SpareBank 1 SMN

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 2017. The Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts, except implementing IFRS 9 as described below.

IFRS 9

IFRS 9 Financial instruments deals with recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 is applicable from 1 January 2018 and is approved by the EU.

Detailed information about the implementation of IFRS 9 in SpareBank 1 SMN can be found in note 2 and 45 in the annual report for 2017.

As allowed in the transition rules in IFRS 9, the bank has chosen not to adjust the comparative figures, and these have been presented in line with previous accounting principles as described in the annual report for 2017. Adjustments in amounts recorded at the transition date 1 January 2018 has been made against equity, and new disclosures in line with IFRS 7 has been presented. Disclosure information using previous principles are the same as presented previous periods.

Classification and measurement

Financial assets

Under IFRS 9 financial assets are classified in three measurement categories: fair value with changes in fair value reported in profit/loss (FVPL), fair value with changes in fair value reported in other comprehensive income (OCI), and amortised cost. The measurement category is determined upon first-time recognition of the particular asset. For financial assets a distinction is drawn between debt instruments and equity instruments. The classification of financial assets is determined on the basis of contractual terms and conditions for the financial assets and the business model used to manage the portfolio of which the assets are a part.

Financial assets that are debt instruments

Debt instruments with contractual cash flows that are only payment of interest and principal on given dates and which are held in a business model whose purpose is to receive contractual cash flows shall in principle be measured at amortised cost. Instruments with contractual cash flows that are only payment of interest and principal on given dates and which are held in a business model whose purpose is both to receive contractual cash flows and sales shall in principle be measured at fair value with changes over OCI, with interest income, currency conversion effects and any write-downs reported in ordinary profit/loss. Fair value changes over OCI shall be reclassified to profit/loss upon the sale or other disposal of the assets.

Other debt instruments shall be measured at fair value with changes reported in profit/loss. This applies to instruments with cash flows that are not only payment of normal interest (time value of money, credit margin and other normal margins related to loans and receivables) and principal, and instruments held in a business model whose main purpose is not that of receiving contractual cash flows. Instruments that should basically be measured at amortised cost or at fair value with changes through OCI can be designated to be measured at fair with changes through profit or loss if this eliminates or significantly reduces an “accounting mismatch".

Derivatives and investments in equity instruments

All derivatives shall be measured at fair value with changes reported in profit/loss, but derivatives designated as hedging instruments shall be accounted for in keeping with the principles for hedge accounting. Investments in equity instruments shall be measured in the balance sheet at fair value. Value changes shall as a main rule be reported in ordinary profit/loss, but an equity instrument which is not held for trading purposes and is not a contingent consideration following a business transfer can be designated as measured at fair value with changes reported in OCI. When equity instruments are designated at fair value with value changes reported in OCI, ordinary proceeds shall be reported in profit/loss, whereas value changes shall not be reported in profit/loss either on an ongoing basis or upon disposal.

Financial liabilities

Financial liabilities shall continue to be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments forming part of a trading portfolio and financial liabilities accounted for at fair value with value changes recognised in profit/loss.

Loan impairment write-downs

Under IFRS 9 loss provisions shall be recognised based on expected credit loss (ECL). Measurement of the provision for expected loss depends on whether credit risk has increased significantly since first-time recognition. Upon first-time recognition, and when credit risk has not increased significantly since first-time recognition, provision shall be made for a 12-month expected loss. If credit risk has risen significantly, provision shall be made for expected loss across the entire life. The methodology in the IFRS 9 standard entails somewhat larger volatility in write-downs, and write-downs are expected to be made at an earlier stage than under current practice. This will be particularly noticeable at the start of a cyclical downturn.

Further description of the bank's future impairment write-down model

Loss estimates are to be prepared quarterly, and will build on data in the data warehouse which has historical accounting and customer data for the entire credit portfolio. The Bank has decided to use three macroeconomic scenarios to consider the non-linear aspects of expected credit losses. The different scenarios will be used to adjust the input parameters for calculating expected credit loss, and an probability weighted average expected calculated loss of the scenarios will be recorded as the loss.

Estimates will be computed based on 12-month and lifelong probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data warehouse contains historical data for observed PD and observed LGD. This will be the basis for preparing good estimates for the future values for PD og LGD. In keeping with IFRS 9 the bank groups its loans in three stages.

Stage 1:

This is the starting point for all financial assets covered by the general loss model. All assets that do not have significantly higher credit risk than at first-time recognition receive a loss provision corresponding to 12 months' expected loss. All assets that are not transferred to stage 2 or 3 reside in this category.

Stage 2:

Stage 2 of the loss model encompasses assets that show a significant increase in credit risk since first-time recognition, but where objective evidence of loss is not present. For these assets a provision for expected loss over the entire lifetime is to be made. In this group we find accounts with a significant degree of credit deterioration, but which at the balance sheet date belong to customers classified as performing. As regards delineation against stage 1, the bank defines 'significant degree of credit deterioration' by taking a basis in whether the exposure's calculated probability of default shows a significant increase. SpareBank 1 SMN has decided to utilise both absolute and relative changes in PD as criteria for transfer to stage 2. The most important factor for a significant change in credit risk is the quantitative change in PD on the period end compared to the PD at first time recognition. A change in PD by more than 150 per cent is considered to be a significant change in credit risk. The change will have to be over 0.6 percentage points. In addition, customers with payments 30 days past due will be transferred to stage 2. A qualitative assessment is also done when engagements have been put on watch list.

