Risk- and capital management 2. quarter of 2012

SpareBank 1 SR-Bank

Introduction

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 cover the stipulated requirements for publication of risk information in accordance with the "Capital Requirements Regulations".

The group’s information strategy emphasises an extended dialogue with the different stakeholder groups, where openness, predictability and transparency are vital factors. The information shall be correct, relevant and timely with regard to the group's development and results, and it shall ensure that the group's different stakeholder groups can keep continuously updated and create confidence in the investment market.

The document is updated annually, with the exception of the chapter on risk exposure to SpareBank 1 SR-Bank which is updated every quarter. In addition, updated the information on capital adequacy and minimum capital requirements quarterly.

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1. PILLAR 2: GROUP'S INTERNAL RISK AND CAPITAL ADEQUACY ASSESSMENT

1.1 Objective of risk and capital management in SpareBank 1 SR-Bank

The core business of the banking industry is to create value by assuming deliberate and acceptable risk. The group therefore invests significant resources in the further development of risk management systems and processes in line with leading international practice.

Risk and capital management in SpareBank 1 SR-Bank shall support the group's strategic development and achievement of goals while ensuring financial stability and sound management of assets. This is to be achieved by:

- A strong organisational structure characterised by high awareness of risk management
- A good understanding of what risks drive earnings.
- Striving towards an optimal application of capital within the adopted business strategy
- Preventing unexpected single events from damaging the group's financial position to a serious extent.
- Making the most of synergy and diversification effects

1.2 Overall risk exposure for SpareBank 1 SR-Bank

SpareBank 1 SR-Bank shall have a moderate risk profile and no single event shall be capable of seriously harming the group's financial position either. The overall risk exposure for SpareBank 1 SR-Bank is deemed to be moderate.

The economic cycle in Rogaland shows that growth is approaching the same level as in 2008 before the financial crisis, and continued strong growth is expected in SpareBank 1 SR-Bank's market area in 2012[1]. The high rate of growth does, however, present challenges in the form of a lack of qualified manpower, transportation challenges and the lack of housing. In addition, it is uncertain how a euro crisis and sovereign debt crisis in certain countries will affect the Norwegian economy. There is at the same time strong growth in oil investments, and the large oil discoveries in the North Sea in 2011 will contribute to a higher level of activity for oil-related industry. The high level of activity has triggered the development of some fields at the same time as there is a high level of upgrade activity on many fields on the Norwegian continental shelf.

The overall risk exposure for SpareBank 1 SR-Bank is moderate. The core (Tier 1) capital ratio for SpareBank 1 Gruppen was 11.4 per cent at the end of the second quarter of 2012. SpareBank 1 SR-Bank has a solid financial standing and a leading position in the strongest growth region in Norway.

SpareBank 1 SR-Bank is considering to have a sound liquidity buffer.

[1] *Economic Barometer for Rogaland, fourth quarter of 2011*

Credit risk represents a significant part of the group's risk. The credit quality of SpareBank 1 SR-Bank's portfolio is good and has been stable over the last year. SpareBank 1 SR-Bank has a diversified portfolio. The retail market represents 65 per cent of the total loan exposure of SpareBank 1 SR-Bank, which consists primarily of high-quality mortgage loans. The group's largest sectoral concentration is in the area of commercial property, which represents around 10 per cent of the total loan portfolio (EAD), including the retail market. The property portfolio intended for rental consists primarily of long-term leases with financially solid tenants.

The turbulence in the financial markets in recent years has resulted in a greater focus by the industry on operational risk. Experience in the industry shows that human error or an inadequate qualification is often a contributing cause of the losses that are incurred in the lending area. For example, inadequate follow-up of the loan terms of negative customer events will entail getting involved too late in the credit protection process, and an incorrect assessment or registration of collateral can lead to large losses in the event of a default. SpareBank 1 SR-Bank therefore systematically evaluates any significant losses from the lending area in order to determine whether portions of the losses can be attributed to operational risk, or if it is possible to improve the work processes in the areas where losses from operational risk arise.

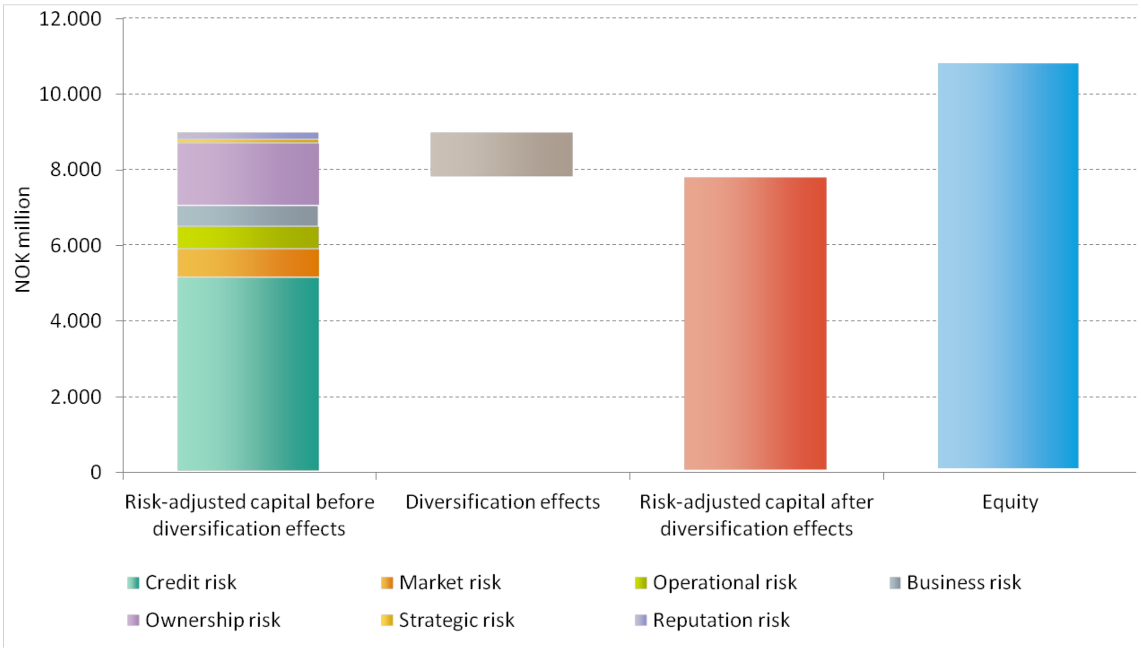
An important area for compliance has been to follow up that requirements concerning the group's activities are surveyed, implemented and complied with. EU's goal-oriented efforts to completely harmonise the regulations in the EU/EEA area entail new directives and regulations that the group must adapt to. Stringent regulatory requirements related to the group's activities (licences, corporate governance) entail an increased scope and places high demands on the follow-up of compliance.

Risk-adjusted capital provides a description of how much capital the group believes it requires to cover the actual risk assumed by the group. Since it is impossible to fully protect against all losses, the group has stipulated that the risk-adjusted capital shall cover 99.97 per cent of the potential unexpected losses. [2]

The figure below shows the composition and need for risk-adjusted capital as of the second quarter of 2012. In addition, the figure shows the necessary risk-adjusted capital after the diversification effects measured against the available risk capital.

[2] *For the ownership risk in SpareBank 1 Group a confidence level of 99.5 per cent has been chosen as a result of the fact that the risk to a great extent consists of insurance risk with a different loss distribution. A confidence level of 99.5 per cent for insurance risk is in line with the international Solvency II regulations.*

Figure 1: Composition and requirements for risk-adjusted capital



Risk-adjusted capital is estimated at NOK 7.8 billion after the diversification effects. The risk capital available to the group is NOK 10.8 billion. The buffer capital is thus NOK 3.0 billion. In addition, the group has subordinated loan capital totalling NOK 1.4 billion as an extra buffer in excess of this.

Credit risk represents 58 per cent of the overall risk picture as measured by the risk-adjusted capital. After credit risk, ownership risk represents the largest risk category, at 18 per cent.

1.3 Credit risk

On the following pages more detailed information is provided on SpareBank 1 SR-Bank's credit risk exposure at the end of the second quarter of 2012. All figures and numbers apply to the parent bank and include portfolios transferred to SpareBank 1 Boligkreditt AS unless otherwise specified.

SpareBank 1 SR-Bank owns 34.4 per cent of the shares in SpareBank 1 Boligkreditt AS. This is a mortgage company with status as an independent legal entity that was primarily established to ensure the group of stable and competitive funding. SpareBank 1 SR-Bank is one of several shareholders, and as a shareholder the group has an ownership interest in SpareBank 1 Boligkreditt AS that shall be consistent with the group's share of the transferred portfolio over time.

When loans are transferred from the group to SpareBank 1 Boligkreditt AS, SpareBank 1 SR-Bank will still manage these (operational handling of customer inquiries, follow-up, etc.). SpareBank 1 SR-Bank also has the right to transfer loans back if they are defaulted. Accordingly, the group has chosen to include the portfolio transferred to SpareBank 1 Boligkreditt AS in the follow-up and reporting of the group's credit risk.

The combined transfers to SpareBank 1 Boligkreditt AS at the end of the second quarter of 2012 totalled a loan exposure at default (EAD) of NOK 55.8 billion. This represents an actually drawn lending volume of NOK 47.5 billion. The quality of this portion of the portfolio is very good, with low probability of default and high collateral coverage.

The credit portfolio in the subsidiary SpareBank 1 SR-Finans is not included in the portfolio summaries below. This is because the group's credit models have not yet been fully implemented for these portfolios. The credit portfolio of SpareBank 1 SR-Finans represents around 3 per cent of the group's combined lending exposure. SpareBank 1 SR-Finans has a greater share of marginal funding (vehicles, capital equipment, etc.) than is the case for the group as a whole. This means that the inherent credit risk will generally be somewhat higher in SpareBank 1 SR-Finans than in the parent company.

SpareBank 1 SR-Bank group

A further assessment of the portfolio quality and portfolio development for the loan portfolio in SpareBank 1 SR-Bank at the end of the second quarter of 2012 is provided in the paragraphs below.

The figure below summarises the risk-related development of the portfolio at the end of the second quarter of 2012.

Figure 2: Development of SpareBank 1 SR-Bank's portfolio

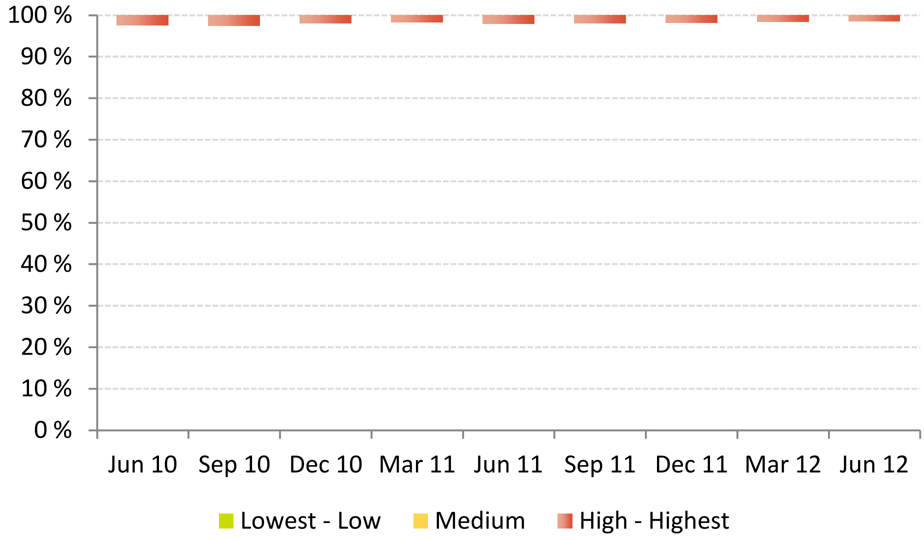


Figure 2 shows that the group has a moderate risk profile and that the profile has been stable over the past year. Enduring low interest rates contribute to a high level of activity and low unemployment. These trends, together with the ongoing focus on risk-reducing measures, have resulted in the group's overall portfolio quality being maintained at a good level.

91.4 per cent of the loan exposure level satisfies the criteria for low/lowest risk. Expected losses (long-term outcome) in this part of the portfolio is 0.04 per cent. Exposure to the high/highest risk categories totals 1.5 per cent of the loan exposure. Expected losses (long-term outcome) in this part of the portfolio is 3.7 per cent.

Over the past 12 months there has been a stable development in the quality of the portfolio. The loan exposure percentage with average risk has increased by 0.8 percentage points, while the loan exposure percentage with high/highest risk has reduced by 0.5 percentage points.

This change in the portfolio quality throughout the year can be explained based on three different factors:

- Customer attrition: Granted financing has been redeemed
- New customers: Granting of financing to new customers
- Change in existing customers: Changes in granted financing as a result of repayment/borrowing or as a result of a changed risk group

On the basis of the aforementioned breakdown, Figure 3 below shows the main reasons for the change in SpareBank 1 SR-Bank' portfolio at the end of the second quarter of 2012.

Figure 3: Migration in SpareBank 1 SR-Bank' portfolio over the past 12 months

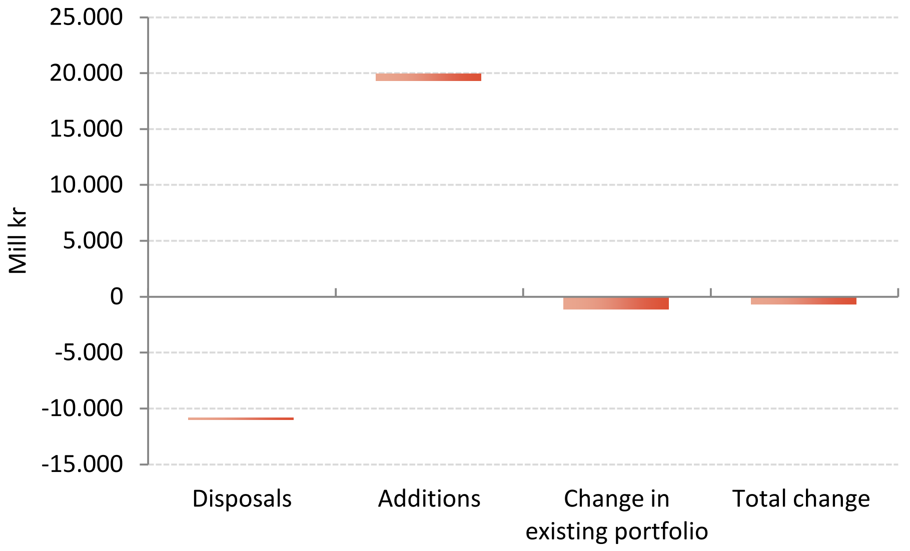


Figure 3 shows that most of the commitments to new customers are classified in the lowest/low risk categories, and that the volume of new customers in this group is greater than the attrition. However, the figure also shows that the group has had relative greater attrition of customers in the average risk category than the volume of new customers. At the same time the loan exposure with average risk has been increasing and the loan exposure with high risk has been decreasing in the existing customer base.

When the credit risk of a portfolio is assessed it is also important to take into account any concentration risks in the portfolio. Concentration risk is the risk that arises when there is an accumulation of exposure to an individual customer, sector or geographical area.

SpareBank 1 SR-Bank has a significant focus on concentration risk. In order to ensure a diversified portfolio, separate credit strategy limits have been established for concentration risk that sets limits, not only related to exposure, but also to the risk profile at the portfolio level, and for different sectors and individual customers. In addition, financial institutions have been subject to regulatory requirements that limit the concentration risk related to major individual customers in isolation and to the accumulation of major individual customers overall.

