Pilar III

2015

SpareBank 1 NORD-NORGE

Financial information

Contents

1. Introduction

This document describes SpareBank 1 Nord-Norge's risk and capital management. It describes the key risk areas and explains how the risks are measured, monitored and managed. The document is intended to satisfy the requirements for disclosing risk information pursuant to Part IX of the Capital Requirements Regulations.

Financial groups are subject to a comprehensive set of rules which define the framework within which Norwegian banks can operate. The Board of Directors bears the ultimate responsibility for governance of the Group. The Board sets the Group's goals and strategies and defines the terms for the Group's risk and capital management.

One of the key terms within risk and capital management is capital adequacy. This is a measure of financial strength, and says something about the level of loss-absorbing capital in relation to the bank's exposures. The capital adequacy regulations are based on three pillars. Pillar 1 defines how the capital requirement is calculated, and the criteria for meeting the capital requirement. Pillar 2 describes the Group's responsibility for assessing other types of risk than those for which capital requirements are calculated under Pillar 1. Pillar 3 covers the requirements for disclosing risk information pursuant to Part IX of the Capital Requirements Regulations. Overall, the capital adequacy framework with their three pillars are an accurate reflection of the finance group's risk exposure, so they are a key concept within risk and capital management.

Strategic goals and limits, and the Group's risk appetite, define the overarching principles for risk and capital management. Target attainment and compliance with these issues and the regulatory requirements are crucial to the Group's total risk situation, financial strength and target attainment.

2. Important events in 2015

- Trond Hanssen was appointed as the new executive officer of the Finnmark region in January.
- Karl-Eirik Schjøtt-Pedersen was elected as the new chairman of the Group Board of Directors at the end of March.
- The Group was granted authorisation to use the advanced IRB method for undertakings from the first quarter.
- On the 1st of May, the SpareBank 1 Alliance became the new main sponsor of the Norwegian national ski team.
- Ronni Møller Pettersen was appointed to the position of executive officer for sales and customer relations in December.
- The Group successfully completed a staff reduction in line with the Group's modernization strategy, with around 150 staff accepting severance packages.
- A new mobile bank was launched in December 2015.
- The Bank sold its stake in North West 1 Alliance Bank in Q4/2015.

For more detailed comments on these events, refer to the Annual Report, particularly the sections on 'Important events in 2015' and 'Report of the Board of Directors'

3 Changes in framework conditions

A number of new rules were proposed and/or introduced in the financial markets area in 2015, and a considerable amount of regulatory work is still being done in this area, both internationally and in Norway. The following areas were subject to new or revised regulations:

- Regulations for new loans secured by mortgages, which entered into force on 1 July 2015.
- Solvency II introduced for Norwegian and European insurance companies from 1 January 2016.
- A new Act on Financial Undertakings, which enters into force from 1 January 2016.
- At the request of the Ministry of Finance, the financial supervisory authority of Norway - Finanstilsynet, has proposed introducing new liquidity requirements for banks and mortgage companies.
- The Norwegian Banking Law Commission is preparing new rules for crisis management in line with the EU's regulations in this area.
- A number of legislative commissions were appointed in 2015, addressing areas such as securities, accounting, and money laundering.

In the wake of the international financial crisis in 2008, the EU decided to strengthen the financial sector's supervisory structure. In January 2011, the new European financial supervisory system was established with an overarching macro authority, the ESRB (European Systemic Risk Board), and sector authorities in the shape of the EBA (European Banking Authority), ESMA (European Securities and Markets Authority), and EIOPA (European Insurance and Pensions Authority). The regulations that established these new financial supervisory authorities have EEA relevance.

Capital requirements – Pillar 1

The Norwegian capital adequacy regulations have been adapted to conform to the EU Capital Requirements Directive (CRD IV) and Regulation (CRR). New capital adequacy requirements were made law in 2013 with special requirements for phasing in new buffer requirements. It follows from the law that banks and financial undertakings must, as a minimum, have core tier 1 capital, common equity tier 1 capital and regulatory capital of 4.5, 6 and 8 per cent of the risk-weighted basis for calculation. Undertakings must also have a capital conservation buffer of 2.5 per cent, a systemic risk buffer of 3 per cent, and a countercyclical buffer of between 0 and 2.5 per cent.

Financial institutions defined as "Systemically important" by the authorities must also have a buffer of 1 per cent from 1 July 2015, and 2 per cent from 1 July 2016. The buffer requirements must be met by core tier 1 capital. The countercyclical buffer requirement is set by the Ministry of Finance each quarter. In December 2013, the Ministry of Finance set an initial countercyclical buffer requirement of 1 per cent with effect from 30 June 2015. In June 2015, it was decided that the countercyclical buffer requirement should be raised to 1.5 per cent from 30 June 2016.

Each year, the Ministry of Finance must decide which financial institutions should be regarded as systemically important in Norway. In June 2014, it was decided that DNB ASA, Nordea Bank Norge ASA and Kommunalbanken AS should be regarded as systemically important undertakings required by law to satisfy a special buffer requirement. In June 2015, the Ministry of Finance announced that the same three undertakings would continue to be regarded as systemically important.

Liquidity requirements

EU rules include two quantitative liquidity requirements: the 'liquidity coverage ratio' (LCR) and the 'net stable funding ratio' (NSFR).

On 25/11/2015, the Ministry of Finance adopted new rules on quantitative requirements for liquidity reserves (LCR) for banks. The rules match new requirements for liquidity reserves in CRD IV, the EU capital adequacy framework. The LCR requirement means that an undertaking must at all times have a liquidity reserve of at least 100 per cent; in other words, the holding of liquid assets must be at least equal to the net liquidity outflow in a given stress period of 30 calendar days. The liquidity reserve requirement will be phased in, with 70 per cent to be in place from 31 December 2015, 80 per cent from 31 December 2016, and 100 per cent from 31 December 2017 onwards. The rules state that the LCR requirement only applies at the total level, which means that it does not have to be met specifically in NOK.

Finanstilsynet also suggested postponing the introduction of the minimum requirement for NSFR in Norway until the EU has finally decided on the formulation of the indicator and whether or not a minimum requirement should be introduced. Once the final formulation of NSFR has been decided by the EU, Finanstilsynet believes the indicator should be introduced as a minimum requirement of 100 per cent for the systemically important undertakings. Until NSFR is introduced in Norway, Finanstilsynet will continue to use liquidity indicator 1 to monitor the undertakings' long-term funding.

Leverage ratio requirement

In 2011, responding to the financial crisis in 2008, the Basel Committee suggested introducing a tier 1 leverage ratio as a supplementary capital target for capital adequacy based on the risk-weighted basis for calculation. The proposal assumes a minimum requirement of 3 per cent. A test period was proposed, from 2013 to 2017, during which the level and formulation would be assessed in more detail. The EU followed up by introducing requirements in CRD IV for calculating the tier 1 leverage ratio, with the aim of introducing minimum requirements for the ratio from 2018.

In autumn 2014, the Ministry of Finance asked Finanstilsynet to consider when and how a leverage ratio requirement should be implemented in Norway. In a letter dated 26 June 2015, the Authority recommended that no national minimum requirement should be set for a leverage ratio before the regulations in the EU were known. The letter states that Finanstilsynet will continue to attach great importance to common equity tier 1 capital and leverage ratio when assessing Norwegian banks' financial strength – including through Pillar 2.

Norwegian banks are subject to a significantly higher tier 1 leverage ratio than the minimum requirement of 3 per cent that the Basel Committee originally recommended, and higher than the average for European banks. The core tier 1 leverage ratio for Norwegian banks is, nevertheless, not especially high from a historical perspective. In the opinion of Finanstilsynet, Norwegian banks should, in general, further increase their leverage ratio.

Pillar 2

CRD IV specifies requirements for self-assessments of risk and capital needs (the Internal Capital Adequacy Assessment Process – ICAAP) and requirements for assessments by supervisory authorities (Supervisory Review and Evaluation Process – SREP). The supervisory authorities can stipulate requirements for changes to operations or capital in excess of the minimum requirements (Pillar 2 requirements). The requirements in the Directive were implemented in the Norwegian Financial Institutions Act. From 1 January 2016, the provisions will be replaced by equivalent provisions in the new Act on Financial Undertakings and Financial Groups. The Securities Trading Act contains corresponding provisions for securities undertakings. SREP has been practised very differently in different European countries. In December 2014, the EBA therefore issued a recommendation with a view to harmonising practices.

Finanstilsynet has told the EBA that it intends to comply. This was followed up in circular 9/2015, in which Finanstilsynet presented its new practice for assessing risk and capital needs.

According to CRD IV, it is up to each country to decide whether or not the supervisory authority's Pillar 2 requirements should be published. In autumn 2014, the Ministry of Finance asked Finanstilsynet to consider whether or not it would be appropriate to publish the Authority's Pillar 2 requirements for individual institutions. In a letter dated 26 June 2015, Finanstilsynet pointed out that from a supervisory viewpoint, publication would weaken Pillar 2 as a tool for supervision. While Pillar 1 is based on clear calculation rules such that the requirement is automatically adjusted when exposure changes, the assessment of capital needs in Pillar 2 is based on a large degree of discretion. The SREP feedback is part of Finanstilsynet's dialogue with the undertaking, where the assessment of its capitalisation is just one of the topics, and is based on the situation at a given point in time.

Finanstilsynet is aiming to produce public information about methods and practices for Pillar 2, including publishing benchmarks for some types of risk. This will contribute to greater insight into the basis for Pillar 2 assessments. When new methods for SREP are adopted, Finanstilsynet will also assess whether or not aggregated figures (for the industry as a whole) should be published for the supervisory authorities' assessment of capital needs in Pillar 2. Finanstilsynet notes that more attention is being paid to international harmonisation and that there is a stronger desire from the market to publish Pillar 2 requirements. The letter of 26 June 2015 states that Finanstilsynet is prepared for changes to the content and process for Pillar 2. Finanstilsynet recommends that Norway monitor the process in the EU and assess adjustments to the limits for Pillar 2 in light of international developments.

Framework for crisis management

The EU Crisis Management Directive entered into force on 1 January 2015. The purpose of the Directive is to give banks, other financial institutions, and the authorities a tool for preventing and managing crises at an early stage. The Directive provides that all banks must prepare recovery plans containing specific and feasible measures for managing financial crisis situations. The plans must be approved by the national supervisory authorities. National crisis management authorities must prepare resolution plans for financial institutions with their head office in their home country.

One important purpose of the Directive is to limit the costs to taxpayers that result from a crisis in an undertaking, and to prevent a crisis in a systemically important undertaking from threatening financial stability. The Directive emphasises that the shareholders and creditors must bear their share of the costs when an undertaking is in crisis. The Directive specifies that undertakings must have a minimum level of regulatory capital and eligible liabilities that can be written down or converted to equity (be the object of a 'bail in') when a bank is in crisis. Deposits covered by deposit guarantee schemes must normally be shielded from losses. Some types of liability are exempt from 'bail in'.

The Norwegian Banking Law Commission has been tasked with assessing draft legal provisions which implement expected EEA rules corresponding to the Crisis Management Directive in Norwegian law, including presenting proposals for the nomination of the crisis management authority. Although the EU Crisis Management Directive has not been implemented in Norwegian law, the motives behind the requirement for recovery plans suggest that Norwegian banks should also prepare them. The largest Norwegian banks were asked to submit recovery plans to Finanstilsynet by year-end 2015.

New rules for the accounting treatment of losses

A new standard for the treatment of losses may be of special significance for the banks. In July 2014, the IASB (International Accounting Standards Board) completed a new standard, IFRS 9, which includes a new model for writing down loans. The standard will apply from 2018. In the case of European companies (including listed Norwegian undertakings), using the standard will become compulsory from the same date, assuming that it is incorporated as a directive in the EU.

According to the current accounting rules, a loan may only be written down where there is objective evidence of a loss event. A debtor experiencing significant financial difficulties is one such example of a loss event. The new standard entails requirements for loss provisions for new and 'healthy' loans as well, in that write-downs have to be raised for expected credit losses resulting from expected default in the next twelve months. In the case of loans where the credit risk has increased significantly after establishment, any expected credit losses must be written down over the term of the loan. The changed principle is expected to result in higher loss provisions.

Part 1: Risk and capital management

4 Capital adequacy

As mentioned in the introduction, capital adequacy is a key element of the Group's risk and capital management.

Capital adequacy:

$$\frac{Tier\ 1\ capital + Tier\ 2\ capital}{Risk\ weighted\ assets\ (Credit\ risk + Market\ risk + Operational\ risk)}$$

The calculations underlying capital adequacy are governed by the capital adequacy legislation, the models the Group is authorised to use, and central risk and capital management processes in the Group. Each individual exposure is given a risk weighting which is multiplied by the EAD. The sum of all weighted exposures (the basis for calculation) forms the denominator in the capital adequacy fraction.

The basis for calculation multiplied by the capital requirement is a measure of how great a loss an enterprise could incur under extreme conditions. This is thus a key element in the assessment of the Group's need for equity to do business in a responsible manner.

To satisfy the requirements with regard to capital adequacy and the reporting of capital adequacy, risk-adjusted capital is calculated from the parameters the Group has had approved by Finanstilsynet. Finanstilsynet approves the Group's IRB models and the levels for the individual parameters in the models that the banks can use to calculate their regulatory capital.

To calculate their economic capital, the banks use their own models, in which they set the level of the parameters themselves. For more on risk-adjusted capital and a comparison of economic capital and regulatory capital, see section 6.

4.1 Capital adequacy regulations

The purpose of the capital adequacy regulations is to strengthen the stability of the financial system through:

- A risk-sensitive capital requirement
- Better risk management and control
- Closer supervision
- More information to the market

Pillar 1 – Minimum regulatory capital requirements

Pillar 1 concerns the minimum requirement for capital adequacy, which is 8 per cent. The rules describe what can be counted as regulatory capital and the composition of this, along with deduction rules.

The capital adequacy regulations contain various methods for calculating capital requirements. The different methods are illustrated in the figure below:

Credit risk	Marked risk	Operational risk
Standard method	Standard method	Basic method
Foundation IRB method[1]	Internal measurement methods[1]	Standarised method
Advanced IRB method[1]		AMA method[1]

Figure 1 - Methods for calculating the capital requirement

1) The methods require the approval of Finanstilsynet.

For banks that have received approval to use the internal rating-based (IRB) approach for credit risk, the statutory minimum requirement for capital adequacy will be based on the bank group's internal risk assessments. The capital requirement will broadly correspond to the perceived risk in the underlying portfolios, so it is more risk-sensitive than using a standard method to calculate capital requirements.

Banks operating in Norway are subject to specific Norwegian rules for regulatory capital needs calculations for mortgage loans:

- Minimum PD should be 0.2% for mortgage loans
- Minimum LGD at portfolio level should be 20% for mortgage loans
- Minimum LGD may be lower than Finanstilsynet's reference model

Apart from the above, capital adequacy reporting is subject to the rules on transitional arrangements which stipulate that the basis for calculation should be at least 80% of what it would have been under the Basel I rules. For 2015, the basis for calculation for the Group will increase by some NOK 4 billion as a result of the transitional arrangements.

Pillar 2 – Assessment of total capital need and supervisory follow-up

Pillar 2 is based on two main principles. The banks must have a process for evaluating their overall capital in relation to their risk profile, and a strategy for maintaining an adequate level of capital.

The risk assessment process includes an assessment of the risk profile and capital requirements in parent companies, important subsidiaries and stakes in associated companies. The review is conducted annually and the risk is quantified by calculating the risk-adjusted capital. The banks use both quantitative models and qualitative assessments to determine their capital requirement. Stress tests and sensitivity analyses of key indicators also provide important pointers to final assessments.

Finanstilsynet will review and evaluate the banks' internal assessment of their capital needs and strategies, in addition to monitoring and ensuring compliance with the capital requirements imposed by the authorities.

Pillar 3 – Market discipline and disclosure

The purpose of the third pillar is to supplement the minimum requirements in Pillar 1 and the supervisory follow-up in Pillar 2. Pillar 3 should contribute to greater market discipline through requirements for the publication of information to enable the market, including analysts and investors, to evaluate the institution's risk profile and capitalisation, as well as its management and control. Widespread use of undertakings' own systems to calculate their capital requirement makes it harder to compare the banks' risk profiles, which it is hoped to address through future requirements for more standardised Pillar 3 reporting.

4.2 IRB authorisations

SpareBank 1 Nord-Norge has been authorised by Finanstilsynet to use internal rating-based methods (IRB) for credit risk since 2007. In the first quarter of 2015, SpareBank 1 Nord-Norge received authorisation to use Advanced IRB for its corporate portfolio as well. This means that the statutory minimum requirement for capital adequacy for credit risk will be based on the Group's internal risk models.

Over time, SpareBank 1 Nord-Norge has developed internal control and quality systems that enable it to report operational risk by the standardised method (parent bank). The rest of the Group still reports using the basic method for operational risk.

The figure below illustrates the methods SpareBank 1 Nord-Norge uses to calculate its capital requirements for credit, market and operational risk respectively.

