

# 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. 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.

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 2013. 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:

IFRS 10 – Consolidated Financial Statements. This standard deals with defining “subsidiary”, and gives more weight to actual control than earlier rules. Control exists only where and investor has power over relevant activities of the investee, exposure to variable returns, and in addition the ability to use its power to affect the investee's returns. In cases where loan terms are breached, the Bank will consider whether it has achieved genuine power under IFRS 10. The standard is implemented from 1 January 2014.

IFRS 11 – Joint Arrangements replaces IAS 31 and SIC-13. IFRS 11 removes the opportunity to apply proportional consolidation for jointly-controlled entities. The Bank has considered the effect of the new standard, in particular in relation to the alliance Alliansesamarbeidet SpareBank 1 DA, and concluded that it will not be of essential significance for the Group's reporting. The standard is implemented from 1 January 2014.

IFRS 12 – Disclosure of Interests in Other Entities. This standard extends the disclosure requirement in next year's annual accounts as regards investments in subsidiaries, associates, jointly controlled entities and structured entities. The standard is implemented from 1 January 2014.

## 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.

### **Nets Holding AS**

SpareBank 1 SMN has entered an agreement to sell its stake in Nets Holding AS. The stake is 2.2 per cent, corresponding to 4,028,773 shares. The sale requires the approval of the regulatory authorities. The process is expected to reach completion in the second quarter of 2014. The shares are measured at fair value via profit/loss and are valued at the end of the first quarter at the agreed sale price in Danish kroner converted using the exchange rate in effect on the balance sheet date. Unrealised gain including agio is recognised in an amount of NOK 148m. In addition, received dividend is recognised in an amount of NOK 8.8m.

### Note 3 - Account by business line

As from 1 January 2014 the Bank's SMB portfolio is split up and assigned to Retail Banking and Corporate Banking respectively. Limited companies are transferred to Corporate Banking. Sole proprietorships, agricultural customers and associations etc are transferred to Retail Banking. Historical data have not been reworked owing to the difficulty of reconstructing such data at a sufficiently precise level.

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 31 March 2014

Profit and loss account (NOK million)	RM	CM	Markets	EM 1	SB1	SB1	SB1	BN	Uncollated	Total	
					Finans	Regnskaps-					Gruppen
					MN	huset	SMN				
Net interest	197	206	-3	-1	32		0	-	-	-20	412
Interest from allocated capital	9	14	0	-	-		-	-	-	-23	-
<b>Total interest income</b>	<b>206</b>	<b>220</b>	<b>-2</b>	<b>-1</b>	<b>32</b>		<b>0</b>	-	-	<b>-43</b>	<b>412</b>
Commission income and other income	194	38	8	79	-0		50	-	-	18	385
Net return on financial investments **)	0	9	11	-	0		-	46	25	168	259
<b>Total income *)</b>	<b>400</b>	<b>267</b>	<b>17</b>	<b>78</b>	<b>31</b>		<b>50</b>	<b>46</b>	<b>25</b>	<b>142</b>	<b>1,055</b>
<b>Total operating expenses</b>	<b>204</b>	<b>84</b>	<b>16</b>	<b>75</b>	<b>13</b>		<b>43</b>	-	-	<b>7</b>	<b>441</b>
<b>Ordinary operating profit</b>	<b>196</b>	<b>182</b>	<b>1</b>	<b>3</b>	<b>19</b>		<b>7</b>	<b>46</b>	<b>25</b>	<b>135</b>	<b>614</b>
Loss on loans, guarantees etc.	1	14	-	-	2		-	-	-	-0	17
<b>Result before tax including held for sale</b>	<b>195</b>	<b>169</b>	<b>1</b>	<b>3</b>	<b>17</b>		<b>7</b>	<b>46</b>	<b>25</b>	<b>137</b>	<b>598</b>
<b>Post-tax return on equity</b>	<b>36.3 %</b>	<b>16.5 %</b>									<b>17.7 %</b>
<b>Balance (NOK million)</b>											
Loans and advances to customers	73,735	33,436	-	-	3,376		-	-	-	1,013	111,560
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-31,054	-1,138	-	-	-		-	-	-	-3	-32,194
Individual allowance for impairment on loan	-28	-128	-	-	-17		-	-	-	0	-173
Group allowance for impairment on loan	-90	-188	-	-	-16		-	-	-	-	-295
Other assets	279	140	-	281	12		140	1,161	1,213	29,485	32,711
<b>Total assets</b>	<b>42,842</b>	<b>32,123</b>	<b>-</b>	<b>281</b>	<b>3,355</b>		<b>140</b>	<b>1,161</b>	<b>1,213</b>	<b>30,495</b>	<b>111,609</b>
Deposits to customers	29,432	24,740	-	-	-		-	-	-	565	54,736
Other liabilities and equity	13,411	7,383	-	281	3,355		140	1,161	1,213	29,930	56,873
<b>Total liabilities</b>	<b>42,842</b>	<b>32,123</b>	<b>-</b>	<b>281</b>	<b>3,355</b>		<b>140</b>	<b>1,161</b>	<b>1,213</b>	<b>30,495</b>	<b>111,609</b>