Stage 3:

Stage 3 of the loss model encompasses assets that show a significant increase in credit risk since loan approval and where there is objective evidence of loss at the balance sheet date. For these assets a provision shall be made for expected loss over the entire lifetime. These are assets which under current rules are defined as defaulted and written down.

SpareBank 1 SMN calculates the provision for credit loss for assets in stage 1 and 2 in accordance with IFRS 9 as the net present value of the exposure (EAS) multiplied by probability of default (PD) multiplied by loss given default (LGD). SpareBank 1 SMN has grouped the loans in three portfolios and make projections for a period of five years for each portfolio.

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.

Pensions

The Group has not obtained a new calculation of pensions as of 31 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 2017 annual report.

Investment held for sale

SpareBank 1 SMN's strategy is that ownership duse to defaulted exposures should at the outset be of brief duration, normally not longer than one year. Investments are recorded at fair value in the Parent Bank's accounts, and is classified as investment held for sale.

Assets and liabilities related to the property in Søndre Gate 4-10 in Trondheim City Centre (SpareBank 1 Kvartalet AS) has been reclassified as held for sale from Q4 2017 based on the approval from management and board of Directors for selling the property, in addition to the progress made in the sale process which made it highly probable that the sale would be completed in the coming 12 months.

SpareBank 1 SMN accepted a bid at Søndre gate no. 4-10 in Trondheim city centre at November 9, 2017. SpareBank 1 SMN and its subsidiaries will lease back about 70 per cent of the overall area on a 15 year lease with the option of a lease extension. Estimated gross annual rental in 2018 amounts to NOK 36.4 million. The gross property value underlying the bid is NOK 755 million and has given a net gain of NOK 150 million. The transaction was completed in Q2 2018 by sale of the company Søndre gate 4-10 AS.

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 2018

Profit and loss account (NOKm)	**RM**	**CM**	**SB1-Markets**	**EM 1**	**SB1-Finans MN**	**SB1 Regnskaps-huset SMN**	**SB1 Gruppen**	**BN Bank**	**Uncollated**	**Total**
Net interest	498	477	-7	2	131	-0	-	-	48	1,149
Interest from allocated capital	86	64	-	-	-	-	-	-	-151	-
Total interest income	**584**	**541**	**-7**	**2**	**131**	**-0**	**-**	**-**	**-102**	**1,149**
Commission income and other income	397	98	245	261	30	253	-	-	-135	1,149
Net return on financial investments **)	0	4	58	-	-	-	117	51	401	632
Total income	**981**	**643**	**296**	**263**	**162**	**252**	**117**	**51**	**163**	**2,929**
Total operating expenses	**398**	**187**	**260**	**245**	**75**	**208**	**-**	**-**	**-67**	**1,306**
Ordinary operating profit	**583**	**456**	**36**	**18**	**87**	**44**	**117**	**51**	**230**	**1,622**
Loss on loans, guarantees etc.	10	102	-	-	15	-	-	-	-1	127
Result before tax including held for sale	**573**	**354**	**36**	**18**	**72**	**44**	**117**	**51**	**231**	**1,496**
Post-tax return on equity*)	**13.2 %**	**10.8 %**								**14.4 %**
Balance (NOKm)										
Loans and advances to customers	108,702	39,452	-	-	7,304	-	-	-	-668	154,790
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-37,304	-1,699	-	-	-	-	-	-	-	-39,003
Allowance for credit losses	-67	-997	-	-	-39	-	-	-	0	-1,103
Other assets	138	3,291	2,970	1,656	17	395	1,396	1,197	33,842	44,901
Total assets	**71,471**	**40,094**	**2,970**	**1,656**	**7,282**	**395**	**1,396**	**1,197**	**33,123**	**159,584**
Deposits to customers	40,372	38,390	-	-	-	-	-	-	1,581	80,343
Other liabilities and equity	31,099	1,704	2,970	1,656	7,282	395	1,396	1,197	31,542	79,241
Total liabilites and equity	**71,471**	**40,094**	**2,970**	**1,656**	**7,282**	**395**	**1,396**	**1,197**	**33,123**	**159,584**

