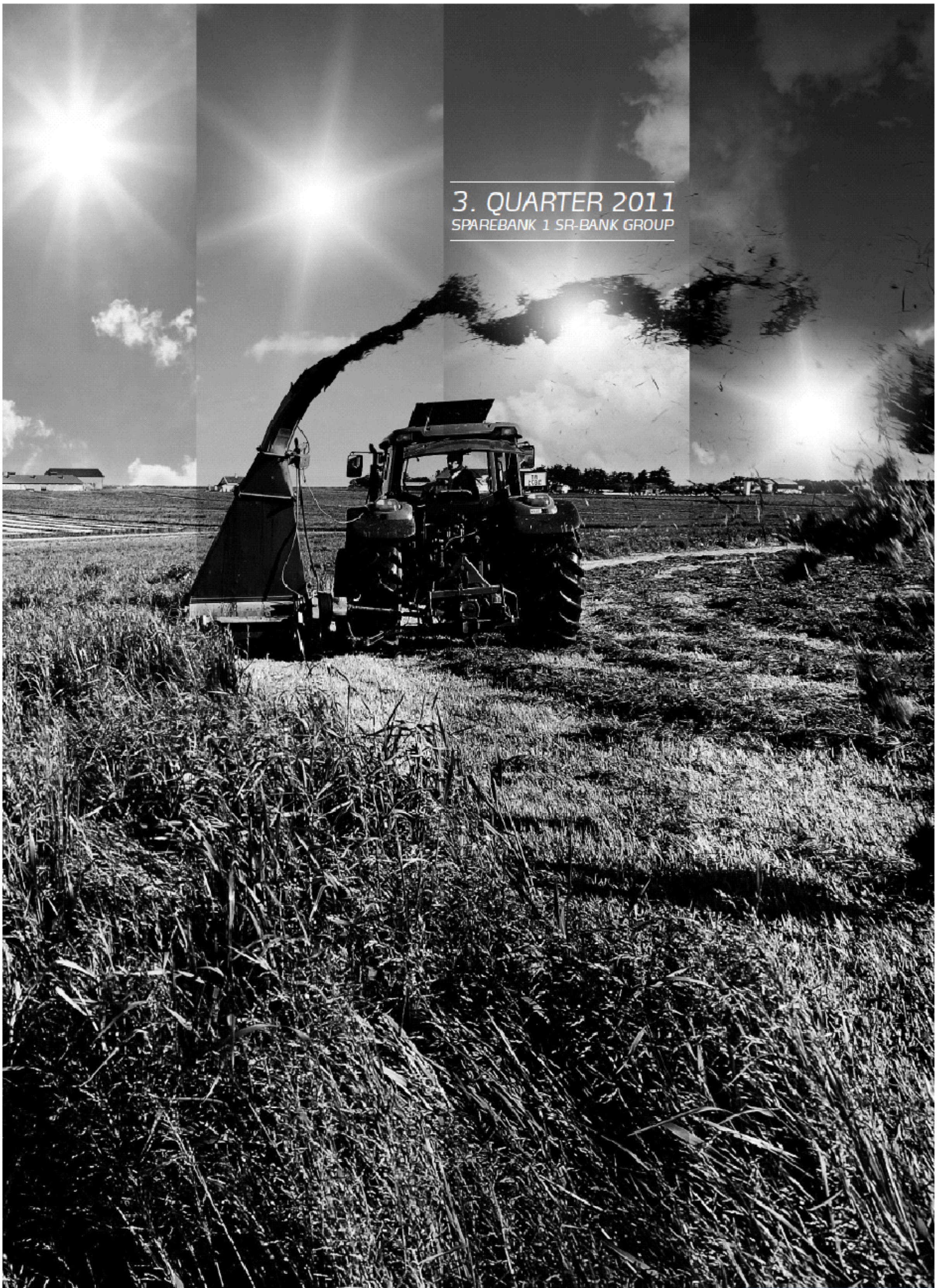
# 3. QUARTER 2011
## SPAREBANK 1 SR-BANK GROUP



SpareBank 1 SR-BANK

# Good underlying operations, but results impacted by international unrest

**Q3 2011**

- Profit before tax: NOK 253 million (NOK 386 million)
- Profit after tax: NOK 174 million (NOK 300 million)
- Return on equity after tax: 7.2% (14.3%)
- Earnings per equity certificate: NOK 0.86 (NOK 1.56)
- Net interest income: NOK 457 million (NOK 436 million)
- Net commission and other income: NOK 281 million (NOK 264 million)
- Net income from financial investments: NOK 7 million (NOK 137 million)
- Operating expenses: NOK 462 million (NOK 408 million)
- Impairment losses on loans: NOK 30 million (NOK 43 million)

*(Figures for Q3 2010 are shown in parentheses)*

**As at 30 September 2011**

- Profit before tax: NOK 1,005 million (NOK 1,200 million*)*
- Profit after tax: NOK 744 million (NOK 936 million)
- Return on equity after tax: 10.4% (15.1%)
- Earnings per equity certificate: NOK 3.69 (NOK 4.87)
- Net interest income: NOK 1,308 million (NOK 1,300 million)
- Net commission and other income: NOK 887 million (NOK 818 million)
- Net income from financial investments: NOK 208 million (NOK 388 million)
- Operating expenses: NOK 1,304 million (NOK 1,143 million)
- Impairment losses on loans: NOK 94 million (NOK 163 million)
- Growth in lending (including loans transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS) over past 12 months: 15.3% (6.8%)
- Growth in deposits over past 12 months: 15.5% (3.7%)
- Core capital ratio: 9.6% (9.3%)

*(As at 30 September 2010 in parentheses)*

**Profit**

*Group's profit before tax was NOK 1,005 million as at 30 September 2011, compared with NOK 1,200 million for the corresponding period last year. The return on equity after tax was 10.4% (15.1%) year to date. Equity increased approximately NOK 1.0 billion over the past 12 months as a result of the merger with Kvinnherad Sparebank and retained earnings.*

*Net interest income totalled NOK 1,308 million as at 30 September 2011, compared with NOK 1,300 million in the previous year. Net commission and other income rose from NOK 818 million as at 30 September 2010 to NOK 887 million year to date. The net yield on investment securities totalled NOK 208 million as at 30 September 2011, compared with NOK 388 million year to date last year.*

*The operating expenses totalled NOK 1,304 million as at 30 September 2011, compared with NOK 1,143 million year to date last year. A large portion of the cost growth is attributed to the merger with Kvinnherad Sparebank and a higher level of activity in EiendomsMegler 1 SR-Eiendom AS. The underlying cost growth is around 5%.*

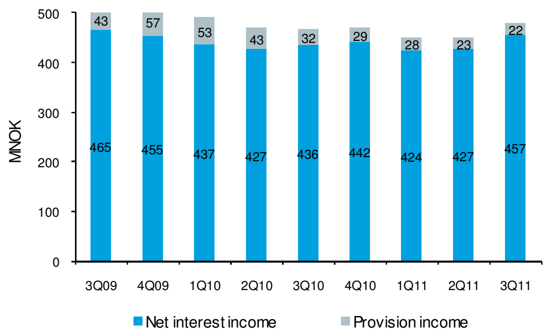
*The impairment losses on loans totalled NOK 94 million as at 30 September 2011, compared with NOK 163 million for the corresponding period last year. Good credit quality in the retail and corporate markets has kept impairment losses on loans at a moderate level.*

*Seen in isolation, SpareBank 1 SR-Bank Group's profit before tax for Q3 2011 was NOK 253 million, up from NOK 386 million for Q3 last year. The profit after tax was NOK 174 million (NOK 300 million) for Q3 2011, which gave a return on equity after tax of 7.2% (14.3%). A lower return on financial investments is the primary reason for the lower earnings in Q3 2011.*

## Net interest income

As at 30 September 2011, the group's net interest income amounted to NOK 1,308 million (NOK 1,300 million). Net interest income must be seen in the context of the commission income from SpareBank 1 Boligkreditt AS and Sparebank 1 Næringskreditt AS. At the end of Q3 2011 the bank had transferred NOK 39.8 billion (NOK 24.4 billion) to these companies, and the commission income totalled NOK 73 million (NOK 128 million). The combined net interest and commission income declined by a total of NOK 47 million, compared with the corresponding period last year. The margins in the home mortgage loan market declined as a result of higher funding costs, strong competition and the delay associated with interest rate changes due to the customer notice periods.

The graph below shows the quarterly development in net interest and commission income:




## Net commission and other income

Net commission and other income amounted to NOK 887 million (NOK 818 million) as at 30 September 2011.

Net commission income totalled NOK 564 million (NOK 546 million) as at 30 September 2011. Excluding commission income from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, there was an increase of NOK 73 million compared with the corresponding period last year. Higher income from corporate finance activities, as a result of good interaction between SR-Markets and the Corporate Market Division, as well as higher commissions from insurance and guarantees, are the primary reasons for this growth in income.

Other operating income amounted to NOK 323 million (NOK 272 million) as at 30 September 2011. This is attributed primarily to income from real estate brokering.

## Net income from financial investments

Net income from financial investments was NOK 208 million (NOK 388 million) as at 30 September 2011. NOK 53 million of this amount was capital losses on securities (capital gains of NOK 94 million) and NOK 99 million (NOK 74 million) was capital gains on interest rate and currency trading. In addition, income from ownership interests totalled NOK 142 million (NOK 173 million) and dividends totalled NOK 20 million (NOK 47 million).

Capital loss on securities of NOK 53 million, consisted of loss of NOK 43 million on the equity and equity certificate portfolio and loss of NOK 10 million on the fixed income portfolio. The group is not directly nor indirectly exposed to European or US government debt.

Income from ownership interests totalling NOK 142 million is attributed primarily to the group's share of the profits of the SpareBank 1 Gruppen, BN Bank, SpareBank 1 Boligkreditt and Bank 1 Oslo. The share of the profit of the SpareBank 1 Gruppen was NOK 49 million as at 30 September 2011. The share of the profit of BN Bank was NOK 30 million. In addition, NOK 22 million was taken to income as the difference between BN Bank's estimated and book equity. The share of the profit of SpareBank 1 Boligkreditt amounted to NOK 21 million, the share of the profit from SpareBank 1 Næringskreditt amounted to NOK 5 million and the share of the profit of Bank 1 Oslo amounted to NOK 14 million.

## Operating expenses

The group’s operating expenses totalled NOK 1,304 million as at 30 September 2011. This was an increase from NOK 1,143 million for the corresponding period last year. The personnel expenses increased by NOK 81 million to NOK 728 million, and the other costs increased by NOK 80 million to NOK 576 million.

The expenses last year and this year are affected by pension-related items. Year to date last year there was a net reversal of NOK 63 million related to contractual early retirement scheme (AFP) provisions. As at 30 September 2011 the modified pension schemes accounted for a reduction of NOK 57 million in costs (non-recurring effect).

A great deal of the group's increase in expenses can be attributed to the merger with Kvinnherad Sparebank and increased expenses in EiendomsMegler 1 SR-Eiendom AS related to acquisitions and a higher level of activity. In addition, an increased level of activity in the parent bank's divisions affects the cost growth. The underlying cost growth as at 30 September 2011 compared with year to date last year was around 5%.

