Basel II - Pilar 3
Public disclosure of central risk information

SpareBank 1 SR-Bank 2008

SpareBank
SR-BANK

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1. BASEL II
NEW CAPITAL ADEQUACY REQUIREMENTS

1.1 Introduction to new capital adequacy requirements

The new EU Directive for capital adequacy was implemented in Norway on 1 January 2007. The new regulation is based on a new standard for capital adequacy calculations issued by the Bank for International Settlements (BIS). The object of the capital adequacy requirements is to strengthen stability on the financial market by means of:

- More risk-sensitive capital requirements
- Improved risk management and control
- Closer supervision
- More information to the market

The new capital adequacy requirements are based on three pillars:

Pillar I: Minimum regulatory capital requirement

Pillar II: Assessment of total capital requirement and supervisory review

Pillar III: Market discipline
Below is a more detailed description of the content of each of the three pillars.

1.1.1 Pillar I – Minimum regulatory capital requirement

The capital adequacy regulation contains different methods from which the banks can choose when calculating capital requirement. The various methods are shown in figure 1.1.1.

In principle, there are two different approaches to the calculation of minimum regulatory capital requirement according to the capital adequacy requirements. One approach is based on a template regulation while the other is based on the application of internal ratings. When applying the internal ratings based (IRB) approach, the statutory minimum requirement for capital adequacy will be based on the banks' internal risk assessments. This will make the statutory minimum requirement for capital adequacy more risk-sensitive, and the capital requirement will be more in line with the risk in the underlying portfolios.

1.1.2 Pillar II – Assessment of total capital requirement and supervisory follow-up

The pillar is based on two main principles. The banks are to have a process to assess their total capital in relation to risk profile and a strategy to maintain their capital level. The supervisory authorities are to review and evaluate the banks' internal assessment of capital requirements and strategies. In addition, the supervisory authorities are to monitor and ensure compliance with the mandatory capital requirements. The supervision must implement appropriate supervisory measures if it is not satisfied with the result of this process.

1.1.3 Pillar III – Market discipline

Pillar III is to encourage greater market discipline through a requirement to disclose information enabling the market, including analysts and investors, to assess the institution's risk profile and capitalisation as well as management and control. The disclosure requirements are particularly important when the banks have more freedom to utilise their own systems and methods to calculate the capital requirement.

Credit risk	Market risk	Operational risk
Standard method	Standard method	Basic method
Basic IRB method 1)	Internal rating approach 1)	Standardised approach
Advanced IRB method 1)		AMA-method 1)

Fig. 1.1.1

1) These methods require the approval of the supervisory authority

1.2 Implementation of the new capital adequacy in SpareBank 1 SR-Bank

Fig. 1.2 shows the main methods used by SpareBank 1 SR-Bank in calculating capital adequacy for credit, market and operational risk.

Credit risk	2008
Government	Standard method *
Institutions	Standard method *
Enterprise	IRB basic **
Mass market	IRB ***
Equity	IRB (simple risk-weighted method)
Market risk	Standard method
Operational risk	Standardised approach

Fig. 1.2

** SpareBank 1 SR-Bank has been granted approval for permanent exemption from the IRB method*
*** Some small portefolios are reported according to the standard method until further notice (leasing, housing associations, societies and association)*
**** For the mass market, there is only one IRB method equal to the Advanced IRB method*

SpareBank 1 SR-Bank has received approval from the Financial Supervisory Authority of Norway (Kredittilsynet) to make use of internal rating method (IRB) for credit risk. The bank is approved for use of IRB-Basic for the corporate market and IRB-method for the mass market. This implies that the statutory minimum requirement for capital adequacy for credit risk will be based on the group's internal risk assessments. Consequently, the statutory minimum requirement for capital adequacy is more risk sensitive, such that the capital requirement corresponds more closely with the risk in the underlying portfolios.

When estimating capital requirement according to the Basic IRB method for the corporate market, the probability of default (PD) risk parameter is estimated on the basis of internal ratings. The two following risk parameters, conversion factor (CF) used to determine exposure at default and loss given default (LGD), are established according to the template regulations in the Regulation on Capital Adequacy.

When estimating capital requirement according to the IRB method for mass market (retail market), in-house ratings are utilised for the calculation of risk parameters probability of default (PD), conversion factor (CF) used to establish exposure at default and loss given default (LGD).

For the subsidiary SpareBank 1 SR-Finans AS, there are plans for a subsequent transition to the IRB method, and the portfolio is therefore reported according to the standard method until further notice. The company's main products are leasing to trade and industry and retail car loans.

SpareBank 1 SR-Bank owns 23.4 per cent of SpareBank 1 Boligkreditt AS and 20 per cent of BNbank ASA as at 31 December 2008. As mentioned above, the portfolios from these two companies are consolidated into SpareBank 1 SR-Bank's capital adequacy reporting and are reported according to the standard method.

SpareBank 1 Boligkreditt AS has applied to use the IRB method for calculating the capital adequacy for the mass market portfolio. Approval is due in the course of 2009. When calculating the minimum requirement for regulatory capital for operational risk SpareBank 1 SR-Bank uses the standardized approach. When calculating the minimum requirement for regulatory capital for market risk, SpareBank 1 SR-Bank uses the standard method.

2. CONSOLIDATION

The table below shows the difference in consolidation basis when consolidating using accounting rules and in consolidation for capital adequacy purposes.

Basis for consolidation (figures in NOK million)

Subsidiary	No. shares	Book value	Voting right	Consolidation method
Wholly consolidated companies				
SpareBank 1 SR-Finans AS	334 000	292 479	100 %	Method of acquisition
EiendomsMegler 1 SR-Eiendom AS	150	3 000	100 %	Method of acquisition
Westbroker Finans AS	100	0	100 %	Method of acquisition
SR-Investering AS	3 500	161 847	100 %	Method of acquisition
SR-Forretningsservice AS	1 000	125	100 %	Method of acquisition
Vågen Eiendomsforvaltning AS	5 000	19 639	100 %	Method of acquisition
SR-Forvaltning ASA	4 000	4 018	67 %	Method of acquisition
Sum		**481 108**		

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

Investments in associated companies
Investments in associated companies is accounted according to the equity method in the group and according to the acquisition method in the parent bank. The investments are accounted equally for capital adequacy purposes, with the exception of the group's investment of 23.4% in SpareBank 1 Boligkreditt AS. A proportionate consolidation is carried out fro the group's capital adequacy.

Investments in jointly controlled companies
The group has a 19.9 % ownership interest in SpareBank 1 Gruppen AS and a 20.0 % ownership interest in BNbank ASA. These investments are recognised according to the equity method. For the group, the book value of the investment in SpareBank 1 Gruppen is deducted from the subordinated capital and from the calculation base for capital adequacy. With regards the investment in BNbank, the group carries out a proportionate consolidation for capital adequacy. In SpareBank 1 SR-Bank, the investments are recognised according to the acquisition method. The share of the investment in SpareBank 1 Gruppen's book value which exceeds 2% of SpareBank 1 Gruppen's subordinated capital is deducted from the subordinated capital and the calculation base.

Subordinated capital in other financial institutions	Book value
SpareBank 1 Midt Norge	14
SpareBank 1 Nord-Norge	7
SR-Pensjonskasse	35
Other financial institutions	20
Total	**76**

SpareBank 1 SR-Bank places an emphasis on maintaining adequate capitalisation at all times for all business units within the group. The group's managing bodies have not imposed any limitations on the Board of Directors' authorisation to transfer capital between the parent bank and its subsidiaries and from subsidiary to subsidiary with the exception of regulatory and other statutory limitations. Neither are there any articles of association which impose such limitations.

For the same reason, the bank and its subsidiaries do not enter into agreements which impose limitations on the Board of Directors' right to transfer capital as mentioned above. This applies to loan agreements and agreements with suppliers and customers.

Based on the above, the Board of Directors has an unlimited authorisation to transfer capital between the different business units in the parent bank. Moreover, the transfer of capital between the companies will be regulated by ordinary legislation for these companies and for the financial group as a whole.

As for investment in subsidiaries, the group has a strategic interest in supporting the activities of SpareBank 1 Boligkreditt AS and SpareBank 1 Gruppen AS. In this context, the group avoids entering into agreements or adopting resolutions and the like which imply a constraint on the parent banks' capacity to transfer capital to these companies, should this be necessary to generate satisfactory capital adequacy/financial fitness.

The group is not aware of any such constraints with the exception of those imposed by legislation and the regulation. The group assumes that the transfer of capital from these two companies to the owner banks will not be practical, with the exception of ordinary dividend payments, and has based the group's own risk profile on this assumption. The group is not aware of any private legislation constraints which restrict payment of dividends from these companies.

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

3.1 Principal risk and capital management

The core activity of the banking industry is to achieve value creation by taking conscious risks. Therefore SpareBank 1 SR-Bank invests substantial resources in further developing risk management systems and processes in line with leading international practice.

