

## 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 2022 the overall minimum requirement on CET1 capital is 13.5 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 2.0 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 2.5 per cent with effect from 31 March 2023.

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 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 December 2022 the effective rate for the parent bank and for the group is accordingly 4.5 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 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 Dec 2022	(NOKm)	31 Dec 2022	31 Dec 2021
19,356	20,887	Total book equity	25,009	23,241
-1,250	-1,726	Additional Tier 1 capital instruments included in total equity	-1,769	-1,293
-458	-467	Deferred taxes, goodwill and other intangible assets	-947	-961
-1,517	-1,314	Deduction for allocated dividends and gifts	-1,314	-1,517
-	-	- Non-controlling interests recognised in other equity capital	-997	-989
-	-	- Non-controlling interests eligible for inclusion in CET1 capital	784	568
-41	-72	Value adjustments due to requirements for prudent valuation	-89	-56
-495	-194	Positive value of adjusted expected loss under IRB Approach	-279	-560
-	-	Cash flow hedge reserve	-4	3
-202	-281	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-619	-648
<b>15,393</b>	<b>16,833</b>	<b>Common equity Tier 1 capital</b>	<b>19,776</b>	<b>17,790</b>
1,250	1,726	Additional Tier 1 capital instruments	2,106	1,581
-48	-47	Deduction for significant investments in financial institutions	-47	-48
16,595	18,512	Tier 1 capital	21,835	19,322
		<b>Supplementary capital in excess of core capital</b>		
1,750	2,000	Subordinated capital	2,523	2,226
-214	-210	Deduction for significant investments in financial institutions	-210	-214
1,536	1,790	Additional Tier 2 capital instruments	2,312	2,011
<b>18,130</b>	<b>20,301</b>	<b>Total eligible capital</b>	<b>24,147</b>	<b>21,333</b>

	<b>Minimum requirements subordinated capital</b>			
1,049	1,148	Specialised enterprises	1,351	1,248
1,016	901	Corporate	923	1,030
1,400	1,379	Mass market exposure, property	2,559	2,384
93	98	Other mass market	100	95
1,000	1,249	Equity positions IRB	-	1
<b>4,558</b>	<b>4,774</b>	<b>Total credit risk IRB</b>	<b>4,933</b>	<b>4,758</b>
3	6	Central government	6	4
106	82	Covered bonds	139	133
398	403	Institutions	276	299
1	187	Local and regional authorities, state-owned enterprises	207	29
188	143	Corporate	385	432
7	7	Mass market	662	466
25	27	Exposures secured on real property	109	128
279	90	Equity positions	504	521
92	97	Other assets	162	142
<b>1,098</b>	<b>1,042</b>	<b>Total credit risk standardised approach</b>	<b>2,450</b>	<b>2,154</b>
35	27	Debt risk	29	36
-	-	Equity risk	10	34
-	-	Currency risk and risk exposure for settlement/delivery	1	1
433	458	Operational risk	853	817
26	30	Credit value adjustment risk (CVA)	101	93
<b>6,150</b>	<b>6,331</b>	<b>Minimum requirements subordinated capital</b>	<b>8,377</b>	<b>7,893</b>
<b>76,873</b>	<b>79,140</b>	<b>Risk weighted assets (RWA)</b>	<b>104,716</b>	<b>98,664</b>
3,459	3,561	Minimum requirement on CET1 capital, 4.5 per cent	4,712	4,440
		<b>Capital Buffers</b>		
1,922	1,978	Capital conservation buffer, 2.5 per cent	2,618	2,467
3,459	3,561	Systemic risk buffer, 4.5 per cent	4,712	4,440
769	1,583	Countercyclical buffer, 2.0 per cent (1.0 per cent)	2,094	987
<b>6,150</b>	<b>7,123</b>	<b>Total buffer requirements on CET1 capital</b>	<b>9,424</b>	<b>7,893</b>
<b>5,784</b>	<b>6,149</b>	<b>Available CET1 capital after buffer requirements</b>	<b>5,639</b>	<b>5,457</b>
		<b>Capital adequacy</b>		
20.0 %	21.3 %	Common equity Tier 1 capital ratio	18.9 %	18.0 %
21.6 %	23.4 %	Tier 1 capital ratio	20.9 %	19.6 %
23.6 %	25.7 %	Capital ratio	23.1 %	21.6 %
		<b>Leverage ratio</b>		
191,697	210,227	Balance sheet items	302,617	269,857
10,782	6,234	Off-balance sheet items	7,744	11,341
-1,042	-1,061	Regulatory adjustments	-1,985	-2,110
201,437	215,400	Calculation basis for leverage ratio	308,376	279,088
16,595	18,512	Core capital	21,835	19,322
<b>8.2 %</b>	<b>8.6 %</b>	<b>Leverage Ratio</b>	<b>7.1 %</b>	<b>6.9 %</b>