Group 30 June 2017

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	470	488	-4	1	106	-1	-	-	-16	1,043
Interest from allocated capital	59	56	-	-	-	-	-	-	-115	-
Total interest income	**529**	**544**	**-4**	**1**	**106**	**-1**	**-**	**-**	**-131**	**1,043**
Commission income and other income	364	96	156	254	27	210	-	-	-115	993
Net return on financial investments **)	0	5	35	-	-	-	134	48	50	272
Total income	**894**	**645**	**186**	**255**	**133**	**210**	**134**	**48**	**-196**	**2,308**
Total operating expenses	**391**	**194**	**170**	**235**	**67**	**174**	**-**	**-**	**-61**	**1,169**
Ordinary operating profit	**503**	**451**	**16**	**20**	**66**	**36**	**134**	**48**	**-135**	**1,139**
Loss on loans, guarantees etc.	1	166	-	-	8	-	-	-	-0	175
Result before tax including held for sale	**501**	**286**	**16**	**20**	**58**	**36**	**134**	**48**	**-135**	**964**
Post-tax return on equity*)	**16.2 %**	**9.5 %**								**9.9 %**
Balance (NOKm)										
Loans and advances to customers	98,262	39,895	-	-	6,207	-	-	-	-564	143,800
Adv. of this to SpareBank 1 Boligkreditt	-34,345	-2,097	-	-	-	-	-	-	-0	-36,442
Individual allowance for impairment on loan	-20	-584	-	-	-13	-	-	-	-2	-619
Group allowance for impairment on loan	-90	-218	-	-	-23	-	-	-	-20	-351
Other assets	177	2,486	1,915	1,509	31	323	1,379	1,103	34,137	43,061
Total assets	**63,984**	**39,483**	**1,915**	**1,509**	**6,202**	**323**	**1,379**	**1,103**	**33,550**	**149,449**
Deposits to customers	37,437	37,669	-	-	-	-	-	-	453	75,559
Other liabilities and equity	26,547	1,814	1,915	1,509	6,202	323	1,379	1,103	33,097	73,891
Total liabilites and equity	**63,984**	**39,483**	**1,915**	**1,509**	**6,202**	**323**	**1,379**	**1,103**	**33,550**	**149,449**

*) Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 15.0 percent to be in line with the capital plan.

**) Specification of net return on financial investments incl. Investment held for sale (NOKm)	30 June 2018	30 June 2017
Dividends	**6**	**4**
Capital gains shares	268	9
Gain/(loss) on derivatives	142	22
Gain/(loss) on other financial instruments at fair value (FVO)	12	15
Foreign exchange gain/(loss)	26	19
Gain/(loss) on sertificates and bonds	-36	58
Gains/(Loss) on shares and share derivatives at SpareBank 1 Markets	37	25
Gain/(loss) on financial instruments related to hedging	-6	-48
Net return on financial instruments	**444**	**100**
SpareBank 1 Gruppen	117	134
SpareBank 1 Boligkreditt	-5	-37
SpareBank 1 Næringskreditt	8	13
BN Bank	53	50
SpareBank 1 Kredittkort	11	7
SpareBank 1 Betaling	-6	-
Other companies	4	-
Income from investment in associates and joint ventures	**182**	**167**
Total net return on financial investments	**631**	**272**
Fair value hedging		
Changes in fair value on hedging instrument	-115	-177
Changes in fair value on hedging item	109	129
Net Gain or Loss from hedge accounting	**-6**	**-48**

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 2018 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian countercyclical buffer is 2.0 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 12.0 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN. The total minimum requirement on CET1 capital is accordingly 14.1 per cent.

The countercyclical buffer increased from 1.5 per cent to 2.0 per cent with effect from 31 December 2017.

Countercyclical buffer is calculated using differentiated rates. For exposures in other countries the countercyclical buffer rate set by the authorities in the country concerned is applied. If that country has not set a rate, the same rate as for exposures in Norway is applied unless the Ministry of Finance sets another rate. For the second quarter of 2018 both the parent bank and the group is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 50 per cent in 2017 and 60 per cent in 2018. As at 30 June 2018 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure was NOK 659 million.

Parent Bank				Group		
31 Dec 2017	**30 June 2017**	**30 June 2018**	**(NOKm)**	**30 June 2018**	**30 June 2017**	**31 Dec 2017**
15,372	14,672	15,895	Total book equity	17,984	16,733	17,510
-950	-933	-1,094	Additional Tier 1 capital instruments included in total equity	-1,136	-1,198	-993
-522	-480	-532	Deferred taxes, goodwill and other intangible assets	-1,044	-872	-984
-893	-	-	Deduction for allocated dividends and gifts	-	-	-893
-	-	-	Non-controlling interests recognised in other equity capital	-621	-514	-565
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	357	241	324
-	-1,106	-1,285	Net profit	-1,209	-759	-
-	726	690	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2018)	614	380	-
-30	-32	-28	Value adjustments due to requirements for prudent valuation	-46	-50	-41
-350	-195	-298	Positive value of adjusted expected loss under IRB Approach	-299	-257	-333
-	-	-	Cash flow hedge reserve	4	7	7
-	-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-74	-3	-212
12,627	**12,653**	**13,349**	**Total common equity Tier one**	**14,528**	**13,709**	**13,820**
950	950	1,114	Additional Tier 1 capital instruments	1,592	1,358	1,427
459	459	367	Additional Tier 1 capital instruments covered by transitional provisions	367	459	459
14,036	**14,062**	**14,830**	**Total core capital**	**16,488**	**15,526**	**15,707**
			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,621	1,710	1,615
561	561	449	Subordinated capital covered by transitional provisions	449	561	561
-254	-245	-141	Deduction for significant investments in financial institutions	-141	-245	-254
1,307	1,317	1,308	Total supplementary capital	1,930	2,026	1,922
15,343	**15,378**	**16,138**	**Net subordinated capital**	**18,418**	**17,552**	**17,629**