The development of the concentration risk is continuously monitored, and further assessment of the individual concentration risks will be provided in the following paragraphs:

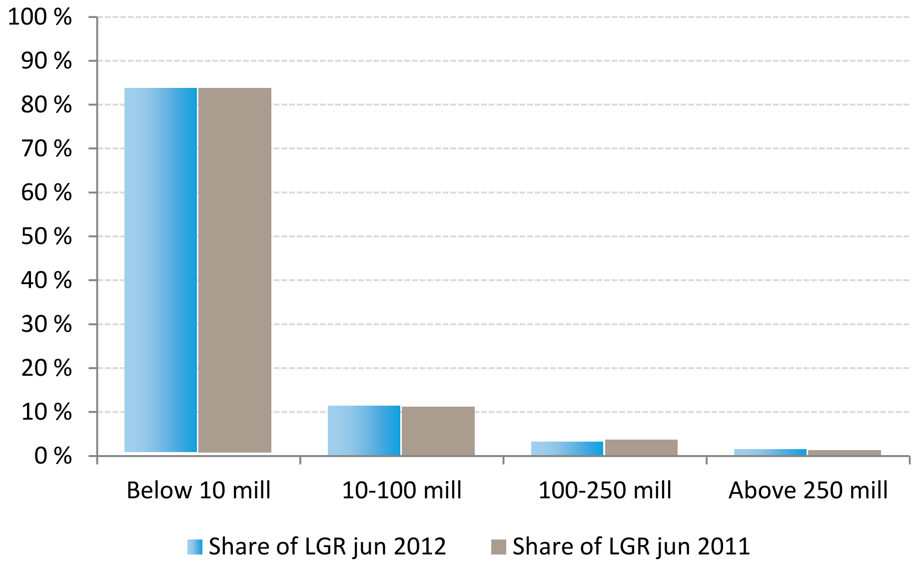
- Concentration of potential major losses[3]
- Sector concentration
- Geographic concentration

Concentration of potential major losses

SpareBank 1 SR-Bank evaluates the concentration risk surrounding commitments with the greatest loss potential as the most significant concentration risk.

The figure below shows the distribution of commitments according to loss potential (LGR).

Figure 4: SpareBank 1 SR-Bank's portfolio by LGR



At the end of the second quarter of 2012 the group had a total of 28 commitments with a loss potential exceeding NOK 100 million. These commitments represent 4.7 per cent of the total loan exposure at default. The quality of this portion of the portfolio is good and the probability of default is significantly lower than the average for corporate market commitments as a whole.

At the end of the second quarter of 2012 there were a total of 125 commitments with a medium loss potential (LGR exceeding NOK 25 million, and these commitments represent 12.2 per cent of the total loan exposure at default.

There is no internationally recognised and precise method for calculating the concentration risk for potential major losses. The group has decided to use *Granularity Adjustment (GA)* [4] as a simulation method to illustrate the concentration risk for large commitments. The calculations show that the concentration risk calculated by means of this method represents an add-on of NOK 176 million (around 5 per cent) to the risk-adjusted capital. The quality of this part of the portfolio measured by the probability of default is also significantly better than for the average for the corporate market portfolio in general. This indicates that the concentration risk is limited.

[3] *Concentration of potential major losses is defined as companies with a potential loss in an economic downturn of over NOK 100 million (LGR > NOK 100 million).*
[4] *Granularity Adjustment (GA) is a method that is used, for example, by some major international banks.*

Reporting imposed by the authorities is also carried out for major commitments in accordance with the Regulations relating to large credit institution or securities firm commitments. Reports are submitted each quarter to the Financial Supervisory Authority of Norway, Norges Bank and the Guarantee Fund. The regulations state that all commitments that represent more than 10 per cent of the regulatory capital shall be reported, and the maximum limit for an individual commitment is 25 per cent of the regulatory capital.

The regulation stipulates that the limits for the highest combined commitment with a single counterparty also apply to commitments with two or more counterparties when a controlling influence or economic association between these counterparties are such that economic difficulties experienced by one of them will likely result in payment difficulties for more than one of the parties.

The figure below shows the percentage of these commitments in relation to the regulatory capital.

Figure 5: Reporting in accordance with the Regulations relating to major commitments

At the end of the second quarter of 2012 SpareBank 1 SR-Bank had net regulatory capital of NOK 12,554 million. Thus, all commitments exceeding NOK 1,255 million must be reported in accordance with the regulations. This means reporting of 5 commitments that represent 35.7 per cent of the regulatory capital combined. In comparison, at the end of the first quarter of 2012 7 commitments that amounted to 66.3 per cent of regulatory capital were reported.

Another type of concentration risk that the group also has to deal with actively is sector concentration.

Sector concentration

The figure below shows SpareBank 1 SR-Bank's portfolio (EAD) by various sectors/segments.

Figure 6: SpareBank 1 SR-Bank's portfolios by sector

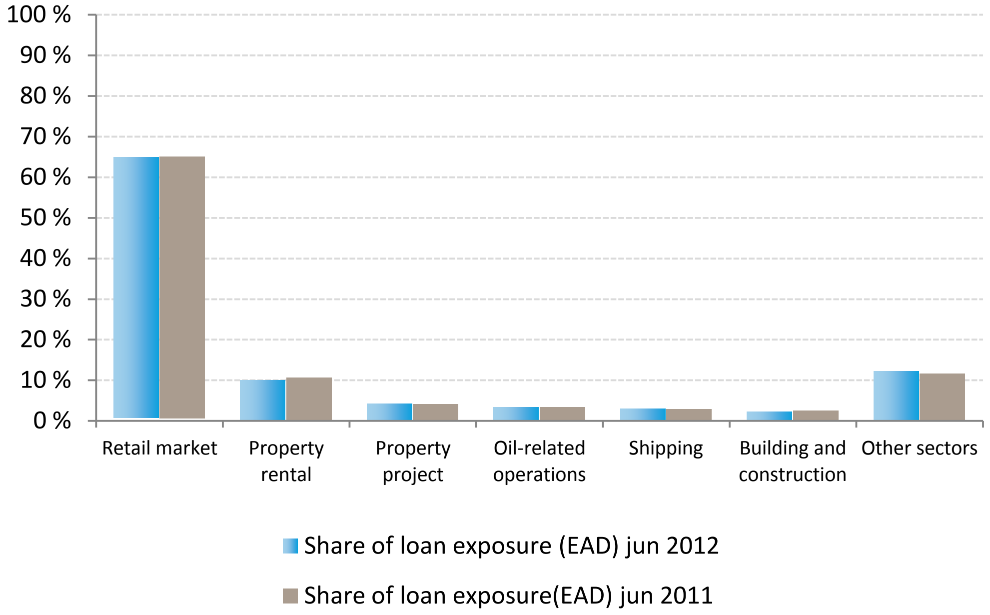


Figure 6 shows that the retail market accounts for around 65 per cent of the total portfolio measured by loan exposure. The quality of the retail market portfolio is very good. Most of the portfolio has a very low probability of default and has been granted with real estate as collateral. Earnings from the retail market are good and have showed very low losses over time.

The greatest concentration, except for the retail market, is the property rental sector, which accounts for 10.1 per cent of the combined loan exposure. The other sectors individually represent up to 4.2 per cent of the combined loan exposure. The figure above shows that SpareBank 1 SR-Bank has a limited sectoral concentration.

The group's portfolio in the property segment consists of buildings for rent, construction of residential housing and commercial projects and the financing of land for future development. The property portfolio intended for rental primarily consists of centrally located properties with long-term leases and solid tenants, and a great deal of this portfolio has been interest rate hedged. In general, there is a minimum requirement of 70 per cent advance sales when financing residential housing projects. It is only a small part of the portfolio that applies to financing of land, and the majority of these have already been zoned.

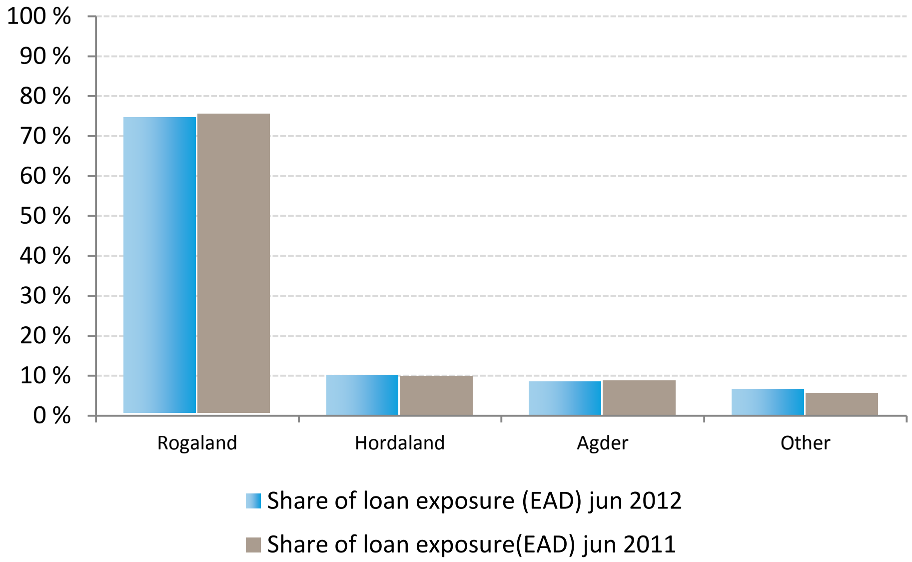
Special credit strategy limits have been stipulated for the maximum share of the risk-adjusted capital that can be linked to an individual sector. This contributes to a diversified portfolio where the sector concentration is limited.

Special calculations by means of the Herfindahl – Hirschman Index (HHI), which is used to calculate the concentration risk for a sector, shows that the concentration risk calculated by means of this method gives an add-on of NOK 71 million (around 2 per cent) to the risk-adjusted capital. This confirms that the portfolio's sector concentration risk is very limited. SpareBank 1 SR-Bank finds accordingly that there is no need for a special risk-adjusted capital supplement.

Geographic concentration

Figure 7 below shows the portfolio by geographic region.

Figure 7: SpareBank 1 SR-Bank's portfolio by geographic region



The figure shows that 75 per cent of the combined loan exposure is linked to customers in Rogaland, while the remaining portfolio is divided between customers in Agder, Hordaland and other counties, respectively. The share of loan exposure related to Rogaland is relatively stable, but further geographic diversification is expected in the coming years as a result of the group's focus on Agder and Hordaland.

SpareBank 1 SR-Bank is a regional bank with a geographic concentration in Rogaland. The level of activity in the oil and gas sector is sensitive to oil price fluctuations. Fluctuations in oil prices is assumed to have the greatest impact on the development of new fields and exploration. Forecasts[5] show that the price of oil is expected to be just under USD 100 per barrel for the coming years. There is strong growth in oil investments, according to Statistics Norway a total of NOK 146.3 billion was invested in 2011, and the estimate for investments in 2012 is NOK 186 billion. In addition to field development, the activities on the Norwegian continental shelf are marked the operation, maintenance and modification of existing fields.

Based on the aforementioned there are no factors to indicate that the group's market area will be more exposed to an economic downturn than the rest of the country. The group does therefore not see it as necessary to have a special capital mark-up for geographic concentration.

Corporate market

A further assessment of the portfolio quality and portfolio development for the corporate market's loan portfolio at the end of the second quarter of 2012 is provided in the paragraphs below.

The figures below summarises the risk-related development of the portfolio at the end of the second quarter of 2012.

[5] *Forecast from Norges Bank's monetary policy report as of October 2011*

Figure 8: Development in the corporate market portfolio

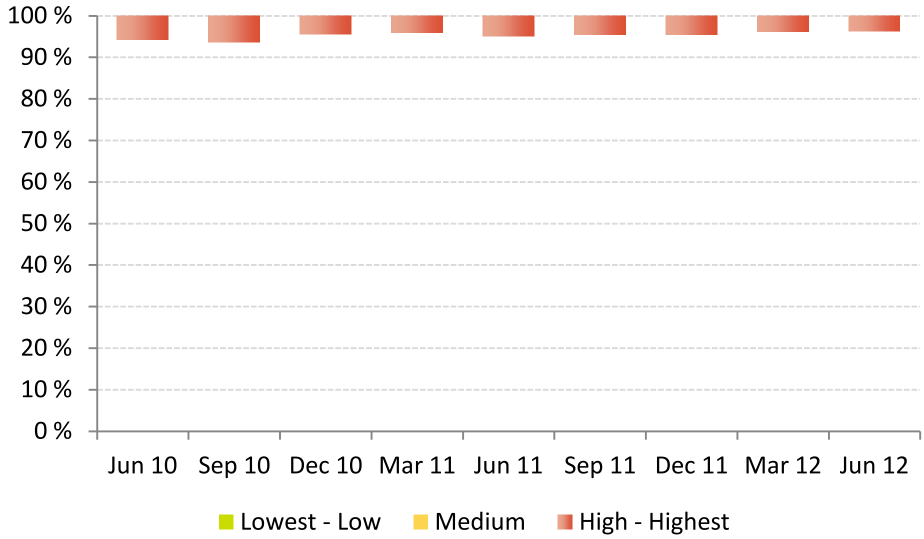


Figure 8 shows that the quality of the corporate market portfolio is good and that the development is relatively stable. 77.5 per cent of the loan exposure at default satisfies the criteria for low/lowest risk. Expected losses (long-term outcome) in this part of the portfolio is 0.1 per cent. The high/highest risk category represents 3.7 per cent of the loan exposure. Expected losses (long-term outcome) in this part of the portfolio is 3.6 per cent.

Over the past 12 months the percentage of loan exposure in the low/lowest risk and high/highest risk categories has declined by respectively 1.4 and 1.2 percentage points, while the percentage of loan exposure in the average risk category has been increased correspondingly. This change in the portfolio quality throughout the year can be explained based on three different factors:

- Customer attrition: Granted financing has been redeemed
- New customers: Granting of financing to new customers
- Change in existing customers: Changes in granted financing as a result of repayment/borrowing or as a result of a changed risk group

On the basis of the aforementioned breakdown, Figure 9 below shows the main reasons for the change in the corporate market portfolio at the end of the second quarter of 2012.

Figure 9: Migration of the corporate market portfolio over the past 12 months

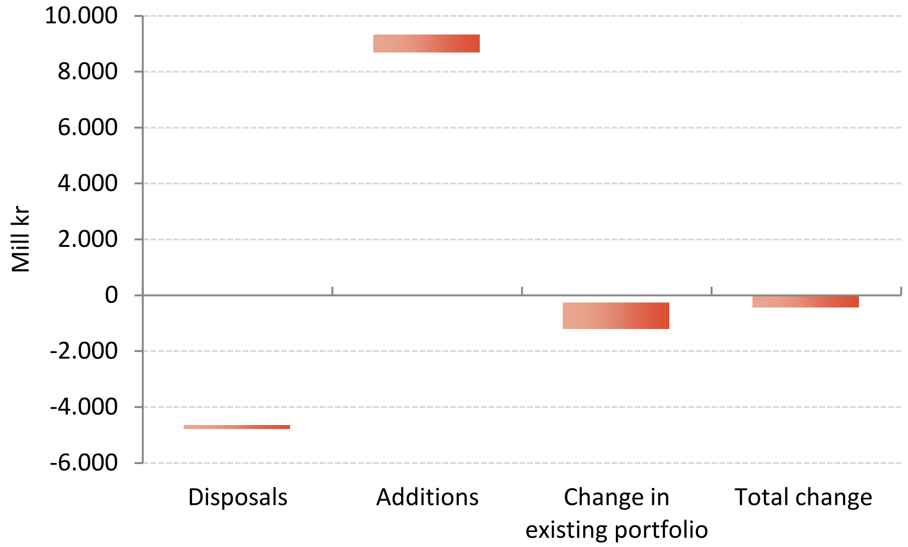


Figure 9 shows that 80 per cent of the volume of commitments to new customers is classified in the lowest/low risk categories, and that the volume of new customers in this group is greater than the attrition. At the same time there has been an increase in the percentage of commitments in the average risk category over the past 12 months, while there has been a reduction of commitments in the high / highest risk category.

The development of the existing portfolio can be illustrated by looking at how customers have migrated between the default classes over the past 12 months.

