SpareBank 1 SMN

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 June 2017 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian 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. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN, effective as from the fourth quarter of 2016. The total minimum requirement on CET1 capital is accordingly 13.6 per cent.

The countercyclical buffer increased to 1.5 per cent from 1.0 per cent with effect from 30 June 2016. The Ministry of Finance has decided to increase the buffer by 0.5 per cent to 2.0 per cent with effect from 31 December 2017.

As from the fourth quarter of 2016 differentiated rates came into force for the countercyclical buffer. For exposures in other countries the countercyclical buffer rate set by the authorities in the country concerned is applied. If that country has not set a rate, the same rate as for exposures in Norway is applied unless the Ministry of Finance sets another rate. For the second quarter of 2017 the parent bank is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures. For groups, the risk-weighted countercyclical capital buffer is 1.5 per cent.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 40 per cent in 2016 and 50 per cent in 2017. The write-down will increase by another 10 per cent per year thereafter. As at 30 June 2017 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure NOK 675 million. The financial supervisory authority 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.

Parent Bank				Group		
31 Dec 2016	**30 June 2016**	**30 June 2017**	**(NOKm)**	**30 June 2017**	**30 June 2016**	**31 Dec 2016**
13,212	**12,552**	**13,718**	**Total book equity**	**15,780**	**14,460**	**15,299**
-	-	-	Hybrid capital included in total equity	-264	-	-
-470	-473	-480	Deferred taxes, goodwill and other intangible assets	-872	-715	-741
-	-	-	Part of reserve for unrealised gains, associated companies	117	169	117
-609	-	-	Deduction for allocated dividends and gifts	-	-	-609
-	-	-	Non-controlling interests recognised in other equity capital	-514	-403	-425
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	241	203	220
-	-93	-	Surplus financing of pension obligations	-	-94	-
-	-938	-1,106	Net profit	-759	-771	-
-	707	726	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2017)	380	540	-
-29	-36	-32	Value adjustments due to requirements for prudent valuation	-50	-58	-48
-190	-124	-195	Positive value of adjusted expected loss under IRB Approach	-257	-187	-248
-	-	-	Adjustments for unrealised losses (gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	7	-	-
-	-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-3	-389	-337
11,913	**11,594**	**12,632**	**Total common equity Tier one**	**13,806**	**12,757**	**13,229**
950	950	950	Hybrid capital, core capital	1,358	1,353	1,358
483	493	459	Hybrid capital covered by transitional provisions	459	493	483
13,346	**13,037**	**14,041**	**Total core capital**	**15,622**	**14,604**	**15,069**
			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,710	1,647	1,698
673	673	561	Subordinated capital covered by transitional provisions	561	673	673
-256	-43	-245	Deduction for significant investments in financial institutions	-245	-43	-256
1,418	**1,631**	**1,317**	**Total supplementary capital**	**2,026**	**2,278**	**2,116**
14,764	**14,668**	**15,358**	**Net subordinated capital**	**17,649**	**16,882**	**17,185**

			Minimum requirements subordinated capital			
1,065	1,027	1,106	Specialised enterprises	1,232	1,169	1,206
1,064	1,095	1,031	Corporate	1,045	1,143	1,102
1,270	1,285	1,277	Mass market exposure, property	1,759	1,752	1,753
85	52	91	Other mass market	94	55	88
1,223	1,238	1,234	Equity investments	1	3	3
4,707	**4,696**	**4,739**	**Total credit risk IRB**	**4,131**	**4,123**	**4,153**
5	3	5	Central government	5	3	5
73	65	74	Covered bonds	131	118	130
426	606	485	Institutions	425	540	340
5	0	5	Local and regional authorities, state-owned enterprises	9	10	7
45	55	43	Corporate	161	259	253
0	-	0	Mass market	401	160	179
13	-	16	Exposures secured on real property	306	364	342
245	246	221	Equity positions	339	329	338
86	57	64	Other assets	164	147	178
898	**1,033**	**914**	**Total credit risk standardised approach**	**1,942**	**1,931**	**1,772**
35	18	28	Debt risk	29	19	36
-	-	-	Equity risk	6	10	5
-	-	-	Currency risk	1	1	1
334	334	341	Operational risk	510	479	479
51	47	67	Credit value adjustment risk (CVA)	123	90	84
-	-	-	Transitional arrangements	634	585	574
6,026	**6,127**	**6,089**	**Minimum requirements subordinated capital**	**7,376**	**7,237**	**7,103**
75,325	**76,592**	**76,107**	**Risk weighted assets (RWA)**	**92,202**	**90,464**	**88,786**
3,390	3,447	3,425	Minimum requirement on CET1 capital, 4.5 per cent	4,149	4,071	3,995
			Capital Buffers			
1,883	1,915	1,903	Capital conservation buffer, 2.5 per cent	2,305	2,262	2,220
2,260	2,298	2,283	Systemic rick buffer, 3.0 per cent	2,766	2,714	2,664
1,130	1,149	1,142	Countercyclical buffer, 1.5 per (1.0 per cent)	1,383	1,357	1,332
5,273	**5,361**	**5,327**	**Total buffer requirements on CET1 capital**	**6,454**	**6,332**	**6,215**
3,251	**2,786**	**3,880**	**Available CET1 capital after buffer requirements**	**3,203**	**2,354**	**3,018**
			Capital adequacy			
15.8 %	15.1 %	16.6 %	Common equity Tier one ratio	15.0 %	14.1 %	14.9 %
17.7 %	17.0 %	18.4 %	Core capital ratio	16.9 %	16.1 %	17.0 %
19.6 %	19.2 %	20.2 %	Capital adequacy ratio	19.1 %	18.7 %	19.4 %
			Leverage ratio			
133,514	136,909	145,532	Balance sheet items	207,760	206,172	194,324
8,234	7,532	7,555	Off-balance sheet items	9,400	10,174	10,068
-690	-726	-707	Regulatory adjustments	-1,190	-1,457	-1,388
141,058	143,715	152,380	Calculation basis for leverage ratio	215,969	214,888	203,005
13,346	13,037	14,041	Core capital	15,622	14,604	15,069
9.5 %	**9.1 %**	**9.2 %**	**Leverage Ratio**	**7.2 %**	**6.8 %**	**7.4 %**