SpareBank 1 SMN

Note 4 - Capital adequacy

SpareBank 1 SMN utilises the Internal Rating Based Approach (IRB) for credit risk. Use of IRB imposes wide-ranging requirements on the bank's organisational set-up, competence, risk models and risk management systems. As from 31 March 2015 the bank has received permission to apply the Advanced IRB Approach to those corporate portfolios that were previously reported under the Basic Indicator Approach.

As of 31 March 2017 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian countercyclical buffer is 1.5 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 11.5 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN, effective as from the fourth quarter of 2016. The total minimum requirement on CET1 capital is accordingly 13.6 per cent.

The countercyclical buffer increased to 1.5 per cent from 1.0 per cent with effect from 30 June 2016. The Ministry of Finance has decided to increase the buffer by 0.5 per cent to 2.0 per cent with effect from 31 December 2017.

As from the fourth quarter of 2016 differentiated rates came into force for the countercyclical buffer. For exposures in other countries the countercyclical buffer rate set by the authorities in the country concerned is applied. If that country has not set a rate, the same rate as for exposures in Norway is applied unless the Ministry of Finance sets another rate. For the first quarter of 2017 the parent bank is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures. For groups, the risk-weighted countercyclical capital buffer is 1.5 per cent.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 40 per cent in 2016 and 50 per cent in 2017. The write-down will increase by another 10 per cent per year thereafter. As at 31 Marc 2017 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure NOK 690 million. The financial supervisory authority may require the hybrid capital to be written down in proportion to equity capital if the bank's CET1 capital ratio falls below 5.125 per cent.

Parent Bank				Group		
31 Dec 2016	**31 Mar 2016**	**31 Mar 2017**	**(NOKm)**	**31 Mar 2017**	**31 Mar 2016**	**31 Dec 2016**
2,597	2,597	2,597	Equity capital certificates	2,597	2,597	2,597
-0	-0	-0	- Own holding of ECCs	-7	-6	-4
895	895	895	Premium fund	895	895	895
4,487	3,790	4,487	Dividend equalisation fund	4,470	3,782	4,484
4,498	4,105	4,498	Savings bank's reserve	4,498	4,105	4,498
389	-	-	Recommended dividends	-	-	389
220	-	-	Provision for gifts	-	-	220
126	279	126	Unrealised gains reserve	139	290	139
-	-	-	Other equity	1,921	1,705	1,656
-	-	-	Non-controlling interests	443	372	425
-	193	279	Net profit	358	311	-
13,212	**11,859**	**12,883**	**Total book equity**	**15,315**	**14,051**	**15,299**
-	-	-	Hybrid capital included in total equity	-267	-	-
-470	0	-475	Deferred taxes, goodwill and other intangible assets	-853	-668	-741
-	-	-	Part of reserve for unrealised gains, associated companies	117	119	117
-609	-	-	Deduction for allocated dividends and gifts	-	-	-609
-	-	-	Non-controlling interests recognised in other equity capital	-443	-372	-425
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	223	184	220
-	-93	-	Surplus financing of pension obligations	-	-43	-
-	-193	-279	Net profit	-358	-311	-
-	100	100	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2017)	179	218	-
-29	-35	-30	Value adjustments due to requirements for prudent valuation	-48	-57	-48
-190	-32	-186	Positive value of adjusted expected loss under IRB Approach	-247	-104	-248
-	-	-	Adjustments for unrealised losses (gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	8	-	-
-	-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-188	-576	-337
11,913	**11,159**	**12,013**	**Total common equity Tier one**	**13,437**	**12,440**	**13,229**

950	950	950	Hybrid capital, core capital	1,358	1,301	1,358
483	496	459	Hybrid capital covered by transitional provisions	459	496	483
13,346	**12,605**	**13,422**	**Total core capital**	**15,254**	**14,237**	**15,069**
				-	-	-
			Supplementary capital in excess of core capital	**-**	**-**	**-**
1,000	1,000	1,000	Subordinated capital	1,710	1,648	1,698
673	673	561	Subordinated capital covered by transitional provisions	561	673	673
-256	-43	-237	Deduction for significant investments in financial institutions	-237	-43	-256
1,418	**1,631**	**1,324**	**Total supplementary capital**	**2,034**	**2,279**	**2,116**
14,764	**14,236**	**14,746**	**Net subordinated capital**	**17,288**	**16,516**	**17,185**
				-	-	-
				-	-	-
			Minimum requirements subordinated capital	**-**	**-**	**-**
1,065	1,063	1,055	Involvement with specialised enterprises	1,186	1,232	1,206
1,064	1,040	1,087	Other corporations exposure	1,126	1,086	1,102
1,128	1,134	1,133	Mass market exposure, property	1,615	1,606	1,602
156	162	158	Mass market exposure, SMEs	168	171	166
71	37	74	Other retail exposure	77	39	74
1,223	1,235	1,267	Equity investments	1	1	3
4,707	**4,671**	**4,773**	**Total credit risk IRB**	**4,173**	**4,135**	**4,153**
35	27	34	Debt risk	35	29	36
-	-	-	Equity risk	15	10	5
-	-	-	Currency risk	1	-	1
334	334	341	Operational risk	510	479	479
898	947	885	Exposures calculated using the standardised approach	1,891	1,893	1,772
51	45	56	Credit value adjustment risk (CVA)	119	91	84
-	-	-	Transitional arrangements	523	666	574
6,026	**6,024**	**6,088**	**Minimum requirements subordinated capital**	**7,268**	**7,303**	**7,103**
75,325	**75,295**	**76,101**	**Risk weighted assets (RWA)**	**90,846**	**91,286**	**88,788**
3,390	3,388	3,425	Minimum requirement on CET1 capital, 4.5 per cent	4,088	4,108	3,995
			Capital Buffers	-	-	-
1,883	1,882	1,903	Capital conservation buffer, 2.5 per cent	2,271	2,282	2,220
2,260	2,259	2,283	Systemic rick buffer, 3.0 per cent	2,725	2,739	2,664
1,130	753	1,142	Countercyclical buffer, 1.5 per (1.0 per cent)	1,363	913	1,332
5,273	**4,894**	**5,327**	**Total buffer requirements on CET1 capital**	**6,359**	**5,934**	**6,215**
3,251	**2,877**	**3,262**	**Available CET1 capital after buffer requirements**	**2,990**	**2,399**	**3,018**
			Capital adequacy	**0**	**0**	**0**
15.8 %	14.8 %	15.8 %	Common equity Tier one ratio	14.8 %	13.6 %	14.9 %
17.7 %	16.7 %	17.6 %	Core capital ratio	16.8 %	15.6 %	17.0 %
19.6 %	18.9 %	19.4 %	Capital adequacy ratio	19.0 %	18.1 %	19.4 %
9.5 %	9.2 %	9.3 %	Leverage ratio	7.4 %	6.8 %	7.4 %