

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. Deleveraging 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.

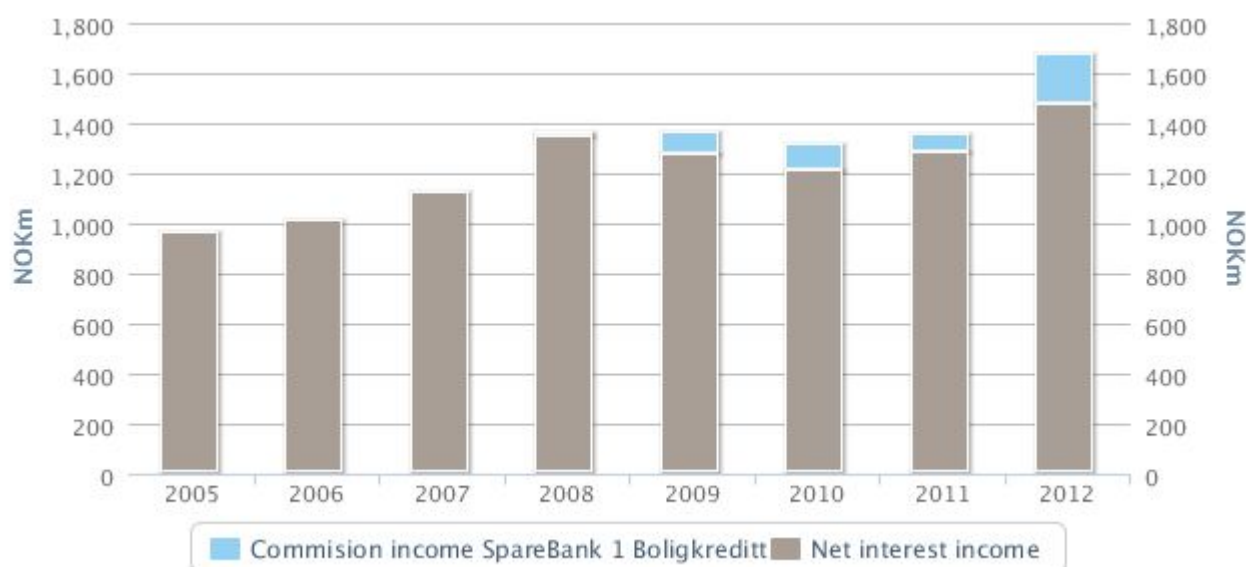
After distribution of the profit for 2012 the ECC-holder ratio (ECC-holders' share of total equity) is 64.6 per cent.

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).

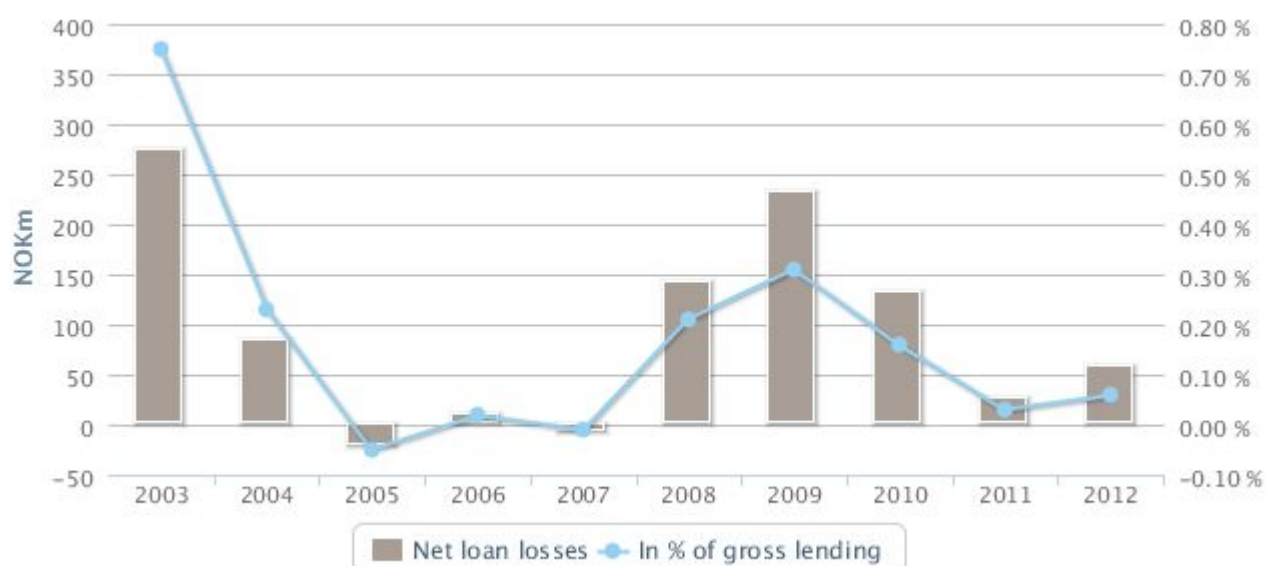
Other doubtful exposures totalled NOK 143m (204m), i.e. 0.14 per cent (0.21 per cent) of gross outstanding loans. NOK 62m (83m) or 43 per cent (41 per cent) are loss provisioned.