## Group 31 March 2013

Profit and loss account (NOK million)	Group					SB1	SB1	SB1	BN	Uncollated	Total
	RM	SME	Corporates	Markets	EM 1	Finans MN	Regnskaps- huset SMN	SB1 Gruppen	BN Bank		
Net interest	134	69	148	-5	1	30	0	-	-	-33	343
Interest from allocated capital	3	-	8	-	-	-	-	-	-	-11	-
<b>Total interest income</b>	<b>137</b>	<b>69</b>	<b>156</b>	<b>-5</b>	<b>1</b>	<b>30</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-44</b>	<b>343</b>
Commission income and other income	137	19	20	7	73	-3	33	-	-	31	317
Net return on financial investments **)	0	1	4	21	-	-	-	61	25	57	169
<b>Total income *)</b>	<b>274</b>	<b>88</b>	<b>180</b>	<b>23</b>	<b>74</b>	<b>26</b>	<b>33</b>	<b>61</b>	<b>25</b>	<b>44</b>	<b>829</b>
<b>Total operating expenses</b>	<b>164</b>	<b>34</b>	<b>61</b>	<b>21</b>	<b>63</b>	<b>10</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>414</b>
<b>Ordinary operating profit</b>	<b>110</b>	<b>54</b>	<b>119</b>	<b>2</b>	<b>11</b>	<b>16</b>	<b>3</b>	<b>61</b>	<b>25</b>	<b>13</b>	<b>414</b>
Loss on loans, guarantees etc.	3	2	10	-	-	2	-	-	-	1	17
<b>Result before tax including held for sale</b>	<b>107</b>	<b>53</b>	<b>109</b>	<b>2</b>	<b>11</b>	<b>14</b>	<b>3</b>	<b>61</b>	<b>25</b>	<b>13</b>	<b>398</b>
<b>Post-tax return on equity</b>	<b>25.2 %</b>	<b>33.8 %</b>	<b>10.1 %</b>								<b>12.7 %</b>
<b>Balance (NOK million)</b>											
Loans and advances to customers	61,943	8,602	32,569	-	-	3,146	-	-	-	570	106,830
Adv. of this to SpareBank 1 Boligkreditt	-29,441	-386	-578	-	-	-	-	-	-	-	-30,405
Individual allowance for impairment on loan	-25	-18	-85	-	-	-15	-	-	-	-0	-143
Group allowance for impairment on loan	-73	-30	-175	-	-	-16	-	-	-	-0	-295
Other assets	89	318	46	-	89	42	37	1,083	1,119	31,978	34,802
<b>Total assets</b>	<b>32,493</b>	<b>8,486</b>	<b>31,777</b>	<b>-</b>	<b>89</b>	<b>3,157</b>	<b>37</b>	<b>1,083</b>	<b>1,119</b>	<b>32,548</b>	<b>110,790</b>
Deposits to customers	23,270	8,768	18,990	-	-	-	0	-	-	1,575	52,603
Other liabilities and equity	9,223	-282	12,788	-	89	3,157	37	1,083	1,119	30,972	58,187
<b>Total liabilities</b>	<b>32,493</b>	<b>8,486</b>	<b>31,777</b>	<b>-</b>	<b>89</b>	<b>3,157</b>	<b>37</b>	<b>1,083</b>	<b>1,119</b>	<b>32,548</b>	<b>110,790</b>

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

	31 Mar 2014	31 Mar 2013
**) Specification of net return on financial investments (NOKm)		
Capital gains/dividends, shares	156	24
Bonds and derivatives	-1	11
Forex and fixed income business, Markets	20	25
<b>Net return on financial investments</b>	<b>175</b>	<b>61</b>
SpareBank 1 Gruppen	46	61
SpareBank 1 Boligkreditt	8	12
SpareBank 1 Næringskreditt	11	2
BN Bank	25	26
SpareBank 1 Markets	-4	-
Other jointly controlled companies	-2	7
<b>Income from investment in related companies</b>	<b>84</b>	<b>108</b>
<b>Total</b>	<b>259</b>	<b>169</b>