The group's cost ratio, expenses measured as a percentage of income, was 54.3% (45.6%) as at 30 September 2011.

### Credit risk and portfolio development

The group's moderate risk profile remains unchanged. The market area is marked by a high level of activity and low unemployment. In combination with a continuous focus on risk management internally, this contributes to the maintenance of a good credit quality in the portfolio in accordance with the group's overall goal.

The quality of the corporate market portfolio is considered good. The portfolio's risk profile still shows stable development.

The quality of the retail market portfolio is very good. The development is characterised by stability and the low risk profile has been maintained. Most of the portfolio is secured by mortgages on real property, and there is moderate borrowing in general in relation to the value of the collateral. This indicates that there is only a limited risk of loss so long as the values of the collateral pledged are not significantly impaired.

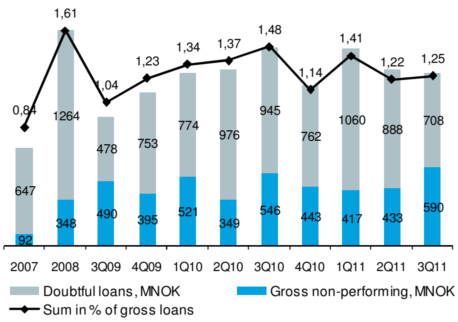
### Impairment losses on loans and defaults

The group recognised NOK 94 million (NOK 163 million) in net impairment losses on loans as at 30 September 2011. This corresponds to impairment losses as a percentage of gross loans of 0.12% (0.23%).

Gross non-performing commitments totalled NOK 590 million at the end of Q3 2011, compared with NOK 546 million at the same time last year. This corresponds to 0.57% (0.54%) of gross loans. The portfolio of performing problem loans totalled NOK 708 million (NOK 945 million). This corresponds to 0.68% of gross loans (0.94%). Non-performing loans and problem commitments combined totalled NOK 1,298 million at the end of Q3 2011,which is a reduction from NOK 1,491 million at the end of Q3 last year. In terms of gross loans, this is a reduction over the past 12 months from 1.48% to 1.25%.

The loan loss provision ratios for non-performing and other problem loans were 27% and 36% (22% and 31%), respectively, at the end of Q3 2011.

The following graph shows the development in gross non-performing loans and problem loans, and the sum total of these as a percentage of gross loans.

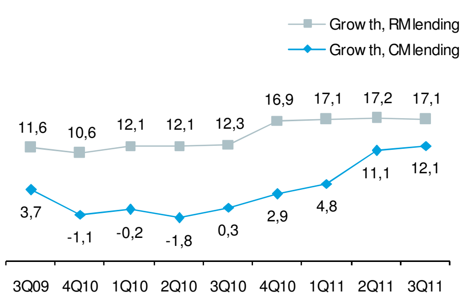



### Loans to and deposits from customers

Gross loans amounted to NOK 143.7 billion (NOK 124.7 billion) at the end of Q3 2011 and increased by 15.3% (6.8%) over the past 12 months. The lending volume includes a total of NOK 39.8 billion (NOK 24.4 billion) that has been transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. The group acquired loans of around NOK 4.0 billion through the merger with Kvinnherad Sparebank on 1 November 2010.

The group's retail market loans totalled 63.0% (61.8%) of the total loans at the end of Q3 2011. The following graph illustrates the lending growth development for the retail and corporate market divisions:

**12 month lending growth (%)**



Deposits from customers rose by 15.5% (3.7%) over the past 12 months to NOK 64.3 billion (NOK 55.7 billion). NOK 2.3 billion of this increase in volume can be attributed to the merger with Kvinnherad Sparebank. Of the group's deposits from customers at the end of Q3 2011, deposits from the corporate market accounted for 50.5% (51.9%.)

In addition to ordinary customer deposits, the group had NOK 10.8 billion (NOK 11.4 billion) under management at the end of Q3 2011, primarily through SR-Forvaltning and ODIN funds.

At the end of Q3 2011, the deposit-to-loan ratio was 61.9% (55.5%) At the end of Q3 2011 the Financial Supervisory Authority of Norway's Funding Indicator 1 (which shows the ratio of illiquid assets financed by debt with a duration of more than 1 year) was 100.4% (101.1%) for the parent bank and 99.9% (99.6%) on a consolidated basis.

## Business areas

### *Retail Market Division*

The Retail Market Division's profit contribution before impairment losses on loans amounted to NOK 580 million as at 30 September 2011. Higher funding costs and strong competition are the primary reasons why the contribution before impairment losses on loans year to date is NOK 28 million lower than the corresponding period in 2010. Announced changes in the customer interest rate are expected to entail an improvement in the interest margin towards the end of the year.

Over the past 12 months, the Division has increased its lending by 17.1% at the same time as deposits increased by 15.1%. This growth is the result of general market growth, a long-term focus on qualified advisory services and a strong brand name. Adjusted for the merger with Kvinnherad Sparebank, which was completed with effect in the accounts in Q4 2010, 12-month lending growth was 12.9% and deposit growth was 9.7%.

Good net customer growth continues at the same rate as in 2010. The development for home mortgage loans is still good as a result of a high level of activity in the market and the group's strong distribution model. Impairment losses on loans and the percentage of non-performing loans are still low.

Commission income (excluding income related to SpareBank 1 Boligkreditt) increased by NOK 29 million as at 30 September 2011 compared with the same period in 2010. The greatest increase is related to insurance commissions and portfolio income in the savings and investment area. A continued good increase in product sales is the result of the group's focus on a broad range of advisory services. SpareBank 1 SR-Bank is among the best banks in Norway with regard to the percentage of licensed financial advisors. In addition, a well-functioning customer centre has contributed to higher sales and a better level of customer service, especially with regard to general insurance.

### *Corporate Market Division*

The Corporate Market Division's profit contribution before impairment losses on loans amounted to NOK 556 million as at 30 September 2011. This is NOK 9 million higher than the same time last year.

The level of activity in business and industry is good, but there is strong competition in the market. Over the past 12 months, the lending volume in the Division increased by 12.1% at the same time as deposits increased by 16.0%. The lending margin is under pressure, but it has remained relatively stable during the last six months.

The Division is working actively with across-the-board sales of the group's products, and the product contribution is improving. Other operating income increased 21% over the past 12 months.

The portfolio quality is good. There were recognised losses of NOK 70 million as at 30 September 2011, compared with NOK 106 million at the same time last year. The percentage of non-performing loans is still low.

### *Capital Market Division*

SR-Markets had income of NOK 150 million (143 mill kroner) at the end of Q3. Most of this income is still from trading in interest rate and foreign exchange instruments. The bond portfolio has had an overall negative result of NOK 3 million to date in 2011, compared with a positive result of NOK 16 million for the same period last year. The Corporate Finance Division has organised and completed several major projects in 2011, and the Division's income has increased significantly.

The Division's areas of expertise are complementary to traditional banking operations, and the group's resources in securities activities and management.

The securities activities are organised under the SR-Markets brand and include own account and customer trading in interest rate instruments, foreign exchange and equities, and corporate finance services, as well as settlement and administrative securities services. Asset Management is organised in a separate subsidiary, SR-Forvaltning AS.

***Subsidiaries***

*EiendomsMegler 1 SR-Eiendom AS*

The company achieved a profit before tax of NOK 48 million (NOK 41 million) as at 30 September 2011. The earnings improvement to date this year is attributed primarily to a good real estate market.

The company brokered 1,840 properties in Q3 2011, around the same level as Q3 2010. The supply of new contracts is good, and overall the company has brokered a total of 5,691 properties year to date with a combined value of NOK 15.5 billion.

Prospects for the rest of the year are good, with a high turnover of new and used properties. The Bergen and Stavanger regions have fewer existing homes for sale than what the market is demanding. This results in quick sales and higher prices. There is a good level of activity in the commercial property market, with a substantial increase in the transaction volume compared with last year.

The company strengthened its position in Rogaland in Q3. New branch offices have also opened in Kopervik and on Stord.

*SpareBank 1 SR-Finans AS*

The company's principal activities are lease financing for corporate customers and secured car loans.

The profit before impairment losses on loans was NOK 75 million (NOK 90 million) as at 30 September 2011, while the profit before tax was NOK 57 million (NOK 53 million). The profit before write-downs has declined, primarily as a result of the lower net interest income.

New sales for both leasing and car loans showed a positive development. Both in the retail and corporate markets, however, the income contribution was somewhat lower as at 30 September 2011, compared with the corresponding period last year as a result of lower lending margins. Customer interest rates were adjusted in October, and it is expected that the interest margin will increase towards the end of the year.

The development of the total assets has been stable this past year, and the total assets were NOK 5,235 million (NOK 5,026 million) at the end of Q3.

*SR-Forvaltning AS*

SR-Forvaltning AS is a securities firm with a licence to provide discretionary asset management services. Profit before tax was NOK 18 million (NOK 16 million) as at 30 September 2011. The company had NOK 5.8 billion under management at the end of Q3 2011. This is a reduction of around NOK 500 million from the level at the start of the year.

*SR-Investering AS*

SR-Investering AS's object is to contribute to the long-term creation of value through investments in business and industry in the group's market area. The company invests in private equity and companies in the SME segment that require capital for development and growth.

Profit before tax was NOK 6 million (NOK 6 million) as at 30 September 2011. At the end of Q3, SR-Investering AS had total investments of NOK 131 million and related residual commitments of NOK 96 million. The company is expecting a low level of activity in connection with new investments for the remainder of 2011.

***SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS***

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are licensed mortgage companies that issue covered bonds secured by home mortgage loan or commercial real estate portfolios transferred from the owner banks. The companies are owned by the savings banks that make up the SpareBank 1 Alliance, and they are helping to ensure that the owner banks have access to stable and long-term funding at competitive rates.

At the end of Q3 2011, SpareBank 1 Boligkreditt AS had a total loan volume of NOK 113.3 billion, and home mortgage loans transferred from SpareBank 1 SR-Bank accounted for NOK 39.6 billion of this volume. The bank's ownership interest in the company is 28.6%. This interest is adjusted annually based on the bank's share of the transferred volume at the start of the year.

At the end of Q3 2011, SpareBank 1 Næringskreditt AS had a total lending volume of NOK 8.3 billion, NOK 0.2 billion of which was loans that had been transferred from SpareBank 1 SR-Bank. The bank's ownership interest in the company is 30.7%.

## Funding

The sovereign debt crisis in certain eurozone countries, weaker growth in the US and European economies and the downgrading of the sovereign debt of several countries has created greater unrest in the international financial markets. The interest rates on government bonds in several eurozone countries are very high in spite of extensive borrowing and stability programmes Increased risk aversion and anxiety for a new banking crisis in Europe has made funding more difficult.

Based on the uncertainty surrounding how solid the banks in Europe are, the interbank market in Europe has come to a halt at times, and the banks have been dependent on their central bank to obtain liquidity. It appears that the actors prefer to place their surplus liquidity with the central bank instead of lending to each other as normal. Thus the credit mark-ups increase in the money market and all of the actors are faced with less available credit and higher borrowing costs. This uncertainty, combined with adaptations to the new regulatory requirements (Basel III), has contributed to the market demanding in general a very high risk mark-up, even for Norwegian banks with little or no direct exposure to the unrest.

