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Note 1 - Accounting principles

SpareBank 1 SMN prepares and presents its quarterly accounts in compliance with the Stock Exchange Regulations, Stock Exchange Rules and International Financial Reporting Standards (IFRS), including IAS 34, Interim Financial Reporting. As from 2007 the company accounts are also prepared and presented under IFRS. This entails that investments in associates and subsidiaries are recognised using the cost method. For this reason results recorded by associates and subsidiaries are not included in the parent bank's accounts.

Further, the Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts. The quarterly accounts do not include all the information required in a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2010.

As from the first quarter of 2012, return on treasury bills is to be presented as net interest income instead of, as previously, capital gains or losses. Historical data have been correspondingly restated.

IAS 19 – Employee Benefits was adopted by the EU on 6 June 2012. See note 2 Estimates for further information.

Note 2 - Critical estimates and assessment concerning the use of accounting principles

When it prepares the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This accordingly affects recognised amounts for assets, liabilities, revenues and expenses. Last year's annual accounts give a closer explanation of significant estimates and assumptions in Note 4 Critical estimates and assessments concerning the use of accounting principles.

Pensions

The banking and financial industry has established an agreement on contractual early retirement (AFP) for employees reaching the age of 62. The Bank's contribution comprises the National Insurance Scheme's accumulation of disbursed pension for employees availing themselves of AFP. From age 62 to 64 the Bank's liability is 100 percent and 60 percent 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 percent 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 percentage of salary payments between 1 G and 7.1 G.

At year end no provision was made for the Group's de facto AFP (early retirment scheme) liability. The reason is that the Joint Office for the LO/NHO Schemes has not done the required calculations. Similarly, the year's AFP cost of the new scheme has not been booked. This is in keeping with the recommendation of the Norwegian Accounting Standards Board.

IAS Employee Benefits

A new IAS 19 – Employee Benefits was adopted by the EU on 6 June 2012. Entry into force is scheduled for 1 January 2013, with scope for early implementation. SpareBank 1 SMN will implement the standard on 1 January 2013. Based on actuarial calculations as of 31 December 2011 the implementation effect is likely to be about NOK 50m, charged to Group equity capital. This is a discretionary estimate and final figures will differ somewhat since the implementation date is 1 January 2013.

Guarantee agreement with BN Bank

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

Note 3 - Account by business line

	Group 30 June 2012								
Profit and loss account (NOK million)	**RM**	**CM**	**Markets**	**EM 1**	**SMN Finans**	**Allegro**	**SMN Regnskap**	**Uncollated**	**Total**
Net interest	251	433	-1	2	58	0	0	-22	720
Allocated	8	56	2	-	-	-	-	-66	-
Total interest income	**259**	**489**	**1**	**2**	**58**	**0**	**0**	**-88**	**720**
Commission income and other income	204	64	10	166	-1	5	52	23	524
Net return on financial investments **)	1	17	41	0	0	-	1	180	239
Total income *)	**464**	**570**	**52**	**168**	**56**	**5**	**53**	**115**	**1,483**
Total operating expenses	**320**	**196**	**45**	**126**	**25**	**7**	**44**	**36**	**799**
Ordinary operating profit	**144**	**374**	**8**	**42**	**31**	**-1**	**9**	**80**	**684**
Loss on loans, guarantees etc.	2	22	-	-	1	-	-	0	25
Result before tax	**142**	**351**	**8**	**42**	**30**	**-1**	**9**	**80**	**659**
Post-tax return on equity	**16.2 %**	**13.8 %**							**11.7 %**
Balance (NOK million)									
Loans and advances to customers	55,338	40,163	-	72	2,997	29	8	1,944	100,552
Adv. of this to SpareBank 1 Boligkreditt	-24,921	-1,077	-	-	-	-	-	-959	-26,958
Individual allowance for impairment on loan	-31	-124	-	-	-11	-	-	0	-166
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	201	579	-	187	37	8	51	33,616	34,676
Total assets	**30,586**	**39,541**	**-**	**259**	**3,005**	**37**	**59**	**34,328**	**107,815**
Deposits to customers	22,644	25,871	-	-	-	-	-	2,990	51,504
Other liabilities and equity	7,943	13,670	-	259	3,005	37	59	31,338	56,310
Total liabilites	**30,586**	**39,541**	**-**	**259**	**3,005**	**37**	**59**	**34,328**	**107,815**