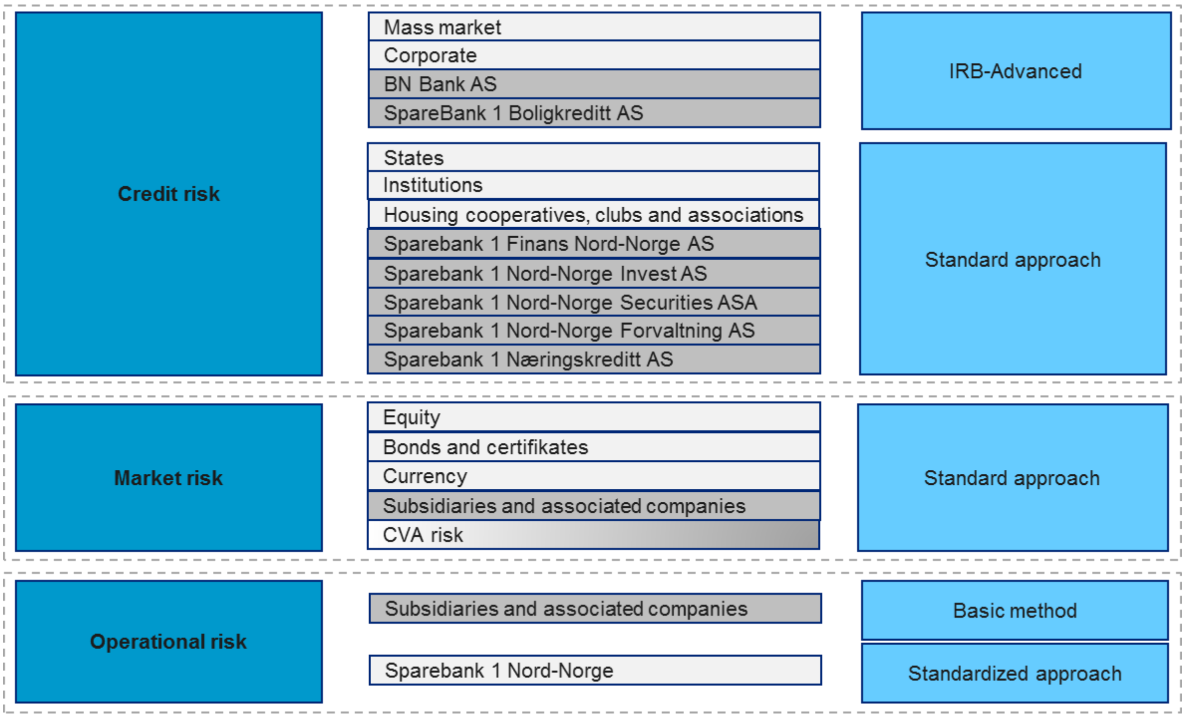


Figure 2 - Methods for calculating the capital requirement

4.3 Buffer requirements

The regulations specify minimum requirements for

- core tier 1 capital ratio (4.5%)
- common equity tier 1 capital ratio (6%)
- capital adequacy (8%)

Common equity tier 1 capital may include up to 1.5% hybrid capital. The Capital adequacy ratio may include up to 2% supplementary capital (tier 2). A set of buffers that must be covered by core tier 1 capital has also been defined:

- capital conservation buffer (2.5%)
- systemic risk buffer (3%)
- SIFI buffer (up to 2%)
- countercyclical capital buffer (up to 2.5%).

During 2016, Finanstilsynet will also be laying down individual requirements for Pillar 2 supplements for Norwegian banks. The purpose of Pillar 2 is to pick up capital needs associated with risks that are not, or not completely, covered by the capital requirements in Pillar 1.

The banks themselves have to assess their risk and the associated capital need, which is intended to provide Finanstilsynet with a basis for setting individual Pillar 2 requirements for the banks. As yet, no confirmed Pillar 2 supplement has been communicated to SpareBank 1 Nord-Norge.

The figure below shows the requirement for core tier 1 capital adequacy as it stood at 31/12/2015, and the maximum level assuming that the different buffer requirements are stretched to the maximum. SpareBank 1 Nord-Norge has a long-term goal of adjusting to the SIFI requirement even though the Group has not been defined as systemically important by the Ministry of Finance. Finanstilsynet has stated that it expects the Group to conform to this requirement. In assessing the SIFI requirement, capital transferred to the Foundation (Sparebankstiftelsen SpareBank 1 Nord-Norge) is also included in the calculation. The Group's goal for the core tier 1 capital ratio is described in section 4.4, which discusses the Group's capital planning.

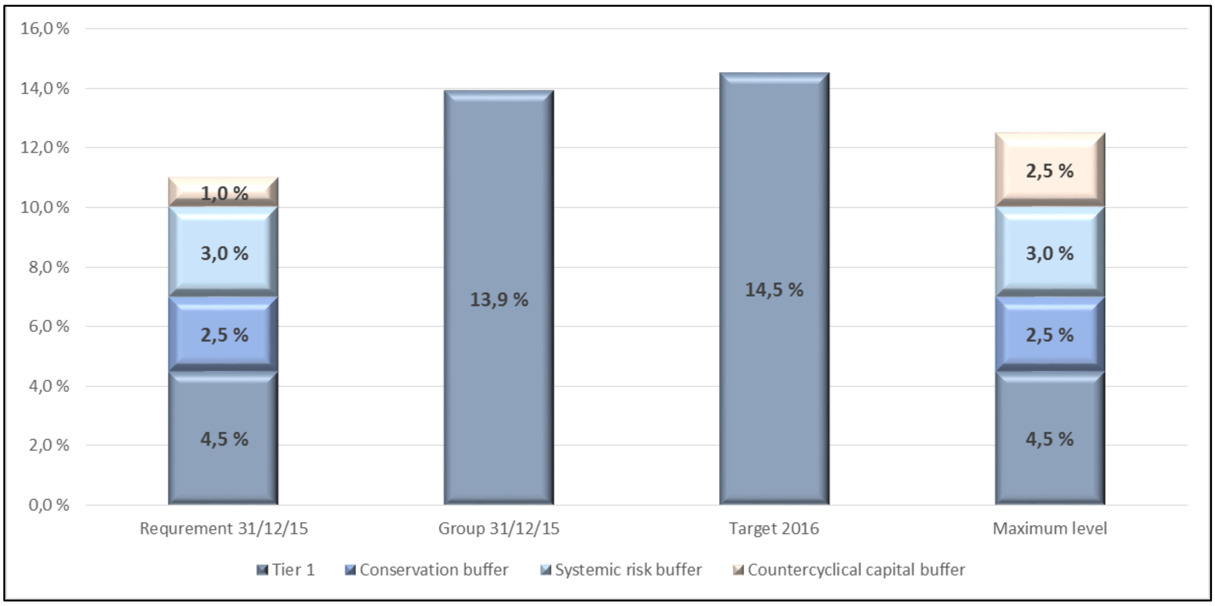


Figure 3 - Buffer requirements

4.4 Capital plan

Capital management is closely related to strategic planning, market opportunities (including growth strategies), risk strategy and capital targets.

SpareBank 1 Nord-Norge's capital management is primarily intended to ensure that the Group has a sufficiently large amount of capital (capital adequacy) and that its use of capital is efficient. One of the Group's strategic goals is to ensure its financial strength cannot be doubted. Capital management is based on the Group's risk profile, and the capital targets are designed in line with the risk-based approach in the capital adequacy regulations. The Board approves the capital plan each year in connection with the Group's ICAAP.

There is broad participation from the executive management team, various specialist departments and risk management experts in the work on risk assessments and capital needs. The Group's capitalisation and capital targets are key inputs in its strategy process. The results of the quantitative and qualitative assessments are thoroughly checked by the specialist groups, the Balance Sheet Committee and the executive management team before the Board finally approves the capital target.

The Group's target core tier 1 capital ratio is 14.5% by 2016.

The long-term goal for the Group is to have an internal capital buffer of at least half a percentage point above the statutory minimum requirement in normal times. This internal planning buffer is considered sufficient to give the Group the necessary flexibility and scope for action, as unforeseen events could affect the expected development of the core tier 1 capital ratio. The Foundation also provides extra security as a capital reserve.

The capital target is set to ensure that SpareBank 1 Nord-Norge, for each company individually and at a group level, has sufficient capital to satisfy:

- Internally set requirements for capital in relation to underlying risk in the organisation, i.e. the Group's own assessment of its capital needs pursuant to the ICAAP (Pillar 2). Internal requirements include an assessment of expectations of financial strength from the capital markets because this affects the Group's access to capital.
- Regulatory capital ratio: Statutory capital adequacy requirement.

In addition to the above, the Group's capital management must also:

- ensure competitive terms in the funding market (rating perspective)
- satisfy the owners' requirements with regard to return on equity (competitive return on equity)
- ensure that the Group and its subsidiaries can take advantage of growth opportunities in the market

4.5 Capital adequacy and consolidation

SpareBank 1 Nord-Norge owns 14.5% of the shares in SpareBank 1 Boligkreditt AS, 23.5% of BN Bank and 20.8% of SpareBank 1 Næringskreditt (as at 31 December 2015). The ownership interests have been included in the capital adequacy ratio based on the proportional consolidation rules, following approval by Finanstilsynet.

As far as capital adequacy is concerned, SpareBank 1 Gruppen and SpareBank 1 Kredittkort are treated in accordance with the regulations for important stakes in other financial undertakings. This results in a deduction in core tier 1 capital of NOK 817 million and also increases the basis for calculation by NOK 2,358.5 million.

Subsidiaries	Org.number	Number of shares	Cost value	Book value	Voting rights	Accounting purpose	Capital requirement	Net equity and related capital	Capital adequacy ratio
Companies which have been fully consolidated									
EiendomsMegler 1 Nord-Norge AS	931262041	21.100	28	30	100,00 %	Acquisition method 100 %			IA
SpareBank 1 Nord-Norge Finans AS	930050237	83.400	476	476	100,00 %	Acquisition method 100 %	308.263	620.748	16,1 %
SpareBank 1 Nord-Norge Portefølje AS	935491533	18.227	67	38	100,00 %	Acquisition method 100 %			IA
Nord-Norge Eiendom IV AS	991391142	1.685	20	20	100,00 %	Acquisition method 100 %			IA
Alsgården AS	966850582	513	78	78	100,00 %	Acquisition method 100 %			IA
Fredrik Langesg 20 AS	962315666	42	30	30	100,00 %	Acquisition method 100 %			IA
SpareBank 1 Nord-Norge Forvaltning ASA	982699355	300.000	7	8	100,00 %	Acquisition method 100 %	779	7.312	74,6 %
SpareBank 1 Regnskapshuset Nord-Norge AS	851987142	2.350	44	44	100,00 %	Acquisition method 100 %			IA
BN Bank ASA	914864445	3.317.338	209	823	23,50 %	Equity method 23,50 %	1.452.433	4.115.750	22,7 %
SpareBank1 Boligkreditt AS	988738387	8.918.628	1.339	1.411	14,45 %	Equity method 14,45%	5.792.642	11.650.953	16,1 %
SpareBank1 Næringskreditt AS	894111232	3.041.400	380	395	20,83 %	Equity method 20,83%	1.221.573	2.340.211	15,3 %
Companies which are not consolidated where there are no deposits of equity and related capital which have been deducted from the insitiution's equity and related capital									
SpareBank 1 Gruppen AS	975966372	381.498	715	1.584	19,50 %	Equity method 19,50 %			
Companies which are not consolidated where there are no deposits of equity and related capital which have been deducted from the institution's equity and related capital									
Alliansesamarbeidet SpareBank 1 DA	986401598	2	18	18	17,74 %	Equity method 17,74 %			
SpareBank 1 Mobilbetaling AS	SUS	1.635	16	16	19,69 %	Equity method 19,69 %			
SpareBank 1 Kredittkort AS	975966453	513952	159	177	19,83 %	Equity metod 19,83%			
SpareBank1 Markets AS	992999101	226.555	77	48	9,99 %	Acquisition method 9,99 %			
Bank 1 Oslo Akershus AS	910256351	218.841	78	146	4,80 %	Acquisition method 4,80%			
Bank Tavrichesky, Russia	0	104.821.999	122	0	9,26 %	Acquisition method 9,26%			

Figure 4 - Consolidation

SpareBank 1 Nord-Norge places great importance on all the units in the Group having satisfactory capital at any given time. No restrictions have been imposed on the Board's ability to transfer capital between the parent bank and the subsidiaries, or between the subsidiaries, beyond what follows from regulatory and other statutory restrictions. Nor are there any provisions in the Articles of Association that impose such restrictions.

For a description of the individual companies, refer to section 14 of the Annual Report for 2015 (snn.no).

Amounts in NOK million	31.12.15		31.12.14		31.12.13	
Core capital						
PCC-capital	1.807		1.807		1.807	
Premium Fund	843		843		843	
Saving Bank's Fund	4.074		3.745		3.565	
Dividend Equalisation Fund	1.179		1.020		776	
Donations	180		332		163	
Fund for unrealised gains	80		-30		-2	
Other equity	1.798		1.611		1.327	
Minority interests	0		15		23	
Total equity capital	9.961		9.343		8.502	
Deduction set asite dividend	-260		-522		-154	
Deduction net pension fund	-82		-51		-136	
Deduction Fund for unrealised gains	0		0		69	
Adjusted subordinated capital from consolidated financial institutions	-48		80		-163	
Hybrid Tier 1 bonds	743		681		653	
Deferred tax, goodwill and other intangible assets	-78		-113		-114	
Deduction subordinated capital in other financial institutions (50 %)	-817		-591		-174	
Deduction adjusted expected amount lost (50 %)	-309		-385		-94	
Capital adequacy reserve	0		0		-606	
Core capital	**9.110**		**8.442**		**7.783**	
Supplementary capital						
Prepetual non-call bonds	0		0		0	
Subordinated loan capital	1.341		1.284		1.160	
Deduction subordinated capital in other financial institutions (50 %)	-93		-43		-174	
Deduction adjusted expected amount lost (50 %)	0		0		-94	
Capital adequacy reserve	0		0		-606	
Supplementary capital	**1.248**		**1.241**		**286**	
Net equity and related capital	**10.358**	**Capital requirement (8%)**	**9.683**	**Capital requirement (8%)**	**8.069**	**Capital requirement (8%)**
Risk-weighted asset base						
Credit risk - IRB	33.670	2.695	36.638	2.931	26.778	2.142
Credit risk - Standardised approach	17.931	1.434	20.457	1.637	20.443	1.635
Debt risk	156	12	235	19	263	21
Equity risk (Market risk)	219	18	500	40	501	40
Currency risks			143	11	276	22
Operational risk (Basic approach)	3.536	283	3.177	254	2.966	237
Deduction subordinated capital in other financial institutions			0	0	-348	-28
Deduction adjusted expected amount lost (50 %)			0	-4	-47	-4
Credit Valuation Adjustment (CVA)	751	60	688			
Capital adequacy reserve			0	-97	-1.211	-97
Total risk-weighted assets base - 100 %	56.263	4.502	61.838	4.791	49.621	3.969
Complements to overall floor Capital Requirements	4.064	325	0	0	8.368	669
Total risk-weighted assets base IRB	**60.327**	4.827	**61.838**	4.791	**57.989**	4.639
Risk-weighted asstes base IRB in 2008 are 80 % of Basel I assets base.	20 %		20 %		20 %	
Capital adequacy ratio	**17,2 %**		**15,7 %**		**13,9 %**	
Core capital adequacy ratio	15,1 %		13,7 %		13,4 %	
Supplementary capital adequacy ratio	2,1 %		2,0 %		0,5 %	
Core tier 1 capital adequacy ratio	**13,9 %**		**12,6 %**		**12,3 %**	

1) Capital bonds may account for up to 15 per cent of core capital, whereas the remaining part counts as perpetual supplementary capital.

Figure 5 - Capital adequacy - Group

The Group had a core tier 1 capital ratio of 13.9% at the end of 2015. Forecasts show that the Group will probably achieve its target of a core tier 1 capital ratio of 14.5% in 2016. This is discussed further in section 5.3 (ICAAP).

Minimum requirements for regulatory capital under Pillar 1 by risk type are shown in the figure below.

Specification of capital requirements (Pilar I)	**31.12.2015** Capital requirement	**31.12.2014** Capital requirement	**31.12.2013** Capital requirement
Credit risk	4.129	4.467	3.649
Market risk	30	70	83
Operational risk	283	254	237
Credit Valuation Adjustment (CVA)	60		
Additional capital requirement according to transition	325	0	669
Total capital requirements	**4.827**	**4.791**	**4.639**

Figure 6 - Minimum regulatory capital

Maturity structure for regulatory capital and hybrid tier 1 securities is shown in the figure below.

Maturity structure	31.12.15	31.12.14	31.12.13
Subordinated loan capital with definite maturities			
2018 3 months Nibor + margin 1.25 (call opt. 2013)			
2018 3 months Nibor + margin 2.75 (call opt. 2013)			
2019 3 months Nibor + margin 2.40 (call opt. 2014)			100
2019 Fixed rate of interest 8,35 (call opt. 2014)			350
2015 3 months Euribor + margin 0.45 (call opt. 2010) EUR			
2013 mnd Euribor + 2,75 (Call option 2017)			
2022 mnd Nibor + 2,75 (Call option 2017)	500	500	500
2024 mnd Nibor + 1,5 (Call option 2019)	350	350	
Premium/discount relating to subordinated loans			
Currency premium, limited in time			
Total sunordinated capital with definite maturities	**850**	**850**	**950**
Perpetual capital bonds			
2033 6 months Libor + margin (US$ 60 mill.)(call opt. 2013)			
2099 3mnd Nibor + 4,75 (Call option 2017)	500	500	500
Capital bonds - currency premium			
Total perpetual capital bonds	**500**	**500**	**500**
Total subordinated loan capital and capital bonds	**1.350**	**1.350**	**1.450**
Average interest rate NOK	**4,55 %**	**5,24 %**	**5,33 %**
Average interest rate USD	**2,92 %**	**2,92 %**	**2,92 %**

Figure 7 Maturity structure for regulatory capital and hybrid tier 1 securities

4.5.1 Capital adequacy – subsidiaries

Information on capital adequacy for subsidiaries is given in the figures below.

Core capital	31.12.2015	31.12.2014
Common equity	417.000	307.000
Premium fund	59.000	59.000
Other equity	166.812	155.604
Total equity capital	642.812	521.604
Deduction set aside dividend	-95.801	-85.770
Deduction net pension fund	-2.263	-
Defered tax, goodwill and other intangible assets	-	-
Core capital	**544.748**	**435.834**
Supplementary capital	76.000	76.000
Sum supplementary capital	76.000	76.000
Net equity and related capital	**620.748**	**511.834**
Risk weighted asset base		
Capital requirements:		
Credit risk - IRB		
Credit risk - Standarised approach	3.583.751	3.144.563
Debt risk		
Equity risk (Marked risk)		
Currency risks		
Operational risk	269.533	230.059
Deduction subordinated capital in other financial institutions		
Deduction adjusted expected amount lost (50 %)		
Capital adequacy reserve		
Total risk weighted assets	3.853.284	3.374.622
Capital adequacy ratio	**16,11 %**	**15,17 %**
Core capital adequacy ratio	14,14 %	12,92 %
Supplementary capital adequacy ratio	1,97 %	2,25 %
Core tier 1 capital adequacy ratio	14,14 %	12,92 %

Figure 8 - Capital adequacy calculation - SpareBank 1 Nord-Norge Finans AS

Amounts in NOK 1000		
Core capital	**31.12.2015**	**31.12.2014**
Common equity	3.000	2.000
Premium fund	4.313	3.600
Other equity	-1	18
Total equity capital	7.312	5.618
Deduction set aside dividend	-	-
Deduction net pension fund	-	-
Defered tax, goodwill and other intangible assets	-	-31
Core capital	**7.312**	**5.587**
Risk weighted assets	15.025	14.125
Capital adequacy ratio	48,67 %	39,55 %
Core capital adequacy ratio	48,67 %	39,55 %
Core tier 1 adequacy ratio	48,67 %	39,55 %

Figure 9 - Capital adequacy calculation - SpareBank 1 Nord-Norge Forvaltning ASA

The calculation basis used for Forvaltning is the highest amount after calculations using the standard method, minimum requirements for initial capital or the proportion of fixed costs. The minimum requirement for initial capital (NOK 15,025,000) was used in 2015, which results in capital adequacy ratio of 48.67% (39.55% in 2014).