			Minimum requirements subordinated capital			
978	1,106	951	Specialised enterprises	1,072	1,232	1,107
1,098	1,031	1,115	Corporate	1,128	1,045	1,113
1,370	1,277	1,459	Mass market exposure, property	2,010	1,759	1,892
90	91	93	Other mass market	96	94	91
1,198	1,234	1,037	Equity investments	1	1	1
4,733	**4,739**	**4,655**	**Total credit risk IRB**	**4,307**	**4,131**	**4,205**
3	5	2	Central government	2	5	3
80	74	84	Covered bonds	146	131	146
431	489	407	Institutions	262	429	333
0	5	-	Local and regional authorities, state-owned enterprises	9	9	4
25	23	46	Corporate	255	142	226
18	17	16	Mass market	438	418	405
13	16	14	Exposures secured on real property	195	306	193
232	221	260	Equity positions	359	339	344
70	64	66	Other assets	128	164	166
872	**914**	**895**	**Total credit risk standardised approach**	**1,796**	**1,942**	**1,820**
16	28	21	Debt risk	23	29	18
-	-	-	Equity risk	11	6	22
-	-	-	Currency risk and risk exposure for settlement/delivery	4	1	1
341	341	370	Operational risk	575	510	510
52	67	45	Credit value adjustment risk (CVA)	110	123	117
-	-	-	Transitional arrangements	946	634	891
6,015	**6,089**	**5,986**	**Minimum requirements subordinated capital**	**7,771**	**7,376**	**7,585**
75,182	**76,107**	**74,823**	**Risk weighted assets (RWA)**	**97,137**	**92,202**	**94,807**
3,383	3,425	3,367	Minimum requirement on CET1 capital, 4.5 per cent	4,371	4,149	4,266
			Capital Buffers			
1,880	1,903	1,871	Capital conservation buffer, 2.5 per cent	2,428	2,305	2,370
2,255	2,283	2,245	Systemic rick buffer, 3.0 per cent	2,914	2,766	2,844
1,504	1,142	1,496	Countercyclical buffer, 2.0 per cent (1,5 per cent)	1,943	1,383	1,896
5,639	**5,327**	**5,612**	**Total buffer requirements on CET1 capital**	**7,285**	**6,454**	**7,111**
3,605	**3,900**	**4,370**	**Available CET1 capital after buffer requirements**	**2,872**	**3,106**	**2,444**
			Capital adequacy			
16.8 %	16.6 %	17.8 %	Common equity Tier one ratio	15.0 %	14.9 %	14.6 %
18.7 %	18.5 %	19.8 %	Core capital ratio	17.0 %	16.8 %	16.6 %
20.4 %	20.2 %	21.6 %	Capital adequacy ratio	19.0 %	19.0 %	18.6 %
			Leverage ratio			
145,821	145,532	152,080	Balance sheet items	216,406	207,760	210,764
7,112	7,555	7,235	Off-balance sheet items	9,345	9,400	9,295
-902	-707	-858	Regulatory adjustments	-1,480	-1,190	-1,580
152,032	152,380	158,457	Calculation basis for leverage ratio	224,271	215,969	218,479
14,036	14,062	14,830	Core capital	16,488	15,526	15,707
9.2 %	**9.2 %**	**9.4 %**	**Leverage Ratio**	**7.4 %**	**7.2 %**	**7.2 %**

Note 5 - Distribution of loans by sector/industry

Parent Bank				Group		
31 Dec 2017	30 June 2017	30 June 2018	(NOKm)	30 June 2018	30 June 2017	31 Dec 2017
11,305	10,959	11,825	Agriculture, forestry, fisheries, hunting	12,137	11,213	11,606
1,311	1,298	1,204	Sea farming industries	1,556	1,708	1,697
2,850	3,115	2,461	Manufacturing	2,794	3,415	3,157
2,794	3,407	2,649	Construction, power and water supply	3,349	4,018	3,419
2,432	1,340	2,633	Retail trade, hotels and restaurants	2,902	1,589	2,700
4,639	4,532	4,706	Maritime sector	4,706	4,532	4,639
14,289	14,692	14,564	Property management	14,623	14,749	14,348
2,510	2,482	2,514	Business services	2,195	2,230	2,260
3,547	3,421	3,747	Transport and other services provision	4,545	4,142	4,322
226	269	7	Public administration	19	282	240
1,669	1,788	1,820	Other sectors	1,852	1,819	1,699
47,572	**47,303**	**48,128**	**Gross loans in retail market**	**50,676**	**49,698**	**50,087**
94,984	90,804	99,959	Wage earners	104,114	94,101	98,697
142,556	**138,107**	**148,087**	**Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt**	**154,790**	**143,800**	**148,784**
34,885	34,181	37,172	of which SpareBank 1 Boligkreditt	37,172	34,181	34,885
1,828	2,261	1,831	of which SpareBank 1 Næringskreditt	1,831	2,261	1,828
105,843	**101,665**	**109,084**	**Gross loans in balance sheet**	**115,787**	**107,358**	**112,071**
		1,012	- Loan loss allowance on amortised cost loans	1,052		
		52	- Loan loss allowance on loans at FVOCI	52		
751	551		- Specified write-downs		564	765
323	328		- Collective write-downs		349	347
104,769	**98,056**	**108,020**	**Net loans to and receivables from customers**	**114,683**	**103,204**	**110,959**

