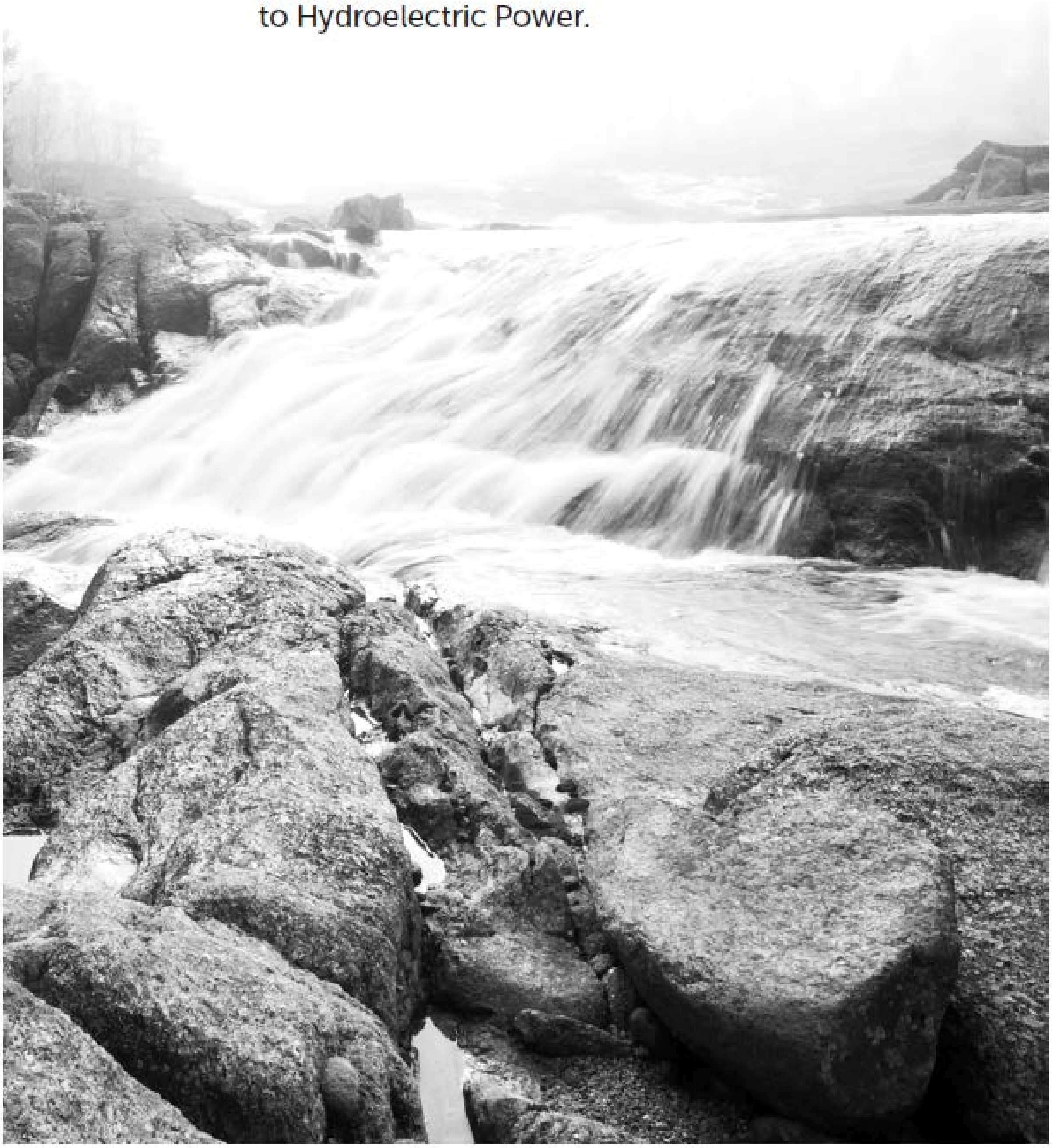
Risk and Capital Management 2014

SpareBank 1 SR-Bank group

From Rain
to Hydroelectric Power.



SpareBank 1 SR-BANK

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INTRODUCTION

Purpose

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". 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.

The group's information strategy emphasises an extended dialogue with the different stakeholder groups, where openness, predictability and transparency are vital factors. The core purpose of the banking industry is to create value by assuming deliberate and acceptable risk. SpareBank 1 SR-Bank therefore invests significant resources in the further development of risk management systems and processes 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.

Key trends

The prevailing mood in the Norwegian economy changed in 2014. The petroleum sector experienced falls in the price of oil, a decline in oil investments, and a greater focus on costs. On the other hand, low interest rates and the weaker NOK exchange rate may provide economic room for manoeuvre and make businesses with international competitors more competitive. The change in mood is forcing the business sector to adapt, which is producing greater uncertainty about the future performance of the Norwegian economy. SpareBank 1 SR-Bank is well equipped to meet this greater uncertainty in the market. In recent years the group has reinforced its financial strength, reduced its concentration risk associated with major commitments, reduced its liquidity risk, and improved its deposit coverage ratio and access to capital.

SpareBank 1 SR-Bank's common equity tier 1 capital has increased from NOK 4.6 billion in 2008 to NOK 13.8 billion in 2014. This represents an increase in the common equity tier 1 capital ratio from 5.8 per cent in 2008 to 11.5 per cent in 2014.

SpareBank 1 SR-Bank has gradually reduced its concentration risk over the last eight years. The group's exposure to major commitments[1] represented 333 per cent of tier 1 capital in 2007, compared with 132 per cent in 2014. Liquidity risk has been reduced through an increased liquidity buffer, a more balanced maturity structure, and more diversified funding. SpareBank 1 SR-Bank has also increased its deposit coverage ratio[2] in the last two years from 42.7 per cent in 2012 to 46.7 per cent in 2014.

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

Risk exposure

The overall risk exposure for SpareBank 1 SR-Bank is moderate. Credit risk represents a significant part of the group's risk. The credit quality of SpareBank 1 SR-Bank's portfolio is good and well diversified. The retail market represents 63 per cent of the total loan exposure of SpareBank 1 SR-Bank, which consists primarily of high-quality mortgage loans. The corporate market represents 37 per cent of the total loan exposure of SpareBank 1 SR-Bank. The quality of the portfolio is considered to be good. The average probability of default has developed positively over time, largely due to the stronger risk profile of the existing customer base. The group's largest industry concentration is in the area of commercial property, which represents 15.6 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. SpareBank 1 SR-Bank is well-equipped to create value for the region the group it is part of.

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

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

SpareBank 1 SR-Bank

SpareBank 1 SR-Bank is currently Norway's leading limited savings bank with total assets of NOK 175 billion. SpareBank 1 SR-Bank has been one of the most profitable banks in the Nordic region over the past 15 years. The group's market area is Rogaland, Hordaland and the Agder counties, and it has approximately 300,000 customers. There are 1,100 employees.

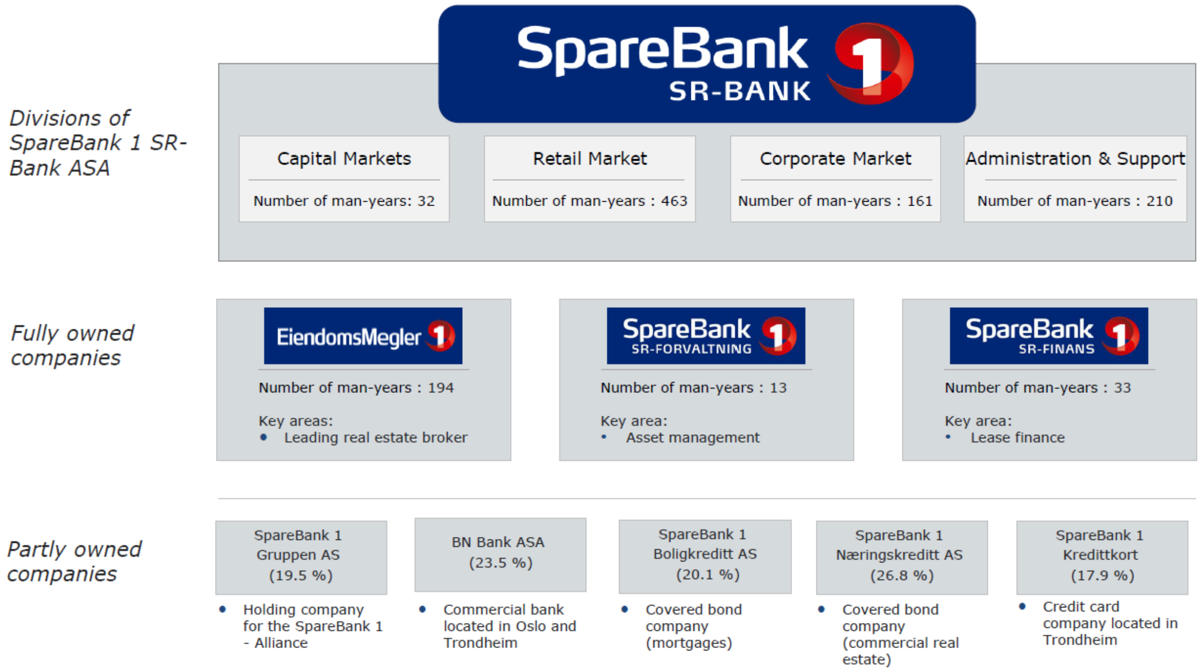
SpareBank 1 SR-Bank is a financial group with a complete product range in the retail market, corporate market and the public sector.

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.

The strategy of SpareBank 1 SR-Bank Group: to be Southern and Western Norway’s most attractive provider of financial services based on customer satisfaction, a strong team spirit and professionalism, local roots, decisiveness and financial strength, profitability and the confidence of the market.

Figure 1: Fully owned and partly owned companies in the SpareBank 1 SR-Bank group as at 31 December 2014



SpareBank 1 Alliance

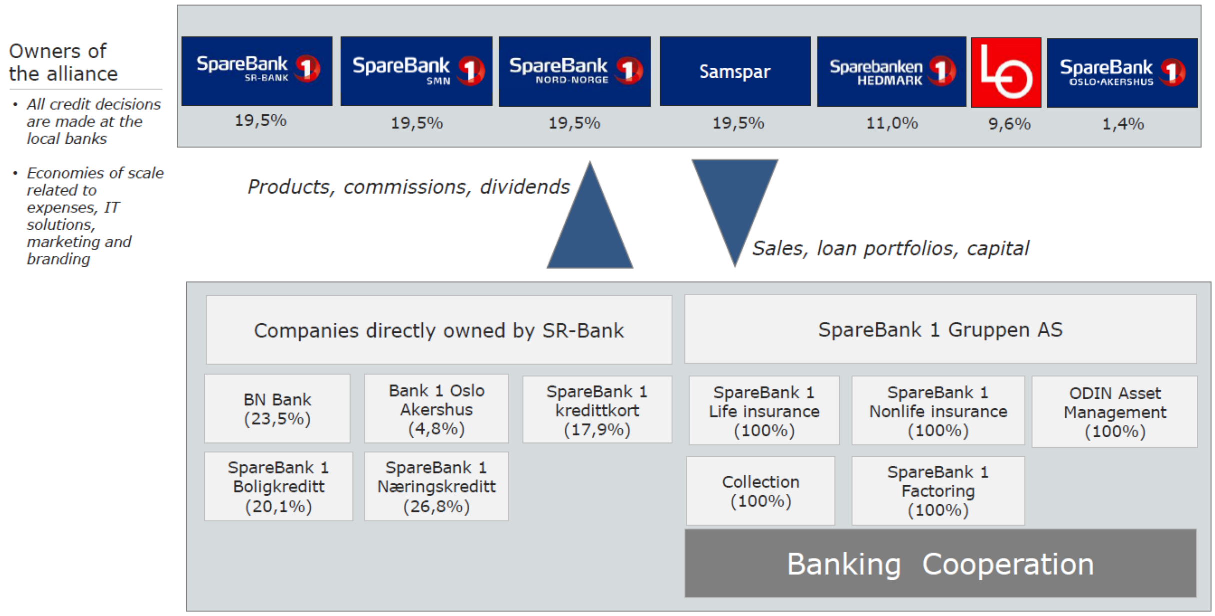
The SpareBank 1 Alliance is a banking and product alliance that consists of several independent banks. The SpareBank 1 Alliance represents one of the largest providers of financial products and services in the Norwegian market. The independent banks in the alliance are SpareBank 1 SR-Bank, SpareBank 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, SpareBank 1 Kredittkort and BN Bank ASA.

