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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. As from 2007 the company accounts are also prepared and presented under IFRS. This entails that investments in associates and subsidiaries are recognised using the cost method. For this reason results recorded by associates and subsidiaries are not included in the parent bank's accounts. As from the first quarter of 2012, return on treasury bills is to be presented as net interest income instead of, as previously, capital gains or losses. Historical data have been correspondingly restated.

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 2012. Further, the Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts, except:

IAS 1 Presentation of Financial Statements
As from the first quarter the statement of other income and expenses displays items that are reclassified to profit/loss and items not reclassified to profit/loss separately from each other.

IAS 19R Benefits to employees
As from 1 January 2013 the Group has applied IAS 19R Benefits to Employees and changed the basis for calculation of pension liabilities and pension costs. The Group has previously utilised the corridor approach to account for unamortised estimate deviations. The corridor approach is no longer permitted, and all estimate deviations shall according to IAS 19R be entered in the statement on other income and expenses. Previously return on pension assets was calculated by applying long-term expected return on pension assets. As a result of the application of IAS 19R the period's net interest expense is calculated by applying the discount rate for the liability at the start of the period to the net liability. Net interest cost consists therefore of interest on the liability and return on the assets, both calculated using the discount rate. Changes in the net pension liability as a result of premium payments and disbursement of pensions are taken into account. The difference between actual return on pension assets and the booked return is accounted for continuously against other income and expenses.

The corridor as of 1 January 2012 is calculated anew in accordance with the principles set out in IAS 19R by, in part, setting the return on assets for 2012 equal to the discount rate.

Implementation has had the following balance sheet effect (Group):

(NOKm)

First quarter 2012 (1.1.2012)	Original balance sheet value	Change on implementation	New balance sheet value
Overfunded defined benefit pension plan (other assets)	35	-35	-
Underfunded defined benefit pension plan (other liabilities)	-	77	77
Deferred tax	10	-31	-21
Other equity capital	1,268	-81	1,187
31 December 2012			
Overfunded defined benefit pension plan (other assets)	15	57	72
Underfunded defined benefit pension plan (other liabilities)	-	-	-
Deferred tax	4	16	20
Other equity capital	1,303	41	1,343
First quarter 2013 (impl. 1.1.13)			
Overfunded defined benefit pension plan (other assets)	15	57	72
Underfunded defined benefit pension plan (other liabilities)	-	-	-
Deferred tax	4	16	20
Other equity capital *)	1,303	41	1,343

*) Entered in the accounts as a strengthening of the Group's equity capital as of first quarter 2013, NOK 57m minus deferred tax NOK 16m.

The balance sheet has been reworked as shown above.

Under the previous principle, the pension cost in 2012 amounted to NOK 32m. Due to the change in the principle for dealing with unamortised estimate deviations and calculating net interest expense, the booked pension cost increased to NOK 37m. Comparatives for profits/loss have not been reworked since the change is considered to be insignificant. Capital adequacy, EC-holder ratio (EC-holders' share of total equity) and other key figures and ratios have not been reworked for previous periods.

IFRS 7 Offsetting of financial instruments

The Group has implemented the change in IFRS 7 entailing an extended note disclosure requirement relating to, respectively, netting of financial instruments and set-off arrangements related to financial instruments. See note 14.

IFRS 13 Fair value measurement

The Group has implemented IFRS 13 on the fair value measurement of financial instruments. The note disclosures build largely on corresponding notes in the last annual accounts. See note 15.

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 per cent and 60 per cent 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 per cent 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.

The Group has in the first quarter implemented IAS 19R on benefits to employees. See note 1 on accounting principles.

Business acquisition

SpareBank 1 SMN took over 23.89 per cent of the shares of SpareBank 1 Markets in the third quarter. The bank previously indirectly owned 19.23 per cent of SpareBank 1 Markets through its ownership in SpareBank 1 Gruppen. A final acquisition analysis has been conducted in accordance with IFRS 3 in which the acquisition price, NOK 35.3 million, is allocated to fair value of assets and liabilities. The previous owner interest is carried forward to continuity. The difference between identifiable net assets and acquisition cost of the increased asset, NOK 1.5 million, is taken to income in the third quarter in accordance with IAS 28.

