Risk and Capital Management 2013

SpareBank 1 SR-Bank group

Contents

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.

This document is updated each year with the exception of information on capital adequacy and the minimum regulatory capital requirements, which is updated quarterly. This will be updated in separate enclosures (Excel).

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

The overall risk exposure for SpareBank 1 SR-Bank is moderate. The common equity tier 1 ratio for SpareBank 1 SR-Bank is 11.1 per cent at the end of 2013, which is above the regulatory minimum requirement of 9 per cent. SpareBank 1 SR-Bank is well-equipped to meet higher capitalisation requirements from the authorities and the market in the future.

SpareBank 1 SR-Bank considers its liquidity buffer to be sound, and finds the liquidity in the Norwegian and European credit market to be good.

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 improving over the last year. SpareBank 1 SR-Bank has a diversified portfolio. The retail market represents 66 per cent of the total loan exposure of SpareBank 1 SR-Bank, which consists primarily of high-quality mortgage loans. The percentage of loans with a debt to asset ratio of over 85 per cent has declined over the last year as a result of stricter guidelines for home mortgages. The Group's largest sectoral concentration is in the area of commercial property, which represents around 9 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.

Experience from the financial crisis shows that focusing on operational risk and organisational culture is an important part of good risk management. SpareBank 1 SR-Bank has therefore prepared and conducted an organisational survey that measures the organisation's operational risk culture in partnership with the University of Stavanger (UiS). This survey is unique in a bank context and provides a basis for measuring and understanding how SpareBank 1 SR-Bank's organisational culture affects the Group's exposure to operational risk. The results from the survey confirm that SpareBank 1 SR-Bank has a good risk culture, in which the employees know what is expected of them and experience support from the organisation to act in an ethically proper manner.

SpareBank 1 SR-Bank is well-equipped to create value for the region the Group it is part of.

SpareBank 1 SR-Bank

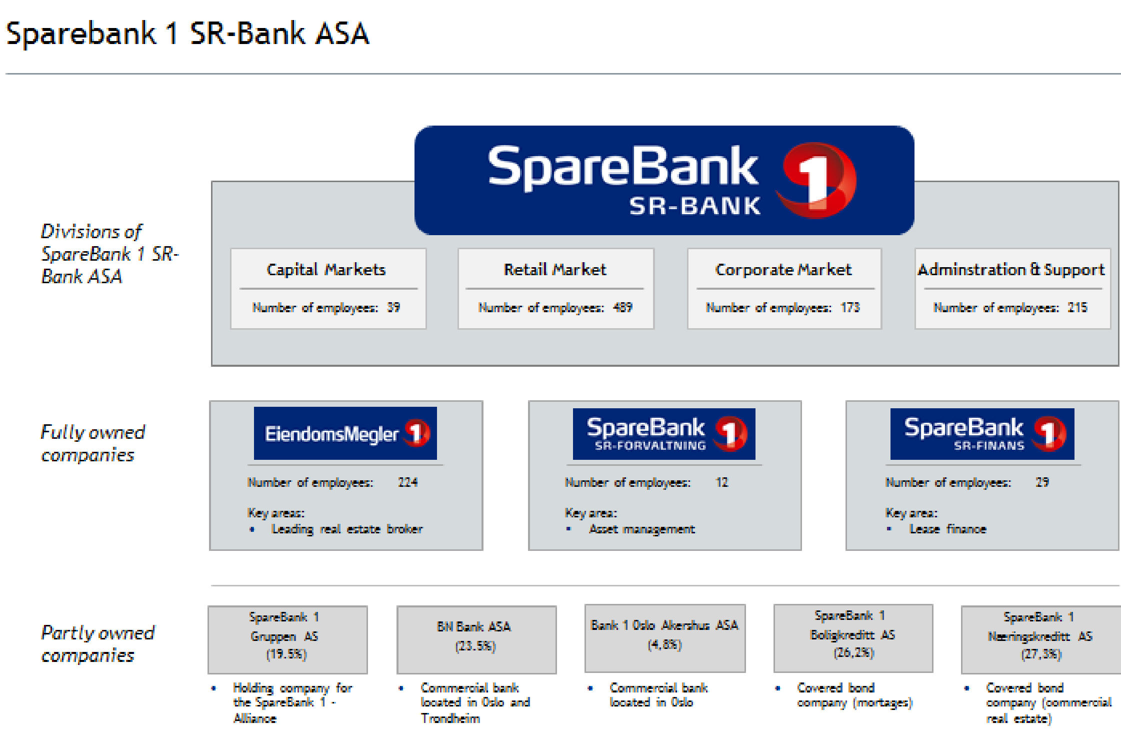
SpareBank 1 SR-Bank is currently Norway's leading limited savings bank with total assets of NOK 157 billion. SpareBank 1 SR-Bank has been one of the most profitable banks in the Nordic region over the past 15 years. Profit before tax was NOK 2.35 billion as at the 4th quarter of 2013. The Group's market area is Rogaland, Hordaland and the Agder counties, and it has approximately 310,000 customers. There are 1,180 employees.

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

In addition to the actual banking operations, the Group has expertise in funding, foreign exchange advice, funds management, securities trading, insurance, real estate brokering and financial advice.

The Group's headquarters are located in Stavanger. Summary of companies in the SpareBank 1 SR-Bank Group is illustrated in the figure below.

Figure 1: *Wholly-owned and partly owned companies in the SpareBank 1 SR-Bank Group*



SpareBank 1 Alliance

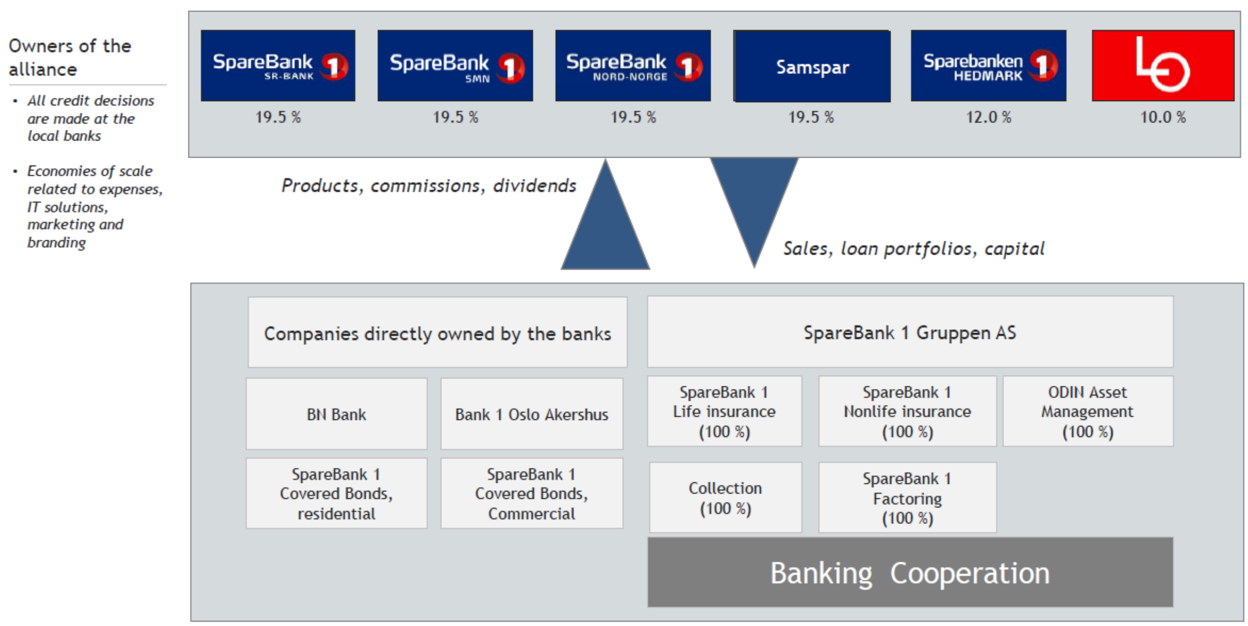
The SpareBank 1 Alliance is a banking and product alliance that consists of several independent banks. The SpareBank 1 Alliance represents one of the largest providers of financial products and services in the Norwegian market. The independent banks in the alliance are SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Nord-Norge, SpareBanken Hedmark, and Samarbeidende Sparebanker. The banks in the SpareBank 1 Alliance distribute financial products from jointly owned companies and collaborate in key areas such as brands, work processes, skills development, IT operations, systems development and purchasing. The SpareBank 1 Alliance has entered into strategic agreements with the Norwegian Federation of Trade Unions (LO) and affiliated trade unions.

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

The product companies in the SpareBank 1 Alliance are owned by the banks through the holding company SpareBank 1 Gruppen AS. The banks in the SpareBank 1 Alliance also own SpareBank 1 Boligkreditt AS, SpareBank 1 Næringskreditt AS, Eiendomsmegler 1, Alliansesamarbeidet SpareBank 1 Utvikling DA, SpareBank 1 Oslo Akershus and BN Bank ASA.

The figure below provides a summary of the ownership structure of the SpareBank 1 Alliance.

Figure 2: SpareBank 1 Alliance



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

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

SpareBank 1 SR-Bank's risk and capital management underpins the Group's strategic development and goal attainment, while ensuring financial stability and prudent asset management. This is achieved through a strong organisational culture that is characterised by:

- A high awareness of risk management
- A good understanding of which risks drive earnings
- Striving for optimal capital application within the adopted business strategy
- Preventing unexpected single events from damaging the Group's financial position to a serious extent.
- Exploiting synergies and diversification effects

Overall framework for management and control

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.

SpareBank 1 SR-Bank is exposed to various types of risk. The most important risk groups are:

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

In order to ensure an effective and adequate process for risk and capital management, the framework is based on a variety of elements that reflect the manner in which the Board and the executive management team run the Group. The principal elements are described below:

The Group's strategic targets: SpareBank 1 SR-Bank shall be Southern and Western Norway's most attractive supplier of financial services based on:

- Good customer experiences
- A strong team spirit and professionalism
- Local roots and decision-making authority
- Financial strength, profitability and confidence in the market

Risk identification and analysis: The process for risk identification is based on the Group's strategic targets. The process is forward-looking and covers all of the Group's significant risk areas. In areas where the effect of the established control and management measures is not considered satisfactory, improvement measures are implemented. Measures that reduce probability shall take precedence over measures that reduce consequences.