4.6 Unweighted capital ratio (Leverage ratio)

The EU is planning to introduce a leverage ratio requirement. The provisional plans are to introduce this requirement in 2018, as a supplement to the risk-weighted capital requirements.

The leverage ratio is defined as a capital measurement divided by an exposure measurement:

$$Leverage\ ratio = \frac{capital}{exposure}$$

In all probability, the capital measurement will be made up of core tier 1 capital, and the exposures will be the Group's total assets and off-balance-sheet items. (Figures for 31/12/2015)

Exposure type	Exposure
Covered bonds	8.934
Exposures with risk weight equal to states and national banks	8.946
Institutions	10.014
Mortage	74.727
Mass market	2.918
Corporate	19.361
Other	5.418
Non performing	66
Derivatives	9.927
Other off balance	11.805
Exposure	152.116
Capital	9.110
Leverage ratio	5,99 %

Figure 10 - Leverage ratio

The tier 1 leverage ratio for the Group was calculated as 5.99% as of 31/12/2015.

Norges Bank indicates in Finansiell Stabilitet 2015 that the requirement for the leverage ratio in Norway should be six per cent. The main Board of Norges Bank also recommends that:

- A sufficiently high leverage ratio requirement can replace the transitional rules (Basel I floor).
- Leverage requirements should have buffer requirements, as with the requirements for risk-weighted capital.
- Systemically important banks should have more stringent requirements than other banks.
- The total requirement must be high enough for the banks to maintain today's level of leverage of around six per cent.
- The leverage ratio requirement should be published.

Finanstilsynet has suggested waiting to define leverage requirements until the rules in this area have been confirmed in the EU. Finanstilsynet has suggested in a letter to the Ministry of Finance that the leverage requirement for Norwegian banks should be significantly higher than the present minimum requirement in the EU of 3%.

For SpareBank 1 Nord-Norge, with a high proportion of retail lending (retail/business approx. 70/30), the leverage requirement would be harder to meet than for banks with a higher relative corporate exposure. This is because retail loans have lower capital requirements than corporate loans under today's rules, whereas they will have the same weighting as corporate loans in calculating leverage.

5 Risk and capital management

5.1 Group structure

The SpareBank 1 Nord-Norge Group consists of:

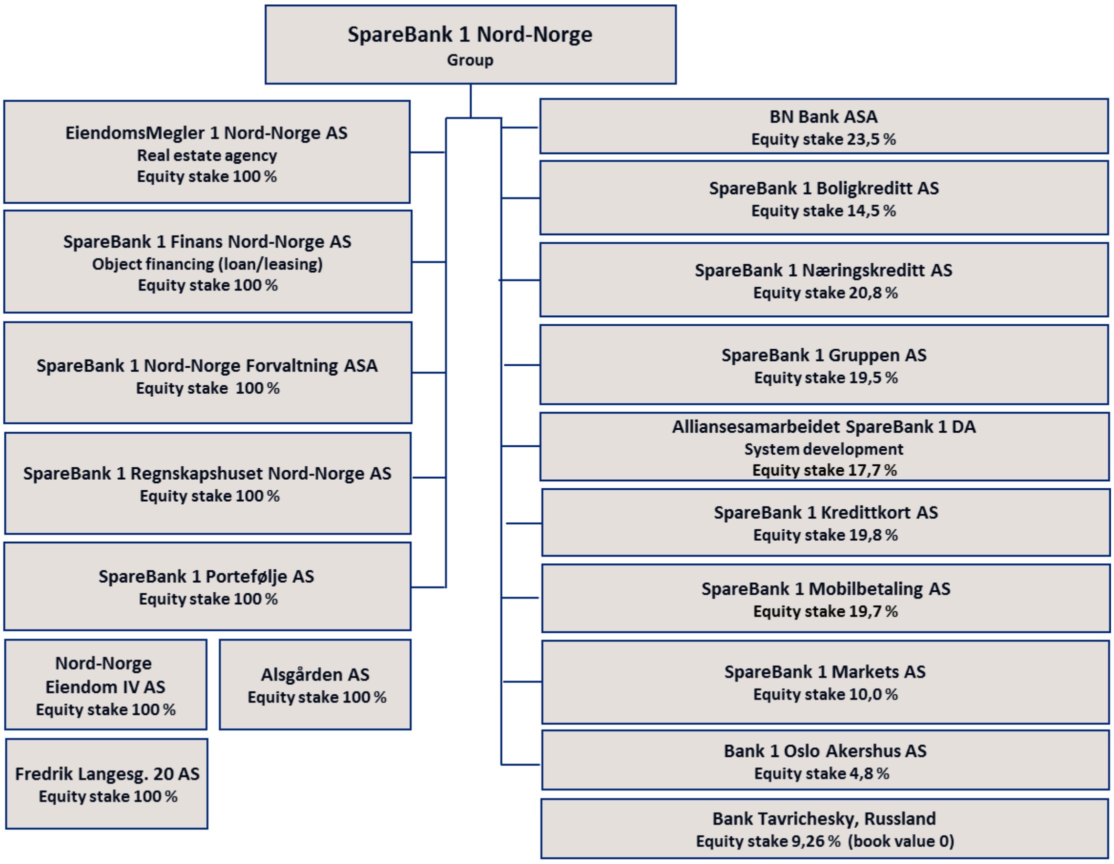


Figure 11 - Group organisation structure

The Group's structure, subsidiaries and associates are described in the Report of the Board of Directors, section 14 of the Annual Report for 2015 (snn.no).

5.2 The Group's control and management model

Risk management, internal control and capital management are key areas for financial institutions, and the control and management of risk is a strategic tool for increasing value creation in SpareBank 1 Nord-Norge.

The Group's internal control and management model addresses the organisational requirements for the independence of risk reporting, in which responsibilities and roles in day-to-day risk management are particularly emphasised.

SpareBank 1 Nord-Norge has invested a great deal of resources in developing effective risk management processes for the identification, measurement and management of risk under its own direction and through the SpareBank 1 Alliance over many years.

SpareBank 1 Nord-Norge's risk and capital management should support the Group's strategic development and target attainment, while ensuring financial stability and proper asset management. This is to be achieved through:

- a good risk culture characterised by a high awareness of risk and capital management
- a good understanding of what risks drive earnings
- pricing products, as far as possible, in line with the underlying risk
- striving to achieve the optimal allocation of capital within the adopted business strategy
- taking advantage of synergy and diversification effects
- preventing individual events causing serious damage to the Group's financial position

5.2.1 Framework and process for risk and capital management

The renewal and revision of overarching and central governing documents is subject to annual discussion and review by the Board. This is to ensure broad comprehension of the relationship between a good framework for management and control and the active use of limits/targets for the management of risk in relation to the requirements in the capital adequacy regulations.

SpareBank 1 Nord-Norge's framework for identifying and managing risk is illustrated in the figure below:

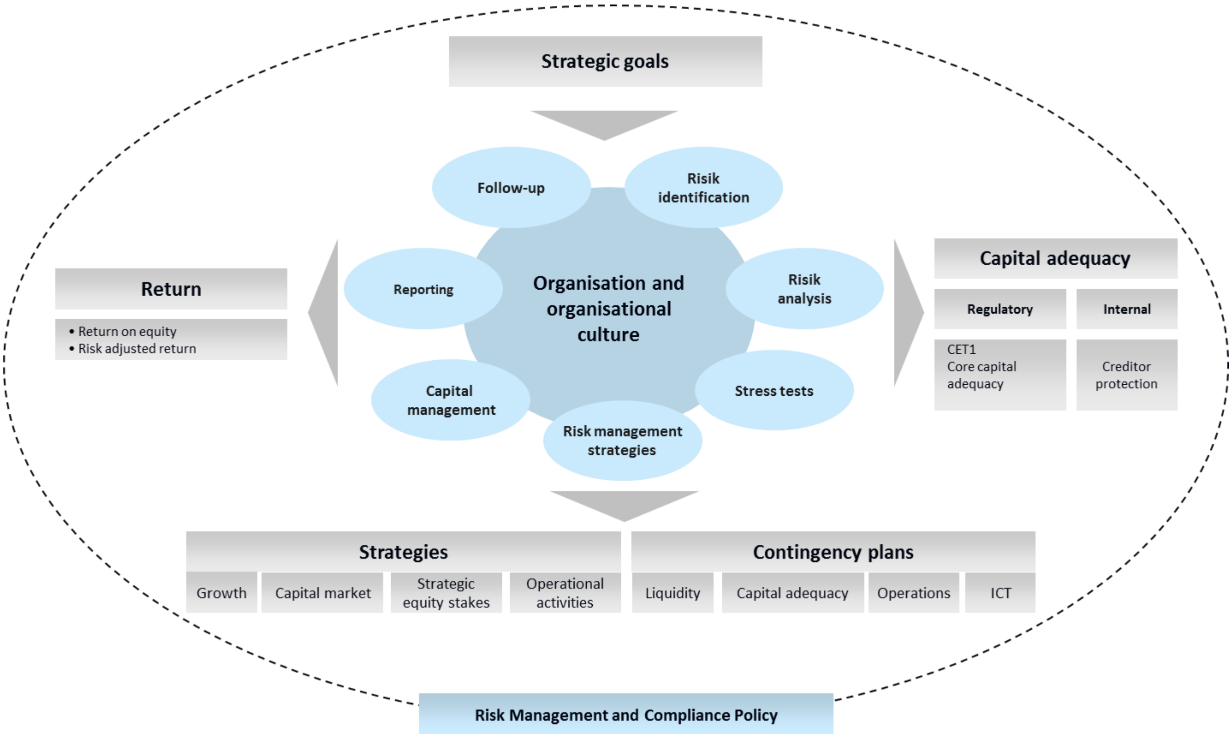


Figure 12 - Risk and capital management framework

SpareBank 1 Nord-Norge revises the Group's business strategy continuously. This entails a review of changes in the business environment, including competition, changes in regulatory conditions, changes in customer behaviour and changing requirements for competence and organisation.

In order to ensure an efficient and appropriate process for risk and capital management, the framework has been based on significant elements that reflect the manner in which the Board and the executive management team manage the Group.

- Strategic goals
- Organisation and corporate culture
- Risk identification
- Risk analysis
- Risk strategies
- Capital management (including return and capital adequacy)
- Reporting
- Follow-up
- Contingency plans
- Compliance

In the risk and capital management process, the corporate culture provides the foundation for the other elements.

Corporate culture

The corporate culture is the foundation of the Group's risk and capital management and contains management philosophy, management style and the people in the organisation with their individual qualities such as integrity, values and ethics. It is difficult to compensate for an inadequate corporate culture by other control and management measures, and SpareBank 1 Nord-Norge has therefore established clear values and ethical guidelines (the SNN code) which are implemented throughout the organisation. The SNN code focuses on attitudes and ethics, and how we do business with customers and other associates at SpareBank 1 Nord-Norge, and is a key element in managing the Group's reputation.

5.2.2 Follow-up and reporting

Management information systems

The Group has implemented a 'Quality and risk management' tool, which is designed to handle

- Improvement measures
- Incidents (Incidents/events associated with losses or potential losses)
- Customer complaints
- Controls
- Risk analyses

The system has been developed to document and follow up the work of management and control. All risk analyses, controls, reports and events are documented in the system, and reports are drawn up on the basis of this documentation, which includes:

- The annual management report
- Finanstilsynet's modules for management and control
- Risk analysis (strategic risk analysis, process analysis etc.)
- Internal Audit reports
- Communication with Finanstilsynet
- The Group's own controls and inspections

All identified areas for improvement, both as a result of feedback from Internal Audit and Finanstilsynet, and from the company's own controls and analyses, are recorded and followed up in the system. Allocation of responsibility and automatic follow-up help to make the improvement work more effective, and are a major element of the Group's quality and improvement work.

Quarterly risk report

The Risk Management department reports to the administration and the Board every quarter. The risk report contains details of the status and development of the risk profile, both overall and by key risk groups (see section 7 for details on key risk groups).

The risk report is based on the control framework, particularly the risk strategy and the strategies for each specific risk type. Status and development with regard to target attainment, limit use and any breaches are reported under each risk category.

The report also contains a summary of key indicators defined in the Group's recovery plan (RRP), which are described in more detail in section 5.4 and in the Annual Report for 2015 in the section on 'Risk management, internal control and capital management'. The key indicators relates to critical aspects in risk management. Continuous monitoring and reporting of these figures is important to be able to identify a crisis as quickly as possible and take the necessary actions depending on the nature and extent of the crisis and based on an assessment of current contingency measures.

Compliance report

The Compliance Committee reports to management and the Board every six months. The report summarises the work of the Compliance Committee on changes to the law and new regulations, and the implementation of these in the organisation. Risk factors associated with the implementation of, and compliance with, such changes or new regulations, and a summary of the risk situation in the area are key parts of the report.

5.2.3 Responsibility for risk management and control

An important foundation for effective risk management is a strong risk culture that is characterised by a high degree of awareness of quality and risk management throughout the entire Group. Such a foundation means that each employee must have a good understanding of the Bank's operations and their own actions, as well as the associated risks.

The responsibility for risk management is divided between the Board, the boards of the subsidiaries, the executive management team and line management. Emphasis is placed on responsibility through personal authority and independence between the business areas and units that monitor them.

All managers are responsible for maintaining a full overview of the risk picture in their own business areas and/or area of expertise at any given time. In order to satisfy its primary goals, the Group has chosen to divide the risk management process into three parts:

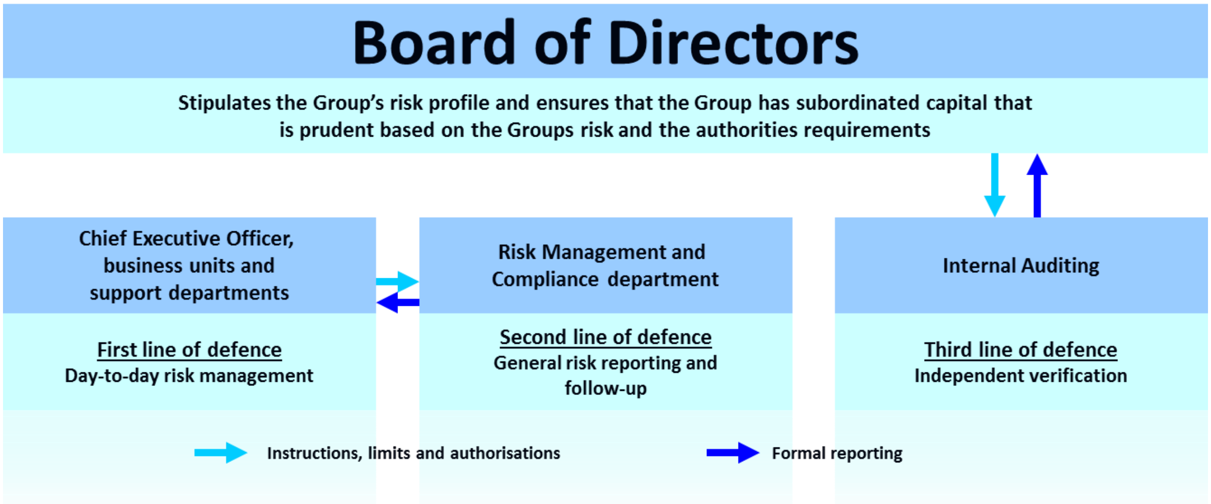


Figure 13 - Responsibilities and roles in risk management

The central roles in the risk management process are:

- an executive function (includes both line (customer responsibility) and specialist departments – management/support/control))
- an independent monitoring function (Department of Risk Management and IT)
- an independent verification function (Internal Audit)

The Group's control and management model is intended to ensure independence in relation to decisions and reporting. It is therefore an important principle that the risk management process is an integral part of day-to-day activities. The Group's management structure reflects the legal requirements for listed companies generally and financial institutions in particular.

The Board of SpareBank 1 Nord-Norge bears the overall responsibility for the Group's risk exposure and management of the various risk areas. This entails responsibility for stipulating the overall objectives that define the risk profile, return targets and capital management. The Board also lays down the overall limits, authorisations and guidelines for risk management in the Group, as well as all significant aspects of the risk management models and decision-making processes.

The Group's management and control model, including roles and responsibilities, is described in the section on 'Risk management, internal control and capital management' in the Annual Report for 2015 on our website.

5.2.4 Compliance

The Group stresses the importance of good processes to ensure compliance with the current laws and regulations, as well as internal guidelines and policies. Effective tools for achieving this include:

1. Clear values that are clearly communicated and understood throughout the organisation
2. A process to identify, communicate and implement changes in acts and regulations

3. A process to follow up and report compliance with acts and regulations
4. A process for monitoring, reporting and evaluating compliance with internal limits, guidelines and policies.
5. A strong corporate culture and the ethical guidelines in the SNN code which contribute to compliance.

The Compliance Committee picks up and communicates new laws and regulations, or changes to existing rules. The Compliance Committee works with the Compliance and Risk Management and IT departments to implement and monitor compliance with these, and to report to management on status and progress. Any risks associated with changes in the rules or with compliance are communicated to management and the Board in periodic reports, or directly to the CRO when necessary.

5.3 ICAAP

SpareBank 1 Nord-Norge is subject to statutory rules that set minimum requirements for capital adequacy and financial strength. The CEBS (Committee of European Banking Supervisors) has issued guidelines for supervisory authorities when they have to assess the institutions' processes for the management of risk and capital needs, in the form of an Internal Capital Adequacy Assessment Process (ICAAP).

The Board is responsible for initiating the ICAAP and capital planning, as well as approving the structure and methods chosen. The Board is also responsible for setting targets for the Group's capital level in accordance with to the risk profile and the business environment. This process is an integral part of the Group's overall risk management. The process should be risk-driven and consist of:

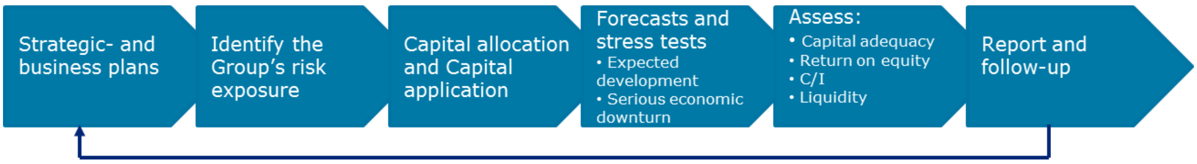


Figure 14 - ICAAP

The risk and capital assessment process is based on the Group's strategic goals. Forecasts of the expected financial development, as well as future scenarios with an economic downturn and capital stress that lasts for a minimum of 5 years, are then drawn up based on the strategic goals and business plan.

