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 30 September 2016 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and 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. The countercyclical buffer increased to 1.5 per cent from 1.0 per cent with effect from 30 June 2016.

As from 1 October 2016, differentiated rates become effective for the countercyclical buffer with 1.5 per cent being maintained for exposures in Norway. For exposures in other countries the countercyclical capital buffer rate set by the authorities in the country concerned is used. If the country concerned has not established a rate, the same rate as for exposures in Norway is to be used unless the Ministry of Finance sets another rate.

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 30 September 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	**30 Sept 2015**	**30 Sept 2016**	**(NOKm)**	**30 Sept 2016**	**30 Sept 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	-2	-0	-21
895	895	895	Premium fund	895	895	895
3,790	3,122	3,790	Dividend equalisation fund	3,791	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	221	Unrealised gains reserve	233	148	290
-	-	5	Other equity	1,679	1,660	1,597
-	-	-	Non-controlling interests	411	295	318
-	1,294	1,179	Net profit	1,185	1,119	-
11,998	**11,666**	**12,792**	**Total book equity**	**14,893**	**13,455**	**13,904**
-447	-447	-475	Deferred taxes, goodwill and other intangible assets	-758	-679	-662
-	-	-	Part of reserve for unrealised gains, associated companies	119	179	264
-332	-	-	Deduction for allocated dividends and gifts	-	-	-332
-	-	-	Non-controlling interests recognised in other equity capital	-411	-295	-318
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	211	49	132
-93	-4	-93	Surplus financing of pension obligations	-94	-	-43
-	-1,294	-1,179	Net profit	-1,185	-1,119	-
-	992	823	Year-to-date profit included in core capital (70 per cent pre tax of group profit)	830	817	-
-33	-32	-30	Value adjustments due to requirements for prudent valuation	-51	-49	-55
-164	-199	-146	Positive value of adjusted expected loss under IRB Approach	-205	-277	-239
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-453	-428	-458
10,928	**10,682**	**11,693**	**Total common equity Tier one**	**12,895**	**11,652**	**12,192**
950	950	950	Hybrid capital, core capital	1,363	1,311	1,310
495	496	487	Hybrid capital covered by transitional provisions	487	496	495
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-9	-9	-9
12,373	**12,128**	**13,129**	**Total core capital**	**14,736**	**13,451**	**13,988**

SpareBank 1 SMN

Parent Bank 31 Dec 2015	30 Sept 2015	30 Sept 2016		Group 30 Sept 2016	30 Sept 2015	31 Dec 2015
			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,644	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**	**2,275**	**2,435**	**2,390**
14,116	**13,871**	**14,760**	**Net subordinated capital**	**17,011**	**15,886**	**16,378**
			Minimum requirements subordinated capital			
1,027	1,062	1,025	Involvement with spesialised enterprises	1,166	1,262	1,213
1,049	981	1,068	Other corporations exposure	1,107	1,058	1,105
1,093	1,136	1,141	Mass market exposure, property	1,602	1,551	1,557
157	174	155	Mass market exposure, SMEs	164	186	167
38	15	36	Other retail exposure	38	15	40
1,221	1,155	1,240	Equity investments	3	0	0
4,585	**4,524**	**4,665**	**Total credit risk IRB**	**4,080**	**4,073**	**4,082**
64	93	18	Debt risk	19	94	64
-	-	-	Equity risk	10	10	10
-	-	-	Currency risk	1	0	-
316	316	334	Operational risk	479	457	457
922	911	968	Exposures calculated using the standardised approach	1,828	1,827	1,805
53	55	48	Credit value adjustment risk (CVA)	88	92	106
-	-	-	Transitional arrangements	723	533	634
5,939	**5,899**	**6,033**	**Minimum requirements subordinated capital**	**7,228**	**7,087**	**7,157**
74,243	**73,732**	**75,407**	**Risk weighted assets (RWA)**	**90,353**	**88,586**	**89,465**
3,341	3,318	3,393	Minimum requirement on CET1 capital, 4.5 per cent	4,066	3,986	4,026
			Capital Buffers			
1,856	1,843	1,885	Capital conservation buffer, 2.5 per cent	2,259	2,215	2,237
2,227	2,212	2,262	Systemic rick buffer, 3.0 per cent	2,711	2,658	2,684
742	737	1,131	Countercyclical buffer, 1.5 per (1.0 per cent)	1,355	886	895
4,826	**4,793**	**5,278**	**Total buffer requirements on CET1 capital**	**6,325**	**5,758**	**5,815**
2,761	**2,571**	**3,021**	**Available CET1 capital after buffer requirements**	**2,505**	**1,908**	**2,351**
			Capital adequacy			
14.7 %	14.5 %	15.5 %	Common equity Tier one ratio	14.3 %	13.2 %	13.6 %
16.7 %	16.4 %	17.4 %	Core capital ratio	16.3 %	15.2 %	15.6 %
19.0 %	18.8 %	19.6 %	Capital adequacy ratio	18.8 %	17.9 %	18.3 %
9.1 %	9.1 %	9.2 %	Leverage ratio	7.1 %	6.7 %	6.7 %