Like the other banks, SpareBank 1 SR-Bank's borrowing costs for long-term funding are significantly higher now than prior to the financial crisis. Like most of the major banks, SpareBank 1 SR-Bank has intensified its focus on adaptation to the new regulatory requirements by acquiring more long-term funding and increasing holdings of very liquid assets. This adaptation and higher borrowing costs for Norwegian banks as well will probably result in somewhat higher lending rates for bank customers independently of whether Norges Bank raises the key rate in the future.

An important instrument for long-term funding is the issuance of covered bonds. Bonds are issued by the SpareBank 1 Alliance's joint ventures SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, where the bond holders are granted security in the companies' portfolios of home mortgage and commercial property mortgages, respectively. SpareBank 1 SR-Bank has essentially covered its funding requirements to date this year through the sale of loan portfolios to these companies. SpareBank 1 Næringskreditt AS completed its first bond issue on the Norwegian market in June 2011, and this contributes to further reinforcement and diversification of the group's long-term funding opportunities. In the coming years, SpareBank 1 SR-Bank aims, therefore, to cover a major portion of its long-term funding needs through the issuance of covered bonds by the two mortgage companies.

The liquidity situation at the end of September 2011 was good. SpareBank 1 SR-Bank seeks to achieve a good even maturity structure for funding and attaches importance to having a good relationship with a large number of Norwegian and international investors and banks. The liquidity buffer for SpareBank 1 SR-Bank was NOK 16 billion at the end of Q3 2011. The level of the liquidity buffer indicates that normal lending activity can be maintained for 14 months without access to external funding.

## Capital adequacy

At the end of Q3 2011, the group's core (Tier 1) capital ratio was 9.6%. The core (Tier 1) capital ratio was 10.2% at the end of 2010 and 9.3% at the end of Q3 2010.

In the autumn of 2009, the authorities resolved to postpone the final transition to the IRB rules from 1 January 2010 to 1 January 2012. It has been proposed to continue the transitional rule stating that the capital requirement using internal methods cannot be less than 80% of the capital requirement under Basel I ("Basel I floor") until 2015. Without the transitional rule, the core capital ratio at the end of Q3 2011 would have been 10.3%.

A limited audit of the income statements and balance sheets of SpareBank 1 SR-Bank and the group as at 30 September 2011 has been conducted. In accordance with the regulations, 50% of the profit to date this year has been included in the capital adequacy figures. No other limited audit of the interim financial statements has been conducted.

## Bank's equity certificates

The price of the bank's equity certificates (ROGG) fell from NOK 51.50 as at 30 June 2011 to NOK 40.70 as at 30 September 2011. This corresponds to a decline of 21.0%, while the Oslo Børs Benchmark Index fell 17.3% during the same period. In Q3 2011, the trading volume for equity certificates corresponded to 5.6% (2.7%) of the total number of outstanding certificates.

At the end of Q3 2011, the bank had 11,907 (12,065) registered equity certificate holders. The percentage owned by foreigners was 9.9% (8.0%), while 46.9% (46.4%) was owned by investors from Rogaland, the Agder counties and Hordaland. The 20 largest owners controlled 40.1% (38.8%) of the equity certificates at the end of Q3 2011. The bank's holdings of its own certificates totalled 133,248.

The following table lists the 20 largest owners of SpareBank 1 SR-Bank's equity certificates as at 30 September 2011:

| | Number | % |
|---|---|---|
| Gjensidige Forsikring | 20,713,065 | 16.3% |
| SpareBank 1 Foundation Kvinnherad | 6,069,934 | 4.8% |
| Odin Norge | 3,320,672 | 2.6% |
| Odin Norden | 3,083,853 | 2.4% |
| Clipper AS | 1,685,357 | 1.3% |
| Frank Mohn AS | 1,666,142 | 1.3% |
| Estate of the deceased Trygve Stangeland | 1,632,048 | 1.3% |
| JPMorgan Chase Bank, U.K. | 1,598,223 | 1.3% |
| Varma Mutual Pension Insurance, Finland | 1,491,091 | 1.2% |
| SHB Stockholm Clients Account, Sweden | 1,174,235 | 0.9% |
| Trygves Holding AS | 1,070,939 | 0.8% |
| Fidelity Low-Priced Stock Fund, U.S.A. | 1,061,327 | 0.8% |
| Westco AS | 1,015,049 | 0.8% |
| Køhlergruppen AS | 1,000,000 | 0.8% |
| State Street Bank and Trust, U.S.A. | 985,836 | 0.7% |
| Forsand Municipal Authority | 769,230 | 0.6% |
| Tveteraas Finans AS | 722,000 | 0.6% |
| Bjergsted Investering AS | 720,055 | 0.6% |
| Solvang Shipping AS | 701,034 | 0.6% |
| Leif Inge Slethei AS | 672,772 | 0.5% |
| Total 20 largest | 51,107,862 | 40.1% |

Group employees owned 3.5% of the equity certificates at the end of Q3 2011.

## Accounting policies

SpareBank 1 SR-Bank prepares its parent company and consolidated accounts in accordance with the IFRS regulations. As at 30 September 2011, the IFRS consolidated accounts show a profit after tax of NOK 744 million and the IFRS parent company accounts show a profit after tax of NOK 728 million. Most of the items are treated identically in the parent company and the consolidated accounts, but with one major difference. In the consolidated accounts subsidiaries are consolidated and associated companies are included in the accounts using the equity method of accounting. This is the same practice that was used earlier in both the parent company and consolidated accounts in accordance with NGAAP. Use of the equity method is, however, not permitted in the IFRS parent company accounts. These ownership interests must be assessed at cost here. Dividends paid by the bank's subsidiaries and the SpareBank 1 Group and other associated companies are taken to income in the parent company accounts. It is the parent company's profit as at 31 December 2011 that is the point of departure for allocation of the profit.
Reference is made to note 1 for a description of the accounting principles applied in the parent company and consolidated accounts. The same accounting principles are applied in the quarterly and the annual accounts.

## Outlook

Uncertainty concerning the debt situation in a number of eurozone countries has increased after the summer and is contributing to substantial unrest in the international financial markets. Unrest in the European banking sector is affecting Norway through the Norwegian banking system's need to cover some of its funding needs internationally. The Norwegian economy is robust, and, as a result of higher liquidity reserves, more long-term funding and greater financial strength, Norwegian banks are overall well equipped to handle the ongoing market unrest.

Strong competition is still expected in the traditional deposit and loan product areas. Due to the international unrest, the funding costs are expected to increase in the coming quarters. The lending rates to the market are expected to increase as a result of higher funding costs. SpareBank 1 SR-Bank has good liquidity and are focused on efficient operations and solid income from other product and service areas.

A good underlying development for business and the population in the region with continued low unemployment is assumed. SpareBank 1 SR-Bank has a good foundation for strengthening its market position through its high level of customer satisfaction. A good underlying performance is therefore expected in the business areas in the future. The credit quality of the group's loan portfolio is good, and non-performing loans and write-downs on loans are expected to remain low for the current year. The level of uncertainty in a somewhat longer term has, however, increased, and if Norwegian business and industry are affected to a greater extent by an international recession, then it may contribute to higher losses and a reduction in the demand for loans.

On 21 June the Ministry of Finance granted permission for SpareBank 1 SR-Bank to convert from a savings bank to a public limited company (limited savings bank) and to create a Savings Bank Foundation under specific detailed conditions. The intention is that the conversion will be carried out in 2011 and that the first listing date on the Oslo Stock Exchange, as SpareBank 1 SR-Bank ASA, will be 2 January 2012.

Stavanger, 27 October 2011

The Board of Directors of SpareBank 1 SR-Bank

# Quarterly financial statements

## Key figures SpareBank 1 SR-Bank Group

| MAIN FIGURES | 30.09.11 MNOK | % | 30.09.10 MNOK | % | 2010 MNOK | % |
|---|---|---|---|---|---|---|
| Net interest income | 1.308 | *1,30* | 1.300 | *1,37* | 1.742 | *1,35* |
| Net commission and other income | 887 | *0,88* | 818 | *0,86* | 1.101 | *0,85* |
| Net return on investment securities | 208 | *0,21* | 388 | *0,41* | 571 | *0,44* |
| **Total income** | **2.403** | ***2,40*** | **2.506** | ***2,64*** | **3.414** | ***2,65*** |
| **Total operating expenses** | **1.304** | ***1,30*** | **1.143** | ***1,20*** | **1.566** | ***1,22*** |
| **Profit before losses** | **1.099** | ***1,10*** | **1.363** | ***1,43*** | **1.848** | ***1,43*** |
| Impairment losses on loans and guarantees | 94 | *0,09* | 163 | *0,17* | 234 | *0,18* |
| **Profit before tax** | **1.005** | ***1,00*** | **1.200** | ***1,26*** | **1.614** | ***1,25*** |
| Tax expense | 261 | *0,26* | 264 | *0,28* | 297 | *0,23* |
| **Profit after tax from continuing operations** | **744** | ***0,74*** | **936** | ***0,99*** | **1.317** | ***1,02*** |

| | 30.09.11 | 30.09.10 | 2010 |
|---|---|---|---|
| **PROFITABILITY** | | | |
| Return on equity [1)] | 10,4 % | 15,1 % | 15,5 % |
| Cost ratio [2)] | 54,3 % | 45,6 % | 45,9 % |
| **BALANCE SHEET** | | | |
| Gross loans to customers | 103.930 | 100.289 | 105.792 |
| Gross loans to customers including SpareBank 1 Boligkredi | 143.747 | 124.703 | 131.953 |
| Deposits from customers | 64.323 | 55.703 | 60.770 |
| Deposit-to-loan ratio | 61,9 % | 55,5 % | 57,4 % |
| Growth in loans | 3,6 % | 8,0 % | 13,2 % |
| Growth in loans incl Boligkreditt | 15,3 % | 6,8 % | 11,6 % |
| Growth in deposits | 15,5 % | 3,7 % | 11,8 % |
| Average total assets | 134.059 | 127.010 | 128.830 |
| Total assets | 132.965 | 129.524 | 134.778 |
| **LOSSES AND NON-PERFORMING COMMITMENTS** | | | |
| Impairment losses ratio [3)] | 0,12 | 0,23 | 0,23 |
| Non-performing commitments as a percentage of gross loar | 0,57 | 0,54 | 0,42 |
| Other doubtful commitments as a percentage of gross loans | 0,68 | 0,94 | 0,72 |
| **SOLIDITY** | | | |
| Capital adequacy ratio | 11,2 | 11,6 | 12,4 |
| Core capital ratio | 9,6 | 9,3 | 10,2 |
| Core capital | 9.523 | 8.433 | 9.442 |
| Net equity and subordinated loan capital | 11.114 | 10.450 | 11.482 |
| Minimum subordinated capital requirement | 7.921 | 7.241 | 7.400 |
| **BRANCHES AND STAFF** | | | |
| Number of branches | 54 | 49 | 54 |
| Number of employees (annualised) | 1.204 | 1.103 | 1.163 |

| EQUITY CERTIFICATES | 30.09.11 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Equity certificate ratio | 63,8 % | 63,2 % | 62,9 % | 56,1 % | 54,9 % |
| Market price | 40,70 | 57,00 | 50,00 | 27,08 | 55,21 |
| Market capitalisation | 5.182 | 7.257 | 6.047 | 2.434 | 4.702 |
| Book equity per EC (including dividends) (group) | 47,67 | 47,45 | 42,07 | 37,23 | 37,64 |
| Book equity per EC (including dividends) (parent bank) | 42,01 | 41,80 | 36,85 | 32,06 | 34,02 |
| Earnings per EC (group) [4)] | 3,69 | 6,84 | 6,88 | 3,00 | 6,54 |
| Dividends per EC | n.a. | 2,75 | 1,75 | 0,83 | 3,96 |
| Price / Earnings per EC | 8,27 | 8,33 | 7,27 | 9,03 | 8,44 |
| Price / Book equity (group) | 0,85 | 1,20 | 1,19 | 0,73 | 1,47 |
| Price / Book equity (parent bank) | 0,97 | 1,36 | 1,36 | 0,84 | 1,62 |