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

Figure 2: SpareBank 1 Alliance as at 31 December 2014



RISK AND CAPITAL MANAGEMENT IN SPAREBANK 1 SR-BANK

Purpose

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.

The group'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 corporate culture characterized 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.
- Avoiding single events seriously harming the group's financial position.
- Making the most of all synergy and diversification effects.

The overall risk exposure for SpareBank 1 SR-Bank is considered to be moderate.

The process of risk and capital management

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.

Figure 3: Risk and capital management process in SpareBank 1 SR-Bank

Defining the risk profile:

The group's risk profile is defined on the basis of two key perspectives: its capacity to bear risk and its willingness to assume risk.

The capacity to bear risk describes the maximum risk exposure the group can bear before it is forced to make unwanted changes to its business model. The willingness to assume risk defines its maximum desired risk exposure from the perspective of its earnings and losses. The willingness to assume risk should be significantly lower than the capacity to bear risk.

Risk identification and analysis:

The process for risk identification is 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.

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

Financial projections:

The group performs minimum annually two financial projections:

- Financial projection of expected financial development
- Financial projection in a situation involving serious economic downturn (stress test)

Financial projection of expected financial development

Based on the business plan, strategic targets and expected development in macroeconomics a projection of the financial development for the next 5 years is made. The purpose of the projection 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.

Financial projection in a situation involving serious economic downturn (stress test)

SpareBank 1 SR-Bank has in 2014 developed and adopted a new model for stress testing. The purpose with financial projection in a situation involving a serious economic downturn is to:

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

The projection is made on a 5 year basis. 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.

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.

Evaluation and measures:

The financial projections provide the executive management 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 critical situations. The contingency plan covers:

- Capital adequacy
- Liquidity risk
- Operational risk

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. The department of Risk Management and Compliance reports directly to the chief executive.

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

Organisation and corporate culture

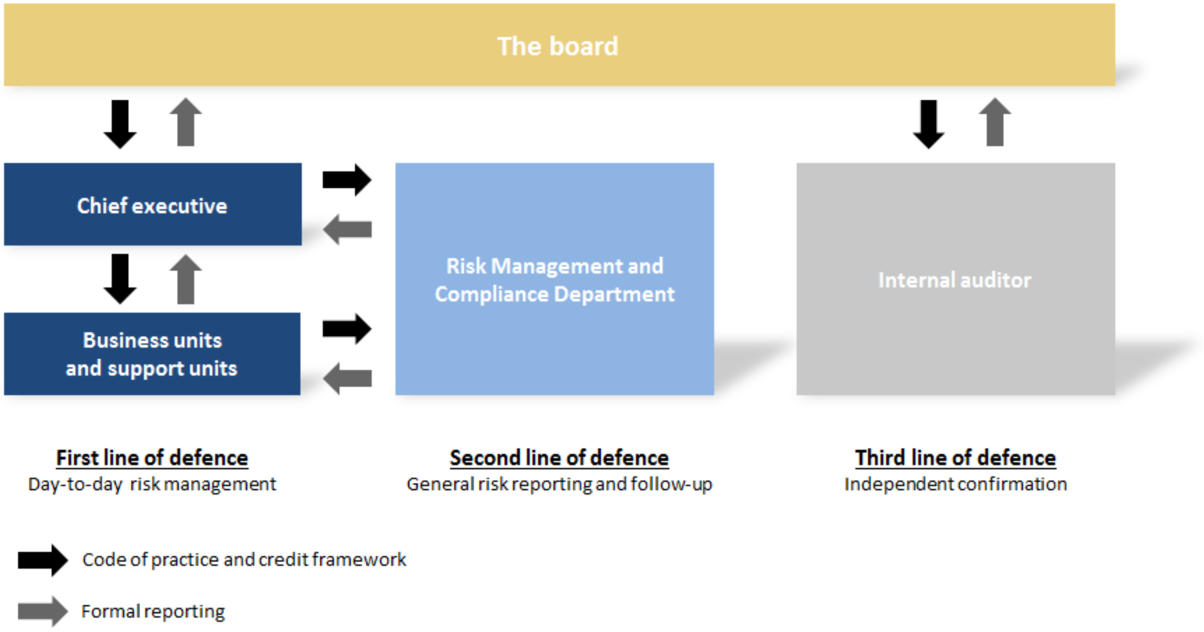
SpareBank 1 and SR-Bank aim to maintain a strong corporate culture characterised by a high level of awareness of risk management. The corporate culture comprises management philosophy and the people in the organisation with their personal attributes, such as integrity, core values and ethics. It is difficult to compensate for an inadequate corporate 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.

SpareBank 1 SR-Bank conducts an annual organisation survey of the entire group. It has also developed its own survey in collaboration with the University of Stavanger. This measures the risk culture in the organisation. The results from the latest survey show that SpareBank 1 SR-Bank has a healthy risk culture. The employees think SpareBank 1 SR-Bank is a clear organisation that supports and encourages ethical conduct and has an executive management team that acts in line with the organisation's code of conduct. Potential for improvement was noted with respect to the systematic recording of and learning from undesired incidents. A positive development in this area is expected when the survey is repeated in 2015 due to the measures that have been implemented.

The results from the risk culture survey and the general organisation survey were reviewed and discussed with a high degree of openness in the organisation by the executive management team and the board.

SpareBank 1 SR-Bank focuses on independence in management and control, and this responsibility is divided between the different roles in the organisation:

Figure 4: Risk and capital management organisation – independence in management and control



The board of SpareBank 1 SR-Bank is responsible for ensuring that the group has adequate primary capital given the adopted risk profile and regulatory requirements. The group's board adopts the principal goals such as risk profile, hurdle rates and distribution of capital to the different business units. The board also sets the overarching limits, authorities and guidelines for risk management in the group. The board has adopted a code of conduct that helps to raise awareness and ensure compliance with the ethical standards set for the group.

The boards of the subsidiaries fulfil their duties in the individual companies in line with decisions made by the bank's board. The bank's board has established a remuneration committee, an audit committee and a risk committee. The committees help the board prepare matters for discussion, but decisions are made by the entire board.

The *Risk Committee* has four members. Besides the members of the committee, meetings are also always attended by the Executive Vice President Risk Management and Compliance. The committee is tasked with ensuring that the group's risk and capital management underpins the group's strategic development and goal attainment, while ensuring financial stability and prudent asset management. The committee's mandate has been incorporated into the board's instructions.

The *chief executive* is responsible for general risk management. This means that the chief executive is responsible for ensuring that effective risk management systems are implemented in the group and that its risk exposure is monitored. The chief executive is also responsible for delegating authorities and reporting to the board.

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

The *Risk Management and Compliance Department* is independent of the business units and reports directly to the chief executive. The department is responsible for the ongoing development of the framework for risk management, including risk models and risk management systems. The department is also responsible for independently monitoring and reporting risk exposure and for ensuring the group complies with current laws and regulations. In addition to an executive vice president, the department consists of four risk managers and four risk analysts. The department works closely with the SpareBank 1 Alliance's Centre of Expertise for Credit Models, which is located within SpareBank 1 SR-Bank. The Centre of Expertise is responsible for developing and quality assuring credit models in line with leading international practice.

In addition to the above-mentioned roles, a number of committees have been established within the area of risk and capital management area that assist the chief executive with establishing a basis for making decisions and monitoring.

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

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

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

The *Control Committee* supervises that the group is operating in an appropriate and satisfactory manner in accordance with the current laws and regulations, articles of association, guidelines adopted by the Supervisory Board, as well as instructions issued by the Financial Supervisory Authority of Norway.

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

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

Overall risk exposure

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

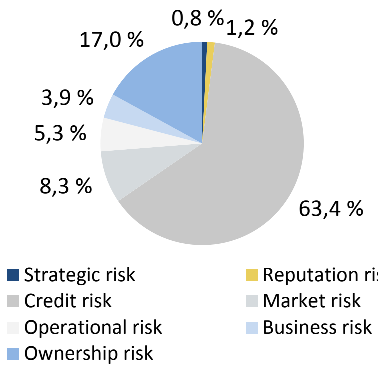
- **Credit risk:** the risk of loss resulting from the customer's or counterparty's inability or unwillingness to fulfil his obligations
- **Market risk:** the risk of loss due to changes in observable market variables such as interest rates, foreign exchange rates and securities markets
- **Liquidity 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
- **Operational risk:** the risk of losses due to weak or inadequate internal processes or systems, human error or external incidents 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.

The group's risk is quantified in a number of ways, including by calculating risk-adjusted capital. 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 99.9 per cent of the potential unexpected losses.

The graph below illustrates risk-adjusted capital distributed by the type of risk at the end of 2014.

Figure 5: Risk-adjusted capital distributed by type of risk



Credit risk represents 63.4 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 17 per cent.

Liquidity risk is covered by the group's liquidity buffer and through a diversified maturity structure, and not by risk-adjusted capital.

Credit risk

Credit risk is the risk of loss resulting from the customers 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 culture. The group is one of the leading players in Norway within managing credit risk. This is possible due to local knowledge about the customer, the use of robust credit models and credit analyses, and by stipulating clear requirements concerning the employees' qualifications and attitudes where the ability to recognise risk and willingness to learn from experience is emphasised.

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

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

2) Credit strategy. The group's primary market areas for risk exposure are Rogaland, the Agder counties and Hordaland. The general credit strategy stipulates that the group shall have a moderate risk profile where no single event shall be capable of seriously harming the group's financial position. The customers' activities must have a long-term perspective, and the customers must operate in accordance with current laws and regulations. The general credit strategy is revised and approved by the board every year.

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.

The general credit strategic limits are in turn distributed between the individual business areas. For the corporate market there are also specific limits for the maximum share of risk-adjusted capital for individual sectors, the group of major customers, and maximum exposure to high risk customers, respectively.

3) 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. The credit policy guidelines are revised at least once a year and approved by the chief executive and reported to the board.

4) Credit authority regulations. The board is responsible for the group's granting of loans and credit, but delegates the responsibility to the chief executive, within certain limits. The chief executive then delegates these 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.

The credit authority rules are reviewed annually and changes are approved by the chief executive and reported to the board. However, this does not apply to changes in the chief executive's credit authority since this is approved by the board.

