ANNUAL REPORT 2016

The impossible is solved by incredible people

HAND IN HAND WITH THE INCREDIBLE

SpareBank 1 SR-BANK

Our aim is to stimulate growth and development in the region.

	Rogaland	Hordaland	Aust-Agder and Vest-Agder
Population	470,000	516,000	298,000
Market shares	36%	6%	8%
Established	1839	2006	2002
Market strategy	Market leader	Growth market	Growth market

*Figures as at 31 December 2016

Source: Statistics Norway and SpareBank 1 SR-Bank

It takes incredible people to create the impossible

Progress is IMPOSSIBLE without change, and those who cannot change their minds cannot change anything. The right attitude and belief that the sum of each action means something helps to create AMAZING results.

INCREDIBLE people never give up.
They always test and challenge the known and the unknown in order to create the IMPOSSIBLE.
It is only when they stop trying that they fail.

Hand in hand with the INCREDIBLE.

«The impossible», Gunnar Roalkvam

Contents

Highlights

(Figures in NOK millions)	2016	2015
Net interest income	**2,871**	2,593
Net commissions and other operating income	**1,443**	1,532
Net income from financial investments	**654**	304
Total operating costs before impairment losses on loans	**2,032**	1,863
Operating profit before impairment losses on loans	**2,936**	2,566
Impairment losses on loans and guarantees	**778**	420
Pre-tax profit	**2,158**	2,146

Key figures

	2016	2015
Profitability		
Return on equity %	**10.0**	10.8
Cost/income ratio	**40.9**	42.1
Average interest margin %	**1.48**	1.42
Balance sheet figures		
Gross loans to customers	**157,638**	155,190
Gross loans to customers, incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	**182,332**	183,896
Deposits from customers	**85,914**	89,444
Lending growth, incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	**-0.9%**	5.4%
Deposit growth	**-3.9%**	9.8%
Total assets 31 Dec	**193,408**	192,049
Financial strength		
Common equity tier 1 capital ratio %	**14.7**	13.3
Tier 1 capital ratio %	**15.6**	14.2
Capital ratio %	**17.5**	16.7
Leverage ratio %	**7.3**	6.3
Tier 1 capital	**18,227**	16,882
Liquidity		
Liquidity coverage ratio (LCR) %	**174**	128
Branches and staffing		
No. of full-time equivalents, incl. temps	**1,172**	1,190
No. of branches	**36**	49
The SpareBank 1 SR-Bank share		
Market price at year end	**60.75**	39.30
Earnings per share	**6.87**	6.83
Dividend per share	**2.25**	1.50
Effective yield on share %	**58.4**	-21.3

Please also refer to the complete review of key figures and definitions on pages 20 and 130.

GROUP PRE-TAX PROFIT:

2,158

NOK million (2,146 million)

NET INTEREST INCOME:

2,871

NOK million (2,593 million)

RETURN ON EQUITY AFTER TAX:

10.0

% (10.8%)

NET COMMISSIONS AND OTHER OPERATING INCOME:

1,443

NOK million (1,532 million)

GROWTH IN LENDING, GROSS LAST 12 MONTHS, INCL. SB1 BOLIGKREDITT AND SB1 NÆRINGSKREDITT:

-0.9

% (5.4%)

IMPAIRMENTS AS % OF GROSS LOANS, INCL. SB1 BOLIGKREDITT AND SB1 NÆRINGSKREDITT:

0.42

% (0.23%)

GROWTH IN DEPOSITS OVER THE LAST 12 MONTHS:

-3.9

% (9.8%)

COMMON EQUITY TIER 1 CAPITAL RATIO:

14.7

% (13.3%)

(Previous year's figures in brackets)

Willing and able to adapt to a new era

A demanding year is now behind us. Together with the region, we have emerged on the other side of 2016 stronger. Many companies have managed to reduce their costs, and so did we. We have thus maintained the profitability necessary. Our result for the year confirms this.

In my summary of 2015 I reflected on the question of how we can renew ourselves and use our expertise and technology to develop new and better solutions.

My answer was, put simply, that tomorrow's winners will be the companies that are dynamic and adapt to changing times, seize opportunities, and are financially robust. This is precisely what we have seen clear signs of in 2016. Rogaland, which was hardest hit by low oil prices in 2016, saw a 5.5% increase in the number of patent applications in 2016 compared with 2015. This places Rogaland above almost all the counties in Norway, beaten only by Oslo. At the same time, we saw a good increase in the number of new companies starting up in the region compared with 2015. A total of 14,340 new companies were established in the four counties that make up our market area, according to figures from Statistics Norway.

A complex macro picture

The year just finished was a demanding one for many companies, families and individuals in our region. Nevertheless, the picture is a complex one. Relatively large differences exist between the four counties and between the various industries and sectors. Companies with a large proportion of exports had a good year in 2016, helped by a weak Norwegian krone. While, companies that are heavily dependent on oil and gas have been through demanding processes. At year-end 2016, there was considerably more optimism around than there was at the start of the year. The main index, which we measure in our business survey of economic activity, was at 54% compared with 47% at the start of 2016.

Technological changes and greater efficiency

Things are moving very fast with respect to the use of new technology. Our customers are contacting us via the various digital channels more and more often. We have never had as many points of contact with our customers as we did in 2016. In the year just ended, our customers have, on average, contacted us more than three million times a month, mainly via our digital channels. This represents an increase of 20% compared with 2015. In the same period, we saw the number of digital housing views increase by more than 30%. This is in spite of the fact that significantly fewer homes were put up for sale.

We also adopted new technology. We became one of the first financial institutions in the country to use robotised processes. The first processes we robotised were internal, manual and repetitive tasks that required many person-years of work. Following this, we became the first Norwegian bank to develop self-learning robot technology, which we use in a chat service linked to our customer service centre. The customer service centre dealt with an average of 55,000 enquiries every month in 2016.
An ever increasing proportion of these are made through our chat channel, which was manually serviced up to the end of 2016. New robotised technology now enables us to improve our accessibility to customers at the same time as we can reduce processing time into central parts of our value chain.

Local branches are still an important arena for meeting our customers. The number of visitors to our branches fell by more than 10% in 2016. At the same time, it is clear that the role branches play in advice processes is important, especially with respect to our younger home mortgage customers. The overall expertise in our branches has been improved in order to meet our customers' future expectations.

Strengthened tier 1 capital

In the last few years, we have strengthened the bank's capital ratio brick by brick. In the last year, we strengthened our common equity tier 1 capital ratio by 1.4 percentage points to 14.7%. We therefore satisfy the regulatory authorities' requirements. The bank's capital ratio was primarily attained through balanced, profitable growth, combined with a moderate

dividend rate. We are now in a position to play a more aggressive role in the market, at the same time as we can normalise the dividend rate going forward.

Outlook

The prevailing market conditions and continued low oil prices will continue to present challenges for some of our customers. Nevertheless, we are better equipped than ever before, both with respect to capable and motivated employees and with respect to good financial strength. The group's continuous adaptation to the changes taking place around us has also enabled us to provide more relevant services to our customers, regardless of the customer's choice of channel.

Arne Austreid
Chief Executive Officer

2016

January

The BUSINESS BAROMETER survey shows business and industry have low expectations for the year ahead.

ARNE AUSTREID presents SR-Bank's new foundation with our new purpose, vision and customer promises. During the month, Austreid travels the region to meet all of the group's employees.

February

SpareBank 1 SR-Bank launches **NEW WEB PAGES** with a new, user-friendly design. The pages are responsive and adapt to the customer's digital surface.

March

The county governor raises objections to the group's construction plans for the Financial Park in Bjergsted due to finds of an endangered species of moss, **WATER SCREW-MOSS**. The elm trees hosting the endangered species of moss are moved to Rudlå Park in March. The story gains both local and national media coverage.

April

The bank introduces a **NEW CRM SYSTEM**, which will ensure faster responses to customer enquiries.

SpareBank 1 SR-Bank establishes a dedicated **mCASH TEAM**. The goal is to increase the number of mCASH merchants and users.

mCASH fra SpareBank 1

The corporate market division establishes a new customer team for the smallest corporate customers: **CM DIGITAL**.

May

SpareBank 1 SR-Bank celebrates its **10TH ANNIVERSARY** in Bergen.

June

Kristian Siem announces at SpareBank 1 SR-Bank's Petro Finance Conference that he wants to **RESTRUCTURE THE NORWEGIAN OFFSHORE INDUSTRY**. Siem launches a new NOK 2 billion fund in cooperation with Elliott, an American hedge fund.

DAG MEJDELL becomes the new chair of the board of SpareBank 1 SR-Bank. Mejdell is best known for being the chief executive of Posten Norge AS for the last few decades.

THE SR-BANK SHARE
Start of year, 4 January 2016:
NOK 38.70

Gross loans

More than NOK 182 billion

Digital bank

3 million visits per month

Customer service centre

55,000 visits per month

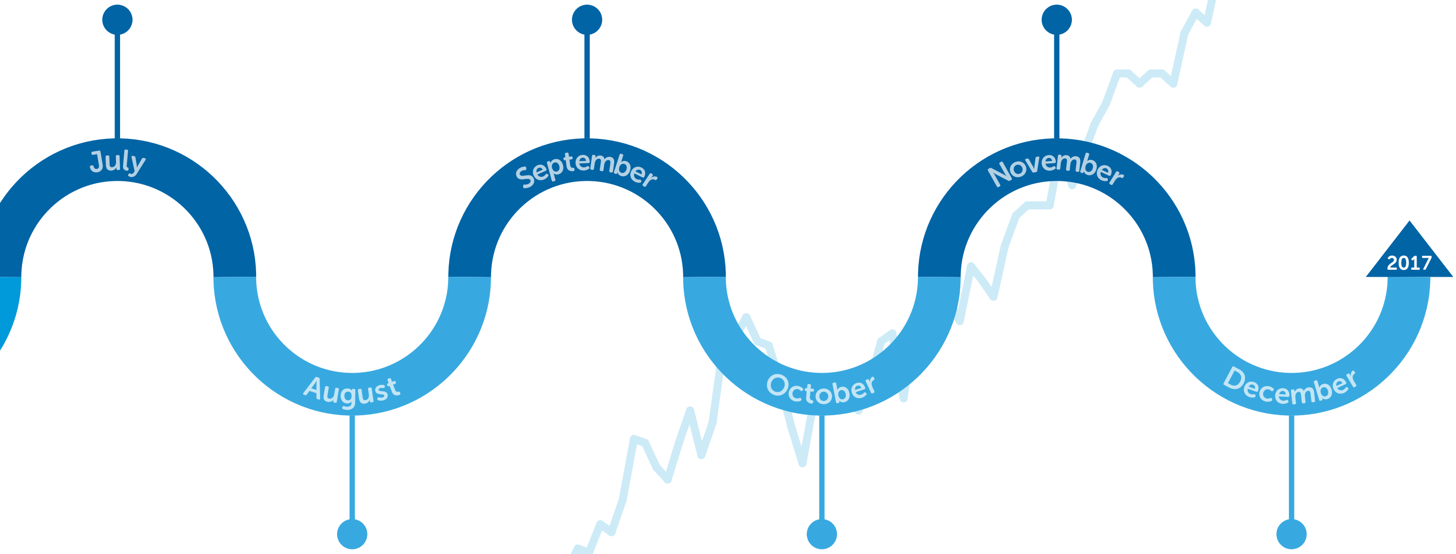
FOUR AMBITIOUS STUDENTS spend the quiet summer months doing internships in the corporate market division. The students produce a 70-page report on the competition picture the bank faces.

SpareBank 1 SR-Bank decides to close 11 branches. This signals a clearer focus on fewer and **LARGER BRANCHES WITH STRONG SPECIALIST ENVIRONMENTS** that can provide customers with even better advice when needed.

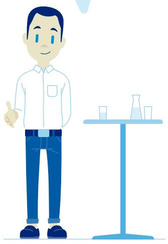
The Business Barometer for September 2016 shows that companies in Rogaland, Hordaland and Agder see **CLEAR SIGNS OF IMPROVEMENT**. After two tough years and demanding restructuring, the positive signals are stronger than they have been for a long time.

Groundbreaking ceremony on the site where the **FINANCIAL PARK BJERGSTED** will be built. Block Berge Bygg is the turnkey contractor and 85% of the work will be performed by local partners.

THE SR-BANK SHARE
End of year, 30 December 2016:
NOK 60.75



The boards of SpareBank 1 SR-Bank ASA and a subsidiary, SpareBank 1 SR-Finans AS, sign a **JOINT MERGER PLAN**. The merger comes into effect on 1 January 2017.



Red-letter day: 1 October 2016 marks the **40TH ANNIVERSARY** of 22 savings banks merging to form Sparebanken Rogaland (SR-Bank).

SpareBank 1 SR-Bank announces that a robot, a **DIGITAL CUSTOMER HOST WITH ARTIFICIAL INTELLIGENCE**, will answer customer service questions on SR-Bank.no.

Branch visits

90,000 visits per month

Savings and management

More than NOK 18 billion

Digital housing views

2.4 million

SpareBank 1 SR-Bank ASA

– Strategic and financial goals

SpareBank 1 SR-Bank aims to be an aggressive financial group capable of defending and increasing its market shares in Rogaland, Hordaland, and Agder, in both the retail and corporate markets.

The group

SpareBank 1 SR-Bank is the leading financial group in Southern and Western Norway. Our market area is Rogaland, Hordaland and the Agder counties. The group is a fully-fledged financial services group offering traditional banking services such as loans, insurance and savings products, as well as securities trading, accounting services and estate agency services for both retail and corporate customers.

As at 31 December 2016, SpareBank 1 SR-Bank had more than 300,000 customers and gross lending of more than NOK 182 billion. Mobile bank customers visit it on average five times a week and no less than 80% of individual sales of funds are made via digital channels. The group has 36 branches in its market area. The self-service channels and the fact that customers can meet us in person at branches or contact us on the phone, via chat and on Facebook mean that the group is always available to the customer. Customer relationships are built up through both digital and physical meetings that become full conversations across the channels.

SpareBank 1 SR-Bank's competitive advantage is that while we are a big commercial bank, we also have historic roots in many local savings banks in the region.
2016 was the 40th anniversary of Sparebanken Rogaland's establishment as SR-Bank, an amalgamation of 22 local savings banks. The combination of knowledge and understanding the staff possess of the market area and the opportunity SpareBank 1 SR-Bank has as a limited liability savings bank to bring capital to the region is unique. Because we are a regional savings bank, the group has short decision-making chains and knows our market area better than most. SpareBank 1 SR-Bank is therefore closer to the people and businesses in our region than other banks.

Financial goals for 2017:

Return on equity:	11%
Common equity tier 1 capital ratio:	15% by end of 2017

As a part of the SpareBank 1 Alliance, a bank and product alliance between independent, locally based Norwegian banks, the group also benefits from economies of scale within, for example, IT development.
Together with the other SpareBank 1 banks, the group has established a joint customer service centre that serves customers via the phone and chat until 24:00 at night, 365 days a year.

SpareBank 1 SR-Bank's largest owner is Sparebankstiftelsen SR-Bank. The group was converted from an equity certificate bank to a public limited company ('limited liability savings bank') with effect from 1 January 2012. The Sparebankstiftelsen SR-Bank foundation was established at the same time. The purpose of the foundation is to manage the shares it received upon its formation and to exercise and maintain a substantial, long-term and stable ownership interest in SpareBank 1 SR-Bank ASA. The foundation can distribute the surplus just as savings banks have traditionally done and donates to non-profit projects in the group's market area.

Capital

SpareBank 1 SR-Bank's goal is to produce financial results that provide a good, stable return on equity and a competitive return in the form of dividends and a higher SRBANK share price for the owners. The return on equity and cost/income ratio must be in the upper half of a Nordic benchmark.

The current requirements indicate that the group must have common equity tier 1 capital of 15% by the end of 2017.

Profitable customer growth
The group aims to stimulate growth and development in the region. The group is entering a new era and can now contribute even greater financial power than was possible when we were building up our common equity tier 1 capital.
SpareBank 1 SR-Bank will focus on customer growth in 2017, but that growth will not be achieved at the expense of profitability.

Clear requirements are set for lending in the corporate market. The companies that receive financing must have a long-term perspective and the group must know the owners and management of the company well. Financing linked to shipping and offshore is managed by a central specialist environment.

SpareBank 1 SR-Bank creates value by assuming recognised and acceptable risks. The group therefore invests significant resources in developing risk management systems, processes and skills in line with leading international practice.

Improving efficiency
A digital customer host will be able to answer customers on www.sr-bank.no from January 2017. This means the bank will be able to provide customer services 24 hours a day. This is the group's second generation robot. The entry of robots into the world of finance is the single largest technological change the industry has ever experienced. It will change the way we work in the group. It is a fact that customers are visiting branches less often due to digitalisation. The group therefore closed thirteen branches in 2016 and, at the same time, reinforced staffing and expertise in the other branches. Digitalisation and robotisation are two important driving forces behind continuous efficiency improvements in the group.

Customers

SpareBank 1 SR-Bank's vision is to be the customers' first choice in Southern and Western Norway. The group needs to build stronger customer relationships and offer comprehensive customer services to achieve this. The group must use customer data in a way that makes it easy to be a customer and take relevant initiatives in relation to customers. This involves both simplifying the customer's everyday life and streamlining the bank's processes – in both cases with digitalisation as a clear driving force. Building stronger customer relationships involves combining the best from two worlds: artificial intelligence, through smart technology and robotisation, and emotional intelligence, through personal contact with professional staff.

Customers are setting ever higher requirements for user-friendly digital services. The group made changes in all of its business divisions at the beginning of 2017 in order to hone its efforts in digital surfaces. The goal is to increase digital sales going forward.

Culture and expertise

SpareBank 1 SR-Bank is continuously changing in order to rationalise, cut costs and adapt our organisational structure to the customers' behaviour. This will have an impact on employees' duties and the skills we will recruit in the future. In the next five years the group will recruit more mathematicians, engineers and technologists than economists.

Changes and new duties will require SpareBank 1 SR-Bank's employees to be very adaptable.
Each employee will have to be energetic and committed in order to understand the customers' needs and their new preferences. The foundation is intended to provide guidelines for everything the employees do in SpareBank 1 SR-Bank.

External factors that affect the business

- Digitalisation and personalised offer for each customer
- Customers expect seamless services
- Untraditional business models and the sharing economy
- Actors in other industries setting the standards and expectations for user experiences online
- Open mobile payment services
- Niche actors in the traditional banking market
- Development of oil prices and region's business and industry
- PSD2 – the EU's revised payments directive
- Capital requirements and regulations from the Financial Supervisory Authority of Norway

The return on equity and cost/income ratio must be in the upper half of a Nordic benchmark.

THE FOUNDATION

PURPOSE
Our aim is to stimulate growth and development in the region.

VISION
The customer's first choice in Southern and Western Norway

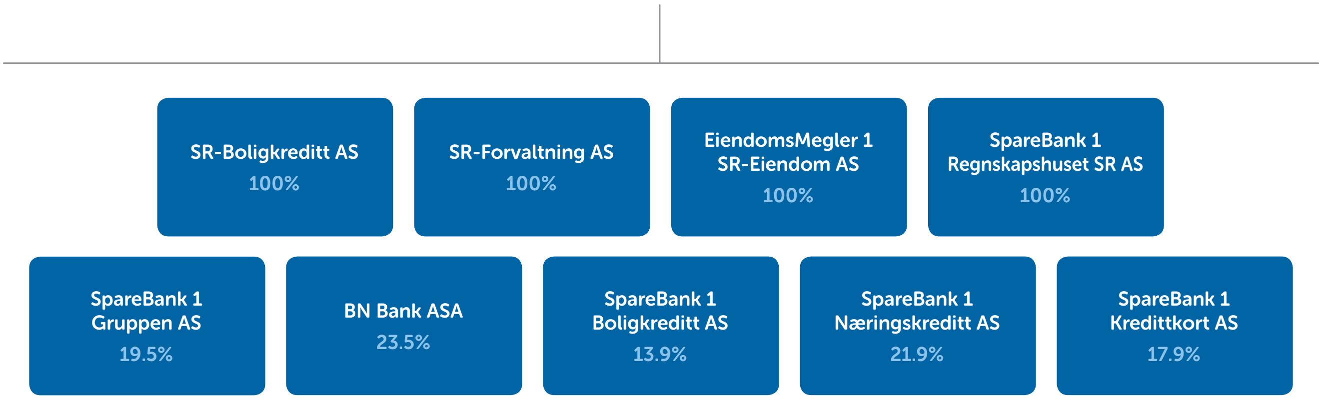
POSITION
Nearer to people and companies

CUSTOMER PROMISES
- Always available
- Understand the customer best
- It pays
- We are here – even in turbulent times

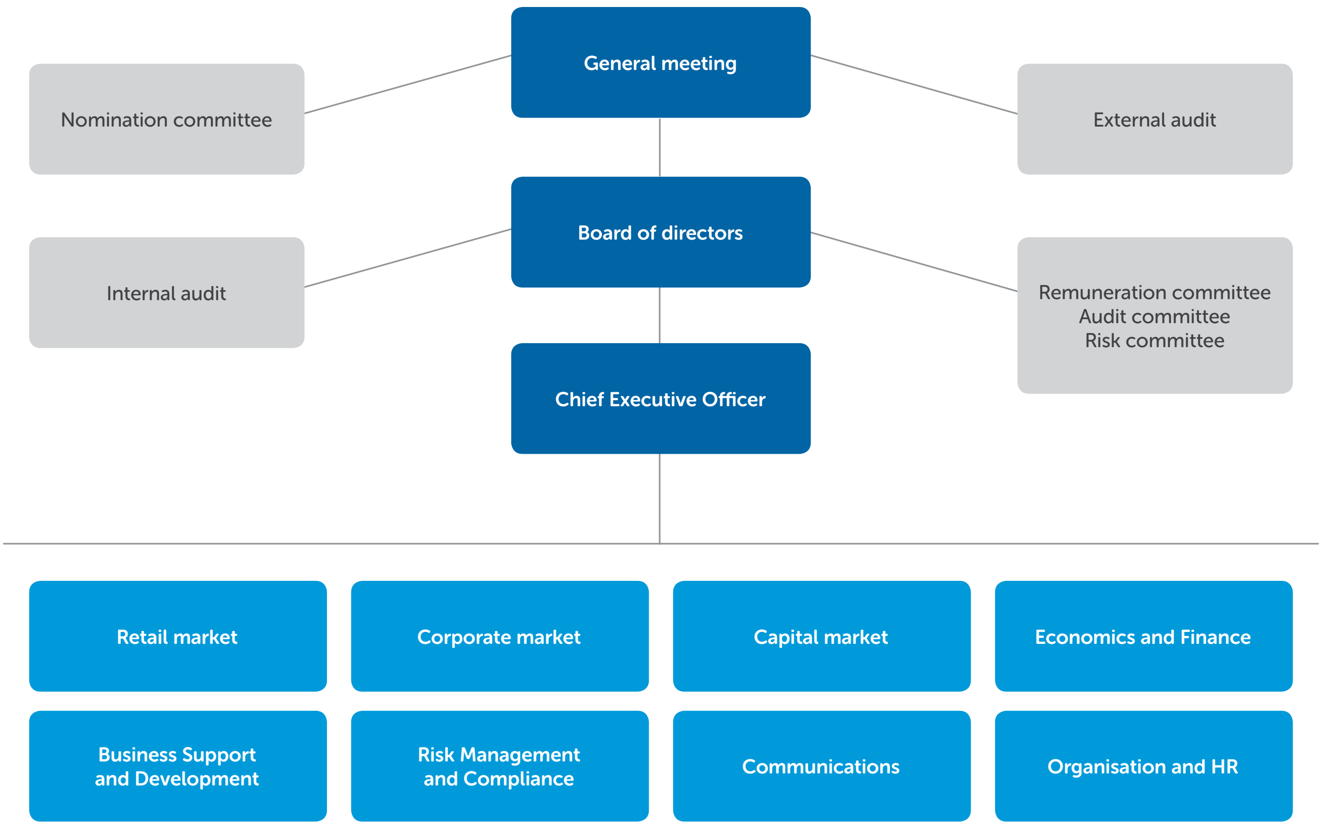
VALUES
- Prudence and respect
- Committed and efficient

SpareBank 1 SR-Bank Financial Group

SpareBank 1 SR-Bank ASA



Group structure

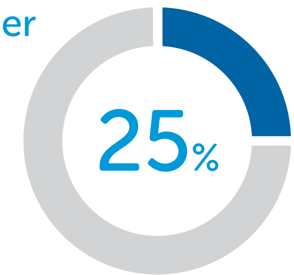


People and companies in Southern and Western Norway

– SpareBank 1 SR-Bank's market and customer base

Customer base

25% of Norway's population



SpareBank 1 SR-Bank is an important part of the social infrastructure in Southern and Western Norway. The region has been very fortunate as far as the "distribution" of resources is concerned. At the same time, it takes incredible people who know how to make the most of the opportunities afforded by these resources in order for them to be of value. Those people can be found here.

Figures from Statistics Norway show that 1,285,000 people live in the group's market area. Hordaland, Rogaland and the Agder counties have 655,000 people in work.
The same area has 125,000 registered businesses, 24,000 of which are companies with more than four employees. Rogaland is the group's core area and our ventures in our neighbouring counties, Agder to the south and Hordaland to the north, have produced good growth in market shares and profitability in just a few years.

Business and industry in the region

Business and industry in Southern and Western Norway is versatile and adaptable. The people here have a tradition of getting to grips with challenges and sorting them out rather than waiting for others solve their problems for them. Business and industry here has gained inspiration from outside the region over many decades by attracting international expertise and extensively trading with, and exporting to, the rest of the world. The region is also strategically well-positioned in terms of international communication, the Norwegian Continental Shelf and regional transport routes.

Employment in Rogaland

The Stavanger region has played a key role in the evolution of the oil and energy industry in Norway since oil was first found on the Norwegian Continental Shelf in 1969. Not only has this made the region prosperous, it has also attracted unique expertise and heavy hitters to our market area. Both Norway's largest oil company, Statoil, and most of the international operator companies have their Norwegian head offices in the Stavanger region. Around 20% of the labour force in Rogaland works in the oil industry. Government agencies such as Petoro, the Norwegian Petroleum Directorate, and the Norwegian Oil and Gas Association (NOG) have their headquarters in Stavanger, as does the Norwegian Oil Industry Association (OLF).

27% of the labour force in Rogaland works in the public sector, 12% in the wholesale and retail sector, and 7.5% in building and construction according to Statistics Norway. The county is one of the most important producers of meat, dairy products and vegetables in Norway. It is also home to a strong financial industry with SpareBank 1 SR-Bank, Hitec Vision and the SKAGEN Funds as the largest actors.
Major infrastructure projects are also taking place in the region that are helping to ensure good conditions for business and population growth.

New opportunities

Since the downturn in the oil sector started, there has been a heavy focus on restructuring and new business opportunities in the region. The number of patent applications from the county has risen by almost 40% since 2013, according to the Norwegian Industrial Property Office.
Ipark Inkubator, Innovation Dock, Creator and SpareBank 1 SR-Bank's own Gründerhus are all meeting and working places for entrepreneurs. These environments have quickly established themselves in the Stavanger region.
388 bankruptcy proceedings opened in Rogaland in 2016, an increase of 19%, while the net number of businesses in Rogaland rose by 800 in the same period. Nationwide, the number of bankruptcies increased by 2% in the same period.

Exports and tourism

Agder and Hordaland are home to some companies in the oil sector, but they also have a larger proportion of businesses and industries that is benefiting from a weak Norwegian krone exchange rate, such as the fishing industry, traditional exports and tourism. Value creation within tourism has increased throughout the group's market area in the last few years. In 2005, the tourism industry in the three counties of Vest Agder, Rogaland and Hordaland was worth NOK 7.6 billion. By 2013, this value creation had grown to NOK 13 billion, according to a report from the Ministry of Trade and Industry. A low Norwegian krone exchange rate resulted in more Norwegians and foreigners choosing to take their holidays in Norway in 2016.

Hordaland is the county in Norway with the most employees in aquaculture, which is Norway's second largest export industry. Statistics from the Norwegian Directorate of Fisheries show that Hordaland and Rogaland sold more than NOK 8.2 billion worth of fish in 2015. Our region also has lots of energy resources. A number of central actors in Norwegian energy production are based in Southern and Western Norway, where their proximity to Europe may mean significant growth opportunities for renewable energy production in the years ahead.

Oil prices affect the region

Oil prices have fluctuated dramatically in the last two years. As a consequence of this, petroleum activities fell in 2015 and 2016 after having achieved record levels in 2014. The Norwegian Petroleum Directorate is expecting a drop of around 10% in 2017, meaning the level of activity will thus be around 35% lower than it was 3 years ago. The downturn is expected to slow in 2017 and the outlook thereafter is reasonably stable. The operating costs associated with oil operations, which are important for economic activity in the region, are more stable than the investments. Two important projects that will be crucial for the level of oil activity in the region going forward involve extraction in the Johan Sverdrup and Edvard Grieg oil fields. Lundin Norway has adjusted its total estimated reserves upwards by 5 million barrels to 743.5 million barrels for the two oil fields.

Positive change of mood

From labour being in great demand and the labour market being tight, the region has experienced a significant change in mood. Housing prices in the Stavanger region have fallen, while other large urban regions of Norway have experienced price rises.
However, the group's half-yearly business survey, the Business Barometer, shows that companies are more optimistic now than they were before. More companies expect an upturn rather than a downturn in 2017 – the oil industry also shows a clear improvement in relation to earlier surveys. A majority of companies expect higher orders on hand, especially in industry and the wholesale and retail sector. The companies also expect profitability to improve. This shows that the companies' profitability improvement measures are expected to produce results.

Expectations concerning future market performance improved in the last few quarters, but some uncertainty still exists about the group's market area. Despite the recession, the region has seen moderate unemployment compared with what is common in other countries and it is expected to remain moderate going forward.

Customer base

SpareBank 1 SR-Bank's market area stretches from Grimstad in Aust-Agder to Åsane in Hordaland, although its gravitational centre and largest market share is in Rogaland. Around 25% of the population of Norway lives in this geographical region. The county has a young population and a relatively high number of births.
Around 30% of the population in our market area have taken higher education, 44% are educated to upper secondary school level, and 26% are educated to lower secondary school level.

In the last few decades, Rogaland has seen population growth of 16% and was among the counties with the highest growth rates in the period. Statistics Norway is forecasting population growth in the lead up to 2040 of 26% in Vest-Agder and Rogaland, 25% in Aust-Agder, and 23% in Hordaland. Statistics Norway has adjusted its growth forecast for Rogaland and Hordaland downwards slightly from a very high level in the previous forecast. This is due to the fact that many people moved away from Rogaland to other places in the country between 2013 and 2015. The net influx to Rogaland was 4,300 people in 2013 and had fallen to 700 in 2015. The relocations are probably being affected by the regional economic conditions and the downturn in the oil industry.

Norwegians' good access to the internet and interest in using it has changed most people's behavioural patterns. 90% of the population aged 16-79 does their banking digitally. Ten years ago this proportion was 64%. Almost 90% of the population also uses the internet to search for information about goods and services, shows the Norwegian Media Barometer survey.
85% of the adult population in Norway has a smartphone and 75% have access to a tablet.

«

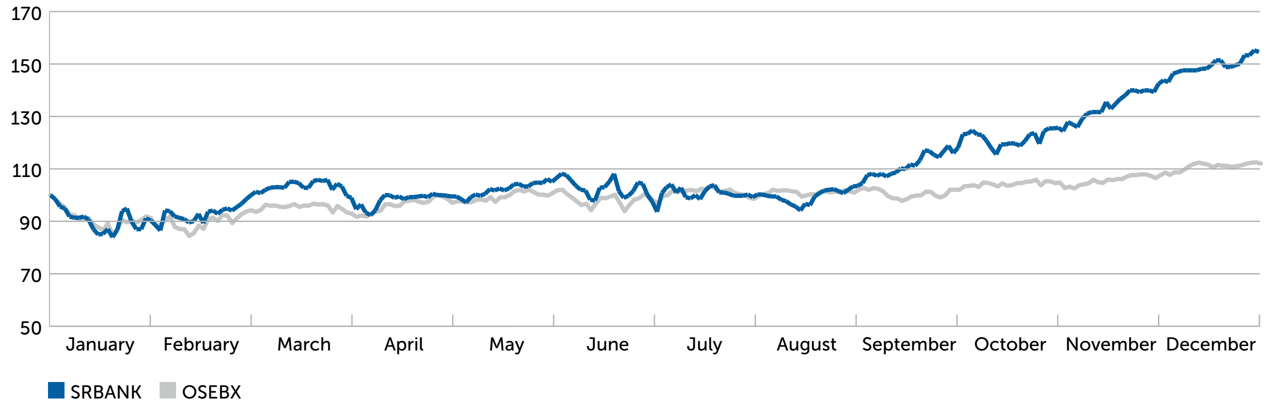
The region has shown that it is home to incredible, strong-willed people with the ability to do what might at first appear impossible.

Arne Austreid,
Chief executive officer


KRUSE SMITH
NAPRAPAT LANDSLAGET
Capgemini
SHOWROOM
BoligPartner
Petrolink
haver
KANALSLETTA 4
DNF
DNF

The SR-Bank share

Relative share price trend 2016
Index 100 = 1. January



Facts about our share

The share capital amounts to NOK 6,393,777,050 divided into 255,751,082 shares, each with a nominal value of NOK 25.

The ticker code on the Oslo Stock Exchange is "SRBANK". "SRBANK" is included in the OSEAX All-share index and OSE40 Financials/OSE4010 Banks sector index. The liquidity segment is Match.

Facts ABOUT Sparebankstiftelsen SR-Bank

The Sparebankstiftelsen SR-Bank foundation was established as part of the conversion. The purpose of the foundation is to manage the shares received upon its formation and to exercise and maintain a substantial, long-term and stable ownership interest in SpareBank 1 SR-Bank ASA. Ownership should be exercised in accordance with the generally accepted principles of corporate governance and within the limits and guidelines adopted by the general meeting. The ownership interest must represent at least 25% of shares issued.

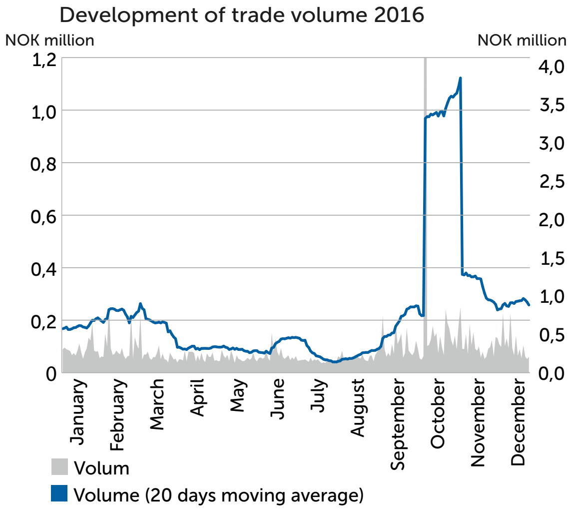
The foundation can distribute its surplus and, in line with savings bank traditions, donates to publicly beneficial projects in Rogaland, Aust-Agder, Vest-Agder, and Hordaland.

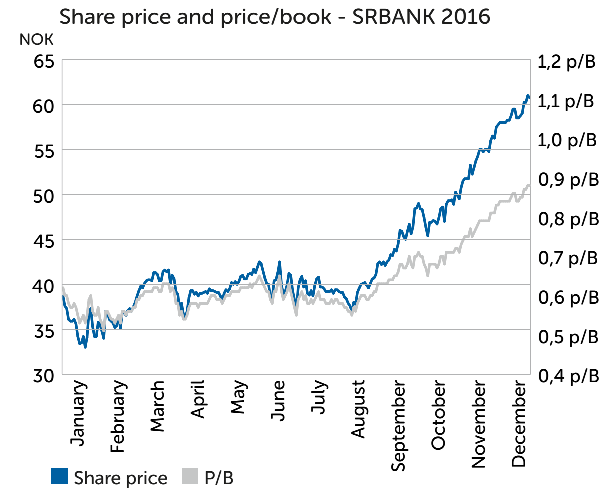
As at 31 December 2016, the foundation owned 72,419,305 shares, equivalent to 28.3% of shares issued.

Market value:
NOK 15,5 billion

Largest owner:
Sparebankstiftelsen SR-Bank

Dividend 2016:
NOK 2.25 per share





Dividend policy

SpareBank 1 SR-Bank's financial goal is to achieve results that provide a good, stable return on the bank's equity in order to create value for the owners. In other words, a competitive return in the form of dividends and a higher share price.

Particular account is taken of the group's capital ratio, including capital adequacy requirements and the group's targets and strategic plans, when setting the annual dividend. The level of the annual cash dividend in the lead up to 2018 will take into account the fact that the banking sector is currently building up capital to satisfy new capital requirements. Unless capital requirements dictate otherwise, the board's goal will be to ensure that the payout ratio gradually increases in the lead up to 2018. The group's dividend policy calls for around half of the profit after tax to be distributed as a cash dividend.

The parent company's distributable profit in 2016 was NOK 2,032 million, equivalent to NOK 7.95 per share. In line with SpareBank 1 SR-Bank's dividend policy, various factors have been taken into consideration in determining the dividend, including, in particular, our financial strength and the tier 1 capital ratio in light of the new regulatory requirements for banks. The current requirements indicate that the group must have common equity tier 1 capital of 15% by the end of 2017.

The board proposes a dividend of NOK 2.25 per share for 2016. This represents a dividend rate of around 33% of the group's earnings per share.

Investor policy

It is crucial for SpareBank 1 SR-Bank to maintain the confidence of the investor market by disclosing accurate, relevant and timely information about the group's performance and results. Market information is generally provided via quarterly investor presentations, websites, press releases and financial statements. Regular presentations are also made to international partners, rating agencies, lenders and investors.

It is in SpareBank 1 SR-Bank's own interests to publish current financial analyses of the highest possible quality. All analysts are treated equally at all times regardless of their recommendations and view of the bank's share. At the end of 2016, 12 brokerage houses officially covered SRBANK. Updated contact information for these is available at all times on: www.sr-bank.no/ir.

Information addresses

SpareBank 1 SR-Bank publishes information for the market online at: www.sr-bank.no.

Other links to financial information: www.ose.no (Oslo Stock Exchange)

Financial calendar for 2017	
General meeting	20.04.2017
Ex dividend date:	21.04.2017
First quarter:	27.04.2017
Second quarter:	09.08.2017
Third quarter:	27.10.2017

Preliminary accounting figures for 2017 will be published in February 2018.

Ownership

SpareBank 1 SR-Bank aims to ensure the good liquidity of its share and that it has a good range of owners who represent Norwegian and international investors.

The share price rose from NOK 39.30 to NOK 60.75 in 2016. Taking into account the paid dividend of NOK 1.50, this represents an effective return of 58.4%. The Oslo Stock Exchange Benchmark Index rose by 12.1% in the same period.

There were 10,428 (10,153) owners of SRBANK at year-end 2016. The percentage owned by companies and individuals based abroad was 19.1%, and the percentage owned by companies and individuals resident in Rogaland, the Agder counties and Hordaland was 49.9%. The 20 largest shareholders owned a total of 56.9% of the shares. The bank owned 108,983 treasury shares. Group employees owned a total of 1.8% of the shares at the end of the year.

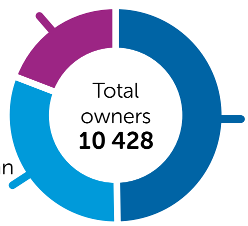
Credit rating

On 10 April 2016, Moody's Investor Services confirmed its credit rating of A1 for SpareBank 1 SR-Bank, with a negative outlook. The short-term funding rating remained unchanged throughout 2016 at Prime 1.

On 28 December 2016, Fitch Ratings confirmed its A- (long-term) and F2 (short-term) with stable outlook credit ratings of SpareBank 1 SR-Bank.

The table below shows the 20 largest shareholders as at 31 December 2016:

20 largest owners as at 31 December 2016		No. of shares	Stake %
1	Sparebankstiftelsen SR-Bank	72,419,305	28.3%
2	Gjensidige Forsikring ASA	12,308,416	4.8%
3	State Street Bank and Trust Co, USA	7,561,759	3.0%
4	Vpf Nordea Norge Verdi	7,454,497	2.9%
5	SpareBank 1-stiftinga Kvinnherad	6,226,583	2.4%
6	Wimoh Invest AS	5,761,169	2.3%
7	Odin Norge	4,384,644	1.7%
8	Danske Invest Norske Instit. II	3,646,410	1.4%
9	Pareto Aksje Norge	3,065,035	1.2%
10	Verdipapirfondet DNB Norge (IV)	2,963,871	1.2%
11	State Street Bank and Trust Co, USA	2,851,948	1.1%
12	Clipper AS	2,565,000	1.0%
13	State Street Bank and Trust Co, USA	2,247,876	0.9%
14	Verdipapirfondet Alfred Berg Gamba	1,833,914	0.7%
15	KAS Bank NV, The Netherlands	1,804,586	0.7%
16	Danske Invest Norske Aksjer Inst.	1,770,594	0.7%
17	National Insurance Scheme Fund	1,688,000	0.7%
18	J.P. Morgan Chase Bank, USA	1,671,233	0.7%
19	Vpf Nordea Avkastning	1,664,410	0.7%
20	Westco	1,649,689	0.6%
Total 20 largest		**145,538,939**	**56.9%**



Key figures*	2016	2015	2014	2013	2012
Market price 31.12, NOK	60,75	39,30	52,50	60,25	37,20
Dividend per share, NOK	2,25	1,50	2,00	1,60	1,50
Direct return [1]	3,7 %	3,8 %	3,8 %	2,7 %	4,0 %
Yield [2]	58,4 %	-21,3 %	-10,2 %	66,0 %	-4,9 %
Book equity per share, NOK [3]	71,54	66,14	60,28	55,00	49,48
Earnings per share, NOK	6,87	6,83	8,20	7,28	5,33
Payout ratio, net [4]	33 %	22 %	24 %	22 %	28 %
No. of shares issued 31.12	255 751 082	255 751 082	255 751 082	255 751 082	255 751 082
Treasury shares 31.12	108 983	25 398	231 043	207 645	345 134
No. of outstanding shares 31.12	255 642 099	255 725 684	255 520 039	255 543 437	255 405 948

[*] From and including 1 January 2012, the old equity certificates were converted to shares

[1] Dividend as a percentage of market price at year-end
[2] Appreciation during the year plus dividend paid as a percentage of market price at the beginning of the year
[3] Equity divided by number of shares issued
[4] Dividend as a percentage of the group's net profit for the period

Corporate social responsibility (CSR)

SpareBank 1 SR-Bank is a responsible social actor
Social responsibility is not something we are assigned, it is something we take. We have done so as part of our day-to-day operations ever since the establishment of Egersund Sparebank in 1839. This has formed part of our basic philosophy ever since. Based on our in-depth local knowledge and proximity to our customers, we make judgements about the economy and risk on a daily basis in combination with the fulfilment of our social mission. A mission that is about stimulating growth and development in the region in which the group operates. We aim to do this by, among other things, ensuring the region has capital for business development and building homes, contributing expertise, and helping to create good conditions for continued growth. Even though we, as the region's largest and leading financial group, primarily focus on our immediate surroundings, we are also ensuring that everything we do is sustainable in a global perspective as well. We believe that active social involvement directly creates value by reducing risk, opening up new business opportunities, producing motivated staff, and helping to maintain a good reputation.

Shareholder structure
SpareBank 1 SR-Bank's largest shareholder is Sparebankstiftelsen SR-Bank, which owns a stake of 28.3%. According to the decision taken by the Ministry of Finance (case 11/1402 of 21 June 2011) concerning converting to a public limited company, one of the conditions for allowing the conversion was that Sparebankstiftelsen SR-Bank must own a stake of equal to or higher than 25% in SpareBank 1 SR-Bank. In addition to this, the foundation's purpose must be to exercise long-term and stable ownership of SpareBank 1 SR-Bank, and through this ensure that SpareBank 1 SR-Bank continues its saving bank operations with local roots in Rogaland, Hordaland and Agder. This ensures both business and private households have ready access to a large, regionally anchored financial group with highly qualified personnel, a broad range of services, and good, stable access to capital.

We have defined the following four categories, and associated focus areas, which are based on the group's integration of corporate social responsibility:

Responsibility is profitable
SpareBank 1 SR-Bank wants to stimulate growth and development in the communities of which we are a part. Decisions will be based on a long-term perspective, which means that the group will avoid short-term gains if they are likely to significantly diminish or harm society.

Our work on social issues forms an integral part of our continuous planning. This is how we ensure that ethics, the environment and important social questions remain on the agenda at all times. Ensuring that daily operations focus strongly on financial value creation within all business areas is a very important part of our corporate social responsibility.

Investment criteria
SpareBank 1 SR-Bank's investment activities, both on its own account and on behalf of customers, follow rules that are intended to ensure that the group avoids participating in violations of human and labour rights, corruption, serious environmental harm or other actions that could be considered unethical. SpareBank 1 SR-Bank will not invest in companies which, themselves or through units they control, produce tobacco or pornography. The same applies for other investments in companies that are involved in anti-personnel mines and cluster weapons, or in companies that develop and produce key components of weapons of mass destruction. Weapons of mass destruction are defined as ABC weapons (atomic or nuclear weapons, biological weapons and chemical weapons).