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 in favour 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 debt	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		(NOK million)	Notes	Group	
2011	2012			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									
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	Minority 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

Group	Majority share									
	Issued equity				Earned equity					
(NOK million)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Minority 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

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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 profit 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.

Reposessed 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 determine 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.

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 liabilities	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 liabilities	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 specialised 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 mortgage 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 weighted 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 through 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 its 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 + risk premium, decreased. The effect was especially noticable post July as there were indications of possible solution to the Euro crisis. Access to capital 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, disregarding 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		Loans and advances to credit institutions (NOK million)	Group	
2011	2012		2012	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 %
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		Deposits from credit institutions (NOK million)		
2011	2012		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 %
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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		(NOK million)	Group	
2011	2012		2012	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		Total contracts	Group	
2011	2012		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		Total contracts SpareBank 1 Næringskreditt	Group	
2011	2012		2012	2011
-	150	Lowest risk	150	-
-	157	Low risk	157	-
-	311	Medium risk	311	-
-	618	Total	618	-

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

Specified by sector and industry

Parent bank		Total contracts	Group	
2011	2012		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		Gross loans	Group	
2011	2012		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		Individual impairment	Group	
2011	2012		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		Expected annual average net loss	Group	
2011	2012		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		Gross loans	Group	
2011	2012		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		Gross loans transferred to SpareBank1 Boligkreditt	Group	
2011	2012		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
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Parent bank		Gross loans transferred to SpareBank 1 Næringskreditt	Group	
2011	2012		2012	2011
-	36	Sør-Trøndelag	36	-
-	285	Nord-Trøndelag	285	-
-	297	Møre og Romsdal	297	-
-	618	Total	618	-

Loans to and claims on customers related to financial leases	Group	
	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)

Losses on loans and guarantees	2012			2011		
	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

Individual write-downs	2012			2011		
	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

Collective write-downs	2012			2011		
	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)

	2012			2011		
	RM	CM	Total	RM	CM	Total
Losses on loans and guarantees						
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

	2012			2011		
	RM	CM	Total	RM	CM	Total
Individual write-downs						
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

	2012			2011		
	RM	CM	Total	RM	CM	Total
Collective write-downs						
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	-
Collective 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.

Credit quality step	Probability of default			Historical default	Collateral class	Collateral cover	
	From	To	Moody's			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 (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	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 (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	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.

Collateral 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 guidelines 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)

	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	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)

	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	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)	Neither defaulted nor written down						Defaulted or written down *)	Total
	Notes	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.

Basis risk Group (NOK million)	Interest rate risk, 1 % change	
	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 curve risk, Group (NOK million)	Interest rate risk, 1 % change	
	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 (NOK million)	Group	
2011	2012		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		(NOK million)	Group	
2011	2012		2012	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 commission 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		(NOK million)	Group	
2011	2012		2012	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⁾	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	-	-
Venche 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 Skjønhal, 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.

Actuarial assumptions	2012		2011	
	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			Group	
2011	2012	Net pension liability in the balance sheet (NOK million). Financial position 1 Jan.	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
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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 assessment papers