Risk and capital management in SpareBank 1 SR-Bank supports the group's strategic development and ensures financial stability and sound management of assets. This is achieved by:

- A strong organisational culture characterised by a high level of awareness on risk management.
- A good understanding of the risks driving earnings.
- Working hard to achieve an ultimate investment of capital within the boundaries of the adopted business strategy.
- Avoiding unexpected individual events which could seriously impair the group's financial status.
- Making the most of synergy and diversification effects.

The group's risk is quantified, for example, by calculating expected losses and the need for risk-adjusted capital to cover unexpected losses. Expected losses are an indication of the amount of losses that, statistically, must be expected over a 12-month period. Risk-adjusted capital describes how much capital the group believes it needs to cover the actual risk the group has assumed.

The return on risk-adjusted capital is one of the most important strategic targets in the internal management of SpareBank 1 SR-Bank. This means that the business units are allocated capital in accordance with the estimated risk of their activities and that their return on capital is monitored on an ongoing basis.

3.2 Elements of risk and capital management in SpareBank 1 SR-Bank

To ensure an effective and adequate process for risk and capital management, the framework is based on different elements that reflect the manner in which the Board of Directors and the management govern the group. The main elements are described below.

Strategic targets: The risk and capital management are based on the group's strategic targets and business plan

Organisation and organisational culture: SpareBank 1 SR-Bank aims to have a strong organisational culture characterised by high awareness of risk management. The organisational culture embraces management philosophy and the people in the organisation with their individual attributes such as integrity, basic values and ethical attitudes. An inadequate organisational culture can hardly be compensated for by other control and management initiatives. SpareBank 1 SR-Bank has established a clear value base and ethical guidelines that are clearly communicated and publicised throughout the entire organisation. SpareBank 1 SR-Bank emphasises that independence is an important principle in the group's risk management. Risk management responsibility is therefore divided between various roles in the organisation:

The Board of Directors of SpareBank 1 SR-Bank is responsible for ensuring that the group has primary and subordinated equity suited to the group's objectives, strategy and risk profile, and that in addition satisfy official requirements. The group's Board of Directors adopts the overall objectives such as risk profile, rate of return and how the capital is to be distributed across the different business units. The Board of Directors also determines the overall limits, authorisations and guidelines for risk management in the group. The Board of Directors has adopted ethical rules promoting the awareness of and compliance with the ethical standards set out for the group.

The CEO is responsible for the overall risk management and is thus responsible for ensuring that efficient risk management systems are implemented in the group. The CEO is also responsible for delegation of authority and for reporting to the Board of Directors.

The managers of the business and support units are responsible for the day-to-day risk management within their own area of responsibility, and they must at all times ensure that the risk management and the risk exposure are within the limits and overriding management principles stipulated by the Board or the CEO.

The Department for Risk Management and Compliance is organised independently of the business units and reports directly to the CEO. The department is responsible for the maintenance and further development of the framework for risk management, including risk models and risk management systems. Further, the Department is responsible for independently monitoring and reporting on the risk exposure, and the group compliance with applicable laws and regulations.

Internal auditing is a tool by which to monitor the risk management process, ensuring that it targets the correct goals, is effective and functions as intended. The group's internal audit function is performed by an external public accountant. This provides independence, competencies and capacity. The internal audit function reports directly to the Board of Directors.

The internal auditor compiles an annual audit plan for board approval. The audit plan comprises items such as auditing projects which evaluate the Internal Capital Adequacy Assessment Process (Pillar II – ICAAP) and the IRB system and its utilisation. The IRB system comprises organisation, processes, procedures, models, IT systems and control mechanisms related to classification and quantification using internal ratings for the control and management of credit risk. On this basis, the internal auditor compiles an annual report on the IRB system and its application for the Board of Directors, in accordance with the requirements of section 48-4 (1) of the Regulation on Capital Adequacy.

The internal auditor's reports and recommendations regarding improvements to the group's risk management are reviewed within the group on an ongoing basis.

The Risk and Capital Management Committee has an overall responsibility to monitor the group's risk profile, funding and capital adequacy situation. The committee also deals with drafts for risk strategies, capital allocations, validation reports and recommends new risk models. The Risk and Capital Management Committee has a broad composition with senior employees from the business units and from risk and capital management.

The Credit Committees are responsible for submitting an impartial recommendation to the authority holder. In their recommendations, the Credit Committees make an assessment of the loan and credit applications in accordance with the current credit strategy, credit policy, loan granting regulations and credit review procedures. The Credit Committees place special emphasis on the identification of risk associated with the individual application and conduct a separate independent assessment of credit risk, where the consequences of the different risks for the group are clarified.

Risk identification: The risk identification process is forward-looking and covers all the group's significant risk areas.

Risk analysis: Thorough analyses of identified risks are carried out in order to understand the characteristics of the risks and to assess the effect of the established control and management initiatives. New improvement initiatives are implemented for areas in which the effect of the established control and management initiatives are considered unsatisfactory.

Risk management strategies: The risk management strategies describe how the group is to deal with each individual risk. The strategies define the risk profile through, among other things, limits for expected losses and risk-adjusted capital. The risk strategies are approved by the Board of Directors and reassessed at least once a year.

Reporting and monitoring: One important risk management element is the monitoring of current risk exposure. The group's overriding risk exposure and risk development are monitored through periodic risk reports to the management and the Board of Directors. The overriding risk monitoring and reporting are carried out by the Department for Risk Management and Compliance.

3.3 Internal capital adequacy assessment process (ICAAP)

The Board of Directors is responsible for the internal capital adequacy assessment process in SpareBank 1 SR-Bank. This process ensures the group a structured and documented process for assessing risk level and ensuring that capital adequacy is adapted to the group's activities and risk profile. The process is forward-looking and based on reliable methods and procedures for measuring risk.

The main elements in the group's internal capital adequacy assessment process can be presented as follows:

The internal capital adequacy assessment process is based on the group's strategic targets. An extrapolation of projected financial development and future scenarios related to a mild and severe economic downturn over three years is compiled on the basis of the strategic goals and business plan.

SpareBank 1 SR-Bank carries out periodical stress tests for the most critical risk areas such as credit, market and liquidity risk. Stress tests are performed on both individual factors and scenario analyses simulating a number of negative macro-economic events over a period of several years.

The purpose of these stress tests are:

- To assess the vulnerability of portfolios or events in relation to major/extreme but credible shocks.
- To enhance understanding of how shock impacts the group's profitability, funding situations and capital adequacy.
- To identify weak points in the group's risk strate gies and processes as a tool for the development of emergency preparedness and measures to reduce risk.

The scenario applied by SpareBank 1 SR-Bank when compiling such financial projections is a major stag-flation where economic developments stagnate and inflation rises as a result of negative disturbance of the supply side.

Such a scenario would result in a considerable increase in unemployment. The production gap would become negative and inflation is estimated to increase to 3-4 per cent. At the same time, the interest rate would increase to 7-8 per cent as Norges Bank fights to counteract inflation which is higher than the adopted target.

Furthermore, the scenario includes a significant decline on the property market of 50 per cent over a 3-year period. This is a considerably higher decline than that witnessed at the start of the 1990s. The national and international equity markets would be in turmoil and the indexes would fall by up to 70 per cent.

The results of these analyses are evaluated in relation to the estimated impact on the group's profitability, liquidity and solidity. On the basis of the analyses, measures and capital plans are compiled to ensure risk and capital management which is in line with adopted goals.

The core purpose for banks is to assume risk. Over time, risk may result in major losses for the banks, despite satisfactory risk management systems and processes. Such a situation could result in considerable pressure on operations, capital adequacy and funding. SpareBank 1 SR-Bank has therefore compiled emergency preparedness plans which will allow them optimal management of such crises.

4. INFORMATION PER RISK GROUP

4.1 Risk groups (definitions)

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

Credit risk: the risk of losses due to counterparties' inability or unwillingness to fulfil their obligations towards the group.

Market risk: the risk of losses due to changes in observable market variables such as interest rates, foreign exchange rates and other financial instruments.

Operational risk: the risk of losses as a result of inadequate or failing internal processes or systems, human errors or external events.

Liquidity risk: the risk of the group not being able to refinance its debt or not being able to finance growth in assets without a substantial increase in costs.

Ownership risk: the risk of SpareBank 1 SR-Bank incurring negative results from ownerships in strategically-owned companies and/or the need to provide these companies with new equity. The owner companies are defined as companies in which SpareBank 1 SR-Bank has a significant stake and influence.

Commercial risk: the risk of unexpected fluctuations in revenues and expenses as a result of changes in external conditions, such as the market situation or mandatory regulations.

Reputation risk: the risk of a decline in earnings and access to capital owing to declining confidence and reputation in the market, i.e. customers, counterparties, the stock market and the authorities.

