy municipal council and municipal executive board. Former member of the programme committee on aquaculture at the Research Council of Norway, the Board of Directors of Romsdals Fellesbank, and the Control Committee and the Supervisory Board of SpareBank 1 SMN.

Attended 19 of 20 Board meetings in 2012.

Owns 1,765 ECCs as of 31 December 2012.

Elbjørg Gui Standal (1948 - ✝6 February 2013)

Business economist from BI Norwegian School of Management (1985), courses in education and psychology, Master of Management (1998).

Board member since 2012. Director of Studies at BI Norwegian Business School in Oslo. Formerly bank manager with Sparebanken Møre, and President at BI Telemark and BI Vestfold. Consultant in business development and the work of executive boards. Originator of parts of the research on boards and governance at the BI Business School in Oslo. Formerly board chair at, among others, Norway Royal Salmon, Helse Sunnmøre and Farveglede.

Board member at a range of companies. Co-author of books on business establishment and the work of executive boards.

Attended 12 of 14 board meetings in 2012.

Owned 0 ECCs as of 31 December 2012.

Venche Johnsen (1952)
Varied education at Bankakademiet and at university college level.

Board member since 2004.

Group employee representative at the Finance Sector Union branch at SpareBank 1 SMN. 33 years' experience in various positions with SpareBank 1 SMN.

Attended 20 of 20 Board meetings in 2012.

Owns 24,716 ECCs as of 31 December 2012.

Bente Karin Trana (1959)
Business economist (1984), continuing education at the Norwegian University of Science and Technology (1996, 2009) and the Norwegian Defence University College (2002).

First alternate member to the Board of Directors since 2010.

Head of Department at the Norwegian Public Roads Administration since 2001, previously Head of Administration and Acting Regional Roads Director, Nord-Trøndelag. Thirteen years' experience of project management with Aker Verdal and Aker Engineering, Oslo. Experience from Nord-Trøndelag University College and the Norwegian Trade Council, Milan.

Board chairman of STAS, Steinkjer. Board member of Accretio, Namsos, and Forsvarets høgskoleforening, Oslo.

Attended 18 of 20 Board meetings in 2012.

Owns 0 ECCs as of 31 December 2012.

Jan Gunnar Kvam (1947)
Varied education at Bankakademiet.

Board member since 2004. Regularly attending alternate for the employees. Deputy head of Finance Sector Union branch at SpareBank 1 SMN.

42 years' experience in various positions with SpareBank 1 SMN.

Attended 19 of 20 Board meetings in 2012.

Owns 16,245 ECCs as of 31 December 2012.

Includes ECCs owned by the individual's close associates, by companies he/she controls and by companies on whose behalf he/she is appointed.

Elected officers

Supervisory Board

Members elected by the ECC holders	Domicilie	No. Of ECCs*
Alf E. Erevik	Hønefoss	477,248
Arne Lorentsen	Trondheim	220,367
Asbjørn Tronsgård	Sunndalsøra	37,222
Berit Tiller	Trondheim	877
Christian Sørensen	Trondheim	22,660
Erik Sture Larre	Oslo	1,135,193
Gunnar Heglund	Trondheim	825,931
Jorunn Skjermo	Trondheim	27,130
Lars Bjarne Tvete (deputy chair)	Trondheim	1,600
Marit Collin	Trondheim	5,134
Odd Reitan	Trondheim	9,019,108
Olav Revhaug	Oslo	3,719,255
Stig Jakobsen	Angvik	21,991
Thor Arne Falkanger	Trondheim	209,255
Thor Christian Haugland	Stavanger	539,588
Torgeir Svae	Oslo	2,736,435
Widar Slemdal Andersen	Rælingen	13,886

Members elected by the depositors	Domicilie	No. Of ECCs*
Anne Lise Aunaas	Trondheim	0
Jan-Yngvar Kiel	Bosberg	0
Leif Helge Kongshaug	Averøy	0
Marit Dille	Abelvær	0
Per Brovold	Rissa	35,000
Randi Borghild Dyrnes (chair)	Molde	0
Aage Rostad	Verdal	1,919
Åshild Vang	Inderøy	0

Members elected by the country councils	Domicilie	No. Of ECCs*
Anne Sophie Hundstad	Trondheim	0
Elin Agdestein	Steinkjer	0
Gunn Iversen Stokke	Buvik	0
Hans Martin Storø	Lund	6,228
Jonny Meland	Sunndalsøra	0
Torgeir Dahl	Molde	0
Torhild Aarbergsbotten	Brekstad	0
Trine Hallem	Verdal	0

Members elected by the employees	Domicilie	No. Of ECCs*
Alvhild Skogmo Jensen	Namsos	2,000
Ann Kristin Leirvik Sletnes	Torvikbukt	3
Ellinor Finserås	Trondheim	601
Greta Rønning	Trondheim	2,098
Gunn Lerstad Brenne	Ekne	5,836
Inge Lindseth	Trondheim	37,119
Rolf Bratlie	Trondheim	22,963
Oddbjørn Kulseth	Stjørdal	7,293
Hege Karina Bøe	Molde	3,560
Randi Selnes Herskedal	Fræna	8,343

Board of Directors

	Domicilie	No. Of ECCs*
Per Axel Koch (chair)	Trondheim	45,930
Elbjørg Gui Standal	Ålesund	0
Arnhild Holstad	Namsos	0
Aud Skrudland	Averøy	1,765
Bård Benum	Trondheim	0
Kjell Bjordal (deputy chair)	Molde	50,000
Paul E. Hjelm-Hansen	Trondheim	49,219
Venche Johnsen	Trondheim	24,716
Bente Karin Trana (alternate)	Steinkjer	0
Jan Gunnar Kvam (alternate)	Trondheim	16,245
Morten Midjo (alternate)	Trondheim	0
Helle Moen (alternate)	Trondheim	0

Control Committee

	Domicilie	No. Of ECCs*
Rolf Røkke	Trondheim	0
Anders Lian	Trondheim	0
Terje Ruud	Trondheim	0

Election Committee

	Domicilie	No. Of ECCs*
Widar Slemdal Andersen	Rælingen	13,886
Jonny Meland	Sunndalsøra	0
Marit Dille	Abelvær	0
Alvhild Skogmo Jensen	Namsos	2,000

* Includes ECCs owned by the individual’s close associates, by companies he/she controls and by companies on whose behalf he/she is appointet

Corporate governance

Corporate governance at SpareBank 1 SMN encompasses the goals and overarching principles by which the Group is governed and controlled with a view to long-term value creation in the best interests of EC holders, employees and the community and society as a whole.

SpareBank 1 SMN presents, in accordance with the Accounting Act (Regnskapsloven) section 3-3b and the Norwegian Code of Practice for Corporate Governance of 23 October 2012, a report on its policies and practice for corporate governance.

Accounting Act, section 3-3b, second subsection
The following explains how the Accounting Act section 3-3b, second subsection, is complied with at SpareBank 1 SMN. The numbering shows the numbering in the subsection concerned.

1. “a statement of recommendations and rules for corporate governance which apply to the company or which it chooses to abide by”: policies and practice for corporate governance at SpareBank 1 SMN are based on Norwegian law and the group complies with the Norwegian Code of Practice for Corporate Governance to the extent appropriate to savings banks with equity certificates. Reference is made to point 1 of this report, Report on Corporate Governance, for further details.

2. “information on where recommendations and rules as mentioned in no. 1 are publicly available”: the Code of Practice for Corporate Governance is available at www.nues.no.

3. “a justification must be given for any deviation from recommendations and rules as mentioned in no. 1”: any deviations from the recommendation receive comment under the report on compliance with the Code of Practice below.

4. “a description of the main elements in the company’s and, for entities legally bound to maintain accounting records that prepare consolidated accounts, in the event also the group’s systems for internal control and risk management associated with the financial reporting process”: reference is made to point 10 of the Norwegian Code of Practice for Corporate Governance below for a description of internal control and risk management associated with the financial reporting process.

5. “provisions of articles of association which in whole or in part expand or diverge from provisions of the Public Limited Companies Act chapter 5”: reference is made to point 6 under the Norwegian Code of Practice for Corporate Governance below for a description of SpareBank 1 SMN’s compliance.

6. “the composition of the board of directors, corporate assembly, supervisory board and control committee; any working committees for these bodies, and a description of the main elements of applicable instructions and guidelines for the work of these bodies and any committees”: see points 6, 7, 8 and 9 under the Norwegian Code of Practice for Corporate Governance below.

7. “provisions of articles of association which regulate the appointment and replacement of board members”: see the report regarding point 8 of the recommendation below.

8. “provisions of articles of association and authorisations which empower the board of directors to decide

that the company shall repurchase or issue treasury shares or equity certificates”: see point 3 under the Norwegian Code of Practice for Corporate Governance below.

Norwegian Code of Practice for Corporate Governance
The following explains how the 15 points set out in the Norwegian Code of Practice for Corporate Governance of 21 October 2010 are complied with at SpareBank 1 SMN.

Report on corporate governance

(point 1 of the Code of Practice)

There are no significant deviations between the Code of Practice and compliance with the Code of Practice at SpareBank 1 SMN.

The Code of Practice applies to the extent appropriate to savings banks with equity certificates. Any deviations are explained below.

SpareBank 1 SMN has adopted a corporate governance policy, and will further develop this policy within the framework of applicable laws and in keeping with recommendations emanating from influential sources.

Through its corporate governance policy the Bank aims to assure sound management of its assets and give added assurance that its stated goals and strategies will be attained and realised. Good corporate governance at SpareBank 1 SMN encompasses the values, goals and overarching policies by which the Bank is governed and controlled with a view to securing the interests of EC holders, depositors and other stakeholder groups in the Bank. The Bank adheres to the “Norwegian Code of Practice for Corporate Governance” to the extent appropriate to savings banks with equity certificates.

The Bank gives special emphasis to:

- a structure assuring targeted and independent management and control
- systems assuring monitoring and accountability
- effective risk management
- full information and effective communication
- non-discrimination of EC holders and a balanced relationship with other stakeholders
- compliance with laws, rules and ethical standards

Staff at SpareBank 1 SMN must be recognised for their high ethical standards. To this end they must display a conduct that is perceived to be confidence inspiring, honest and trustworthy and in compliance with the norms, rules and statutes by which the society is governed in contexts where the staff are identified with the Group. SpareBank 1 SMN’s ethical rules deal inter alia with legal (in)capacity; relationships to customers, suppliers and competitors; securities trading; insider rules and relevant finances of the individual. This body of rules applies to all employees and elected officers in governing bodies.

All staff and elected officers at SpareBank 1 SMN are obliged by external requirements and internal guidelines to regard as confidential any information about the Group’s or a customer’s circumstances which comes to their knowledge in the course of their work. This duty of confidentiality applies not only in respect of third parties but also towards colleagues who have no need for the information in question in their work. Further, no SpareBank 1 SMN staff may, via computer systems or by any other means, actively seek information about other colleagues or customers that is not necessary for their work. SpareBank 1 SMN's ethical rules stipulate that a staff member must immediately inform his/her superior or other contact persons defined in a special whistleblowing procedure if he/she learns of circumstances that breach applicable external statutes and rules or constitute significant violations of internal provisions. Staff members who report misconduct in accordance with internal procedures will not be subjected to any retaliatory action as a result of the disclosure.

SpareBank 1 SMN wishes to contribute to sustainable social development through responsible business activities which includes safeguarding ethical, environmental and social considerations. To that end SpareBank 1 SMN has drawn up a separate strategy for administering the Bank's corporate social responsibility.

Corporate social responsibility is an integral aspect of the Bank's operations and is expressed through the strategies, measures and activities we plan and execute. Corporate social responsibility is expressed through the way we manage the resources we dispose over and our through dialogue with employees, owners, customers, local communities and other stakeholders. Further, a procurement strategy has been established setting out the ethical framework, requirements on suppliers and the criteria applied by the Bank when making purchases.

Reference is also made to a separate chapter on corporate social responsibility in this annual report.

Deviations from point 1 of the Code of Practice: None

Operations

(point 2 of the Code of Practice)

SpareBank 1 SMN is an independent financial services group in the SpareBank 1 Alliance. The Bank's vision is to be the recommended bank. According to its articles of association, SpareBank 1 SMN's object is to promote saving by accepting deposits from depositors and to manage the funds at its disposal in a secure manner in accordance with the statutory rules applying at any and all times to savings banks. The Bank can transact all ordinary banking business and banking services in accordance with the legislation at any time in force. The articles of association can be found in extenso on the Bank's website.

The Bank's business mission is to provide financial advisory services to private individuals, enterprises and the public sector primarily in North and South Trøndelag, Møre and Romsdal and Sogn and Fjordane, to enable them to realise their goals through the facilities it provides for investment, saving, payments and protection of lives and assets. We also provide real estate agency, asset management, leasing and accountancy services in the same geographical areas and to the same customer groups.

Our core values are closeness and capableness. That means being close to our customers through personal contact and taking the initiative to meet the customer with the best advice and products as well as being a pro-active mainstay in the region. Capableness entails offering a broad range of products that is right for the times, and having a professionally competent staff with high quality skills. We strive for high ethical standards in everything we do and want our customers to feel that their need for financial advice and services is met in a professional and expert manner. SpareBank 1 SMN's central goals and strategies are also described in a special section in the Directors' report.

Deviations from point 2 of the Code of Practice: None

EC capital and dividends

(point 3 of the Code of Practice)

The Board of Directors continuously assesses the capital situation in light of the company's goals, strategy and desired risk profile. As at 31 December 2012 SpareBank 1 SMN's equity capital totalled NOK 10,0 bn. As of year end tier 1 capital adequacy was 11.3 per cent and the common equity tier 1 ratio was 10.0 per cent. 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 per cent by the end of 2015.

These targets are in line with the Bank's goals, strategy and risk profile. The Bank has introduced a tool for measuring economic capital and risk-adjusted return in the credit area, but will not be adjusting its capital adequacy targets until further notice. For a further account of the rules governing capital adequacy and the principles on which SpareBank 1 SMN bases its assessment of capital need, see the chapter dealing with risk and capital allocation in this annual report.

Dividends
SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide EC holders with a good, stable and competitive return in the form of dividend and a rising value of the Bank's EC.

The net profit for the year will be distributed between the owner capital (the EC holders) and the ownerless capital in accordance with their respective shares of the Bank's total equity capital.

SpareBank 1 SMN's intention is that up to one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that up to one half of the ownerless capital's share of the net profit for the year should be disbursed as gifts or transferred to a foundation. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, of external framework conditions and of the need for tier 1 capital. The Bank's supervisory board sets the annual dividend payout based on the Board of Directors' recommendation. The dividend policy is available at the Bank's website.

Deficits
Any deficit is to be covered by pro rata transfer from the ownerless capital, including the gift fund and any owner capital in excess of that stipulated in the articles of association, including the dividend equalisation fund. Any deficit not so covered will be covered by pro rata transfer from the EC premium account and the compensation fund, thereafter by reduction of the EC capital stipulated in the articles of association.

Acquisition of treasury equity certificates
SpareBank 1 SMN's Board of Directors are authorised to buy treasury ECs up to limit of 10 per cent of the Bank's owner capital, and such purchases must be made by trading on the securities market via the Oslo Stock Exchange. The total volume of ECs held by the Bank and/or in which it has a consensual security interest may not exceed 10 per cent of the Bank's owner capital. Each EC may be bought at prices between NOK 1 and NOK 200. The authorisation is valid for 13 months as from the adoption of the resolution at the supervisory board's meeting on 6 March 2012.

Increase of capital
Authorisations to the Board of Directors to increase the Bank's EC capital are given for specific and defined purposes. As at 31 December 2012 no authorisation was available to the Board of Directors to increase the capital of SpareBank 1 SMN.

Deviations from point 3 of the Code of Practice: None

Non-discrimination of shareholders and transactions with related parties

(point 4 of the Code of Practice)

SpareBank 1 SMN has one class of ECs. Through the articles of association, and in the work of the Board of Directors and management team, emphasis is given to equal treatment of all EC holders and equal opportunity for them to exercise influence. All ECs confer an identical voting right. The Bank abides by the financial institutions act's provisions regulating holdings and voting rights insofar as these provisions apply to savings Banks with equity certificates.

In the event of an increase of capital, existing EC holders have pre-emptive rights unless special circumstances indicate that this rule should be deviated from. Any such deviation will be explained.

Second largest owner
The Supervisory Board resolved in May 2011 to establish a savings bank foundation, Sparebankstiftelsen SMN, which, as decided by the Supervisory Board, shall be allocated portions of the provision for monetary gifts to non-profit causes. The foundation's mission is to secure long-term ownership of SpareBank 1 SMN through participation in private placings. The foundation may also invest funds in an appropriate and satisfactory manner based on considerations of safety, risk diversification, liquidity and return. Monetary gifts granted by the foundation to non-profit causes must not exceed the distributed profit for the year, and the gift distribution shall take reasonable account of the districts that have built up capital in SpareBank 1 SMN. The foundation may also conduct other activity that is commensurate with specified purposes and the legislation in force at all times.

The savings bank foundation is the second largest equity certificate holder with an owner interest of 3.05 per cent as of 31 December 2012.

Transactions with related parties
Under instructions in force for the Board of Directors, a director is barred from participating in the consideration of, or decision in, any matter whose significance to himself or to any related party is such that the director is to be regarded as having, directly or indirectly, a particular personal or financial interest in that matter. The same follows from the SpareBank 1 SMN's ethical guidelines. Each director is obliged to personally verify that he or she is not disqualified from participating in the treatment of a matter. Any agreement between the Bank and a director or the Group CEO must be approved by the Board, as must any agreement between the Bank and a third party in which a director or the Group CEO has a particular interest. Directors are required to disclose on their own initiative any interest the individual or related party concerned may have in the decision taken in a matter. Unless the director him/herself opts to step back from the consideration or decision of a matter, the Board shall decide whether or not the director shall step back. In the assessment due importance must be given to all forms of personal, financial or other interests on the

part of the director and to the Bank's need for public confidence in its business activity. The Board's assessments of legal (in)capacity must be duly recorded.

Deviations from point 4 of the Code of Practice: None

Free transferability

(point 5 of the Code of Practice)

The Bank's equity certificate is quoted on the Oslo Stock Exchange and is freely transferable. The articles of association contain no restrictions on transferability.

Deviations from point 5 of the Code of Practice: None

General meeting (supervisory board)

(point 6 of the Code of Practice)

A savings bank is basically a 'self-owned' institution, and its governance structure and the composition of its governing bodies differ from those of limited liability companies; see Section 7 of the Savings Banks Act which sets outs the bodies which a savings bank must have – a supervisory board (also termed 'committee of representatives' or 'board of trustees'), a control committee and a board of directors. The Bank's paramount body is the supervisory board comprising EC holders, depositors, employees and representatives of the public authorities.

The supervisory board sees to it that the Bank operates in line with its mission and in conformity with law, its articles of association and decisions of the supervisory board.

The supervisory board has 43 members and 32 alternates with the following representation:

- EC holders: 17 members and 10 alternates
- county councils of South Trøndelag, North Trøndelag and Møre and Romsdal: 8 members with 8 alternates
- depositors: 8 members with 8 alternates
- employees: 10 members with 6 alternates

According to the legislation, elected members must in aggregate reflect the savings bank's customer structure and other stakeholder groups and its role in society. At savings banks that have issued transferable ECs, at least one-fifth and not more than two-fifths of the members of the supervisory board must be elected by the EC holders. The supervisory board approves the Group's accounts, authorises the board of directors to raise subordinated capital and to undertake any increase of capital, and appoints the members of the Bank's board of directors, control committee and election committee. The supervisory board also fixes the remuneration for the above bodies. The members of the board of directors, the group CEO, the control committee and the auditor are summoned to meetings of the Bank's supervisory board. They may participate in the proceedings but are not entitled to vote. The supervisory board chair presides over the meeting, or in the latter's absence, the deputy chair.

Notice of meetings of the supervisory board is sent to its members and is available on the Bank's website at least 21 days ahead of the meeting. The intention is that proposals for resolutions and case documents that are dispatched should be sufficiently detailed and comprehensive to enable the members of the supervisory board to take a position on the matters to be considered. Minutes of the meetings of the supervisory board are also available on the Bank's website.

Each year an election meeting is held for the EC holders where representatives are elected to the supervisory board and information is given about the Group's financial situation. Each equity certificate confers one voting right. All EC holders may attend the meeting, and proxy voting is permitted.

A list of supervisory board members can be found at smn.no.

Governing and control bodies at SpareBank 1 SMN

Control committee

The formal basis for the work of the control committee is section 13 of the savings banks act and standard instructions issued by Finanstilsynet (Norway's financial supervisory authority).

The control committee's mission is to oversee that the Bank conducts its business in an appropriate and satisfactory manner in accordance with laws and regulations, articles of association and orders and recommendations issued by Finanstilsynet. Its remit covers the entire business, including subsidiaries. The control committee is an elected committee in its own right in the subsidiary SpareBank 1 SMN Finans.

In order to discharge its tasks the committee:

- reviews selected decisions and working documents of the board of directors and sees to it that the board acts on its decisions
- ronitors developments in central key figures and ratios
- obtains documentation of the Bank's control procedures and ensures that they function as intended
- review internal audit reports and the appointed auditor's written approaches to the Bank and ensures that any remarks are properly responded to
- collaborates with the chair of the board of directors and the company's auditor on working plans and important observations; see section 5 of the instructions.

Each year the control committee reports on its work to the supervisory board and Finanstilsynet. The committee also issues a statement to the supervisory board on the annual accounts and the directors' report.

Each year a record of the control committee's meetings is sent to the Bank's board of directors, the supervisory board chair, the internal auditor and the risk manager. The control committee's minutes are also presented at the meetings of the supervisory board.

The control committee normally meets 8 times each year. The Group CEO attends these meetings. The committee also meets the chair of the board of directors and the chair of the supervisory board on an annual basis. The control committee is appointed by the supervisory board and has three members and two alternates who are elected for a two-year term.

Deviations from point 6 of the Code of Practice: Where the composition of the Bank's bodies is concerned, SpareBank 1 SMN abides by the provisions of the Savings banks Act.

Election committees

(point 7 of the Code of Practice)

Three election committees have been established in accordance with SpareBank 1 SMN's articles of association. An election committee has also been established for employees' election of supervisory board members.

Election committee for the supervisory board
The supervisory board appoints an election committee from among the members of the supervisory board. The election committee comprises four members and four alternates. The committee comprises one representative from each of the following: the EC holders, the depositors, public appointees and the employees in addition to one alternate from each group. The EC holders' representative on the election committee must be a member of the election committee for EC holders' election of supervisory board members.

In connection with the elections the committee gives due attention to a composition based on competence and gender. The committee's task is to prepare the election of the chair and deputy chair of the supervisory board, the chair, deputy chair and other members and alternates of the Bank's board of directors and control committee, and members and alternates of the election committee for the supervisory board. The election committee is also charged with reviewing and recommending any changes to the fee structure for the Bank's elected officers.

Election committee for depositors' election of supervisory board members
The depositor-elected members of the supervisory board appoint a separate election committee comprising three members and three alternates, with one member and one alternate from each of the three election districts. This election committee prepares the depositors' election of members and alternates to the Bank's supervisory board, and members and alternates to the election committee for depositors' election of supervisory board members.

Election committee for EC holders' election of supervisory board members
The EC holders appoint an election committee at an EC holders' meeting. The election committee has three members and two alternates. At least one of the members and one of the alternates must be members of the supervisory board. The election committee prepares the EC holders' election of supervisory board members and alternates and the election of members and alternates to the election committee for EC holders' election of supervisory board members.

Election committee for employees' election of supervisory board members
According to the Savings banks Act this election shall be organised by an election board with representatives appointed by the board of directors. The election board comprises at least three members and both the management and the employees shall be represented.

Deviations from point 7 of the Code of Practice: All members of the election committee for the supervisory board are appointed from among the groups represented on the supervisory board, in accordance with Regulations on election committees at savings banks. Thus far consideration has not been given to enlarging the committee with a member who is not a member of the supervisory board. As of 31 December 2012 the supervisory board has not established further guidelines for the election committee beyond what is set forth in law, regulations and articles of association.

Supervisory board and board of directors, composition and independence

(point 8 of the Code of Practice)

See point 6 for information about the general meeting/supervisory board. The board of directors has eight regularly attending members of whom seven are appointed by the supervisory board and one by the employees. Four board members are women of whom three are elected by the supervisory board and one is an employee representative. Meetings of the board of directors are also attended by a regularly attending alternate in addition to a regularly attending alternate for the employees.

Members of the board of directors are appointed for two years at a time and can hold office for a maximum of 20 years, but not more than 12 years continuously in the same position. The Group CEO is not a member of the board of directors. None of the members of the board of directors appointed by the supervisory board are in any employment relationship or independent contractor relationship with the Group beyond their posts as elected officers. The board members' independence has been assessed by the election committee and the board members are deemed to be independent, with the exception of the board members elected by the employees. The chair and deputy chair are elected by the supervisory board at separate elections for one year at a time.

The board of directors is composed based on criteria of competence, capacity and diversity and in accordance with the Bank's articles of association. The individual director's background is described in the annual report. The election committee has drawn up specification requirements for the composition of the board of directors. The board meets at least 11 times each year, and the members' attendance at meetings of the board of directors is described in the annual report. The directors are encouraged to own the Bank's equity certificates, and their respective holdings of ECs in SpareBank 1 SMN are shown under the presentation of the board of directors in the annual report and on the Bank's website.

Deviations from point 8 of the Code of Practice: None

Work of the board of directors

(point 9 of the Code of Practice)

The supervisory board has adopted instructions for the board of directors that set forth rules for the board's work and procedures. The board of directors manages the Bank's operations in compliance with laws, articles of association and resolutions of the supervisory board. The board of directors is responsible for ensuring that the assets at the Bank's disposal are managed in a safe and appropriate manner. The board of directors is also required to ensure that accounting and asset management are subject to satisfactory control. The board of directors also adopts the Bank's strategy, budget and market and organisational objectives. The board of directors appoints and dismisses the group CEO.

The board of directors receives periodical reports on profit performance, market developments, developments on the management, staff and organisational fronts, and developments in the Group's risk picture and risk exposure. The board of directors conducts an annual self-evaluation of its activity with regard to working method, case handling, meeting structure and prioritising of tasks, and this provides a basis for changes and measures needed. An evaluation is also made of the competence possessed by the board.

Audit committee

The board of directors has appointed an audit committee comprising three members of the Bank's board of directors, and the members are appointed for a two-year period. At least one member of the committee must have relevant accounting or auditing competency. The audit committee is a preparatory and advisory working committee to the board of directors. The audit committee's object, tasks and functions are established in accordance with international rules and the EU Statutory Audit Directive.

In order to attend to its tasks, the audit committee:

- reviews the drafts of interim and annual financial statements before consideration by the board of directors
- reviews significant accounting and reporting issues, including new technical and law-related statements, and must understand the latter's effect on the financial statements
- holds meetings with the Bank's management team and the external auditor to review the financial statements and the results of the audit
- evaluates the internal control system, risk management system and internal audit to ensure their proper functioning
- sees to it that SpareBank 1 SMN has an independent internal and external auditor

- sees to it that material findings and recommendations from the internal and external auditor are received and considered within a reasonable period
- assesses the effectiveness of procedures for checking compliance with laws and rules, and the results of the management team's investigation and follow-up (including disciplinary measures) of any malpractice or non-compliance

The committee meets at least five times yearly ahead of the board of directors' consideration of quarterly and annual reports.

The committee is a subcommittee of the board of directors and it is the assembled board that has overall responsibility and takes the final decision.

Compensation committee

The board of directors has appointed a compensation committee comprising three directors. The board chair is a permanent member of the committee and also chairs the committee. The committee members are appointed by the board of directors for a two-year term.

The committee is a preparatory body to the board of directors in matters relating to the design and practice of guidelines and framework for the group's compensation policy. The group's compensation policy is intended to promote sound management and control of the group's risk, discourage excessive risk taking, encourage a long-term perspective, contribute to avoidance of conflicts of interest and to be in compliance with applicable law and regulations.

The committee's tasks and responsibilities:

- the committee is to formulate a compensation policy in keeping with the legislation in force at any and all times. It also ensures follow up, updating and maintenance of the group's various compensation arrangements.
- in formulating and maintaining the compensation policy the committee is to identify those employees and elected officers whose tasks are of major significance for the Bank's risk exposure.
- in determining the compensation, the relationship between fixed compensation and any variable compensation is to be determined in such a way as to be balanced.

The compensation committee makes a recommendation to the board of directors regarding compensation policy and regarding conditions applying to the group CEO. The committee also established limits with regard to variable compensation, and approves compensation arrangements for all business areas and subsidiaries having compensation schemes. The committee can also be used as an advisory body to the group CEO in the determination of conditions for the Group management.

The committee meets when convened by the chair, but at least once yearly and otherwise as and when required. At least two members are required to attend.

The board of directors has established the compensation committee's mandate.

Deviations from point 9 of the Code of Practice: None

Risk management and internal control

(point 10 of the Code of Practice)

Sound risk and capital management are central to SpareBank 1 SMN long-term value creation. Internal control shall help to ensure efficient operation and proper management of risks of significance for attaining the group's business goals.

The group's report on capital requirements and risk management, the Pillar 3 Report, contains a description of risk management, capital management and capital calculation. This report is available at smn.no.

SpareBank 1 SMN aims to maintain a moderate risk profile and to apply risk monitoring of such high quality that no single event will seriously impair the Bank's financial position. The Bank's risk profile is quantified through targets for rating, risk-adjusted return, expected loss, necessary economic capital and regulatory capital adequacy.

The board of directors reviews the group's development in the main risk areas on a quarterly basis and reviews the internal control system on an annual basis. The board of directors of SpareBank 1 SMN has the main responsibility for setting limits to and monitoring the group's risk exposure. The Bank's risks are measured and reported in accordance with the principles and policy adopted by the board of directors. Risk management at SpareBank 1 SMN underpins the group's strategic development and goal achievement. Risk management is designed to assure financial stability and sound asset management.

Management at the various companies in the group is responsible for risk management and internal control in the respective companies, and this is intended to ensure:

- targeted, safe, high-quality and cost-effective operations
- reliable and timely reporting
- observance of applicable laws and regulations as well as internal procedures and policies

Risk management is an integral part of the management's decision processes, and a central element in regard to organisation, procedures and systems. A separate risk management function has been established at SpareBank 1 SMN.

The risk management division is organised independently of the business units and reports directly to the group CEO. The division is responsible for the group's risk models and for further developing effective risk management systems. The division is responsible for independent risk assessment, risk reporting and overall risk monitoring in the group. The division reports periodically to the group CEO and the board of directors on developments in the risk picture.

The Bank's most important profit objective is to achieve a competitive return on equity. This is done through increased focus on risk-adjusted return, and risk pricing is therefore key to achieving the Bank's goal of a satisfactory return on equity. The Group's principles and framework for internal control and risk management are enshrined in a risk management policy. This policy is the Group's internal framework for sound management and control, and sets out guidelines for the Group's overall approach to risk management and is designed to ensure that the Group has an effective and appropriate process to that end.

Internal control and risk management constitute a process initiated and implemented by the Bank's board of directors, management team and staff that is designed to identify, manage and monitor risks to ensure that overall risk exposure is in adherence with the Bank's adopted risk profile. The board of directors receives annually an independent assessment from the internal auditor and the statutory auditor of the Group's risk and of whether the internal control functions appropriately and is adequate.

The board of directors monitors compliance with adopted frameworks, principles, and quality and risk objectives through:

- quarterly reports from the Group CEO and the risk management division
- quarterly/annual report from the internal auditor

SpareBank 1 SMN uses the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Framework and the Control Objectives for Information and Related Technology (CobiT) framework as a basis for its policies for internal control and risk management.

Internal control in relation to financial reporting
The board of directors of SpareBank 1 SMN has issued guidelines for the group's financial reporting. They apply within the current requirements imposed by the authorities and are designed to ensure relevant, reliable, up to date and simultaneous information to the Bank's EC holders and the securities market in general. The guidelines also include the group's contact with investors other than those on the supervisory board. The finance division is headed by the finance director and is organised independently of the business areas. The division attends to financial reporting at both parent bank and group level, and establishes guidelines for monthly, quarterly and annual reporting from the various business areas and subsidiaries in line with internal and external requirements. The finance director assesses the business areas' financial results and goal achievement on a continuous basis, and sees to it that all units perform in keeping with the group's overall financial objectives. The finance director reports directly to the group CEO.

The Bank's accounts and finance department is organised under the finance division and prepares financial reports for the SpareBank 1 SMN Group. The department sees to it that reports are made in conformity with applicable legislation, accounting standards, the Group's accounting policies and the board of directors' guidelines.

The division has established processes to ensure that financial reporting is quality assured and that any errors and deficiencies are followed up and rectified as and when they occur. A number of control measures have been established to ensure that all financial reporting is correct, complete and in conformity with law and regulations. These measures include reasonableness and probability checks at each individual locale within the various business areas, as well as on a more aggregated level. In addition, detailed reconciliation checks are carried out on a daily and monthly basis. The group has established sound measuring systems for use in all business areas in the group where the most central target figures within each area are followed up. Each business area has responsibility for such monthly financial reporting and follow-up, and works closely with the finance division to develop and improve the measuring systems. Established control activities are evaluated regularly in terms of their design and effectiveness.

Each quarter the external auditor conducts a limited audit of the Group's interim financial statements. A full audit is conducted of the Group's annual financial statements.

Internal audit

The internal audit function is a tool used by the board of directors and the administration to oversee that the risk management process is targeted, effective and functions as intended. Internal audit services are delivered to the group by KPMG and these services cover the parent bank, subsidiaries subject to the risk management and internal control regulations and other significant subsidiaries. The internal audit function's main task is to confirm that the established internal control system functions as intended, and to ensure that established risk management arrangements are adequate in relation to the Bank's risk profile. The internal audit function reports quarterly to the board of directors which adopts annual plans and budgets for the internal audit. The internal audit function's reports and recommendations for improvements in the Bank's risk management regime are reviewed and implemented on a continuous basis.

The internal audit function carries out an operational audit of units and business areas in the SpareBank 1 SMN Group. The internal auditor does not conduct a financial audit, this being the remit of the external auditor. An audit plan is prepared which is discussed with the group management, considered by the audit committee and approved by the board of directors. The audit function's risk assessments determine which areas are to be reviewed. Separate audit reports are prepared containing results and proposed measures which are presented to the responsible manager and the group's management team. A summary of the reports is sent quarterly to the audit committee and the board of directors. The internal auditor presents each year to the board of directors a plan for implementation of the audit work. Any consultancy services are provided within the standards and recommendations applying to internal auditors (Institute of Internal Auditors Norway).

Ethics and whistleblowing

Ethical guidelines have been drawn up for the Group and its employees, and ethics is a standard topic at seminars for all new staff members. This helps to ensure that the Group's values and ethical guidelines are properly communicated and made known throughout the organisation. Clear-cut guidelines have been established for internal communication should any member of staff learn of circumstances that breach external or internal provisions or of other circumstances which are likely to harm the Group's reputation or financial situation. Rules have been made requiring employees to give the alert should they learn of circumstances that are counter to external or in-house provisions, or which harm the Group's reputation.

For more information about risk management and internal control, see note 6 in the annual report concerning financial risk management and a special chapter on risk management and capital allocation.

Deviations from point 10 of the Code of Practice: None

Remuneration to the board of directors

(point 11 of the Code of Practice)

The board members' fees that are recommended by the election committee for the supervisory board and adopted by the supervisory board are not performance-related and no options are issued to the directors. The board of directors' chair and deputy chair are remunerated separately, and directors participating in board committees receive additional remuneration for doing so. None of the directors appointed by the supervisory board perform tasks for the group beyond being on the board of directors. Further information on compensation to the board of directors, the internal audit committee and the compensation committee is disclosed in note 22 in this annual report.

Deviations from point 11 of the Code of Practice: None

Remuneration to senior employees

(point 12 of the Code of Practice)

The Group has established a remuneration policy that is in accordance with the Group's overarching objectives, risk tolerance and long-term interests and promotes and incentivises good management and control of the Group's risk, counters excessive or undesired risk-taking, helps to avoid conflicts of interest and is in accordance with applicable law and regulations. The Group's remuneration policy has special rules for senior employees, for other employees and elected officers with control tasks; see the requirements of Regulations of 1 December 2010 on remuneration schemes at financial institutions, investment firms and fund management companies.

The Board of Directors has appointed a compensation committee which acts as a preparatory body for the board in cases relating to the assessment of, and compensation to, the group CEO. The committee also recommends to the board of directors guidelines for remuneration to senior employees (the group management). The board of directors establishes the compensation committee's mandate. See also an account of the board of directors' compensation committee under point 9.

A description of remuneration to the group CEO and senior employees is given in note 22 to this annual report. In addition, information is published at smn.no on SpareBank 1 SMN's remuneration arrangement, including information on the main principles for determining remuneration, criteria for determining variable remuneration, and quantitative information on the remuneration of senior employees, employees with work tasks of material significance for the institution's risk exposure, other employees and elected officers with corresponding remuneration, and employees with control tasks.

Deviations from point 12 of the Code of Practice: None

Information and communication

(point 13 of the Code of Practice)

The Bank's information policy is based on full and effective communication in underpinning the relationship of trust between the Bank's EC holders, board of directors and management, and in ensuring that the Bank's stakeholders are at all times able to assess and relate to the Bank. The Bank's information policy is based on active dialogue with respective stakeholder groups in which openness, predictability and transparency are at centre stage.

The open information practice is in conformity with the Bank's ethical guidelines and section 21 of the Savings banks Act, with the limitations following from the duty of confidentiality and stock exchange rules in effect at all times.

Correct, relevant and timely information on the Bank's progress and performance aims to instil investor market confidence. Information is communicated to the market via quarterly investor presentations, an investor relations area on the Bank's website and stock exchange notices. The group's financial calendar is published on the Bank's website.

Presentations for international partners, lenders and investors are also arranged on a regular basis. The board of directors has adopted a communications strategy indicating who can make statements on behalf of SpareBank 1 SMN and on what subjects. SpareBank 1 SMN has received the Oslo Stock Exchange's information award for meeting specific requirements with regard to the scope and distribution of information.

Deviations from point 13 of the Code of Practice: None

Takeover

(point 14 of the Code of Practice)

SpareBank 1 SMN is a self-owning institution which cannot be taken over by others through acquisition. A savings bank's ownership structure is regulated by law and no-one may own more 10 per cent of a savings bank's owner capital. Finanstilsynet's approval is required for any larger acquisition. A list of the SpareBank 1 SMN's 20 largest EC holders is available on the Bank's website at smn.no.

Deviations from point 14 of the Code of Practice: Statutory limits on equity holdings

External auditor

(point 15 of the Code of Practice)

An external auditor is appointed by the supervisory board upon the recommendation of the audit committee. The Bank utilises the same auditor in the parent company and in all subsidiaries. The external auditor performs the statutory confirmation of the financial information provided by the companies in their public financial statements. The external auditor presents each year to the audit committee a plan for the audit work. The external auditor attends meetings of the Board of Directors at which the annual accounts are reviewed and also meetings of the audit committee where the financial statements are reviewed.

The board of directors holds at least one meeting each year with the external auditor without the group CEO or others from the management team being present. No guidelines have been established for the management team's right to utilise the external auditor for non-audit services, but the external auditor has not provided the group with advisory services of significance in 2012. Any such services from the external auditor must comply with the Auditors Act section 4-5. The board of directors informs the supervisory board of the external auditor's remuneration for the audit and any other services.

The external auditor provides the audit committee with a description of the main elements of the audit of the preceding accounting year, including whether any significant weaknesses have been identified in the Bank's internal control related to financial reporting processes including any recommended improvements. In addition the auditor confirms his independence and discloses whether any services other than statutory audit have been delivered to the group in the course of the accounting year.

Deviations from point 15 of the Code of Practice: No guidelines have been established for the management *team’s right to utilise the external auditor for non-audit services, but the auditor reports on a yearly basis what services have been delivered to the group in addition to ordinary audit and such services shall at all times be within the scope of section 4-5 of the Auditors Act.*

Risk management and capital allocation

SpareBank 1 SMN aims to maintain a moderate risk profile and to employ risk monitoring of such high quality that no single event will seriously impair the Bank's financial position. The Bank's risk profile is quantified through targets for rating, risk-adjusted return, expected loss, necessary economic capital and regulatory capital adequacy.

The principles underlying SpareBank 1 SMN's risk management are laid down in the Bank's risk management policy. The Bank gives much emphasis to identifying, measuring, managing and following up central risks to ensure that the Group progresses in line with its adopted risk profile and strategies.

