PILLAR 3

2022

Security for customers and employees

SpareBank 1 ØSTLANDET

Contents

As of 23 March 2023, a new version of pillar 3 was published due to changes in table 7.6 regarding interest rate risk.

1 Introduction

Pillar 3 is a regulatory requirement for the disclosure of information about capital and risk conditions. This document, including the appendix containing standardised forms, the annual report, and quarterly reports and associated documentation, describes SpareBank 1 Østlandet's risk and capital management and is intended to satisfy the requirements concerning the public disclosure of financial information as stipulated in the applicable regulations.

This document is updated annually. If, however, there are significant changes that have an impact on the assessment of the Group's financial standing, then the document will be updated with new information. Standardised forms in attachments are updated at the recommended frequency for each form. Periodic information on the capital adequacy ratio and the minimum eligible capital requirement is available in the Group's quarterly reports. All figures are stated in NOK million unless otherwise stated.

Beyond the information available in this document with attachments, we refer to About us/Investor on SpareBank 1 Østlandet's website **sparebank1.no/nb/ostlandet**

1.1 The Group's risk statement

The Board of Directors has decided that the Group should have a moderate to low risk profile and be kept informed on the development of the Group's risk through regular reports. It is the Group's assessment that the risk management framework is adequate and well suited to the Group's risk appetite and business strategy. The Group is also of the opinion that the level of risk is commensurate with the established risk profile.

Table 1.1: Key metrics

Key metrics	
Profitability	
Return on equity after tax	12,9 %
Capital	
Common Equity Tier 1 capital ratio	17,7 %
Leverage ratio	7,2 %
Ratings	Aa3
Liquidity	
LCR	164,5 %
NSFR	125,3 %
Deposit coverage including the covered bond companies	52,4 %
Credit risk	
Risk weights in the IRB portfolio retail market	25,9 %
Risk weights in the IRB portfolio corporate market	57,6 %
Lending growth in parent bank	7,3 %
ESG risk	
Rating (Sustainalytics)	Negible risk
Green bond issuances as a proportion of total balance sheet	7,0 %
Retail market: Loans eligible for the green bond framework	14,7 %
Corporate market: Loans eligible for the green bond framework	14,6 %

Figure 1.1: Development in risk-weighted assets

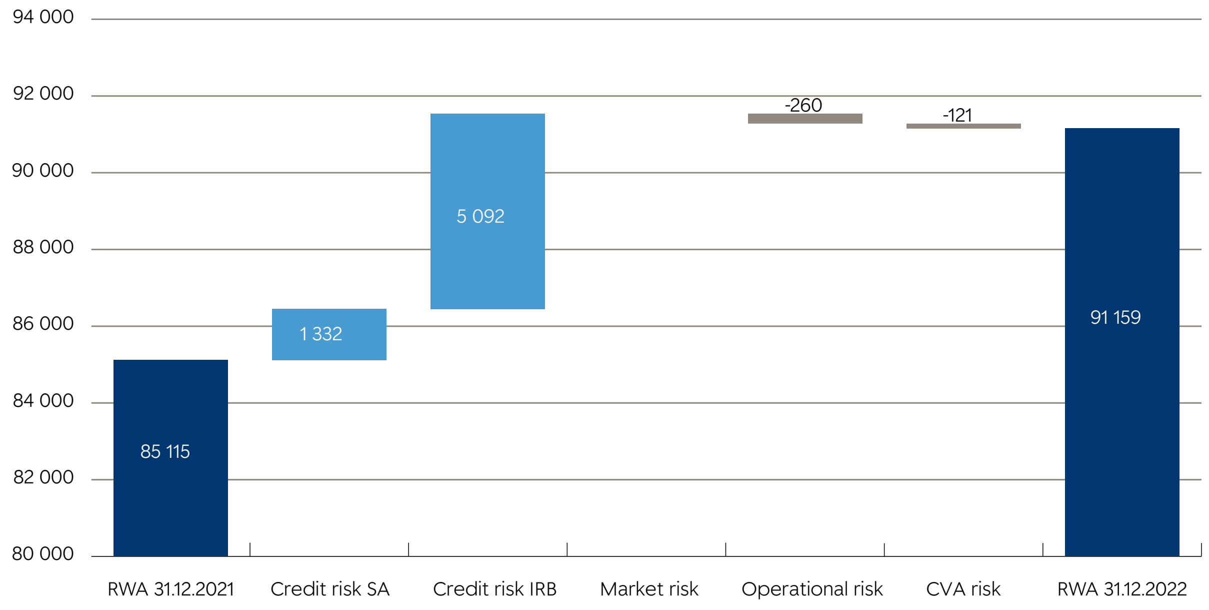


Figure 1.2: Capital adequacy

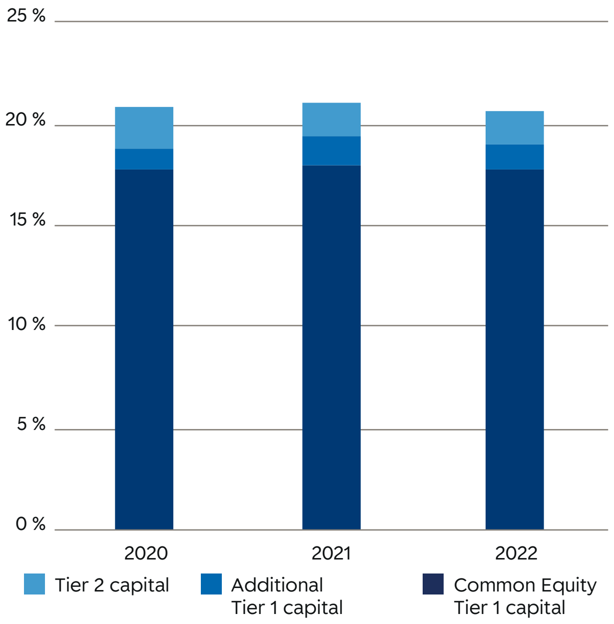
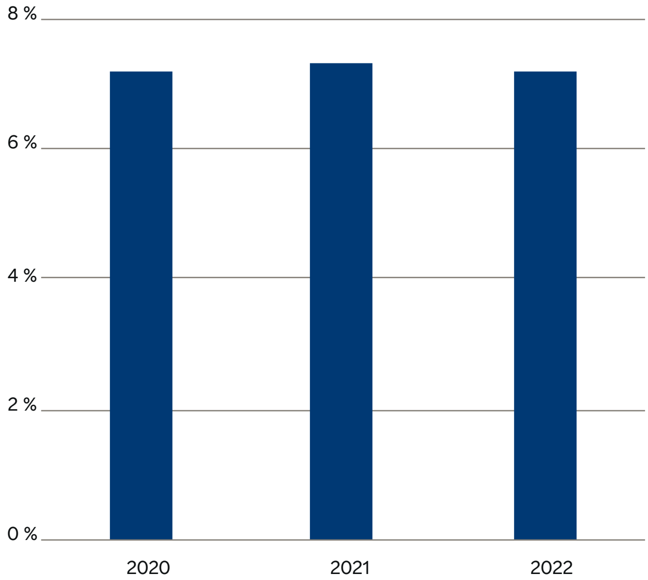


Figure 1.3: Leverage ratio



As far as material intragroup transactions and transactions with related parties are concerned, please refer to the notes in the annual financial statements vis-à-vis investments in subsidiaries, associated companies and joint ventures, as well as the notes regarding personnel costs and benefits for senior executives and employee representatives.

1.2 Confirmation from Chief Risk Officer

It is confirmed that the Group's Pillar 3 documentation as at 31.12.2022 has been prepared in accordance with the disclosure requirements described in Part Eight of the Regulation (EU) 2019/876 of the European Parliament and of the Council of 20.5.2019 and that the information provides a true and fair picture of the Group's capital and risk situation. According to internal guidelines, the Pillar 3 documentation process is owned by the Chief Risk Officer.

The documentation is reviewed by the Group's compliance function and considered by the Board's Risk Committee before being approved by the Board.

For assessment of the main risk areas associated with the Group's business model and how these risks are managed, please see the descriptions of the individual risk areas in the separate chapters in this document.

Vidar Nordheim
Chief Risk Officer (CRO)

1.3 Key risk groups

The Group is exposed to a variety of risks where the main risk groups are:

- **System risk** is the risk that financial instability will disrupt the provision of financial services to an extent that can lead to significant negative effects on production and employment.
- **Credit risk** is the risk of losses resulting from a customer's or other counterparty's inability or unwillingness to fulfil its obligations.
- **Market risk** is the risk of losses due to changes in observable market prices, such as interest rates, share prices or currency rates.
- **Liquidity and refinancing risk** is the risk of being unable to fulfil obligations or finance assets, including desired growth, without significant extra costs.
- **Operational risk** is the risk of losses due to weak or inadequate internal processes or systems, human error or external incidents.
- **Reputation risk** is the risk of a failure in earnings and access to capital due to failing confidence in the market, i.e. customers, counterparties, stock market and authorities.
- **Ownership risk** is risk that the Group will suffer negative results from stakes in strategically owned companies and/or the need to inject fresh capital into these companies.
- **Sustainability risk** (ESG risk) is defined as the risk of loss due to the Bank's exposure to counterparties being adversely impacted by ESG factors. ESG risk is a risk driver for credit risk, counterparty risk and market risk and may be divided into:

a) Environmental risk (E) is the risk of loss due to the Bank's exposure to counterparties being adversely impacted by environmental factors, including climate change and/or other environmental harm.

b) Social risk (S) is the risk of loss due to the Bank's exposure to counterparties being adversely impacted by social conditions, labour rights, human rights, poverty, etc.

c) Governance risk (G) is the risk of loss due to the Bank's exposure to counterparties being adversely impacted by poor corporate governance of the counterparty.

- **Compliance risk** is the risk that the Group will incur public sanctions/penalties, financial losses or a damaged reputation as a result of a failure to comply with laws, regulations or guidelines from the authorities.
- **Anti-money laundering risk** is the risk of the Bank's products and services being abused for money laundering or terrorist financing.
- **Conduct risk** is the risk of loss of licence, other public sanctions or criminal sanctions, loss of reputation or financial loss as a consequence of the Bank's business methods or the employees' conduct materially jeopardising customers' interests or the integrity of the market.
- **Regulatory risk** is the risk that changes to the regulatory framework significantly affect the Bank's profitability, capital requirements or framework conditions in a negative way.
- **Risk of unjustifiable debt build-up** is the risk that the Group's financial strength will be disproportionately reduced due to a high proportion of external funding and excessive debt build-up.
- **Business risk** is the risk associated with unexpected income and cost fluctuations due to factors other than credit risk, market risk, and operational risk.
- **Pension risk** is the risk of losses as a result of the Bank's pension scheme being underfunded in relation to future liabilities and as a result that pension capital must be increased.

2 The Group's risk and capital management

2.1 Purpose

The Group's risk and capital management shall support the Group's strategic development and goal fulfilment, and contribute to the maintenance of the desired risk profile. Risk and capital management shall also help to ensure financial stability and satisfactory asset management. This shall be achieved by:

- A clear corporate culture characterised by a high awareness of risk and capital management.
- A good understanding of the risks driving earnings.
- Striving for good use of capital.
- Avoiding unexpected negative events seriously harming the Group's financial status.

The framework for determining the Group's risk profile shall provide a holistic and balanced overview of the risk that the business is exposed to, and consists of statements that define the Group's risk appetite within significant risk categories. Risk appetite is defined as the desired risk exposure/profile from an earnings and loss perspective.

Based on the statements defining the Group's risk appetite, the risk profile is quantified through the determination of measurement indicators for the Group's risk appetite and risk capacity. Risk capacity is defined as maximum risk exposure before the Group conflicts with regulatory requirements or is forced to take undesired measures, including undesired changes in strategy or business model.

Targeted risk profile shall be reflected in other parts of the risk management framework, including, for example, the determination of authorisations and frameworks for operational management.

2.2 Management and supervision structure

Management and supervision comprise all the processes and control measures that have been introduced and implemented by the Bank's management to ensure efficient operations and the implementation of the Group's strategies.

In the process for risk management, corporate culture is the foundation that the other elements build on. Corporate culture encompasses management philosophy, management style, governing principles and the people in the organisation with their individual characteristics, such as integrity, core values and ethical attitudes. A good corporate culture is important because, without it, it can be difficult to compensate with other control and management measures.

We have established clearly defined core values and a code of conduct, which have been clearly communicated and presented throughout the organisation. These guidelines provide information about the expectations of individual employees in terms of integrity, ethical behaviour and competence.

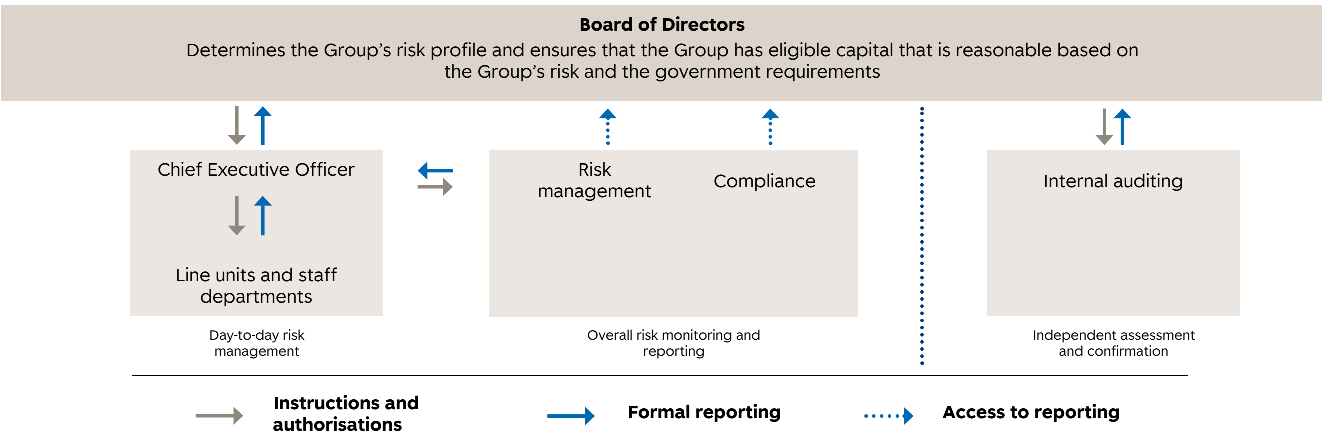
The recruitment of new employees considers professional and personal suitability in relation to the position to be a prerequisite.

All the Group's business areas and staff functions are represented in Group Management. For all key areas of the Group there shall be clearly established responsibilities.

2.3 Key roles and areas of responsibility

The Group attaches importance to having a supervisory and management structure that promotes targeted and independent management and control. Responsibility for risk management has therefore been divided between different roles in accordance with the figure below.

Figure 2.1: Responsibilities and roles in the risk management process



The Board is responsible for ensuring that the Group has adequate eligible capital based on the strategic objectives, adopted risk profile and regulatory requirements. The Board stipulates the overall objectives with respect to the risk profile and return. The Board also stipulates the overall limits, authorisations and guidelines for risk and capital management in the Group, as well as the ethical guidelines that shall contribute to a high ethical standard. Furthermore, the Board shall ensure that Group Management provides an appropriate and effective risk management process in accordance with the laws, regulations, statutes and principles outlined in this document, as well as determining contingency and continuity plans to ensure that operations can continue and losses are limited in the event of significant unforeseen incidents.

The Board's tasks are set out in an annual plan, which is revised annually. This ensures that the Board of Directors has adequate time to focus on its key duties.

The Board has its own committees for risk management, audits and remuneration. The Risk Committee is a preparatory body for the Board in cases involving the Group's risk management and internal control, while the Audit Committee prepares cases that involve financial information and internal control associated with this. The committees consist of the same three members of the Board, although the committees do not have the same chair. The Remuneration Committee has an advisory responsibility to the Board regarding the determination and follow-up of remuneration policy applicable to all employees, and shall correspondingly assist the Board with matters concerning the CEO's terms of employment, as well as matters concerning the general principles and strategy for the remuneration of the senior executive personnel in the Group. The Remuneration Committee consists of three board members, one of which is an employee representative. The Risk Committee, The Audit Comitte and the Remuneration Committee held respectively 6, 5 and 3 meetings during the reporting period.

For information regarding the election of board members and the composition of the Board, please refer to the Group's corporate governance principles, which are available on the Group's website. The table below shows the number of board positions each board member holds in other organisations.

Table 2.1: Board positions in other organisations

Name	Role in SpareBank 1 Østlandet	Number of board positions in other organisations
Siri Jarandsen Strømmevold (f 1961)	Chair of the Board	2
Nina Cecilie Strøm Swensson (f 1972)	Deputy Chair	0
Alexander Sandberg Lund (f 1969)	Board member	4
Idun Kristine Fridtun (f 1963)	Board member	1
Jørn-Henning Eggum (f 1972)	Board member	4
Tore-Anstein Dobloug (f 1962)	Board member	1
Sjur Smedstad (f 1966)	Board member	2
Catherine Norland (f 1972)	Board member	2
Magnar Nybakk (f 1957)	Deputy board member	2
Gudrun Sanaker Lohne (f 1974)	Deputy board member	5
Roger Heimli (f 1968)	Deputy board member	1
Vibeke Hanvold Larsen (f 1977)	Deputy board member	1
Mari Stenersen (f 1972)	Deputy board member	3

The CEO is responsible for overall risk management. This means that the CEO is responsible for the implementation of efficient risk management systems in the Group and the monitoring of the risk exposure. The CEO is also responsible for delegating authority and reporting to the Board of Directors.

