

Notes

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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) approved by EU, including IAS 34, Interim Financial Reporting. 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 2014. Further, the Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts, except:

IFRIC 21 Levies

Wealth tax

The interpretation addresses when to recognise a liability to pay levies. For SpareBank 1 SMN this brings a change in the treatment of wealth tax. Wealth tax is calculated on the bank's assets at year-end and is therefore recognised in December of the accounting year. In previous years this was done monthly on an accruals basis.

Guarantee Fund levy

The levy to the Banks' Guarantee Fund is normally based on previous quarters' average guaranteed deposits and average risk weighted assets. The question of whether withdrawing from the guarantee fund arrangement will entail a refund of levy paid in excess is not regulated. In practice a pro rata charge has been made upon enrolment. This practice and consistency of treatment suggest a pro rata approach upon withdrawal. The Ministry of Finance will settle the matter by administrative decision. This has a bearing on when the levy is to be recognised in the accounts. In 2015 SpareBank 1 SMN has continued its earlier practice of accrual on a monthly basis.

SpareBank 1 SMN implemented IFRIC 21 on 1 January 2015.

Other changes

The Group has changed its presentation of accrued interest as from the first quarter of 2015. Accrued interest is now presented together with the underlying financial instrument. It was previously presented as other assets and other liabilities. Historical figures for 2014 are similarly restated.

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

When preparing the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This consequently 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 3 Critical estimates and assessments concerning the use of accounting principles.

Pensions

A new calculation is available for the Group's pension obligations as of 31 December 2015. For a further description of the various pension schemes, see note 25 in the 2014 annual report. The Group's pension obligations are accounted for under IAS 19R. Estimate variances are therefore entered directly against equity capital and are presented under other income and expenses.

Actuarial assumptions	31 Dec 2014	1 January 2015	31 Dec 2015
Discount rate	2.30 %	2.30 %	2.70 %
Expected rate of return on plan assets	2.30 %	2.30 %	2.70 %
Expected future wage and salary growth	2.50 %	2.50 %	2.25 %
Expected adjustment on basic amount (G)	2.50 %	2.50 %	2.50 %
Expected increase in current pension	0.00 %	0.00 %	0.00 %
Employers contribution	14.10 %	14.10 %	14.10 %

Demographic assumptions:

Mortality base table	K2013 BE
Disability	IR73
Voluntary exit	2% to 50 year, 0% after 50 year

Movement in net pension liability in the balance sheet Group (NOKm)	Funded	Unfunded	Total
Net pension liability in the balance sheet 1.1	1	25	26
Actuarial gains/losses 1 January	-8	-	-8
Actuarial gains/losses 31 December	-107	-1	-108
Net defined-benefit costs in profit and loss account	32	2	34
Paid in pension premium, defined-benefit schemes	-36	-	-36
Paid in pension premium, defined-benefit plan	-	-1	-1
Net pension liability in the balance sheet 31 December 2015	-119	25	-94

Net pension liability in the balance sheet Group (NOKm)	31 Dec 2015	31 Dec 2014
Net present value of pension liabilities in funded schemes	711	768
Estimated value of pension assets	-808	-746
Net pension liability in the balance sheet before employer's contribution	-97	22
Employers contribution	4	4
Net pension liability in the balance sheet	-94	26

Pension cost Group (NOKm)	31 Dec 2015	31 Dec 2014
Present value of pension accumulated in the year	28	26
Net interest income	-0	-2
Net pension cost related to defined plans, incl unfunded pension commitment	28	23
Employer's contribution subject to accrual accounting	5	4
Cost of defined contribution pension and early retirement pension scheme, new arrangement	42	35
Total pension cost	75	62

Takeover of shares of SpareBank 1 Markets

Markets SpareBank 1 SMN integrated its markets business with SpareBank 1 Markets against settlement in shares on 1 April 2015. SpareBank 1 SMN accordingly owns 73.4 per cent (27.3 per cent) of the shares of SpareBank 1 Markets and the company is consolidated as from the second quarter of 2015. The stake was increased to 73.46 per cent in the fourth quarter as a result of a stock issue. Other owners are SpareBank 1 Nord-Norge (10.0 per cent), Samarbeidende Sparebanker (10.0 per cent), Sparebanken Hedmark (6.1 per cent)

and other owners (0.6 per cent). The owners wish to strengthen a fully-fledged range of products and services in their market segment, and to achieve coordination gains.