Note 6 - Losses on loans and guarantees

Parent Bank	**First half**		
	2018		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Totalt**
Change in provision for expected credit losses for the period	8	63	71
Actual loan losses on commitments exceeding provisions made	3	41	45
Recoveries on commitments previously written-off	-3	-0	-4
Losses for the period on loans and guarantees	**7**	**104**	**112**

Parent Bank	**First half**		
	2017		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Totalt**
Change in individual impairment losses provisions for the period	-4	-17	-20
+ Change in collective impairment losses provisions for the period	-	10	10
+ Actual loan losses on commitments for which provisions have been made	5	165	170
+ Actual loan losses on commitments for which no provision has been made	2	7	9
- Recoveries on commitments previously written-off	2	0	2
Losses of the year on loans and guarantees	**1**	**166**	**167**

Group	**First half**		
	2018		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Totalt**
Change in provision for expected credit losses for the period	7	62	70
Actual loan losses on commitments exceeding provisions made	17	50	66
Recoveries on commitments previously written-off	-8	-1	-9
Losses for the period on loans and guarantees	**16**	**111**	**127**

Group	**First half**		
	2017		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Totalt**
Change in individual impairment losses provisions for the period	-4	-14	-18
+ Change in collective impairment losses provisions for the period	2	10	12
+ Actual loan losses on commitments for which provisions have been made	5	165	170
+ Actual loan losses on commitments for which no provision has been made	5	8	13
- Recoveries on commitments previously written-off	2	0	2
Losses of the year on loans and guarantees	**7**	**168**	**175**

Note 7 - Losses

Provision for expected credit lossen on loans and guarantees are presented after implementation of IFRS 9 from january 1, 2018. See note 2 and 45 in the annual report for 2017 for detailed information about the implementation effect and transition. Comparative figures have not been restated, and the information about first half 2017 has been presented below in accordance with previous rules in IAS 32.

Parent Bank

		30 june 2018		
(NOKm)	**1 January 18**	**Change in provision**	**Net write-offs/ recoveries**	**30 June 18**
Loans as amortised cost- CM	1,017	33	14	1,063
Loans as amortised cost- RM	32	3	0	35
Loans at fair value over OCI- RM	65	3	-0	68
Provision for expected credit losses on loans and guarantees	**1,114**	**39**	**13**	**1,166**
Presented as				
Provision for loan losses				1,064
Other debt- provisons				85
Other comprehensive income- fair value adjustment				17

Group

		30 June 2018		
(NOKm)	**1 January 18**	**Change in provision**	**Net write-offs/ recoveries**	**30 June 18**
Loans as amortised cost- CM	1,037	33	13	1,083
Loans as amortised cost- RM	52	3	-1	22
Loans at fair value over OCI- RM	65	3	-0	100
Provision for expected credit losses on loans and guarantees	**1,154**	**39**	**13**	**1,205**
Presented as				
Provision for loan losses				1,103
Other debt- provisons				85
Other comprehensive income- fair value adjustment				17

Parent Bank

		30 June 2018		
Total Allowance for Credit Losses	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance 1 January	**96**	**256**	**762**	**1,114**
Provision for credit losses				
Transfer to (from) stage 1	24	-24	-0	-
Transfer to (from) stage 2	-5	5	-0	-
Transfer to (from) stage 3	-0	-2	2	-
Net remeasurement of loss allowances	-30	48	49	67
Originations or purchases	28	21	1	50
Derecognitions	-15	-47	-3	-65
Write-offs	-	-	-	-
Closing balance 30 June	**98**	**257**	**811**	**1,166**

Group

Total Allowance for Credit Losses	30 June 2018 Stage 1	Stage 2	Stage 3	Total
Opening balance 1 January	**105**	**269**	**780**	**1,154**
Provision for credit losses				
Transfer to (from) stage 1	27	--26	0	-
Transfer to (from) stage 2	-4	4	-0	-
Transfer to (from) stage 3	0	-3	3	-
Net remeasurement of loss allowances	-31	49	47	65
Originations or purchases	31	23	1	55
Derecognitions	-16	-48	-4	-69
Write-offs	-	-	-	-
Closing balance 30 June	**112**	**266**	**827**	**1,205**

Parent Bank

Individual write-downs (NOKm)	30 June 2017 RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1	28	597	625
- Actual losses during the period for which provisions for individual impairment losses have been made previously	5	165	170
- Reversal of provisions from previous periods	4	6	10
+ Increased write-downs on provisions previously written down	1	102	103
+ Write-downs on provisions not previously written down	0	62	62
Individual write-downs to cover loss on loans and guarantees at period end *)	**20**	**590**	**610**

*) Individually assessed impairment write-downs on guarantees, totalling NOK 6.1m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	30 June 2017 RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	90	228	318
Period's collective write-downs to cover loss on loans, guarantees etc	-	10	10
Collective write-downs to cover loss on loans and guarantees at period end	**90**	**238**	**328**