The business divisions and staff units are responsible for risk management within their areas of responsibility. This means that the managers should make sure that proper risk management is established and executed, and that it is performed in accordance with the management documents, authorisations, routines and instructions.

The Risk Management and Compliance Department is organised independently of the line and staff units and reports directly to the CEO. The department is also able to report directly to the Board. The department is responsible for independent monitoring and reporting of the risk situation and for ensuring that the Group complies with the applicable laws and regulations. The department is divided into sections for risk management and compliance. The risk management department is responsible for the risk management framework, including risk models and risk management systems, while the compliance department is responsible for the compliance and conduct risk framework. The manager of compliance may report directly to the Board and the Chief Executive Officer, even though the department is co-organised with risk management.

In the subsidiaries, a person or persons shall be appointed to handle responsibility for risk management and compliance in the respective company.

The internal audit is the Board's instrument for ensuring that risk management is targeted, effective, and functioning as assumed.

2.4 Decision-making structures

The following committees have been established in the risk management area to assist the CEO with decision-making data and follow-up:

- Risk and Balance Management Committee.
- Credit committee.

The Risk and Balance Management Committee is an advisory body to the CEO and is broadly formulated with key managers from the risk management and compliance department, the finance department and the business areas. The Risk and Balance Management Committee is chaired by the CEO.

The Risk and Balance Management Committee shall assess the consequence of various scenarios' effects on profitability, solvency, financing and liquidity, as the basis for strategic discussions on the growth targets for deposits and loans, dividend strategies etc. The Risk and Balance Management Committee shall also:

- Follow up the Group's risk profile and capital adequacy situation and propose corrective action if necessary.
- Manage and recommend changes to risk based governing documents.
- Manage and recommend changes in the ownership and capital management framework, capital targets and capital plan.
- Manage circumstances of significance to the Group's balance management.
- Validate the risk management systems.
- Consider and recommend new risk models.

The credit committee is an advisory body to the CEO for credit decisions under the CEO's authority and shall:

- Consider loan applications in accordance with current governing documents, appropriation rules and credit management routines.
- Identify risk in each application, including an independent assessment of credit risk.

The credit committee is made up of the CEO, the Group director for the corporate market, the credit manager for the corporate market and the assistant bank manager for the corporate credit market. Regional bank manager and case officers participate in the handling of their cases.

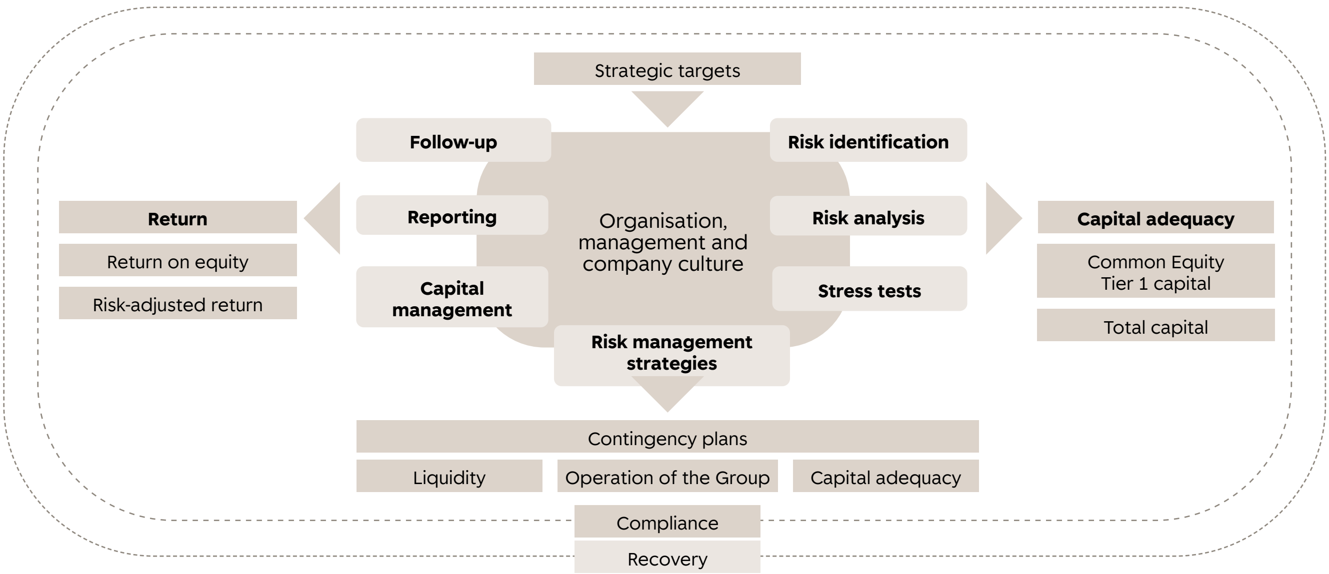
2.5 Framework for risk and capital management

In order to ensure an effective and appropriate process for risk and capital management, the framework is based on the following elements, which reflect the way in which Group is managed by its Board of Directors and the Bank's Group Management:

- Strategic objective and desired risk profile.
- Organisation and corporate culture.
- Risk identification.
- Risk analysis.
- Stress tests.
- Risk strategies.
- Capital management, including targets for returns and solvency.
- Reporting.
- Follow up and monitoring.
- Compliance.
- Contingency plans.
- Recovery plan.

The correlation between the individual elements can be summed up as in the figure below.

Figure 2.2: Framework for risk and capital management



2.5.1 Strategic objective and desired risk profile
Risk and capital management shall be based on the Group's strategic objectives expressed in the business strategy and the desired risk profile, as this is determined in the Group's overall risk strategy and policy.

2.5.1.1 Risk identification
In order to realise the strategic objective and desired risk profile, the Board and Group Management shall be familiar with the risk pattern. The risk identification process shall be forward looking and an integral part of the strategy process. The process shall cover all the significant risks the Group faces and shall be conducted at least once per year or more often when special conditions so indicate.

2.5.1.2 Risk analysis
The risk analysis shall form the basis for how the Group understands and controls the risks. Among other things, this means that:

- Significant risks shall to the maximum extent possible be quantified, where methods and models of quantification are based on proven methods for measuring risk.
- A review and documentation shall be undertaken of the control measures established and whether these measures are properly safeguarded.
- For significant risks, a risk profile shall be prepared that shall be quantified to the greatest extent possible.

2.5.1.3 Stress tests
Stress tests are essential tools for showing how negative events affect profit, the balance sheet, capital adequacy and liquidity. Stress tests shall be included as an important element in the Group's projection of financial development, including also projections related to a serious but not unlikely financial setback. Stress tests shall be carried out at least annually and used in the capital assessment process and maintenance of the Group's recovery plan.

2.5.1.4 Risk strategies
The Group's overall risk strategy and policy describes the Group's accepted risk profile and policy for work on risk and capital management. The document consists of a strategy section that describes the desired risk profile, as well as a policy section that specifies how risk management should be implemented. The governing document has a number of underlying risk-based governing documents within all significant risk categories.

The document must be reviewed at least once per year and updated as necessary. Based on the review, the document shall be submitted to the Board for resolution.

The governing document applies to the Group, but must be considered and adopted by each individual company's board. When implementing the strategy in the Bank's subsidiaries, the framework should be implemented to the greatest possible extent, taking into account the size and risk picture of the individual subsidiary. This can be achieved through establishing a separate risk management document based on the principles of the overall risk strategy and policy in such a way that all formal legal and regulatory requirements for the businesses are met.

The purpose of the document is to further define the Group's framework for management and control. The document provides guidelines for the Group's overall attitudes towards and principles for risk and capital management, and shall ensure that effective and appropriate risk and capital management processes are established and maintained.

The framework must satisfy external requirements and expectations for good risk and capital management. This includes:

- Laws and regulations.
- The Financial Supervisory Authority of Norway's guidelines.
- Holistic risk management – an integral framework (COSO framework).
- The Norwegian Code of Practice for Corporate Governance.
- Guidelines on Internal Governance (EBA GL 2021/05)

The underlying risk strategies and policies are the Board's instruments for determining the desired risk profile in different areas of risk and ensuring that the risks are managed in line with this profile. The various governing documents shall reflect overall targets and strategies given by the superordinate risk strategy and the Group's business strategy, and shall be in relation to the Group's risk capacity and appetite. The underlying risk strategies and policies are determined by the Board and are revised as needed, and as a minimum once per year.

The Group's code of conduct functions as a guide by defining the ethical requirements that are set internally and how the Group shall relate to other stakeholders.

The Group's strategy for corporate social responsibility and sustainability describes the Group's opportunities and challenges in relation to corporate social responsibility and sustainability and how these issues are managed.

2.5.1.5 Capital management
The Group's capital management shall contribute to:

- Effective capital funding and application in relation to the strategic targets and adopted business strategy.
- A satisfactory return on equity.
- A satisfactory Common Equity Tier 1 capital ratio in relation to the desired risk profile the requirements set by the authorities.
- Competitive terms and good long-term access to funding in capital markets.
- Utilisation of growth opportunities in defined market areas at any given time.

On the basis of the strategic objective and the results of the capital assessment process, a capital plan shall be prepared annually. As a minimum, two different projections of the Group's financial development for the next three years shall be used. These projections shall take into account expected developments in the period, as well as a situation with a serious but not unlikely economic downturn.

On the basis of the projections, the Board and Group Management shall carry out an overall assessment of whether the capital level is sufficient and adapted to the Group's risk profile and strategic objective.

The Group's objectives for Common Equity Tier 1 capital ratio and total capital adequacy ratio shall ensure sufficient capital to comply with the capital requirements imposed by the authorities and safeguard the Group's creditors.

2.5.1.6 Reporting

The purpose of risk reporting is to ensure that all levels of the organisation have access to adequate and reliable risk reporting. This shall ensure an overview of current risk exposure and any weaknesses in the risk management process. The reporting shall form the basis for the further follow up and monitoring of risk exposure and the risk management process within the Group.

2.5.1.7 Follow up and monitoring

The ongoing risk exposure shall be monitored. All managers are responsible for the day-to-day risk management in their own areas of responsibility and thus the use of capital in their own areas of responsibility and they shall ensure that the risk exposure is within the defined limits.

The overall risk exposure and risk development are followed up through periodic risk reports to the Board and management. Overall risk monitoring and reporting are undertaken by the department for risk management and compliance. The purpose of the follow-up is to assess the effectiveness of the risk management process over time and ensure that necessary measures or changes are carried out.

The Group has established indicators with limit values for follow-up and monitoring. In this way, timely assessments of the need for escalation are ensured from negative development in one or more indicators.

2.5.1.8 Compliance

There shall be processes that ensure compliance with the applicable laws and regulations, so that the Group is not subject to sanctions or other financial loss resulting from breach of these. This shall be achieved by:

- Clearly defined core values and code of conduct, which have been clearly communicated and understood throughout the organisation.
- Guidelines and routines to detect, communicate and implement amendments to laws and regulations.
- Guidelines and routines to follow up and report compliance with laws and regulations.

2.5.1.9 Contingency plans

The Group's core business entails the acceptance of risk. Over time this may inflict large, unexpected losses on the banks, in spite of good risk management systems and processes. Such a situation may entail serious pressure on capital adequacy, funding and operations. The Group must, therefore, have contingency plans for the aforementioned areas.

2.5.1.10 Recovery plan

In addition to ordinary contingency plans, the Group has established a separate recovery plan that specifies concrete, practical measures for managing financial crisis situations. The recovery plan should not predict financial crises; rather it should identify and assess the Group's opportunities to restore financial strength and viability in situations where the Group is under hard financial pressure.

2.6 Remuneration schemes

The Group's remuneration policy is approved by the Board of Directors after prior consideration by the Remuneration Committee. Similarly, compliance with the remuneration scheme is reported annually to the Board after prior consideration by the Remuneration Committee. The Group's remuneration scheme is intended to help support and further develop the organisation's performance culture. However, the measurement of, and focus on, performance and sales must be balanced in relation to the principles for risk management, conflicts of interest and the interests of customers. Good performance is characterised by prioritisation and the implementation of strategic activities, the achievement of results that provide commercial value, a good learning culture, good collaboration and value creation across the Group.

The remuneration model for all employees in SpareBank 1 Østlandet is based on a fixed salary being the central and main component. This also applies for senior executives and employees with risk functions. This is done to prevent incentivising unwanted risk taking. No form of special remuneration arrangements have been established for senior executives, etc. Variable pay in the form of one-off supplements can be awarded to employees who have had extraordinary workloads over time, for example due to managing or participating in major and extensive projects, or some other form of extra work. As a general rule, one-off supplements as described above cannot be awarded to senior executives, employees with duties of material significance for the organisation's risk exposure and employees with control tasks. Nevertheless, should one-off supplements still be awarded to senior executives, employees with duties of material significance for the organisation's risk exposure and employees with control tasks, this must be done in line with the rules of the Financial Institutions Regulations and circular 2/2020 issued by the Financial Supervisory Authority of Norway, and must be approved by the Board in each case. As a consequence of the structure, scope and actual distribution of one-off supplements, the provisions regarding withholding, distribution in the form of equity instruments, etc. are in practice not relevant. However, the remuneration scheme does contain formal provisions that allow withholding or demanding the repayment of awarded variable remuneration, should this still be relevant.

For further descriptions, please refer to the remuneration of senior executives report published on the Bank's website, as well as the appendix containing standardised forms, main group 17, which deals with remuneration schemes.

3 Capital

3.1 Capital adequacy regulations

The capital adequacy regulations are based on a standard for calculating capital adequacy where the purpose is to reinforce the stability of the financial system through the following instruments:

- Risk sensitive capital requirements.
- Regulatory requirements for risk management and control.
- Supervisory follow-up.
- Information to the market.

The regulations are intended to ensure there is agreement between how the authorities stipulate capital adequacy requirements for institutions and the approaches the institutions use to calculate and evaluate their capital requirements.

The regulations are based on the following three pillars:

- Pillar 1: Minimum eligible capital requirement.
- Pillar 2: Evaluation of the overall capital requirements and supervisory follow-up.
- Pillar 3: Public disclosure of information.

3.1.1 Pillar 1 – minimum eligible capital requirement

Pillar 1 concerns the minimum eligible capital requirement for credit risk, operational risk and market risk, for which the minimum capital adequacy ratio requirement has been set at 8 per cent. In addition to this comes a total buffer requirement of 9 per cent at the end of the year. SpareBank 1 Østlandet has not been defined as a nationally systemically important bank.

Capital adequacy is defined as the relationship between the Bank's total eligible capital and its risk-weighted assets.

Figure 3.1: Capital adequacy ratio

$$\frac{\text{Common Equity Tier 1 capital + additional Tier 1 capital + Tier 2 capital}}{\text{Credit risk + market risk + operational risk + counterparty risk + CVA risk}} \geq \text{Minimum requirement + buffer requirement}$$

The capital adequacy regulations contain various approaches for calculating capital requirements. The various approaches appear in the figure below.

Figure 3.2: Approaches for calculating capital requirements

Credit risk	Market risk	Operational risk	Counterparty risk	CVA risk
Standard approach	Standard approach	Basic approach	Market value approach	Standard approach
Fundamental IRB approach	Internal measurement approach	Standardised approach	Initial exposure approach	Advanced approach
Advanced IRB approach		AMA approach	Standard approach	Initial exposure approach
			Internal measurement approach	

For institutions that have permission to use an internal measurement approach (hereinafter called IRB approaches, where IRB is an abbreviation of Internal Rating Based Approach), the statutory minimum capital requirement for credit risk will be based on the institution's risk models. The use of IRB approaches will make the minimum capital requirement more risk sensitive and means that capital requirements, to a greater degree than when using the standard approach based on standardised input, will vary more with the risk inherent in the underlying portfolios.

3.1.2 Pillar 2 – Evaluation of the overall capital requirements and individual supervisory follow-up

Pillar 2 sets requirements for the financial institution's capital assessment process (hereinafter referred to as the ICAAP process, where ICAAP is an abbreviation of Internal

Capital Adequacy Assessment Process). The purpose of the process is to implement a structured and documented assessment process for the Group's risk profile in order to ensure that the Group has adequate capital to cover the risk associated with its operations. In addition, financial institutions must have a strategy for maintaining an adequate level of capital.

The Group calculates its Pillar 2 supplement in a process involving the parent bank, subsidiaries and the stakes in associated companies/joint ventures. The process is based on an assessment of exposure and the quality of management and control, where the capital requirements are mainly based on the approach described in the Financial Supervisory Authority of Norway's circular describing practices for assessing risk and capital requirements.

