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Note 1 - Accounting principles

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

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

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

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

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

Pensions

The banking and financial industry has established an agreement on contractual early retirement (AFP) for employees reaching the age of 62. The Bank's contribution comprises the National Insurance Scheme's accumulation of disbursed pension for employees availing themselves of AFP. From age 62 to 64 the Bank's liability is 100 percent and 60 percent of the pension paid from age 65 to age 67. Admission of new retirees ceased with effect from 31 December 2010.

The Act relating to state subsidies in respect of employees who take out contractual pension in the private sector (AFP Subsidies Act) entered into force on 19 February 2010. Employees who take out AFP with effect in 2011 or later will receive benefits under the new scheme. The new AFP scheme represents a lifelong add-on to National Insurance and can be taken out from age 62. Employees accumulate AFP entitlement at an annual rate of 0.314 percent of pensionable income capped at 7.1 G up to age 62. Accumulation under the new scheme is calculated with reference to the employee's lifetime income, such that all previous working years are included in the qualifying basis.

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

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

Guarantee agreement with BN Bank

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

Note 3 - Account by business line

Group 31 March 2012

Profit and loss account (NOK million)	RM	CM	Markets	EM 1	SMN Finans	Allegro	SMN Regnskap	Uncollated	Total
Net interest	125	214	1	1	30	0	-0	-19	351
Allocated	1	4	0	-	-	-	-	-5	-
Total interest income	**126**	**218**	**1**	**1**	**30**	**0**	**-0**	**-24**	**351**
Commission income and other income	89	32	2	72	-1	3	26	13	235
Net return on financial investments **)	0	7	18	0	0	-	1	135	160
Total income *)	**215**	**257**	**21**	**73**	**30**	**3**	**27**	**123**	**746**
Total operating expenses	**163**	**100**	**21**	**59**	**13**	**4**	**22**	**17**	**398**
Ordinary operating profit	**52**	**157**	**0**	**14**	**16**	**-1**	**6**	**106**	**349**
Loss on loans, guarantees etc.	-1	8	-	-	2	-	-	0	8
Result before tax	**53**	**149**	**0**	**14**	**14**	**-1**	**6**	**106**	**340**
Post-tax return on equity	**16.4 %**	**11. 6%**	**0.0 %**						**13.0 %**
Balance (NOK million)									
Loans and advances to customers	53,538	39,295	-	-	2,968	-	-	1,587	97,387
Adv. of this to SpareBank 1 Boligkreditt	-24,215	-617	-	-	-	-	-	-874	-25,706
Individual allowance for impairment on loan	-30	-112	-	-	-22	-	-	0	-164
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	247	565	-	98	-2,463	6	38	29,327	27,803
Total assets	**29,540**	**39,131**	**-**	**98**	**466**	**6**	**38**	**29,766**	**99,030**
Deposits to customers	21,386	25,458	-	-	-	-	-	1,027	47,871
Other liabilities and equity	8,154	13,673	-	98	466	6	38	28,739	51,159
Total liabilites	**29,540**	**39,131**	**-**	**98**	**466**	**6**	**38**	**29,766**	**99,030**

Group 31 March 2011

Profit and loss account (NOK million)	RM	CM	Markets	EM 1	SMN Finans	Allegro	SMN Regnskap	Uncollated	Total
Net interest	134	191	4	1	22	-	-	4	356
Allocated	10	27	1	-	-	-	-	-37	-
Total interest income	**144**	**218**	**4**	**1**	**22**	**-**	**-**	**-33**	**356**
Commission income and other income	89	36	4	64	2	3	18	5	221
Net return on financial investments **)	1	5	12	-	-	-	0	72	89
Total income *)	**234**	**259**	**21**	**65**	**24**	**3**	**18**	**44**	**666**
Total operating expenses	**151**	**86**	**19**	**52**	**12**	**4**	**16**	**8**	**348**
Ordinary operating profit	**82**	**173**	**1**	**12**	**13**	**-1**	**2**	**35**	**318**
Loss on loans, guarantees etc.	1	-11	-	-	4	-	-	0	-6
Result before tax	**82**	**184**	**1**	**12**	**9**	**-1**	**2**	**35**	**325**
Post-tax return on equity	**22.3 %**	**18.9 %**	**2.2 %**						**13.2 %**
Balance (NOK million)									
Loans and advances to customers	47,919	36,485	-	-	2,954	-	-	1,249	88,606
Adv. of this to SpareBank 1 Boligkreditt	-19,118	229	-	-	-	-	-	-706	-20,054
Individual allowance for impairment on loan	-29	-153	-	-	-35	-	-	0	-217
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-273	-290
Other assets	194	158	-	89	-2,436	16	15	59,372	26,441
Total assets	**28,966**	**36,261**	**-**	**89**	**466**	**16**	**15**	**28,642**	**94,486**
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	51,586
Total liabilites	**28,966**	**36,261**	**-**	**89**	**466**	**16**	**15**	**28,642**	**94,486**