Capital allocation: Return on economic capital is one of the most important strategic result measurements for the internal control of SpareBank 1 SR-Bank. This implies that capital is allocated to business areas in accordance with the calculated risk of the operation and the return on capital is monitored continuously.

Financial projections and stress tests: Projections of expected financial development are made for the next 5 years, based on the strategic targets and the business plan. In addition, projections are made of a situation involving a serious economic recession.

To assess the consequences of an economic downturn, the Group largely focuses on those areas of the economy that affect financial development. This is primarily the development in the demand for credit, the stock market, interest rate market and the development of credit risk. In addition to having an impact on the yield of the underlying assets, an economic recession will also have an impact on customer savings habits. The purpose of these projections is to calculate how the financial development in activities and the macroeconomic situation will impact the Group's financial development, including the return on equity, the funding situation and capital adequacy.

Evaluation and measures: The analyses provide the executive management team and the Board with sufficient understanding of the risk so that they can assess whether the Group has an acceptable risk profile and ensure that the Group is adequately capitalised in light of the risk profile and strategic targets.

SpareBank 1 SR-Bank prepares capital plans in order to achieve long-term and effective capital management and ensure that the Group's capital adequacy is acceptable taking into account the risk exposure. The capital plan takes into account both expected developments and a situation with a serious economic downturn over a number of years. SpareBank 1 SR-Bank has also prepared contingency plans for such critical situations.

Reporting and follow-up: The Group's overall risk exposure and risk trends are monitored via periodic risk reports for the executive management team and Board. General risk monitoring and reporting is performed by the Risk Management and Compliance Department which is independent of the business units.

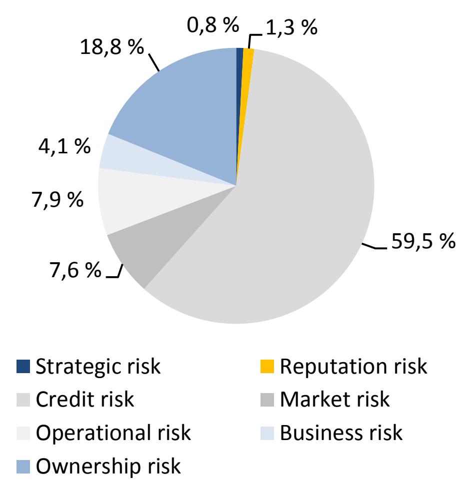
Organisation and organisational culture: SpareBank 1 and SR-Bank aim to maintain a strong organisational culture characterised by a high level of awareness of risk management. The organisational culture comprises management philosophy and the people in the organisation with their personal attributes, such as integrity, core values and ethics. It is difficult to compensate for an inadequate organisational culture by using other control and management measures. SpareBank 1 SR-Bank has therefore established a clearly defined value base and ethical guidelines which have been clearly communicated and presented throughout the organisation.

Overall risk exposure

Risk-adjusted capital describes how much capital the Group believes it needs to cover the real risk that the Group has assumed. 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.

The graph below illustrates risk-adjusted capital distributed by the type of risk at the end of 2012.

Figure 3: Risk-adjusted capital distributed by type of risk



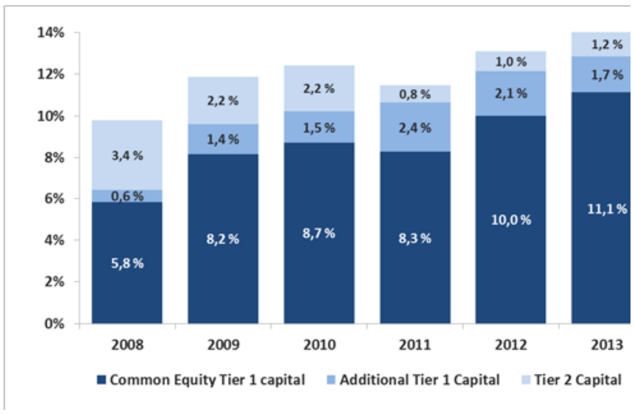
Credit risk represents 59.5 per cent of the overall risk picture as measured by the risk-adjusted capital. After credit risk, ownership risk represents the largest risk category, at 19 per cent.

Capital adequacy

During the period from 2008 to 2013, SpareBank 1 SR-Bank increased its common equity tier 1 capital by NOK 7 billion, more than doubling the core (Tier 1) capital. At the end of 2013, SpareBank 1 SR-Bank had a common equity tier 1 ratio of 11.1 per cent and a capital adequacy ratio of 14.1 per cent, compared to 10.0 per cent and 13.1 per cent respectively at the end of 2012. These calculations observe the transitional rule, which stipulates that the capital requirements when using internal methods cannot be less than 80 per cent of the capital requirements given in Basel I ("the Basel I floor").

The figure below illustrates the change in capital adequacy during the period from 2008 to 2013.

Figure 4: Capital adequacy



SpareBank 1 SR-Bank has prepared a capitalisation strategy to achieve its future capital targets. SpareBank 1 SR-Bank is well-equipped to meet uncertainty regarding the performance of the economy and higher capital adequacy requirements from the authorities and the market.

Minimum regulatory capital requirements

In Pillar 1 different methods the banks can choose from when calculating capital requirements are described. The various methods are illustrated in the figure below:

The minimum requirements for regulatory capital amount to 8 per cent of the weighted balance (calculation basis). In principle, there are two different approaches to the calculation of the minimum regulatory capital requirements according to the capital adequacy rules and regulations. One approach is based on standardised approach rules, while the other is based on the application of internal ratings. In the internal ratings based (IRB) approach, the minimum regulatory capital requirements will be based on the banks' internal risk assessments. Consequently, the statutory minimum capital adequacy requirement is more risk sensitive, so that the capital requirement corresponds more closely to the risk in the underlying portfolios or activities. Use of internal models must be approved in advance by the supervisory authorities.

Table 2 shows the main methods that SpareBank 1 SR-Bank uses for calculation of its capital requirements for credit, market and operational risk, respectively.

Table 1: Alternative methods for calculating the minimum regulatory capital requirements

Credit risk	**Market risk**	**Operational risk**
Standard method	Standard method	Basic method
Foundation IRB Approach*	Internal measurement approach*	Standardised approach
Advanced IRB Approach*		AMA approach*

* The methods require permisson by the Financial Supervisory Authority of Norway

Table 2: SpareBank 1 SR-Bank's methods for calculating the minimum regulatory capital requirements

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

- SR-Bank has applied for Advanced IRB Approach for enterprises and expects permission in 2014.

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

SpareBank 1 SR-Bank owns 26.2 per cent of SpareBank 1 Boligkreditt AS, 27.3 per cent of SpareBank 1 Næringskreditt AS and 23.5 per cent of BN Bank ASA as at the end of 2013. SpareBank 1 SR-Bank's share of the capital requirements for these companies are consolidated in SpareBank 1 SR-Bank's capital adequacy reporting based on the Group's ownership interest.

SpareBank 1 SR-Bank owns 19.5 per cent of SpareBank 1 Gruppen AS. The part of the investment in the SpareBank 1 Group's book value that exceeds 2 per cent of the SpareBank 1 Group's regulatory capital is deducted from the regulatory capital and calculation basis in SpareBank 1 SR-Bank.

SpareBank 1 SR-Bank has received permission from the Financial Supervisory Authority of Norway to use the internal ratings based (IRB)-approach for credit risk. The bank has received permission for the use of the Foundation IRB for enterprises (corporate market) and IRB (Retail IRB) for the mass market (retail market). This means that the statutory minimum capital adequacy requirement for credit risk will be based on the Group's internal risk models.

When calculating the capital requirements according to the Foundation IRB approach for the corporate market, the probability of default (PD) risk parameter is estimated on the basis of internal ratings. The risk parameters conversion factor (CF) used in determining the exposure at default (EAD) and the loss given default (LGD) are determined based on the standardised approach rules in the Capital Requirements Regulations. SpareBank 1 SR-Bank submitted an application to the Norwegian FSA in the 2nd quarter of 2013 to use Advanced IRB-appraoch for the corporate portfolio.

When calculating the capital requirements according to the IRB approach for the retail market, internal models are used for calculation of the risk parameters probability of default (PD), conversion factor (CF) used in determining the exposure at default and loss given default (LGD).

Detailed capital adequacy information

Consolidation

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

Table 3: Consolidation basis (amounts in NOK 1,000)

Subsidiaries **As at 31/12/2013**	**No. of shares**	**Book value**	**Voting rights**	**Consolidation method**
Wholly consolidated companies				
SpareBank 1 SR-Finans AS	334.000	526.606	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	179.703	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	23.701	100 %	Acquisition method
Rygir Industrier AS konsern	85.239.309	84.006	100 %	Acquisition method
Etis Eiendom AS	10.000	1.123	100 %	Acquisition method
Finansparken Bjergsted AS	8.000	8.016	100 %	Acquisition method
Total		**949.504**		

As at 31/12/2012				
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
Rygir Industrier AS konsern	69.938.739	3.238	100 %	Acquisition method
Etis Eiendom AS	10.000	115	100 %	Acquisition method
Total		**808.520**		

Table 4: Subsidiaries that report based on the standard method (amounts in NOK million)

SR-Finans AS	**31/12/2013**	31/12/2012
Net regulatory capital	**773**	596
Minimum regulatory capital requirements	**446**	431
Capital adequacy %	**13,87**	11,07

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 is deducted from the regulatory capital and the calculation basis. With regard to the investment in BN Bank ASA, on the Board of Directors' authorisation to transfer capital between the parent bank and its subsidiaries 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 that exceeds 2 per cent of the regulatory capital of the SpareBank 1 Group is deducted from the regulatory capital and calculation basis.