SpareBank 1 Nord-Norge has established processes to assess the capital need in light of the risk profile and the quality of the established internal control and risk management systems. The process and its results are documented in writing in an annual ICAAP report. The report was sent to Finanstilsynet in December 2015 and the CRO is responsible for conducting the capital assessment process.

5.3.1 Purpose

The management of risk and capital employment is key in achieving the Bank's objectives as they are defined in the bank's business strategy. The Group's profitability and opportunities to achieve its objectives in relation to its shareholders, employees and society in general are dependent on its ability to identify, measure, manage and price the risks that arise in connection with offering financial products and services. The risk management process should ensure financial stability and safe and secure asset management through:

- A strong corporate culture characterised by high risk management awareness and high quality
- A good understanding of what risks drive earnings
- Efficient procurement and use of capital in relation to the Group's strategic target and adopted business strategy
- Satisfactory capital adequacy
- Competitive return
- Ensuring that the Group manages at least to maintain its current international ratings
- Preventing unexpected incidents from causing serious damage to the Group's financial position
- Exploitation of synergy and diversification effects
- Exploitation of growth opportunities in the Group's defined market area

5.3.2 Risk types

All significant risks are subject to continuous assessment. The most important risks are quantified through the expected losses and need for economic capital, and this is an important foundation for the Bank's capital management process. The capital assessment process includes main and sub-risk groups as illustrated below. The assessment of management and control related to the various business and risk areas is also key to the assessment of the capital needs.

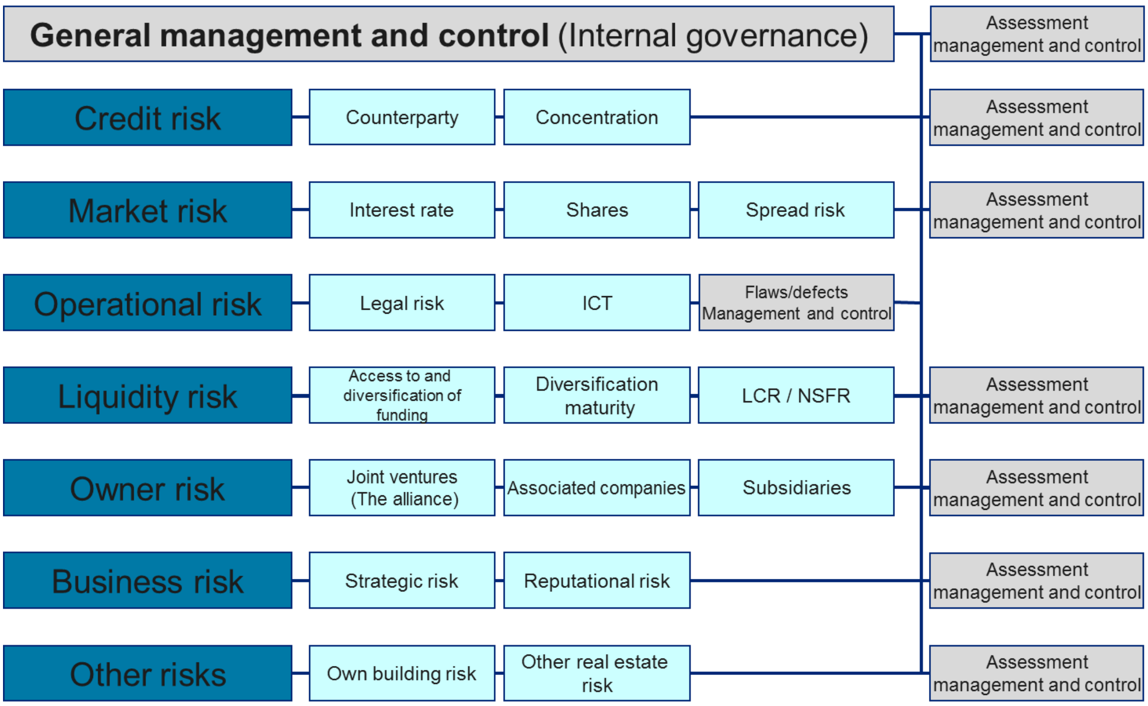


Figure 15 - Risk types, control and management

It is a fundamental goal that the risk-adjusted capital should, as far as possible and within the adopted business strategy, be allocated to the areas that provide the highest risk-adjusted return.

5.3.3 Forecasts and stress tests

In the last few decades, financial stability analysis has played an increasingly important role in many central banks placing new requirements on financial institutions. This must be viewed in the context of the financial markets having become deeper and financial crises having occurred more frequently. One important element in the analysis of financial stability is investigating how vulnerable the financial system is with respect to macroeconomic disturbances. This can be done using forecasts and stress tests.

The main purpose of the forecast model is to assess the development of the Group's results, risk and financial strength in various scenarios when economic growth is weak, and to produce the associated estimates for capital need. The challenge is to identify relevant future scenarios in which risk increases, and to construct a good relationship between the macroeconomic developments in the scenarios and the microeconomic developments for all the key variables that affect the results, balance sheet and risk levels.

The scenarios in SNN's ICAAP should be relevant in the sense that they cover the situations that are regarded as capable of disturbing the macroeconomic stability of the Norwegian economy and thus increasing risk. The forecasting model satisfies the requirements of the capital adequacy framework. These are the requirements that are stipulated for IRB banks through the Capital Requirements Regulations (Pillar 1) and guidelines on the assessment of risk levels and calculation of capital requirements in institutions (Pillar 2).

External requirements for stress tests and scenarios

Section 16-1 of the Capital Requirements Regulations sets out requirements for identifying matters that could adversely affect credit risk, financial strength and portfolios, and requirements for this issues to be stress-tested at least once a year.

In other words, stress testing is a condition for IRB approval. The stress tests must show the impact on capital adequacy and the ability to satisfy the minimum capital requirement. The regulations say nothing about the severity of the scenario one should analyse, but state that the impact an economic downturn would have on credit risk must be discussed.

The Committee of European Banking Supervisors (CEBS)[1] published revised guidelines on stress testing in a circular dated 26 August 2010. Finanstilsynet emphasises that the guidelines on stress testing form part of the guidelines on the Pillar 2 process and supplement circular 21/2006 'Pillar 2

[1] New guidelines on stress testing called 'CEBS Guidelines on Stress Testing (GL32)' applicable from 31/12/2010

of the revised capital adequacy framework – guidelines for assessing risk profile and calculating capital needs at institutions'.

There is a requirement that the effects of a serious recession must be analysed in connection with the ICAAP. With reference to Finanstilsynet's circular 21/2006[2]:

- Stress testing constitutes a key part of ICAAP and capital planning.
- The institution must consider how it can survive an economic downturn with negative results and in which raising new equity could be problematic.
- An extraordinary but probable scenario should include the following:
    - The recession must last for at least 3 years
    - It should show the impact on earnings and financial strength
    - It should show the impact on complying with the minimum requirement
    - It should show how the capital requirements will be satisfied through the recession, including management measures
    - Forecast of the financial situation/funding situation

Another important reference is the CEBS's 'Technical Aspects of Stress Testing under the Supervisory Review Process – CP12', which also provides a number of guidelines on what Pillar 2 stress tests should include. We particularly note chapter IV.3.b. 'Stress testing for IRB institutions' and the definition of 'scenario stress test' and 'sensitivity stress test' in section 16:

- Scenario stress test – shows the impact on the result/financial strength of movements in a number of risk drivers (simulation), resulting from a well-defined stress event. Expected to be used by larger institutions.
- Sensitivity stress test – shows the impact on the result/financial strength of movement in a specific risk driver; where the stress event is unknown. May be enough for smaller banks.

Relationship between scenarios and stress tests

The Group's model for stress tests and scenarios can be illustrated as follows:

[2] This section is based on the presentation by Jon Hellevik (Finanstilsynet) 18 September 2007 at Norges Bank.

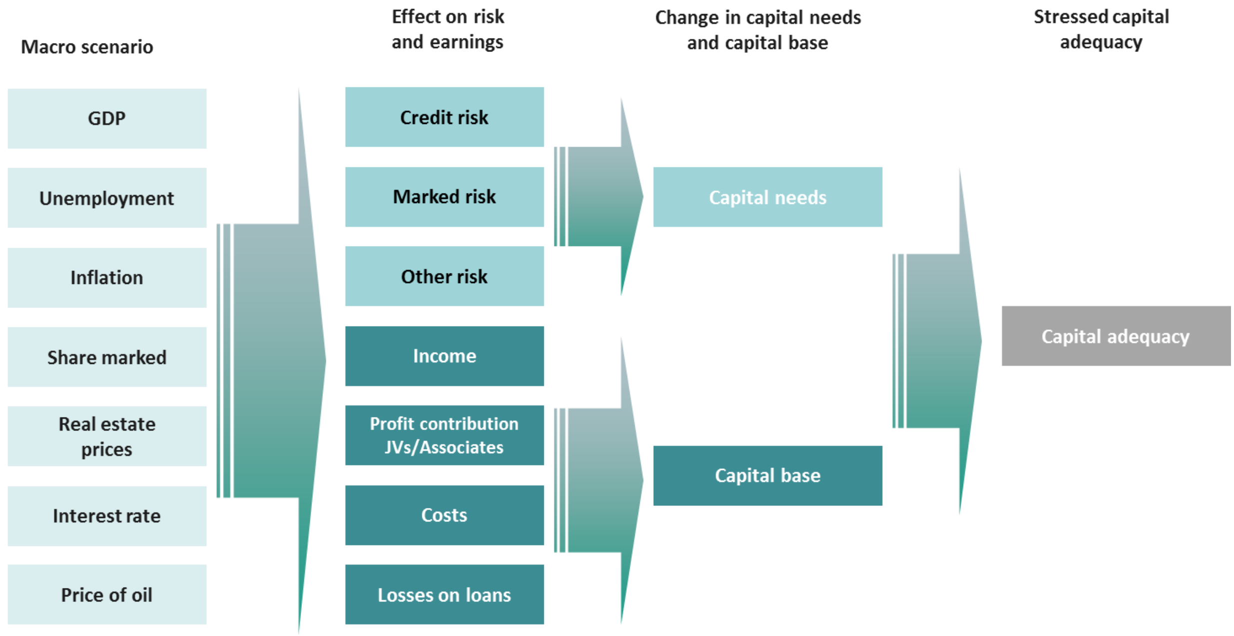


Figure 16 - Forecast/stress test model

One significant challenge is to use macro assumptions and convert them to business variables when assessing:

- credit score models - assessment of migration and changes in default probability, expected and unexpected losses
- financial strength and profitability - forecasts for normal development and various economic recessions
- liquidity (funding) – the Group's challenges and vulnerability associated with changes in funding levels and situations associated with any general financial crises or special situations for the Group
- financial performance of associated companies
- impact of market and competition situations in Northern Norway and reputation risk

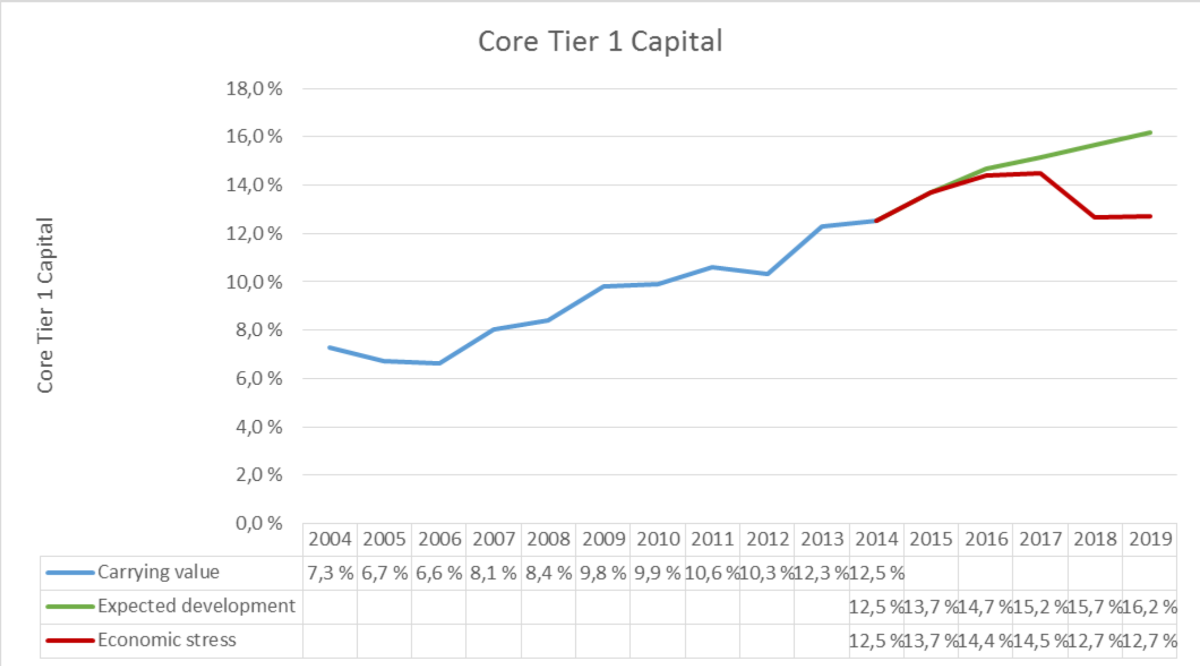
Setting the scenarios

For the Bank it is important that the scenario and stress test for stressed economic conditions is based on severe - but possible - disturbances in the economy so that it provide answers about how much could be lost, not necessarily how much it is likely will be lost. This means that the events or disturbances do not need to express changes we regard as likely because in the assumptions we say that all events occur at the same time (correlation = 1).

It is important to the authorities that the banks carry out scenarios and stress tests to reveal the robustness of the financial sector. The results from joint national stress tests and the banks' stress tests will also be important input in a discussion about future capital levels and capital targets.

The results from the scenarios and stress tests are processed as an important part of the annual ICAAP. In the assessments the bank attaches importance to presenting the results from the normal scenario (expected development) and the stress scenario (strong negative impact on the economy), and sensitivity analyses against the trend in the baseline scenario.

The effects on the Group's common equity tier 1 capital ratio of the various forecasts/stress tests are shown in the figure below.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Carrying value	7,3 %	6,7 %	6,6 %	8,1 %	8,4 %	9,8 %	9,9 %	10,6 %	10,3 %	12,3 %	12,5 %					
Expected development											12,5 %	13,7 %	14,7 %	15,2 %	15,7 %	16,2 %
Economic stress											12,5 %	13,7 %	14,4 %	14,5 %	12,7 %	12,7 %

Figure 17 - Development of core tier 1 capital ratio

The calculation of ICAAP was conducted in 2015 with data as at 30/09/2015. The year-end core tier 1 capital ratio was forecast at 13.7%.

Relationship to other documents

The ICAAP is closely related to the following documents, which also contain important assessments and documentation:

- Capital plan and contingency plan for capital for 2016, which contain assessments of the Group's capital level and future capital targets
- Risk strategy for 2016, which provides a high-level overview of the Group's risk appetite and capacity in the main risk areas
- The recovery plan, which describes trigger levels and measures to enable a normalisation of banking operations in the event of a serious crisis. The plan also contains a description and documentation of scenarios used in the inverse stress test.

5.4 Recovery plans

The EU Crisis Management Directive (Bank Recovery and Resolution Directive – BRRD) includes requirements for banks to draw up recovery plans to handle financially stressed situations. These plans should be maintained and updated at least once a year, and processed by the Board.

Under the Crisis Management Directive, national authorities are required to lay down requirements for the content of recovery plans, the date of the first plan and the updating frequency for institutions that may produce one under the 'simplified obligations'.

There are as yet no Norwegian rules implementing the requirements in the Crisis Management Directive, and the Banking Law Commission is examining how this Directive should be implemented in Norway. A technical standard defines minimum criteria for supervisory monitoring of recovery plans and should ensure a common approach to regulatory supervision.

5.4.1 Purpose and required content

One important purpose of the Directive is to limit the costs to taxpayers that result from a crisis in an undertaking, and to prevent a crisis in a systemically important undertaking from threatening financial stability. The Directive emphasises that the shareholders and creditors must bear their share of the costs when an undertaking is in crisis. Deposits that are covered by the deposit guarantee schemes must normally be shielded from losses. Some types of liability are exempt from 'bail in' (being written down or converted to equity)

The EBA has published a technical standard with detailed minimum requirements for recovery plans. This standard provides a common framework for the design, content and testing of financial institutions' plans for recovery from serious crisis:

- Summary
- Information on the management structure for the plan
- Strategic analysis
- Communications plan
- Analysis of improvement measures for recovery

The standard states that the recovery plan should be built up and structured according to these five main elements.

5.4.2 Main points in the recovery plan

The recovery plan for SpareBank 1 Nord-Norge is a comprehensive document whose main focus is on strategic analysis, contingency measures and scenarios.

Indicators and trigger levels

The Bank has made use of the standard setup from the EBA (requirements for types of indicator), uses the following levels for monitoring and handling of trigger levels:

Zone	Actions
Going concern	• Business as usual
Early warning	• 'Early warning' • The situation is reported and discussed within normal management mechanisms and governance structures • Contingency measures from the 'business as usual' list
Recovery	• The recovery team (crisis/contingency team) is set up • Gain an overview of the situation; produce a base for information and decision-making • Relevant and appropriate plans and actions from the recovery plan are implemented
Resolution	• Assumed resolution phase: the authorities are notified and the crisis management authority is assumed to take over control of the situation

Figure 18 - Trigger levels

Process in the Bank for implementing recovery measures

The CFO in consultation with the Risk Management department is responsible for:

- Identifying a potential crisis
- Categorising the risk level
- Situation reporting to the CEO, CFO, CRO and/or the extended Balance Sheet Committee

The extended Balance Sheet Committee is responsible for:

- Situation reporting to the crisis management group in relation to the crisis and continuity plan

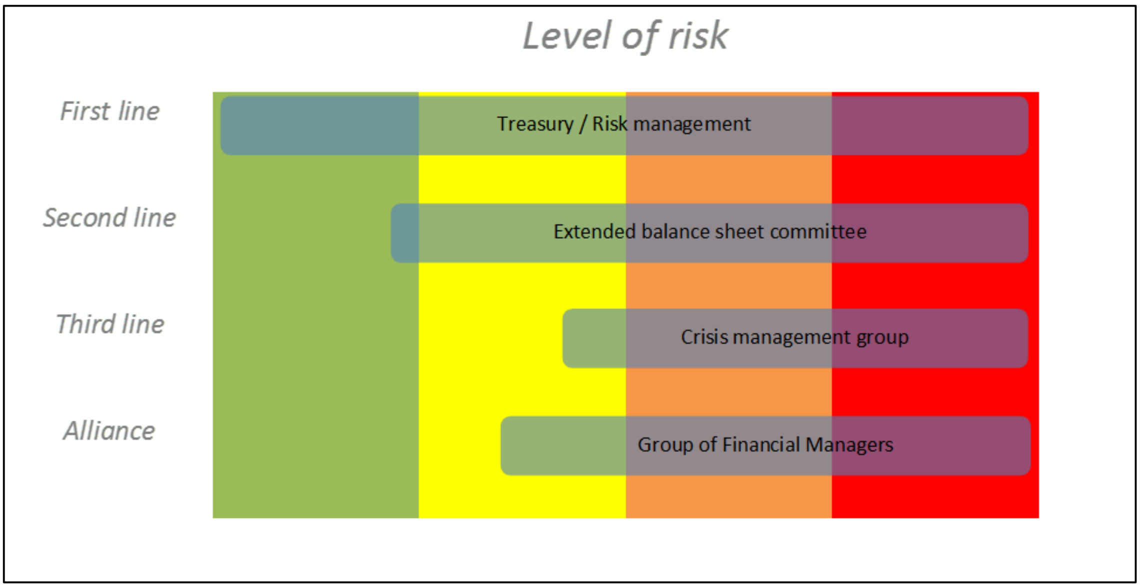


Figure 19 - Reporting structure in the recovery plan

Relevant measures should be decided on according to the risk level. The CEO is responsible for deciding and implementing measures.