The Financial Supervisory Authority of Norway is required to monitor and evaluate the Group's risk exposure and risk management, internal assessments of capital requirements and associated strategies, as well as the Group's ability to ensure compliance with the authorities' capital requirements. This process is called the SREP process where SREP is an abbreviation of Supervisory Review and Evaluation Process. Through its SREP process, the Financial Supervisory Authority of Norway determined that SpareBank 1 Østlandet must be subject to a Pillar 2 requirement in excess of the minimum requirement and buffer requirement amounting to 1.8 per cent of the consolidated risk-weighted assets for Pillar 1, and that the Pillar 2 requirement must be covered in its entirety by Common Equity Tier 1 capital. Meanwhile, in the next SREP process, the Group expects the capital used to meet the Pillar 2 requirement to consist of a minimum of 56.25 per cent Common Equity Tier 1 capital and 75 per cent additional Tier 1 capital, which corresponds to the requirement for the composition of capital in Pillar 1. The purpose of the Pillar 2 requirement is to cover capital requirements associated with risks that are not, or are only partially, covered by the capital requirements in Pillar 1. In the same process, the Financial Supervisory Authority of Norway determined that SpareBank 1 Østlandet must have a margin in the form of Common Equity Tier 1 capital above the overall requirement for the Common Equity Tier 1 capital ratio, Tier 1 capital ratio and capital adequacy of at least 1.0 per cent of the risk-weighted assets.

3.1.3 Pillar 3 – Public disclosure of information

The purpose of Pillar 3 is to help increase market discipline and to make it easier to compare institutions. The institutions shall publish information that gives the market participants the opportunity to assess the institutions' risk profile, capitalisation and control of risk. The information shall be provided in an understandable way that makes it possible to compare different institutions. The information shall mainly be published at least annually with the financial statements, but the institutions shall assess whether parts of the information are to be made public more frequently.

3.2 Differences between accounting and capital adequacy consolidation

3.2.1 Consolidation for capital adequacy purposes

The consolidation of capital adequacy follows the rules in chapter 18 of the Financial Institutions Act concerning 'Business of financial groups, consolidation etc.' that is in turn based on the EU Capital Requirements Regulation. The main differences from ordinary consolidation pursuant to the accounting policies are the extended consolidation obligation, which requires proportionate consolidation of financial institutions in which the participant interest is more than 20 per cent, as well as companies that are part of a collaborating group.

Form 3.1 in the appendix containing standardised forms compares the Bank's balance sheet pursuant to the accounting policies and the balance sheet pursuant to the rules in the Capital Requirements Regulation.

3.2.2 Cooperative group

The Group also forms part of a cooperative group according to chapter 17 part III of the Financial Institutions Act "Cooperation outside the Group structure". Jointly owned financial institutions such as SpareBank 1 Boligkreditt AS, SpareBank 1 Næringskreditt AS, BN Bank ASA and SpareBank 1 Kreditt AS are therefore proportionally consolidated for capital adequacy purposes. The inclusion of these companies' balance sheets represents the greater part of the difference between the balance in relation to the accounts and to capital adequacy.

Form 3.3 in the appendix containing standardised forms provides an overview of companies in the Group and their treatment according to IFRS consolidation and capital adequacy consolidation.

3.2.3 Other differences

The Capital Requirements Regulation allows the use of netting and collateral such that exposures within the counterparty risk framework are shown as net values. This results in discrepancies related to the Bank's derivative and repo transactions compared with the accounting balance sheet where corresponding items are recognised gross. This, together with a minor adjustment linked to the valuation, creates a difference between the balance sheet pursuant to the accounting policies and the balance sheet pursuant to the rules in the Capital Requirements Regulation.

Form 3.2 in the appendix containing standardised forms shows a detail breakdown of the Bank's balance sheet distributed by the relevant framework and differences between the accounting balance sheet and exposures that are included in capital adequacy, while form 3.3 shows a statement concerning the Bank's processing of group companies in line with IFRS and the capital adequacy.

3.3 Regulatory alignment

The Group attaches importance to maintaining adequate capitalisation for all the companies within the Group at all times. The Group's governing bodies have not imposed any restrictions on the Board's ability to transfer capital between the parent bank and the subsidiaries beyond what follows from law. In addition, there are no provisions in the Articles of Association that impose any such restrictions.

3.3.1 Relevant framework for calculating risk-weighted balance

The Bank uses a credit risk framework according to Capital Requirements Regulation Part III, Title II for the greater part of the balance sheet. In the determination of the exposure amount for counterparty risk calculations, the Bank uses full SA-CCR. The Group uses the template method to determine the capital requirement linked to operational risk.

The Bank does not have a trading portfolio according to the regulations rules and has currency exposure below the threshold level for calculating associated capital requirements and does not therefore use market risk frameworks.

The figure below provides an overview of the approaches the Group uses for calculating capital requirements.

Figure 3.3: Approaches for calculating capital requirements in the Group

Area	SpareBank 1 Østlandet (parent bank)	SpareBank 1 Finans Østlandet
Credit risk		
- Central governments	Standard approach	Standard approach
- Corporates	Standard approach	Standard approach
- Institutions	Advanced IRB approach	Standard approach
- Retail	Advanced IRB approach	Standard approach
- Equity positions	Standard approach	N/A
Market risk	N/A	N/A
Operational risk	Standardised approach	Standardised approach
Counterparty risk	Standard approach	N/A
CVA risk	Standard approach	N/A

3.3.2 Encumbered assets

The Bank's pledging of assets as security occurs mainly through four types of transactions:

- Deposit of securities in Norges Bank for borrowing.
- Offsetting and cash collateral in conjunction with derivatives contracts.
- Repurchase agreements.
- Pledging as security of loans in conjunction with the issue of covered bonds.

The majority of the Bank's pledging of assets as security occurs via SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS which issue covered bonds. The bonds are issued with security in a volume of assets, loans secured by real estate property and loans secured by immovable property, respectively. These companies are consolidated proportionally within the Group, which is done in conjunction with capital adequacy calculation, but are consolidated in accordance with the equity approach in the consolidated accounts according to IFRS.

Encumbered assets, including collateral received in relation to total assets and collateral received (asset encumbrance ratio), amounts to 28 per cent for the regulatory group. The equivalent key ratio for the parent bank is just over 1 per cent. For more information on covered bond issues, see the covered bond companies' financial reports.

Please also see the appendix containing standardised forms, main group 18, which deals with encumbered assets.

3.4 The Group's capital adequacy targets

The Group's overarching strategic targets must support a moderate to low risk profile, where the Group should be among Norway's financially strongest and most profitable regional financial groups. The Group's financial strength is expressed through its regulatory capital adequacy. The following conditions shall be taken into account when setting the level of capital:

- The authorities' capital adequacy requirements.
- The need for freedom of action.
- The level of ambition in the strategic targets.
- The commercial framework conditions.
- The desired risk profile.
- The Group had the following capital targets at the end of the year:
- Common Equity Tier 1 capital ratio equivalent to regulatory requirement + 100 bps.
- Tier 1 capital ratio at least equivalent to regulatory requirement + 100 bps.
- Tier 2 capital ratio at least equivalent to regulatory requirement + 100 bps.
- Leverage ratio at least equivalent to regulatory requirements + 100 bps.

3.5 Regulatory capital

At the end of the year, the Group must meet a Common Equity Tier 1 capital requirement, including the combined buffer requirement, of 13.5 per cent under Pillar 1. In addition, the capital requirement under Pillar 2 has, as previously mentioned, been set at 1.8 per cent. The requirements for other additional Tier 1 capital and supplementary capital amount to 1.5 per cent and 2 per cent, respectively, meaning that the Group, as at the end of the year, was subject to a requirement for eligible capital under Pillar 1 and Pillar 2 of 18.8 per cent. Please also see forms 1.1 and 1.2 in the appendix containing standardised forms, which deal with the Group's risk-weighted assets and selected key metrics, respectively, as well as main groups 4 and 21, which deal with eligible capital and requirements for eligible capital and eligible liabilities.

3.5.1 Regulatory capital adequacy

The following table shows the Group's capital adequacy calculation at the end of the year.

Table 3.1: Calculation of capital adequacy ratio

Parent Bank			Group	
31.12.2021	**31.12.2022**		**31.12.2022**	**31.12.2021**
17 330	**18 316**	**Total equity carried**	**19 925**	**18 706**
		Common equity Tier 1 capital		
-996	-1 125	Part of the positive profit for the year which cannot be included in Common Equity Tier 1 capital ratio	-1 125	-996
-1 000	-1 000	Additional Tier 1 capital	-1 000	-1 000
-	-	Minority interests that cannot be included in Common Equity Tier 1 capital ratio	-132	-75
11	1	Unrealised change in value as a result of the reduced/increased value of liabilities	1	11
-66	-62	Goodwill and other intangible assets	-402	-441
-235	-408	Positive value of adjusted expected losses according to IRB approach	-526	-345
-	-	Deduction for material investments in Common Equity Tier 1 capital in the financial services sector	-302	-354
-33	-36	Value adjustments due to requirements concerning proper valuation (AVA)	-46	-39
-170	-239	Other adjustments in Common Equity Tier 1 capital*	-231	-139
14 841	**15 447**	**Common Equity Tier 1 capital**	**16 162**	**15 328**
		Additional Tier 1 capital		
1 000	1 000	Hybrid capital	1 000	1 000
-31	-30	Deduction for material investments in additional Tier 1 capital	-30	-31
-	-	Hybrid capital issued by consolidated companies that can be included in other approved Tier 1 capital	**213**	178
969	**970**	**Tier 1 capital**	**1 183**	**1 147**
		Supplementary capital in excess of Tier 1 capital		
1 300	1 300	Subordinated loan capital	**1 300**	1 300
-124	-119	Deduction for material investments in Tier 2 capital	**-119**	-124
-	-	Subordinated loan capital issued by consolidated companies that can be included in Tier 2 capital	328	281
1 176	**1 181**	**Supplementary capital**	**1 508**	**1 457**
16 986	**17 598**	**Total eligible capital**	**18 854**	**17 933**
5 775	5 178	Corporates - SME	5 189	5 806
16 990	18 712	Corporates - Specialised lending	19 437	17 699
752	2 218	Corporates - Other	2 294	800
1 279	1 332	SME exposure	1 683	1 567
18 572	19 708	Retail mortage exposure	31 772	29 450
576	614	Other retail exposure	641	602
43 943	**47 762**	**Risk-weighted assets according to IRB method**	**61 016**	**55 924**

Parent Bank			Group	
31.12.2021	**31.12.2022**		**31.12.2022**	**31.12.2021**
15 973	16 002	Credit risk according to standard method	21 864	20 398
458	361	Counterparty risk (including CVA)	1 634	1 890
		Market risk		
5 316	5 374	Operational risk	6 645	6 904
65 690	**69 498**	**Total risk-weighted assets**	**91 159**	**85 115**
5 255	**5 560**	**Capital requirement (8.0%)**	**7 293**	**6 809**
-	**-**	**Pillar 2 (1.8%)**	**1 641**	**1 532**
		Buffer requirement		
1 642	1 737	Capital conservation buffer (2.5%)	2 279	2 128
657	1 390	Countercyclical buffer (1.5 %)	1 823	851
2 956	3 127	Systemic risk buffer	4 102	3 830
4,5 %	4,5 %	Systemic risk buffer rate	4,5 %	4,5 %
5 255	**6 255**	**Total buffer requirement**	**8 204**	**6 809**
12,5 %	13,5 %	Common Equity Tier 1 capital requirement	15,3 %	14,3 %
6 630	**6 065**	**Available Common Equity Tier 1 capital in excess of requirement**	**2 215**	**3 157**
		Capital adequacy		
22,6 %	**22,2 %**	Common Equity Tier 1 capital ratio	**17,7 %**	**18,0 %**
24,1 %	**23,6 %**	Tier 1 capital ratio	**19,0 %**	**19,4 %**
25,9 %	**25,3 %**	Capital adequacy	**20,7 %**	**21,1 %**
9,9 %	**9,7 %**	Leverage ratio	**7,2 %**	**7,3 %**

* The item 'Other adjustments in Common Equity Tier 1 capital' includes previous years' allocated dividends as well as decision-determined deductions for ownership in Vipps in the jointly owned Alliance company SpareBank 1 Betaling AS. The deduction for ownership in SpareBank 1 Betaling AS was previously included in the item for material investments in the financial services sector but has now been moved to other adjustments in Common Equity Tier 1 capital for the current period as well as earlier periods.

The following table shows the Group's minimum eligible capital requirement (8 per cent) at the end of the year.

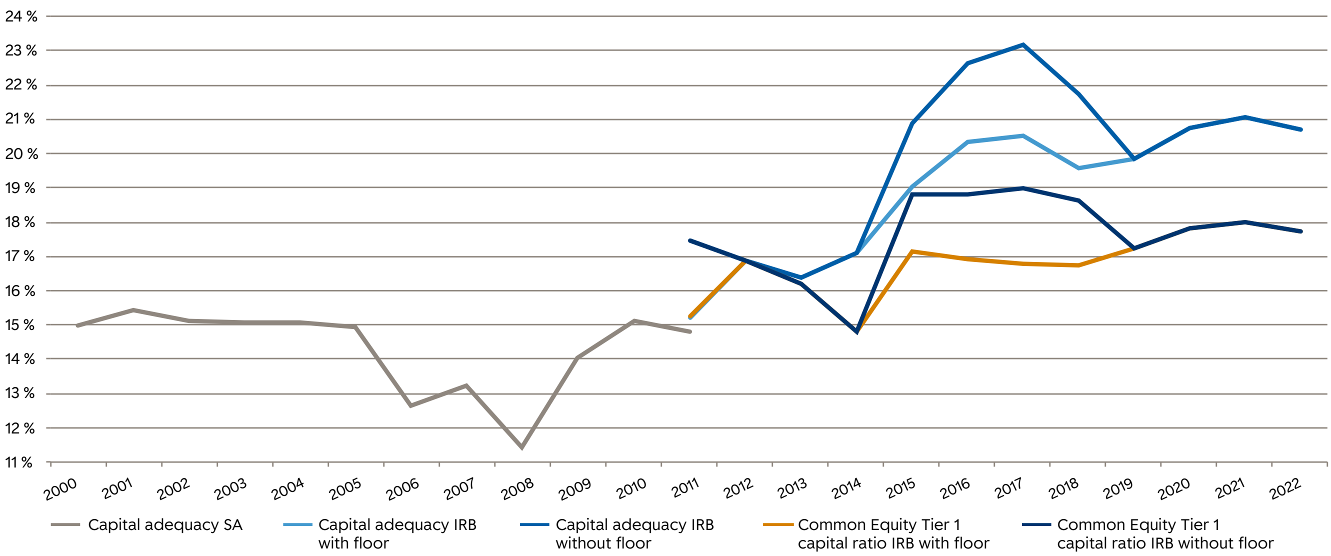
Table 3.2: Minimum eligible capital requirement

Exposures categories IRB approach	SpareBank 1 Østlandet (Parent Bank)	SpareBank 1 Finans Østlandet	SpareBank 1 Boligkreditt AS	SpareBank 1 Nærings-kreditt AS	SpareBank 1 Kredittkort AS	BN Bank ASA	SpareBank 1 Østlandet (Group)
Corporates - SME	414	-	4	-	-	-	415
Specialised corporates	1 497	-	-	-	-	581	1 555
Other corporates	177	-	-	-	-	61	184
Mass-market with real estate as collateral - SME	107	-	120	-	-	11	135
Mass-market with real estate as collateral - non-SME	1 577	-	3 996	-	-	701	2 542
Mass-market - Other SME	5	-	-	-	-	-	5
Mass-market - Other non-SME	44	-	9	-	-	1	46
Equity positions IRB	-	-	-	-	-	2	-
Total capital requirement for credit risk IRB approach	**3 821**	**-**	**4 129**	**-**	**-**	**1 357**	**4 881**

Exposures categories standard approach including counterparty risk	SpareBank 1 Østlandet (Parent Bank)	SpareBank 1 Finans Østlandet	SpareBank 1 Boligkreditt AS	SpareBank 1 Nærings-kreditt AS	SpareBank 1 Kredittkort AS	BN Bank ASA	SpareBank 1 Østlandet (Group)
Central governments and central banks	7	-	-	-	-	-	7
Local and regional authorities (including municipalities)	65	3	27	-	-	32	77
Public enterprises	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-
Institutions	181	-	184	5	9	29	78
Corporates	125	190	-	379	-	145	381
Mass-market commitments	9	422	-	3	417	8	513
Exposures with real estate as collateral	22	-	-	228	-	127	71
Exposures in default	2	22	-	-	16	-	26
High risk exposures	-	-	-	-	-	-	-
Covered bonds	98	-	181	11	-	34	143
Receivables from corporates and institutions with short-term rating	-	-	-	-	-	-	-
Units in securities funds	2	-	-	-	-	-	2
Equity positions	730	-	-	-	-	-	393
Other exposures	55	29	16	-	6	6	113
Total capital requirement for credit risk standard method including counterparty risk	**1 296**	**665**	**408**	**627**	**449**	**382**	**1 804**
Operational risk	430	47	14	13	68	150	532
CVA	13	-	256	19	-	30	76
Addition for risk weight floor (in accordance with Article 458)	-	-	153	-	-	-	-
Total capital requirements	**5 560**	**712**	**4 960**	**659**	**516**	**1 919**	**7 293**

The figure below shows the development of the Group's capital adequacy.

