

## Note 6 - Capital adequacy and capital management

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 31 December 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. From first quarter 2019 the Pillar 2 requirement is changed to 1.9 per cent for SpareBank 1 SMN.

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 fourth quarter of 2018 both the parent bank and the group is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This has been subject to a write-down of 50 per cent in 2017 and 60 per cent in 2018. As at 31 December 2018 the bank held hybrid capital worth NOK 450 million subject to write-down.

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	(NOK million)	31 Dec 2018	31 Dec 2017
15,372	16,409	<b>Total book equity</b>	18,686	17,510
-950	-1,000	Additional Tier 1 capital instruments included in total equity	-1,043	-993
-522	-533	Deferred taxes, goodwill and other intangible assets	-1,079	-984
-893	-1,034	Deduction for allocated dividends and gifts	-1,034	-893
-	-	Non-controlling interests recognised in other equity capital	-637	-565
-	-	Non-controlling interests eligible for inclusion in CET1 capital	366	324
-30	-31	Value adjustments due to requirements for prudent valuation	-44	-41
-350	-268	Positive value of adjusted expected loss under IRB Approach	-286	-333
-	-	Cash flow hedge reserve	5	7
-	-163	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-206	-212
12,627	13,381	<b>Total common equity Tier one</b>	14,727	13,820
950	1,000	Additional Tier 1 capital instruments	1,378	1,427
459	367	Additional Tier 1 capital instruments covered by transitional provisions	367	459
14,036	14,748	<b>Total core capital</b>	16,472	15,707
		<b>Supplementary capital in excess of core capital</b>		
1,000	1,750	Subordinated capital	2,316	1,615
561	96	Subordinated capital covered by transitional provisions	96	561
-254	-140	Deduction for significant investments in financial institutions	-140	-254
1,307	1,705	<b>Total supplementary capital</b>	2,272	1,922
15,343	16,453	<b>Net subordinated capital</b>	18,743	17,629

Minimum requirements subordinated capital				
978	967	Specialised enterprises	1,116	1,107
1,098	1,156	Corporate	1,163	1,113
1,370	1,516	Mass market exposure, property	2,098	1,892
90	90	Other mass market	92	91
1,198	1,062	Equity investments	1	1
<b>4,733</b>	<b>4,790</b>	<b>Total credit risk IRB</b>	<b>4,470</b>	<b>4,205</b>
3	3	Central government	4	3
80	87	Covered bonds	124	146
431	390	Institutions	246	333
0	-	Local and regional authorities, state-owned enterprises	8	4
25	23	Corporate	221	226
18	73	Mass market	520	405
13	12	Exposures secured on real property	215	193
232	228	Equity positions	366	344
70	57	Other assets	107	166
<b>872</b>	<b>873</b>	<b>Total credit risk standardised approach</b>	<b>1,810</b>	<b>1,820</b>
16	30	Debt risk	31	18
-	-	Equity risk	7	22
-	-	Currency risk and risk exposure for settlement/delivery	3	1
341	370	Operational risk	575	510
52	39	Credit value adjustment risk (CVA)	122	117
-	-	Transitional arrangements	1,074	891
<b>6,015</b>	<b>6,102</b>	<b>Minimum requirements subordinated capital</b>	<b>8,093</b>	<b>7,585</b>
<b>75,182</b>	<b>76,274</b>	<b>Risk weighted assets (RWA)</b>	<b>101,168</b>	<b>94,807</b>
3,383	3,432	Minimum requirement on CET1 capital, 4.5 per cent	4,553	4,266
<b>Capital Buffers</b>				
1,880	1,907	Capital conservation buffer, 2.5 per cent	2,529	2,370
2,255	2,288	Systemic risk buffer, 3.0 per cent	3,035	2,844
1,504	1,525	Countercyclical buffer, 2.0 per cent	2,023	1,896
<b>5,639</b>	<b>5,721</b>	<b>Total buffer requirements on CET1 capital</b>	<b>7,588</b>	<b>7,111</b>
<b>3,605</b>	<b>4,228</b>	<b>Available CET1 capital after buffer requirements</b>	<b>2,587</b>	<b>2,444</b>
<b>Capital adequacy</b>				
16.8 %	17.5 %	Common equity Tier one ratio	14.6 %	14.6 %
18.7 %	19.3 %	Core capital ratio	16.3 %	16.6 %
20.4 %	21.6 %	Capital adequacy ratio	18.5 %	18.6 %
<b>Leverage ratio</b>				
145,821	153,395	Balance sheet items	216,240	210,764
7,112	7,110	Off-balance sheet items	9,086	9,295
-902	-832	Regulatory adjustments	-1,474	-1,580
152,032	159,673	Calculation basis for leverage ratio	223,853	218,479
14,036	14,748	Core capital	16,472	15,707
<b>9.2 %</b>	<b>9.2 %</b>	<b>Leverage Ratio</b>	<b>7.4 %</b>	<b>7.2 %</b>