The group both makes direct investments and acts as a distributor of investment products on behalf of Odin Forvaltning AS and SpareBank 1 Forsikring AS. Both have clear investment strategies that integrate both corporate governance and social responsibility in their assessments and decisions.

Financial	Society	Environment	HR
Good corporate governance Risk management Credit management Profitability Financial strength Purchases	Employment Anti-corruption Code of conduct Fraud prevention measures Our aim is to stimulate growth and development in the region Financial grants and sponsorship Transfer of competence Innovation	Health, safety and the environment Videoconferencing Supplier criteria Hybrid and electric vehicles Climate accounts	Ethics committee Code of conduct Personnel handbook that includes a strong focus on attitudes and values Training Inclusive workplace enterprise Information security

Direct investments are made by both the bank and the bank's wholly owned subsidiary, SR-Forvaltning AS. The company manages investments on behalf of both the bank and the group's customers. The company practises a clear policy of only investing in companies that exercise their responsibility to ensure that human rights are addressed, corruption is combated and commercial activities are sustainable.

SR-Forvaltning thoroughly reviews of all of its investments and potential investments in order to comply with these guidelines. If any of the companies SR-Forvaltning has invested in breach the company's guidelines or do not have measures in place, this will have consequences for the company's position or potential investment decisions.

All companies in which we are considering investing are checked against the Exclusion List at Norges Bank Investment Management (NBIM). Digital searches are also conducted for all relevant companies in order to identify potential breaches or controversial involvements before a decision concerning an investment is made.

Requirements for our suppliers

SpareBank 1 SR-Bank makes a significant amount of purchases each year.
The bank focuses on its social responsibilities in connection with these purchases, particularly in relation to:

- Human rights
- Working conditions
- The environment
- Fair operating practices

Our own activities are subject to a series of national and international rules and requirements. Suppliers that are going to perform services on our behalf have a duty to adapt such that we do not commit breaches. Suppliers must also help to ensure that purchase agreements comply with applicable industry standards and SpareBank 1 SR-Bank's own internal guidelines. Suppliers and their subcontractors must stay up-to-date on, and comply with, current requirements in legislation, regulations or other government instructions that apply to the suppliers' activities and respective areas of responsibility. Suppliers are responsible for ensuring that they hold the licences and permits required to perform their activities.
Suppliers must actively ensure that earlier links in the value chain comply with the requirements evident from agreements, as well as other contractual requirements. In those circumstances where a supplier operates within areas or industries where there is an elevated risk of breaching social responsibility requirements, the supplier's duty of care increases.

Corporate governance

Corporate governance in SpareBank 1 SR-Bank ASA comprises the objectives and overriding principles according to which the group is governed and controlled, in order to secure the interests of shareholders, customers and other stakeholders. The main principles for corporate governance are: openness, predictability and transparency.

The group complies with the Norwegian Code of Practice for Corporate Governance and complies with Norwegian law as a matter of course.

SpareBank 1 SR-Bank has clear guidelines intended to prevent violations of human and labour rights, employees taking part in corruption or contributing to environmental harm, and/or other actions that could be deemed unethical.

The UN Global Compact's ten principles for sustainability provide important guidelines.

Ethics and anti-corruption

The group's code of conduct is meant to help improve awareness of and compliance with the high ethical standards required of all employees. The code of conduct is intended to contribute to, among other things, fighting corruption, extortion, bribery, money laundering, fraud, terrorism funding and criminal activity funding. The group has an ethics committee that continuously assesses the existing ethical framework in light of the expectations of our stakeholders and society with respect to ethics.

The personnel handbook describes how employees can report if they learn about situations that contravene the applicable regulations, material breaches of internal rules, or other materially unacceptable situations. Whistle-blowers are able to report anonymously, in writing or verbally.

Employees of SpareBank 1 SR-Bank shall under no circumstances use their position to achieve personal benefit or act in a manner that could harm the group's reputation or be in breach of Norwegian law.

SpareBank 1 SR-Bank emphasises the prevention of corruption and wants to develop a culture of anti-corruption in the companies that make up the group. The group's code of conduct, which is readily accessible in digital format, contains specific rules on this. They cover 'personal benefit and corruption' and are intended to raise awareness and improve people's knowledge about corruption-related issues. They are also meant to clarify the group's attitude and routines to ensure that all employees comply with anti-corruption legislation. Every year, employees must sign to confirm that they have read and understood the contents of the group's code of conduct.

Support for non-profit causes
The savings bank tradition has been continued through Sparebankstiftelsen SR-Bank, which represents a key part of our social responsibility strategy. The foundation's grants to non-profit causes in the region, which are based on SpareBank 1 SR-Bank's capacity to distribute dividends, are well integrated into the work performed by the group's customer committees. The interaction between the customer committees, organised as local advisory bodies for both the group and Sparebankstiftelsen SR-Bank, is intended to strengthen our local presence and involvement.

Status 2016

Employees and the organisation
SpareBank 1 SR-Bank aims to be an attractive and inclusive place to work for employees in all age groups and phases of their life. The SpareBank 1 SR-Bank Group tries to ensure that all employees are satisfied with the balance between work, home and leisure. At the same time, a number of different measures have been implemented to motivate employees to stay healthy, both by developing a good working environment and by encouraging them to exercise. We believe that employees whose needs are catered for will perform better, which benefits both them and the group.

The group has established a well thought through framework for the organization, including: a personnel handbook, HSE handbook, inclusive workplace agreement, and several internal committees regulated by agreements. The executive management team and the group's two unions work well together in these areas. Three contact meetings were held between the group executive management team and trade unions in 2016. The following key topics were discussed:

1. Digitalisation and changes in customer behaviour, as well as the consequences these will have for our existing channel structure, including the branches.
2. Reorganisation aimed at meeting the future in a competent, good way for the benefit of the customer and the group's profitability.
3. The group's skills requirements going forward – composition of skills.

In 2016, the group again refunded a significant amount to cover part of employees' regular exercise expenses in order to promote better health, greater motivation and satisfaction.

Climate and environmental measures
As a responsible financial group, we are taking a proactive approach to climate challenges, including by setting criteria for environmental prevention measures in our own organisation. The group has a specific environmental strategy and guidelines, which are reviewed annually.

The group regularly introduces measures that are intended to help reduce the consumption of electricity, paper and other resources, as well as ensure that resource-demanding travel is limited. A great deal of attention is also paid to managing technological waste and purchasing environmentally friendly solutions. Overall, the group is doing good work to ensure it buys the right technological equipment based on specific assessment criteria for energy and environmental requirements.

All technological equipment is treated as special waste, which ensures the equipment is properly dealt with from an environmental perspective. The group returned 2.2 tons of technological waste in 2016, which is on a par with the level in 2015.

A significant drop in paper consumption of 17.7 tons was registered in 2016 compared with 2015.
This is a result of deliberate, targeted measures. This is, first and foremost, due to much of our customer communications being switched to our digital channels, combined with new digital solutions for document management internally.
The employees in the SpareBank 1 SR-Bank Group took 4,537 flights during 2016, a decrease of 13% compared with 2015.

The use of videoconferences, phone conferences and digital tools for interacting and information sharing is one important means of keeping the group's travel activity at a moderately low level. The group has 25 videoconferencing rooms. Skype was adopted as a tool for meetings in 2016. Skype has been installed for all employees and is being used a lot.

The group introduced climate accounts in 2016. This was initially done to survey our carbon footprint, which in turn is linked to air travel and the use of the company's vehicle fleet. This includes all vehicles belonging to the group that are included in the company's vehicle scheme.

Total CO2 emissions in 2016 amounted to 431.2 tons. The calculated emissions include a total of 2,116,747 kilometres travelled by air and a total 617,291 kilometres travelled using the group's vehicles.

SpareBank 1 SR-Bank takes biodiversity seriously.
In connection with planning the group's new head office, it was discovered that the building could constitute a risk to a number of elm trees close to the site. Rare moss species were also found on some of these trees, including a red listed species, Water Screw-moss. Two of the trees that were hosts for the moss species were moved to a suitable site nearby and one tree was protected where it stood. The trees and their roots weighed 70 tons each. The moving process was demanding, but successful. Expertise was also brought in from the UK that allowed us to transplant bark with the moss to more elm trees in neighbouring areas.

Both photos: Stavanger natur- og idrettsservice KF

Funding
The group has an overarching credit strategy that clearly states that the primary market area for credit exposure is Rogaland, Hordaland and Agder. The credit strategy also makes it clear that corporate customers must have a long-term perspective and that their companies must be run in line with applicable laws and regulations.

The group was exposed to neither coal mining nor coal power plants in 2016.

Ethics and anti-corruption
The group's ethics committee held three meetings in 2016. The purpose of the committee is to evaluate and improve the group's code of conduct.

In 2016, SpareBank 1 SR-Bank continued to highlight the importance of continuous training and raising awareness about the most important ethical risk areas. This was done both via a dedicated ethics programme and by sending the employees various questions concerning ethics topics. These were read and then answered electronically.

Managers also underwent anti-corruption training in 2016.

In addition to this, a new whistle-blowing system in relation to external actors was introduced for reporting any whistle-blowing related incidents. The new system is intended to protect full anonymity.

Key measures planned for 2017
1. Draw up a plan for further reducing the group's level of CO2 emissions.
2. Conduct a materiality assessment among the group's stakeholders. By asking our stakeholders what they think is important from a sustainability perspective and comparing that with what is important for SpareBank 1 SR-Bank, we will prepare an analysis that provides an overview of what it will be most important to prioritise going forward.
3. Continue to reduce total paper consumption.
4. Continue to reduce total energy consumption in the group's various offices.
5. Continue to reduce the number of flights and increase the use of videoconferencing and other types of video meetings.
6. Improve the group's website with respect to reporting and highlighting the measures and activities we carry out in relation to sustainability.

Social accounts 2016

Strategic	2015	2016
Group strategy	Updated	Updated
CSR strategy	Updated	Updated
Value creation		
Taxes and duties (NOK millions)*	1,086	1,110
Net salaries/pensions and other benefits (NOK millions)	945	1,166
Cash dividend shareholders (NOK millions)	384	575
Growth capital, retained earnings (NOK millions)	1,353	1,457
Purchased goods and services (NOK millions)	918	866
Social factors		
No. of full-time equivalents, incl. temps	1,190	1,172
Healthy rate	96.86%	96.37%
Percentage of women in executive positions	43%	42%
Average age	44.3	44.7
Organisational satisfaction	865	900
Inclusive workplace agreement	Continued	Continued
Life phase strategy	Continued	Continued
Management development programme	Continued	Continued
Code of conduct	Continued	Continued
No. of meetings of ethics committee	3	3
Measures/sponsorship from SpareBank 1 SR-Bank (NOK millions)	25	20
No. of grants made by SpareBankstiftelsen SR-Bank	330	358
Total grants made by SpareBankstiftelsen SR-Bank (NOK millions)	30.5	29.1
Environment		
Technological waste (tons)	2.2	2.2
Reduction in paper consumption (tons)	0%	18%
Energy consumption (kWh)	6,070,697	5,646,327
Air travel	5,240	4,537
No. of air travel kilometres	2,315,170	2,116,747
KgCO2 air travel emissions	373,408	341,356
No. of vehicle kilometres	N/A	617,291
KgCO2 total vehicle fleet emissions	N/A	89,842
No. of electric vehicles in fleet	2	2
No. of videoconferencing rooms	25	25

* Inclusive of company tax, tax paid by employees, and employers' National Insurance contributions

Our employees

– Our most important capital in the fight for customers

No. of full-time equivalents	Average age	Healthy rate
1,172	44.7	96.4%

Employees and managers have to be performing at their best in order to create added value for customers, directly, and owners, indirectly. The ever faster pace of technological development and changes in customer behaviour constantly require new skills and mean existing employees have to develop in order to achieve the group's goals.

Compared with other financial actors, SpareBank 1 SR-Bank's position is "nearer to people and companies". This means our employees have to be able to see things from the customer's perspective. It means that employees have to be genuinely interested in the customer, the competition situation in the market, and which consumer trends are influencing the customer's relationship with the group. In the last year, the group executive management team has made a number of changes in concert with the employees in order to adapt our business operations to current and future customer behaviour.

Changes to the organisation in 2016

In the spring, the group implemented a new CRM system that changes the way employees work with customer relationship management. For customers, the CRM system will mean faster answers to their enquiries. For advisers, there has been a transition from having their own customer portfolio to having a common customer portfolio. The transition from "mine to our customers" and the implementation of the new CRM system mean advisers and managers have gained a far better overview of the stream of customer enquiries and can route enquiries from offices with little capacity to offices with more capacity.

In 2016, the group closed thirteen smaller branches allowing it to strengthen specialist environments in other larger branches. Changes have been made to the organisational structure of the corporate market, retail market and business support and development divisions that are intended to hone the focus on digital surfaces.

Skills recruitment

At year-end 2016, we have 1,172 full-time equivalents, which represents a reduction of 18 full-time equivalents in relation to the year before. At the same time, the group's SpareBank 1 SR Regnskapshuset venture resulted in an increase of 34 full-time equivalents in 2016.

The market for recruitment is good and SpareBank 1 SR-Bank is viewed as an attractive place to work and many people apply for jobs here. SpareBank 1 SR-Bank advertised a total of 85 positions, 29 of which were advertised publicly. There were a total of 719 applicants: 161 internal and 558 external applicants.

Our advert for the group's summer internships encouraged IT students to apply and five students with the relevant education have received places.

The first robots have already been implemented in the group and will affect the duties the employees in SpareBank 1 SR-Bank will perform in the future. The working day will change considerably and that is having an impact on the skills being recruited.
The most important future skills areas, in addition to a high level of customer expertise, are computer programming, analysis and innovation in combination with EQ (emotional intelligence) and creativity.

Change and skills

Employees have to be cultivated and developed if they are to perform at their best. Good nourishment is required in the form of training and skills enhancement organised by the group. At the same time, the group's employees must also be committed and take responsibility for their own skills in order to keep up-to-date with developments. Annual employee performance reviews set out clear expectations vis-à-vis delivery and results.

More than 90% of the employees respond that they have a high degree of job satisfaction and commitment.

The group offers good career development opportunities along customer, discipline and management paths. On average, each employee in the group spends half a business day a week improving their skills.

The rapid development and change in customer behaviour requires an organisation that is both willing and able to change. SpareBank 1 SR-Bank is such an organisation. We systemically work to enhance our skills, including through various certification processes. A total of 67 different certifications were completed in 2016 in the authorisation scheme for financial advisers, authorisation scheme for P&C insurance and LEAN SixSigma. Skills that are not relevant are being phased out. Our line management has been further strengthened through training and various courses.

Working environment

The average score in the group's organisational survey is high. It is also worth noting that the response rate was good at 80%. The survey shows a rise in parameters such as motivation, learning and development, as well as a high score when it comes to trust in the group executive management team. More than 90% of the employees respond that they have a high degree of job satisfaction and commitment. The survey was reviewed in all departments with the goal of reinforcing the positive development of the working environment.

HSE

The group systematically works on health, safety and the environment, primarily through a HSE committee, which focuses on operations. The group is an IW company. In 2016, the IW committee played a major role in developing preventive measures as a means of increasing wellness in the group. It is also encouraging partial sick leave and focusing on degree of remaining capacity for work during periods of ill health. The healthy rate is stable and high at 96.4%. Where people are on long-term sick leave, we actively work on follow-up and facilitation.

The group's life phase policy enables employees to deliver as desired and planned in various phases of life. It also encourages the group's seniors who want to follow the group's development to stay in work longer. The target retirement age has been increased from 63 to 64.5 going forward. The average retirement age in 2016 was 63.9, a decrease of 0.2 years compared with 2015.

Gender equality

SpareBank 1 SR-Bank wants to ensure that men and women have the same opportunities in relation to professional development, pay and careers. In 2016, the ratio between men and women was 55% women and 45% men. The average age has risen by 0.4 years since 2015 to 44.7 and the average length of service is 13.3 years. The group executive management team comprises eight men and one woman. 42% of the group's managers are women.

Cooperation with employee organisations and the safety service

The group cooperates constructively with both employee organisations and the safety service. They both provide appropriate help based on their missions in order to ensure that the group can achieve its goals.

Employee compensation

Our strategy is to practise a competitive compensation model that allows us to attract the skills of the future and retain our capable employees. The group's compensation model consists of three elements: fixed salary, variable pay and other employee benefits. Our variable compensation scheme is intended to encourage extraordinary performance and results, and has been designed in line with the group's strategies, business goals and values. Variable pay is awarded based on an assessment of both financial and non-financial targets and compliance with applicable laws and regulations. Any variable compensation scheme may, based on a discretionary assessment, be curtailed or eliminated entirely if the group's financial situation or other factors indicate that it would not be responsible to pay variable compensation.

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The rapid development and change in customer behaviour requires an organisation that is both willing and able to change. SpareBank 1 SR-Bank is such an organisation.

Business areas

RETAIL MARKET

SpareBank 1 SR-Bank is the leader in the retail market in Southern and Western Norway with 312,000 retail customers older than 13. This represented a market share of 20% in our market area at year-end 2016. In addition to retail customers, the division also serves 5,900 small business and agricultural customers. A complete range of good digital services, a modern customer service centre, and a well-developed network of branches provide our customers with fast, easy access to financial services and expertise via all channels.

Growth in commissions

The retail market division's contribution before losses and impairments amounted to NOK 1,219 million in 2016. The result is NOK 13 million higher than in 2015. This improvement is due to growth in commissions and reduced costs. Commissions rose by 6% in 2016 with the greatest increase in money-transfer services. The division's costs were reduced by 3% in 2016. The number of employees in the division has been reduced through continuous restructuring. Thirteen smaller offices were merged with their neighbouring offices into larger units during the year.

Weak housing market

Higher unemployment and a weaker housing market in Rogaland and Agder resulted in less demand for mortgages. Lending grew by 0% in 2016, while deposits grew by 2%. There was strong pressure on the net interest margin throughout the year due to strong competition and a higher risk premium in the money market. Impairment losses on loans increased slightly in 2016, but were still low. Greater business optimism and stable unemployment are resulting in a better outlook for the housing market. The demand for mortgages is expected to rise slightly during the year.

The number of digital visits rose by 20%

The growth in digital channels continues. Our digital channels saw an average of 3 million monthly visits in 2016, compared with 2.5 million in 2015. The increase in traffic in digital channels and the launch of new products also resulted in 25% growth in the number of digital sales. Digital channels now account for more than half of sales of savings accounts, funds and savings agreements. The planned development of the services offered is expected to strengthen digital sales further in 2017.

A strong total provider

In 2016, the retail market division introduced a new CRM system and a new way of working due to changes in customer behaviour and the demand for faster answers. The analysis environments have been strengthened and robots have taken over a number of duties in production in order to increase our relevance in both digital and serviced channels.
The retail market division gained car and consumer financing products at the start of 2017.

Going forward, the retail market will continue to focus on digital services and products in combination with personal advice provided through strong, modern local branches. Digitalising work processes and good analysis will contribute to efficient operations, greater relevance and fast decisions.

RM	31.12.2016
Gross loans	NOK 93,159 million
Total deposits	NOK 47,754 million
Pre-tax profit	NOK 1,219 million
No. of full-time equivalents	435

CORPORATE MARKET

The corporate market division has 14,500 corporate customers in five regional business units and two specialist units: one for the energy and maritime sector and one for the public sector. SpareBank 1 SR-Bank is a total provider of financial products and services for corporate customers, which are currently being supplemented with the building up of a specialist unit within international cash management (ICM).

The division has highly professional and knowledgeable employees with experience in managing business opportunities and identifying risk. This is vital when it comes to ensuring that corporate customers will choose SpareBank 1 SR-Bank as their partner.

Close to the customers

Profit before losses was NOK 319 million higher in 2016 than in 2015.
This is primarily attributable to the repricing of the loans and deposits portfolios. There was a heavy focus on risk management in 2016 since many corporate customers have been and are experiencing demanding times. It has been especially important for SpareBank 1 SR-Bank to be close to our customers in order to learn the challenges the enterprises face at an early stage. This will enable the bank to make good, robust solutions available for both customers and the bank.

Digital focus

SpareBank 1 SR-Bank launched new web pages for our corporate customers in 2016. We are constantly striving to put more digital sales and self-service solutions in place for corporate customers. In 2016, the division also established the CM Digital team, which will serve the 6,500 smallest corporate customers. The team will mainly use channels such as the

SpareBank 1 SR-Bank ASA

- Capital market
- Retail market
- Corporate market
- Administration and support

Wholly owned subsidiaries

- **EiendomsMegler 1 SR-Eiendom AS**
  - Sales of homes and commercial properties
- **SR-Forvaltning AS**
  - Fund management
  - Active management
- **SpareBank 1 SR-Finans***
  - Leasing
- **SpareBank 1 Regnskapshuset SR**
  - Accounting
  - Advisory
- **SR-Boligkreditt AS**
  - Mortgage company - issuer of covered bonds (home mortgages)

Part-owned companies

- **SpareBank 1 Gruppen AS** (19.5%)
  - Holding company for the products companies in the SpareBank 1 Alliance
- **BN Bank ASA** (23.5%)
  - Commercial bank with offices in Oslo and Trondheim
- **SpareBank 1 Boligkreditt AS** (13.9%)
  - Mortgage company - issuer of covered bonds (home mortgages)
- **SpareBank 1 Næringskreditt AS** (21.9%)
  - Mortgage company - issuer of covered bonds (commercial property mortgages)
- **SpareBank 1 Kredittkort AS** (17.9%)
  - Credit card company, based in Trondheim

* Merged with the parent bank 1 January 2017

phone, email and chat to follow up its customers.
CM Digital will respond to incoming enquiries from customers, but will also be responsible for the customers in their portfolio and proactively following them up. Digital sales will become increasingly important for the division going forward.
A position has therefore been established in the group executive management team with dedicated responsibility for digital sales and development.

From 1 January 2017, SpareBank 1 SR-Finans was merged into SpareBank 1 SR-Bank. The number of corporate customers with leasing in SpareBank 1 SR-Bank is expected in increase in coming years since leasing specialists and corporate advisers will be able to work more closely in the same company.

CM	31.12.2016
Gross loans	NOK 54,922 million
Total deposits	NOK 37,355 million
Pre-tax profit	NOK 751 million
No. of full-time equivalents	150

CAPITAL MARKET

SpareBank 1 SR-Bank Markets is the region's leading securities firm. Its activities include own account and customer trading in interest rate instruments, foreign exchange and equities, providing advice and facilitating debt and equity funding, as well as administrative securities services. Its primary mission is to serve customers in collaboration with the group's other business areas and help combine special expertise with knowledge and an understanding of the local region.

CAPITAL MARKET	31.12.2016
Gross income	NOK 175 million
Customer income	NOK 140 million
Own account	NOK 35 million
Pre-tax profit	NOK 94 million
No. of full-time equivalents	28

SUBSIDIARIES:

EiendomsMegler 1 SR-Eiendom AS

EiendomsMegler 1 SR-Eiendom AS is the leading real estate agent in the group's market area and the largest company in the nationwide EiendomsMegler 1 chain. Its business operations consist of brokering commercial property and selling holiday homes, new builds and used homes.

2016 was characterised by a demanding housing market in Rogaland, especially in the first quarter, for EiendomsMegler 1 SR-Eiendom. The number of units sold in Rogaland was around 10% lower than in the year before, while sales in the Agder counties and Hordaland were relatively stable compared with 2015. The company's costs have been reduced in order to meet the fall in the number of sales, including by downsizing by nine full-time equivalents in 2016. At the same time, the company has hired new estate agents to maintain and strengthen its customer capacity. A total of twenty new employees were hired in 2016. EiendomsMegler 1 SR-Eiendom AS has strengthened its focus on Kristiansand with a new office centrally located in Markensgate, and a new district office in Lund. Together with the bank, EiendomsMegler 1 SR-Eiendom has established a new office in Sotra in Hordaland, and opened a separate office in Askøy in the same county.

EM1	31.12.2016
Total income	NOK 350 million
Value of sales	NOK 18.6 billion
No. of sales	6,042
Pre-tax profit	NOK 16.2 million
No. of full-time equivalents	191

SpareBank 1 SR-Finans AS

SpareBank 1 SR-Finans AS is a financing company that offers lease financing to the business sector, as well as car, boat and personal loans to retail customers. The company is the market leader in Rogaland and is planning to become a significantly stronger market actor in the leasing markets in Hordaland and the Agder counties as well. Its products are distributed via the bank's distribution network, its own advisers, self-service solutions, and external distributor channels. A decision was made in September 2016 to carry out a parent/subsidiary merger between SpareBank 1 SR-Bank and SpareBank 1 SR-Finans in order to strengthen the group's focus on leasing and become a stronger actor in the area. The merger plan was signed by the boards of both companies and implemented on 1 January 2017.

The company maintained a low cost/income ratio throughout 2016 and continuously focused on efficiency and digitalisation. Nonetheless, the result for 2016 was affected by high net losses. The increase in net losses is largely due to individual loss provisions relating to a couple of the company's major leasing customers. Collective loss provisions were increased by NOK 9.1 million based on the uncertainty that has characterised our market area in the last year. Loss provisions linked to the other lending portfolio are considered to be at an acceptable level.

SR-Finans	31.12.2016
Total income	NOK 231 million
Total assets	NOK 6.9 billion
New sales	NOK 2,388 million
Pre-tax profit	NOK 84 million
No. of full-time equivalents	31

SR-Forvaltning AS

SR-Forvaltning is licensed to provide active management and securities management services. The management company has three securities funds: SR-Utbytte, SR-Kombinasjon and SR-Rente, which were all established around three years ago. The company also manages discretionary portfolios for SpareBank 1 SR-Bank's pension fund, as well as for external customers on the basis of discretionary mandates. The external customer base comprises pension funds, public and private enterprises, and affluent individuals. Since its start-up in 1999, the company has produced a good, long-term, risk-adjusted return for its customers, in both absolute and relative terms.

Pre-tax profit was NOK 28.0 million in 2016 (NOK 35.9 million). The reduction in the result from 2015 was primarily attributed to curtailment recognised in 2016. The equity fund SR-Utbytte produced a 9.84% return in 2016, which was 1.61% better than the respective benchmark index. The bond fund SR-Rente produced 1.82% (benchmark 0.53%), and the combination fund SR-Kombinasjon produced 5.86% (benchmark 4.48%).

SR-Forvaltning	31.12.2016
Total income (gross)	NOK 85.4 million
Assets under management	NOK 9.5 billion
Net new assets	NOK -300 million
Pre-tax profit	NOK 28 million
No. of full-time equivalents	12

SpareBank 1 Regnskapshuset SR AS

The company was established in the first quarter of 2015 and has since its start-up grown from NOK 0 to NOK 82 million in turnover. At the start of 2017, the company has six offices, four in Rogaland and two in Bergen, which in total serve more than 2,000 customers.
SpareBank 1 Regnskapshuset SR made one acquisition in 2016, Regnskap Partner Bergen AS, which has an annual turnover of around NOK 12 million.

Since its start-up, the company has gained a solid market position in Rogaland and Hordaland and is experiencing a good influx of new customers who need modern, efficient accounting services. At the same time, it is working on digitalising the current customer portfolio. Significant resources have been invested in internal infrastructure such as a common IT platform and business system, as well as a lot of professional and systems training of the company's 97 employees. Customers are demanding cloud services and the company is currently building up its own IT expertise in order to produce bespoke solutions for customers, irrespective of industry and size.

SpareBank 1 Regnskapshuset SR AS	31.12.2016
Total income	NOK 82 million
Pre-tax profit	NOK 2 million
No. of full-time equivalents	79

SR-Boligkreditt AS

SR-Boligkreditt is a wholly owned subsidiary and was established in the second quarter of 2015. The purpose of the company is to purchase home mortgages from SpareBank 1 SR-Bank and funds this by issuing covered bonds. SR-Boligkreditt enables SpareBank 1 SR-Bank to diversify and optimise its funding. Moody's has given SR-Boligkreditt its best rating, Aaa.

SR-Boligkreditt AS	31.12.2016
Total income	NOK 121 million
Assets under management	NOK 29.4 billion
Pre-tax profit	NOK 113 million
No. of full-time equivalents	0

PART-OWNED COMPANIES:

SpareBank 1 Gruppen AS

SpareBank 1 Gruppen AS is 100% owned by the SpareBank 1 banks and the Norwegian Confederation of Trade Unions (LO) with the following stakes:

SpareBank 1 SR-Bank (19.5%), SpareBank 1 Nord-Norge (19.5%), SpareBank 1 SMN (19.5%), Sparebanken Hedmark (11%), Samarbeidende Sparebanker AS (19.5%), SpareBank 1 Oslo Akershus (1.4%) and the Norwegian Federation of Trade Unions (LO) and affiliated unions (9.6%).

SpareBank 1 Gruppen AS owns 100% of the shares in the following subsidiaries:

- SpareBank 1 Forsikring (life insurance)
- SpareBank 1 Skadeforsikring
- ODIN Forvaltning
- SpareBank 1 Medlemskort (51%) (administration of LOfavør)
- SpareBank 1 Gruppen Finans (factoring and portfolio)
- Conecto (debt recovery)

SpareBank 1 Banksamarbeidet DA is 100% owned by the SpareBank 1 banks with varying stakes. The company delivers business platforms and common management and development services to the alliance banks as customers, and helps to ensure that joint development and activities provide the banks with economies of scale and competitive advantages. The company also owns and manages the alliance's intellectual property rights under the joint brand name SpareBank 1. SpareBank 1 Banksamarbeidet DA develops and delivers common IT/mobile solutions, brands and marketing concepts, business concepts, products and services, expertise, analyses, processes, best practice solutions and purchases. The company also conducts development work at three competence centres – Training (Tromsø), Payment Services (Trondheim), and Credit Control (Stavanger). In turn, SpareBank 1 Banksamarbeidet DA owns the following subsidiaries:

- EiendomsMegler 1 Norge
- SpareBank 1 Kundesenter
- SpareBank 1 Verdipapirservice
- SpareBank 1 ID AS
- SpareBank 1 Axept AS

The companies in SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet DA together constitute what is called the **Alliance**.

The SpareBank 1 Alliance's banks and LO also own direct stakes in the following companies:

- BN Bank
- SpareBank 1 Boligkreditt
- SpareBank 1 Kredittkort
- SpareBank 1 Næringskreditt
- SpareBank 1 Markets
- SpareBank 1 Mobilbetaling

The banks in the SpareBank 1 Alliance comprise 16 independent savings banks (legal entities). In total, around 7,000 employees work in SpareBank 1 and around 1,200 of them are employed in the Alliance.

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are licensed mortgage companies that issue covered bonds secured by home mortgage or commercial real estate portfolios sold by the owner banks. The companies are owned by the savings banks that make up the SpareBank 1 Alliance and help ensure the owner banks have access to stable, long-term funding at competitive rates. At year-end 2016, SpareBank 1 Boligkreditt AS's total lending volume amounted to NOK 174.5 billion, NOK 24.2 billion of which were home mortgages bought from SpareBank 1 SR-Bank. The bank holds a 13.9% stake in the company and this is adjusted at the end of each year in line with its share of the volume sold.

At year-end 2016, SpareBank 1 Næringskreditt AS's total lending volume amounted to NOK 11.0 billion, NOK 0.5 billion of which were loans that had been bought from SpareBank 1 SR-Bank. The bank owns a 21.9% stake in the company.

BN Bank ASA

SpareBank 1 SR-Bank and the other savings banks in the SpareBank 1 Alliance acquired Glitnir Bank ASA in the fourth quarter of 2008. It has since been renamed BN Bank ASA. SpareBank 1 SR-Bank owns a 23.5% stake.

Group executive management

Arne Austreid

CHIEF EXECUTIVE OFFICER

Arne Austreid has been the chief executive of SpareBank 1 SR-Bank since January 2011.
He is a trained petroleum engineer and holds an MBA (Master of Business Administration) from the University of Aberdeen, UK. He has previously worked for Transocean ASA and Prosafe SE: offshore, onshore and abroad, where his final position was President and CEO of Prosafe SE. He is the chair of the boards of SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet DA.

Inglen Haugland

EXECUTIVE VICE PRESIDENT, ORGANISATION AND HR

Haugland became Executive VP, Organisation and HR in February 2015.
She graduated in economics/administration from Stavanger University College (1996). She also holds a Masters in Management from BI Norwegian Business School (2009) and an MBA from the Norwegian School of Economics (NHH) (2015-2016). She has worked in various positions in SpareBank 1 SR-Bank since 1983, most recently as part of the retail market division's management team. She is a member of the boards of SpareBank 1 SR-Bank's pension fund and Stiftelsen Jærmuseet.

Frode Bø

EXECUTIVE VICE PRESIDENT, RISK MANAGEMENT AND COMPLIANCE

Frode Bø became Executive VP Risk Management & Compliance in January 2006.
He holds a Bachelor of Management and has also completed a master's degree programme in operational auditing and risk management at BI Norwegian Business School. Up to 2016, he was also a lecturer in the Department of Industrial Economics, Risk Management and Planning at the University of Stavanger. Frode Bø has worked for SpareBank 1 SR-Bank since 2001.

Inge Reinertsen

CHIEF FINANCIAL OFFICER

Inge Reinertsen became CFO in February 2010.
Reinertsen has a degree in Business Administration from the Norwegian School of Economics in Bergen. He has experience from various management positions in the SpareBank 1 SR-Bank Group and has worked for the group since 2001. He is the chair of the board of SR-Boligkreditt AS, SR-Investering AS and SR-Forvaltning AS, the deputy chair of SpareBank 1 Boligkreditt AS, and sits on the boards of SpareBank 1 Gruppen Finans AS, SpareBank 1 SR-Bank's pension fund, and Conecto AS.

For more comprehensive CVs, see: www.sr-bank.no/ir.

Glenn Sæther

EXECUTIVE VICE PRESIDENT, BUSINESS SUPPORT AND DEVELOPMENT

Glenn Sæther became Executive VP Business Support & Development in May 2010.
He was educated in economics and business administration at BI Norwegian Business School. He has previously worked as the chief accountant of the municipality of Sandnes, a consultant and marketing executive in Webcenter Unique ASA and a senior consultant in Helse Vest RHF. He has worked for SpareBank 1 SR-Bank since 2005. He is the chair of the board of Finansparken Bjergsted AS and sits on the boards of SpareBank 1 Skadeforsikring AS and SpareBank 1 Regnskapshuset SR AS.

Jan Friestad

EXECUTIVE VICE PRESIDENT, RETAIL MARKET

Jan Friestad became Executive VP Retail Market in August 2011. He holds a degree in economics and business administration from Stavanger University College and has also taken various master of management courses within marketing strategy and management at BI Norwegian Business School. He has worked for SpareBank 1 SR-Bank since 1988. He is the chairman of the board of EiendomsMegler 1 SR-Eiendom AS and sits on the boards of SpareBank 1 Kredittkort AS og SpareBank 1 Mobilbetaling.

Tore Medhus

EXECUTIVE VICE PRESIDENT, CORPORATE MARKET

Tore Medhus became Executive VP Corporate Market in January 2000.
He holds a Master of Business and Marketing (Handelsøkonom) from Oslo Business School/BI. He has previous experience from Elcon Finans, Forende Credit Finans and Telenor. Medhus has worked for SpareBank 1 SR-Bank since 1994. He is the chair of the board of SpareBank 1 Regnskapshuset SR AS and deputy chair of BN Bank ASA.

Thor-Christian Haugland

EXECUTIVE VICE PRESIDENT, COMMUNICATIONS

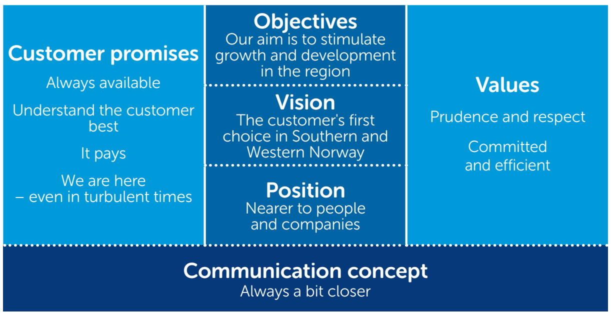
Haugland Executive VP Communications in 2005.
He was educated at Stavanger University College, the University of Salford and BI Norwegian Business School in economics, communications and management. He has previously worked as the sales and marketing manager for Radisson SAS in Stavanger and general manager in Brødrene Pedersen AS. He has more than twenty years' experience from various positions in SpareBank 1 SR-Bank. Haugland sits on the board of Odin Forvaltning AS.

Corporate governance

The board of directors and executive management team of SpareBank 1 SR-Bank annually review the corporate governance principles and how they are functioning in the group. The formal requirements for this report follow from section 3-3b of the Accounting Act and the Oslo Stock Exchange's requirements concerning complying with, or explaining deviations from, the Norwegian Code of Practice for Corporate Governance.

Point 1 Implementation and reporting on corporate governance

There are no significant deviations between the Code of Practice and SpareBank 1 SR-Bank's compliance with it. One deviation is described below under section 14.



SpareBank 1 SR-Bank's objectives are to stimulate growth and development in the region. It is the very foundation of the company's business model. Allocating capital, for both business development and house building, is the most important social task the company performs. SpareBank 1 SR-Bank's vision is: ***"The customer's first choice in Southern and Western Norway"***. The values that will support our vision are: ***"Prudence and respect. Committed and efficient."*** The vision and values provide the basis for the group's code of conduct and corporate responsibility.
SpareBank 1 SR-Bank ASA shall be characterised by high ethical standards and good corporate governance. The code of conduct states that employees of the group shall show respect and consideration, and that all communication shall be open, honest and plain. The group's code of conduct is available from the bank's website.

The group's corporate social responsibility is described in more detail in a separate section of the group's annual report, which states that SpareBank 1 SR-Bank wants to use the group's combined knowledge and resources to: secure for the region capital for business development and building homes; contribute expertise; and help create good conditions for continued growth. Active social involvement creates value directly by reducing risk, opening up new business opportunities, producing motivated staff and, not least, helping to maintain a good reputation. The corporate responsibility guidelines are available on the company's website.

Deviations from the Code of Practice: None

Point 2 Business

SpareBank 1 SR-Bank's business is explained in the company's articles of association. SpareBank 1 SR-Bank's purpose is to manage the funds controlled by the group in a prudent manner and in accordance with the applicable legislation at any given time.
SpareBank 1 SR-Bank can perform all normal banking transactions and banking services in accordance with applicable law. SpareBank 1 SR-Bank can also provide investment services within the framework of the licences it holds at any given time. The full text of the articles of association is available on the company's website. The group's goals and main strategies are described in the annual report.

Deviations from the Code of Practice: None

Point 3 Equity and dividends

The board of directors assesses the capital situation on an ongoing basis in light of the company's objectives, strategies and desired risk profile. As at 31 December 2016, the SpareBank 1 SR-Bank Group had equity of NOK 18.3 billion (incl. allocated dividend).
According to the applicable calculation rules for financial institutions' capital ratio, the group had an overall capital ratio

of 17.5% and a common equity tier 1 capital ratio of 14.7% as at 31 December 2016. The board considers the capital ratio satisfactory, but assumes that it will have to strengthen the capital ratio further in 2017 in line with the Norwegian authorities' capital buildup regulations.

Dividends

Particular account is taken of the group's capital ratio, including capital adequacy requirements and the group's targets and strategic plans, when determining the annual dividend. The level of the annual cash dividend will in the next few years take into account the fact that the banking sector is currently building up capital to satisfy new capital requirements. Unless capital requirements dictate otherwise, the board's goal will be to ensure that the payout ratio gradually increases in the lead up to 2018 in line with the group's dividend policy.

Share buy back

At its meeting on 27 April 2016, the general meeting authorised the board to acquire and register liens on the bank's own shares for up to 10% of the bank's share capital. The shares must be acquired in the securities market via the Oslo Stock Exchange. Each share can be purchased at a price of between NOK 1 and NOK 150. The authorisation is valid for 12 months from the date it is adopted by the general meeting.

Capital increases

The board is not currently authorised to increase capital in SpareBank 1 SR-Bank.

Point 4 Equal treatment of shareholders and transactions with close associates

SpareBank 1 SR-Bank has one class of share. All shares have equal voting rights. In the event of an increase in share capital, existing shareholders have pre-emptive rights, unless special circumstances dictate that these rights can be waived. The background for such a waiver would then have to be explained. In cases where the board asks the general meeting to authorise a share buy back, any buy back must be carried out in the market at market prices.

Largest shareholder

Sparebankstiftelsen SR-Bank is SpareBank 1 SR-Bank's largest shareholder with a stake of 28.3%. The foundation was established on 1 January 2012 when SpareBank 1 SR-Bank was converted into a public limited company. Pursuant to the foundation's articles of association, its purpose is to manage the shares that were transferred to the foundation upon its establishment and to exercise and maintain a significant long-term and stable stake in SpareBank 1 SR-Bank.
The ownership interest must represent at least 25% of the outstanding shares of SpareBank 1 SR-Bank.

Transactions with close associates

The instructions issued to the board stipulate that the board shall ensure that the company complies with sections 3-8 and 3-9 of the Public Limited Liability Companies Act in agreements between the company and the parties listed therein. The board shall obtain the opinion of an independent third party when entering into agreements between the company and shareholders, board members or members of the group executive management team, or any close associates of these. All board members and members of the group executive management team must immediately inform the board if they have a direct or indirect interest in a transaction or agreement that the company has entered into or is considering entering into. This applies even if the board member is deemed to be disqualified from considering the matter.

Deviations from the Code of Practice: None

Point 5 Freely negotiable shares

The bank's shares are listed on the Oslo Stock Exchange with the ticker SRBANK and are freely negotiable. The articles of association contain no restrictions on the negotiability of shares.

Deviations from the Code of Practice: None

Point 6 General meetings

General meetings

The supreme authority in SpareBank 1 SR-Bank is the general meeting, which represents the bank's shareholders. Pursuant to the articles of association, the annual general meeting must be held before the end of April each year. The notice and registration form must be sent to shareholders and published on the group's website no later than 21 days before the date of the meeting. Procedures for voting and submitting proposals must be specified in the notice. The chair of the board, at least one representative of the nomination committee, and the auditor take part in the general meeting. Other board members are free to attend. The chief executive and chief financial officer take part from the executive management team. The minutes of general meetings are available on the company's website.

In general, resolutions require a simple majority. Decisions about disposals of shares, mergers, demergers, sales of a substantial part of SpareBank 1 SR-Bank's operations or issuing shares in the company require the approval of at least two thirds of the votes and share capital represented at the general meeting.

Voting procedures allow for separate votes for each candidate to the various bodies. It is possible for shareholders to issue a proxy to others. A person is also appointed to act as a proxy who can vote for shareholders. To the extent possible, the proxy form is designed in such a way that it allows for voting on each agenda item and for each candidate standing for election.

Deviations from the Code of Practice: None

Point 7 Nomination committee

The nomination committee comprises up to five members that are elected by the general meeting for a period of 2 years. Sparebankstiftelsen SR-Bank must also be represented on the nomination committee. The nomination committee provides detailed recommendations to the general meeting concerning the election of the chair and members of the board and the chair and members of the nomination committee. The recommendation should provide pertinent information about the candidates' background and independence. The nominati-on committee also proposes the remuneration for members of the bodies mentioned above. The general meeting determines the nomination committees' remuneration. Information about the nomination committee and how to submit contributions to the nomination committee can be found on the company's website.

Deviations from the Code of Practice: None

Point 8 Board of directors, composition and independence

Board of directors

The board is elected by the general meeting for up to 2 years at a time. The board consists of eight members, including two employee representatives. No members of the group executive management team are members of the board. The compositi-on of the board should be such that it can protect the interests of the shareholder community. A suitability assessment is made when board members are being elected that takes into account the need for continuity and independence. Ensuring the board has a balanced composition is also important. The combined expertise of the elected board members must satisfy all the requirements concerning qualifications, including any statutory ones. Both genders shall be represented by at least 40% of the board members, ref. section 6-11a of the Public Limited Liability Companies Act, and the members must be independent of the company's executive management team.

As at 31 December 2016, the board had eight members, including two employee representatives. Three of the board's shareholder-elected members were women, as was one employee representative. All board members are independent of the bank's executive management team and important business connections. The individual board members' backgrounds and participation in board meetings in 2016 are described in the presentation of the board in a separate chapter of the annual report and on the company's website. The board held eleven board meetings in 2016.

Deviations from the Code of Practice: None

Point 9 The work of the board of directors

The board's duties

The board's duties are set out in the board's instructions, which govern the board's duties and responsibilities, the board's procedures, the matters that must be considered by the board, and the rules for convening meetings and considering matters in meetings. The board has also issued instructions to the chief executive. The minutes are available on the company's website.

The board adopts a meeting and work schedule every year that encompasses strategy work, financial reports, prognoses for the group and control work. Matters for the board are prepared by the chief executive in cooperation with the chair of the board. Each year, the board evaluates its activities and competence, and discusses improvements to the organisation and execution of the board's work. The self-assessment report is available to the nomination committee.