## Note 4 - Operating expenses

Parent bank				Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014	(NOKm)	31 Mar 2014	31 Mar 2013	31 Dec 2013
592	157	161	Personnel expenses	254	240	923
187	44	55	IT costs	61	50	206
24	6	6	Postage and transport of valuables	7	7	29
38	9	8	Marketing	12	11	58
53	13	9	Ordinary depreciation	26	30	118
120	31	29	Operating expenses, real properties	22	24	118
58	9	9	Purchased services	12	11	71
125	25	28	Other operating expense	48	41	199
<b>1,197</b>	<b>295</b>	<b>305</b>	<b>Total other operating expenses</b>	<b>441</b>	<b>414</b>	<b>1,722</b>

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

Parent bank				Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014	(NOKm)	31 Mar 2014	31 Mar 2013	31 Dec 2013
6,208	5,870	6,203	Agriculture, forestry, fisheries, hunting	6,351	6,031	6,359
2,334	2,075	1,487	Sea farming industries	1,621	2,226	2,463
1,946	2,180	1,840	Manufacturing	2,030	2,396	2,142
2,693	2,922	2,592	Construction, power and water supply	3,105	3,446	3,207
2,275	2,536	2,210	Retail trade, hotels and restaurants	2,375	2,715	2,442
5,395	5,768	5,092	Maritime sector	5,099	5,774	5,402
12,048	12,580	11,946	Property management	12,016	12,056	12,118
3,646	3,533	3,651	Business services	3,889	3,776	3,867
2,284	2,201	2,255	Transport and other services provision	2,685	2,519	2,706
400	203	270	Public administration	293	230	423
2,391	1,757	2,561	Other sectors	2,566	1,763	2,395
<b>41,619</b>	<b>41,624</b>	<b>40,107</b>	<b>Gross loans in retail market</b>	<b>42,030</b>	<b>42,930</b>	<b>43,523</b>
67,146	62,655	68,096	Wage earners	69,530	63,900	68,515
<b>108,765</b>	<b>104,279</b>	<b>108,203</b>	<b>Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt</b>	<b>111,560</b>	<b>106,830</b>	<b>112,038</b>
30,514	29,789	30,961	SpareBank 1 Boligkreditt	30,961	29,789	30,514
1,221	616	1,233	SpareBank 1 Næringskreditt	1,233	616	1,221
<b>77,030</b>	<b>73,874</b>	<b>76,009</b>	<b>Gross loans in balance sheet</b>	<b>79,366</b>	<b>76,425</b>	<b>80,303</b>



## Note 6 - Losses on loans and guarantees

Parent bank			(NOKm)	Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014		31 Mar 2014	31 Mar 2013	31 Dec 2013
22	-1	6	Change in individual impairment losses provisions for the period	0	-2	29
-	-	-	Change in collective impairment losses provisions for the period	-	-	-
34	18	10	Actual loan losses on commitments for which provisions have been made	16	21	40
39	0	1	Actual loan losses on commitments for which no provision has been made	3	1	45
-13	-3	-2	Recoveries on commitments previously written-off	-2	-3	-14
<b>82</b>	<b>15</b>	<b>15</b>	<b>Losses of the year on loans and guarantees</b>	<b>17</b>	<b>17</b>	<b>101</b>

## Note 7 - Losses

Parent bank				Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014	(NOKm)	31 Mar 2014	31 Mar 2013	31 Dec 2013
129	129	150	Individual write-downs to cover loss on loans at 01.01*	173	144	144
			+ Increased write-downs on provisions previously written down	3	3	15
12	3	3				
16	3	2	- Reversal of provisions from previous periods	2	4	18
59	18	15	+ Write-downs on provisions not previously written down	16	19	71
			- Actual losses during the period for which provisions for individual impairment losses have been made previously	16	21	40
34	18	10				
<b>150</b>	<b>128</b>	<b>156</b>	<b>Specification of loss provisions at end of period</b>	<b>173</b>	<b>143</b>	<b>173</b>
73	18	11	Actual losses	19	21	85

\*) 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			(NOKm)	Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014		31 Mar 2014	31 Mar 2013	31 Dec 2013
<b>Total defaults</b>						
311	316	205	Loans in default for more than 90 days *)	263	388	386
73	61	51	- individual write-downs	59	71	87
238	255	155	Net defaults	205	317	299
24 %	19 %	25 %	Provision rate	22 %	18 %	23 %
<b>Problem Loans</b>						
146	138	213	Problem loans (not in default)	231	160	157
76	67	105	- individual write-downs	114	72	86
70	71	108	Net problem loans	117	87	71
52 %	49 %	49 %	Provision rate	49 %	45 %	55 %

\*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q1. Any default in this portfolio will not entail loss for SpareBank 1 SMN.

