

# 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 2015. Further, the Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts.

## 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 3 Critical estimates and assessments concerning the use of accounting principles.

### Guarantee fund levy

After the implementation of IFRIC 21, there has been a discussion of whether the annual levy to the guarantee fund for 2015 and 2016 should be expensed in first quarter. 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. The financial supervisory Authority (FSA) concluded in their circular from 19 november 2015 that the guarantee fund levy should be fully expensed in first quarter every year, and expects that the banks change their practice from first quarter 2016. The Ministry of Finance has in a letter from 8 april 2016 asked that FSA prepare draft for changes to the regulation regarding the calculation of levy upon withdrawal where the banks will get the levy refunded for the part of the year the bank is no longer a member of the guarantee fund.

The FSA has now published hearing and draft for the new regulation. Sparebank 1 SMN has continued its earlier practice of accrual on a monthly basis.

The expense was 29 million in first half of 2016, compared to 29 million in first half of 2015. If the guarantee fund levy had been fully expensed in first quarter 2016, the interest expenses would increase by 29 million in first half of 2016 (25 million in 2015)

### Pensions

The Group has not obtained a new calculation of pensions as of 30 June since no factors have been identified that significantly alter the pension liability. For a further description of the various pension schemes, see note 24 in the 2015 annual report.

### Companies held for sale

The strategy of SpareBank 1 SMN is that ownership in companies resulting from engagements in default should be of short duration, normally not more than a year. The investments are accounted for at fair value and classified as held for sale.

Assets and liabilities related to the company Brannstasjonen SMN AS have been presented as held for sale from Q1 2016 as group management and board has approved the sale of the company, and the process for sale has come to the point where it is highly likely that a transaction will be completed before 12 months. Brannstasjonen SMN AS was founded in 2012 after SMN acquired Kongensgt 2, the previous fire station. The purpose was to develop the property for own use since the bank at that point had a need for more office space driven by the growth strategy and the newly established credit card company in addition to the need to integrate SMN Regnskapshuset in the head quarter. Subsequently, it has been shown that the need for office space is less than anticipated due to the digitalisation and efficiency gains to be realised.

2016 Q2 (NOKm)	Assets	Liabilities	Revenue	Expenses	Profit/Loss	Ownership
Mavi XV AS group	15	0	0	0	-0	100 %
Brannstasjonen SMN AS	202	16	-	-1	-1	100 %
<b>Total held for sale</b>	<b>217</b>	<b>16</b>	<b>0</b>	<b>-1</b>	<b>-1</b>	<b>-</b>

### Unrealised gain in Visa Norge FLI

On 2 November 2015 an agreement was announced between Visa Europe Ltd. and Visa Inc. whereby Visa Inc. acquires all shares of Visa Europa. 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 conditional cash consideration of up to EUR 4.7 billion, to be disbursed four years after completion of the transaction

After the initial agreement between Visa Inc and Visa Europe Ltd an additional agreement has been made where the conditional consideration lapses and the parties have instead agreed on an additional cash consideration of € 1,12 mrd incl interest, to be paid three years after closing.

SpareBank 1 SMN is a member of the association Visa Norge FLI ("Visa Norge"), which is a shareholder of Visa Europe Ltd.

Visa Norge FLI held an owners meeting at 28 juni 2016 where the model for allocation of the proceeds to the members were decided. The transfer of the cash consideration was completed immediately after the meeting. The decision also stated that the same model for allocation will be used for later distributions related to this transaction (additional cash consideration and shares).

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 and tax risk in the transaction. 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 received a cash consideration of 63 million in second quarter 2016. This has been recognised as dividends in profit and loss. At the same time previously recognised unrealised gain of Visa Norge FLI of 52 million has been reversed from other comprehensive income (OCI).

