

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 September 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 September 2024, the average risk weights are over 20 per cent for the group.

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 2024 the effective rate for the group is 4.44 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 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	30 Sep 2023	30 Sep 2024	(NOKm)	30 Sep 2024	30 Sep 2023	31 Dec 2023
25,150	23,725	25,301	Total book equity	29,674	27,471	28,597
-1,800	-1,416	-2,006	Additional Tier 1 capital instruments included in total equity	-2,095	-1,451	-1,903
-812	-842	-772	Deferred taxes, goodwill and other intangible assets	-2,238	-1,433	-1,625
-2,591	0	-	Deduction for allocated dividends and gifts	-	0	-2,591
-	-	-	Non-controlling interests recognised in other equity capital	-788	-919	-666
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	691	805	679
-	-2,483	-2,538	Net profit	-3,540	-2,441	-
-	1,222	360	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	940	1,177	-
-53	-78	-55	Value adjustments due to requirements for prudent valuation	-76	-94	-72
-412	-311	-387	Positive value of adjusted expected loss under IRB Approach	-612	-416	-546
-	-	-	Cash flow hedge reserve	-2	-7	-4
-350	-305	-350	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-267	-292	-278
19,131	19,512	19,553	Common equity Tier 1 capital	21,688	22,400	21,589
1,800	1,500	1,943	Additional Tier 1 capital instruments	2,456	1,930	2,252
-48	-47	-48	Deduction for significant investments in financial institutions	-48	-47	-48
20,883	20,965	21,448	Tier 1 capital	24,097	24,283	23,793
-	-	-	Supplementary capital in excess of core capital			
2,150	2,342	2,789	Subordinated capital	3,686	2,880	2,822
-216	-213	-226	Deduction for significant investments in financial institutions	-226	-213	-216
1,934	2,129	2,563	Additional Tier 2 capital instruments	3,460	2,667	2,606
22,817	23,094	24,011	Total eligible capital	27,557	26,950	26,399

Risk weighted assets (RWA)						
15,701	15,595	17,671	Specialised enterprises	21,247	18,918	19,226
11,303	12,355	11,126	Corporate	11,339	12,676	11,634
19,617	19,600	20,845	Mass market exposure, property	38,404	36,133	36,333
1,545	1,464	1,506	Other mass market	1,593	1,495	1,577
18,558	17,011	18,614	Equity positions IRB	-	-	-
66,724	66,026	69,762	Total credit risk IRB	72,583	69,221	68,770
40	55	16	Central government	414	75	68
1,188	1,209	1,385	Covered bonds	2,172	1,687	1,908
4,659	4,517	4,335	Institutions	3,261	3,130	3,495
1,371	1,733	1,155	Local and regional authorities, state-owned enterprises	1,329	2,058	1,829
3,101	2,406	3,320	Corporate	6,621	5,422	6,325
49	218	225	Mass market	9,330	9,044	8,785
467	516	627	Exposures secured on real property	1,514	1,671	1,573
792	1,187	889	Equity positions	5,649	5,874	5,809
1,400	1,383	1,567	Other assets	2,682	2,328	2,224
13,069	13,223	13,519	Total credit risk standardised approach	32,971	31,289	32,016
279	452	471	Debt risk	465	473	279
-	-	-	Equity risk	111	198	82
-	-	-	Currency risk and risk exposure for settlement/delivery	27	16	21
6,810	6,101	6,810	Operational risk	11,262	11,246	11,548
472	228	478	Credit value adjustment risk (CVA)	1,672	1,350	1,918
87,354	86,031	91,040	Risk weighted assets (RWA)	119,092	113,793	114,633
6,988	6,882	7,283	Minimum requirements subordinated capital	9,527	9,103	9,171
3,931	3,871	4,097	Minimum requirement on CET1 capital, 4.5 per cent	5,359	5,121	5,159
			Capital Buffers			
2,184	2,151	2,276	Capital conservation buffer, 2.5 per cent	2,977	2,845	2,866
3,896	3,828	4,060	Systemic risk buffer, 4.44 per cent	5,279	5,041	5,081
2,184	2,151	2,276	Countercyclical buffer, 2.5 per cent	2,977	2,845	2,866
8,264	8,130	8,612	Total buffer requirements on CET1 capital	11,234	10,731	10,813
6,937	7,511	6,844	Available CET1 capital after buffer requirements	5,096	6,549	5,618
			Capital adequacy			
21.9 %	22.7 %	21.5 %	Common equity Tier 1 capital ratio	18.2 %	19.7 %	18.8 %
23.9 %	24.4 %	23.6 %	Tier 1 capital ratio	20.2 %	21.3 %	20.8 %
26.1 %	26.8 %	26.4 %	Capital ratio	23.1 %	23.7 %	23.0 %
			Leverage ratio			
221,334	223,857	230,079	Balance sheet items	342,513	323,045	323,929
7,559	7,874	7,829	Off-balance sheet items	9,409	8,951	8,984
-513	-436	-489	Regulatory adjustments	-736	-558	-666
228,380	231,295	237,419	Calculation basis for leverage ratio	351,186	331,438	332,247
20,883	20,965	21,448	Core capital	24,097	24,283	23,793
9.1 %	9.1 %	9.0 %	Leverage Ratio	6.9 %	7.3 %	7.2 %