Deferred tax in balance sheet		Composition of deferred tax carried in the balance sheet and deferred tax recognised in the income statement	Deferred tax in balance sheet	
2011	2012		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	Deferred 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		Composition of deferred tax carried in the balance sheet and deferred tax recognised in the income statement	Recognised in income statement	
2011	2012		2012	2011
-	-	Temporary differences:		
-	-	- Business assets	-24	-17
-0	22	- Leasing items	-51	48
-41	-23	- Pension liability	-21	-3
-170	-172	- Securities	81	-41
-	-	- Hedge derivatives	172	-170
-	-	- Other temporary differences	-0	-
-212	-174	Total tax-increasing temporary differences	157	-184
-59	-49	Deferred tax	44	-52
9	-10	Temporary differences:		
-	-	- Business assets	7	1
-3	-3	- Pension liability	0	-1
141	112	- Securities	25	-3
-4	-	- Hedge derivatives	-112	141
-	-	- 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 available 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 available 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 institutions 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, held 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		Money market certificates and bonds by issuer sector (NOK million)	Group	
2011	2012		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 amount	Fair values Assets	Liabilities	Contract amount	Fair values Assets	Liabilities
Currency instruments						
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		Shares and units (NOK million)	Group	
2011	2012		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 2011			(NOK million)	Group 2012		
Buildings and other real property	Machinery, inventory and vehicles	Total		Machinery, inventory and vehicles	Buildings and other real property	Total
19	327	345	Cost of acquisition at 1 January 2011	396	904	1,300
6	53	59	Acquisitions	87	192	279
-	10	10	Disposals	21	107	128
24	370	394	Cost of acquisition at 31 December 2011	462	989	1,451
4	210	215	Accumulated depreciation and write-downs as at 1 January 2011	249	25	274
1	36	37	Current period's depreciation	49	38	86
-	1	1	Current period's write-down	2	-	2
-	9	10	Reversal of accumulated depreciation and write-downs	19	-	20
5	238	243	Accumulated depreciation and write-down as at 31 December 2011	280	62	342
19	132	151	Book value as at 31 December 2011	182	927	1,109
Parent Bank 2012			(NOK million)	Group 2012		
Buildings and other real property	Machinery, inventory and vehicles	Total		Machinery, inventory and vehicles	Buildings and other real property	Total
24	370	394	Cost of acquisition at 1 January 2012	462	989	1,451
34	65	97	Acquisitions	76	203	279
-	101	101	Disposals	102	5	107
56	334	390	Cost of acquisition at 31 December 2012	436	1,188	1,624
5	238	243	Accumulated depreciation and write-downs as at 1 January 2012	280	62	342
2	40	42	Current period's depreciation	58	42	101
-	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	243	104	347
50	151	201	Book value as at 31 December 2012	193	1,083	1,277

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		(NOK million)	Group	
2011	2012		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		Other debt and recognised liabilities (NOK million)	Group	
2011	2012		2012	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 capital 10/99, fixed rate 8.25 % NOK (Call 2020) ¹⁾	350	350
100	100	Hybrid capital 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
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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 joint ventures		
SpareBank 1 Gruppen AS	Tromsø	19.5
BN Bank ASA	Trondheim	33.0
Bank 1 Oslo Akershus AS	Oslo	15.2
Allianse samarbeidet 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
Brannstasjonene 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	Equity 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		(NOK million)	Group	
2011	2012		2012	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
Allianseamarbeidet 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 Kunnskapsbank 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 due 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 parties of the Bank.

	Subsidiaries		Other related companies	
	2012	2011	2012	2011
Loans (NOK million)				
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 at 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 an 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 investments 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
<i>Dividends received from:</i>		
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	
<i>Group contributions received from:</i>		
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

