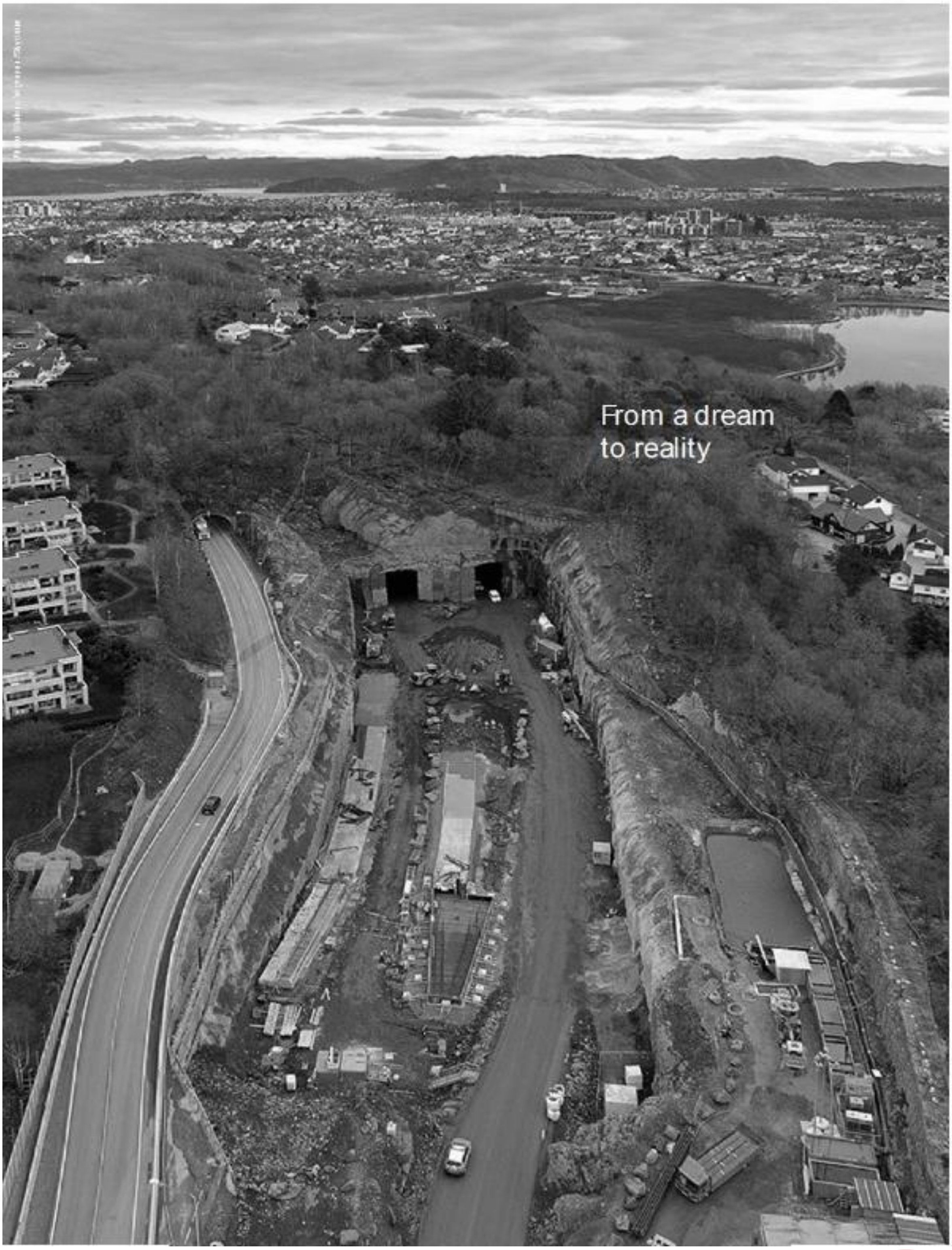
RISK AND CAPITAL MANAGEMENT 2015

SpareBank 1 SR-Bank group



SpareBank 1
SR-BANK

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INTRODUCTION

SpareBank 1 SR-Bank's information strategy emphasises an extended dialogue with the various stakeholder groups, in which openness, predictability and transparency are vital factors.

The core purpose of the banking industry is to create value by assuming deliberate and acceptable risk. SpareBank 1 SR-Bank therefore invests significant resources in the further development of risk management systems and processes that are in line with leading international practice. Risk and capital management in SpareBank 1 SR-Bank supports the group's strategic development and achievement of goals while ensuring financial stability and sound asset management.

This document has been prepared to provide the market with the best possible information on SpareBank 1 SR-Bank's risk and capital management. It is also intended to satisfy the stipulated requirements concerning the disclosure of risk information in accordance with the Norwegian Capital Requirements Regulations. This document is updated each year with the exception of information on capital adequacy and the minimum regulatory capital requirements, which is updated quarterly. This information is updated in separate appendices.

The Capital Adequacy Regulations consist of three pillars. Pillar 1 specifies requirements for banks' capital and describes the measurement methods for risk weighted volume. This report contains information on the methods used for calculating capital requirements for credit risk, market risk and operational risk according to Pillar 1. Pillar 2 describes banks' responsibility to assess and maintain capital for other risks than those covered in Pillar 1. This report also contains a description of SpareBank 1 SR-Bank's internal methods for risk and capital management according to Pillar 2. The ICAAP process is a part of Pillar 2 and is described in the chapter on risk and capital management. Pillar 3 describes the requirements for banks' disclosure of information. In Pilar 3, banks must disclose information that enables the reader to assess the bank's risk profile, capitalisation and management and control of risk.

In January 2015, the Basel Committee published revised requirements for Pillar 3 reporting. The new requirements must be implemented by the end of 2016. They have not yet been implemented in the EU. SpareBank 1 SR-Bank will report according to the revised requirements as of the end of 2016.

THE YEAR 2015

SpareBank 1 SR-Bank wants to boost growth and development in the region of which the group is a part. An overall assessment of the group's financial position and positive development in recent years indicates that the group is well placed to do so.

The decline in oil prices that began in the last half of 2014 continued in 2015 and has sent ripple effects through sectors and segments of the economy not directly associated with the petroleum sector. Lower oil prices lead to a fall in the profitability of investments in the petroleum sector, which has led to a substantially increased focus on cost reduction and rationalisation in exposed sectors. Furthermore, companies in other sectors – such as the building and construction sector and to some extent the retail sector – show signs of lower activity. The effects of the fall in oil prices are naturally strongest in regions with close links to the petroleum sector. One consequence of the low level of activity has been an increase in unemployment, particularly in regions with close links to the oil sector, but also nationwide. By the end of January 2016, registered unemployment in Norway was 3.4%, while it was 4.9% and 3.5% in Rogaland and Hordaland, respectively. Furthermore, prices for residential and commercial property fell in Rogaland and in January 2016 housing prices in Stavanger were 6% lower than a year earlier. At the same time, housing prices nationwide increased by 5.2%.

Lower activity in the petroleum sector and other sectors, higher unemployment and lower prices for residential and commercial property are all factors that affect SpareBank 1 SR-Bank's risk exposure. Lower activity in the business sector and higher unemployment may lead to an increase in defaults and higher losses for the group. Furthermore, lower property prices may reduce the value of collateral, which could increase loan-to-value for customers. However, SpareBank 1 SR-Bank is well positioned to meet this greater uncertainty in the market and in recent years the group has reinforced its financial strength, reduced the concentration risk associated with major commitments, reduced liquidity risk, and improved its deposit coverage ratio and access to capital.

SpareBank 1 SR-Bank's common equity tier 1 capital ratio has increased from NOK 4.6 billion in 2008 to NOK 15.8 billion in 2015. This represents an increase in the common equity tier 1 capital ratio of 7.5 percentage points – from 5.8% in 2008 to 13.3% in 2015. Furthermore, the concentration risk has been substantially reduced over the recent years. The group's exposure to major commitments[1] has been reduced from 333% of tier 1 capital in 2007 to 119% in 2015. Liquidity risk has been reduced through a more balanced maturity structure and more diversified funding. SpareBank 1 SR-Bank has also increased its deposit coverage ratio[2] in recent years, from 46.7% in 2014 to 48.6% in 2015.

SpareBank 1 SR-Bank's overall risk exposure is moderate. Credit risk represents a significant part of the group's risk, and the inherent credit risk has increased due to the current macroeconomic situation. However, the credit quality of SpareBank 1 SR-Bank's portfolio is good and well diversified, and appears robust in a demanding market.

The retail market accounts for 66% of SpareBank 1 SR-Bank's total loan exposure. The retail market portfolio is of high quality and has a low loss potential. A substantial part of the portfolio is secured against a mortgage on real estate, and lending is overall moderate compared to asset value.

The corporate market accounts for 34% of SpareBank 1 SR-Bank's total loan exposure. The quality of the portfolio is considered to be good. The average probability of default has developed positively over time, largely due to a stronger risk profile in the existing customer base. The group's largest industry concentration is targeted at commercial property, which at the end of 2015 represents 13.6% of SpareBank 1 SR-Bank's total loan portfolio (EAD). The portfolio of property intended for rental primarily consists of long-term leases with financially solid tenants. The proportion

[1] Defined as the 20 largest consolidated commitments in accordance with 'Forskrift store engasjementer'.

[2] Deposit coverage ratio including SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS.

of vacant space is limited and interest rates have been hedged for a significant portion of the portfolio. Furthermore, 8.7% of the total loan exposure is related to petroleum operations, of which loans related to offshore operations constitute 5.1%. The portfolio related to offshore is well diversified and exposure is mostly targeted at industrially focused companies with strong ownership and integrated organisations.

In February 2015, the Financial Supervisory Authority of Norway granted SpareBank 1 SR-Bank permission to use the advanced IRB approach for calculating regulatory capital requirements for credit risk within the corporate market. SpareBank 1 SR-Bank already has permission to use the advanced IRB approach in the retail marked portfolio.

In the second quarter of 2015, SpareBank 1 SR-Bank established the wholly owned special bank subsidiary SR-Boligkreditt AS. The company's sole purpose is to issue bonds backed by mortgages acquired from SpareBank 1 SR-Bank. The establishment of the company will ensure diversified and optimal funding for SpareBank 1 SR-Bank.

SpareBank 1 SR-Bank wants to boost growth and development in the region of which the group is a part. An overall assessment of the group's financial position and positive development in recent years indicates that the group is well placed to do so.

SPAREBANK 1 SR-BANK ASA

SpareBank 1 SR-Bank is currently Norway's leading limited savings bank with total assets of NOK 172 billion[3].

SpareBank 1 SR-Bank has been one of the most profitable banks in the Nordic region over the past fifteen years. The group's market area is Rogaland, Hordaland and the Agder counties, and it has approximately 280,000 customers. There are 1,150 employees.

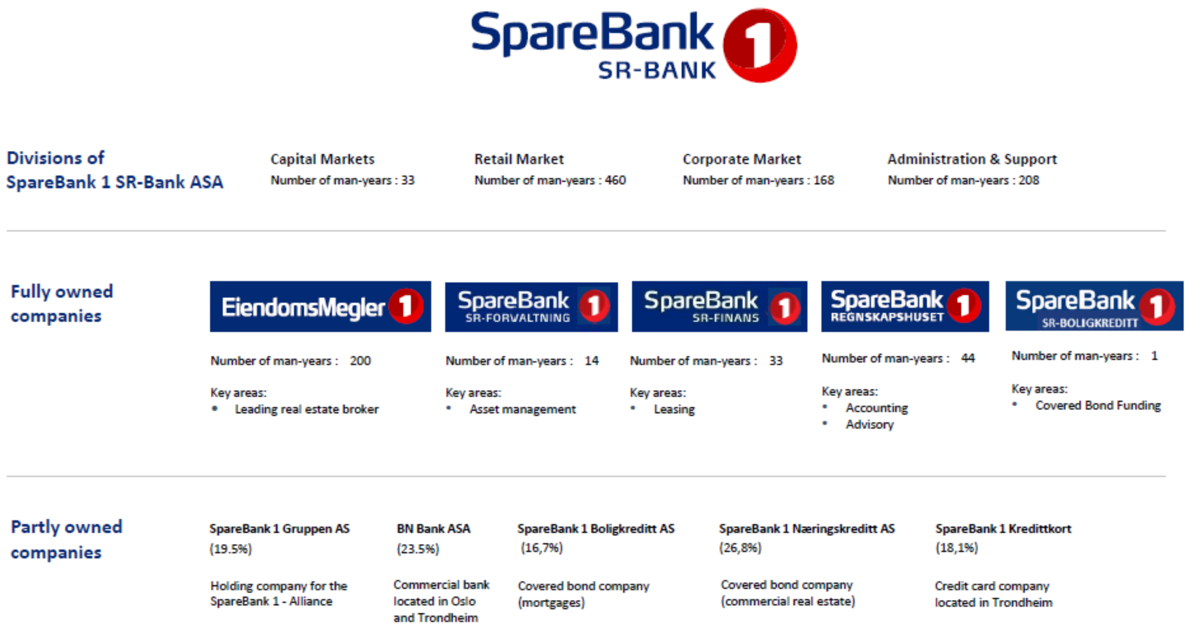
SpareBank 1 SR-Bank is a financial group with a complete product range in the retail market, corporate market and the public sector.

In addition to banking, the group has expertise in funding, foreign exchange advice, funds management, securities trading, insurance, real estate brokering and financial counselling. The group's head office is in Stavanger.

SpareBank 1 SR-Bank's goal is to be the customer's number one choice in Southern and Western Norway, and to boost growth and development in the region. This is achieved by being closer to people and businesses than the competitors. Being closer to people and businesses means knowing the people, businesses and markets in the region better. SpareBank 1 SR-Bank also wants to ensure it has a sustainable and profitable business model, with innovation, digitisation and cost efficiency as key strategic focus areas in the coming years.

An overview of the companies in the SpareBank 1 SR-Bank group is provided in the figure below.

Figure 1: Fully and partly owned companies in the SpareBank 1 SR-Bank group as of 31 December 2015



[3] Excluding portfolios transferred to SpareBank 1 Boligkreditt AS and SR-Boligkreditt AS

SPAREBANK 1 ALLIANCE

The SpareBank 1 Alliance is one of the largest providers of financial products and services in the Norwegian market.

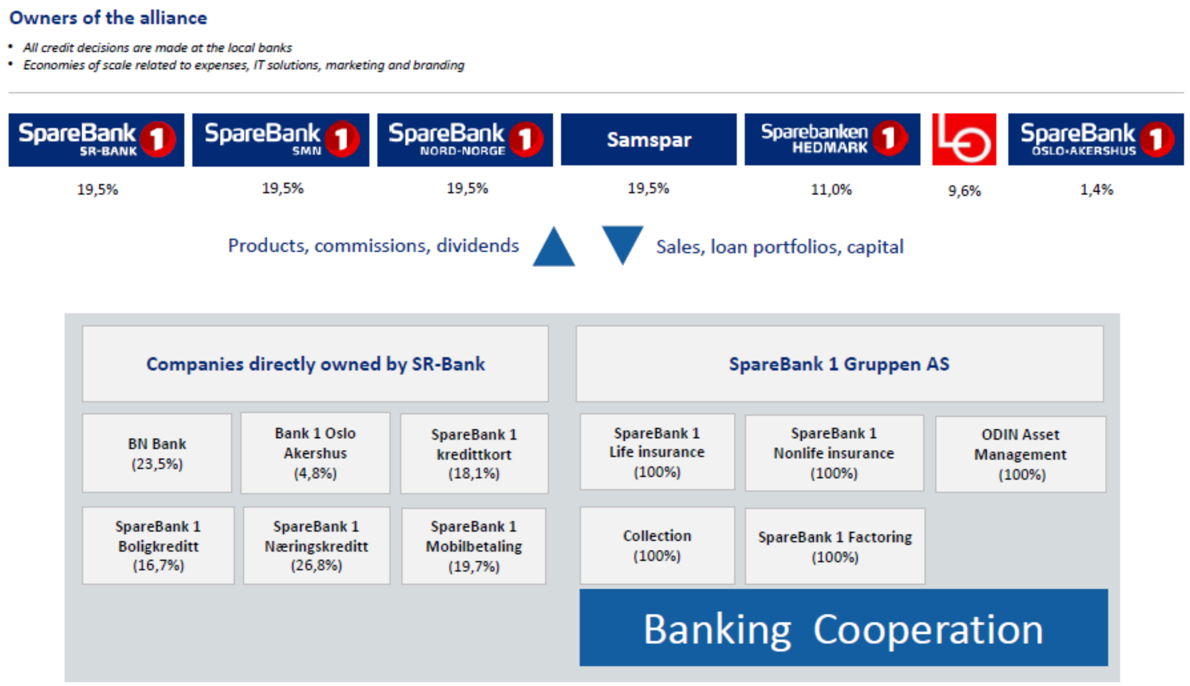
The SpareBank 1 Alliance is a banking and product alliance in which the SpareBank 1 banks in Norway cooperate through the jointly owned holding company SpareBank 1 Gruppen AS.

The independent banks in the alliance are SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Nord-Norge, Sparebanken Hedmark, and Samarbeidende Sparebanker (Samspar). The banks in the SpareBank 1 Alliance distribute financial products from jointly owned companies and collaborate in key areas such as brands, work processes, skills development, IT operations, systems development and purchasing. The SpareBank 1 Alliance has entered into strategic agreements with the Norwegian Federation of Trade Unions (LO) and affiliated trade unions.

The SpareBank 1 Alliance's main goal is to ensure each bank's independence and regional affiliation through strong competitiveness, profitability and financial strength.

The product companies in the SpareBank 1 Alliance are owned by the banks through the holding company SpareBank 1 Gruppen AS. The figure below summarises the ownership structure of the SpareBank 1 Alliance.

Figure 2: SpareBank 1 Alliance as of 31 December 2015



CAPITAL REQUIREMENTS

SpareBank 1 SR-Bank has significantly strengthened its capital adequacy over the past years.

Capital Adequacy Requirements

Financial supervisory authorities regulate financial institutions in order to ensure they assess and handle risk in an effective and sound manner and at the same time are solid and robust enough to withstand fluctuations and shocks in the economy. The capital adequacy Requirements are one way doing this.

The capital adequacy requirements, Basel I, which focused on minimum requirements for risk-weighted capital, were introduced in 1988. Weaknesses in Basel I resulted in the introduction of the EUs capital adequacy directive's Basel II on 1 January 2007. Basel II was introduced as a continuation and replacement of Basel I with the purpose of strengthening the financial system through better risk management and control, more risk sensitive capital requirements, closer supervision and more information to the market. Basel II builds on three pillars:

- **Pillar 1**: Minimum requirements for primary capital. Pillar 1 is a development and expansion of the already existing requirements of Basel I.
- **Pillar 2**: Requirements for risk management and internal control, including requirements for internal processes for assessment of risk exposure and capital needs (ICAAP). Under Pillar 2 the supervisory authorities may impose requirements for additional capital if they find that the other requirements do not adequately capture the underlying risk in the institution.
- **Pillar 3**: Requirements for reporting and disclosing financial information. The intention of the pillar is to have a disciplinary effect on risk-taking actors.

Under Basel I and II, the minimum primary capital requirements are set at 8% of the basis for calculation, which, according to Basel II, is calculated for credit, market and operational risk.

The introduction of Basel II gave banks an opportunity to use internal methods for calculating credit risk (IRB). Using internal methods for calculating credit risk reduces the basis for calculation, and thereby lowers primary capital requirements for achieving the same capital adequacy as with the standard method. The Basel I floor was implemented to ensure that the difference in capital needs calculated using the internal or standard method would not get too big. The Basel I floor is set at 80% of primary capital requirements under the Basel I regulations.

After the financial crisis in 2008, the European Commission proposed a new capital requirement directive in the EU, CRD IV. CRD IV is based on the international recommendations in Basel III of the Basel Committee on Banking Supervision, and includes stricter requirements for primary capital and capital buffer requirements. For Norwegian credit institutions, CRD IV took effect from July 2014, with a gradual implementation until 1 July 2016.

The minimum requirements for primary capital from Basel I and II of 8% are continued in CRD IV. However, the requirements for primary capital are sharpened. Furthermore, requirements for various capital buffers that go beyond this minimum requirement and constitute the *combined buffer requirements* were introduced.

Primary capital

According to the Norwegian Public Limited Liability Companies Act, all companies must at all times have equity commensurate with the risk and scope of the activities of the company. In Pillar 1, the Capital Requirements Regulations define minimum requirements for the following risk types: credit, market, and operational risk.

The different methods for calculating the minimum primary capital requirements in Pillar 1 are presented in the figure below.

Figure 3: Alternative methods for calculating the minimum primary capital requirements

* The methods require the approval of the Financial Supervisory Authority of Norway

The minimum primary capital requirements (also known as regulatory capital) amount to 8% of weighted balance (the basis for calculation). In principle, there are two different approaches to calculating the minimum primary capital requirements according to the capital adequacy regulations. The first approach is based on standardised rules, while the second one is based on the use of internal models (IRB). Using internal models, the regulatory minimum capital requirement is based on the bank's internal risk evaluations. Consequently, the statutory minimum capital adequacy requirement is more risk sensitive, such that the capital requirement corresponds more closely to the risk in the underlying portfolios or activities.

SpareBank 1 SR-Bank has permission to use internal models for calculating necessary requirements for capital on credit risk in both the retail (IRB mass market) and in the corporate market (advanced IRB method). This entails that internal models are used in calculating the risk parameters probability of default (PD), conversion factor (CF), used in determining exposure at default (EAD), and loss given default (LGD).

The IRB system includes all the models, work and decision processes, control mechanisms, IT systems and internal guidelines used in the measurement and management of credit risk. SpareBank 1 SR-Bank's objective with the IRB system is to provide a basis for sound risk management and ensure satisfactory capital adequacy according to the risk the group undertakes. The IRB system affects a substantial part of the group's operations and since its implementation in 2007 the system has helped improve the quality of risk management in SpareBank 1 SR-Bank considerably.

Plans have been drawn up for a transition to the IRB approach in the subsidiary SpareBank 1 SR-Finans AS, but the portfolio reports will be based on the standard method for the time being. The company's principal activities are lease funding and secured car loans.

The internal measurement methods that are used for internal risk management are reviewed in the chapter on risk and capital management in SpareBank 1 SR-Bank. Regulatory calculations of risk exposure and capital requirements are calculated using the same systems and models that are used for internal risk management, but with individual differences in models and model parameters. The effect of these differences is illustrated in table 32 in the appendix.

The table on the next page shows the main methods used by SpareBank 1 SR-Bank when calculating the minimum primary capital requirements for credit, market and operational risk.

