Notes

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Note 1 - Losses on loans and guarantees

Parent bank				Group		
31 Dec 2010	**31 March 2010**	**31 March 2011**		**31 March 2011**	**31 March 2010**	**31 Dec 2010**
-7	44	-4	Change in individual impairment losses provisions for the period	-5	48	3
0	0	0	Change in collective impairment losses provisions for the period	0	3	1
39	15	5	Actual loan losses on comm. for which provisions have been made	6	19	46
84	0	2	Actual loan losses on commitments for which no provision has been made	6	1	92
-8	-3	-13	Recoveries on commitments previously written-off	-13	-3	-10
108	**56**	**-10**	**Losses of the year on loans and guarantees**	**-6**	**68**	**132**

Note 2 - Losses

Parent bank				Group		
31 Dec 2010	**31 March 2010**	**31 March 2011**		**31 March 2011**	**31 March 2010**	**31 Dec 2010**
193	193	186	Individual write-downs to cover loss on loans at 01.01	222	219	219
24	21	6	+Increase in provisions for individual impairment losses	6	26	34
21	8	14	- Reversal of provisions from previous periods	15	8	22
29	46	10	+Impairment losses have been made previously	11	50	38
39	15	5	- Actual losses during the period for which provisions for individual impairment losses have been made previously	6	19	46
186	**237**	**182**	**Specification of loss provisions at end of period**	**217**	**267**	**222**
123	15	7	Actual losses	12	20	138

*) Individually assessed impairment write-downs on guarantees, totalling NOK 1m, are shown in the balance sheet as a liability under 'Other liabilities'.

Note 3 - Defaults

Parent bank				Group		
31 Dec 2010	31 March 2010	31 March 2011		31 March 2011	31 March 2010	31 Dec 2010
			Total defaults			
397	229	362	Loans in default for more than 90 days *)	477	331	499
72	49	62	- Specified loss provision	96	71	100
325	181	300	Net defaults	382	260	399
18 %	21 %	17 %	Provision rate	20 %	21 %	20 %
			Problem Loans			
198	668	200	Problem loans (not in default)	202	690	211
114	188	120	- Specified loss provision	122	196	122
84	479	80	Net problem loans	81	493	89
58 %	28 %	60 %	Provision rate	60 %	28 %	58 %

*) Of which NOK 17 million relates to loans in the guarantee portfolio taken over from BN Bank ASA. These will not entail loss for SpareBank 1 SMN.

Note 4 - Other assets

Parent bank				Group		
31 Dec 2010	31 March 2010	31 March 2011		31 March 2011	31 March 2010	31 Dec 2010
-	-	-	Deferred tax benefit	7	21	7
131	140	143	Fixed assets	1,070	882	1,027
-	-	-	Assets held for sale	407	405	406
959	637	859	Earned income not yet received	882	646	967
54	3	468	Accounts receivable, securities	468	3	54
195	200	116	Other assets	230	304	256
1,338	**980**	**1,585**	**Total other assets**	**3,065**	**2,261**	**2,717**

Note 5 - Other liabilities

Parent bank				Group		
31 Dec 2010	31 March 2010	31 March 2011		31 March 2011	31 March 2010	31 Dec 2010
21	18	21	Deferred tax	31	24	31
178	61	157	Payable tax	164	87	196
676	664	795	Accrued expenses and received, non-accrued income	1,048	891	1,057
182	191	148	Provision for accrued expenses and commitments	149	192	182
0	0	0	Pension liabilities	6	7	6
73	100	48	Drawing debt	48	100	73
11	103	39	Creditors	77	135	26
82	18	71	Debt from securities	71	18	82
0	0	0	Debt available for sale	128	95	110
109	55	581	Other liabilities	576	85	154
1,332	**1,210**	**1,860**	**Total other liabilites**	**2,298**	**1,634**	**1,917**