### 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.

#### Group 30 June 2016

Profit and loss account (NOKm)	RM	SB1 CM	SB1 Markets	SB1 EM 1	SB1 Finans MN	SB1 Regnskaps- huset SMN	SB1 Gruppen	BN Bank	BN Uncollated	Total
Net interest	449	471	-4	2	88	-0	-	-	-64	942
Interest from allocated capital	25	20	-	-	-	-	-	-	-46	-
<b>Total interest income</b>	<b>474</b>	<b>492</b>	<b>-4</b>	<b>2</b>	<b>88</b>	<b>-0</b>	<b>-</b>	<b>-</b>	<b>-110</b>	<b>942</b>
Commission income and other income	338	97	108	216	-5	126	-	-	-30	849
Net return on financial investments **)	0	6	33	-	-	-	141	51	211	441
<b>Total income</b>	<b>812</b>	<b>594</b>	<b>136</b>	<b>217</b>	<b>83</b>	<b>126</b>	<b>141</b>	<b>51</b>	<b>71</b>	<b>2.232</b>
<b>Total operating expenses</b>	<b>401</b>	<b>182</b>	<b>129</b>	<b>174</b>	<b>29</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1.016</b>
<b>Ordinary operating profit</b>	<b>412</b>	<b>412</b>	<b>7</b>	<b>43</b>	<b>54</b>	<b>26</b>	<b>141</b>	<b>51</b>	<b>71</b>	<b>1.217</b>
Loss on loans, guarantees etc.	7	274	2	-	6	-	-	-	-1	287
<b>Result before tax including held for sale</b>	<b>405</b>	<b>138</b>	<b>5</b>	<b>43</b>	<b>48</b>	<b>26</b>	<b>141</b>	<b>51</b>	<b>71</b>	<b>928</b>
<b>Post-tax return on equity*)</b>	<b>13,3 %</b>	<b>2,4 %</b>								<b>10,9 %</b>
<b>Balance (NOKm)</b>										
Loans and advances to customers	89.299	37.454	-	-	4.933	-	-	-	896	132.583
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-33.044	-1.749	-	-	-	-	-	-	-	-34.793
Individual allowance for impairment on loan	-23	-379	-	-	-8	-	-	-	-2	-412
Group allowance for impairment on loan	-95	-304	-	-	-19	-	-	-	1	-418
Other assets	213	7	1.604	296	13	220	1.508	1.153	39.172	44.185
<b>Total assets</b>	<b>56.349</b>	<b>35.029</b>	<b>1.604</b>	<b>296</b>	<b>4.919</b>	<b>220</b>	<b>1.508</b>	<b>1.153</b>	<b>40.066</b>	<b>141.145</b>
Deposits to customers	35.457	31.511	-	-	-	-	-	-	63	67.031
Other liabilities and equity	20.892	3.519	1.604	296	4.919	220	1.508	1.153	40.003	74.114
<b>Total liabilities</b>	<b>56.349</b>	<b>35.029</b>	<b>1.604</b>	<b>296</b>	<b>4.919</b>	<b>220</b>	<b>1.508</b>	<b>1.153</b>	<b>40.066</b>	<b>141.145</b>

## Group 30 June 2015

Profit and loss account (NOKm)	RM	CM	Markets	EM 1	SB1 Finans MN	SB1 Regnskaps- huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	442	450	-1	1	73	-0	-	-	-32	934
Interest from allocated capital	31	37	-	-	-	-	-	-	-68	-
<b>Total interest income</b>	<b>473</b>	<b>487</b>	<b>-1</b>	<b>1</b>	<b>73</b>	<b>-0</b>	<b>-</b>	<b>-</b>	<b>-100</b>	<b>934</b>
Commission income and other income	348	84	23	191	0	117	-	-	26	790
Net return on financial investments **)	0	7	26	-	-	-	128	35	166	362
<b>Total income</b>	<b>821</b>	<b>578</b>	<b>49</b>	<b>193</b>	<b>73</b>	<b>117</b>	<b>128</b>	<b>35</b>	<b>93</b>	<b>2,086</b>
<b>Total operating expenses</b>	<b>370</b>	<b>175</b>	<b>59</b>	<b>164</b>	<b>27</b>	<b>97</b>	<b>-</b>	<b>-</b>	<b>58</b>	<b>950</b>
<b>Ordinary operating profit</b>	<b>451</b>	<b>403</b>	<b>-10</b>	<b>29</b>	<b>46</b>	<b>20</b>	<b>128</b>	<b>35</b>	<b>35</b>	<b>1,137</b>
Loss on loans, guarantees etc.	3	49	-	-	3	-	-	-	1	56
<b>Result before tax including held for sale</b>	<b>448</b>	<b>354</b>	<b>-10</b>	<b>29</b>	<b>43</b>	<b>20</b>	<b>128</b>	<b>35</b>	<b>33</b>	<b>1,080</b>
<b>Post-tax return on equity*)</b>	<b>17.0 %</b>	<b>13.0 %</b>								<b>13.7 %</b>

