

## 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 31 March 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 adjusting IRB-models 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 31 March 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 31 March 2023 the effective rate for the parent bank and for the group is accordingly 4.45 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 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	31 Mar 2022	31 Mar 2023	(NOKm)	31 Mar 2023	31 Mar 2022	31 Dec 2022
<b>20,887</b>	<b>18,275</b>	<b>20,021</b>	<b>Total book equity</b>	<b>24,092</b>	<b>22,439</b>	<b>24,807</b>
-1,726	-1,230	-1,617	Additional Tier 1 capital instruments included in total equity	-1,659	-1,271	-1,769
-467	-457	-467	Deferred taxes, goodwill and other intangible assets	-951	-957	-947
-1,314	-	-	Deduction for allocated dividends and gifts	-	-	-1,314
-	-	-	Non-controlling interests recognised in other equity capital	-1,031	-1,005	-997
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	834	579	784
-	-459	-552	Net profit	-778	-698	-
-	100	147	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	372	338	-
-72	-46	-78	Value adjustments due to requirements for prudent valuation	-95	-62	-89
-194	-469	-258	Positive value of adjusted expected loss under IRB Approach	-363	-529	-279
-	-	-	Cash flow hedge reserve	-4	-2	-4
-281	-202	-281	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-460	-603	-417
<b>16,833</b>	<b>15,513</b>	<b>16,915</b>	<b>Common equity Tier 1 capital</b>	<b>19,959</b>	<b>18,229</b>	<b>19,776</b>
1,726	1,250	1,650	Additional Tier 1 capital instruments	2,073	1,616	2,106
-47	-47	-46	Deduction for significant investments in financial institutions	-46	-47	-47
<b>18,512</b>	<b>16,715</b>	<b>18,519</b>	<b>Tier 1 capital</b>	<b>21,985</b>	<b>19,797</b>	<b>21,835</b>
-	-	-	<b>Supplementary capital in excess of core capital</b>			
2,000	1,750	2,000	Subordinated capital	2,522	2,258	2,523
-210	-217	-209	Deduction for significant investments in financial institutions	-209	-217	-210
<b>1,790</b>	<b>1,533</b>	<b>1,791</b>	<b>Additional Tier 2 capital instruments</b>	<b>2,313</b>	<b>2,041</b>	<b>2,312</b>
<b>20,301</b>	<b>18,249</b>	<b>20,309</b>	<b>Total eligible capital</b>	<b>24,298</b>	<b>21,839</b>	<b>24,147</b>

<b>Minimum requirements subordinated capital</b>						
1,148	1,157	1,234	Specialised enterprises	1,469	1,376	1,351
901	1,052	920	Corporate	947	1,072	923
1,379	1,356	1,368	Mass market exposure, property	2,587	2,374	2,559
98	101	108	Other mass market	111	104	100
1,249	1,008	1,253	Equity positions IRB	-	1	-
<b>4,774</b>	<b>4,674</b>	<b>4,884</b>	<b>Total credit risk IRB</b>	<b>5,113</b>	<b>4,927</b>	<b>4,933</b>
6	3	3	Central government	3	4	6
82	97	109	Covered bonds	156	144	139
403	421	383	Institutions	285	301	276
187	1	217	Local and regional authorities, state-owned enterprises	242	20	207
143	139	174	Corporate	421	401	385
7	4	7	Mass market	679	485	662
27	33	36	Exposures secured on real property	111	123	109
90	279	90	Equity positions	501	495	504
97	65	102	Other assets	180	125	162
<b>1,042</b>	<b>1,041</b>	<b>1,121</b>	<b>Total credit risk standardised approach</b>	<b>2,578</b>	<b>2,098</b>	<b>2,450</b>
27	52	42	Debt risk	43	54	29
-	-	-	Equity risk	10	30	10
-	-	-	Currency risk and risk exposure for settlement/delivery	4	2	1
458	433	458	Operational risk	852	809	853
30	28	40	Credit value adjustment risk (CVA)	149	67	101
<b>6,331</b>	<b>6,228</b>	<b>6,544</b>	<b>Minimum requirements subordinated capital</b>	<b>8,749</b>	<b>7,988</b>	<b>8,377</b>
<b>79,140</b>	<b>77,846</b>	<b>81,801</b>	<b>Risk weighted assets (RWA)</b>	<b>109,366</b>	<b>99,847</b>	<b>104,716</b>
3,561	3,503	3,681	Minimum requirement on CET1 capital, 4.5 per cent	4,921	4,493	4,712
			Capital Buffers			
1,978	1,946	2,045	Capital conservation buffer, 2.5 per cent	2,734	2,496	2,618
3,561	3,503	3,640	Systemic risk buffer, 4.5 per cent	4,867	4,493	4,712
1,583	778	2,045	Countercyclical buffer, 1.0 per cent	2,734	998	2,094
<b>7,123</b>	<b>6,228</b>	<b>7,730</b>	<b>Total buffer requirements on CET1 capital</b>	<b>10,335</b>	<b>7,988</b>	<b>9,424</b>
<b>6,149</b>	<b>5,782</b>	<b>5,504</b>	<b>Available CET1 capital after buffer requirements</b>	<b>4,702</b>	<b>5,748</b>	<b>5,639</b>
			<b>Capital adequacy</b>			
21.3 %	19.9 %	20.7 %	Common equity Tier 1 capital ratio	18.2 %	18.3 %	18.9 %
23.4 %	21.5 %	22.6 %	Tier 1 capital ratio	20.1 %	19.8 %	20.9 %
25.7 %	23.4 %	24.8 %	Capital ratio	22.2 %	21.9 %	23.1 %
			<b>Leverage ratio</b>			
209,285	193,702	216,517	Balance sheet items	311,331	275,296	300,772
6,234	9,942	6,724	Off-balance sheet items	8,046	11,167	7,744
-313	-563	-382	Regulatory adjustments	-504	-641	-419
215,205	203,081	222,858	Calculation basis for leverage ratio	318,873	285,823	308,097
18,512	16,715	18,519	Core capital	21,985	19,797	21,835
<b>8.6 %</b>	<b>8.2 %</b>	<b>8.3 %</b>	<b>Leverage Ratio</b>	<b>6.9 %</b>	<b>6.9 %</b>	<b>7.1 %</b>