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 September 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 third 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 September 2017 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure NOK 636 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 Sept 2016	30 Sept 2017	(NOKm)	30 Sept 2017	30 Sept 2016	31 Dec 2016
13,212	**12,792**	**14,055**	**Total book equity**	**16,255**	**14,893**	**15,299**
-	-	-	Hybrid capital included in total equity	-262	-	-
-470	-475	-484	Deferred taxes, goodwill and other intangible assets	-888	-758	-741
-	-	-	Part of reserve for unrealised gains, associated companies	117	119	117
-609	-	-	Deduction for allocated dividends and gifts	-	-	-609
-	-	-	Non-controlling interests recognised in other equity capital	-516	-411	-425
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	303	211	220
-	-93	-	Surplus financing of pension obligations	-	-94	-
-	-1,179	-1,446	Net profit	-1,250	-1,185	-
-	823	821	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2017)	625	830	-
-29	-30	-28	Value adjustments due to requirements for prudent valuation	-46	-51	-48
-190	-146	-200	Positive value of adjusted expected loss under IRB Approach	-264	-205	-248
-	-	-	Cash flow hedge reserve	8	-	-
-	-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-92	-453	-337
11,913	**11,693**	**12,717**	**Total common equity Tier one**	**13,990**	**12,895**	**13,229**
950	950	950	Hybrid capital, core capital	1,358	1,354	1,358
483	487	459	Hybrid capital covered by transitional provisions	459	487	483
13,346	**13,129**	**14,126**	**Total core capital**	**15,807**	**14,736**	**15,069**
			Supplementary capital in excess of core capital			
1,000	1,000	1,368	Subordinated capital	1,979	1,644	1,698
673	673	561	Subordinated capital covered by transitional provisions	561	673	673
-256	-43	-254	Deduction for significant investments in financial institutions	-254	-43	-256
1,418	**1,631**	**1,675**	**Total supplementary capital**	**2,286**	**2,275**	**2,116**
14,764	**14,760**	**15,801**	**Net subordinated capital**	**18,093**	**17,011**	**17,185**

SpareBank 1 SMN

			Minimum requirements subordinated capital			
1,065	1,025	1,050	Specialised enterprises	1,177	1,166	1,206
1,064	1,068	1,040	Corporate	1,054	1,107	1,102
1,270	1,282	1,284	Mass market exposure, property	1,763	1,752	1,753
85	49	87	Other mass market	89	52	88
1,223	1,240	1,222	Equity investments	1	3	3
4,707	**4,665**	**4,683**	**Total credit risk IRB**	**4,084**	**4,080**	**4,153**
5	5	4	Central government	4	5	5
73	69	74	Covered bonds	136	129	130
426	532	453	Institutions	377	457	340
5	0	5	Local and regional authorities, state-owned enterprises	11	10	7
45	57	40	Corporate	254	260	253
0	0	0	Mass market	376	169	179
13	12	14	Exposures secured on real property	198	332	342
245	243	227	Equity positions	342	333	338
86	49	63	Other assets	172	135	178
898	**968**	**881**	**Total credit risk standardised approach**	**1,870**	**1,828**	**1,772**
35	18	22	Debt risk	24	19	36
-	-	-	Equity risk	18	10	5
-	-	-	Currency risk	-	1	1
334	334	341	Operational risk	510	479	479
51	48	74	Credit value adjustment risk (CVA)	134	88	84
-	-	-	Transitional arrangements	956	723	574
6,026	**6,033**	**6,000**	**Minimum requirements subordinated capital**	**7,595**	**7,228**	**7,103**
75,325	**75,407**	**75,004**	**Risk weighted assets (RWA)**	**94,938**	**90,351**	**88,786**
3,390	3,393	3,375	Minimum requirement on CET1 capital, 4.5 per cent	4,272	4,066	3,995
			Capital Buffers			
1,883	1,885	1,875	Capital conservation buffer, 2.5 per cent	2,373	2,259	2,220
2,260	2,262	2,250	Systemic rick buffer, 3.0 per cent	2,848	2,711	2,664
1,130	1,131	1,125	Countercyclical buffer, 1.5 per (1.0 per cent)	1,424	1,355	1,332
5,273	**5,278**	**5,250**	**Total buffer requirements on CET1 capital**	**6,646**	**6,325**	**6,215**
3,251	**3,021**	**4,092**	**Available CET1 capital after buffer requirements**	**3,072**	**2,505**	**3,018**
			Capital adequacy			
15.8 %	15.5 %	17.0 %	Common equity Tier one ratio	14.7 %	14.3 %	14.9 %
17.7 %	17.4 %	18.8 %	Core capital ratio	16.6 %	16.3 %	17.0 %
19.6 %	19.6 %	21.1 %	Capital adequacy ratio	19.1 %	18.8 %	19.4 %
			Leverage ratio			
133,514	135,133	142,840	Balance sheet items	203,155	197,689	194,324
8,234	8,232	7,535	Off-balance sheet items	9,506	10,266	10,068
-690	-744	-713	Regulatory adjustments	-1,301	-1,572	-1,388
141,058	142,620	149,662	Calculation basis for leverage ratio	211,361	206,383	203,005
13,346	13,129	14,126	Core capital	15,807	14,736	15,069
9.5 %	**9.2 %**	**9.4 %**	**Leverage Ratio**	**7.5 %**	**7.1 %**	**7.4 %**