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 Apporoach 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 31 March 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 31 March 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 first 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	31 Mar 2020	31 Mar 2021	(NOKm)	31 Mar 2021	31 Mar 2020	31 Dec 2020
18,092	16,866	18,259	Total book equity	21,734	19,600	21,310
-1,250	-1,227	-1,231	Additional Tier 1 capital instruments included in total equity	-1,273	-1,268	-1,293
-515	-507	-511	Deferred taxes, goodwill and other intangible assets	-1,027	-1,059	-1,044
-890	-	-627	Deduction for allocated dividends and gifts	-627	-	-890
-	-	-	Non-controlling interests recognised in other equity capital	-891	-760	-838
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	489	398	488
-	-106	-450	Net profit	-768	-290	-
-	83	57	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	374	266	-
-43	-50	-43	Value adjustments due to requirements for prudent valuation	-56	-62	-56
-47	-293	-263	Positive value of adjusted expected loss under IRB Approach	-292	-329	-74
-	-	-	Cash flow hedge reserve	8	13	10
-186	-185	-186	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-629	-353	-572
15,160	**14,582**	**15,005**	**Common equity Tier 1 capital**	**17,042**	**16,155**	**17,041**
1,250	1,250	1,250	Additional Tier 1 capital instruments	1,595	1,637	1,595
16,410	**15,832**	**16,255**	**Tier 1 capital**	**18,636**	**17,792**	**18,636**
			Supplementary capital in excess of core capital			
1,750	1,750	1,750	Subordinated capital	2,259	2,240	2,262
-139	-153	-154	Deduction for significant investments in financial institutions	-154	-153	-139
1,611	**1,597**	**1,596**	**Additional Tier 2 capital instruments**	**2,105**	**2,087**	**2,123**
18,020	**17,429**	**17,851**	**Total eligible capital**	**20,741**	**19,879**	**20,759**

			Minimum requirements subordinated capital			
1,053	964	1,112	Specialised enterprises	1,292	1,153	1,240
920	1,269	982	Corporate	992	1,279	930
1,511	1,625	1,463	Mass market exposure, property	2,218	2,310	2,261
107	97	100	Other mass market	102	100	110
1,026	987	1,025	Equity positions IRB	1	1	1
4,617	**4,942**	**4,682**	**Total credit risk IRB**	**4,606**	**4,842**	**4,541**
1	2	3	Central government	5	4	2
93	101	107	Covered bonds	146	152	142
441	567	485	Institutions	336	466	332
-	-	-	Local and regional authorities, state-owned enterprises	28	15	27
32	30	32	Corporate	270	227	281
20	17	18	Mass market	484	474	476
11	16	12	Exposures secured on real property	131	174	136
272	240	272	Equity positions	428	383	408
99	115	89	Other assets	159	150	159
970	**1,088**	**1,018**	**Total credit risk standardised approach**	**1,986**	**2,045**	**1,962**
30	47	43	Debt risk	44	48	31
-	-	-	Equity risk	9	7	18
-	-	-	Currency risk and risk exposure for settlement/delivery	1	3	3
421	407	421	Operational risk	772	720	770
25	98	32	Credit value adjustment risk (CVA)	153	240	123
6,063	**6,583**	**6,196**	**Minimum requirements subordinated capital**	**7,571**	**7,907**	**7,448**
75,785	**82,282**	**77,455**	**Risk weighted assets (RWA)**	**94,633**	**98,832**	**93,096**
3,410	3,703	3,485	Minimum requirement on CET1 capital, 4.5 per cent	4,258	4,447	4,189
			Capital Buffers			
1,895	2,057	1,936	Capital conservation buffer, 2.5 per cent	2,366	2,471	2,327
3,410	2,468	3,485	Systemic risk buffer, 4.5 per cent (3.0 per cent)	4,258	2,965	4,189
758	823	775	Countercyclical buffer, 1.0 per cent (2.5 per cent)	946	988	931
6,063	**5,348**	**6,196**	**Total buffer requirements on CET1 capital**	**7,571**	**6,424**	**7,448**
5,687	**5,531**	**5,323**	**Available CET1 capital after buffer requirements**	**5,212**	**5,284**	**5,404**
			Capital adequacy			
20.0 %	17.7 %	19.4 %	Common equity Tier 1 capital ratio	18.0 %	16.3 %	18.3 %
21.7 %	19.2 %	21.0 %	Tier 1 capital ratio	19.7 %	18.0 %	20.0 %
23.8 %	21.2 %	23.0 %	Capital ratio	21.9 %	20.1 %	22.3 %
			Leverage ratio			
178,219	177,198	181,720	Balance sheet items	258,536	249,366	256,978
6,190	7,719	8,793	Off-balance sheet items	9,568	8,702	7,514
-606	-1,033	-817	Regulatory adjustments	-1,844	-1,820	-1,577
183,803	183,884	189,696	Calculation basis for leverage ratio	266,260	256,248	262,915
16,410	15,832	16,255	Core capital	18,636	17,792	18,636
8.9 %	**8.6 %**	**8.6 %**	**Leverage Ratio**	**7.0 %**	**6.9 %**	**7.1 %**