

Annual Report 2018

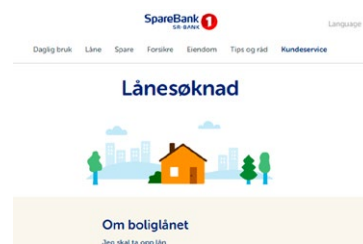


SpareBank 1 SR-Bank presents the Business Barometer for 2018. Minister of Petroleum and Energy Terje Søviknes is there. Companies are expecting **HIGH TURNOVER GROWTH, GOOD ORDERS ON HAND GROWTH AND TO HIRE MORE PEOPLE**, concludes chief economist Kyrre M. Knudsen.



SpareBank 1 SR-Bank **EXPANDS ITS ACTIVITIES** geographically and opens branch in Oslo.

Minister of Education and Integration Jan Tore Sanner, visits SpareBank 1 SR-Bank in Stavanger to learn more about how the bank has collaborated with NTNU to **DEVELOP A BESPOKE TECHNOLOGY PROGRAMME FOR THE BANK** and to hear what the students' thought of the course.



THE FIRST SMALL AND MEDIUM-SIZED ENTERPRISE (SME) CUSTOMER APPLIES FOR A LOAN VIA THE ONLINE BANK – it is a red-letter day for digital loans.

JANUARY

THE SR-BANK SHARE, start of year, 2 January 2018: **NOK 87.00**

FEBRUARY

The annual results for 2017 are published. SpareBank 1 SR-Bank achieved a pre-tax profit of NOK 2,610 million for 2017, compared with NOK 2,158 million for 2016. **A STRONG RESULT** with significant income growth, good cost control and lower losses

Fintech company Monner, in which SR-Bank owns a stake, gets a licence. Monner is **NORWAY'S FIRST DIGITAL PLATFORM FOR LOAN BROKING** between individuals and small and medium-sized enterprises.



MARCH

APRIL



OFFICIAL OPENING OF SR-BANK Arena, formerly Viking Stadium. SR-Bank has stood side-by-side with Viking since they were founded almost 119 years ago. In the new agreement between Viking and SR-Bank, SR-Bank had the chance to put its name on the stadium.

MAY

JUNE

SpareBank 1 Skadeforsikring merges with DNB Forsikring. The new company, Fremtind, becomes **THE THIRD LARGEST INSURANCE COMPANY IN THE COUNTRY**, the second largest in the retail market, and by far the largest to distribute its products via banks.



Contents

Highlights and key figures	4	The SR-Bank share	17	Report of the Board of Directors	38
The CEO's article	6	Sustainability	20	Annual financial statements	49
SpareBank 1 SR-Bank ASA	8	Group executive management	28	GRI Index	128
Employees	12	The board of directors	30	Key figures last five years	132
Business areas	15	Corporate governance	32		



SpareBank 1 SR-Bank awards the inaugural **GRÜNDERHUB PRIZE WORTH NOK 250,000** to the best entrepreneurial company at Nordic Edge Expo.

The prize goes to entrepreneur Kim Iversen and the company Zendera.



Hottest and driest summer in decades – lots of sun. But this also creates **CHALLENGES FOR MANY OF THE BANK'S FARMING CUSTOMERS.**



JULY

AUGUST



The Business Barometer for August shows that the **OPTIMISM IN THE BUSINESS SECTOR CONTINUES.** The oil and gas industry and the building and construction industry are the most optimistic. The Business Barometer has not recorded levels of optimism this high since 2014. We have to go right back to 2012 to find similar growth.



The **SR-BANK SHARE PASSES THE NOK 100 MARK** for the first time. This gives SpareBank 1 SR-Bank a quotation value of more than NOK 24 billion, the highest market value SRBANK has achieved.

OCTOBER

NOVEMBER

DECEMBER

THE **SR-BANK SHARE**, end of year, 29 December 2018: **NOK 89.20**



The target of 50% of all loans to the retail market (RM) being started online is far exceeded. **IN DECEMBER, 92% OF ALL RM LOANS WERE STARTED ONLINE.**



SpareBank 1 SR-Bank achieved a pre-tax profit of **NOK 2,892 million for 2018**, compared with NOK 2,610 million for 2017.

Operating profit (NOK millions)



Highlights

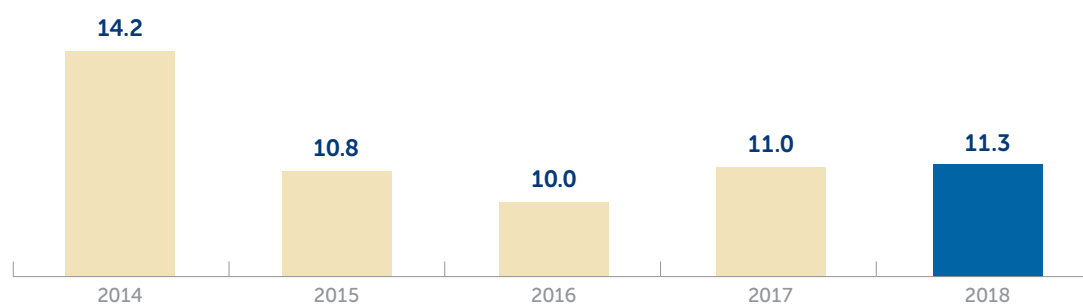
(Figures in NOK millions)	2018	2017
Net interest income	3,439	3,162
Net commissions and other operating income	1,437	1,524
Net income from financial investments	569	634
Total operating costs	2,229	2,167
Operating profit before impairments	3,216	3,153
Impairments on loans and financial liabilities	324	543
Pre-tax profit	2,892	2,610

Key figures

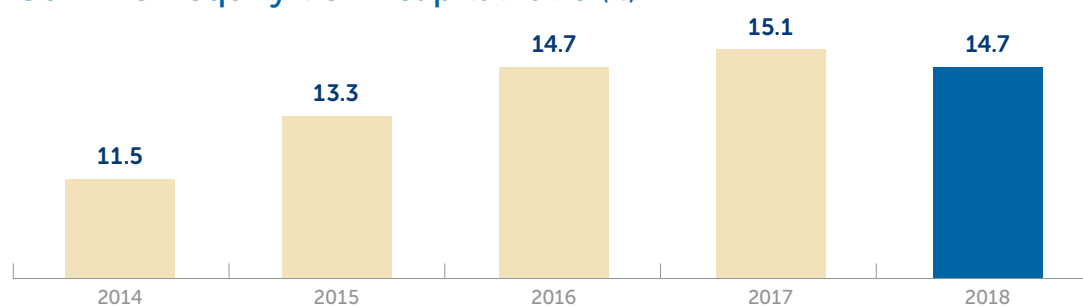
Profitability		
Return on equity %	11.3	11.0
Cost/income ratio	40.9	40.7
Average interest margin %	1.54	1.52
Balance Sheet figures		
Gross loans to customers	192,105	172,554
Gross loans to customers, incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	201,399	187,137
Deposits from customers	98,814	95,384
Lending growth, incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	7.6%	2.6%
Deposit growth	3.6%	11.0%
Total assets 31.12.	234,061	216,618
Financial strength		
Common equity tier 1 capital ratio %	14.7	15.1
Tier 1 capital ratio %	15.9	16.0
Capital ratio %	17.6	17.9
Leverage ratio %	7.7	7.4
Tier 1 capital	20,743	19,278
Liquidity		
Liquidity coverage ratio (LCR) %	167	168
Deposit-to-loan ratio	51.4%	55.3%
Deposit coverage ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	49.1%	51.0%
Branches and staffing		
No. of FTEs, incl. temps	1,251	1,218
No. of branches	36	36
SpareBank 1 SR-Bank share		
Market price at year end	89.20	87.00
Earnings per share	8.98	8.16
Dividend per share	4.50	4.25
Effective yield on share %	7.4	46.9

Please also refer to the complete overview of key figures and definitions on pages 19 and 132.

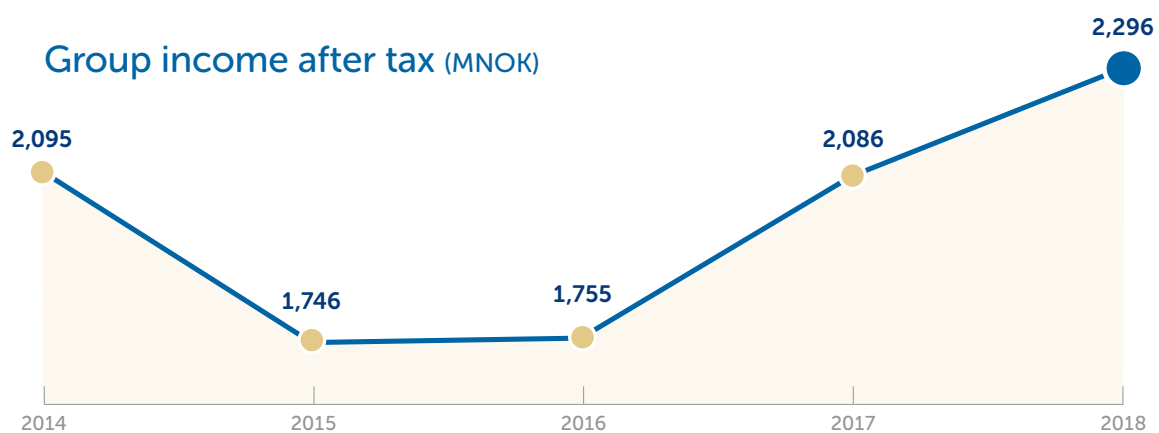
Return on equity (%)



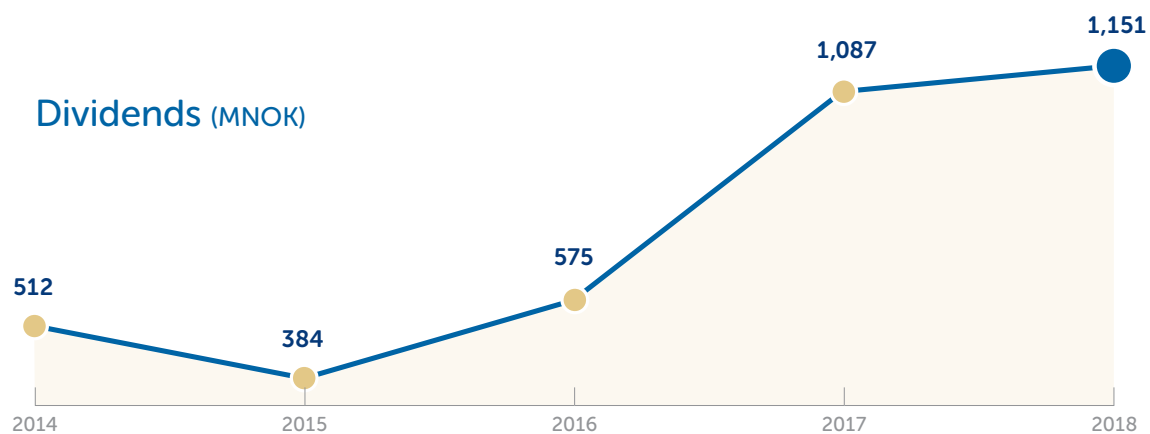
Common equity tier 1 capital ratio (%)



Group income after tax (MNOK)



Dividends (MNOK)





Nearly 180 years of long-term thinking and sustainable operations

A lot of good things happened in 2018. SpareBank 1 SR-Bank started the year with a visit from the then Minister of Oil and Energy, Terje Søviknes, in connection with the presentation of our Business Barometer. The Business Barometer's main index improved each quarter of the year. A sense of optimism prevails throughout Southern Norway and the business sector is enjoying strong growth in Southern and Western Norway, although some industries are still having a difficult time.

The fact that most companies and most people are doing better is evident from the figures that make up the annual results for 2018. This is true of the pre-tax profit of NOK 2,892, the lending growth of 15.7% in the corporate market, and the NOK 219 million reduction in overall impairments in 2018 compared with the year before.

Our Oslo initiative also became fully operational in 2018. Perhaps it is the international influence here in Southern and Western Norway that inspire us to dare to think big. We call ourselves a challenger who is taking on our larger colleagues in the industry head-on. This is producing results. We achieved a milestone in 2018. We surpassed NOK 200 billion in loans. It took us 165 years from 1839 to reach the first NOK 50 billion in total loans. It then took just five years to lend out a further NOK 50 billion. At the start of 2019, the year the group marks 180 years of banking, we have again doubled our lending volume from NOK 100 billion to NOK 200 billion. Meanwhile, the number of employees in the bank has remained relatively unchanged since 1990. This demonstrates how the group's pace of change has accelerated and how technological advances have streamlined operations.

We have to think big and we have to think broad so we can continue to stand firmly by our customers in demanding times. That is why our ambition is to become a bank for the whole of Southern Norway. At the same time, we have to expand what we currently regard as our business areas. Our startup factory, FinStart Nordic, is proof of this. We invested in a number of new companies through FinStart Nordic's investment budget of NOK 250 million in 2018 in order to help them grow. This will help us ensure that in the future we can offer the market more and better services that meet the needs of customers.

The UN climate report showed that average temperatures continued to rise rapidly in 2018 and that climate change is not an issue we can put off. Climate change and higher temperatures are here, right around the next corner. So we must not fall asleep at the wheel. In the past year, we surveyed what our stakeholders think the group should focus on when it comes to sustainability. This is important when it comes to prioritising our work going forward. Climate risk is one area we will particularly focus on. Because of our financing and investing activities, we have a responsibility to steer companies and people in a sustainable direction. That is why we made a strategic decision in 2018 to hire dedicated resources that will ensure sustainability becomes an integral part of both our investment and our financing processes. We accept the 17 UN Sustainable Development Goals and support the UN Global Compact's ten principles for sustainability. The climate, environment and gender equality were key areas we systematically focused on in 2018.

The biggest and most important changes we have been through and measures we initiated in 2018 include geographic expansion, increasing the scope of our current business model, skills training across the group, and a major effort in the area of sustainability. This resulted in more investment and higher costs. Nevertheless, total costs increased by just NOK 62 million compared with 2017. The group remains efficient with a cost/income ratio of 40.9%.

The return on equity of 11.3% shows that our business model is robust and profitable. We have remained stable and profitable through some demanding years. We can thank our 1,200 motivated and competent employees for this.

The economy in Southern and Western Norway has always been, and will always be, cyclical. But, I believe that



enterprising people can create new jobs and new sources of income, including as part of the green shift. Enterprising people have always looked for opportunities. Enterprising people have always had the ability to think big and set off into the unknown. These are the values that drive us.

Arne Austreid
Chief Executive Officer



SpareBank 1 SR-Bank

– strategic and financial objectives

SpareBank 1 SR-Bank ASA's objectives are to stimulate growth and development. Based on the group's roots, history and solid position in Western Norway, SpareBank 1 SR-Bank aims to become a leading financial group in Norway.

SpareBank 1 SR-Bank is a proactive financial group with national distribution. As Norway's second largest Norwegian-owned bank, the group provides financial muscle for growth, value creation, and profitability for customers, society, and our owners. The group has a physical presence in Rogaland, Hordaland, the Agder counties, and Oslo. Its head office is in Stavanger. The group aims to defend and increase its market shares in these counties in both the retail and the corporate markets. In 2018, the group grew from a regional bank to a bank for the whole of Southern Norway, including outside the aforementioned counties, with Greater Oslo as one of its focus areas. In early 2018, the group established a branch in Oslo for larger corporate and retail customers. This has resulted in NOK 319 million in new loans in these new market areas in the past year. 80% of the bank's total lending growth now comes from outside Rogaland County.

Business areas

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

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

SpareBank 1 SR-Bank had more than 300,000 customers and exceeded NOK 200 billion in gross loans in 2018.

The group's subsidiary, FinStart Nordic, has now invested in six companies and is helping them to develop. FinStart Nordic was established with the aims of expanding and improving the group's market offering to better suit customers' needs, and remaining at the forefront of new and innovative services.

EiendomsMegler 1 SR-Eiendom enjoys a strong market position and provides services for both retail and corporate customers.

SpareBank 1 Regnskapshuset SR provides accounting and advice services for corporate customers and helps to ensure a more complete range of services for such customers. The subsidiary SR-Forvaltning provides SR-Bank funds and its ambition is to become the largest fund management company outside Oslo.

Digitalised customer services

SpareBank 1 SR-Bank wants to be forward-looking bank that has real relationships with its customers thanks to capable employees, good digital solutions and intelligent decision-making support. The group has 36 branches in its market area. The self-service channels and the fact that customers can meet us in person at branches or contact us on the phone, via chat and on Facebook mean that the group is always available to the customer. The mobile bank is the most frequently used channel. On average, customers log into their mobile bank 30.4 times a month.

A heavy focus on digitalisation and efficiency is providing a platform for better, more accessible solutions for customers. In 2018, the group continued to work on the digitalisation of credit processes and routines for establishing new customer relationships, in both the retail market and the corporate market. At the start of 2019, 92% of all retail-market loan applications were started online and more than 2,000 new corporate customers have become customers via the bank's website in the last year. The group's chatbot, Banki, which is available to both retail and corporate customers, had a total of 247,000 chats with customers in 2018.

History

SpareBank 1 SR-Bank's competitive advantage is that while we are a big commercial bank, we also have historic roots in many local savings banks in the region.

In 1976, Sparebanken Rogaland (SR-Bank) was established as an amalgamation of 22 local savings banks. The combination of knowledge and understanding the staff possess of the market area and the opportunity SpareBank 1 SR-Bank has as a limited liability savings bank to bring capital to the region is unique. Because we are a regional bank, the group has short decision-making chains and knows our market area well.

As one of the SpareBank 1 banks, a banking and product alliance between independent, locally based Norwegian



SR-Bank
exceeded
NOK 200 billion
in loans in
2018.

banks, the group also benefits from economies of scale within, for example, IT development.

SpareBank 1 SR-Bank's largest owner is Sparebankstiftelsen SR-Bank. The group was converted from an equity certificate bank to a public limited company (limited liability savings bank) with effect from 1 January 2012.

The Sparebankstiftelsen SR-Bank foundation was established at the same time. The purpose of the foundation is to manage the shares it received upon its formation and to exercise and maintain a substantial, long-term and stable ownership interest in SpareBank 1 SR-Bank. The foundation can distribute the surplus just as savings banks have traditionally done and donates to non-profit projects in the group's market area.

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

Overarching objectives

Profitability

The group aims to stimulate growth and development. The bank can now contribute greater financial firepower than

was possible when we were building up our common equity tier 1 capital. SpareBank 1 SR-Bank will focus on customer growth in 2019, but that growth will not be achieved at the expense of profitability. SpareBank 1 SR-Bank's goal is to achieve a return on equity and a cost/income ratio that places it among the top third of comparable financial groups. This goal will be achieved by increasing income from profitable lending growth and clear growth in other income.

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

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

Customers

SpareBank 1 SR-Bank's vision is to be the customers' first choice. Customers should feel that our entire approach and

everything we do is for their benefit. They should feel seen, heard and appreciated.

Another means in the fight for customer relationships is the overall range of customer services the group can offer. In addition to their purely financial value, strategic stakes in subsidiaries also provide opportunities to enrich the business model and strengthen the group's overall competitiveness. Strengthening customer relationships also requires a strong focus on increasing value creating activities in the customer interface with the aid of new technologies and solutions. In order to be able to invest in new services, technology and products that ensure stable operations, growth and good customer experiences, the group must simultaneously focus on streamlining existing operations.

Culture and expertise

If we are to succeed in building stronger customer relationships, it is vital that the entire organisation has a "customer first" mindset in every unit.

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

Changes in customer behaviour and the group's services for customers will have an impact on employees' duties and the skills we will recruit in the future. In the next five years the group will recruit more mathematicians, engineers and technologists than economists.

Innovation and development

The group will continue to focus heavily on its digital transformation and projects. Digitalisation is not a goal in itself but a means of achieving effects on both the costs and income sides. Based on data and technology, the group will develop new business models and areas, both to preserve customer relationships and income streams, and to create new ones.

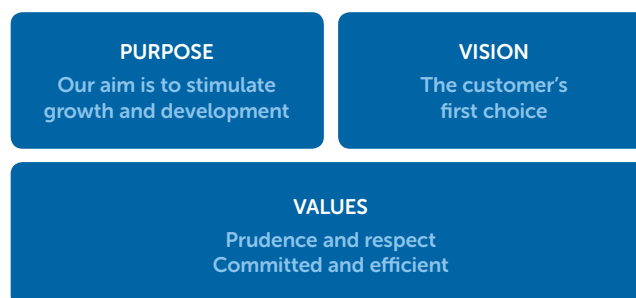
External factors that affect the business

- Digitalisation and personalised offer for each customer
- Customers expect seamless services
- Untraditional business models and the sharing economy
- Actors in other industries setting the standards and expectations for user experiences online
- Open mobile phone payment services
- Niche actors in the traditional banking market
- Development of oil prices and region's business and industry
- PSD2 – the EU's revised payments directive
- Capital requirements and regulations from the Financial Supervisory Authority of Norway



Digitalisation is not a goal in itself but a means of achieving effects on both the costs and income sides.