Table 1: SpareBank 1 SR-Bank's methods for calculating minimum regulatory capital requirements

Type of risk	Portfolio	Regulatory method
Credit risk	States – parent bank	Standard method
	Institutions – parent bank	Standard method
	Housing cooperatives, clubs and associations – parent bank	Standard method
	Enterprises – parent bank	Advanced IRB
	Mass market – parent bank	IRB - Mass market
	SpareBank 1 SR-Finans AS – subsidiary	Standard method
	SpareBank 1 SR-Investering AS – subsidiary	Standard method
	SpareBank 1 SR-Forvaltning AS – subsidiary	Standard method
	Mass market - SpareBank 1 Boligkreditt AS	IRB - Mass market
	SR-Boligkreditt AS	IRB - Mass market
	Enterprises – SpareBank 1 Næringskreditt AS	Standard method
	Enterprises – BN Bank AS	Advanced IRB
	Mass market – BN Bank AS	IRB - Mass market
Market risk	Equity risk – parent bank	Standard method
	Debt risk – parent bank	Standard method
	Currency risk – parent bank	Standard method
	Subsidiaries and part-owned companies	Standard method
Operational risk	SpareBank 1 SR-Bank including subsidiaries	Standardised approach
	Other part-owned companies	Standard method

As of 31 December 2015, SpareBank 1 SR-Bank owns stakes in the following companies:

- SpareBank 1 Boligkreditt AS 16.7%
- SpareBank 1 Næringskreditt AS 26.8%
- SpareBank 1 Kredittkort AS 18.1%
- BN Bank ASA 23.5%

SpareBank 1 SR-Bank's share of the capital requirements in these companies is consolidated in SpareBank 1 SR-Bank's capital adequacy reporting based on the group's stake.

SpareBank 1 SR-Bank also owns 19.5% of SpareBank 1 Gruppen AS. That part of the investment in SpareBank 1 Gruppen's book value that exceeds 2% of SpareBank 1 Gruppen's regulatory capital is deducted from the regulatory capital and basis for calculation in SpareBank 1 SR-Bank.

Combined buffer requirements

Basel III introduces requirements for combined buffer capital that exceed the minimum primary capital requirements. These are the capital conservation buffer, systemic risk buffer, countercyclical buffer and buffer for systemically important institutions.

Capital conservation buffer (2.5%): The requirement for a capital conservation buffer of 2.5% of the bank's basis for calculation remains constant throughout all economic cycles. The purpose of this buffer is to ensure that banks build up capital in economic booms in order to prevent the capital falling below the minimum requirement in periods of recession.

Systemic risk buffer (3%): System risk is defined as the risk that financial instability will result in disruptions in the provision of financial services of a scope that could give significant negative effects for production and employment. The objective of the system risk buffer of 3% is to dampen the negative effects of financial instability.

Countercyclical buffer (0-2.5%): The countercyclical capital buffer was set at 1% in 2015, but, effective from 30 June 2016, it will increase to 1.5%. The Ministry of Finance sets the level of the countercyclical buffer based on Norges Bank's advice, and the size of the buffer depends on the economic situation.

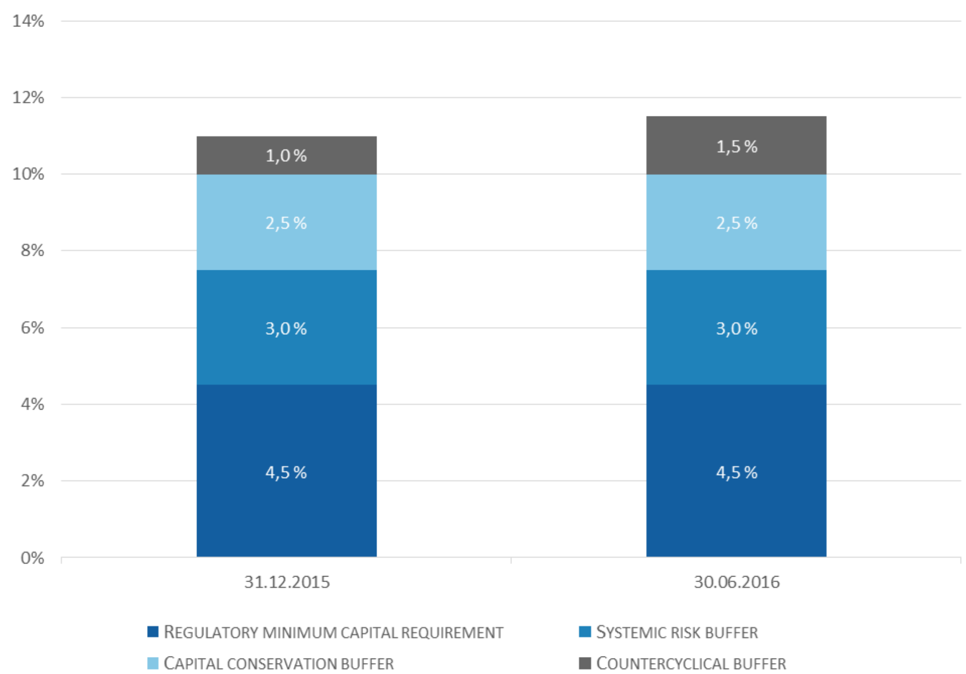
The objective of the countercyclical buffer is to make the institutions even more solid and resistant to lending losses in a future recession and to reduce the risk that banks will reinforce a potential recession by reducing their lending.

Buffer for systemically important institutions (1-2%): Mortgage companies that are defined as systemically important by the Norwegian authorities will be subject to an extra buffer requirement of between 1-2%. In general, institutions with total assets of at least 10% of mainland Norway's GDP, or at least a 5% share of the market for loans, will be defined as systemically important institutions. SpareBank 1 SR-Bank is not defined as systemically important.

Furthermore, the Financial Supervisory Authority of Norway will determine individual requirements for a Pillar 2 addition for Norwegian banks. The objective of the Pillar 2 requirement is to identify capital needs related to risks that are not entirely or at all covered by the capital requirements in Pillar 1. Banks must assess their risk and associated capital requirements, which provides the Financial Supervisory Authority with a basis for determining individual Pillar 2 requirements. As of yet, no set Pillar 2 requirement for SpareBank 1 SR-Bank has been communicated.

The figure below shows the regulatory capital adequacy requirements applicable to SpareBank 1 SR-Bank. By the end of 2015, the formal requirement for common equity tier 1 ratio for non-systematically important institutions was 11%. Following the intended increase in the countercyclical capital buffer, valid from 30 June 2016, the formal requirement for common equity tier 1 ratio will be 11.5%.

Figure 4: Regulatory capital adequacy requirements according to Pillar 1 as of 31 December 2015

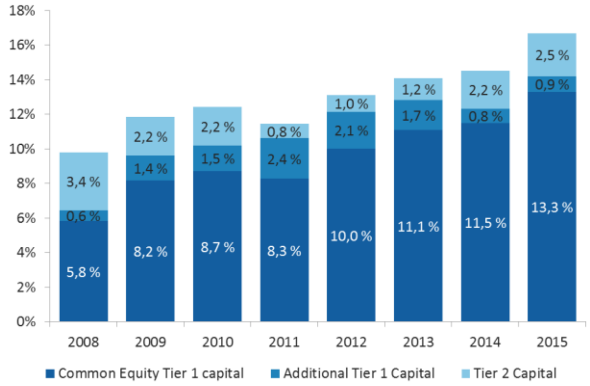


Actual capital adequacy

SpareBank 1 SR-Bank has significantly strengthened its common equity tier 1 capital over the last few years. It has increased from NOK 4.6 billion in 2008 to NOK 15.8 billion in 2015. By the end of 2015, its common equity tier 1 ratio was 13.3% and its capital adequacy ratio was 16.7%, compared to 11.5% and 14.5% in 2014 respectively. Included in these calculations is the transition rule (Basel I floor), which says that the capital adequacy determined by using internal models cannot be less than 80% of the capital adequacy determined by the Basel I regulations. The increase in the common equity tier 1 ratio of 1.8 percentage points from 2014 to 2015 can partly be attributed to SpareBank 1 SR-Bank receiving permission to use the advanced IRB method when calculating capital requirements in the corporate market in the first quarter of 2015. Furthermore, the transition to a new pension scheme contributed to some of the observed increase in the common equity tier 1 ratio.

The figure below shows the development in capital adequacy in the period 2008-2015.

Figure 5: Capital adequacy



The table below shows SpareBank 1 SR-Bank's fulfilment of the minimum requirements for common equity tier 1 capital, as well as the combined buffer requirements, at the end of 2015.

Table 2: SpareBank 1 SR-Bank fulfilment of the capital adequacy requirements by the end of 2015

	Current rate	**31.12.2015**	**31.12.2014**
Risk weighted assets		**119,124**	120,189
Common equity tier 1 capital requirement	*4.5%*	**5,361**	5,409
Buffer requirements			
Capital conservation buffer	*2.5%*	**2,978**	3,005
Systemic risk buffer	*3.0%*	**3,574**	3,606
Countercyclical buffer	*1.0%*	**1,191**	
Total buffer requirements for common equity tier 1		**7,743**	6,610
Surplus common equity tier 1 after buffer requirements		**2,690**	1,798
Capital adequacy		**16.7%**	14.5%
of which core capital		**14.2%**	12.3%
of which supplementary capital		**2.6%**	2.2%
Common equity tier 1 ratio		**13.3%**	11.5%

Leverage ratio

In addition to the stricter requirements for primary capital and combined buffer requirements, the Basel Committee suggested the introduction of leverage ratio as a supplementary capital target in the capital adequacy based on risk-weighted basis for calculation in 2011[4]. A minimum requirement of 3% was the basis in this proposal, as well as a trial period from 2013-2017 in which the level and design should be further evaluated. No specific levels for leverage ratio have yet been set by the Basel Committee, and thus not by the Norwegian authorities. Given the uncertainty associated with the future requirements for leverage ratio, SpareBank 1 SR-Bank will wait before setting a specific target for the capital requirement.

As of the end of 2015, SpareBank 1 SR-Bank had a leverage ratio of 6.3%.

[4] Core capital as a proportion of the exposure target (including exposure outside of the balance sheet)

RISK AND CAPITAL MANAGEMENT IN SPAREBANK 1 SR-BANK

The core purpose of the banking industry is to create value by assuming deliberate and acceptable risk. SpareBank 1 SR-Bank therefore invests significant resources in the further development of risk management systems and processes that are in line with leading international practice.

Purpose

Risk and capital management in SpareBank 1 SR-bank shall create financial and strategic added value by:

- Having a strong risk culture characterised by a high awareness of risk management and the group's core values
- Having a good understanding of which risks drive earnings and losses
- Ensuring, insofar as it is possible, that activities and products are priced according to the underlying risk
- Having adequate solvency according to the chosen risk profile, as well as striving for optimal capital application within the various business areas
- Exploiting diversification effects
- Avoiding single events seriously harming the group's financial position

Overall risk exposure

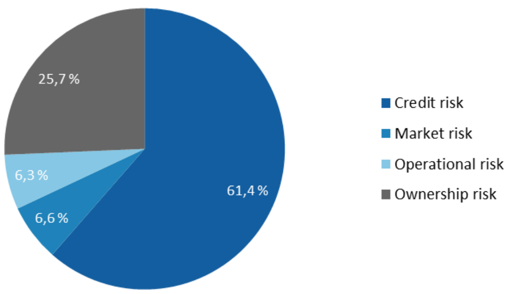
SpareBank 1 SR-Bank is exposed to various types of risk, and the most important ones are:

- **Credit risk:** the risk of loss resulting from the customer's or counterparty's inability or unwillingness to fulfil their obligations
- **Market risk:** the risk of loss due to changes in observable market variables such as interest rates, foreign exchange rates and securities markets
- **Operational risk:** the risk of losses due to weak or inadequate internal processes or systems, human error or external incidents
- **Liquidity risk:** the risk that the group is unable to refinance its debt or does not have the ability to fund increases in assets without significant additional costs
- **Ownership risk:** the risk that SpareBank 1 SR-Bank bears if it suffers negative results from stakes in strategically owned companies and/or the needs to inject fresh capital into these companies. Owned companies are defined as companies in which SpareBank 1 SR-Bank has a significant stake and influence
- **Business risk:** the risk of unexpected income and cost variations due to changes in external factors such as market conditions or government regulations
- **Reputation risk:** the risk of a failure in earnings and access to capital because of lack of trust and reputation in the market, i.e. customers, counterparties, stock market and authorities
- **Strategic risk:** the risk of losses due to unsuccessful strategic decisions
- **Compliance risk:** the risk that the group incurs public sanctions/penalties or financial loss as a result of failure to comply with legislation and regulations

One of the ways in which the group's risk is quantified is through the calculation of risk-adjusted capital. Risk-adjusted capital describes how much capital the group believes it needs to cover the risk the group has actually assumed. Since it is impossible to fully protect against all losses, the group has stipulated that the risk-adjusted capital shall cover 99.9% of potential unexpected losses.

The figure below shows risk-adjusted capital by type of risk at the end of 2015.

Figure 6: Risk-adjusted capital by type of risk



Credit risk represents 61.4% of the overall risk picture as measured by the risk-adjusted capital. After credit risk, ownership risk represents the next largest risk category, at 25.7%. Liquidity risk is covered by the group's liquidity buffer and through a diversified maturity structure, and not by risk-adjusted capital.

The process of risk and capital management (ICAAP)

The process of risk and capital assessment in SpareBank 1 SR-Bank builds on the following main principles:

- The board is responsible for the process
- The group's own methods and systems are the foundation for the evaluation of whether the risk level and capital requirement are suitable given the group's operations and risk profile
- The process must be embodied in formal documents
- The process must be proportionate in terms of the group's size, risk profile and complexity
- The process must form an integral part of the management process and the decision-making process
- The process must be regularly reviewed
- The process must be risk based
- The process must include all significant aspects of the operations
- The process must be forward looking
- The process must be based on satisfactory methods and procedures for risk measurement
- The results of the process must be reasonable and explainable

To ensure an effective and suitable process, the framework is based on different elements that reflect the manner in which the board and management manage SpareBank 1 SR-Bank. The main elements are described in the figure below.

Figure 7: Main elements in the risk and capital management process in SpareBank 1 SR-Bank

The group's strategic target

The framework for management and control is based on the group's current strategic target.

Defining the risk profile

The board must, at least once a year, adopt the group's risk profile. SpareBank 1 SR-Bank defines its risk profile by first calculating the group's *capacity* to bear risk and secondly calculating its *willingness* to assume risk. Capacity and willingness to bear risk are defined by the group's results, solidity, liquidity and credit quality, and are set for both a normal business cycle and for a serious economic downturn.

The capacity to bear risk describes the maximum risk exposure the group can bear before it is forced into a possible recovery situation and needs to evaluate necessary recovery measures. The willingness to assume risk defines the group's maximum desired risk exposure from the perspective of its earnings and losses, and given the defined risk capacity. The difference between the capacity and willingness to bear risk expresses the group's safety buffer in relation to ending up in a possible recovery situation. The willingness to assume risk should be significantly lower than the capacity to bear risk.

Risk identification and analysis

The process for risk identification is forward-looking and covers all of the group's significant risk areas.

In areas where the effect of the established control and management measures is not considered satisfactory, improvement measures are implemented. Thorough analyses of the identified risks are conducted in order to understand their characteristics and the effect of established control and measurement measures.

Measures that reduce probability shall take precedence over measures that reduce consequences. Up-to-date documentation should be available for all of the important parts of the group's business areas. This documentation should specify the control and management measures that have been established, levels of risk, and references to any instructions, authorities and specifications. An annual risk strategy is prepared each year on the basis of these risk analysis. The strategy specifies acceptable levels of risk and targets for risk-adjusted returns.

Financial projections

Two financial projections are conducted, at least annually:

- Financial projection of expected financial development over the next five years
- Financial projection in a situation involving serious economic downturn over five years

Financial projection of expected financial development

The financial projection of expected financial development is based on SpareBank 1 SR-Bank's prognosis for the current period. This prognosis mirrors the group's strategic target, business plans, capital requirements and expected macroeconomic development over the coming years.

The purpose of the projection is to demonstrate how this will affect the group's financial development, including the return on equity, the funding situation and capital adequacy.

Financial projection of a serious economic downturn (stress test)

The purpose of the financial projection of a serious economic downturn is to:

- evaluate potential losses based on different economic scenarios
- evaluate the vulnerability of portfolios/activities
- increase the understanding of how a shock would affect the group's profitability, liquidity situation and capital adequacy
- evaluate potential losses based on different strategic possibilities
- identify weaknesses in the group's risk strategies and processes to help develop risk mitigation measures and prepare contingency plans

To assess the consequences of an economic downturn, SpareBank 1 SR-Bank largely focuses on those areas of the economy that affect financial development. These are primarily developments in credit demand, the stock market, the interest rate market, and credit risk. In addition to having an impact on the yield of the underlying assets, an economic downturn will also have an impact on customer savings habits.

Capital allocation

Risk-adjusted return is one of the most important strategic result measurements in SpareBank 1 SR-Bank. Risk-adjusted return is based on the calculation of risk-adjusted capital, which describes what level of capital the group must hold in order to cover an unexpected loss within a year. The calculation is made with a confidence level of 99.9%.

This implies that capital is allocated to business areas in accordance with the calculated risk of the operation. Return on capital is continuously monitored.

Evaluation and measures

The abovementioned financial projections provide the executive management team and the board with sufficient understanding of the risk to make proper strategic choices and at the same time ensure that the group has an acceptable risk profile. Based on the analysis, SpareBank 1 SR-Bank develops capital plans to achieve a long-term and effective capital management and ensure that the group's capital adequacy is acceptable, given the risk exposure and strategic targets.

SpareBank 1 SR-Bank has developed a recovery plan and a contingency plan to handle the solidity and liquidity situation in case the group should find itself in a situation in which there is pressure on the level of the common equity tier 1, and in periods with turbulent financial markets. The recovery plan and contingency plan act as guides to how SpareBank 1 SR-Bank should handle such a situation.

Reporting and follow-up

SpareBank 1 SR-Bank's overall risk exposure and risk trends are reported to the executive management team and the board in periodic risk reports.

The Risk Management and Compliance Department performs general risk monitoring and reporting and the department is independent of the different business units in the group; the department reports directly to the chief executive.

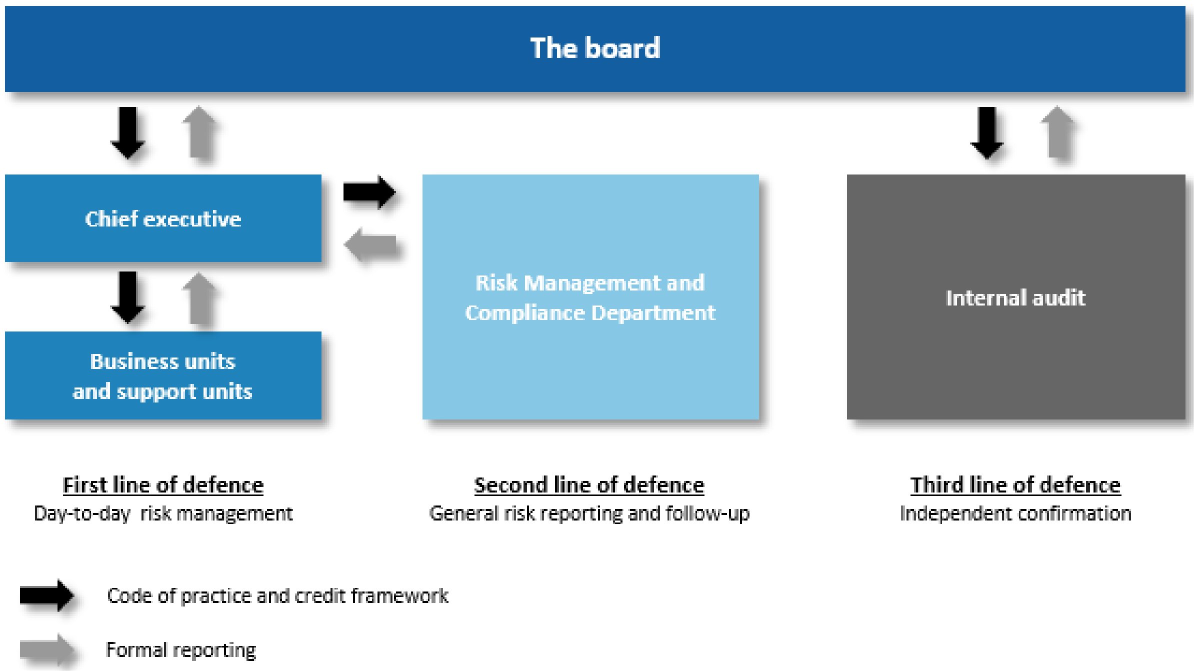
All managers are responsible for the day-to-day risk management within their area of responsibility and must continuously ensure that the risk exposure is within the limits set by the board or chief executive.

Organisation

SpareBank 1 SR-Bank values independence in management and control, and the responsibility is divided between different roles in the organisation. Through the general assembly, the shareholders execute the highest authority in SpareBank 1 SR-Bank.

The group values a control and management structure that encourages targeted and independent management and control

Figure 8: The organisation of risk and capital management



The board of SpareBank 1 SR-Bank bears overall responsibility for the management and organisation of the group, in accordance with laws, statues and regulations. The board is responsible for ensuring that the funds the group administers are managed in a safe and suitable manner. Following this, the board also has an obligation to ensure that accounting and asset management are subject to adequate controls. The members of the board must exhibit sound discretion while exercising its responsibilities and duties.

The board is responsible for ensuring that the group has adequate primary capital given the adopted risk profile and regulatory requirements. The group's board adopts the principal goals such as risk profile, hurdle rates and distribution of capital to the different business units. The board also sets the overarching limits, authorities and guidelines for risk management in the group. The board has adopted a code of conduct that helps to raise awareness and ensure compliance with the ethical standards set for the group.

The boards of the subsidiaries fulfil their duties in the individual companies in line with decisions made by the bank's board. In companies that are wholly owned by SpareBank 1 SR-Bank, a combination in the board that ensures knowledge of industries and good integration with the individual company's business and adjacent segments in SpareBank 1 SR-Bank are sought. Chairman of the individual companies is the one member of the executive management team that has the greatest interface between his or her daily business area and subsidiary's business area. This principle ensures that important issues concerning the group's overall strategy and optimisation throughout the value chain are maintained.

In some companies, up to 40% of the board members are external representatives. This is evaluated in each company, in relation to the balance between the need for external industry skills or ideas versus internal staff who are familiar with the group's overall operations. The group's board has established an audit committee, a remuneration committee and a risk committee. The committees help the board prepare matters for discussion, but decisions are to be made by a gathered board.

The audit committee shall assist the board in carrying out its control tasks and propose measures regarding the bank's framework for managing and control, and the financial reporting.

The remuneration committee shall prepare matters to the board in relation to the board's work relating to the remuneration structures in SpareBank 1 SR-Bank.

The risk committee shall prepare matters for the board regarding the group's overall risk and check that management and control arrangements have been tailored to the risk level and the scale of the business.

The board establishes instructions for the committees.

