SpareBank 1 SMN

Notes

Contents

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 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.

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.

Held for sale

In the fourth quarter SpareBank 1 SMN reclassified its investment in Polaris Media to the category "held for sale", in accordance with IFRS 5. The best estimate on the balance sheet date is taken as fair value. In January the bank sold off parts of the investment at NOK 27 per share. See also the account in the report of the Board of Directors.

SpareBank 1 SMN

Note 3 - Account by business line

	Group 31 December 2012								
Profit and loss account (NOK million)	**RM**	**CM**	**Markets**	**EM 1**	**SMN Finans**	**Allegro**	**SMN Regnskap**	**Uncollated**	**Total**
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**
Commission income and other income	484	137	24	336	-14	11	100	61	1,139
Net return on financial investments **)	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**
Loss on loans, guarantees etc.	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 %**						**12.1 %**
Balance (NOK million)									
Loans and advances to customers	58,892	40,671	-	-	3,145	-	-	2,201	104,909
Adv. of this to SpareBank 1 Boligkreditt	-28,029	-976	-	-	-	-	-	-	-29,966
Individual allowance for impairment on loan	-28	-101	-	-	-15	-	-	-	-144
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-278	-295
Other assets	391	873	-	70	-2,905	6	20	34,961	33,415
Total assets	**31,225**	**40,467**	**-**	**70**	**208**	**6**	**20**	**35,924**	**107,919**
Deposits to customers	22,440	27,064	-	-	-	29	14	2,705	52,252
Other liabilities and equity	8,784	13,403	-	70	208	-23	6	33,218	55,667
Total liabilites	**31,225**	**40,467**	**-**	**70**	**208**	**6**	**20**	**35,924**	**107,919**

Profit and loss account (NOK million)	Group 31 December 2011								
	RM	CM	Markets	EM 1	SMN Finans	Allegro	SMN Regnskap	Uncollated	Total
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**
Commission income and other income	337	133	24	308	-1	12	79	27	919
Net return on financial investments **)	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**
Loss on loans, guarantees etc.	7	5	-	-	15	-	-	-0	27
Result before tax, incl. investment held for sale	**256**	**724**	**9**	**76**	**27**	**-5**	**5**	**189**	**1,279**
Post-tax return on equity	**16.8 %**	**13.9 %**	**3.4 %**						**12.8 %**
Balance (NOK million)									
Loans and advances to customers	52,055	38,655	-	-	2,941	-	0	1,580	95,232
Adv. of this to SpareBank 1 Boligkreditt	-21,079	-257	-	-	-	-	-	-790	-22,126
Individual allowance for impairment on loan	-31	-120	-	-	-22	-	-	-	-172
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	265	609	-	146	-2,461	17	18	30,216	28,812
Total assets	**31,210**	**38,888**	**-**	**146**	**443**	**17**	**19**	**30,732**	**101,455**
Deposits to customers	21,185	25,345	-	-	-	-	-	1,340	47,871
Other liabilities and equity	10,025	13,543	-	146	443	17	18	29,392	53,584
Total liabilites	**31,210**	**38,888**	**-**	**146**	**443**	**17**	**19**	**30,733**	**101,455**

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

**) Specification of net return on financial investment (NOKm) incl. held for sale	2012	2011
Income from investment in related companies	264	290
adv. of this from SpareBank1 Gruppen	94	96
adv. of this from BN Bank ASA	72	89
adv. of this from Bank 1 Oslo Akershus AS	26	15
adv. of this SpareBank 1 Boligkreditt	44	16
adv. of this SpareBank 1 Næringskreditt	8	9
adv. of this Polaris Media	-14	23
Net gain and dividends on securities	21	101
adv. of this from SpareBank 1 SMN Invest	-9	92
Net gain on bonds	56	-10
Net gain on trading and derivatives SMN Markets	126	96
Net return on financial investments	467	478