An acquisition analysis has been prepared in accordance with IFRS 3 in which identifiable assets and liabilities are valued at their fair value on the acquisition date. The difference between the Group's acquisition cost and the book value of the net assets of SpareBank 1 Markets results in an income recognition of about NOK 20 million in the Group accounts for the second quarter. In addition a new cost price is established for previous assets resulting in an income recognition of about NOK 16 million in the Group accounts. In the parent bank's accounts, sale of the markets business entails the recognition of NOK 183 million as income. In addition, the shareholding in SpareBank 1 SMN Markets is written down by NOK 28 million at the parent bank.

Stake in SpareBank 1 Finans Midt-Norge reduced

As of June 2015 the subsidiary SpareBank 1 Finans Midt-Norge acquired eight new SamSpar banks as new partners and owners. Sparebank 1 Nordvest and Sparebank 1 Søre Sunnmøre were already on the owner side, so that Samarbeidende Sparebanker now has a stake of 27.9 per cent. SpareBank 1 SMN reduced its holding in the company from 90.1 per cent to 72.1 per cent. With Samarbeidende Sparebanker on the owner side, the company has a presence in ten different counties dispersed across Mid- and South Norway, Nord-Trøndelag and Sør-Trøndelag, Møre and Romsdal, Sogn and Fjordane, Oppland, Buskerud, Telemark, Akershus, Vestfold and Østfold.

Unrealised gain at Visa Norge FLI as a result of sale of Visa Europa to Visa Inc

On 2 November 2015 an agreement was announced between Visa Europe Ltd. and Visa Inc. whereby Visa Inc. acquires all shares of Visa Europe. The transaction comprises a cash consideration of EUR 11.5 billion, convertible preference shares estimated as of the announcement date at EUR 5.0 billion, and a contingent cash consideration of up to EUR 4.7 billion, to be disbursed four years after completion of the transaction. Completion of the transaction is subject to approval by the competition authorities of the EU and Jersey and will take place in the second quarter of 2016.

SpareBank 1 SMN is a member of the association Visa Norge FLI ("Visa Norge"), which is a shareholder of Visa Europe Ltd. If completed, the transaction will significantly increase the book value of Visa Norge's equity capital. SpareBank 1 SMN has received information from Visa Norge giving a preliminary estimate of expected proceeds of the sale accruing to Visa Norge. The estimate is uncertain and is based on various assumptions. The principle for allocating proceeds between members of Visa Norge has yet to be finally decided, but Visa Norge has clarified its intention to allocate the proceeds to its members, and indicated that the members' proportion of voting rights in Visa Norge can be used for estimation purposes.

Following completion of the transaction, Visa Norge will receive its part of the compensation for the sale of the share. Only after a resolution from the board of Visa Norge will it be possible to distribute assets to the members of the association. Such distribution can accordingly take place in the second quarter of 2016 at the earliest.

SpareBank 1 SMN has thoroughly reviewed the accounting treatment of the transaction, including assessments regarding the liquidity of the preference shares expected to be awarded, share price risk, foreign exchange risk, tax risk and implementation risk inherent in the transaction. The calculated fair value includes no value of the contingent cash consideration which may be disbursed four years after completion of the transaction since the conditions underlying any such future disbursement are thus far not known. The owner interest in Visa Norge FLI is deemed to be a financial asset and classified in the category 'available for sale'.

According to IAS 39.46, assets classified as available for sale shall be measured at fair value – but only if fair value can be reliably measured. SpareBank 1 SMN has recognised its share of the expected consideration as an unrealised change in fair value. The estimate of the consideration which will be received in the second quarter of 2016 is subject to great uncertainty and may change in the period to disbursement. SpareBank 1 SMN has recognised NOK 74.7 million as unrealised change in fair value of Visa Norge FLI against other comprehensive income (OCI) in the fourth quarter of 2015.

It is assumed that a distribution from Visa Norge to the participating banks will come under the exemption method such that the effect on other comprehensive income net of tax in the fourth quarter of 2015 will be NOK 74.1 million.