Foundations



SpareBank 1 SR-Bank Financial Group



Wholly owned subsidiaries

EiendomsMegler 1 SR-Eiendom AS

Sales of homes and commercial properties

SR-Boligkreditt AS

Mortgage company – issuer of covered bonds (home mortgages)

SR-Forvaltning AS

Fund management and active management

FinStart Nordic AS

Startup factory for new ideas

SpareBank 1 Regnskapshuset SR AS

Accounting and advice

Part-owned companies

SpareBank 1 Gruppen AS



Holding company for the product companies in the SpareBank 1 Alliance

BN Bank ASA ¹⁾



Commercial bank with offices in Oslo and Trondheim

SpareBank 1 Boligkreditt AS



Mortgage company - issuer of covered bonds (home mortgages)

SpareBank 1 Nærings- kreditt AS



Mortgage company - issuer of covered bonds (commercial property mortgages)

SpareBank 1 Kredittkort AS



Credit card company, based in Trondheim

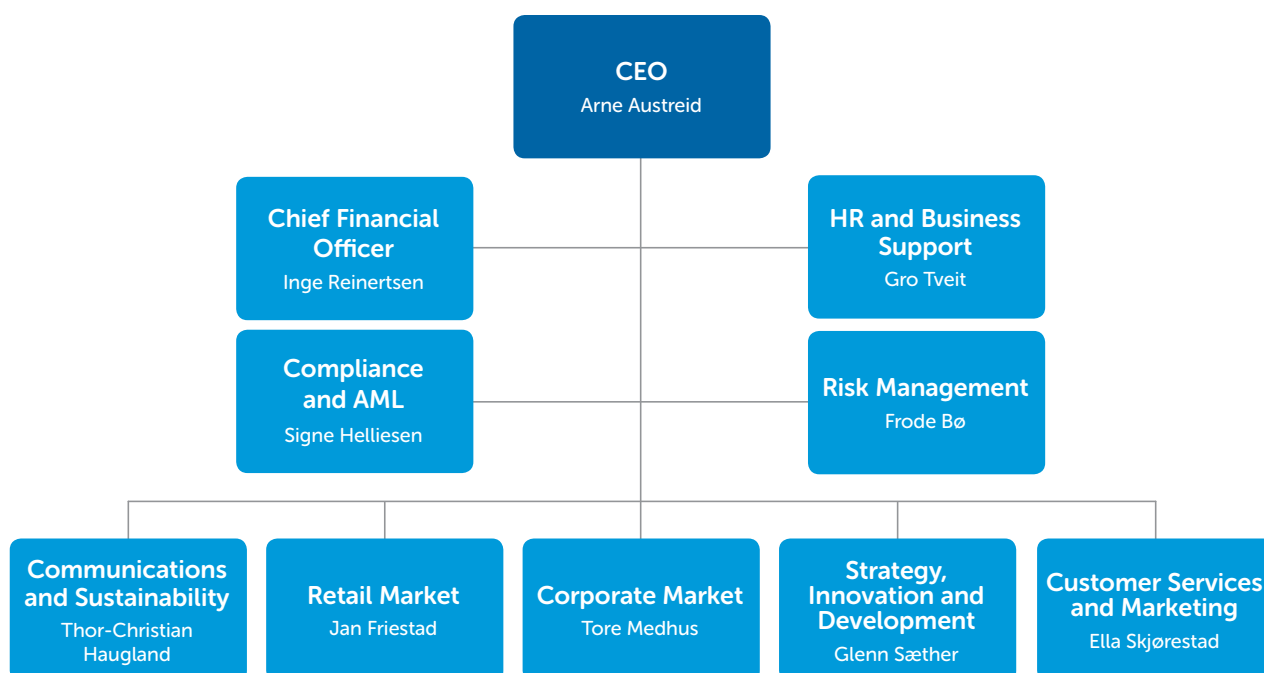
SpareBank 1 Betaling AS



The company behind the mobile payment solution.
* Owns 22% of VBB AS

¹⁾ There is a signed agreement to change the ownership model in BN Bank ASA, and SpareBank 1 SR-Bank will own a 35.02% stake in BN Bank ASA.

Organisation





Employees

– Our most important capital in the fight for customers

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

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

Skills recruitment

At year end 2018, the group had 1,251 full-time equivalents (FTEs), of which 1,178 were full-time employees. The number of FTEs in the group increased by 33 in 2018.

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

Change and skills

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

Annual goals and performance reviews set out clear expectations vis-à-vis delivery and results. 67% of all full-time employees of SR-Bank, SR-Forvaltning and EiendomsMegler 1 SR-Eiendom had performance reviews in 2018. These covered 71% of female employees and 62% of male employees.

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

There is a focus on continuous skills enhancement throughout the group where we combine structured education and courses with training and individual development on the job.

Working environment

No fewer than 90% of the employees of the SR-Bank Group responded to this year's organisational survey, and the results indicate a high level of satisfaction. We have committed employees with a good sense of team spirit and we also score highly with regards to our ability to get things done and responsibility. Confidence in the group's executive management team remains high. The purpose of the organisational survey is to check the pulse of the organisation and gain an insight into what is considered good and what we have to strengthen or improve. In other words, it functions as a common framework for discussing what things should be like at work and every department reviews the results precisely to start a conversation about what the working environment is like.

HSE

The group systematically works on health, safety and the environment in cooperation with the chief safety representative, HSE manager and line management. Our compliance was assessed and measures were implemented where necessary to ensure compliance with regulatory HSE requirements. The preventive work in 2018 focused on increasing the "healthy rate" and a number of measures were started with the aim of reducing long-term sick leave. It is also encouraging partial sick leave and focusing on degree of remaining capacity for work during periods of ill health. The average healthy rate in 2018 was 95.6%.

The group's life phase policy enables employees to deliver as desired and planned in various phases of life. It also encourages the group's seniors who want to follow the group's development to stay in work longer. The average retirement age in 2018 was 64.4, a rise of 1.3 years compared with 2017.

Gender equality

The group wants to achieve a corporate culture and working environments in which we actively encourage equal careers for both genders within leading and heavily specialised positions.

A gender equality committee was established in 2018. It has mainly worked on equal pay analyses and reports.



In 2019, the committee's name was changed to the gender equality and diversity committee (LMU). The number of members was also increased to ensure the committee had broader representation from the organisation.

LMU will act as an advisory body in matters touching on gender equality and diversity in SpareBank 1 SR-Bank. In 2019, the committee will define goals, measures and action plans for equal pay and equal participation of the genders in leading and heavily specialised positions. Besides this, the committee will also work on defining diversity and making recommendations in this area.

We are implementing various measures to improve the equal pay situation between employees. One of the measures that has been taken is that all employees who go on maternity leave are entitled to salary evaluation in advance of, or during, leave. We also move employees who have been on parental leave for longer than five months up an extra step on the pay scale when they return to work. Funds have been allocated for equal pay measures. We have raised the minimum salaries for various position levels and this change will largely benefit female employees. Both of these measures came into effect in 2019.

We have increased the proportion of women in the group executive management team. In 2018, the group executive management team was expanded by two women bringing the total number of members up to nine, and in January 2019 another woman joined it.

We still have some way to go in relation to increasing female participation in the group executive management team, management levels below this, and heavily specialised positions.



Employees have to be cultivated and developed if they are to perform at their best.

	2017		2018	
	Parent bank	Group	Parent bank	Group
Equality and diversity				
Total no. of FTEs	914	1,218	929	1,251
Percentage of women	55%	54%	54%	53%
Percentage of men	45%	46%	46%	47%
Employees under 30	7%	9%	8%	10%
Employees 30-50	53%	55%	52%	54%
Employees over 50	40%	37%	40%	36%
Women employed part-time	5.8%	6.2%	7.6%	8.0%
Men employed part-time	0.4%	0.3%	1.5%	1.5%
Proportion of women by position level				
Management level 1	0%	0%	0%	0%
Management levels 2 and 3	26%	26%	29%	28%
Management level 4	43%	41%	49%	46%
Managers under 30	0%	0%	1%	1%
Managers 30-50	59%	63%	58%	64%
Managers over 50	41%	37%	41%	36%
Percentage of women on the board of directors	50%	50%	50%	50%
Board members under 30	0%	0%	0%	0%
Board members 30-50	25%	25%	25%	25%
Board members over 50	75%	75%	75%	75%
Average Salary				
Women	577,494	556,590	605,106	582,241
Men	756,225	713,317	777,426	738,723
Women's wages relative to men by position level				
Management level 1	-	-	-	-
Management levels 2 and 3	75%	77%	77%	76%
Management level 4	92%	90%	90%	89%
Parental leave taken, average number of weeks				
Women	39.6	39.8	36.0	37.0
Men	10.3	9.0	9.0	9.0
Sick leave				
Total	3.80%	3.56%	4.65%	4.37%
Women	5.24%	5.01%	6.50%	6.49%
Men	2.29%	2.02%	2.78%	2.32%
Work absence due to child illness (day's work)				
Women	329.4	370.4	361.5	400.3
Men	157.2	177.8	142.1	162.5

Cooperation with employee organisations and the safety service

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

Employee compensation

The group's strategy is to practise a competitive compensation model that allows us to attract the skills of the future and retain our capable employees. The group's compensation

model consists of three elements: fixed salary, variable pay and other employee benefits. The variable compensation scheme is intended to encourage extraordinary performance and results and has been designed in line with the group's strategies, business goals and values. Variable pay is awarded based on an assessment of both financial and non-financial targets and compliance with applicable laws and regulations. Any variable compensation scheme may, based on a discretionary assessment, be curtailed or eliminated entirely if the group's financial situation or other factors indicate that it would not be responsible to pay variable compensation.



Business areas

Retail market

SpareBank 1 SR-Bank is the leader in the retail market in Southern and Western Norway with 339,000 retail customers older than 13.

This represented a market share of around 20% in our market area at year end 2018. In addition to retail customers, the division serves 9,400 small business and farming customers, as well as around 3,500 clubs and associations. A complete range of good digital services, a modern customer service centre, and a well-developed network of branches provide our customers with fast, easy access to financial services and expertise via all channels.

Corporate market

The corporate market division has 16,700 corporate customers in five regional business units and two specialist units: one for the energy and maritime sector and one for the public sector.

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

Capital market

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

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

Strategy, innovation and development

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

The idea is to ensure that in the future more attention is paid to all of the group's development work and that it has more muscle. The business area is also responsible for the results of SpareBank 1 SR-Bank's new innovation venture, FinStart Nordic. The company was established as a wholly owned

subsidiary and will be run as a combination venture capital/startup company.

Customer services and marketing

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

SUBSIDIARIES

EiendomsMegler 1 SR-Eiendom AS

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

SR-Forvaltning AS

SR-Forvaltning AS is licensed to provide active management and securities management services. SR-Forvaltning expanded operations in autumn 2018 by establishing more new securities funds. At the start of 2019, the company manages eight securities funds, of which three are unit trusts, two bond funds and three balanced funds. SR-Forvaltning also manages discretionary portfolios for SpareBank 1 SR-Bank ASA's pension fund, as well as for external customers based on discretionary mandates. The external customer base comprises pension funds, public and private enterprises, and affluent individuals. Since its start-up in 1999, the company has produced a good, long-term, risk-adjusted return for its customers, in both absolute and relative terms.

SpareBank 1 Regnskapshuset SR AS

The company was established in the first quarter of 2015 and has since its start-up grown from NOK 0 to almost NOK 100 million in revenue. At the start of 2019, the company has seven offices, four in Rogaland and three in Bergen, which in total serve around 1,800 customers. Since its start-up, the company has gained a solid market position in Rogaland and Hordaland within accounting services and is experiencing a good influx of new customers who need modern, efficient accounting services. Business areas within advice and payroll/HR are also growing and the company is experiencing good demand in this area in the market.

SR-Boligkreditt AS

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

FinStart Nordic AS

The company was formally established on 1 January 2018 and is a startup factory for new ideas. FinStart Nordic is tasked with helping to develop an even better customer offering through the development of financial services, combined with a financial upside. FinStart Nordic acquired ownership interests in six companies in 2018.

PART-OWNED COMPANIES

SpareBank 1 Gruppen AS

SpareBank 1 Gruppen AS is owned by:

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

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

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

SpareBank 1 Banksamarbeidet DA

SpareBank 1 Banksamarbeidet DA is responsible for alliance processes and the delivery of services to the SpareBank 1 Alliance. It also develops and delivers things such as common IT/mobile phone solutions, branding and marketing concepts, business concepts, products and services, expertise, analyses, processes, best practice solutions and purchasing. SpareBank 1 SR-Bank owned a 18.0% stake in SpareBank 1 Banksamarbeidet at year end 2018.

The companies in SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet DA together constitute what is called the alliance.

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

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

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

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

At year end 2018, SpareBank 1 Boligkreditt AS's total loan volume amounted to NOK 184.1 billion, NOK 8.9 billion of which was from home mortgages bought from SpareBank 1 SR-Bank. The bank currently owns an 4.8% stake in the company. This is updated at the end of each year in line with the volume sold.

At year end 2018, SpareBank 1 Næringskreditt AS's total loan volume amounted to NOK 11.1 billion, NOK 0.4 billion of which was from loans bought from SpareBank 1 SR-Bank. The bank owned 14.4% of the company at the end of 2018.

BN Bank ASA

SpareBank 1 SR-Bank and the other savings banks in the SpareBank 1 Alliance acquired Glitnir Bank ASA in the fourth quarter of 2008. It has since been renamed BN Bank ASA. SpareBank 1 SR-Bank owns a 23.5% stake.¹⁾

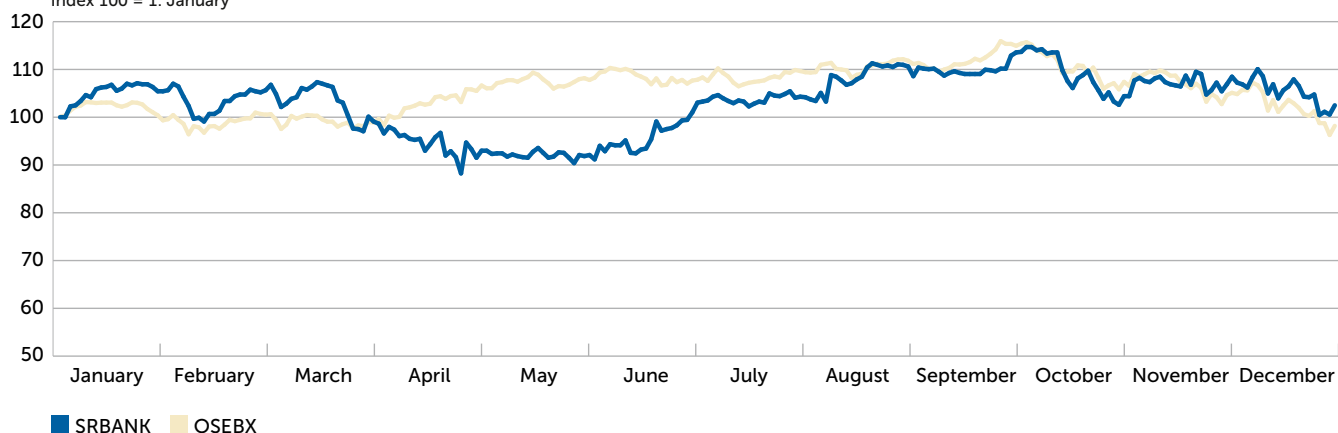
¹⁾ There is a signed agreement to change the ownership model in BN Bank ASA, and SpareBank 1 SR-Bank will own a 35.02% stake in BN Bank ASA.



The SR-Bank share

Relative share price trend 2018

Index 100 = 1. January



Facts about our share

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

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

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

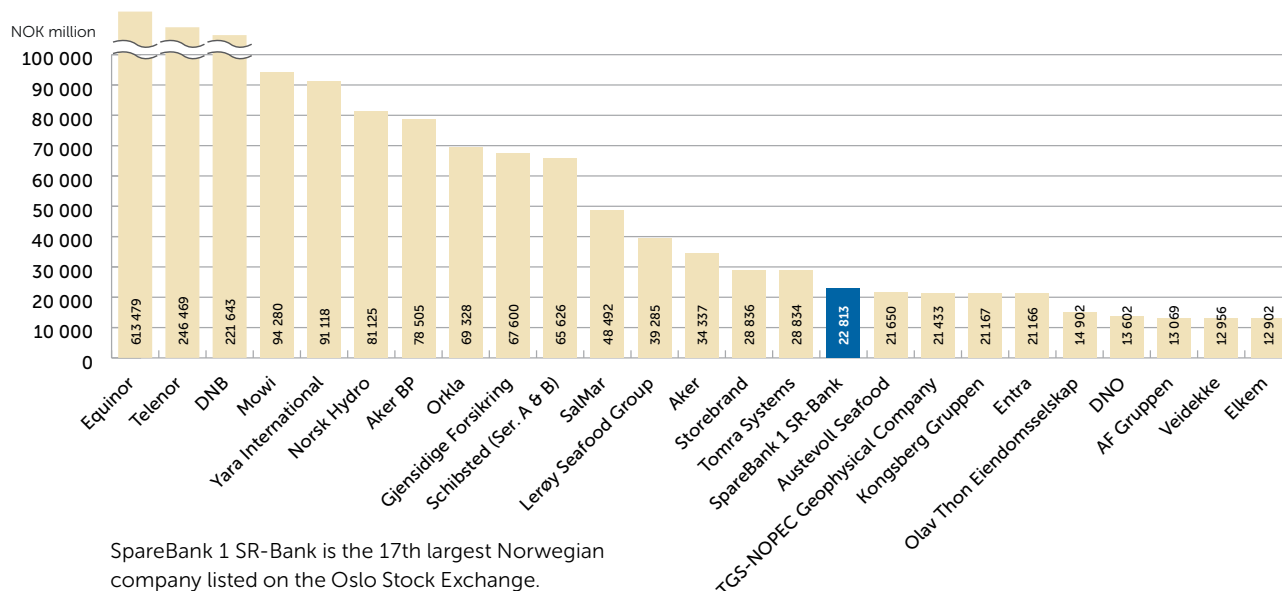
Facts about Sparebankstiftelsen SR-Bank

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

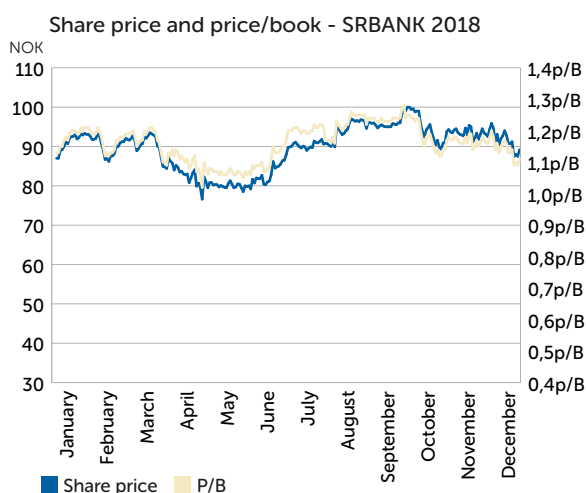
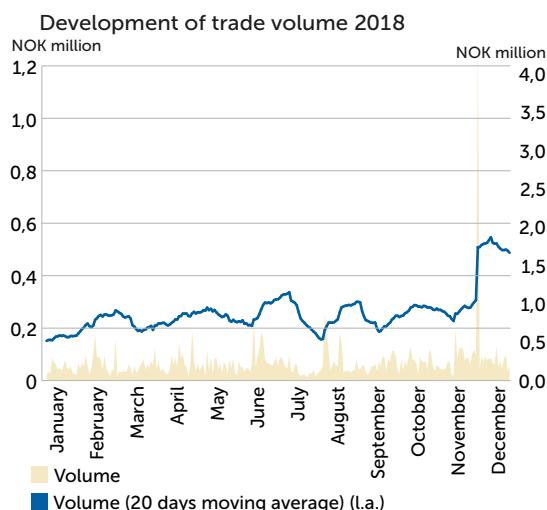
The foundation can distribute its surplus and, in line with savings bank traditions, donates to publicly beneficial projects in Rogaland, Aust-Agder, Vest-Agder, and Hordaland.

As at 31 December 2018, the foundation owned 72,419,305 shares, equivalent to 28.3% of shares issued.

Largest Norwegian companies based on market value



SpareBank 1 SR-Bank is the 17th largest Norwegian company listed on the Oslo Stock Exchange.



Dividend policy

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

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

Market value:

NOK 22.8 billion

Largest owner:

Sparebankstiftelsen SR-Bank

The parent company's distributable profit in 2018 was NOK 2,101 million, equivalent to NOK 8.24 per share.

