PILLAR 3

2020

From grain to group

SpareBank 1 ØSTLANDET

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1 Introduction

Pillar 3 is a regulatory requirement for the disclosure of information about capital and risk conditions. This document provides a description of SpareBank 1 Østlandet's risk and capital management and should satisfy the requirements for 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 this 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 Tier 2 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 *www.sparebank1.no/nb/ostlandet.*

1.1 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 enterprises and the approaches the enterprises use to calculate and evaluate their capital requirements. The regulations are based on the following three pillars:
- Pillar 1: Minimum Tier 2 capital requirement.
- Pillar 2: Evaluation of the overall capital requirements and supervisory follow-up.
- Pillar 3: Public disclosure of information.

1.1.1 Pillar 1 – Minimum Tier 2 capital requirement

Pillar 1 concerns the minimum Tier 2 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 8 per cent as at 31 December 2020.

SpareBank 1 Østlandet has not been defined as a nationally systemically important bank.

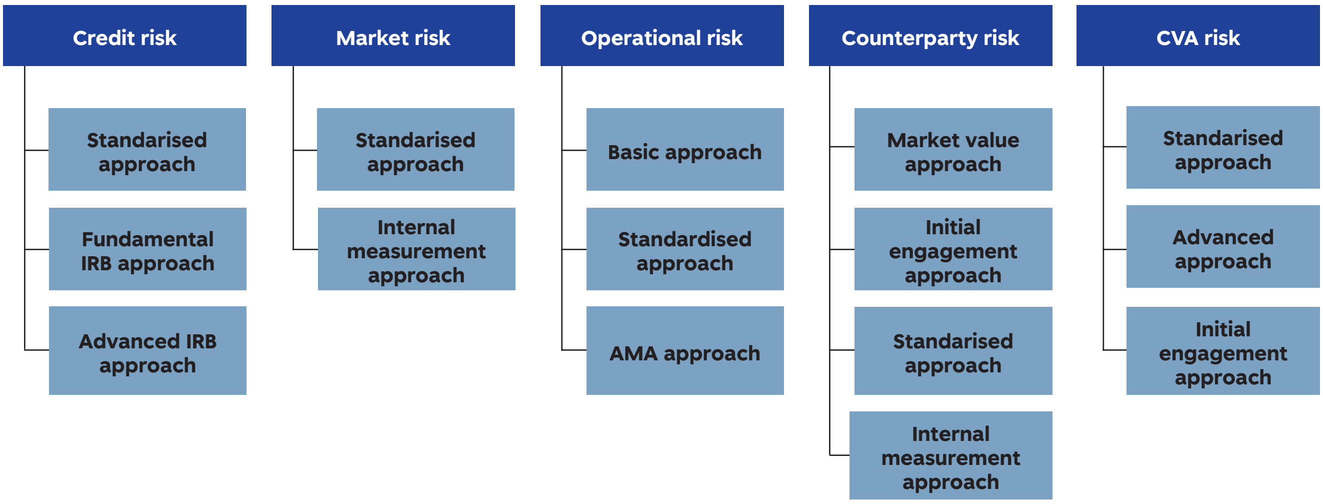
Capital adequacy is defined as the relationship between the Bank's total primary capital and its risk-weighted assets.

Figure 1.1: Capital adequacy ratio

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

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

Figure 1.2: Approaches for calculating capital requirements



For enterprises 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 enterprise'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.

1.1.2 Pillar 2 – Evaluation of the overall capital requirements and individual supervisor 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.

In autumn 2016, the Financial Supervisory Authority of Norway published circular 12/2016 "The Financial Supervisory Authority of Norway's practices for assessing risk and capital requirements". Some attachments to said circulars were updated in the summer of 2019. The Group has adapted its ICAAP process to comply with the circular.

Based on the above-mentioned circular, 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 quality in management and control, where the capital requirements are mainly based on the approach described in the circular.

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. The Financial Supervisory Authority of Norway has the authority to implement suitable supervisory measures if the Financial Supervisory Authority of Norway is not satisfied with the results of this process.

1.1.3 Pillar 3 – Public disclosure of information

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

1.2 The Group's capital adequacy targets

The Group's overarching strategic targets are set on the basis that they should underpin a moderate to low risk profile, where the Group shall 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 as of the end of 2020:

- Common Equity Tier 1 ratio equivalent to regulatory requirement + 100 bps.
- Tier 1 capital ratio at least equivalent to regulatory requirement + 50 bps.
- Tier 2 capital ratio at least equivalent to regulatory requirement + 50 bps.
- Leverage ratio at least equivalent to regulatory requirements + 100 bps.

1.3 Regulatory alignment

As at 31 December 2020, the parent bank, SpareBank 1 Østlandet, uses the advanced IRB approach for calculating minimum requirements for Tier 2 capital for credit risk in the loans portfolio. The figure below provides an overview of the approaches the Group uses for calculating capital requirements.

Figure 1.3: Approaches for calculating capital requirements in the Group

Area	SpareBank 1 Østlandet (parent bank)	SpareBank 1 Finans Østlandet
Credit risk		
- Governments	Standarised approach	Standarised approach
- Institutions	Standarised approach	Standarised approach
- Enterprises	Advanced IRB approach	Standarised approach
- Mass market	Advanced IRB approach	Standarised approach
- Equity positions	Standarised approach	N/A
Market risk	N/A	N/A
Operational risk	Standarised approach	Standarised approach
Counterparty risk	Market value approach	N/A
CVA risk	Standarised approach	N/A

2. Regulatory capital

At the end of 2020, the Group is subject to a Common Equity Tier 1 capital requirement of 12.5 per cent under Pillar 1. In addition, the capital requirement under Pillar 2 has been set at 1.8 per cent. 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. The Group is subject to a minimum Tier 2 capital requirement under Pillar 1 of 15.8 per cent as at 31 December 2020.

2.1 Regulatory capital adequacy ratio – Pillar 1

The following table shows the Group's capital adequacy calculation under Pillar 1 as at 31 December 2020.

Table 2.1: Calculation of capital adequacy ratio

Parent bank			Group	
31.12.2019	**31.12.2020**		**31.12.2020**	**31.12.2019**
14 972	**15 918**	**Total equity carried**	**17 135**	**15 903**
		Common equity tier 1 capital		
-955	-791	Part of the positive profit for the year which cannot be included in Common Equity Tier 1 capital ratio	-791	-955
-300	-650	Hybrid capital	-650	-300
-	-	Minority interests that cannot be included in Common Equity Tier 1 capital ratio	-74	-60
25	17	Unrealised change in value as a result of the reduced/increased value of liabilities	17	25
-67	-78	Goodwill and other intangible assets	-461	-420
-348	-196	Positive value of adjusted expected losses according to IRB approach	-278	-441
-156	-156	Deduction for material investments in Common Equity Tier 1 capital in other financial institutions	-539	-292
-29	-32	Value adjustments due to requirements concerning proper valuation (AVA)	-36	-33
-	-	Other adjustments in Common Equity Tier 1 capital	12	3
13 143	**14 031**	**Common Equity Tier 1 capital**	**14 335**	**13 430**
		Additional Tier 1 capital		
300	650	Hybrid capital	650	300
-	-	Hybrid capital issued by consolidated companies that can be included in other approved core capital	162	179
300	**650**	**Tier 1 capital**	**812**	**479**
		Supplementary capital in excess of Tier 1 capital		
1 300	1 300	Subordinated loan capital	1 300	1 300
-	-	Subordinated loan capital issued by consolidated companies that can be included in Tier 2 capital	257	235
1 300	**1 300**	**Supplementary capital**	**1 557**	**1 535**
14 743	**15 981**	**Total eligable capital**	**16 704**	**15 444**
4 809	4 764	Corporates - SME	4 775	4 819
14 300	13 760	Corporates - Specialised lending	14 428	14 980
1 783	1 953	Corporates - Other	1 986	1 815
1 162	1 314	SME exposure	1 530	1 381
19 179	20 059	Retail mortgage exposure	28 485	27 293
1 034	873	Other retail exposure	907	1 071
-	-	Equity positions	-	3
42 267	**42 723**	**Risk-weighted assets according to IRB method**	**52 110**	**51 361**
13 831	15 289	Credit risk according to standard method	19 705	17 972
351	417	Counterparty risk (including CVA)	1 966	1 881
		Market risk		
5 356	5 133	Operational risk	6 664	6 659
1 849		Basel I floor adjustments		7 495
61 805	**63 562**	**Risk-weightes assets**	**80 445**	**77 873**

4 944	**5 085**	**Capital reguirements**	**6 436**	6 230
1 112	**1 144**	**Pillar 2 (1.8%)**	**1 448**	**1 402**
		Buffer requirement		
1 545	1 589	Capital conservation buffer (2.5%)	2 011	1 947
1 545	636	Countercyclical capital buffer (1%, 2.5% as at 31.12.2019)	804	1 947
1 854	2 733	Systemic risk buffer (4.3%, 3% as at 31.12.2019)	3 459	2 336
4 944	**4 958**	**Total buffer requirements for Common Equity Tier 1 capital (7.8%, 8% as at 31.12.2019)**	**6 275**	**6 230**
4 305	**5 069**	**Available Common Equity Tier 1 capital beyond requirements for Common Equity Tier 1 capital (14.1%, 14.3% as at 31.12.2019)**	**2 992**	**2 294**
		Capital adequacy		
21,3 %	**22,1 %**	Common Equity Tier 1 capital ratio	**17,8 %**	**17,2 %**
21,8 %	**23,1 %**	Tier 1 capital ratio	**18,8 %**	**17,9 %**
23,9 %	**25,1 %**	Capital adequacy	**20,8 %**	**19,8 %**
9,8 %	**10,0 %**	Leverage ratio	**7,2 %**	**7,2 %**

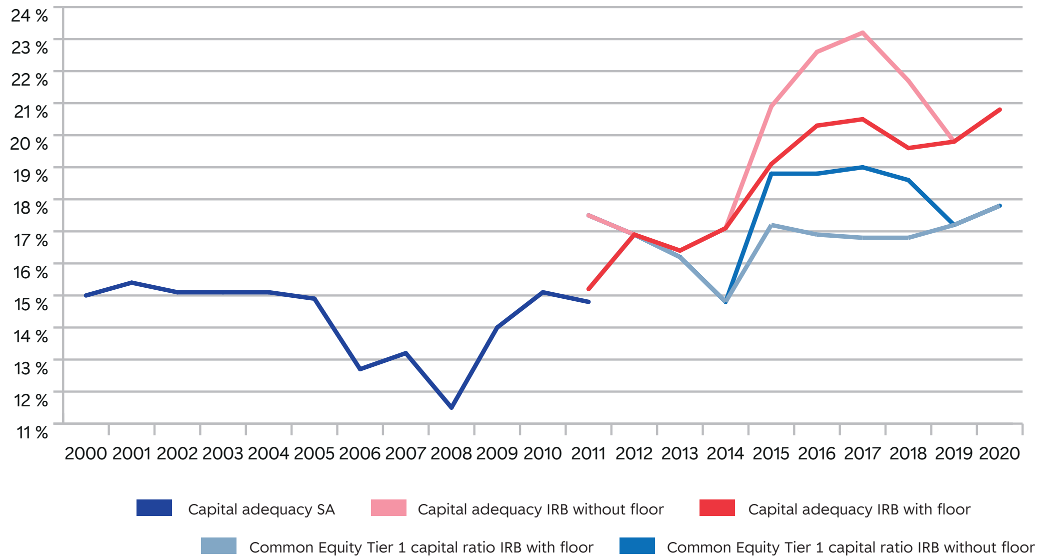
The following table shows the Group's minimum eligible capital requirement (8 per cent) as at 31 December 2020.

Table 2.2: Minimum eligible capital requirement

Commitment categories IRB method	**SpareBank 1 Østlandet (parent bank)**	**SpareBank 1 Finans Østlandet**	**SpareBank 1 Boligkreditt AS**	**SpareBank 1 Næringskreditt AS**	**SpareBank 1 Kreditt AS**	**BN Bank ASA**	**SpareBank 1 Østlandet (Group)**
Corporates - SME	381		4				382
Specialised Corporates	1 101					535	1 154
Other Corporates	156					26	159
Mass-market with real estate as collateral - SME	105		87			9	122
Mass-market with real estate as collateral - non-SME	1 605		3 338			552	2 279
Mass market - Other SME	8						8
Mass market - Other non-SME	62		12			1	65
Equity positions IRB						2	
Total capital requirement for credit risk IRB method	**3 418**		**3 440**			**1 125**	**4 169**
Commitment categories standardised approach							
States and central banks	11					2	11
Local and regional authorities (including municipalities)	61	3	50		4	33	68
Public enterprises							
Multilateral development banks							
International organisations							
Institutions	145		104	6	11	37	50
Corporates	141	118		400		18	312
Mass market commitments	13	403		3	283	8	476
Commitments with real estate as collateral	18			328		67	74
Overdue commitments		5			18		9
High risk commitments	1						1
Covered bonds	85		172	4		33	126
Receivables from institutions and enterprises with short-term rating							
Units in securities funds	4						4
Equity positions	689						347
Other commitments	55	19	7		5	6	98
Total capital requirement for credit risk standardised method	**1 223**	**548**	**332**	**740**	**322**	**203**	**1 576**
Operational risk	411	40	57	14	78	121	533
Counterparty risk including CVA	33		510	47		31	157
Total capital requirements	**5 085**	**588**	**4 339**	**801**	**400**	**1 481**	**6 436**

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

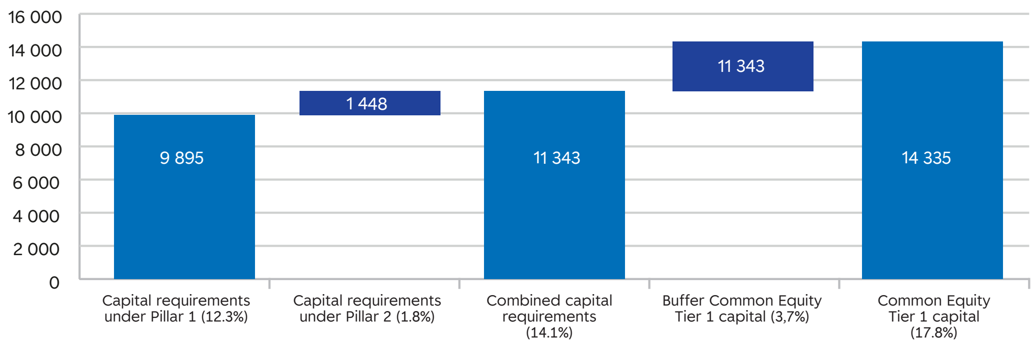
Figure 2.1: Development of capital adequacy



2.2 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 as at 31 December 2020.

Figure 2.2: Common Equity Tier 1 capital ratio



2.3 Leverage ratio

The leverage ratio is calculated as the Group's core capital as a percentage of the Group's exposure measure. The exposure measure is defined as the sum of the capitalised assets plus the off-balance drawing rights, guarantees and unutilised credit. As at 31 December 2020 the Group is subject to a minimum requirement for leverage ratio of 5 per cent. The table below shows the leverage ratio as at 31 December 2020.

