RISK AND CAPITAL MANAGEMENT

Disclosure of financial information according to Pillar 3 2022

SpareBank SR-BANK

CONTENT

THE CRO'S SUMMARY OF THE YEAR

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

- A good risk culture
- A clear management and control structure that promotes independence
- A good understanding and management of the risks that drive earnings and losses
- Preventing single events damaging the group's financial position
- Pricing products and services based on underlying risk
- Effective raising and use of capital that reflects the chosen risk profile

Frode Bø, CRO

The year 2022 was largely characterized by Russia's invasion of Ukraine and the global effects of this conflict. Nine months after the invasion, there is no sign that a solution is in sight, and the war is expected to be long lasting. This conflict, in combination with several shutdowns in China due to the corona pandemic, has caused disruptions in value chains, energy scarcity and a significant increase in commodity prices. In addition, the world is working purposefully to achieve the Paris Agreement's climate goals in order to prevent a global climate crisis.

The sum of this has resulted in high inflation in large parts of the world, with subsequent increases in interest rates in an attempt to combat inflation.

Overall, this has given rise to considerable uncertainty in the macro picture, and as a result the SpareBank 1 SR-Bank Group has drawn up several scenarios and stress tests to understand the breadth and depth of potential outcomes. The work contributes to a better understanding of the group's risk exposure and any vulnerabilities in the various outcomes as a basis for relevant new risk-reducing measures. This work shows that SpareBank 1 SR-Bank has good solvency and liquidity to withstand significant negative outcomes.

Due to the uncertain macro picture, the group has closely monitored its credit exposures. In addition to ongoing portfolio monitoring through various systems for portfolio management and early warning, the current year's work has focused a lot on the aftermath of the pandemic, and in particular the consequences of the ongoing conflict in Ukraine. The corporate market divisions have carried out several stress tests at customer level in order to identify customers who need close follow-up and help ensure that customers receive good financial advice in challenging times.

A specific review of the corporate market portfolio has also been carried out to identify engagements with activities that are affected by sanctions against Russia and Belarus, and to uncover engagements that could potentially have liquidity challenges as a result of a more demanding macro picture. In this context, there has also been an increased focus on ongoing monitoring of developments in applications for grace period in both the business market and the retail market.

The development of defaults is closely followed, and so far, no significant effects have been recorded either in the short-term or long-term defaults. In the retail market, defaults are at historically low levels.

Money laundering risk has gained a far more prominent place in credit assessments, and the internal requirements for thorough AML assessments in ongoing credit granting have been tightened. There are also stricter requirements in the granting of credit for the ESG assessments, helped by a more refined framework to uncover this type of risk. Considerable work has also been done throughout the year to upgrade the overall framework for credit risk management, primarily as an adaptation to increased internal requirements related to the ongoing granting of credit.

Data security and cyber risk have been high on the agenda in 2022. In general, SpareBank 1 SR-Bank is considered to have good security and has made a significant effort to maintain and improve operational resilience and crisis preparedness related to relevant threat scenarios. During 2022, several crisis and preparedness exercises have been carried out in the group and in collaboration with the SpareBank 1 alliance. The threat picture is still characterized by high uncertainty as a result of the war in Ukraine. The attack techniques used by the parties are techniques that SpareBank 1 SR-Bank has worked systematically to prevent over several years. At the same time, the group, the industry and the country in general are exposed to more complex threats from actors who want to challenge our security. This is emphasized in the National Security Authority's (NSM) threat report for 2023, where it is emphasized that it is becoming increasingly difficult to see events in context, and that issues that may seem small, in a larger context can pose a great risk. In order to meet this threat picture, the gaze must be raised, and events and threats must be seen in context, beyond the own group and beyond the own industry. The newly established national intelligence and security center (NESS) will have an important role here in the future.

Sustainability, and climate risk in particular, has been high on the agenda in 2022 as well. SpareBank 1 SR-Bank has a goal of net zero emissions in 2050 and will finance and facilitate NOK 50 billion in sustainable activities by 2030. During 2022, the group has established a Framework for Sustainable Financing, which constitutes the regulations for defining loans as respectively green or sustainability linked. This framework is a central tool in connection with the Corporate Market's objectives for green and sustainable financing through until 2030.

In 2022, in a SpareBank 1 alliance collaboration, the group has developed and adopted a new framework and scoring model for assessing sustainability risk (ESG score). The score is used in connection with credit granting and renewal of corporate customers with a consolidated exposure of over NOK 10 million. The framework contains evaluation criteria for several specific industries, including inherent risks per industry. The experience with the framework has so far been good, and it shows a good rating from the customers. The group expects that customer managers spend more time on ESG analyses, and that the evaluation criteria form the framework for a customer dialogue around these topics. The aim of the scoring is to assess the customer's sustainability risk, as well as help the customer manager in the dialogue with the customer about sustainability. The group's overall ambition for sustainability is to be the customer's ally in the transition. Therefore, linking sustainability into the customer dialogue in a good way is an important success criterion.

The ESG score is based on questions within the four sub-themes physical climate risk (E), transition risk (E), social conditions (S) and ownership and corporate governance (G) and gives a sub-score per sub-theme as well as a total score. If a customer receives a particularly low ESG score, there is a requirement that the customer manager must prepare an action plan for improvement together with the customer.

Data capture, quality assurance, storage and dissemination of ESG risk data for internal purposes and for external reporting is a major challenge to be solved in an alliance project in collaboration with

SpareBank 1 Utvikling. The project has started in the autumn of 2022 in the form of a preliminary project related to data requirements. This runs until March 2023. The expectation is that the preliminary project will turn into a longer-term implementation project.

Since SpareBank 1 SR-Bank is among Norway's three largest banks, this entails a full-scale reporting obligation in the context of Pillar 3 also within the ESG area. This means a significant expansion of the reporting requirement in relation to the more limited reporting obligation resulting from the EU taxonomy. It is expected that the requirements will be introduced in Norwegian regulations during the first half of 2023.

There is continuous development of internal control and operational risk management in the group. Operational risk management is part of all operations and concerns all employees. Facilitating good risk assessments, and conducting training in this area, is an important part of the risk management department's work. The group carries out regular measurements of the risk culture, through a separate framework that has been developed in collaboration with the University of Stavanger. The results show that there is a good risk culture, where values, frameworks and expectations are well known and adhered to and with a high-risk awareness in the organisation. This is reflected in the ongoing risk management in the group, with good compliance related to the registration and processing of significant changes through the group's PoPS process (changes in products, organisation, processes, and systems), registration of unwanted incidents and improvement measures, and generally regarding to capture and escalate potential risks so that risk-reducing measures can be established. Active work is being done to facilitate and strengthen this independent risk management in the organisation. The individual manager and employee takes responsibility for, and manages potential risks linked to their tasks and areas of responsibility, supported by uniform methods, systems and processes. At the same time, work is carried out systematically in the second line of defence with mapping and monitoring of the overall risk picture and with managing the group's biggest operational risks using tailor-made methods and frameworks. During 2022, several targeted measures have been implemented to reduce the group's risk exposure, particularly against cyber risk and other external and internal crime.

SpareBank 1 SR-Bank has established good processes to ensure compliance with current regulatory requirements and the group's internal guidelines. In 2022, particular attention has been paid to compliance with the money laundering and sanctions regulations, data protection (GDPR) and the Transparency Act. Furthermore, the ICT regulations have had a focus, including work with organization and frameworks for outsourcing and supplier follow-up. Targeted and systematic work has been done to implement and further develop the quality system "Guiden". Guiden is a tool that translates legal requirements and instructions from the board and management into operationalized requirements for what should apply in the group. The guide contributes to good governance and control, by making the management structure visible and managing the group's governing documentation.

RISK STATEMENT FROM THE BOARD OF DIRECTORS

The board of directors in SpareBank 1 SR-Bank has approved the risk statement. The board is continuously informed about the group's risk development. The group's risk appetite is assessed and adopted annually by the board together with other relevant risk frameworks within, credit-, market-, liquidity- and operational risk. The board considers that the group's risk management is good and well adapted to the group's risk appetite and business strategy.

SpareBank 1 SR-Bank is a future-oriented relationship bank that is present in the local environments where you meet people and businesses. The group has offices from Bergen in the west to Oslo in the east. SpareBank 1 SR-Bank is an offensive financial group with national distribution. As Norway's second largest Norwegian-owned bank, the group provides financial power for growth, value creation and profitability for customers, society, and our owners. The group's head office is in Stavanger. Including subsidiaries, there are around 1,500 employees in SpareBank 1 SR-Bank.

At the end of 2022, SpareBank 1 SR-Bank had approx. 370,000 retail customers and 33,000 corporate customers.

The board determines annually the group's overall risk capacity and appetite in a normal economy and in the event of serious economic setbacks, including target figures/limits for profitability, largest single loss, solvency, liquidity, credit quality, financial rating and sustainability rating.

The group's actual and forecasted risk exposure measured against the agreed risk appetite is followed up quarterly by the risk committee and the board. Scenario analyzes and stress tests are actively used in this work in order to be as well prepared as possible should serious economic setbacks or other serious events occur.

The group's risk exposure is within the limits for risk appetite set by the board, and there have been no breaches of these limits during 2022.

Credit risk is managed through the framework for credit granting, engagement follow-up and portfolio management. The group's credit strategy consists of overall credit strategy limits to ensure a diversified portfolio and a satisfactory risk profile. The main focus in the credit granting must be the customer's ability to operate, and weak or non-existent ability to operate must not be compensated with good security.

