

## Note 5 - 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 2023 the overall minimum requirement on CET1 capital is 14.0 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 2.5 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.

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 2023 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 2023 the effective rate for the parent bank is 4.45 per cent and for the group is 4.43 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 June 2023 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 2022	30 Jun 2022	30 Jun 2023	(NOKm)	30 Jun 2023	30 Jun 2022	31 Dec 2022
20,887	19,245	23,367	<b>Total book equity</b>	26,975	22,993	24,807
-1,726	-1,218	-1,708	Additional Tier 1 capital instruments included in total equity	-1,744	-1,259	-1,769
-467	-456	-850	Deferred taxes, goodwill and other intangible assets	-1,414	-954	-947
-1,314	-	0	Deduction for allocated dividends and gifts	0	-	-1,314
-	-	-	Non-controlling interests recognised in other equity capital	-906	-894	-997
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	769	637	784
-	-1,443	-1,843	Net profit	-1,701	-1,400	-
-	727	964	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	821	684	-
-72	-51	-79	Value adjustments due to requirements for prudent valuation	-95	-71	-89
-194	-196	-291	Positive value of adjusted expected loss under IRB Approach	-398	-258	-279
-	-	-	Cash flow hedge reserve	-5	-4	-4
-281	-219	-305	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-257	-496	-417
<b>16,833</b>	<b>16,390</b>	<b>19,256</b>	<b>Common equity Tier 1 capital</b>	<b>22,044</b>	<b>18,977</b>	<b>19,776</b>
1,726	1,250	1,766	Additional Tier 1 capital instruments	2,195	1,616	2,106
-47	-46	-47	Deduction for significant investments in financial institutions	-47	-46	-47
<b>18,512</b>	<b>17,594</b>	<b>20,975</b>	<b>Tier 1 capital</b>	<b>24,192</b>	<b>20,547</b>	<b>21,835</b>
-	-	-	<b>Supplementary capital in excess of core capital</b>			
2,000	2,067	2,587	Subordinated capital	3,124	2,571	2,523
-210	-209	-210	Deduction for significant investments in financial institutions	-210	-209	-210
<b>1,790</b>	<b>1,858</b>	<b>2,377</b>	<b>Additional Tier 2 capital instruments</b>	<b>2,913</b>	<b>2,362</b>	<b>2,312</b>
<b>20,301</b>	<b>19,452</b>	<b>23,351</b>	<b>Total eligible capital</b>	<b>27,106</b>	<b>22,910</b>	<b>24,147</b>

<b>Minimum requirements subordinated capital</b>						
1,148	1,068	1,297	Specialised enterprises	1,542	1,269	1,351
901	1,003	1,006	Corporate	1,031	1,026	923
1,379	1,347	1,532	Mass market exposure, property	2,828	2,396	2,559
98	122	116	Other mass market	119	125	100
1,249	1,201	1,357	Equity positions IRB	-	-	-
<b>4,774</b>	<b>4,741</b>	<b>5,308</b>	<b>Total credit risk IRB</b>	<b>5,520</b>	<b>4,816</b>	<b>4,933</b>
6	3	3	Central government	6	4	6
82	113	99	Covered bonds	134	156	139
403	398	434	Institutions	346	292	276
187	128	147	Local and regional authorities, state-owned enterprises	164	148	207
143	153	213	Corporate	448	361	385
7	10	26	Mass market	722	568	662
27	34	48	Exposures secured on real property	141	108	109
90	90	95	Equity positions	475	495	504
97	70	69	Other assets	150	143	162
<b>1,042</b>	<b>999</b>	<b>1,136</b>	<b>Total credit risk standardised approach</b>	<b>2,586</b>	<b>2,274</b>	<b>2,450</b>
27	45	34	Debt risk	36	47	29
-	-	-	Equity risk	15	23	10
-	-	-	Currency risk and risk exposure for settlement/delivery	4	4	1
458	433	496	Operational risk	910	810	853
30	28	35	Credit value adjustment risk (CVA)	147	98	101
<b>6,331</b>	<b>6,245</b>	<b>7,009</b>	<b>Minimum requirements subordinated capital</b>	<b>9,217</b>	<b>8,073</b>	<b>8,377</b>
<b>79,140</b>	<b>78,064</b>	<b>87,611</b>	<b>Risk weighted assets (RWA)</b>	<b>115,215</b>	<b>100,910</b>	<b>104,716</b>
3,561	3,513	3,942	Minimum requirement on CET1 capital, 4.5 per cent	5,185	4,541	4,712
			Capital Buffers			
1,978	1,952	2,190	Capital conservation buffer, 2.5 per cent	2,880	2,523	2,618
3,561	3,513	3,899	Systemic risk buffer, 4.5 per cent	5,104	4,541	4,712
1,583	1,171	2,190	Countercyclical buffer, 1.0 per cent	2,880	1,514	2,094
<b>7,123</b>	<b>6,635</b>	<b>8,279</b>	<b>Total buffer requirements on CET1 capital</b>	<b>10,865</b>	<b>8,577</b>	<b>9,424</b>
<b>6,149</b>	<b>6,242</b>	<b>7,034</b>	<b>Available CET1 capital after buffer requirements</b>	<b>5,995</b>	<b>5,859</b>	<b>5,639</b>
			<b>Capital adequacy</b>			
21.3 %	21.0 %	22.0 %	Common equity Tier 1 capital ratio	19.1 %	18.8 %	18.9 %
23.4 %	22.5 %	23.9 %	Tier 1 capital ratio	21.0 %	20.4 %	20.9 %
25.7 %	24.9 %	26.7 %	Capital ratio	23.5 %	22.7 %	23.1 %
			<b>Leverage ratio</b>			
209,285	203,200	225,766	Balance sheet items	325,004	287,881	300,772
6,234	9,136	8,427	Off-balance sheet items	9,525	9,744	7,744
-313	-292	-369	Regulatory adjustments	-540	-376	-419
215,205	212,044	233,823	Calculation basis for leverage ratio	333,990	297,249	308,097
18,512	17,594	20,975	Core capital	24,192	20,547	21,835
<b>8.6 %</b>	<b>8.3 %</b>	<b>9.0 %</b>	<b>Leverage Ratio</b>	<b>7.2 %</b>	<b>6.9 %</b>	<b>7.1 %</b>