


Annual Report 2019

Milestones in the past year

01


- SpareBank 1 SR-Bank's **Business Barometer** shows that a surprisingly high number of companies in Southern Norway **expect higher profitability** in 2019. 



- Subsidiaries and startup factory, **FinStart Nordic**, open in new premises in Oslo. The Minister of Finance, Siv Jensen, holds the opening speech and **praises the financial services industry** for its focus on innovation and restructuring.
- SpareBank 1 SR-Bank chooses three **UN Sustainable Development Goals** that the group will make an extra contribution to achieving. The UN Sustainable Development Goals are the world's first joint plan to **eradicate poverty, combat inequality and stop climate change** by 2030.




02


- SpareBank 1 Regnskapshuset SR acquires Agder Økonomi **thus strengthening the group's overall focus on Southern Norway**.
- SpareBank 1 SR-Bank establishes itself as a **national bank for entrepreneurs** through Monner. 
- The group signs up to the **Initiative for Responsible Ship Recycling**. RSRS is a voluntary bank initiative that **advocates the responsible breaking up and recycling of ships**.



03

- SpareBank 1 SR-Bank enters into a strategic partnership with a start-up company called **Justify** regarding the provision of **digital legal services to retail customers**. 



- Bergen-based **Shrimp Vision** wins this year's **Gründerhub Prize** and NOK 250,000. The company is developing a system for producing fresh, locally-produced, tropical shrimp.
- SR-Boligkreditt issues its first **green home mortgage bond**. The EUR 500 million quickly becomes fully subscribed to. 

04

- SpareBank 1 SR-Bank **moves into a new climate-neutral head office** in Stavanger named Finansparken. Northern Europe's largest wooden office building. 
- On 29 November, SpareBank 1 SR-Bank marks its **180th anniversary**. The bank's oldest roots stretch back to the establishment of Egersund Sparebank in 1839.
- A massive effort is made to create a **safer society based on a major anti-money laundering project**. Customer declarations are collected from more than 20,000 corporate customers and valid proof of identification from more than 54,000 retail customers in order to satisfy the authorities' demands.



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Value creation in corporate customers in 2019



More than
20,000
corporate customers



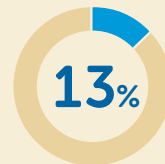
The companies have around
354,000 employees



KR Total earnings NOK **602** billion

KR Earnings per employee (average) NOK **1.7** million

KR Total operating profit NOK **61** billion

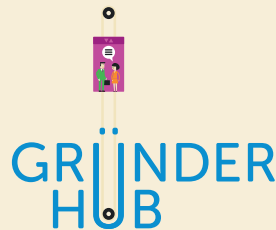


354,000 employees equals 13% of all employees in Norway
Source: ssb.no/aku

185,000
are employed by our **326 customers** in the public sector

1,300
new companies

start their limited company via the bank's digital "start a company" solution.



The group's **Gründerhub** has helped educate around **300 entrepreneurs** since its inception in 2015. This has created **325 new jobs** through 200 companies. In 2019, the combined earnings of these companies were **NOK 150 million**.

Milestones for the largest corporate customers

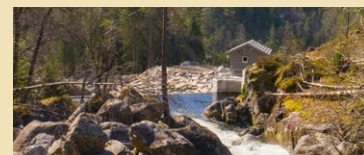


Rødne becomes the second company in Norway to order an electric passenger ferry at a cost of NOK 110 million.

Rødne carries 100,000 tourists to Lysefjord every year.



Felleskjøpet Rogaland Agder opens Norway's largest concentrate feed factory. This gives the company the capacity to increase production of concentrate feed for the next 20-30 years. Importantly, the factory is also more efficient and climate friendly.



The Swiss-owned company **Aven-tron Norge builds five small power plants in Sirdal.** The company invests NOK 125 million in the five power plants, which, thanks to their links to an energy cluster, provide synergy effects and economies of scale.

Highlights

(Figures in NOK millions)	2019	2018
Net interest income	3,987	3,439
Net commissions and other operating income	1,416	1,437
Net income from financial investments	1,127	569
Total operating costs	2,478	2,229
Operating profit before impairments	4,052	3,216
Impairments on loans and financial liabilities	235	324
Pre-tax profit	3,817	2,892

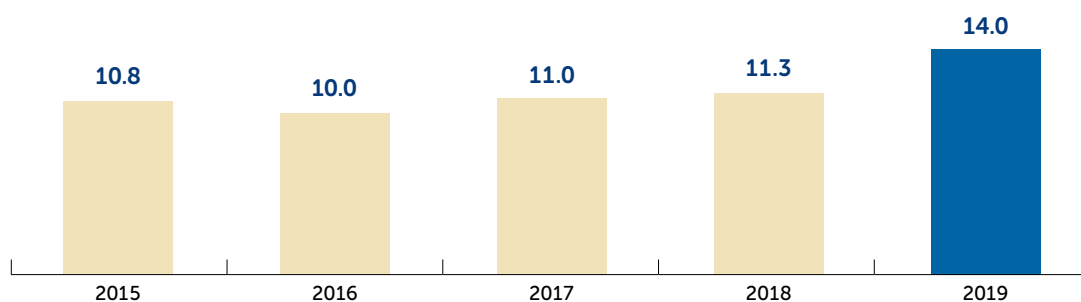
Key figures

Profitability		
Return on equity %	14.0	11.3
Return on equity exclusive of the Fremtind Forsikring AS merger effects %	12.1	
Cost/income ratio	37.9	40.9
Average interest margin %	1.61	1.54
Balance sheet figures		
Gross loans to customers	207,114	192,105
Gross loans to customers, incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	211,357	201,399
Deposits from customers	103,106	98,814
Lending growth, incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	4.9%	7.6%
Deposit growth	4.3%	3.6%
Total assets 31.12	255,895	234,061
Financial strength		
Common equity tier 1 capital ratio ¹⁾	17.0	14.7
Tier 1 capital ratio ¹⁾	18.6	15.9
Capital ratio % ¹⁾	20.4	17.6
Leverage ratio %	7.8	7.7
Tier 1 capital	22,626	20,743
Liquidity		
Liquidity coverage ratio (LCR) %	155%	167%
Deposit-to-loan ratio	49.8%	51.4%
Deposit coverage ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	48.8%	49.1%
Branches and staffing		
No. of FTEs, incl. temps	1,352	1,251
No. of branches	33	36
SpareBank 1 SR-Bank share		
Market price at year end	100.00	89.20
Earnings per share	12.22	8.98
Dividend per share	5.50	4.50
Effective yield on share %	17.2	7.4

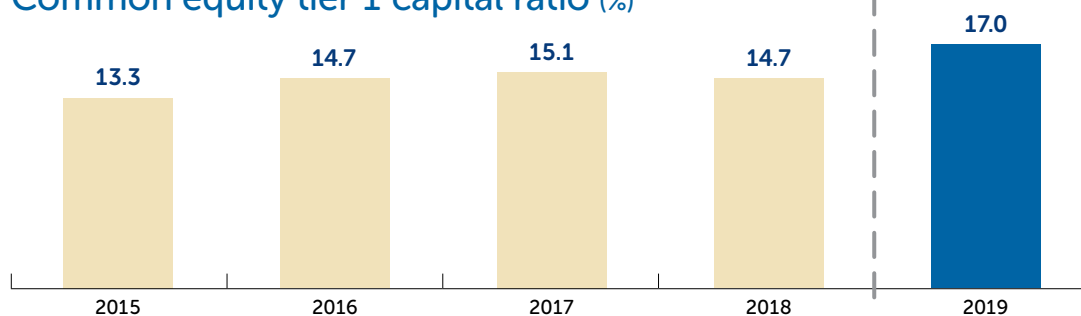
¹⁾ Historical capital ratio figures in the group are based on the capital adequacy rules and regulations as at 31 December 2018, when the so-called Basel I floor applied.

Please also refer to the complete overview of key figures and definitions on pages 19 and 138.

Return on equity (%)

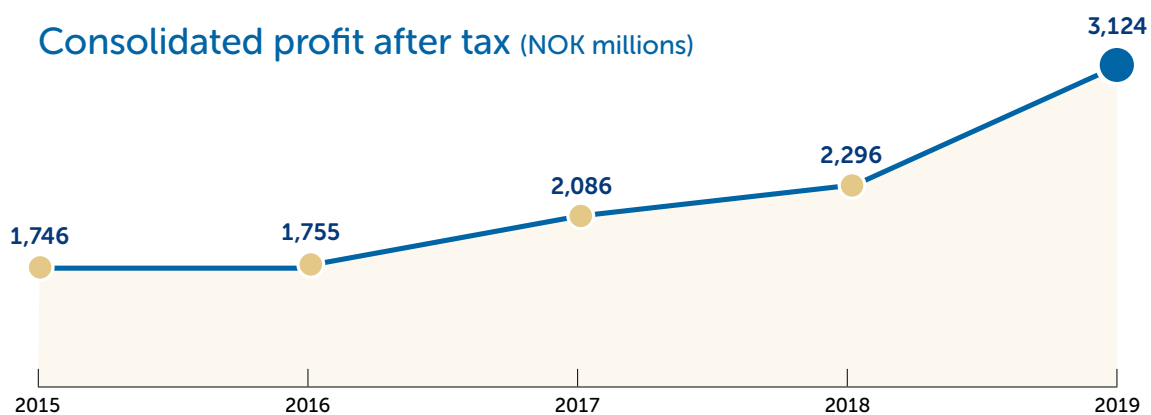


Common equity tier 1 capital ratio (%)

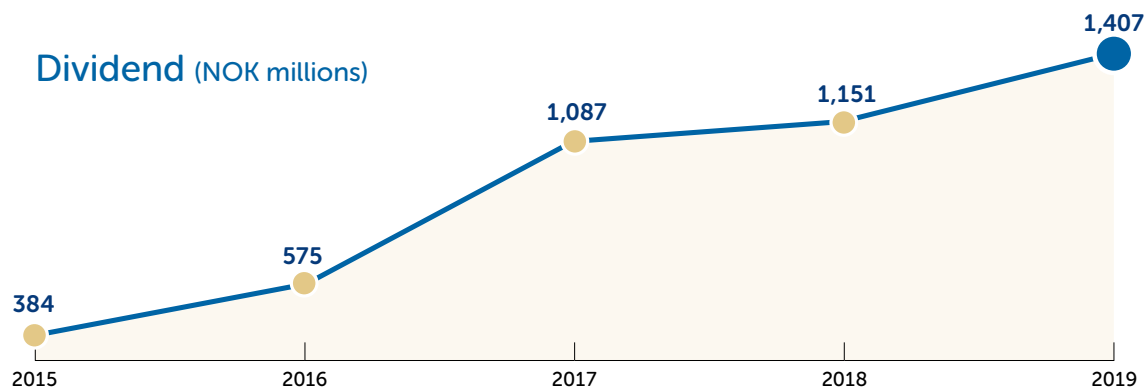


Historical capital ratio figures are based on the capital adequacy rules and regulations up to and including 2018, when the so-called Basel I floor applied.

Consolidated profit after tax (NOK millions)



Dividend (NOK millions)





A good basis for profitable growth throughout Southern Norway

The foundations on which we stand today were established one November day 180 years ago. 56 specidaler, which were worth NOK 224 at the time, was what it took to start what would become today's SpareBank 1 SR-Bank. A solid, profitable financial group, in which the bank itself is now the second largest Norwegian bank positioned in Southern Norway.

In the space of these 180 years the capital has grown from a few hundred NOK into total of assets of around NOK 256 billion. Our business model has always been based on developing the bank in a sustainable manner. We have built brick by brick over all these years.

2019 was a good year for SpareBank 1 SR-Bank. It was for most of the companies and people in Southern Norway as well. This is confirmed by the results of a recently published Business Barometer, which encompasses responses from 800 companies. The expectations for 2020 are also good. The business sector is optimistic, in spite of Brexit and other international challenges, although, in the midst all of this general optimism, some companies are still having a hard time.

The optimism of the business sector is reflected in the low unemployment figures throughout the country. The picture looked very different a few years ago. Changes are taking place at an ever faster tempo. We must not forget that difficult times could hit us just as quickly again. That is why we further strengthened our basis for withstanding fluctuations in 2019, without this particularly impacting profitability.

We enjoy strong positions in Rogaland, Agder and Vestland, and we established a presence in Oslo a few years ago. This represents an important part of our geographic diversification. Based on the good reception we received in Oslo and surrounding municipalities, with a considerable influx of new and profitable corporate and retail customers, we have decided to strengthen our presence there. In 2020, we will open two new branches in central locations in Oslo. We are thus well on our way to taking a clear position throughout Southern Norway. No less than 70% of the total growth in lending in 2019 was created outside Rogaland.

SpareBank 1 SR-Bank is not just involved in banking and estate agency. In 2019, we also focused on accounting firms with further acquisitions. We continued to develop the company FinStart Nordic, which has now invested in 11 different companies. These intend to help create a broader financial

ecosystem. With the acquisition of Monner in 2019, we took an important step towards becoming a national bank for entrepreneurs.

Sustainability was incorporated into the group's overarching strategy in 2019. The group supports the UN Global Compact's 10 principles for sustainability and is a member of the board of Global Compact Network Norway. Many new initiatives have been set in motion. In addition to supporting all of the 17 UN Sustainable Development Goals, we have chosen three goals where we believe we can have the greatest impact. These are "Gender equality," "Decent work and economic growth" and "Climate action". Specific measures have been drawn up for each of these goals.

In 2019, we signed up to the UN Principles for Responsible Banking, UNEP Finance Initiative. Within 4 years, we will have implemented and completed measures that support these principles.

The group's pre-tax profit was NOK 3.8 billion in 2019. This represents an increase of NOK 925 million since 2018. The result was particularly affected by significant one-off income in connection with the merger and establishment of Fremtind Forsikring AS and write-ups of properties in the life insurance company in SpareBank 1 Gruppen AS. These assets resulted from the considerable efforts of the group's employees over many years to provide good advice services in which offering customers the correct insurance policies to meet their needs constituted an important part of the service. Together with the good advice services provided by other banks in the SpareBank 1 Alliance, the sum of these customer interactions has resulted in a profitable, nationwide non-life insurance company. The major assets that were recognised as income first became visible through a merger with another equivalent company in 2019.

Underlying banking operations were good in 2019. The group's pre-tax profit, adjusted for the above one-off items, increased by NOK 257 million. In general, this was due to



profitable lending growth combined with improved loan margins for corporate commitments, including as a consequence of introducing a new pricing model. The pricing model, which was developed during the year, will be even better at making objective assessments of each individual commitment. The model has been gradually introduced into credit processes for both corporate commitments and home mortgages.

2019 was a year with a high level of activity in many areas of the group, with more resources targeted at strategically selected priority areas. These strategic initiatives are expected to result in good income growth going forward. The cost/income ratio, less the effect of the merger, amounted to 40.8% and appears stable compared with 2018.

The group's return on equity after tax was 14.0%. Excluding the merger effects associated with Fremtind Forsikring AS, the

return on equity for the year was 12.1% compared with 11.3% for 2018. This makes us one of the most profitable financial groups in the Nordic region.

The group's long-term return on equity target is a minimum of 12%. Factors such as profitable lending growth, moderate impairments on loans and financial liabilities, growth in other operating income, gains from financial investments, greater cost-effectiveness and a continued heavy focus on sustainability will contribute to the group also achieving this goal in 2020.

Arne Austreid
Chief Executive Officer



SpareBank 1 SR-Bank

The group, strategy and objectives

SpareBank 1 SR-Bank ASA aims to be a financial group for the whole of Southern Norway. A group that puts money to work and thus creates profitability and value for our customers, owners and society.

SpareBank 1 SR-Bank's objectives are to stimulate growth and development. The group puts money to work and helps people and companies realise their projects and dreams. The group wants to stimulate the creation of more jobs and viable companies, while looking out for future generations by basing its operations on sustainability.

SpareBank 1 SR-Bank is Norway's second largest financial group and has a national distribution network. The group has a physical presence in Rogaland, Agder, Vestland, Oslo and Viken. The group's head office is in Stavanger and its strongest foothold is in Rogaland County. Its ambition is to achieve further profitable growth, including outside the group's traditional market areas. The group established its first branch in Oslo in 2018, and two new branches are planned for the Oslo region in 2020. Its efforts outside Southern and Western Norway resulted in lending growth of NOK 9 billion in 2019. The largest proportion of the bank's total lending growth now comes from outside Rogaland County.

Business areas

SpareBank 1 SR-Bank is a fully fledged financial services group offering traditional banking services such as loans, insurance and savings products, securities trading, accounting services and estate agency services for both retail and corporate customers.

The group's main focus areas are the retail market, the corporate market and the public sector market.

SpareBank 1 SR-Bank had more than 300,000 customers and exceeded NOK 211 billion in gross loans in 2019.

The subsidiary FinStart Nordic was established with the aims of expanding and improving the group's market offering to better suit customers' needs, and remaining at the forefront of new and innovative services. FinStart Nordic has completed eight investments and also established a company on its own.

In 2019, SpareBank 1 SR-Bank acquired the start-up company Monner. SpareBank 1 SR-Bank aims to use Monner to become a national bank for entrepreneurs. Going forward, Monner

will deliver a comprehensive range of services designed for entrepreneurial companies, as well as products and services for private investors via Monner's digital platform.

EiendomsMegler 1 SR-Eiendom enjoys a strong market position in Rogaland and has ambitions to grow in all of the counties in Southern and Western Norway. The company provides services for both private and corporate customers.

SpareBank 1 Regnskapshuset SR provides accounting and advice services for corporate customers and helps to ensure a more complete range of services for such customers. The company expanded its market area in 2019 with the acquisition of Agder Økonomi and thus strengthened the group's position in Southern Norway.

The subsidiary SR-Forvaltning provides SR-Bank funds and its ambition is to become the largest fund management company outside Oslo. In 2019, SR-Bank Fondene became SpareBank 1 SR-Bank's recommended funds and in the space of the first year the fund capital has increased from NOK 3,307 billion at the start of 2019 to NOK 4,841 billion at the end of the year. The number of monthly savings agreements in the funds has grown from fewer than 1,000 to 4,900 in the last year.

A long-term mindset for 180 years

SpareBank 1 SR-Bank has been driven forward by its customers ever since 1839, and on 29 November 2019 the group marked 180 years of continuous operations. SpareBank 1 SR-Bank's greatest competitive advantage is that we are a bank that stands at the intersection between a commercial bank and a savings bank with historic roots in many local savings banks. The bank believes that the employees' knowledge and understanding of the distinctive characteristics of the many local market areas, combined with SpareBank 1 SR-Bank's capacity as a limited liability savings bank to raise capital, is a competitive advantage.

In 1976, Sparebanken Rogaland (SR-Bank) was established as an amalgamation of 22 local savings banks. Ever since then, SpareBank 1 SR-Bank has felt an innate need to grow geographically, and also to enter into new industries and focus on innovation. Throughout its history, the group has been involved in upturns and downturns in the Norwegian economy and learned from these economic fluctuations. Sectoral, geographic and financial diversification has equipped the group well for the years ahead.



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

SpareBank 1 SR-Bank's goal is to produce financial results that provide a good, stable return on equity and a competitive return in the form of dividends and a higher SRBANK share price for owners.

The group is benefiting from economies of scale. It collaborates with other independent Norwegian banks on the development of IT solutions and digital services, marketing and purchasing through SpareBank 1 Gruppen.

Macro trends

The need to restructure has been a constant feature of the last few years. Changes in customer behaviour are one of the most important drivers behind restructuring and innovation for SpareBank 1 SR-Bank. Recently, the greatest changes in operations have involved digitalisation, although the group is now seeing sustainability also become an important new driver of change.

At the same time, the group can see that corporate customers, especially within the petroleum and export industries are characterised by growth and optimism. The group wants to help ensure that companies take advantage of good times to restructure and diversify their businesses. The banking market

is experiencing increased competition and pressure on margins, as well as steadily stricter regulatory requirements with which the group must deal.

Sustainability as a priority area

SpareBank 1 SR-Bank must have an active relationship to sustainability throughout its entire organisation. The board approved a sustainability strategy in 2019 and this is now already being revised. The group is making progress towards its goal of ranking among the top 30% of the companies on the Oslo Stock Exchange within the area of sustainability. Assessments conducted by third parties show that the group is already performing well within the area of ESG (sustainability) with an ESG rating of 77 that classifies it as an outperformer. In 2019, the group also launched its first green home mortgage bond.

Our strategic goals

A relationship bank for Southern Norway.

The group's overarching goal is to achieve profitable growth by taking a clearer position in Southern Norway and by being a future-oriented relationship bank. Increasing the geographic spread of its operations makes the group less vulnerable to fluctuations in local markets.

Focusing on a combination of technology and people

SpareBank 1 SR-Bank's strategy is to combine technology and people. Competent employees who are good at building customer relationships give us the potential to become a bank for even more people through the use of digital tools. The group's employees are a key driver behind growth and profitability in combination with good digital solutions and intelligent decision-making support.

SpareBank 1 SR-Bank is continuously changing in order to rationalise and adapt our organisational structure to the customers' behaviour. In order to realise the group's goals, employees must be able to adapt their skills in step with the constant changes to, and renewal of, the business model. This means that every employee in the group has to update their knowledge and adopt new solutions quickly. The organisation needs to be efficient and well-run and have a future-oriented, dynamic profile.

Customer services

Customers' perceptions of SpareBank 1 SR-Bank are formed in every interaction and meeting with the group, and help to build the SpareBank 1 SR-Bank brand. All customer interactions should be a positive experience. Profitable customer growth is generated by looking after existing customers while striving to recruit new long-term customer relationships. The organisation must have a 'customer first' mentality at all levels.

One means in the fight for customer relationships is the overall range of customer services the group can offer. In addition to their purely financial value, strategic stakes in subsidiaries also provide opportunities to enrich the business model and strengthen the group's overall competitiveness.

The group believes that it has a social responsibility to show customers how money works in society and prepare them for future developments. The group wants to help customers make good choices that will ensure them a secure financial future by providing good advice and through other communication. The group has 33 branches and plans to open two new branches in Oslo in 2020. The self-service channels and the fact that customers can meet us in person at branches or contact us on the phone, via chat and on Facebook mean that the group is always available to the customer. The time it takes to respond to customer telephone enquiries has been cut by 50 seconds in the last year due to improved processes and systems. SpareBank 1 Utvikling's innovation work is steadily expanding the options available to customers via the bank's digital channels.

In 2019, the group continued to streamline and optimise its business models within both the corporate market and the retail market, especially by simplifying and automating customer and work processes. The work on digitalising credit

processes and establishing new customer relationships is ongoing. In 2019, 55% of new product sales to retail customers took place digitally and more than 1,300 companies have used the bank's "Start a company" solution to create a new company. The bank's chatbot, Banki, has responded to 250,000 customer enquiries from retail customers and 28% of these enquiries were forwarded to an adviser. Banki had a total of 70,000 chats with corporate customers; 29% of these were transferred to a corporate adviser.

Profitability

SpareBank 1 SR-Bank will focus on profitable customer growth in 2020. The group will take a strategic approach to cost effectiveness with the goal of achieving a ranking among the top 50% of comparable financial groups in a Nordic benchmark with respect to return on equity and cost/income ratio. This goal will be achieved by increasing income from profitable lending growth and clear growth in other income.

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

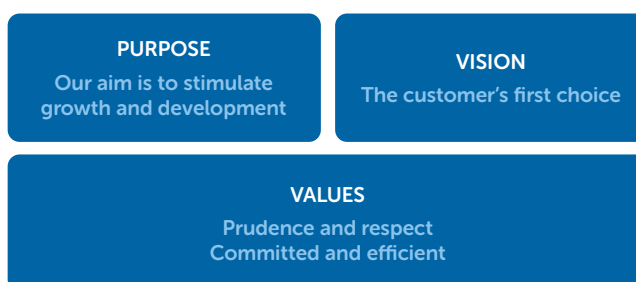
SpareBank 1 SR-Bank creates value by assuming recognised and acceptable risk. The group therefore invests substantial resources in developing risk management systems, processes and skills in line with leading international practices.

Innovation and development/diversification

SpareBank 1 SR-Bank is experimenting with, and testing out, new services to reach out to new and existing customers. The group is creating synergies that will benefit customers and society in the form of new products, competence, access to capital and ideas. This is being done via an ecosystem with an internal focus on innovation and development together with entrepreneurial companies and investments in new companies.

SpareBank 1 SR-Bank is helping to build up start-up companies through Gründerhub and is investing in and developing companies that are of particular interest to the group through FinStart Nordic.

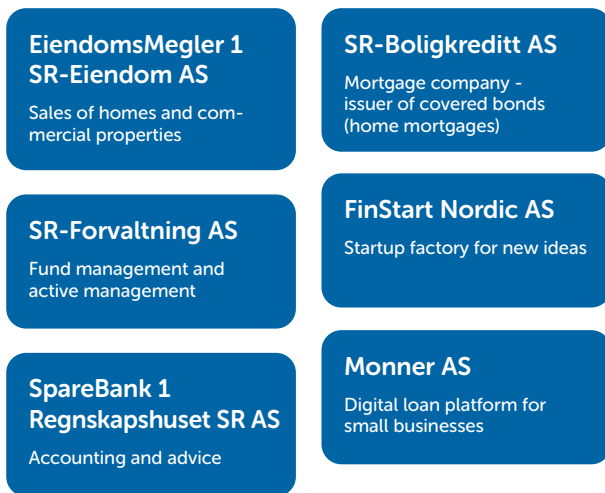
Foundations



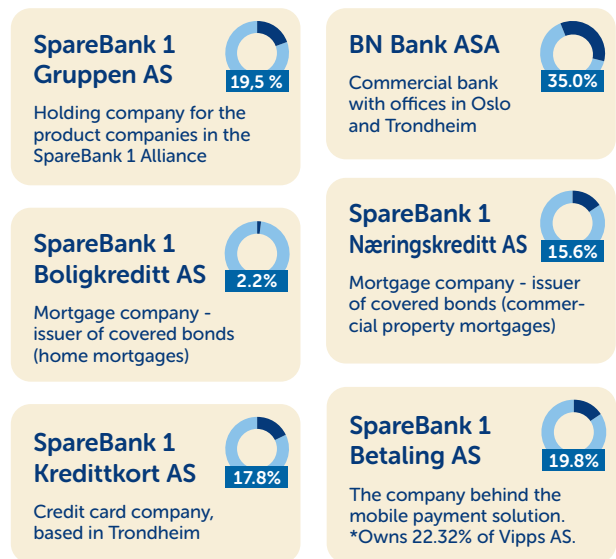
SpareBank 1 SR-Bank Group



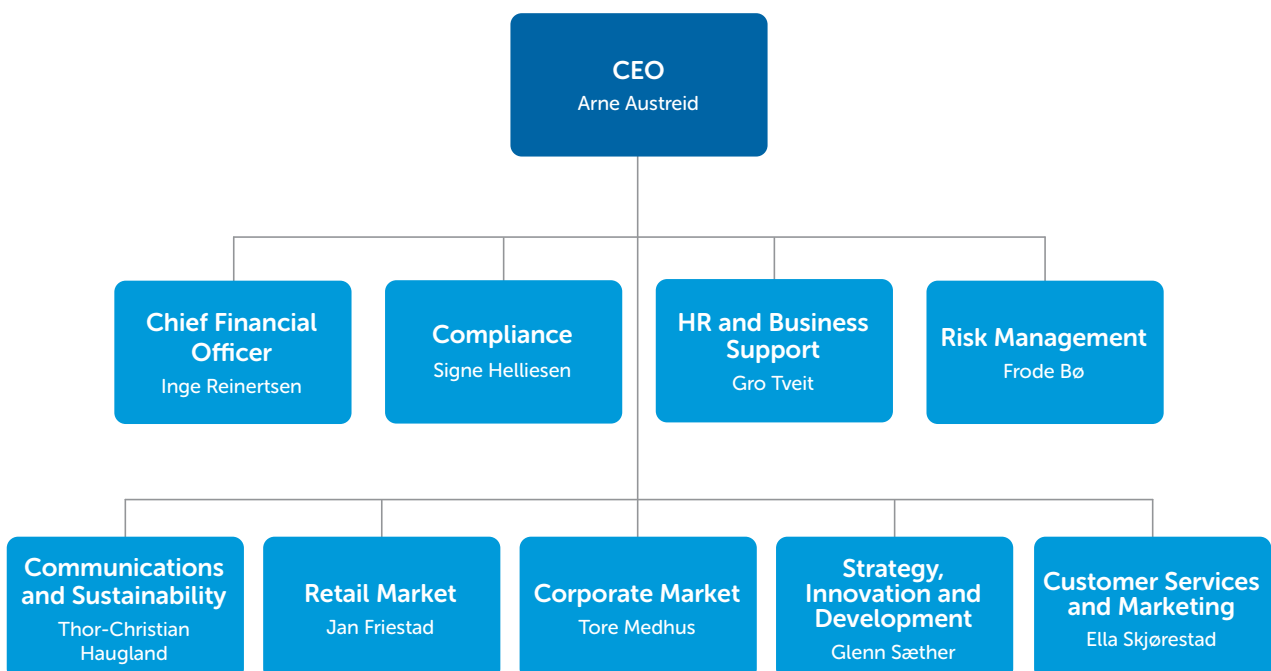
Wholly owned subsidiaries



Part-owned companies



Organisation





Employees

SpareBank 1 SR-Bank's vision is to be "the customer's first choice". This means our employees have to be able to see things from the customer's perspective.

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

SpareBank 1 SR-Bank's vision is to be "the customer's first choice". This means our employees have to be able to see things from the customer's perspective. It means that employees have to be genuinely interested in the customer, the market, the industries our customers operate in, and which consumer trends are influencing the customer's relationship with the group. In the last year, the group executive management team has made a number of changes in concert with the employees in order to adapt our business operations to current and future customer behaviour.

Skills recruitment

At year end 2019, the group had 1,352 full-time equivalents (FTEs), of which 1,260 were permanent employees. In 2019, FTEs in the group increased by 101 due to, among other things, the acquisition of Regnskapshuset SR, Monner and Beaufort.

The market for recruitment is good and SpareBank 1 SR-Bank is regarded as an attractive place to work.

Change and skills

Employees have to be cultivated and developed for them to perform at their best. Good nourishment is required in the form of training and skills enhancement organised by the group. We systemically work to enhance our employees' skills, including through various industry-specific certification processes.

Annual goals and performance reviews set out clear expectations vis-à-vis delivery and results. 60% of all permanent employees of SR-Bank, SR-Forvaltning and EiendomsMegler 1 SR-Bank had performance interviews in 2019. These covered 61% of female employees and 59% of male employees.

The group provides good career development opportunities along customer-oriented, specialist or managerial pathways.

There is a focus on continuous skills enhancement throughout the group where we combine structured education and courses with training and individual development on the job. Managers have a special responsibility for achieving results, managing and implementing changes, and employee development.

Working environment

No fewer than 89% of group employees responded to the year's organisational survey, and the results indicate a high level of satisfaction. The group has committed employees with a good sense of team spirit and we also score highly as regards our perceived ability to get things done and responsibility. Confidence in the group executive management team is high. The purpose of the organisational survey is to take the pulse of the organisation and gain an insight into the group's advantages and areas requiring improvement. The organisational survey functions as a common framework for discussing the employees' perceptions of various aspects of their working life.

HSE

The group takes a systematic approach to health, safety and the environment, primarily via the cooperation with the chief safety representative, HSE manager and line management. Our compliance was assessed and measures were implemented where necessary to ensure compliance with regulatory HSE requirements. In 2019, the group's inclusive workplace committee focused heavily on preventive work the group could do to improve the healthy rate. The group implemented a number of measures specifically aimed at reducing long-term sick leave. It is also encouraging partial sick leave and focusing on degree of remaining capacity for work during periods of ill health. The average healthy rate in 2019 was 96.5%.

The group's life phase policy enables employees to remain in work their entire professional life and ensures that their conditions are adjusted during their various life phases. This applies, for example, to employees with small children and ensuring that employees are looked after if they experience a life crisis. It also encourages the group's seniors who want to follow the group's development to stay in work longer. The average retirement age in 2019 was 64, a drop of 0.4 years compared with 2018.

Diversity and equal opportunities

Gender equality is one of SpareBank 1 SR-Bank's three prioritised Sustainable Development Goals. "Guidelines for diversity and equality opportunities" were drawn up and approved in 2019. These state, among other



things, that “All employees must have equal opportunities with respect to pay and career development, irrespective of age, ethnicity, national origin, heritage, skin colour, language, religion, sexual orientation, life philosophy or disability.” The group wants to actively encourage equal career opportunities for both genders within leading and heavily specialised positions.

SpareBank 1 SR-Bank’s goal is to improve the gender balance in the top three levels of management with the aim of achieving a 50% gender balance in 10 years per business area (35% in 3 years and 40% in 5 years). The group will therefore ensure that recruitment pools and final candidate lists for managerial positions and talent development and mobility programmes in the group are gender balanced. SpareBank 1 SR-Bank will actively identify future management candidates from both genders and implement development plans and a mentor/sponsorship programme.

The group also aims to ensure equal pay for equal work and equal performance, irrespective of gender. In 2019, we set aside an equal pay pot of NOK 500,000 to equalise pay differences that can be attributed to gender. We can see that the equal pay pot has had a positive effect for authorised financial advisers, the prioritised target group.

All employees who go on maternity leave are entitled to salary evaluation in advance of, or during, leave. We also move

employees who have been on parental leave for longer than 5 months up an extra step on the pay scale when they return to work. The group raised the minimum salaries for various position levels in 2019 and the change largely benefited female employees.

In recent years, the group has focused on diversity and equal opportunities, including by establishing a diversity and equal opportunities committee. In 2020, measures will be implemented to achieve the goals of a better gender balance and equal pay.



All employees must have equal opportunities with respect to pay and career development, irrespective of age, ethnicity, national origin, heritage, skin colour, language, religion, sexual orientation, life philosophy or disability.

Diversity and equal opportunities	2018		2019	
	Parent bank	Group	Parent bank	Group
Total no. of FTEs	929	1,251	984	1,352
Percentage of women	54%	53%	54%	54%
Percentage of men	46%	47%	46%	46%
Employees under 30	8%	10%	8%	9%
Employees 30-50	52%	54%	52%	55%
Employees over 50	40%	36%	39%	36%
Women employed part-time	7.6%	8.0%	7.4%	8.0%
Men employed part-time	1.5%	1.5%	1.1%	1.1%
Proportion of women by position level				
Management level 1	0%	0%	0%	0%
Management levels 2 and 3	29%	28%	37%	35%
Management level 4	49%	46%	42%	40%
Managers under 30	1%	1%	1%	1%
Managers 30-50	58%	64%	57%	57%
Managers over 50	41%	36%	42%	42%
Percentage of women on the board of directors	50%	50%	50%	50%
Board members under 30	0%	0%	0%	0%
Board members 30-50	25%	25%	25%	25%
Board members over 50	75%	75%	75%	75%
Average Salary				
Women	605,106	582,241	652,729	599,017
Men	777,426	738,723	820,012	779,064
Women's wages relative to men by position level				
Management level 1	-	-	-	-
Management levels 2 and 3	77%	76%	78%	77%
Management level 4	90%	89%	92%	91%
Parental leave taken, average number of weeks				
Women	36.0	37.0	37.0	37.0
Men	9.0	9.0	13.0	13.0
Sick leave				
Total	4.65%	4.37%	3.78%	3.50%
Women	6.50%	6.49%	5.41%	5.25%
Men	2.78%	2.32%	1.98%	1.63%
Work absence due to child illness (day's work)				
Women	361.5	400.3	292.3	364.9
Men	142.1	162.5	167.2	173.2

Management level 1 corresponds to the CEO, management level 2 is the group executive management team, and management level 3 is the divisional management teams. Regnskapshuset SR and Monner AS are not included in the figures.

Cooperation with employee organisations and the safety service

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

Employee compensation

The group's strategy is to practise a competitive compensation model that allows the group to attract the skills of the future and retain capable employees. The group's compensation model consists of three elements: fixed salary, variable pay and other employee benefits. The variable compensation scheme is intended to encourage extraordinary performance and results and has been designed in line with the group's strategies, business goals and values.



Business areas

Retail market

SpareBank 1 SR-Bank is the leader in the retail market in Southern and Western Norway with 348,000 retail customers older than 13. In 2018, a branch was also opened to serve customers in Oslo.

Market share in Southern and Western Norway was around 20% at the end of 2019. In addition to retail customers, the division serves 9,400 small business and farming customers, as well as around 3,500 clubs and associations. A complete range of good digital services, a modern customer service centre, and a well-developed network of branches provide our customers with fast, easy access to financial services and expertise via all channels.

Corporate market

The corporate market division has 17,700 corporate customers in five regional business units and two specialist units: one for the energy and maritime sector and one for the public sector.

SpareBank 1 SR-Bank is a total provider of financial products and services for corporate customers, which are currently being supplemented with a specialist unit within international cash management (ICM). We are constantly striving to put more digital sales and self-service solutions in place for corporate customers.

Capital market

SpareBank 1 SR-Bank Markets is the region's leading securities firm.

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

Strategy, innovation and development

The group's strategy and IT development work has been collected in the strategy, innovation and development business area.

The idea is to ensure that in the future more attention is paid to all of the group's development work and that it has more muscle. The business area is also responsible for the results of

SpareBank 1 SR-Bank's FinStart Nordic innovation venture. The company was established as a wholly owned subsidiary and will be run as a combination venture capital/startup company.

Customer services and marketing

The business area is responsible for the development of the group's brands and customer journeys, including the ecosystem surrounding the customer and the group's value chain. The area is responsible for the development of the group's products, services, channels, marketing, and CRM activities.

SUBSIDIARIES

EiendomsMegler 1 SR-Eiendom AS

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

SR-Forvaltning AS

SR-Forvaltning AS is licensed to provide active management and securities management services. SR-Forvaltning expanded operations in autumn 2018 by establishing more new securities funds. At the start of 2020, the company manages eight securities funds, of which three are unit trusts, two bond funds and three balanced funds. SR-Forvaltning also manages discretionary portfolios for SpareBank 1 SR-Bank ASA's pension fund, as well as for external customers based on discretionary mandates. The external customer base comprises pension funds, public and private enterprises, and affluent individuals. Since its start-up in 1999, the company has produced a good, long-term, risk-adjusted return for its customers, in both absolute and relative terms.

SpareBank 1 Regnskapshuset SR AS

The company was established in the first quarter of 2015 and has since its start-up grown from NOK 0 to almost NOK 125 million in revenue. At the start of 2020, the company has seven offices, three in Rogaland, three in Bergen and one in Grimstad, which in total serve around 2,600 customers. Since its start-up, the company has gained a solid market position in Rogaland, Vestland and Agder within accounting services and is experiencing a good influx of new customers who need modern, efficient accounting services. Business

areas within advice and payroll/HR are also growing and the company is experiencing good demand in this area in the market.

SR-Boligkreditt AS

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

FinStart Nordic AS

The company was formally established on 1 January 2018 and is a startup factory for new ideas. FinStart Nordic is tasked with helping to develop an even better customer offering through the development of financial services, combined with a financial upside. FinStart Nordic has completed eight investments and also established a company on its own.

Monner AS

Monner AS is a payment company and a registered loan arranger. Loans from private investors (people and limited liability companies) to small and medium-sized Norwegian limited liability companies are arranged via its proprietary digital platform. On 1 July 2019, SpareBank 1 SR-Bank ASA purchased 100% of the shares in Monner AS.

PART-OWNED COMPANIES

SpareBank 1 Gruppen AS

SpareBank 1 Gruppen AS is owned by:

- SpareBank 1 SR-Bank ASA (19.5%)
- SpareBank 1 Nord-Norge (19.5%)
- SpareBank 1 SMN (19.5%)
- SpareBank 1 Østlandet (12.4%)
- Samarbeidende Sparebanker AS (19.5%)
- Norwegian Confederation of Trade Unions (LO) and affiliated trade unions (9.6%).

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

- SpareBank 1 Forsikring AS
- ODIN Forvaltning AS
- Conecto AS
- SpareBank 1 Factoring AS
- Mohdi Finans AS
- SpareBank 1 Spleis AS
- Fremtind Forsikring AS (65%)
- LO Favør AS (51%)

SpareBank 1 Utvikling DA

SpareBank 1 Utvikling DA is responsible for alliance processes and the delivery of services to the SpareBank 1 Alliance. It also develops and delivers things such as common IT/mobile phone solutions, branding and marketing concepts, business concepts, products and services, expertise, analyses, processes, best practice solutions and purchasing. SpareBank 1 SR-Bank owned a 18.0% stake in SpareBank 1 Banksamarbeidet at year end 2019. The companies in SpareBank 1 Gruppen AS and SpareBank 1 Utvikling DA together constitute what is called the alliance.

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

- BN Bank ASA
- SpareBank 1 Boligkreditt AS
- SpareBank 1 Kredittkort AS
- SpareBank 1 Næringskreditt AS
- SpareBank 1 Markets AS
- SpareBank 1 Betaling AS

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are licensed mortgage companies and issue covered bonds in the bank's home mortgage and commercial property portfolios, respectively, that have been bought from the owner banks. The companies are owned by the savings banks that make up the SpareBank 1 Alliance and help ensure the owner banks have access to stable, long-term funding at competitive rates.

At year end 2019, SpareBank 1 Boligkreditt AS's total loan volume amounted to NOK 191.3 billion, NOK 4.2 billion of which was from home mortgages bought from SpareBank 1 SR-Bank. The bank owned 2.2% of the company, and this stake is adjusted annually based on its share of the sold volume at the end of each year.

At year end 2019, SpareBank 1 Næringskreditt AS's total loan volume amounted to NOK 10.3 billion. As at year end 2019, SpareBank 1 SR-Bank ASA had not sold any loans to SpareBank 1 Næringskreditt AS. The bank owned 15.6% of the company at year end 2019.

BN Bank ASA

SpareBank 1 SR-Bank and the other savings banks in the SpareBank 1 Alliance acquired Glitnir Bank ASA in the fourth quarter of 2008. It has since been renamed BN Bank ASA. SpareBank 1 SR-Bank owns a 35.0% stake.



The SR-Bank share



Facts about our share

SpareBank 1 SR-Bank ASA converted from an equity certificate bank to a limited liability savings bank on 1 January 2012. (Former equity certificate holders received one share for each equity certificate they held at the time of the conversion.)

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

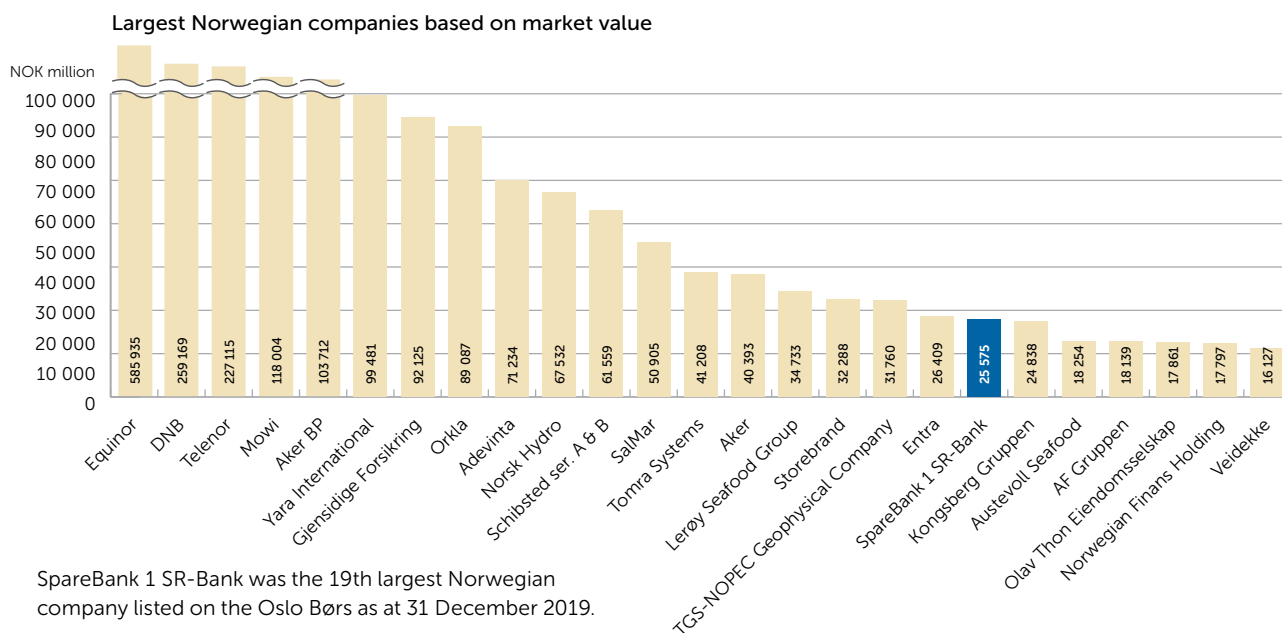
The ticker code on the Oslo Børs is "SRBANK". "SRBANK" is included in the Oslo Børs's main index OSEBX, OSEAX All-share index and OSE40 Financials/OSE4010 Banks sector index. The liquidity segment is Match. SRBANK is also included in the "MSCI Global Small Cap index".

Facts ABOUT Sparebankstiftelsen SR-Bank

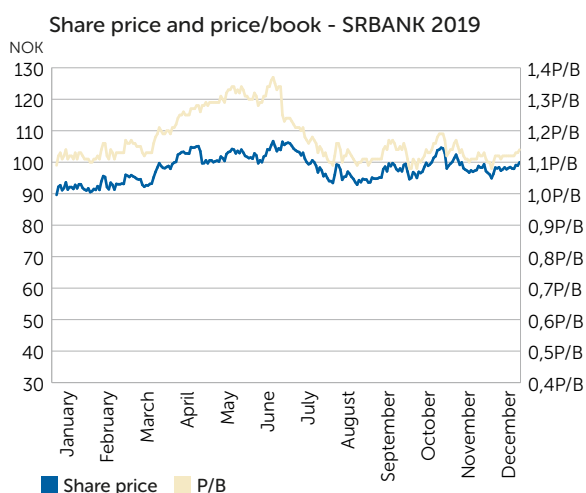
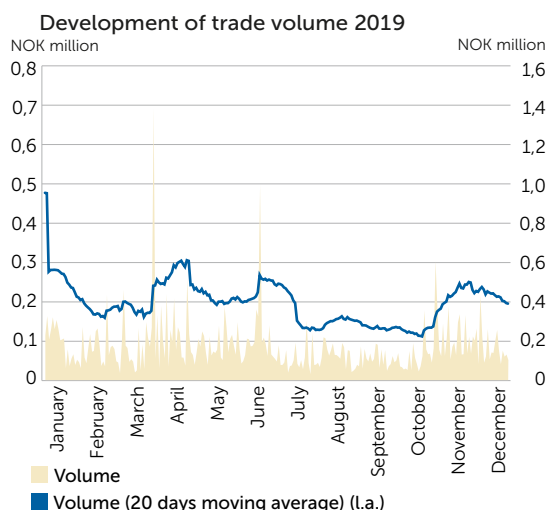
The Sparebankstiftelsen SR-Bank foundation was established as part of the conversion. The purpose of the foundation is to manage the shares received upon its formation and to exercise and maintain a substantial, long-term and stable ownership interest in SpareBank 1 SR-Bank ASA. Ownership should be exercised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

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

As at 31 December 2019, the foundation owned 72,419,305 shares, equivalent to 28.3% of shares issued.



