Note 13 - 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 per cent reduction of the risk-weighted basis of calculation was allowed.

Subordinated debt ranks behind all other liabilities. Dated subordinated loans cannot constitute more than 50 percent of tier 1 capital for capital adequacy purposes, while perpetual subordinated loans cannot constitute more than 100 percent 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 percent 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 percent or total capital adequacy falls below 6 percent. 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		
2011	30 Sept 2011	30 Sept 2012		30 Sept 2012	30 Sept 2011	2011
2,373	2,373	2,597	Equity capital certificates	2,597	2,373	2,373
-0	-0	-0	- Own holding of ECCs	-0	-0	-0
183	183	896	Premium fund	896	183	183
1,457	1,160	1,457	Dividend equalisation fund	1,457	1,160	1,457
2,611	2,344	2,611	Savings bank's reserve	2,611	2,344	2,611
190	-	-	Recommended dividends	-	-0	190
40	-	-	Provision for gifts	-	-	40
70	45	70	Unrealised gains reserve	94	60	85
-	-	-	Other equity and minority interest	1,295	1,261	1,409
-	709	801	Net profit	816	745	-
6,924	**6,813**	**8,431**	**Total book equity**	**9,765**	**8,126**	**8,348**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-701	-658	-692
-	-	-	Part of reserve for unrealised gains, associated companies	64	65	64
-230	-	-	Deduction for allocated dividends and gifts	-	-0	-230
-387	-386	-460	50 % deduction for subordinated capital in other financial institutions	-2	-	-
-137	-165	-199	50 % deduction for expected losses on IRB, net of write-downs	-211	-176	-147
-	-	-	50 % capital adequacy reserve	-714	-638	-656
-	-	-82	Surplus financing of pension obligations	-74	-	-
-	-709	-801	Net profit	-816	-745	-
-	355	400	Year-to-date profit included in core capital (50% pre tax)	408	373	-
956	945	931	Hybrid capital, core capital	1,108	1,159	1,170
6,680	**6,406**	**7,773**	**Total core capital**	**8,826**	**7,504**	**7,856**
			Supplementary capital in excess of core capital			
-	-	-	State Finance Fund, supplementary capital	37	-	-
326	326	325	Perpetual subordinated capital	323	326	328
1,409	1,394	1,368	Non-perpetual subordinated capital	1,633	1,659	1,674
-387	-386	-460	50 % deduction for subordinated capital in other financial institutions	-2	-	-
-137	-165	-199	50 % deduction for expected losses on IRB, net of write-downs	-211	-176	-147
-	-	-	50 % capital adequacy reserve	-714	-638	-656
1,211	**1,168**	**1,033**	**Total supplementary capital**	**1,066**	**1,171**	**1,199**
7,891	**7,574**	**8,807**	**Net subordinated capital**	**9,891**	**8,675**	**9,055**
			Minimum requirements subordinated capital, Basel II			
1,456	1,375	1,647	Involvement with spesialised enerprises	1,647	1,375	1,456
1,313	1,232	1,686	Other corporations exposure	1,686	1,240	1,313
40	55	38	SME exposure	41	58	42
324	314	309	Retail morgage exposure	532	495	513
31	32	28	Other retail exposure	30	34	33
653	645	1,087	Equity investments	-	-	-
3,818	**3,652**	**4,796**	**Total credit risk IRB**	**3,937**	**3,201**	**3,358**
182	172	209	Debt risk	209	172	182
49	38	14	Equity risk	15	13	16
-	-	-	Currency risk	-	-	-
293	293	315	Operational risk	420	400	400
653	593	659	Exposures calculated using the standardised approach	2,178	2,068	2,184
-65	-65	-76	Deductions	-121	-107	-111
-	-	-	Transitional arrangements	-	-	-
4,930	**4,684**	**5,916**	**Minimum requirements subordinated capital**	**6,638**	**5,748**	**6,027**
			Capital adequacy			
10.8 %	10.9 %	10.5 %	Core capital ratio	10.6 %	10.4 %	10.4 %
12.8 %	12.9 %	11.9 %	Capital adequacy ratio	11.9 %	12.1 %	12.0 %