

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 %
Total held for sale	217	16	0	-1	-1	-

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).