Table 5: Investments in associated companies and joint ventures

Amounts in NOK 1000	**Ownership percentage 31/12/2013**	**Capital requirements [1] 31/12/2013**	**Capital adequacy percentage 31/12/2013**	Ownership percentage 31/12/2012	Capital requirements [1] 31/12/2012	Capital adequacy percentage 31/12/2012
SpareBank 1 Boligkreditt	26.2	1,618	10.21	29.9	1,713	10.46
SpareBank 1 Næringskreditt AS	27.3	326	14.87	27.8	235	12.32
BN Bank ASA	23.5	535	15.44	23.5	581	15.08

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 6: Regulatory capital in other financial institutions

Amounts in NOK million	**Book value 31/12/2013**	Book value 31/12/2012
SR-Pensjonskasse	35	35
Bank 1 Oslo [1]	119	-
Sandnes Sparebank	66	48
Investments from associated companies	144	-
Other financial institutions	54	46
Total	**418**	129

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 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.

Regulatory capital

The equity value of non-perpetual subordinated loan capital is reduced by 20 per cent every year during the last 5 years before maturity. To the extent the Group has regulatory capital in other financial institutions, this is directly deducted from the Group's own regulatory capital for that part which exceeds 2 per cent of the receiving financial institution's regulatory capital.

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

Table 7: Regulatory capital

Group (amounts in NOK million)	**31/12/2013**	31/12/2012
Share capital	**6,394**	**6,394**
– Own shares	**-5**	**-9**
Share premium reserve	**1,592**	**1,587**
Allocated dividend	**409**	**384**
Fund for unrealised gains	**162**	**72**
Other equity	**5,504**	**4,209**
Total recorded equity	**14,056**	**12,637**
Core (Tier 1) capital		
Deferred tax, goodwill and other intangible assets	**-43**	**-56**
Fund for unrealised gains, available for sale	**-**	**-1**
Deduction for allocated dividend	**-409**	**-384**
50% deduction for regulatory capital in other financial institutions	**-104**	**-17**
50% deduction in expected losses IRB less loss provisions	**-356**	**-319**
50% capital adequacy reserve	**-587**	**-727**
Hybrid Tier 1 bonds 1)	**1,954**	**2,374**
Total core (Tier 1) capital	**14,511**	**13,507**
Supplementary (Tier 2) capital in excess of core (Tier 1) capital		
Non-perpetual subordinated capital	**2,451**	**2,124**
50% deduction for regulatory capital in other financial institutions	**-104**	**-17**
50% deduction in expected losses IRB less loss provisions	**-356**	**-319**
50% capital adequacy reserve	**-587**	**-727**
Total supplementary (Tier 2) capital	**1,404**	**1,061**
Net regulatory capital	**15,915**	**14,568**

[1)] Terms and conditions are presented in table "Subordinated loan capital and Hybrid Tier 1 Perpetual Capital"

Minimum regulatory capital requirements	**31/12/2013**	**31/12/2012**
Credit risk	**6.915**	7.072
Market risk	**515**	470
Operational risk	**457**	447
Capital adequacy requirements related to transitional arrangements	**1.159**	908
Minimum regulatory capital requirements	**9.046**	8.897
Capital adequacy	**14,07 %**	13,10 %
Of which core capital	**12,83 %**	12,15 %
Of which supplementary capital	**1,24 %**	0,95 %
Common equity tier 1 ratio	**11,11 %**	10,01 %

Minimum regulatory capital requirements – credit risk

Table 8: Minimum regulatory capital requirements for credit risk divided into commitment categories and subcategories (amounts in NOK million)

		Commitments 31/12/2013	**Commitments EAD 31/12/2013**	**Minimum regulatory capital requirements Consolidated 31/12/2013**	Minimum regulatory capital requirements Consolidated 31/12/2012
Enterprises	Specialised enterprises	34,037	32,310	2,254	2,328
	Other enterprises	34,153	31,058	2,179	2,346
Mass market	Mass market SME	5,651	5,646	52	39
	Commitments with mortgage on real estate	111,214	111,207	857	796
	Other mass market commitments	1,923	1,909	61	58
Minimum requirement credit risk IRB		**186,978**	**182,130**	**5,403**	5,567
Governments		2,494		23	3
Institutions		7,255		124	86
Enterprises		1,734		126	166
Mass market		417		12	23
Consolidated companies		20,174		1,188	1,187
Other assets		1,950		156	159
Minimum requirement, standard method		**34,024**		**1,629**	1,624
Deductions				-117	-119
Total minimum regulatory capital requirements related to credit risk				**6,915**	7,072

Minimum regulatory capital requirements – market risk

Table 9: Minimum regulatory capital requirements for market risk, including position, receipt, party, currency and commodity risk (amounts in NOK million)

	Consolidated 31/12/2013	Consolidated 31/12/2012
Position risk	**368**	350
– Of which equity instruments	**54**	44
– Of which equity instruments, excluding IRB	**147**	157
– Of which commercial paper and bonds at fair value	**128**	103
– Of which commercial paper and bonds at amortised cost	**39**	46
Counterparty risk (derivatives in trading portfolio)	**147**	120
– Of which derivatives in trading portfolio	**57**	56
– Of which derivatives outside trading portfolio	**90**	64
Currency risk	**0**	0
Total	**515**	470

Minimum regulatory capital requirements – operational risk

Table 10: Minimum regulatory capital requirements for operational risk according to the standardised approach (amounts in NOK million):

2013	**Consolidated**	**Eiendoms-megler 1**	**SR-Finans**	**SR-Forvaltning**
Banking services for mass market customers	261	48	0	6
Bank services for corporate customers	202	0	26	0
Payment and settlement services	-6	0	0	0
Total	**457**	**48**	**26**	**6**
2012				
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

The minimum regulatory capital requirements for operational risk are 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.

Subordinated loan capital and perpetual capital security

Tablel 11: Subordinated loan capital and hybrid Tier 1 bonds (amounts in NOK million)

Principal	**Terms**	**Maturity**	**First maturity date**	**2013**	2012
Non-perpetual					
NOK 750	3 month Libor + margin	2021	2016	**745**	744
NOK 500	3 month Nibor + margin	2018	2013	**–**	232
NOK 500	3 month Nibor + margin	2023	2018	**455**	–
NOK 75	3 month Nibor + margin	2019	2014	**78**	82
NOK 825	3 month Nibor + margin	2022	2016	**825**	825
Total non-perpetual				**2,103**	1,883
Hybrid Tier 1 bonds					
NOK 1,000	3 month Nibor + margin			**992**	992
USD 75	3-month Libor + margin			**–**	428
NOK 684	3 month Nibor + margin			**734**	741
NOK 116	3 month Nibor + margin			**115**	115
NOK 40	3 month Nibor + margin			**39**	40
Total hybrids				**1,880**	2,316
Accrued interest				**21**	24
Total subordinated loan capital				**4,004**	4,223

Subordinated loan capital and hybrid Tier 1 bonds (hybrids) in foreign currencies are included in the Group's total currency position so that there is no currency risk associated with the loans. Of a total of NOK 4,004 million in subordinated loan capital, NOK 1,823 million counts as core (Tier 1) capital and NOK 2,100 million as non-perpetual subordinated capital. Capitalised costs associated with borrowing are reflected in the calculation of amortised cost. Hybrid Tier 1 bonds can account for a maximum of 15 per cent of the combined core (Tier 1) capital for bonds with a fixed term and 35 per cent for hybrid Tier 1 bonds without a fixed term. Any excess qualifies as perpetual subordinated capital.

Credit risk

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

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

Management of credit risk

Credit risk is managed through the limits for granting credit, follow-up of commitments and portfolio management. The main elements of the limits for granting credit include:

1) Credit strategy The general credit strategy stipulates that the Group shall have a moderate risk profile where no single event shall be capable of seriously harming the Group's financial position. In addition, the Group's credit strategy consists of general credit strategy limits for ensuring a diversified portfolio and a satisfactory risk profile.

This limits the probability of default, expected losses, risk-adjusted capital and how high the total loan exposure can be in the corporate market.

2) Credit policy guidelines The Group's credit policy guidelines stipulate minimum requirements that apply to all types of financing, except commitments granted as part of the exercise of special credit hedging authorities. In addition to the general credit policy guidelines, a set of more specific credit policy guidelines related to sectors or segments that can entail a special risk have been prepared.

3) Credit authority regulations The Board is responsible for the Group's granting of loans and credit, but delegates the responsibility to the CEO, within certain limits. The CEO then delegates these within his own authority. Delegated credit authority is linked to a commitment's expected losses and the probability of default.

The authority is personal. This means that the credit committees do not have decision-making authority, but make recommendations to the authority holder. If there is no credit committee, then the authorisation limits will be reduced. In general the authority is ample if a commitment's expected loss and probability of default indicates a low risk, but the authority will be restricted progressively with increasing risk.

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

- Whether the customer will have adequate earnings to service the current obligations, interest and instalments
- For how long and in what manner the customer can meet the current obligations, interest and instalments if the earnings fail
- Whether there is adequate management capability and capacity to meet the current requirements and future challenges
- Collateral and overall risk assessment

Measurement of credit risk

After the commitments have been granted, continuous commitment and portfolio monitoring is carried out. The credit risk is followed up in general by means of the Group's portfolio management systems, systems for early notification of key development trends (early warning) and systems for monitoring the quality of the actual credit granting process.

The portfolio management system contains information on the risk at both the aggregate and detailed levels. This is made possible by efficient monitoring and management of the risk performance of the portfolio. All the portfolio information is updated monthly, including updates of the customers' probability of default. The development of risk in the portfolios is followed up with special emphasis on the development of the risk classification (migration), expected losses, risk-adjusted capital and risk-adjusted return.

SpareBank 1 SR-Bank uses risk-adjusted capital as a measurement parameter, since the risk-adjusted capital reflects the actual risk exposure significantly better than what the traditional focus on lending volume does. Commitments with a high risk require significantly more risk-adjusted capital than commitments with low risk. This means that significantly less money can be loaned to customers with high risk than customers with low risk.

Risk classification system

The Group utilises credit models for risk classification, risk pricing and portfolio management. The risk classification system is based on the following risk parameters:

1) Exposure at Default (EAD)

The conversion factor (CF) defines to what extent the unutilised credit limit is anticipated drawn up at default. For guarantees and allocated, but not drawn up limits for corporate market customers a drawing of 75 per cent (0.75 per cent). For allocated, but not drawn up limits for corporate market customers there is a drawing of 100 per cent (1).

2) Probability of Default (PD)

The customers are classified into default classes based on the probability of default over a 12-month period, based on a long-term outcome.