				Group 30 June 2011					
Profit and loss account (NOK million)	**RM**	**CM**	**Markets**	**EM 1**	**SMN Finans**	**Allegro**	**SMN Regnskap**	**Uncollated**	**Total**
Net interest	257	378	6	2	48	0	-	9	700
Allocated	11	65	3	-	-	-	-	-79	-
Total interest income	**268**	**443**	**9**	**2**	**48**	**0**	**-**	**-70**	**700**
Commission income and other income	179	70	9	144	-1	6	36	11	453
Net return on financial investments **)	1	11	25	-0	1	-	0	151	188
Total income *)	**448**	**523**	**43**	**146**	**48**	**7**	**36**	**92**	**1,341**
Total operating expenses	**307**	**171**	**38**	**113**	**23**	**8**	**31**	**17**	**708**
Ordinary operating profit	**141**	**351**	**5**	**33**	**25**	**-1**	**5**	**74**	**633**
Loss on loans, guarantees etc.	3	-19	-	-	8	-	-	0	-7
Result before tax	**138**	**370**	**5**	**33**	**17**	**-1**	**5**	**74**	**640**
Post-tax return on equity	**17.6 %**	**14.2 %**							**13.0 %**
Balance (NOK million)									
Loans and advances to customers	49,317	37,245	-	-	2,940	-	-	1,438	90,939
Adv. of this to SpareBank 1 Boligkreditt	-21,372	-249	-	-	-	-	-	-759	-22,379
Individual allowance for impairment on loan	-41	-100	-	-	-36	-	-	0	-177
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	207	179	-	167	-2,479	16	24	32,298	30,411
Total assets	**28,111**	**37,074**	**-**	**167**	**408**	**16**	**24**	**32,703**	**98,503**
Deposits to customers	20,661	23,640	-	-	-	-	-	1,688	45,990
Other liabilities and equity	7,450	13,434	-	167	408	16	24	31,015	52,513
Total liabilites	**28,111**	**37,074**	**-**	**167**	**408**	**16**	**24**	**32,703**	**98,503**

*) A portion of capital market income (Markets) is distributed on RM and CM

**) Specification of net return on financial investments (NOKm)	30 June 2012	30 June 2011
Income from investment in related companies	149	122
adv. of this from SpareBank1 Gruppen	60	50
adv. of this from BN Bank ASA	27	44
adv. of this from Bank 1 Oslo Akershus AS	19	9
adv. of this from SpareBank 1 Boligkreditt	25	10
adv. of this from SpareBank 1 Næringskreditt	5	4
adv. of this from Polaris Media	15	7
Net gain and dividends on securities	-7	39
adv. of this from SpareBank 1 SMN Invest	1	30
Net gain on bonds	38	2
Net gain on trading and derivatives SMN Markets	59	25
Net return on financial investments	239	188

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Note 4 - Operating expenses

Parent bank				Group		
2011	**30 June 2011**	**30 June 2012**		**30 June 2012**	**30 June 2011**	**2011**
528	277	312	Personnel expenses	455	405	810
167	80	81	IT costs	92	88	185
23	12	12	Postage and transport of valuables	13	14	27
38	18	17	Marketing	23	24	50
38	18	20	Ordinary depreciation	48	40	87
119	57	61	Operating expenses, real properties	48	45	95
47	19	22	Purchased services	26	24	55
129	49	61	Other operating expense	93	69	173
1.089	**530**	**586**	**Total other operating expenses**	**799**	**708**	**1.482**

Note 5 - Distribution of loans by sector/industry

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
5.027	4.332	5.476	Agriculture/forestry/fisheries/hunting	5.652	4.525	5.217
1.883	2.287	1.966	Sea farming industries	2.096	2.426	2.026
2.644	2.543	3.099	Manufacturing	3.329	2.805	2.881
2.113	2.345	2.574	Construction, power and water supply	3.063	2.825	2.572
2.147	2.178	2.138	Retail trade, hotels and restaurants	2.324	2.407	2.337
5.974	5.384	5.939	Maritime sector	5.946	5.389	5.978
12.662	12.781	12.381	Property management	11.877	12.314	12.179
3.573	3.051	3.375	Business services	3.678	3.334	3.867
1.808	1.794	1.826	Transport and other services provision	2.164	2.055	2.078
63	23	27	Public administration	32	58	92
969	692	1.560	Other sectors	2.646	694	971
38.861	**37.411**	**40.362**	**Gross loans in retail market**	**42.807**	**38.832**	**40.198**
54.058	51.209	57.718	Wage earners	57.746	52.107	55.034
92.919	**88.620**	**98.079**	**Gross loans incl. Boligkreditt / Næringskreditt**	**100.552**	**90.939**	**95.232**
22.126	22.379	26.958	Boligkreditt / Næringskreditt	26.958	22.379	22.126
70.793	**66.241**	**71.121**	**Gross loans in balance sheet**	**73.595**	**68.559**	**73.105**