SpareBank 1 SR-Bank was the 19th largest Norwegian company listed on the Oslo Børs as at 31 December 2019.



Dividend policy

SpareBank 1 SR-Bank ASA's financial goal for its activities is to achieve results that provide a good, stable return on the bank's equity, thus creating value for the owners in the form of competitive dividends and a higher share price.

Consideration must be given to financial needs, including capital adequacy requirements and the group's targets and strategic plans, when determining the annual dividend. Unless capital requirements dictate otherwise, the goal of the board is to distribute approximately half of the annual net profit for the period as dividends.

Market value:

NOK 25.6 billion

Largest owner:

Sparebankstiftelsen SR-Bank

The parent company's distributable profit was NOK 2,778 million, equivalent to NOK 10.87 per share. Consolidated earnings per share was NOK 12.22. In line with SpareBank 1 SR-Bank's dividend policy, various factors have been taken into consideration in determining the dividend, including, in particular, financial strength and the tier 1 capital ratio. The current requirements indicate that the group must have common equity tier 1 capital of 15.1%, including a management buffer of 0.9 percentage points. When the systemic risk buffer increases on 31 December 2020, the new target for common equity tier 1 capital could be 16.7%, including a management buffer of 1.0-percentage points.

The board proposes a dividend of NOK 5.50 per share for 2019. This corresponds to a payout rate of around 45.0% of consolidated earnings per share.

Investor policy

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

It is in SpareBank 1 SR-Bank AS's own interests to publish current financial analyses of the highest possible quality. All analysts are treated equally at all times regardless of their recommendations and views on the bank's share. At the end of 2019, 12 brokerage houses officially covered the SRBANK shares. Updated contact information for these is available at all times on: www.sr-bank.no/ir.

Information addresses

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

Other links to financial information: oslobors.no (Oslo Børs)

2019 financial calendar

General meeting:	23 April 2020
Ex dividend date:	24 April 2020
First quarter:	7 May 2020
Second quarter:	6 August 2020
Third quarter:	29 October 2020
Fourth quarter:	4 February 2021

Effective return 2019:

17.2%

Dividend 2019:

NOK 5.50 per share

Ownership

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

The share price rose from NOK 89.20 to NOK 100.00 in 2019. Taking into account the paid dividend of NOK 4.50, this represents an effective return of 17.2%. The Oslo Børs Benchmark Index rose by 16.5% in the same period.

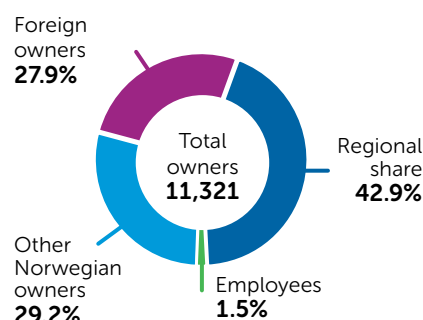
There were 11,321 (10,804) owners of SRBANK at year end 2019. The percentage owned by companies and individuals based abroad was 27.9%, and the percentage owned by companies and individuals resident in Rogaland, Agder, and Vestland was 42.9%. The 20 largest shareholders owned a total of 58.4% of the shares. The bank owned 91,311 treasury shares. Group employees owned a total of 1.5% of the shares at the end of the year.

Credit rating

Moody's Investor Services rates SpareBank 1 SR-Bank A1 long-term and P-1 short-term, while Fitch Ratings rates it A- long-term and F2 short-term.

The table below shows the 20 largest shareholders as at 31 December 2019:

20 largest owners as at 31 December 2019			
	No. of shares	Stake %	
1	Sparebankstiftelsen SR-Bank	72,419,305	28.3%
2	National Insurance Scheme Fund	19,650,845	7.7%
3	State Street Bank and Trust Co, USA	14,306,844	5.6%
4	SpareBank 1-stiftinga Kvinnherad	6,226,583	2.4%
5	Vpf Nordea Norge Verdi	3,873,936	1.5%
6	Danske Invest Norske Instit. II	3,843,345	1.5%
7	Odin Norge	3,241,248	1.3%
8	J.P. Morgan Chase Bank N.A., USA	2,898,345	1.1%
9	Morgan Stanley & Co Int, UK	2,699,201	1.1%
10	Pareto Aksje Norge	2,406,025	0.9%
11	Clipper AS	2,211,000	0.9%
12	Verdipapirfondet Alfred Berg Gambak	1,991,707	0.8%
13	KLP Aksjenorge Index	1,874,547	0.7%
14	Arctic Funds plc, Ireland	1,794,087	0.7%
15	Verdipapirfondet DNB Norge	1,750,049	0.7%
16	Verdipapirfondet Alfred Berg Norge	1,741,511	0.7%
17	State Street Bank and Trust Co, USA	1,703,706	0.7%
18	Westco AS	1,701,687	0.7%
19	Norwegian Armed Forces' Personnel Service	1,599,656	0.6%
20	Danske Invest Norske Aksjer Inst.	1,596,703	0.6%
Total 20 largest	149,530,330	58.5%	



Key figures	2019	2018	2017	2016	2015
Market price 31.12, NOK	100.00	89.20	87.00	60.75	39.30
Dividend per share, NOK	5.50	4.50	4.25	2.25	1.50
Direct return ¹⁾	5.5%	5.0%	4.9%	3.7%	3.8%
Effective return ²⁾	17.2%	7.4%	46.9%	58.4%	-21.3%
Book equity per share, NOK ³⁾	89.90%	82.27	77.24	71.54	66.14
Earnings per share, NOK	12.22	8.98	8.16	6.87	6.83
Payout ratio, net ⁴⁾	45%	50%	52%	33%	22%
No. of shares issued 31.12	255,751,082	255,751,082	255,751,082	255,751,082	255,751,082
Treasury shares 31.12	91,311	85,206	206,757	108,983	25,398
No. of outstanding shares 31.12	255,659,771	255,665,876	255,544,325	255,642,099	255,725,684

¹⁾ Dividend as a percentage of market price at year end.

²⁾ Appreciation during the year plus dividend paid as a percentage of market price at the beginning of the year.

³⁾ Equity divided by number of shares issued.

⁴⁾ Dividend as a percentage of the consolidated net profit for the year

Sustainability

SPAREBANK 1 SR-BANK'S APPROACH TO SUSTAINABILITY

SpareBank 1 SR-Bank is a responsible corporate citizen

SpareBank 1 SR-Bank has practised a philosophy of long-term sustainability ever since the establishment of Egersund Sparebank in 1839. Sustainability remains a key part of the group's overarching strategy and is well-integrated into all parts of the group's operations. SpareBank 1 SR-Bank takes a proactive approach to sustainability and has chosen to particularly prioritise responsibility for the climate and environmental challenges society is facing.

To ensure that the group continues to develop sustainably, we systematically focus on three different areas of sustainability: the climate and environment, the economy, and social conditions. Account is taken of these areas in our products and services, advice on investment and credit decisions, marketing, purchases, corporate governance model, and group executive management team. Our internal work on HSE, ethics and environmental efficiency is also influenced by the same areas of sustainability. Extensive communication work was done during the year, via websites and external news hubs, to clarify the group's work on sustainability to customers, owners and other stakeholders. Internal communication measures were also implemented as part of the training in relevant sustainability themes.

Although SpareBank 1 SR-Bank is first and foremost a financial group for Southern Norway, the group is very conscious of how our decisions can have an impact in a global context. SpareBank 1 SR-Bank therefore supports the UN Global Compact's 10 principles for sustainability, both through annual reporting and active participation. The group's overall work on sustainability is based on the 17 UN Sustainable Development Goals and the Paris Agreement.

Many new initiatives were set in motion during the year. In addition to supporting all 17 of the UN Sustainable Development Goals, the group has chosen three goals where it believes SpareBank 1 SR-Bank can have the greatest impact. These are "Gender equality," "Decent work and economic growth" and "Climate action". Targets and specific measures have been prepared for each of these goals. The measures will be implemented during the defined strategy period, which lasts until the end of 2021.



OUR CHOSEN UN SUSTAINABLE DEVELOPMENT GOALS

Our targets and work on these:

Gender equality

1. Ensure women full and genuine participation, and equal opportunities to gain senior positions at all levels.
2. Equal pay
3. Strengthen the role of women in personal finances



Measures:

In 2019, the group's diversity and equal opportunities committee implemented a number of measures in line with Sustainable Development Goal No. 5 "Gender equality".

- In 2019, work started on improving the gender balance in the group. This work is being done in connection with recruitment, succession planning, and development and management programmes. It will continue in 2020.
- The minimum salary levels for various groups of positions were raised and an equal pay pot was established to equalise pay differences attributable to gender. An equal pay pot will also be set aside for the same purposes in 2020.

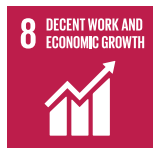
To achieve the goals the group has set itself in this area, it is important that managers have the knowledge they require to understand the challenges associated with equal opportunities. The diversity and equal opportunities committee will work to ensure this is the case in 2020.

- To strengthen the role of women in personal finances, SpareBank 1 SR-Bank will contribute to improving knowledge in this area. A number of measures were implemented in 2019 to ensure that the same information is provided to both genders in advice processes. The work started with our customers will continue and be developed further in 2020.

In 2019, SpareBank 1 SR-Bank drew up and approved “Overarching guidelines for diversity and equal opportunities”, which provide direction for the group, our customers and our partners. In 2020, the group will focus on implementing the guidelines.

Decent work and economic growth

1. Stimulate sustainable growth and workplaces in our market area
2. Facilitate entrepreneurship, innovation and job creation
3. Promote a safe and secure working environment and fair working conditions
4. Work to make banking and financial services available to all



Measures:

Funding requirements are an important means of stimulating sustainable growth and development. In 2019, SpareBank 1 SR-Bank focused on putting in place governing documents and guidelines, which included revising the “Guidelines for sustainability in the corporate market”. SpareBank 1 SR-Bank also signed up to the Responsible Ship Recycling Standards in 2019, which focus on the proper disposal of ships.

- Gründerhub is one of the group’s initiatives for creating the jobs of the future. Gründerhub has been established in Stavanger, Kristiansand and Bergen. More than 300 entrepreneurs have completed the 4-month programme. The companies that have participated in Gründerhub have created 325 new jobs through 200 companies. In 2019, these companies’ combined earnings were around NOK 150 million.
- FinStart Nordic is a wholly owned company that invests in developing start-up companies with a focus on FinTech. The company has invested in 11 different companies and employs more than 100 people.

Climate action

1. SpareBank 1 SR-Bank will be a climate neutral group
2. Strengthen the group’s ability to counteract, adapt to and mitigate the consequences of climate change
3. Strengthen customers’ ability to counteract, adapt to and mitigate the consequences of climate change



Measures:

- SpareBank 1 SR-Bank will become a climate neutral group. This will primarily be achieved by cutting CO2 emissions from its operations. Projects were started in 2019 to refine the group’s measures in order to reduce its CO2 emissions further. This will be achieved by measures such as drawing up a new travel policy that includes a needs analysis, considering eco-certification, and specific work on reducing energy use in our office premises.
- In 2019, 650 of the group’s employees moved into a new head office. The main structure is based on wood. The construction materials in Finansparken bind 3350 tonnes of CO2.

- Several of the measures under Sustainable Development Goal No. 13 “Climate action” were completed in 2019. For example, the group now reports on the proportion of renewables in its credit portfolio on a quarterly basis, investments are ESG-assessed, and a green home mortgage bond has been issued. In 2020, SpareBank 1 SR-Bank will analyse carbon footprints when investing and in the loan portfolio, as well as focus on green products and services.
- An assessment tool was developed in 2019 to assess companies’ ESG scores. The purpose of this is to assess the group’s own sustainability risk and to improve the ability of both the group and customers to counteract, adapt to and mitigate the consequences of climate change. The focus in 2020 will be on implementing the assessment tool in the advice processes.

In 2019, the group signed up to the UN Principles for Responsible Banking, UNEP Finance Initiative. This commits SpareBank 1 SR-Bank to implementing measures that support these principles over the next 4 years until the end of 2023.

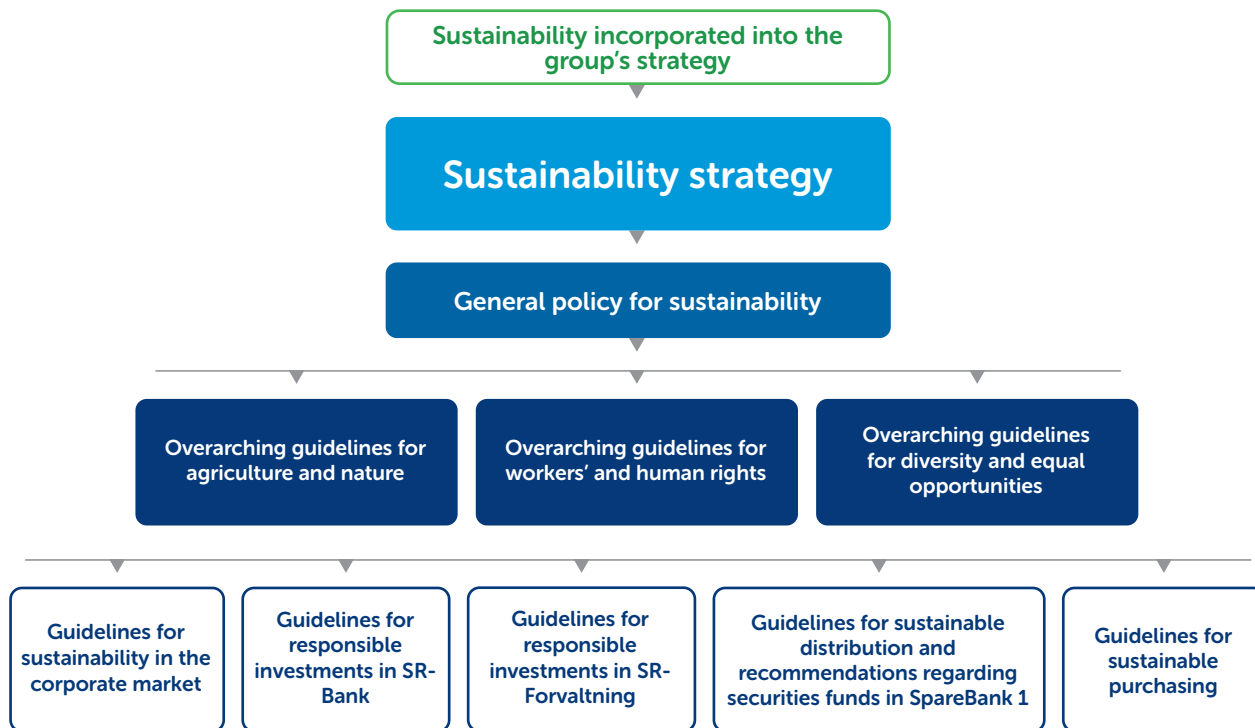
SPAREBANK 1 SR-BANK’S SUSTAINABILITY STRATEGY

The current sustainability strategy was approved by the board at the start of 2019. Further work was done during the year to highlight the fact that the climate and environment are important components of the sustainability strategy. A broadly composed internal working group has assessed various scenarios for the sustainability strategy and has prepared a basis for revising the strategy in 2020 with the aim of clarifying how the group can contribute to mitigating both its own and society’s climate risk in the best possible manner.

The sustainability strategy provides guidance for the group’s work on sustainability. The strategy is there to clarify and support employees and managers when they make decisions and in their day-to-day work. It also clarifies to customers and investors how sustainability is integrated into SpareBank 1 SR-Bank’s activities and how it impacts the group’s decisions.

The sustainability strategy must be seen in conjunction with other governing documents and is part of the group’s strategy and associated business plan, the bank’s code of conduct, the credit strategy, and other relevant policies and guidelines in the group. The sustainability strategy and associated guidelines apply to all of the group’s operations, including subsidiaries, irrespective of customer group and organisational affiliation. Sustainability is included in the documentation and routine work associated with credit and investments/management. The guidelines are based on, among other things, the internationally recognised principles in the UN Global Compact (UNGC) and the OECD’s guidelines for multinational companies.

For a more detailed overview of sustainability in SpareBank 1 SR-Bank, see: www.sparebank1.no/content/dam/SB1/bank/sr-bank/om-oss/Samfunn/SpareBank1SRBankBaerekraftv5.pdf



The figure shows how the governing documents have been incorporated into the group.

OUR STAKEHOLDERS AND KEY SUSTAINABILITY THEMES

Maintaining a dialogue with society is important if we are to help it achieve the goals of the Paris Agreement and in order for the group to understand and address the requirements of consumers, investors and the authorities. SpareBank 1 SR-Bank has a good, open dialogue with customers and other stakeholders. We prioritise the areas of our business model that appear to be most important to our stakeholders based on this dialogue.

In 2019, SpareBank 1 SR-Bank arranged two events with the aim of establishing a dialogue with different groups of customers about what they expect of the group as far as sustainability is concerned. They provided specific input that was incorporated into our continued work on both the sustainability strategy and the groups' three chosen Sustainable Development Goals. Besides this, the group maintained dialogues with employees, owners, the authorities, competitors, partners, suppliers, special interest groups, the media, rating agencies, and analysts.



The figure illustrates our dialogue with local communities on themes within sustainability.

	Forums	Theme	Measures
Customers	<ul style="list-style-type: none"> • Customer and market surveys in the retail and business markets • Digital channels (sr-bank.no, Facebook, Instagram, LinkedIn, Snapchat, Nyhetssenter, chatbot, email, SMS, online bank, and mobile bank) • Customer services centre for retail and corporate customers • Dialogue at customer events 	<ul style="list-style-type: none"> • What customers think of the group and the group's operations • Responsible finance, transparency, trust, and local presence • UN Sustainable Development Goals 	<ul style="list-style-type: none"> • Dialogue with customers through responses to enquiries via telephone, staffed channels, and digital channels • Customer feedback was incorporated into the work on the UN Sustainable Development Goals
Employees	<ul style="list-style-type: none"> • Annual organisational survey • Annual employee performance reviews • Cooperation with trade unions • Workshops and interviews in connection with risk assessments • Workshops in connection with the preparation of the sustainability strategy • Working groups in connection with the UN Sustainable Development Goals • Information, conversations, stands 	<ul style="list-style-type: none"> • Working environment • Employee development • Involvement of employees in the development of the group • Risk assessments related to operational risk and reputation • Responsible finance, transparency, financial crime, ethics and production of personal data • Important themes within sustainability • UN Sustainable Development Goals • Collective effort to change transport patterns 	<ul style="list-style-type: none"> • Improvement measures in consultation with management • Trade unions as resources • Specific measures related to identified risks are followed up by the system for following up measures • Selected Sustainable Development Goals have been incorporated into the Group's work on sustainability • Leasing agreement for electric bicycles
Owners	<ul style="list-style-type: none"> • Regular follow-up of the company's largest owners, including Sparebankstiftelsen SR-Bank • General meeting: • Board elections for shareholders • Stock exchange announcements and interim reports • Investor presentations 	<ul style="list-style-type: none"> • Financial performance and Sparebankstiftelsen SR-Bank keeping the savings bank traditions alive • Annual financial statements and any other company actions • Briefing on economic cycle in Southern Norway and the company's performance and status in the financial markets • Annual action plan for investor relations • Proportion of renewables in credit portfolio 	
Authorities	<ul style="list-style-type: none"> • Contact with control and supervisory authorities (Financial Supervisory Authority of Norway, Norwegian Data Protection Authority, etc.) • NAV working life centre 	<ul style="list-style-type: none"> • Operations, security and personal data protection • Sick leave, healthy workplace 	<ul style="list-style-type: none"> • Measures for compliance and protection of personal data (GDPR) • Improvement measures in consultation with management

	Forums	Theme	Measures
Society as a whole	<ul style="list-style-type: none"> • Customer events in Finansparken and in Bjergsted. • Various forums as a member of Finance Norway • Business Barometer for Rogaland, Agder, Hordaland and Oslo • Cooperation with the Norwegian Confederation of Trade Unions (LO) via LOfavør • Extensive dialogue with clubs and associations through cooperation agreements and sponsorships (Stavanger Concert Hall, Viking Fotballklubb, Norwegian Ski Federation, Blink Festival, and Tall Ships Races) • Gründerhub • University of Stavanger • City of Stavanger • Kolumbus 	<ul style="list-style-type: none"> • UN Sustainable Development Goals • Climate risk • Understanding the region's potential and challenges • Products and services for LO members • Responsible investment, transparency, trust, local presence, local roots, and local contributions • Creating new future-oriented businesses and jobs • Safer bicycle paths • Public transport, service network • Home-work-home 	<ul style="list-style-type: none"> • Annual award prizes for entrepreneurs to encourage entrepreneurship • Swap weekends and other events
Special interest organisations	<ul style="list-style-type: none"> • Climate Foundation • Conversations with Future in our Hands • UN Global Compact • UN Global Compact Network Norway • Finance Sector Union of Norway • LO Finans • PRI • Norsif • Finance Norway • Norwegian Fund and Asset Management Association (VFF) 	<ul style="list-style-type: none"> • Climate risk • Responsible finance, transparency, trust, and local presence • Selected sustainability themes • Reporting UN Global Compact • Board position in UN Global Compact Network Norway 	<ul style="list-style-type: none"> • Joint events • Response to the ethical banking guide • Updating website and reviewing internal guidelines
Subsidiaries	<ul style="list-style-type: none"> • SR-Forvaltning • Fremtind • Regnskapshuset • Odin 	<ul style="list-style-type: none"> • Climate risk • Responsible finance, transparency, trust, and selected sustainability themes • Business opportunities 	
Suppliers	<ul style="list-style-type: none"> • Email, phone and meetings 	<ul style="list-style-type: none"> • Suppliers' work on climate, the environment, social conditions and ethical business practice 	<ul style="list-style-type: none"> • Surveying and systematisation of the work in relation to suppliers
SpareBank 1 Alliance and in joint committees, including purchasing and capital management/funds	<ul style="list-style-type: none"> • Discussion meetings via email, physical meetings and online meetings in established sustainability forums 	<ul style="list-style-type: none"> • Climate risk • Responsible finance, transparency, trust, and selected sustainability themes 	<ul style="list-style-type: none"> • Groups in fund management, procurement

SpareBank 1 SR-Bank has a responsibility to act as a positive influence in areas that are closely related to our core business. It is through our core business that the group can have the greatest impact and make the biggest contribution to developing society in a more sustainable direction. SpareBank 1 SR-Bank's core business mainly involves providing loans in the retail and corporate markets. Besides this, the group is able to exercise influence by making investments, both directly and on behalf of customers, via the group's subsidiary, SR-Forvaltning, and SpareBank 1 Gruppen's part-owned company, Odin Forvaltning.

In 2018, SpareBank 1 SR-Bank conducted a materiality analysis. The results of the analysis determined what is focused and reported on within the area of sustainability. The results showed that we should particularly focus on financial crime, ethics and anti-corruption, protecting personal data and information security, excluding companies that violate our policies, and guidelines for responsible credit. Therefore, in the current strategy period up to 2021, the emphasis will be on further developing the group's approach to sustainability in our core business and financial services. This means that, going forward, the group will ensure that it lends responsibly, raises awareness about and is in a better position to manage climate risk, continues to practise active ownership, implements the continuous positive screening of investment portfolios, and launches new green products.

For SpareBank 1 SR-Bank's materiality analysis, see: www.sparebank1.no/content/dam/SB1/bank/sr-bank/om-oss/Samfunn/SpareBank1SRBankBaerekraftv5.pdf

SUSTAINABILITY IN SPAREBANK 1 SR-BANK'S DAY-TO-DAY OPERATIONS

Combating money laundering and terrorist financing

Fighting financial crime, which includes preventing the proceeds of criminal activities being laundered and terrorist financing, is demanding and important work. Ensuring that the industry is not misused for illegal activities through the group's services and products is part of the financial services industry's social mission. SpareBank 1 SR-Bank prepares an annual assessment of the risk of money laundering and terrorist financing linked to its operations, along with the associated risk mitigation measures. A wide-range of key people in the group are involved in producing the risk assessment before it is considered by the board. "Group guidelines for anti-money laundering and sanctions" have been drawn up and are available to all employees. Managers have to confirm on an annual basis that they take a conscious approach towards the risk associated with money laundering and terrorist financing, and that they are familiar with the guidelines and policy that is anchored in the "Group guidelines for anti-money laundering and sanctions".

SpareBank 1 SR-Bank also has an extensive framework of guidelines intended to prevent the group being used for money laundering, tax evasion or terrorist financing. The framework is there to ensure that we comply with the statutory requirements in various processes through guidelines, customer measures, electronic monitoring, sanctions regulations, and procedures for internal control. In 2019, the internal audit function conducted four internal audits in the group in which the focus was on anti-money laundering. Two of the audits were related to customer measures and transaction monitoring in the bank, and the other two were conducted in two of the bank's subsidiaries.

The group has committed to complying with the framework and guidelines in the Wolfsberg principles for combatting financial crime. The Wolfsberg principles establish requirements for, for example, transparency in customer transactions and how information on these is monitored and managed in line with the authorities' requirements.

In 2020, the group will focus heavily on compliance with the Money Laundering Act and continue the work with increased resources and continuous employee training.

Ethics and anti-corruption

Corruption puts long-term value creation at risk and creates distrust in society's systems. SpareBank 1 SR-Bank's code of conduct is intended to contribute to, among other things, fighting corruption, extortion, bribery, whitewashing, fraud, terrorist financing, and the financing of other criminal activities. The code of conduct is intended to make people aware of the potential dilemmas and ensure that all of our employees maintain high ethical standards.

SpareBank 1 SR-Bank focuses on the board, management and employees receiving good training in our ethical framework and conducted an anti-corruption e-learning course in 2019. The group believes that it is important that the board and management, as well as advisers, have a good understanding of our ethical framework.

The code of conduct was revised and updated in 2019. SpareBank 1 SR-Bank's code of conduct can be found here: www.sparebank1.no/content/dam/SB1/bank/sr-bank/om-oss/Samfunn/Etiske_retningslinjer.pdf

An "Overarching anti-corruption policy" was drawn up in 2019 and towards the end of the year a general risk analysis was conducted based on working meetings with purchasing, accounting and employees in both the retail and the corporate market. The guidelines for anti-corruption and impartiality have been incorporated into the purchasing and credit policy, and partners and suppliers are sent the sustainability appendix which includes the anti-corruption guidelines.

The group has its own ethics committee, which regularly assesses whether the code of conduct satisfies the requirements and expectations of customers, suppliers and

society as a whole. The ethics committee includes representatives of several business areas: the EVP, Communications and Sustainability, the EVP, HR and Business Support, legal, corporate market, retail market, compliance and AML, organisation and HR, credit activities, and union representatives from the Finance Sector Union of Norway. The committee met twice in 2019.

All employees must sign the code of conduct every year. Annual refreshers on ethics are also provided via the authorisation scheme for financial advisers. The anti-corruption work includes ensuring new employees read and sign the code of conduct. This is also included as a topic in Ethics Week.

The group operates a zero tolerance policy with respect to corruption and compliance assessments are conducted in relation to the anti-corruption guidelines. The group review specific transactions and activities, planned and existing business connections, and various categories and groups of employees. The assessments take a risk-based approach and the inspections include financial and non-financial control actions. Reporting lines have been established and any measures are followed up in line with existing routines.

The group has whistleblowing routines for anonymous, written and verbal reports. The routines specify:

- that whistleblowers are protected against reprisals
- how reports should be submitted – externally anonymously or not anonymously via multiple channels, including via an application that uses an untraceable QR code
- the requirements that apply for processing reports

SpareBank 1 SR-Bank has established an external whistleblowing agreement with the law firm EY. The information will be treated confidentially by dedicated case offices in EY.

Theme	No. of	Stake
Board members of SR-Bank ASA that have been aware of the guidelines for ethics, including anti-corruption	8	100%
Board members of SR-Bank ASA that have received training in anti-corruption	8	100%
Permanent employees who have signed the code of conduct	1,142	100%*
Permanent employees who completed anti-corruption training	308	100%**
Corruption related incidents***	0	Not relevant

Regnskapshuset is not included in the permanent employee figures.

* All permanent employees, except those on long-term sick leave, other leave or similar, have signed the code of conduct.

** All managers and corporate advisers complete extended anti-corruption training.

*** Since there were no corruption related incidents, no employees were punished, no supplier agreements were terminated due to corruption, and there were no court cases related to corruption in which the company or an employee was involved.

Board members have completed a separate anti-corruption training programme, and are directly involved in the work on formulating and quality assuring the group's code of conduct each year. In 2019, the board approved the group's revised code of conduct and associated anti-corruption guidelines and rules. Besides the board, managers and some key personnel take a special training course in anti-corruption. Based on this, 308 permanent employees have completed the extended course.

Data protection and information security

SpareBank 1 SR-Bank processes a large amount of customer information and personal data. The new personal data rules, which consist of the General Data Protection Regulation (GDPR) and Personal Data Act, provide strong protections for privacy. One of the group's most important tasks is to protect the information exchanged between the customer and the bank by ensuring the necessary confidentiality, integrity and availability. The new regulations give customers more rights, and routines and procedures have been drawn up to safeguard these rights. Furthermore, SpareBank 1 SR-Bank's privacy statement ensures individuals have a right to information about how the group processes personal information in an easily accessible manner.

SpareBank 1 SR-Bank has governing documents in the form of the information security policy, outsourcing policy and privacy policy, as well as standards, guidelines and procedures under these. This framework is intended to ensure compliance with all of the fundamental principles for security and privacy. All new or modified systems, products and services undergo careful assessment in a risk management process. This ensures security by design, privacy by design and compliance with privacy principles.

The area of privacy has its own control plan which includes risk-based internal controls, audits of governing documents and routines, assessments of systems/services, and annual risk assessments. The information security management system is reviewed by the internal audit function and is subject to annual risk assessments.

In SpareBank 1 SR-Bank's experience, more breaches of personal data security are being identified and reported than before. The increase in these numbers is a result of the employees' increased awareness and competence, and confirms that the training that has been given has been effective. In 2019, the group reported 19 breaches of personal data security to the Norwegian Data Protection Authority. The authority did not issue instructions or impose fines for any of these breaches. This was due to the fact that the breaches were not considered serious, that the group practises effective

and robust event management, and that adequate measures were implemented to correct errors and prevent future breaches.

In 2019, the bank received two formal customer complaints about its processing of personal data. Two further complaints were received from the Norwegian Data Protection Authority where the customers had complained about the bank's processing of personal data directly to the authority. All of these complaints were closed by the authority without instructions or criticism.

Greater familiarity with the privacy regulations is an important focus area for SpareBank 1 SR-Bank and all employees have completed an e-learning training course. All new employees must take classes in privacy.

Responsible information, communication and marketing

Marketing loan and credit agreements responsibly is vital for all players who offer such products to consumers in order to ensure confidence in, and the integrity of, the financial services industry. The same applies to savings, pension and insurance products. SpareBank 1 SR-Bank is subject to strict regulations concerning product labelling and marketing, and has clear, relevant procedures in place to ensure compliance with these. The group has routines and guidelines that address the regulatory requirements, as well as industry standards and legal standards. As one of Norway's largest banks, SpareBank 1 SR-Bank has major direct and indirect impacts on society through its provision of financial products.

The group has established policies and group guidelines for granting credit, investment advice, and selling insurance products. These are specified in the group's credit policy guidelines, routines and guidelines for the investment firm's business, as well as detailed routines and procedures for the internal systems. Training is also provided via the Authorisation Scheme for Financial Advisers (AFR), training programmes via VPF and VPF, and internal specialist days and training modules from SPAMA.

SpareBank 1 SR-Bank has an independent external auditor (EY) that conducts independent evaluations. It also has a risk management function and a compliance function that conduct inspections and provide the second line of defence. In addition to this, complaints procedures have been established that safeguard the interests of customers.

No adverse events involving a failure to comply with the regulations or voluntary guidelines for product and service information, labelling and marketing were recorded in 2019.

Environmental responsibility in own operations

As a responsible financial group, SpareBank 1 SR-Bank takes a proactive approach to environmental and climate challenges. The group has chosen to particularly prioritise Sustainable

Development Goal No. 13 "Climate action". This obligates the group to contribute to the restructuring that society must undergo. One of the ways the group will do this is by becoming climate neutral.

We are constantly striving to be a resource-saving and environmentally-efficient organisation by setting requirements for our own organisation, suppliers, and partners. We arrange for employees to reduce their environmental impact and to make environmentally friendly choices.

In 2019, SpareBank 1 SR-Bank opened its new head office, Finansparken. Finansparken was built with high ambitions in relation to sustainability and energy. It is a sustainable building with a low climate impact and low energy needs. The move into Finansparken was completed in November 2019 and the climate accounts for 2019 have therefore as yet not been noticeably affected by the new building.

In 2018, SpareBank 1 SR-Bank registered energy and climate accounts based on the international "Corporate Accounting and Reporting Standard" for the first time. This standard was developed by the Greenhouse Gas Protocol Initiative – the GHG Protocol. The climate accounts show tonnes of CO₂ that are direct and indirect emissions related to the group. These are greenhouse gas emissions that come from consumption due to, for example, travel, waste management, and energy use. Based on the climate accounts, the group can identify which sources impact the external environment and implement concrete measures to minimise them. The process of drawing up ambitions and goals for reducing greenhouse gas emissions in our operations started in 2019. This work will continue in 2020.

The climate accounts for 2019 show a reduction in CO₂ emissions from 2018 to 2019. The group's CO₂ emissions in 2018 were 936 tonnes compared with 701 tonnes in 2019. The greenhouse gas emissions were categorised as follows in 2019:

- Scope 1: 9.9%
- Scope 2: 26.3%
- Scope 3: 63.9%

Given that 2018 was the first year records were kept in line with the GHG Protocol, the group has no historical figures for assessments, although the reduction from 2018 was primarily in energy consumption and air travel. Part of the reduction in energy use was a result of sharing premises and thus using less floor space. The electricity consumed by electric cars also rose due to replacement in the vehicle fleet. Emissions from air travel were reduced by flying less.

The group expects further reductions in its Scope 1, 2 and 3 emissions, and will take a systematic approach to this work in 2020.

Annual report – climate accounts (tCO₂e)

Category	2018	2019	% change from the previous year
Transport			
Diesel (NO)	37.8	46.1	21.8%
Petrol	24.7	23.0	-6.6%
Scope 1 Emissions	62.5	69.1	10.6%
Electric cars			
Electric car Nordic	0.2	0.3	14.3%
Electricity*			
Electricity Nordic mix	291.7	183.7	-37.0%
Scope 2 Emissions	291.9	184.0	-37.0%
Air travel			
Continental/Nordic RF	564.1	432.8	-23.3%
Waste			
Glass, recovery	0.1	-	-40.0%
Hazardous waste, recovery	-	-	-
Organic waste, recycling	0.2	0.1	-36.9%
Paper waste, recycling	0.8	0.6	-32.9%
Paper waste, recycling	-	-	-
Residual, recycling	16.3	14.3	-12.3%
WEEE, recycling	-	-	-
Scope 3 Emissions	581.6	447.9	-23%
Total	936.0	701.0	-25.1%
Percentage change		-25.1%	

Key figures – energy and climate indicators

Name	Unit	2018	2019	% change from the previous year
Total emissions (S1+S2+S3) (tCO ₂ e)		936.0	701.0	-25.1%
tCO ₂ e by turnover	NOK millions	0.2	0.1	-37.5%
kgCO ₂ e per m ²	m ²	20.7	17.9	-13.6%
No. m ² heated floor space		45,200.0	39,191.0	-13.3%
Gross turnover		5,450.0	6,530.0	19.8%

* CO₂ emissions from air travel were updated from last year's annual report. A new calculation put the figure 15.3 tonnes higher than the figure published in 2018.

* Electric Car Nordic is reported as estimated km consumption based on the agreement with the leasing company.

* Plastic waste, recovery is estimated consumption based on the reported figures for 2018.

* The waste figures are for the head office in Bjergsted Terrasse.

* The following offices are included in the energy consumption: Bjergsted (head office), Bryne, Domkirkeplassen, Egersund, Fana, Farsund, Finnøy, Flekkefjord, Grimstad, Hundvåg, Husnes, Jørpeland, Klepp, Kristiansand, Lyngdal, Madla, Mandal, Mariero, Nærbø, Petroleumsveien 6, Randaberg, Rosendal, Sand, Sandnes, Stord, Varhaug and Åkrehamn

Sustainable purchasing

The requirements we set for our own operations commit us to being a resource-saving and environmentally-efficient organisation. This work is continued in our dialogue and follow-up of suppliers and partners. Responsible purchasing is about suppliers' work on climate, the environment, social conditions and ethical business practice.

The largest purchasing categories are marketing, IT systems, property operation, external consultants, and contracted personnel. In 2019, SpareBank 1 Utvikling and the alliance banks carried out a major project involving the development and implementation of a new framework tool for assessing the likelihood of negative impacts on the environment or social conditions. Suppliers are required to have guidelines for sustainability and these must be translated into action.

SpareBank 1 Utvikling, which accounts for around 80% of SpareBank 1 SR-Bank's purchases, has agreements with 249 suppliers who provide services to the savings banks and companies. In 2019, we started assessing the risk associated with the suppliers' likelihood of having a negative impact on the environment, social conditions and ethical business practice. Based on this assessment, suppliers with an elevated risk of having a negative impact are monitored in order to ensure that they take a systematic and practical approach to their work on sustainability. This applies to both existing and new suppliers. If the situation is inadequate, a dialogue is started with the supplier to ensure that the requirements are met.

In 2019, 91 suppliers, 37%, were assessed as having an elevated risk of having a negative impact. These are followed up. 158 of the suppliers, 63%, were assessed as having a low risk. These are not currently being followed up.

The follow-up of the suppliers from 2019 will be completed in 2020. Suppliers and categories that require further follow-up are identified based on the supplier monitoring. Evaluations and further developing the work on sustainable purchasing, as well as improving systems, are on the activity plan for the period up to 2023.

As in SpareBank 1 Utvikling, SpareBank 1 SR-Bank is following up suppliers using the same framework tool and guidelines. The work started at the end of 2019 and because of this there are no figures concerning the number of suppliers that have been assessed as having an elevated risk of having a negative impact on the environment or social conditions.

RESPONSIBLE FINANCE

Responsible credit/lending and responsible investments are the areas in which the group can have the greatest impact by setting requirements and steering capital in a sustainable direction. The group should be a sparring partner and positive contributor for SpareBank 1 SR-Bank's customers in the transition to a more sustainable society and business sector.

Given this, one important priority area for SpareBank 1 SR-Bank is ESG and responsible finance. The group's priority activities in 2019 were assessed and implemented. In 2020, the focus will be on implementing guidelines and developing tools that can guide the group's existing and future customers in a more sustainable direction.

ESG is an abbreviation for "**environmental, social and governance**", which is used about factors within sustainability. The English abbreviation is often also used in Norwegian texts.

Responsible credit

Credit is one of the group's main business areas and corporate customers account for an important part of this. Therefore, it is essential that the group also sets requirements for customers' activities. SpareBank 1 SR-Bank's credit strategy stresses that corporate customers must have a long-term perspective and their companies must comply with applicable laws and regulations, which include environmental considerations and human rights. SpareBank 1 SR-Bank's "Guidelines for sustainability in the corporate market" provide guidance on the sort of customers the group wants, what is expected of customers, and the group's lending. The main points from the guidelines are included in the group's credit policy guidelines. SpareBank 1 SR-Bank will not finance pornographic material, cryptocurrencies, coal power, coal mining or nuclear power. The extraction of tar sand, heavy crude, shale gas and shale oil will not be financed either.

All employees who are in contact with corporate customers must be familiar with our "Guidelines for sustainability in the corporate market" and review them annually.

SpareBank 1 SR-Bank's corporate market portfolio is well-diversified with an emphasis on commercial property, and the group mainly finances small and medium-sized Norwegian enterprises. The group wants to be a positive contributor and sparring partner with the aim of increasing customers' awareness surrounding sustainability. In 2019, the group developed a methodological framework for assessing sustainability (ESG scores) that will be used for corporate customers with commitments in excess of NOK 50 million. This is both for assessing the group's own sustainability risk and a tool for advisers in their dialogue with customers. An action plan will be prepared for customers with a low ESG score, which will be followed up by an adviser.

ESG scoring includes questions related to a customer's awareness and guidelines for areas such as HSE, corruption, human rights and the environment.

ESG scores are based on a survey of the customer's awareness and guidelines related to areas such as HSE, corruption, human rights, and the climate and environment. ESG scoring includes three questions that directly target a customer's climate risk: both physical risk and transitional risk. Customers that calculate their own CO2 emissions are encouraged to reported these.

In 2020, SpareBank 1 SR-Bank will further develop and implement the use of ESG scoring, as well as provide training and carry out communication work aimed at ensuring the group's employees and customers are even more familiar with its "Guidelines for sustainability in the corporate market".

The work on responsible credit in 2019 also resulted in the group signing up to the Responsible Ship Recycling Standards, which focus on the proper disposal of ships.

Green products and green innovation

Consumers in today's society are becoming increasingly eco-conscious and SpareBank 1 SR-Bank expects the demand from customers and investors for green products to grow in the coming years. Green products are defined as savings and credit agreements that contain conditions concerning whether the investment object is sustainable in a climate and environmental sense.

In 2019, the group's retail market established advantageous credit terms and conditions for green initiatives in agriculture, such as solar farms for farm buildings. Green loans for the agricultural sector were launched in November 2019 and because of this the group has not reported figures for this loan product for 2019.

SpareBank 1 SR-Bank offers retail customers green car loans aimed at electric cars and we offer a car app for smart car insurance that is intended to encourage greener driving behaviour through Fremtind.

What	Sum total product	Green products as a % of total product portfolio*
Green car loans	75,424,749	3.34%
Green car insurance	61,419,160	15%

* Green car loans: Total car loan portfolio, loan volume

* Green car insurance: of total car insurance, measured by premiums written

The group's sustainability strategy has boosted the development of green products, both in the retail market and the corporate market, and the group will focus on these opportunities in 2020.

Responsible asset management

SpareBank 1 SR-Bank's recommended savings products are managed by the group's wholly owned management company, SR-Forvaltning. SR-Forvaltning has its own guidelines for responsible investments that comply with SpareBank 1 SR-Bank's sustainability strategy and sustainability guidelines. SR-Forvaltning's work on responsible investments has three pillars: exclusions, ESG integration and active ownership.

All companies are checked to ensure that, among other things, they are not involved in the production of controversial weapons and do not contribute to serious human rights violations or serious climate and environmental destruction. In addition to this, SR-Forvaltning does not invest in companies that produce tobacco or pornography, or that are involved in gambling, coal production or oil sands.

ESG integration means that an analysis of the relevant ESG factors is conducted for all companies that are being considered for new investments. The relevant ESG factors depend on the company. They could be water consumption, workers' rights, board composition, corruption risk, CO2 emissions and much more. SR-Forvaltning uses data and analysis from Sustainalytics in addition to its own analysis work.

Active ownership is important for an asset manager because owning shares lets you have a direct impact on how the company operates. As far as active ownership is concerned, SR-Forvaltning votes for its unit holders at annual general meetings. SR-Forvaltning use voting services from ISS Proxy Voting Services and their "Sustainability Proxy Voting Guidelines" as a basis for casting its votes. The system is set up such that votes are basically cast for all the positions in the equity funds. The system was put in place in the middle of the year and gave SR-Forvaltning eight voting opportunities. SR-Forvaltning cast votes in all of them. SR-Forvaltning continues its dialogue with the portfolio companies if there is an elevated risk associated with an ESG factor. Based on the risk assessments, it continued dialogues with three different portfolio companies in 2019.

SR-Forvaltning signed up to the UN Principles for Responsible Investments in spring 2019 and the focus in 2020 will be on further implementing the principles in its management.

Responsible investments in SpareBank 1 SR-Bank

Besides investments made via SR-Forvaltning, SpareBank 1 SR-Bank makes direct investments in shares and bonds within given limits. Special guidelines that comply with the group's sustainability strategy and sustainability guidelines were drawn up for this type of investment in 2019. Among other things, the guidelines specify that the group must be conscious of ESG factors and exercise active ownership where appropriate.

Green borrowing

In 2019, SpareBank 1 SR-Bank created a programme for green bonds. In October 2019, the group issued its first green home mortgage bond linked to a portfolio of home mortgages. The credit bond satisfies the energy efficiency requirements specified for the programme. For more information about green bonds, see: www.sparebank1.no/nb/sr-bank/om-oss/investor/finanssiell-info/gjeldsinvestorer.html

Funds offered via share savings accounts

SpareBank 1 SR-Bank mainly recommends funds managed by SR-Forvaltning, although it offers funds from a number of managers through the share savings account scheme. Guidelines for the requirements that must be set for external managers were developed in 2019, and a process involving a labelling scheme for sustainability was started in the SpareBank 1 Alliance. The labelling scheme will make it easier for customers to choose sustainable funds.

In 2020, we will prioritise the following activities within responsible finance:

- Operationalising and further developing the assessment form for sustainability in credit
- Incorporating the Principles for Responsible Banking in all credit and investment activities
- Continuing the green bond programme and carrying out new issues if the market conditions are right
- Implementing a process for signing up to the Poseidon Principles, an initiative in which the financial services industry is supporting cuts in emissions in the shipping industry
- Implementing the labelling scheme for sustainability in funds offered in share savings accounts
- Exploring opportunities for creating green savings products under the group's management
- Focusing on climate risk in credit and investments based on the TCFD framework with the goal of coming closer to quantification

CLIMATE RISK

Climate change represents a risk that the board and group executive management team have to manage. It is highly probable that financing, insurance and investments will be impacted by changes in the climate and climate policy. The group is closely monitoring political developments and will stay up-to-date at all times with regards to the basis on which political decisions are made. To be a responsible market player, SpareBank 1 SR-Bank must identify and follow up risks that could affect customers and business areas. The group complies with the recommendations of the Task-Force for Climate related Financial Disclosures (TCFD) when it comes to reporting on climate risk.