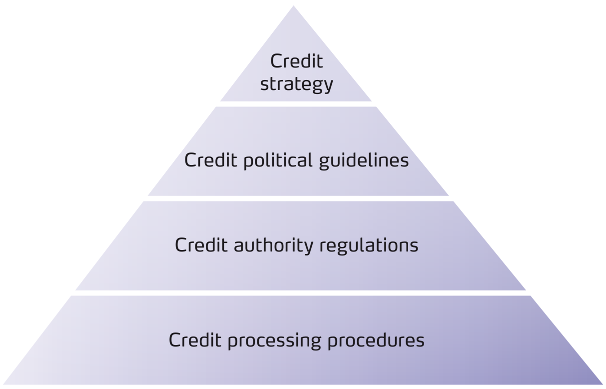
Strategic risk: the risk of losses as a result of erroneous strategic decisions.

Compliance risk: the risk of the group incurring official sanctions/penalties or financial losses as a result of failure to comply with laws and regulations.

4.2 Credit risk

4.2.1 Management and control

Credit risk is managed through the group's overall credit strategy, and the framework for credit approval is shown in the figure below



The group's credit strategy focuses on risk-sensitive limits that are set so that they manage the group's risk profile in the credit area in the most expedient and effective way possible. This is achieved primarily by linking the limits to expected losses, risk-adjusted capital and probability of default.

A principal strategy framework has been adopted by which maximum 45 per cent of the portfolio in the parent bank (incl. SpareBank 1 SR-Bank's portfolio, transferred to SpareBank 1 Boligkreditt AS) may be exposure to the corporate market segment.

The credit strategy shall also ensure that SpareBank 1 SR-Bank has an appropriate concentration risk. Concentration risk can be described as the risk of loss resulting from concentration on one individual customer, branch or geographical area. The group has a particular focus on concentration risk related to exposure to major individual customers and individual branches.

The framework of the credit strategy includes limitations related to size of commitment, branch exposure and share of exposure in high and highest risk. The most central credit strategy frameworks established to secure an appropriate concentration risk are as follows:

- Maximum credit loss on an individual customer (taking into account realisation value of securities) is NOK 425 million
- Maximum share of risk-adjusted capital for individual customers in terms of potential loss (taking into account realisation value of securities) higher than NOK 100 million is NOK 1.5 billion (corresponding to 21 per cent of total risk-adjusted capital)
- Maximum share of total risk-adjusted capital for customers involved in the rental of real estate is 12 per cent
- Maximum share of total risk-adjusted capital for customers in other branches is 7 per cent
- Maximum share of total risk-adjusted capital for customers classified as high and highest risk is 12 per cent

All the above-mentioned limits comply with the framework established by the “Regulation for major commitments”.

The group’s credit-policy guidelines impose overriding instructions for financing individual liabilities. The guidelines are partly general and partly linked to specific financing areas. For example, for financing of property commitments, minimum requirements are set for equity, pre-sale of housing projects and degree of financing in relation to rental income on property for rental.

The Board of Directors is responsible for the group’s loan and credit approvals, but delegates within certain limits the credit authorities to the CEO, who in turn may delegate these further within his own authorities. The delegated credit authorities are linked to a liability’s expected losses and its probability of default.

The credit management procedures for the group are established by the CEO and are revised on a continuous basis. The credit management procedures regulate in detail all factors related to credit allocated by the group.

Risk exposure for the group is monitored using the group’s portfolio management system. This system contains information providing an efficient follow-up of risk profile and portfolio management. The portfolio information is updated on a monthly basis using internal and external customer data. The risk-related development of the portfolios is monitored with an emphasis on the development in risk classification (migration), expected loss, risk-adjusted capital, risk-adjusted return and capital adequacy.

4.2.2 Description and application of models

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

Intdocution	Details of customer and the objective of the loan application.
Earning	Assessment of whether the customer has sufficient income to service current obligations, interest and installments.
Consumption	Assessment of how long and how the customer can service current obligations if earnings cease.
Management	Assessment of whether there is adequate management and capacity today`s needs and future challenges.
Assessment of probability of default	
Total risk, terms and collateral	Assessment of collateral and total assessment of risk. Relationship between inherent risk and the terms set.
Exposure at default	
Loss given default	
Price	Assessment of whether the risk-adjusted return is satisfactory.

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

1. Probability of default (PD): The customers are classified into default classes based on the probability of default over a 12-month period. The probability of default is calculated on the basis of historical series of data for financial key figures, and on the basis of non-financial criteria such as performance and age. The estimates are based on a long-term average throughout an economic cycle. In order to classify the customers according to probability of default, nine different default classes are used (A-I). The group has an additional two default classes (J and K) for customers with defaulted and/or written down commitments.

A commitment is deemed as defaulted if one of the following criteria has been met:

- A claim has matured by more than 90 days and the amount is in excess of NOK 1,000.
- The group has reason to believe that it is probable that the debtor is not capable of repayment (in full) in accordance with its obligations.

2. Exposure at default (EAD): This is an estimate of what the exposure will be if a customer defaults. This exposure consists of lending volume, guarantees and allocations, but undrawn facilities. Guarantees and allocations, but undrawn facilities in the corporate market are multiplied by a conversion factor of 75 per cent. For the retail market, allocations but undrawn facilities are multiplied by a conversion factor of 100 per cent.

3. Loss given default (LGD): This is an assessment of how much the group could potentially lose if the customer is in default of its obligations. Seven classes (1-7) are utilised to classify Loss given default. For the mass market, this assessment takes into account the value of the securities provided by the customers, and the costs incurred by the group to collect delinquent commitments. The group establishes the realisation value for securities provided on the basis of own experience over time and such that these reflect the assumed realisation value, based on a conservative valuation, in an economic downturn. To achieve this, the group makes use of either broker valuations/valuations, value estimates from Eiendomsverdi or independent own valuations. Value estimates from Eiendomsverdi may be utilised in accordance with internal procedures if the property is located on a successful house market and if there is little uncertainty as to the value estimate. On the mass market, securities in other objects than property are utilised to a limited degree. When estimating the minimum regulatory capital for the corporate market (governments, institutions and companies), factors stipulated by the authorities are applied.

The probability of default, exposure at default and loss given default for commitments form the basis for estimating the expected loss for each commitment and thereby classification into five different risk groups (lowest to highest).

SpareBank 1 SR-Bank has a policy for risk pricing and therefore measures risk-adjusted return in connection with credit allocations and supervision. The risk pricing model is based on the same main components as used for the group's risk classification system, and these components form the basis for estimating return on risk-adjusted capital for individual commitments.

The group carries out continuous further development and testing of its risk management system to ensure that it maintains a high quality over time. This work can be divided into two main areas:

Quantitative validation: The quantitative validation shall ensure a sufficient quality for the estimates applied for probability of default, exposure at default and loss given default. Analyses are performed to assess the capacity of the rating models to rank the commitments according to risk (discrimination capacity) and the capacity to establish the correct level of risk parameters. In addition, the stability of the model estimates is analysed. The quantitative validation will, in certain circumstances, be supplemented by more qualitative valuations if the scope of statistical data is limited.

Application: The system for control and measurement of credit risk is tested to evaluate whether it is well-integrated within the organisation and in the group's risk management and decision-making processes.

The risk parameters in the IRB system are also utilised to estimate write-down requirement both on individual lendings and for groups of lending. A loan or a group of loans is impaired if there is objective evidence of a loss event after the initial carrying of the loan, and if the loss event results in a reduction of the loan's estimated future cash flows. If there is objective evidence of impairment, the loss on the loan is estimated as the difference between carried value and the current value of estimated future cash flows minus effective interest. For groups of loans, this is carried out by identifying the development of the estimated probability of default (PD) from the date of allocation and until the relevant measurement period, where negative development indicates an increase in expected loss (increased write-down requirement) while a positive development indicates a reduction in expected loss (reduced write-down requirement).

4.2.3 Portfolio information based on regulatory estimations

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

Credit risk- general information on credit risk, default and impairment (figures in NOK million)

The total commitment amount, defined as gross lending to customers + guarantees + non-utilised credit in the group, after any write-down and without taking account of any securities and the average size of the commitments during the period, divided by type of commitment

Type of commitment	Amount of commitment as of 31.12.08	Average amount of commitment in 2008
Company	61 430	56 792
Mass market	57 717	58 415
Gross commitment customers	**119 147**	**115 207**
Individual write-downs	-345	-221
Write-down of groups of lending	-229	-179
Write-down of guarantees	-4	-5
Net commitment customers	**118 569**	**114 802**
Governments (Norges Bank)	6 744	4 572
Institutions	1 416	2 386
Total commitment amount	**126 729**	**121 760**

Commitment amount for each type of commitment, divided into significant geographic areas before deduction for write-downs.

Type of commitment	Rogaland	Agder regions	Hordaland	Other	Total
Gross lending to customers	76 666	9 332	6 335	7 297	99 630
Non-utilised credit	11 135	1 319	893	996	14 343
Guarantees	4 399	389	115	271	5 174
Total gross commitment customers	**92 200**	**11 040**	**7 343**	**8 564**	**119 147**

Commitment amount for each type of commitment, divided into significant branches before deduction for write-downs.