## Balance (NOKm)

Loans and advances to customers	81,352	38,090	-	-	3,937	-	-	-	1,140	124,519
Adv. of this to SpareBank 1 Boligkreditt	-29,057	-1,283	-	-	-	-	-	-	-1	-30,340
Individual allowance for impairment on loan	-22	-136	-	-	-8	-	-	-	-2	-168
Group allowance for impairment on loan	-90	-188	-	-	-17	-	-	-	-0	-296
Other assets	171	8	1,471	264	18	144	1,381	1,149	32,570	37,174
<b>Total assets</b>	<b>52,353</b>	<b>36,490</b>	<b>1,471</b>	<b>264</b>	<b>3,930</b>	<b>144</b>	<b>1,381</b>	<b>1,149</b>	<b>33,707</b>	<b>130,888</b>
Deposits to customers	33,915	31,552	-	-	-	-	-	-	719	66,186
Other liabilities and equity	18,438	4,939	1,471	264	3,930	144	1,381	1,149	32,988	64,702
<b>Total liabilities</b>	<b>52,353</b>	<b>36,490</b>	<b>1,471</b>	<b>264</b>	<b>3,930</b>	<b>144</b>	<b>1,381</b>	<b>1,149</b>	<b>33,707</b>	<b>130,888</b>

\*) 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 14.5 percent to be in line with the capital plan.

<b>**) Specification of net return on financial investments incl. investment held for sale (NOKm)</b>	<b>First half 2016</b>	<b>First half 2015</b>
Capital gains/dividends, shares	65	70
Bonds and derivatives	78	-21
Forex and fixed income business, Markets	54	64
<b>Net return on financial investments</b>	<b>197</b>	<b>114</b>
SpareBank 1 Gruppen	141	128
SpareBank 1 Boligkreditt	22	50
SpareBank 1 Næringskreditt	15	15
BN Bank	51	35
SpareBank 1 Kredittkort	14	10
Companies owned by SpareBank 1 SMN Invest	13	13
Other companies	-11	-2
<b>Income from investment in associates and joint ventures</b>	<b>244</b>	<b>249</b>
<b>Total net return on financial investments</b>	<b>441</b>	<b>362</b>

## Note 4 - Capital adequacy

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.

As of 30 June 2016 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and countercyclical buffer is 1.5 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 11.5 per cent. The countercyclical buffer increased to 1.5 per cent from 1.0 per cent with effect from 30 June 2016.

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 subject to a stepwise reduction of 40 per cent in 2016 and 10 per cent thereafter. As at 30 June 2016 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 2015	30 June 2015	30 June 2016	(NOKm)	30 June 2016	30 June 2015	31 Dec 2015
2,597	2,597	2,597	Equity capital certificates	2,597	2,597	2,597
-0	-0	-0	- Own holding of ECCs	-7	-0	-21
895	895	895	Premium fund	895	895	895
3,790	3,122	3,790	Dividend equalisation fund	3,783	3,122	3,790
4,105	3,619	4,105	Savings bank's reserve	4,105	3,619	4,105
292	-	-	- Recommended dividends	-	-	292
40	-	-	- Provision for gifts	-	-	40
279	139	221	Unrealised gains reserve	233	148	290
-	-	5	Other equity	1,681	1,639	1,597
-	-	-	- Non-controlling interests	403	301	318
-	1,117	938	Net profit	771	871	-
<b>11,998</b>	<b>11,489</b>	<b>12,552</b>	<b>Total book equity</b>	<b>14,460</b>	<b>13,191</b>	<b>13,904</b>
-447	-447	-473	Deferred taxes, goodwill and other intangible assets	-715	-664	-662
-	-	-	- Part of reserve for unrealised gains, associated companies	169	120	264
-332	-	-	- Deduction for allocated dividends and gifts	-	-	-332
-	-	-	- Non-controlling interests recognised in other equity capital	-403	-301	-318
-	-	-	- Non-controlling interests eligible for inclusion in CET1 capital	203	47	132
-93	-4	-93	Surplus financing of pension obligations	-94	-	-43
-	-1,117	-938	Net profit	-771	-871	-
-	882	707	Year-to-date profit included in core capital (73 per cent pre tax of group profit)	540	636	-
-33	-30	-36	Value adjustments due to requirements for prudent valuation	-58	-43	-55
-164	-240	-124	Positive value of adjusted expected loss under IRB Approach	-187	-318	-239
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-389	-355	-458
<b>10,928</b>	<b>10,533</b>	<b>11,594</b>	<b>Total common equity Tier one</b>	<b>12,757</b>	<b>11,443</b>	<b>12,192</b>
950	950	950	Hybrid capital, core capital	1,362	1,217	1,310
495	491	493	Hybrid capital covered by transitional provisions	493	491	495
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-9	-9	-9
<b>12,373</b>	<b>11,974</b>	<b>13,037</b>	<b>Total core capital</b>	<b>14,604</b>	<b>13,142</b>	<b>13,988</b>
			<b>Supplementary capital in excess of core capital</b>			
1,000	1,000	1,000	Subordinated capital	1,647	1,692	1,647
786	786	673	Subordinated capital covered by transitional provisions	673	786	786