Table 2.3: Leverage ratio

Balance sheet exposure (excluding derivatives and resale agreements)	
Total assets (minus derivatives, resale agreements)	204 374
Assets deducted in core capital	-1 284
Total assets minus derivatives, resale agreements and deductions in core capital	**203 090**
Derivative exposures	
Refinancing cost of derivatives	8 914
Potential future exposure to derivatives	-
(-) Received security for derivative exposures	-6 359
(-) CCP element of customer-owned commitments in the form of exposures in derivatives	-
Total derivative exposures	**2 555**
Secured funding transactions (resale agreements)	
Gross value of secured funding transactions (resale agreements)	
(-) Effect of offsetting	
Future counterparty risk exposure	
Total secured funding transactions (resale agreements)	
Off-balance sheet items	
Nominal value of off-balance sheet items	22 019
- Adjustment for conversion factors	-16 880
Exposure to off-balance sheet items	**5 139**
Capital and exposure goals	
Core capital	15 147
Exposure measure	210 784
Leverage ratio	**7.2 %**

3. Regulatory framework implementation

3.1 Consolidation for capital adequacy purposes

Consolidation of capital adequacy follows the rules set out in chapter 18 of the Financial Enterprises Act on "Activities in financial groups, consolidation etc.". The most significant differences from ordinary consolidation according to IFRS are due to the proportional consolidation of financial institutions where participant interest is above 20 per cent.

3.1.1 Cooperative group

The Group also forms part of a cooperative group according to chapter 17 part III of the Financial Enterprises 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.

The table below provides an overview of companies in the Group and the treatment according to IFRS consolidation and capital adequacy consolidation.

Table 3.1: Basis for consolidation

Name	Consolidation approach according to IFRS	Consolidation approach according to CRR	Description of unit
SpareBank 1 Østlandet	Full consolidation	Full consolidation	Parent bank
SpareBank 1 Finans Østlandet AS	Full consolidation	Full consolidation	Finance company
EiendomsMegler 1 Hedmark Eiendom AS	Full consolidation	Full consolidation	Real estate broker
SpareBank 1 Østlandet VIT AS	Full consolidation	Full consolidation	Accounting and consulting
EiendomsMegler 1 Oslo Akershus AS	Full consolidation	Full consolidation	Real estate broker
Youngstorget 5	Full consolidation	Full consolidation	Rental of real estate
AS Vato	Full consolidation	Full consolidation	Rental of real estate
SpareBank 1 Boligkreditt AS	Equity method	Proportionate consolidation	Covered bond companies
SpareBank 1 Næringskreditt AS	Equity method	Proportionate consolidation	Covered bond companies
SpareBank 1 Kreditt AS	Equity method	Proportionate consolidation	Finance company
BN Bank	Equity method	Proportionate consolidation	Bank
SpareBank 1 Bank og Regnskap	Equity method	Equity method	Development and distribution of new digital services
SpareBank 1 Gruppen AS	Equity method	Equity method	Financial holding company
SpareBank 1 Betaling AS	Equity method	Equity method	Financial holding company
SpareBank 1 Utvikling DA	Equity method	Equity method	Service provider in SpareBank 1 Alliance

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.

3.2 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 the market value approach. 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 table below compares accounting and capital adequacy ratios.

Table 3.2: Differences between financial and regulatory consolidation and comparison of accounting and regulatory risk categories

	Carrying values as reported in published financial statements	**Carrying values under scope of regulatory consolidation**	*Processed according to credit risk framework*	*Processed according to counterparty risk framework*	*Not subject to capital requirements or subject to deduction from capital*
Cash and deposits with central banks	683	720	720		
Loans and receivables from credit institutions	169	1 670	1 469	201	
Loans to and receivables from customers	114 292	166 141	166 141		
Certificates, bonds and fixed-income funds	20 999	29 239	29 239		
Financial derivatives	2 212	7 104		7 104	
Shares, units and other equity interests	616	706	706		57
Investments in associated companies and joint ventures	5 325	1 796	1 796		482
Investments in subsidiaries					
Goodwill and other intangible assets	410	431	431		460
Property, plant and equipment	620	633	633		
Other assets	745	822	822		285
Total assets	**146 073**	**209 263**	**201 957**	**7 306**	
Deposits from and liabilities to financial institutions	5 090				
Deposits from and liabilities to customers	85 613	93 202			
Liabilities arising from issuance of securities	34 952	90 924			
Financial derivatives	697	928			
Current tax liabilities	166	209			
Deferred tax liabilities	417	424			
Other debt and liabilities on the balance sheet	701	4 617			
Subordinated loan capital	1 302	1 620			
Third-party capital that qualifies as Tier 2 capital	*1 300*	*1 557*			
Total liabilities	**128 939**	**191 924**			
Equity certificates	5 791	5 791			
Share premium reserve	848	848			
Dividend equalisation fund	3 269	3 269			
Allocated dividend and other equity capital certificates	*555*	*555*			
Primary capital	4 053	4 053			
Other paid-in equity	166	166			
Endowment Fund	29	29			
Deposited customer dividends and gifts	237	320			
Fund for unrealised gains	320	320			
Hybrid capital	650	873			
Third-party capital that qualifies as approved Additional Tier 1 capital	*650*	*812*			
Other equity	1 104	1 109			
Non-controlling ownership interests	113	6			
Third-party capital that qualifies as approved Common Equity Tier 1 capital	45	45			
Total equity	**17 135**	**17 339**			
Total liabilities and equity	**146 073**	**209 263**			

Table 3.3: Discrepancies between regulatory exposure and financial exposure

	Total	Processed according to credit risk framework	Processed according to counterparty risk framework
Total assets in the CRR Group	209 263	201 957	7 306
Liabilities for offsetting in the CRR Group			
Net amount after offsetting			
Nominal value of off-balance sheet items	21 882	21 882	
Difference arising from different valuations	1 810		1 810
Difference arising from netting and collateral	-6 560		-6 560
Differences arising from different assessment of provisions in the Group			
Items exempt from calculation or withheld from Tier 2 capital	-1 284	-1 284	
Others	2 553	2 490	
Exposure before conversion factors	**227 664**	**225 046**	**2 555**

3.3 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 bonds with pre-emptive rights (hereinafter called 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 residential property and loans with commercial properties as security 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.

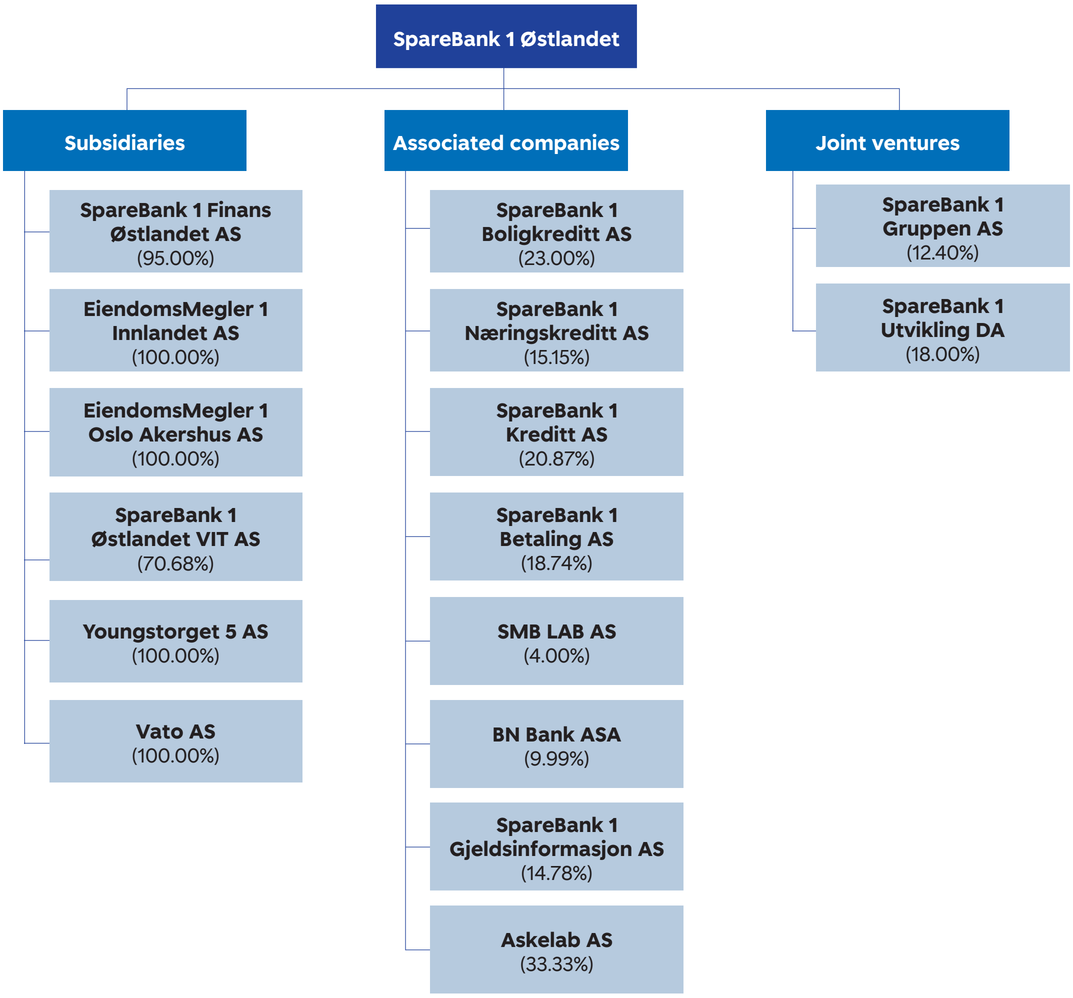
Encumbered assets, including collateral received in relation to total assets and collateral received (asset encumbrance ratio), amounts to 25 per cent for the regulatory group. The equivalent key ratio for the parent bank is 2 per cent. For more information on covered bond issues, see the covered bond companies' financial reports.

4. The Group

4.1 Group structure

The companies included in the SpareBank 1 Østlandet Group are shown in the figure below.

Figure 4.1: Group structure



SpareBank 1 Østlandet is the parent bank of the Group and is the leading supplier of financial services to individuals, businesses and the public sector in the Inland Region, as well as a contender within the same service spectrum in central parts of Eastern Norway.

SpareBank 1 Finans Østlandet AS sells leasing products and secured financing, with all of Eastern Norway as its primary market area. The parent bank, SpareBank 1 Ringerike-Hadeland, through its ownership position, and capital goods suppliers are, in addition to the Internet, the company's most important distribution channels.

EiendomsMelger 1 Innlandet Eiendom AS is the Inland Region's leading real estate broker and it is represented in the most central locations in the county.

EiendomsMelger 1 Oslo Akershus AS is the Group's real estate broker in Oslo and formerly Akershus.

SpareBank 1 Østlandet VIT AS is a holding company that owns 100 per cent of the shares in TheVIT AS. TheVIT AS provides services in finance, accounting/payroll, analysis, HR and business development.

Youngstorget 5 AS owns the parent bank's office building at Youngstorget in Oslo.

Vato AS owns some of the Group's office buildings in the Inland Region.

SpareBank 1 Boligkreditt AS is the Alliance banks' covered bond company for the retail segment.

SpareBank 1 Næringskreditt AS is the Alliance banks' commercial covered bond company for the corporate segment.

SpareBank 1 Kreditt AS is the Alliance banks' joint company for credit products.

SpareBank 1 Betaling AS is the Alliance banks' joint company for mobile phone payment solutions, which is part-owner of Vipps AS.

SMB LAB AS develops and provides financial services to small and medium-sized businesses and is owned by the banks of the SpareBank 1 Alliance.

BN Bank ASA is owned by SpareBank 1 banks and has its headquarters in Trondheim, as well as an office in Oslo. BN Bank is a nationwide bank for corporate and retail customers without branches, where customers are served online and by telephone.

SpareBank 1 Gjeldsinformasjon AS is the SpareBank 1 banks' jointly-owned holding company for ownership interests in Norsk Gjeldsinformasjon AS. Norsk Gjeldsinformasjon is owned by the largest banks in Norway which offer credit in the retail market and the company provides debt information to financial companies and credit reference companies.

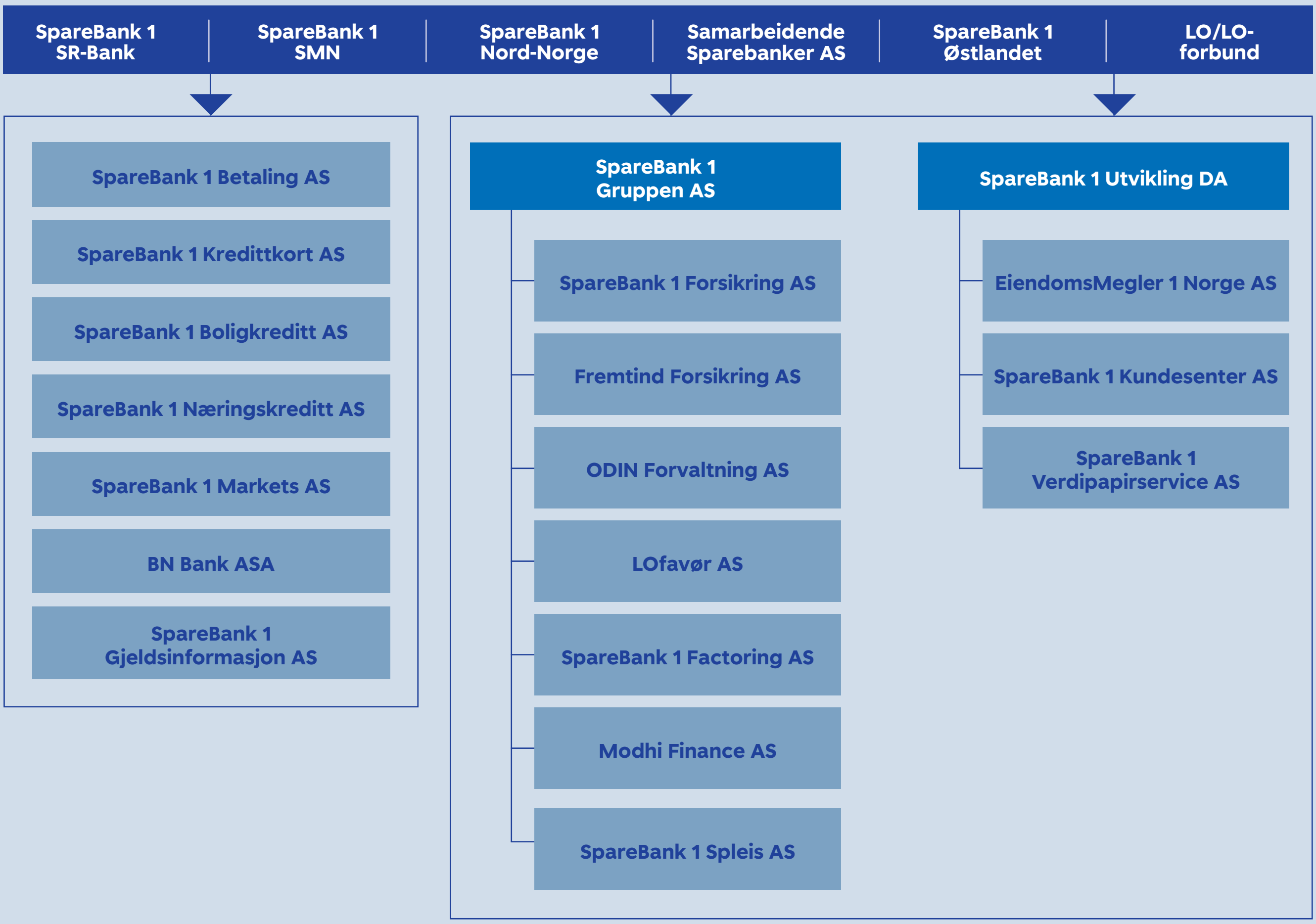
Askelab AS is a subsidiary of SpareBank 1 Finans Østlandet. The company's purpose is to establish a development environment for new solutions and business models in areas related to mobility, as well as other associated activities associated with this.