Type of commitment	Lending	Non-utilised credit	Guarantees	Total
Agriculture/forestry	2 951	610	6	3 567
Fishing/fish-farming	764	16	0	780
Mining/extraction	2 320	694	271	3 285
Industry	4 064	1 020	1 432	6 516
Power and water supply / building and construction	2 377	1 681	1 469	5 527
Commodity trade, hotel and restaurant trade	2 999	597	260	3 856
International shipping, pipe transport, other transport	7 550	176	441	8 167
Property management	20 263	1 856	625	22 744
Services	4 195	926	587	5 708
Public administration and financial services	479	774	27	1 280
Not allocated (added value fixed interest lending)	139	-139	0	0
Total companies	**48 101**	**8 211**	**5 118**	**61 430**
Mass market	51 529	6 132	56	57 717
Total gross commitment customers	**99 630**	**14 343**	**5 174**	**119 147**

Credit risk - general information on credit risk, default and impairment - cont.

Commitment amount for each type of commitment divided by remaining maturity

Type of commitment	On request	<1 year	1-5 years	over 5 years	Total
Gross lending - customers	39 500	6 624	9 424	44 082	99 630
Non-utilised credit	14 343				14 343
Guarantees		1 066	867	3 241	5 174
Total gross commitment customers	**53 843**	**7 690**	**10 291**	**47 323**	**119 147**
Governments (Norges Bank)	6 744				6 744
Institutions	67	1 119	223	7	1 416

Credit and impairment risk divided by significant branches

	Total commitment amount			
Branch	**Commitments on impairment**	**Matured commit-ments**	**Value changes and write-downs**	**Value changes recognised on the profit & loss account during the period**
Agriculture/forestry	4	26	2	0
Fishing/fish-farming	4	0	1	1
Mining/extraction	0	0	0	0
Industry	627	3	62	54
Power and water supply / building and construction	15	11	12	16
Commodity trade, hotel and restaurant trade	83	4	63	57
International shipping, pipe transport, other trans-port	16	6	7	1
Property management	165	85	45	40
Services	239	74	108	95
Public administration and financial services	0	0		0
Total companies	**1 153**	**209**	**300**	**264**
Transferred from write-down on groups of lending				98
Mass market	111	139	49	24
Total	**1 264**	**348**	**349**	**386**

Actual loss per default class during the period

Misligholdsklasset	2008	2007	2006
A (0,00-0,10 %)	0	0	0
B (0,10-0,25 %)	0	0	0
C (0,25-0,50 %)	0	0	0
D (0,50-0,75 %)	0	0	0
E (0,75-1,25 %)	0	0	0
F (1,25-2,50 %)	0	0	0
G (2,50-5,00 %)	0	0	0
H (5,00-10,00 %)	0	0	0
I 10,00 -	0	0	0
J	0	0	0
K	386	10	-92
Total	**386**	**10**	**-92**

Credit risk - general information on credit risk, default and impairment - cont.

Separate specification of the total commitment amount with impairment and defaulted commitments divided by significant geographic areas, including total value changes and write-downs:

	Total commitment amount		
Geographic areas	**Commitments on impairment**	**Defaulted commitments**	**Total value changes and write-downs**
Rogaland			
Agder-fylkene	210	60	69
Hordaland	22	22	8
Øvrige	10	8	8
Sum	**1 264**	**348**	**349**

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

Type of value change and write-down	Opening balance as of 1.1.08	Amount reported for write-down	Amount set aside for our reversed from estimated loss	Closing balance as of 31.12.2008
Individual write-downs	98	65	312	345
Write-downs of groups of lending	131		98	229
Specified provisions for loss, guarantees	7	3	0	4
Total	**236**	**68**	**410**	**578**

Credit risk with the IRB method

Distribution according to class of risk where the IRB method is utilised

Commitment category	Default class	Total EAD	Total non-utilised facility	Average risk weight	Average loss given default	Average conversion factor
Company	"Average	130	41	0,13	0,45	0,47
	B	1 698	866	0,52	0,45	0,86
	C	9 133	2 513	0,64	0,45	0,91
	D	10 517	2 066	0,76	0,45	0,91
	E	6 833	765	0,52	0,45	0,56
	F	9 666	985	0,72	0,45	0,64
	G	4 913	634	0,72	0,45	0,58
	H	3 050	164	1,04	0,45	0,54
	I	908	61	1,56	0,45	0,71
	J	140	6	0,00	0,45	0,48
	K	279	11	0,00	0,45	0,58
Total companies		**47 267**	**8 112**			
Mass market	A	5 343	2 057	0,01	0,10	1,00
	B	11 449	1 442	0,05	0,11	1,00
	C	10 950	1 165	0,08	0,11	1,00
	D	8 397	771	0,10	0,10	1,00
	E	11 954	831	0,14	0,11	1,00
	F	8 582	404	0,21	0,12	1,00
	G	2 011	67	0,34	0,14	1,00
	H	736	29	0,41	0,12	1,00
	I	759	8	0,64	0,13	1,00
	J	27	0	0,05	0,19	1,00
	K	168	0	0,89	0,27	1,00
Total mass market		**60 376**	**6 774**			

Comparison of risk parameters with actual outcome

The table below shows the average estimated and actual default (none adjusted) in the portfolio in the period 2005-2008. The volume adjusted default during the period is substantially lower for estimated as well as for actual default.

Portfolio	Estimated default	Actual default
Mass marked (property)	0,93 %	0,23 %
Other mass market		1,83 %
Enterprises		1,44 %

The table shows that the actual default (none adjusted) was significantly lower that the estimated default for the period. This is because the default estimates are calibrated to a default level that should represent the default level through a trade cycle. The period 2005-2008 represents years with low default level as it was a period of strong economic growth.

The table shows estimated and actual loss given default.

Portfolio	Estimated loss degree	Actual loss degree
Mass marked housing	10,00 %	5,59%
Other mass market		26,44 %

For validation of the model for loss given default, a realisation period is required. Validation is therefore related to realisations during the period 2000-2006. The analysis indicates that the actual degree of loss on property was 5.6 per cent compared with the estimated 10.0 per cent. For the rest of the mass market, the actual degree of loss is 26.4 per cent compared with an estimated degree of loss of 48.6 per cent.

The conversion factor for expected exposure at default on the mass market is established as 1 both for down-payment loans and frame loans. For frame loans, this implies that expected exposure at default is the same as the ceiling of the loan.

Total commitment amount and share secured by mortgage, divided by commitment category (IRB)

Commitment category		**Commitment amount**	**Of which secured by mortgage in real estate** *1)*	**Of which secured by other mortgage/ security** *1)*	**Of which unsecured** *1)*
Mass market	Commitments with mortgage in real estate		84 %	14 %	2 %
	Mass market SMB		77 %	18 %	5 %
	Other mass market commitments		3 % 2)	59 %	
Total		**60 392**			

1) Share is total commitment with such security in relation to total commitment for valid relevant commitment category

2) A commitment for a mass market customer where the realisation value of the house is valued at lower than 30% of the customer's commitment is not categories as a commitment with real estate, but as other mass market.

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

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

Commitment category	**Value 31.12.07**	**Change in value in 2008 (in %)**	**Value 31.12.07**	**Change in value in 2007 (in %)**	**Value 31.12.06**	**Change in value 2006 (in %)**	**Value 31.12.05**
Mass market commitments		1,3 %	59 626	5,0 %	56 769	20,2 %	47 242
- of which mass market SMB		*22,8 %*	*2 965*	*9,5 %*	*2 708*	8,7 %	2 491
- of which mass market private property		*0,0 %*	*55 323*	*5,0 %*	*52 692*	21,8 %	43 262
- of which mass market private other		*5,3 %*	*1 338*	*-2,3 %*	*1 369*	-8,1 %	1 489
Company		35,1 %	14 965	6,1 %	14 098	84,3 %	7 649
Specialist lending		23,8 %	26 474	37,6 %	19 234	**60,1 %**	**12 010**
Total		**12,2 %**	**101 065**	**12,2 %**	**90 101**	**34,7 %**	**66 901**

Figures for 2006 are based on parallel reporting for this year.

4.2.4 Minimum regulatory capital requirements

The table below presents the minimum regulatory capital requirement for credit risk divided by commitment category and sub-category (figures in NOK million)

Category	subcategory	Commitment	Commitment EAD	Minimum regulatory capital requirement Consolidated
Company	Specialist company	32 765	30 398	2 299
	Other companies	20 216	18 176	1 368
Mass markets	Mass market SMB	3 642	3 638	32
	Mass market private	55 343	55 333	516
	Mass market other	1 409	1 405	48
Minimum requirement credit risk IRB		**113 375**	**108 950**	**4 263**
Governments		7 858		3
Institutions		6 423		58
Company		7 009		430
Mass market		18 800		815
Other assets		2 793		198
Minimum requirement, standard method		**42 883**		**1 504**
Intangible assets				23
Deduction				-90
Total minimum regulatory capital requirement related to credit risk				**5 700**

4.2.5. Risk-adjusted capital

The group utilises the same risk models when calculating risk-adjusted capital as when estimating the minimum regulatory capital requirement. There are several differences however, and the main differences are described below.

