

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 September 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 September 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 September 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 September 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			(NOKm)	Group		
31 Dec 22	30 Sep 22	30 Sep 23		30 Sep 23	30 Sep 22	31 Dec 22
20,887	19,852	23,725	Total book equity	27,471	23,863	24,807
-1,726	-1,206	-1,416	Additional Tier 1 capital instruments included in total equity	-1,451	-1,247	-1,769
-467	-465	-842	Deferred taxes, goodwill and other intangible assets	-1,433	-955	-947
-1,314	-	0	Deduction for allocated dividends and gifts	0	-	-1,314
-	-	-	Non-controlling interests recognised in other equity capital	-919	-913	-997
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	805	701	784
-	-1,930	-2,483	Net profit	-2,441	-2,017	-
-	900	1,222	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	1,177	986	-
-72	-51	-78	Value adjustments due to requirements for prudent valuation	-94	-68	-89
-194	-141	-311	Positive value of adjusted expected loss under IRB Approach	-416	-213	-279
-	-	-	Cash flow hedge reserve	-7	-5	-4
-281	-219	-305	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-292	-449	-417
16,833	16,739	19,512	Common equity Tier 1 capital	22,400	19,683	19,776
1,726	1,250	1,500	Additional Tier 1 capital instruments	1,930	1,615	2,106
-47	-46	-47	Deduction for significant investments in financial institutions	-47	-46	-47
18,512	17,943	20,965	Tier 1 capital	24,283	21,252	21,835
-	-	-	Supplementary capital in excess of core capital			
2,000	2,000	2,342	Subordinated capital	2,880	2,502	2,523
-210	-208	-213	Deduction for significant investments in financial institutions	-213	-208	-210
1,790	1,792	2,129	Additional Tier 2 capital instruments	2,667	2,294	2,312
20,301	19,735	23,094	Total eligible capital	26,950	23,546	24,147

Minimum requirements subordinated capital						
1,148	1,123	1,248	Specialised enterprises	1,513	1,315	1,351
901	945	988	Corporate	1,014	965	923
1,379	1,352	1,568	Mass market exposure, property	2,891	2,433	2,559
98	101	117	Other mass market	120	104	100
1,249	1,201	1,361	Equity positions IRB	-	-	-
4,774	4,722	5,282	Total credit risk IRB	5,538	4,817	4,933
6	6	4	Central government	6	6	6
82	92	97	Covered bonds	135	136	139
403	361	361	Institutions	250	248	276
187	117	139	Local and regional authorities, state-owned enterprises	165	132	207
143	224	192	Corporate	434	446	385
7	14	17	Mass market	724	653	662
27	29	41	Exposures secured on real property	134	111	109
90	90	95	Equity positions	470	503	504
97	87	111	Other assets	186	154	162
1,042	1,020	1,058	Total credit risk standardised approach	2,503	2,390	2,450
27	39	36	Debt risk	38	41	29
-	-	-	Equity risk	16	16	10
-	-	-	Currency risk and risk exposure for settlement/delivery	1	17	1
458	433	488	Operational risk	900	810	853
30	31	18	Credit value adjustment risk (CVA)	108	98	101
6,331	6,245	6,882	Minimum requirements subordinated capital	9,103	8,189	8,377
79,140	78,063	86,031	Risk weighted assets (RWA)	113,793	102,367	104,716
3,561	3,513	3,871	Minimum requirement on CET1 capital, 4.5 per cent	5,121	4,607	4,712
			Capital Buffers			
1,978	1,952	2,151	Capital conservation buffer, 2.5 per cent	2,845	2,559	2,618
3,561	3,513	3,828	Systemic risk buffer, 4.43 per cent for the group	5,041	4,607	4,712
1,583	1,171	2,151	Countercyclical buffer, 2.5 per cent	2,845	1,536	2,094
7,123	6,635	8,130	Total buffer requirements on CET1 capital	10,731	8,701	9,424
6,149	6,591	7,511	Available CET1 capital after buffer requirements	6,549	6,375	5,639
			Capital adequacy			
21.3 %	21.4 %	22.7 %	Common equity Tier 1 capital ratio	19.7 %	19.2 %	18.9 %
23.4 %	23.0 %	24.4 %	Tier 1 capital ratio	21.3 %	20.8 %	20.9 %
25.7 %	25.3 %	26.8 %	Capital ratio	23.7 %	23.0 %	23.1 %
			Leverage ratio			
209,285	197,794	223,857	Balance sheet items	323,045	283,339	300,772
6,234	6,811	7,874	Off-balance sheet items	8,951	8,100	7,744
-313	-923	-436	Regulatory adjustments	-558	-1,736	-419
215,205	203,682	231,295	Calculation basis for leverage ratio	331,438	289,703	308,097
18,512	17,943	20,965	Core capital	24,283	21,252	21,835
8.6 %	8.8 %	9.1 %	Leverage Ratio	7.3 %	7.3 %	7.1 %