SpareBank 1 Gruppen AS and SpareBank 1 Utvikling DA
The purpose of the SpareBank 1 Alliance is to acquire and provide competitive financial products and services, taking advantage of economies of scale in the form of lower costs and/or higher quality. The Alliance contributes accordingly to private individuals and corporate customers experiencing local roots, competence and an easier way of having their various requirements met. In addition, the Alliance shall contribute to ensuring the creation of value by the Bank for the benefit of the Bank's stakeholders.

The SpareBank 1 banks engage in alliance cooperation and the development and management of products through SpareBank 1 Utvikling DA and SpareBank1 Gruppen AS. SpareBank 1 Gruppen AS is a part-owner of the insurance company Fremtind AS. SpareBank 1 Utvikling DA has responsibility for all the cooperation processes in the SpareBank 1 Alliance, where technology, brand names, competence, joint processes/application of best practices and purchasing are all key factors.

The SpareBank 1 banks work together extensively on development.

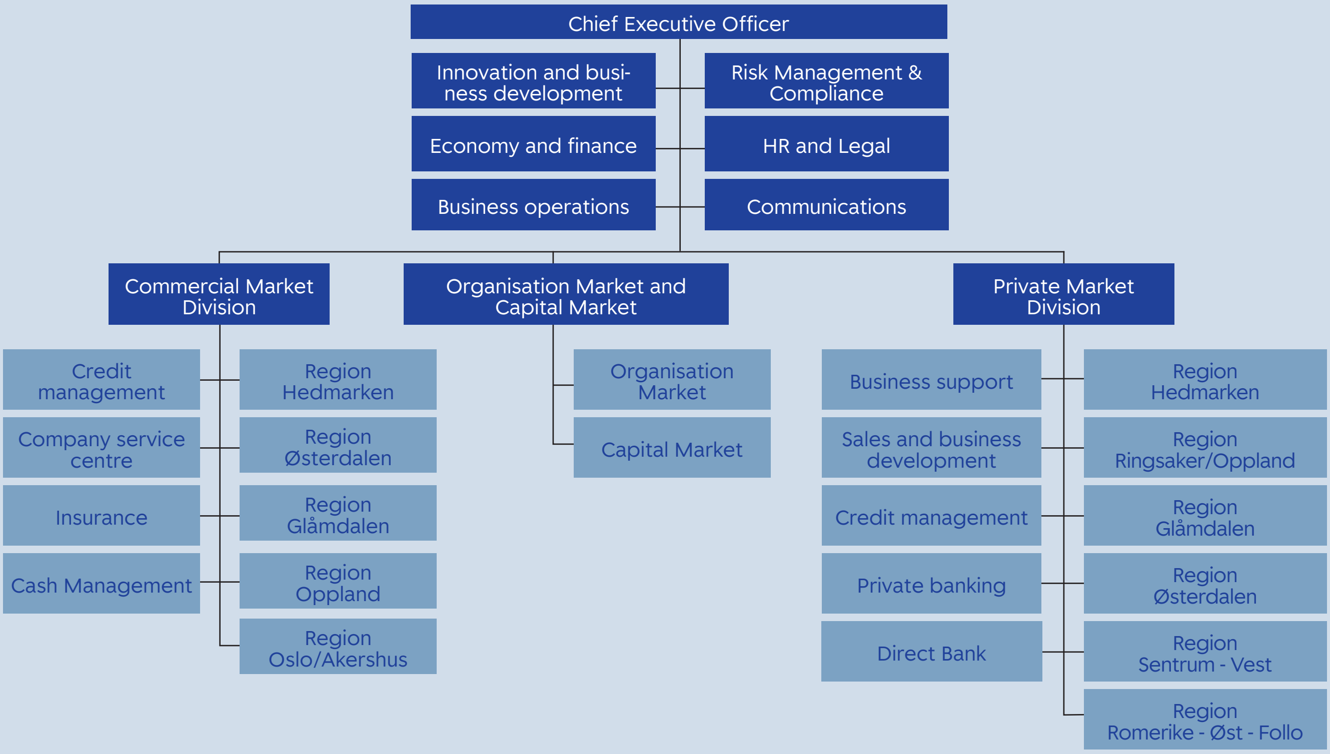
Figure 4.2: The SpareBank 1 Alliance



4.2 Organisational chart

The parent bank SpareBank 1 Østlandet is organised as shown in the figure below as at 31 December 2020.

Figure 4.3: Organisational chart



4.3 Risk and capital management

4.3.1 Objective

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 Group aims for a moderate to low risk profile. 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.

4.3.2 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.

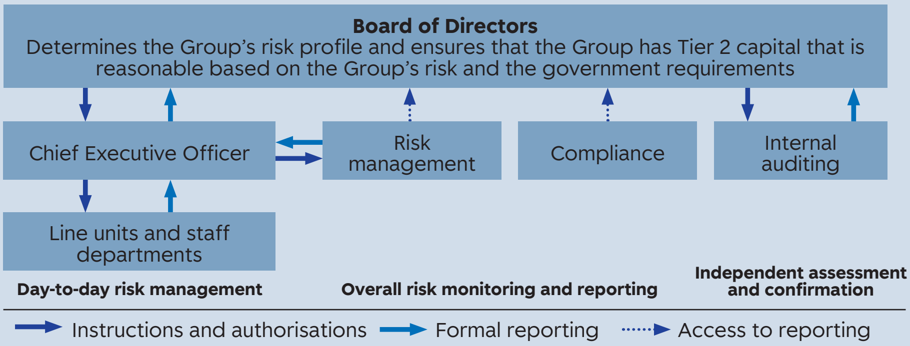
The recruitment of new employees considers professional and personal suitability in relation to the position to be a prerequisite.

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.

4.3.3 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 4.4: Responsibilities and roles in the risk management process



The Board is responsible for ensuring that the Group has adequate Tier 2 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 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 and an employee representative.

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.

4.3.4 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 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. Internal audits can act as observer when processing the annual report for validation. 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.

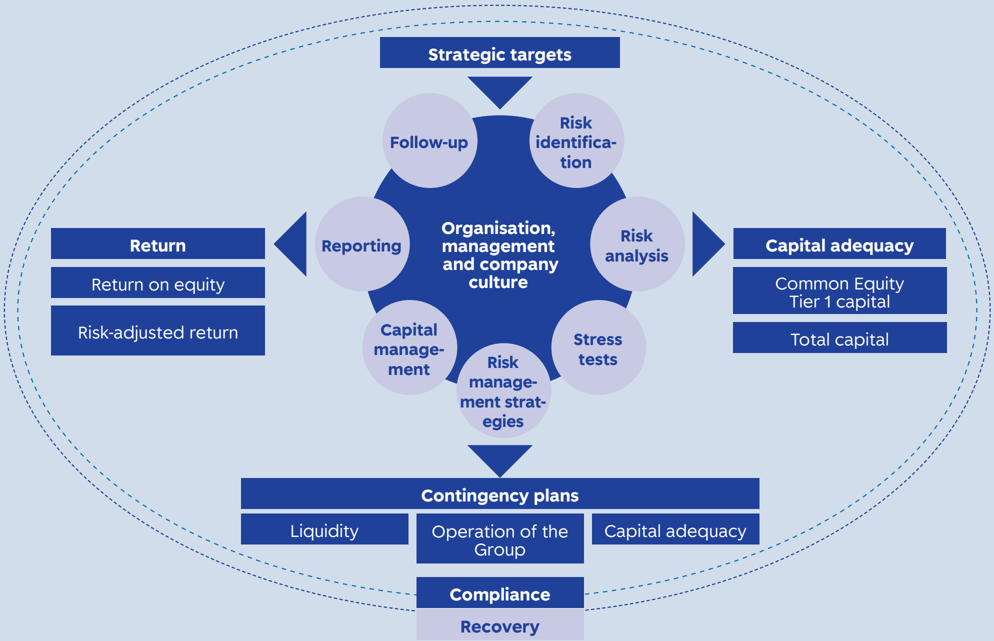
4.3.5 Framework for risk and capital management

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 senior management:

- Strategic targets.
- Organisation and corporate culture.
- Risk review.
- Risk analysis.
- Stress tests.
- Risk strategies.
- Capital management, including targets for returns and solvency.
- Reporting.
- Follow-up.
- Contingency plans.
- Compliance.
- Recovery plans.

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

Figure 4.5: Framework for risk and capital management



4.3.5.1 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.

4.3.5.2 Risk identification
In order to realise the strategic objective and desired risk profile, the Board and 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.

4.3.5.3 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.

4.3.5.4 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.

4.3.5.5 Risk strategies
The Group's overall risk strategy and policy describes the Group's accepted risk tolerance and policy for work on risk and capital management. The document consists of a strategy section that describes the desired risk tolerance, 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.
- EBA guidelines on internal governance (EBA GL 2017 11)

The underlying risk strategies and policies are the Board's instruments for determining the desired risk tolerance 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.

4.3.5.6 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 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.

4.3.5.7 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.

4.3.5.8 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.

4.3.5.9 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.

4.3.5.10 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.

4.3.5.11 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 shall not predict financial crises; rather it shall identify and assess the Group's opportunities to restore financial strength and viability in situations where the Group is under hard financial pressure.

4.4 Remuneration schemes

SpareBank 1 Østlandet's compensation for senior employees complies with the rules and guidelines laid down in the Financial Institutions Regulation and the Financial Institutions Regulation. For details, please refer to the statements regarding compensation in the Group's annual report.

4.5 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.

5 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.

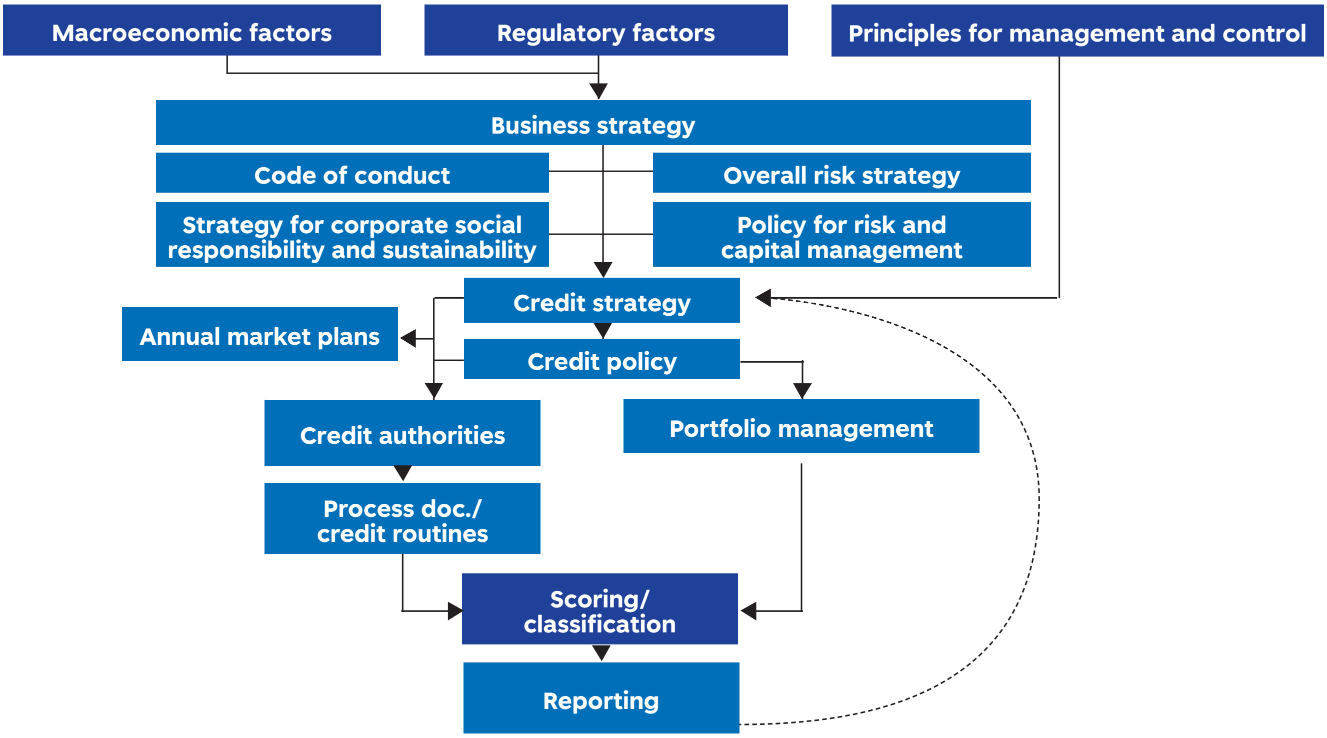
5.1 Management and control

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

- Financial Enterprises 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 5.1: Framework for managing credit risk



5.1.1 Credit strategy
The credit strategy specifies the overall principles for granting credit. The desired credit profile is defined through stipulation of the target figures related to portfolios, sub-portfolios and individual customers. The credit strategy forms the basis for reporting and monitoring the ongoing risk exposure.

5.1.2 Credit policy
The credit policy describes the distribution of responsibilities and roles and determines more detailed criteria for the credit operations. The policy describes what is acceptable within the given credit assessment areas. The purpose is to ensure that the Bank acts in a uniform manner and in accordance with the external regulatory framework, including laws and regulations, and risk level stipulated internally. The document, which contains both credit strategy and policy, is determined by the Board and revised as needed, and as a minimum once per year.

5.1.3 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.

5.1.4 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.

5.1.5 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.

5.1.6 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.

5.1.7 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.

5.1.8 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.

5.1.9 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 quarterly to the Board and the Bank's management team. Based on the superordinate risk strategy, frameworks are established for when measures should be assessed and implemented, and frameworks for risk appetite and capacity are also defined.

5.2 Credit risk models and risk classification

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.