The probability of default is calculated on the basis of historical series of data for financial key figures related to earnings and deterioration, as well as the basis of non-financial criteria such as conduct and age. Nine default classes (A – I) are used to classify the customers according to the probability of default. Definitions of the individual default classes are shown in the table below.

Table 12: Definition of default classes

Default class	Lower limit for default	Upper limit for default
A	–	0.10%
B	0.10%	0.25%
C	0.25%	0.50%
D	0.50%	0.75%
E	0.75%	1.25%
F	1.25%	2.50%
G	2.50%	5.00%
H	5.00%	10.00%
I	10.00%	99.99%

The Group has two additional default classes (J and K) for customers with defaulted and/or written-down commitments.

3) Loss Given Default (LGD)

The loss given default describes how much the Group potentially can lose if the customer defaults on his obligations. The valuation takes in account the value of underlying securities and the costs the Group has in recovering defaulted commitments. The Group sets realisation values on collateral security lodged based on its own experience over time, and such that these, based on a conservative assessment reflect the expected realisation value in a period of recession.

Seven different classes are used (1 – 7) for classifying commitments in relation to loss given default. Definitions of these classes for corporate market commitments are illustrated in the table below. Retail market customers have somewhat higher estimated recovery levels on defaulted commitments, and similar loss given defaults for these will therefore be somewhat lower than for corporate market customers within the same collateral class.

Table 13: Definition of loss given default (collateral class)

Class	Loss given default lower limit	Loss given default upper limit
1	–	0.08%
2	–	0.08%
3	0.08%	13.62%
4	13.62%	27.23%
5	27.23%	40.85%
6	40.85%	54.46%
7	54.46%	68.08%

4) Expected Losses (EL)

Expected losses describe the loss the Group can statistically expect to lose on the loan portfolio during a 12-month period (long-term outcome). Expected losses are calculated by multiplying the probability of default, exposure at default and loss given default, respectively.

A commitment is assigned a risk group from the lowest to the highest risk group based on the commitment's expected loss. The risk groups are defined as illustrated in the table below.

Table 14: Definition of risk groups

Risk group	Expected losses lower limit	Expected losses upper limit
Lowest	0%	0.0125%
Low	0.0125%	0.50%
Average	0.50%	2.00%
High	2.00%	2.40%
Highest	2.40%	99.99%

5) Unexpected Losses (UL)

There are many factors that affect the Group's losses on loans and credits. The expected loss is based on the amounts that are uncertain. The uncertainty is to a great extent related to the properties of the commitments. There is relatively little uncertainty connected to well-secured commitments for borrowers with a good capacity to service loans, while there is relatively great uncertainty connected with secured commitments and with customers with an unstable capacity to service loans

To take these factors into account an unexpected loss on all commitments is calculated. By totalling the unexpected losses among all the commitments we get an estimate of how much the Group can lose beyond the expected loss. This estimate takes into account that all the customers do not generate losses at the same time.

In other words, risk-adjusted capital describes how much capital the Group finds it requires to cover the actual risk the Group believes it requires to cover the actual risk assumed. Since it is impossible to fully protect against all losses, the Group has stipulated that the risk-adjusted capital shall cover all possible unexpected losses based on a stipulated confidence level of 99.99 per cent.

6) Risk pricing – RORAC (Return On Risk Adjusted Capital)

SpareBank 1 SR-Bank is concerned about pricing risk correctly. This means that commitments with a high risk are priced higher than commitments with low risk. The general level of risk pricing will, however, also depend on the Group's general return targets and the consideration to the competition situation.

SpareBank 1 SR-Bank therefore uses models that calculate the correct risk price that should be taken into consideration when pricing the expected losses and return on risk-adjusted capital. The risk pricing model uses the same main components as in the Group's risk classification system as the basis.
The model is based on a standard "RARORAC" model (Risk Adjusted Return On Risk Adjusted Capital) for measuring risk-adjusted return.

The pricing model is primarily used for granting and renewing credit and also to calculate the customer's price and to measure and follow up profitability.

Collateral

SpareBank 1 SR-Bank takes into account the main types of collateral as illustrated in the table below:

Table 15: Main types of collateral

Type of collateral	Retail market	Corporate market
Real property	X	X
Motor vehicles	X	X
Leisure boats	X	
Securities	X	X
Guarantees	X	X
Machinery and plant		X
Vessels		X
Construction equipment		X
Inventories		X
Agricultural chattels		X
Trade receivables		X
Deposits	X	X

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

In the retail market the market value of real estate is stipulated either by utilising a broker valuation/appraisal, value estimates from Eiendomsverdi (applies only to residential properties) or by self-assessment in exceptional cases. Eiendomsverdi is an information and analysis tool that gives access to an estimated market value for properties in Norway. Value estimates from Eiendomsverdi may be utilised in accordance with internal procedures if the property is located in a well-functioning residential market and if there is little uncertainty with regard to the value estimate. A self-assessment can only be used if the terms for this have been met, but a person other than the customer manager must approve the valuation that is used as the basis.

The realisation value for real property is stipulated by using the market value as the basis, and reducing this by 20 per cent for residential properties, 30 per cent for land and 40 per cent for recreational properties. In the retail market, assets other than real property are used as collateral to a limited extent.

In the corporate market the lease value method is the primary method for calculating the collateral value of commercial properties. The market value is calculated by multiplying the net rental income by an interest rate that reflects risk-free investment + a general risk premium. On the basis of the calculated market value the realisation value is stipulated at between 60 and 80 per cent, dependent on the building's condition and what it is used for. Specialised industrial buildings with limited alternative application possibilities are given a realisation value of 25 per cent of the market value as a maximum.

Other security values are assessed in accordance with stipulated internal routines. The realisation value of the provided securities is stipulated by using the market value as the basis, and this is reduced by a factor that varies with the security object's properties and amounts to a minimum of 20 per cent. Securities in the form of negative mortgage and unlisted securities are not given any security-related realisation value, while guarantees can only be given a realisation value if certain terms are fulfilled.

Commitments in default

A commitment is considered to be in default if:

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

2) The bank has reason to assume that the debtor is not able to repay (in full) in accordance with his obligations:

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

Validation

The Group continuously develops and tests the risk management system and the credit granting process to ensure that it is of high quality over time. This validation work can be divided into two main areas:

Quantitative validation: Quantitative validation is intended to ensure that the estimates used for the probability of default, exposure at default and loss given default are always of adequately good quality. Analyses are performed to assess the capacity of the rating models to rank customers according to risk (discrimination capacity) and the ability to establish the correct level of risk parameters. In addition, the stability of the models' estimates and the models' cyclical sensitivity are analysed. The quantitative validation will be supplemented by more qualitative assessments in some cases.

Application: The verification will show whether the system for management and measurement of credit risk is well integrated in the organisation, and that it represents a key part of the Group's risk management and decision making. Validation shows that the system for management and measurement of credit risk is well integrated in the organisation, and that it represents a key part of Group's risk management and decision making.

Credit exposure summary

The following tables present a summary of the bank's commitments in relation to credit risk based on regulatory calculations.

Commitments by geographic area

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

2013	**Gross lending to customers**	**Unutilised credit**	**Guarantees**	**Total**
Rogaland	**82,983**	**9,903**	**8,336**	**101,222**
Agder-fylkene	**10,757**	**1,222**	**1,029**	**13,008**
Hordaland	**16,302**	**1,887**	**1,588**	**19,777**
Other	**10,231**	**661**	**556**	**11,448**
Total gross commitments, customers	**120,273**	**13,673**	**11,509**	**145,455**

2012				
Rogaland	76,872	8,699	9,370	94,941
Agder-fylkene	9,650	1,084	1,167	11,901
Hordaland	14,029	1,576	1,697	17,302
Other	8,962	941	1,014	10,917
Total gross commitments, customers	109,513	12,300	13,248	135,061

Commitments by type of commitment

Table 17: The total commitment amount, defined as gross lending to customers + guarantees + non-utilised credit in the Group, after any write-down and without taking account of any securities and the average size of the commitments during the period, divided by type of commitment (amounts in NOK million)

2013	**Commitment amount as at 31/12/2013**	**Average commitment amount in 2013**
Enterprises	**81,361**	**79,998**
Mass market	**64,094**	**60,260**
Gross commitments, customers	**145,455**	**140,258**
Individual write-downs	**-446**	**-435**
Write-downs for groups of loans	**-302**	**-317**
Write-down of guarantees	**0**	**-1**
Net commitments, customers	**144,707**	**139,506**
Governments (Norges Bank)	**998**	**1,003**
Institutions	**1,253**	**1,170**
Total commitment amount	**146,958**	**141,679**

2012	Commitment amount as at 31/12/2012	Average commitment amount in 2012
Enterprises	78,635	75,136
Mass market	56,426	53,688
Gross commitments, customers	135,061	128,824
Individual write-downs	-423	-421
Write-downs for groups of loans	-332	-347
Write-down of guarantees	-1	-2
Net commitments, customers	134,305	128,055
Governments (Norges Bank)	1,007	505
Institutions	1,087	905
Total commitment amount	136,399	129,465

Commitments by customer groups

Table 18: Commitment amount for each type of commitment, broken down into sectors before deductions for write-downs

	2013			2012		
	Gross loans	**Unutilised credit and guarantees**	**Total**	Gross loans	Unutilised credit and guarantees	Total
Agriculture/forestry	**4,326**	**1,888**	**6,214**	4,141	1,659	5,800
Fisheries/fish farming	**541**	**190**	**731**	597	204	801
Mining operations and extraction	**2,829**	**828**	**3,657**	2,351	977	3,328
Industry	**3,403**	**1,646**	**5,049**	2,135	597	2,732
Power and water supply/building and construction	**3,100**	**972**	**4,072**	3,804	1,260	5,064
Wholesale and retail trade, hotels and restaurants	**2,877**	**1,107**	**3,984**	2,975	1,052	4,027
Overseas shipping, pipeline transport and other transport	**7,297**	**1,481**	**8,778**	6,451	2,527	8,978
Property management	**25,740**	**8,367**	**34,107**	24,306	10,302	34,608
Service sector	**7,545**	**2,167**	**9,712**	7,650	2,671	10,321
Public sector and financial services	**2,277**	**2,780**	**5,057**	1,949	1,027	2,976
Not allocated (added value fixed interest lending)	**490**	**-490**	**0**	585	-585	0
Total for enterprises	**60,425**	**20,936**	**81,361**	56,944	21,691	78,635
Mass market	**59,848**	**4,246**	**64,094**	52,569	3,857	56,426
Total gross commitments, customers	**120,273**	**25,182**	**145,455**	109,513	25,548	135,061