[1)] *Net profit as a percentage of average equity.*

[2)] *Total operating expenses as a percentage of total operating income*

[3)] *Net losses expressed as a percentage of average gross lending year to date, annualized*

[4)] *Net profit multiplied by the equity certificate percentage divided by the average number of certificates outstanding.*

*SpareBank 1 SR-Bank does not have any forward cover contracts or other circumstances that can dilute earning per EC (equity certificate).*

## *Income statement*

| Parent bank 2010 | Q3 10 | Q3 11 | 30.09.10 | 30.09.11 | Income statement (MNOK) | Note | Group 30.09.11 | 30.09.10 | Q3 11 | Q3 10 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 4.655 | 1.190 | 1.316 | 3.414 | 3.793 | Interest income | | 3.909 | 3.538 | 1.362 | 1.231 | 4.820 |
| 3.087 | 798 | 904 | 2.245 | 2.610 | Interest expense | | 2.601 | 2.238 | 905 | 795 | 3.078 |
| 1.568 | 392 | 412 | 1.169 | **1.183** | **Net interest income** | | **1.308** | 1.300 | 457 | 436 | 1.742 |
| 743 | 175 | 188 | 560 | 585 | Commission income | | 623 | 602 | 200 | 189 | 796 |
| -70 | -17 | -20 | -52 | -56 | Commission expenses | | -59 | -56 | -21 | -20 | -71 |
| 10 | 0 | 1 | 1 | 4 | Other operating income | | 323 | 272 | 102 | 95 | 376 |
| 683 | 158 | 169 | 509 | **533** | **Net commission and other income** | | **887** | 818 | 281 | 264 | 1.101 |
| 54 | 0 | 1 | 54 | 19 | Dividend income | | 20 | 47 | 1 | 1 | 47 |
| 214 | 0 | 0 | 214 | 269 | Income from investment in associates | | 142 | 173 | 33 | 70 | 267 |
| 249 | 61 | -21 | 161 | 30 | Net gains/losses on financial instruments | | 46 | 168 | -27 | 66 | 257 |
| 517 | 61 | -20 | 429 | **318** | **Net income on investment securities** | | **208** | 388 | 7 | 137 | 571 |
| 2.768 | 611 | 561 | 2.107 | **2.034** | **Total income** | | **2.403** | 2.506 | 745 | 837 | 3.414 |
| 632 | 188 | 204 | 475 | 534 | Personnel expenses | 14 | 728 | 647 | 273 | 250 | 870 |
| 318 | 72 | 85 | 221 | 259 | Administrative expenses | | 299 | 253 | 99 | 82 | 362 |
| 217 | 48 | 60 | 154 | 183 | Other operating expenses | | 277 | 243 | 90 | 76 | 334 |
| 1.167 | 308 | 349 | 850 | **976** | **Total operating expenses** | | **1.304** | 1.143 | 462 | 408 | 1.566 |
| 1.601 | 303 | 212 | 1.257 | **1.058** | **Operating profit before losses** | | **1.099** | 1.363 | 283 | 429 | 1.848 |
| 187 | 33 | 20 | 126 | 76 | Losses on loans and guarantees | 2, 3 and 4 | 94 | 163 | 30 | 43 | 234 |
| 1.414 | 270 | 192 | 1.131 | **982** | **Operating profit before tax** | | **1.005** | 1.200 | 253 | 386 | 1.614 |
| 288 | 73 | 68 | 264 | 254 | Tax expense | | 261 | 264 | 79 | 86 | 297 |
| 1.126 | 197 | 124 | 867 | **728** | **Profit after tax** | 12 | **744** | 936 | 174 | 300 | 1.317 |
| | | | | | **Other comprehensive income** | | | | | | |
| 1.126 | 197 | 124 | 867 | 728 | Profit after tax | | 744 | 936 | 174 | 300 | 1.317 |
| -49 | 38 | -393 | -220 | -213 | Unrecognised actuarial gains and losses | | -253 | -252 | -466 | 48 | -73 |
| 14 | -11 | 110 | 61 | 60 | Deferred tax concerning changed estimates/pension plan changes | | 71 | 71 | 130 | -13 | 20 |
| 1 | 0 | 0 | 0 | 0 | Change in value of financial assets available for sale | | 0 | 0 | 0 | 0 | 1 |
| 0 | 0 | 0 | 0 | 0 | Share of profit associated companies and joint ventures | | -9 | -12 | -3 | -12 | -12 |
| -34 | 27 | -283 | -159 | -153 | Other comprehensive income | | -191 | -193 | -339 | 23 | -64 |
| 1.092 | 224 | -159 | 708 | 575 | Total comprehensive income | | 553 | 743 | -165 | 323 | 1.253 |

With effect from 2005, IAS 19 allowed for recording actuarial gains and losses (estimate deviations) directly against equity. The Bank has chosen to follow this principle.

*Balance sheet*

| Parent bank | | | | Note | Group | | |
|---|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | Balance sheet (MNOK) | | 30.09.11 | 30.09.10 | 31.12.10 |
| 1.235 | 2.497 | 249 | Cash and balances with central banks | | 249 | 2.497 | 1.235 |
| 5.611 | 5.561 | 5.757 | Balances with credit institutions | | 1.175 | 1.145 | 1.273 |
| 100.069 | 94.977 | 97.964 | Net loans to customers | 8 | 103.174 | 99.543 | 105.033 |
| 18.736 | 16.864 | 18.262 | Certificates, bonds and other fixed-income securities | 13 | 18.265 | 16.868 | 18.742 |
| 3.247 | 3.902 | 4.277 | Financial derivatives | 10 | 4.267 | 3.897 | 3.241 |
| 541 | 496 | 500 | Shares, ownership stakes and other securities | | 628 | 514 | 661 |
| 92 | 23 | 76 | Business available for sale | | 76 | 23 | 93 |
| 2.448 | 2.546 | 2.876 | Investment in associates | | 3.924 | 3.507 | 3.499 |
| 694 | 679 | 716 | Investment in subsidiaries | | 0 | 0 | 0 |
| 801 | 719 | 940 | Other assets | 5 | 1.207 | 1.530 | 1.001 |
| 133.474 | 128.264 | **131.617** | **Total assets** | 12 | **132.965** | 129.524 | 134.778 |
| 7.361 | 9.024 | 5.919 | Balances with credit institutions | | 5.917 | 9.022 | 7.359 |
| 8.832 | 8.832 | 8.832 | Public sector deposits regarding the covered bonds swap agreement | | 8.832 | 8.832 | 8.832 |
| 60.939 | 55.856 | 64.455 | Deposits from customers | 7 | 64.323 | 55.703 | 60.770 |
| 40.307 | 39.093 | 36.451 | Listed debt securities | 11 | 36.451 | 39.093 | 40.307 |
| 2.212 | 2.075 | 2.076 | Financial derivatives | 10 | 2.076 | 2.075 | 2.212 |
| 1.416 | 1.736 | 1.659 | Other liabilities | 6 | 2.001 | 2.135 | 1.752 |
| 4.144 | 4.093 | 3.804 | Additional Tier 1 and Tier 2 capital instruments | 11 | 3.804 | 4.093 | 4.144 |
| 125.211 | 120.709 | **123.196** | **Total liabilities** | | **123.404** | 120.953 | 125.376 |
| 3.183 | 3.023 | 3.183 | Equity certificates | | 3.183 | 3.023 | 3.183 |
| -3 | -3 | -3 | Holding of own equity certificates | | -3 | -3 | -3 |
| 625 | 456 | 625 | Premium reserve | | 625 | 456 | 625 |
| 1.175 | 669 | 1.077 | Dividend equalisation reserve | | 1.077 | 669 | 1.175 |
| 336 | 0 | 0 | Proposed dividend | | 0 | 0 | 336 |
| 2.477 | 2.182 | 2.420 | Savings bank's reserve | | 2.420 | 2.182 | 2.477 |
| 55 | 20 | 55 | Share premium reserve | | 55 | 20 | 55 |
| 372 | 214 | 293 | Endowment fund | | 293 | 214 | 372 |
| 43 | 127 | 43 | Fund for unrealised gains | | 43 | 127 | 43 |
| 0 | 0 | 0 | Other equity | | 1.124 | 947 | 1.139 |
| 0 | 867 | 728 | Profit/loss at period end | | 744 | 936 | 0 |
| 8.263 | 7.555 | **8.421** | **Total equity** | | **9.561** | 8.571 | 9.402 |
| 133.474 | 128.264 | **131.617** | **Total liabilities and equity** | 12 | **132.965** | 129.524 | 134.778 |

## Statement of changes in equity

SpareBank 1 SR-Bank Group

| *(Amounts in NOK million)* | Equity certificates | Premium reserve | Saving's bank reserve | Share premium reserve | Endowment fund | Equalisation reserve | Reserve for unrealised gains | Other equity | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Equity as of 31.12.2009 | 3.014 | 458 | 2.241 | 20 | 240 | 971 | 127 | 1.002 | 8.073 |
| Dividend 2009, resolved in 2010 | | | | | | -212 | | | -212 |
| Share issue Kvinnherad | 152 | 161 | | 35 | | | | | 348 |
| Private placement with employees | 8 | 8 | | | | | | | 16 |
| Issue expenses | | -1 | | | | | | | -1 |
| Grants from endowment fund | | | | | -65 | | | | -65 |
| Purchase/sale of own primary capital certifica | 6 | -1 | | | | 7 | | | 12 |
| Other changes | | | | | | 2 | | | 2 |
| Adjusted equity accosiates | | | | | | | | -23 | -23 |
| Profit after tax | | | 250 | | 197 | 765 | -86 | 190 | 1.316 |
| Unrecognised actuarial gains and losses after tax | | | -14 | | | -22 | | -17 | -53 |
| Share of profit associated companies and joint ventures | | | | | | | | -13 | -13 |
| Change in value of financial assets available for sale | | | | | | | 2 | | 2 |
| Total comprehensive income | | | -14 | | | -22 | 2 | -30 | -64 |
| Profit for the year | | | 236 | | 197 | 743 | -84 | 160 | 1.252 |
| **Equity as of 31.12.2010** | **3.180** | **625** | **2.477** | **55** | **372** | **1.511** | **43** | **1.139** | **9.402** |
| Dividend 2010, resolved in 2011 | | | | | | -336 | | | -336 |
| Issue expenses | | | | | | -1 | | | -1 |
| Adjusted equity accosiates | | | | | | | | 22 | 22 |
| Grants from endowment fund | | | | | -79 | | | | -79 |
| Profit after tax | | | | | | | | | 744 |
| Unrecognised actuarial gains and losses after tax | | | -57 | | | -97 | | -37 | -191 |
| Share of profit associated companies and joint ventures | | | | | | | | | 0 |
| Other comprehensive income | | | -57 | | | -97 | 0 | -37 | -191 |
| Total comprehensive income | | | | | | | | | **553** |
| **Equity as of 30.09.2011** | **3.180** | **625** | **2.420** | **55** | **293** | **1.077** | **43** | **1.124** | **9.561** |

