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 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 5 in the Bank's annual report.

As from Q2 2013, operational risk at the parent bank is measured using the standardised approach instead of the basic indicator approach. At group level, operational risk at subsidiaries continues to be measured using the basic indicator approach.

Parent bank				Group		
2012	30 Jun 2012	30 Jun 2013		30 Jun 2013	30 Jun 2012	2012
2,597	2,484	2,597	Equity capital certificates	2,597	2,484	2,597
-0	-0	-0	- Own holding of ECCs	-0	-0	-0
895	813	895	Premium fund	895	813	895
1,889	1,457	1,889	Dividend equalisation fund	1,889	1,457	1,889
2,944	2,611	2,944	Savings bank's reserve	2,944	2,611	2,944
195	-	-	Recommended dividends	-	-	195
30	-	-	Provision for gifts	-	-	30
106	70	106	Unrealised gains reserve	123	90	123
0	0	38	Other equity and minority interest	1,386	1,400	1,370
-	614	830	Net profit	606	510	-
8,656	**8,050**	**9,299**	**Total book equity**	**10,439**	**9,365**	**10,042**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-531	-670	-674
-	-	-	Part of reserve for unrealised gains, associated companies	57	64	57
-225	-0	-	Deduction for allocated dividends and gifts	-	-	-238
-448	-460	-381	50 % deduction for subordinated capital in other financial institutions	-93	-2	-2
-165	-139	-203	50 % deduction for expected losses on IRB, net of write-downs	-219	-153	-179
-	-	-	50 % capital adequacy reserve	-500	-682	-703
-55	-82	-109	Surplus financing of pension obligations	-107	-74	-49
-	-614	-830	Net profit	-606	-510	-
-	307	606	Year-to-date profit included in core capital (as from 2013 73% pre tax - previous 50% pre tax)	442	255	-
7,316	**6,614**	**7,935**	**Total common equity Tier one**	**8,882**	**7,592**	**8,254**
918	950	1,441	Hybrid capital, core capital	1,625	1,130	1,103
8,234	**7,564**	**9,376**	**Total core capital**	**10,508**	**8,722**	**9,357**
			Supplementary capital in excess of core capital			
-	-	-	State Finance Fund, supplementary capital	31	37	31
312	324	307	Perpetual subordinated capital	307	325	312
1,810	1,388	1,598	Non-perpetual subordinated capital	1,861	1,653	2,127
-448	-460	-381	50 % deduction for subordinated capital in other financial institutions	-93	-2	-2
-165	-139	-203	50 % deduction for expected losses on IRB, net of write-downs	-219	-153	-179
-	-	-	50 % capital adequacy reserve	-500	-682	-703
1,509	**1,112**	**1,320**	**Total supplementary capital**	**1,386**	**1,178**	**1,586**
9,742	**8,676**	**10,696**	**Net subordinated capital**	**11,894**	**9,900**	**10,943**
			Minimum requirements subordinated capital, Basel II			
1,654	1,584	1,672	Involvement with spesialised enterprises	1,672	1,584	1,654
1,470	1,511	1,504	Other corporations exposure	1,504	1,511	1,470
39	38	63	SME exposure	68	41	42
316	318	348	Retail morgage exposure	613	541	560
28	28	32	Other retail exposure	37	30	30
1,118	1,008	1,139	Equity investments	-	-	-
4,625	**4,487**	**4,758**	**Total credit risk IRB**	**3,895**	**3,707**	**3,756**
205	223	255	Debt risk	255	223	205
14	48	12	Equity risk	13	15	15
-	-	-	Currency risk	-	-	-
315	315	297	Operational risk	398	420	420
553	609	544	Exposures calculated using the standardised approach	2,106	2,121	2,074
-75	-76	-64	Deductions	-102	-115	-120
-	-	-	Transitional arrangements	322	-	246
5,637	**5,607**	**5,803**	**Minimum requirements subordinated capital**	**6,886**	**6,371**	**6,596**
70,468	70,083	72,536	Risk weigheted assets (RWA)	86,079	79,635	82,446
			Capital adequacy			
10.4 %	9.4 %	10.9 %	Common equity Tier one ratio	10.3 %	9.5 %	10.0 %
11.7 %	10.8 %	12.9 %	Core capital ratio	12.2 %	11.0 %	11.3 %
13.8 %	12.4 %	14.7 %	Capital adequacy ratio	13.8 %	12.4 %	13.3 %