

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 2018 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 2.0 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 12.0 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN. The total minimum requirement on CET1 capital is accordingly 14.1 per cent.

The countercyclical buffer increased from 1.5 per cent to 2.0 per cent with effect from 31 December 2017.

Countercyclical buffer is calculated using differentiated rates. 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 2018 both the parent bank and the group is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 50 per cent in 2017 and 60 per cent in 2018. As at 30 June 2018 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure was NOK 659 million.

Parent Bank				Group		
31 Dec 2017	30 June 2017	30 June 2018	(NOKm)	30 June 2018	30 June 2017	31 Dec 2017
15,372	14,672	15,895	Total book equity	17,984	16,733	17,510
-950	-933	-1,094	Additional Tier 1 capital instruments included in total equity	-1,136	-1,198	-993
-522	-480	-532	Deferred taxes, goodwill and other intangible assets	-1,044	-872	-984
-893	-	-	Deduction for allocated dividends and gifts	-	-	-893
-	-	-	Non-controlling interests recognised in other equity capital	-621	-514	-565
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	357	241	324
-	-1,106	-1,285	Net profit	-1,209	-759	-
-	726	690	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2018)	614	380	-
-30	-32	-28	Value adjustments due to requirements for prudent valuation	-46	-50	-41
-350	-195	-298	Positive value of adjusted expected loss under IRB Approach	-299	-257	-333
-	-	-	Cash flow hedge reserve	4	7	7
-	-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-74	-3	-212
12,627	12,653	13,349	Total common equity Tier one	14,528	13,709	13,820
950	950	1,114	Additional Tier 1 capital instruments	1,592	1,358	1,427
459	459	367	Additional Tier 1 capital instruments covered by transitional provisions	367	459	459
14,036	14,062	14,830	Total core capital	16,488	15,526	15,707
			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,621	1,710	1,615
561	561	449	Subordinated capital covered by transitional provisions	449	561	561
-254	-245	-141	Deduction for significant investments in financial institutions	-141	-245	-254
1,307	1,317	1,308	Total supplementary capital	1,930	2,026	1,922
15,343	15,378	16,138	Net subordinated capital	18,418	17,552	17,629

			Minimum requirements subordinated capital			
978	1,106	951	Specialised enterprises	1,072	1,232	1,107
1,098	1,031	1,115	Corporate	1,128	1,045	1,113
1,370	1,277	1,459	Mass market exposure, property	2,010	1,759	1,892
90	91	93	Other mass market	96	94	91
1,198	1,234	1,037	Equity investments	1	1	1
4,733	4,739	4,655	Total credit risk IRB	4,307	4,131	4,205
3	5	2	Central government	2	5	3
80	74	84	Covered bonds	146	131	146
431	489	407	Institutions	262	429	333
0	5	-	Local and regional authorities, state-owned enterprises	9	9	4
25	23	46	Corporate	255	142	226
18	17	16	Mass market	438	418	405
13	16	14	Exposures secured on real property	195	306	193
232	221	260	Equity positions	359	339	344
70	64	66	Other assets	128	164	166
872	914	895	Total credit risk standardised approach	1,796	1,942	1,820
16	28	21	Debt risk	23	29	18
-	-	-	Equity risk	11	6	22
-	-	-	Currency risk and risk exposure for settlement/delivery	4	1	1
341	341	370	Operational risk	575	510	510
52	67	45	Credit value adjustment risk (CVA)	110	123	117
-	-	-	Transitional arrangements	946	634	891
6,015	6,089	5,986	Minimum requirements subordinated capital	7,771	7,376	7,585
75,182	76,107	74,823	Risk weighted assets (RWA)	97,137	92,202	94,807
3,383	3,425	3,367	Minimum requirement on CET1 capital, 4.5 per cent	4,371	4,149	4,266
			Capital Buffers			
1,880	1,903	1,871	Capital conservation buffer, 2.5 per cent	2,428	2,305	2,370
2,255	2,283	2,245	Systemic risk buffer, 3.0 per cent	2,914	2,766	2,844
1,504	1,142	1,496	Countercyclical buffer, 2.0 per cent (1,5 per cent)	1,943	1,383	1,896
5,639	5,327	5,612	Total buffer requirements on CET1 capital	7,285	6,454	7,111
3,605	3,900	4,370	Available CET1 capital after buffer requirements	2,872	3,106	2,444
			Capital adequacy			
16.8 %	16.6 %	17.8 %	Common equity Tier one ratio	15.0 %	14.9 %	14.6 %
18.7 %	18.5 %	19.8 %	Core capital ratio	17.0 %	16.8 %	16.6 %
20.4 %	20.2 %	21.6 %	Capital adequacy ratio	19.0 %	19.0 %	18.6 %
			Leverage ratio			
145,821	145,532	152,080	Balance sheet items	216,406	207,760	210,764
7,112	7,555	7,235	Off-balance sheet items	9,345	9,400	9,295
-902	-707	-858	Regulatory adjustments	-1,480	-1,190	-1,580
152,032	152,380	158,457	Calculation basis for leverage ratio	224,271	215,969	218,479
14,036	14,062	14,830	Core capital	16,488	15,526	15,707
9.2 %	9.2 %	9.4 %	Leverage Ratio	7.4 %	7.2 %	7.2 %