## Equity certificate ratio

*Parent bank*

| *(Amounts in NOK million)* | **30.09.2011** | 31.12.2010 |
|---|---|---|
| Equity cerificates | 3.180 | 3.180 |
| Dividend equalisation reserve | 1.077 | 1.175 |
| Premium reserve | 625 | 625 |
| **A. The equitye certificate owners' capital** | **4.882** | 4.980 |
| | | |
| Savings bank's reserve | 2.420 | 2.477 |
| Share premium reserve | 55 | 55 |
| Endowment fund | 293 | 372 |
| **B. The savings bank's reserve** | **2.768** | 2.904 |
| | | |
| Fund for unrealised gains | 43 | 43 |
| **Equity excl proposed dividend** | **7.693** | 7.927 |
| | | |
| **Equity certificate ratio (A/(A+B))** | **63,8 %** | 63,2 % |

## *Cash flow statement*

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| **31.12.2010** | **30.09.2010** | **30.09.2011** | **Cash flow statement** | **30.09.2011** | **30.09.2010** | **31.12.2010** |
| 1.414 | 1.131 | **982** | Profit before tax | **1.005** | 1.200 | 1.614 |
| 0 | 0 | **0** | Income from ownership interests | **-142** | -173 | -267 |
| 0 | 0 | **-1** | Changes in value of financial assets | **-1** | 0 | 0 |
| -8 | 0 | **-4** | Gain on disposal of non-financial assets | **-12** | 0 | -10 |
| 62 | 46 | **50** | Write-down on non-financial assets | **56** | 53 | 72 |
| 187 | 126 | **76** | Losses on loans | **94** | 163 | 234 |
| -221 | 0 | **-291** | Taxes paid | **-307** | -1 | -223 |
| 1.434 | 1.303 | **812** | **Transferred from the year's activity** | **693** | 1.242 | 1.420 |
| -11.846 | -6.735 | **2.125** | Change in gross lending to customers | **1.862** | -6.816 | -12.319 |
| 242 | 414 | **-444** | Change in receivables from credit institutions | **-208** | 384 | 134 |
| 6.427 | 1.344 | **3.516** | Change in deposits from customers | **3.553** | 1.367 | 6.434 |
| 0 | 0 | **0** | Public sector deposits regarding the covered bonds swap agreement | **0** | 0 | 0 |
| -1.493 | 170 | **-1.442** | Change in debt to credit institutions | **-1.442** | 170 | -1.493 |
| 3.822 | 5.694 | **474** | Change in certificates and bonds | **477** | 5.714 | 3.840 |
| 1.285 | -191 | **-672** | Other accruals | **-586** | -66 | 1.438 |
| -129 | 1.999 | **4.369** | **A Net cash flow from operations** | **4.349** | 1.995 | -546 |
| -119 | -74 | **-59** | Change in tangible fixed assets | **-64** | -78 | 477 |
| 10 | 0 | **0** | Proceeds from sale of fixed assets | **0** | 2 | 10 |
| -415 | -453 | **-409** | Change in shares and ownership stakes | **-392** | -455 | -594 |
| -524 | -527 | **-468** | **B Net cash flow, investments** | **-456** | -531 | -107 |
| 10.756 | 6.647 | **1.032** | Debt raised by issuance of securities | **1.032** | 6.647 | 10.756 |
| -9.427 | -5.963 | **-5.441** | Repayments - issuance of securities | **-5.441** | -5.963 | -9.427 |
| 0 | 0 | **0** | Additional capital instruments issued | **0** | 0 | 0 |
| 0 | 0 | **-440** | Repayments - additional capital instruments | **-440** | 0 | 0 |
| 160 | 0 | **0** | Issue equity capital certificates | **0** | 0 | 160 |
| -212 | -212 | **-336** | Dividend to equity capital certificate holders | **-336** | -212 | -212 |
| 1.277 | 472 | **-5.185** | **C Net cash flow, financing** | **-5.185** | 472 | 1.277 |
| 624 | 1.944 | **-1.284** | **A+B+C Net cash flow during the period** | **-1.292** | 1.936 | 624 |
| 954 | 954 | **1.578** | Cash and cash equivalents as at 1 January | **1.586** | 962 | 962 |
| 1.578 | 2.898 | **294** | Cash and cash equivalents as at 31 March | **294** | 2.898 | 1.586 |
| 624 | 1.944 | **-1.284** | **Net cash flow during the period** | **-1.292** | 1.936 | 624 |
| | | | **Cash and cash equivalents specified** | | | |
| 1.235 | 2.497 | **249** | Cash and balances with central banks | **249** | 2.497 | 1.235 |
| 343 | 401 | **45** | Balances with credit institutions | **45** | 401 | 351 |
| 1.578 | 2.898 | **294** | **Cash and cash equivalents** | **294** | 2.898 | 1.586 |

The cash and cash equivalents includes cash and claims on central banks, plus the share of the total of claims on credit institutions that pertains to placement solely in credit institutions. The cash flow statement shows cash provided and used by Sparebank 1 SR-Bank and Sparebank 1 SR-Bank Group.

# *Notes to the financial statements*

*(in MNOK)*

*Note 1* *Accounting principles*

**1.1 Basis for preparation**

The 1st quarter 2011 interim financial statements of Sparebank 1 SR-Bank are for the nine months ending 30 september 2011. They have been prepared in accordance with IAS 34 Interim Financial Reporting. The financial statements have been prepared in accordance with current IFRS standards and IFRIC interpretations.

**1.2 Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Segment information is disclosed in a separate note.

**1.3 Foreign currency transactions and balances**

Foreign exchange gains and losses, resulting from the settlement of foreign currency transactions and the translation of monetary assets and liabilities denominated in foreign currencies at period-end exchange rates, are recognised in the income statement, except where hedge accounting is applied.

**1.4 Tangible fixed assets**

Tangible fixed assets comprise property, plant and equipment. All property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Alternatively tangible fixed assets could have been valued at fair value. This would have given an estimated added value. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life. Parts of buildings which are leased out, are classified as investment property, but are otherwise treated the same way as other tangible fixed assets.

**1.5 Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

**1.6 Securities**

Securities consist of shares, ownership stakes, certificates and bonds. Shares and ownership stakes are recognised either at "fair value through profit and loss" or as "available for sale". Certificates and bonds are recognised either at "fair value through profit and loss" or as categories recognised at amortised cost. i.e. "held to maturity" or "loans and receivables". All gains and losses arising from changes in the fair value of securities recognised at "fair value through profit and loss" are included in "Net gain/losses on financial instruments" in the statements. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as "Net gain/losses on financial instruments". Securities recognised as "held to maturity" or "loans and receivables" are measured at amortised cost using the effective interest method. Refer to item 1.8. for explanation of this method.

**1.7 Interest income and expense**

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of loans and deposits and of allocating the interest income or expense over the expected term to maturity. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Once a financial asset or a group of similar assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**1.8 Loans to customers**

Fixed rate loans to customers are carried at fair value. Gains and losses from changes in fair value are included in the income statement. Other loans and advances are carried at amortised cost using the effective interest method.

*Impairment of gross loans carried at amortised cost*

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

*Impairment of loans carried at fair value*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets carried at fair value is impaired. Impairment losses are included in the income statement in the period in which they arise.

**1.9 Derivative financial instruments and hedge accounting**

Derivatives comprise currency and interest rate instruments linked to structured products.

Derivatives are recognised at fair value in profit and loss unless they are earmarked as hedging instruments.

The Bank assesses and documents the efficiency of the hedging, both when the initial classification is made and on an ongoing basis. In the case of complete hedging both the hedging instrument and the hedged object are recognised at fair value and changes in these values compared to the opening balance are recorded in the income statement.

**1.10 Pension obligations**

Group companies operate various pension schemes. The schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of a defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rate of Norwegian government bonds with adjustments made for differences in terms to maturity. Changes in estimates are recognised in equity according to IAS 19.

**1.11 Borrowing**

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

**1.12 Dividends**

Dividends on primary capital certificates are recognised in equity in the period in which they are approved by the bank's Supervisory Board.

**1.13 Ownership in subsidiaries and associated companies**

According to the IFRS regulations, ownership in subsidiaries and associated companies are valued at cost in the financial statement of the parent bank. In the consolidated financial statements they are accounted for using the equity method: we recognise our share of the profit in associated companies in our income statement, and subsidiaries are consolidated into the financial statements of the group.

*Note 2* *Losses on loans and guarantees*

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | | 30.09.11 | 30.09.10 | 31.12.10 |
| 15 | 50 | **0** | Change in individual impairment losses provisions for the period | **16** | 82 | 38 |
| 14 | 14 | **-17** | Change in collective impairment loss provisions for the period | **-17** | 21 | 24 |
| 6 | 7 | **2** | Amortised cost | **2** | 7 | 6 |
| 167 | 68 | **54** | Actual loan losses on commitments for which provisions have been made | **55** | 69 | 175 |
| 19 | 13 | **45** | Actual loan losses on commitments for which no provision has been made | **49** | 13 | 30 |
| 0 | 0 | **17** | Change in assets taken over for the period | **17** | 0 | 0 |
| -34 | -26 | **-25** | Recoveries on commitments previously written-off | **-29** | -29 | -39 |
| 187 | 126 | **76** | The period's net losses / (reversals) on loans and advances | **94** | 163 | 234 |

*Note 3* *Provisions for impairment losses on loans*

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | | 30.09.11 | 30.09.10 | 31.12.10 |
| 303 | 303 | **346** | Provisions for Individual impairment losses at start of period | **402** | 337 | 337 |
| 35 | 0 | **0** | Taken over from Kvinnherad | **0** | 0 | 35 |
| 66 | 46 | **23** | Increases in previous provisions for individual impairment losses | **23** | 47 | 67 |
| -71 | -64 | **-64** | Reversal of provisions from previous periods | **-78** | -76 | -83 |
| 187 | 136 | **95** | New provisions for individual impairment losses | **126** | 179 | 229 |
| -7 | -6 | **-3** | Amortised cost | **-3** | -6 | -8 |
| | | **-54** | Actual loan losses during the period for which provisions for individual | **-55** | | |
| -167 | -68 | **-54** | impairment losses have been made previously | **-55** | -69 | -175 |
| 346 | 347 | **343** | Provisions for Individual impairment losses at period end | **415** | 412 | 402 |
| 181 | 81 | **99** | Net losses | **104** | 82 | 200 |