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

**) Specification of net return on financial investments (NOKm)	31 Mar 2012	31 Mar 2011
Income from investment in related companies	99	54
adv. of this from SpareBank1 Gruppen	47	31
adv. of this from BN Bank ASA	15	14
adv. of this from Bank 1 Oslo Akershus AS	11	4
adv. of this SpareBank 1 Boligkreditt	14	6
adv. of this SpareBank 1 Næringskreditt	3	1
adv. of this Polaris Media	2	-
Net gain and dividends on securities	3	30
adv. of this from SpareBank 1 SMN Invest	4	21
Net gain on bonds	34	-4
Net gain on trading and derivatives SMN Markets	23	10
Net return on financial investments	160	89

Note 4 - Operating expenses

Parent bank				Group		
2011	31 Mar 2011	31 Mar 2012		31 Mar 2012	31 Mar 2011	2011
528	142	164	Personnel expenses	232	198	810
167	38	41	IT costs	46	42	185
23	6	6	Postage and transport of valuables	7	7	27
38	9	9	Marketing	12	12	50
38	9	10	Ordinary depreciation	23	21	87
119	29	28	Operating expenses, real properties	21	21	95
47	9	8	Purchased services	10	11	55
129	22	28	Other operating expenses	46	37	173
1,089	**263**	**295**	**Total operating expenses**	**398**	**348**	**1,482**

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Note 5 - Distribution of loans by sector/industry

Parent bank				Group		
2011	31 Mar 2011	31 Mar 2012		31 Mar 2012	31 Mar 2011	2011
5,027	4,394	5,390	Agriculture/forestry/fisheries/hunting	5,568	4,601	5,217
1,883	1,897	1,516	Sea farming industries	1,654	2,010	2,026
2,644	2,459	2,334	Manufacturing	2,574	2,714	2,881
2,113	2,134	3,392	Construction, power and water supply	3,856	2,574	2,572
2,147	2,258	2,021	Retail trade, hotels and restaurants	2,206	2,463	2,337
5,974	5,619	5,737	Maritime sector	5,744	5,624	5,978
12,662	13,219	11,774	Property management	11,272	12,754	12,179
3,573	2,825	3,355	Business services	3,584	3,131	3,867
1,808	1,220	2,283	Transport and other services provision	2,620	1,483	2,078
63	33	35	Public administration	64	72	92
969	608	1,411	Other sectors	1,428	610	971
38,861	**36,666**	**39,248**	**Gross loans in retail market**	**40,571**	**38,037**	**40,198**
54,058	49,719	55,808	Wage earners	56,816	50,569	55,034
92,919	**86,385**	**95,056**	**Gross loans incl. Boligkreditt /Næringskreditt**	**97,387**	**88,606**	**95,232**
22,126	20,054	25,706	Boligkreditt /Næringskreditt	25,706	20,054	22,126
70,793	**66,331**	**69,350**	**Gross loans in balance sheet**	**71,681**	**68,553**	**73,105**

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Note 6 - Losses on loans and guarantees

Parent bank				Group		
2011	**31 Mar 2011**	**31 Mar 2012**		**31 Mar 2012**	**31 Mar 2011**	**2011**
-36	-4	-9	Change in individual impairment losses provisions for the period	-8	-5	-50
0	0	0	Change in collective impairment losses provisions for the period	0	0	0
75	5	35	Actual loan losses on comm. for which provisions have been made	35	6	91
9	2	6	Actual loan losses on commitments for which no provision has been made	8	6	26
-37	-13	-26	Recoveries on commitments previously written-off	-27	-13	-39
12	**-10**	**7**	**Losses of the year on loans and guarantees**	**8**	**-6**	**27**

Note 7 - Losses

Parent bank				Group		
2011	31 Mar 2011	31 Mar 2012		31 Mar 2012	31 Mar 2011	2011
186	186	151	Individual write-downs to cover loss on loans at 01.01	172	222	222
9	6	24	+Increased write-downs on provisions previously written down	24	6	10
26	14	4	- Reversal of provisions from previous periods	4	15	28
57	10	6	+Write-downs on provisions not previosly written down	7	11	59
75	5	35	- Actual losses during the period for which provisions for individual impairment losses have been made previously	35	6	91
151	**182**	**142**	**Specification of loss provisions at end of period**	**164**	**217**	**172**
85	7	41	Actual losses	43	12	117

