

Note 4 - Capital adequacy

Capital adequacy is calculated and reported in accordance with the EU capital requirements regulations for banks and investment firms (CRR/CRD IV). SpareBank 1 SMN utilises the Internal Rating Based Approach (IRB) for credit risk. Advanced IRB Approach is used for the corporate portfolios. Use of IRB imposes wide-ranging requirements on the bank's organisational set-up, competence, risk models and risk management systems.

As of 30 June 2021 the overall minimum requirement on CET1 capital is 12.5 per cent. The capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement for Norwegian IRB-banks is 4.5 per cent and the Norwegian countercyclical buffer is 1.0 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital. In addition the financial supervisory authority has set a Pillar 2 requirement of 1.9 per cent for SpareBank 1 SMN, however not below NOK 1,794 million in monetary terms.

The systemic risk buffer stands at 4.5 per cent for the Norwegian exposures. For exposures in other countries, the particular country's systemic buffer rate shall be employed. As of 30 June 2021 the effective rate for the parent bank and for the group is accordingly 4.4 per cent.

The 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 2021 both the parent bank and the group is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures.

Parent Bank				Group		
31 Dec 2020	30 June 2020	30 June 2021	(NOKm)	30 June 2021	30 June 2020	31 Dec 2020
18.092	17.565	19.231	Total book equity	22.382	20.320	21.310
-1.250	-1.213	-1.221	Additional Tier 1 capital instruments included in total equity	-1.262	-1.254	-1.293
-515	-501	-504	Deferred taxes, goodwill and other intangible assets	-1.000	-1.042	-1.044
-890	-	-627	Deduction for allocated dividends and gifts	-627	-	-890
-	-	-	Non-controlling interests recognised in other equity capital	-829	-768	-838
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	505	401	488
-	-835	-1.433	Net profit	-1.523	-1.008	-
-	446	657	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	747	618	-
-43	-51	-39	Value adjustments due to requirements for prudent valuation	-54	-62	-56
-47	-227	-585	Positive value of adjusted expected loss under IRB Approach	-617	-248	-74
-	-	-	Cash flow hedge reserve	7	14	10
-186	-187	-187	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-312	-424	-572
15.160	14.997	15.292	Common equity Tier 1 capital	17.416	16.547	17.041
1.250	1.250	1.250	Additional Tier 1 capital instruments	1.594	1.635	1.595
16.410	16.247	16.542	Tier 1 capital	19.011	18.182	18.636
			Supplementary capital in excess of core capital			
1.750	1.750	1.750	Subordinated capital	2.250	2.240	2.262
-139	-157	-155	Deduction for significant investments in financial institutions	-155	-157	-139
1.611	1.593	1.595	Additional Tier 2 capital instruments	2.095	2.083	2.123
18.020	17.841	18.137	Total eligible capital	21.105	20.266	20.759

			Minimum requirements subordinated capital			
1.053	981	1.132	Specialised enterprises	1.309	1.166	1.240
920	1.042	919	Corporate	930	1.052	930
1.511	1.608	1.415	Mass market exposure, property	2.207	2.290	2.261
107	112	98	Other mass market	101	115	110
1.026	1.006	1.083	Equity positions IRB	1	1	1
4.617	4.748	4.647	Total credit risk IRB	4.549	4.624	4.541
1	2	3	Central government	5	5	2
93	115	105	Covered bonds	149	159	142
441	597	493	Institutions	396	504	332
-	-	-	Local and regional authorities, state-owned enterprises	27	17	27
32	34	33	Corporate	283	251	281
20	18	15	Mass market	496	465	476
11	15	16	Exposures secured on real property	120	157	136
272	279	272	Equity positions	441	394	408
99	93	97	Other assets	157	150	159
970	1.152	1.034	Total credit risk standardised approach	2.074	2.102	1.962
30	43	47	Debt risk	47	44	31
-	-	-	Equity risk	20	10	18
-	-	-	Currency risk and risk exposure for settlement/delivery	3	1	3
421	407	421	Operational risk	772	720	770
25	53	34	Credit value adjustment risk (CVA)	149	193	123
6.063	6.404	6.183	Minimum requirements subordinated capital	7.613	7.694	7.448
75.785	80.047	77.288	Risk weighted assets (RWA)	95.167	96.181	93.096
3.410	3.602	3.478	Minimum requirement on CET1 capital, 4.5 per cent	4.283	4.328	4.189
			Capital Buffers			
1.895	2.001	1.932	Capital conservation buffer, 2.5 per cent	2.379	2.405	2.327
3.410	2.401	3.478	Systemic risk buffer, 4.5 per cent (3.0 per cent)	4.283	2.885	4.189
758	800	773	Countercyclical buffer, 1.0 per cent (1.0 per cent)	952	962	931
6.063	5.203	6.183	Total buffer requirements on CET1 capital	7.613	6.252	7.448
5.687	6.192	5.631	Available CET1 capital after buffer requirements	5.520	5.968	5.404
			Capital adequacy			
20,0 %	18,7 %	19,8 %	Common equity Tier 1 capital ratio	18,3 %	17,2 %	18,3 %
21,7 %	20,3 %	21,4 %	Tier 1 capital ratio	20,0 %	18,9 %	20,0 %
23,8 %	22,3 %	23,5 %	Capital ratio	22,2 %	21,1 %	22,3 %
			Leverage ratio			
178.219	183.256	186.273	Balance sheet items	264.565	255.493	256.978
6.190	8.084	9.313	Off-balance sheet items	10.028	8.944	7.514
-606	-779	-1.128	Regulatory adjustments	-1.822	-1.603	-1.577
183.803	190.562	194.457	Calculation basis for leverage ratio	272.770	262.834	262.915
16.410	16.247	16.542	Core capital	19.011	18.182	18.636
8,9 %	8,5 %	8,5 %	Leverage Ratio	7,0 %	6,9 %	7,1 %