The board has established three permanent board committees, which consist of members of the company's board and are described in more detail below. The committees make no decisions but supervise, on behalf of the board, the executive management team's work and prepare matters for the board's consideration within their areas of responsibility. The committees are free to draw on resources in the group and on resources, advice and recommendations from sources outside the group.

Audit committee

The audit committee consists of three members who normally meet six times a year. The composition of the committee satisfies the Code of Practice's independence and competence requirements. The audit committee must ensure that the group has an independent and effective external auditor and satisfactory financial reporting in accordance with the law and regulations.

Risk committee

The risk committee consists of four members who normally meet six times a year. 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.

Remuneration committee
The remuneration committee consists of three members who normally meet five times a year. The committee is tasked with doing the preparatory work for the annual review of the group's remuneration packages and the chief executive's contract and terms by the whole board.

Deviations from the Code of Practice: None

Point 10 Risk management and internal control

The board of SpareBank 1 SR-Bank focuses on risk management, which is an integral part of its work. The company's overall risk exposure and risk trends are monitored via periodic risk reports for the company's executive management team and board. General risk monitoring and reporting is performed by the risk management department, which is independent of the business units.

The bank's economics and finance department prepares financial reports for SpareBank 1 SR-Bank and ensures that the reporting complies with applicable laws, accounting standards, set accounting policies and the board's guidelines. Processes and controls have been established to ensure the quality assurance of financial reporting.

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.

Risk and capital management in SpareBank 1 SR-Bank should create financial and strategic added value through:

- a good risk culture characterised by a high awareness of risk management and the group's core values
- a good understanding of which risks drive earnings
- pricing activities and products in line with their underlying risk, insofar as this is possible
- having adequate financial strength based on a chosen risk profile and simultaneously striving for optimal capital allocation to the various business areas
- utilising diversification effects
- preventing single events seriously damaging the group's financial position

The framework is described in more detail in note 3 to the financial statements, as well as in the Pillar III document for SpareBank 1 SR-Bank, which is available on the bank's website.

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

The board sets the group's risk profile, the overall limits, authorities and guidelines for risk management, and ensures that the group has a satisfactory capital base based on the risk borne by the group and regulatory requirements. The board has adopted a code of conduct that contributes to raising awareness and compliance with the ethical standards set for the group.

First line of defence (day-to-day risk management)
The chief executive is responsible for ensuring the group's risk management is monitored within the framework adopted by the board. Business units are responsible for overall risk management within their business area.

Second line of defence (general risk reporting and follow-up)
The risk management department is organised independent of the business units and reports directly to the chief executive. The department is responsible for the ongoing development of the risk management framework, 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.

Third line of defence (independent confirmation)
The internal audit monitors that the risk management processes are targeted, effective and function 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 for risk management improvements are reviewed and implemented on an ongoing basis in the group.

SpareBank 1 SR-Bank is also cognisant of the need to have good processes to ensure compliance with legislation and regulations. Focus areas are continuous monitoring of compliance with the current regulations and ensuring that the group has adapted to future regulatory changes as best as it can.

SpareBank 1 SR-Bank's compliance function is organised independently of the business units. The department bears overall responsibility for the framework, monitoring and reporting within the area. The investment firm and subsidiaries have their own compliance officers where this is required.

The internal control and systems also cover the company's core values, code of conduct and corporate responsibility.

Deviations from the Code of Practice: None.

Point 11 Remuneration of the board of directors

The remuneration of the board's members and subcommittees is fixed by the general meeting based on the recommendations of the nomination committee. Board members' remuneration is not linked to financial performance or similar factors.
None of the directors, other than the employee representatives, has responsibilities to the company beyond their board duties. Information about all remuneration paid to the individual board members is presented in note 22 to the annual financial statements.

Deviations from the Code of Practice: None

Point 12 Remuneration of executive personnel

SpareBank 1 SR-bank 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 and shall 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, and shall comply with the regulations governing remuneration schemes in financial institutions, investment firms and management companies dated 1 December 2010. The total remuneration shall be competitive but the group shall not be a wage leader. It shall ensure that the group attracts, develops and retains competent employees over time. The scheme will ensure a reward model that is perceived to be fair, predictable and future-oriented and motivating. Fixed salaries shall make up the main element of the total remuneration, which shall also consist of variable pay, pensions and benefits in kind.

The board's guidelines for the remuneration of executive personnel are disclosed in note 22.

Deviations from the Code of Practice: None

Point 13 Information and communications

SpareBank 1 SR-Bank has dedicated pages on the company's web pages for investor information. The bank makes every effort to ensure that correct, relevant and timely information about the group's performance and results inspires investor market confidence. All price sensitive information is published in both Norwegian and English. Stock exchange notices, annual and interim reports, presentation materials and web-casts are available on the company's website.

Information for the market is distributed via quarterly investor presentations. Regular presentations are made to international partners, lenders and investors. All reporting is based on openness and the equal treatment of market players in the securities market. The group's financial calendar is published on the company's website.

Deviations from the Code of Practice: None

Point 14 Take-overs

The board of directors of SpareBank 1 SR-Bank ASA will deal with any takeover bid in accordance with the principle of equal treatment of shareholders. At the same time, the board will ensure that shareholders receive the most comprehensive information possible in all situations that affect the interests of shareholders. When acquiring shares in a financial institution involving any stake of more than 10% of the share capital, consent must be applied for from the Financial Supervisory Authority of Norway.
In connection with SpareBank 1 SR-Bank receiving permission to convert to a public limited company, a condition was set that Sparebankstiftelsen SR-Bank would maintain an ownership stake that would amount to at least 25% of the shares issued in SpareBank 1 SR-Bank.

Deviations from the Code of Practice:
The board has not established explicit general principles for handling take-over bids. The reason for this is the Financial Undertakings Act's restrictions on ownership of financial institutions and the licensing conditions in connection with the conversion to an ASA.The board endorses the Code of Practice's wording on this point.

Point 15 Auditor

The external auditor presents an annual audit plan to the audit committee and board.
The audit committee recommends the election of an auditor to the board. The board holds at least one annual meeting with the auditor without the executive management team being present. The audit committee makes recommendations to the board concerning approval of the external auditor's fees. The board then presents the proposals concerning fees to the general meeting for approval.

The external auditor shall provide the audit committee with a report on the main elements of the audit of the previous financial year, including, in particular, any material weaknesses identified with respect to internal control relating to the financial reporting process.

Deviations from the Code of Practice: None

Report on corporate governance pursuant to section 3-3b of the Accounting Act

The report complies with the requirements of the act.

1. SpareBank 1 SR-Bank ASA complies with the Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NCGB).
2. The Code of Practice is available on www.nues.no
3. Any deviations from the Code of Practice are commented on in the board's report on corporate governance.
4. Point 10 of the report provides a description of the main elements of the internal control and risk management systems associated with financial reporting processes.
5. SpareBank 1 SR-Bank has no articles of association that deviate from chapter 5 of the Public Limited Liability Companies Act that deals with general meetings.
6. An account is provided of the composition of the board and its working committees, and a description is provided of the main elements of the guidelines and mandates for these bodies in points 8 and 9 of the report.
7. An account of the provisions of the articles of association that regulate the appointment and replacement of board members is provided in point 8 of the report.
8. An account of the provisions of the articles of association and authorisations that empower the board to decide that the enterprise will buy back or issue its own shares is provided in point 3 of the report.

The board of directors

Dag Mejdell

CHAIR OF THE BOARD

Dag Mejdell (1957) has extensive experience from various management positions in business, most recently as the CEO of Posten Norge AS from 2006 to 2016. From 2000 to 2005 he was the CEO of Dyno Nobel ASA and before that he worked for Dyno ASA for 19 years, the last three of which were as the CEO. Mejdell holds a 4-year degree in Economics and Business Administration from the Norwegian School of Economics in Bergen. Chair of the boards of Norsk Hydro ASA, NSB AS and International Post Corporation CV, and deputy chair of the board of SAS AB. Chair of the board of SpareBank 1 SR-Bank ASA since 9 June 2016.

No. of board meetings in 2016: 6 of 11
No. of shares in SpareBank 1 SR-Bank ASA*: 14,899

Birthe Cecilie Lepsøe

BOARD MEMBER

Birthe Cecilie Lepsøe (1971) works as a partner in Vest Corporate Advisors, in addition to board work. She was previously the finance manager in Grieg Shipping Group, Bergen, and also has many years of experience from DnB's shipping division. Lepsøe holds an MBA from BI Norwegian Business School and has participated in the authorised financial analyst programme in the Norwegian School of Economics (NHH). He sits on the boards of Vest Corporate Advisors AS, Smedvig Eiendom AS, Smedvig Capital AS, Smedvig AS and StyreAkademiet in Hordaland. Deputy member of the board of Askøy Kommunale Eiendomsselskap AS. Member of the board of SpareBank 1 SR-Bank ASA since 1 January 2012.

No. of board meetings in 2016: 11 of 11
No. of shares in SpareBank 1 SR-Bank ASA*: 0

Kate Henriksen

BOARD MEMBER

Kate Henriksen (1960) is the COO of Miles AS.
Her previous positions include executive vice president, retail market in Sparebanken Vest, marketing director/general manager in Ementor, and various managerial positions in DnB. Henriksen has a degree in business administration from the Norwegian School of Economics and Business Administration (NHH). She has also studied information technology and automation at Bergen College of Engineering, branding, and various management development programmes. Member of the board of SpareBank 1 SR-Bank ASA since 4 June 2015.

No. of board meetings in 2016: 11 of 11
No. of shares in SpareBank 1 SR-Bank ASA*: 0

Tor Dahle

BOARD MEMBER

Tor Dahle, (1952) is the general manager in Sparebankstiftelsen SR-Bank. His has previous experience from various management positions in SpareBank 1 SR-Bank ASA, including as CFO and latest as managing director in SR-Investering AS. Dahle holds a master's degree in economics from the Norwegian School of Economics (NHH). He is the chair of the board of EM Software Partners AS. Member of the board of SpareBank 1 SR-Bank ASA since 6 June 2013.

No. of board meetings in 2016: 11 of 11
No. of shares in SpareBank 1 SR-Bank ASA*: 72,456,358

Jorunn Johanne Sætre

BOARD MEMBER

Jorunn Johanne Sætre (1956) is the business development manager in AGR for the Norwegian market and heads the department in Stavanger. She has experience from various management positions in Halliburton, both globally and nationally. From 2001-2011 she was chief executive of Halliburton AS and responsible for the company's activities in Scandinavia. Sætre graduated as a chemical engineer from Bergen University College and took petroleum engineering subjects at the University of Stavanger. Member of the corporate assembly of Norsk Hydro and board member in Faroe Petroleum. Member of the board of SpareBank 1 SR-Bank ASA since 9 June 2016.

No. of board meetings in 2016: 6 of 11
No. of shares in SpareBank 1 SR-Bank ASA*: 0

Odd Torland

BOARD MEMBER

Odd Torland (1964) is the CEO of Smedvig AS in Stavanger, as well as the general manager of several companies owned by the Smedvig family, including Smedvig Eiendom AS and Smedvig Capital AS.
He was the chief executive of Scana Industrier ASA from 2000 to 2005. Torland is a state authorised public accountant from the Norwegian School of Economics (NHH).
Odd Torland holds a number of board positions. Please see www.sr-bank.no/ir for a complete overview. Member of the board of SpareBank 1 SR-Bank ASA since 1 January 2012.

No. of board meetings in 2016: 11 of 11
No. of shares in SpareBank 1 SR-Bank ASA*: 0

Kristian Kristensen

EMPLOYEE REPRESENTATIVE BOARD MEMBER

Kristian Kristensen (1982) is the deputy of the Finance Sector Union of Norway SpareBank 1 SR-Bank. He holds a Bachelor in Market Communication from BI Norwegian Business School. Deputy member of the board of the Finance Sector Union of Norway, Rogaland division. Member of the board of SpareBank 1 SR-Bank ASA since 9 June 2016.

No. of board meetings in 2016: 6 of 11
No. of shares in SpareBank 1 SR-Bank ASA*: 3,020

Sally Lund-Andersen

EMPLOYEE REPRESENTATIVE BOARD MEMBER

Sally Lund-Andersen (1961) is the main employee representative in SpareBank 1 SR-Bank ASA. Chair of the Finance Sector Union of Norway, Rogaland division. She sits on the board of SpareBank 1 Gruppen AS. Member of the board of SpareBank 1 SR-Bank ASA since 1 January 2012.

No. of board meetings in 2016: 11 of 11
No. of shares in SpareBank 1 SR-Bank ASA*: 941

*Inclusive of any shares owned by close associates and/or companies on whose behalf the person was chosen.
More detailed CVs are available for all board members on: www.sr-bank.no/ir.

Board of Directors' report

The SpareBank 1 SR-Bank Group achieved a pre-tax profit of NOK 2,158 million in 2016. The net profit for the year was NOK 1,755 million, an increase of NOK 9 million from NOK 1,746 million for 2015. The return on equity after tax was 10.0%, compared with 10.8% in 2015. The board of directors is very satisfied with the result for 2016.

Solid efforts by employees, good credit work and close relationships with customers have been important drivers behind a good result in a demanding year. Our market position as Southern and Western Norway's leading financial group was further strengthened by a net increase of 2,500 retail customers aged 13 and above and more than 700 new corporate customers.

Lending, including loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, decreased by 0.9% in 2016. Deposits from customers decreased by 3.9% in 2016. The deposit coverage ratio, measured as deposits as a percentage of total loans, was 54.5% at year-end 2016, compared with 57.6% in 2015.

Net interest income rose to NOK 2,871 million in 2016, compared with NOK 2,593 million in 2015. Net interest income as a percentage of average total assets increased to 1.48% in 2016, from 1.42% in 2015. The increase was the result of improved risk pricing for large parts of the corporate market portfolio and an improvement in the group's deposit margins.

Net commissions and other operating income totalled NOK 1,443 million in 2016, down from NOK 1,532 million in 2015. The reduction is largely attributable to lower commissions from SpareBank 1 Boligkreditt AS due to the group buying back a total of NOK 4 billion in loans from the mortgage company in 2016. Other commissions increased by 1.6% from year-end 2015. The net return on financial investments amounted to NOK 654 million in 2016, compared with NOK 304 million in 2015. This includes the profit shares from SpareBank 1 Gruppen AS and other associated companies. The profit from the sale of the shares in Visa Europe Ltd to Visa Inc. amounted to NOK 94 million in 2016.

The group's operating costs for the year amounted to NOK 2,032 million, compared with NOK 1,863 million in 2015, an increase of NOK 169 million (9.1%) since 2015. Personnel costs rose by NOK 221 million (23.4%) to NOK 1,166 million. The increase must be viewed in the context of the personnel costs in 2015 being reduced by NOK 226 million due to a one-off reduction in costs (curtailment) in connection with the switch to defined contribution pensions for all employees. Other operating costs were reduced by NOK 52 million (-5.7%) to NOK 866 million. The cost/income ratio, measured as operating costs as a percentage of operating income, was reduced from 42.1% in 2015 to 40.9% in 2016.

Impairment losses on loans totalled NOK 778 million, compared with NOK 420 million in 2015. The higher impairment losses on loans in 2016 were largely due to impairment losses linked to individual commitments within oil-related activities, and collective impairment losses that were NOK 158 million higher. The increase in collective impairment losses was due to the continued uncertainty associated with low oil prices, as well as the prevailing market conditions and future development of economic activity in Norway in general and in Southern and Western Norway in particular.

The allocation of the year's profit is based on the parent bank's distributable profit of NOK 1,921 million for 2016.
The board proposes that NOK 575 million be paid in dividends, corresponding to NOK 2.25 per share, while NOK 1,457 million be allocated to other equity and enhancing the group's financial strength.

The common equity tier 1 capital ratio increased from 13.3% at the start of the year to 14.7% at year-end 2016. The tier 1 capital ratio (including hybrid tier 1 capital) increased in the same period to 15.6% from 14.2% in 2015.
At year-end 2016, SpareBank 1 SR-Bank is in a solid financial position and well-equipped to meet the stricter regulatory requirements for financial strength. The group is well-positioned to continue developing its leading position in Southern and Western Norway. The board has now set a target for the common equity tier 1 capital ratio of 15.0% by year-end 2017.

Nature of the business

The SpareBank 1 SR-Bank Group consists of the parent bank, SpareBank 1 SR-Bank ASA, and subsidiaries.

(Figures in brackets are linked to figures from the annual financial statements for 2015)

The most important subsidiaries are: SpareBank 1 SR-Finans AS, EiendomsMegler 1 SR-Eiendom AS, SR-Investering AS, SR-Forvaltning AS, SR-Boligkreditt AS, and SpareBank 1 Regnskapshuset SR AS.

SpareBank 1 SR-Bank's head office is in Stavanger and it has 36 branches in the counties of Rogaland, Hordaland, Vest-Agder and Aust-Agder. The group's primary activities are selling and procuring a wide range of financial products and services, investments services, leasing, estate agency and accounting services.

Group's performance

SpareBank 1 SR-Bank recorded good progress in all of the group's business areas in 2016. The bank's position as the market leader in Rogaland was strengthened or maintained within both the retail market and the corporate market, and at the same time the group strengthened its positions in Hordaland and the Agder counties. The capital market division has established itself as the region's leading expert environment in its field. The group's position in the estate agency market has helped EiendomsMegler 1 become the largest chain of estate agents in Norway. EiendomsMegler 1 SR-Eiendom AS is the market leader in Rogaland, and further strengthened its position in Hordaland and the Agder counties in 2016.

The group's subsidiaries and its strategic stakes in the SpareBank 1 Alliance's product companies make a significant contribution to SpareBank 1 SR-Bank's earnings. As far as the subsidiaries are concerned, the estate agency company enjoyed a good level of activity despite the weak start to the year. The levels of activity in the financing company, SpareBank 1 SR-Finans AS, and the other subsidiaries remained high.

The banking market was again highly competitive in 2016. The competition within financing home mortgages is more intense than that within corporate loans due to stricter requirements vis-à-vis the industry's financial strength. The moderate growth in lending was due to a combination of greater competition in the market for home mortgages, slightly lower growth in the Norwegian economy, and weak to negative price growth for homes in our main market, Rogaland. Loans to corporate customers were weakly negative for the year, which was the result of a market characterised by continued uncertainty and some reluctance to invest. The margins for loans to retail customers were reduced in 2016, while the margins for loans to corporate customers increased in the same period. Deposit margins expanded within both the retail market and the corporate market due to a heavy focus within the organisation on strengthening income from deposits. The growth in deposits was reduced by 3.9% in 2016 due to the repricing of some deposits intended for institutional customers. Overall, earnings from net interest income were better in 2016 than the year before.

Net commissions and other operating income decreased from 2015 to 2016. The reduction was primarily attributable to lower commissions from SpareBank 1 Boligkreditt AS due to the buy back of a total of NOK 4 billion in home mortgages in 2016. Income from sales of insurance, savings and investment products, and income from arrangement/customer fees were unchanged to slightly higher than in 2015.

The equity and interest rate markets were volatile in 2016, but greater optimism, especially in the second half of the year, resulted in rising prices on the Oslo Stock Exchange and a positive development in credit spreads in general. Capital gains from securities totalled NOK 53 million for the full year. This was due to a combination of capital losses of NOK 156 million in the interest portfolio, which were counteracted by positive effects totalling NOK 158 million from hedging instruments, as well as capital gains of NOK 51 million from the portfolio of shares and equity certificates.

Impairment losses on loans were NOK 778 million in 2016, compared with NOK 420 million in 2015, while collective impairment losses increased by NOK 158 million in 2016. The increase in collective impairment losses was due to the continued uncertainty associated with low oil prices, as well as the prevailing market conditions and expected development of the level of activity in oil-related business. Impairments as a percentage of gross loans, including loans from the mortgage companies, amounted to 0.42%. The board regards the quality of the loan portfolio and risk management as good.

Developments in the group's market areas

Households' optimism about the development of the Norwegian economy improved slightly towards the end of 2016. Mainland Norway's gross domestic product (GDP) is expected to grow by around 1.5% in 2017, an increase from 0.7% in 2016. Low oil prices and a reduction in oil investments have dampened activity in the Norwegian economy to some extent.

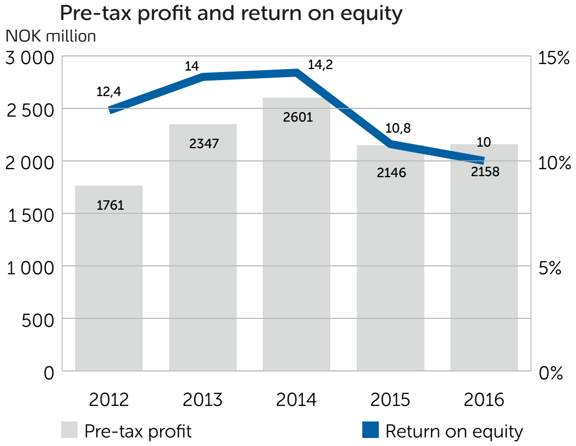
Demographic development trends are very important for the group's framework conditions. For a long time now, the group's primary area has seen high migration and population growth. The percentage of people with a disability is also significantly lower than the national average. The population is relatively young in and around the regional centres, and along the coast of Southern and Western Norway. The population growth trend has continued in recent years and Rogaland and Hordaland have in particular seen increases above the national average, while growth in the Agder counties has been in line with the national average. Statistics Norway's population growth forecasts reinforce expectations that growth in Rogaland and Hordaland especially will remain above the national average. On the other hand, the expected drop in oil investments in the next few years has made the aforementioned forecast more uncertain.

According to the Norwegian Labour and Welfare Administration (NAV) the unemployment rate in Norway was 2.8% at the end of December 2016. In Rogaland the unemployment rate was 4.5%, in Hordaland it was 3.4%, and in Vest- Agder and Aust-Agder it was 3.3% and 3.5% respectively.

The risk of lower growth in the Norwegian economy is still linked to low oil prices. Estimates vary from simply a minor negative effect to more serious consequences for employment, all depending on whether oil prices and investments on the Norwegian Continental Shelf remain low over time or not.

In the last year, the Stavanger region has experienced a weaker house price trend than the rest of the country with a drop in prices of 2.6% compared with the national average of a 12.8% rise in prices. The poor price trend in the housing market, combined with expectations of lasting moderate to high unemployment going forward, may result in the building of few new homes in 2017.

Pre-tax profit and return on equity



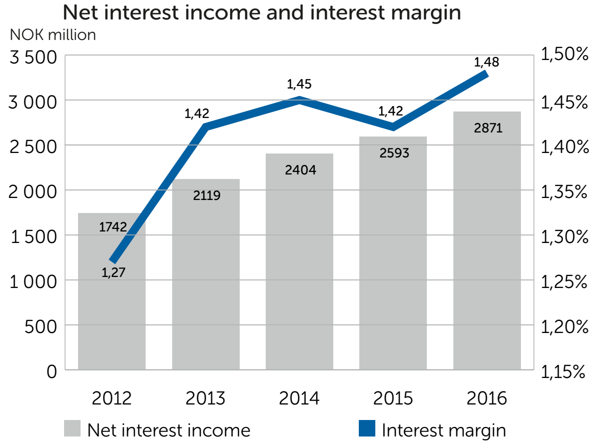
FINANCIAL PERFORMANCE

Net interest income

The group's net interest income increased by NOK 278 million from NOK 2,593 million to NOK 2,871 million in 2016.
Net interest income amounted to 1.48% of average total assets, an increase from 1.42% in 2015.

Net interest income must be seen in the context of the commission income from SpareBank 1 Boligkreditt AS and Sparebank 1 Næringskreditt AS. Commissions from these companies amounted to NOK 149 million in 2016, compared with NOK 258 million in 2015. Net interest income and commissions increased by a total of NOK 169 million, compared with 2015. The increase was a result of improved risk pricing for large parts of the corporate market portfolio, as well as better deposit margins for the group.

Net interest income and interest margin



Other operating income

Net commissions and other operating income totalled NOK 1,443 million in 2016, compared with NOK 1,532 million in 2015. The NOK 89 million reduction since the previous year is attributable, in part, to a NOK 109 million reduction in commissions from SpareBank 1 Boligkreditt AS, primarily due to the group buying back loans from the mortgage company totalling NOK 4 billion in the 2016.

Income from estate agency services amounted to NOK 348 million in 2016, which represents a reduction of NOK 35 million from 2015 and was due to less activity in the housing market in the Stavanger region. Income was weakest in the first quarter of 2016 and the entire reduction in income can be attributed to this quarter. Income rose during the spring of 2016 and the total income of NOK 279 million in the period covering the second quarter up to and including the fourth quarter of 2016 was on a par with the same period in 2015.

Fees accrued in SpareBank 1 Regnskapshuset increased from NOK 35 million in 2015 to NOK 81 million in 2016. The company was established in the first quarter of 2015 and the increase in income was due to the acquisition of a number of accounting firms in 2015.

Other commissions increased by 1.1% in 2016, with both arrangement fees and income from money-transfer services and insurance making a positive contribution.

(Figures in brackets are linked to figures from the annual financial statements for 2015)

Net income from financial investments was NOK 654 million, an increase from NOK 304 million in 2015. Of this, dividends amounted to NOK 110 million (NOK 17 million) and included a cash payment in the second quarter of 2016 of NOK 94 million received in connection with the sale of Visa Europe Ltd to Visa Inc. Capital gains on securities amounted to NOK 53 million (capital losses of NOK 224 million) and capital gains on interest rate and currency trading amounted to NOK 107 million (NOK 89 million). Furthermore, income from ownership interests totalled NOK 384 million (NOK 422 million).

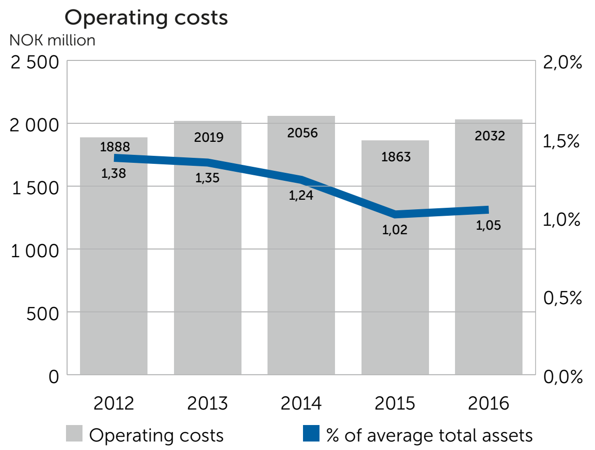
The capital gains on securities amounting to NOK 53 million in 2016 were primarily attributable to a combination of capital losses of NOK 156 million in the interest portfolio, which were counteracted by positive effects totalling NOK 158 million from hedging instruments, as well as capital gains of NOK 51 million from the portfolio of shares and equity certificates.

Income from ownership interests in 2016 amounted to NOK 384 million (NOK 422 million). The share of the net profit for the year from SpareBank 1 Gruppen AS amounted to NOK 318 million (NOK 251 million), from SpareBank 1 Boligkreditt AS it amounted to NOK -14 million (NOK 91 million), and from SpareBank 1 Næringskreditt AS it amounted to NOK 22 million (NOK 24 million). The share of the profit from BN Bank AS was NOK 61 million (NOK 29 million).

Operating costs

The group's operating costs totalled NOK 2,032 million in 2016. This represents an increase of NOK 169 million (9.1%) compared with 2015. Personnel costs rose by NOK 221 million (23.4%) to NOK 1,166 million. In 2015, personnel costs were reduced by NOK 226 million due to a one-off reduction in costs (curtailment) in connection with the switch to defined contribution pensions for all employees. Taking this into account, as well as other extraordinary items in 2015, personnel costs increased by NOK 23 million (2.0%) from 2015 to 2016. Other operating costs were reduced by NOK 52 million (-5.7%) to NOK 866 million.

The group's cost/income ratio, costs measured as a percentage of income, was reduced to 40.9% in 2016 (42.1%).

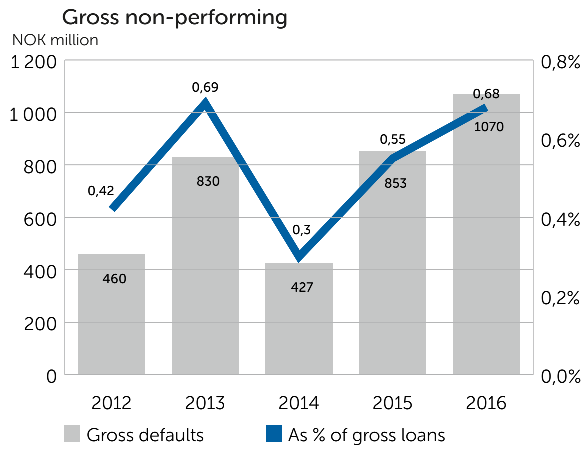


At year-end 2016, the group had 1,172 full-time equivalents, of which 1,127 were full-time employees. The full-time equivalents figure fell by 18 in 2016, compared with an increase of 28 in 2015.

Losses and defaults

In 2016, the group recognised net impairment losses on loans totalling NOK 778 million (NOK 420 million). This corresponds to impairments as a percentage of gross loans, including loans to mortgage companies, of 0.42% (0.23%). Impairments on groups of loans were increased by NOK 158 million in 2016. Closely monitoring customers and preventive work are important tools for maintaining this good credit quality in the group's loan portfolio in order to reduce future losses.

Gross non-performing commitments amounted to NOK 1,070 million in 2016 (NOK 853 million). This represented 0.59% (0.46%) of gross lending, inclusive of loans sold to the mortgage companies. The portfolio of impaired (not non-performing) loans totalled NOK 1,141 million (NOK 548 million). This represented 0.62% (0.30%) of gross lending, inclusive of loans sold to the mortgage companies. Total non-performing and impaired loans in 2016 came to NOK 2,211 million (NOK 1,401 million). In terms of gross lending, including loans sold to the mortgage companies, this represents an increase from 0.76% to 1.21% in 2016. The loan loss provisions ratio, measured as individual impairments as a percentage of non-performing and impaired loans, was 26% (12%) and 28% (40%), respectively, at year-end 2016.



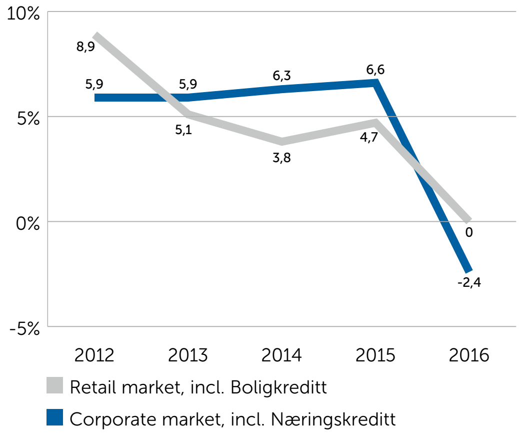
Balance sheet

The group's total assets recognised on the balance sheet increased from NOK 192.0 billion to NOK 193.4 billion in 2016. The increase was due to the buy back of lending portfolios from SpareBank 1 Boligkreditt AS.

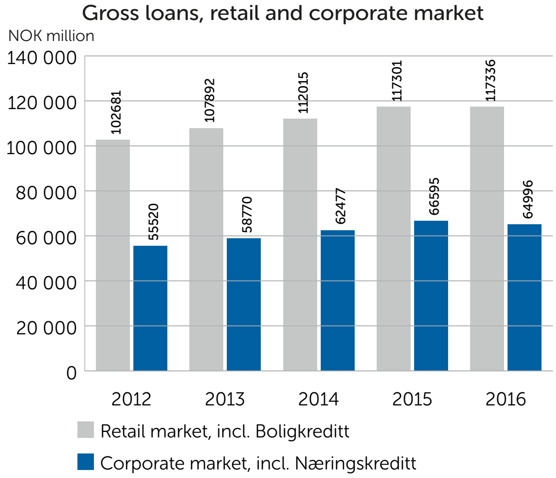
(Figures in brackets are linked to figures from the annual financial statements for 2015)

At year-end 2016, SpareBank 1 SR-Bank had sold loans worth NOK 24.7 billion to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, compared with NOK 28.7 billion at year-end 2015. If the loan portfolios of these part-owned mortgage companies are taken into account, lending growth amounted to -0.9% and total loans NOK 182.3 billion at year-end 2016 (NOK 183.9 billion). Retail market lending rose by 0.1% and lending to the corporate market and public sector decreased by 3.5%. The division between loans to the retail market (including SpareBank 1 Boligkreditt AS) and the corporate market/public sector (including SpareBank 1 Næringskreditt AS) was 63.0% to 37.0%, respectively, at year-end 2016, compared with 62.8% to 37.2% in 2015.

Gross loans, % growth, retail and corporate market



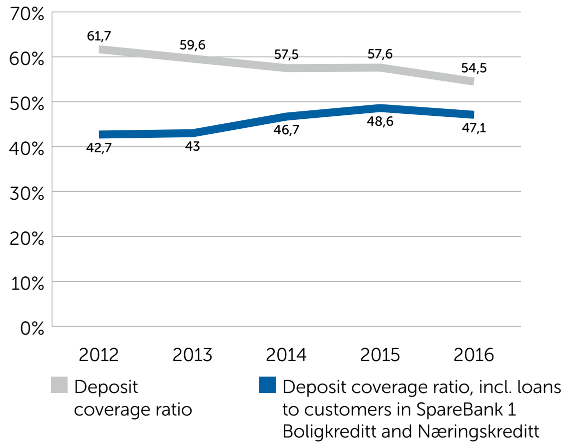
Gross loans, retail and corporate market



Deposits from customers fell by 3.9% in 2016 (9.8% increase) to NOK 85.9 billion (NOK 89.4 billion). Lower deposits are a result of larger deposits from institutional customers, held as part of the liquidity portfolio, having been replaced by other instruments to protect the group's liquidity. Deposits from the corporate market and public sector accounted for 50.1% (52.9%) of the group's customer deposits at year-end 2016.

At year-end 2016, the deposit coverage ratio, measured as deposits as a percentage of gross loans, was 54.5% (57.6%). In a highly competitive market, the group has maintained both a good deposit coverage ratio and at the same time strengthened its long-term funding. The liquidity coverage ratio (LCR), which measures the group's liquidity coverage in a serious, 30-day stress scenario, was 174% at year-end 2016 (128%).
In addition to ordinary customer deposits, the group had NOK 17.4 billion (NOK 17.1 billion) under management, primarily through SR-Forvaltning AS and ODIN Forvaltning AS.

Deposit coverage ratio



Retail market division

The retail market division's contribution before impairment losses on loans was NOK 1,251 million at year-end 2016. The result was NOK 37 million higher than in 2015 due to growth in commissions, exclusive of commissions from SpareBank 1 Boligkreditt, and lower costs. In 2016, the division grew lending by 0.2% and deposits by 1.8%. The lower lending growth was due to the competition situation and the somewhat subdued to falling trend in house prices. Digital channels continued to grow in 2016. The digital channels saw an average of 3 million monthly visits, compared with 2.5 million in 2015. The number of digital sales increased by 25% in 2016 and most sales of savings accounts, funds and savings agreements now take place in digital channels. The launch of new web pages, improved chat solutions, online meetings, biometric ID, and more products in digital channels will continue to grow digital traffic going forward.

The division gained 2,500 new customers aged 13 and above in 2016. The systematic development of existing customer

(Figures in brackets are linked to figures from the annual financial statements for 2015)

portfolios, targeted growth and the launch of new payment products contributed to this growth.

Net impairment losses on loans remained low and the percentage of non-performing loans over 30 days was 0.20% of total loans at year-end 2016.

Corporate market division

The corporate market division's contribution before impairment losses on loans was NOK 1,405 million in 2016. This is NOK 319 million higher than in 2015. The division improved its risk pricing of large parts of the corporate market division's portfolio and this resulted in increased net interest income in 2016.

In the last 12 months, the division reduced its lending by 1.7% and deposits decreased by 2.6%. It is actively working on across-the-board sales of the group's products, and product coverage is increasing. Commissions and other operating income were up compared with 2015.

Net individual impairments of NOK 510 million were recognised in 2016, compared with NOK 242 million in 2015. The division increased collective impairments by NOK 144 million in 2016 due to external market conditions and lasting uncertainty because of lower oil prices. The total level of impairments was slightly higher than the long-term expected average, while the proportion of non-performing loans is moderate.

Balanced, profitable volume growth, good customer relations, and a well-developed range of products are priority areas for the division, as is closely monitoring the development of risk in the portfolio.

Capital market division

The division's areas of expertise complement traditional banking operations and the group's resources within securities activities and management. Securities activities are organised under the SR-Bank Markets brand and include customer and own account trading in fixed income instruments, foreign exchange and equities, analysis and corporate finance services. Capital management is performed via a separate subsidiary, SR-Forvaltning AS.

In 2016, SR-Bank Markets saw an operating result before the allocation of customer income to other business areas of NOK 175 million (NOK 111 million). Higher income from interest rate and currency instruments, as well as a lower fall in the value of the bank's bond portfolio, had a positive impact on the result in relation to the same period last year. The bulk of our income still comes from customer trading in interest rate and currency instruments.

Corporate finance has enjoyed good activity with more completed transactions, while income from the sale of equities and bonds has been relatively stable compared with 2015.

Subsidiaries

The subsidiaries' products and services enable the group to offer a broader range to customers and enhance the bank's earnings basis. Good internal teamwork and joint marketing make the group a one-stop provider of financial products and services.

EiendomsMegler 1 SR-Eiendom AS is well represented throughout the group's entire market area and has 40 branches from Grimstad in the south to Bergen in the north. It is the leading estate agent in Rogaland and Vest-Agder, and is also increasing its market share in both Hordaland and Aust-Agder. The company achieved a pre-tax profit of NOK 16.2 million (NOK 29.6 million). The lower result in 2016 reflects the situation in the housing market in the Stavanger region with significantly fewer sales, especially in the first quarter of 2016. Cost reducing programmes were implemented that produced good effects from the second quarter of 2016. The combined profit for the second to the fourth quarters of 2016 was NOK 4.1 million better than for the same period in 2015.

6,042 properties were sold in 2016 compared with 6,551 in 2015. In total the company sold properties worth almost NOK 19 billion. The supply of new assignments is satisfactory given the market situation, but overall it is around 11% lower than at the same time last year. The company still enjoys a strong market position in Rogaland with a market share of more than 40%, as well as good market positions in the Agder counties and Hordaland. New orders for commercial property for both lease and sale were good. The vacancy rate for office premises has risen significantly in the last few years in the Stavanger region and a steadily increasing number of tenants are looking for premises suitable for the expected level of activity going forward. The levels of activity in Bergen are still good within both the sale and leasing of commercial properties and the company has established itself as a leading player in commercial estate agency in the Bergen region.

SpareBank 1 SR-Finans AS's main activities are lease financing for the business sector and secured car and boat loans for the retail market. The company achieved a pre-tax profit of NOK 84.3 million in 2016 (NOK 150.4 million). The lower result is largely due to individual loss provisions relating to a few of the company's major leasing customers. Profit before impairments and losses was NOK 176.2 million (NOK 190.1 million). Net lending decreased marginally by 0.7% during year and amounted to NOK 6.9 billion at year-end 2016.

6,642 new contracts were established in 2016 (7,482). The company's total new sales in 2016 amounted to NOK 2.4 billion (NOK 2.4 billion).

In September 2016, a decision was made to carry out a parent/subsidiary merger between SpareBank 1 SR-Finans and

SpareBank 1 SR-Bank. The merger was completed on 1 January 2017.

SR-Forvaltning AS is an investment firm licensed to provide active management and fund management services. Pre-tax profit was NOK 28.1 million in 2016 (NOK 35.9 million). The lower result in 2016 is primarily attributable to the reduction in personnel costs in 2015 linked to the reversed pensions (curtailment). The company had assets of NOK 9.5 billion under management at year-end 2016. This represents an increase of NOK 0.1 billion since the start of 2016.

SpareBank 1 Regnskapshuset SR AS was established in the first quarter of 2015 and has since its start-up grown from NOK 0 to NOK 85 million in turnover. At the start of 2017, the company has six offices, four in Rogaland and two in Bergen, and more than 2,000 customers. One acquisition was made in 2016, Regnskap Partner Bergen AS, which has a turnover of around NOK 12 million. The company was taken over with effect from 1 January 2017. Regnskapshuset's acquisitions have provided it with a solid foothold in Southern and Western Norway, and it has built up a good foundation for further growth in the bank's market area. SpareBank 1 Regnskapshuset SR AS achieved a pre-tax profit of NOK 1.6 million in 2016 (NOK 0.6 million), which includes NOK 1.6 million in depreciation of intangible assets (NOK 0.8 million).

SR-Boligkreditt AS is a wholly owned subsidiary and was established in the second quarter of 2015. The purpose of the company is to purchase home mortgages from SpareBank 1 SR-Bank and it funds this by issuing covered bonds. SR-Boligkreditt AS enables SpareBank 1 SR-Bank to diversify and optimise its funding. Moody's has given SR-Boligkreditt AS its best rating, Aaa. The company achieved a pre-tax profit of NOK 113.1 million in 2016 (NOK 39.3 million). At year-end 2016, the company had issued covered bonds with a nominal value of NOK 26.9 billion. At year-end 2016, SR-Boligkreditt had purchased loans for NOK 29.4 billion (NOK 9.9 billion) from SpareBank 1 SR-Bank.

Associated companies

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are mortgage companies operating under licences issued by the Financial Supervisory Authority of Norway and issue covered bonds (with pre-emptive rights) on the bank's home mortgage and commercial properties portfolios respectively that are bought from the owner banks. The companies are owned by the savings banks that make up the SpareBank 1 Alliance and help ensure the owner banks have access to stable, long-term funding at competitive rates.

At year-end 2016, SpareBank 1 Boligkreditt AS's total lending volume amounted to NOK 174.5 billion, NOK 24.2 billion of which were home mortgages bought from SpareBank 1 SR-Bank. The bank currently owns a 13.9% stake in the company. This is updated at the end of each year in line with the volume sold.

At year-end 2016, SpareBank 1 Næringskreditt AS had made loans totalling NOK 11.0 billion, NOK 0.5 billion of which were loans that had been bought from SpareBank 1 SR-Bank. The bank owns a 21.9% stake in the company.

SpareBank 1 Alliance

The SpareBank 1 Alliance's purpose is to acquire and provide competitive financial services and products and to exploit economies of scale in the form of lower costs and/or higher quality. Thus, the alliance helps ensure private individuals and companies local roots, expertise and a simpler everyday life. The alliance is also intended to help secure the participating banks' value creation for the benefit of their own regions and the banks' owners.

The SpareBank 1 banks run the alliance through their ownership and participation in SpareBank 1 Banksamarbeidet DA, while the development and operation of product companies is organised through the banks' ownership of the holding company SpareBank 1 Gruppen AS.

SpareBank 1 Gruppen AS is owned by SpareBank 1 SR-Bank ASA (19.5%), SpareBank 1 Nord-Norge (19.5%), SpareBank 1 SMN (19.5%), Sparebanken Hedmark (11%), Samarbeidende Sparebanker AS (19.5% – own by eleven savings banks in Southern Norway), as well as the Norwegian Federation of Trade Unions (LO) and affiliated unions (9.6%), and SpareBank 1 Oslo Akershus (1.4%)

SpareBank 1 Gruppen AS owns 100% of the shares in SpareBank 1 Forsikring AS, SpareBank 1 Skadeforsikring AS, ODIN Forvaltning AS, Conecto AS, SpareBank 1 Medlemskort AS, andSpareBank 1 Gruppen Finans AS.

SpareBank 1 Gruppen AS delivered a pre-tax profit of NOK 2,019 million in 2016 (NOK 1,287 million). The stronger result in 2016 is primarily attributable to an improvement in the result of the life insurance company due to the improvement in the risk result, as well as a better financial return in the company portfolio. Underlying operations in other companies in SpareBank 1 Gruppen AS were stable and good.
SpareBank 1 SR-Bank's share of the profit in 2016 was NOK 318 million, compared with NOK 251 million in 2015.

SpareBank 1 Gruppen AS bears administrative responsibility for the collaboration processes in the SpareBank 1 Alliance, where technology, brands, expertise, common processes/application

(Figures in brackets are linked to figures from the annual financial statements for 2015)

of best practice, and procurement are key elements. The alliance is also engaged in development work through three resource centres: learning (Tromsø), payments (Trondheim) and credit (Stavanger). Among other things, the alliance focused more heavily on refining self-service digital and mobile solutions in 2016.

BN Bank ASA

SpareBank 1 SR-Bank and the other savings banks in the SpareBank 1 Alliance acquired Glitnir Bank ASA towards the end of 2008. It has since been renamed BN Bank ASA. SpareBank 1 SR-Bank's owned a 23.5% stake in it at year-end 2016. In autumn 2015, the board of BN Bank laid out a new strategy that involved focusing on the retail market division. The work of winding down activities in the corporate market division has been performed on a controlled basis since then. The share of the profit from BN Bank ASA increased to NOK 61 million in 2016 from NOK 29 million in 2015. This was due to a combination of recognising gains from the sale of Visa as income and a good underlying operating result.