Note 8 - Defaults

Parent bank				Group		
2011	31 Mar 2011	31 Mar 2012		31 Mar 2012	31 Mar 2011	2011
			Total defaults			
272	362	265	Loans in default for more than 90 days *)	318	477	338
73	62	87	- Individual write-downs	94	96	89
199	300	178	Net defaults	224	382	249
27 %	17 %	33 %	Provision rate	30 %	20 %	26 %
			Problem Loans			
191	200	154	Problem loans (not in default)	183	202	204
77	120	55	- Individual write-downs	70	122	83
113	80	99	Net problem loans	113	81	121
41 %	60 %	36 %	Provision rate	38 %	60 %	41 %

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

Note 9 - Other assets

Parent bank				Group		
2011	31 Mar 2011	31 Mar 2012		31 Mar 2012	31 Mar 2011	2011
-	-	-	Deferred tax benefit	7	7	19
151	143	162	Fixed assets	1,179	1,070	1,089
-	-	-	Assets held for sale	620	407	481
956	859	881	Earned income not yet received	875	882	948
4	468	101	Accounts receivable, securities	101	468	4
30	147	41	Other assets	192	261	218
1,142	**1,616**	**1,185**	**Total other assets**	**2,974**	**3,096**	**2,759**

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Note 10 - Distribution of customer deposits by sector/industry

Parent bank				Group		
2011	**31 Mar 2011**	**31 Mar 2012**		**31 Mar 2012**	**31 Mar 2011**	**2011**
1,757	1,766	2,055	Agriculture/forestry/fisheries/hunting	2,055	1,766	1,757
402	601	511	Sea farming industries	511	601	402
1,079	950	960	Manufacturing	960	950	1,079
1,420	1,122	1,530	Construction, power and water supply	1,530	1,122	1,420
3,517	2,558	2,878	Retail trade, hotels and restaurants	2,878	2,558	3,517
1,103	601	943	Maritime sector	943	601	1,103
3,545	2,529	3,278	Property management	3,201	2,512	3,517
5,103	4,130	5,263	Business services	5,263	4,130	5,103
3,231	3,259	3,592	Transport and other services provision	3,432	3,146	3,036
3,920	3,662	3,689	Public administration	3,689	3,662	3,920
2,178	2,608	3,493	Other sectors	3,482	2,581	2,157
27,254	**23,787**	**28,193**	**Total**	**27,945**	**23,629**	**27,011**
20,860	19,271	21,029	Wage earners	21,029	19,271	20,860
48,114	**43,058**	**49,222**	**Total deposits**	**48,974**	**42,900**	**47,871**

Note 11 - Debt created by issue of securities

Parent bank				Group		
2011	31 Mar 2011	31 Mar 2012		31 Mar 2012	31 Mar 2011	2011
219	267	228	Short-term debt instruments, nominal value	228	267	219
27,681	24,783	25,126	Bond debt, nominal value	25,126	24,783	27,681
248	27	215	Value adjustments	215	27	248
28,148	**25,078**	**25,569**	**Total**	**25,569**	**25,078**	**28,148**

Change in securities debt, subordinated debt and hybrid equity

	31 Mar 2012	Issued	Fallen due / Redeemed	Other changes	**31 Mar 2011**
Short-term debt instruments, nominal value	228	51	42	-	219
Bond debt, nominal value	25,126	1,722	4,261	-15	27,681
Value adjustments	215	-	-	-34	248
Total	25,569	1,773	4,303	-49	28,148

	31 Mar 2012	Issued	Fallen due / Redeemed	Other changes	**31 Mar 2011**
Ordinary subordinated loan capital, nominal value	1,276	-	-	-74	1,349
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	878	-	-	-24	902
Value adjustments	122	-	-	-17	139
Total	2,576	-	-	-115	2,690

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Note 12 - Other liabilities

Parent bank				Group		
2011	31 Mar 2011	31 Mar 2012		31 Mar 2012	31 Mar 2011	2011
40	21	40	Deferred tax	55	31	55
215	157	20	Payable tax	40	164	244
913	795	741	Accrued expenses and received, non-accrued income	1,036	1,048	1,213
101	148	127	Provision for accrued expenses and commitments	127	149	102
-	-	-	Pension liabilities	7	6	7
113	48	104	Drawing debt	104	48	113
10	39	97	Creditors	149	77	38
20	71	781	Debt from securities	781	71	20
-	-	-	Debt available for sale	131	128	151
130	612	255	Other liabilities	225	607	177
1,544	**1,891**	**2,166**	**Total other liabilites**	**2,656**	**2,329**	**2,122**

Note 13 - Capital adequacy

New capital adequacy rules were introduced in Norway as from 1 January 2007 (Basel II - the EU's new directive on capital adequacy). SpareBank1 SMN applied to and received permission from Finanstilsynet (Financial Supervisory Authority of Norway) to use internal rating methods (Internal Rating Based Approach - Foundation) to calculate charges for credit risk from 1 January 2007 onwards. This will make the statutory minimum capital adequacy requirement more risk-sensitive, so that it better reflects the risk in the underlying portfolios. Using IRB demands high standards of the Bank's organisation, competence, risk models and risk management systems. Under interim regulations issued by Finanstilsynet, IRB banks are not yet seeing the full effect of the reduced capital requirements. As from 2009, a 20% reduction of the risk-weighted basis of calculation was allowed.