Figure 10: Migration of the existing corporate market portfolio over the past 12 months

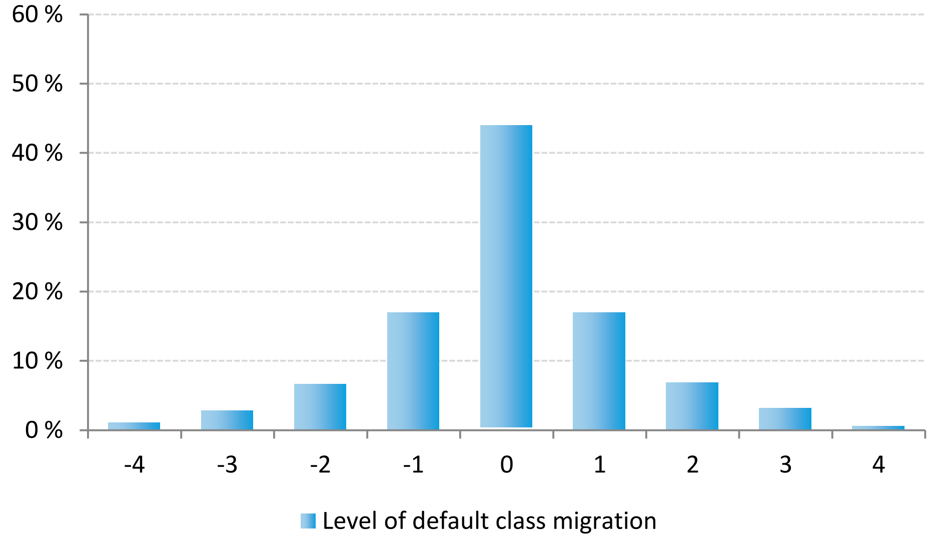
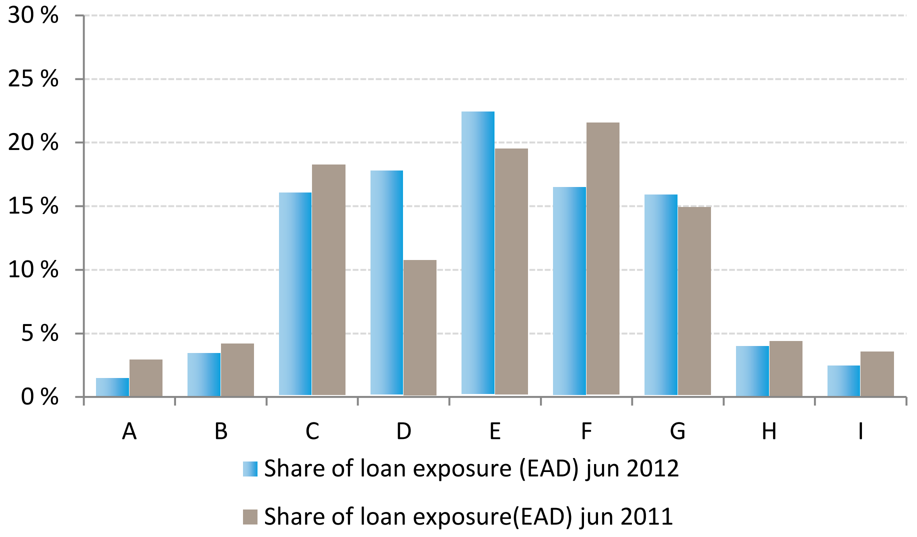


Figure 10 shows that around 44 per cent of the corporate customers are in the same default class over the past 12 months. Of the remaining 56 per cent of corporate customers, 28 per cent migrated negatively, and 28 per cent migrated positively. This supports the image of a high level of stability in the portfolio.

The group's risk groups (lowest to highest) are based on the commitments' expected losses over time. Expected losses are calculated based on the probability of default and the loss given default. Below is a summary of the corporate market portfolio divided into these two parameters.

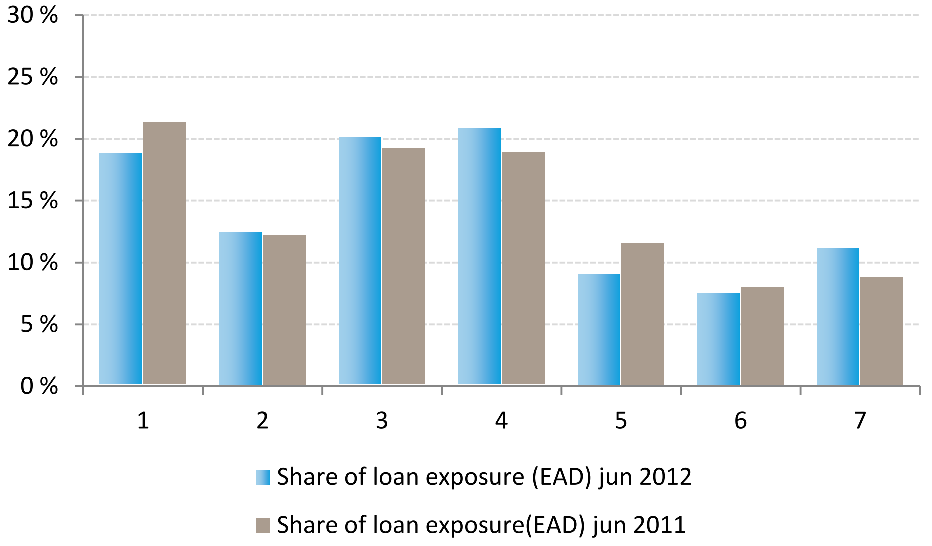
Figure 11: Corporate market portfolio by default class



The portfolios are given a default class from A - I based on the customer's probability of default[6]. The probability of default reflects a long-term outcome through an economic cycle. The figure shows that the main portion of the loan exposure has a probability of default between 0.25 per cent (lowest value in class C) and 5 per cent (highest value in class G).

The portfolios are also assigned a class from 1 -7 based on the commitment's loss given default[7]. The loss given default represents the loss potential of a commitment during an economic downturn.

Figure 12: Corporate market portfolio by loss given default (collateral classes)

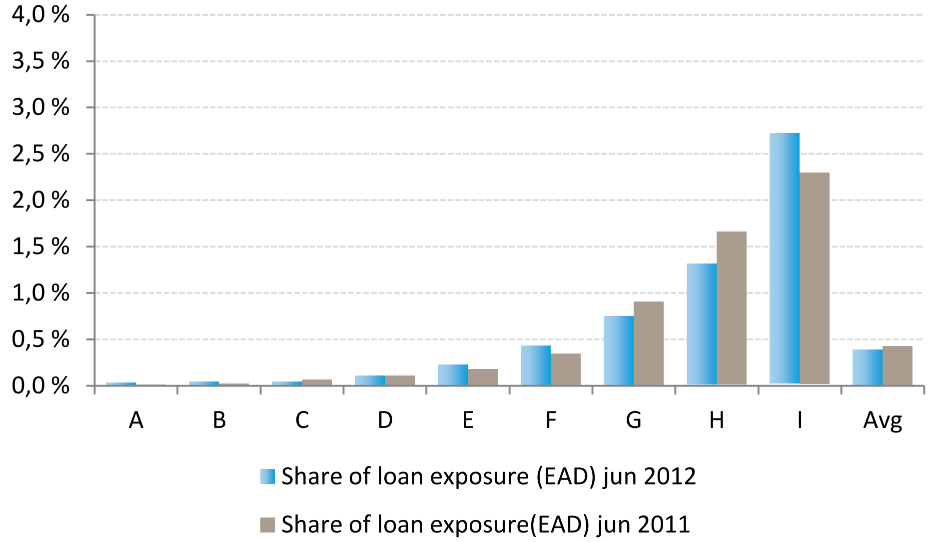


[6] *Definition of default classes is described in more detail in Section 4.5.2 in Risk and capital management 2011 – Pilar III.*
[7] *Definition of collateral classes is described in more detail in Section 4.5.2. in Risk and capital management 2011 – Pilar III.*

Collateral classes 1 and 2 entail that customers have furnished security for their commitments that, based on the realisation value during an economic downturn, exceeds the size of the commitment. The loss given default in these two classes will therefore be limited to any recovery costs. Figure 12 shows that 31 per cent of the loan exposure belongs to these collateral classes. 11 per cent of the loan exposure at default has collateral with a realisation value of less than 20 per cent of the commitment (collateral class 7). SpareBank 1 SR-Bank assesses collateral conservatively, and this means that security in the form of a negative mortgage, guarantees and unlisted securities are not normally assigned any realisation value.

For the overall corporate market portfolio the expected losses are estimated at 0.4 per cent of the loan exposure during an economic downturn, but the variations for each default class are significant. The average expected losses in the different default classes are illustrated in figure 13 below.

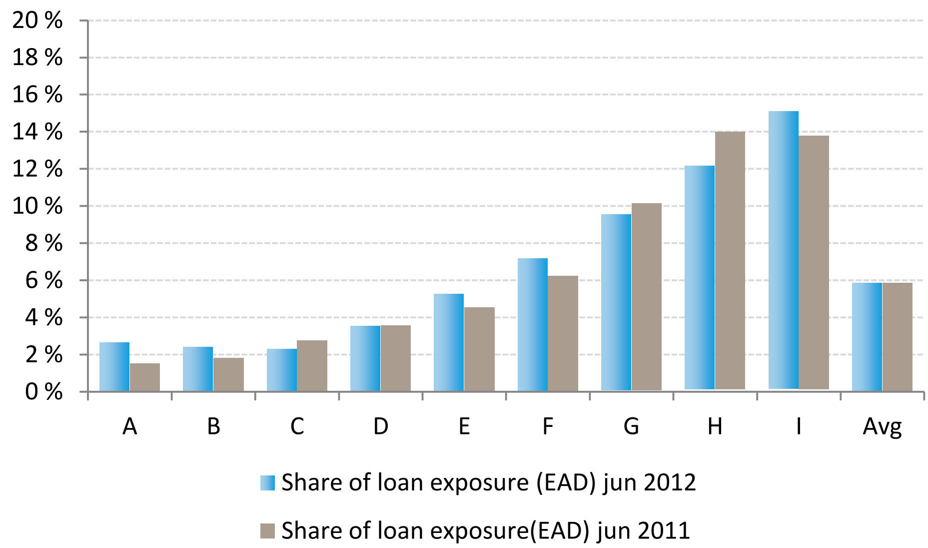
Figure 13: Expected losses in the corporate market portfolio by default class



Average expected losses in default class A is 0.03 per cent, increasing to 2,72 per cent in default class I.

The amount of capital tied up (risk-adjusted capital) will also vary significantly between the default classes. Risk-adjusted capital indicates a maximum loss during a 12-month period with a 99.97 per cent confidence level. Average capital tied up in the different default classes is illustrated in figure 14 below.

Figure 14: Risk-adjusted capital in the corporate market portfolio by default class

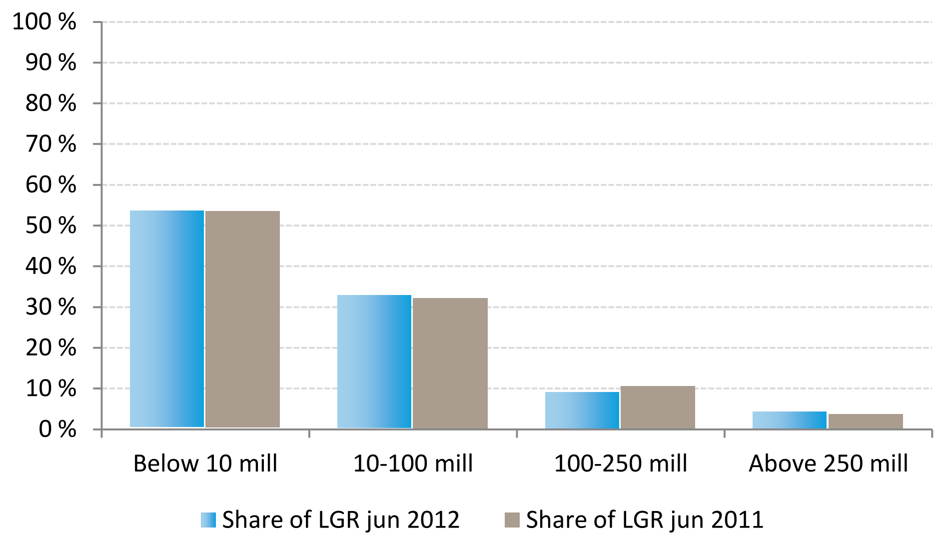


For the combined corporate market portfolio the risk-adjusted capital is estimated at 5.80 per cent of the loan exposure. Average risk-adjusted capital in default class A is 2.65 per cent and increasing to 15.10 per cent in default class I.

Since the risk-adjusted capital indicates necessary capital in order to cover unexpected losses in a given confidence level, it means that this requirement for risk-adjusted capital increases proportionate to the increasing probability of default. This is in accordance with the fundamental principle of the group's risk management that the capital tied up in a commitment shall be linked directly to its calculated risk.

The figure below shows the distribution of commitments according to the loss potential (LGR).

Figure 15: Corporate market portfolio by LGR



At the end of the second quarter of 2012 the corporate market had a total of 28 commitments with a loss potential exceeding NOK 100 million. These commitments represent around 14 per cent of the corporate market's total loan exposure at default. There is a clearly defined strategy behind this portfolio composition. The growth and risk profile are managed, for example, through special credit strategy limits for concentration risk. This part of the portfolio generally has a lower probability of default than the average in the rest of the portfolio. The portion of the loan exposure with a loss potential exceeding NOK 100 million has decreased from 16 per cent to 14 per cent over the last quarter.

Figure 16: Corporate market portfolio by sector

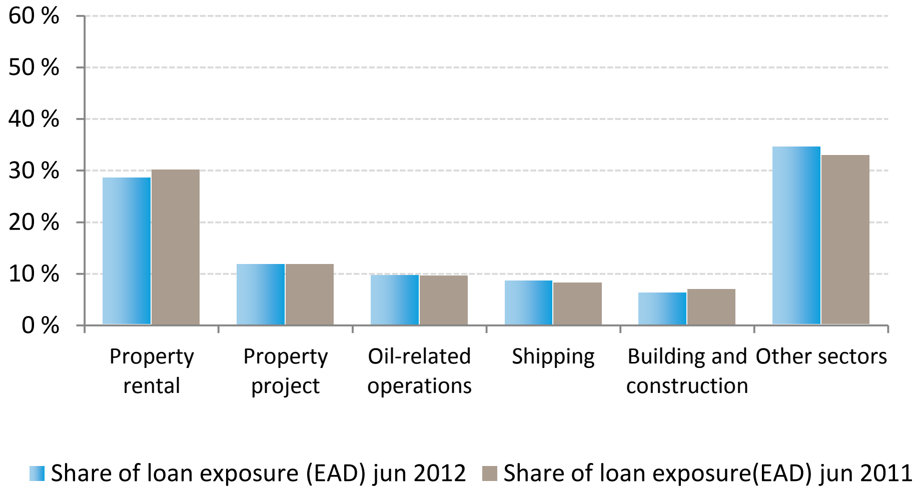


Figure 16 shows that the corporate market portfolio has a satisfactory distribution across the various sectors. Property rental is the largest single sector and comprises around 29 per cent of the loan exposure at default in the corporate market. The property portfolio intended for rental primarily consists of centrally located properties with long-term leases and solid tenants, and a great deal of this portfolio has been interest rate hedged. In addition, the loan exposure is widely diversified among various sectors.

There is a significant focus on the risk related to loan exposure in property rental, shipping and oil-related activities. Based on this, a further review of these sectors are presented below.

Property rental

The property rental portfolio represents the group's greatest concentration in a single sector, and comprises around 29 per cent of the total exposure (EAD) in the corporate market.

Figure 17: Property rental portfolio by risk group

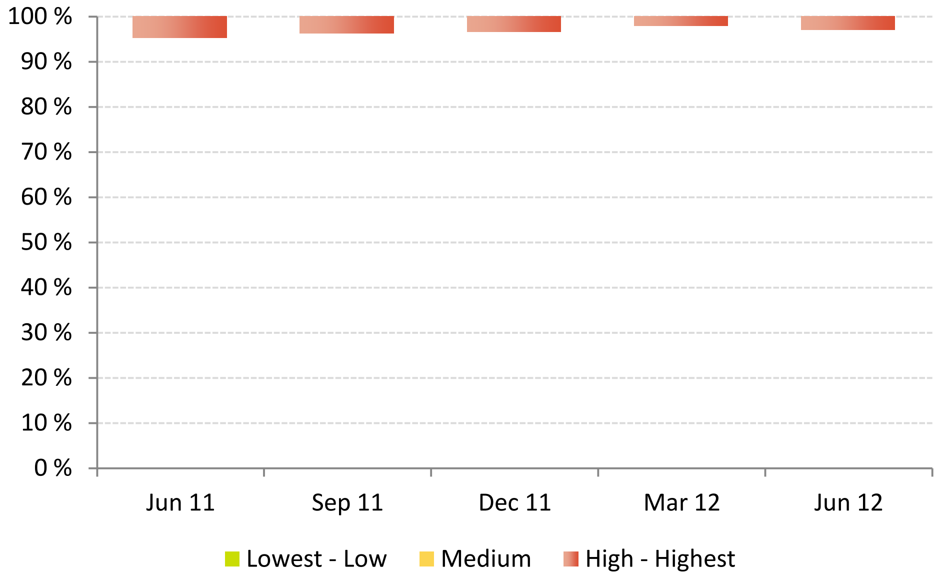


Figure 17 shows that the property rental portfolio is dominated by commitments with low risk. These account for 88 per cent of the loan exposure, while only 3 per cent of the exposure is classified as high risk.