Commitment amount by remaining maturity

Table 19: Commitment amount for each type of commitment, broken down by the remaining term (amounts in NOK million)

2013	**Upon request**	**< 1 year**	**1–5 years**	**Over 5 years**	**Total**
Gross lending – customers	37,629	5,023	18,486	59,135	120,273
Unutilised credit	13,673				13,673
Guarantees		8,101	1,798	1,610	11,509
Total gross commitments, customers	**51,302**	**13,124**	**20,284**	**60,745**	**145,455**
Governments (Norges Bank)	**998**	-	-	-	**998**
Institutions	**1,253**		-	-	**1,253**
2012					
Gross lending – customers	33,309	4,708	18,200	53,296	109,513
Unutilised credit	12,300				12,300
Guarantees		10,020	1,561	1,667	13,248
Total gross commitments, customers	45,609	14,728	19,761	54,963	135,061
Governments (Norges Bank)	1,007	–	–	–	1,007
Institutions	1,087	–	–	–	1,087

Defaulted and doubtful commitments by customer group

Table 20: Defaulted and doubtful commitments by customer group (amounts in NOK million)

	Total commitment amount			
2013	**Doubtful**	**In default**	**Individual write-downs**	**Value changes recognised during the period**
Agriculture/forestry	13	17	8	5
Fisheries/fish farming	0	0	0	0
Mining operations and extraction	0	0	5	-2
Industry	61	4	31	3
Power and water supply/building and construction	26	8	10	4
Wholesale and retail trade, hotels and restaurants	36	12	26	14
International shipping, pipe transport, other transport	130	11	64	8
Property management	257	566	210	153
Service sector	67	8	37	-27
Public sector and financial services	0	0	0	0
Total for enterprises	**590**	**626**	**392**	**158**
Transferred from write-downs on groups of loans				-30
Mass market	99	204	54	4
Total	**689**	**830**	**446**	**132**
2012				
Agriculture/forestry	7	8	6	1
Fisheries/fish farming	0	0	0	0
Mining operations and extraction	0	0	7	-1
Industry	59	3	21	-2
Power and water supply/building and construction	27	13	20	9
Wholesale and retail trade, hotels and restaurants	50	13	22	11
Overseas shipping, pipeline transport and other transport	59	30	58	1
Property management	227	161	122	42
Service sector	202	13	77	103
Public sector and financial services	0	0	0	0
Total for enterprises	**631**	**241**	**333**	**164**
Transferred from write-down on groups of loans				-30
Mass market	156	219	90	3
Total	**787**	**460**	**423**	**137**

Table 21: Actual losses by default class for the period (amounts in NOK million)

	2013	2012
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
C	**132**	137
Total	**132**	137

Defaulted and doubtful commitments by geographic area

Table 22: Separate specification of the total commitment amount with impairment and defaulted commitments divided into geographic areas, including total changes in value and write-downs (amounts in NOK million)

	Total commitment amount		Individual write-downs
2013	**Doubtful**	**In default**	
Rogaland	298	186	262
Agder counties	117	92	90
Hordaland	154	524	71
Other	120	28	23
Total	**689**	**830**	**446**
2012			
Rogaland	437	194	276
Agder counties	124	120	76
Hordaland	150	115	51
Other	76	31	20
Total	**787**	**460**	**423**

Write-downs on loans

Tabel 23: Reconciliation of changes in value changes and write-downs respectively for commitments on impairment

2013	**Opening balance**	**Write-down amount recognised**	**Amount set aside for or reversed from estimated losses**	**Closing balance**
Individual write-downs	423	294	317	446
Write-downs on groups of loans	332		-30	302
Specified loss provisions guarantees	1		-1	0
Total	**756**	**294**	**286**	**748**

2012				
Individual write-downs	418	194	199	423
Write-downs on groups of loans	362		-30	332
Specified loss provisions guarantees	2		-1	1
Total	782	194	168	756

Exposure of portfolios in which the IRB approach is used

Table 24: Distribution by risk classes in which the IRB approach is used(amounts in NOK million)

2013 **Commitment category**	**Default class**	**Total EAD**	**Total unutilised facility**	**Average risk weight**	**Average loss given default**	**Average conversion factor**
Enterprises	A	151	23	24.3 %	45.0 %	99.5 %
	B	694	366	43.0 %	45.0 %	86.0 %
	C	8,782	3,067	58.6 %	45.0 %	89.0 %
	D	12,856	3,216	67.1 %	45.0 %	93.6 %
	E	7,765	1,336	79.9 %	45.0 %	94.3 %
	F	17,659	4,310	98.9 %	45.0 %	91.7 %
	G	11,129	1,359	111.8 %	45.0 %	96.2 %
	H	972	182	152.1 %	45.0 %	94.1 %
	I	2,094	297	177.2 %	45.0 %	95.7 %
	J	72	14	0.0 %	45.0 %	88.5 %
	K	1,192	86	0.0 %	45.0 %	97.6 %
Total for enterprises		**63,368**	**14,257**	**87.5 %**		**93.0 %**
Commitments with mortgage on real estate	A	12,299	3,212	1.6 %	9.4 %	100.0 %
	B	11,629	1,119	4.4 %	9.6 %	100.0 %
	C	34,756	2,652	6.5 %	9.8 %	100.0 %
	D	19,311	1,113	9.6 %	10.1 %	100.0 %
	E	22,197	915	13.0 %	10.0 %	100.0 %
	F	7,445	184	19.1 %	10.6 %	100.0 %
	G	1,277	42	29.6 %	10.5 %	100.0 %
	H	962	21	48.8 %	11.7 %	100.0 %
	I	1,133	8	58.7 %	10.7 %	100.0 %
	J	94	0	11.7 %	9.3 %	99.9 %
	K	104	0	74.9 %	19.8 %	100.0 %
Total mass market, real estate		**111,207**	**9,266**	**9.6 %**	**9.9 %**	**100.0 %**
Other mass market	A	1,444	524	3.2 %	18.8 %	99.8 %
	B	891	171	10.5 %	23.1 %	99.6 %
	C	2,380	271	14.3 %	22.5 %	99.9 %
	D	1,044	80	21.2 %	23.9 %	100.0 %
	E	1,093	73	26.7 %	23.7 %	99.8 %
	F	332	21	38.4 %	26.6 %	99.9 %
	G	98	6	43.9 %	22.5 %	99.7 %
	H	69	4	61.1 %	21.7 %	99.9 %
	I	130	4	97.5 %	29.2 %	99.5 %
	J	14	0	41.4 %	22.2 %	83.5 %
	K	60	0	111.1 %	57.0 %	40.9 %
Total other mass market		**7,554**	**1,154**	**18.6 %**	**22.8 %**	**99.7 %**

2012 Commitment category	Default class	Total EAD	Total unutilised facility	Average risk weight	Average loss given default	Average conversion factor
Enterprises	A	69	19	28.9%	45.0%	99.0%
	B	1,019	483	40.9%	45.0%	87.6%
	C	7,931	3,330	58.3%	45.0%	87.8%
	D	10,945	3,168	68.5%	45.0%	91.2%
	E	6,056	1,103	77.8%	45.0%	94.6%
	F	14,708	3,874	100.5%	45.0%	92.0%
	G	14,458	2,348	118.0%	45.0%	94.9%
	H	2,351	490	164.1%	45.0%	93.5%
	I	2,934	380	185.7%	45.0%	95.9%
	J	161	12	0.0%	45.0%	97.7%
	K	690	18	0.0%	45.0%	99.2%
Total for enterprises		**61,322**	**15,225**	**95.3%**		**92.4%**
Commitments with mortgage on real estate	A	12,346	3,247	1.6%	9.3%	100.0%
	B	11,358	1,119	4.3%	9.6%	100.0%
	C	32,449	2,564	6.6%	10.0%	100.0%
	D	18,432	1,016	9.6%	10.1%	100.0%
	E	21,272	916	13.2%	10.2%	100.0%
	F	6,569	169	19.9%	11.0%	100.0%
	G	1,033	23	30.0%	10.6%	100.0%
	H	843	17	45.1%	10.8%	100.0%
	I	902	7	61.5%	11.2%	100.0%
	J	91	2	1.9%	9.5%	99.9%
	K	106	0	11.7%	25.8%	100.0%
Total mass market, real estate		**105,400**	**9,080**	**9.4%**	**10.0%**	**100.0%**
Other mass market	A	909	375	3.4%	17.7%	99.7%
	B	2,108	421	5.6%	14.1%	99.8%
	C	1,926	202	15.2%	24.1%	99.8%
	D	830	63	23.7%	27.3%	99.9%
	E	787	42	31.0%	28.1%	99.9%
	F	333	14	34.8%	24.0%	99.9%
	G	146	5	42.4%	21.1%	99.9%
	H	103	2	57.5%	24.2%	99.8%
	I	121	3	75.1%	26.2%	99.7%
	J	8	0	0.4%	36.0%	99.8%
	K	79	0	8.2%	74.1%	17.3%
Total other mass market		**7,351**	**1,127**	**16.6%**	**21.8%**	**99.8%**

Comparison of the risk parameters with the actual outcomes

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 2012 and for the period from 2006 to 2012. 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 25: IRB default level (unweighted)– PD-models

Portfolio	**Estimated defaults 2012**	**Actual defaults 2012**	**Estimated defaults 2006 – 2012**	**Actual defaults 2006–2012**
Mass market with mortgage on real estate	0.86 %	0.23 %	0.90 %	0.33 %
Other mass market	3.32 %	1.42 %	3.38 %	2.13 %
Enterprises	3.54 %	1.90 %	3.07 %	2.19 %

Table 26 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. An estimated loss given default of 45 per cent is stipulated by the authorities in the Capital Requirements Regulations for enterprises. The loss data period applies to the period from 2006 to 2012. The estimated loss given default is 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.