## Note 9 - Other assets

Parent bank			(NOKm)	Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014		31 Mar 2014	31 Mar 2013	31 Dec 2013
-	-	-	Deferred tax benefit	18	13	18
169	194	167	Fixed assets	1,160	1,241	1,176
1,568	1,174	1,393	Earned income not yet received	1,409	1,182	1,591
207	17	149	Accounts receivable, securities	149	17	207
82	74	82	Pensions	82	74	82
84	347	116	Other assets	305	437	270
<b>2,110</b>	<b>1,806</b>	<b>1,907</b>	<b>Total other assets</b>	<b>3,122</b>	<b>2,963</b>	<b>3,344</b>

## Note 10 - Distribution of customer deposits by sector/industry

Parent bank				Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014	(NOKm)	31 Mar 2014	31 Mar 2013	31 Dec 2013
2,059	2,159	2,149	Agriculture, forestry, fisheries, hunting	2,149	2,159	2,059
406	157	506	Sea farming industries	506	157	406
1,239	1,376	1,614	Manufacturing	1,614	1,376	1,239
1,808	1,705	1,630	Construction, power and water supply	1,630	1,705	1,808
4,313	3,566	3,249	Retail trade, hotels and restaurants	3,249	3,566	4,313
2,150	1,101	1,929	Maritime sector	1,929	1,101	2,150
4,142	4,768	3,747	Property management	3,635	4,143	4,033
4,885	4,783	4,681	Business services	4,681	4,783	4,885
4,320	3,840	4,308	Transport and other services provision	4,010	3,670	3,999
4,723	4,288	4,687	Public administration	4,687	4,288	4,723
2,620	2,929	2,513	Other sectors	2,473	2,821	2,594
<b>32,666</b>	<b>30,672</b>	<b>31,012</b>	<b>Total</b>	<b>30,562</b>	<b>29,769</b>	<b>32,209</b>
23,865	22,833	24,174	Wage earners	24,174	22,833	23,865
<b>56,531</b>	<b>53,506</b>	<b>55,185</b>	<b>Total deposits</b>	<b>54,736</b>	<b>52,603</b>	<b>56,074</b>

## Note 11 - Debt created by issue of securities

Parent bank				Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014	(NOKm)	31 Mar 2014	31 Mar 2013	31 Dec 2013
2,750	653	2,750	Short-term debt instruments, nominal value	2,750	653	2,750
30,718	31,317	26,761	Bond debt, nominal value	26,761	31,317	30,718
294	377	404	Value adjustments	404	377	294
<b>33,762</b>	<b>32,347</b>	<b>29,914</b>	<b>Total</b>	<b>29,914</b>	<b>32,347</b>	<b>33,762</b>

## Change in securities debt, subordinated debt and hybrid equity

	31 Mar 2014	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2013
Short-term debt instruments, nominal value	2,750	-	-	-	2,750
Bond debt, nominal value	26,761	2,021	4,950	-1,028	30,718
Value adjustments	404	-	-	110	294
<b>Total</b>	<b>29,914</b>	<b>2,021</b>	<b>4,950</b>	<b>-918</b>	<b>33,762</b>
	31 Mar 2014	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2013
Ordinary subordinated loan capital, nominal value	1,524	-	-	2	1,522
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	1,400	-	-	-	1,400
Value adjustments	83	-	-	1	82
<b>Total</b>	<b>3,308</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>3,304</b>

## Note 12 - Other liabilities

Parent bank				Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014	(NOKm)	31 Mar 2014	31 Mar 2013	31 Dec 2013
17	98	17	Deferred tax	24	107	23
438	256	401	Payable tax	431	295	476
8	10	8	Capital tax	8	10	8
883	1,066	1,193	Accrued expenses and received, non-accrued income	1,356	1,349	1,091
48	80	76	Provision for accrued expenses and commitments	76	80	48
73	173	47	Drawing debt	47	173	73
7	1	5	Creditors	45	38	29
339	526	742	Debt from securities	742	526	339
179	268	273	Other liabilities	308	309	215
<b>1,992</b>	<b>2,477</b>	<b>2,762</b>	<b>Total other liabilities</b>	<b>3,036</b>	<b>2,886</b>	<b>2,303</b>

## 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 Q2 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 March 2014 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 1 July 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 35 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 March 2014, 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 38 in the bank's annual report.