Note 4 - Operating expenses

Parent bank			Group	
2011	**2012**		**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	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**

Note 5 - Distribution of loans by sector/industry

Parent bank			Group	
2011	**2012**		**2012**	**2011**
5,027	5,964	Agriculture/forestry/fisheries/hunting	6,129	5,217
1,883	2,325	Sea farming industries	2,447	2,026
2,644	2,123	Manufacturing	2,349	2,881
2,113	2,967	Construction, power and water supply	3,504	2,572
2,147	2,625	Retail trade, hotels and restaurants	2,804	2,337
5,974	5,734	Maritime sector	5,739	5,978
12,662	12,232	Property management	11,710	12,179
3,573	3,063	Business services	3,258	3,867
1,808	2,037	Transport and other services provision	2,364	2,078
63	189	Public administration	215	92
969	1,795	Other sectors	1,801	971
38,861	**41,052**	**Gross loans in retail market**	**42,322**	**40,198**
54,058	61,377	Wage earners	62,587	55,034
92,919	**102,430**	**Gross loans incl. Boligkreditt / Næringskreditt**	**104,909**	**95,232**
22,126	29,348	Boligkreditt	29,348	22,126
	618	Næringskreditt	618	
70,793	**72,464**	**Gross loans in balance sheet**	**74,943**	**73,105**

SpareBank 1 SMN

Note 6 - Losses on loans and guarantees

Parent bank			Group	
2011	**2012**		**2012**	**2011**
-36	-22	Change in individual impairment losses provisions for the period	-28	-50
-	5	Change in collective impairment losses provisions for the period	5	-
75	51	Actual loan losses on comm. for which provisions have been made	63	91
9	54	Actual loan losses on commitments for which no provision has been made	57	26
-37	-37	Recoveries on commitments previously written-off	-38	-39
12	**51**	**Losses of the year on loans and guarantees**	**58**	**27**

Note 7 - Losses

Parent bank			Group	
2011	**2012**		**2012**	**2011**
186	151	Individual write-downs to cover loss on loans at 01.01	173	222
9	4	+Increased write-downs on provision previously written down	4	10
26	13	- Reversal of provisions from previous periods	13	28
57	37	+Write-downs on provision not previosly written down	43	59
75	51	- Actual losses during the period for which provisions for individual impairment losses have been made previously	63	91
151	**129**	**Specification of loss provisions at end of period**	**144**	**172**
85	104	Actual losses	119	117

SpareBank 1 SMN

Note 8 - Defaults

Parent bank			Group	
2011	2012		2012	2011
		Total defaults		
272	298	Loans in default for more than 90 days *)	374	338
73	72	- Individual write-downs	83	89
199	226	Net defaults	291	249
27 %	24 %	Provision rate	22 %	26 %
		Problem Loans		
191	119	Problem loans (not in default)	143	204
77	57	- Individual write-downs	62	83
113	63	Net problem loans	81	121
41 %	48 %	Provision rate	43 %	41 %

*)Per Q4 there is no defaults that relates to loans in the guarantee portfolio taken over from BN Bank ASA. Defaults in this portfolio will not entail loss for SpareBank 1 SMN.

Note 9 - Other assets

Parent bank			Group	
2011	2012		2012	2011
-	-	Deferred tax benefit	13	19
151	201	Fixed assets	1,277	1,109
956	1,009	Earned income not yet received	1,026	948
4	46	Accounts receivable, securities	46	4
30	230	Other assets	381	218
1,142	**1,485**	**Total other assets**	**2,742**	**2,299**

Note 10 - Distribution of customer deposits by sector/industry

Parent bank			Group	
2011	**2012**		**2012**	**2011**
1,757	2,002	Agriculture/forestry/fisheries/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
3,920	4,354	Public administration	4,354	3,920
2,178	3,477	Other sectors	3,366	2,157
27,254	**30,908**	**Total**	**29,973**	**27,011**
20,860	22,279	Wage earners	22,279	20,860
48,114	**53,187**	**Total deposits**	**52,252**	**47,871**