5) 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) Probability of Default (PD)

A commitment is considered to be in default if:

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

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

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

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

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

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

Default class	Lower limit for default	Upper limit for default	Rating scale Moody's	Rating scale Standard & Poor and Fitch
A	-	0,10 %	AAA - A-	Aaa - A3
B	0,10 %	0,25 %	BBB+ - BBB	Baa1 - Baa2
C	0,25 %	0,50 %	BBB-	Baa3
D	0,50 %	0,75 %	BB+	Ba1
E	0,75 %	1,25 %	BB	Ba2
F	1,25 %	2,50 %	BB-	Ba3
G	2,50 %	5,00 %	B+	B1
H	5,00 %	10,00 %	B	B2
I	10,00 %	99,99 %	B- - CCC	B3 - Caa3

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

Besides predicting the long-term outcomes of probability of default regardless of the economic situation, the models must also manage to rate the customers based on risk (from the lowest probability of default to the highest probability of default) based on the current economic situation. This is important for predicting which customers may experience problems in the next 12 months. In order to achieve this the model must also include variables that identify changes in the economic cycles.

SpareBank 1 SR-Bank calculates the long-term outcome for probability of default based on a full loss cycle lasting about 25 years, which consist of four periods with a normal economic situation and one period with a sharp economic downturn. Our own, representative historic default data is used as the data for the calculation.

2) Exposure At Default (EAD)

Exposure at default (EAD) is defined as the exposure the bank has to a customer on the date of default. The conversion factor (CF) defines to what extent the unutilised credit limit is anticipated drawn up at default.

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

3) Loss Given Default (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 are illustrated in the table below.

Table 2: Definition of loss given default (collateral class)

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

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.

5) Unexpected Losses (UL)

Unexpected losses, also called risk-adjusted capital, describe how much capital the group believes it needs to cover the actual 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 must cover all possible unexpected losses based on a stipulated confidence level of 99.9 per cent.

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

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

The model is based on a standard risk adjusted return on risk adjusted capital (RARORAC) model for measuring risk-adjusted return.

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

Collateral

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

Table 3: Main types of collateral

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

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. 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.

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.

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

Validation

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

The validation work can be divided into four main areas:

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

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

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

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

The various models that are used in the IRB system are assessed on the basis of four criteria:

1) Data quality

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

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

2) Ranking ability

The model's ability to rank the customers is primarily measured by means of the internationally recognised area under curve (AUC) method. The ranking ability of the model that estimates the customers' PD expresses the model's actually ability to rank the customers from the highest actual PD to the lowest PD. Validation shows its ranking ability is very good, both for retail customers and corporate customers.

The ranking ability of the model that estimates EAD will show the degree to which the model actually manages to rank the customers from those with the highest conversion factor (CF) to the lowest CF. Validation of the model for corporate customers shows its ranking ability is satisfactory. The model for retail market customers has no ranking ability since the conversion factor for all customers is 1.

The ranking ability of the model for calculating LGD is validated by analysing estimated and actual losses in the various LGD classes, measured by median, unweighted and weighted average. Overall this measurement method shows that the model has satisfactory ranking ability, but with has room for improvement in the form of minor adjustments to the models. These adjustments will be implemented in 2015 as part of the implementation of Advanced IRB.

The extent to which the model is able to differentiate between customers with the highest expected losses (EL) and the lowest EL in relation to geographic exposure is also validated. The models also show satisfactory ranking ability in this area as well.

3) Level

The Capital Requirements Regulations assume that estimated PD will predict long-term outcome through a full loss cycle. This means that the level of default will be overestimated in booms and normal economic situations, while in periods of serious recession the level of defaults will be underestimated. An assessment is made of whether the difference between actual level of default and estimated level of default is justifiable given the economic situation. Validation over many years shows satisfactory estimates of the level of default based on given economic scenarios. Conducted stress tests also show that the economic properties of the model satisfy the requirements of the Capital Requirements Regulations.

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

The level of EL is assessed against the level of actual costs recognised in the accounts, both on an overall level and by geographic area. EL should, like estimated PD, predict long-term outcome through a full economic cycle. Validation shows satisfactory levels based on given economic scenarios.

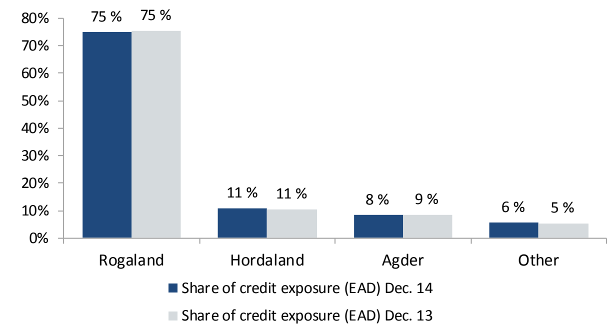
4) Stability of the estimates

The estimates for PD and EL must be relatively stable over time, regardless of the economic situation. Validation over a number of years shows that the estimates are satisfactorily stable over time. The estimates for EAD and LGD are downturn estimates and are stable regardless of the economic situation.

Credit portfolio

The group's primary geographic market areas are Rogaland, the Agder counties, and Hordaland. Figure 7 below shows the exposure by geographic area as of December 2013 and December 2014.

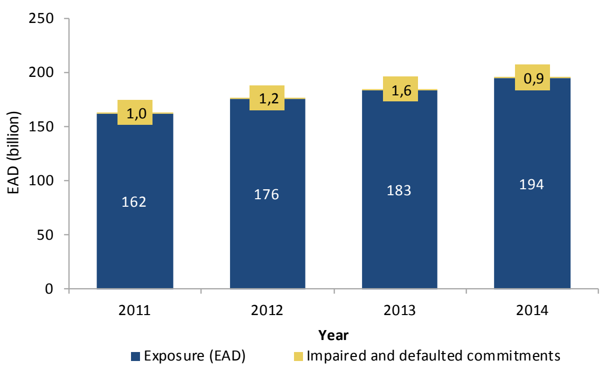
Figure 7: Exposure by geographic market area



As is evident from the figure, Rogaland is the group's largest market area with 75 per cent of total loan exposure. A total of 19 per cent of the exposure is found in the Agder counties and Hordaland. Financing outside these market areas is based on customers based in the group's market area.

Figure 8 shows the trend in credit volume in the last four years.

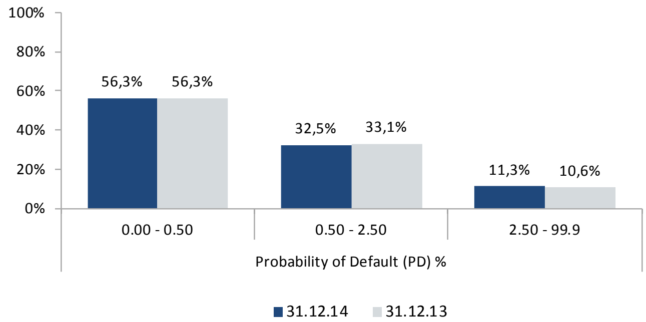
Figure 8: Development in credit volume (EAD)



The total credit exposure as of 31 December 2014 was NOK 195 billion, compared with NOK 185 billion the year before. The increase of 5.7 per cent is attributable to both customers increasing their lending and the influx of new, solid loan customers. Around two thirds of the total loan exposure is to commitments that amount to less than NOK 10 million.

Figure 9 below shows that SpareBank 1 SR-Bank has a solid loan portfolio with a stable risk profile.

Figure 9: Loan portfolio by default class

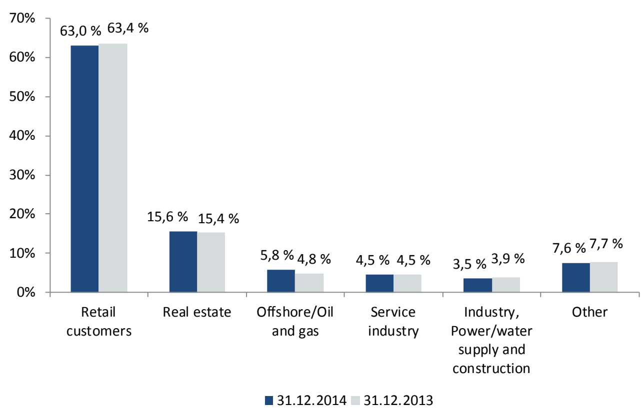


More than half of the loan exposure (56.3 per cent) is to customers with a probability of default of less than 0.5 per cent. These are customers that are classified as being in default classes A, B or C as far as risk is concerned. 32.5 per cent belongs to default classes D, E or F, which have a probability of default of between 0.5 and 2.5 per cent, while 11.3 per cent are risk classified in the lowest default classes G, H or I with a probability of default higher than 2.5 per cent.

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

Figure 10 below shows SpareBank 1 SR-Bank's portfolio by sector.

Figure 10: Loan portfolio distributed by sector

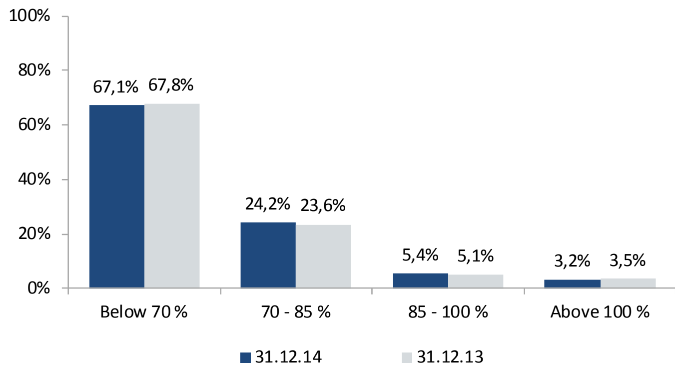


Retail customers account for more than 60 per cent of the portfolio. The quality of the retail market portfolio is very good with low potential losses. The low risk profile in the portfolio is achieved through selective customer selection and requirements concerning moderate loan-to-collateral value ratio. The portfolio generally consists of loans with collateral in real estate. The exposure to other retail customers without collateral in real estate accounts for 0.6 per cent of the total exposure in the retail market.

The commercial property portfolio represents the group's greatest concentration in a single sector, and accounts for 15.6 per cent of the total exposure at default (EAD). The portfolio largely consists of commercial properties with long-term lease contracts and financially solid tenants. As of 31 December 2014, more than half of the leases have a remaining term of five years or more. The proportion of vacant floor space is very small at around 2 per cent. A significant portion of the portfolio is interest rate hedged. A special review of the portfolio shows that 80 per cent of tenants will not be directly affected by the fall in oil prices.

Figure 11 shows the loan-to-collateral value ratio in the retail market portfolio as of 31 December 2014 and the year before.

Figure 11: Loan-to-collateral value ratio (LTV) retail market portfolio - total distributed (including portfolio transferred to SpareBank 1 Boligkreditt AS)



The proportion of loans in the retail market with a loan-to-collateral value ratio of more than 85 per cent is limited. 91.3 per cent of the loan exposure is within 85 per cent of the value of the collateral. The calculation of loan-to-collateral value ratio is based on the collateral's market value and is shown as total distributed loan-to-collateral value ratio. In the case of total-distributed loan-to-collateral value ratio, the entire loan is allocated to one and the same interval.