Table 26: Loss given default for defaulted loans (unweighted) – LGD models

Portfolio	**Estimated loss given default**	**Actual loss given default**
Mass market with mortgage on real estate	10.0 %	3.0 %
Other mass market*	15.5 %	10.7 %
Enterprises	45.0 %	22.8 %

** The numbers were last updated in 2011*

Total commitment amount and share secured by mortgage (IRB)

Table 27: Total commitment amount (in NOK million) and share secured by mortgage, divided by commitment category (IRB)

	2013		2012		
Commitment category	**Commitment amount**	**Of which secured by mortgage on real estate 1)**	Commitment amount	Of which secured by mortgage on real estate 1)	
Mass market – mortgage on real estate	111,214	95 %	105,409	95 %	
Mass market – SME	5,651	88 %	5,276	89 %	
Mass market – other	1,923	4 %	2,088	3 %	2)
Total	**118,788**		112,773		

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.

Actual value changes

Table 28: The actual changes in value for the individual commitment category and development from previous periods (IRB):

Amounts in NOK million	**Value 31/12/2013**	**Change in value in 2013 (%)**	**Value 31/12/2012**	**Change in value in 2012 (%)**
Mass market commitments	**118,788**	**5.3 %**	112,773	9.7 %
– of which mass market SME	**5,651**	**7.1 %**	5,276	6.4 %
– of which mass market, retail, real estate	**111,214**	**5.5 %**	105,409	10.7 %
– of which mass market, retail, other	**1,923**	**-7.9 %**	2,088	-19.0 %
Enterprises	**34,037**	**0.3 %**	33,939	16.2 %
Specialist lending	**34,153**	**5.4 %**	32,418	7.5 %
Total	**186,978**	**4.4 %**	**179,130**	**10.5 %**

BOND PORTFOLIO

Risk profile and portfolio performance

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

Liquidity portfolio (managed by Treasury)

The liquidity portfolio consists of interest-bearing securities that either satisfy the requirements for depositing with Norges Bank, the LCR regulations or uncommitted credit facilities. The size of the portfolio will depend at all times on the Group's balance sheet and thereby the need for liquid assets. At the end of the 4th quarter of 2013 the value of the combined liquidity portfolio, including covered bonds used in the government swap facility, totals NOK 20.6 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.

Trading portfolio

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 fourth quarter of 2013 the trading portfolio includes investments in 32 companies valued at NOK 327 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 29: Securities exposure, bonds and securities (NOK million)

Risk classes for bonds and commercial paper – total

Risk category	Rating (incl. unofficial)	Market value NOK million	Total per cent
Swap scheme	AAA	6,796	32%
Very low risk	AAA, AA+, AA and AA-	13,514	64%
Low risk	A+, A and A-	269	1%
Moderate risk	BBB+, BBB and BBB-	142	1%
High risk	BB+, BB and BB-	90	0%
Very high risk	B+ and lower	151	1%
Total		**20,962**	**100%**

Risk classes – Treasury

Risk category	Rating (incl. unofficial)	Market value NOK million	Treasury per cent
Swap scheme	AAA	6,796	33%
Very low risk	AAA, AA+, AA and AA-	13,514	65%
Low risk	A+, A and A-	264	1%
Moderate risk	BBB+, BBB and BBB-	60	0%
High risk	BB+, BB and BB-	0	0%
Very high risk	B+ and lower	0	0%
Total		**20,635**	**100%**

Risk classes – Trading / Sales

Risk category	Rating (incl. unofficial)	Market value NOK million	Trading per cent
Very low risk	AAA, AA+, AA and AA-	0	0%
Low risk	A+, A and A-	5	1%
Moderate risk	BBB+, BBB and BBB-	81	25%
High risk	BB+, BB and BB-	90	28%
Very high risk	B+ and lower	151	46%
Total		**327**	**100%**

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.

Risk profile

The Group's market risk strategy should support the Group's general business plan and strategy in which the tolerance for market risk is defined as moderate.

Interest rate risk

Maximum loss in the event of a 1 percentage point change in the interest rate: NOK 30 million and NOK 75 million for the total balance for Trading and Treasury, respectively. There are no specific limits for the foreign currency balance, but the absolute value of the interest rate risk for Norwegian kroner and foreign currency, respectively, is calculated, and the total balance limit applies.

Table 30: Sub-limits within the different maturity bands

Maturity bands	Trading limit	Treasury limit
0 – 3 months	NOK 20 million	NOK 50 million
3 – 6 months	NOK 20 million	NOK 50 million
6 – 9 months	NOK 10 million	NOK 50 million
9 months – 1 year	NOK 10 million	NOK 50 million
1 year – 18 months	NOK 10 million	NOK 20 million
18 – 24 months	NOK 15 million	NOK 15 million
Each year (1–10)	NOK 25 million	NOK 10 million
10 years or more	NOK 25 million	NOK 10 million

The table below illustrates the the total interest rate risk at the end of the last four quarters (without the absolute value).

Table 31: Effect on earnings of a positive parallel shift in the yield curve of one percentage point (NOK million)

Interest rate risk	0–6 months	6–12 months	1–5 years	> 5 years	Total
4th Qtr. 2013	-3	12	-3	-4	**2**
3rd Qtr. 2013	1	9	-6	-8	**-4**
2nd Qtr. 2013	-9	10	-9	-11	**-18**
1st Qtr. 2013	-3	5	-20	-10	**-28**

Foreign exchange 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 net foreign currency exposure including financial derivatives at the end of the last four quarters.

Table 32: Foreign currency exposure including financial derivatives (NOK million)

Currency	4th Qtr. 2013	3rd Qtr. 2013	2nd Qtr. 2013	1st Qtr. 2013
EUR	-38	-84	-92	13
USD	-3	76	28	10
CHF	-0	2	0	0
GBP	-37	-2	-3	0
Other	2	0	41	-54

Securities risk, shares

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

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

Table 33: The Group's share portfolio at fair value at the end of the year (NOK million)

Balance sheet classification	4th Qtr. 2013	3rd Qtr. 2013	2nd Qtr. 2013	1nd Qtr. 2013
Shares, units etc	**938**	**880**	**879**	**676**
Of which short-term shareholdings	173	165	155	62
Of which long-term shareholdings	765	715	724	614
Available for sale	**85**	**85**	**85**	**428**

Market risk, including spread risk for bonds and securities

The liquidity portfolio's holdings total NOK 20.6 billion, NOK 6.8 billion of which is related to the Government swap scheme. These investments are recognised at amortised cost and are therefore not exposed to market risk. The trading portfolio totals NOK 0.3 billion. The table below provides a summary of the portion of the bond portfolio that is exposed to market risk. The portfolio totals NOK 13.8 billion at the end of the 4rd quarter of 2013.

Table 34: Fair value of the bond portfolio that is exposed to market risk (NOK million)

Sub-portfolio	4th Qtr. 2013	3rd Qtr. 2013	2nd Qtr. 2013	1st Qtr. 2013
Treasury	**13,797**	**14,990**	**12,287**	**12,731**
Norwegian state/municipality	1,010	1,021	694	943
Covered bonds	9,897	10,611	8,325	8,167
Foreign guarantees	2,521	2,121	2,871	3,053
Norwegian bank/finance	222	690	188	293
Foreign bank/finance	0	218	0	0
Industry/other	146	329	209	275
Trading/sales	**327**	**438**	**559**	**507**
Norwegian bank/finance	87	81	94	44
Foreign bank/finance	2	2	1	1
Industry/other	239	356	463	461

The spread risk is defined as the risk of changes in the market value of bonds as a result of general changes in the credit spreads. The credit spread risk expresses in other words the potential loss in the bond portfolios beyond the bankruptcy risk. 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).

Market risk – portfolio information – long-term investments

Table 35: Investments (equity positions outside the trading portfolio) broken down by purpose (amounts in NOK million).

	Investments	31/12/2013	31/12/2012
Financial investments at fair value through profit and loss	Progressus	12	16
	Borea Opportunity II	11	14
	Hitec Vision Private Equity IV LP	25	40
	HitecVision Asset Solution LP	26	19
	Energy Ventures III AS	10	8
	Other financial investments	68	76
Total financial investments at fair value through profit and loss		**152**	173
Strategic investments at fair value through profit and loss	Nordito Property	2	19
	Nets Holding	352	286
	Bank 1 Oslo Akershus	119	-
Total strategic investments at fair value through profit and loss		**473**	305
Strategic investments available for sale	Other strategic investments	7	3
Total		**632**	481

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

2013	**Book value**	**Fair value**	**Total real-ised gain or loss in 2013**	**Unreal-ised gain or loss in 2013**	**Amount included in core or supplementary capital**
Financial investments at fair value through profit and loss	152	152	25	-16	0
Strategic investments at fair value through profit and loss	473	473	0	24	0
Strategic investments available for sale	7	7	1	0	0
Total	**632**	**632**	**26**	**8**	**0**

2012					
Financial investments at fair value through profit and loss	173	173	3	15	0
Strategic investments at fair value through profit and loss	305	305	0	30	0
Strategic investments available for sale	3	3	0	0	1
Total	481	481	3	45	1

Table 37: Summary of type and value of listed shares, unlisted shares in diversified portfolios and other commitments

Amounts in NOK million	Value 2013	Value 2012
Unlisted	**625**	478
Traded on an exchange	**0**	0
Other	**7**	3
Total	**632**	481

Table 38: Summary of counterparty risk for derivatives etc. outside the trading portfolio.

Amounts in NOK million	Nominal value	Credit equivalent	Weighted amount	Minimum regulatory capital requirements 2012[1)]	Minimum regulatory capital requirements 2011[1)]
Interest rate and currency instruments in trading portfolio	20,250	1,158	717	57	56
Interest rate and currency instruments for hedging purposes	13,853	2,103	421	34	33
Credit derivatives	–	–	–	–	–
Total financial derivatives	**34,103**	**3,261**	**1,138**	**91**	90

[1)]Minimum regulatory capital requirements are calculated in whole according to the standard method.