Note 6 - Losses on loans and guarantees

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
-36	-45	4	Change in individual impairment losses provisions for the period	-6	-44	-50
-	-	-	Change in collective impairment losses provisions for the period	-	-	-
75	55	38	Actual loan losses on comm. for which provisions have been made	49	57	91
9	7	10	Actual loan losses on commitments for which no provision has been made	11	15	26
-37	-33	-28	Recoveries on commitments previously written-off	-29	-34	-39
12	**-15**	**24**	**Losses of the year on loans and guarantees**	**25**	**-7**	**27**

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Note 7 - Losses

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
186	186	151	Individual write-downs to cover loss on loans at 01.01	172	222	222
9	8	25	+Increased write-downs on provisions previosly written down	25	8	10
26	20	6	- Reversal of provisions from previous periods	7	22	28
57	23	23	+Write-downs on provisions not previously written down	24	26	59
75	55	38	- Actual losses during the period for which provisions for individual impairment losses have been made previously	49	57	91
151	**141**	**155**	**Specification of loss provisions at end of period**	**166**	**177**	**172**
85	63	48	Actual losses	60	71	117

Note 8 - Defaults

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
			Total defaults			
272	254	278	Loans in default for more than 90 days *)	338	361	338
73	58	92	- Individual write-downs	99	88	89
199	196	186	Net defaults	239	273	249
27 %	23 %	33 %	Provision rate	29 %	24 %	26 %
			Problem Loans			
191	161	183	Problem loans (not in default)	199	178	204
77	84	62	- Individual write-downs	67	90	83
113	77	121	Net problem loans	132	88	121
41 %	52 %	34 %	Provision rate	34 %	51 %	41 %

*) Of which NOK 55 million relates to loans in the guarantee portfolio taken over from BN Bank ASA. These will not entail loss for SpareBank 1 SMN.

Note 9 - Other assets

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
-	-	-	Deferred tax benefit	3	7	19
151	143	183	Fixed assets	1.199	1.074	1.109
-	-	-	Assets held for sale	559	1.037	481
956	1.037	1.043	Earned income not yet received	1.027	185	948
4	185	402	Accounts receivable, securities	402	461	4
30	287	563	Other assets	807	407	218
1.142	**1.651**	**2.190**	**Total other assets**	**3.998**	**3.170**	**2.779**

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Note 10 - Distribution of customer deposits by sector/industry

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
1,757	1,805	2,101	Agriculture/forestry/fisheries/hunting	2,101	1,805	1,757
402	485	272	Sea farming industries	272	485	402
1,079	1,325	1,915	Manufacturing	1,915	1,325	1,079
1,420	1,145	1,623	Construction, power and water supply	1,623	1,145	1,420
3,517	2,717	3,209	Retail trade, hotels and restaurants	3,209	2,717	3,517
1,103	770	899	Maritime sector	899	770	1,103
3,545	2,847	4,218	Property management	3,589	2,802	3,517
5,103	4,544	4,867	Business services	4,867	4,544	5,103
3,231	3,034	3,515	Transport and other services provision	3,446	2,960	3,036
3,920	4,356	3,164	Public administration	3,164	4,356	3,920
2,178	2,443	4,014	Other sectors	3,985	2,419	2,157
27,254	**25,470**	**29,797**	**Total**	**29,071**	**25,327**	**27,011**
20,860	20,663	22,433	Wage earners	22,433	20,663	20,860
48,114	**46,133**	**52,231**	**Total deposits**	**51,504**	**45,990**	**47,871**

Note 11 - Debt created by issue of securities

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
219	319	1,230	Short-term debt instruments, nominal value	1,230	319	219
27,681	25,985	26,851	Bond debt, nominal value	26,851	25,985	27,681
248	78	260	Value adjustments	260	78	248
28,148	**26,382**	**28,341**	**Total**	**28,341**	**26,382**	**28,148**

Change in securities debt, subordinated debt and hybrid equity

	30 June 2012	Issued	Fallen due / Redeemed	Other changes	30 June 2011
Short-term debt instruments, nominal value	1,230	1,061	49	-	219
Bond debt, nominal value	26,851	4,265	5,040	-55	27,681
Value adjustments	260	-	-	11	248
Total	28,341	5,326	5,089	-44	28,148

	30 June 2012	Issued	Fallen due / Redeemed	Other changes	30 June 2011
Ordinary subordinated loan capital, nominal value	1,328	-	-	-21	1,349
Perpetual subordinated loan capital, nominal value	300	-	-	0	300
Hybrid equity, nominal value	900	-	-	-3	902
Value adjustments	134	-	-	-5	139
Total	2,662	-	-	-29	2,690