The chief executive is responsible for the daily management of the group's operations, in line with laws, statutes, authorisations and instructions. Matters that – given the group's situation – are deemed to be of an unusual nature or of great importance to the group are presented to the board. However, the chief executive may decide an issue if authorised to by the board or in cases where the board's decision cannot be waited for without putting the group at a significant disadvantage. The chief executive shall implement the group's strategy and – in collaboration with the board – further develop the strategy. The chief executive reports on the group's operations, position and financial performance to the board every month.

Managers of business areas and support areas are responsible for day-to-day risk management within their area of responsibility and must at all times ensure that the risk management and risk exposure comply with the limits and overarching management principles set by the board or chief executive.

The *Risk Management Department* is independent of the business units and reports directly to the chief executive. The department is responsible for the ongoing development of the framework for risk management, including risk models and risk management systems. The department is also responsible for independently monitoring and reporting risk exposure. The department works closely with the SpareBank 1 Alliance's Centre of Expertise for Credit Models, which is located in SpareBank 1 SR-Bank's headquarters. The Centre of Expertise is responsible for developing and quality assuring credit models in line with leading international practice.

The *Compliance Department* is independent of the business units and reports directly to the chief executive. The department is responsible for ensuring that the group complies with current laws and regulations.

In addition to the abovementioned roles, a number of committees have been established within the area of risk and capital management. The committees assist the chief executive in establishing a basis for making decisions and monitoring.

The Risk and Capital Management Committee is responsible for the overall monitoring of the group's risk profile, funding and capital adequacy situation. The committee also discusses draft versions of risk strategies, capital allocations, validation reports and recommends new risk models. The committee is chaired by the Executive Vice President Risk Management and Compliance and is broadly composed of executive personnel from the business units, the Accounting and Finance Department, the Risk Management Department and the Compliance Department.

The *Balance Sheet Committee* in SpareBank 1 SR-Bank provides advice on the operative management of the bank's balance sheet within the limits set by the bank's board. The committee's main focus is monitoring and control of the factors that directly and/or indirectly affect the bank's funding capacity.

The credit committees are responsible for making independent recommendations to authority holders. When making their recommendations, the credit committees evaluate loan and credit applications based on the current credit strategy, credit policy guidelines, loan granting regulations, and credit review routines. The credit committees attach special importance to the identification of risk in relation to individual applications and carry out an independent assessment of credit risk, which clarifies the consequences for the bank of the various risks.

A number of independent control bodies have also been established:

The internal audit function ensures that the risk management process is result-oriented, effective and functions as intended. The group's internal audit function has been outsourced, and this ensures that the function has the required independence, competence and capacity. The internal audit function reports to the board. The internal audit function's reports and recommendations on improving the group's risk management are continuously reviewed in the group.

The external auditor's primary task is to assess whether the group's annual financial statements have been prepared in accordance with the applicable laws and regulations. Furthermore, the external auditor must ascertain whether the bank's asset management is handled properly and subjected to proper scrutiny. The external auditor is elected by the general assembly, based on the recommendations of the Supervisory Board.

Risk culture

Risk culture includes management philosophy and the people in the organisation with their individual qualities such as integrity, values and ethics. SpareBank 1 SR-Bank believes that a sound risk culture constitutes the foundation of good risk management and is essential to take full advantage of professional policies, procedures and models. In collaboration with the University of Stavanger, SpareBank 1 SR-Bank has developed a model for measuring risk culture through the following characteristics:

- **Clarity:** Does the organisation make it clear to the employees what is expected, what is okay and where the limits are?
- **Transparency:** Is there a perception that unethical actions or other unwanted behaviour will be discovered?
- **Sanctioning:** Is there a perception that it is probable that unethical actions or other unwanted behaviour will have consequences?
- **Discussion opportunity:** Is there room for discussion in order to uncover what is right or wrong?
- **Support:** Are the employees encouraged to act in line with the organisation's values and ethical guidelines?
- **Consistency:** Does the management act in line with the organisation's values and ethical guidelines?
- **Feasibility:** Is there a perception that it is possible to achieve established business goals without breaching guidelines and routines?
- **Organisational learning:** Is the organisation focused and equipped to identify and understand risk, and learn from unwanted incidents?

In 2012, SpareBank 1 SR-Bank conducted a group-wide survey of risk culture for the first time. The survey was conducted again in the autumn of 2015 and the results show that SpareBank 1 SR-Bank has a sound risk culture. The employees view SpareBank 1 SR-Bank as a well-defined organisation that supports and encourages ethical behaviour and with a management that acts in line with the organisation's ethical guidelines.

The results from the survey allow for beneficial discussions in the group, and raised awareness and insight into topics that are normally not discussed as bluntly. The mere fact that such surveys are conducted is therefore in itself considered to be an important contribution in creating a sound risk culture in the organisation.

In addition to the risk culture survey, a general organisation survey is conducted annually. The results from the two surveys are reviewed and discussed with great openness in the organisation, within the management and in the board.

In 2015, a major review was conducted of the group's values compared to the group's strategic platform. In January 2016, the bank's new core values were communicated and heavily publicised throughout the organisation. The new core values present clear directions for how the group will adapt to the new future and build on the group's vision of being the customer's first choice in Southern and Western Norway. One important means of achieving this is by getting closer to people and businesses. Thus, SpareBank 1 SR-Bank has developed specific customer promises based on the values *responsibility* and *respect, commitment* and *vigour.*

CREDIT RISK

Credit risk is the risk of loss resulting from the customers or counterparty's inability or unwillingness to fulfil his obligations.

About credit risk

SpareBank 1 SR-Bank is primarily exposed to credit risk through its loan portfolios in the retail and corporate markets. The group is also exposed to credit risk through the liquidity portfolio. This portfolio mainly consists of low risk commercial paper and bonds that qualify for loans from Norges Bank. The group is further exposed to credit risk through its portfolio in SpareBank 1 SR-Finans AS, which principally consists of leasing and car loans.

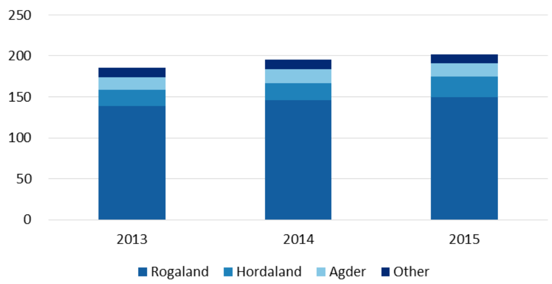
Development in credit risk

In describing credit risk in this paragraph, the following terms are used:

- Probability of default (PD) – the probability for default in a twelve-month period based on a long term outcome[5]
- Exposure at default (EAD) – a calculated size that contains actual exposure and expected exposure for allocated, but not drawn limits at the time of default

The group's primary geographic market areas are Rogaland, Hordaland and Agder. The figure below shows SpareBank 1 SR-Bank's exposure[6], by geographic areas in December 2015.

Figure 9: Exposure (EAD) by geographic market areas

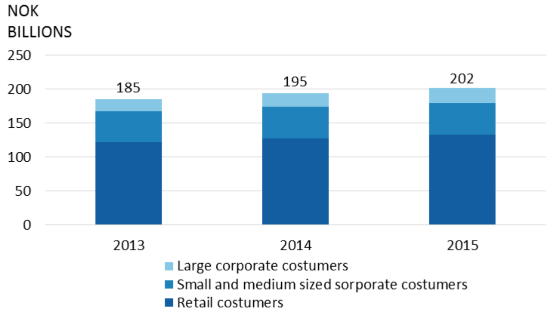


Rogaland is the group's largest market area, with an exposure of NOK 150 billion by December 2015. This amounts to 74% of SpareBank 1 SR-Bank's total loan exposure.

The exposure in Hordaland has increased by NOK 5 billion from 2013, and in 2015 exposure is NOK 25 billion. The exposure in Agder is fairly stable and amounted to NOK 17 billion in December 2015. Exposure outside these market areas is associated with customers who are based in the group's market area.

SpareBank 1 SR-Bank's loan exposure consists of a well-diversified portfolio with both retail and corporate customers. The figure below shows the development in the loan portfolio over the last three years.

Figure 10: Exposure by customer segment



Large corporate customers are defined as single customers with an exposure (EAD) larger than NOK 250 billion. Credit exposure towards large corporate customers has increased with 24% over the last three years, and amounts to NOK 22 billion in December 2015. The small and medium sized corporations group has seen growth of 4% since 2013, and exposure is at NOK 47 billion in December 2015. The largest share of the loan exposure in

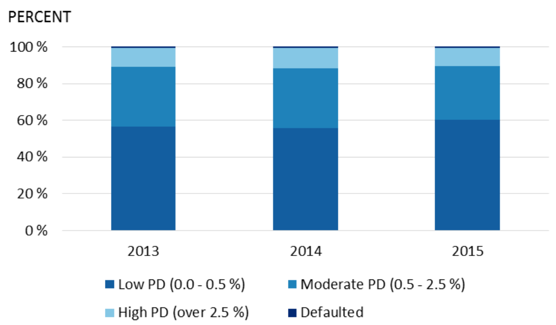
[5] Long term outcome through a full loss cycle, consisting of four periods with normal business cycle and one period with an economic downturn

[6] Parent bank, including portfolios transferred to credit institutions

SpareBank 1 SR-Bank is aimed at retail customers, and loans are mainly financed by mortgages on real estate. Exposure to retail customers has grown with 9% from 2013, and by the end of 2015 it amounted to NOK 133 billion. 98% of loan exposure in the retail market consists of loans that are smaller than NOK 10 million.

A clearly defined framework that sets limitations on what is financed, and under which conditions, helps to ensure that the portfolio remains robust. The figure below shows that SpareBank 1 SR-Bank has a solid portfolio with a positive development in risk profile.

Figure 11: Loan portfolio by probability of default (PD) [7]



The share of loan exposure on customers with a probability of default (PD) lower than 0.5% has grown since 2013, and amounts to 60% of the total loan portfolio in 2015. These customers are risk classified in the default classes A, B or C. The share of the loan exposure with moderate PD is 29% in 2015, which is a reduction from 2013 when the share was 32%. These customers are risk classified in the default classes D, E or F.

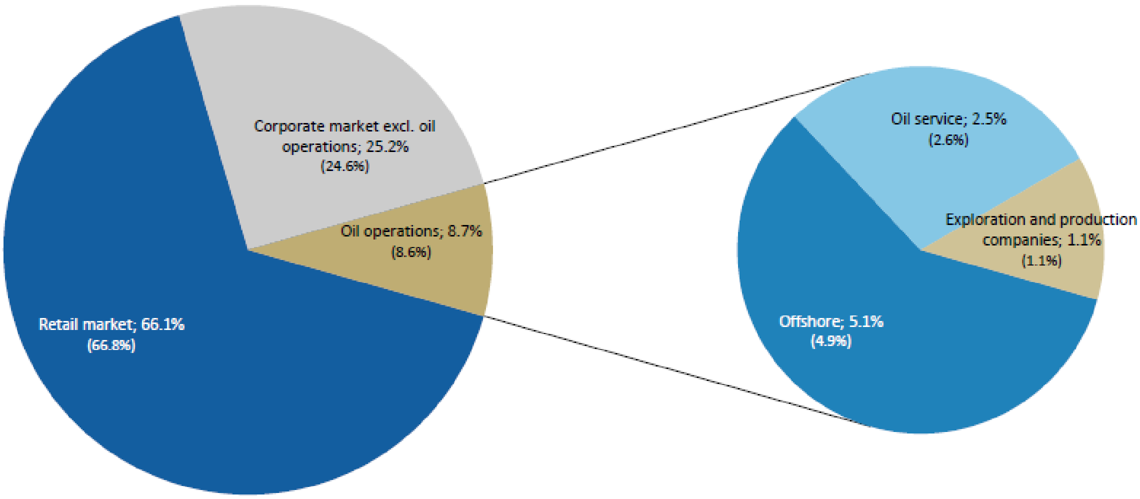
In SpareBank 1 SR-Bank, there is a significant focus on following up customers with a PD higher than 2.5%. In December 2015, 10% of the loan exposure relates to customers with a PD higher than 2.5%. These customers are risk classified in the default classes G, H or I. Exposure towards customers in default amounts to 0.7% of total loan portfolio in SpareBank 1 SR-Bank in December 2015.

The composition of the portfolio is based on a clearly defined strategy in which the growth and risk profile are managed, for example, through special credit strategy limits for concentration risk. The concentration risk has been significantly reduced in the last few years in line with the risk strategy guidelines set by the board. In particular, there has been a heavy focus on reducing the proportion of commitments with the potential to produce significant losses.

SpareBank 1 SR-Bank has a well-diversified portfolio. By the end of 2015, 8.7% of total loan exposure is on oil related operations. The figure below shows the loan exposure on oil operations as of December 2015. Numbers in parentheses are as of December 2014.

[7] For retail customers, there are different requirements for a long term outcome for probability of default (PD), internal and regulatory. The figure shows the loan portfolio with internal PD estimates

Figure 12: SpareBank 1 SR-Bank's loan exposure by sector



Oil operations

Offshore accounts for the largest share of loan exposure within the group of oil related operations. Total exposure in offshore was NOK 10.4 billion in December 2015, which was equivalent to 5.1% of the group's total exposure. The exposure was primarily towards industrial-oriented shipping companies with strong ownership and integrated organisation.

Oil service accounted for 2.5% of loan exposure in SpareBank 1 SR-Bank in December 2015, which is equivalent to an exposure of NOK 5 billion. The exposure mostly comes from funding operating capital through current and fixed assets, as well as guarantees.

The exposure to exploration and production companies was NOK 2.2 billion as of December 2015. This equals 1.1% of the group's total loan exposure.

Corporate market exclusive oil operations

The corporate market, exclusive of oil operations, accounts for 25.2% of SpareBank 1 SR-Bank's total loan exposure.

The portfolio of commercial property represents the group's largest concentration towards a single industry, and amounts to 13.6% of total loan exposure (EAD). The portfolio is characterised by lending to commercial properties for leasing with long-term contracts and financially solid tenants. A PD model for companies in commercial real estate for rent was implemented in the internal portfolio management in November 2015. The model calculates expected future cash flow based on current leases and costs related to operations and maintenance, as well as costs related to financing. Furthermore, the model calculates the market value of the property/properties. The information in the PD model enables the comprehensive surveillance of the commercial property portfolio, which makes it possible to intervene early if there are signs of a negative development.

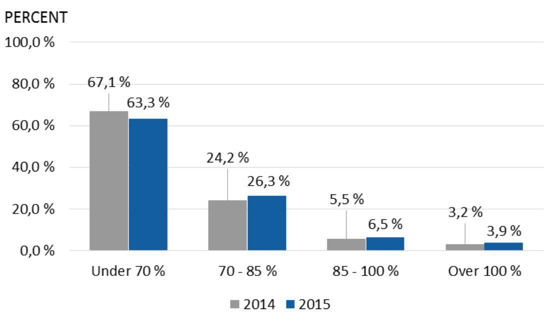
As of December 2015, more than half the leases have a remaining maturity of five years or longer, and the vacancy rate is limited. Interest rates for a significant part of the portfolio are hedged. The sector is affected by the repercussions of the fall in oil prices. Properties in Forus, outside Stavanger, have been particularly affected. There are currently no signs indicating that the development has had negative consequences for the commitments in SpareBank 1 SR-Bank's portfolio.

Retail customers

Retail customers account for 66% of SpareBank 1 SR-Bank's total loan portfolio. The retail market portfolio is considered to be of high quality and has a low loss potential. A substantial part of the portfolio is secured by mortgages on real estate and the loans are generally moderate compared to asset value. Exposure to other retail customers, without a mortgage on real estate accounts for 0.6% of the retail market portfolio. The low risk profile in the portfolio is achieved by careful customer selection and the requirement for a moderate loan-to-value ratio.

The figure below shows the development in loan-to-value ratio between 2014 and 2015. The calculation of loan-to-value ratio is based on the collateral's market value and is shown as total distributed loan-to-value ratio. In the case of total-distributed loan-to-value ratio, the entire loan is allocated to the same interval.

Figure 13: Loan-to-value ratio (LTV) retail market portfolio - total distributed (including portfolio transferred to SpareBank 1 Boligkreditt AS and SR-Boligkreditt AS)



The figure shows that the proportion of loans with a loan-to-value ratio of more than 85% is high. At the end of 2015, 89.6% of the loan exposure is within 85% of the loan exposure.

The loan exposure has grown in 2015, while the market values of real estate in Rogaland have fallen slightly. This combined has led to a reduction in the proportion of loans within 70% of the market value since 2014.

SpareBank 1 SR-Bank's lending practices are in compliance with applicable regulations and no significant changes were made to the bank's lending practices in 2015.

Managing credit risk

The overall credit strategy establishes that the group shall have a moderate risk profile. The credit risk is managed through limitations for granting credit, follow-up of commitments and portfolio management.

Credit culture

SpareBank 1 SR-Bank is one of the leading players in Norway within managing credit risk. This is achieved through local knowledge about the customer, the use of robust credit models and credit analyses, and by stipulating clear requirements concerning the employees' qualifications and attitudes where the ability to recognise risk and willingness to learn from experience is emphasised.

In credit appraisals, special importance is attached to whether the customer's activities comply with current laws and regulations, whether the customer's activities have a long-term perspective, and whether the customer has both the necessary ability to pay and robust equity given the nature of their activities. The process of granting credit involves a clear division of responsibilities where cooperation should ensure the best possible basis for making decisions, but where actual decisions about credit are made on an individual basis.

The ability to comply with our own guidelines and in this way avoid financing commitments that conflict with these is especially important. There is, therefore, a heavy focus on ensuring the credit staff's active use of, and compliance with, a framework for managing credit risk is in line with best practice in this area. Compliance is also specifically monitored by independent representatives of the corporate risk management team, both through ongoing participation in the various credit committees and through independent reporting from the work of the credit committees.

Credit strategy

The group's primary market areas for risk exposure are Rogaland, the Agder counties and Hordaland. The general credit strategy stipulates that the group shall have a moderate risk profile where no single event shall be capable of seriously harming the group's financial position.

The group's credit strategy consists of general credit strategy limits for ensuring a diversified portfolio and a satisfactory risk profile. This limits the probability of default, expected losses, risk-adjusted capital and how high the total loan exposure can be in the corporate market. Portfolios that have been, or are going to be, transferred from SpareBank 1 SR-Bank to the mortgage companies, SpareBank 1

Boligkreditt AS, SR-Boligkreditt AS and SpareBank 1 Næringskreditt AS, are included in the abovementioned credit strategic framework.

There are also specific limits for the corporate market for the maximum share of risk-adjusted capital for individual sectors, the group of major customers, and maximum exposure to high risk customers, respectively. Specific limits have also been established to limit the maximum loss from a single customer. A single customer in this context includes commitments with one or more counterparties, when specific influence or financial links between the companies imply that financial difficulties in one of the companies is likely to result in payment difficulties for one or more others. The framework has been established to secure a diversified portfolio within the corporate market.

The credit strategic framework has been established by the board and any breaches from it must, therefore, be presented to the board for approval. The Risk Management Department reports on the development of the strategic credit framework to the board every quarter.

Credit political guidelines

The group's credit policy guidelines stipulate minimum requirements that apply to all types of financing, except commitments granted as part of the exercise of special credit hedging authorities. In addition to the general credit policy guidelines, a set of more specific credit policy guidelines related to sectors or segments that can entail a special risk have been prepared. The credit policy guidelines are revised at least once a year, and are approved by the chief executive and reported to the board.

Credit authority regulations

The board is responsible for the group's granting of loans and credit, but delegates the responsibility to the chief executive, within certain limits. The chief executive then delegates these responsibilities within his own authority. Delegated credit authority is linked to a commitment's probability of default and collateral value. The authorities are personal. This means that the credit committees do not have decision-making authority, but make recommendations to the authority holder. If there are no recommendations from credit committee, the authorisation limits will be halved. In general the authorities are ample if a commitment's expected loss and probability of default indicate a low risk, but they will be restricted progressively with increasing risk. The credit authority rules are reviewed annually and changes are approved by the chief executive and reported to the board. However, this does not apply to changes in the chief executive's credit authority as this is approved by the board.

Credit review routines

The credit review routines regulate in detail all factors related to the granting of credit by the group and follow-up of commitments. The credit granting process provides a more detailed description of the customer and the purpose of the loan application, in addition to evaluations of the following:

- Owners and management
- Structure of financing
- Compliance with credit strategy and credit policy
- Whether the customer will have adequate earnings to service the current obligations, interest and instalments.
- For how long and in what manner the customer can cover their current obligations, interest and instalments if their earnings fail.
- Collateral and overall assessment of risk

Measuring credit risk

Continuous commitment and portfolio monitoring is carried out on existing commitments. . The credit risk is followed up in general by means of the group's portfolio management systems, systems for early notification of key development trends (early warning) and systems for monitoring the quality of the actual credit granting process.

Portfolio management

SpareBank 1 SR-Bank's risk exposure is monitored via a general portfolio management system. The portfolio management system contains information on the risk at both the aggregate and detailed levels. This makes it possible to conduct efficient monitoring and management of the risk performance of the portfolio. All portfolio information is updated monthly, including updates of the customers' probability of default. The development of risk in the portfolios is followed up with special emphasis on the development of the risk classification (migration), expected losses, risk-adjusted capital and risk-adjusted return. Risk-adjusted capital reflects the actual risk exposure significantly better than what the traditional focus on lending volume does. Commitments with a high risk require significantly more risk-adjusted capital than commitments with low risk. This means that significantly less money can be loaned to customers with high risk than customers with low risk.

Early warning

The group's *early warning* system makes it possible to continuously monitor customers' key risk drivers and acts as an important indicator of potential negative developments in default rates. Its purpose is to detect key trends in development at an early stage.

Some examples of risk drivers are:

- Short-term and repeated default
- Development in limit utilisation
- Development in number of instalment postponements
- Official announcements

Credit process surveillance

The group's systems for monitoring the credit approval process make it possible to monitor credit quality and the risk-adjusted return on new commitments continuously. The system is able to compare quality across departments, and enables early action if, for instance, a department's credit practice is developing in an undesired direction.

Risk classification system

The group utilises credit models for risk classification, risk pricing and portfolio management. The risk classification system is based on the risk parameters as shown in the figure below:

Figure 14: The risk classification system in SpareBank 1 SR-Bank

Probability of default (PD)	The customers are classified in default classes based on the probability of default over a 12 month period, based on a long-term outcome
Exposure at default (EAD)	This is an estimate that indicates the group's exposure to a customer at default
Loss given default (LGD)	This is an estimate of how much the group can potentially lose if the costumer defaults on his obligations
Expected loss (EL)	Describes the loss the group can statistically expect to lose on the loan portfolio during a 12-month period (long-term outcome) in a normal business cycle
Risk-adjusted capital (UL)	Describes how much capital the group needs to reserve as a buffer for future unexpected losses
Risk group	The customer is assigned a risk group based on the risk-adjusted capital on the commitment
Risk pricing	SpareBank 1 SR-Bank is committed to finding the proper price for each risk, and has developed a pricing model that calculates a price given the commitment's risk

1) Probability of default (PD)

Customers are classified in default classes based on the probability of default over a twelve-month period, based on a long-term outcome through a full loss cycle[8].