Table 39: Sensitivity of net interest expenses before tax (interest rate change of one percentage point) at the end of 2013

	31/12/2013	**31/12/2012**
Certificates and bonds	**-28**	-24
Fixed-rate loans to customers	**-15**	-25
Other loans and deposits	**-57**	-36
Debt due to issue of securities	**104**	92
Other	**-1**	0
Total interest-rate risk	**2**	**7**
Maturity		
0 - 3 months	**-7**	-5
3 - 6 months	**4**	9
6 - 9 months	**3**	3
9 - 12 months	**9**	9
12 - 18 months	**2**	1
18 - 24 months	**-2**	0
2 - 10 yr	**-6**	-9
10 yr +	**0**	-1
Total interest-rate risk	**2**	**7**

Currency		
NOK	**-4**	6
EUR	**9**	5
USD	**-3**	-4
CHF	**1**	0
Other	**-1**	0
Total interest-rate risk	**2**	**7**

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

The Group's general limits for interest rate risk define the maximum loss from a 1 percentage point change in interest rates. The maximum loss following a 1% change in interest rates totals NOK 105 million with NOK 30 million of the total balance in Trading and NOK 75 million of the total balance in Treasury.

Operational risk

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

Management of operational risks

SpareBank 1 SR-Bank is aiming to be one of the leading performers within the Nordic countries regarding operational risk management. This is to be achieved through a sound and risk focused organizational culture, continuous learning and improvement from operational incidents, and the development of methodology for best practice identification, calculation and cost/benefit based management of operational risk.

It is the responsibility of the individual managers to ensure that the unit for which they are responsible is subject to adequate management and control, and that operational risk is managed in accordance with the strategy and guidelines defined for SpareBank 1-Sr-Bank. Group Risk Management is responsible for supporting and challenging the risk owners, and for ensuring that SpareBank 1 SR-Bank has a good framework for the identification, reporting and follow-up of operational risk.

Measurement of operational risk

SpareBank 1 SR-Bank calculates and maintains regulatory capital related to operational risk in accordance with the standardised approach. However, since this method is based on historical income and does not take business-specific factors and established controls into account, it is considered to provide an inadequate indication of the actual exposure to operational risk.

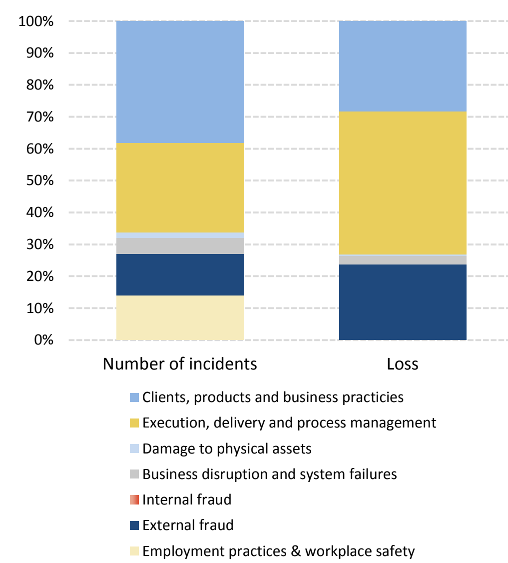
In order to obtain a more credible estimate of the actual risk exposure, and to gain insight into what actually drives the operational risk within business processes, a total review of the Group's operational risk exposure is conducted at least annually. In this process, potential risk scenarios and the associated probabilities and consequences are analyzed with extensive involvement by business process owners and technical experts. The resultant estimated exposure to operational risk is input in the Group's management accounts in order to calculate the business unit's risk-adjusted return. Thus, any measure carried out to reduce the estimated operational risk exposure, will translate into improved risk-adjusted return for relevant business units. This encourages active risk management.

Experience from the Finance industry shows that human error or inadequate qualifications, is often a contributing cause of incurred losses from defaulted loans. For example, inadequate follow-up of covenants can entail getting involved too late in the credit protection process, and an incorrect assessment or registration of collateral can lead to enlarged losses in the event of a default. SpareBank 1 SR-Bank therefore systematically evaluates all significant losses from the lending area in order to determine whether they can be fully or partially attributed to operational risk, and in order to evaluate potential for improvement.

Other undesired incidents are reported in a dedicated corporate database, in order to provide input for risk assessments and form a foundation for continuous operational learning and improvement.

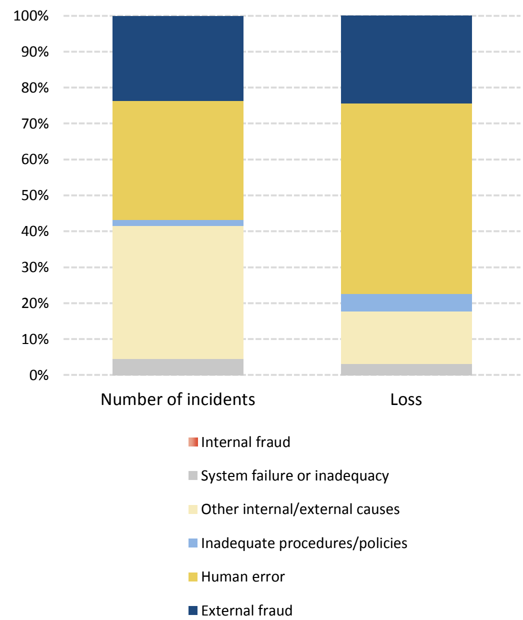
The figure below shows the Group's reported undesired incidents in 2013 by the Basel categories:

Figure 5: Reported undesired incidents in 2013 by the Basel II categories



The same incidents are also broken down by the main cause to which the individual incidents can be attributed. This breakdown is illustrated in the figure below.

Figure 6: Reported undesired incidents in 2013 by main cause



The breakdowns show that for 2013, incidents related to clients, products and business practices were most frequent, while incidents related to execution, delivery and process management contributed most to incurred loss. Human error and external fraud are the main causes for incurred loss from undesired incidents.

Continuous improvement based on reported incidents can prevent the same types of incidents occurring in the future. Continous effort is therefore being made to further improve the reporting systems and reporting culture, in order to identify as many incidents as possible. However, it is not sufficient to prevent recurrence in order to avoid major losses in the future. One of the greatest challenges associated with operational risk is to forecast and calculate credible estimates for rare events with major consequences. Extensive scenario models are required in order to identify the complexity related to such scenarios, and SpareBank 1 SR-Bank has collaborated for several years with the risk environment at the University of Stavanger (UiS) to develop such models. The methods developed through this collaboration are increasingly implemented in the Group's ongoing risk management.

Liquidity risk

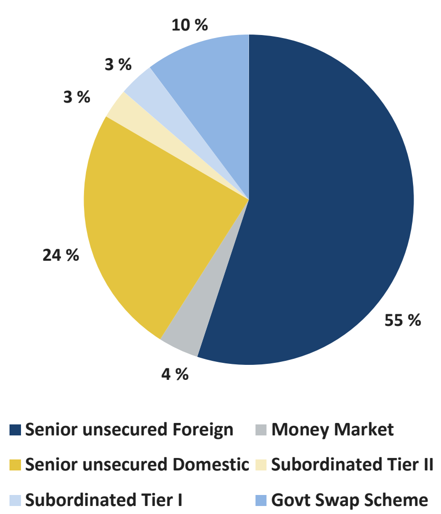
Funding risk is the risk that the Group is not able to refinance its debt or is not able to finance an increase in assets.

Risk profile and management of liquidity risk

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

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

Figure 7: Composition of the Group's securities borrowing as at 31 December 2013



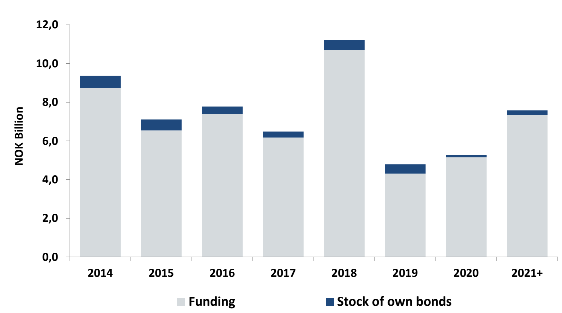
The liquidity reserve is NOK 15.0 billion, and the Group has an additonal NOK 12.1 billion representing mortgage loans that have been prepared in the WEB client (loans ready to be transferred to SpareBank 1 Boligkreditt AS). The liquidity situation is satisfactory for SpareBank 1 SR- end of 2013 without access to external funding. Treasury has issued bonds totalling a gross amount of NOK 15.8 billion in 2013. During the same period bonds corresponding to approximately NOK 1.9 billion were redeemed. During the next 12 months, debt corresponding to NOK 8.9 billion will be refinanced.

Deposits from customers represent the Group's most important source of funding. For the Group as a whole the volume of deposits increased from NOK 4.1 billion (6.0 per cent) in 2013. During the year, the Group's lending excluding home mortgage and commercial credit increased by NOK 10.7 billion (9.8 per cent). This means that the deposit-to-loan ratio has declined from 61.7 per cent to 59.6 per cent. The deposit-to-loan ratio is able to meet the target with regard to the Group's liquidity strategy guidelines, which specify a target of maintaining a deposit-to-loan ratio of at least 55 per cent.

Home mortgage loans in SpareBank 1 Boligkreditt AS totalled around NOK 45,7 billion at the end of the 4th quarter of 2013, compared with NOK 48.2 billion at the end of 2012. The transferred balance accounts for around 42 per cent of the gross home mortgage loan balance and around 28 per cent of the total gross lending. Loans in SpareBank 1 Næringskreditt AS total approximately NOK 0.6 billion.

The figure below illustrates the maturity structure for the funding portfolio at the end of the 4th quarter of 2013.

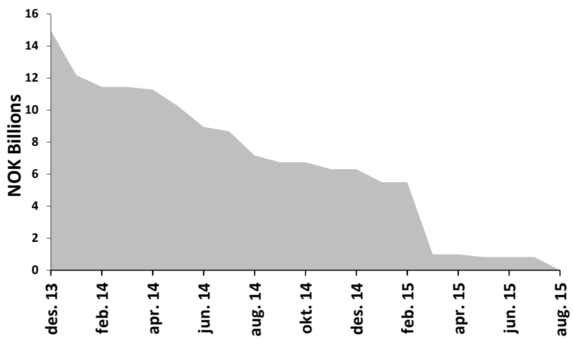
Figure 8: The funding portfolio's maturity structure as at 31 December 2013



The average remaining term to maturity in the portfolio of senior bond funding was 3.6 years at the end of the fourth quarter of 2013.