Our approach to climate risk:

SpareBank 1 SR-Bank's loan portfolio consists of around 60% retail customers with home mortgages and 40% corporate customers. The group conducts annual stress tests and financial representations that show that the group is well-equipped to deal with the financial consequences of major downturns, as well as any restructuring risk related to less activity in the petro-maritime industries. Based on this, an assessment of climate risk was conducted in 2019 in relation to both transition risk and physical risk in industries where the group has exposure.

The commitments' term to maturity and the pricing of the individual commitment are important factors in assessing climate risk for loans and credit. A sector that will be subject to transition risk in a longer-term perspective, may do fine in the short-term. Deep and broad expertise in how climate change and climate policy might impact various sectors over time will be important when it comes to ensuring the group's loan portfolio has acceptable climate risk exposure. In 2019, as part of the training in climate risk, SpareBank 1 SR-Bank arranged a breakfast meeting with the Norwegian Climate Foundation and Finance Sector Union of Norway based around the theme of financial climate risk – how do we manage it?

A strategic evaluation was also made of SpareBank 1 SR-Bank's exposure to climate risk and how developments within this area will affect the group in the years leading up to 2030. This scenario based work will continue in 2020.

The board and group executive management team

During the year, the board and group executive management team raised climate risk to a strategic level. In 2019, climate risk was specifically discussed by the board on several occasions. The sustainability strategy with its discussion about the climate and environment was approved in 2019. A wider ranging discussion concerning the climate led to UN Sustainable Development Goal No. 13 "Climate Action" being adopted as one the three Sustainable Development Goals chosen by the group.

Climate risk was on the group executive management team's agenda all year. Among other things, the climate was included in the group's strategy with a clear focus on climate risk. During 2020, targets and measures will be defined for reductions in the group's total CO2 emissions in the period leading up to 2030.

Furthermore, individual cases concerning climate-related matters were discussed several times during the year by both the group executive management team and the board.

Strategy

The group's sustainability strategy was adopted in 2019 and has been integrated into the group's strategy. The strategic evaluation started in 2019 will provide the basis for a climate strategy for the group in 2020. The starting point for the strategic evaluation is a scenario based representation of the period leading up to 2030. The group is basing its work on defining targets and measures on the Paris targets. The strategy will be finalised in 2020.

Risk management and measurement

In 2019, the group included climate risk in its overarching risk management processes. In 2020, the portfolios in various industries will be stress tested in relation to the scenario work in the strategic evaluation. Weight has been given to following up four business sectors particularly closely where the group believes that customers are most exposed to climate risk. In addition to this, the ESG score that is prepared at a customer level will be used in the climate and environmental assessments. The scenario work will, throughout 2020, provide strategic guidance on reducing risk.

SUPPORT FOR NON-PROFIT CAUSES

As part of our activities, we support measures that support good living conditions. In 2019, the group contributed NOK 20 million in the form of grants and sponsorship agreements to various organisations, clubs and associations.

In connection with the conversion to a limited liability savings bank in 2010, the primary capital was transferred to a separate foundation, Sparebankstiftelsen SR-Bank, in the form of shares in SpareBank 1 SR-Bank ASA. Today, the foundation is the largest shareholder in SpareBank 1 SR-Bank ASA with a stake of 28.3%. One of the foundation's purposes is to ensure the continuation of the savings bank tradition, which includes distributing profits, received in the form of dividends from SpareBank 1 SR-Bank, as donations to non-profit causes. This is to be done in line with the foundation's vision of "Creating Values Together" as well as the foundation's values of "Together we are to create, enrich and develop healthy communities". This reinforces the bank's local presence and local engagement. In 2019, NOK 109 million was distributed to 595 recipients in Rogaland, Hordaland and Agder.

Together with Sparebankstiftelsen SR-Bank, the group helps talented young people develop through G9alt Talentutvikling. G9alt Talentutvikling is a foundation that distributes up to NOK 5 million to talented young people in Rogaland, Hordaland and Agder. NOK 850,000 was distributed in 2019.

The annual report is designed in line with GRI Standards: Core

Group executive management



Arne Austreid

CHIEF EXECUTIVE OFFICER

Arne Austreid (1956) has been the chief executive of SpareBank 1 SR-Bank since January 2011. He is a trained petroleum engineer and holds an MBA from the University of Aberdeen, UK. He has previously worked for Transocean ASA and Prosafe SE, offshore, onshore and abroad, where his final position was President and CEO of Prosafe SE.

Board appointments: Member of the boards of Fremtind Forsikring AS, SpareBank 1 Gruppen AS and SpareBank 1 Utvikling DA.

No. of shares in SpareBank 1 SR-Bank ASA*: 107,998



Inge Reinertsen

CHIEF FINANCIAL OFFICER

Inge Reinertsen (1971) became CFO in February 2010. Reinertsen has an MBA from the Norwegian School of Economics in Bergen. He has experience from various management positions in the SpareBank 1 SR-Bank Group and has worked for the group since 2001.

Board appointments: Chair of the boards of SR-Boligkreditt AS, Bjergsted Terrasse 1 AS and SR-Forvaltning AS. Member of the boards of SpareBank 1 Næringskreditt, Monner Group AS, SpareBank 1 Pensjonskasse, FinStart Nordic AS and SpareBank 1 Markets AS

No. of shares in SpareBank 1 SR-Bank ASA*: 88,023



Ella Skjørestad

EXECUTIVE VICE PRESIDENT, CUSTOMER SERVICES AND MARKETING

Skjørestad (1980) took up her post as Executive VP Customer Services and Marketing in February 2018. She holds a master's degree in Comparative Politics from the University of Bergen (1999-2005). She has previously worked for Storebrand within P&C insurance and as head of digital sales at Storebrand Direkte. She joined SpareBank 1 SR Bank in June 2010 as head of marketing in the retail banking market. Since then she has held positions such as marketing director and director of customer services PM.

Board appointments: Member of the boards of Monner AS, EiendomsMegler 1 SR-Eiendom AS and SpareBank 1 Regnskapshuset AS

No. of shares in SpareBank 1 SR-Bank ASA*: 5,967



Frode Bø

EXECUTIVE VICE PRESIDENT, RISK MANAGEMENT

Bø (1968) became EVP, Risk Management in January 2006. He holds a Bachelor of Management and has also completed a master's degree programme in operational auditing and risk management at BI Norwegian Business School. Bø's previous experience includes working at Kværner and Mobil Exploration Norway. Up to 2016, he was also a lecturer in the Department of Industrial Economics, Risk Management and Planning at the University of Stavanger. He has worked for SpareBank 1 SR-Bank since 2001.

No. of shares in SpareBank 1 SR-Bank ASA*: 17,425



Gro Tveit

EXECUTIVE VICE PRESIDENT, HR AND BUSINESS SUPPORT

Tveit (1969) became EVP, HR and Business Support in June 2018. She has a bachelor's degree in accounting and auditing from the University of Stavanger and Hedmark District College. She also holds qualifications in management and strategy, including a master's degree programme on "Future-oriented strategies and organisational forms" from BI Norwegian Business School. She was previously the Finance Director at SpareBank 1 SR-Bank, who she joined in 2001. She has previous experience from Halliburton AS where she was the Commodity and Statutory Accounting Manager and Fjaler Sparebank as an internal auditor.

Board appointments: Member of the boards of Finansparken Bjergsted AS and SpareBank 1 SR-Banks Pensjonskasse.

No. of shares in SpareBank 1 SR-Bank ASA*: 20,303



Signe Helliesen

EXECUTIVE VICE PRESIDENT, COMPLIANCE

Helliesen (1976) assumed her position as EVP, Compliance in January 2019. Helliesen has an MBA from the Norwegian School of Economics in Bergen. She has also completed an Executive Master's Programme in Internal Auditing at BI Norwegian Business School and has started an Executive MBA in Technology and Innovation of Finance, Fintech at the Norwegian School of Economics. Helliesen has experience from Ernst & Young (EY) as an internal auditor and consultant. She has worked for SpareBank 1 SR-Bank within the area of compliance since 2008.

No. of shares in SpareBank 1 SR-Bank ASA*: 274



Glenn Sæther

EXECUTIVE VICE PRESIDENT, STRATEGY, INNOVATION AND DEVELOPMENT

Sæther (1966) became EVP, Strategy, Innovation and Development in February 2018. He was previously EVP, Business Support and Development. He graduated in economics and business administration from BI Norwegian Business School and has experience as the chief accountant of Sandnes Municipality, a consultant and marketing executive at Webcenter Unique ASA, and as a senior consultant at Helse Vest RHF. He has worked for SpareBank 1 SR-Bank since 2005.

Board appointments: Chair of the boards of Finansparken Bjergsted AS, Monner AS, and FinStart Nordic AS, and member of the boards of Vester AS and SpareBank 1 Regnskapshuset SR AS.

No. of shares in SpareBank 1 SR-Bank ASA*: 26,749



Jan Friestad

EXECUTIVE VICE PRESIDENT, RETAIL MARKET

Friestad (1966) became EVP, Retail Market in August 2011. He holds a degree in economics and business administration from Stavanger University College and has also taken various Master of Management courses within marketing strategy and management at BI Norwegian Business School. He has worked for SpareBank 1 SR-Bank since 1988.

Board appointments: Chair of the boards of EiendomsMegler 1 SR-Eiendom AS and SpareBank 1 Kredittkort AS, and member of the board of SpareBank 1 Betaling AS.

No. of shares in SpareBank 1 SR-Bank ASA*: 45,250



Tore Medhus

EXECUTIVE VICE PRESIDENT, CORPORATE MARKET

Medhus (1965) became EVP, Corporate Market in September 2000. He holds a Master of Business and Marketing from Oslo Business School/BI. He has previous experience from Elcon Finans, Forende Credit Finans and Telenor. Medhus has worked for SpareBank 1 SR-Bank since 1994.

Board appointments: Chair of the board of SpareBank 1 Regnskapshuset SR AS, deputy chair of the board of BN Bank ASA, and member of the boards of Conecto AS, FinStart Nordic AS, Monner AS and SpareBank 1 Factoring AS.

No. of shares in SpareBank 1 SR-Bank ASA*: 53,670



Thor-Christian Haugland

EXECUTIVE VICE PRESIDENT, COMMUNICATIONS AND SUSTAINABILITY

Haugland (1963) became EVP, Communications in 2005. He was educated at Stavanger University College, the University of Salford and BI Norwegian Business School in economics, communications and management. He has previously worked as the sales and marketing manager for Radisson SAS in Stavanger and general manager in Brødrene Pedersen AS. He has around 20 years' experience from various positions in SpareBank 1 SR-Bank.

Board appointments: Member of the boards of Odin Forvaltning AS, Monner Group AS, FinStart Nordic AS and Nordic Edge AS.

No. of shares in SpareBank 1 SR-Bank ASA*: 25,402

Board of directors



Day Mejdell

CHAIR OF THE BOARD

Dag Mejdell (1957) has extensive experience from various management positions in business, most recently as the CEO of Posten Norge AS from 2006 to 2016. From 2000 to 2005 he was the CEO of Dyno Nobel ASA and before that he worked for Dyno ASA for 19 years, the last three of which were as the CEO. Mejdell has an MBA from the Norwegian School of Economics in Bergen. Chair of the board of SpareBank 1 SR-Bank ASA since 9 June 2016.

Other positions: Chair of the boards of Norsk Hydro ASA, Vy AS, Visolit New Finco AS and International Post Corporation CV, and deputy chair of the board of SAS AB.

No. of board meetings in 2019: 16 out of 16

No. of shares in SpareBank 1 SR-Bank ASA*: 30,000



Birthe Cecilie Lepsøe

BOARD MEMBER

Birthe Cecilie Lepsøe (1971) is a partner in Vest Corporate Advisors. She was previously the finance manager in Grieg Shipping Group, Bergen, and also has many years of experience from DNB's shipping division. Lepsøe holds an MBA from BI Norwegian Business School and has participated in the financial analyst programme in the Norwegian School of Economics (NHH). Member of the board of SpareBank 1 SR-Bank ASA since June 2008.

Other positions: Member of the boards of Smedvig Eiendom AS, Smedvig Capital AS, Smedvig AS, Belships ASA and Fjord 1 AS.

No. of board meetings in 2019: 16 out of 16

No. of shares in SpareBank 1 SR-Bank ASA*: 0



Kate Henriksen

BOARD MEMBER

Kate Henriksen (1960) is the CEO of Miles Bergen AS. She was formerly the divisional director, retail market, at Sparebanken Vest. Henriksen has a degree in business administration from the Norwegian School of Economics in Bergen. She has also studied information technology and automation at Bergen College of Engineering. Member of the board of SpareBank 1 SR-Bank ASA since 4 June 2015.

Other positions: Member of the board of Miles Bergen AS.

No. of board meetings in 2019: 16 out of 16

No. of shares in SpareBank 1 SR-Bank ASA*: 0



Tor Dahle

BOARD MEMBER

Tor Dahle (1952) is the general manager at Sparebankstiftelsen SR-Bank. He has experience from various management positions at SpareBank 1 SR-Bank ASA, including as CFO and more recently as Managing Director at SR-Investering AS. Dahle has an MBA from the Norwegian School of Economics in Bergen. Member of the board of SpareBank 1 SR-Bank ASA since 6 June 2013.

Other positions: Chair of the board of EM Software Partners AS.

No. of board meetings in 2019: 16 out of 16

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



Therese Log Bergjord

BOARD MEMBER

Therese Log Bergjord (1965) is the CEO of the Skretting Group. She has previously been the Nordic Managing Director of Compass Group, Managing Director of ESS Support Services AS, Norwegian and Global Sales Director at Skretting, and CFO and Commercial Director at Pan Fish ASA. She graduated from the University of Stavanger in finance/economics, marketing and entrepreneurship. Member of the board of SpareBank 1 SR-Bank ASA since 20 April 2017.

No. of board meetings in 2019: 13 out of 16

No. of shares in SpareBank 1 SR-Bank ASA*: 2,000



Jan Skogseth

BOARD MEMBER

Jan Skogseth (1955) was the CEO of Aibel AS from 2008 until 2017. He has 35 years of experience from the oil, gas and renewables industries, in oil companies and on the supply side, nationally and internationally. He graduated from South Dakota School of Mines & Technology with an MSc in Mechanical Engineering. Member of the board of SpareBank 1 SR-Bank ASA since 20 April 2017.

Other positions: Chair of the board of Gasco AS, and member of the boards of Scatec Solar ASA and PSW Technology AS.

No. of board meetings in 2019: 14 out of 16

No. of shares in SpareBank 1 SR-Bank ASA*: 6,100



Kristian Kristensen

EMPLOYEE-ELECTED BOARD MEMBER

Kristian Kristensen (1982) is the deputy chair of the Finance Sector Union of Norway SpareBank 1 SR-Bank. He holds a bachelor's degree in marketing communication from BI Norwegian Business School and has taken courses in technological change and social development at NTNU and digital business understanding at BI Norwegian Business School. Member of the board of SpareBank 1 SR-Bank ASA since 9 June 2016.

Other positions: Member of the board of the Finance Sector Union of Norway, Rogaland division.

No. of board meetings in 2019: 16 out of 16

No. of shares in SpareBank 1 SR-Bank ASA*: 3,203



Sally Lund-Andersen

EMPLOYEE-ELECTED BOARD MEMBER

Sally Lund-Andersen (1961) is the head group employee representative at SpareBank 1 SR-Bank ASA. Member of the board of SpareBank 1 SR-Bank ASA since 1 January 2012.

Other positions: Chair of the board of the Finance Sector Union of Norway, Rogaland division. Substitute member of the board of Banksamarbeidet DA.

No. of board meetings in 2019: 16 out of 16

No. of shares in SpareBank 1 SR-Bank ASA*: 2,016



Corporate governance

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

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

There are no significant deviations between the Code of Practice and SpareBank 1 SR-Bank's compliance with it. Two deviations are described below, one under section 3 and one under section 14.

SpareBank 1 SR-Bank's objectives are to stimulate growth and development. This is the very foundation of the company's business model. SpareBank 1 SR-Bank will help to create profitability and value for its owners, customers and communities. SpareBank 1 SR-Bank's vision is: "The customer's first choice". The values that will support our vision are: "Prudence and respect. Committed and efficient." SpareBank 1 SR-Bank ASA shall be characterised by high ethical standards and good corporate governance.

SpareBank 1 SR-Bank's corporate governance must ensure proper management and provide increased assurance that its stated goals and strategies will be realised. Good corporate governance in SpareBank 1 SR-Bank comprises the values, objectives and overarching principles according to which the company is governed and controlled in order to protect the interests of the owners, customers and other stakeholders.

SpareBank 1 SR-Bank particularly focuses on:

- a structure that ensures goal-oriented and independent management and control
- systems that ensure good measurability and accountability
- effective risk management
- comprehensive information and effective communication
- the equal treatment of shareholders
- compliance with legislation, regulations and ethical standards

As part of the management structure, SpareBank 1 SR-Bank has a hierarchy of governing documentation with four levels:

Level 1: Corporate governance principles

Level 2: Policies/Overarching guidelines

Level 3: Standards/Guidelines

Level 4: Instructions/Procedures

Level 1: Corporate governance principles

SpareBank 1 SR-Bank's corporate governance principles constitute the highest level of corporate governance in the group. These principles, agreed by the board, set out the overarching framework for the management of all operations.

SpareBank 1 SR-Bank's corporate governance principles comprise:

- Regulatory guidelines, law and requirements
 - Strategic and financial goals, objectives and values, see page 8 of the annual report for more details
- The management model, see page 39 of the annual report
- Instructions for the board of directors and group executive management team, available on www.sr-bank.no
- Code of conduct, described in more detail below
- Principles for sustainability, described in more detail below
- The company's articles of association, available on www.sr-bank.no
- Frameworks and authorities

Code of conduct

SpareBank 1 SR-Bank must have high ethical standards. The group's code of conduct guidelines describe what is expected of anyone who represents SpareBank 1 SR-Bank. The code of conduct regulates how employees of SpareBank 1 SR-Bank are expected to conduct themselves in relation to customers, suppliers, competitors, and everyone else. The code of conduct states that employees of the group shall show respect and consideration, and that all communication shall be open, honest and clear and in accordance with the norms, statutes and rules that apply in society when employees are identified as representing the organisation.

SpareBank 1 SR-bank's code of conduct deals with, among other things, impartiality and relationships with customers, suppliers and competitors, as well as relevant personal financial issues. No form of discrimination or harassment is

accepted. SpareBank 1 SR-Bank's customer service must be known for its high level of integrity, availability and transparency, and must comply with good business practices. SpareBank 1 SR-Bank wants to be a responsible company that treats all suppliers and competitors with respect, and competes fairly and in accordance with the competition regulations. SpareBank 1 SR-Bank does not accept any form of corruption or misuse of inside information.

SpareBank 1 SR-Bank will seek to avoid conflicts of interest. When these arise, we will be transparent about them and seek to resolve them in a proper manner. The group's code of conduct is available from the bank's website.

Whistleblowing

All suspected misconduct must be reported in line with SpareBank 1 SR-Bank's rules and procedures for whistleblowing. All reports must be treated with respect and be taken seriously, and reprisals due to reports will not be accepted. In addition to the routines for internal whistleblowing, a channel has been set up for the submission of anonymous electronic reports to an external party.

Sustainability:

SpareBank 1 SR-Bank's goal is to be an organisation that takes a proactive approach to sustainability and responsibility for the environmental challenges society faces. The bank will not, directly or indirectly, participate in violations of human and labour rights, corruption, serious environmental harm or other actions that could be considered unethical. This applies both internally and in relation to society as a whole. The responsibilities include products and services, consultancy and sales, investment and credit decisions, marketing, procurement, corporate governance and business administration. SpareBank 1 SR-Bank has established standards and guidelines for safeguarding these responsibilities. Our internal work on HSE, ethics and environmental efficiency are also encompassed by our definition of sustainability. The 17 UN Sustainable Development Goals provide the basis for the group's sustainability principles. The group also backs the UN Global Compact's 10 Principles (human rights, labour standards, environment and anti-corruption). You can read more on page 20.

Level 2: Policies/overarching guidelines

Policies and overarching guidelines are drawn up to support the group's corporate governance within key areas such as credit, finance, risk, compliance, combating money laundering and terrorist financing, personal data protection, outsourcing, and information security.

All governing documents at this level must be approved by the board. The documents specify key overarching principles for a business area or specialist area, and are formulated with a scope and format that are designed for a broad group of recipients in the group.

Level 3: Standards/guidelines

Standards and guidelines belong under, and support, policies, but are more detailed in their formulation and designed for a specialised group of recipients.

Documents at this level are approved by the EVP for the respective areas of responsibility, who are then responsible for ensuring that the documents support compliance with level 1 and 2 governing documents.

Standards and guidelines at level 3 must be rooted in one or more overarching governing documents. It is the responsibility of the EVPs to ensure compliance with this requirement and thus ensure that the board and chief executive can be confident that the highest level corporate governance principles are being complied with.

Level 4: Instructions and procedures

The lowest level for governing documents is instructions and procedures. Examples of these include detailed routine and work descriptions, personnel manuals, emergency preparedness routines, etc.

Deviations from the Code of Practice: None

2. BUSINESS

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

Deviations from the Code of Practice: None

3. EQUITY AND DIVIDENDS

The board of directors assesses the capital situation on an ongoing basis in light of the company's objectives, strategies and approved risk profile.

Please see the group's risk and capital management report (Pillar 3) for more information about the capital adequacy regulations, the principles SpareBank 1 SR-Bank applies as a basis for assessing its capital requirements, and more details about the elements that make up the group's capital ratio. The report is available on the company's website.

The board considers the group to be well capitalised in relation to current regulatory requirements.

Dividend

Financial needs, including capital adequacy requirements and the group's targets and strategic plans, must be considered when determining the annual dividend. Unless capital requirements dictate otherwise, the goal of the board is to distribute approximately half of the annual net profit for the period as dividends.

Share buyback

At its meeting on 24 April 2019, the general meeting authorised the board to acquire and register liens on the bank's own shares for up to 10% of the bank's share capital. The shares must be acquired in the securities market via the Oslo Børs. Each share

can be purchased at a price of between NOK 1 and NOK 150. The authorisation is valid for 12 months from the date it is adopted by the general meeting.

Issuance of tier 1 capital instruments and subordinated loans

At its meeting on 24 April 2019, the general meeting authorised the board to issue tier 1 capital instruments and raise subordinated loans, together or individually, distributed as follows:

Hybrid tier 1 capital: NOK 3,000,000,000

or the equivalent amount in a foreign currency.

Perpetual subordinated loans: NOK 3,000,000,000

or the equivalent amount in a foreign currency.

Dated subordinated loans: NOK 3,000,000,000

or the equivalent amount in a foreign currency.

The authority applies for 18 months from adoption by the general meeting.

Capital increases

The general meeting on 24 April 2019 authorised the board to increase the company's share capital by up to NOK 639,377,700 if necessary to ensure an optimal capital structure by issuing a maximum of 25,575,108 shares, each with a nominal value of NOK 25, ref. section 10-14 of the Public Limited Liability Companies Act. The authorisation is valid for 12 months from the date it is adopted by the general meeting.

Deviations from the Code of Practice:

It follows from the Code of Practice that authorisations to increase capital should be justified and limited to defined purposes. The board fundamentally agrees with this, but believes there is a need for a certain degree of flexibility. As long as the authorisations are clearly limited in terms of time and scope, and in reality only adjust and streamline the capital structure of the bank, it should be up to the board to make such decisions rather than having to hold an extraordinary general meeting.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

SpareBank 1 SR-Bank has one class of share. All shares have equal voting rights. In the event of an increase in share capital, existing shareholders have pre-emptive rights, unless special circumstances dictate that these rights can be waived. Such a waiver must in these circumstances be justified by being in the best common interests of the company and the shareholders. This would ensure full transparency with respect to this and the shareholders would receive the same information about it at the same time via a stock exchange announcement and on the bank's website. Any buyback of shares must be carried out in the market at market prices. This also applies if the board uses the given authorisations.

Largest shareholder

Sparebankstiftelsen SR-Bank is SpareBank 1 SR-Bank's largest shareholder with a stake of 28.3%. The foundation was established on 1 January 2012 when SpareBank 1 SR-Bank was converted into a public limited company. Pursuant to the

foundation's articles of association, its purpose is to manage the shares that were transferred to the foundation upon its establishment and to exercise and maintain a significant long-term and stable stake in SpareBank 1 SR-Bank. The ownership interest must represent at least 25% of the outstanding shares of SpareBank 1 SR-Bank.

Transactions with close associates

The instructions issued to the board stipulate that the board shall ensure that the company complies with sections 3-8 and 3-9 of the Public Limited Liability Companies Act in agreements between the company and the parties listed therein. The board shall obtain the opinion of an independent third party when entering into agreements between the company and shareholders, board members or members of the group executive management team, or any close associates of these. Board members must notify the board if they have a substantial, direct interest in an agreement entered into by the company or another company in the SpareBank 1 SR-Bank Group. The same applies if the agreement is entered into by a company outside the SpareBank 1 SR-Bank Group in which the board member is an owner, board member, or executive employee.

Deviations from the Code of Practice: None

5. FREELY NEGOTIABLE SHARES

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

Deviations from the Code of Practice: None

6. GENERAL MEETINGS

General meeting

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

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

Voting procedures allow for separate votes for each candidate to the various bodies. It is possible for shareholders to issue a proxy to others. A person is also appointed to act as a proxy

who can vote for shareholders. To the extent possible, the proxy form is designed in such a way that it allows for voting on each agenda item and for each candidate standing for election.

Deviations from the Code of Practice: None

7. NOMINATION COMMITTEE

The nomination committee comprises up to five members that are elected by the general meeting for a period of 2 years. Sparebankstiftelsen SR-Bank must also be represented on the nomination committee. The nomination committee provides detailed recommendations to the general meeting concerning the election of the chair and members of the board and the chair and members of the nomination committee.

The recommendation should provide pertinent information about the candidates' background and independence.

The nomination committee also proposes the remuneration for members of the bodies mentioned above. The general meeting determines the nomination committees' remuneration. An overview of the nomination committee's members and how to submit contributions to the nomination committee can be found on the company's website.

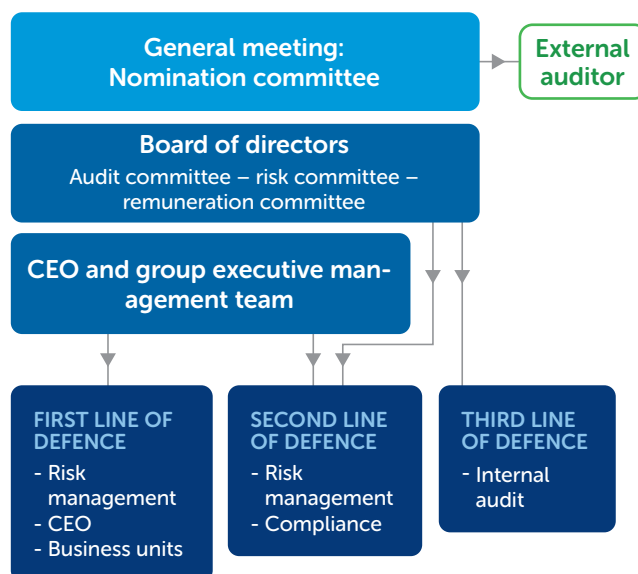
Deviations from the Code of Practice: None

8. BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

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

As at 31 December 2019, the board had eight members, including two employee representatives. Three of the board's shareholder-elected members were women, as was one employee representative. All board members are independent of the bank's executive management team and important business connections. The individual board members' backgrounds are described in the presentation of the board in the annual report and on the company's website. The presentation of the board also details the board members' participation in board meetings in 2019. Board members are encouraged to own shares in the company. The presentation of the board includes the number of shares in SpareBank 1 SR-Bank ASA owned by the board members and close associates as at 31 December 2019.

Governing bodies in SpareBank 1 SR-Bank



Deviations from the Code of Practice: None

9. THE WORK OF THE BOARD OF DIRECTORS

The work of the board follows an annual plan for the board established in accordance with the stipulated instructions for the board. The instructions for the board are available on www.sr-bank.no and provide detailed rules for the board's work and procedures, including which matters should be considered by the board, and rules for convening and conducting board meetings. The board has also established instructions for the chief executive that are also available on the company's website.

In 2019, 16 board meetings were held, of which 11 were physical all-day meetings and five telephone conferences, typically involving discussions of credit issues.

The board annually conducts an evaluation of its working method and competence and discusses improvements to the organisation and execution of the board's work. The report on the self-evaluation is available to the nomination committee.

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

Audit committee

The audit committee consists of three members. The composition of the committee satisfies the Code of Practice's independence and competence requirements. The audit committee must ensure that the group has an independent and effective external auditor and satisfactory financial reporting in accordance with the law and regulations. The audit committee held six meetings in 2019.

Risk committee

The risk committee consists of three members and an observer. The committee is tasked with ensuring that the group's risk and capital management underpins the group's strategic development and goal attainment, while ensuring financial stability and prudent asset management. The audit committee held six meetings in 2019.

Remuneration committee

The remuneration committee consists of three members. One of the members must be an employee-elected board member. The committee is tasked with doing the preparatory work for the annual review of the group's remuneration packages and the chief executive's contract and terms by the whole board. The remuneration committee held seven meetings in 2019.

Deviations from the Code of Practice: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

SpareBank 1 SR-Bank's core activity is to create value by taking conscious and acceptable risks. The group therefore invests significant resources in the further development of risk management systems and processes in line with leading international practice.

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

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

The framework is described in more detail in note 6 to the financial statements, as well as in SpareBank 1 SR-Bank's Pillar III document, which is available on the bank's website. SpareBank 1 SR-Bank focuses on independence in

management and control, and this responsibility is divided between the different roles in the organisation.

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

First line of defence (day-to-day risk management)

The chief executive is responsible for ensuring the group's risk management is monitored within the framework adopted by the board. Business units are responsible for overall risk management within their business area.

Second line of defence (general risk reporting and follow-up)

The risk management and compliance departments are independent of the business units and report directly to the chief executive.

The risk management department bears overall responsibility for the ongoing development of the risk management framework, including risk models and risk management systems. The department is also responsible for independently monitoring and reporting risk exposure.

The compliance department bears overall responsibility for the framework, monitoring and reporting on regulatory requirements within the area of compliance.

Third line of defence (independent confirmation)

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

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

Deviations from the Code of Practice: None.

11. REMUNERATION OF THE BOARD OF DIRECTORS

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

Deviations from the Code of Practice: None

12. REMUNERATION OF EXECUTIVE PERSONNEL

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

The group's remuneration scheme shall be consistent with the group's overarching objectives, risk tolerance and long-term interests and shall help to promote and provide incentives for good management and control of the group's risk, discourage excessive or unwanted risk taking, and help to avoid conflicts of interest, and shall comply with the Financial Undertakings Regulation of 9 December 2016. The total remuneration shall be competitive, but the group shall not be a wage leader. It shall ensure that the group attracts, develops and retains competent employees over time. The scheme will ensure a reward model that is perceived to be fair, predictable and future-oriented and motivating. Fixed salaries shall make up the main element of the total remuneration, which shall also consist of variable pay, pensions and benefits in kind.

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

Deviations from the Code of Practice: None

13. INFORMATION AND COMMUNICATIONS

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

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

Deviations from the Code of Practice: None

14. TAKE-OVERS

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

Deviations from the Code of Practice:

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

15. AUDITOR

The external auditor presents an annual audit plan to the audit committee and board.

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

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

Deviations from the Code of Practice: None

REPORT ON CORPORATE GOVERNANCE PURSUANT TO SECTION 3-3B OF THE ACCOUNTING ACT.

The report complies with the requirements of the act.

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

GOVERNING BODIES IN SPAREBANK 1 SR-BANK ASA

	Shares as at 31 Dec 2019 ¹⁾	Shares as at 31 Dec 2018 ¹⁾		Shares as at 31 Dec 2019 ¹⁾	Shares as at 31 Dec 2018 ¹⁾
Board of directors			Executive Management		
<i>Members</i>			Arne Austreid, Chief Executive Officer	107,998	100,006
Dag Mejdell, Oslo (chair)	30,000	25,000	Inge Reinertsen, Chief Financial Officer	88,023	83,529
Kate Henriksen, Bergen	0	0	Jan Friestad, Executive Vice President, Retail Market	45,250	40,814
Birthe C. Lepsøe, Paradis	0	0	Tore Medhus, Executive Vice President, Corporate Market	53,670	49,147
Therese Log Bergjord, Hafrsfjord	2,000	0	Glenn Sæther, Executive Vice President, Strategy, Innovation and Development	26,749	22,861
Tor Dahle, Stavanger	72,456,358	72,456,358	Ella Skjørestad, Executive Vice President, Customer Services and Marketing	5,967	3,937
Jan Skogseth, Sandnes	6,100	6,100	Gro Tveit, Executive Vice President, HR and Business Support	20,303	20,029
Sally Lund-Andersen, Haugesund (employee representative)	2,016	1,414	Frode Bø, Executive Vice President, Risk Management	17,425	17,242
Kristian Kristensen, Randaberg (employee representative)	3,203	3,020	Signe Helliesen, Executive Vice President Compliance	274	0
Board's Risk Committee			Thor-Christian Haugland, Executive Vice President Communications and Sustainability	25,402	20,707
Tor Dahle, Stavanger (chair)	72,456,358	72,456,358	External auditor		
Jan Skogseth, Sandnes	6,100	6,100	PricewaterhouseCoopers (PWC)	0	0
Birthe C. Lepsøe, Paradis	0	0	Internal auditor		
Dag Mejdell, Oslo (observer)	30,000	25,000	Ernst & Young (EY)	0	0
Board's audit committee					
Birthe C. Lepsøe, Paradis (chair)	0	0			
Kate Henriksen, Bergen	0	0			
Therese Log Bergjord, Hafrsfjord	2,000	0			
Board's remuneration committee					
Dag Mejdell, Oslo (chair)	30,000	25,000			
Kate Henriksen, Bergen	0	0			
Sally Lund-Andersen	2,016	1,414			
Nomination committee					
Per Trygve Sekse, Sandnes (chair)	1,625	1,625			
Kirsti Tønnesen, Stavanger	0	0			
Gunn-Jane Håland, Stavanger	1,096	1,096			
Tore Heggheim, Hafrsfjord	0	0			
Torbjørn Gjelstad, Oslo	0	0			

¹⁾ Number of shares owned in SpareBank 1 SR-Bank ASA, including shares belonging to immediate family members and companies in which the person has a determining influence.



Report of the Board of Directors

The SpareBank 1 SR-Bank ASA achieved a consolidated pre-tax profit of NOK 3,817 million in 2019. The net profit for the year was NOK 3,124 million, an increase of NOK 828 million from NOK 2,296 million for 2018. The return on equity after tax was 14.0%, compared with 11.3% in 2018. The board of directors is very satisfied with the result for 2019.

Solid efforts by employees, good credit work and good relationships with customers were important drivers behind a good result. The market position as one of Southern Norway's leading financial groups and the country's second largest Norwegian-owned bank was further strengthened by a net increase of 9,300 new retail customers over the age of 13 and 1,000 new corporate customers, higher market shares for branches outside Rogaland, and value creation for the group's owners in the form of dividends and rises in the price of the share.

Lending, including loans sold to SpareBank 1 Boligkreditt AS, rose by 4.9% in 2019. Deposits from customers grew by 4.3% in 2019. The deposit coverage ratio, measured as deposits as a percentage of total loans, was 49.8% at year end 2019, compared with 51.4% in 2018.

Net interest income rose to NOK 3,987 million in 2019, compared with NOK 3,439 million in 2018. Net interest income as a percentage of average total assets increased to 1.61% in 2019, from 1.54% in 2018. The increase in net interest income was mainly due to a higher lending volume and increased interest margins in the corporate market division.

Net commissions and other operating income totalled NOK 1,416 million in 2019, down from NOK 1,437 million in 2018. The reduction was largely attributable to a NOK 55 million decrease in commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS in 2019. The net return on financial investments amounted to NOK 1,127 million in 2019, compared with NOK 569 million in 2018. Income from ownership interests increased by NOK 509 million to NOK 875 million in 2019. The most important reason for this was the increased profit share from SpareBank 1 Gruppen AS.

The group's operating costs for the year amounted to NOK 2,478 million in 2019, compared with NOK 2,229 million in 2018, an increase of NOK 249 million (11.2%) since 2018. Personnel costs rose by NOK 175 million (13.5%) to NOK 1,472 million. The growth in costs is a consequence of the group's aggressive market strategy and increased use of resources in strategically selected priority areas. Other operating costs rose by NOK 74 million (7.9%) to

NOK 1,006 million. The cost/income ratio, measured as operating costs as a percentage of operating income, was reduced from 40.9% in 2018 to 37.8% in 2019.

The group's net impairments on loans and financial liabilities amounted to NOK 235 million compared with NOK 324 million in 2018. The low impairments were due to NOK 92 million in previous impairments being reversed in the second quarter of 2019 following a legally enforceable judgement in which SpareBank 1 SR-Bank was awarded NOK 92 million including interest in damages. Closely monitoring customers and preventive work remain important tools for maintaining a good risk profile in the group's loan portfolio in order to reduce future losses.

The allocation of the year's profit is based on the parent bank's distributable profit of NOK 2,778 million for 2019. The board proposes that NOK 1,407 million be paid out as dividends, corresponding to NOK 5.50 per share, while NOK 1,371 million be allocated to other equity and enhancing the group's financial strength.

The common equity tier 1 capital ratio increased from 14.7% at the start of the year to 17.0% at year end 2019. The tier 1 capital ratio (including hybrid tier 1 capital) was increased in the same period to 15.9% to 18.6% in 2019. At year end 2019, SpareBank 1 SR-Bank ASA is in a sound financial position and the group has a good starting point for further developing its good position in Southern Norway. The board has set a target for the common equity tier 1 capital ratio of 16.7%, which will apply from year end 2020. This includes a 1.0-percentage point management buffer.

Nature of the business

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

The most important subsidiaries are: EiendomsMegler 1 SR-Eiendom AS, SR-Forvaltning AS, SR-Boligkreditt AS, SpareBank 1 Regnskapshuset SR AS, FinStart Nordic AS and Monner AS.

SpareBank 1 SR-Bank ASA's head office is in Stavanger and it has 33 branches in the counties of Rogaland, Vestland,

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

Group's performance

SpareBank 1 SR-Bank ASA recorded good progress in all of the group's business areas in 2019. The bank's position as the market leader in Rogaland was strengthened in both the retail market and the corporate market, and at the same time the group strengthened its positions in Vestland and the Agder counties. SpareBank 1 SR-Bank ASA has also rapidly become a challenger for established financial groups in Oslo. The capital market division has established itself as South-western Norway's leading expert environment in its field. The group's position in the estate agency market has helped EiendomsMegler 1 become the largest chain of estate agents in Norway. EiendomsMegler 1 SR-Eiendom AS is the market leader in Rogaland and Agder, and strengthened its position in Vestland in 2019.

The group's subsidiaries and its strategic stakes in the SpareBank 1 Alliance's product companies make a significant contribution to SpareBank 1 SR-Bank ASA's earnings.

The competition for customers in the banking market remained strong in 2019. The group saw a rise in demand for loans from retail and corporate customers during the course of 2019. Margins on loans to retail customers were reduced in 2019 due to higher money market rates, while repricing parts of the home mortgage portfolio following Norway's three interest rate rises in 2019 had a positive effect. Margins on loans to corporate customers expanded slightly in 2019. Deposit margins increased during the year in both the retail market and the corporate market due to rising market interest rates. Deposits grew by 4.3% in 2019. Overall, earnings from net interest income were better in 2019 than the year before.

The equity markets developed positively throughout 2019 and the Oslo Børs's main index ended 16.5% lower. Capital gains from securities totalled NOK 96 million for the full year. This was due to a combination of capital losses of NOK 156 million in the interest portfolio, which were counteracted by positive effects totalling NOK 141 million from hedging instruments, as well as capital gains of NOK 111 million from the portfolio of shares and equity certificates.

Impairments on loans and financial liabilities totalled NOK 235 million in 2019, compared with NOK 324 million in 2018. This resulted in impairments as a percentage of gross loans, including loans sold to the mortgage companies, amounting to 0.12%. The impairments on loans in 2019 largely involved individual commitments within oil-related activities. The board regards the quality of the loan portfolio and risk management as good.

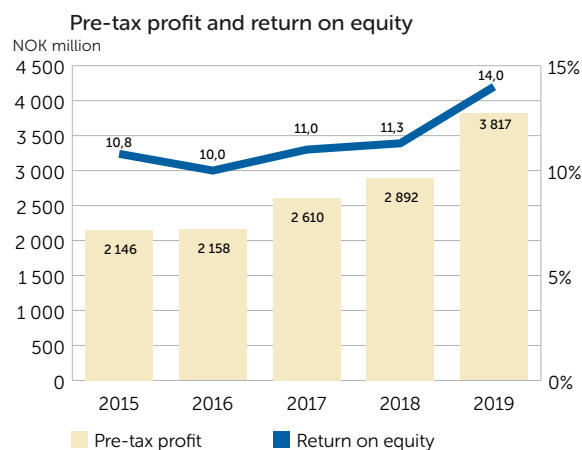
Developments in the group's market areas

Households' expectations regarding the development of the Norwegian economy remain positive. In the National Budget for 2020, Mainland Norway's gross domestic product (GDP) is expected to grow by around 2.5%, which is on a par with 2019. High oil prices and an increase in oil investments of around 11% in 2019 have resulted in lasting optimism and expectations of high activity in the Norwegian oil industry going forward.

Demographic development trends are very important for the group's framework conditions. The group's market area has seen high migration and population growth for a long time now. The percentage of people with a disability is also significantly lower than the national average. The population is relatively young in and around the larger cities and along the coast of Southern and Western Norway, as well as Oslo. Statistics Norway's population growth forecasts indicate that growth in Rogaland, Vestland and Oslo will remain above the national average in the longer term.

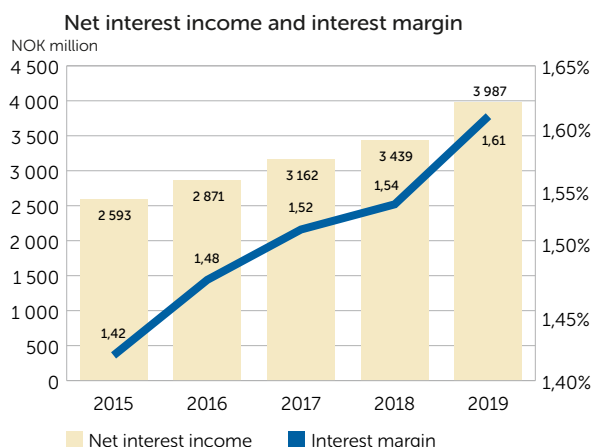
According to the Norwegian Labour and Welfare Administration (NAV) the unemployment rate in Norway was 2.2% at the end of December 2019. In Rogaland the unemployment rate was 2.2%, in Vestland it was 2.1%, in Agder 2.3%, and in Oslo 2.4%.

FINANCIAL PERFORMANCE



Net interest income

The group's net interest income amounted to NOK 3,987 million in 2019 (NOK 3,439 million). Net interest income must be seen in the context of commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. Commissions from these companies amounted to NOK 33 million in 2019 (NOK 88 million). The combined total of net interest income and commissions increased by NOK 527 million compared with 2018. The increase was mainly due to a higher lending volume and increased interest margins in the corporate market division. The average interest margin rose to 1.61% in 2019, compared with 1.54% in 2018.



Other operating income

Net commissions and other operating income totalled NOK 1,416 million in 2019 (NOK 1,437 million).

The NOK 21 million reduction compared with 2018 was primarily attributable to the fact that commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS were down NOK 55 million to NOK 33 million in 2019 (NOK 88 million). The reduction in commissions from the mortgage companies was a consequence of the group buying back NOK 5.1 billion in loans from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS in the last 12 months. Income from estate agency services increased by NOK 17 million to NOK 399 million in 2019 (NOK 382 million). Income from SpareBank 1 Regnskapshuset SR AS rose by NOK 27 million to NOK 126 million in 2019 (NOK 99 million), in part due to the acquisition of Agder Økonomi in the second quarter of 2019. Income from money transfer services increased by NOK 11 million from 2018 due to increased income from card use, while guarantee commissions decreased by NOK 15 million, partly due to a policy change in which parts of the fees linked to guarantees were accrued during the guarantee period from and including 2019.

Operating costs

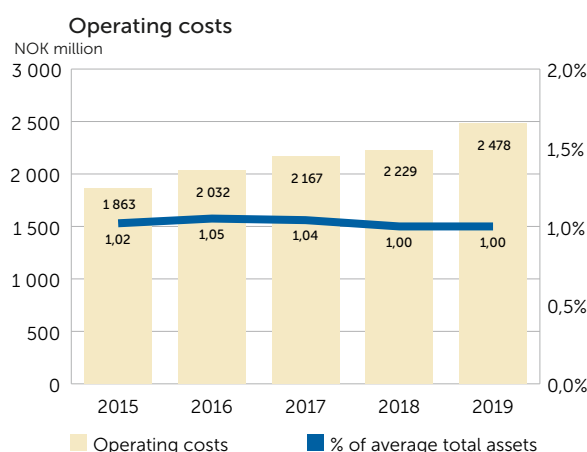
The group's operating costs amounted to NOK 2,478 million in 2019 (NOK 2,229 million), an increase of NOK 249 million since 2018. Costs grew by 11.2% in the last 12 months as a consequence of the group's aggressive market strategy and increased use of resources in strategically selected priority areas. Going forward this should increase the group's income and efficiency, which should help to improve the contribution to the result. It should also ensure that customers get the best available products in the market at competitive prices. The group's priority areas that have contributed to increased cost growth include geographical expansion to the Oslo region, the acquisition of Agder Økonomi AS and Monner AS, more

activity in FinStart Nordic AS, increased resource use in the work on combating money laundering, and investments in new technology and digitalisation. The growth in costs in 2019 was also affected by the group's bonus provisions increasing in 2019 due to the good results.

Personnel costs rose by NOK 175 million (13.5%) from 2018 to NOK 1,472 million in 2019. The increase was due to the acquisition of Agder Økonomi and Monner AS, as well as the establishment of the Oslo branch, and more activity in FinStart Nordic AS.