Risk management within the Group is intended to support the Group's strategic development and target attainment. The risk management regime is also designed to ensure financial stability and prudent asset management. This will be achieved through:

- a strong organisation culture featuring a high level of risk-management awareness
- a sound understanding of the risks that drive earnings and risk costs, thereby creating an improved basis for decision-making
- striving for an optimal use of capital within the adopted business strategy
- avoiding unexpected negative events which could be detrimental to the Group's operations and reputation in the market

The Group's risk is quantified by calculating expected loss and the risk-adjusted capital (economic capital) needed to meet unexpected losses. Expected loss is the amount which statistically can be expected to be lost in a 12-month period. Risk-adjusted capital is the volume of capital the Group considers it needs to meet the actual risk incurred by the Group. The Board has resolved that the risk-adjusted capital should cover 99.9 per cent of all possible unexpected losses.

Statistical methods are employed to compute expected loss and risk-adjusted capital, but calculation none the less requires expert assessments in some cases. In the case of risk types where no recognised methods of calculating capital needs are available, the Bank defines risk management limits to ensure that the likelihood of an event occurring is extremely low.

Return on risk-adjusted capital is a key strategic target of internal management at SpareBank 1 SMN. It entails allocating capital to business areas based on the estimated risk attending the business concerned, and continuous monitoring of return on capital. Calculation of risk-adjusted capital makes it possible to compare risk across risk groups and business areas. Risk is also gauged and monitored by measuring positions relative to quantitative risk limits and key portfolio risk limits.

The Group's overall risk exposure and risk trend are monitored through periodic risk reports to the Administration and the Board of Directors. Overall risk monitoring and reporting are carried out by the Risk Management Division which is independent of the Group's business areas.

Responsibility for risk management and control

Risk management and control are part of SpareBank 1 SMN's corporate governance as described in the chapter on Corporate Governance. The Group's control and management model aims for independence in risk reporting, with due emphasis given to responsibilities and roles in the day-to-day risk management. SpareBank 1 SMN has for several years devoted substantial resources to developing effective risk management processes in order to identify, measure and manage risk.

In the risk and capital management process, organisation culture is the foundation on which the other elements are built. SpareBank 1 SMN's organisation culture comprises management philosophy, managerial style and the people making up the organisation with their individual qualities such as integrity, values, and ethical stance. A deficient organisation culture cannot be compensated for by imposing other oversight and control measures.

The Group attaches importance to a control and management structure that promotes targeted and independent management and control. The risk management process is three-tiered:

The Board of Directors establishes the Group's risk profile and ensures that the Group's own funds are satisfactory based on the risk in the Group and requirements set by the authorities.

The Group Board establishes the overarching objectives such as risk profile, return targets and the distribution of capital on the respective risk areas. The Board also establishes overall limits, authorisations and guidelines for risk management within the Group, as well as all significant aspects of risk management models and decision-making processes.

The Group CEO is responsible for risk management. Hence he is responsible for seeing to the implementation of effective risk management systems in the Group and to the monitoring of risk exposure. The Group CEO is also responsible for delegating authorisations and for reporting to the Board.

The Divisions are responsible for the day-to-day risk management within their respective business areas, and they must at all times see to it that risk management and risk exposure comply with the limits and overarching management principles established by the Board or the Group CEO.

The Risk Management Division is organised independently of the business units and reports directly to the Group CEO. This division is responsible for the Group's risk models and for the further development of effective risk management systems. It is also responsible for independent risk assessment, risk reporting and for overall monitoring of risk within the Group.

Credit Committees. The Group has two local-level credit committees for the corporate market along with a central-level Group Credit Committee. The two local-level credit committees cover the following areas:

- Trondheim and Møre and Romsdal
- South Trøndelag and North Trøndelag

The Credit Committees deliver an independent recommendation to the authorisation holder concerned. The recommendation:

- assesses loan and credit applications in accordance with the existing credit strategy, credit policy, lending regulations and credit processing routines
- gives particular emphasis to identifying risk related to the individual application and to providing an independent credit risk assessment
- clarifies the consequences for the Group of the various risks involved

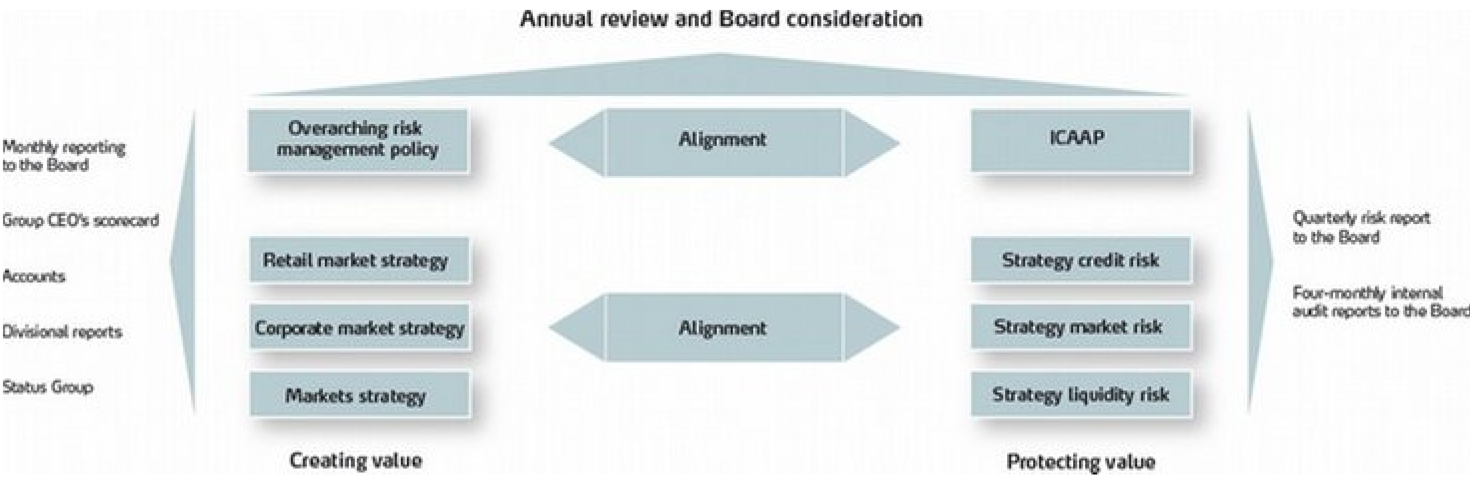
The Balance Sheet Committee is responsible for dealing with matters related to capital structure and liquidity risk, market risk, internal pricing of capital and compliance with limits established by the Board.

The Credit Support Unit takes over dealings with customers who are clearly unable, or are highly likely to become unable, to service their debts unless action is taken beyond ordinary follow-up.

Credit Watch Committee's main focus is on exposures at risk. The committee deals with exposures defined on a centralised watch list, mainly in excess of NOK 50m.

The Internal Audit is a tool at the disposal of the Board of Directors and the Administration which oversees that the risk management process is targeted, effective and functions as intended. The Group's internal audit is carried out by an external provider, thereby assuring the required independence, competence and capacity. The Internal Audit function reports to the Board of Directors.

The Internal Audit function's reports and recommendations for improvements in Group risk management are continuously reviewed within the Group. The Internal Audit function reviews, regularly and at least annually, the IRB system, including the models underlying the calculation of risk parameters and the application of and compliance with the Capital Requirements Regulations.



Capital management

SpareBank 1 SMN applies a focused capital management process designed to assure:

- effective capital procurement and capital application in relation to the Group's strategic objectives and adopted business strategy
- satisfactory capital adequacy in relation to the chosen risk profile
- competitive returns
- competitive terms and good long-term access to capital market funding
- the Group's ability to maintain at minimum its present international ratings
- utilisation of growth potentials in the Group's defined market area
- that no individual events can seriously impair the Group's financial position

A long-term objective of the adopted business strategy is to ensure that the risk-adjusted capital is as far as possible allocated to those areas that yield the highest risk-adjusted return.

The capital management process must:

- be risk-driven and include all significant types of risk within the Group
- be an integral part of the business strategy, management process and decision-making structure
- be forward-looking and include stress testing
- be based on recognised and appropriate risk measurement methods and procedures
- be regularly reviewed, at least annually, by the Board

Financial projections

A five-year projection of financial developments is prepared with a basis in the strategic objectives and the business plan. A projection is also prepared of a serious economic downturn scenario. The projections are designed to compute how financial developments in business activities and the macroeconomy will impact on the Group's financial development, including return on equity, the funding situation and capital adequacy.

Basel II and the IRB system

Finanstilsynet (the Norwegian Financial Supervisory Authority) has authorised SpareBank 1 SMN to use the IRB foundation approach for credit risk. The Bank accordingly applies its own classification models when computing regulatory capital requirements. The minimum capital requirement is 80 per cent of the requirement calculated under the old rules.

The IRB system includes models, processes, control mechanisms, IT systems and procedures and policies associated with classification and quantification of credit risk and with the extended management of credit risk. The IRB system and the models are validated quantitatively and qualitatively to ensure that the models have sufficient predictive ability and are in keeping with adopted guidelines.

In 2012 the Bank applied the basic indicator approach to quantify operational risk, and the standard approach to quantify market risk. SpareBank 1 SMN has established, as an integral part of its risk management policy, a capital allocation process (ICAAP) to ensure that the Bank at all times has adequate own funds in relation to its chosen risk profile. The process is also designed to assure efficient acquisition and application of capital.

Credit risk

Credit risk is the risk of loss resulting from the inability or unwillingness of customers or counterparties to honour their commitments to the Group. The Bank's organisation of and framework for management of credit risk is adapted to the Basel Committee's Sound Practices for the Management of Credit Risk and to Finanstilsynet's module for management and control of credit risk.

Credit risk arising from the Group's lending activity is the largest area of risk facing the Group. The Group incurs exposure to credit risk through lending and leasing products to retail and corporate customers and through the operations of the Bank's Markets and Finance Divisions.

Through its annual review of the Bank's credit strategy, the Board of Directors concretises the Bank's risk appetite by establishing objectives and limits for the Bank's credit portfolio.

The Bank's credit strategy and credit policy are derived from the Bank's main strategy, and contain guidelines for the risk profile, including maximum expected loss (EL) for the Retail and Corporate market Divisions respectively, maximum portfolio default probability (PD) and maximum economic and regulatory capital (UL) allocated to the credit business. Concentration risk is managed by distribution of lending between the Retail market and Corporate market Divisions and within lines of business, limits on the size of loans and loss given default on individual exposures, limits to maximum application of economic capital within lines of business and requirements as to maximum exposure, credit quality and number of exposures above 10 per cent of own funds.

Compliance with credit strategy and limits adopted by the Board of Directors is monitored on a continual basis by the Risk Management Division and reported quarterly to the Board of Directors.

Credit risk is managed through:

a) The organisation of management and control of credit risk, established annually by the Board of Directors

The document establishes the overarching principles for lending. This includes the structuring of the Bank's management documents, the organisation (distribution of responsibilities and roles) of the credit function and the overarching principles for lending.

b) The credit strategy, adopted annually by the Board of Directors

The credit strategy establishes priority areas, credit strategy limits and targets and how credit risk is to be priced at SpareBank 1 SMN

Credit risk management at SpareBank 1 SMN is based on the principles recommended by the Basel Committee's paper entitled Principles for the Management of Credit Risk, capital adequacy rules (Basel II) and relevant statutes and regulations.

c) Guidelines for portfolio management

The guidelines describe the framework and guidelines applying to the management of SpareBank 1 SMN's credit portfolio. This applies to the distribution of responsibilities and roles in connection with the measurement and reporting of portfolio risk and profitability as well as measures suited to managing the portfolio within the framework defined in the credit strategy and credit policy.

The composition of the portfolio is managed through the establishment of principles and framework for the granting of new credits, or through changes in existing exposures.

d) Credit policy for the Corporate and Retail market Divisions

These documents describe how the Bank's credit strategy is to be implemented through the establishment of detailed lending criteria for, respectively, the Corporate market Division and the Retail market Division. The responsibility for the drawing up and maintenance of credit policy rests with the Group CEO.

e) Lending regulations, exercise of lending authorisations

All authorisations in the Retail Market and Corporate market Divisions are personal. In the Corporate market Division, credit committees have in addition been set up at local and central level to advise the decision taker in major credit cases. Granting of credit must be in line with the Bank's credit strategy, credit policy, credit processing procedures and guidelines and must be characterised by completeness, high quality and professionalism. This is documented by way of the Bank's ordinary loan-officer system.

The Bank's risk classification system is designed to enable the Bank's loan portfolio to be managed in conformity with the Bank's credit strategy and to secure the risk-adjusted return. The Board of Directors delegates overall lending authorisation to the Group CEO and the divisional directors. The Group CEO can further delegate authorisations to lower levels.

Lending authorisations are graded by size of commitment and risk profile.

f) Credit models

The Bank's credit models build on three central components: probability of default (PD), exposure at default (EAD) and loss given default (LGD).

Probability of default (PD)

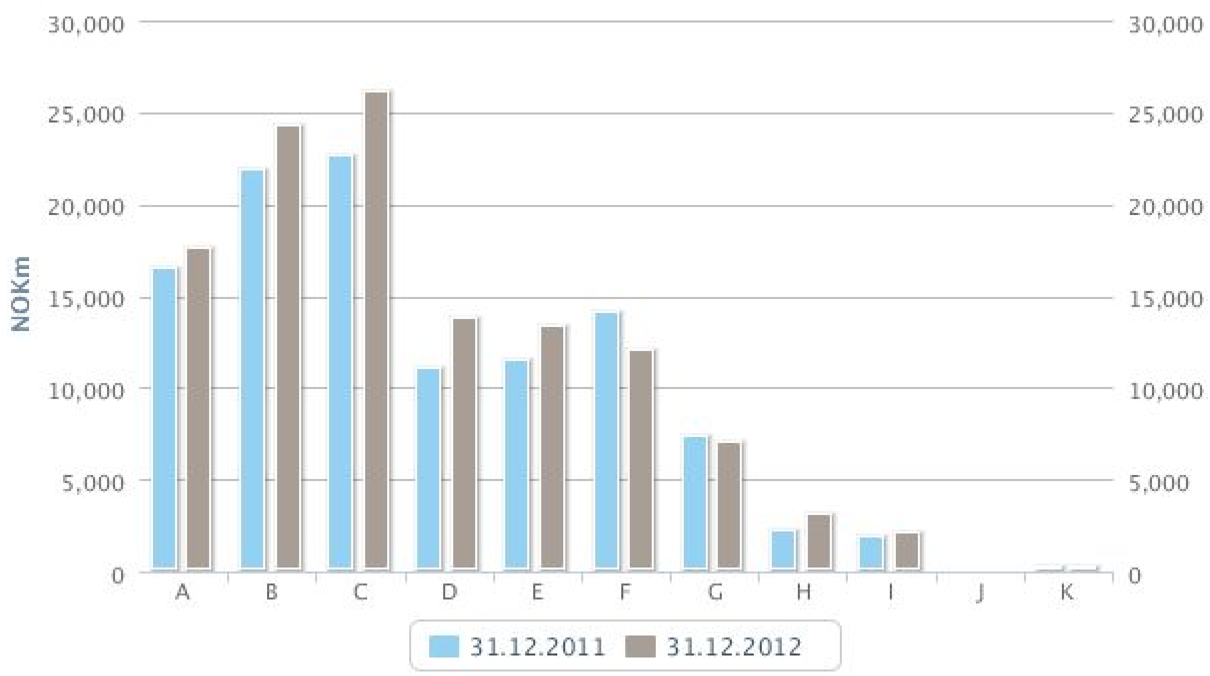
The Bank's credit models are based on statistical computations of probability of default. The calculations are based on scoring models that take into account financial position along with internal and external behavioural data. The models are based partly on point-in-time ratings, and reflect the probability of default in the course of the next 12 months under the current economic conditions.

In order to group customers by probability of default, nine risk classes are employed (A-I). In addition the Bank has two risk classes (J and K) for customers whose loans are in default and/or written down. The following table shows the intervals employed for probability of default in each of the risk classes.

SpareBank 1 SMN's default classes

Risk classes	PD Lower	PD Upper
A	0.00 %	0.10 %
B	0.10 %	0.25 %
C	0.25 %	0.50 %
D	0.50 %	0.75 %
E	0.75 %	1.25 %
F	1.25 %	2.50 %
G	2.50 %	5.00 %
H	5.00 %	10.00 %
I	10.00 %	99.99 %
J (default)	100.00 %	100.00 %
K (written down)	100.00 %	100.00 %

The figure below shows the volume distribution of exposures within the various risk classes.



The Bank's PD models for the retail and corporate markets are validated annually within three dimensions.

- Suitability. The models are evaluated in terms of their suitability for the Bank's existing portfolio.
- Ranking ability. Through statistical methods (AUC) we estimate the models' ability to distinguish between customers with differing risk levels.
- Level. The models' accuracy with regard to level is evaluated on an ongoing basis, at minimum annually. Where the estimated PD level deviates from the observed default rate (DR), the level will be adjusted. The evaluation takes account of the current economic situation and the model's cyclical

characteristics.

The results of the validation confirm that the model's accuracy meets internal criteria and international recommendations.

Exposure at Default (EAD)

EAD is an estimate of the size of exposure in the event of default at a specific date in the future. For drawing rights, a conversion factor (CF) is used to estimate how much of the present unutilised credit ceiling will have been utilised at a future default date. For guarantees, CF is used to estimate what portion of issued guarantees will be brought to bear. CF is validated monthly for drawing rights within the retail and corporate market. The Bank's EAD model takes account of differences both between products and customer types.

Loss Given Default (LGD)

The Bank estimates the loss ratio for each loan based on the expected realisable value (RE value) of the underlying collateral, the recovery rate on unsecured debt, as well as the direct costs of recovery. The LGD model and its components are validated at least annually against observed values from actual realisations.

In conformity with the Capital Requirements Regulations the estimates are downturn estimates. The values are determined based on defined models. Based on collateral cover (realisable value divided by EAD), the exposure is assigned to one of seven classes, the best of which has collateral cover above 120 per cent and the lowest has collateral cover below 20 per cent.

Collateral class	Lower	Upper
1	120	
2	100	120
3	80	100
4	60	80
5	40	60
6	20	40
7	0	20

The three parameters above (PD, EAD and LGD) underlie the Group's portfolio classification and statistical calculation of expected loss (EL) and necessary economic capital/risk-adjusted capital (UL).

The portfolio classification is designed to provide information on the level and development of overall credit risk in the total portfolio. Total exposures to customers and other counterparties are shown in notes to the accounts.

Counterparty risk

Counterparty risk in derivatives trading is managed through ISDA and CSA contracts set up with financial institutions that are the most used counterparties. The CSA contracts limit maximum exposure through market evaluation of the portfolio and margin calls when the change in portfolio value exceeds the maximum agreed limit or threshold amount. The Bank will continue to enter CSA contracts to manage counterparty risk.

For customers, counterparty risk is hedged through use of cash depots or other collateral which must at all times exceed the market value of the customer's portfolio. Special procedures have been established for calling for further collateral or to close positions if market values exceed 80 per cent of collateral values.

Market risk

Market risk is a generic term for the risk of loss and reduction of future incomes arising as a result of changes in rates or prices on financial instruments, in particular changes in share prices, bond rates, interest rates and exchange rates. Market risk also includes the risk of loss due to changes in the price of financial derivatives such as futures, options, and financial instruments based on items other than securities, for example commodities.

Market risk arises at SpareBank 1 SMN primarily in connection with the Bank's investments in bonds, short-term money market paper and shares, and as a result of activities designed to underpin banking operations such as funding, fixed income and currency trading.

Market risk is managed mainly through day-to-day monitoring of risk exposures against limits set by the Board of Directors and through ongoing analyses of outstanding positions. The Risk Management Division reports monthly to the Board of Directors on the position regarding compliance with the limits set by the Board. Detailed limits apply to investments in shares, bonds and positions in the fixed income and currency markets.

The Group defines limits on exposure to equity instruments using stress tests based on Finanstilsynet's scenarios. The limits are reviewed at least once a year and are adopted yearly by the Bank's Board of Directors. The limits are well within the maximum limits set by the authorities.

The Bank uses Finanstilsynet's models for market and credit risk to compute the Bank's market risk. These models stress test the Bank's market risk based on traditional risk measures with an addition for the risk factors risk diversification and market liquidity.

Interest rate risk is the risk of loss due to changes in interest rates. Interest rate risk arises mainly on fixed interest loans and funding in fixed interest securities. The risk on all interest rate positions can be viewed in terms of the change in value of interest rate instruments resulting from a rate change of 1 basis point. The Group utilises analyses showing the effect of this change for various maturity bands, with separate limits applying to interest rate exposure within each maturity band and across all maturity bands as a whole. Interest rate lock-ins on the Group's instruments are essentially short, and the Group's interest rate risk is low to moderate.

Exchange rate risk is the risk of loss due to changes in exchange rates. The Group measures exchange rate risk with a basis in net positions in the various currencies.

The limits on exchange rate risk are expressed as limits on the maximum aggregate currency position and on the maximum position in the individual currency. Exchange rate risk is considered to be low.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to refinance its debt or unable to fund increases in assets.

Management

The Bank's finance function is responsible for the Group's funding and liquidity management. Compliance with limits is monitored by the Risk Management Division which reports to the Board of Directors monthly. The Group manages its liquidity on an overall basis since the Finance Division is responsible for funding both the Bank and the subsidiaries.

Liquidity risk management is based in the Group's overall liquidity strategy which is reviewed and adopted by the Board of Directors at least once a year. The liquidity strategy reflects the Group's moderate risk profile. As part of the strategy, a preparedness plan has been drawn up to handle the liquidity situation in periods of capital market turbulence with Bank-specific and industry-related crisis outcomes separately and in combination. Liquidity management includes stress tests which simulate the liquidity effect of various market events. The results of such testing are taken on board in the preparedness plan developed for the Group's liquidity management regime.

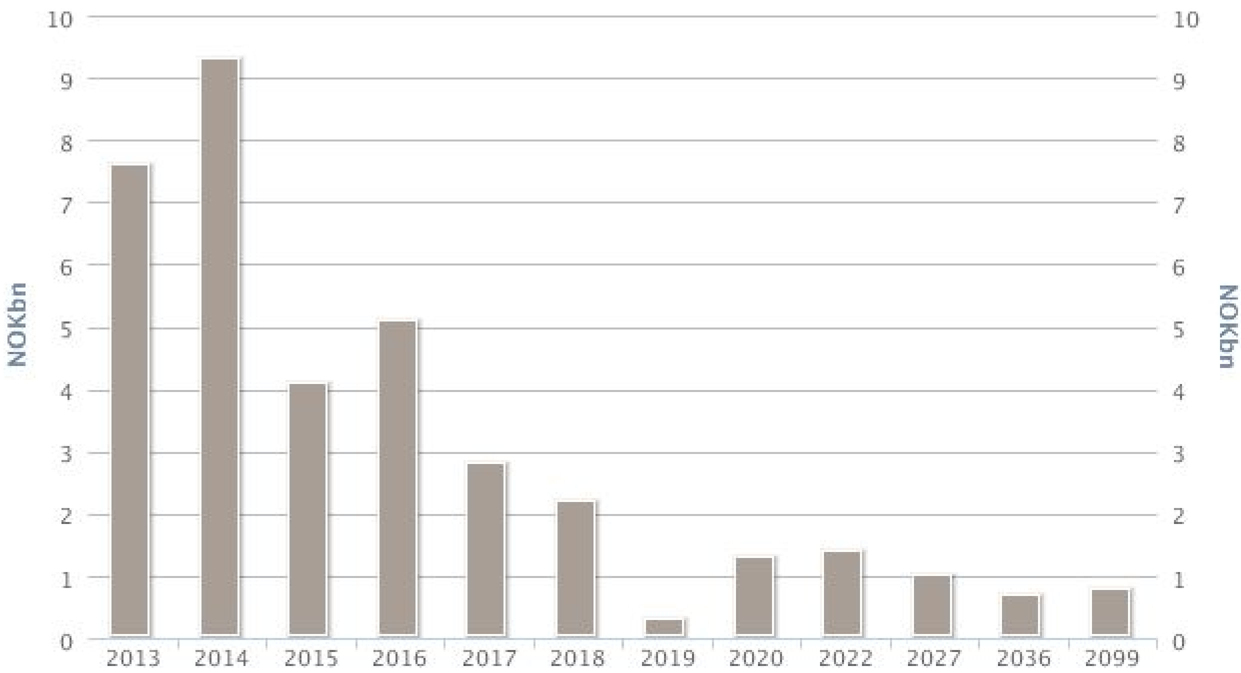
Risk measurement

The Bank's Board of Directors reviews the liquidity strategy annually and establishes a framework that promotes a long-term perspective and balance in liquidity procurement. This framework restricts the short-term maturity of the Bank's liabilities within various time periods. Moreover, an aim of the Bank is to survive for 12 months with moderate growth without fresh external funding.

The Bank's most important source of finance is customer deposits. At end-2012 the Bank's ratio of deposits to loans was 70 per cent, as against 65 per cent at end-2011. The Bank mitigates its liquidity risk by diversifying funding across a variety of markets, funding sources and instruments, and by use of long-term funding. Too high a concentration of maturities increases refinancing vulnerability. This risk is curbed through defined limits. The Bank is rated by Moody's and Fitch Ratings to assure funding at acceptable prices in the money and capital markets.

SpareBank 1 SMN's liquidity position is satisfactory. The Bank's liquidity is measured regularly against the liquidity indicator for a reference portfolio defined by Finanstilsynet. The Bank's liquidity strategy specifies a maximum deviation against this portfolio. The Bank stayed within this limit throughout 2012.

The figure below illustrates the funding portfolio's maturity structure as from end-2012.



Development over the past year
The Bank was active in the funding market in 2012, and issued loans both domestically and abroad.

The Group's liquidity situation at end-2012 is satisfactory. The Group increased its liquid assets, in part through bonds deposited with Norges Bank in the course of the year. At year-end the Bank's liquidity was satisfactory: NOK 1.1bn in cash and deposits with Norges Bank, NOK 2.9bn in loans and receivables from credit institutions and NOK 17bn in money market securities and bonds. The bulk of the securities portfolio can be used as collateral for loans from Norges Bank. Of the Group's total funding volume at year-end, about NOK 7.6bn is to be refinanced in 2013. By end-2012 the Bank had moved NOK 30bn of its best-secured home mortgage loans to SpareBank 1 Boligkreditt. The Bank expects Boligkreditt to account for an important portion of the Bank's financing in 2013.

In order to mitigate counterparty risk, the Bank has signed agreements concerning provision of collateral in connection with derivative trades (CSA contracts) with central counterparties. This will substantially reduce exposure to the Bank's key counterparties since the Bank, or its counterparties, will be obliged to furnish collateral when the value of contracted business exceeds a pre-agreed threshold.

Operational risk
Operational risk is the risk of loss as a result of unsatisfactory or failing internal processes, systems, human error or external events. Examples of the foregoing include errors on the part of employees, possible flaws in products, processes or systems, or the Bank may incur losses due to fraud, fire and natural damage.

Operational risk is a risk category that captures the bulk of costs associated with quality failings in the Bank's ongoing business.

SpareBank 1 SMN wishes to enhance its competence in operational risk management and is cooperating closely SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge, SpareBank 1 Oslo Akershus, Sparebanken Hedmark and the University of Stavanger to further develop a framework for analysis of operational risk and to establish tools for improved quantification of operational risk exposure.

Identification, management and control of operational risk are an integral aspect of executive responsibility at all levels in SpareBank 1 SMN. Executives' most important aids in this respect are professional insight and managerial expertise along with action plans, control routines and good monitoring systems. A systematic focus on risk assessment also promotes knowledge and awareness of improvements needed in the particular unit. Any flaws found are reported to appropriate levels of the organisation along with recommended improvements.

SpareBank 1 SMN attaches importance to authorisation structures, good descriptions of procedures and clear definition of responsibilities in supply contracts between the respective divisions as elements of a framework for handling operational risk.

The Board of Directors is kept abreast of the operational risk position through quarterly risk reports and the yearly internal control report.

In addition the Board of Directors receives each year from the Internal Audit and the statutory auditor an independent assessment of Group risk and of whether the internal control system functions in an appropriate and satisfactory manner.

A system of registration and follow-up (Risk Information System) is used in the effort to ensure continuous improvement in all SpareBank 1 SMN's business activity. This system promotes better structures and follow-up of risk, events and areas needing improvement. Together with the reporting carried out, this system constitutes an important experience base with respect to operational risk. All operational events which could potentially entail loss or where losses have arisen are recorded in the base. Improvement measures are considered and set in train where appropriate.

The Group has a broad-based insurance programme designed to capture significant portions of losses incurred as a result of major events and disasters. Various liability and crime insurances have been taken out, along with property and contents insurances, with a view to such events. These highly cost-effective policies are primarily intended to cover major loss events.

In 2012 the Parent Bank recorded operational loss events involving a total loss of almost NOK 3.3m.

Owner risk

Owner risk is the risk that SpareBank 1 SMN will incur negative results on its holdings in strategically owned companies and/or must supply fresh equity to these companies. The companies concerned are defined in this context as companies in which SpareBank 1 SMN has a significant owner interest and influence.

SpareBank 1 Gruppen, SpareBank 1 Oslo Akershus, BN Bank, SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt fall within this definition. While the risk posed by these companies is moderate, the Bank is indirectly exposed to increased market risk through its stake in SpareBank 1 Gruppen. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are primarily funding instruments for the core business operated by the owner banks. Their risk picture is relatively simple, and their appetite for market and liquidity risk is very low. Operational risk present in these companies is also low.

SpareBank 1 SMN exercises its control over the SpareBank 1 Gruppen, BN Bank and SpareBank 1 Oslo Akershus effectively through the formal governing bodies that have been established.

Business risk

Business risk is the risk of unexpected income fluctuations arising from factors other than credit risk, market risk and operational risk. It can materialise in various business or product segments and can arise from business cycle fluctuations and changed customer behaviour.

Business risk expresses itself in unexpected profit impairment. SpareBank 1 SMN constantly experiences changing framework conditions, both with regard to the competitive situation and the legislation affecting income models. The Bank's response to all such changes is to adjust its business model to compensate for any lapse in income, either by identifying other income areas or by adjusting costs to the new reality.

Sound strategic planning is the most important tool for mitigating business risk. Since business risk can arise from a variety of various risk factors, a broad set of tools (qualitative and quantitative) is employed to identify and report this type of risk.

Financial results

A net profit of NOK 1,077m, a stable trend in the bank's core business and sound growth in market shares confirms SpareBank 1 SMN's solid position.

Report of the Board of Directors

Macroeconomic conditions

World economy

The world economy is still marked by the debt crisis in the eurozone. Demand for goods and services is weak and unemployment remains high, in particular in the debt burdened countries in southern Europe. Deleverage in the euro area, both in the private and public sector, will probably contribute to continued sluggish growth ahead. In the US GDP growth in 2012 was moderate, with stagnation in the year's final quarter. Uncertainty with regard to the fiscal cliff is likely to dampen demand. The emerging economies are sustaining economic activity in the world economy. However, activity levels have however declined in these countries too, in part due to weaker global demand and a desired cooling down of the economy, especially in China. Key policy interest rates are close to zero in many countries, and rates look set to stay low for some time.

Norway

Growth in the Norwegian economy is being maintained despite the weak trend abroad. This is related to continued high activity in the petroleum sector, good terms of trade, low interest rates and strong population growth. GDP growth in Mainland (non-oil) Norway was 3.5 per cent in 2012, about 1 percentage point higher than in 2011. Inflation is low and stable, and 12-month growth in consumer prices was 1.4 per cent at year-end. The unemployment rate is still low, at just over 3 per cent. The oil price was USD 111 per barrel at the end of 2012.

The prospects for 2013 still appear good. However, a further weakening of the world economy may bring down the oil price and reduce external demand for goods and services. Should incomes in the Norwegian economy fall, Norwegian firms and households may become more cautious. Heavily mortgaged households could then be a source of risk to the Norwegian economy.

Trøndelag and Møre and Romsdal

Growth and sound profits were still in evidence in the Bank's market area through 2012, and prospects ahead appear good. Population growth in the region has been high in recent years, unemployment is low and the number of bankruptcies has fallen somewhat. House prices in the Trøndelag counties have risen substantially in the past three years, at growth rates above the national average.

In terms of company turnover, Trondheim and Sunnmøre are the most significant areas in the region, accounting for about 60 per cent of overall turnover in the counties of Sør-Trøndelag, Nord-Trøndelag, Møre and Romsdal and Sogn and Fjordane (based on figures for 2007-2011). The aquaculture sector is important for the region, and accounts for 30 per cent of total Norwegian production in the aquaculture industry. 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 Trøndelag region has relatively low exposure to the export industry, and is protected by a large public sector. Agriculture is an important sector in the two Trøndelag counties.

Annual accounts 2012

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

- Profit of NOK 1,077m after tax
- Profit before tax: NOK 1,355m (1,236m)
- Profit: NOK 1,077m (1,024m)
- Return on equity: 11.7 per cent (12.8 per cent)
- Tier 1 capital ratio: 11.3 per cent (10.4 per cent), common tier 1 ratio: 10.0 per cent (8.9 per cent)
- 12-month growth in lending: 10.2 per cent (8.6 per cent), 12-month growth in deposits: 9.2 per cent (11.9 per cent)
- Loss on loans: NOK 58m (27m)
- Earnings per equity certificate (EC): NOK 5.21 (6.06)
- Book value per EC, incl. dividend recommended for 2012: NOK 50.09 (48.91)
- Recommended dividend: NOK 1.50 per EC, and allocation of NOK 30m to non-profit causes

Good result in 2012

- Profit improvement compared with 2011
- Strong income trend in core business and good return on financial investments
- Increased margins on lending
- Low loss on loans
- Good growth in overall deposits and strong growth in lending to the retail market
- Improved financial position and reduced growth
- Rise in costs due to higher activity level, both at the Parent Bank and subsidiaries

In 2012 SpareBank 1 SMN recorded a net profit of NOK 1,077m (1,024m) and a return on equity of 11.7 per cent (12.8 per cent). A reduction in return on equity is ascribable to a larger equity capital base after implemented stock issues. Profit before tax was NOK 1,355m (1,236m). The good profit performance is ascribable to a positive income trend, low losses and good return on financial assets.

Operating income rose by 13 per cent in 2012 to a total of NOK 2,616m (2,311m).

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

Operating expenses totalled NOK 1,654m in 2012 (1,482m) which was NOK 171m or 11.6 per cent higher than in 2011.

A net loss of NOK 58m (27m) was recorded on loans and guarantees. An increase of NOK 5m was made in collectively assessed impairment write downs in the third quarter 2012.

Lending rose by 10.2 per cent (8.6 per cent) and deposits by 9.2 per cent (11.9 per cent). A good customer influx was seen in 2012, especially to the retail business.

The tier 1 capital ratio at end-2012 was 11.3 per cent (10.4 per cent), and the common equity tier 1 ratio was 10.0 per cent (8.9 per cent). After a thorough assessment the Board of Directors of SpareBank 1 SMN voted to revise the Bank's capital plan. In this context the Board has revised the common equity tier 1 ratio target. The Bank plans an increase in this ratio to 12.5 per cent, to be achieved by the end of 2015. SpareBank 1 SMN's revised capital plan is further described in the section on financial strength.

At year-end the Bank's equity certificate (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 (2.27 for 2010).

Earnings per EC were NOK 5.21 (6.06). Book value per EC 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 allocate NOK 30m as gifts to non-profit causes. The level of dividend payout and allocation to non-profit causes is enshrined in the Bank's capital plan and reflects the need to increase the Bank's core capital by lowering the payout ratio.

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 (NOKm)	**2012**	**2011**
Profit of the year, Group	**1,077**	**1,024**
Profit, subsidiaries	-76	-144
Dividend and group contributions, subsidiaries	126	68
Profit share, affiliates	-264	-290
Dividend from affiliates	163	162
Profit of 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 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 per cent of the distributed profit. The percentage for distribution is an average figure for the year.

Based on the Bank's capital plan, the Board of Directors has opted to recommend a lower level of dividend payout and gift allocation than in previous years.

The Board of Directors recommends the Supervisory Board to set a cash dividend of NOK 1.50 per equity certificate, altogether totalling NOK 195m. This gives a payout ratio of 31 per cent of the profit available for distribution. 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 per cent. NOK 432m and NOK 333m are added to the dividend equalisation fund and the ownerless capital respectively. The Board of Directors is 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.

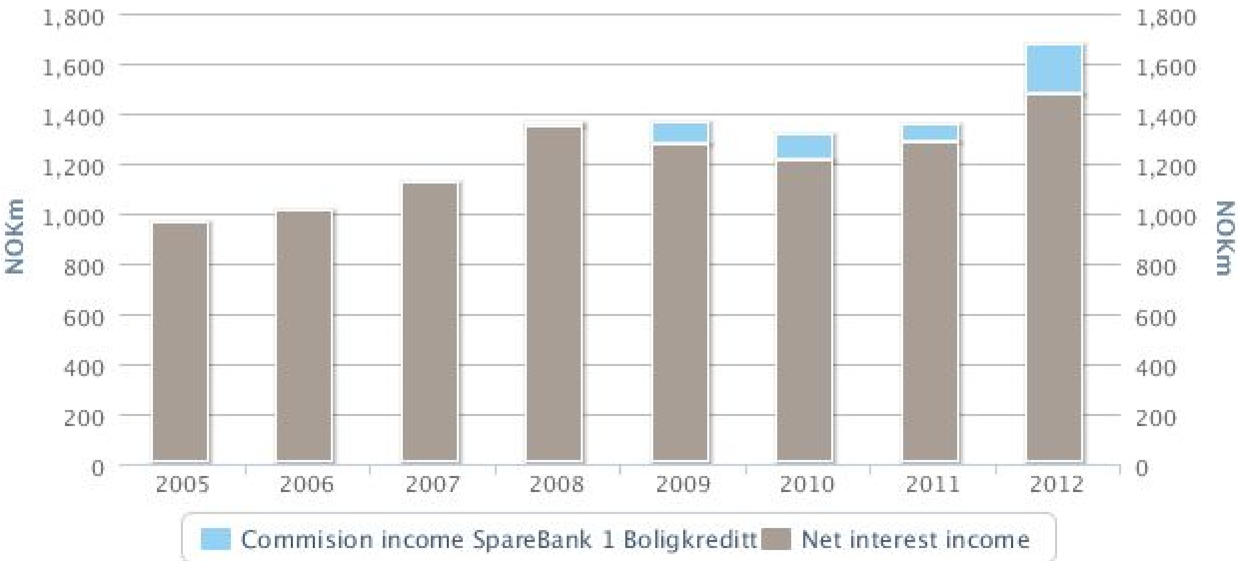
After distribution of the profit for 2012 the ECC-holder ratio (ECC-holders' share of total equity) is 64.6 per cent.

Distribution of profit, NOKm	2012	2011
Profit of the year, Parent Bank	1,025	820
Transferred from revaluation reserve	-36	-25
Profit for distribution	**990**	**795**
Dividends	195	190
Equalisation fund	432	297
Ownerless capital	333	268
Gifts	30	40
Total distributed	**990**	**795**

Increased net interest income

Net interest income in 2012 was NOK 1,477m (1,392m). The improvement is partly ascribable to repricing of parts of the corporate customer portfolio. In addition, a reduction in the market interest rate (Nibor) brought increased lending margins in 2012, and net interest income including commissions from SpareBank 1 Boligkreditt has remained high through the year. Net interest income from home mortgage loans transferred to SpareBank 1 Boligkreditt is recognised as commission income. This came to NOK 201m (71m).

It is planned to further reprice the loan portfolio in 2013. The retail portfolio will probably be repriced as a result of increased risk weights on home mortgages and the corporate portfolio owing to higher capital requirements.



Increased commission income

Commission income and other operating income came to NOK 1,139m in 2012 (919m), an increase of NOK 220m or 24 per cent. The main contributors to the increase are property broking, accounting services and insurance. Commission income from SpareBank 1 Boligkreditt increased due to the very low interest rate level, resulting in larger margins on the company’s loan portfolio.