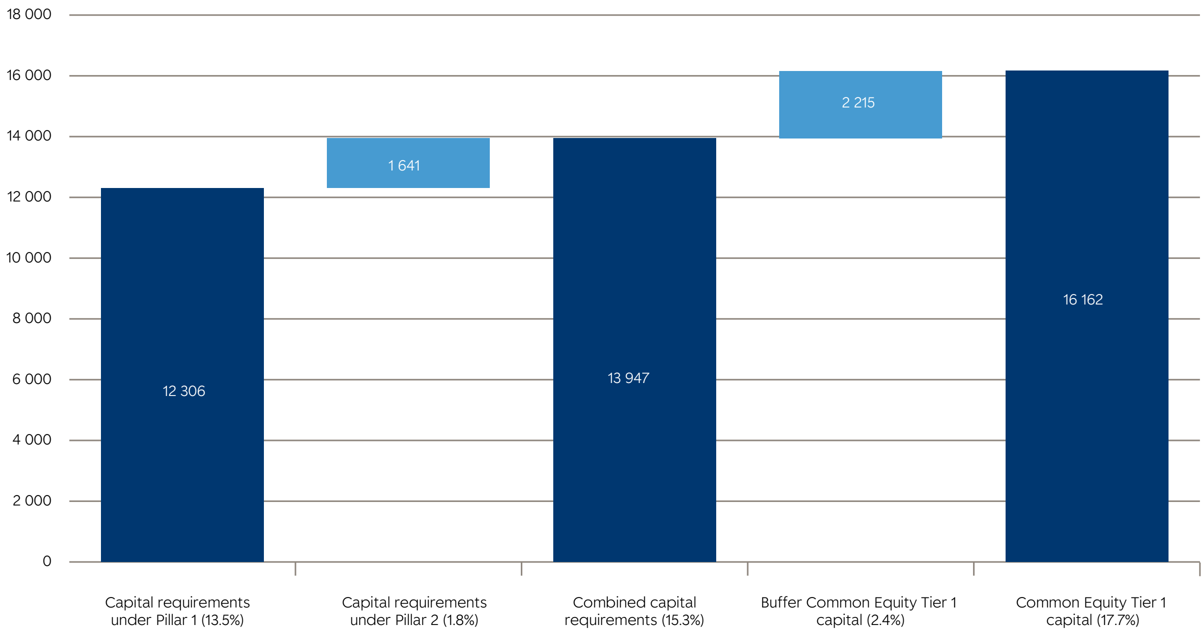
Figure 3.4: Development of capital adequacy



3.5.2 Regulatory Common Equity Tier 1 capital ratio – Pillar 1 and Pillar 2

The figure below provides a graphic representation of the Group's capital situation with a focus on Common Equity Tier 1 capital at the end of the year.

Figure 3.5: Common Equity Tier 1 capital ratio



3.5.3 Leverage ratio

The Bank's leverage ratio remained stable during the period. The Bank's lending growth was largely offset by a corresponding increase in capital. The transition to a new counterparty risk framework (standard method SA-CCR) resulted in a slight increase in the exposure target and thus a minor reduction in the Bank's leverage ratio. Over time, the Group has had a leverage ratio significantly above the minimum requirement and manages the risk of excess debt accumulation by determining and following up the target figures and limits for leverage ratio in line with the Group's overarching risk strategy and policy. Please also see the appendix containing standardised forms, main group 6, which deals with the leverage ratio.

4 Credit risk

Credit risk is the risk of losses resulting from a customer's or other counterparty's inability or unwillingness to fulfil its obligations. The Bank is subject to credit risks mainly through loans to personal and corporate market customers, but also through other assets that the Bank holds capital for. In the latter group are guarantees, unused withdrawal rights, interest-bearing securities, equity positions and Interbank investments. Credit risk also includes concentrations arising from large exposures to individual customers, single industries, geographical areas and growth.

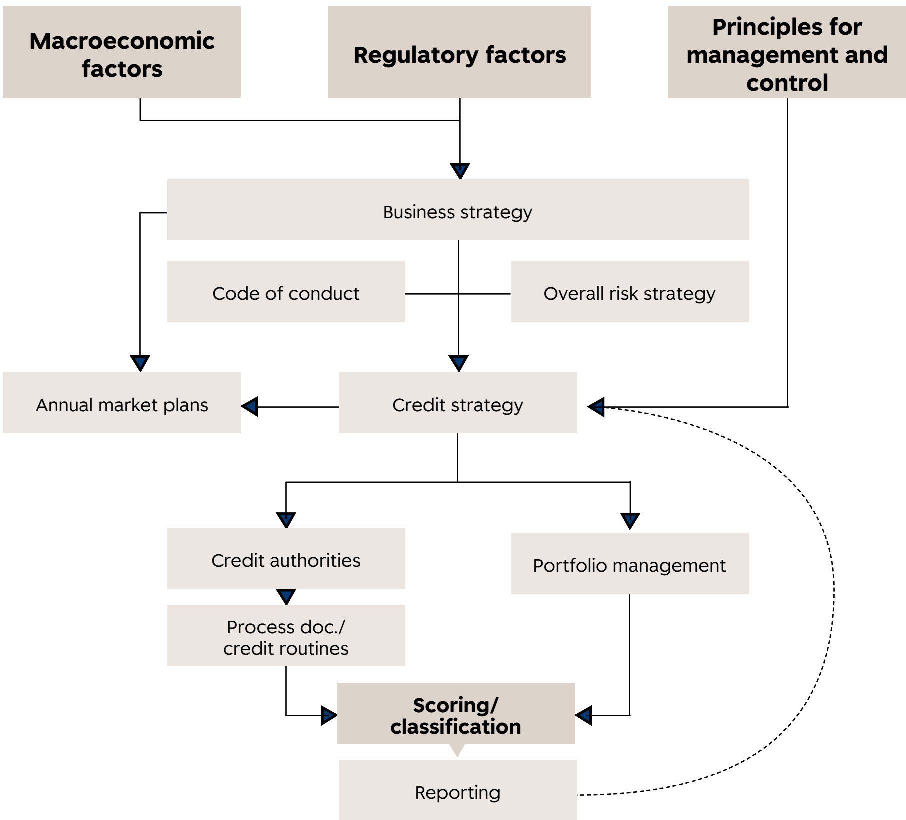
4.1 Management and control

Credit risk in the Group shall be managed in accordance with the requirements and recommendations in the:

- Financial Institutions Act.
- CRR/CRD IV Regulation.
- The Financial Supervisory Authority of Norway's methodology for risk-based supervision.
- Key recommendations from the EBA.

The Group shall have a quality in credit handling and the portfolio that contributes to a low credit loss over time. The following figure shows strategies and procedures that are the basis of the Group's management and control of credit risks in the portfolios.

Figure 4.1: Framework for managing credit risk



4.1.1 Governing document for credit risk

The governing document for credit risk provides a description of both the credit strategy and the credit policy of the retail market and the corporate market. The document is issued by the Board and revised as required, and at least once a year. The purpose of the strategy part is to establish principles for the Bank's credit granting and how credit risk in the Bank should be managed. The purpose of the credit policy part is to guide practices within the area of credit in the retail market and the corporate market. The policy is also designed to ensure that the Bank acts in a uniform manner and in accordance with the external regulatory framework, including laws and regulations, and risk and quality levels stipulated internally.

4.1.2 Annual market and activity plans

The annual market and activity plans describe what activities are to be carried out for the individual year. These plans should help ensure that the market, earnings and risk-related goals in accordance with the Bank's strategy plan and risk strategies are achieved.

4.1.3 Rules and regulations for granting credit/credit authorities

The Board delegates credit authority to the CEO and determines the Bank's rules and regulations for granting credit. The credit authorities are personal and should reflect the competence of the individual. Credit authorities are differentiated by volume and risk. The rules and regulations for granting credit are revised as required and at least once a year.

4.1.4 Process documentation/credit routines

The documentation regulates various matters related to the ongoing granting of credit and follow-up of exposure, including routines for following up doubtful exposures, assessment of the need for impairment etc. The documentation is prepared by the credit managers in consultation with the business divisions. The documents are revised on an ongoing basis.

4.1.5 Risk pricing

The Group strives to achieve the right pricing of credit risk and has established price models and customer profitability models based on the risk classification system.

4.1.6 Validation

The purpose of the validation process is to verify the credit risk models and the Group's IRB system to ensure that both the quality of the models and the compliance with and application of the IRB system are good over time. The process and preparation of the necessary reports are carried out by the risk management department. The validation report is processed in the Risk and Balance Management Committee, in which the CEO participates. The Board processes the validation report and makes decisions related to relevant factors addressed in the report.

4.1.7 Stress testing

Regular stress tests of the credit portfolio are performed in which developments in credit portfolios are stressed as a result of large, but not improbable, negative changes in framework conditions. The purpose of the result of such analyses is to indicate the extent to which the portfolio or parts of the portfolio can withstand an abnormal and powerful weakening of the assumptions, and thus how this affects the Bank's risk pattern and solvency.

4.1.8 Follow-up of credit risk/risk reporting

Risk exposure within the credit area is followed up using a portfolio management system. Importance is attached to following up the portfolio risk distribution and its development based on movements between risk classes, probability of default, risk-weighted assets, concentration risk and risk-adjusted return.

The corporate market and retail market divisions follow up on the credit risk in the portfolio on a monthly basis. The credit risk is followed up based on current strategic frameworks and objectives, as well as whether development in the portfolios is in the desired direction. The Risk Management Department follows up the risk in the credit portfolio and reports to the Board every quarter and to the Bank's Group Management every month. Based on the risk strategy and policy, frameworks are established for when measures should be assessed and implemented, and frameworks for risk appetite and capacity are also defined.

4.1.9 Organisation

The risk management function is divided according to subject areas, with credit being one of these. The department is organised as shown in the figure 2.1, where reports are made to the CEO in addition to being able to report directly to the Board. Within credit risk, responsibility for model development and validation is divided between dedicated personnel, as are duties such as analysis, reporting and 2nd line controls. The risk management function maintains a close dialogue with the internal auditor, which carries out independent assessments. Where this is deemed appropriate, the internal auditor may use the results of the risk management function's analyses and checks as input for their work.

4.2 Asset quality

4.2.1 Impairment losses on loans

Losses on lending are calculated based on the expected credit loss according to the general model of impairment of financial assets in IFRS 9. The measurement of impairment for expected losses depends on whether or not the credit risk has increased significantly since initial capitalisation. Credit deterioration is measured by the development of financial PD.

Loss estimates are calculated on a quarterly basis and are based on data which contains a history of account and customer data for the entire credit portfolio. The loss estimates are calculated based on the 12-month and lifelong probability of default, loss on default and exposure on default respectively.

In line with IFRS 9, the loans are grouped into three stages.

Stage 1
This is the starting point for all lending covered by the general loss model. A loss cost equal to 12 months' expected losses is calculated for all assets that do not have a significantly higher credit risk than they did upon initial recognition.

Stage 2
Stage 2 includes lending that has seen a significant rise in credit risk since initial recognition, but that does not have objective evidence of a loss event. A loss cost equivalent to the expected losses over the lifetime will be calculated for these assets. This group includes loans with a significant degree of credit deterioration, but which on the balance sheet date belong to customers that are classified as healthy.

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

4.2.2 Individual impairment

Individual impairment for losses on individual exposures is made when objective evidence of default is expected to result in a loss of value for the Group.

Individual write-downs represent the difference between the exposure's book value and the present value of the discounted cash flow based on the effective interest rate at the time of the initial calculation of the individual write-down. A write-down entails that an exposure is given the highest risk class.

Importance is attached to specific project orientation and caution in the estimation of value as grounds for the realisation of collateral security. The cash flow is updated at least once a year based on materiality assessments.

Individual impairments reduce the book value of the exposures on the balance sheet, and changes in the assessed value during the period are recognised in the income statement as losses on loans and guarantees.

4.2.3 Defaulted and impaired loans.

The Bank's definition of defaults was formulated in line with the European Banking Authority's guidelines for how banks should apply the definition of default in the Capital Requirements Regulation (CRR) and clarifications in the CRR/CRD IV Regulation. The same definition is used for both accounting and regulatory defaults.

The table below shows provisions in relation to net defaulted and doubtful exposures.

Table 4.1: Defaulted and impaired exposures

Defaulted (over 90 days) and doubtful exposures	**2022**	**2021**	**2020**
Defaulted exposures (over 90 days)	259	342	327
Individual impairments of defaulted exposures	58	54	77
Net exposures in default	201	288	250
Loan loss provision ratio	**23 %**	**16 %**	**24 %**
Other doubtful exposures	472	317	188
Individual impairments in other doubtful	47	47	48
Net other doubtful	426	270	140
Loan loss provision ratio	10 %	15 %	26 %
Total loan loss impairment ratio	**14 %**	**15 %**	**24 %**

The extent of the exposures that have defaulted, but have not been individually impaired is shown in the table above with a total loan loss impairment ratio of 23 per cent. The remaining exposures in default have been assessed, although as at 31.12.2022 there is no objective evidence that they will lead to a loss in value for the Group.

Exposures may also be considered as doubtful without the exposure being in default. Other doubtful exposures are marked with a loss event in which objective conditions indicate a probability of loss of value. For these exposures, the loan loss impairment ratio is 14 per cent.

4.3 CRM techniques

4.3.1 Security

Security is used to reduce credit risk in credit portfolios. When credit is granted, the Bank normally requires that the customer furnishes security for the loan exposure. The most common form of mortgages secured by immovable property, although commercial collateral such as collateral in inventories, plant and machinery and trade receivables, guarantees by individuals, institutions, state/municipalities, guarantee institutions or banks, as well as other mortgaged objects, are also used.

Table 4.2: Most commonly used collateral types

Security type	Retail market	Corporate market
Property	x	x
Plots	x	x
Securities	x	x
Guarantees	x	x
Plant and machinery		x
Motor vehicles/fixed assets		x
Inventory		x
Accounts receivable		x
Deposits	x	x

4.3.2 Valuation of Security

The banks of the SpareBank 1 Alliance essentially use the same routines and guidelines for determining the value of collateral. The guidelines govern which assessment criteria should be used as the basis, the frequency with which the collateral valuations should be updated, as well as the use of reduction factors.

The market value of residential property is determined by the use of purchase price according to contract, estate agent valuation or value estimates from Eiendomsverdi. For commercial property, in most cases the Group uses the present value of expected net cash flow associated with the property as a basis. The value basis is calculated by taking into account ongoing leases, costs and yield. The latter takes into account location, alternative area of use, duration of lease, standards, solvency, regulation and risk-free interest rate.

The estimated market value of most residential properties is updated quarterly. The value of commercial properties is updated annually.

For the institutions portfolio, the Bank performs an assessment of the value base of security at least annually, either through an annual exposure review, when granting credit or in conjunction with automatic updates.

4.3.3 Counterparty substitution

The Bank uses counterparty substitution for government-guaranteed loans that were granted in connection with the pandemic that began in 2020. Here, the central government is the guarantor and has provided security for 90 per cent of the exposure. The risk weight used for the central government for this part of the exposure is 0 per cent. The Bank's concentration risk is located here because the central government is the only counterparty for this type of loan.

4.4 Standard approach

The Bank determines the risk weight based on an external rating for each individual exposure. Long-term ratings from the following rating agencies (ECAIs) are used for the Bank's institutional counterparty exposures:

- Moody's Investors Service
- Scope Ratings GmbH
- S&P Global Ratings Europe Limited
- DBRS Ratings GmbH

For these exposures, ratings are used to place the counterparty on a credit quality rung that further specifies the appropriate risk weight. In the event of several ratings for the same counterparty, the credit quality rung is determined based on more detailed rules in the Capital Requirements Regulation.

The parent bank's counterparty exposures for the institutions category are specified in the table below.

Table 4.3: Counterparty exposures for the institutions category

Credit quality steps	EAD	RWA
1	241	48
2	176	88
3	4	2

4.5 IRB approach

SpareBank 1 Østlandet and SpareBank 1 Finans Østlandet use common models for calculating credit risk at the portfolio level and in the granting process together with the other banks and financing companies in the SpareBank 1 Alliance. The models are primarily based on statistical calculations and are divided into scorecards for different segments. The parent bank uses the model both in internal reporting and in capital adequacy calculations. The models are based primarily on the components in the figure below.

Figure 4.2: Risk classification system

Probability of default	The customers are classified into default classes based on the probability of default over a 12-month period, calibrated on the basis of a long-term outcome.
Exposure at default	Exposure at default is a calculated size that indicates the exposure to customer default.
Loss given default	The loss given default is an estimate of how much the Group could potentially lose if the customer defaults on his obligations.
Expected losses	Expected losses describes the loss the Group can statistically expect on its loan portfolio during a 12-month period.
Risk class	A risk class is assigned to the customers based on the exposure's probability of default.
Risk-adjusted capital	Risk-adjusted capital describes how much capital must be set aside as a buffer for future unexpected losses.
Risk pricing	SpareBank 1 Østlandet seeks to price risk correctly and it has models for pricing that are based on the risk of the individual exposure.

In addition, a cash flow model is used internally in calculating PD on granting and following-up institution exposures in the rental of commercial property sector. The model is also used to determine the estimated values of the objects that will be financed. A process is underway to obtain permission to use the model in capital adequacy calculations.

4.5.1 The IRB system

The capital adequacy regulations allow banks to apply to the authorities to use their own models to calculate the capital requirement for credit risk. The approach entails that capital requirements are calculated based on the Bank's own estimates of probability of default (PD), loss given default (LGD), estimated utilisation of frame credits and loan fees (KF), and time to maturity (M).