In addition, a cash flow model is used internally in calculating PD on granting and following-up corporate market exposures in the rental of commercial property sector. The model is also used to calculate value estimates of the objects to be financed. The Bank applied to the Financial Supervisory Authority of Norway in 2018 to be able to use the PD estimates of the regulatory model under IRB.

Figure 5.2: 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	Forventet tap er det beløp som man statistisk må forvente å tape på utlånsporteføljen i løpet av en 12 måneders periode.
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.

5.2.1 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 enterprise and retail. The former Sparebanken Hedmark and Bank 1 Oslo Akershus received permission to use the basic IRB approach in February 2012 and May 2008 respectively, and permission to use the advanced IRB approach for enterprises in February 2015.
The Bank has exceptions 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.

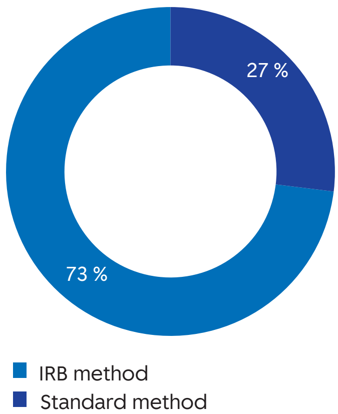
For the reporting of capital adequacy, the portfolios of the part-owned enterprises are consolidated proportionately based on the approved method of the part-owned enterprise.

The table below describes the Group's methods for calculating the minimum Tier 2 capital requirement for the various exposure categories and portfolios, while the figure below shows the distribution of the portfolio between the IRB and standard method[1].

Table 5.1: Approved method for calculating the minimum eligable capital requirement

Company	Portfolio	Regulatory approach
SpareBank 1 Østlandet - parent bank	Central governments/municipalities	Standardised approach
SpareBank 1 Østlandet - parent bank	Corporates	Standardised approach
SpareBank 1 Østlandet - parent bank	Cooperatives, clubs and associations	Standardised approach
SpareBank 1 Østlandet - parent bank	Corporates	IRB Advanced
SpareBank 1 Østlandet - parent bank	Retail	IRB
SpareBank 1 Finans Østlandet AS	Leasing and sale security	Standardised approach
SpareBank 1 Kreditt AS	Credit card	Standardised approach
SpareBank 1 Boligkreditt AS	Retail	IRB
SpareBank 1 Næringskreditt AS	Corporates	Standardised approach

Figure 5.3: The Group's credit portfolio, distributed by the IRB approach and standard approach



[1] The distribution is made on the basis of net exposure on and outside the balance sheet as at 31 December 2020.

5.2.2 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 annual supervision of the Bank's application of the IRB system.

5.2.3 Models used in regulatory IRB reporting

The table below shows which models the Bank uses in regulatory IRB reporting as at the end of 2020.

Table 5.2: 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 RM	Scorecard residential property	EAD PM	LGD PM
	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 PM	LGD PM
	All self-employed who are registered in the Bank with personal ID number				
Corporates	All corporates except the following segments	PD model for BM	Subdivision in industry groups and scorecard	EAD BM	LGD BM
	- Corporates and central governments	Standard approach			
	- Housing cooperatives				
	- Associations, clubs and organisations				

5.2.3.1 The PD model

PD is an expression of how probable it is that a customer will default within the next 12 months. In this context, an exposure is in default when one or more of the following criteria occur:

- Overdrafts or arrears over 90 days, where arrears/overdrafts have exceeded NOK 1.000.
- Debt settlement, compulsory enforcement, opening of debt negotiations or public scheme of arrangement notification.
- Bankruptcy, opening of bankruptcy or notice of bankruptcy.
- Confirmed loss or individual impairment/loan loss impairment.

A new definition of default will be implemented from 1 January 2021 in accordance with new regulations.

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. Based on the PD estimate, each customer is assigned a risk class according to the scale in the following table.

Table 5.3: Risk classes

PD	Risk class
0,00 - 0,10 %	A
0,10 - 0,25 %	B
0,25 - 0,50 %	C
0,50 - 0,75 %	D
0,75 - 1,25 %	E
1,25 - 2,50 %	F
2,50 - 5,00 %	G
5,00 - 10,00 %	H
10,00 - 99,99 %	I
Defaulted	J
Impaired	K

The following table shows how the PD model is built up.

Table 5.4: 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%.

5.2.3.2 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 5.5: 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.

5.2.3.3 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.

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

Table 5.6: 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.

5.2.4 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.

The validation results with data up to and including 2019 are shown below.

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 5.7: 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.

5.2.4.1 Roles in the validation

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 give the Board and the executive management team an independent and neutral assessment of the validation of the IRB system and whether the system is firmly integrated into the Bank and forms a central ingredient of the Bank's risk management and decision-making process.

5.2.4.2 Estimated and observed PD level

The figures below show the rolling, actually observed average default rate (hereinafter abbreviated to DR) each month against the estimated PD at the start of the validation period. Categorisation in the private and corporate markets is done in this context on the basis of the scoring model and not the regulatory categorisation.

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 the observed DR often differing from the 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.

Figure 5.4: Estimated regulatory PD against actually observed DR for retail market customers with a mortgage

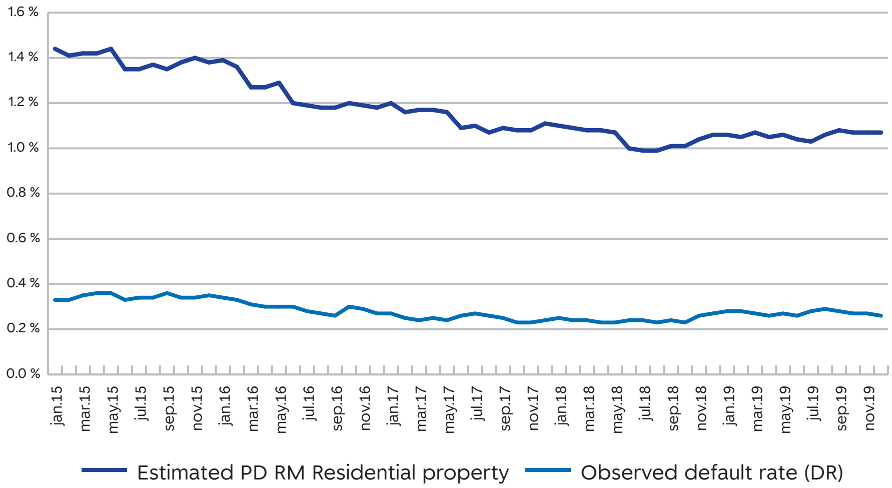


Figure 5.5: Estimated regulatory PD against actually observed DR for other retail market customers

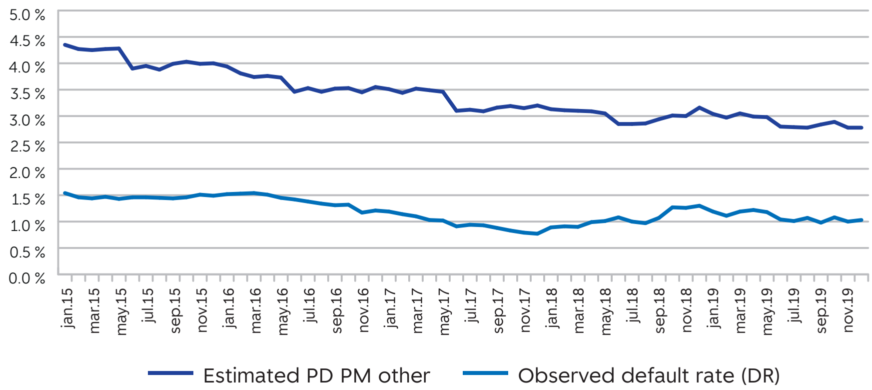
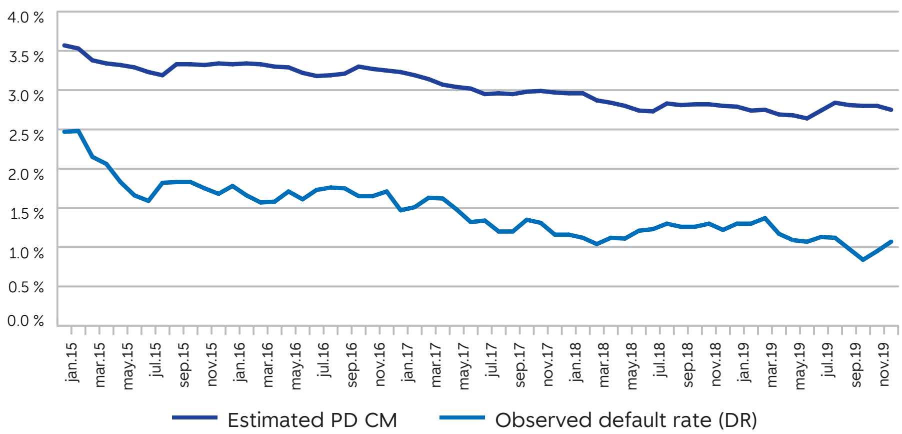


Figure 5.6: Estimated regulatory PD against actually observed DR for corporate market customers



5.2.4.3 Estimated and observed EAD level

Unused credit for retail market customers with mortgages has a KF of 100 per cent, which means that there is full credit utilisation at default. For corporate market customers, a KF ranging between 60 and 90 per cent is used, depending on the customer's PD. KF for guaranteed is set by the authorities at 100 per cent for loan guarantees and 50 per cent for contract and other guarantees.

Figure 5.7: Estimated and actually observed KF for retail market customers with credit frame

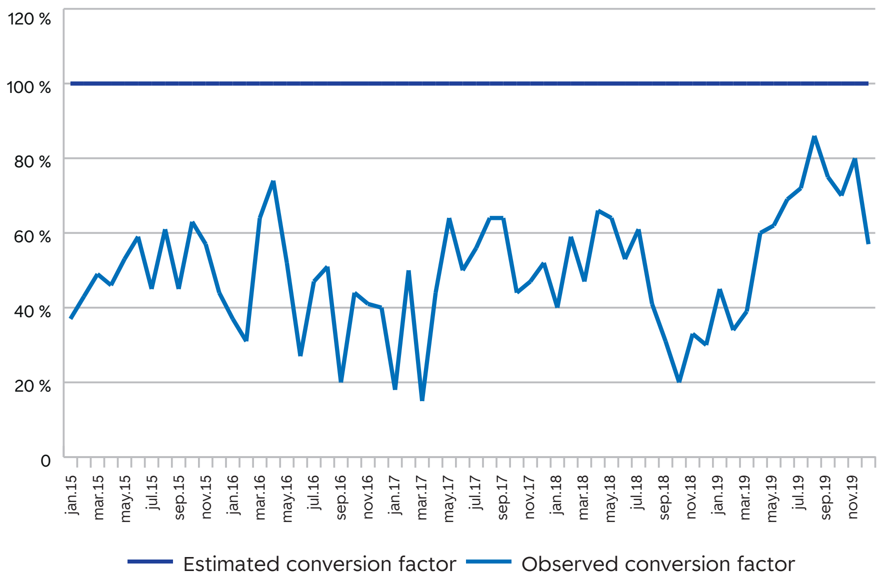
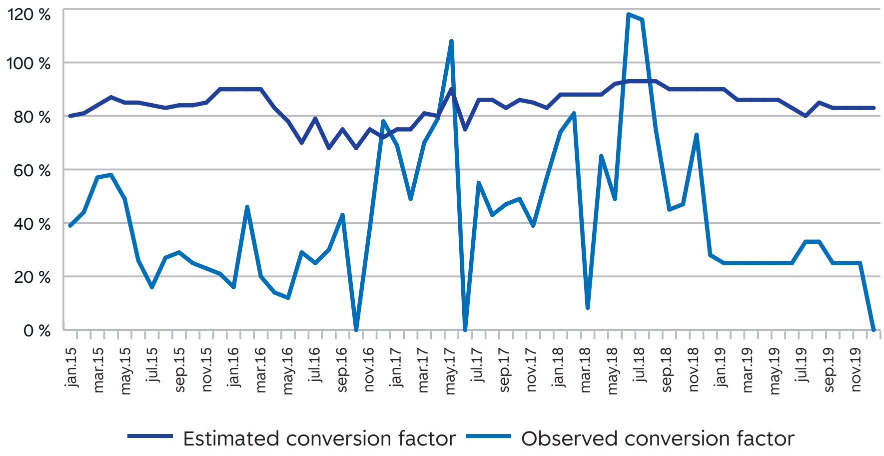


Figure 5.8: Estimated and actually observed KF for corporate market customers with credit frame



5.2.4.4 Estimated and observed LGD level

The validation is based on the LGD level of defaulted exposures and looks at this level against actually observed losses adjusted for exposures that have become healthy during the period.

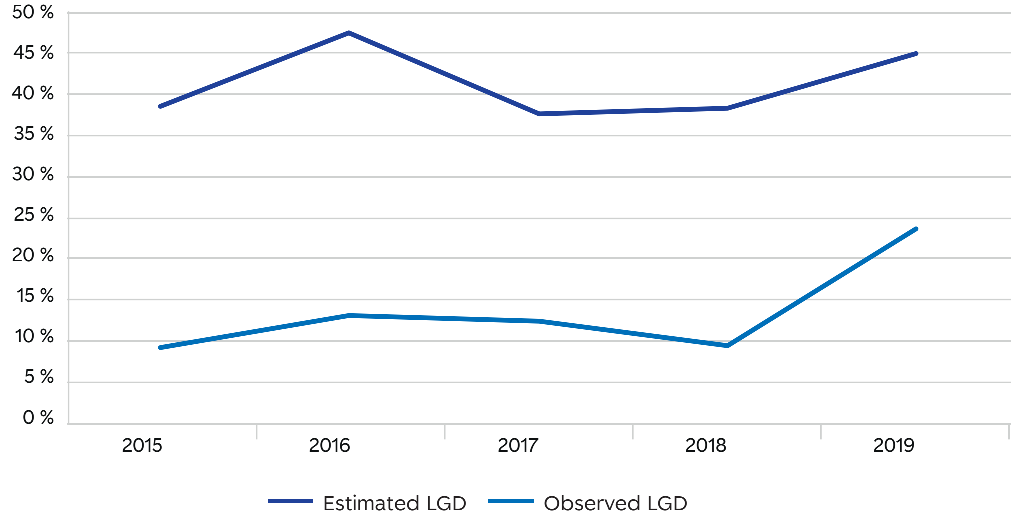
The table below shows that seven classes are used for classifying exposures in accordance with LGD. Class 1 applies to customers with LGD lower than 10 per cent. These are customers with excellent security coverage after the security values are adjusted down by the current reduction factors. Increasing LGD class corresponds to decreasing security coverage.