Note 3 - Account by business line

The Bank was reorganised as from 1 January 2013. It was therefore natural to revise the segment structure.

As from 1 January 2013 the corporate market segment is split up and reports as two separate segments: Group Customers and Small and Mid-size Enterprises. Historical data have not been reworked since these are difficult to reconstruct at a sufficiently precise level. Thus, for comparison purposes, Group Customers and SMEs must be viewed collectively in relation to 2012. This will apply to each quarter of 2013. In organisation terms, SMEs are a part of Offices which also handles Retail Customers.

Since Allegro accounts for a very limited part of the Group’s profits, it is no longer reported on as a separate segment that is added in the column for “others”. As from second quarter 2013 the joint ventures SpareBank 1 Gruppen and BN Bank are being treated as separate segments. The rationale is that each of these entities accounts for a substantial portion of the consolidated profit while at the same time being of significance in the capital requirement context. Consequently the companies receive much focus in the Group's internal corporate governance. As from the third quarter of 2013 companies held for sale are reported under the Corporate Customer segment. 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.

SpareBank 1 SMN

Group 31 Dec 2013

Profit and loss account (NOK million)	RM	SME	Group Corporates	Markets	EM 1	SB1 Finans MN	SB1 Regnskapshuset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	630	284	695	5	7	118	-0	-	-	-122	1,616
Interest from allocated capital	11	3	34	-1	-	-	-	-	-	-47	-
Total interest income	**641**	**286**	**729**	**4**	**7**	**118**	**-0**	**-**	**-**	**-170**	**1,616**
Commission income and other income	704	79	91	29	368	-3	133	-	-	62	1,463
Net return on financial investments **)	1	1	49	40	-	0	-0	210	91	141	531
Total income *)	**1,346**	**366**	**869**	**73**	**375**	**116**	**132**	**210**	**91**	**33**	**3,610**
Total operating expenses	**641**	**156**	**257**	**85**	**314**	**45**	**118**	**-**	**-**	**103**	**1,722**
Ordinary operating profit	**705**	**210**	**612**	**-13**	**61**	**70**	**14**	**210**	**91**	**-71**	**1,888**
Loss on loans, guarantees etc.	6	5	71	-	-	20	-	-	-	-1	101
Result before tax including held for sale	**699**	**205**	**541**	**-13**	**61**	**51**	**14**	**210**	**91**	**-70**	**1,788**
Post-tax return on equity	**38.7 %**	**29.4 %**	**12.8 %**								**13.3 %**
Balance (NOK million)											
Loans and advances to customers	63,518	9,055	31,920	-	-	3,291	-	-	-	4,255	112,038
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-30,204	-421	-1,110	-	-	-	-	-	-	-	-31,735
Individual allowance for impairment on loan	-28	-15	-122	-	-	-23	-	-	-	15	-173
Group allowance for impairment on loan	-73	-30	-175	-	-	-16	-	-	-	-0	-295
Other assets	501	35	306	-	291	12	105	1,113	1,188	31,975	35,525
Total assets	**33,713**	**8,623**	**30,818**	**-**	**291**	**3,264**	**105**	**1,113**	**1,188**	**36,245**	**115,360**
Deposits to customers	24,185	8,734	21,544	-	-	-	-	-	-	1,611	56,074
Other liabilities and equity	9,528	-111	9,274	-	291	3,264	105	1,113	1,188	34,634	59,286
Total liabilites	**33,713**	**8,623**	**30,818**	**-**	**291**	**3,264**	**105**	**1,113**	**1,188**	**36,245**	**115,360**