Note 6 - Distribution of customer deposits by sector/industry

Parent bank				Group		
31 Dec 2010	**31 March 2010**	**31 March 2011**		**31 March 2011**	**31 March 2010**	**31 Dec 2010**
1,572	1,596	1,766	Agriculture/forestry/fisheries/hunting	1,766	1,596	1,572
404	278	601	Sea farming industries	601	278	404
1,113	1,438	950	Manufacturing	950	1,438	1,113
1,213	1,102	1,122	Construction, power and water supply	1,122	1,102	1,213
3,337	2,413	2,558	Retail trade, hotels and restaurants	2,558	2,413	3,337
447	63	601	Maritime sector	601	63	447
2,600	2,516	2,529	Property management	2,512	2,512	2,533
4,044	3,338	4,130	Business services	4,130	3,338	4,044
3,037	2,886	3,259	Transport and other services provision	3,146	2,774	2,886
4,401	3,748	3,662	Public administration	3,662	3,748	4,401
1,809	363	2,608	Other sectors	2,581	305	1,784
23,976	**19,742**	**23,787**	**Total**	**23,629**	**19,568**	**23,734**
19,052	18,038	19,271	Wage earners	19,271	18,038	19,052
43,028	**37,781**	**43,058**	**Total deposits**	**42,900**	**37,606**	**42,786**

Note 7 - Distribution of loans by sector/industry

Parent bank				Group		
31 Dec 2010	31 March 2010	31 March 2011		31 March 2011	31 March 2010	31 Dec 2010
4,640	4,048	4,394	Agriculture/forestry/fisheries/hunting	4,601	4,325	4,892
1,793	1,179	1,897	Sea farming industries	2,010	1,276	1,906
2,507	2,147	2,459	Manufacturing	2,714	2,400	2,775
2,028	1,960	2,134	Construction, power and water supply	2,574	2,441	2,511
2,287	2,078	2,258	Retail trade, hotels and restaurants	2,463	2,354	2,503
5,240	3,116	5,619	Maritime sector	5,624	3,120	5,242
13,474	11,992	13,219	Property management	12,754	11,599	13,013
2,808	3,028	2,825	Business services	3,131	3,337	3,134
1,300	1,937	1,220	Transport and other services provision	1,483	2,285	1,628
61	25	33	Public administration	72	60	101
337	208	608	Other sectors	610	208	339
36,475	**31,718**	**36,666**	**Gross loans in retail market**	**38,037**	**33,404**	**38,046**
48,786	45,482	49,719	Wage earners	50,569	46,156	49,619
85,260	**77,200**	**86,385**	**Gross loans incl. SpareBank 1 Boligkreditt**	**88,606**	**79,560**	**87,665**
17,818	17,673	20,054	SpareBank 1 Boligkreditt	20,054	17,673	17,818
67,443	**59,526**	**66,331**	**Gross loans in balance sheet**	**68,553**	**61,886**	**69,847**

Note 8 - Debt created by issue of securities

Parent bank				Group		
31 Dec 2010	31 March 2010	31 March 2011		31 March 2011	31 March 2010	31 Dec 2010
235	223	267	Short-term debt instruments, nominal value	267	223	235
27,581	22,966	24,783	Bond debt, nominal value	24,783	22,966	27,581
126	147	27	Value adjustments	27	147	126
27,941	**23,336**	**25,078**	**Total**	**25,078**	**23,336**	**27,941**

Change in securities debt, subordinated debt and hybrid equity

	31 March 2011	Issued	Fallen due / Redeemed	Other changes	**31 Dec 2010**
Short-term debt instruments, nominal value	267	33	0	0	235
Bond debt, nominal value	24,783	1,343	3,963	-178	27,581
Value adjustments	27	0	0	-98	126
Total	25,078	1,375	3,963	-276	27,941

	31 March 2011	Issued	Fallen due / Redeemed	Other changes	**31 Dec 2010**
Ordinary subordinated loan capital, nominal value	1,252	0	0	-47	1,299
Perpetual subordinated loan capital, nominal value	438	0	0	-8	447
Hybrid equity, nominal value	865	0	0	-25	890
Value adjustments	99	0	0	-24	123
Total	2,655	0	0	-103	2,758

Note 9 - Investments in bonds

Due to extraordinary market conditions in autumn 2008, parts of the bank's portfolio of current assets became illiquid. After changes made in international accounting standards in October 2008, the Group opted to reclassify parts of the bond portfolio as of 01.07.08 from the category "Fair value with a value changes reflected in profit/loss" to the category "Held to maturity". We no longer have trading as a goal and these securities are not expected to be sold before maturity.

The “Held to maturity” portfolio comprises quoted bonds and is valued at amortised cost using the effective interest rate method. Previously carried out write-downs will, after reclassification, be reversed over the portfolio’s residual maturity. This will be recognised under net interest income in addition to current coupon interest. In the period 31 December 2010 - 31 March 2011, NOK 1.4 million has been amortised. At the end of the first quarter of 2011 the average residual maturity is 1.1 years.

