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 30 June 2022 the overall minimum requirement on CET1 capital is 13.0 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 1.5 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. From 30 April 2022, SpareBank 1 SMN has received a new Pillar 2 requirement. The rate of 1.9 per cent is unchanged, but in addition the bank must have an additional 0.7 per cent in Pillar 2 requirements until the application for adjusting IRB-models has been processed. The Norwegian countercyclical buffer will rise to 1.5 per cent with effect from 30 June 2022, and to 2.0 per cent from 31 December 2022.

Under the CRR/CRDIV regulations the average risk weighting of exposures secured on residential property in Norway cannot be lower than 20 per cent. As of 30 June 2022 an adjustment was made in both the parent bank and the group to bring the average risk weight up to 20 per cent. This is presented in the note together with 'mass market exposure, property' under 'credit risk IRB'.

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 2022 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 2022 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 2021	30 June 2021	30 June 2022	(NOKm)	30 June 2022	30 June 2021	31 Dec 2021
19,356	**19,231**	**19,245**	**Total book equity**	**22,993**	**22,382**	**23,241**
-1,250	-1,221	-1,218	Additional Tier 1 capital instruments included in total equity	-1,259	-1,262	-1,293
-458	-504	-456	Deferred taxes, goodwill and other intangible assets	-954	-1,000	-961
-1,517	-627	-	Deduction for allocated dividends and gifts	-	-627	-1,517
-	-	-	Non-controlling interests recognised in other equity capital	-894	-829	-989
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	637	505	568
-	-1,433	-1,443	Net profit	-1,400	-1,523	-
-	657	727	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	684	747	-
-41	-39	-51	Value adjustments due to requirements for prudent valuation	-71	-54	-56
-495	-585	-196	Positive value of adjusted expected loss under IRB Approach	-258	-617	-560
-	-	-	Cash flow hedge reserve	-4	7	3
-202	-187	-219	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-496	-312	-648
15,393	**15,292**	**16,390**	**Common equity Tier 1 capital**	**18,977**	**17,416**	**17,790**
1,250	1,250	1,250	Additional Tier 1 capital instruments	1,616	1,594	1,581
-48	-	-46	Deduction for significant investments in financial institutions	-46	-	-48
16,595	**16,542**	**17,594**	**Tier 1 capital**	**20,547**	**19,011**	**19,322**
-						
-			**Supplementary capital in excess of core capital**			
1,750	1,750	2,067	Subordinated capital	2,571	2,250	2,226
-214	-155	-209	Deduction for significant investments in financial institutions	-209	-155	-214
1,536	**1,595**	**1,858**	**Additional Tier 2 capital instruments**	**2,362**	**2,095**	**2,011**
18,130	**18,137**	**19,452**	**Total eligible capital**	**22,910**	**21,105**	**21,333**

			Minimum requirements subordinated capital			
1,049	1,132	1,068	Specialised enterprises	1,269	1,309	1,248
1,016	919	1,003	Corporate	1,026	930	1,030
1,400	1,415	1,347	Mass market exposure, property	2,396	2,207	2,384
93	98	122	Other mass market	125	101	95
1,000	1,083	1,201	Equity positions IRB	-	1	1
4,558	**4,647**	**4,741**	**Total credit risk IRB**	**4,816**	**4,549**	**4,758**
3	3	3	Central government	4	5	4
106	105	113	Covered bonds	156	149	133
398	493	395	Institutions	292	396	299
1	-	128	Local and regional authorities, state-owned enterprises	148	27	29
188	33	153	Corporate	361	283	432
7	15	10	Mass market	568	496	466
25	16	34	Exposures secured on real property	108	120	128
279	272	90	Equity positions	495	441	521
92	97	70	Other assets	143	157	142
1,098	**1,034**	**995**	**Total credit risk standardised approach**	**2,274**	**2,074**	**2,154**
35	47	45	Debt risk	47	47	36
-	-	-	Equity risk	23	20	34
-	-	-	Currency risk and risk exposure for settlement/delivery	4	3	1
433	421	433	Operational risk	810	772	817
26	34	28	Credit value adjustment risk (CVA)	98	149	93
6,150	**6,183**	**6,241**	**Minimum requirements subordinated capital**	**8,073**	**7,613**	**7,893**
76,873	**77,288**	**78,018**	**Risk weighted assets (RWA)**	**100,910**	**95,167**	**98,664**
3,459	3,478	3,511	Minimum requirement on CET1 capital, 4.5 per cent	4,541	4,283	4,440
			Capital Buffers			
1,922	1,932	1,950	Capital conservation buffer, 2.5 per cent	2,523	2,379	2,467
3,459	3,478	3,511	Systemic risk buffer, 4.5 per cent	4,541	4,283	4,440
769	773	1,170	Countercyclical buffer, 1.0 per cent	1,514	952	987
6,150	**6,183**	**6,632**	**Total buffer requirements on CET1 capital**	**8,577**	**7,613**	**7,893**
5,784	**5,631**	**6,248**	**Available CET1 capital after buffer requirements**	**5,859**	**5,520**	**5,457**
			Capital adequacy			
20.0 %	19.8 %	21.0 %	Common equity Tier 1 capital ratio	18.8 %	18.3 %	18.0 %
21.6 %	21.4 %	22.6 %	Tier 1 capital ratio	20.4 %	20.0 %	19.6 %
23.6 %	23.5 %	24.9 %	Capital ratio	22.7 %	22.2 %	21.6 %
			Leverage ratio			
191,697	186,273	200,857	Balance sheet items	287,881	264,565	269,857
10,782	9,313	8,904	Off-balance sheet items	7,908	10,028	11,341
-1,042	-1,128	-51	Regulatory adjustments	-67	-1,822	-2,110
201,437	194,457	209,710	Calculation basis for leverage ratio	295,722	272,770	279,088
16,595	16,542	17,594	Core capital	20,547	19,011	19,322
8.2 %	**8.5 %**	**8.4 %**	**Leverage Ratio**	**6.9 %**	**7.0 %**	**6.9 %**