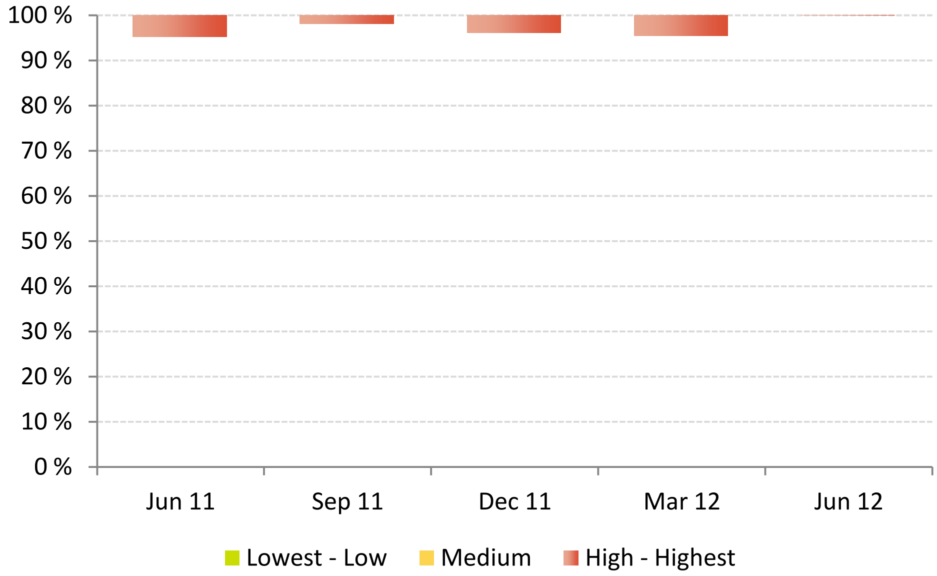
The portfolio related to the financing of commercial property for rental is well-diversified, robust and with a substantial share of properties where the underlying leases are long-term contracts. In addition, good lessees and a great deal of interest rate hedging indicate that the risk in the portfolio is moderate. Interest rates for a significant portion of the portfolio have been hedged, primarily through interest rate hedging contracts with a duration of over five years. In general the outlook for the group's commercial property portfolio is considered good in 2012.

Most of the portfolio is related to commercial property in the group's market area (Rogaland, Agder and Hordaland). A small portion of the portfolio is related to commercial property outside the group's market area, primarily in Eastern Norway. This is based on property acquired by customers living in the group's market area, participation in syndicates with other banks in the SpareBank 1 Alliance and certain major commitments with an individual entity domiciled in Eastern Norway, respectively.

Shipping

The shipping portfolio represents around 9 per cent of the loan exposure at default in the corporate market. The figure below shows that the shipping portfolio has somewhat higher risk than other sectors, however, the portfolio is nevertheless dominated by commitments with low risk. These account for 79 per cent of the loan exposure at default, while the rest of the exposure is classified as medium risk.

Figure 18: Shipping portfolio by risk group



In general the group finances companies engaged in offshore service vessels who we have had long-term relationships with. A limited amount of financing is granted to totally new customers, and these customers are evaluated thoroughly before financing is granted. Most of the vessels financed are engaged in North Sea activities and overall the contract coverage is good Counterparty risk is limited since the contracts are entered into with solid charterers.

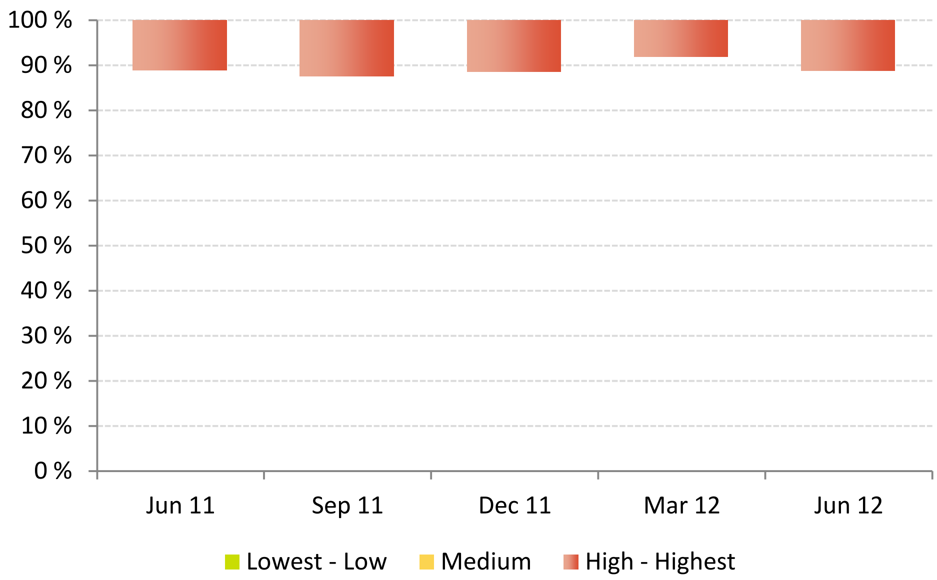
The group has a moderate exposure in shipping to chemical and product tankers. The group's portfolio consists of a relatively young fleet of vessels that are primarily built at well-renowned shipyards. The group also has a moderate exposure to seismic vessels.

To a limited extent, the group is exposed to gas tankers, mainly LPG tankers on long-term charters. In addition, the group is exposed to dry bulk carriers, primarily the open hatch segment with exposure to financially sound ship-owning companies. The group has limited exposure to ro-ro vessels and tankers.

Oil-related activities

The oil-related portfolio represents around 10 per cent of the loan exposure at default in the corporate market. The figure below shows that the oil-related portfolio has somewhat higher risk than other sectors, however, the portfolio is nevertheless dominated by commitments with low risk. These account for 64 per cent of the loan exposure, while 11 per cent of the exposure is classified as high risk.

Figure 19: Portfolio in the area of oil-related activities by risk group



There is at the same time strong growth in oil investments, and the large oil discoveries in the North Sea in 2011 will contribute to a higher level of activity for oil-related industry.

Most companies in the group's portfolio have the main portion of their revenues in the operations and maintenance segment, and the group has a limited portfolio linked to new-builds.

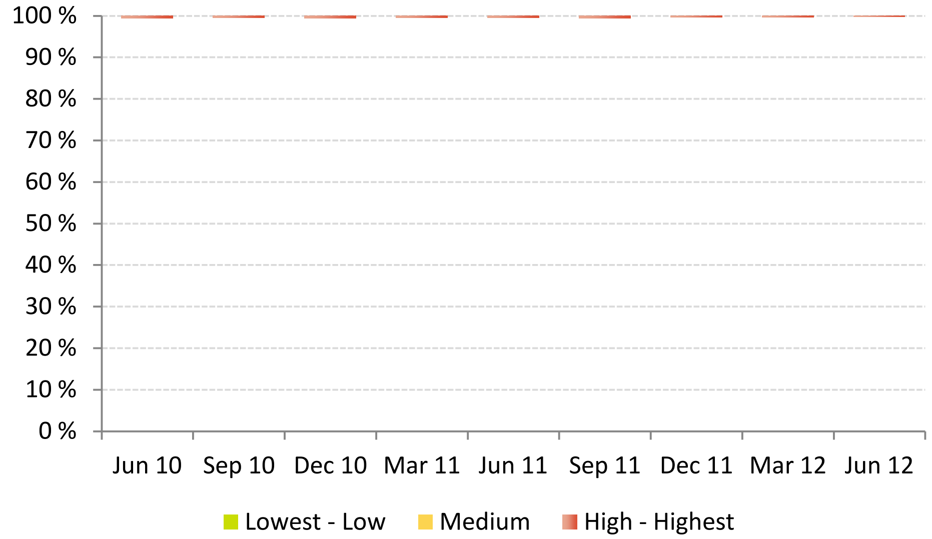
Retail market

A further assessment of the portfolio quality and portfolio development for the loan portfolio in the retail market at the end of the second quarter of 2012 is provided in the paragraphs below.

At the end of the second quarter of 2012 a portfolio of NOK 55.8 billion portfolio was transferred to SpareBank 1 Boligkreditt AS. In accordance with the criteria for the transfer of loans, the quality of this portion of the portfolio is very good and better than the rest of the portfolio. While the average probability of default of SpareBank 1 Boligkreditt's transferred portfolio is 0.49 per cent, the corresponding figures for the remaining retail market portfolio is 0.96 per cent.

Figure 20 below summarises the risk-related development of the retail market portfolio at the end of the second quarter of 2012.

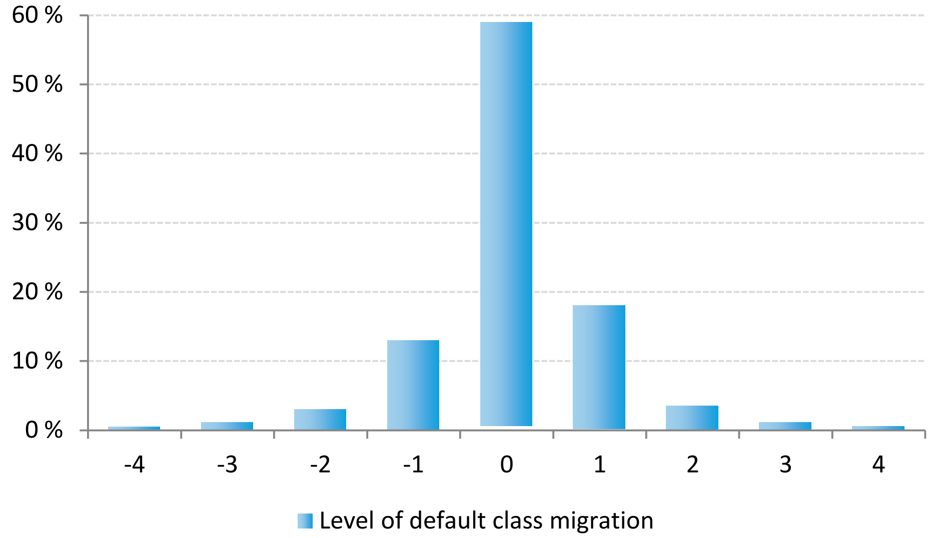
Figure 20: Development of the retail market portfolio



The above figure shows that the quality of the retail market portfolio is very good, and 98.9 per cent of the loan exposure satisfies the criteria for the low/lowest risk categories. The development is marked by enduring stability. This means that the good portfolio growth that the group has experienced over a long period of time has not affected the portfolio's risk profile. Most of the portfolio is secured by way of mortgages on real estate. Collateral coverage is good, which would indicate that there is only a limited risk of loss so long as the values of the collateral pledged are not significantly impaired.

The development in the existing portfolio can be illustrated by looking at how customers have migrated between the default classes over the past 12 months.

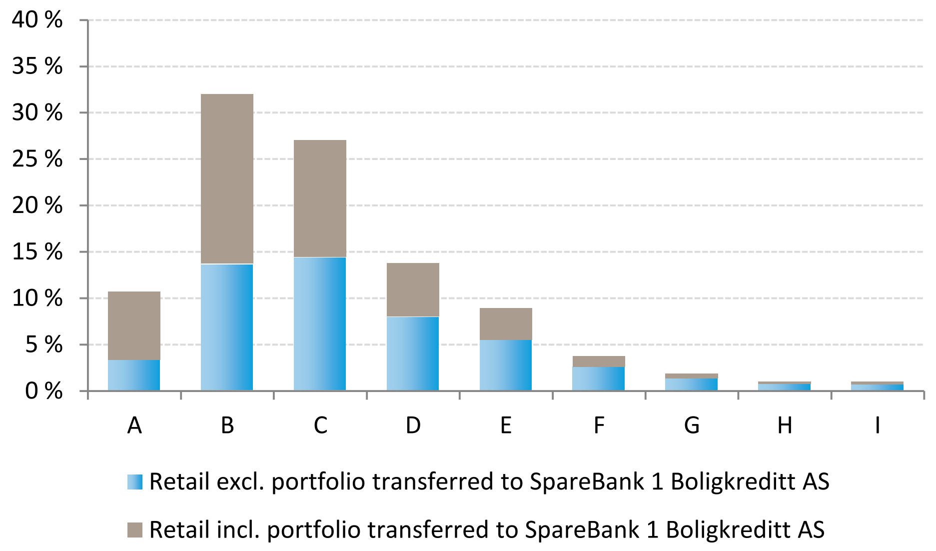
Figure 21: Migration of the existing retail market portfolio over the past 12 months



The figure shows that 59 per cent of the retail customers are in the same default class over the past 12 months. Of the remaining 41 per cent of the customers there is a slight majority that migrate positively (23 per cent). There is great stability in the retail market portfolio, and less than 4 per cent of the customers migrate more than two default classes (positively or negatively) throughout the year.

The group's risk groups (lowest to highest) are based on the commitments' expected losses over time. Expected losses are calculated based on the probability of default and the loss given default. Below is a summary of the retail market portfolio divided into these two parameters.

Figure 22: Retail market portfolio by default class

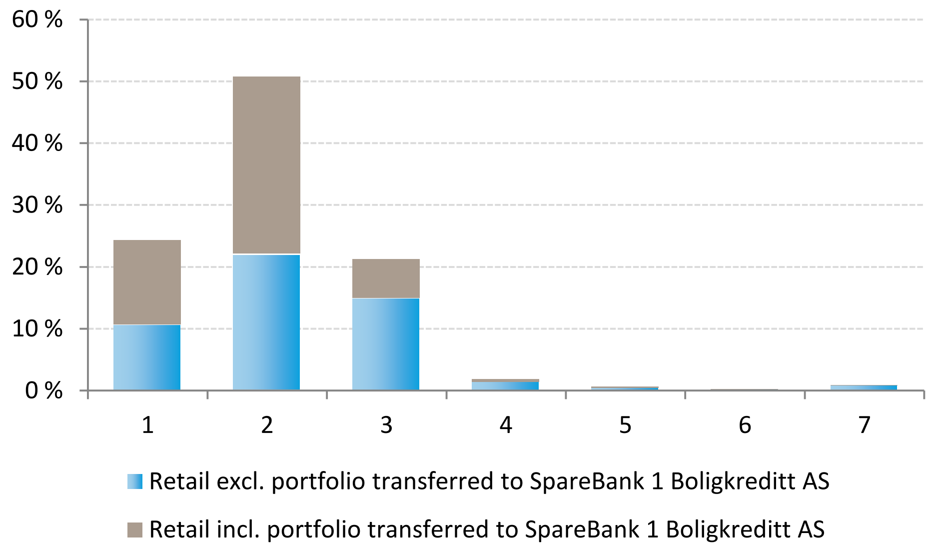


The portfolios are given a default class from A - I based on the commitment's probability of default.

Figure 22 shows that 83 per cent of the portfolio has an estimated probability of default of under 0.75 per cent (classes A – D). In addition, 77 per cent of the portfolio transferred to SpareBank 1 Boligkreditt has an estimated probability of default of less than 0.50 per cent (class A – C).

The portfolios are also assigned a class from 1 -7 based on the commitment's loss given default. The loss given default represents the loss potential of a commitment during an economic downturn. The graph below summarises the retail market portfolio (EAD) by loss given default.

Figure 23: Retail market portfolio (EAD) by loss given default (collateral classes)



Collateral classes 1 and 2 entail that customers have furnished security for their commitments that, based on the realisation value during an economic downturn, exceeds the size of the commitment. The loss given default in these two classes will therefore be limited to any recovery costs. Figure 23 shows that 75 per cent of the loan exposure belongs to collateral classes 1 or 2.

Figure 23 also shows that as much as 96 per cent of the loan exposure (EAD) lies within collateral class 3. This means that the realisation value of the securities pledged represent a minimum of 80 per cent of the loan exposure and entails a limited loss given default To a limited extent, financing is granted that entails that the realisation value of the collateral furnished represents less than 80 per cent of the loan exposure. However, 10 per cent of the customers have been granted smaller credits where the realisation value of the security pledged is less than 20 per cent of the credit granted.

The group focuses on a commitment's estimated loss given default when the loss potential is to be calculated. The realisation value of the securities pledged will be used as the basis then. This is significantly lower than the market value (for home mortgages a reduction factor of 20 per cent is used) and shall reflect the security-related value upon realisation in an economic downturn.

However, there is still a great deal of focus on measurement of the loss potential measured as the loan exposure as a percentage of the market value of the securities pledged.