-43	-43	-43	Direct, indirect and synthetic investments in financial sector companies	-43	-43	-43
<b>1,743</b>	<b>1,743</b>	<b>1,631</b>	<b>Total supplementary capital</b>	<b>2,278</b>	<b>2,435</b>	<b>2,390</b>
<b>14,116</b>	<b>13,717</b>	<b>14,668</b>	<b>Net subordinated capital</b>	<b>16,882</b>	<b>15,577</b>	<b>16,378</b>
<b>Minimum requirements subordinated capital</b>						
1,027	1,148	1,027	Involvement with specialised enterprises	1,169	1,391	1,213
1,049	927	1,095	Other corporations exposure	1,143	965	1,105
1,093	1,104	1,137	Mass market exposure, property	1,596	1,514	1,557
157	173	160	Mass market exposure, SMEs	170	185	167
38	13	39	Other retail exposure	43	13	40
1,221	1,148	1,238	Equity investments	3	0	0
<b>4,585</b>	<b>4,513</b>	<b>4,696</b>	<b>Total credit risk IRB</b>	<b>4,123</b>	<b>4,068</b>	<b>4,082</b>
64	199	18	Debt risk	19	200	64
-	-	-	Equity risk	10	8	10
-	-	-	Currency risk	1	0	-
316	316	334	Operational risk	479	457	457
922	1,001	1,033	Exposures calculated using the standardised approach	1,931	1,926	1,805
53	30	47	Credit value adjustment risk (CVA)	90	71	106
-	-	-	Transitional arrangements	585	471	634
<b>5,939</b>	<b>6,060</b>	<b>6,127</b>	<b>Minimum requirements subordinated capital</b>	<b>7,237</b>	<b>7,201</b>	<b>7,157</b>
<b>74,243</b>	<b>75,746</b>	<b>76,592</b>	<b>Risk weighted assets (RWA)</b>	<b>90,464</b>	<b>90,010</b>	<b>89,465</b>
3,341	3,409	3,447	Minimum requirement on CET1 capital, 4.5 per cent	4,071	4,050	4,026
<b>Capital Buffers</b>						
1,856	1,894	1,915	Capital conservation buffer, 2.5 per cent	2,262	2,250	2,237
2,227	2,272	2,298	Systemic risk buffer, 3.0 per cent	2,714	2,700	2,684
742	757	1,149	Countercyclical buffer, 1.5 per (1.0 per cent)	1,357	900	895
<b>4,826</b>	<b>4,923</b>	<b>5,361</b>	<b>Total buffer requirements on CET1 capital</b>	<b>6,332</b>	<b>5,851</b>	<b>5,815</b>
<b>2,761</b>	<b>2,201</b>	<b>2,786</b>	<b>Available CET1 capital after buffer requirements</b>	<b>2,354</b>	<b>1,542</b>	<b>2,351</b>
<b>Capital adequacy</b>						
14.7 %	13.9 %	15.1 %	Common equity Tier one ratio	14.1 %	12.7 %	13.6 %
16.7 %	15.8 %	17.0 %	Core capital ratio	16.1 %	14.6 %	15.6 %
19.0 %	18.1 %	19.2 %	Capital adequacy ratio	18.7 %	17.3 %	18.3 %
9.1 %	8.7 %	9.1 %	Leverage ratio	6.8 %	6.5 %	6.7 %



