

# 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.

<b>Difference between Group - Parent Bank (NOKm)</b>	<b>2012</b>	<b>2011</b>
<b>Profit of the year, Group</b>	<b>1,077</b>	<b>1,024</b>
Profit, subsidiaries	-76	-144
Dividend and group contributions, subsidiaries	126	68
Profit share, affiliates	-264	-290
Dividend from affiliates	163	162
<b>Profit of the year, Parent Bank</b>	<b>1,025</b>	<b>820</b>

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.

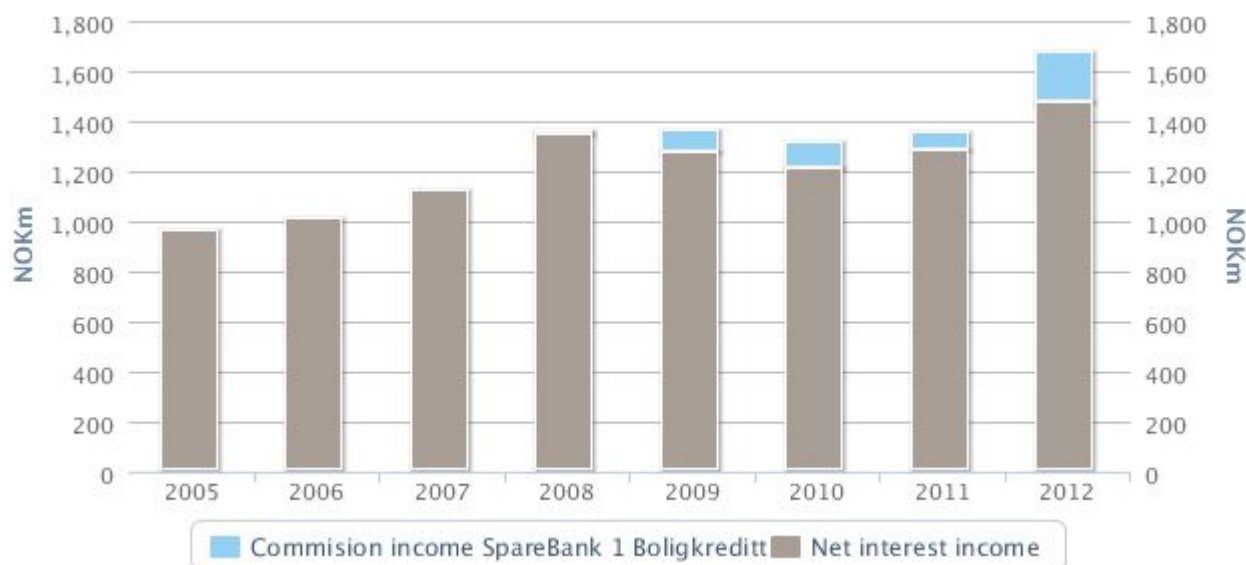
After distribution of the profit for 2012 the ECC-holder ratio (ECC-holders' share of total equity) is 64.6 per cent.

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

### 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.

<b>Commission income, NOKm</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>
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
<b>Total</b>	<b>1,139</b>	<b>919</b>	<b>220</b>

### 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

<b>Return on financial investments, NOKm</b>	<b>2012</b>	<b>2011</b>
Capital gains/dividends, shares	21	102
Bonds and derivatives	57	-10
Forex and fixed income transactions, Markets	126	96
<b>Value changes, financial investments</b>	<b>204</b>	<b>188</b>
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
<b>Affiliates</b>	<b>264</b>	<b>290</b>
<b>Total</b>	<b>467</b>	<b>478</b>

### 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).

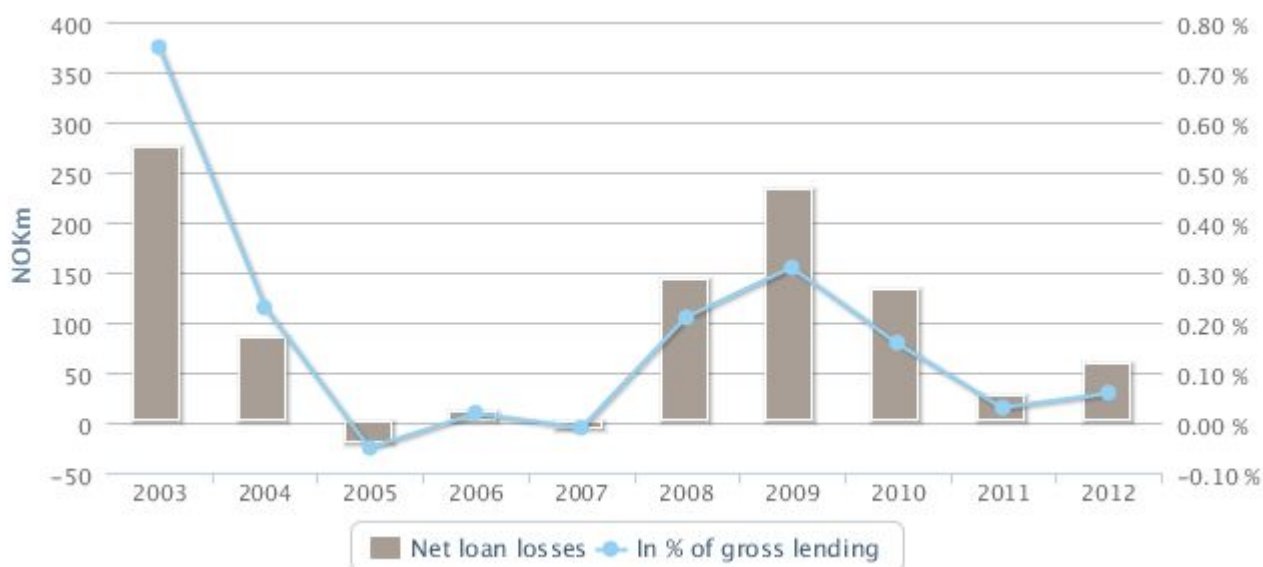
Other doubtful exposures totalled NOK 143m (204m), i.e. 0.14 per cent (0.21 per cent) of gross outstanding loans. NOK 62m (83m) or 43 per cent (41 per cent) are loss provisioned.

### 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
<b>Total</b>	<b>4,789</b>	<b>4,154</b>	<b>635</b>

### 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
<b>Total</b>	<b>1,030</b>	<b>925</b>	<b>105</b>

### 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.

<b>Retail market (NOKm)</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>
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
<b>Profit before tax</b>	<b>383</b>	<b>256</b>	<b>126</b>
<b>ROE after tax</b>	<b>22.6 %</b>	<b>16.8 %</b>	
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).

<b>Corporate market (NOKm)</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>
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
<b>Profit before tax</b>	<b>731</b>	<b>724</b>	<b>7</b>
<b>ROE after tax</b>	<b>13.8 %</b>	<b>13.9 %</b>	
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
<b>Total income</b>	<b>131.5</b>	<b>147.9</b>	<b>-16.4</b>

*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
<b>Total</b>	<b>116.0</b>	<b>167.8</b>	<b>-51.7</b>

**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 dept	1,586	1,199
<b>Net own funds</b>	<b>10,943</b>	<b>9,055</b>
<b>Capital requirement</b>	<b>6,596</b>	<b>6,027</b>
<b>Tier 1 capital ratio</b>	<b>11.3 %</b>	<b>10.4 %</b>
<b>Total capital ratio</b>	<b>13.3 %</b>	<b>12.0 %</b>

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.

<b>Main figures, Parent Bank</b>	<b>2012</b>	<b>2011</b>
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 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's 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