Group

Individual write-downs (NOKm)	30 June 2017 RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1	31	607	638
- Actual losses during the period for which provisions for individual impairment losses have been made previously	5	165	170
- Reversal of provisions from previous periods	4	6	10
+ Increased write-downs on provisions previously written down	1	102	103
+ Write-downs on provisions not previously written down	0	64	64
Individual write-downs to cover loss on loans and guarantees at period end *)	**23**	**602**	**625**

*) Individually assessed impairment write-downs on guarantees, totalling NOK 6.1m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	30 June 2017 RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	100	239	339
Period's collective write-downs to cover loss on loans, guarantees etc	2	10	12
Collective write-downs to cover loss on loans and guarantees at period end	**102**	**249**	**351**

Note 8 - Gross loans

Parent Bank

Gross loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 18	94,352	9,931	1,560	105,843
Transfer to stage 1	1,599	-1,592	-7	-
Transfer to stage 2	-2,110	2,133	-24	-
Transfer to stage 3	-34	-175	210	-
Net increase/decrease amount excisting loans	-4,120	-92	105	-4,107
New loans	27,975	765	67	28,807
Derecognitions	-19,415	1,956	-88	-21,459
Balance at 30 June 18	**98,248**	**9,013**	**1,823**	**109,084**

Group

Gross loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 18	99,564	10,855	1,652	112,071
Transfer to stage 1	1,859	-1,851	-8	-
Transfer to stage 2	-2,415	2,451	-36	-
Transfer to stage 3	-43	-203	247	-
Net increase/decrease amount excisting loans	-4,651	-191	92	-4,750
New loans	29,693	853	71	30,617
Derecognitions	-19,990	-2,049	-111	-22,150
Balance at 30 June 18	**104,018**	**9,864**	**1,907**	**115,787**

Note 9 - Distribution of customer deposits by sector/industry

Parent Bank				Group		
31 Dec 2017	**30 June 2017**	**30 June 2018**	**(NOKm)**	**30 June 2018**	**30 June 2017**	**31 Dec 2017**
3,061	2,944	3,001	Agriculture, forestry, fisheries, hunting	3,001	2,944	3,061
1,021	974	669	Sea farming industries	669	974	1,021
2,736	1,994	1,789	Manufacturing	1,789	1,994	2,736
3,046	2,769	3,532	Construction, power and water supply	3,532	2,769	3,046
4,152	3,627	3,404	Retail trade, hotels and restaurants	3,404	3,627	4,152
1,269	1,309	1,097	Maritime sector	1,097	1,309	1,269
4,595	5,243	5,522	Property management	5,282	5,002	4,405
6,429	5,940	6,550	Business services	6,550	5,940	6,429
5,846	6,530	6,452	Transport and other services provision	6,086	6,095	5,414
11,284	11,153	11,852	Public administration	11,852	11,153	11,284
2,127	1,988	2,866	Other sectors	2,735	1,728	1,863
45,565	**44,470**	**46,734**	**Total retail market**	**45,997**	**43,534**	**44,678**
31,797	32,024	34,346	Wage earners	34,346	32,024	31,797
77,362	**76,494**	**81,080**	**Total deposits**	**80,343**	**75,559**	**76,476**

Note 10 - Net interest income

Parent bank				Group		
	First half			First half		
2017	2017	2018	(NOKm	2018	2017	2017
			Interest income			
137	68	76	Interest income from loans to and claims on central banks and credit institutions	28	39	44
3,150	1,538	1,584	Interest income from loans to and claims on customers	1,774	1,676	3,476
284	153	137	Interest income from money market instruments, bonds and other fixed income securities	136	151	281
-	-	0	Other interest income	14	10	23
3,571	**1,759**	**1,797**	**Total interest income**	**1,951**	**1,877**	**3,825**
			Interest expense			
133	69	65	Interest expenses on liabilities to credit institutions	70	70	137
654	325	356	Interest expenses relating to deposits from and liabilities to customers	351	318	636
668	338	310	Interest expenses related to the issuance of securities	310	338	668
95	53	39	Interest expenses on subordinated debt	40	54	97
-0	-0	0	Other interest expenses	6	7	13
49	24	25	Guarantee fund levy	25	24	49
1,599	**808**	**795**	**Total interest expense**	**802**	**811**	**1,600**
1,972	**951**	**1,002**	**Net interest income**	**1,149**	**1,066**	**2,225**

Note 11 - Operating expenses

Parent bank				Group		
	First half			First half		
2017	**2017**	**2018**	**(NOKm)**	**2018**	**2017**	**2017**
203	105	107	IT costs	145	138	266
17	9	6	Postage and transport of valuables	9	12	22
50	23	22	Marketing	50	47	104
50	22	30	Ordinary depreciation	43	49	102
118	59	56	Operating expenses, real properties	77	55	118
77	37	48	Purchased services	65	70	139
118	56	58	Other operating expense	100	92	192
634	**311**	**327**	**Total other operating expenses**	**490**	**463**	**943**