Table 5.8: LGD classes

LGD Class	LGD value ranges
1	0-10 %
2	<10-20 %
3	<20-30 %
4	<30-40 %
5	<40-50 %
6	<50-60 %
7	> 60 %

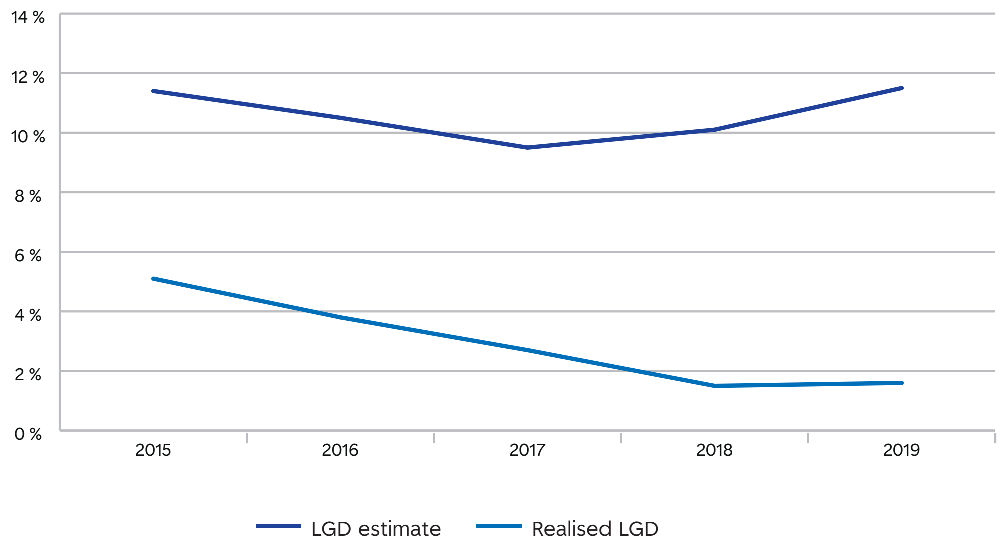
For the enterprise portfolio, as indicated in the figure below, EAD-weighted estimated and actually observed LGD levels are noted, where safety margins are included in the LGD estimates.

Figure 5.9: Estimated LGD against actually observed LGD for the corporate portfolio[2]



For the retail portfolio, the estimated and actually observed LGD levels are EAD weighted in the same way. The figure below shows the actually observed and estimated LGD levels for exposures with mortgages before adjustment to the Financial Supervisory Authority of Norway's reference model.

Figure 5.10: Estimated LGD against actually observed LGD for the retail portfolio with a mortgage[3]



The figures show that the estimated LGD levels are consistently higher than actually observed LGD throughout the period. The margin between actually observed LGD and estimated LGD is considered robust in terms of taking a severe recession into account.

5.2.4.5 Estimated and observed EL level

The figures below show the EL as a percentage of EAD at the beginning of the year against observed posted losses as a percentage of EAD at the end of the year. There are large margins between estimated and observed values for EL. This comes from conservative estimates in underlying models. The Group has had low loan losses in recent years – largely due to limited exposure to industries that have been severely hit by the oil downturn, good credit handling and close follow-up of defaulted and doubtful exposures.

[2] Data from the last year will be impacted by several of the customers who went into default in 2019 not having been finally clarified so that the data basis is limited.
[3] Data from the last year will be impacted by several of the customers who went into default in 2019 not having been finally clarified so that the data basis is limited.
[4] The distribution is made on the basis of net exposure on and outside the balance sheet as at 31 December 2020.

Figure 5.11: Estimated regulatory EL against actually observed EL for the enterprise portfolio

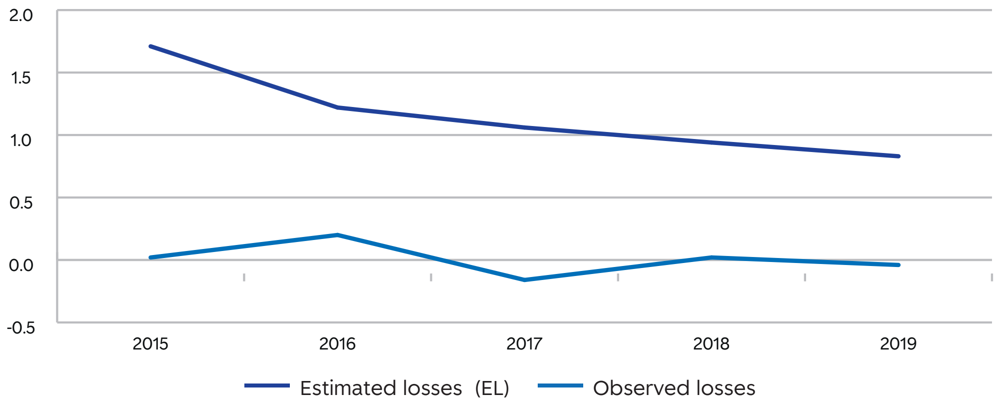
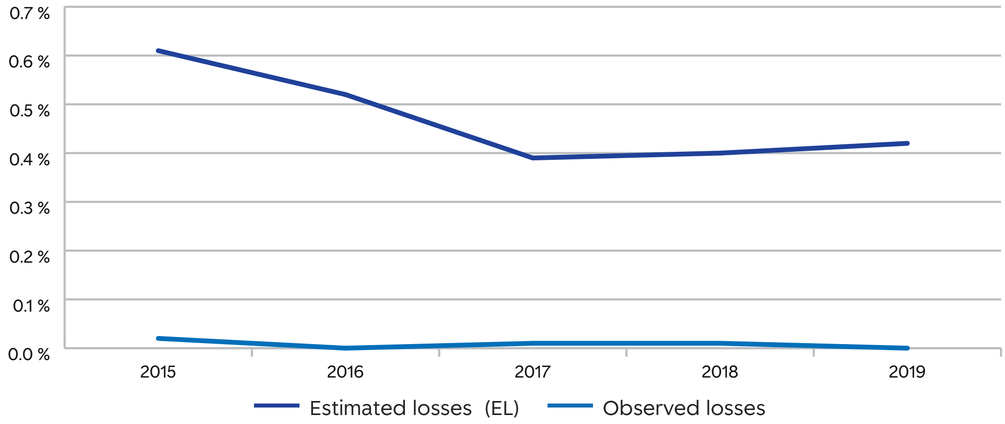


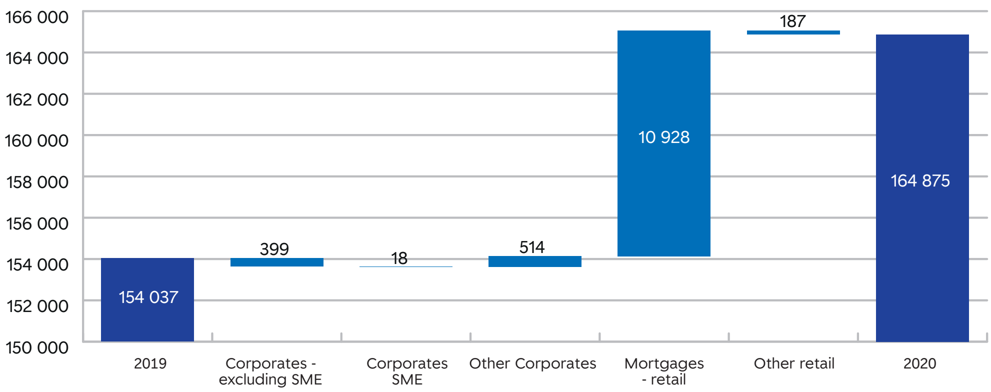
Figure 5.12: Estimated regulatory EL against actually observed EL for the retail portfolio



5.3 IRB portfolio information

The table below shows growth in the IRB portfolio in 2020.

Figure 5.13: Assessment of lending growth for the IRB portfolio[4]

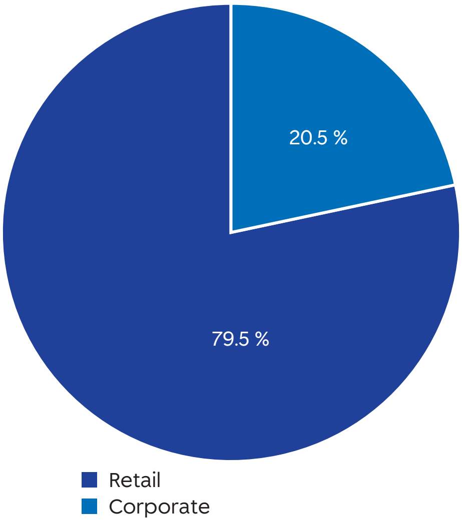


[4] The distribution is made on the basis of net exposure on and outside the balance sheet as at 31 December 2020.

For capital adequacy of the Group's consolidated credit portfolio, the IRB approach is used on 73 per cent of the total portfolio with related models as shown in Figure 5.3. This distribution is nearly the same as the previous year.

The Group's IRB portfolio consists of 79.5 per cent mass market customers and 20.5 per cent enterprise customers measured in net exposure on and outside the balance sheet. The figure below shows the distribution of the IRB portfolio for retail and enterprises respectively.

Figure 5.14: The Group's IRB portfolio



The following figures show the breakdown within the retail portfolio and the corporate portfolio.

Figure 5.15: Breakdown of retail portfolio

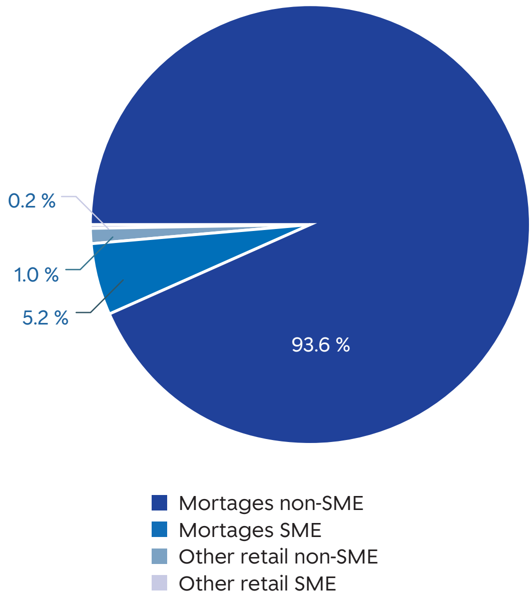
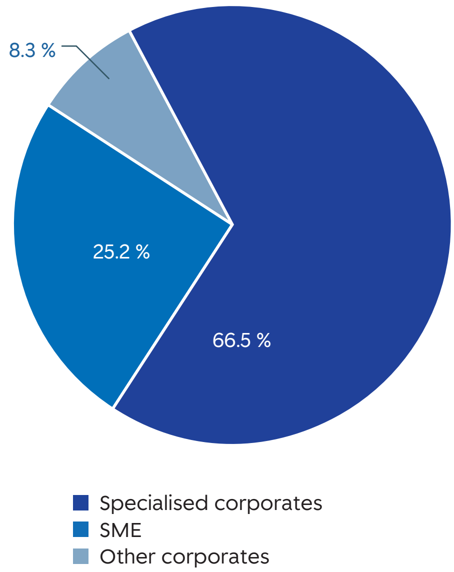


Figure 5.16: Breakdown of corporate portfolio



The retail portfolio is mainly exposed to mortgage loans. In the enterprise portfolio, the largest category is specialised enterprises. The specialised enterprises category is mainly made up of customers in property rental, which is the largest single industry the Group is exposed to; see Figure 5.21.

5.3.1 Mortgage portfolio

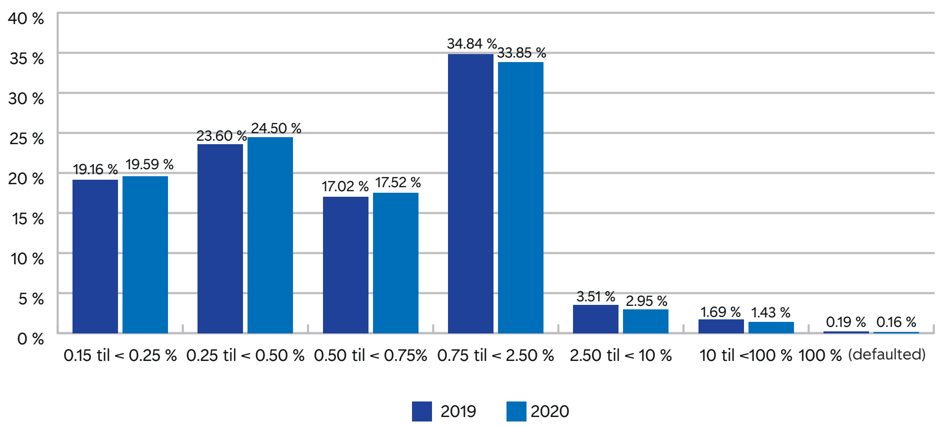
As stated in Figure 5.15, the total mortgage portfolio accounts for 98.8 per cent of the Group's IRB portfolio for retail.

Below, the IRB portfolio in mortgages is distributed in risk groups according to various ranges of PD:

- **Low:** PD 0.00 – 0.75%.
- **Medium:** PD 0.75 – 5.00%.
- **High:** PD over 5.00%.
- **Defaulted and impaired:** Defaults and exposures with loss impairments.

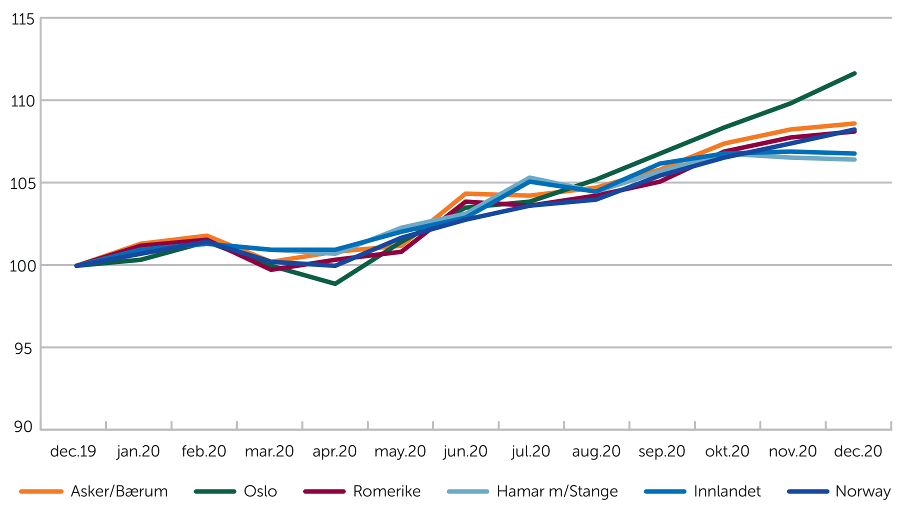
The figure below shows that the mortgage portfolio is mainly in the lower risk groups.

Figure 5.17: The mortgage portfolio distributed by PD ranges



Residential property prices rose sharply in the mid-2010s, especially in the Oslo area. Towards the end of 2018, the price development levelled out and was more moderate in 2019. In the spring of 2020, a decline was observed in residential property prices as a result of the pandemic, before the market picked up significantly and a sharp rise in prices was observed for the year as a whole. Strongest price growth was observed in Oslo. Figure 5.18 shows indexed, seasonally-adjusted residential property price development in 2020 in the Bank's market areas[5].