In line with SpareBank 1 SR-Bank's dividend policy, various factors have been taken into consideration in determining the dividend, including, in particular, financial strength and the tier 1 capital ratio. The current requirements indicate that the group must have common equity tier 1 capital of 15%, including a 1-percentage point management buffer.

The board proposes a dividend of NOK 4.50 per share for 2018. This corresponds to a payout rate of around 50.1% of consolidated earnings per share.

Investor policy

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

It is in SpareBank 1 SR-Bank's own interests to publish current financial analyses of the highest possible quality. All analysts are treated equally at all times regardless of their recommendations and views on the bank's share. At the end of 2018, 11 brokerage houses officially covered SRBANK. Updated contact information for these is available at all times on: www.sr-bank.no/ir.

Information addresses

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

Other links to financial information: www.osl.no
(Oslo Stock Exchange)

2019 financial calendar

Annual general meeting:	24 April 2019
Ex dividend date:	25 April 2019
First quarter:	9 May 2019
Second quarter:	8 August 2019
Third quarter:	31 October 2019
Fourth quarter:	5 February 2020

Effective return 2018:

7.4%

Dividend 2018:

NOK 4.50 per share

Ownership

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

The share price rose from NOK 87.00 to NOK 89.20 in 2018. Taking into account the paid dividend of NOK 4.25, this represents an effective return of 7.4%. The Oslo Stock Exchange Benchmark Index rose by 1.8% in the same period.

There were 10,804 (10,834) owners of SRBANK at year end 2018. The percentage owned by companies and individuals based abroad was 26.6%, and the percentage owned by companies and individuals resident in Rogaland, the Agder counties and Hordaland was 43.5%. The 20 largest shareholders owned a total of 58.1% of the shares. The bank owned 85,206 treasury shares. Group employees owned a total of 1.5% of the shares at the end of the year.

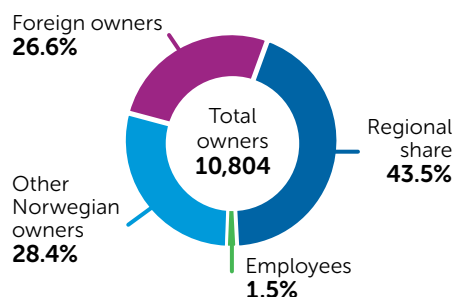
Credit rating

Moody's Investor Services confirmed its A1 with a negative outlook credit rating of SpareBank 1 SR-Bank on 14 May 2017. The short-term funding rating remained unchanged throughout 2018 at Prime 1.

On 28 September 2018, Fitch Ratings confirmed its A- (long-term) and F2 (short-term) with stable outlook credit ratings of SpareBank 1 SR-Bank.

The table below shows the 20 largest shareholders as at 31 December 2018:

20 largest owners as at 31 December 2018		No. of shares (thousands)	Stake %
1	Sparebankstiftelsen SR-Bank	72,419	28.3%
2	National Insurance Scheme Fund	18,931	7.4%
3	State Street Bank and Trust Co, USA	10,346	4.0%
4	SpareBank 1-stiftinga Kvinnherad	6,227	2.4%
5	Vpf Nordea Norge Verdi	4,633	1.8%
6	Danske Invest Norske Instit. II	3,696	1.4%
7	State Street Bank and Trust Co, USA	3,508	1.4%
8	Odin Norge	3,406	1.3%
9	J.P. Morgan Chase Bank N.A., USA	2,870	1.1%
10	Clipper AS	2,565	1.0%
11	Verdipapirfondet DNB Norge (IV)	2,485	1.0%
12	Pareto Aksje Norge	2,428	0.9%
13	JP Morgan Securities plc, U.K.	2,407	0.9%
14	Morgan Stanley & Co, U.K.	2,035	0.8%
15	Danske Invest Norske Aksjer Inst.	1,989	0.8%
16	State Street Bank and Trust Co, USA	1,871	0.7%
17	Verdipapirfondet Alfred Berg Gambak	1,867	0.7%
18	Westco AS	1,702	0.7%
19	KLP Aksjenorge Index	1,696	0.7%
20	KAS Bank NV, The Netherlands	1,624	0.6%
Total 20 largest		148,708	58.1%



Key figures	2018	2017	2016	2015	2014
Market price 31.12, NOK	89.20	87.00	60.75	39.30	52.50
Dividend per share, NOK	4.50	4.25	2.25	1.50	2.00
Direct return ¹⁾	5.0%	4.9%	3.7%	3.8%	3.8%
Effective return ²⁾	7.4%	46.9%	58.4%	-21.3%	-10.2%
Book equity per share, NOK ³⁾	82.27	77.24	71.54	66.14	60.28
Earnings per share, NOK ⁴⁾	8.98	8.16	6.87	6.83	8.20
Payout ratio, net ⁴⁾	50%	52%	33%	22%	24%
No. of shares issued 31.12	255,751,082	255,751,082	255,751,082	255,751,082	255,751,082
Treasury shares 31.12	85,206	206,757	108,983	25,398	231,043
No. of outstanding shares 31.12	255,665,876	255,544,325	255,642,099	255,725,684	255,520,039

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

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

³⁾ Equity divided by number of shares issued.

⁴⁾ Dividend as a percentage of the group's net profit for the period

Sustainability

OUR APPROACH TO SUSTAINABILITY

SpareBank 1 SR-Bank is a responsible corporate citizen

SR-Bank's goal is to be an organisation that takes a proactive approach to sustainability and responsibility for the environmental challenges society faces. Three main areas must be focused on in order to create sustainable development: the climate and environment, the economy, and social conditions. Our sustainability responsibilities therefore encompass our products, advice and sales, investment and credit decisions, marketing, purchases, and corporate governance. Our internal work on HSE, ethics and environmental efficiency are also encompassed by our definition of sustainability.

Even though we, as Southern and Western Norway's largest and leading financial group, primarily focus on our immediate surroundings, we are just as interested in ensuring that everything we do is sustainable in a global perspective. The group's sustainability principles are based on the 17 UN Sustainable Development Goals, and as a group we support the UN Global Compact's ten principles for sustainability. In 2018, SR-Bank played an active role in setting

up Global Compact Network Norway in order to strengthen society's and companies' work within sustainability.

During the year, the board and group executive management team have prioritised sustainability as a strategic focus area. Sustainability must be an integral component of the group's operations. The sustainability strategy must clarify, and provide guidelines for, the group's work on sustainability, and help employees and managers make decisions in their day-to-day work. The strategy must also clarify to customers and investors how sustainability is integrated into SR-Bank's operations and how it affects our decisions.

Sustainability must be included in the documentation and routine work associated with credit lines and investments/management, and incorporated into the group's strategy. The sustainability strategy must be seen in conjunction with other governing documents, such as the group's strategy and associated business plan, the bank's code of conduct, the credit strategy, and other relevant policies and guidelines in the group. The principles and associated guidelines apply to all of the group's operations, including subsidiaries, irrespective of customer group and organisational affiliation. The figure shows how the governing documents must be incorporated into the group.

Incorporating sustainability into SpareBank 1 SR-Bank:



Our stakeholders and key sustainability themes

The group maintains a good, open dialogue with the communities of which we are a part. We prioritise what we should focus on in the area of sustainability based on this dialogue with customers and other stakeholders. In 2018, SpareBank 1 SR-Bank conducted a survey of employees and interviewed a number of the group's stakeholders, including customers, special interest organisations, and local and national authorities. The feedback from this survey provides us with a framework for what we should focus and report on going forward. The results showed that we should particularly focus on financial crime, ethics and anti-corruption, protecting personal data and information security, excluding companies that violate our policies, and guidelines for responsible credit. In the current strategy period, the emphasis will be on further developing the bank's approach to sustainability in our core operations and financial services. This means that we will particularly work on responsible lending practices, managing climate risk, active ownership, positive screening, and launching new green products.



The figures illustrate our dialogue with local communities on topics to do with sustainability.



Forums	Theme	Measures
Customers <ul style="list-style-type: none"> • Customer and market surveys in the retail and business markets • Digital channels (sr-bank.no, Facebook Instagram, LinkedIn, Snapchat, Nyhetssenter, chatbot, email, SMS, online bank, and mobile bank) • Customer services centre for retail and corporate customers • Interviews in connection with materiality analyses of sustainability 	<ul style="list-style-type: none"> • What customers think of the group and the group's operations • Responsible finance, transparency, trust, and local presence 	<ul style="list-style-type: none"> • Dialogue with customers through responses to enquiries via telephone, staffed channels, and digital channels
Employees <ul style="list-style-type: none"> • Annual organisational survey • Annual employee performance reviews • Cooperation with trade unions • Workshops and interviews in connection with risk assessments • Questionnaires and workshops on sustainability in connection with materiality analyses • Workshops in connection with the preparation of the sustainability strategy 	<ul style="list-style-type: none"> • Working environment • Employee development • Involvement of employees in the development of the group • Risk assessments related to operational risk and reputation • Responsible finance, transparency, financial crime, ethics and production of personal data • Important themes within sustainability 	<ul style="list-style-type: none"> • Improvement measures in consultation with management. • Trade unions as resources • Specific measures related to identified risks are followed up by the system for following up measures
Owners <ul style="list-style-type: none"> • Regular follow-up of the company's largest owners, including Sparebankstiftelsen SR-Bank • General meeting • Board elections for shareholders • Stock exchange announcements and interim reports • Investor presentations 	<ul style="list-style-type: none"> • Financial performance and Sparebankstiftelsen SR-Bank keeping the savings bank traditions alive • Annual financial statements and any other company actions • Briefing on economic cycle in Southern Norway and the company's performance and status in the financial markets • Annual action plan for investor relations 	
Authorities <ul style="list-style-type: none"> • Contact with control and supervisory authorities (Financial Supervisory Authority of Norway, Norwegian Data Protection Authority, etc.) • NAV working life centre 	<ul style="list-style-type: none"> • Operations, security and personal data protection • Sick leave, healthy workplace 	<ul style="list-style-type: none"> • Measures for compliance and protection of personal data (GDPR) • Improvement measures in consultation with management
Society as a whole <ul style="list-style-type: none"> • Various forums as a member of Finance Norway • Business Barometer for Rogaland, Hordaland, Agder, and Oslo • Cooperation with the Norwegian Federation of Trade Unions (LO) via LOfavør • Extensive dialogue with clubs and associations through cooperation agreements and sponsorships (Stavanger Concert Hall, Viking Fotballklubb, Norwegian Ski Federation, Blink Festival, and Tall Ships Races) • Gründerhub 	<ul style="list-style-type: none"> • Understanding the region's potential and challenges • Products and services for LO members • Responsible investment, transparency, trust, local presence, local roots, and local contributions • Creating new future-oriented businesses and jobs 	<ul style="list-style-type: none"> • Annual award prizes for entrepreneurs to encourage entrepreneurship
Special interest organisations <ul style="list-style-type: none"> • Interviews with Finance Norway, the Norwegian Federation of Trade Unions (LO), and the Financial Supervisory Authority of Norway in connection with materiality analyses of sustainability • Dialogue with Future in Our Hands and the Norwegian Consumer Council in connection with the ethical banking guide • UN Global Compact • UN Global Compact Network Norway • Finance Sector Union of Norway • LO Finans 	<ul style="list-style-type: none"> • Responsible finance, transparency, trust, and local presence • Selected sustainability themes • Reporting UN Global Compact • Establishment of UN Global Compact Network Norway 	<ul style="list-style-type: none"> • Response to the ethical banking guide • Updating website and reviewing internal guidelines

SUSTAINABILITY IN THE BANK'S DAY-TO-DAY OPERATIONS

Combating money laundering and terrorist financing

Fighting financial crime, which includes preventing the proceeds of criminal activities being laundered and terrorist financing, is demanding and important work. Ensuring that the industry is not misused for illegal activities through our services and products is part of the financial services industry's social mission. SR-Bank has an extensive framework of guidelines intended to prevent us being used for money laundering, tax evasion or terrorist financing. The framework is there to ensure that we comply with the statutory requirements in various processes through guidelines, customer measures, electronic monitoring, sanctions regulations, and procedures for internal control. We have committed to complying with the framework and guidelines in the Wolfsberg principles for combatting financial crime. The Wolfsberg principles establish requirements for, for example, transparency in customer transactions and how information on these is monitored and managed in line with the authorities' requirements.

SR-Bank produces an internal and business-specific risk assessment for money laundering and terrorist financing every year, along with the associated risk mitigation measures. In 2018, we significantly strengthened our efforts within the area of combating money laundering and terrorist financing, from one and a half FTEs to five FTEs. The group has produced a detailed training plan to ensure that all employees can perform their duties with up-to-date and relevant knowledge. In 2018, the internal audit reviewed the work against financial crime and suggested improvements were followed up.

In 2019, we will:

- Improve our routines for conducting annual risk analyses
- Revise the anti-money laundering (AML) framework based on the new act
- Ensure relevant training is provided to all employees with respect to AML

Ethics and anti-corruption

Corruption puts long-term value creation at risk and creates distrust in society's systems. It can lead to court cases and fines, or other sanctions, as well as the loss of market access, assets, and the right to operate banking operations. There are many different forms of corruption and our code of conduct is intended to contribute to, among other things, fighting corruption, extortion, bribery, whitewashing, fraud, terrorist financing, and the financing of other criminal activities. The

code of conduct is intended to make people aware of the potential dilemmas and ensure that all of our employees maintain high ethical standards.

The group has its own ethics committee, which regularly assesses whether the code of conduct satisfies the requirements and expectations of customers, suppliers and society as a whole. The ethics committee includes representatives of several business areas: the EVP, Communications and Sustainability, the EVP, HR and Business Support, legal, corporate market, retail market, compliance and AML, organisation and HR, credit activities, and union representatives from the Finance Sector Union of Norway. The committee met twice in 2018.

All employees must sign the code of conduct every year. Annual refreshers on ethics are also provided via the authorisation scheme for financial advisers and the approval scheme for salespersons and advisers in non-life insurance.

In SpareBank 1 SR-Bank:

1. all employees have a duty of confidentiality
2. all employees must keep their private finances in order
3. employees must under no circumstances use their position to achieve personal benefits or act in a manner that could harm the group's reputation
4. all employees must actively work to ensure a good working environment with mutual trust and respect
5. no employees may trade in real estate on their own account in violation of the group's guidelines
6. no employees may trade in securities on their own account in violation of the group's guidelines
7. all employees must be familiar, and comply, with the group's guidelines for information technology
8. all employees must act with caution in relation to their impartiality
9. no employees may run private businesses or participate in commercial boards of directors of any kind without the group having been informed in writing and approval having been given
10. special guidelines have been produced for whistleblowing and the EVP, Communication and Sustainability bears overall responsibility for all communication with the media
11. failure to comply with the group's code of conduct may have consequences for an employee's employment relationship

The anti-corruption work includes ensuring new employees read and sign the code of conduct. This is also included as a topic in Ethics Week. We completed an anti-corruption training module for SR-Bank's managers in 2016 and new training is planned for 2019, as part of the bank's three-year skills-cycle. The group will also base its compliance control work on the ISO 37001 standard for anti-corruption. The control model complies with the ISO standard and the group prepares routines and control actions for the work. We review specific transactions and activities, planned and existing business connections, and various categories and groups of

employees. The assessments take a risk-based approach and the inspections include financial and non-financial control actions. Reporting lines have been established and any measures are followed up in line with existing routines.

Whistleblowing routines have been established for anonymous, written and verbal reports.

The routines specify:

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

The bank has established an external whistleblowing agreement with the law firm EY. The information will be treated confidentially by dedicated case offices in EY.

Theme	No. of	Stake
Board members of SR-Bank ASA that have been aware of the guidelines for ethics, including anti-corruption	8	100%
Board members of SR-Bank ASA that have received training in anti-corruption	0	0%
Full-time employees who have signed the code of conduct (excl. Regnskapshuset)	1,125	95.5%
Full-time employees who completed anti-corruption training between 2016 and 2018	203	17.2%
Corruption related incidents*	0	Not relevant

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

Board members do not take a separate anti-corruption training programme, but are directly involved in the work on formulating and quality assuring the group's code of conduct each year, which also deals with anti-corruption. Only managers and some key roles take a special anti-corruption training programme and that is why 17.2% of full-time employees have completed the expanded programme. In addition to this, special activities are carried out in connection with anti-corruption training and raising awareness of the issue, including Ethics Week with its dilemma training, the induction programme for new employees, and the annual signing of the code of conduct.

Protecting personal data, information security and product labelling

SR-Bank processes a large amount of personal data. The management of personal data is regulated by law and one of the most important duties we have is to protect the data exchanged between customers and the bank in our systems. The biggest concerns are system errors, access to data, and the online bank. SR-Bank has a policy and standard for personal data protection, as well as a number of guidelines and routines under these. The area of personal data protection is an annual cycle with risk-based internal controls, regular testing of the systems, and annual reviews of the systems with risk assessments.

The introduction of GDPR was one of the focus areas in 2018. SR-Bank's internal audit conducted an inspection of this work and no material deficiencies were identified. SpareBank 1 SR-Bank has its own data protection officer.

In 2018, SR-Bank registered three complaints related to breaches of personal data protection and two security breaches. We reported one of the breaches to the Norwegian Data Protection Authority, although the supervisory authority did not criticise the group. SR-Bank registered no breaches of rules concerning the labelling or marketing of financial products and services.

Environment

As a responsible financial group, we take a proactive approach to environmental and climate challenges. We are constantly striving to be a resource-saving and environmentally-efficient organisation by setting requirements for our own organisation, suppliers, and partners. We are working to become a climate-neutral group and continually seeking to reduce the environmental impact of our operations. We use, develop and invest in technology in order to reduce our environmental impact. We also want to enable employees to reduce their environmental impact and make environmentally-friendly choices. Improving skills in this area could help to ensure that employees become more aware of their impact on the climate and environment, both through their personal actions and through their work in the bank.

In 2018, we registered energy and climate accounts based on the international "Corporate Accounting and Reporting Standard" for the first time. This standard was developed by the Greenhouse Gas Protocol Initiative – the GHG Protocol. The climate accounts show tonnes of CO₂ that are direct and indirect emissions related to the group. These are greenhouse gas emissions that come from consumption due to, for example, travel, waste management, and energy use. Based on the climate accounts, the group can identify which sources impact the external environment and implement concrete measures to minimise them. Given that this is the first year we have kept records based on the GHG Protocol, it will not be possible to see the development from previous years.

Key figures greenhouse gas emissions

Category	Unit	2018
Scope 1		
Transport		
Diesel (NO)	tCO2e	37.8
Petrol	tCO2e	24.7
Transport total	tCO2e	62.5
Scope 1 total	tCO2e	62.5
Scope 2		
Electric cars		
Electric car Nordic	tCO2e	0.2
Electric cars total	tCO2e	0.2
Electricity*		
Electricity Nordic mix	tCO2e	291.7
Electricity* total	tCO2e	291.7
Scope 2 total	tCO2e	291.9
Scope 3		
Air travel		
Air travel	tCO2e	548.8
Air travel total	tCO2e	548.8
Waste		
Glass, recovery	tCO2e	0.1
Hazardous waste, recovery	tCO2e	0
Organic, recovery	tCO2e	0.2
Paper, recovery	tCO2e	0.8
Paper, recovery	tCO2e	0
Residual waste, incineration	tCO2e	16.3
WEEE, recovery	tCO2e	0
Waste total	tCO2e	17.5
Scope 3 total	tCO2e	566.3
Total	tCO2e	920.7
* Alternative calculation for emissions from electricity (market-based method)		
	tCO2e	1,873.4

Key performance indicators (KPIs)

Name	2018
tCO2e by turnover	0.2
tCO2e per FTE	0.7
kgCO2e per m2	20.4
No. of MWh per m2	0.1

Key information

Name	Explanation	Unit	2018
Gross turnover	Gross turnover	NOK millions	5,450
No. of FTEs	No. of FTEs	No. of	1,251
No. m2 heated floor space	No. m2 heated floor space	m2	45,200

Responsible purchasing

80% of our purchases are made through the SpareBank 1 Alliance, the remaining 20% are made by SR-bank. The largest purchasing categories are marketing, IT systems, property operation, external consultants, and contracted personnel. In total, we spend around NOK 1 billion on goods and services. All of the purchases made are covered by SR-Bank's purchasing policy. This specifies that purchases must be as sustainable as possible, and bidders must submit information about their sustainability and corporate social responsibility as part of their tender. Sustainability is one of the five evaluation criteria for the awarding of contracts.

In 2019, new responsible purchasing guidelines will be prepared that include a clear requirement for mandatory compliance with laws and rules concerning human rights, working conditions, the environment, and decent operations. Maintaining a dialogue with suppliers and monitoring them will help to ensure that our suppliers and partners are conscious of the importance of sustainability.