As a supplement, the figure below therefore shows how much of the retail market portfolio with a mortgage on real estate lies within 70 per cent, 70 - 85 per cent, 85 - 100 per cent and more than 100 per cent, respectively, of the market value of the collateral.

Figure 24: LTV (Loan To Value) for the retail market portfolio

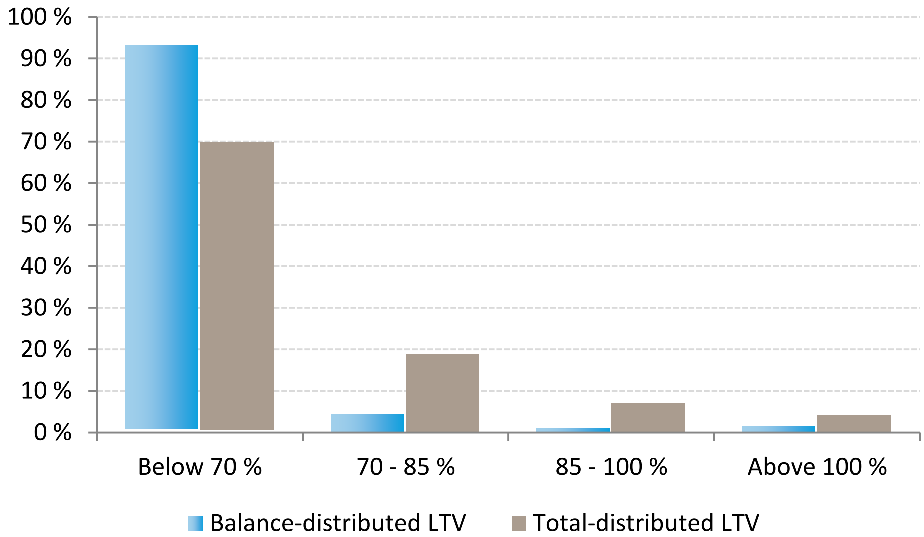
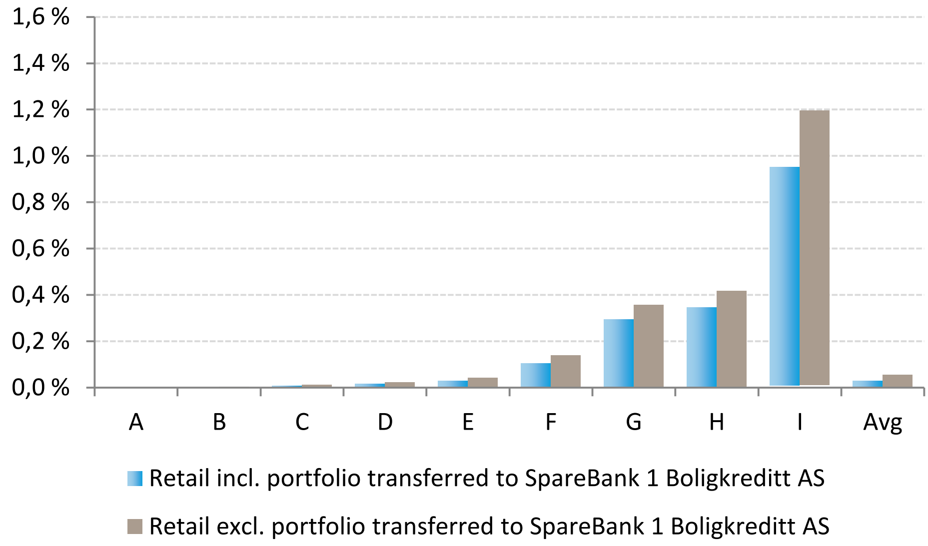


Figure 24 shows loans as a percentage of the value of the collateral (Loan To Value) for retail market customers, including portfolios transferred to SpareBank 1 Boligkreditt AS. The LTV is calculated based on the market value of the collateral. In a balance-distributed LTV, for loans that exceed 70 per cent of the collateral's market value, the excess amount is distributed among the other intervals. In a total-distributed LTV, the entire loan is allocated to one and the same interval. The figure shows that there is moderate borrowing in general in relation to the value of the collateral. Less than 3 per cent of the loan exposure exceeds 85 per cent of the value of the collateral.

For the overall retail market portfolio the expected loss is estimated at 0.03 per cent of the loan exposure through an economic cycle, but the variations for each default class are significant. The average expected loss in the different default classes are illustrated in Figure 25 below.

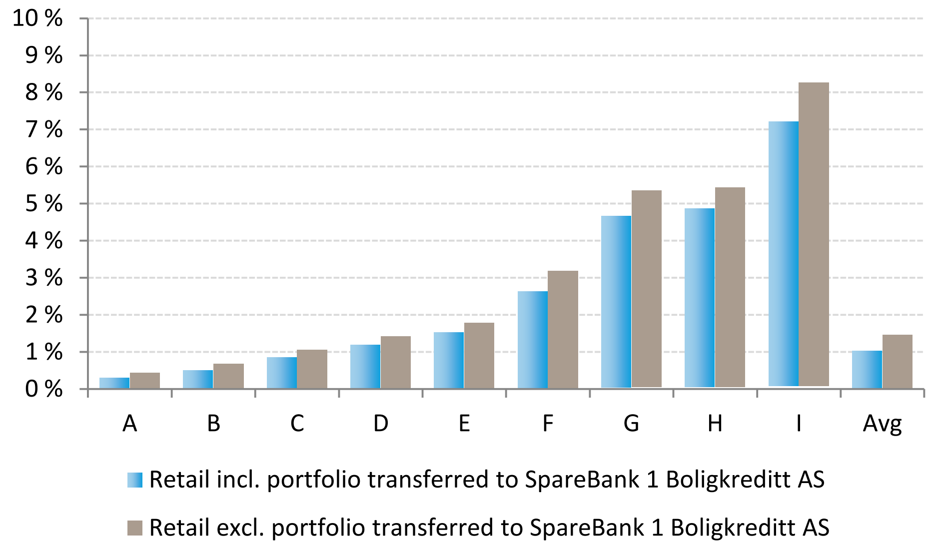
Figure 25: Expected losses in the retail market portfolio by default class



Average expected loss in default class A is almost 0 per cent, increasing to 0.95 per cent in default class I for the retail market portfolio combined.

The amount of capital tied up (risk-adjusted capital) will also vary significantly between the default classes. Risk-adjusted capital indicates a maximum loss during a 12-month period with a confidence level of 99.97 per cent. Average capital tied up in the different default classes is illustrated in figure 26 below.

Figure 26: Risk-adjusted capital in the retail market portfolio by default class



For the combined retail market portfolio the risk-adjusted capital is estimated at 1.04 per cent of the loan exposure. Average risk-adjusted capital in default class A is 0.3 per cent, increasing to 7.2 per cent in default class I.

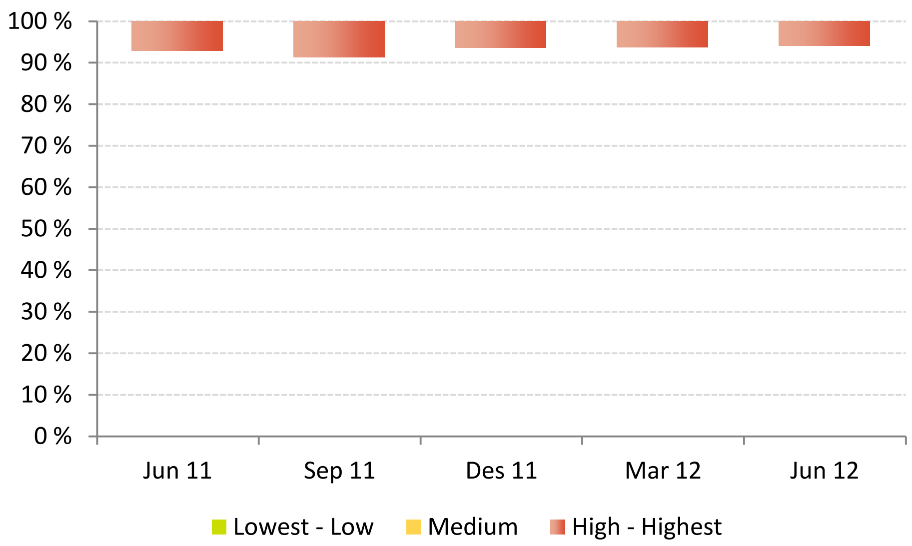
Since the risk-adjusted capital indicates the capital necessary to cover unexpected losses in a given confidence level, it means that this requirement for risk-adjusted capital increases with increasing probability of default. The fact that the capital tied up in a commitment shall be linked directly to its calculated risk is in accordance with the fundamental principle of the group's risk management.

SpareBank 1 SR-Finans

SpareBank 1 SR-Finans has a greater share of marginal funding (vehicles, capital equipment, etc.) than is the case for the group as a whole. This means that the inherent credit risk will generally be somewhat higher in SpareBank 1 SR-Finans than in the parent company.

Figure 27 below summarises the risk-related development of the retail market portfolio at the end of the second quarter of 2012. The loan portfolio has been stable throughout the entire year and the exposure (EAD) was NOK 5.3 billion at the end of the second quarter of 2012. The figure below shows that the portfolio is dominated by commitments with low risk. These account for 66 per cent of the loan exposure, while around 6 per cent of the exposure is classified as high risk.

Figure 27: Development of the portfolio of SpareBank 1 SR-Finans



Bond portfolio

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.

The **liquidity portfolio** consists of interest-bearing papers that either satisfy the requirements for depositing with Norges Bank or have a term to maturity of less than 6 months. The size of the portfolio will at all times depend on the group's balance sheet and thereby the need for liquid assets. At the end of the second quarter of 2012 the value of the combined liquidity portfolio totals NOK 21.7 billion.

In accordance with the group's internal guidelines, the securities that do not satisfy the aforementioned requirements entail a credit risk governed by special processing rules. At the end of the second quarter of 2012, the portfolio has no investments either do not meet the requirements for the disposal of Norges Bank, non-committed credit lines, or LCR rules.

The **trading portfolio** consists of financially oriented investments in interest-bearing securities. The current limit for such investments is NOK 1,000 million. 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 second quarter of 2012 the trading portfolio includes investments in 42 companies valued at NOK 756 million.

The group has a separate risk model for calculating the risk-adjusted capital associated with the bond portfolios.

The trading portfolio does not have any structured bonds (CDO's etc.) or other types of financial instruments.

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

Table 1: Securities exposure, bonds and securities (NOK million)

Sub-portfolio	**Book value**	**Fair value**
Treasury	**21 697**	**21 740**
- Norwegian state/municipality	4 680	4 680
- Foreign guarantees	1 720	1 720
- Covered bond swap scheme	7 699	7 741
- Covered bonds	6 242	6 242
- Norwegian bank/finance	858	858
- Foreign bank/finance	397	398
- Industry / Other	100	100
Trading/sales	**756**	**756**
- Norwegian bank/finance	129	129
- Foreign bank/finance	1	1
- Industry	626	626

1.4 Market risk

Market risk is a collective term that comprises the risk of loss related to items on and off the balance sheet as a result of changes in the 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.

Interest rate risk

The maximum loss on interest rate change of 1 percent: NOK 30 million and NOK 45 on the balance sheet total, respectively, Trading and Treasury. No specific framework for foreign exchange balance, but the absolute value of the interest rate risk, respectively, the Norwegian kroner and exchange rate is calculated and subject to the framework for the balance sheet total.

Table 2: Sub-limits within the different maturity bands

Maturity bands	Limit of the effect of an interest rate change of 1 per cent on the balance sheet total Trading	Limit of the effect of an interest rate change of 1 per cent on the balance sheet total Treasury
0 – 3 months	NOK 20 mill	NOK 30 mill
3 – 6 months	NOK 20 mill	NOK 30 mill
6 – 9 months	NOK 10 mill	NOK 30 mill
9 months – 1 year	NOK 10 mill	NOK 30 mill
1 year – 18 months	NOK 10 mill	NOK 20 mill
18 months – 24 months	NOK 15 mill	NOK 15 mill
Each year (1-10)	NOK 30 mill	NOK 10 mill
10 years or more	NOK 30 mill	NOK 10 mill

The table below shows the development of the total interest rate risk at the end of each quarter.

Table 3: Effect on earnings of a positive parallel shift in the yield curve of one percentage point (NOK million)

Balance sheet total	0-6 months	6-12 months	1-5 years	Over 5 years	Total
2nd quarter 2012	12	7	-7	-1	**11**
1st quarter 2012	-7	20	-15	-3	**-5**
4th quarter 2011	-15	24	-21	-5	**-16**
3rd quarter 2011	-8	15	-6	-10	**-9**

Currency risk

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 125 million in aggregate.

The table shows the development of the net foreign currency exposure including financial derivatives at the end of each quarter.

Table 4: Foreign currency exposure including financial derivatives (NOK million)

Currency	2nd quarter 2012	1st quarter 2012	4th quarter 2011	3rd quarter 2011
EUR	-23	-31	1	1
USD	61	-1	0	3
CHF	1	2	1	-1
GBP	4	-8	1	1
Other	5	2	7	8

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 development of the group's shareholdings at the end of each quarter.

Table 5: The group's share portfolio at fair value at the end of the year (NOK million)

	2nd quarter 2012	1st quarter 2012	4th quarter 2011	3rd quarter 2011
Shares, units, etc.	**708**	**734**	**715**	**702**
- Listed shares	213	223	213	223
- Unlisted shares	407	423	418	402
Available for sale	**88**	**88**	**84**	**77**

Market risk, including spread risk for bonds and securities

The liquidity portfolio's holdings total NOK 21.7 billion, NOK 8.1 billion of which is classified as "held to maturity" or "receivables". These investments are recognised at amortised cost and are therefore not exposed to market risk. The trading portfolio totals NOK 0.8 billion. The table below provides a summary of the portion of the bond portfolio that is exposed to market risk. The portfolio totals NOK 14.4 billion at the end of the second quarter of 2012.

Table 6: Fair value of the bond portfolio that is exposed to market risk (NOK million)

Sub-portfolio	2nd quarter 2012	1st quarter 2012	4th quarter 2011	3rd quarter 2011
Treasury	**13 594**	**12 867**	**10 655**	**7 457**
- Norwegian state/municipality	4 680	5 381	3 361	2 583
- Covered bonds	6 242	5 172	4 927	3 129
- Foreign guarantees	1 720	1 435	1 789	471
- Norwegian bank/finance	783	790	402	971
- Foreign bank/finance	68	69	88	189
- Industry / other	100	20	88	113
Trading/sales	**756**	**513**	**551**	**599**
- Norwegian bank/finance	129	160	183	47
- Foreign bank/finance	1	1	1	1
- Industry / other	626	351	366	550

Quantification of the risk-adjusted capital for spread risk in the bond portfolios is calculated in accordance with the Financial Supervisory Authority of Norway's model for risk-based supervision of market risk in insurance companies (based primarily on the Solvency II regulations). The risk-adjusted capital for spread risk is dependent on the market value of the individual securities, duration (minimum one year) and probable fall in value.

Table 7: Risk-adjusted capital for spread risk in the bond portfolio (NOK million)

Sub-portfolio	**Market value risk class (NOK million)**	**Average weighted effective duration**	**Estimated spread risk (NOK Million)**
Treasury	**10 612**		**257**
Covered bonds (AAA)	5 706	2,4	111
AAA - AA	2 177	2,0	55
A	954	0,87	18
BBB	0	0	0
BB	31	2,1	4
Not an official rating	1 744	0,1	70
Trading/sales	**756**		**93**
A	8	1,8	0,3
BBB	1	4,2	0,1
BB	133	3,1	25
B or lower	25	3,2	8
Not an official rating	590	2,5	60

1.5 Operational risk

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

The financial turmal in the markets in recent years, with several national and international banks incurring large losses, have illustrated the consequences of incorrect assessments and inadequate routines and systems, which has increased the industry's focus on operational risk.

SpareBank 1 SR-Bank has high ambitions in the area of operational risk and would like to contribute to making Norway a centre of expertise in Europe for operational risk management and measurement. We are therefore working continuously on developing and improving practical and professional approaches to manage and control operational risk based on insight into real operational risk drivers and causal relationships. A significant contribution to this work is our cooperation with the University of Stavanger (UIS) which is regarded as one of the world's leading academic risk environments.