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

Positive return on financial investments, including profit on business held for sale

Overall return on financial investments (excluding the Bank's share of the profit 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 NOK 21m (102m)
- net gains on bonds and derivatives came to NOK 57m (-10m)
- gains on forex and fixed income trading at SpareBank 1 SMN Markets reached NOK 126m (96m). NOK 8m of the increase is the result of the cooperation agreement with SpareBank 1 Markets in Oslo
- Polaris Media is reclassified to assets held for sale, and the amount stated in the table below contains 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
Forex and fixed income transactions, Markets	126	96
Value changes, financial investments	**204**	**188**
SpareBank 1 Gruppen	94	95
SpareBank 1 Boligkreditt	44	16
SpareBank 1 Næringskreditt	8	9
Bank 1 Oslo Akershus	26	15
BN Bank	72	89
Polaris Media	-14	23
Other companies	34	43
Affiliates	**264**	**290**
Total	**467**	**478**

SpareBank 1 Gruppen

SpareBank 1 Gruppen's preliminary accounts show a post-tax profit of NOK 452m (526m) for 2012. SpareBank 1 Livsforsikring (life insurer) and SpareBank 1 Skadeforsikring (non-life insurer) are the main contributors to the profit. An expected change in the legislation related to taxation of share-related investments in the management of customer assets with the life insurer is calculated at NOK 193m for SpareBank 1 Gruppen for 2012, and is charged to the 2012 accounts as a one-time effect.

SpareBank 1 SMN's share of the profit was taken to income in an amount of NOK 94m (94m). NOK 9m of the profit taken to income in 2012 refers to correction of the 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 residential mortgage loans to the company, the SpareBank 1 banks benefit from reduced funding costs. As of 31 December 2012 the Bank had transferred NOK 28bn 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-2012 was 18.4 per cent, and the Bank's share of the company's profit in 2012 was NOK 44m (16m).

SpareBank 1 Næringskreditt

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

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

Bank 1 Oslo Akershus

As a result of a stock placing with the Norwegian Confederation of Trade Unions (LO), SpareBank 1 SMN reduced its holding in Bank 1 Oslo Akershus from 19.5 per cent to 15.18 per cent 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 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 per cent. 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 per cent 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 23.4 per cent stake in Polaris Media.

On 25 January SpareBank 1 SMN sold 5.88m shares of Polaris Media AS at NOK 27.00 per share to NWT Media (Nya Wermlands-Tidningens), for a total of NOK 158.8m. This transaction reduced SpareBank 1 SMN's stake in Polaris Media from 23.4 to 11.4 per cent. 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 is 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 about NOK 175m.

The net result of this investment for 2012 was -NOK 14m, which is the net effect of SpareBank 1 SMN's profit share and write-down of the shares.

Other companies

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

Higher costs as a result of increased market effort

Overall costs came to NOK 1,654m (1,482m) in 2012. Group expenses have thus risen by NOK 171m or 11.6 per cent.

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

The remainder of the growth in Group costs is due to an increased resource input at EiendomsMegler 1 and SpareBank 1 SMN Regnskap, where costs rose by NOK 54m or 13.7 per cent. However, turnover has risen by a wider margin than this, bringing improved profit performances at both companies.

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

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 adopted a reduction of at least 75 person-years 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 reduced by a maximum of 3 per cent.

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.

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 per cent (0.57 per cent) of gross outstanding loans.

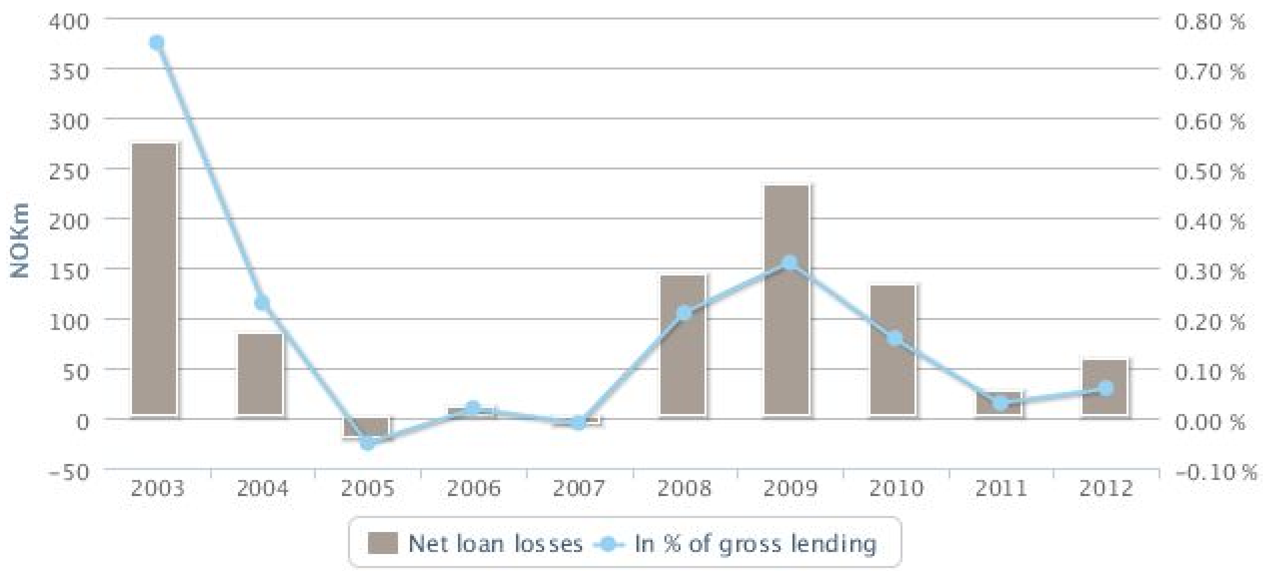
Defaults in excess of 90 days totalled NOK 374m (338m), measuring 0.36 per cent (0.36 per cent) of gross lending. Of total defaults, NOK 83m (89m) are loss provisioned, corresponding to 22 per cent (26 per cent).

Other doubtful exposures totalled NOK 143m (204m), i.e. 0.14 per cent (0.21 per cent) of gross outstanding loans. NOK 62m (83m) or 43 per cent (41per cent) 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 2012 provision for collectively assessed impairment write-downs was raised by NOK 5m due to somewhat increased uncertainty related to exposures in certain sectors. The aggregate volume of such write-downs is NOK 295m (290m).



Total assets of NOK 108bn
The Bank's assets totalled NOK 108bn (101bn) at end-2012, having risen by NOK 7bn or 6.4 per cent 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) had been transferred from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the Bank's balance sheet. The comments covering lending growth do however include loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Strong growth in retail lending, slower growth in corporate lending
In the last 12 months, total outstanding loans rose by NOK 9.7bn (7.6bn) or 10.2 per cent (8.6 per cent) to reach NOK 104.9bn as of end-December 2012.

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

Growth in lending to corporates in 2012 was NOK 2.1bn (2.2bn) or 5.3 per cent (5.7 per cent). Overall loans to corporates totalled NOK 42.3bn at end-2012.

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

High growth in both retail and corporate customer deposits

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 per cent (11.9 per cent).

Retail customer deposits rose by NOK 1.4bn (1.8bn) or 6.8 per cent (9.5 per cent) to reach NOK 22.3bn, while deposits from corporates rose by NOK 3.0bn (3.3bn) or 11.0 per cent (14.1 per cent) to NOK 30.0bn.

Portfolio of investment products

The customer portfolio of off-balance sheet investment products totalled 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.

Investment products, customer portfolio, NOKm	2012	2011	Change
Equity fund	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**

Sound growth in the Bank's insurance portfolio

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

Sound profit and strong growth for the retail business

The retail market business achieved a return on equity of 22.6 per cent (16.8 per cent) 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 were substantially higher than in 2011, largely due falling market interest rates in 2012. The increased commission income mainly comprises higher commissions from SpareBank 1 Boligkreditt and increased insurance income.

The lending margin in 2012 was 1.86 per cent (1.22 per cent), while the deposit margin was 0.10 per cent (0.73 per cent). The margin is defined as the average customer rate minus the three-month moving average of three-month NIBOR.

In the last 12 months, lending to retail customers rose by 13.1 per cent (10.9 per cent) and deposits from the same segment by 5.9 per cent (10.9 per cent).

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

Income growth for the corporate business and stable profit

Return on equity at the Corporate Market Division was 13.8 per cent (13.9 per cent).

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, respectively, 2.45 per cent (2.13 per cent) and -0.10 per cent (0.20 per cent). The margins are measured against three-month NIBOR.

Lending growth was 5.2 per cent (5.3 per cent) and deposit growth was 6.8 per cent (26.5 per cent).

Corporate market (NOKm)	2012	2011	Change
Net interest income	1,003	910	93
Commission 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 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 SMN Markets delivers a complete range of capital market products and services and is an integral part of SpareBank 1 SMN's Parent Bank operation.

SpareBank 1 SMN 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 Markets has established an active asset management agreement with SpareBank 1 Markets (owned by SpareBank 1 Gruppen). The agreement puts SpareBank 1 SMN Markets in a stronger position to deliver forex and fixed income products in the primary and secondary market. The business volume is regulated through clear-cut limits on exposure in relation to products and counterparties and brings a significant change in the Bank's risk exposure. Incomes and expenses are distributed between the parties based on an established distribution formula. 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
Fixed income and forex, trading	48.8	53.5	-4.7
Fixed income and forex, risk	45.3	55.8	-10.5
Corporate	12.3	14.6	-2.3
Securities trading, CSD	20.4	13.0	7.4
SpareBank 1 Markets	7.6	0.0	7.6
Investeringer, misc.	-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 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 transactions on their own customers.

Subsidiaries

The Bank's subsidiaries posted an aggregate pre-tax profit of NOK 116.0m (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
Property companies	-11.0	-21.3	10.3
Total	**116.0**	**167.8**	**-51.7**

EiendomsMegler 1 Midt-Norge leads the field in its catchment area with a market share of about 40 per cent. 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 achieved strong profit growth while concurrently reducing losses. The subsidiary Bilplan was taken over by the Parent Bank in the fourth quarter 2012.

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 per cent 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 in 2012 its best ever pre-tax profit of NOK 13.8m and turnover growth close to 30 per cent. 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 took over five accounting firms in 2012 and aspires to continued strong growth. It has in addition acquired a strategic owner position of 40 per cent in the accounting chain Consis. The company's alliance partner Sparebanken Hedmark owns the other 60 per cent.

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

SpareBank 1 SMN Invest's mission is to invest in shares, mainly in regional listed companies. The company posted a pre-tax deficit of NOK 15.0m (profit of 87.5m) in 2012.

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 survival for 12 months of ordinary operations without recourse to new external funding.

At year-end the Bank has liquidity reserves of NOK 21bn, which corresponds to the funding needed for 18 months of ordinary operations without fresh external funding.

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 80 per cent (81 per cent).

SpareBank 1 Boligkreditt is the Bank's chief funding source, 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 infavour of existing EC holders. The subscription period was 12-26 March 2012. ECs were allocated in an amount of NOK 740m.
- 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 2012 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 dept	1,586	1,199
Net own funds	**10,943**	**9,055**
Capital requirement	**6,596**	**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 per cent (10.4 per cent) and the total capital ratio 13.3 per cent (12.0 per cent). The common equity tier 1 capital ratio, i.e. tier 1 capital excluding hybrid equity, was 10.0 per cent (8.9 per cent) at year-end.

The Board of Directors of SpareBank 1 SMN has a close focus on the Group's capitalisation. Like other Norwegian banks, SpareBank 1 SMN expects to see higher capital requirements, due not least to signals of higher capital charges on home mortgage loans through higher risk weights. SpareBank 1 SMN has tightened its focus on effective application of capital across the Group, and plans to achieve a common equity tier 1 ratio of 12.5 per cent by the end of 2015. The following steps have been initiated:

- Improved banking operation through improved efficiency and higher margins. Increased capital requirements for all banks provides a market basis for increased margins on lending
- A dividend policy as for 2012 with an effective payout of 25-35 per cent
- 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 currently has 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 conjunction with the other IRB banks in the SpareBank 1 alliance, the Bank has initiated a process with a view to applying 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).

SpareBank 1 SMN's articles of association do not impose trading restrictions on its EC 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 ECs issued in placings with employees cannot be transferred.

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

See also the chapter Corporate Governance.

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 that activity growth will be moderate due to very weak international growth impulses. We expect unemployment in Norway to remain low and this, combined with continued good income growth and low interest rates, indicates 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).

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 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 social issues is integrated in its 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 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 in Møre and Romsdal that will lay a basis for value creation and new jobs.

SpareBank 1 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 receive much attention.

SpareBank 1 SMN's head office in Trondheim is an energy efficient building with ambitious energy consumption goals. Measurements show that energy consumption averages just below 66 kWh per square metre per year, which is far below the government criterion of 144 kWh per square meter. No other office building in Norway can so far match these results. The principles underlying the new head office building were also applied during construction of a new office in Steinkjer which was taken into use in May 2012.

By end-2012 the Trondheim head office and the offices in Ålesund, Stjørdal and Steinkjer had achieved certification under the 'Environmental Lighthouse' scheme. Offices in which about 500 staff work on a daily basis are accordingly now certified in the following areas: work environment, procurements/materials use, energy, transport, waste, emissions and aesthetics. In 2013 the offices in Levanger, Namsos, Molde and Verdal will achieve certification, while the certification process for ten further offices will be initiated.

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

New organisation

A significant element of the improvement programme *Ny giv* ("new opportunities") is a new organisation of the Bank, effective as from 1 January 2013. The change in organisational set-up is in keeping with the Bank's aim of being the best for customer experience by 2015. The divisional model which the Bank introduced in 2001 has been a success and brought good results. Even so, a decision has been made to replace the divisional model. Inherent in this choice is a clear desire for better coordination, a stronger focus on value creation and thus an upgrading of the office as such and the advisory role.

The new model takes a basis in the Bank's 188,000 retail customers and 13,000 corporate customers, with a greater degree of authority being transferred to the offices and the advisers.

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 good 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.

Staff

At end-2012 the Parent Bank had 850 employees, distributed on 793 FTEs. Women account for 52 per cent of total staff and 29 per cent of managerial staff. Sixty-three new staff were appointed in 2012. There is a clear-cut ambition to achieve a good gender balance at all levels of the organisation.

Main figures, Parent Bank	2012	2011
No. of FTEs	793	786
No. of staff	838	828
Turnover	8.7 %	5.9 %
Female managers	29 %	27 %
New staff	63	64
Average age	46 year	46 year
Sickness absence rate	4.6 %	4.0 %

Demographic data for the Parent Bank

Attractive employer

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

SpareBank 1 SMN's website gives existing and new colleagues a concise picture of various 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. In 2012 this was particularly in focus through a number of internal analyses and the development of an employer branding strategy, in collaboration with other banks in the SpareBank 1 alliance.

The Bank's staff turnover rate was 8.7 per cent in 2012. In the Bank's view, a balanced replacement of staff benefits the organisation by adding new competencies and experience. It also indicates that the Bank's staff are attractive and competitive in the labour market.

The Group's internal labour market

Job changes within the Group are needed to promote circulation of competencies and experience within the organisation, develop the individual staff member and promote interaction and coordination. Fifty-five staff members went to new jobs within the Group in 2012.

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 will take unacceptable risk in order to maximise the variable remuneration.

For further information, see note 22 - 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 2012. At the end of 2012 all the Bank's advisers were approved non-life insurance advisers, and the Bank is well into the process of authorisation of advisers in the field of financial advice. A further 70 advisers were authorised over the course of 2012, and annual updating of previously authorised advisers was completed.

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

Managerial competence

The programme Practical Management is the Bank's arena for continuous focus on HR-related themes. Three seminars were held for all managers in 2012. In addition, several programmes were organised for newly appointed managers.

In 2012 the Bank prepared for a major reorganisation, entailing a substantial reduction of the number of managers. For that reason no new manager development programmes were set up in 2012.

Health, environment and safety

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. Active use is made of the annual organisation survey (TNS Gallup) in following up on and developing the work environment.

Sickness absence

The Bank' overall sickness absence was 4.6 per cent in 2012 compared with 4.0 per cent in 2011. The Bank aspires to maintain a stable low rate of sickness absence. Self-reported absence remains at a stable low level, while doctor-reported absence is marginally rising.

Initiatives at various levels have been important and are viewed as key explanations for our relatively moderate rate of sickness absence:

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
- assistance from AktiMed in following up staff on sick leave after two weeks
- offer of individual follow up after health check

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

Outlook ahead

SpareBank 1 SMN strengthened its market position and achieved sound profit growth in 2012. The Group's funding is robust.

The Board of Directors will focus strongly ahead on measures designed to strengthen the Bank's financial position so that it has a common equity tier 1 ratio of at least 12.5 per cent by 31 December 2015. The Board will continuously follow up the adopted capital plan and the various measures defined there. Strengthened 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 heightens 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 good profitability, and the outlook for 2013 still appears good. Unemployment is low, and there are few signs in the region's macro economy in isolation to suggest major changes in the risk picture for 2013.

SpareBank 1 SMN has a conservative liquidity strategy and intends to be in a position to maintain normal operations for a minimum of 12 months without further access to external funding. The Board of Directors considers the funding market to have eased at the start of 2013 compared with the same point 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 in 2013 too.

Trondheim, 27 February 2013
The Board of Directors of SpareBank 1 SMN

Per Axel Koch Board chair	Kjell Bordal Deputy chair	Paul E. Hjelm-Hansen	Aud Skrudland
Bård Benum	Bente Karin Trana Alternate	Arnhild Holstad	Venche Johnsen Employee representative
			Finn Haugan Group CEO

Income statement

Parent bank				Group	
2011	2012	(NOK million)	Notes	2012	2011
3,824	3,904	Interest income	4,19	3,928	3,891
2,502	2,532	Interest expenses	4,19	2,451	2,499
1,322	**1,373**	**Net interest income**		**1,477**	**1,392**
544	707	Fee and commission income	4,2	968	778
75	86	Fee and commission expenses	4,2	96	83
39	51	Other operating income	4,2	267	224
508	**672**	**Net fee and commission income and other operating income**		**1,139**	**919**
260	290	Dividends	21,42	12	36
-	-	Income from associates and joint ventures	21,38	244	248
64	205	Net return on financial investments	21	195	150
324	**495**	**Net return on financial investments**		**451**	**434**
2,154	**2,540**	**Total income**		**3,067**	**2,745**
528	618	Staff costs	22,23,24	924	810
560	587	Other operating expenses	23,32	730	672
1,089	**1,206**	**Operating expenses**		**1,654**	**1,482**
1,066	**1,334**	**Result before losses**		**1,414**	**1,263**
12	51	Loss on loans, guarantees etc.	11	58	27
1,053	**1,283**	**Profit before income tax**		**1,355**	**1,236**
235	262	Tax charge	25	295	255
2	4	Result investment held for sale, after tax		16	43
820	**1,025**	**Profit for the year**		**1,077**	**1,024**
		Majority share		1,068	1,016
		Minority interests		9	8
		Profit per ECC, in NOK		5.25	6.11
		Diluted profit per ECC, in NOK		5.21	6.06

Other comprehensive income

2011	2012	(NOK million)	2012	2011
820	1,025	Net profit	1,077	1,024
-	-	Available-for-sale financial assets	12	-6
-	-	Share of other comprehensive income of associates and joint venture	10	-19
-	-	Other comprehensive income	22	-25
820	**1,025**	**Total comprehensive income**	**1,099**	**999**
		Majority share of comprehensive income	1,090	991
		Minority interest of comprehensive income	9	8

Balance sheet

Parent bank				Group	
2011	2012	(NOK million)	Notes	2012	2011
		ASSETS			
1,519	1,079	Cash and balances with central banks		1,079	1,519
5,033	5,619	Loans and advances to credit institutions	7,27	3,012	2,557
70,793	72,464	Loans and advances to customers	8,9,10,12,14,27	74,943	73,105
-151	-129	-Specified write-downs	8,11	-144	-172
-273	-278	-Write-downs by loan category	8,11	-295	-290
70,369	72,057	Net loans to and receivables from customers		74,504	72,643
12,918	17,164	Fixed-income CDs and bonds	26,27,28	17,164	12,918
3,698	3,101	Financial derivatives	26,27,29	3,100	3,697
331	354	Shares, units and other equity interests	26,27,30	777	611
2,816	3,115	Investments in associates and joint ventures	38,39,40,42	4,573	4,259
1,203	2,181	Investment in group companies	38,40	-	-
151	201	Property, plant and equipment	32	1,277	1,109
222	340	Investment held for sale	30,38,43	486	481
447	447	Goodwill	31	482	471
991	1,284	Other assets	24,33	1,465	1,189
99,697	**106,942**	**Total assets**	**13,15,16,18**	**107,919**	**101,455**
		LIABILITIES			
6,232	5,137	Deposits from credit institutions	7,27	5,137	6,232
2,886	2,273	Funding, "swap" arrangement with the government	27	2,273	2,886
48,114	53,187	Deposits from and debt to customers	27,34	52,252	47,871
28,148	30,259	Debt securities in issue	26,27,35	30,259	28,148
3,158	2,790	Financial derivatives	26,27,29	2,790	3,158
1,544	1,600	Other liabilities	24,36	2,054	1,971
-	-	Investment held for sale	38	72	151
2,690	3,040	Subordinated debt	26,27,37	3,040	2,690
92,773	**98,287**	**Total liabilities**	**17,18**	**97,876**	**93,107**
		EQUITY			
2,373	2,597	Equity capital certificates	41	2,597	2,373
-0	-0	Own holding of ECCs	41	-0	-0
183	895	Premium fund		895	183
1,457	1,889	Dividend equalisation fund		1,889	1,457
190	195	Allocated to dividends		195	190
40	30	Allocated to gifts		30	40
2,611	2,944	Ownerless capital		2,944	2,611
70	106	Unrealised gains reserve		123	85
-	-	Other reserves		1,303	1,274
		Minority interests		67	135
6,924	**8,656**	**Total equity**	**5,42**	**10,042**	**8,348**
99,697	**106,942**	**Total liabilities and equity**	**15,16**	**107,919**	**101,455**

Trondheim, 27 February 2013
The Board of Directors of SpareBank 1 SMN

Per Axel Koch Chair	Kjell Bordal Deputy Chair	Paul E. Hjelm-Hansen	Aud Skrudland
Bård Benum	Bente Karin Trana First alternate member	Arnhild Holstad	Venche Johnsen Employee representative
			Finn Haugan Group CEO

Change of equity

Parent Bank	Issued equity			Earned equity					
(NOK million)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Total equity
Equity capital at 1 January 2011	**2,373**	**182**	**2,345**	**1,159**	**285**	**192**	**45**	**-**	**6,581**
Net Profit	-	-	268	297	190	40	25	-	820
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	268	297	190	40	25	-	820
Transactions with owners									
Dividend declared for 2010	-	-	-	0	-285	-	-	-	-285
To be disbursed from gift fund	-	-	-	-	-	-192	-	-	-192
Issue	1	0	-1	-	-	-	-	-	0
Total transactions with owners	1	0	-1	0	-285	-192	-	-	-476
Equity capital at 31 December 2011	**2,373**	**183**	**2,611**	**1,457**	**190**	**40**	**70**	**-**	**6,924**
Equity capital at 1 January 2012	**2,373**	**183**	**2,611**	**1,457**	**190**	**40**	**70**	**-**	**6,924**
Net Profit	-	-	333	432	195	30	36	-	1,025
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	333	432	195	30	36	-	1,025
Transactions with owners									
Dividend declared for 2011	-	-	-	-	-190	-	-	-	-190
To be disbursed from gift fund	-	-	-	-	-	-40	-	-	-40
Rights issue	570	150	-	-	-	-	-	-	720
Employee placing	16	-	-	-	-	-	-	-	16
Private placements	112	88	-	-	-	-	-	-	200
Reduction of nominal value per equity certificate	-475	475	-	-	-	-	-	-	-
Total transactions with owners	224	713	-	-	-190	-40	-	-	706
Equity capital at 31 december 2012	**2,597**	**896**	**2,944**	**1,889**	**195**	**30**	**106**	**-**	**8,656**

Group	Majority share									
	Issued equity			Earned equity						
(NOK million)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Minotity interest	Total equity
Equity capital at 1 January 2011	**2,373**	**182**	**2,345**	**1,160**	**285**	**192**	**66**	**1,147**	**97**	**7,845**
Net Profit	-	-	268	297	190	40	25	196	8	1,024
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	-6	-	-	-6
Share of other comprehensive income of	-	-	-	-	-	-	-	-	-	-
associates and joint venture	-	-	-	-	-	-	-	-19	-	-19
Other comprehensive income	-	-	-	-	-	-	-6	-19	-	-25
Total other comprehensive income	-	-	268	297	190	40	19	177	8	999
Transactions with owners										
Dividend declared for 2010	-	-	-	-	-285	-	-	-	-	-285
To be disbursed from gift fund	-	-	-	-	-	-192	-	-	-	-192
Direct recognitions in equity	-	-	-	-	-	-	-	-50	-	-50
Change in minority share	-	-	-	-	-	-	-	-	30	30
Issue	1	0	-1	-	-	-	-	-	-	-
Total transactions with owners	1	-	-1	-	-285	-192	-	-50	30	-496
Equity capital at 31 December 2011	**2,373**	**183**	**2,611**	**1,457**	**190**	**40**	**85**	**1,274**	**135**	**8,348**

				Majority share						
Group	Issued equity				Earned equity					
(NOK million)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Minotity interest	Total equity
									-	
Equity capital at 1 January 2012	**2,373**	**183**	**2,611**	**1,457**	**190**	**40**	**85**	**1,274**	**135**	**8,348**
Net Profit	-	-	333	432	195	30	36	43	9	1,077
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	1	12	-	13
Share of other comprehensive income of	-	-	-	-	-	-	-	-	-	-
associates and joint venture	-	-	-	-	-	-	-	10	-	10
Other comprehensive income	-	-	-	-	-	-	1	22	-	23
Total other comprehensive income	-	-	333	432	195	30	37	65	9	1,100
Transactions with owners										
Dividend declared for 2011	-	-	-	-	-190	-	-	-	-	-190
To be disbursed from gift fund	-	-	-	-	-	-40	-	-	-	-40
Rights issue	570	150	-	-	-	-	-	-	-	720
Employee placing	16	-	-	-	-	-	-	-	-	16
Private placements	112	88	-	-	-	-	-	-	-	200
Reduction of nominal value per equity certificate	-475	475	-	-	-	-	-	-	-	-
Sale of own ECCs	-	-	-	-	-	-	-	-	-	-
Direct recognitions in equity	-	-	-	-	-	-	-	-36	-	-36
Change in minority share	-	-	-	-	-	-	-	-	-77	-77
Total transactions with owners	224	713	-	-	-190	-40	-	-36	-77	594
Equity capital at 31 december 2012	**2,597**	**895**	**2,944**	**1,889**	**195**	**30**	**123**	**1,303**	**67**	**10,042**

Cash flow statement

Parent bank			Group	
2011	**2012**	(NOK million)	**2012**	**2011**
820	1,025	Profit before tax	1,077	1,024
38	43	+ Depreciation and write-downs	102	88
12	51	+ Losses on loans and guarantees	58	27
870	**1,119**	**Net cash increase from ordinary operations**	**1,237**	**1,140**
-1,656	284	Decrease/(increase) other receivables	316	-1,851
1,687	-293	Increase/(decrease) short term debt	-365	1,679
-3,398	-1,738	Decrease/(increase) loans to customers	-1,919	-3,335
-2,139	-586	Decrease/(increase) loans credit institutions	-456	-2,137
5,086	5,073	Increase/(decrease) deposits and debt to customers	4,381	5,086
-3,944	-1,708	Increase/(decrease) debt to credit institutions	-1,708	-3,944
4,118	-4,246	Increase/(decrease) in short term investments	-4,246	4,062
624	**-2,096**	**A) Net cash flow from operations**	**-2,760**	**699**
-59	-92	Increase in tangible fixed assets	-279	-184
1	-	Reductions in tangible fixed assets	-	2
-900	-1,611	Paid-up capital, associated companies	-314	-734
79	192	Net investments in long-term shares and partnerships	-166	7
-879	**-1,512**	**B) Net cash flow from investment**	**-759**	**-909**
-68	350	Increase/(decrease) in subordinated loan capital	350	-68
-	936	Increase/(decrease) in equity	936	-
-285	-190	Dividends paid	-190	-285
-192	-40	Gift awards decided	-40	-192
-	-	Adjustment of equity	-89	-45
207	2,112	Increase/(reduction), other long-term debt	2,112	207
-338	**3,168**	**C) Net cash flow from financial activities**	**3,079**	**-383**
-593	**-440**	**A) + B) + C) Net changes in cash and cash equivalents**	**-440**	**-593**
2,112	1,519	Cash and cash equivalents at 01.01	1,519	2,112
1,519	1,079	Cash and cash equivalents at 31.12	1,079	1,519
593	**440**	**Net changes in cash and cash equivalents**	**440**	**593**

Notes

Note 1 - General information

Description of the business

See “Business description” presented in the annual report.

The SpareBank 1 SMN Group

SpareBank 1 SMN’s head office is in Trondheim, no. 4 Søndre gate. The Bank’s market areas are essentially Trøndelag and Nordvestlandet.

The Group accounts for 2012 were approved by the Board of Directors on 27 February 2013.

Note 2 - IFRS accounting principles

Basis for preparing the consolidated annual accounts
The Group accounts for 2012 for SpareBank 1 SMN have been prepared in conformity with International Financial Reporting Standards (IFRS) which have been given effect in Norway. These include interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC). The measurement base for both the parent bank and group accounts is historical cost with the modifications described below. The accounts are presented based on IFRS standards and interpretations mandatory for accounts presented as at 31 December 2012.

Implemented accounting standards and other relevant rule changes in 2012
As from 1 January 2012 the Group has implemented new requirements of IFRS 7 regarding transferred financial assets that are not derecognised in their entirety.

New or revised accounting standards approved but not implemented in 2012
IAS 1 – ”Other comprehensive income” takes effect for accounting periods starting on 1 July 2012 or later. In the presentation of other comprehensive income items a distinction must be drawn between income items that will subsequently be reversed and those that will not be reversed.

IAS 19 – Employee Benefits was approved in 2012. The amendment entails that all deviations from estimates are recognised in other comprehensive income as and when they arise, i.e. the corridor method is dispensed with, and an immediate recognition through profit or loss of all costs of previous periods' pension accumulation. In addition, interest expenses and expected return on pension assets are replaced by a net interest amount calculated by applying the discount rate to net pension obligation (asset). The standard goes into effect for accounting periods beginning on 1 January 2013 or later. SpareBank 1 SMN will implement the standard from the same date. Calculations as per 31 December 2012 show a positive deviation from estimate for the Group of about NOK 52m.

IFRS 7 – Financial Instruments: Disclosures. Expanded note disclosure requirements in relation to recognised financial assets that have been set off in accordance with IAS 32. The aim is to enable users of financial statements to assess the impact or the potential impact on the company's financial position of set-off arrangements for financial instruments, and to ensure that users have good possibilities to analyse and compare financial statements prepared under IFRS and US GAAP. The amendment takes effect on 1 January 2013.

IFRS 9 – Financial Instruments regulates the classification, measurement and recognition of financial assets and financial liabilities and replaces the present IAS 39. According to the new standard financial assets are divided into two categories based on measuring method: fair value or amortised cost. For financial liabilities the requirements are in the main identical to the present standard. The Group plans to apply IFRS 9 once the standard enters into force and is approved by the EU, probably for accounting periods beginning on 1 January 2015 or later.

IFRS 10 – Consolidation is based on today's principle of using the control concept as the crucial criterion for determining whether a company is to be included in the Group account of the parent company. The standard is expected to be given effect for accounting periods beginning on 1 January 2014 and later.

IFRS 11 – Joint Arrangements supersedes IAS 31 and SIC-13. IFRS 11 removes the opportunity to apply proportional consolidation to jointly controlled entities. The standard is not expected to significantly affect the Group's reporting. The expected implementation date is 1 January 2014.

IFRS 12 – Disclosure of Interests in Other Entities. The Group has not assessed the full impact of IFRS 12. The standard is likely to be implemented for accounting periods beginning on 1 January 2014 or later.

IFRS 13 – Fair Value Measurement defines what is meant by fair value in the context of IFRS, gives a uniform description of how fair value is to be determined under IFRS and defines the need for additional disclosures when fair value is used. The standard does not expand the scale of fair value measurements. The Group uses fair value as a measurement criterion for certain assets and liabilities. The standard is not expected to significantly affect the Group's reporting. IFRS 13 is expected to become effective for accounting periods beginning on 1 January 2013 or later.

Presentation currency
The presentation currency is the Norwegian krone (NOK), which is also the Bank's functional currency. All amounts are stated in millions of NOK unless otherwise specified.

Consolidation
The Group accounts include the Bank and all subsidiaries which are not due for divestment in the near future and which are therefore to be classified as held for sale under IFRS 5. All undertakings controlled by the Bank, i.e. where the Bank has the power to control the undertaking's financial and operational principles with the intention of achieving benefits from the undertaking's activities, are regarded as subsidiaries. Subsidiaries are consolidated from the date on which the Bank has taken over control, and are deconsolidated at the date on which the Bank relinquishes control. Mutual balance sheet items and all significant profit elements are eliminated.

Upon takeover of control of an enterprise (business combination), all identifiable assets and liabilities are recognised at fair value in accordance with IFRS 3. A positive difference between fair value of the consideration and the fair value of identifiable assets and liabilities is recorded as goodwill, while a negative difference is taken to income upon purchase. Accounting for goodwill after first-time recognition is described under the section on intangible assets.

The Bank has not applied IFRS 3 retrospectively to business combinations carried out prior to 1 January 2004.

All intra-group transactions are eliminated in the preparation of the Group accounts. The minority's share of the Group result is presented on a separate line under pro fit after tax in the income statement. In the equity capital, the minority's share is shown as a separate item.

Associated companies
Associated companies are companies in which the Bank has substantial influence. As a rule, influence is substantial where the Bank has an ownership interest of 20 per cent or more. Associated companies are accounted for by the equity capital method in the Group accounts. The investment is initially recognised at acquisition cost and subsequently adjusted for change in the Bank's share of the associated undertaking's net assets. The Bank recognises its share of the result of the associated undertaking in its income statement. Associated companies are accounted for in the company accounts by the cost method.

Joint ventures
Joint ventures may take the form of jointly controlled operations, jointly controlled assets or jointly controlled entities. Joint control entails that the Bank by agreement exercises control together with other participants. The Bank accounts for jointly controlled operations and jointly controlled assets by recognising the Bank's proportional share of assets, liabilities and balance sheet items in the Bank's accounts. Jointly controlled entities are accounted for by the equity capital method.

The Bank owns 17.74 per cent of Alliansesamarbeidet SpareBank 1 DA, the remaining ownership being divided between the SpareBank 1 Alliance and SpareBank 1 Gruppen.

SpareBank 1 Gruppen is owned by SpareBank 1 SR-Bank, SpareBank 1 SMN, Sparebank 1 Nord-Norge and Samarbeidende Sparebanker, each with a 19.5 per cent stake. Other owners are Sparebanken Hedmark (12 per cent) and the Norwegian Federation of Trade Unions (10 per cent). Bank 1 Oslo Akershus was demerged from SpareBank 1 Gruppen in 2010. SpareBank 1 SMN owns 15.18 per cent of Bank 1 Oslo Akershus at year end 2012. The Bank also owns 18.38 per cent of SpareBank 1 Boligkreditt and 33.75 per cent of SpareBank 1 Næringskreditt.

SpareBank 1 SMN owns 33 per cent of BN Bank. Other owners are SpareBank 1 Nord-Norge (23.5 per cent), SpareBank 1 SR-Bank (23.5 per cent) and Samarbeidende Sparebanker Bankinvest (20 per cent).

The governance structure for SpareBank 1 collaboration is regulated by an agreement between the owners. The Group classifies its participation in the above-mentioned companies as investments in jointly controlled entities and accounts for them by the equity method.

Loans and loan losses
Loans are measured at amortised cost in keeping with IAS 39. Amortised cost is acquisition cost less repayments of principle, plus or minus cumulative amortisation resulting from the effective interest rate method, with deductions for any value fall or loss likelihood. The effective interest rate is the interest rate which precisely discounts estimated future cash in- or out-payments over the financial instrument's expected lifetime.

Fixed interest loans to customers are recognised at fair value. Gains and losses due to changes in fair value are recognised in the income statement as value changes. Accrued interest and premiums/discounts are recognised as interest. Interest rate risk on fixed interest loans is managed through interest rate swaps which are recognised at fair value. It is the Group's view that recognising fixed interest loans at fair value provides more relevant information on balance sheet values.

Write down
Amounts recorded on the Bank's balance sheet are reviewed on the balance sheet date for any indications of value impairment. Should such indications be present, an estimate is made of the asset's recoverable amount. Each year on the balance sheet date recoverable amounts are computed on goodwill, assets with unlimited useful lifetime, and intangible assets not yet available for use, are computed.

Write-down is undertaken when the recorded value of an asset or cash-flow-generating entity exceeds the recoverable amount. Write-downs are recognised in profit/loss. Write-down of goodwill is not reversed. In the case of other assets, write-downs are reversed where there is a change in estimates used to compute the recoverable amount.

Individual write-downs
The value of individual financial assets has been impaired if, and only if, objective evidence of value impairment exists which is likely to reduce future cash flows to service the exposure. Value impairment must be a result of one or more events occurring after first-time recognition (a loss event), and it must be possible to measure the result of the loss event(s) reliably. Objective evidence of value impairment of a financial asset includes observable data which come to the Group's knowledge on the following loss events:

- significant financial difficulties on the part of the issuer or borrower
- not insignificant breach of contract, such as failure to pay instalments and interest
- the Group grants the borrower special terms in light of financial or legal aspects of the borrower's situation
- the debtor is likely to start debt negotiation or other financial restructuring
- active markets for the financial asset are closed due to financial problems.

The Group assesses first whether individual objective evidence exists that individually significant financial assets have suffered value impairment.

Where there is objective evidence of value impairment, the size of the impairment is measured as the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through a provision account and the loss is recognised in the income statement.

Assets that are individually tested for value impairment, and where value impairment is identified, or is still being identified, are not included in an overall assessment of value impairment.

Collective write-downs
In the case of financial assets which are not individually significant, the objective evidence of value impairment is assessed on an individual or collective basis. Should the Group decide that no objective evidence exists of value impairment of an individually assessed financial asset, significant or not, that asset is included in a group of financial assets sharing the same credit risk characteristics such as:

- observable data indicating a measurable reduction in future cash flows from a group of financial assets since first-time recognition, even if the reduction cannot yet be fully identified to an individual financial asset in the Group including:
  - an unfavourable development in payment status for borrowers in the Group
  - national or local economic conditions correlating with defaults of assets in the Group

Value impairment of groups of financial assets is measured by the trend in rating for such groups. This is done by measuring negative migration and change in expected loss.

Determining customer migration involves continuous assessment of the creditworthiness of every single customer in the Bank's credit assessment systems.

In the case of events that have occurred but have yet to be reflected in the Bank's portfolio monitoring systems, the need for impairment write-downs is estimated group-wise using stress test models.

Non-performing/potential problem loans
The overall exposure to a customer is regarded as non-performing and is included in the Group's lists of non-performing exposures once instalment and interest payments are 90 days or more past due or credit lines are overdrawn by 90 days or more. Loans and other exposures which are not non-performing but where the customer's financial situation makes it likely that the Group will incur loss are classified as potential problem loans.

Value impairment of loans recognised at fair value
At each balance sheet date of the Group assesses whether evidence exists that a financial asset or group of financial assets recognised at fair value is susceptible to value impairment. Losses due to value impairment are recognised in the income statement in the period in which they arise.

Actual losses
Where the balance of evidence suggests that losses are permanent, losses are classified as actual losses. Actual losses covered by earlier specified loss provisions are reflected in such loss provisions. Actual losses not covered by loss provisions, as well as surpluses

and deficits in relation to earlier loss provisions, are recognised in the income statement.

Repossessed assets
As part of its treatment of defaulted loans and guarantees, the Bank in a number of cases takes over assets furnished as security for such exposures. Upon repossession the assets are valued at their presumed realisable value. Any deviation from the carrying value of a defaulted or written down exposure upon takeover is classified as a loan write-down. Repossessed assets are carried according to type. Upon final disposal, the deviation from carrying value is entered in profit or loss based on the asset's type in the accounts.

Non-current assets held for sale and discontinued operations
Assets which the Board of Directors of the Bank has decided to sell are dealt with under IFRS 5. This type of asset is for the most part assets taken over in connection with bad loans, and investments in subsidiaries held for sale. In the case of assets which are initially depreciated, depreciation ceases when a decision is taken to sell. The result of such activity and appurtenant assets and liabilities are presented on a separate line as held for sale.

Leases
Financial leases are entered under the main item "loans" in the balance sheet and accounted for at amortised cost. All fixed revenues within the lease's expected lifetime are included when computing the effective interest.