Note 11 - Debt created by issue of securities

Parent bank			Group	
2011	**2012**		**2012**	**2011**
219	706	Short-term debt instruments, nominal value	706	219
27,681	29,190	Bond debt, nominal value	29,190	27,681
248	364	Value adjustments	364	248
28,148	**30,259**	**Total**	**30,259**	**28,148**

Change in securities debt, subordinated debt and hybrid equity

	2012	Issued	Fallen due / Redeemed	Other changes	**2011**
Short-term debt instruments, nominal value	706	839	352	0	219
Bond debt, nominal value	29,190	9,284	7,480	-294	27,681
Value adjustments	364	-	-	115	248
Total	30,259	10,122	7,832	-179	28,148

	2012	Issued	Fallen due / Redeemed	Other changes	**2011**
Ordinary subordinated loan capital, nominal value	1,753	1,000	481	-115	1,349
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	869	-	-	-33	902
Value adjustments	118	-	-	-21	139
Total	3,040	1,000	481	-169	2,690

SpareBank 1 SMN

Note 12 - Other liabilities

Parent bank			Group	
2011	**2012**		**2012**	**2011**
40	83	Deferred tax	93	55
215	248	Payable tax	290	244
913	800	Accrued expenses and received, non-accrued income	1,124	1,213
101	74	Provision for accrued expenses and commitments	74	102
-	-	Pension liabilities	6	7
113	87	Drawing debt	87	113
10	9	Creditors	40	38
20	73	Debt from securities	73	20
130	226	Other liabilities	267	177
1,544	**1,600**	**Total other liabilites**	**2,054**	**1,971**

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.

Parent bank 2011	Parent bank 2012		Group 2012	Group 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
-	-	Net profit	-	-
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	-
-	-	Net profit	-	-
-	-	Year-to-date profit included in core capital (50% pre tax)	-	-
956	918	Hybrid capital, core capital	1,103	1,170
6,680	**8,234**	**Total core capital**	**9,357**	**7,856**
		Supplementary capital in excess of core capital		
-	-	State Finance Fund, supplementary capital	31	-
326	312	Perpetual subordinated capital	312	328
1,409	1,810	Non-perpetual subordinated capital	2,127	1,674
-387	-448	50 % deduction for subordinated capital in other financial institutions	-2	-
-137	-165	50 % deduction for expected losses on IRB, net of write-downs	-179	-147
-	-	50 % capital adequacy reserve	-703	-656
1,211	**1,509**	**Total supplementary capital**	**1,586**	**1,199**
7,891	**9,742**	**Net subordinated capital**	**10,943**	**9,055**
		Minimum requirements subordinated capital, Basel II		
1,456	1,654	Involvement with spesialised enterprises	1,654	1,456
1,313	1,470	Other corporations exposure	1,470	1,313
40	39	SME exposure	42	42
324	316	Retail morgage exposure	560	513
31	28	Other retail exposure	30	33
653	1,118	Equity investments	-	-
3,818	**4,625**	**Total credit risk IRB**	**3,756**	**3,358**
182	205	Debt risk	205	182
49	14	Equity risk	15	16
-	-	Currency risk	-	-
293	315	Operational risk	420	400
653	553	Exposures calculated using the standardised approach	2,074	2,184
-65	-75	Deductions	-120	-111
-	-	Transitional arrangements	246	-
4,930	**5,637**	**Minimum requirements subordinated capital**	**6,596**	**6,027**
61,625	70,468	Risk weigheted assets (RWA)	82,446	75,338
		Capital adequacy		
9.3 %	10.4 %	Common equity tier one ratio	10.0 %	8.9 %
10.8 %	11.7 %	Core capital ratio	11.3 %	10.4 %
12.8 %	13.8 %	Capital adequacy ratio	13.3 %	12.0 %