

Note 9 - Derecognition of financial assets

In its ordinary business the Bank undertakes transactions that result in the sale of financial assets. The Bank transfers such financial assets mainly through sales of customers' home mortgage loans to SpareBank 1 Boligkreditt or commercial property loans to SpareBank 1 Næringskreditt.

SpareBank 1 Boligkreditt

The Bank can invite the mortgage company to purchase home mortgage loans that meet the requirements of the entity's credit policy. SpareBank 1 Boligkreditt issues bonds to investors with security in the purchased mortgage loans. In 2013 the Bank sold home mortgage loans to a net value of NOK 1.2bn. The loans are sold at balance sheet value.

Home mortgage loans sold to SpareBank 1 Boligkreditt were derecognised in an amount totalling NOK 30.5bn by the end of the financial year.

Set-off against commission income

The Bank receives commission on the sold home mortgage loans for the obligations accompanying the agreement on loan management. The commission payment corresponds to the interest income on the loans reduced by average funding cost at SpareBank 1 Boligkreditt, administrative expenses and any losses incurred limited upwards to one year's commission. The interest rate is determined by the residential mortgage company. The company calculates and records collectively assessed write-downs on the purchased loans. These write-downs are not deducted from the commission payment made.

If a credit loss or margin shortfall arises on the loans sold, SpareBank 1 Boligkreditt may reduce the Bank's commission, limited however to the calendar year's aggregate commission. Commission for 2013 totalled about NOK 414m compared with NOK 200m in 2012. No loss has been recognised in the portfolio since the transfer. Portfolio maturity averages about three years.

The transferred loans must have an LTV below 75 per cent at the time of sale. The average LTV for the loans sold by SpareBank 1 SMN is below 52 per cent.

The Bank has neither transferred nor retained all benefits or risks attached to the loans sold. Significant rights and obligations that are created or retained in connection with the sale, are recognised separately as assets or liabilities. No asset or liability in this regard was entered in the balance sheet for the financial year 2013.

Liquidity facility

Together with the other owners of SpareBank 1 Boligkreditt, SpareBank 1 SMN has signed an agreement to establish a liquidity facility for SpareBank 1 Boligkreditt. Under this agreement the banks commit to buying mortgage credit bonds capped at the overall value of 12 months' due payments at SpareBank 1 Boligkreditt. Each owner is principally liable for its share of the need, subsidiarily for double the amount that is the primary liability under the same agreement. The bonds can be deposited with Norges Bank (the central bank) and thus entail no significant increase in risk for the Bank. In line with its liquidity strategy, SpareBank 1 Boligkreditt maintains liquidity for the next 12 months' due payments. This is taken into account when determining the banks' liability. Hence it is only if the undertaking no longer has sufficient liquidity for the next 12 months' due payments that the Bank will report any exposure in this regard.

Financial position

SpareBank 1 SMN has together with the other owners of SpareBank 1 Boligkreditt, also signed an agreement to ensure that SpareBank 1 Boligkreditt at all times has a tier 1 capital ratio of at least 9 per cent. The shareholders are obliged to supply sufficient tier 1 capital within three months of receiving a written request to do so. The shareholders' obligation to supply such tier 1 capital is pro rata and is not joint and several, and shall be in proportion to each shareholder's pro rata portion of the shares of SpareBank 1 Boligkreditt. Each owner is principally liable for its share of the need, subsidiarily for double the amount that is the primary liability under the same agreement.

SpareBank 1 Næringskreditt

The Bank can invite SpareBank 1 Næringskreditt to purchase commercial property loans that meet the requirements of the entity's credit policy. SpareBank 1 Næringskreditt issues bonds to investors with security in the purchased commercial property loans. In 2013 commercial property loans were sold to a net value of NOK 600m. The loans are sold at balance sheet value. Loans sold to SpareBank 1 Næringskreditt have been derecognised in an amount totalling NOK 1.2bn by the end of the financial year.

Set-off against commission income

An agreement corresponding to the agreement with SpareBank 1 Boligkreditt has been signed on set-off against commission income; see above.

If a credit loss or margin shortfall arises on the loans sold, SpareBank 1 Næringskreditt may reduce the Bank's commission, limited however to the calendar year's aggregate commission. Commission for 2013 totalled about NOK 7m compared with NOK 4m in 2012. No loss has been recognised in the portfolio since the transfer.

The transferred loans must have an LTV below 60 per cent at the time of transfer. The bank has neither transferred nor retained all benefits or risks attached to the loans sold. Significant rights and obligations that are created or retained in connection with the sale are recognised separately as assets or liabilities. No asset or liability in this regard has been entered in the balance sheet for the financial year 2013.

Liquidity facility

As described above with regard to SpareBank 1 Boligkreditt, a similar agreement has been entered into with SpareBank 1 Næringskreditt.

Financial position

In the same manner an agreement has been entered into to ensure that SpareBank 1 Næringskreditt at all times has a tier 1 capital ratio of at least 9 per cent. See the above account of SpareBank 1 Boligkreditt.