SpareBank 1 SMN

Group 31 Dec 2012

Profit and loss account (NOK million)	RM	CM	Markets	EM 1	SB1 Finans MN	SB1 Regnskapshuset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	540	905	-21	5	108	3	-	-	-62	1,477
Interest from allocated capital	11	98	4	-	-	-	-	-	-113	-
Total interest income	**552**	**1,003**	**-18**	**5**	**108**	**3**	**-**	**-**	**-175**	**1,477**
Commission income and other income	484	137	24	380	-3	105	-	-	13	1,139
Net return on financial investments **)	1	68	87	-	-1	-	94	72	145	467
Total income *)	**1,037**	**1,207**	**93**	**385**	**104**	**107**	**94**	**72**	**-17**	**3,084**
Total operating expenses	**653**	**399**	**94**	**309**	**40**	**93**	**-**	**-**	**66**	**1,654**
Ordinary operating profit	**384**	**809**	**-1**	**76**	**65**	**14**	**94**	**72**	**-82**	**1,430**
Loss on loans, guarantees etc.	1	45	-	-	9	-	-	-	4	58
Result before tax including held for sale	**383**	**764**	**-1**	**76**	**56**	**14**	**94**	**72**	**-86**	**1,371**
Post-tax return on equity	**22.6 %**	**14.4 %**	**-0.4 %**							**11.7 %**
Balance (NOK million)										
Loans and advances to customers	58,892	40,671	-	-	3,146	-	-	-	2,200	104,909
Adv. of this to SpareBank 1 Boligkreditt	-28,029	-976	-	-	-	-	-	-	-960	-29,966
Individual allowance for impairment on loan	-28	-101	-	-	-15	-	-	-	-0	-144
Group allowance for impairment on loan	-	-	-	-	-16	-	-	-	-278	-295
Other assets	391	1,061	-	299	19	68	1,064	1,095	29,474	33,471
Total assets	**31,225**	**40,655**	**-**	**299**	**3,133**	**68**	**1,064**	**1,095**	**30,436**	**107,975**
Deposits to customers	22,440	27,064	-	-	-	-	-	-	2,747	52,252
Other liabilities and equity	8,784	13,591	-	299	3,133	68	1,064	1,095	27,688	55,723
Total liabilites	**31,225**	**40,655**	**-**	**299**	**3,133**	**68**	**1,064**	**1,095**	**30,436**	**107,975**

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

**) Specification of net return on financial investments (NOKm)	31 Dec 2013	31 Dec 2012
Capital gains/dividends, shares	114	24
Bonds and derivatives	-40	57
SpareBank 1 SMN Markets	73	126
Net return on financial investments	**147**	**207**
SpareBank 1 Gruppen	210	94
SpareBank 1 Boligkreditt	40	44
SpareBank 1 Næringskreditt	8	8
BN Bank	91	72
Other jointly controlled companies	36	42
Income from investment in related companies	**384**	**260**
Total	**531**	**467**

Note 4 - Operating expenses

Parent bank			Group	
31 Dec 2012	31 Dec 2013	(NOKm)	31 Dec 2013	31 Dec 2012
618	587	Personnel expenses	914	924
166	187	IT costs	206	187
23	24	Postage and transport of valuables	29	28
39	38	Marketing	58	49
43	53	Ordinary depreciation	118	102
128	120	Operating expenses, real properties	118	101
55	58	Purchased services	70	66
132	130	Other operating expense	207	199
1,206	**1,197**	**Total other operating expenses**	**1,722**	**1,654**