SpareBank 1 Østlandet has permission to use the advanced IRB approach for calculating the capital requirements for credit risk for the exposure categories institution and retail. The Bank has exemptions to the IRB approach for certain exposures. The exceptions apply to central governments/municipalities and corporates, where permanent exceptions are given, as well as housing cooperatives and associations/clubs, where the Group uses the standard approach.

For the reporting of capital adequacy, the portfolios of the part-owned institutions are consolidated proportionately based on the approved method of the part-owned institution.

The following table describes the Group's methods for estimating the minimum eligible capital requirement for the different exposure categories and portfolios.

Table 4.4: Approved method for calculating the minimum eligible capital requirement

Company	Portfolio	Regulatory approach
SpareBank 1 Østlandet - Parent Bank	Central governments/municipalities	Standard approach
SpareBank 1 Østlandet - Parent Bank	Corporates	Standard approach
SpareBank 1 Østlandet - Parent Bank	Cooperatives, clubs and associations	Standard approach
SpareBank 1 Østlandet - Parent Bank	Institutions	IRB Advanced
SpareBank 1 Østlandet - Parent Bank	Retail	IRB
SpareBank 1 Finans Østlandet AS	Leasing and sale security	Standard approach
SpareBank 1 Kredittkort AS	Credit card	Standard approach
SpareBank 1 Boligkreditt AS	Retail	IRB
SpareBank 1 Næringskreditt AS	Institutions	Standard approach

4.5.2 Application of the IRB system

Use of the IRB approach sets stringent requirements for estimation of the risk parameters, competence and application in the business.

The Bank has long experience of using the IRB approach and has professionalised risk management in accordance with the IRB requirements. The IRB system is well integrated in all stages, and is used in granting and following up individual exposures, pricing, capital allocation, and in the preparation of strategies, strategic risk frameworks and reporting.

The models used under IRB are subject to annual validation to ensure sufficiently robust estimates. The composition and level of the models are adjusted as required according to established routines, as well as to ensure that the models' cyclical properties are safeguarded.

The Financial Supervisory Authority of Norway conducts periodic supervision of the Bank's application of the IRB system.

4.5.3 Models used in regulatory IRB reporting

The table below shows which models the Bank uses in regulatory IRB reporting as at the end of 2022.

Table 4.5: Models used in regulatory IRB reporting

Exposure category	Customer segment	PD model	Scorecard	EAD model	LGD model
Retail – Secured by real estate property and secured by immovable property (SME and non-SME)	All retail market customers	PD model for retail market	Scorecard residential property	EAD retail market	LGD retail market
	All self-employed who are registered in the Bank with personal ID number				
Other retail customers (SME and non-SME)	All retail market customers		Scorecard other	EAD retail market	LGD retail market
	All self-employed who are registered in the Bank with personal ID number				
Corporates	All corporates except the following segments	PD model for corporate market	Subdivision in industry groups and scorecard	EAD corporate market	LGD corporate market
	- Institutions and central governments	Standard approach			
	- Housing cooperatives				
	- Associations, clubs and organisations				

4.5.3.1 The PD model

PD is an expression of how probable it is that a customer will default within the next 12 months. The Bank uses the PD models when granting credit and in monthly reclassifications of the customers. The PD model is also used in pricing, ongoing reporting and follow-up of exposures. The following table shows how the PD model is built up.

Table 4.6: Build-up of the PD model

Exposure category	Explanation variables	Method	History and calibration	Regulatory requirements
Corporates	Accounting Payment history and other behavioural information Industry Age	The Bank uses a scorecard model based on regression analysis, where historical observations are used to predict probability of default. Score cards are divided into nine industry variants to take into account that explanation variables have different significance for different industries. In addition, the calibration level can be set differently for different industries to take into account different historical default levels.	Data basis for estimation and validation: > 10 years When calibrating a level, a method is used that is similar to that determined by the authorities for mortgages, but with other parameter values. In this way, the Bank takes into account the actual historical default level when predicting future defaults. The Bank uses up to 7 years of history when calibrating the level, as well as including the assumed default rate in a severe economic downturn. The model has a ceiling for PD for healthy customers, set at 30 %.	No customers can be assigned a PD lower than 0.03 %.
Retail	Assessment Information Liquidity and liabilities Payment history and other behavioural information Age	The Bank uses a scorecard model based on regression analysis, where historical observations are used to predict probability of default. Score cards have two versions: mortgages and other loans, of which the former portfolio is the dominant. The explanation variables are weighted differently in the two variants. In addition, the calibration level can be set differently to take into account different historical default levels.	Data basis for estimation and validation: > 10 years When calibrating a level, a method determined by the authorities is used that takes into account the actual default rate at the Bank and an assumed default rate in a severe economic downturn. The model has a ceiling for PD for healthy customers, set at 40 %.	No mortgage customers can be assigned a PD lower than 0.2 %.

The model estimates are a combination of stable and expected estimates. This is because the model uses explanation variables that quickly capture changes in a customer's financial situation, such as payment notes, and other explanation variables that change periodically, such as accounting or assessment information. This results in observed DR, which is an abbreviation of Default Rate, often deviating from estimated PD. In addition, the calibration of the estimates plays a part in that the calibration methodology is an element for adjustment against defaults in a serious recession.

4.5.3.2 The EAD model

The EAD model estimates the customer's exposure to default. EAD is the exposure on the balance sheet with the addition of exposure outside the balance sheet multiplied by a conversion factor. For credits, the conversion factor specifies how much of the available credit frame is assumed to be withdrawn by default. For guarantees, the conversion factor specifies the proportion of the guarantee that is assumed to be paid out on default. the Bank uses the EAD model when granting credit and in monthly reclassifications of the customers. The EAD model is also used in pricing, ongoing reporting and follow-up of exposures. The following table shows how the EAD model is built up.

Table 4.7: Build-up of the EAD model

Exposure category	Method and explanation variables	History and calibration	Regulatory requirements
Corporates	Model that assigns conversion factor by account type (guarantee or credit facility), score type, and probability of default.	Data basis for estimation and validation: > 10 years	The level of the conversion factor should be set so as to provide an estimate of withdrawals in an economic downturn The guarantee conversion factor has a parameter determined by the authorities of 100 % for loan guarantees and 50 % for contract and other guarantees.
Retail	Model that assigns conversion factor by account type (guarantee or credit facility)	Data basis for estimation and validation: > 10 years	The level of the conversion factor should be set so as to provide an estimate of withdrawals in an economic downturn The guarantee conversion factor has a parameter determined by the authorities of 100 % for loan guarantees and 50 % for contract and other guarantees.

4.5.3.3 The LGD model

LGD indicates the proportion of the Bank's exposure to a customer that is expected to be lost if the customer defaults. The Bank uses the LGD model when granting credit and in monthly reclassifications of the customers. The LGD model is also used in pricing, ongoing reporting and follow-up of exposures.

Security is the dominant explanation variable in the LGD model. Therefore, having good estimates of the value of security is crucial to the quality of the LGD model's estimates. Together with the SpareBank 1 Alliance, the Bank has routines for the valuation of collateral to ensure a prudent core value. The routines are subject to annual audit and maintenance.

The LGD estimate shall take into account a future severe recession, which means that the value of the security is adjusted down by a reduction factor in calculating LGD. The Bank's reduction factors are approved by the Financial Supervisory Authority of Norway and validated annually based on internal loss data. The model itself has also been adjusted for downturns to take account of a severe recession.

As well as security, estimates of recovery probability, recovery of unsecured exposures and collection costs are used to estimate LGD.

Table 4.8: Build-up of the LGD model

Exposure category	Explanation variables	Method	History and calibration	Regulatory requirements
Corporates	Security Customer type Equity proportion EAD	The Bank uses a structural/definition model that estimates LGD based on sub-models. Security is the dominant explanation variable.	Data basis for estimation and validation: > 10 years LGD is calibrated through parameter values in the model	The Bank is required to include a safety margin imposed by the authorities in its LGD estimates.
Retail	Security Product	The Bank uses a structural/definition model that estimates LGD based on sub-models. Security is the dominant explanation variable.	Data basis for estimation and validation: > 10 years LGD is calibrated through parameter values in the model	For mortgages, estimates are adjusted against the Financial Supervisory Authority of Norway's reference model. For mortgages, there is a floor of 20 % for LGD at portfolio level.

4.5.4 Validation

Modelled estimates will always be burdened with uncertainty. Validation of the Bank's IRB models is important to ensure that the models' estimates are in line with the actual risk the Bank is exposed to. Robust buffers are used in an attempt to compensate for uncertainty in model estimates. The size of the buffer depends on the cyclical sensitivity of different parameters. Uncertainty in the models is also taken into account through various safety margins, which make the estimates sufficiently conservative.

Validation therefore represents an important quality assurance of the Bank's IRB system. The IRB system is tested through both quantitative and qualitative validation in accordance with the regulations.

Quantitative validation is a process that ensures that the Bank's estimates for PD, KF, EAD, and LGD have adequate quality. The quantitative validation process includes an assessment of:

- The data basis that is included in the validation.
- Stability in the model's estimates over time.
- The model's ability to rank customers.
- The model's ability to estimate correct levels.

Qualitative validation is a process that ensures that the models are tailored to the Bank's portfolios and that they represent a central ingredient of the Bank's risk management and decision-making. The IRB system also includes the models, work and decision-making processes, control mechanisms, IT systems and internal guidelines and routines associated with the classification and quantification of credit risks when using the IRB models.

The following table lists the various assessments in the quantitative validation. The above parameters are included in the calculation of expected losses (hereinafter abbreviated to EL), and the Bank validates this estimate by looking at the expected loss against actual losses in the period.

Table 4.9: Assessments in the validation

	Suitability and stability	Ranking ability	Level
PD	The validation examines whether the population that the model is applied to is similar to the model's estimation basis. This is safeguarded through statistical tests and qualitative assessments of the data basis.	Tests the model's ability to distinguish between customers that default and customers that do not default. For this, the Bank uses both migration matrices and statistical analyses such as AUC	Verifies that the estimated level is robust, measured against actual observations of the default rate. To define what is sufficiently high, a long-term outcome is calculated, based on up to seven years of default history and an assumed default rate in an economic downturn.
EAD (KF)	An assessment is made of whether the model is adapted to the customer base.	Unlike default (PD), the conversion factor (KF) does not have a binary outcome (default or non-default). Therefore, when evaluating the ranking ability of the EAD model, we see whether the model is able to distinguish between customers with high conversion factor and low conversion factor.	By means of validation we check whether the estimated level is robust, measured against actual observations of default.
LGD	An assessment is made of whether the model can be applied to the customer base.	Assessment of the ranking ability of the LGD model has the same approach as the EAD model. We assess whether the LGD model is able to distinguish between default customers with a high level of loss and those with a low level of loss, measured against actual observations	Estimated values are measured against the Bank's historically observed values. Assessment of whether the LGD model estimates are sufficiently high. Must take into account that the estimated LGD must be calibrated against a recession.

4.5.4.1 Model development and validation roles

It is important that the validation of the credit models is done with a sufficient degree of independence. Independence is achieved through the following central roles:

- The unit responsible for developing the credit models.
- The unit responsible for validating the models and their application.
- Internal auditing.

The SpareBank 1 Alliance's competence centre for credit models (hereinafter called CFC) is developing new models and further developing existing models on behalf of, and in collaboration with, the banks in the Alliance. Additionally, the CFC contributes with professional input to the quantitative validation.

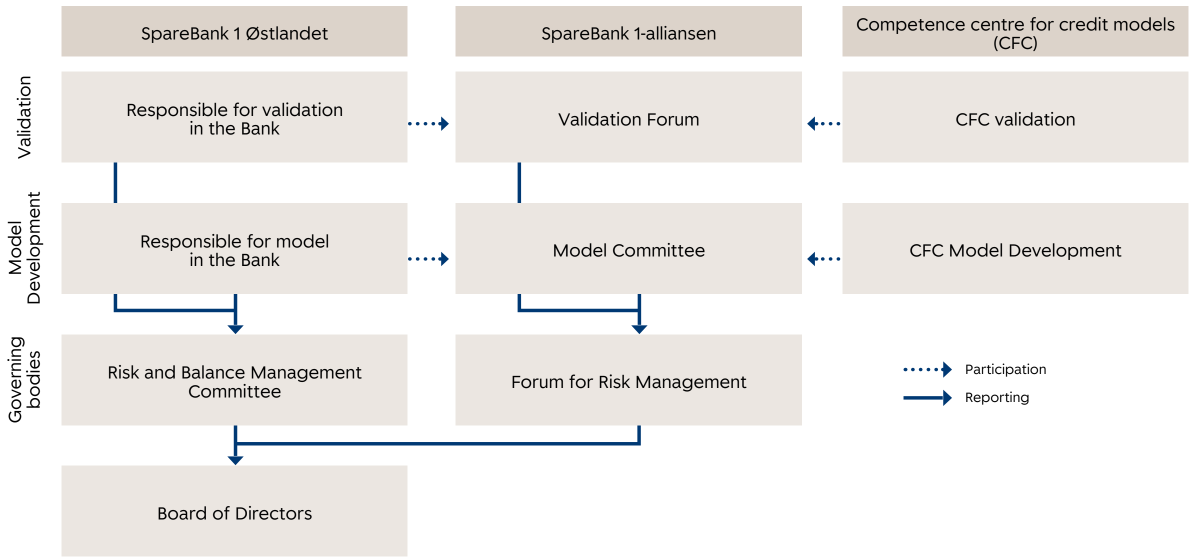
SpareBank 1 Østlandet, in the area of risk management, is responsible for the qualitative and quantitative validation of the Bank. The Bank annually prepares a validation report that includes all models, portfolios, and sub-parameters. Here, each model is considered within the areas of suitability, ranking ability and level. Analysis is done on sub-portfolios, such as industries. The report, which also deals with qualitative validation, is handled by the Bank's risk and balance sheet management committee before it is presented to the Board of Directors.

Also, development in estimates and observations is continuously monitored so as to monitor the models' performance. Analyses are performed to give an early warning if a model tends towards a weaker performance, whether this is due to the model no longer being suited to the portfolio in question, or the ranking ability diminishing or the estimates varying too much from the actual observations.

Internal audit conducts audits at least once a year to ensure that the IRB system is used in accordance with, and complies with, the applicable regulations and the terms of the IRB approval. The purpose of the audit is to provide the Board and Group Management with an independent assessment of the validation of the IRB system, as well as whether the system is properly integrated into the Bank and is a key element of the Bank's risk management and decision-making process.

In line with the EBA's guidelines, the Bank has divided responsibility for model development and model validation to ensure independence between the two areas of responsibility. The credit models used by the Bank were developed in collaboration with the banks in the SpareBank 1 Alliance and the CFC. Here too, responsibility for model development and validation is split to ensure independence. The organisation is illustrated in the figure below. The people responsible for validation in the SpareBank 1 banks participate in the Alliance's Validation Forum together with the CFC. Similarly, those responsible for models in the banks participate in the Alliance's Model Committee. The people responsible for validation must conduct analyses and make recommendations to those responsible for models based on validation findings and reconciliations with the Alliance's Validation Forum. Those responsible for models are responsible for implementing the necessary measures based on this.

Figure 4.3: Organisation of model development and validation



4.6 Portfolio information

For portfolio information, please see the appendix containing standardised forms, main groups 8-11, which deal with credit risk.

5 Counterparty risk

Counterparty risk can be defined as the risk of financial loss if a counterparty to a transaction defaults before final settlement. In addition to the aforementioned counterparty risk, it also includes the risk of an impaired credit rating at counterparties in derivative contracts (CVA risk).

5.1 Management and control

The management of the Group's counterparty risk is regulated in the Bank's risk-based governing documents. In accordance with the governing document for market risk policy, the Group's trading in derivatives shall be within the general limits for interest rate, currency, equity and counterparty risk. The governing documents are adopted by the Board and apply for the strategy period, although they are revised as required and at least once a year.

The Group enters into derivative trades on the basis of customer demand and to hedge positions arising from such activity. Derivatives are also used to hedge currency and interest rate risks arising in connection with borrowing and lending.

Derivatives are traded with several different counterparties, which also do other types of business. Credit risks arising in connection with trading in derivatives is included in the measurement of credit risk in a capital adequacy context. Please refer to the notes in the Group's annual financial statements for a description of the accounting treatment of financial instruments.

The common European Market Infrastructure Regulation (EMIR) regulates clearing obligations and obligations to implement risk mitigation measures in cases where clearing is not applicable. EMIR also sets out requirements for bilateral counterparty agreements that include risk-reducing measures, including with regard to pledging assets as security. This means that the Bank cannot conduct derivative transactions with bank counterparties where ISDA and CSA agreements have not been established. ISDA is an abbreviation of the International Swaps and Derivatives Association, which is an association of international financial institutions, and an ISDA agreement enables offsetting. CSA is an abbreviation for Credit Support Annex and such an agreement allows collateral received to be seen in context.

In order to minimise counterparty risk against individual counterparties, ISDA and CSA agreements have been entered into with the Group's bank counterparties, while the Group also makes use of clearing for key clearing counterparties. In order to address the clearing related need for diversification, the Group strives to have active agreements with several clearing brokers.