One of the main challenges associated with operational risk is to quantify probabilities and potential consequences of the risk that one is exposed to at any given time. For example, if employees exceed their authorities, this entails that the bank's current limits cannot be used as the maximum limit for the size of the losses that can be incurred by the positions taken, since the employee will typically try to conceal the real size of the positions. It is often difficult to establish credible probabilities for the occurrence of such incidents. Correspondingly, unconscious errors and external incidents such as robberies and computer intrusions can also cause losses that it is difficult to predict and quantify accurately before the incidents have actually occurred.

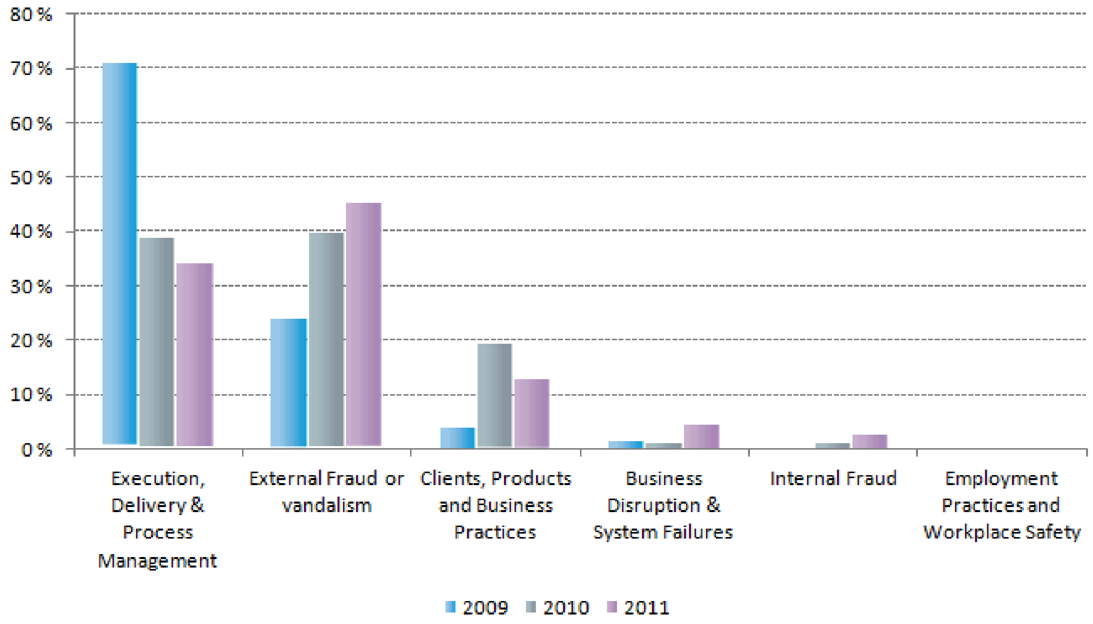
SpareBank 1 SR-Bank calculates and maintains regulatory capital related to operational risk in accordance with the standardised approach. However, this method is regarded as giving an inadequate indication of the actual exposure to operational risk, since it is only based on historical income and does not take business-specific factors and established controls into account. In order to determine the real risk exposure more accurately and to gain insight into what it is that drives operational risk and the group's business and support processes, a total review of the group's operational risk exposure is conducted at least annually, in which the probabilities and potential consequences of the various risk scenarios are surveyed with extensive involvement by the process owners and technical experts.

Based on the last overall risk assessment for the group, which was conducted in the fourth quarter of 2011, including assessments related to the external threat situation and incidents in other banks, the risks have been prioritised based on their potential consequences. Here we will find, for example, risks related to the funding process, payment transfers, IT security and brokerage operations (market), where major risks will typically have a very low probability of occurring, but where the consequences can be substantial. Such prioritised risks will be followed up at expanded work meetings with the process owners and technical experts, in which the risks will be decomposed to identify the risk drivers and survey and assess the established risk-reducing measures and controls. A special initiative has been established here in 2012, in which new methods for modelling and quantification of the risk exposure have been developed in cooperation with UIS.

With regard to types of operational risk, experience in the industry shows that human error or inadequate qualifications is often a contributing cause of the losses that are incurred in the lending area. For example, inadequate follow-up of the loan terms of negative customer events will entail getting involved too late in the credit protection process, and an incorrect assessment or registration of collateral can lead to large losses in the event of a default. SpareBank 1 SR-Bank therefore systematically evaluates any significant losses from the lending area in order to determine whether portions of the losses can be attributed to operational risk, or if it is possible to improve the work processes in the areas where losses from operational risk arise.

To provide input for risk assessments and form a foundation for continuous operational learning and improvement, all of the identified undesired incidents are reported in a special corporate database. The figure below shows the group's reported undesired incidents during the period 2009–2011 broken down by the Basel categories:

Figure 28: Distribution of reported undesired incidents for the period 2009–2011



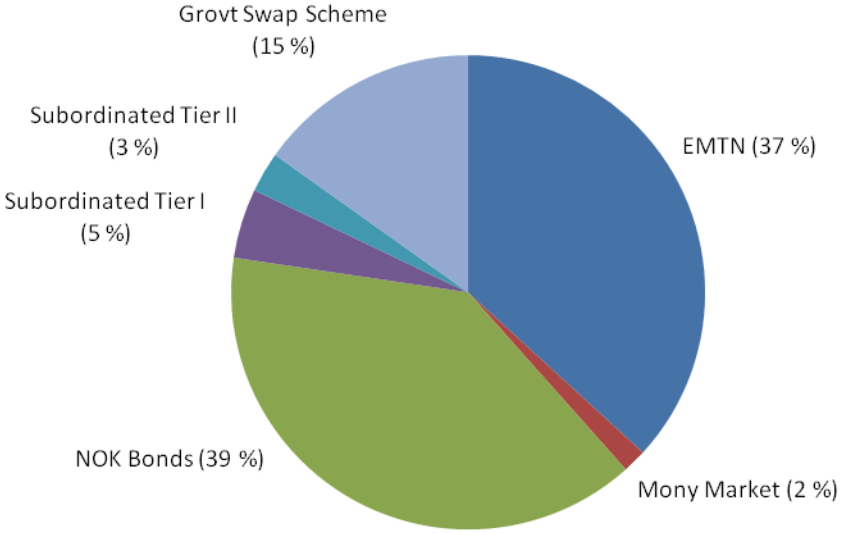
As the figure illustrates, there has been a relative decline in reported incidents related to settlement, delivery and transactions, and a relative increase in incidents related to external criminality, operational/system interruptions and internal irregularities (conscious routine breaches are also included here).

None of the incidents reported 2011 have entailed significant losses, not even the incidents of external criminality, which account for around 45 per cent of the total number of incidents during the year (the incidents are not directly comparable with the risks with low probability and high consequences mentioned above). The incidents provide, however, valuable insight into what incidents can potentially entail major losses, and an effort is therefore being made to improve the reporting systems and reporting culture further in order to identify as many incidents as possible.

1.6 Liquidity risk

Funding risk is the risk that the group is not able to refinance its debt or is not able to finance an increase in assets.

Figure 29: Composition of the group's securities borrowing as of 30.06.2012



For SpareBank 1 SR-Bank, the liquidity situation is satisfactory. Of the liquidity reserves of NOK 23.1 billion, NOK 8.1 billion represents mortgage loans that have been prepared in the WEB client (loans prepared for securitisation). At the end of second quarter of 2012, however, the bank is not dependent on the web client in relation to its survivability target of 12 months. As an issuer of specially secured bonds, SpareBank 1 Boligkreditt AS contributes to reducing the group's funding risk.

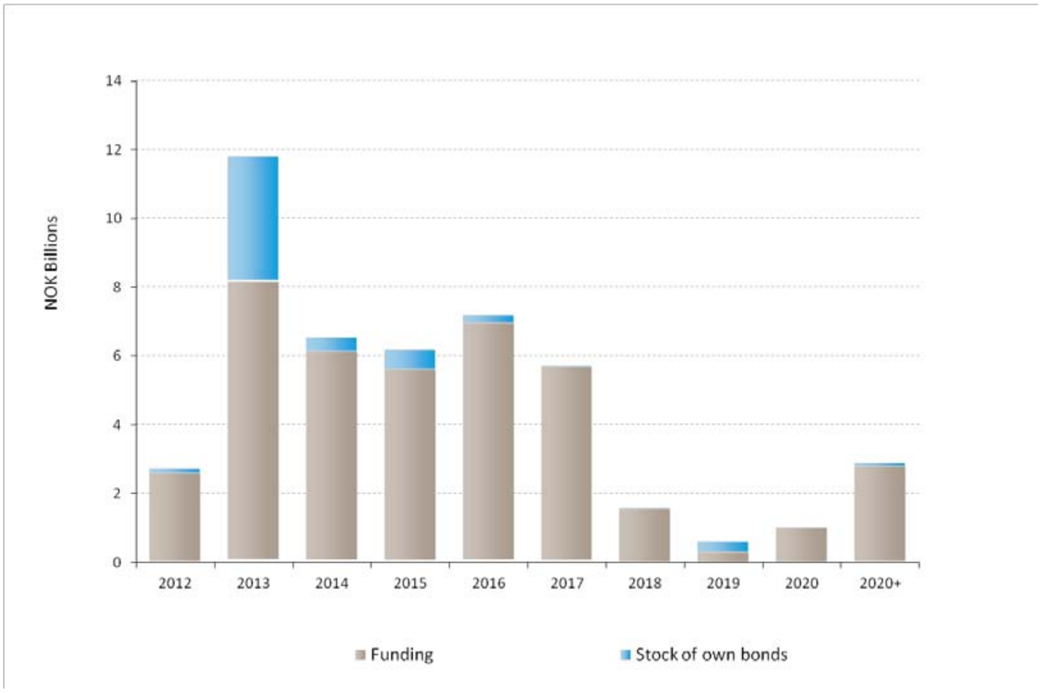
Mortgage loans in SpareBank 1 Boligkreditt AS totalled around NOK 47.5 billion at the end of second quarter of 2012, compared with NOK 44.7 billion at the end of 2011. The transferred balance accounts for around 50 per cent of the gross home mortgage loan balance and around 31 per cent of the total gross lending. It is also expected that the transfer of loans with a mortgage on commercial property to SpareBank 1 Næringskreditt AS will contribute to reducing the group's funding risk in the future.

Customer deposits are the most important source of funding for the group. For the group as a whole the volume of deposits increased with NOK 7.2 billion (11.2 per cent) in the first half of 2012, compared with the end of 2011. During the same period, the group's lending excluding home mortgage and commercial credit has increased by NOK 3.9 billion (3.9 per cent). This means that the deposit-to-loan ratio has increased from 63.2 per cent to 67.6 per cent. The deposit-to-loan ratio is thus able to meet the target with regard to the group's liquidity strategy guidelines that specify a target of maintaining the deposit-to-loan ratio at a minimum of 55 per cent.

At the end of the second quarter of 2012, the group had surplus liquidity in the form of deposits in Norges Bank and short-term investments in banks and credit institutions corresponding to NOK 0.3 billion. The group’s buffer capital, in the form of liquid assets, totals NOK 23.1 billion. By the end of next year, debt corresponding to NOK 5.5 billion is to be refinanced.

The figure below illustrates the maturity structure for the funding portfolio of the second quarter of 2012.

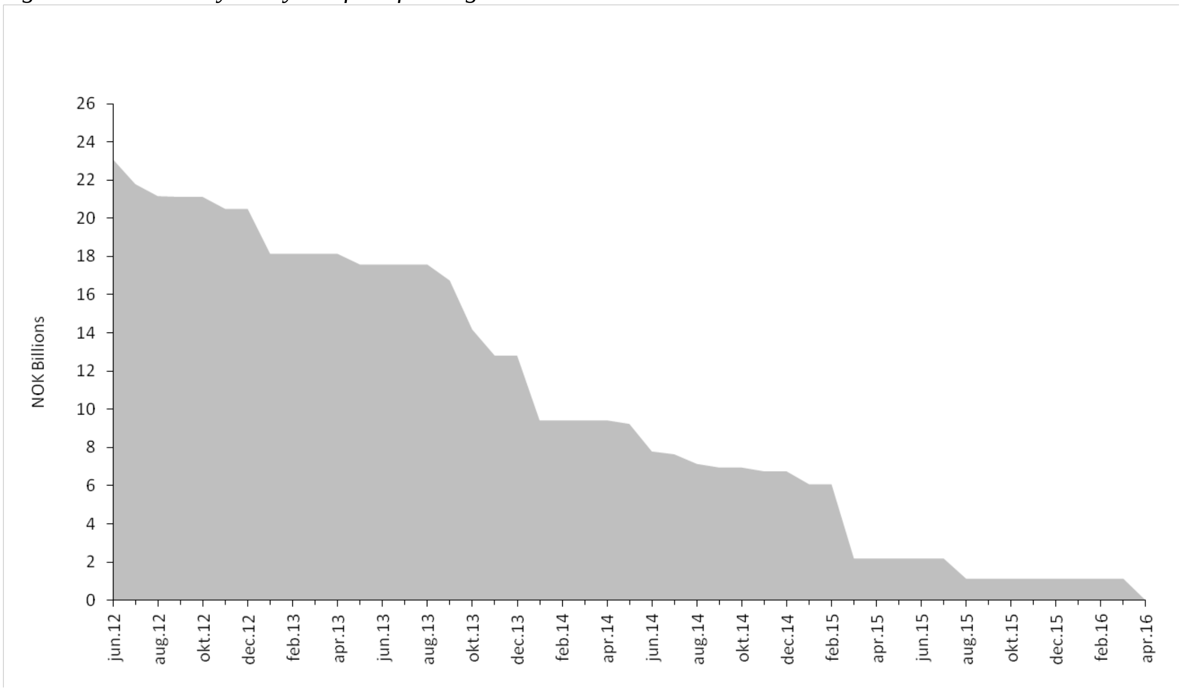
Figure 30: The funding portfolio's maturity structure, excluding F-loans, as of 30.06.2012



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 12 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 requirements is set at zero, i.e. the relationship between deposits and loans are kept constant.

The figure below illustrates a sensitivity analysis as of 30 June 2012 based on the 12-month forecasted growth in deposits and loans on the bank's own balance sheet.

Figure 31: Sensitivity analysis of the funding risk



Since the scenario requires that access to external funding is not available, 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, which is NOK 23.1 billion as of the second quarter of 2012, ensures that the group can survive until March 2016. The liquidity buffer consists of cash, very secure interest-bearing securities and home mortgage loans ready to be transferred to SpareBank 1 Boligkreditt AS.

1.7 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 ownership interest.

At the end of the second quarter of 2012 SpareBank 1 SR-Bank has primarily ownership risk through ownership in the SpareBank 1 Gruppen AS (19.5 per cent), Bank 1 Oslo Akershus AS (19.5 per cent), BN Bank ASA (23.5 per cent) and SpareBank 1 Næringskreditt AS (30.7 per cent).

SpareBank 1 Group is owned by SpareBank 1 SR-Bank (19.5 per cent), SpareBank 1 Nord-Norge (19.5 per cent), SpareBank 1 SMN (19.5 per cent), SpareBank Hedmark (12 per cent), Samarbeidende Sparebanker AS (19.5 per cent), and the Norwegian Federation of Trade Unions (LO) and affiliated unions (10 per cent).

SpareBank 1 Gruppen AS owns 100 per cent of the shares in ODIN Forvaltning AS, SpareBank 1 Livsforsikring AS, SpareBank 1 Skadeforsikring AS, SpareBank 1 Medlemskort AS and SpareBank 1 Gruppen Finans Holding AS, as well as 75 per cent of the shares in SpareBank 1 Markets AS. SpareBank 1 Gruppen Finans Holding AS owns SpareBank 1 Factoring AS (100 per cent), Actor Fordringsforvaltning AS (100 per cent) and Actor Portefølje AS (100 per cent). SpareBank 1 Gruppen AS also has an interest in SpareBank 1 Utvikling DA.
The SpareBank 1 Group also 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 all key factors. The Alliance also conducts development work at

three Centres of Expertise – Training (Tromsø), Payment Services (Trondheim), and Credit Control (Stavanger).

Of the companies owned by SpareBank 1 Group, the ownership of SpareBank 1 Livsforsikring is considered to have the highest ownership risk. This is due primarily to the company's investment of customer funds in the equity and bond markets, where the return varies over time.

Bank 1 Oslo Akershus operates under the marketing name SpareBank 1 Oslo Akershus. The Bank 1 Oslo Akershus Group consists of the parent bank Bank 1 Oslo Akershus AS and the subsidiaries EiendomsMegler 1 Oslo og Akershus AS, Invest 1 AS, Invest 3 AS, Invest 4 AS and Invest 5 AS.