The credit strategy limits set requirements and limitations related to overall loss profile and portfolio quality. The group has a particular focus on concentration risk linked to the exposure to large individual customers and to individual industries. To avoid unwanted concentration risk, the credit strategic framework also sets restrictions related to exposure and risk profile at portfolio level, and for various industries and individual customers. These restrictions are in addition to the limits laid down by the rules on large engagements. The credit policy guidelines set minimum requirements that apply to all types of financing, except for engagements granted as part of the exercise of special credit protection powers. In addition to the general credit policy guidelines, a set of more specific credit policy guidelines has been drawn up relating to industries or segments that may involve a special risk.

The board is responsible for the group's loan and credit granting's, but delegates credit authorizations within certain limits to the CEO, who in turn can further delegate these.

Particular emphasis is be placed on the customers' business being in accordance with applicable laws and regulations, and that the business has a long-term perspective. The group's policy for sustainability is reflected in the general credit policy guidelines, including the requirement that all financing must satisfy the group's guidelines relating to the environment, society, and corporate governance. The group also has guidelines that support the group's anti-money laundering (AML) policy.

The group has IRB permission from the Norwegian Financial Supervisory Authority

(Finanstilsynet) and actively uses credit models for risk classification, risk pricing, capital calculations and portfolio management.

Liquidity risk is managed through the group's overall liquidity strategy, which is reviewed and adopted by the board at least annually. Liquidity management is based on conservative frameworks and reflects the group's moderate risk profile. The group's treasury department is responsible for liquidity management, and the risk management department monitors and reports the utilization of limits in accordance with the liquidity strategy.

The group's lending is mainly financed with customer deposits and long-term securities debt. The liquidity risk is limited by the securities debt being distributed across different markets, borrowing sources, instruments and maturities.

Market risk is managed through the market risk strategy, which defines the group's risk appetite. The strategy with associated specification of necessary risk limits, reporting lines and powers of attorney is processed and approved by the board at least annually.

Market risk in SpareBank 1 SR-Bank is mainly related to the group's long-term investments in securities. In addition, the group has a certain exposure to market risk from trading activities in the interest and currency markets, as well as from activities that support ordinary borrowing and lending activities. The group's market risk is measured and monitored based on conservative frameworks that are renewed and approved by the board at least annually. The size of the limits is determined based on stress tests and analyzes of negative market movements. The group's exposure to market risk is moderate.

Operational risk is managed through the risk strategy which is determined annually by the board. The strategy contains the group's risk appetite, with limits for permitted risk exposure and qualitative criteria for events that are considered to be outside the board's defined risk appetite. The group has a dynamic approach to managing operational risk and carries out regular analyses to uncover weaknesses and new or changed risks.

Unwanted incidents that occur are registered and followed up systematically to obtain a learning effect and avoid repetition. The board receives a quarterly report with an overview of registered incidents. Furthermore, all significant change initiatives undergo a standardized risk assessment process to avoid the changes introducing unwanted risk. Risk-reducing measures are assessed and implemented on an ongoing basis.

Climate risk is an integral part of the group's risk management processes and SpareBank 1 SR-Bank identifies and assesses climate-related risks and opportunities that may affect customers, business areas and operations at various levels. The group's lending portfolio undergoes annual stress tests and financial projections. SpareBank 1 SR-Bank's greatest climate risk exposure lies in the corporate market portfolio including agriculture, so handling climate risk from this part of the business is prioritized. Since 2019, the group's corporate market departments have used a separate risk assessment module for sustainability integrated into the credit process for all commitments over NOK 50 million. In 2022, the group, in cooperation with the SpareBank 1 alliance, has developed and adopted a new framework and new scoring model for assessing sustainability risk (ESG score) which is used in connection with credit granting and renewal of corporate customers with a consolidated exposure of over NOK 10 million.

SpareBank 1 SR-Bank has from 2021 started with analysis of CO2 emissions based on the methodology of PCAF (Partnership for Carbon Accounting Financials).

Compliance risk is managed by practicing the group's framework for compliance that emerges from the group's policy for compliance. The framework shall help to ensure that the group does not incur public sanctions/fines or financial loss as a result of failure to implement and comply with laws and regulations. Policy for compliance is adopted by the board and describes the main principles for responsibility and organization in connection with compliance with laws, regulations, internal guidelines etc.

The board has decided that the group have a very low tolerance for compliance risk. This means that regulations must be interpreted with a conservative approach.

SpareBank 1 SR-Bank is concerned with having good processes to ensure compliance with current laws and regulations. Compliance should be an integral part of management and decision-making processes. The group's strategies, policies, standards and routines form the governing framework that will support compliance with regulatory requirements and the group's own defined requirements.

Stavanger, 8. March 2022

The Board of Directors SpareBank 1 SR-Bank

Dag Mejdell
(styreleder)

Kate Henriksen	Trine Sæther Romuld	Jan Skogseth
Kjetil Skjæveland	Camilla AC Tepfers	Sally Lund-Antonsen
Kristian Kristensen	Benedicte Schilbred Fasmer (CEO)	Frode Bø (Executive vice president risk management)

Key figures

Key figures	31.12.2022	31.12.2021
Return on equity	12,6 %	12,6 %
Rating	A1	A1
Common equity Tier 1 capital ratio	17,4 %	17,4 %
Leverage ratio	6,9 %	7,1 %
MREL (minimum requirement from 01.01.2024)	35,2 %	34,4
Deposit to loan ratio	58,5 %	59,8 %
LCR	176 %	168 %
NSFR	130 %	124 %
Impairment on loans retail market in % of lending	0,0 %	0,0 %
Impairment on loans corporate market in % of lending	0,0 %	0,3 %
Share of the corporate market lending portfolio	39,4 %	37,7 %
Share of the retail lending portfolio	60,6 %	62,2 %
ESG (Position Green)	A	A-

1. ABOUT THIS REPORT

Risk and capital management in SpareBank 1 SR-Bank intend to create financial and strategic added value. This report contains information on risk management, risk measurement and capital adequacy.

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

- A good risk culture
- A clear management and control structure that promotes independence
- A good understanding and management of the risks that drive earnings and losses
- Preventing single events damaging the group’s financial position
- Pricing products and services based on underlying risk
- Effective raising and use of capital that reflects the chosen risk profile

The Pillar 3 report has been prepared to provide the market with information about SpareBank 1 SR-Bank's risk and capital management. The reporting is in accordance with the applicable capital adequacy regulations. The Pillar 3 report, together with the annual report and quarterly reports, covers the requirements for the publication of information on risk and capital management.

This report is updated annually. Information on capital adequacy and the minimum regulatory requirements is updated quarterly in separate appendices. For information on the group's remuneration scheme, please refer to the Annual Report and the separate Executive Remuneration Report.

To ensure that financial institutions assess and manage risk in an efficient and sound manner and that they are solid and robust against fluctuations and shocks in the economy, financial institutions are regulated by financial authorities, including with requirements for capital adequacy.

The capital requirement regulations consist of three pillars:

Pillar 1: Quantitative minimum requirements for responsible capital and description of the calculation methods for risk-weighted volume and what constitutes capital.

Pillar 2: Requirements for risk management and internal control, including requirements for Internal Capital Adequacy Assessment Process (ICAAP). Under Pillar 2, supervisory authorities can require additional capital if they believe that other capital requirements do not capture the underlying risk in an institution well enough.

Pillar 3: Requirements for reporting and disclosure of financial information. Pillar 3 shall enable the market to assess the financial institution's risk and capital management.

The report has been reviewed by the board of SpareBank 1 SR-Bank.

The report is not subject to external audit.

2. RISK AND CAPITAL MANAGEMENT IN SPAREBANK 1 SR-BANK

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

2.1 Overall risk exposure

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

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

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

Climate risk: the risk of financial losses and financial instability as a result of physical climate change and society's response to it

Owner risk: the risk of SpareBank 1 SR-Bank suffering negative results from stakes in strategically owned companies or of the group having to inject fresh equity into these companies. Owned companies are defined as companies where SpareBank 1 SR-Bank has a significant stake and influence

Compliance risk: the risk of the group incurring public sanctions/penalties or financial loss as a result of a failure to comply with legislation and regulations

Pension risk: the risk of increases in future pension liabilities

Regulatory risk: uncertainty about future regulations

Business 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

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

One of the ways in which the group's risk is quantified is through the calculation of expected losses and risk-adjusted capital. Expected losses describe the amount that the group must expect statistically 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. Since it is impossible to fully protect against all losses, the group has stipulated that the risk-adjusted capital shall cover 99.9 per cent of potential unexpected losses.

2.2 The Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the Policy for Risk and Capital Management is to provide guidelines for the Group's overall attitudes and principles for risk and capital management, and to ensure that the Group has an efficient process for this. Furthermore, the policy shall ensure that the internal framework satisfies laws, regulations and best practices for good risk and capital management.

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

The Internal Capital Adequacy Process in SpareBank 1 SR-Bank is built on the following main principles:

- The group's risk and capital management framework shall be documented and based on best international practices

- The group shall have a management and control structure that promotes prudent, independent management and control
- The risk and capital management shall form an integral part of the management and decision process
- Risk and capital management shall support the group's strategic development and achievement of objectives while ensuring financial stability and sound management of assets
- The group shall 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
- SpareBank 1 SR-Bank shall have a risk appetite that provides a sufficient buffer in relation to the group's risk capability, and ensure that no single events can seriously damage the group's financial position
- The risk identification process must be implemented regularly, forwardlooking, 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
- Based on the risk analysis, effective management and control measures shall be established for the individual risks. Measures that reduce probability shall be prioritized 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 setback. The serious financial setback must be severe, but realistic.
- Return on economic capital shall be one of the most important strategic result measurements for the internal control of SpareBank 1 SR-Bank. The credit-based framework for EAD in the bank's internal market divisions must be determined on the basis of risk-adjusted returns.
- 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 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

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

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

The group's strategic target

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

Defining the risk profile

The board must adopt the group's risk profile at least annually. SpareBank 1 SR-Bank defines its risk profile by calculating the group's risk capacity and then determining the group's risk appetite. Risk capacity and willingness to bear risk are defined by the group's results, solidity, liquidity and credit quality, and are set for both a normal business cycle and for a serious economic downturn.