The Group also has exposure limits to further reduce concentration risk in relation to individual counterparties. The exposure limits also register CVA risk in relation to central counterparties and bank counterparties, also known as wrong-way risk, since the limits are based on EAD that is included in the calculations of both counterparty risk and CVA risk. This type of risk in relation to customer counterparties is managed through credit ratings. The qualitative counterparty limits are determined based on the counterparties' rating from official rating agencies. As far as received collateral is concerned, the Group has set concentration risk limits for this and daily reconciliation is carried out, along with any necessary margining in connection with CSA agreements. The collateral pledged consists exclusively of cash deposits. The CSA agreements do not contain provisions concerning the supply of additional collateral in the event of a downgraded rating. CSA agreements only deal with the value of the derivative, and this can only be changed by changes to the market parameters included in the derivative contract.

5.1.1 Responsibility for counterparty risk interest and currency derivatives

The CFO bears overall responsibility for the Group's counterparty risk related to interest and currency derivatives. Operational responsibility for the counterparty risk associated with interest rate and currency derivatives has been delegated such that the CFO is responsible for the counterparty risk related to interest rate and currency derivatives associated with the Group's financing and investments, while the head of capital markets is responsible for the counterparty risk related to interest rate and currency derivatives associated with customer trading and Capital Market's trading in interest rates and currency.

5.1.2 Reporting of counterparty risk

To ensure independent control, the risk management department is responsible for the following reporting.

- Monthly reporting of the Group's exposure in relation to selected targets and limits for Group Management.
- Quarterly reporting of the Group's exposure in relation to selected targets and limits for the Board and Group Management with supplementary comments.

5.2 Portfolio information

For portfolio information, please see the appendix containing standardised forms, main group 13, which deals with counterparty risk.

6 Liquidity risk

Liquidity risk is the risk of being unable to fulfil obligations when they fall due or finance assets, including undesired growth, without significant extra costs.

6.1 Management and control

The management of funding risk is based on risk-based governing documents for the area of liquidity. The governing documents are adopted by the Board and apply for the strategy period, although they are revised as required and at least once a year. In connection with the governing documents, a separate contingency plan has been established for managing the funding situation during periods of turbulence in the financial markets, and the funding situation is also a key theme in the Group's recovery plan. The governance and control of liquidity risk is considered satisfactory in relation to fulfilling the risk profile requirements and strategy.

6.1.1 Strategic objective and management processes

The Bank aims to ensure that the liquidity risk will be low and the objective is secured through:

- Sufficient liquid reserves.
- Diversification and a long-term approach to financing.
- Risk measurement.

Frameworks that support the strategic objective, including limits for survival for various time horizons, the size and quality of the liquidity reserve and the financing's duration and diversification, are determined in the governing document for liquidity risk.

6.1.1.1 Sufficient liquid reserves

Investments in interest-bearing securities are made for the purpose of controlling the liquidity risk. The Group shall have sufficient liquid reserves to support the survival targets. Different assets have different levels of liquidity. The composition and the size of the reserves shall be such as to satisfy all defined survival targets. Holding a liquidity reserve has a cost and total liquidity costs shall be the lowest possible.

6.1.1.2 Diversification and a long-term approach to financing

Deposits are one of the Bank's main sources of funding. Deposits are considered to be stable funding, so the Group shall always have a sufficiently high percentage of balance financing via deposits. Deposits with low liquidity risk shall be prioritised, while the deposits should be shall from a sufficient number of different types of depositors. Given sufficient diversification, the deposits shall be priced so that profitability is maintained.

The foreign capital market has over time come to account for a larger proportion of the Group's financing. The desired level of refinancing risk shall be achieved through diversification in different geographical markets, types of investor groups, maturities and currencies. Borrowing cost shall be minimised, given the guidelines given for diversification and long-term financing.

Covered bonds through SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS shall be actively used to secure stable and long-term financing, contribute to the diversification of financing and reduce financing costs. In order to ensure the greatest possible flexibility in financing opportunities, the Bank shall actively work to maintain the facilitation pace of loans that can be transferred to the companies.

The balance of mortgages in residential property and commercial covered bond companies shall be limited so as to take into account the Group's own credit rating and general risk considerations. In general, the Bank shall follow a conservative policy and not be negatively differentiated compared with other banks' use of residential property and commercial covered bond companies as a funding source.

6.1.1.3 Risk measurement

Different parts of the balance give the Group varying levels of liquidity risk. To better understand different assets' actual liquidity risks, continuous work is required to increase knowledge of the assets' inherent liquidity risks.

Deposits give the Group liquidity risk. Different types of deposits have different risks of being withdrawn. Similarly, unused credits cause the Group liquidity risk because the customer may choose to draw on credit. The Group therefore creates stress scenarios designed to try and describe the liquidity risks associated with the various assets.

In order to continue to finance lending activity, borrowing that matures must be refinanced. The desired growth must also be financed. The risks that arise from borrowing activities are measured via regularly updated forecasts.

By combining known liquidity flows with different scenarios, the Group's total liquidity risk is measured.

6.1.2 Organisation, roles and responsibility

To ensure the satisfactory division of work between the departments and people who take positions on behalf of the Group and the departments and people responsible for settlement, calculations, control and reporting, the Group has established an organisation in which executive and controlling functions are independent of each other. The parent bank is responsible for, and manages, the liquidity and refinancing risk that arises in subsidiaries.

6.1.2.1 Control of liquidity risk

The Board's adopted liquidity risk strategy provides the Group CEO with guidelines, limits and authorisation for the management of liquidity risk. The Group CEO further delegates this according to area of responsibility. The CFO bears overall responsibility for liquidity management in the Group. The operational responsibility for the liquidity management is delegated to the chief financial officer, who is responsible for:

- Monitoring the ongoing development of the Group's liquidity situation in NOK and EUR.

- Management of the liquidity reserve.
- The Group's borrowing of foreign capital.
- Correct determination of the internal price of funding.

6.1.2.2 Identification and measurement of liquidity risk

The financial department and risk management department have a shared responsibility for identifying and measuring liquidity risks.

- The finance department is responsible for identifying and measuring the liquidity risk for foreign capital funding, including the use of covered bonds and the portion of liquid reserves invested in the market.
- The risk management department is responsible for identifying and measuring the liquidity risk of deposits and unused credits.

6.1.2.3 Ongoing follow up

Operational support finance is responsible for settlement and control at the transaction level, as well as updating master data and various depots. The business divisions are responsible for ensuring that liquidity events that are essential for liquidity management are reported to the finance department as soon as they are known. The CFO is responsible for ensuring that the balance of the Bank's account with Norges Bank is not overdrawn. The head of capital markets is responsible for ensuring that the Bank's accounts denominated in foreign currency are not overdrawn. The compliance function is responsible for assessing, testing and controlling compliance with relevant regulations in this area, as well as reporting its results to Group Management and the Board of Directors.

Before any instruments that are basically new are used, the Finance Department must prepare a risk analysis with associated risk mitigating measures in line with a specific procedure. The risk analysis must be approved by the CFO.

Systems for management and control shall be evaluated regularly by the Group's internal auditor.

6.1.2.4 Reporting of liquidity risk

To ensure independent control, the risk management department is responsible for the following reporting.

- Monthly reporting of the Group's exposure in relation to selected targets and limits for Group Management.
- Quarterly reporting of the Group's exposure in relation to selected targets and limits for the Board and Group Management with supplementary comments.

Risk Management also performs 2nd line checks in this area, where the checks are organised and documented via a control plan and the results are reported to the Board.

Gap analyses are performed in line with the Financial Supervisory Authority of Norway's modules for self-assessment of management and control. Gap analyses provide useful information about management and control in line with external regulations and expectations.

6.2 Exposure

6.2.1 Survival

For the purpose of supporting the objective of low liquidity risk, different survival goals are established at different time horizons.

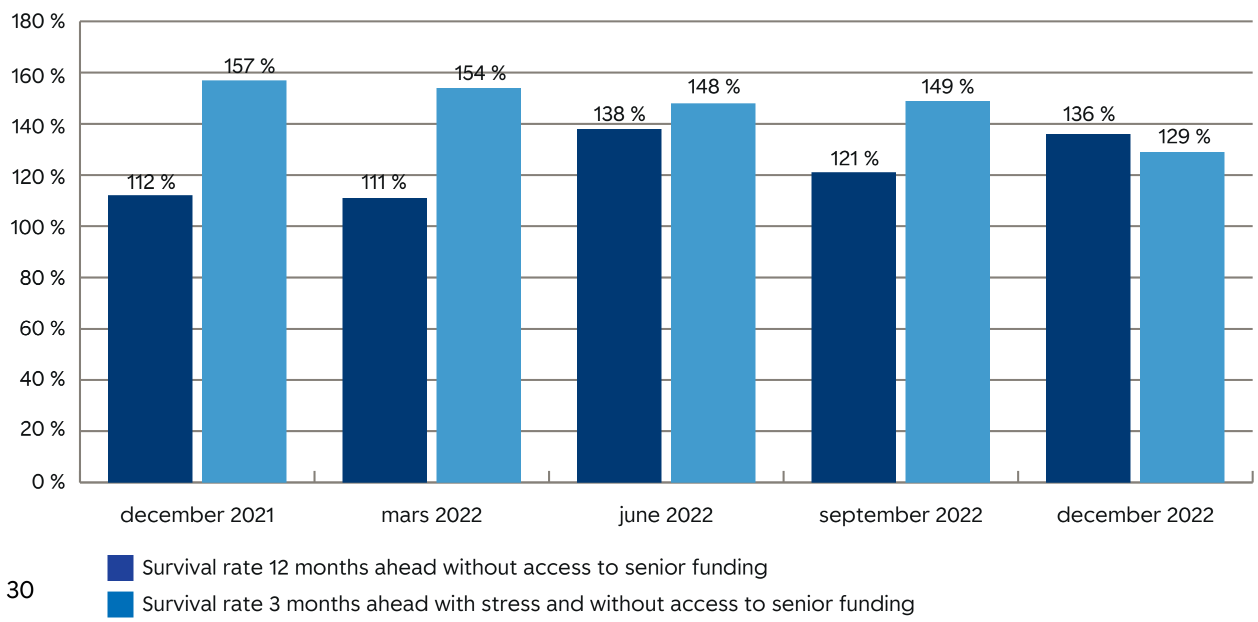
6.2.1.1 Survival according to liquidity coverage ratio

Liquidity Coverage Ratio (hereinafter LCR) defines a stress scenario that lasts for 30 days. Information about the Group's consolidated LCR for total currency, as well as descriptions of key factors related to the LCR, can be found in forms 7.2 and 7.3 in the appendix containing standardised forms. Supplementary information about diversification of financing and the liquidity portfolio's composition can be found in the sections below.

6.2.1.2 Survival in a normal situation and in a self-defined stress with a great crisis in the market and our own bank

The Group shall have a survival rate in a situation without access to senior funding of a minimum of 100 per cent for 12 months ahead. Furthermore, the Group must have a survival rate for a major crisis in the market and its own bank of at least 100 per cent for three months ahead. Developments in recent quarters are shown in the figure below.

FIGURE 6.1: Results from stress tests

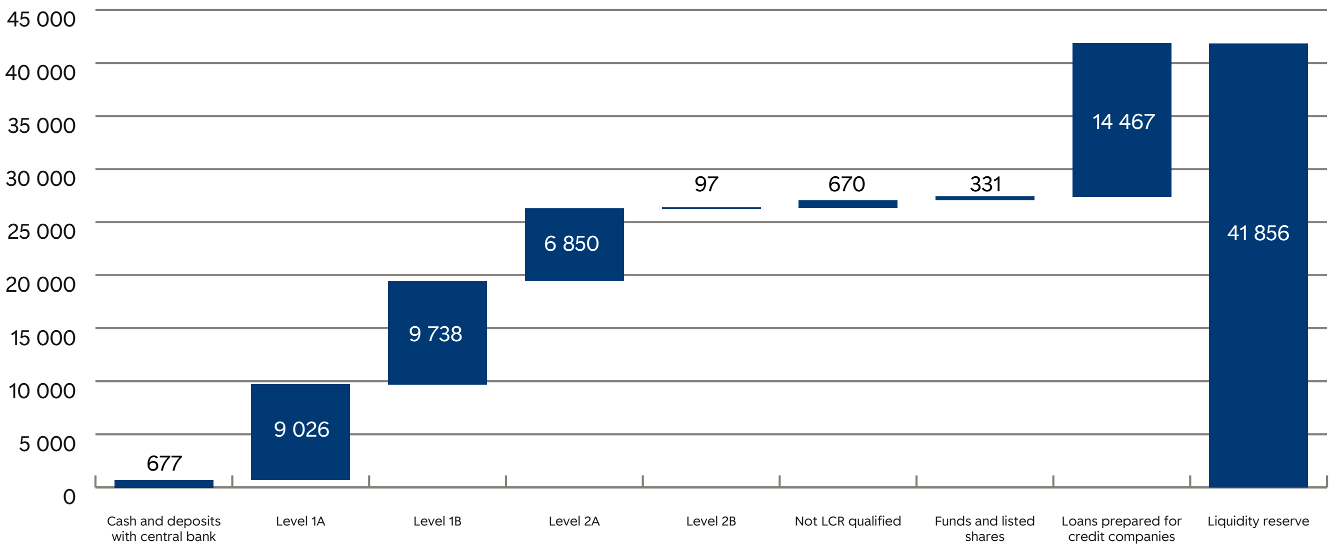


6.2.2 Liquidity reserve

The liquidity reserve shall at all times be large enough to satisfy government requirements and internal survival targets. At year end, the liquidity reserve was NOK 41.9 billion, given the Group's internal limitation on transferring mortgages to SpareBank 1 Boligkreditt AS.

The liquidity reserve shall consist of liquid assets of good quality. The liquidity reserve at the start of the year contained cash, access to loans from Norges Bank, bonds and certificates, funds and listed shares, and loans prepared for sale to residential property and commercial covered bond companies. The following figures indicate the composition and quality of the liquidity reserve.

FIGURE 6.2: The composition and quality of the liquidity portfolio



6.2.3 Diversification and long-term approach to financing

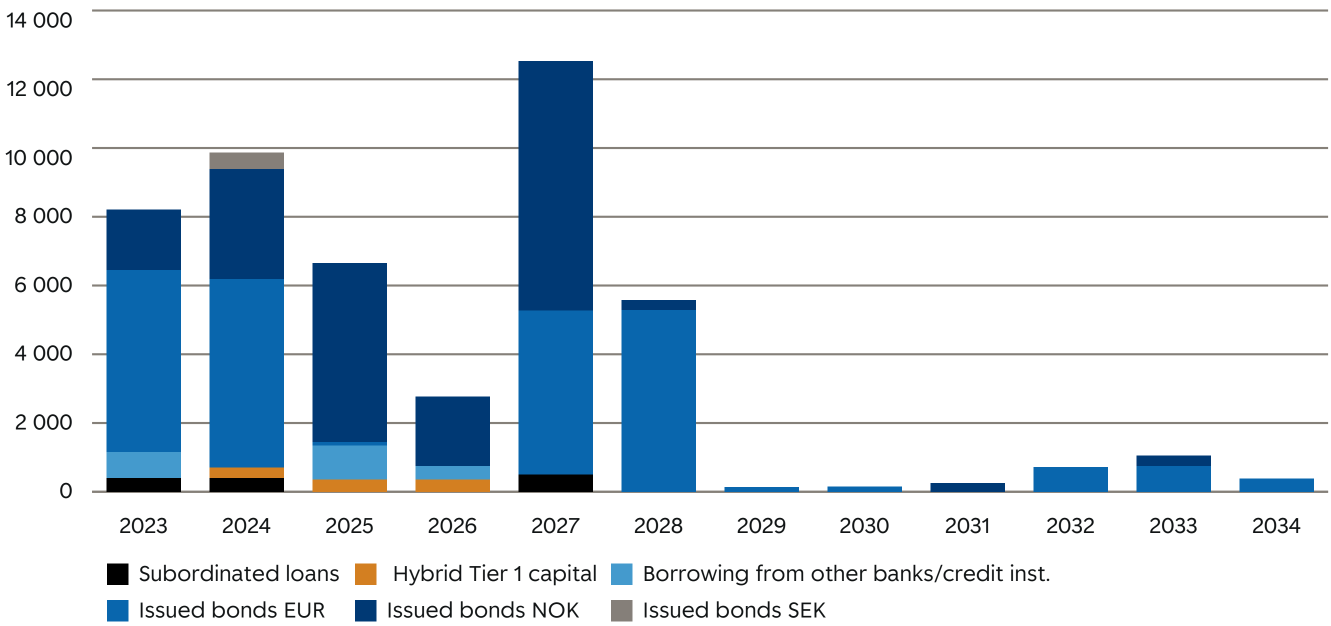
Liquidity risk is reduced by the diversification of financing over different markets, financing sources, instruments, terms and currencies. Total financing, consisting of equity, customer deposits, loans transferred to mortgage credit and commercial covered bond companies and market financing, was NOK 224.9 billion at year end. The market financing alone on the same date was NOK 48.3 billion.

6.2.3.1 Long-term financing

Net Stable funding Ratio (hereinafter called NSFR) describes the degree to which the Group is long-term funded. Information about the Group's consolidated NSFR for total currency can be found in form 7.4 in the appendix containing standardised forms.

Of the Group's total funding volume of NOK 48.3 billion mentioned above, NOK 8.2 billion had to be refinanced in 2022. The average term for the Group's market financing was 3.3 years at year end. The figure below shows the maturity structure for the Group's market financing.