When calculating risk-adjusted capital for credit risk for the corporate market (governments, institutions and companies), the risk parameter Loss Given Default is estimated based on internal models. The valuation takes into account the value of underlying securities and the costs to be met by the group when collecting the defaulted commitment. The group establishes the realisation value for securities provided on the basis of own experience over time so that these reflect the assumed realisation value, based on a conservative valuation, in an economic downturn. SpareBank 1 SR-Bank's internal estimates for Loss Given Default (LGD) are lower than the template values stipulated by the authorities.

The calculation of risk-adjusted capital also takes into account the concentration risk on the portfolio.

Total risk-adjusted capital for credit risk is estimated as NOK 4.9 billion and includes the following main areas:

- Retail market/corporate market
  - Parent bank
  - SpareBank 1 SR-Finans
  - SpareBank 1 SR-Bank's portfolio transferred to SpareBank 1 Boligkreditt
  - SpareBank 1 SR-Bank' share of the credit risk in BNbank ASA's portfolio
- The bond loan portfolio
- Concentration risk, major commitments

4.3 Market risk

4.3.1 Management and control

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 on the interest rate and currency markets and from activities which support ordinary funding and lending activities. The group's market risk is measured and monitored on the basis of limits which are renewed and assessed by the Board of Directors at least once a year. The size of these limits is stipulated on the basis of stress tests and analyses of negative market trends. The group's exposure to market risk is moderate.

Interest rate risk is the risk of loss incurred due to changes in interest rates. The group's interest rate risk is regulated by limits established for maximum value change resulting from a change in interest rate of 1 per cent. Interest rate terms for the group's instruments are mainly short-term and the group's interest rate risk is low.

Currency risk is the risk of loss caused by changes in foreign exchange rates. The group measures currency risk based on net commitments in the different currencies in which the group has exposure. Currency risk is regulated by nominal limits for maximum aggregate currency commitment and maximum commitment within individual currencies. The scope of the group's trading activities in currency is modest and currency risk is considered to be moderate.

Exchange risk related to securities is the risk of loss caused by changes in the value of the group's bonds, certificates and equity instruments. In 2008, the group increased its balance of liquid assets in the form of bonds which qualify for access to borrowing in Norges Bank by NOK 3.6 billion. NOK 1.6 billion of this figure is related to a bond with priority utilised in the Ministry of Finance's swap facility. When quantifying risk related to impairment of the liquidity portfolio, SpareBank 1 SR-Bank distinguishes between systematic risk (market risk) and non-systematic risk (default risk). Default risk connected with the above-mentioned portfolio is quantified as credit risk. In October 2008, SpareBank 1 SR-Bank decided to reclassify parts of the liquidity reserve to the categories "held to maturity" and "liabilities and receivables". The bonds which were reclassified are no longer recognised at fair value and therefore not exposed to market risk in terms of accounting. The group's risk exposure in terms of this kind of risk is regulated by limits for maximum investments in the different portfolios.

The table below illustrates the effect on profits of a stress test conducted in connection with the annual review of the group's limits on market risk.

Main limit	Market shock	Estimated profit effect in NOK million
Currency	10per cent change	15,0
Interest rates	1per cent parallel change	30,0
BmB/SparX	20per cent fall in value	10,0
Shares	30per cent fall in value	87,0
Own holdings in real property syndicates	50per cent fall in value	12,5
Closing of real property syndicates	40per cent fall in value	80,0
Bonds	2per cent fall in value	170,0
Guarantees	30per cent fall in value	30,0

In the internal follow up and assessment of market risk SpareBank 1 SR-Bank also makes use of a model based on Value at Risk (VaR) principle. The VaR model is an important tool in connection with intern limits management and with capital allocations. The model is still undergoing tests and development and is not yet being used in the day-to-day management of market risk.

4.3.2 Portfolio information

The table below provides information on investments (equity positions outwit the trading portfolio) according to purpose.

Purpose	Investments	Amount
Financial investments at fair value over result	Austevoll Seafood	1
	Grieg Seafood	0
	Kverneland	0
	Roxar	7
	Sparebanken Vest	1
	Borea Opportunity II	5
	Hitec Vision Private Equity III	7
	Hitec Vision Private Equity IV	29
	Marin Forvaltning	0
	Marin Vekst II	4
	Mikro A	1
	Optimarin	8
	Oslo Børs VPS Holding	3
	Progressus	6
	Proserv	9
	RPT Gass	8
	SR Feeder	1
	Viking Venture II	3
	Other financial investments	22
Total financial investments at fair value over result		115
Strategic investments at fair value over result	Nordito	92
Strategic investments held for sale	**Other strategic investments**	**2**
Total		**209**

Shares and other interests are either classified at fair value over result or held for sale. Changes in fair value after the opening balance are recognised as revenues from financial investments.

Overview of book value and fair value, gain and loss

Type of investment	Book value	Fair value	Total realised gain or loss in 2008	Unrealised gain or loss in 2008	Amount included in Tier I capital or supplementary capital
Financial investments at fair value over result	115	115	38	-50	0
Strategic investments at fair value over result	92	92	0	-35	0
Strategic investments held for sale	2	2	0	-1	1
Total	**209**	**209**	**38**	**-86**	**1**

Overview of type and value of listed shares, unlisted shares in diversified portfolios and other commitments:

Type	Value 2008	Value 2007
Unlisted	197	233
Sold on the Stock Exchange	9	29
Other	2	9
Total	**209**	**271**

Overview of counterpart risk for derivatives etc. outwit the trading portfolio. (figures in NOK million)

Type derivat	Nominal value	Fair value	Commitment amount	Minimum regulatory capital requirement 1)
Currency futures (forwards)	7 382	479	302	24
Currency swaps	26 111	946	360	29
Currency options	0	0		
Currency instruments in trading portfolio	33 493	1 425	662	53
Interest rate swaps	53 094	1 967	754	60
Non-standardised contracts	0	0	0	0
Interest rate instruments in trading portfolio	53 094	1 967	754	60
Interest rate swaps	16 973	1 456	310	25
Interest rate instruments outwit trading portfolio	16 973	1 456	310	25
Credit derivatives	0	0	0	0
Total	**103 560**	**4 848**	**1 726**	**138**

1) Minimum regulatory capital requirement is calculated in whole according to the standardised method.

The table specifies the sensitivity of net interest cost (interest rate change of one percentage point) at year-end 2008 (figures in NOK million)

Sensitivity of net interest cost	31-12-08
NOK	30
EUR	2
USD	1

Interest rate risk is incurred as the group may have varying interest terms for its assets and obligations. The trading activities related to the sale of interest rate instruments shall always comply with adopted limits and authorisations.

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

4.3.3. Minimum regulatory capital requirement.

Minimum regulatory capital requirement for market risk, including position risk, counterpart risk, settlement risk, currency risk and commodities risk

Minimum regulatory capital requirement (NOK million)	Consolidated 2008	Consolidated 2007
Position risk	240	196
- Of which equity instruments	50	38
- Of which liability instruments market portfolio	101	158
- Of which liability instruments bank portfolio	89	0
Counterpart risk (derivatives in trading portfolio)	138	32
- Of which derivatives in trading portfolio	25	28
- Of which derivatives outwit trading portfolio	113	4
Currency risk	0	2
Total	**378**	**230**

4.3.4 Risk-adjusted capital

Risk-adjusted capital is calculated according to the Value at Risk (VaR) principle. Risk-adjusted capital is calculated for interest rate, currency and security risk for SpareBank 1 SR-Bank, and the measurement of risk-adjusted capital is thus an important tool in relation to internal limits and capital allocation. The model is currently being tested and is not yet applied to the daily management of market risk.

The estimates of risk-adjusted capital differ from the regulatory capital estimates not only in terms of model utilised, but also to a certain extent in terms of portfolio. This is due to the fact that the internal estimates of risk-adjusted capital include interest rate risk outside the trading portfolio, which is not subjected to the standard method's minimum capital requirement.

The risk activities related to trading of currency, interest rates and securities are bound by the prevailing limits adopted, authorisations and credit lines for counterparties. SpareBank 1 SR-Bank has a moderate interest rate risk and only assumes an extremely limited amount of active interest rate risk in connection with trading activities. The group has a policy to achieve the highest possible source of earnings from customer margins. This provides optimum stability and security for earnings. Consequently, the group does not distinguish between interest rate risk within and without the trading portfolio when monitoring group risk.

