

Note 13 - Capital adequacy

The Ministry of Finance adopted on 22 August 2014 amendments to regulations on capital requirements taking effect on 30 September 2014. The amendments bring Norwegian legislation into line with the EU's new capital requirements framework (CRR/CRD IV). This framework is for the present not incorporated into the EEA agreement, although its most important provisions have been incorporated in the Financial Institutions Act and the Securities Trading Act. The adjusted legislation entered into force on 1 July 2013, and requires a gradual increase in minimum requirements on Common Equity Tier 1 (CET1) capital in the period to 1 July 2016.

As of 30 June 2015 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and countercyclical buffer is 1.0 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 11.0 per cent. The countercyclical buffer is announced to increase to 1.5 per cent with effect from 30 June 2016.

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.

SpareBank 1 SMN has reviewed the intention for the bond portfolios and on that basis reclassified certain portfolios from trading to banking in the first quarter of 2015. This is reflected in reduced debt risk and increased credit risk under the standardised approach.

In connection with changed requirements on conditions governing hybrid capital, hybrid capital not meeting the new requirements over time will not be eligible as other core capital. The bonds will subject to a stepwise reduction of 30.0 per cent in 2015 and 10.0 per cent thereafter. As at 30 June 2015 SpareBank 1 SMN held hybrid capital worth NOK 450 million that will be subject to stepwise reduction. Finanstilsynet 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.

The parent bank calculates capital charges against operational risk using the standardised approach. In the case of subsidiaries, the basic indicator approach is applied.

Capital adequacy figures are stated in accordance with the new reporting requirements as from 30 September 2014. Comparatives have not been restated.

Parent Bank				Group		
31 Dec 2014	30 June 2014	30 June 2015	(NOKm)	30 June 2015	30 June 2014	31 Dec 2014
2.597	2.597	2.597	Equity capital certificates	2.597	2.597	2.597
-0	-0	-0	- Own holding of ECCs	-0	-0	-0
895	895	895	Premium fund	895	895	895
3.122	2.496	3.122	Dividend equalisation fund	3.122	2.496	3.122
3.619	3.276	3.619	Savings bank's reserve	3.619	3.276	3.619
292	-	-	- Recommended dividends	-	-	292
160	-	-	- Provision for gifts	-	-	160
139	195	139	Unrealised gains reserve	148	206	148
-	-65	-	- Other equity	1.639	1.280	1.620
-	-	-	- Minority interests	301	66	72
-	942	1.117	Net profit	871	963	-
10.824	10.337	11.489	Total book equity	13.191	11.780	12.524
-447	-454	-447	Deferred taxes, goodwill and other intangible assets	-664	-620	-566
-	-	-	- Part of reserve for unrealised gains, associated companies	120	98	120
-452	-	-	- Deduction for allocated dividends and gifts	-	-	-452
-	-442	-	- 50 % deduction for subordinated capital in other financial institutions	-	-101	-
-	-251	-	- 50 % deduction for expected losses on IRB, net of write-downs	-	-246	-
-	-	-	- 50 % capital adequacy reserve	-	-685	-
-	-	-	- Minority interests recognised in other equity capital	-301	-	-72
-	-	-	- Minority interests eligible for inclusion in CET1 capital	47	-	35
-4	-28	-4	Surplus financing of pension obligations	-	-21	-
-	-942	-1.117	Net profit	-871	-963	-

-	688	882	Year-to-date profit included in core capital (73 per cent pre tax of group profit)	636	703	-
-31	-	-30	Value adjustments due to requirements for prudent valuation	-43	-	-45
-325	-	-240	Positive value of adjusted expected loss under IRB Approach	-318	-	-419
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-355	-	-451
9.565	8.908	10.533	Total common equity Tier one	11.443	9.945	10.674
1.449	1.439	950	Hybrid capital, core capital	1.217	1.690	1.716
-	-	491	Hybrid capital covered by transitional provisions	491	-	-
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-9	-	-9
11.014	10.347	11.974	Total core capital	13.142	11.635	12.382
			Supplementary capital in excess of core capital			
1.906	1.899	1.000	Subordinated capital	1.692	2.561	2.598
-	-	786	Subordinated capital covered by transitional provisions	786	-	-
-	-442	-	50 % deduction for subordinated capital in other financial institutions	-	-101	-
-	-251	-	50 % deduction for expected losses on IRB, net of write-downs	-	-246	-
-	-	-	50 % capital adequacy reserve	-	-685	-
-43	-	-43	Direct, indirect and synthetic investments in financial sector companies	-43	-	-43
1.864	1.206	1.743	Total supplementary capital	2.435	1.529	2.555
12.878	11.553	13.717	Net subordinated capital	15.577	13.164	14.937
			Minimum requirements subordinated capital			
1.632	1.508	1.148	Involvement with specialised enterprises	1.391	1.863	1.887
1.331	1.380	927	Other corporations exposure	965	1.472	1.371
829	703	1.104	Mass market exposure, property	1.514	1.170	1.280
149	136	173	Mass market exposure, SMEs	185	146	159
49	37	13	Other retail exposure	13	43	51
1.111	1.225	1.148	Equity investments	0	27	0
5.102	4.989	4.513	Total credit risk IRB	4.068	4.722	4.748
397	281	199	Debt risk	200	308	397
-	-	-	Equity risk	8	1	1
-	-	-	Currency risk	0	-	0
292	292	316	Operational risk	457	416	416
849	579	1.001	Exposures calculated using the standardised approach	1.926	1.682	1.971
-	-69	-	Deductions	-	-130	-
42	-	30	Credit value adjustment risk (CVA)	71	-	92
-	-	-	Transitional arrangements	471	-	-
6.682	6.072	6.060	Minimum requirements subordinated capital	7.201	6.998	7.625
83.523	75.900	75.746	Risk weighted assets (RWA)	90.010	87.477	95.317
3.759		3.409	Minimum requirement on CET1 capital, 4.5 per cent	4.050		4.289
			Capital Buffers			
2.088		1.894	Capital conservation buffer, 2.5 per cent	2.250		2.383
2.506		2.272	Systemic risk buffer, 3.0 per cent	2.700		2.860
		757	Countercyclical buffer 1.0 per cent	900		
4.594		4.923	Total buffer requirements on CET1 capital	5.851		5.242
1.212		2.201	Available CET1 capital after buffer requirements	1.542		1.143
			Capital adequacy			
11,5 %	11,7 %	13,9 %	Common equity Tier one ratio	12,7 %	11,4 %	11,2 %
13,2 %	13,6 %	15,8 %	Core capital ratio	14,6 %	13,3 %	13,0 %
15,4 %	15,2 %	18,1 %	Capital adequacy ratio	17,3 %	15,0 %	15,7 %