*Note 4* *Non-performing and problem commitments*

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | | 30.09.11 | 30.09.10 | 31.12.10 |
| | | | **Non-performing loans and advances** | | | |
| 408 | 405 | **516** | Gross non-performing loans above 90 days | **590** | 546 | 443 |
| 117 | 98 | **126** | Provisions for Individual impairment losses | **159** | 122 | 134 |
| 291 | 307 | **390** | Net non-performing loans and advances | **431** | 424 | 309 |
| 29 % | 24 % | **24 %** | Loan loss provision ratio | **27 %** | 22 % | 30 % |
| | | | **Other problem commitments** | | | |
| 656 | 846 | **600** | Problem commitments | **708** | 945 | 762 |
| 229 | 249 | **217** | Provisions for Individual impairment losses | **256** | 290 | 268 |
| 427 | 597 | **383** | Net other problem commitments | **452** | 655 | 494 |
| 35 % | 29 % | **36 %** | Loan loss provision ratio | **36 %** | 31 % | 35 % |

*Note 5 Other assets*

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | | 30.09.11 | 30.09.10 | 31.12.10 |
| 0 | 0 | **0** | Intangible assets | **58** | 53 | 60 |
| 0 | 8 | **11** | Deferred tax assets | **0** | 0 | 0 |
| 366 | 334 | **375** | Tangible fixed assets | **400** | 958 | 392 |
| 435 | 377 | **554** | Other assets | **749** | 519 | 549 |
| 801 | 719 | **940** | **Total other assets** | **1.207** | 1.530 | 1.001 |

*Note 6 Other liabilities*

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | | 30.09.11 | 30.09.10 | 31.12.10 |
| 167 | 189 | **277** | Accrued expenses and prepaid revenue | **372** | 285 | 249 |
| 64 | 0 | **0** | Deferred tax | **36** | 57 | 138 |
| 523 | 693 | **730** | Provision for accrued expenses and liabilities | **860** | 783 | 622 |
| 662 | 854 | **652** | Other liabilities | **733** | 1.010 | 743 |
| 1.416 | 1.736 | **1.659** | **Total other liabilities** | **2.001** | 2.135 | 1.752 |

*Note 7 Customer deposits by sectors and industry*

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | | 30.09.11 | 30.09.10 | 31.12.10 |
| 969 | 922 | **1.026** | Agriculture/forestry | **1.026** | 922 | 969 |
| 132 | 137 | **177** | Fishing/Fish farming | **177** | 137 | 132 |
| 1.080 | 733 | **632** | Mining/extraction | **632** | 733 | 1.080 |
| 1.378 | 1.242 | **977** | Industry | **977** | 1.242 | 1.378 |
| 3.190 | 1.550 | **1.284** | Power and water supply/building and construction | **1.284** | 1.550 | 3.190 |
| 1.848 | 1.569 | **1.606** | Commodity trade, hotel and restaurant business | **1.606** | 1.569 | 1.848 |
| 1.391 | 1.364 | **1.045** | Foreign trade shipping, pipeline transport and other transport activities | **1.045** | 1.364 | 1.391 |
| 4.075 | 3.925 | **4.745** | Real estate business | **4.745** | 3.925 | 4.075 |
| 7.213 | 6.402 | **7.389** | Service industry | **7.389** | 6.250 | 7.044 |
| 10.947 | 10.878 | **13.349** | Public sector and financial services | **13.218** | 10.878 | 10.947 |
| 32.223 | 28.722 | **32.230** | **Total corporate sector** | **32.099** | 28.570 | 32.054 |
| 28.683 | 26.480 | **31.445** | Retail customers | **31.445** | 26.480 | 28.683 |
| 33 | 654 | **780** | Accrued interests corporate sector and retail customers | **779** | 653 | 33 |
| 60.939 | 55.856 | **64.455** | **Total deposits** | **64.323** | 55.703 | 60.770 |

*Note 8* *Loans by sectors and industry*

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | | 30.09.11 | 30.09.10 | 31.12.10 |
| 3.208 | 3.051 | **3.425** | Agriculture/forestry | **3.664** | 3.276 | 3.430 |
| 292 | 257 | **253** | Fishing/Fish farming | **352** | 325 | 365 |
| 2.168 | 2.612 | **2.816** | Mining/extraction | **2.922** | 2.685 | 2.236 |
| 1.929 | 1.791 | **1.085** | Industry | **1.673** | 2.468 | 2.591 |
| 2.957 | 2.246 | **3.014** | Power and water supply/building and construction | **3.944** | 3.168 | 3.882 |
| 2.167 | 2.155 | **2.395** | Commodity trade, hotel and restaurant business | **2.804** | 2.527 | 2.504 |
| 5.756 | 5.203 | **5.659** | Foreign trade shipping, pipeline transport and other transport activities | **6.003** | 5.553 | 6.127 |
| 21.868 | 21.554 | **23.579** | Real estate business | **23.749** | 21.349 | 22.105 |
| 4.036 | 4.216 | **5.478** | Service industry | **6.575** | 5.192 | 5.011 |
| 509 | 474 | **811** | Public sector and financial services | **1.088** | 689 | 726 |
| 44.890 | 43.559 | **48.515** | **Total corporate sector** | **52.774** | 47.232 | 48.977 |
| 55.516 | 51.675 | **49.641** | Retail customers | **50.688** | 52.646 | 56.492 |
| 87 | 190 | **149** | Unallocated (excess value fixed interest loans and amort. lending fees) | **156** | 195 | 76 |
| 236 | 194 | **299** | Accrued interests corporate sector and retail customers | **312** | 216 | 247 |
| 100.729 | 95.618 | **98.604** | **Gross loans** | **103.930** | 100.289 | 105.792 |
| -346 | -340 | **-343** | - Individual impairment losses provisions | **-415** | -405 | -402 |
| -314 | -301 | **-297** | - Collective impairment losses provisions | **-341** | -341 | -357 |
| 100.069 | 94.977 | **97.964** | **Net loans** | **103.174** | 99.543 | 105.033 |

*Note 9* *Capital adequacy*

New rules on capital adequacy were introduced in Norway from 1 January 2007; Basel II – the EU's new directive regarding capital adequacy. SpareBank 1 SR-Bank has applied to and got permission from Kredittilsynet to use internal rating methods (Internal Rating Based Approach – Foundation) on credit risk from 1 January 2007. This will make the statutory minimum-requirement regarding capital adequacy more risk-sensitive, and thus more in accordance with the risk in the underlying portfolios. Using IRB demands high standards regarding organisation, competence, risk-models and risk-management systems. Interim regulations have been issued by Kredittilsynet, giving IRB-banks full effect of the reduced capital requirements from 2015 and onwards.

| Parent bank | | | | Group | | |
|---|---|---|---|---|---|---|
| 31.12.10 | 30.09.10 | 30.09.11 | | 30.09.11 | 30.09.10 | 31.12.10 |
| 3.183 | 3.023 | **3.183** | Equity certificates | **3.183** | 3.023 | 3.183 |
| -3 | -3 | **-3** | - Own equity certificates | **-3** | -3 | -3 |
| 625 | 456 | **625** | Premium reserve | **625** | 456 | 625 |
| 1.175 | 669 | **1.077** | Equalisation reserve | **1.077** | 669 | 1.175 |
| 336 | 0 | **0** | Allocated to dividend | **0** | 0 | 336 |
| 2.477 | 2.182 | **2.420** | Savings bank's reserve | **2.420** | 2.182 | 2.477 |
| 55 | 20 | **55** | Share premium reserve | **55** | 20 | 55 |
| 372 | 214 | **293** | Endowment fund | **293** | 214 | 372 |
| 43 | 127 | **43** | Reserve for unrealised gains | **43** | 127 | 43 |
| 0 | 0 | **0** | Other equity | **1.124** | 947 | 1.139 |
| 8.263 | 6.688 | **7.693** | **Total book equity** | **8.817** | 7.635 | 9.402 |
| | | | | | | |
| | | | **Core capital** | | | |
| 0 | -8 | **-11** | Deferred taxes, goodwill and other intangible assets | **-76** | -82 | -77 |
| -2 | -1 | **-2** | Fund for unrealized gains, available for sale | **-2** | -1 | -2 |
| -336 | 0 | **0** | Deduction for allocated dividends | **0** | 0 | -336 |
| -373 | -383 | **-420** | 50% deduction for subordinated capital in other financial institutions | **-21** | -31 | -21 |
| -268 | -300 | **-290** | 50% deduction for expected losses on IRB, net of write-downs | **-294** | -302 | -268 |
| 0 | 0 | **0** | 50 % capital adequacy reserve | **-664** | -578 | -645 |
| 0 | 0 | **0** | Share of other equity in ownership interests | **0** | 37 | 0 |
| 0 | 433 | **364** | Year-to-date profit included in core capital (50%) | **372** | 468 | 0 |
| 1.268 | 1.228 | **1.267** | Additional Tier 1 capital | **1.391** | 1.287 | 1.389 |
| 8.552 | 7.657 | **8.601** | **Total core capital** | **9.523** | 8.433 | 9.442 |
| | | **0** | | | | |
| | | | **Supplementary capital in excess of core capital** | | | |
| 783 | 783 | **340** | Perpetual Tier 2 capital | **340** | 783 | 783 |
| 0 | 0 | **0** | Tier 2 capital - excess of 15% additional Tier 1 capital | **0** | 0 | 0 |
| 1.961 | 1.862 | **2.012** | Non-perpetual additional capital | **2.230** | 2.145 | 2.191 |
| -373 | -383 | **-420** | 50% deduction for investment in capital instruments in other financial instituti | **-21** | -31 | -21 |
| -268 | -300 | **-290** | 50% deduction for expected losses on IRB, net of write-downs | **-294** | -302 | -268 |
| 0 | 0 | **0** | 50 % capital adequacy reserve | **-664** | -578 | -645 |
| 2.103 | 1.962 | **1.642** | **Total supplementary capital** | **1.591** | 2.017 | 2.040 |
| | | | | | | |
| 10.655 | 9.619 | **10.243** | **Net subordinated capital** | **11.114** | 10.450 | 11.482 |
| | | | | | | |
| | | | **Basis for calculation Basel I** | | | |
| | | | **Minimum requirements subordinated capital, Basel II** | | | |
| 1.953 | 1.925 | **2.017** | Specialised lending exposure | **2.017** | 1.925 | 1.953 |
| 2.034 | 1.877 | **2.205** | Other corporations exposure | **2.217** | 1.881 | 2.042 |
| 35 | 31 | **32** | SME exposure | **36** | 34 | 38 |
| 477 | 453 | **396** | Retail mortage exposure | **660** | 676 | 680 |
| 86 | 63 | **109** | Other retail exposure | **112** | 64 | 87 |
| 340 | 329 | **391** | Equity investments | **0** | 0 | 0 |
| 4.925 | 4.678 | **5.150** | **Total credit risk IRB** | **5.042** | 4.580 | 4.800 |
| | | | | | | |
| 122 | 95 | **136** | Debt risk | **135** | 87 | 116 |
| 34 | 31 | **36** | Equity risk | **36** | 19 | 34 |
| 0 | 0 | **0** | Currency risk | **0** | 0 | 0 |
| 295 | 295 | **331** | Operational risk | **408** | 374 | 374 |
| 0 | 0 | **0** | Transitional arrangements | **537** | 568 | 566 |
| 605 | 647 | **704** | Exposures calculated using the standardised approach | **1.872** | 1.710 | 1.617 |
| -60 | -61 | **-67** | Deductions | **-109** | -97 | -107 |
| 5.921 | 5.685 | **6.290** | **Minimum requirements subordinated capital** | **7.921** | 7.241 | 7.400 |
| | | | | | | |
| 14,40 % | 13,54 % | **13,03 %** | Capital adequacy ratio | **11,22 %** | 11,55 % | 12,41 % |
| 11,55 % | 10,78 % | **10,94 %** | Core capital ratio | **9,62 %** | 9,32 % | 10,21 % |
| 2,84 % | 2,76 % | **2,09 %** | Supplementary capital ratio | **1,61 %** | 2,23 % | 2,21 % |