Risk-adjusted capital for market risk is estimated as NOK 434 million and includes the following main areas:

- Interest rate
- Currency
- Equity positions
- Spread bonds and certificates (trading portfolio)

4.4 Operational risk

4.4.1 Management and control

The risk strategy for operational risk is approved by the Board of Directors at least once a year. The risk strategy sets limits for expected losses and risk-adjusted capital. The group has effective risk management and monitoring to ensure that events caused by operational risk are not able to seriously damage the group's financial position.

The group's framework for management of operational risk is based upon internationally recognised framework for risk management (CoSo/CobiT). The group's process for identification, quantification and management of operational risk includes the use of loss data, undesired events and expert assessments. Scenario analyses and statistical modelling are used to calculate the group's risk exposure for operational risk. The group's risk-reducing measures include routine and process descriptions, division of work, electronic and manual controls, insurance, outsourcing and contingency and catastrophe plans. Preventive measures shall be give priority ahead of consequence-reducing measures.

The individual business units and areas of responsibility are responsible for daily follow-up and monitoring of operational risk.

Annually, the group carries out a validation of risk management during which senior employees report to their seniors in the organisation on the degree of risk management carried out in accordance with the adopted risk strategy, policy and established control and management measures. This managerial validation is a tool which allows the group to continuously identify problem areas and to provide the group management with a better understanding of the strengths and weaknesses of risk management. The management is consequently better positioned to allocate resources to the correct improvement measures.

The group has a separate system for reporting and monitoring undesired events. All operational events that may result in losses or where losses have arisen are to be recorded. Improvement measures are to be considered and implemented where appropriate. The group works continuously to improve its reporting culture to enable it to keep abreast of all significant developments.

The group places a considerable emphasis on the continuous improvement of the quality assurance process for new products. In 2008, SpareBank 1 SR-Bank has further developed this process, including the introduction of new risk models and procedures. The group has also set up an approval committee in order to ensure a wide-ranging evaluation of all relevant aspects of the development of new products.

Operational risk is generally increasing in society and SpareBank 1 SR-Bank is making every effort to increase its expertise in this area in partnership with the academic environment. In conjunction with this, the group granted funds for a professorship within operational risk at the University of Stavanger in 2006. As an extension of this work, the group and the University of Stavanger took the initiative to establish a R&D project in collaboration with the SpareBank 1 Alliance and DnB NOR. The object of the project is to establish Norway and Norwegian banks as a European centre of excellence within the management of operational risk. The project is to develop an operational risk management tool that qualifies for use of the Advanced Measurements Approach (AMA) calculating the minimum capital adequacy requirements for operational risk.

4.4.2. Minimum regulatory capital requirement

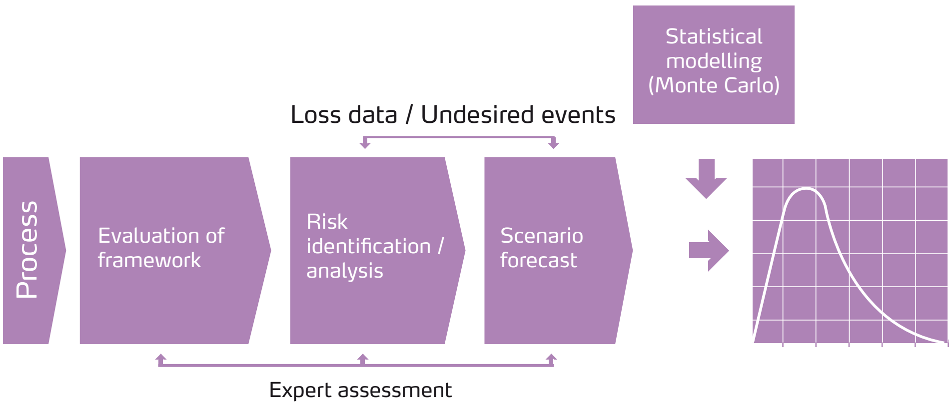
Minimum regulatory capital requirement for operational risk according to template method (figures in NOK million):

Business unit	Consolidated	Eiendoms-Megler 1	SR Finans	SR Forvaltning
Banking services for mass market customers		27	0	6
Bank services for corporate customers	86	0	10	0
Payment and settlement services	37	0	0	0
Total	**306**	**27**	**10**	**6**

The minimum regulatory capital requirement for operational risk is calculated as a percentage of average earnings for each business unit over the past 3 years. Banking services for mass market 12%, banking services for the corporate market 15% and for other services 18%.

4.4.3. Risk-adjusted capital

The figure below shows the group's process for quantifying risk-adjusted capital for operational risk. This process includes the use of external and internal data, expert assessments and evaluation of the framework. Scenario analysis and statistical models are used to calculate the group's exposure to operational risk



Risk-adjusted capital for operational risk is estimated to NOK 306 mill and includes the following:

- Business and support units for both the parent bank and subsidiaries
- SpareBank 1 SR-Bank's portfolio of operational risk transferred to SpareBank 1 Boligkreditt
- SpareBank 1 SR-Bank's share of operational risk in BNbank ASA's portfolio

4.5 Liquidity risk

4.5.1 Management and control

SpareBank 1 SR-Bank's financing structure is based upon an overall liquidity strategy, which is reviewed and approved by the Board of Directors at least once a year. In the liquidity strategy for 2008, the Board of Directors decided to increase the level of conservatism within liquidity management. This entailed a decision to increase the group's portfolio of liquid assets eligible for repurchase agreements with Norges Bank, and also an increase in the amount of funding with maturity greater than 5 years.

The group has prepared an emergency preparedness plan for the management of the liquidity situation during periods of turbulent financial markets. SpareBank 1 SR-Bank has also developed a stress test model which analyses the group's liquidity-related vulnerability during periods without external access to liquidity. The stress test takes its starting point in a number of scenarios which assume full exploitation of frameworks and thereby represent a worst case simulation of the group's net refinancing requirement during a crisis.

The group's currency/finance area is responsible for liquidity management, while the Department for Risk Management and Compliance monitors and reports the exploitation of the frameworks in relation to the liquidity strategy. Liquidity management is based on conservative frameworks and reflects the moderate risk profile adopted by the group.

The group's lending is mainly financed by customer deposits and long-term security debt. The liquidity risk is limited in that the security debt is distributed over a number of markets, sources of funding, instruments and maturities.

4.5.2 Information on diversification and maturity

The figure below illustrates the diversification of the group's sources of funding as of 31 December 2008.

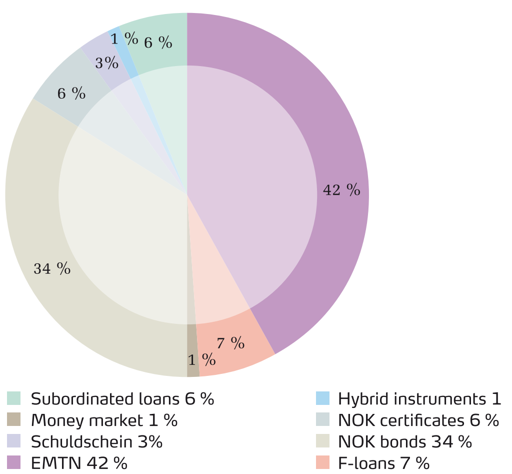
From 2007 to 2008, the group increased its security debt by NOK 10 billion. This is an increase of 28per cent. The main source of this debt is the Norwegian security market. This implies that the share of deposits from national investors has increased since 2007. The group's security debt has an even distribution between international and national sources of funding.

2008 was a year of sustained turbulence on the financial markets, making it more difficult for the financial institutions to finance their lending. Despite the market-related challenges, SpareBank 1 SR-Bank maintained a satisfactory liquidity throughout the year. Customer deposits are the most important source of financing for the group. For the group as a whole, the volume of deposits saw an increase of NOK 4 billion from 2007 to 2008. Net lending to customers excluding transfers to SpareBank 1 Boligkreditt increased by NOK 12 billion during the same period. The deposit-to-loan ratio fell from 57per cent to 54.5per cent in 2008.

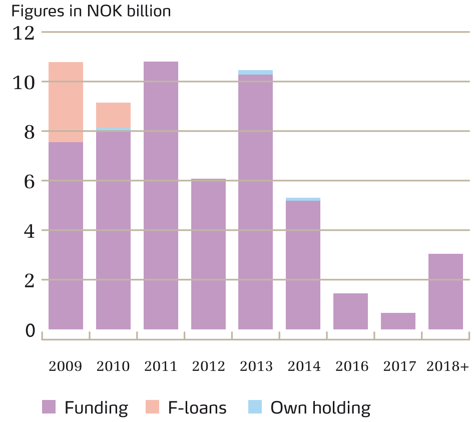
SpareBank 1 Boligkreditt issues covered bonds. The transfer of highly-secured mortgage loans to this company reduces SpareBank 1 SR-Bank's liquidity risk. In 2008 the group transferred net NOK 7.2 billion in mortgage loans to SpareBank 1 Boligkreditt.

