

## 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 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 31 March 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 31 March 2024 the effective rate for the parent bank and for the group is accordingly 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. For the first quarter of 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				Group		
31 Dec 2023	31 Mar 2023	31 Mar 2024		31 Mar 2024	31 Mar 2023	31 Dec 2023
			(NOKm)			
<b>25,150</b>	<b>20,021</b>	<b>23,378</b>	<b>Total book equity</b>	<b>27,004</b>	<b>24,092</b>	<b>28,597</b>
-1,800	-1,617	-1,761	Additional Tier 1 capital instruments included in total equity	-1,862	-1,659	-1,903
-812	-467	-808	Deferred taxes, goodwill and other intangible assets	-1,700	-951	-1,625
-2,591	-	-	Deduction for allocated dividends and gifts	-	-	-2,591
-	-	-	Non-controlling interests recognised in other equity capital	-691	-1,031	-666
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	683	834	679
-	-552	-869	Net profit	-1,084	-778	-
-	147	73	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	285	372	-
-53	-78	-56	Value adjustments due to requirements for prudent valuation	-76	-95	-72
-412	-258	-348	Positive value of adjusted expected loss under IRB Approach	-488	-363	-546
-	-	-	Cash flow hedge reserve	-4	-4	-4
-350	-281	-350	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-268	-460	-278
<b>19,131</b>	<b>16,915</b>	<b>19,258</b>	<b>Common equity Tier 1 capital</b>	<b>21,799</b>	<b>19,959</b>	<b>21,589</b>
1,800	1,650	1,800	Additional Tier 1 capital instruments	2,322	2,073	2,252
-48	-46	-48	Deduction for significant investments in financial institutions	-48	-46	-48
<b>20,883</b>	<b>18,519</b>	<b>21,010</b>	<b>Tier 1 capital</b>	<b>24,073</b>	<b>21,985</b>	<b>23,793</b>
-	-	-	<b>Supplementary capital in excess of core capital</b>			
2,150	2,000	2,650	Subordinated capital	3,390	2,522	2,822
-216	-209	-214	Deduction for significant investments in financial institutions	-214	-209	-216
<b>1,934</b>	<b>1,791</b>	<b>2,436</b>	<b>Additional Tier 2 capital instruments</b>	<b>3,177</b>	<b>2,313</b>	<b>2,606</b>
<b>22,817</b>	<b>20,309</b>	<b>23,447</b>	<b>Total eligible capital</b>	<b>27,250</b>	<b>24,298</b>	<b>26,399</b>

Minimum requirements subordinated capital						
1,256	1,234	1,343	Specialised enterprises	1,615	1,469	1,538
904	920	871	Corporate	897	947	931
1,569	1,368	1,583	Mass market exposure, property	3,015	2,587	2,907
124	108	127	Other mass market	131	111	126
1,485	1,253	1,533	Equity positions IRB	-	-	-
<b>5,338</b>	<b>4,884</b>	<b>5,457</b>	<b>Total credit risk IRB</b>	<b>5,658</b>	<b>5,113</b>	<b>5,502</b>
3	3	5	Central government	5	3	5
95	109	99	Covered bonds	163	156	153
373	383	364	Institutions	276	285	280
110	217	109	Local and regional authorities, state-owned enterprises	146	242	146
248	174	290	Corporate	557	421	506
4	7	9	Mass market	708	679	703
37	36	44	Exposures secured on real property	116	111	126
63	90	63	Equity positions	478	501	465
112	102	133	Other assets	206	180	178
<b>1,046</b>	<b>1,121</b>	<b>1,116</b>	<b>Total credit risk standardised approach</b>	<b>2,654</b>	<b>2,578</b>	<b>2,561</b>
22	42	30	Debt risk	31	43	22
-	-	-	Equity risk	11	10	7
-	-	-	Currency risk and risk exposure for settlement/delivery	0	4	2
545	458	545	Operational risk	923	852	924
38	40	32	Credit value adjustment risk (CVA)	141	149	153
<b>6,988</b>	<b>6,544</b>	<b>7,180</b>	<b>Minimum requirements subordinated capital</b>	<b>9,418</b>	<b>8,749</b>	<b>9,171</b>
<b>87,354</b>	<b>81,801</b>	<b>89,750</b>	<b>Risk weighted assets (RWA)</b>	<b>117,721</b>	<b>109,366</b>	<b>114,633</b>
3,931	3,681	4,039	Minimum requirement on CET1 capital, 4.5 per cent	5,297	4,921	5,159
			Capital Buffers			
2,184	2,045	2,244	Capital conservation buffer, 2.5 per cent	2,943	2,734	2,866
3,896	3,640	4,003	Systemic risk buffer, 4.5 per cent	5,218	4,867	5,081
2,184	2,045	2,244	Countercyclical buffer, 1.0 per cent	2,943	2,734	2,866
<b>8,264</b>	<b>7,730</b>	<b>8,490</b>	<b>Total buffer requirements on CET1 capital</b>	<b>11,104</b>	<b>10,335</b>	<b>10,813</b>
<b>6,937</b>	<b>5,504</b>	<b>6,729</b>	<b>Available CET1 capital after buffer requirements</b>	<b>5,397</b>	<b>4,702</b>	<b>5,618</b>
			<b>Capital adequacy</b>			
21.9 %	20.7 %	21.5 %	Common equity Tier 1 capital ratio	18.5 %	18.2 %	18.8 %
23.9 %	22.6 %	23.4 %	Tier 1 capital ratio	20.4 %	20.1 %	20.8 %
26.1 %	24.8 %	26.1 %	Capital ratio	23.1 %	22.2 %	23.0 %
			<b>Leverage ratio</b>			
221,334	216,517	224,379	Balance sheet items	329,436	311,331	323,929
7,559	6,724	7,777	Off-balance sheet items	9,211	8,046	8,984
-513	-382	-452	Regulatory adjustments	-612	-504	-666
228,380	222,858	231,704	Calculation basis for leverage ratio	338,035	318,873	332,247
20,883	18,519	21,010	Core capital	24,073	21,985	23,793
<b>9.1 %</b>	<b>8.3 %</b>	<b>9.1 %</b>	<b>Leverage Ratio</b>	<b>7.1 %</b>	<b>6.9 %</b>	<b>7.2 %</b>