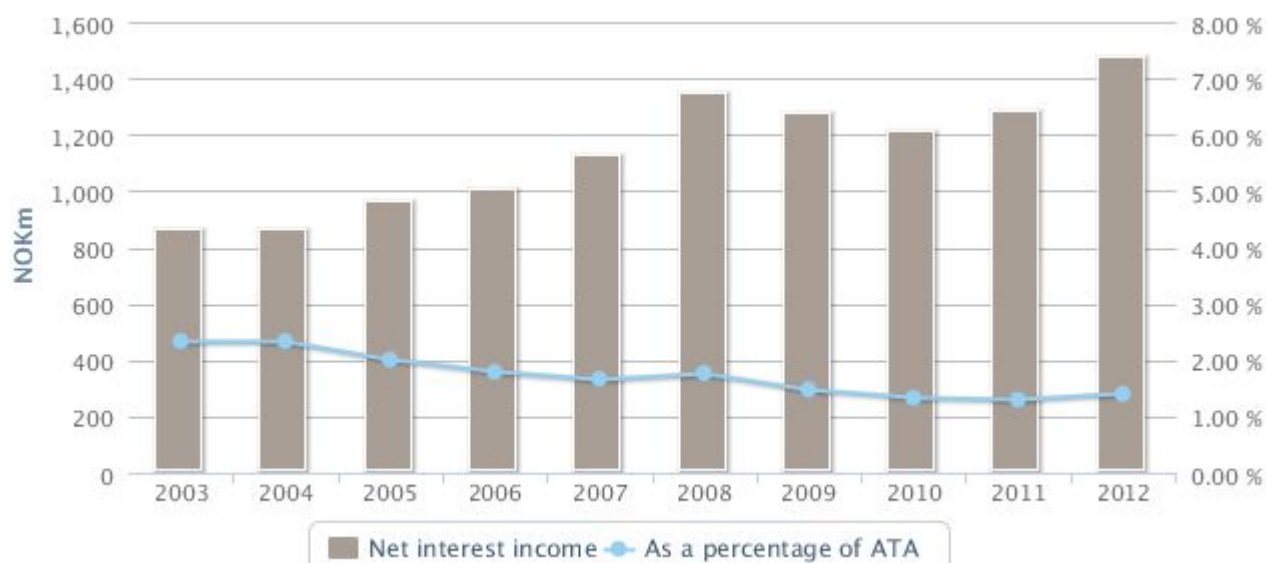
As of 31 December 2012 SpareBank 1 SMN held a 23.45 per cent stake in Polaris Media. On 25 January SpareBank 1 SMN sold 5.88 million shares in Polaris Media ASA at NOK 27.00 per share to NWT Media (Nya Wermlands-Tidningens AB) for a total of NOK 158.8 million. Through this transaction SpareBank 1 SMN 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.

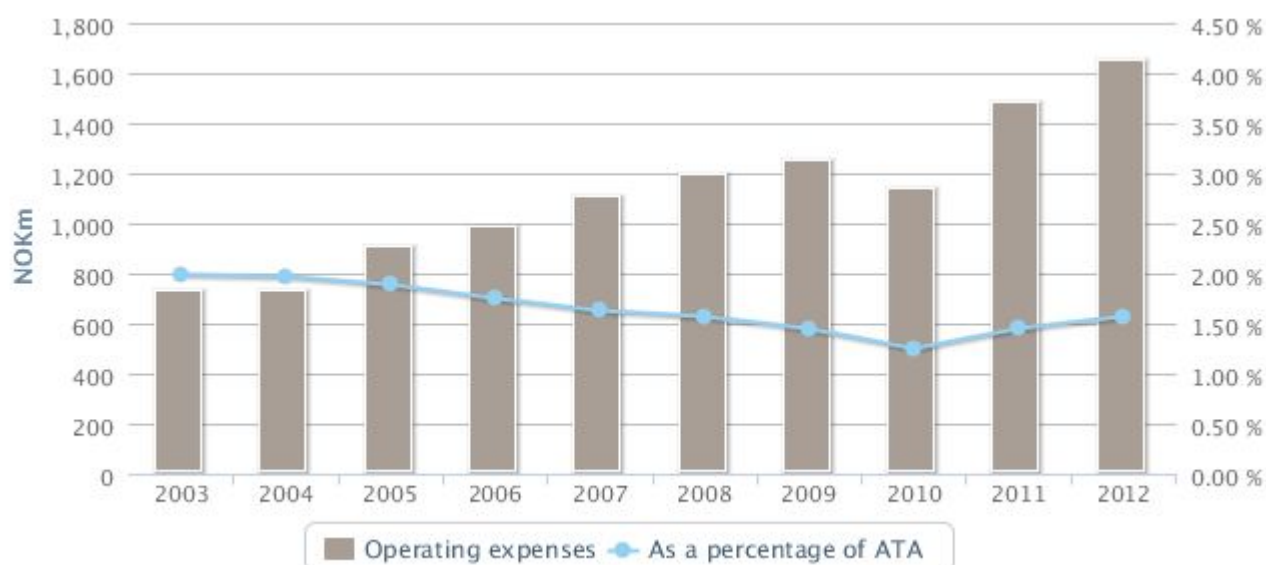
Financial summary (Group)

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 commission income	1,477	1,392	1,317	1,325	1,350	1,139	1,024	974	877	871
Commission 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 investments	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 commission income	1.40 %	1.30 %	1.33 %	1.48 %	1.77 %	1.67 %	1.79 %	2.01 %	2.34 %	2.34 %
Commission 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 investments	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