Note 3 - Account by business line

For the subsidiaries the figures refer to the respective company accounts, while for joint ventures incorporated by the equity method the Group's profit share is stated, after tax, as well as book value of the investment at group level.

The segment SB1 Markets comprises the subsidiary SpareBank 1 Markets as from the second quarter of 2015. SpareBank 1 Markets became a subsidiary on 1 April 2015 when SpareBank 1 SMN integrated its markets activity into SpareBank 1 Markets and at the same time increased its holding to 73.3 per cent. As a consequence, the result as of 31 December 2015 is solely the result for the second to fourth quarter. The stake was increased to 73.46 per cent in the fourth quarter as a result of a stock issue.

In the reporting on the first quarter of 2015 and previously, the segment Markets comprised SpareBank 1 SMN's own markets activity in the parent bank. The result for the first quarter of 2015 is now, in the second quarter, moved to the column 'uncollated'. For 2014 the segment Markets continues to comprise the bank's own markets activity.

Group 31 Dec 2015

Profit and loss account (NOKm)	RM	CM	SB1		SB 1	SB 1	SB1	BN	Uncollated	Total
			Markets	EM 1	Finans MN	Regnskaps- huset SMN				
Net interest	907	922	-2	4	154	-0	-	-	-112	1,872
Interest from the allocated capital	41	48	-	-	-	-	-	-	-89	-
Total interest income	948	971	-2	4	154	-0	-	-	-202	1,872
Commission income and other income	715	180	56	360	33	197	-	-	5	1,545
Net return on financial investments ***)	1	13	50	-	-	-	251	41	101	458
Total income *	1,663	1,164	104	364	187	197	251	41	-96	3,876
Total operating expenses	779	353	188	317	97	162	-	-	35	1,931
Ordinary operating profit	884	810	-85	47	91	35	251	41	-131	1,945
Loss on loans, guarantees etc.	11	151	-	-	8	-	-	-	-2	169
Result before tax including held for sale	873	659	-85	47	83	35	251	41	-129	1,776
Post-tax return on equity **)	15.8%	12.4%								10.7%
Balance (NOKm)										
Loans and advances to customers	84,981	37,226	-	-	4,376	-	-	-	796	127,378
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-32,061	-1,343	-	-	-	-	-	-	-	-33,404
Individual allowance for impairment on loan	-28	-146	-	-	-7	-	-	-	-2	-183
Group allowance for impairment on loan	-95	-264	-	-	-18	-	-	-	1	-376
Other assets	140	3	1,456	281	4	144	1,509	1,157	33,803	38,499
Total assets	52,937	35,476	1,456	281	4,355	144	1,509	1,157	34,598	131,914
Deposits to customers	33,534	30,367	-	-	-	-	-	-	188	64,090
Other liabilities and equity	19,402	5,108	1,456	281	4,355	144	1,509	1,157	34,410	67,824
Total liabilities	52,937	35,476	1,456	281	4,355	144	1,509	1,157	34,598	131,914

Group 31 Dec 2014

Profit and loss account (NOKm)	RM	CM	Markets	EM 1	SB 1		SB 1		BN	Uncollated	Total
					Finans	MN	Regnskaps- huset SMN	SB1 Gruppen			
Net interest	873	840	-9	5	130		6	-	-	-55	1,790
Interest from the allocated capital	40	67	-0	-	-		-	-	-	-107	-
Total interest income	913	906	-9	5	130		6	-	-	-162	1,790
Commission income and other income	762	159	19	359	-4		182	-	-	35	1.512
Net return on financial investments ***)	1	29	27	-	-		-	358	93	212	720
Total income *	1,675	1,095	37	364	126		188	358	93	85	4,021
Total operating expenses	809	318	58	313	50		148	-	-	93	1,789
Ordinary operating profit	867	777	-21	51	75		40	358	93	-7	2,232
Loss on loans, guarantees etc.	6	77	-	-	8		-	-	-	-2	89
Result before tax including held for sale	861	699	-21	51	68		40	358	93	-6	2,144
Post-tax return on equity **)	19.2%	10.0%									15.1%
Balance (NOKm)											
Loans and advances to customers	78,388	36,872	-	-	3,637		-	-	-	1,537	120,435
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-28,490	-1,366	-	-	-		-	-	-	-1	-29,857
Individual allowance for impairment on loan	-25	-139	-	-	-8		-	-	-	-0	-172
Group allowance for impairment on loan	-90	-188	-	-	-16		-	-	-	-0	-295
Other assets	240	457	-	284	11		139	1,421	1,201	32,218	35,936
Total assets	49,987	35,636	-	284	3,625		139	1,421	1,201	33,754	126,047
Deposits to customers	31,589	28,463	-	-	-		-	-	-	629	60,680
Other liabilities and equity	18,398	7,173	-	284	3,625		139	1,421	1,201	33,125	65,367
Total liabilities	49,987	35,636	-	284	3,625		139	1,421	1,201	33,754	126,047