A commitment is considered to be in default if:

1) A claim has been due for more than 90 days and the amount is over NOK 1,000, or

2) The bank has reason to assume that the debtor is unable to repay (in full) in accordance with his obligations:

- The bank makes write-downs due to impaired creditworthiness.
- The bank sells a claim at a discount as a result of impaired creditworthiness.
- As a result of payment problems by the counterparty the bank grants a postponement of payment or new credit for payment of the instalment, or agrees changes to the interest rate or other terms and conditions of the agreement.
- The counterparty is subject to debt settlement, bankruptcy or public administration proceedings, or voluntary debt negotiations have been initiated.
- The bank assumes due to other reasons that the obligation will not be fulfilled.

The probability of default is calculated on the basis of historical series of data for financial key figures related to earnings and deterioration, as well as on the basis of non-financial criteria such as conduct and age. Nine default classes (A – I) are used to classify the customers according to the probability of default. The group has two additional default classes (J and K) for customers with defaulted and/or written-down commitments.

SpareBank 1 SR-Bank focuses on stable and predictable credit granting and capitalisation over time, and the group therefore develops the models for calculating the probability of default on the basis of a 'Through the Cycle' approach. This also corresponds with the approach behind the rating methods in the most renowned rating companies.

Besides predicting the long-term outcomes of probability of default regardless of the economic situation, the models must also manage to rate the customers based on risk (from the lowest probability of default to the highest probability of default) based on the current economic situation. This is important for predicting which customers may experience problems in the next twelve months. In order to achieve this, the model must also include variables that identify changes in the economic cycles.

SpareBank 1 SR-Bank calculates the long-term outcome for probability of default based on a full loss cycle lasting about twenty-five years, which consist of four periods with a normal economic situation and one period with a sharp economic downturn. Our own, representative historic default data is used as the data basis for the calculation.

Definitions of the individual default classes are shown in the table below. The table also shows the correlation between classification in the largest external ratings agencies and the classification used in SpareBank 1 SR-Bank.

Table 3: Definition of default classes and the correlation between classification in SpareBank 1 SR-Bank and in the largest external rating agencies

Default class	Lower limit for default	Upper limit for default	Rating scale Moody's	Rating scale Standard & Poor and Fitch
A	0.00%	0.10%	AAA - A-	Aaa - A3
B	0.10%	0.25%	BBB+ - BBB	Baa1 - Baa2
C	0.25%	0.50%	BBB-	Baa3
D	0.50%	0.75%	BB+	Ba1

[8] Long term outcome through a full loss cycle, consisting of four periods with normal business cycle and one period with an economic downturn

E	0.75%	1.25%	BB	Ba2
F	1.25%	2.50%	BB-	Ba3
G	2.50%	5.00%	B+	B1
H	5.00%	10.00%	B	B2
I	10.00%	40.00%	B- - CCC/C	B3 - Caa3/C

2) Exposure at default (EAD)

Exposure at default (EAD) is defined as the exposure the bank has to a customer at the time of default. The conversion factor (CF) defines the extent the unutilised credit limit is expected to be drawn on upon default. Unutilised credit in this regard is defined as the remaining disposable limit one year prior to default.

For allocated, but not drawn upon limits for corporate market customers there is a drawing of 100% (1). Granted, but not drawn upon limits for retail market customers have a conversion factor of 1, i.e. 100% drawing upon default is assumed. For the corporate market, approved but not drawn upon facilities are multiplied by a conversion factor that varies between 60-90%, depending on the customer's probability of default. The conversion factor for guarantees is a parameter set by the authorities and is set at 1 for loan guarantees and 0.5 for contract guarantees and other guarantees.

3) Loss given default

Loss given default describes how much the group could potentially lose if the customer defaults on their obligations. The model presents estimates that predict the degree of loss in an economic downturn. The valuation takes in account the value of underlying securities, the degree of recovery of unsecured loans, the degree of recovery before realisation and the costs the group has in recovering defaulted commitments.

Seven classes are used (1–7) for classifying commitments in relation to loss given default. Definitions of these classes are illustrated in the table below.

Table 4: Definition of loss given default (collateral class)

LGD class	LGD interval
1	Until 10%
2	<10%, 20%]
3	<20%, 30%]
4	<30%, 40%]
5	<40%, 50%]
6	<50%, 60%]
7	Over 60%

4) Expected loss (EL)

Expected loss describes the loss the group can statistically expect to experience on the loan portfolio during a twelve-month period, based on a long-term outcome through a full loss cycle. Expected losses are calculated based on the probability of default, exposure at default and loss given default.

5) Risk-adjusted capital (UL)

There are many factors that affect the group's losses on loans and credits. The expected loss is based on uncertain magnitudes, where the uncertainty is largely related to the characteristics of the commitments. On well-secured loans, the uncertainty is limited, while the uncertainty is relatively large with less well-secured loans and with customers with an unstable ability to fulfil their obligations.

To take account of this uncertainty, a value for unexpected loss, or risk-adjusted capital, (UL) is calculated on all commitments. In this regard, SpareBank 1 SR-Bank uses the reference model for unexpected loss as set out in the Capital Requirements Regulations. The sum of unexpected losses for all commitments provides an estimate of how much the group could lose in excess of the expected loss.

Risk-adjusted capital describes how much capital the group believes it needs to cover the actual risk that the group has assumed. As it is impossible to fully protect against all losses, the group has stipulated that the risk-adjusted capital must cover all possible unexpected losses based on a stipulated confidence level of 99.9%.

A commitment is risk classified in a risk group from lowest to highest risk, depending on the risk-adjusted capital. The risk groups are defined as shown in the table below.

Table 5: Definition of risk groups

	RISK-ADJUSTED CAPITAL (UL)% OF EAD	
RISK GROUP	**Lower limit**	**Upper limit**
LOWEST	0.0%	0.3%
LOW	0.3%	2.5%
MEDIUM	2.5%	8.0%
HIGH	8.0%	12.0%
HIGHEST	12.0%	99.99%

6) Risk pricing –RARORAC (Risk Adjusted Return on Risk Adjusted Capital)

SpareBank 1 SR-Bank focuses on pricing risk correctly. This means that high risk commitments are priced higher than low risk commitments. The general level of risk pricing will, however, also depend on the group's general return targets and an assessment of the competition situation. SpareBank 1 SR-Bank therefore uses models that calculate the correct risk price that should be taken into consideration when pricing the expected losses and return on risk-adjusted capital. The risk pricing model uses the same main components as in the groups risk classification system as the basis. The model is based on a standard risk adjusted return on risk adjusted capital (RARORAC) model for measuring risk-adjusted return.

The pricing model is primarily used for granting and renewing credit, as well as calculating the customer's price and measuring and monitoring profitability.

Collateral and other risk mitigation measures

SpareBank 1 SR-Bank uses collateral to reduce the credit risk in each commitment. For corporations, different types of conditions and terms are also specified in most credit agreements. Use of terms gives the bank assurance that the company keeps proper levels of liquidity and equity, or that the company is in compliance with applicable laws and regulations related to its services.

In the retail market, the collateral is primarily real estate (housing). Several different types of collateral are accepted in the corporate market. This is shown in the table below.

Table 6: Main types of collateral

Type of collateral	Retail market	Corporate market
Real property	X	X
Land	X	X
Securities	X	X
Guarantees	X	X
Machinery and plant		X
Vessels		X
Motor vehicles/construction machines		X
Inventories		X
Agricultural chattels		X
Trade receivables		X
Deposits	X	X

The group establishes the realisation value of posted collateral on the basis of statistical data over time, as well as expert evaluations in cases where the statistical date is insufficient. The realisation value is set to give a conservative evaluation that reflects presumed realisation value in an economic downturn.

Monetary claims in the form of deposit accounts with credit institutions may be pledged for the benefit of the credit institution. In consumer relations such pledge must be established by a written contract, and the pledge may only cover deposits that are in a unique account created in connection with the agreement.

In the retail market the market value of real estate is stipulated either by utilising the purchase price according to the contract, a broker valuation/appraisal or value estimates from Eiendomsverdi (applies only to residential properties. Eiendomsverdi is an information and analysis tool that provides access to an estimated market value for properties in Norway. Value estimates from Eiendomsverdi may be utilised in accordance with internal procedures if the property is located in a well-functioning residential market and if there is little uncertainty with regard to the value estimate. The realisation value on real estate is established on the basis of the market value of the property and reduces this value by a reduction factor that depends on the type of property. In the retail market, assets other than real property are used as collateral to a limited extent.

In the corporate market, the value of commercial properties is calculated using the yield method, where the value is the present value of the expected cash flow to the property. Yield reflects the return an investor can demand when investing in a property, and is affected by factors such as the property's location and nature, duration of the lease, tenants' solidity, regulatory risks, and the anticipated long-term, risk-free interest rate. The realisation value of the collateral is determined based on the market value, which is reduced by a factor that varies with the property's characteristics.

The reduction factors for all types of collateral are set on the basis of the fall in value that must be expected in a sharp economic downturn.

Validation

The group continuously develops and tests the risk management system and the credit granting process to ensure that it is of high quality over time. The work is summarised in an annual validation report that provides a basis for the board of SpareBank 1 SR-Bank to determine whether or not the risk management system (IRB system) is well integrated within the organisation and whether it calculates the level of risk and capital requirements satisfactorily.

The IRB system is described in the chapter on capital requirements.

The aim of the validation process is to ensure that:

- The IRB system is customised to the portfolios on which it is used
- The assumptions the IRB system builds on are reasonable
- The IRB system measures what it is meant to measure
- The IRB system is well integrated in the organisation, and that it is a central part of the risk management and decision making in the bank
- SpareBank 1 SR-Bank complies with the Capital Requirement Regulations

The validation process can be divided into four main areas:

Quantitative validation: Quantitative validation is intended to ensure that the estimates used for the probability of default, exposure at default and loss given default are always of adequately good quality.

Qualitative validation: The quantitative validation is supplemented by more qualitative assessments in the form of meetings with the bank's own expert group and with customer advisers. Using qualitative measuring methods ensures all processes, control mechanisms, and routines are fully validated and it also contributes valuable input in relation to further developing the current models. Qualitative validation also provides supplementary information in those cases where the capture of statistical data is limited.

Application: Verification should show whether the system for managing and measuring credit risk is well integrated in the organisation, and if it represents a key part of the group's risk management and decision-making.

Compliance with the Capital Requirements Regulations: The review is intended to ensure that SpareBank 1 SR-Bank complies with the Capital Requirements Regulations.

The table below shows the models used by SpareBank 1 SR-Bank in the regulatory IRB reporting, as of end 2015.

Table 7: Risk models used in regulatory reporting, 2015

Commitment category	Segment	PD model	EAD model	LGD model
Mass Market (Retail Market, RM)	Existing mortgage customers with internal history of behaviour	RM score card A	CF = 1	LGD RM
Housing	New mortgage customers without internal history of behaviour	RM score card C	CF = 1	LGD RM
Mass Market (Retail Market)	Existing, other retail customers with internal history of behaviour	RM score card B	CF = 1	LGD RM
Other	New, other retail customers without internal history of behaviour	RM score card D	CF = 1	LGD RM
Businesses (Corporate Market, CM)	Companies that have delivered public accounting	CM sector 1-7	EAD CM	LGD CM
	Companies that do not provide public accounting	PD stencil core	EAD CM	LGD CM
	Newly established companies	PD stencil score	EAD CM	LGD CM

SpareBank 1 SR-Bank is continuously striving to refine its IRB system and focuses heavily on the development of models. New models are initially used in internal risk management in order to acquire sufficient experience and data to conduct a validation. If its use and validation provide satisfactory results, an application for regulatory use of the model will be submitted. The table below provides an overview over models that so far are only being used in internal risk management.

Table 8: PD models used in the internal risk management

Commitment category	Segment	PD model
Mass Market (Retail Market)	New retail customers without internal history of behaviour	RM New customers
Businesses (Corporate Market, CM)	Commercial properties for rent	PD Property leasing
	Large corporate customers	Rating based PD model
	Companies that do not provide public accounting	CM Sector 8
	Newly established companies	CM Sector 9

In the validation, the different models are assessed on the basis of four criteria: data quality, ranking ability, level and stability in the estimates.

Data quality

The models used for estimating probability of default (PD), exposure at default (EAD), and loss given default (LGD) were developed on the basis of data from the period 1994-2012 from the banks in the SpareBank 1 Alliance.

The data is subject to thorough, continuous quality assurance and an annual validation process is conducted to ensure that it is representative of the current portfolio in SpareBank 1 SR-Bank. Validating the data also shows that it complies with the requirements concerning data that are stipulated in the Capital Requirements Regulations. Proper safety margins have been established where deemed necessary due to the uncertainty in the data.

Ranking ability

The model's ability to rank the customers is primarily measured by means of the area under curve (AUC) method.

The ranking ability of the model that estimates the customers' PD expresses the model's actually ability to rank the customers from the highest actual PD to the lowest PD.

The ranking ability of the model that estimates EAD will show the degree to which the model actually manages to rank the customers from those with the highest conversion factor (CF) to the lowest CF. Validation of the model for corporate customers is conducted annually. Exposure on retail market customers has a fixed conversion factor of one for all customers.

The ranking ability of the model for calculating LGD is validated by analysing estimated and actual losses in the various LGD classes, measured by median, unweighted and weighted average.

The extent to which the model is able to differentiate between customers with the highest expected losses (EL) and the lowest EL in relation to geographic exposure is also validated.

Level

In the Capital Requirements Regulations it is assumed that estimated PD will predict long-term outcome through a full loss cycle. This means that the level of default will be overestimated in booms and normal economic situations, while in periods of serious recession the level of defaults will be underestimated. An assessment is made of whether the difference between actual level of default and estimated level of default is justifiable, given the economic situation. Stress tests are conducted in order to show that the economic properties of the model satisfy the requirements of the Capital Requirements Regulations.

For CF and LGD, the Capital Requirements Regulations assume that model estimates can predict the framework utilisation (CF) and losses in the event of serious economic downturns. This means that the conversion factor and loss estimates must always be higher than actually observed values in normal economic situations. Each element in the LGD model, including recovery, the reduction factors used for collateral values, proportion of unsecured exposure recovered, and unsecured exposure and recovery costs, undergoes validation.

The level of expected loss (EL) is assessed against the level of actual costs recognised in the accounts, both on an overall level and by geographic area. As with the estimated PD, EL should predict long-term outcome through a full business cycle.

Furthermore, stress tests are conducted on all parameters in order to validate that the estimates are in compliance with the Capital Requirements Regulations.

Stability in the estimates

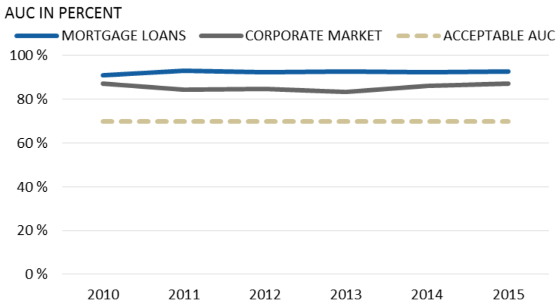
Every risk parameter is validated in order to establish their stability over time, independent of the economic situation. In validating the PD model, the validation is conducted by analysing migration over a twelve-month period, and over time.

Comparison of risk parameters and actual outcome

In this paragraph, an outtake of the validation results for the PD, EAD and LGD models in SpareBank 1 SR-Bank is presented. The work on validation for 2015 was ongoing at the time of publication of Pillar 3 for 2015. The LGD validation has, therefore, not been updated with numbers for 2015. More detailed information on risk parameters with actual outcome is provided in the appendix.

PD models

Figure 15: Ranking ability PD models



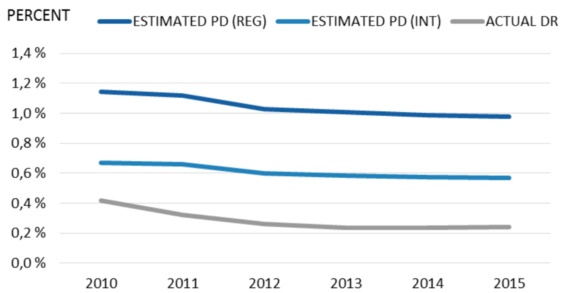
The PD model on mortgage loans has a very high and stable ranking ability, which means that the model is capable of ranking the customers from the ones with highest to lowest actual probability of default. Validation on different segments also demonstrates its good ranking ability. The PD model for corporate customers has a high and stable ranking ability for the portfolio as a whole, while its ranking ability may be somewhat lower for validation in different sub-portfolios. This applies to larger customers and certain types of sector. This is why specific PD models have been developed for these segments, as shown in table 8.

In 2014, a new methodology for regulatory calculation of probability of default (PD) and loss given default (LGD) for mortgage loans was passed. The new methodology for calculating the probability of default includes four periods of a normal business cycle and one period with an economic downturn. The level of default in the economic downturn has to be fixed ad 3.5% each year, regardless of the underlying portfolio quality and loss history. Furthermore, a safety margin is attributed to the PD estimates to prevent a level of PD below 0.2%. SpareBank 1 SR-Bank has taken the regulation into account and implemented new, regulatory levels for PD and LGD.

However, SpareBank 1 SR-Bank finds that the new methodology for regulatory calculation of probability of default in an economic downturn insufficiently reflects the risk in the underlying portfolio. This entails an overestimation of the PD through a full loss cycle. Internally, SpareBank 1 SR-Bank uses lower PD estimates that reflect the underlying risk in the portfolio to a greater degree. Using the internal estimates provides more risk sensitive risk weightings and better encourages sound risk management.

In section 11-2 (1) in the Capital Requirements Regulations it is assumed that the probability of default (PD) should predict a long-term outcome through a full loss cycle. This means that the PD estimates must be relatively stable over time, as well as through a business cycle. The figure below shows the average estimated probability of default (PD), both internally and regulatory, compared with the average actual default rate in the years 2010-2015. Unweighted values are used. EAD weighted values are presented in the appendix.

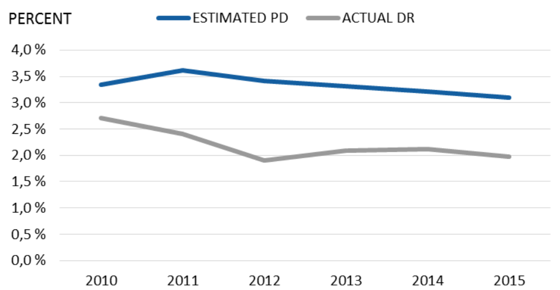
Figure 16: Comparison of unweighted estimated PD with actual DR – mortgage loans (regulatory and internal)



The figure shows that actual default (DR) is significantly lower than both the internally and regulatory estimated default (PD) over the whole period. In compliance with applicable regulations, the regulatory estimate is a significant overestimation of the default rate.

For corporations, the internal and regulatory calibrations are consistent with each other. The figure below shows the average unweighted estimated and actual default rate for the corporate portfolio.

Figure 17: Comparison of unweighted estimated PD and actual DR – corporate market



As the figure shows, estimated probability of default (PD) is significantly higher than actual default (DR) over the entire period. The observations are from a period with a normal business cycle, and the overestimation is in line with the desired cyclical properties of the model.

Every customer with a credit exposure in SpareBank 1 SR-Bank is risk classified at least annually by updating accounting or tax assessment data. Furthermore, the customers are scored monthly, based on information on internal and external behaviour. The figures below show the annual migration of the retail and corporate customers, respectively. Migration is the proportion of customers who change default class during a twelve-month period.

Figure 18: Annual migration – mortgage loans

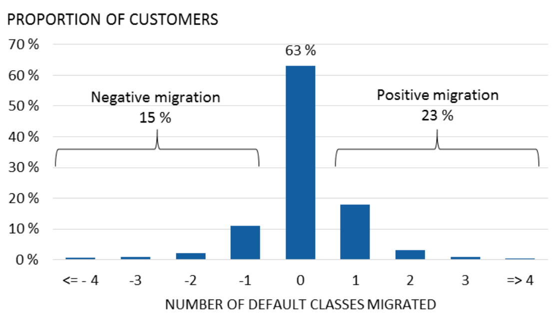
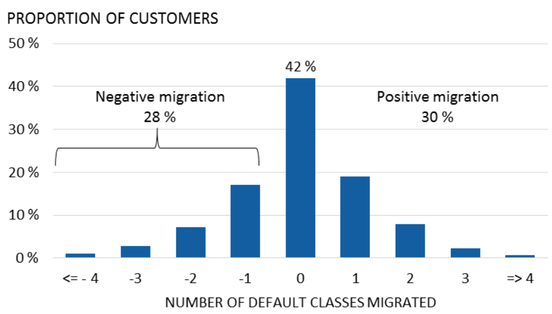


Figure 19: Annual migration - corporate market

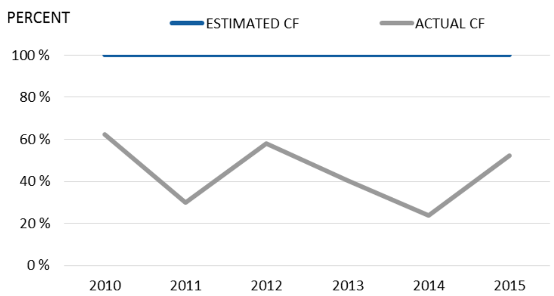


Stability in the PD estimates is the leading indicator of a model's cyclical properties. A model with the characteristics of being something in between a 'Point in Time' and 'Through the Cycle' model should have a proportion of stable customers at around 50% in a normal business cycle. The figures above show that the proportion of stable customers with a mortgage loan is about 60% and 40% for corporate customers. This is in a normal business cycle, and the results confirm that the models are something in between a Point in Time and Through the Cycle model.

EAD models

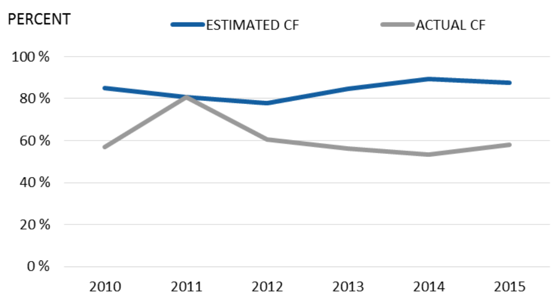
A validation of whether the model estimates can predict the utilisation of limits (CF) in an economic downturn is conducted. This entails that there should be a sufficient margin between estimated and actual values in a normal business cycle. The figures below show estimated and actual utilisation of limits at the time of default for both mortgage loans and the corporate market.

Figure 20: Comparison of estimated and actual conversion factor (CF) – mortgage loans (limit loans)



For all of the mortgage loan customers, the conversion factor is a fixed parameter. In the period with a normal business cycle, actual conversion factor is significantly lower than the estimate.