Note 12 - Other liabilities

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
40	21	40	Deferred tax	50	21	55
215	127	91	Payable tax	118	139	244
913	821	926	Accrued expenses and received, non-accrued income	1.278	1.080	1.213
101	136	112	Provision for accrued expenses and commitments	112	136	102
-	-	-	Pension liabilities	7	6	7
113	68	96	Drawing debt	96	68	113
10	3	1	Creditors	41	46	38
20	162	171	Debt from securities	171	162	20
-	-	-	Debt available for sale	79	414	151
130	395	347	Other liabilities	374	128	177
1.544	**1.734**	**1.784**	**Total other liabilites**	**2.325**	**2.201**	**2.122**

Note 13 - Capital adequacy

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 and hybrid capital

Subordinated debt ranks behind all other liabilities. Dated subordinated loans cannot constitute more than 50 percent of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans cannot constitute more than 100 percent 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 percent 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 percent or total capital adequacy falls below 6 percent. 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 34 in the Bank's annual report.

Parent bank				Group		
2011	30 June 2011	30 June 2012		30 June 2012	30 June 2011	2011
2,373	2,373	2,484	Equity capital certificates	2,484	2,373	2,373
0	0	0	- Own holding of ECCs	0	0	0
183	182	813	Premium fund	813	182	183
1,457	1,160	1,457	Dividend equalisation fund	1,457	1,160	1,457
2,611	2,345	2,611	Savings bank's reserve	2,611	2,345	2,611
190	-	-	Recommended dividends	-	-	190
40	-	-	Provision for gifts	-	-	40
70	45	70	Unrealised gains reserve	90	71	85
-	-	0	Other equity and minority interest	1,400	1,267	1,409
-	556	614	Net profit	510	505	-
6,924	**6,660**	**8,050**	**Total book equity**	**9,365**	**7,902**	**8,348**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-670	-643	-692
-	-	-	Part of reserve for unrealised gains, associated companies	64	65	64
-230	-	-0	Deduction for allocated dividends and gifts	-	-	-230
-387	-386	-460	50 % deduction for subordinated capital in other financial institutions	-2	-	-
-137	-142	-139	50 % deduction for expected losses on IRB, net of write-downs	-153	-151	-147
-	-	-	50 % capital adequacy reserve	-682	-636	-656
-	-	-82	Surplus financing of pension obligations	-74	-	-
-	-556	-614	Net profit	-510	-505	-
-	278	307	Year-to-date profit included in core capital (50% pre tax)	255	252	-
956	893	950	Hybrid capital, core capital	1.130	1.110	1.170
6.680	**6.300**	**7.564**	**Total core capital**	**8.722**	**7.394**	**7.856**
			Supplementary capital in excess of core capital			
0	0	0	Hybrid capital, supplementary capital	37	0	0
326	315	324	Perpetual subordinated capital	325	315	328
1.409	1.310	1.388	Non-perpetual subordinated capital	1.653	1.574	1.674
-387	-386	-460	50 % deduction for subordinated capital in other financial institutions	-2	-	-
-137	-142	-139	50 % deduction for expected losses on IRB, net of write-downs	-153	-151	-147
-	-	-	50 % capital adequacy reserve	-682	-636	-656
1,211	**1,097**	**1,112**	**Total supplementary capital**	**1,178**	**1,102**	**1,199**
7,891	**7,397**	**8,676**	**Net subordinated capital**	**9,900**	**8,496**	**9,055**
			Minimum requirements subordinated capital, Basel II			
1,456	1,408	1,584	Involvement with spesialised enerprises	1,584	1,408	1,456
1,313	1,195	1,511	Other corporations exposure	1,511	1,203	1,313
40	56	38	SME exposure	41	59	42
324	292	318	Retail morgage exposure	541	451	513
31	31	28	Other retail exposure	30	33	33
653	634	1,008	Equity investments	-	-	-
3,818	**3,616**	**4,487**	**Total credit risk IRB**	**3,707**	**3,154**	**3,357**
182	98	223	Debt risk	223	98	182
49	41	48	Equity risk	15	15	16
-	-	-	Currency risk	-	-	-
293	293	315	Operational risk	420	400	400
653	528	609	Exposures calculated using the standardised approach	2,121	1,962	2,184
-65	-65	-76	Deductions	-115	-107	-111
-	-	-	Transitional arrangements	-	-	-
4,930	**4,512**	**5,607**	**Minimum requirements subordinated capital**	**6,371**	**5,522**	**6,029**
			Capital adequacy			
10.8 %	11.2 %	10.8 %	Core capital ratio	11,0 %	10.7 %	10.4 %
12.8 %	13.1 %	12.4 %	Capital adequacy ratio	12.4 %	12.3 %	12.0 %