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

**) As from the third quarter 2014, calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 13.5 percent to be in line with the capital plan.

***) Specification of net return on financial investments including held for sale (NOKm)	2015	2014
Capital gains/dividends, shares	62	202
Bonds and derivatives	-90	-66
Change in discount factor in fair value model for fixed interest loans	-64	-
Forex and fixed income business, Markets	102	57
Sum verdiendringer finansielle eiendeler	11	193
SpareBank 1 Gruppen	251	358
SpareBank 1 Boligkreditt	80	38
SpareBank 1 Næringskreditt	30	41
BN Bank	41	93
SpareBank 1 Kredittkort	21	2
Companies owned by SpareBank 1 SMN Invest	27	31
Other companies	-2	-34
Income from investment in related companies	448	527
Total	458	720

Note 4 - Operating expenses

Parent bank			Group	
31 Dec 2014	31 Dec 2015	(NOKm)	31 Dec 2015	31 Dec 2014
645	588	Personnel expenses	1,093	1,002
199	194	IT costs	240	223
21	18	Postage and transport of valuables	22	25
44	55	Marketing	96	81
40	41	Ordinary depreciation	104	109
119	123	Operating expenses, real properties	100	93
66	68	Purchased services	105	78
131	129	Other operating expenses	171	178
1,265	1,217	Total other operating expenses	1,931	1,789

Note 5 - Distribution of loans by sector/industry

Parent bank			Group	
31 Dec 2014	31 Dec 2015 (NOKm)		31 Dec 2015	31 Dec 2014
7,042	8,515	Agriculture, forestry, fisheries, hunting	8,674	7,158
1,213	1,485	Sea farming industries	1,807	1,367
2,069	2,387	Manufacturing	2,675	2,330
3,221	3,141	Construction, power and water supply	3,598	3,717
2,509	2,482	Retail trade, hotels and restaurants	2,666	2,671
5,616	6,043	Maritime sector	6,066	5,638
14,002	14,377	Property management	14,346	14,075
3,445	2,019	Business services	1,777	3,681
2,696	2,859	Transport and other services provision	3,355	3,141
280	192	Public administration	211	300
2,252	1,458	Other sectors	1,477	2,270
44,347	44,958	Gross loans in retail market	46,653	46,348
72,430	78,575	Wage earners	80,725	74,087
116,777	123,533	Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt	127,378	120,435
28,393	31,944	SpareBank 1 Boligkreditt	31,944	28,393
1,463	1,460	SpareBank 1 Næringskreditt	1,460	1,463
86,920	90,129	Gross loans in balance sheet	93,974	90,578

Note 6 - Losses on loans and guarantees

Parent bank

	31 Dec 2015			31 Dec 2014		
	RM	CM	Total	RM	CM	Total
Losses on loans and guarantees (NOKm)						
Change in individual impairment losses provisions for the period	2	9	11	-4	18	14
+ Change in collective impairment losses provisions for the period	-	80	80	-	-	-
+ Actual loan losses on commitments for which provisions have been made	7	58	65	10	41	51
+ Actual loan losses on commitments for which no provision has been made	8	4	12	12	16	28
- Recoveries on commitments previously written-off	6	3	9	12	-2	10
Losses of the year on loans and guarantees	11	148	159	6	77	83

Group

	31 Dec 2015			31 Dec 2014		
	RM	CM	Total	RM	CM	Total
Losses on loans and guarantees (NOKm)						
Change in individual impairment losses provisions for the period	3	9	11	-9	8	-1
+ Change in collective impairment losses provisions for the period	2	80	82	-	-	-
+ Actual loan losses on commitments for which provisions have been made	8	59	67	14	51	66
+ Actual loan losses on commitments for which no provision has been made	13	7	21	15	20	35
- Recoveries on commitments previously written-off	8	4	12	13	-2	11
Losses of the year on loans and guarantees	18	151	169	8	81	89

