

## 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 2022 the overall minimum requirement on CET1 capital is 12.5 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 1.0 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 of 1.9 per cent for SpareBank 1 SMN, however not below NOK 1,794 million in monetary terms. From 30 April 2022, SpareBank 1 SMN has received a new Pillar 2 requirement. The rate of 1.9 per cent is unchanged, but 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. The Norwegian countercyclical buffer will rise to 1.5 per cent with effect from 30 June 2022, and to 2.0 per cent from 31 December 2022.

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 2022 an adjustment was made in both the parent bank and the group 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 March 2021 the effective rate for the parent bank and for the group is accordingly 4.4 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 2022 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 2021	31 March 2021	31 March 2022	(NOKm)	31 March 2022	31 March 2021	31 Dec 2021
19,356	18,259	18,275	<b>Total book equity</b>	22,439	21,734	23,241
-1,250	-1,231	-1,230	Additional Tier 1 capital instruments included in total equity	-1,271	-1,273	-1,293
-458	-511	-457	Deferred taxes, goodwill and other intangible assets	-957	-1,027	-961
-1,517	-627	-	Deduction for allocated dividends and gifts	-	-627	-1,517
-	-	-	Non-controlling interests recognised in other equity capital	-1,005	-891	-989
-	-	-	Non-controlling interests eligible for inclusion in CET1 capital	579	489	568
-	-450	-459	Net profit	-698	-768	-
-	57	100	Year-to-date profit included in core capital (50 per cent (50 per cent) pre tax of group profit)	338	374	-
-41	-43	-46	Value adjustments due to requirements for prudent valuation	-62	-56	-56
-495	-263	-469	Positive value of adjusted expected loss under IRB Approach	-529	-292	-560
-	-	-	Cash flow hedge reserve	-2	8	3
-202	-186	-202	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-603	-629	-648
15,393	15,005	15,513	<b>Common equity Tier 1 capital</b>	18,229	17,042	17,790
1,250	1,250	1,250	Additional Tier 1 capital instruments	1,616	1,595	1,581
-48	-	-47	Deduction for significant investments in financial institutions	-47	-	-48
16,595	16,255	16,715	<b>Tier 1 capital</b>	19,797	18,636	19,322
			<b>Supplementary capital in excess of core capital</b>			
1,750	1,750	1,750	Subordinated capital	2,258	2,259	2,226
-214	-154	-217	Deduction for significant investments in financial institutions	-217	-154	-214
1,536	1,596	1,533	<b>Additional Tier 2 capital instruments</b>	2,041	2,105	2,011
18,130	17,851	18,249	<b>Total eligible capital</b>	21,839	20,741	21,333

Minimum requirements subordinated capital						
1,049	1,112	1,157	Specialised enterprises	1,376	1,292	1,248
1,016	982	1,052	Corporate	1,072	992	1,030
1,400	1,463	1,356	Mass market exposure, property	2,374	2,218	2,384
93	100	101	Other mass market	104	102	95
1,000	1,025	1,008	Equity positions IRB	1	1	1
<b>4,558</b>	<b>4,682</b>	<b>4,674</b>	<b>Total credit risk IRB</b>	<b>4,927</b>	<b>4,606</b>	<b>4,758</b>
3	3	3	Central government	4	5	4
106	107	97	Covered bonds	144	146	133
398	485	421	Institutions	301	336	299
1	-	1	Local and regional authorities, state-owned enterprises	20	28	29
188	32	139	Corporate	401	270	432
7	18	4	Mass market	485	484	466
25	12	33	Exposures secured on real property	123	131	128
279	272	279	Equity positions	495	428	521
92	89	65	Other assets	125	159	142
<b>1,098</b>	<b>1,018</b>	<b>1,041</b>	<b>Total credit risk standardised approach</b>	<b>2,098</b>	<b>1,986</b>	<b>2,154</b>
35	43	52	Debt risk	54	44	36
-	-	-	Equity risk	30	9	34
-	-	-	Currency risk and risk exposure for settlement/delivery	2	1	1
433	421	433	Operational risk	809	772	817
26	32	28	Credit value adjustment risk (CVA)	67	153	93
<b>6,150</b>	<b>6,196</b>	<b>6,228</b>	<b>Minimum requirements subordinated capital</b>	<b>7,988</b>	<b>7,571</b>	<b>7,893</b>
<b>76,873</b>	<b>77,455</b>	<b>77,846</b>	<b>Risk weighted assets (RWA)</b>	<b>99,847</b>	<b>94,633</b>	<b>98,664</b>
3,459	3,485	3,503	Minimum requirement on CET1 capital, 4.5 per cent	4,493	4,258	4,440
			Capital Buffers			
1,922	1,936	1,946	Capital conservation buffer, 2.5 per cent	2,496	2,366	2,467
3,459	3,485	3,503	Systemic risk buffer, 4.5 per cent	4,493	4,258	4,440
769	775	778	Countercyclical buffer, 1.0 per cent	998	946	987
<b>6,150</b>	<b>6,196</b>	<b>6,228</b>	<b>Total buffer requirements on CET1 capital</b>	<b>7,988</b>	<b>7,571</b>	<b>7,893</b>
<b>5,784</b>	<b>5,323</b>	<b>5,782</b>	<b>Available CET1 capital after buffer requirements</b>	<b>5,748</b>	<b>5,212</b>	<b>5,457</b>
			<b>Capital adequacy</b>			
20.0 %	19.4 %	19.9 %	Common equity Tier 1 capital ratio	18.3 %	18.0 %	18.0 %
21.6 %	21.0 %	21.5 %	Tier 1 capital ratio	19.8 %	19.7 %	19.6 %
23.6 %	23.0 %	23.4 %	Capital ratio	21.9 %	21.9 %	21.6 %
			<b>Leverage ratio</b>			
191,697	181,720	193,702	Balance sheet items	275,296	258,536	269,857
10,782	8,793	9,942	Off-balance sheet items	11,167	9,568	11,341
-1,042	-817	-1,020	Regulatory adjustments	-2,062	-1,844	-2,110
201,437	189,696	202,624	Calculation basis for leverage ratio	284,401	266,260	279,088
16,595	16,255	16,715	Core capital	19,797	18,636	19,322
<b>8.2 %</b>	<b>8.6 %</b>	<b>8.2 %</b>	<b>Leverage Ratio</b>	<b>7.0 %</b>	<b>7.0 %</b>	<b>6.9 %</b>