

## Note 4 - Capital adequacy

SpareBank 1 SMN utilises the Internal Rating Based Approach (IRB) for credit risk. Use of IRB imposes wide-ranging requirements on the bank's organisational set-up, competence, risk models and risk management systems. As from 31 March 2015 the bank has received permission to apply the Advanced IRB Approach to those corporate portfolios that were previously reported under the Basic Indicator Approach.

As of 30 September 2018 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian countercyclical buffer is 2.0 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 12.0 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN. The total minimum requirement on CET1 capital is accordingly 14.1 per cent.

The countercyclical buffer increased from 1.5 per cent to 2.0 per cent with effect from 31 December 2017.

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 third quarter of 2018 the parent bank is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures. For groups, the risk-weighted countercyclical capital buffer is 2.0 per cent.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 50 per cent in 2017 and 60 per cent in 2018. As at 30 September 2018 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure was NOK 652 million.

Parent Bank				Group		
31 Dec 2017	30 Sept 2017	30 Sept 2018	(NOKm)	30 Sept 2018	30 Sept 2017	31 Dec 2017
15,372	15,009	16,428	Total book equity	18,650	17,208	17,510
-950	-925	-1,268	Additional Tier 1 capital instruments included in total equity	-1,310	-1,187	-993
-522	-484	-538	Deferred taxes, goodwill and other intangible assets	-1,059	-888	-984
-893	-	-	Deduction for allocated dividends and gifts	-	-	-893
-	-	-	Non-controlling interests recognised in other equity capital	-623	-516	-565
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	371	303	324
-	-1,446	-1,649	Net profit	-1,689	-1,250	-
-	821	825	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2018)	864	625	-
-30	-28	-29	Value adjustments due to requirements for prudent valuation	-47	-46	-41
-350	-200	-308	Positive value of adjusted expected loss under IRB Approach	-316	-264	-333
-	-	-	Cash flow hedge reserve	2	8	7
-	-	-163	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-147	-92	-212
<b>12,627</b>	<b>12,746</b>	<b>13,298</b>	<b>Total common equity Tier one</b>	<b>14,697</b>	<b>13,901</b>	<b>13,820</b>
950	950	1,000	Additional Tier 1 capital instruments	1,478	1,358	1,427
459	459	367	Additional Tier 1 capital instruments covered by transitional provisions	367	459	459
<b>14,036</b>	<b>14,155</b>	<b>14,665</b>	<b>Total core capital</b>	<b>16,542</b>	<b>15,718</b>	<b>15,707</b>
			<b>Supplementary capital in excess of core capital</b>			
1,000	1,368	1,500	Subordinated capital	2,118	1,979	1,615
561	561	449	Subordinated capital covered by transitional provisions	449	561	561
-254	-254	-140	Deduction for significant investments in financial institutions	-140	-254	-254
<b>1,307</b>	<b>1,675</b>	<b>1,809</b>	<b>Total supplementary capital</b>	<b>2,427</b>	<b>2,286</b>	<b>1,922</b>
<b>15,343</b>	<b>15,830</b>	<b>16,473</b>	<b>Net subordinated capital</b>	<b>18,969</b>	<b>18,004</b>	<b>17,629</b>

			<b>Minimum requirements subordinated capital</b>			
978	1,050	951	Specialised enterprises	1,107	1,177	1,107
1,098	1,040	1,173	Corporate	1,181	1,054	1,113
1,370	1,284	1,508	Mass market exposure, property	2,070	1,763	1,892
90	87	91	Other mass market	94	89	91
1,198	1,222	1,045	Equity investments	1	1	1
<b>4,733</b>	<b>4,683</b>	<b>4,768</b>	<b>Total credit risk IRB</b>	<b>4,453</b>	<b>4,084</b>	<b>4,205</b>
<b>Minimum requirements standardised approach</b>						
3	4	2	Central government	3	4	3
80	74	95	Covered bonds	145	136	146
431	454	375	Institutions	217	380	333
0	5	-	Local and regional authorities, state-owned enterprises	10	11	4
25	22	30	Corporate	241	234	226
18	16	70	Mass market	510	394	405
13	14	15	Exposures secured on real property	181	198	193
232	227	228	Equity positions	358	342	344
70	63	53	Other assets	109	172	166
<b>872</b>	<b>880</b>	<b>868</b>	<b>Total credit risk standardised approach</b>	<b>1,774</b>	<b>1,870</b>	<b>1,820</b>
16	22	31	Debt risk	33	24	18
-	-	-	Equity risk	24	18	22
-	-	-	Currency risk and risk exposure for settlement/delivery	3	-	1
341	341	370	Operational risk	575	510	510
52	74	33	Credit value adjustment risk (CVA)	80	134	117
-	-	-	Transitional arrangements	971	956	891
<b>6,015</b>	<b>6,000</b>	<b>6,071</b>	<b>Minimum requirements subordinated capital</b>	<b>7,913</b>	<b>7,595</b>	<b>7,585</b>
<b>75,182</b>	<b>75,000</b>	<b>75,887</b>	<b>Risk weighted assets (RWA)</b>	<b>98,915</b>	<b>94,938</b>	<b>94,807</b>
3,383	3,375	3,415	Minimum requirement on CET1 capital, 4.5 per cent	4,451	4,272	4,266
<b>Capital Buffers</b>						
1,880	1,875	1,897	Capital conservation buffer, 2.5 per cent	2,473	2,373	2,370
2,255	2,250	2,277	Systemic risk buffer, 3.0 per cent	2,967	2,848	2,844
1,504	1,125	1,518	Countercyclical buffer, 2.0 per cent (1.5 per cent)	1,978	1,424	1,896
<b>5,639</b>	<b>5,250</b>	<b>5,692</b>	<b>Total buffer requirements on CET1 capital</b>	<b>7,419</b>	<b>6,646</b>	<b>7,111</b>
<b>3,605</b>	<b>4,121</b>	<b>4,191</b>	<b>Available CET1 capital after buffer requirements</b>	<b>2,827</b>	<b>2,983</b>	<b>2,444</b>
<b>Capital adequacy</b>						
16.8 %	17.0 %	17.5 %	Common equity Tier one ratio	14.9 %	14.6 %	14.6 %
18.7 %	18.9 %	19.3 %	Core capital ratio	16.7 %	16.6 %	16.6 %
20.4 %	21.1 %	21.7 %	Capital adequacy ratio	19.2 %	19.0 %	18.6 %
<b>Leverage ratio</b>						
145,821	142,840	150,853	Balance sheet items	213,761	203,155	210,764
7,112	7,535	7,629	Off-balance sheet items	9,595	9,506	9,295
-902	-713	-1,170	Regulatory adjustments	-1,729	-1,301	-1,580
152,032	149,662	157,313	Calculation basis for leverage ratio	221,628	211,361	218,479
14,036	14,155	14,665	Core capital	16,542	15,718	15,707
<b>9.2 %</b>	<b>9.5 %</b>	<b>9.3 %</b>	<b>Leverage Ratio</b>	<b>7.5 %</b>	<b>7.4 %</b>	<b>7.2 %</b>