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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 2011.

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.

The year's AFP cost of the new scheme has not been booked. The reason is that the Joint Office for the LO/NHO Schemes has not done the required calculations. 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.

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Note 3 - Account by business line

Profit and loss account (NOK million)	RM	CM	Markets	EM 1	SMN Finans	Allegro	SMN Regnskap	Uncollated	Total
					Group 30 Sept 2012				
Net interest	399	653	-10	2	88	0	0	-53	1,079
Allocated	9	74	3	-	-	-	-	-86	-
Total interest income	**408**	**726**	**-8**	**2**	**88**	**0**	**0**	**-138**	**1,079**
Commission income and other income	332	97	14	255	-3	8	78	37	818
Net return on financial investments **)	1	25	63	-	-	-	2	313	403
Total income *)	**740**	**848**	**69**	**258**	**85**	**8**	**80**	**212**	**2,300**
Total operating expenses	**488**	**290**	**68**	**200**	**38**	**10**	**68**	**54**	**1,217**
Ordinary operating profit	**252**	**558**	**2**	**57**	**47**	**-3**	**13**	**157**	**1,084**
Loss on loans, guarantees etc.	3	35	-	-	4	-	-	-	42
Result before tax	**249**	**524**	**2**	**57**	**43**	**-3**	**13**	**157**	**1,042**
Post-tax return on equity	**19.5 %**	**13.1 %**	**0.6 %**						**12.1 %**
Balance (NOK million)									
Loans and advances to customers	56,916	41,080	-	-	3,106	-	-	2,172	103,274
Adv. of this to SpareBank 1 Boligkreditt	-26,984	-934	-	-	-	-	-	-	-27,917
Individual allowance for impairment on loan	-31	-106	-	-	-12	-	-	-	-148
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-278	-295
Other assets	200	578	-	86	-2,946	-1	13	37,796	35,726
Total assets	**30,101**	**40,618**	**-**	**86**	**132**	**-1**	**13**	**39,690**	**110,640**
Deposits to customers	22,335	24,910	-	-	-	28	12	3,551	50,836
Other liabilities and equity	7,767	15,708	-	86	132	-29	2	36,139	59,804
Total liabilites	**30,101**	**40,618**	**-**	**86**	**132**	**-1**	**13**	**39,690**	**110,640**

Profit and loss account (NOK million)	Group 30 Sept 2011 RM	CM	Markets	EM 1	SMN Finans	Allegro	SMN Regnskap	Uncollated	Total
Net interest	385	584	9	4	71	1	-0	-2	1,053
Allocated	14	96	4	-	-	-	-	-115	-
Total interest income	**400**	**680**	**13**	**4**	**71**	**1**	**-0**	**-116**	**1,053**
Commission income and other income	264	100	16	226	-1	9	54	20	687
Net return on financial investments **)	5	26	41	-0	-	-	0	205	276
Total income *)	**668**	**806**	**70**	**230**	**70**	**10**	**54**	**109**	**2,017**
Total operating expenses	**457**	**256**	**59**	**174**	**35**	**13**	**49**	**27**	**1,070**
Ordinary operating profit	**211**	**550**	**10**	**55**	**34**	**-3**	**5**	**84**	**947**
Loss on loans, guarantees etc.	7	-17	-	-	12	-	-	4	1
Result before tax	**205**	**567**	**10**	**55**	**23**	**-3**	**5**	**85**	**946**
Post-tax return on equity	**18.6 %**	**14.6 %**	**5.6 %**						**12.5 %**
Balance (NOK million)									
Loans and advances to customers	50,730	37,499	-	-	2,942	-	-3	1,503	92,671
Adv. of this to SpareBank 1 Boligkreditt	-20,132	-245	-	-	-	-	-	-724	-21,101
Individual allowance for impairment on loan	-31	-103	-	-	-24	-	-	-1	-159
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	184	202	-	151	-2,476	17	21	30,789	28,888
Total assets	**30,751**	**37,353**	**-**	**151**	**425**	**17**	**18**	**31,292**	**100,007**
Deposits to customers	20,519	23,932	-	-	-	-	-	1,572	46,023
Other liabilities and equity	10,231	13,422	-	151	425	17	21	29,718	53,985
Total liabilites	**30,751**	**37,353**	**-**	**151**	**425**	**17**	**18**	**31,292**	**100,007**

