

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 2019 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 1.9 per cent for SpareBank 1 SMN. The total minimum requirement on CET1 capital is accordingly 13.9 per cent.

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 first half of 2019 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 60 per cent in 2018 and 70 per cent in 2019. As at 30 June 2019 the bank held hybrid capital worth NOK 450 million subject to write-down.

Parent Bank				Group		
31 Dec 2018	30 June 2018	30 June 2019	(NOKm)	30 June 2019	30 June 2018	31 Dec 2018
16,409	15,895	16,889	Total book equity	19,450	17,984	18,686
-1,000	-1,094	-972	Additional Tier 1 capital instruments included in total equity	-1,013	-1,136	-1,043
-533	-532	-519	Deferred taxes, goodwill and other intangible assets	-1,105	-1,044	-1,079
-1,034	-	-	Deduction for allocated dividends and gifts	-	-	-1,034
-	-	-	Non-controlling interests recognised in other equity capital	-781	-621	-637
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	447	357	366
-	-1,285	-1,544	Net profit	-1,729	-1,209	-
-	690	694	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2018)	879	614	-
-31	-28	-31	Value adjustments due to requirements for prudent valuation	-44	-46	-44
-268	-298	-290	Positive value of adjusted expected loss under IRB Approach	-309	-299	-286
-	-	-	Cash flow hedge reserve	5	4	5
-163	-	-185	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-175	-74	-206
13,381	13,349	14,042	Total common equity Tier one	15,625	14,528	14,727
1,000	1,114	1,000	Additional Tier 1 capital instruments	1,384	1,592	1,378
367	367	275	Additional Tier 1 capital instruments covered by transitional provisions	275	367	367
14,748	14,830	15,318	Total core capital	17,284	16,488	16,472
			Supplementary capital in excess of core capital			
1,750	1,000	1,750	Subordinated capital	2,310	1,621	2,316
96	449	182	Subordinated capital covered by transitional provisions	182	449	96
-140	-141	-141	Deduction for significant investments in financial institutions	-141	-141	-140
1,705	1,308	1,791	Total supplementary capital	2,351	1,930	2,272
16,453	16,138	17,108	Net subordinated capital	19,634	18,418	18,743

			Minimum requirements subordinated capital			
967	951	938	Specialised enterprises	1,094	1,072	1,116
1,156	1,115	1,156	Corporate	1,163	1,128	1,163
1,516	1,459	1,521	Mass market exposure, property	2,166	2,010	2,098
90	93	99	Other mass market	102	96	92
1,062	1,037	1,115	Equity investments	1	1	1
4,790	4,655	4,829	Total credit risk IRB	4,525	4,307	4,470
3	2	2	Central government	3	2	4
87	84	83	Covered bonds	136	146	124
390	407	412	Institutions	300	262	246
-	-	-	Local and regional authorities, state-owned enterprises	8	9	8
23	46	35	Corporate	237	255	221
73	16	38	Mass market	525	438	520
12	14	14	Exposures secured on real property	207	195	215
228	260	236	Equity positions	369	359	366
57	66	83	Other assets	167	128	107
873	895	902	Total credit risk standardised approach	1,952	1,796	1,810
30	21	34	Debt risk	35	23	31
-	-	-	Equity risk	14	11	7
-	-	-	Currency risk and risk exposure for settlement/delivery	3	4	3
370	370	387	Operational risk	656	575	575
39	45	28	Credit value adjustment risk (CVA)	122	110	122
-	-	-	Transitional arrangements	1,032	946	1,074
6,102	5,986	6,181	Minimum requirements subordinated capital	8,339	7,771	8,093
76,274	74,823	77,257	Risk weighted assets (RWA)	104,240	97,137	101,168
3,432	3,367	3,477	Minimum requirement on CET1 capital, 4.5 per cent	4,691	4,371	4,553
			Capital Buffers			
1,907	1,871	1,931	Capital conservation buffer, 2.5 per cent	2,606	2,428	2,529
2,288	2,245	2,318	Systemic risk buffer, 3.0 per cent	3,127	2,914	3,035
1,525	1,496	1,545	Countercyclical buffer, 2.0 per cent	2,085	1,943	2,023
5,721	5,612	5,794	Total buffer requirements on CET1 capital	7,818	7,285	7,588
4,228	4,370	4,771	Available CET1 capital after buffer requirements	3,116	2,872	2,587
			Capital adequacy			
17.5 %	17.8 %	18.2 %	Common equity Tier one ratio	15.0 %	15.0 %	14.6 %
19.3 %	19.8 %	19.8 %	Core capital ratio	16.6 %	17.0 %	16.3 %
21.6 %	21.6 %	22.1 %	Capital adequacy ratio	18.8 %	19.0 %	18.5 %
			Leverage ratio			
153,395	152,080	156,091	Balance sheet items	223,781	216,406	216,240
7,110	7,235	6,824	Off-balance sheet items	8,343	9,345	9,086
-832	-858	-840	Regulatory adjustments	-1,458	-1,480	-1,474
159,673	158,457	162,075	Calculation basis for leverage ratio	230,667	224,271	223,853
14,748	14,830	15,318	Core capital	17,284	16,488	16,472
9.2 %	9.4 %	9.5 %	Leverage Ratio	7.5 %	7.4 %	7.4 %