Indicators in the recovery plan

The following indicators have been chosen and will be followed up by the Risk Management department. The results will be reported to the administration on a regular basis and included in the quarterly risk report to the Board.

- Core tier 1 capital ratio
- Total capital adequacy
- Leverage ratio
- LCR
- Liquidity indicator 1
- Funding cost
- RoE
- Significant operational losses
- Growth in number of non-performing loans
- Loan loss provision ratio
- Rating
- Variation in share price
- Variation in GNP
- CDS States

Indicators are assessed with respect to trigger levels in each reporting cycle and reported to senior management and the Board in the quarterly risk report.

Because every crisis is unique, the indicators will not automatically activate contingency measures, so they should not be seen as threshold values that will trigger a set of pre-defined reactions. Rather, they should be regarded as thresholds for when contingency measures should be looked at, re-evaluated and reviewed in terms of what a possible implementation might involve. Indicators are therefore a natural part of the escalation process moving towards a possible recovery plan.

Scenarios

The recovery plans are not meant to identify factors that could trigger a fresh financial crisis, but to evaluate the institution's ability to react to a wide range of shock events. The stress scenarios are adapted to the size and complexity of the institution. The scenarios cover both events that occur suddenly and crises that develop more slowly and gradually. The scenarios give an assessment of the impact on capital, liquidity, risk profile, profitability, operating situation and reputation.

SpareBank 1 Nord-Norge uses the following scenarios:

- Scenario 1: Concentration risk (large losses) - sudden, bank-specific
- Scenario 3: Financial crisis - sudden, market-wide
- Scenario 2: Systemic crisis - gradual, combination

Contingency measures

The contingency measures are in three parts:

- Plan for risk reduction measures
- Plan for capital injection and liquidity
- Communication plan

The measures have differing degrees of severness and attractiveness depending on the scenario type. They are implemented at different times from 'going concern' to recovery, depending on the type of crisis.

The strategic analysis concludes with the plan being adopted for the parent bank in the SpareBank 1 Nord-Norge Group. All essential support functions are located in the parent bank. It should be noted nevertheless that SpareBank 1 Gruppen and SpareBank 1 Boligkreditt AS are critical undertakings for the Group, but that it is inappropriate to plan for these companies in the plan for SpareBank 1 Nord-Norge as they are jointly owned companies within the SpareBank 1 Alliance. The recovery plan for SpareBank 1 Nord-Norge is supplemented with separate analyses drawn up jointly with other allied banks in SpareBank 1 Gruppen, Boligkreditt and Næringskreditt.

The overall intention of the process leading up to the Bank's recovery plan is to be able to make appropriate decisions and implement measures to prevent the Bank being seriously affected in the event of a financial crisis. The planning supplements the already existing crisis and continuity planning in the Bank and at the alliance level. The Risk Management department bears the main responsibility for drawing up the recovery plan in SpareBank 1 Nord-Norge, and the CEO together with the Board is responsible for approving it.

The plan should be kept up to date at all times in terms of operational and strategic conditions. The Risk Management department reviews the plan every year.

5.5 Capital allocation

During 2015, the Group developed models for allocating capital to the business areas in which regulatory and internal risk models provide a basis for allocation. The model uses regulatory calculated capital needs for credit risk and operational risk, economic calculated capital for market risk, concentration risk and spread risk, while invested capital is used for the Group's shares in associated companies. This should ensure that the business areas' profit contributions can be aggregated up to the Group's overarching profitability target. Significant business areas are allotted capital in relation to the calculated risk relating to the activities, and the return on capital is followed up.

6 Summary – Capital needs and capital adequacy

The purpose of the Group's risk strategy is to describe and define its risk capacity and risk appetite, along with key indicators and the monitoring of these. The risk strategy needs to be viewed in conjunction with the Group's ICAAP (capital evaluation), recovery plan and capital plan.

Risk profile

SpareBank 1 Nord-Norge has an express goal to maintain a low to moderate risk profile and to only take on risk that can be understood and followed up. The Group should not offer products and services or take actions which entails a significant risk of breaching ethical standards, violating human or employee rights, corruption or damage to the environment.

The risk profile is meant to provide the Group with access to long-term funding at attractive prices. The size and composition of the Group's risk-adjusted capital should match this ambition.

The following overarching risk levels are seen as key to strategic corporate governance:

- Moderate credit risk
- Low liquidity risk
- Low market risk (shares, interest-bearing securities and currency)
- Good capital adequacy at all relevant levels. Should be indisputably strong
- Target return in line with the expectations of owners and the market

Economic capital

Economic capital describes how much capital the Group believes it needs to cover the actual risk the Group has assumed. Since it is impossible to fully protect against all losses, the Group has stipulated that the economic capital should cover 99.9 per cent of possible unexpected losses in the course of one year.

Statistical methods are used to calculate the economic capital, but the individual risk types nevertheless require the use of expert models and qualitative assessments.

The diagram below shows the distribution of the economic capital across various risk groups based on the risk exposure as of 30/09/2015.

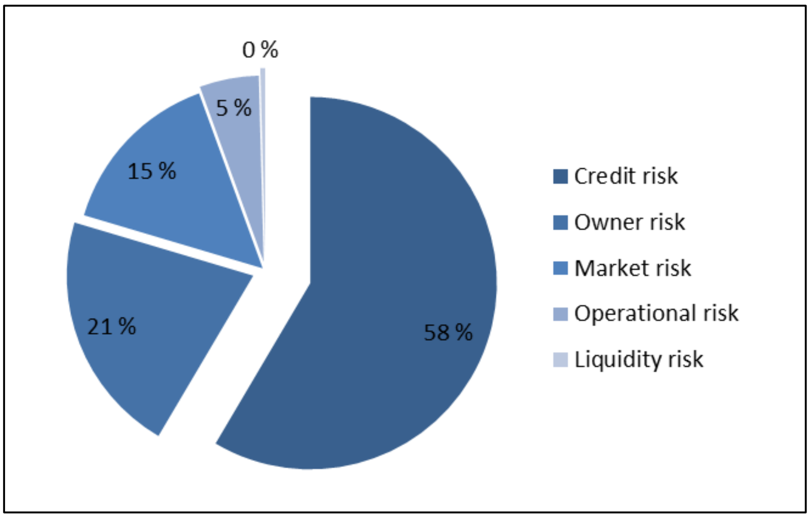


Figure 20 - Breakdown of regulatory and economic capital

In relation to the Group's risk profile and risk appetite, the Group has calculated a reasonable mark-up for risks which are not taken account of in the Group's regulatory capital requirements. We have been conservative in calculating the capital needs within each individual area, and the Group's forecast (2015-2019) shows that the solidity with regards to capital adequacy of the Group is strong even in periods of financial unrest. The management also has several tools available to further strengthen the core tier 1 capital ratio. The Group has also reduced its exposure in commitments outside its core business and tightened its capital management following the development of new models for capital allocation and pricing of commitments.

Regulatory capital

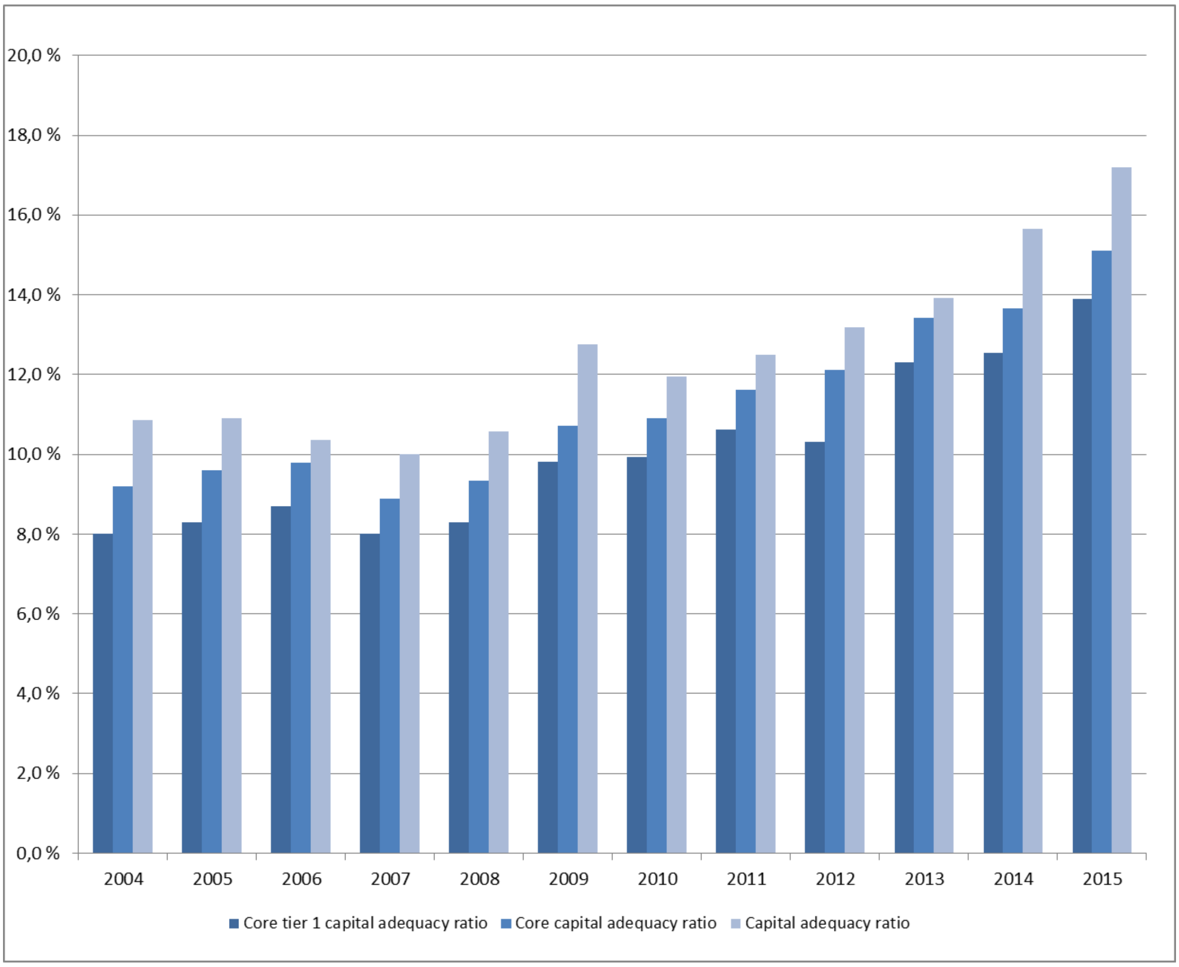


Figure 21 - Capital adequacy ratio development

In recent years the Bank and the Group have significantly increased their equity and core tier 1 capital to satisfy new regulatory capital requirements. New capital requirements, together with good economic prospects for the region, led to a decision to obtain NOK 750 million of new equity from shareholders in 2013. In light of recent developments in regulatory requirements, and the fact that the Group wanted to secure some financial manoeuvrability to be able to pursue opportunities, this decision proved to be both well timed and important.

Our own assessment of risk and capital needs can be summarised as:

- The Group has taken various actions to reduce risk and volatility in the results, including:
    - Focus on the core business (sales, management and/or winding down of portfolios/investments)
    - Reducing the concentration risk of large commitments
    - Clearer strategy for growth (investment in the retail and SME market)
- The Bank has also taken various measures to handle changes in competition, increased digitisation and tougher requirements for efficient operation through the project ‘Modernisation of SpareBank 1 Nord-Norge’. Among other things, this has led to 150 voluntary severance packages.
- The Group aims to achieve regulatory minimum requirements with a good margin, viewed against a collective expectation of a core tier 1 capital ratio of at least 14.5%

- In a serious recession, the Group aims to have sufficient capital to meet the expectations of the authorities on the use of buffers. In the event of such a serious recession, it must be assumed that countercyclical capital buffers will be adjusted/reduced. The Group wants to be able to take controlled measures to build up satisfactory capital levels within acceptable time limits.
- The Bank aims to have available capital in the SpareBank 1 Nord-Norge equity fund, which can be used if a critical situation were to arise.

6.1 Comparison of regulatory and financial capital requirements

The main differences between economic capital (Pillar 2) and the minimum regulatory capital requirements (Pillar 1) are due to:

Credit risk

Loss given default:

When the economic capital is calculated for the credit risk for loans secured by mortgages, the risk parameter 'loss given default' is calculated based on internal models, while it is governed by the Capital Requirements Regulations for the calculation of the minimum regulatory capital. Major differences are:

- Minimum 10% LGD for each individual exposure is not included in the economic calculation
- Minimum 20% LGD for the home mortgage portfolio is not included in the economic calculation
- Adaptations to Finanstilsynet's reference model are not included in the economic calculation

Degrees of loss given default for other exposures have recently migrated closer together, partly because the Group obtained permission from Q1/2015 to use A-IRB for the regulatory capital requirement calculation also. The differences here are now trivial.

Probability of default

Regulatory calibration of probability of default (PD) for exposures to home mortgages is much stricter than we consider reasonable in terms of the long-term outcome in the calculation of economic capital. There is also a regulatory minimum PD on home mortgages of 0.2%.

The corporate portfolio has insignificant differences between regulatory and economic capital needs. From 2016 we aim to use the same calibration level for PD in both regulatory and economic models.

Concentration risk: Economic capital takes the concentration risk into account.

Market risk

Market risk is the area where we see the greatest differences between regulatory and economic capital needs. This is because, from a regulatory standpoint, there are items in the trading portfolio which are included in the basis for calculation of market risk. Economic capital needs cover several subordinate risk areas and all items.

Other risks

In addition to the differences described above, there is an economic capital need for:

1 Liquidity and financing risk

SpareBank 1 Nord-Norge assesses the capital need for liquidity risk as the sum of the added costs of refinancing the loss of all deposit customers at over NOK 100 million in the market.

2 *Insurance risk*

The 'own risk and solvency assessment' ORSA for SpareBank 1 Gruppen forms the basis for our assessment of insurance risk.

3 Risk associated with pension liabilities

SpareBank 1 Nord-Norge uses actuarial scenarios to assess the development of pension liabilities and judges its economic capital needs on this basis.

4 Business/strategic risk

The Group uses qualitative assessments to calculate economic capital needs for business and strategic risk.

5 Systemic risk

Capital needs arising from systemic risk over and above those taken into account in the calibration of the models, the countercyclical capital buffer and systemic risk buffer are assessed by looking at imbalances in economic conditions, both nationally and in Northern Norway.

6 Risk associated with excessive build-up of debt

SpareBank 1 Nord-Norge extrapolates the leverage ratio in its forecast model and uses this as a basis for assessing capital needs for an excessive build-up of debt.

7 Ownership risk

In order to calculate capital needs beyond capital held for regulatory purposes, we have looked at the ICAAP/ORSA in SpareBank 1 Gruppen and reported regulatory capital needs for SpareBank 1 Kredittkort. We calculate regulatory capital adequacy excluding shareholder items and convert the difference between these and reported capital adequacy into capital, the compare this with our share of the capital need for SpareBank 1 Gruppen and SpareBank 1 Kredittkort.

Application

SpareBank 1 Nord-Norge uses regulatory capital in all of its capital planning. The Group's capital allocation model also uses regulatory credit models as a basis for measuring returns. Information on economic capital supplements this information where relevant.

Part 2: Risk types and exposures

7 Key risk groups

SpareBank 1 Nord-Norge is exposed to various types of risk, and the most important risk groups are:

Operational risk: Risk of loss as the result of inadequate or defective internal processes or systems, human error, or external circumstances. Operational risk encompasses legal risk, but not strategic or reputation risk.

Compliance risk: Risk of the Group incurring government sanctions/fines, financial losses or a weakened reputation as a result of a failure to comply with acts/regulations, standards or internal guidelines.

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

Credit risk: Risk of loss due to customers not having the ability or willingness to fulfil their obligations.

Liquidity risk: Risk of the Group being unable to fund increases in assets and being unable to meet its obligations as its overall funding requirements increase.

Ownership risk: Risk of losses in subsidiaries, SpareBank 1 Gruppen AS, SpareBank 1 Boligkreditt AS, SpareBank 1 Næringskreditt AS and BN Bank AS, related to the risk that the individual companies assume in their operations, as well as the risk of a need for the injection of fresh capital into one or more of these companies.

Business risk: Risk of inadequate earnings and funding related to a lack of diversification in the commercial basis or the lack of adequate and permanent profitability due, for example, to a high cost/income rate.

Strategic risk: Risk of inadequate earnings or generation of capital attributed to changes in the framework conditions, poor business decisions, poor implementation of decisions or failure to adapt to changes in the business environment.

Reputation risk: Risk of inadequate earnings and funding due to declining confidence and reputation in the market, customers, contracting parties, equity certificate holders and the authorities.

Statistical methods are used for the calculation of expected losses in the risk-adjusted capital (economic capital), but the calculations nevertheless require the use of expert assessments in some cases. For risk types where there are no recognised methods for the calculating capital needs, the bank attaches importance to defining limits for management of the risk that seek to ensure a low probability that a greater loss incident will occur.

The Group’s risk is quantified, for example, through calculations of the expected loss and the requirements for risk-adjusted capital (unexpected loss).

Expected loss: Describes the amount that the Bank may statistically expect to lose during a 12-month period.