Other operating costs increased by NOK 74 million (7.9%) to NOK 1,006 million in 2019, with the greatest increase in IT costs and depreciation.

The group's cost/income ratio, costs measured as a percentage of income, remained low and was 37.9% (40.9%) in 2019.



Impairments on loans and non-performance

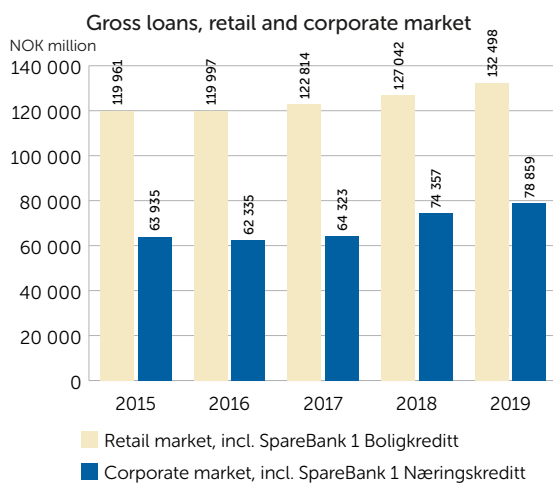
The group's net impairments on loans and liabilities were reduced by NOK 89 million from 2018 to NOK 235 million in 2019. The low impairments were due to NOK 92 million in previous impairments being reversed in the second quarter of 2019 following a legally enforceable judgement in which SpareBank 1 SR-Bank was awarded NOK 92 million including interest in damages. Excluding this reversal, impairments on loans and financial liabilities increased by NOK 3 million in 2019. The group's net impairments on loans and liabilities amounted to 0.12% of gross loans in 2019 (0.18%).

Closely monitoring customers and prevention work are important measures that the group actively employs to maintain its good risk profile in the group's loan portfolio. This helps to ensure that the group's impairments on loans and financial liabilities are considered low.

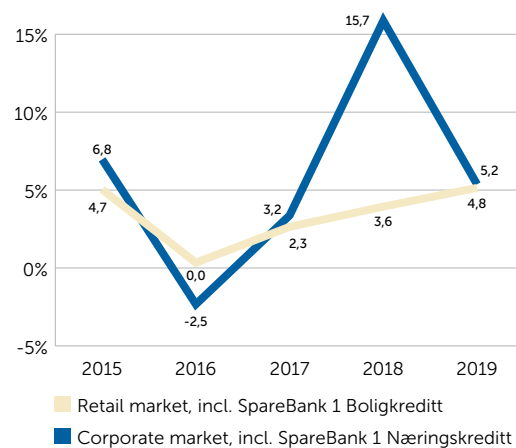
The group's loans and financial liabilities are classified into three groups: Stage 1, Stage 2 and Stage 3. Stage 3 is used for loans and financial liabilities that have seen a significant rise in credit risk since being granted and where there is objective evidence of a loss event on the balance sheet date. The loss provision must cover expected losses over their lifetime for these loans and financial liabilities. Gross loans and financial liabilities classified as Stage 3 amounted to NOK 3,232 million at year end 2019 (NOK 2,935 million). This corresponded to 1.56% (1.53%) of gross loans, and 1.53% (1.46%) inclusive of loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS.

Balance sheet

The group's total assets recognised on the balance sheet increased from NOK 234.1 billion to NOK 255.9 billion in 2019. The increase was primarily due to lending growth and the buyback of lending portfolios from SpareBank 1 Boligkreditt AS. At year end 2019, SpareBank 1 SR-Bank ASA had sold loans worth NOK 4.2 billion to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, compared with NOK 9.3 billion at year end 2018. If the loan portfolios of these part-owned mortgage companies are taken into account, lending growth amounted to 4.9% and total loans NOK 211.4 billion at year end 2019 (NOK 201.4 billion). Retail market lending rose by 4.8% and lending to the corporate market and public sector increased by 5.2%. The distribution between loans to the retail market (including SpareBank 1 Boligkreditt AS) and the corporate market/public sector (including SpareBank 1 Næringskreditt AS) was 60.9% to 39.1%, respectively, at year end 2019, compared with 61.0% to 39.0% in 2018.



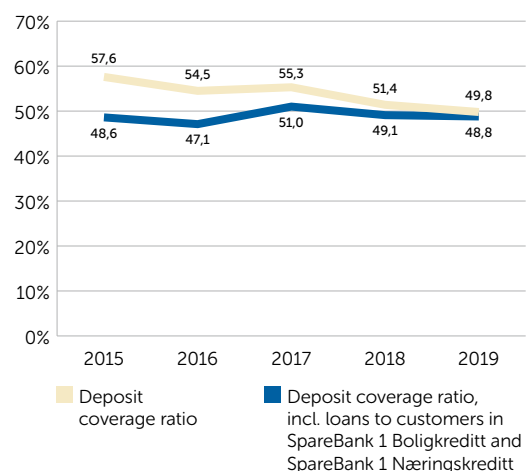
Gross loans, % growth, retail and corporate market



Deposits from customers increased by 4.3% in 2019 (3.6%) to NOK 103.1 billion (NOK 98.8 billion). Excluding deposits from customers in the public sector, deposits from customers have increased by 6.9% in the last 12 months. Deposits from the corporate market and public sector accounted for 53.9% (53.7%) of the group's customer deposits at year end 2019.

At year end 2019, the deposit coverage ratio, measured as deposits as a percentage of gross loans, was 49.8% (51.4%). In a highly competitive market, the group has maintained both a good deposit coverage ratio and strengthened its long-term funding. The liquidity coverage ratio (LCR), which measures the group's liquidity coverage in a serious, 30-day stress scenario, was 155% at year end 2019 (167%). In addition to ordinary customer deposits, the group had NOK 24.5 billion (NOK 20.7 billion) under management, primarily through SR-Forvaltning AS and ODIN Forvaltning AS.

Deposit coverage ratio



(Figures in brackets are linked to figures from the annual financial statements for 2018)

BUSINESS AREAS

Retail market division

The retail market division's contribution before impairments amounted to NOK 1,633 million in 2019 (NOK 1,656 million). The result was NOK 23 million lower higher than in 2018. Total net interest income and commissions increased by NOK 33 million in 2019. Commissions decreased by NOK 53 million, NOK 51 million of which was attributable to lower commissions from SpareBank 1 Boligkreditt AS due to the group buying back loans from the mortgage company. This was offset to some extent by the resulting increase in interest income. Commissions were also affected by stable income in the area of payments, rises in insurance rates, increased commission payments to vehicle dealers, and reduced margins in the area of savings and investments.

Costs were up by NOK 53 million compared with 2018. The growth in costs was particularly linked to growth initiatives in market areas outside Rogaland, compliance with regulatory factors such as the anti-money laundering rules and identification checks. Part of the growth in costs related to contracted temporary staff who will be phased out in early 2020.

In order to deliver on the group's strategy of being a financial group for Southern Norway, the division strengthened its organisation in Bergen and the Oslo region in 2019. New SR-Bank funds were also launched and are seeing good sales growth.

Lending growth in the last 12 months continued to increase and was 4.6% at year end 2019. 70% of the lending growth came from outside Rogaland. This trend is expected to persist as a result of initiatives and various regional market conditions. Deposit growth in the last 12 months was 6.0%.

The quality of the retail market portfolio is considered to be very good with a low risk of losses. The proportion of loan exposure (including the portfolios in SpareBank 1 Boligkreditt AS and SR-Boligkreditt AS) within a loan-to-value ratio of 85% amounted to 89.3% at the end of 2019 (89.1%). The IRB risk weighting¹ for home mortgages was 21.9% at year end 2019 (21.7%), reflecting a solid, stable portfolio.

Personal advice and service, combined with useful and efficient digital services, are priority areas in the retail market. Long-term, profitable customer relationships are created by encouraging customers to make good choices regarding their personal finances.

¹ The IRB rules define residential mortgage loans as commitments secured by collateral in residential/real property where the collateral in the real property amounts to at least 30%. The figures include portfolios in mortgage companies (SpareBank 1 Boligkreditt AS and SR-Boligkreditt AS).

Corporate market division

The corporate market division's contribution before impairments was NOK 2,037 million in 2019 (NOK 1,748 million), NOK 289 million higher than in 2018. The improved result was mainly due to higher interest rates as a result of an increased lending volume and higher lending and deposit margins.

The division's lending growth in the last 12 months was 5.4%. In 2019, the net growth mainly came from customers outside Rogaland. 54% of the corporate market loan portfolio is made up of customers with an address outside Rogaland. The division's deposits have increased by 2.7% in the last 12 months.

The quality of the corporate market portfolio is considered to be good. The proportion of commitments with a probability of default of less than 2.5% through a full loss cycle was 81.0% of the portfolio at the end of 2019 (77.5%). The increase was due to underlying positive migration in the portfolio and the growth in lending mainly occurred in the medium and low risk commitment categories. The property sector portfolio represents the group's largest concentration in a single sector and accounted for 15.9% (15.9%) of total loan exposure, inclusive of retail customers. A large portion of this portfolio consisted of financing commercial properties for leasing.

NOK 211 million in impairments on loans and financial liabilities was recognised in 2019 (NOK 324 million), which includes a NOK 92 million reversal of previous impairments following a legally enforceable judgement in which SpareBank 1 SR-Bank was awarded NOK 92 million including interest in damages. The division's pre-tax profit was NOK 1,826 million in 2019, NOK 402 million higher than in 2018.

The division prioritises closely monitoring risk in the portfolio. At the same time, it is important to ensure good, relevant customer services in relevant channels in order to maintain strong customer relationships and customer growth. New digital purchasing solutions are being developed and launched, which will ensure efficiency for both customers and the group.

Capital market division

Securities activities are organised under the SR-Bank Markets brand and include customer and own account trading in fixed income instruments, foreign exchange and corporate finance services.

SR-Bank Markets's pre-tax profit amounted to NOK 55 million in 2019 (NOK 85 million). The income generated is recognised as income in the business areas to which the customers are assigned, primarily the corporate market division. In 2019, income of NOK 79 million was recognised in the business areas (NOK 71 million).

Prior to the allocation of customer income to other business areas, SR-Bank Markets posted operating income of

NOK 200 million in 2019 (NOK 218 million). Income from interest trading was somewhat lower during the period, whereas Corporate Finance achieved a better result than in 2018.

Subsidiaries

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

EiendomsMegler 1 SR-Eiendom AS is well represented throughout the group's entire market area and has 40 branches from Grimstad in the south-east to Bergen in the north. It is the leading estate agent in Rogaland and Agder, and is also increasing its market share in Vestland. The company achieved a pre-tax profit of NOK 6.0 million (NOK 10.8 million).

In 2019, 6,441 (6,487) properties were sold with a total value of around NOK 21.7 billion (NOK 20.6 billion). The supply of new assignments was satisfactory, although somewhat weaker than last year. Overall, the company is the largest actor in estate agency services in the counties of Rogaland, Vestland and Agder, with a stable market share of just under 20% in this market area.

The housing market in Rogaland was slightly weaker than expected in 2019, with a long turnover times and a continued fall in house prices. Agder and in Vestland had good, balanced housing markets. The supply of planned homes in the market area is high, and in the Stavanger area especially, the market is demanding but improving. The level of activity within commercial property is good throughout the market area. The market for office space in the Stavanger region is stable, but the vacancy rate remain high.

SR-Forvaltning AS is an investment firm licensed to provide active management and fund management services. Pre-tax profit was NOK 25.4 million in 2019 (NOK 34.7 million). The reduction in management income was mainly due to a reduction in management fees after price adjustments throughout the year. In 2019, the company experienced good customer growth in the SR-Bank funds, but a reduced volume under discretionary management. The company's costs increased through 2019 as a result of a new savings strategy. The assets under management at year end 2019 amounted to NOK 12.5 billion (NOK 11.4 billion).

SpareBank 1 Regnskapshuset SR AS achieved a pre-tax profit of NOK 10.7 million in 2019 (NOK 4.2 million). The result includes depreciation of intangible assets amounting to NOK 2.5 million (NOK 1.9 million).

At year end 2019, the company had seven offices: three in Rogaland, three in Bergen and one in Agder, and around 2,600 customers. Regnskapshuset enjoys a solid market positions within accounting services in Agder, Vestland, and Rogaland.

Business areas within advice and payroll/HR are also growing, and the company is experiencing good demand for these types of services.

SR-Boligkreditt AS is a wholly owned subsidiary and was established in 2015. The purpose of the company is to purchase home mortgages from SpareBank 1 SR-Bank ASA and finance this by issuing covered bonds. SR-Boligkreditt AS enables SpareBank 1 SR-Bank to diversify and optimise its funding. Moody's has given SR-Boligkreditt AS its best rating, Aaa. The company achieved a pre-tax profit of NOK 582.7 million in 2019 (NOK 374.5 million). At year end 2019, the company had issued covered bonds with a nominal value of NOK 62.3 billion and bought loans worth NOK 73.0 billion from SpareBank 1 SR-Bank.

FinStart Nordic AS achieved a pre-tax profit of NOK 27.3 million in 2019 (NOK 59.5 million). The reduction in the result was attributable to higher costs due to the company becoming fully operational in 2019 following a phased start-up in spring 2018. In 2019, the company achieved a positive return on securities of NOK 54.8 million (NOK 70.4 million). The increase in value primarily came from the investment portfolio of the former SR-investment AS. The income included proceeds of NOK 27.9 million in connection with the sale of Monner AS to the parent bank. Costs increased by NOK 16.5 million to NOK 27.1 million due to the company becoming fully operational in 2019.

The company changed its name from SR-Investering AS to FinStart Nordic AS in September 2017 as part of the company's changed strategy. The company commenced operations in January 2018. The company is the group's innovative unit and has been established as an external arena for innovation and development. The company wants to invest in and/or establish companies that will engage innovation work aimed at developing new commercial products. This will help to the bank to grow in a market where the bank's activities are increasingly subject to competition from new actors, including as a result of changes to the framework conditions.

Monner AS is a payment company and a registered loan arranger and arranges direct loans from private investors (people and limited liability companies) to small and medium-sized Norwegian limited liability companies via its proprietary digital platform. On 1 July 2019, SpareBank 1 SR-Bank ASA purchased 100% of the shares in Monner AS. SpareBank 1 SR-Bank ASA became the company's first external investor through its investment company FinStart Nordic AS with an investment in March 2017. The company has arranged more than NOK 170 million in loans to Norwegian companies. Ownership of Monner AS will enable the group to help entrepreneurs throughout Norway succeed by delivering comprehensive services to companies in their startup and growth phases. The company posted a deficit of NOK 14.0 million in 2019 (NOK -14.0 million). The negative result is in line with expectations and was due to the company

being in an investment and development phase where the costs of products and market development will be higher than earnings.

Associated companies and joint ventures

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are licensed mortgage companies and issue covered bonds in the bank's home mortgage and commercial property portfolios, respectively, that have been bought from the owner banks. The companies are owned by the savings banks that make up the SpareBank 1 Alliance and help ensure the owner banks have access to stable, long-term funding at competitive rates.

At year end 2019, SpareBank 1 Boligkreditt AS's total loan volume amounted to NOK 191.3 billion, NOK 4.2 billion of which was from home mortgages bought from SpareBank 1 SR-Bank ASA. The bank currently owns a 2.2% stake in the company. This is updated at the end of each year in line with the volume sold.

At year end 2019, SpareBank 1 Næringskreditt AS's total loan volume amounted to NOK 10.3 billion. As at year end 2019, SpareBank 1 SR-Bank ASA had not sold any loans to SpareBank 1 Næringskreditt AS. The bank owned 15.6% of the company at year end 2019.

SpareBank 1 Alliance

The SpareBank 1 Alliance's purpose is to acquire and provide competitive financial services and products and to exploit economies of scale in the form of lower costs and/or higher quality. The alliance also helps to secure the participating banks' value creation for the benefit of their own regions and the banks' owners.

The SpareBank 1 banks run the alliance through their ownership of, and participation in, SpareBank 1 Utvikling DA. The development and organisation of the product companies are organised through the banks' ownership of the holding company SpareBank 1 Gruppen AS.

SpareBank 1 Gruppen AS is owned by SpareBank 1 SR-Bank ASA (19.5%), SpareBank 1 Nord-Norge (19.5%), SpareBank 1 SMN (19.5%), SpareBank 1 Østlandet (12.4%), Samarbeidende Sparebanker AS (19.5% – owned by 11 savings banks in Southern Norway), and the Norwegian Confederation of Trade Unions (LO) and affiliated trade unions (9.6%).

SpareBank 1 Gruppen AS owns 100% of the shares in SpareBank 1 Forsikring AS, ODIN Forvaltning AS, Conecto AS, SpareBank 1 Factoring AS, Modhi finance AS, and SpareBank 1 Spleis AS, 65% of the shares in Fremtind Forsikring AS, and 51% of the shares in LO Favør AS.

The merger between SpareBank 1 Skadeforsikring AS and DNB Forsikring AS was completed with accounting effect from 1 January 2019, with SpareBank 1 Skadeforsikring AS as the company doing the taking over. SpareBank 1 Gruppen AS owns 65% of the new company and DNB ASA 35%. Please refer to our interim financial statements for the first quarter of 2019 for information on the accounting and liquidity implications of this transaction.

On 2 September 2019, Fremtind Forsikring AS was granted permission by the Financial Supervisory Authority of Norway to operate life insurance activities through its wholly-owned subsidiary Fremtind Livsforsikring AS. The individual personal risk insurance cover from SpareBank 1 Forsikring AS and DNB Livsforsikring AS, as well as the personal risk insurance cover paid for by companies from SpareBank 1 Forsikring AS, were transferred to Fremtind Livsforsikring AS on 1 January 2020.

SpareBank 1 Gruppen AS delivered a pre-tax profit of NOK 1,578 million in 2019 (NOK 1,562 million). In the second quarter of 2019, the value of the properties in the life insurance company was written up by a total of NOK 596 million. The write-up was a consequence of planned transactions in the property portfolio. Excluding the write-up, pre-tax profit decreased by NOK 170 million, primarily due to a lower result from Fremtind Forsikring AS. This was primarily due to higher claims payments, higher costs, and lower liquidation gains.

SpareBank 1 Utvikling DA

SpareBank 1 Utvikling DA delivers business platforms and common management and development services to the alliance banks. The company contributes to joint activities that provide the banks with benefits in the form of economies of scale and expertise. The company also owns and manages the alliance's intellectual property rights under common brand name: SpareBank 1. SpareBank 1 SR-Bank ASA owned a 18.0% stake in SpareBank 1 Utvikling DA at year end 2019.

BN Bank ASA

BN Bank is a nationwide bank with its head office in Trondheim. BN Bank ASA achieved a pre-tax profit of NOK 435 million in 2019 (NOK 395 million). The improvement in the result was primarily due to net interest income increasing by NOK 106 million since 2018, while costs increased by NOK 11 million in the same period. Impairments on loans increased by NOK 47 million due to the company recognising NOK 10 million in impairments on loans as income in 2018, while NOK 37 million in impairments on loans were recognised as costs in 2019. The bank is owned by the banks in the SpareBank 1 Alliance. SpareBank 1 SR-Bank ASA's stake was 35.0% at year end 2019.

Events after the balance sheet date

No material events have been registered after 31 December 2019 that affect the interim financial statements as prepared.

Accounting policies

Please refer to note 2 for a description of the accounting policies applied in the parent company's and consolidated financial statements. The same accounting policies are applied in interim and annual financial statements. The group introduced IFRS 16 – Leases on 1 January 2019. For more information see note 2.

Corporate governance

Corporate governance in SpareBank 1 SR-Bank ASA is based on, among other things, the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. This comprises the objectives and overriding principles according to which the group is governed and controlled, to secure the interests of shareholders, customers and other stakeholders. Governance of the group's activities shall ensure prudent asset management and greater assurance that publicly declared goals and strategies are reached and realised. You can read more about corporate governance on page 36 in the chapter "Corporate governance".

Risk management

SpareBank 1 SR-Bank ASA's core activity is to create value by taking conscious and acceptable risks. The group therefore invests significant resources in the further development of risk management systems and processes in line with leading international practice.

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

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

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

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

Credit risk

Credit risk is managed via the framework procedures for granting credit, monitoring commitments and portfolio management. The general credit strategy stipulates that the group shall have a moderate risk profile.

The quality of the corporate market portfolio is considered good and stable. The proportion of commitments with a probability of default of less than 2.5% through a full loss cycle is rising and now amounts to 78% of the portfolio. The portfolio in the property sector represents the group's greatest concentration in a single sector. A large portion of this portfolio consists of financing commercial properties for leasing. The portfolio is characterised by long-term leases and financially solid tenants.

The quality of the retail market portfolio is considered to be very good with a low risk of losses. Most of the portfolio is secured by mortgages on real estate, and the LTV is, for the most part, moderate. This implies that potential losses are limited as long as the values are not significantly impaired.

Market risk

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

Part of the group's market risk is linked to investments in bonds and certificates. At the end of 2019, the group's holdings of liquid assets in the form of bonds and certificates totalled NOK 32.8 billion. Quantification of the risk associated with falls in value in the liquidity portfolio measured at fair value is calculated based on the Financial Supervisory Authority of Norway's model for risk-based supervision of market risk.

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

The group's market risk exposure is deemed moderate.

Liquidity risk

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

liquidity risk is restricted by diversifying securities issued in terms of markets, funding sources, instruments and maturity periods.

SpareBank 1 SR-Bank ASA had very good liquidity at year end 2019 and believes it will continue to have good access to long-term funding at competitive prices. The group strives to achieve an even maturity structure for funding and believes it is important to have good relations with Norwegian and international investors and banks. The liquidity buffer² was NOK 34.0 billion at year end 2019 and would cover normal operations for 20 months in the event of closed markets. NOK 19.2 billion of the bank's external funding will fall due in the next 12 months. In addition to the liquidity buffer, the bank has NOK 13.7 billion in residential mortgages ready for covered bond funding.

The group's liquidity situation is very good and the group has continued to enjoy a high proportion of long-term funding in the last 12 months. The group's net stable funding ratio³ (NSFR) at year end 2019 was 118% (121%).

Operational risk

The group uses a systematic process to identify and quantify operational risks that the group is exposed to at any time. The analysed risk exposure in 2019 remained within the board's adopted limits for maximum allowable exposure at all times.

Adverse events are registered and systematically analysed to avoid repetitions and learn lessons. No single events occurred in 2019 that had significant financial consequences.

Compliance

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

Compliance risk is the risk of the group incurring public sanctions/penalties or financial loss as a result of a failure to comply with legislation and regulations. The compliance function is tasked with identifying and preventing risks related to compliance with external and internal regulations. Compliance conducts risk assessments that provide a basis for control plans and recommending measures. Observations from control activities are reported to the board and group executive management team semi-annually. Compliance also conducts training activities and advises the organisation on regulations.

² Liquidity buffer: cash, short-term investments, and drawing rights in Norges Bank (bonds, including covered bonds). Assuming deposits and lending remain unchanged and no new funding during the period.

³ NSFR is calculated in accordance with guidelines from the Financial Supervisory Authority of Norway and is calculated as available stable funding relative to necessary stable funding.

In 2019, there was a particularly heavy focus on compliance with the frameworks established for MiFID II, AML (Money Laundering Act), data protection (GDPR) and tax reporting abroad (FATCA/CRS). The group's revised code of conduct clarifies the principles with which the bank and employees must comply. Among other things, they emphasise the bank's work on sustainability and zero tolerance for corruption.

Ownership risk

Ownership risk is the risk that SpareBank 1 SR-Bank ASA bears if it suffers negative results from stakes in strategically owned companies and/or the need to inject fresh capital into these companies. Owned companies are defined as companies where SpareBank 1 SR-Bank ASA has a significant stake and influence. SpareBank 1 SR-Bank is mainly exposed to owner risk through its stakes in:

- SpareBank 1 Gruppen AS (19.5%)
- SpareBank 1 Boligkreditt AS (2.2%)
- SpareBank 1 Næringskreditt AS (15.6%)
- BN Bank ASA (35.0%)
- SpareBank 1 Kredittkort AS (17.8%)
- SMB Lab AS (20.0%)
- SpareBank 1 Betaling AS (19.8%)

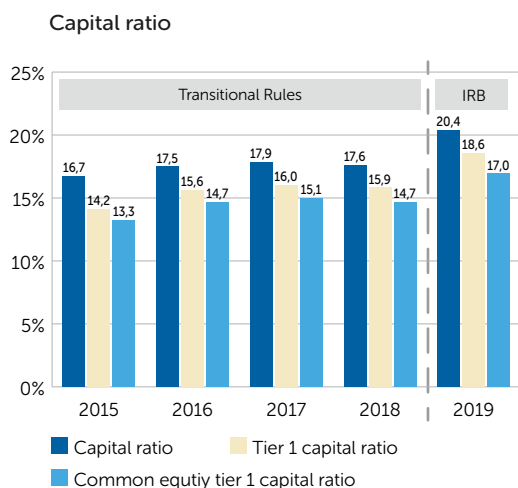
Corporate social responsibility and sustainability

SpareBank 1 SR-Bank ASA's goal is to be an organisation that takes a proactive approach to sustainability and responsibility for the environmental challenges society faces. The bank will not, directly or indirectly, participate in violations of human and labour rights, corruption, serious environmental harm or other actions that could be considered unethical. This applies both internally and in relation to society as a whole. Sustainability is included in the documentation and routine work associated with credit lines and investments/management, and be incorporated into the group's strategy. A sustainability strategy, general sustainability guidelines, and sustainability guidelines for the corporate market were developed in 2018. In 2019, sustainability was further incorporated into governing documents and guidelines. Please see the sustainability report for more information.

Capital management

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

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



A capital plan is drawn up every year to ensure long-term, effective capital management. These projections take into account both expected developments in the coming years and a situation involving a serious economic recession over several years. Various stress tests are carried out of both individual factors and scenario analyses where the group is exposed to a range of negative macroeconomic events over several years. In addition, SpareBank 1 SR-Bank has prepared contingency plans for dealing with such crises as effectively as possible should they nevertheless arise.

SpareBank 1 SR-Bank ASA is in a solid financial position. At year end 2019, the common equity tier 1 capital ratio was 17.0% (14.7%) while the tier 1 capital ratio was 18.6% (15.9%) and the capital ratio was 20.4% (17.6%).

The EU's capital adequacy regulations (CRR/CRD IV) were incorporated into the EEA agreement in March 2019, and the Ministry of Finance decided at the beginning of December 2019 that the implementation regulations would come into effect in Norway on 31 December 2019. This meant the elimination of the Basel I floor and the introduction of SME discount stage 1. For SpareBank 1 SR-Bank ASA, this resulted in positive effects of 2.00 percentage points and 0.27 percentage points, from the Basel I floor and SMB discount, respectively.

On 11 December 2019, the Ministry of Finance also announced that it will increase the systemic risk buffer requirement 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' commitments in Norway, unlike previous buffer requirements that apply to all operations. At the same time, floors for risk weightings for residential mortgages and loans for commercial properties are being introduced of 20% and 35%, respectively.

A countercyclical capital buffer requirement applies in Norway in the range of 0-2.5 percentage points in the form of common equity tier 1 capital. The purpose of the countercyclical capital buffer is to make the banks more solid and robust in relation to lending losses. The capital buffer requirement increased to 2.5 percentage points at year end 2019.

The Pillar 2 premium is an institution-specific premium intended to ensure that Norwegian banks have adequate capital to cover the risk associated with operations, including risks not covered by the regulatory minimum requirement. In its latest assessment in 2018, the Financial Supervisory Authority of Norway set an individual Pillar 2 premium of 1.7 percentage points, down from the 2.0 percentage points set in 2016. The new Pillar 2 premium applied from 31 March 2019.

At year end 2019, SpareBank 1 SR-Bank ASA's total common equity tier 1 capital ratio requirement was 14.2%, inclusive of the countercyclical buffer and Pillar 2 premium. Banks classified as systemically important financial institutions are also subject to a special capital buffer requirement. SpareBank 1 SR-Bank ASA has not been identified as a systemically important financial institution.

At year end 2019, SpareBank 1 SR-Bank ASA's common equity tier 1 capital ratio target was 15.1%. The target includes a 0.9-percentage point management buffer. When the systemic risk buffer increases on 31 December 2020, SpareBank 1 SR-Bank's target for common equity tier 1 capital will be 16.7% including an increase in management buffer to 1.0%. The target will be maintained through good profitability, balanced growth and competitive dividends.

External audit

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

Internal audit

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

Employees and working environment

SpareBank 1 SR-Ban ASA's employees are its most important resources for creating value for the benefit of its customers, the region and the bank. The group's organisational and working environment surveys for 2019 show that employees are satisfied and have a good relationship with the group as an employer. The surveys are reviewed and followed up in all units in order to ensure a positive development and strengthen a healthy working environment characterised by a long-term approach, openness, honesty and security in line with the group's basic values.

You can read more about the measures being taken to ensure we have the right expertise, good working environments, and gender equality in the chapter on "Employees" on page 12, and in more detail in note 22 "Remuneration statement, personnel costs and benefits for executive personnel and elected representatives".

The bank's share

The share price for the bank's share (SRBANK) was NOK 100.00 at year end 2019. This represents an increase of 17.2% since year end 2018, taking into account the dividend of NOK 4.50. The main Oslo Børs index rose by 16.5% in the same period. The SRBANK share was traded more frequently in 2019 with 8.7% of outstanding SRBANK shares being traded, compared with 8.4% in 2018.

There were 11,321 shareholders at year end 2019 (10,804). The proportion owned by foreign companies and individuals was 27.9%, while 42.9% were resident in Rogaland, Agder, and Vestland. The 20 largest shareholders owned a total of 58.4% of the shares. The bank holds 91,311 treasury shares, while group employees owned 1.5%.

Going concern

Financial strength improved in 2019 and the market outlook appears to be good. Together with implemented and planned measures, this contributes to a good prospect of further progress for the group in 2020. The annual financial statements have been prepared on the assumption that the group is a going concern.

Allocation of profit for the year/dividend

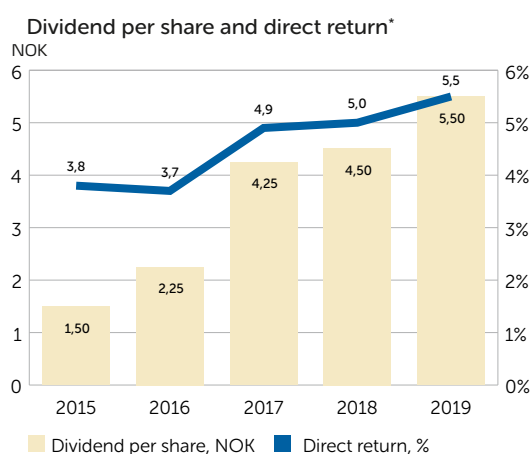
SpareBank 1 SR-Bank ASA's financial goal for its activities is to achieve results that provide a good, stable return on the bank's equity, thus creating value for the owners in the form of competitive dividends and a higher share price. Consideration is given to financial needs, including capital adequacy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

The dividend paid is based on the parent bank's distributable profit, which was NOK 2,778 million in 2019, equivalent to NOK 10.9 per share. In line with the dividend policy, various factors are taken into consideration when proposing dividends, with particular weight being attached to capital requirements and the tier 1 capital ratio. The board is, therefore, proposing a dividend of NOK 5.50 per share for 2019, which corresponds to around 45% of the consolidated earnings per share.

The board proposes the following allocations for the 2019 accounting year:

	NOK millions
Parent company net profit for the year	2,778
Distributable	2,778
Dividend (NOK 4.50 per share)	1,407
Retained earnings	1,371
Total	2,778

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



*Dividend divided by share price at year end.

Outlook for 2020

The global economy is still expected to develop positively with an annual growth rate of 3.3% according to the IMF. An expansive US fiscal policy will have a positive impact on the global economy, while a trade war between the US and other countries could result in lower exports and investments. The coronavirus has contributed to uncertainty, disquiet and some drops in the financial markets, but this uncertainty is expected to lessen. Positive growth is still expected in the eurozone, although some uncertainty exists surrounding the Brexit negotiations and their possible outcome.

The upturn in the Norwegian economy is expected to continue in 2020. Continued high consumer consumption rates, increasing business investments, and export growth are expected to improve growth in the mainland economy by 2.7% in 2020 according to Statistics Norway's latest forecasts. The Norwegian Petroleum Directorate expects oil investments on the Norwegian Continental Shelf to grow by 10% in 2020,

(Figures in brackets are linked to figures from the annual financial statements for 2018)

the same as in 2019. The growth in the Norwegian economy is expected to generate new jobs and result in persistent low unemployment. Wages growth will be moderate to high in 2019 and industries that see especially high growth must expect increasing wages growth in the next few years. Inflation was low throughout 2019. Price inflation adjusted for energy and taxes was 1.8% in 2019. In 2019, Norges Bank raised its policy rate by 0.25 percentage points three times, on 21 March 2019, 20 June 2019, and 19 September 2019, respectively. The market now expects the policy rate to remain unchanged at 1.50% in 2020 and 2021.

The group's long-term return on equity target is a minimum of 12%. The target for the return on equity in 2020 is 12.0%. A number of factors can contribute to the group achieving this goal, including profitable lending growth, moderate impairments on loans and financial liabilities, growth in other operating income, gains from financial investments, and greater cost-effectiveness through the automation of processes.

The group's target for its common equity tier 1 capital ratio is 16.7% by year end 2020. SpareBank 1 SR-Bank ASA is a solid, profitable group and has in recent years increased its financial strength in line with the authorities' requirements. This was achieved through earnings via a business model involving good breadth in earnings and efficient operations.

SpareBank 1 SR-Bank ASA's dividend policy remains unchanged, with an expected dividend of around 50% of the profit for the year.

The group is actively working to create sustainable development. The sustainability strategy will clarify and provide guidance for SR-Bank's work on sustainability, and support staff and managers in decisions and daily work. As part of this strategy, SR Boligkreditt AS's first green bond was issued in autumn 2019.

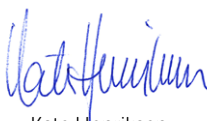
SpareBank 1 SR-Bank ASA is a proactive financial group with national distribution. As Norway's second largest Norwegian-owned bank, the group provides financial muscle for growth, value creation, and profitability for customers, society, and our owners. The group is a bank for the whole of Southern Norway, in which the Oslo region is a focus area. The further build-up of the Oslo branch is proceeding according to plan. Having a presence in this market is important with respect to geographical diversification and creating a greater basis for growth, and thus earnings.

A good mutual relationship between the region's inhabitants, the business sector and the bank is important for growth in the group's market area. The board would like to thank the group's customers, owners and other partners for their loyal support of SpareBank 1 SR-Bank ASA in 2019 and assure them that it will make every effort to ensure that this teamwork continues. The board would also like to thank the group's employees and elected officers for their good contributions and good teamwork in 2019.

Stavanger, 5 March 2020



Dag Mejdell
Chair of the board



Kate Henriksen



Tor Dahle



Birthe Cecilie Lepsøe



Therese Log Bergjord



Jan Skogseth



Sally Lund-Andersen
Employee representative



Kristian Kristensen
Employee representative



Arne Austreid
Chief Executive Officer

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INCOME STATEMENT

Parent bank		(Figures in NOK millions)	Note	Group	
2018	2019			2019	2018
5,115	6,039	Interest income	18	7,743	6,274
2,179	2,670	Interest costs	18	3,756	2,835
2,936	3,369	Net interest income		3,987	3,439
1,002	974	Commissions	19	1,516	1,519
84	108	Commission costs	19	111	87
8	12	Other operating income	19	11	5
926	878	Net commissions and other operating income		1,416	1,437
11	31	Dividends		31	12
619	1,023	Income from ownership interests	38	875	366
147	183	Net income/loss from financial investments	20	221	191
777	1,237	Net income from financial investments		1,127	569
4,639	5,484	Total net income		6,530	5,445
968	1,092	Personnel costs	21	1,472	1,297
752	808	Other operating costs	22	1,006	932
1,720	1,900	Total operating costs		2,478	2,229
2,919	3,584	Operating profit before impairments		4,052	3,216
322	237	Impairments on loans and financial liabilities	10	235	324
2,597	3,347	Pre-tax profit		3,817	2,892
479	569	Tax cost	24	693	596
2,118	2,778	Net profit for the year		3,124	2,296
2,113	2,738	Shareholders' share of the profit		3,084	2,291
5	40	Hybrid capital owners' share of the profit		40	5
2,118	2,778	Net profit for the year		3,124	2,296
Statement of Comprehensive Income					
231	-5	Actuarial gains/losses on pensions		-4	240
-58	1	Tax effect of actuarial gains/losses on pensions		1	-60
-1	-3	Change in ECL 12 months		-	-
-	-	Basis swap spread	27	12	-35
-	-	Tax effect basis swap spread	27	-2	9
172	-7	Total items not reclassified through profit or loss		7	154
-	-	Share of other comprehensive income in associated companies and joint ventures		19	-5
-	-	Total items that can be reclassified through profit or loss		19	-5
172	-7	Year's comprehensive income		26	149
2,290	2,771	Total comprehensive income		3,150	2,445
Earnings per share					
8.28	10.87	Earnings per share ¹⁾	21, 40	12.22	8.98
8.28	10.86	Diluted earnings per share ²⁾	21, 40	12.22	8.97

¹⁾ Result year-to-date/average no. of outstanding shares

²⁾ Result year-to-date/average no. of outstanding shares + bonus shares

BALANCE SHEET

Parent bank		(Figures in NOK millions)	Note	Group	
2018	2019			2019	2018
Assets					
717	104	Cash and receivables from the central bank	36	104	717
5,069	11,790	Loans to and receivables from financial institutions	7	3,142	1,696
132,338	133,107	Loans to customers	8, 11, 13	205,688	190,878
27,815	31,435	Certificates and bonds	13, 26	32,792	29,340
5,574	6,272	Financial derivatives	27	5,933	5,268
517	564	Equities, units and other equity interests	28	920	868
2,099	2,336	Investments in ownership interests	38	4,180	3,713
6,128	7,315	Investments in group companies	38	-	-
-	-	Intangible assets	29	273	95
-	379	Deferred tax asset	24	420	-
303	355	Tangible fixed assets	30	1,087	798
331	1,255	Other assets	32	1,356	688
180,891	194,912	Total assets		255,895	234,061
Liabilities					
3,201	2,547	Debt to financial institutions	7	2,264	1,433
99,119	103,323	Deposits from customers	33	103,106	98,814
48,113	54,257	Securities issued	34	116,164	103,485
6,234	7,407	Financial derivatives	27	4,530	3,889
779	1,078	Payable tax	24	1,228	896
146	-	Deferred tax liabilities	24	-	124
746	1,693	Other liabilities	35, 23	1,644	884
2,951	2,125	Subordinated loan capital	37	2,125	2,951
161,289	172,430	Total liabilities		231,061	212,476
Equity					
6,394	6,394	Share capital	40	6,394	6,394
1,587	1,587	Share premium reserve		1,587	1,587
1,151	1,407	Allocated dividend		1,407	1,151
550	1,850	Hybrid capital	40	1,850	550
9,920	11,244	Other equity		13,596	11,903
19,602	22,482	Total equity		24,834	21,585
180,891	194,912	Total liabilities and equity		255,895	234,061

Stavanger, 5 March 2020


Dag Mejdell

Chair of the board


Kate Henriksen


Tor Dahle


Birthe Cecilie Lepsøe


Birthe Cecilie Lepsøe


Therese Log Bergjord

Therese Log Bergjord


Jan Skogseth

Jan Skogseth


Sally Lund-Andersen

Employee representative


Kristian Kristensen

Employee representative


Arne Austreid

Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

(Figures in NOK millions)

Parent bank	Share capital	Share premium reserve	Hybrid capital	Other equity*	Total equity
Equity 31 Dec 2017	6,394	1,587	150	9,918	18,049
Equity changes IFRS 9, 1 Jan 2018				-56	-56
Net profit for the year				2,118	2,118
Actuarial gains/losses after tax on pension schemes				173	173
Change in ECL ¹⁾ 12 months				-1	-1
Year's comprehensive income				2,290	2,290
Hybrid capital			400		400
Interest hybrid capital after tax				-5	-5
Dividends in 2017, final determination in 2018				-1,087	-1,087
Trade in treasury shares				11	11
Transactions with shareholders				-1,076	-1,076
Equity 31 Dec 2018	6,394	1,587	550	11,071	19,602
Net profit for the year				2,778	2,778
Actuarial gains/losses after tax on pension schemes				-4	-4
Change in ECL ¹⁾ 12 months				-3	-3
Year's comprehensive income				2,771	2,771
Hybrid capital			1,300		1,300
Interest hybrid capital after tax				-40	-40
Dividends in 2018, final determination in 2019				-1,151	-1,151
Trade in treasury shares				-	-
Transactions with shareholders				-1,151	-1,151
Equity 31 Dec 2019	6,394	1,587	1,850	12,651	22,482

¹⁾ ECL - expected credit loss

Group	Share capital	Share premium reserve	Hybrid capital	Other equity*	Total equity
Equity 31 Dec 2017	6,394	1,587	150	11,758	19,889
Equity changes IFRS 9, 1 Jan 2018				-69	-69
Net profit for the year				2,296	2,296
Actuarial gains/losses after tax on pension schemes				180	180
Basis swap spread after tax				-26	-26
Share of other comprehensive income from associated companies				-5	-5
Year's comprehensive income				2,445	2,445
Hybrid capital			400		400
Interest hybrid capital after tax				-5	-5
Corrected equity in associated companies				1	1
Dividends in 2017, final determination in 2018				-1,087	-1,087
Trade in treasury shares				11	11
Transactions with shareholders				-1,076	-1,076
Equity 31 Dec 2018	6,394	1,587	550	13,054	21,585
Net profit for the year				3,124	3,124
Actuarial gains/losses after tax on pension schemes				-3	-3
Basis swap spread after tax				10	10
Share of other comprehensive income from associated companies				19	19
Year's comprehensive income				3,150	3,150
Hybrid capital			1,300		1,300
Interest hybrid capital after tax				-40	-40
Corrected equity in associated companies				-10	-10
Dividends in 2018, final determination in 2019				-1,151	-1,151
Trade in treasury shares				-	-
Transactions with shareholders				-1,151	-1,151
Equity 31 Dec 2019	6,394	1,587	1,850	15,003	24,834

* Fund for unrealised gains is included in other equity from 2019

STATEMENT OF CASH FLOW

(Figures in NOK millions)

Parent bank				Group	
2018	2019		Note	2019	2018
-1,651	-972	Change in loans to customers	8	-15,008	-19,602
4,596	5,353	Interest receipts from loans to customers		7,122	5,774
3,484	4,204	Change in deposits from customers	33	4,292	3,430
-997	-1,262	Interest payments on deposits from customers		-1,255	-993
-4,717	-7,457	Change in receivables and deposits with financial institutions	7	-686	-910
-391	139	Interest on receivables and debt to financial institutions		-351	-619
4,388	-3,620	Change in certificates and bonds	26	-3,452	2,569
458	556	Interest receipts from certificates and bonds		538	450
912	870	Commission receipts		1,371	1,416
-2	60	Capital gains from sale of trading		49	-2
-1,693	-1,646	Payments for operations		-2,097	-2,186
-393	-779	Paid tax	24	-896	-487
1,375	117	Other accruals		-58	1,547
5,369	-4,437	A Net change in liquidity from operations		-10,431	-9,613
-84	-128	Investments in tangible fixed assets	30	-379	-296
3	-	Receipts from sale of tangible fixed assets	30	-	3
-1,288	-1,804	Long-term investments in equities		-656	-93
348	361	Receipts from sales of long-term investments in equities		378	350
630	1,053	Dividends from long-term investments in equities		760	358
-391	-518	B Net change in liquidity from investments		103	322
7,824	13,800	Increase in securities issued	34	24,823	22,535
-11,051	-7,466	Repayment – securities issued		-12,455	-11,051
-563	-1,243	Interest payments on securities issued		-1,885	-1,007
700	-	Borrowing and sale of own subordinated loans	37	-	700
-500	-800	Repayments - subordinated loans	37	-800	-500
-103	-90	Interest payments on subordinated loans		-90	-103
400	1,300	Increase in hybrid capital issued		1,300	400
-6	-52	Interest payments on hybrid capital issued		-52	-6
	-38	Lease payments	31	-46	
-1,087	-1,151	Dividend to shareholders		-1,151	-1,087
-4,386	4,260	C Net change in liquidity from financing		9,644	9,881
592	-695	A+B+C Net change in cash and cash equivalents in the year		-684	590
871	1,463	Cash and cash equivalents 1 Jan		1,463	873
1,463	768	Cash and cash equivalents 31 Dec		779	1,463
		Specification of cash and cash equivalents			
717	104	Cash and receivables from the central bank		104	717
746	664	Receivables from financial institutions at call		675	746
1,463	768	Cash and cash equivalents 31 Dec		779	1,463

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

NOTE 1 GENERAL INFORMATION

The SpareBank 1 SR-Bank Group consists of the parent bank SpareBank 1 SR-Bank ASA ("the bank") and its subsidiaries.

Subsidiaries - Ownership 100%

SR-Boligkreditt AS
EiendomsMegler 1 SR-Eiendom AS
FinStart Nordic AS with subsidiaries
SpareBank 1 Regnskapshuset SR AS
SR-Forvaltning AS
Finansparken Bjergsted AS
Bjergsted Terrasse 1 AS
Rygir Industrier AS with subsidiaries (acquired assets)
Monner AS

Investments in associated companies	Ownership interest in %
SpareBank 1 Boligkreditt AS	2.2
SpareBank 1 Næringskreditt AS	15.6
BN Bank ASA	35.0
SpareBank 1 Kredittkort AS	17.8
SMB Lab AS	20.0
SpareBank 1 Betaling AS	19.8

Investments in joint controlled operations	Ownership interest in %
SpareBank 1 Gruppen AS	19.5
SpareBank 1 Utvikling DA	18.0

Distribution of stakes in companies where the management structure is regulated by an agreement between the owners (stakes in %)

	SpareBank 1 Gruppen AS	BN Bank ASA
SpareBank 1 SR-Bank	19.5	35.0
SpareBank 1 SMN	19.5	35.0
SpareBank 1 Nord-Norge	19.5	10.0
Samarbeidende Sparebanker	19.5	10.0
SpareBank 1 Østlandet	12.4	10.0
Norwegian Confederation of Trade Unions (LO)	9.6	

The bank's head office is in Stavanger and it has 33 branches in Rogaland, Agder, Vestland and Oslo. Some of the branches share premises with EiendomsMegler 1 SR-Eiendom AS. All subsidiaries have head offices in Stavanger, except for FinStart Nordic AS and Monner AS, which have head offices in Oslo.