Figure 21: Comparison of estimated and actual conversion factor (CF) – corporate market



A separate model has been developed for the corporate market that estimates conversion factors based on risk classification and type of commitment. Average estimated conversion factor is 84% and higher than average actual conversion factor at 58%.

LGD models

The new methodology for regulatory calculation of loss given default (LGD) for mortgage loans entails a minimum LGD of 20%, regardless of the underlying quality in the portfolio or historic losses. Internally, SpareBank 1 SR-Bank's own estimates for degree of loss based on internal data with empirical evidence and that is representative of the bank's portfolio are used.

For the corporate market, the internal and regulatory estimates for LGD are consistent with each other. The figures below show the comparison of estimated and actual loss rate on defaulted customers, both in the retail and corporate markets. The loss rate is measured in per cent and weighted relative to the exposure (EAD) on the defaulted commitments.

Figure 22: Comparison of estimated and actual weighted LGD – mortgage loans (internal and regulatory)

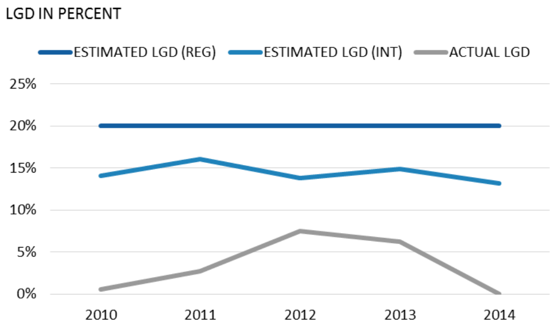
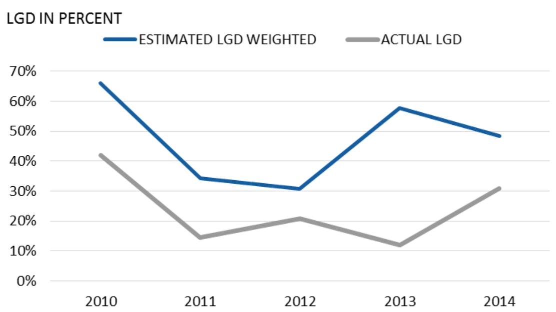


Figure 23: Comparison of estimated an actual weighted LGD – corporate market

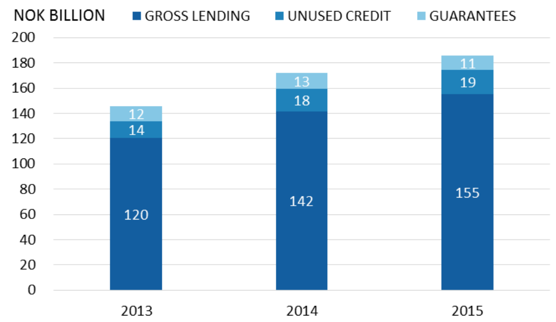


The figures show that actual loss rate is lower than estimated loss rate, for both mortgage loans and the corporate market. Few defaults mean the loss rate of a single customer has the potential to have a large impact on the actual loss rate. This is especially seen in cases with corporate customers.

Overview of credit exposures

In this paragraph, the group's credit exposure measured in the size of commitments is rendered. Size of commitments includes gross loans, guarantees and unused credit. The numbers include commitments transferred to the mortgage companies and lending in consolidated companies. Detailed information is given in the appendix.

Figure 24: Commitment size by commitment type, prior to deductions for impairment losses



Gross lending grew by NOK 14 billion in 2015, and now amounts to NOK 155 billion. This increase includes both higher loan exposure on existing customers and access to new, solid customers. The largest percentage increase in 2015 was related to the Hordaland market area. Unutilised credit and guarantees make up a small part of the total size of commitments and the trend has been stable for the last years.

The figure below shows SpareBank 1 SR-Bank's credit portfolio, measured in commitment size for each type of commitment, where the types of commitments are based on standard sector categories[9]. Corporate customers had a total commitment size of NOK 85 billion, while the retail market accounted for NOK 101 billion in 2015. In the corporate portfolio, property management, with a commitment size of NOK 35 billion, is the largest sector. In 2015, the concentration on property management was reduced by NOK 1.5 billion.

Table 9 shows the overall commitment size for each sector type, sorted after remaining maturity. The

[9] Based on standard sector categories from Statistics Norway

proportion of commitment sizes with remaining maturity of more than five years is 41% as of 2015. This is relatively stable from 2014.

Figure 25: Commitment size for each type of commitment, by sector prior to deductions for impairment losses

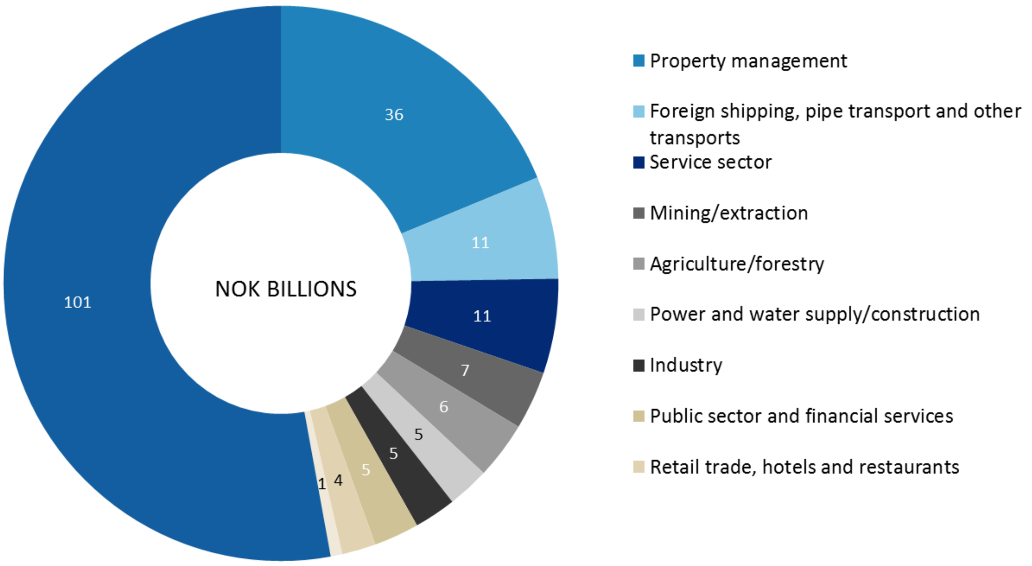


Table 9: Commitment size for each type of commitment, by remaining maturity (size in NOK million)

2015	**On demand**	**<1 year**	**1-5 years**	**over 5 years**	**Total**
Gross lending	52,330	6,642	21,245	74,973	155,190
Unused credit	19,388				19,388
Guarantees		4,366	5,522	1,525	11,412
Total gross commitment customers	**71,718**	**11,008**	**26,767**	**76,498**	**185,990**
States (Norges Bank)	728	-	-	-	728
Institutions	1,204	1,780	-	-	2,984

2014	**On demand**	**<1 year**	**1-5 years**	**over 5 years**	**Total**
Gross lending	46,156	5,848	20,109	69,507	141,620
Unused credit	17,827				17,827
Guarantees		5,135	5,946	1,798	12,879
Total gross commitment customers	63,983	10,983	26,055	71,305	172,326
States (Norges Bank)	1,610	-	-	-	1,610
Institutions	2,222	-	-	-	2,222

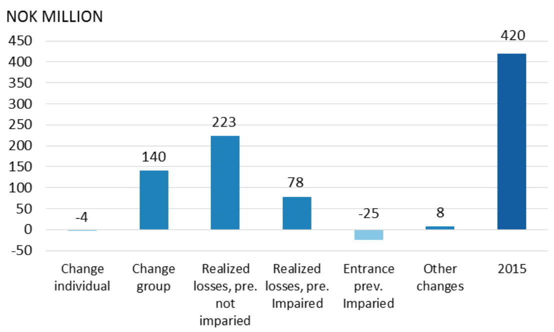
Default and impairment

SpareBank 1 SR-Bank continuously evaluates the quality of the credit portfolio, both on an overall level and on a customer level. Customers in default in the form of an overdraft or arrears are monitored and followed up at an early stage. This ensures that any necessary measures are implemented quickly.

The identification of need for impairment is conducted in line with the 'Regulation on the accounting treatment of loans and guarantees to financial institutions'. A commitment or a group of commitments is defined as experiencing a loss in value if there is objective evidence of an event that reduces the commitment's future cash flow. If such objective evidence exists, the loss on the commitment is calculated as the difference between the carrying value and the present value of estimated future cash flows, discounted by the effective interest rate.

The figure below shows the recognised impairment losses on commitments and guarantees. These increased from NOK 257 million in 2014 to NOK 420 million in 2015.

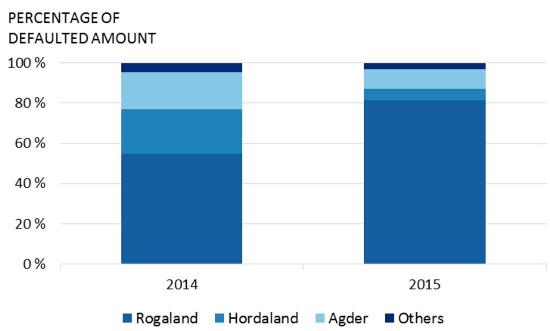
Table 10: Development in impairment losses in 205



Recognised impairments increased by NOK 163 million in 2015. This increase was largely due to impairments within petroleum related businesses, as well as an increase in collective impairments by NOK 140 million. The basis for the increase is the continuing low oil price, higher unemployment and weak development of property prices in the group's market area, combined with uncertainty related to the expected future development in local and regional economic circumstances. Closely monitoring customers and preventive measures are important tools in maintaining good credit quality, and help to keep impairment losses at a moderate level.

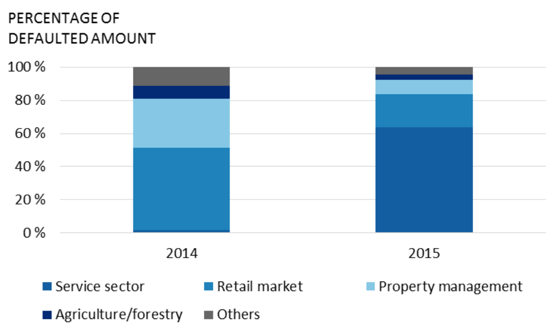
The figures below show the proportion of commitment size in 90 days IRB default[10] by the end of 2015, by region and sector.

Figure 26: Defaulted commitment size, by geographic area (percentage of total commitment size in default)



Total defaulted commitment size in 2015 amounts to NOK 853 million. In 2014 the number was NOK 427 million. The increase is mostly related to one large defaulted customer belonging to the Rogaland region. This means that 81% of defaulted commitment size in 2015 originates in the Rogaland region. In 2014, 55% of defaulted commitments originated in Rogaland. In the other regions, no significant changes in defaulted commitment size were observed in 2015.

Figure 27: Defaulted commitment size, by standard sector definitions (percentage of total commitment size in default)



Of the total defaulted commitment size of NOK 853 million in 2015, 64% related to the service sector. The reason for the high percentage in this sector is

[10] See chapter on the risk classification system for a definition of IRB default

a large, defaulted customer that delivers services to the oil sector. In 2014, 50% of the defaulted commitment size was related to the retail market, and 30% to property management.

More information on loss exposed, defaulted and impaired commitments can be found in the appendix.

Risk-weighted balance for credit risk

Total risk-weighted balance for credit risk was NOK 99.5 billion at the end of 2015, measured by the IRB method and the standard method. This is a reduction of NOK 12.8 billion from 2014. The main reason for this reduction in risk-weighted balance is that the SpareBank 1 SR-Bank was given permission to use the advanced IRB method on the corporate portfolio in 2015. Among others, this permission entails that the bank can calculate capital requirements based on internal models for exposure (EAD) and degree of loss (LGD). Previously, SpareBank 1 SR-Bank had permission to use basic IRB method for the corporate portfolio, which entailed that the bank could use own estimates for probability of default (PD) in calculating the capital requirements. Under the basic IRB method, EAD and LGD are fixed parameters, set by the authorities. These parameters do not vary with the actual risk in the portfolio.

Table 11: Risk weighted balance for credit risk, by commitment categories and sub-categories

		Commitments 31.12.2015	**Commitments EAD 31.12.2015**	**Risk weighted assets Consolidated 31.12.2015**	Risk weighted assets Consolidated 31.12.2014
Enterprises	Specialised enterprises	38,057	36,044	22,148	32,685
	SME enterprises	27,604	24,197	14,822	21,789
	Other enterprises	11,775	9,716	6,830	8,789
Mass market	Mass market SME	5,739	5,737	1,236	1,144
	Commitments with mortgage on real estate	128,069	128,063	27,170	20,661
	Other mass market commitments	2,071	2,066	950	845
Risk weighted assets credit risk - IRB		**213,315**	**205,823**	**73,156**	**85,913**
Governments		7,007		261	222
Institutions		38,718		5,985	5,872
Enterprises		7,457		6,886	6,642
Mass market		6,511		5,500	6,870
Covered bonds		12,047		1,205	1,101
Equity positions		2,214		4,661	3,642
Other assets		4,270		1,840	1,982
Risk weighted assets credit risk - standard method		**78,224**		**26,338**	**26,331**
Total risk weighted assets credit risk				**99,494**	**112,244**

MARKET RISK

Market risk is a collective term that comprises the risk of loss due to changes in market prices. Securities risk, currency risk, interest rate risk, spread risk, risk associated with own holdings and/or use of equity in syndicates, as well as guarantees for the full subscription of offerings are included in market risk.

About market risk

Risk strategy

Market risk in SpareBank 1 SR-Bank primarily relates to the group's investments in securities, including equities and bonds. Furthermore, the group is somewhat exposed to market risk through trading activities in interest rate and currency markets, as well as from activities that underpin ordinary funding and lending activities. The group's exposure to market risk is deemed moderate.

The risk strategy and the associated specification of the necessary risk limits, reporting procedures and authorities must be reviewed and approved by the group's board at least once a year.

Authorities, guidelines and routines

The limits set by the board relating to SpareBank 1 SR-Bank Markets and Treasury are delegated by the chief executive to named people.

SpareBank 1 SR-Bank Markets' guidelines and routines are well described in SJEKK, the bank's system for process and routine descriptions. SJEKK continuously updates the processing steps and routines so that the last valid version is always available. Compliance with the routines by the people involved in managing and controlling market risk is satisfactory.

The group's market risk is measured and monitored based on fixed limits. The responsibility for continuous position reconciliation and measurement of the group's market risk exposure lies with the middle office in SpareBank 1 SR-Bank Markets. The risk manager for market and funding risk is responsible for maintaining continuous control of risk measurements and independent risk reporting, both internally and externally.

Market risk, including spread risk for bonds and securities

Price risk is the risk of losses that arise following changes in the value of the group's commercial paper, bonds and equity instruments. The risk associated with a fall in value for the bond portfolios, including both systematic and unsystematic, is quantified by calculations based on the Financial Supervisory Authority of Norway's stress test model for insurance companies. The method is generally based on Solvency II (the QIS5 specifications).

The liquidity portfolio's total holding amounts to NOK 19.1 billion. The portfolio in SpareBank 1 SR-Bank Markets amounts to NOK 0.4 billion. The table below provides an overview of exposure by asset class.

Table 12: Fair value of the bond portfolio (NOK million)

Sub-portfolio	**4th Qtr. 2015**	**3rd Qtr. 2015**	**2nd Qtr. 2015**	**1st Qtr. 2015**
Treasury	**19,112**	**20,011**	**15,603**	**14,282**
Norwegian state/municipality	583	1,627	778	401
OMF/Covered Bond	11,560	12,281	9,210	9,407
Foreign guarantees	6,346	5,477	5,037	3,823
Norwegian bank/finance	624	626	578	651
SR-Bank Markets	**410**	**459**	**500**	**499**
Norwegian bank/finance	79	68	57	61
Industry/other	331	391	443	438

Risk-adjusted capital associated with other market risk is measured and followed-up in accordance with the Value-at-Risk (VaR) principle. The VaR model covers the group's interest rate and currency risk, as well as the securities risk associated with the group's investments in equities, units and other equity investments.

Market risk is reported under credit and counterparty risk in accordance with the standard method.

Bond portfolio

Risk profile and portfolio performance

The group has two different portfolios consisting of bonds and commercial paper – the liquidity portfolio and trading portfolio, respectively. The respective portfolios are governed by separate management mandates.

Liquidity portfolio (managed by Treasury)

The liquidity portfolio consists of interest-bearing securities that either satisfies the requirements for depositing with Norges Bank, the LCR regulations or uncommitted credit facilities, as well as exposure on alliance companies. The size of the portfolio will always depend on the group's balance sheet and thereby the need for liquid assets. At the end of the fourth quarter of 2015, the value of the combined liquidity portfolio totals NOK 19.1 billion.

In accordance with the group's internal guidelines, securities that do not satisfy the aforementioned requirements entail a credit risk governed by special processing rules.

Trading portfolio

The trading portfolio consists of financially oriented investments in interest-bearing securities. The current limit for such investments is NOK 1 billion. All investments in the trading portfolio that do not satisfy the criteria for uncommitted credit lines stipulated by the board of directors shall be subject to ordinary credit processing. At the end of the fourth quarter of 2015 the trading portfolio includes investments in 29 companies valued at NOK 410 million.

The trading portfolio does not have any structured bonds (CDOs, etc.) or other types of financial instruments.

The tables below provide a summary of SpareBank 1 SR-Bank's exposure to bonds in the different portfolios:

Table 13: Securities exposure, bonds and securities

Risk classes for bonds and commercial paper – total

Risk category	Rating	Market value NOK million	Total %
Very low risk	AAA, AA+, AA and AA-	18,489	94.7%
Low risk	A+, A and A-	111	0.6%
Moderate risk	BBB+, BBB and BBB-	592	3.0%
High risk	BB+, BB and BB-	87	0.4%
Very high risk	B+ and lower	244	1.2%
Total		**19,522**	**100.0%**

Risk classes – Treasury

Risk category	Rating	Market value NOK million	Treasury %
Very low risk	AAA, AA+, AA and AA-	18,489	96.7%
Low risk	A+, A and A-	111	0.6%
Moderate risk	BBB+, BBB and BBB-	513	2.7%
High risk	BB+, BB and BB-	0	0%
Very high risk	B+ and lower	0	0%
Total		**19,112**	**100.0%**

Risk classes – SpareBank 1 SR-Bank Markets

Risk category	Rating	Market value NOK mill	Trading %
Very low risk	AAA, AA+, AA and AA-	0	0%
Low risk	A+, A and A-	0	0%
Moderate risk	BBB+, BBB and BBB-	79	19.4%
High risk	BB+, BB and BB-	87	21.2%
Very high risk	B+ and lower	244	59.4%
Total		**410**	**100.0%**

Interest rate risk

Interest rate risk arises because the group's assets and liabilities can be subject to different fixed rate periods. Interest rate instrument trading must always comply with the adopted limits and authorities. The group's limits define quantitative targets for the maximum potential loss. The commercial risk is quantified and monitored continuously.

The group's general limits for interest rate risk define the maximum loss from a 1 percentage point change in interest rates. The maximum loss following a 1 percentage change in interest rates totals NOK 95 million with NOK 30 million of the total balance in SpareBank 1 SR-Bank Markets and NOK 65 million of the total balance in Treasury.

The total currency position cannot exceed the interest rate risk limit in NOK.

Table 14: Sub-limits within the different maturity bonds

Maturity bond	Limit SR-Bank Markets	Treasury limit
0 – 3 months	NOK 20 million	NOK 50 million
3 – 6 months	NOK 20 million	NOK 50 million
6 – 9 months	NOK 10 million	NOK 25 million
9 months – 1 year	NOK 10 million	NOK 25 million
1 year – 18 months	NOK 10 million	NOK 20 million
18 – 24 months	NOK 15 million	NOK 15 million
Each year (1-10)	NOK 25 million	NOK 15 million
10 years or more	NOK 25 million	NOK 10 million

The table below shows the total interest rate risk by the end of the last four quarters.

Table 15: Effect on earnings of a positive parallel shift in the yield curve of one percentage point (NOK million)

Interest rate risk	0-6 months	6-12 months	1-5 years	> 5 years	Total
4th Qtr. 2015	-31	13	-6	3	**-20**
3rd Qtr. 2015	-27	12	0	-9	**-23**
2nd Qtr. 2015	-34	4	-22	-7	**-60**
1st Qtr. 2015	-34	13	-18	-6	**-44**

Foreign exchange risk

Currency rate risk is the risk of loss due to fluctuations in foreign exchange rates. The group measures currency risk of net positions in the different currencies in which the group is exposed. The group has prepared limits for the net exposure to each individual currency, and limits for the aggregate net currency exposure. The overnight price risk for spot trading in foreign currencies shall not exceed NOK 100 million for each individual currency, and NOK 175 million in aggregate.

The table below shows the net foreign currency exposure including financial derivatives at the end of the last four quarters.

Table 16: Foreign currency exposure including financial derivatives (NOK million)

Currency	4th Qtr. 2015	3rd Qtr. 2015	2nd Qtr. 2015	1st Qtr. 2015
EUR	-46	-54	-2	16
USD	4	-2	0	12
CHF	-2	1	1	2
GBP	1	1	0	0
SEK	-48	-1	0	-1
Other	1	-9	3	4

Securities risk, shares

Shares, units and other equity interests are classified within the categories of fair value and available for sale. Securities that can be measured reliably and are reported internally at fair value are classified as fair value through profit and loss. Other shares are classified as available for sale.

The table below provides a summary of the group's shareholdings at the end of the last four quarters.

Table 17: The group's share portfolio at fair value at the end of the year (NOK million)

Balance sheet classification	4th Qtr. 2015	3rd Qtr. 2015	2nd Qtr. 2015	1st Qtr. 2015
Shares, units etc.	441	516	523	631
Available for sale	168	136	129	22

OPERATIONAL RISK

Operational risk is the risk of loss due to weak or inadequate internal processes or systems, human errors or external incidents.

Management of operational risk

SpareBank 1 SR-Bank aims to be one of the leading performers in the Nordic countries regarding operational risk management. This will be achieved through a sound risk culture in the organisation, continuous learning from unwanted incidents and the development of leading methods for identifying and quantifying operational risk.

Risk strategy and limits on operational risk exposure are set annually and approved by the board. The individual managers are responsible of ensuring that the unit they lead is subject to adequate management and control given the limits, and that operational risk is managed in accordance with the strategy and guidelines defined for SpareBank 1 SR-Bank. The Risk Management Department is responsible for supporting and challenging the risk owners, and for ensuring that the group has a good framework for the identification, reporting and follow-up of operational risk.

Measuring operational risk

SpareBank 1 SR-Bank calculates and keeps regulatory capital related to operational risk in accordance with the standardised approach. However, as this method is based on historical income and does not take business-specific factors and established controls into account, it is deemed to provide an inadequate indication of the actual exposure to operational risk. In order to gain insight into what actually drives operational risk within business processes and thereby measure risk exposure, a total review of the group's operational risk exposure is conducted at least annually. In this process, potential risk scenarios and their associated probabilities and consequences are analysed with extensive involvement by business process owners and technical experts. The resulting estimated exposure to operational risk is input in the group's management accounts in order to calculate the business unit's risk-adjusted return. Thus, any measure carried out to reduce the estimated operational risk exposure, will translate into improved risk-adjusted return for relevant business units. This encourages active risk management.