*Note 10 Financial derivatives*

| At fair value through profit and loss | Contract amount 30.09.11 | Fair value at 30.09.11 Assets | Liabilities |
|---|---|---|---|
| **Currency instruments** | | | |
| Currency forward contracts | 4.804 | 58 | 111 |
| Currency swaps | 16.712 | 501 | 239 |
| Currency options | 84 | 0 | 0 |
| Total currency instruments | 21.600 | 559 | 350 |
| | | | |
| **Interest rate instruments** | | | |
| Interest rate swaps(including cross-currency) | 98.890 | 1.338 | 1.215 |
| Other interest rate contracts | 1.000 | 0 | 2 |
| Total interest rate instruments | 99.890 | 1.338 | 1.217 |
| | | | |
| **Hedging / Interest rate instruments** | | | |
| Interest rate swaps (including cross currency) | 22.926 | 1.622 | 61 |
| Total hedging / Interest rate instruments | 22.926 | 1.622 | 61 |
| | | | |
| **Accrued interests** | | | |
| Accrued interests | | 748 | 448 |
| Total accrued interests | | 748 | 448 |
| | | | |
| **Total currency and interest rate instruments** | | | |
| Total currency instruments | 21.600 | 559 | 350 |
| Total interest rate instruments | 122.816 | 2.960 | 1.278 |
| Total accrued interests | | 748 | 448 |
| Total | 144.416 | 4.267 | 2.076 |

*The note is approximately identical for the Parent Bank and the Group*

*Note 11 Issuance of unsecured debt and additional capital instruments*

| Debt raised through issuance of securities | 31.12.10 | 30.09.10 | 30.09.11 |
|---|---|---|---|
| Certificates, nominal amount | 0 | 0 | 0 |
| Bonds, nominal amount | 38.900 | 37.616 | 34.745 |
| Adjustments | 1.043 | 1.051 | 1.248 |
| Accrued interests | 364 | 426 | 458 |
| Total debt raised through issuance of securities | 40.307 | 39.093 | 36.451 |

| Change in debt raised through issuance of securities | Balance as at 31.12.10 | Issued 2011 | Past due/ redeemed 2011 | FX rate- and other changes 2011 | Balance as at 30.09.11 |
|---|---|---|---|---|---|
| Certificates, nominal amount | 0 | 0 | 0 | 0 | 0 |
| Bonds, nominal amount | 38.900 | 1.032 | -5.441 | 254 | 34.745 |
| Adjustments | 1.043 | 0 | 0 | 205 | 1.248 |
| Accrued interests | 364 | 0 | 0 | 94 | 458 |
| Total debt raised through issuance of securities | 40.307 | 1.032 | -5.441 | 553 | 36.451 |

| Additional Tier 1 and Tier 2 capital instruments | 31.12.10 | 30.09.10 | 30.09.11 |
|---|---|---|---|
| Non-perpetual additional Tier 2 capital, nominal amount | 1.961 | 1.862 | 2.012 |
| Perpetual additional Tier 2 capital, nominal amount | 783 | 782 | 340 |
| Additional Tier 1 capital, nominal amount | 1.268 | 1.228 | 1.267 |
| Adjustments | 107 | 143 | 101 |
| Accrued interests | 25 | 78 | 84 |
| Total additional Tier 1 and Tier 2 capital instruments | 4.144 | 4.093 | 3.804 |

| Change in additional Tier 1 and Tier 2 capital instruments | Balance as at 31.12.10 | Issued 2011 | Past due/ redeemed 2011 | FX rate- and other changes 2011 | Balance as at 30.09.11 |
|---|---|---|---|---|---|
| Non-perpetual additional Tier 2 capital, nominal amount | 1.961 | | | 51 | 2.012 |
| Perpetual additional Tier 2 capital, nominal amount | 783 | | | -3 | 340 |
| Additional Tier 1 capital, nominal amount | 1.268 | | | -1 | 1.267 |
| Adjustments | 107 | | | -6 | 101 |
| Accrued interests | 25 | | | 59 | 84 |
| Total additional Tier 1 and Tier 2 capital instruments | 4.144 | 0 | 0 | 100 | 3.804 |

*The note is approximately identical for the Parent Bank and the Group*

*Note 12 Segment reporting*

| | SpareBank 1 SR-Bank Group 30.09.11 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Income statement ( in MNOK)** | **Retail Market** | **Corporate Market** | **Capital Market** | **Eiendoms-Megler 1** | **SR-Finans** | **SR-Forvaltning** | **SR-Investering** | **Not alloc.** | **Total** |
| Net interest income | 714 | 540 | 18 | 7 | 115 | 1 | 2 | -89 | **1.308** |
| Net commission and other income | 276 | 144 | 132 | 320 | -7 | 34 | 1 | -13 | **887** |
| Net return on investment securities | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 201 | **208** |
| Operating expenses | 410 | 128 | 47 | 279 | 33 | 17 | 4 | 386 | **1.304** |
| Operating profit before losses | 580 | 556 | 103 | 48 | 75 | 18 | 6 | -287 | **1.099** |
| Losses on loans and guarantees | 24 | 70 | 0 | 0 | 18 | 0 | 0 | -18 | **94** |
| **Operating profit before tax** | **556** | **486** | **103** | **48** | **57** | **18** | **6** | **-269** | **1.005** |
| **Balance sheet ( in MNOK)** | | | | | | | | | |
| Loans to customers | 49.869 | 48.735 | 0 | 0 | 5.328 | 0 | 0 | -2 | **103.930** |
| Individual loss provisions | -53 | -290 | 0 | 0 | -73 | 0 | 0 | 1 | **-415** |
| Group loss provisions | -30 | -267 | 0 | 0 | -43 | 0 | 0 | -1 | **-341** |
| Other assets | 0 | 0 | 744 | 239 | 23 | 46 | 189 | 28.550 | **29.791** |
| **Total assets** | **49.786** | **48.178** | **744** | **239** | **5.235** | **46** | **189** | **28.548** | **132.965** |
| Deposits from customers | 31.827 | 32.628 | 0 | 0 | 0 | 0 | 0 | -132 | **64.323** |
| Other debt | 0 | 0 | 744 | 200 | 4.795 | 34 | 9 | 53.299 | **59.081** |
| Total debt | 31.827 | 32.628 | 744 | 200 | 4.795 | 34 | 9 | 53.167 | **123.404** |
| Equity | 0 | 0 | 0 | 39 | 440 | 12 | 180 | 8.890 | **9.561** |
| **Total debt and equity** | **31.827** | **32.628** | **744** | **239** | **5.235** | **46** | **189** | **62.057** | **132.965** |

| | SpareBank 1 SR-Bank Group 30.09.10 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Income statement ( in MNOK)** | **Retail Market** | **Corporate Market** | **Capital Market** | **Eiendoms-Megler 1** | **SR-Finans** | **SR-Forvaltning** | **SR-Investering** | **Not alloc.** | **Total** |
| Net interest income | 730 | 534 | 14 | 5 | 124 | 1 | 1 | -109 | **1.300** |
| Net commission and other income | 247 | 119 | 105 | 272 | -5 | 31 | 8 | 41 | **818** |
| Net return on investment securities | 0 | 0 | 25 | 0 | 0 | 0 | 0 | 363 | **388** |
| Operating expenses | 369 | 106 | 27 | 235 | 29 | 16 | 3 | 358 | **1.143** |
| Operating profit before losses | 608 | 547 | 117 | 42 | 90 | 16 | 6 | -63 | **1.363** |
| Losses on loans and guarantees | 8 | 106 | 0 | 0 | 37 | 0 | 0 | 12 | **163** |
| **Operating profit before tax** | **600** | **441** | **117** | **42** | **53** | **16** | **6** | **-75** | **1.200** |
| **Balance sheet ( in MNOK)** | | | | | | | | | |
| Loans to customers | 51.882 | 43.736 | 0 | 0 | 5.119 | 0 | 0 | -448 | **100.289** |
| Individual loss provisions | -50 | -290 | 0 | 0 | -65 | 0 | 0 | 0 | **-405** |
| Group loss provisions | -15 | -286 | 0 | 0 | -37 | 0 | 0 | -3 | **-341** |
| Other assets | 0 | 0 | 816 | 193 | 7 | 39 | 183 | 28.743 | **29.981** |
| **Total assets** | **51.817** | **43.160** | **816** | **193** | **5.024** | **39** | **183** | **28.292** | **129.524** |
| Deposits from customers | 26.794 | 29.062 | 0 | 0 | 0 | 0 | 0 | -153 | **55.703** |
| Other debt | 0 | 0 | 509 | 168 | 4.616 | 31 | 12 | 59.914 | **65.250** |
| Total debt | 26.794 | 29.062 | 509 | 168 | 4.616 | 31 | 12 | 59.761 | **120.953** |
| Equity | 0 | 0 | 0 | 25 | 410 | 8 | 171 | 7.957 | **8.571** |
| **Total debt and equity** | **26.794** | **29.062** | **509** | **193** | **5.026** | **39** | **183** | **67.718** | **129.524** |

*Note 13 Reclassification of financial assets*

Due to the extraordinary and negative development in the world's financial markets during 3rd quarter 2008 the IASB 13th October 2008 approved certain changes to IAS 39 and IFRS 7. The changes permit a reclassification of part of or the whole portfolio of financial assets held for trading retrospectively to 1st July 2008. SpareBank 1 SR-Bank has decided to adopt this opportunity and has, after due consideration, chosen to reclassify certain parts of the bond portfolio into categories recognised at amortised cost, i.e. "held to maturity" or "loans and receivables". No reclassifications have been adopted by any of the subsidiaries.

Listed instruments are classified as "held to maturity" while instruments with no observable market value and where the price has been recognised through alternative valuation methods according to IAS 39 are reclassified as "loans and receivables".