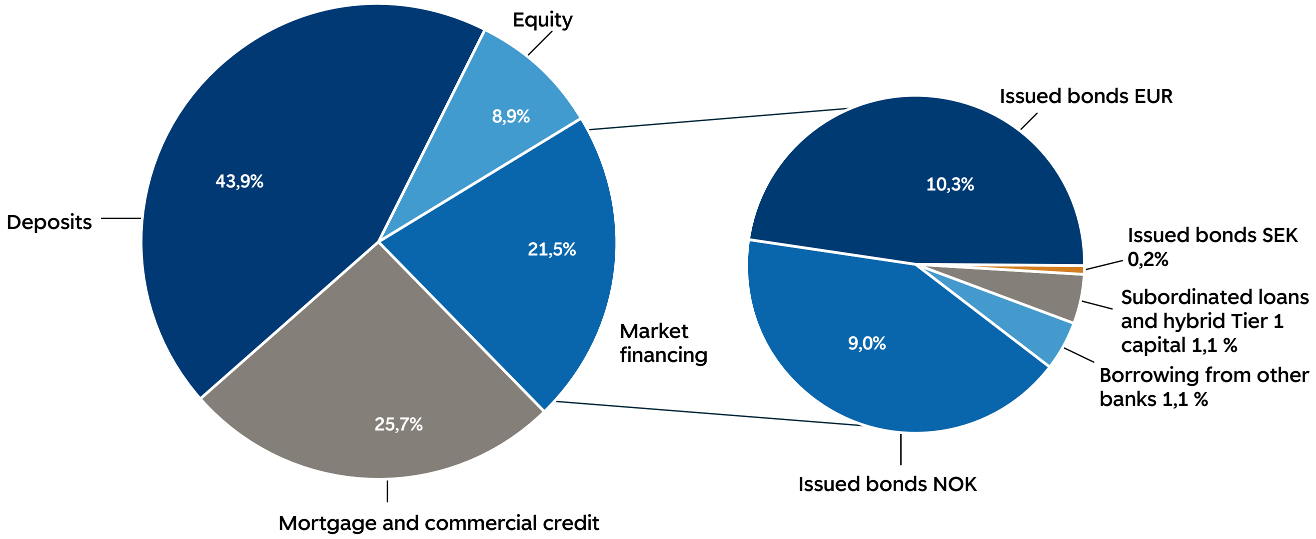
FIGURE 6.3: Maturity structure



6.2.3.2 Diversified financing

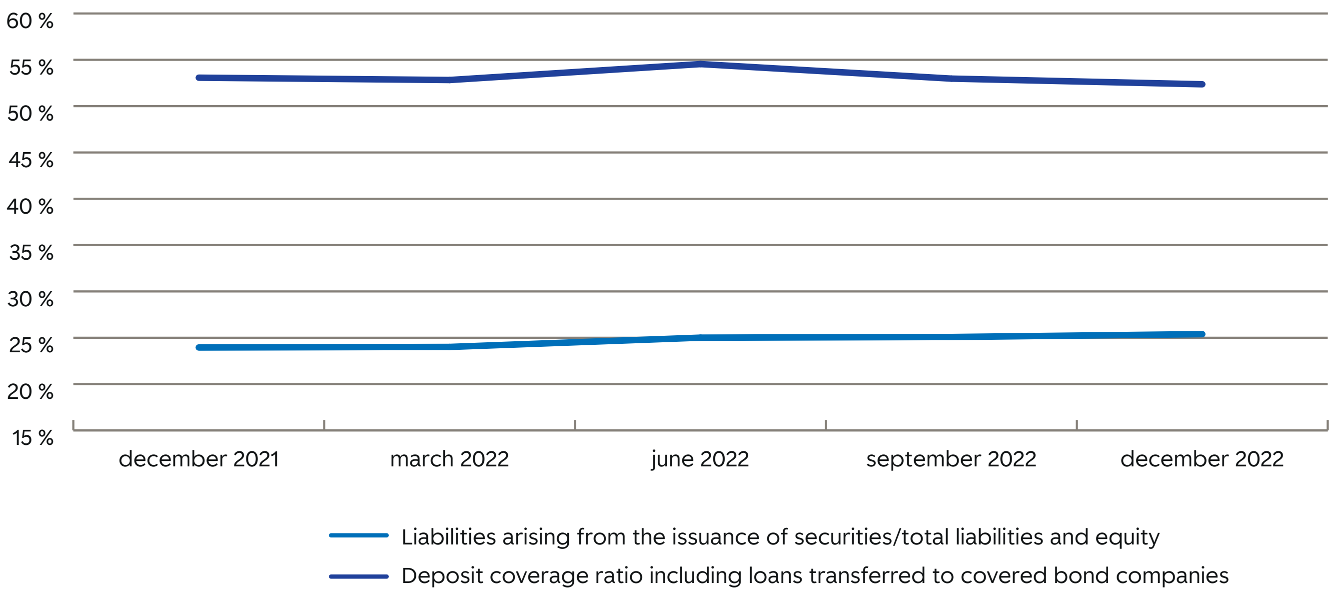
The figure below shows the Group's sources of financing at year end.

FIGURE 6.4: The Group's sources of funding



To ensure other diversification of financing than different maturities and funding sources, frameworks have been established for reliance on market funding, use of covered bonds as a funding source and diversification of deposits.

FIGURE 6.5: Deposit coverage ratio and reliance on market funding



At the end of the year, the Group's funding in EUR represented 47.8 per cent of total market funding and 15.3 per cent of total liabilities on its own balance sheet.

7 Market risk

Market risk is the risk of loss due to changes in observable market variables such as interest rates, foreign exchange rates and shares/equity capital certificates. The risk associated with falls in value in the real estate market is also included in market risk. So is the risk of changes in the market value of bonds, certificates and funds due to general changes in credit spreads.

The Bank does not have a trading portfolio and has currency exposure below the threshold level for calculating associated capital requirements and capital requirement for market risk under Pillar 1 is therefore not calculated. Under Pilar 2, the Group calculates capital requirements for market risk for interest rate risk, equity risk, currency risk, property risk and spread risk. Please refer to the notes in the Group's annual financial statements for a description of the accounting treatment of financial instruments.

7.1 Management and control

Management of market risk is based on risk-based governing documents for the market risk area. The governing documents are adopted by the Board and apply for the strategy period, although they are revised as required and at least once a year. The Group's governance and control of market risk is considered satisfactory in relation to fulfilling the risk profile requirements and strategy.

7.1.1 Strategic objective and management processes

According to the Group's overall risk strategy, the Group must only assume limited market risk. Therefore, the strategic goal is a group with limited market risk but one that at the same time maximises the return within the applicable framework.

7.1.1.1 Interest rate risk

The purpose of managing interest rate risk is to ensure that the Bank's interest rate risk exposure is known and that it is commensurate with the risk profile and current limits for the area. The limits take into account interest rate risk in total currency as well as interest rate risk in NOK and in EUR.

Interest rate risk is measured and reported as the total change in value of balance sheet items and non-balance sheet items (economic value of equity (EVE)), as well as the effect on net interest income (NII) of shifts in the yield curve. For EVE, limits have been set for how great an impact on profit a 1-percentage point parallel shift and a 1-percentage point distortion of the interest rate curve may have. Interest rate curve risk is the risk that the interest rate curve shifts differently within the various times to maturity when the interest rates change.

Frameworks and associated calculations take into account administrative interest rate risk, which is the effect of the time it takes in practice from when an interest rate change occurs in the market to when the terms for deposits and loans with variable interest rates are adjusted.

For the most part, the Bank's lending to customers is floating lending provided on the terms and conditions applicable at the time. The pass-through rate in Norway has historically been high and the loans are, therefore, considered to have a high probability of repricing. Fixed-rate loans account for a very small proportion of the loan pool, and any costs related to premiums for early repayment are charged to the customer.

The Bank's deposit pool is mainly subject to current rates and NIBOR deposits and is, therefore, defined as stable in that there is a low probability of withdrawals in the event of changes to the policy rate. As a result of high pass-through rate in the event of changes to the policy rate, all deposits are considered to have a high probability of repricing as a result of changes to the policy rate. The average and longest repricing maturity assigned to non-maturity deposits in the calculations as of year-end are 6.6 and 9 weeks respectively.

In line with the EBA's guidelines for managing interest rate risk in the bank book, we calculate the effects on profit caused by an immediate parallel upward and downward shift in yield curves of 200 basis points, with a time horizon of 12 months. The calculation assumes a static balance sheet, roll-out of interest rate agreements and reporting deadlines. The effect on the market value of interest sensitive instruments is calculated based on the six specified shock scenarios. Information about the effects on profit and the market values of interest rate sensitive instruments caused by the specified shock scenarios in line with the EBA' guidelines for managing interest rate risk in the bank book is provided in form 20.2 in the appendix containing standardised forms.

To minimise the Bank's interest rate risk, interest rate swap agreements are used. Hedging transactions are conducted with reputable Norwegian and foreign banks in order to reduce own risk. Derivative business is linked to ordinary banking and is carried out to reduce risks related to the Bank's borrowing in financial markets, and to reveal and reduce risks related to customer activities. The interest rate risk is also limited through frameworks for the maximum weighted time to maturity and duration in the securities portfolio.

7.1.1.2 Currency risk

Currency risk arises when differences exist between assets and liabilities in the individual currency. The currency risk is measured based on the combined net currency position and the net position in the various currencies.

The aim of the Bank's currency activities is to safeguard customers' need for foreign exchange trading, foreign currency funding and international money-transfer services, and to secure the currency positions that occur within the financing/liquidity and management of securities.

Activities related to currency turnover shall at all times occur within the adopted guidelines, frameworks and authorisations. The frameworks define quantitative targets for maximum currency exposure, measured in NOK. There are frameworks for net positions in each currency, as well as total absolute sum of net positions per currency. The currency risk is quantified and monitored continuously.

7.1.1.3 Property risk
Property risks are market risks associated with exposure in property. This includes ownership positions and shares in commercial property, property companies, property funds as well as direct ownership of properties, including our own bank buildings and property for our own or employee use.

The Bank's investments consist mainly of its own buildings, as well as some holiday properties. Beyond this, the Bank has a strategic interest in Oslo Kongressenter Folkets Hus BA, which is recognised in the accounts as shares. In the Pillar 2 assessment, however, these are included as property risk and calculations show that overall there is major added value in the Bank's properties beyond what appears in the Bank's accounting.

7.1.1.4 Equity risk
Equity risks arise in that the Bank owns shares, equity capital certificates or other equity instruments that derive the value determined by market developments.

According to the governing document for market risk, the Bank has its own framework for investments in strategic and financial share positions. Strategic share positions means "investments to contribute to growth and development in the Bank's market area" and "strategic stakes in relation to the banking business". Financial share positions are short-term or long-term investments with the goal of providing the best possible returns.

In measuring exposure to the market risk frameworks, the market value of investments is used. Shares in subsidiaries as well as investments in associated companies (AC) or joint ventures (JV) are kept outside as they are essentially consolidated in full or proportionately in Group capital adequacy. Non-consolidated AC/JV are included in the assessment of ownership risk according to Pillar 2.

7.1.1.5 Spread risk
Spread risk is risk of loss on a change in the mark-up against the reference rate on the Bank's investments. Mark-up against the reference index consists of both credit risk and liquidity risk and is part of the Bank's total market risk assessment.

7.1.2 Organisation, roles and responsibility
To ensure satisfactory division of work between the departments and the people who take positions on the Group's behalf and the departments and persons responsible for settlement, control and reporting, the Group has defined different roles and responsibilities.

7.1.2.1 Management of market risk
The Board's adopted governing document for market risk provides the Group CEO with guidelines, limits and authorisation for the management of market risk. The CEO further delegates this according to area of responsibility.

Market risk that arises in subsidiaries is managed by the parent bank.

7.1.2.2 Responsibility for market risk
The Group CEO bears overall responsibility for strategic equity investments and real estate property investments. The CFO bears overall responsibility for the Group's interest rate, currency and spread risk, as well as financial investments in equities and trading in climate quotas. The operational responsibility for market risk has been delegated such that the CFO is responsible for the Group's interest rate and spread risk, while the head of currency/interest rate brokerage is responsible for the Group's currency risk.

Before any instruments that are basically new are used, the Finance Department must prepare a risk analysis with associated risk mitigating measures in line with a procedure for assessing new financial instruments. The risk analysis must be approved by the CFO.

7.1.2.3 Responsibility for settlement, data quality, calculations and framework control
The head of operational support finance is responsible for settlement and control at the transaction level, data quality, following up counterparty exposure (collateral management) and the production and control of internal and external reports. The head of capital management and corporate governance is responsible for pricing securities portfolios for use in market risk calculations and interest rate risk calculations. The risk manager for market and liquidity risk is responsible for calculating equity risk, spread risk, currency risk and real estate property risk, as well as framework control.

The compliance function is responsible for assessing, testing and controlling compliance with relevant regulations in this area, as well as reporting its results to Group Management and the Board of Directors.

7.1.2.4 Reporting market risk
To ensure independent control, the risk management department is responsible for the following reporting.

- Monthly reporting of the Group's exposure in relation to selected targets and limits for Group Management.
- Quarterly reporting of the Group's exposure in relation to selected targets and limits for the Board and Group Management with supplementary comments.

The head of the capital and corporate governance department must ensure reports are submitted to the CFO on an ongoing basis in the event of significant realised or unrealised losses in the securities portfolio.

Risk Management also performs 2nd line checks in this area, where the checks are organised and documented via a control plan and the results are reported to the Board.

Gap analyses are performed in line with the Financial Supervisory Authority of Norway's modules for self-assessment of management and control. Gap analyses provide useful information about management and control in line with external regulations and expectations.

7.2 Portfolio information

As mentioned, as at year end the Bank had no trading portfolio and thus does not calculate market risk under Pillar 1. Capital requirements for the Bank's interest rate portfolio, properties and equity positions are included instead as credit risks in a regulatory context. Therefore, the appendix containing standardised forms, does not contain any relevant quantitative forms for disclosing the Group's market risk in isolation, although the tables below provide descriptions of portfolios that are exposed to changes in observable market variables.

Credit risks associated with the Bank's interest rate portfolio appear in the table below. Investments included in Group capital adequacy are kept outside this summary.

Table 7.1: Credit risk in the interest rate portfolio

Bonds and certificates	Book value	RWA	Capital requirement 8.0 %
Central governments and central banks	2 840	84	7
Local and regional authorities	4 777	813	65
Multilateral development banks	3 059	-	-
Institutions	2 783	27	2
Corporates	302	234	19
Covered bonds	11 788	1 179	94
Total	**25 550**	**2 336**	**187**

The table to the right shows the interest rate portfolio as at year end by rating class. Investments included in Group capital adequacy are kept outside this summary.

Table 7.2: Bonds and certificates

Ratings	Book value
AAA	19 044
AA	2 036
A	190
BBB	93
BB	-
B or lower	-
Non-rated Norwegian municipalities	3 695
Other non-rated papers	491
Total bonds and certificates	**25 550**

The Bank's positions in equity positions can be divided into three categories. A summary of book value, fair value and the amount deducted in Common Equity Tier 1 capital as at year end is shown in the following table.

Table 7.3: Summary of book value, fair value and the amount deducted in Common Equity Tier 1 capital

Investment type	Book value	Amount deducted in Common Equity Tier 1 capital ratio
Financial investments at fair value through profit or loss	178	-
Strategic investments at fair value through profit or loss	583	51
Associated companies and joint ventures	6 004	251
Total	**6 765**	**302**

At the end of the year, the Bank has investments in substantial equity positions in financial institutions which, according to the applicable rules, will result in a NOK 302.5 million deduction from the Group's Common Equity Tier 1 capital. Total realised gains or losses as a result of sales and liquidation during the period and total realised and unrealised gains and losses according to valuations amount to NOK 8 and NOK 32.6 million respectively as at year end.

The Bank's equity positions consist mainly of investments in associated companies and joint ventures, as well as other strategic investments. The Bank's investments in SpareBank 1 Boligkreditt AS, SpareBank 1 Kreditt AS, SpareBank 1 Næringskreditt AS and BN Bank ASA are consolidated proportionately in Group capital adequacy. A detailed overview of the Bank's investments by purpose as at year end is presented in the following table.

Table 7.4: Investments distributed by purpose

Objective	Investments	Book value
Financial investments at fair value through profit or loss	VISA Inc. (class C)	150
	NorgesInvestor Proto AS	28
	Other financial investments	-
Total		**178**
Strategic investments at fair value through profit or loss	Totens Sparebank	331
	SpareBank 1 Markets AS	74
	Eksportfinans ASA	69
	Oslo Kongressenter Folkets Hus AS	57
	VN Norge AS	16
	Visa Inc. (Series C Preferred Stock)	13
	Komm-In AS	8
	Øvrige strategiske investeringer	15
Total		**583**

Associated companies and joint ventures	SpareBank 1 Boligkreditt AS	2 672
	SpareBank 1 Gruppen AS	1 617
	BN Bank ASA	542
	SpareBank 1 Næringskreditt AS	321
	SpareBank 1 Kreditt AS	301
	SpareBank 1 Betaling AS	227
	SpareBank 1 Utvikling DA	129
	Mobilitet AS	75
	SpareBank 1 Forvaltning AS	52
	SpareBank 1 Bank og Regnskap AS	42
	SpareBank 1 Kundepleie AS	23
	Øvrige tilknyttede selskap og felleskontrollert virksomhet	2
Total		**6 004**
Sum total		**6 765**

The following table provides an overview of the book value by type of share investment as at year end. In this overview, associated companies and joint ventures are defined as other, while fixed income funds are treated as spread risk.