RESPONSIBLE FINANCE

In general, the group can have the biggest impact within responsible investments and loans/credit by using its influence to set requirements and steer capital in a sustainable direction. Therefore, one important focus area for SR-Bank is responsible finance and ESG factors. In 2019, we will emphasise improving routines and guidelines, at the same time as we work to raise the awareness of employees and customers.

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

Responsible credit

Credit is the bank's core business area and corporate customers constitute an important part of this. Our credit strategy stresses that corporate customers must have a long-term perspective and their companies must be comply with applicable laws and regulations, which include environmental considerations and human rights. Our corporate market portfolio is well-diversified with an emphasis on commercial property, oil and gas, agriculture, and traditional industry.

As a bank, we primarily finance small and medium-sized Norwegian enterprises. We aim to be a positive contributor and sparring partner in order to improve companies' awareness and practices related to sustainability. Overarching guidelines specifying sustainability were adopted for the corporate market in 2018. The guidelines require sustainability to be assessed as part of our credit processes and the purpose of the guidelines is to provide corporate advisers with a framework for assessing a company in relation to sustainability and ensuring that we carry out an assessment of the extent to which a customer's business model is sustainable.

In 2019, SR-Bank will develop and implement further guidelines for granting credit that take account of global climate challenges. According to the guidelines, the group should not give loans to organisations that extract, or produce power based on, coal or nuclear power.

All employees who are in contact with our corporate customers must be familiar with our sustainability guidelines for credit and review them annually. They provide guidance on the type of customers we want, what we expect of our customers, and what we lend money for.

Responsible asset management

Asset management is performed directly through the group's own investment activities and indirectly through SR-Forvaltning. Every company in which we invest in connection with asset management is checked to see whether they are involved in tobacco production, nuclear weapons, or serious environmental destruction, based on guidelines for observation and exclusion issued by the Norwegian Government Pension Fund Global. Before now, environmental and social factors have not been discussed with the companies in the investment portfolio as part of the ownership dialogue, but in the future we will prepare guidelines for responsible ownership in relation to our own investments.

SR-Forvaltning has produced guidelines for responsible investments that will be incorporated into the company's investment strategy. The guidelines are based on, among other things, the internationally recognised principles in the UN Global Compact (UNGC) and the OECD's guidelines for multinational companies. In 2019, we will develop a procedure for incorporating ESG into all investment processes in SR-Forvaltning. SR-Forvaltning is a member of the Norwegian Sustainable Investment Forum (Norsif). SR-Forvaltning will work to ensure it is eligible to sign up to the UN Principles for Responsible Investment (PRO) in 2019.

Highlighting and refining the company's management of ESG risk will be a priority area in 2019.

The UN PRI are the UN's six principles for how investors can manage capital sustainably. More than 1,750 investment firms from more than 50 countries have committed to complying with the principles.

In 2019, we will prioritise the following activities within responsible asset management:

- Establishing criteria for responsible credit and updating the group's guidelines for responsible credit, as well as having good, clear information about how the company manages ESG together with other sustainability-related documentation
- Developing objectives and guidelines for active ownership in SR-Bank
- Ensuring existing investments are followed up in line with the new guidelines that will be prepared in 2019 and that new investments are assessed on the basis of these
- Establishing a special sustainability committee tasked with handling more demanding assessments relating to sustainability
- Assessing the purchase of ESG databases that provide information about the challenges companies and sectors face within sustainability and corporate social responsibility
- Reviewing the requirements stipulated within environmental, social and corporate governance for external managers and in the liquidity portfolio

Green products and green innovation

SR-Bank expects the demand from customers and investors for green products to grow in the coming years.

Green products are defined as savings and credit agreements that contain conditions concerning whether the investment object is sustainable in a climate and environmental sense.

In 2018, the group's corporate market established favourable credit conditions for renewable investments and a process has started in SR-Forvaltning in which the ESG aspects of savings products will be developed. SR-Bank offers retail customers green car loans aimed at electric cars and we offer a car app for smart car insurance that is intended to encourage greener driving behaviour through Fremtind.

What	Sum total product	Green products as a % of total product portfolio
Green car loans	66,478,358	3.72%
Green car insurance	42,578,485	6.0%

In 2019, we will work on developing green products for both the retail market and the corporate market.

Climate risk

Climate change represents a risk that the board and group executive management team have to manage. It is highly probable that financing, insurance and investments will be impacted by changes in the climate and climate policy. The group is closely monitoring political developments and will stay up-to-date at all times with regards to the basis on which political decisions are made. For example, in 2019, the Financial Supervisory Authority of Norway will assess how financial institutions should manage climate risk and SR-Bank will monitor this work. To be a responsible market player, SpareBank 1 SR-Bank must identify and follow up risks that could affect various customers and business areas. The bank complies with the recommendations of the Task-Force for Climate related Financial Disclosures (TCFD) when it comes to reporting on climate risk.

Our approach to climate risk:

The board and group executive management team

Climate risk was not explicitly reported to the board in 2018, but individual cases involving climate-related factors were discussed several times. The group executive management team discusses climate risk in individual customer cases and increasing management's follow-up within insurance, credit and asset management will be considered in 2019. More structured follow-up by the board will also be considered during 2019. This would be based on the recommendations of the G20 initiative, the Task Force on Climate-related Financial Disclosures (TCFD).

Strategy

SR-Bank's loan portfolio consists of around 60% retail customers with home mortgages and 40% corporate customers. Loans to the agriculture and offshore/oil/gas sectors account for 3% and 6%, respectively. These sectors face challenges due to both climate change and restructuring. Risk and climate exposure is currently assessed in individual cases within agriculture, but no concrete measures are carried out with respect to the oil industry. A climate strategy will be drawn up in 2019 and introducing more structured estimates of climate exposure in the group's portfolio will be considered in 2019. The risks and opportunities associated with each business area will also be analysed in the near future.

Risk management and measurement

In 2019, climate-related factors will be included in risk management processes, both for the organisation as a whole and for the individual business areas. Management indicators will be established once the climate risks have been analysed in 2019.

Social development through value creation

SR-Bank is interested in innovation and creating more knowledge-based jobs, and Gründerhub (Entrepreneur Hub) is one of our initiatives aimed at creating the jobs of the future. The first hub saw the light of day in autumn 2015 when the oil crisis hit Stavanger's business sector hard. Since then, hubs have been established in Bergen and Kristiansand in collaboration with capable partners. Since autumn 2015, we have helped to educate more than 250 entrepreneurs. This has created 280 new jobs through 125 companies. In 2018, the combined turnover of these companies was NOK 80 million. Through Sparebankstiftelsen SR-Bank, we distribute a total of NOK 700,000 in prizes to entrepreneurs in order to encourage entrepreneurship.

Support for non-profit causes

As part of our activities, we support measures that support good living conditions. In 2018, the group contributed NOK 15 million in the form of grants and sponsorship agreements to various organisations, clubs and associations. SpareBank 1 SR-Bank's largest shareholder is Sparebankstiftelsen SR-Bank with its stake of 28.3%. Sparebankstiftelsen SR-Bank keeps the savings bank traditions alive. The foundation can distribute profits, which it receives in the form of dividends from SpareBank 1 SR-Bank, as donations to non-profit causes. This is to be done in line with the foundation's vision of "Creating Values Together" as well as the foundation's values of "Together we are to create, enrich and develop healthy communities". This reinforces the bank's local presence and local engagement. In 2018, NOK 73 million was distributed to 518 recipients in Rogaland, Hordaland and the Agder counties. In 2018, we joined forces with Sparebankstiftelsen SR-Bank and established a foundation, G9alt Talentutvikling. The foundation will distribute up to NOK 5 million to talented young people in Rogaland, Hordaland and the Agder counties. G9alt Talentutvikling distributed NOK 1 million in 2018.



SR-Bank needs to build up a profile dominated by future-oriented technology and sustainable operations. This does not mean we will leave existing customers and companies in the lurch, rather that the bank will help them to change.

Quote from stakeholder dialogue

Group executive management



Arne Austreid

CHIEF EXECUTIVE OFFICER

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

No. of shares in SpareBank 1 SR-Bank ASA*: 100,006



Inge Reinertsen

CHIEF FINANCIAL OFFICER

Inge Reinertsen (1971) became CFO in February 2010. Reinertsen has an MBA from the Norwegian School of Economics in Bergen. He has experience from various management positions in the SpareBank 1 SR-Bank Group and has worked for the group since 2001. He is the chair of the board of SR-Boligkreditt AS, Bjergsted Terrasse 1 AS and SR-Forvaltning AS, and a board member of SpareBank 1 Næringskreditt, Monner Group AS, SpareBank 1 Pensjonskasse, FinStart Nordic AS and SpareBank 1 Markets AS

No. of shares in SpareBank 1 SR-Bank ASA*: 83,529



Ella Skjørestad

EXECUTIVE VICE PRESIDENT, CUSTOMER SERVICES AND MARKETING

Skjørestad (1980) took up her post as EVP, Customer Services and Marketing in February 2018. She holds a master's degree in Comparative Politics from the University of Bergen (1999-2005). She has previously worked for Storebrand within non-life insurance and as head of digital sales at Storebrand Direkte. She joined SpareBank 1 SR-Bank in June 2010 as Head of Marketing in the retail market. Since then she has held positions such as Marketing Director and Director of Customer Services RM. She is a board member of BN Bank and SpareBank 1 Regnskapshuset SR AS.

No. of shares in SpareBank 1 SR-Bank ASA*: 3,937



Frode Bø

EXECUTIVE VICE PRESIDENT, RISK MANAGEMENT

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

No. of shares in SpareBank 1 SR-Bank ASA*: 17,242



Gro Tveit

EXECUTIVE VICE PRESIDENT, HUMAN RESOURCES AND BUSINESS SUPPORT

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

No. of shares in SpareBank 1 SR-Bank ASA*: 20,029



Signe Helliesen

EXECUTIVE VICE PRESIDENT, COMPLIANCE AND AML

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

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



Glenn Sæther

EXECUTIVE VICE PRESIDENT, STRATEGY, INNOVATION AND DEVELOPMENT

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

No. of shares in SpareBank 1 SR-Bank ASA*: 22,861



Jan Friestad

EXECUTIVE VICE PRESIDENT, RETAIL MARKET

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

No. of shares in SpareBank 1 SR-Bank ASA*: 40,814



Tore Medhus

EXECUTIVE VICE PRESIDENT, CORPORATE MARKET

Medhus (1965) became EVP, Corporate Market in September 2000. He holds a Master of Business and Marketing from Oslo Business School/BI. He has previous experience from Elcon Finans, Forende Credit Finans and Telenor. Medhus has worked for SpareBank 1 SR-Bank since 1994. He is the chair of the board of SpareBank 1 Regnskapshuset SR AS, deputy chair of BN Bank ASA, and a board member of Conecto AS, FinStart Nordic AS and SpareBank 1 Factoring AS.

No. of shares in SpareBank 1 SR-Bank ASA*: 49,147



Thor-Christian Haugland

EXECUTIVE VICE PRESIDENT, COMMUNICATIONS AND SUSTAINABILITY

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

No. of shares in SpareBank 1 SR-Bank ASA*: 20,707

The board of directors



Dag Mejdell

CHAIR OF THE BOARD

Dag Mejdell (1957) has extensive experience from various management positions in business, most recently as the CEO of Posten Norge AS from 2006 to 2016. From 2000 to 2005 he was the CEO of Dyno Nobel ASA and before that he worked for Dyno ASA for 19 years, the last three of which were as the CEO. Mejdell has an MBA from the Norwegian School of Economics in Bergen. He is the chair of the boards of Norsk Hydro ASA, NSB AS, Visolite Finco AS, deputy chair of SAS AB and chair of the board in International Post Corporation CV. He has been the chair of the board of SpareBank 1 SR-Bank ASA since 9 June 2016.

No. of board meetings in 2018: 19 out of 19

No. of shares in SpareBank 1 SR-Bank ASA*: 25,000



Birthe Cecilie Lepsøe

BOARD MEMBER

Birthe Cecilie Lepsøe (1971) is a partner in Vest Corporate Advisors. She was previously the finance manager in Grieg Shipping Group, Bergen, and also has many years of experience from DNB's shipping division. Lepsøe has an MBA from BI Norwegian Business School, and has also participated in NHH authenticated financial analyst study. She is the deputy chair of the board of Askøy Kommunale Eiendomsselskap AS, and a board member of Smedvig Eiendom AS, Smedvig Capital AS, Smedvig AS, Inventura Group AS and Belships ASA. She has been a board member of SpareBank 1 SR-Bank ASA since June 2008.

No. of board meetings in 2018: 19 out of 19

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



Kate Henriksen

BOARD MEMBER

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

No. of board meetings in 2018: 19 out of 19

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



Tor Dahle

BOARD MEMBER

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

No. of board meetings in 2018: 16 out of 19

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



Therese Log Bergjord

BOARD MEMBER

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

No. of board meetings in 2018: 14 out of 19
No. of shares in SpareBank 1 SR-Bank ASA*: 0



Jan Skogseth

BOARD MEMBER

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

No. of board meetings in 2018: 15 out of 19
No. of shares in SpareBank 1 SR-Bank ASA*: 6,100



Kristian Kristensen

EMPLOYEE REPRESENTATIVE BOARD MEMBER

Kristian Kristensen (1982) is the deputy chair of the Finance Sector Union of Norway SpareBank 1 SR-Bank. He holds a Bachelor in Market Communication from BI Norwegian Business School. He sits on the board of the Finance Sector Union of Norway, Rogaland division. He has been a board member of SpareBank 1 SR-Bank ASA since 9 June 2016.

No. of board meetings in 2018: 19 out of 19
No. of shares in SpareBank 1 SR-Bank ASA*: 3,020



Sally Lund-Andersen

EMPLOYEE REPRESENTATIVE BOARD MEMBER

Sally Lund-Andersen (1961) is the head group employee representative at SpareBank 1 SR-Bank ASA. She is the chair of the board of the Finance Sector Union of Norway, Rogaland division. Deputy member of the board in Banksamarbeidet DA. She has been a board member of SpareBank 1 SR-Bank ASA since 1 January 2012.

No. of board meetings in 2018: 18 out of 19
No. of shares in SpareBank 1 SR-Bank ASA*: 1,414



Corporate governance

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

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

There are no significant deviations between the Code of Practice and SpareBank 1 SR-Bank's compliance with it. One deviation is described below under section 14.

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

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

SpareBank 1 SR-Bank particularly focuses on:

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

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

Level 1: Corporate governance principles

Level 2: Policies/strategies

Level 3: Standards/overarching guidelines

Level 4: Instructions/procedures

Level 1: Corporate governance principles

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

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

- Strategic and financial goals, objectives and values, see page 8 of the annual report for more details
- The management model, see page 34 of the annual report
- Instructions for the board of directors and group executive management team, available on www.sr-bank.no
- Code of conduct, described in more detail below
- Principles for sustainability, described in more detail below
- The company's articles of association, available on www.sr-bank.no
- Frameworks and authorities

Code of conduct

SpareBank 1 SR-Bank must have high ethical standards. The group's ethical guidelines describe what is expected of anyone who represents SpareBank 1 SR-Bank. The guidelines regulate how employees of SpareBank 1 SR-Bank are expected to conduct themselves in relation to customers, suppliers, competitors, and everyone else. The code of conduct states that employees of the group shall show respect and consideration, and that all communication shall be open,

honest and clear and in accordance with the norms, statutes and rules that apply in society when employees are identified as representing the organisation.

SpareBank 1 SR-bank's code of conduct deals with, among other things, impartiality and relationships with customers, suppliers and competitors, as well as relevant personal financial issues. No form of discrimination or harassment is accepted. SpareBank 1 SR Bank's customer service must be known for its high level of integrity, availability and transparency, and must comply with good business practices. SpareBank 1 SR-Bank wants to be a responsible company that treats all suppliers and competitors with respect, and competes fairly and in accordance with the competition regulations. SpareBank 1 SR-Bank does not accept any form of corruption or misuse of inside information.

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

Whistleblowing

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

Sustainability:

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

Level 2: Policies/overarching guidelines

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

All governing documents at this level must be approved by the board. The documents specify key overarching principles

for a business area or specialist area, and are formulated with a scope and format that are designed for a broad group of recipients in the group.

Level 3: Standards/guidelines

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

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

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

Level 4: Instructions and procedures

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

Deviations from the Code of Practice: None

2. BUSINESS

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

Deviations from the Code of Practice: None

3. EQUITY AND DIVIDENDS

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

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

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

Dividend

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

Share buyback

At its meeting on 19 April 2018, the general meeting authorised the board to acquire and register liens on the bank's own shares for up to 10% of the bank's share capital. The shares must be acquired in the securities market via the Oslo Stock Exchange. Each share can be purchased at a price of between NOK 1 and NOK 150. The authorisation is valid for 12 months from the date it is adopted by the general meeting.

Capital increases

The board is not currently authorised to increase capital in SpareBank 1 SR-Bank.

Deviations from the Code of Practice: None

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

SpareBank 1 SR-Bank has one class of share. All shares have equal voting rights. In the event of an increase in share capital, existing shareholders have pre-emptive rights, unless special circumstances dictate that these rights can be waived. The background for such a waiver would then have to be explained. In cases where the board asks the general meeting to authorise a share buyback, any buyback must be carried out in the market at market prices.

Largest shareholder

Sparebankstiftelsen SR-Bank is SpareBank 1 SR-Bank's largest shareholder with a stake of 28.3%. The foundation was established on 1 January 2012 when SpareBank 1 SR-Bank was converted into a public limited company. Pursuant to the foundation's articles of association, its purpose is to manage the shares that were transferred to the foundation upon its establishment and to exercise and maintain a significant long-term and stable stake in SpareBank 1 SR-Bank. The ownership interest must represent at least 25% of the outstanding shares of SpareBank 1 SR-Bank.

Transactions with close associates

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

SpareBank 1 SR-Bank Group in which the board member is an owner, board member, or executive employee.

Deviations from the Code of Practice: None

5. SHARES AND NEGOTIABILITY

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

Deviations from the Code of Practice: None

6. GENERAL MEETINGS

General meeting:

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

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

Voting procedures allow for separate votes for each candidate to the various bodies. It is possible for shareholders to issue a proxy to others. A person is also appointed to act as a proxy who can vote for shareholders. To the extent possible, the proxy form is designed in such a way that it allows for voting on each agenda item and for each candidate standing for election.

Deviations from the Code of Practice: None

7. NOMINATION COMMITTEE

The nomination committee comprises up to five members that are elected by the general meeting for a period of two years. Sparebankstiftelsen SR-Bank must also be represented on the nomination committee. The nomination committee provides detailed recommendations to the general meeting concerning the election of the chair and members of the board and the chair and members of the nomination committee. The recommendation should provide pertinent information about the candidates' background and independence. The nomination committee also proposes the remuneration for members of the bodies mentioned above. The general meeting determines the nomination committees' remuneration. An overview of the nomination committee's

members and how to submit contributions to the nomination committee can be found on the company's website.

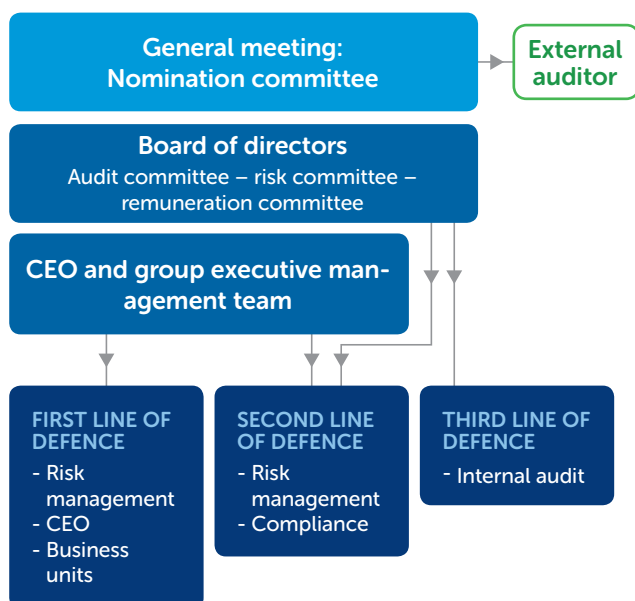
Deviations from the Code of Practice: None

8. BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

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

As at 31 December 2018, the board had eight members, including two employee representatives. Three of the board's shareholder-elected members were women, as was one employee representative. All board members are independent of the bank's executive management team and important business connections. The individual board members' backgrounds are described in the presentation of the board in the annual report and on the company's website. The presentation of the board also details the board members' participation in board meetings in 2018. Board members are encouraged to own shares in the company. The presentation of the board includes the number of shares in SpareBank 1 SR-Bank ASA owned by the board members and close associates as at 31 December 2018.

Governing bodies in SpareBank 1 SR-Bank



Deviations from the Code of Practice: None

9. THE WORK OF THE BOARD OF DIRECTORS

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

In 2018, 19 board meetings were held, of which 11 were physical all-day meetings and eight telephone conferences, typically involving discussions of credit issues. In addition to this, the board arranged a workshop to obtain external input on the board's strategy work.