A gradual reduction in the loan-to-collateral value ratio is expected due to the group tightening the guidelines for lines of credit.

Bond portfolio

Risk profile and portfolio performance

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

Liquidity portfolio (managed by Treasury)

The liquidity portfolio consists of interest-bearing securities that either satisfies the requirements for depositing with Norges Bank, the LCR regulations or uncommitted credit facilities. 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 2014 the value of the combined liquidity portfolio, including covered bonds used in the government swap facility, totals NOK 14.6 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 2014 the trading portfolio includes investments in 34 companies valued at NOK 574 million.

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 4: Securities exposure, bonds and securities (NOK million)

Risk classes for bonds and commercial paper – total

Risk category	Rating	Market value NOK million	Total per cent
Very low risk	AAA, AA+, AA and AA-	13,992	92 %
Low risk	A+, A and A-	113	1 %
Moderate risk	BBB+, BBB and BBB-	571	4 %
High risk	BB+, BB and BB-	145	1 %
Very high risk	B+ and lower	324	2 %
Total		**15,145**	**100 %**

Risk classes – Treasury

Risk category	Rating	Market value NOK million	Treasury per cent
Very low risk	AAA, AA+, AA and AA-	13,992	96 %
Low risk	A+, A and A-	111	1 %
Moderate risk	BBB+, BBB and BBB-	468	3 %
High risk	BB+, BB and BB-	0	0 %
Very high risk	B+ and lower	0	0 %
Total		**14,571**	**100 %**

Risk classes – Trading/Sales

Risk category	Rating	Market value NOK mill	Trading per cent
Very low risk	AAA, AA+, AA and AA-	0	0 %
Low risk	A+, A and A-	2	0 %
Moderate risk	BBB+, BBB and BBB-	103	18 %
High risk	BB+, BB and BB-	145	25 %
Very high risk	B+ and lower	324	56 %
Total		**574**	**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 strategy

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

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

Authorities

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

Guidelines and routines

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

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

Interest rate risk

Interest rate risk arises because the group's assets and liabilities can be subject to different fixed rate periods. Interest rate instrument trading must 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 95 million with NOK 30 million of the total balance in SpareBank 1 SR-Bank Markets and NOK 65 million of the total balance in Treasury.

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

Table 5: Sub-limits within the different maturity bonds

Maturity bond	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 total interest rate risk at the end of the last four quarters (without the absolute value).

Table 6: 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. 2014	-34	13	3	-0	**-18**
3rd Qtr. 2014	-23	8	-18	-2	**-34**
2nd Qtr. 2014	-18	12	-7	-5	**-18**
1st Qtr. 2014	-11	9	-8	-6	**-17**

Foreign exchange risk

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

Table 7 shows the net foreign currency exposure including financial derivatives at the end of the last four quarters.

Table 7: Foreign currency exposure including financial derivatives (NOK million)

Currency	4th Qtr. 2014	3rd Qtr. 2014	2nd Qtr. 2014	1st Qtr. 2014
EUR	1	39	-79	22
USD	1	-100	-1	29
CHF	0	-4	-4	-1
GBP	0	-3	-10	5
Other	-5	4	-11	5

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

Balance sheet classification	4th Qtr. 2014	3rd Qtr. 2014	2nd Qtr. 2014	1nd Qtr. 2014
Shares, units etc.	623	614	1169	966
Available for sale	22	65	84	84

Market risk, including spread risk for bonds and securities

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

The liquidity portfolio's total holding amounts to NOK 14.6 billion. The portfolio in SpareBank 1 SR-Bank Markets amounts to NOK 0.6 billion. The table below provides an overview of exposure by asset class.

Table 9: Fair value of the bond portfolio (NOK million)

Sub-portfolio	4th Qtr. 2014	3rd Qtr. 2014	2nd Qtr. 2014	1st Qtr. 2014
Treasury	**14,571**	**16,275**	**16,097**	**17,798**
Norwegian state/municipality	29	601	275	801
OMF/Covered Bond	10,509	11,093	11,738	12,138
Foreign guarantees	3,454	3,834	3,362	3,679
Norwegian bank/finance	579	666	642	687
Foreign bank/finance	0	0	0	146
Industry/other	0	80	80	347
Trading/sales	**574**	**408**	**386**	**318**
Norwegian bank/finance	191	78	124	142
Foreign bank/finance	0	0	2	2
Industry/other	383	330	261	174

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

Operational risk

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

Management of operational risk

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.

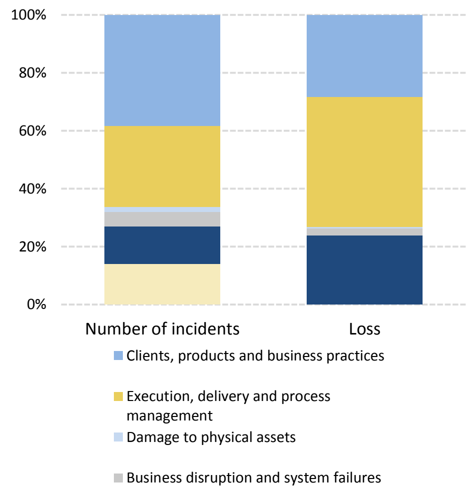
In order to obtain a more credible estimate of the actual risk exposure, and to gain insight into what actually drives the operational risk within business processes, a total review of the group's operational risk exposure is conducted at least annually. In this process, potential risk scenarios and the associated probabilities and consequences are analysed 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.

One of the greatest challenges associated with operational risk is forecasting and calculating credible estimates for rare events with major consequences. Extensive scenario models are required in order to capture the complexity of such scenarios, and SpareBank 1 SR-Bank has 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 used in the group's ongoing risk management.

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 2014 by the Basel categories:

Figure 12: Reported undesired incidents in 2014 by the Basel II categories



The figure shows that most of the incidents in 2014 is related to clients, products and business practices, and that this category, together with external fraud, contributed most to actual losses.

The total losses from registered undesired incidents in 2014 amounted to less than NOK 5 million from almost 200 incidents.

Liquidity risk

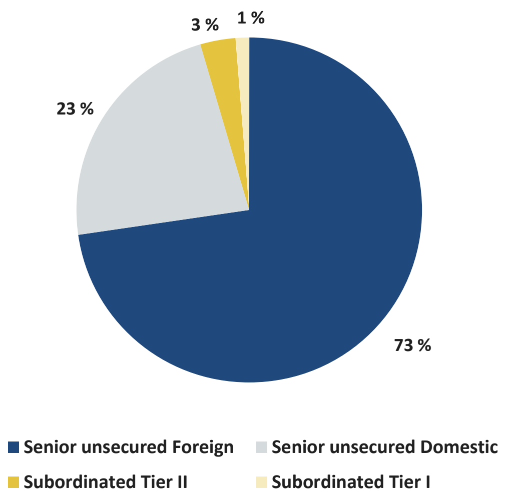
Liquidity risk is the risk that the group is not able to refinance its debt or is not able to finance an increase in assets.

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 13: Composition of the group's securities borrowing as at 31 December 2014



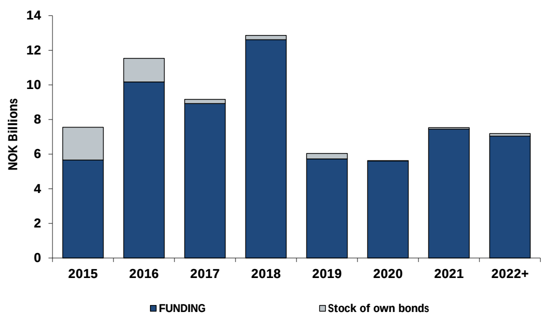
The liquidity reserve is NOK 18.2 billion, and the group has an additional NOK 27.4 billion representing mortgage loans that have been prepared in the WEB client (loans ready to be transferred to SpareBank 1 Boligkreditt AS). The liquidity situation for SpareBank 1 SR-Bank is satisfactory. The liquidity buffer indicates a survival period of 24 months at year-end 2014 without access to external funding. Treasury has issued bonds totalling a gross amount of NOK 15.7 billion in 2014. During the same period bonds corresponding to approximately NOK 2.3 billion were redeemed. During the next 12 months, debt corresponding to NOK 5.7 billion will be refinanced.

Deposits from customers represent the group's most important source of funding. For the group as a whole the volume of deposits increased by NOK 9.8 billion (13.7 per cent) in 2014. Lending, including Boligkreditt and Næringskreditt, increased by NOK 7.8 billion (4.7 per cent) in 2014. In the last two years, the deposit coverage ratio has increased from 42.7 per cent in 2012 to 46.7 per cent in 2014.

Home mortgage loans in SpareBank 1 Boligkreditt AS totalled around NOK 32.3 billion at the end of the 4th quarter of 2014, compared with NOK 45.7 billion at the end of 2013. The transferred balance accounts for around 28 per cent of the gross home mortgage loan balance and around 19 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 2014.

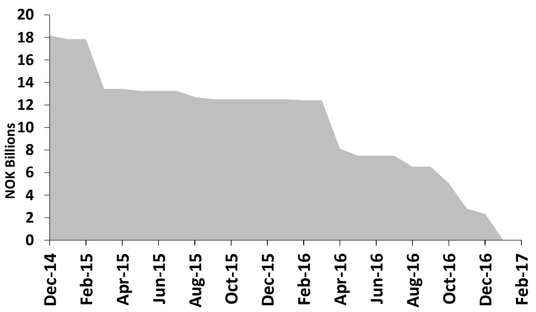
Figure 14: The funding portfolio's maturity structure as at 31 December 2014



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 2014.

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 15: 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 ensures the ability to survive to the end of December 2016. The liquidity buffer consists of cash and very secure interest-bearing securities. The group's liquidity target, LCR (liquidity coverage ratio), amounted to 94 per cent at year-end 2014.

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 2014 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), SpareBank 1 Næringskreditt AS (26.8 per cent) and SpareBank 1 Kredittkort (17.9 per cent).

SpareBank 1 Gruppen 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 SpareBank 1 Livforsikring AS, SpareBank 1 Skadeforsikring AS, ODIN Forvaltning AS, Conecto, and SpareBank 1 Gruppen Finans Holding AS.

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

SpareBank 1 Gruppen 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 two Centres of Expertise – Payment Services in Trondheim and Credit Control in Stavanger.

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. At the end of the 4th quarter of 2014 SpareBank 1 SR-Bank had transferred NOK 584 million (EAD) to the company. SpareBank 1 SR-Bank's ownership risk consists primarily of the underlying credit risk in this company.

SpareBank 1 Kredittkort AS started ordinary operations on 1 July 2014 after converting the SpareBank 1 banks' credit portfolio from EnterCard. The company is owned by the SpareBank 1 banks and SpareBank 1 SR-Bank owns a stake of 17.9 per cent.

At the end of the 4th quarter of 2014, SpareBank 1 SR-Bank owns 20.1 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 2014 SpareBank 1 SR-Bank had transferred NOK 32.3 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 Gruppen, SpareBank 1 SR-Bank, as the largest bank in the alliance, is represented as a board member in all companies of significant importance.

All follow-up of ownership interests is performed under the group's Chief Financial Officer. All reporting from the individual companies and questions regarding capital increases etc. are reported here. 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.