Note 5 - Distribution of loans by sector/industry

Parent bank			Group	
31 Dec 2012	31 Dec 2013	(NOKm)	31 Dec 2013	31 Dec 2012
5,964	6,208	Agriculture, forestry, fisheries, hunting	6,359	6,129
2,325	2,334	Sea farming industries	2,463	2,447
2,123	1,946	Manufacturing	2,142	2,349
2,967	2,693	Construction, power and water supply	3,207	3,504
2,625	2,275	Retail trade, hotels and restaurants	2,442	2,804
5,734	5,395	Maritime sector	5,402	5,739
12,232	12,048	Property management	12,118	11,710
3,063	3,646	Business services	3,867	3,258
2,037	2,284	Transport and other services provision	2,706	2,364
189	400	Public administration	423	215
1,795	2,391	Other sectors	2,395	1,801
41,052	**41,619**	**Gross loans in retail market**	**43,523**	**42,322**
61,377	67,146	Wage earners	68,515	62,587
102,430	**108,765**	**Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt**	**112,038**	**104,909**
29,348	30,514	SpareBank 1 Boligkreditt	30,514	29,348
618	1,221	SpareBank 1 Næringskreditt	1,221	618
72,464	**77,030**	**Gross loans in balance sheet**	**80,303**	**74,943**

Note 6 - Losses on loans and guarantees

Parent bank			Group	
31 Dec 2012	31 Dec 2013	(NOKm)	31 Dec 2013	31 Dec 2012
-22	22	Change in individual impairment losses provisions for the period	29	-28
5	-	Change in collective impairment losses provisions for the period	-	5
51	34	Actual loan losses on commitments for which provisions have been made	40	63
54	39	Actual loan losses on commitments for which no provision has been made	45	57
-37	-13	Recoveries on commitments previously written-off	-14	-38
51	**82**	**Losses of the year on loans and guarantees**	**101**	**58**

Note 7 - Losses

Parent bank			Group	
31 Dec 2012	31 Dec 2013	(NOKm)	31 Dec 2013	31 Dec 2012
151	129	Individual write-downs to cover loss on loans at 01.01*	144	172
4	12	+ Increased write-downs on provisions previously written down	15	4
13	16	- Reversal of provisions from previous periods	18	13
37	59	+ Write-downs on provisions not previously written down	71	43
51	34	- Actual losses during the period for which provisions for individual impairment losses have been made previously	40	63
129	**150**	**Specification of loss provisions at end of period**	**173**	**144**
104	73	Actual losses	85	119

*) Individually assessed impairment write-downs on guarantees, totalling NOK 1m, are shown in the balance sheet as a liability under 'Other liabilities'.

Note 8 - Defaults

Parent bank			Group	
31 Dec 2012	31 Dec 2013	(NOKm)	31 Dec 2013	31 Dec 2012
		Total defaults		
298	311	Loans in default for more than 90 days *)	386	374
72	73	- individual write-downs	87	83
226	238	Net defaults	299	291
24 %	24 %	Provision rate	23 %	22 %
		Problem Loans		
119	146	Problem loans (not in default)	157	143
57	76	- individual write-downs	86	62
63	70	Net problem loans	71	81
48 %	52 %	Provision rate	55 %	43 %

*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q4.
Any default in this portfolio will not entail loss for SpareBank 1 SMN.

Note 9 - Other assets

Parent bank			Group	
31 Dec 2012	**31 Dec 2013**	**(NOKm)**	**31 Dec 2013**	**31 Dec 2012**
-	-	Deferred tax benefit	18	13
201	169	Fixed assets	1,176	1,277
1,009	1,568	Earned income not yet received	1,591	1,026
46	207	Accounts receivable, securities	207	46
21	82	Pensions	82	21
262	84	Other assets	270	416
1,538	**2,110**	**Total other assets**	**3,344**	**2,798**

Note 10 - Distribution of customer deposits by sector/industry

Parent bank			Group	
31 Dec 2012	**31 Dec 2013**	**(NOKm)**	**31 Dec 2013**	**31 Dec 2012**
2,002	2,059	Agriculture, forestry, fisheries, hunting	2,059	2,002
138	406	Sea farming industries	406	138
891	1,239	Manufacturing	1,239	891
1,715	1,808	Construction, power and water supply	1,808	1,715
3,923	4,313	Retail trade, hotels and restaurants	4,313	3,923
1,166	2,150	Maritime sector	2,150	1,166
4,865	4,142	Property management	4,033	4,256
4,802	4,885	Business services	4,885	4,802
3,575	4,320	Transport and other services provision	3,999	3,360
4,354	4,723	Public administration	4,723	4,354
3,477	2,620	Other sectors	2,594	3,366
30,908	**32,666**	**Total**	**32,209**	**29,973**
22,279	23,865	Wage earners	23,865	22,279
53,187	**56,531**	**Total deposits**	**56,074**	**52,252**