Events after the balance sheet date

As at 31 December 2016, SpareBank 1 SR-Bank owned 19.7% of the shares in SpareBank 1 Mobilbetaling AS (mCASH). On 13 February 2017, it was announced that more than 100 Norwegian banks would become part-owners of Vipps together with DnB. This includes the banks in the SpareBank 1 Alliance with their mobile payment solution, mCASH.
The SpareBank 1 Alliance will own 25% and become the second largest owner of the new company after the DnB Group, which will be the largest owner with 52%.

No material events have been registered after 31 December 2016 that affect the annual financial statements as prepared.

Accounting policies

SpareBank 1 SR-Bank prepares its parent bank and consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The description of the accounting policies applied by the group, in note 2 to the accounts, sets out a more detailed account of important factors relating to treatment for accounting purposes in accordance with IFRS.

Corporate governance

Corporate governance in SpareBank 1 SR-Bank comprises the objectives and overriding principles according to which the group is governed and controlled, to secure the interests of shareholders, customers and other stakeholders. Governance of the group's activities shall ensure prudent asset management and greater assurance that publicly declared goals and strategies are reached and realised.

The corporate governance principles are based on three main pillars: openness, predictability and transparency. The group has defined the following main corporate governance principles:

- Value creation for shareholders and other interest groups
- A structure that ensures goal-oriented and independent management and control
- Systems that ensure good measurability and accountability
- Effective risk management
- Well set-out, easily understood and timely information
- Equal treatment of shareholders and a balanced relationship with other interest groups
- Compliance with legislation, regulations and ethical standards

SpareBank 1 SR-Bank has no provisions in its articles of association that restrict the right to sell the company's shares. The board is not aware of any agreements between shareholders that limit opportunities to sell shares or to exercise voting rights for shares. According to the terms of the licence, the Sparebankstiftelsen SR-Bank foundation must own at least 25% of outstanding shares. The board approves the guidelines for the remuneration of executive personnel each year. The guiding policies for the coming financial year are presented to the general meeting for an advisory vote, while the binding guidelines for the allocation of shares, etc. as part of the group's remuneration scheme for the coming financial year are presented to the general meeting for approval.

The group's corporate governance policy is based on the Norwegian Code of Practice for Corporate Governance. Further information on corporate governance, pursuant to section 3-3b of the Accounting Act, is provided in a separate section of the annual report. There is also a special section on corporate social responsibility. The information has also been published on: www.sr-bank.no/ir.

Risk management

SpareBank 1 SR-Bank's core activity is to create value by assuming recognised and acceptable risks. The group, therefore, invests significant resources in maintaining and developing risk management systems and processes that are in line with leading international practice. The board of SpareBank 1 SR-Bank has established its own risk committee.

The risk and capital management should underpin the group's strategic development and goal attainment, while ensuring financial stability and prudent asset management. This shall be achieved through:

- a good risk culture characterised by a high awareness of risk management and the group's core values
- a good understanding of which risks drive earnings

- pricing activities and products in line with their underlying risk, insofar as this is possible
- having adequate financial strength based on a chosen risk profile and simultaneously striving for optimal capital allocation to the various business areas
- utilising diversification effects
- preventing single events seriously damaging the group's financial position

The group's risk is quantified, inter alia, by computing expected losses and risk-adjusted capital so it can cover any unexpected losses. Expected losses describe the amount one statistically expects to lose during a 12-month period, while risk-adjusted capital describes how much capital the group believes it needs to cover the actual risk to which the group is exposed.

The most important risks the group is exposed to are credit risk, market risk, liquidity risk, operational risk and ownership risk.

Credit risk

Credit risk is managed via the framework procedures for granting credit, monitoring commitments and portfolio management. The general credit strategy stipulates that the group shall have a moderate risk profile. Non-performance rose slightly in 2016. Lending losses increased as a result of increased individual loss provisions and impairment losses on groups of loans. The group increased collective impairment losses due to external market conditions and greater uncertainty because of low oil prices. A good and sustained focus on risk management has helped maintain the good credit quality of the portfolio.

The quality of the corporate market portfolio is good and stable when compared with 2015. The quality of the retail market portfolio is very good and its development in 2016 was characterised by unchanged loan-to-collateral value ratios and a low risk profile in the portfolio. Most of the portfolio is secured by mortgages on real estate, and the LTV is, for the most part, moderate. This implies that potential losses are limited as long as the values are not significantly impaired.

Market risk

Market risk is managed on the basis of conservative limits for positions in interest instruments and currencies, as well as investments in shares and bonds. The board reviews and approves the limits at least once a year.

Part of the group's market risk is linked to investments in bonds and certificates. At the end of 2016, the group's holdings of liquid assets in the form of bonds and certificates totalled NOK 21.0 billion. When quantifying risks linked to impairment in the value of the liquidity portfolio, SpareBank 1 SR-Bank distinguishes between systematic risk (market risk) and unsystematic risk (default risk). Default risk associated with the aforementioned portfolio is quantified as credit risk.

Risk activities relating to trading in foreign exchange, interest rate instruments and securities arise within the limits, authorities and credit lines for counterparties that are adopted at any time. SpareBank 1 SR-Bank assumes, to a limited extent, the interest rate and foreign exchange risk in connection with trading activities for own account. As far as possible, income from operations is generated in the form of customer margins in order to ensure earnings are as stable and reliable as possible.

The group's market risk exposure is deemed moderate.

Liquidity risk

The bank's framework for managing liquidity risk shall reflect the bank's conservative risk profile. Liquidity risk shall be low. The group's lending is financed primarily by customer deposits and long-term funding, including the sale of home mortgage portfolios to SpareBank 1 Boligkreditt AS. The liquidity risk is restricted by diversifying securities issued in terms of markets, funding sources, instruments and maturity periods.

The group had good access to funding in 2016.
Deposits from customers represent the group's main source of funding. Deposits decreased by NOK 3.5 billion for the group as a whole in 2016. The deposit coverage ratio fell from 57.6% at year-end 2015 to 54.5% at year-end 2016, primarily due to the buy back of loan portfolios from SpareBank 1 Boligkreditt AS in 2016, but also due to a somewhat lower volume of deposits.

Funding costs fell slightly during 2016 and access to market funding was good. The risk premium for the money market interest rate (3-month NIBOR) increased through the year. SpareBank 1 SR-Bank has continued to focus on adapting to the new regulatory requirements by acquiring more long-term funding and increasing holdings of liquid securities. The liquidity buffer amounted to NOK 24.7 billion at year-end 2016. This level ensures that the bank can maintain normal operations for 25 months without access to extra funding. In addition to the liquidity buffer, the bank has NOK 14.8 billion in home mortgages ready for covered bond funding.

Operational risk

The processes for managing operational risk shall ensure, as far as possible, that no single incident caused by operational risk is able to seriously harm the group's financial position. The risk management is based on insight into and an understanding of what creates and drives operational risk in the group, and must, as far as possible, reconcile effective processes with the desired level of exposure.

The group uses a systematic process to identify and quantify operational risks that the group is exposed to at any time, and it has established its own systems for reporting adverse events and following up improvement measures. This helps SpareBank 1 SR-Bank continue to be a dominant organisation over time through proper prioritisation and continuous improvement.

As part of its on-going skills enhancement, SpareBank 1 SR-Bank has established a partnership with the University of Stavanger and the SpareBank 1 Alliance for a research and development project that will deliver new knowledge and specific tools for better managing operational risk in the financial industry. The goal of the project is to establish the Norwegian financial industry as a professional centre in Europe for education, innovation and applications relating to methods and processes for managing operational risk, and to position the alliance and University of Stavanger as leading environments within the management of operational risk.

Ownership risk

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. Ownership is defined as companies in which SpareBank 1 SR-Bank has a significant stake and influence. SpareBank 1 SR-Bank is mainly exposed to ownership risk through its stakes in SpareBank 1 Gruppen AS (19.5%), SpareBank 1 Boligkreditt AS (13.9%), SpareBank 1 Næringskreditt AS (21.9%) and BN Bank ASA (23.5%).

Compliance

SpareBank 1 SR-Bank's goal is to have good processes to ensure compliance with legislation and regulations. The board adopts the group's compliance policy that describes the main principles for responsibility and organisation.

The EU's work on harmonising regulations within the EU/EEA results in new regulations to which the group must adapt. The group continuously assesses the best way of adapting to new regulations and rules to ensure compliance and effectiveness of the organisation.
New regulations and rules that affect the group's operations must be included in routines and guidelines on an ongoing basis.

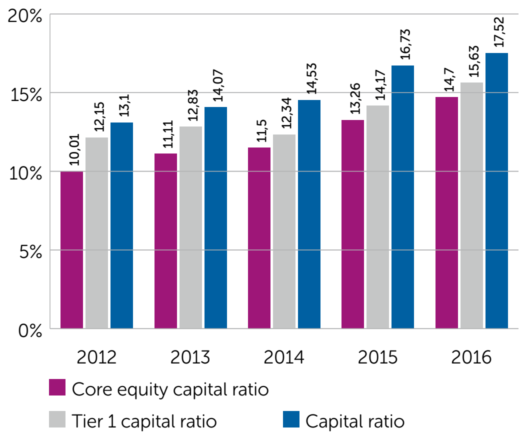
SpareBank 1 SR-Bank's compliance function is the responsibility of the risk management and compliance department and is organised independently of the business units. The department bears overall responsibility for the framework, monitoring and reporting within the area.

Capital management

Capital management shall ensure that SpareBank 1 SR-Bank balances the relationship between:

- Effective funding and capital allocation in relation to the group's strategic objectives and adopted business strategy
- Competitive returns on equity
- Satisfactory capital ratio on the basis of the adopted risk profile and the regulations issued by the authorities, as well as the demands of market players at any time
- Competitive terms and ample access to long-term funding from the capital markets
- Exploitation of growth opportunities in the group's defined market area.

Core equity tier 1 capital, tier 1 capital and capital ratio



A capital plan is drawn up every year to ensure long-term, effective capital management. These projections take into account both expected developments in the coming years and a situation involving a serious economic recession over several years. Various stress tests are carried out of both individual factors and scenario analyses where the group is exposed to a range of negative macroeconomic events over several years. In addition, SpareBank 1 SR-Bank has prepared contingency plans for dealing with such crises as effectively as possible should they nevertheless arise. SpareBank 1 SR-Bank is in a solid financial position and is a market leader in the region in Norway enjoying the strongest growth in the last 10 years. At year-end 2016, the common equity tier 1 capital ratio was 14.7% (13.3%) while the tier 1 capital ratio was 15.6% (14.2%) and the capital ratio was 17.5% (16.7%). Because of the transitional rules, the minimum requirement for capital adequacy cannot amount to less than 80% of the corresponding amount calculated according to the Basel I rules.

The total common equity tier 1 capital ratio requirement for SpareBank 1 SR-Bank, inclusive of the countercyclical buffer and Pillar 2 premium, as at 31 December 2016 was 13.5% and the capital ratio requirement was 17.0%. The requirements are met by a good margin. Banks classified as systemically important financial institutions are also subject to a special capital buffer requirement. SpareBank 1 SR-Bank has not been identified as a systemically important financial institution.

There is a countercyclical capital buffer requirement in Norway in the range of 0-2.5% in the form of common equity tier 1 capital. The purpose of the countercyclical capital buffer is to

(Figures in brackets are linked to figures from the annual financial statements for 2015)

make the banks more solid and robust in relation to lending losses. The capital buffer requirement was 1.5 percentage points as at 31 December 2016. The Ministry of Finance has decided to increase the requirement to 2.0 percentage points from 31 December 2017. The total minimum requirement for common equity tier 1 capital will thus increase to 14.0% at year-end 2017.

The Pillar 2 premium is an institution-specific premium intended to ensure that Norwegian banks have adequate capital to cover the risk associated with operations, including risks not covered by the regulatory minimum requirement. The Financial Supervisory Authority of Norway has in its assessment of the group stipulated a Pillar 2 premium of 2.0%.

External audit

The group's external auditor is PricewaterhouseCoopers AS (PwC).

Internal audit

Internal audits are carried out by Ernst & Young AS (EY). Internal audits report directly to the board.

Employees and working environment

SpareBank 1 SR-Bank's employees are its most important resources for creating value for the benefit of its customers, the region and the bank. At year-end 2016, the group had 1,172 full-time equivalents, of which 1,127 were full-time employees. The number of full-time equivalents decreased by 18 during the year. There are 38 fewer full-time equivalents in the parent bank, while the number of full-time equivalents in subsidiaries increased by 20 in the same period, primarily because of the SpareBank 1 Regnskapshuset SR venture. The group is an important knowledge-based workplace in the region and is perceived as an attractive employer providing good development opportunities.

The group's organisational and working environment surveys for 2016 show that employees are satisfied and have a good relationship with the group as an employer. The surveys are reviewed and followed up in all units in order to ensure a positive development and strengthen a healthy working environment characterised by a long-term approach, openness, honesty and security in line with the group's basic values.

Skills development

The group has purposely invested in developing in-house expertise over many years in order to satisfy the growing demands of customers. The goal is for customers to recognise that the company offers better advice and service than its competition. On average, between 5 and 10% of working hours are spent on updating and developing skills. More than NOK 8,000 per employee was invested in skills development in 2016.

Health, safety and the environment

Health, safety and environment (HSE) work is a high priority in the group. A good working structure has been established and we deem the cooperation with employees' representatives to be very good. Compulsory HSE training has been introduced for all managers and safety representatives and the group constantly strives to improve safety routines through various training measures.

The group strives to ensure sustainable environmental management and seeks to contribute both through its own operations and by influencing customers and suppliers to make environmental and climate-friendly choices. The group's direct environmental impact is primarily related to greenhouse gas emissions and waste production through office operations, while its indirect impact is through the purchase of goods and services, as well as demands made of customers and suppliers.

Sick leave and the inclusive workplace scheme

The group has a set a long-time target for the healthy rate of 97%. At the year-end 2016, the healthy rate was 96.4% (96.9 %). Over time, the group has worked comprehensively and systemically to promote and improve the employees' health, maintain this over time and help those who become sick to return to work. The group constantly strives to lower sick leave through participation in the Inclusive Workplace scheme (IW) and good follow-up by managers.

SpareBank 1 SR-Bank has prepared a life-phase document in order to offer employees a range of measures that are suited to the individual's life-phase and that will generally improve the employee's everyday life and contribute to a rise in the retirement age. The target retirement age is 64.5 and the average retirement age in 2016 was 63.9, a decrease of 0.2 years from 2015.

Gender equality

SpareBank 1 SR-Bank shall provide employees with equal opportunities for personal development, pay and other career related issues. In 2016, women accounted for 55% of the full time equivalents in the group and men 45%. There was no significant change in the gender ratio from 2015. The average age was 44.7 years old and the average length of service 13.3 years. The group executive management team comprises eight men and one woman. The proportion of women managers in the group decreased from 43.0% to 42.0% in 2016.

The bank's shares

The share price for the bank's shares (SRBANK) was NOK 60.75 at year-end 2016. This represents an increase of 54.6% since year-end 2015. The main Oslo Stock Exchange index rose by 12.1% in the same period. Trading in the SRBANK share increased throughout 2016.

(Figures in brackets are linked to figures from the annual financial statements for 2015)

There were 10,428 (10,153) shareholders of SRBANK at year-end 2016. The proportion owned by foreign companies and individuals was 19.1%, whilst 49.9% were owned by residents of Rogaland, the Agder counties and Hordaland. The 20 largest shareholders owned a total of 56.9% of the shares. The bank holds 108,983 treasury shares, while group employees owned 1.8%.

The group profit per share was NOK 6.87 in 2016.
The board proposes the payment of a dividend of NOK 2.25 per share for 2016, which corresponds to around 32.8% of the group profit per share. The dividend for the 2015 financial year was NOK 1.50, which corresponds to a distribution rate of around 22.0%.

Going concern

Financial strength was significantly strengthened in 2016. The outlook for financial performance also appears good despite continued uncertainty concerning general macro-economic conditions. Together with implemented and planned measures, this contributes to a good prospect of further progress for the group in 2017. The annual financial statements have been prepared on the assumption that the group is a going concern.

Allocation of profit for the year/dividend

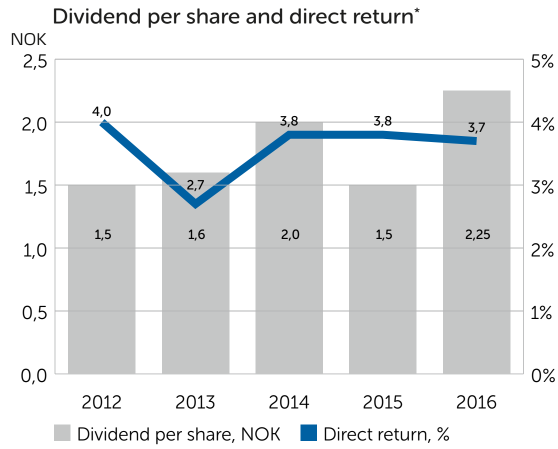
SpareBank 1 SR-Bank's financial goal for its activities is to achieve results that provide a good, stable return on the Bank's equity, thus creating value for the owners in the form of competitive dividends and a higher share price. Consideration is given to financial needs, including capital adequacy requirements and the group's targets and strategic plans, when determining the annual dividend. Unless capital requirements dictate otherwise, the goal of the board is for up to half of the annual net profit for the year to be distributed as dividends.

The dividend distributed is based on the parent bank's profit. The parent company's profit for 2016 was NOK 1,921 million or NOK 7.51 per share. In line with the dividend policy, various factors are taken into consideration when proposing dividends, with particular weight being attached to capital requirements and the tier 1 capital ratio.
The board, therefore, proposes a dividend of NOK 2.25 per share for 2016, which corresponds to around 32.8% of the group profit per share.

The board proposes the following allocations for the 2016 financial year:

	NOK million
Parent company net profit for the year	1,921
Transferred from the fund for valuation differences	111
Distributable	2,032
Dividend (NOK 2.25 per share)	575
Retained earnings	1,457
Total	**2,032**

In the opinion of the board, following the proposed allocations and other completed and planned actions, SpareBank 1 SR-Bank's financial strength will be good and it will have sufficient flexibility to support the group's planned activities for the future.



*Dividend divided by share price at year end.

Outlook for 2017

Moderate growth is expected in the global economy. Norwegian economic growth is expected to be low and still affected by the downturn in oil-related activities. Oil investments decreased by 16% in 2016 compared with the year before. The Norwegian Petroleum Directorate expects a further reduction in investments in the petroleum sector of around 10% in 2017 compared with 2016. This will probably affect the overall level of activity in the region in 2017 as well.

Both oil companies and the supply industry have rationalised operations and reduced costs to adapt to the new level of turnover. This is affecting the overall level of activity, although some export-oriented industries are experiencing growth due to the weak Norwegian krone. Low to moderate activity is expected within the construction industry, as well as in some commodity segments. At the same time as the expectations indicate low growth, at the start of 2017 there is significantly greater optimism around than there was at the start of 2016. The main index of the bank's business survey of economic activity is now at 54% compared with 47% at the same time last year, which shows that a majority of the 600 selected companies in our market area that provide the basis for the survey are more optimistic about the future. Continued, stable activity is expected within most sectors in Hordaland and the Agder counties.

The group's long-term return on equity target is at least 11%. The group also has a common equity tier 1 capital ratio target of at least 15% by the end of 2017. SpareBank 1 SR-Bank is a solid, profitable group and has in recent years increased its financial strength in line with the authorities' requirements. This was achieved through solid earnings via a business model involving good, broad and efficient operations. The group achieved its common equity tier 1 capital ratio target of 14.0% by year-end 2016 by a good margin and also expects to be able to carry out the necessary capital buildup by the end of 2017. The conditions should also be right for increasing the dividend slightly in 2017 and normalising dividends from and including 2018.

Better risk pricing was introduced in some segments of the corporate market in 2016 and at the start of 2017 the group will increase prices for loans in the retail market. The lending volume is expected to increase by 2-4% in 2017 with loans to retail customers expected to increase slightly more than loans to corporate customers. As a consequence of technological developments, changes in customer behaviour and the lower activity in the region, the group has implemented several cost-reducing measures.
Investments are being made in new technology to improve the customer experience and increase sales. Overall, these measures will ensure the group is competitive going forward.

The group's prognoses take account of the fact that the group will in 2017 again have to make the necessary impairments that exceed the average in an economic cycle. Some of the bank's customers in the oil industry are experiencing a prolonged, demanding market. At the same time, macroeconomic indicators such as unemployment and house prices have performed better than previously expected. Given this, the need for impairments in 2017 is expected to be on a par with the level in 2016, or slightly lower. The expected need for impairments for 2016 was NOK 500-700 million, while actual impairment losses on loans amounted to NOK 778 million. The difference was primarily due to an unexpected event that resulted in a large loss provision for one of the group's commitments within oil services. The board would like to stress that a great deal of uncertainty is associated with all assessments of future conditions.

A good mutual relationship between the region's inhabitants, the business sector and the bank is important for growth in the group's market area. The board would like to thank the group's customers, owners and other partners for their loyal support of SpareBank 1 SR-Bank in 2016 and assure them that it will make every effort to ensure that this teamwork continues. The board would also like to thank the group's employees and elected officers for their good contributions and teamwork in 2016.

Stavanger, 8 March 2017

Dag Mejdell
Chair of the board

Kate Henriksen

Tor Dahle

Birthe Cecilie Lepsøe

Jorunn Johanne Sætre

Odd Torland

Sally Lund-Andersen
Employee representative

Kristian Kristensen
Employee representative

Arne Austreid
Chief Executive Officer

Annual financial statements

INCOME STATEMENT

Parent bank 2015	Parent bank 2016	(Figures in NOK millions)	Note	Group 2016	Group 2015
5,399	**4,868**	Interest income	19	**5,563**	5,752
3,113	**2,407**	Interest costs	19	**2,692**	3,159
2,286	**2,461**	**Net interest income**		**2,871**	2,593
1,126	**1,054**	Commissions	20	**1,511**	1,605
70	**68**	Commission costs	20	**72**	78
6	**5**	Other operating income	20	**4**	5
1,062	**991**	**Net commissions and other operating income**		**1,443**	1,532
15	**109**	Dividends		**110**	17
530	**776**	Income from ownership interests	38	**384**	422
-173	**145**	Net income/losses from financial investments	21	**160**	-135
372	**1,030**	**Net income from financial investments**		**654**	304
3,720	**4,482**	**Total net income**		**4,968**	4,429
669	**854**	Personnel costs	22	**1,166**	945
709	**680**	Other operating costs	23	**866**	918
1,378	**1,534**	**Total operating costs before impairment losses on loans**		**2,032**	1,863
2,342	**2,948**	**Operating profit before impairment losses on loans**		**2,936**	2,566
380	**684**	Impairment losses on loans and guarantees	11	**778**	420
1,962	**2,264**	**Pre-tax profit**		**2,158**	2,146
340	**343**	Taxes	25	**403**	400
1,622	**1,921**	**Net profit for the year**		**1,755**	1,746
		Statement of Comprehensive Income			
187	**-62**	Actuarial gains/losses on pensions		**-62**	200
-46	**15**	Tax effect of actuarial gains/losses on pensions		**15**	-50
141	**-47**	**Total items not reclassified through profit or loss**		**-47**	150
-21	**-**	Tax change actuarial gains/losses		**-**	-21
95	**-62**	Change in value of financial assets available for sale		**-62**	95
-	**-**	Share of comprehensive income in associated companies and joint ventures		**-7**	32
74	**-62**	**Total items that can be reclassified through profit or loss**		**-69**	106
215	**-109**	**Year's comprehensive income**		**-116**	256
1,837	**1,812**	**Total comprehensive income**		**1,639**	2,002
		Earnings per share			
6.34	**7.51**	Earnings per share		**6.87**	6.83
6.34	**7.51**	Diluted earnings per share		**6.86**	6.82
0.91	**1.09**	Net profit as a % of average total assets		**0.90**	0.96

BALANCE SHEET

Parent bank 2015	Parent bank 2016	(Figures in NOK millions)	Note	Group 2016	Group 2015
		Assets			
931	**1,079**	Cash and receivables from the central bank	36	**1,079**	931
8,813	**10,138**	Loans to and receivables from financial institutions	7	**4,334**	2,984
137,506	**120,252**	Loans to customers	8,10,12,14	**156,372**	154,357
20,314	**22,042**	Certificates and bonds	14, 27	**21,024**	19,533
6,133	**5,057**	Financial derivatives	28	**4,315**	6,135
300	**433**	Equities, units and other equity interests	29	**596**	441
168	**22**	Operations that will be sold	41	**22**	168
3,172	**2,884**	Investments in ownership interests	38	**4,460**	4,792
2,698	**3,713**	Investments in group companies	38	**-**	-
2	**-**	Intangible assets	30	**89**	61
342	**354**	Tangible fixed assets	31	**495**	404
1,963	**344**	Other assets	32	**622**	2,243
182,342	**166,318**	**Total assets**		**193,408**	192,049
		Liabilities			
5,052	**3,231**	Debt to financial institutions	7	**2,674**	4,343
89,632	**86,184**	Deposits from customers	33	**85,914**	89,444
63,338	**52,987**	Securities issued	34	**79,183**	71,979
3,832	**2,711**	Financial derivatives	28	**2,515**	3,739
544	**621**	Payable tax	25	**681**	637
643	**315**	Deferred tax liabilities	25	**360**	654
708	**1,063**	Other liabilities	35, 24	**1,147**	880
3,459	**2,646**	Subordinated loan capital	37	**2,646**	3,459
167,208	**149,758**	**Total liabilities**		**175,120**	175,135
		Equity			
6,394	**6,394**	Share capital	40	**6,394**	6,394
1,587	**1,587**	Share premium reserve		**1,587**	1,587
384	**575**	Allocated dividend		**575**	384
163	**52**	Fund for unrealised gains		**52**	163
6,606	**7,952**	Other equity		**9,680**	8,386
15,134	**16,560**	**Total equity**		**18,288**	16,914
182,342	**166,318**	**Total liabilities and equity**		**193,408**	192,049

Stavanger, 8 March 2017

Dag Mejdell
Chair of the board

Kate Henriksen

Tor Dahle

Birthe Cecilie Lepsøe

Jorunn Johanne Sætre

Odd Torland

Sally Lund-Andersen
Employee representative

Kristian Kristensen
Employee representative

Arne Austreid
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

(Figures in NOK millions)

Parent bank	Share capital	Share premium reserve	Other equity	Fund for unrealised gains	Total equity
Equity as at 31 Dec 2014	6,394	1,587	5,757	59	13,797
Net profit for the year			1,613	9	1,622
Actuarial gains/losses after tax on pension schemes			120		120
Change in value of financial assets available for sale				95	95
Year's comprehensive income			1,733	104	1,837
Dividend from 2014, finally resolved in 2015			-512		-512
Trade in treasury shares			12		12
Transactions with shareholders			-500		-500
Equity as at 31 Dec 2015	6,394	1,587	6,990	163	15,134
Net profit for the year			2,032	-111	1,921
Actuarial gains/losses after tax on pension schemes			-47		-47
Change in value of financial assets available for sale			-62		-62
Year's comprehensive income			1,923	-111	1,812
Dividend from 2015, finally resolved in 2016			-384		-384
Trade in treasury shares			-2		-2
Transactions with shareholders			-386		-386
Equity as at 31 Dec 2016	**6,394**	**1,587**	**8,527**	**52**	**16,560**

Group					
Equity as at 31 Dec 2014	6,394	1,587	7,363	59	15,403
Net profit for the year			1,737	9	1,746
Actuarial gains/losses after tax on pension schemes			129		129
Change in value of financial assets available for sale				95	95
Share of comprehensive income from associated companies			32		32
Year's comprehensive income			1,898	104	2,002
Corrected equity in associated companies			9		9
Dividend from 2014, finally resolved in 2015			-512		-512
Trade in treasury shares			12		12
Transactions with shareholders			-500		-500
Equity as at 31 Dec 2015	6,394	1,587	8,770	163	16,914
Net profit for the year			1,866	-111	1,755
Actuarial gains/losses after tax on pension schemes			-47		-47
Change in value of financial assets available for sale			-62		-62
Share of comprehensive income from associated companies			-7		-7
Year's comprehensive income			1,750	-111	1,639
Corrected equity in associated companies			121		121
Dividend from 2015, finally resolved in 2016			-384		-384
Trade in treasury shares			-2		-2
Transactions with shareholders			-386		-386
Equity as at 31 Dec 2016	**6,394**	**1,587**	**10,255**	**52**	**18,288**

STATEMENT OF CASH FLOW

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Note	Group 2016	Group 2015
-3,466	**16,959**	Change in loans to customers	8	**-2,448**	-13,522
4,834	**4,256**	Interest receipts from loans to customers		**5,095**	5,329
7,909	**-3,448**	Change in deposits from customers	33	**-3,530**	7,955
-1,355	**-839**	Interest payments on deposits from customers		**-835**	-1,350
-1,795	**-1,963**	Change in receivables and deposits with financial institutions	7	**-1,837**	-1,702
-381	**-491**	Interest on receivables and debt to financial institutions		**-629**	-505
-5,066	**-1,728**	Change in certificates and bonds	27	**-1,510**	-4,272
384	**443**	Interest receipts from certificates and bonds		**422**	384
1,025	**991**	Commission receipts		**1,445**	1,533
-12	**60**	Capital gains from sale of trading		**59**	-15
-1,323	**-1,495**	Payments for operations		**-1,990**	-1,847
-102	**-544**	Paid tax	25	**-637**	-206
2,407	**-481**	Other accruals		**369**	2,883
3,059	**11,720**	**A Net change in liquidity from operations**		**-6,026**	-5,335
-129	**-85**	Investments in tangible fixed assets	31	**-167**	-208
-	**-**	Receipts from sale of tangible fixed assets	31	**-**	6
-1,381	**-1,090**	Long-term investments in equities		**-168**	-1,406
221	**368**	Receipts from sales of long-term investments in equities		**376**	221
545	**886**	Dividends from long-term investments in equities		**681**	546
-744	**79**	**B Net change in liquidity from investments**		**722**	-841
4,328	**8,395**	Increase in securities issued	34	**29,255**	12,861
-7,332	**-15,813**	Repayment – securities issued		**-19,332**	-7,332
-1,018	**-835**	Interest payments on securities issued		**-1,075**	-1,070
481	**-**	Borrowing and sale of own subordinated loans	37	**-**	481
-	**-746**	Repayments - subordinated loans	37	**-746**	-
-137	**-132**	Interest payments on subordinated loans		**-132**	-137
-512	**-384**	Dividend to shareholders		**-384**	-512
-4,190	**-9,515**	**C Net change in liquidity from financing**		**7,586**	4,291
-1,875	**2,284**	**A+B+C Net change in cash and cash equivalents in the year**		**2,282**	-1,885
2,984	**1,109**	Cash and cash equivalents 1 Jan		**1,111**	2,996
1,109	**3,393**	**Cash and cash equivalents 31 Dec**		**3,393**	1,111
		Specification of cash and cash equivalents			
931	**1,079**	Cash and receivables from the central bank		**1,079**	931
178	**2,314**	Receivables from financial institutions at call		**2,314**	180
1,109	**3,393**	**Cash and cash equivalents 31 Dec**		**3,393**	1,111

Cash and cash equivalents include cash and deposits in the central bank, and that part of total loans to and deposits in financial institutions that relate to pure placements in financial institutions. The statement of cash flow shows how the parent bank and group generated liquid assets and how these were applied.

In total, the group's cash and cash equivalents increased by NOK 2,282 million in 2016.

NOTE 1 GENERAL INFORMATION

The SpareBank 1 SR-Bank Group consists of the parent bank, SpareBank 1 SR-Bank ASA ('the bank'), and subsidiaries: SR-Boligkreditt AS, SpareBank 1 SR-Finans AS, EiendomsMegler 1 SR-Eiendom AS, SR-Investering AS, SpareBank 1 Regnskapshuset SR AS, SR-Forvaltning AS, Finansparken Bjergsted AS, and Rygir Industrier AS with subsidiaries (repossessed assets).

As at 31 December 2016, the bank owns a 13.9% stake in SpareBank 1 Boligkreditt AS, a 21.9% stake in SpareBank 1 Næringskreditt AS, a 23.5% stake in BN Bank ASA, a 17.9% stake in SpareBank 1 Kredittkort AS, and a 19.7% stake in SpareBank 1 Mobilbetaling AS. The group treats these as associated companies.

The bank also owns a stake of 19.5% in SpareBank 1 Gruppen AS and a stake of 17.7% in SpareBank 1 Banksamarbeidet DA. These stakes are treated as joint ventures.

SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Nord-Norge and Samarbeidende Sparebanker AS each own 19.5% of SpareBank 1 Gruppen AS. The other owners are Sparebanken Hedmark (11.0%) and the Norwegian Confederation of Trade Unions (LO) (9.6%), and SpareBank 1 Oslo Akershus (1.4%). The SpareBank 1 Alliance's management structure is regulated by an agreement between the owners. SpareBank 1 SR-Bank and SpareBank 1 Nord-Norge each own 23.5% of BN Bank ASA. SpareBank 1 SMN owns 33.0% and Samarbeidende Sparebanker AS owns 20.0%. BN Bank ASA's management structure is regulated by an agreement between the owners.

The bank's head office is in Stavanger and it has 36 branches in Rogaland, Vest-Agder, Aust-Agder and Hordaland. Some of the branches share premises with EiendomsMegler 1 SR-Eiendom AS. All of the subsidiaries have their head offices in Stavanger.

The group's primary activities are selling and procuring a wide range of financial products and services, investments services, accounting services, and leasing and estate agency.

The consolidated financial statements were approved by the board on 8 March 2017. The annual general meeting is the bank's supreme authority.

NOTE 2 ACCOUNTING POLICIES

BASIS FOR PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

The bank's financial statements and the consolidated financial statements for 2016 for SpareBank 1 SR-Bank ('the group') have been prepared in accordance with International Finance Reporting Standards (IFRS) as adopted by the EU. This includes interpretations from the IFRS Interpretations Committee and its predecessor, the Standing Interpretations Committee (SIC).

The annual financial statements of SpareBank 1 SR-Bank for 2016 have been prepared in accordance with the IFRS regulations for parent banks and groups.

SpareBank 1 SR-Bank is a public limited company registered as based in Norway with its head office in Stavanger. SpareBank 1 SR-Bank is listed on the Oslo Stock Exchange.

The basis for measurement used in both the bank's and the consolidated financial statements is acquisition cost, with the following modifications: financial derivatives, parts of financial assets, and parts of financial liabilities are recognised at fair value with value changes through profit or loss.

Preparing financial statements in accordance with IFRS requires the use of estimates. Furthermore, applying international reporting standards requires management to use its judgement. Areas that involve a great deal of discretionary estimates, a high degree of complexity, or areas where assumptions and estimates are significant for the bank's and the consolidated financial statements are described in note 3.

The annual financial statements are presented in accordance with IFRS and interpretations that are obligatory for annual financial statements presented as at 31 December 2016. The annual financial statements have been prepared on the assumption that the group is a going concern.

New and revised standards that were applied in 2016:
No new standards, amendments to standards or interpretations that materially affected the accounts of the group or parent company were adopted from 1 January 2016.

New standards and interpretations that have not been adopted yet:
A number of new standards, amendments to standards and interpretations will be compulsory in future annual financial statements. The most of important of these, which the group has chosen not to apply early, are described below:

IFRS 9 replaces the classification and measurement models in IAS 39 Financial Instrument: Recognition and measurement with one simple model, which basically only has two categories: amortised cost and fair value. The classification of loans depends on the unit's business

(Note 2 cont.)

model for managing its financial assets and the attributes of the individual asset's cash flows.

Note 42 provides a more exhaustive account of the assessments regarding IFRS 9.

IFRS 15 Revenue from Contracts with Customers deals with recognising revenue. This will replace IAS 18 which applies to contracts for goods and services and IAS 11 which applies to construction contracts. The new standard is based on the principle that income recognition takes place when control over a good or service is transferred to a customer – so the principle of control will replace the existing principle of risk and return.

The group is currently assessing the effects of IFRS 15.

IFRS 16 Leases will primarily affect the lessee's accounting and will result in almost all leases being capitalised. The standard eliminates the current distinction between operational and financial leases and requires recognition of a right of use asset (the right to use this leased asset) and a financial liability to pay the lease for almost all leases. Exemptions exist for short-term leases and low value leases. The income statement will also be affected because the total cost is usually higher in the first few years of a lease and lower in later years. Operating costs will also be replaced with interest and depreciation, so important ratios will change.
Cash flows from operations will increase because payment of the principal of the lease liability will be classified as a financing activity. Only that part of payments that are interest can be presented as cash flow from operations.
The lessor's accounting will not be materially changed. Some differences may arise as a consequence of new guidelines on the definition of a lease. Under IFRS 16, a contract is a lease, or contains a contract, if it transfers the right to control the use of an identified asset for a period of time in exchange for remuneration.
The group is currently assessing the effects of IFRS 16.

Disclosure Initiative – amendments in IAS 7. Going forward an enterprise will have to explain changes in its liabilities due to financing activities. This includes changes due to cash flows (e.g. drawing and repaying loans) and changes without cash flow effects, such as acquisitions, sales, calculated interest, and unrealised currency differences. Changes in financial assets must be included in explanatory information if the cash flows were, or will be, included in cash flows from financing activities. This could, for example, be the case for assets that hedge financing liabilities. Enterprises can include other changes in this information, for example by showing a reconciliation of net liabilities. In these circumstances changes in the other elements will be presented separately from changes in liabilities due to financing activities. The information can be presented as a table that reconciles ingoing and outgoing balances, although no specific format is required.

There are no other standards or interpretations which are not currently in effect and would be expected to have a material effect on the consolidated financial statements.

Presentation currency

The presentation currency is the Norwegian krone (NOK), which is also the group's presentation currency. The functional currency in the parent company and all important subsidiaries is the Norwegian krone (NOK). All figures are in NOK millions unless otherwise stated.

Subsidiaries

Subsidiaries' assets are valued using the cost method of accounting in the bank's financial statements. Investments are assessed at the acquisition cost of the shares assuming that no write-downs have been necessary.

Dividends, group contributions and other distributions are recognised as income in the year that they are approved by the annual general meeting. If the dividend/group contribution exceeds the share of the retained profit after the acquisition, the amount in excess represents a repayment on invested capital, but is, pursuant to the amended IAS 27, recognised as income in the year that it is paid.

Consolidation

The consolidated financial statements include all subsidiaries. Subsidiaries are all units (including structured units) over which the group has control. Control over a unit arises when the group experiences variation in the return from the unit and has the ability to influence this return because of its power over the unit. Subsidiaries are consolidated from the day control arises and deconsolidated when control ceases.

The acquisition method is used for acquisitions of business.
The remuneration paid is measured at the fair value of the assets transferred, liabilities assumed and equity instruments issued. The fair value of all assets or liabilities according to the agreement on conditional consideration are also included in the remuneration. Identifiable assets, liabilities and contingent liabilities are recognised at their fair value on the acquisition date. Minority interests in the acquired business are measured from time to time at either fair value or their share of the net assets of the acquired business.

Costs linked to the acquisition are recognised as costs when they are incurred.

When an acquisition occurs in multiple steps, the assets from previous acquisitions must be revalued at fair value on the date the check is made and the change in value recognised.

Conditional consideration is measured at fair value on the acquisition date. The treatment of subsequent changes in the fair value of conditional consideration depends on whether the conditional consideration is classified as an asset, liability or equity. Assets and liabilities that are not financial assets or liabilities (i.e. outside the scope of IAS 39) are measured at fair value with value changes presented through profit or loss. Financial assets or liabilities are measured at fair value and changes in value must, in accordance with IAS 39, be recognised or presented in other comprehensive income. No new measurement is made of conditional consideration that is classified as equity and subsequent settlements are recognised against equity.

(Note 2 cont.)

Intra-group transactions, intra-company balances and unrealised profit between group companies are eliminated.
Unrealised losses are also eliminated. Reported figures from subsidiaries are, if necessary, restated so they correspond with the group's accounting policies.

The minority interests' share of the group's profit is presented on a separate line under net profit in the income statement. Their share of the minority's equity is shown as a separate item.

Change in ownership interests in subsidiaries without any loss of control

Transactions with minority interests (non-controlling owners) in subsidiaries that do not entail any loss of control are treated as equity transactions. In the event of further acquisitions, the difference between the remuneration and the shares' proportional share of the carrying amount for net assets in the subsidiary is recognised against the equity of the parent company's owners. Gains or losses from sales to minority interests are similarly recognised against equity.

Disposal of subsidiaries

In the event of a loss of control, any remaining ownership interest is measured at fair value with changes recognised through profit or loss.
Fair value will thereafter constitute the acquisition cost for further accounting, as an investment in an associated company, joint venture or financial asset. Amounts that were previously recognised in other comprehensive income relating to this company are treated as if the group had disposed of the underlying assets and liabilities. This could entail amounts that have previously been recognised in other comprehensive income being reclassified to the income statement.

Associated companies

Associated companies are entities in which the group has a significant interest but not control. Normally, significant influence arises when the group has a stake of between 20% and 50% of the voting capital. Investments in associated companies are recorded in accordance with the cost method of accounting in the bank's financial statements and the equity method in the consolidated financial statements.

New investments are recorded at acquisition cost in consolidated financial statements. Investments in associated companies include goodwill/badwill identified at the time of the acquisition, reduced by any possible later write-downs.

The group's share of profits or losses in associated companies are recorded and added to the book value of the investments. The group's share of the comprehensive income in the associated company is recognised in other comprehensive income in the group and is also supplemented with the carrying amount for the investments. The group does not recognise the share of any loss if this makes the carrying amount of the investment negative (including unsecured receivables from the unit), unless the group has assumed obligations or made payments on behalf of the associated company.

Joint arrangements

The group has adopted IFRS 11 for all joint arrangements. Under IFRS 11, investments in joint arrangements must be classified as either a joint operation or a joint venture, depending on the contractual rights and obligations of each investor. SpareBank 1 SR-Bank has assessed its joint arrangements and determined that they are joint ventures. Joint ventures are recognised using the equity method in the group and the cost method in the financial statements.

When the equity method is used joint ventures are recognised at their original acquisition cost. The carrying amount is thereafter adjusted to recognise the share of the results after the acquisition and the share of comprehensive income. When the group's share of a loss in a joint venture exceeds the carrying amount (including other long-term investments that in reality are part of the group's net investment in the venture) no further loss is recognised, unless liabilities have been assumed or payments made on behalf of the joint venture.

Unrealised gains from transactions between the group and its joint ventures are eliminated in relation to the ownership interest in the venture. Unrealised losses are also eliminated unless the transaction provides evidence of a fall in the value of the transferred asset. Amounts reported from joint ventures are, if necessary, restated to ensure they correspond with the group's accounting policies.

Lending and impairment losses on loans

Loans with variable rates are measured at amortised cost in accordance with IAS 39. The amortised cost is the acquisition cost minus repayments on the principal, taking into account transaction costs, plus or minus cumulative amortisation using the effective interest method, and less any amount for impairment in value or exposure to loss. The effective interest rate is the interest that exactly discounts estimated future cash receipts and payments over the expected life of the financial instrument.

Fixed-rate loans to customers are earmarked upon initial recognition at fair value, with value changes through profit or loss, in accordance with IAS 39.9. Gains and losses resulting from changes in fair value are recorded through profit or loss as a change in value. Accrued interest and premiums/discounts are recorded as interest. The bank uses the fair value option for measuring fixed-rate loans, as this largely eliminates inconsistencies in measuring other comparable instruments in the balance sheet.

Sales of loans

The bank has concluded an agreement concerning the sale of loans with good security and collateral in real estate to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. In line with the administration contract between the bank and financial institutions, the bank administers the loans and maintains the contact with customers. The bank receives a fee in the form of commissions for the duties involved in administering the loans. The agreements between the bank and SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS were amended in 2015 with effect for new and previously transferred loans. The new agreements mean that the bank has transferred practically all of the risk and benefits of

(Note 2 cont.)

ownership associated with the sold loans. The sales are therefore treated as pure sales and loans are thus fully eliminated from the bank's balance sheet.
This is described in note 9.

The bank has concluded an agreement concerning the sale of loans with good security and collateral in real estate to SR-Boligkreditt AS. In line with the administration contract between the bank and mortgage companies, the bank administers the loans and maintains the contact with customers. The bank receives a fee in the form of commissions for the duties involved in administering the loans.