The head office of the bank is located in Oslo, and it has a total of 18 local branches. The bank’s most important customer segments are the retail market, SMEs and the organisation market – primarily the trade union movement.
SpareBank 1 SR-Bank's ownership risk consists primarily of the underlying credit risk in this company.

BN Bank ASA has its head office in Trondheim and an office for commercial property in Oslo. BN Bank ASA services customers in the entire country by online banking and over the phone. BN Bank ASA is owned by the SpareBank 1 banks and offers a broad range of banking services to businesses and private customers. The bank's operations are based on traditional banking operations aimed at home mortgage loans in the retail market and commercial property. SpareBank 1 SR-Bank's ownership risk consists primarily of the underlying credit risk in this company.

In SpareBank 1 Næringskreditt AS's portfolio there is only lending to commercial properties with leases in central locations. Lending cannot make up more than 60 per cent of the total market value. SpareBank 1 SR-Bank's ownership risk consists primarily of the underlying credit risk in this company.

As of the second quarter of 2012 SpareBank 1 SR-Bank owns 34.4 per cent of the shares in SpareBank 1 Boligkreditt AS. The company's operations include the financing of loans to retail customers with security within 75 per cent of the basic value of real estate. At the end of the second quarter of 2012 SpareBank 1 SR-Bank had transferred NOK 55.8 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.

1.8 Business risk

Analysis of the group’s income and cost structure in relation to economic cycles shows that the greatest volatility is in the group's capital gains from equity investments and bonds, earnings from the savings areas and commission income from real estate brokering. A decline in income is compensated for in part by means of cost reductions.

The group has developed a well-diversified revenue 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.

1.9 Reputation risk

No specific investigations were made in 2011 to measure the group's position with regard to its reputation. We have, however, acquired a new media monitoring system that monitors all of the items that make reference to SpareBank 1 SR-Bank in one way or the other to a much greater extent. The monitoring encompasses all types of media, printed and digital media belonging to both official media houses and various private blogs and websites.

There are many news items and they vary a great deal with regard to their contents. A majority of the items mentioned in the media belonging to official media houses is controlled proactively in towards the media by us. Very few items are of a reactive nature and can be classified as negative items.

In general, the measures that are continuously utilised to uncover the group's reputation are considered satisfactory. The group's reputation is still good, which means that the overall risk situation is comfortable.

1.10 Strategic risk

The group shall give priority to profitable and long-term creation of value and balance long and short term priorities. Our ambition is to have controlled growth in the entire market area, with special emphasis on the areas with a high population density. Growth shall take place organically and through the exploitation of structural opportunities.

The insecure situation in Europe makes access to and the price of capital uncertain for the group. The financial sector is experiencing increasing regulatory requirements from the authorities at the same time. Combined, this provides guidelines for the group's future plans. The group's future growth is dependent on access to competitive funding.

Among our retail and corporate customers, our goal is net growth in customers and increased product coverage. The group's capital markets services and the savings, deposits investments and pensions area should be responsible for a greater share of the group's overall results. The group's operations shall be made more efficient through improvement of the processes and systems. Our ambition is that all of this combined shall contribute to maintaining our position as the most attractive supplier of financial services in Southern and Western Norway and that we should be in the top half of the comparable financial groups with regard to earnings.

1.11 Compliance risk

EU's goal-oriented efforts to completely harmonise the regulations in the EU/EEA area entail new directives and regulations that the group must adapt to. Stringent regulatory requirements related to the group's activities (licences, corporate governance) entail an increased scope and places high demands on the follow-up of compliance.

The consequences of a failure to comply may be fines, the loss of a license, termination of cooperation with correspondent banks or a negative reputation.

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

The group's compliance policy shall ensure that the laws, regulations, standards and recommendations that regulate the operations and have been stipulated by government bodies etc. are implemented and complied with on an ongoing basis.

The compliance risks to which SpareBank 1 SR-Bank is exposed shall be identified and assessed annually.

The most important follow-up areas have been and are:

- Ongoing surveys and implementation of new regulatory requirements
- Ensuring good compliance with the Securities Trading Act (MiFID) with regard to consumer and investor protection.
- Ensuring good compliance with the antimoney laundering regulations (AML)
- Compliance with new regulations "Regulations relating to remuneration schemes in the financial sector"
- Implementation and adaptation of new capital regulations for banks etc., Regulations relating to the calculation of regulatory capital, limits for large exposures regime and liquidity management

We are continuously assessing the best adaptation to new rules and regulations to ensure compliance and the efficiency of the organisation. New rules and regulations that regulate the group's operations shall be included in routines and guidelines on an ongoing basis.

2. PILLAR 3: DETAILED INFORMATION ON REGULATORY CAPITAL ADEQUACY

This section is updated annually, with the exception of tables 8-12, 27 and 33-34 which are updated quarterly.

2.1 Consolidation

Table 8: Consolidation basis (amounts in NOK 1,000)

Subsidiaries				
As of 30/06/2012	**No. of shares**	**Book value**	**Voting rights**	**Consolidation method**
Wholly consolidated companies				
SpareBank 1 SR-Finans AS	334,000	485,566	100%	Acquisition method
EiendomsMegler 1 SR-Eiendom AS	150	97,205	100%	Acquisition method
Westbroker Finans AS	100	0	100%	Acquisition method
SR-Investering AS	3,500	178,191	100%	Acquisition method
SR-Forvaltning AS	6,000	29,019	100%	Acquisition method
SR-Forretningsservice AS	1,000	125	100%	Acquisition method
Kvinnherad Sparebank Eigedom	3,000	15,061	100%	Acquisition method
Total		**805,167**		
As of 31/12/2011				
Wholly consolidated companies				
SpareBank 1 SR-Finans AS	334,000	439,566	100%	Acquisition method
EiendomsMegler 1 SR-Eiendom AS	150	56,885	100%	Acquisition method
Westbroker Finans AS	100	0	100%	Acquisition method
SR-Investering AS	3,500	175,527	100%	Acquisition method
SR-Forvaltning AS	6,000	29,019	100%	Acquisition method
SR-Forretningsservice AS	1,000	125	100%	Acquisition method
Kvinnherad Sparebank Eigedom	3,000	15,061	100%	Acquisition method
Total		**716,183**		

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

Table 9: Subsidiaries that report based on the standard method (amounts in NOK million)

SR-Finans AS	**30.06.2012**	2011
Net regulatory capital	**542**	542
Minimum regulatory capital requirement	**520**	392
Capital adequacy %	**10.31**	11.06

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. Investments will be treated the same as for capital adequacy purposes except for the group's investments in SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. Proportionate consolidation is carried out for the group's capital adequacy.

Investments in joint ventures

Investments in joint ventures are accounted for in accordance with the equity in the group. For the group's capital adequacy, the book value of investments in SpareBank 1 Gruppen AS and Bank 1 Oslo Akershus AS is deducted from the regulatory capital and the calculation basis. With regard to the investment in BN Bank ASA, proportionate consolidation is carried out for the group's capital adequacy. In SpareBank 1 SR-Bank, the investments are recognised according to the acquisition method. The portion of the book value of the investments in SpareBank 1 Gruppen AS and Bank 1 Oslo Akershus AS that exceeds 2 per cent of the regulatory capital of the SpareBank 1 Group and Bank 1 Oslo Akershus is deducted from the regulatory capital and calculation basis.

Table 10: Investments in associated companies and joint ventures

Amounts in NOK 1,000	Ownership percentage 30/06/2012	Capital requirement [1] 30/06/2012	Capital adequacy percentage 30/06/2012	Ownership percentage 31/12/2011	Capital requirement [1] 31/12/2011	Capital adequacy percentage 31/12/2011
SpareBank 1 Boligkreditt AS	34.4	1,814	10.30	34.4	1,553	9.83
SpareBank 1 Næringskreditt AS	30.7	250	11.50	30.7	212	13.67
BN Bank ASA	23.5	547	15.11	23.5	624	13.70

1) SpareBank 1 SR-Bank's share

SpareBank 1 Boligkreditt AS uses the IRB approach in its capital adequacy reporting. The other companies use the standard approach for reporting capital adequacy.

Table 11: Regulatory capital in other financial institutions

Amounts in NOK million	Book value 30/06/2012	Book value 31/12/2011
SR-Pensjonskasse (SR- Pension fund)	**35**	35
Sandnes Sparebank	**57**	62
Other financial institutions	**39**	45
Total	**131**	142

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 law impediments that restrict dividend distributions from these companies.

2.2 Primary capital

Regulatory capital, including core capital and supplementary capital, as well as relevant supplements, deductions and limitations as of 30 June 2012.

Table 12: Regulatory capital

Group (amounts in NOK million)	**30.06.2012**	2011
Equity certificate capital	**6,394**	3,183
- Own equity certificates	**-9**	-3
Share premium reserve	**1.587**	625
Equalisation fund	**-**	1,448
Provisions for dividends	**-**	299
Primary capital	**-**	2,631
Compensation fund	**-**	55
Endowment fund	**-**	293
Fund for unrealised gains	**43**	43
Other reserves	**2,797**	1,183
Total equity carried	**10,812**	9,757
Core capital		
Deferred tax, goodwill and other intangible assets	**-65**	-71
Fund for unrealised gains available for sale	**-2**	-2
Deduction for provisions for dividends	**-**	-299
50% deduction for regulatory capital in other financial institutions	**-18**	-21
50% deduction for expected IRB losses less loss provisions	**-237**	-255
50% capital adequacy reserve	**-685**	-665
Year- to- date profit included in core capital (50%)	**309**	-
Hybrid Tier 1 bonds [1)]	**2,400**	2,402
Total core capital	**12,514**	10,846
Supplementary capital in excess of core capital		
Perpetual subordinated capital	**-**	-
Non-perpetual subordinated capital	**1,467**	1,776
50% deduction for regulatory capital in other financial institutions	**-18**	-21
50% deduction for expected IRB losses less loss provisions	**-237**	-255
50% capital adequacy reserve	**-685**	-665
Total supplementary capital	**527**	835
Net regulatory capital	**13.041**	11.681

[1)] Terms and conditions are presented in table "Subordinated loan capital and hybrid Tier 1 bonds"

Minimum regulatory capital requirement	**30.06.2012**	2011
Credit risk	**7,044**	6,561
Market risk	**412**	337
Operational risk	**447**	408
Capital adequacy requirement related to transitional arrangements	**894**	861
Minimum regulatory capital requirement	**8,797**	8,167

Capital adequacy	**11.86%**	11.44%
Of which core capital	**11.38%**	10.62%
Of which supplementary capital	**0.48%**	0.82%

Non-perpetual subordinated loan capital has a reduced equity value of 20% per year over the last 5 years prior to maturity. If the group has regulatory capital in other financial institutions, this is deducted directly from the group's own regulatory capital for the percentage that exceeds 2 per cent of the regulatory capital of the receiving financial institution.

If the group has regulatory capital in other financial institutions that represents less than 2 per cent of the regulatory capital of the financial institution in question, the sum of such capital is deducted from the group's regulatory capital that exceeds 10 per cent of the group's equity and subordinated capital. If the group has been required to maintain a 100 per cent capital adequacy reserve for certain assets, an amount equivalent to the asset's book value should be deducted from the regulatory capital and the asset base used for calculation. The calculation basis is weighted according to risk.

Table 13: Subordinated loan capital and hybrid tier 1 securities (amount in NOK million)

Principal	**Terms**	**Maturity**	**First due date**	**2011**	**2010**
Non-perpetual					
NOK 750	3-month Libor + margin	2021	2016	658	
JPY 13,000	3-month Libor + margin	2012	2012	1,014	960
NOK 500	3-month Libor + margin	2018	2013	469	499
NOK 450	3 month Nibor + margin	2017	2012	362	450
NOK 75	3 month Nibor + margin	2019	2014	84	86
Total non-perpetual				**2,587**	**1,995**
Perpetual:					
USD 75	3-month Libor + margin			0	439
SEK 200	3-month Stibor + margin			0	179
NOK 170	3 month Nibor + margin			0	170
Total perpetual				**0**	**788**
Hybrid Tier 1 bonds:					
NOK 1,000	3 month Nibor + margin			992	0
USD 75	3-month Libor + margin			485	495
NOK 684	3 month Nibor + margin			719	686
NOK 116	3 month Nibor + margin			115	115
NOK 40	3 month Nibor + margin			40	40
Total hybrid Tier 1 bonds				**2,351**	**1,336**
Accrued interest				37	25
Total subordinated loan capital				**4,975**	**4,144**

Subordinated loan capital and hybrid Tier 1 bonds in foreign currency are included in the group's overall currency position, so that there is no currency risk related to the loans. Of the NOK 4,975 million in subordinated loan capital, NOK 2,273 million qualifies as core capital and NOK 1,564 as non-perpetual subordinated capital. Capitalised costs when taking out loans are reflected in the calculation of the amortised cost. Hybrid tier 1 securities can account for a maximum of 15 per cent of the combined core capital for bonds with a fixed term and 35 per cent for hybrid tier 1 securities without a fixed term. Any excess qualifies as perpetual subordinated capital.

2.3 Credit risk - general information on credit risk, default and impairment

2.3.1 Portfolio information based on regulatory estimations

The tables below present a summary of the bank's commitments in relation to credit risk.

Table 14: 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
(amounts in NOK million)

2011	**Commitment amount as of 31/12/2011**	**Average commitment amount in 2011**
Businesses	**71,637**	**68,045**
Mass market	**50,949**	**56,357**
Gross commitment, customers	**122,586**	**124,402**
Individual write-downs	**-418**	**-410**
Write-down of groups of loans	**-362**	**-360**
Write-down of guarantees	**-2**	**-3**
Net commitment, customers	**121,804**	**123,630**
Governments (Norges Bank)	**3**	**513**
Institutions	**723**	**998**
Total commitment amount	**122,530**	**125,141**

2010	**Commitment amount as of 31/12/2010**	**Average commitment amount in 2010**
Businesses	64,452	62,235
Mass market	61,765	56,269
Gross commitment customers	126,217	118,504
Individual write-downs	-402	-366
Write-down of groups of loans	-357	-339
Write-down of guarantees	-3	-6
Net commitment, customers	125,455	117,795
Governments (Norges Bank)	1,023	782
Institutions	1,273	1,287
Total commitment amount	127,751	119,864

Table 15: Commitment amount for each type of commitment, broken down into significant geographic areas before deductions for write-downs.