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

Figure 9: Sensitivity analysis of the funding risk – basis scenario



Since the basis 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 totals NOK 15.0 billion at the end of the 4th quarter of 2013, ensures the ability to survive to the end of July 2015. The liquidity buffer consists of cash, very secure interest-bearing securities.

Ownership risk

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

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 4th quarter of 2013 SpareBank 1 SR-Bank has primarily ownership risk through ownership in the SpareBank 1 Gruppen AS (19.5 per cent), BN Bank ASA (23.5 per cent) and SpareBank 1 Næringskreditt AS (27.3 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. 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).

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.

SpareBank 1 SR-Bank's ownership risk consists primarily of the underlying credit risk in this company.

BN Bank ASA is owned by the SpareBank 1 banks and offers a broad range of banking services to businesses and private individuals. The bank's operations are based on traditional banking operations aimed at home mortgage loans in the retail market and commercial property. 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.

At the end of the 4th quarter of 2013, SpareBank 1 SR-Bank owns 26.2 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 4th quarter of 2013 SpareBank 1 SR-Bank had transferred NOK 53.7 billion (EAD) to the company. The ownership risk corresponds primarily to the share of the transferred portfolio, and the risk is thus followed up and reported as credit risk.

Management of ownership risk

SpareBank 1 SR-Bank has a strong focus on management and control in companies in which the bank has full or partial ownership.

In companies that are partially owned, either through direct ownership by SpareBank 1 SR-Bank or indirectly through ownership of 19.5 per cent of SpareBank 1 Group, SpareBank 1 SR-Bank, as the largest bank in the alliance, is represented as a board member in all companies of significant importance.

All follow-up of ownership interests is performed under the Group's Chief Financial Office. All reporting from the individual companies and questions regarding capital increases etc. are reported here. Through active participation in the board of directors of a number of the partially owned companies, a good supply of information is assured, which safeguards SpareBank 1 SR-Bank's ownership interests. In cases that are of importance to SpareBank 1 SR-Bank’s other operations, the individual board chairman/member will submit the matter for a plenary discussion by the Group management. With this structure for corporate governance the quality of the management and control is perceived as being well safeguarded.

Risk limits and the allocation of equity to the individual companies is stipulated annually by the Group's Board of Directors. This is based on a framework for the assessment of risk. Seen in connection with the limits for risk identification in the Group's operations on the credit side, the limits are not as well developed on the ownership side, but a continuous effort is being made to develop this further in order to achieve even better management of the risk related to ownership.

The individual areas are closely followed up through the fixed structure at corporate governance meetings in the Group and reporting at level of the Group's Board of Directors. The business areas that are organised as separate subsidiaries have the same structure at board meetings as the rest of the Group. As a result of this, corrective measures can quickly be implemented since the development of important management parameters or circumstances of an external nature require measures to maintain the creation of value and risk management.

Business risk

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

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.

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

Through its systematic work today, the Group has a great deal of interaction across the divisions and subsidiaries. Nevertheless, this interaction can be improved and the potential is there for realising more business through the value chain.

Reputation risk

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

SpareBank 1 SR-Bank has established a principal communication strategy to ensure communication of information internally and externally in a way which supports the Group’s value base, goals and vision. The main element of the communication strategy is a profile as a “Proper bank”.

SpareBank 1 SR-Bank has also implemented an internal process for identifying and evaluating the Group's overall reputation risk situation. The evaluation is carried out annually. All reputation risks are evaluated in relation to the inherent risk and established control and management measures.

Improvement measures are implemented when required. Through the analyses based on scientific methods and the harmonisation of these, any incorrect evaluations are eliminated. The results of the annual analyses are reviewed, discussed and possibly operationalised after reviews for the different levels in the organisation, including the Board of Directors and group management.

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

Strategic risk

Strategic risk is the risk of losses resulting from the wrong strategic decisions.

The Group will give priority to profitable and long-term value creation 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 financial sector is experiencing increasing regulatory requirements from the authorities. This provides guidance for the Group's future plans.

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.

Management of strategic risk

SpareBank 1 SR-Bank carries out an annual strategy process once a year that involves the Board of Directors, key personnel, departments and subsidiaries. The result of this process is a strategic presentation of goals for the following three years, with an associated business plan and plan of action. The business plan clearly shows the priorities the Group has made for the period based on scenarios and the competition and market situation. The business plan and plan of action is the most detailed for the nearest year.

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

Compliance risk

Compliance risk is the risk that the Group incurs public sanctions/penalties or financial loss as a result of failure to comply with legislation and regulations.

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

Compliance policy

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

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

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

Management of compliance risk

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

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

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

Compliance for investment firm

The Group has a designated compliance manager for the Group's investment firm, who is responsible for ensuring that the bank's activities related to the provision of investment services are carried out at all times in compliance with the regulations for securities trading.

The compliance manager for the investment firm reports directly to the general manager of the investment firm and also reports to the Risk Management and Compliance Department.

Remuneration scheme

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

The Group's remuneration scheme shall:

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

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

Decision process
The Board of SpareBank 1 SR-Bank ASA has established a Remuneration Committee consisting of three board members.

The Remuneration Committee prepares matters for the Board and is mainly responsible for:

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

Guidelines for the coming financial year

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

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

The CEO may also receive benefits in kind to the extent that the benefits are naturally related to the CEO's function in the Group and are in line with market practice in general. A life-long pension scheme has been entered into for the CEO with the pensionable age being the end of the year in which the CEO reaches the age of 64 years, and then with an annual salary up to the age of 67 representing 67 per cent of pensionable salary. From the age of 67, the CEO will receive a supplementary retirement pension which, together with the SpareBank 1 SR-Bank's pension fund, pension from the National Insurance Scheme and statutory early retirement pension (AFP) will constitute 67 per cent of pensionable pay, assuming full earning period.

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

Remuneration of other executive personnel
The CEO fixes the remuneration of executive personnel in accordance with the Remuneration Committee. The adopted remuneration scheme is decided by the Bord. Other executive personnel consist of the Group's Executive Management Team.

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

Variable remuneration is fixed on the basis of a comprehensive assessment based on the following factors: customer/market perspective, internal processes, organisation and expertise, as well as financial perspective. Variable compensation can be earned annually, but must be based on goals achieved in the last two years. Executive personnel may receive a group bonus on a par with other employees. Any variable remuneration, including group bonus, may amount to up to 25 per cent of fixed salary including holiday pay. For the Executive Vice President Capital Market variable pay, including group bonus may be up to 50 per cent of fixed salary including holiday pay. No performance-based benefits are paid over and above the said schemes. Variable pay is not included in pensionable salary. The Executive Vice President Risk Management and Compliance and the Executive Vice President Oranisation and HR, receives no variable remuneration beyond group bonus.

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

The pension schemes should be seen in the context of other remuneration and should provide competitive terms. Members of the executive management team have a retirement age of 62 years, with the exception of the last member to be employed, who has a retirement age of 67. The executive management team are members of the closed defined benefit plan which, with full pension earnings, entitles them to a pension of 70 per cent of pensionable income, including pension from the National Insurance Scheme and AFP from the age of 67. This does not apply to the last member of the executive management team to be employed, for whom the pension is limited to 12G. Members of the executive management team who have a retirement age of 62 years are entitled to a pension equivalent to 70 per cent of pensionable income in the form of service pension, from age 62 to age 67.

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

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

Employees responsible for independent control functions receives no variable remuneration beyond group bonus.

Remuneration of other employees whose total remuneration takes them into the same remunerations sheme as other executive personnel
The remuneration sheme is according to the remuneration of other executive personnel.

Variable remuneration of other employees

Group bonus
The Group has a bonus scheme which includes all employees. The group bonus is set at an equal percentage of salary, and can, as a maximum, amount to 1.5 times the monthly salary. The Group

bonus is set by the Board in relation to the Group1s financial performance. The Group bonus is paid entirely in cash.

Team bonus
Team bonuses can be utilised as a tool to promote activities and sales results. Team bonuses can, as a maximum, amount to NOK 50 000 per employees are paid in cash.

Individual bonus
Individual bonuses can be used as a tool for the Group to reward extraordinary achievements, while at the same time they may be a good tool to maintain a reasonable fixed salary development. Individual bonuses are paid in shares (50 per cent) and cash (50 per cent). Individual bonuses can amount to no more than 25 per cent of the fixed salary, including the group bonus and any team bonus.

Special schemes
The competitive situation and market practice may indicate that it is desirable to establish special arrangements related to variable remuneration in some areas. For employees covered by special schemes, or who can receive individual bonuses, and who should be regarded as executive personnel, employees with duties essential to the enterprise's risk exposure or other employees and representatives with similar remuneration (according to the regulations governing remuneration schemes), the same principles that apply to the executive management team in relation to criteria for the allocation and payment of variable remuneration shall apply. This category of employee may not receive team bonuses.

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

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

The CEO and executive management team are able to participate in private placements for employees on an equal footing with other employees.
Half of all the variable remuneration, with the exception of the group bonus, the CEO and executive management team will earn in 2013 will be paid in the form of shares issued by SpareBank 1 SR-Bank ASA. Up to 1/3 of shares that are allotted as variable remuneration can be traded in each of the following three years.

Report on executive pay policy in the preceding financial year

The Board confirms that the executive pay policy guidelines for 2013 provided in last year's statement have been complied with.

Disclosure of remuneration

For 2013 a total cost of NOK 931 million has been recognised for remuneration, distributed among 1,267 employees. NOK 838 million of this amount represents fixed remuneration, and NOK 93 million represents variable benefits. Reference is made to note 22 in the Group's annual report for information on personnel expenses.

The table below discloses the remuneration of employees subject to special remuneration scheme requirements.

Table 40: Disclosure of remuneration

Disclosure of remuneration	Number	Remuneration	Of which variable remuneration
Key executives: CEO, members of the group management team	9	21,815	3,075
Employees and elected representatives with duties of significant importance to the enterprise's risk exposure	11	16,481	2,052
Other key executives	7	17,821	7,681
Employees with control functions	8	7,980	816