Securities and derivatives
Securities and derivatives comprise shares and units, money market instruments and bonds, and derivative currency and interest-rate instruments. Shares and units are classified either at fair value through profit/loss or as available for sale. Money market instruments and bonds are classified at fair value through profit/loss, loans and receivables or in the category held to maturity. Derivatives are invariably recognised at fair value through profit/loss unless they are earmarked as hedging instruments.

All financial instruments classified at fair value through profit/loss are measured at fair value, and change in value from the opening balance is recognised as revenue from other financial investments. Financial assets held for trading purposes are characterised by frequent trading and by positions being taken with the aim of short-term gain. Other such financial assets classified at fair value through profit/loss are investments defined upon initial recognition as classified at fair value through profit/loss (fair value option).

Shares and units classified as available for sale are also measured at fair value, but the change in value from the opening balance is recognised in the comprehensive income statement and is accordingly included in other comprehensive income. Shares which cannot be reliably measured are valued at cost price under IAS 39.46 c). Routines for ongoing valuation of all share investments have been established. These valuations are carried out at differing intervals in relation to the size of the investment.

Money market instruments and bonds classified as loans and receivables or held to maturity are measured at amortised cost using the effective interest rate method; see the account of this method under the section on loans. The Bank has availed itself of the opportunity to reclassify parts of the bond portfolio from fair value through profit/loss to the category held to maturity as of 1 July 2008. This is in accordance with the changes in IAS 39 and IFRS 7 adopted by IASB in October 2008. The write-downs undertaken are reversed over the portfolio's residual maturity and recognised as interest income in addition to current coupon interest. See also the note on bonds

Swap arrangement
The government stimulus package allowing residential bonds to be exchanged for government securities is presented on a gross basis in accordance with IAS 32.

Intangible assets
Intangible assets mainly comprise goodwill in the SpareBank 1 SMN group. Other intangible assets will be recognised once the conditions for entry in the balance sheet are present. Goodwill arises as the difference between the fair value of the consideration upon purchase of a business and the fair value of identifiable assets and liabilities; see description under Consolidation. Goodwill is not amortised, but is subject to an annual depreciation test with a view to revealing any impairment, in keeping with IAS 36. Testing for value impairment is done at the lowest level at which cash flows can be identified.

Property, plant and equipment
Property, plant and equipment along with property used by the owner are accounted for in accordance with IAS 16. The investment is initially measured at its cost and is thereafter depreciated on a linear basis over its expected useful life. When establishing a depreciation plan, the individual assets are to the necessary extent split up into components with differing useful life, with account being taken of estimated residual value. Property, plant and equipment items which individually are of little significance, for example PCs, and other office equipment, are not individually assessed for residual value, useful lifetime or value loss, but are assessed as groups. Property used by the owner's, according to the definition in IAS 40, property that is mainly used by the Bank or its subsidiary for its own use.

Property, plant and equipment which are depreciated are subject to a depreciation test in keeping with IAS 36 when circumstances so indicate.

Property held in order to earn rentals or for capital appreciation is classified as investment property and is measured at fair value in keeping with IAS 40. The Group has no investment properties.

Interest income and expenses

Interest income and expenses related to assets and liabilities which are measured at amortised cost are recognised in profit/loss on an ongoing basis using the effective interest rate method. Charges connected to interest-bearing funding and lending are included in the computation of effective interest rate and are amortised over expected lifetime. In the case of interest-bearing instruments measured at fair value, the market value will be classified as income from other financial investments. In the case of interest-bearing instruments classified as loans and receivables or held to maturity (HTM) and not utilised in hedging contexts, the premium/discount is amortised as interest income over the term of the contract.

Commission income and expenses

Commission income and expenses are generally accrued in step with the provision of the service. Charges related to interest-bearing instruments are not entered as commission, but are included in the calculation of effective interest and recognised in profit/loss accordingly. Consultancy fees accrue in accordance with a consultancy agreement, usually in step with the provision of the service. The same applies to ongoing management services. Fees and charges in connection with the sale or mediation of financial instruments, property or other investment objects which do not generate balance sheet items in the Bank's accounts are recognised in profit/loss when the transaction is completed. The Bank receives commission from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt corresponding to the difference between the interest on the loan and the funding cost achieved by Boligkreditt and Næringskreditt. This shows as commission income in the Bank's accounts.

Transactions and holdings in foreign currency

Transactions in foreign currency are converted to Norwegian kroner at the transaction exchange rate. Gains and losses on executed transactions or on conversion of holdings of monetary items on the balance sheet date are recognised in profit/loss, unless they are recognised directly in equity based on hedging principles. Gains and losses on conversion of items other than monetary items are recognised in the same way as the appurtenant balance sheet item.

Hedge accounting

The Bank evaluates and documents the effectiveness of a hedge when first entered in the balance sheet. The Bank employs fair value hedging to manage its interest rate risk. In its hedging operations the Bank protects against movements in the market interest rate. Changes in credit spread are not taken to account in respect of hedge effectiveness. The Bank's fixed-interest loans are market valued based on the fair value option in IAS 39. Hedging of these loans is dealt with at portfolio level and credit spread is taken into account in the market valuation of the hedged object and the hedging instrument.

In the case of fair value hedging, both the hedging instrument and the hedged object are recorded at fair value, and changes in these values from the opening balance are recognised in profit/loss.

Income taxes

Tax recorded in the profit and loss account comprises tax in the period (payable tax) and deferred tax. Period tax is tax calculated on the taxable profit for the year. Deferred tax is accounted for by the liability method in keeping with IAS12. In the case of deferred tax, liabilities or assets are calculated on temporary differences i.e. the difference between balance-sheet value and tax-related value of assets and liabilities. However, liabilities or assets are not calculated in the case of deferred tax on goodwill for which there is no deduction for tax purposes, nor on first-time-recognised items which affect neither the accounting nor the taxable profit.

In the case of deferred tax an asset is calculated on a tax loss carryforward. Assets in the case of deferred tax are recognised only to the extent that there is expectation of future taxable profits that enable use of the appurtenant tax asset. Withholding tax is presented as period tax. Wealth tax is presented as an operating expense in the Group accounts in conformity with IAS 12.

Deposits from customers

Customer deposits are recognised at amortised cost.

Debt created by issuance of securities

Loans not included in hedge accounting are initially recognised at acquisition cost. This is the fair value of the compensation received after deduction of transaction fees. Loans are thereafter measured at amortised cost. Any difference between acquisition cost and settlement amount at maturity is accordingly accrued over the term of loan using the effective rate of interest on the loan. The fair value option is not applied in relation to group debt.

Subordinated debt and hybrid capital
Subordinated debt ranks behind all other liabilities. Dated subordinated loans are eligible at 50 per cent of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans are eligible at up to 100 per cent of tier 1 capital. Subordinated loans are classified as a liability in the balance sheet and are measured at amortised cost in the same way as other long-term loans.

Hybrid capital denotes bonds with a nominal interest rate, but the Bank is not obliged to pay interest in a period where dividends are not paid, and neither is the investor subsequently entitled to interest that has not been paid, i.e. interest does not accumulate. Hybrid capital is approved as an element of tier 1 capital up to limit of 15 per cent of aggregate tier 1 capital. Finanstilsynet (Norway FSA) can require hybrid capital to be written down in proportion with equity capital should the Bank's tier 1 capital adequacy fall below 5 per cent or total capital adequacy falls below 6 per cent. Written-down amounts on hybrid capital must be written up before dividends can be paid to shareholders or before equity capital is written up. Hybrid capital is shown as other long-term debt at amortised cost.

Uncertain commitments
The Bank issues financial guarantees as part of its ordinary business. Loss assessments are made as part of the assessment of loan losses, are based on the same principles and are reported together with loan losses. Provisions are made for other uncertain commitments where there is a preponderant likelihood that the commitment will materialise and the financial consequences can be reliably calculated. Information is disclosed on uncertain commitments which do not meet the criteria for recognition in equity where such commitments are substantial. Restructuring expenses are provisioned in cases where the Bank has a contractual or legal obligation.

Pensions
The SpareBank 1 SMN Group has established various pension schemes for its staff. The pension schemes meet the requirements set for mandatory occupational pensions.

Defined benefit scheme
In a defined benefit scheme the employer is obliged to pay a future pension of a specified size. The calculation of pension costs is based on a linear distribution of the pension earned against the probable accumulated liability at retirement. The costs are calculated on the basis of the pension rights accrued over the year less the return on the pension assets. The pension obligation is calculated as the present value of estimated future pension benefits which per the accounts are deemed to have been earned as of the balance sheet date. When calculating the pension liability use is made of actuarial and economic assumptions with regard to longevity, wage growth and the proportion likely to take early retirement. As from 2012, the interest rate on covered bonds is used as the discount rate in accordance with the recommendation of the Norwegian Accounting Standards Board.

The Group uses a 'corridor' approach whereby estimate deviations are recognised over the average residual qualifying period if the deviation exceeds the higher of 10 per cent of the pension assets or 10 per cent of the pension liabilities. The corridor is to be dispensed with as from 1 January 2013 upon implementation of IFRS 19 Revised.

Changes in pension plans are recognised at the time of the change. The pension cost is based on assumptions set at the beginning of the period and is classified as a staff cost in the accounts. Employer's contribution is allocated on pension costs and pension liabilities.

The pension scheme is administered by a pension fund conferring entitlement to specific future pension benefits from age 67. The schemes include children's pension and disability pension under further rules. The Group's defined benefit pension scheme assures the majority of employees a pension of 68 per cent of final salary up to 12G. The defined benefit scheme is closed to new members.

Defined contribution
Under a defined contribution pension scheme the Group does not provide a future pension of a given size; instead the Group pays an annual contribution the employees' collection pension savings. The Group has no further obligations regarding the labour contribution after the annual contribution has been paid. There is no allocation for accrued pension obligations under such schemes. Defined contribution schemes are directly expensed.

The Group has made a defined contribution pension scheme available to its employees since 1 January 2008.

Early retirement pension scheme ("AFP")
The Banking and financial industry has established an agreement on an early retirement pension scheme ("AFP") for employees from age 62. The Bank pays 100 per cent of the pension paid from age 62 to 64 and 60 per cent of the pension paid from age 65 to age 67. Admission of new retirees ceased with effect from 31 December 2010.

The Act relating to state subsidies in respect of employees who take out contractual pension in the private sector (AFP Subsidies Act) entered into force on 19 February 2010. Employees who take out AFP with effect in 2011 or later will receive benefits under the new scheme. The new AFP scheme represents a lifelong add-on to National Insurance and can be taken out from age 62. Employees accumulate AFP entitlement at an annual rate of 0.314 per cent of pensionable income capped at 7.1 G up to age 62. Accumulation under the new scheme is calculated with reference to the employee's lifetime income, such that all previous working years are included in the qualifying basis

For accounting purposes the new AFP scheme is regarded as a defined benefit multi-employer scheme. This entails that each employer accounts for its pro rata share of the scheme's pension obligation, pension assets and pension cost. If no calculations of the individual components of the scheme and a consistent and reliable basis for allocation are available, the new AFP scheme will be accounted for as a defined-contribution scheme. At the present time no such basis exists, and the new AFP scheme is accordingly accounted for as a defined-contribution scheme. The new AFP scheme will only be accounted for as a defined-benefit scheme once reliable measurement and allocation can be undertaken. Under the new scheme, one-third of the pension expenses will be funded by the State, two-thirds by the employers. The employers' premium will be fixed as a per centage of salary payments between 1 G and 7.1 G.

In keeping with the recommendation of the Norwegian Accounting Standards Board, no provision was made for the Group's de facto AFP obligation. This is because the office coordinating the schemes run by the main employer and trade union organisations has so far not performed the necessary calculations.

Segment reporting
The Bank has the corporate market, retail market and capital markets, as well as the key subsidiaries, as its primary reporting format. The Group presents a sectoral and industry distribution of loans and deposits as its secondary reporting format.The Group's segment reporting is in conformity with IFRS 8.

Dividends and gifts
Dividends on equity capital certificates and gifts are recognised as equity capital in the period to the declaration of dividends by the Bank's Supervisory Board.

Events after the balance sheet date
The annual accounts are regarded as approved for publication once they have been considered by the Board of Directors. The Supervisory Board and regulatory authorities can thereafter refuse to approve the accounts, but not to change them. Events up to the time at which the accounts are approved for publication, and which relate to circumstances already known on the balance sheet date, will be included in the information base for accounting estimates and thus be fully reflected in the accounts. Events concerning circumstances that were not known on the balance sheet date will be illuminated if significant.

The accounts are presented on the going-concern assumption. In the view of the Board of Directors this assumption was met at the time the accounts were approved for presentation.

The Board of Directors' proposal for dividends is set out in the Directors' report and in the equity capital statement.

Note 3 - Critical estimates and assessments concerning the use of accounting principles

In the preparation of the Group accounts the management makes accounting estimates, discretionary assessments and assumptions that influence the effect of the application of the accounting principles and hence the amounts booked for assets, liabilities, incomes and expenses. Estimates and discretionary assessments are evaluated continuously and are based on empirical experience and expectations of events which, as of the balance sheet date, are deemed likely to occur in the future.

Continued turbulence in the capital markets has led to increased uncertainty about some of the assumptions and expectations underlying the preparation of the various accounting estimates. It is expected that 2013 will also be marked by some uncertainty with regard to the trend in the Norwegian and international economies.

Losses on loans and guarantees
The Bank rescores its loan portfolio monthly. Customers in a poor risk class, payment defaults, negative migration or other objective criteria are assessed for individual write-down. Individual write-down is calculated as the difference between the loan's book value and the present value of discounted cash flow based on the effective interest rate at the time specified losses were initially determined.

Individual write-down of retail market commitments is calculated based on the same principles. Write-down is considered in the case of exposures larger than NOK 250,000 that are in default, or where the Bank has other relevant objective information. Write-down needs are estimated with a basis in estimated future cash flows. Uncertainty attends these estimates.

Collective write-downs are calculated for groups of commitments subject to rising credit risk but where it is not possible to identify which commitment will entail loss. Calculation is based on increase in expected loss on portfolios which have migrated negatively since the date of approval.

Assessment of individual and group write-downs will invariably be a matter of discretionary judgement. The Bank uses historical data as a basis for estimating the need for write-downs.

In cases where collateral values are tied to specific objects or industries that are in crisis, collateral will have to be realised in illiquid markets, and in such cases assessment of collateral values may be encumbered with considerable uncertainty.

In the case of events that have taken place, but have yet to be reflected in the Bank's portfolio monitoring systems, the need for write-downs is estimated on a group basis using stress test models.

See also note 2 on accounting principles and note 6 on risk factors.

Fair value of equity capital interests
Assets recognised at fair value through profit and loss will mainly be securities traded in an active market. An active market is defined as a market for trading of similar products where willing buyers and sellers are present at all times, and where prices are accessible to the general public. Shares quoted in a regulated market place fit in with the definition of an active market. A market with a large spread between bid and asked prices and where trading is quiet may pose a challenge. Some key shares will be based on in-house valuations, transaction prices or external analyses of the company. Such shares are valued using acknowledged valuation techniques. These include the use of discounted cash flows or comparative pricing where similar, listed, companies are used (multiple pricing) to determined the value of the unlisted company. Such assets could be encumbered with uncertainty. Assets classified as available for sale will also be recognised at fair value through other comprehensive income. Market values will generally be based on valuations or the latest known trade of the share. Shares which cannot be reliably valued will be carried at cost price.

Fair value of derivatives
Fair value of derivatives is usually determined using valuation models where the price of the underlying, for example interest rates or exchange rates, is obtained in the market.

For options, volatilities will either be observed implicit volatilities or estimated volatilities based on historical movements in the price of the underlying instrument. In those cases where the Bank's risk position is approximately neutral, middle rates will be used. "Neutral risk position" is understood to mean for example that interest rate risk within a maturity band is virtually zero. If this is not the case, the relevant bid or offer price is used to determine the net position.

Where market prices that are obtained are based on transactions with lower credit risk, this will be taken into account by amortising the original price difference measured against such transactions over the period to maturity.

Intangible assets
Write-down tests of intangible assets are largely based on discounting of expected future cash flows. Cash flow estimates will invariably be subject to substantial uncertainty, and in some cases the methods used to assign cash flows to different assets will also be encumbered with uncertainty.

Pensions
Net pension commitments and the pension cost for the year are based on a number of estimates, including: return on pension assets, future interest and inflation rates, wage trend, turnover, the basic state pension entitlement and the general trend in the number of disability pensioners, all of which are of major significance. Uncertainty largely relates to the gross commitment and not to the net commitment shown in the balance sheet. Estimate changes resulting from changes in the parameters mentioned will in large measure be accrued over average remaining earning period and not be immediately charged to profit in the same way as other estimate changes. As from 1 January 2008 the defined contribution pension scheme is closed to new members. As from the same date the Group is offering its employees a defined contribution scheme, thereby reducing the extent of uncertainty attending the Group's pension scheme. The Group follows the updated guidance on pension assumptions from the Norwegian Accounting Standards Board, adjusted for company-specific factors. Parameters employed are shown in the note on pensions.

Goodwill
The Group conducts tests to assess possible impairments of goodwill values annually or in the event of indications of value impairment. Assessment is based on the Group's value in use. The recoverable amount from cash flow generating units is established by calculating discounted future cash flows. The cash flows are based on historical earnings and expectations of future factors and include suppositions and estimates of uncertain factors. The outcome of the impairment tests depends on estimates of hurdle rates which are set on a discretionary basis based on information available on the balance sheet date.

As regards the impairment test of goodwill related to Romsdals Fellesbank, the portfolio is regarded as integrated in the Bank's other lending and deposit operations, and, as from 2009, the lowest level for the cash generating unit is the Parent Bank level. A net cash flow is estimated based on earnings in the Bank's loan and deposit portfolio. Earnings are estimated based on average portfolio and margin, and average commission income. Allocated costs are calculated with reference to the Bank's cost ratio in relation to total assets. A five-year average is employed in the calculation since this is considered to provide the best estimate of future cash flows. Expected loss on the loan portfolio is also calculated (0.3 per cent).

The cash flow is calculated over 20 years and is discounted by the risk-free interest rate + risk premium for similar businesses (pre-tax interest rate 11 per cent). Calculations show that the value of discounted cash flows exceeds recognised goodwill by a good margin.

Other goodwill in the Group is calculated based on average earnings in the market area and is discounted at the risk-free interest rate + the risk premium for similar businesses (14-15 per cent).

Significant acquisitions
Acquisition of another company must be accounted for by the acquisition method. This method requires a full purchase price allocation (PPA) in which the purchase price is allocated to identified assets and liabilities in the acquired company. Excess values beyond those allocated to identified assets and liabilities are booked as goodwill. Any deficit values are, after careful assessment, recognised as income through profit/loss in the year of the acquisition (badwill). Under IFRS 3 point 62 the PPA may be considered provisional or final.

The analyses contain both concrete calculations and use of best judgement in arriving at the fairest possible value of the acquired companies at time of acquisition. Although some uncertainty invariably attends estimation items, they are supported as fully as possible by determinations of expected cash flows, comparable transactions in previous periods etc. See also note 39.

Non-current assets held for sale (IFRS 5)
SpareBank 1 SMN's strategy is that ownership resulting from defaulted exposures should at the outset be of brief duration, normally not longer than one year. Work on selling such companies is continuously in progress, and for accounting purposes they are classified as held for sale by one line consolidation. See also note 38.

Transfer of loan portfolios
In the transfer of loan portfolios to Eksportfinans and SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, the Group considers whether the criteria for derecognition under IAS 39 are met. At the end of the accounting year all transferred portfolios were derecognised from the parent bank's balance sheet. See also note 9.

Note 4 - Segment information

Management have made an assessment of which business areas are deemed reportable based on form of distribution, products and customers. The primary reporting format takes as a starting point risk and yield profiles of various assets, and reporting is divided into private customers, (including independent business operators), the corporate market, capital markets and subsidiaries. The bank's own investing activities are not a separate segment and appear under the item "unallocated" together with activities which cannot be allocated to either private or business segments.

The Bank operates in a limited geographical area and reporting along the lines of geographic secondary segments provides little additional information.

Significant types of assets (loan) allocated geographically in a separate note under loans.

2012 (NOK million)	RM	CM	SpareBank 1 SMN Markets	Eiendoms-Megler 1	SpareBank 1 SMN Finans	Allegro Finans	SpareBank 1 SMN Regnskap	Unallocated 4)	Total
Profit and loss account									
Net interest	540	905	-21	5	118	1	0	-70	1,477
Allocated	11	98	4	-	-	-	-	-113	-
Total interest income	**552**	**1,003**	**-18**	**5**	**118**	**1**	**0**	**-183**	**1,477**
Net fee and commission income 1)	484	137	24	336	-14	11	100	61	1,139
Net return on financial investments 3)	1	34	87	-	-	-	2	342	467
Total income	**1,037**	**1,174**	**93**	**341**	**104**	**12**	**102**	**220**	**3,083**
Total operating expenses	**653**	**399**	**94**	**265**	**40**	**15**	**88**	**98**	**1,654**
Ordinary operating profit	**384**	**775**	**-1**	**76**	**64**	**-4**	**14**	**122**	**1,430**
Net losses on loans and guarantees 2)	1	45	-	-	7	-	-	5	58
Result before tax	**383**	**731**	**-1**	**76**	**56**	**-4**	**14**	**117**	**1,371**
Post-tax return on equity	**22.6 %**	**13.8 %**	**-0.4 %**						**11.7 %**

Return on equity in the retail market business, corporate market business and SpareBank 1 SMN Markets is calculated on the entity's capital employed over the year. From and including 2012, capital employed reflects the bank's goal of a tier 1 capital ratio of 11 per cent. This is also converted for 2011 to render the figures comparable.

	RM	CM	SpareBank 1 SMN Markets	Eiendoms-Megler 1	SpareBank 1 SMN Finans	Allegro Finans	SpareBank 1 SMN Regnskap	Unallocated 4)	Total
Balance									
Loans and advances to customers	58,892	40,671	-	-	3,145	-	-	2,201	104,909
Adv. of this to Boligkreditt	-28,029	-976	-	-	-	-	-	-	-29,966
Individual allowance for impairment on loan	-28	-101	-	-	-15	-	-	-	-144
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-278	-295
Other assets	391	873	-	70	-2,905	6	20	34,961	33,415
Total assets	**31,225**	**40,467**	**-**	**70**	**208**	**6**	**20**	**35,924**	**107,919**
Deposits to customers	22,440	27,064	-	-	-	29	14	2,705	52,252
Other liabilities and equity	8,784	13,403	-	70	208	-23	6	33,218	55,667
Total liabilites	**31,225**	**40,467**	**-**	**70**	**208**	**6**	**20**	**35,924**	**107,919**

2011 (NOK million)	RM	CM	SpareBank 1 SMN Markets	Eiendoms-Megler 1	SpareBank 1 SMN Finans	Allegro Finans	SpareBank 1 SMN Regnskap	Unallocated 4)	Total
Profit and loss account									
Net interest	511	782	10	5	94	1	-0	-11	1,391
Allocated	16	128	5	-	-	-	-	-149	-
Total interest income	**527**	**910**	**15**	**5**	**94**	**1**	**-0**	**-160**	**1,391**
Net fee and commission income 1)	337	133	24	308	-1	12	79	27	919
Net return on financial investments 3)	8	36	64	-0	-1	-	-	371	478
Total income	**872**	**1,079**	**103**	**313**	**92**	**12**	**79**	**238**	**2,789**
Total operating expenses	**608**	**351**	**94**	**237**	**50**	**18**	**74**	**50**	**1,482**
Ordinary operating profit	**264**	**728**	**9**	**76**	**42**	**-5**	**5**	**189**	**1,306**
Net losses on loans and guarantees 2)	7	5	-	-	15	-	-	-0	27
Result before tax	**256**	**724**	**9**	**76**	**27**	**-5**	**5**	**189**	**1,279**
Post-tax return on equity	**16.8 %**	**13.9 %**	**3.4 %**						**12.8 %**
Balance									
Loans and advances to customers	52,055	38,655	-	-	2,941	-	0	1,580	95,232
Adv. of this to Boligkreditt	-21,079	-257	-	-	-	-	-	-790	-22,126
Individual allowance for impairment on loan	-31	-120	-	-	-22	-	-	-	-172
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	265	609		146	-2,461	17	18	30,216	28,812
Total assets	**31,210**	**38,888**	**-**	**146**	**443**	**17**	**19**	**30,732**	**101,455**
Deposits to customers	21,185	25,345	-	-	-	-	-	1,340	47,871
Other liabilities and equity	10,025	13,543	-	146	443	17	18	29,392	53,584
Total liabilites	**31,210**	**38,888**	**-**	**146**	**443**	**17**	**19**	**30,733**	**101,455**

1) A portion of the capital market incomes (Markets) is distributed on RM and CM.

2) Collectively assessed write-downs for the Parent Bank are not distributed on RM and CM under "Loss on loans and guarantees".

3) Specification of net return on financial investments:

(NOK million)	2012	2011
Incomes on ownership interests	264	290
Of which SpareBank 1 Gruppen	94	96
Of which BN Bank	72	89
Of which Bank 1 Oslo Akershus	26	15
Of which SpareBank 1 Boligkreditt	44	16
Of which SpareBank 1 Næringskreditt	8	9
Of which Polaris Media	-14	23
Capital gains and dividends on shares	21	101
Of which SpareBank 1 SMN Invest	-9	92
Capital gains on other securities	56	-10
Capital gain SpareBank 1 SMN Markets exc. shares	126	96
Net return on financial investments	**467**	**478**

4) "Unallocated" comprises the Bank's own investment activities which cannot be allocated to the Retail Division, Corporate Division, Markets or subsidiaries. It includes profit shares from associates and joint ventures, and the Bank's subsidiaries which are not reported as separate segments. See also note 38.

Note 5 - Capital adequacy and capital management

New capital adequacy rules were introduced in Norway as from 1 January 2007 (Basel II - the EU's new directive on capital adequacy). SpareBank1 SMN applied to and received permission from Finanstilsynet (Financial Supervisory Authority of Norway) to use internal rating methods (Internal Rating Based Approach - Foundation) to calculate charges for credit risk from 1 January 2007 onwards. This will make the statutory minimum capital adequacy requirement more risk-sensitive, so that it better reflects the risk in the underlying portfolios. Using IRB demands high standards of the Bank's organisation, competence, risk models and risk management systems. Under interim regulations issued by Finanstilsynet, IRB banks are not yet seeing the full effect of the reduced capital requirements. As from 2009, a 20 per cent reduction of the risk-weighted basis of calculation was allowed.

Subordinated debt ranks behind all other liabilities. Dated subordinated loans cannot constitute more than 50 per cent of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans cannot constitute more than 100 per cent of tier 1 capital. Subordinated loans are classified as a liability in the balance sheet and are measured at amortised cost in the same way as other long-term loans.

Hybrid capital denotes bonds with a nominal interest rate, but the bank is not obliged to pay interest in a period where dividends are not paid, and neither is the investor subsequently entitled to interest that has not been paid, i.e. interest does not accumulate. Hybrid capital is approved as an element of tier 1 capital up to limit of 15 per cent of aggregate tier 1 capital. Finanstilsynet (Norway's FSA) can require hybrid capital to be written down in proportion with equity capital should the bank's tier 1 capital adequacy fall below 5 per cent or total capital adequacy falls below 6 per cent. Written-down amounts on hybrid capital must be written up before dividends can be paid to shareholders or before equity capital is written up. Hybrid capital is shown as other long-term debt at amortised cost.

For detailed information regarding subordinated debt and hybrid capital, see note 37 Subordinated debt and hybrid equity issue.

Parent bank			Group	
2011	**2012**	(NOK million)	**2012**	**2011**
2,373	2,597	Equity capital certificates	2,597	2,373
-0	-0	- Own holding of ECCs	-0	-0
183	895	Premium fund	895	183
1,457	1,889	Dividend equalisation fund	1,889	1,457
2,611	2,944	Savings bank's reserve	2,944	2,611
190	195	Recommended dividends	195	190
40	30	Provision for gifts	30	40
70	106	Unrealised gains reserve	123	85
-	0	Other equity and minority interest	1,370	1,409
6,924	**8,656**	**Total book equity**	**10,042**	**8,348**
-447	-447	Deferred taxes, goodwill and other intangible assets	-674	-692
-	-	Part of reserve for unrealised gains, associated companies	57	64
-230	-225	Deduction for allocated dividends and gifts	-238	-230
-387	-448	50 % deduction for subordinated capital in other financial institutions	-2	-
-137	-165	50 % deduction for expected losses on IRB, net of write-downs	-179	-147
-	-	50 % capital adequacy reserve	-703	-656
-	-55	Surplus financing of pension obligations	-49	-
5,724	**7,316**	**Total common equity Tier one**	**8,254**	**6,687**
956	918	Hybrid capital, core capital	1,103	1,170
6,680	**8,234**	**Total core capital**	**9,357**	**7,856**
		Supplementary capital in excess of core capital		
-	-	State Finance Fund, supplementary capital	31	-
326	312	Perpetual subordinated capital	312	328
1,409	1,810	Non-perpetual subordinated capital	2,127	1,674
-387	-448	50 % deduction for subordinated capital in other financial institutions	-2	-
-137	-165	50 % deduction for expected losses on IRB, net of write-downs	-179	-147
-	-	50 % capital adequacy reserve	-703	-656
1,211	**1,509**	**Total supplementary capital**	**1,586**	**1,199**
7,891	**9,742**	**Net subordinated capital**	**10,943**	**9,055**

		Minimum requirements subordinated capital, Basel II		
1,456	1,654	Involvement with spesialised enterprises	1,654	1,456
1,313	1,470	Other corporations exposure	1,470	1,313
40	39	SME exposure	42	42
324	316	Retail morgage exposure	560	513
31	28	Other retail exposure	30	33
653	1,118	Equity investments	-	-
3,818	**4,625**	**Total credit risk IRB**	**3,756**	**3,358**
182	205	Debt risk	205	182
49	14	Equity risk	15	16
-	-	Currency risk	-	-
293	315	Operational risk	420	400
653	553	Exposures calculated using the standardised approach	2,074	2,184
-65	-75	Deductions	-120	-111
-	-	Transitional arrangements	246	-
4,930	**5,637**	**Minimum requirements subordinated capital**	**6,596**	**6,027**
61,625	**70,468**	**Risk weigheted assets (RWA)**	**82,446**	**75,338**
		Capital adequacy		
9.3 %	10.4 %	Common equity Tier one ratio	10.0 %	8.9 %
10.8 %	11.7 %	Core capital ratio	11.3 %	10.4 %
12.8 %	13.8 %	Capital adequacy ratio	13.3 %	12.0 %

Note 6 - Risk factors

Risk Management

SpareBank 1 SMN aims to maintain a moderate risk profile and to apply risk monitoring of such high quality that no single event will seriously impair the Bank's financial position. The Bank's risk profile is quantified through targets for rating, concentration, risk-adjusted return, loss ratios, expected loss, necessary economic capital and regulatory capital adequacy.

The principles underlying SpareBank 1 SMN's Risk Management are laid down in the Bank's risk management policy. The Bank gives much emphasis to identifying, measuring, managing and monitoring central risks in such a way that the Group progresses in line with its adopted risk profile and strategies.

Risk management within the Group is intended to support the Group's strategic development and target attainment. The risk management regime is also designed to ensure financial stability and prudent asset management. This will be achieved through:

- A strong organisation culture featuring high risk-management awareness
- A sound understanding of the risks that drive earnings and risk costs, thereby creating a better basis for decision-making
- Striving for an optimal use of capital within the adopted business strategy
- Avoiding unexpected negative events which could be detrimental to the Group's operations and reputation in the market

The Group's risk is quantified by calculating expected loss and the need for risk-adjusted capital (economic capital) needed to meet unexpected losses.

Expected loss is the amount which statistically can be expected to be lost in a 12-month period. Risk-adjusted capital is the volume of capital the Group considers it needs to meet the actual risk incurred by the Group. The board has decided that the risk-adjusted capital should cover 99.9 per cent of all possible unexpected losses. Statistical methods are employed to compute expected loss and risk-adjusted capital, but the calculation requires expert assessments in some cases. In the case of risk types where no recognised methods of calculating capital needs are available, the Bank defines risk management limits to ensure that the likelihood of an event occurring is extremely low. For further details see the Bank's Pillar III reporting which is available on the Bank's website.

The Group's overall risk exposure and risk trend are followed up through periodic risk reports to the administration and the board of directors. Overall risk monitoring and reporting are carried out by the Risk Management Division which is independent of the Group's business areas.

Credit risk

Credit risk is the risk of loss resulting from the inability or unwillingness of customers or counterparties to honour their commitments to the Group. The Group is exposed to credit risk through all customer and counterparty receivables. The main exposure is through ordinary lending and leasing activities, but the Group's credit risk also has a bearing on the liquidity reserve portfolio through counterparty risk arising from interest rate and foreign exchange derivatives.

Credit risk associated with the Group's lending activity is the largest area of risk facing the Group. Through its annual review of the Bank's credit strategy, the Board of Directors concretises the Bank's risk appetite by establishing objectives and limits for the Bank's credit portfolio. The Bank's credit strategy and credit policy are derived from the Bank's main strategy, and contain guidelines for the risk profile, including maximum expected loss (EL) for the retail and corporate market divisions respectively, maximum portfolio default probability (PD) and maximum economic capital (UL) allocated to the credit business.

Concentration risk is managed by distribution between the retail and corporate market divisions, limits on loan size and loss given default on individual exposures, limits to maximum application of economic capital within lines of business and special requirements as to maximum exposure, credit quality and number of exposures above 10 per cent of own funds.

Compliance with credit strategy and limits adopted by the Board of Directors is monitored on a continual basis by the Risk Management Division and reported quarterly to the Board of Directors.

The Bank's risk classification system is designed to enable the Bank's loan portfolio to be managed in conformity with the Bank's credit strategy and to secure the risk-adjusted return. The Board of Directors delegates lending authorisation to the Group CEO and the divisional directors. The Group CEO can further delegate authorisations to levels below divisional director. Lending authorisations are graded by size of commitment and risk profile.

The Bank has a division dedicated to credit support which takes over dealings with customers who are clearly unable, or are highly likely to become unable, to service their debts unless action is taken beyond ordinary follow-up.

The Bank uses credit models for risk classification, risk pricing and portfolio management. The risk classification system builds on the following main components:

1. Probability of Default (PD)
The Bank's credit models are based on statistical computations of probability of default. The calculations are based on scoring models that take into account financial position and behavioural data. The models are based on point-in-time ratings, and reflect the probability of default in the course of the next 12 months under current economic conditions. Customers are assigned to one of nine risk classes based on PD, in addition to two risk classes for exposures in default and/or subject to individual impairment write down.

The models are validated at least once per year both with respect to their ability to rank customers and to estimate PD levels. The validation results confirm that the models' accuracy meets internal criteria and international recommendations.

2. Exposure at Default (EAD)
EAD is an estimate of the size of exposure in the event of default at a specific date in the future. For drawing rights, a conversion factor (CF) is used to estimate how much of the present unutilised credit ceiling will have been utilised at a future default date. For guarantees, CF is used to estimate what portion of issued guarantees will be brought to bear. CF is validated monthly for drawing rights in the retail and corporate market. The Bank's EAD model takes account of differences both between products and customer types.

3. Loss Given Default (LGD)
The Bank estimates the loss ratio for each loan based on expected recovery rate, realisable value of the underlying collateral, recovery rate on unsecured debt, as well as direct costs of recovery. Values are determined using standard models, and actual realised values are validated to test the models' reliability.

The three above-mentioned parameters (PD, EAD and LGD) underlie the Group's portfolio classification and statistical calculation of expected loss (EL) and need for economic capital/risk-adjusted capital (UL).

Counterparty risk
Counterparty risk in derivatives trading is managed through ISDA and CSA contracts set up with financial institutions that are the most used counterparties. ISDA contracts regulate settlements between financial counterparties. The CSA contracts limit maximum exposure through market evaluation of the portfolio and margin calls when the change in portfolio value exceeds the maximum agreed limit or threshold amount. The Bank will continue to enter CSA contracts with financial counterparties to manage counterparty risk.

SpareBank 1 SMN is working actively to put in place further measures to reduce counterparty risk by entering an agreement with one or more counterparties. In the future this will be regulated by law, the forthcoming EMIR Directive. As a result SpareBank 1 SMN will clear its derivatives with financial counterparties and large customer trades though a central counterparty (CCP) and will have counterparty risk against this CCP instead of the respective counterparty. Settlement with the CCP will be on a daily basis.

Counterparty risk for customers is hedged through use of cash depots or other collateral which, at all times, have to exceed the market value of the customer's portfolio. Specific procedures have been established for calling for further collateral or to close positions if market values exceed 80 per cent of the collateral.

Market risk
Market risk is the risk of loss resulting from changes in observable market prices such as interest rates, exchange rates and securities prices.

Market risk arises at SpareBank 1 SMN primarily in connection with the Bank's investments in bonds, short-term money market paper and shares, and as a result of activities designed to underpin banking operations such as funding, fixed income and currency trading. Customer activity generated through the Bank's Markets division and SpareBank 1 Markets' use of the Bank's balance sheet also affects the Bank's market risk.

Market risk is managed through limits for investments in shares, bonds and positions in the fixed income and currency markets.

The Group defines limits on exposure to equity instruments with a basis in stress tests employed in Finanstilsynet's (Financial Supervisory Authority of Norway) scenarios. Limits are reviewed at least once a year and adopted yearly by the Bank's Board of Directors. Compliance with the limits is monitored by the Risk Management Division, and exposures relative to the adopted limits are reported monthly. The limits are well within the maximum limits set by the authorities.

Interest rate risk is the risk of loss resulting from interest rate movements. Interest rate risk arises mainly on fixed interest loans and funding in fixed interest securities. The risk on all interest rate positions can be viewed in terms of the change in value of interest rate instruments resulting from a rate change of 1 basis point (0.01 percentage point). The Group utilises analyses showing the effect of this change for various maturity bands, with separate limits applying to interest rate exposure within each maturity band and across all maturity bands as a whole. Interest rate lock-ins on the Group's instruments are essentially short, and the Group's interest rate risk is low to moderate.

Exchange rate risk is the risk of loss resulting from exchange rate movements. The Group measures exchange rate risk on the basis of net positions in the various currencies. Limits on exchange rate risk are expressed in limits for the maximum aggregate foreign exchange position in individual currencies. Foreign exchange risk is regarded as low.

Securities price risk is the risk of loss resulting from changes in the value of bonds, money market instruments and equity securities in which the Group has invested. The Group's risk exposure to this type of risk is regulated via limits on maximum investments in the various portfolios.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to refinance its debt or unable to finance increases in its assets.

The Bank's most important source of finance is customer deposits. At end-2012 the Bank's ratio of deposits to loans was 70 per cent, compared with 65 per cent at end-2011 (Group).

The Bank reduces its liquidity risk by diversifying funding across a variety of markets, funding sources, maturities and instruments, and by employing long-term funding. Excessive concentration of maturities heightens vulnerability with regard to refinancing. The Bank seeks to mitigate such risk by applying defined limits.

The Bank's finance division is responsible for the Group's financing and liquidity management. Compliance with limits is monitored by the Risk Management Division which reports monthly to the Board of Directors. The Group manages it liquidity on an overall basis by assigning responsibility for funding both the Bank and the subsidiaries to the finance division.

Governance is based in the Group's overall liquidity strategy which is reviewed and adopted by the board at least once each year. The liquidity strategy reflects the Group's moderate risk profile. As part of the strategy a contingency plan has been prepared to handle the liquidity situation in periods of turbulent capital markets featuring bank-specific, systemic crisis scenarios and a combination thereof. The Bank's objective is to survive for 12 months with moderate growth without fresh external funding. In addition the Bank must be capable of surviving the most extreme crisis scenario for a period of 30 days. Only the Bank's holding of high liquidity assets is available in such a scenario.

The quantitative liquidity requirements expected to become effective from 2015 (Liquidity Coverage Ratio, LCR) and from 2018 (Net Stable Funding Ratio, NSFR) are monitored and reported by Risk Management. As of the present time SpareBank 1 SMN has not established concrete framework for the targets.

The turbulence in international and domestic financial markets has affected the funding situation of most actors also in 2012. the beginning of 2012, the costs of financing in the money market were high, Throughout the year the costs, measured as NIBOR + riskpremium, decreased. The effect was especially noticable post July as there were indications of possible solution to the Euro crisis. Access to captial has been satisfactory throughout 2012.