Assessment of impairment of financial assets

On each balance sheet date, the group assesses whether there is any objective evidence that the cash flow expected when the item was initially recorded will not be realised and that the value of the financial asset or group of financial assets has been reduced. An impairment in value of a financial asset assessed at amortised cost or group of financial assets assessed at amortised cost has been incurred if, and only if, there is objective evidence of impairment that could result in a reduction in future cash flows to service the commitment. The impairment must be the result of one or more events that have occurred after the initial recognition (a loss event) and it must be possible to measure the result of the loss event (or events) in a reliable manner. Objective evidence that the value of a financial asset or group of financial assets has been reduced includes observable data that is known to the group relating to the following loss events:

- The issuer or borrower is experiencing significant financial difficulties
- Breach of contract, such as a default or delinquency in payment of instalments and interest
- The bank granting the borrower special terms for financial or legal reasons relating to borrower's financial situation
- Likelihood of the debtor entering into debt negotiations or other financial reorganisation
- Disappearance of an active market for the financial asset because of financial difficulties
- Observable data indicating that there is a measurable decline in future cash flows from a group of financial assets since the initial recognition of those assets, even though the decline cannot yet be fully identified with the individual financial assets in the group including:
  - adverse changes in the payment status of the borrowers in the group
  - national or local economic conditions that correlate with defaults of the assets in the group

The group first considers whether there is individual objective evidence of impairment of financial assets that are significant individually. For financial assets that are not individually significant, the objective evidence of impairment is considered individually or collectively. If the group decides that there is no objective evidence of impairment of an individually assessed financial asset, significant or not, the asset is included in a portfolio of financial assets with the same credit risk characteristics. The group is tested for any impairment on a portfolio basis. Assets that are assessed individually with respect to impairment, and where an impairment is identified or continues to be identified, are not included in a general assessment of impairment. See note 3.

If there is objective evidence that impairment has occurred, the amount of the loss is calculated as the difference between the asset's book (carrying) value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's latest effective interest rate. The book value of the asset is reduced using an allowance account and the loss is recorded in the income statement.

Future cash flows from a group of financial assets that are tested for impairment on a portfolio basis are estimated on the basis of the contractual cash flows for the group and historical losses on assets with a similar credit risk. Historical losses are adjusted for existing observable data in order to take into account the effects of existing circumstances that were not present at the time of the historical losses and to adjust for the effect of earlier circumstances that do not exist today.

Non-performing and loss exposed commitments

The total commitment to a customer is considered to be in default (non-performing) and included in the group's summaries of defaulted loans when an instalment or interest is not paid 90 days after due date, a line of credit is overdrawn for 90 days or more, or the customer is bankrupt. Loans and other commitments that are not in default, but where the customer's financial situation makes it likely that the group will incur a loss, are classified as loss exposed commitments.

Realised losses

When it is highly probable that the losses are final, the losses are classified as realised losses. Realised losses that are covered by earlier specific loss provisions are recorded against the provisions. Realised losses without cover by way of impairment losses on loans and over or under coverage in relation to previous impairment losses on loans are recognised through profit or loss.

Repossessed assets

As part of the handling of non-performing loans and guarantees, the group acquires, in some cases, assets that have been lodged as security for such commitments. At the time of takeover, the assets are valued at their assumed realisation value and the value of the loan commitment is adjusted accordingly. Repossessed assets that are to be realised are classified as operations that will be sold, holdings or fixed assets held for sale and recorded in accordance with the relevant IFRS standards (normally IAS 16, IAS 38, IAS 39 or IFRS 5).

Leases

Financial leases are recorded in the balance sheet under the main item 'Net lending to customers' and recognised in accordance with the amortised cost principle. All fixed income during the expected term of the lease is included when calculating the lease's effective interest.

The group has no sale and lease back contracts covering property, plant and equipment.

(Note 2 cont.)

Securities

Securities comprise equities and units, certificates and bonds. Equities and units are recognised either as held for sale or at fair value with change in value through profit or loss. Certificates and bonds are classified either as held for sale, at fair value with value change through profit or loss, as held to maturity or as a receivable. The group uses the price on the trade date upon initial recognition of securities.

All financial instruments that are classified as held for sale or at fair value with value change through profit or loss, are measured at fair value, and changes in the value from the opening balance are recorded as income from financial investments. The group is of the opinion that financial instruments classified at fair value with value change through profit or loss provide more relevant information about the values of these items in the balance sheet than if they were assessed at amortised cost. The financial instruments included in this category are regularly reported and managed based on fair value.
Certificates and bonds that are classified as held to maturity or as a receivable are measured at amortised cost using an effective interest rate method. See description of this method in the section on lending.

Derivatives and hedging

Derivatives consist of currency and interest rate instruments. Derivatives are recognised at fair value through profit or loss. The fair value of derivatives includes the value of counterparty credit risk (CVA).

The group uses derivatives for operational and accounting (funding) hedging purposes to minimise the interest rate risk in fixed-rate instruments (fixed-rate funding and fixed-rate loans), bonds (assets and liabilities), and certificates (assets and liabilities). The efficiency of the hedging is assessed and documented both when the initial classification is made and on an ongoing basis. When fair value hedging is used the hedging instrument is recognised at fair value, but as far as the hedged item is concerned changes in fair value linked to the hedged risk are recognised through profit and loss and against the hedged item. See note 28 for further information.

Goodwill/badwill

Goodwill is the positive difference between the cost of acquiring a business and the fair value of the Bank's share of the net identifiable assets in the business at the time of acquisition. Goodwill on the acquisition of subsidiaries is classified as intangible assets. Goodwill on the acquisition of shares in associated companies and joint ventures is included in the investment and tested for depreciation as part of the book (carrying) value of the investment. Goodwill is not subject to amortisation, but is subject to annual impairment testing with the purpose of identifying any indications that impairment may have occurred, in accordance with IAS 36. Any assessment of a fall in value is assessed at the lowest level in the undertaking where goodwill is followed up for internal management purposes. Write-downs of goodwill cannot be reversed. In those cases where the cost of acquiring a business is lower than the fair value of the bank's share of net identifiable assets at the time of acquisition, so-called badwill, the difference is immediately recorded as income and included in income from ownership interests.

Tangible fixed assets

Tangible fixed assets comprise buildings, plots of land and operating equipment. Buildings and operating equipment are recognised at cost less depreciation and write-downs. Plots of land are recorded at cost price less write-downs. Plots of land are not depreciated. The cost price includes all direct costs related to the acquisition of the asset.
Depreciation is on a straight-line basis in order to allocate the cost price, less possible residual value, over the useful life of the operating equipment.

Operations/assets that will be sold

These items on the balance sheet contain the group's assets it has decided to sell. The items include assets and liabilities relating to repossessed properties and property companies that are to be syndicated and disposed of by selling parts to customers. The items are recognised at fair value.

Funding

Funding is initially recorded at the cost at which it is raised, which is fair value of the proceeds received after deducting transaction costs. Loans raised with variable rates are thereafter measured at amortised cost, and any discount/premium is accrued over the term of the loan. Fixed-rate funding is assessed at fair value with discounting according to the applicable interest curve, though not taking into account changes in own credit spreads and transaction costs, since the group use fair value hedging for such funding. Deposits from customers and financial institutions are assessed at amortised cost.

Pensions

The SpareBank 1 SR-Bank Group has two types of pension scheme: defined benefit and defined contribution benefit. The group has both covered and uncovered defined benefit pension schemes.
The covered defined benefit pension scheme was, until 31 December 2015, covered by the group's pension fund.
In addition to the pension liabilities covered by the pension fund, the group has uncovered pension liabilities that cannot be covered by the assets in the collective schemes.

The group's covered defined benefit pension scheme was closed to new members from and including 1 April 2011. A decision was also taken at the board meeting in June 2015 that employees who are still members of the defined benefit pension scheme must transfer to a defined contribution pension scheme from 1 January 2016.

Defined benefit schemes

A defined benefit scheme is defined as a scheme that is not a defined contribution scheme.

A defined benefit scheme will typically define an amount an employee will receive from and including the date of retirement, usually dependent of age, number of years worked and pay.

The liability that must be recognised for the defined benefit scheme is the present value of the liability on the balance sheet date, with deductions for the fair value of the pension assets. The gross liability is calculated by an independent actuary using the unit credit method. The gross liability is discounted to the present value using the interest rate on high quality corporate bonds with almost the same term to maturity as the payment horizon of the liability.

(Note 2 cont.)

Gains and losses that occur with the recalculation of the liability due to experience gains and losses, and changes in actuarial assumptions, are recognised against equity via the comprehensive income statement in the period they arise. The effects of changes in the schemes' plans are recognised immediately.

Defined contribution scheme
In the case of defined contribution plans, the company pays a fixed contribution to an insurance company. The company has no legal or self-imposed obligation to inject further assets if there proves to be insufficient assets to pay all employees the benefits linked to their earnings in this or earlier periods. The subscriptions are recorded as a payroll cost. Any pre-paid subscription is recorded as an asset (pension asset) to the extent that the subscription can be refunded or reduces future subscription payments.

Contingent liabilities
The group issues financial guarantees as part of its ordinary business. Gross latent liabilities are specified in note 35. Impairment assessments are made as part of assessing impairment losses on loans and in accordance with the same policies, and are reported with these, ref. note 11. Provisions are made for other uncertain liabilities if it is more probable than not that the liability will materialise and the financial consequences can be reliably calculated. Information is disclosed about contingent liabilities that do not satisfy the criteria for balance sheet recording if they are significant.

Provisions are made for restructuring costs when the group has a contractual or legal obligation, payment is probable and the amount can be estimated, and the size of the obligation can be estimated with sufficient reliability.

Subordinated loans and hybrid tier 1 capital
Subordinated loans have a lower priority than all other debt. 50% of the dated subordinated loans can be regarded as tier 1 capital in the capital ratio, whilst 100% of perpetual subordinated loans can be included in tier 1 capital. Subordinated loans are classified as subordinated loan capital in the balance sheet and are measured at fair value with value change through profit or loss or amortised cost in the same way as other long-term loans. The bank uses fair value hedging for measuring fixed-rate loans.

Hybrid tier 1 capital are bonds with nominal interest, but the group is not obliged to pay any interest in periods when no dividend is paid and the investor cannot later claim any interest that has not been paid, i.e. interest is not accumulated. Tier 1 capital instruments have been approved as an element of tier 1 capital. The Financial Supervisory Authority of Norway can demand that hybrid instruments be written down proportionally with equity if the bank's tier 1 capital ratio falls below 5%, or the capital ratio falls below 8%. The written down amount relating to the hybrid tier 1 capital shall be written up before dividends can be disbursed to shareholders. Hybrid tier 1 capital is classified as subordinated loan capital in the balance sheet and is measured at fair value with changes in value through profit or loss.

Dividends
Dividends are recognised as equity in the period prior to being approved by the bank's annual general meeting.

Interest income and interest costs
Interest income and interest costs related to assets and liabilities that are measured at amortised cost are recorded continuously in the income statement in accordance with the effective interest rate method. The effective interest rate is the interest rate that results in the present value of the expected cash flow over the expected life of a financial asset or liability being equal to the book value (carrying value) of the respective financial asset or liability.
When calculating an effective interest rate, the cash flow effect inherent in the agreement is estimated, without taking into account future impairment. The calculations take therefore into account inter alia fees, transaction costs, premiums and discounts.

If a financial asset is written down due to impairment, a new effective interest rate is calculated based on adjusted estimated cash flows.

Interest income and costs for financial instruments measured at fair value are classified as interest income and interest costs respectively. Other changes in value are classified as income from financial instruments.

Commissions and commission costs
Commissions and commission costs are generally accrued in line with the delivery/receipt of a service. Fees relating to interest-bearing instruments are not recognised as commissions, but are included in the calculation of the effective interest rate and recognised accordingly through profit or loss. Advisory/consultancy fees are accrued in accordance with the signed agreement, typically at the time the service is delivered.

The same applies to day-to-day management services. Fees and charges related to the sale or brokerage of financial instruments, properties or other investment objects that do not generate balance sheet items in the consolidated financial statements, are recognised when the transaction is completed.

Transactions and balance sheet items in foreign currency
Transactions involving foreign currencies are converted into Norwegian krone using the exchange rates at the time of the transactions. Gains and losses linked to executed transactions, or to the conversion of holdings of balance sheet items, in foreign currency are recognised on the balance sheet date. Gains and losses on non-monetary items are included in the income statement in the same way as the corresponding balance sheet item.
The exchange rate on the balance sheet date is used when converting balance sheet items.

Taxes
Taxes consist of payable tax and deferred tax. Payable tax is the estimated tax on the year's taxable profit.

Payable tax for the period is calculated according to the tax laws and regulations enacted or substantively enacted on the balance sheet date.

(Note 2 cont.)

Deferred taxes are accounted for using the liability method in accordance with IAS 12. Deferred tax assets or liabilities are calculated based on all the temporary differences, which are the differences between the book values of assets and liabilities for accounting purposes and for taxation purposes. Nonetheless, no deferred tax liability or benefit is calculated on goodwill that does not provide tax-related deductions, or on initially recognised items that affect either the accounting or taxable result.

Deferred tax assets are calculated for tax loss carry forwards. Assets with deferred tax are included only to the extent that future taxable profits are expected to make it possible to exploit the related tax benefit.

Cash flow statement

The statement of cash flow shows cash flows grouped by source and application area. Cash is defined as cash, deposits in central banks, and deposits in financial institutions with no period of notice. The statement of cash flow is prepared using the direct method.

Segment reporting

A business segment is part of an entity that is engaged in providing individual products or services that are subject to risks and returns that are different from those of other business segments. A geographic market (segment) is a part of a business that supplies products and services within a limited geographic area that is subject to risks and returns that are different from other geographic markets. As regards segment reporting, the group executive management team is considered to be supreme decision-making authority. The figures in the segment reporting are based on internal reporting to group executive management team.

Events after the balance sheet date

The financial statements are published after the board has approved them. The general meeting and the regulatory authorities may refuse to approve the published financial statements subsequent to this but they cannot change them.
Events that take place before the date on which the financial statements are approved for publication, and which affect conditions that were already known on the balance sheet date, will be incorporated into the pool of information that is used when making accounting estimates and are thereby fully reflected in the financial statements. Events that were not known on the balance sheet date will be reported if they are significant.

The financial statements have been prepared on the basis of a going concern assumption.

The board's proposed dividend is specified in the board of directors' report and note 43. The proposed divided is classified as equity until it has finally been approved.

NOTE 3 CRITICAL ESTIMATES AND JUDGEMENTS CONCERNING USE OF THE ACCOUNTING POLICIES

IMPAIRMENT LOSSES ON LOANS AND GUARANTEES

The group assesses its entire corporate market portfolio annually. Large commitments, non-performing loans and high-risk exposures are subject to quarterly assessments. Loans to retail customers are subject to evaluation when they are in default for more than 60 days. Large non-performing loans are evaluated on a quarterly basis.

The group's risk classification systems are described under financial risk management.

The group makes write-downs if there is objective evidence that can be identified for an individual commitment, and the objective evidence entails a reduction in future cash flows for servicing the commitment. Objective evidence may be default, bankruptcy, insolvency or other significant financial difficulties.

Individual write-downs are calculated as the difference between the loan's book (carrying) value and the present value of future cash flows based on the effective interest rate at the time of the calculation of the initial individual write-down. Subsequent changes in interest rates are taken into account for loan agreements with variable rates if these changes affect the expected cash flow.

Collective write-downs are calculated on groups of loans where there is objective evidence indicating that a loss event has occurred after the initial recording of the loans. Objective evidence includes observable data that results in a measurable reduction in estimated future cash flows from the group of loans, including negative changes in the payment status of debtors in the groups of loans, or national or local economic conditions that correlate with default in the group of loans. If objective evidence of a fall in value exists, loan losses shall be calculated as the difference between the carrying amount (book value) and the present value of the estimated future cash flows, discounted at the effective interest rate.

FAIR VALUE OF EQUITY INTERESTS

Financial assets assessed at fair value through profit or loss will normally be traded in active markets and the fair value can thus be determined with reasonable certainty. Market values for assets and liabilities that are recognised at amortised cost and appear in notes may be estimates based on discounted expected future cash flows, multiplier analyses or other calculation methods. Such methods can be subject to significant uncertainty. With the exception of a few equities, liquidity in the Norwegian stock market is poor. Share prices will under most circumstances be the last known traded price.

FAIR VALUE OF DERIVATIVES

The fair value of derivatives is usually determined by using valuation methods where the price of the underlying object, for example, interest and currency rates, is obtained from the market. In the case of options, volatility will be either observed implicit volatility or calculated volatility based on historical price movements for the underlying object.

PENSIONS

Net pension liabilities and the pension costs for the year are based on a number of estimates, the most important of which are the yield on pension assets, future interest and inflation rates, future wage development, staff turnover, development in the Norwegian National Insurance basic amount (G) and the general development in the number of persons receiving disability benefits and life expectancy. Uncertainty is largely related to gross liabilities and not to net liabilities that are shown in the balance sheet. Changes in estimates because of changes in the above parameters will be recorded via other comprehensive income on an ongoing basis.

INCOME TAX

When calculating the group's income tax, a considerable degree of discretion is called for. There will be some uncertainty associated with the final tax liability with regard to many transactions and calculations. The group records tax liabilities linked to future decisions in tax cases and disputes based on the additional tax liability that will accrue. If the final outcome of a case differs from the amount originally allocated, the difference will affect the recorded tax costs and allocations for deferred tax in the period the difference is established.

NOTE 4 SEGMENT REPORTING

The executive management team has assessed which segments are reportable based on the form of distribution, products and customers. The primary reporting format is based on the risk and return profile of the assets, and it is divided between the retail market (including self-employed people), the corporate market, capital market and subsidiaries of significant importance. Own account trading/staff/support parent bank covers administration, management, investment services, strategy and ownership, treasury and financial functions in the bank. SR-Boligkreditt AS was established in the second quarter of 2015. The activities in SR-Boligkreditt AS are divided between the retail market and own account trading/staff/support in the parent bank segments. Commissions from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are reported under "Net commissions and other income".

Reporting per business area:

(Figures in NOK millions)

2016	Retail market	Corporate market	Capital market	Own account trading/ staff/ support	Eiendoms-Megler 1	SR-Finans	Other business	Elimin-ations	SR-Bank Group
Interest income	1,645	1,760	30	1,941	2	359	3	-177	5,563
Interest costs	462	452	-16	1,848	-	119	-	-173	2,692
Net interest income [1)]	1,183	1,308	46	93	2	240	3	-4	2,871
Commissions	666	329	48	10	348	4	167	-61	1,511
Commission costs	37	24	4	17	-	18	30	-58	72
Other operating income	-	-	-	5	-	-	-	-1	4
Net commissions and other operating income	629	305	44	-2	348	-14	137	-4	1,443
Dividends	5	-	2	103	-	-	-	-	110
Income from ownership interests	-	18	-	758	-	-	-	-392	384
Net income/losses from financial investments	5	8	37	61	-	5	-1	45	160
Net income from financial investments	10	26	39	922	-	5	-1	-347	654
Personnel costs	388	176	54	237	205	32	79	-5	1,166
Administration costs	86	27	16	283	35	7	11	-1	464
Other operating costs	97	31	11	134	94	16	22	-3	402
Total operating costs before impairment losses on loans	571	234	81	654	334	55	112	-9	2,032
Operating profit before impairment losses on loans	**1,251**	**1,405**	**48**	**359**	**16**	**176**	**27**	**-346**	**2,936**
Change in individual impairment losses on loans and guarantees	27	510	-	-	-	83	-	-	620
Change in group write-downs on loans and guarantees	5	144	-	-	-	9	-	-	158
Pre-tax profit	**1,219**	**751**	**48**	**359**	**16**	**84**	**27**	**-346**	**2,158**
Net interest income									
Net external interest income	1,183	1,308	46	-26	-	359	3	-2	2,871
Net internal interest income	-	-	-	119	2	-119	-	-2	-
Net interest income	1,183	1,308	46	93	2	240	3	-4	2,871
Balance sheet									
Gross loans to customers	93,159	54,922	379	2,183	-	7,002	-	-7	157,638
Individual impairments	-60	-374	-	-	-	-73	-	-82	-590
Impairments on groups of loans	-50	-550	-	-	-	-76	-	-	-676
Certificates/bonds/financial derivatives	-	-	2,222	25,098	-	-	9	-1,990	25,339
Other assets	13	958	71	18,490	148	4	789	-8,778	11,696
Total assets	**93,062**	**54,956**	**2,672**	**45,771**	**148**	**6,857**	**798**	**-10,858**	**193,408**
Deposits from customers	47,754	37,355	4	1,072	-	-	-	-272	85,914
Other liabilities and equity [1)]	45,308	17,601	2,668	44,699	148	6,857	798	-10,585	107,493
Total liabilities and equity	**93,062**	**54,956**	**2,672**	**45,771**	**148**	**6,857**	**798**	**-10,858**	**193,408**
Total loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	**24,177**	**517**							**24,694**

(Note 4 cont.)

2015	Retail market	Corporate market	Capital market	Own account trading/ staff/ support	Eiendoms-Megler 1	SR-Finans	Other business	Eliminations	SR-Bank Group
Interest income	1,855	1,679	1,168	822	3	390	2	-167	5,752
Interest costs	775	607	1,096	710	-	136	-	-164	3,159
Net interest income [1]	1,080	1,072	72	113	3	254	2	-2	2,593
Commissions	744	333	36	15	383	4	141	-49	1,605
Commission costs	38	25	5	3	-	23	33	-48	78
Other operating income	1	-	-	5	-	-	1	-2	5
Net commissions and other operating income	706	308	31	17	383	-19	109	-3	1,532
Dividends	3	-	1	11	-	-	1	1	17
Income from ownership interests	-	40	-	490	-	-	-	-108	422
Net income/losses from financial investments	12	-91	-22	-74	-	-	-30	70	-135
Net income from financial investments	15	-51	-21	427	-	-	-29	-37	304
Personnel costs	383	179	57	49	216	24	39	-3	945
Administration costs	103	30	13	276	41	9	7	-	480
Other operating costs	101	34	10	150	99	12	35	-3	438
Total operating costs before impairment losses on loans	587	243	80	475	356	45	81	-5	1,863
Operating profit before impairment losses on loans	1,214	1,086	2	82	30	190	1	-37	2,566
Change in individual impairment losses on loans and guarantees	3	242	-	-	-	35	-	-	280
Change in group write-downs on loans and guarantees	5	130	-	-	-	5	-	-	140
Pre-tax profit	1,206	713	2	82	30	150	1	-36	2,146
Net interest income									
Net external interest income	1,080	1,072	72	-21	-	390	2	-1	2,593
Net internal interest income	-	-	-	133	3	-136	-	-1	-
Net interest income	1,080	1,072	72	112	3	254	2	-2	2,593
Balance sheet									
Gross loans to customers	89,133	55,852	698	2,509	-	7,000	-	-2	155,190
Individual impairments	-66	-219	-	-	-	-30	-	-	-315
Impairments on groups of loans	-45	-406	-	-	-	-67	-	-	-518
Certificates/bonds/financial derivatives	-	-	6,022	20,520	-	1	17	-892	25,668
Other assets	55	962	142	17,937	168	105	572	-7,917	12,024
Total assets	89,077	56,190	6,862	40,966	168	7,008	589	-8,811	192,049
Deposits from customers	46,910	38,359	3,699	664	-	-	-	-188	89,444
Other liabilities and equity [1]	42,167	17,830	3,164	40,302	168	7,008	589	-8,623	102,605
Total liabilities and equity	89,077	56,190	6,862	40,966	168	7,008	589	-8,811	192,049
Total loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	28,168	538							28,706

[1] Net interest income and other liabilities contain allocated arrangements between the segments. The interest on intercompany receivables for the retail market division and the corporate market division is determined on the basis of expected observable market interest rates (NIBOR) plus expected additional costs in connection with the group's long-term funding (credit premium). Differences between the group's actual funding costs and the interest applied on intercompany receivables are eliminated in the parent bank.

(Note 4 cont.)

The group primarily operates in a geographical area bounded by Grimstad in the south east and Bergen in the north west. Important asset classes (loans and deposits) are also segmented geographically in separate notes under loans and deposits.

	Rogaland		Agder		Hordaland		SR-Bank Group	
Geographic distribution	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net interest income	**2,386**	2,171	**228**	203	**257**	219	**2,871**	2,593
Net commissions and other operating income	**1,164**	1,260	**126**	136	**153**	136	**1,443**	1,532
Net income from financial investments	**651**	301	**1**	-3	**2**	6	**654**	304
Operating costs	**1,752**	1,574	**127**	138	**153**	151	**2,032**	1,863
Operating profit before impairment losses on loans	**2,449**	2,158	**228**	198	**259**	210	**2,936**	2,566
Impairment losses on loans and guarantees	**771**	388	**1**	5	**6**	27	**778**	420
Pre-tax profit	**1,678**	1,770	**227**	193	**253**	183	**2,158**	2,146
Gross loans to customers	**127,218**	125,795	**15,040**	14,790	**15,380**	14,605	**157,638**	155,190
Individual impairments	**-492**	-174	**-56**	-85	**-42**	-56	**-590**	-315
Impairments on groups of loans	**-655**	-502	**-8**	-6	**-13**	-10	**-676**	-518
Certificates/bonds/financial derivatives	**25,339**	25,668	**-**	-	**-**	-	**25,339**	25,668
Other assets	**11,691**	11,991	**2**	14	**3**	19	**11,696**	12,024
Total assets	**163,101**	162,778	**14,979**	14,713	**15,328**	14,558	**193,408**	192,049
Deposits from customers	**76,938**	79,676	**4,556**	5,276	**4,421**	4,492	**85,914**	89,444
Other liabilities and equity	**86,163**	83,102	**10,423**	9,437	**10,907**	10,066	**107,493**	102,605
Total liabilities and equity	**163,101**	162,778	**14,979**	14,713	**15,328**	14,558	**193,408**	192,049
Total loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.	**21,735**	25,348	**1,929**	2,105	**1,030**	1,252	**24,694**	28,706

NOTE 5 CAPITAL ADEQUACY

(Figures in NOK millions)

On 22 August 2014, the Ministry of Finance stipulated amendments to the capital requirements regulations with effect from 30 September 2014. The amendments are adjustments implemented to comply with the EU's new capital adequacy regulations for banks and securities undertakings (CRD IV/CRR) and entail the minimum requirement for common equity tier 1 capital ratio was gradually increased in the run up to 30 June 2016.

The following requirements applied as at 30 June 2016: capital conservation buffer 2.5%, systemic risk buffer 3.0%, and countercyclical buffer 1.5%. These requirements were additional to the requirement for common equity tier 1 capital of 4.5%, meaning the combined minimum requirement for common equity tier 1 capital was 11.5% from 30 June 2016.
The Financial Supervisory Authority of Norway has also set an individual Pillar 2 requirement of 2.0%, which will be added to the minimum common equity tier 1 capital ratio requirement from 31 December 2016. The total minimum common equity tier 1 capital requirement will therefore be 13.5% from 31 December 2016. The countercyclical capital buffer will increase by 0.5 percentage points from 31 December 2017 and the minimum common equity tier 1 capital ratio requirement will thus increase to 14.0% from 31 December 2017.

SpareBank 1 SR-Bank has permission from the Financial Supervisory Authority of Norway to use internal measurement methods (Internal Rating Based Approach) for quantifying credit risk.
The use of IRB requires the bank to comply with extensive requirements relating to organisation, expertise, risk models and risk management systems. In February 2015, SpareBank 1 SR-Bank was granted permission by the Financial Supervisory Authority of Norway to switch to Advanced IRB for the corporate portfolio, which was previously reported in accordance with Foundation IRB.

Investments in associated companies and joint ventures are recognised in the group using the equity method and in accordance with 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, SpareBank 1 Næringskreditt and BN Bank. A proportionate consolidation is carried out for the group's capital adequacy.

Parent bank			Group	
2015	**2016**		**2016**	2015
6,394	**6,394**	Share capital	**6,394**	6,394
1,587	**1,587**	Share premium reserve	**1,587**	1,587
384	**575**	Allocated dividend	**575**	384
163	**52**	Fund for unrealised gains	**52**	163
6,606	**7,952**	Other equity	**9,680**	8,386
15,134	**16,560**	**Total recorded equity**	**18,288**	16,914

(Note 5 cont.)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
		Tier 1 capital		
-2	-	Deferred tax, goodwill and other intangible assets	-94	-67
-384	-575	Deduction for allocated dividend	-575	-384
-380	-210	Deduction in expected losses IRB less loss provisions	-263	-421
-	-	Deduction common equity tier 1 capital for essential investments in financial institutions	-163	-191
-39	-36	Value of derivative liabilities at fair value	-50	-57
14,329	15,739	**Total common equity tier 1 capital**	17,143	15,794
794	791	Tier 1 capital instruments	1,084	1,088
15,123	16,530	**Total tier 1 capital**	18,227	16,882
		Tier 2 capital		
2,536	1,778	Non-perpetual subordinated capital	2,276	3,111
-60	-60	Deduction for essential investments in financial institutions	-60	-60
2,476	1,718	**Total tier 2 capital**	2,216	3,051
17,599	18,248	**Net primary capital**	20,443	19,933
		Credit risk Basel II		
14,820	17,228	SME	17,231	14,822
20,445	18,176	Specialised enterprises	19,471	22,148
6,316	6,435	Other enterprises	6,785	6,830
1,092	997	Mass market SME	1,194	1,236
20,024	15,599	Mass market - mortgage on real estate	25,899	27,170
928	1,992	Other mass market	2,027	950
7,802	10,439	Equity positions	-	-
71,427	70,866	**Total credit and counterparty risk IRB**	72,607	73,156
70	68	States and central banks	68	70
116	269	Local and regional authorities, state-owned enterprises	333	191
5,628	3,400	Institutions	2,169	5,985
2,075	3,324	Enterprises	7,446	6,886
121	546	Mass market	2,058	1,386
-	-	Mass market - mortgage on real estate	2,506	4,114
1,228	1,400	Covered bonds	1,817	1,205
4,600	2,938	Equity positions	4,950	4,661
1,507	824	Other assets	1,726	1,840
15,345	12,769	**Total credit and counterparty risk standard method**	23,073	26,338
499	415	Risk of weaker creditworthiness at counterparty (CVA)	701	1,050
5,295	5,458	Operational risk	7,054	6,794
1,429	-	Transitional scheme	13,216	11,786
93,995	89,508	**Risk-weighted balance sheet**	116,651	119,124
4,230	4,028	Minimum requirement common equity tier 1 capital 4.5%	5,249	5,361
		Buffer requirement		
2,350	2,238	Capital conservation buffer 2.5%	2,916	2,978
2,820	2,685	System risk buffer 3%	3,500	3,574
940	1,343	Countercyclical buffer 1.5%	1,750	1,191
6,110	6,266	Total buffer requirement for common equity tier 1 capital	8,166	7,743
3,990	5,446	**Available common equity tier 1 capital after buffer requirement**	3,728	2,690
18.72%	20.39%	Capital ratio	17.52%	16.73%
16.09%	18.47%	tier 1 capital ratio	15.63%	14.17%
2.63%	1.92%	tier 2 capital ratio	1.90%	2.56%
15.24%	17.58%	Common equity tier 1 capital ratio	14.70%	13.26%
19.01%	20.39%	Capital ratio IRB	19.76%	18.57%
16.34%	18.47%	Tier 1 capital ratio, IRB	17.62%	15.73%
15.48%	17.58%	Common equity tier 1 capital ratio, IRB	16.57%	14.71%
7.67%	9.17%	Leverage ratio	7.28%	6.30%

NOTE 6 FINANCIAL RISK MANAGEMENT

Risk and capital management in SpareBank 1 SR-Bank should create financial and strategic added value through:

- a good risk culture characterised by a high awareness of risk management and the group's core values
- a good understanding of which risks drive earnings
- pricing activities and products in line with their underlying risk, insofar as this is possible
- having adequate financial strength based on a chosen risk profile and simultaneously striving for optimal capital allocation to the various business areas
- utilising diversification effects
- preventing single events seriously damaging the group's financial position

SpareBank 1 SR-Bank bases its risk and capital management on the following main principles:

- The group's risk and capital management framework must be documented and based on the best international practices
- The group must have a management and control structure that promotes prudent, independent management and control
- The risk and capital management must form an integral part of the management and decision process in the group
- Risk and capital management in the group shall support the group's strategic development and achievement of objectives while ensuring financial stability and sound management of assets
- The group must have a good risk culture characterised by a high awareness of risk and capital management
- The board must approve the group's desired risk profile on at least an annual basis
- The difference between group's willingness to assume risk and its capacity to assume risk must represent a buffer that is sufficient to ensure that no single events can seriously damage the group's financial position
- The risk identification process must be implemented regularly, look forwards, and cover all significant areas of risk
- Quantification of risk must be based on recognised methods and be sufficiently conservative to properly take account of any weaknesses in the model
- Thorough analyses must be carried out of the identified risks in order to understand the risks' effects on income, costs and losses
- Effective management and control measures must be established for the individual risks based on the risk analysis. Measures that reduce probability shall take precedence over measures that reduce consequences
- The group must prepare a minimum 5-year financial prognosis at least once a year, and this must as a minimum cover expected financial developments, as well as a period involving a serious financial set back – the serious financial set back must be severe, but realistic
- The return on risk-adjusted capital is one of the most important strategic performance goals in the internal management of the group
- The group must carry out comprehensive, periodic risk follow-up and reporting
- The group shall, insofar as it is possible, price activities and products in line with the underlying risk to ensure the right level of risk is assumed
- The group must draw up robust contingency and recovery plans so it can manage critical situations in the best possible way should they arise
- The group must have clear, unambiguous definitions of the various types of risk

SpareBank 1 SR-Bank is exposed to various types of risk:

Credit risk: the risk of loss resulting from the inability or unwillingness of customers or counterparties to fulfil their obligations

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

Market risk: the risk of loss due to changes in observable market variables such as interest rates, foreign exchange rates and securities markets

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

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.

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.

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

Concentration risk: the risk of an accumulation of exposure to an individual customer, sector or geographical area arising. Sectoral concentration risk is exposure that can arise across different types of risk or business areas in the group, e.g. due to common underlying risk drivers such as the price of oil

Risk exposure in SpareBank 1 SR-Bank

SpareBank 1 SR-Bank is exposed to various types of risk and the most important risk groups are described below:

Credit risk is managed via the framework procedures for granting credit, monitoring commitments and portfolio management. The group's credit strategy comprises overriding credit strategy limits to ensure 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 group particularly focuses on the concentration risk associated with exposure to large individual customers and certain industries. In order to avoid undesirable concentration risk, the strategic credit limits also set restrictions in relation to exposure and risk profile at a portfolio level, and for different industries and individual customers. These restrictions are additional to the limits stipulated by the Regulation regarding Major Commitments. 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. For example, in the case of financing property commitments, minimum requirements are imposed for equity, advance sales of housing projects and degree of financing in relation to rental income on rental property.

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 probability of default and security cover. The authority is personal. The credit review routines regulate in detail all factors related to the granting of credit by the group and follow-up of commitments.

The group utilises credit models for risk classification, risk pricing and portfolio management. The risk models are based on three main components:

1. **Probability of default (PD):** Customers are classified into default classes based on the probability of them defaulting on their obligations during a period of 12 months, based on a long-term outcome in a complete loss cycle. 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. When funding commercial property for leasing, a special credit model must be used internally that calculates the probability of default based on the expected cash flow from the leasing activities combined with behavioural criteria. 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.
2. **Exposure at default (EAD):** This is an estimate of what the group's exposure will be were a customer to default. This exposure consists of lending volume, guarantees and approved, but not drawn limits respectively. For the retail market, approved, but not drawn limits are multiplied by a conversion factor of 100%. For the corporate market, approved but not drawn facilities are multiplied by a conversion factor that for customers with a normal score varies between 60% - 90%, depending on the customer's probability of default. Guarantees are multiplied by a conversion factor of either 50% or 100%, depending on the type of guarantee.
3. **Loss given default (LGD):** This is an estimate of how much the group can potentially lose if the customer defaults on his obligations. The valuation takes in account the value of underlying securities and the costs the group incurs from recovering defaulted commitments. The group sets realisation values on collateral security lodged based on 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.

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. Quantitative validation is intended to ensure that the estimates used for the probability of default, exposure at default and loss given default are always of adequately good quality. Analyses are carried out to assess the models' ability to rank the customers according to risk (discrimination ability), and the ability to determine the correct level for the risk parameters. In addition, the stability of the models' estimates and the models' cyclical sensitivity are analysed. The quantitative validation will, in certain circumstances, be supplemented by more qualitative valuations, especially if only limited statistical data is available.

In addition to the credit risk in the lending portfolio, the group has credit risk through its exposure in the liquidity reserve portfolio. This portfolio consists mainly of low risk certificates 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. The portfolio accounts for around 3% of total lending exposure. For further information please see notes 7 to 14.

Liquidity risk is managed via the group's general liquidity strategy, which is reviewed and adopted by the board at least once a year. Liquidity management is based on conservative limits and reflects the group's moderate risk profile. The group's treasury department is responsible for liquidity management, while the risk management and compliance department monitors and reports on the utilisation of limits in accordance with the liquidity strategy.

The group's lending is mainly funded by customer deposits and long-term security debt. The liquidity risk is restricted by diversifying securities issued in terms of markets, funding sources, instruments and maturity periods.

For further information see notes 17 and 18.

Market risk is managed through the market risk strategy, which defines the group's willingness to assume risk. The strategy and the associated specification of the necessary risk ceilings, reporting procedures and authorities are reviewed and adopted by the board at least once a year.

Market risk in SpareBank 1 SR-Bank primarily relates to the group's long-term investments in securities. 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 market risk is measured and monitored on the basis of conservative limits that are renewed and approved by the board at least once a year. The size of the limits is determined on the basis of stress tests and analyses of negative market movements. The group's exposure to market risk is moderate.

Interest rate risk is the risk of losses incurred due to changes in interest rates. The group's interest rate risk is regulated by limits for maximum value change following a change in the interest rate level of 1 percentage point. The interest rate commitments for the group's instruments are mostly short-term and the group's interest rate risk is low.

Currency rate risk is the risk of losses due to fluctuations in foreign exchange rates. The group measures currency risk on the basis of net positions in the different currencies in which the group has exposure. Currency risk is regulated by nominal limits for maximum aggregate currency positions and maximum positions within individual currencies. The scope of the group's trading in foreign currency is modest and the currency rate risk is considered low.

Price risk is the risk of losses that arise following changes in the value of the group's bonds, certificates, and equity instruments. The spread risk is defined as the risk of changes in the market value of bonds as a result of general changes in the credit spreads. Credit spread risk expresses the potential loss in the bond portfolios beyond the bankruptcy risk. Quantification of the risk-adjusted capital for spread risk in the bond portfolios is calculated based on the Financial Supervisory Authority of Norway's model for risk-based supervision of market risk in insurance companies. The group's risk exposure to this type of risk is regulated through limits for maximum investments in the different portfolios.

For more information see notes 15, 16 and 28.

Operational riskis managed via a risk strategy that is set annually by the board and which defines the group's willingness to assume risk. According to the current strategy, this requires the group to strive for a good balance between trust and control that ensures efficiency is safeguarded, at the same time as ensuring it is not exposed to unnecessary risk. The strategy includes specific limits for the level of operational risk exposure that will be permitted.

In order to ensure that the management is performed on the basis of an up-to-date and relevant risk picture, the group takes a dynamic approach to managing operation risk in which new and changed risk estimates are updated on an ongoing basis and risk reducing measures are assessed. In addition to this, a total review is conducted each year for important business areas together with process and risk owners.

SpareBank 1 SR-Bank regards corporate culture as the most important single factor in operational risk management. Therefore, every employee in the organisation is regularly surveyed on operational risk culture.

Ownership risk is managed through active board participation in a number of the part-owned companies. SpareBank 1 SR-Bank is mainly exposed to ownership risk through its stakes in SpareBank 1 Gruppen AS (19.5%), BN Bank ASA (23.5%), SpareBank 1 Boligkreditt AS (13.9%), SpareBank 1 Næringskreditt AS (21.9%), SpareBank 1 Kredittkort AS (17.9%), and SpareBank 1 Mobilbetaling AS (19.7%).

Compliance risk is managed via the framework regulations for compliance that are primarily based on EBA Internal Governance GL44, Basel Committee on Banking Supervision, 'Compliance and the compliance function in banks', ESMA 'Guidelines on certain aspects of the MiFID compliance function requirements ESMA/2012/388', and the Financial Supervisory Authority of Norway's 'Module for evaluating overriding management and control'. SpareBank 1 SR-Bank's compliance policy is intended to ensure the group does not incur any public sanctions/penalties, or any financial loss, due to a failure to implement or comply with legislation and regulations. The group's compliance policy is adopted by the board and describes the main principles for responsibility and organisation.

SpareBank 1 SR-Bank is cognisant of the need to have good processes to ensure compliance with legislation and regulations. Focus areas are continuous monitoring of compliance with the current regulations and ensuring that the group has adapted to future regulatory changes as best as it can.

SpareBank 1 SR-Bank's compliance function is organised independently of the business units. The department bears overall responsibility for the framework, monitoring and reporting within the area. The investment firm and subsidiaries have their own compliance officers where this is required.

NOTE 7 FINANCIAL INSTITUTIONS - RECEIVABLES AND LIABILITIES

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
		Loans to and receivables from financial institutions		
2,212	**2,314**	At call	**2,314**	2,214
6,601	**7,824**	With agreed maturities or notice	**2,020**	770
8,813	**10,138**	**Total**	**4,334**	2,984
		Specified by the most important currencies		
8,201	**7,550**	NOK	**2,018**	2,805
106	**2,126**	EUR	**2,116**	106
402	**419**	USD	**157**	7
104	**43**	Other currencies	**43**	66
8,813	**10,138**	**Total**	**4,334**	2,984
1.8%	**1.9%**	**Average interest rate**	**1.9%**	1.8%
		Debt to financial institutions		
3,883	**1,813**	At call	**1,258**	3,176
1,157	**1,417**	With agreed maturities or notice	**1,415**	1,155
12	**1**	Accrued interest	**1**	12
5,052	**3,231**	**Total**	**2,674**	4,343
		Specified by the most important currencies		
3,136	**1,582**	NOK	**1,028**	2,428
1,222	**1,488**	EUR	**1,488**	1,222
675	**115**	USD	**112**	674
7	**45**	Other currencies	**45**	7
12	**1**	Accrued interest	**1**	12
5,052	**3,231**	**Total**	**2,674**	4,343
0.6%	**0.6%**	**Average interest rate**	**0.6%**	0.6%
		Received securities that can be sold or mortgaged		
		Resale agreements		
2,013	**1,005**	Certificates and bonds	**1,005**	2,013
2,013	**1,005**	**Total received securities**	**1,005**	2,013
		Of which received securities that are sold or mortgaged		
-	**-**	**Certificates and bonds**	**-**	-

Securities that are bought due to a buy back agreement are not recognised since the risks and rewards of ownership of the assets has not been transferred. Such transactions generally involve interest-bearing securities. Received securities, including collateral, are recognised off the balance sheet independent of whether the group is allowed to sell or mortgage the security. When received securities are sold, the group will recognise a liability on the balance sheet. The balance sheet item "Loans to and receivables from financial institutions" includes receivables with resale agreements.