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

**) Specification of net return on financial investments (NOKm)	30 Sept 2012	30 Sept 2011
Income from investment in related companies	234	171
adv. of this from SpareBank1 Gruppen	104	50
adv. of this from BN Bank ASA	41	73
adv. of this from Bank 1 Oslo Akershus AS	34	14
adv. of this SpareBank 1 Boligkreditt	37	15
adv. of this SpareBank 1 Næringskreditt	8	6
adv. of this Polaris Media	18	21
Net gain and dividends on securities	19	66
adv. of this from SpareBank 1 SMN Invest	14	51
Net gain on bonds	56	-17
Net gain on trading and derivatives SMN Markets	95	56
Net return on financial investments	403	276

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Note 4 - Operating expenses

Parent bank				Group		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
528	414	462	Personnel expenses	690	614	810
167	119	129	IT costs	145	131	185
23	17	17	Postage and transport of valuables	20	19	27
38	25	27	Marketing	36	34	50
38	27	30	Ordinary depreciation	74	63	87
119	89	93	Operating expenses, real properties	73	69	95
47	29	37	Purchased services	43	36	55
129	74	87	Other operating expense	136	103	173
1,089	**794**	**883**	**Total other operating expenses**	**1,217**	**1,070**	**1,482**

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Note 5 - Distribution of loans by sector/industry

Parent bank				Group		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
5,027	4,430	5,862	Agriculture/forestry/fisheries/hunting	6,035	4,619	5,217
1,883	1,867	2,258	Sea farming industries	2,378	2,013	2,026
2,644	2,784	3,196	Manufacturing	3,426	3,026	2,881
2,113	2,012	2,601	Construction, power and water supply	3,121	2,480	2,572
2,147	2,122	2,161	Retail trade, hotels and restaurants	2,340	2,318	2,337
5,974	5,553	5,547	Maritime sector	5,554	5,558	5,978
12,662	12,674	12,279	Property management	11,769	12,236	12,179
3,573	3,306	3,532	Business services	3,809	3,608	3,867
1,808	1,816	2,094	Transport and other services provision	2,423	2,058	2,078
63	24	129	Public administration	156	54	92
969	1,050	1,779	Other sectors	1,785	1,052	971
38,861	**37,639**	**41,440**	**Gross loans in retail market**	**42,795**	**39,021**	**40,198**
54,058	52,699	59,333	Wage earners	60,479	53,650	55,034
92,919	**90,338**	**100,773**	**Gross loans incl. Boligkreditt / Næringskreditt**	**103,274**	**92,671**	**95,232**
22,126	21,101	27,294	Boligkreditt	27,294	21,101	22,126
-	-	623	Næringskreditt	623	-	-
70,793	**69,237**	**72,856**	**Gross loans in balance sheet**	**75,357**	**71,570**	**73,105**

Note 6 - Losses on loans and guarantees

Parent bank				Group		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
-36	-52	-14	Change in individual impairment losses provisions for the period	-24	-63	-50
-	-	5	Change in collective impairment losses provisions for the period	5	-	-
75	74	42	Actual loan losses on comm. for which provisions have been made	54	87	91
9	3	34	Actual loan losses on commitments for which no provision has been made	37	14	26
-37	-35	-29	Recoveries on commitments previously written-off	-30	-37	-39
12	**-10**	**38**	**Losses of the year on loans and guarantees**	**42**	**1**	**27**

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Note 7 - Losses

Parent bank				Group		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
186	186	151	Individual write-downs to cover loss on loans at 01.01	173	222	222
9	7	8	+Increaseed write-downs on provisions previosly written down	8	8	10
26	26	7	- Reversal of provisions from previous periods	8	28	28
57	41	27	+Write-downs on provisions not previosly written down	29	44	59
75	74	42	- Actual losses during the period for which provisions for individual impairment losses have been made previously	54	87	91
151	**135**	**137**	**Specification of loss provisions at end of period**	**148**	**159**	**172**
85	77	76	Actual losses	91	101	117