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

Risk identification and analysis

The process for risk identification is forward-looking and covers all the group's significant risk areas. In areas where the effect of the established control and management measures is not considered satisfactory, improvement measures are implemented. Thorough analyses of the identified risks are conducted to understand their characteristics and the effect of established control and measurement measures.

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

Financial projections

Two financial projections are conducted, at least annually:

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

Financial projection of expected financial development

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

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

Financial projection of a serious economic downturn (stress test)

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

- evaluate potential losses based on different economic scenarios
- evaluate the vulnerability of portfolios/activities
- increase the understanding of how a shock would affect the group's profitability, liquidity situation and capital adequacy
- evaluate potential losses based on different strategic possibilities

- identify weaknesses in the group's risk strategies and processes to help develop risk mitigation measures and prepare contingency plans

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

Capital allocation

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

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

Evaluation and measures

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

SpareBank 1 SR-Bank has also prepared recovery plans to the extent possible be able to handle emergencies if they nevertheless arise. The recovery plans cover:

- Capital adequacy
- Liquidity risk
- Operational risk

Reporting and follow-up

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

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

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

Risikorapportering til styret

The table below shows the regular reports on risk and compliance to the board.

Table 1: Regular reports on risk and compliance

Frequency	Report
Quarterly	Risk report The risk report is the second-line assessment of the risk picture. The risk report provides an overview of the risk situation, with analyzes and comments.
Quarterly	Compliance report Compliance prepares a report on the status and development of the compliance situation. The reporting is Compliance's independent assessment and shall provide a clear overall picture of SpareBank 1 SR-Bank's compliance risk.

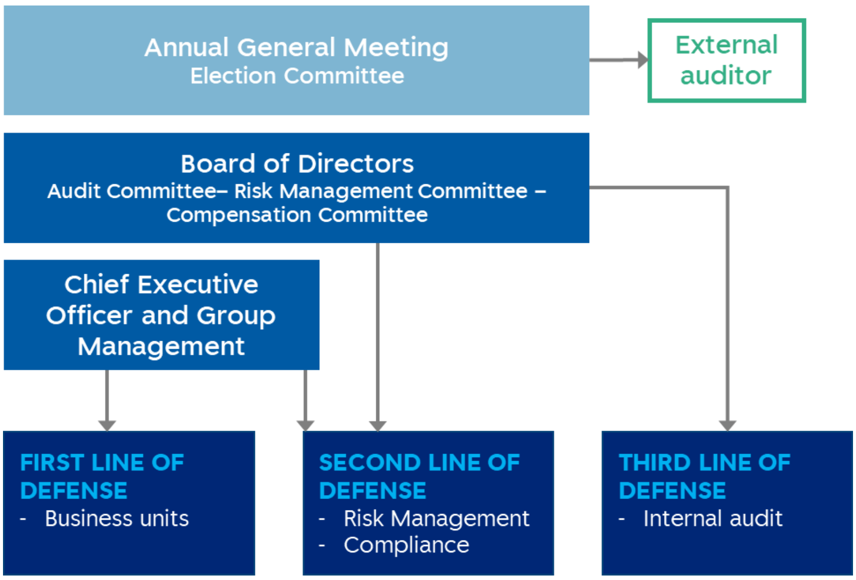
Quarterly	Undesired incidents The quarterly undesired incidents report provides an overview of the development in registered incidents as well as the financial consequences of these. Significant events are highlighted together with a description of the consequences and follow-up.
Annual	ICAAP report The ICAAP report contains a detailed description of SpareBank 1 SR-Bank's process for self-evaluation of the risk and capital situation. SpareBank 1 SR-Bank's process for self-evaluation of the liquidity situation ILAAP (Internal Liquidity Adequacy Assessment Process) describes and assesses the liquidity situation for the entire group.
Annual	Validation report The validation officer prepares an annual validation report which forms the basis for the board of SpareBank 1 SR-Bank to decide whether the risk management system (IRB system) is well integrated in the organization and whether it calculates the risk level and capital requirements in a satisfactory manner.
Annual	Recovery plan The recovery plan is an important part of SpareBank 1 SR-Bank's preparedness. An important part of the recovery plan is a description of various identified measures that can improve SpareBank 1 SR-Bank's capital coverage and liquidity situation in an imagined crisis. The plan is revised annually. The status of defined recovery indicators is reported to the board every quarter.

2.3 Roles and responsibilities

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

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

Figure 2: Governing bodies of SpareBank 1 SR-Bank



The Board of SpareBank 1 SR-Bank is responsible for approving a sound risk profile, return targets, overall framework for risk and capital management including the IRB system and risk models in general. The Board is also responsible for approving risk limits and authorizations as well as the ICAAP (Internal Adequacy Assessment Process) with associated assessment of sound solvency and liquidity in relation to the Group's risk profile and regulatory requirements.

The board shall ensure that the framework for risk and capital management is sufficiently communicated and implemented throughout the group. The board shall further ensure that the framework is followed up with sufficient authority and resources.

The Chief Executive (CEO) is responsible for the overall risk management. This means that the CEO is responsible for implementing the framework for risk and capital management in the group. The CEO is also responsible for ensuring that the risk exposure at all times is within the group's chosen risk profile and in accordance with the risk strategies.

Managers of the business and support areas and employees are responsible for the day-to-day risk management within their area of responsibility. They must at all times ensure that the risk management and risk exposure are in accordance with the framework and that the risk exposure is within the given framework.

The Risk Management department is organised independently of the business units and reports directly to the CEO. The Chief Risk Officer also has the opportunity, in individual cases, to report directly to the Board if extraordinary situations should require so. The department is responsible for the further development of the framework for risk and capital management. The department is also responsible for independent follow-up that the risk exposure is in accordance with risk appetite and risk strategies. The department also prepares proposals for risk profiles and risk strategies that ensure financial robustness and an efficient use of the group's equity. The department must have sufficient breadth and depth in competence and capacity.

The Internal Audit is responsible for systematically evaluating and reviewing the effectiveness and appropriateness of the group's control and management structure, framework for risk and capital management, internal control and compliance. The internal audit is risk-based and evaluates on a rolling basis both the frameworks for the mentioned topics and compliance with these. The internal audit must be independent and have sufficient competence and capacity. The internal audit reports to the board.

Committees

The Risk Committee shall generally follow up the Group's risk exposure and framework for risk and capital management. The risk committee shall have the authority to investigate all activities and matters relating to the group's overall risk and may obtain information from any employee. All the Group's employees and shop stewards shall provide the information and assistance that the risk committee may request. The risk committee can implement any investigations it finds necessary to cover its tasks, including obtaining external advice and assistance.

The risk committee answers to the board of SpareBank 1 SR-Bank for the execution of its tasks. The individual member has no special external responsibility in his role as a member of the risk committee. The board's responsibility and the individual board member's responsibility are not reduced because of the risk committee's activities. The risk committee held five meetings during 2022.

The Risk and Compliance Committee is an advisory body for the Chief Risk Officer and the Chief Compliance Officer, respectively, in matters within their own area of responsibility. The committee's mandate is to follow up the group's risk management and compliance status and recommend overall measures, propose risk strategic frameworks within the various risk areas and follow up capital allocation principles in the various risk areas and business units.

The Validation Committee is an advisory body on matters related to the IRB system and recommends to the Chief Risk Officer.

The committee's mandate is to consider the validation of the risk models and risk management systems as well as to assess and possibly recommend changes or needs for new risk models and risk management systems. The committee shall also follow up regulatory matters related to the risk models and risk management systems.

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

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

2.4 Risk culture

Risk culture means values and attitudes that are expressed through risk awareness, actions and ability for organisational learning. A good risk culture constitutes the foundation of good risk management and is a prerequisite for the full benefit of professional policies, procedures and models.

In cooperation with the University of Stavanger, the Group has therefore developed a framework that is used to carry out regular group-wide evaluations of risk culture. A Risk Culture survey was conducted in 2021 and shows good risk culture through and through all departments. The results of the measurements provide good discussions in the group and increased awareness and insight into themes that are not usually discussed directly. The fact that such measurements are conducted is therefore considered to make an important contribution to creating a sound risk culture in the organisation.

3. CAPITAL REQUIREMENTS

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

3.1 Primary capital

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

There are in principle two different approaches for calculating the minimum requirement for responsible capital according to the capital adequacy regulations. One approach is based on template rules, while the other is based on the use of internal models (IRB). When using internal models, the regulatory minimum requirement for capital is based on the banks' internal risk assessments. This makes the statutory minimum requirement for capital coverage more risk-sensitive, so that the capital requirement matches to a greater extent the risk in the underlying portfolios or activities.