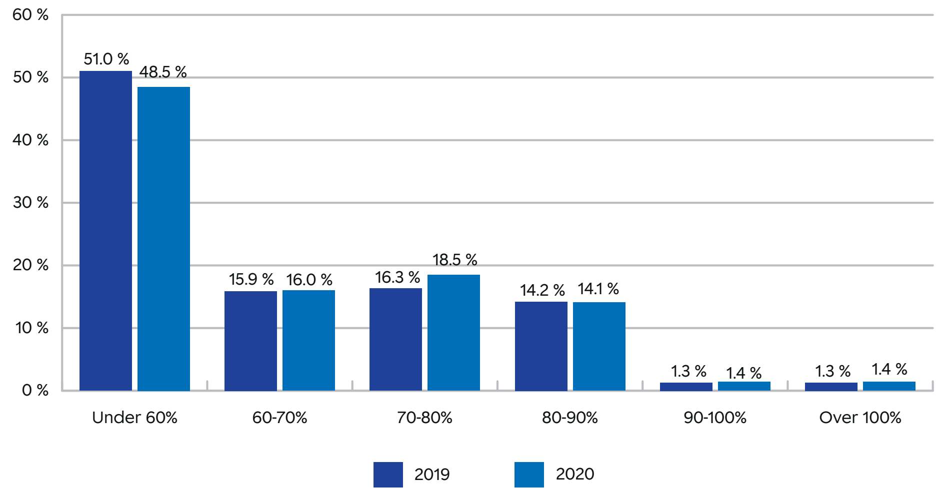
Figure 5.18: Indexed residential property price development in the Bank's market areas



The loan-to-value ratio (hereinafter called LTV) of the mortgage loan portfolio at the end of the year shows a weighted average of 59.8 per cent, compared with 58.9 per cent in December 2019.

[5] Source: Price statistics from Eiendom Norge.

Figure 5.19: Loan to value by LTV group



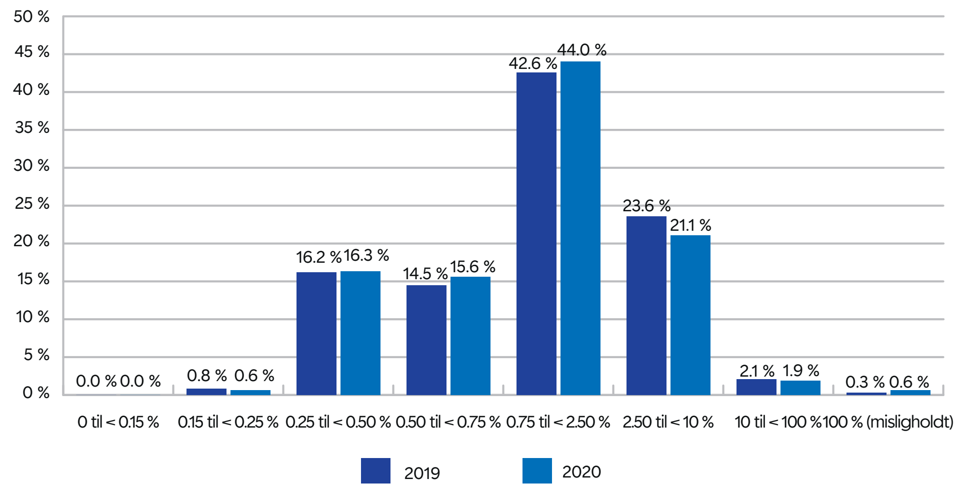
Loan to value is calculated from balance sheet exposure per account, taking into consideration the preceding debt and other loans with security in the same object, and the entire exposure is placed in the LTV group which the exposure falls within. Then each LTV group's proportion of the overall exposure of the portfolio is calculated. Shared debt is also taken into account for cooperative residential property.

The largest share of the Group's mortgage loan portfolio is in the group with less than 60 per cent LTV, see Figure 5.19.

5.3.2 The corporate portfolio

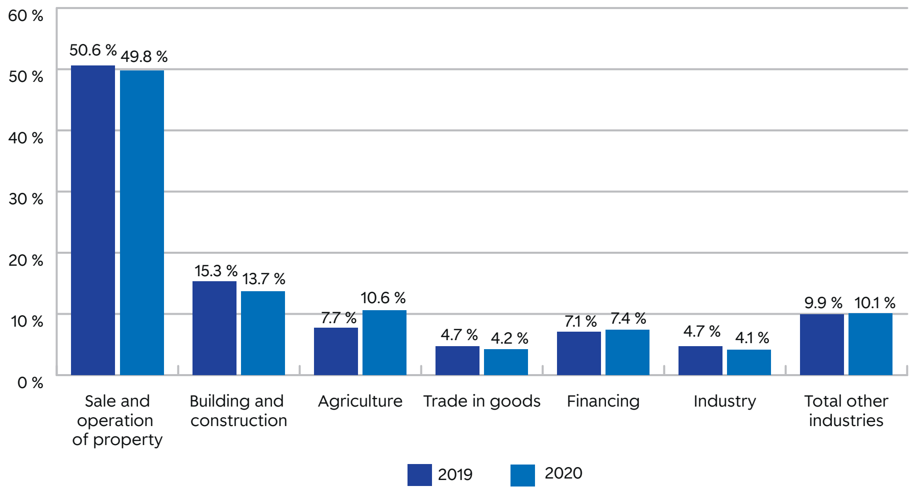
The figure below shows the enterprise portfolio distributed in the same PD ranges as for mortgages. The portfolio has a low to medium risk profile.

Figure 5.20: The corporate portfolio distributed in regulatory PD ranges



The largest single industry in the enterprise portfolio is "sale and operation of real estate", which accounts for about 50 per cent of the enterprise portfolio's net exposure.

Figure 5.21: The corporate portfolio distributed by industries



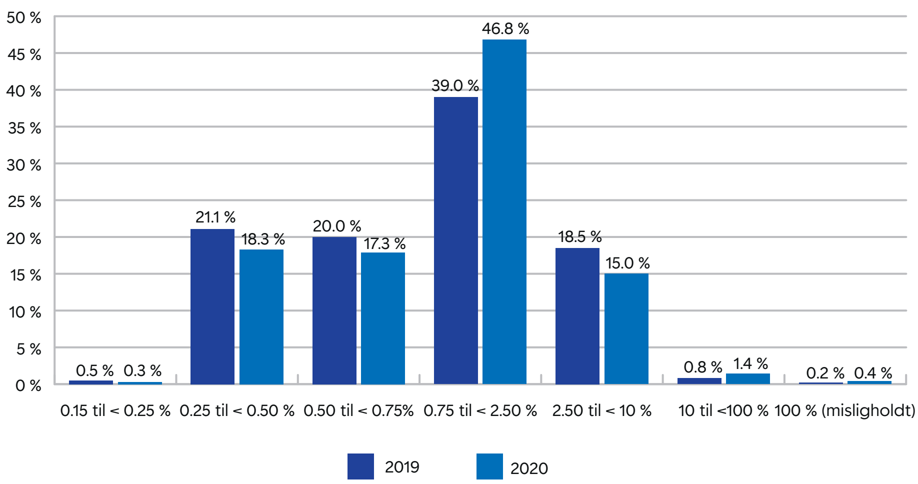
5.3.3 Commercial property

The Bank has a good experience with commercial property in Eastern Norway and has had the largest proportion of its exposure in this industry. When entering into an exposure and following up, the Bank uses an internal cash flow model and associated routines to calculate the probability of default of the exposure. The model has built-in yield matrices, which are viewed together with the properties' net cash flow to put value estimates on the objects to be financed.

When granting and following up such exposures, the buildings' cash flow is reviewed, the tenants are scored and the nature of the property is assessed as the basis for the Bank's overall assessment of risk and profitability. In this way, the Bank has a good overview of, and a good assessment basis for, the risk drivers that underlie the customer's ability to service debt. At the same time, the Bank has a good overview of the indirect risks the Bank is exposed to.

The Bank annually assesses the yield matrices used in valuing commercial real estate, and validates the value estimates against actual transactions. The estimates are generally conservative based on this assessment.

Figure 5.22: The commercial property portfolio distributed in regulatory PD ranges



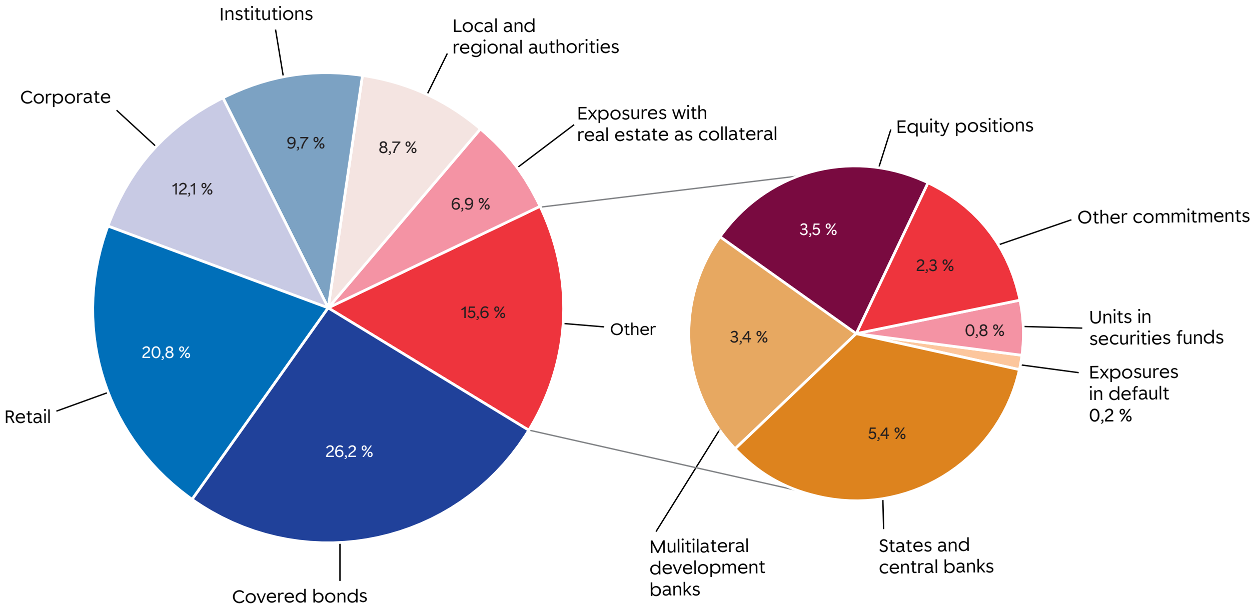
5.4 Standardised approach portfolio information

The credit portfolios that are not covered by the IRB approach are reported according to the standardised approach. Of the Group's consolidated credit portfolio, the standardised portfolio represents 27 per cent. The distribution is made on the basis of net exposure amount on and outside the balance sheet as at 31 December 2020.

The standard approach portfolio consists of the Group's own loans that are calculated according to the standard approach, as well as proportionately consolidated credit portfolios from partly-owned companies that use the same approach.

Interest-bearing securities, equity positions and interbank investments are also covered by the standard approach.

Figure 5.23: The Group's standard approach portfolio



5.5 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 security is mortgages on real estate, but commercial collateral such as collateral in inventories, plant and machinery and trade receivables, guarantees by individuals, companies, state/municipality, guarantee institutions or banks and other mortgaged objects are also used.

Table 5.9: 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

5.5.1 Valuation of collateral

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 lease contracts, costs and yield. The latter takes into account location, alternative use potential, duration of lease contract, standards, solvency, regulation and risk-free interest rate.

The estimated market value for residential property is updated minimum every two years. The value of commercial property is updated more frequently.

For the enterprise 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.

5.5.2 The impact of the collateral on capital adequacy according to IRB

Collateral is the most important explanatory factor in the Bank's LGD model, where the estimates are used when determining the Group's risk-weighted assets. Before the LGD estimates can be calculated, the value of the collateral is reduced by a reduction factor, which varies with the type of security object, in order to find the realisation value of the security. The realisation value that emerges is the estimate of the value of collateral in a severe recession. The downward adjustments are validated annually.

Regulatory calculation of LGD for mortgage loans is based on own estimates against the Financial Supervisory Authority of Norway's reference model, where LTV is an important explanatory factor. The minimum floor of 20 per cent for the consolidated portfolio is also taken into account for regulatory purposes.

5.6 Impairment and default

5.6.1 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.

An estimate of losses will be determined each quarter 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 lifetime.

5.6.2 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 a exposure is given the highest risk class.

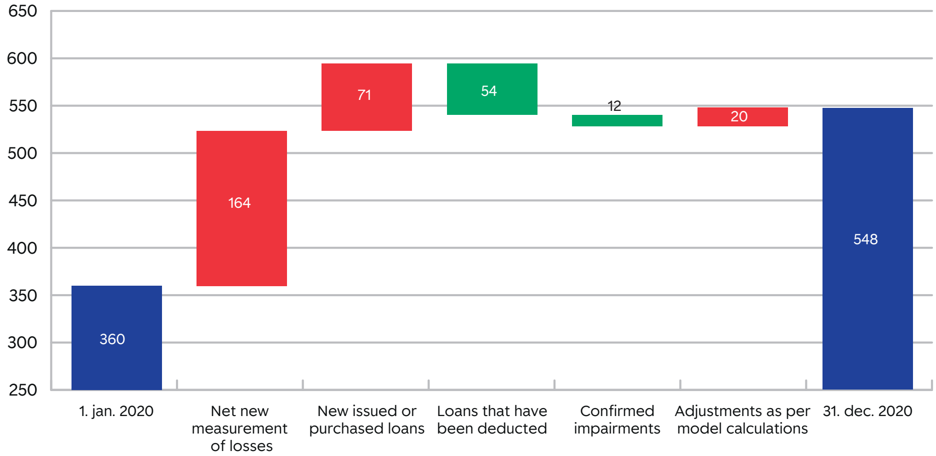
Importance is attached to specific project orientation and caution in the estimation of value as grounds for the realisation of collateral security. The cash flow is updated at least once a year based on materiality assessments.

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.

5.6.3 Development in defaulted and impaired loans

The figure below shows the development in the Group's loss impairments according to IFRS.

Figure 5.24: Development in the Group's loss impairments according to IFRS



The following table shows the Group's loss costs in the last year.

Table 5.10: Recognised changes in value/losses for the period

Net recognised losses in 2019	**01.01.2020 - 31.12.2020**
Changes in impairment losses	-209
Amortisation loss	-3
Confirmed loss on lending and guarantees with early write-downs	-11
Confirmed loss on lending and guarantees without early write-downs	-86
Input of previous period's confirmed losses	10
Loss costs for the period	**-297**

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

Table 5.11: Defaulted and impaired exposures

Defaulted (over 90 days) and doubtful exposures	**2020**	**2019**	**2018**
Defaulted exposures (over 90 days)	327	407	314
Individual impairments of defaulted exposures	77	97	50
Net defaulted exposures	250	310	264
Loan loss provision ratio	**24 %**	**24 %**	**16 %**
Other doubtful exposures	188	84	134
Individual impairments in other doubtful	48	33	43
Net other doubtful	140	51	91
Loan loss provision ratio	26 %	39 %	32 %
Total loan loss impairment ratio	**24 %**	**26 %**	**21 %**

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 24 per cent. The remaining doubtful exposures have been assessed, but as at 31 December 2020 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 26 per cent.