The group's insurance arrangements have a major impact on the potential financial consequences of operational risks. For all identified risks with a potential financial consequence of more than NOK 10 million, an individual assessment of expected insurance coverage is conducted.

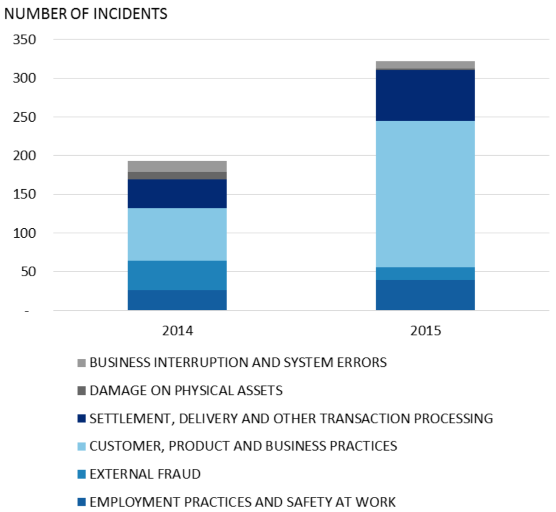
One of the greatest challenges associated with operational risk is forecasting and calculating credible estimates for rare events with major consequences. Extensive scenario models are required in order to capture the complexity of such scenarios and SpareBank 1 SR-Bank has, for several years, collaborated with risk experts at the University of Stavanger (UiS) to develop such models. The methods developed through this collaboration are used in the group's ongoing risk management.

Development in operational risk

In the last year, SpareBank 1 SR-Bank has achieved a significant reduction in potential loss due to operational incidents. This is despite the fact that new risks with a significant loss potential have been identified in the same period. The reduction is achieved through targeted measures against risk drivers, in order to reduce the probability of identified risks to occur, as well as measures to reduce the consequences if they do. Implemented measures are mainly related to changes in procedures, stricter amount limits, improvement of system controls and targeted collection of additional insurances.

Unwanted incidents that occur in the group are registered and followed up in order to avoid repetition. It is important that as many of the incidents that occur as possible are registered since they provide valuable input for risk evaluations and provide a basis for continuous operational learning and improvement. Therefore, there is a heavy focus on further improving the reporting culture in the group, including improving the system for incident registration, which was adapted in 2015. The figure below shows the number of registered incidents in 2014 and 2015.

Figure 28: Registered, undesired incidents by Basel categories



As the figure shows, the number of registered incidents rose by 65% from 2014 to 2015. This increase is related to improved system support and reporting culture. In 2015, most incidents related to customer, product and business practices were registered. This category also contributed most to the actual loss along with settlement, delivery and other transaction processing. The total loss from registered incidents in 2015 amounted to just less than NOK 22 million.

Risk-weighted balance for operational risk

Risk-weighted balance for operational risk is calculated as a percentage of average income for each business area over the past three years. Banking services for the mass market are weighted 12%, banking services for the business market 15% and other services are weighted 18%.

The table below shows the risk-weighted balance for operational risk in 2015 and 2014. The SpareBank 1 SR-Bank group uses the standardised approach for calculating risk-weighted balance for operational risk. Other associated companies use the basic approach.

Table 18: Risk-weighted balance for operational risk

2015	**Consolidated**	**Boligkreditt**	**Næringskreditt**	**BN Bank**
Banking services for mass market customers	3,789			
Banking services for corporate customers	2,832			
Payment and settlement services	-241			
Proportion of operational risk consolidated company	414	94	46	274
Total	**6,794**	**94**	**46**	**274**

2014	**Consolidated**	**Boligkreditt**	**Næringskreditt**	**BN Bank**
Banking services for mass market customers	3,398			
Banking services for corporate customers	2,533			
Payment and settlement services	-83			
Proportion of operational risk consolidated company	372	95	25	252
Total	**6,220**	**95**	**25**	**252**

LIQUIDITY RISK

Liquidity risk is the risk that the group is unable to refinance its debt or is unable to finance an increase in assets.

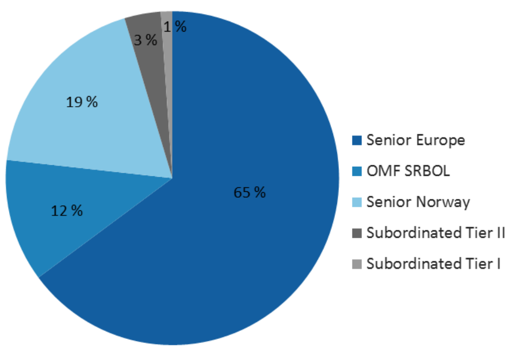
About liquidity risk

The bank's framework for managing liquidity risk shall reflect the bank's risk profile. Liquidity risk shall be low.

Management and measurement of liquidity risk

Liquidity risk is managed and measured by means of several measurement methods, as no method alone can be used to quantity this type of risk. The methods include limits for the maximum refunding need for various maturities, key balance sheet figures, survivability targets in a normal situation, assuming the capital markets are closed and the short-term liquidity measure LCR. Furthermore, internal stress tests are conducted to determine the bank's ability to survive under various scenarios, including a serious bank or market specific crisis. The results of the stress tests are included in the information on which the group's liquidity strategy and contingency plan for a liquidity crisis are based.

Figure 29: Composition of the group's securities borrowing as of 31 December 2015



The liquidity reserve is NOK 21.3 billion, and the group has an additional NOK 24.3 billion representing mortgage loans that have been prepared in the WEB client (loans ready to be transferred to the mortgage companies). The liquidity situation for SpareBank 1 SR-Bank is satisfactory.

The liquidity buffer indicates a survival period of sixteen months at the end of 2015 without access to external funding. Treasury has issued bonds totalling a gross amount of NOK 12.6 billion, including OMF, in 2015. During the next twelve months, debt corresponding to NOK 11.6 billion will be refinanced.

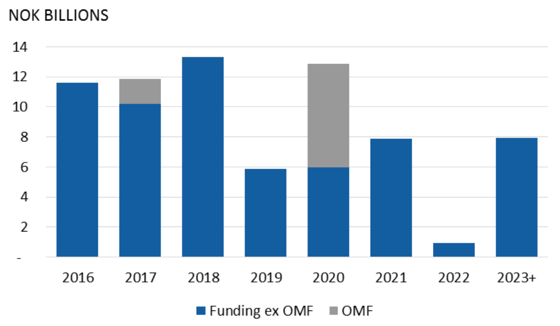
Deposits from customers represent the group's most important source of funding. For the group as a whole, the volume of deposits increased by NOK 8.0 billion (9.8%) in 2015. Lending, including SpareBank 1 Boligkreditt and Næringskreditt, increased by NOK 7.8 billion (4.7%) in 2015. In the last two years, the deposit coverage ratio has increased from 43.0% in 2013 to 48.6% in 2015.

SR-Boligkreditt AS is a wholly owned subsidiary, established in the second quarter of 2015. The aim of the company is to buy mortgages from SpareBank 1 SR-Bank, which is financed by issuing covered bonds. Through SR-Boligkreditt AS, SpareBank 1 SR-Bank can diversify and optimise its funding. Mortgage loans transferred to SR-Boligkreditt AS amounted to NOK 10.0 billion by the end of 2015, while mortgage loans transferred to SpareBank 1 Boligkreditt AS amounted to NOK 28.2 billion. Transferred balance to the mortgage companies accounts for about 32% of the gross mortgage loan balance and around 17% of the total gross lending. Loans in SpareBank 1 Næringskreditt AS total approximately NOK 0.5 billion.

The figure below illustrates the maturity structure for the funding portfolio at the end of 2015[11].

[11] Excluding SpareBank 1 Boligkreditt and Næringskreditt

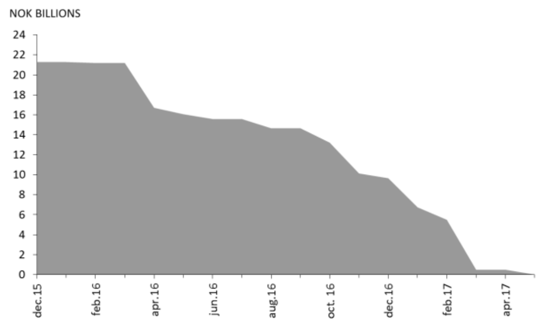
Figure 30: The funding portfolio's maturity structure as of 31 December 2015



The average remaining term to maturity in the portfolio of senior bond funding was 3.1 years at the end of 2015.

A sensitivity analysis that measures the group's ability to survive in the event of closed capital markets is prepared on a monthly basis. The primary objective of the analysis is to measure whether the funding risk is in accordance with the definition of targets for liquidity management, which specify that SpareBank 1 SR-Bank must be able to survive for a minimum twelve months without external access to liquidity in a normal situation. The analysis is based on different scenarios. In the basis scenario, the growth in net funding needs is set at zero, i.e. the relationship between deposits and loans are kept constant.

Figure 31: Sensitivity analysis of the funding risk – basis scenario



As the basis scenario assumes that access to external funding is unavailable, new lending can only be funded by instalments from and the maturity of the existing loan portfolios. In such a situation, the group's liquidity buffer ensures the ability to survive to the end of December 2016. The liquidity buffer consists of cash and very secure interest-bearing securities. The group's liquidity target, LCR (liquidity coverage ratio), was 128% at the end of 2015.

OWNERSHIP RISK

Ownership risk is the risk that SpareBank 1 SR-Bank will incur a negative result from stakes in strategically owned companies and/or need to inject fresh capital into these companies. Owned companies are defined as companies in which SpareBank 1 SR-Bank has a significant stake and influence.

About ownership risk

The ownership risk varies from company to company, depending on the company's operations and the inherent risk, as well as SpareBank 1 SR-Bank's stake. At the end of the fourth quarter of 2015, SpareBank 1 SR-Bank is primarily exposed to ownership risk through its stakes in SpareBank 1 Gruppen AS (19.5%), BN Bank ASA (23.5%), SpareBank 1 Næringskreditt AS (26.8%) and SpareBank 1 Kredittkort (18.1%).

SpareBank 1 Gruppen is owned by SpareBank 1 SR-Bank (19.5%), SpareBank 1 Nord-Norge (19.5%), SpareBank 1 SMN (19.5%), SpareBank Hedmark (11.0%), Samarbeidende Sparebanker AS (19.5%), the Norwegian Federation of Trade Unions (LO) and affiliated unions (9.6%) and SpareBank 1 Oslo Akershus (1.4%).

SpareBank 1 Gruppen AS owns 100% of the shares in SpareBank 1 Livforsikring AS, SpareBank 1 Skadeforsikring AS, ODIN Forvaltning AS, Conecto, and SpareBank 1 Gruppen Finans Holding AS.

SpareBank 1 Gruppen Finans Holding AS owns 100% of the shares in SpareBank 1 Factoring AS, Actor Fordringsforvaltning AS, Actor Portefølje AS, and Actor Verdigjenvinning AS. SpareBank 1 Gruppen AS also has an interest in SpareBank 1 Utvikling DA.

Furthermore, SpareBank 1 Gruppen has administrative responsibility for all the cooperation processes in the SpareBank 1 Alliance, where technology, brand names, competence, joint processes/application of best practices and purchasing are key factors. The alliance also conducts development work at two centres of expertise – Payment Services in Trondheim and Credit Control (KFK) in Stavanger.

BN Bank ASA offers a broad range of banking services to businesses and private individuals. The bank's operations are based on traditional banking operations aimed at home mortgage loans in the retail market and commercial property. However, in August 2015, the board of BN Bank AS decided to discontinue the corporate market business, which consists of loans for commercial property. SpareBank 1 SR-Bank's ownership risk primarily consists of the underlying credit risk in this company.

In SpareBank 1 Næringskreditt AS's portfolio only contains loans for commercial properties with leases in central locations. The loan-to-value ratio cannot be more than 60% of the total market value. At the end of 2015, SpareBank 1 SR-Bank had transferred NOK 0.5 billion (EAD) to the company. SpareBank 1 SR-Bank's ownership risk primarily consists of the underlying credit risk in this company.

SpareBank 1 Kredittkort AS started ordinary operations on 1 July 2014, and 2015 is the company’s first full operating year. The company is owned by the SpareBank 1 banks and SpareBank 1 SR-Bank owns a stake of 18.1%.

At the end of the fourth quarter of 2015, SpareBank 1 SR-Bank owned 16.7% of the shares in SpareBank 1 Boligkreditt AS. The company's operations include financing loans to retail customers with security within 75% of the basic value of real estate. At the end of the fourth quarter of 2015, SpareBank 1 SR-Bank had transferred NOK 28.2 billion (EAD) to the company. The ownership risk corresponds primarily to the share of the transferred portfolio, and the risk is thus followed up and reported as credit risk.

Management of ownership risk

SpareBank 1 SR-Bank heavily focuses on management and control in companies in which the bank has full or partial ownership. In companies that are part-owned, either through direct ownership by SpareBank 1 SR-Bank or indirectly through ownership of 19.5% of SpareBank 1 Gruppen, SpareBank 1 SR-Bank, as the largest bank in the alliance, is represented as a board member in all companies of significant importance.

All follow-up of ownership interests is performed under the group's chief financial officer. All reporting from the individual companies and questions regarding capital increases etc. are reported here. A good supply of information is assured through active participation in the board of directors of a number of the part-owned companies, which safeguards SpareBank 1 SR-Bank's ownership interests. In cases of importance to SpareBank 1 SR-Bank’s other operations, the individual board chairman/member will submit the matter for a plenary discussion by the group’s executive management team.

The group’s board stipulates risk limits and the allocation of equity to the individual companies annually. This is based on a framework for the assessment of risk.

Business review

As part of the follow-up of the bank's stakes, an annual business review is conducted of the stakes with a strategic and financial focus. The Accounting and Finance Department manages the ownership of all the investments apart from investments connected to the establishment of property syndicates. The bank’s board approves new strategic investments.

Besides business reviews, the performance of the bank's stakes is continuously reported through the bank's business management report.

BUSINESS RISK

Business risk is the risk of unexpected fluctuations in incomes and costs resulting from changes in external circumstances, such as the market situation or government regulation.

The group has developed a well-diversified income base over a long period of time, and this means that any reduction in the individual product groups or customer segments will not have significant consequences over time.

Over time, the group has developed cost-effective operations in combination with a continuous development of competence and expansion of the operations with regard to the range of products and geography. SpareBank 1 SR-Bank has systematically focused on the value chain philosophy and development of products and services for several years.

REPUTATION RISK

Reputation risk is the risk of a failure in earnings and access to capital due to a lack of trust and damage to reputation in the market, i.e. in relation to customers, counterparties, stock markets and authorities.

The group has established an information department that is represented in the group’s executive management team. Dedicated employees are responsible for handling all communications in social media, and information management is included in the group’s contingency plan, which is distributed to all employees.

SpareBank 1 SR-Bank has also implemented an internal process for identifying and evaluating the group's overall reputation risk situation. A full review and survey of the reputation risks to which the group is exposed are conducted regularly and at least semi-annually. Changes in the risk situation are also registered.

Reputation risk is identified and sorted according to:

- Direct management cost (firefighting)
- Indirect management cost by requiring changes in a business model that gives lower profitability
- Impact on the group’s market value and/or ability to raise capital in the markets
- Impact on departure of existing customers
- Impact on influx of new customers

The group continuously monitors its reputation, both through day-to-day media monitoring and evaluation, as well as continuously monitoring discussions in different social channels. The continuous day-to-day evaluations are carried out as objectively as possible. Members of the group’s executive management team and other key personnel receive daily media reports.

STRATEGIC RISK

Strategic risk is the risk of loss due to failed strategic decisions.

SpareBank 1 SR-Bank annually conducts a strategy process that involves the board of directors, key personnel, departments and subsidiaries. The result of this process is a strategic presentation of goals for the following three years, with an associated business plan and plan of action. The business plan clearly shows the priorities the group has made for the period based on scenarios and the competition and market situation. The business plan and plan of action are more detailed for the next year.

The group’s executive management team conducts monthly and four-monthly evaluations of the group’s achievements and strategic direction. The evaluation also assesses relevant new initiatives and measures that must be implemented based on changes in assumptions or the market situation. Strategic work is therefore flexible in its approach and can safeguard both short-term and long-term goals.

COMPLIANCE RISK

Compliance risk is the risk that the group incurs public sanctions/penalties or financial loss due to failure to comply with legislation and regulations.

The compliance function at SpareBank 1 SR-Bank is an independent function that ensures that the laws, regulations, standards and recommendations that regulate our operations, and are laid down by government agencies or other institutions or associations, are implemented and complied with.

Compliance policy

The group's compliance policy is adopted by the board and describes the main principles for responsibility and organisation.

The group stresses the importance of good processes to ensure compliance with the current laws and regulations. Effective tools for achieving this include:

- Clear values that are clearly communicated and understood throughout the organisation.
- A process that detects, communicates, and implements changes in legislation and regulations.
- A process to monitor and report compliance with legislation and regulations.

Management of compliance risk

SpareBank 1 SR-Bank's compliance risk profile should be very low. The group must comply and operate in line with the various regulations that regulate the business, tailored to the group's general strategy, product range and scope.

The framework for compliance is primarily based on the EBA's ‘Guidelines on Internal Governance (GL 44)’, Basel Committee on Banking Supervision's ‘Compliance and the compliance function in banks’ and the Financial Supervisory Authority of Norway's ‘Module for the evaluation of general management and control’.

The group's compliance function is performed by the Compliance Department, which is organised independently of the business units. The department bears overall responsibility for the framework, follow-up and reporting in the area of compliance.

The group's managers have an operational responsibility for practical implementation and compliance with laws and regulations. All employees are responsible for ensuring that they comply and understand the laws and regulations on a day-to-day basis.

Compliance for investment firm

The group has a designated compliance manager for the group's investment firm who is responsible for ensuring that the bank's activities relating to the provision of investment services always comply with the regulations for securities trading.

RENUMERATION SCHEME

SpareBank 1 SR-Bank ASA's remuneration policy

SpareBank 1 SR-bank ASA has established a remuneration scheme that applies to all employees.

The group's remuneration scheme shall:

- Be consistent with the group's overall objectives, risk tolerance and long-term interests
- Help to promote and provide incentives for good management and control of the group's risk, discourage excessive or unwanted risk taking, and help to avoid conflicts of interest
- Comply with the regulations governing remuneration schemes in financial institutions, investment firms and management companies for securities funds of 1 December 2010 (Remuneration Scheme Regulations)

The total remuneration shall be competitive, but not leading. It shall ensure that the group attracts, develops and retains the most competent employees over time. The scheme will ensure a reward model that is perceived to be fair, predictable and future-oriented and motivating.

Decision process

The board of SpareBank 1 SR-Bank ASA has established a remuneration committee consisting of three board members.

The remuneration committee prepares matters for the board and is mainly responsible for:

- Annually reviewing and proposing the total salary and remuneration for the chief executive
- Annually considering proposals for the corporate scorecard (chief executive's scorecard)
- Annually considering the group's remuneration scheme, including strategy and guiding principles for variable remuneration
- Advising the chief executive on matters relating to remuneration and other key benefits and other personnel-related issues for the group's executive personnel
- Ensuring that the practice of the group's remuneration arrangements are reviewed annually by an independent control function
- Preparing a statement on the fixing of salaries and other remuneration to executive personnel (ref. section 6-16a of the Public Limited Liability Companies Act)
- Considering other conditions as determined by the board and/or remuneration committee
- Reviewing other personnel-related matters concerning the group's remuneration scheme that are likely to involve significant reputation risk.

Guidelines for the coming financial year

Chief executive's remuneration

The chief executive's salary and other financial benefits shall be fixed annually by the board based on the recommendation of the remuneration committee. The chief executive's variable remuneration is fixed on the basis of a comprehensive assessment based on individual performance and development in similar positions. Variable compensation can be earned annually, but must be based on goals achieved in the last two years. The chief executive can receive a group bonus on a par with other employees. Any variable remuneration, including group bonus, may amount to up to 25% of fixed salary including holiday pay. No performance-based benefits are paid over and above the said schemes. Variable pay is not included in pensionable salary.

Half of the variable remuneration, with the exception of the group bonus, is paid in the form of shares in SpareBank 1 SR-Bank ASA, where 1/3 can be used in each of the next three years. That part of the variable remuneration that is paid in shares will be reduced if the recalculation basis for calculating the variable remuneration in the qualifying year shows that the calculation basis is considerably lower than the calculation basis that was assumed in the qualifying year.

The chief executive may also receive benefits in kind to the extent that the benefits are naturally related to the chief executive's function in the group and are in line with market practice in general.

A life-long pension scheme has been entered into for the chief executive with the pensionable age being the end of the year in which the chief executive reaches the age of 64, and then with an annual salary up to the age of 67 representing 67% of pensionable salary. From the age of 67, the chief executive will receive a supplementary retirement pension which, together with the SpareBank 1 SR-Bank's pension fund, pension from the National Insurance Scheme and statutory early retirement pension (AFP) will constitute 67% of pensionable pay, assuming full earning period.

The chief executive has no agreement concerning termination benefits if the chief executive leaves the post prior to reaching retirement age.

Remuneration of other executive personnel

The chief executive fixes the remuneration of executive personnel in accordance with the remuneration committee. The board decides the adopted remuneration scheme. Other executive personnel consist of the group's executive management team.

Salaries are fixed after considering the performance and conditions in the market for the various areas. Salaries should promote good performance and ensure that the group achieves its strategic goals. Remuneration should not be detrimental to the group's reputation nor shall the group be a market leader. Salaries should ensure that the group has the ability to attract and retain executives with the skills and experience required.

Variable remuneration is fixed based on the group’s achieved return on equity capital and other established targets in a balanced scorecard. Variable compensation can be earned annually, but must be based on goals achieved in the last two years. Executive personnel may receive a group bonus on a par with other employees. Any variable remuneration, including group bonus, may amount to up to 25% of fixed salary including holiday pay. Variable remuneration is not given if there is no group bonus. No performance-based benefits are paid over and above the said schemes. Variable pay is not included in pensionable salary. The Executive Vice President Risk Management and Compliance and the Executive Vice President Organisation and HR, do not receive variable remuneration beyond the group bonus.

Half of the variable remuneration, with the exception of the group bonus, is paid in the form of shares in SpareBank 1 SR-Bank ASA, where 1/3 can be used in each of the next three years. The part of the variable remuneration that is paid in shares will be reduced if the recalculation basis for calculating the variable remuneration in the qualifying year shows that the calculation basis is considerably lower than the calculation basis that was assumed in the qualifying year. Benefits in kind can be offered to executive personnel to the extent that benefits are naturally linked to each function in the group and are in line with market practice in general.