## Note 5 - Distribution of loans by sector/industry

Parent Bank				Group		
31 Dec 2015	30 June 2015	30 June 2016	(NOKm)	30 June 2016	30 June 2015	31 Dec 2015
8,515	8,011	9,185	Agriculture, forestry, fisheries, hunting	9,357	8,152	8,674
1,485	1,582	1,667	Sea farming industries	2,044	1,798	1,807
2,387	2,043	2,546	Manufacturing	2,823	2,333	2,675
3,141	3,768	2,934	Construction, power and water supply	3,432	4,247	3,598
2,482	2,690	2,395	Retail trade, hotels and restaurants	2,591	2,856	2,666
6,043	5,999	5,370	Maritime sector	5,407	6,024	6,066
14,377	14,120	14,051	Property management	14,110	14,167	14,346
2,019	1,771	2,456	Business services	2,119	1,681	1,777
2,859	2,940	3,299	Transport and other services provision	3,829	3,408	3,355
192	188	170	Public administration	186	208	211
1,458	2,324	1,626	Other sectors	1,512	2,342	1,477
<b>44,958</b>	<b>45,435</b>	<b>45,699</b>	<b>Gross loans in retail market</b>	<b>47,411</b>	<b>47,215</b>	<b>46,653</b>
78,575	75,473	82,619	Wage earners	85,171	77,304	80,725
<b>123,533</b>	<b>120,908</b>	<b>128,318</b>	<b>Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt</b>	<b>132,583</b>	<b>124,519</b>	<b>127,378</b>
31,944	28,965	32,952	SpareBank 1 Boligkreditt	32,952	28,965	31,944
1,460	1,375	1,841	SpareBank 1 Næringskreditt	1,841	1,375	1,460
<b>90,129</b>	<b>90,568</b>	<b>93,525</b>	<b>Gross loans in balance sheet</b>	<b>97,790</b>	<b>94,179</b>	<b>93,974</b>
174	159	402	- Specified write-downs	412	168	183
358	278	398	- Collective write-downs	418	296	376
<b>89,596</b>	<b>90,131</b>	<b>92,724</b>	<b>Net loans to and receivables from customers</b>	<b>96,960</b>	<b>93,715</b>	<b>93,415</b>

## Note 6 - Losses on loans and guarantees

## Parent Bank

Losses on loans and guarantees (NOKm)	First half 2016			First half 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in individual impairment losses provisions for the period	-0	229	229	-2	-3	-5	2	9	11
+ Change in collective impairment losses provisions for the period	-	40	40	-	-	-	-	80	80
+ Actual loan losses on commitments for which provisions have been made	6	4	9	4	50	54	7	58	65
+ Actual loan losses on commitments for which no provision has been made	3	2	5	3	3	7	8	4	12
- Recoveries on commitments previously written-off	1	1	2	2	1	3	6	3	9
<b>Losses of the period on loans and guarantees</b>	<b>7</b>	<b>274</b>	<b>281</b>	<b>3</b>	<b>49</b>	<b>52</b>	<b>11</b>	<b>148</b>	<b>159</b>

## Group

Losses on loans and guarantees (NOKm)	First half 2016			First half 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in individual impairment losses provisions for the period	-0	231	230	-2	-2	-4	3	9	11
+ Change in collective impairment losses provisions for the period	2	39	42	1	-	1	2	80	82
+ Actual loan losses on commitments for which provisions have been made	6	4	10	5	50	56	8	59	67
+ Actual loan losses on commitments for which no provision has been made	6	2	8	5	4	10	13	7	21
- Recoveries on commitments previously written-off	1	1	2	3	3	6	8	4	12
<b>Losses of the period on loans and guarantees</b>	<b>12</b>	<b>275</b>	<b>287</b>	<b>6</b>	<b>50</b>	<b>56</b>	<b>18</b>	<b>151</b>	<b>169</b>

## Note 7 - Losses

## Parent Bank

Individual write-downs (NOKm)	30 June 2016			30 June 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1*	28	148	176	25	140	165	25	140	165
- Actual losses during the period for which provisions for individual impairment losses have been made previously	6	4	9	4	51	55	7	58	65
- Reversal of provisions from previous periods	3	7	10	2	15	16	2	40	43
+ Increased write-downs on provisions previously written down	1	7	8	1	3	4	1	21	22
+ Write-downs on provisions not previously written down	3	237	240	3	59	62	12	85	96
<b>Individual write-downs to cover loss on loans and guarantees</b>	<b>23</b>	<b>381</b>	<b>405</b>	<b>22</b>	<b>137</b>	<b>160</b>	<b>28</b>	<b>148</b>	<b>176</b>

\*) Individually assessed impairment write-downs on guarantees, totalling NOK 2.3m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	30 June 2016			30 June 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 01.01	90	268	358	90	188	278	90	188	278
Period's collective write-downs to cover loss on loans, guarantees etc	-	40	40	-	-	-	-	80	80
<b>Collective write-downs to cover loss on loans and guarantees</b>	<b>90</b>	<b>308</b>	<b>398</b>	<b>90</b>	<b>188</b>	<b>278</b>	<b>90</b>	<b>268</b>	<b>358</b>