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

Figure 3: Alternative methods for calculating the minimum primary capital requirements[1]

Credit risk	Market risk	Operational risk
Standard method	Standard method	Basic Indicator Approach
Basic IRB method*	Internal Measurement Approach*	Standardised Approach
Advanced IRB-method*		Advanced Measurement Approach*

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

[1] *The three methods available for calculating capital for operational risk will be replaced by a new standard method when final basel regulations entered into force in January 2022.*

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

3.2 IRB system

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

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

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

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

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

* The formerly wholly owned subsidiary SpareBank 1 SR-Finans AS was merged into the parent bank SpareBank 1 SR-Bank ASA in 2017. The merged portfolio is reported on a regulatory basis in accordance with the standard method, while internally using the IRB method. SpareBank 1 SR-Bank has applied the Financial Supervisory Authority for permission to use advanced IRB for the merged portfolio of leasing

3.3 Combined buffer requirements

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

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

Systemic risk buffer (4.5%): System risk is defined as the risk that financial instability will result in disruptions in the provision of financial services of a scope that could give significant negative effects for production and employment. The systemic risk buffer requirement increased from 3.0% to 4.5% with effect from 31 December 2020. Since this buffer requirement is directed at structural vulnerabilities and other systemic risks in the Norwegian economy, it will only apply to banks' exposures in Norway, unlike previous buffer requirements that apply to all operations.

Countercyclical buffer (0,0-2,5%): In Norway, a countercyclical capital buffer in the interval 0 - 2.5 percentage points is required in the form of Common Equity Tier 1. The purpose of the countercyclical capital buffer is to make the banks more solid and robust against loan losses. In December 2021, it was decided to increase the countercyclical capital buffer by 0.5 percentage points to 2.0 per cent, with effect from 31 December 2022. In March 2022, it was decided to introduce a full countercyclical capital buffer of 2.5 per cent, with effect from 31 March 2023.

Buffer for systemically important institutions (2.0%): Mortgage companies that are defined as systemically important by the Norwegian authorities will be subject to an extra buffer requirement of 2 per cent. In general, institutions with total assets of at least 10 per cent of mainland Norway's GDP, or at least a 5 per cent share of the market for loans, is defined as systemically important institutions. SpareBank 1 SR-Bank ASA is not defined as a systemically important financial institution.

Pillar 2 requirement (1.6 per cent): The Pillar 2 requirement is an institution-specific requirement with the aim of creating certainty that Norwegian banks have sufficient capital to cover the risks associated with the business beyond the risks included in the regulatory minimum requirement.

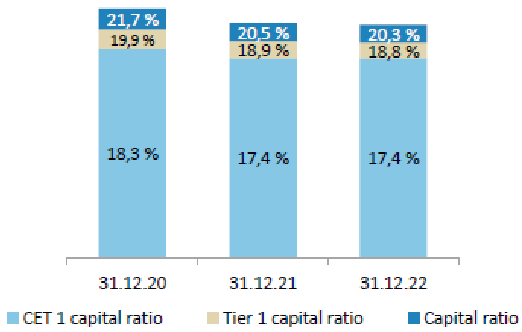
In April 2022, the Norwegian Financial Supervisory Authority gave the group an individual Pillar 2 surcharge of 1.6 per cent, down from 1.7 per cent, which was set in 2018. In addition, a temporary Pillar 2 surcharge of 0.5 per cent was given, pending applications whether model changes have been processed. Finanstilsynet also expects the group to have a capital requirement margin of 1.25 per cent, up from 1.0 per cent. The Financial Supervisory Authority's decision entered into force on 30 April 2022.

In March, the board adopted a new target of common equity tier 1 capital ratio of a minimum of 16.85 per cent. This includes the full countercyclical capital buffer of 2.5 per cent.

3.4 Actual capital adequacy

At the year-end 2022, the Common Equity Tier 1 capital ratio was 17.4% (17.4%). Introduction of the "Bank Package", CRR II/CRD V, came into force in the second quarter of 2022 and reduced the risk-weighted balance sheet by NOK 3.4 billion, corresponding to approx. 47 basis points.

Figure 4: Capital requirements



The total requirement for Common Equity Tier 1 capital ratio for SpareBank 1 SR-Bank ASA is 16.85 per cent at the end of 2022. The requirement includes systemic risk buffer, countercyclical capital buffer, Pillar 2 requirement and capital requirement margin.

The Tier 1 capital ratio was 18.8 percent, while the total capital ratio was 20.31 percent at the end of 2022. The capital adequacy requirement is 20.35 percent, including the capital requirement margin of 1.25 percent.

3.5 Leverage ratio

Unweighted tier 1 capital adequacy (leverage ratio) is a solidity indicator that supplements the risk-weighted minimum requirements. The minimum requirement for an unweighted tier 1 capital ratio is set at 3 per cent. In addition, all banks must have an unweighted tier 1 capital buffer of at least 2 per cent. In addition, systemically important banks must have an unweighted tier 1 capital adequacy buffer of at least 1 per cent. The minimum requirement for unweighted tier 1 capital adequacy for SpareBank 1 SR-Bank is 5.0 per cent. At the end of 2022, SpareBank 1 SR-Bank has an unweighted tier 1 capital ratio of 6.9 per cent, and thus well above the minimum requirement.

4.CREDIT RISK

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

4.1 About credit risk

SpareBank 1 SR-Bank is primarily exposed to credit risk through its loan portfolios in the retail and corporate markets. The group is also exposed to credit risk through the liquidity portfolio. This portfolio mainly consists of low risk commercial paper and bonds that qualify for loans from The Central Bank of Norway.

Begreper

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

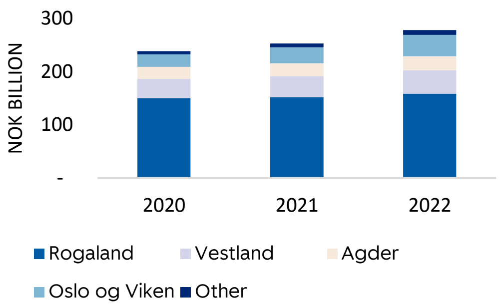
- Probability of default (PD) – the probability for default in a twelve-month period based on a long-term outcome[2]
- Exposure at default (EAD) – a calculated size that contains actual exposure and expected exposure for allocated, but not drawn limits at the time of default

4.2 Development in credit risk

SpareBank 1 SR-Bank has Southern Norway as its primary geographic market area, with the largest presence in Rogaland, Agder and Vestland as well as Oslo and Viken. The figure below shows the exposure by geographical area as of December the last three years for customers in SpareBank 1 SR-Bank. The exposure is shown for the parent bank and includes portfolios transferred to credit institutions.

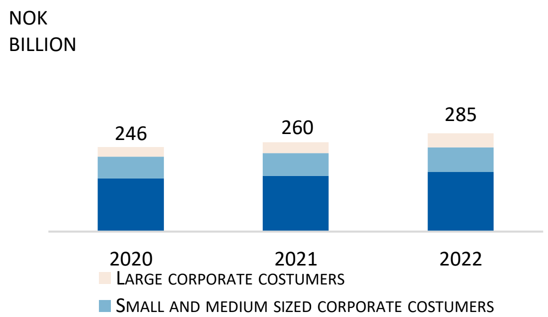
Rogaland is the group's largest market area, and the exposure as of December 2022 is about NOK 159 billion. This represents 57 percent of SpareBank 1 SR-Bank's total loan exposure. The exposure in Vestland, Agder and Oslo/Viken amounted to respectively 44, 26 and 40 billion in 2022.

Figure 5: Exposure (EAD) by geographic market areas



The loan exposure consist of a well-diversified portfolio with both retail and corporate customers. The figure below shows the development in the loan portfolio over the last three years.

Figure 6: Exposure by customer segment

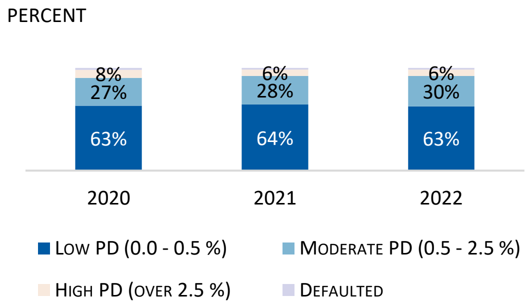


The largest share of the loan exposure in SpareBank 1 SR-Bank is aimed at retail customers, and loans are mainly financed by mortgages on real estate. Exposure to retail customers has increased from NOK 161 to 173 billion in 2022. 97 per cent of loan exposure in the retail market consists of loans that are smaller than NOK 10 million. Exposure to small and medium sized corporate customers has increased from NOK 67 to 72 billion in 2022. Credit exposure to large corporate customers has increased from NOK 32 to 41 billion in 2021. Large corporate customers are defined as single customers with exposure (EAD) larger than NOK 250 million.

[2] Long term outcome through a full loss cycle of 25 years

A clearly defined framework that sets limitations on what is financed, and under which conditions, helps to ensure that the portfolio remains robust.

Figure 7: Loan portfolio by probability of default (PD)[3]



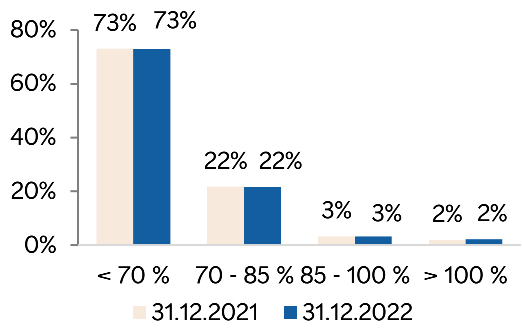
The share of loan exposure on customers with a probability of default (PD) lower than 0.5 per cent constitutes 63 per cent of the total loan portfolio in 2022. These are customers risk classified in default classes A, B or C. The share of the loan exposure with moderate PD was 30 per cent. These customers are risk classified in the default classes D, E or F.

SpareBank 1 SR-Bank has a considerable focus on following up commitments with PD higher than 2.5 per cent. As of December 2022, 6 per cent of the loan exposure to customers with PD is higher than 2.5 per cent. These customers are risk classified in default classes G, H and I. The exposure to non-performing customers amounts to 1,4 per cent of total lending exposure in the corporate market and the retail market as of December 2022.