Risk-adjusted (financial) capital: Describes how much capital the Group believes it needs to cover the actual risk the group has assumed. The Board has decided that the risk-adjusted capital should cover 99.9% of all possible unexpected losses. The calculation of risk-adjusted capital enables the comparison of risk across risk groups and business areas.

7.1 Credit risk

7.1.1 Management and control of credit risk

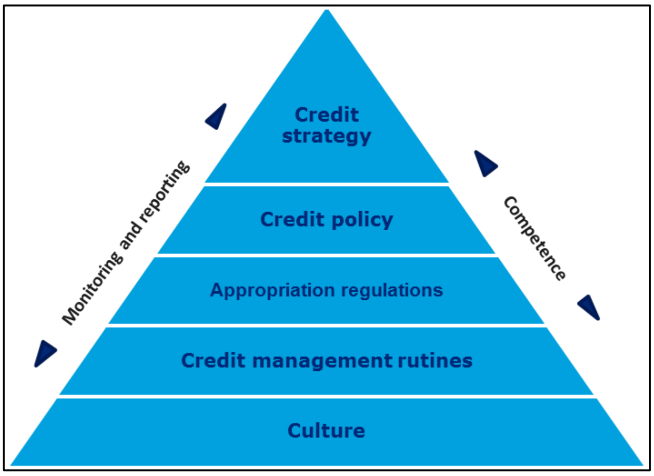


Figure 22 - Framework for credit monitoring

Credit risk is managed through the Group's overall credit strategy, credit policy, appropriation regulations and credit management routines. The individual elements are described in detail in the sections below:

- The Group's credit strategy is determined by the Board and updated at least once a year. The Group's credit strategy limits are defined so that they measure and identify changes in the ongoing risk exposure in the most appropriate and efficient manner through, for example, the expected loss and need for economic capital. In addition, the Bank's credit strategy limits place special restrictions on the concentration risk related to exposure and the risk profile of individual customers, customer groups and industries.
- The Group's credit policy is determined by The Chief Executive and updated at least once a year. The credit policy describe the principles for granting credit both at the general level and related to certain specific areas such as real estate financing and project financing. Examples of such principles include requirements for the percentage of equity financing and restrictions for the financing of commitments with a high level of risk and for individual industries.
- The Group's appropriation regulations are determined by the Board and updated at least once a year. The Board delegates authority, within certain limits, for the operational

responsibility with respect to decisions in loan and credit cases to the Chief Executive. The CEO can delegate authority to others within the scope of his own authority.

- The credit management routines regulate in detail all the circumstances related to the Group's granting of credit and follow-up of commitments.

The credit granting process may be described as shown in the figure below.

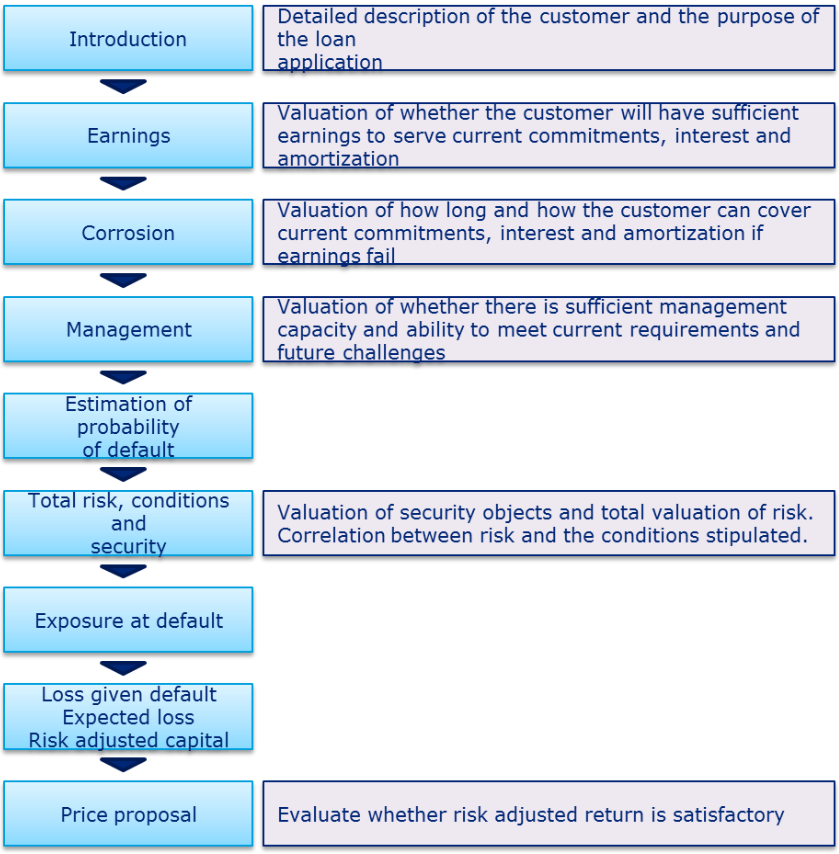


Figure 23 - Credit rating process

The ongoing monitoring and follow-up of commitments and credit portfolios are central to the Group's risk management. The Group's risk exposure is followed up by means of the Group's portfolio management system. The system contains information on individual customers and portfolios, and provides efficient follow-up of the risk profile and management of the portfolio. SpareBank 1 Nord-Norge updates the portfolio information monthly by means of internal and external customer data. The risk-related development of the portfolio is followed up monthly, with special emphasis on the development of the risk classification (migration), economic capital requirements and the risk-adjusted return.

The framework for commitment and portfolio monitoring is shown in the figure below.

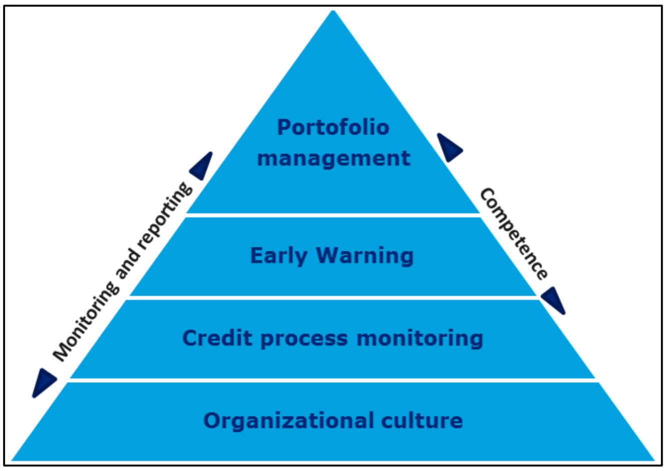


Figure 24 - Framework for credit monitoring

The Risk Management and IT Department performs independent risk monitoring and reports the overall risk exposure to the executive management team and the Board.

Defaults and write-downs

A commitment is deemed to be in default if one of the following criteria applies:

- a claim has been due for more than 90 days and the amount is over NOK 1,000, or
- the Bank considers it unlikely that the customer will meet their payment obligations as a result of:
    - the debtor suffering significant financial problems
    - non-payment or other significant breach of contract
    - the customer has been granted new terms (special concessions) due to financial problems
    - debt negotiations or insolvency are likely (over 50% probability)
    - it is considered that the customer will not meet his payment obligations to two of the reasons

Individual commitments, and hence the entire portfolio, are scored monthly based on objective data. The Bank makes individual write-downs for loans where there is objective evidence that the loan in question is doubtful. Individual write-downs for impaired value are calculated as the difference between the book value of the loan and the present value of the discounted cash flow based on the effective interest rate at the time of the initial write-down. Subsequent changes in interest rates are taken into account for loan agreements with adjustable interest rates.

The Bank assesses its entire portfolio of business customers annually. Large commitments, or commitments with a special risk profile, are examined more frequently, with quarterly or monthly reviews. For particularly risky commitments, an action plan will be draw up and followed up regularly. Quarterly assessments form the basis for individual write-downs or other measures in relation to individual customers. The assessment is mandatory and is performed on commitments with the following characteristics:

- large commitment

- high risk
- negative migration in the risk class
- commitments subject to special follow-up (watch list, with action plan)

Beyond this, an ongoing assessment is performed on the actual commitments that are in default or written off.

Loans to private individuals are assessed when more than 55 days have elapsed since a default or when there are indications of loss incidents, or they actually exist.

Commitments that are not written down individually are included in the basis for group write-downs. Group write-downs for impaired value are calculated for sub-groups of loans, where there is objective information showing an increase in the credit risk, but where it is not possible to examine all the commitments on an individual basis or where it is not possible to specify the information at the commitment level. Such information may consist of a negative development in the credit risk classification or information about a negative development in the value of assets pledged as collateral security, the profitability in a particular industry, or the ability of groups of debtors to pay.

7.1.2 Structure of the IRB system

The schematic diagram below illustrates how the IRB system affects several key areas in the Bank. The objective is to ensure satisfactory fulfilment of the capital adequacy requirements stipulated for the banks. This objective presupposes high quality, involvement, compliance and transparency throughout the entire value chain up until the Board's assessment and stipulation of strategies and the level of satisfactory capitalisation. This includes quantitative methods for the measurement of risk, the quality of the processes that produce data for the quantitative risk estimates and requirements that the organisation integrate and use this data at all the relevant levels.

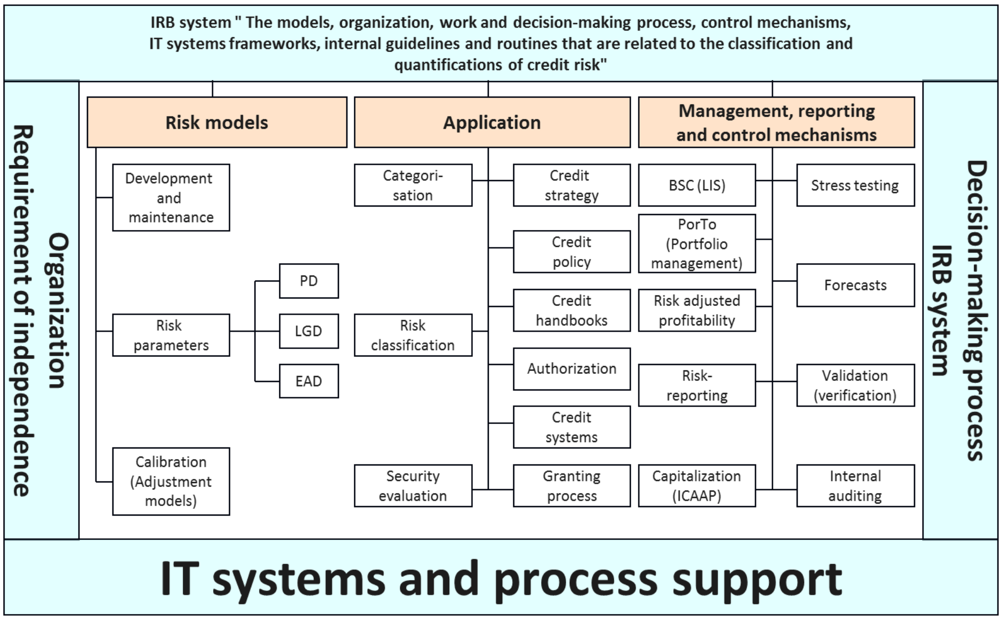


Figure 25 - IRB system

7.1.3 Model description and application

Credit models and risk classification system

The risk models used in the risk classification system for the credit process are based on statistical calculations, and they are subject to continuous development and testing. The models are based primarily on the following components:

Figure 26 - Risk classification system

Probability of default (PD)

Statistically calculated probability of the customer defaulting on its payment obligations during a 12-month period calculated on the basis of a long-term outcome.

Commitments are classified in risk classes according to the probability that the customer will default on its commitments during a 12-month period. The model is calibrated against the long-term outcome.

In order to classify customers according to the probability of default, nine risk classes (A–I) are used. The Group also has two risk classes (J and K) for customers with commitments in default or commitments that have been written down. Classification into high, medium and low risk is determined based on the probability of default.

Risk classes of default (PD)	Lower level	Upper level
A	-	0,10 %
B	0,10 %	0,25 %
C	0,25 %	0,50 %
D	0,50 %	0,75%
E	0,75 %	1,25 %
F	1,25 %	2,50 %
G	2,50 %	5,00%
H	5,00 %	10,00%
I	10,00 %	99,99%
J	Non-performing commitments, not impaired	
K	Non-performing commitments, impaired	

Figure 27 - Definition of default/risk classes

For regulatory PD, Finanstilsynet's reference model provides a guide to which model we can use. For example, the minimum regulatory PD for retail customers is set at 0.20% – which means that the regulatory reporting does not show any customers in default class A in the Bank. The regulatory model is also calibrated against a slightly higher long-term level for DR for home loans than the Bank's assessment of the long-term outcome.

Expected exposure at default (EAD):

The EAD is an estimate of what the exposure will be if a customer defaults. The calculation is based on the customer's overall exposure, including facilities and guarantees that have been granted but have not been drawn on.

The conversion factor for the expected exposure at default for facilities and guarantees that have not been drawn on varies according to the customer's capital adequacy for the corporate market. For guarantees, the conversion factor are set by the capital adequacy framework. For credits to the retail market, we assume 100% drawing on undrawn lines of credit.

Loss given default (LGD):

LGD is an assessment of how much the Group could potentially lose if the customer defaults on its commitments.

Seven different classes are used (1–7) for classifying commitments in relation to security cover.

Security class	Corresponds to the collateral coverage (Realisation value)
1	Over 120 %
2	Over 100 %
3	Over 80 %
4	Over 60 %
5	Over 40 %
6	Over 20 %
7	Up to 20 %

Figure 28 - Definition of security classes

The assessment takes into consideration the value of the assets that the customers have pledged as security, and the costs incurred by the Group in connection with recovering the commitment in default. The Group determines the realisable value of the security pledged based on its own experience over time, and this value should reflect a conservative assessment of the realisable value in a recession.

The realisable value is calculated as the object's market value after the deduction of a standard reduction factor and any additional value adjustments.

Standard reduction factors produce relatively large reductions compared to estimated market value, for example:

- Residential property – Realisable value = 60% of estimated market value (rate, purchase price).
- Commercial property – Realisable value = 45% of estimated market value.
- Fishing vessels – Realisable value = 50% of estimated market value.
- Ships (other) – Realisable value = 40% of estimated market value.
- Inventory – Realisable value = 25% of estimated market value (book value).

Risk pricing

It is a fundamental goal that the capital will, as far as possible and within the adopted business strategy, be allocated to the areas that provide the highest return, measured in terms of return on capital.

SpareBank 1 Nord-Norge is concerned about pricing risk, and it therefore measures the return on capital in connection with the granting of credit and follow-up. The risk-pricing model is based on the same main components as the Group's risk classification system, and these components establish the basis for the calculation of the return on capital for the individual commitment.

Validation

The model is validated with a focus on whether the authorities' requirements and the internal quality requirements have been met. This validation takes place at least once a year, and an annual validation report is prepared for review by the Board, where both the quantitative and qualitative areas are validated to verify the adequacy of the system and identify needs for adaptations and improvements. The conclusions from the validation in 2015 were as follows:

The PD model for the corporate market has a satisfactory ranking capability – and is calibrated against a reasonable level with satisfactory margins over actual default rates.

The EAD model for the corporate market gives robust and reasonable estimates of EAD.

The LGD model for the corporate market – with a bank-specific safety margin – gives sufficiently conservative estimates of LGD to meet the statutory requirements for downturn estimates.

The PD model for the retail market has shown good ranking capability over time, both overall and for selected customer groups. The calibration level for regulatory use is considered conservative, and there are relatively big margins between the estimates and actual default rates.

The EAD model for the retail market produces reasonable estimates of EAD.

The LGD model for the retail market gives estimates that meet the statutory requirements for downturn.

Estimated risk parameters in relation to observed outcomes

When we compare the calculated default probability with the actual outcome for the next 12 months, we use the scoring model and not the regulatory classification. This entails some differences, e.g. sole traders scored using a retail customer model are not necessarily classified as mass market.

For the PD model, we compare the estimates with the actual default rate (DR). For LGD, we compare the estimates for the default portfolio with realised losses for the same customers.

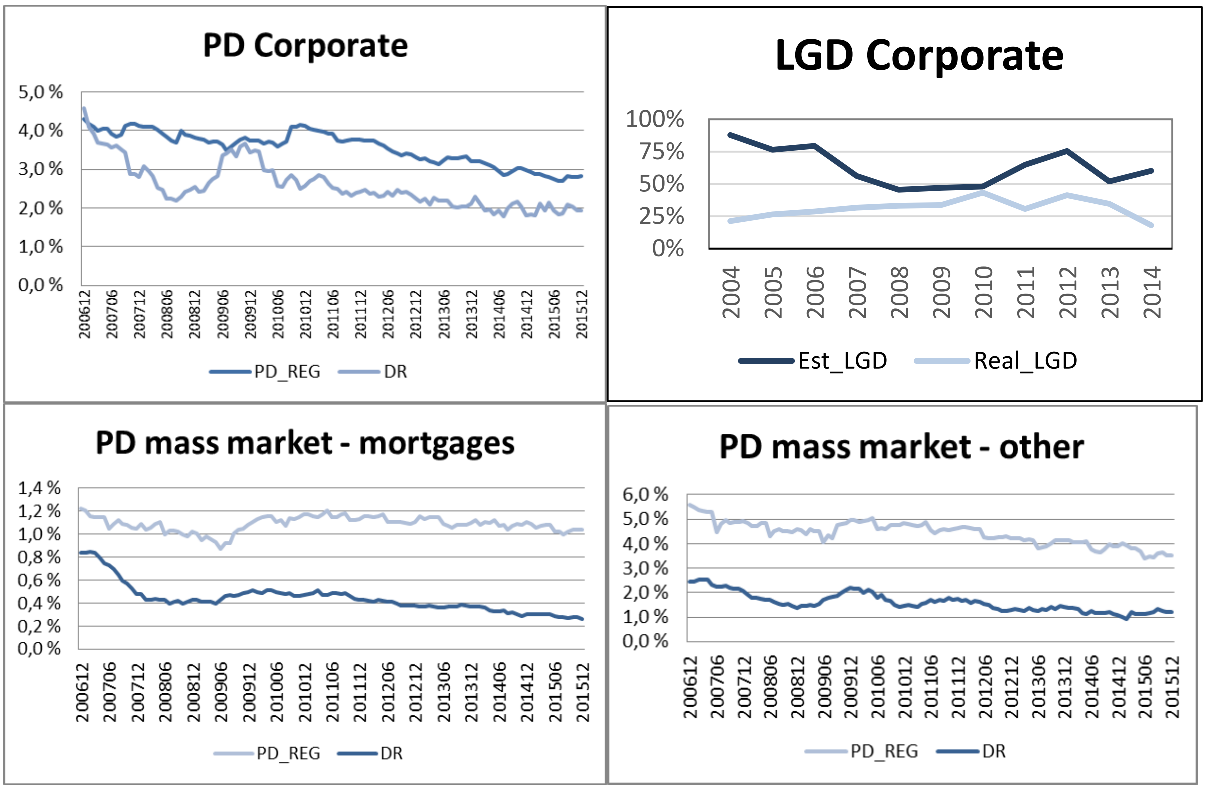


Figure 29 - Comparison of risk parameters with actual outcomes

7.1.4 Credit exposures

Overview of total commitment amounts for ‘Group capital adequacy’. Proportional consolidation is used for capital adequacy reporting for SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt and BN Bank.