Note 8 - Defaults

Parent bank				Group		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
			Total defaults			
272	248	351	Loans in default for more than 90 days *)	398	332	338
73	60	80	- Individual write-downs	86	79	89
199	188	271	Net defaults	312	253	249
27 %	24 %	23 %	Provision rate	22 %	24 %	26 %
			Problem Loans			
191	216	136	Problem loans (not in default)	163	223	204
77	75	57	- Individual write-downs	62	81	83
113	140	78	Net problem loans	101	142	121
41 %	35 %	42 %	Provision rate	38 %	36 %	41 %

*) Of which NOK 61 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 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
-	-	-	Deferred tax benefit	6	8	19
151	147	190	Fixed assets	1,196	1,107	1,109
-	-	-	Assets held for sale	564	412	481
956	1,137	1,209	Earned income not yet received	1,202	1,135	948
4	45	452	Accounts receivable, securities	452	45	4
30	392	251	Other assets	195	570	218
1,142	**1,721**	**2,102**	**Total other assets**	**3,615**	**3,278**	**2,779**

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Note 10 - Distribution of customer deposits by sector/industry

Parent bank				Group		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
1,757	1,732	2,016	Agriculture/forestry/fisheries/hunting	2,016	1,732	1,757
402	327	163	Sea farming industries	163	327	402
1,079	1,378	1,146	Manufacturing	1,146	1,378	1,079
1,420	1,298	1,402	Construction, power and water supply	1,402	1,298	1,420
3,517	2,693	2,969	Retail trade, hotels and restaurants	2,969	2,693	3,517
1,103	782	1,011	Maritime sector	1,011	782	1,103
3,545	3,586	4,324	Property management	3,729	3,579	3,517
5,103	4,836	4,429	Business services	4,429	4,836	5,103
3,231	3,204	3,721	Transport and other services provision	3,529	3,080	3,036
3,920	3,892	4,748	Public administration	4,748	3,892	3,920
2,178	1,929	3,525	Other sectors	3,497	1,908	2,157
27,254	**25,656**	**29,456**	**Total**	**28,639**	**25,505**	**27,011**
20,860	20,519	22,196	Wage earners	22,196	20,519	20,860
48,114	**46,176**	**51,652**	**Total deposits**	**50,836**	**46,023**	**47,871**

Note 11 - Debt created by issue of securities

Parent bank 2011	Parent bank 30 Sept 2011	Parent bank 30 Sept 2012		Group 30 Sept 2012	Group 30 Sept 2011	Group 2011
219	199	934	Short-term debt instruments, nominal value	934	199	219
27,681	25,429	28,797	Bond debt, nominal value	28,797	25,429	27,681
248	257	353	Value adjustments	353	257	248
28,148	**25,885**	**30,085**	**Total**	**30,085**	**25,885**	**28,148**

Change in securities debt, subordinated debt and hybrid equity

	30 Sept 2012	Issued	Fallen due / Redeemed	Other changes	30 Sept 2011
Short-term debt instruments, nominal value	934	2,109	1,394	-	219
Bond debt, nominal value	28,797	8,540	7,227	-196	27,681
Value adjustments	353	-	-	105	248
Total	30,085	10,649	8,621	-91	28,148

	30 Sept 2012	Issued	Fallen due / Redeemed	Other changes	30 Sept 2011
Ordinary subordinated loan capital, nominal value	1,310	-	-	-39	1,349
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	877	-	-	-25	902
Value adjustments	133	-	-	-6	139
Total	2,620	-	-	-70	2,690

Note 12 - Other liabilities

Parent bank				Group		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
40	21	40	Deferred tax	49	27	55
215	187	161	Payable tax	189	205	244
913	1,129	1,092	Accrued expenses and received, non-accrued income	1,466	1,408	1,213
101	116	94	Provision for accrued expenses and commitments	94	117	102
-	-	-	Pension liabilities	7	6	7
113	80	87	Drawing debt	87	80	113
10	3	9	Creditors	51	39	38
20	1,198	1,476	Debt from securities	1,476	1,198	20
-	-	-	Debt available for sale	79	137	151
130	386	358	Other liabilities	362	421	177
1,544	**3,119**	**3,318**	**Total other liabilites**	**3,861**	**3,638**	**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 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.