6. Counterparty risk

6.1 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 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. In order to minimise the counterparty risk against single counterparties, there are netting agreements and bilateral security agreements, while the Group also makes use of clearing for key clearing counterparts.

The European Market Infrastructure Regulation, abbreviated to EMIR, entered into force in Norway on 1 July 2017. EMIR regulates the clearing obligation and obligation to implement risk-reducing 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. The collateral pledged for these transactions consists exclusively of cash deposits.

6.2 Portfolio information

Table 6.1 below provides an overview of the Group's derivative agreements by type of derivative, type of hedging, the contracts' nominal value, credit equivalent taking into account potential future exposure, risk-weighted amount/risk-weighted assets and requirements for Common Equity Tier 1 capital both before and after offsetting as at 31 December 2020. The Group has no trading portfolio.

Table 6.1: Derivative contracts

Type of derivative	Nominal value	EAD	RWA	Common Equity Tier 1 capital requirements
Currency Instruments (financial hedging)				
Interest rate instruments (financial hedging)	15 951	2 177	825	103
Interest rate instruments (fair value hedging)	3 337	75	44	6
Credit derivatives	0	0	0	0
Gross value before set-off	**56 302**	**3 156**	**1 182**	**148**
Agreements on set-offs	52 063	2 621	944	118
Net value after set-offs	**4 239**	**535**	**238**	**30**

** Requirement for Common Equity Tier 1 capital according to Pillar 1 (12.5%) is calculated in full by the standardised approach.*

At the end of the year, the Group held NOK 29.7 million and NOK 22.4 million in Common Equity Tier 1 capital for counterparty risk for derivatives and CVA risk respectively. This part of the capital requirement calculation includes bank counterparties, private individuals and municipalities. Businesses are, for all practical purposes, exempted from CVA capital requirements.

The derivatives are recognised at fair value through profit and loss. Contracts with unrealised gains are recognised as assets, while contracts with unrealised losses are recognised as debts for all derivatives. Hedges relating to the Bank's borrowing activities are generally defined as "fair value hedging" according to IFRS 9. Other hedges are defined as financial hedging and are used, in part, for securing interest rate swaps with small amounts which are not naturally hedged on a one-to-one ratio. These derivatives are hedged in bulk, which means securing multiple hedge objects with one hedge instrument and this will therefore not qualify for documented hedge accounting. The Group does not use cash flow hedging.

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 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.

Shares, units and other equity interests are classified in compliance with IFRS 9 at fair value through profit or loss. Realised gains and losses, dividends, and impairments are recognised in the income statement as income from other financial investments.

Please refer to the notes in the Group's annual financial statements for 2020 for a more detailed description of how financial instruments are accounted for.

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 the market risk is considered to be satisfactory to meet risk tolerance and strategy.

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.

The Board's adopted market risk strategy and governing document for market risk provide the CEO with guidelines, frameworks and authorisation for the management of market risk. The CEO further delegates this according to area of responsibility.

The finance department is responsible for ongoing control of frameworks. The department for risk management is responsible for monthly follow-up and reporting of positions in relation to adopted frameworks. In the case of a framework breach, the risk management department will immediately report upwards in the organisation. The risk management department submits independent reports to the management group every month and to the Board every quarter.

7.1.1 Interest rate risk

The purpose of management of interest rate risk is to ensure that the Bank has a known interest rate risk exposure and that this concurs with risk tolerance and current limits for the area. The frameworks take into account total interest rate risk as well as interest rate risk in NOK and in EUR.

Interest rate risk is measured as the total value change on the balance sheet and off balance sheet items on shifts in the interest rate. Frameworks have been set for the amount of effect on profit allowed for a 1 percentage point parallel shift and a 1 percentage point distortion of the interest rate curve. 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. The effect on profit of a corresponding interest rate change is also measured.

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. The interest rate risk is also limited through frameworks for the maximum weighted time to maturity and duration in the securities portfolio.

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.

7.1.2 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.

7.1.3 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. The Bank also owns seven 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.

7.1.4 Equity risk

Equity risks arise in that the Bank owns shares, equity 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 affiliated 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.

7.1.5 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.

7.2 Portfolio information

As previously mentioned, as at 31 December 2020 the Bank has 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. 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 %
States and central banks	1 079	81	6
Local and regional authorities	4 061	684	55
Multilateral development banks	1 793	0	0
Corporates	2 361	17	1
Enterprises	606	132	11
Covered bonds	10 017	1 002	80
Total	**19 918**	**1 915**	**153**

The table below shows the interest rate portfolio as of 31 December 2020 divided by rating class. Investments included in Group capital adequacy are kept outside this summary.

Table 7.2: Bonds and certificates

Ratings	Book value
AAA	14 439
AA	1 673
A	73
BBB	46
BB	0
B or lower	0
Non rated Norwegian municipalities	3 120
Other non-rated papers*	566
Total bonds and certificates	**19 918**

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 31 December 2020 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	Fair value	Amount deducted in Common Equity Tier 1 capital ratio
Financial investments at fair value through profit or loss	162	162	0
Strategic investments at fair value through profit or loss	478	478	57
Associated companies and joint ventures	5 325		482
Total	**5 966**		**539**

At the end of the year, the Bank has investments in substantial equity positions in financial institutions which, according to applicable rules, will be deducted from the Group's Common Equity Tier 1 capital by NOK 538.7 million. Total realised gains or losses as a result of sales and liquidation during the period and total unrealised gains and losses according to valuations amount to NOK -0.5 and NOK 81.7 million respectively as at year end.

The Bank's equity positions consist mainly of investments in affiliated 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 31 December 2020 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 A)	134
	NorgesInvestor Proto AS	22
	Other financial investments	5
Total		**162**
Strategic investments at fair value through profit or loss	Totens Sparebank	215
	Eksportfinans ASA	73
	Oslo Kongressenter Folkets Hus AS	57
	Visa Inc. (Series C Preferred Stock)	46
	SpareBank 1 Markets AS	40
	VN Norge AS	27
	Komm-In AS	10
	Other strategic investments	11
Total		**478**
Associated companies and joint ventures	SpareBank 1 Boligkreditt AS	2 574
	SpareBank 1 Gruppen AS	1 589
	BN Bank ASA	457
	SpareBank 1 Næringskreditt AS A shares	224
	SpareBank 1 Kreditt AS	218
	SpareBank 1 Betaling AS	144
	SpareBank 1 Næringskreditt AS B shares	93
	SpareBank 1 Banksamarbeidet DA	19
	Other associated companies and joint ventures	8
Total		**5 325**
Sum total		**5 966**

The following table provides an overview of the book value by type of share investment as at 31 December 2020. In this overview, affiliated 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	Book value
Unlisted	291
Traded on stock exchange	349
Others	5 325
Total	**5 966**

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 of 31 December 2020. 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

Interest rate risk, 1 percentage point change	2020
Certificates and bonds	-139
Fixed-rate loans to customers	-118
Fixed-rate deposits from customers	9
Bank and credit lending	3
Bond borrowing	745
Other	-12
Derivatives	-483
Administrative interest rate risk	3
Total interest risk, after tax	**9**

Yield curve risk, 1 percentage point change	2020
0-1 months	1
1-3 months	9
3-6 months	2
6-12 months	4
1-3 years	-10
3-5 years	-7
5-10 years	11
Over 10 years	0
Total interest risk, after tax	**9**

Currency, 1 percentage point change	2020
NOK	5
EUR	4
Other	0
Total interest risk, after tax	**9**

The table below provides an overview of the Bank's net currency exposure as at 31 December 2020. 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	-2
USD	3
HKD	0
JPY	-4
PLN	-1
SEK	-2
EUR	3
CHF	3
Other	0
Total	**-2**

8. 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.

8.1 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. Governance and control of liquidity risk is considered satisfactory to meet risk tolerance and strategy.

8.1.1 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.
- Identification and control of on and off balance sheet items.

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.

8.1.1.1 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.

8.1.1.2 Diversification and a long-term approach to financing

Deposits represent the Bank's main source 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. At the same time, deposits should be obtained 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 in recent years taken over 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. There is the opportunity to enter into derivative agreements relating to loan transactions. 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.

8.1.1.3 Identification and risk measurement

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

Deposits give the Group liquidity risk. Different types of deposits have different risks of being withdrawn. Similarly, unused credits cause the Group risk because the customer may choose to take advantage of free credit. The Group does not have full control over this liquidity risk. Stress tests are therefore carried out that seek to describe the various liquidity risks.

Borrowing shall be refinanced and desired growth shall be financed. Through regularly updated liquidity forecasts, the liquidity risks that occur through borrowing activity are measured.

By combining known liquidity flows with different scenarios, total liquidity risk is measured.

8.1.2 Organisation, roles and responsibility

To ensure satisfactory division of work between the departments and the people who take positions on the Bank's behalf and the departments and persons responsible for settlement, control and reporting, an organisation has been established in which executive and controlling functions are independent of each other.

8.1.2.1 Control of liquidity risk

The Board of Directors' adopted governing document for liquidity risk provides the CEO with guidelines, frameworks and authorisation for the management of liquidity risk. The CEO further delegates this according to area of responsibility. The Group director of finance has the overall responsibility for the liquidity management within the Group. The operational responsibility for the liquidity management is delegated to the chief financial officer, who is responsible for:

- Monitoring of the ongoing development in the Group's liquidity situation.
- Management of the liquidity reserve.
- The Group's borrowing of foreign capital.
- Correct determination of the internal price.

8.1.2.2 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.

8.1.2.3 Reporting of liquidity risk

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

- Ongoing framework control and reporting of positions according to the framework determined in the governing document for liquidity risk and any guidelines from the Financial Supervisory Authority of Norway.
- Independent reporting to the Board and the executive management team.

8.1.2.4 Ongoing follow up

Operations are responsible for settlement and control at transaction level. 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 become known.

Before basic new instruments are used, these should be approved by the Chief Financial Officer. A risk analysis shall also be drawn up with related risk measures.

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

8.2 Exposure

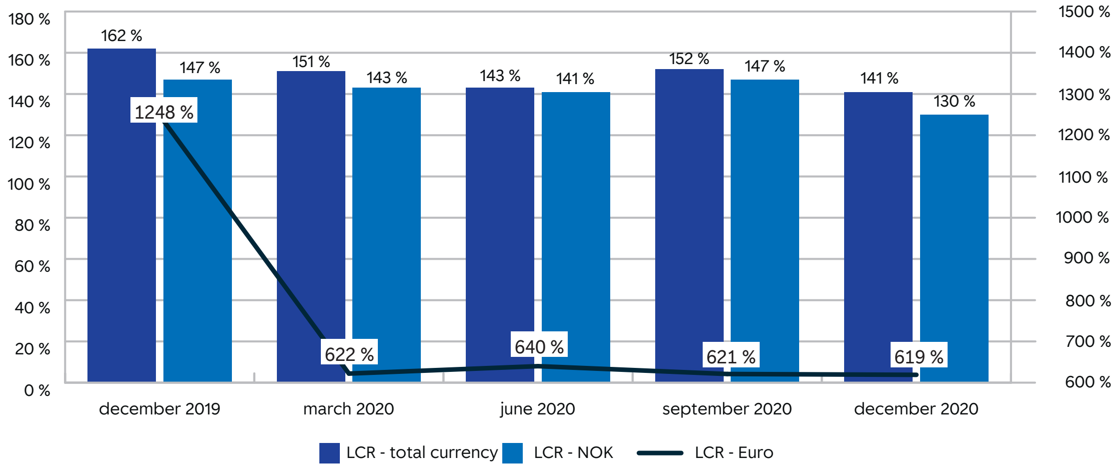
8.2.1 Survival

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

8.2.1.1 Survival according to liquidity coverage ratio

Liquidity Coverage Ratio (hereinafter LCR) defines a stress scenario that lasts for 30 days. The development in the last quarters of the Group's consolidated LCR for total currency, EUR and NOK is shown in the figure below, where the scale for LCR in EUR is on the right axis. Supplementary information about diversification of financing and the liquidity portfolio's composition can be found in the sections below.

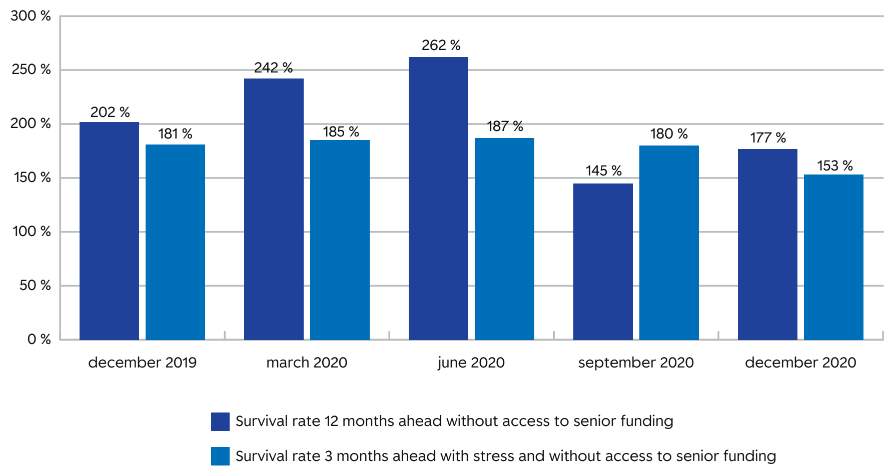
Figure 8.1: LCR



8.2.1.2 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 shall have a survival rate for a major crisis in the market and its own bank of at least 100% for three months ahead. Developments in recent quarters are shown in the figure below.