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

The consolidated financial statements were approved by the board on 5 March 2020. The annual general meeting is the bank's supreme authority.

NOTE 2 ACCOUNTING POLICIES BASIS FOR PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

The parent bank's financial statements and the consolidated financial statements for 2019 for SpareBank 1 SR-Bank ("the group") have been prepared in accordance with International Finance Reporting Standards (IFRS) as adopted by the EU. This includes interpretations from the IFRS Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC).

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

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

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

The annual financial statements are presented in accordance with IFRS and interpretations that are obligatory for annual financial statements presented as at 31 December 2019. The annual financial statements have been prepared on the assumption that the group is a going concern.

New and revised standards that were applied in 2019: two new standards have been applied since 1 January 2019.

IFRS 16 Leases primarily affects the lessee's accounting and will result in almost all leases being capitalised. The standard eliminates the former distinction between operational and financial leases and requires recognition of a right-of-use asset (the right to use this leased asset) and a financial liability to pay the lease for almost all leases. Exemptions exist for short-term leases and low value leases. The income statement is affected because the total cost (the sum of depreciation and interest) is usually higher in the first few years of a lease and lower in later years. Operating costs will also be replaced with interest and depreciation, so important ratios will change. Cash flows from operations increase because payments for the lease liability's principal will be classified as a financing activity. Only the part of the payments that are interest can be presented as cash flow from operations. The lessor's accounting will not materially change. Some differences may arise as a consequence of new guidelines on the definition of a lease. Under IFRS 16, a contract is a lease, or contains a contract, if it transfers the right to control the use of an identified asset for a period of time in exchange for remuneration. The impact of the introduction of IFRS 16 was an increase in assets and liabilities of NOK 390 million. Information about leases is provided in note 31.

(Note 2 cont.)

IASB issued amendments to IFRS 9 and IFRS 7 in September 2019. These changes are compulsory from 2020, but can be implemented early in 2019 financial statements. The group has chosen to implement the changes early. The group's decision to implement the changes early means that its hedging relationships can be continued unaffected by IBOR reform. IBOR reform is an ongoing process in which reference rates used in receivables, loans, and derivatives are exchanged with new interest rates. Information due to the early implementation is provided in note 27.

Otherwise, no new standards, amendments to the standards or interpretations that materially affected the accounts of the group or the parent company were adopted from 1 January 2019.

New standards and interpretations that have not been adopted yet: A number of new standards, amendments to standards and interpretations will be compulsory in future annual financial statements. There are no standards or interpretations that have not entered into force which are expected to have a material impact on the group's financial statements.

Presentation currency

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

Subsidiaries

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

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

Consolidation

The consolidated financial statements include all subsidiaries. Subsidiaries are all entities (including structured entities) controlled by the group. Control over a unit occurs when the group is exposed to variability in the return from the unit and has the ability to influence this return through its power over the unit. Subsidiaries are consolidated from the day control arises and deconsolidated when control ceases.

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

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

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

Conditional consideration is measured at fair value on the acquisition date. The treatment of subsequent changes in the fair value of conditional consideration depends on whether the conditional consideration is classified as an asset, liability or equity. Assets and liabilities that are not financial assets or liabilities (i.e. outside the scope of IFRS 9) are measured at fair value with changes through profit or loss. Financial assets or liabilities are measured at fair value and changes must, in accordance with IFRS 9, be recognised or presented in other comprehensive income (OCI). No new measurement is made of conditional consideration that is classified as equity and subsequent settlements are recognised against equity.

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

The minority interest's (non-controlling owner's) share of the group's profit is presented on a separate line under net profit after tax in the income statement. Their share of the minority's equity is shown as a separate item. The group had no non-controlling owners at the end of the year.

IFRS 9 Financial Instruments

Financial assets

According to IFRS 9, financial assets must be classified into three measurement categories: fair value with changes through profit or loss, fair value with changes through OCI and amortised cost. The measurement category must be determined upon initial recognition of the asset. Financial assets are classified on the basis of the contractual terms and conditions for the financial assets and business model used to manage the portfolio, or groups of portfolios, of which the assets are a part.

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

Instruments that are initially measured at amortised cost or at fair value with changes through OCI can be designated at fair value through profit or loss if this eliminates or substantially reduces an accounting mismatch.

(Note 2 cont.)

Other financial assets must be measured at fair value with changes through profit or loss. This includes derivatives, equity instruments and other cash flow instruments that are not only payments of normal interest (time value of money, credit spread and other normal margins linked to loans and receivables) and the principal, and instruments that are held in a business model in which the main purpose is not the reception of contractual cash flows. SpareBank 1 SR-Bank has chosen to measure investments in shares that are not held for trading purposes at fair value through profit or loss.

Financial liabilities

As a general rule, financial liabilities should be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments included in a trading portfolio, and financial liabilities it has been decided to recognise at fair value with changes through profit or loss.

A financial asset and a financial liability can be offset and the net amount presented on the balance sheet if there is a right to offset the recognised amounts and the intent is to settle them on a net basis or to realise the asset and settle the liability at the same time.

Hedge accounting

IFRS 9 simplifies the requirement for hedge accounting in that the hedging effect is tied more closely to the management's risk management and provides greater room for judgement. The requirement for hedge effectiveness of 80-125% has been eliminated and replaced with a more qualitative requirement, including the fact that there should be a financial connection between the hedging instrument and hedged item, and that the credit risk should not dominate the value changes of the hedging instrument. According to IFRS 9, a prospective (forward-looking) effectiveness test is sufficient, while hedge effectiveness pursuant to IAS 39 must be assessed both prospectively and retrospectively (backwards-looking). Hedging documentation is still required. SpareBank 1 SR-Bank has chosen to continue hedge accounting to the same extent as in previous years, ref. note 27.

Recognition and derecognition of financial assets and liabilities

Financial assets and liabilities are recognised on the trading day, that is, when the bank becomes a party to the instruments' contractual terms.

Financial assets are derecognised when the contractual rights to cash flows from the financial asset have expired or when the rights to the cash flows from the asset have been transferred in such a way that the risk and return related to ownership have substantially been transferred.

Financial liabilities are derecognised when the contractual terms have been settled, cancelled or expired.

Modified assets and liabilities

If modifications or changes to the terms of an existing financial asset or liability are made, the instrument is treated as a new financial asset if the renegotiated terms differ materially from the old terms. If the terms differ significantly, the old financial asset or liability is derecognised and a new financial asset or liability is

recognised. In general, a loan is considered to be a new financial asset if new loan documentation is issued, while a new credit process is being issued with new loan terms.

If the modified instrument is not considered to be significantly different from the existing instrument, the instrument is considered to be a continuation of the existing instrument. In the case of a modification recognised as a continuation of existing instruments, the new cash flows are discounted using the instrument's original effective interest rate and any difference between the existing book value is recognised in profit and loss.

Change in ownership interests in subsidiaries without loss of control

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

Disposal of subsidiaries

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

Associated companies

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

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

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

(Note 2 cont.)

Joint arrangements

Under IFRS 11, investments in joint arrangements must be classified as either a joint operation or a joint venture, depending on the contractual rights and obligations of each investor.

SpareBank 1 SR-Bank has assessed its joint arrangements and determined that they are joint ventures. Joint ventures are recognised using the equity method in the group and the cost method in the financial statements.

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

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

Loans

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

Loans with variable rates are measured at amortised cost in accordance with IFRS 9. The amortised cost is the acquisition cost minus repayments on the principal, taking into account transaction costs, plus or minus cumulative amortisation using the effective interest method, and less any amount for impairment in value or exposure to loss. The effective interest rate is the interest that exactly discounts estimated future cash receipts and payments over the expected life of the financial instrument up to the loan's gross recognised amount.

Home mortgages that qualify for sale to mortgage credit companies are held both to receive contractual cash flows and for sale in the parent bank. These are therefore measured at fair value over the OCI, with interest income and any write-downs presented in the ordinary result. The business model at the consolidated level involves such home mortgages being held to receive cash flows and thus measurement at amortised cost.

Fixed-rate loans to customers are earmarked upon initial recognition at fair value with changes through profit or loss, in accordance with IFRS 9. Gains and losses resulting from changes in fair value are recognised through profit or loss as a change in value. Accrued interest and premiums/discounts are recognised as interest. The bank uses the fair value option for measuring fixed-rate loans, as this largely eliminates inconsistencies in measuring other comparable instruments in the balance sheet.

Sales of loans

The bank has concluded an agreement concerning the sale of loans with good security and collateral in real estate to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. In line with the administration contract between the bank and financial institutions, the bank administers the loans and maintains the contact with customers. The bank receives a fee in the form of commissions for the duties involved in administering the loans. The agreements between the bank and SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS mean that the bank has transferred practically all risks and benefits of ownership related to the sold loans. The sales are treated as pure sales and the loans are fully removed from the bank's balance sheet. This is described in note 9.

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

The sales are treated as pure sales and the loans are fully eliminated from the bank's balance sheet.

Impairments on loans

According to IFRS 9, impairment losses must be recognised based on expected credit losses (ECL). The general model for impairment of financial assets in IFRS 9 applies to financial assets measured at amortised cost or at fair value with changes through OCI, and which had no incurred losses upon initial capitalisation. In addition, there are also loan commitments, financial guarantee contracts and unused credit lines that are not measured at fair value through profit or loss, and changes to lease agreements are also included.

The measurement of expected losses in the general model depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, provisions must be made for 12 months' expected losses. If the credit risk has increased substantially after initial capitalisation, provisions must be made for expected losses over the entire lifetime. Expected credit losses are calculated based on the present value of all cash flows over the remaining lifetime, i.e. the difference between the contractual cash flows under the contract and the cash flow that the bank expects to receive, discounted at the effective interest rate on the instrument.

In addition to the general model, there are separate principles for issued, including renegotiated loans treated as new ones, and

(Note 2 cont.)

purchased loans where there is objective evidence of a loss upon initial capitalisation. For these, an effective interest rate shall be calculated taking into account the expected credit loss, and for changes in expected cash flows, the change shall be discounted using the initially fixed effective interest rate and recognised in the income statement. For these assets, there is no need to monitor whether there has been a significant increase in credit risk after initial capitalisation, as expected losses over the entire lifetime will nevertheless be considered.

The method in IFRS 9 entails somewhat greater volatility in impairments and it is expected that impairments will be made earlier than was the case with IAS 39. This will be especially noticeable at the start of an economic downturn.

More detailed description of the bank's impairment model

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

Stage 1:

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

Stage 2:

In Stage 2, the loss model is assets that have seen a significant rise in credit risk since initial recognition, but that do not have objective evidence of a loss event. For these assets the loss provision must cover expected losses over the entire lifetime. As far as the demarcation with stage 1 is concerned, the bank bases its definition of a significant degree of credit deterioration on the extent to which the commitment's calculated probability of default (PD) has increased significantly. An increase in PD of more than 150 per cent and which results in a PD higher than 0.6 per cent is considered a significant change in credit risk. In addition, overdrafts or arrears of at least 30 days will always be considered a significant increase in credit risk. Commitments subject to repayment relief may, based on an individual assessment, also be regarded as having experienced a significant increase in credit risk. A commitment migrates to a lower stage when the conditions for the original migration no longer exist.

Stage 3:

In Stage 3, the loss model is assets that have seen a significant rise in credit risk since being granted and where there is objective evidence of a loss event on the balance sheet date. For these assets the loss provision must cover expected losses over the lifetime.

Non-performing commitments

The total commitment to a customer is considered to be in default (non-performing) and included in the group's summaries of

defaulted loans when an instalment or interest is not paid 90 days after due date, a line of credit is overdrawn for 90 days or more, or the customer is bankrupt. If an engagement is defaulted, it affects the risk classification in the impairment model under IFRS 9.

Realised losses

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

Reposessed assets

As part of the handling of non-performing loans and guarantees, the group acquires, in some cases, assets that have been lodged as security for such commitments. At the time of takeover, the assets are valued at their assumed realisation value and the value of the loan commitment is adjusted accordingly. Repossessed assets that are to be realised are classified as operations that will be sold and holdings or fixed assets held for sale are recognised in accordance with the relevant IFRS standards (normally IAS 16, IAS 38, IFRS 9 or IFRS 5).

Leases

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

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

Securities

Other financial assets must be measured at fair value with changes through profit or loss. This includes derivatives, equity instruments and other cash flow instruments that are not only payments of normal interest (time value of money, credit spread and other normal margins linked to loans and receivables) and the principal, and instruments that are held in a business model in which the main purpose is not the reception of contractual cash flows. SpareBank 1 SR-Bank has chosen to measure investments in shares that are not held for trading purposes at fair value through profit or loss.

Derivatives and hedging

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

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

(Note 2 cont.)

linked to the hedged risk are recognised through profit and loss and against the hedged item. When a basis swap is designated as a hedging instrument for hedging a specifically identified loan, changes in the value of the hedging instrument linked to changes in the "basis spread" are recognised through OCI. See note 27 for further information.

Goodwill

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

Tangible fixed assets

Tangible fixed assets comprise buildings, plots of land and operating equipment. Buildings and operating equipment are recognised at cost less depreciation and write-downs. Plots of land are recognised at cost price less write-downs. Plots of land are not depreciated. The cost price includes all direct costs related to the acquisition of the asset.

Depreciation is on a straight-line basis in order to allocate the cost price, less possible residual value, over the useful life of the operating equipment.

Leases

Pursuant to IFRS 16, lessees must capitalise a right-of-use asset and a lease liability for each of their leases, with a few practical exceptions. Information about leases is provided under the section on new and changed standards that were adopted in 2019 and in note 31.

Operations/assets that will be sold

These items on the balance sheet contain the group's assets it has decided to sell. The items include assets and liabilities relating to repossessed properties and property companies that are to be syndicated and disposed of by selling parts to customers. The item is valued at the lowest value of the carrying amount and fair value minus sales costs.

Funding

Funding is initially recognised at the cost at which it is raised, which is the fair value of the proceeds received after deducting transaction costs. Funding is thereafter measured at amortised cost, and any discount/premium is accrued over the term of the borrowing. Fixed-rate funding is subject to hedging, which results in measurement at fair value with discounting according to the applicable interest curve, though not taking into account changes

in own credit spreads. Deposits from customers and financial institutions are measured at amortised cost.

Pensions

SpareBank 1 SR-Bank group has two types of pension schemes: defined benefit based and defined contribution based. The group has both covered and uncovered defined benefit pension schemes. The covered defined benefit pension scheme was, until 31 December 2015, covered by the group's pension fund. In addition to the pension liabilities covered by the pension fund, the group has uncovered pension liabilities that cannot be covered by the assets in the collective schemes. The covered defined benefit pension scheme was closed to new members from and including 1 April 2011 and to existing members from 1 January 2016.

Defined benefit scheme

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

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

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

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

Defined contribution scheme

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

Contingent liabilities

The group issues financial liabilities such as guarantees, loan commitments, and unused credit lines as part of its ordinary business. Gross latent liabilities are specified in note 8. Impairments are made as part of the assessment of IFRS 9 and in accordance with the same policies, and are reported as liabilities on the balance sheet. Provisions are made for other uncertain liabilities if it is more probable than not that the liability will materialise and the financial consequences can be reliably calculated. Information is disclosed about contingent liabilities that do not satisfy the criteria for balance sheet recognition if they are significant.

(Note 2 cont.)

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

Subordinated loans and issued bonds

Subordinated loans are classified as subordinated loan capital on the balance sheet and are measured at amortised cost such as other long-term loans. The bank uses fair value hedging for measuring fixed-rate loans.

The group has various hybrid tier 1 capital instruments that, based on their differences, can be classified as either liabilities or equity. Hybrid tier 1 capital instruments, which are a nominal interest rate bond, where the group is not obliged to pay interest for a period when no dividend is paid, and where the investor also has no future claims on interest not paid, is classified as subordinated loan capital on the balance sheet. Such instruments are measured at amortised cost like other long-term loans. Hybrid tier 1 capital instruments which are perpetual, and where the group has a unilateral right not to pay interest to investors under certain conditions, do not satisfy the definition of financial liabilities under IAS 32. Such bonds are classified as equity on the balance sheet (hybrid capital) and the interest rate is presented as a reduction in other equity.

Dividends

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

Interest income and interest costs

Interest income and interest costs related to financial assets and financial liabilities that are measured at amortised cost, or debt instruments that are measured at fair value through OCI, are recognised continuously in the income statement in accordance with the effective interest rate method. The effective interest rate is the interest rate that results in the present value of the expected cash flow over the expected life of a financial asset or liability being equal to the book value (carrying value) of the respective financial asset or liability. In calculating the effective interest rate, the cash flow effect stated in the agreement is estimated, but without taking into account future credit losses. The calculation thus takes into account fees, transaction costs, premiums and discounts.

Interest income for assets measured at amortised costs is calculated using their gross book value unless there is objective evidence of a loss in relation to the asset.

Interest income for assets for which there is objective evidence of a loss and interest costs for financial liabilities are calculated on their net book values.

Interest income and costs related to financial instruments measured at amortised costs or fair value are classified as interest income and interest costs, respectively. A breakdown of interest income and costs measured at amortised cost and fair value is provided in note 18. Other changes in value are classified as income from financial instruments.

Commissions and commission costs

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

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

Transactions and balance sheet items in foreign currency

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

The exchange rate on the balance sheet date is used when converting balance sheet items.

Taxes

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

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

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

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

Cash flow statement

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

(Note 2 cont.)

Segment reporting

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

Events after the balance sheet date

The financial statements are published after the board has approved them. The general meeting and the regulatory authorities

may refuse to approve the published financial statements subsequent to this but they cannot change them.

Events that take place before the date on which the financial statements are approved for publication, and which affect conditions that were already known on the balance sheet date, will be incorporated into the pool of information that is used when making accounting estimates and are thereby fully reflected in the financial statements. Events that were not known on the balance sheet date will be reported if they are material.

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

The board's proposed dividend is specified in the board of directors' report and note 41. The proposed dividend is classified as equity until it has finally been approved.

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

Impairment losses on loans and guarantees

The group assesses its entire corporate market portfolio annually. High-risk commitments in the corporate market portfolio are evaluated on a quarterly basis. Loans to retail customers are subject to evaluation when they are in default for more than 90 days after they fall due; larger commitments in default are evaluated on a quarterly basis.

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

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

Individual impairments are calculated as the difference between the loan's book (carrying) value and the present value of future cash flows based on the effective interest rate at the time of the calculation of the initial individual impairment. Account is taken of subsequent changes in interest rates for loan agreements with variable rates if these changes affect the expected cash flow.

According to IFRS 9, loss provisions are recognised for all commitments based on expected credit loss (ECL). The measurement of the provisions for expected losses on commitments that are not individually impaired depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, provisions must be made for 12 months' expected losses. If the credit risk has increased substantially after initial recognition, provisions must be made for expected losses over the entire lifetime. Expected credit loss is calculated on the basis of the present value of all cash flows over the remaining expected lifetime. A probability weighting average is calculated for three different scenarios for a best case, expected case and stress case, respectively. The best case scenario is based on data from a representative period of strong economic expansion and the expected scenario and stress scenario match the

forecast and stress test, respectively, produced in connection with the group's annual internal capital adequacy assessment process (ICAAP). The mutual weighting of the scenarios is considered and determined by a specially established internal working group composed of people at a management level. The choice of scenarios and their weighting are regularly reviewed (at least once a year) by this working group. As at 31 December 2019, the expected scenario's weighting was 65%, the best case scenario's 25% and the stress scenario's 10%. The weighting is the same for all portfolios and has not been changed in the last year. In order to illustrate the sensitivity associated with the weighting, a simulation has been conducted of the effect of a more conservative scenario weighting in which the weighting of the stress scenario was increased by 5 percentage points (from 10% to 15%) with a corresponding 5-percentage point downwards adjustment of the expected scenario's weighting (from 65% to 60%). Such a weighting of the scenarios would increase the group's expected losses on commitments without individual impairment by about NOK 70 million (+10%), of which the vast majority of the effect would be attributed to the corporate market portfolio and especially the group's portfolio of offshore commitments. Please also see note 6.

Fair value of equity interests

Assets measured at fair value through profit or loss will generally be securities that are traded in an active market. An active market is defined as a market for trading uniform products in which there are normally willing buyers and sellers at all times, and where prices are publicly disclosed. Equities listed in a regulated marketplace are covered by the definition of an active market. There may be challenges in relation to equities where there is a big difference between the buying and selling price, called the spread, and where the equity is rarely traded. Some important equities will be based on internal valuations, transaction prices or external analyses of the company. Such equities are measured using recognised valuation techniques. This may involve using discounted cash flows or using comparison pricing where one uses similar companies that are publicly traded and uses multiple pricing to determine the value of the unlisted company. There can be some uncertainty associated with such valuations. The market values will generally be based on valuations or the last known trade of the equity.

(Note 3 cont.)

Fair value of financial derivatives and other financial instruments

The fair value of derivatives is determined by using valuation methods where the price of the underlying instrument, for example, interest rate or currency rate, is obtained from the market. When measuring financial instruments for which observable market data is not available, the group makes assumptions with regard to what market actors would base their valuation on for equivalent financial

instruments. Valuations require the extensive use of discretion, including when calculating liquidity risk, credit risk and volatility. Any change in the aforementioned factors will affect the fair value determined for the group's financial instruments. For more information see note 25 on the classification of financial instruments. In the case of options, volatility will be either observed implicit volatility or calculated volatility based on historical price movements for the underlying object.

NOTE 4 SEGMENT REPORTING

The executive management team has assessed which segments are reportable based on the form of distribution, products and customers. The primary reporting format is based on the risk and return profile of the assets, and it is divided between the retail market (including self-employed people), the corporate market, capital market and subsidiaries of significant importance. Account trading/staff/support includes all staff departments and treasury area in the parent bank. The activities in SR-Boligkreditt AS are divided between the retail market and own account trading/staff/support in the parent bank segments. Commissions from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are reported under the item "Net commissions and other income".

Reporting per business area:

(Figures in NOK millions)

2019	Retail market	Corporate Market	Capital Market	Own account trading/ staff/ support	Eiendoms- Megler 1	Regns- kaps- huset SR	Other business	Eliminations	SR-Bank Group
Interest income	2,290	2,687	71	2,819	3	1	3	-131	7,743
Interest costs	603	718	44	2,515	-	1	9	-134	3,756
Net interest income¹⁾	1,687	1,969	27	304	3	-	-6	3	3,987
Commissions	617	330	8	18	396	133	99	-85	1,516
Commission costs	77	27	1	47	-	-	35	-76	111
Other operating income	1	-	-	11	-	-	18	-19	11
Net commissions and other operating income	541	303	7	-18	396	133	82	-27	1,416
Dividends	-	-	-	31	-	-	-	-	31
Income from ownership interests	-	2	-	1,021	-	-	22	-170	875
Net income/loss from financial investments	5	24	87	77	-	-	28	1	221
Net income from financial investments	5	26	87	1,129	-	-	49	169	1,127
Personnel costs	424	208	53	407	250	101	33	-4	1,472
Administration costs	82	20	10	386	40	7	10	-	555
Other operating costs	94	33	3	185	103	14	50	-32	451
Total operating costs	600	261	66	978	393	122	93	-35	2,478
Operating profit before impairments	1,633	2,037	55	437	6	11	32	-159	4,052
Impairments on loans and financial liabilities	24	211	-	-	-	-	-	-	235
Pre-tax profit	1,609	1,826	55	437	6	11	32	-159	3,817
Net interest income									
Net external interest income	1,637	1,969	27	354	-	-	-	-	3,987
Net internal interest income	50	-	-	-50	3	-	-6	3	-
Net interest income	1,687	1,969	27	304	3	-	-6	3	3,987
Balance sheet									
Gross loans to customers	128,255	75,457	71	3,695	-	-	-	-364	207,114
Impairments on loans	-154	-1,265	-	-	-	-	-	-7	-1,426
Certificates/bonds/financial derivatives	-	-	3,538	38,821	-	-	7	-3,641	38,725
Other assets	-2,060	3,571	2,158	20,755	175	200	1,699	-15,016	11,482
Total assets	126,041	77,763	5,767	63,271	175	200	1,706	-19,028	255,895
Deposits from customers	53,736	49,893	23	-330	-	-	-	-216	103,106
Other liabilities and equity ¹⁾	72,305	27,870	5,744	63,601	175	200	1,706	-18,812	152,789
Total liabilities and equity	126,041	77,763	5,767	63,271	175	200	1,706	-19,028	255,895
Total loans sold to									
SpareBank 1 Boligkreditt	4,243								4,243

(Note 4 cont.)

2018	Retail market	Corporate market	Capital market	Own account trading/ staff/ support	Eiendoms-Megler 1	Regnskaps-huset SR	Other business	Eliminations	SR-Bank Group
Interest income	2,070	2,198	111	1,938	3	-	3	-49	6,274
Interest costs	467	579	77	1,763	-	-	7	-58	2,835
Net interest income ¹⁾	1,603	1,619	34	175	3	-	-4	9	3,439
Commissions	639	365	10	-13	382	104	103	-71	1,519
Commission costs	45	22	4	47	-	-	37	-68	87
Other operating income	-	-	-	8	-	-	10	-13	5
Net commissions and other operating income	594	343	6	-52	382	104	76	-16	1,437
Dividends	-	-	-	11	-	-	-	1	12
Income from ownership interests	-	25	-	594	-	-	-	-253	366
Net income/loss from financial investments	6	1	107	-47	-	-	68	56	191
Net income from financial investments	6	26	107	558	-	-	68	-196	569
Personnel costs	379	191	47	350	231	78	23	-2	1,297
Administration costs	73	16	12	368	40	8	2	-1	518
Other operating costs	95	33	3	157	103	15	32	-24	414
Total operating costs	547	240	62	875	374	100	58	-27	2,229
Operating profit before impairments	1,656	1,748	85	-194	11	4	82	-176	3,216
Impairments on loans and financial liabilities	-	324	-	-	-	-	-	-	324
Pre-tax profit	1,656	1,424	85	-194	11	4	82	-176	2,892
Net interest income									
Net external interest income	1,591	1,619	34	187	-	-	-	8	3,439
Net internal interest income	12	-	-	-12	3	-	-4	1	-
Net interest income	1,603	1,619	34	175	3	-	-4	9	3,439
Balance sheet									
Gross loans to customers	118,165	71,193	214	2,772	-	-	-	-239	192,105
Impairments on loans	-167	-1,060	-	-	-	-	-	-	-1,227
Certificates/bonds/financial derivatives	-	-	2,181	35,483	-	-	11	-3,067	34,608
Other assets	-1,831	1,814	913	16,069	155	113	1,352	-10,010	8,575
Total assets	116,167	71,947	3,308	54,324	155	113	1,363	-13,316	234,061
Deposits from customers	50,681	48,597	13	-172	-	-	-	-305	98,814
Other liabilities and equity ¹⁾	65,486	23,350	3,295	54,496	155	113	1,363	-13,011	135,247
Total liabilities and equity	116,167	71,947	3,308	54,324	155	113	1,363	-13,316	234,061
Total loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	8,877	417							9,294

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

(Note 4 cont.)

The group primarily operates in a geographical area bounded by Oslo in the south-east and Bergen in the north-west. In addition to the segment notes, important asset classes (loans and deposits) are segmented geographically in separate notes under loans and deposits. Geographical distribution is based on the customer's branch.

Geographic distribution	Rogaland		Agder		Vestland		Oslo/Viken		SR-Bank Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	3,167	2,757	307	287	432	392	81	3	3,987	3,439
Net commissions and other operating income	1,027	1,103	164	140	208	194	17	-	1,416	1,437
Net income from financial investments	1,058	557	1	7	13	5	55	-	1,127	569
Operating costs	2,021	1,906	167	138	219	174	71	11	2,478	2,229
Operating profit before impairments	3,231	2,511	305	296	434	417	82	-8	4,052	3,216
Impairments on loans and financial liabilities	183	268	40	41	11	38	1	-23	235	324
Pre-tax profit	3,048	2,243	265	255	423	379	81	15	3,817	2,892
Gross loans to customers	154,415	147,791	19,207	17,817	26,618	23,917	6,874	2,580	207,114	192,105
Impairments on loans	-1,323	-1,124	-67	-62	-33	-41	-3	-	-1,426	-1,227
Certificates/bonds/financial derivatives	38,725	34,608	-	-	-	-	-	-	38,725	34,608
Other assets	11,483	9,195	-260	-244	-389	-376	649	-	11,482	8,575
Total assets	203,300	190,470	18,880	17,511	26,196	23,500	7,520	2,580	255,895	234,061
Deposits from customers	88,607	85,834	5,279	4,794	8,009	8,140	1,212	46	103,106	98,814
Other liabilities and equity	114,693	104,636	13,601	12,717	18,187	15,360	6,308	2,534	152,789	135,247
Total liabilities and equity	203,300	190,470	18,880	17,511	26,196	23,500	7,520	2,580	255,895	234,061
Total loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	3,438	7,868	384	681	362	745	59	-	4,243	9,294

NOTE 5 CAPITAL ADEQUACY

(Figures in NOK millions)

Capital adequacy is calculated and reported in accordance with the EU's capital requirements for banks and securities undertakings (CRD IV/CRR).

SpareBank 1 SR-Bank has permission from the Financial Supervisory Authority of Norway to use internal measurement methods (Internal Rating Based Approach) for quantifying credit risk. The use of IRB requires the bank to comply with extensive requirements relating to organisation, expertise, risk models and risk management systems.

The EU's capital adequacy regulations (CRR/CRD IV) were incorporated into the EEA agreement in March 2019. The Ministry of Finance decided at the beginning of December 2019 that the implementation regulations would become effective in Norway on 31 December 2019.

The total minimum common equity tier 1 capital ratio requirement for SpareBank 1 SR-Bank, inclusive of the countercyclical buffer and Pillar 2 premium, as at 31 December 2019 was 14.2%. The requirement consists of a 4.5% minimum requirement plus other buffer requirements, which consist of a capital conservation buffer of 2.5%, a systemic risk buffer of 3.0% and a countercyclical buffer of 2.5%. The Financial Supervisory Authority of Norway has also set an individual Pillar 2 requirement of 1.7%.

Investments in associated companies and joint ventures are recognised in the group using the equity method and in accordance with the cost method in the parent bank. The investments are treated identically for the purposes of determining the capital adequacy ratio except for the group's investments in SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, BN Bank and SpareBank 1 Kredittkort. A proportionate consolidation is carried out for the group's capital adequacy.

Parent bank			Group	
2018	2019		2019	2018
6,394	6,394	Share capital	6,394	6,394
1,587	1,587	Share premium reserve	1,587	1,587
1,151	1,407	Allocated dividend	1,407	1,151
550	1,850	Hybrid capital	1,850	550
9,920	11,244	Other equity	13,596	11,903
19,602	22,482	Total capitalised equity	24,834	21,585

(Note 5 cont.)

Parent bank			Group	
2018	2019		2019	2018
		Tier 1 capital		
-	-	Deferred tax, goodwill and other intangible assets	-310	-114
-1,151	-1,407	Deduction for allocated dividend	-1,407	-1,151
-242	-226	Deduction in expected losses IRB less impairments	-357	-334
-550	-1,850	Hybrid capital that cannot be included in common equity tier 1 capital	-1,850	-550
-	-	Deduction common equity tier 1 capital for essential investments in financial institutions	-67	-
-147	-164	Deduction common equity tier 1 capital for non-essential investments in financial institutions	-153	-129
-39	-43	Value adjustment due to requirements concerning proper valuation	-46	-39
17,473	18,792	Total common equity tier 1 capital	20,644	19,268
550	1,850	Hybrid capital	1,982	677
798	-	Hybrid tier 1 capital	-	798
18,821	20,642	Total tier 1 capital	22,626	20,743
		Tier 2 capital		
2,097	2,097	Non-perpetual subordinated capital	2,283	2,338
-43	-43	Deduction for essential investments in financial institutions	-43	-43
2,054	2,054	Total tier 2 capital	2,240	2,295
20,875	22,696	Net primary capital	24,866	23,038
		Credit risk Basel II		
23,695	20,515	SME	20,522	23,699
23,108	22,824	Specialised enterprises	25,215	24,477
7,956	4,655	Other enterprises	4,767	8,023
1,092	1,065	Mass market SME	1,342	1,334
14,518	14,018	Mass market - mortgage on real estate	31,289	28,592
2,098	2,272	Other mass market	2,352	2,153
9,641	11,006	Equity positions	-	-
82,108	76,355	Total credit and counterparty risk IRB	85,487	88,278
		Total credit and counterparty risk standard method		
28	13	States and central banks	25	35
19	18	Local and regional authorities, state-owned enterprises	73	93
2,050	2,978	Institutions	1,196	1,368
8,439	8,517	Enterprises	8,795	9,661
2,514	2,854	Mass market	3,678	3,264
-	-	Mass market - mortgage on real estate	1,115	1,226
1,992	2,035	Covered bonds	2,317	2,218
5,029	6,029	Equity positions	5,475	5,196
796	2,588	Other assets	3,653	1,789
20,867	25,032	Total credit and counterparty risk standard method	26,327	24,850
570	236	Risk of weaker creditworthiness at counterparty (CVA)	487	891
5,968	7,067	Operational risk	9,443	7,902
-	-	Transitional scheme	-	8,948
109,513	108,690	Risk-weighted balance sheet	121,744	130,869
4,928	4,891	Minimum requirement common equity tier 1 capital 4.5%	5,478	5,889
		Buffer requirement		
2,738	2,717	Capital conservation buffer 2.5%	3,044	3,272
3,285	3,261	System risk buffer 3%	3,652	3,926
2,190	2,717	Countercyclical buffer 2.5%	3,044	2,617
8,213	8,695	Total buffer requirement for common equity tier 1 capital	9,740	9,815
4,331	5,206	Available common equity tier 1 capital after buffer requirement	5,426	3,564
15.96%	17.29%	Common equity tier 1 capital ratio, IRB	16.96%	15.80%
17.19%	18.99%	Tier 1 capital ratio, IRB	18.58%	17.01%
19.06%	20.88%	Capital ratio IRB	20.42%	18.90%
9.74%	10.03%	Leverage ratio	7.77%	7.68%
		Capital adequacy ¹⁾		17.60%
		Tier 1 capital ratio ¹⁾		15.85%
		Common equity tier 1 capital ratio ¹⁾		14.72%

NOTE 6 FINANCIAL RISK MANAGEMENT

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

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

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

- The group's risk and capital management framework must be documented and based on the best international practices
- The group must have a management and control structure that promotes prudent, independent management and control
- The risk and capital management shall form an integral part of the management and decision process in the group
- Risk and capital management in the group shall support the group's strategic development and achievement of objectives while ensuring financial stability and sound management of assets
- The group must have a good risk culture characterised by a high awareness of risk and capital management
- The board must approve the group's desired risk profile on at least an annual basis
- SpareBank 1 SR-Bank shall have a willingness to assume risk that provides a sufficient buffer in relation to the group's risk capability, and that no single events can seriously damage the group's financial position
- The risk identification process must be implemented regularly, look forwards, and cover all significant areas of risk
- Quantification of risk must be based on recognised methods and be sufficiently conservative to properly take account of any weaknesses in the model
- Thorough analyses must be carried out of the identified risks in order to understand the risks' effects on income, costs and losses
- Based on the risk analysis, effective management and control measures shall be established for the individual risks based on the risk analysis. Measures that reduce probability shall take precedence over measures that reduce consequences
- The group must prepare a minimum 5-year financial prognosis at least once a year, and this must as a minimum cover expected financial developments, as well as a period involving a serious financial set back – the serious financial set back must be severe, but realistic
- Return on economic capital shall be one of the most important strategic result measurements for the internal control of SpareBank 1 SR-Bank. Risk-adjusted returns must provide the basis for determining the credit-based framework for EAD between the CM and RM, respectively

- 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

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

Credit risk: the risk of loss resulting from the customer's inability or unwillingness to fulfil his 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 indirect and indirect losses due to climate-related conditions

Ownership 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

Business risk: the risk of unexpected income and cost variations due to changes in external factors such as market conditions or government regulations

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

Strategic risk: the risk of losses resulting from the wrong strategic decisions

Concentration risk: the risk of an accumulation of exposure to an individual customer, sector or geographical area arising

Pension risk: the risk of increases in future pension liabilities

(Note 6 cont.)

Risk exposure in SpareBank 1 SR-Bank

The risk management department is organised independently of the business units and reports directly to the chief executive. The department is responsible for the ongoing development of the risk management framework, including risk models and risk management systems. The department is also responsible for independently monitoring and reporting risk exposure.

SpareBank 1 SR-Bank is exposed to various types of risk. The general framework for managing the most important types of risk is described below:

Credit risk is managed via the framework procedures for granting credit, monitoring commitments and portfolio management. The group's credit strategy comprises overarching credit strategy limits to ensure a diversified portfolio and a satisfactory risk profile. The main focus when granting credit must be on the customer's ability to service the debt and good security cannot be allowed to compensate for a weak/inadequate ability to service the debt.

The strategic credit limits set requirements and limitations related to overall loss profile and portfolio quality, respectively. The group particularly focuses on the concentration risk associated with exposure to large individual customers and certain industries. In order to avoid undesirable concentration risk, the strategic credit limits also set restrictions in relation to exposure and risk profile at a portfolio level, and for different industries and individual customers. These restrictions are additional to the limits stipulated by the Regulation regarding Major Commitments. The group's credit policy guidelines stipulate minimum requirements that apply to all types of financing, except commitments granted as part of the exercise of special credit hedging authorities. In addition to the general credit policy guidelines, a set of more specific credit policy guidelines related to sectors or segments that can entail a special risk have been prepared.

There must be a particular emphasis on ensuring that the customer's activities comply with the applicable laws and regulations, and that they have a long-term perspective. The group's sustainability policy is reflected in its general credit policy guidelines, including the requirement that all financing must satisfy the group's policies relating to environmental, social and corporate governance. The group also has guidelines that support the group's anti-money laundering (AML) policy.

The board is responsible for the group's granting of loans and credit, but it delegates the credit authority, within certain limits, to the chief executive, who can in turn can delegate this authority to others. Delegated credit authority is linked to a commitment's probability of default and security cover. The authority is personal. The credit review routines regulate in detail all factors related to the granting of credit by the group and follow-up of commitments.

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

- 1. Probability of default (PD):** Customers are classified into default classes based on the probability of them defaulting during a period of 12 months, based on a long-term outcome in a complete loss cycle. The probability of default is calculated on the basis of historical series of data for financial key figures related to earnings and deterioration, as well as the basis of non-financial criteria such as conduct and age. When funding commercial property for leasing, a special credit model must be used internally that calculates the probability of default based on the expected cash flow from the leasing activities combined with behavioural criteria. Nine default classes (A – I) are used to classify the customers according to the probability of default. The group has two additional default classes (J and K) for customers with defaulted and/or written-down commitments.
- 2. Exposure at default (EAD):** This is an estimate of what the group's exposure will be were a customer to default. This exposure consists of lending volume, guarantees and approved, but not drawn limits respectively. Approved, but not drawn facilities of a retail market customer has a conversion factor equal to 1. This means that the limit is assumed 100% withdrawn given default. For the corporate market, approved but not drawn facilities are multiplied by a conversion factor that varies between 60-90%, depending on the customer's probability of default. For guarantees, the conversion factor is an authority-set parameter set to 1 for loan guarantees and 0.5 for other warranties.
- 3. Loss given default (LGD):** This is an estimate of how much the group can potentially lose if the customer defaults on his obligations. The assessment takes into account, among other things, the value of underlying collateral, degree of recovery on unsecured part of the commitment, degree of recovery before realisation and collection costs. The group determines the realisation value of collateral based on statistical data over time, as well as expert assessments in cases where statistical data do not provide an adequate basis. Realisation values are set so that they reflect an assumed realisation value in a recession based on a conservative assessment. Seven different classes are used (1-7 – 7) for classifying commitments in relation to loss given default.

The group continuously develops and tests the risk management system and the credit granting process to ensure that it is of high quality over time. Quantitative validation is intended to ensure that the estimates used for the probability of default, exposure at default and loss given default are always of adequately good quality. Analyses are carried out to assess the models' ability to rank the customers according to risk (discrimination ability), and the ability to determine the correct level for the risk parameters. In addition, the stability of the models' estimates and the models' cyclical sensitivity are analysed. The quantitative validation will be supplemented by more qualitative assessments in some cases. This is especially true if the amount of statistical data is limited.

In addition to the credit risk in the lending portfolio, the group has credit risk through its exposure in the liquidity reserve portfolio. This portfolio consists mainly of low risk certificates and bonds that qualify for loans from Norges Bank.

For further information please see notes 7-13.

(Note 6 cont.)

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

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

For further information see notes 16 and 17.

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

Market risk in SpareBank 1 SR-Bank primarily relates to the group's long-term investments in securities. In addition, the group is exposed to some market risk through trading activities in interest rate and currency markets, as well as from activities that underpin ordinary funding and lending activities. The group's market risk is measured and monitored on the basis of conservative limits that are renewed and approved by the board at least once a year. The size of the limits is determined on the basis of stress tests and analyses of negative market movements. The group's exposure to market risk is moderate.

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

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

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

For more information see notes 14, 15 and 27.

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

The group has a dynamic approach to operational risk management and conducts periodic analyses to detect weaknesses and new or changed risks. Adverse events that occur are registered and systematically followed up to learn lessons and avoid repetitions. Furthermore, all major change initiatives undergo a standardised risk assessment process to prevent changes introducing unwanted risks. Risk mitigation measures are assessed and implemented on an ongoing basis.

Climate risk is a relatively new concept in the context of risk, and processes for managing climate risk are being developed in the group. An overall assessment of climate risk exposure at an industry level is being conducted in the corporate market portfolio and a climate risk report has been prepared in SpareBank 1 SR-Bank. The assessments distinguish between physical climate risk and restructuring risk. An analysis has also been conducted based on various climate scenarios. Responsibility for assessing climate risk is shared between the risk management and sustainability departments.

Ownership risk is managed through active board participation in a number of the part-owned companies. SpareBank 1 SR-Bank is mainly exposed to ownership risk in SpareBank 1 Gruppen AS (19.5%), BN Bank ASA (35.0%), SpareBank 1 Boligkreditt AS (2.2%), SpareBank 1 Næringskreditt AS (15.6%), Sparebank 1 Utvikling DA (18.0%), SpareBank 1 Kredittkort AS (17.8%), SpareBank 1 Betaling AS (19.8%) and SMB Lab AS (20.0%)

Compliance risk is managed by implementing the framework for compliance provided by the bank's compliance policy. The framework is intended to ensure that the group does not incur public sanctions/penalties or financial loss as a result of a failure to comply with legislation and regulations. The group's compliance policy is adopted by the board and describes the main principles for responsibility and organisation in relation to complying with legal requirements and rules.

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

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

NOTE 7 FINANCIAL INSTITUTIONS - RECEIVABLES AND LIABILITIES

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
Loans to and receivables from financial institutions				
746	664	Receivables at call	675	746
3,408	8,664	At call	5	35
915	2,462	With agreed maturities or notice	2,462	915
5,069	11,790	Total	3,142	1,696
Debt to financial institutions				
4,323	11,126	NOK	2,478	950
746	664	Currency	664	746
5,069	11,790	Total	3,142	1,696
Debt to financial institutions				
3,200	1,646	At call	1,363	1,432
1	901	With agreed maturities or notice	901	1
3,201	2,547	Total	2,264	1,433
Received securities that can be sold or mortgaged				
Resale agreements				
-	1,582	Certificates and bonds	1,582	-
-	1,582	Total received securities	1,582	-
Of which received securities that are sold or mortgaged				
-	-	Certificates and bonds	-	-

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

NOTE 8 LOANS AND OTHER FINANCIAL LIABILITIES TO CUSTOMERS

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
80,034	84,804	Loans at amortised cost	198,166	183,865
45,269	40,763	Loans at fair value through OCI		
8,240	8,948	Loans at fair value through profit or loss	8,948	8,240
133,543	134,515	Gross loans	207,114	192,105
-1,215	-1,415	- Impairments at amortised cost	-1,426	-1,227
10	7	- Home mortgages at fair value through OCI		
132,338	133,107	Net loans	205,688	190,878
		Distribution by market		
55,959	52,504	Retail market	124,392	113,879
78,083	82,350	Corporate market	83,061	78,725
257	405	Public sector	405	257
-756	-744	Net corporate accounts currency ¹⁾	-744	-756
133,543	134,515	Gross loans	207,114	192,105
-1,215	-1,415	- Impairments at amortised cost	-1,426	-1,227
10	7	- Home mortgages at fair value through OCI		
132,338	133,107	Net loans	205,688	190,878
		Of which subordinated loan capital		
45	43	Primary capital	43	45
45	43	Subordinated loan capital recognised as lending	43	45
2,001	2,185	Loans to employees	2,843	2,512
332	99	Of which loans in SpareBank 1 Boligkreditt	125	403
902	881	Of which loans in SR Boligkreditt	1,094	1,093
		The terms are one percentage point lower than the standardised rate set by the Ministry of Finance.		
		Loans sold to mortgage companies		
58,743	72,881	Loans sold to SR-Boligkreditt	-	-
34	44	Received commissions from SR-Boligkreditt	-	-
8,877	4,243	Loans sold to SpareBank 1 Boligkreditt	4,243	8,877
84	33	Received commissions from SpareBank 1 Boligkreditt	33	84
417	-	Loans sold to SpareBank 1 Næringskreditt	-	417
3	-	Received commissions from SpareBank 1 Næringskreditt	-	3
		Total commitment by probability of default (PD)^{2) 3) 4)}		
75,519	76,843	0.00 - 0.50%	145,733	129,144
61,177	59,988	0.50 - 2.50%	69,159	70,017
13,869	12,180	2.50 - 5.00%	12,900	14,352
7,634	7,279	5.00 - 99.9%	8,078	8,291
3,076	3,359	Commitments in default	3,366	3,080
161,275	159,649	Total commitments	239,236	224,884
-18,166	-15,383	Unused credit lines for customers	-22,322	-23,152
-9,566	-9,751	Guarantees	-9,800	-9,627
133,543	134,515	Gross loans	207,114	192,105

(Note 8 cont.)