Business review

As part of the follow-up of the bank's stakes, an annual business review is conducted of the stakes with a strategic and financial focus. In the business review of the bank's equity positions conducted in spring 2014, weight was attached to measuring the residual value of the result after capital costs was deducted (economic value added). The purpose of the target figure is to measure whether the bank uses available capital for value creation and can be used as a basis for managing the capital where it will grow the most. The business review was discussed in the group's business management meeting and presented to the bank's board in June 2014.

The Accounting and Finance Department manages the ownership of all the investments apart from investments connected to the establishment of property syndicates. New strategic investments are approved by the bank's board.

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

Business risk

Business risk is the risk of unexpected fluctuations in 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 pension's 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

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

The framework for compliance is 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.

REGULATORY CAPITAL REQUIREMENTS (PILLAR I)

Introduction

The EU's capital adequacy directive, Basel II, was introduced in Norway on 1 January 2007. The purpose of the regulations was to strengthen stability in the financial system through better risk management and control, more risk sensitive capital requirements, closer supervision, and more information for the market. The regulations are based on three pillars:

- The First Pillar: Minimum capital requirements
- The Second Pillar: Supervisory Review Process
- The Third Pillar: Market discipline

The EU Commission has presented proposals concerning new banking regulations in the EU, CRD IV. CRD IV implements the international recommendations in Basel III from the Basel Committee on Banking Supervision. Reporting pursuant to CRD IV came into effect from July 2014 for Norwegian financial institutions, with gradual introduction in the lead up to 1 July 2016.

In addition to the minimum requirement for primary capital of 8%, the financial institutions shall, according to the new regulations, keep various types of buffers:

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

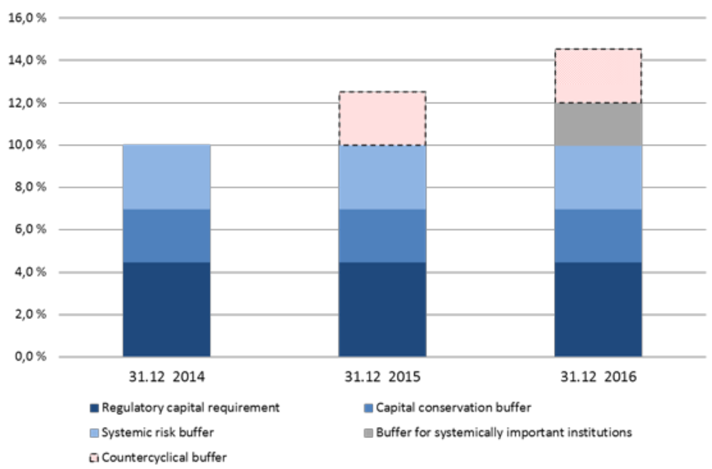
Systemic risk buffer (3 %): System risk can be defined as the risk that financial instability results in disruptions in the provision of financial services of a scope that could result in significant negative effects for production and employment. The system risk buffer of 3% must dampen the negative effects of financial instability.

Countercyclical buffer (0-2.5 %): The countercyclical capital buffer is set at 1% and will come into effect on 30 June 2015. The buffer should dampen the effects of cyclical variations by the institutions having to build up extra buffer capital in periods of particularly strong credit growth. The level is set by the Ministry of Finance on the advice of Norges Bank and the future level of the buffer is uncertain.

Buffer for systemically important institutions (1-2 %): Mortgage companies that are defined by the Norwegian authorities as systemically important will be subject to an external buffer requirement of between 1-2%. Institutions with total assets of at least 10% of Mainland Norway's GDP, or at least a 5% share of the market for loans, will be covered by this definition. SpareBank 1 SR-Bank is close to the SIFI requirement concerning market share and takes account of this in its capital planning.

The figure below shows the regulatory capital adequacy requirements for SpareBank 1 SR-Bank for 2014 and the expected development in 2015 and 2016.

Figure 16: Regulatory capital requirements



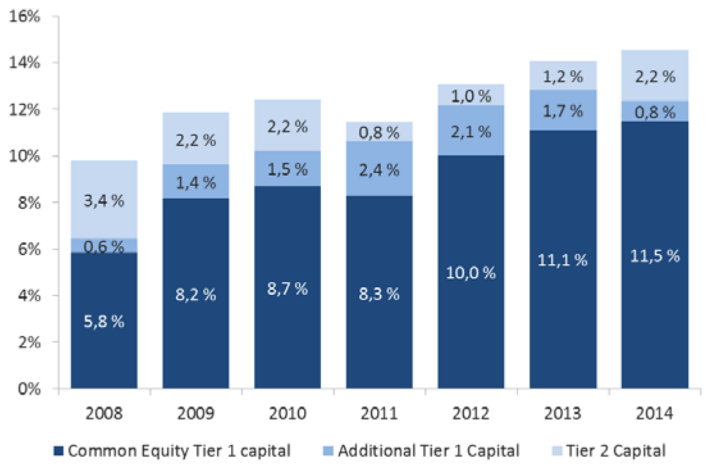
Capital adequacy

During the period from 2008 to 2014, SpareBank 1 SR-Bank increased its common equity tier 1 capital from 4.6 billion to 13.8 billion. At the end of 2014, SpareBank 1 SR-Bank had a common equity tier 1 ratio of 11.5 per cent and a capital adequacy ratio of 14.5 per cent, compared to 11.1 per cent and 14.1 per cent respectively at the end of 2013. 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").

In February 2015 the Financial Supervisory Authority of Norway gave SpareBank 1 SR-Bank permission to use the advanced IRB approach for calculating regulatory capital requirements for credit risk within the corporate market. SpareBank 1 SR-Bank also has permission to use the advanced IRB approach on the retail market portfolio. This means that the regulatory capital requirements will become more attuned to the actual credit risk in the bank's total loan portfolio. Furthermore this will add about 0.7 percentage points on CET 1 based on the bank's balance as of December 31th 2014. The net increase also takes into account the effect of higher risk weights on mortgages that will be applied as of first quarter of 2015.

Figure 17 illustrates the change in capital adequacy during the period 2008-2014.

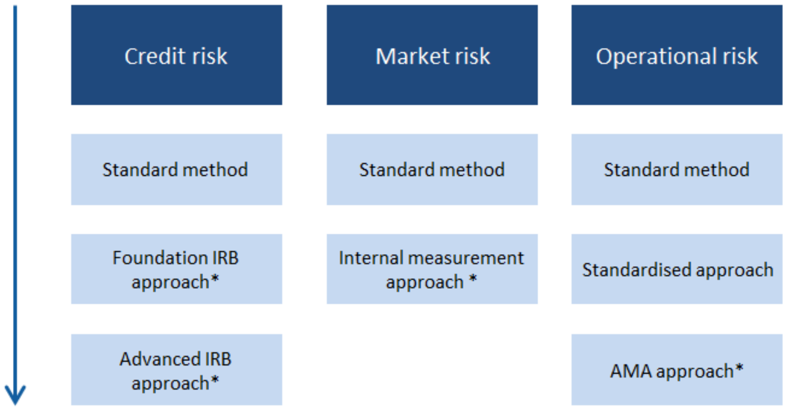
Figure 17: Capital adequacy



In accordance with the Public Limited Liability Companies Act, all companies must at all times have equity that is justifiable based on the risk and scope of the activities in the company. In Pillar 1, the Capital Requirements Regulations define minimum requirements for the following risk types: credit risk, market risk, and operational risk.

The various methods for calculating the minimum primary capital requirements in Pillar 1 are shown in figure 18 below.

Figure 18: Alternative methods for calculating the minimum requirements for primary capital



* The methods must be approved by the Financial Supervisory Authority of Norway

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.

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 IRB system includes all models, work and decision processes, control mechanisms, IT systems, and internal guidelines and routines that are utilised in measuring and managing credit risk. SpareBank 1 SR-Bank's goal for the IRB system is for it to provide a basis for good risk management and ensure satisfactory capital adequacy in relation to the risk the group assumes. The IRB system affects a significant portion of the group's business and has helped to significantly increase the quality of SpareBank 1 SR-Bank's risk management since its implementation in 2007.

The internal measurement methods that are used for internal risk management were discussed in the previous chapter on risk and capital management in SpareBank 1 SR-Bank. Regulatory calculations of risk exposure and capital requirements are calculated on the basis of the same systems and models that are used for internal risk management, but with individual differences in models and model parameters. The effect of these differences is illustrated by table 26 later in the chapter.

Table 10 shows the main methods that SpareBank 1 SR-Bank uses for calculation of its capital requirements for credit, market and operational risk, respectively.

Table 10: 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
	Massemarked - SpareBank 1 Boligkreditt AS	IRB - Mass market (advanced)
	Enterprises – SpareBank 1 Næringskreditt AS	Standard method
	Enterprises – BN Bank AS	IRB - Advanced
	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

* In February 2015 the Financial Supervisory Authority of Norway gave SpareBank 1 SR-Bank permission to use the advanced IRB approach for calculating regulatory capital requirements for credit risk within the corporate market. This means the regulatory capital requirements from 2015 will reflect the actual credit risk in the bank's total loan portfolio.

The capital requirement within the corporate market is in 2014 calculated using the Foundation IRB approach. When calculating the capital requirements according to the Foundation IRB approach, 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. Starting with 2015 SpareBank 1 SR-Bank can calculate the conversion factor (CF) and the loss given default (LGD) using internal models.

SpareBank 1 SR-Bank has received permission from the Financial Supervisory Authority of Norway to use the internal ratings based (IRB)-approach for the mass market (retail market). 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).

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 has ownership in following companies as per December 2014:

- SpareBank 1 Boligkreditt AS 20.1 %
- SpareBank 1 Næringskreditt AS 26.8 %
- SpareBank 1 Kredittkort AS 17.9 %
- BN Bank ASA 23.5 %

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

In 2014, SpareBank 1 SR-applied for a licence for a wholly owned home mortgage company. The bank received the licence in the first quarter of 2015 and expects the newly established company to be in a position to issue covered bonds in the second quarter of 2015. During the year, the company will apply to the Financial Supervisory Authority of Norway's permission to use IRB mass market for the portfolio.