NOTE 8 LOANS TO CUSTOMERS

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
		Distribution by type of receivable		
-	**-**	Financial leasing	**5,129**	5,183
24,808	**19,148**	Overdraft facilities and operating credits	**26,635**	25,705
3,970	**3,216**	Building loans	**3,215**	3,970
108,841	**99,256**	Instalment loans	**122,981**	119,713
339	**132**	Excess value of fixed-rate lending/amortisation of front-end fees	**118**	323
284	**272**	Accrued interest	**301**	296
-	**-741**	Net cooperate accounts currency	**-741**	-
138,242	**121,283**	**Gross loans**	**157,638**	155,190
-285	**-434**	Individual impairments	**-590**	-315
-451	**-597**	Impairments on groups of loans	**-676**	-518
137,506	**120,252**	**Net loans**	**156,372**	154,357
		Distribution by market		
75,719	**60,523**	Retail market	**91,171**	87,229
61,437	**60,954**	Corporate market	**66,497**	66,705
464	**143**	Public sector	**292**	637
339	**132**	Excess value of fixed-rate lending/amortisation of front-end fees	**118**	323
284	**272**	Accrued interest	**301**	296
-	**-741**	Net cooperate accounts currency	**-741**	-
138,242	**121,283**	**Gross loans**	**157,638**	155,190
-285	**-434**	Individual impairments	**-590**	-315
-451	**-597**	Impairments on groups of loans	**-676**	-518
137,506	**120,252**	**Net loans**	**156,372**	154,357
		Of which subordinated loan capital		
45	**45**	Primary capital	**45**	45
45	**45**	**Subordinated loan capital recording as lending**	**45**	45
1,906	**1,945**	Loans to employees	**2,500**	2,490
725	**617**	Of which loans in SpareBank 1 Boligkreditt AS	**815**	945
		The terms are one percentage point lower than the standardised rate set by the Ministry of Finance.		
28,168	**24,177**	Loans sold to SpareBank 1 Boligkreditt	**24,177**	28,168
254	**145**	Received commissions from SpareBank 1 Boligkreditt	**145**	254
538	**517**	Loans sold to SpareBank 1 Næringskreditt	**517**	538
4	**4**	Received commissions from SpareBank 1 Næringskreditt	**4**	4
		Total commitment by probability of default (PD) [1) 2) 3)]		
88,074	**77,337**	0.00 - 0.50%	**104,240**	97,124
58,193	**50,721**	0.50 - 2.50%	**59,296**	63,894
12,763	**13,007**	2.50 - 5.00%	**14,244**	14,197
8,400	**7,098**	5.00 - 99.9%	**8,574**	9,290
1,391	**2,034**	Commitments in default	**2,155**	1,485
168,821	**150,196**	**Total commitments**	**188,510**	185,990
-19,167	**-19,154**	Unused credit lines for customers	**-21,037**	-19,388
-11,412	**-9,759**	Guarantees	**-9,835**	-11,412
138,242	**121,283**	**Gross loans**	**157,638**	155,190
		Gross loans by probability of default (PD) [1) 2) 3)]		
72,498	**62,623**	0.00 - 0.50%	**87,347**	81,333
47,127	**41,071**	0.50 - 2.50%	**49,687**	52,828
9,857	**10,532**	2.50 - 5.00%	**11,936**	11,288
6,805	**5,748**	5.00 - 99.9%	**7,185**	7,695
1,332	**1,647**	Commitments in default	**1,806**	1,427
623	**404**	Accrued interest and excess value of fixed-rate lending/amortisation of front-end fees	**419**	619
-	**-741**	Net cooperate accounts currency	**-741**	-
138,242	**121,283**	**Gross loans**	**157,638**	155,190

(Note 8 cont.)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
		Individual impairments by risk class [3]		
285	**434**	Commitments in default	**590**	315
285	**434**	**Total**	**590**	315
		Expected annual average net loss by probability of default (PD) [1] [2] [3]		
10	**9**	0.00 - 0.50%	**9**	10
76	**73**	0.50 - 2.50%	**78**	81
55	**56**	2.50 - 5.00%	**60**	61
95	**90**	5.00 - 99.9%	**104**	106
13	**6**	Commitments in default	**7**	16
249	**234**	**Total**	**258**	274
		Total commitments by sector and industry		
6,124	**6,746**	Agriculture/forestry	**7,094**	6,363
1,119	**650**	Fisheries/fish farming	**900**	1,301
6,269	**4,866**	Mining operations/extraction	**5,109**	6,502
4,014	**3,941**	Industry	**4,534**	4,656
3,790	**4,602**	Power and water supply/building and construction	**5,327**	4,667
3,378	**4,070**	Wholesale and retail trade, hotels and restaurants	**4,596**	3,777
10,829	**9,469**	Overseas shipping, pipeline transport and other transport	**10,042**	11,384
35,745	**33,217**	Property management	**33,354**	35,880
8,548	**8,509**	Service sector	**10,633**	10,531
4,854	**3,825**	Public sector and financial services	**3,837**	5,027
84,671	**79,895**	**Total industry**	**85,426**	90,088
84,150	**70,301**	Retail market	**103,084**	95,902
168,821	**150,196**	**Total**	**188,510**	185,990
		Gross lending by sector and industry		
4,204	**4,199**	Agriculture/forestry	**4,549**	4,443
721	**506**	Fisheries/fish farming	**755**	903
5,097	**4,535**	Mining operations/extraction	**4,780**	5,330
2,451	**2,320**	Industry	**2,914**	3,093
2,561	**2,808**	Power and water supply/building and construction	**3,533**	3,437
2,179	**2,358**	Wholesale and retail trade, hotels and restaurants	**2,885**	2,578
9,112	**9,189**	Overseas shipping, pipeline transport and other transport	**9,766**	9,666
27,435	**27,115**	Property management	**27,269**	27,568
6,104	**6,317**	Service sector	**8,441**	8,113
2,037	**1,749**	Public sector and financial services	**1,898**	2,209
61,900	**61,097**	**Total industry**	**66,789**	67,342
75,719	**60,523**	Retail market	**91,171**	87,229
623	**404**	Accrued interest and excess value of fixed-rate lending/amortisation of front-end fees	**419**	619
-	**-741**	Net cooperate accounts currency	**-741**	-
138,242	**121,283**	**Gross loans**	**157,638**	155,190
		Individual write-downs by sector and industry		
19	**7**	Agriculture/forestry	**8**	20
-	**-**	Fisheries/fish farming	**-**	-
-	**-**	Mining operations/extraction	**-**	-
9	**9**	Industry	**15**	12
13	**13**	Power and water supply/building and construction	**26**	14
34	**25**	Wholesale and retail trade, hotels and restaurants	**25**	40
19	**212**	Overseas shipping, pipeline transport and other transport	**212**	19
118	**93**	Property management	**92**	121
20	**27**	Service sector	**150**	35
-	**-**	Public sector and financial services	**-**	-
232	**384**	**Total industry**	**528**	261
53	**50**	Retail market	**62**	54
285	**434**	**Total**	**590**	315

(Note 8 cont.)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
		Expected annual average net loss by sector and industry [1) 2)]		
3	**2**	Agriculture/forestry	**4**	4
1	**1**	Fisheries/fish farming	**1**	2
18	**18**	Mining operations/extraction	**20**	19
14	**14**	Industry	**18**	18
48	**37**	Power and water supply/building and construction	**38**	52
23	**18**	Wholesale and retail trade, hotels and restaurants	**21**	24
21	**31**	Overseas shipping, pipeline transport and other transport	**33**	23
77	**73**	Property management	**72**	78
20	**22**	Service sector	**28**	27
6	**4**	Public sector and financial services	**5**	7
231	**220**	**Total industry**	**240**	253
18	**14**	Retail market	**18**	21
249	**234**	**Total**	**258**	274
		Gross loans by geographic area		
99,150	**82,287**	Rogaland	**109,307**	111,268
12,170	**10,532**	Agder counties	**13,985**	13,719
21,757	**19,753**	Hordaland	**24,118**	24,007
2,574	**2,490**	International	**2,502**	2,610
2,591	**6,221**	Other	**7,726**	3,586
138,242	**121,283**	**Gross loans**	**157,638**	155,190
		Loans and receivables related to financial leasing		
		Gross investments related to financial leasing		
		Up to 1 year	**1,724**	1,599
		Between 1 to 5 years	**3,090**	3,310
		Later than 5 years	**504**	444
		Total	**5,318**	5,353
		Net investments related to financial leasing		
		Up to 1 year	**1,579**	1,441
		Between 1 to 5 years	**2,863**	3,088
		Later than 5 years	**489**	426
		Total	**4,931**	4,955

1) PD = probability of default

2) The expected average annual net loss is the amount that the parent bank and the group statistically expect to lose on the lending portfolio over a 12-month period. The calculations are based on a long-term average over an economic cycle.

3) In the event of a write-down, all the loan capital is moved to the default class irrespective of earlier classification.

NOTE 9 LOANS SOLD TO SPAREBANK 1 BOLIGKREDITT AND SPAREBANK 1 NÆRINGSKREDITT

Loans sold to SpareBank 1 Boligkreditt AS

SpareBank 1 Boligkreditt AS is owned by the savings banks that make up the SpareBank 1 Alliance and shares premises with SpareBank 1 Næringskreditt AS in Stavanger. The bank owned a 13.9% stake as at 31 December 2016 (16.7% as at 31 December 2015). The purpose of the mortgage company is to ensure the alliance banks access to stable, long-term funding for home mortgages at competitive prices. Covered bonds issued by SpareBank 1 Boligkreditt AS have an Aaa and AAA rating from Moody's and Fitch, respectively. SpareBank 1 Boligkreditt AS also issues bonds with a lower rating that are not covered bonds. SpareBank 1 Boligkreditt AS acquires loans with collateral in housing and issues covered bonds in accordance with the regulations established for this in 2007. As part of the SpareBank 1 Alliance, the bank can offer SpareBank 1 Boligkreditt AS the opportunity to buy loans and the bank sells loans to SpareBank 1 Boligkreditt AS as part of its funding strategy. Loans sold to SpareBank 1 Boligkreditt AS are secured by collateral in housing up to a ceiling of 75% of their valuation. The sold loans are legally owned by SpareBank 1 Boligkreditt AS and the bank has, apart from the right to administer them and

(Note 9 cont.)

receive commissions, as well as the right to take over fully or partially written down loans, no right to use the loans. At year-end 2016, the book value of transferred loans amounted to NOK 24.2 billion (NOK 28.2 billion in 2015). The Bank administers the sold loans and receives commissions based on the net return on the loans the Bank has sold less the company's costs.

Loans sold to SpareBank 1 Næringskreditt AS

SpareBank 1 Næringskreditt AS was established in 2009 and has a licence from the Financial Supervisory Authority of Norway to operate as a mortgage company that issues covered bonds. Covered bonds issued by SpareBank 1 Næringskreditt AS have an Aaa rating from Moody's. The company is owned by the savings banks that make up the SpareBank 1 Alliance and shares premises with SpareBank 1 Boligkreditt AS in Stavanger. The bank owned a 21.9% stake as at 31 December 2016 (26.8% as at 31 December 2015). The purpose of the mortgage company is to ensure the alliance banks access to stable, long-term funding for commercial properties at competitive prices. SpareBank 1 Næringskreditt AS acquires loans with collateral in commercial property and issues covered bonds in accordance with the regulations established for this in 2007. As part of the SpareBank 1 Alliance, the bank can offer the company the opportunity to buy loans and the bank sells loans as part of its funding strategy. Loans sold to SpareBank 1 Næringskreditt AS are secured by collateral in commercial properties up to a ceiling of 60% of their valuation. The sold loans are legally owned by SpareBank 1 Næringskreditt AS and the bank has, apart from the right to administer them and receive commissions for this and the right to take over fully or partially written down loans, no right to use the loans. At year-end 2016, the book value of sold loans amounted to NOK 0.52 billion (NOK 0.54 billion in 2015). The Bank administers the sold loans and receives commissions based on the net return on the loans the Bank has sold less the company's costs.

The loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are very well collateralised and are very unlikely to result in losses. Until the first quarter of 2015, the bank recognised the loans transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS in accordance with the rules for continued commitment. The fair value of the continued commitment has been calculated and is considered insignificant. The amounts are thus not recognised gross as an asset and liability in the bank's balance sheet.

The agreements between SpareBank 1 Boligkreditt AS and the bank and SpareBank 1 Næringskreditt AS and the bank were amended during the first quarter of 2015. The new agreements apply to new loans that are sold by the bank and loans that have previously been sold by the bank. The new agreements mean that the bank has transferred practically all of the risk and benefits of ownership associated with the sold loans. The sale is therefore treated as a pure sale and the loans are thus fully eliminated from the bank's balance sheet.

NOTE 10 AGE DISTRIBUTION OF DUE BUT NOT WRITTEN DOWN LOANS

(Figures in NOK millions)

The table below shows amounts due on loans, overdrafts/deposits and by number of days after their due date that are not due to delays in money-transfer services.

Parent bank

2016	**Less than 30 days**	**31 - 60 days**	**61 - 90 days**	**More than 91 days**	**Total**
Loans to and receivables from customers					
- Retail market	1,190	49	4	74	1,317
- Corporate market	356	26	-	253	635
Total	**1,546**	**75**	**4**	**327**	**1,952**

2015					
Loans to and receivables from customers					
- Retail market	1,095	32	20	92	1,239
- Corporate market	377	-	-	561	938
Total	1,472	32	20	654	2,178

Group

2016					
Loans to and receivables from customers					
- Retail market	1,347	61	6	89	1,503
- Corporate market [1)]	395	31	3	261	690
Total	**1,742**	**92**	**9**	**350**	**2,193**

2015					
Loans to and receivables from customers					
- Retail market	1,100	36	24	106	1,266
- Corporate market	419	18	1	594	1,032
Total	1,519	54	25	701	2,299

NOTE 11 IMPAIRMENT LOSSES ON LOANS AND GUARANTEES

(Figures in NOK millions)

Parent bank

	2016			2015		
Impairment losses on loans and guarantees	**Retail market**	**Corporate market**	**Total**	Retail market	Corporate market	Total
Change in individual impairments in the period	**-2**	**236**	**234**	9	-23	-14
Change in collective impairments in the period	**3**	**144**	**147**	5	130	135
Realised losses on commitments previously written down	**31**	**95**	**126**	10	61	71
Realised losses on commitments not previously written down	**5**	**173**	**178**	2	199	201
Change in impairments in repossessed assets in the period	**-**	**-**	**-**	-	1	1
Amortised loans	**-1**	**7**	**6**	-2	9	7
Recoveries on loans and guarantees previously written down	**-3**	**-4**	**-7**	-18	-3	-21
Total impairment losses on loans and guarantees	**33**	**651**	**684**	6	374	380

Individual impairments						
Individual impairments to cover losses on loans and guarantees as at 1 Jan	**63**	**225**	**288**	54	248	302
Realised losses in the period on loans and guarantees previously written down individually	**-31**	**-95**	**-126**	-10	-61	-71
Reversal of impairments in previous years	**-6**	**-40**	**-46**	-14	-88	-102
Increase in impairments in commitments previously written down individually	**11**	**22**	**33**	12	53	65
Amortised cost	**1**	**-8**	**-7**	-1	-1	-2
Impairments in commitments not previously written down individually	**23**	**357**	**380**	22	74	96
Individual impairments to cover losses on loans and guarantees as at 31 Dec	**61**	**461**	**522**	63	225	288

Impairments on groups of loans						
Impairments to cover losses on loans and guarantees as at 1 Jan	**45**	**406**	**451**	40	276	316
Impairments to cover losses on loans and guarantees in the period	**2**	**144**	**146**	5	130	135
Collective impairments to cover losses on loans and guarantees as at 31 Dec	**47**	**550**	**597**	45	406	451

Impairments by sector and industry						
Agriculture/forestry		**0%**	**3**		0%	-
Fisheries/fish farming		**0%**	**-**		0%	-
Mining operations/extraction		**0%**	**-**		0%	-
Industry		**1%**	**4**		2%	6
Power and water supply/building and construction		**1%**	**8**		3%	12
Wholesale and retail trade, hotels and restaurants		**1%**	**5**		5%	20
Overseas shipping, pipeline transport and other transport		**28%**	**194**		47%	179
Property management		**4%**	**30**		8%	31
Service sector		**40%**	**271**		-2%	-7
Transferred from impairments in groups of loans		**21%**	**147**		36%	135
Retail market		**3%**	**22**		1%	4
Impairment losses on loans and guarantees		**100%**	**684**		100%	380

Non-performing and impaired commitments	**2016**	2015	2014	2013	2012
Non-performing commitments	**917**	829	395	804	406
Other impaired commitments	**1,069**	493	481	378	641
Total impaired loans	**1,986**	1,322	876	1,182	1,047
Individual impairment losses on loans and guarantees	**-522**	-288	-302	-405	-437
Net impaired commitments	**1,464**	1,034	574	777	610

(Note 11 cont.)

Group

Impairment losses on loans and guarantees	2016 Retail market	2016 Corporate market	2016 Total	2015 Retail market	2015 Corporate market	2015 Total
Change in individual impairments in the period	**2**	**275**	**277**	9	-13	-4
Change in collective impairments in the period	**6**	**152**	**158**	8	132	140
Realised losses on commitments previously written down	**31**	**111**	**142**	10	68	78
Realised losses on commitments not previously written down	**18**	**190**	**208**	18	205	223
Change in impairments in repossessed assets in the period	**-**	**-**	**-**	-	1	1
Amortised loans	**-1**	**7**	**6**	-2	9	7
Recoveries on loans and guarantees previously written down	**-8**	**-5**	**-13**	-22	-4	-26
Total impairment losses on loans and guarantees	**48**	**730**	**778**	21	399	420

Individual impairments	2016 Retail market	2016 Corporate market	2016 Total	2015 Retail market	2015 Corporate market	2015 Total
Individual impairments to cover losses on loans and guarantees as at 1 Jan	**63**	**255**	**318**	60	262	322
Realised losses in the period on loans and guarantees previously written down individually	**-31**	**-110**	**-141**	-10	-68	-78
Reversal of impairments in previous years	**-6**	**-45**	**-51**	-14	-93	-107
Increase in impairments in commitments previously written down individually	**11**	**22**	**33**	12	53	65
Amortised cost	**1**	**-8**	**-7**	-	-2	-2
Impairments in commitments not previously written down individually	**27**	**416**	**443**	22	96	117
Individual impairments to cover losses on loans and guarantees as at 31 Dec	**65**	**530**	**595**	70	248	318

Impairments on groups of loans	2016 Retail market	2016 Corporate market	2016 Total	2015 Retail market	2015 Corporate market	2015 Total
Impairments to cover losses on loans and guarantees as at 1 Jan	**58**	**460**	**518**	50	328	378
Impairments to cover losses on loans and guarantees in the period	**5**	**152**	**158**	8	132	140
Collective impairments to cover losses on loans and guarantees as at 31 Dec	**63**	**612**	**676**	58	460	518

Impairments by sector and industry	2016 %	2016 Total	2015 %	2015 Total
Agriculture/forestry	**1%**	**4**	0%	2
Fisheries/fish farming	**0%**	**-**	0%	-
Mining operations/extraction	**0%**	**-**	0%	-
Industry	**1%**	**10**	1%	3
Power and water supply/building and construction	**3%**	**21**	3%	13
Wholesale and retail trade, hotels and restaurants	**1%**	**5**	6%	27
Overseas shipping, pipeline transport and other transport	**25%**	**195**	43%	179
Property management	**4%**	**29**	7%	30
Service sector	**41%**	**322**	2%	10
Transferred from impairments in groups of loans	**20%**	**158**	33%	140
Retail market	**4%**	**34**	4%	16
Impairment losses on loans and guarantees	**100%**	**778**	100%	420

Non-performing and impaired commitments	2016	2015	2014	2013	2012
Non-performing commitments	**1,070**	853	427	830	460
Other impaired commitments	**1,141**	548	513	439	589
Total impaired loans	**2,211**	1,401	940	1,269	1,049
Individual impairment losses on loans and guarantees	**-595**	-318	-322	-446	-424
Net impaired commitments	**1,616**	1,083	618	823	625

The interest on commitments with an impairment as at 31 December 2016 that was recognised as income in 2016 amounted to NOK 60 million in the bank and NOK 65 million in the group.

The fair value of the collateral related to loans and receivables that are the object of individual write-downs is equal to the book value plus the impairment. The collateral is in the form of cash, securities, guarantees and properties.

NOTE 12 CREDIT RISK EXPOSURE FOR EACH INTERNAL RISK CLASS

(Figures in NOK millions)

	Average unsecured exposure	Total commitment	Average unsecured exposure	Total commitment
Parent bank	**2016**		2015	
Probability of default (PD) [1]				
0.00 - 0.50%	**27.5%**	**77,337**	18.7%	88,074
0.50 - 2.50%	**30.0%**	**50,721**	29.3%	58,193
2.50 - 5.00%	**33.6%**	**13,007**	31.6%	12,763
5.00 - 99.9%	**33.1%**	**7,098**	29.5%	8,400
Non-performing and written down	**42.6%**	**2,034**	47.0%	1,391
Total	**29.3%**	**150,197**	24.1%	168,821
Group				
Probability of default (PD) [1]				
0.00 - 0.50%	**22.4%**	**104,240**	17.4%	97,124
0.50 - 2.50%	**28.1%**	**59,296**	28.6%	63,894
2.50 - 5.00%	**33.3%**	**14,244**	32.0%	14,197
5.00 - 99.9%	**32.9%**	**8,574**	30.0%	9,290
Non-performing and written down	**42.7%**	**2,155**	46.5%	1,485
Total	**25.8%**	**188,509**	23.2%	185,990

[1] PD = probability of default

NOTE 13 MAXIMUM CREDIT RISK EXPOSURE

(Figures in NOK millions)

Maximum exposure to credit risk for balance sheet components, including derivatives.
Exposure is shown gross before assets pledged as security and permitted offsetting.

Parent bank			Group	
2015	2016		2016	2015
		Assets		
728	**889**	Receivables from the central bank	**889**	728
8,813	**10,138**	Loans to and receivables from financial institutions	**4,334**	2,984
137,506	**120,252**	Loans to and receivables from customers	**156,372**	154,357
20,314	**22,042**	Certificates and bonds	**21,024**	19,533
6,133	**5,057**	Derivatives	**4,315**	6,135
173,494	**158,378**	**Total credit risk exposure balance sheet items**	**186,934**	183,737
		Financial guarantees and loan commitments		
11,412	**9,759**	Guarantees customers	**9,835**	11,412
-	**588**	Guarantees others	**588**	-
5,532	**5,371**	Unused credit lines for financial institutions	**-**	-
19,167	**19,154**	Unused credit lines for customers	**21,037**	19,388
1,723	**1,558**	Loan commitments	**1,650**	1,807
37,834	**36,430**	**Total financial guarantees and loan commitments**	**33,110**	32,607
211,328	**194,808**	**Total credit risk exposure**	**220,044**	216,344

Credit risk exposure related to financial assets by geographic area

Parent bank			Group	
2015	2016	**Banking operations**	2016	2015
134,770	**115,881**	Rogaland	**133,119**	135,678
14,891	**13,099**	Agder counties	**16,850**	16,474
26,709	**24,492**	Hordaland	**28,992**	28,895
3,154	**3,115**	International	**3,034**	3,137
5,357	**11,121**	Other	**12,710**	6,492
184,881	**167,709**	**Total banking operations**	**194,705**	190,676
		Market activities		
10,546	**10,880**	Norway	**10,091**	9,765
9,608	**10,886**	Europe/Asia	**10,657**	9,608
160	**276**	North America/Oceania	**276**	160
20,314	**22,042**	**Total market activities**	**21,024**	19,533
6,133	**5,057**	Derivatives	**4,315**	6,135
211,328	**194,808**	**Total by geographic area**	**220,044**	216,344

NOTE 14 CREDIT QUALITY PER CLASS OF FINANCIAL ASSET

(Figures in NOK millions)

The Bank manages the credit quality of financial assets in accordance with its internal credit rating guidelines. The table shows the credit quality per class of asset for loan-related assets in the balance sheet, based on the customer's probability of default in % (PD).

Parent bank

2016	**0.00 - 0.50%**	**0.50 - 2.50%**	**2.50 - 5.00%**	**5.00 - 99.99%**	**Commit-ments in default**	**Impairments**	**Total**
Net loans							
Loans to and receivables from financial institutions	10,138	-	-	-	-	-	10,138
Loans to and receivables from customers							
- Retail market	46,676	11,569	778	1,310	190	-108	60,415
- Corporate market	16,172	29,749	8,172	5,536	727	-923	59,433
- Accrued interest, excess value of fixed-rate lending and amortisation of front-end fees							404
Total net loans	**72,986**	**41,318**	**8,950**	**6,846**	**917**	**-1,031**	**130,390**
Financial investments							
Norwegian government bonds	-						-
Listed certificates and bonds	20,364	143	6	88	4	-	20,605
Unlisted certificates and bonds	1,303	-	-	3	-	-	1,306
Accrued interest	129	1	-	1	-	-	131
Total financial investments	**21,796**	**144**	**6**	**92**	**4**	**-**	**22,042**
Total loan-related assets	**94,782**	**41,462**	**8,956**	**6,938**	**921**	**-1,031**	**152,432**

Parent bank

2015							
Net loans							
Loans to and receivables from financial institutions	8,813	-	-	-	-	-	8,813
Loans to and receivables from customers							
- Retail market	57,108	15,757	1,079	1,555	220	-98	75,621
- Corporate market	15,494	31,295	8,763	5,740	609	-638	61,263
- Accrued interest, excess value of fixed-rate lending and amortisation of front-end fees							623
Total net loans	81,414	47,052	9,842	7,295	829	-736	146,320
Financial investments							
Norwegian government bonds	-	-	-	-	-	-	-
Listed certificates and bonds	18,726	86	39	202	-	-	19,053
Unlisted certificates and bonds	1,128	-	-	-	-	-	1,128
Accrued interest	-	-	-	-	-	-	133
Total financial investments	19,854	86	39	202	-	-	20,314
Total loan-related assets	101,268	47,138	9,881	7,497	829	-736	166,634

(Note 14 cont.)

Group

2016	**0.00 - 0.50%**	**0.50 - 2.50%**	**2.50 - 5.00%**	**5.00 - 99.99%**	**Commit-ments in default**	**Impairments**	**Total**
Net loans							
Loans to and receivables from financial institutions	4,305	-	-	-	-	-	4,305
Loans to and receivables from customers							
- Retail market	70,606	17,536	1,075	1,741	213	-129	91,042
- Corporate market	16,770	32,813	9,083	6,524	857	-1,137	64,911
- Accrued interest, excess value of fixed-rate lending and amortisation of front-end fees	-	-	-	-	-	-	419
Total net loans	**91,681**	**50,349**	**10,158**	**8,265**	**1,070**	**-1,266**	**160,677**
Financial investments							
Norwegian government bonds	-	-	-	-	-	-	-
Listed certificates and bonds	19,340	143	6	88	4	-	19,581
Unlisted certificates and bonds	1,303	8	-	3	-	-	1,314
Accrued interest	127	1	-	1	-	-	129
Total financial investments	**20,770**	**152**	**6**	**92**	**4**	**-**	**21,024**
Total loan-related assets	**112,451**	**50,501**	**10,164**	**8,357**	**1,074**	**-1,266**	**181,701**

Group

2015							
Net loans							
Loans to and receivables from financial institutions	2,984	-	-	-	-	-	2,984
Loans to and receivables from customers							
- Retail market	65,195	18,782	1,279	1,733	240	-110	87,119
- Corporate market	16,585	33,724	9,940	6,480	613	-723	66,619
- Accrued interest, excess value of fixed-rate lending and amortisation of front-end fees	-	-	-	-	-	-	619
Total net loans	84,764	52,506	11,219	8,213	853	-833	157,341
Financial investments							
Norwegian government bonds	-	-	-	-	-	-	-
Listed certificates and bonds	17,944	86	39	202	-	-	18,271
Unlisted certificates and bonds	1,128	-	-	-	-	-	1,128
Accrued interest	-	-	-	-	-	-	133
Total financial investments	19,072	86	39	202	-	-	19,533
Total loan-related assets	103,836	52,593	11,258	8,415	853	-833	176,874

Classification of financial investments:

Bonds are allocated to SpareBank 1 SR-Bank's estimated PD based on external ratings. If a security has an official rating, this must be applied, but if no official rating exists, external brokers' shadow ratings are used as the basis for risk classification. The list below illustrates the relationship between SpareBank 1 SR-Bank's PD and Standard & Poor's rating matrix (Long-Term Credit Ratings).

Bank's risk classification	**S&P rating**
PD 0.00% - 0.50%	AAA to BBB-
PD 0.50% - 2.50%	BB+ to BB-
PD 2.50% - 5.00%	B
PD 5.00 - 99.99 %	B and lower

NOTE 15 MARKET RISK RELATED TO INTEREST RATE RISK

(Figures in NOK millions)

The table specifies the effect on the result of a positive parallel shift in the interest rate curve of 1 percentage point at the end of the last 2 years before tax if all financial instruments are measured at fair value.

Parent bank			Group	
2015	**2016**		**2016**	2015
-21	**-28**	Certificates and bonds	**-28**	-21
-13	**-21**	Fixed-rate loans to customers	**-21**	-13
-86	**-58**	Other loans and deposits	**-86**	-86
88	**87**	Securities issued	**127**	99
1	**-3**	Other	**-3**	1
-31	**-23**	Total interest rate risk	**-11**	-20
		Maturity bands		
-27	**-18**	0 - 3 months	**-6**	-16
-15	**-4**	3 - 6 months	**-4**	-15
5	**13**	6 - 9 months	**13**	5
8	**5**	9 - 12 months	**5**	8
5	**-6**	12 - 18 months	**-6**	5
-	**-**	18 - 24 months	**-**	-
-7	**-13**	2 - 10 years	**-13**	-7
-	**-**	10 years +	**-**	-
-31	**-23**	Total interest rate risk	**-11**	-20
		Currency		
15	**5**	NOK	**-2**	26
-31	**-23**	EUR	**-4**	-31
-11	**-6**	USD	**-6**	-11
-1	**3**	CHF	**3**	-1
-3	**-2**	Other	**-2**	-3
-31	**-23**	Total interest rate risk	**-11**	-20

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 85 million with NOK 35 million of the total balance in SR-Bank Markets and NOK 50 million of the total balance in treasury.

NOTE 16 MARKET RISK RELATED TO CURRENCY RISK

(Figures in NOK millions)

The table shows net foreign currency exposure including financial derivatives as at 31 December, calculated in accordance with section 38-3 of the Capital Requirements Regulations.

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
		Currency		
-46	**-75**	EUR	**-75**	-46
4	**-**	USD	**-**	4
-2	**-13**	CHF	**-13**	-2
1	**-1**	GBP	**-1**	1
-48	**-1**	SEK	**-1**	-48
1	**1**	Other	**1**	1
-90	**-89**	**Total**	**-89**	-90
2.7	**2.7**	Effect on result of 3% change before tax	**2.7**	2.7

Currency risk arises when differences exist between the group's assets and liabilities in the individual currency.
Currency trading must at all times comply with the adopted limits and authorities.
The group's limits define quantitative targets for the maximum net exposure in currency, measured in NOK.
The commercial risk is quantified and monitored continuously.

The group has defined limits for the net exposure in each currency, as well as limits for aggregated net currency exposure (expressed as the highest of the sum of long and short positions). The overnight price risk for spot trading in currencies must not exceed NOK 100 million per individual currency, and NOK 175 million in aggregate.

NOTE 17 LIQUIDITY RISK

(Figures in NOK millions)

The table shows cash flows including contractual interest maturity.

Parent bank [1]

2016	Upon request	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Debt to financial institutions	1,831	318	-	1,090	-	3,239
Deposits from customers	86,184	-	-	-	-	86,184
Securities issued	-	6,968	1,501	35,164	10,921	54,554
Subordinated loan capital	-	13	123	546	3,139	3,821
Total liabilities	**88,015**	**7,299**	**1,624**	**36,800**	**14,060**	**147,798**
Derivatives						
Contractual cash flows out	-	-31,703	-13,906	-36,021	-10,781	-92,411
Contractual cash flows in	-	32,046	14,223	38,668	11,530	96,467

2015	Upon request	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Debt to financial institutions	2,276	1,643	2	1,172	-	5,093
Deposits from customers	89,632	-	-	-	-	89,632
Securities issued	-	2,596	11,713	36,139	14,373	64,821
Subordinated loan capital	-	21	700	550	3,880	5,151
Total liabilities	91,908	4,260	12,415	37,861	18,253	164,697
Derivatives						
Contractual cash flows out	-	-25,140	-15,789	-12,249	-4,850	-58,028
Contractual cash flows in	-	25,983	16,080	13,850	5,257	61,170

Group [1]

2016	Upon request	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Debt to financial institutions	1,274	318	-	1,090	-	2,682
Deposits from customers	85,914	-	-	-	-	85,914
Securities issued	-	7,039	1,728	56,247	16,617	81,631
Subordinated loan capital	-	13	123	546	3,139	3,821
Total liabilities	**87,188**	**7,370**	**1,851**	**57,883**	**19,756**	**174,048**
Derivatives						
Contractual cash flows out	-	-31,702	-13,852	-24,361	-5,898	-75,813
Contractual cash flows in	-	31,991	13,972	25,768	6,301	78,032

2015	Upon request	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Debt to financial institutions	1,567	1,643	2	1,172	-	4,384
Deposits from customers	89,444	-	-	-	-	89,444
Securities issued	-	2,611	11,784	45,793	14,373	74,561
Subordinated loan capital	-	21	700	550	3,880	5,151
Total liabilities	91,011	4,275	12,486	47,515	18,253	173,540
Derivatives						
Contractual cash flows out	-	-25,164	-15,860	-22,143	-4,850	-68,017
Contractual cash flows in	-	25,985	16,109	23,577	5,257	70,928

[1] Also see note 6 financial risk management.

NOTE 18 MATURITY ANALYSIS OF ASSETS AND DEBT/LIABILITIES

(Figures in NOK millions)

Parent bank

31 Dec 2016	Upon request [1]	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Assets						
Cash and receivables from the central bank	190	889	-	-	-	1,079
Loans to and receivables from financial institutions	6,476	3,532	-	-	130	10,138
Gross loans to customers	42,997	1,128	4,100	16,684	56,374	121,283
- Individual impairments	-434	-	-	-	-	-434
- Impairments on groups of loans	-597	-	-	-	-	-597
Loans to customers	**41,966**	**1,128**	**4,100**	**16,684**	**56,374**	**120,252**
Certificates and bonds at fair value	129	5,118	1,936	13,488	1,371	22,042
Financial derivatives	981	387	179	1,901	1,609	5,057
Equities, units and other equity interests	433	-	-	-	-	433
Operations that will be sold	22	-	-	-	-	22
Investments in ownership interests	2,884	-	-	-	-	2,884
Investments in group companies	3,713	-	-	-	-	3,713
Tangible fixed assets and intangible assets	354	-	-	-	-	354
Other assets	344	-	-	-	-	344
Total assets	**57,492**	**11,054**	**6,215**	**32,073**	**59,484**	**166,318**
Liabilities						
Debt to financial institutions	1,823	318	-	1,090	-	3,231
Deposits from customers	86,184	-	-	-	-	86,184
Securities issued	636	6,478	913	32,500	12,460	52,987
Financial derivatives	400	749	211	630	721	2,711
Payable tax	621	-	-	-	-	621
Deferred tax liabilities	315	-	-	-	-	315
Other liabilities	1,063	-	-	-	-	1,063
Subordinated loan capital	-	-	-	-	2,646	2,646
Total liabilities	**91,042**	**7,545**	**1,124**	**34,220**	**15,827**	**149,758**

(Note 18 cont.)

Group

31 Dec 2016	Upon request [1]	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Assets						
Cash and receivables from the central bank	190	889	-	-	-	1,079
Loans to and receivables from financial institutions	802	3,532	-	-	-	4,334
Gross loans to customers	49,766	1,432	5,085	23,254	78,101	157,638
- Individual impairments	-590	-	-	-	-	-590
- Impairments on groups of loans	-676	-	-	-	-	-676
Loans to customers	**48,500**	**1,432**	**5,085**	**23,254**	**78,101**	**156,372**
Certificates and bonds at fair value	129	5,118	1,936	12,637	1,204	21,024
Financial derivatives	963	387	179	1,515	1,271	4,315
Equities, units and other equity interests	596	-	-	-	-	596
Operations that will be sold	22	-	-	-	-	22
Investments in ownership interests	4,460	-	-	-	-	4,460
Investments in group companies	-	-	-	-	-	-
Tangible fixed assets and intangible assets	584	-	-	-	-	584
Other assets	622	-	-	-	-	622
Total assets	**56,868**	**11,358**	**7,200**	**37,406**	**80,576**	**193,408**
Liabilities						
Debt to financial institutions	1,266	318	-	1,090	-	2,674
Deposits from customers	85,914	-	-	-	-	85,914
Securities issued	636	6,478	973	53,134	17,962	79,183
Financial derivatives	363	749	210	558	635	2,515
Payable tax	681	-	-	-	-	681
Deferred tax liabilities	360	-	-	-	-	360
Other liabilities	1,147	-	-	-	-	1,147
Subordinated loan capital	-	-	-	-	2,646	2,646
Total liabilities	**90,367**	**7,545**	**1,183**	**54,782**	**21,243**	**175,120**

[1] Overdraft facilities and operating credits (including flexi loans) and accrued interest are included in the 'upon request' interval.

Non-financial assets and liabilities have for presentation purposes been added to the 'upon request' column.

Deposits, with the exception of fixed-rate deposits, have been added to the 'upon request' column but there is no expectation that all deposits would have to be settled within a short space of time.

NOTE 19 NET INTEREST INCOME

(Figures in NOK millions)

Parent bank							Group					
2015			**2016**				**2016**			2015		
Measured at fair value	Measured at amor-tised cost	Total	**Measured at fair value**	**Measured at amor-tised cost**	**Total**		**Total**	**Measured at amor-tised cost**	**Measured at fair value**	Total	Measured at amor-tised cost	Measured at fair value
						Interest income						
-	197	197	**-**	**178**	**178**	Interest on receivables from financial institutions	**38**	**38**	**-**	50	50	-
422	4,370	4,792	**371**	**3,813**	**4,184**	Interest on lending to customers	**5,035**	**4,664**	**371**	5,298	4,876	422
407	-	407	**418**	**28**	**446**	Interest on certificates and bonds	**425**	**28**	**397**	402	-	402
-	3	3	**-**	**60**	**60**	Interest on written down loans	**65**	**65**	**-**	2	2	-
829	4,570	5,399	**789**	**4,079**	**4,868**	**Total interest income**	**5,563**	**4,795**	**768**	5,752	4,928	824
						Interest costs						
549	42	591	**640**	**40**	**680**	Interest on debt to financial institutions	**678**	**38**	**640**	586	40	546
-	1,355	1,355	**-**	**843**	**843**	Interest on deposits from customers	**839**	**839**	**-**	1,350	1,350	-
-474	1,442	968	**-551**	**1,229**	**678**	Interest on securities issued	**969**	**1,561**	**-592**	1,024	1,504	-480
-23	160	137	**-34**	**163**	**129**	Interest on subordinated loan capital	**129**	**163**	**-34**	137	160	-23
-	62	62	**-**	**77**	**77**	Fee to the Norwegian Banks Guarantee Fund	**77**	**77**	**-**	62	62	-
52	3,061	3,113	**55**	**2,352**	**2,407**	**Total interest costs**	**2,692**	**2,678**	**14**	3,159	3,116	43
777	1,509	2,286	**734**	**1,727**	**2,461**	**Net interest income**	**2,871**	**2,117**	**754**	2,593	1,812	781

NOTE 20 NET COMMISSIONS AND OTHER OPERATING INCOME

(Figures in NOK millions)

Parent bank			Group	
2015	**2016**		**2016**	2015
134	**118**	Guarantee commissions	**114**	128
10	**8**	Interbank commissions	**8**	10
18	**17**	Securities trading	**17**	18
-	**-**	Management	**85**	92
124	**126**	Brokerage commissions	**86**	82
258	**164**	Commissions from mortgage companies	**149**	258
291	**309**	Money-transfer services	**308**	290
187	**194**	Insurance services	**198**	191
104	**118**	Other commissions	**198**	153
-	**-**	Property sales	**348**	383
1,126	**1,054**	**Total commissions**	**1,511**	1,605
7	**4**	Interbank commissions	**4**	7
60	**61**	Money-transfer services	**61**	60
3	**3**	Other commission costs	**7**	11
70	**68**	**Total commission costs**	**72**	78
6	**5**	Operating income from investment properties	**4**	5
-	**-**	Other operating income	**-**	-
6	**5**	**Total other operating income**	**4**	5
1,062	**991**	**Net commissions and other operating income**	**1,443**	1,532

NOTE 21 NET INCOME/LOSSES FROM FINANCIAL INSTRUMENTS

(Figures in NOK millions)

Parent bank			Group	
2015	2016		2016	2015
-79	8	Net gain/loss on equity instruments	51	-39
-274	-146	Net gain/loss on bonds and certificates	-156	-275
91	158	Net derivatives, bonds and certificates	158	91
-66	2	Net counterparty risk, inclusive of CVA	2	-66
-35	-25	Net derivatives, fixed-rate	-24	-35
-	12	Net derivatives, debt	7	-3
85	12	Net derivatives, basis swap spread	-15	88
105	124	Net gain currency	137	104
-173	145	**Net income/loss from financial investments**	160	-135

NOTE 22 REMUNERATION STATEMENT, PERSONNEL COSTS AND BENEFITS FOR EXECUTIVE PERSONNEL AND ELECTED REPRESENTATIVES

The board's statement on the fixing of salaries and other remuneration for executive personnel

SpareBank 1 SR-Bank ASA's remuneration policy
SpareBank 1 SR-Bank ASA has an established remuneration scheme that applies to all employees. The guidelines cover fixed salaries, variable remuneration and employee benefits (pensions, insurance cover and other employee benefits).

The group's remuneration scheme shall:
- be consistent with the group's overall objectives, risk tolerance and long-term interests
- help promote and encourage good management and control of the group's risk
- counter overly high or undesirable risk taking
- help to avoid conflicts of interest
- comply with the Financial Institutions Act, chapter 15

The total remuneration shall be competitive but the group shall not be a wage leader. It shall ensure that the group attracts, develops and retains competent employees over time. The arrangements 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, one of which is an employee representative.

The remuneration committee prepares matters for the board and is mainly responsible for:
- annually reviewing and proposing the total salary and remuneration for the CEO
- annually considering proposals for corporate scorecard (CEO's scorecard)
- annually considering the group's remuneration scheme, including strategy and guiding principles for variable remuneration
- advising the 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

CEO's remuneration
The total remuneration of the chief executive consists of a fixed salary (main element), variable remuneration, benefits in kind, and pension and insurance plans. The chief executive's fixed salary and variable remuneration are set annually by the board based on the recommendation of the remuneration committee. The assessment is based on results achieved in defined target areas, individual performance and the development of pay in comparable positions.

Variable remuneration can be earned annually, but must be based on goals achieved in the last two years. The CEO can receive group bonuses on a par with other employees. Any variable remuneration, including group bonuses, may amount to up to 25% of fixed salary including holiday pay. No performance-based benefits are paid over and above the said schemes. Variable pay is not included in pensionable salary. Variable remuneration cannot be awarded to the chief executive if no group bonus is paid.

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 of the shares can be awarded in each of the next three years. That part of the variable remuneration that is paid in shares can be reduced if subsequent results and developments indicate it was based on incorrect assumptions.

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

A lifelong pension agreement has been concluded with the chief executive in which the retirement age is at the end of the year in which the chief executive turns 64. The annual service pension up until when the chief executive turns 67 amounts to 67% of pensionable pay. From the age of 67, the chief executive will receive a supplementary retirement pension which, together with other pension rights, will constitute 67% of pensionable pay, assuming full earning period.

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

Remuneration of other executive personnel
The chief executive fixes the remuneration of executive personnel based on the limits discussed by the remuneration committee and guidelines adopted by the board.
The remuneration is fixed based on an assessment of performance and conditions in the market for the various areas and should promote good performance and ensure that the group achieves strategic goals. The remuneration arrived at must not damage the group's reputation nor shall the group be a market leader. The remuneration should ensure that the group has the ability to attract and retain executives with the skills and experience required.

Variable remuneration is determined on the basis of the group's achieved return on equity and other targets set in the balanced

(Note 22 cont.)

scorecard. This will be a combination of quantitative attainment of set result targets and a qualitative comprehensive assessment of how the targets were attained. Variable remuneration 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 bonuses, may amount to up to 25% of fixed salary including holiday pay. Variable remuneration cannot be awarded if no group bonus is paid. No performance-based benefits are paid over and above the said schemes. Variable remuneration is not included in pensionable salary. The executive vice president, risk management and compliance and the executive vice president organisation and HR receive no variable remuneration beyond group bonuses.

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 of the shares can be awarded in each of the next three years. That part of the variable remuneration that is paid in shares can be reduced if subsequent results and developments indicate it was based on incorrect assumptions. Benefits in kind can be offered to executive personnel to the extent that benefits are 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 group executive management team have a retirement age of 62, with the exception of the last two members to be employed, whose retirement age is 70. The group executive management team, with the exception of the last two members to be employed, will, from the age of 67, receive a supplementary retirement pension which, together with the SpareBank 1 SR-Bank's pension fund, pension from former employees, pension from the National Insurance Scheme and statutory early retirement pension (AFP) will constitute 70% of pensionable pay, assuming full earning period.
The scheme was changed for new members from and including 2011. In other words, the pension basis of members of the group executive management team who were appointed after this date is limited to 12G. SpareBank 1 SR-Bank has a defined contribution based pension scheme with contribution rates of 7% of pensionable income up to 7.1G, and 22% of pensionable income between 7.1G and 12G (G = National Insurance basic amount). Members of the group executive management team who have a retirement age of 62 years are entitled to a pension equivalent to 70% of pensionable income in the form of service pension, from age 62 to age 67.

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

Remuneration for executive personnel with supervision duties
The remuneration paid to executive personnel with supervision duties must be independent of the results of the operations they supervise.

Employees with control functions do not receive variable remuneration beyond group bonuses.

Remuneration for employee representatives and other employees with remuneration equivalent to executive personnel
The remuneration will comply with the aforementioned guidelines for executive personnel.

Group bonus
The group has a bonus scheme which includes all employees. Group bonuses are set at an equal percentage of salary, and can, as a maximum, amount to 1.5 month's salary. The group bonus is set by the board based on the financial targets achieved. 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/share saving programmes for employees on an equal footing with other employees.

Of the variable remuneration earned in 2016 by the chief executive and other employees subject to the regulations governing remuneration in financial institutions, half of the variable remuneration, with the exception of the group bonus, will be paid in the form of a promise of shares in SpareBank 1 SR-Bank ASA. 1/3 of the shares will be awarded in each of the next 3 years.

Report on executive pay policy in the preceding financial year
The board confirms that the guidelines provided in last year's statement on executive personnel pay for 2016 have been followed.

(Note 22 cont.)

