

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 September 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 Norwegian countercyclical buffer will rise to 1.5 per cent with effect from 30 June 2022.

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 September 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 third 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 Sept 2020	30 Sept 2021	(NOKm)	30 Sept 2021	30 Sept 2020	31 Dec 2020
18,092	17,876	19,629	Total book equity	23,077	20,829	21,310
-1,250	-1,203	-1,211	Additional Tier 1 capital instruments included in total equity	-1,252	-1,244	-1,293
-515	-494	-500	Deferred taxes, goodwill and other intangible assets	-1,040	-1,047	-1,044
-890	-	-627	Deduction for allocated dividends and gifts	-627	-	-890
-	-	-	Non-controlling interests recognised in other equity capital	-848	-800	-838
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	504	414	488
-	-1,155	-1,841	Net profit	-2,199	-1,528	-
-	368	723	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	1,079	739	-
-43	-47	-40	Value adjustments due to requirements for prudent valuation	-52	-59	-56
-47	-75	-581	Positive value of adjusted expected loss under IRB Approach	-616	-98	-74
-	-	-	Cash flow hedge reserve	5	13	10
-186	-186	-187	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-360	-510	-572
15,160	15,084	15,365	Common equity Tier 1 capital	17,671	16,711	17,041
1,250	1,250	1,250	Additional Tier 1 capital instruments	1,594	1,579	1,595
16,410	16,334	16,615	Tier 1 capital	19,265	18,290	18,636
			Supplementary capital in excess of core capital			
1,750	1,750	1,750	Subordinated capital	2,247	2,240	2,262
-139	-157	-174	Deduction for significant investments in financial institutions	-174	-157	-139
1,611	1,593	1,576	Additional Tier 2 capital instruments	2,072	2,083	2,123
18,020	17,927	18,190	Total eligible capital	21,338	20,373	20,759

			Minimum requirements subordinated capital			
1,053	1,044	1,074	Specialised enterprises	1,254	1,236	1,240
920	981	955	Corporate	968	991	930
1,511	1,598	1,415	Mass market exposure, property	2,348	2,282	2,261
107	108	100	Other mass market	103	111	110
1,026	1,012	1,045	Equity positions IRB	1	1	1
4,617	4,742	4,590	Total credit risk IRB	4,675	4,621	4,541
1	2	3	Central government	4	2	2
93	115	130	Covered bonds	151	162	142
441	507	379	Institutions	324	402	332
-	-	-	Local and regional authorities, state-owned enterprises	31	21	27
32	27	147	Corporate	382	253	281
20	16	11	Mass market	506	470	476
11	14	28	Exposures secured on real property	120	154	136
272	279	264	Equity positions	513	400	408
99	100	94	Other assets	154	161	159
970	1,058	1,056	Total credit risk standardised approach	2,186	2,025	1,962
30	42	36	Debt risk	38	43	31
-	-	-	Equity risk	22	9	18
-	-	-	Currency risk and risk exposure for settlement/delivery	2	3	3
421	407	421	Operational risk	777	720	770
25	60	25	Credit value adjustment risk (CVA)	131	192	123
6,063	6,309	6,128	Minimum requirements subordinated capital	7,830	7,612	7,448
75,785	78,861	76,599	Risk weighted assets (RWA)	97,879	95,156	93,096
3,410	3,549	3,447	Minimum requirement on CET1 capital, 4.5 per cent	4,405	4,282	4,189
			Capital Buffers			
1,895	1,972	1,915	Capital conservation buffer, 2.5 per cent	2,447	2,379	2,327
3,410	2,366	3,447	Systemic risk buffer, 4.5 per cent (3.0 per cent)	4,405	2,855	4,189
758	789	766	Countercyclical buffer, 1.0 per cent (1.0 per cent)	979	952	931
6,063	5,126	6,128	Total buffer requirements on CET1 capital	7,830	6,185	7,448
5,687	6,409	5,790	Available CET1 capital after buffer requirements	5,436	6,243	5,404
			Capital adequacy			
20.0 %	19.1 %	20.1 %	Common equity Tier 1 capital ratio	18.1 %	17.6 %	18.3 %
21.7 %	20.7 %	21.7 %	Tier 1 capital ratio	19.7 %	19.2 %	20.0 %
23.8 %	22.7 %	23.7 %	Capital ratio	21.8 %	21.4 %	22.3 %
			Leverage ratio			
178,219	179,304	189,698	Balance sheet items	270,700	252,366	256,978
6,190	7,518	12,601	Off-balance sheet items	11,887	8,333	7,514
-606	-617	-1,121	Regulatory adjustments	-1,911	-1,543	-1,577
183,803	186,205	201,179	Calculation basis for leverage ratio	280,677	259,156	262,915
16,410	16,334	16,615	Core capital	19,265	18,290	18,636
8.9 %	8.8 %	8.3%	Leverage Ratio	6.9%	7.1 %	7.1 %