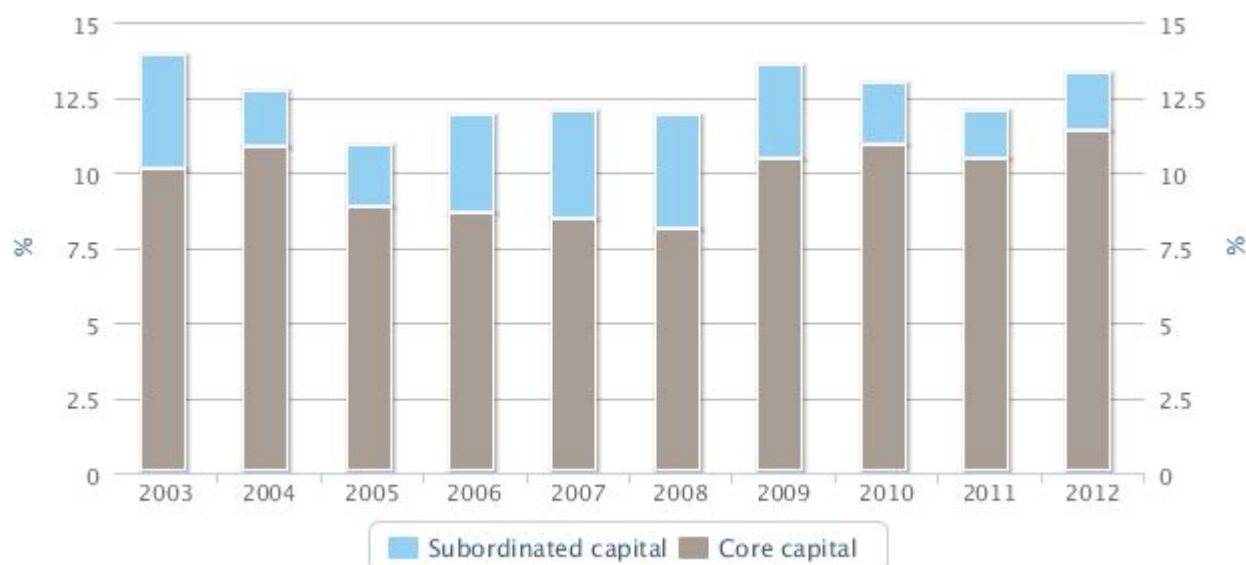
Loans before loss provisions	74,943	73,105	69,847	61,782	64,016	59,178	52,819	45,280	34,226	32,553
- Specified loan loss provisions	144	172	222	219	215	116	147	236	290	380
- Unspecified loan loss provisions	295	290	290	289	245	185	184	278	314	318
Other assets	3,224	3,251	3,177	2,704	4,540	1,502	2,765	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 expenses 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 %