The Group's liquidity situation as of 31 December 2012 is considered satisfactory.

Operational risk

Operational risk can be defined as the risk of loss resulting from:

- People: Breaches of routines/guidelines, inadequate competence, unclear policy, strategy or routines, internal irregularities
- Systems: Failure of ICT or other systems
- External causes: Criminality, natural disaster, other external causes

Operational risk is a risk category that captures the great majority of costs associated with quality lapses in the Bank's current activity.

Management of operational risk has acquired increased importance in the financial industry in recent years. Contributory factors are internationalisation, strong technological development and steadily growing demands from customers, public authorities and other interest groups. Many substantial loss events in the international financial industry have originated in failures in this risk area.

Identification, management and control of operational risk are an integral part of managerial responsibility at all levels of SpareBank 1 SMN. Managers' most important aids in this work are professional insight and leadership skills along with action plans, control routines and good follow-up systems. A systematic programme of risk assessments also contributes to increased knowledge and awareness of current needs for improvement in one's own unit. Any weaknesses and improvements are reported to higher levels in the organisation.

SpareBank 1 SMN attaches importance to authorisation structures, good descriptions of procedures and clear definition of responsibilities in supply contracts between the respective divisions as elements in a framework for handling operational risk.

The Bank has put to use a registration and monitoring tool (Risk Information System) for better structure and follow up of risk, events and areas for improvement in the Group.

Operational losses are reported to the board of directors.

Each year, The Board of Directors receives an independent assessment of Group risk from the Internal Audit and the statutory auditor. The assessment also evaluates whether the internal control system functions in an appropriate and satisfactory manner.

For further information see *Risk and Capital Management* and notes:

Note 13: Maximum credit risk exposure, disregadring collateral

Note 15: Market risk related to interest rate risk

Note 16: Market risk related to foreign exchange risk

Note 7 - Credit institutions - loans and advances

Parent bank 2011	Parent bank 2012	Loans and advances to credit institutions (NOK million)	Group 2012	Group 2011
3,962	4,982	Loans and advances without agreed maturity or notice of withdrawal	2,375	1,486
1,070	637	Loans and advances with agreed maturity or notice of withdrawal	637	1,070
5,033	**5,619**	**Total**	**3,012**	**2,557**
		Specification of loans and receivables on key currencies		
52	55	USD	55	52
17	1,455	EUR	1,455	17
22	22	ISK	22	22
4,921	3,847	NOK	1,240	2,445
20	240	Other	240	20
5,033	**5,619**	**Total**	**3,012**	**2,557**
3.4 %	3.1 %	**Average rate credit institutions**	2.5 %	2.7 %

2011	2012	Deposits from credit institutions (NOK million)	2012	2011
2,624	2,521	Loans and deposits from credit institutions without agreed maturity or notice of withdrawal	2,521	2,624
3,608	2,616	Loans and deposits from credit institutions with agreed maturity or notice of withdrawal	2,616	3,608
6,232	**5,137**	**Total**	**5,137**	**6,232**
2,886	2,273	Funding from central govt. via swap arrangement with agreed term or notice period	2,273	2,886
2,886	**2,273**	**Total**	**2,273**	**2,886**
9,118	**7,410**	**Total**	**7,410**	**9,118**
		Specification of debt on key currencies		
556	706	USD	706	556
358	225	EUR	225	358
7,837	6,064	NOK	6,064	7,837
366	415	Other	415	366
9,118	**7,410**	**Total**	**7,410**	**9,118**
2.9 %	2.2 %	**Average rate credit institutions**	2.2 %	2.9 %

Deposits from and loans to credit institutions with mainly floating interest.

The average interest rate is calculated based on the interest income/expense of the holding accounts' average balance for the given year. This is, however, limited to holdings in NOK denominated accounts.

Note 8 - Loans and advances to customers

Parent bank 2011	Parent bank 2012	(NOK million)	Group 2012	Group 2011
		Loans specified by type		
-	-	Financial lease	1,901	1,920
10,697	10,250	Bank overdraft and operating credit	10,250	10,697
3,065	3,759	Building loan	3,153	2,486
57,030	58,455	Amortizing loan	59,639	58,001
70,793	**72,464**	**Gross loans to and receivables from customers**	**74,943**	**73,105**
-424	-407	Impairments	-439	-462
70,369	**72,057**	**Net loans to and advances to customers (amortised cost)**	**74,504**	**72,643**
		Lending specified by markets		
32,165	32,618	Retail market	33,828	33,141
38,565	39,760	Corporate market	41,002	39,872
63	86	Public sector	113	92
70,793	**72,464**	**Gross loans and advances**	**74,943**	**73,105**
-424	-407	Impairments	-439	-462
70,369	**72,057**	**Net loans and advances**	**74,504**	**72,643**
		Of this subordinated loan capital		
48	48	Subordinated loan capital other financial institutions	48	48
48	**48**	**Subordinated loan capital shown under loans to customers**	**48**	**48**
		Adv. on this		
572	565	Loans to employees	713	715
		In addition:		
22,126	29,348	Loans transferred to SpareBank 1 Boligkreditt	29,348	22,126
693	848	Of which loans to employees	1,069	869
-	618	Loans transferred to SpareBank 1 Næringskreditt	618	-

Interest rate subsidies on loans to employees are included in net interest income. The lending rate for employees is 75 per cent of the best mortgage rate for other customers.

Specified by risk group

The Bank calculates default probabilities for all customers in the loan portfolio at the loan approval date. This is done on the basis of key figures on earnings, impairment and behaviour. Default probability is used as a basis for risk classification of the customer. Further, risk classification is used to assign each customer to a risk group. See note 12 for risk class classification.

Customers are rescored in the Bank's portfolio system on a monthly basis.

Exposures consist of gross loans, total guarantee commitments, unutilised credits, and total letter of credit obligations.

Exposures are monitored with a basis in the exposure's size, risk and migration. Risk pricing of business exposures is done with a basis in expected loss and economic capital required for each exposure. Expected annual average net loss is calculated for the next 12 months. Expected loss is within the limits set for maximum expected loss by the Board of Directors.

Collectively assessed write-downs are calculated with a basis in customers who have shown negative migration since the loan approval date but for whom no individual write-down has been assessed. The Bank uses macro-based stress tests to estimate write-downs required as a result of objective events that were not reflected in portfolio quality at the time of measurement.

Historical data are restated in accordance with new calculations of estimated defaults. See note 6, Risk factors, and the section on probability of default.

Parent bank			Group	
2011	2012	Total contracts	2012	2011
39,296	38,451	Lowest risk	38,760	39,478
20,185	23,748	Low risk	24,474	20,891
21,743	19,483	Medium risk	20,241	22,177
2,063	2,994	High risk	3,344	2,494
1,811	2,059	Highest risk	2,406	2,168
463	417	Default and written down*	517	542
85,561	**87,152**	**Total**	**89,744**	**87,750**

Parent bank			Group	
2011	2012	Gross loans	2012	2011
32,390	32,491	Lowest risk	32,792	32,571
16,826	19,825	Low risk	20,517	17,524
17,496	15,328	Medium risk	16,035	18,069
1,903	2,451	High risk	2,791	2,329
1,723	1,976	Highest risk	2,315	2,078
455	394	Default and written down*	494	534
70,793	**72,464**	**Total**	**74,943**	**73,105**

*) Exposures subject to individual impairment write down are placed in default category.

Parent bank			Group	
2011	2012	Expected annual average net loss	2012	2011
5	6	Lowest risk	6	5
17	23	Low risk	23	18
77	50	Medium risk	52	79
20	33	High risk	35	23
47	26	Highest risk	33	53
25	17	Default and written down	23	34
190	**155**	**Total**	**173**	**211**

The best secured home mortgage loans are transferred to SpareBank 1 Boligkreditt.Well secured business loans are transferred to SpareBank 1 Næringskreditt. This is a measure designed to secure long-term funding on competitive terms. Commission (margin) on these loans is taken to income in the income statement under commission income.

The table below shows the risk classification of these exposures.

Parent bank			Group	
2011	2012	Total contracts SpareBank 1 Boligkreditt	2012	2011
21,681	29,420	Lowest risk	29,420	21,681
2,409	3,228	Low risk	3,228	2,409
596	868	Medium risk	868	596
136	144	High risk	144	136
76	115	Highest risk	115	76
2	13	Default and written down	13	2
24,901	**33,789**	**Total**	**33,789**	**24,901**

Parent bank			Group	
2011	2012	Gross loans SpareBank 1 Boligkreditt	2012	2011
18,927	25,013	Lowest risk	25,013	18,927
2,393	3,199	Low risk	3,199	2,393
593	863	Medium risk	863	593
136	144	High risk	144	136
76	115	Highest risk	115	76
2	13	Default and written down	13	2
22,126	**29,348**	**Total**	**29,348**	**22,126**

Parent bank			Group	
2011	**2012**	**Total contracts SpareBank 1 Næringskreditt**	**2012**	**2011**
-	150	Lowest risk	150	-
-	157	Low risk	157	
-	311	Medium risk	311	-
-	**618**	**Total**	**618**	**-**

Parent bank			Group	
2011	**2012**	**Gross loans SpareBank 1 Næringskreditt**	**2012**	**2011**
-	150	Lowest risk	150	-
-	157	Low risk	157	-
-	311	Medium risk	311	-
-	**618**	**Total**	**618**	**-**

Specified by sector and industry

Parent bank			Group	
2011	**2012**	**Total contracts**	**2012**	**2011**
34,864	34,433	Wage earners	35,674	35,851
830	568	Public administration	595	859
5,532	6,974	Agriculture, forestry, fisheries and hunting	7,144	5,724
3,112	3,157	Sea farming industries	3,282	3,257
5,159	3,180	Manufacturing	3,412	5,399
3,390	4,778	Construction, power and water supply	5,329	3,853
3,350	4,437	Retail trade, hotels and restaurants	4,620	3,543
7,282	7,874	Maritime sector	7,880	7,287
14,820	14,044	Property management	13,526	14,179
4,764	4,361	Business services	4,594	5,061
2,236	2,944	Transport and other services provision	3,279	2,514
221	401	Other sectors	407	223
85,561	**87,152**	**Total**	**89,744**	**87,750**

Parent bank			Group	
2011	**2012**	**Gross loans**	**2012**	**2011**
32,165	32,618	Wage earners	33,828	33,141
63	86	Public administration	113	92
4,965	6,081	Agriculture, forestry, fisheries and hunting	6,246	5,155
1,880	2,166	Sea farming industries	2,288	2,024
2,641	2,072	Manufacturing	2,298	2,878
2,070	3,074	Construction, power and water supply	3,611	2,528
2,126	2,577	Retail trade, hotels and restaurants	2,756	2,316
5,974	5,964	Maritime sector	5,970	5,978
12,651	12,261	Property management	11,740	12,167
3,570	3,108	Business services	3,304	3,865
1,720	2,057	Transport and other services provision	2,384	1,989
969	401	Other sectors	407	971
70,793	**72,464**	**Total**	**74,943**	**73,105**

Parent bank			Group	
2011	2012	Individual impairment	2012	2011
41	38	Wage earners	41	43
-	-	Public administration	-	-
2	2	Agriculture, forestry, fisheries and hunting	3	2
21	14	Sea farming industries	14	21
18	13	Manufacturing	16	30
10	16	Construction, power and water supply	20	14
12	5	Retail trade, hotels and restaurants	6	13
-	-	Maritime sector	-	0
29	17	Property management	17	29
2	11	Business services	12	3
16	13	Transport and other services provision	15	17
-	-	Other sectors	-	0
151	**129**	**Total**	**144**	**172**

Parent bank			Group	
2011	2012	Expected annual average net loss	2012	2011
21	21	Wage earners	25	23
0	0	Public administration	0	0
9	11	Agriculture, forestry, fisheries and hunting	14	13
3	2	Sea farming industries	2	3
31	17	Manufacturing	18	32
16	20	Construction, power and water supply	24	22
10	11	Retail trade, hotels and restaurants	13	11
23	21	Maritime sector	21	23
41	30	Property management	30	41
33	18	Business services	21	36
3	3	Transport and other services provision	5	5
1	1	Other sectors	1	1
190	**155**	**Total**	**173**	**211**

Specified by geographic area

Parent bank			Group	
2011	2012	Gross loans	2012	2011
26,627	28,295	Sør-Trøndelag	28,996	27,178
15,116	16,433	Nord-Trøndelag	17,332	16,050
15,040	15,992	Møre og Romsdal	16,527	15,542
335	335	Sogn og Fjordane	366	348
542	481	Nordland	528	581
8,111	5,261	Oslo	5,291	8,147
4,069	4,797	Rest of Norway	5,033	4,306
953	870	Abroad	870	953
70,793	**72,464**	**Total**	**74,943**	**73,105**

The best secured home mortgage loans are transferred to SpareBank 1 Boligkreditt. Well secured business loans are transferred to SpareBank 1 Næringskreditt. This is a measure designed to secure long-term funding on competitive terms. Commission (margin) on these loans is taken to income in the income statement under commission income.

The table below shows the geographic classification of these exposures.

Parent bank			Group	
2011	**2012**	**Gross loans transferred to SpareBank1 Boligkreditt**	**2012**	**2011**
10,288	14,354	Sør-Trøndelag	14,354	10,288
5,830	7,676	Nord-Trøndelag	7,676	5,830
3,581	4,457	Møre og Romsdal	4,457	3,581
57	100	Sogn og Fjordane	100	57
79	104	Nordland	104	79
823	1,007	Oslo	1,007	823
1,379	1,596	Rest of Norway	1,596	1,379
91	54	Abroad	54	91
22,126	**29,348**	**Total gross loans transferred to SpareBank1 Boligkreditt**	**29,348**	**22,126**

Parent bank			Group	
2011	**2012**	**Gross loans transferred to SpareBank 1 Næringskreditt**	**2012**	**2011**
-	36	Sør-Trøndelag	36	-
-	285	Nord-Trøndelag	285	-
-	297	Møre og Romsdal	297	-
-	**618**	**Total**	**618**	**-**

	Group	
Loans to and claims on customers related to financial leases	**2012**	**2011**
Gross advances related to financial leasing		
- Maturity less than 1 year	285	252
- Maturity more than 1 year but not more than 5 years	1,531	1,536
- Maturity more than 5 years	151	203
Total gross claims	**1,967**	**1,990**
Received income related to financial leasing, not yet earned	66	70
Net investments related to financial leasing	1,901	1,920
Net investments in financial leasing can be broken down as follows:		
- Maturity less than 1 year	266	231
- Maturity more than 1 year but not more than 5 years	1,485	1,489
- Maturity more than 5 years	150	201
Total net claims	**1,901**	**1,920**

Note 9 - Derecognition of financial assets

In its ordinary business the Bank undertakes transactions that result in the sale of financial assets in which the Bank has a lasting involvement. The Bank continues to recognise these assets to the extent that the Bank has an involvement in the asset.

The Bank transfers such financial assets mainly through sales of customers' home mortgage loans to SpareBank 1 Boligkreditt (residential mortgage company) or commercial property loans to SpareBank 1 Næringskreditt (commercial property loans company).

SpareBank 1 Boligkreditt
The Bank sells home mortgage loans to SpareBank 1 Boligkreditt which in turn issues bonds to investors with security in the transferred mortgage loans. In 2012 home mortgage loans were sold to a net value of NOK 7.2bn. In total, home mortgage loans transferred to SpareBank 1 Boligkreditt were derecognised in an amount of NOK 29.3bn at the end of the financial year. The loans are sold at balance sheet value.

Set-off against commission income
The Bank receives commission for the sold a home mortgage loans corresponding to the interest income on the loans reduced by average funding cost at SpareBank 1 Boligkreditt, administrative expenses and any losses incurred limited upwards to one year's commission. The interest rate this determined by the residential mortgage company.

The transferred loans must have an LTV below 75 per cent at the time of sale. The average LTV for the sold loans from SpareBank 1 SMN is below 50 per cent. The Bank transfers virtually all risks and benefits associated with the sold mortgage loans and the bank therefore derecognises them in its balance sheet. The Bank recognises all rights and obligations that are created or retained in connection with the transfer, separately as assets or obligations. The Bank's maximum exposure to loss is represented by the highest amount for which cover could be claimed under the agreement and totalled about NOK 200m at end-December 2012 (total commission for 2012). No losses have been recognised in the portfolio since the transfer.

Lasting involvements:

	Book value, liability	Fair value, liability	Maksimum exposure to loss (latest year's commission) NOKm
Netting right	0	0	200

Average portfolio term is about three years.

Liquidity facility
Together with the other owners of SpareBank 1 Boligkreditt, SpareBank 1 SMN has signed an agreement to establish a liquidity facility for SpareBank 1 Boligkreditt. This entails that the banks commit themselves to buy mortgage credit bonds capped at the overall value of 12 months' due payments at SpareBank 1 Boligkreditt. Each owner is principally liable for its share of the need, subsidiarily for double the amount that is the primary liability under the same agreement. The bonds can be deposited with Norges Bank (the central bank) and thus entail no significant increase in risk for the Bank. SpareBank 1 Boligkreditt maintains under its internal guidelines liquidity for the next 12 months' due payments. This is deducted when determining the Bank's liability. Hence it is only if the undertaking no longer has liquidity for the next 12 months' due payments that the Bank will report any involvement related to this.

Financial position
SpareBank 1 SMN has together with the other owners of SpareBank 1 Boligkreditt, also signed an agreement to ensure that SpareBank 1 Boligkreditt at all times has a tier 1 capital ratio of at least 9 per cent. The shareholders shall supply sufficient tier 1 capital within three months of receiving a written request to do so. The shareholders' obligation to supply such tier 1 capital is pro rata and is not joint and several, and shall be in proportion to each shareholder's pro rata portion of the shares of SpareBank 1 Boligkreditt. Each owner is principally liable for its share of the need, subsidiarily for double the amount that is the primary liability under the same agreement.

SpareBank 1 Næringskreditt
The Bank sells commercial property loans to SpareBank 1 Næringskreditt which in turn issues bonds to investors with security in the transferred loans. In 2012 commercial property loans were sold to a net value of NOK 618m. Loans to a total value of NOK 618m had been transferred to SpareBank 1 Næringskreditt by the end of the financial year. The loans are sold at balance sheet value.

Set-off against commission income
An agreement has been signed on the set-off against commission income corresponding to the agreement with SpareBank 1 Boligkreditt;

see over.

The transferred loans must have an LTV below 60 per cent at the time of transfer. Expected loss in the transferred portfolio is 0.023 per cent. The Bank transfers virtually all risks and benefits associated with the sold commercial property loans and the bank therefore derecognises them in its balance sheet. The Bank recognises all rights and obligations that are created or retained in connection with the transfer, separately as assets or liabilities. The Bank's maximum exposure to loss is represented by the highest amount for which cover could be claimed under the agreement and totalled about NOK 4m at end-December 2012 (total commission for 2012). No losses have been recognised in the portfolio since the transfer.

Lasting involvements:

	Book value, liability	Fair value, liability	Maksimum exposure to loss (latest year's commission) NOKm
Netting right	0	0	4

Liquidity facility
As stated above regarding SpareBank 1 Boligkreditt, a corresponding agreement has been signed with SpareBank 1 Næringskreditt.

Financial strength
In like manner an agreement has been signed to assure SpareBank 1 Næringskreditt a minimum tier 1 capital ratio of 9 per cent. See the above account on SpareBank 1 Boligkreditt.

Note 10 - Age breakdown of contracts fallen due but not written down

The table shows amounts fallen due on loans and overdrafts on credits/deposits by number of days past due date not caused by payment service delays. The entire loan exposure is included where parts of the exposure have fallen due.

Parent bank

2012

(NOK million)	Up to 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans to and receivables from customers					
- Retail market	634	222	23	99	978
- Corporate market	259	58	48	113	477
Total	**893**	**279**	**71**	**212**	**1,455**

2011

(NOK million)	Up to 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans to and receivables from customers					
- Retail market	542	181	24	74	821
- Corporate market	219	42	21	60	343
Total	**762**	**223**	**45**	**135**	**1,164**

Of the total amount of gross loans fallen due but not written down, the realisable value of the associated collateral at 31 December 2012 was NOK 1,476 million.

Group

2012

(NOK million)	Up to 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans to and receivables from customers					
- Retail market	635	235	32	116	1,018
- Corporate market	263	86	57	109	514
Total	**897**	**321**	**89**	**225**	**1,532**

2011

(NOK million)	Up to 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans to and receivables from customers					
- Retail market	543	193	28	82	846
- Corporate market	225	75	28	65	392
Total	**768**	**268**	**55**	**147**	**1,238**

Of the total amount of gross loans fallen due but not written down, the realisable value of the associated collateral at 31 December 2012 was NOK 1,589 million.

Note 11 - Losses on loans and guarantees

Parent bank (NOK million)

	2012			2011		
Losses on loans and guarantees	**RM**	**CM**	**Total**	**RM**	**CM**	**Total**
Period's change in individual write-downs	-3	-19	-22	-	-36	-36
+ Period's change in collective write-downs	-	5	5	-10	10	-
+ Actual losses on loans previously written down	4	46	51	5	70	75
+ Confirmed losses on loans not previously written down	6	48	54	8	2	9
- Recoveries on previously written down loans, guarantees etc.	6	30	37	6	31	37
Total	**1**	**50**	**51**	**-3**	**15**	**12**

	2012			2011		
Individual write-downs	**RM**	**CM**	**Total**	**RM**	**CM**	**Total**
Individual write-downs to cover loss on loans, guarantees etc. at 01.01	31	120	151	31	155	186
- Confirmed losses in the period on loans, guarantees etc. not previously subject to individual write down	-4	-46	-50	-5	-69	-75
- Reversal of previous years' write downs	-4	-9	-13	-3	-23	-26
+ Increase in write-downs of commitments not previously subject to individual write down	1	3	4	6	50	56
+ Write-downs of loans not previously subject to individual write down	4	33	37	2	7	9
Individual write downs to cover loss on loans, guarantees etc at 31.12	**28**	**101**	**129**	**31**	**120**	**151**

	2012			2011		
Collective write-downs	**RM**	**CM**	**Total**	**RM**	**CM**	**Total**
Collective write-downs to cover loss on loans, guarantees at 01.01	73	200	273	83	190	273
Period's collective write down to cover loss on loans, guarantees etc	-	5	5	-10	10	-
Collective write-down to cover loss on loans and guarantees at 31.12	**73**	**205**	**278**	**73**	**200**	**273**

Losses specified by sector and industry	**2012**	**2011**
Agriculture, forestry, fisheries and hunting	1	-0
Fish farming	13	5
Industry and mining	1	0
Building and construction, power and water supply	10	-0
Wholesale and retail trade; hotel og restaurant industry	-0	1
Other transport and communication	5	2
Financing, property management and business services	12	-1
Abroad and others	-	-
Private sector	4	6
Collective write-downs, corporate	5	10
Collective write-downs, retail	-	-10
Losses on loans to customers	**51**	**12**

Non-performing more than 90 days and potential problem loans	**2012**	**2011**
Non-performing loans	298	272
- Individual write-downs	72	73
Net non-performing loans	**226**	**199**
Potential problem loans	119	191
- Individual write-downs	57	77
Net potential problem loans	**63**	**113**

Interest taken to income on defaulted and doubtful exposures totals NOK 26 million for the Parent bank.

The realisable value of the collateral backing individually written-down loans totals NOK 116 millions for the Parent bank at 31 December 2012.

Group (NOK million)

Losses on loans and guarantees	2012 RM	2012 CM	2012 Total	2011 RM	2011 CM	2011 Total
Period's change in individual write-downs	-5	-23	-28	-2	-49	-51
+ Period's change in collective write-downs	-	5	5	-10	10	-
+ Actual losses on loans previously written down	8	54	63	7	84	91
+ Confirmed losses on loans not previously written down	7	50	57	11	14	25
- Recoveries on previously written down loans, guarantees etc.	6	32	38	6	33	39
Total	**4**	**55**	**58**	**0**	**27**	**27**

Individual write-downs	2012 RM	2012 CM	2012 Total	2011 RM	2011 CM	2011 Total
Individual write-downs to cover loss on loans, guarantees etc. at 01.01	36	136	172	31	191	222
- Confirmed losses in the period on loans, guarantees etc. not previously subject to individual write down	-8	-54	-62	-5	-85	-90
- Reversal of previous years' write-downs	-4	-9	-13	-3	-25	-28
+ Increase in write-downs of commitments not previously subject to individual write down	1	3	4	6	51	57
+ Write-downs of loans not previously subject to individual write down	6	37	43	2	10	12
Individual write-downs to cover loss on loans, guarantees etc at 31.12	**31**	**113**	**144**	**31**	**142**	**172**

Collective write-downs	2012 RM	2012 CM	2012 Total	2011 RM	2011 CM	2011 Total
Collective write-downs to cover loss on loans, guarantees at 01.01	77	213	290	87	203	290
Period's collective write-downs to cover loss on loans, guarantees etc	-	5	5	-10	10	-
Collecitve write-downs to cover loss on loans and guarantees at 31.12	**77**	**218**	**295**	**77**	**213**	**290**

Losses specified by sector and industry	2012	2011
Agriculture, forestry, fisheries and hunting	1	1
Fish farming	13	5
Industry and mining	0	1
Building and construction, power and water supply	12	4
Wholesale and retail trade; hotel og restaurant industry	0	2
Other transport and communication	8	4
Financing, property management and business services	13	2
Abroad and others	-	-
Private sector	6	8
Collective write-downs, corporate	5	10
Collective write-downs, retail	-	-10
Losses on loans to customers	**58**	**27**

Non-performing more than 90 days and potential problem loans	2012	2011
Non-performing loans	374	338
- Individual write-downs	83	89
Net non-performing loans	**291**	**249**
Potential problem loans	143	204
- Individual write-downs	62	83
Net potential problem loans	**81**	**121**

Interest taken to income on defaulted and doubtful exposures totals NOK 51 million for the Group.

The realisable value of the collateral backing individually written-down loans totals NOK 144 million for the Group at 31 December 2012.

Note 12 - Credit risk exposure for each internal risk rating

The Bank uses a special classification system for monitoring credit risk in the portfolio. Risk classification is based on each individual exposure's probability of default. In the table below this classification is collated with corresponding rating classes at Moody's.

Historical default data are parent bank figures showing the default ratio (DR) per credit quality step. The figures are an unweighted average of customers with normal scores in the period 2006-2012.

Historical data are restated in accordance with new calculations of estimated defaults. See note 6 Risk factors, and the section on probability of default.

	Probability of default					Collateral cover	
Credit quality step	**From**	**To**	**Moody's**	**Historical default**	**Collateral class**	**Lower limit**	**Upper limit**
A	0.00 %	0.10 %	Aaa-A3	0.04 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.10 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.23 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.56 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.68 %	5	40	60
F	1.25 %	2.50 %		1.57 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	3.67 %	7	0	20
H	5.00 %	10.00 %	B1-B2	6.97 %			
I	10.00 %	99.99 %	B3-Caa3	19.61 %			
J	Default						
K	Written down						

The Bank's exposures are classified into one of five risk groups based on credit quality step. Previously this was a combination of credit quality step and collateral class. "Defaulted and written down" is also present. See the table below.

Credit quality step	Risk groups
A - C	Lowest risk
D - E	Low risk
F - G	Medium risk
H	High risk
I	Highest risk
J - K	Default and written down

Parent bank	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
(NOK million)	2012	2012	2011	2011
Lowest risk	4.6 %	38,451	4.6 %	39,296
Low risk	7.3 %	23,748	8.1 %	20,185
Medium risk	9.2 %	19,483	12.5 %	21,743
High risk	12.8 %	2,994	9.3 %	2,063
Highest risk	6.3 %	2,059	10.0 %	1,811
Default and written down	25.2 %	417	29.1 %	463
Total		**87,152**		**85,561**

Group	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
(NOK million)	2012	2012	2011	2011
Lowest risk	4.5 %	38,760	4.5 %	39,478
Low risk	7.1 %	24,474	7.5 %	20,891
Medium risk	8.8 %	20,241	11.8 %	22,177
High risk	11.5 %	3,344	9.3 %	2,494
Highest risk	5.4 %	2,406	10.0 %	2,168
Default and written down	20.4 %	517	29.1 %	542
Total		**89,744**		**87,750**

Note 13 - Maximum credit risk exposure, disregarding collateral

Maximum credit risk exposure, disregarding collateral

The table below shows maximum exposure to credit risk for balance sheet components, including derivatives. Exposures are shown on a gross basis before collateral and permitted set-offs.

Parent bank			Group	
2011	2012	(NOK million)	2012	2011
		Assets		
1,519	1,079	Cash and claims on central banks	1,079	1,519
5,033	5,619	Loans to and claims on credit institutions	3,012	2,557
70,369	72,057	Loans to and claims on customers	74,504	72,643
10,206	14,943	Securities - designated at fair value through profit/loss	15,296	10,418
3,698	3,101	Derivatives	3,100	3,697
1	1	Securities - held for trading	70	56
583	114	Securities - held to maturity	114	583
2,460	2,460	Securities - loans and receiveables	2,460	2,473
5,829	7,568	Other assets	8,283	7,510
99,697	**106,942**	**Total assets**	**107,919**	**101,455**
		Liabilities		
3,857	5,213	Conditional liabilities	5,213	3,857
10,578	8,688	Unutilised credits	8,688	10,578
470	1,539	Loan approvals	1,652	500
813	788	Other exposures	856	940
15,717	**16,228**	**Total liabilities**	**16,409**	**15,875**
115,413	**123,170**	**Total credit risk exposure**	**124,328**	**117,330**

Credit risk exposure related to financial assets distributed by geographical area

Parent Bank			Group	
2011	2012	(NOK million)	2012	2011
		Bank activities		
37,678	40,314	Sør-Trøndelag	38,744	37,212
17,776	19,612	Nord-Trøndelag	20,554	18,708
19,807	21,862	Møre og Romsdal	22,414	20,308
479	474	Sogn og Fjordane	505	491
695	554	Nordland	602	734
12,939	8,614	Oslo	9,052	13,333
6,687	7,528	Rest of Norway	7,824	7,128
2,190	3,592	Abroad	3,593	2,188
98,251	**102,551**	**Total**	**103,288**	**100,104**
		Financial instruments		
12,769	16,435	Norway	16,851	12,826
695	1,069	Europe, Asia	1,076	704
0	13	USA	13	0
3,698	3,101	Derivatives	3,100	3,697
17,162	**20,619**	**Total**	**21,040**	**17,226**
115,413	**123,170**	**Total distributed by geographical area**	**124,328**	**117,330**

Financial effect of collateral for credit risk, parent bank

The Bank's maximum credit exposure is shown in the above table. SpareBank 1 SMN provides wholesale banking services to BN Bank and the Samspar banks. In this connection a guarantee agreement has been established which assures full settlement for exposures connected to these agreements. The Bank has corresponding agreements with respect to the takeover of BN Bank's portfolio in Ålesund. The value of the guarantee agreements is not included in the table below.

The collateral is measured at fair value, limited to maximum credit exposure for the individual counterparty.

Collaterlan Pledged (NOK million)	**2012**	**2011**
Corporate market	32,520	25,656
Retail market	30,961	31,299
Covered bonds	7,268	6,685
Financial institutions using CSA	205	147
Customers trading and hedging	2,860	2,152

Note 14 - Credit quality per class of financial assets

The Bank handles the credit quality of financial assets by means of its internal guidlines for credit ratings. See section entitled credit risk under Note 6 Risk factors. The table below shows credit quality per class of assets for loan-related assets in the balance sheet, based on the Bank's own credit rating system.The entire loan exposure is included when parts of the exposure are defaulted. Non-performance is defined in the note as default of payment of NOK 1,000 or more for more than 90 days.

Historical data are restated in accordance with new calculations of estimated defaults. See note 6 Risk factors and the section on probability of default.

Parent bank

2012 (NOK million)		Neither defaulted nor written down						
	Notes	Lowest risk	Low risk	Medium risk	High risk	Highest risk	Defaulted or written down *)	Total
Loans to and claims on credit institutions	7	**5,619**					**-**	**5,619**
Loans to and claims on customers	8							
Retail market		21,924	6,048	3,023	585	581	168	32,328
Corporate market		10,567	13,777	12,305	1,865	1,395	226	40,135
Total		**32,491**	**19,825**	**15,328**	**2,451**	**1,976**	**394**	**72,464**
Financial investments	28							
Quoted government bonds		2,431	22	-	-	-	-	2,453
Quoted other bonds		10,858	147	39	-	-	-	11,045
Unquoted bonds		1,252	1,180	1,235	-	-	-	3,667
Total		**14,541**	**1,349**	**1,274**	**-**	**-**	**-**	**17,164**
Total		**52,651**	**21,174**	**16,602**	**2,451**	**1,976**	**394**	**95,247**

2011 (NOK million)		Neither defaulted nor written down						
	Notes	Lowest risk	Low risk	Medium risk	High risk	Highest risk	Defaulted or written down *)	Total
Loans to and claims on credit institutions	7	**5,033**					**-**	**5,033**
Loans to and claims on customers	8							
Retail market		22,676	5,572	2,252	461	496	173	31,629
Corporate market		9,714	11,254	15,244	1,443	1,228	282	39,164
Total		**32,390**	**16,826**	**17,496**	**1,903**	**1,723**	**455**	**70,793**
Financial investments	28							
Quoted government bonds		2,896					-	2,896
Quoted other bonds		6,302	467	39			-	6,808
Unquoted bonds		1,787	904	523			-	3,214
Total		**10,985**	**1,371**	**562**			**-**	**12,918**
Total		**48,408**	**18,197**	**18,058**	**1,903**	**1,723**	**455**	**88,744**

Group

2012 (NOK million)	Notes	Neither defaulted nor written down					Defaulted or written down *)	Total
		Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	7	3,012					-	3,012
Loans to and claims on customers	8							
Retail market		21,970	6,383	3,656	681	685	199	33,573
Corporate market		10,825	14,119	12,379	2,118	1,634	295	41,370
Total		**32,795**	**20,501**	**16,035**	**2,799**	**2,319**	**494**	**74,943**
Financial investments	28							
Quoted government bonds		2,431	22				-	2,453
Quoted other bonds		10,858	147	39			-	11,045
Unquoted bonds		1,252	1,180	1,235			-	3,667
Total		**14,541**	**1,349**	**1,274**			**-**	**17,164**
Total		**50,348**	**21,850**	**17,309**	**2,799**	**2,319**	**494**	**95,119**

2011 (NOK million)	Notes	Neither defaulted nor written down					Defaulted or written down *)	Total
		Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	7	2,557					-	2,557
Loans to and claims on customers	8							
Retail market		22,739	5,816	2,670	610	620	194	32,650
Corporate market		9,831	11,707	15,400	1,719	1,458	340	40,456
Total		**32,571**	**17,524**	**18,069**	**2,329**	**2,078**	**534**	**73,105**
Financial investments	28							
Quoted government bonds		2,896					-	2,896
Quoted other bonds		6,302	467	39			-	6,808
Unquoted bonds		1,787	904	523			-	3,214
Total		**10,985**	**1,371**	**562**			**-**	**12,918**
Total		**46,113**	**18,895**	**18,631**	**2,329**	**2,078**	**534**	**88,580**

*) Guarantees furnished by the Guarantee Institute for Export Credit are not taken into account

Note 15 - Market risk related to interest rate risk

This note is a sensitivity analysis based on relevant balance sheet items as of 31 December 2012. The Bank's interest rate risk is calculated by simulating a parallel interest rate shift for the entire interest rate curve of 1 per cent on all balance sheet items.

Interest rate risk has been low throughout 2012 and below the maximum limit of NOK 80 million set by the Board of Directors. For further details regarding interest rate risk, please refer to Note 6 Risk Factors.

	Interest rate risk, 1 % change	
Basis risk Group (NOK million)	**2012**	**2011**
Currency		
NOK	-10	7
EUR	25	-1
USD	-0	0
CHF	-0	-2
Other	-1	-2
Total interest rate risk, effect on result after tax	**13**	**3**

Total interest rate risk suggests that the Bank will gain from an increase in the interest rate in 2012. This is also the case for 2011, however the 2011 gain is considerably lower compared to 2012.

The table below shows the effect of an interest rate curve shift on various time intervals and the associated gains and losses within the respective maturities.

	Interest rate risk, 1 % change	
Interest rate curve risk, Group (NOK million)	**2012**	**2011**
0 - 1 month	-13	-11
1 - 3 months	9	19
3 - 6 months	-20	-5
6 - 12 months	47	10
1 - 2 years	-27	9
2 - 3 years	20	-7
3 - 4 years	-10	-1
4 - 5 years	-8	2
5 - 7 years	21	7
7 - 10 years	-7	-20
Total interest rate risk, effect on result after tax	**13**	**3**

Note 16 - Market risk related to currency exposure

Foreign exchange risk arises where there are differences between the Group's assets and liabilities in the particular currency. Currency trading must at all times be conducted within adopted limits and authorisations. The Group's limits define quantitative measures for maximum net foreign currency exposure, measured in Norwegian kroner.

The Group has drawn up limits for net exposure in each individual currency, as well as limits for aggregate net foreign currency exposure (expressed as the higher of the sum of long and short positions). Overnight exchange rate risk for spot trading in foreign currency must not, on a net basis, exceed NOK 85 million per individual currency or NOK 100 million on an aggregate basis.

Foreign exchange risk was low throughout the year and within the maximum limit of NOK 40 million. For further details see note 6 Risk factors.

Parent bank		Net foreign exchange exposure NOK	Group	
2011	**2012**	(NOK million)	**2012**	**2011**
-6	-15	EUR	-15	-6
1	15	USD	15	1
-10	-16	Other	-16	-10
-15	**-17**	**Total**	**-17**	**-15**
175	100	Overall currency limit	100	175
85	85	Total per currency	85	85
0.5	1.4	Result effect of 3 % change	1.4	0.5

Note 17 - Liquidity risk

Liquidity risk is the risk that the group will be unable to refinance its debt or unable to finance increases in its assets. See note 6 Risk factors for a detailed description.

Group

At 31.12.2012 (NOK million)	On demand	Below 3 months	3-12 months	1 - 5 yrs	Above 5 yrs	Total
Cash flows related to liabilities						
Debt to credit institutions	2,521	225	1,069	3,367	228	7,410
Deposits from and debt to customers	44,109	1,488	3,163	3,492	-	52,252
Debt created by issuance of securities	-	1,340	3,917	19,936	4,950	30,143
Derivatives - contractual cash flow out	-	162	498	3,753	2,141	6,553
Other commitments	126	1,462	427	110	-	2,124
Subordinated debt	-	169	415	1,300	1,034	2,918
Total cash flow, liabilities	**46,756**	**4,845**	**9,489**	**31,957**	**8,353**	**101,400**
Contractual cash flows out	-	162	498	3,753	2,141	6,553
Contractual cash flows in	-	-135	-664	-4,229	-2,348	-7,375
Net contractual cash flows	**-**	**27**	**-166**	**-476**	**-207**	**-822**

Group

At 31.12.2011 (NOK million)	On demand	Below 3 months	3-12 months	1 - 5 yrs	Above 5 yrs	Total
Cash flows related to liabilities						
Debt to credit institutions	2,624	1,491	296	4,457	251	9,118
Deposits from and debt to customers	40,831	490	4,306	2,244	-	47,871
Debt created by issuance of securities	-	3,318	1,555	22,052	1,075	27,999
Derivatives - contractual cash flow out	-	159	379	1,573	301	2,412
Other commitments	125	1,518	375	103	-	2,122
Subordinated debt	-	-	-	1,402	1,149	2,552
Total cash flow, liabilities	**43,581**	**6,975**	**6,911**	**31,831**	**2,776**	**92,073**
Contractual cash flows out	-	159	379	1,573	301	2,412
Contractual cash flows in	-	-167	-485	-1,831	-426	-2,909
Net contractual cash flows	**-**	**-8**	**-106**	**-259**	**-125**	**-497**

Does not include value adjustments for financial instruments at fair value.

Note 18 - Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities maturing one year or otherwise after the balance sheet date. Overdraft facilities and consumer credit including flexi-loans are included under the interval "below 3 months".