Personnel costs

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
632	**634**	Salaries	**874**	851
-102	**85**	Pension costs (note 24)	**104**	-95
91	**93**	Social security costs	**132**	128
48	**42**	Other personnel costs	**56**	61
669	**854**	**Total personnel costs**	**1,166**	945
945	**912**	Average no. of employees	**1,258**	1,233
870	**820**	No. of full-time equivalents as at 31 Dec	**1,127**	1,161
937	**894**	No. of employees as at 31 Dec	**1,234**	1,249
124,581	**126,328**	Outstanding no. of shares from bonus share programme	**132,150**	131,098
-	**-**	Outstanding hybrid tier 1 capital from bonus programme	**250**	288

Remuneration to group executive management team
(Amounts in NOK 1000)

2016		Salary [1]	Other remuneration [1]	Accrued bonus current year [1]	Total benefits	Earned pension rights	Pension costs	Loans	No of shares [3]	Outstanding no. of shares from bonus share programme
Arne Austreid	Chief Executive Officer	3,489	136	466	4,091	11,495	1,924	846	88,378	12,450
Inge Reinertsen	Chief Financial Officer	2,084	273	283	2,640	11,136	750	7,820	77,093	6,565
Tore Medhus	Executive Vice President, Corporate Market	2,085	201	283	2,569	16,089	728	2,653	42,705	6,570
Jan Friestad	Executive Vice President, Retail Market	2,051	257	278	2,586	3,869	146	8,433	34,512	6,432
Glenn Sæther	Executive Vice President, Business Support	1,783	192	242	2,217	7,394	977	4,403	17,024	5,590
Thor-Christian Haugland	Executive Vice President, Communications	1,519	182	207	1,908	9,513	559	3,089	16,019	4,782
Frode Bø [2]	Executive Vice President, Risk Management and Compliance	1,828	303	5	2,136	11,902	781	40	17,242	-
Inglen Haugland [2]	Executive Vice President, Organisation and HR	1,580	406	5	1,992	5,119	146	3,017	25,301	-

2015		Salary [1]	Other remuneration [1]	Accrued bonus current year [1]	Total benefits	Earned pension rights	Pension costs	Loans	No of shares [3]	Outstanding no. of shares from bonus share programme
Arne Austreid	Chief Executive Officer	3,427	143	659	4,230	9,668	2,057	1,034	73,662	9,169
Inge Reinertsen	Chief Financial Officer	2,062	279	306	2,647	10,054	763	7,930	63,837	6,090
Tore Medhus	Executive Vice President, Corporate Market	2,063	248	306	2,617	15,054	755	5,780	35,438	6,105
Jan Friestad	Executive Vice President, Retail Market	2,028	232	301	2,561	3,718	163	8,722	31,372	5,900
Glenn Sæther	Executive Vice President, Business Support	1,763	193	261	2,217	6,455	1,075	4,575	14,649	5,137
Thor-Christian Haugland	Executive Vice President, Communications	1,503	181	223	1,907	8,843	661	2,920	13,648	4,435
Frode Bø [2]	Executive Vice President, Risk Management and Compliance	1,760	314	21	2,094	10,942	728	-	16,268	865
Inglen Haugland [2] (from 1 Feb 2015)	Executive Vice President, Organisation and HR	1,419	178	18	1,615	4,928	179	3,325	25,301	-
Wenche Drønen Christenssen [2] (until 31 Jan 2015)	Executive Vice President, Organisation and HR	115	30		145					

For further information on the remuneration of executive personnel, reference is made to the board's statement on the remuneration of executive personnel.

[1] Benefits are recognised as costs in the current year.
[2] Employees with control functions do not receive variable remuneration beyond group bonuses.
[3] No. of shares the person owns in SpareBank 1 SR-Bank as at 31 December. The figures also include shares belonging to immediate family members and known companies in which the person has a controlling influence, ref. section 1-2 of the Limited Liability Companies Act.

(Note 22 cont.)

Remuneration of the board and control committee

(Amounts in NOK 1000)

2016		Fees	Other remuneration	Loans	No of shares [4]
Dag Mejdell (from 9 Jun 2016)	Chair of the board	213	28		14,899
Ingvald Løyning (until 9 Jun 2016)	Chair of the board	213			
Kate Henriksen	Board member	225	41		
Jorunn Johanne Sæthre (from 9 Jun 2016)	Board member	113	18		
Birthe Cecilie Lepsøe	Board member	225	85		
Erling Øverland [5] (until 9 Jun 2016)	Board member	113	35		
Odd Torland	Board member	225	39		
Siv Juvik Tveitnes (until 9 Jun 2016)	Board member	113	17		
Tor Dahle [5]	Board member	225	1,181	4,135	72,456,358
Sally Lund-Andersen	Board member (employee representative)	225	839	3,157	941
Oddvar Rettedal (until 9 Jun 2016)	Board member (employee representative)	113	944		
Kristian Kristensen (from 9 Jun 2016)	Board member (employee representative)	125	650	3,114	3,020

2015					
Ingvald Løyning	Chair of the board	413	-	-	41,052
Kate Henriksen (from 4 Jun 2015)	Board member	113	18	-	-
Gunn-Jane Håland (until 4 Jun 2015)	Board member	100	22	-	-
Birthe Cecilie Lepsøe	Board member	213	85	-	-
Erling Øverland [5]	Board member	213	70	-	28,935
Odd Torland	Board member	213	33	-	-
Siv Juvik Tveitnes	Board member	213	46	-	-
Tor Dahle [5]	Board member	213	1,197	1,810	72,462,443
Sally Lund-Andersen	Board member (employee representative)	213	840	3,269	941
Oddvar Rettedal	Board member (employee representative)	213	940	833	8,313
Odd Jo Forsell	Chair of control committee [6]	140	-	2,841	-
Vigdis Wiik Jacobsen	Member control committee	90	-	-	18,581
Egil Fjogstad	Member control committee	90	-	-	2,565,000

[4] No. of shares the person owns in SpareBank 1 SR-Bank as at 31 December. The figures also include shares belonging to immediate family members and known companies in which the person has a controlling influence, ref. section 1-2 of the Limited Liability Companies Act. In addition to this, the shares of the institution the individual representative was elected on behalf of are included.

[5] Erling Øverland was a member of the board and Tor Dahle is the general manager of Sparebankstiftelsen SR-Bank

[6] The control committee was wound up with effect from 1 January 2016.

NOTE 23 OTHER OPERATING COSTS

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
284	**300**	IT costs	**321**	301
69	**57**	Marketing	**74**	90
69	**54**	Other administrative costs	**69**	89
72	**70**	Depreciation (notes 30 and 31)	**75**	77
8	**5**	Impairments (notes 30 and 31)	**5**	8
38	**32**	Operating costs real estate	**35**	41
69	**68**	Rent premises	**89**	88
47	**51**	External fees	**75**	71
53	**43**	Other operating costs	**123**	153
709	**680**	**Total other operating costs**	**866**	918

Fees for external auditor - specification of audit fees

(Figures in NOK thousands)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
1,824	**2,478**	Statutory audit	**4,755**	3,917
52	**414**	Tax advice [1]	**682**	251
217	**412**	Other certification services	**1,003**	514
600	**195**	Other non-auditing services [1]	**387**	1,146
2,693	**3,499**	**Total**	**6,827**	5,828
-	**385**	[1] Fees for Advokatfirmaet PricewaterhouseCoopers that are included in tax advice and other non-auditing services	**469**	262

All figures are inclusive of VAT

NOTE 24 PENSIONS

The SpareBank 1 SR-Bank Group has, as at 31 December 2016, defined contribution pension and defined contribution pension schemes for its employees. The company's and group's pension schemes comply with the requirements of the Mandatory Occupational Pension Act.

The defined benefit pension schemes of SpareBank 1 SR-Bank ASA, SR-Forvaltning AS, and SR-Finans AS was, until 31 December 2015, covered by the group's pension fund.

A decision was taken at the board meeting in June 2015 that employees who were members of the defined benefit scheme had to transfer to a defined contribution pension scheme from 1 January 2016. Upon transitioning to a contribution based pension scheme from 1 January 2016, employees who were in the defined benefit scheme received a paid-up policy for their earned rights from the defined benefit scheme. The change reduced pension liabilities. The effects that was recognised in the financial statements in the third and fourth quarters of 2015 were:

Parent bank	**2015**	Q4 2015	Q3 2015
Curtailments and settlements included in the income statement	**-213**	-153	-60

Group	**2015**	Q4 2015	Q3 2015
Curtailments and settlements included in the income statement	**-226**	-163	-63

Paid-up policies will be managed by the pension fund, which from 1 January 2016 became a paid-up fund. A framework agreement has been established between SpareBank 1 SR-Bank and the pension fund that covers things such as financing, capital management, etc. Because of the responsibilities SpareBank 1 SR-Bank ASA still has, future liabilities will have to be incorporated in the financial statements. The board of the pension fund must consist of representatives of the group and pension scheme participants in accordance with the pension fund's articles of association.

In addition to the pension liabilities linked to paid-up policies that are managed via the pension fund, the group has uncovered pension liabilities. The liabilities apply to people that were not enrolled in the insurance schemes, supplementary pensions in excess of 12G (G = the National Insurance basic amount), ordinary early retirement pensions and statutory early retirement pension (AFP Scheme).

The new AFP scheme, which applies with effect from 1 January 2011, should be regarded as a defined benefit multi-company scheme, but will be recognised as a defined contribution scheme until adequate reliable information is available to allow the bank and the group to recognise their proportional shares of the pension costs, the pension liabilities and the pension funds in the scheme. Thus, the bank's and the group's liabilities are not recognised in the balance sheet as liabilities as at 31 December 2016.

(Note 24 cont.)

The following economic assumptions are made when calculating pension liabilities:

	2016	2015
Discount rate	**2.60%**	2.70%
Expected return on assets	**2.60%**	2.70%
Future salary growth rate	**2.50%**	2.50%
Adjustment of NI basic amount (G)	**2.25%**	2.25%
Pension adjustment	**2.00%**	2.00%
Adjustment of paid-up policies	**1.60%**	1.60%
Employer's NI contribution/financial tax	**19.10%**	14.10%
Voluntary retirement before 45 – unfunded scheme	**5.00%**	5.00%
Voluntary retirement after 45 – unfunded scheme	**2.00%**	2.00%
The remaining average accrual time (in number of years) for members of the unfunded defined benefit plans has been calculated as approximately	**8.73**	9.36
The average life expectancy (no. of years) for a person who turns 65 on the balance sheet date is as follows:		
Man	**21.30**	21.24
Woman	**24.50**	24.40
The average life expectancy (no. of years) for a person who 20 years after the balance sheet date turns 65 is as follows:		
Man	**23.10**	23.04
Woman	**26.40**	26.32
The mortality table that has been adjusted for opening mortality and the decline in the mortality rate.	**K2013BE**	K2013BE

The pension liabilities are calculated annually by an independent actuary using a straight line accrual method. The present value of the defined benefits are determined by discounting estimated future payments by a discount rate based on the interest rate for a bond issued by the company with a high credit rating (corporate bond or covered bond rate) in the same currency and with a maturity that is almost the same as the maturity of the related pension liabilities. Use of the corporate bond rate as the basis for the discount rate requires the existence of corporate bonds with long maturities and high quality in the same currency, as well as a deep market for such bonds. Market players have asserted that the covered bond market is sufficiently deep and that pricing in the market is reliable. Analyses conducted by an actuary, Gabler AS, and the bank's own analyses, which take into account interest rate swap agreements, support the assertion that a deep and liquid market exists for corporate bonds with a high credit rating, concentrated on covered bonds. The Norwegian covered bond market has become better developed after the financial crisis and has a high credit rating. The bank and the group have therefore chosen the covered bond rate as their discount rate for calculating pension liabilities.

(Note 24 cont.)
(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
		Book value of liabilities		
78	**193**	Pension benefits – funded scheme	**211**	94
160	**158**	Pension benefits – unfunded scheme	**167**	169
238	**351**	**Total book value of liabilities**	**378**	263
		Costs charged to income statement		
-135	**10**	Pension benefits – funded scheme	**11**	-143
11	**12**	Pension benefits – unfunded scheme	**12**	12
-124	**22**	**Total costs charged to income statement**	**23**	-131
		Pension liabilities related to defined benefit pensions		
1,740	**1,439**	Present value pension liabilities 1 Jan	**1,520**	1,838
67	**6**	Pension benefits accrued in the period	**7**	71
42	**35**	Interest costs on pension liabilities	**37**	44
		Effect of recalculation:		
-160	**32**	- Change in financial assumptions	**34**	-169
-11	**-27**	- Experience gains and losses	**-29**	-13
-52	**-45**	Payments/redemption from fund	**-48**	-53
-187		Reductions		-198
1,439	**1,440**	**Present value pension liabilities 31 Dec**	**1,521**	1,520
1,299	**1,308**	of which fund-based	**1,381**	1,372
140	**132**	of which not fund based	**140**	148
		Pension assets		
1,192	**1,230**	Pension assets 1 Jan	**1,290**	1,247
31	**27**	Interest income	**28**	32
-7	**-37**	Actual return on assets in relation to booked interest income	**-36**	-7
66	**6**	Employer's NI contributions	**6**	71
-52	**-45**	Payments/redemption from fund	**-47**	-53
-	**-36**	Transfer from premium fund to contribution fund	**-37**	-
1,230	**1,145**	**Pension assets 31 Dec**	**1,204**	1,290
		Net pension liabilities in the balance sheet		
1,439	**1,440**	Present value pension liabilities 31 Dec	**1,521**	1,520
1,230	**1,145**	Pension assets 31 Dec	**1,204**	1,290
209	**295**	Net pension liabilities 31 Dec	**317**	230
29	**56**	Employer's NI contributions	**61**	33
238	**351**	**Net pension liabilities in the balance sheet**	**378**	263
		Pension costs for the period		
67	**6**	Accrued defined benefit-based pensions	**7**	71
42	**35**	Interest costs on pension liabilities	**37**	44
-31	**-27**	Interest income	**-28**	-32
-213	**-**	Curtailments and settlements	**-**	-226
-135	**14**	Net defined benefit-based pension costs without employer's NI contributions	**16**	-143
11	**8**	Accrued employer's NI contributions	**7**	12
-124	**22**	Net defined benefit-based pension costs recognised through profit or loss	**23**	-131
22	**63**	Contribution based pension costs and joint AFP scheme	**81**	36
-102	**85**	**Pension costs in the period recognised in the income statement**	**104**	-95

(Note 24 cont.)

Composition of the group's pension assets	2016	2015
Real estate	**6**	14
- of which used by the bank	**-**	-
Equities	**309**	261
Other assets	**889**	1,015
Total pension assets	**1,204**	1,290

Development during the last five years for the group's defined benefit-based pension plan	2016	2015	2014	2013	2012
Present value pension liabilities 31 Dec	**1,521**	1,520	1,838	1,360	1,203
Pension assets 31 Dec	**1,204**	1,290	1,247	1,148	1,049
Net shortfall	**317**	230	591	212	154

Sensitivity in calculation of pension liabilities when weighted assumptions change as follows:

		Effect on pension liabilities	
	Change in assumption	Change in liabilities	Change in liabilities
Discount rate	+/- 0.50%	-8.8%	10.1%
Wage growth	+/- 0.50%	0.4%	-0.4%
Pension growth	+/- 0.25%	4.8%	-4.5%
Expected lifetime	1 year	4.1%	-4.1%

The sensitivity analysis above is based on a change in one of the assumptions, given that all other assumptions remain constant. This is improbable in practice and changes in some of the assumptions may correlate. Sensitivity calculations are executed using the same method as actuarial calculations for calculating the pension liabilities on the balance sheet.

NOTE 25 TAX (figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
1,962	**2,264**	Pre-tax profit	**2,116**	2,146
-455	**-865**	Permanent differences [1]	**-472**	-390
-122	**-9**	Group contribution	**-**	-
444	**941**	Change in temporary differences	**935**	412
187	**145**	- of which recorded directly against equity	**145**	193
2,016	**2,476**	**Tax base/taxable income for the year**	**2,724**	2,361
544	**619**	Of which payable tax 25% (27%)	**681**	637
33	**2**	Tax effect of group contribution	**-**	-
-170	**-279**	Change in deferred tax	**-279**	-163
-68	**-**	Change deferred tax from 27% to 25%	**-**	-77
1	**1**	Excess/insufficient payable tax allocation in previous years	**1**	3
340	**343**	**Total tax cost**	**403**	400
		Explanation of why the tax cost for the year is not 25% of pre-tax profit		
530	**566**	25% (27%) tax on pre-tax profit	**529**	579
-123	**-216**	25% (27%) tax on permanent differences [1]	**-118**	-105
-	**2**	Change in deferred tax from previous years	**1**	-
	-10	Change in deferred tax upon withdrawals from pension fund	**-10**	-
-68	**-**	Change deferred tax from 27% to 25% on permanent differences	**-**	-77
1	**1**	Excess/insufficient tax allocation in previous years	**1**	3
340	**343**	**Calculated tax cost**	**403**	400
		Deferred tax asset		
-117	**-146**	- deferred tax asset that reverses in more than 12 months	**-169**	-132
-7	**-2**	- deferred tax asset that reverses within 12 months	**-3**	-7
-124	**-147**	**Total deferred tax asset**	**-172**	-139
		Deferred tax		
736	**462**	- deferred tax that reverses in more than 12 months	**532**	793
31	**2**	- deferred tax that reverses within 12 months	**-**	-
767	**465**	**Total deferred tax**	**532**	793
643	**317**	**Net deferred tax/deferred tax asset**	**360**	654
		Change in deferred tax		
-212	**-326**	Year's change in deferred tax on the balance sheet	**-294**	-167
42	**32**	Change in deferred tax for group contributions on the balance sheet	**-**	
-68	**-**	Change deferred tax from 27% to 25% on the balance sheet	**-**	-73
68	**15**	- of which change not recorded in income statement	**15**	77
-170	**-279**	**- of which change recorded in income statement**	**-279**	-163
		Specification of temporary differences		
16	**12**	Gains and loss account	**-11**	-17
2,743	**1,649**	Differences related to financial items	**1,589**	2,741
-	**-**	Loans	**-1**	36
-238	**-351**	Pension liabilities	**-377**	-263
-29	**-6**	Accounting provisions	**29**	-1
-	**-**	Leasing operating equipment	**251**	172
-43	**-44**	Tangible fixed assets	**-40**	-50
123	**9**	Group contribution paid		-
-	**-**	Losses carried forward		-2
2,572	**1,269**	**Total temporary differences**	**1,440**	2,616
25%	**25%**	Tax rate applied	**25%**	25%

[1] Includes tax-exempted dividends, non-tax-deductible expenses, net tax-exempt gains on the realisation of equities in the European Economic Area (EEA), and tax allowances for profit attributable to associated companies (the percentage of the profit is extracted as it has already been taxed in the individual company).

NOTE 26 CLASSIFICATION OF FINANCIAL INSTRUMENTS

(Figures in NOK millions)

Group	Financial instruments at fair value through profit or loss						
2016	**Held for sale**	**Recognised at fair value**	**Financial derivatives as hedging instruments**	**Financial assets and liabilities assessed at amortised cost and accrued interest**	**Financial assets available for sale**	**Financial assets held to maturity**	**Total**
Assets							
Cash and receivables from the central bank				1,079			1,079
Loans to and receivables from financial institutions				4,334			4,334
Loans to customers		9,336		147,036			156,372
Certificates and bonds at fair value	18,833					2,191	21,024
Financial derivatives		1,472	2,843				4,315
Equities, units and other equity interests	560				36		596
Operations that will be sold		22					22
Other assets				622			622
Total assets	**19,393**	**10,830**	**2,843**	**153,071**	**36**	**2,191**	**188,364**
Liabilities							
Debt to financial institutions				2,674			2,674
Deposits from customers				85,914			85,914
Securities issued [1]				79,183			79,183
Financial derivatives		1,969	546				2,515
Other liabilities				1,147			1,147
Subordinated loan capital [1]				2,646			2,646
Total liabilities		**1,969**	**546**	**171,564**			**174,079**
2015							
Assets							
Cash and receivables from the central bank				931			931
Loans to and receivables from financial institutions				2,984			2,984
Loans to customers		10,565		143,792			154,357
Certificates and bonds at fair value	19,533						19,533
Financial derivatives		3,030	3,105				6,135
Equities, units and other equity interests	344				97		441
Operations that will be sold		168					168
Other assets				2,243			2,243
Total assets	19,877	13,763	3,105	149,950	97		186,792
Liabilities							
Debt to financial institutions				4,343			4,343
Deposits from customers				89,444			89,444
Securities issued [1]				71,979			71,979
Financial derivatives		2,420	1,319				3,739
Other liabilities				880			880
Subordinated loan capital [1]				3,459			3,459
Total liabilities		2,420	1,319	170,105			173,844

[1] Securities issued and subordinated loan capital contain secured debt.

(Note 26 cont.)

Information about fair value
Group

The table below shows financial instruments at fair value according to their valuation method. The different levels are defined as follows:
Listed price in an active market for an identical asset or liability (level 1).
Valuation based on observable factors other than listed price (used in level 1) either direct (price) or indirect (deduced from prices) for the asset or liability (level 2).
Valuation based on factors not obtained from observable markets (non-observable assumptions) (level 3).

2016	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
Assets				
Loans to customers			9,336	**9,336**
Certificates and bonds at fair value	13,343	5,490		**18,833**
Financial derivatives		4,315		**4,315**
Equities, units and other equity interests	266	133	197	**596**
Operations that will be sold			22	**22**
Liabilities				
Financial derivatives		2,515		**2,515**
2015				
Assets				
Loans to customers			10,565	10,565
Certificates and bonds at fair value	15,109	4,424		19,533
Financial derivatives		6,135		6,135
Equities, units and other equity interests	186	18	236	440
Operations that will be sold			168	168
Liabilities				
Financial derivatives		3,739		3,739

No transfers between levels 1 and 2

Change in holding during the financial year of assets valued on the basis of factors other than observable market data

Group	Loans to customers 2016	Equities, units and other equity interests 2016	Operations that will be sold 2016
Balance 1 Jan	10,565	236	168
Additions	476	30	-
Disposals	-1,498	-8	-146
Transferred from or to measurement according to prices in an active market or observable market data	-	-	-
Change in value [2]	-207	-61	-
Balance 31 Dec	9,336	197	22
Nominal value/cost price	9,123	204	29
Fair value adjustment	213	-7	-7
Balance 31 Dec	9,336	197	22
Group	2015	2015	2015
Balance 1 Jan	9,994	288	22
Additions	3,985	25	137
Disposals	-3,319	-145	-
Transferred from or to measurement according to prices in an active market or observable market data	-	-	-
Change in value [2]	-95	68	9
Balance 31 Dec	10,565	236	168
Nominal value/cost price	10,145	180	107
Fair value adjustment	420	56	61
Balance 31 Dec	10,565	236	168

(Note 26 cont.)

Sparebanken Hedmark completed its acquisition of Bank 1 Oslo Akershus in the second quarter of 2016. As far as SpareBank 1 SR-Bank is concerned, this means that its previous stake in Bank 1 Oslo Akershus has been realised with settlement in equity certificates in Sparebanken Hedmark. The analysis environment in SpareBank 1 Gruppen has conducted a valuation of Sparebanken Hedmark. The valuation is based on a combination of two methods: multiple pricing and the dividend discounting model. The valuation is used by all of the SpareBank 1 banks with stakes in Sparebanken Hedmark.

SpareBank 1 SR-Bank is a member of Visa Norge FLI. Visa Norge FLI is, as a group member of Visa Europe, also a shareholder in Visa Europe Ltd. In November 2015, an agreement was announced concerning the sale of Visa Europe Ltd to Visa Inc. The transaction will significantly increase the equity in Visa Norge IFS. SpareBank 1 SR-Bank's ownership interests in Visa Norge IFS are considered a financial asset in the available for sale category (AFS investment) and must therefore be recognised at fair value as long as this can be reliably measured. The remuneration consists of shares in Visa Inc., a cash settlement and a postponed cash payment. On 31 December 2015, the estimated value of the shares resulted in income in other comprehensive income of NOK 95 million. SpareBank 1 SR-Bank received the cash settlement in the second quarter of 2016. This amounted to NOK 94 million, compared with the amount calculated at the end of 2015 of NOK 72 million. The cash settlement was posted as dividends via the income statement in the second quarter of 2016. SpareBank 1 SR-Bank still has an ownership item linked to the postponed cash payment and shares in Visa Norge totalling NOK 34 million. This item is posted in other comprehensive income and will not affect the result until it is realised.

Other assets are measured using various methods such as last known transaction price, earnings per share, dividend per share, EBITDA and discounted cash flows.

Fixed-rate loans are measured on the basis of the interest rate agreed with the customer. Loans are discounted using the applicable interest curve, having taken into account a market premium, which is adjusted for the profit margin. The conducted sensitivity analyses indicate an increase in the discount rate of 10 basis points would have a negative effect on the result amounting to NOK 26 million.

[2] Value changes are recognised in net income from financial instruments.

Group

Fair value of financial instruments at amortised cost (Figures in NOK millions)	**Carrying amount 2016**	**Fair value 2016**	**Carrying amount 2015**	**Fair value 2015**
Assets				
Cash and receivables from the central bank	**1,079**	**1,079**	931	931
Loans to and receivables from financial institutions	**4,334**	**4,334**	2,984	2,984
Loans to customers [1]	**147,036**	**147,036**	143,792	143,792
Certificates and bonds held to maturity	**2,191**	**2,204**	-	-
Total assets at amortised cost	**154,640**	**154,653**	147,707	147,707
Liabilities				
Debt to financial institutions	**2,674**	**2,674**	4,343	4,343
Deposits from customers [1]	**85,914**	**85,914**	89,444	89,444
Securities issued	**79,183**	**79,698**	71,979	71,577
Subordinated loan capital	**2,646**	**2,668**	3,459	3,478
Total liabilities at amortised cost	**170,417**	**170,954**	169,225	168,842

[1] Customer loans and deposits at amortised cost amount to book value best estimate at fair value.

NOTE 27 CERTIFICATES AND BONDS

(Figures in NOK millions)

Parent bank 2015	**2016**	**Certificates and bonds**	**Group 2016**	2015
20,188	**19,726**	Certificates and bonds at fair value	**18,710**	19,406
-	**2,187**	Certificates and bonds held to maturity	**2,187**	-
126	**129**	Accrued interest	**127**	127
20,314	**22,042**	**Total certificates and bonds**	**21,024**	19,533
		Government		
1,488	**1,149**	Nominal value	**1,149**	1,488
1,553	**1,183**	Fair value	**1,183**	1,553
		Other public issuers		
2,457	**2,754**	Nominal value	**2,754**	2,457
2,453	**2,754**	Fair value	**2,754**	2,453
		Covered bonds		
12,229	**13,892**	Nominal value	**12,817**	11,432
12,284	**13,934**	Fair value	**12,859**	11,487
		Other financial enterprises		
3,490	**3,706**	Nominal value	**3,756**	3,490
3,570	**3,785**	Fair value	**3,835**	3,570
		Non-financial enterprises		
422	**323**	Nominal value	**336**	439
328	**257**	Fair value	**266**	343
126	**129**	Accrued interest	**127**	127
20,086	**21,824**	**Total certificates and bonds at nominal value**	**20,812**	19,306
20,314	**22,042**	**Total certificates and bonds**	**21,024**	19,533

NOTE 28 FINANCIAL DERIVATIVES

General description:
The fair value of financial derivatives is determined using valuation methods where the price of the underlying object, for example interest and currency rates, is obtained from the market. If the group's risk position is relatively neutral, normal rates will be used in pricing. A neutral risk position means, for example, that the interest rate risk within a re-pricing interval is approximately zero. Otherwise, the relevant purchase or sales price is used to assess the net position. CVA (Credit Valuation Adjustment) for derivative transactions is assessed on the based of the net positive market values per counterparty. The CVA risk for counterparties that regularly exchange collateral and Norwegian municipalities is considered marginal. For other counterparties, the CVA calculation is based on the probability of default compared with the remaining term to maturity of the derivative positions and loss given default.

The group hedges fixed-rate loans. Each hedge is documented with a reference to the group's risk management strategy, a clear identification of the item being hedged, the hedging instrument used, a description of the hedged risk, a description of why hedging is regarded as highly probable and a description of how and when the group shall determine the efficiency of the hedge during the accounting period and that it is expected to be very effective during the next accounting period. The group has defined the hedged risk as value changes linked to the NIBOR component of the hedged fixed interest rates in NOK and value changes linked to the LIBOR components of the hedged fixed interest rates in foreign currencies.

As at 31 December 2016, the net fair value of the hedging instruments was NOK 1,696 million (NOK 1,880 million in assets and NOK 184 million in liabilities). The corresponding figures for 2015 were NOK 2,225 million (NOK 2,318 million in assets and NOK 93 million in liabilities). There was no ineffective result for hedging instruments in 2016.

ISDA agreements with CSA supplements regulate the counterparty risk through payments of margins in relation to exposure limits. Contract sums and effects of reinvestment costs covered by netting agreements amount to NOK 157.1 billion and NOK 2.0 billion, respectively, as at 31 December 2016. The group has no financial instruments that are booked net.

Group [1)]
(Figures in NOK millions)

	2016			2015		
		Fair value			Fair value	
At fair value through profit or loss	**Contract amount**	**Assets**	**Liabilities**	Contract amount	Assets	Liabilities
Currency instruments						
Currency futures (forwards)	**3,518**	**92**	**26**	2,891	239	27
Currency swaps	**47,585**	**254**	**710**	44,129	1,104	323
Currency options	**51**	**1**	**1**	-	-	-
Total currency instruments	**51,154**	**347**	**737**	47,020	1,343	350
Interest rate instruments						
Interest rate swaps, incl. cross-currency swaps	**53,801**	**1,124**	**1,231**	66,073	1,687	2,068
Other interest rate contracts	**160**	**1**	**1**	164	2	2
Total interest rate instruments	**53,961**	**1,125**	**1,232**	66,237	1,689	2,070
Interest rate instruments, hedging						
Interest rate swaps, incl. cross-currency swaps	**65,503**	**1,880**	**184**	53,512	2,318	93
Total interest rate instruments, hedging	**65,503**	**1,880**	**184**	53,512	2,318	93
Collateral						
Collateral		**321**	**140**		-	953
Total collateral	**-**	**321**	**140**	-	-	953
Accrued interest						
Accrued interest	**-**	**642**	**222**	-	785	273
Total accrued interest	**-**	**642**	**222**	-	785	273
Total currency instruments	**51,154**	**347**	**737**	47,020	1,343	350
Total interest rate instruments	**119,464**	**3,005**	**1,416**	119,749	4,007	2,163
Total collateral		**321**	**140**		-	953
Total accrued interest		**642**	**222**		785	273
Total currency and interest rate instruments	**170,618**	**4,315**	**2,515**	166,769	6,135	3,739

[1)] This note is almost identical for the parent bank.

NOTE 29 EQUITIES, UNITS AND OTHER EQUITY INTERESTS

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
		At fair value through profit or loss		
67	**140**	- Listed	**140**	67
119	**126**	- Securities funds	**126**	119
17	**133**	- Unlisted	**294**	158
203	**399**	**Total at fair value through profit or loss**	**560**	344
		Available for sale		
97	**34**	- Unlisted	**36**	97
97	**34**	**Total available for sale**	**36**	97
300	**433**	**Total equities, units and other equity interests**	**596**	441

Equities, units and other equity interests are classified within the categories 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 or loss.
Other equities are classified as available for sale.

Investments in equities, units and other equity interests

Parent bank (Figures in NOK thousands)	**Company's share capital**	**Stake in %**	**No. of equities/ units**	**Acquisition cost**	**Book value/ market value**
At fair value through profit or loss					
Sandnes Sparebank	230,149	15.1	3,485,009	149,476	140,097
Listed companies				**149,476**	**140,097**
SR-Kombinasjon A			30,000	30,000	39,573
SR-Rente			56,109	55,951	53,797
SR-Utbytte A			20,000	20,000	32,210
Securities funds				**105,951**	**125,580**
Unlisted companies					
Short-term investments in shares					
Sparebanken Hedmark	5,310,127	1.61	1,713,942	107,978	126,489
Other unlisted companies				25,839	6,642
Total unlisted companies				**133,817**	**133,131**
Total at fair value through profit or loss equities, units and other equity interests				**389,244**	**398,808**
Available for sale					
Visa Norge IFS					33,221
Unlisted companies					1,401
Total available for sale					**34,622**
Total equities, units and other equity interests parent bank					**433,430**

(Note 29 cont.)

Investments in equities, units and other equity interests

Group (Figures in NOK thousands)	Company's share capital	Stake in %	No. of equities/ units	Acquisition cost	Book value/ market value
At fair value through profit or loss					
Total listed companies parent bank				149,476	140,097
Total listed in subsidiaries				-	-
Total listed companies - group				**149,476**	**140,097**
Total combination funds parent bank				105,951	125,580
Total combination funds in subsidiaries				-	-
Total combination funds - group				**105,951**	**125,580**
Total unlisted companies - parent bank				**133,817**	**133,131**
HitecVision Asset Solutions, LP		1.19		22,450	31,827
Optimarin		13.01		23,588	23,622
SR PE-Feeder III KS		40.50		21,837	19,487
HitecVision Private Equity IV LP		2.00		19,132	9,775
Reiten & Co Capital Partners VII LP		0.49		7,883	9,667
Energy Ventures IV LP		0.01		13,483	9,122
Other unlisted companies in subsidiaries				92,075	57,653
Total unlisted in subsidiaries				**200,448**	**161,153**
Total unlisted in group				**334,265**	**294,284**
Total at fair value through profit or loss equities, units and other equity interests				**589,692**	**559,961**
Available for sale					
Unlisted companies parent bank					34,662
Unlisted companies in subsidiaries					1,195
Total equities, units and other equity interests - group					**595,778**

NOTE 30 INTANGIBLE ASSETS

(Figures in NOK millions)

Parent bank				Group		
Customer contracts	Goodwill	Total	2016	Total	Goodwill	Customer contracts
3	-	**3**	Acquisition cost 1 Jan 2016	**63**	53	10
	-	**-**	Additions	**32**	28	4
-	-	**-**	Disposals	**-**	-	-
3	-	**3**	Acquisition cost 31 Dec 2016	**95**	81	14
1	-	**1**	Accumulated depreciation and impairments 1 Jan 2016	**2**	-	2
-	-	**-**	Year's disposals	**-**	-	-
2	-	**2**	Year's depreciation and impairments	**4**	-	4
3	-	**3**	Accumulated depreciation and impairments 31 Dec 2016	**6**	-	6
-	-	**-**	**Carrying amount 31 Dec 2016**	**89**	81	8
			Distribution of carrying amount			
-	-	**-**	SR-Forvaltning – acquisition of 33.3% of the shares in May 2009	**20**	20	-
-	-	**-**	SpareBank 1 SR-Bank - purchase of customer contracts from Swedbank in 2015	**-**	-	-
-	-	**-**	SpareBank 1 Regnskapshuset SR – acquisition of SpareBank 1 Regnskapshuset Østland's Rogaland branches in 2015	**27**	24	3
-	-	**-**	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in ODB-Regnskap AS in 2015	**12**	9	3
			SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in Advis AS i 2016	**30**	28	2
-	-	**-**	**Carrying amount 31 Dec 2016**	**89**	81	8
			2015			
-	-	-	Acquisition cost 1 Jan 2015	20	20	-
3	-	3	Additions	43	33	10
-	-	-	Disposals	-	-	-
3	-	3	Acquisition cost 31 Dec 2015	63	53	10
-	-	-	Accumulated depreciation and impairments 1 Jan 2015	-	-	-
-	-	-	Year's disposals	-	-	-
1	-	1	Year's depreciation and impairments	2	-	2
1	-	1	Accumulated depreciation and impairments 31 Dec 2015	2	-	2
2	-	2	Carrying amount 31 Dec 2015	61	53	8
			Distribution of carrying amount			
-	-	-	SR-Forvaltning – acquisition of 33.3% of the shares in May 2009	20	20	-
2	-	2	SpareBank 1 SR-Bank - purchase of customer contracts from Swedbank in 2015	2	-	2
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of SpareBank 1 Regnskapshuset Østland's Rogaland branches in 2015	27	24	3
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in ODB-Regnskap AS in 2015	12	9	3
2	-	2	Carrying amount 31 Dec 2015	61	53	8

The amounts are the differences between identifiable assets inclusive of excess values and the cost price of the identifiable assets. The elements in the goodwill item relate to future earnings in the company supported by the calculations of the present value of expected future earnings, which document a future economic benefit from acquiring the company. The goodwill item's elements are valued annually and written down if a there is a basis for this following a concrete assessment.

NOTE 31 TANGIBLE FIXED ASSETS

(Figures in NOK millions)

Parent bank				Group		
Buildings and real estate	Machinery, fixtures, and vehicles	Total		Total	Machinery, fixtures, and vehicles	Buildings and real estate
261	753	1,014	Acquisition cost 1 Jan 2016	1,149	836	313
-10	95	85	Additions	167	99	68
-	14	14	Disposals	14	14	-
251	834	1,085	Acquisition cost 31 Dec 2016	1,301	921	381
116	557	673	Accumulated depreciation and impairments 1 Jan 2016	745	627	118
4	66	70	Year's depreciation	73	69	4
-	3	3	Year's impairments	3	3	-
-	14	14	Year's disposals	14	14	-
120	612	732	Accumulated depreciation and impairments 31 Dec 2016	807	685	122
132	**222**	**354**	**Carrying amount 31 Dec 2016**	**495**	**236**	**259**
391			**Fair value**			**391**
221	708	929	Acquisition cost 1 Jan 2015	1,040	787	253
40	86	126	Additions	165	90	75
-	41	41	Disposals	56	41	15
261	753	1,014	Acquisition cost 31 Dec 2015	1,149	836	313
112	523	635	Accumulated depreciation and impairments 1 Jan 2015	713	589	124
4	67	71	Year's depreciation	75	71	4
-	8	8	Year's impairments	8	8	-
-	41	41	Year's disposals	51	41	10
116	557	673	Accumulated depreciation and impairments 31 Dec 2015	745	627	118
146	196	342	Carrying amount 31 Dec 2015	404	209	195
380			Fair value			380

Collateral

The group has not mortgaged/pledged or accepted any other disposal restrictions on its tangible fixed assets.

Revaluation/ depreciation

The group does not make regular revaluations of tangible fixed assets. In connection with the initial implementation of IFRS, buildings were valued at cost less accumulated depreciation in accordance with current Norwegian legislation. Percentage rate of depreciation is 10% to 33% for machinery, equipment and vehicles, and 2% for bank buildings, investment property and other real estate.

Buildings and real estate

Of the total book value of buildings and real estate NOK 111 million is for use in the banking business.
The fair value of buildings is determined by appraisal.

Operational leases

The group has no significant operational leases.

NOTE 32 OTHER ASSETS

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
15	**10**	Income earned but not received from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	**10**	15
25	**30**	Prepaid costs	**32**	29
-	**9**	Over funding of pension liabilities	**9**	-
35	**200**	Paid in capital SR-Bank Pension Fund	**200**	35
1,756	**46**	Unsettled trades	**46**	1,756
132	**49**	Other assets	**325**	408
1,963	**344**	**Total other assets**	**622**	2,243

NOTE 33 DEPOSITS FROM CUSTOMERS

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
78,834	**75,076**	Deposits from and liabilities to customers, at call	**74,821**	78,658
10,796	**11,102**	Deposits from and liabilities to customers with agreed maturity	**11,087**	10,783
2	**6**	Accrued interest	**6**	2
89,632	**86,184**	**Total deposits from customer**	**85,914**	89,444
		Deposits by sector and industry		
1,146	**1,166**	Agriculture/forestry	**1,166**	1,146
351	**460**	Fisheries/fish farming	**460**	351
2,529	**1,226**	Mining operations/extraction	**1,226**	2,529
1,426	**1,305**	Industry	**1,305**	1,426
2,090	**1,968**	Power and water supply/building and construction	**1,968**	2,090
2,599	**2,529**	Wholesale and retail trade, hotels and restaurants	**2,529**	2,599
1,662	**2,084**	Overseas shipping, pipeline transport and other transport	**2,084**	1,662
7,078	**5,640**	Property management	**5,640**	7,078
12,431	**9,710**	Service sector	**9,440**	12,243
16,217	**17,923**	Public sector and financial services	**17,923**	16,217
47,529	**44,011**	**Total industry**	**43,741**	47,341
42,101	**42,908**	Retail market	**42,908**	42,101
2	**6**	Accrued interest	**6**	2
-	**-741**	Net cooperate accounts currency	**-741**	-
89,632	**86,184**	**Total deposits by sector and industry**	**85,914**	89,444
		Deposits by geographic area		
63,695	**63,350**	Rogaland	**63,080**	63,507
7,272	**6,784**	Agder counties	**6,784**	7,272
8,485	**8,617**	Hordaland	**8,617**	8,485
4,605	**1,023**	International	**1,023**	4,605
5,576	**6,410**	Other	**6,410**	5,576
89,632	**86,184**	**Total deposits by geographic area**	**85,914**	89,444

NOTE 34 SECURITIES ISSUED

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016			Group 2016	Group 2015
60,336	**50,578**	Bond debt [1]		**76,536**	68,935
2,209	**1,773**	Value adjustments		**1,950**	2,242
793	**636**	Accrued interest		**697**	802
63,338	**52,987**	**Total securities issued**		**79,183**	71,979
2.3%	**2.0%**	Average interest rate		**1.9%**	2.3%
		Securities issued by due date [1]	Maturity		
11,699	**-**		2016	**-**	11,699
10,309	**7,389**		2017	**7,449**	12,010
13,702	**12,353**		2018	**12,353**	13,702
6,134	**6,028**		2019	**11,025**	6,134
6,313	**5,990**		2020	**14,686**	13,244
7,447	**8,128**		2021	**14,934**	7,447
97	**5,972**		2022	**5,972**	97
1,498	**1,721**		2023	**6,182**	1,498
329	**323**		2025	**323**	329
-	**89**		2026	**89**	-
-	**-**		2031	**91**	-
-	**-**		2032	**841**	-
442	**420**		2033	**420**	442
113	**108**		2034	**108**	113
315	**308**		2035	**308**	315
208	**187**		2037	**187**	208
			2041	**183**	
341	**325**		2043	**325**	341
1,329	**1,264**		2044	**1,264**	1,329
257	**249**		2045	**249**	257
207	**-**		2046	**-**	207
436	**184**		2047	**184**	436
261	**248**		2053	**248**	261
1,108	**1,065**		2054	**1,065**	1,108
793	**636**	Accrued interest		**697**	802
63,338	**52,987**	**Total securities issued**		**79,183**	71,979
		Securities issued by currency [1]			
13,956	**11,162**	NOK		**21,201**	17,755
42,959	**36,252**	EUR		**52,348**	47,792
1,997	**1,568**	SEK		**1,568**	1,997
2,752	**2,593**	CHF		**2,593**	2,752
881	**776**	USD		**776**	881
793	**636**	Accrued interest		**697**	802
63,338	**52,987**	**Total securities issued**		**79,183**	71,979

[1] Own certificates and bonds have been deducted.

Group **Change in securities issued**	**Balance 31 Dec 2016**	**Issued 2016**	**Matured/redeemed 2016**	**Exchange rate and other changes 2016**	**Balance 31 Dec 2015**
Bonds, nominal value	**76,536**	29,236	-19,332	-2,303	68,935
Value adjustments	**1,950**	-	-	-292	2,242
Accrued interest	**697**	-	-	-105	802
Total securities issued	**79,183**	29,236	-19,332	-2,700	71,979

NOTE 35 OTHER LIABILITIES

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016	Other liabilities	Group 2016	Group 2015
238	**351**	Pension liabilities (note 24)	**378**	263
3	**88**	Specified loss provisions guarantees	**5**	3
27	**30**	Accounts payable	**58**	45
39	**39**	Tax deducted	**55**	53
-	**146**	Unsettled trades	**146**	-
162	**207**	Other liabilities	**222**	194
71	**65**	Accrued holiday pay	**92**	97
168	**137**	Other accrued costs	**191**	225
708	**1,063**	**Total other liabilities**	**1,147**	880
		Guarantees issued (amounts guaranteed)		
1,883	**910**	Payment guarantees	**910**	1,883
2,625	**2,554**	Performance bonds	**2,554**	2,625
2,407	**2,405**	Loan guarantees	**2,405**	2,407
146	**130**	Guarantees for tax	**130**	146
4,351	**3,760**	Other guarantee liabilities	**3,836**	4,351
11,412	**9,759**	**Total guarantees customers**	**9,835**	11,412
-	**588**	Other guarantees	**588**	-
11,412	**10,347**	**Total guarantees issued**	**10,423**	11,412
		Other liabilities		
5,532	**5,371**	Unused credit lines for financial institutions	**-**	-
19,167	**19,154**	Unused credit lines for customers	**21,037**	19,388
1,723	**1,558**	Approved loan commitments	**1,650**	1,807
18	**23**	Letters of credit	**23**	18
26,440	**26,106**	**Total other liabilities**	**22,710**	21,213
38,560	**36,928**	**Total liabilities**	**33,692**	33,505
		Security pledged		
9,292	**17,096**	Securities pledged as security	**17,096**	9,292

Ongoing legal disputes

The group is a party in a number of court cases with a total financial scope that is not considered to be significant, inasmuch as the group has made provisions for losses in those cases where it is assumed more likely than not that the group will incur a loss as a result of the cases.

Operational lease payments

The group's operational leases have terms of 3-5 years. The annual cost is approximately NOK 6 million.