The pension schemes should be seen in the context of other remuneration and should provide competitive terms. Members of the executive management team have a retirement age of 62, with the exception of the last member to be employed, who has a retirement age of 67. The executive management team are members of the closed defined benefit plan which, with full pension earnings, entitles them to a pension of 70% of pensionable income, including pension from the National Insurance Scheme and AFP from the age of 67. This scheme was changed in 2011, and for members of the executive management team hired after this time, the pension is limited to 12G. Members of the executive management team who have a retirement age of 62 are entitled to a pension equivalent to 70% of pensionable income in the form of service pension, from age 62 to age 67.

No executive personnel have an agreement concerning termination benefits upon leaving his/her post prior to reaching retirement age.

Remuneration of other executive personnel responsible for independent control functions

Remuneration of other executive personnel responsible for independent control functions should be independent of the performance of the business areas they control.

Employees with control functions cannot receive variable remuneration beyond group bonuses.

Remuneration of other employees whose total remuneration takes them into the same remunerations scheme as other executive personnel

The remuneration scheme is according to the remuneration of other executive personnel.

Group bonus

The group has a bonus scheme that covers all employees. The group bonus is set at an equal percentage of salary, and can, as a maximum, amount to 1.5 times the monthly salary. The group bonus is set by the board based on the group's financial performance. The group bonus is paid entirely in cash.

Binding guidelines for shares, subscription rights, options, etc. for the coming financial year

The chief executive and executive management team are able to participate in private placements for employees on an equal footing with other employees.

Half of all the variable remuneration, with the exception of the group bonus, the chief executive and executive management team will earn in 2014 will be paid in the form of shares issued by SpareBank 1 SR-Bank ASA. Up to 1/3 of shares that are allotted as variable remuneration can be traded in each of the following three years.

Report on executive pay policy in the preceding financial year

The board confirms that the executive pay policy guidelines for 2014 provided in last year's statement have been complied with.

The table below shows the disclosure of remuneration, in compliance with the Regulations on remuneration schemes in financial institutions, investment firms and fund management companies.

Table 19: Disclosure of remuneration

Disclosure of remuneration	Number	Remuneration	Of which variable remuneration
Key employees	64	109,863	15,762
Employees and elected representatives with duties of significant importance to the enterprise's risk exposure	7	11,123	3,349
Employees responsible for independent control functions	3	2,904	256
Elected representative	1	1,053	99
Total	75	124,943	19,466

ABBREVIATIONS AND DEFINITIONS

An explanation of abbreviations used in Pillar 3 is given in the table below.

Abbreviation	Explanation
IRB	Internal Rating Based
PD	Probability of Default
DR	Default Rate
EAD	Exposure at Default
CF	Conversion Factor (proportion of unutilised credit facility which is expected to have been drawn upon default)
LGD	Loss Given Default
RM	Retail market
CM	Corporate Market

A commitment is considered to be in default if:

- A claim is overdue by more than 90 days and the amount is over NOK 1,000, or
- When the bank has reason to believe that there is a chance that the debtor is unable to (fully) repay according to their obligations:
  - The bank makes an impairment attributable to poorer creditworthiness
  - The bank claims a loss due to poorer creditworthiness
  - Due to payment problems with the counterpart, the bank grants a postponement of payment or new credit to payment by term, or comes to an agreement of changes in the interest rate or other conditions
  - An opening of debt negotiations, bankruptcy or public administration with the counterparty is requested, or voluntary debt negotiations have been initiated
  - For any other reasons, the bank presumes that the obligations will not be fulfilled

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Consolidation basis

Table 20: Consolidation basis (amounts in NOK 1,000)

Subsidiaries **As of 31.12.2015**	**Number of shares**	**Book value**	**Voting rights**	**Consolidation method**
Wholly consolidated companies				
SpareBank 1 SR-Finans AS	334,000	811,689	100%	Acquisition method
EiendomsMegler 1 SR-Eiendom AS	150	97,205	100%	Acquisition method
SR-Investering AS	3,500	164,225	100%	Acquisition method
SR-Forvaltning AS	6,000	29,018	100%	Acquisition method
Regnskapshuset SR AS	8,000	70,125	100%	Acquisition method
Rygir Industrier AS group	90,000	191,106	100%	Acquisition method
Etis Eiendom AS	10,000	1,730	100%	Acquisition method
Finansparken Bjergsted AS	16,000	58,016	100%	Acquisition method
SR-Boligkreditt AS	1,275,000	1,275,150	100%	Acquisition method
Total		**2,698,264**		

Subsidiaries **As of 31.12.2014**	**Number of shares**	**Book value**	**Voting rights**	**Consolidation method**
Wholly consolidated companies				
SpareBank 1 SR-Finans AS	334,000	635,758	100%	Acquisition method
EiendomsMegler 1 SR-Eiendom AS	150	97,205	100%	Acquisition method
Westbroker Finans AS	100	218	100%	Acquisition method
SR-Investering AS	3,500	180,725	100%	Acquisition method
SR-Forvaltning AS	6,000	29,019	100%	Acquisition method
SR-Forretningsservice AS	1,000	125	100%	Acquisition method
Rygir Industrier AS group	90,000	222,706	100%	Acquisition method
Etis Eiendom AS	10,000	1,730	100%	Acquisition method
Finansparken Bjergsted AS	16,000	58,016	100%	Acquisition method
Total		**1,225,502**		

Method of consolidation is the same for accounting purposes and capital adequacy purposes.

Subsidiaries using the standard method

	31.12.2015		31.12.2014	
Amounts in NOK million	**SR-Finans**	**SR-Forvaltning**	SR-Finans	SR-Forvaltning
Net regulatory capital	**1,016**	**17**	939	15
Minimum regulatory capital requirements	**6,545**	**87**	6,380	70
Capital ratio %	**15.52**	**20.02**	14.71	21.40

Subsidiaries using the IRB method

Amounts in NOK million	**31.12.2015** **SR-Boligkreditt**
Net regulatory capital	**1,258**
Minimum regulatory capital requirements	**4,028**
Capital ratio %	**31.24**

Investments in associated companies

Investments in associated companies are accounted for according to the equity method in the group and according to the acquisition method in the parent bank. The investments are treated identically for the purposes of determining the capital adequacy ratio except for the group's investments in SpareBank 1 Boligkreditt AS, SpareBank 1 Næringskreditt AS and BN Bank AS. Proportionate consolidation is carried out for the group's capital adequacy.

Investments in joint ventures are recognised in the group using the equity method and in accordance with the acquisition method in the parent bank. The investments were treated equally for capital adequacy purposes.

Table 21: Investments in associated companies and joint ventures

Amounts in NOK 1,000	Ownership percentage 1) 31.12.2015	Capital requirements 2) 31.12.2015	Capital adequacy percentage 31.12.2015
SpareBank 1 Boligkreditt AS 1)	18.1	13,099	16.09
SpareBank 1 Næringskreditt AS	26.8	4,000	15.68
BN Bank ASA 1)	24.2	4,385	22.67

Amounts in NOK 1,000	Ownership percentage 1) 31.12.2014	Capital requirements2) 31.12.2014	Capital adequacy percentage 31.12.2014
SpareBank 1 Boligkreditt AS 1)	21.4	15,019	14.09
SpareBank 1 Næringskreditt AS	26.8	4,486	13.97
BN Bank ASA 1)	24.2	5,183	19.68

1) Including indirect ownership shares

2) SpareBank 1 SR-Bank's share

SpareBank 1 Boligkreditt AS and BN Bank AS use the IRB approach in its capital adequacy reporting. SpareBank 1 Næringskreditt AS uses the standard approach for reporting capital adequacy.

SpareBank 1 SR-Bank places an emphasis on maintaining adequate capitalisation at all times for all business units within the group. The group's governing bodies have not imposed any limitations on the board of directors' authorisation to transfer capital between the parent bank and its subsidiaries and from subsidiary to subsidiary with the exception of regulatory and other statutory limitations. In addition, there are no provisions in the Articles of Association that impose any such restrictions.

For the same reason, the bank and its subsidiaries do not enter into agreements that impose limitations on the board of directors' right to transfer capital as mentioned above. This applies to funding loan agreements and agreements with suppliers and customers. Accordingly, no restrictions have been placed on the board's opportunity to transfer capital between the various business units in the parent bank either. Moreover, the transfer of capital between the companies will be regulated by ordinary legislation for these companies and for the financial group as a whole. As for investment in subsidiaries, the group has a strategic interest in supporting the activities of SpareBank 1 Boligkreditt AS and SpareBank 1 Gruppen AS. In this connection the group is concerned about no agreements being entered into or decisions etc. made that entail a restriction of the owner banks' opportunity to transfer capital to these companies if this should be necessary in order to achieve satisfactory capital adequacy or financial strength. The group is not aware of any such constraints with the exception of those imposed by legislation and the regulation. The group assumes that the transfer of capital from these two companies to the owner banks will not be practical, with the exception of ordinary dividend payments, and it has based the group's own risk profile on this assumption. As far as the group knows, there are no private legal impediments that restrict dividend distributions from these companies.

Regulatory capital

The equity value of non-perpetual subordinated loan capital is reduced by 20% every year during the last five years before maturity. To the extent the group has regulatory capital in other financial institutions; this is directly deducted from the group's own regulatory capital for that part which exceeds 2% of the receiving financial institution's regulatory capital.

If the group has regulatory capital in other financial institutions that constitutes less than 2% of the individual financial institution's regulatory capital, the total of such capital is deducted from the group's regulatory capital for that part which exceeds 10% of the group's regulatory capital. If the group has been instructed to maintain a 100% capital adequacy reserve for specific assets, an amount corresponding to the assets' book value must be deducted from the regulatory capital and in the basis for calculation. The basis for calculation is weighted according to risk.

Table 22: Regulatory capital in other financial institutions

Amounts in NOK million	**Ownership percentage 31.12.2015**	**Book value 31.12.2015**	Ownership percentage 31.12.2014	Book value 31.12.2014
SpareBank 1 Gruppen	19.5%	1,618	19.5%	1,505
Bank 1 Oslo	4.8%	146	4.8%	137
Sandnes Sparebank	13.9%	67	13.9%	102
SpareBank 1 Kredittkort	18.1%	197	17.9%	158
Other financial institutions		15		29
Total		**2,043**		1,931

The bank differentiates between material assets >10% and non-material assets in financial institutions. Investments that exceed 10% of own common equity tier 1 capital after deductions are deducted from primary capital and the deductions are made in the same class of capital to which the instrument one owns belongs. Investments in common equity tier 1 instruments that are not deductible from primary capital are weighted 250% in the basis for calculation.

Table 23: Regulatory capital

Regulatory capital, including core capital and supplementary capital, as well as relevant supplements, deductions and limitations.

Group (Amounts in NOK million)	**31.12.2015**	31.12.2014
Share capital	**6,394**	6,394
Share premium reserve	**1,587**	1,587
Allocated dividend	**384**	512
Fund for unrealised gains	**163**	59
Other equity	**8,386**	6,851
Total recorded equity	**16,914**	15,403
Core (tier 1) capital		
Deferred tax, goodwill and other intangible assets	**-67**	-24
Deduction for allocated dividend	**-384**	-512
Deduction in expected losses IRB less loss provisions	**-421**	-676
Deduction for investments in other financial institutions	**-191**	-326
Value adjustments due to the requirements for prudent valuation	**-57**	-48
Total core (tier 1) capital	**15,794**	13,817
Hybrid tier 1 bond [1)]	**1,088**	1,011
Total core (tier 1) capital	**16,882**	14,828
Supplementary (tier 2) capital in excess of core (tier 1) capital		
Non-perpetual subordinated capital	**3,111**	2,697
Deduction for investments in other financial institutions	**-60**	-60
Total supplementary (tier 2) capital	**3,051**	2,637
Net regulatory capital	**19,933**	17,465

[1)] Terms and conditions are presented in the table 'Subordinated loan capital and hybrid tier 1 bonds'

Risk weighted assets	**31.12.2015**	31.12.2014
Credit risk and counterparty credit risk	**99,494**	103,397
Credit value adjustment risk (CVA)	**1,050**	1,127
Market risk	**0**	9,445
Operational risk	**6,794**	6,220
Capital adequacy requirements related to transitional arrangements	**11,786**	0
Risk weighted assets	**119,124**	120,189
Common equity tier 1 capital requirement 4.5%	**5,361**	5,409
Buffer requirements		
Capital conservation buffer 2.5%	**2,978**	3,005
Systemic risk buffer 3%	**3,574**	3,606
Countercyclical buffer 1%	**1,191**	
Combined buffer requirement	**7,743**	6,610
Surplus CET1	**2,690**	1,798
Capital adequacy	**16.73%**	14.53%
Of which core capital	**14.17%**	12.34%
Of which supplementary capital	**2.56%**	2.19%
Common equity tier 1 ratio	**13.26%**	11.50%

Subordinated loan capital and hybrid tier 1 bonds

Subordinated loan capital and hybrid tier 1 bonds (hybrids) in foreign currencies are included in the group's total currency position so that there is no currency risk associated with the loans. Of a total of NOK 3,459 million in subordinated loan capital, NOK 794 million counts as core (tier 1) capital and NOK 2,536 million as non-perpetual subordinated capital. Capitalised costs associated with borrowing are reflected in the calculation of amortised cost.

Hybrid tier 1 bonds can account for a maximum of 15% of the combined core (tier 1) capital for bonds with a fixed term and 35% for hybrid tier 1 bonds without a fixed term. Any excess amount counts as perpetual subordinated loan capital.

Table 24: Subordinated loan capital and hybrid tier 1 bonds

Principal	**Terms**	**Maturity**	**First maturity date**	**2015**	2014
Non-perpetual					
NOK 750	3-month NIBOR + 3.50% p.a.	2021	2016	**746**	745
NOK 500	3-month NIBOR + 1.80% p.a.	2023	2018	**499**	499
EUR 50	4% p.a. until 21.12.2017, then 6-month EURIBOR + 1.725% p.a.	2030	2030	**502**	0
NOK 825	3-month NIBOR + 2.75% p.a.	2022	2017	**825**	825
Total non-perpetual				**2,572**	2,069
Hybrid tier 1 bonds					
NOK 684	9.35% p.a. until 09.12.2019, then 3-month NIBOR + 5.75% p.a.		2019	**759**	767
NOK 116	3-month NIBOR + 4.75% p.a. until 09.12.2019, then NIBOR + 5.75% p.a.		2019	**116**	116
Total hybrids				**875**	883
Accrued interest				**12**	12
Total subordinated loan capital				**3,459**	2,964

Commitments by geographic area

Commitment amount is defined as gross lending to customers + guarantees + unutilised credit in the group, prior to deductions for write-downs and without regard to potential collateral.

Table 25: Commitment amount for each type of commitment, divided into geographic areas before deductions for write-downs.

2015	**Gross loans**	**Unutilised credit**	**Guarantees**	**Total**
Rogaland	**111,268**	**13,963**	**8,182**	**133,413**
Agder	**13,719**	**1,694**	**1,009**	**16,422**
Hordaland	**24,007**	**2,965**	**1,765**	**28,737**
Other	**6,196**	**766**	**456**	**7,418**
Total gross commitments, customers	**155,190**	**19,388**	**11,412**	**185,990**

2014	Gross loans	Unutilised credit	Guarantees	Total
Rogaland	103,117	12,980	9,378	125,475
Agder	13,102	1,649	1,192	15,943
Hordaland	19,683	2,478	1,790	23,951

Other	5,718	720	520	6,958
Total gross commitments, customers	**141,620**	**17,827**	**12,879**	**172,326**

Commitments by type of commitment

The total commitment amount, defined as gross lending to customers + guarantees + unutilised credit in the group, after any write-down and without taking account of any security pledged and the average size of the commitments during the period, broken down by type of commitment.

Table 26: Total commitment size, by type of commitment (amount in NOK millions)

2015	**Commitment amount**	**Average commitment amount**
Enterprises	**90,088**	**88,792**
Mass market	**95,902**	**90,367**
Gross commitments, customers	**185,990**	**179,158**
Individual write-downs	**-315**	**-319**
Write-downs for groups of loans	**-518**	**-448**
Write-down of guarantees	**0**	**0**
Net commitments, customers	**185,157**	**178,392**
Governments (Norges Bank)	**728**	**1,169**
Institutions	**2,984**	**2,603**
Total commitment amount	**188,869**	**182,164**

2014	**Commitment amount**	**Average commitment amount**
Enterprises	87,495	84,428
Mass market	84,831	74,463
Gross commitments, customers	**172,326**	**158,891**
Individual write-downs	-322	-384
Write-downs for groups of loans	-378	-340
Write-down of guarantees	0	0
Net commitments, customers	**171,626**	**158,167**
Governments (Norges Bank)	1,610	1,304
Institutions	2,222	1,738
Total commitment amount	**175,458**	**161,208**

Commitments by customer groups

The total commitment amount, defined as gross lending to customers + guarantees + unutilised credit in the group, after any write-down and without taking account of any security pledged and the average size of the commitments during the period, broken down by type of commitment.

Table 27: Commitment amount for each type of commitment, broken down by sectors before deductions for write-downs.

2015	**Gross loans**	**Unutilised credit and guarantees**	**Total**
Agriculture/forestry	**4,443**	**1,920**	**6,363**
Fisheries/fish farming	**903**	**398**	**1,301**
Mining operations and extraction	**5,330**	**1,172**	**6,502**
Industry	**3,093**	**1,563**	**4,656**
Power and water supply/building and construction	**3,437**	**1,230**	**4,667**
Wholesale and retail trade, hotels and restaurants	**2,578**	**1,199**	**3,777**
Overseas shipping, pipeline transport and other transport	**9,666**	**1,718**	**11,384**
Property management	**27,568**	**8,312**	**35,880**
Service sector	**8,113**	**2,418**	**10,531**
Public sector and financial services	**2,209**	**2,818**	**5,027**
Unclassified (excess value fixed rate loan)	**619**	**(619)**	**0**
Total enterprises	**67,960**	**22,128**	**90,088**
Mass market	**87,229**	**8,673**	**95,902**
Total gross commitment customers	**155,190**	**30,801**	**185,990**

2014	**Gross loans**	**Unutilised credit and guarantees**	**Total**
Agriculture/forestry	4,458	2,766	7,224
Fisheries/fish farming	596	271	867
Mining operations and extraction	4,341	700	5,041
Industry	2,650	1,691	4,341
Power and water supply/building and construction	3,520	1,812	5,332
Wholesale and retail trade, hotels and restaurants	2,529	1,622	4,151
Overseas shipping, pipeline transport and other transport	8,239	424	8,663
Property management	27,164	9,359	36,523
Service sector	7,859	2,731	10,590
Public sector and financial services	1,877	2,886	4,763
Unclassified (excess value fixed rate loan)	736	(736)	0
Total enterprises	63,969	23,526	87,495
Mass market	77,651	7,180	84,831
Total gross commitment customers	141,620	30,706	172,326

Defaulted and doubtful commitments broken down by customer group

Doubtful commitments are defined as commitments that are not defaulted, but where the customer's financial position indicates a probability of loss in the future. A commitment is deemed to be in default if a claim is overdue by more than 90 days and the defaulted amount exceeds NOK 1,000, or when the bank has reason to believe that it is likely that the debtor will be unable to repay according to its obligations to the bank. Defaulted commitments are risk classified in the default classes J and K. Commitments with individual write-downs are risk classified in default class K.

Table 28: Defaulted and doubtful commitments by customer groups

31.12.2015	**Total commitment amount**			
Amounts in NOK million	**Doubtful**	**In default**	**Individual write-downs**	**Value changes recognised during the period**
Agriculture/forestry	2	27	20	2
Fisheries/fish farming	0	0	0	0
Mining operations and extraction	0	0	0	0
Industry	36	2	12	3
Power and water supply/building and construction	10	16	14	13
Wholesale and retail trade, hotels and restaurants	56	11	40	27
Overseas shipping, pipeline transport and other transport	38	8	19	179
Property management	294	75	121	30
Service sector	62	542	35	10
Public sector and financial services	1	0	0	0
Total for enterprises	**499**	**681**	**261**	**264**
Transferred from write-downs on groups of loans	0	0	0	140
Mass market	49	172	54	16
Total	**548**	**853**	**315**	**420**

31.12.2014	**Total commitment amount**			
Amounts in NOK million	**Doubtful**	**In default**	**Individual write-downs**	**Value changes recognised during the period**
Agriculture/forestry	7	34	20	2
Fisheries/fish farming	0	0	0	0
Mining operations and extraction	0	0	0	-5
Industry	40	14	15	5
Power and water supply/building and construction	24	18	22	22
Wholesale and retail trade, hotels and restaurants	26	15	24	26
Overseas shipping, pipeline transport and other transport	54	1	36	-6
Property management	251	126	118	112
Service sector	68	7	44	8
Public sector and financial services	1	0	0	0
Total for enterprises	**471**	**215**	**279**	**164**
Transferred from write-downs on groups of loans	0	0	0	75
Mass market	42	212	43	18
Total	**513**	**427**	**322**	**257**

Actual losses by default class

Table 29: Actual losses for each default class during the period (amounts in NOK million)

	2015	2014
A (0.00–0.10%)	**0**	0
B (0.10–0.25%)	**0**	0
C (0.25–0.50%)	**0**	0
D (0.50–0.75%)	**0**	0
E (0.75–1.25%)	**0**	0
F (1.25–2.50%)	**0**	0
G (2.50–5.00%)	**0**	0
H (5.00–10.00%)	**0**	0
I (10.00 –)	**0**	0
J	**0**	0
K	**420**	**257**
Total	**420**	257

Defaulted and doubtful commitments by geographic area

Table 30: Separate specification of the total commitment amount with impairment and defaulted commitments divided into geographic areas, including total changes in value and write-downs

	Total commitment amount		**Individual write-downs**
2015	**Doubtful**	**In default**	
Rogaland	346	694	169
Agder	123	81	85
Hordaland	69	50	56
Other	10	28	5
Total	**548**	**853**	**315**

	Total commitment amount		**Individual write-downs**
2014	**Doubtful**	**In default**	
Rogaland	255	234	163
Agder	176	80	99
Hordaland	80	94	44
Other	2	19	16
Total	**513**	**427**	**322**

Write-downs on loans

Table 31: Reconciliation of changes in changes in value and write-downs respectively for commitments with impairment

2015	Opening balance	Write-down amount recognised	Amount set aside for or reversed from estimated losses	Closing balance
Individual write-downs	322	185	178	315
Write-downs on groups of loans	378		140	518
Specified provisions for losses, guarantees	0		3	3
Total	**700**	**185**	**321**	**836**

2014	Opening balance	Write-down amount recognised	Amount set aside for or reversed from estimated losses	Closing balance
Individual write-downs	446	283	159	322
Write-downs on groups of loans	302		75	378
Specified provisions for losses, guarantees	0		0	0
Total	**748**	**283**	**234**	**700**