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

The figure below illustrates the development of the loan-to-value ratio in the retail market portfolio from 2021 to 2022. The calculation of loan-to-value ratio is based on the collateral's market value and is shown as total-distributed loan-to-value ratio. In the case of total-distributed loan-to-value ratio, the entire relevant loan is allocated to one and the same interval.

Figure 8: Loan-to-value ratio (LTV) – total distributed



4.3 Managing credit risk

There is currently extensive work with the bank's overall framework for risk and capital management, including the IRB system and risk models in general. This is done to comply with new requirements and guidelines from EBA which entered into force on 01.01.2022. The changes are subject to application.

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

Credit risk management is based on the following main principles:

- The Group shall be among the leading in Norway in managing credit risk
- Particular emphasis should be placed on ensuring that the customers' activities comply with applicable laws and regulations, and that the business has a long-term perspective
- The main focus of credit granting should be the customer's ability of debt servicing, and weak / lacking

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

service capacity should not be compensated with good security

- The risk that arises from concentrating the lending activity against a single customer, industry or segment should be limited to avoid single events being able to seriously harm the Group's financial position

Credit culture

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

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

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

Credit strategy

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

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

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

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

Credit political guidelines

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

Credit authority regulations

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

Credit review routines

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

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

4.4 Measurement of credit risk

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

Portfolio management

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

Early Warning

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

Some examples of risk drivers are:

- Short-term and repeated default
- Development in limit utilisation

- Development in number of instalment postponements
- Official announcements

Credit process surveillance

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

4.5 Risk classification system

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

Table 3: The risk classification system in SpareBank 1 SR-Bank

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

Probability of default – PD

Customers are classified in default classes based on the probability of default over a twelve-month period, based on a long-term outcome through a full loss cycle[4].

SpareBank 1 SR-Bank defines default in line with guidelines[5] from the European Banking Authority (EBA) and Regulations on capital requirements and national adaptation of CRR / CRD IV § 7.

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

SpareBank 1 SR-Bank focuses on stable and predictable credit granting and capitalisation over time, and the group therefore develops the models for

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

calculating the probability of default based on a 'Through the Cycle' approach. This also corresponds with the approach behind the rating methods in the most renowned rating companies.

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

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

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

Table 4: Definition of default classes and the correlation between classification in SpareBank 1 SR-Bank and in the largest external rating agencies

Default class	Lower limit for default	Upper limit for default	**Ratingscale Standard & Poor's**	**Ratingscale Moody's**
A	0,00 %	0,10 %	AAA - A-	Aaa - A3
B	0,10 %	0,25 %	BBB+ - BBB	Baa1 - Baa2
C	0,25 %	0,50 %	BBB-	Baa3
D	0,50 %	0,75 %	BB+	Ba1
E	0,75 %	1,25 %	BB	Ba2
F	1,25 %	2,50 %	BB-	Ba3
G	2,50 %	5,00 %	B+	B1
H	5,00 %	10,00 %	B	B2
I	10,00 %	40,00 %	B- - CCC/C	B3 - Caa3/C

Exposure at default – EAD

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

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

Loss given default – LGD

Loss given default describes how much the group could potentially lose if the customer defaults on their obligations. The model presents estimates that predict the degree of loss in an economic downturn.

The valuation takes in account the value of underlying securities, the degree of recovery of unsecured loans, the degree of recovery before realisation and the costs the group has in recovering defaulted commitments.

Seven classes are used (1–7) for classifying commitments in relation to loss given default.

Definitions of these classes are illustrated in the table below.

Table 5: definition of LGD (collateral class)

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

Expected loss – EL

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

Risk-adjusted capital – UL

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

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

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

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

Table 6: Definition of risk groups

RISK-ADJUSTED CAPITAL (UL) % OF EAD

RISK GROUP	Lower limit	Upper limit
LOWEST	0,0 %	1,6 %
LOW	1,6 %	4,0 %
MEDIUM	4,0 %	8,0 %
HIGH	8,0 %	12,0 %
HIGHEST	12,0 %	99,99 %

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

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

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

4.6 Collateral and other risk mitigation measures

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

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

Table 7: Main types of collateral

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

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

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

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

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

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

Validation

The group continuously develops and tests the risk management system and the credit granting process to ensure that it is of high quality over time. The work is summarised in an annual validation report that provides a basis for the board of

SpareBank 1 SR-Bank to determine whether the risk management system (IRB system) is well integrated within the organisation and whether it calculates the level of risk and capital requirements satisfactorily.

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

The aim of the validation process is to ensure that:

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

The validation process can be divided into four main areas:

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

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

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

Compliance: The review is intended to ensure that SpareBank 1 SR-Bank complies with regulatory capital requirements.

The table below shows the models used by SpareBank 1 SR-Bank in the regulatory IRB reporting, as of end 2022.

Table 8: Risk models used in regulatory reporting 2022

Commitment category	**Segment**	**PD model**	**EAD model**	**LGD model**
Mass Market (Retail Market) Housing	Mortgage customers with internal history of behaviour	RM score card A	CF = 1	LGD RM
Mass Market (Retail Market) Other	Other retail customers with internal history of behaviour	RM score card B	CF = 1	LGD RM
Businesses (Corporate Market)	Companies that have delivered public accounting	CM sector 1-7	EAD CM	LGD CM
	Companies that do not provide public accounting	Stencil core	EAD CM	LGD CM
	Newly established companies	Stencil score	EAD CM	LGD CM

In 2021, SpareBank 1 SR-Bank has developed and applied to the Norwegian FSA for permission to implement revised IRB models that are in accordance with new regulatory requirements from the European Banking Authority (EBA). At the same time, the bank has developed a new framework for validation that ensures compliance with new requirements from EBA in this area. The new regulatory requirements for the IRB system were valid from 2022.

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

Data quality

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

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

Discrimination power

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

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

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

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

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

Level

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

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

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

Furthermore, stress tests are conducted on all parameters to validate that the complies with the Capital Requirements Regulations.

Stability in estimates

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

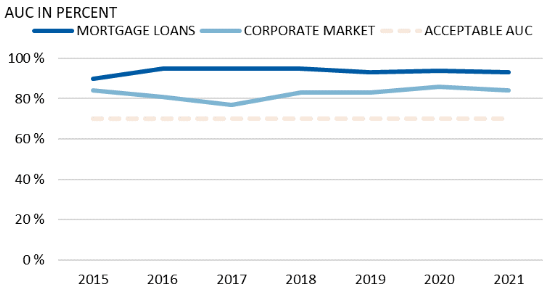
4.7 Comparison of risk parameters and actual outcome

This section presents an extract of the validation results for the PD, EAD and LGD models in SpareBank 1 SR-Bank for the IRB portfolio. As a result of the fact that validation results for 2022 had not been processed by the board at the reporting time for publication under Pillar 3, results up to and including validation year 2021 are reproduced.

PD-modeller

The figure below shows the PD models' ranking ability for mortgages and the corporate market respectively in the period 2015-2021.

Figure 9: Discrimination power, PD models



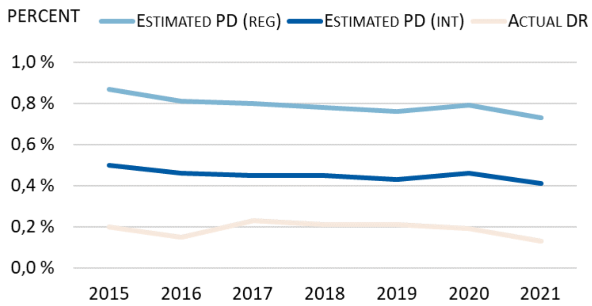
The generic PD model for mortgages has very high and stable ranking ability, which means that the model has a very good ability to rank customers from those with the highest to those with the lowest actual probability of default. Validation on various segments also shows high ranking ability. The generic PD model for corporate market customers has a high and stable ranking ability for the total portfolio.

When validating different sub-portfolios, the ranking ability may be somewhat lower. This applies to larger customers and certain industry types. For this reason, separate PD models have been developed for these segments which are currently only used in the internal portfolio management.

Current capital adequacy regulations require that the estimated probability of default (PD) must predict long-term outcomes through a full loss cycle. This means that the default estimates must be relatively stable over time, also through a business cycle. The figure below shows the average unweighted estimated probability of default (PD) internally and regulatory compared to the average actual default in the years 2015-2021.

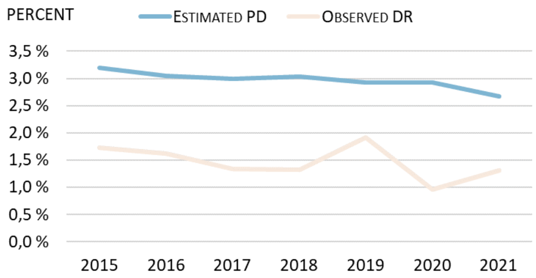
Regulatory PD is calculated in line with Finanstilsynet's methodology for calculating long-term outcomes, with fixed levels for, among other things, defaults in a severe recession. Internal PD is estimated using the bank's best estimates for default through a full loss cycle, and reflects to a greater extent the underlying risk in the portfolio. Use of the internal estimates provides more risk-sensitive risk weights and contributes to increased motivation for good risk management.

Figure 10: Comparison of unweighted estimated PD with actual DR – mortgage loans (regulatory and internal)



Actual default (DR) has been stably low. The default is significantly lower than both internal and regulatory estimated default (PD) throughout the period. In regulatory terms, there is – in accordance with current regulations – a significant overestimation of the level of default. For companies, there is consistency in the calibration of internal and regulatory default levels, and the figure below indicates the average unweighted estimated and actual default for the corporate market.