NOTE 36 RESTRICTED FUNDS

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
39	**39**	Tax deducted	**55**	53
39	**39**	**Total restricted funds**	**55**	53

NOTE 37 SUBORDINATED LOAN CAPITAL

(Figures in NOK millions)

Parent bank 2015	Parent bank 2016	Principal		Terms	Maturity	First due date	Group 2016	Group 2015
				Non-perpetual				
746	**-**	750	NOK	3-month NIBOR + 3.50% per annum	2021	2016	**-**	746
499	**499**	500	NOK	3-month NIBOR + 1.80% per annum	2023	2018	**499**	499
502	**465**	50	EUR	4% per annum until 21 Dec 2017, thereafter 6-month NIBOR + 1.725% per annum	2030	2030	**465**	502
825	**825**	825	NOK	3-month NIBOR + 2.75% per annum	2022	2017	**825**	825
2,572	**1,789**			**Total non-perpetual**			**1,789**	2,572
				Tier 1 capital instruments				
759	**732**	684	NOK	9.35% per annum until 9 Dec 2019, thereafter 3-month NIBOR + 5.75% per annum		2019	**732**	759
116	**116**	116	NOK	3-month NIBOR + 4.75% per annum until 9 Dec 2019, thereafter NIBOR + 5.75% per annum		2019	**116**	116
875	**848**			**Total tier 1 capital instruments**			**848**	875
12	**9**			Accrued interest			**9**	12
3,459	**2,646**			**Total subordinated loan capital**			**2,646**	3,459

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 2,646 million in subordinated loan capital, NOK 791 million counts as tier 1 capital and NOK 1,778 million as term subordinated loan capital.

Capitalised costs associated with borrowing are reflected in the calculation of amortised cost.

Group

Subordinated loan capital and hybrid tier 1 capital loans [1]	**2016**	2015
Ordinary subordinated loan capital, nominal value	**1,778**	2,550
Hybrid tier 1 capital loans, nominal value	**791**	795
Value adjustments	**68**	102
Accrued interest	**9**	12
Total subordinated loan capital and hybrid tier 1 capital loans	**2,646**	3,459

Change in debt raised by issuing of subordinated loans/ hybrid tier 1 capital loans [1]	**Balance 31 Dec 2016**	**Issued/ sale own 2016**	**Matured/ redeemed 2016**	**Exchange rate and other changes 2016**	**Balance 31 Dec 2015**
Dated subordinated loan capital, nominal value	**1,778**	-	-746	-26	2,550
Hybrid tier 1 capital loans, nominal value	**791**	-	-	-4	795
Value adjustments	**68**	-	-	-34	102
Accrued interest	**9**	-	-	-3	12
Total subordinated loan capital and hybrid tier 1 capital loans	**2,646**	-	-746	-67	3,459

[1] This note is identical for the parent bank.

NOTE 38 INVESTMENTS IN OWNERSHIP INTERESTS

Subsidiaries, associated companies and joint ventures

Company	Acquisition date	Registered head office	Ownership in % 1)
Investments in subsidiaries			
Shares held by the parent bank			
SpareBank 1 SR-Finans	1987	Stavanger	100.00
EiendomsMegler 1 SR-Eiendom	1990	Stavanger	100.00
SR-Forvaltning	2001	Stavanger	100.00
SR-Investering	2005	Stavanger	100.00
SpareBank 1 Regnskapshuset SR	2015	Stavanger	100.00
Finansparken Bjergsted	2014	Stavanger	100.00
Rygir Industrier konsern	2012	Stavanger	100.00
SR-Boligkreditt	2015	Stavanger	100.00
Shares owned by subsidiaries			
Jærmegleren	2007	Stavanger	100.00
Investments in associated companies			
Admisenteret	1984	Jørpeland	50.00
SpareBank 1 Boligkreditt	2005	Stavanger	13.87
SpareBank 1 Næringskreditt	2009	Stavanger	21.92
BN Bank	2008	Trondheim	23.50
SpareBank 1 Kredittkort	2012	Trondheim	17.86
Samarbeidende Sparebanker Bankinvest	2010	Oslo	3.27
SpareBank 1 Mobilbetaling	2015	Oslo	19.70
Investments in joint ventures			
SpareBank 1 Gruppen	1996	Oslo	19.50
SpareBank 1 Banksamarbeidet	2004	Oslo	17.74

1) Voting rights and ownership share are equal in all companies

(Note 38 cont.)

Subsidiaries

Shares in subsidiaries parent bank

Investments are recognised at the parent bank's acquisition cost. These items are fully consolidated in the consolidated financial statements.

(Amounts in NOK 1000)

2016	Company's share capital	Ownership interest in %	No. of shares	Nominal value	Assets	Liabilities	Total income	Total costs	Company's profit for the year	Book value
SpareBank 1 SR-Finans	167,000	100.00	334,000	167,000	6,856,713	5,908,519	231,318	55,150	63,044	883,228
SR-Boligkreditt	2,025,000	100.00	2,025,000	2,025,000	30,144,313	28,033,602	120,958	5,543	84,851	2,025,150
Total investments in from financial institutions				**2,192,000**	**37,001,026**	**33,942,121**	**352,276**	**60,693**	**147,895**	**2,908,378**
EiendomsMegler 1 SR-Eiendom	1,500	100.00	150	1,500	148,051	80,899	349,878	333,723	11,698	97,205
SR-Investering	35,000	100.00	3,500	35,000	170,757	6,193	-153	617	639	164,225
SR-Forvaltning	6,000	100.00	6,000	6,000	65,337	26,802	55,710	27,579	21,097	29,018
SpareBank 1 Regnskapshuset SR	800	100.00	8,000	800	92,693	19,632	81,742	80,140	1,026	70,125
Rygir Industrier Group	14,400	100.00	90,000	14,400	197,045	4,905	13	2,237	-1,555	186,246
Etis Eiendom							62	79	-6	-
Finansparken Bjergsted	48,000	100.00	8,000	48,000	272,610	13,849	1,289	328	742	258,016
Total other investments				**105,700**	**946,493**	**152,280**	**488,541**	**444,703**	**33,641**	**804,835**
Total investments in in subsidiaries parent bank				**2,297,700**	**37,947,519**	**34,094,401**	**840,817**	**505,396**	**181,536**	**3,713,213**

2015	Company's share capital	Ownership interest in %	No. of shares	Nominal value	Assets	Liabilities	Total income	Total costs	Company's profit for the year	Book value
SpareBank 1 SR-Finans	167,000	100.00	334,000	167,000	7,008,028	6,008,575	235,339	45,273	113,851	811,689
SR-Boligkreditt	1,275,000	100.00	1,275,000	1,275,000	10,753,598	9,449,244	48,670	8,894	28,710	1,275,150
Total investments in from financial institutions				1,442,000	17,761,626	15,457,819	284,009	54,167	142,561	2,086,839
EiendomsMegler 1 SR-Eiendom	1,500	100.00	150	1,500	167,761	92,787	385,888	356,246	20,908	97,205
SR-Investering	35,000	100.00	3,500	35,000	164,773	500	-22,770	807	-18,796	164,225
SR-Forvaltning	6,000	100.00	6,000	6,000	65,698	23,246	59,902	24,052	26,051	29,018
SpareBank 1 Regnskapshuset SR	800	100.00	8,000	800	81,547	10,011	35,526	34,903	345	70,125
Rygir Industrier Group	14,400	100.00	90,000	14,400	207,787	3,228	8,922	20,185	-9,698	191,106
Etis Eiendom	1,000	100.00	10,000	1,000	10,838	1,555	799	792	-96	1,730
Finansparken Bjergsted	16,000	100.00	8,000	16,000	58,274	256	266	350	-83	58,016
Total other investments				74,700	756,678	131,583	468,533	437,335	18,631	611,425
Total investments in in subsidiaries parent bank				1,516,700	18,518,304	15,589,402	752,542	491,502	161,192	2,698,264

(Note 38 cont.)

Investments in associated companies and joint ventures
(Figures in NOK millions)

Parent bank 2015	Parent bank 2016		Group 2016	Group 2015
3,250	**3,172**	Carrying amount 1 Jan	**4,792**	4,727
-78	**-288**	Additions/disposals	**-259**	-77
-	**-**	Change in equity	**114**	44
-	**-**	Share of profit/loss	**384**	422
-	**-**	Dividend paid	**-571**	-324
3,172	**2,884**	**Carrying amount 31 Dec**	**4,460**	4,792
-	**-**	Share of profit from SpareBank 1 Gruppen	**317**	251
-	**-**	Share of profit from SpareBank 1 Boligkreditt	**-14**	91
-	**-**	Share of profit from SpareBank 1 Næringskreditt	**22**	24
-	**-**	Share of profit from BN Bank	**61**	29
-	**-**	Share of profit from SpareBank 1 Banksamarbeidet	**2**	6
-	**-**	Share of profit from Samarbeidende Sparebanker Bankinvest	**2**	1
-	**-**	Share of profit from SpareBank 1 Kredittkort	**23**	20
-	**-**	Share of profit from Admisenteret	**-**	-
-	**-**	Share of profit from SpareBank 1 Mobilbetaling	**-29**	-
189	**486**	Dividend from SpareBank 1 Gruppen	**-**	-
42	**21**	Dividend from SpareBank 1 Boligkreditt	**-**	-
30	**22**	Dividend from SpareBank 1 Næringskreditt	**-**	-
62	**40**	Dividend from BN Bank	**-**	-
1	**2**	Dividend from Samspar Bank Invest	**-**	-
324	**571**	**Total income**	**384**	422

Investments in all the companies are assessed using the cost method in the parent bank and the equity method in the group.
Investments in joint ventures in the group as at 31 December 2016 includes goodwill amounting to NOK 23 million (2015: NOK 23 million).

The group's ownership interests in associated companies and joint ventures
(Figures in NOK millions)

2016		**Assets**	**Lia-bilities**	**Income**	**Costs**	**Profit or loss**	**Book value 31.12**	**Stake in %**	**No. of shares**
SpareBank 1 Gruppen	Oslo	12,302	10,783	2,745	2,351	317	1,542	19.50	381,498
SpareBank 1 Banksamarbeidet	Oslo	175	150	185	183	2	25	17.74	
SpareBank 1 Boligkreditt	Stavanger	34,987	33,604	-15	5	-14	1,390	13.87	8,778,079
Admisenteret	Jørpeland					-	4	50.00	80
BN Bank	Trondheim	6,531	5,686	139	52	61	845	23.50	3,317,338
SpareBank 1 Næringskreditt	Stavanger	2,990	2,572	27	2	22	422	21.92	3,200,978
Samarbeidene Sparebanker Bankinvest	Oslo	23	3	2	-	2	20	3.27	354
SpareBank 1 Kredittkort	Trondheim	965	772	92	42	23	193	17.87	515,910
SpareBank 1 Mobilbetaling	Oslo		-	-	-	-29	18	19.70	1,635
Other investments							1		
Total		**57,973**	**53,570**	**3,175**	**2,635**	**384**	**4,460**		

2015									
SpareBank 1 Gruppen	Oslo	11,314	9,762	2,381	2,067	251	1,575	19.50	381,498
SpareBank 1 Banksamarbeidet	Oslo	114	92	117	113	6	22	17.74	
SpareBank 1 Boligkreditt	Stavanger	44,931	43,309	109	6	91	1,638	16.69	9,532,264
Admisenteret	Jørpeland					-	4	50.00	80
BN Bank	Trondheim	7,671	6,847	109	64	29	824	23.50	3,317,338
SpareBank 1 Næringskreditt	Stavanger	4,256	3,743	36	3	24	513	26.80	3,913,034
Samarbeidene Sparebanker Bankinvest	Oslo	23	3	1	-	1	20	3.27	354
SpareBank 1 Kredittkort	Trondheim	949	770	82	44	20	179	18.09	464,107
SpareBank 1 Mobilbetaling	Oslo	16	-	-	-	-	16	19.70	1,635
Other investments							1		
Total		69,274	64,526	2,835	2,297	422	4,792		

NOTE 39 MATERIAL TRANSACTIONS WITH CLOSE ASSOCIATES

(Figures in NOK millions)

Close associates means associated companies, joint ventures and subsidiaries and people close to executive personnel and members of the board. The bank's outstanding balances with executive personnel and members of the board are shown in note 22.

Subsidiaries

2016	**Loans 31 Dec**	**Deposits 31 Dec**	**Interest income**	**Interest costs**	**Com-missions**	**Other operating income**	**Operating costs**
SR-Finans	5,675	1	120	-	18	-	-
EiendomsMegler 1	-	39	3	-	-	1	-
SR-Forvaltning	-	57	-	1	28	-	-
SR-Investering	6	-	-	-	-	-	-
Regnskapshuset SR	-	10	-	-	-	-	1
SR-Boligkreditt	-	553	44	6	15	-	-
Rygir Industrier Group	-	26	-	-	-	-	-
Etis Eiendom	-	-	-	-	-	-	-
Finansparken Bjergsted	-	140	-	1	-	-	-
Total subsidiaries	**5,681**	**826**	**167**	**8**	**61**	**1**	**1**

2015							
SR-Finans	5,831	2	139	-	21	-	-
EiendomsMegler 1	-	59	2	3	-	1	-
SR-Forvaltning	-	57	-	1	31	-	-
SR-Investering	-	7	-	1	-	-	-
Regnskapshuset SR	-	32	-	-	-	-	-
SR-Boligkreditt	-	706	18	4	-	-	-
Rygir Industrier Group	-	27	-	-	-	-	-
Etis Eiendom	-	3	-	-	-	-	-
Finansparken Bjergsted	-	3	-	-	-	-	-
Total subsidiaries	5,831	896	159	9	52	1	-

Associated companies and joint ventures

2016	**Loans 31 Dec**	**Deposits 31 Dec**	**Interest income**	**Interest costs**	**Com-missions**	**Other operating income**	**Operating costs**
SpareBank 1 Gruppen	1,692	-	25	-	280	-	-
SpareBank 1 Banksamarbeidet	-	-	-	-	-	-	169
SpareBank 1 Boligkreditt	5	425	-	4	145	-	-
Admisenteret	12	2	1	-	-	-	-
SpareBank 1 Næringskreditt	-	406	-	5	4	-	-
Samarbeidende Sparebanker Bankinvest	3	-	-	-	-	-	-
SpareBank 1 Kredittkort	770	-	22	-	61	-	-
Total associated companies and joint ventures	**2,482**	**833**	**48**	**9**	**490**	**-**	**169**

2015							
SpareBank 1 Gruppen	443	-	2	-	269	-	-
SpareBank 1 Banksamarbeidet	-	-	-	-	-	-	174
SpareBank 1 Boligkreditt	-	2,454	-	11	255	-	-
Admisenteret	14	3	1	-	-	-	-
SpareBank 1 Næringskreditt	-	160	-	5	3	-	-
Samarbeidende Sparebanker Bankinvest	3	-	-	-	-	-	-
SpareBank 1 Kredittkort	770	-	25	-	57	-	-
Total associated companies and joint ventures	1,230	2,617	28	16	584	-	174

(Note 39 cont.)

Transactions with close associates of the group executive management team [1]

There were no transactions with close associates of the group executive management team.

Transactions with close associates of the board [1]

2016 *(Figures in NOK thousands)*	**Loans 31 Dec [2]**	**Interest income**	**Other operating income**
Birthe Cecilie Lepsøe	170,770	997	-
Jorunn Johanne Sætre	315,558	8,924	-

[1] Including transactions with close associates and companies in which close associated are key personnel.
[2] Inclusive of loan limits, derivatives and guarantees.

NOTE 40 SHARE CAPITAL AND OWNERSHIP STRUCTURE

Share capital
SpareBank 1 SR-Bank's share capital amounts to NOK 6,393,777,050 divided into 255,751,082 shares, each with a nominal value of NOK 25. The share capital (formerly equity share capital) was raised in the following manner and on the following dates:

Year		Change in share capital	Total share capital	No. of shares
1994	Public issue	744.0	744.0	7,440,000
2000	Private placement with employees	5.0	749.0	7,489,686
2001	Private placement with employees	4.8	753.8	7,538,194
2004	Bonus issue	150.8	904.6	9,045,834
2005	Bonus issue/split	226.1	1,130.7	22,614,585
2007	Rights issue	200.0	1,330.7	26,613,716
2007	Bonus issue/split	443.5	1,774.2	70,969,909
2008	Dividend issue	91.7	1,866.0	74,638,507
2008	Private placement with employees	6.6	1,872.6	74,903,345
2009	Bonus issue/split	374.5	2,247.1	89,884,014
2009	Rights issue/private placement	776.2	3,023.3	120,933,730
2010	Private placement with employees	7.8	3,031.1	121,243,427
2010	Private placement with Kvinnherad	151.7	3,182.8	127,313,361
2012	Conversion limited savings bank	1,804.4	4,987.2	199,489,669
2012	Rights issue	1,406.5	6,393.8	255,751,082

Besides the share capital, the equity consists of the share premium reserve, fund for unrealised gains and other equity.

Dividend policy
SpareBank 1 SR-Bank's financial goal for its activities is to achieve results that provide a good, stable return on the Bank's equity, thus creating value for the owners in the form of competitive dividends and a higher share price. Consideration must be given to financial needs, including capital adequacy requirements and the group's targets and strategic plans, when determining the annual dividend. Unless capital requirements dictate otherwise, the goal of the board is to distribute approximately half of the annual net profit for the period as dividends.

Trading in own shares in 2016 (Figures in NOK thousands)	**No. of equities**	**Nominal value**
Holding as at 31 Dec 2015	25,398	635
Traded in 2016	83,585	2,090
Holding as at 31 Dec 2016	**108,983**	**2,725**

(Note 40 cont.)

20 largest shareholders as at 31 December 2016

Holder	of shares	% ratio
Sparebankstiftelsen SR-Bank	72,419,305	28.3%
Gjensidige Forsikring ASA	12,308,416	4.8%
State Street Bank and Trust Co, USA	7,561,759	3.0%
Vpf Nordea Norge Verdi	7,454,497	2.9%
SpareBank 1-stiftinga Kvinnherad	6,226,583	2.4%
Wimoh Invest AS	5,761,169	2.3%
Odin Norge	4,384,644	1.7%
Danske Invest Norske Instit. II	3,646,410	1.4%
Pareto Aksje Norge	3,065,035	1.2%
Verdipapirfondet DNB Norge (IV)	2,963,871	1.2%
State Street Bank and Trust Co, USA	2,851,948	1.1%
Clipper AS	2,565,000	1.0%
State Street Bank and Trust Co, USA	2,247,876	0.9%
Verdipapirfondet Alfred Berg Gambak	1,833,914	0.7%
KAS Bank NV, The Netherlands	1,804,586	0.7%
Danske Invest Norske Aksjer Inst.	1,770,594	0.7%
National Insurance Scheme Fund	1,688,000	0.7%
J.P. Morgan Chase Bank, USA	1,671,233	0.7%
Vpf Nordea Avkastning	1,664,410	0.7%
Westco	1,658,537	0.6%
Total 20 largest	145,547,787	56.9%
Other holders	110,203,295	43.1%
Shares issued	**255,751,082**	**100.0%**

The total number of shareholders as at 31 December 2016 was 10 428. This is 275 more than at year-end 2015. The proportion of shares held by shareholders resident in Rogaland, Hordaland and the Agder counties was 49.9%, and the proportion held by foreign shareholders was 19.1%. Please also see the overview of shareholders on the board.
For more information about SpareBank 1 SR-Bank's share please refer to the special section in the annual report.

20 largest shareholders as at 31 December 2015

Holder	of shares	% ratio
Sparebankstiftelsen SR-Bank	72,419,305	28.3%
Gjensidige Forsikring ASA	26,808,416	10.5%
State Street Bank and Trust Co, USA	9,670,715	3.8%
Vpf Nordea Norge Verdi	8,268,105	3.2%
SpareBank 1-stiftinga Kvinnherad	6,226,583	2.4%
Wimoh Invest AS	5,761,169	2.3%
Odin Norge	5,381,793	2.1%
Pareto Aksje Norge	3,944,244	1.5%
Danske Invest Norske Instit. II	3,028,258	1.2%
State Street Bank and Trust Co, USA	2,990,287	1.2%
Clipper AS	2,565,000	1.0%
The Bank of New York Mellon, USA	2,542,184	1.0%
State Street Bank and Trust Co, USA	2,182,161	0.9%
State Street Bank and Trust Co, USA	1,890,186	0.7%
Danske Invest Norske Aksjer Inst.	1,674,894	0.7%
Vpf Nordea Kapital	1,653,050	0.6%
Pareto AS	1,640,867	0.6%
Vpf Nordea Avkastning	1,630,410	0.6%
Westco	1,577,534	0.6%
The Northern Trust Co, UK	1,512,297	0.6%
Total 20 largest	163,367,458	63.9%
Other holders	92,383,624	36.1%
Shares issued	**255,751,082**	**100.0%**

The total number of shareholders as at 31 December 2015 was 10,153. This represents a decrease of 269 since year-end 2014. The proportion of shares held by shareholders resident in Rogaland, Hordaland and the Agder counties was 49.8%, and the proportion held by foreign shareholders was 17.3%. Please also see the overview of shareholders on the board.
For more information about SpareBank 1 SR-Bank's share please refer to the special section in the annual report.

NOTE 41 ACTIVITIES THAT WILL BE SOLD

(Figures in NOK millions)

The item includes assets that SpareBank 1 SR-Bank owns as part of its ordinary operations and which it has decided to sell.
SpareBank 1 SR-Bank establishes, as part of its business activities, investment projects for sale to its customers.
SpareBank 1 SR-Bank must also, as part of its business activities, take over assets, for one reason or another, from its customers. Such assets can also be measured as an activity that will be sold.

Group [1]	Owned since	Ownership	2016 Book value	2015 Book value
Energiveien Eiendom Holding AS [2]	2008	16.80%	**22**	22
Book value 31 Dec			**22**	22

The item is measured at fair value in the financial statements and as operations that will be sold.

[1] This note is identical for the parent bank

[2] SpareBank 1 SR-Bank does not regard the investment as an associated company since it has no basis for exercising control and the investment is for this reason not recognised according to the equity method.

NOTE 42 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments will replace the current IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 deals with the recognition, classification, measurement, and derecognition of financial assets and obligations, as well as hedge accounting. IFRS 9 will apply from 1 January 2018 and has been approved by the EU. The standard may be applied early. SpareBank 1 SR-Bank will not avail itself of this option. Nor will SpareBank 1 SR-Bank show comparable figures for earlier periods upon implementation of the standard on 1 January 2018.

In 2015, the SpareBank 1 Alliance put together a multidisciplinary implementation team with participants from all of the banks that use IFRS. This will prepare for the implementation of IFRS 9 ("the Project"). The Project is a steering group with the following sub-groups:

1. Models and methods
   Development of calculation solutions and models for establishing unbiased forward-looking estimates of expected losses
2. Strategy, organisation and processes
   Defining how the organisation of the ongoing work of accounting in accordance with IFRS 9 will be organised between the cooperating banks
3. Accounts and reporting
   Concretising the actual accounting and notes, including policy notes and note templates
4. Classification and measurement
   Analysing the group's financial instruments and classifying instruments in various categories

At the same time, SpareBank 1 SR-Bank has established a local project for resolving the technical adaptations of new regulations, as well as discussing and deciding on adaptations and the effects of new regulations.

A description of the new requirements in IFRS 9 and changes from the earlier standard is provided below, as is a description of the choices SpareBank 1 SR-Bank has made and the status of the implementation project.

Classification and measurement

Financial assets

According to IFRS 9, financial assets must be classified into three measurement categories: fair value with value changes through profit or loss, fair value with value changes through other comprehensive income (OCI) and amortised cost. The measurement category must be determined upon initial recognition of the asset. In relation to financial assets, a distinction is made between debt instruments and equity instruments. Financial assets are classified on the basis of the contractual terms and conditions for the financial assets and the business model used to manage the portfolio of which the assets are a part.

Financial assets that are debt instruments

Debt instruments with contractual cash flows that are only payments of interest and the principal on given dates and that are held in a business model for the purpose of receiving contractual cash flows should initially be measured at amortised cost. Instruments with contractual cash flows that are only payments of interest and the principal on given dates and that are held in a business model for the purpose of receiving contractual cash flows and sales, should initially be measured at fair value with value changes through OCI, with interest income, currency translation effects, and any impairments presented in the ordinary income statement. Value changes recognised through OCI must be reclassified to the income statement upon the sale or other disposal of the assets.

Other debt instruments must be measured at fair value with value changes through profit or loss. This applies to instruments with cash flows that are not only payments of normal interest (time value of money, credit spread and other normal margins linked to loans and receivables) and the principal, and instruments that are held in a business model in which the main purpose is not the reception of contractual cash flows.

The provisional assessment is that the designation of financial instruments at fair value will be of about the same scope as today.

Derivatives and investments in equity instruments

All derivatives must be measured at fair value with value changes through profit or loss, however derivatives that are designated hedge instruments must be recognised in line with hedge accounting principles. Investments in equity instruments must be measured on the balance sheet at fair value. Value changes shall as a rule be recognised in the ordinary income statement, but an equity instrument that is not held for trading purposes and that is not a conditional consideration following a business transfer may be designated as measured at fair value with value changes through OCI. When equity instruments are designated at fair value with value changes through OCI, ordinary dividends must be recognised as income, while value changes should not be posted to the income statement on either an ongoing basis or in the event of disposal.

Financial liabilities

The rules on financial liabilities are generally the same as those in today's IAS 39. As a general rule, financial liabilities should still be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments included in a trading portfolio, and financial liabilities it has been decided to recognise at fair value with value changes through profit or loss.

Hedge accounting

IFRS 9 simplifies the requirement for hedge accounting in that the hedging effect is tied more closely to the management's risk management and provides greater room for judgement. The requirement for hedge effectiveness of 80-125% has been eliminated and replaced with a more qualitative requirement, including the fact that there should be a financial connection between the hedging instrument and hedged item, and that the credit risk should not dominate the value changes of the hedging instrument. According to IFRS 9, a prospective (forward-looking) effectiveness test is sufficient, while hedge effectiveness pursuant to IAS 39 must be assessed both prospectively and retrospectively (backwards-looking). Hedging documentation is still required. The bank is still assessing the scope of the use of hedge accounting, but the provisional assessment is that hedge accounting of about the scope as today will be continued.

Other factors

The bank will continue to finalise the assessment of the following selected issues with respect to classification:

- Current loans
- Loans with a fixed-rate and right to early redemption
- Sales of loans to wholly or part-owned mortgage companies
- Syndicated loans
- Loans with significant differences between the benchmark rate and frequency of rate fixing

The preliminary assessment is that the accounting classification will not result in material balance sheet or income statement related consequences. The reason little effect is expected is that, based on the inherent risk in the balance sheet items, there will be little difference in the measurement between amortised cost and fair value.

Impairment losses on loans

According to the current rules under IAS 39, impairment losses must only be made when objective evidence exists that a loss event has happened after initial recognition. According to IFRS 9 though, impairment losses must be recognised based on expected credit losses (ECL). The measurement of the provisions for expected losses depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, provisions must be made for 12 months' expected losses. If the credit risk has risen significantly, provisions must be made for expected losses over the entire lifetime. The method in the IFRS 9 standard entails somewhat greater volatility in impairments and it is expected that impairments will be made earlier than is the case with the current practice. This will be especially noticeable at the start of an economic downturn.

More detailed description of the bank's future impairment model

An estimate of losses will be made each quarter based on data in the data warehouse, which contains a history of account and customer data for the entire credit portfolio. The loss estimates will be calculated on the basis of the 12-month and lifelong probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data warehouse contains a history of observed PD and observed LGD. This will provide the basis for producing good estimates of future values for PD and LGD. In line with IFRS 9, the bank groups its loans into three stages.

Stage 1:

This is the starting point for all financial assets covered by the general loss model. All assets that do not have a significantly higher credit risk than they did upon initial recognition will have a loss provision equal to 12 months' expected losses. This category will contain all assets that have not be transferred to stages 2 or 3.

Stage 2:

In stage 2 the loss model is assets that have seen a significant rise in credit risk since initial recognition, but that do not have objective evidence of a loss event. For these assets the loss provision must cover expected losses over the lifetime. This group contains accounts with a significant degree of credit deterioration, but which on the balance sheet data belong to customers that are classified as healthy. As far as the demarcation with stage 1 is concerned, the bank bases its definition of a significant degree of credit deterioration on the extent to which the commitment's calculated probability of default (PD) has increased significantly.

Stage 3:

In stage 3 the loss model is assets that have seen a significant rise in credit risk since being granted and where there is objective evidence of a loss event on the balance sheet date. For these assets the loss provision must cover expected losses over the lifetime. These are assets that are defined under the current regulations as non-performing and impaired.

Further development of the model
The impairment model is still under development. The bank is assessing forward-looking information like macroeconomic factors such as unemployment, GDP growth, interest rates and house prices, and economic forecasts in order to provide forward-looking information that is as correct as possible. The model will calculate impairments based on data at the end of the month.

Effect on financial reporting
Any implementation effects will be recognised against equity upon the switch to IFRS 9 on 1 January 2018. The provisional review of the future disclosure requirements indicates there will be some changes in disclosure requirements relating to impalement losses, but little effect in relation to notes for financial instruments.

Quantitative effects of implementing IFRS 9
Based on a preliminary review, the transition to IFRS 9 is not expected to have significant effects. This applies to any effects associated with a change in classification and measurement, as well as a change in methods linked to impairment losses.
The effect on the capital adequacy ratio will, according to our preliminary calculations, be limited or non-existent as a consequence of the deduction provisions associated with regulatory expected losses since the group's total impairments are lower than these. Given this, it therefore does not appear that SpareBank 1 SR-Bank will require a 5-year implementation period, which the capital adequacy regulations allow.

NOTE 43 EVENTS AFTER THE BALANCE SHEET DATE

As at 31 December 2016, SpareBank 1 SR-Bank owned 19.7% of the shares in SpareBank 1 Mobilbetaling AS (mCASH). On 13 February 2017, it was announced that more than 100 Norwegian banks would become part-owners of Vipps together with DnB. This includes the banks in the SpareBank 1 Alliance with their mobile payment solution, mCASH. The SpareBank 1 Alliance will own 25% and become the second largest owner of the new company after the DnB Group, which will be the largest owner with 52%.

No material events have been registered after 31 December 2016 that affect the annual financial statements as prepared.

The proposed dividend is NOK 2.25 per share and will total NOK 575 million.

To the General Meeting of Sparebank 1 SR-Bank ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebank 1 SR-Bank ASA, in our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment losses of loans and guarantees We focused on the valuation of loans to customers because management exercise significant judgement in the impairment process. In addition, loans and guarantees constitute a considerable amount of the assets on the balance sheet. The bank's procedures and control systems related to credit rating and monitoring process are central to the valuation of loans. The use of judgement could affect the financial result, and affect the bank's capital adequacy requirements due to the credit rate classification of loans. According to accounting standards, the bank shall assess, at the end of each reporting period, whether there is objective evidence that impairment exists for the loans. If there are, the losses should be calculated as the residual of the book value less the present value of future cash flows. Both assessments involve significant judgements. In our audit, we gave special attention to: • Managements' process to identify loans with objective evidence that impairment exists. • Managements' process to monitor engagements that are particularly exposed due to the decline in the petroleum related industry. • Managements' assumptions used in calculating the impairment amount for loans where impairment exists. Refer to note 6, 8, 10, 11, 12, 13 and 14 in the annual report for the group's credit risk and impairment of loans to customers.	We addressed and tested the key controls related to the impairment process. The objective of these controls are to identify whether loans have objective evidence of impairment, and how the impairment losses should be calculated when objective evidence exists. We concluded that we could rely on these controls in our audit. Throughout 2016, we held meetings with the credit and legal department in the bank. In these meetings, we challenged the bank's assessments, including possible impairment indicators on loans where there is not yet objective evidence that impairment exists. This included loans that were assessed by the bank and loans selected based on industry, size, risk and haphazardly. We assured that the bank had particular attention on loans in the petroleum related industry. For loans where objective evidence exists, we challenged the bank and examined the relevance and the reasonableness of the assumptions and the method used in the calculation of realisable value. Our procedures indicate that the bank's assumptions and methods were reasonable. We performed credit assessments for a sample of loans, where we evaluated whether objective evidence for impairment losses exist. We also assessed the realisable value the bank had calculated. These values are calculated by using internal and external appraisals. The results of our testing of individual impairment losses were that management had used reasonable assumptions in the calculation of the impairment amounts. For loans considered on a collective basis the calculation of impairment is performed by the credit risk manager based on a framework model. We tested the model and considered the relevance and the reasonableness of important assumptions used in the calculation. The level of collective losses were among others compared to other comparable banks and analysed towards the bank's other loan portfolio. We concluded that the assumptions used in the calculation of the impairment amounts were reasonable. We satisfied ourselves that disclosures regarding valuation of loans and guarantees, appropriately describes risks in the portfolio.

IT-systems and the underlying systems for processing transactions	
We have addressed this area because it is important for the bank's financial reporting systems, and their business model is dependent on complex IT systems. Weaknesses in automated processes and controls can potentially lead to a significant risk in the daily operations and risk of misstatements.	The bank uses external service providers to operate some of the important IT systems. The auditor at the relevant service organisation evaluates the design and efficiency of the established control systems, and tests the controls designed to ensure the integrity of the IT system and cash handling that are relevant to financial reporting. We satisfied ourselves regarding the auditors objectivity and competence and examined the reports and evaluated possible misstatement and improvements. Furthermore, our own IT specialists have tested access controls to the IT systems and the segregation of duties where necessary for our audit. Our work gave us sufficient evidence to enable us to rely on the operation of the Group's IT systems relevant for our audit.
Completeness and valuation of derivatives	
Derivatives consist mainly of interest- and currency instruments. The bank uses derivatives to reduce interest and exchange risk related to fixed-rate funding and loans to customers, bonds (assets and liabilities) and certificates (assets and liabilities). The bank has also a significant trade of derivatives on behalf of customers. There is a risk of errors in the financial statements if derivatives are not accurately registered in the banks systems. Derivatives are measured at fair value, and the valuation techniques depend on management judgement. The use of assumptions (interest rates and credit spread) can therefore potentially affect the income statement. Refer to note 2, 3, 6, 15, 16, 21, 26 and 28 for the description of the Groups risk governance and use of derivatives.	The bank has established processes and controls to ensure accurate registration and measurement of derivative contracts. We tested the bank's control over the entering into and closing of derivative contracts in the banks systems. Our audit also includes tests to ensure that the bank reconciles transactions with counterparties on a daily basis. Furthermore, we have tested the banks methodology and controls regarding pricing models. We concluded that we could rely on these controls in our audit. Interest and exchange curves were on a daily basis fed into the bank's portfolio system as basis for pricing of derivatives. We tested the pricing by recalculating the pricing of different derivatives by using the same interest and exchange curves as the bank. We compared these prices to external sources. The result of our testing show that management used reasonable assumptions when calculating the fair value of the derivatives.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 8 March 2017
PricewaterhouseCoopers AS

Torbjørn Larsen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Statement by the Board of Directors and Chief Executive Officer

We hereby confirm that the financial statements for the period 1 January to 31 December 2016 have, to the best of our knowledge, been prepared pursuant to applicable accounting standards, and that the information provided presents a true and fair picture of the company's and the Group's assets, liabilities, financial positions and profit as a whole.

We also confirm that the Report of the Board of Directors provides a true and fair presentation of the performance, result and position of the company and group, together with a description of the most important risk and uncertainty factors that the company and the group face.

Stavanger, 8 March 2017

Dag Mejdell
Chair of the board

Kate Henriksen

Tor Dahle

Birthe Cecilie Lepsøe

Jorunn Johanne Sætre

Odd Torland

Sally Lund-Andersen
Employee representative

Kristian Kristensen
Employee representative

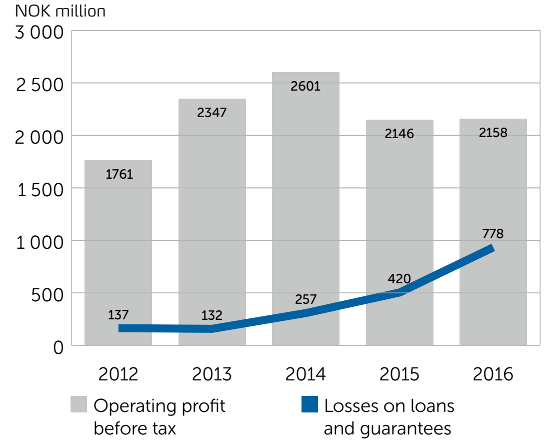
Arne Austreid
Chief Executive Officer

KEY FIGURES LAST 5 YEARS

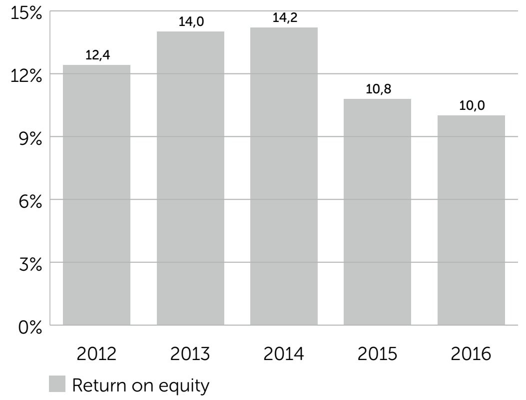
(Figures in NOK millions)

SpareBank 1 SR-Bank Group	2016	2015	2014	2013	2012
Summary of results					
Net interest income	**2,871**	2,593	2,404	2,119	1,742
Net commissions and other operating income	**1,443**	1,532	1,732	1,824	1,466
Net income from financial investments	**654**	304	778	555	578
Total net income	**4,968**	4,429	4,914	4,498	3,786
Total operating costs	**2,032**	1,863	2,056	2,019	1,888
Operating profit before impairment losses on loans	**2,936**	2,566	2,858	2,479	1,898
Impairment losses on loans and guarantees	**778**	420	257	132	137
Pre-tax profit	**2,158**	2,146	2,601	2,347	1,761
Taxes	**403**	400	506	487	400
Net profit for the year	**1,755**	1,746	2,095	1,860	1,361
Return (% of average total assets)					
Net interest income	**1.48%**	1.42%	1.45%	1.42%	1.27%
Net commissions and other operating income	**0.74%**	0.84%	1.04%	1.22%	1.07%
Net income from financial investments	**0.34%**	0.17%	0.47%	0.37%	0.42%
Total net income	**2.56%**	2.42%	2.96%	3.01%	2.76%
Total operating costs	**1.05%**	1.02%	1.24%	1.35%	1.38%
Operating profit before impairment losses on loans	**1.51%**	1.40%	1.72%	1.66%	1.38%
Impairment losses on loans and guarantees	**0.40%**	0.23%	0.15%	0.09%	0.10%
Pre-tax profit	**1.11%**	1.17%	1.57%	1.57%	1.28%
Taxes	**0.21%**	0.22%	0.30%	0.33%	0.29%
Net profit for the year	**0.90%**	0.96%	1.26%	1.24%	0.99%
Balance Sheet figures					
Lending to retail market	**91,171**	87,229	77,651	59,848	52,569
Lending to retail market, incl. SB1 Boligkreditt	**115,348**	115,397	109,939	105,595	100,786
Lending to corporate market	**66,497**	66,705	62,880	59,128	55,723
Lending to corporate market, incl. SB1 Næringskreditt	**67,014**	67,243	63,464	59,770	56,194
Retail market deposits	**42,908**	42,101	39,545	36,190	34,311
Corporate market deposits	**43,741**	47,341	41,942	35,474	33,248
Lending growth in retail market, excl. SB1 Boligkreditt %	**4.5**	12.3	29.7	13.8	10.5
Lending growth in corporate market, excl. SB1 Næringskreditt %	**-0.3**	6.1	6.3	6.1	6.0
Percentage growth in retail market deposits	**1.9**	6.5	9.3	5.5	9.1
Percentage growth in corporate market deposits	**-7.6**	12.9	18.2	6.7	2.1
Total assets	**193,408**	192,049	174,926	156,985	141,543
Average total assets	**194,264**	182,768	166,017	149,554	137,212
Impairment losses on loans and non-performance					
Impairment as % of lending	**0.50**	0.28	0.20	0.12	0.13
incl. loans SB1 Boligkreditt and SB1 Næringskreditt	**0.42**	0.23	0.15	0.08	0.09
Non-performing commitments as % of gross loans	**0.68**	0.55	0.30	0.69	0.42
incl. loans SB1 Boligkreditt and SB1 Næringskreditt	**0.59**	0.46	0.24	0.50	0.29
Other impaired commitments as % of gross loans	**0.72**	0.35	0.36	0.37	0.54
incl. loans SB1 Boligkreditt and SB1 Næringskreditt	**0.62**	0.30	0.29	0.26	0.37
Equity					
Share capital	**6,394**	6,394	6,394	6,394	6,394
Share premium reserve	**1,587**	1,587	1,587	1,587	1,587
Other equity	**10,307**	8,933	7,422	6,075	4,656
Total equity	**18,288**	16,914	15,403	14,056	12,637
Profitability, financial strength and staffing					
Return on equity %	**10.0**	10.8	14.2	14.0	12.4
Cost/income ratio	**40.9**	42.1	41.8	44.9	49.9
Common equity tier 1 capital ratio %	**14.70**	13.26	11.50	11.11	10.01
Tier 1 capital ratio %	**15.63**	14.17	12.34	12.83	12.15
Capital ratio %	**17.52**	16.73	14.53	14.07	13.10
No. of full-time equivalents	**1,127**	1,161	1,106	1,165	1,207

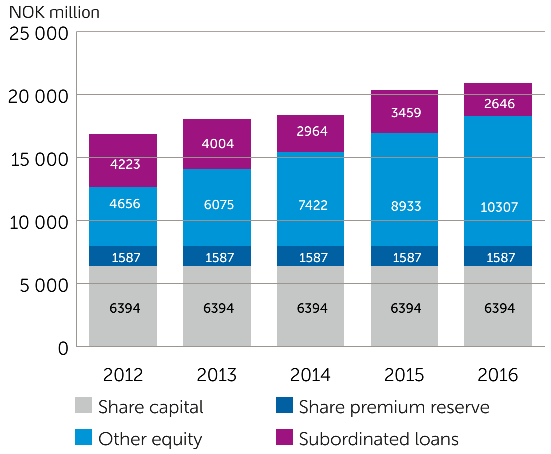
Profit and loss



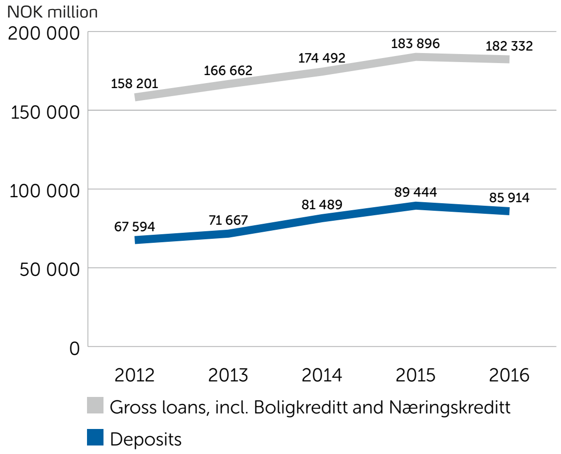
Return on equity



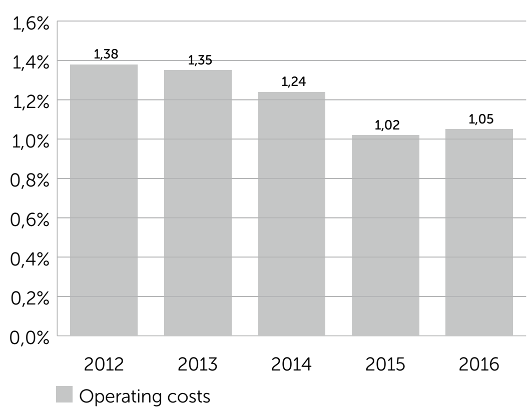
Equity and subordinated loans



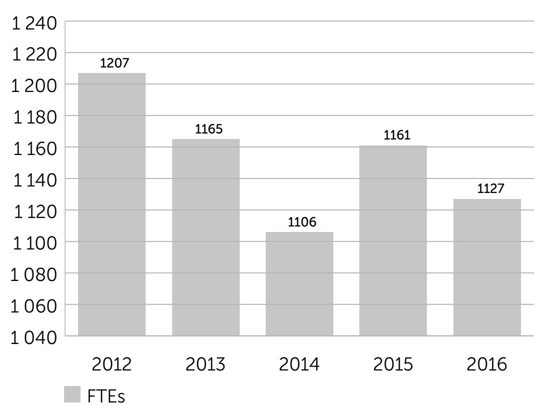
Gross loans and deposits



Operating costs as % of average total assets



FTEs, Group



Our aim is to stimulate growth and development in the region

Switchboard
02002 for retail customers
02008 for corporate customers

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P.b. 250, N-4066 Stavanger
Email retail customers: kundesenter@sr-bank.no
Email corporate customers: bedrift@sr-bank.no
Fax no. +47 51 57 12 60

For the business hours and full addresses
of our branches please see www.sr-bank.no

SpareBank 1 SR-BANK