## Group

Individual write-downs (NOKm)	30 June 2016			30 June 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1*	31	153	184	27	146	173	27	146	173
- Actual losses during the period for which provisions for individual impairment losses have been made previously	6	4	10	5	52	57	8	59	67
- Reversal of provisions from previous periods	4	7	10	2	15	17	3	42	46
+ Increased write-downs on provisions previously written down	1	7	8	1	3	4	1	21	22
+ Write-downs on provisions not previously written down	4	239	243	4	61	65	14	87	102
<b>Individual write-downs to cover loss on loans and guarantees</b>	<b>27</b>	<b>388</b>	<b>415</b>	<b>25</b>	<b>144</b>	<b>169</b>	<b>31</b>	<b>153</b>	<b>184</b>

\*) Individually assessed impairment write-downs on guarantees, totalling NOK 2.3m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	30 June 2016			30 June 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	96	281	376	94	201	295	94	201	295
Period's collective write-downs to cover loss on loans, guarantees etc	2	40	42	1	-	1	2	80	82
<b>Collective write-downs to cover loss on loans and guarantees</b>	<b>97</b>	<b>321</b>	<b>418</b>	<b>95</b>	<b>201</b>	<b>296</b>	<b>96</b>	<b>281</b>	<b>376</b>

## Note 8 - Defaults and problem loans

## Parent Bank

	30 June 2016			30 June 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
<b>Total defaults (NOKm)</b>									
Loans in default for more than 90 days *)	172	24	196	161	83	244	133	38	171
- Individual write-downs	15	12	26	17	34	51	15	8	23
<b>Net defaults</b>	<b>158</b>	<b>12</b>	<b>169</b>	<b>144</b>	<b>50</b>	<b>193</b>	<b>119</b>	<b>30</b>	<b>148</b>
Provision rate	8 %	51 %	14 %	11 %	41 %	21 %	11 %	22 %	13 %
<b>Problem loans</b>									
Problem loans (not in default)	28	1,163	1,190	11	349	361	45	341	387
- Individual write-downs	9	369	378	5	103	108	13	139	152
<b>Net problem loans</b>	<b>19</b>	<b>793</b>	<b>812</b>	<b>6</b>	<b>246</b>	<b>252</b>	<b>32</b>	<b>202</b>	<b>234</b>
Provision rate	32 %	32 %	32 %	45 %	30 %	30 %	29 %	41 %	39 %

\*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q2

## Group

	30 June 2016			30 June 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
<b>Total defaults (NOKm)</b>									
Loans in default for more than 90 days *)	219	36	255	182	105	287	155	50	205
- Individual write-downs	18	13	31	20	38	58	17	9	26
<b>Net defaults</b>	<b>201</b>	<b>23</b>	<b>223</b>	<b>162</b>	<b>68</b>	<b>230</b>	<b>138</b>	<b>41</b>	<b>179</b>
Provision rate	8 %	36 %	12 %	11 %	36 %	20 %	11 %	18 %	13 %
<b>Problem loans</b>									
Problem loans (not in default)	28	1,171	1,198	11	357	368	49	350	399
- Individual write-downs	9	375	384	5	106	111	14	144	158
<b>Net problem loans</b>	<b>19</b>	<b>796</b>	<b>815</b>	<b>6</b>	<b>251</b>	<b>257</b>	<b>34</b>	<b>206</b>	<b>241</b>
Provision rate	32 %	32 %	32 %	46 %	30 %	30 %	30 %	41 %	40 %

\*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q2

## Note 9 - Distribution of customer deposits by sector/industry

Parent Bank			(NOKm)	Group		
31 Dec 2015	30 June 2015	30 June 2016		30 June 2016	30 June 2015	31 Dec 2015
2,541	2,464	2,660	Agriculture, forestry, fisheries, hunting	2,660	2,464	2,541
674	559	426	Sea farming industries	426	559	674
2,518	2,137	1,598	Manufacturing	1,598	2,137	2,518
2,164	2,007	1,977	Construction, power and water supply	1,977	2,007	2,164
4,116	3,297	3,590	Retail trade, hotels and restaurants	3,590	3,297	4,116
1,994	1,888	2,088	Maritime sector	2,088	1,888	1,994
4,295	4,783	4,970	Property management	4,754	4,604	4,099
4,836	4,713	5,282	Business services	5,282	4,713	4,836
4,643	4,743	4,949	Transport and other services provision	4,503	4,411	4,138
7,221	7,938	8,446	Public administration	8,446	7,938	7,221
1,755	3,572	1,886	Other sectors	1,554	3,530	1,454
<b>36,756</b>	<b>38,102</b>	<b>37,873</b>	<b>Total</b>	<b>36,878</b>	<b>37,548</b>	<b>35,754</b>
28,336	28,638	30,153	Wage earners	30,153	28,638	28,336
<b>65,091</b>	<b>66,740</b>	<b>68,026</b>	<b>Total deposits</b>	<b>67,031</b>	<b>66,186</b>	<b>64,090</b>