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Parent bank				Group		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
2,373	2,373	2,597	Equity capital certificates	2,597	2,373	2,373
-0	-0	-0	- Own holding of ECCs	-0	-0	-0
183	183	896	Premium fund	896	183	183
1,457	1,160	1,457	Dividend equalisation fund	1,457	1,160	1,457
2,611	2,344	2,611	Savings bank's reserve	2,611	2,344	2,611
190	-	-	Recommended dividends	-	-0	190
40	-	-	Provision for gifts	-	-	40
70	45	70	Unrealised gains reserve	94	60	85
-	-	-	Other equity and minority interest	1,295	1,261	1,409
-	709	801	Net profit	816	745	-
6,924	**6,813**	**8,431**	**Total book equity**	**9,765**	**8,126**	**8,348**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-701	-658	-692
-	-	-	Part of reserve for unrealised gains, associated companies	64	65	64
-230	-	-	Deduction for allocated dividends and gifts	-	-0	-230
-387	-386	-460	50 % deduction for subordinated capital in other financial institutions	-2	-	-
-137	-165	-199	50 % deduction for expected losses on IRB, net of write-downs	-211	-176	-147
-	-	-	50 % capital adequacy reserve	-714	-638	-656
-	-	-82	Surplus financing of pension obligations	-74	-	-
-	-709	-801	Net profit	-816	-745	-
-	355	400	Year-to-date profit included in core capital (50% pre tax)	408	373	-
956	945	931	Hybrid capital, core capital	1,108	1,159	1,170
6,680	**6,406**	**7,773**	**Total core capital**	**8,826**	**7,504**	**7,856**
			Supplementary capital in excess of core capital			
-	-	-	State Finance Fund, supplementary capital	37	-	-
326	326	325	Perpetual subordinated capital	323	326	328
1,409	1,394	1,368	Non-perpetual subordinated capital	1,633	1,659	1,674
-387	-386	-460	50 % deduction for subordinated capital in other financial institutions	-2	-	-
-137	-165	-199	50 % deduction for expected losses on IRB, net of write-downs	-211	-176	-147
-	-	-	50 % capital adequacy reserve	-714	-638	-656
1,211	**1,168**	**1,033**	**Total supplementary capital**	**1,066**	**1,171**	**1,199**
7,891	**7,574**	**8,807**	**Net subordinated capital**	**9,891**	**8,675**	**9,055**
			Minimum requirements subordinated capital, Basel II			
1,456	1,375	1,647	Involvement with spesialised enerprises	1,647	1,375	1,456
1,313	1,232	1,686	Other corporations exposure	1,686	1,240	1,313
40	55	38	SME exposure	41	58	42
324	314	309	Retail morgage exposure	532	495	513
31	32	28	Other retail exposure	30	34	33
653	645	1,087	Equity investments	-	-	-
3,818	**3,652**	**4,796**	**Total credit risk IRB**	**3,937**	**3,201**	**3,358**
182	172	209	Debt risk	209	172	182
49	38	14	Equity risk	15	13	16
-	-	-	Currency risk	-	-	-
293	293	315	Operational risk	420	400	400
653	593	659	Exposures calculated using the standardised approach	2,178	2,068	2,184
-65	-65	-76	Deductions	-121	-107	-111
-	-	-	Transitional arrangements	-	-	-
4,930	**4,684**	**5,916**	**Minimum requirements subordinated capital**	**6,638**	**5,748**	**6,027**
			Capital adequacy			
10.8 %	10.9 %	10.5 %	Core capital ratio	10.6 %	10.4 %	10.4 %
12.8 %	12.9 %	11.9 %	Capital adequacy ratio	11.9 %	12.1 %	12.0 %