Parent bank			Group	
2018	2019	Gross loans by probability of default (PD) ^{1) 2) 3)}	2019	2018
62,960	65,786	0.00 - 0.50%	127,712	111,443
50,973	51,176	0.50 - 2.50%	60,317	59,867
10,606	8,908	2.50 - 5.00%	9,633	11,114
6,804	6,204	5.00 - 99.9%	7,003	7,470
2,200	2,441	Commitments in default	2,449	2,211
133,543	134,515	Gross loans	207,114	192,105
Expected annual average net impairments by probability of default PD^{2) 3) 4)}				
12	11	0.00 - 0.50%	13	14
90	90	0.50 - 2.50%	92	91
87	62	2.50 - 5.00%	63	88
122	118	5.00 - 99.9%	119	123
12	21	Commitments in default	21	12
323	302	Total	308	328
Gross loans to customers by industry				
1,704	2,503	Fishing/fish farming	2,508	1,709
2,937	3,009	Industry	3,043	2,951
5,001	5,104	Agriculture/forestry	5,324	5,183
11,842	11,296	Service sector	11,326	11,943
3,021	3,338	Wholesale and retail trade, hotels and restaurants	3,460	3,111
3,098	3,921	Energy, oil and gas	3,921	3,098
3,695	3,956	Building and construction	4,116	3,833
683	841	Power and water supply	841	683
31,643	33,659	Real estate	33,668	31,657
12,064	11,980	Shipping and other transport	12,111	12,162
1,896	2,404	Public sector and financial services	2,404	1,896
77,584	82,011	Total industry	82,722	78,226
55,959	52,504	Retail market	124,392	113,879
133,543	134,515	Gross loans	207,114	192,105
-1,215	-1,415	- Impairments at amortised cost	-1,426	-1,227
10	7	- Home mortgages at fair value through OCI		
132,338	133,107	Loans to customers	205,688	190,878
Financial liabilities⁵⁾				
9,566	9,751	Guarantees customers	9,800	9,627
18,166	15,383	Unused credit lines for customers	22,322	23,152
6,072	5,733	Approved loan commitments	5,733	6,072
33,804	30,867	Gross financial liabilities	37,855	38,851
Other pledged guarantees and liabilities				
1,560	1,248	Unused credit lines for financial institutions	-	-
588	589	Guarantees others	589	588
20	9	Letters of credit	9	20
2,168	1,846	Total other pledged guarantees and liabilities	598	608

(Note 8 cont.)

Parent bank			Group	
2018	2019	Expected annual average impairments by sector and industry ^{2) 3)}	2019	2018
3	6	Fishing/fish farming	6	3
24	19	Industry	19	25
5	5	Agriculture/forestry	5	5
70	68	Service sector	68	70
26	30	Wholesale and retail trade, hotels and restaurants	30	26
24	22	Energy, oil and gas	22	24
17	16	Building and construction	16	17
1	2	Power and water supply	2	1
102	92	Real estate	92	102
30	21	Shipping and other transport	21	30
1	1	Public sector and financial services	1	1
304	282	Total industry	282	304
19	20	Retail market	26	24
323	302	Total	308	328
Gross loans by geographic area				
80,548	75,966	Rogaland	129,687	124,680
11,536	12,266	Agder	19,271	16,994
21,004	22,486	Vestland	31,585	28,013
10,840	15,841	Oslo/Viken	18,043	11,791
3,743	4,132	International	4,264	3,794
5,872	3,824	Other	4,264	6,833
133,543	134,515	Gross loans	207,114	192,105
Loans to and receivables from customers related to financial leases				
Gross investments related to financial leases				
1,650	1,778	Up to 1 year	1,778	1,650
3,889	4,373	Between 1 to 5 years	4,373	3,889
734	864	Later than 5 years	864	734
6,273	7,015	Total	7,015	6,273
Net investments related to financial leases				
1,473	1,549	Up to 1 year	1,549	1,473
3,597	4,046	Between 1 to 5 years	4,046	3,597
703	830	Later than 5 years	830	703
5,773	6,425	Total	6,425	5,773

(Note 8 cont.)

Gross loans to customers by industry, with incremental impairments and net loans

Parent bank						
2019	Gross loans at amortised cost	Stage 1	Stage 2	Stage 3	Loans at fair value	Net loans
Fishing/fish farming	2,476	-3	-2	-	27	2,498
Industry	2,959	-7	-17	-81	50	2,904
Agriculture/forestry	2,932	-1	-5	-3	2,172	5,095
Service sector	10,815	-36	-81	-57	481	11,122
Wholesale and retail trade, hotels and restaurants	3,125	-10	-36	-10	213	3,282
Energy, oil and gas	3,921	-7	-86	-195	-	3,633
Building and construction	3,703	-8	-14	-22	253	3,912
Power and water supply	835	-1	-1	-	6	839
Real estate	33,394	-52	-64	-62	265	33,481
Shipping and other transport	11,884	-12	-53	-360	96	11,555
Public sector and financial services	2,404	-	-	-	-	2,404
Total industry	78,448	-137	-359	-790	3,563	80,725
Retail market	6,356	-7	-22	-100	46,148	52,375
Adjustment for fair value through OCI					7	7
Loans to customers	84,804	-144	-381	-890	49,718	133,107

2018	Gross loans at amortised cost	Stage 1	Stage 2	Stage 3	Loans at fair value	Net loans
Fishing/fish farming	1,672	-3	-1	-	32	1,700
Industry	2,860	-11	-27	-20	77	2,879
Agriculture/forestry	2,854	-2	-4	-5	2,147	4,990
Service sector	11,237	-59	-72	-56	605	11,655
Wholesale and retail trade, hotels and restaurants	2,807	-13	-32	-15	214	2,961
Energy, oil and gas	3,098	-16	-34	-95	-	2,953
Building and construction	3,385	-8	-22	-8	310	3,657
Power and water supply	679	-1	-2	-	4	680
Real estate	31,372	-74	-95	-38	271	31,436
Shipping and other transport	11,921	-16	-47	-293	143	11,708
Public sector and financial services	1,896	-	-	-	-	1,896
Total industry	73,781	-203	-336	-530	3,803	76,515
Retail market	6,210	-22	-24	-100	49,749	55,813
Adjustment for fair value through OCI					10	10
Loans to customers	79,991	-225	-360	-630	53,562	132,338

(Note 8 cont.)

Gross loans to customers by industry, with incremental impairments and net loans

Group	Gross loans at amortised cost	Stage 1	Stage 2	Stage 3	Loans at fair value	Net loans
2019						
Fishing/fish farming	2,504	-3	-2	-	4	2,503
Industry	3,041	-7	-17	-81	2	2,938
Agriculture/forestry	4,542	-1	-5	-4	782	5,314
Service sector	11,236	-36	-82	-57	90	11,151
Wholesale and retail trade, hotels and restaurants	3,436	-10	-36	-10	24	3,404
Energy, oil and gas	3,921	-7	-86	-195	-	3,633
Building and construction	4,085	-8	-14	-22	31	4,072
Power and water supply	839	-1	-1	-	2	839
Real estate	33,512	-52	-64	-62	156	33,490
Shipping and other transport	12,096	-12	-53	-360	15	11,686
Public sector and financial services	2,404	-	-	-	-	2,404
Total industry	81,616	-137	-360	-791	1,106	81,434
Retail market	116,550	-9	-28	-101	7,842	124,254
Loans to customers	198,166	-146	-388	-892	8,948	205,688

2018	Gross loans at amortised cost	Stage 1	Stage 2	Stage 3	Loans at fair value	Net loans
Fishing/fish farming	1,704	-3	-1	-	5	1,705
Industry	2,949	-11	-27	-20	2	2,893
Agriculture/forestry	4,503	-2	-4	-5	680	5,172
Service sector	11,851	-58	-72	-57	92	11,756
Wholesale and retail trade, hotels and restaurants	3,089	-13	-32	-16	22	3,050
Energy, oil and gas	3,098	-16	-34	-95	-	2,953
Building and construction	3,810	-8	-22	-8	23	3,795
Power and water supply	681	-1	-2	-	2	680
Real estate	31,490	-74	-95	-38	167	31,450
Shipping and other transport	12,144	-16	-47	-293	18	11,806
Public sector and financial services	1,896	-	-	-	-	1,896
Total industry	77,215	-203	-336	-531	1,011	77,156
Retail market	106,650	-26	-31	-100	7,229	113,722
Loans to customers	183,865	-229	-367	-631	8,240	190,878

(Note 8 cont.)

Gross loans by risk class

Parent bank	2019				2018			
	Stage 1	Stage 2	Stage 3	Gross loans	Stage 1	Stage 2	Stage 3	Gross loans
A-C	64,127	87	4	64,218	64,079	417	15	64,511
D-F	47,928	5,071	27	53,026	45,450	3,394	14	48,858
G-I	8,385	6,587	125	15,097	9,654	8,424	1,109	19,187
J-K	-	-	2,174	2,174	-	-	987	987
Total gross loans	120,440	11,745	2,330	134,515	119,183	12,235	2,125	133,543

Group

A-C	125,948	159	4	126,111	113,948	455	16	114,419
D-F	55,807	6,415	27	62,249	51,891	4,487	14	56,392
G-I	8,636	7,802	125	16,563	9,844	9,347	1,109	20,300
J-K	-	-	2,191	2,191	-	-	994	994
Total gross loans	190,391	14,376	2,347	207,114	175,683	14,289	2,133	192,105

Gross loans and financial liabilities, incremental distribution

Parent bank

Gross loans	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross loans 1 Jan ⁸⁾	119,183	12,235	2,125	133,543	115,659	14,240	1,992	131,891
Transferred to (from) Stage 1	-4,712	4,664	49	-	-5,480	4,612	868	-
Transferred to (from) Stage 2	3,015	-3,083	68	-	2,756	-3,890	1,134	-
Transferred to (from) Stage 3	6	21	-27	-	14	72	-86	-
Net increase/(decrease) balance existing loans	1,607	937	-	2,544	3,316	751	12	4,079
New issued or purchased financial assets	40,762	1,715	30	42,507	42,182	1,324	33	43,539
Derecognised financial assets	-39,421	-4,744	85	-44,080	-39,264	-4,874	-1,828	-45,966
Gross loans 31 Dec	120,440	11,745	2,330	134,515	119,183	12,235	2,125	133,543

Gross financial liabilities ^{6) 7)}

Financial liabilities 1 Jan 2019 ⁸⁾	28,975	4,028	801	33,804	27,771	4,980	94	32,845
Net increase/(decrease) in period	-1,438	-1,582	83	-2,937	1,204	-952	707	959
Financial liabilities 31 Dec	27,537	2,446	884	30,867	28,975	4,028	801	33,804

Group

Gross loans	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross loans 1 Jan ⁸⁾	175,683	14,289	2,133	192,105	154,621	15,937	1,996	172,554
Transferred to (from) Stage 1	-5,773	5,720	53	-	-6,124	5,253	871	-
Transferred to (from) Stage 2	3,758	-3,830	72	-	3,371	-4,507	1,136	-
Transferred to (from) Stage 3	6	21	-27	-	15	72	-87	-
Net increase/(decrease) balance existing loans	-2,250	989	-	-1,261	1,573	790	13	2,376
New issued or purchased financial assets	88,675	2,534	36	91,245	67,551	2,165	36	69,752
Derecognised financial assets	-69,708	-5,347	80	-74,975	-45,324	-5,421	-1,832	-52,577
Gross loans 31 Dec	190,391	14,376	2,347	207,114	175,683	14,289	2,133	192,105

Gross financial liabilities ^{6) 7)}

Financial liabilities 1 Jan 2019 ⁸⁾	33,825	4,224	802	38,851	31,358	5,128	95	36,581
Net increase/(decrease) in period	447	-1,526	83	-996	2,467	-904	707	2,270
Financial liabilities 31 Dec	34,272	2,698	885	37,855	33,825	4,224	802	38,851

¹⁾ Loans to customers with a positive balance on corporate accounts.

²⁾ PD = probability of default

³⁾ The expected average annual net impairment is the amount that the parent bank and the group statistically expect to lose on the lending portfolio over a 12-month period. The calculations are based on a long-term average over an economic cycle.

⁴⁾ In the event of an impairment, all the loan capital is moved to the default class irrespective of earlier classification.

⁵⁾ Financial liabilities not on the balance sheet that are the basis for impairments.

⁶⁾ Other financial liabilities include guarantees, unused credit lines and loan commitments.

⁷⁾ Financial liabilities provide the basis for impairments under IFRS 9. See also note 10.

⁸⁾ Historical figures have been changed as a result of updated source data.

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

Loans sold to SpareBank 1 Boligkreditt AS

SpareBank 1 Boligkreditt AS is owned by the savings banks that make up the SpareBank 1 alliance and shares premises with SpareBank 1 Næringskreditt AS in Stavanger. The bank owned a 2.2% stake as at 31 December 2019 (4.8% as at 31 December 2018). The purpose of the mortgage company is to ensure the alliance banks access to stable, long-term funding for home mortgages at competitive prices. Covered bonds issued by SpareBank 1 Boligkreditt AS have an Aaa rating from Moody's. SpareBank 1 Boligkreditt AS also issues bonds with a lower rating that are not covered bonds. SpareBank 1 Boligkreditt AS acquires loans with collateral in housing and issues covered bonds in accordance with the regulations established for this in 2007. As part of the alliance, the bank can offer SpareBank 1 Boligkreditt AS the opportunity to buy loans and the bank sells loans to SpareBank 1 Boligkreditt AS as part of its funding strategy. Loans sold to SpareBank 1 Boligkreditt AS are secured by collateral in housing up to a ceiling of 75% of their valuation. The sold loans are legally owned by SpareBank 1 Boligkreditt AS and the bank has, apart from the right to administer them and receive commissions, as well as the right to take over fully or partially written down loans (at the written down value), no right to use the loans. At the end of December 2019, the value of transferred loans amounted to NOK 4.2 billion (NOK 8.9 billion). The bank administers the sold loans and receives commissions based on the net return on the loans the bank has sold less the company's costs.

Loans sold to SpareBank 1 Næringskreditt AS

SpareBank 1 Næringskreditt AS was established in 2009 and has a licence from the Financial Supervisory Authority of Norway to operate as a mortgage company that issues covered bonds. The bank owned a 15.6% stake as at 31 December 2019 (14.4% as at 31 December 2018). Cover bonds issued by

SpareBank 1 Næringskreditt AS have an Aaa rating from Moody's. The company is owned by savings banks that are part of the SpareBank 1 alliance and shares premises with SpareBank 1 Boligkreditt AS in Stavanger. The purpose of the mortgage company is to ensure the alliance banks access to stable, long-term funding for commercial property at competitive prices. SpareBank 1 Næringskreditt AS acquires loans with collateral in commercial property and issues covered bonds in accordance with the regulations established for this in 2007. As part of the SpareBank 1 alliance, the bank can offer the company the opportunity to buy loans and the bank sells loans as part of its funding strategy. Loans sold to SpareBank 1 Næringskreditt AS are secured by collateral in commercial properties up to a ceiling of 60% of their valuation. The sold loans are legally owned by SpareBank 1 Næringskreditt AS and the bank has, apart from the right to administer them and receive commissions for this and the right to take over fully or partially written down loans (at the written down value), no right to use the loans. At the end of December 2019, the value of sold loans amounted to NOK 0 billion (NOK 0.42 billion). The bank administers the sold loans and receives commissions based on the net return on the loans the bank has sold less the company's costs.

The loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are very well collateralised and are very unlikely to result in losses.

The agreements between the bank and SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS mean that the bank has transferred practically all risks and benefits of ownership related to the sold loans. The sale is therefore treated as a pure sale and the loans are thus fully eliminated from the bank's balance sheet.

NOTE 10 IMPAIRMENTS ON LOANS AND FINANCIAL LIABILITIES

(Figures in NOK millions)

Parent bank	1 Jan 2019	Change in impairments on loans	Change in impairments on financial liabilities	Total 31 Dec 2019
Impairments on loans and financial liabilities				
Impairments after amortised cost - corporate market	1,168	206	23	1,397
Impairments at amortised cost - retail market	94	-	-	94
Home mortgages at fair value through OCI	60	-6	-	54
Total impairments on loans and financial liabilities	1,322	200	23	1,545
Presented as:				
Impairments on loans	1,215	200	-	1,415
Impairments on financial liabilities	107	-	23	130
Total impairments on loans and financial liabilities	1,322	200	23	1,545

	1 Jan 2018			Total 31 Dec 2018
Impairments on loans and financial liabilities				
Impairments after amortised cost - corporate market	1,236	-48	-20	1,168
Impairments at amortised cost - retail market	96	-2	-	94
Home mortgages at fair value through OCI	82	-22	-	60
Total impairments on loans and financial liabilities	1,414	-72	-20	1,322
Presented as:				
Impairments on loans	1,287	-72	-	1,215
Impairments on financial liabilities	127	-	-20	107
Total impairments on loans and financial liabilities	1,414	-72	-20	1,322

Impairments on loans	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance 1 Jan	225	360	630	1,215	189	397	701	1,287
Changes 1 Jan - 31 Dec								
Transferred to (from) Stage 1	-23	23	-	-	-14	14	-	-
Transferred to (from) Stage 2	87	-91	4	-	66	-67	1	-
Transferred to (from) Stage 3	1	3	-4	-	2	29	-31	-
Net new measurement of impairments	-148	139	23	14	-58	92	9	43
New issued or purchased loans	48	35	6	89	86	45	4	135
Loans that have been derecognised	-46	-88	-13	-147	-46	-150	-21	-217
Changes due to modifications that have not resulted in derecognition	-	-	-	-	-	-	-	-
Realised losses in the period	-	-	122	122	-	-	456	456
Realised losses on commitments previously written down in the period	-	-	-60	-60	-	-	-397	-397
Changes to models/risk parameters	-	-	-	-	-	-	-	-
Other movements	-	-	182	182	-	-	-92	-92
Total impairments on loans	144	381	890	1,415	225	360	630	1,215
Impairments on financial liabilities								
Balance 1 Jan	31	57	19	107	42	70	15	127
Changes 1 Jan - 31 Dec								
Transferred to (from) Stage 1	-4	4	-	-	-14	14	-	-
Transferred to (from) Stage 2	6	-6	-	-	1	-1	-	-
Transferred to (from) Stage 3	-	-	-	-	-	-	-	-
Net new measurement of impairments	-15	34	1	20	4	-10	-	-6
New issued or purchased loans	9	3	-	12	13	5	-	18
Loans that have been derecognised	-6	-10	-1	-17	-15	-21	-	-36
Changes due to modifications that have not resulted in derecognition	-	-	-	-	-	-	-	-
Realised losses in the period	-	-	-	-	-	-	4	4
Realised losses on commitments previously written down in the period	-	-	-	-	-	-	-	-
Changes to models/risk parameters	-	-	-	-	-	-	-	-
Other movements	-	-	8	8	-	-	-	-
Total impairments on financial liabilities	21	82	27	130	31	57	19	107

(Note 10 cont.)

(Figures in NOK millions)

Group	1 Jan 2019	Change in impairments on loans	Change in impairments on financial liabilities	Total 31 Dec 2019
Impairments on loans and financial liabilities				
Impairments after amortised cost - corporate market	1,168	205	23	1,396
Impairments at amortised cost - retail market	166	-6	-	160
Home mortgages at fair value through OCI	-	-	-	-
Total impairments on loans and financial liabilities	1,334	199	23	1,556
Presented as:				
Impairments on loans	1,227	199	-	1,426
Impairments on financial liabilities	107	-	23	130
Total impairments on loans and financial liabilities	1,334	199	23	1,556

	1 Jan 2018			Total 31 Dec 2018
Impairments on loans and financial liabilities				
Impairments after amortised cost - corporate market	1,236	-48	-20	1,168
Impairments at amortised cost - retail market	187	-21	-	166
Home mortgages at fair value through OCI	-	-	-	-
Total impairments on loans and financial liabilities	1,423	-69	-20	1,334
Presented as:				
Impairments on loans	1,296	-69	-	1,227
Impairments on financial liabilities	127	-	-20	107
Total impairments on loans and financial liabilities	1,423	-69	-20	1,334

Impairments on loans	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance 1 Jan	229	367	631	1,227	192	402	702	1,296
Changes 1 Jan - 31 Dec								
Transferred to (from) Stage 1	-24	24	-	-	-15	15	-	-
Transferred to (from) Stage 2	89	-93	4	-	70	-71	1	-
Transferred to (from) Stage 3	1	3	-4	-	2	29	-31	-
Net new measurement of impairments	-151	140	24	13	-63	90	10	37
New issued or purchased loans	50	37	6	93	89	48	4	141
Loans that have been derecognised	-48	-90	-13	-151	-46	-146	-22	-214
Changes due to modifications that have not resulted in derecognition	-	-	-	-	-	-	-	-
Realised losses in the period	-	-	122	122	-	-	456	456
Realised losses on commitments previously written down in the period	-	-	-60	-60	-	-	-397	-397
Changes to models/risk parameters	-	-	-	-	-	-	-	-
Other movements	-	-	182	182	-	-	-92	-92
Total impairments on loans	146	388	892	1,426	229	367	631	1,227

Impairments on financial liabilities								
	2019	2018	2017	2016	2015	2014	2013	2012
Balance 1 Jan	31	57	19	107	42	70	15	127
Changes 1 Jan - 31 Dec								
Transferred to (from) Stage 1	-4	4	-	-	-14	14	-	-
Transferred to (from) Stage 2	6	-6	-	-	1	-1	-	-
Transferred to (from) Stage 3	-	-	-	-	-	-	-	-
Net new measurement of impairments	-15	35	1	21	4	-10	-	-6
New issued or purchased loans	9	3	-	12	13	5	-	18
Loans that have been derecognised	-6	-11	-1	-18	-15	-21	-	-36
Changes due to modifications that have not resulted in derecognition	-	-	-	-	-	-	-	-
Realised losses in the period	-	-	-	-	-	-	4	4
Realised losses on commitments previously written down in the period	-	-	-	-	-	-	-	-
Changes to models/risk parameters	-	-	-	-	-	-	-	-
Other movements	-	-	8	8	-	-	-	-
Total impairments on financial liabilities	21	82	27	130	31	57	19	107

NOTE 11 CREDIT RISK EXPOSURE FOR EACH INTERNAL RISK CLASS

(Figures in NOK millions)

Probability of default (PD) ¹⁾	Average unse- cured exposure	Total commit- ments	Average unse- cured exposure	Total commit- ments
Parent bank	2019		2018	
0.00 - 0.50%	25.5%	76,843	21.6%	75,519
0.50 - 2.50%	29.1%	59,988	28.8%	61,177
2.50 - 5.00%	35.1%	12,180	37.9%	13,869
5.00 - 99.9%	40.3%	7,279	37.7%	7,634
Non-performing and written down	57.3%	3,359	53.8%	3,076
TOTAL	28.9%	159,649		161,275
Group				
0.00 - 0.50%	17.1%	145,733	16.5%	129,144
0.50 - 2.50%	26.8%	69,159	26.8%	70,017
2.50 - 5.00%	33.8%	12,900	37.3%	14,352
5.00 - 99.9%	37.3%	8,078	36.3%	8,291
Non-performing and written down	57.0%	3,366	53.6%	3,080
Total	22.0%	239,236		224,884

¹⁾ PD = probability of default 12 months PIT (Point In Time)

NOTE 12 MAXIMUM CREDIT RISK EXPOSURE

(Figures in NOK millions)

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

Parent bank			Group	
2018	2019		2019	2018
		Assets		
587	11	Receivables from the central bank	11	587
5,069	11,790	Loans to and receivables from financial institutions	3,142	1,696
132,338	133,107	Loans to and receivables from customers	205,688	190,878
27,815	31,435	Certificates and bonds	32,792	29,340
5,574	6,272	Derivatives	5,933	5,268
171,383	182,615	Total credit risk exposure balance sheet items	247,566	227,769
		Financial guarantees and loan commitments		
9,566	9,751	Guarantees customers	9,800	9,627
588	589	Guarantees others	589	588
1,560	1,248	Unused credit lines for financial institutions	-	-
18,166	15,383	Unused credit lines for customers	22,322	23,152
6,072	5,733	Loan commitments	5,733	6,072
35,952	32,704	Total financial guarantees and loan commitments	38,444	39,439
207,335	215,319	Total credit risk exposure	286,010	267,208

Credit risk exposure related to financial assets by geographic area

Parent bank			Group	
2018	2019	Banking operations	2019	2018
106,197	102,914	Rogaland	152,980	150,207
14,408	14,964	Agder	22,675	20,380
26,209	27,538	Vestland	37,226	33,563
13,576	20,289	Oslo/Viken	21,310	14,167
5,358	7,238	International	7,202	5,228
8,198	4,669	Other	5,892	9,055
173,946	177,612	Total banking operations	247,285	232,600
		Market activities		
10,136	11,089	Norway	11,779	11,661
16,413	18,905	Europe/Asia/Africa	19,572	16,413
1,266	1,441	North America/Oceania	1,441	1,266
27,815	31,435	Total market activities	32,792	29,340
5,574	6,272	Derivatives	5,933	5,268
207,335	215,319	Total by geographic area	286,010	267,208

NOTE 13 CREDIT QUALITY PER CLASS OF FINANCIAL ASSET

(Figures in NOK millions)

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

Parent bank

2019	0.00 - 0.50%	0.50 - 2.50%	2.50 - 5.00%	5.00 - 99.99%	Commitments in default	Impairments	Total
Net loans							
Loans to and receivables from financial institutions	11,790	-	-	-	-	-	11,790
Loans to and receivables from customers							
- Retail market	39,944	10,206	891	1,085	378	-141	52,363
- Corporate market	25,786	41,009	8,027	5,124	2,065	-1,267	80,744
Total net loans	77,520	51,215	8,918	6,209	2,443	-1,408	144,897
Financial investments							
Norwegian government bonds	316	-	-	-	-	-	316
Listed certificates and bonds	30,711	93	-	100	-	-	30,904
Unlisted certificates and bonds	173	-	-	30	12	-	215
Total financial investments	31,200	93	-	130	12	-	31,435
Total loan-related assets	108,720	51,308	8,918	6,339	2,455	-1,408	176,332

Parent bank

2018	0.00 - 0.50%	0.50 - 2.50%	2.50 - 5.00%	5.00 - 99.99%	Commitments in default	Impairments	Total
Net loans							
Loans to and receivables from financial institutions	5,069	-	-	-	-	-	5,069
Loans to and receivables from customers							
- Retail market	41,563	12,003	768	1,242	361	-136	55,799
- Corporate market	21,795	38,684	9,778	5,524	1,827	-1,069	76,539
Total net loans	68,426	50,686	10,546	6,765	2,188	-1,205	137,407
Financial investments							
Norwegian government bonds	316	-	-	-	-	-	316
Listed certificates and bonds	27,091	93	-	100	-	-	27,284
Unlisted certificates and bonds	173	-	-	30	12	-	215
Total financial investments	27,580	93	-	130	12	-	27,815
Total loan-related assets	96,006	50,779	10,546	6,895	2,200	-1,205	165,222

(Note 13 cont.)

Group							
2019	0.00 - 0.50%	0.50 - 2.50%	2.50 - 5.00%	5.00 - 99.99%	Commitments in default	Impairments	Total
Net loans							
Loans to and receivables from financial institutions	3,142	-	-	-	-	-	3,142
Loans to and receivables from customers							
- Retail market	101,207	19,299	1,614	1,878	394	-159	124,233
- Corporate market	26,492	41,027	8,021	5,126	2,056	-1,267	81,455
Total net loans	130,841	60,326	9,635	7,004	2,450	-1,426	208,830
Financial investments							
Norwegian government bonds	316	-	-	-	-	-	316
Listed certificates and bonds	32,068	93	-	100	-	-	32,261
Unlisted certificates and bonds	173	-	-	30	12	-	215
Total financial investments	32,557	93	-	130	12	-	32,792
Total loan-related assets	163,398	60,419	9,635	7,134	2,462	-1,426	241,622

Group

2018							
Net loans							
Loans to and receivables from financial institutions	1,696	-	-	-	-	-	1,696
Loans to and receivables from customers							
- Retail market	89,385	20,813	1,292	1,909	377	-157	113,620
- Corporate market	22,375	38,819	9,778	5,532	1,825	-1,070	77,258
Total net loans	113,456	59,632	11,070	7,440	2,203	-1,227	192,574
Financial investments							
Norwegian government bonds	316	-	-	-	-	-	316
Listed certificates and bonds	28,616	93	-	100	-	-	28,809
Unlisted certificates and bonds	173	-	-	30	12	-	215
Total financial investments	29,105	93	-	130	12	-	29,340
Total loan-related assets	142,561	59,725	11,070	7,570	2,215	-1,227	221,914

Classification of financial investments:

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

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

NOTE 14 MARKET RISK RELATED TO INTEREST RATE RISK

(Figures in NOK millions)

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

Parent bank			Group	
2018	2019		2019	2018
-39	-39	Certificates and bonds	-41	-42
-24	-36	Fixed-rate loans to customers	-36	-24
-36	-17	Other loans and deposits	-116	-90
56	74	Securities issued	140	129
9	1	Other	1	9
-34	-17	Total interest rate risk	-52	-18
		Maturity bands		
-37	2	0-3 months	-33	-21
3	5	3-6 months	5	3
1	2	6-9 months	2	1
-1	2	9 - 12 months	2	-1
1	-3	12-18 months	-3	1
4	2	18-24 months	2	4
-6	-26	2-10 years	-26	-6
1	-1	10+ years	-1	1
-34	-17	Total interest rate risk	-52	-18
		Currency		
-16	-9	NOK	-44	-
-13	3	EUR	3	-13
-	-7	USD	-7	-
-1	-1	CHF	-1	-1
-4	-3	Other	-3	-4
-34	-17	Total interest rate risk	-52	-18

Interest rate risk arises because the group's assets and liabilities may be subject to different fixed-rate periods. Interest rate instrument trading must at all times comply with the adopted limits and authorities. The group's limits define quantitative targets for maximum potential loss by a parallel shift in the yield curve of one percentage point.

The limit is NOK 85 million divided between NOK 50 million and NOK 35 million on the total balance of Treasury and SR-Bank Markets, respectively. The commercial risk is quantified and monitored continuously.

NOTE 15 MARKET RISK RELATED TO CURRENCY RISK

(Figures in NOK millions)

The table shows net foreign currency exposure including financial derivatives as at 31 December, calculated in accordance with the CRR/CRD IV regulations that refer to CRR article 352 (EU) no. 575/2013.

Parent bank			Group	
2018	2019		2019	2018
		Currency		
-96	64	EUR	64	-96
-	25	USD	25	-
-27	1	CHF	1	-27
-	2	GBP	2	-
-2	-2	SEK	-2	-2
-48	6	DKK	6	-48
2	2	Other	2	2
-171	98	Total	98	-171
-5.1	2.9	Effect on result of 3% change before tax	2.9	-5.1

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

The group has defined limits for the net exposure in each currency, as well as limits for aggregated net currency exposure (expressed as the highest of the sum of long and short positions). The overnight price risk for spot trading in currencies must not exceed NOK 175 million per individual currency, and NOK 225 million in aggregate.

NOTE 16 LIQUIDITY RISK

(Figures in NOK millions)

The table shows cash flows including contractual interest maturity.

Parent bank ¹⁾

2019	Upon request	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Debt to financial institutions	2,547	-	-	-	-	2,547
Deposits from customers	103,323	-	-	-	-	103,323
Securities issued	-	6,542	3,670	42,365	3,568	56,145
Liability related to lease rights	-	-	68	258	542	868
Subordinated loan capital	-	14	48	197	2,159	2,418
Total liabilities	105,870	6,556	3,786	42,820	6,269	165,301
Derivatives						
Contractual cash flows out	-	-25,890	-13,779	-69,018	-23,445	-132,132
Contractual cash flows in	-	25,532	13,449	67,858	23,744	130,583

2018

Debt to financial institutions	3,201	-	-	-	-	3,201
Deposits from customers	99,119	-	-	-	-	99,119
Securities issued	-	5,157	2,297	38,090	4,405	49,949
Subordinated loan capital	-	13	110	196	2,989	3,308
Total liabilities	102,320	5,170	2,407	38,286	7,394	155,577
Derivatives						
Contractual cash flows out	-	-43,925	-10,058	-44,850	-27,135	-125,968
Contractual cash flows in	-	44,956	10,305	44,688	27,844	127,793

Group ¹⁾

2019	Upon request	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Debt to financial institutions	2,264	-	-	-	-	2,264
Deposits from customers	103,106	-	-	-	-	103,106
Securities issued	-	6,669	14,084	77,072	22,215	120,040
Liability related to lease rights	-	-	49	172	267	488
Subordinated loan capital	-	14	48	197	2,159	2,418
Total liabilities	105,370	6,683	14,181	77,441	24,641	228,316
Derivatives						
Contractual cash flows out	-	-25,856	-8,744	-45,230	-7,858	-87,688
Contractual cash flows in	-	25,263	7,946	42,900	7,222	83,331

2018

Debt to financial institutions	1,433	-	-	-	-	1,433
Deposits from customers	98,814	-	-	-	-	98,814
Securities issued	-	5,261	7,777	72,805	22,170	108,013
Subordinated loan capital	-	13	110	196	2,989	3,308
Total liabilities	100,247	5,274	7,887	73,001	25,159	211,568
Derivatives						
Contractual cash flows out	-	-43,883	-9,931	-20,493	-11,146	-85,453
Contractual cash flows in	-	44,790	9,800	20,265	12,005	86,860

¹⁾ Also see note 6 financial risk management.

NOTE 17 MATURITY ANALYSIS OF ASSETS AND DEBT/LIABILITIES

(Figures in NOK millions)

Parent bank

2019	Upon request ¹⁾	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Assets						
Cash and receivables from the central bank	93	11	-	-	-	104
Loans to and receivables from financial institutions	10,241	669	-	880	-	11,790
Gross loans to customers	16,684	1,457	5,853	46,273	64,248	134,515
- Impairments after amortised cost	-1,415	-	-	-	-	-1,415
- Home mortgages at fair value through OCI	7	-	-	-	-	7
Loans to customers	15,276	1,457	5,853	46,273	64,248	133,107
Certificates and bonds	-	1,158	4,810	25,190	277	31,435
Financial derivatives	2,355	338	200	1,818	1,561	6,272
Equities, units and other equity interests	564	-	-	-	-	564
Investments in ownership interests	2,336	-	-	-	-	2,336
Investments in group companies	7,315	-	-	-	-	7,315
Deferred tax asset	379	-	-	-	-	379
Tangible fixed assets and intangible assets	355	-	-	-	-	355
Other assets	573	-	53	203	426	1,255
Total assets	39,487	3,633	10,916	74,364	66,512	194,912
Liabilities						
Debt to financial institutions	1,647	900	-	-	-	2,547
Deposits from customers	103,323	-	-	-	-	103,323
Securities issued	-	6,305	2,952	38,236	6,764	54,257
Financial derivatives	2,013	552	433	2,679	1,730	7,407
Payable tax	1,078	-	-	-	-	1,078
Deferred tax liabilities	-	-	-	-	-	-
Other liabilities	1,005	-	54	204	430	1,693
Subordinated loan capital	-	-	-	-	2,125	2,125
Total liabilities	109,066	7,757	3,439	41,119	11,049	172,430

(Note 17 cont.)

Group

2019	Upon request ¹⁾	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Assets						
Cash and receivables from the central bank	93	11	-	-	-	104
Loans to and receivables from financial institutions	1,593	669	-	880	-	3,142
Gross loans to customers	16,738	1,463	5,857	46,214	136,842	207,114
- Impairments after amortised cost	-1,426	-	-	-	-	-1,426
- Home mortgages at fair value through OCI	-	-	-	-	-	-
Loans to customers	15,312	1,463	5,857	46,214	136,842	205,688
Certificates and bonds at fair value	-	1,158	4,750	26,607	277	32,792
Financial derivatives	2,355	338	200	1,654	1,386	5,933
Equities, units and other equity interests	920	-	-	-	-	920
Investments in ownership interests	4,180	-	-	-	-	4,180
Investments in group companies	-	-	-	-	-	-
Deferred tax asset	420	-	-	-	-	420
Tangible fixed assets and intangible assets	1,360	-	-	-	-	1,360
Other assets	958	-	40	140	218	1,356
Total assets	27,191	3,639	10,847	75,495	138,723	255,895
Liabilities						
Debt to financial institutions	1,364	900	-	-	-	2,264
Deposits from customers	103,106	-	-	-	-	103,106
Securities issued	-	6,245	2,952	71,887	35,080	116,164
Financial derivatives	2,013	552	210	1,260	495	4,530
Payable tax	1,228	-	-	-	-	1,228
Other liabilities	1,249	-	40	139	216	1,644
Subordinated loan capital	-	-	-	-	2,125	2,125
Total liabilities	108,960	7,697	3,202	73,286	37,916	231,061

¹⁾ Overdraft facilities and operating credits (including flexi loans) are included in the "upon request" interval. Non-financial assets and liabilities have for presentation purposes been added to the "upon request" column. Deposits have been added to the "upon request" column but there is no expectation that all deposits would have to be settled within a short space of time.

NOTE 18 NET INTEREST INCOME

(Figures in NOK millions)

Parent bank							Group					
2018		2019			2019			2018				
Measured at fair value	Measured at amortised cost	Total	Measured at fair value	Measured at amortised cost	Total	Total	Measured at amortised cost	Measured at fair value	Total	Measured at amortised cost	Measured at fair value	
Interest income												
-	61	61	-	130	130	83	83	-	50	50	-	
1,570	2,932	4,502	1,546	3,719	5,265	7,034	6,767	267	5,680	5,429	251	
394	64	458	455	101	556	538	115	423	450	66	384	
-	94	94	-	88	88	88	88	-	94	94	-	
1,964	3,151	5,115	2,001	4,038	6,039	7,743	7,053	690	6,274	5,639	635	
Interest costs												
400	52	452	-76	67	-9	434	48	386	669	22	647	
-	997	997	-	1,262	1,262	1,255	1,255	-	992	992	-	
-372	935	563	276	967	1,243	1,885	1,609	276	1,007	1,389	-382	
-23	126	103	-19	109	90	90	109	-19	103	126	-23	
-	64	64	-	72	72	78	78	-	64	64	-	
			-	12	12	14	14	-				
5	2,174	2,179	181	2,489	2,670	3,756	3,113	643	2,835	2,593	242	
1,959	977	2,936	1,820	1,549	3,369	3,987	3,940	47	3,439	3,046	393	

NOTE 19 NET COMMISSIONS AND OTHER OPERATING INCOME

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
108	94	Guarantee commissions	93	108
6	9	Securities trading	9	6
-	-	Management	97	100
131	124	Brokerage commissions	92	96
122	77	Commissions from mortgage companies	34	88
329	352	Money-transfer services	351	329
187	191	Insurance services	191	187
-	-	Fee accounting	126	99
119	127	Other commissions	124	124
		Property sales	399	382
1,002	974	Total commissions	1,516	1,519
74	84	Money-transfer services	84	74
10	24	Other commission costs	27	13
84	108	Total commission costs	111	87
6	8	Operating income from investment properties	7	3
2	4	Other operating income	4	2
8	12	Total other operating income	11	5
926	878	Net commissions and other operating income	1,416	1,437

NOTE 20 NET INCOME/LOSSES FROM FINANCIAL INSTRUMENTS

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
-2	70	Net gain/loss on equity instruments	111	91
-231	-137	Net gain/loss on bonds and certificates	-156	-230
151	141	Net derivatives, bonds and certificates	141	151
74	-	Net derivatives, equities	-	72
-	-	Net counterparty risk, inclusive of CVA	-	-
15	-1	Net derivatives, fixed-rate	-1	15
10	-8	Net derivatives, debt	5	-5
-11	-18	Net derivatives, basis swap spread	-10	-38
141	136	Net gain currency	131	135
147	183	Net income/loss from financial investments	221	191

NOTE 21 REMUNERATION STATEMENT, PERSONNEL COSTS AND BENEFITS FOR EXECUTIVE PERSONNEL AND ELECTED REPRESENTATIVES

Information about the remuneration scheme

The Financial Institutions Act and the Financial Institutions Regulations regulate remuneration schemes for financial companies. The company shall disclose information about its remuneration scheme, including information on the main principles for determining remuneration, criteria for determining possible variable remuneration, and quantitative information on remuneration for executive personnel, employees with significant tasks for the company's risk exposure, employee representatives and employees with control tasks.

Disclosure of information about the company's remuneration scheme, including the board's statement of salary determination and other remuneration to executive personnel, is given in this note in accordance with applicable rules.

SpareBank 1 SR-Bank's remuneration policy

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

The group's remuneration scheme shall:

- be consistent with the group's overall objectives, risk tolerance and long-term interests
- help promote and encourage good management and control of the group's risk
- counter excessive or undesirable risk taking
- help to avoid conflicts of interest
- comply with the Financial Business Regulations, chapter 15

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

Variable remuneration shall reflect/be associated with extraordinary results that employees, departments, divisions and the group deliver. Variable remuneration shall be built up under the group's vision, strategic position and value base, as well as prevent the employee from incurring undesirable risks in accordance with the regulations.

Separate special arrangements for variable remuneration for SR-Bank Markets and its subsidiaries have been adopted, based on adaptation to industry standards.

Decision process

The board of SpareBank 1 SR-Bank has a remuneration committee consisting of the chairman, one board member and one elected board member.

The remuneration committee prepares matters for the board and is mainly responsible for:

- annually reviewing and proposing the total salary and remuneration for the chief executive
- annually considering the group's remuneration scheme, including the guiding principles for variable remuneration
- advising the chief executive on matters relating to salary and other remuneration and other personnel-related issues for the group's executive personnel
- ensuring that the practice of the group's remuneration arrangements are reviewed annually by an independent control function
- preparing a statement on the fixing of salaries and other remuneration to executive personnel (ref. section 6-16a of the Public Limited Liability Companies Act)
- considering other conditions as determined by the board and/or remuneration committee
- evaluating remuneration schemes in relation to reputation risk
- The committee must ensure that the group maintains a constant focus on succession planning and manager development at the EVP level

(Note 21 cont.)

Guidelines for the coming financial year

Performance bonus

The group has a bonus scheme which includes all employees with the exception of SpareBank 1 Regnskapshuset SR AS, Monner AS and FinStart Nordic AS. Performance bonuses are set at an equal percentage of salary, and can, as a maximum, amount to 10.0% fixed salary. The performance bonus is set by the board based on the financial targets achieved. The performance bonus is paid entirely in cash.

CEO's remuneration

The chief executive's total remuneration consists of a fixed salary (main component), variable remuneration, benefits in kind, and pension and insurance plans. The chief executive's fixed salary and variable remuneration are set annually by the board based on the recommendation of the remuneration committee.

Assessment of the fixed salary is based on results achieved, stock price development, reputation considerations and wage developments in comparable positions.

Variable remuneration for 2020 will be set based on the achievement of objectives related to the following main criteria: long-term financial targets, financial and non-financial targets related to the fiscal year, the group's achieved result bonus, and a discretionary bonus element after review by the board.

The chief executive can receive performance bonuses on a par with other employees. Any variable remuneration, including performance bonuses, may amount to up to 40% of fixed salary including holiday pay. No performance-based benefits are paid over and above the aforementioned schemes. Variable remuneration is not included in pensionable salary. Variable remuneration cannot be awarded to the chief executive if no performance bonus is paid.

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

A lifelong pension agreement has been concluded with the chief executive in which the retirement age is at the end of the year in which the chief executive turns 64. The annual service pension up until when the chief executive turns 67 amounts to 67% of pensionable pay. From the age of 67, the chief executive will receive a supplementary retirement pension which, together with other pension rights, will constitute 67% of pensionable pay, assuming full earning period. This means that the chief executive's agreed pension date is 31 December 2020. An additional agreement has been entered into with the chief executive that provides flexibility in relation to his leaving date between 1 October 2020 and 31 March 2021. The purpose behind this is to ensure a good process with respect to the appointment of a new chief executive. The chief executive will receive, in line with the additional agreement, salary and other benefits up to 31 December 2020 under all circumstances, and possible until 31 March 2021 depending on his leaving date. The additional agreement does not affect the chief executive's pension earnings.

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

Remuneration to other members of the group executive management team

The chief executive determines the fixed remuneration of the group executive management team based on the limits discussed by the remuneration committee and guidelines adopted by the board. The remuneration is fixed based on an assessment of performance and conditions in the market for the various areas and should promote good performance and ensure that the group achieves strategic goals. The remuneration arrived at must not damage the group's reputation nor shall the group be a market leader.

The variable component of the remuneration to the group executive management team follows the same measurement as the chief executive. The EVP, Risk Management, EVP, HR and Business Support and EVP, Compliance do not receive variable remuneration beyond a performance bonus.

Benefits in kind can be offered to the group executive management team members to the extent that benefits are linked to each function in the group and are in line with market practice in general.

The pension scheme should be seen in the context of other remuneration and should provide competitive terms. New members of the group executive management team have after 2011 been included in the defined contribution pension scheme with a retirement age of 70 and pension basis limited to 12G. The deposit rates are 7% of the pension basis up to 7.1G, and 22% of the pension basis between 7.1G and 12G. Four members of the group executive management team currently have this pension scheme. Members of the group executive management team who have a retirement age of 62 years, and are between the ages of 62 and 67, are entitled to a pension equivalent to 70% of pensionable income in the form of service pension. From the age of 67, they will receive a supplementary retirement pension which, together with the SpareBank 1 SR-Bank's pension fund, pension from the National Insurance Scheme and statutory early retirement pension (AFP), will constitute 70% of pensionable pay, assuming full earning period.

No members of the group executive management team have an agreement concerning termination benefits upon leaving his/her post prior to reaching retirement age.

Goal structure 2020

The board shall annually discuss and adopt the group's remuneration scheme including a strategy and guiding principles for variable remuneration. For the financial year 2020, the board has resolved that the following criteria shall be decisive for the group executive management team including the chief executive: 3-year measurement related to returns on equity after tax against targets and returns measured against comparable financial institutions. 1-year measurement related to selected goals related to financial and non-financial key strategic goals at group and/or division level. In addition to this, an assessment will also be made relating to the individual's performance of his/her own role. For the chief executive, the board in this assessment will emphasise the ability to change management in accordance with strategy and value base. In order for a bonus to be achieved, selected thresholds related to liquidity, solvency and return must be achieved in the last 2 years.

Maximum bonus achievement is 40.0% of fixed salary for 2020. Earned bonus shares, taking into account tax deductions, will be

(Note 21 cont.)

distributed in full the year after the year of employment with a one-year binding period for a third, two years for a third and three years for a third.

Separate rules for the remuneration for executive personnel, employees with important tasks for the company's risk exposure, employees with control tasks and elected representatives

SpareBank 1 SR-Bank has adopted its own guidelines for executive personnel, employees with important tasks for the company's risk exposure, employees with control tasks and employee representatives. In addition to variable remuneration for the chief executive and group executive management team, only employees with special schemes receive variable remuneration other than performance bonus. As set out in the Financial Institutions Act and the Financial Institutions Regulations, the group has defined who is covered by the separate rules based on the defined criteria.