Note 11 - Debt created by issue of securities

Parent bank			Group	
31 Dec 2012	**31 Dec 2013**	**(NOKm)**	**31 Dec 2013**	**31 Dec 2012**
706	2,750	Short-term debt instruments, nominal value	2,750	706
29,190	30,718	Bond debt, nominal value	30,718	29,190
364	294	Value adjustments	294	364
30,259	**33,762**	**Total**	**33,762**	**30,259**

Change in securities debt, subordinated debt and hybrid equity

	31 Dec 2013	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2012
Short-term debt instruments, nominal value	2,750	2,785	741	-	706
Bond debt, nominal value	30,718	7,788	7,120	860	29,190
Value adjustments	294	-	-	-70	364
Total	33,762	10,573	7,861	790	30,259

	31 Dec 2013	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2012
Ordinary subordinated loan capital, nominal value	1,522	-	169	-62	1,753
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	1,400	950	522	102	869
Value adjustments	82	-	-	-36	118
Total	3,304	950	691	4	3,040

Note 12 - Other liabilities

Parent bank			Group	
31 Dec 2012	31 Dec 2013	(NOKm)	31 Dec 2013	31 Dec 2012
83	17	Deferred tax	23	93
248	438	Payable tax	476	290
8	8	Capital tax	8	8
800	883	Accrued expenses and received, non-accrued income	1,091	1,124
74	48	Provision for accrued expenses and commitments	48	74
87	73	Drawing debt	73	87
9	7	Creditors	29	40
73	339	Debt from securities	339	73
233	179	Other liabilities	215	276
1,615	**1,992**	**Total other liabilites**	**2,303**	**2,070**

Note 13 - Capital adequacy

SpareBank 1 SMN has used IRB (Internal Rating Approach – Foundation) to calculate charges for credit risk since January 2007. Using IRB imposes wide-ranging requirements on the bank's organisation, competence, risk models and risk management systems. In June 2013 the bank applied for permission to switch to Advanced IRB for enterprise portfolios currently reported using the foundation approach. The effect of the risk weights under IRB is limited due to transitional rules set out in regulations issued by Finanstilsynet.

As from second quarter 2013 the measurement method for operational risk was changed from the basic approach to the standardised approach at the parent bank. At the group level, subsidiaries are still measured using the basic approach.

As from 1 July 2013 new buffer requirements have been introduced; see the Financial Institutions Act section 2-9e. As of 31 December 2013 the capital conservation buffer requirement is 2.5 per cent and the systemic risk buffer requirement is 2 per cent. These requirements are in addition to the requirement that own funds should constitute at least 4.5 per cent common equity tier 1 (CET1) capital, bringing the overall minimum CET1 requirement to 9 per cent.

Over the course of 2014 the systemic risk buffer requirement will increase by a further 1 percentage point, bringing the overall CET1 requirement as of 30 June 2014 to 10 per cent. As of 30 June 2015, a countercyclical buffer requirement of 1 percentage point will be applicable.

Hybrid capital denotes bonds with a nominal interest rate, but the bank is not obliged to pay interest in a period where dividends are not paid, and neither is the investor subsequently entitled to interest that has not been paid, i.e. interest does not accumulate. Hybrid capital characterised by moderate repayment incentives is approved as an element of tier 1 capital up to limit of 15 per cent of aggregate tier 1 capital. If, on the other hand, hybrid capital has no fixed term to maturity and has no repayment incentives, it may be included as an element of core capital up to limit of 15 per cent of aggregate core capital.

Finanstilsynet (Norway's FSA) can require hybrid capital to be written down in proportion with equity capital should the bank's tier 1 capital adequacy fall below 5 per cent or total capital adequacy falls below 8 per cent. Written-down amounts on hybrid capital must be written up before dividends can be paid to shareholders or before equity capital is written up. Hybrid capital is recognised as other long-term debt at amortised cost.