## Note 10 - Net interest income

Parent bank			(NOK million)	Group		
2015	First half 2015	First half 2016		First half 2016	First half 2015	2015
			<b>Interest income</b>			
112	53	61	Interest income from loans to and claims on central banks and credit institutions	26	18	43
3,447	1,782	1,518	Interest income from loans to and claims on customers	1,637	1,835	3,669
304	151	135	Interest income from money market instruments, bonds and other fixed income securities	134	151	304
1	0	-	Other interest income	9	6	16
<b>3,865</b>	<b>1,987</b>	<b>1,714</b>	<b>Total interest income</b>	<b>1,806</b>	<b>2,011</b>	<b>4,031</b>
			<b>Interest expense</b>			
147	82	70	Interest expenses on liabilities to credit institutions	70	27	148
968	527	330	Interest expenses relating to deposits from and liabilities to customers	323	517	949
840	420	362	Interest expenses related to the issuance of securities	362	420	840
149	74	73	Interest expenses on subordinated debt	73	74	149
3	2	2	Other interest expenses	7	11	20
54	29	29	Guarantee fund levy	29	29	54
<b>2,161</b>	<b>1,133</b>	<b>866</b>	<b>Total interest expense</b>	<b>864</b>	<b>1,077</b>	<b>2,159</b>
<b>1,703</b>	<b>854</b>	<b>848</b>	<b>Net interest income</b>	<b>942</b>	<b>934</b>	<b>1,872</b>

## Note 11 - Operating expenses

Parent bank				Group		
2015	First half 2015	First half 2016	(NOKm)	First half 2016	First half 2015	2015
588	301	300	Personnel expenses	613	550	1,093
194	110	104	IT costs	130	130	240
18	9	10	Postage and transport of valuables	12	11	22
55	23	26	Marketing	45	45	96
41	20	21	Ordinary depreciation	48	51	104
123	60	61	Operating expenses, real properties	52	50	100
68	30	32	Purchased services	46	43	105
129	53	50	Other operating expense	70	71	171
<b>1,217</b>	<b>606</b>	<b>603</b>	<b>Total other operating expenses</b>	<b>1,016</b>	<b>950</b>	<b>1,931</b>

## Note 12 - Other assets

Parent Bank				Group		
31 Dec 2015	30 June 2015	30 June 2016	(NOKm)	30 June 2016	30 June 2015	31 Dec 2015
33	-	33	Deferred tax asset	186	156	187
133	135	131	Fixed assets	944	1.063	1.031
23	20	25	Earned income not yet received	72	56	39
3	1.010	326	Accounts receivable, securities	651	1.209	200
124	6	124	Pensions	125	6	125
95	63	94	Other assets	416	398	381
<b>411</b>	<b>1.234</b>	<b>734</b>	<b>Total other assets</b>	<b>2.395</b>	<b>2.889</b>	<b>1.962</b>



## Note 13 - Other liabilities

Parent Bank			(NOKm)	Group		
31 Dec 2015	30 June 2015	30 June 2016		30 June 2016	30 June 2015	31 Dec 2015
-	34	0	Deferred tax	22	48	21
420	127	222	Payable tax	269	167	459
10	13	-	Capital tax	13	10	13
70	99	80	Accrued expenses and received, non-accrued income	280	102	303
78	93	107	Provision for accrued expenses and commitments	107	93	78
25	17	25	Pension liabilities	31	32	31
46	58	61	Drawing debt	61	58	46
6	6	7	Creditors	53	50	39
61	216	145	Debt from securities	326	439	145
-	-	-	Equity Instruments	289	431	394
153	225	289	Other liabilities	321	261	204
<b>868</b>	<b>887</b>	<b>937</b>	<b>Total other liabilities</b>	<b>1,772</b>	<b>1,690</b>	<b>1,734</b>

## Note 14 - Debt created by issue of securities and subordinated debt

## Group

	30 June 2016	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2015
<b>Change in securities debt (NOKm)</b>					
Bond debt, nominal value	37,135	7,066	3,287	-658	34,014
Value adjustments	791	-	-	16	775
Accrued interest	211	-	-	-155	365
<b>Total</b>	<b>38,137</b>	<b>7,066</b>	<b>3,287</b>	<b>-797</b>	<b>35,154</b>