Detailed capital adequacy information

Consolidation

Table 11: Consolidation basis (amounts in NOK 1000)

Subsidiaries **As at 31/12/2014**	**Number of shares**	**Book value**	**Voting rights**	**Consolidation method**
Wholly consolidated companies				
SpareBank 1 SR-Finans AS	334 000	635 758	100 %	Acquisition method
EiendomsMegler 1 SR-Eiendom AS	150	97 205	100 %	Acquisition method
Westbroker Finans AS	100	218	100 %	Acquisition method
SR-Investering AS	3 500	180 725	100 %	Acquisition method
SR-Forvaltning AS	6 000	29 019	100 %	Acquisition method
SR-Forretningsservice AS	1 000	125	100 %	Acquisition method
Rygir Industrier AS konsern	90 000	222 706	100 %	Acquisition method
Etis Eiendom AS	10 000	1 730	100 %	Acquisition method
Finansparken Bjergsted AS	16 000	58 016	100 %	Acquisition method
Total		**1 225 502**		

Subsidiaries **As at 31/12/2013**	**Number 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**		

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

Subsidiaries that report based on the standard method

	31/12/2014		31/12/2013	
Amounts in NOK million	**SR-Finans**	**SR-Forvaltning**	SR-Finans	SR-Forvaltning
Net regulatory capital	**939**	**15**	773	18
Minimum regulatory capital requirements	**6 380**	**70**	5 575	60
Capital ratio %	**14.71**	**21.40**	13.87	28.98

Investments in associated companies and joint ventures

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

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

Table 12: Investments in associated companies and joint ventures

Amounts in NOK 1,000	**Ownership percentage [1)] 31/12/2014**	**Capital requirements [2)] 31/12/2014**	**Capital adequacy percentage 31/12/2014**
SpareBank 1 Boligkreditt AS [1)]	21.4	15 019	14.09
SpareBank 1 Næringskreditt AS	26.8	4 486	13.97
BN Bank ASA [1)]	24.2	5 183	19.68

Amounts in NOK 1,000	Ownership percentage 31/12/2013	Capital requirements[2)] 31/12/2013	Capital adequacy percentage 31/12/2014
SpareBank 1 Boligkreditt AS [1)]	26.2	20 225	10.21
SpareBank 1 Næringskreditt AS	27.3	4 075	14.87
BN Bank ASA [1)]	23.5	6 687	15.44

1 Including indirect assets
2) SpareBank 1 SR-Bank's share

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

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

For the same reason, the bank and its subsidiaries do not enter into agreements that impose limitations on the Board of Directors’ right to transfer capital as mentioned above. This applies to funding loan agreements and agreements with suppliers and customers. Accordingly, no restrictions have been placed on the board’s opportunity to transfer capital between the various business units in the parent bank either. Moreover, the transfer of capital between the companies will be regulated by ordinary legislation for these companies and for the financial group as a whole. As for investment in subsidiaries, the group has a strategic interest in supporting the activities of SpareBank 1 Boligkreditt AS and SpareBank 1 Gruppen AS. In this connection the group is concerned about no agreements being entered into or decisions etc. made that entail a restriction of the owner banks’ opportunity to transfer capital to these companies if this should be necessary in order to achieve satisfactory capital adequacy or financial strength. The group is not aware of any such constraints with the exception of those imposed by legislation and the regulation. The group assumes that the transfer of capital from these two companies to the owner banks will not be practical, with the exception of ordinary dividend payments, and it has based the group's own risk profile on this assumption. As far as the group knows, there are no private 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 13: Regulatory capital in other financial institutions

Amounts in NOK million	**Ownership percentage 31/12/2014**	**Book value 31/12/2014**	Ownership percentage 31/12/2013	Book value 31/12/2013
SpareBank 1 Gruppen	19.5 %	1 505	19.5 %	1 174
SR-Pensjonskasse	100.0 %	35	100.0 %	35
Bank 1 Oslo	4.8 %	137	4.8 %	119
Sandnes Sparebank	13.9 %	102	10.8 %	66
SpareBank 1 Kredittkort	17.9 %	158	17.6 %	33
Other financial institutions		29		54
Total		**1 966**		1 481

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

Table 14: Regulatory capital

Regulatory capital, including core capital and supplementary capital, as well as relevant supplements, deductions and limitations. Capital ratio figures from and including 30 September 2014 comply with the new requirements stipulated by the Ministry of Finance.

Group (Amounts in NOK million)	**31/12/2014**	31/12/2013
Share capital	**6 394**	6 394
Share premium reserve	**1 587**	1 587
Allocated dividend	**512**	409
Fund for unrealised gains	**59**	162
Other equity	**6 851**	5 504
Total recorded equity	**15 403**	14 056
Core (Tier 1) capital		
Deferred tax, goodwill and other intangible assets	**-24**	-43
Fund for unrealised gains, available for sale	**-**	-
Deduction for allocated dividend	**-512**	-409
50% deduction for regulatory capital in other financial institutions		-104
50% deduction in expected losses IRB less loss provisions	**-676**	-356
50% capital adequacy reserve		-587
Deduction for investments in other financial institutions	**-326**	
Value adjustments due to the requirements for prudent valuation	**-48**	
Total core (Tier 1) capital	**13 817**	12 557
Hybrid Tier 1 bond [1)]	**1 011**	1 954
Total core (Tier 1) capital	**14 828**	14 511
Supplementary (Tier 2) capital in excess of core (Tier 1) capital		
Non-perpetual subordinated capital	**2 697**	2 451
50% deduction for regulatory capital in other financial institutions		-104
50% deduction in expected losses IRB less loss provisions		-356
Deduction for investments in other financial institutions	**-60**	
50% capital adequacy reserve		-587
Total supplementary (Tier 2) capital	**2 637**	1 404
Net regulatory capital	**17 465**	15 915

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

Risk weighted assets	**31/12/2014**	31/12/2013
Credit risk	**103 397**	86 437
Credit value adjustment risk (CVA)	**1 127**	
Market risk	**9 445**	6 438
Operational risk	**6 220**	5 713
Capital adequacy requirements related to transitional arrangements	**0**	14 487
Risk weighted assets	**120 189**	113 075
Common equity Tier 1 capital requirement 4.5 %	**5 409**	
Buffer requirements		
Capital conservation buffer 2,5 %	**3 005**	
Systemic risk buffer 3 %	**3 606**	
Combined buffer requirement	**6 610**	
Surplus CET1	**1 798**	
Capital adequacy	**14.53 %**	14.07 %
Of which core capital	**12.34 %**	12.83 %
Of which supplementary capital	**2.19 %**	1.24 %
Common equity tier 1 ratio	**11.50 %**	11.11 %

Subordinated loan capital and hybrid Tier 1 bonds

Table 15: Subordinated loan capital and hybrid Tier 1 bonds (amounts in NOK million)

Principal	Terms	Maturity	First maturity date	2014	2013
Non-perpetual					
NOK 750	3 month Nibor + margin	2021	2016	**745**	745
NOK 500	3 month Nibor + margin	2023	2018	**499**	455
NOK 75	3 month Nibor + margin			**0**	78
NOK 825	3 month Nibor + margin	2022	2017	**825**	825
Total non-perpetual				**2 069**	2 103
Hybrid tier 1 bonds					
NOK 1000	3 month Nibor + margin			**0**	992
NOK 684	3 month Nibor + margin		2019	**767**	734
NOK 116	3 month Nibor + margin		2019	**116**	115
NOK 40	3 month Nibor + margin			**0**	39
Total hybrids				**883**	1 880
Accrued interest				**12**	21
Total subordinated loan capital				**2 964**	4 004

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 2 964 million in subordinated loan capital, NOK 794 million counts as core (Tier 1) capital and NOK 2 069 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 amount counts as perpetual subordinated loan capital.

Appendix

The tables in this chapter can also be found in a separate appendix (Excel) updated quarterly. The appendix also includes following information:

- The most important agreement terms and conditions for capital instruments (sheet 29)
- Composition of primary capital for the period 2014-2017 (sheet 30)
- Relationship between primary capital in the financial statements and the primary capital that is calculated for capital adequacy purposes (sheet 31)
- Calculation of unweighted tier 1 capital ratio (leverage ratio) (sheet 32)

Credit risk

Risk weighted assets – credit risk

Table 16: Risk weighted assets for credit risk divided into commitment categories and subcategories (amounts in NOK million)

		Commitments 31/12/2014	**Commitments EAD 31/12/2014**	**Risk weighted assets Consolidated 31/12/2014**	Risk weighted assets Consolidated 31/12/2013
Enterprises	Specialised enterprises	40 193	38 327	32 685	28 174
	SME enterprises	26 459	24 181	21 789	
	Other enterprises	10 264	9 018	8 789	27 245
Mass market	Mass market SME	5 804	5 801	1 144	641
	Commitments with mortgage on real estate	119 170	119 163	20 661	10 715
	Other mass market commitments	1 898	1 893	845	763
Risk weighted assets credit risk - IRB		**203 788**	**198 383**	**85 913**	**67 538**
Governments		7 770		222	287
Institutions		11 467		2 102	1 550
Enterprises		7 024		6 272	1 575
Mass market		9 581		6 869	150
Consolidated companies*					14 850
Other assets		3 783		2 019	1 950
Risk weighted assets credit risk - standard method		**39 625**		**17 484**	**20 362**
Deductions					-1 463
Total risk weighted assets credit risk				**103 397**	**86 437**

* From and including 30.9.2014, we have introduced a new reporting layout where commitments from consolidated companies are included in the categories to which they belong.

Commitments by geographic area

Table 17: Commitment amount for each type of commitment, divided into geographic areas before deductions for write-downs (amounts in NOK million)

2014	**Gross loans**	**Unutilised credit**	**Guarantees**	**Total**
Rogaland	**103 117**	**12 980**	**9 378**	**125 475**
Agder	**13 102**	**1 649**	**1 192**	**15 943**
Hordaland	**19 683**	**2 478**	**1 790**	**23 951**
Other	**5 718**	**720**	**520**	**6 958**
Total gross commitments, customers	**141 620**	**17 827**	**12 879**	**172 326**

2013	Gross loans	Unutilised credit	Guarantees	Total
Rogaland	82 983	9 903	8 336	101 222
Agder	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

Commitments by type of commitment

Table 18: The total commitment amount, defined as gross lending to customers + guarantees + unutilised credit in the Group, after any write-down and without taking account of any security pledged and the average size of the commitments during the period, broken down by type of commitment (amounts in NOK million)

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

2013	Commitment amount	Average commitment amount
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

Commitments by customer groups

Table 19: Commitment amount for each type of commitment, broken down by sectors before deductions for write-downs (amounts in NOK million)

	2014			2013		
	Gross loans	**Unutilised credit and guarantees**	**Total**	**Gross loans**	**Unutilised credit and guarantees**	**Total**
Agriculture/forestry	**4 458**	**2 766**	**7 224**	4 326	1 888	6 214
Fisheries/fish farming	**596**	**271**	**867**	541	190	731
Mining operations and extraction	**4 341**	**700**	**5 041**	2 829	828	3 657
Industry	**2 650**	**1 691**	**4 341**	3 403	1 646	5 049
Power and water supply/building and construction	**3 520**	**1 812**	**5 332**	3 100	972	4 072
Wholesale and retail trade, hotels and restaurants	**2 529**	**1 622**	**4 151**	2 877	1 107	3 984
Overseas shipping, pipeline transport and other	**8 239**	**424**	**8 663**	7 297	1 481	8 778
Property management	**27 164**	**9 359**	**36 523**	25 740	8 367	34 107
Service sector	**7 859**	**2 731**	**10 590**	7 545	2 167	9 712
Public sector and financial services	**1 877**	**2 886**	**4 763**	2 277	2 780	5 057
Not allocated (added value fixed interest lending)	**736**	**(736)**	**0**	490	(490)	0
Total for enterprises	**63 969**	**23 526**	**87 495**	60 425	20 936	81 361
Mass market	**77 651**	**7 180**	**84 831**	59 848	4 246	64 094
Total gross commitments, customers	**141 620**	**30 706**	**172 326**	120 273	25 182	145 455

Commitment amount by remaining maturity

Table 20: Commitment amount for each type of commitment broken down by remaining maturity (amounts in NOK million)

2014	**Upon request**	**< 1 year**	**1–5 years**	**More than 5 years**	**Total**
Gross loans	46 156	5 848	20 109	69 507	141 620
Unutilised credit	17 827				17 827
Guarantees		5 135	5 946	1 798	12 879
Total gross commitments, customers	**63 983**	**10 983**	**26 055**	**71 305**	**172 326**
Governments (Norges Bank)	1 610	-	-	-	1 610
Institutions	2 222	-	-	-	2 222