Figure 11: Comparison of unweighted estimated PD and actual DR – corporate market



As the figure shows, the estimated probability of default (PD) is higher than actual default (DR) throughout the period. The PD level is considered to be in line with the model's desired cyclical characteristics.

All customers with credit exposure in SpareBank 1 SR-Bank are risk-classified at least annually when accounting or balance sheet data is updated. In addition, customers are scored monthly based on information on internal and external behaviour. The figures below show annual migration for mortgage customers and the corporate market respectively. Migration refers to the proportion of customers who change their default class during a 12-month period.

Figure 12: Annual migration – mortgage loans

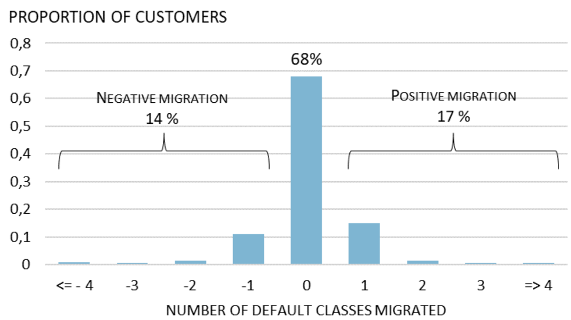
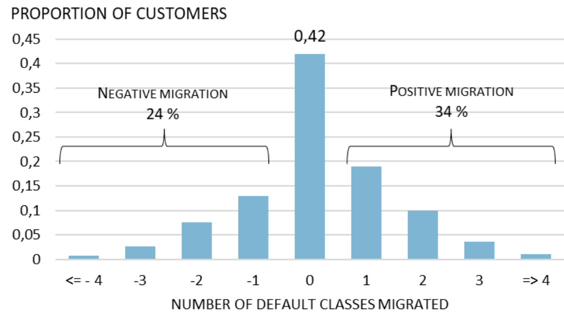


Figure 13: Annual migration – corporate market

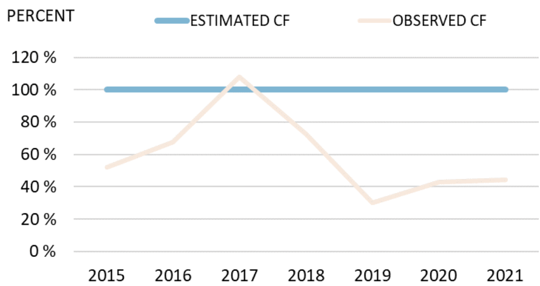


The stability of the default estimates is an indicator of the model's cyclical characteristics. The proportion of stable customers in 2021 was 68 per cent for mortgages and 42 per cent for the business market.

EAD-models

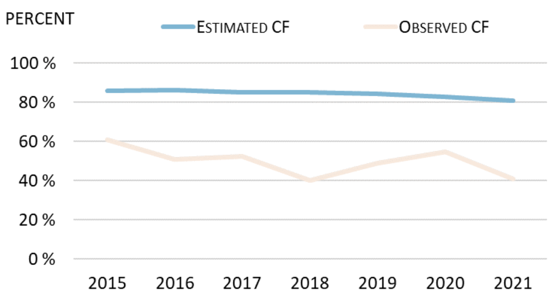
A validation is carried out of whether the model estimates can predict the utilization of limits (CF) in the event of a serious economic setback ("downturn"). This means that there must be a sufficient margin between estimated and observed values in normal business conditions. The graphs below show comparisons of the conversion factor for the period 2015-2021.

Figure 14: Comparison of estimated and actual conversion factor (CF) – mortgage loans (limit loans)



For all home loan customers with a framework loan, the conversion factor is a fixed parameter. The average observed conversion factor is 59 per cent in the period, and significantly lower than the set parameter of 100 per cent. The high observed KF in 2017 is due to the fact that small amounts have relatively large effects measured in percentage in periods with a low number of defaults.

Figure 15: comparison of estimated and actual conversion factor (CF) – corporate market



For the corporate market, a separate model has been developed which estimates the conversion factor based on risk classification and engagement type. The average estimated conversion factor is 84 percent, and higher than the average observed conversion factor of 50 percent.

LGD models

Regulatory calculation of loss ratio (LGD) for mortgages dictates that the minimum estimated LGD must be 20 per cent, regardless of underlying portfolio quality and loss history. Internally, own estimates are used for loss ratio which are based on internal data with empirical coverage and which are representative of the bank's portfolio.

For the corporate market, there is full agreement between internal and regulatory estimates for LGD. The figures below show estimated and observed unweighted loss ratio for resolved default cases in the period 2016-2021 Both estimated and observed loss ratio are measured for defaulted customers, and the estimates are normally higher than the overall portfolio including healthy customers.

Figure 16: Comparison of estimated and actual weighted LGD for defaulted loans – mortgage loans (internal and regulatory)

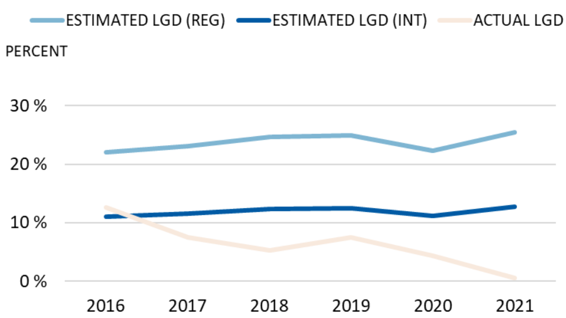
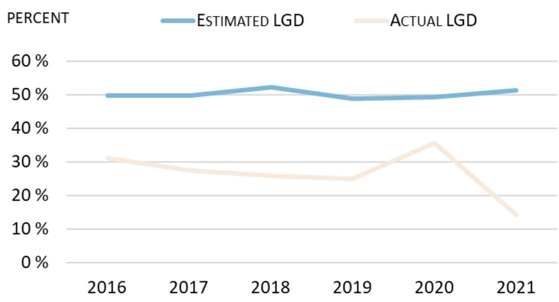


Figure 17: Comparison of estimated an actual weighted LGD for defaulted loans – corporate market



The figures above show that the observed loss rate is lower than the estimated loss rate over time, both for mortgages and the corporate market.

In 2020, a small increase in the observed loss rate for the corporate market is observed. This is related to the recession that has affected certain industries within the large customer segment in offshore and oil-related business after the drop in oil prices that started in 2014 and the corona pandemic in 2020.

In the larger and more complex cases, recovery time is somewhat longer than normal, and it must be expected that the observed loss rate will be corrected as cases are clarified. Analyzes carried out indicate that the loss estimates are sufficiently conservative to cover losses also for the cases that have not been settled.

4.8 Default and impairment

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

Close follow-up of customers and preventive work are important tools for maintaining a good risk profile in the Group's loan portfolio to reduce future write-downs.

Under IFRS 9, the Group's loans and financial liabilities are grouped into three groups; Stage 1, Stage 2, and Stage 3, where Stage 3 is used for loans with a significant increase in credit risk since being granted and have objective evidence of a loss on the balance sheet date. For these loans and financial liabilities, provision shall be made for the expected loss over the lifetime.

Table 9: Expected credit loss on segments and stages (amounts in NOK million)

2022 (IFRS 9)	**Stage 1**	**Stage 2**	**Stage 3**
Rogaland	121	155	598
Agder	27	32	49
Vestland	45	52	298
Oslo/Viken	65	59	15
Other	30	20	118
Sum	**288**	**318**	**1.079**
2021 (IFRS 9)	**Stage 1**	**Stage 2**	**Stage 3**
Rogaland	94	172	654
Agder	20	46	48
Vestland	33	68	265
Oslo/Viken	28	48	90
Other	18	17	120
Sum	**193**	**351**	**1.177**

Total expected credit loss at the end of 2022 was NOK 1,079 million, of which NOK 874 million belonged to Rogaland.

5. COUNTERPARTY RISK

Counterparty risk is a form of credit risk that arises from trading in financial instruments, for example derivatives or lending with collateral in securities. Derivatives are most often traded Over the Counter (OTC), i.e., by individual contracts between two counterparties. Counterparty risk is risk linked to the counterparty's ability to fulfil the agreed obligations in the contract and differs from other credit risk in that the exposure usually depends on market risk factors such as interest rates, exchange rates, commodity prices or share prices.

5.1 About counterparty risk

SpareBank 1 SR-Bank enters into derivative transactions to hedge currency and interest rate risks that arise in connection with ordinary banking operations, including in connection with borrowing and lending operations. In addition, derivative transactions are entered into in connection with customers' demand for hedging instruments and to hedge own positions that arise in connection with customer trades.

Customers use derivatives to hedge against unfavorable movements in exchange rates and interest rates. The exposure to the bank is therefore basically risk-reducing for the customer. If a customer is to trade in currency and/or interest instruments, a separate limit must be granted to cover the bank's counterparty risk. The framework is granted in accordance with normal credit processing, i.e. in accordance with the bank's ordinary authorization regulations.

In order to minimize the counterparty risk towards bank counterparties, bilateral netting agreements, so-called ISDA agreements, are entered into. Such agreements make it possible to offset all positive and negative market values associated with derivative contracts entered into same counterparty. Bilateral agreements on the exchange of cash collateral, so-called CSA supplements, are also entered into with bank counterparties. The latter means that the market value of all derivative contracts entered into between SpareBank 1 SR-Bank and the counterparty is settled daily, and counterparty risk will therefore be largely eliminated. The EMIR regulations also mean that a significant part of derivative transactions, including the lion's share of interest rate derivatives with bank counterparties, are offset via so-called clearing centers (CCP). SpareBank 1 SR-Bank is not a direct member of a central counterparty, but is associated with other clearing members in connection with the clearing of derivatives.