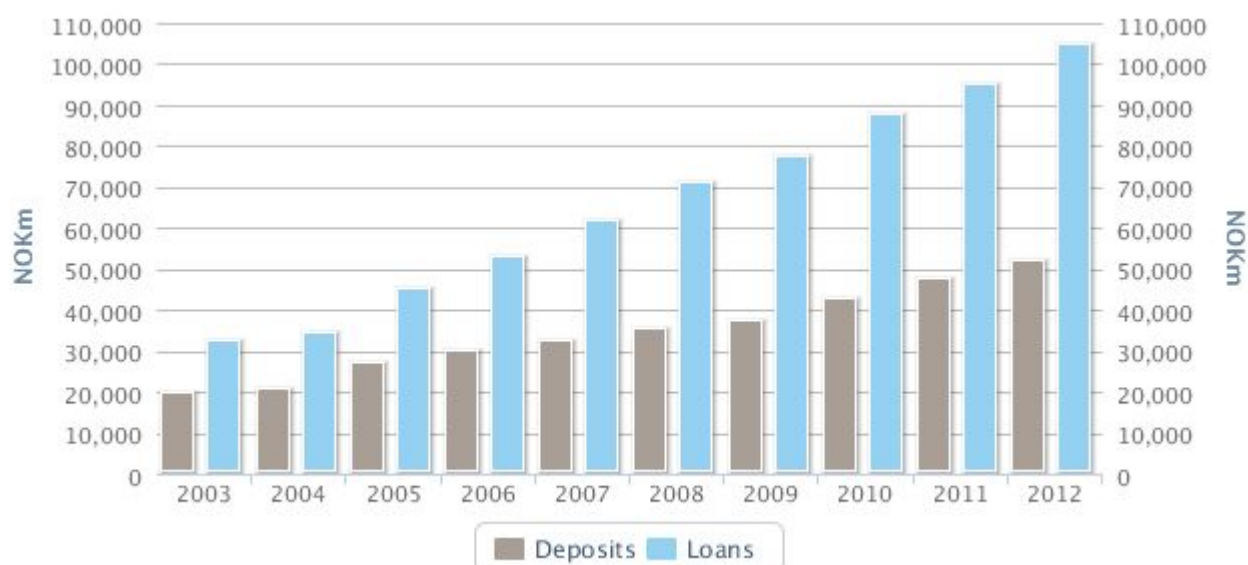
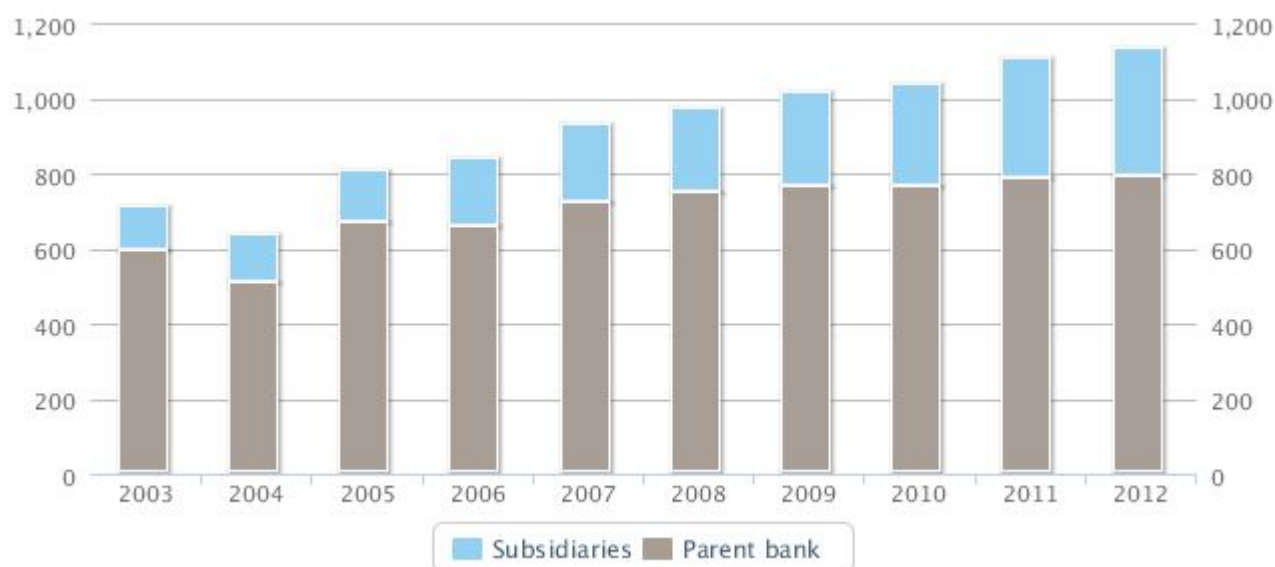
Net profit and return on equity**Net interest income**

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 in London.

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 and North 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.