The remuneration is fixed based on an assessment of performance and conditions in the market for the various areas and should promote good performance and ensure that the group achieves strategic goals. The remuneration arrived at must not damage the group's reputation nor shall the group be a market leader. The remuneration should ensure that the group has the ability to attract and retain executive personnel with the desired expertise and experience.

The remuneration paid to executive personnel with supervision duties must be independent of the results of the operations they supervise. Employees with control functions do not receive variable remuneration beyond performance bonuses.

Variable remuneration for executive personnel, employees with important tasks for the company's risk exposure, and elected representatives are measured based on results over 2 years.

Half of variable remuneration, with the exception of the performance bonus, is paid in the form of shares in SpareBank 1 SR-Bank. The shares are distributed in full year after the bonus year, but with a binding period of one third of the shares

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

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

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

Of the variable remuneration for the chief executive, executive personnel and risk-takers, a proportion equal to 50% of earned variable remuneration, taking into account tax deductions, will be paid in the form of shares in SpareBank 1 SR-Bank. These will be subject to lock-in periods of one year for one third, two years for the second third, and three years for the final third.

Report on executive pay policy in the preceding financial year

The board confirms that the guidelines provided in last year's statement on executive personnel pay for 2019 have been followed.

Overview of remuneration to employees covered by the regulations in section 15 of the Financial Institutions Regulations for the 2019 financial year

(Amounts in NOK thousands)	Number	Remuneration	Of which variable remuneration
1. Executive personnel	75	103,062	26,981
2. Employees and elected representatives with duties of significant importance to the enterprise's risk exposure	7	7,170	3,116
3. Employees responsible for independent control functions	6	5,600	600
4. Elected representatives	1	760	442
	89	116,592	31,139

Personnel costs

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
694	791	Salaries	1,093	951
98	100	Pension costs (note ²³)	117	116
129	143	National insurance costs	188	170
47	58	Other personnel costs	74	60
968	1,092	Total personnel costs	1,472	1,297
919	954	Average no. of employees	1,331	1,251
868	901	No. of FTEs as at 31 Dec	1,260	1,178
929	962	No. of employees as at 31 Dec	1,373	1,271
162,598	107,340	Outstanding no. of shares from bonus share programme	108,270	164,493
-	-	Outstanding hybrid tier 1 capital instruments from bonus programme	358	602

(Note 21 cont.)

Remuneration to group executive management team

(Amounts in NOK thousands)

		Salary ¹⁾	Other remuneration ¹⁾	Accrued bonus current year ¹⁾	Total benefits	Accrued pension rights	Pension costs	Loans	Number of shares ²⁾	Outstanding no. of shares from bonus share programme	
2019											
Arne Austreid	Chief Executive Officer	4,044	237	1,047	5,328	30,904	3,478	1,600	107,998	3,683	
Inge Reinertsen	Chief Financial Officer	2,250	300	605	3,155	11,334	751	9,000	88,023	2,189	
Tore Medhus	Executive Vice President, Corporate Market	2,250	164	669	3,083	16,166	723	2,171	53,670	2,189	
Jan Friestad	Executive Vice President, Retail Market	2,231	196	587	3,014	3,315	164	5,976	45,250	2,155	
Glenn Sæther	Executive Vice President, Strategy, Innovation and Development	1,992	300	544	2,836	9,111	991	8,567	26,749	1,872	
Thor-Christian Haugland	Executive Vice President, Communications and Sustainability	1,725	279	475	2,479	10,641	612	5,868	25,402	1,697	
Frode Bø ³⁾	Executive Vice President, Risk Management	1,942	462		2,404	13,076	787	495	17,425	-	
Ella Skjørestad	Executive Vice President, Customer Services and Marketing	1,696	272	465	2,433	739	163	4,235	5,967	683	
Gro Tveit ³⁾	Executive Vice President, HR and Business Support	1,712	536		2,248	2,335	168	5,295	20,303	-	
Signe Helliesen ³⁾	Executive Vice President, Compliance and AML	1,247	229		1,476	968	168	3,668	274	-	
2018											
Arne Austreid	Chief Executive Officer	3,526	241	915	4,682	24,703	3,547	1,784	100,006	8,669	
Inge Reinertsen	Chief Financial Officer	2,153	288	520	2,961	11,095	729	9,000	83,529	4,802	
Tore Medhus	Executive Vice President, Corporate Market	2,153	202	550	2,905	15,635	716	4,659	49,147	4,802	
Jan Friestad	Executive Vice President, Retail Market	2,135	212	514	2,861	3,270	157	6,500	40,814	4,727	
Glenn Sæther	Executive Vice President, Strategy, Innovation and Development	1,850	286	452	2,588	8,006	963	7,881	22,861	4,107	
Thor-Christian Haugland	Executive Vice President, Communications and Sustainability	1,610	277	393	2,280	9,712	573	6,084	20,707	3,652	
Frode Bø ³⁾	Executive Vice President, Risk Management	1,879	339	50	2,268	12,644	803	640	17,242	-	
Ella Skjørestad (from 15 February 2018)	Executive Vice President, Customer Services and Marketing	1,422	125	358	1,905	-	144	4,414	3,937	1,345	
Gro Tveit ³⁾ (from 9 June 2018)	Executive Vice President, HR and Business Support	800	348	44	1,192	-	93	4,731	20,029	-	

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

¹⁾ Benefits are recognised as costs in the current year.

²⁾ No. of shares the person owns in SpareBank 1 SR-Bank as at 31 December. The figures also include shares belonging to immediate family members and known companies in which the person has a controlling influence, ref. section 1-2 of the Limited Liability Companies Act.

³⁾ Employees with control functions do not receive variable remuneration beyond performance bonuses.

(Note 21 cont.)

Remuneration of the board

(Amounts in NOK thousands)

		Fees	Other remuneration	Loans	No. of shares ⁴⁾
2019					
Dag Mejdell	Chair of the board	658	6	-	30,000
Kate Henriksen	Board member	327	-	-	-
Birthe Cecilie Lepsøe	Board member	357	-	-	-
Tor Dahle ⁵⁾	Board member	327	600	896	72,456,358
Therese Log Bergjord	Board member	302	-	-	2,000
Jan Skogseth	Board member	307	-	1,945	6,100
Sally Lund-Andersen	Board member (employee representative)	292	956	2,888	2,016
Kristian Kristensen	Board member (employee representative)	267	730	2,810	3,203
2018					
Dag Mejdell	Chair of the board	543	95	-	25,000
Kate Henriksen	Board member	245	45	-	-
Birthe Cecilie Lepsøe	Board member	245	90	-	-
Tor Dahle ⁵⁾	Board member	245	1,204	1,165	72,456,358
Therese Log Bergjord	Board member	245	35	-	-
Jan Skogseth	Board member	245	40	1,500	6,100
Sally Lund-Andersen	Board member (employee representative)	245	837	3,061	1,414
Kristian Kristensen	Board member (employee representative)	245	653	2,908	3,020

⁴⁾ Number of shares the person owns in SpareBank 1 SR-Bank as at 31 December. The figures also include shares belonging to immediate family members and known companies in which the person has a controlling influence, ref. section 1-2 of the Limited Liability Companies Act. In addition to this, the shares of the institution the individual representative was elected on behalf of are included.

⁵⁾ Tor Dahle is the general manager of Sparebankstiftelsen SR-Bank.

NOTE 22 OTHER OPERATING COSTS

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
316	343	IT costs	363	332
70	73	Marketing	90	88
82	81	Other administrative costs	102	98
66	106	Depreciation (notes 29, 30 and ³¹)	129	74
-	-	Impairments (notes 29, 30 and 31)	8	6
30	30	Operating costs real estate	35	33
74	44	Rent premises	44	87
77	88	External fees	105	87
-	-	Assignment costs real estate	68	48
37	43	Other operating costs	62	79
752	808	Total other operating costs	1,006	932

Fees for external auditor - specification of audit fees

(Figures in NOK thousands)

3,055	2,999	Statutory audit	4,649	4,514
89	22	Tax advice ¹⁾	110	190
226	225	Other certification services	809	696
4,176	4,042	Other non-auditing services ¹⁾	4,318	4,369
7,546	7,288	Total remuneration to external auditor	9,886	9,769

577	75	¹⁾ Fees for Advokatfirmaet PricewaterhouseCoopers that are included in tax advice and other non-auditing services	75	618
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All figures are inclusive of VAT

NOTE 23 PENSIONS

SpareBank 1 SR-Bank Group has, as at 31 December 2019, defined benefit based and defined contribution based pension schemes for its employees. The company's and group's pension schemes comply with the requirements of the Mandatory Occupational Pension Act.

The group previously had a funded defined benefit pension scheme covered by the group's pensions fund. This scheme was wound up in 2015 and employees who were in the defined benefit scheme were issued a paid-up policy for their earned rights in the defined benefit scheme.

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

scheme participants in accordance with the pension fund's articles of association.

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

The AFP scheme, which applies with effect from 1 January 2011, should be regarded as a defined benefit multi-company scheme, but will be recognised as a defined contribution scheme until adequate reliable information is available to allow the bank and the group to recognise their proportional shares of the pension costs, the pension liabilities and the pension funds in the scheme. Thus, the bank's and the group's liabilities are not recognised on the balance sheet as liabilities as at 31 December 2019.

The following economic assumptions are made when calculating pension liabilities:

	2019	2018
Discount rate	2.30%	2.60%
Expected return on assets	2.30%	2.60%
Future salary growth rate	2.25%	2.75%
Adjustment of NI basic amount (G)	2.00%	2.50%
Pension adjustment	0.50%	0.80%
Adjustment of paid-up policies	0.50%	0.80%
Employer's NI contribution/financial tax	19.10%	19.10%
Voluntary retirement before 45 – unfunded scheme	5.00%	5.00%
Voluntary retirement after 45 – unfunded scheme	2.00%	2.00%
The remaining average accrual time (in number of years) for members of the unfunded defined benefit plans has been calculated as approx.	8.06	8.01
The average life expectancy (no. of years) for a person who turns 65 on the balance sheet date is as follows:		
Man	21.60	21.50
Woman	24.80	24.70
The average life expectancy (no. of years) for a person who 20 years after the balance sheet date turns 65 is as follows:		
Man	23.40	23.30
Woman	26.70	26.60
The mortality table that has been adjusted for opening mortality and the decline in the mortality rate.	K2013BE	K2013BE
Disability	IR73	IR73

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

(Note 23 cont.)

Parent bank			Group	
2018	2019		2019	2018
		Capitalised liabilities		
-	-	Pension benefits – funded scheme	-	-
164	176	Pension benefits – unfunded scheme	187	175
164	176	Total capitalised liabilities	187	175
		Costs charged to income statement		
3	1	Pension benefits – funded scheme	1	4
14	12	Pension benefits – unfunded scheme	13	14
17	13	Total costs charged to income statement	14	18
		Pension liabilities related to defined benefit pensions		
1,548	1,306	Present value pension liabilities 1 Jan	1,344	1,594
8	7	Pension benefits accrued in the period	8	8
38	29	Interest costs on pension liabilities	29	39
		<i>Effect of recalculation:</i>		
-281	-2	- Change in financial assumptions	-3	-295
34	-4	- Experience gains and losses	-5	41
-41	-45	Payments/redemption from fund	-45	-43
1,306	1,291	Present value pension liabilities 31 Dec	1,328	1,344
1,168	1,143	of which fund-based	1,173	1,200
138	148	of which not fund-based	155	144
		Pension assets		
1,227	1,197	Pension assets 1 Jan	1,225	1,256
32	25	Interest income	25	32
-24	24	Actual return on assets in relation to booked interest income	24	-24
4	5	Employer's NI contributions	5	4
-42	-44	Payments/redemption from fund	-45	-43
1,197	1,206	Pension assets 31 Dec	1,234	1,225
		Net pension liabilities on the balance sheet		
1,306	1,291	Present value pension liabilities 31 Dec	1,328	1,344
1,197	1,206	Pension assets 31 Dec	1,234	1,225
109	85	Net pension liabilities 31 Dec	94	119
29	63	Upper limit for capitalisation of the asset ¹⁾	63	29
26	28	Employer's NI contributions	30	27
164	176	Net pension liabilities on the balance sheet	187	175
		Pension costs for the period		
8	7	Accrued defined benefit-based pensions	8	8
38	29	Interest costs on pension liabilities	29	39
-32	-25	Interest income	-25	-32
14	11	Net defined benefit-based pension costs without employer's NI contributions	12	15
3	2	Accrued employer's NI contributions	2	3
17	13	Net defined benefit-based pension costs recognised through profit or loss	14	18
81	86	Contribution based pension costs and joint AFP scheme	103	98
98	100	Pension costs in the period recognised in the income statement	117	116

¹⁾ The group has overcoverage (the value of the pension funds exceeds the calculated pension liabilities) related to the closed defined benefit pension scheme which has not been capitalised since the overcoverage does not entail financial benefits in the future in the form of reduced premium payments or repayments.

(Note 23 cont.)

Composition of the group's pension assets

	2019	2018
Real estate	-	-
Shares	282	270
Other assets	952	955
Total pension assets	1,234	1,225

Development during the last five years for the group's defined benefit pension plan

	2019	2018	2017	2016	2015
Present value pension liabilities 31 Dec	1,328	1,344	1,594	1,521	1,520
Pension assets 31 Dec	1,234	1,225	1,256	1,204	1,290
Net pension liabilities	94	119	338	317	230

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

	Change in assumption	Effect on pension liabilities	
		Change in liabilities	Change in liabilities
Discount rate	+/- 0.50%	-7.7%	8.7%
Wage growth	+/- 0.50%	0.2%	-0.2%
Pension adjustment	+/- 0.25%	4.2%	-4.0%
Expected lifetime	1 year	4.2 %	-4.2%

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

NOTE 24 TAX (figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
2,597	3,347	Pre-tax profit	3,817	2,892
-694	-1,124	Permanent differences ¹⁾	-1,057	-573
-2	-107	Group contribution	-77	-
986	2,201	Change in temporary differences	2,232	1,062
230	-5	- of which recognised directly against equity	-5	230
3,117	4,312	Tax base/taxable income for the year	4,910	3,611
779	1,078	Of which payable tax	1,228	896
1	27	Tax effect of group contribution	-	-
-304	-550	Change in deferred tax	-549	-300
3	13	Tax payable on hybrid capital booked against equity	13	3
-	1	Excess/insufficient payable tax allocation in previous years	1	-3
479	569	Total tax cost	693	596
		Explanation of why the tax cost for the year is not 25% of the year's pre-tax profit		
649	837	Tax on pre-tax profit	954	723
-174	-281	Tax on permanent differences ¹⁾	-271	-134
-	-1	Change in deferred tax from previous years	-4	-
3	13	Tax payable on hybrid capital booked against equity	13	3
		Effect of change in nominal tax rate	-	5
1	1	Excess/insufficient tax allocation in previous years	1	-1
479	569	Calculated tax cost	693	596
		Deferred tax asset		
-67	-520	- deferred tax asset that reverses in more than 12 months	-564	-95
-19	-	- deferred tax asset that reverses within 12 months	-	-31
-86	-520	Total deferred tax asset	-564	-126
		Deferred tax		
231	115	- deferred tax that reverses in more than 12 months	144	250
1	27	- deferred tax that reverses within 12 months	-	-
232	141	Total deferred tax	144	250
146	-379	Net deferred tax/deferred tax asset	-420	124
		Change in deferred tax		
-271	-525	Year's change in deferred tax on the balance sheet	-544	-269
20	-	Change in deferred tax upon transition to IFRS 9 not recognised through profit or loss	-	28
-	-	Change in deferred tax acquisition	-7	-
5	-26	Change in deferred tax for group contributions on the balance sheet	-	-
-58	1	- of which change not recognised in income statement	2	-59
-304	-550	- of which change recognised in income statement	-549	-300
		Specification of temporary differences		
105	79	Gains and loss account	79	105
473	-1,888	Differences related to financial items	-1,988	367
-77	-	Loans	-2	-78
-164	-176	Pension liabilities	-186	-174
1	10	Accounting provisions	9	49
264	369	Leasing operating equipment	368	264
-20	-16	Tangible fixed assets	41	-29
2	107	Group contribution paid	-	-
-	-	Deficit to carry forward	-2	-18
584	-1,515	Total temporary differences	-1,681	486
25%	25%	Tax rate applied	22% - 25%	22% - 25%

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

NOTE 25 CLASSIFICATION OF FINANCIAL INSTRUMENTS

(Figures in NOK millions)

Group	Financial instruments at fair value through profit or loss			Total
	Recognised at fair value	Financial derivatives as hedging instruments	Financial assets and liabilities assessed at amortised cost	
2019				
Assets				
Cash and receivables from the central bank			104	104
Loans to and receivables from financial institutions			3,142	3,142
Loans to customers	8,948		196,740	205,688
Certificates and bonds	26,269		6,523	32,792
Financial derivatives	3,425	2,508		5,933
Equities, units and other equity interests	920			920
Other assets			1,356	1,356
Total assets	39,562	2,508	207,865	249,935
Liabilities				
Debt to financial institutions			2,264	2,264
Deposits from customers			103,106	103,106
Securities issued ¹⁾			116,164	116,164
Financial derivatives	4,368	162		4,530
Other liabilities				-
Subordinated loan capital ¹⁾			2,125	2,125
Total liabilities	4,368	162	223,659	228,189
2018				
Assets				
Cash and receivables from the central bank			717	717
Loans to and receivables from financial institutions			1,696	1,696
Loans to customers	8,240		182,638	190,878
Certificates and bonds	23,344		5,996	29,340
Financial derivatives	3,439	1,829		5,268
Equities, units and other equity interests	868			868
Other assets			688	688
Total assets	35,891	1,829	191,735	229,455
Liabilities				
Debt to financial institutions			1,433	1,433
Deposits from customers			98,814	98,814
Securities issued ¹⁾			103,485	103,485
Financial derivatives	3,751	138		3,889
Other liabilities				-
Subordinated loan capital ¹⁾			2,951	2,951
Total liabilities	3,751	138	206,683	210,572

¹⁾ Securities and subordinated loans issued contain secured debt.

(Note 25 cont.)

**Information about fair value
Group**

The table below shows financial instruments at fair value according to their valuation method. The different levels are defined as follows:

Listed price in an active market for an identical asset or liability (level 1). Valuation based on observable factors other than listed price (used in level 1) either direct (price) or indirect (deduced from prices) for the asset or liability (level 2). Valuation based on factors not obtained from observable markets (non-observable assumptions) (level 3).

2019	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
Assets				
Loans to customers			8,948	8,948
Certificates and bonds	17,549	8,720		26,269
Financial derivatives		5,933		5,933
Equities, units and other equity interests	438	27	455	920
Liabilities				
Financial derivatives		4,530		4,530

No transfers between levels 1 and 2

2018	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
Assets				
Loans to customers			8,240	8,240
Certificates and bonds	17,210	6,134		23,344
Financial derivatives		5,268		5,268
Equities, units and other equity interests	412	25	431	868
Liabilities				
Financial derivatives		3,889		3,889

No transfers between levels 1 and 2

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

Group 2019	Loans to customers	Equities, units and other equity interests
Balance 1 Jan	8,240	431
Additions	1,996	56
Disposals	-1,205	-80
Transferred from or to measurement according to prices in an active market or observable market data		
Change in value ²⁾	-83	48
Balance 31 Dec	8,948	455
Nominal value/cost price	8,916	277
Fair value adjustment	32	178
Balance 31 Dec	8,948	455
Group 2018		
Balance 1 Jan	7,610	271
Additions	2,814	73
Disposals	-2,122	-2
Transferred from or to measurement according to prices in an active market or observable market data		
Change in value ²⁾	-62	89
Balance 31 Dec	8,240	431
Nominal value/cost price	8,125	302
Fair value adjustment	115	129
Balance 31 Dec	8,240	431

(Note 25 cont.)

SpareBank 1 SR-Bank was a member of Visa Norge FLI. Visa Norge FLI was, as a group member of Visa Europe, also a shareholder in Visa Europe Ltd. In November 2015, an agreement was announced concerning the sale of Visa Europe Ltd to Visa Inc. The transaction will significantly increase the equity in Visa Norge IFS. SpareBank 1 SR-Bank's ownership interest in Visa Norge IFS was, up to 31 December 2017, considered a financial asset in the available for sale category (AFS investment) and therefore had to be recognised at fair value as long as it could be reliably measured. The remuneration consisted of shares in Visa Inc., a cash settlement and a postponed cash payment. On 31 December 2015, the estimated value of the shares resulted in income in other comprehensive income of NOK 95 million.

SpareBank 1 SR-Bank received the cash payment in the second quarter of 2016. This amounted to NOK 94 million, compared with the amount calculated at the end of 2015 of NOK 72 million. The cash settlement was posted as dividends via the income statement in the second quarter of 2016. In the fourth quarter of 2017, a further proportion of shares with a value of NOK 19 million were recognised, where NOK 15 million was recognised through profit or loss. As at 31 December 2017, SpareBank 1 SR-Bank had an ownership item related to a delayed cash payment and shares in Visa Norge totalling NOK 60 million, which was mainly recognised via OCI and which would, after the transition to IFRS 9 on 1 January 2018, not affect the result upon realisation. Following the transition to IFRS 9 on 1 January 2018, the ownership interest in Visa Norge is considered a financial asset measured at fair value with changes through profit or loss. In the second quarter of 2018, Visa Norge FLI was converted into VN Norge AS. The ownership item linked to the delayed cash payment and shares in the former Visa Norge were after this owned via VN Norge AS and Visa Norge Holding AS. The delayed cash payment was received in 2019. As at 31 December 2019, SpareBank 1 SR-Bank still owned shares in VN Norge AS and Visa Norge Holding AS totalling NOK 95 mill kroner.

The transaction in which the SpareBank 1 alliance's mCASH payment solution was merged with Vipps AS was completed in the third quarter of 2017. Following the transaction, SpareBank 1 SR-Bank owns 19.8 % of SpareBank 1 Betaling AS, which in turn owns 22.3% of Vipps AS. The value of the stake provided the basis for the transaction with Vipps AS and the analysis group in SpareBank 1 Gruppen conducted an evaluation of the stake. The evaluation was based on a business case that was produced in connection with the negotiations surrounding Vipps and the expected value of the stake as an independent company. The value

calculated was considered to be almost equal to SpareBank 1 SR-Bank's share of the equity in SpareBank 1 Betaling AS following the transaction, and the group recognised income of NOK 4 million in 2017 due to the transaction. In connection with the merger of Vipps AS, BankAxept AS and BankID Norge AS in the third quarter of 2018, an evaluation was made of the latter two companies. As a consequence of this, SpareBank 1 SR-Bank's recognised book value in SpareBank 1 Betaling AS was written up by NOK 72 million due to the transaction, with the corresponding effect on the pre-tax profit in the second quarter of 2018. SpareBank 1 SR-Bank's 19.8% stake in SpareBank 1 Betaling AS is included in the group as an associated company.

The merger between SpareBank 1 Skadeforsikring AS and DNB Forsikring AS was completed with accounting effect from 1 January 2019, with SpareBank 1 Skadeforsikring AS as the company doing the taking over. SpareBank 1 Gruppen AS owns 65% of the new company and DNB ASA 35%. DNB ASA's increase in its stake in Fremtind Forsikring AS from 20% to 35% increased SpareBank 1 Gruppen's equity at a group level by NOK 4.7 billion. The majority interest's (the SpareBank 1 banks and the Norwegian Confederation of Trade Unions (LO)) share of this increase was around NOK 2,400 million. SpareBank 1 SR-Bank ASA's share of this increase (19.5%) amounted to NOK 460 million and was recognised as income in the first quarter of 2019. On 2 September 2019, Fremtind Forsikring AS was granted permission by the Financial Supervisory Authority of Norway to operate life insurance activities through its wholly-owned subsidiary Fremtind Livsforsikring AS. The individual personal risk insurance cover from SpareBank 1 Forsikring AS and DNB Livsforsikring AS, as well as the personal risk insurance cover paid for by companies, was transferred from SpareBank 1 Forsikring AS to Fremtind Livsforsikring AS on 1 January 2020.

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

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

Group

Fair value of financial instruments at amortised cost (Figures in NOK millions)	Carrying amount		Fair value	
	2019	2019	2018	2018
Assets				
Cash and receivables from the central bank	104	104	717	717
Loans to and receivables from financial institutions	3,142	3,142	1,696	1,696
Loans to customers ¹⁾	196,740	196,740	182,638	182,638
Certificates and bonds ³⁾	6,523	6,511	5,996	6,011
Total assets at amortised cost	206,509	206,497	191,047	191,062
Liabilities				
Debt to financial institutions	2,264	2,264	1,433	1,433
Deposits from customers ¹⁾	103,106	103,106	98,814	98,814
Securities issued ³⁾	116,164	116,453	103,484	103,592
Subordinated loan capital ³⁾	2,125	2,139	2,951	2,835
Total liabilities at amortised cost	223,659	223,962	206,682	206,674

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

²⁾ Changes are recognised in net income from financial instruments.

³⁾ Fair value is mainly determined based on observable prices in an active market.

NOTE 26 CERTIFICATES AND BONDS

(Figures in NOK millions)

Parent bank			Group	
2018	2019	Certificates and bonds	2019	2018
22,694	25,780	Certificates and bonds at fair value	26,269	23,344
5,121	5,655	Certificates and bonds at amortised cost	6,523	5,996
27,815	31,435	Total certificates and bonds	32,792	29,340
		Government		
299	200	Nominal value	200	299
316	209	Book value	209	316
		Other public issuers		
2,292	2,041	Nominal value	2,041	2,292
2,339	2,073	Book value	2,073	2,339
		Covered bonds		
18,767	19,492	Nominal value	20,480	19,756
18,941	19,689	Book value	20,675	19,936
		Other financial enterprises		
5,821	9,113	Nominal value	9,462	6,321
5,984	9,263	Book value	9,627	6,503
		Non-financial enterprises		
249	220	Nominal value	227	266
235	201	Book value	208	246
27,428	31,066	Total certificates and bonds at nominal value	32,410	28,934
27,815	31,435	Total certificates and bonds	32,792	29,340

NOTE 27 FINANCIAL DERIVATIVES

General description:

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

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

When a basis swap is designated as a hedging instrument for hedging a specifically identified loan, changes in the value of the hedging instrument linked to changes in the "basis spread" are recognised through OCI.

As at 31 December 2019, the net fair value of the hedging instruments was NOK 2,346 million (NOK 2,508 million in assets and NOK 162 million in liabilities). The corresponding figures for 2018 were NOK 1,691 million (NOK 1,829 million in assets and NOK 138 million in liabilities). There was no ineffective result for hedging instruments in 2019.

Central clearing and ISDA agreements with CSA supplements regulate the counterparty risk through payments of margins in relation to exposure limits. Such agreements represent a contract sum of NOK 206.7 billion and security of NOK 2,355 million and NOK 2,013 million has been pledged and received as at 31 December 2019. The group has no financial instruments that are booked net.

(Note 27 cont.)

Group

(Figures in NOK millions)

At fair value through profit or loss	2019			2018		
	Contract amount	Fair value Assets	Liabilities	Contract amount	Fair value Assets	Liabilities
Currency instruments						
Currency futures (forwards)	7,341	167	61	7,000	194	101
Currency swaps	23,647	292	562	47,154	1,142	197
Currency swaps (basis swap)	44,781	167	915	28,384	678	175
Currency swaps (basis swap hedging)	7,545	-22	155	2,751	52	-
Total currency instruments	83,314	604	1,693	85,289	2,066	473
Interest rate instruments						
Interest rate swaps	57,453	466	662	51,767	529	887
Other interest rate contracts	43	-	-	72	1	1
Total interest rate instruments	57,496	466	662	51,839	530	888
Interest rate instruments, hedging						
Interest rate swaps	88,447	2,508	162	78,374	1,829	138
Total interest rate instruments, hedging	88,447	2,508	162	78,374	1,829	138
Collateral						
Collateral		2,355	2,013		843	2,390
Total collateral	-	2,355	2,013	-	843	2,390
Total currency instruments	83,314	604	1,693	85,289	2,066	473
Total interest rate instruments	145,943	2,974	824	130,213	2,359	1,026
Total collateral		2,355	2,013		843	2,390
Total currency and interest rate instruments	229,257	5,933	4,530	215,502	5,268	3,889
Counterparty risk:						
Netting agreements		668			1,061	
Taking into account collateral		4,368			3,233	
Total exposure to financial derivatives		897			974	

(Note 27 cont.)

IBOR reform

Reforming and alternatives to IBOR rates have become a priority area for governments around the world in recent years. However, there is uncertainty surrounding which methods will be used for any changes and when they will be introduced. All of SpareBank 1 SR-Bank's interest rate derivatives use IBOR rates as a reference, and may thus be affected by changes. The most important positions are in EURIBOR and NIBOR. The bank is monitoring developments in the market closely, and is participating in several projects to monitor the changes and facilitate any changes. The table below shows nominal amount and weighted average remaining maturity for derivatives in hedging relationships that may be affected by IBOR reform, categorised by the relevant IBOR rate.

Interest rate instruments	Contract amount	Weighted maturity
CIBOR DKK (6 months)	822	6.4
EURIBOR EUR (3 months)	46,567	5.8
EURIBOR EUR (6 months)	611	10.0
LIBOR USD (1 month)	879	3.0
LIBOR USD (3 months)	11,444	3.2
LIBOR USD (6 months)	528	2.3
NIBOR NOK (1 month)	65	7.2
NIBOR NOK (3 months)	35,986	5.5
NIBOR NOK (6 months)	465	6.1
Total interest rate instruments	97,367	

Currency instruments		
EURIBOR EUR (3 months) to LIBOR USD (3 months)	7,356	3.8
EURIBOR EUR (3 months) to NIBOR NOK (3 months)	29,367	5.5
LIBOR USD (3 months) to NIBOR NOK (3 months)	2,137	3.1
LIBOR USD (6 months) to FIXED NOK	266	6.4
Total currency instruments	39,126	

Total exposure to financial derivatives	136,493
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NOTE 28 EQUITIES, UNITS AND OTHER EQUITY INTERESTS

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
		At fair value through profit or loss		
192	234	- Listed	234	192
135	155	- Securities funds	155	135
85	49	- Hybrid capital	49	85
105	126	- Unlisted	482	456
		Total equities, units		
517	564	and other equity interests	920	868

Equities, units and other equity interests are classified as fair value through profit or loss.

(Note 28 cont.)

Investments in equities, units and other equity interests

Parent bank (Amounts in NOK thousands)	Company's share capital	Stake in %	No. of equities/ units	Acquisition cost	Book value/ market value
At fair value through profit or loss					
Sandnes Sparebank	230,149	15.1%	3,485,009	149,476	233,496
Listed companies				149,476	233,496
SR-Bank Kreditt			391	389	406
SR-Bank 80 A			23,753	23,753	27,667
SR-Bank Norge D			19,435	19,435	22,973
SR-Bank 20 A			49,401	49,401	52,096
SR-Bank Verden D			43,557	43,557	52,298
Securities funds				136,535	155,440
Hybrid capital				48,073	49,170
SpareBank 1 Markets	529,221	5.6%	176,341	37,102	20,000
VN Norge AS					94,665
Other unlisted companies				14,702	10,937
Total unlisted companies				51,804	125,602
Total at fair value through profit or loss equities, units and other equity interests				385,888	563,708

Investments in equities, units and other equity interests

Group (Amounts in NOK thousands)	Company's share capital	Stake in %	No. of equities/units	Acquisition cost	Book value/ market value
At fair value through profit or loss					
Listed companies, parent bank				149,476	233,496
Securities funds, parent bank				136,535	155,440
Hybrid capital, parent bank				48,073	49,170
Total unlisted companies, parent bank				51,804	125,602
HitecVision Asset Solutions, L.P.		1.19		24,200	43,715
HitecVision Private Equity IV LP		2.00		22,058	23,866
Offshore Merchant Partners Asset Yield Fund, LP		1.31		39,508	45,089
SR PE-Feeder III KS		36.45		23,878	43,904
SR PE-Feeder IV AS		25.21		11,826	19,348
Optimarin AS		14.75		23,588	23,622
Boost AI AS		13.59		8,333	47,565
Other unlisted companies in subsidiaries				117,940	109,108
Total unlisted in subsidiaries				271,331	356,217
Total unlisted in group				323,135	481,819
Total at fair value through profit or loss equities, units and other equity interests				657,219	919,925

NOTE 29 INTANGIBLE ASSETS

(Figures in NOK millions)

Parent bank					Group			
Research and development	Customer contracts	Goodwill	Total	2019	Total	Goodwill	Customer contracts	Research and development
-	3	-	3	Acquisition cost 1 Jan 2019	105	89	16	-
-	-	-	-	Additions	180	165	6	9
-	-3	-	-3	Disposals	3	-	3	-
-	-	-	-	Acquisition cost 31 Dec 2019	282	254	19	9
-	3	-	3	Accumulated depreciation and impairment 1 Jan 2019	10	-	10	-
-	-3	-	-3	Year's disposals	3	-	3	-
-	-	-	-	Year's depreciation and impairments	2	-	2	-
-	-	-	-	Accumulated depreciation and impairment 31 Dec 2019	9	-	9	-
-	-	-	-	Carrying amount 31 Dec 2019	273	254	10	9
				Distribution of carrying amount				
-	-	-	-	SR-Forvaltning – acquisition of 33.3% of the shares in May 2009	20	20	-	-
-	-	-	-	SpareBank 1 Regnskapshuset SR – acquisition of accounting firm	117	107	10	-
-	-	-	-	Activated R&D costs in subsidiaries	9	-	-	9
-	-	-	-	SpareBank 1 SR-Bank ASA – acquisition of 100% of the shares in Monner AS in 2019	127	127	-	-
-	-	-	-	Carrying amount 31 Dec 2019	273	254	10	9
				2018				
-	3	-	3	Acquisition cost 1 Jan 2018	104	88	16	-
-	-	-	-	Additions	1	1	-	-
-	-	-	-	Disposals	-	-	-	-
-	3	-	3	Acquisition cost 31 Dec 2018	105	89	16	-
-	3	-	3	Accumulated depreciation and impairments 1 Jan 2018	8	-	8	-
-	-	-	-	Year's disposals	-	-	-	-
-	-	-	-	Year's depreciation and impairments	2	-	2	-
-	3	-	3	Accumulated depreciation and impairments 31 Dec 2018	10	-	10	-
-	-	-	-	Carrying amount 31 Dec 2018	95	89	6	-
				Distribution of carrying amount				
-	-	-	-	SR-Forvaltning – acquisition of 33.3% of the shares in May 2009	20	20	-	-
-	-	-	-	SpareBank 1 Regnskapshuset SR – acquisition of accounting firm	75	69	6	-
-	-	-	-	Carrying amount 31 Dec 2018	95	89	6	-

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

In 2019, SpareBank 1 SR-Bank increased goodwill on the balance sheet due to the acquisition of Agder Økonomi AS and Monner AS. The total purchase price exceeds identifiable assets less debt. The total purchase price amounts to NOK 174 million and the table below shows the goodwill added in 2019 due to the acquisitions.

Cost price	174	174	-	-
Assets and liabilities identified as :				
Customer contracts	6	6	-	-
Trade receivables	7	7	-	-
Bank deposits	15	15	-	-
Liabilities	-19	-19	-	-
Total	9	9	-	-
Goodwill added	165	165	-	-

NOTE 30 TANGIBLE FIXED ASSETS

(Figures in NOK millions)

Parent bank					Group		
Buildings and real estate	Machinery, fixtures, and vehicles	Total	2019	Total	Machinery, fixtures, and vehicles	Buildings and real estate ¹⁾	
146	723	869	Acquisition cost 1 Jan 2019	1,456	830	626	
24	104	128	Additions	384	117	267	
27	317	344	Disposals ²⁾	343	316	27	
143	510	653	Acquisition cost 31 Dec 2019	1,497	631	866	
63	503	566	Accumulated depreciation and impairment 1 Jan 2019	657	590	67	
2	72	74	Year's depreciation	87	79	8	
-	-	-	Year's impairments	8	-	8	
27	315	342	Year's disposals ²⁾	342	315	27	
38	260	298	Accumulated depreciation and impairment 31 Dec 2019	410	354	56	
105	250	355	Carrying amount 31 Dec 2019	1,087	276	810	
244			Fair value³⁾			1,042	
2018							
246	646	892	Acquisition cost 1 Jan 2018	1,214	740	474	
2	82	84	Additions	349	95	254	
102	5	107	Disposals ²⁾	107	5	102	
146	723	869	Acquisition cost 31 Dec 2018	1,456	830	626	
120	443	563	Accumulated depreciation and impairments 1 Jan 2018	642	520	122	
2	64	66	Year's depreciation	72	68	4	
-	-	-	Year's impairments	6	6	-	
59	4	63	Year's disposals ²⁾	63	4	59	
63	503	566	Accumulated depreciation and impairments 31 Dec 2018	657	590	67	
83	220	303	Carrying amount 31 Dec 2018	798	239	559	
248			Fair value			406	

¹⁾ Construction costs of NOK 197 million related to the new Finansparken Bjergsted were included in additions to buildings and real estate in the group in 2018. The carrying amount for 2018 includes construction costs for Finansparken Bjergsted in the amount of NOK 429 million. The fair value in 2018 is exclusive of the new Finansparken Bjergsted.

²⁾ Included in the year's disposals for 2019 is NOK 342 million related to decommissioned operating assets. The corresponding figure for 2018 was NOK 233 million.

³⁾ Finansparken Bjergsted was completed in 2019, and is included at its construction cost at fair value. Fair values of other buildings are determined by appraisal.

Collateral

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

Reassessments/depreciation

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

Buildings and real estate

Of the total book value of buildings and real estate NOK 785 million is for use in the banking business. The fair value of buildings is determined by appraisal.

NOTE 31 LEASE RIGHTS AND LEASE LIABILITIES

(Figures in NOK millions)

On 1 January 2019, the SpareBank 1 SR-Bank Group introduced the new IFRS 16 standard for leases. Pursuant to IFRS 16, lessees must capitalise a right-to-use asset and a lease liability for each of their leases, with a few practical exceptions:

SpareBank 1 SR-Bank has taken advantage of the following practical exceptions:

- exception for low value assets
- exception for short-term leases (12 months and shorter)
- omitting including components that are not leases

Leases are identified based on the following criteria:

- identifiable asset
- right to receive all the financial benefits from the use of a specific asset during the lease period
- right to control the use of the asset

The group chose a simplified application of IFRS 16 upon implementation on 1 January 2019. This involves no restatement of comparable figures for 2018. On the transition date, the lease liability is measured at the present value of the outstanding lease payments, discounted by a marginal loan rate on the date of transition. An implicit interest rate is used for leased vehicles when recognising the lease liability. The right-of-use asset is recognised at the same value as the lease liability as at 1 January 2019. Agreements with less than 12 months to run from the transition data are not capitalised.

Measurement and recognition

The lease liability is measured as the present value of the agreed lease payments. The lease period represents the period that cannot be cancelled. In addition to this, extension options are included in the lease period if it is reasonably safe to assume that the option will be exercised. The same applies if there is an option to shorten the lease period and it is reasonably safe that the option will not be exercised.

In subsequent measurements, the lease liability is measured at amortised cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from changes in an index, or if the bank changes its assessment of whether it will exercise extension or termination options. When the lease liability is remeasured in this way, a corresponding adjustment of the capitalised right-of-use asset is made, or the change is recognised through profit or loss if the

recognised value of the right-of-use asset has been reduced to zero.

Lease payments in the measurement consist of fixed lease payments and variable leases based on interest rates or indices on the startup date. In addition to this, costs incurred by early termination of the lease must be included in the lease payments if it is reasonably certain that early termination will take place. Likewise, the price for exercising any purchase option must be included if it is reasonably safe to assume that the option will be exercised.

The right-of-use asset is measured as the lease liability plus any paid advance lease payment, direct acquisition costs and provisions for costs upon returning the property to the landlord. Provisions for costs upon returning the property must be recognised as a separate liability on the balance sheet and not be included in the lease liability. In subsequent periods, the right-of-use asset is measured using an acquisition model.

When calculating the lease liability, options that are expected to be exercised are taken into account and options that are not expected to be exercised are excluded.

The short-term or low value agreements not included in the IFRS 16 calculation amounted to NOK 14 million in annual rent.

Recognition and discount rate

IFRS 16 refers to two different methods for determining the discount rate for lease payments:

- implicit interest rate
- the lessee's marginal loan rate if the implicit interest rate cannot be easily determined

The group uses implicit interest rate calculations for leased vehicles. For all other leases it uses the marginal loan rate. The marginal loan rate is defined as the interest rate a lessee in a similar environment would have to pay to borrow, over a similar period and with equivalent security, and an amount necessary to acquire property with a value equivalent to the right-of-use asset.

The group's leases mainly consist of leases for buildings with different terms and option structures. When calculating a lease liability, extension options are included in the lease period since it is highly probable that the option will be exercised.

(Note 31 cont.)

Accounting effects

Total liabilities and right-of-use assets on 1 January 2019 shown below, divided into the following two categories (in NOK millions):

Parent bank		Group
1 Jan 2019	Balance sheet	1 Jan 2019
3	Lease liabilities and right-of-use assets for vehicles	3
290	Lease liabilities and right-of-use assets for offices	387
293	Carrying amount	390

Parent bank			Group	
1 Jan 2019	2019		2019	1 Jan 2019
		Balance sheet		
293	682	Lease rights	398	390
293	688	Liabilities associated with lease rights	395	390
		Income Statement		
	32	Amortisation of lease rights	39	
	12	Interest on lease rights liabilities	14	
	44	Total costs pursuant to IFRS 16	53	
		Effects of IFRS 16		
	38	Reduction in operating costs pursuant to IAS 17	48	
	44	Increase in costs pursuant to IFRS 16	53	
	-6	Changes to pre-tax profit	-5	
		Lease rights		
293	293	Lease rights	390	390
	421	Additions in the period	47	
	32	Depreciation	39	
293	682	Lease rights	398	390
		Liabilities associated with lease rights		
293	293	Liabilities related to lease rights	390	390
	421	Additions in the period	37	
	-38	Instalments in the period	-46	
	12	Interest rate	14	
293	688	Liabilities associated with lease rights	395	390

NOTE 32 OTHER ASSETS

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
6	15	Income earned but not received	24	15
33	18	Prepaid costs	50	43
1	3	Over funding of pension liabilities	3	1
200	200	Paid in capital SR-Bank Pension Fund	200	200
1	93	Unsettled trades	93	1
90	244	Other assets	588	428
	682	Lease rights (note ³³)	398	
331	1,255	Total other assets	1,356	688

NOTE 33 DEPOSITS FROM CUSTOMERS

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
81,968	85,465	Deposits from and liabilities to customers, at call	85,264	81,681
17,151	17,858	Deposits from and liabilities to customers with agreed maturity	17,842	17,133
99,119	103,323	Total deposits from customer	103,106	98,814
		Deposits by sector and industry		
485	269	Fishing/fish farming	269	485
1,176	1,195	Industry	1,195	1,176
1,173	1,206	Agriculture/forestry	1,206	1,173
9,951	11,808	Service sector	11,591	9,646
2,289	2,538	Wholesale and retail trade, hotels and restaurants	2,538	2,289
1,169	1,331	Energy, oil and gas	1,331	1,169
1,534	1,779	Building and construction	1,779	1,534
492	550	Power and water supply	550	492
6,862	6,517	Real estate	6,517	6,862
2,203	2,265	Shipping and other transport	2,265	2,203
26,135	25,490	Public sector and financial services	25,490	26,135
53,469	54,948	Total industry	54,731	53,164
45,650	48,375	Retail market	48,375	45,650
99,119	103,323	Total deposits by sector and industry	103,106	98,814
		Deposits by geographic area		
71,706	73,526	Rogaland	73,309	71,401
8,027	8,962	Agder	8,962	8,027
11,398	11,649	Vestland	11,649	11,398
3,335	5,479	Oslo/Viken	5,479	3,335
1,669	1,856	International	1,856	1,669
2,984	1,851	Other	1,851	2,984
99,119	103,323	Total deposits by geographic area	103,106	98,814

NOTE 34 SECURITIES ISSUED

(Figures in NOK millions)

Parent bank				Group		
NOK	Currency	Total		Total	Currency	NOK
-	2,431	2,431	Other long-term borrowing	2,431	2,431	-
19,500	32,326	51,826	Bond debt ¹⁾	113,733	77,213	36,520
19,500	34,757	54,257	Total securities issued	116,164	79,644	36,520

Maturity date of securities issued						
NOK	Currency	Total	Maturity	Total	Currency	NOK
2,408	6,850	9,258	2020	19,166	11,755	7,411
4,770	8,246	13,016	2021	20,455	15,685	4,770
4,312	5,019	9,331	2022	19,522	10,197	9,325
3,478	1,447	4,925	2023	15,892	7,407	8,485
3,365	7,604	10,969	2024	16,024	12,659	3,365
1,167	361	1,528	2025	9,265	8,098	1,167
-	102	102	2026	5,006	5,006	-
-	5,128	5,128	2027 and maturity after	10,834	8,837	1,997
19,500	34,757	54,257	Total securities issued	116,164	79,644	36,520

¹⁾ Own certificates and bonds have been deducted.

