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 2016 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.

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 40 per cent in 2016 and 10 per cent thereafter. As at 31 March 2016 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 2015	**31 Mar 2015**	**31 Mar 2016**	**(NOKm)**	**31 Mar 2016**	**31 Mar 2015**	**31 Dec 2015**
2,597	2,597	2,597	Equity capital certificates	2,597	2,597	2,597
-0	-0	-0	- Own holding of ECCs	-6	-0	-21
895	895	895	Premium fund	895	895	895
3,790	3,122	3,790	Dividend equalisation fund	3,782	3,122	3,790
4,105	3,619	4,105	Savings bank's reserve	4,105	3,619	4,105
292	-	-	Recommended dividends	-	-	292
40	-	-	Provision for gifts	-	-	40
279	139	279	Unrealised gains reserve	290	148	290
-	-	-	Other equity	1,705	1,622	1,597
-	-	-	Non-controlling interests	372	78	318
-	389	193	Net profit	311	441	-
11,998	**10,761**	**11,859**	**Total book equity**	**14,051**	**12,521**	**13,904**
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-668	-569	-662
-	-	-	Part of reserve for unrealised gains, associated companies	119	120	264
-332	-	-	Deduction for allocated dividends and gifts	-	-	-332
-	-	-	Non-controlling interests recognised in other equity capital	-372	-78	-318
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	184	36	132
-93	-4	-93	Surplus financing of pension obligations	-43	-	-43
-	-389	-193	Net profit	-311	-441	-
-	270	100	Year-to-date profit included in core capital (73 per cent pre tax of group profit)	218	322	-
-33	-30	-35	Value adjustments due to requirements for prudent valuation	-57	-44	-55
-164	-277	-32	Positive value of adjusted expected loss under IRB Approach	-104	-381	-239
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-576	-477	-458
10,928	**9,884**	**11,159**	**Total common equity Tier one**	**12,440**	**11,008**	**12,192**
950	950	950	Hybrid capital, core capital	1,310	1,217	1,310
495	497	496	Hybrid capital covered by transitional provisions	496	497	495
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-9	-9	-9
12,373	**11,331**	**12,605**	**Total core capital**	**14,237**	**12,713**	**13,988**

			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,648	1,692	1,647
786	786	673	Subordinated capital covered by transitional provisions	673	786	786
-43	-43	-43	Direct, indirect and synthetic investments in financial sector companies	-43	-43	-43
1,743	**1,743**	**1,631**	**Total supplementary capital**	**2,279**	**2,435**	**2,390**
14,116	**13,074**	**14,236**	**Net subordinated capital**	**16,516**	**15,147**	**16,378**
			Minimum requirements subordinated capital			
1,027	1,258	1,063	Involvement with spesialised enterprises	1,232	1,506	1,213
1,049	987	1,040	Other corporations exposure	1,086	1,038	1,105
1,093	1,089	1,134	Mass market exposure, property	1,606	1,447	1,557
157	141	162	Mass market exposure, SMEs	171	149	167
38	54	37	Other retail exposure	39	54	40
1,221	1,160	1,235	Equity investments	1	0	0
4,585	**4,689**	**4,671**	**Total credit risk IRB**	**4,135**	**4,194**	**4,082**
64	199	27	Debt risk	29	200	64
-	-	-	Equity risk	10	2	10
-	-	-	Currency risk	-	0	-
316	316	334	Operational risk	479	452	457
922	911	947	Exposures calculated using the standardised approach	1,893	2,025	1,805
53	42	45	Credit value adjustment risk (CVA)	91	97	106
-	-	-	Transitional arrangements	666	163	634
5,939	**6,158**	**6,024**	**Minimum requirements subordinated capital**	**7,303**	**7,134**	**7,157**
74,243	**76,969**	**75,295**	**Risk weighted assets (RWA)**	**91,286**	**89,171**	**89,465**
3,341	3,464	3,388	Minimum requirement on CET1 capital, 4.5 per cent	4,108	4,013	4,026
			Capital Buffers			
1,856	1,924	1,882	Capital conservation buffer, 2.5 per cent	2,282	2,229	2,237
2,227	2,309	2,259	Systemic rick buffer, 3.0 per cent	2,739	2,675	2,684
742		753	Countercyclical buffer, 1.0 per cent	913		895
4,826	**4,233**	**4,894**	**Total buffer requirements on CET1 capital**	**5,934**	**4,904**	**5,815**
2,761	**2,187**	**2,877**	**Available CET1 capital after buffer requirements**	**2,399**	**2,091**	**2,351**
			Capital adequacy			
14.7 %	12.8 %	14.8 %	Common equity Tier one ratio	13.6 %	12.3 %	13.6 %
16.7 %	14.7 %	16.7 %	Core capital ratio	15.6 %	14.3 %	15.6 %
19.0 %	17.0 %	18.9 %	Capital adequacy ratio	18.1 %	17.0 %	18.3 %
9.1 %	8.7 %	9,2 %	Leverage ratio	6,8 %	6.3 %	6.7 %