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

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

Audit committee

The audit committee consists of three members who normally meet six times a year. The composition of the committee satisfies the Code of Practice's independence and competence requirements. The audit committee must ensure that the group has an independent and effective external auditor and satisfactory financial reporting in accordance with the law and regulations. The audit committee held six meetings in 2018.

Risk committee

The risk committee consists of four members who normally meet six times a year. The committee is tasked with ensuring that the group's risk and capital management underpins the group's strategic development and goal attainment, while ensuring financial stability and prudent asset management. The risk committee held five meetings in 2018.

Remuneration committee

The remuneration committee consists of three members who normally meet five times a year. One of the members must be the employee-elected board member. The committee is tasked with doing the preparatory work for the annual review of the group's remuneration packages and the chief executive's contract and terms by the whole board. The remuneration committee held five meetings in 2018.

Deviations from the Code of Practice: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

The framework is described in more detail in note 6 to the financial statements, as well as in SpareBank 1 SR-Bank's Pillar III document, which is available on the bank's website. SpareBank 1 SR-Bank focuses on independence in management and control, and this responsibility is divided between the different roles in the organisation. The board sets the group's risk profile, the overall limits, authorities and guidelines for risk management, and ensures that the group has a satisfactory capital base based on the risk borne by the group and regulatory requirements. The board has adopted a code of conduct that contributes to raising awareness and compliance with the ethical standards set for the group.

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

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

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

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

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

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

Third line of defence (independent confirmation)

The internal audit monitors that the risk management processes are targeted, effective and function as intended. The group's internal audit function has been outsourced, and this ensures that the function has the required independence, competence and capacity. The internal audit function reports to the board. The internal audit function's reports and recommendations for risk management improvements are reviewed and implemented on an ongoing basis in the group.

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

Deviations from the Code of Practice: None.

11. REMUNERATION OF THE BOARD OF DIRECTORS

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

Deviations from the Code of Practice: None

12. REMUNERATION OF EXECUTIVE PERSONNEL

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

The group's remuneration scheme shall be consistent with the group's overarching objectives, risk tolerance and long-term interests and shall help to promote and provide incentives for good management and control of the group's risk, discourage excessive or unwanted risk taking, and help to avoid conflicts of interest, and shall comply with the Financial Undertakings Regulation of 9 December 2016. The total remuneration shall be competitive, but the group shall not be a wage leader. It shall ensure that the group attracts, develops and retains

competent employees over time. The scheme will ensure a reward model that is perceived to be fair, predictable and future-oriented and motivating. Fixed salaries shall make up the main element of the total remuneration, which shall also consist of variable pay, pensions and benefits in kind.

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

Deviations from the Code of Practice: None

13. INFORMATION AND COMMUNICATIONS

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

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

Deviations from the Code of Practice: None

14. TAKE-OVERS

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

Deviations from the Code of Practice:

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

15. AUDITOR

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

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

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

Deviations from the Code of Practice: None

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

The report complies with the requirements of the act.

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



Report of the Board of Directors

The SpareBank 1 SR-Bank Group achieved a pre-tax profit of NOK 2,892 million in 2018. The net profit for the year was NOK 2,296 million, an increase of NOK 210 million from NOK 2,086 million for 2017. The return on equity after tax was 11.3%, compared with 11.0% in 2017. The board of directors is very satisfied with the result for 2018.

Solid efforts by employees, good credit work and good relationships with customers were important drivers behind a good result. The market position as one of Southern Norway's leading financial groups and the country's second largest Norwegian-owned bank was further strengthened by a net increase of 21,000 new retail customers over the age of 13 and 1,050 new corporate customers, establishing a branch in Oslo, and value creation for the group's owners in the form of dividends and rises in the price of the share.

Lending, including loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, rose by 7.6% in 2018. Deposits from customers grew by 3.6% in 2018. The deposit coverage ratio, measured as deposits as a percentage of total loans, was 51.4% at year end 2018, compared with 55.3% in 2017.

Net interest income rose to NOK 3,439 million in 2018, compared with NOK 3,162 million in 2017. Net interest income as a percentage of average total assets increased to 1.54% in 2018, from 1.52% in 2017. The increase was mainly due to a higher lending volume.

Net commissions and other operating income totalled NOK 1,437 million in 2018, down from NOK 1,524 million in 2017. The reduction was largely attributable to a NOK 61 million decrease in commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS in 2018. The net return on financial investments amounted to NOK 569 million in 2018, compared with NOK 634 million in 2017. Income from ownership interests decreased by NOK 59 million in 2018.

The group's operating costs for the year amounted to NOK 2,229 million in 2018, compared with NOK 2,167 million in 2017, an increase of NOK 62 million (2.9%) since 2017. Personnel costs rose by NOK 34 million (2.7%) to NOK 1,297 million. The increase can largely be attributed to ordinary wage growth, while increased pension costs of NOK 10 million were offset by bonus provisions, which were reduced by NOK 8 million.

Other operating costs rose by NOK 28 million (3.1%) to NOK 932 million. The cost/income ratio, measured as

operating costs as a percentage of operating income, was reduced from 40.7% in 2017 to 40.9% in 2018.

The group's net impairments on loans and liabilities amounted to NOK 324 million compared with NOK 543 million in 2017. The reduction reflects the optimism registered in the group's market area in 2018. Closely monitoring customers and preventive work remain important tools for maintaining a good risk profile in the group's loan portfolio in order to reduce future losses.

The allocation of the year's profit is based on the parent bank's distributable profit of NOK 2,101 million for 2018. The board proposes that NOK 1,151 million be paid out as dividends, corresponding to NOK 4.50 per share, while NOK 950 million be allocated to other equity and enhancing the group's financial strength.

The common equity tier 1 capital ratio decreased from 15.1% at the start of the year to 14.7% at year end 2018. The tier 1 capital ratio (including hybrid tier 1 capital) marginally decreased in the same period to 15.9% from 16.0% in 2017. At year end 2018, SpareBank 1 SR-Bank is in a sound financial position and the group has a good starting point for further developing its good position in Southern Norway. The board has set a target for the common equity tier 1 capital ratio of 14.6%, which will apply from the first quarter of 2019. This includes a 0.9-percentage point management buffer.

Nature of the business

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

The most important subsidiaries are:

EiendomsMegler 1 SR-Eiendom AS, SR-Forvaltning AS, SR-Boligkreditt AS, SpareBank 1 Regnskapshuset SR AS and FinStart Nordic AS.

SpareBank 1 SR-Bank's head office is in Stavanger and it has 36 branches in the counties of Rogaland, Hordaland, Vest-Agder, Aust-Agder and Oslo. The group's primary activities are selling and procuring a wide range of financial products and services, investments services, leasing, estate agency and accounting services.

Group's performance

SpareBank 1 SR-Bank recorded good progress in all of the group's business areas in 2018. The bank's position as the market leader in Rogaland was strengthened in both the retail market and the corporate market, and at the same time the group strengthened its positions in Hordaland and the Agder counties. SpareBank 1 SR-Bank has also rapidly become a challenger for established financial groups in Oslo. The capital market division has established itself as South-western Norway's leading expert environment in its field. The group's position in the estate agency market has helped EiendomsMegler 1 become the largest chain of estate agents in Norway. EiendomsMegler 1 SR-Eiendom AS is the market leader in Rogaland and Vest Agder, and strengthened its position in Hordaland and Aust Agder in 2018.

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

The competition for customers in the banking market remained strong in 2018. The group saw a rise in demand for loans from retail and corporate customers during the course of 2018. Margins on loans to retail customers were reduced in 2018 due to higher money market rates, while repricing parts of the home mortgage portfolio in November 2018 had a positive effect. Margins on loans to corporate customers remained stable throughout 2018. Deposit margins increased during the year in both the retail market and the corporate market due to rising market interest rates. Deposits grew by 3.6% in 2018. Overall, earnings from net interest income were better in 2018 than the year before.

The equity markets developed sideways throughout 2018 and the Oslo Stock Exchange's main index ended 1.8% lower. Capital gains from securities totalled NOK 65 million for the full year. This was due to a combination of capital losses of NOK 249 million in the interest portfolio, which were counteracted by positive effects totalling NOK 151 million from hedging instruments, as well as capital gains of NOK 163 million from the portfolio of shares and equity certificates.

Impairments on loans and liabilities totalled NOK 324 million in 2018, compared with NOK 543 million in 2017. This resulted in impairments as a percentage of gross loans, including loans sold to the mortgage companies, amounting to 0.17%. The impairments on loans in 2018 largely involved individual commitments within oil-related activities. The board regards the quality of the loan portfolio and risk management as good.

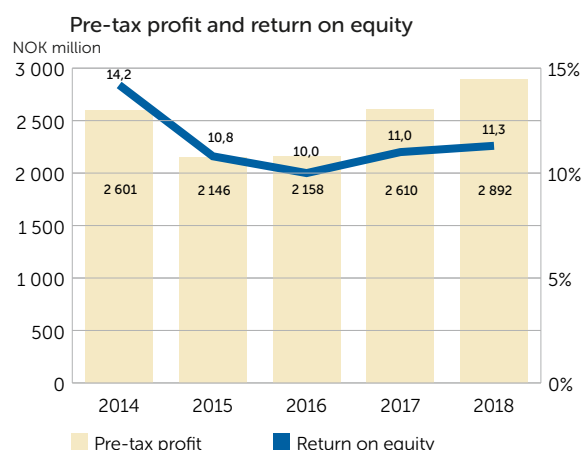
Developments in the group's market areas

Households' optimism about the development of the Norwegian economy improved in 2018. Mainland Norway's gross domestic product (GDP) is expected to grow by around 2.7% in 2019, an increase from 2.3% in 2018. Higher oil prices and an increase in oil investments of around 2% in 2018 have

resulted in rising optimism and expectations of greater activity in the Norwegian oil industry going forward.

Demographic development trends are very important for the group's framework conditions. For a long time now, the group's primary area has seen high migration and population growth. The percentage of people with a disability is also significantly lower than the national average. The population is relatively young in and around the regional centres, and along the coast of Southern and Western Norway. The trends in population growth have changed in recent years. Rogaland and Hordaland have in the past year seen population growth lower than the national average, while the Agder counties have seen growth slightly above the national average. Statistics Norway's population growth forecasts indicate that growth in Rogaland and Hordaland will remain above the national average in the longer term.

According to the Norwegian Labour and Welfare Administration (NAV) the unemployment rate in Norway was 2.3% at the end of December 2018. In Rogaland the unemployment rate was 2.5%, in Hordaland it was 2.6%, and in both Vest-Agder and Aust-Agder it was 2.3%.

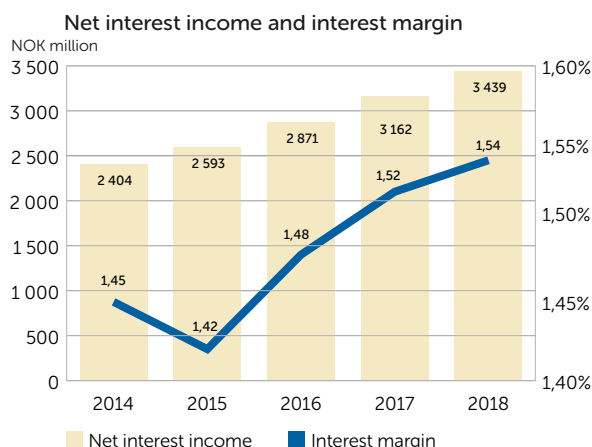


FINANCIAL PERFORMANCE

Net interest income

The group's net interest income amounted to NOK 3,439 million in 2018 (NOK 3,162 million). Net interest income must be seen in the context of the commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. Commissions from these companies amounted to NOK 88 million in 2018 (NOK 149 million). The combined total of net interest income and commissions increased by NOK 216 million compared with 2017. The increase was mainly due to a higher lending volume. The average interest margin rose to 1.54% in 2018, compared with 1.52% in 2017.

(Figures in brackets are linked to figures from the annual financial statements for 2017)



Other operating income

Net commissions and other operating income totalled NOK 1,437 million in 2018 (NOK 1,524 million).

The NOK 87 million reduction compared with 2017 was primarily attributable to the fact that commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS were down NOK 61 million to NOK 88 million in 2018 (NOK 149 million). The reduction in commissions from the mortgage companies was largely a consequence of the group buying back NOK 5.3 billion in loans from SpareBank 1 Boligkreditt AS in the last 12 months. Income from insurance decreased by NOK 19 million to NOK 189 million (NOK 208 million) due, among other things, to lower profit commissions after a harsh winter in 2018 with many claims. Income from estate agency services decreased by NOK 7 million to NOK 382 million in 2018 (NOK 389 million) due to somewhat weaker overall markets for new builds and commercial property than in 2017.

The reduction in income from insurance, estate agency services and the mortgage companies was partially offset by arrangement fees, which increased by NOK 6 million from 2017 to NOK 99 million in 2018 (NOK 93 million) due, in part, to good activity, especially in the corporate market division.

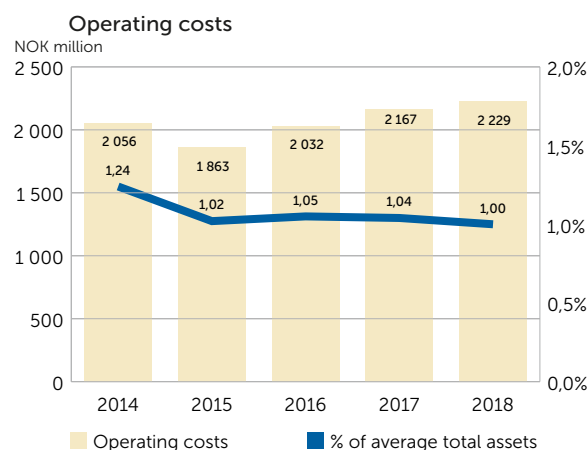
Operating costs

The group's operating costs amounted to NOK 2,229 million in 2018 (NOK 2,167 million), an increase of NOK 62 million since 2017. The growth in costs in the past 12 months of 2.9% meets the group's target of a maximum 3.0% growth in costs for 2018.

Personnel costs rose by NOK 34 million (2.7%) from 2017 to NOK 1,297 million in 2018. The increase can largely be attributed to ordinary wage growth, while increased pension costs of NOK 10 million were offset by bonus provisions, which were reduced by NOK 8 million.

Other operating costs increased by NOK 28 million (3.1%) to NOK 932 million in 2018, with the greatest increase in IT and marketing costs.

The group's cost/income ratio, costs measured as a percentage of income, remained low and was 40.9% (40.7%) in 2018.



Impairments on loans and non-performance

The group's net impairments on loans and liabilities were reduced by NOK 219 million from 2017 to NOK 324 million in 2018. The reduction reflects the optimism registered in the group's market area in 2018, as well as the loan portfolio's good credit quality. The rise in oil prices has been positive for the oil industry and has also resulted in positive ripple effects for the rest of the business sector. The group's net impairments on loans and liabilities amounted to 0.18% of gross loans in 2018 (0.33%). Inclusive of loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, the write-down as a percentage of gross loans corresponded to 0.17% (0.29%).

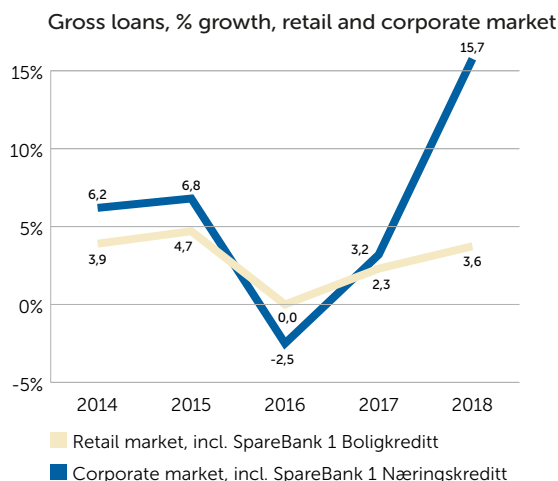
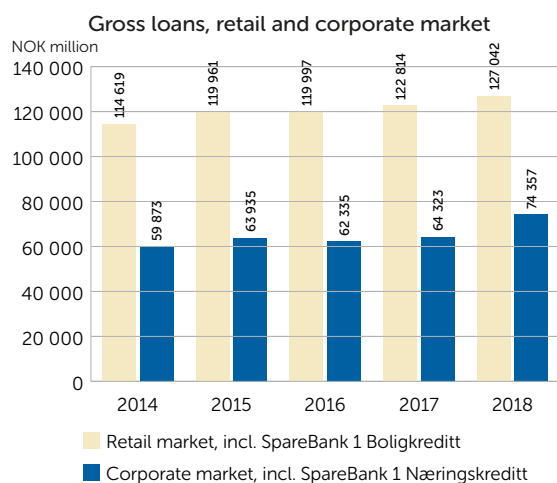
Closely monitoring customers and preventive work remain important tools for maintaining a good risk profile in the group's loan portfolio in order to reduce future losses.

IFRS 9 Financial Instruments replaced IAS 39 from 1 January 2018. In accordance with IFRS 9, the group's lending is grouped into three groups: Stage 1, Stage 2 and Stage 3. Loans in Stage 3 are loans that have seen a significant rise in credit risk since granting and where there is objective evidence of a loss event on the balance sheet date. For these loans the loss provision must cover expected losses over the lifetime. For further information about IFRS 9 rules and the effects of their implementation, please refer to note 1, note 3, note 8 and note 41 in the annual report for 2018.

Gross loans defined as Stage 3 amounted to NOK 2,133 million at the end of 2018. This corresponded to 1.53% of gross loans, and 1.46% inclusive of loans sold to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS.

Balance sheet

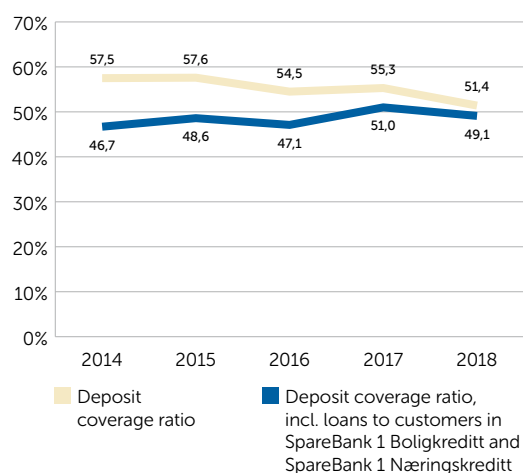
The group's total assets recognised on the balance sheet increased from NOK 216.6 billion to NOK 234.1 billion in 2018. The increase was primarily due to lending growth and the buyback of lending portfolios from SpareBank 1 Boligkreditt AS. At year end 2018, SpareBank 1 SR-Bank had sold loans worth NOK 9.3 billion to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, compared with NOK 14.6 billion at year end 2017. If the loan portfolios of these part-owned mortgage companies are taken into account, lending growth amounted to 7.6% and total loans NOK 201.4 billion at year end 2018 (NOK 187.1 billion). Retail market lending rose by 3.6% and lending to the corporate market and public sector increased by 15.7%. The distribution between loans to the retail market (including SpareBank 1 Boligkreditt AS) and the corporate market/public sector (including SpareBank 1 Næringskreditt AS) was 60.7% to 39.3%, respectively, at year end 2018, compared with 63.1% to 36.9% in 2017.



Deposits from customers increased by 3.6% in 2018 (11.0%) to NOK 98.8 billion (NOK 95.4 billion). The increase in deposits came from both retail market customers and corporate market customers. Deposits from the corporate market and public sector accounted for 53.8% (53.6%) of the group's customer deposits at year end 2018.

At year end 2018, the deposit coverage ratio, measured as deposits as a percentage of gross loans, was 51.4% (55.3%). In a highly competitive market, the group has maintained both a good deposit coverage ratio and strengthened its long-term funding. The liquidity coverage ratio (LCR), which measures the group's liquidity coverage in a serious, 30-day stress scenario, was 167% at year end 2018 (168%). In addition to ordinary customer deposits, the group had NOK 20.7 billion (NOK 21.3 billion) under management, primarily through SR-Forvaltning AS and ODIN Forvaltning AS.

Deposit coverage ratio



BUSINESS AREAS

Retail market division

The retail market division's contribution before impairments amounted to NOK 1,656 million in 2018 (NOK 1,655 million). The result was NOK 1 million higher than in 2017. The sum of net interest income and commissions was on a par with 2017. Commissions were lower than expected due to lower insurance commissions. The division's costs were reduced by NOK 4 million.

11% more products were sold than in 2017. Digital channels saw the largest growth in sales and the overall proportion of sales via digital channels passed 50% for 2018. In the fourth quarter of 2018, seen in isolation, 88% of all credit cases started on a digital channel. At the end of the fourth quarter of 2018, the retail market implemented a new, improved credit process, established an advice team in Oslo and started work on developing advice services.

