

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

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

Pensions

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

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

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

The year's AFP cost of the new scheme has not been booked. The reason is that the Joint Office for the LO/NHO Schemes has not done the required calculations. This is in keeping with the recommendation of the Norwegian Accounting Standards Board.

IAS Employee Benefits

A new IAS 19 on employee benefits was adopted by the EU on 6 June 2012. The implementation date is 1 January 2013, with an opportunity for early implementation. SpareBank 1 SMN will implement the standard as from 1 January 2013. Based on actuarial calculations as of 31 December 2012, implementation is estimated to have a positive effect of about NOK 52m on the Group's equity capital. The change compared with the previous estimate is due mainly to a change in the discount rate since the previous calculation.

Guarantee agreement with BN Bank

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

Held for sale

In the fourth quarter SpareBank 1 SMN reclassified its investment in Polaris Media to the category "held for sale", in accordance with IFRS 5. The best estimate on the balance sheet date is taken as fair value. In January the bank sold off parts of the investment at NOK 27 per share. See also the account in the report of the Board of Directors.