

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 June 2024 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 for SpareBank 1 SMN. From 31 December 2023, the requirement is 1.7 per cent and must be met with a minimum of 56.25 per cent. 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 30 June 2024, the average risk weights are over 20 per cent.

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 2024 the effective rate for the group is 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. As of 30 June 2024 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 2023	30 Jun 2023	30 Jun 2024		30 Jun 2024	30 Jun 2023	31 Dec 2023
25,150	23,367	24,232	Total book equity	27,879	26,975	28,597
-1,800	-1,708	-1,734	Additional Tier 1 capital instruments included in total equity	-1,825	-1,744	-1,903
-812	-850	-803	Deferred taxes, goodwill and other intangible assets	-1,697	-1,414	-1,625
-2,591	0	-	Deduction for allocated dividends and gifts	-	0	-2,591
-	-	-	Non-controlling interests recognised in other equity capital	-718	-906	-666
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	700	769	679
-	-1,843	-1,742	Net profit	-2,098	-1,701	-
-	964	203	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	555	821	-
-53	-79	-54	Value adjustments due to requirements for prudent valuation	-74	-95	-72
-412	-291	-277	Positive value of adjusted expected loss under IRB Approach	-500	-398	-546
-	-	-	Cash flow hedge reserve	-4	-5	-4
-350	-305	-350	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-266	-257	-278
19,131	19,256	19,474	Common equity Tier 1 capital	21,951	22,044	21,589
1,800	1,766	1,800	Additional Tier 1 capital instruments	2,313	2,195	2,252
-48	-47	-48	Deduction for significant investments in financial institutions	-48	-47	-48
20,883	20,975	21,226	Tier 1 capital	24,216	24,192	23,793
-	-	-	Supplementary capital in excess of core capital			
2,150	2,587	2,650	Subordinated capital	3,473	3,124	2,822
-216	-210	-216	Deduction for significant investments in financial institutions	-216	-210	-216
1,934	2,377	2,434	Additional Tier 2 capital instruments	3,257	2,913	2,606
22,817	23,351	23,660	Total eligible capital	27,474	27,106	26,399

			Risk weighted assets (RWA)			
15,701	16,213	17,581	Specialised enterprises	21,001	19,275	19,226
11,303	12,573	11,219	Corporate	11,483	12,882	11,634
19,617	19,145	20,177	Mass market exposure, property	37,820	35,352	36,333
1,545	1,451	1,563	Other mass market	1,615	1,486	1,577
18,558	16,965	19,137	Equity positions IRB	-	-	-
66,724	66,348	69,677	Total credit risk IRB	71,919	68,995	68,770
40	41	25	Central government	377	77	68
1,188	1,244	1,213	Covered bonds	2,000	1,679	1,908
4,659	5,428	4,358	Institutions	2,993	4,329	3,495
1,371	1,843	1,557	Local and regional authorities, state-owned enterprises	1,742	2,050	1,829
3,101	2,663	3,258	Corporate	6,460	5,599	6,325
49	328	258	Mass market	9,118	9,022	8,785
467	606	678	Exposures secured on real property	1,631	1,760	1,573
792	1,190	889	Equity positions	6,009	5,933	5,809
1,400	861	1,560	Other assets	3,195	1,879	2,224
13,069	14,202	13,798	Total credit risk standardised approach	33,525	32,327	32,016
279	425	587	Debt risk	588	446	279
-	-	-	Equity risk	111	187	82
-	-	-	Currency risk and risk exposure for settlement/delivery	42	47	21
6,810	6,195	6,810	Operational risk	11,273	11,376	11,548
472	441	380	Credit value adjustment risk (CVA)	1,383	1,836	1,918
87,354	87,611	91,252	Risk weighted assets (RWA)	118,842	115,215	114,633
6,988	7,009	7,300	Minimum requirements subordinated capital	9,507	9,217	9,171
3,931	3,942	4,106	Minimum requirement on CET1 capital, 4.5 per cent	5,348	5,185	5,159
			Capital Buffers			
2,184	2,190	2,281	Capital conservation buffer, 2.5 per cent	2,971	2,880	2,866
3,896	3,899	4,070	Systemic risk buffer, 4.5 per cent	5,268	5,104	5,081
2,184	2,190	2,281	Countercyclical buffer, 1.0 per cent	2,971	2,880	2,866
8,264	8,279	8,632	Total buffer requirements on CET1 capital	11,210	10,865	10,813
6,937	7,034	6,735	Available CET1 capital after buffer requirements	5,393	5,995	5,618
			Capital adequacy			
21.9 %	22.0 %	21.3 %	Common equity Tier 1 capital ratio	18.5 %	19.1 %	18.8 %
23.9 %	23.9 %	23.3 %	Tier 1 capital ratio	20.4 %	21.0 %	20.8 %
26.1 %	26.7 %	25.9 %	Capital ratio	23.1 %	23.5 %	23.0 %
			Leverage ratio			
221,334	216,517	228,597	Balance sheet items	333,472	325,004	323,929
7,559	6,724	8,313	Off-balance sheet items	9,939	9,525	8,984
-513	-382	-380	Regulatory adjustments	-622	-540	-666
228,380	222,858	236,530	Calculation basis for leverage ratio	342,789	333,990	332,247
20,883	18,519	21,226	Core capital	24,216	24,192	23,793
9.1 %	8.3 %	9.0 %	Leverage Ratio	7.1 %	7.2 %	7.2 %