Had reclassification not been carried out, the Group would have expensed NOK 42 million in the second half of 2008 as unrealised losses owing to increased credit spreads. In the absence of reclassification the Group have taken to income NOK 0.5 million in unrealised capital gains related to this bond portfolio in the first quarter 2011.

Unrealised agio gains related to this portfolio have been taken to income in an amount of NOK 1.3 million in the first quarter 2011.

No write-downs have been carried out on the basis of lasting portfolio value falls as of 31 March 2011.

Parent bank				Group		
31 Dec 2010	**31 March 2010**	**31 March 2011**		**31 March 2011**	**31 March 2010**	**31 Dec 2010**
1,562	2,112	1,444	Booked value	1,444	2,112	1,562
1,568	2,126	1,449	Nominal value	1,449	2,126	1,568
1,570	2,129	1,451	Calculated value incl. Exchange rate adjustments	1,451	2,129	1,570

Note 10 - 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% reduction of the risk-weighted basis of calculation was allowed.

The Norwegian State Finance Fund has in a period to 30 September 2009 offered tier 1 capital to solid Norwegian banks to help them meet tighter capital adequacy requirements and improve their lending capacity. SMN applied for, and was granted, a capital infusion which was disbursed from the State Finance Fund in the form of hybrid equity worth NOK 1.25 billion as of 30.9.09. In March 2010, with Finanstilsynet's approval, this was partially redeemed in an amount of NOK 450 million, and the remainder was repaid in April 2010.

Subordinated debt ranks behind all other liabilities. Dated subordinated loans are eligible at a maximum of 50% of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans are eligible at a maximum of 100% 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% 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% or total capital adequacy falls below 6%. 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 about subordinated debt and hybrid capital, see note 34 in the Bank's annual report.

Parent bank				Group		
31 Dec 2010	31 March 2010	31 March 2011		31 March 2011	31 March 2010	31 Dec 2010
2,373	1,736	2,373	Equity capital certificates	2,373	1,736	2,373
0	-2	0	- Own holding of ECCs	0	-2	0
182	0	182	Premium fund	182	0	182
1,159	877	1,160	Dividend equalisation fund	1,160	877	1,159
2,345	2,155	2,345	Savings bank's reserve	2,345	2,155	2,345
285	27	0	Recommended dividends	0	27	285
192	0	0	Provision for gifts	0	0	192
45	110	45	Unrealised gains reserve	75	124	66
0	0	0	Other equity and minority interest	1,250	1,115	1,244
0	178	172	Net profit	255	188	0
6,581	**5,081**	**6,276**	**Total book equity**	**7,639**	**6,219**	**7,846**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-643	-481	-466
0	0	0	Part of reserve for unrealised gains, associated companies	65	0	65
-477	-27	0	Deduction for allocated dividends and gifts	0	-27	-477
-348	-374	-343	50 % deduction for subordinated capital in other financial institutions	0	0	0
-208	-218	-140	50 % deduction for expected losses on IRB, net of write-downs	-90	-218	-216
0	0	0	50 % capital adequacy reserve	-626	-374	-571
0	0	0	Share of non-performing, non-amortizsed estimate deviations	0	0	0
0	-178	-172	Net profit	-255	-188	0
0	120	86	Year-to-date profit included in core capital (50% pre tax)	126	128	0
936	922	898	Hybrid capital, core capital	1,114	1,022	1,106
0	800	0	State Finance Fund, core capital	0	800	0
6,037	**5,679**	**6,158**	**Total core capital**	**7,330**	**6,880**	**7,283**
			Supplementary capital in excess of core capital			
0	16	0	Hybrid capital, supplementary capital	0	0	0
0	0	0	State Finance Fund, supplementary capital	0	0	0
466	456	452	Perpetual subordinated capital	452	456	466
1,358	1,278	1,306	Non-perpetual subordinated capital	1,571	1,674	1,680
-348	-374	-343	50 % deduction for subordinated capital in other financial institutions	0	0	0
-208	-218	-140	50 % deduction for expected losses on IRB, net of write-downs	-90	-218	-216
0	0	0	50 % capital adequacy reserve	-626	-374	-571
1,268	**1,158**	**1,276**	**Total supplementary capital**	**1,308**	**1,539**	**1,360**
7,305	**6,837**	**7,434**	**Net subordinated capital**	**8,638**	**8,418**	**8,643**
			Minimum requirements subordinated capital, Basel II			
1,386	1,274	1,389	Involvement with spesialised enerprises	1,389	1,274	1,386
1,115	1,112	1,161	Other corporations exposure	1,168	1,116	1,120
66	53	62	SME exposure	64	55	68
311	308	298	Retail morgage exposure	450	442	451
33	46	31	Other retail exposure	32	47	34
496	709	568	Equity investments	0	147	0
3,406	**3,501**	**3,509**	**Total credit risk IRB**	**3,103**	**3,080**	**3,058**
165	0	176	Debt risk	176	0	165
46	50	44	Equity risk	15	15	15
0	0	0	Currency risk	0	0	0
275	275	293	Operational risk	400	331	331
537	373	532	Exposures calculated using the standardised approach	1,949	1,640	1,864
-59	-63	-58	Deductions	-106	-67	-98
0	0	0	Transitional arrangements	0	0	0
4,371	**4,137**	**4,497**	**Minimum requirements subordinated capital**	**5,537**	**4,999**	**5,335**
			Capital adequacy			
11.05 %	10.98 %	10.95 %	Core capital ratio	10.59 %	11.01 %	10.93 %
13.37 %	13.22 %	13.22 %	Capital adequacy ratio	12.48 %	13.47 %	12.97 %