At the end of 2008, the group has a liquidity reserve in the form of deposits with Norges Bank and short-term money market deposits equal to NOK 6.8 billion. The group's buffer capital in the form of liquid assets totals NOK 5.1 billion. In 2009 SpareBank 1 SR-Bank is to refinance NOK 10.7 billion. NOK 3.2 billion stems from repurchase agreements with Norges Bank, making net refinancing requirements, excluding F-loans, NOK 7.5 billion. The figure below illustrates the funding portfolio's maturity profile as per 31 December 2008.

Borrowing sources



Funding maturities



4.5.3 Risk-adjusted capital

The rating level, composition of the funding portfolio and access to the capital markets will all be of significance for the banks' capacity to manage the prevailing liquidity situation at all times. The group's principal liquidity strategy and emergency preparedness plan includes the management of the risk of not being able to source re-financing for liabilities. In accordance with international best practice, risk-adjusted capital is not estimated for liquidity risk.

The risk that the group may incur additional expenses for financing during periods of turbulent capital markets is considered a business risk. The method for estimates of risk-adjusted capital for business risk is described in chapter 4.9.2.

4.6 Ownership risk

4.6.1 Management and control

Main ownership risk for SpareBank 1 SR-Bank is related to the group's shareholding in SpareBank 1 Gruppen (19.9per cent).

The SpareBank 1 banks conduct their alliance work and development of product companies through the jointly owned holding company SpareBank 1 Gruppen AS. SpareBank 1 Gruppen AS is owned by SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge, SpareBank 1 Midt-Norge, Sparebanken Hedmark, Samarbeidende Sparebanker AS (20 savings banks in the east and northwest of Norway) and LO/affiliates. SpareBank 1 SR-Bank has a 19.9per cent shareholding in SpareBank 1 Gruppen.

SpareBank 1 Gruppen also has administrative responsibility for the collaboration processes in the banks in the SpareBank 1 Alliance, with particular emphasis on technology, brands, competence, common processes, use of best practice and purchasing. The Alliance also conducts development work at three competence centres – Training (Tromsø), Payment Services (Trondheim), and Credit Models (Stavanger).

4.6.2 Risk-adjusted capital

SpareBank 1 SR-Bank estimates risk-adjusted capital for ownership risk in SpareBank 1 Gruppen on the basis of SpareBank 1 Gruppen's own risk and capital valuation process and valuations of risk-adjusted capital.

Total risk-adjusted capital for the ownership risk is estimated at NOK 950 million.

4.7 Reputation risk

4.7.1 Management and control

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

SpareBank 1 SR-Bank has implemented a process for the identification and evaluation of the group's reputation risk. All reputation risk is evaluated in relation to inherent risk and established control and management measures. Improvement measures are implemented when required.

4.7.2 Risk-adjusted capital

SpareBank 1 SR-Bank has developed its own method for calculating risk-adjusted capital for reputation risk. This method is based on analysis of scenarios, using the Monte Carlo simulation.

Risk-adjusted capital for reputation risk is included in the risk-adjusted capital for business risk in chapter 4.9.2.

4.8 Strategic risk

4.8.1 Management and control

SpareBank 1 SR-Bank carries out a strategy process once a year which involves the Board of Directors, management and different divisions. One central element in this process is the evaluation of the group's strengths, weaknesses, opportunities and threats. The result of the process is a strategic presentation of goals for the following three years, with a related business plan and plan of action.

The group management carries out periodical evaluations of the group's achievements and strategic direction. This strategic direction and the strategic risk scenario are also monitored by the Board of Directors periodically.

4.8.2 Risk-adjusted capital

SpareBank 1 SR-Bank estimates risk-adjusted capital on the basis of a risk analysis of the group's strategic risks. Risk-adjusted capital for strategic risk is included in the risk-adjusted capital for business risk in chapter 4.9.2.

4.9 Business risk

4.9.1 Management and control

Business risk is managed by carrying out strategic analyses of factors such as external market trends and potential changes in framework conditions. The group aims to develop a highly diversified source of earnings, preventing any impact of possible declines within individual product groups or customer segments over time. SpareBank 1 SR-Bank is well positioned to meet all new challenges. Throughout the years, the group has displayed a considerable capacity and willingness to change, systematically focusing on a value chain philosophy and the development of products and services.

4.9.2 Risk-adjusted capital

The calculation of risk-adjusted capital is based on the volatility in earnings and costs. Volatility is estimated on the basis of elements such as possible changes in customer behavioural patterns resulting from severe, economic downturns, changes in competition or product innovation.

Total risk-adjusted capital for business risk (including reputation and strategic risk) is estimated as NOK 258 million.

4.10 Compliance risk

4.10.1 Management and control

The group aims to maintain successful processes for ensuring compliance with prevailing legislation and regulations, branch standards and internal guidelines, in order to prevent economic loss or sanctions incurred from non-compliance. Efficient tools for these processes include:

- A clearly communicated value base which the entire organisation understands
- A process which detects, communicates and implements changes in legislation and regulations
- A process to monitor and report compliance with legislation and regulations

Compliance is included in the quarterly and annual reports to the Board of Directors and CEO.

4.10.2 Risk-adjusted capital

SpareBank 1 SR-Bank does not calculate risk-adjusted capital for compliance risk.

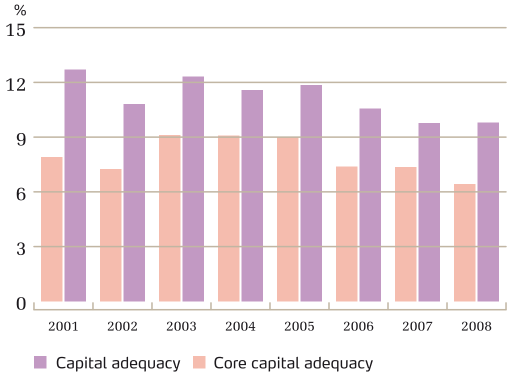
5. SUMMARY OF SOLIDITY/ CAPITAL ADEQUACY

5.1. Capital adequacy goals

The regulatory capital adequacy goals for the group are established on the basis of a specific confidence level for risk-adjusted capital. The prevailing confidence level corresponds to a regulatory core capital adequacy in the range of 7-8per cent. Furthermore, the Board of Directors has adopted a goal for capital adequacy of 10-11 per cent.

The graph below illustrates the development in the capital adequacy for the period 2001-2008 for the group.

Capital adequacy



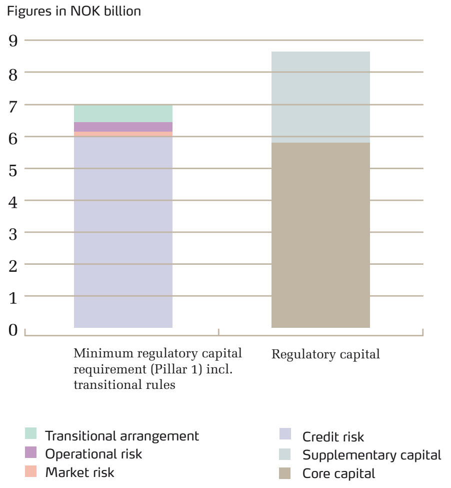
At the end of 2008, the regulatory capital adequacy for the group was 9.80 per cent, of which the core capital adequacy accounted for 6.44 per cent. For the parent bank, the corresponding key figures were 10.74 per cent and 6.86 per cent respectively. As a result of transitional rules in conjunction with the transition to new capital adequacy rules, the groups core capital adequacy on 1 January 2009 was 7.1 per cent.

Due to the disruptions in the Norwegian and international financial markets, and a general recapitalisation of banks internationally, SpareBank 1 SR-Bank will strengthen its capital adequacy in the coming years.

5.2. Minimum regulatory capital requirement

The figure below illustrates the minimum regulatory capital requirement based on Pillar I in the new capital adequacy regulation, compared with the group's subordinated capital.

Minimum regulatory capital



The figure illustrates the minimum regulatory capital requirement of NOK 7.0 billion for SpareBank 1 SR-Bank based on the new capital adequacy requirements. At year-end, the regulatory capital was NOK 8.6 billion, of which core capital totalled NOK 5.7 billion.

During the transitional period, the regulation stipulates that subordinated capital in 2008 cannot be lower than 90per cent of the minimum requirement estimated according to the old regulations (Basel I) from 2006. In 2009, the corresponding limit is 80per cent of the minimum requirement estimated according to the old regulation (Basel I) from 2006. The group has achieved a positive effect for capital adequacy with the implementation of the new regulation, but this will not be recognised until 2010.

Regulatory capital (figures in NOK million)

The figure below presents information on regulatory capital, including Tier I capital and supplementary capital in addition to relevant supplements, deductions and limits as of 31.12.2008.