Parent bank

2012 (NOK million)	On demand	Below 3 months	3-12 months	1 - 5 yrs	Above 5 yrs	Total
Assets						
Cash and claims on central banks	1,079	-	-	-	-	1,079
Loans and claims on credit institutions	2,569	2,929	10	22	89	5,619
Loans to and claims on customers	171	13,004	2,815	13,762	42,713	72,464
- Individual write down of loans to and claims on customers	-	-	-129	-	-	-129
- Groupwise write down of loans to and claims on customers	-	-	-278	-	-	-278
Net loans to customers	**171**	**13,004**	**2,407**	**13,762**	**42,713**	**72,057**
Securities - designated at fair value through profit/loss	354	1,053	4,252	8,445	840	14,943
Derivatives	-	142	90	1,191	1,679	3,101
Securities - available for sale	1	-	-	-	-	1
Securities - held to maturity	-	75	-	39	-	114
Securities - loans and receivables	-	-	-	2,460	-	2,460
Investment in associates and joint ventures	5,296	-	-	-	-	5,296
Intangible assets	-	-	-	-	447	447
Property, plant and equipment	201	-	-	-	-	201
Other assets	623	642	129	231	-	1,625
Total assets	**10,294**	**17,844**	**6,887**	**26,149**	**45,767**	**106,942**
Liabilities						
Debt to credit institutions	2,521	225	16	2,147	228	5,137
Funding, "swap" arrangement with the government	-	-	1,053	1,220	-	2,273
Deposits from and debt to customers *)	45,044	1,488	3,163	3,492	-	53,187
Debt created by issuance of securities	-	1,341	3,938	19,916	5,065	30,259
Derivatives	-	20	63	1,519	1,189	2,790
Liabilities in connection with period tax	-	24	256	-	-	280
Liabilities in connection with deferred tax	-	-	-	83	-	83
Other liabilities	54	1,102	69	12	-	1,237
Subordinated debt **)	-	-	432	-	2,608	3,040
Total debt	**47,619**	**4,199**	**8,990**	**28,389**	**9,091**	**98,287**

Group

2012 (NOK million)	On demand	Below 3 months	3-12 months	1 - 5 yrs	Above 5 yrs	Total
Assets						
Cash and claims on central banks	1,079	-	-	-	-	1,079
Loans and claims on credit institutions	47	2,933	10	22	-	3,012
Loans to and claims on customers	174	12,366	2,967	15,760	43,675	74,943
- Individual write down of loans to and claims on customers	-	-	-144	-	-	-144
- Groupwise write down of loans to and claims on customers	-	-	-295	-	-	-295
Net loans to customers	**174**	**12,366**	**2,528**	**15,760**	**43,675**	**74,504**
Securities - designated at fair value through profit/loss	776	1,053	4,252	8,445	840	15,366
Derivatives	-	141	90	1,191	1,679	3,100
Securities - available for sale	1	-	-	-	-	1
Securities - held to maturity	-	75	-	39	-	114
Securities - loans and receivables	-	-	-	2,460	-	2,460
Investment in associates and joint ventures	4,573	-	-	-	-	4,573
Intangible assets	-	-	-	-	482	482
Property, plant and equipment	1,277	-	-	-	-	1,277
Other assets	920	659	129	244	-	1,951
Total assets	**8,847**	**17,227**	**7,008**	**28,161**	**46,676**	**107,919**
Liabilities						
Debt to credit institutions	2,521	225	16	2,147	228	5,137
Funding, "swap" arrangement with the government	-	-	1,053	1,220	-	2,273
Deposits from and debt to customers *)	44,109	1,488	3,163	3,492	-	52,252
Debt created by issuance of securities	-	1,341	3,938	19,916	5,065	30,259
Derivatives	-	20	63	1,519	1,189	2,790
Liabilities in connection with period tax	-	44	298	-	-	342
Liabilities in connection with deferred tax	-	-	-	93	-	93
Other liabilities	126	1,418	129	17	-	1,690
Subordinated debt **)	-	-	432	-	2,608	3,040
Total debt	**46,756**	**4,535**	**9,092**	**28,404**	**9,091**	**97,876**

*) The customer deposits portfolio is mainly classified in the category "on demand". Based on empirical experience, customer deposits may grow in the period ahead.

The growth in this deposit portfolio was 9.2 per cent in 2012. A deposit guarantee for deposits of up to NOK 2m has been established in accordance with the Act on guarantee schemes for banks.

**) The maturity structure for subordinated debt is based on final maturity.

Note 19 - Net interest income

Parent Bank 2011	Parent Bank 2012	(NOK million)	Group 2012	Group 2011
		Interest income		
158	144	Interest and similar income from loans to and claims on credit institutions	59	134
3,292	3,396	Interest and similar income from loans to and claims on customers	3,498	3,375
370	362	Interest and similar income from money market instruments, bonds and other fixed income securities	362	370
3	3	Other interest income	9	11
3,824	**3,904**	**Total interest income**	**3,928**	**3,891**
		Interest expense		
345	235	Interest and similar expenses on liabilities to credit institutions	162	345
1,071	1,163	Interest and similar expenses relating to deposits from and liabilities to customers	1,139	1,057
916	1,001	Interest and similar expenses related to the issuance of securities	1,001	916
125	122	Interest and similar expenses on subordinated debt	122	125
45	12	Other interest expenses and similar expenses	27	56
2,502	**2,532**	**Total interest expense**	**2,451**	**2,499**
1,322	**1,373**	**Net interest income**	**1,477**	**1,392**

Note 20 - Net commission income and other income

Parent Bank			Group	
2011	**2012**	(NOK million)	**2012**	**2011**
		Commission income		
28	37	Guarantee commission	37	28
-	-	Broker commission	239	221
40	36	Portfolio commission, savings products	29	33
5	4	Sales commission, savings products	21	23
71	201	Commission from SpareBank 1 Boligkreditt	201	71
-	4	Commission from SpareBank 1 Næringskreditt	4	-
275	273	Payment transmission services	282	275
105	121	Commission from insurance services	121	105
19	32	Other commission income	33	20
544	**707**	**Total commission income**	**968**	**778**
		Commission expenses		
74	79	Payment transmission services	79	75
0	7	Other commission expenses	16	8
75	**86**	**Total commission expenses**	**96**	**83**
		Other operating income		
22	27	Operating income real property	17	20
-	-	Property administration and sale of property	91	82
14	13	Income from financial advice (Corporate)	12	14
4	5	Securities trading	5	4
-	-	Accountant's fees	99	78
0	6	Other operating income	43	27
39	**51**	**Total other operating income**	**267**	**224**
508	**672**	**Total net commision income and other operating income**	**1,139**	**919**

Note 21 - Net profit/(loss) from financial assets

The note shows net return on financial investments by type of financial instrument in the various classification categories.

Parent Bank 2011	Parent Bank 2012	(NOK million)	Group 2012	Group 2011
		Valued at fair value through profit/loss		
-16	76	Value change in interest rate instruments	76	-16
		Value change in derivatives/hedging		
-17	-4	Net value change in hedged bonds and derivatives	-4	-17
36	14	Net value change in hedged fixed rate loans and derivatives	14	36
42	68	Other derivatives	68	41
		Income from equity instruments		
206	175	Income from owner interests	247	227
54	115	Dividend from equity instruments	10	57
-22	32	Value change and gain/(loss) on equity instruments	22	64
282	**476**	**Total net income from financial assets and liabilities at fair value through profit/(loss)**	**433**	**392**
		Valued at amortised cost		
		Value change in interest rate instruments		
0	0	Value change in interest rate instruments held to maturity	0	0
5	-	Value change in interest rate instruments, loans and receivables	-	5
5	**0**	**Total net income from financial assets and liabilities at amortised cost**	**0**	**5**
		Valued at fair value - available for sale		
		Income from equity instruments		
-	0	Dividend from equity instruments	0	-
-1	-1	Gain/(loss) on realisation of financial assets	-1	-1
-1	**-1**	**Total net income from financial assets available for sale**	**-1**	**-1**
39	**19**	**Total net gain from currency trading**	**19**	**39**
324	**495**	**Total net profit/(loss) from financial assets**	**451**	**434**

Note 22 - Personnel expenses and emoluments to senior employees and elected officers

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

The compensation committee conducts an annual review of compensation arrangements, and a written report is forwarded to the Board of Directors for scrutiny and approval. The compensation committee is required to ensure that the practising of the compensation arrangements is examined at least once yearly by independent control functions.

The Board of Directors is charged with approving and maintaining the compensation arrangements, and with ensuring that the documentation underlying decisions is safekept. The Board of Directors also approves any material change in or exception from the compensation arrangements.

The Group's guidelines for variable compensation 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 compensation arrangements are formulated in such a way as to ensure that neither individuals nor the organisation take unacceptable risk in order to maximise the variable compensation. To this end the basis for variable compensation based on the entity's risk-adjusted result must be a period of at least one year, and the qualifying period shall not be shorter than one year. SpareBank 1 SMN has no compensation arrangements for customer facing units that would be likely to encourage conduct which challenges the Bank's risk tolerance, ethical guidelines or which may contribute to conflicts of interest. The Bank has no compensation arrangements for control functions that would be likely to encourage conduct which challenges competence, and reduction clauses have been introduced for instances where breaches of applicable rules or guidelines are brought to light. Reduction has its basis in the Group's sanction system.

The following employee groups are covered by the arrangement:

Category 1: CEO and members of the Bank's management team
Category 2: Senior employees
Category 3: Employees with tasks of material significance for the Bank's risk exposure
Category 4: Employees with compensation corresponding to that of senior employees
Category 5: Employees with control functions

An assessment has in addition been made of whether other employees with compensation corresponding to that of the above groups should be subject to special rules under the above criteria.

Parent Bank			Group	
2011	**2012**	**(NOK million)**	**2012**	**2011**
480	548	Wages	837	749
24	42	Pension costs (Note 24)	55	32
25	28	Social costs	31	29
528	**618**	**Total personnel expenses**	**924**	**810**
820	837	Average number of employees	1,176	1,125
786	793	Number of man-labour years as at 31 December	1,135	1,109
828	838	Number of employees as at 31 December	1,216	1,153

Emoluments to Top Management 2012 (thousands of NOK)

Name	Title	Salary and other short-term benefits	Of which bonuses 1)	Pension contribution for salaries above 12G	Of which share-based bonus payments	Current value of pension liability	Pension rights accrued in past year	Loans at 31.12	No. of equity capital certificates
Finn Haugan	Group CEO	6,022	527	2,027	-	16,319	718	6,914	169,536
Tore Haarberg	Executive Director, Retail Division (Deputy Group CEO)	2,716	263	333	-	1,546	173	5,552	7,775
Wenche Margaretha Seljeseth 2)	Executive director, Marketing and Public Relations	1,607	92	82	-	60	-	1,950	5,463
Vegard Helland	Executive Director, Corporate Division	2,385	244	224	-	888	146	3,609	9,830
Kjell Fordal	Executive Director, Finance	2,682	251	367	-	5.145	764	6,804	270,518
Tina Steinsvik Sund 2)	Executive Director, Business Operations	2,246	219	228	-	60	-	6,759	8,517

Emoluments to Top Management 2011 (thousands of NOK)

Name	Title	Salary and other short-term benefits	Of which bonuses 1)	Pension contribution for salaries above 12G	Of which share-based bonus payments	Current value of pension liability	Pension rights accrued in past year	Loans at 31.12	No. of equity capital certificates
Finn Haugan	Group CEO	4,964	494	1,337	-	15,846	627	7,268	126,902
Tore Haarberg	Executive Director, Retail Division (Deputy Group CEO)	2,510	251	305	-	1,942	158	5,640	3,640
Wenche Seljeseth	Executive director, Marketing and Public Relations	1,035	-	10	11	-	58	2,240	2,463
Vegard Helland 3)	Executive Director, Corporate Division	1,888	117	161	-	1,250	128	1,554	5,254
Kjell Fordal	Executive Director, Finance	2,460	267	332	-	5,108	741	2,320	243,896
Tina Steinsvik Sund 4)	Executive Director, Business Operations	2,066	233	197	-	-	58	4,788	4,205

1) Paid bonuses for previous year

2) Defined-contribution pension scheme

3) Appointed Executive Director, Marketing and Public Relations as from December 2011. Benefits stated are for the entire accounting year

As a result of changes to the tax rules on top pensions, the Board of Directors decided to phase out the group pension scheme for salaries above 12G as from 1 January 2007. The Board has adopted virtually identical pension rights for all employees. For that reason an individual top pension scheme was introduced in 2007 whereby employees with salaries above 12G receive a pension add-on of 16 per cent of salary above 12G. The pension add-on will go to pension saving in products delivered by SpareBank 1. To ensure equality with the phased-out scheme, compensation will be provided for tax on this pension add-on.

Under the employment agreement with the Group CEO, the Bank undertakes to pay salary and other benefits for up to 24 months. The Group CEO is entitled to retire at age 60 on a pension of 68 per cent of pensionable income. The Bank's group occupational pension is included in the Bank's pension obligation to the Group CEO. The Group CEO also has an agreement on a dependants' benefit. The Group CEO has a contractual bonus which is dependent on goal achievement with reference to specific criteria set by the Board of Directors compensation committee.

The Executive Directors have bonus agreements which are dependent on goal achievement with reference to specific criteria set by the Board of Directors compensation committee. The Executive Directors have agreement on post-employment salary of between 12-24 months, reduced however by any salary earned in other employment.

An early retirement agreement has been established with one of the executive directors, granting this person the right to retire on reaching age 62. The pension is 68 per cent of pensionable income. The benefit associated with this arrangement is included in the basis for accumulated pension entitlement in the table above.

The number of equity capital certificates includes equity capital certificates owned by related parties and companies over which the individual exercises substantial influence

Emoluments to the Board of Directors and the Control Committee

2012 (thousands of NOK)

Name	Title	Fee	Fees to audit and remuneration committee	Other benefits	Loans as of 31.12	No. of equity capital certificates
Per Axel Koch	Board chairman	345	14	31	-	45,930
Eli Arnstad[1)]	Deputy chair to end March 2012	47	27	501	2,379	5,200
Kjell Bjordal	Deputy chair as from April 2012	207	11	36	0	50,000
Aud Skrudland	Board member	162	7	33	0	1,765
Arnhild Holstad	Board member	162	-	33	2,517	-
Paul E. Hjelm-Hansen	Board member	162	78	32	0	49,219
Bård Benum	Board member	162	69	2	-	-
Vence Johnsen [1)]	Board member, employee representative	162	-	711	342	24,716
Eldbjørg Gui Standal	Board member	122	23	1		-
Rolf Røkke	Chair, Control Committee	140	-	1	-	-
Anders Lian	Deputy chair, Control Committee	94	-	1	-	-
Terje Ruud	Member, Control Committee	94	-	1	-	-

2011 (thousands of NOK)

Name	Title	Fee	Fees to audit and remuneration committee	Other benefits	Loans as of 31.12	No. of equity capital certificates
Per Axel Koch	Board chairman	330	16	16	-	35,000
Eli Arnstad	Deputy chair	180	71	17	2,380	4,000
Kjell Bjordal	Board member	155	-	18	-	27,428
Aud Skrudland	Board member as from April 2010	155	-	18	239	1,346
Arnhild Holstad	Board member as from April 2010	155	-	17	2,282	-
Paul E. Hjelm-Hansen	Board member	155	70	16	-	37,536
Bård Benum	Board member	155	68	1	-	-
Venche Johnsen [1)]	Board member, employee representative	155	-	611	399	16,706
Rolf Røkke	Chair, Control Committee	135	-	0	-	-
Tone Valmot	Member, Control Committee to end March 2011	26	-	-	-	8,012
Anders Lian	Deputy chair, Control Committee	90	-	-	-	-
Terje Ruud	Member, Control Committee as from April 2011	71	-	-	-	-

1) Other emoluments include salary in employment relationships.

The Board chairman has neither a bonus agreement nor any agreement on post-employment salary. The no. of equity capital certificates includes certificates owned by related parties and companies over which the individual exerts substantial influence.

Emoluments to Supervisory Board (thousands of NOK)	2012	2011
Terje Skjønhals, Supervisory Board Chair to end March 2012	26	77
Randi Dyrnes, Supervisory Board Chair as from April 2012	61	
Other members	549	670

Note 23 - Other operating expenses

Parent Bank			Group	
2011	**2012**	(NOK million)	**2012**	**2011**
528	618	Personnel expenses	924	810
167	166	IT costs	187	185
23	23	Postage and transport of valuables	28	27
38	39	Marketing	49	50
38	43	Ordinary depreciation (note 31 and 32)	102	87
119	128	Operating expenses, real properties	101	95
47	55	Purchased services	66	55
129	132	Other operating expense	199	173
1,089	**1,206**	**Total other operating expenses**	**1,654**	**1,482**
		Audit fees (NOK 1000)		
1,331	1,006	Financial audit	1,835	1,989
119	-	Other attestations	93	284
451	87	Tax advice	99	960
316	511	Other non-audit services	1,262	714
2,218	**1,604**	**Total incl. value added tax**	**3,289**	**3,946**

Note 24 - Pension

Defined benefit scheme

This pension scheme is administered by a pension fund conferring entitlement to specific future pension benefits from age 67. The schemes include children's pension and disability pension under further rules. The Group's defined benefit pension scheme assures the majority of employees a pension of 68 per cent of final salary up to 12G. The defined benefit scheme is closed to new members.

Defined contribution scheme

Under the defined contribution pension scheme the Group does not provide a future pension of a given size, but pays an annual contribution to the employees' collective pension savings. Future pension will depend on the size of the contribution and the annual return on the pension savings. The Group has no further obligations with regard to the employee's labour contribution after the employer's annual contribution has been paid. Defined contribution schemes are directly expensed. The Group has made a defined contribution pension scheme available to its employees since 1 January 2008.

Early retirement pension scheme

The banking and financial industry has established an agreement on a contractual early retirement pension scheme ("AFP") for employees from age 62 to 67. The Bank pays 100 per cent of the pension paid from age 62 to 64 and 60 per cent of the pension paid from age 65 to age 67. Admission of new retirees ceased with effect from 31 December 2010.

Early retirement pension scheme, new arrangement

The Act relating to state subsidies in respect of employees who take out contractual early retirement pension in the private sector (AFP Subsidies Act) entered into force on 19 February 2010. Employees who take out contractual early retirement with effect in 2011 or later will receive benefits under the new scheme. The new AFP scheme represents a lifelong add-on to National Insurance and can be taken out from age 62. The employer's premium is determined as a per centage of salary payments between 1G and 7.1G. In keeping with the recommendation of the Norwegian Accounting Standards Board, no provision was made in the financial year for the group's de facto AFP obligation. This is because the office coordinating the schemes run by the main employer and trade union organisations has so far not performed the necessary calculations.

For further details of the Group's pension schemes see Note 2 on accounting principles and Note 22 on personnel expenses.

IAS Employee Benefits

A new IAS 19 on employee benefits was adopted by the EU on 6 June 2012. The implementation date is 1 January 2013, with an opportunity for early implementation. SpareBank 1 SMN will implement the standard as from 1 January 2013. Based on actuarial calculations as of 31 December 2012, implementation is estimated to have a positive effect of about NOK 52m on the Group's equity capital. The change compared with the previous estimate is due mainly to a change in the discount rate since the previous calculation.

	2012		2011	
Actuarial assumptions	**Costs**	**Commitment**	**Costs**	**Commitment**
Discount rate	2.6 %	3.9 %	4.0 %	2.6 %
Expected rate of return on plan assets	4.1 %	3.9 %	5.7 %	4.1 %
Expected future wage and salary growth	3.3 %	3.3 %	3.5 %	3.3 %
Expected adjustment of basic amount (G)	3.3 %	3.3 %	3.8 %	3.3 %
Expected increase in current pension	0.4 %	0.2 %	2.0 %	0.4 %
Employers contribution	14.1 %	14.1 %	14.1 %	14.1 %
Expected voluntary exit before/after 50 yrs	2/0 %	2/0 %	2/0 %	2/0 %
Estimated early retirement outtake at age 62/64	25/50 %	25/50 %	25/50 %	25/50 %

Parent Bank 2011	2012	Net pension liability in the balance sheet (NOK million). Financial position 1 Jan.	Group 2012	2011
609	679	Net present value of pension liabilities in funded schemes	706	633
-656	-622	Estimated value of pension assets	-639	-675
-47	58	Net pension liability in funded schemes	67	-42
0	-107	Estimated discrepancies not incl in profit and loss account	-111	2
-1	-1	Non-recorded effect of plan change	-1	-1
48	-50	Net pension liability in the balance sheet before employer's contribution	-45	-41
5	8	Employer's contribution	9	5
-43	**-42**	**Net pension liability in the balance sheet**	**-35**	**-36**

Distribution of liability between unfunded and funded pension scheme, Group

Group	2012			2011		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of pension liability in funded schemes	668	38	706	599	34	633
Fair value of pension assets	-639	-	-639	-675	-	-675
Net pension liability in funded schemes	30	38	67	-76	34	-42
Unrecognised estimate variance (possible actuarial gain/loss)	-107	-4	-111	-9	11	2
Unrecognised previous periods' accrual	-1	-	-1	-1	-	-1
Net pension liability in the balance sheet before employer's contribution	-79	34	-45	-86	45	-41
Employer's contribution	4	5	9	1	5	5
Net pension liability in the balance sheet after employer's contribution	-75	39	**-35**	-85	49	**-36**

2011	2012	Pension cost for the year	2012	2011
26	29	Present value of pension accumulated in the year	31	29
24	17	Interest cost of pension liabilities	18	25
-36	-25	Expected rate of return on plan assets	-26	-37
-2	5	Actuarial gains or losses	5	-2
-	-	Previous periods' accrual recognised in the period	-	-
12	26	Net defined-benefit pension cost without employer's contribution	28	14
-	3	Employer's contribution - subject to accrual accounting	3	1
-	-	Curtailment (transition to defined contribution pension)	-	-
-	-	Settlement (transition to defined contribution pension)	-	-
-	-	Effect (phase-out of the scheme)	-	-
12	29	Net pension cost related to defined benefit plans	31	14
4	5	Early retirement pension scheme, new arrangement	5	4
8	10	Cost of defined contribution pension	19	13
24	**43**	**Total pension cost**	**55**	**32**
2	**4**	**Of which unfunded pension commitment**	**4**	**2**

2011	2012	Movement in net pension liability in the balance sheet	2012	2011
-43	-42	Net pension liability in the balance sheet 1.1	-35	-36
-	2	Curtailment/Settlement	31	14
12	29	Net defined-benefit costs in profit and loss account incl. curtailment/settlement	-	-
-12	-9	Paid-in pension premium, defined-benefit schemes	-11	-14
-42	**-21**	**Net pension liability in the balance sheet 31.12**	**-15**	**-35**

2011	2012	Financial status 31.12	2012	2011
679	554	Pension liability	573	706
-670	-628	Value of pension assets	-645	-690
-56	49	Deferred loss/gain	53	-57
-1	-	Previous periods' accrual recognised in the period	-	-1
-48	-25	Net pension liability before employer’s contribution	-20	-41
5	4	Employer’s contribution	5	6
-42	**-21**	**Net pension liability after employer's contribution ***	**-15**	**-35**

* Presented gross in the Group accounts

Breakdown of financial status 31 December between secured and unsecured pension scheme, Group

Group	2012			2011		
	Funded	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Pension liability	542	31	573	668	38	706
Value of pension assets	-645	-	-645	-690	-	-690
Deferred loss/gain	54	-1	53	-53	-4	-57
Deferred plan change	-	-	-	-1	-	-1
Net pension liability before employer’s contribution	**-50**	**30**	**-20**	**-75**	**34**	**-41**
Employer’s contribution	0	4	5	1	5	6
Net pension liability after employer's contribution	**-49**	**34**	**-15**	**-74**	**39**	**-35**

Fair value of pension liability, Group	2012	2011
OB pension liability (PBO)	706	633
Liability upon plan change	-	-
Present value of pension accumulated in the year	31	29
Payout/release from scheme	-29	-35
Interest cost of pension liability	18	25
Actuarial gain or loss	-153	55
CB pension liability (PBO)	**573**	**706**

Fair value of pension assets, Group	2012	2011
OB pension assets	639	675
Paid in	10	12
Payout/release from fund	-29	-35
Expected return	26	37
Net change in pension assets	-	-
CB market value of pension assets	**645**	**690**

Historical information, Group	2012	2011	2010	2009	2008
Present value of pension liability	-573	-706	-633	-628	-1,019
Fair value of pension assets	645	690	657	582	633
Net surplus/deficit (-)	**72**	**-16**	**25**	**-46**	**-386**

Sensitivity, Group	+ 1pp discount rate	- 1pp discount rate	+ 1pp salary adjustment	- 1pp salary adjustment
2012				
Change in accumulated pension rights in course of year	-5	7	6	-5
Change in pension liability	-73	91	50	-45
2011				
Change in accumulated pension rights in course of year	-4	6	5	-4
Change in pension liability	-99	126	-71	-64

2011	2012	Members	2012	2011
915	890	Number of persons included in pension scheme	914	941
533	479	of which active	500	556
382	411	of which retirees and disabled	414	385

Investment og pension assets in the pension fund	2012	2011
Current bonds	104	142
Bonds held to maturity	273	275
Money market	76	32
Equities	203	177
Real estate	15	16
Total	**672**	**641**

Note 25 - Income tax

The following is a specification of the difference between the accounting profit before tax, the year's tax base and the year's tax charge. Wealth tax is classified as other operating expenses in conformity with IAS 12.

Parent bank			Group	
2011	2012	(NOK million)	2012	2011
1,053	1,283	Result before tax	1,355	1,236
-189	-302	+/- permanent differences *	-255	-306
-26	-20	+/- Group contributions	-20	-26
-69	-75	+/- change in temporary differences as per specification	-14	-31
-	-	+ correction income to be brought forward	-27	28
-	-	+ deficit to be brought forward	-2	-34
770	**886**	**Year's tax base/taxable income**	**1,036**	**867**
215	248	Of which payable tax at 28 %	290	245
215	**248**	**Payable tax in the balance sheet**	**290**	**245**
-1	-6	(Excess)/short tax provision last year	-6	-1
215	242	Year' change in payable tax	284	244
215	248	Tax payable on profit for the year	290	245
19	21	+/- change in deferred tax	12	13
-1	-6	+/- too much/too little set aside for payable tax in previous years	-6	-4
1	-1	+ withholding tax	-1	1
235	**262**	**Tax charge for the year**	**295**	**255**
		Change in net deferred tax liability		
19	21	Deferred tax shown through profit/loss	12	13
-	22	Correction payable tax/deferred tax, previous years *	31	-
19	**43**	**Total change in net deferred tax liability**	**43**	**13**

* Due to changes in temporary differences between presented annual accounts and final tax asessment papers

Deferred tax in balance sheet			Deferred tax in balance sheet	
2011	2012	**Composition of deferred tax carried in the balance sheet and defferred tax recognised in the income statement**	2012	2011
		Temporary differences:		
-	-	- Business assets	116	140
-	-	- Leasing items	120	171
42	21	- Pension liability	24	45
161	243	- Securities	243	161
445	617	- Hedge derivatives	617	445
-	-	- Other temporary differences	2	2
649	**880**	**Total tax-increasing temporary differences**	**1,122**	**964**
182	**247**	**Deffered tax**	**315**	**270**
		Temporary differences:		
-22	-15	- Business assets	-19	-26
-	-	- Pension liability	-6	-6
-26	-1	- Securities	-1	-26
-455	-567	- Hedge derivatives	-567	-455
-2	-	- Other temporary differences	-55	-63
-	-	- Deficit carried forward	-192	-257
-505	**-583**	**Total tax-decreasing temporary differences**	**-840**	**-833**
-141	**-163**	**Deferred tax asset**	**-235**	**-233**
40	**83**	**Net**	**80**	**37**

The above table comprises temporary differences from all consolidated companies shown gross. At the company level tax-increasing and tax-reducing temporary differences are shown net. At the group level recognition is on a gross basis in conformity with IAS 12 with each company being presented separately in the calculation of the Group's tax benefit and deferred tax:

	2012	2011
Tax benefit recorded 31.12	**13**	**19**
Deferred tax recorded 31.12	**93**	**55**

Recognised in income statement 2011	Recognised in income statement 2012	Composition of deferred tax carried in the balance sheet and deferred tax recognised in the income statement	2012	2011
		Temporary differences:		
-	-	- Business assets	-24	-17
-	-	- Leasing items	-51	48
-0	22	- Pension liability	-21	-3
-41	-23	- Securities	81	-41
-170	-172	- Hedge derivatives	172	-170
-	-	- Other temporary differences	-0	-
-212	**-174**	**Total tax-increasing temporary differences**	**157**	**-184**
-59	**-49**	**Deffered tax**	**44**	**-52**
		Temporary differences:		
9	-10	- Business assets	7	1
-	-	- Pension liability	0	-1
-3	-3	- Securities	25	-3
141	112	- Hedge derivatives	-112	141
-4	-	- Other temporary differences	8	-9
-	-	- Deficit carried forward	65	8
143	**99**	**Total tax-decreasing temporary differences**	**-7**	**137**
40	**28**	**Deferred tax asset**	**-2**	**38**
-19	**-21**	**Net**	**42**	**13**

2011	2012	Reconciliation of tax charge for the period recognised against profit and loss to profit before tax	2012	2011
296	359	28 % of profit before tax	379	346
-61	-90	Non-taxable profit and loss items (permanent differences) *	-77	-91
-	-	Recognised deferred tax previous years	-1	-1
1	-1	Withholding tax	-1	1
-1	-6	Too much/little tax provision previous years	-6	-1
235	**262**	**Tax for the period recognised in the income statement**	**295**	**255**
22 %	**20 %**	**Effective tax rate**	**22 %**	**20 %**

* Includes non-deductible costs and and deduction for profit share related to associates and joint ventures (profit shares are taken out having already been taxed at the respective companies).

Note 26 - Measurement of fair value of financial instruments

With effect from 1 January 2009 the Group has implemented the changes in IFRS 7 related to financial instruments measured at fair value on the balance sheet date. The changes require presentation of fair-value measurements at the following levels of inputs:

- prices quoted for similar instruments in an active market (level 1)
- directly observable market inputs, either direct (price) or indirect (price-derived), other than Level 1 inputs (level 2)
- inputs not based on observable market data (level 3)

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2012:

Assets	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Derivatives	61	3,039	-	3,100
Bonds and money market certificates	3,764	10,825	-	14,590
Equity instruments	131	-	601	731
Fixed interest loans	-	2,585	-	2,585
Financial assets avaliable for sale				
Equity instruments	-	-	46	46
Total assets	**3,956**	**16,450**	**646**	**21,051**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
Derivatives	62	2,728	-	2,790
Total liabilities	**62**	**2,728**	**-**	**2,790**

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2011:

Assets	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Derivatives	2	3,694	-	3,697
Bonds and money market certificates	2,896	6,980	-	9,875
Equity instruments	143	-	417	560
Fixed interest loans	-	2,012	-	2,012
Financial assets avaliable for sale				
Equity instruments	-	-	51	51
Total assets	**3,041**	**12,687**	**468**	**16,195**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
Derivatives	1	3,157	-	3,158
Total liabilities	**1**	**3,157**	**-**	**3,158**

The fair value of financial instruments that are traded in an active market is based on the market price on the balance sheet date. A market is regarded as active if the market prices are easily and regularly available from a stock exchange, trader, broker, industrial classification, quotation service or regulatory authority, and these prices represent actual and regularly occurring arms-length market transactions. The market price utilised for financial assets is the applicable buy price, for financial liabilities the applicable sell price is used. These instruments are included in level 1. Instruments included in level 1 are exclusively equity instruments quoted on the Oslo Stock Exchange and classified as held for trading or available for sale, and Treasury bills.

The fair value of financial instruments that are not traded in an active market (for example some OTC derivatives) is determined by means of valuation methods. These valuation methods maximise the use of observable data where such data are available, and rely as little as possible on the Group’s own estimates. If all significant data that are needed in order to determine the fair value of an instrument are observable data, the instrument is included in level 2.

If one or several significant data items are not based on observable market data, the instrument is included in level 3.

Special valuation methods used to value financial instruments include:

- market prices or trader prices quoted for similar instruments
- fair value of interest rate swaps is calculated as the current value of estimated future cash flow based on observable yield curves
- fair value of forward contracts in foreign currency is determined by reference to the current value of the difference between the agreed forward price and forward price on the balance sheet date
- other techniques, such as the multiplier model, are used to determine fair value of the remaining financial instruments

The following table presents the changes in the instruments classified in level 3 as at 31 December 2012:

	Equity instruments	**Total**
Opening balance 1 January	468	**468**
Investments in the period	177	**177**
Disposals in the period (at book value)	-6	**-6**
Gain or loss entered in income statement	8	**8**
Closing balance 31 December	**646**	**646**

The following table presents the changes in the instruments classified in level 3 as at 31 December 2011:

	Equity instruments	**Total**
Opening balance 1 January	449	**449**
Transferred to level 1 or 2	-23	**-23**
Investments in the period	43	**43**
Disposals in the period (at book value)	-1	**-1**
Gain or loss entered in income statement	-5	**-5**
Gain or loss recognised directly in comprehensive income	5	**5**
Closing balance 31 December	**468**	**468**

The total gain and loss for the period applies to assets owned on the balance sheet date.

Note 27 - Fair value of financial instruments

Financial instruments measured at fair value
Financial instruments that are booked at fair value comprise shares, parts of the money market certificate and bond portfolio (classified at fair value), derivatives, and debt included in hedge accounting. For further details, note 2 IFRS Accounting principles, and note 3 Critical estimates and assessments concerning the use of accounting principles.

Financial instruments measured at amortised cost
Financial instruments that are not measured at fair value are recognised at amortised cost. For further details, see note 2 IFRS Accounting principles. Amortised cost entails valuing balance sheet items after initially agreed cash flows, adjusted for impairment.

Measurement at fair value will invariably be encumbered with uncertainty.

Measurement at fair value for items carried at amortised cost
Methods underlying the determination of fair value of financial instruments that are measured at amortised cost are described below:

Loans to and claims on customers
Current-rate loans are exposed to competition in the market, indicating that possible excess value in the portfolio will not be maintained over a long period. Fair value of current-rate loans is therefore set to amortised cost. The effect of changes in credit quality in the portfolio is accounted for through collectively assessed impairment write-downs, therefore giving a good expression of fair value in that part of the portfolio where individual write-down assessments have not been made.

Individual write-downs are determined through an assessment of future cash flow, discounted by effective interest rate. Hence the discounted value gives a good expression of the fair value of these loans.

Fixed interest loan in NOK are already valued at fair value in the accounts, and are not included in the estimates described above.

Bonds held to maturity and bonds for lending and claim purpose
Change to fair value is calculated by reference to a theoretical valuation of market value based on interest rate and spread curves.

Loans to and claims on credit insitutions and Debt to credit institutions
For loans to and claims on credit institutions, as well as debt to credit institutions, fair value is estimated as equal to book value.

Parent bank

(NOK million)	Book value 31.12.12	Fair value 31.12.12	Book value 31.12.11	Fair value 31.12.11
Assets				
Loans to and claims on credit institutions	5,619	5,619	5,033	5,033
Loans to and claims on customers at amortised cost	69,879	69,879	68,357	68,357
Loans to and claims on customers at fair value	2,585	2,585	2,012	2,012
Shares	354	354	331	331
Bonds at fair value	14,590	14,590	9,875	9,875
Bonds held to maturity	114	114	583	584
Bonds for lending and claim purpose	2,460	2,473	2,460	2,451
Derivatives	3,101	3,101	3,698	3,698
Total financial assets	**98,702**	**98,715**	**92,349**	**92,342**
Liabilities				
Debt to credit institutions	5,137	5,137	6,232	6,232
Debt related to "swap" arrangement with the government	2,273	2,273	2,886	2,886
Deposits from and debt to customers	53,187	53,187	48,114	48,114
Securities debt at amortised cost	14,968	15,084	12,444	11,266
Securities debt, hedging	15,292	15,044	15,704	15,647
Derivatives	2,790	2,790	3,158	3,158
Subordinated debt at amortised cost	1,470	1,449	936	884
Subordinated debt, hedging	1,570	1,572	1,754	1,798
Total financial liabilities	**96,687**	**96,536**	**91,228**	**89,985**

Group

(NOK million)	Book value 31.12.12	Fair value 31.12.12	Book value 31.12.11	Fair value 31.12.11
Assets				
Loans to and claims on credit institutions	3,012	3,012	2,557	2,557
Loans to and claims on customers at amortised cost	72,358	72,358	71,363	71,363
Loans to and claims on customers at fair value	2,585	2,585	2,012	2,012
Shares	777	777	611	611
Bonds at fair value	14,590	14,590	9,875	9,875
Bonds held to maturity	114	114	583	584
Bonds for lending and claim purpose	2,460	2,473	2,460	2,451
Derivatives	3,100	3,100	3,697	3,697
Total financial assets	**98,996**	**99,009**	**93,157**	**93,151**
Liabilities				
Debt to credit institutions	5,137	5,137	6,232	6,232
Debt related to "swap" arrangement with the government	2,273	2,273	2,886	2,886
Deposits from and debt to customers	52,252	52,252	47,871	47,871
Securities debt at amortised cost	14,968	15,084	12,444	11,266
Securities debt, hedging	15,292	15,044	15,704	15,647
Derivatives	2,790	2,790	3,158	3,158
Subordinated debt at amortised cost	1,470	1,449	936	884
Subordinated debt, hedging	1,570	1,572	1,754	1,798
Total financial liabilities	**95,751**	**95,600**	**90,985**	**89,742**

Note 28 - Money market certificates and bonds

Bonds and money market instruments are classified in the categories fair value through profit/loss, heldt to maturity and loans and receivables. Measurement at fair value reflects market value, while the category held to maturity and loans and receivables are measured at amortised cost.

Parent Bank			Group	
		Money market certificates and bonds by issuer sector		
2011	**2012**	(NOK million)	**2012**	**2011**
3,077	4,178	**State** (nominal)	4,178	3,077
3,059	4,111	fair value	4,111	3,059
-	-	valued at amortised cost (held to maturity, loans and receivables)	-	-
3,059	**4,111**	**Book value, state**	**4,111**	**3,059**
939	1,649	**Other public sector** (nominal)	1,649	939
904	1,672	fair value	1,672	904
39	39	valued at amortised cost (held to maturity, loans and receivables)	39	39
943	**1,711**	**Book value, other public issuer**	**1,711**	**943**
8,580	11,142	**Financial enterprises** (nominal)	11,142	8,580
5,763	8,735	fair value	8,735	5,763
3,003	2,535	valued at amortised cost (held to maturity, loans and receivables)	2,535	3,003
8,766	**11,270**	**Book value, financial enterprises**	**11,270**	**8,766**
150	72	**Non-financial enterprises** (nominal)	72	150
150	71	fair value	71	150
-	-	valued at amortised cost (held to maturity, loans and receivables)	-	-
150	**71**	**Book value, non-financial enterprises**	**71**	**150**
12,746	**17,040**	**Total fixed income securities, nominal value**	**17,040**	**12,746**
12,918	**17,164**	**Total fixed income securities, booked value**	**17,164**	**12,918**

For further specification of risk related to fixed income securities, see note 15 Market risk related to interest rate.

Note 29 - Financial derivatives

All derivatives are booked at real value through profit and loss. Gains are carried as assets and losses as liabilities in the case of all interest rate derivatives. This applies both to derivatives used, and to derivatives not used, for hedge purposes. The Bank does not employ cash flow hedging.

Group

This note is virtually identical for the Parent Bank and the Group. NOK million.

Fair value through profit and loss	**2012**			**2011**		
	Contract	Fair values		Contract	Fair values	
Currency instruments	amount	Assets	Liabilities	amount	Assets	Liabilities
Foreign exchange derivatives (forwards)	1,478	42	-61	2,318	47	-58
Currency swaps	19,273	282	-144	19,534	410	-280
FX-options	15	0	0	60,391	313	-310
Total currency instruments	20,765	323	-205	82,243	770	-648
Fixed income instruments						
Interest rate swaps (including cross currency)	95,214	2,343	-2,267	81,052	1,834	-1,685
Short-term interest rate swaps (FRA)	69,000	27	-29	5,000	2	-1
Other interest rate contracts	1,247	62	-62	1,329	48	-45
Total non-standardised contracts	165,461	2,432	-2,357	87,381	1,884	-1,732
Hedging						
Interest rate instruments						
Interest rate swaps (including cross currency)	12,545	515	-319	15,147	572	-231
Other interest rate contracts	-	-	-	-	-	-
Total non-standardised contracts	12,545	515	-319	15,147	572	-231
Total foreign exchange and fixed income instruments						
Total interest rate derivatives	178,005	2,948	-2,677	102,528	2,456	-1,963
Total currency derivatives	20,765	323	-205	82,243	770	-648
Total financial derivatives	**198,771**	**3,271**	**-2,882**	**184,771**	**3,226**	**-2,611**

The market value of currency swaps and forward foreign exchange contracts is carried net under 'other assets' in the balance sheet.

