Note 15 - Capital adequacy

New capital adequacy rules were introduced in Norway as from 1 January 2007 (Basel II - the EU's new directive on capital adequacy). SpareBank1 SMN applied to and received permission from Finanstilsynet (Financial Supervisory Authority of Norway) to use internal rating methods (Internal Rating Based Approach - Foundation) to calculate charges for credit risk from 1 January 2007 onwards. This will make the statutory minimum capital adequacy requirement more risk-sensitive, so that it better reflects the risk in the underlying portfolios. Using IRB demands high standards of the Bank's organisation, competence, risk models and risk management systems. Under interim regulations issued by Finanstilsynet, IRB banks are not yet seeing the full effect of the reduced capital requirements. As from 2009, a 20% reduction of the risk-weighted basis of calculation was allowed.

The Norwegian State Finance Fund has in a period to 30 September 2009 offered tier 1 capital to solid Norwegian banks to help them meet tighter capital adequacy requirements and improve their lending capacity. SMN applied for, and was granted, a capital infusion which was disbursed from the State Finance Fund in the form of hybrid equity worth NOK 1.25 billion as of 30.9.09. In March 2010, with Finanstilsynet's approval, this was partially redeemed in an amount of NOK 450 million, and the remainder is repaid in April 2010.

Subordinated debt and hybrid capital

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.

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 is approved as an element of tier 1 capital up to limit of 15 per cent of aggregate tier 1 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 6 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 shown as other long-term debt at amortised cost.

For detailed information regarding subordinated debt and hybrid capital, see note 34 in the Bank's annual report.

Parent bank				Group		
31 Dec 2010	30 Sept 2010	30 Sept 2011		30 Sept 2011	30 Sept 2010	31 Dec 2010
2,373	2,373	2,373	Equity capital certificates	2,373	2,373	2,373
0	0	0	- Own holding of ECCs	0	0	0
182	174	183	Premium fund	183	174	182
1,159	878	1,160	Dividend equalisation fund	1,160	878	1,159
2,345	2,155	2,344	Savings bank's reserve	2,344	2,155	2,345
285	0	0	Recommended dividends	0	0	285
192	-	-	Provision for gifts	-	-	192
45	110	45	Unrealised gains reserve	60	124	66
-	-	-	Other equity and minority interest	1,261	1,053	1,244
0	659	709	Net profit	745	704	0
6,581	**6,349**	**6,813**	**Total book equity**	**8,126**	**7,461**	**7,846**
-447	-475	-447	Deferred taxes, goodwill and other intangible assets	-658	-510	-466
-	-	-	Part of reserve for unrealised gains, associated companies	65	53	65
-477	0	0	Deduction for allocated dividends and gifts	0	0	-477
-348	-353	-386	50 % deduction for subordinated capital in other financial institutions	-	-	-
-208	-224	-165	50 % deduction for expected losses on IRB, net of write-downs	-176	-232	-216
-	-	-	50 % capital adequacy reserve	-638	-522	-571
-	-	-	Share of non-performing, non-amortizsed estimate deviations	-	-	-
-	-659	-709	Net profit	-745	-704	0
-	419	355	Year-to-date profit included in core capital (50% pre tax)	373	452	-
936	952	945	Hybrid capital, core capital	1,159	1,035	1,106
6,037	**6,008**	**6,406**	**Total core capital**	**7,504**	**7,033**	**7,283**
			Supplementary capital in excess of core capital			
466	464	326	Perpetual subordinated capital	326	464	466
1,358	1,352	1,394	Non-perpetual subordinated capital	1,659	1,750	1,680
-348	-353	-386	50 % deduction for subordinated capital in other financial institutions	-	-	-
-208	-224	-165	50 % deduction for expected losses on IRB, net of write-downs	-176	-232	-216
-	-	-	50 % capital adequacy reserve	-638	-522	-571
1,268	**1,240**	**1,168**	**Total supplementary capital**	**1,171**	**1,461**	**1,360**
7,305	**7,247**	**7,574**	**Net subordinated capital**	**8,675**	**8,493**	**8,643**
			Minimum requirements subordinated capital, Basel II			
1,386	1,392	1,375	Involvement with spesialised enerprises	1,375	1,392	1,386
1,115	1,028	1,232	Other corporations exposure	1,240	1,031	1,120
66	65	55	SME exposure	58	67	68
311	287	314	Retail morgage exposure	495	427	451
33	35	32	Other retail exposure	34	36	34
496	495	645	Equity investments	-	207	-
3,406	**3,302**	**3,652**	**Total credit risk IRB**	**3,201**	**3,160**	**3,058**
165	-	172	Debt risk	172	-	165
46	53	38	Equity risk	13	18	15
-	-	-	Currency risk	-	-	-
275	275	293	Operational risk	400	331	331
537	530	593	Exposures calculated using the standardised approach	2,068	1,824	1,864
-59	-59	-65	Deductions	-107	-90	-98
-	-	-	Transitional arrangements	-	53	-
4,371	**4,101**	**4,684**	**Minimum requirements subordinated capital**	**5,748**	**5,296**	**5,335**
			Capital adequacy			
11.05 %	11.72 %	10.94 %	Core capital ratio	10.45 %	10.62 %	10.93 %
13.37 %	14.14 %	12.94 %	Capital adequacy ratio	12.07 %	12.83 %	12.97 %