2013	**Upon request**	**< 1 year**	**1–5 years**	**More than 5 years**	**Total**
Gross loans	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

Defaulted and doubtful commitments by customer group

Table 21: Defaulted and doubtful commitments broken down by customer group

31/12/2014	**Total commitment amount**			
Amounts in NOK million	**Doubtful**	**In default**	**Individual write-downs**	**Value changes recognised during the period**
Agriculture/forestry	7	34	20	2
Fisheries/fish farming	0	0	0	0
Mining operations and extraction	0	0	0	-5
Industry	40	14	15	5
Power and water supply/building and construction	24	18	22	22
Wholesale and retail trade, hotels and restaurants	26	15	24	26
Overseas shipping, pipeline transport and other transport	54	1	36	-6
Property management	251	126	118	112
Service sector	68	7	44	8
Public sector and financial services	1	0	0	0
Total for enterprises	**471**	**215**	**279**	**164**
Transferred from write-downs on groups of loans	0	0	0	75
Mass market	42	212	43	18
Total	**513**	**427**	**322**	**257**

31/12/2013	**Total commitment amount**			
Amounts in NOK million	**Doubtful**	**In default**	**Individual write-downs**	**Value changes recognised during the period**
Agriculture/forestry	2	17	8	5
Fisheries/fish farming	0	0	0	0
Mining operations and extraction	0	0	5	-2
Industry	39	4	31	3
Power and water supply/building and construction	22	8	10	4
Wholesale and retail trade, hotels and restaurants	25	12	26	14
Overseas shipping, pipeline transport and other transport	74	11	64	8
Property management	177	566	210	153
Service sector	58	8	37	-27
Public sector and financial services	0	0	0	0
Total for enterprises	**397**	**626**	**392**	**158**
Transferred from write-downs on groups of loans	0	0	0	-30
Mass market	42	204	54	4
Total	**439**	**830**	**446**	**132**

Actual losses by default class

Table 22: Actual losses for each default class during the period (amounts in NOK million)

	2014	2013
A (0.00–0.10 %)	**0**	0
B (0.10–0.25 %)	**0**	0
C (0.25–0.50 %)	**0**	0
D (0.50–0.75 %)	**0**	0
E (0.75–1.25 %)	**0**	0
F (1.25–2.50 %)	**0**	0
G (2.50–5.00 %)	**0**	0
H (5.00–10.00 %)	**0**	0
I (10.00 –)	**0**	0
J	**0**	0
K	**257**	**132**
Total	**257**	132

Defaulted and doubtful commitments by geographic area

Table 23: 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**
2014	**Doubtful**	**In default**	
Rogaland	255	234	163
Agder	176	80	99
Hordaland	80	94	44
Other	2	19	16
Total	**513**	**427**	**322**

	Total commitment amount		**Individual write-downs**
2013	**Doubtful**	**In default**	
Rogaland	261	186	165
Agder	105	92	88
Hordaland	70	524	170
Other	3	28	23
Total	**439**	**830**	**446**

Write-downs on loans

Table 24: Reconciliation of changes in changes in value and write-downs respectively for commitments with impairment (amounts in NOK million)

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

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 provisions for losses, guarantees	1		-1	0
Total	**756**	**294**	**286**	**748**

Exposure of portfolios in which the IRB approach is used

Table 25: Distribution by risk classes in which the IRB approach is used (amounts in NOK million)

2014 Commitment category	Default class	Total EAD	Total unutilised facility	Average risk weight	Average loss given default	Average conversion factor
SME enterprises						
	A	0	0	0,0 %	0,0 %	0,0 %
	B	565	313	41,3 %	45,0 %	85,1 %
	C	3 694	1 302	56,0 %	45,0 %	89,6 %
	D	5 674	1 667	70,1 %	45,0 %	91,1 %
	E	1 724	190	78,1 %	45,0 %	96,5 %
	F	5 799	1 372	101,3 %	45,0 %	92,7 %
	G	5 490	1 807	117,6 %	45,0 %	90,1 %
	H	398	28	172,6 %	45,0 %	97,7 %
	I	632	158	181,7 %	45,0 %	92,3 %
	J	6	2	0,0 %	45,0 %	90,0 %
	K	200	31	0,0 %	45,0 %	95,1 %
Total SME enterprises		**24 181**	**6 871**	**90,1 %**		**91,4 %**
Specialised enterprises						
	A	445	11	17,3 %	23,6 %	99,9 %
	B	620	88	41,7 %	40,2 %	96,3 %
	C	4 207	1 421	58,3 %	42,5 %	90,2 %
	D	7 701	1 103	65,7 %	44,8 %	95,5 %
	E	3 966	691	72,6 %	41,0 %	94,6 %
	F	10 151	1 001	90,8 %	43,9 %	96,8 %
	G	8 556	1 185	108,2 %	43,5 %	95,6 %
	H	891	98	120,7 %	35,7 %	96,6 %
	I	1 314	50	164,2 %	42,4 %	98,8 %
	J	50	0	42,3 %	32,9 %	100,0 %
	K	425	7	53,5 %	45,3 %	99,4 %
Total specialised enterprises		**38 327**	**5 655**	**85,3 %**		**95,4 %**
Other enterprises						

	A	46	0	16,7 %	0,0 %	0,0 %
	B	45	0	23,6 %	0,0 %	100,0 %
	C	1 715	1 122	65,2 %	39,7 %	82,1 %
	D	2 742	1 115	79,2 %	24,2 %	88,1 %
	E	531	340	87,7 %	40,2 %	82,7 %
	F	2 232	717	121,7 %	26,9 %	90,3 %
	G	1 569	445	135,4 %	21,5 %	91,4 %
	H	86	0	112,1 %	0,0 %	100,0 %
	I	51	0	154,9 %	0,0 %	100,0 %
	J	0	0	0,0 %	0,0 %	0,0 %
	K	0	0	0,0 %	0,0 %	0,0 %
Total other enterprises		**9 018**	**3 738**	**97,5 %**		**87,9 %**
SME mass market with mortgage on real estate	A	450	256	4,4 %	19,6 %	99,9 %
	B	1 952	409	7,5 %	19,9 %	99,9 %
	C	1 486	107	13,8 %	21,3 %	100,0 %
	D	646	17	21,6 %	22,6 %	100,0 %
	E	664	13	32,1 %	24,8 %	99,9 %
	F	240	3	37,9 %	21,1 %	100,0 %
	G	137	2	77,3 %	27,9 %	99,8 %
	H	73	1	86,6 %	20,3 %	99,9 %
	I	136	1	118,6 %	20,6 %	100,0 %
	J	2	0	0,0 %	16,6 %	100,0 %
	K	15	0	0,0 %	72,8 %	100,0 %
Total SME mass market, real estate		**5 801**	**809**	**19,7 %**		**99,9 %**
Mass market with mortgage on real estate	A	7 810	3 203	4,1 %	18,3 %	100,0 %
	B	35 940	6 138	7,1 %	19,3 %	100,0 %
	C	32 587	902	13,0 %	19,8 %	100,0 %
	D	18 791	171	19,7 %	20,7 %	100,0 %
	E	13 245	80	26,6 %	20,9 %	100,0 %
	F	5 750	39	39,0 %	21,2 %	100,0 %
	G	2 010	13	58,6 %	20,4 %	100,0 %
	H	1 324	3	83,6 %	20,4 %	100,0 %
	I	1 396	6	126,7 %	22,1 %	100,0 %
	J	166	0	5,9 %	25,3 %	100,0 %
	K	144	12	3,0 %	22,6 %	100,0 %
Total mass market, real estate		**119 163**	**10 567**	**17,3 %**		**100,0 %**
Other mass market	A	71	38	11,5 %	48,8 %	99,2 %
	B	374	99	18,2 %	48,3 %	99,7 %
	C	334	87	31,1 %	48,8 %	99,6 %
	D	300	84	41,1 %	48,7 %	99,7 %
	E	263	34	52,9 %	49,0 %	99,8 %
	F	226	12	65,7 %	50,2 %	99,8 %
	G	191	4	73,9 %	49,1 %	99,9 %
	H	49	1	81,0 %	50,4 %	99,6 %
	I	56	4	114,6 %	49,1 %	99,7 %
	J	3	0	149,9 %	39,1 %	98,9 %
	K	26	0	17,6 %	85,3 %	100,0 %
Total other mass market		**1 893**	**364**	**44,7 %**		**99,7 %**

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 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 %**

Internal and regulatory model parameter differences

SpareBank 1 SR-Bank uses the same systems and models for internal and regulatory calculations of risk exposure and capital requirements. However, there are some minor differences in model parameters, which provide different estimates for PD, EAD and LGD. The main difference is due to the fact that regulatory estimates for some parameters require significantly higher safety margins compared to what internal analyses and soundness ratings indicate.

Differences between internal and regulatory risk parameters are listed in the table below.

Table 26: Internal vs. regulatory risk parameters

	Calibration level (unweighted)	Conversion factor	Estimate for loss given default*
Mass market with mortgage on real estate	**PD**	**EAD**	**LGD**
Internal	0.70 %	100 %	5.9 %
Regulatory	1.09 %	100 %	19.9 %

	Calibration level (unweighted)	Conversion factor	Estimate for loss given default*
Other mass market	**PD**	**EAD**	**LGD**
Internal	2.80 %	100 %	56.6 %
Regulatory	3.63 %	100 %	50.1 %

	Calibration level (unweighted)	Conversion factor	Estimate for loss given default**
Enterprises	**PD**	**EAD**	**LGD**
Internal	3.16 %	Separate model (60-90 %)	22.0 %
Regulatory	3.16 %	75 %	45.0 %

* In 2015 SpareBank 1 SR-Bank will implement a new model to estimate LGD for the mass market.

** In 2015 advanced IRB will be implemented in SpareBank 1 SR-Bank. After the implementation the internal and regulatory estimates for LGD will be identical. The estimates will however be somewhat different from the internal estimates in 2014.

Other tables in this chapter show regulatory estimates.

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 tables below show the average estimated and actual default for the portfolio for 2014 and for the period from 2006 to 2014. 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 27: IRB default level – PD (unweighted)

Portfolio	Predicted 2014	Observed 2014	Predicted 2006-2014	Observed 2006-2014
Mass market with mortgage on real estate	0.99 %	0.24 %	0.98 %	0.35 %
Other mass market	3.01 %	1.53 %	3.65 %	2.01 %
Enterprises	3.19 %	2.15 %	3.12 %	2.17 %

Default is estimated based on long-term outcomes through a full cycle of loss.

