Note 9 - Derecognition of financial assets

In its ordinary business the Bank undertakes transactions that result in the sale of financial assets in which the Bank has a lasting involvement. The Bank continues to recognise these assets to the extent that the Bank has an involvement in the asset.

The Bank transfers such financial assets mainly through sales of customers' home mortgage loans to SpareBank 1 Boligkreditt (residential mortgage company) or commercial property loans to SpareBank 1 Næringskreditt (commercial property loans company).

SpareBank 1 Boligkreditt

The Bank sells home mortgage loans to SpareBank 1 Boligkreditt which in turn issues bonds to investors with security in the transferred mortgage loans. In 2012 home mortgage loans were sold to a net value of NOK 7.2bn. In total, home mortgage loans transferred to SpareBank 1 Boligkreditt were derecognised in an amount of NOK 29.3bn at the end of the financial year. The loans are sold at balance sheet value.

Set-off against commission income

The Bank receives commission for the sold a home mortgage loans corresponding 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 this determined by the residential mortgage company.

The transferred loans must have an LTV below 75 per cent at the time of sale. The average LTV for the sold loans from SpareBank 1 SMN is below 50 per cent. The Bank transfers virtually all risks and benefits associated with the sold mortgage loans and the bank therefore derecognises them in its balance sheet. The Bank recognises all rights and obligations that are created or retained in connection with the transfer, separately as assets or obligations. The Bank's maximum exposure to loss is represented by the highest amount for which cover could be claimed under the agreement and totalled about NOK 200m at end-December 2012 (total commission for 2012). No losses have been recognised in the portfolio since the transfer.

Lasting involvements:

	Book value, liability	Fair value, liability	Maksimum exposure to loss (latest year's commission) NOKm
Netting right	0	0	200

Average portfolio term is about three years.

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. This entails that the banks commit themselves to buy 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. SpareBank 1 Boligkreditt maintains under its internal guidelines liquidity for the next 12 months' due payments. This is deducted when determining the Bank's liability. Hence it is only if the undertaking no longer has liquidity for the next 12 months' due payments that the Bank will report any involvement related to this.

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 shall 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 sells commercial property loans to SpareBank 1 Næringskreditt which in turn issues bonds to investors with security in the transferred loans. In 2012 commercial property loans were sold to a net value of NOK 618m. Loans to a total value of NOK 618m had been transferred to SpareBank 1 Næringskreditt by the end of the financial year. The loans are sold at balance sheet value.

Set-off against commission income

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

The transferred loans must have an LTV below 60 per cent at the time of transfer. Expected loss in the transferred portfolio is 0.023 per cent. The Bank transfers virtually all risks and benefits associated with the sold commercial property loans and the bank therefore derecognises them in its balance sheet. The Bank recognises all rights and obligations that are created or retained in connection with the transfer, separately as assets or liabilities. The Bank's maximum exposure to loss is represented by the highest amount for which cover could be claimed under the agreement and totalled about NOK 4m at end-December 2012 (total commission for 2012). No losses have been recognised in the portfolio since the transfer.

Lasting involvements:

	Book value, liability	Fair value, liability	Maksimum exposure to loss (latest year's commission) NOKm
Netting right	0	0	4

Liquidity facility

As stated above regarding SpareBank 1 Boligkreditt, a corresponding agreement has been signed with SpareBank 1 Næringskreditt.

Financial strength

In like manner an agreement has been signed to assure SpareBank 1 Næringskreditt a minimum tier 1 capital ratio of 9 per cent. See the above account on SpareBank 1 Boligkreditt.