Parent Bank				Group		
31 Dec 2013	31 Mar 2013	31 Mar 2014	(NOKm)	31 Mar 2014	31 Mar 2013	31 Dec 2013
2,597	2,597	2,597	Equity capital certificates	2,597	2,597	2,597
-0	-0	-0	- Own holding of ECCs	-0	-0	-0
895	895	895	Premium fund	895	895	895
2,496	1,889	2,496	Dividend equalisation fund	2,496	1,889	2,496
3,276	2,944	3,276	Savings bank's reserve	3,276	2,944	3,276
227	-	-	Recommended dividends	-	-	227
124	-	-	Provision for gifts	-	-	124
195	106	195	Unrealised gains reserve	206	123	206
-	38	-	Other equity and minority interest	1,419	1,402	1,421
-	231	450	Net profit	500	321	-
<b>9,811</b>	<b>8,700</b>	<b>9,909</b>	<b>Total book equity</b>	<b>11,389</b>	<b>10,170</b>	<b>11,242</b>
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-613	-531	-582
-	-	-	Part of reserve for unrealised gains, associated companies	98	57	98
-352	-	-	Deduction for allocated dividends and gifts	-4	-6	-361
-401	-448	-413	50 % deduction for subordinated capital in other financial institutions	-120	-2	-106
-240	-178	-275	50 % deduction for expected losses on IRB, net of write-downs	-259	-193	-214
-	-	-	50 % capital adequacy reserve	-623	-734	-595
-109	-109	-80	Surplus financing of pension obligations	-78	-107	-107
-	-231	-450	Net profit	-500	-321	-
-	169	329	Year-to-date profit included in core capital (73% pre tax)	365	234	-
<b>8,262</b>	<b>7,455</b>	<b>8,574</b>	<b>Total common equity Tier one</b>	<b>9,655</b>	<b>8,568</b>	<b>9,374</b>
1,431	932	1,433	Hybrid capital, core capital	1,647	1,118	1,615
<b>9,693</b>	<b>8,387</b>	<b>10,007</b>	<b>Total core capital</b>	<b>11,303</b>	<b>9,686</b>	<b>10,989</b>
			<b>Supplementary capital in excess of core capital</b>			
-	-	-	State Finance Fund, supplementary capital	-	31	31
304	308	304	Perpetual subordinated capital	362	308	363
1,569	1,610	1,570	Non-perpetual subordinated capital	2,230	1,875	1,950
-401	-448	-413	50 % deduction for subordinated capital in other financial institutions	-120	-2	-106
-240	-178	-275	50 % deduction for expected losses on IRB, net of write-downs	-259	-193	-214
-	-	-	50 % capital adequacy reserve	-623	-734	-595
<b>1,231</b>	<b>1,292</b>	<b>1,187</b>	<b>Total supplementary capital</b>	<b>1,591</b>	<b>1,285</b>	<b>1,428</b>
<b>10,924</b>	<b>9,679</b>	<b>11,194</b>	<b>Net subordinated capital</b>	<b>12,893</b>	<b>10,971</b>	<b>12,417</b>
			<b>Minimum requirements subordinated capital, Basel II</b>			
1,573	1,661	1,508	Involvement with specialised enterprises	1,508	1,661	1,573
1,478	1,505	1,380	Other corporations exposure	1,381	1,505	1,479
70	52	136	SME exposure	145	56	74
363	326	703	Retail mortgage exposure	1,153	583	628
28	26	37	Other retail exposure	43	28	33
1,157	1,108	1,225	Equity investments	-	-	-
<b>4,669</b>	<b>4,678</b>	<b>4,989</b>	<b>Total credit risk IRB</b>	<b>4,229</b>	<b>3,833</b>	<b>3,787</b>
224	257	281	Debt risk	281	257	224
8	14	-	Equity risk	3	15	10
-	-	-	Currency risk	-	-	-
297	337	292	Operational risk	416	438	398
560	545	579	Exposures calculated using the standardised approach	2,186	2,086	2,151
-67	-75	-69	Deductions	-126	-125	-119
-	-	-	Transitional arrangements	-	102	316
<b>5,690</b>	<b>5,756</b>	<b>6,072</b>	<b>Minimum requirements subordinated capital</b>	<b>6,989</b>	<b>6,606</b>	<b>6,767</b>
71,130	71,951	75,900	Risk weighted assets (RWA)	87,361	82,578	84,591
			Capital adequacy			
11.6 %	10.4 %	11.3 %	Common equity Tier one ratio	11.1 %	10.4 %	11.1 %
13.6 %	11.7 %	13.2 %	Core capital ratio	12.9 %	11.7 %	13.0 %
15.4 %	13.5 %	14.7 %	Capital adequacy ratio	14.8 %	13.3 %	14.7 %

## 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 first quarter 2014 the Bank has 25 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.