Note 30 - Shares, units and other equity interests

The Bank classifies shares in the categories fair value and available for sale. Securities that can be reliably measured, and which are reported internally at fair value, are recognised at fair value through profit and loss. Other shares are classified as available for sale. Investments in subordinated loans are booked at amortised cost.

Parent bank			Group	
2011	2012	Shares and units (NOK million)	2012	2011
330	**353**	**At fair value through profit or loss**	**691**	**536**
38	42	Listed	106	132
292	312	Unlisted	585	404
1	**1**	**Available for sale**	**70**	**63**
-	-	Listed	25	11
1	1	Unlisted	46	51
-	**-**	**At amortised cost**	**16**	**13**
-	-	Unlisted	16	13
331	**354**	**Total shares and units**	**777**	**611**
		Business held for sale - of which shares		
-	239	Listed	320	32
222	101	Unlisted	-	326
222	**340**	**Total shares held for sale**	**320**	**358**
38	**281**	**Total listed companies**	**451**	**175**
514	**414**	**Total unlisted companies**	**646**	**794**

Note 31 - Goodwill

Parent Bank			Group	
2011	**2012**	**(NOK million)**	**2012**	**2011**
		Goodwill		
447	447	Acquisition cost at 1.1	472	460
-	-	Additions/Disposals	10	12
447	447	Acquisition cost at 31.12	482	471
447	**447**	**Goodwill shown in balance sheet 31.12**	**482**	**471**

Balance sheet value in the parent bank, NOK 447m, refers to added value in connection with the purchase of 100 per cent of Romsdals Fellesbank in 2005. The remaining amount at Group level refers to the parent bank's purchase of Romsdals Fellesbank as described above, the merger and acquisition of estate agencies from EiendomsMegler 1 Midt-Norge, and SpareBank 1 SMN Regnskap's acquisitions of accounting firms. The year's increase of NOK 10m at group level relates to further acquisitions undertaken in 2012.

Goodwill is valued annually and written down if impairment tests imply reduction in value. There was no write down of goodwill in 2012.

See note 3 for a description of the valuation model for goodwill.

Note 32 - Property, plant and equipment

Parent Bank					Group	
2011					2012	
Buildings and other real property	**Machinery, inventory and vehicles**	**Total**	(NOK million)	**Total**	**Machinery, inventory and vehicles**	**Buildings and other real property**
19	327	345	Cost of acquisition at 1 January 2011	1,300	396	904
6	53	59	Acquisitions	279	87	192
-	10	10	Disposals	128	21	107
24	370	394	Cost of acquisition at 31 December 2011	1,451	462	989
4	210	215	Accumulated depreciation and write-downs as at 1 January 2011	274	249	25
1	36	37	Current period's depreciation	86	49	38
-	1	1	Current period's write-down	2	2	-
-	9	10	Reversal of accumulated depreciation and write-downs	20	19	
5	238	243	Accumulated depreciation and write-down as at 31 December 2011	342	280	62
19	**132**	**151**	**Book value as at 31 December 2011**	**1,109**	**182**	**927**
Parent Bank					**Group**	
2012					**2012**	
24	370	394	Cost of acquisition at 1 January 2012	1,451	462	989
34	65	97	Acquisitions	279	76	203
-	101	101	Disposals	107	102	5
56	334	390	Cost of acquisition at 31 December 2012	1,624	436	1,188
5	238	243	Accumulated depreciation and write-downs as at 1 January 2012	342	280	62
2	40	42	Current period's depreciation	101	58	42
-	1	1	Current period's write-down	1	1	-
-	96	96	Reversal of accumulated depreciation and write-downs	96	96	-
6	183	190	Accumulated depreciation and write-down as at 31 December 2012	347	243	104
50	**151**	**201**	**Book value as at 31 December 2012**	**1,277**	**193**	**1,083**

Depreciation

With a basis in acquisition cost less any residual value, assets are depreciated on a straight-line basis over expected lifetime as follows:

Technical installations 10 yrs
Machinery 3 - 5 yrs
Fixtures 5 - 10 yrs
IT equipment 3 - 5 yrs
Means of transport 10 yrs
Buildings and other real property 25 - 33 yrs

Provision of security

The Bank has not provided security or accepted any other infringements on its right of disposal of its fixed tangible assets.

Acquisition cost of depreciated assets

The acquisition cost of fully depreciated assets still in use in the Bank in 2012 is NOK 41 million.

Gross value of non-current assets temporarily out of operation

The Group has no significant non-current assets out of operation as at 31 December 2012.

Note 33 - Other assets

Parent Bank			Group	
2011	**2012**	(NOK million)	**2012**	**2011**
-	-	Deferred tax asset (see note 25)	13	19
956	1,009	Earned income not yet received	1,026	948
4	46	Accounts receivable, securities	46	4
30	230	Other assets	381	218
991	**1,284**	**Other assets**	**1,465**	**1,189**

Note 34 - Deposits from and liabilities to customers

Parent Bank		(NOK million)	Group	
2011	2012	**Deposits from and liabilities to customers**	2012	2011
41,074	45,044	Deposits from and liabilities to customers without agreed maturity	44,109	40,831
7,040	8,143	Deposits from and liabilities to customers with agreed maturity	8,143	7,040
48,114	**53,187**	**Total deposits from and liabilities to customers**	**52,252**	**47,871**
2.4 %	**2.2 %**	Average interest rate	**2.3 %**	**2.3 %**

Fixed interest deposits account for 8.72 per cent of total deposits.

2011	2012	Deposits specified by sector and industry	2012	2011
20,860	22,279	Wage earners	22,279	20,860
3,920	4,354	Public administration	4,354	3,920
1,757	2,002	Agriculture, forestry, fisheries and hunting	2,002	1,757
402	138	Sea farming industries	138	402
1,079	891	Manufacturing	891	1,079
1,420	1,715	Construction, power and water supply	1,715	1,420
3,517	3,923	Retail trade, hotels and restaurants	3,923	3,517
1,103	1,166	Maritime sector	1,166	1,103
3,545	4,865	Property management	4,256	3,517
5,103	4,802	Business services	4,802	5,103
3,231	3,575	Transport and other services provision	3,360	3,036
2,178	3,477	Other sectors	3,366	2,157
48,114	**53,187**	**Total deposits from customers broken down by sector and industry**	**52,252**	**47,871**

2011	2012	Deposits specified by geographic area	2012	2011
19,171	22,299	Sør-Trøndelag	21,364	18,928
13,503	13,800	Nord-Trøndelag	13,800	13,503
7,291	7,995	Møre og Romsdal	7,995	7,291
97	211	Sogn og Fjordane	211	97
287	303	Nordland	303	287
4,525	4,441	Oslo	4,441	4,525
2,847	3,517	Other counties	3,517	2,847
393	621	Abroad	621	393
48,114	**53,187**	**Total deposits broken down by geographic area**	**52,252**	**47,871**

Note 35 - Debt securities in issue

Parent Bank			Group	
2011	**2012**	(NOK million)	**2012**	**2011**
220	706	Money market instrument and other short-term borrowings	706	220
27,928	29,553	Bond debt	29,553	27,928
28,148	**30,259**	**Total debt securities in issue**	**30,259**	**28,148**
5.2 %	3.2 %	Average interest, money market certificates	3.2 %	5.2 %
3.4 %	3.5 %	Average interest, bond debt	3.5 %	3.4 %

Average interest rate calculated on basis of actual interest expense in the year including any interest rate and currency swaps in per cent of average securities holding.

2011	**2012**	**Securities debt specified by maturity[1)]**	**2012**	**2011**
4,873	-	2012	-	4,873
5,673	5,258	2013	5,258	5,673
8,647	7,971	2014	7,971	8,647
3,752	4,050	2015	4,050	3,752
3,881	4,952	2016	4,952	3,881
-	2,732	2017	2,732	-
-	2,000	2018	2,000	-
-	250	2019	250	-
1,075	1,309	2020	1,309	1,075
-	375	2022	375	-
-	1,000	2027	1,000	-
-1	-1	Currency agio	-1	-1
248	364	Premium and discount, market value of structured bonds	364	248
28,148	**30,259**	**Total securities debt**	**30,259**	**28,148**

1) Less own bonds. Total nominal own holding in 2012 comes to NOK 566.4m (2011: NOK 845.4m).

2011	**2012**	**Securities debt distributed on significant currencies**	**2012**	**2011**
19,345	23,317	NOK	23,317	19,345
8,065	5,458	EUR	5,458	8,065
738	1,485	Other	1,485	738
28,148	**30,259**	**Total securities debt**	**30,259**	**28,148**

Parent Bank and Group

Change in securities debt	31.12.2012	Issued	Fallen due/ redeemed	Other changes	31.12.2011
Money market certificate debt, nominal value	706	839	352	0	219
Bond debt, nominal value	29,190	9,284	7,480	-294	27,681
Adjustments	364	-	-	115	248
Total	**30,259**	**10,122**	**7,832**	**-179**	**28,148**

Change in securities debt	31.12.2011	Issued	Fallen due/ redeemed	Other changes	31.12.2010
Money market certificate debt, nominal value	219	219	235	-	235
Bond debt, nominal value	27,681	5,827	5,809	81	27,581
Adjustments	248	-	-	123	126
Total	**28,148**	**6,046**	**6,044**	**204**	**27,941**

Note 36 - Other debt and liabilities

Parent Bank 2011	Parent Bank 2012	Other debt and recognised liabilities (NOK million)	Group 2012	Group 2011
-	-	Pension liabilities (note 24)	6	7
10	9	Creditors	40	38
113	87	Drawing debt	87	113
20	73	Debt from securities	73	20
40	83	Deferred tax	93	55
215	248	Payable tax	290	244
101	74	Provisions	74	102
913	800	Accruals	1,124	1,213
130	226	Other	268	177
1,544	**1,600**	**Total other debt and recognised liabilities**	**2,054**	**1,971**
		Guarantee commitments (agreed guarantee amounts)		
957	1,082	Payment guarantees	1,082	957
703	926	Performance guarantees	926	703
1,945	2,946	Loan guarantees	2,946	1,945
92	100	Guarantees for taxes	100	92
160	158	Other guarantee commitments	158	160
3,857	**5,213**	**Total guarantee commitments**	**4,131**	**3,857**
		Other liabilities, not recognised		
10,578	8,688	Unutilised credits	8,688	10,578
470	1,539	Loan approvals (not discounted)	1,652	500
664	633	Unutilised guarantee commitments	633	664
148	155	Documentary credits	155	148
-	-	Non-exercised capital calls in Private Equity funds	69	128
11,860	**11,016**	**Total other commitments**	**11,197**	**12,018**
17,261	**17,828**	**Total commitments**	**17,383**	**17,996**

Cash Deposit	Securities	Total	Securities pledged	Total	Securities	Cash Deposit
1,526	7,429	8,955	Securities pledged in 2012	8,955	7,429	1,526
-	-	-	Relevant liability 2012	-	-	-
953	7,900	8,853	Securities pledged in 2011	8,853	7,900	953
-	-	-	Relevant liability 2011	-	-	-

Ongoing lawsuits

The Group is involved in legal disputes not considered to be of substantial significance for the Group's financial position. Provision for loss has been made where appropriate.

Operational leases

The Group has an annual liability of about NOK 98 million related to operational leases.

SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt

As regards the bank’s liabilities related to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, see note 9 on transfer of financial assets.

Note 37 - Subordinated debt and hybrid equity issue

For a description of subordinated debt and hybrid capital and how they affect capital adequacy, see note 2 Accounting principles IFRS.

Parent bank			Group	
2011	**2012**	(NOK million)	**2012**	**2011**
		Dated		
112	97	2018 fixed rate 6.65 % (Call 2013) 1) 2)	97	112
538	72	2018 3 month NIBOR + 1.25 % (Call 2013) 2)	72	538
-	1,000	2022 3 month NIBOR + 2.75 % (Call 2017)	1,000	-
470	470	2036 fixed rate 2.94 %, JPY (Call 2018) 1)	470	470
59	57	Premium/discount/market value	57	59
257	128	Currency agio debt	128	257
1,436	**1,824**	**Total dated**	**1,824**	**1,436**
		Perpetual non-call		
300	300	Perpetual non call 3 month NIBOR + 0.85 % (Call 2016)	300	300
-2	-2	Discount perpetual subordinated debt	-2	-2
-	-	Perpetual non-call currency agio	-	-
298	**298**	**Total perpetual non-call**	**298**	**298**
		Hybrid equity		
522	522	Hybrid capital 30 years, fixed rate 6.5 %, USD 75 mill. (Call 2013) 1)	522	522
350	350	Hybrid capital10/99, fixed rate 8.25 % NOK (Call 2020) 1)	350	350
100	100	Hybrid captial 10/99, floating rate NOK (Call 2020)	100	100
58	56	Discount perpetual hybrid equity	56	58
-74	-110	Hybrid equity currency agio	-110	-74
956	**918**	**Total hybrid equity**	**918**	**956**
2,690	**3,040**	**Total subordinated loan capital and hybrid equity**	**3,040**	**2,690**
5.5 %	4.9 %	Average rate NOK	4.9 %	5.5 %
5.3 %	5.2 %	Average rate USD	5.2 %	5.3 %

1) Fixed rate funding changed to floating rate by means of interest rate swaps

2) The decision on early redemption of first quarter 2013 is approved by Finanstilsynet

Parent Bank and Group

Changes in subordinated debt and hybrid equity issue	**31.12.2012**	**Issued**	**Fallen due/ redeemed**	**Other changes**	**31.12.2011**
Ordinary subordinated debt, NOK	1,169	1,000	481	-	650
Ordinary subordinated debt, Currency	584	-	-	-115	699
Perpetual, subordinated debt, NOK	300	-	-	-	300
Hybrid capital loan, NOK	450	-	-	-	450
Hybrid capital loan, Currency	419	-	-	-33	452
Adjustments	118	-	-	-21	139
Total subordinated debt and hybrid equity issue	**3,040**	**1,000**	**481**	**-169**	**2,690**

Changes in subordinated debt and hybrid equity issue	**31.12.2011**	**Issued**	**Fallen due/ redeemed**	**Other changes**	**31.12.2010**
Ordinary subordinated debt, NOK	650	-	-	-	650
Ordinary subordinated debt, Currency	699	-	-	51	649
Perpetual, subordinated debt, NOK	300	-	-	-	300
Perpetual, subordinated debt, Currency	-	-	144	-3	147
Hybrid capital loan, NOK	450	-	-	-	450
Hybrid capital loan, Currency	452	-	-	12	440
Adjustments	139	-	-	16	123
Total subordinated debt and hybrid equity issue	**2,690**	**-**	**144**	**76**	**2,758**

Note 38 - Investments in owner interests

Subsidiaries, affiliates, joint ventures and companies held for sale

Company	Registered office	Stake in per cent
Investment in significant subsidiaries		
Shares owned by Parent Bank		
SpareBank 1 SMN Finans AS	Trondheim	90.1
SpareBank 1 SMN Invest AS	Trondheim	100.0
EiendomsMegler 1 Midt-Norge AS	Trondheim	87.0
SpareBank 1 SMN Kvartalet AS	Trondheim	100.0
SpareBank 1 SMN Regnskap AS	Trondheim	100.0
Allegro Finans ASA	Trondheim	90.1
SpareBank 1 Bygget Steinkjer AS	Trondheim	100.0
SpareBank 1 Bygget Trondheim AS	Trondheim	100.0
SpareBank 1 SMN Card Solutions AS	Trondheim	100.0
Oppistu AS	Trondheim	100.0
Brannstasjonen SMN AS	Trondheim	100.0
TKR Invest AS	Trondheim	100.0
St. Olavs Plass 1 SMN AS	Trondheim	100.0
SpareBank 1 Bilplan AS	Trondheim	100.0
Shares owned by subsidiaries and sub-subsidiaries		
GMA Invest AS (owned by SpareBank 1 SMN Invest AS)	Trondheim	100.0
Consis AS (owned by SpareBank 1 SMN Regnskap AS)	Hamar	40.0
Leksvik Regnskapskontor AS (owned by SpareBank 1 SMN Regnskap AS)	Leksvik	50.0
Calculus AS (owned by SpareBank 1 SMN Regnskap AS)	Røros	100.0
Røros Regnskap AS (owned by SpareBank 1 SMN Regnskap AS)	Røros	100.0
Investment in jont ventures		
SpareBank 1 Gruppen AS	Tromsø	19.5
BN Bank ASA	Trondheim	33.0
Bank 1 Oslo Akershus AS	Oslo	15.2
Alliansesamarbeidet SpareBank 1 DA	Oslo	17.7
SpareBank1 Boligkreditt AS	Stavanger	18.4
SpareBank 1 Næringskreditt AS	Stavanger	33.8
SpareBank 1 Kundesenter AS	Stavanger	18.7
SpareBank 1 Verdipapirservice AS	Oslo	27.9
SpareBank 1 Kredittkort AS	Trondheim	19.6
Investment in associates		
PAB Consulting AS	Ålesund	34.0
Molde Kunnskapspark AS	Molde	20.0
Grilstad Marina AS	Trondheim	35.0
GMN 1 AS	Trondheim	35.0
GMN 4 AS	Trondheim	35.0
GMN 51 AS	Trondheim	30.0
GMN 52 AS	Trondheim	30.0
GMN 53 AS	Trondheim	30.0
GMN 54 AS	Trondheim	35.0
GMN 6 AS	Trondheim	35.0
Grilstad Energi AS	Trondheim	30.0
Hommelvik Sjøside AS	Malvik	40.0
Investment in companies held for sale		
Polaris Media ASA	Trondheim	23.5
Mavi VIII AS	Trondheim	100.0
Mavi XV AS Group	Trondheim	100.0
Ranheim Eiendomsutvikling AS	Trondheim	100.0
Skei Marinfisk AS	Leka	100.0
Mavi XIII AS	Trondheim	100.0

Mavi XVI AS	Trondheim	100.0
Mavi XI AS	Trondheim	100.0
Mavi XXI AS	Trondheim	100.0
Mavi XXIII AS	Trondheim	100.0
Mavi XXIV AS	Trondheim	100.0
Mavi XXV AS	Trondheim	100.0
Mavi XXVI AS	Trondheim	100.0
Mavi XXVII AS	Trondheim	100.0
Mavi XXVIII AS	Trondheim	100.0

Shares in subsidiaries, Parent Bank

Recorded at acquisition cost in the Parent Bank. Full consolidation in the Group accounts. Total costs include tax charge. The booked value of subsidiaries in the tables below is the Parent Bank's booked value.

2012	Company's capital (NOK 1000's)	No. of shares	Nominal value(NOK 1000's)	Assets	Liabilities	Total income	Total expenses	Company's result of the year	Book value 31.12
SpareBank 1 SMN Finans AS Group	271,920	27,192	10.0	3,133	2,732	127	64	63	323
Total investments in credit institutions									**323**
SpareBank 1 SMN Invest AS Group	307,280	307,280	1.0	562	156	-10	3	-13	358
EiendomsMegler 1 Midt-Norge AS	49,545	5,505	9.0	299	112	380	326	54	96
SpareBank 1 SMN Kvartalet AS	302,000	30,200	10.0	1,280	577	51	63	-12	874
SpareBank 1 SMN Regnskap AS Group	12,138	238	51.0	68	31	105	94	10	34
Allegro Finans ASA	6,000	6,000	1.0	35	6	19	22	-3	11
SpareBank 1 Bygget Steinkjer AS	6,000	100	60.0	49	45	3	3	-1	9
SpareBank 1 Bygget Trondheim AS	94,236	100,000	0.9	185	6	26	23	3	75
SpareBank 1 SMN Card Solutions AS	200	2,000	0.1	16	9	16	13	2	19
Oppistu AS	3,000	30,000	0.1	20	8	-	0	0	12
Brannstasjonen SMN AS	10,000	100,000	0.1	74	0	3	2	1	73
TKR Invest AS	2,031	2,030,621	0.0	213	0	3	2	1	212
St. Olavs Plass 1 SMN AS	10,000	100,000	0.1	75	0	-	0	0	75
SpareBank 1 Bilplan AS	5,769	41,206	0.1	40	35	167	168	-1	9
Total investments in other subsidiaries									**1,858**
Total investments in Group companies, Parent Bank									**2,181**

2011	Company's share capital (NOK 1000's)	No. of shares	Nominal value (NOK 1000's)	Assets	Liabilities	Total income	Total expenses	Company's result of the year	Book value 31.12
SpareBank 1 SMN Finans AS Group	245,000	24,500	10.0	2,872	2,531	93	74	19	323
Total investments in credit institutions									**323**
SpareBank 1 SMN Invest AS	307,280	307,280	1.0	377	2	93	5	89	358
EiendomsMegler 1 Midt-Norge AS	41,288	5,505	6.0	266	106	354	300	54	73
SpareBank 1 SMN Kvartalet AS	196,200	30,200	6.5	751	565	54	70	-15	240
SpareBank 1 SMN Regnskap AS	7,140	140	51.0	44	17	83	79	4	34
Allegro Finans ASA	6,000	6,000	1.0	37	6	20	24	-4	11
SpareBank 1 Bygget Steinkjer AS (Midt-Norge Fonds AS)	6,000	100	60.0	39	34	0	0	0	9
SpareBank 1 Bygget Trondheim AS	54,236	100,000	0.5	187	61	26	29	-2	131
SpareBank 1 SMN Card Solutions AS	200	2,000	0.1	13	4	16	12	3	18
Total investments in other subsidiaries									**874**
Total investments in Group companies, Parent Bank									**1,197**

Shares in associates and joint ventures

Associates and joint ventures are recorded at acquisition cost in the Parent Bank. Group figures are presented by the equity method.

Parent Bank			Group	
2011	**2012**	**(NOK million)**	**2012**	**2011**
2,156	2,822	As at 1 January	4,259	3,526
666	292	Acquisition/sale	224	727
-	-	Equity capital changes	-2	-80
-	-	Profit share	246	248
-	-	Dividend paid	-154	-163
2,816	**3,115**	**Book value as at 31 December**	**4,573**	**4,259**

Specification of year's change, Group	Additions/disposal	Equtiy change
SpareBank 1 Gruppen AS	84	-31
BN Bank ASA	31	-
Bank 1 Oslo Akershus AS	14	30
SpareBank 1 Boligkreditt AS	304	-1
SpareBank 1 Næringskreditt AS	75	-
Sandvika Fjellstue AS	-6	-
Polaris Media ASA[1)]	-332	-
GMA Invest AS	-3	-
SpareBank 1 Kredittkort AS	30	-
SpareBank 1 Verdipapirservice AS	9	-
SpareBank 1 Kundeservice AS	0	-
Consis AS	18	-
Sum	**224**	**-2**

1) Reclassified to category held for sale

Income from investments in associates and joint ventures

Profit share from affiliates and joint ventures is specified in the table below. Badwill and amortisation effects related to acquisitions are included in the profit share.

Parent Bank 2011	Parent Bank 2012	(NOK million)	Group 2012	Group 2011
		Profit share from:		
-	-	SpareBank 1 Gruppen Group	94	96
-	-	Bank 1 Oslo Akershus AS	26	15
-	-	SpareBank1 Boligkreditt AS	44	16
-	-	BN Bank ASA	72	89
-	-	Molde Kunnskapspark AS	0	-
-	-	SpareBank 1 Næringskreditt AS	8	9
-	-	Polaris Media ASA 1)	-	23
-	-	SpareBank 1 Kredittkort	-0	-
-	-	Other minor companies	2	-0
		Dividends from:		
86	85	SpareBank 1 Gruppen AS	-85	-86
16	16	SpareBank 1 Boligkreditt AS	-16	-16
50	31	BN Bank ASA	-31	-50
7	14	Bank 1 Oslo Akershus AS	-14	-7
3	9	SpareBank 1 Næringskreditt AS	-9	-3
14	-	Polaris Media ASA 1)	-	-
1	-	Other minor companies	-	-1
176	**154**	**Total income from associates and joint ventures**	**92**	**86**

1) Reclassified to category held for sale

Company information on the Group's stakes in affiliates and joint ventures

The tables below contain company or Group accounting figures on a 100 per cent share basis, except for profit share which is stated as the SMN Group's share. Booked value is the consolidated value in the SMN Group.

2012 (NOK million)	Assets	Liabilities	Total income	Total costs	Profit share	Book value 31.12	Ownership share	No. of shares
SpareBank 1 Gruppen Group	46,702	41,341	11,640	11,188	96	1,022	20 %	364,728
Bank 1 Oslo Akershus AS	29,201	27,436	984	878	26	342	15 %	694,484
SpareBank 1 Boligkreditt AS	186,653	178,862	376	128	44	1,356	18 %	8,748,411
BN Bank ASA	41,732	38,391	634	448	72	1,095	33 %	4,411,549
Molde Kunnskapspark AS	11	1	4	4	0	2	20 %	2,000
SpareBank 1 Næringskreditt AS	12	11	48	26	8	524	34 %	4,022,610
SpareBank 1 Kundesenter AS	1	0	2	2	0	0	19 %	1,866
SpareBank 1 Verdipapirservice AS	35	2	-	-	-	9	28 %	18,414
SpareBank 1 Kredittkort AS	163	10	0	3	0	30	20 %	98,252
Other minor companies	-	-	-	-	2	40	-	-
Total					**246**	**4,420**		

Investment in associates with limited activity in the accounting year

Activity gradually picked up in 2012 at the development companies Grilstad Marina AS, GMN 1 AS, GMN 4 AS, GMN 51 AS, GMN 52 AS, GMN 53 AS , GMN 54 AS, GMN 6 AS and Hommelvik Sjøside AS. Start-up of the residential area at Hommelvik Sjøside AS went ahead in the second half of 2011 and the first construction stage was handed over in December 2012. The second construction stage is expected to be handed over in the third quarter of 2013. The first part of the residential area at Grilstad Marina AS was started in the second half of 2011 with completion expected in summer 2013. Construction start of the commercial area at GMN 1 AS is expected in the first quarter of 2012 with completion scheduled for summer 2013.

The above development companies are booked in the Group accounts at NOK 152.8m (NOK 155.7m) as at 31 December 2012.

2011	Assets	Liabilities	Total income	Total costs	Profit share	Book value 31.12	Ownership share	No. of shares
SpareBank 1 Gruppen Group	41,992	37,097	8,972	8,493	96	959	20 %	364,728
Bank 1 Oslo Akershus AS	28,193	26,606	793	713	15	285	20 %	665,759
Alliansesamarbeidet SpareBank 1 DA	548	202	577	576	2	20	18 %	2
SpareBank 1 Boligkreditt AS	147,660	141,918	148	65	16	1,026	18 %	6,725,178
PAB Consulting AS	2	1	7	6	0	1	34 %	340
BN Bank ASA	40,732	37,576	488	334	89	1,023	33 %	4,286,149
Molde Kunnskapspark AS	11	1	3	3	0	2	20 %	2,000
SpareBank 1 Næringskreditt AS	9,317	8,113	45	21	9	449	33 %	3,523,200
Sandvika Fjellstue AS	9	1	1	-1	-1	6	50 %	6,000
Polaris Media ASA (Numbers per Q3-11)	1,950	1,204	1,368	1,270	23	332	23 %	11,464,508
Total					**250**	**4,104**		

Companies held for sale

SpareBank 1 SMN's strategy is that ownership duse to defaulted exposures should at the outset be of brief duration, normally not longer than one year. Investments are recorded at fair value in the Parent Bank's accounts. In the Group accounts one-line consolidation is undertaken.

The tables below contain company or Group accounting figures on a 100 per cent share basis.

2012	Assets	Liabilities	Total income	Total costs	Company's result of the year	Ownership share	No. of shares
Polaris Media ASA (Numbers per Q3-12)	1,855	1,088	1,368	1,277	91	24 %	11,464,508
Mavi XV AS Group	188	72	14	-19	33	100 %	9,400
Ranheim Eiendomsutvikling AS	7	0	0	0	0	100 %	100
Skei Marinfisk AS	52	15	22	-19	40	100 %	2,000
Other minor companies	129	56	-8	-1	-7	100 %	-

2011	Assets	Liabilities	Total income	Total costs	Company's result of the year	Ownership share	No. of shares
SpareBank 1 Midt-Norge Private Equity 1 AS	326	3	5	3	2	66 %	2,034,621
Miljøtek Hasopor AS	23	19	2	-9	11	100 %	100
Mavi XV AS Group	155	148	3	-23	26	100 %	9,400
Has Holding AS	7	0	0	-7	7	100 %	100
Mavi XIV AS	16	23	0	-6	6	100 %	1,000
Havship II AS	15	16	0	-7	7	100 %	100,000
Mavi XVII AS	6	1	0	-9	9	100 %	1,000
Other minor companies	11	11	1	2	0	100 %	-

Note 39 - Business acquisitions/business combinations

General

Upon acquisition of businesses a purchase price analysis is prepared in accordance with IFRS 3 where identifiable assets and liabilities are recognised at fair value on the acquisition date.

Acquisition of accounting firms

In 2012 SpareBank 1 SMN Regnskap acquired two accounting firms situated in Trondheim and Røros. Røros Regnskap AS was acquired on 18 March 2012 and Calculus AS was acquired on 1 July 2012. Purchase price analyses were prepared in accordance with IFRS 3 in which identifiable assets and liabilities were recognised at fair value on the acquisition date. The difference between the group's acquisition cost and book value of net assets is allocated to goodwill.

SpareBank 1 SMN Regnskap AS took over 40 per cent of the shares of Consis AS with effect from 1 January 2012. In addition an agreement was signed regarding the takeover of Interdata Berkåk AS, Snåsa Regnskapslag and Widar Nyheim AS with effect from 1 January 2013.

Other acquisitions

In connection with defaulted exposures in the bank's loan portfolio, an owner position was in 2012 taken in some smaller companies at an overall acquisition cost of about NOK 52m. The companies are classified as held for sale and are presented on a separate line in the income statement and balance sheet.

Note 40 - Significant transactions with related companies

In this context ‘related parties’ means subsidiaries, affiliated companies, joint ventures and companies held for sale over which the Bank exercises substantial influence, as well as SpareBank 1 SMN Pensjonskasse (pension fund) and companies owned by the Bank’s personal related parties. The Bank’s outstanding accounts with employees and members of the Board of Directors are shown in note 8 and 22. The opening balance may differ from the previous year's closing balance as the opening balance includes companies that during the fiscal year have been classified as related partied of the Bank.

	Subsidiaries		Other related companies	
Loans (NOK million)	**2012**	**2011**	**2012**	**2011**
Outstanding loans as at 1.1	3,017	2,955	1,232	827
Loans issued in the period	355	79	1,926	529
Repayments	50	-	78	127
Outstanding loans as at 31.12	**3,322**	**3,034**	**3,081**	**1,229**
Interest rate income	102	107	76	35
Actual losses	-	-	25	2
Bonds and subordinated loans as at 31.12	89	90	4,551	3,947
Deposits (NOK million)				
Deposits as as 1.1	960	304	270	2,363
Contribution received during the period	20,855	2,821	6,450	5,210
Withdrawals	19,464	2,812	5,936	5,438
Deposits as at 31.12	**2,351**	**314**	**784**	**2,136**
Interest rate expenses	28	9	13	34
Securities trading	-	-	2,014	250
Commission income SpareBank 1 Boligkreditt	-	-	201	71
Commission income SpareBank 1 Næringskreditt	-	-	4	-
Issued guarantees and amount guaranteed	1	-	81	67
Committed credit	-	-	-	610

Loans and deposits

All loans and deposits for related parties are booked in the Parent Bank.

Securities trading

SpareBank 1 SMN's Markets and Finance divisions carry out a large number of transactions with the Bank's related companies. Transactions are executed on a ongoing basis in the fixed income and forex area, payments transmission, bond trading etc. These transactions are part of ordinary bank operations and all agreements are contracted on market terms.

Numbers above includes net investmens in derivatives, bond transactions and deposits.

Other transactions

SpareBank 1 SMN has signed supply agreements with several related companies in order to safeguard ordinary banking operations and further development of the SpareBank 1 Alliance. This includes development of data-technical solutions for alliance collaboration, commission from insurance and savings and investment products, administrative services, leasing of premises etc. The agreements are considered to be on market terms. In addition the Bank participates in increases of capital in related companies; see note 38 on investment in owner interests.

In 2012 SpareBank 1 SMN Finans sold its subsidiary SpareBank 1 Bilplan til SpareBank 1 SMN for a total book value of NOK 9m.

Note 41 - ECC capital and ownership structure

The Bank's ECC capital totals NOK 2,596,728,860 distributed on 129,836,443 equity capital certificates (ECCs), each with a face value of NOK 20. As at 31 December 2012 there was 9,443 ECC holders (9,531 as at 31 December 2011). ECC capital has been raised by the following means.

Year	Change	Change in ECC capital (NOK million)	Total ECC capital	No. of ECCs
1991	Placing	525	525	5,250,000
1992	Placing	75	600	6,000,000
2000	Employee placing	5	605	6,053,099
2001	Employee placing	5	610	6,099,432
2002	Employee placing	5	614	6,148,060
2004	Bonus Issue	154	768	7,685,075
2005	Placing	217	986	9,859,317
2005	Employee placing	24	1,009	10,097,817
2005	Split	-	1,009	40,391,268
2005	Rights issue	253	1,262	50,489,085
2007	Dividend issue	82	1,344	53,752,203
2007	Employee placing	5	1,349	53,976,003
2008	Dividend issue	91	1,440	57,603,748
2008	Employee placing	6	1,447	57,861,806
2009	Bonus issue	289	1,736	69,434,167
2010	Employee placing	13	1,749	69,941,979
2010	Rights issue	624	2,373	94,905,286
2011	Rights issue	1	2,373	94,930,286
2012	Reduction in nominal value	-475	1,898	94,930,286
2012	Rights issue	570	2,468	123,407,456
2012	Employee placing	16	2,484	124,218,466
2012	Placing	112	2,596	129,836,443

Parent Bank

(NOK million)	**2012**	**2011**
ECC capital	2,597	2,373
Dividend equalisation reserve	1,889	1,457
Premium reserve	895	183
Unrealised gains reserve	69	43
A. The equity capital certificate owners' capital	5,449	4,055
Ownerless capital	2,944	2,611
Unrealised gains reserve	38	28
B. The saving bank reserve	2,982	2,639
Other equity	30	40
Dividend declared	195	190
Equity ex. profit	8,656	6,924
Equity capital certificate ratio A/(A+B)	**64.64 %**	**60.58 %**
Average of ratio	63.33 %	61.25 %

20 largest ECC holders	**No. of ECCs**	**Holding**
Reitangruppen AS	9,019,108	6.95 %
Sparebankstiftelsen SpareBank 1 SMN	3,965,391	3.05 %
Aker ASA/The Resource Group TRG	3,719,255	2.86 %
Odin Norge	3,515,754	2.71 %
Morgan Stanley & Co.	3,043,342	2.34 %
Odin Norden	2,899,083	2.23 %
Frank Mohn AS	2,876,968	2.22 %
Vind LV AS	2,736,435	2.11 %
MP Pensjon PK	2,043,415	1.57 %
Citibank N.A New York Branch (nominee)	1,899,745	1.46 %
Verdipapirfondet Fondsfinans Spar	1,670,000	1.29 %
Stenshagen Invest AS	1,477,361	1.14 %
State Street Bank & Trust Company (nominee)	1,251,305	0.96 %
Danske Invest Norske Aksjer Inst. II	1,215,581	0.94 %
Odin Europa SMB	1,206,937	0.93 %
I.K. Lykke, T.Lykke m.fl.	1,161,567	0.89 %
Tonsenhagen Forretningssentrum AS	1,135,193	0.87 %
Forsvarets personellservice	1,034,246	0.80 %
KLP Aksje Norden VPF	977,006	0.75 %
Danske Invest Norske Aksjer Inst. I	886,445	0.68 %
The 20 largest ECC holders in total	**47,734,137**	**36.76 %**
Others	**82,102,306**	**63.24 %**
Total issued ECCs	**129,836,443**	**100.00 %**

Note 42 - Dividends/groups contributions from subsidiaries

Dividends/group contributions(NOKm)	**2012**	**2011**
Dividends received from:		
EiendomsMegler 1 Midt-Norge AS	47	31
SpareBank 1 SMN Regnskap AS	-	7
SpareBank 1 Bygget Steinkjer AS	-	3
SpareBank 1 SMN Invest AS	58	
Group contributions received from:		
SpareBank 1 SMN Finans AS	20	24
Allegro Finans ASA	-	2
Total dividends/group contributions	**126**	**68**

Distributions (NOKm)	**2012**	**2011**
Profit for the year for distribution, Parent Bank	990	795
Allocated to dividends	195	190
Allocated to gifts	30	40
Transferred to equalisation fund	432	297
Transferred to ownerless capital	333	268
Total distributed	**990**	**795**

Note 43 - Subsequent events

Bank 1 Oslo Akershus

As a result of a private placing with the Norwegian Confederation of Trade Unions (LO), SpareBank 1 SMN reduced its stake in Bank 1 Oslo Akershus from 19.5 per cent to 15.18 per cent at the end of 2012. SpareBank 1 SMN has in 2013 signed an agreement to sell 475,594 shares to Sparebanken Hedmark, which will reduce SpareBank 1 SMN's stake to 4.78 per cent. Further, an option has been taken on a further divestment of the bank's stake in Bank 1 Oslo Akershus. The option must be exercised by 31 December 2015.

Polaris Media

As of 31 December 2012 SpareBank 1 SMN held a 23.45 per cent stake in Polaris Media. On 25 January SpareBank 1 SMN sold 5.88 million shares in Polaris Media ASA at NOK 27.00 per share to NWT Media (Nya Wermlands-Tidningens AB) for a total of NOK 158.8 million. Through this transaction SpareBank 1 SMN reduces its stake in Polaris Media from 23.4 to 11.4 per cent.

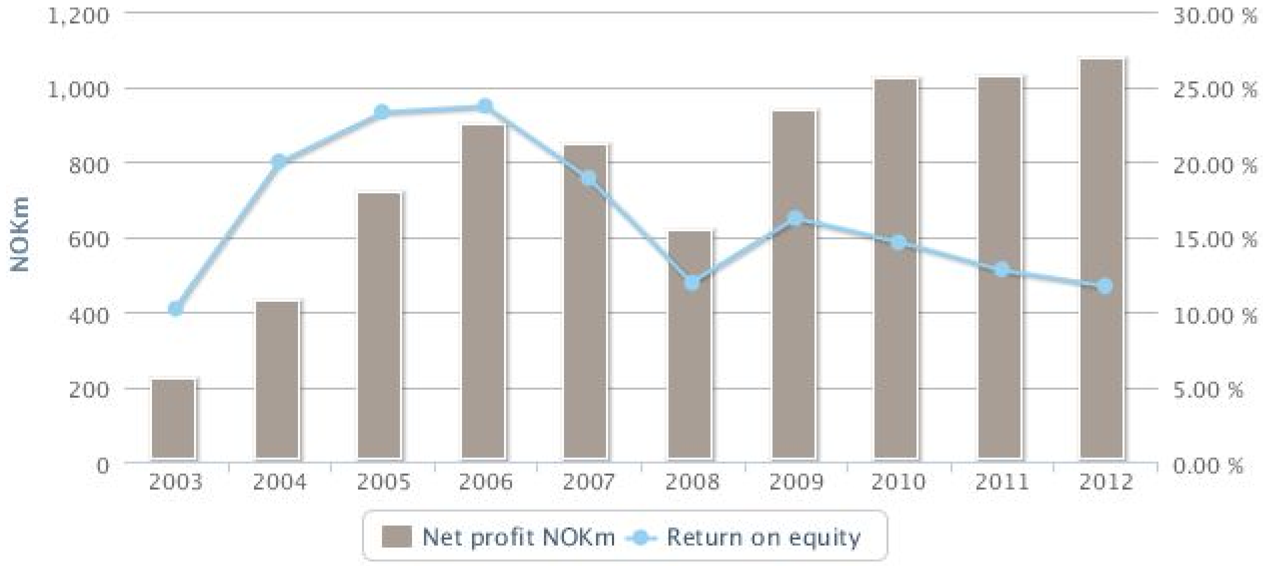
The shares in Polaris media were at the turn of the year reclassified to shares held for sale. The investment is therefore not consolidated in the bank's accounts, but is recognised at fair value. Goodwill in Polaris Media's balance sheet has allowed SpareBank 1 SMN a deduction for capital adequacy purposes. The transaction strengthens in isolation the bank's core capital by NOK 175m. This effect will emerge for the first quarter.