(Figures in brackets are linked to figures from the annual financial statements for 2017)

Increased optimism in the business sector in South-western Norway and lower unemployment have not resulted in noticeable changes in the housing market. Lending growth in the last 12 months, measured at the end of 2018, was 3.6%, while deposit growth in the last 12 months was 2.9%. Competition for residential mortgage customers is increasing in the retail market. The proportion of non-performing commitments over 30 days was 0.37% of total loans at end of 2018 (0.39%). No impairments on loans and liabilities were recognised in 2018, compared with NOK 63 million in impairments on loans and liabilities in 2017.

The quality of the retail market portfolio is considered to be very good with a low risk of losses. The proportion of loan exposure (including the portfolios in SpareBank 1 Boligkreditt AS and SR-Boligkreditt AS) within a loan-to-value ratio of 85% amounted to 89.1% at the end of 2018 (89.0%). The IRB risk weighting for home mortgages was 21.7% at the end of 2018 (21.6%), which reflected a solid, stable portfolio.

Corporate market division

The corporate market division's contribution before impairments was NOK 1,748 million in 2018 (NOK 1,558 million), NOK 190 million higher than in 2017. The higher result is primarily due to increased interest income and other operating income.

The division's lending growth in the last 12 months was 16.4% and the majority of this growth occurred outside Rogaland. The division's deposits increased by 5.6% in the last 12 months.

The quality of the corporate market portfolio is considered to be good. The proportion of commitments with a probability of default of less than 2.5% through a full loss cycle was 76.2% of the portfolio at the end of 2018 (72.4%). The property sector portfolio represents the group's largest concentration in a single sector and accounted for 15.9% (14.7%) of total loan exposure, inclusive of retail customers. A large portion of this portfolio consisted of financing commercial properties for leasing. The portfolio is characterised by long-term leases and financially solid tenants.

Impairments on loans and financial liabilities amounting to NOK 324 million were recognised in 2018, compared with NOK 480 million in impairments in 2017. The division's pre-tax profit was NOK 1,424 million, NOK 346 million higher than in 2017.

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

The build-up of the Oslo branch is proceeding according to plan. Having a presence in this market is important with respect to creating a greater basis for growth, and thus

earnings. Together with correct risk pricing for loans and cost control, this will ensure competitiveness going forward.

Capital market division

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

SR-Bank Markets's pre-tax profit was NOK 85 million in 2018, NOK 22 million higher than in 2017. The income generated is recognised as income in the business areas to which the customers are assigned, primarily the corporate market division. NOK 71 million was recognised as income in the business areas in 2018, an increase of NOK 8 million compared with the previous year.

Prior to the allocation of customer income to other business areas, SR-Bank Markets had achieved operating income of NOK 218 million in 2018. This was an increase of NOK 17 million from 2017 and was primarily due to more activity within currency and interest trading. Corporate Finance completed a number of projects in 2018, but posted a somewhat weaker result than in 2017.

Subsidiaries

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

EiendomsMegler 1 SR-Eiendom AS is well represented throughout the group's entire market area and has 40 branches from Grimstad in the south-east to Bergen in the north. It is the leading estate agent in Rogaland and Vest-Agder, and is also increasing its market share in both Hordaland and Aust-Agder. The company achieved a pre-tax profit of NOK 10.8 million (NOK 26.7 million). The reduction in the result was mainly due to somewhat weaker sales than expected within the new build market and commercial property. Write-down costs of NOK 6.4 million have also been recognised in connection with the termination of a contract for the delivery of a new IT system for estate agency services.

In 2018, 6,487 (6,565) properties were sold with a total value of around NOK 20.6 billion (NOK 20.6 billion). The supply of new assignments was good and rising, and higher than in the previous year. The company has a strong position in Rogaland, with a market share of approximately 35% within sales of residential properties. The ambition is to strengthen this position further through growth in established markets. In order to facilitate this, the company has maintained its sales force in recent years despite a difficult housing market.

The business in the Agder counties faces challenges due to strong competition and other actors increasing their presence in these counties. Despite this, the company has increased its market share in the area, especially in Kristiansand. The aim

is to strengthen this position further and be one of the two largest actors in the Agder counties.

SR-Forvaltning AS is an investment firm licensed to provide active management and fund management services. Pre-tax profit was NOK 34.7 million in 2018 (NOK 33.5 million). The company saw good customer growth in 2018, especially with respect to discretionary mandates. The assets under management at year end 2018 amounted to NOK 11.4 billion (NOK 11.0 billion).

SpareBank 1 Regnskapshuset SR AS achieved a pre-tax profit of NOK 4.2 million in 2018 (NOK 3.5 million). The result includes the depreciation of intangible assets amounting to NOK 1.9 million (NOK 1.9 million). The company was established in 2015 and has seen annual turnover grow from NOK 0 to almost NOK 107 million since its start-up. At year end 2018, the company had seven offices, four in Rogaland and three in Bergen, and around 1,800 customers.

SR-Boligkreditt AS is a wholly owned subsidiary and was established in 2015. The purpose of the company is to purchase home mortgages from SpareBank 1 SR-Bank and finance this by issuing covered bonds. SR-Boligkreditt AS enables SpareBank 1 SR-Bank to diversify and optimise its funding. Moody's has given SR-Boligkreditt AS its best rating, Aaa. The company achieved a pre-tax profit of NOK 374.5 million in 2018 (NOK 272.8 million). At year end 2018, the company had issued covered bonds with a nominal value of NOK 55.8 billion and bought loans worth NOK 58.8 billion from SpareBank 1 SR-Bank.

FinStart Nordic AS achieved a pre-tax profit of NOK 59.5 million in 2018 (NOK 6.5 million). The improvement in the result was due to the positive increase in value of the securities in the portfolio. The company changed its name from SR-Investering AS to FinStart Nordic AS in September 2017 as part of the company's changed strategy. The company commenced operations in January 2018. The company is the group's innovative unit and has been established as an external arena for innovation and development. The company wants to invest in and/or establish companies that will engage in development and innovation work. This will help the bank to grow in a market where the bank's activities are increasingly subject to competition from new actors, including as a result of changes to the framework conditions.

Associated companies and joint ventures

SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

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

At year end 2018, SpareBank 1 Boligkreditt AS's total loan volume amounted to NOK 184.1 billion, NOK 8.9 billion of which was from home mortgages bought from SpareBank 1 SR-Bank. The bank currently owns an 4.8% stake in the company. This is updated at the end of each year in line with the volume sold.

At year end 2018, SpareBank 1 Næringskreditt AS's total loan volume amounted to NOK 11.1 billion, NOK 0.4 billion of which was from loans bought from SpareBank 1 SR-Bank. The bank owned 14.4% of the company at the end of 2018.

SpareBank 1 Alliance

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

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

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

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

SpareBank 1 Gruppen AS delivered a pre-tax profit of NOK 1,385 million in 2018 (NOK 2,210 million). The reduction in profit was mainly due to lower financial income and a weaker insurance result in the P&C insurance company due to a harsh winter with many claims. The life insurance company's result was slightly lower than last year due to lower financial income and an increase in insurance provisions. The net profit for 2018 amounted to NOK 1,480 million (NOK 1,811 million) due to a positive tax cost in 2018 resulting from changes to the tax rules for life and P&C insurance companies. The changes to the rules were approved in December 2018, with effect from 2018, and resulted in SpareBank 1 Gruppen AS reversing approximately NOK 330 million in deferred tax in the group. On 24 September 2018, SpareBank 1 Gruppen AS and DNB ASA concluded an agreement to merge their insurance companies and will with this create one of the largest insurance companies in the country. The merger between

SpareBank 1 Skadeforsikring AS and DNB Forsikring was approved by the Financial Supervisory Authority of Norway on 21 December 2018 and will be effective from 1 January 2019. The merged company was named Fremtind Forsikring AS and will offer an almost complete product portfolio within risk insurance to the retail and the SME market. As part of this transaction, the plan is to spin off the individual personal risk insurance cover from SpareBank 1 Forsikring AS (the life insurance company) and DNB Livsforsikring AS, as well as the personal risk insurance cover paid for by companies from SpareBank 1 Forsikring AS, to the merged company. This part of the transaction is scheduled for completion in the first quarter of 2019.

SpareBank 1 Banksamarbeidet DA

SpareBank 1 Banksamarbeidet DA is responsible for the SpareBank 1 Alliance's collaboration processes and delivery of services. The company develops and delivers, among other things, common IT/mobile solutions, brands and marketing concepts, business concepts, products and services, expertise, analyses, processes, best practice solutions and purchases. SpareBank 1 SR-Bank owned a 18.0% stake in SpareBank 1 Banksamarbeidet at year end 2018.

BN Bank ASA

BN Bank is a nationwide bank with its head office in Trondheim. The bank is owned by the banks in the SpareBank 1 Alliance. SpareBank 1 SR-Bank ASA owns a 23.5% stake. BN Bank ASA achieved a pre-tax profit of NOK 395 million in 2018 (NOK 395 million). Increased interest income was offset by lower returns on financial instruments, as well as a reduction in other operating income, and resulted in a pre-tax profit that was unchanged from 2017.

Events after the balance sheet date

On 28 February 2019, the SpareBank 1 banks signed an agreement to change the ownership model in BN Bank ASA. Once the transaction has been completed, SpareBank 1 SR-Bank will own a 35.02% stake in BN Bank ASA.

No material events have been registered after 31 December 2018 that affect the annual financial statements as prepared.

Accounting policies

Please refer to note 2 for a description of the accounting policies applied in the parent company's and consolidated financial statements. The group applies the same accounting policies in interim financial statements that it uses in annual financial statements, but has from 1 January 2018 replaced IAS 39 with IFRS 9 Financial Instruments. For more information see note 2.

Corporate governance

Corporate governance in SpareBank 1 SR-Bank is based on, among other things, the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. This comprises the objectives and overriding principles according to which the group is governed and controlled, to secure the

interests of shareholders, customers and other stakeholders. Governance of the group's activities shall ensure prudent asset management and greater assurance that publicly declared goals and strategies are reached and realised. You can read more about corporate governance on page 32 in the chapter "Corporate governance".

Risk management

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

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

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

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

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

Credit risk

Credit risk is managed via the framework procedures for granting credit, monitoring commitments and portfolio management. The general credit strategy stipulates that the group shall have a moderate risk profile. The quality of the corporate market portfolio is considered good and stable. The proportion of commitments with a probability of default of less than 2.5% through a full loss cycle is rising and now amounts to 76% of the portfolio. The portfolio in the property sector represents the group's greatest concentration in a single sector. A large portion of this portfolio consists of financing commercial properties for leasing. The portfolio is characterised by long-term leases and financially solid tenants.

The quality of the retail market portfolio is considered to be very good with a low risk of losses. Most of the portfolio is secured by mortgages on real estate, and the LTV is, for the

most part, moderate. This implies that potential losses are limited as long as the values are not significantly impaired.

Market risk

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

Part of the group's market risk is linked to investments in bonds and certificates. At the end of 2018, the group's holdings of liquid assets in the form of bonds and certificates totalled NOK 29.4 billion. Quantification of the risk associated with falls in value in the liquidity portfolio measured at fair value is calculated based on the Financial Supervisory Authority of Norway's model for risk-based supervision of market risk.

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

The group's market risk exposure is deemed moderate.

Liquidity risk

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

SpareBank 1 SR-Bank had very good liquidity at year end 2018 and believes it will continue to have good access to long-term funding at competitive prices. The group strives to achieve an even maturity structure for funding and believes it is important to have good relations with Norwegian and international investors and banks. The liquidity buffer¹ was NOK 30.4 billion at year end 2018 and would cover normal operations for 20 months in the event of closed markets. NOK 11.6 billion of the bank's external funding will fall due in the next 12 months. In addition to the liquidity buffer, the bank has NOK 24.4 billion in home mortgages ready for covered bond funding.

The group's liquidity situation is very good and the group has continued to enjoy a high proportion of long-term funding

¹ Liquidity buffer: cash, short-term investments, and drawing rights in Norges Bank (bonds including covered bonds). Assuming deposits and lending remain unchanged and no new funding during the period.

in the last 12 months. The group's net stable funding ratio (NSFR²) at year end 2018 was 121% (119%).

Operational risk

The group uses a systematic process to identify and quantify operational risks that the group is exposed to at any time. The analysed risk exposure in 2018 remained within the board's adopted limits for maximum allowable exposure at all times.

Adverse events are registered and systematically analysed to avoid repetitions and learn lessons. No adverse events occurred in 2018 that had significant financial consequences.

A steady increase in goal-oriented malicious software targeted at the financial services industry has been noted in Norway. This is intended to provide unauthorised access to, and control over, IT systems and software. Cybercrime/hacking will continue to represent a significant risk for the group going forward. At the same time, digitalisation and the increasing pace of change in the industry will affect the group's exposure to operational risk. This results in more frequent changes over a shorter period of time and in 2018 the group strengthened its focus on product and process approval in order to ensure that the changes that are made do not have unintended consequences.

Compliance

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

The EU's work on harmonising regulations within the EU/EEA results in new regulations to which the group must adapt. The group continuously assesses the best way of adapting to new regulations and rules to ensure compliance and effectiveness of the organisation. New regulations and rules that affect the group's operations must be included in routines and guidelines on an ongoing basis.

In 2018, comprehensive efforts were made to ensure the bank can comply with MiFID II, a new money laundering act, and new personal data regulations (GDPR). The new guidelines for internal control (GL11) were also reviewed and some measures were implemented to address clarifications concerning the requirements for management and control. The framework for international tax reporting is being revised and responsibility and control matrices were reviewed to ensure compliance and satisfactory control actions related to indirect searches and reporting.

Ownership risk

Ownership risk is the risk that SpareBank 1 SR-Bank bears if it suffers negative results from stakes in strategically owned

² NSFR is calculated in accordance with guidelines from the Financial Supervisory Authority of Norway and is calculated as available stable funding relative to necessary stable funding.

companies and/or the need to inject fresh capital into these companies. Ownership is defined as companies in which SpareBank 1 SR-Bank has a significant stake and influence. SpareBank 1 SR-Bank is mainly exposed to owner risk through its stakes in:

- SpareBank 1 Gruppen AS (19.5%);
- SpareBank 1 Boligkreditt AS (4.8%);
- SpareBank 1 Næringskreditt AS (14.4%);
- BN Bank ASA (23.5%);
- SpareBank 1 Kredittkort AS (17.9%);
- SMB Lab AS (20%); and
- SpareBank 1 Betaling AS (19.8%).

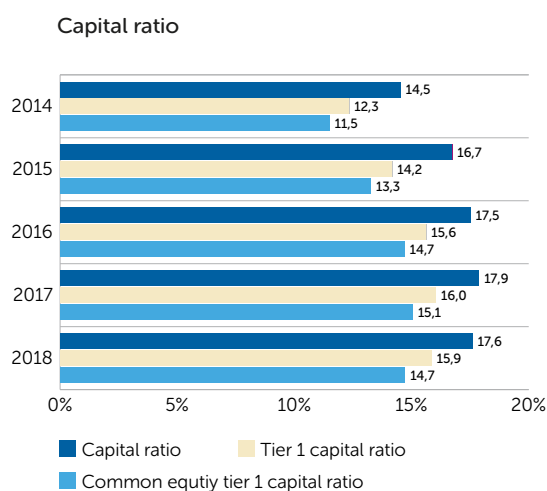
Corporate social responsibility and sustainability

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

Capital management

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

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



(Figures in brackets are linked to figures from the annual financial statements for 2017)

A capital plan is drawn up every year to ensure long-term, effective capital management. These projections take into account both expected developments in the coming years and a situation involving a serious economic recession over several years. Various stress tests are carried out of both individual factors and scenario analyses where the group is exposed to a range of negative macroeconomic events over several years. In addition, SpareBank 1 SR-Bank has prepared contingency plans for dealing with such crises as effectively as possible should they nevertheless arise. SpareBank 1 SR-Bank is in a solid financial position. At year end 2018, the common equity tier 1 capital ratio was 14.7% (15.1%) while the tier 1 capital ratio was 15.9% (16.0%) and the capital ratio was 17.6% (17.9%). Because of the transitional rules, the minimum requirement for capital adequacy cannot amount to less than 80% of the corresponding amount calculated according to the Basel I rules.

A countercyclical capital buffer requirement applies in Norway in the range of 0-2.5 percentage points in the form of common equity tier 1 capital. The purpose of the countercyclical capital buffer is to make the banks more solid and robust in relation to lending losses. The capital buffer requirement amounted to 2.0 percentage points at the end of 2018. On 13 December 2018, the Ministry of Finance decided to increase the capital buffer requirement for banks to 2.5 percentage points from 31 December 2019.

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

The total common equity tier 1 capital ratio requirement for SpareBank 1 SR-Bank ASA at the end of 2018 was 14.0%, inclusive of the countercyclical buffer and Pillar 2 premium, and will drop to 13.7% at the end of the first quarter of 2019. This requirement is met by a good margin. Banks classified as systemically important financial institutions are also subject to a special capital buffer requirement. SpareBank 1 SR-bank ASA was not defined as a systemically important financial institution at year end 2018, although in November 2018 the Financial Supervisory Authority of Norway recommended to the Ministry of Finance that institutions with a lending proportion of more than 10% to the corporate market in one or more defined regions should be regarded as systemically important. SpareBank 1 SR-Bank ASA is covered by this proposal.

SpareBank 1 SR-Bank ASA's long-term goal at the end of 2018 was to achieve a common equity tier 1 capital ratio of 15.0%, which includes a management buffer of 1 percentage point. The board has approved a new common equity tier 1 capital ratio target of 14.6%, effective from 31 March 2019. The new

target takes into account the lower Pillar 2 premium, as well as the management buffer of 0.9 percentage points. The target will be maintained through good profitability, balanced growth and competitive dividends.

External audit

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

Internal audit

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

Employees and working environment

SpareBank 1 SR-Bank's employees are its most important resources for creating value for the benefit of its customers, the region and the bank. The group's organisational and working environment surveys for 2018 show that employees are satisfied and have a good relationship with the group as an employer. The surveys are reviewed and followed up in all units in order to ensure a positive development and strengthen a healthy working environment characterised by a long-term approach, openness, honesty and security in line with the group's basic values.

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

The bank's share

The share price for the bank's share (SRBANK) was NOK 89.20 at year end 2018. This represents an increase of 7.4% since year end 2017, taking into account the dividend of NOK 4.25. The main Oslo Stock Exchange index rose by 1.8% in the same period. The SRBANK share was traded more frequently in 2018 with 8.4% of outstanding SRBANK shares being traded, compared with 4.7% in 2017.

There were 10,804 shareholders at year end 2018 (10,834). The proportion owned by foreign companies and individuals was 26.6%, whilst 43.5% were owned by residents of Rogaland, the Agder counties and Hordaland. The 20 largest shareholders owned a total of 58.1% of the shares. The bank holds 85,206 treasury shares, while group employees owned 1.5%.

Going concern

Financial strength improved in 2018 and the market outlook appears to be good. Together with implemented and planned measures, this contributes to a good prospect of further progress for the group in 2019. The annual financial statements have been prepared on the assumption that the group is a going concern.

Allocation of profit for the year/dividend

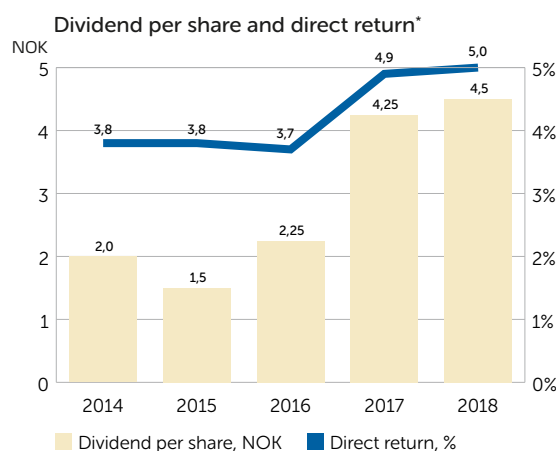
SpareBank 1 SR-Bank's financial goal for its activities is to achieve results that provide a good, stable return on the bank's equity, thus creating value for the owners in the form of competitive dividends and a higher share price. Consideration is given to financial needs, including capital adequacy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

The dividend paid is based on the parent bank's distributable profit, which was NOK 2,101 million in 2018, equivalent to NOK 8.24 per share. In line with the dividend policy, various factors are taken into consideration when proposing dividends, with particular weight being attached to capital requirements and the tier 1 capital ratio. The board is, therefore, proposing a dividend of NOK 4.50 per share for 2018, which corresponds to around 50% of the group earnings per share.

The board proposes the following allocations for the 2018 financial year:

	NOK million
Parent company net profit for the year	2,118
Transferred to the fund for valuation differences	-16
Distributable	2,101
Dividend (NOK 4.50 per share)	1,151
Retained earnings	950
Total	2,101

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



*Dividend divided by share price at year end.