Group	Balance sheet 31 Dec 2019	Issued 2019	Matured/ redeemed 2019	Exchange rate and other changes 2019	Balance sheet 31 Dec 2018
Change in securities issued					
Other long-term borrowing, nominal value	2,424	-	-	4	2,420
Bonds and certificates, nominal value	111,138	24,823	-12,455	-292	99,062
Value adjustments and accrued interest	2,602			599	2,003
Total securities issued	116,164	24,823	-12,455	311	103,485

NOTE 35 OTHER DEBT AND OTHER LIABILITIES

(Figures in NOK millions)

Parent bank				Group	
2018	2019	Other liabilities		2019	2018
164	176	Pension liabilities (note ²³⁾)		187	175
107	130	Impairments on financial liabilities		130	107
121	109	Accounts payable		134	129
43	37	Tax deducted		52	60
-	91	Unsettled trades		91	-
	688	Liabilities associated with lease rights (note ³¹⁾)		395	
149	189	Other liabilities		211	167
70	78	Accrued holiday pay		108	97
92	195	Other accrued costs		336	149
746	1,693	Total other liabilities		1,644	884
		Security pledged			
16,214	16,312	Securities prepared for pledges of security in Norges Bank		16,312	16,214
-	900	Security pledged year end		900	-

Ongoing legal disputes

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

NOTE 36 RESTRICTED FUNDS

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
43	37	Tax deducted	52	60
43	37	Total restricted funds	52	60

NOTE 37 SUBORDINATED LOAN CAPITAL

(Figures in NOK millions)

Parent bank							Group	
2018	2019	Principal		Terms	Maturity	First due date	2019	2018
Non-perpetual								
703	703	700	NOK	3-month NIBOR + 1.45% p.a.	2029	2024	703	703
628	629	625	NOK	3-month NIBOR + 1.52% p.a.	2028	-	629	628
300	300	300	NOK	3-month NIBOR + 1.45% p.a.	2028	2023	300	300
498	493	50	EUR	6 month Euribor + 1.725% p.a.	2030	.	493	498
2,129	2,125	Total non-perpetual					2,125	2,129
Hybrid tier 1 capital								
706	-	684	NOK	9.35% per annum until 9 Dec 2019, thereafter 3-month NIBOR + 5.75% per annum		2019	-	706
116	-	116	NOK	3-month NIBOR + 4.75% per annum until 9 Dec 2019, thereafter NIBOR + 5.75% per annum		2019	-	116
822	-	Total hybrid tier 1 capital					-	822
2,951	2,125	Total subordinated loan capital					2,125	2,951

Subordinated loan capital and hybrid tier 1 capital in foreign currencies are included in the group's total currency position so that there is no currency risk associated with the loans. Of a total of NOK 2,125 million in subordinated loan capital, NOK 2,097 million counts as term subordinated loan capital. Capitalised costs associated with borrowing are reflected in the calculation of amortised cost.

Change in debt raised by issuing of subordinated loans/tier 1 capital instrument loans ¹⁾	Balance 31 Dec 2019	Issued/sale own 2019	Matured/redeemed 2019	Exchange rate and other changes 2019	Balance 31 Dec 2018
Dated subordinated loan capital, nominal value	2,118			-4	2,122
Hybrid tier 1 capital instruments, nominal value	-		-800		800
Value adjustments and interest	7			-22	29
Total subordinated loan capital and hybrid tier 1 capital loans	2,125	-	-800	-26	2,951

¹⁾ This note is identical for the parent bank.

NOTE 38 INVESTMENTS IN OWNERSHIP INTERESTS

Subsidiaries, associated companies and joint ventures

Company	Acquisition date	Business office	Ownership interest in % ¹⁾
Investments in subsidiaries			
Shares held by the parent bank			
EiendomsMegler 1 SR-Eiendom	1990	Stavanger	100.00
SR-Forvaltning	2001	Stavanger	100.00
FinStart Nordic Group	2005	Oslo	100.00
SpareBank 1 Regnskapshuset SR	2015	Stavanger	100.00
Finansparken Bjergsted	2014	Stavanger	100.00
Rygir Industrier Group	2012	Stavanger	100.00
SR-Boligkreditt	2015	Stavanger	100.00
Bjergsted Terrasse	2019	Stavanger	100.00
Monner	2019	Oslo	100.00
Shares owned by subsidiaries			
Jærmegleren	2007	Stavanger	100.00
Beaufort Solutions	2019	Oslo	100.00
Investments in associated companies			
SpareBank 1 Boligkreditt	2005	Stavanger	2.21
SpareBank 1 Næringskreditt	2009	Stavanger	15.63
BN Bank	2008	Trondheim	35.02
SpareBank 1 Kredittkort	2012	Trondheim	17.83
SpareBank 1 Betaling	2015	Oslo	19.77
SMB Lab	2018	Trondheim	20.00
Investments in associated companies in the FinStart Nordic Group			
Vester	2018	Oslo	42.80
Kapp Securities	2018	Oslo	42.90
Investments in joint ventures			
SpareBank 1 Gruppen	1996	Oslo	19.50
SpareBank 1 Utvikling	2004	Oslo	18.00

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

(Note 38 cont.)

Subsidiaries

Shares in subsidiaries parent bank

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

(Amounts in NOK thousands)

2019	Company's share capital	Ownership interest in %	No. of shares	Nominal value	Assets	Liabilities	Total income	Total costs	Company's profit for the year	Book value
SR-Boligkreditt	6,000,000	100.00	6,000,000	6,000,000	77,930,579	71,473,830	584,403	3,316	454,505	6,000,150
Total investments in credit institutions				6,000,000	77,930,579	71,473,830	584,403	3,316	454,505	6,000,150
EiendomsMegler 1 SR-Eiendom	1,500	100.00	150	1,500	175,378	107,930	398,921	392,907	4,519	97,205
FinStart Nordic Group	67,000	100.00	6,700	67,000	503,116	62,733	56,678	29,468	28,375	340,725
SR-Forvaltning	6,000	100.00	6,000	6,000	62,640	20,009	62,801	37,368	18,933	29,018
SpareBank 1 Regnskapshuset SR	1,300	100.00	13,000	1,300	199,739	63,650	133,323	122,636	7,510	120,125
Rygir Industrier Group	14,400	100.00	90,000	14,400	253,265	129,112	-7,745	12,123	-17,384	131,050
Finansparken Bjergsted	76,000	100.00	8,000	76,000	756,304	303,804	-85	4,108	-3,340	433,016
Bjergsted Terrasse	3,000	100.00	3,000,000	3,000	49,685	38,823	12,022	2,522	7,604	3,000
Monner	30,056	100.00	3,005,646,926	30,056	80,967	12,445	1,403	8,303	3,859	160,820
Total other investments				199,256	2,081,094	738,506	657,318	609,435	50,076	1,314,959
Total investments in subsidiaries parent bank				6,199,256	80,011,673	72,212,336	1,241,721	612,751	504,581	7,315,109
2018										
SR-Boligkreditt	5,000,000	100.00	5,000,000	5,000,000	64,864,971	59,577,727	381,337	3,857	288,381	5,000,150
Total investments in credit institutions				5,000,000	64,864,971	59,577,727	381,337	3,857	288,381	5,000,150
EiendomsMegler 1 SR-Eiendom	1,500	100.00	150	1,500	155,329	85,764	384,827	374,058	7,923	97,205
FinStart Nordic	67,000	100.00	6,700	67,000	390,917	8,159	70,202	10,696	53,554	340,725
SR-Forvaltning	6,000	100.00	6,000	6,000	71,738	23,365	63,775	29,088	26,012	29,018
SpareBank 1 Regnskapshuset SR	900	100.00	9,000	900	113,138	24,555	104,427	100,252	3,121	80,125
Rygir Industrier Group	14,400	100.00	90,000	14,400	267,897	124,360	-2,348	15,532	-16,602	144,490
Finansparken Bjergsted	76,000	100.00	8,000	76,000	586,729	154,289	-1,596	366	-1,540	433,016
Bjergsted Terrasse	3,000	100.00	3,000,000	3,000	45,406	36,648	10,026	2,293	5,758	3,000
Total other investments				168,800	1,631,154	457,140	629,313	532,285	78,226	1,127,579
Total investments in subsidiaries parent bank				5,168,800	66,496,125	60,034,867	1,010,650	536,142	366,607	6,127,729

(Note 38 cont.)

Investments in associated companies and joint ventures

(Figures in NOK millions)

Parent bank			Group	
2018	2019		2019	2018
2,363	2,099	Carrying amount 1 Jan	3,713	3,953
-338	237	Additions/disposals	280	-328
74	-	Recognised value adjustments SpareBank 1 Betaling (note 25)	-	72
-	-	Equity changes	10	-3
-	-	Share of profit/loss	875	366
-	-	Dividend paid	-698	-347
2,099	2,336	Carrying amount 31 Dec	4,180	3,713
-	-	Share of profit from SpareBank 1 Gruppen	712	289
-	-	Share of profit from SpareBank 1 Boligkreditt	6	-3
-	-	Share of profit from SpareBank 1 Næringskreditt	12	9
-	-	Share of profit from BN Bank	109	65
-	-	Profit share from SpareBank 1 Utvikling	-2	-
-	-	Share of profit from Samarbeidende Sparebanker Bankinvest	-	2
-	-	Share of profit from SpareBank 1 Kredittkort	13	23
-	-	Share of profit from SMB Lab	-	-2
-	-	Share of profit from SpareBank 1 Betaling	3	-17
-	-	Profit share in the FinStart Nordic Group	22	-
287	663	Dividend from SpareBank 1 Gruppen		
10	-	Dividend from SpareBank 1 Boligkreditt		
11	9	Dividend from SpareBank 1 Næringskreditt		
39	26	Share of profit from SpareBank 1 Kredittkort		
347	698	Total income	875	366

Investments in all the companies are assessed using the cost method in the parent bank and the equity method in the group.

Investments in joint ventures and associated companies in the group as at 31 December 2019 include goodwill amounting to NOK 67 million (2018: NOK 23 million).

The group's ownership interests in associated companies and joint ventures

(Figures in NOK millions)

2019		Assets	Liabilities	Income	Costs	Profit or loss	Book value 31 Dec	Stake in %	No. of shares
SpareBank 1 Gruppen	Oslo	18,244	16,124	5,032	4,727	712	1,674	19.50	381,498
SpareBank 1 Utvikling	Oslo	194	167	247	246	-2	27	18.00	
SpareBank 1 Boligkreditt	Stavanger	5,428	5,157	13	2	6	248	2.21	1,679,661
BN Bank	Trondheim	11,177	9,673	265	100	109	1,469	35.02	4,943,072
SpareBank 1 Næringskreditt	Stavanger	1,784	1,456	17	2	12	330	15.63	2,537,657
SpareBank 1 Kredittkort	Trondheim	1,037	855	98	47	13	182	17.83	514,974
SpareBank 1 Betaling	Oslo	153	1	-11	-	3	153	19.77	3,661,853
SMB Lab	Trondheim	14	-	1	1	-	15	20.00	20,000
Other investments						22	82		
Total		38,031	33,433	5,662	5,125	875	4,180		
2018									
SpareBank 1 Gruppen	Oslo	14,700	13,100	2,675	2,405	289	1,623	19.50	381,498
SpareBank 1 Banksamarbeidet	Oslo	209	180	223	220	-	29	18.00	
SpareBank 1 Boligkreditt	Stavanger	11,810	11,252	3	2	-3	501	4.81	3,461,175
BN Bank	Trondheim	6,820	5,814	155	64	65	882	23.50	3,317,338
SpareBank 1 Næringskreditt	Stavanger	1,926	1,626	11	1	9	301	14.41	2,340,021
Samarbeidene Sparebanker Bankinvest	Oslo	25	3	2		2	22	3.27	354
SpareBank 1 Kredittkort	Trondheim	1,063	870	101	46	23	193	17.87	516,048
SpareBank 1 Betaling	Oslo	130	-	-11	-	-17	130	19.77	3,292,715
SMB Lab	Trondheim	19	2	-	3	-2	17	20.00	20,000
Other investments							15		
Total		36,702	32,847	3,159	2,741	366	3,713		

NOTE 39 MATERIAL TRANSACTIONS WITH CLOSE ASSOCIATES

(Figures in NOK millions)

Close associates means associated companies, joint ventures and subsidiaries and people close to executive personnel and members of the board. The bank's outstanding balances with executive personnel and members of the board are shown in note 21.

Subsidiaries	Loans 31 Dec	Deposits 31 Dec	Receiv- ables	Lia- bilities	Interest income	Interest costs	Comm- issions	Other operating income	Operating costs
2019									
EiendomsMegler 1	-	15	-	-	5	3	5	2	1
SR-Management	-	53	-	-	-	1	32	1	-
FinStart Nordic	32	-	-	-	1	-	-	-	-
Regnskapshuset SR	-	27	-	-	-	-	-	-	7
SR-Boligkreditt ¹⁾	8,752	283	763	2,878	96	15	44	-	-
Rygir Industrier Group	88	34	-	-	3	-	1	-	-
Finansparken Bjergsted	240	51	399	401	5	2	-	-	4
Bjergsted Terrasse	-	7	32	-	-	-	-	-	12
Monner	-	24	-	-	-	-	-	-	-
Total subsidiaries	9,112	494	1,194	3,279	110	21	82	3	24

¹⁾ Transferred loans, sold NOK 40,100 million and bought NOK 1,000 million.

2018	Loans 31 Dec	Deposits 31 Dec	Receiv- ables	Lia- bilities	Interest income	Interest costs	Comm- issions	Other operating income	Operating costs
EiendomsMegler 1	-	18	-	-	2	3	-	2	-
SR-Forvaltning	-	62	-	-	-	1	34	1	-
FinStart Nordic	-	26	-	-	1	-	-	-	-
Regnskapshuset SR	-	19	-	-	-	-	-	-	5
SR-Boligkreditt ¹⁾	3,440	1,768	722	2,345	23	12	34	-	-
Rygir Industrier Group	87	26	-	-	3	-	-	-	-
Finansparken Bjergsted	150	153	-	-	3	1	-	-	-
Bjergsted Terrasse	-	-	30	-	-	-	-	-	10
Total subsidiaries	3,677	2,072	752	2,345	32	17	68	3	15

¹⁾ Transferred loans, sold NOK 37,586 million and bought NOK 2,323 million.

Associated companies and joint ventures

	Loans 31 Dec	Deposits 31 Dec	Interest income	Interest costs	Comm- issions	Other operating income	Operating costs
2019							
SpareBank 1 Gruppen	292	-	20	-	276	-	7
SpareBank 1 Utvikling	-	-	-	-	-	-	207
SpareBank 1 Boligkreditt ²⁾	-	667	-	6	33	-	-
SpareBank 1 Næringskreditt	-	87	-	2	-	-	-
SpareBank 1 Kredittkort	878	-	29	-	55	-	-
Total associated companies and joint ventures	1,170	754	49	8	364	-	214

²⁾ Transferred loans, sold NOK 1,560 million and bought NOK 4,670 million.

2018	Loans 31 Dec	Deposits 31 Dec	Interest income	Interest costs	Comm- issions	Other operating income	Operating costs
SpareBank 1 Gruppen	1,342	-	30	-	278	-	-
SpareBank 1 Banksamarbeidet	-	-	-	-	-	-	186
SpareBank 1 Boligkreditt ²⁾	-	735	-	3	85	-	-
SpareBank 1 Næringskreditt	-	358	-	3	3	-	-
Samarbeidende Sparebanker Bankinvest	3	-	-	-	-	-	-
SpareBank 1 Kredittkort	878	-	25	-	55	-	-
Total associated companies and joint ventures	2,223	1,093	55	6	421	-	186

²⁾ Transferred loans, sold NOK 3,606 million and bought NOK 5,270 million.

(Note 39 cont.)

Transactions with close associates of the group executive management team¹⁾

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

Transactions with close associates of the board¹⁾

2019 (Figures in NOK thousands)	Loans 31 Dec ²⁾	Interest income	Other operating income
Birthe Cecilie Lepsøe	772,644	17,762	-

¹⁾ Including transactions with close associates and companies in which close associates are key personnel.

²⁾ Inclusive of loan limits, derivatives and guarantees.

NOTE 40 SHARE CAPITAL AND OWNERSHIP STRUCTURE

Share capital

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

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

Besides the share capital, the equity consists of the share premium reserve, hybrid capital and other equity.

Dividend policy

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

Trading in own shares in 2019

(Figures in NOK thousands)

	No. of equities	Nominal value
Holding as at 31 Dec 2018	85,206	2,130
Traded in 2019	6,105	153
Holding as at 31 Dec 2019	91,311	2,283

(Note 40 cont.)

20 largest shareholders as at 31 December 2019

Shareholder	of shares	% ratio
Sparebankstiftelsen SR-Bank	72,419,305	28.3%
National Insurance Scheme Fund	19,650,845	7.7%
State Street Bank and Trust Co, USA	14,306,844	5.6%
SpareBank 1-stiftinga Kvinnherad	6,226,583	2.4%
Vpf Nordea Norge Verdi	3,873,936	1.5%
Danske Invest Norske Instit. II	3,843,345	1.5%
Odin Norge	3,241,248	1.3%
J.P. Morgan Chase Bank N.A., USA	2,898,345	1.1%
Morgan Stanley & Co Int, UK	2,699,201	1.1%
Pareto Aksje Norge	2,406,025	0.9%
Clipper AS	2,211,000	0.9%
Verdipapirfondet Alfred Berg Gambak	1,991,707	0.8%
KLP Aksjenorge Index	1,874,547	0.7%
Arctic Funds plc, Ireland	1,794,087	0.7%
Verdipapirfondet DNB Norge	1,750,049	0.7%
Verdipapirfondet Alfred Berg Norge	1,741,511	0.7%
State Street Bank and Trust Co, USA	1,703,706	0.7%
Norwegian Armed Forces' Personnel Service	1,599,656	0.6%
Danske Invest Norske Aksjer Inst.	1,596,703	0.6%
J.P. Morgan Bank Luxembourg S.A.	1,587,834	0.6%
Total 20 largest	149,416,477	58.4%
Other shareholders	106,334,605	41.6%
Shares issued	255,751,082	100.0%

The total number of shareholders as at 31 December 2019 was 11,321. This is 517 more than at year end 2018. The proportion of shares held by shareholders residing in Rogaland, Agder and Vestland was 42.9%, and the proportion held by foreign shareholders was 27.9%. Please also see the overview of shareholders on the board and supervisory board. For more information about SpareBank 1 SR-Bank's share please refer to the special section in the annual report.

20 largest shareholders as at 31 December 2018

Shareholder	of shares	% ratio
Sparebankstiftelsen SR-Bank	72,419,305	28.3%
National Insurance Scheme Fund	18,930,821	7.4%
State Street Bank and Trust Co, USA	10,346,404	4.0%
SpareBank 1-stiftinga Kvinnherad	6,226,583	2.4%
Vpf Nordea Norge Verdi	4,632,927	1.8%
Danske Invest Norske Instit. II	3,695,998	1.4%
State Street Bank and Trust Co, USA	3,508,462	1.4%
Odin Norge	3,406,393	1.3%
J.P. Morgan Chase Bank N.A., USA	2,870,383	1.1%
Clipper AS	2,565,000	1.0%
Verdipapirfondet DNB Norge (IV)	2,485,463	1.0%
Pareto Aksje Norge	2,428,097	0.9%
JP Morgan Securities plc, U.K.	2,407,452	0.9%
Morgan Stanley & Co, U.K.	2,035,347	0.8%
Danske Invest Norske Aksjer Inst.	1,988,503	0.8%
State Street Bank and Trust Co, USA	1,871,400	0.7%
Verdipapirfondet Alfred Berg Gambak	1,867,194	0.7%
Westco AS	1,701,887	0.7%
KLP Aksjenorge Index	1,696,119	0.7%
KAS Bank NV, The Netherlands	1,624,251	0.6%
Total 20 largest	148,707,989	58.1%
Other shareholders	107,043,093	41.9%
Shares issued	255,751,082	100.0%

The total number of shareholders as at 31 December 2018 was 10,804. This is 30 fewer than at year end 2017. The proportion of shares held by shareholders residing in Rogaland, Hordaland and the Agder counties was 43.5%, and the proportion held by foreign shareholders was 26.6%. Please also see the overview of shareholders on the board and supervisory board. For more information about SpareBank 1 SR-Bank's share, please refer to the special section in the annual report.

Hybrid capital

(Figures in NOK millions)

Group ¹⁾

	Principal		Terms	Maturity	First maturity date	2019	2018
Hybrid capital	150	NOK	3-month NIBOR + 3.20%	No due date	2022	150	150
Hybrid capital	400	NOK	3-month NIBOR + 3.50%	No due date	2023	400	400
Hybrid capital	450	NOK	3-month NIBOR + 3.50%	No due date	2024	450	
Hybrid capital	250	NOK	3-month NIBOR + 3.35%	No due date	2024	250	
Hybrid capital	600	NOK	3-month NIBOR + 3.25%	No due date	2025	600	
Total hybrid capital						1,850	550

	Balance sheet 31 Dec 2019	Issued 2019	Matured/redeemed 2019	Exchange rate and other changes 2019	Balance sheet 31 Dec 2018
Change of hybrid capital					
Hybrid capital	1,850	1,300	-	-	550

¹⁾ This note is identical for the parent bank

NOTE 41 EVENTS AFTER THE BALANCE SHEET DATE

No material events have been registered after 31 December 2019 that affect the annual financial statements as prepared.

The proposed dividend is NOK 5.50 per share and will total NOK 1,407 million.



To the General Meeting of Sparebank 1 SR-Bank ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebank 1 SR-Bank ASA, which comprise:

- The financial statements of the parent company Sparebank 1 SR-Bank ASA (the Company), which comprise the balance sheet as at 31 December 2019, the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Sparebank 1 SR-Bank ASA and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2019, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
 - The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
 - The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
-

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The company's business activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or events that qualified as new Key Audit Matters. Our areas of focus are therefore unchanged from 2018.

Key Audit Matter	How our audit addressed the Key Audit Matter
------------------	--

Valuation of loans to customers

Loans to customers represents a considerable part of the Group’s total assets. The bank’s procedures and control systems related to credit rating and their monitoring process are central to the valuation of loans. The framework is complex and includes a considerable volume of data and judgemental parameters.

The use of estimates may affect profit before tax. Estimates may also affect the compliance with the Capital Requirements Regulation due to the risk classification of loans. We focused on this area due to the significance of the impairment considerations for the value of loans in the financial statements, and the fact that the use of judgement has a potential to affect the profit for the period. Furthermore there is an inherent risk of errors because of the complexity and quantity of data involved in the modelling.

Assessment of write down is based on a model based framework including elements that require management to use their best estimate. The framework is complex and includes significant amount of data and judgemental parameters.

IFRS 9 took effect on 1 January 2018. The most significant change compared to the previous regime is the fact that the impairment model now is based on expected credit losses rather than incurred losses.

The use of models to determine expected credit losses entails judgement, specifically with respect to:

- classification of the various credit portfolios by risk and asset type;
- identification of impaired loans or loans presenting a significant increase in credit risk;

We addressed and tested controls related to valuation of loans to customers. The objective of these controls are to identify whether loans have objective evidence of impairment, and how the impairment losses should be calculated when objective evidence exists. We concluded that we could rely on these controls in our audit.

Throughout 2019, we held meetings with the credit and legal department in the bank. The financial statement show that total non-performing and impaired loans are at a somewhat lower level compared to last year. In these meetings, we challenged the bank’s assessments, including possible impairment indicators on loans where there is not yet objective evidence that impairment exists. This included loans that were assessed by the bank and loans selected based on industry, size, risk and haphazardly. We assured that the bank had particular attention on loans in the petroleum related industry. For loans where objective evidence exists, we challenged the bank and examined the relevance and the reasonableness of the assumptions and the method used in the calculation of realisable value. Our procedures indicate that the bank’s assumptions and methods were reasonable.

Our audit also includes tests aimed towards the company’s financial reporting systems which are relevant to the financial reporting. The company utilizes external service providers to operate some of its central core IT systems. We have utilized auditor of the external service organizations to assess and evaluate the design and effectiveness of such controls, and to test established controls to ensure the integrity of the IT systems relevant for financial reporting. In this regard, the above mentioned auditor have submitted an ISAE 3402 type 2 report. The auditor’s testing included, among other things, the assessment of whether key calculation made by the core systems were in line with expectations, including the evaluation of interest rate calculations and amortization. The tests also included data integrity, as was modifications and changes in access and restricted access to the systems. To determine whether we could use the information received by the other auditors as a basis for our assessments, we assured the auditor’s competence and objectivity and reviewed the reports sent and considered possible nonconformities and measures. We also carried out tests ourselves towards



- how the loans are categorised in stages;
- the use of parameters such as the probability of default and loss given default and scenarios.

According to accounting standards, the bank shall assess, at the end of each reporting period, whether there is objective evidence that impairment exists for the loans. If there are, the losses should be calculated as the residual of the book value less the present value of future cash flows. Both assessments involve significant judgements.

In our audit, we gave special attention to:

- Managements' process to identify loans with objective evidence that impairment exists.
- Managements' process to monitor engagements that are particularly exposed due to the decline in the petroleum related industry.
- Management's assumptions used in calculating the impairment amount for loans where impairment exists.

Refer to note 6, 8, 10, 11, 12, 13 and 14 in the annual report for a description of the group's credit risk and managements process related to impairment of loans to customers and assumptions for valuation.

access controls to IT systems and segregation of duties where necessary for the sake of our own specific audit procedures. Our assessments and tests support our assumption that data handled and calculations made by the company's external core system were reliable. This was a necessary basis for our audit.

We performed credit assessments for a sample of loans, where we evaluated whether objective evidence for impairment losses exist. We also assessed the realisable value the bank had calculated. These values are calculated by using internal and external appraisals. The financial statement show that the loan loss provision ratios is somewhat increased this year. The loan-loss provision ratio is defined as individual write-downs in percent of non-performing and impaired loans. The results of our testing of individual impairment losses show that management had used reasonable assumptions in the calculation of the impairment amounts.

For loans considered on a collective basis the calculation is based on a framework model. We tested the model and considered the relevance and the reasonableness of important assumptions used in the calculation.

As for the internal control environment, we obtained a detailed understanding of the processes and tested the controls associated with:

- the calculation and methodologies used;
- whether the Management-approved internal models worked as intended;
- the reliability of the sources of the data used for calculation purposes;

Our testing of the internal controls did not give any indication of material misstatements in the model or non-compliance with IFRS. The financial statement show that the loan-loss provision ratio, measured as collective impairment losses in percent of gross loans, is stable compared to last year. The level of collective losses were among other things compared to other comparable banks and analysed towards the bank's other loan portfolio. We concluded that the assumptions used in the calculation of the impairment amounts were reasonable.

We satisfied ourselves that disclosures regarding valuation of loans and guarantees, appropriately describes risks in the portfolio, and that the disclosures



are in accordance with the requirements.

Completeness and valuation of derivatives

Derivatives consist mainly of interest- and currency instruments. The bank uses derivatives to reduce interest and exchange risk related to fixed-rate funding and loans to customers, bonds (assets and liabilities) and certificates (assets and liabilities). The bank has also a significant trade of derivatives on behalf of customers. There is a risk of errors in the financial statements if derivatives are not accurately registered in the banks systems.

Derivatives are measured at fair value, and the valuation techniques depends partly on management judgement as described in note 28. The use of assumptions (interest rates and credit spread) can therefore potentially affect the income statement.

Refer to notes 2, 3, 6, 15, 16, 21 and 26 for a more complete description of the Groups risk governance and use of derivatives.

The bank has established processes and controls to ensure accurate registration and measurement of derivative contracts.

We tested the bank's control over the entering into and closing of derivative contracts, including the registration in the banks systems. Our audit also includes tests to ensure that the bank reconciles transactions with counterparties on a daily basis. Furthermore, we have tested the banks methodology and controls regarding pricing models. We concluded that we could rely on these controls in our audit.

Interest and exchange curves were on a daily basis fed into the bank's portfolio system as basis for pricing of derivatives. We tested the pricing by recalculating the pricing of different derivatives by using the same interest and exchange curves as the bank. We compared these prices to external sources. The result of our testing show that management used reasonable assumptions when calculating the fair value of the derivatives.

We satisfied ourselves that disclosures regarding derivatives were appropriate.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

(4)



In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 5 March 2020
PricewaterhouseCoopers AS

Torbjørn Larsen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Statement by the Board of Directors and Chief Executive Officer


We hereby confirm that the financial statements for the period 1 January to 31 December 2019 have, to the best of our knowledge, been prepared pursuant to applicable accounting standards, and that the information provided presents a true and fair picture of the company's and the group's assets, liabilities, financial positions and profit as a whole.

We also confirm that the board of directors' report provides a true and fair presentation of the performance, result and position of the company and group, together with a description of the most important risk and uncertainty factors that the company and the group face.

Stavanger, 5 March 2020



Dag Mejdell
Chair of the board



Kate Henriksen



Tor Dahle



Birthe Cecilie Lepsøe



Therese Log Bergjord



Jan Skogseth



Sally Lund-Andersen
Employee representative



Kristian Kristensen
Employee representative



Arne Austreid
Chief Executive Officer

GRI Index SpareBank 1 SR-Bank

GENERAL INFORMATION

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
Organisational profile			
102-1	Name of the organisation		SpareBank 1 SR-Bank
102-2	Most important brands, products and/or services	SpareBank 1 SR-Bank (8)	
102-3	Location of the organisation's head office		Stavanger
102-4	Number of countries in which the organisation operates		Norway
102-5	Ownership and legal form of business organisation	SpareBank 1 SR-Bank (8, 9)	
102-6	Description of the markets served by the organisation	SpareBank 1 SR-Bank (8)	
102-7	Size and scope of the organisation	SpareBank 1 SR-Bank (8) Employees (12) Annual financial statements (56, 57)	
102-8	Total number of employees by type of employment, employment contract and region, broken down by gender	Employees (14)	
102-9	Description of the organisation's supply chain	Report of the Board of Directors (48, 49)	
102-10	Significant changes during the reporting period regarding the size, structure or ownership		No major changes
102-11	Description of whether and how the precautionary principle is used within the organisation		SR-Bank is a member of the Global Compact and thus has committed to practising the "precautionary principle".
102-12	External initiatives, charters or principles in the financial, environmental or social area that the organisation supports or has acceded to	Sustainability (20, 21, 29, 30)	UN Global Compact, UNEP Finance Initiative, Responsible Ship Recycling standard, PRI
102-13	Membership in industry organisations or other associations, and national/international lobby organisations	Sustainability (20, 21, 29, 30)	UN Global Compact, UNEP Finance Initiative, Responsible Ship Recycling standard, PRI, Finance Norway
Strategy and analysis			
102-14	Statement from the CEO	A good basis for profitable growth throughout Southern Norway (6, 7)	
Ethics and integrity			
102-16	The organisation's values, principles, standards and norms of behaviour	Sustainability (25)	
Governance			
102-18	The organisation's management structure, including the highest authority and committees who are responsible for decision-making on financial, environmental and social topics	SpareBank 1 SR-Bank (11)	

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
Stakeholder engagement			
102-40	Stakeholder groups that the organisation is in dialogue with	Sustainability (22, 23, 24)	
102-41	Percentage of employees who are covered by collective bargaining agreements		62% of employees are members of a trade union 92% of employees covered by collective bargaining agreements (Regnskapshuset SR and Monner AS are not included in the figures)
102-42	Description of how the organisation chooses relevant stakeholders	Sustainability (22)	
102-43	Approach to stakeholder engagement, including frequency of engagement by type and stakeholder group	Sustainability (22, 23, 24, 25)	
102-44	Important topics and questions raised through stakeholder dialogue and the organisation's response	Sustainability (22, 23, 24, 25)	
Practices for reporting			
102-45	Overview of all the units that are encompassed by the organisation's annual financial statements or similar documents	Annual financial statements (61, 62)	
102-46	Description of the process for defining the report's content and limitations, as well as the implementation of the reporting principles	Annual Report (2), Sustainability (22, 25)	
102-47	List of all the topics that have been identified as material		<ul style="list-style-type: none"> - Financial crime - Ethics and anti-corruption - Data protection and information security - Negative screening - Guidelines for responsible credit
102-48	Change of historical data from earlier reports		None
102-49	Significant changes from the previous report with regard to the scope of the content, limitation of the report or the measurement methods		The indicators 404-1, 203-1, 308-1 and 417-1 are not reported on for 2019
102-50	Reporting period		1 January 2019 - 31 December 2019
102-51	Date of publication for the previous report		25 March 2019
102-52	Reporting frequency		Annually
102-53	Contact person for questions about the report or its content		Thor-Christian Haugland
102-54	Reporting level	Sustainability (31)	<i>This report has been prepared in accordance with the GRI Standards: core option</i>
102-55	GRI Index		Annual Report 2019, p. 133
102-56	Current practices for external verification of the reporting		The report is verified by PWC

SPECIFIC INFORMATION

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
Financial performance			
103-1	Description and limitation of material topic(s)	Sustainability, Climate risk (30, 31)	See GRI 102-47
103-2	Description of the management system that covers material topic(s)	Report of the Board of Directors (50) Sustainability, Climate risk (30, 31)	
103-3	Evaluation of the management system	Corporate governance (39)	
201-1	Direct financial value created and distributed	Annual financial statements (56)	
201-2	Financial implications, risks and opportunities due to climate change	Sustainability, Climate risk (30, 31)	
Indirect financial impacts			
103-1	Description and limitation of material topic(s)	Sustainability (21)	See GRI 102-47
103-2	Description of the management system that covers material topic(s)	Sustainability (20, 21, 22)	
103-3	Evaluation of the management system	Sustainability (20, 21, 22)	
203-2	Significant, indirect financial impacts of the organisation's operations	Sustainability (21)	
Ethics and anti-corruption			
103-1	Description and limitation of material topic(s)	Sustainability, Ethics and anti-corruption (25, 26)	
103-2	Description of the management system that covers material topic(s)	Sustainability, Ethics and anti-corruption (25, 26)	
103-3	Evaluation of the management system	Sustainability, Ethics and anti-corruption (25, 26)	
205-2	Communication and training about anti-corruption policies	Sustainability, Ethics and anti-corruption (25, 26)	
205-3	Confirmed incidents of corruption and corrective actions	Sustainability, Ethics and anti-corruption (26)	No registered cases of corruption
Energy			
103-1	Description and limitation of material topic(s)	Sustainability, Environmental responsibility in own operations (27, 28)	
103-2	Description of the management system that covers material topic(s)	Sustainability, Environmental responsibility in own operations (27, 28)	
103-3	Evaluation of the management system	Sustainability, Environmental responsibility in own operations (27, 28)	
305-1	Direct greenhouse gas emissions Scope 1	Sustainability, Environmental responsibility in own operations (28)	
305-2	Indirect greenhouse gas emissions Scope 2	Sustainability, Environmental responsibility in own operations (28)	
305-3	Other indirect greenhouse gas emissions Scope 3	Sustainability, Environmental responsibility in own operations (28)	

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
Supplier environmental assessment			
103-1	Description and limitation of material topic(s)	Sustainability, Sustainable purchasing (28)	
103-2	Description of the management system that covers material topic(s)	Sustainability, Sustainable purchasing (28)	
103-3	Evaluation of the management system	Sustainability, Sustainable purchasing (28)	
308-2	Significant actual and potential negative environmental impacts of work practices in the supply chain and actions taken.	Sustainability, Sustainable purchasing (28)	Partially reported. Reports on SpareBank 1 Utvikling's suppliers.
Training and education			
103-1	Description and limitation of material topic(s)	Employees (12, 13)	
103-2	Description of the management system that covers material topic(s)	Employees (12, 13)	
103-3	Evaluation of the management system	Employees (12, 13)	
404-2	Programmes for personal development and lifelong learning that develop the employee's value in the labour market	Employees (12)	
404-3	Percentage of employees who receive regular performance and career development reviews	Employees (12)	
Diversity and equality			
103-1	Description and limitation of material topic(s)	Employees (12, 13)	
103-2	Description of the management system that covers material topic(s)	Employees (12, 13)	
103-3	Evaluation of the management system	Employees (12, 13)	
405-1	Diversity of governance bodies and in different employee categories	Employees (14)	
405-2	Pay differences between men and women	Employees (14)	
Supplier social assessment			
103-1	Description and limitation of material topic(s)	Sustainability, Sustainable purchasing (28)	
103-2	Description of the management system that covers material topic(s)	Sustainability, Sustainable purchasing (28)	
103-3	Evaluation of the management system	Sustainability, Sustainable purchasing (28)	
414-2	Significant actual and potential negative social impacts in the supply chain and actions taken	Sustainability, Sustainable purchasing (28)	Partially reported. Reports on SpareBank 1 Utvikling's suppliers.
Responsible marketing of products and services			
103-1	Description and limitation of material topic(s)	Sustainability, Responsible information, communication and marketing (27)	
103-2	Description of the management system that covers material topic(s)	Sustainability, Responsible information, communication and marketing (27)	
103-3	Evaluation of the management system	Sustainability, Responsible information, communication and marketing (27)	
417-2	Incidents of non-compliance concerning product and service information and labelling	Sustainability, Responsible information, communication and marketing (27)	
417-3	Incidents of non-compliance concerning marketing communications	Sustainability, Responsible information, communication and marketing (27)	

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
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Data protection and information security

103-1	Description and limitation of material topic(s)	Sustainability, Data protection and information security (26, 27)	
103-2	Description of the management system that covers material topic(s)	Sustainability, Data protection and information security (26, 27)	
103-3	Evaluation of the management system	Sustainability, Data protection and information security (26, 27)	
418-1	Number of documented complaints related to breaches of privacy or losses of customer data	Sustainability, Data protection and information security (26, 27)	

Responsible credit

103-1	Description and limitation of material topic(s)	Sustainability, Responsible credit (29)	
103-2	Description of the management system that covers material topic(s)	Sustainability, Responsible credit (29)	
103-3	Evaluation of the management system	Sustainability, Responsible credit (29)	
FS8	Monetary value of products and services designed to deliver a specific environmental benefit	Sustainability, Green products and green innovation (29)	

Responsible investments and requirements for financial suppliers

103-1	Description and limitation of material topic(s)	Sustainability Responsible asset management (30)	
103-2	Description of the management system that covers material topic(s)	Sustainability Responsible asset management (30)	
103-3	Evaluation of the management system	Sustainability Responsible asset management (30)	
FS10	Percentage and number of companies held in the organisation's portfolio with which the reporting organisation has interacted on environmental or social issues.	Sustainability Responsible asset management (30)	
FS11	Percentage of assets subject to positive and negative environmental or social screening	Sustainability Responsible asset management (30)	

KEY FIGURES LAST 5 YEARS

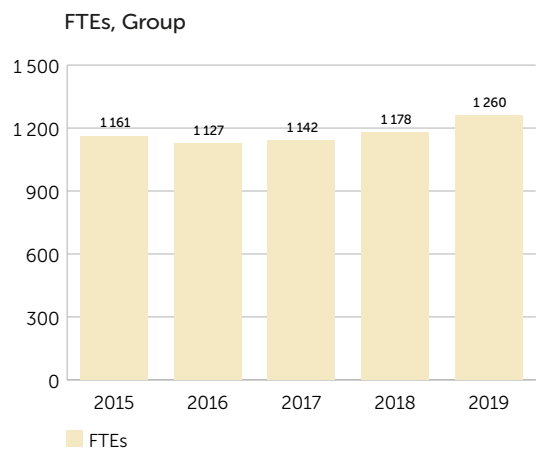
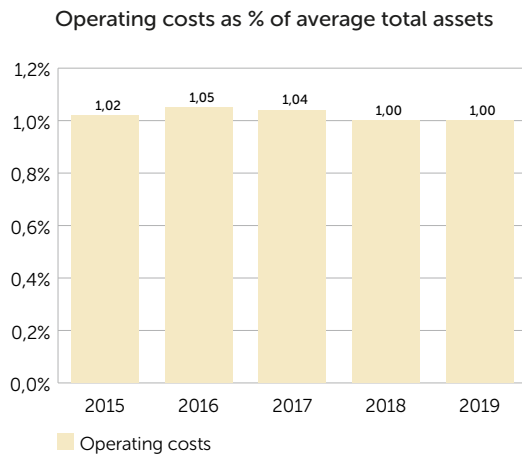
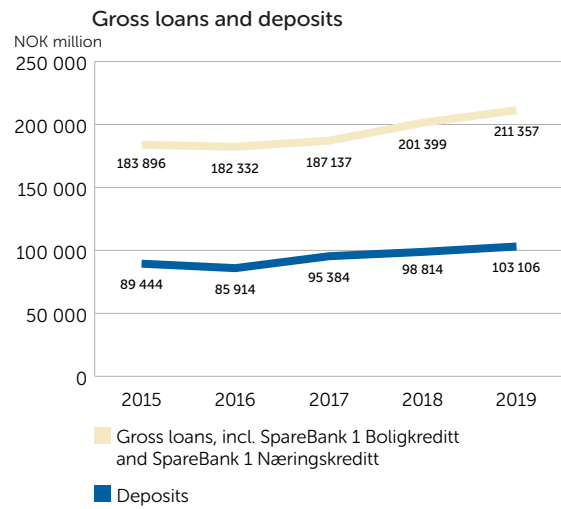
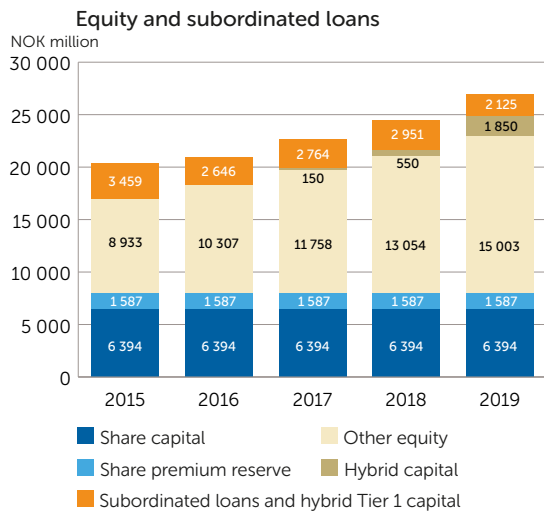
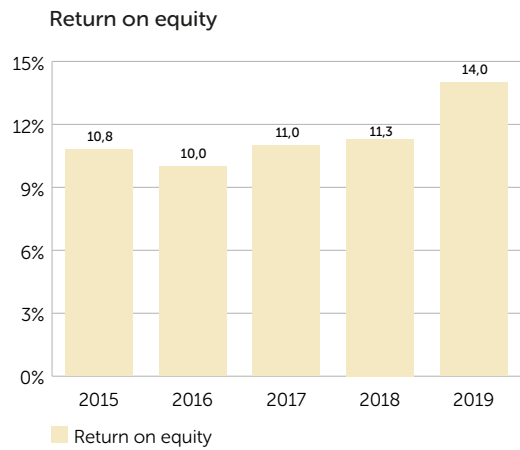
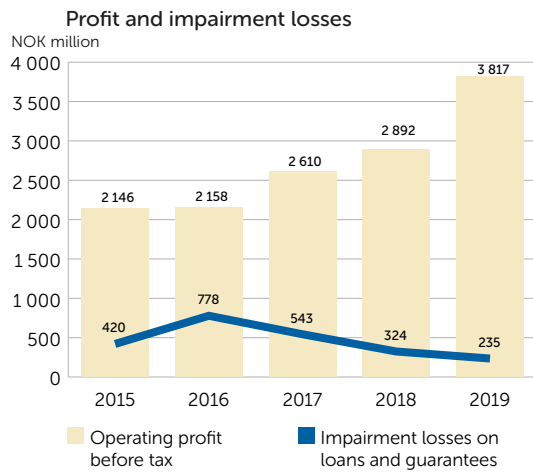
(Figures in NOK millions)

SpareBank 1 SR-Bank Group	2019	2018	2017	2016	2015
Summary of results					
Net interest income	3,987	3,439	3,162	2,871	2,593
Net commissions and other operating income	1,416	1,437	1,524	1,443	1,532
Net income from financial investments	1,127	569	634	654	304
Total net income	6,530	5,445	5,320	4,968	4,429
Total operating costs	2,478	2,229	2,167	2,032	1,863
Operating profit before impairments	4,052	3,216	3,153	2,936	2,566
Impairments on loans and financial liabilities	235	324	543	778	420
Pre-tax profit	3,817	2,892	2,610	2,158	2,146
Tax cost	693	596	524	403	400
Net profit for the year	3,124	2,296	2,086	1,755	1,746
Balance Sheet figures					
Lending to retail market	124,392	113,879	104,299	91,171	87,229
Lending to retail market, incl. SB1 Boligkreditt	128,635	122,756	118,413	115,348	115,397
Lending to corporate market	83,061	78,725	67,883	66,497	66,705
Lending to corporate market, incl. SB1 Næringskreditt	83,061	79,142	68,352	67,014	67,243
Retail market deposits	48,375	45,650	44,258	42,908	42,101
Corporate market deposits ¹⁾	54,731	53,164	51,126	43,000	47,341
Lending growth in retail market, excl. SB1 Boligkreditt %	9.2	9.2	14.4	4.5	12.3
Lending growth in corporate market, excl. SB1 Næringskreditt %	5.5	16.0	2.1	-0.3	6.1
Percentage growth in retail market deposits	6.0	3.1	3.1	1.9	6.5
Percentage growth in corporate market deposits ¹⁾	2.9	4.0	18.9	-9.2	12.9
Total assets	255,895	234,061	216,618	193,408	192,049
Average total assets	247,923	223,838	207,562	194,264	182,768
Impairments on loans and loans in Stage 3²⁾					
Impairments as a % of gross loans	0.12	0.18	0.33	0.50	0.28
incl. loans SB1 Boligkreditt and SB1 Næringskreditt	0.11	0.17	0.29	0.42	0.23
Loans in Stage 3 as a % of gross loans	1.56	1.53			
incl. loans SB1 Boligkreditt and SB1 Næringskreditt	1.53	1.46			
Non-performing commitments as a % of gross loans			0.32	0.68	0.55
incl. loans SB1 Boligkreditt and SB1 Næringskreditt			0.30	0.59	0.46
Other impaired commitments as a % of gross loans			0.91	0.72	0.35
incl. loans SB1 Boligkreditt and SB1 Næringskreditt			0.83	0.62	0.30
Equity					
Share capital	6,394	6,394	6,394	6,394	6,394
Share premium reserve	1,587	1,587	1,587	1,587	1,587
Other equity	15,003	13,054	11,758	10,307	8,933
Hybrid capital	1,850	550	150		
Total equity	24,834	21,585	19,889	18,288	16,914
Profitability, financial strength and staffing					
Return on equity %	14.0	11.3	11.0	10.0	10.8
Cost/income ratio	37.9	40.9	40.7	40.9	42.1
Operating costs as a % of average total assets	1.00	1.00	1.04	1.05	1.02
Average interest margin	1.61	1.54	1.52	1.48	1.42
Common equity tier 1 capital ratio ³⁾	16.96	14.72	15.05	14.70	13.26
Tier 1 capital ratio ³⁾	18.58	15.85	16.04	15.63	14.17
Capital ratio ³⁾	20.42	17.60	17.88	17.52	16.73
No. of FTEs	1,260	1,178	1,142	1,127	1,161

¹⁾ From 2019 includes deposits corporate market net consolidated accounts currency. The historical figures have been correspondingly restated.

²⁾ Loans and financial liabilities in Stage 3 as a % of gross loans. Figures prior to 1 January 2018 are total non-performing and impaired commitments pursuant to IAS 39 as a % of gross loans.

³⁾ Historical capital ratio figures in the group are based on the capital adequacy rules and regulations as at 31 December 2018, when the so-called Basel I floor applied.





Our aim is to
stimulate growth and
development

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