Financial summary (Group)

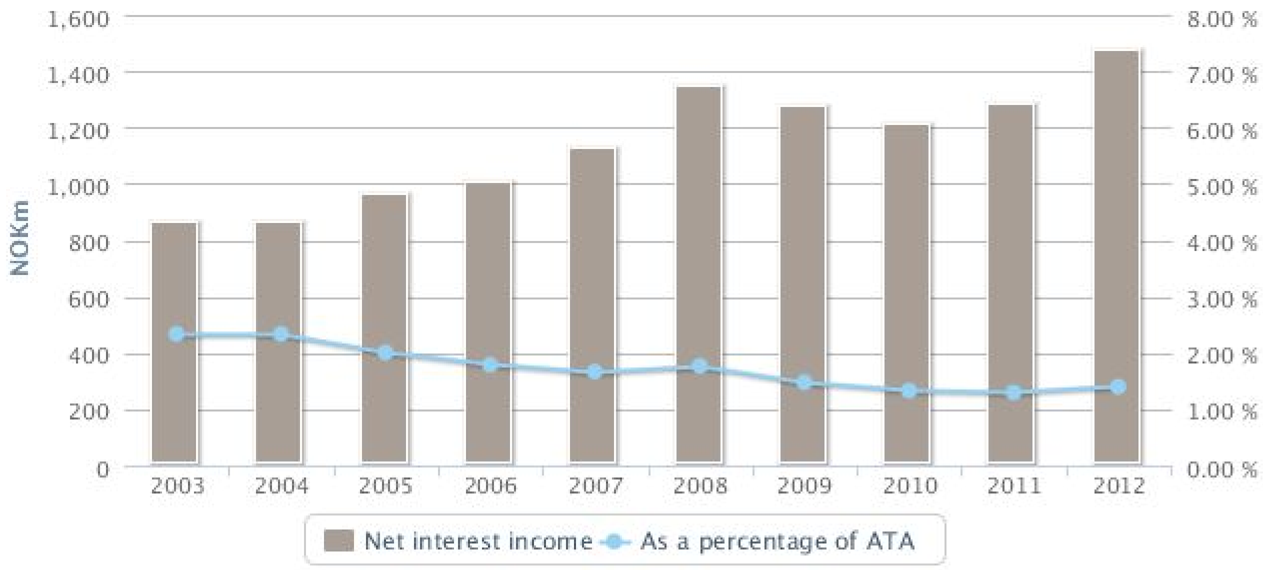
Income statement NOKm	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Interest income	3,928	3,891	3,422	3,462	4,827	3,484	2,392	1,929	1,609	2,256
Interest expenses	2,451	2,499	2,105	2,137	3,477	2,345	1,369	955	732	1,385
Net interest and credit comission income	**1,477**	**1,392**	**1,317**	**1,325**	**1,350**	**1,139**	**1,024**	**974**	**877**	**871**
Commision and fee income	1,139	919	855	756	610	671	580	537	443	332
Income from investment in related companies	244	248	276	349	393	233	190	119	23	-5
Return on financial investements	207	186	133	247	-186	99	229	157	42	74
Total income	**3,067**	**2,746**	**2,582**	**2,677**	**2,167**	**2,142**	**2,022**	**1,787**	**1,385**	**1,273**
Salaries, fees and other personnel costs	924	810	583	725	623	583	512	485	379	368
Other operating expenses	730	672	557	528	571	519	478	421	350	365
Total costs	**1,654**	**1,482**	**1,140**	**1,253**	**1,194**	**1,103**	**990**	**906**	**729**	**733**
Operating profit before losses	**1,413**	**1,264**	**1,441**	**1,424**	**975**	**1,039**	**1,032**	**881**	**655**	**540**
Losses on loans and guarantees	58	27	132	277	202	-6	-84	-38	81	229
Operating profit	**1,355**	**1,236**	**1,309**	**1,147**	**773**	**1,045**	**1,116**	**919**	**574**	**311**
Taxes	295	255	260	210	156	200	219	199	144	89
Held for sale	16	43	-27	-	-	-	-	-	-	-
Profit of the year	**1,077**	**1,024**	**1,022**	**937**	**617**	**846**	**898**	**720**	**430**	**222**
Dividend	**195**	**190**	**285**	**201**	**116**	**324**	**303**	**278**	**152**	**109**
As a percentage of average total assets										
Net interest and credit comission income	1.40 %	1.30 %	1.33 %	1.48 %	1.77 %	1.67 %	1.79 %	2.01 %	2.34 %	2.34 %
Commision and fee income	1.08 %	0.86 %	0.86 %	0.84 %	0.80 %	0.99 %	1.01 %	1.11 %	1.18 %	0.89 %
Income from investment in related companies	0.23 %	0.23 %	0.28 %	0.39 %	0.52 %	0.34 %	0.33 %	0.25 %	0.06 %	-0.01 %
Return on financial investements	0.20 %	0.17 %	0.13 %	0.28 %	-0.24 %	0.15 %	0.40 %	0.32 %	0.11 %	0.20 %
Total costs	1.57 %	1.39 %	1.15 %	1.40 %	1.57 %	1.62 %	1.73 %	1.87 %	1.94 %	1.97 %
Operating profit before losses	1.34 %	1.18 %	1.45 %	1.59 %	1.28 %	1.53 %	1.80 %	1.82 %	1.75 %	1.45 %
Losses on loans and guarantees	0.06 %	0.03 %	0.13 %	0.31 %	0.27 %	-0.01 %	-0.15 %	-0.08 %	0.22 %	0.62 %
Operating profit	1.28 %	1.16 %	1.32 %	1.28 %	1.02 %	1.54 %	1.95 %	1.90 %	1.53 %	0.84 %
Taxes	0.28 %	0.24 %	0.26 %	0.23 %	0.21 %	0.29 %	0.38 %	0.41 %	0.38 %	0.24 %
Held for sale	0.02 %	0.04 %	-0.03 %	-	-	-	-	-	-	-
Profit of the year	1.02 %	0.96 %	1.03 %	1.04 %	0.81 %	1.24 %	1.57 %	1.49 %	1.15 %	0.60 %
Balance sheet NOKm										
Cash and loans to and claims on credit institutions	4,091	4,075	2,532	1,260	4,548	3,878	2,323	2,123	1,541	1,417
CDs, bonds and other interest-bearing securities	26,100	21,485	22,949	19,302	12,035	7,246	5,602	4,133	2,566	2,481

Loans before loss provisions	74,943	73,105	69,847	61,782	64,016	59,178	52,819	45,280	34,226	32,553
- Specified loan loss provisions	144	172	222	219	215	116	147	236	290	380
- Unspecified loan loss provisions	295	290	290	289	245	185	184	278	314	318
Other assets	3,224	3,251	3,177	2,704	4,540	1,502	2,765	3,304	775	1,123
Total assets	**107,919**	**101,455**	**97,992**	**84,541**	**84,679**	**71,503**	**63,178**	**54,327**	**38,505**	**36,876**
Debt to credit institutions	5,137	6,232	8,743	11,310	9,000	5,346	2,766	1,029	48	1,114
Deposits from and debt to customers	52,252	47,871	42,786	37,227	35,280	32,434	30,136	27,048	20,725	19,876
Debt created by issuance of securities	35,322	34,192	33,943	24,070	29,680	23,950	21,911	18,036	13,048	11,361
Other debt and accrued expences etc.	2,126	2,122	1,917	1,876	2,045	2,265	1,799	2,876	822	769
Subordinated debt	3,040	2,690	2,758	3,875	3,156	2,648	2,383	1,667	1,347	1,560
Total equity	10,042	8,348	7,846	6,183	5,518	4,860	4,183	3,671	2,515	2,196
Total liabilities and equity	**107,919**	**101,455**	**97,992**	**84,541**	**84,679**	**71,503**	**63,178**	**54,327**	**38,505**	**36,876**
Key figures										
Total assets	107,919	101,455	97,992	84,541	84,679	71,503	63,178	54,327	38,505	36,876
Average total assets	105,500	98,465	91,317	86,679	75,820	67,202	56,434	47,753	36,965	36,862
Gross loans to customers	74,943	73,105	69,847	61,782	64,016	59,178	52,819	45,280	34,226	32,553
Gross loans to customers incl. SpareBank 1 Boligkreditt	104,909	95,232	87,665	77,429	71,317	61,910	52,819	45,280	34,226	32,553
Gross loans in retail market	62,587	55,034	49,619	45,157	42,679	38,872	33,808	29,032	21,491	20,008
Gross loans in corporate market	42,322	40,198	38,046	32,272	28,638	23,038	19,011	16,248	12,735	12,545
Deposits from and debt to customers	52,252	47,871	42,786	37,227	35,280	32,434	30,136	27,048	20,725	19,876
Deposits from retail market	22,279	20,860	19,052	17,898	17,566	16,070	15,408	14,080	11,256	11,252
Deposits from corporate market	29,973	27,011	23,734	19,330	17,715	16,363	13,967	12,968	9,469	8,624
Ordinary lending financed by ordinary deposits	70 %	65 %	61 %	60 %	55 %	55 %	57 %	60 %	61 %	61 %
Core capital	9,357	7,856	7,286	6,730	4,967	3,703	3,498	3,073	2,773	2,474
Primary capital	10,943	9,055	8,646	8,730	7,312	5,560	4,809	3,808	3,239	3,407
Risk weighted volume	82,446	75,337	66,688	64,400	61,538	47,775	40,473	34,873	25,562	24,483
Minimum requirements subordinated capital	6,596	6,027	5,335	5,152	4,923	3,822	3,238	2,790	2,045	1,959
Capital ratio	13.27 %	12.02 %	12.97 %	13.56 %	11.88 %	12.06 %	11.88 %	10.92 %	12.67 %	13.92 %
Common tier 1 ratio	10.01 %	8.87 %	9.27 %	7.67 %	7.13 %	7.41 %	7.52 %	7.48 %	8.79 %	7.97 %
Tier 1 ratio	11.35 %	10.43 %	10.93 %	10.45 %	8.07 %	8.41 %	8.64 %	8.81 %	10.85 %	10.10 %
Cost/income ratio	54 %	53 %	44 %	47 %	55 %	51 %	49 %	51 %	53 %	58 %
Losses on loans	0.06 %	0.03 %	0.16 %	0.3 %	0.2 %	0.0 %	-0.2 %	-0.1 %	0.2 %	0.7 %
ROE	11.7 %	12.8 %	14.6 %	16.2 %	11.9 %	18.9 %	23.7 %	23.3 %	20.0 %	10.2 %
EC price (NOK)	34.80	36.31	49.89	45.06	21.00	50.28	56.72	54.46	38.27	26.72
Growth in lending (gross)	10.2 %	8.6 %	13.2 %	8.6 %	15.2 %	17.2 %	16.6 %	32.3 %	5.1 %	4.7 %
Growth in deposits	9.2 %	11.9 %	14.9 %	5.5 %	8.8 %	7.6 %	11.4 %	30.5 %	4.3 %	4.3 %

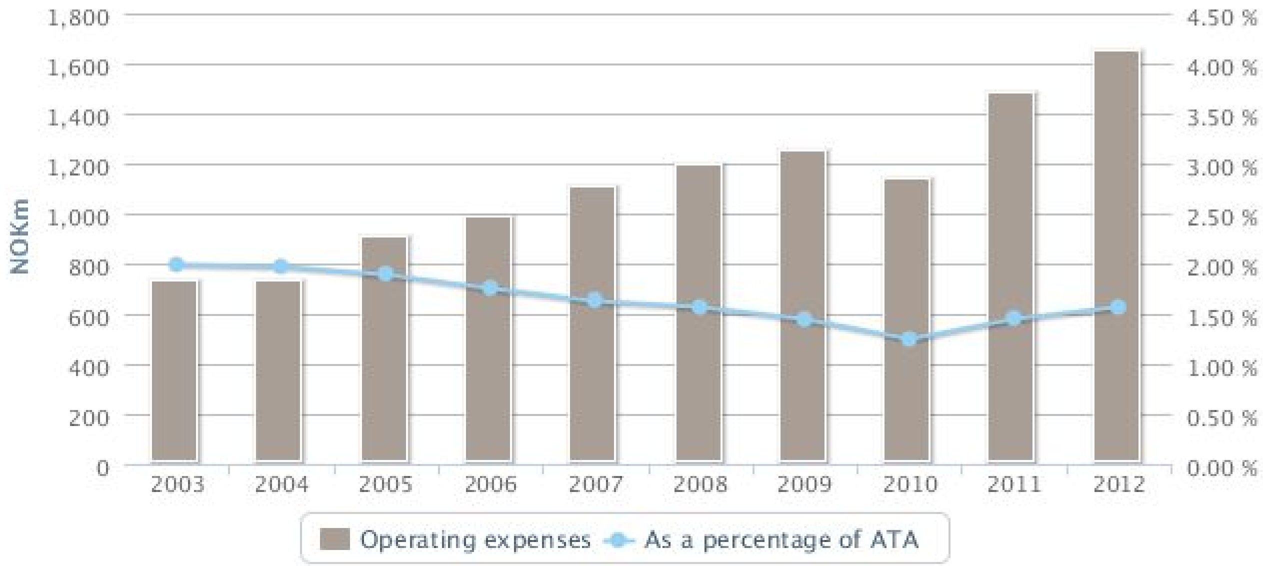
Net profit and return on equity



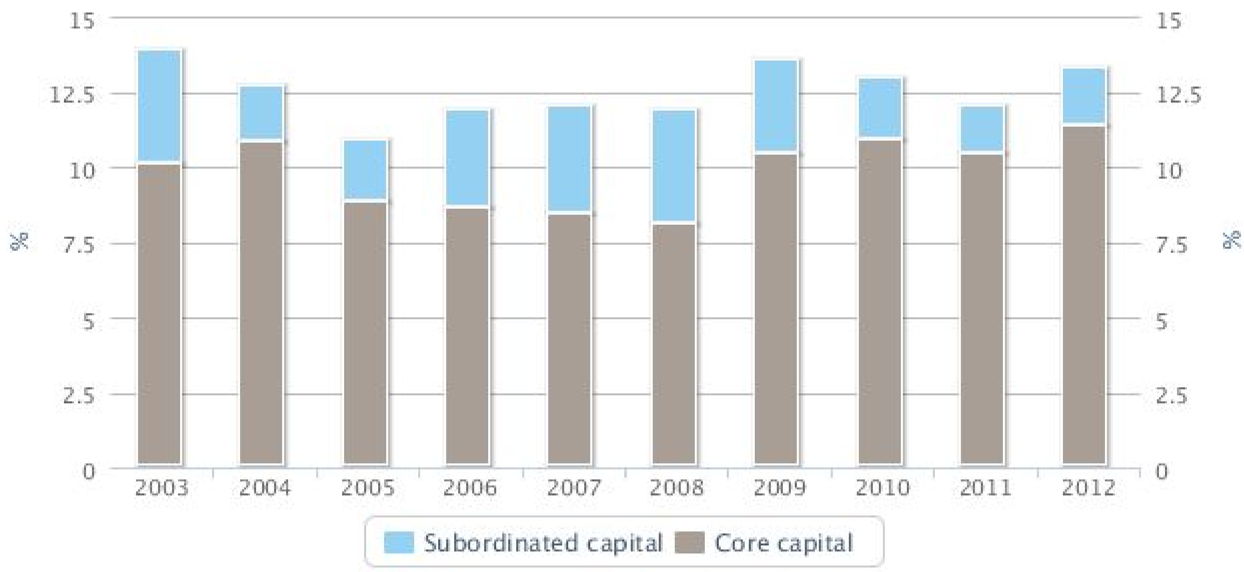
Net interest income



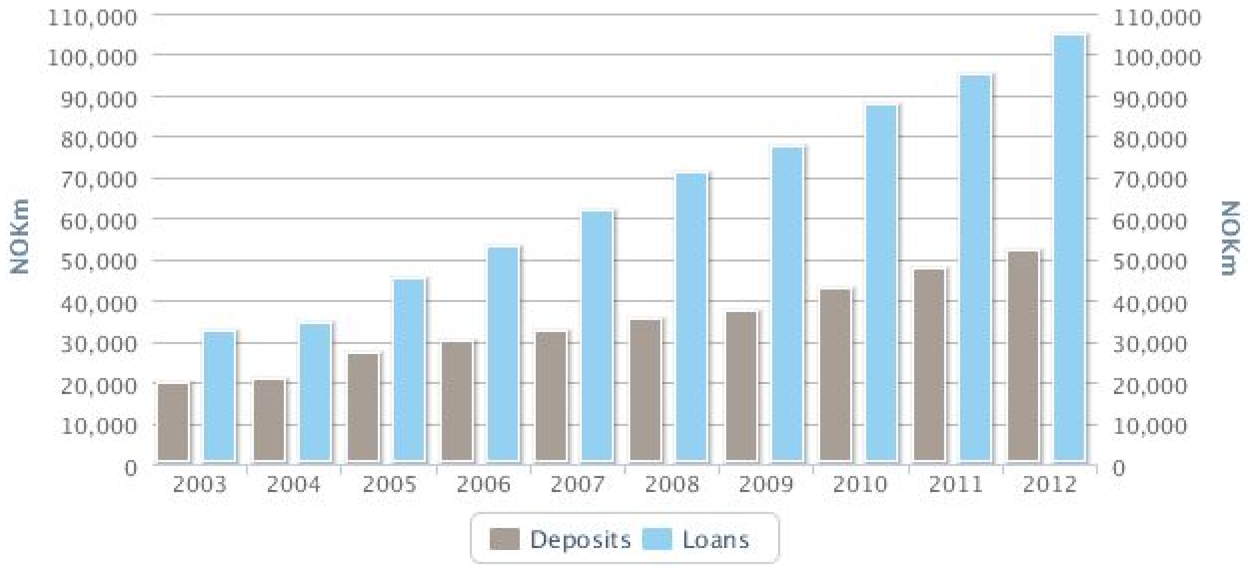
Operating expenses



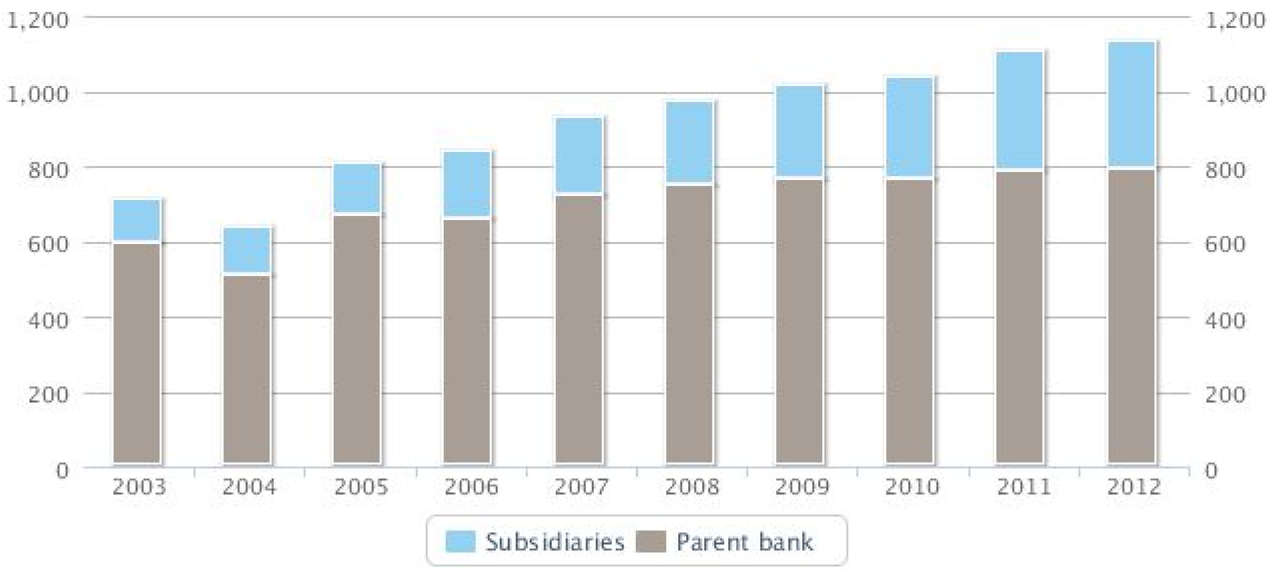
Capital ratio



Loans and deposits



FTEs



Equity capital certificates

At end-2012 SpareBank 1 SMN's EC capital totalled NOK 2,597m distributed on 129,836,443 ECs with a nominal value of NOK 25 each. At the turn of 2013 the Bank had a treasury holding of ECs totalling NOK 0.2m distributed on 6,400 ECs.

Dividend policy

A new act and regulations on equity certificates, which came into force on 1 July 2009, bring savings banks' ECs more into line with shares. They entail greater equality of treatment of savings banks' various owner groupings and minimises previous concerns related to dilution of EC holders upon payment of cash dividends.

In view of the new legislation, the following dividend policy was established in December 2009:

- SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide EC holders with a good, stable and competitive return in the form of dividend and a rising value of the Bank's equity certificate.
- the net profit for the year will be distributed between the owner capital (the EC holders) and the ownerless capital in accordance with their respective shares of the Bank's total equity capital.
- SpareBank 1 SMN's intention is that up to one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that up to one half of the ownerless capital's share of the net profit for the year should be disbursed as gifts or transferred to a foundation. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, external framework conditions and any need for tier 1 capital.

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 received 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.

Annual profit for distribution reflects changes of -NOK 36m in the unrealised gains 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 to the dividend equalisation fund constitute 63.3 per cent of the distributed profit.

Against the background of the Bank's capital plan, the Board of Directors has decided to recommend a lower level of dividend payout and gift allocation than in previous years.

The Board of Directors recommends the Bank's Supervisory Board to set a cash dividend of NOK 1.50 per EC, altogether totalling NOK 195m. This gives a payout ratio of 31 per cent of profit available for distribution. 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 per cent. 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 per cent.

Distribution of profit, NOKm	2012	2011
Profit of the year, Parent Bank	1,025	820
Transferred from revaluation reserve	-36	-25
Profit for distribution	**990**	**795**
Dividends	195	190
Equalisation fund	432	297
Ownerless capital	333	268
Gifts	30	40
Total distributed	**990**	**795**

Stock issues

- A rights issue was carried out in 2012 infavour 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.

Investor policy

The Bank attaches considerable importance to correct, relevant and timely information on the Bank's progress and performance as a means of instilling investor market confidence. Information is communicated to the market via quarterly investor presentations and press releases. Presentations for international partners, lenders and investors are also arranged on a regular basis, mainly inLondon.

Updated information for investors, the press and brokers is available at all times at smn.no/ir.

Financial calendar for 2013

- 1st quarter: 25 April 2013
- 2nd quarter: 14 August 2013
- 3rd quarter: 31 October 2013

Ownership

SpareBank 1 SMN aims for good EC liquidity and to achieve a good spread across EC holders representing customers, regional investors and Norwegian and foreign institutions.

The number of EC holders was reduced by 89 to 9,443 in the course of 2012. The Bank's 20 largest EC holders controlled 36.8 per cent of the Bank's ECs at end-2012, and 34.7 million ECs were traded under the MING ticker symbol on the Oslo Stock Exchange in 2012.

ECs owned by investors in South andNorth Trøndelag, Møre and Romsdal and Sogn and Fjordane account for 32 per cent (30) of the total, other Norwegian investors account for 55 per cent (56) and foreign owners for 13 per cent (13). Foreign owners make up 2 per cent of the total number of owners as of 31 December 2012.

Tax credit

In order to prevent double taxation of the Bank and its EC holders, rules on tax credits have been introduced (section 10–12 of the Tax Act, replacing previous 'RISK' rules). The tax credit, computed for each share/EC, equals the share's/EC's tax-credit base multiplied by a tax-free interest rate. The tax-credit base equals the share's/EC's opening value. The tax-free interest rate is determined by the Ministry of Finance in regulations. The tax credit is assigned to the holder of the share/EC on 31 December of the income year.

Market trend for the Bank's EC in 2012

At end-2012 the market price of SpareBank 1 SMN's EC (MING) was NOK 34.80. At end-2011 the price was NOK 54.00. With a cash dividend of NOK 1.50 for 2012, the direct return on the EC is 4.3 per cent.

Key figures and ratios	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Quoted price	34.80	36.31	49.89	45.06	21.00	50.28	56.72	54.46	38.27	26.72
No. of ECs issued, million	129.83	102.76	102.74	82.78	82.41	76.65	71.70	71.70	54.57	54.57
Market value (NOKm)	4,518	3,731	5,124	3,749	1,750	3,900	4,140	3,951	2,113	1,476
EC capital (NOKm)	2,597	2,373	2,373	1,734	1,445	1,349	1,262	1,262	769	607
Equalisation fund (NOKm)	1,889	1,457	1,159	877	768	675	624	581	400	482
EC premium reserve (NOKm)	895	183	182	0	236	138	0	0	10	10
Dividend per EC	1.50	1.85	2.77	2.10	2.77	3.90	3.04	3.34	1.85	2.00
Direct return 1)	4.3 %	5.1 %	5.6 %	4.6 %	6.6 %	7.8 %	5.4 %	6.1 %	4.8 %	7.5 %
Dividend yield 2)	0.0 %	-23.5 %	16.3 %	124.5 %	-55.4 %	-4.5 %	9.7 %	51.0 %	50.2 %	77.9 %
Book value per EC 3)	50.09	48.91	46.17	42.11	38.07	36.43	33.31	30.26	24.99	22.85
Profit per EC 4)	5.21	6.06	5.94	6.37	4.16	5.86	6.24	5.35	2.77	2.22
Price-Earnings Ratio	6.68	5.99	8.40	7.29	5.09	8.87	9.38	10.52	14.28	12.43
Price-Book Value Ratio	0.69	0.74	1.07	1.09	0.57	1.43	1.76	1.86	1.58	1.21
Payout ratio 5)	29 %	30 %	47 %	34 %	34 %	69 %	50 %	65 %	69 %	93 %
EC fraction 6)	64.6 %	60.6 %	61.3 %	54.8 %	56.3 %	54.2 %	53.7 %	56.1 %	49.8 %	51.4 %

1) Dividend as per cent of quoted price at year-end.

2) Price rise over the year plus paid dividend as per cent of quoted price at start of year.

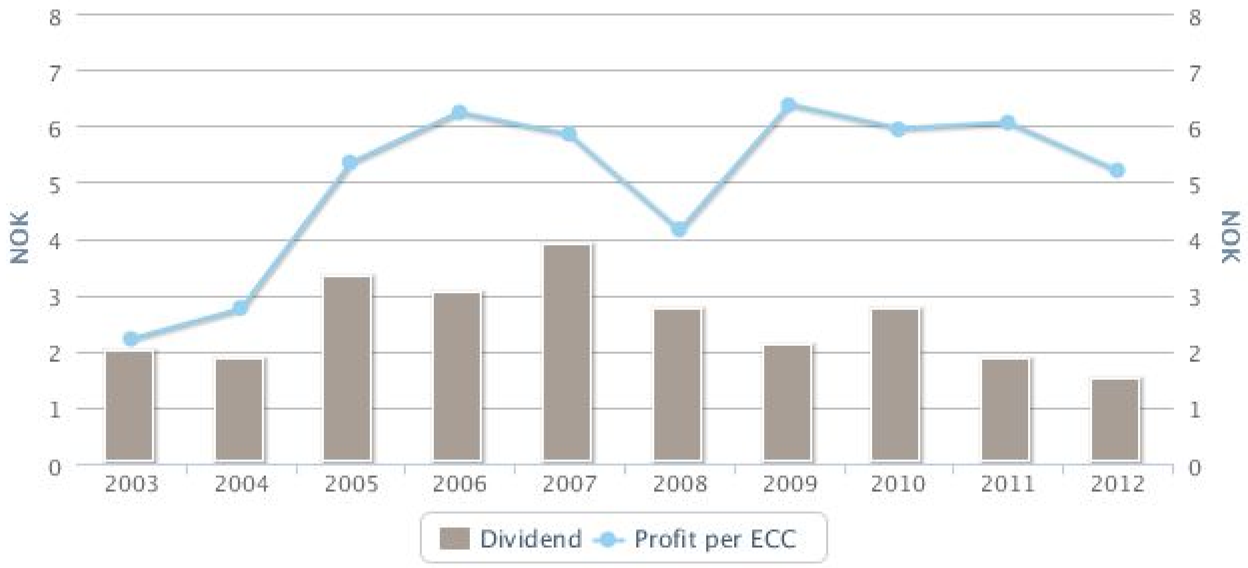
3) Book equity (after deduction of own ECs) multiplied by the EC fraction divided by the number of ECs (less own ECs) including cash dividend.

4) ECs' portion of the consolidated result (less own ECs).

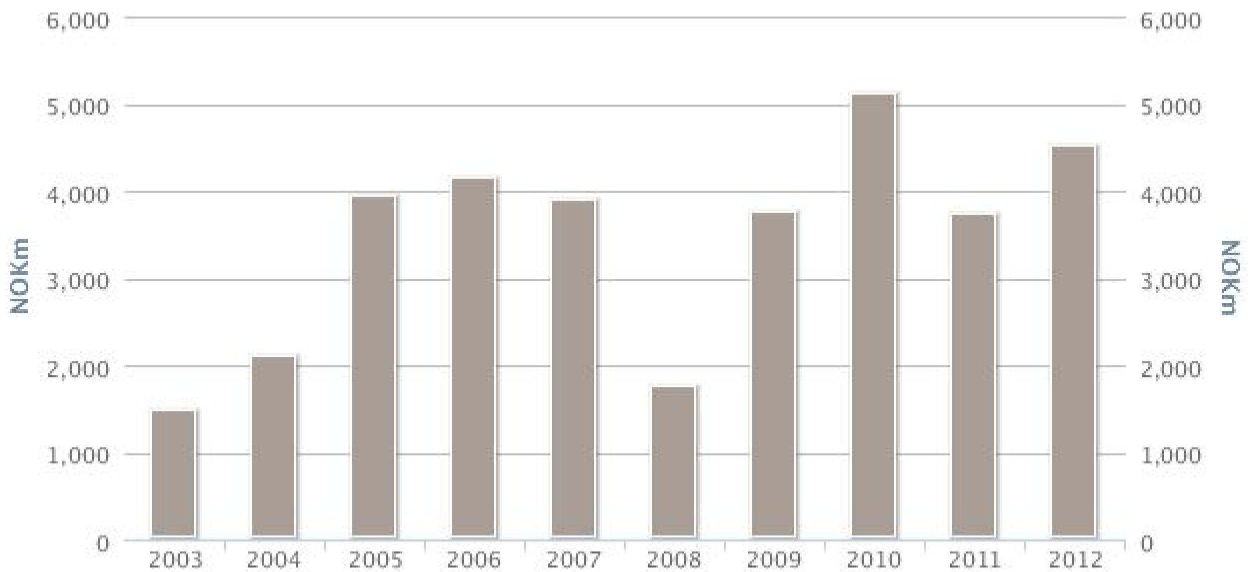
5) Dividend per EC as per cent of profit per EC.

6) Book equity of EC holders (after deduction of own ECs) as per cent of parent bank's equity at year-end (after deduction of own ECs and other equity). The rate applies as from 1 January the following year.

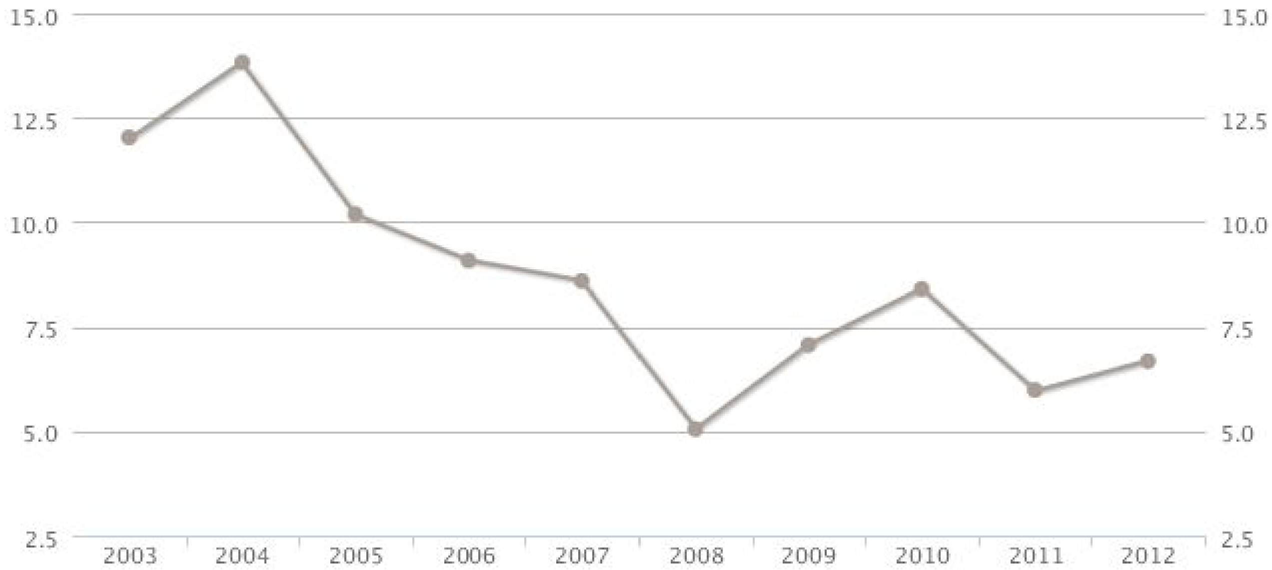
Dividend and profit per ECC (NOK)



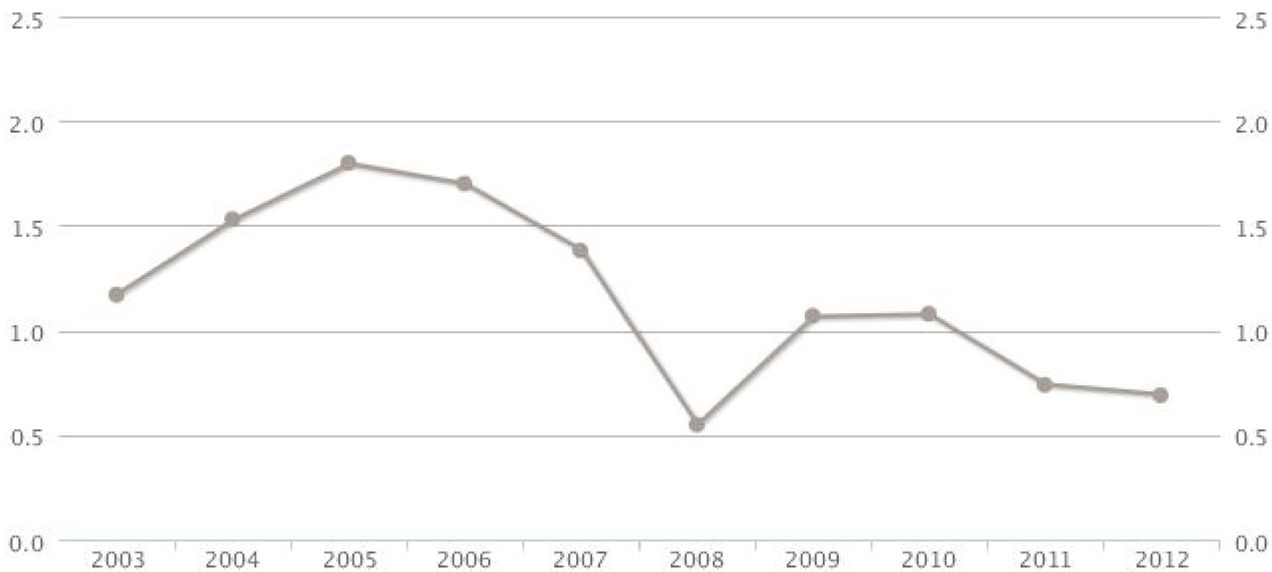
Market value



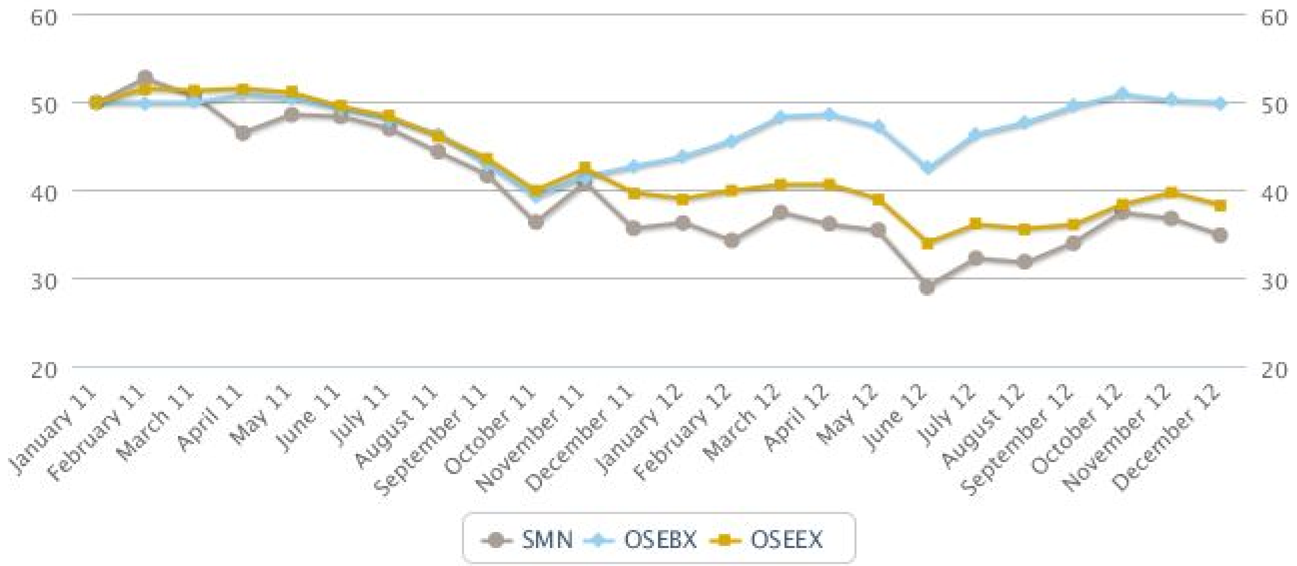
Price/ earnings



Price/book



Stock price compared with OSEBX and OSEEX



OSEBX = Oslo Stock Exchange Benchmark Index (rebased)
OSEEX = Oslo Stock Exchange ECC Index (rebased)

Statement in compliance with the securities trading act, section 5-5

Statement by the Board of Directors and the Group CEO

We herby declare that to the best of our knowledge

- the financial statements for 2012 for the Parent Bank and the Group have been prepared in conformity with IFRS as determined by the EU, with such additional information as required by the Accounting Act.
- the accounting information gives a true and fair view of the assets, liabilities, financial position and profit/loss of the Parent Bank and the Group taken as a whole, and that
- the Directors' report gives a fair review of developments, profit/loss and position of the Parent Bank and the Group, together with a description of the principal risks and uncertainties facing the Group.

Trondheim, 27 February 2013

The Board of Directors of SpareBank 1 SMN

Per Axel Koch Chair	Kjell Bjordal Deputy Chair	Paul E. Hjelm-Hansen	Aud Skrudland
Bård Benum	Bente Karin Trana First alternate member	Arnhild Holstad	Venche Johnsen Employee representative
			Finn Haugan Group CEO

Auditor's report

Deloitte.

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Translation from the original Norwegian version

To the supervisory Board of SpareBank 1 SMN

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of SpareBank 1 SMN, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of the group comprise the statement of financial position as at 31.12.2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of SpareBank 1 SMN and of the group as at 31.12.2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Deloitte.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the allocation of the profit

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report and in the statement of corporate governance principles and practices concerning the financial statements and the going concern assumption, and that the proposal for the allocation of the profit complies with the law and regulations and that the information is consistent with the financial statements.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, February 27, 2013
Deloitte AS

Mette Estenstad (signed)
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]

Control committee's report

To

the Supervisory Board

of SpareBank 1 SMN

Statement of the Control Committee for 2012

The Control Committee has discharged its duties in accordance with the (Norwegian) Savings Banks Act and the instructions for the committee.

The Bank's activities in 2012 were in conformity with the (Norwegian) Savings Banks Act, and other provisions with which the Bank is obliged to comply. The annual reports and accounts have been submitted in accordance with the provisions of the (Norwegian) Savings Banks Act and the Financial Supervisory Authority of Norway.

The Supervisory Board may adopt the income statement and the balance sheet as the Bank's financial statements for 2012.

Trondheim, 28 February 2013

The Control Committee

of

SpareBank 1 SMN

Rolf Røkke	Anders Lian	Terje Ruud
(Chair)		