The capital requirement for counterparty risk is calculated according to the standard method (SA-CCR). Increased market interest rates in 2022 have meant that EAD on customer derivatives has fallen, while EAD for own hedging transactions has increased. The basis for calculating counterparty risk amounted to NOK 1.3 billion at the turn of the year, which was up from NOK 1.1 billion at the end of 2021. The basis for calculating counterparty risk as of 31 December 2022 is 1.0 per cent of the group's total basis for calculation.

6.MARKET RISK

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

6.1 About market risk

Risk strategy

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

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

Authorities, guidelines and routines

The limits set by the board relating to Markets[6] and Treasury are delegated by the chief executive to named people.

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

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

6.2 Market risk, including spread risk bonds and certificates

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

The liquidity portfolio's total holding amounts to NOK 54.0 billion[7]. The portfolio in SpareBank 1 SR-Bank Markets amounts to NOK 0.1 billion[8]. The table below provides an overview of exposure by asset class.

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

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

[6] SR-Bank Markets has been decided to be transferred to SpareBank 1 Markets with financial effect 01.01.2023

[7] NOK 9.6 billion of which is measured at amortized cost and is therefore not exposed to market risk.

[8] Includes hybrid capital (fund bonds) classified as equity for accounting purposes.

Table 10: Fair value of the bond portfolio (NOK million)

Sub-portfolio	4 qtr. 2022	3 qtr. 2022	2 qtr. 2022	1 qtr. 2022
Treasury	**53.998**	**50.349**	**51.238**	**58.333**
Norwegian government	3.530	2.416	1.372	1.310
Foreign guarantees	29.841	28.697	29.941	31.826
OMF/Covered Bond	20.340	19.236	19.926	25.197
Norwegian bank/finance	287	0	0	0
SB1 Markets	**75**	**222**	**253**	**225**
Norsk bank/finans	54	41	37	37
Industry/other	21	181	216	188

6.3 Bond portfolio

Risk profile and portfolio performance

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

Liquidity portfolio (managed by Treasury)

The liquidity portfolio consists of interest-bearing securities that either satisfies the requirements for depositing with Norges Bank, the LCR regulations or uncommitted credit facilities, as well as exposure on companies within the SpareBank 1 alliance. The size of the portfolio will always depend on the group's balance sheet and thereby the need for liquid assets. At the end of 2022, the value of the combined liquidity portfolio totals NOK 54.0 billion.

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

Trading portfolio Markets

The trading portfolio consists of financially oriented investments in interest-bearing securities[9]. The current limit for such investments is NOK 500 million. All investments in the trading portfolio that do not satisfy the criteria for uncommitted credit lines stipulated by the board of directors shall be subject to ordinary credit processing. At the end of 2022 the trading portfolio includes investments in 12 companies valued at NOK 75 million.

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

Table 11: Securities exposure, bonds and securities

Risk classes for bonds and commercial paper – total

Risk category	Rating	Market value NOK million	Total %
Very low risk	AAA, AA+, AA og AA-	53.711	99,4 %
Low risk	A+, A og A-	0	0,0 %
Moderate risk	Not rated	283	0,5 %
High risk	Not rated	18	0,0 %
Very high risk	Not rated	41	0,01%
Total		**54.052**	**100,0 %**

Risk classes – Treasury

Risk category	Rating	Market value NOK million	Treasury%
Very low risk	AAA, AA+, AA og AA-	53.711	99,5 %
Low risk	A+, A og A-	0	0,0 %
Moderate risk	Not rated	266	0,5 %
High risk	Not rated	0	0 %
Very high risk	Not rated	0	0 %
Total		**53.977**	**100,0 %**

Risk classes – Markets

Risk category	Rating	Market value NOK million	Trading %

9 Frameworks for the bond portfolio will not be continued in connection with the transfer of business from SR-Bank Markets to SpareBank 1 Markets

Very low risk	AAA, AA+, AA og AA-	0	0 %
Low risk	A+, A og A-	0	0 %
Moderate risk	Not rated	17	22,4 %
High risk	Not rated	18	23,4 %
Very high risk	Not rated	41	54,2 %
Total		**75**	**100,0 %**

6.4 Interest rate risk

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

The group's general limits for interest rate risk define the maximum loss from a 2 percentage point change in interest rates. The maximum loss following a 2 percentage change in interest rates totals NOK 270 million with NOK 70 million of the total balance in Markets and NOK 200 million of the total balance in Treasury.

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

Table 13: Sub-limits within the different maturity bonds

Maturity bond	Limit Markets	Treasury limit
0 – 3 months	NOK 40 mill.	NOK 200 mill.
3 – 6 months	NOK 40 mill.	NOK 100 mill.
6 – 9 months	NOK 20 mill.	NOK 100 mill.
9 months – 1 year	NOK 20 mill.	NOK 100 mill.
1 year – 18 months	NOK 20 mill.	NOK 40 mill.
18 – 24 months	NOK 30 mill.	NOK 30 mill.
Each year (1-10)	NOK 60 mill.	NOK 30 mill.
10 years or more	NOK 60 mill.	NOK 20 mill.

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

Table 12: Effect on earnings of a positive parallel shift in the yield curve of one percentage point (NOK million)

Interest rate risk	0-6 months	6-12 months	1-5 years	> 5 years	Total
4th Qtr. 2022	-12	5	-1	-3	**-11**
3rd Qtr. 2022	12	2	-8	-6	**0**
2nd Qtr. 2022	-10	2	-5	-5	**-18**
1st Qtr. 2022	-26	1	-19	-11	**-55**

6.5 Foreign exchange risk

Currency rate risk is the risk of loss due to fluctuations in foreign exchange rates. The group measures currency risk of net positions in the different currencies in which the group is exposed. The group has prepared limits for the net exposure to each individual currency, and limits for the aggregate net currency exposure. The overnight price risk for spot trading in foreign currencies shall not exceed NOK 100 million for each individual currency, and NOK 225 million in aggregate.

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

Table 14: Foreign currency exposure including financial derivatives (NOK million=

Currency	4th Qtr. 2022	3rd Qtr. 2022	2nd Qtr. 2022	1st Qtr. 2022
EUR	3	-95	5	30
USD	-1	-7	5	3
CHF	1	0	-0	1
GBP	-0	-1	0	-0
SEK	-0	-3	5	0
Other	2	-21	2	18

6.6 Securities risk, shares[10]

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

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

Table 15: The group's share portfolio at fair value at the end of the year (NOK million)

Balance sheet classification	4th Qtr. 2021	3rd Qtr. 2021	2nd Qtr. 2021	1st Qtr. 2021
Shares, units etc.	827	821	810	836

[10] Does not include hybrid capital (mutual fund bonds) classified as equity

7.OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events

7.1 Management of operational risk

SpareBank 1 SR-Bank aims to have a good balance between trust and control that ensures efficiency, while not exposing the Group to unnecessary operational risk. This is to be achieved through a good risk culture in the organisation, continuous learning from undesired incidents and the development of methods for identifying and quantifying risk.

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

7.2 Measuring operational risk

SpareBank 1 SR-Bank calculates and maintains regulatory capital for operational risk according to the standardized approach. This method is considered to give an insufficient indication of actual exposure to operational risk as it is solely based on historical revenues and does not consider company-specific factors and established controls. Therefore, in order to gain insight into what drives operational risk in the Group, separate operational risk surveys are carried out in which process owners and professional experts are involved to identify potential risks with associated probabilities and consequences.

The Group has devoted considerable effort to developing advanced methods for identifying and assessing operational risk. In recent years, regular mapping and updating of the risk exposure has identified new operational risks with considerable potential for losses. At the same time, targeted risk mitigation measures have been implemented and kept the overall potential loss at a stable level. This has been achieved through better control measures in combination with insurance schemes.

7.3 Development in operational risk

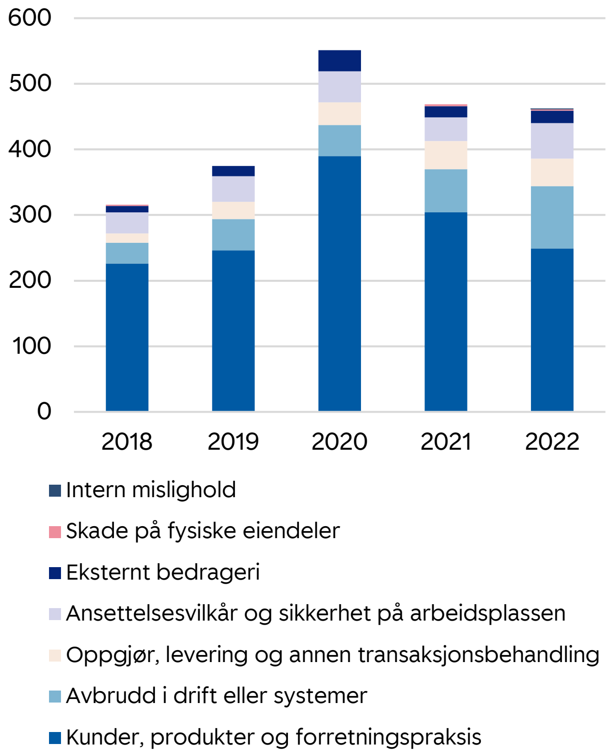
The rate of change in the industry has been increasing for several years, and increasingly frequent changes can lead to an increased risk of new, unintended operational risks. The group has therefore focused particularly on the rate of change as a significant risk driver, the routines are professionalized and tailored system support has been developed for registration, risk assessment, anchoring and approval of all significant changes in products, processes and systems. In total, more than a hundred change cases have been registered and processed during 2022. Such proactive risk management is considered a key measure to avoid the group being exposed to unintended new risks through individual or consistent weaknesses in products, systems and routines.