Note 7 – Write-downs for loss on loans and guarantees

Parent bank

	31 Dec 2015			31 Dec 2014		
	RM	CM	Total	RM	CM	Total
Individual write-downs (NOKm)						
Individual write-downs to cover loss on loans and guarantees at 1.1*	25	139	164	28	122	150
- Actual losses during the period for which provisions for individual impairment losses have been made previously	7	58	65	10	41	51
- Reversal of provisions from previous periods	2	40	43	6	13	19
+ Increased write-downs on provisions previously written down	1	21	22	1	0	2
+ Write-downs on provisions not previously written down	10	86	96	11	72	83
Individual write-downs to cover loss and guarantees	27	148	174	25	139	164

*) Individually assessed impairment write-downs on guarantees, totalling NOK 1.4m, are shown in the balance sheet as a liability under 'Other liabilities'

	31 Dec 2015			31 Dec 2014		
	RM	CM	Total	RM	CM	Total
Collective write-downs (NOKm)						
Collective write-downs to cover loss on loans, guarantees at 01.01	90	188	278	90	188	278
Period's collective write-downs to cover loss on loans, guarantees etc	-	80	80	-	-	-
Collective write-downs to cover loss on loans and guarantees	90	268	358	90	188	278

Group

	31 Dec 2015			31 Dec 2014		
	RM	CM	Total	RM	CM	Total
Individual write-downs (NOKm)						
Individual write-downs to cover loss on loans and guarantees at 1.1*	27	145	172	36	137	173
- Actual losses during the period for which provisions for individual impairment losses have been made previously	8	59	67	14	51	66
- Reversal of provisions from previous periods	3	42	46	7	15	22
+ Increased write-downs on provisions previously written down	1	21	22	1	1	2
+ Write-downs on provisions not previously written down	13	88	101	11	73	84
Individual write-downs to cover loss and guarantees	30	153	183	27	145	172

*) Individually assessed impairment write-downs on guarantees, totalling NOK 1.4m, are shown in the balance sheet as a liability under 'Other liabilities'

	31 Dec 2015			31 Dec 2014		
	RM	CM	Total	RM	CM	Total
Collective write-downs (NOKm)						
Collective write-downs to cover loss on loans, guarantees at 1.1	94	201	295	94	201	295
Period's collective write-downs to cover loss on loans, guarantees etc	2	80	82	-	-	-
Collective write-downs to cover loss on loans and guarantees	96	281	376	94	201	295

Note 8 – Defaults and problem loans

Parent bank

	31 Dec 2015			31 Dec 2014		
	RM	CM	Total	RM	CM	Total
Total defaults (NOKm)						
Loans in default for more than 90 days *)	133	38	171	134	90	224
- Individual write-downs	15	8	23	18	45	63
Net defaults	119	30	148	116	45	162
Provision rate	11 %	22 %	13 %	13 %	50 %	28 %
Problem loans						
Problem loans (not in default)	45	341	387	15	193	208
- Individual write-downs	13	138	151	7	95	101
Net problem loans	32	204	236	9	98	107
Provision rate	29 %	40 %	39 %	43 %	49 %	49 %

*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q4

Group

	31 Dec 2015			31 Dec 2014		
	RM	CM	Total	RM	CM	Total
Total defaults (NOKm)						
Loans in default for more than 90 days *)	155	50	205	156	114	270
- Individual write-downs	17	9	26	21	46	67
Net defaults	138	41	179	135	67	203
Provision rate	11 %	18 %	13 %	13 %	41 %	25 %
Problem loans						
Problem loans (not in default)	49	350	399	16	201	216
- Individual write-downs	14	142	157	7	98	105
Net problem loans	34	208	242	9	102	111
Provision rate	30 %	41 %	39 %	43 %	49 %	49 %