Subordinated debt and hybrid capital

Subordinated debt ranks behind all other liabilities. Dated subordinated loans cannot constitute more than 50 per cent of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans cannot constitute more than 100 per cent 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 per cent 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 per cent or total capital adequacy falls below 6 per cent. Written-down amounts on hybrid capital must be written up before dividends can be paid to shareholders or before equity capital is written up. Hybrid capital is shown as other long-term debt at amortised cost.

For detailed information regarding subordinated debt and hybrid capital, see note 34 in the Bank's annual report.

Parent bank				Group		
2011	31 Mar 2011	31 Mar 2012		31 Mar 2012	31 Mar 2011	2011
2,373	2,373	2,373	Equity capital certificates	2,373	2,373	2,373
0	0	0	- Own holding of ECCs	0	0	0
183	182	183	Premium fund	183	182	183
1,457	1,160	1,457	Dividend equalisation fund	1,457	1,160	1,457
2,611	2,345	2,611	Savings bank's reserve	2,611	2,345	2,611
190	-	-	Recommended dividends	-	-	190
40	-	-	Provision for gifts	-	-	40
70	45	70	Unrealised gains reserve	92	75	85
-	-	0	Other equity and minority interest	1,404	1,250	1,409
-	172	173	Net profit	272	255	-
6,924	**6,276**	**6,867**	**Total book equity**	**8,393**	**7,639**	**8,348**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-678	-643	-692
-	-	-	Part of reserve for unrealised gains, associated companies	64	65	64
-230	-	-0	Deduction for allocated dividends and gifts	-	-	-230
-387	-343	-403	50 % deduction for subordinated capital in other financial institutions	-	-	-
-137	-140	-146	50 % deduction for expected losses on IRB, net of write-downs	-158	-90	-147
-	-	-	50 % capital adequacy reserve	-651	-626	-656
-	-	-82	Surplus financing of pension obligations	-74	-	-
-	-172	-173	Net profit	-272	-255	-
-	86	87	Year-to-date profit included in core capital (50% pre tax)	136	126	-
956	898	927	Hybrid capital, core capital	1,143	1,114	1,170
6,680	**6,158**	**6,630**	**Total core capital**	**7,902**	**7,330**	**7,856**
			Supplementary capital in excess of core capital			
-	-	-	State Finance Fund, supplementary capital	-	-	-
326	452	316	Perpetual subordinated capital	318	452	328
1,409	1,306	1,333	Non-perpetual subordinated capital	1,598	1,571	1,674
-387	-343	-403	50 % deduction for subordinated capital in other financial institutions	-	-	-
-137	-140	-146	50 % deduction for expected losses on IRB, net of write-downs	-158	-90	-147
-	-	-	50 % capital adequacy reserve	-651	-626	-656
1,211	**1,276**	**1,100**	**Total supplementary capital**	**1,107**	**1,308**	**1,199**
7,891	**7,434**	**7,730**	**Net subordinated capital**	**9,008**	**8,638**	**9,055**
			Minimum requirements subordinated capital, Basel II			
1,456	1,389	1,466	Involvement with spesialised enterprises	1,466	1,389	1,456
1,313	1,161	1,519	Other corporations exposure	1,519	1,168	1,313
40	62	40	SME exposure	43	64	42
324	298	306	Retail morgage exposure	518	450	513
31	31	30	Other retail exposure	32	32	33
653	568	832	Equity investments	-	-	-
3,818	**3,509**	**4,192**	**Total credit risk IRB**	**3,578**	**3,103**	**3,357**
182	176	206	Debt risk	206	176	182
49	44	49	Equity risk	16	15	16
-	-	-	Currency risk	-	-	-
293	293	315	Operational risk	420	400	400
653	532	506	Exposures calculated using the standardised approach	2,018	1,949	2,184
-65	-58	-67	Deductions	-110	-106	-111
-	-	-	Transitional arrangements	-	-	-
4,930	**4,497**	**5,200**	**Minimum requirements subordinated capital**	**6,127**	**5,537**	**6,029**
			Capital adequacy			
10.84 %	10.95 %	10.20 %	Core capital ratio	10.32 %	10.59 %	10.43 %
12.81 %	13.22 %	11.89 %	Capital adequacy ratio	11.76 %	12.48 %	12.02 %