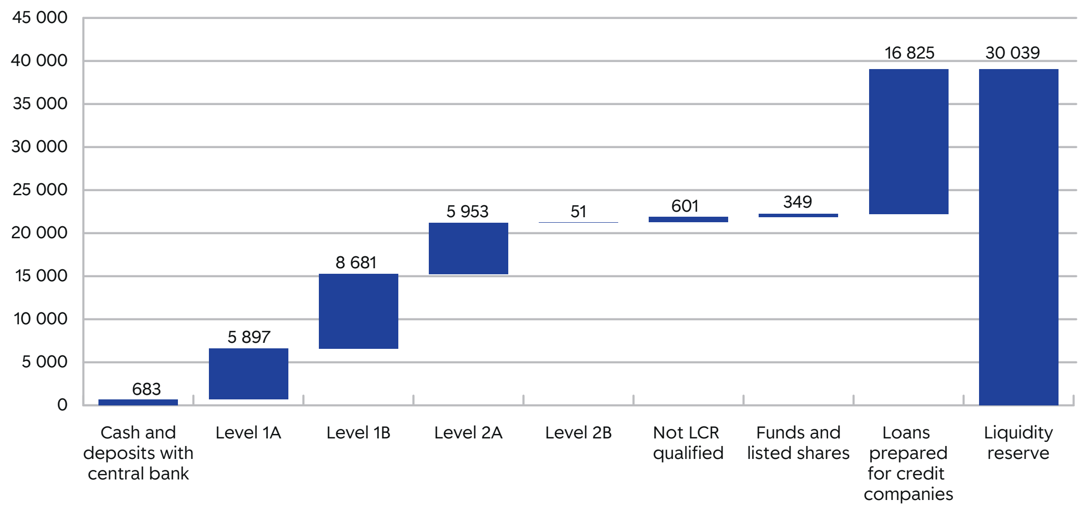
Figure 8.2: Results from stress tests



8.2.2 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 39 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 8.3: The composition and quality of the liquidity portfolio



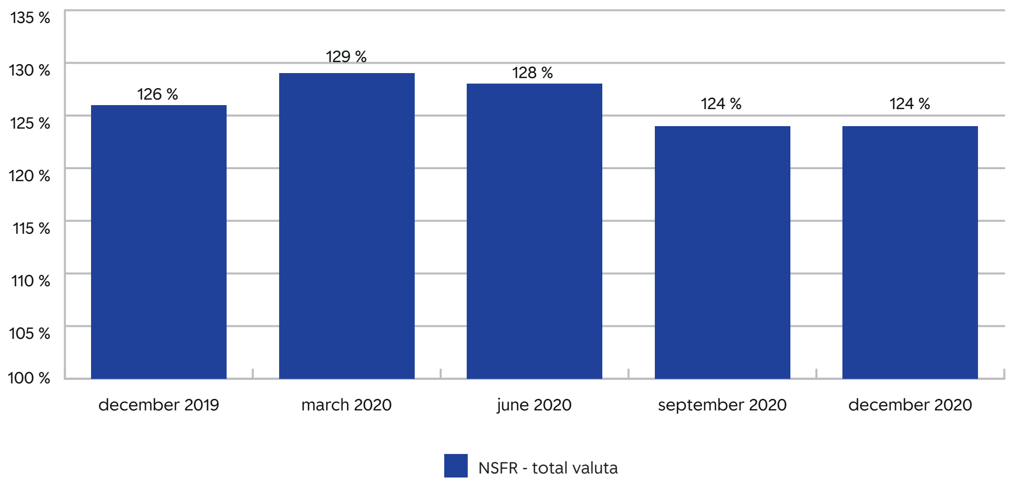
8.2.3 Diversification and long-term approach to financing

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 residential property and commercial covered bond companies and market financing, was NOK 188.1 billion at year end. The market financing alone on the same date was NOK 37.5 billion.

8.2.3.1 Long-term financing

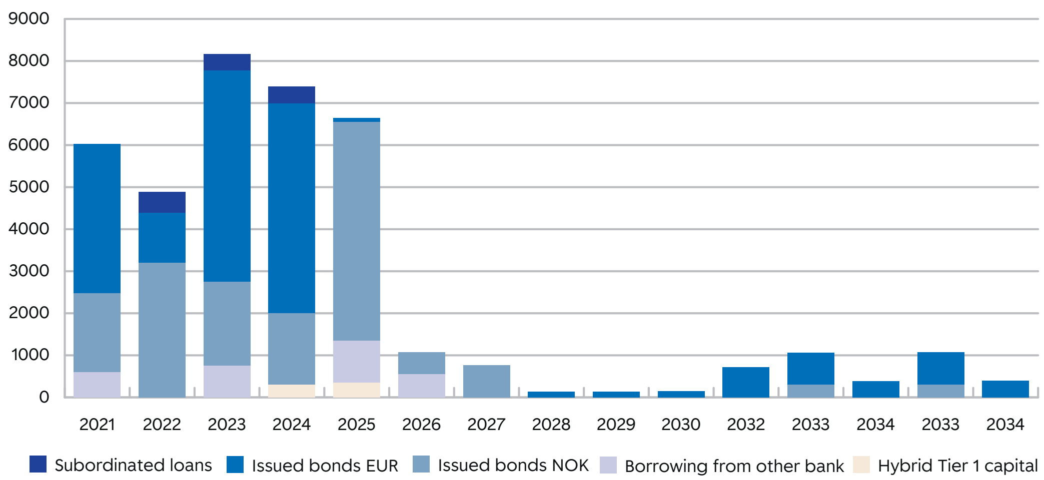
Net Stable funding Ratio (hereinafter called NSFR) describes the degree to which the Group is long-term funded. The development in the last quarters of the Group's consolidated NSFR for total currency and NOK is shown in the figure below.

Figure 8.4: NSFR



Of the Group's total funding volume of NOK 37.5 billion, NOK 6 billion will be refinanced in 2021. The average term for the Group's market financing was 3.8 years at year end. The figure below shows the maturity structure for the Group's market financing.

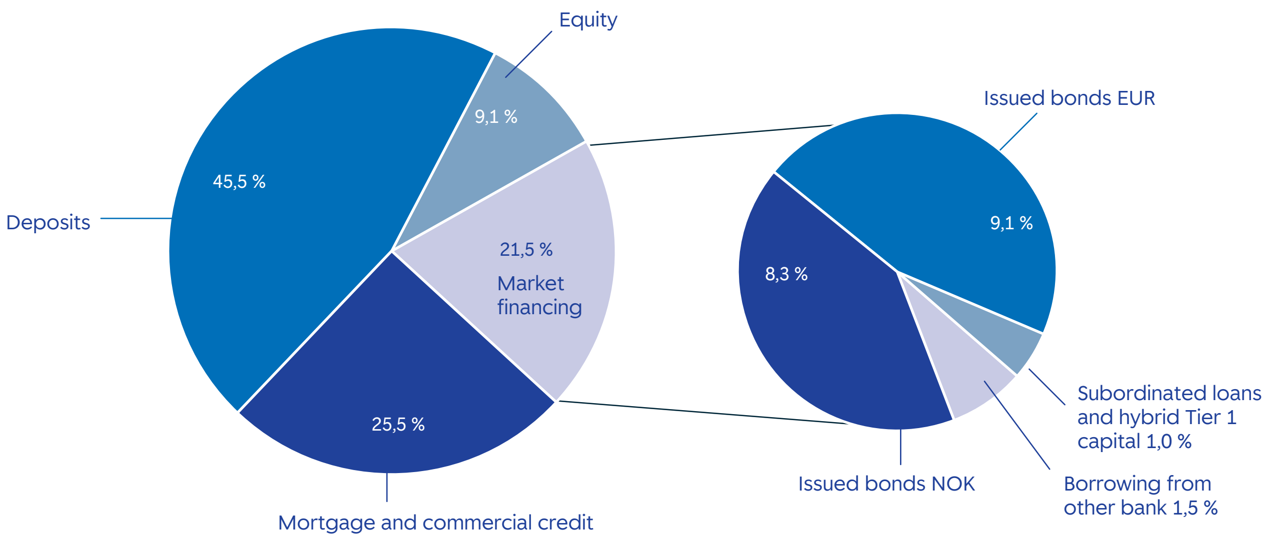
Figure 8.5: Maturity structure



8.2.3.2 Diversified financing

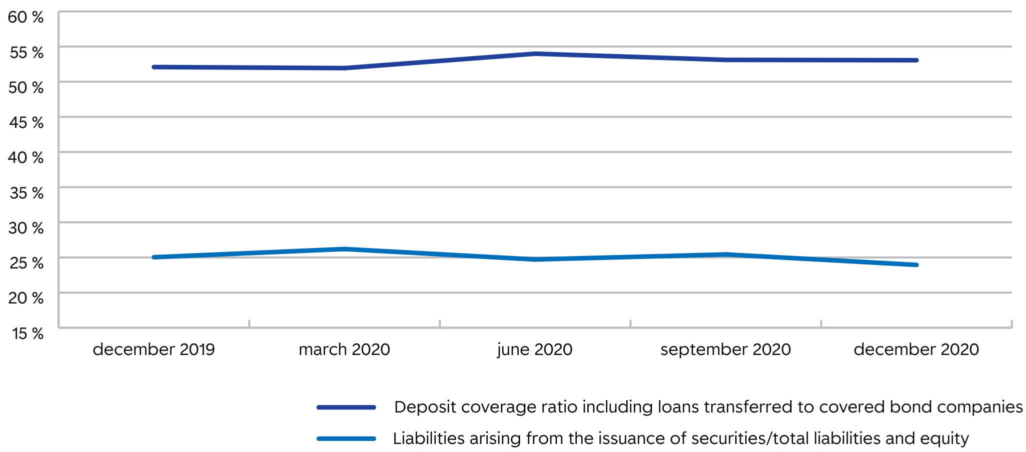
The figure below shows the Group's sources of financing at year end.

Figure 8.6: 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 8.7: Deposit coverage ratio and reliance on market funding



At the end of the year, the Group's funding in EUR represented 45.7 per cent of total market funding and 13.3 per cent of total liabilities on its own balance sheet.

9. 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, other external causes.

9.1 Management and control

Management and control of the Bank's operational risk is based on the governing document adopted by the Board. The document establishes the Board of Directors' risk tolerance 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 to exposure in various categories of operational risk, the Bank manages and follows up the risk picture on an ongoing basis. The practical management of operational risk in the Group is based on the main activities described below.

9.1.1 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.

9.1.2 Losses and incidents

The Bank 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 failure (human error, routine and policy violations)
- Weaknesses in routines or systems
- Crime (internal and external)
- Operating events (power failure, Evry outage, etc.)
- and where the consequences entail or could result in:
  - Economic loss
  - Breach of legal requirements
  - Injuries/negative consequences for employees
  - Reputation loss

Operational losses and incidents shall be registered in the incident database and followed by in accordance with the defined guidelines.

9.1.3 Customer complaints

The Bank has a centralised complaint scheme 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 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 serious complaint cases are reported quarterly to the Board. In addition, complaints are reported annually to the Financial Supervisory Authority of Norway.

9.1.4 Continuous improvement

The risk management department registers and follows up material suggestions for improvement based on reports from the internal audit and measures based on recommendations from the Financial Supervisory Authority of Norway and other independent control bodies. All managers in charge of measures regularly update progress in the improvement database.

9.1.5 Risk analyses

The risk management department facilitates risk analysis and enables the front-line to carry out its own risk analyses, and provides assistance with methodology and tools.

9.1.6 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.

9.1.7 New and revised products, solutions and processes

When establishing or revising products, solutions and processes, effective and solid quality assurance must be carried out before implementation. This shall be done to avoid the unintentional or unwanted introduction of operational risk. Risk analysis shall be part of quality assurance, and shall include assessment of operational risk factors. A policy has been established for new or revised products, processes or solutions that lay down guidelines for how the assessments should be carried out and documented.

9.2 Minimum Tier 2 capital requirement

The Group uses the basic approach to calculate the Tier 2 capital required to cover operational risk.

Table 9.1: Minimum Tier 2 capital requirement for operational risk

	Consolidated	SpareBank 1 Østlandet	SpareBank 1 Finans Østlandet AS
Risk-weighted assets	6 664	5 334	502
Capital requirement 8%	**533**	**427**	**40**

10. Compliance risk

Compliance risk is the risk that the Bank 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.

10.1 Management and control

Management and control of the Bank'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 Bank has its own compliance function, which is organised independently of the operative business management. The Bank's compliance function is responsible for assessing whether the Bank'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 Bank'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.

10.2 Regulatory changes and compliance risk

The extent of regulatory changes was significant again in 2020. Extensive regulatory changes with significance for the Bank's framework conditions are also expected in the coming years. The Bank 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.

11. 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.

11.1 Management and control

Over time, the regulation of the financial industry has evolved to increasingly include regulations to protect customers and consumers. The Bank's conduct risk is therefore closely associated with the Bank's compliance. The Board of Directors has adopted dedicated guidelines for conduct risk in order to clarify the importance of this topic for the Bank. 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 practice. 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 practice 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. Reward and remuneration schemes must be designed to ensure that the required conduct for good business practice is safeguarded and promoted.

12. 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.

12.1 Exposure

As of 31 December 2020, SpareBank 1 Østlandet was exposed to ownership risk through the following proprietary positions in associated companies (AC) and joint ventures (JV):

- SpareBank 1 Gruppen AS, stake 12.4 per cent.
- SpareBank 1 Utvikling DA, stake 18.0 per cent.
- SpareBank 1 Betaling AS, stake 18.7 per cent.
- SMB Lab AS, stake 4.0 per cent.
- SpareBank 1 Boligkreditt AS, stake 23 per cent (consolidated in capital adequacy).
- SpareBank 1 Næringskreditt AS, stake 15.5 per cent (consolidated in capital adequacy).
- SpareBank 1 Kreditt AS, stake 20.9 per cent (consolidated in capital adequacy).
- BN Bank ASA, stake 9.99 per cent (consolidated in capital adequacy).
- SpareBank 1 Gjeldsinformasjon AS, stake 14.8 per cent.
- Askelab AS, stake 33.3 per cent.

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

12.2 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 Boligkreditt AS, SpareBank 1 Næringskreditt AS, SpareBank 1 Kreditt AS and SpareBank 1 Betaling AS are owned by all the banks in the SpareBank 1 Alliance.

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.

13. ESG risk

The Group is affected by ESG factors either directly through its operations and indirectly, mainly through the loan portfolio. ESG factors that have a direct impact are primarily 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, counterparty risk and market risk and may be divided into:
a) Environmental risk (E) is the risk of loss due to the Group'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 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.

13.1 Strategy

SpareBank 1 Østlandet shall be established as a bank with a clear sustainability profile.

An ambition has been set to significantly enhance our positive impact while reducing our negative effect. This has been concretised in the following overall objectives for sustainability work:
- We are drivers for sustainable development in our market area
- We consider sustainability in big and small decisions, making it an integral part of our business

13.2 Management and control

ESG risks have been integrated into governing documents, methods, procedures and policies within the aforementioned risk categories, and managed as an integral part of these individual areas. The Bank has previously conducted an overarching climate risk analysis. This has been continued with scenario analyses based on the Network for Greening the Financial Sector (NGFS). Based on the scenarios, simulations have been carried out relating to the potential risk in the corporate market's loan portfolio.

Sustainability assessments are conducted in the corporate market division, especially for customers in the real estate industry and in the agricultural segment.

Within liquidity management, guidelines have been established regarding which sectors the Bank can invest in based on ESG assessments. When investing in new issuers and/or sectors, these are assessed against the guidelines before transactions are carried out, and the investment portfolio is reviewed annually in relation to the assessment criteria in the guidelines.

Over time, the Bank has had its own strategy for corporate social responsibility and sustainability, as well as relevant policies and routines in several areas that naturally belong to this strategy. In recent years, extensive work has been carried out to complement the framework.

An overview of key parts of the framework is shown in the figure below.

Figure 8.1: Governing documents