Konsern	2008	2007
Primary capital certificates	1 872	1 774
- own primary certificate	-7	-10
Share premium reserve	92	7
Equalisation reserve	838	777
Allocated dividend	75	337
Sparebanken's reserve	2 066	1 970
Endowment fund	122	124
Fund for unrealised gains	69	139
Other equity	827	560
Total equity carried	**5 954**	**5 678**
Deferred tax, goodwill and other intangible assets	-23	-26
Fund for unrealised gains held for sale	-1	-2
Deduction for allocated dividend	-75	-337
50% of regulatory capital in other financial institutions	-17	-12
50% of expected loss IRB deducted provision for loss	-188	-173
50% capital adequacy reserve	-547	-486
Share of reset non-amortised estimate variances	38	77
Perpetual capital security 1)	526	448
Total Tier I capital	**5 667**	**5 167**
Supplementary capital in excess of Tier I capital		
Perpetual regulatory capital 1)	872	739
Time-limited regulatory capital 1)	2 834	1 639
50% of regulatory capital in other financial institutions	-17	-12
50% of expected loss IRB deducted provision for loss	-188	-173
50% capital adequacy reserve	-547	-486
Total supplementary capital	**2 954**	**1 707**
Net regulatory capital	**8 621**	**6 874**

1) Terms and conditions are presented in table "Regulatory loan capital and perpetual capital security"

Minimum regulatory capital requirement I	**2008**	**2007**
Credit risk	5 700	4 322
Market risk	378	230
Operational risk	306	268
Capital adequacy requirement related to transitional schemes	657	806
Minimum regulatory capital requirement I	**7 041**	**5 626**

Capital adequacy ratio	**9,80 %**	**9,77 %**
Of which Tier I capital	6,44 %	7,35 %
Of which supplementary capital	3,37 %	2,44 %

Time-limited subordinated loan capital has a reduced equity value of 20% per year over the past 5 years prior to maturity. To the extent that the group has subordinated capital in other financial institutions, this is allocated directly to deductions in the group's own subordinated capital for the share which exceeds 2% of the subordinated capital of the recipient financial institution.

If the group has subordinated capital in other financial institutions which is less than 2% of the subordinated capital of the individual financial institution, the total of such capital is deducted from the group's subordinated capital for the share which exceeds 10% of the group's subordinated capital. In the event that the group has been ordered to set aside a 100% capital adequacy reserve for certain assets, a figure equivalent to the book value of the asset shall be deducted from the subordinated capital also in thecalculation specification. The calculation specification is weighted according to risk.

Subordinated loan capital and perpetual capital security

Principal	Terms and conditions	Maturity	First due date	2008	2007
Time-limited:					
EUR 65	3 month Libor + margin	2014	2009	641	517
JPY 13 000	3 month Libor + margin	2035	2012	1 067	672
NOK 450	3 month Libor + margin	2017	2012	450	450
NOK 500	**3 month Libor + margin**	**2018**	**2013**	**499**	
Total time-limited				2 657	1 639
Perpetual:					
USD 75	3 month Libor + margin			522	396
SEK 200	3 month Stibor + margin			196	172
NOK 170	**3 month Libor + margin**			**170**	**170**
Total perpetual				888	738
Perpetual capital securities:					
USD 75	**3 month Libor + margin**			**625**	**448**
Total perpetual capital securities				625	448
Total subordinated loan capital				**4 170**	**2 825**

Subordinated loan capital and perpetual capital security in foreign currency are included in the group's total currency position in order to avoid currency risk related to the loans. Of a total NOK 4,170 million in subordinated loan capital, NOK 526 million is Tier I capital, NOK 872 million is perpetual subordinated capital and NOK 2,544 is time-limited subordinated capital.

Capitalised costs when taking out loans are reflected in the calculation of amortised cost. Perpetual capital securities are limited to maximum 15% of total Tier I capital. Any excess is accounted as perpetual subordinated loan capital.

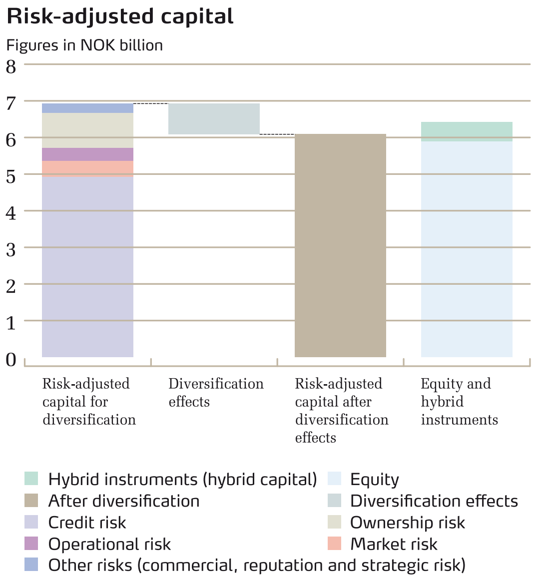
Financial institutions comprised in consolidations (figures in NOK 1,000)

Forretningsområde	Capital adequacy requirement	Net regulatory capital	Capital adequacy as a percentage
SR-Finans AS	330.642	333.498	9,52
SpareBank 1 Boligkreditt AS	1.252.950	1.634.645	10,44
BNBank ASA	3.252.237	3.993.310	9,82
Totalt	**268**	**23**	**8**

The companies apply the standard method for reporting capital adequacy.

5.3. Risk-adjusted capital

The figure below illustrates risk-adjusted capital as of 31 December 2008. In addition, the group has carried out a comparison of the requirement for risk-adjusted capital with the group's available risk capital as of 31 December 2008.



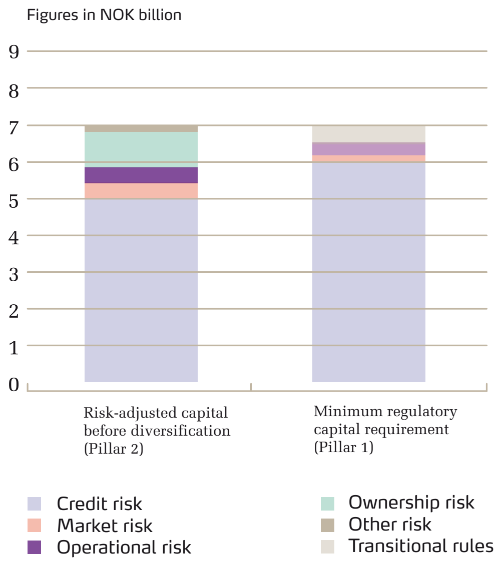
The total requirement for risk-adjusted capital as of 31 December 2008 is estimated as NOK 6.9 billion prior to the effect of diversification. Taking into account diversification effects between the risk groups, the requirement for risk-adjusted capital is calculated as NOK 6.1 billion. The diversification effect illustrates the risk reduction achieved by the group by incorporating more risk areas which are not expected to incur loss simultaneously.

Available equity, including fund bonds, totalled NOK 6.4 billion at year-end.

In the chapter below, SpareBank 1 SR-Bank provides a detailed description of calculating risk-adjusted capital where it deviates from the regulatory calculations.

6. COMPARISON OF REGULATORY AND RISK-ADJUSTED CAPITAL ADEQUACY

The figure below illustrates a comparison between the minimum regulatory capital requirement (Pillar I) and the requirement for risk-adjusted capital (Pillar II). A description is also provided of the main causes for the differences between the two pillars.



The main differences between risk-adjusted capital (Pillar II) before diversification effects of NOK 6.9 billion and the minimum regulatory capital requirement (Pillar I) of NOK 6.4 billion (prior to transition regulations) are mainly due to:

- **Credit risk:**
  - **Loss Given Default:** When calculating risk-adjusted capital for credit risk in relation to governments, institutions and enterprises, the risk parameter Loss Given Default (LGD) is calculated on the basis of internal models, while the calculation of minimum capital base is template set pursuant to the Regulation on Capital Adequacy. The group establishes the realisation value for the collateral provided on the basis of own experience over time, and such that these conservatively reflect the estimated realisation value during a cyclical downturn. SpareBank 1 SR-Bank's internal estimates for Loss Given Default (LGD) are significantly lower than the values set by the authorities' template method.
  - **Concentration risk:** Risk-adjusted capital takes into account concentration risk.
- **Market risk:** Risk-adjusted capital for market risk is estimated by using VaR models. The internal VaR models are more conservative than the standard method used to estimate the minimum regulatory capital requirement.
- **Ownership risk SpareBank 1 Gruppen:** Risk-adjusted capital is calculated (Pillar II) for ownership risk in SpareBank 1 Gruppen corrEsponding to NOK 950 million. In connection with the estimate of minimum regulatory capital requirement (Pillar I), 50per cent of this ownership item is deducted from Tier I capital and 50per cent from supplementary capital, and is thus not directly reflected in the minimum regulatory capital requirement.
- **Other risk (business, reputation and strategic risk):** Risk-adjusted capital is calculated (Pillar II) for other risk (business, reputation and strategic risk) although these are not separate types of risk when calculating the minimum regulatory capital requirement.