Note 12 - Other assets

Parent Bank				Group		
31 Dec 2017	30 June 2017	30 June 2018	(NOKm)	30 June 2018	30 June 2017	31 Dec 2017
-	27	-	Deferred tax asset	148	193	178
115	114	107	Fixed assets	250	884	263
61	87	40	Earned income not yet received	91	151	104
35	253	4,921	Accounts receivable, securities	5,351	540	322
158	198	158	Pension assets	171	208	171
333	312	1,188	Other assets	1,681	804	615
703	**991**	**6,414**	**Total other assets**	**7,692**	**2,780**	**1,654**

Note 13 - Other liabilities

Parent Bank				Group		
31 Dec 2017	30 June 2017	30 June 2018	(NOKm)	30 June 2018	30 June 2017	31 Dec 2017
21	0	21	Deferred tax	85	34	81
337	48	310	Payable tax	339	99	367
9	8	9	Capital tax	9	8	9
70	77	-4	Accrued expenses and received, non-accrued income	383	467	444
112	141	224	Provision for accrued expenses and commitments	224	141	112
24	26	24	Pension liabilities	24	26	24
88	86	87	Drawing debt	87	86	88
16	31	28	Creditors	116	89	82
0	134	74	Debt from securities	353	359	162
-	-	-	Equity Instruments	8	226	244
232	361	1,269	Other liabilities	1,334	436	311
909	**913**	**2,042**	**Total other liabilites**	**2,962**	**1,970**	**1,923**

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

Group

Change in securities debt (NOKm)	30 June 2018	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2017
Bond debt, nominal value	42,955	8,818	5,839	-1,687	41,663
Value adjustments	108	-	-	-99	207
Accrued interest	171	-	-	-153	324
Total	**43,234**	**8,818**	**5,839**	**-1,939**	**42,194**

Change in subordinated debt and hybrid equity (NOKm)	30 June 2018	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2017
Ordinary subordinated loan capital, nominal value	1,705	-	-	4	1,701
Hybrid equity, nominal value	450	-	-	-	450
Value adjustments	25	-	-	-15	40
Accrued interest	10	-	-	-0	10
Total	**2,189**	**-**	**-**	**-11**	**2,201**

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 2018:

Assets (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit/loss				
- Derivatives	7	2,903	-	2,910
- Bonds and money market certificates	2,926	15,714	-	18,640
- Equity instruments	1,930	94	461	2,485
- Fixed interest loans	-	43	3,522	3,565
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	59,480	59,480
- Equity instruments	-	-	54	54
Total assets	**4,863**	**18,754**	**63,518**	**87,135**
Liabilities				
Financial liabilities through profit/loss				
- Derivatives	13	2,960	-	2,974
- Equity instruments	7	1	-	8
Total liabilities	**20**	**2,961**	**-**	**2,982**

The following table presents the Group's assets and liabilities measured at fair value at 30 June 2017:

Assets (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit/loss				
- Derivatives	2	4,672	-	4,673
- Bonds and money market certificates	3,225	17,087	-	20,312
- Equity instruments	992	-	413	1,405
- Fixed interest loans	-	43	3,631	3,673
Financial assets avaliable for sale				
- Equity instruments	-	-	70	70
Total assets	**4,219**	**21,801**	**4,114**	**30,134**
Liabilities				
Financial liabilities through profit/loss				
- Derivatives	7	3,755	-	3,761
- Equity instruments	222	4	-	226
Total liabilities	**229**	**3,758**	**-**	**3,987**

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2017:

Assets (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit/loss				
- Derivatives	16	4,334	-	4,351
- Bonds and money market certificates	2,547	17,189	-	19,736
- Equity instruments	1,339	-	419	1,759
- Fixed interest loans	-	43	3,236	3,278
Financial assets avaliable for sale				
- Equity instruments	-	-	66	66
Total assets	**3,902**	**21,566**	**3,722**	**29,190**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities through profit/loss				
- Derivatives	14	3,328	-	3,343
- Equity instruments	239	4	-	244
Total liabilities	**254**	**3,332**	**-**	**3,586**

The following table presents the changes in the instruments classified in level 3 as at 30 June 2018:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Equity instruments through OCI	Total
Closing balance 31 December	419	3,236	-	66	3,722
Implementation effect IFRS 9	18	-	56,743	-18	56,743
Opening balance 1 January	437	3,236	56,743	49	60,464
Investment in periode	40	987	14,762	-	15,790
Disposals in the periode	-18	-694	-12,025	-	-12,737
Nedskrivning forventet tap på utlån	-	-	-2	-	-2
Gain or loss on financial instruments	2	-7	2	6	3
Closing balance	**461**	**3,522**	**59,480**	**54**	**63,518**

The following table presents the changes in the instruments classified in level 3 as at 30 June 2017:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Equity instruments available for sale	Total
Opening balance 1 January	3,783	524	60	4,367
Investment in periode	219	11	-	230
Disposals in the periode	-386	-141	-	-528
Gain or loss on financial instruments	15	19	10	44
Closing balance	**3,631**	**413**	**70**	**4,114**

The following table presents the changes in the instruments classified in level 3 as at 31 December 2017:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Equity instruments available for sale	Total
Opening balance 1 January	524	3,783	60	4,367
Investment in periode	20	304	-	323
Disposals in the periode	-157	-849	-20	-1,026
Gain or loss on financial instruments	33	-2	27	57
Closing balance	**419**	**3,236**	**66**	**3,722**

Valuation method

The valuation method applied is adapted to each financial instrument, and is intended to utilise as much of the information that is available in the market as possible.