Exposure of portfolios in which the IRB approach is used

Table 32: Distribution by risk classes in which the IRB approach is used (amounts in NOK million)

2015 Commitment category	Default class	Total EAD	Total unutilised facility	Average risk weight	Average loss given default	Average conversion factor
SME enterprises						
	A	0	0	0.0%	0.0%	0.0%
	B	640	480	24.4%	18.1%	97.4%
	C	4,933	1,262	36.1%	28.7%	85.9%
	D	3,019	474	42.3%	26.6%	90.7%
	E	4,053	651	49.9%	27.3%	90.0%
	F	5,490	1,451	72.4%	32.9%	94.7%
	G	3,851	620	82.6%	31.9%	79.2%
	H	1,276	192	95.9%	33.3%	85.1%
	I	781	113	134.8%	31.9%	74.1%
	J	13	2	44.9%	60.2%	88.2%
	K	142	14	102.6%	0.0%	96.0%
Total SME enterprises		**24,197**	**5,259**	**61.3%**		**87.7%**
Specialised enterprises						
	A	12	3	13.3%	23.3%	86.1%
	B	1,561	574	26.4%	30.2%	76.3%
	C	5,126	328	33.6%	24.8%	94.1%
	D	4,119	565	51.4%	32.3%	93.7%
	E	6,752	317	51.7%	26.0%	97.5%
	F	6,172	841	67.2%	29.6%	94.6%
	G	7,707	1,243	70.4%	29.3%	97.1%
	H	2,861	552	93.2%	33.0%	98.0%
	I	1,244	38	137.2%	34.9%	92.0%
	J	95	1	88.2%	23.5%	99.8%
	K	396	4	95.3%	7.3%	99.6%
Total specialised enterprises		**36,044**	**4,466**	**61.4%**		**94.7%**
Other enterprises						
	A	0	0	0.0%	0.0%	0.0%
	B	0	0	7.7%	0.0%	100.0%
	C	305	180	63.3%	24.0%	85.2%
	D	1,089	465	37.9%	8.5%	87.0%
	E	2,610	768	69.0%	9.5%	81.0%
	F	3,703	623	70.5%	4.7%	77.0%
	G	861	120	138.7%	6.5%	88.3%
	H	493	5	103.5%	0.4%	99.0%
	I	80	0	49.3%	0.0%	100.0%
	J	49	0	0.0%	0.0%	0.0%
	K	526	4	0.0%	0.0%	0.0%
Total other enterprises		**9,716**	**2,165**	**70.3%**		**82.5%**
SME mass market with mortgage on real estate						
	A	0	0	0.0%	0.0%	0.0%
	B	1,764	573	7.6%	17.8%	99.9%
	C	1,553	162	13.8%	21.8%	99.9%
	D	801	27	20.7%	22.6%	100.0%
	E	805	12	29.2%	23.9%	100.0%
	F	473	4	42.2%	23.4%	99.9%
	G	103	1	53.8%	19.9%	100.0%
	H	84	2	87.2%	21.4%	99.9%
	I	137	1	113.0%	20.7%	99.9%

	J	1	0	2.6%	40.5%	100.0%
	K	15	0	14.8%	83.3%	100.0%
Total SME mass market, real estate		**5,737**	**781**	**21.5%**		**100.0%**
Mass market with mortgage on real estate						
	A	0	0	0.0%	0.0%	0.0%
	B	35,348	9,169	7.1%	15.9%	100.0%
	C	33,232	1,901	13.0%	19.7%	100.0%
	D	22,517	292	20.7%	21.8%	100.0%
	E	21,516	119	29.5%	23.2%	100.0%
	F	9,748	35	41.9%	23.4%	100.0%
	G	2,252	20	59.3%	22.1%	100.0%
	H	1,368	8	96.0%	23.7%	100.0%
	I	1,727	6	132.8%	23.0%	100.0%
	J	204	0	38.7%	26.0%	100.0%
	K	151	12	162.6%	25.1%	100.0%
Total mass market, real estate		**128,063**	**11,562**	**21.2%**		**100.0%**
Other mass market	A	0	0	0.0%	0.0%	0.0%
	B	376	146	20.3%	45.9%	99.7%
	C	440	193	29.4%	46.5%	99.7%
	D	271	59	40.8%	47.9%	99.7%
	E	293	41	51.2%	48.7%	99.8%
	F	301	13	62.8%	48.2%	99.8%
	G	239	6	75.7%	50.5%	99.9%
	H	50	2	80.7%	49.9%	99.9%
	I	60	3	114.6%	48.2%	99.3%
	J	8	0	3.0%	50.5%	99.7%
	K	28	0	18.1%	89.4%	100.0%
Total other mass market		**2,066**	**463**	**46.0%**		**99.8%**

2014	**Default class**	**Total EAD**	**Total unutilised facility**	**Average risk weight**	**Average loss given default**	**Average conversio n factor**
SME enterprises						
	A	0	0	0.0%	0.0%	0.0%
	B	565	313	41.3%	45.0%	85.1%
	C	3,694	1,302	56.0%	45.0%	89.6%
	D	5,674	1,667	70.1%	45.0%	91.1%
	E	1,724	190	78.1%	45.0%	96.5%
	F	5,799	1,372	101.3%	45.0%	92.7%
	G	5,490	1,807	117.6%	45.0%	90.1%
	H	398	28	172.6%	45.0%	97.7%
	I	632	158	181.7%	45.0%	92.3%
	J	6	2	0.0%	45.0%	90.0%
	K	200	31	0.0%	45.0%	95.1%
Total SME enterprises		**24,181**	**6,871**	**90.1%**		**91.4%**
Specialised enterprises						
	A	445	11	17.3%	23.6%	99.9%
	B	620	88	41.7%	40.2%	96.3%
	C	4,207	1,421	58.3%	42.5%	90.2%
	D	7,701	1,103	65.7%	44.8%	95.5%
	E	3,966	691	72.6%	41.0%	94.6%
	F	10,151	1,001	90.8%	43.9%	96.8%
	G	8,556	1,185	108.2%	43.5%	95.6%
	H	891	98	120.7%	35.7%	96.6%

	I	1,314	50	164.2%	42.4%	98.8%
	J	50	0	42.3%	32.9%	100.0%
	K	425	7	53.5%	45.3%	99.4%
Total specialised enterprises		**38,327**	**5,655**	**85.3%**		**95.4%**
Other enterprises						
	A	46	0	16.7%	0.0%	0.0%
	B	45	0	23.6%	0.0%	100.0%
	C	1,715	1,122	65.2%	39.7%	82.1%
	D	2,742	1,115	79.2%	24.2%	88.1%
	E	531	340	87.7%	40.2%	82.7%
	F	2,232	717	121.7%	26.9%	90.3%
	G	1,569	445	135.4%	21.5%	91.4%
	H	86	0	112.1%	0.0%	100.0%
	I	51	0	154.9%	0.0%	100.0%
	J	0	0	0.0%	0.0%	0.0%
	K	0	0	0.0%	0.0%	0.0%
Total other enterprises		**9,018**	**3,738**	**97.5%**		**87.9%**
SME mass market with mortgage on real estate						
	A	450	256	4.4%	19.6%	99.9%
	B	1,952	409	7.5%	19.9%	99.9%
	C	1,486	107	13.8%	21.3%	100.0%
	D	646	17	21.6%	22.6%	100.0%
	E	664	13	32.1%	24.8%	99.9%
	F	240	3	37.9%	21.1%	100.0%
	G	137	2	77.3%	27.9%	99.8%
	H	73	1	86.6%	20.3%	99.9%
	I	136	1	118.6%	20.6%	100.0%
	J	2	0	0.0%	16.6%	100.0%
	K	15	0	0.0%	72.8%	100.0%
Total SME mass market, real estate		**5,801**	**809**	**19.7%**		**99.9%**
Mass market with mortgage on real estate						
	A	7,810	3,203	4.1%	18.3%	100.0%
	B	35,940	6,138	7.1%	19.3%	100.0%
	C	32,587	902	13.0%	19.8%	100.0%
	D	18,791	171	19.7%	20.7%	100.0%
	E	13,245	80	26.6%	20.9%	100.0%
	F	5,750	39	39.0%	21.2%	100.0%
	G	2,010	13	58.6%	20.4%	100.0%
	H	1,324	3	83.6%	20.4%	100.0%
	I	1,396	6	126.7%	22.1%	100.0%
	J	166	0	5.9%	25.3%	100.0%
	K	144	12	3.0%	22.6%	100.0%
Total mass market, real estate		**119,163**	**10,567**	**17.3%**		**100.0%**
Other mass market	A	71	38	11.5%	48.8%	99.2%
	B	374	99	18.2%	48.3%	99.7%
	C	334	87	31.1%	48.8%	99.6%
	D	300	84	41.1%	48.7%	99.7%
	E	263	34	52.9%	49.0%	99.8%
	F	226	12	65.7%	50.2%	99.8%
	G	191	4	73.9%	49.1%	99.9%
	H	49	1	81.0%	50.4%	99.6%
	I	56	4	114.6%	49.1%	99.7%
	J	3	0	149.9%	39.1%	98.9%
	K	26	0	17.6%	85.3%	100.0%
Total other mass market		**1,893**	**364**	**44.7%**		**99.7%**

Regulatory requirements for IRB models on mortgage loans

SpareBank 1 SR-Bank uses different levels of PD regulatory and internally for real estate. Regulatory level of PD is in accordance with the Financial Supervisory Authority of Norway's circular of 8/2014 Requirements for IRB models on mortgage loans: 'Long-term average PD', according to the Capital Adequacy Regulations section 11-2, shall at least equal a weighted average of PD during a recession at 3.5% and the institution's own estimates for PD in normal years, with a 20% weight on the former. Furthermore, a safety margin is to be attributed to the PD estimates, so that a single commitment will not have a PD lower than 0.2%. Regulatory level for minimum estimated LGD on mortgage loans is set to 20% in the circular. SpareBank 1 SR-Bank has taken the requirements into consideration, and has implemented new, regulatory levels for PD and LGD.

Internal, long-term outcome for PD is calculated using the same methodology as with regulatory levels, but with own estimates PD levels in a recession. Internally, the PD model is also calibrated against the most conservative option of weighted and unweighted default. For the mass market, this is weighted default, both for the mass market with mortgages on real estate and other commitments. Internal level on estimated LGD follows from the IRB approved LGD model, without use of a minimum floor. In other words, the internal and regulatory calculations are conducted by using the same systems and models, but with somewhat different parameters. SpareBank 1 SR-Bank also uses different levels of PD regulatory and internally for the rest of the mass-market segment. The effects of these differences are seen in the tables below.

Table 33: Risk parameters internal vs. regulatory

	Calibration level (unweighted)	**Conversion factor**	**Estimate for loss given default***
Mass market with mortgage on real estate	**PD**	**EAD**	**LGD**
Internal	0.70%	100%	8.8%
Regulatory	0.96%	100%	21.8%

	Calibration level (unweighted)	**Conversion factor**	**Estimate for loss given default***
Other mass market	**PD**	**EAD**	**LGD**
Internal	2.80%	100%	44.8%
Regulatory	3.66%	100%	48.3%

* Level of estimated loss given default (LGD) is applies for the entire portfolio

For the corporate market, regulatory and internal estimates are identical.

All tables presented in the report show regulatory estimates, unless stated otherwise.

Comparison of the risk parameters with the actual outcomes

The tables below show the average estimated and actual default for the portfolio for 2015 and for the period from 2006 to 2015. Estimated default (PD) is based on the long-term outcome for the probability of default through a full loss cycle. The default percentage is defined as the total number of customers who are, or have been, in default within a twelve-month period, seen in relation with the total number of customers in the portfolio. This means that a customer in default with a small loan commitment is weighted just as much as a customer in default with a large loan commitment.

Table 34: IRB level of default – PD models (unweighted)

Portfolio	Predicted 2015	Observed 2015	Predicted 2006-2015	Observed 2006-2015
Mass market with mortgage on real estate	0.98%	0.24%	0.98%	0.33%
Other mass market	2.76%	1.32%	3.56%	1.93%
Enterprises	3.10%	1.98%	3.17%	2.15%

Table 35: IRB default level - PD by default class (unweighted)

Mass market with mortgage on real estate	Predicted 2015	Observed 2015	Predicted 2006-2015	Observed 2006-2015
A	0.00%	0.00%	0.00%	0.00%
B	0.21%	0.01%	0.21%	0.02%
C	0.36%	0.05%	0.36%	0.07%
D	0.62%	0.07%	0.61%	0.13%
E	0.95%	0.13%	0.95%	0.26%
F	1.66%	0.33%	1.68%	0.61%
G	3.44%	0.76%	3.45%	1.40%
H	7.06%	2.15%	7.03%	2.96%
I	23.53%	9.51%	21.83%	10.28%
Total mass market with mortgage on real estate	**0.98%**	**0.24%**	**0.98%**	**0.33%**

Other mass market	Predicted 2015	Observed 2015	Predicted 2006-2015	Observed 2006-2015
A	0.00%	0.00%	0.00%	0.00%
B	0.00%	0.00%	0.24%	0.00%
C	0.41%	0.00%	0.41%	0.03%
D	0.61%	0.09%	0.62%	0.09%
E	0.97%	0.19%	0.97%	0.27%
F	1.74%	0.70%	1.78%	0.79%
G	3.47%	1.57%	3.50%	1.89%
H	6.98%	3.85%	6.94%	3.80%
I	23.26%	13.56%	21.82%	13.63%
Total other mass market	**2.76%**	**1.32%**	**3.56%**	**1.93%**

Enterprises	Predicted 2015	Observed 2015	Predicted 2006-2015	Observed 2006-2015
A	0.10%	0.00%	0.09%	0.00%
B	0.23%	0.00%	0.22%	0.00%
C	0.37%	0.00%	0.37%	0.09%
D	0.62%	0.34%	0.62%	0.32%

E	0.98%	0.25%	0.98%	0.57%
F	1.77%	1.00%	1.77%	1.23%
G	3.54%	2.06%	3.54%	2.17%
H	6.98%	3.57%	7.04%	3.96%
I	16.12%	13.38%	16.08%	12.84%
Total enterprises	**3.10%**	**1.98%**	**3.17%**	**2.15%**

Weighted IRB default is defined as the total commitment that is or has been in default, compared to the total exposure (EAD). Thus, weighted default takes the size of the loan commitment into account. The table below shows the average estimated and actual weighted default for the portfolio for 2015 and for the period from 2006 to 2015.

Table 36: IRB default level – PD model (weighted)

Portfolio	Predicted 2015	Observed 2015	Predicted 2006-2015	Observed 2006-2015
Mass market with mortgage on real estate	1.14%	0.27%	1.17%	0.45%
Other mass market	2.92%	1.01%	3.53%	1.45%
Enterprises	2.19%	0.82%	2.54%	1.88%

The table below shows the estimated unweighted and actual loss given default on defaulted loans in SpareBank 1 SR-Bank. The Capital Requirements Regulations require that the estimated loss given default represents economic downturns. As of 2015, SpareBank 1 SR-Bank is permitted to calculate loss given default based on own models (advanced IRB) for the corporate market as well. The loss data covers the period from 2006 to 2014. Validation of LGD in 2015 was not completed at the time of publishing the Pillar 3.

Table 37: IRB loss given default on defaulted loans – LGD (unweighted)

Portfolio	Predicted LGD 2014	Observed LGD 2014	Predicted LGD 2006-2014	Observed LGD 2006-2014
Mass market with mortgage on real estate	20.0%	0.0%	20.0%	3.2%
Other mass market	22.1%	0.6%	21.5%	10.3%
Enterprises	43.6%	31.0%	56.4%	24.9%

Total commitment amount and share secured by mortgage (IRB)

Table 38: Total commitment amount (in NOK million) and percentage secured by mortgage, broken down by commitment categories (IRB)

	2015		2014	
Commitment category	**Commitment amount**	**Of which secured by mortgage on real estate [1)]**	Commitment amount	Of which secured by mortgage on real estate [1)]
Enterprises				
Specialised enterprises	38,057	50%		
SME enterprises	27,604	14%		
Other enterprises	11,775	4%		
Mass market				
Mass market with mortgage on real estate	128,069	87%	119,170	95%
SME mass market with mortgage on real estate	5,739	84%	5,804	93%
Other mass market	2,071	5% [2)]	1,898	3% [2)]
Total	**213,315**		126,872	

[1)] Percentage of total commitment with such security in relation to total commitment for the relevant commitment category

[2)] A commitment for a mass market customer in which the realisation value of the home is deemed to be less than 30% of the customer's commitment is not classified as a commitment with real estate, but as other mass market.

In February 2015 SpareBank 1 SR-Bank was approved for IRB Advanced for the enterprise portfolio. Before the approval the security pledged was not taken into account when calculating LGD for enterprises.

SpareBank 1 SR-Bank has no pledged security that results in a reduced commitment amount.

Actual value changes

Table 39: The actual changes in value for the individual commitment category and development from previous periods (IRB)

Amounts in NOK million	**Value 31.12.2015**	**Change in value in 2015 (%)**	**Value 31.12.2014**	**Change in value in 2014 (%)**
Mass market commitments	**135,879**	**7.1%**	126,872	6,8%
– of which mass market SME	**5,739**	**-1.1%**	5,804	2,7%
– of which commitments with mortgage on real estate	**128,069**	**7.5%**	119,170	7,2%
– of which other mass market commitments	**2,071**	**9.1%**	1,898	-1,3%
Specialist lending	**38,057**	**-5.3%**	40,193	18,1%
SME enterprises *	**27,604**	**4,3%**	26,459	7.5%
Other enterprises	**11,775**	**14.7%**	10,264	
Total	**213,315**	**4,7%**	**203,788**	**9.0%**

Amounts in NOK million	**Value 31.12.2013**	**Change in value in 2013 (%)**	**Value 31.12.2012**
Mass market commitments	118,788	5.3%	112,773
– of which mass market SME	5,651	7.1%	5,276
– of which commitments with mortgage on real estate	111,214	5.5%	105,409
– of which other mass market commitments	1,923	-7.9%	2,088
Specialist lending	34,037	0.3%	33,939
SME enterprises *			
Other enterprises	34,153	5.4%	32,418
Total	**186,978**	**4.4%**	**179,130**

* From and including 2014, enterprise SME is its own category. It was previously classified as other enterprises. The value change in 2014 is therefore based on the sum of enterprise SME and other enterprises.

Investments

Shares and other interests are either classified at fair value through profit and loss or as available for sale. Changes in fair value after the opening balance are recognised as income from financial investments.

Table 40: Investments (equity positions outside the trading portfolio) by purpose

	Investments	**31.12.2015**	31.12.2014
Financial investments at fair value through profit and loss	Hitec Vision Private Equity IV LP	11	19
	HitecVision Asset Solution LP	24	25
	Energy Ventures IV LP	11	9
	Energy Ventures III LP	11	10
	SR-PE-Feeder III KS	17	16
	Other financial investments	66	70
Total financial investments at fair value through profit and loss		**140**	149
Strategic investments at fair value through profit and loss	Nordito Property	0	2
	Bank 1 Oslo Akershus *	146	137
Total strategic investments at fair value through profit and loss		**146**	139
Strategic investments available for sale	Visa Norge IFS	95	
	Other strategic investments	1	3
Total strategic investments available for sale		**96**	3
Total		**382**	291

* Bank 1 Oslo is sold to Sparebanken Hedmark with expected settlement Q1 2016; reported as 'discontinued operations'.

Table 41: Overview of book value and fair value, gains and losses (amount in NOK millions)

2015	**Book value**	**Fair value**	**Total realised gains or losses**	**Unrealised gains or losses**	**Amount included in core capital or supplementary capital**
Financial investments at fair value through profit and loss	140	140	2	-27	0
Strategic investments at fair value through profit and loss	146	146	0	9	68
Strategic investments available for sale	96	96	0	0	95
Total	**382**	**382**	**2**	**-18**	**163**

* Bank 1 Oslo is sold to Sparebanken Hedmark with expected settlement Q1 2016. Reported as 'Discontinued operations'.

2014	**Book value**	**Fair value**	**Total realised gains or losses**	**Unrealised gains or losses**	**Amount included in core capital or supplementary capital**
Financial investments at fair value through profit and loss	149	149	7	-19	0
Strategic investments at fair value through profit and loss	139	139	257	18	59
Strategic investments available for sale	3	3	0	0	0
Total	**291**	**291**	**264**	**-1**	**59**

Table 42: Summary of type and value of listed shares, unlisted shares in diversified portfolios and other commitments

Amounts in NOK million	**Value 2015**	Value 2014
Unlisted	**286**	288
Traded on an exchange	**0**	0
Other	**96**	3
Total	**382**	291

Table 43: Summary of counterparty risk for derivatives etc. outside the trading portfolio

Amounts in NOK million	**Nominal value**	**Risk weighted assets 2015** [1]	Risk weighted assets 2014 [1]
Interest rate and currency instruments	220,875	2,850	3,227
Credit value adjustment risk (CVA)		1,050	1,127
Total financial derivatives	**220,875**	**3,900**	4,354

[1] The risk-weighted balance sheet is calculated using the standard method.

Interest rate risk

Interest rate risk arises because the group's assets and liabilities may be subject to different fixed rate periods. Interest rate instrument trading must at all times comply with the adopted limits and authorities. The group's limits define quantitative targets for the maximum potential loss. The commercial risk is quantified and monitored continuously.

The group's general limits for interest rate risk define the maximum loss from a one percentage point change in interest rates. The maximum loss following a one percentage point change in interest rates totals NOK 95 million with NOK 30 million of the total balance in Trading and NOK 65 million of the total balance in Treasury.

Table 44: The effect on earnings of a positive parallel shift in the yield curve of one percentage point at the end of the last two years if all financial instruments were measured at fair value (amounts in NOK million)

	31.12.2015	31.12.2014
Certificates and bonds	**-21**	-20
Fixed rate loans to customers	**-13**	-13
Other loans and deposits	**-86**	-79
Debt due to issue of securities	**99**	92
Other	**1**	2
Total interest-rate risk	**-20**	-18
Maturity		
0 - 3 months	**-16**	-25
3 - 6 months	**-15**	-10
6 - 9 months	**5**	6
9 - 12 months	**8**	7
12 - 18 months	**5**	3
18 - 24 months	**0**	6
2 - 10 yrs.	**-7**	-6
10 yr. +	**0**	1
Total interest-rate risk	**-20**	-18
Currency		
NOK	**26**	-14

EUR	**-31**	-1
USD	**-11**	-8
CHF	**-1**	6
Other	**-3**	-1
Total interest-rate risk	**-20**	-18

Other appendices

The tables presented in this chapter are also available in a separate appendix (excel), which is updated quarterly. In addition, the appendix contains the following tables:

- The most important agreement terms and conditions for capital instruments (sheet 27)
- Composition of primary capital (sheet 28)
- Relationship between primary capital in the financial statements and the primary capital that is calculated for capital adequacy purposes (sheet 29)
- Calculation of unweighted tier 1 capital ratio (leverage ratio) (sheet 30)

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