*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q4

Note 9 - Other assets

Parent bank		(NOKm)	Group	
31 Dec 2014	31 Dec 2015		31 Dec 2015	31 Dec 2014
-	33	Deferred tax benefit	187	44
162	153	Fixed assets	1,065	1,120
31	23	Earned income not yet received	39	39
8	3	Accounts receivable, securities	200	8
6	124	Pensions	125	6
89	95	Other assets	381	292
297	431	Total other assets	1,996	1,509

Note 10 - Distribution of customer deposits by sector/industry

Parent bank			Group	
31 Dec 2014	31 Dec 2015	(NOKm)	31 Dec 2015	31 Dec 2014
2,354	2,541	Agriculture, forestry, fisheries, hunting	2,541	2,354
402	674	Sea farming industries	674	402
2,359	2,518	Manufacturing	2,518	2,359
2,117	2,164	Construction, power and water supply	2,164	2,117
4,221	4,116	Retail trade, hotels and restaurants	4,116	4,221
2,346	1,994	Maritime sector	1,994	2,346
4,051	4,295	Property management	4,099	3,919
4,540	4,836	Business services	4,836	4,540
4,488	4,643	Transport and other services provision	4,138	4,131
5,254	7,221	Public administration	7,221	5,254
2,574	1,755	Other sectors	1,454	2,542
34,706	36,756	Total	35,754	34,184
26,496	28,336	Wage earners	28,336	26,496
61,202	65,091	Total deposits	64,090	60,680

Note 11 - Debt created by issue of securities

Parent bank			Group	
31 Dec 2014	31 Dec 2015 (NOKm)		31 Dec 2015	31 Dec 2014
820	-	Short-term debt instruments, nominal value	-	820
30,981	34,014	Bond debt, nominal value	34,014	30,981
830	775	Value adjustments	775	830
370	365	Accrued interest	365	370
33,001	35,154	Total	35,154	33,001

Change in securities debt, subordinated debt and hybrid equity (NOKm)

	31 Dec 2015	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2014
Short-term debt instruments, nominal value	-	-	820	-	820
Bond debt, nominal value	34,014	8,392	6,320	961	30,981
Value adjustments	775	-	-	-55	830
Accrued interest	365	-	-	-4	370
Total	35,154	8,392	7,140	902	33,001

Change in subordinated debt and hybrid equity (NOKm)

	31 Dec 2015	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2014
Ordinary subordinated loan capital, nominal value	1,660	-	-	102	1,558
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	1,400	-	-	-	1,400
Value adjustments	89	-	-	-8	98
Accrued interest	14	-	-	-1	15
Total	3,463	-	-	93	3,371

Note 12 - Other liabilities

Parent bank			Group	
31 Dec 2014	31 Dec 2015	(NOKm)	31 Dec 2015	31 Dec 2014
32	-	Deferred tax	21	45
363	420	Payable tax	459	398
10	13	Capital tax	13	10
66	70	Accrued expenses and received, non-accrued income	303	190
79	78	Provision for accrued expenses and commitments	78	79
25	25	Pension liabilities	31	32
74	46	Drawing debt	46	74
5	6	Creditors	39	33
-	61	Debt from securities	145	-
-	-	Equity instruments	394	-
191	150	Other liabilities	204	234
846	868	Total other liabilities	1,734	1,095

Note 13 - Capital adequacy

The Ministry of Finance adopted on 22 August 2014 amendments to regulations on capital requirements taking effect on 30 September 2014. The amendments bring Norwegian legislation into line with the EU's new capital requirements framework (CRR/CRD IV). This framework is for the present not incorporated into the EEA agreement, although its most important provisions have been incorporated in the Financial Institutions Act and the Securities Trading Act. The adjusted legislation entered into force on 1 July 2013, and requires a gradual increase in minimum requirements on Common Equity Tier 1 (CET1) capital in the period to 1 July 2016.

As of 31 December 2015 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3 per cent and countercyclical buffer is 1 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 11 per cent. The countercyclical buffer is announced to increase to 1.5 per cent with effect from 30 June 2016.

SpareBank 1 SMN utilises the Internal Rating Based Approach (IRB) for credit risk. Use of IRB imposes wide-ranging requirements on the bank's organisational set-up, competence, risk models and risk management systems. As from 31 March 2015 the bank has received permission to apply the Advanced IRB Approach to those corporate portfolios that were previously reported under the Basic Indicator Approach.