Amounts in NOK millions Category (IRB)		Commitments / exposures	EAD / Commitments after write-downs	RWA	RW
Enterprise	Specialized	17.184	16.807	10.620	63,2 %
	SME	6.811	6.237	4.587	73,6 %
	Other	2.392	2.846	2.061	72,4 %
Sum enterprises		26.387	25.889	17.268	66,7 %
Mass market	Real estate - not SME	67.722	67.719	15.185	22,4 %
	Real estate - SME	1.677	1.672	522	31,2 %
	Mass market other - not SME	1.061	1.059	500	47,2 %
	Mass market other - SME	166	162	50	31,0 %
Sum mass market IRB		70.625	70.612	16.258	23,0 %
Sum IRB		97.012	96.502	33.526	34,7 %
Sum Standard approac (COREP)		54.223	54.171	17.931	33,1 %

Figure 30 - Breakdown of commitment by capital adequacy categories – credit exposures

In our annual report, the companies included in Group capital adequacy are different from ‘Group capital adequacy’ above, as we are subject to the rules on significant and insignificant shares in financial institutions when it comes to reporting capital adequacy. The greatest differences are that BN Bank, Næringskreditt and Boligkreditt are included in Group capital adequacy.

Development of the lending portfolio – annual financial statements:

The development of the lending portfolio in terms of sector breakdown over the last two years has been as follows:

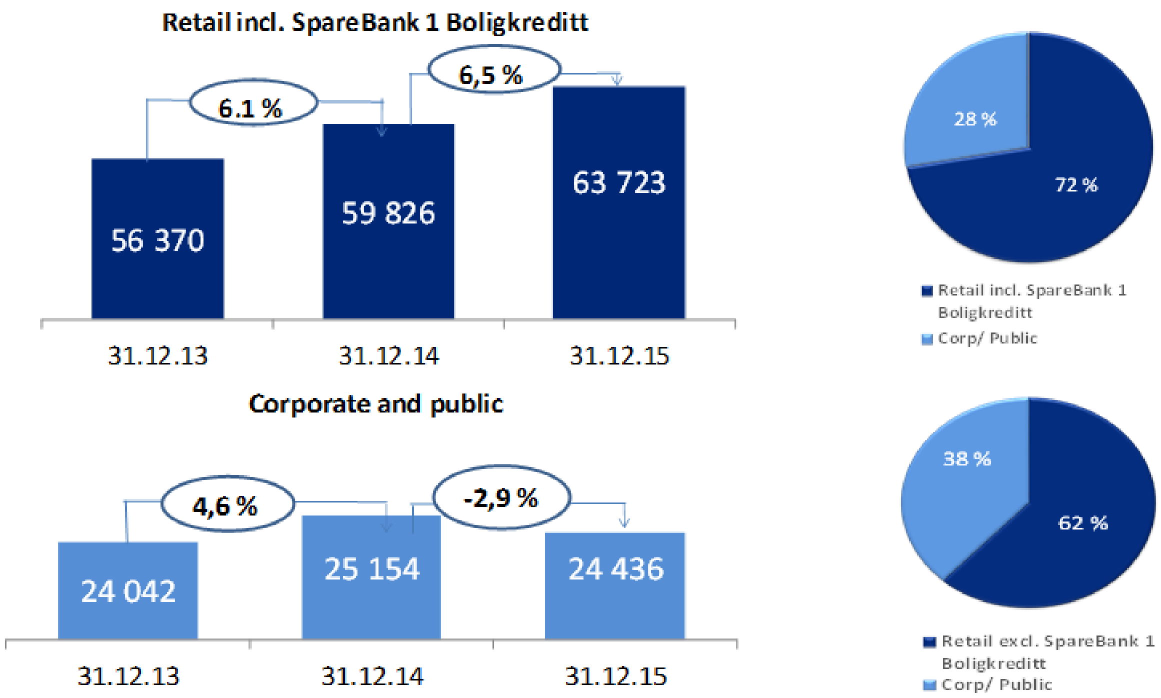


Figure 31 - Lending growth

As at 31/12/2015, loans totalling NOK 24.4 billion were transferred to Boligkreditt. During 2015, loans to business customers decreased, while there was growth in the retail market.

The composition of the lending portfolio as of 31/12/2015 was:

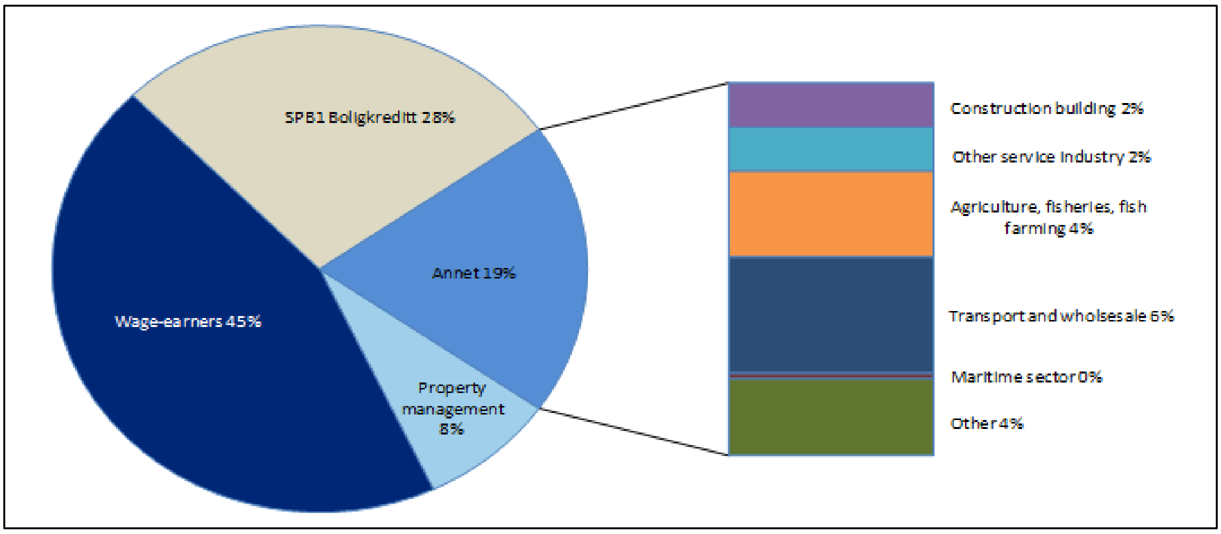


Figure 32 - Composition of lending – key figures

SpareBank 1 Nord-Norge has a well-diversified lending portfolio, with a high proportion of private market and primary industries. The corporate market portfolio viewed in isolation is also well diversified. In our lending for commercial property, we have not found any significant problems, and the occupancy rate is satisfactory in our market sector.

For detailed accounts of our portfolio, broken down by geography, duration and detailed industry categories, refer to our published Annual Report, particularly Notes 7, 11 and 19.

Losses

Development in net losses, book losses, loss write-downs and Group-level write-downs is shown in the figures below.

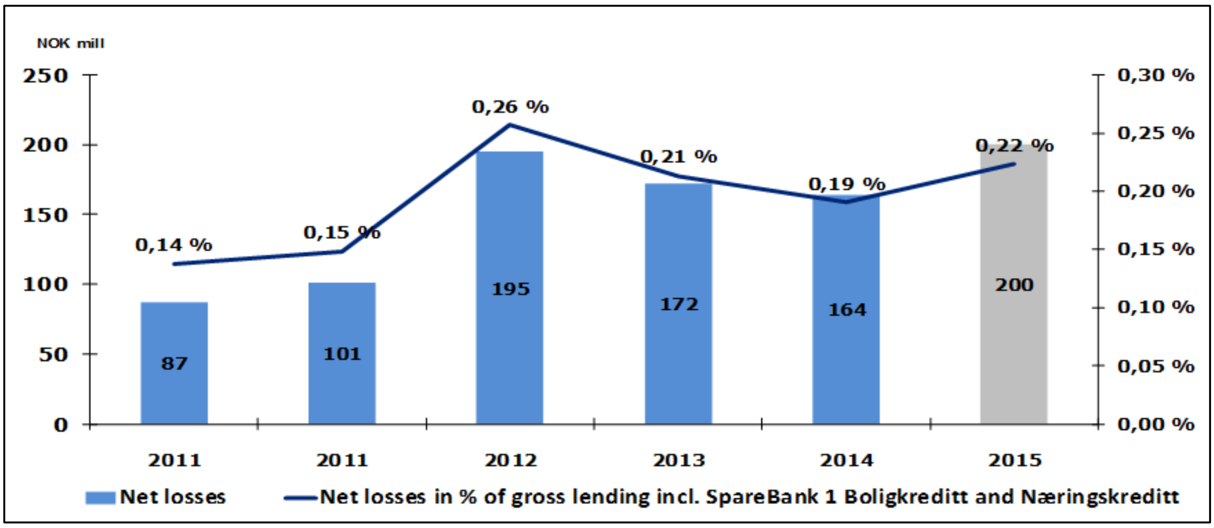


Figure 33 - Net loss development

Amount in NOK million Recognised losses	2015	2014	2013
Change in individual write-downs for the period	-3	30	40
Change in group write-downs/change in long-term monitoring for the period	54	30	12
Write-offs for the period, for witch individual write-downs were made earlier	92	109	117
Write-offs for the period, for witch individual write-downs were not made earlier	64	5	11
Recoveries on loans, guarantees, etc. previously written down	-7	-10	-8
Total losses on loans and guarantees	200	164	172
Other losses	-	157	
Total losses on loans and guarantees	200	321	172

Figure 34 – Recognised losses

	Amount in NOK million Group write-downs	2015	2014	2013
	Group write-downs to cover losses and guarantees as at 1. January	236	209	198
+	Group write-downs to cover losses and guarantees for the period	11	27	11
=	**Group write-downs to cover losses and guarantees as at 31.12**	247	236	209

Figure 35 - Development of group-level write-downs

	Amount in NOK million Individual write-downs	2015	2014	2013
	Individual write-downs to cover losses on loans and guarantees as at 1. January	171	244	303
-	Write-off of loans and guarantees previously written down individually for the period	132	125	117
-	Reversal of write-downs from prior years	0	66	12
+	Increase in write-downs on commitments previously written down individually	38	22	30
+	Write-downs on commitments not previously written down individually	92	96	40
=	**Individual write-downs to cover losses on loans and guarantees to customers as at 31.12**	169	171	244
+	Individual write-downs to cover losses on loans to institutions as at 31.12		157	
=	**Individual write-downs to cover losses on loans and guarantees as at 31.12**	169	328	244

Figure 36 - Development of individual write-downs and provisions

For further information on losses and default portfolio, refer to Note 14 in the Annual Report.

Amounts in NOK millions Category	Risk-class	Total EAD	EAD off-balance	Average risk-weight	Average LGD	PD%
Corporate	A	405	4	28 %	51 %	0,09 %
	B	860	110	26 %	21 %	0,17 %
	C	4.134	693	37 %	24 %	0,37 %
	D	2.278	331	50 %	29 %	0,63 %
	E	5.142	267	60 %	27 %	0,97 %
	F	4.616	597	66 %	28 %	1,79 %
	G	3.124	407	93 %	34 %	3,58 %
	H	2.552	161	136 %	40 %	6,72 %
	I	574	52	157 %	34 %	16,36 %
	J	38	1	28 %	58 %	100,00 %
	K	509	20	158 %	0 %	100,00 %
Total Corporate		24.232	2.644	71 %	29 %	2,28 %
Mass-market, Real estate	A	-				
	B	19.567	3.671	7 %	16 %	0,21 %
	C	17.713	550	14 %	21 %	0,37 %
	D	11.855	84	22 %	23 %	0,61 %
	E	10.222	33	32 %	25 %	0,95 %
	F	4.540	18	46 %	25 %	1,65 %
	G	1.188	6	66 %	23 %	3,47 %
	H	830	2	96 %	23 %	7,01 %
	I	1.138	2	142 %	25 %	22,77 %
	J	90	0	25 %	25 %	100 %
	K	62	0	64 %	38 %	100 %
Total massmarket - Real estate		67.204	4.366	22 %	21 %	1,06 %
Mass-market, other	A	-				
	B	236	64	20 %	46 %	0,21 %
	C	246	34	31 %	48 %	0,38 %
	D	196	34	40 %	47 %	0,63 %
	E	158	15	48 %	46 %	0,96 %
	F	116	6	61 %	47 %	1,71 %
	G	127	6	73 %	48 %	3,55 %
	H	76	1	76 %	46 %	6,97 %
	I	46	2	108 %	48 %	20,86 %
	J	8	0	3 %	50 %	100,00 %
	K	13	0	2 %	74 %	100,00 %
Total massmarket, other		1.221	163	45 %	47 %	2,13 %

Figure 37 - Exposures under IRB - breakdown by risk class and main category

7.1.5 Security – credit risk

The following principal types of security are used:

- secured by a mortgage on real estate
- receivables
- movable property
- agricultural chattels
- inventories
- operating equipment
- fishing vessels with permits and farming licences

As far as guarantors are concerned, the main categories are private people through guarantees for consumer loans, enterprises, banks and the public sector.

In Q1/2015, SpareBank 1 Nord-Norge obtained authorisation to use its own LGD -models to calculate capital requirements for the corporate portfolio as well.

Amounts in NOK million Type of commitment		Commitment	Of witch secured by a mortage on real estate [1] [2]	Of witch secured by other type of mortgage/security [1]	Of witch unsecured [1]
Corporate	Specialised Lending	17.184	75 %	24 %	1 %
	Corporate - SME	6.811	66 %	33 %	1 %
	Corporate - other	2.392	75 %	25 %	0 %
Mass market	Mortgages, not SME	67.722	100 %		
	Mortgages, SME	1.677	100 %		
	Mass marked - SME	1.061	38 %	17 %	45 %
	Other mass marked commitments	166	34 %	57 %	9 %
Total		70.625	90 %	9 %	1 %

Figure 38 - Total commitments under IRB and percentage secured by mortgages – Group capital adequacy

1) Share of total commitment with provision of security that matches the total commitment for the current commitment category.

2) A commitment for a retail customer, where the realisable value of residential property is valued at less than 30% of the customer's commitment, is not classified as a commitment secured by a mortgage on real estate.

SpareBank 1 Nord-Norge does not provide any security that entails a reduced commitment amount.

The Bank uses the realisation value of the security for new approvals. The realisation value is determined by valuing the individual object/security and then reducing the value in line with an extensive framework of reduction factors associated with various types of security and security objects. The valuation is performed for new approvals and in annual reviews.

SpareBank 1 Nord-Norge is entitled to set-off in accordance with the general provisions of Norwegian law. Our standard debt certificates, covenants and account agreements incorporate special provisions concerning access to set-off. The access to set-off is not added to the value when calculating risk/capital.

The Group has no specific guidelines on managing concentration risk in relation to types of security. However, the Group does have guidelines on concentration within industries, which necessarily also use the same types of security.

7.1.6 Counterparty risk derivatives

Amounts in NOK thousand	Nominal value	Credit equivalent	Net value	Capital requirement
FX- and interest rate instruments in the trading portfolio	12.988.049	149.996	29.999	2.400
FX- and interest rate instruments outside the trading portfolio	30.631.492	2.006.219	665.830	53.266
Commodity derivatives	812.439	178.170	51.811	4.145
Total	44.431.980	2.334.385	747.640	59.811

Figure 39 - Financial derivatives

Security for derivative exposure is covered by the CSA (Credit Support Annex), which is an addition to the standardised contracts between the Group and the counterparty banks (the ISDA Master Agreement). The Group monitors collateral as part of its daily procedures. The actual administration of net liabilities to all CSA counterparties is handled by SEB through agreements on collateral management.

7.2 *Liquidity risk*

Liquidity risk is defined as the risk of the Group being unable to fund increases in assets and being unable to meet its obligations as its overall funding requirements increase without a dramatic increase in costs. Liquidity is crucial to a financial institution, but this risk category will often be conditional, in the sense that it will only become visible when other events raise concerns about the Group's ability to settle its accounts.

7.2.1 Exposure

As shown by the figure below, loan capital in SpareBank 1 Nord-Norge is concentrated around issues of senior bonds in NOK. The picture is slightly different if we include the Group's share of SpareBank 1 Boligkreditt's OMF financing in other currencies. Overall, diversification is considered satisfactory, particularly in combination with the Group's maturity profile.

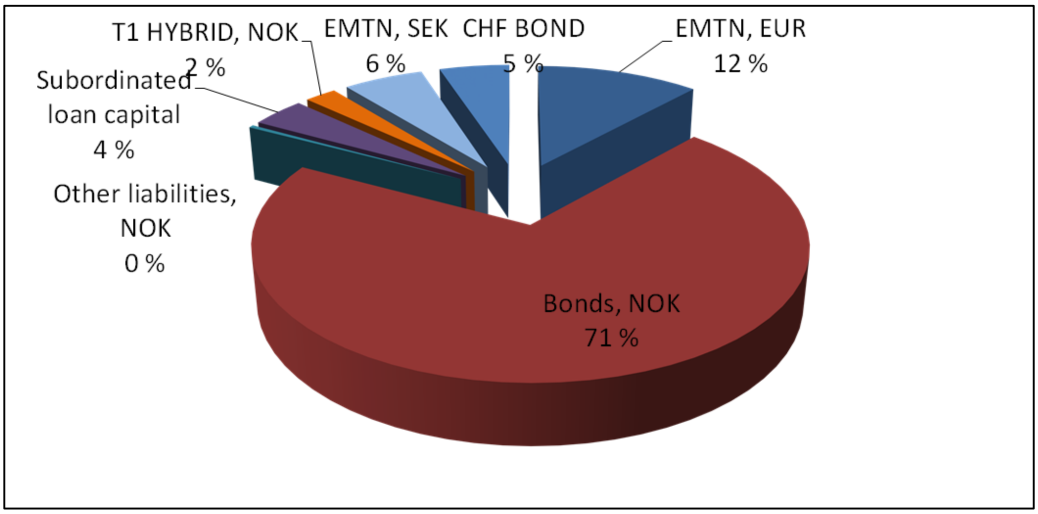


Figure 40 - Loan capital

The bank's funding maturity in 2016 is NOK 4,228 million (of which NOK 957 million is in EUR). The weighted average term to maturity of the financing is 3.14 years. SpareBank 1 Boligkreditt AS represents an important source of funding for the Group. The share of total mortgage lending transferred to the mortgage company was 39.3 per cent as of 31/12/2015. The figure below shows the bank's overall maturity profile as at 31/12/2015.

