SpareBank 1 SMN | Bank Eiendom Regnskap

Note 5 - Capital adequacy and capital management

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 Apporoach 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 December 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 for SpareBank 1 SMN. From 31 December 2023 the reqirement is 1,7 per cent, and must be met with a minimum of 56.25 per cent CET1 capital. 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 31 December 2023 an adjustment was made in the parent bank 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 December 2023 the effective rate is 4.3 per cent for the group.

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 31 December 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 Dec 2023**	**(NOKm)**	**31 Dec 2023**	**31 Dec 2022**
20,887	**25,150**	**Total book equity**	**28,597**	**25,009**
-1,726	-1,800	Additional Tier 1 capital instruments included in total equity	-1,903	-1,769
-467	-812	Deferred taxes, goodwill and other intangible assets	-1,625	-947
-1,314	-2,591	Deduction for allocated dividends and gifts	-2,591	-1,314
-	-	Non-controlling interests recognised in other equity capital	-666	-997
-	-	Non-controlling interests eligible for inclusion in CET1 capital	679	784
-	-	Net profit	-	-
-	-	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	-	-
-72	-53	Value adjustments due to requirements for prudent valuation	-72	-89
-194	-412	Positive value of adjusted expected loss under IRB Approach	-546	-279
-	-	Cash flow hedge reserve	-4	-4
-281	-350	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-278	-619
16,833	**19,131**	**Common equity Tier 1 capital**	**21,589**	**19,776**
1,726	1,800	Additional Tier 1 capital instruments	2,252	2,106
-47	-48	Deduction for significant investments in financial institutions	-48	-47
18,512	**20,883**	**Tier 1 capital**	**23,793**	**21,835**
		Supplementary capital in excess of core capital		
2,000	2,150	Subordinated capital	2,822	2,523
-210	-216	Deduction for significant investments in financial institutions	-216	-210
1,790	**1,934**	**Additional Tier 2 capital instruments**	**2,606**	**2,312**
20,301	**22,817**	**Total eligible capital**	**26,399**	**24,147**

		Minimum requirements subordinated capital		
1,148	1,256	Specialised enterprises	1,538	1,351
901	904	Corporate	931	923
1,379	1,569	Mass market exposure, property	2,907	2,559
98	124	Other mass market	126	100
1,249	1,485	Equity positions IRB	-	-
4,774	**5,338**	**Total credit risk IRB**	**5,502**	**4,933**
6	3	Central government	5	6
82	95	Covered bonds	153	139
403	373	Institutions	280	276
187	110	Local and regional authorities, state-owned enterprises	146	207
143	248	Corporate	506	385
7	4	Mass market	703	662
27	37	Exposures secured on real property	126	109
90	63	Equity positions	465	504
97	112	Other assets	178	162
1,042	**1,046**	**Total credit risk standardised approach**	**2,561**	**2,450**
27	22	Debt risk	22	29
-	-	Equity risk	7	10
-	-	Currency risk and risk exposure for settlement/delivery	2	1
458	545	Operational risk	924	853
30	38	Credit value adjustment risk (CVA)	153	101
6,331	**6,988**	**Minimum requirements subordinated capital**	**9,171**	**8,377**
79,140	**87,354**	**Risk weighted assets (RWA)**	**114,633**	**104,716**
3,561	3,931	Minimum requirement on CET1 capital, 4.5 per cent	5,159	4,712
		Capital Buffers		
1,978	2,184	Capital conservation buffer, 2.5 per cent	2,866	2,618
3,561	3,896	Systemic risk buffer, 4.5 per cent	5,081	4,712
1,583	2,184	Countercyclical buffer, 1.0 per cent	2,866	2,094
7,123	**8,264**	**Total buffer requirements on CET1 capital**	**10,813**	**9,424**
6,149	**6,937**	**Available CET1 capital after buffer requirements**	**5,618**	**5,639**
		Capital adequacy		
21.3 %	21.9 %	Common equity Tier 1 capital ratio	18.8 %	18.9 %
23.4 %	23.9 %	Tier 1 capital ratio	20.8 %	20.9 %
25.7 %	26.1 %	Capital ratio	23.0 %	23.1 %
		Leverage ratio		
210,227	221,334	Balance sheet items	323,929	302,617
6,234	7,559	Off-balance sheet items	8,984	7,744
-1,061	-513	Regulatory adjustments	-666	-1,985
215,400	228,380	Calculation basis for leverage ratio	332,247	308,376
18,512	20,883	Core capital	23,793	21,835
8.6 %	**9.1 %**	**Leverage Ratio**	**7.2 %**	**7.1 %**