Reclassification is carried through due to the major and abnormal impairments that have arisen during the turbulent financial markets. A major part of the bank's bond portfolio has norma been kept in custody in Norges Bank and held to maturity. These bonds are normally of superior quality and exceptional changes in price is, according to the bank's opinion, disturbing the result unnecessarily. There is ability as well as will to keep the reclassified portolio until maturity.
The survey below states the effect a non-reclassification would have in the accounts.

| **As at 1.7.08** | Parent bank | | | |
|---|---|---|---|---|
| Certificates and bonds recognised as: | Book value | Amortising as interest | Reclass.effect | Fair value |
| At fair value through profit and loss | 3.041 | 0 | 0 | 3.041 |
| Held to maturity *) | 2.350 | 0 | 0 | 2.350 |
| Receivables *) | 578 | 0 | 0 | 578 |
| **Total certificates and bonds** | **5.969** | **0** | **0** | **5.969** |

| **As at. 30.09.11** | Parent bank | | | |
|---|---|---|---|---|
| Certificates and bonds recognised as: | Book value | Amortising as interest | Reclass.effect | Fair value |
| At fair value through profit and loss | 8.064 | 0 | 0 | 8.064 |
| Held to maturity | 749 | -6 | 0 | 743 |
| Covered Bonds **) | 9.325 | 0 | 0 | 9.325 |
| Receivables | 60 | -1 | 1 | 60 |
| Accrued interests | 67 | 0 | 0 | 67 |
| **Total certificates and bonds** | **18.265** | **-7** | **1** | **18.259** |

| **As at. 30.09.11** | Parent bank | | |
|---|---|---|---|
| Bonds reclassified as receivable and hold to maturity | **31.12.10** | **30.09.10** | **30.09.11** |
| Book value | 1.324 | 1.707 | 809 |
| Nominal value | 1.341 | 1.727 | 819 |
| Observable market value | 1.324 | 1.708 | 803 |

*) Net urealised losses written back as at 1st July amounts to NOK 47.3 million. The amounts will be amortised during the instruments economic life. Weighted remaining economic life at the time of reclassification was approximately 2.7 years.
**) Receiveables includes 9.324 million NOK of covered bonds used in the swap agreement with the Ministry of Finance.

*Note 14 Pension*

*Contractual pension (AFP)*

The SpareBank 1 SR-Bank group has group service pension schemes for its employees. The pension schemes for SpareBank 1 SR-Bank, SR-Forvaltning ASA, SR-Investering AS, SR-Finans AS, Vågen Drift AS and EiendomsMegler 1 SR-Eiendom AS are covered through the group's pension fund.
For further details on the calculation of the pension obligation and assumptions please refer to note 33 to the annual accounts 2010.

The law on State support to the AFP Scheme was passed on 19 February 2010.
The act will have accounting effect for 2010 and for companies that publish interim accounts it is effective for the first quarter.
The manner in which the transition to the new AFP scheme is to be dealt with in the accounts appears in a Statement from the Norwegian Accounting Standards Board. The accounting consequences that follow this statement comply with the principles in IAS 19 and NRS 6. In the quarterly accounts we have opted to follow the statement as regard the accounting consequences that the passing of the Act on State support to the AFP Scheme involves.

According to the statement the new AFP scheme is a benefit-based multi-corporate scheme that shall be accounted for in with the same prin as a benefit-based scheme. If there is not adequate information to account for the scheme in this manner, it must be accounted for as a defin contribution scheme. At the present moment We have not been able to obtain sufficient information to make reliable calculations prior to publ the accounts for Q1 2011, and for the time being the scheme has therefore been accounted for as a defined contribution scheme.
When such calculations are made in the future, the AFP obligation must be recorded in the balance sheet as a benefit scheme.

The capitalization of the obligation under the old scheme may have a significant impact on the result. The obligation that arises under the nev scheme will not be recorded in the balance sheet until it can be measured. For many companies, the lack of symmetry in the way this is dealt with implies a substantial effect on the book equity, even if the obligation may not actually be reduced.

The effect on profits recorded in the first quarter 2010 as consequence of the new regulations:

| **Parent bank** | **Impact on profit** | **Group** |
|---|---|---|
| 20 | Future growth in wages as result of reduction | 23 |
| 48 | Settlement as per reduction | 55 |
| **68** | **Change in AFP obligation over profit and loss** | **78** |

Pension scheme

The Supervisory Board adopted changes to SpareBank 1 SR-Bank's current pension scheme on 24 March 2011. As a consequence of this, pensions under payment from the defined benefit scheme will be expected to be adjusted lower than has been the practice in recent years. The pension adjustment assumptions have, therefore, been changed effective 31 March 2011. The effect of the change in the assumptions concerning the pension adjustment totals NOK 223 million after tax for the group and NOK 186 million for the bank. These amounts are included in the actuarial gains or losses as at 31 March 2011 and have been charged against equity first quarter 2011. See also note 17.

The effect of these changes will be included in the estimated pension obligations for Q2 and Q4 2011.
The effect on profits recorded as a consequence of the reduction in the current pension scheme in second quarter is calculated to be :

| **Parent bank** | **Impact on profit** | **Group** |
|---|---|---|
| 48 | Settlement as per reduction | 57 |
| **48** | **Change in AFP obligation over profit and loss** | **57** |

| **QUARTERLY INCOME STATEMENT** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** |
|---|---|---|---|---|---|---|---|---|---|
| **SpareBank 1 SR-Bank Group,** MNOK | **2011** | **2011** | **2011** | **2010** | **2010** | **2010** | **2010** | **2009** | **2009** |
| Interest income | 1.362 | 1.290 | 1.257 | 1.282 | 1.231 | 1.185 | 1.122 | 1.107 | 1.122 |
| Interest expense | 905 | 863 | 833 | 840 | 795 | 758 | 685 | 652 | 657 |
| **Net interest income** | **457** | **427** | **424** | **442** | **436** | **427** | **437** | **455** | **465** |
| Commission income | 200 | 221 | 202 | 194 | 189 | 206 | 207 | 219 | 201 |
| Commission expenses | -21 | -19 | -19 | -15 | -20 | -16 | -20 | -20 | -24 |
| Other operating income | 102 | 123 | 98 | 104 | 95 | 104 | 73 | 86 | 85 |
| **Net commission and other income** | **281** | **325** | **281** | **283** | **264** | **294** | **260** | **285** | **262** |
| Dividend income | 1 | 13 | 6 | 0 | 1 | 46 | 0 | 17 | 1 |
| Income from investment in associates | 33 | 58 | 51 | 94 | 70 | 54 | 49 | 128 | 98 |
| Net gains/losses on financial instrument valued at fair value | -27 | 2 | 71 | 89 | 66 | 72 | 30 | 64 | 138 |
| **Net return on investment securities** | **7** | **73** | **128** | **183** | **137** | **172** | **79** | **209** | **237** |
| **Total income** | **745** | **825** | **833** | **908** | **837** | **893** | **776** | **949** | **964** |
| Personnel expenses | 273 | 200 | 255 | 223 | 250 | 244 | 153 | 223 | 218 |
| Administrative expenses | 99 | 100 | 100 | 109 | 82 | 90 | 81 | 92 | 83 |
| Other operating expenses | 90 | 96 | 91 | 91 | 76 | 89 | 78 | 123 | 75 |
| **Total operating expenses** | **462** | **396** | **446** | **423** | **408** | **423** | **312** | **438** | **376** |
| **Operating profit before impairment losses** | **283** | **429** | **387** | **485** | **429** | **470** | **464** | **511** | **588** |
| Impairment losses on loans and guarantees | 30 | 13 | 51 | 71 | 43 | 51 | 69 | 74 | 85 |
| **Operating profit before tax and minority interests** | **253** | **416** | **336** | **414** | **386** | **419** | **395** | **437** | **503** |
| Tax expense | 79 | 111 | 71 | 33 | 86 | 81 | 97 | 107 | 104 |
| Minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net profit** | **174** | **305** | **265** | **381** | **300** | **338** | **298** | **330** | **399** |
| **Profitability** | | | | | | | | | |
| Return on equity per quarter | 7,2 % | 12,6 % | 11,2 % | 16,9 % | 14,3 % | 16,5 % | 14,8 % | 18,2 % | 25,2 % |
| Cost percentage | 62,0 % | 48,0 % | 53,5 % | 46,6 % | 48,7 % | 47,4 % | 40,2 % | 46,2 % | 39,0 % |
| **Balance sheet figures from quarterly accounts** | | | | | | | | | |
| Gross loans to customers | 103.930 | 107.914 | 104.771 | 105.792 | 100.289 | 96.812 | 96.481 | 93.473 | 92.849 |
| Deposits from customers | 64.323 | 64.982 | 62.662 | 60.770 | 55.703 | 56.137 | 53.323 | 54.336 | 53.725 |
| Total assets | 132.965 | 134.715 | 132.555 | 134.778 | 129.524 | 128.653 | 126.508 | 124.909 | 122.081 |
| Average total assets | 134.579 | 133.469 | 133.916 | 133.557 | 128.799 | 127.627 | 124.888 | 123.755 | 124.508 |
| Growth in loans over last 12 months | 3,6 % | 11,5 % | 8,6 % | 13,2 % | 8,0 % | -0,7 % | -1,6 % | -6,6 % | -3,3 % |
| Growth in deposits over last 12 months | 15,5 % | 15,8 % | 17,5 % | 11,8 % | 3,7 % | 3,1 % | -0,9 % | 2,4 % | -0,3 % |
| **Losses and non-performing commitments** | | | | | | | | | |
| Impairment losses ratio | 0,11 | 0,05 | 0,19 | 0,28 | 0,17 | 0,21 | 0,29 | 0,32 | 0,36 |
| Non-performing commitments as a percentage of total loans | 0,57 | 0,40 | 0,40 | 0,42 | 0,54 | 0,36 | 0,54 | 0,42 | 0,53 |
| Other doubtful commitments as a percentage of total loans | 0,68 | 0,82 | 1,01 | 0,72 | 0,94 | 1,01 | 0,80 | 0,81 | 0,51 |
| **Solidity** | | | | | | | | | |
| Capital adequacy ratio | 11,2 | 11,5 | 11,8 | 12,4 | 11,6 | 11,5 | 11,6 | 11,9 | 9,3 |
| Core capital ratio | 9,6 | 10,0 | 10,2 | 10,2 | 9,3 | 9,1 | 9,4 | 9,6 | 6,9 |
| Core capital | 9.523 | 9.760 | 9.734 | 9.442 | 8.433 | 8.243 | 8.196 | 8.130 | 5.632 |
| Net equity and subordinated loan capital | 11.114 | 11.200 | 11.235 | 11.482 | 10.450 | 10.352 | 10.112 | 10.029 | 7.568 |
| Minimum subordinated capital requirement | 7.921 | 7.778 | 7.611 | 7.400 | 7.241 | 7.226 | 7.001 | 6.767 | 6.545 |
| **Equity certificates** | | | | | | | | | |
| Market price at end of quarter | 40,70 | 51,50 | 57,00 | 57,00 | 53,00 | 46,10 | 48,80 | 50,00 | 44,00 |
| Number of certificates issued, millions | 127,31 | 127,31 | 127,31 | 127,31 | 120,93 | 120,93 | 120,93 | 120,93 | 89,88 |
| Earnings per EC, NOK (annualised) | 0,86 | 1,51 | 1,32 | 1,94 | 1,56 | 1,76 | 1,55 | 1,95 | 2,50 |
| Price/earnings per EC | 11,83 | 8,53 | 10,80 | 7,35 | 8,49 | 6,55 | 7,87 | 6,41 | 4,40 |