SpareBank 1 SMN has reviewed the intention for the bond portfolios and on that basis reclassified certain portfolios from trading to banking in the first quarter of 2015. This is reflected in reduced debt risk and increased credit risk under the standardised approach.

In connection with changed requirements on conditions governing hybrid capital, hybrid capital not meeting the new requirements over time will not be eligible as other core capital. The bonds will be subject to a stepwise reduction of 30 per cent in 2015 and 10 per cent thereafter. As at 31 December 2015 SpareBank 1 SMN held hybrid capital worth NOK 450m that will be subject to stepwise reduction. Finanstilsynet may require the hybrid capital to be written down in proportion to equity capital if the bank's CET1 capital ratio falls below 5.125 per cent.

The parent bank calculates capital charges against operational risk using the standardised approach. In the case of subsidiaries, the basic indicator approach is applied.

Parent bank			Group	
31 Dec 2014	31 Dec 2015	(NOKm)	31 Dec 2015	31 Dec 2014
2,597	2,597	Equity capital certificates	2,597	2,597
0	0	- Own holding of ECCs	-21	-0
895	895	Premium fund	895	895
3,122	3,790	Dividend equalisation fund	3,790	3,122
3,619	4,105	Savings bank's reserve	4,105	3,619
292	292	Recommended dividends	292	292
160	40	Provision for gifts	40	160
139	279	Unrealised gains reserve	290	148
-	-	- Other equity	1,597	1,620
-	-	- Minority interests	318	72
10,824	11,998	Total book equity	13,904	12,524
-447	-447	Deferred taxes, goodwill and other intangible assets	-662	-566
-	-	- Part of reserve for unrealised gains, associated companies	264	120
-452	-332	Deduction for allocated dividends and gifts	-332	-452
-	-	- Minority interests recognised in other equity capital	-318	-72
-	-	- Minority interests eligible for inclusion in CET1 capital	132	35
-4	-93	Surplus financing of pension obligations	-43	-
-31	-33	Value adjustments due to requirements for prudent valuation	-55	-45
-325	-164	Positive value of adjusted expected loss under IRB Approach	-239	-419
-	-	- Direct, indirect and synthetic investments in financial sector companies	-458	-451
9,565	10,928	Total common equity Tier one	12,192	10,674
1,449	950	Hybrid capital, core capital	1,310	1,716
-	495	Hybrid capital covered by transitional provisions	495	-
-	-	- Direct, indirect and synthetic investments in financial sector companies	-9	-9
11,014	12,373	Total core capital	13,988	12,382

		Supplementary capital in excess of core capital		
1,906	1,000	Subordinated capital	1,647	2,598
-	786	Subordinated capital covered by transitional provisions	786	-
-43	-43	Direct, indirect and synthetic investments in financial sector companies	-43	-43
1,864	1,743	Total supplementary capital	2,390	2,555
12,878	14,116	Net subordinated capital	16,378	14,937
		Minimum requirements subordinated capital		
1,632	1,027	Involvement with specialised enterprises	1,213	1,887
1,331	1,049	Other corporations exposure	1,105	1,371
829	1,093	Mass market exposure, property	1,557	1,280
149	157	Mass market exposure, SMEs	167	159
49	38	Other retail exposure	40	51
1,111	1,221	Equity investments	0	0
5,102	4,585	Total credit risk IRB	4,082	4,748
397	64	Debt risk	64	397
-	-	Equity risk	10	1
-	-	Currency risk	-	0
292	316	Operational risk	457	416
849	922	Exposures calculated using the standardised approach	1,805	1,971
42	53	Credit value adjustment risk (CVA)	106	92
-	-	Transitional arrangements	634	-
6,682	5,939	Minimum requirements subordinated capital	7,157	7,625
83,523	74,243	Risk weighted assets (RWA)	89,465	95,317
3,759	3,341	Minimum requirement on CET1 capital, 4.5 per cent	4,026	4,289
		Capital Buffers		
2,088	1,856	Capital conservation buffer, 2.5 per cent	2,237	2,383
2,506	2,227	Systemic risk buffer, 3.0 per cent	2,684	2,860
	742	Countercyclical buffer, 1.0 per cent	895	
4,594	4,826	Total buffer requirements on CET1 capital	5,815	5,242
1,212	2,761	Available CET1 capital after buffer requirements	2,351	1,143
		Capital adequacy		
11.5 %	14.7 %	Common equity Tier one ratio	13.6 %	11.2 %
13.2 %	16.7 %	Core capital ratio	15.6 %	13.0 %
15.4 %	19.0 %	Capital adequacy ratio	18.3 %	15.7 %
8.3 %	9.1 %	Leverage Ratio	6.7 %	6.0 %

Note 14 - Financial instruments and offsetting

The Bank has no financial instruments booked on a net basis in the financial statements.