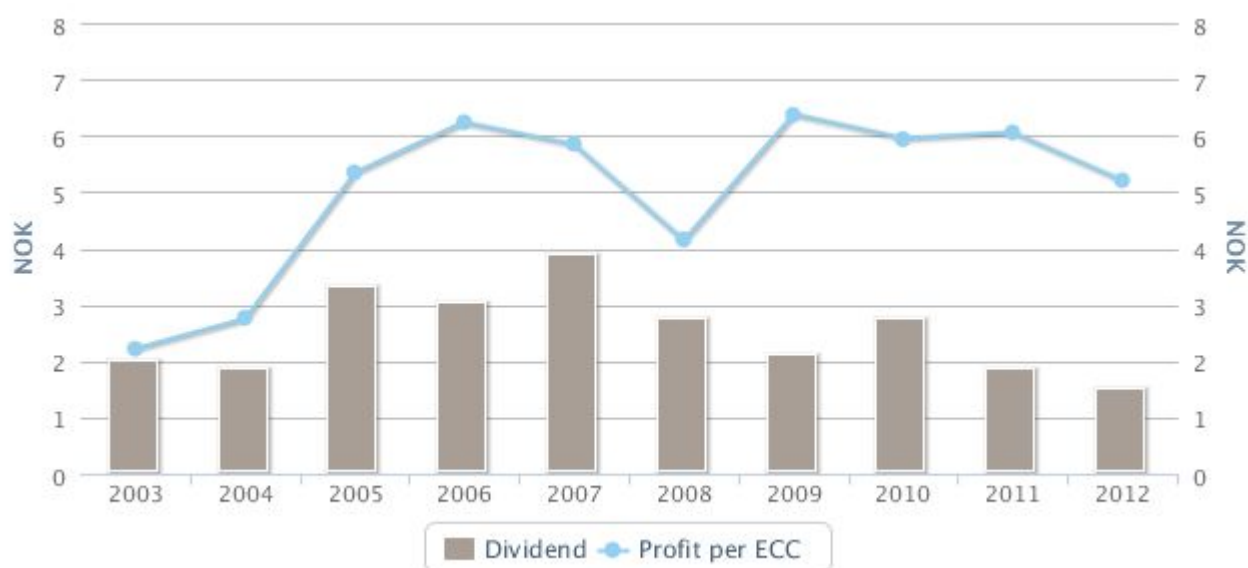
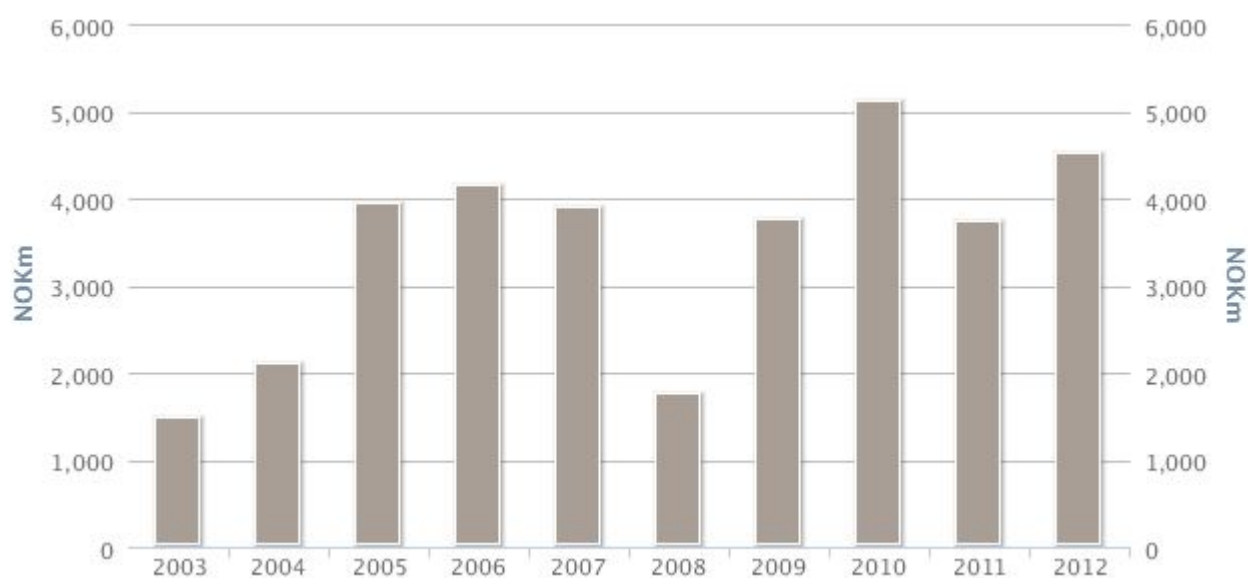
2) Price rise over the year plus paid dividend as per cent of quoted price at start of year.