The method for valuation of financial instruments in level 2 and 3 is described in the following:

Fixed interest loans to customers (level 3)

The loans consist for the most part of fixed interest loans denominated in Norwegian kroner. The value of the fixed interest loans is determined such that agreed interest flows are discounted over the term of the loan by a discount factor that is adjusted for margin requirements. The discount factor is raised by 10 points when calculating sensitivity.

Loans at fair value through other comprehensive income (level 3)

Property Loans at floating interest classified at fair value over other comprehensive income is valued based on nominal amount reduced by expected credit loss. Loans with no significant credit risk detoriation since first recognition is assessed at nominal amount. For loans with a significant increase in credit risk since first recognition or objective evidence of loss, the calculation of expected credit losses over the life of the asset is in line with loan losses for loans at amortised cost. Estimated fair value is the nominal amount reduced by expected lifetime credit loss. If the likelihood of the worst case scenario in the model is doubled, fair value is reduced by NOK 4 million

Short-term paper and bonds (level 2 and 3)

Valuation on level 2 is based for the most part on observable market information in the form of interest rate curves, exchange rates and credit margins for the individual credit and the bond's or certificate's characteristics. For paper valued under level 3 the valuation is based on indicative prices from a third party or comparable paper.

Equity instruments (level 3)

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 365 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank 1 Invest. The valuations are in all essentials based on reporting from managers of the funds who utilise cash flow based models or multiples when determining fair value. The Group does not have full access to information on all the elements in these valuations and is therefore unable to determine alternative assumptions. Determination of fair value for the shares of Polaris Media is based on valuation undertaken by SpareBank 1 Markets. The latter is based on value-adjusted equity capital.

The owner interest in Visa Norge FLI is considered to be a financial asset and is classified to the category 'available for sale'. SpareBank 1 SMN has calculated the fair value of its portion of Visa Norge FLI at NOK 31.5 million. Sensitivity at level 3 measurement: Since the estimated value of Visa Norge is calculated by the association we do not have access to all significant inputs, but SpareBank 1 SMN has taken into account a liquidity discount on the shares of Visa Inc. of 20 per cent. Had this been adjusted to 25 per cent, the fair value measurement would have been 4.1 million lower.

Financial derivatives (level 2)

Financial derivatives at level 2 include for the most part currency futures and interest rate and exchange rate swaps. Valuation is based on observable interest rate curves. In addition the item includes derivatives related to FRAs. These are valued with a basis in observable prices in the market. Derivatives classified to level 2 also include equity derivatives related to SpareBank 1 Markets' market-making activities. The bulk of these derivatives refer to the most sold shares on Oslo Børs, and the valuation is based on the price of the actual/underlying share and observable or calculated volatility.

Sensitivity analyses, level 3 as of 30 June 2018

(NOKm)	Book value	Effect from change in reasonable possible alternative assumtions
Fixed interest loans	3,522	-9
Equity instruments through profit/loss	462	-
Loans at fair value through other comprehensive income	59,480	-4
Equity instruments through other comprehensive income	54	-4

* As described above, the information to perform alternative calculations are not available

Note 16 - 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 while housing prices fall 30 per cent. In the same period minimum requirements to LCR shall be fulfilled.

The average residual maturity on the portfolio of senior bonds and covered bonds at the end of the first half was 2.98 years. The overall LCR at the same point was 150 per cent and the average overall LCR in the second quarter was 151 per cent. The LCR in Norwegian kroner at quarter-end was 117 and for euro there is net cash flows in.

Note 17 - Earnings per EC

(Nokm)	January - June 2018	January - June 2017
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve 1)	1,163	741
Allocated to ECC Owners 2)	744	474
Issues Equity Captial Certificates adjusted for own certificates	129,331,186	129,552,433
Earnings per Equity Captial Certificate	**5.75**	**3.66**

1) Adjusted Net Profit	January - June 2018	January - June 2017
Net Profit for the group	1,209	776
adjusted for non-controlling interests share of net profit	-27	-17
Adjusted for Tier 1 capital holders share of net profit	-20	-17
Adjusted Net Profit	**1,163**	**741**

2) Equity capital certificate ratio (parent bank)

(NOKm)	30 June 2018	31 Dec 2017
ECC capital	2,597	2,597
Dividend equalisation reserve	5,079	4,487
Premium reserve	895	895
Unrealised gains reserve	81	81
Other equity capital	-8	8
A. The equity capital certificate owners' capital	**8,644**	**8,068**
Ownerless capital	4,831	4,498
Unrealised gains reserve	45	45
Other equity capital	-4	5
B. The saving bank reserve	**4,872**	**4,548**
To be disbursed from gift fund	-	-
Dividend declared	-	-
Equity ex. profit	13,517	12,616
Equity capital certificate ratio A/(A+B)	**63.95 %**	**63.95 %**
Equity capital certificate ratio for distribution	**63.95 %**	**63.95 %**