Note 11 - Account by business line

	Group 31 March 2011								
Profit and loss account (NOK million)	**RM**	**CM**	**Markets**	**EM 1**	**SP1F**	**Allegro**	**MNR**	**Uncollated**	**Total**
Net interest	134	191	4	1	22	-	-	-25	327
Allocated	10	27	1	-	-	-	-	-37	0
Total interest income	**144**	**218**	**4**	**1**	**22**	**-**	**-**	**-63**	**327**
Commission income and other income	89	36	4	64	2	3	18	5	221
Net return on financial investments **)	1	5	12	0	0	0	-	100	118
Total income *)	**234**	**259**	**21**	**65**	**24**	**3**	**18**	**43**	**666**
Total operating expenses	**150**	**86**	**20**	**52**	**12**	**4**	**16**	**8**	**348**
Ordinary operating profit	**84**	**173**	**0**	**12**	**13**	**-1**	**2**	**35**	**318**
Loss on loans, guarantees etc.	1	-11	0	0	4	0	0	0	-6
Result before tax	**83**	**183**	**0**	**12**	**9**	**-1**	**2**	**35**	**325**
Post-tax return on equity	**22.7 %**	**18.9 %**							**13.2 %**
Balance (NOK million)									
Loans and advances to customers	47,919	36,485	-	-	2,954	-	-	1,249	88,606
adv. of this to Boligkreditt	-19,118	-229	-	-	-	-	-	-706	-20,054
Individual allowance for impairment on loan	-29	-153	-	-	-35	-	-	-	-217
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	194	158	-	89	-2,436	16	15	28,372	26,409
Total assets	**28,966**	**36,261**	**-**	**89**	**466**	**16**	**15**	**28,642**	**94,455**
Deposits to customers	19,317	21,801	-	-	-	-	-	1,782	42,900
Other liabilities and equity	9,649	14,460	-	89	466	16	15	26,859	51,555
Total liabilites	**28,966**	**36,261**	**-**	**89**	**466**	**16**	**15**	**28,642**	**94,455**