Outlook for 2019

The global economy is still expected to develop positively with an annual growth rate of 3.4% according to the IMF. An expansive US fiscal policy will have a positive impact on the global economy, while a trade war between the US and other countries could result in lower exports and investments. Positive growth is still expected in the eurozone, although some uncertainty exists surrounding the Brexit negotiations and their possible outcome.

The upturn in the Norwegian economy is expected to continue in 2019. Continued high consumer consumption rates, increasing business investments and export growth are expected to improve growth in the mainland economy by 2.7% in 2019 according to Statistics Norway's latest forecasts. The Norwegian Petroleum Directorate expects oil investments on the Norwegian Continental Shelf to grow by 10% in 2019, up from 2% in 2018. The growth in the Norwegian economy is expected to generate new jobs and falling unemployment. Wages growth is expected to be moderate, although industries that see especially high growth must expect increasing wages growth in the next few years. Inflation was low for large parts of 2018, but climbed towards 2% at the end of the year. Norges Bank raised its key rate by 0.25 percentage points in November 2018 and two new rate hikes are expected in 2019. The housing market is expected to be flat with stable prices and a moderate increase in the number of new housing projects starting up.

The group's long-term return on equity target is a minimum of 12%. The target for the return on equity in 2019 is 11.5%. A number of factors will contribute to the group achieving this goal, including profitable lending growth, moderate impairments on loans and financial liabilities, growth in other operating income and greater cost-effectiveness through the automation of internal processes.

The group also had a common equity tier 1 capital ratio target of 15.0% as at 31 December 2018 and 14.6% from 31 March 2019. SpareBank 1 SR-Bank is a solid, profitable group and has in recent years increased its financial strength in line with the

authorities' requirements. This was achieved through earnings via a business model involving good breadth in earnings and efficient operations. SpareBank 1 SR-Bank is well-positioned to meet new regulatory changes, including Basel 4, which is expected to have a moderate impact as far as the group is concerned.

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

The group changed its organisation in 2018 and established two new business areas: one for marketing and customer services and one for strategy, innovation and development. This will boost the work on innovation and development in the group going forward and make sure more attention is paid to it. It will also help the group become one of the best in developing new products and services. Customers will notice this in the form of an even better customer experience, better accessibility and improved service. As part of the development of new technology, the group has established FinStart Nordic AS, a wholly owned subsidiary. FinStart Nordic AS will invest in companies that carry out development and innovation work and help to give the bank a competitive advantage. The group wants to strengthen its focus on customers in the central Eastern Norway region and at the end of the first quarter of 2018 it established its own branch in Oslo, which will serve key corporate and retail customers. Having a presence in this market is important with respect to geographical diversification and creating a greater basis for growth, and thus earnings. Together with correct risk pricing for loans and cost control, this will ensure the group good competitiveness going forward.

A good mutual relationship between the region's inhabitants, the business sector and the bank is important for growth in the group's market area. The board would like to thank the group's customers, owners and other partners for their loyal support of SpareBank 1 SR-Bank in 2018 and assure them that it will make every effort to ensure that this teamwork continues. The board would also like to thank the group's employees and elected officers for their good contributions and good teamwork in 2018.

Stavanger 7 March 2019



Dag Mejdell
Chair of the board



Kate Henriksen



Tor Dahle



Birthe Cecilie Lepsøe



Therese Log Bergjord



Jan Skogseth



Sally Lund-Andersen
Employee representative



Kristian Kristensen
Employee representative



Arne Austreid
Chief Executive Officer

Annual financial statements

Income Statement	50
Balance sheet	51
Statement of Changes in Equity	52
Statement of cash flow	54
Note 1 General Information	55
Note 2 Accounting policies	55
Note 3 Critical estimates and judgements concerning use of the accounting policies	63
Note 4 Segment reporting	64
Note 5 Capital adequacy	66
Note 6 Financial risk management	68
Credit risk	
Note 7 Financial institutions - receivables and liabilities	71
Note 8 Loans and other financial liabilities to customers	72
Note 9 Loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.	76
Note 10 Age distribution of due but not written down loans	77
Note 11 Impairments on loans and financial liabilities	78
Note 12 Credit risk exposure for each internal risk class	80
Note 13 Maximum credit risk exposure	81
Note 14 Credit quality per class of financial asset	82
Market risk	
Note 15 Market risk related to interest rate risk	84
Note 16 Market risk related to currency risk	84
Liquidity risk	
Note 17 Liquidity risk	85
Note 18 Maturity analysis of assets and debt/liabilities	86
Income Statement	
Note 19 Net interest income	88
Note 20 Net commissions and other operating income	88
Note 21 Net income/loss from financial investments	89
Note 22 Remuneration statement, personnel costs and benefits for executive personnel and elected representatives	89
Note 23 Other operating costs	94
Note 24 Pensions	95
Note 25 Taxes	98
Balance sheet	
Note 26 Classification of financial instruments	99
Note 27 Certificates and bonds	102
Note 28 Financial derivatives	102
Note 29 Equities, units and other equity interests	103
Note 30 Intangible assets	105
Note 31 Tangible fixed assets	106
Note 32 Other assets	107
Note 33 Deposits from customers	107
Note 34 Securities issued	108
Note 35 Other debt and other liabilities	108
Note 36 Restricted funds	109
Note 37 Subordinated loan capital	109
Note 38 Investments in ownership interests	110
Other information	
Note 39 Material transactions with close associates	113
Note 40 Share capital and ownership structure	114
Note 41 IFRS 9 Financial Instruments	116
Note 42 Events after the balance sheet date	120
Auditor's report	121
Statement by the Board of Directors and Chief Executive Officer	127

INCOME STATEMENT

Parent bank		(Figures in NOK millions)	Note	Group	
2017	2018			2018	2017
4,863	5,115	Interest income	19	6,274	5,747
2,095	2,179	Interest costs	19	2,835	2,585
2,768	2,936	Net interest income		3,439	3,162
1,069	1,002	Commissions	20	1,519	1,597
76	84	Commission costs	20	87	79
8	8	Other operating income	20	5	6
1,001	926	Net commissions and other operating income		1,437	1,524
9	11	Dividends		12	11
500	619	Income from ownership interests	38	366	425
238	147	Net income/loss from financial investments	21	191	198
747	777	Net income from financial investments		569	634
4,516	4,639	Total net income		5,445	5,320
952	968	Personnel costs	22	1,297	1,263
724	752	Other operating costs	23	932	904
1,676	1,720	Total operating costs		2,229	2,167
2,840	2,919	Operating profit before impairments		3,216	3,153
542	322	Impairments on loans and financial liabilities	11	324	543
2,298	2,597	Pre-tax profit		2,892	2,610
439	479	Taxes	25	596	524
1,859	2,118	Net profit for the year		2,296	2,086
1,857	2,113	Shareholders' share of the profit		2,291	2,084
2	5	Hybrid capital owners' share of the profit		5	2
1,859	2,118	Net profit for the year		2,296	2,086
Statement of Comprehensive Income					
-12	231	Actuarial gains/losses on pensions		240	-12
3	-58	Tax effect of actuarial gains/losses on pensions		-60	3
	-1	Change in ECL 12 months		-	
	-	Basis swap spread	28	-35	
	-	Tax effect basis swap spread	28	9	
-9	172	Total items not reclassified through profit or loss		154	-9
9	-	Change in value of financial assets available for sale		-	9
-	-	Share of other comprehensive income in associated companies and joint ventures		-5	8
9	-	Total items that can be reclassified through profit or loss		-5	17
-	172	Year's comprehensive income		149	8
1,859	2,290	Total comprehensive income		2,445	2,094
Earnings per share					
7.27	8.28	Earnings per share ¹⁾	22, 40	8.98	8.16
7.27	8.28	Diluted earnings per share ²⁾	22, 40	8.97	8.16

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

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

BALANCE SHEET

Parent bank		Group			
2017	2018	(Figures in NOK millions)	Note	2018	2017
Assets					
207	717	Cash and receivables from the central bank	36	717	207
1,607	5,069	Loans to and receivables from financial institutions	7	1,696	1,608
130,579	132,338	Loans to customers	8, 10, 12, 14	190,878	171,237
32,203	27,815	Certificates and bonds	14, 27	29,340	31,909
6,033	5,574	Financial derivatives	28	5,268	5,541
507	517	Equities, units and other equity interests	29	868	717
2,363	2,099	Investments in ownership interests	38	3,713	3,953
4,853	6,128	Investments in group companies	38	-	-
-	-	Intangible assets	30	95	96
329	303	Tangible fixed assets	31	798	572
395	331	Other assets	32	688	778
179,076	180,891	Total assets		234,061	216,618
Liabilities					
4,538	3,201	Debt to financial institutions	7	1,433	2,335
95,635	99,119	Deposits from customers	33	98,814	95,384
51,307	48,113	Securities issued	34	103,485	90,497
5,013	6,234	Financial derivatives	28	3,889	3,787
393	779	Payable tax	25	896	487
417	146	Deferred tax liabilities	25	124	393
960	746	Other liabilities	35, 24	884	1,082
2,764	2,951	Subordinated loan capital	37	2,951	2,764
161,027	161,289	Total liabilities		212,476	196,729
Equity					
6,394	6,394	Share capital	40	6,394	6,394
1,587	1,587	Share premium reserve		1,587	1,587
1,087	1,151	Allocated dividend		1,151	1,087
43	60	Fund for unrealised gains		60	43
150	550	Hybrid capital	40	550	150
8,788	9,860	Other equity		11,843	10,628
18,049	19,602	Total equity		21,585	19,889
179,076	180,891	Total liabilities and equity		234,061	216,618

Stavanger 7 March 2019


Dag Mejdell
Chair of the board



Kate Henriksen


Tor Dahle


Birthe Cecilie Lepsøe


Therese Log Bergjord


Jan Skogseth


Sally Lund-Andersen
Employee representative


Kristian Kristensen
Employee representative


Arne Austreid
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

(Figures in NOK millions)

Parent bank	Share capital	Share premium reserve	Hybrid capital	Other equity	Fund for unrealised gains	Total equity
Equity as at 31 Dec 2016	6,394	1,587		8,527	52	16,560
Net profit for the year				1,868	-9	1,859
Actuarial gains/losses after tax on pension schemes				-9		-9
Change in value of financial assets available for sale				9		9
Year's comprehensive income				1,868	-9	1,859
Hybrid capital			150			150
Interest hybrid capital after tax				-2		-2
Merger SR-Finans				65		65
Dividends in 2016, final determination in 2017				-575		-575
Trade in treasury shares				-8		-8
Transactions with shareholders				-583		-583
Equity as at 31 Dec 2017	6,394	1,587	150	9,875	43	18,049
Equity changes IFRS 9, 1 Jan 2018				-56		-56
Net profit for the year				2,101	17	2,118
Actuarial gains/losses after tax on pension schemes				173		173
Change in ECL ¹⁾ 12 months				-1		-1
Year's comprehensive income				2,273	17	2,290
Hybrid capital			400			400
Interest hybrid capital after tax				-5		-5
Dividends in 2017, final determination in 2018				-1,087		-1,087
Trade in treasury shares				11		11
Transactions with shareholders				-1,076		-1,076
Equity 31 Dec 2018	6,394	1,587	550	11,011	60	19,602

¹⁾ ECL - expected credit loss

Group	Share capital	Share premium reserve	Hybrid capital	Other equity	Fund for unrealised gains	Total equity
Equity as at 31 Dec 2016	6,394	1,587		10,255	52	18,288
Net profit for the year				2,095	-9	2,086
Actuarial gains/losses after tax on pension schemes				-9		-9
Change in value of financial assets available for sale				9		9
Share of other comprehensive income from associated companies				8		8
Year's comprehensive income				2,103	-9	2,094
Hybrid capital			150			150
Interest hybrid capital				-2		-2
Corrected equity in associated companies				-58		-58
Dividends in 2016, final determination in 2017				-575		-575
Trade in treasury shares				-8		-8
Transactions with shareholders				-583		-583
Equity as at 31 Dec 2017	6,394	1,587	150	11,715	43	19,889
Equity changes IFRS 9, 1 Jan 2018				-69		-69
Net profit for the year				2,279	17	2,296
Actuarial gains/losses after tax on pension schemes				180		180
Basis swap spread after tax				-26		-26
Share of other comprehensive income from associated companies				-5		-5
Year's comprehensive income				2,428	17	2,445
Hybrid capital			400			400
Interest hybrid capital after tax				-5		-5
Corrected equity in associated companies				1		1
Dividends in 2017, final determination in 2018				-1,087		-1,087
Trade in treasury shares				11		11
Transactions with shareholders				-1,076		-1,076
Equity 31 Dec 2018	6,394	1,587	550	12,994	60	21,585

STATEMENT OF CASH FLOW

(Figures in NOK millions)

Parent bank		Note	Group	
2017	2018		2018	2017
-10,609	-1,651	8	-19,602	-14,916
4,313	4,596		5,774	5,199
9,451	3,484	33	3,430	9,470
-829	-997		-993	-823
9,279	-4,717	7	-910	738
-593	-391		-619	-776
-10,196	4,388	27	2,569	-10,901
445	458		450	446
1,016	912		1,416	1,540
-25	-2		-2	-43
-1,550	-1,693		-2,186	-2,039
-621	-393	25	-487	-683
3,911	1,375		1,547	3,697
3,992	5,369		-9,613	-9,091
-50	-84	31	-296	-156
8	3	31	3	8
-2,145	-1,288		-93	-158
919	348		350	756
509	630		358	387
-759	-391		322	837
5,382	7,824	34	22,535	16,303
-10,256	-11,051		-11,051	-9,471
-519	-563		-1,007	-737
930	700	37	700	930
-825	-500	37	-500	-825
-103	-103		-103	-102
150	400		400	150
-3	-6		-6	-3
-511	-1,087		-1,087	-511
-5,755	-4,386		9,881	5,734
-2,522	592		590	-2,520
3,393	871		873	3,393
871	1,463		1,463	873
207	717		717	207
664	746		746	666
871	1,463		1,463	873

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

In total, the group's cash and cash equivalents increased by NOK 590 million in 2018.

NOTE 1 GENERAL INFORMATION

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

Subsidiaries - Ownership 100%

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

Investments in associated companies	Ownership interest in %
SpareBank 1 Boligkreditt AS	4.8
SpareBank 1 Næringskreditt AS	14.4
BN Bank ASA ¹⁾	23.5
SpareBank 1 Kredittkort AS	17.9
SMB Lab AS	20.0
SpareBank 1 Betaling AS	19.8

Investments in joint ventures	Ownership interest in %
SpareBank 1 Gruppen AS	19.5
SpareBank 1 Banksamarbeidet DA	18.0

Distribution of stakes in companies where the management structure is regulated by an agreement between the owners (stakes in %)	SpareBank 1 Gruppen AS	BN Bank ASA
SpareBank 1 SR-Bank	19.5	23.5
SpareBank 1 SMN	19.5	33.0
SpareBank 1 Nord-Norge	19.5	23.5
Samarbeidende Sparebanker AS	19.5	20.0
SpareBank 1 Østlandet	12.4	
Norwegian Federation of Trade Unions (LO)	9.6	

The bank's head office is in Stavanger and it has 36 branches in Rogaland, Vest-Agder, Aust-Agder, Hordaland, and Oslo. Some of the branches share premises with EiendomsMegler 1 SR-Eiendom AS. All of the subsidiaries have their head offices in Stavanger.

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

The group's financial statements were approved by the board of directors on 7 March 2019. The annual general meeting is the bank's supreme authority.

¹⁾ There is a signed agreement to change the ownership model in BN Bank ASA, and SpareBank 1 SR-Bank will own a 35.02% stake in BN Bank ASA.

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

The parent bank's financial statements and the consolidated financial statements for 2018 for SpareBank 1 SR-Bank ('the group') have been prepared in accordance with International Finance Reporting Standards (IFRS) as adopted by the EU. This includes interpretations from the IFRS Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC).

SpareBank 1 SR-Bank is a public limited company registered in Norway with its head office in Stavanger.

SpareBank 1 SR-Bank is listed on the Oslo Stock Exchange.

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

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

The annual financial statements are presented in accordance with IFRS and interpretations that are obligatory for annual financial statements presented as at 31 December 2018. The annual financial statements have been prepared on the assumption that the group is a going concern.

New and revised standards that were applied in 2018: two new standards have been applied since 1 January 2018.

IFRS 9 Financial Instruments deals with the recognition, classification, measurement, impairment and derecognition of financial assets and liabilities, as well as hedge accounting. IFRS 9 replaces the classification and measurement models in IAS 39. Financial Instruments: Recognition and Measurement with one simple model, which basically only has two categories: amortised cost and fair value. The classification of loans depends on the unit's business model for managing its financial assets and the attributes of the individual asset's cash flows. Note 41 provides a more exhaustive account of the effects of transitioning to IFRS 9.

IFRS 15 Revenue from Contracts with Customers deals with recognising revenue. This replaces IAS 18 which applies to contracts for goods and services and IAS 11 which applies to construction contracts. The new standard is based on the principle of revenue recognition when control of a product or service is transferred to a customer. The principle of control replaces the existing principle of risk and return on investment. The group's assessment is that there will be no material changes to the accounts due to the implementation of IFRS 15 as at 1 January 2018.

(Note 2 cont.)

Otherwise, no new standards, amendments to the standards or interpretations that materially affected the accounts of the group or the parent company were adopted from 1 January 2018.

New standards and interpretations that have not been adopted yet: A number of new standards, amendments to standards and interpretations will be compulsory in future annual financial statements. The most important of these, which the group has chosen not to apply early, are described below:

IFRS 16 Leases will primarily affect the lessee's accounting and will result in almost all leases being capitalised. The standard eliminates the current distinction between operational and financial leases and requires recognition of a right of use asset (the right to use this leased asset) and a financial liability to pay the lease for almost all leases. Exemptions exist for short-term leases and low value leases.

The income statement will also be affected because the total cost (the sum of depreciation and interest) is usually higher in the first few years of a lease and lower in later years. Operating costs will also be replaced with interest and depreciation, so important ratios will change.

Cash flows from operations will increase because payment of the principal of the lease liability will be classified as a financing activity. Only the part of the payments that are interest can be presented as cash flow from operations.

The lessor's accounting will not be materially changed. Some differences may arise as a consequence of new guidelines on the definition of a lease. Under IFRS 16, a contract is a lease, or contains a contract, if it transfers the right to control the use of an identified asset for a period of time in exchange for remuneration.

The group has estimated that the impact of IFRS 16 will increase assets and liabilities by around NOK 370 million.

IAS 12 Accounting for special taxes. The group's assessment is that there will be no material changes to the accounts due to the implementation of IAS 12.

There are no other standards or interpretations that have not entered into force which are expected to have a material impact on the group's financial statements.

Presentation currency

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

Subsidiaries

In the parent bank's financial statements, subsidiaries' assets are valued using the cost method of accounting. Investments are measured at the acquisition cost of the shares assuming that no impairments have been necessary.

Dividends, group contributions and other distributions are recognised as income in the year that they are approved by the annual general meeting. If the dividend or group contribution exceeds the share of the retained profit after the acquisition, the

amount in excess represents a repayment on invested capital, but is, pursuant to IAS 27, recognised as income in the year that it is paid.

Consolidation

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

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

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

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

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

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

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

IFRS 9 Financial Instruments

Financial assets

According to IFRS 9, financial assets must be classified into three measurement categories: fair value with changes through profit or

(Note 2 cont.)

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

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

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

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

Financial liabilities

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

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

Hedge accounting

IFRS 9 simplifies the requirement for hedge accounting in that the hedging effect is tied more closely to the management's risk management and provides greater room for judgement. The requirement for hedge effectiveness of 80-125% has been eliminated and replaced with a more qualitative requirement, including the fact that there should be a financial connection between the hedging instrument and hedged item, and that the credit risk should not dominate the value changes of the hedging instrument. According to IFRS 9, a prospective (forward-looking) effectiveness test is sufficient, while hedge effectiveness pursuant

to IAS 39 must be assessed both prospectively and retrospectively (backwards-looking). Hedging documentation is still required. SpareBank 1 SR-Bank has chosen to continue hedge accounting to the same extent as in previous years, ref. note 28.

Recognition and derecognition of financial assets and liabilities

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

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

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

Modified assets and liabilities

If modifications or changes to the terms of an existing financial asset or liability are made, the instrument is treated as a new financial asset if the renegotiated terms differ materially from the old terms. If the terms differ significantly, the old financial asset or liability is derecognised and a new financial asset or liability is recognised. In general, a loan is considered to be a new financial asset if new loan documentation is issued, while a new credit process is carried out with the setting of new loan terms.

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

Change in ownership interests in subsidiaries without loss of control

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

Disposal of subsidiaries

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

(Note 2 cont.)