Table 7.5: Overview of type of shares

Type	Bokført verdi
Unotert	281
Omsatt på børs	480
Øvrige	6 004
Sum	**6 765**

The interest rate risk for all interest rate positions can be expressed by looking at the change in the value of interest rate instruments in the event of a parallel 1 per cent change in interest rates. The table below shows the effect of the aforementioned interest rate change on assets and liabilities, maturities and currencies as at year end. The average interest rate risk over the full year was NOK 14.7 million. These calculations take into account administrative interest rate risk. Where the interest rate risk is positive, the Group makes a gain on an interest rate increase.

*Table 7.6: Interest rate risk – change in value**

Interest rate risk, 1 percentage point change	2022
Certificates and bonds	-282
Fixed-rate loans to customers	-136
Fixed-rate deposits from customers	15
Loans from banks and credit institutions	3
Liabilities arising from issuance of securities	833
Other	-17
Derivatives	-399
Administrative interest rate risk	4
Total interest risk, after tax	**21**

Yield curve risk, 1 percentage point change	2022
0-1 months	4
1-3 months	1
3-6 months	2
6-12 months	9
1-3 years	-8
3-5 years	4
5-10 years	8
Over 10 years	0
Total interest risk, after tax	**21**

Currency, 1 percentage point change	2022
NOK	18
EUR	3
Other	0
Total interest risk, after tax	**21**

The table below provides an overview of the Bank's net currency exposure as at year end. The currency risk is quantified and monitored continuously. The Bank was exposed to limited currency risk both during the year and at year end.

Table 7.7: Currency exposure

Currency	Net exposure
GBP	0
USD	0
HKD	0
JPY	-1
PLN	0
SEK	-1
EUR	20
CHF	0
Other	1
Total	**19**

* Updated as of 23 March 2023.

8 Operational risk

Operational risk is the risk of losses resulting from:

- People: violations of routines/guidelines, lack of competence, unclear policy, strategy or routines, internal failures.
- Systems: failure of ICT and other systems.
- External causes: crime, natural disasters and other external causes.

8.1 Management and control

Management and control of the Group's operational risk is based on the governing document adopted by the Board. The document establishes the Board's risk profile for operational risk. The overall objective is for the Group to have effective management and monitoring of operational risks, so that no incidents should be able to materially damage solvency and performance.

Through quantified limits for exposure in various categories of operational risk, the Group ensures that the risk picture is managed and followed up on an ongoing basis. The practical management of operational risk in the Group is based on the main activities described below.

8.1.1 1st line's key checks

Key checks have been established that largely ensure that the 1st line's most significant control actions are documented in the Bank's governance, risk and compliance (GRC) system. The checks defined as key checks are the checks that, from a risk perspective, are the most important for the Bank to follow up. The procedure related to key checks is aimed at managers and employees assigned specific responsibility for facilitating and carrying out the practical work of internal control.

8.1.2 Manager confirmation

All managers of business and support functions are responsible for day-to-day risk management, and for ensuring good internal control exists within their area of responsibility. All managers must report on status and development in annual manager confirmations, as well as assess the risk culture as an element in analyses and reports for their areas. Manager confirmations are intended to provide the CEO and Board with information about whether risk management is being properly addressed, including whether routines, guidelines and Acts/Regulations are being followed. Manager confirmations are an important part of the systematic quality work. The work on manager confirmations is coordinated by the risk management department.

8.1.3 2nd line's checks

The Group's 2nd line function must ensure that there is a control plan. A set of checks is defined on the basis of a risk-based approach. The control plan must be revised annually. The checks can consist of mapping and assessing procedures and systems, spot checks, data analysis and general ongoing monitoring. Where relevant, a report on the checks is prepared and distributed to various risk owners. This contains the results of the check and an assessment of quality based on the result of the check. Any improvement measures are registered in the GRC system for follow-up. The status of the progress of the control plan is reported to the Risk Committee and the Board in quarterly risk reports.

8.1.4 Losses and incidents

The Group has systems and routines for registering undesired incidents. Such registration enables the organisation to learn from the incidents and take the necessary measures to reduce the likelihood of similar incidents occurring again.

Undesired incidents means incidents arising from:

- Human error.
- Weaknesses in routines or systems.
- Crime.
- Operational incidents.

and where the consequences entail or could result in:

- Financial loss.
- Breach of legal requirements.
- Injuries/negative consequences for employees.
- Reputational loss.

Operational losses and incidents shall be registered in the GRC-system and followed by in accordance with the defined guidelines.

8.1.5 Customer Complaints

The Group has a centralised complaint system that seeks to safeguard the Bank, the Bank's customers and other contractual partners. The scheme satisfies the Financial Supervisory Authority of Norway's guidelines for complaint management. The purpose of this scheme is to ensure that all complaints are given satisfactory treatment in line with the Bank's principles of complaint processing and at the same time contribute to adequate consumer protection in line with the Financial Supervisory Authority of Norway's guidelines. The system shall also ensure that the Bank gains a better overview of the operational risk, and can thus analyse the complaints to determine whether they are due to systematic errors. The extent of complaint cases and their outfall are reported quarterly to the Board. In addition, complaints are reported annually to the Financial Supervisory Authority of Norway.

8.1.6 Continuous improvement

The risk management department registers and follows up suggestions for improvement based on reports from the internal audit and measures based on recommendations from the Financial Supervisory Authority of Norway or other independent control bodies through the GRC system. The measures/recommendations that are identified by internal quality reviews from compliance checks, risk assessments, management verifications, etc. are also followed up in the same way. The Risk Management Department reports the status of measures to Group Management, the Risk Committee and the Board twice a year.

8.1.7 Risk analyses

Risk Management is responsible for ensuring that the Group has adequate methods and procedures for carrying out risk assessments. The Group's risk strategy and policy stipulate that risk assessments must be carried out at least once a year or more frequently when special circumstances warrant it. Such special circumstances could be new strategic opportunities, changed social conditions, changed framework conditions and/or significant changes in business models, products, systems and processes. A guiding principle is that risk assessments should be initiated by the Bank's 1st line.

8.1.8 The Financial Supervisory Authority of Norway's risk modules

Gap analyses are performed in relation to the Financial Supervisory Authority of Norway's modules for self-assessment of management and control, as well as the Cobit framework for evaluating ICT operations. The gap analyses provide useful information about management and control in line with external regulations and expectations.

8.1.9 New and revised products, solutions and processes

New and significantly changed products, solutions and processes must undergo sound and effective quality assurance before they are put into production. This must be done to avoid the unintentional or unwanted introduction of operational risk. The quality assurance must include a risk assessment in which key resources participate. There is a specific policy for new and changed products and solutions. The policy provides guidelines for which projects and deliverables must be scored and risk assessed, and at what level in the organisation implementation decisions should be taken. The level at which decisions should be taken depends on the materiality and criticality of the product or solution. The policy is supplemented by specific procedures and a specific project management tool, which ensures compliance with, and follow-up of, policies and processes.

8.2 Minimum eligible capital requirement

The Group uses the basic approach to calculate the eligible capital required to cover operational risk. Information about the Group's requirements for eligible capital for operational risk can be found in form 16.2 in the appendix containing standardised forms.

9 ESG risk

The Group is affected by ESG factors either directly through its operations and indirectly, mainly through the loan portfolio. ESG factors with a direct impact are managed as operational risk, compliance risk, conduct risk and liquidity risk, and are integrated into the methods and assessments within these risk categories.

ESG risk is defined as the risk of loss due to the Group's exposure to counterparties being adversely impacted by ESG factors. ESG risk is a risk driver for credit risk, including concentration risk, counterparty risk and market risk and can be divided into:

a) Environmental risk (E) is the risk of loss as a result of the Group's exposure to counterparties being adversely affected by environmental factors, including climate change/changes in nature, and changes in regulations and consumption habits due to the transition to a zero emissions society.

b) Social risk (S) is the risk of loss due to the Group's exposure to counterparties being adversely impacted by social conditions, labour rights, human rights, poverty, etc.

c) Governance risk (G) is the risk of loss due to the Group's exposure to counterparties being adversely impacted by poor corporate governance of the counterparty.

9.1 Strategic objective and management processes

Sustainable development is one of the four main goals of the Bank's strategy. In the opinion of the Bank, the main climate risk is related to transition risk. Therefore, one strategic focus area will be being a driving force for sustainable change. Please refer to the annual report's chapter 'Our approach to sustainability' for more information, and to the Bank's website for an overview of key policies in the area of sustainability.

The Bank is working on facilitating and implementing key regulations in the area of ESG and has set targets for cutting emissions in both its business operations and its loan portfolio. In this context, improving energy efficiency in buildings financed by the retail market and corporate market is an important focus area. Please refer to the Group's annual report for more information.

In collaboration with the other banks in the SpareBank 1 Alliance, a tool for carrying out corporate customer sustainability assessments has been further enhanced. The tool assesses customers' management of climate and environmental risk, social risk and management risk. The results of such assessments are used in credit assessments of individual loan applications, and they can also provide valuable data for reporting, stress tests and future model development.

The sections below describe the most important ESG risks identified by the Bank.

9.1.1 Retail market

The Bank has identified transition risk associated with its residential mortgage portfolio and is enabling the Bank's loan customers to improve the energy efficiency of their residential properties. Specific goals have been established and measures adopted to achieve these goals.

The Bank has assessed the current physical climate risk in the mortgage pool in the short, medium and long term as low.

9.1.2 Corporate market

In the corporate market, the largest borrowing industries are agriculture and commercial property and these are considered to present some transition risk. In the same way as in the retail market, goals have been set and relevant measures adopted to achieve them.

9.1.3 Finance Department

The climate and environmental risk in the Bank's liquidity portfolio is low since it invests heavily in Norwegian municipal and government bonds. The Bank is seeking to increase its share of ESG investments in the portfolio and has set targets for this area. The Group issues green bonds and has developed its own framework for this area. For more information about the green bond framework, please see the Bank's website.

9.1.4 Capital market

The Bank does not manage its own funds. Therefore, please refer to the SpareBank 1 Alliance's joint sustainability mapping and labelling of mutual funds.

9.2 Roles and responsibilities

The Board has adopted risk-based governing documents for the most important risk categories and ESG risk has been integrated into these with relevant guidelines, targets and limits. The status and performance in key areas are reported to Group Management and the Board in quarterly risk reports.

The Bank has established a Sustainability Committee in which key resources from various business, support and staff areas participate. The Sustainability Committee maintains a comprehensive picture of the work on sustainability and is an advisory body for Group Management. The committee is chaired by the head of sustainability and holds monthly meetings.

As for other areas, the Risk Management Department is responsible for the framework for the management and reporting of ESG risk.

The assessment of ESG risk in connection with granting of loans and general customer care is handled in the business divisions, while financing related to the green bond framework is handled by the Finance Department.

The Bank's process for managing ESG risk is described in the annual report's sustainability appendix 'Management of ESG risk'.

10 Ownership risk

Ownership risk is the risk that the Group will incur negative earnings from ownership interests in strategically owned companies, or that the Group must inject new equity in strategically owned companies, whether it is due to strong growth or to ensure continued operations as a result of large losses. Ownership is defined as companies in which SpareBank 1 Østlandet has a significant stake or influence.

10.1 Exposure

As at year end, SpareBank 1 Østlandet was exposed to ownership risk through the following proprietary positions in associated companies (AC) and joint ventures (JV):

- SpareBank 1 Boligkreditt AS (consolidated in capital adequacy).
- SpareBank 1 Næringskreditt AS (consolidated in capital adequacy).
- SpareBank 1 Kreditt AS (consolidated in capital adequacy).
- BN Bank ASA (consolidated in capital adequacy).
- SpareBank 1 Gruppen AS.
- SpareBank 1 Utvikling DA.
- SpareBank 1 Betaling AS.
- SpareBank 1 Bank og Regnskap AS.
- SpareBank 1 Gjeldsinformasjon AS.
- SpareBank 1 Forvaltning AS.
- SpareBank 1 Kundepleie AS.
- SpareBank 1 Mobility Holding AS (associate in the subsidiary SpareBank 1 Østlandet AS).

Non-consolidated AC/JV are included in the assessment of ownership risk according to Pillar 2.

10.2 Management and control

The SpareBank 1 banks conduct their alliance work through the jointly owned holding company SpareBank 1 Gruppen AS. SpareBank 1 Gruppen is owned by SpareBank 1 Østlandet, SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge, SpareBank 1 SMN, Samarbeidende Sparebanker AS, as well as the Norwegian Confederation of Trade Unions (LO) and trade unions associated with LO. SpareBank 1 Kreditt AS and SpareBank 1 Betaling AS are owned by all the banks in the SpareBank 1 Alliance. SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS are owned by all the banks in the SpareBank 1 Alliance except SpareBank 1 SR-Bank.

The CEOs from the owning banks, SpareBank 1 Østlandet, SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge, SpareBank 1 SMN and the chair of Samarbeidende Sparebanker AS, as well as the Norwegian Confederation of Trade Unions (LO), as owners of the company, sit on the Board of SpareBank 1 Gruppen. The finance director of SpareBank 1 Østlandet joins the Board meetings of SpareBank 1 Boligkreditt AS, SpareBank 1 Næringskreditt AS and BN Bank ASA. SpareBank 1 Østlandet is similarly represented on the Boards of SpareBank 1 Kreditt AS and SpareBank 1 Betaling AS.

11 Compliance risk

Compliance risk is the risk that the Group will incur public sanctions, penalties, other criminal sanctions, loss of reputation or financial losses as a consequence of failure to comply with acts, regulations, official guidelines and mandatory public orders.

11.1 Management and control

Management and control of the Group's compliance risk is based on the Board of Directors' adopted compliance risk guidelines. These lay down the Board of Directors' risk tolerance for compliance risk. The Group has a low tolerance for compliance risk and zero tolerance for deliberate breaches of the regulations. No compliance incidents may significantly impair the Group's solvency, performance or reputation. The Group's business operations must be organised so as to eliminate fines and sanctions. This overall risk tolerance is concretised and operationalised through quantifiable parameters in different sub-areas.

The policy also regulates responsibilities, including guidelines for all employees' responsibility for regulatory compliance. The Group's management is responsible for implementation and compliance with laws and regulations, while each individual employee is responsible for day-to-day, ongoing compliance.

The Group has its own compliance function, which is organised independently of the operative business management. The Group's compliance function is responsible for assessing whether the Group's guidelines, routines and systems contribute to ensuring compliance with relevant regulations, as well as controlling regulatory compliance. The compliance function shall also monitor regulatory development and make impact assessments of known and notified regulatory changes. The Group's compliance function works according to a risk-based annual plan. If regulatory development or other circumstances so dictate, the annual plan will be adjusted on an ongoing basis.

The policy sets requirements for internal follow-up and reporting, including requirements for processes to ensure and follow up on regulatory compliance. Incidents and violations in the compliance area will be registered in the same manner as operational risk is registered and followed up via the incident database.

The Chief Compliance Officer reports status within the area of compliance to the Board on a quarterly basis. This includes status in relation to the Board's risk tolerance for compliance risk, compliance risk assessments, results of compliance checks and information about regulatory developments.

11.2 Regulatory changes and compliance risk

The extent of regulatory changes was significant again in 2022. Extensive regulatory changes with significance for the Bank's framework conditions are also expected in the coming years. The Group has a considerable focus on regulatory developments and compliance risk. Follow-up of the Bank's adaptation to and implementation of new and changed regulations is part of the compliance function's annual plan.

12 Conduct risk

Conduct risk is the risk of public sanctions, criminal sanctions, loss of reputation or financial loss as a consequence of the Bank's business methods or the employees' conduct materially jeopardising customers' interests or the integrity of the market.

12.1 Management and control

Over time, the regulation of the financial industry has evolved to increasingly include regulations to protect customers and consumers. The Group's conduct risk is therefore closely associated with the Group's compliance. The Board of Directors has adopted dedicated guidelines for conduct risk in order to clarify the importance of this topic for the Group. This policy lays down the Board of Directors' risk tolerance in this area. The Group has a low tolerance for conduct risk. This means that no single conduct incidents should be able to materially damage the Group's financial strength, performance or reputation. The overall risk tolerance in the area is concretised and operationalised through quantifiable parameters for risk tolerance in different sub-areas.

The policy also regulates responsibility, follow-up and reporting requirements, and the main principles for ensuring good business conduct. All employees are required to contribute to ensuring that customers' needs and entitlements are adequately handled, including by providing professional and honest customer services to ensure that the Bank's customers can make clear and well-informed choices.

Key instruments to ensure good business conduct include, among other things, ethical guidelines, internal information and training initiatives, implementation of risk analyses, a well-functioning procedure to handle customer complaints – including root cause analyses and improvement measures – and an appropriate whistleblowing channel. On the establishment of or changes to products and services, the necessary quality assurance must be carried out prior to launch. Payment and remuneration schemes must be designed to ensure and encourage appropriate conduct and good conduct.

The Chief Compliance Officer reports status for conduct risk to the Board on a quarterly basis, as an integral part of the quarterly compliance report. This includes, among other things, status in relation to the Board's risk tolerance for conduct risk.