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 5 in the Bank's annual report.

SpareBank 1 SMN

Parent bank 2012	Parent bank 31 Mar 2012	Parent bank 31 Mar 2013		Group 31 Mar 2013	Group 31 Mar 2012	Group 2012
2,597	2,373	2,597	Equity capital certificates	2,597	2,373	2,597
-0	-0	-0	- Own holding of ECCs	-0	-0	-0
895	183	895	Premium fund	895	183	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	92	123
0	0	38	Other equity and minority interest	1,402	1,404	1,370
-	173	231	Net profit	321	272	-
8,656	**6,867**	**8,700**	**Total book equity**	**10,170**	**8,393**	**10,042**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-531	-678	-674
-	-	-	Part of reserve for unrealised gains, associated companies	57	64	57
-225	-0	-	Deduction for allocated dividends and gifts	-6	-	-238
-448	-403	-448	50 % deduction for subordinated capital in other financial institutions	-2	-	-2
-165	-146	-178	50 % deduction for expected losses on IRB, net of write-downs	-193	-158	-179
-	-	-	50 % capital adequacy reserve	-734	-651	-703
-55	-82	-109	Surplus financing of pension obligations	-107	-74	-49
-	-173	-231	Net profit	-321	-272	-
-	87	169	Year-to-date profit included in core capital (as from. 2013 73 % pre tax - previous 50 % pre tax)	234	136	-
7,316	**5,703**	**7,455**	**Total common equity Tier one**	**8,568**	**6,759**	**8,254**
918	927	932	Hybrid capital, core capital	1,118	1,143	1,103
8,234	**6,630**	**8,387**	**Total core capital**	**9,686**	**7,902**	**9,357**
			Supplementary capital in excess of core capital			
-	-	-	State Finance Fund, supplementary capital	31	-	31
312	316	308	Perpetual subordinated capital	308	318	312
1,810	1,333	1,610	Non-perpetual subordinated capital	1,875	1,598	2,127
-448	-403	-448	50 % deduction for subordinated capital in other financial institutions	-2	-	-2
-165	-146	-178	50 % deduction for expected losses on IRB, net of write-downs	-193	-158	-179
-	-	-	50 % capital adequacy reserve	-734	-651	-703
1,509	**1,100**	**1,292**	**Total supplementary capital**	**1,285**	**1,107**	**1,586**
9,742	**7,730**	**9,679**	**Net subordinated capital**	**10,971**	**9,008**	**10,943**
			Minimum requirements subordinated capital, Basel II			
1,654	1,466	1,661	Involvement with spesialised enterprises	1,661	1,466	1,654
1,470	1,519	1,505	Other corporations exposure	1,505	1,519	1,470
39	40	52	SME exposure	56	43	42
316	306	326	Retail morgage exposure	583	518	560
28	30	26	Other retail exposure	28	32	30
1,118	832	1,108	Equity investments	-	-	-
4,625	**4,192**	**4,678**	**Total credit risk IRB**	**3,833**	**3,578**	**3,756**
205	206	257	Debt risk	257	206	205
14	49	14	Equity risk	15	16	15
-	-	-	Currency risk	-	-	-
315	315	337	Operational risk	438	420	420
553	506	545	Exposures calculated using the standardised approach	2,086	2,018	2,074
-75	-67	-75	Deductions	-125	-110	-120
-	-	-	Transitional arrangements	102	-	246
5,637	**5,200**	**5,756**	**Minimum requirements subordinated capital**	**6,606**	**6,127**	**6,596**
70,468	65,003	71,951	Risk weigheted assets (RWA)	82,578	76,590	82,446
			Capital adequacy			
10.4 %	8.8 %	10.4 %	Common equity Tier one ratio	10.4 %	8.8 %	10.0 %
11.7 %	10.2 %	11.7 %	Core capital ratio	11.7 %	10.3 %	11.3 %
13.8 %	11.9 %	13.5 %	Capital adequacy ratio	13.3 %	11.8 %	13.3 %