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 September 2015 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3 per cent and countercyclical buffer is 1 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 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 per cent in 2015 and 10 per cent thereafter. As at 30 September 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 operational risk using the standardised approach. In the case of subsidiaries, the basic indicator approach is applied.

Parent Bank				Group		
31 Dec 2014	**30 Sept 2014**	**30 Sept 2015**	**(NOKm)**	**30 Sept 2015**	**30 Sept 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	1,660	1,282	1,620
-	-	-	Minority interests	295	69	72
-	1,194	1,294	Net profit	1,119	1,407	-
10,824	**10,588**	**11,666**	**Total book equity**	**13,455**	**12,228**	**12,524**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-679	-565	-566
-	-	-	Part of reserve for unrealised gains, associated companies	179	131	120
-452	-	-	Deduction for allocated dividends and gifts	-	-	-452
-	-	-	Minority interests recognised in other equity capital	-295	-69	-72
-	-	-	Minority interests eligible for inclusion in CET1 capital	49	34	35
-4	-28	-4	Surplus financing of pension obligations	-	-21	-
-	-1,194	-1,294	Net profit	-1,119	-1,407	-
-	872	992	Year-to-date profit included in core capital (73 per cent pre tax of group profit)	817	1,027	-
-31	-27	-32	Value adjustments due to requirements for prudent valuation	-49	-36	-45
-325	-300	-199	Positive value of adjusted expected loss under IRB Approach	-277	-367	-419
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-428	-349	-451
9,565	**9,465**	**10,682**	**Total common equity Tier one**	**11,652**	**10,605**	**10,674**

1,449	1,440	950	Hybrid capital, core capital	1,311	1,707	1,716
-	-	496	Hybrid capital covered by transitional provisions	496	-	-
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-9	-9	-9
11,014	**10,905**	**12,128**	**Total core capital**	**13,451**	**12,302**	**12,382**
			Supplementary capital in excess of core capital			
1,906	1,875	1,000	Subordinated capital	1,692	2,566	2,598
-	-	786	Subordinated capital covered by transitional provisions	786	-	-
-43	-43	-43	Direct, indirect and synthetic investments in financial sector companies	-43	-43	-43
1,864	**1,833**	**1,743**	**Total supplementary capital**	**2,435**	**2,523**	**2,555**
12,878	**12,738**	**13,871**	**Net subordinated capital**	**15,886**	**14,826**	**14,937**
			Minimum requirements subordinated capital			
1,632	1,482	1,062	Involvement with spesialised enterprises	1,262	1,732	1,887
1,331	1,328	981	Other corporations exposure	1,058	1,375	1,371
829	790	1,136	Mass market exposure, property	1,551	1,233	1,280
149	138	174	Mass market exposure, SMEs	186	147	159
49	40	15	Other retail exposure	15	42	51
1,111	1,105	1,155	Equity investments	0	0	0
5,102	**4,884**	**4,524**	**Total credit risk IRB**	**4,073**	**4,529**	**4,748**
397	440	93	Debt risk	94	440	397
-	-	-	Equity risk	10	2	1
-	-	-	Currency risk	0	-	0
292	292	316	Operational risk	457	416	416
849	778	911	Exposures calculated using the standardised approach	1,827	1,860	1,971
42	31	55	Credit value adjustment risk (CVA)	92	116	92
-	-	-	Transitional arrangements	533	-	-
6,682	**6,425**	**5,899**	**Minimum requirements subordinated capital**	**7,087**	**7,364**	**7,625**
83,523	**80,315**	**73,732**	**Risk weighted assets (RWA)**	**88,586**	**92,045**	**95,317**
3,759	3,614	3,318	Minimum requirement on CET1 capital, 4.5 per cent	3,986	4,142	4,289
			Capital Buffers			
2,088	2,008	1,843	Capital conservation buffer, 2.5 per cent	2,215	2,301	2,383
2,506	2,409	2,212	Systemic rick buffer, 3.0 per cent	2,658	2,761	2,860
		737	Countercyclical buffer, 1.0 per cent	886		
4,594	**4,417**	**4,793**	**Total buffer requirements on CET1 capital**	**5,758**	**5,062**	**5,242**
1,212	**1,434**	**2,571**	**Available CET1 capital after buffer requirements**	**1,908**	**1,400**	**1,143**
			Capital adequacy			
11.5 %	11.8 %	14.5 %	Common equity Tier one ratio	13.2 %	11.5 %	11.2 %
13.2 %	13.6 %	16.4 %	Core capital ratio	15.2 %	13.4 %	13.0 %
15.4 %	15.9 %	18.8 %	Capital adequacy ratio	17.9 %	16.1 %	15.7 %