	30 June 2016	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2015
<b>Change in subordinated debt and hybrid equity (NOKm)</b>					
Ordinary subordinated loan capital, nominal value	1,776	43	-	73	1,660
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	1,400	-	-	-	1,400
Value adjustments	89	-	-	-0	89
Accrued interest	14	-	-	-0	14
<b>Total</b>	<b>3,579</b>	<b>43</b>	<b>-</b>	<b>73</b>	<b>3,463</b>

## 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 30 June 2016:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Derivatives	77	6,850	-	6,927
Bonds and money market certificates	3,375	16,487	-	19,862
Equity instruments	818	-	516	1,334
Fixed interest loans	-	43	4,345	4,388
Financial assets available for sale				
Equity instruments	44	-	87	131
<b>Total assets</b>	<b>4,314</b>	<b>23,379</b>	<b>4,948</b>	<b>32,640</b>
<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial liabilities through profit/loss				
Derivatives	92	5,832	-	5,924
Equity instruments	284	6	-	290
<b>Total liabilities</b>	<b>376</b>	<b>5,837</b>	<b>-</b>	<b>6,214</b>

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2015:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Derivatives	32	5,820	-	5,851
Bonds and money market certificates	3,102	11,980	-	15,082
Equity instruments	700	-	607	1,307
Fixed interest loans	-	43	4,677	4,719
Financial assets available for sale				
Equity instruments	-	-	40	40
<b>Total assets</b>	<b>3,833</b>	<b>17,842</b>	<b>5,324</b>	<b>26,999</b>
<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>0</b>
Financial liabilities through profit/loss				
Derivatives	32	4,579	-	4,610
<b>Total liabilities</b>	<b>32</b>	<b>4,579</b>	<b>-</b>	<b>4,610</b>

The following table presents the changes in the instruments classified in level 3 as at 30 June 2016:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	4,405	574	108	5,087
Investment in periode	148	15	31	194
Disposals in the periode	-230	-47	-3	-281
Gain or loss on financial instruments	22	-26	-49	-52
<b>Closing balance 30 June</b>	<b>4,345</b>	<b>516</b>	<b>87</b>	<b>4,948</b>

The following table presents the changes in the instruments classified in level 3 as at 30 June 2015:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	3,277	625	35	3,937
Investment in periode	1,690	8	3	1,701
Disposals in the periode	-267	-22	-2	-291
Gain or loss on financial instruments	40	-4	3	40
Change in valuation model for fixed interest loans	-64	-	-	-64
<b>Closing balance 30 June</b>	<b>4,677</b>	<b>607</b>	<b>40</b>	<b>5,324</b>

## Note 16 - 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 30 June 2016 the Bank has 27 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.

SpareBank 1 SMN was registered as a GCM member of NASDAQ OMX Clearing AB in October 2015. The bank has since December 2015 offered customers clearing representation related to their trade in electricity and salmon derivatives on NASDAQ OMX Oslo ASA and Fish Pool ASA. Clearing representation entails that the bank substitutes itself in the place of the client as counterparty to NASDAQ OMX Clearing AB and takes on the obligation to NASDAQ to furnish margin collateral and to execute settlement of contracts and pay charges. For the bank's exposure as a GCM, clients will furnish collateral in the form of a deposit of cash and/or encumbrance of assets.

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
<b>30 June 2016</b>	<b>Derivatives</b>	<b>1,367</b>
30 June 2015	Derivatives	1,416
31 Dec 2015	Derivatives	2,149

### Group

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default
<b>30 June 2016</b>	<b>Derivatives</b>	<b>1,417</b>
30 June 2015	Derivatives	1,416
31 Dec 2015	Derivatives	2,178

## Note 17 - Liquidity risk

Liquidity risk is the risk that the group will be unable to refinance its debt or to finance asset increases. Liquidity risk management starts out from the group's overall liquidity strategy which is reviewed and adopted by the board of directors at least once each year. The liquidity strategy reflects the group's moderate risk profile.

The group mitigates liquidity risk by diversifying its funding across different markets, funding sources, maturities and instruments and through the use of long-term funding. Contingency plans exist both for the group and the SpareBank 1 alliance for managing the liquidity situation in periods of capital market turbulence. These plans address both bank-specific and systemic crises and a combination of the two. The group's objective is to survive twelve months of ordinary operations without access to fresh external funding.

The average residual maturity on the portfolio of senior bonds and covered bonds at the end of the second quarter was 2.95 years. The overall LCR at the same point was 149 per cent and the average overall LCR in the quarter was 123 per cent. The LCR in Norwegian kroner and the euro at quarter-end was 141 and 466 per cent respectively.