7.4 Undesired incidents

Registration and learning of unwanted incidents is considered an important tool for capturing and realizing areas for improvement, as well as reducing risk. Over several years, the group has focused on building a culture and system support for incident reporting. There were 463 unwanted incidents registered in 2022, several of which have resulted in measures that lead to a real reduction in the risk of similar and more serious incidents in the future.The figure below shows the number of registered incidents in the years 2017 to 2022. The total loss from registered adverse incidents in 2022 amounted to NOK 8.2 million, compared to NOK 3.5

million in 2021.

Figure 18: Registered, undesired incidents by Basel categories



8. LIQUIDITY RISK

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

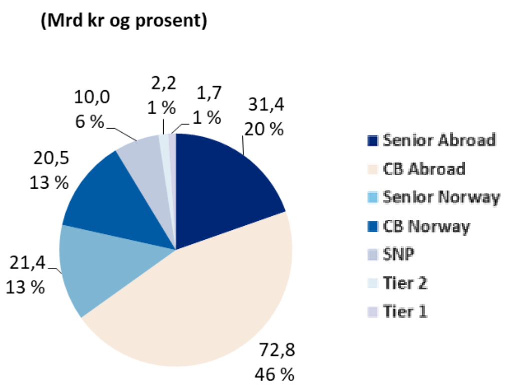
8.1 About liquidity risk

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

8.2 Management and measurement of liquidity risk

Liquidity risk is managed and measured using several measurement methods, as no single method can quantify this type of risk. The methods include frameworks for maximum refunding needs within different maturities, balance sheet ratios, survival targets in a normal situation assuming closed capital markets and the short-term liquidity target LCR. Furthermore, internal stress testing of the group's ability to survive is carried out under various scenarios, including a serious banking and market-specific crisis. The results of the stress tests form part of the information base for the group's liquidity strategy and recovery plan in the event of a liquidity crisis.

Figure 19: Composition of the group's securities borrowing as of 31.12.2022 (NOK billion and percent)



The liquidity reserve is NOK 57.9 billion, and the group has an additional NOK 22.7 billion representing mortgage loans ready to be utilised for covered bond funding. The liquidity situation in SpareBank 1 SR-Bank is assessed as good.

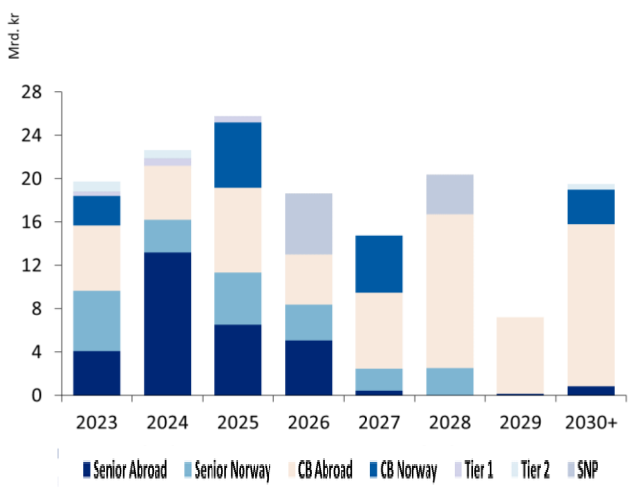
The liquidity reserve indicates a survivability of 33 months at the end of 2022 without access to external financing. During the next 12 months, debt capital equivalent to NOK 19.7 billion will be refinanced.

Deposits from customers are a key source of funding. For the group as a whole, the deposit volume increased by NOK 10.5 billion (7.6 per cent) during the year and amounts to NOK 148.1 billion at the end of 2022. Deposit coverage is 58.5 per cent at the end of 2022 compared to 59.8 percent at the end of 2021.

SR-Boligkreditt AS is a wholly owned subsidiary that was established in the 2nd quarter of 2015. The company's purpose is to buy mortgages from SpareBank 1 SR-Bank and finance this by issuing covered bonds. Through SR-Boligkreditt AS, SpareBank 1 SR-Bank can diversify and optimize its funding. Mortgage loans transferred to SR-Boligkreditt AS amounted to NOK 104.4 billion at the end of 2022.

The figure below illustrates the maturity structure for the funding portfolio at the end of 2022:

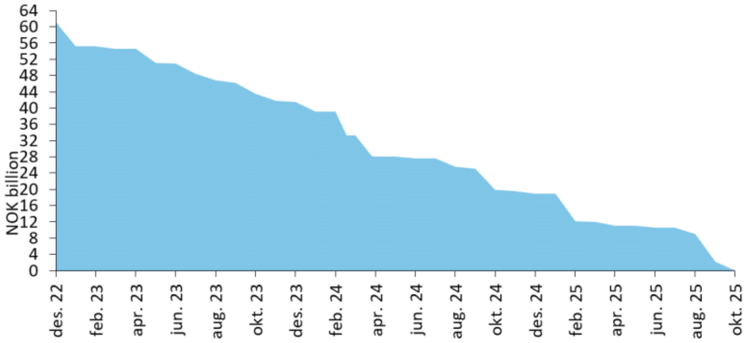
Figure 20: The funding portfolio's maturity structure as of 31.12.2022



The average remaining term to maturity in the portfolio of senior bond funding was 3,9 years at the end of 2022.

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

Figure 21: Sensitivity analysis of the funding risk – basis scenario



As the basis scenario assumes that access to external funding is unavailable, new lending can only be funded by instalments from and the maturity of the existing loan portfolios. In such a situation, the group's liquidity buffer ensures the ability to survive until October 2025. The liquidity buffer consists of cash and very secure interest-bearing securities. The group's liquidity target, LCR (liquidity coverage ratio), was 176 per cent at the end of 2022.

9. OWNERSHIP RISK

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

9.1 Management of ownership risk

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

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

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

9.2 About ownership risk

The ownership risk varies from company to company, depending on the company's operations and the inherent risk, as well as SpareBank 1 SR-Bank's stake. The figure below shows the Bank's wholly owned and partly owned companies as of 31th of December 2022.

Figure 22: Wholly and partly owned companies as of 31 December 2022

10. BUSINESS RISK

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

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

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

11. REPUTATIONAL RISK

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

SpareBank 1 SR-Bank has established an communication strategy to ensure that information is communicated internally and externally in a way that supports the company's values, goals and vision.

The group has its own Communications department, which is represented in the group management through the People, Sustainability and Communication division. Dedicated responsible persons have been established to handle all communication on social media, and information management is included in the group's emergency plan which is distributed to all employees.

SpareBank 1 SR-Bank has also implemented an internal process for identifying and evaluating the group's reputational risk picture. A review and mapping of which reputational risks the group is exposed to is carried out regularly and at least annually, and whether there are any changes in the risk picture.

The reputational risks are identified and ranked based on assessment of:

- Direct management cost
- Impact on the departure of existing customers
- Influence on the access of new customers
- Potential for the group's licenses to come under review and thereby indirectly affect market value and financing ability
- If certain events would result in revealing attitudes and actions that deviate significantly from the Group communicated values

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

12. STRATEGIC RISK

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

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

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

13. CLIMATE RISK

Climate risk is the risk of financial losses and financial instability as a result of physical climate change and society's response to it.

Climate risk is an integral part of the group's risk management processes and SpareBank 1 SR-Bank identifies and assesses climate-related risks and opportunities that may affect customers, business areas and operations at various levels. The group's lending portfolio undergoes annual stress tests and financial projections. SpareBank 1 SR-Bank's greatest climate risk exposure is in the corporate market portfolio, so handling climate risk from this part of the business is prioritized.

Through 2022, a common SpareBank 1 model for ESG scores was developed and from the 4th quarter of 2022 it was put into use. It is used in connection with the granting and renewal of credit for business customers with a consolidated exposure of more than NOK 10 million. The new ESG model replaces the model from 2019 and is a big step forward. It contains questions for several specific industries, includes inherent risk per industry and is expected to provide improved ranking ability.

The ESG scoring is based on questions within the four sub-themes physical climate risk (E), climate transition risk (E), social conditions (S) and ownership and corporate governance (G) and gives a sub-score per sub-theme as well as a total score. If a customer receives a particularly low ESG score, there is a requirement that the customer advisor must prepare an action plan for improvement together with the customer.

SpareBank 1 SR-Bank has from 2021 calculated CO2 emissions based on the methodology of PCAF (Partnership for Carbon Accounting Financials). Physical climate risk linked to property financed by SpareBank 1 SR-Bank has been analysed as of 2022 for the first time. The basis has been publicly available data on the risk of rising sea levels, landslides and floods.

14. COMPLIANCE RISK

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

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

Compliance policy

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

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

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

14.1 Management of compliance risk

SpareBank 1 SR-Bank is managed through the framework for compliance that emerges from the bank's compliance policy, and which is to ensure that the group does not incur public sanctions/fines or financial loss as a result of a lack of implementation and compliance with laws and regulations.

Focus areas are ongoing follow-up of compliance with current regulations and ensuring that the group has the best adaptation to upcoming changes in regulations.

SpareBank 1 SR-Bank's compliance function is organized independently of the business units. The department has overall responsibility for the framework, follow-up and reporting within the compliance area. The executive vice president for compliance reports directly to the CEO and the board. The investment company and subsidiaries have their own compliance officers where this is required.

The managers in the group are operationally responsible for practical implementation and compliance with laws and regulations. All employees are responsible for ensuring that they comply with and understand the applicable laws and regulations on a daily basis.

15. ABBREVIATIONS AND DEFINITIONS

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

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

APPENDIX

Please see excel-sheet for attachments.