

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 31 March 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 quarter 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 31 March 2019 the bank held hybrid capital worth NOK 450 million subject to write-down.

Parent Bank				Group		
31 Dec 2018	31 Mar 2018	31 Mar 2019	(NOKm)	31 Mar 2019	31 Mar 2018	31 Dec 2018
16,409	15,118	16,103	Total book equity	18,673	17,365	18,686
-1,000	-1,264	-981	Additional Tier 1 capital instruments included in total equity	-1,023	-1,306	-1,043
-533	-520	-525	Deferred taxes, goodwill and other intangible assets	-1,073	-1,040	-1,079
-1,034	-	-	Deduction for allocated dividends and gifts	-	-	-1,034
-	-	-	Non-controlling interests recognised in other equity capital	-665	-572	-637
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	392	341	366
-	-341	-747	Net profit	-1,046	-466	-
-	108	237	Year-to-date profit included in core capital (50 per cent pre tax of group profit)	537	233	-
-31	-28	-31	Value adjustments due to requirements for prudent valuation	-43	-45	-44
-268	-326	-284	Positive value of adjusted expected loss under IRB Approach	-303	-313	-286
-	-	-	Cash flow hedge reserve	5	3	5
-163	-	-163	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-333	-222	-206
13,381	12,748	13,609	Total common equity Tier one	15,122	13,976	14,727
1,000	876	1,000	Additional Tier 1 capital instruments	1,377	1,353	1,378
367	367	275	Additional Tier 1 capital instruments covered by transitional provisions	275	367	367
14,748	13,991	14,884	Total core capital	16,775	15,697	16,472
			Supplementary capital in excess of core capital			
1,750	1,000	1,750	Subordinated capital	2,298	1,621	2,316
96	449	184	Subordinated capital covered by transitional provisions	184	449	96
-140	-248	-142	Deduction for significant investments in financial institutions	-142	-248	-140
1,705	1,201	1,792	Total supplementary capital	2,340	1,822	2,272
16,453	15,192	16,676	Net subordinated capital	19,115	17,518	18,743

Minimum requirements subordinated capital						
967	1,075	962	Specialised enterprises	1,106	1,200	1,116
1,156	1,058	1,155	Corporate	1,161	1,070	1,163
1,516	1,375	1,515	Mass market exposure, property	2,126	1,930	2,098
90	89	95	Other mass market	97	92	92
1,062	1,218	1,076	Equity investments	1	1	1
4,790	4,815	4,802	Total credit risk IRB	4,491	4,292	4,470
3	3	2	Central government	3	3	4
87	81	87	Covered bonds	135	142	124
390	406	387	Institutions	269	281	246
-	-	-	Local and regional authorities, state-owned enterprises	10	7	8
23	66	41	Corporate	251	256	221
73	1	73	Mass market	536	403	520
12	13	13	Exposures secured on real property	211	199	215
228	232	231	Equity positions	365	349	366
57	46	91	Other assets	169	150	107
873	848	925	Total credit risk standardised approach	1,949	1,791	1,810
30	23	43	Debt risk	45	25	31
-	-	-	Equity risk	12	14	7
-	-	-	Currency risk and risk exposure for settlement/delivery	3	4	3
370	370	387	Operational risk	654	575	575
39	52	28	Credit value adjustment risk (CVA)	118	119	122
-	-	-	Transitional arrangements	929	863	1,074
6,102	6,108	6,186	Minimum requirements subordinated capital	8,200	7,684	8,093
76,274	76,355	77,327	Risk weighted assets (RWA)	102,495	96,044	101,168
3,432	3,436	3,480	Minimum requirement on CET1 capital, 4.5 per cent	4,612	4,322	4,553
Capital Buffers						
1,907	1,909	1,933	Capital conservation buffer, 2.5 per cent	2,562	2,401	2,529
2,288	2,291	2,320	Systemic risk buffer, 3.0 per cent	3,075	2,881	3,035
1,525	1,527	1,547	Countercyclical buffer, 2.0 per cent	2,050	1,921	2,023
5,721	5,727	5,800	Total buffer requirements on CET1 capital	7,687	7,203	7,588
4,228	3,586	4,330	Available CET1 capital after buffer requirements	2,823	2,451	2,587
Capital adequacy						
17.5 %	16.7 %	17.6 %	Common equity Tier one ratio	14.8 %	14.6 %	14.6 %
19.3 %	18.3 %	19.2 %	Core capital ratio	16.4 %	16.3 %	16.3 %
21.6 %	19.9 %	21.6 %	Capital adequacy ratio	18.6 %	18.2 %	18.5 %
Leverage ratio						
153,395	143,334	156,292	Balance sheet items	221,200	207,831	216,240
7,110	7,418	6,834	Off-balance sheet items	8,262	9,530	9,086
-832	-1,341	-840	Regulatory adjustments	-1,600	-2,113	-1,474
159,673	149,410	162,287	Calculation basis for leverage ratio	227,862	215,248	223,853
14,748	13,991	14,884	Core capital	16,775	15,697	16,472
9.2 %	9.4 %	9.2 %	Leverage Ratio	7.4 %	7.3 %	7.4 %