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% reduction of the risk-weighted basis of calculation was allowed.

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.

SpareBank 1 SMN

Parent bank				Group		
2011	**31 Mar 2011**	**31 Mar 2012**		**31 Mar 2012**	**31 Mar 2011**	**2011**
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
183	182	183	Premium fund	183	182	183
1,457	1,160	1,457	Dividend equalisation fund	1,457	1,160	1,457
2,611	2,345	2,611	Savings bank's reserve	2,611	2,345	2,611
190	-	-	Recommended dividends	-	-	190
40	-	-	Provision for gifts	-	-	40
70	45	70	Unrealised gains reserve	92	75	85
-	-	0	Other equity and minority interest	1,404	1,250	1,409
-	172	173	Net profit	272	255	-
6,924	**6,276**	**6,867**	**Total book equity**	**8,393**	**7,639**	**8,348**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-678	-643	-692
-	-	-	Part of reserve for unrealised gains, associated companies	64	65	64
-230	-	-0	Deduction for allocated dividends and gifts	-	-	-230
-387	-343	-403	50 % deduction for subordinated capital in other financial institutions	-	-	-
-137	-140	-146	50 % deduction for expected losses on IRB, net of write-downs	-158	-90	-147
-	-	-	50 % capital adequacy reserve	-651	-626	-656
-	-	-82	Surplus financing of pension obligations	-74	-	-
-	-172	-173	Net profit	-272	-255	-
-	86	87	Year-to-date profit included in core capital (50% pre tax)	136	126	-
956	898	927	Hybrid capital, core capital	1,143	1,114	1,170
6,680	**6,158**	**6,630**	**Total core capital**	**7,902**	**7,330**	**7,856**
			Supplementary capital in excess of core capital			
-	-	-	State Finance Fund, supplementary capital	-	-	-
326	452	316	Perpetual subordinated capital	318	452	328
1,409	1,306	1,333	Non-perpetual subordinated capital	1,598	1,571	1,674
-387	-343	-403	50 % deduction for subordinated capital in other financial institutions	-	-	-
-137	-140	-146	50 % deduction for expected losses on IRB, net of write-downs	-158	-90	-147
-	-	-	50 % capital adequacy reserve	-651	-626	-656
1,211	**1,276**	**1,100**	**Total supplementary capital**	**1,107**	**1,308**	**1,199**
7,891	**7,434**	**7,730**	**Net subordinated capital**	**9,008**	**8,638**	**9,055**
			Minimum requirements subordinated capital, Basel II			
1,456	1,389	1,466	Involvement with spesialised enterprises	1,466	1,389	1,456
1,313	1,161	1,519	Other corporations exposure	1,519	1,168	1,313
40	62	40	SME exposure	43	64	42
324	298	306	Retail morgage exposure	518	450	513
31	31	30	Other retail exposure	32	32	33
653	568	832	Equity investments	-	-	-
3,818	**3,509**	**4,192**	**Total credit risk IRB**	**3,578**	**3,103**	**3,357**
182	176	206	Debt risk	206	176	182
49	44	49	Equity risk	16	15	16
-	-	-	Currency risk	-	-	-
293	293	315	Operational risk	420	400	400
653	532	506	Exposures calculated using the standardised approach	2,018	1,949	2,184
-65	-58	-67	Deductions	-110	-106	-111
-	-	-	Transitional arrangements	-	-	-
4,930	**4,497**	**5,200**	**Minimum requirements subordinated capital**	**6,127**	**5,537**	**6,029**
			Capital adequacy			
10.84 %	10.95 %	10.20 %	Core capital ratio	10.32 %	10.59 %	10.43 %
12.81 %	13.22 %	11.89 %	Capital adequacy ratio	11.76 %	12.48 %	12.02 %