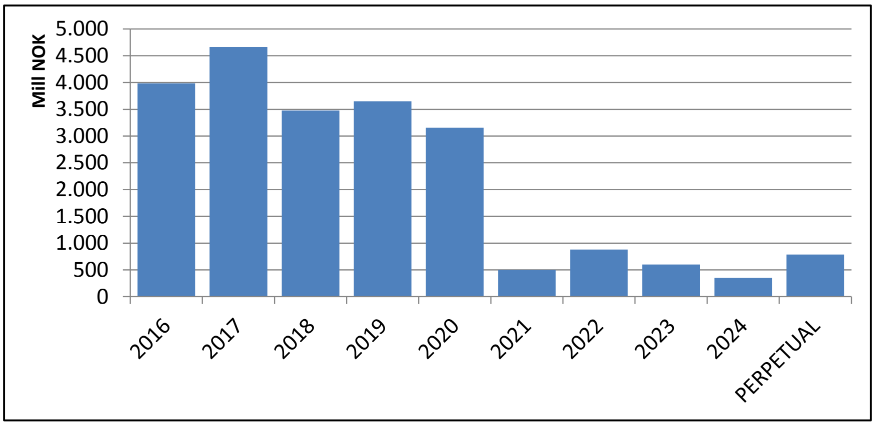


Figure 41 - Funding maturity

The figure below shows the historical development in LCR. This development is partly driven by a high take-up of loans in the spring of 2015 as a result of attractive pricing, while recent months have been marked by a softening of the rules compared to earlier proposals from Finanstilsynet, which suggested 100% LCR from the beginning of 2015.

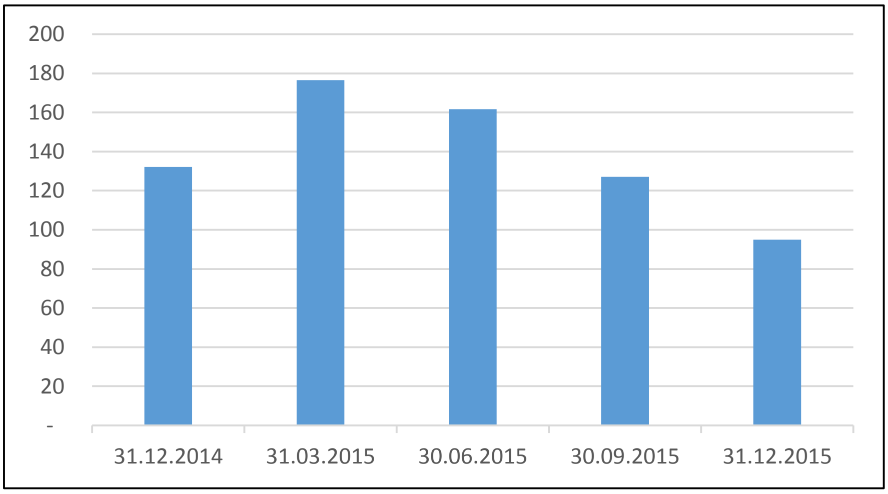


Figure 42 - LCR development

The liquidity reserve is affected by adjustment to LCR, which has resulted in recent years in liquidity reserves with better credit quality than before. The liquidity reserve as at 31/12/2015 was NOK 10.4 billion.

7.2.2 Management and control

The management of the Group's financial structure is based on an overall funding strategy that is reviewed and approved by the Board at least annually. The liquidity strategy reflects the desire for low to moderate funding risk.

The organisation of the Bank’s liquidity management is governed by a clear authorisation and reporting structure, in accordance with the Regulations on Prudent Liquidity Management.

Liquidity risk is managed and measured with the aid of several measurement methods, as no single method can quantify this type of risk. The methods include limits for maximum refinancing needs within different maturities, balance-sheet indicators, survival targets in a normal situation assuming closed capital markets and the short-term liquidity target of LCR. Internal stress testing of the Group’s viability is also carried out under various scenarios, including a serious banking and market-specific crisis. The results of the stress tests are included in the information used to produce the Group’s liquidity strategy and contingency plan.

The funding risk is reduced by diversifying funding across several markets, funding sources, instruments and maturities. Too much maturity concentration increases the vulnerability of refinancing. An attempt is made to limit this risk through defined limits.

The Group’s Treasury department is responsible for ensuring that the Group stays within the liquidity limits set by the Board at all times. Compliance with the limits is monitored by the Risk Management and Compliance Department. The status of the limits adopted by the Board is reported to the Board every month.

Balance Sheet Committee

The Balance Sheet Committee is an advisory body in relation to the market and liquidity area in the Bank.

The Balance Sheet Committee’s field covers the Bank’s total balance sheet, including funding risk, market risk, credit risk and interest rate risk. The Balance Sheet Committee meets regularly and the Bank’s funding strategy is reviewed annually or more frequently if special circumstances otherwise dictate a need for this.

The Balance Sheet Committee reviews funding risk, limit utilisation, balance sheet composition and funding structure once a month. Maturity diversification is reported once a month to the Board and the Balance Sheet Committee via a graphical presentation of the maturity structure. The frequency of meetings depends on the situation in the market.

Contingency plan

The Group has prepared a recovery plan for the management of the liquidity situation during periods of unrest in the financial markets. The plan is approved by the Board of Directors. The plan should be revised as and when necessary and at least once a year.

The purpose of the plan is to describe the management's strategy for handling crises and the Group’s contingency capacity.

7.3 Market risk

Market risk is defined as the risk of losses due to changes in observable market variables such as interest rates, foreign exchange rates and securities markets.

Market risk arises in primarily in connection with the Bank’s investments in bonds, certificates and shares, and as a consequence of activities carried out to support ordinary banking operations, such as funding and interest rate and currency trading. There is also market risk in the banking activities. This basically involves interest-rate risk on lending and deposits where differing interest rate lock-in periods on assets and liabilities are a source of interest-rate risk.

Market risk is primarily controlled through the daily follow-up of risk exposure based on the limits stipulated by the Board of Directors and an ongoing analysis of outstanding positions. The exposure limits are reviewed and renewed at least once a year.

7.3.1 Exposure

For a presentation of the Group’s market risk exposure, refer to Notes 15, 16, 17 and 30 in the Annual Report.

7.3.2 Management and control

SpareBank 1 Nord-Norge reviews the Bank’s capital market activities every year.

Individual matters are presented to the Board concerning the Bank’s capital market activities based on this review. The matters include status within the area with a view to the Bank’s own capital market activities - Treasury and SNN Markets, where all customer activities within the capital market area are gathered. Proposed new exposure limits are also considered.

The limits are determined based on stress tests and analysing market movements, as well as the risk capacity and willingness.

The Group’s market risk is otherwise managed and controlled primarily through the daily follow-up of risk exposures against the limits stipulated by the Board and ongoing analysis of outstanding positions.

The Risk Management and Compliance department is responsible for the ongoing, independent monitoring of market risk. Monthly reports for each portfolio are submitted to the Bank's Balance Sheet Committee and Board.

7.4 Ownership risk

The Group’s ownership risk depends on its shares in subsidiaries and associates, and the factors that affect their results and capitalisation. The risk therefore depends on the activities of the individual companies and their underlying risk.

The Bank’s exposure in associated companies is significant, and is important to the Bank’s operation, development and results. The companies and the cooperation within the alliance give the Bank access to up-to-date products and systems, while the costs are held at an acceptable level through sharing with the alliance banks.

Ownership risk is calculated for SpareBank 1 Gruppen and SpareBank 1 Kredittkort, i.e. the companies defined in the capital adequacy regulations as significant shareholdings, where the Bank does not apply proportional consolidation. For companies consolidated for capital adequacy purposes, the risk is handled under each risk type for the Group. Other smaller holdings/companies are handled as equity risk; see Note 31 to the Annual Report for 2015 for an overview of shareholdings.

The book value of shareholdings in associated companies is just under 5% of the total assets in the Group. The shareholdings have a major impact on the Group's financial strength and results. Volatility in results from most associated companies is associated with credit risk; for SpareBank 1 Gruppen, it is also associated with market risk through the stricture and exposures of the life company (SpareBank 1 Livsforsikring AS). SpareBank 1 Nord-Norge is represented on the boards of the associates, and plays an active role in safeguarding the Group's interests.

7.4.1 Capital needs

The figure below shows the calculation of the capital need for ownership risk (amounts in NOK millions).

Ownership risk	31.12.2015
Core tier 1 including SB1 Gruppen and SB1 Kredittkort	
Core tier 1	8.367
RWA	60.328
Core tier 1 capital adequacy ratio	13,87 %
Adjustments due to stakes in other financial undertaking	
Deduction in core tier 1	817
RWA increas (exceeding treshold)	2.359
Core tier 1 not including SB1 Gruppen and SB1 Kredittkort	
Core tier 1	9.184
RWA	57.969
Core tier 1 capital adequacy ratio	15,84 %
Capital need	
Regulatory capital need - SB1 Gruppen and SB1 Kredittkort	1.191

Figure 43 - Capital need for ownership risk

7.4.2 Management and control

SpareBank 1 Nord-Norge has a strong focus on management and control in companies in which the Bank has full or partial ownership.

In companies that are partially owned, either through direct ownership by SpareBank 1 Nord-Norge or indirectly through ownership of 19.5% of SpareBank 1 Gruppen, SpareBank 1 Nord-Norge is represented on the boards of all the major companies.

A good supply of information is provided through active board participation, which safeguards SpareBank 1 Nord-Norge's ownership interests. In cases that are of importance to SpareBank 1 Nord-Norge's other operations, the individual board chairman/member will submit the matter for a plenary discussion by the Group management team, which meets every week.

7.5 Business risk

The Group’s business risk arises from potential falls in earnings, significant changes in capital needs due to new regulatory requirements, and/or declining confidence, or damage to its reputation, in the market due to serious events. The risk can manifest itself as a weakening of the results that may be attributed to competitive conditions that result in lower volumes and pressure on the prices, competitors that introduce new products, government regulations or negative media coverage. Negative effect results arise if the Group is unable to adapt its costs to such changes.

Strategic planning is the most important tool for reducing business risk and involves both preventive measures and plans for how incidents should be managed. The Board reviews business strategies and plans for the area of risk management every year. The Group’s limits and guidelines, corporate culture and the SNN Code of Conduct play an important role in the commercial management of its operations.

Reputation risk is governed through policies and business activities, including compliance.

As business risk can arise as a result of different risk factors, a broad range of methods (quantitative and qualitative) are used to identify and report such risks.

The Group’s business model and management and control are judged to be robust in the face of changes in the market and regulation by the authorities.

Reputation risk and strategic risk are treated as part of the group's business risk.

7.5.1 Strategic risk:

Continuously monitoring competitors and the market keeps the management team and Board constantly apprised of external changes that are significant enough to warrant minor or larger strategic changes.

Management and the Board conduct an annual strategic analysis in which the Group’s challenges and opportunities are summarised and assessed, also taking account of expected changes in the world around us. The strategic analysis focuses as much on opportunities as on challenges, and forms a good basis for prioritising and implementing improvement measures in the Group. The strategic analysis is included in other risk and process analyses, which means that the overarching strategic challenges and opportunities are propagated to the whole organisation, and should contribute to greater understanding and increased target attainment at all levels in the organisation.

To provide for a comprehensive assessment of risk factors, opportunities and challenges in the strategic analysis, it is based in management information from several central reports, including the management report.

The Group’s strategic goals and strong social commitment, along with its ethical guidelines, are intended to enhance the Group’s reputation and ensure responsible operation in a market in a constant state of change.

Balanced scorecard

The Bank operationalises the strategy through various indicators within the various perspectives used in balanced goal management.

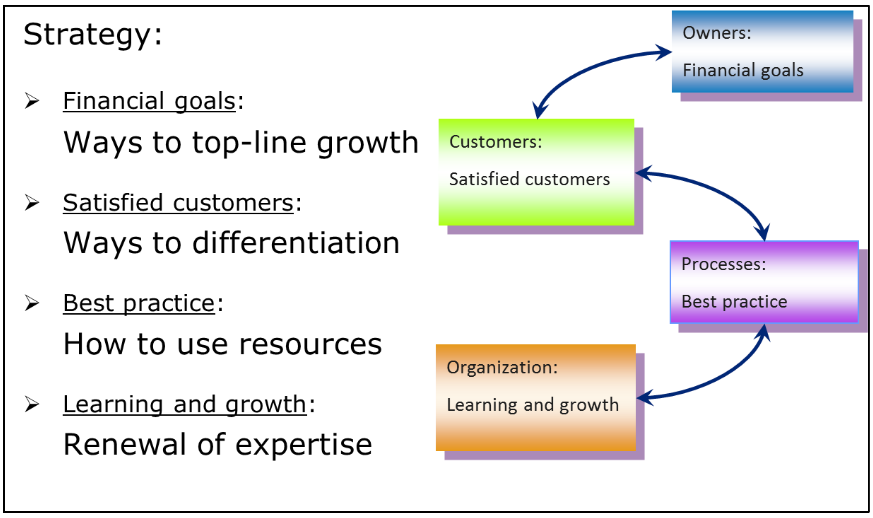


Figure 44 - Balanced scorecard

7.5.2 Reputation risk

Reputation risk is defined as the risk of losses due to a diminished reputation. This includes the risk of inadequate earnings and funding due to declining confidence and reputation in the market, i.e. customers, contracting parties, equity certificate holders and the authorities.

Social involvement strategy

SpareBank 1 Nord-Norge audits the Group's corporate social responsibility strategy annually. The strategy is intended to turn our social involvement into the best possible tool for enhancing our reputation among relevant interested parties. The strategy is a management tool that sets targets and areas for where our main focus should be directed. It also states the responsibilities and authorities relating to this work and forms a natural part of the work of maintaining/enhancing our reputation.

Management and control

Reputation management focuses on raising awareness about all important factors that create a good reputation.

Internal communication and corporate culture are the key to this work. This is because all employees, individually and collectively, help to shape the Group's reputation. The aim is to establish the corporate culture according to the Group's principles for reputation management, where one of the objectives is for all employees to feel involved in the way the image of the business develops. This is part of the SNN code, and is based on two key points:

- Our role as a savings bank and leading financial institution in Northern Norway
- Our vision and our values – for Northern Norway

7.6 Operational risk

The management of operational risk is an important part of the Group's comprehensive risk management. The Bank's ability to work systematically with management and control, including the systematic follow-up of weaknesses/improvement areas is the foundation its management of operational risk.

A self-assessment of the management and control is performed annually. Finanstilsynet's modules for risk-based supervision with the addition of the CoBiT framework for the assessment of ICT (IT Governance and Control) are used in this assessment. This review is an important part of the Group's annual ICAAP.

The Risk Management and IT Department is responsible for the ongoing, independent monitoring of the operational risk. Each year, the Board receives an independent assessment from Internal Audit and the responsible auditor for the Group's risk management, confirming whether the internal control works in an appropriate and reassuring manner.

The management of operational risk is handled largely through the 'Quality and risk management' tool described in section 5.2.2.

7.6.1 Capital needs

The minimum regulatory capital requirement calculated using the standardised approach for operational risk is calculated from average income for each business area for the past 3 years.

- Own account and procurement: 18 per cent
- Brokering for mass market customers: 12 per cent
- Banking services for retail customers: 12 per cent
- Banking services for corporate customers: 15 per cent
- Payment and settlement services: 18 per cent
- Associated services: 15 per cent
- Asset management: 12 per cent.

The minimum capital requirement calculated using the basic method for operational risk is 15% of the total average income of the business areas for the past 3 years.

The minimum regulatory capital requirement is calculated using the standardised approach for the parent bank and the basic method for subsidiaries and associated companies.

The Group's capital requirements as at 31/12/2015 related to operational risk are:

Standardised approach, parent bank	NOK 273.8 million
Basic method for subsidiaries and associated companies	NOK 9.1 million
Total	NOK 282.9 million

In Pillar 2 an assessment is made as to whether the Group requires additional buffers beyond the calculated minimum capital needs in Pillar 1 (shown above). This assessment includes an evaluation of the quality of management and control, including a self-assessment using the modules from Finanstilsynet.

Definitions and abbreviations

Regulatory capital - regulatory capital is the capital that can be included in the calculation of the capital requirements. Regulatory capital may be made up of core capital and supplementary capital. Detailed information on what qualifies as regulatory capital, core tier 1 capital, common equity tier 1 capital and supplementary capital in calculating capital adequacy is given in the Capital adequacy framework.

Core tier 1 capital is mainly deposits and accrued equity. *

Common equity tier 1 capital is core tier 1 capital and hybrid tier 1 securities. Hybrid tier 1 securities are debt instruments that can be converted to equity in specific cases. Issued hybrid tier 1 securities may make up 15 per cent of core capital, while excess amounts can be included in supplementary capital. *

Supplementary capital comprises subordinated loan capital and the portion of hybrid tier 1 securities that do not count towards core capital. *

* Full conditions and restrictions are defined in the Regulations on Calculating Regulatory Capital.

LGD – Loss given default. The central element of the LGD model is the relationship between commitments and the realisable value of securities. The model also has elements to ensure that LGD is also calculated for well-secured commitments.

EAD – Exposure at default. EAD is the expected commitment/exposure in the event of default. The expected amount depends on the type of commitment (loan, credit, guarantees etc.).

PD – Probability of default. PD is the estimated likelihood of a customer defaulting on its commitment within the next year.

EL – expected loss. Depending on PD and LGD, the expected loss is the amount of the loss expected on the commitment.

UL – Unexpected loss. Regulatory capital.

IRB – Internal rating-based approach. In this context, IRB is an authorisation granted to the Group by Finanstilsynet for the Group's own estimates/models to be used to calculate the capital requirement. IRB comes in two categories: F-IRB and A-IRB, where F (foundation) means the basic method and A stands for advanced method. Under A-IRB, the Group uses its own estimates/models for PD, LGD, EL and CF (the conversion factor used to determine EAD). For the foundation method (F-IRB), our own model was not used for LGD – LGD was defined by statute.

RWA – Risk-weighted assets

CRO – Chief Risk Officer. SNN: Executive officer responsible for the risk area.