					Group 31 March 2010				
Profit and loss account (NOK million)	**RM**	**CM**	**Markets**	**EM 1**	**SP1F**	**Allegro**	**MNR**	**Uncollated**	**Total**
Net interest	129	175	3	1	25	-	-	-32	300
Allocated	4	10	0	-	-	-	-	-14	0
Total interest income	**133**	**185**	**3**	**1**	**25**	**-**	**-**	**-46**	**300**
Commission income and other income	88	30	4	52	1	3	14	2	194
Net return on financial investments **)	0	2	7	0	0	0	-	26	36
Total income *)	**220**	**217**	**14**	**53**	**26**	**3**	**14**	**-18**	**529**
Total operating expenses	**138**	**80**	**19**	**47**	**7**	**4**	**6**	**-95**	**206**
Ordinary operating profit	**82**	**137**	**-5**	**6**	**19**	**-1**	**8**	**77**	**323**
Loss on loans, guarantees etc.	3	53	0	0	12	0	0	40	68
Result before tax	**79**	**84**	**-5**	**6**	**7**	**-1**	**8**	**37**	**255**
Post-tax return on equity	**21.4 %**	**8.8 %**							**12.1 %**
Balance (NOK million)									
Loans and advances to customers	43,823	31,597	-	-	2,813	-	-	1,327	79,560
adv. of this to Boligkreditt	-16,883	-265	-	-	-	-	-	-525	-17,673
Individual allowance for impairment on loan	-40	-157	-	-	-30	-	-	-40	-267
Group allowance for impairment on loan	-108	-165	-	-	-18	-	-	0	-292
Other assets	266	145	-	100	44	14	12	23,049	23,630
Total assets	**27,058**	**31,154**	**-**	**100**	**2,808**	**14**	**12**	**23,811**	**84,958**
Deposits to customers	18,422	18,816	-	-	-	-	-	368	37,606
Other liabilities and equity	8,636	12,338	-	100	2,808	14	12	23,442	47,351
Total liabilites	**27,058**	**31,154**	**-**	**100**	**2,808**	**14**	**12**	**23,811**	**84,958**

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

**) Specification of net return on financial investments (NOKm)	31 March 2011	31 March 2010
Income from investment in related companies	54	41
adv. of this from SpareBank1 Gruppen	31	22
adv. of this from BN Bank ASA	14	13
adv. of this from Bank 1 Oslo	4	7
Net gain and dividends on securities	30	-10
adv. of this from Midt-Norge Invest	21	-12
Net gain on bonds	25	-3
Net gain on trading and derivatives SMN Markets	10	8
Net return on financial investments	118	36

Note 12 - Critical estimates and assessments 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%.

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% of pensionable income capped at 7.1 G up to age 62. Accumulation under the new scheme is calculated with reference to the employee's lifetime income, such that all previous working years are included in the qualifying basis.

For accounting purposes the new AFP scheme is regarded as a defined benefit multi-employer scheme. This entails that each employer accounts for its pro rata share of the scheme's pension obligation, pension assets and pension cost. If no calculations of the individual components of the scheme and a consistent and reliable basis for allocation are available, the new AFP scheme will be accounted for as a defined-contribution scheme. At the present time no such basis exists, and the new AFP scheme is accordingly accounted for as a defined-contribution scheme. The new AFP scheme will only be accounted for as a defined-benefit scheme once reliable measurement and allocation can be undertaken. Under the new scheme, one-third of the pension expenses will be funded by the State, two-thirds by the employers. The employers' premium will be fixed as a percentage of salary payments between 1 G and 7.1 G.

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

Takeover of shares in Polaris Media ASA

On 28 March 2011 SpareBank 1 SMN took over 18.81% of the shares of Polaris Media ASA. The shares, which had been posted as security for debt, were acquired by the Bank as a result of the debtor's bankruptcy. The SpareBank 1 SMN Group accordingly holds 23.45% of the shares of Polaris Media ASA, with voting rights up to 20%. The Group consequently classifies this ownership interest as an affiliate and accounts for the investment using the equity method.

The shares are taken over at a value of NOK 27 per share, plus dividend of NOK 1.50. Dividend payout is expected in the second quarter.

A purchase analysis has been prepared in accordance with IFRS 3 in which identifiable assets and liabilities are measured at fair value at the time of acquisition. The difference between the Group's acquisition cost and the book value of net assets in Polaris Media ASA is allocated in the consolidated accounts to the shares of Finn.no AS, Avisa Nordland AS, business properties and future pension liabilities. The analysis builds on valuations conducted by external parties.

Note 13 - Measurement of fair value of financial instruments

Pursuant to IAS 34 Interim Financial Reporting, paragraph 15 B, a disclosure obligation applies in respect of changes between levels in the fair value hierarchy. In Q1 2011 the shares of Norway Royal Salmon ASA were transferred from level 3 to level 1 due to stock exchange listing. The overview below shows changes in the values presented in the note as of 31 December 2010, and the market value recorded in the consolidated accounts as of 31.03.2011, In the annual accounts for 2010 this is presented in note 22 Measurement of fair value of financial instruments.

Period	Type of investment	Level 1 31.12.2010	Level 2 31.12.2010	Level 3 31.12.2010	Book value Q1 2011
Q1 2011	Equity instruments available for sale	23	-	-23	32
Total		**23**	**-**	**-23**	**32**