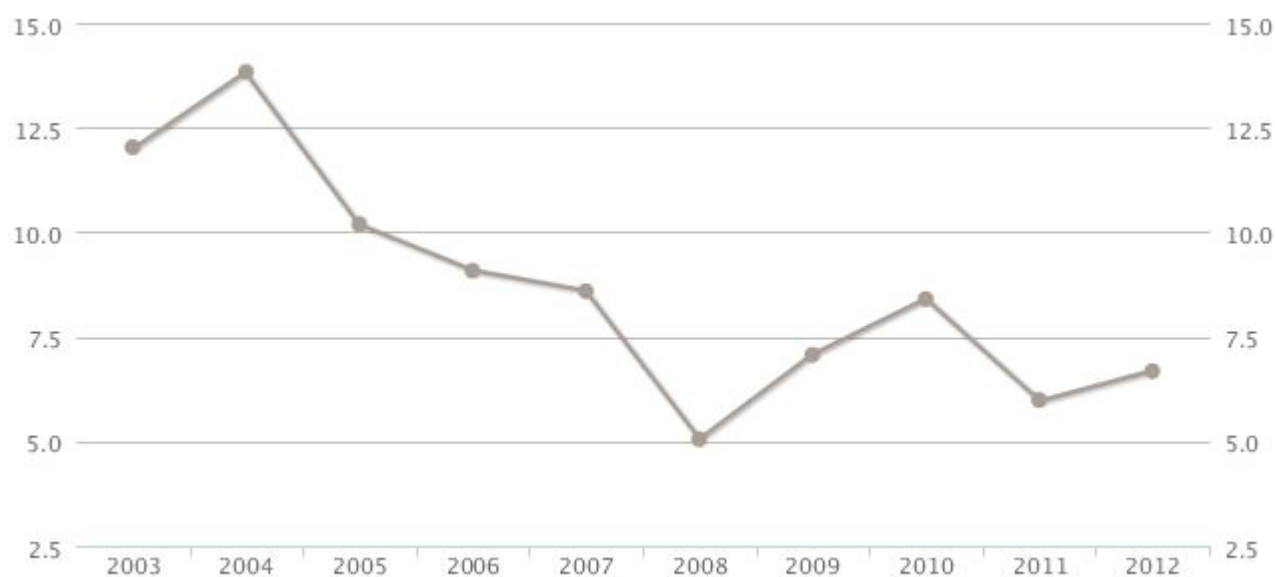
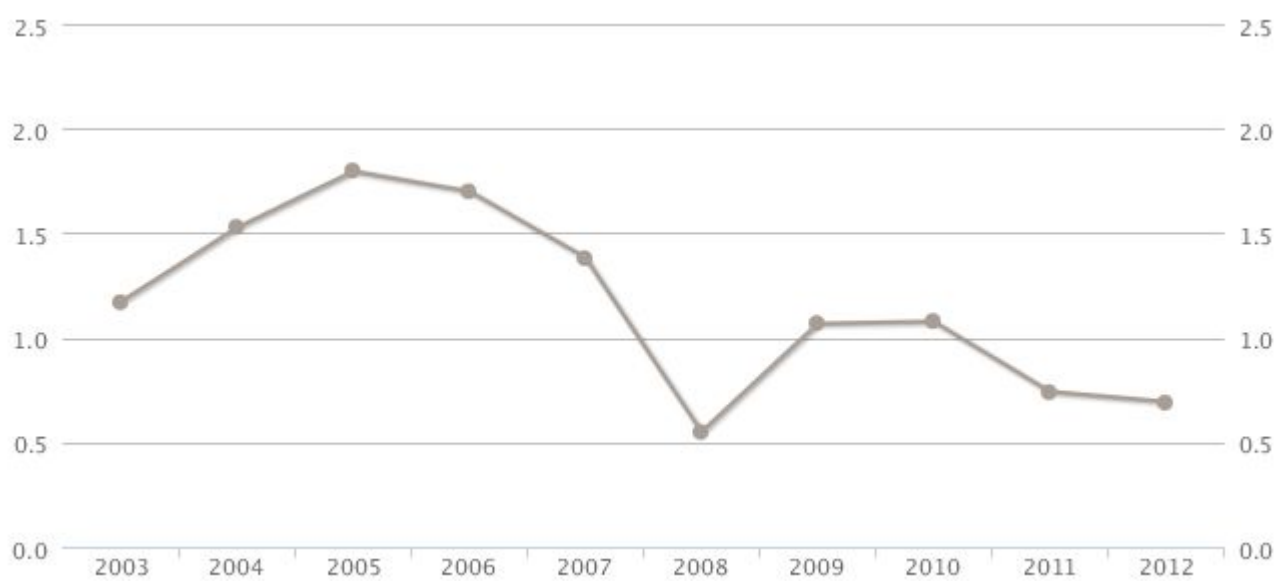
3) Book equity (after deduction of own ECs) multiplied by the EC fraction divided by the number of ECs (less own ECs) including cash dividend.

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



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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.

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Deloitte.Page 2
Independent Auditor's Report to the
supervisory Board of SpareBank 1 SMN**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)