In connection with change requirements regarding the conditions for hybrid capital, hybrid capital that does not satisfy the new requirements over time will not be eligible for inclusion in other core capital. Such hybrid capital will be reduced by 20 per cent in 2014 and 10 per cent thereafter. As of 31 December 2013, SpareBank 1 SMN held NOK 450m in hybrid capital which will be subject to reduction.

Subordinated debt ranks behind all other liabilities. Dated subordinated loans cannot constitute more than 50 per cent of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans cannot constitute more than 100 per cent of tier 1 capital. Subordinated loans are classified as a liability in the balance sheet and are measured at amortised cost in the same way as other long-term loans.

For detailed information regarding subordinated debt and hybrid capital, see note 5 in the Bank's annual report.

Parent bank			Group	
31 Dec 2012	**31 Dec 2013**	**(NOKm)**	**31 Dec 2013**	**31 Dec 2012**
2,597	2,597	Equity capital certificates	2,597	2,597
-0	-0	- Own holding of ECCs	-0	-0
895	895	Premium fund	895	895
1,889	2,496	Dividend equalisation fund	2,496	1,889
2,944	3,276	Savings bank's reserve	3,276	2,944
195	227	Recommended dividends	227	195
30	124	Provision for gifts	124	30
106	195	Unrealised gains reserve	206	123
0	-	Other equity and minority interest	1,421	1,370
8,656	**9,811**	**Total book equity**	**11,242**	**10,042**
-447	-447	Deferred taxes, goodwill and other intangible assets	-582	-674
-	-	Part of reserve for unrealised gains, associated companies	98	57
-225	-352	Deduction for allocated dividends and gifts	-361	-238
-448	-401	50 % deduction for subordinated capital in other financial institutions	-106	-2
-165	-240	50 % deduction for expected losses on IRB, net of write-downs	-214	-179
-	-	50 % capital adequacy reserve	-595	-703
-55	-109	Surplus financing of pension obligations	-107	-49
7,316	**8,262**	**Total common equity Tier one**	**9,374**	**8,254**
918	1,431	Hybrid capital, core capital	1,615	1,103
8,234	**9,693**	**Total core capital**	**10,989**	**9,357**
		Supplementary capital in excess of core capital		
-	-	Tier 2 capital - excees of 15 per cent additional Tier 1 capital	31	31
312	304	Perpetual subordinated capital	363	312
1,810	1,569	Non-perpetual subordinated capital	1,950	2,127
-448	-401	50 % deduction for subordinated capital in other financial institutions	-106	-2
-165	-240	50 % deduction for expected losses on IRB, net of write-downs	-214	-179
-	-	50 % capital adequacy reserve	-595	-703
1,509	**1,231**	**Total supplementary capital**	**1,428**	**1,586**
9,742	**10,924**	**Net subordinated capital**	**12,417**	**10,943**
		Minimum requirements subordinated capital, Basel II		
1,654	1,573	Involvement with spesialised enterprises	1,573	1,654
1,470	1,478	Other corporations exposure	1,479	1,470
39	70	SME exposure	74	42
316	363	Retail morgage exposure	628	560
28	28	Other retail exposure	33	30
1,118	1,157	Equity investments	-	-
4,625	**4,669**	**Total credit risk IRB**	**3,787**	**3,756**
205	224	Debt risk	224	205
14	8	Equity risk	10	15
-	-	Currency risk	-	-
315	297	Operational risk	398	420
553	560	Exposures calculated using the standardised approach	2,151	2,074
-75	-67	Deductions	-119	-120
-	-	Transitional arrangements	316	246
5,637	**5,690**	**Minimum requirements subordinated capital**	**6,767**	**6,596**
70,468	71,130	Risk weigheted assets (RWA)	84,591	82,446
		Capital adequacy		
10.4 %	11.6 %	Common equity Tier one ratio	11.1 %	10.0 %
11.7 %	13.6 %	Core capital ratio	13.0 %	11.3 %
13.8 %	15.4 %	Capital adequacy ratio	14.7 %	13.3 %

Note 14 - Financial instruments and offsetting

As from 2013 the Bank is required to disclose financial instruments which the Bank considers to fulfil the requirements for netting under IAS 32.42, and financial instruments in respect of which offsetting agreements have been entered into. Both in accordance with IFRS 7.13 A-F.