2011	**Rogaland**	**Agder counties**	**Hordaland**	**Other**	**Total**
Gross lending to customers	**71,256**	**8,872**	**12,660**	**8,580**	**101,368**
Unutilised credit	**8,146**	**942**	**1,359**	**1,028**	**11,475**
Guarantees	**6,917**	**800**	**1,153**	**873**	**9,743**
Total gross commitment, customers	**86,319**	**10,614**	**15,172**	**10,481**	**122,586**

2010					
Gross lending to customers	75,869	9,657	13,139	7,127	105,792
Unutilised credit	8,997	1,116	936	864	11,913
Guarantees	5,733	572	1,134	1,073	8,512
Total gross commitment, customers	90,599	11,345	15,209	9,064	126,217

Table 16: Commitment amount for each type of commitment, broken down into significant sectors before deductions for write-downs (amounts in NOK million)

2011	**Lending**	**Unutilised credit and guarantees**	**Total**
Agriculture/forestry	3,773	729	4,502
Fishing/fish-farming	416	199	615
Mining operations and extraction	2,728	81	2,809
Industry	1,686	1,224	2,910
Power and water supply / building and construction	4,022	2,518	6,540
Retail trade, hotel and restaurants	2,487	1,086	3,573
Overseas shipping, pipeline transport and other transport	6,553	4,481	11,034
Property management	23,749	3,111	26,860
Service sector	6,827	2,376	9,203
Public sector and financial services	1,068	2,523	3,591
Not allocated (added value fixed interest lending)	466	-466	0
Total businesses	**53,775**	**17,862**	**71,637**
Mass market	47,593	3,356	50,949
Total gross commitment, customers	**101,368**	**21,218**	**122,586**

2010			
Agriculture/forestry	3,430	751	4,181
Fishing/fish-farming	365	31	396
Mining operations and extraction	2,236	906	3,142
Industry	2,591	1,829	4,420
Power and water supply / building and construction	3,882	3,269	7,151
Retail trade, hotel and restaurants	2,504	1,211	3,715
Overseas shipping, pipeline transport and other transport	6,127	2,435	8,562
Property management	22,105	2,823	24,928
Service sector	5,011	1,879	6,890
Public sector and financial services	726	383	1,109
Not allocated (added value fixed interest lending)	323	-323	0
Total businesses	**49,300**	**15,194**	**64,494**
Mass market	56,492	5,231	61,723
Total gross commitment, customers	**105,792**	**20,425**	**126,217**

Table 17: Commitment amount for each type of commitment, broken down by the remaining term (amounts in NOK million)

2011	**At call**	**< 1 year**	**1–5 years**	**over 5 years**	**Total**
Gross lending to customers	33,216	3,871	15,161	49,120	101,368
Unutilised credit	12,256				12,256
Guarantees		7,096	859	1,721	9,676
Total gross commitment, customers	**45,472**	**10,967**	**16,020**	**50,841**	**123,300**
Governments (Norges Bank)	3	-	-	-	3
Institutions	723	-	-	-	723
2010					
Gross lending to customers	37,334	4,243	12,016	52,199	105,792
Unutilised credit	12,955				12,955
Guarantees		290	1,564	6,658	8,512
Total gross commitment, customers	50,289	4,533	13,580	58,857	127,259
Governments (Norges Bank)	1,023	-	-	-	1,023
Institutions	1,273	-	-	-	1,273

Table 18: Credit and impairment risk broken down by significant sectors (amounts in NOK million)

	Total commitment amount			
2011	**Doubtful**	**In default**	**Individual write-downs**	**Value changes recognised during the period**
Agriculture/forestry	17	9	10	-1
Fishing/fish-farming	-	-	-	-1
Mining operations and extraction	11	-	8	-
Industry	70	6	31	4
Power and water supply / building and construction	42	26	21	6
Retail trade, hotel and restaurants	26	6	19	4
Overseas shipping, pipeline transport and other transport	105	38	50	15
Property management	224	123	128	30
Service sector	64	30	57	31
Public sector and financial services	-	-	-	-
Total businesses	**559**	**238**	**324**	**88**
Transferred from write-down on groups of loans				5
Mass market	137	177	96	46
Total	**696**	**415**	**420**	**139**

2010				
Agriculture/forestry	5	16	9	5
Fishing/fish-farming	2	-	1	-
Mining operations and extraction	-	-	-	-
Industry	60	14	28	-8
Power and water supply / building and construction	22	32	35	15
Retail trade, hotel and restaurants	45	15	29	13
Overseas shipping, pipeline transport and other transport	96	24	57	4
Property management	313	180	119	144
Service sector	102	12	63	31
Public sector and financial services	-	-	-	-
Total businesses	**645**	**293**	**341**	**204**
Transferred from write-down on groups of loans				23
Mass market	117	150	61	7
Total	**762**	**443**	**402**	**234**

Table 19: Actual losses by default class for the period (amounts in NOK million)

	2011	2010
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	**139**	234
Total	**139**	234

Table 20: Separate specification of the total commitment amount with impairment and defaulted commitments divided into significant geographic areas, including total changes in value and write-downs (amounts in NOK million)

	Total commitment amount		**Individual write-downs**
2011	**Doubtful**	**In default**	
Rogaland	342	170	229
Agder counties	203	118	116
Hordaland	146	94	71
Other	5	32	4
Total	**696**	**415**	**420**
2010			
Rogaland	447	220	229
Agder counties	208	55	99
Hordaland	95	164	70
Other	12	4	4
Total	**762**	**443**	**402**

Table 21: Reconciliation of changes in value changes and write-downs respectively for commitments on impairment

2011	Opening balance as of 01/01/2011	Write-down amount recognised	Amount set aside for or reversed from estimated losses	Closing balance as of 31/12/2011
Individual write-downs	402	174	190	418
Write-downs on groups of loans	357		5	362
Specified provisions for losses, guarantees	3		-1	2
Total	**762**	**174**	**194**	**782**

2010	Opening balance as of 01/01/2010	Write-down amount recognised	Amount set aside for or reversed from estimated losses	Closing balance as of 31/12/2010
Individual write-downs	329	258	331	402
Write-downs on groups of loans	320		37	357
Specified provisions for losses, guarantees	8	0	-5	3
Total	**657**	**258**	**363**	**762**

Table 22: Distribution according to class of risk where the IRB approach is utilised

2011 Commitment category	Default class	Total EAD	Total unutilised facility	Average risk weight	Average loss given default	Average conversion factor
Businesses	A	42	14	0.29	0.45	0.99
	B	795	334	0.42	0.45	0.89
	C	6,554	2,484	0.58	0.45	0.89
	D	9,767	2,710	0.67	0.45	0.92
	E	6,980	1,209	0.80	0.45	0.95
	F	13,381	2,649	0.96	0.45	0.94
	G	12,207	1,700	1.16	0.45	0.96
	H	1,134	223	1.52	0.45	0.94
	I	3,992	375	1.76	0.45	0.97
	J	58	15	0.00	0.45	0.92
	K	572	21	0.00	0.45	0.99
Total businesses		**55,482**	**11,734**			
Mass market	A	10,067	2,869	0.02	0.10	1.00
	B	11,447	1,479	0.05	0.10	1.00
	C	29,999	2,659	0.07	0.11	1.00
	D	17,875	1,139	0.10	0.11	1.00
	E	22,923	1,143	0.14	0.11	1.00
	F	7,316	200	0.21	0.12	1.00
	G	1,086	26	0.32	0.12	1.00
	H	864	13	0.44	0.12	1.00
	I	889	14	0.62	0.13	1.00
	J	93	1	0.05	0.14	1.00
	K	198	0	0.19	0.31	1.00
Total mass market		**102,757**	**9,543**			

2010 Commitment category	Default class	Total EAD	Total unutilised facility	Average risk weight	Average loss given default	Average conversion factor
Businesses	A	509	213	0.27	0.45	0.93
	B	2,500	970	0.50	0.45	0.89
	C	7,163	2,112	0.62	0.45	0.91
	D	6,165	1,561	0.71	0.45	0.92
	E	10,085	1,868	0.91	0.45	0.94
	F	9,520	1,397	1.03	0.45	0.95
	G	10,503	1,629	1.29	0.45	0.95
	H	1,940	181	1.59	0.45	0.97
	I	1,696	112	2.15	0.45	0.98
	J	51	6	0.00	0.45	0.96
	K	651	18	0.00	0.45	0.99
Total businesses		50,783	10,066			
Mass market	A	11,879	3,164	0.02	0.10	1.00
	B	21,756	2,178	0.06	0.11	1.00
	C	24,590	1,854	0.09	0.11	1.00
	D	14,508	830	0.13	0.11	1.00
	E	11,919	481	0.17	0.12	1.00
	F	4,478	135	0.24	0.12	1.00
	G	905	30	0.36	0.13	1.00
	H	921	17	0.55	0.14	1.00
	I	684	12	0.78	0.15	1.00
	J	94	0	0.06	0.11	1.00
	K	179	0	0.41	0.30	1.00
Total mass market		91,912	8,703			

A commitment is deemed to be in default if a claim is overdue by more than 90 days and the amount exceeds NOK 1,000, or when the bank has reason to assume that it is possible that the debtor is not able to repay in accordance with his obligations to the bank. The table below shows the average estimated and actual default for the portfolio for the past year and for the period 2006–2011. The default percentage is defined as the total number of customers who are, or have been in default within a 12-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 23: IRB Default level

Portfolio	Estimated defaults 2010–2011	Actual defaults 2010–2011	Estimated defaults 2006–2011	Actual defaults 2006–2011
Mass market with mortgage on real estate	0.93 %	0.29 %	0.91 %	0.34 %
Other mass market	3.69 %	1.91 %	3.39 %	2.26 %
Businesses	3.74 %	2.40 %	2.98 %	2.24 %

Table 24 shows the estimated and actual loss given default for defaulted loans in SpareBank 1 SR-Bank. The Capital Requirements Regulations require that the estimated loss given default shall represent economic downturns. The estimated loss given default for the mass market is estimated for all customers in default one month before default since this is the last estimate of loss given default before the customer was in default. An estimated loss given default of 45 per cent is stipulated by the authorities in the Capital Requirements Regulations for businesses. The loss data period applies to the period from 2003 to 2011[8]. The estimated loss given default is somewhat higher than the actual loss given default since this is a downturn estimate, while the actual loss given default represents realisations carried out in some different economic cycles.

[8] *For Businesses are the period 2000-2010.*

Table 24: Loss given default for defaulted loans

Portfolio	Estimated loss given default	Actual loss given default
Mass market with mortgage on real estate	10.00%	3.40%
Other mass market	15.50%	10.70%
Businesses	45.00%	28.00%

Table 25: Total commitment amount and percentage secured by mortgage, broken down by commitment category (IRB)

Commitment category	2011 Commitment amount	2010 Commitment amount	2011 Of which secured by mortgage on real estate [1)]	2010 Of which secured by mortgage on real estate [1)]
Mass market				
Commitments with mortgage on real estate	95,239	84,950	94%	96%
Mass market SME	4,959	4,423	87%	88%
Other mass market commitments	2,579	2,563	3%	2% [2)]
Total	**102,777**	91,936		

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 per cent of the customer's commitment is not classified as a commitment with real estate, but as other mass market.

SpareBank 1 SR-Bank has no security that results in a reduced commitment amount. For enterprises the security pledged is not taken into account in the LGD calculation. Instead, LGD factors established by the authorities are applied. The group therefore does not list this type of commitment in the table above.

Table 26: The actual changes in value for the individual commitment category and development from previous periods (IRB):

Amounts in NOK million	Value 31/12/2011	Change in value 2011 (%)	Value 31/12/2010	Change in value 2010 (%)	Value 31/12/2009	Change in value 2009 (%)	Value 31/12/2008
Mass market commitments	102,777	11.8%	91,936	13.8%	80,793	33.8%	60,392
- of which mass market SME	4,959	12.0%	4,423	9.0%	4,057	11.4%	3,641
- of which mass market private property	95,239	12.1%	84,950	14.9%	73,956	33.6%	55,342
- of which mass market private other	2,579	0.6%	2,563	-7.8%	2,780	97.3%	1,409
Businesses	30,151	7.6%	28,018	18.4%	23,665	17.1%	20,216
Specialist lending	29,215	9.1%	26,784	1.0%	26,515	-19.1%	32,765
Total	**162,143**	**10.5%**	**146,738**	**12.0%**	**130,973**	**15.5%**	**113,373**

2.3.2 Minimum regulatory capital requirement

Table 27: Minimum regulatory capital requirements for credit risk divided into commitment categories and subcategories (amounts in NOK million)

		Temporary employees	**Temporary employees EAD**	**Minimum regulatory capital requirement Consolidated**	**Minimum regulatory capital requirement Consolidated**
		30/06/2012	**30/06/2012**	**30/06/2012**	**31/12/2011**
Businesses	Specialist businesses	30.918	29.400	2.202	2,060
	Other businesses	32.196	29.368	2.286	2,104
Mass market	Mass market SME	5.206	5.199	38	37
	Mass market private	104.870	104.860	836	758
	Mass market other	2.379	2.373	70	78
Minimum requirement credit risk IRB		**175.569**	**171.200**	**5.432**	**5.037**
Governments		76		28	4
Institutions		4.189		12	69
Businesses		2.966		214	113
Mass market		1.048		29	19
Consolidated companies		20.041		1.169	1,193
Other assets		3.329		266	230
Minimum requirement, standard method		**31.649**		**1.719**	**1.628**
Intangible assets				5	6
Deduction				-112	-110
Total minimum regulatory capital requirement related to credit risk				**7.044**	**6,561**

2.4 Market risk

2.4.1 Portfolio information – long-term investments

Table 28: Investments (equity positions outside the trading portfolio) broken down by purpose (amounts in NOK million)

	Investments	**31/12/2011**	31/12/2010
Financial investments at fair value through profit and loss	Progressus	16	13
	Hitec Vision Private Equity IV LP	31	28
	HitecVision Asset Solution	10	5
	OptiMarin	20	14
	Other financial investments	62	60
Total financial investments at fair value through profit and loss		**139**	120
Strategic investments at fair value through profit and loss	Nordito Property	12	12
	Nets Holding	263	264
Total strategic investments at fair value through profit and loss		**275**	276
Strategic investments available for sale	Other strategic investments	4	4
Total		**418**	400

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 revenues from financial investments.

Table 29: Overview of book value and fair value, gains and losses (amounts in NOK million)

2011	**Book value**	**Fair value**	**Total realised gains or losses in 2011**	**Unrealised gains or losses in 2011**	**Amount included in core capital or supplementary capital**
Financial investments at fair value through profit and loss	139	139	9	14	0
Strategic investments at fair value through profit and loss	275	275	0	0	0
Strategic investments available for sale	4	4	0	0	1
Total	**418**	**418**	**9**	**14**	**1**

2010	**Book value**	**Fair value**	**Total realised gains or losses in 2010**	**Unrealised gains or losses in 2010**	**Amount included in core capital or supplementary capital**
Financial investments at fair value through profit and loss	120	120	1	0	0
Strategic investments at fair value through profit and loss	276	276	199	-73	0
Strategic investments available for sale	4	4	0	0	1
Total	**400**	**400**	**200**	**-73**	**1**

Table 30: Summary of type and value of listed shares, unlisted shares in diversified portfolios and other commitments

Amounts in NOK million	Value 2011	Value 2010
Unlisted	**412**	391
Traded on an exchange	**2**	5
Other	**4**	4
Total	**418**	**400**

Table 31: Summary of counterparty risk for derivatives etc. outside the trading portfolio.

Amounts in NOK million	Nominal value	Credit equivalent	Weighted amount	Minimum regulatory capital requirement 2011 1)	Minimum regulatory capital requirement 2010 1)
Interest rate and currency instruments in trading portfolio	81,090	1,276	784	63	61
Interest rate and currency instruments for hedging purposes	82,597	3,508	642	51	27
Credit derivatives	0	0	0	0	0
Total financial derivatives	**163,687**	**4,784**	**1,426**	**114**	88

1) Minimum regulatory capital requirement is calculated in its entirety based on the standard approach

Table 32: Sensitivity of net interest cost before tax (interest rate change of one percentage point) at the end of 2011 and 2010 (amounts in NOK million)

Sensitivity of net interest cost	31/12/2011	31/12/2010
Currency		
NOK	**-2**	17
EUR	**1**	3
USD	**-13**	1
CHF	**-2**	0
Other	**-1**	1

Interest rate risk is incurred as the group may have varying interest terms for its assets and obligations. The trading activities related to the sale of interest rate instruments shall always comply with adopted limits and authorisations. The group's limits define the quantitative targets for the maximum potential loss. The commercial risk is quantified and monitored continuously.

The group's overall limits for interest rate risk define maximum loss for change in the interest rate of 1 percentage point. Total maximum loss shall not exceed NOK 30 million on the Norwegian krone balance sheet within each maturity band (0-3 months, 3-6 months, 6-12 months, 1-2 years etc.) the maximum loss shall not exceed NOK 15 million. Maximum net loss related to interest rate risk on the foreign currency balance sheet is NOK 8 million before tax. No single currency can have an interest rate risk greater than NOK 5 million.

2.4.2 Minimum regulatory capital requirement

Table 33: Minimum regulatory capital requirements for market risk, including the position, receipt, party, currency and commodity risk
(amounts in NOK million)

	Consolidated 30.06.2012	Consolidated 2011
Position risk	**287**	223
- Of which equity instruments	**47**	47
- Of which debt instruments market portfolio	**172**	94
- Of which debt instruments bank portfolio	**68**	82
Counterparty risk (derivatives in trading portfolio)	**125**	114
- Of which derivatives in trading portfolio	**61**	63
- Of which derivatives outside trading portfolio	**64**	51
Currency risk	**0**	0
Total	**412**	337

2.5 Operational risk

Table 34: Minimum regulatory capital requirements for operational risk according to the standardised approach

30.06.2012	**Consolidated**	**Eiendoms-megler 1**	**SR-Finans**	**SR-Forvaltning**
Banking services for mass market customers	241	44	0	6
Bank services for corporate customers	182	0	27	0
Payment and settlement services	24	0	0	0
Total	**447**	**44**	**27**	**6**
2011				
Banking services for mass market customers	228	36	0	7
Bank services for corporate customers	171	0	26	0
Payment and settlement services	9	0	0	0
Total	408	36	26	7

The minimum regulatory capital requirement for operational risk is calculated as a percentage of average earnings for each business unit for the last three years. Banking services for the mass market 12 per cent, banking services for the corporate market 15 per cent and for other services 18 per cent.