Table 28: IRB default level – PD per default class (unweighted)

Mass market with mortgage on real estate	Predicted 2014	Observed 2014	Predicted 2006-2014	Observed 2006-2014
A	0.00 %	0.00 %	0.00 %	0.00 %
B	0.21 %	0.01 %	0.21 %	0.02 %
C	0.36 %	0.03 %	0.36 %	0.07 %
D	0.62 %	0.07 %	0.62 %	0.14 %
E	0.96 %	0.10 %	0.96 %	0.27 %
F	1.66 %	0.41 %	1.68 %	0.63 %
G	3.44 %	0.58 %	3.45 %	1.46 %
H	7.01 %	2.20 %	7.03 %	3.05 %
I	23.00 %	9.18 %	21.67 %	10.30 %

Other mass market	Predicted 2014	Observed 2014	Predicted 2006-2014	Observed 2006-2014
A	0.00 %	0.00 %	0.00 %	0.00 %
B	0.00 %	0.00 %	0.00 %	0.00 %
C	0.41 %	0.00 %	0.24 %	0.03 %
D	0.61 %	0.00 %	0.41 %	0.08 %
E	0.96 %	0.22 %	0.62 %	0.28 %
F	1.74 %	0.49 %	0.97 %	0.79 %
G	3.47 %	1.26 %	1.78 %	1.92 %
H	6.78 %	4.07 %	3.50 %	3.80 %
I	23.60 %	12.90 %	6.93 %	13.60 %

Enterprises	Predicted 2014	Observed 2014	Predicted 2006-2014	Observed 2006-2014
A	0.00 %	0.00 %	0.00 %	0.00 %
B	0.00 %	0.00 %	0.00 %	0.00 %
B	0.21 %	0.00 %	0.21 %	0.04 %
C	0.37 %	0.00 %	0.37 %	0.26 %
D	0.59 %	0.27 %	0.59 %	0.52 %
E	0.87 %	0.52 %	0.87 %	0.88 %
F	1.87 %	0.70 %	1.88 %	1.33 %
G	3.42 %	2.93 %	3.42 %	2.68 %
H	9.35 %	7.14 %	9.35 %	5.27 %
I	20.10 %	15.60 %	19.27 %	13.00 %

Weighted IRB default level is defined as the total commitment that has been or is in default compared to the total exposure (EAD). Weighted default thus takes into account the size of the loan commitment. The table below shows the average estimated and actual weighted default for the portfolio for 2014 and for the period from 2006 to 2014.

Table 29: IRB default level – PD (EAD-weighted)

Portfolio	Predicted 2014	Observed 2014	Predicted 2006-2014	Observed 2006-2014
Mass market with mortgage on real estate	1.15 %	0.38 %	1.17 %	0.47 %
Other mass market	3.38 %	1.22 %	3.60 %	1.50 %
Enterprises	2.37 %	1.74 %	2.58 %	2.01 %

Table 30 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. SpareBank 1 SR-Bank is permitted to calculate loss given default using the IRB-advanced approach from 2015.

The loss data period applies to the period from 2006 to 2013. 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 different economic cycles.

Table 30: IRB LGD for defaulted loans (unweighted)

Portfolio	Predicted 2013	Observed 2013	Predicted 2006-2013	Observed 2006-2013
Mass market with mortgage on real estate	11.3 %	6.3 %	11.9 %	3.3 %
Other mass market	10.0 %	0.0 %	18.5 %	9.0 %
Enterprises	45.0 %	28.0 %	45.0 %	23.5 %

Expected losses describe the loss the group can statistically expect to lose on the loan portfolio during a 12-month period (long-term outcome). The table below shows the average estimated and actual net recognised losses for mass market and enterprises for 2014 and the period from 2006 to 2014.

Table 31: IRB expected losses (EL) compared to actual net recognized losses

Portfolio	**Predicted 2014**	**Observed 2014**	**Predicted 2009-2014**	**Observed 2009-2014**
Mass market in total	0,04 %	0,01 %	0,05 %	0,01 %
Enterprises	0,40 %	0,25 %	0,50 %	0,30 %

Total commitment amount and share secured by mortgage (IRB)

Table 32: Total commitment amount (in NOK million) and percentage secured by mortgage, broken down by commitment categories (IRB)

	2014		2013	
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	119 170	95 %	111 214	95 %
Mass market – SME	5 804	93 %	5 651	88 %
Mass market – other	1 898	3 % 2)	1 923	4 % 2)
Total	**126 872**		118 788	

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.

SpareBank 1 SR-Bank has no pledged 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 33: The actual changes in value for the individual commitment category and development from previous periods (IRB)

Amounts in NOK million	Value 31/12/2014	Change in value in 2014 (%)	Value 31/12/2013	Change in value in 2013 (%)
Mass market commitments	**126 872**	**6.8 %**	118 788	5.3 %
- of which mass market SME	**5 804**	**2.7 %**	5 651	7.1 %
- of which commitments with mortgage on real estate	**119 170**	**7.2 %**	111 214	5.5 %
- of which other mass market commitments	**1 898**	**-1.3 %**	1 923	-7.9 %
Specialist lending	**40 193**	**18.1 %**	34 037	0.3 %
SME enterprises *	**26 459**	**7.5 %**		
Other enterprises	**10 264**		34 153	5.4 %
Total	**203 788**	**9.0 %**	**186 978**	**4.4 %**

Amounts in NOK million	Value 31/12/2012	Change in value in 2012 (%)	Value 31/12/2011
Mass market commitments	112 773	9.7 %	102 777
- of which mass market SME	5 276	6.4 %	4 959
- of which commitments with mortgage on real estate	105 409	10.7 %	95 239
- of which other mass market commitments	2 088	-19.0 %	2 579
Specialist lending	33 939	16.2 %	29 215
SME enterprises *			
Other enterprises	32 418	7.5 %	30 151
Total	**179 130**	**10,5 %**	**162 143**

Market risk

Risk weighted assets – market risk

Table 34: Minimum regulatory capital requirements for market risk, including position risk, counterparty risk, settlement risk, currency risk and commodities risk (amounts in NOK million)

	Consolidated 31/12/2014	Consolidated 31/12/2013
Position risk	**6 218**	4 601
– Of which equity instruments	**598**	675
– Of which equity instruments, excluding IRB	**3 642**	1 838
– Of which commercial paper and bonds at fair value	**1 978**	1 600
– Of which commercial paper and bonds at amortised cost	**0**	488
Counterparty risk (derivatives in trading portfolio)	**3 227**	1 837
Currency risk	**0**	0
Total	**9 445**	6 438

Market risk – portfolio information – long term investments

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

	Investments	**31/12/2014**	31/12/2013
Financial investments at fair value through profit and loss	Progressus	10	12
	Hitec Vision Private Equity IV LP	19	25
	HitecVision Asset Solution LP	25	26
	Energy Ventures III AS	10	10
	SR-PE-Feeder III KS	16	8
	Other financial investments	69	71
Total financial investments at fair value through profit and loss		**149**	152
Strategic investments at fair value through profit and loss	Nordito Property	2	2
	Nets Holding	0	352
	Bank 1 Oslo Akershus	137	119
Total strategic investments at fair value through profit and loss		**139**	473
Strategic investments available for sale	Other strategic investments	3	7
Total		**291**	632

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

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

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

2013	Book value	Fair value	Total realised gains or losses	Unrealised gains or losses	Amount included in core capital or supplementary capital
Financial investments at fair value through profit and loss	152	152	25	-16	0
Strategic investments at fair value through profit and loss	473	473	0	24	162
Strategic investments available for sale	7	7	1	0	0
Total	**632**	**632**	**26**	**8**	**162**

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

Amounts in NOK million	**Value 2014**	Value 2013
Unlisted	**288**	625
Traded on an exchange	**0**	0
Other	**3**	7
Total	**291**	632

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

Amounts in NOK million	**Nominal value**	**Risk weighted assets 2014 1)**	Risk weighted assets 2013 1)
Interest rate and currency instruments	204 899	3 227	1 138
Credit value adjustment risk (CVA)		1 127	
Total financial derivatives	**204 899**	**4 354**	1 138

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

Table 39: The effect on earnings of a positive parallel shift in the yield curve of one percentage point at the end of the last two years if all financial instruments were measured at fair value (amounts in NOK million)

	31/12/2014	31/12/2013
Certificates and bonds	**-20**	-28
Fixed-rate loans to customers	**-13**	-15
Other loans and deposits	**-79**	-57
Debt due to issue of securities	**92**	104
Other	**2**	-1
Total interest-rate risk	**-18**	2
Maturity		
0 - 3 months	**-25**	-7
3 - 6 months	**-10**	4
6 - 9 months	**6**	3
9 - 12 months	**7**	9
12 - 18 months	**3**	2
18 - 24 months	**6**	-2
2 - 10 yr	**-6**	-6
10 yr +	**1**	0
Total interest-rate risk	**-18**	2
Currency		
NOK	**-14**	-4
EUR	**-1**	9
USD	**-8**	-3
CHF	**6**	1
Other	**-1**	-1
Total interest-rate risk	**-18**	2

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 percentage point change in interest rates totals NOK 95 million with NOK 30 million of the total balance in Trading and NOK 65 million of the total balance in Treasury.

Operational risk

Risk weighted assets – operational risk

Table 40: Minimum regulatory capital requirements for operational risk according to the standardised approach (amounts in NOK million)*

31/12/2014	**Consolidated**	**Boligkreditt**	**Næringskreditt**	**BN Bank**
Banking services for mass market customers	3 398			
Banking services for corporate customers	2 533			
Payment and settlement services	-83			
Proportion of operational risk consolidated company	372	95	25	252
Total	**6 220**	**95**	**25**	**252**

31/12/2013	**Consolidated**	**Boligkreditt**	**Næringskreditt**	**BN Bank**
Banking services for mass market customers	3 262			
Banking services for corporate customers	2 525			
Payment and settlement services	-401			
Proportion of operational risk consolidated company	327	91	19	217
Total	**5 713**	**91**	**19**	**217**

The risk-weighted balance sheet for operational risk is calculated as a percentage of average earnings for each business unit for the last three years. Banking services for the mass market 12 %, banking services for the corporate market 15 % and for other services 18 %.

* The SpareBank 1 SR-Bank group uses the standardised method. Other companies use the basis method.

RENUMERATION SCHEME

SpareBank 1 SR-Bank ASA's remuneration policy

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

The group's remuneration scheme shall:

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

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

Decision process

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

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

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

Guidelines for the coming financial year:

Chief executive's remuneration

The chief executive's salary and other financial benefits shall be fixed annually by the board based on the recommendation of the Remuneration Committee. The chief executive's variable remuneration is fixed on the basis of a comprehensive assessment based on individual performance and development in similar positions. Variable compensation can be earned annually, but must be based on goals achieved in the last two years. The chief executive can receive 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 chief executive may also receive benefits in kind to the extent that the benefits are naturally related to the chief executive's function in the group and are in line with market practice in general. A life-long pension scheme has been entered into for the chief executive with the pensionable age being the end of the year in which the chief executive reaches the age of 64 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 chief executive will receive a supplementary retirement pension which, together with the SpareBank 1 SR-Bank's pension fund, pension from the National Insurance Scheme and statutory early retirement pension (AFP) will constitute 67 per cent of pensionable pay, assuming full earning period.

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

Remuneration of other executive personnel

The chief executive fixes the remuneration of executive personnel in accordance with the Remuneration Committee. The adopted remuneration scheme is decided by the board. 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 Organisation 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 with control functions cannot receive variable remuneration beyond group bonuses.

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

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

Group bonus
The group has a bonus scheme 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 group's financial performance. The group bonus is paid entirely in cash.

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

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

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

Report on executive pay policy in the preceding financial year

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

Table 41: Disclosure of remuneration

Disclosure of remuneration	Number	Remuneration	Of which variable remuneration
Key executives: CEO, members of the group management team	10	24 277	3 639
Employees and elected representatives with duties of significant importance to the enterprise's risk exposure	9	15 115	2 236
Other key executives	8	18 100	6 660
Employees with control functions	11	12 602	1 165

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