<b>Period</b>	<b>Type of financial instrument</b>	<b>Amounts which can only be netted upon bankruptcy or default</b>
31 Mar 2014	Derivatives	1,098
31 Mar 2012	Derivatives	660
31 Dec 2013	Derivatives	1,488

Parent Bank and Group are identical.

## 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 31 March 2014:

<b>Assets (NOK million)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit/loss				
Derivatives	149	3,056	-	3,205
Bonds and money market certificates	4,170	12,107	-	16,278
Equity instruments	63	-	995	1,058
Fixed interest loans	-	-	2,565	2,565
Financial assets available for sale				
Equity instruments	-	-	36	36
<b>Total assets</b>	<b>4,382</b>	<b>15,164</b>	<b>3,596</b>	<b>23,142</b>
<b>Liabilities</b>	<b>Nivå 1</b>	<b>Nivå 2</b>	<b>Nivå 3</b>	<b>Total</b>
Financial liabilities through profit/loss				
Derivatives	409	2,107	-	2,516
<b>Total liabilities</b>	<b>409</b>	<b>2,107</b>	<b>-</b>	<b>2,516</b>

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

<b>Assets (NOK million)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit/loss				
Derivatives	110	3,002	-	3,112
Bonds and money market certificates	3,778	14,040	-	17,818
Equity instruments	112	-	603	715
Fixed interest loans	-	-	2,746	2,746
Financial assets available for sale				
Equity instruments	-	-	46	46
<b>Total assets</b>	<b>4,001</b>	<b>17,042</b>	<b>3,395</b>	<b>24,438</b>
<b>Liabilities</b>	<b>Nivå 1</b>	<b>Nivå 2</b>	<b>Nivå 3</b>	<b>Total</b>
Financial liabilities through profit/loss				
Derivatives	75	2,639	-	2,714
<b>Total liabilities</b>	<b>75</b>	<b>2,639</b>	<b>-</b>	<b>2,714</b>

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

<b>Assets (NOK million)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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 instruments	67	-	909	976
Fixed interest loans	-	-	2,648	2,648
Financial assets available for sale				
Equity instruments	-	-	40	40
<b>Total assets</b>	<b>4,181</b>	<b>14,477</b>	<b>3,597</b>	<b>22,256</b>
<b>Liabilities</b>	<b>Nivå 1</b>	<b>Nivå 2</b>	<b>Nivå 3</b>	<b>Total</b>
Financial liabilities through profit/loss				
Derivatives	334	1,961	-	2,295
<b>Total liabilities</b>	<b>334</b>	<b>1,961</b>	<b>-</b>	<b>2,295</b>

The following table presents the changes in the instruments classified in level 3 as at 31 March 2014:

(NOK million)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	2,648	909	40	3,598
Investment in periode	17	7	-	24
Disposals in the periode	-94	-71	-	-165
Gain or loss on financial instruments	-6	150	-3	140
<b>Closing balance 31 December</b>	<b>2,565</b>	<b>995</b>	<b>36</b>	<b>3,596</b>

The following table presents the changes in the instruments classified in level 3 as at 31 March 2013:

(NOK million)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	2,585	601	46	3,231
Investment in periode	243	-	-	243
Disposals in the periode	-95	-	-	-95
Gain or loss on financial instruments	13	2	-	15
<b>Closing balance 31 December</b>	<b>2,746</b>	<b>603</b>	<b>46</b>	<b>3,395</b>

The following table presents the changes in the instruments classified in level 3 as at 31 December 2013:

(NOK million)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	2,585	601	46	3,231
Investment in periode	413	388	-	801
Disposals in the periode	-343	-151	-	-495
Gain or loss on financial instruments	-6	72	-6	61
<b>Closing balance 31 December</b>	<b>2,648</b>	<b>909</b>	<b>40</b>	<b>3,598</b>