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. As regards 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 the fourth quarter 2013 the Bank has 22 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.

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default
31 Dec 2013	Derivatives	1,488
31 Dec 2012	Derivatives	562

Parent Bank and Group are identical.

Note 15 - Measurement of fair value of financial instruments

In connection with implementation of IFRS 13, interim financial statements are required to present fair value measurements per level with the following division into levels for fair value measurement:

Level 1: quoted price in an active market for an identical asset or liability

Level 2: valuation based on other observable inputs either directly (price) or indirectly (derived from prices) than quoted price (used in level 1) for the asset or liability

Level 3: valuation based on inputs not taken from observable markets (unobservable inputs)

For further details, see Note 26 Measurement of fair value of financial instruments in the annual accounts, and note 27 Fair value of financial instruments.

As of second quarter fixed-rate loans are classified in level 3.

Shares held for sale are not included in the tables below.

The following table presents the Group's assets and liabilities measured at fair value as of 31 December 2013:

Assets (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit/loss				
Derivatives	111	2,939	-	3,050
Bonds and money market certificates	4,003	11,539	-	15,542
Equity capital instruments	67	-	905	972
Fixed-rate loans	-	-	2,648	2,648
Financial assets avaliable for sale				
Equity capital instruments	-	-	40	40
Total assets	**4,181**	**14,477**	**3,593**	**22,252**

Liabilities (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value through profit/loss				
Derivatives	334	1,961	-	2,295
Total liabilities	**334**	**1,961**	**-**	**2,295**

The following table presents the Group's assets and liabilities measured at fair value as of 31 December 2012:

Assets (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit/loss				
Derivatives	34	3,066	-	3,100
Bonds and money market certificates	3,764	10,825	-	14,590
Equity capital instruments	131	-	601	731
Fixed interest loans	-	-	2,585	2,585
Financial assets avaliable for sale				
Equity capital instruments	-	-	46	46
Total assets	**3,929**	**13,892**	**3,231**	**21,051**

Liabilities (NOKm)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities through profit/loss				
Derivatives	33	2,757	-	2,790
Total liabilities	**33**	**2,757**	**-**	**2,790**

The valuation of equity capital instruments classified in level 3 is done at the individual group company – in the main SpareBank 1 SMN Invest and SpareBank 1 SMN. Routines have been established for ongoing valuation of all share investments and the valuation is done using various intervals in relation to the size of the investment.

For participations seedcorn funds and venture funds, use is made of valuations from the managers of the various funds. These valuations are based on guidelines either from the European Venture Capital Association (EVCA) or the International Private Equity (IPEV) guidelines. Other funds such as property funds, normally use external broker's estimates. Funds or companies with few participants use the original cost or market price if transactions have been carried out at the company.

The owner interests in Nets Holding and Nordito Property are valued each quarter by SpareBank 1 Gruppen and distributed to all Alliance banks. This valuation is based on an average of five different methods where the last known transaction price, profit per share, dividends per share and EBITDA are inputs to the assessments. As from the second quarter the same valuation is applied to the shares of Bank 1 Oslo Akershus.

Effect on result of financial instruments belonging to level 3

(NOKm)	31 Dec 2013	31 Dec 2012
Financial assets at fair value through profit/loss		
Realised gain/loss	8	-
Change in unrealised gain/loss	60	11
Financial assets avaliable for sale		
Change in unrealised gain/loss	-6	-
Fixed interest loans		
Net gain/loss	-25	55
Total effect on result	**37**	**66**