SpareBank 1 SMN has two sets of agreements which regulate counterparty risk and netting of derivatives. For retail and corporate customers, use is made of framework agreements requiring provision of collateral. For customers engaged in trading activity, only cash deposits are accepted as collateral. The agreements are unilateral, i.e. it is only the customers that provide collateral. Regarding financial institutions, the Bank enters into standardised and mainly bilateral ISDA agreements. Additionally the Bank has entered into supplementary agreements on provision of collateral (CSA) with the most central counterparties. As of year- end 2015 the Bank has 26 active CSA agreements. The Bank only enters into agreements with cash as collateral. The Bank has delegated responsibility for handling these agreements to SEB Prime Collateral Services which handles margin requirements on behalf of the Bank.

In the case of securities and derivatives that are traded on the Oslo Stock Exchange, the subsidiary SpareBank 1 Markets DNB ASA is used as clearing agent vis-a-vis Oslo Clearing. Any margin collateral is paid to a DNB account. DNB operates as agent between SpareBank 1 Markets and Oslo Clearing. Hence Oslo Clearing is SpareBank 1 Markets' counterparty.

The table shows what the Parent Bank and the Group can offset in the event of bankruptcy or default.

Parent Bank

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default
31 Dec 2015	Derivatives	2,149
31 Dec 2014	Derivatives	1,980

Group

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default
31 Dec 2015	Derivatives	2,120
31 Dec 2014	Derivatives	1,980

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

Level 1: Valuation based on quoted prices in an active market

Fair value of financial instruments that are traded in the active markets is based on market price on the balance sheet date. A market is considered active if market prices are easily and regularly available from a stock exchange, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring market transactions at an arm's length. This category also includes quoted shares and Treasury bills.

Level 2: Valuation based on observable market data

Level 2 consists of instruments that are valued by the use of information that does not consist in quoted prices, but where the prices are directly or indirectly observable for the assets or liabilities concerned, and which also include quoted prices in non-active markets.

Level 3: Valuation based on other than observable data

If valuation data are not available for level 1 and 2, valuation methods are applied that are based on non-observable information.

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2015:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
-Derivatives	39	7,485	-	7,524
-Bonds and money market certificates	2,207	13,545	-	15,752
-Equity instruments	803	-	574	1,377
-Fixed interest loans	-	43	4,405	4,447
Financial assets available for sale				
-Equity instruments	-	-	108	108
Total assets	3,048	21,073	5,087	29,207
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
-Derivatives	44	5,371	-	5,414
-Equity instruments	385	9	-	394
Total liabilities	429	5,380	-	5,808

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2014:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
-Derivatives	326	7,551	-	7,877
-Bonds and money market certificates	3,859	10,318	-	14,177
-Equity instruments	48	-	625	673
-Fixed interest loans	-	43	3,277	3,320
Financial assets available for sale				
-Equity instruments	-	-	35	35
Total assets	4,233	17,911	3,937	26,082
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
-Derivatives	324	5,928	-	6,252
Total liabilities	324	5,928	-	6,252

The following table presents the changes in the instruments classified in level 3 as at 31 December 2015:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January 15	3,277	625	35	3,937
Investment in periode	2,224	20		2,244
Disposals in the periode	-1,000	-63	-2	-1,065
Gain or loss on financial instruments	-33	-7	75	34
Change in discount factor in fair value model for fixed interest loans	-64	-	-	-64
Closing balance 31 December 15	4,405	574	108	5,087

The following table presents the changes in the instruments classified in level 3 as at 31 December 2014:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January 14	2,656	909	40	3,605
Investment in periode	946	38	3	987
Disposals in the periode	-389	-341	-4	-733
Gain or loss on financial instruments	64	19	-4	79
Closing balance 31 December 14	3,277	625	35	3,937