

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 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 modeling 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 September 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 September 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. As of 30 September 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 21	30 Sep 21	30 Sep 22 (NOKm)		30 Sep 22	30 Sep 21	31 Dec 21
19,356	19,629	19,852	Total book equity	23,863	23,077	23,241
-1,250	-1,211	-1,206	Additional Tier 1 capital instruments included in total equity	-1,247	-1,252	-1,293
-458	-500	-465	Deferred taxes, goodwill and other intangible assets	-955	-1,040	-961
-1,517	-627	-	Deduction for allocated dividends and gifts	-	-627	-1,517
-	-	-	Non-controlling interests recognised in other equity capital	-913	-848	-989
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	701	504	568
-	-1,841	-1,930	Net profit	-2,017	-2,199	-
-	723	900	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	986	1,079	-
-41	-40	-51	Value adjustments due to requirements for prudent valuation	-68	-52	-56
-495	-581	-141	Positive value of adjusted expected loss under IRB Approach	-213	-616	-560
-	-	-	Cash flow hedge reserve	-5	5	3
-202	-187	-219	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-449	-360	-648
15,393	15,365	16,739	Common equity Tier 1 capital	19,683	17,671	17,790
1,250	1,250	1,250	Additional Tier 1 capital instruments	1,615	1,594	1,581
-48	-	-46	Deduction for significant investments in financial institutions	-46	-	-48
16,595	16,615	17,943	Tier 1 capital	21,252	19,265	19,322
-	-	-	Supplementary capital in excess of core capital			
1,750	1,750	2,000	Subordinated capital	2,502	2,247	2,226
-214	-174	-208	Deduction for significant investments in financial institutions	-208	-174	-214
1,536	1,576	1,792	Additional Tier 2 capital instruments	2,294	2,072	2,011
18,130	18,190	19,735	Total eligible capital	23,546	21,338	21,333

Minimum requirements subordinated capital						
1,049	1,074	1,123	Specialised enterprises	1,315	1,254	1,248
1,016	955	945	Corporate	965	968	1,030
1,400	1,415	1,352	Mass market exposure, property	2,433	2,348	2,384
93	100	101	Other mass market	104	103	95
1,000	1,045	1,201	Equity positions IRB	-	1	1
4,558	4,590	4,722	Total credit risk IRB	4,817	4,675	4,758
3	3	6	Central government	6	4	4
106	130	92	Covered bonds	136	151	133
398	379	361	Institutions	248	324	299
1	-	117	Local and regional authorities, state-owned enterprises	132	31	29
188	147	224	Corporate	446	382	432
7	11	14	Mass market	653	506	466
25	28	29	Exposures secured on real property	111	120	128
279	264	90	Equity positions	503	513	521
92	94	87	Other assets	154	154	142
1,098	1,056	1,020	Total credit risk standardised approach	2,390	2,186	2,154
35	36	39	Debt risk	41	38	36
-	-	-	Equity risk	16	22	34
-	-	-	Currency risk and risk exposure for settlement/delivery	17	2	1
433	421	433	Operational risk	810	777	817
26	25	31	Credit value adjustment risk (CVA)	98	131	93
6,150	6,128	6,245	Minimum requirements subordinated capital	8,189	7,830	7,893
76,873	76,599	78,063	Risk weighted assets (RWA)	102,367	97,879	98,664
3,459	3,447	3,513	Minimum requirement on CET1 capital, 4.5 per cent	4,607	4,405	4,440
			Capital Buffers			
1,922	1,915	1,952	Capital conservation buffer, 2.5 per cent	2,559	2,447	2,467
3,459	3,447	3,513	Systemic risk buffer, 4.5 per cent	4,607	4,405	4,440
769	766	1,171	Countercyclical buffer, 1.0 per cent	1,536	979	987
6,150	6,128	6,635	Total buffer requirements on CET1 capital	8,701	7,830	7,893
5,784	5,790	6,591	Available CET1 capital after buffer requirements	6,375	5,436	5,457
			Capital adequacy			
20.0 %	20.1 %	21.4 %	Common equity Tier 1 capital ratio	19.2 %	18.1 %	18.0 %
21.6 %	21.7 %	23.0 %	Tier 1 capital ratio	20.8 %	19.7 %	19.6 %
23.6 %	23.7 %	25.3 %	Capital ratio	23.0 %	21.8 %	21.6 %
			Leverage ratio			
191,697	189,698	197,794	Balance sheet items	283,339	270,700	269,857
10,782	12,601	6,811	Off-balance sheet items	8,100	11,887	11,341
-1,042	-1,121	-923	Regulatory adjustments	-1,736	-1,911	-2,110
201,437	201,179	203,682	Calculation basis for leverage ratio	289,703	280,677	279,088
16,595	16,615	17,943	Core capital	21,252	19,265	19,322
8.2 %	8.3 %	8.8 %	Leverage Ratio	7.3 %	6.9 %	6.9 %