

## 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 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 December 2021 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. 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 December 2021 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 December 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. As of 31 December 2021 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 2020	31 Dec 2021 (NOKm)		31 Dec 2021	31 Dec 2020
<b>18,092</b>	<b>19,356</b>	<b>Total book equity</b>	<b>23,241</b>	<b>21,310</b>
-1,250	-1,250	Additional Tier 1 capital instruments included in total equity	-1,293	-1,293
-515	-458	Deferred taxes, goodwill and other intangible assets	-961	-1,044
-890	-1,517	Deduction for allocated dividends and gifts	-1,517	-890
-	-	Non-controlling interests recognised in other equity capital	-989	-838
-	-	Non-controlling interests eligible for inclusion in CET1 capital	568	488
-43	-41	Value adjustments due to requirements for prudent valuation	-56	-56
-47	-495	Positive value of adjusted expected loss under IRB Approach	-560	-74
-	-	Cash flow hedge reserve	3	10
-186	-202	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-648	-572
<b>15,160</b>	<b>15,393</b>	<b>Common equity Tier 1 capital</b>	<b>17,790</b>	<b>17,041</b>
1,250	1,250	Additional Tier 1 capital instruments	1,581	1,595
-	-48	Deduction for significant investments in financial institutions	-48	-
<b>16,410</b>	<b>16,595</b>	<b>Tier 1 capital</b>	<b>19,322</b>	<b>18,636</b>
		<b>Supplementary capital in excess of core capital</b>		
1,750	1,750	Subordinated capital	2,226	2,262
-139	-214	Deduction for significant investments in financial institutions	-214	-139
<b>1,611</b>	<b>1,536</b>	<b>Additional Tier 2 capital instruments</b>	<b>2,011</b>	<b>2,123</b>
<b>18,020</b>	<b>18,130</b>	<b>Total eligible capital</b>	<b>21,333</b>	<b>20,759</b>

<b>Minimum requirements subordinated capital</b>				
1,053	1,049	Specialised enterprises	1,248	1,240
920	1,016	Corporate	1,030	930
1,511	1,400	Mass market exposure, property	2,384	2,261
107	93	Other mass market	95	110
1,026	1,000	Equity positions IRB	1	1
<b>4,617</b>	<b>4,558</b>	<b>Total credit risk IRB</b>	<b>4,758</b>	<b>4,541</b>
1	3	Central government	4	2
93	106	Covered bonds	133	142
441	398	Institutions	299	332
-	1	Local and regional authorities, state-owned enterprises	29	27
32	188	Corporate	432	281
20	7	Mass market	466	476
11	25	Exposures secured on real property	128	136
272	279	Equity positions	521	408
99	92	Other assets	142	159
<b>970</b>	<b>1,098</b>	<b>Total credit risk standardised approach</b>	<b>2,154</b>	<b>1,962</b>
30	35	Debt risk	36	31
-	-	Equity risk	34	18
-	-	Currency risk and risk exposure for settlement/delivery	1	3
421	433	Operational risk	817	770
25	26	Credit value adjustment risk (CVA)	93	123
<b>6,063</b>	<b>6,150</b>	<b>Minimum requirements subordinated capital</b>	<b>7,893</b>	<b>7,448</b>
<b>75,785</b>	<b>76,873</b>	<b>Risk weighted assets (RWA)</b>	<b>98,664</b>	<b>93,096</b>
3,410	3,459	Minimum requirement on CET1 capital, 4.5 per cent	4,440	4,189
		Capital Buffers		
1,895	1,922	Capital conservation buffer, 2.5 per cent	2,467	2,327
3,410	3,459	Systemic risk buffer, 4.5 per cent	4,440	4,189
758	769	Countercyclical buffer, 1.0 per cent	987	931
<b>6,063</b>	<b>6,150</b>	<b>Total buffer requirements on CET1 capital</b>	<b>7,893</b>	<b>7,448</b>
<b>5,687</b>	<b>5,784</b>	<b>Available CET1 capital after buffer requirements</b>	<b>5,457</b>	<b>5,404</b>
		<b>Capital adequacy</b>		
20.0 %	20.0 %	Common equity Tier 1 capital ratio	18.0 %	18.3 %
21.7 %	21.6 %	Tier 1 capital ratio	19.6 %	20.0 %
23.8 %	23.6 %	Capital ratio	21.6 %	22.3 %
		<b>Leverage ratio</b>		
178,219	191,697	Balance sheet items	269,857	256,978
6,190	10,782	Off-balance sheet items	11,341	7,514
-606	-1,042	Regulatory adjustments	-2,110	-1,577
183,803	201,437	Calculation basis for leverage ratio	279,088	262,915
16,410	16,595	Core capital	19,322	18,636
<b>8.9 %</b>	<b>8.2 %</b>	<b>Leverage Ratio</b>	<b>6.9 %</b>	<b>7.1 %</b>