

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 31 March 2015 the capital conservation buffer requirement is 2.5 per cent and the systemic risk requirement is 3 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 10 per cent. On 30 June 2015 a countercyclical buffer requirement of 1 percentage point will become effective, bringing the overall minimum CET1 requirement to 11 per cent.

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 per cent in 2015 and 10 per cent thereafter. As at 31 March 2015 SpareBank 1 SMN held hybrid capital worth NOK 450m 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 credit 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	31 Mar 2014	31 Mar 2015	(NOKm)	31 Mar 2015	31 Mar 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
-	-	-	Other equity and minority interest	1,622	1,357	1,620
-	-	-	Minority interests	78	62	72
-	450	389	Net profit	441	500	-
10,824	9,909	10,761	Total book equity	12,521	11,389	12,524
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-569	-613	-566
-	-	-	Part of reserve for unrealised gains, associated companies	120	98	120
-452	-	-	Deduction for allocated dividends and gifts	-	-4	-452
-	-413	-	50 % deduction for subordinated capital in other financial institutions	-	-120	-
-	-275	-	50 % deduction for expected losses on IRB, net of write-downs	-	-259	-
-	-	-	50 % capital adequacy reserve	-	-623	-
-	-	-	Minority interests recognised in other equity capital	-78	-	-72
-	-	-	Minority interests eligible for inclusion in CET1 capital	36	-	35
-4	-80	-4	Surplus financing of pension obligations	-	-78	-
-	-450	-389	Net profit	-441	-500	-
-	329	270	Year-to-date profit included in core capital (73 per cent pre tax of group profit)	322	365	-
-31	-	-30	Value adjustments due to requirements for prudent valuation	-44	-	-45
-325	-	-277	Positive value of adjusted expected loss under IRB Approach	-381	-	-419

-	-	-	Direct, indirect and synthetic investments in financial sector companies	-477	-	-451
9,565	8,574	9,884	Total common equity Tier one	11,008	9,655	10,674
1,449	1,433	950	Hybrid capital, core capital	1,217	1,647	1,716
-	-	497	Hybrid capital covered by transitional provisions	497	-	-
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-9	-	-9
11,014	10,007	11,331	Total core capital	12,713	11,303	12,382
			Supplementary capital in excess of core capital			
1,906	1,874	1,000	Subordinated capital	1,692	2,592	2,598
-	-	786	Subordinated capital covered by transitional provisions	786	-	-
-	-413	-	50 % deduction for subordinated capital in other financial institutions	-	-120	-
-	-275	-	50 % deduction for expected losses on IRB, net of write-downs	-	-259	-
-	-	-	50 % capital adequacy reserve	-	-623	-
-43	-	-43	Direct, indirect and synthetic investments in financial sector companies	-43	-	-43
1,864	1,187	1,743	Total supplementary capital	2,435	1,591	2,555
12,878	11,194	13,074	Net subordinated capital	15,147	12,893	14,937
			Minimum requirements subordinated capital			
1,632	1,508	1,258	Involvement with specialised enterprises	1,506	1,508	1,887
1,331	1,380	987	Other corporations exposure	1,038	1,381	1,371
829	703	1,089	Mass market exposure, property	1,447	1,153	1,280
149	136	141	Mass market exposure, SMBs	149	145	159
49	37	54	Other retail exposure	54	43	51
1,111	1,225	1,160	Equity investments	0	-	0
5,102	4,989	4,689	Total credit risk IRB	4,194	4,229	4,748
397	281	199	Debt risk	200	281	397
-	-	-	Equity risk	2	3	1
-	-	-	Currency risk	0	-	0
292	292	316	Operational risk	452	416	416
849	579	911	Exposures calculated using the standardised approach	2,025	2,186	1,971
-	-69	-	Deductions	-	-126	-
42	-	42	Credit value adjustment risk (CVA)	97	-	92
-	-	-	Transitional arrangements	163	-	-
6,682	6,072	6,158	Minimum requirements subordinated capital	7,134	6,989	7,625
83,523	75,900	76,969	Risk weighted assets (RWA)	89,171	87,361	95,317
3,759		3,464	Minimum requirement on CET1 capital, 4.5 per cent	4,013		4,289
			Capital Buffers			
2,088		1,924	Capital conservation buffer, 2.5 per cent	2,229		2,383
2,506		2,309	Systemic risk buffer, 3.0 per cent	2,675		2,860
4,594		4,233	Total buffer requirements on CET1 capital	4,904		5,242
1,212		2,187	Available CET1 capital after buffer requirements	2,091		1,143
			Capital adequacy			
11.5 %	11.3 %	12.8 %	Common equity Tier one ratio	12.3 %	11.1 %	11.2 %
13.2 %	13.2 %	14.7 %	Core capital ratio	14.3 %	12.9 %	13.0 %
15.4 %	14.7 %	17.0 %	Capital adequacy ratio	17.0 %	14.8 %	15.7 %