Associated companies

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

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

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

Joint arrangements

Under IFRS 11, investments in joint arrangements must be classified as either a joint operation or a joint venture, depending on the contractual rights and obligations of each investor. SpareBank 1 SR-Bank has assessed its joint arrangements and determined that they are joint ventures. Joint ventures are recognised using the equity method in the group and the cost method in the financial statements.

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

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

Loans

Loans are classified based on two business models. Loans with contractual cash flows that are only payments of interest and the principal on given dates and that are held in a business model for the purpose of receiving contractual cash flows should initially be measured at amortised cost. Loans with contractual cash flows that are only payments of interest and the principal on given dates and that are held in a business model for the purpose of receiving

contractual cash flows and sales, should initially be measured at fair value with changes through OCI, with interest income, currency translation effects, and any impairments presented in the ordinary income statement. Changes recognised through OCI must be reclassified to the income statement upon the sale or other disposal of the assets.

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

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

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

Sales of loans

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

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

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

(Note 2 cont.)

Impairments on loans:

According to the rules in IAS 39, impairments could only be carried out for losses when objective evidence existed that a loss event had happened after initial recognition. According to IFRS 9, loss provisions are recognised based on expected credit loss (ECL). The general model for impairment of financial assets in IFRS 9 applies to financial assets measured at amortised cost or at fair value with changes through OCI, and which had no incurred losses upon initial capitalisation. In addition, there are also loan commitments, financial guarantee contracts and unused credit lines that are not measured at fair value through profit or loss, and changes to lease agreements are also included.

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

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

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

More detailed description of the bank's impairment model

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

Stage 1:

This is the starting point for all financial assets covered by the general loss model. All assets that do not have a significantly higher credit risk than they did upon initial recognition will have a loss

provision equal to 12 months' expected losses. This category will contain all assets that have not been transferred to stages 2 or 3.

Stage 2:

In Stage 2, the loss model is assets that have seen a significant rise in credit risk since initial recognition, but that do not have objective evidence of a loss event. For these assets the loss provision must cover expected losses over the entire lifetime. This group contains accounts with a significant degree of credit deterioration, but which on the balance sheet date belong to customers that are classified as healthy. As far as the demarcation with Stage 1 is concerned, the bank bases its definition of a significant degree of credit deterioration on the extent to which the commitment's calculated probability of default (PD) has increased significantly.

Stage 3:

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

Assessment of impairments of loans and financial assets in the 2017 comparative figures

On each balance sheet date, the group assesses whether there is any objective evidence that the cash flow expected when the item was initially recognised will not be realised and that the value of the financial asset or group of financial assets has been reduced. An impairment in the value of a financial asset measured at amortised cost, or group of financial assets measured at amortised cost, has been incurred if, and only if, there is objective evidence of impairment that could result in a reduction in future cash flows to service the commitment. The impairment must be the result of one or more events that have occurred after the initial recognition (a loss event) and it must be possible to measure the result of the loss event (or events) in a reliable manner. Objective evidence that the value of a financial asset, or group of financial assets, has been reduced includes observable data that is known to the group relating to the following loss events:

- The issuer or borrower is experiencing significant financial difficulties
- Breach of contract, such as a default or delinquency in payment of instalments and interest
- The bank granting the borrower special terms for financial or legal reasons relating to the borrower's financial situation
- Likelihood of the debtor entering into debt negotiations or other financial reorganisation
- Disappearance of an active market for the financial asset because of financial difficulties
- Observable data indicating that there is a measurable decline in future cash flows from a group of financial assets since the initial recognition of those assets, even though the decline cannot yet be fully identified with the individual financial assets in the group including:
 - adverse changes in the payment status of the borrowers in the group
 - national or local economic conditions that correlate with defaults of the assets in the group

(Note 2 cont.)

The group first considers whether there is individual objective evidence of impairment of financial assets that are significant individually. For financial assets that are not individually significant, the objective evidence of impairment is considered individually or collectively. If the group decides that there is no objective evidence of impairment of an individually assessed financial asset, significant or not, the asset is included in a portfolio of financial assets with the same credit risk characteristics. The group is tested for any impairment on a portfolio basis. Assets that are assessed individually with respect to impairment, and where an impairment is identified or continues to be identified, are not included in a general assessment of impairment.

If there is objective evidence that impairment has occurred, the amount of the loss is calculated as the difference between the asset's book (carrying) value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's latest effective interest rate. The book value of the asset is reduced using an allowance account and the loss is recognised in the income statement.

Non-performing commitments

The total commitment to a customer is considered to be in default (non-performing) and included in the group's summaries of defaulted loans when an instalment or interest is not paid 90 days after due date, a line of credit is overdrawn for 90 days or more, or the customer is bankrupt. If an engagement is defaulted, it affects the risk classification in the impairment model under IFRS 9.

Non-performing and impaired commitments in 2017 comparison

The total commitment to a customer is considered to be in default (non-performing) and included in the group's summaries of defaulted loans when an instalment or interest is not paid 90 days after due date, a line of credit is overdrawn for 90 days or more, or the customer is bankrupt. Loans and other commitments that are not in default, but where the customer's financial situation makes it likely that the group will incur a loss, are classified as impaired commitments.

Realised losses

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

Reposessed assets

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

Leases

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

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

Securities

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

Securities in the 2017 comparative figures

Securities comprise equities and units, certificates and bonds. Equities and units are recognised either as held for sale or at fair value with change in value through profit or loss. Certificates and bonds are classified either as held for sale, at fair value with value change through profit or loss, as held to maturity or as a receivable. The group uses the price on the trade date upon initial recognition of securities.

All financial instruments that are classified as held for sale or at fair value with changes through profit or loss, are measured at fair value, and changes from the opening balance are recognised as income from financial investments. The group is of the opinion that financial instruments classified at fair value with changes through profit or loss provide more relevant information about the values of these items on the balance sheet than if they were assessed at amortised cost. The financial instruments included in this category are regularly reported and managed based on fair value. Certificates and bonds that are classified as held to maturity or as a receivable are measured at amortised cost using an effective interest rate method. See description of this method in the section on lending.

Derivatives and hedging

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

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

(Note 2 cont.)

and against the hedged item. When a basis swap is designated as a hedging instrument for hedging a specifically identified loan, changes in the value of the hedging instrument linked to changes in the "basis spread" are recognised through OCI. See note 28 for further information.

Goodwill

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

Tangible fixed assets

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

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

Operations/assets that will be sold

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

Funding

Funding is initially recognised at the cost at which it is raised, which is the fair value of the proceeds received after deducting transaction costs. Loans raised with variable rates are thereafter measured at amortised cost, and any discount/premium is accrued over the term of the loan. Fixed-rate funding is subject to hedging, which results in measurement at fair value with discounting according to the applicable interest curve, though not taking into account changes in own credit spreads. Deposits from customers and financial institutions are measured at amortised cost.

Pensions

SpareBank 1 SR-Bank group has two types of pension schemes: defined benefit based and defined contribution based. The group

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

Defined benefit scheme

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

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

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

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

Defined contribution scheme

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

Contingent liabilities

The group issues financial liabilities as guarantees, loan commitments, and unused credit lines as part of its ordinary business. Gross latent liabilities are specified in note 8. Impairments are made as part of the assessment of IFRS 9 impairments on loans and in accordance with the same policies, and are reported as liabilities on the balance sheet, ref. note 11. Provisions are made for other uncertain liabilities if it is more probable than not that the liability will materialise and the financial consequences can be reliably calculated. Information is disclosed about contingent liabilities that do not satisfy the criteria for balance sheet recording if they are significant.

Provisions are made for restructuring costs when the group has a contractual or legal obligation, it is probable that payment will be made by transferring financial resources, and the size of the obligation can be estimated with sufficient reliability.

(Note 2 cont.)

Uncertain liabilities in the 2017 comparative figures

The group issues financial guarantees as part of its ordinary business. Gross latent liabilities are specified in note 8. Impairment assessments are made as part of assessing impairments on loans and in accordance with the same policies, and are reported with these, ref. note 11. Provisions are made for other uncertain liabilities if it is more probable than not that the liability will materialise and the financial consequences can be reliably calculated. Information is disclosed about contingent liabilities that do not satisfy the criteria for balance sheet recording if they are significant.

Provisions are made for restructuring costs when the group has a contractual or legal obligation, it is probable that payment will be made by transferring financial resources, and the size of the obligation can be estimated with sufficient reliability.

Subordinated loans and issued hybrid tier 1 capital instruments

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

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

Dividends

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

Interest income and interest costs

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

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

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

Interest income and costs related to financial instruments measured at amortised costs or fair value are classified as interest income and interest costs, respectively. A breakdown of interest income and costs measured at amortised cost and fair value is provided in note 19. Other changes in value are classified as income from financial instruments.

Commissions and commission costs

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

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

Transactions and balance sheet items in foreign currency

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

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

Taxes

Taxes consist of payable tax and deferred tax.

Payable tax is the estimated tax on the year's taxable profit.

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

Deferred taxes are accounted for using the liability method in accordance with IAS 12. Deferred tax assets or liabilities are calculated based on all the temporary differences, which are the differences between the book values of assets and liabilities for accounting purposes and for taxation purposes. However, no tax deferred liability or benefit is calculated on goodwill that does not provide a tax deduction, nor on initially recognised items that neither affect accounting or taxable profit.

Deferred tax assets are calculated for tax loss carry forwards. Assets with deferred tax are included only to the extent that future taxable

(Note 2 cont.)

profits are expected to make it possible to exploit the related tax benefit.

Statement of cash flow

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

Segment reporting

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

Events after the balance sheet date

The financial statements are regarded as approved for publication once the board has approved them. The general meeting and the regulatory authorities may refuse to approve the published financial statements subsequent to this but they cannot change them.

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

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

The board's proposed dividend is specified in the board of directors' report and note 42. The proposed dividend is classified as equity until it has finally been approved.

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

Impairments on loans and guarantees

The group assesses its entire corporate market portfolio annually. Large commitments, non-performing loans and high-risk exposures are subject to quarterly assessments. Loans to retail customers are subject to evaluation when they are in default for more than 90 days after they fall due. Large non-performing loans are evaluated on a quarterly basis.

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

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

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

According to the rules under IAS 39, impairments could only be made when objective evidence existed that a loss event had happened after initial capitalisation. According to IFRS 9, loss provisions are recognised for all commitments based on expected credit loss (ECL).

The measurement of the provisions for expected losses on commitments that are not individually impaired depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, provisions must be made for 12 months' expected losses. If the credit risk has increased substantially after initial recognition, provisions must be made for expected losses over the entire lifetime. Expected credit loss is calculated on the basis of the present value of all cash flows over the remaining expected lifetime.

Fair value of equity interests

Financial assets measured at fair value through profit or loss will normally be traded in active markets and the fair value can thus be determined with reasonable certainty. Market values for assets and liabilities that are recognised at amortised cost and appear in notes may be estimates based on discounted expected future cash flows, multiplier analyses or other calculation methods. Such methods can be entail significant uncertainty. With the exception of a few equities, liquidity in the Norwegian stock market is poor. Share prices will under most circumstances be the last known traded price.

Fair value of derivatives

The fair value of derivatives is usually determined by using valuation methods where the price of the underlying object, for example, interest and currency rates, is obtained from the market. In the case of options, volatility will be either observed implicit volatility or calculated volatility based on historical price movements for the underlying object.

NOTE 4 SEGMENT REPORTING

The executive management team has assessed which segments are reportable based on the form of distribution, products and customers. The primary reporting format is based on the risk and return profile of the assets, and it is divided between the retail market (including self-employed people), the corporate market, capital market and subsidiaries of significant importance. Account trading/staff/support includes all staff departments and treasury area in the parent bank. The activities in SR-Boligkreditt AS are divided between the retail market and own account trading/staff/support in the parent bank segments. Commissions from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are reported under the item "Net commissions and other income". On 1 January 2018, the units that work with customer services and market communications were moved out of the business areas and established as a single separate area under corporate staff. The business areas' historical figures have been changed to provide comparable figures.

Reporting per business area:

(Figures in NOK millions)

2018	Retail market	Corporate market	Capital market	Own account trading/staff/support	Eiendoms-Megler 1	Other business	Eliminations	SR-Bank Group
Interest income	2,070	2,198	111	1,938	3	3	-49	6,274
Interest costs	467	579	77	1,763	-	7	-58	2,835
Net interest income¹⁾	1,603	1,619	34	175	3	-4	9	3,439
Commissions	639	365	10	-13	382	207	-71	1,519
Commission costs	45	22	4	47	-	37	-68	87
Other operating income	-	-	-	8	-	10	-13	5
Net commissions and other operating income	594	343	6	-52	382	180	-16	1,437
Dividends	-	-	-	11	-	-	1	12
Income from ownership interests	-	25	-	594	-	-	-253	366
Net income/loss from financial investments	6	1	107	-47	-	68	56	191
Net income from financial investments	6	26	107	558	-	68	-196	569
Personnel costs	379	191	47	350	231	101	-2	1,297
Administration costs	73	16	12	368	40	10	-1	518
Other operating costs	95	33	3	157	103	47	-24	414
Total operating costs	547	240	62	875	374	158	-27	2,229
Operating profit before impairments	1,656	1,748	85	-194	11	86	-176	3,216
Impairments on loans and financial liabilities ²⁾	-	324	-	-	-	-	-	324
Pre-tax profit	1,656	1,424	85	-194	11	86	-176	2,892
Net interest income								
Net external interest income	1,591	1,619	34	187	-	-	8	3,439
Net internal interest income	12	-	-	-12	3	-4	1	-
Net interest income	1,603	1,619	34	175	3	-4	9	3,439
Balance sheet								
Gross loans to customers	118,165	71,193	214	2,772	-	-	-239	192,105
Impairments on loans ²⁾	-167	-1,060	-	-	-	-	-	-1,227
Certificates/bonds/financial derivatives	-	-	2,181	35,483	-	11	-3,067	34,608
Other assets	-1,831	1,814	913	16,069	155	1,465	-10,010	8,575
Total assets	116,167	71,947	3,308	54,324	155	1,476	-13,316	234,061
Deposits from customers	50,681	48,597	13	-172	-	-	-305	98,814
Other liabilities and equity ¹⁾	65,486	23,350	3,295	54,496	155	1,476	-13,011	135,247
Total liabilities and equity	116,167	71,947	3,308	54,324	155	1,476	-13,316	234,061
Total loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	8,877	417						9,294

(Note 4 cont.)

	Retail market	Corporate market	Capital market	Own account trading/ staff/ support	Eiendoms- Megler 1	Other business	Elimin- ations	SR-Bank Group
2017								
Interest income	1,992	1,922	135	1,724	2	3	-31	5,747
Interest costs	447	447	97	1,617	-	4	-27	2,585
Net interest income ¹⁾	1,545	1,475	38	107	2	-1	-4	3,162
Commissions	697	340	24	7	389	199	-59	1,597
Commission costs	44	25	4	29	-	35	-58	79
Other operating income	-	-	-	8	-	-	-2	6
Net commissions and other operating income	653	315	20	-14	389	164	-3	1,524
Dividends	2	-	-	7	-	2	-	11
Income from ownership interests	-	9	-	490	-	-	-74	425
Net income/loss from financial investments	6	-3	80	61	-	14	40	198
Net income from financial investments	8	6	80	558	-	16	-34	634
Personnel costs	380	191	53	329	226	88	-4	1,263
Administration costs	76	15	16	321	37	12	1	478
Other operating costs	95	32	6	164	101	54	-26	426
Total operating costs	551	238	75	814	364	154	29	2,167
Operating profit before impairments	1,655	1,558	63	-163	27	25	-12	3,153
Individual impairments on loans and guarantees ²⁾	59	482	-	-	-	-	-	541
Collective impairments on loans and guarantees ²⁾	4	-2	-	-	-	-	-	2
Pre-tax profit	1,592	1,078	63	-163	27	25	-12	2,610
Net interest income								
Net external interest income	1,544	1,475	38	108	-	-	-3	3,162
Net internal interest income	1	-	-	-1	2	-1	-1	-
Net interest income	1,545	1,475	38	107	2	-1	-4	3,162
Balance sheet								
Gross loans to customers	108,700	61,060	293	2,668	-	-	-167	172,554
Individual impairments ²⁾	-93	-546	-	-	-	-	-	-639
Impairments on groups of loans ²⁾	-67	-611	-	-	-	-	-	-678
Certificates/bonds/financial derivatives	-	-	2,393	37,081	-	11	-2,035	37,450
Other assets	-490	1,440	169	11,327	173	1,020	-5,708	7,931
Total assets	108,050	61,343	2,855	51,076	173	1,031	-7,910	216,618
Deposits from customers	49,239	46,009	9	377	-	-	-250	95,384
Other liabilities and equity ¹⁾	58,811	15,334	2,846	50,699	173	1,031	-7,660	121,234
Total liabilities and equity	108,050	61,343	2,855	51,076	173	1,031	-7,910	216,618
Total loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	14,114	469						14,583

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

²⁾ IFRS 9 Financial Instruments replaced IAS 39 on 1 January 2018. The figures prior to 1 January 2018 are therefore not directly comparable with the figures for 2018.

(Note 4 cont.)

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

	Rogaland		Agder		Hordaland		SR-Bank Group	
Geographic distribution	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	2,760	2,627	287	251	392	283	3,439	3,162
Net commissions and other operating income	1,103	1,229	140	133	194	162	1,437	1,524
Net income from financial investments	557	631	7	1	5	2	569	634
Operating costs	1,917	1,868	138	135	174	163	2,229	2,167
Operating profit before impairments	2,503	2,619	296	250	417	284	3,216	3,153
Impairments on loans and financial liabilities ²⁾	245	516	41	6	38	21	324	543
Pre-tax profit	2,258	2,103	255	244	379	263	2,892	2,610
Gross loans to customers	150,371	139,256	17,817	16,463	23,917	16,835	192,105	172,554
Impairments on loans ²⁾	-1,124		-62		-41		-1,227	
Individual impairments ²⁾		-546		-40		-53		-639
Impairments on groups of loans ²⁾		-509		-53		-116		-678
Certificates/bonds/financial derivatives	34,608	37,450	-	-	-	-	34,608	37,450
Other assets	9,195	7,928	-244	1	-376	2	8,575	7,931
Total assets	193,050	183,579	17,511	16,371	23,500	16,668	234,061	216,618
Deposits from customers	85,880	85,418	4,794	5,058	8,140	4,908	98,814	95,384
Other liabilities and equity	107,170	98,161	12,717	11,313	15,360	11,760	135,247	121,234
Total liabilities and equity	193,050	183,579	17,511	16,371	23,500	16,668	234,061	216,618
Total loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.	7,868	12,027	681	1,780	745	776	9,294	14,583

²⁾ IFRS 9 Financial Instruments replaced IAS 39 on 1 January 2018. The figures prior to 1 January 2018 are therefore not directly comparable with the figures for 2018.

NOTE 5 CAPITAL ADEQUACY

(Figures in NOK millions)

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

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

All capital adequacy figures are based on the transitional rule (Basel I floor) that states that the capital requirement for using internal methods cannot be less than 80% of the capital requirement according to the Basel I regulations.

The total minimum common equity tier 1 capital ratio requirement for SpareBank 1 SR-Bank, inclusive of the countercyclical buffer and Pillar 2 premium, as at 31 December 2018 was 14.0%. The requirement consists of a 4.5% minimum requirement plus other buffer requirements, which consist of a capital conservation buffer of 2.5%, a systemic risk buffer of 3.0% and a countercyclical buffer of 2.0%. The Financial Supervisory Authority of Norway has also set an individual Pillar 2 requirement of 2.0%.

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

Parent bank			Group	
2017	2018		2018	2017
6,394	6,394	Share capital	6,394	6,394
1,587	1,587	Share premium reserve	1,587	1,587
1,087	1,151	Allocated dividend	1,151	1,087
43	60	Fund for unrealised gains	60	43
150	550	Hybrid capital	550	150
8,788	9,860	Other equity	11,843	10,628
18,049	19,602	Total capitalised equity	21,585	19,889

(Note 5 cont.)

Parent bank			Group	
2017	2018		2018	2017
		Tier 1 capital		
-	-	Deferred tax, goodwill and other intangible assets	-114	-116
-1,087	-1,151	Deduction for allocated dividend	-1,151	-1,087
-277	-242	Deduction in expected losses IRB less impairments	-334	-337
-150	-550	Hybrid capital that cannot be included in common equity tier 1 capital	-550	-150
-	-	Deduction common equity tier 1 capital for essential investments in financial institutions	-	-72
-	-147	Deduction common equity tier 1 capital for non-essential investments in financial institutions	-129	-
-42	-39	Value adjustment due to requirements concerning proper valuation	-39	-38
16,493	17,473	Total common equity tier 1 capital	19,268	18,089
150	550	Hybrid capital	677	392
797	798	Hybrid tier 1 capital	798	797
17,440	18,821	Total tier 1 capital	20,743	19,278
		Tier 2 capital		
1,897	2,097	Non-perpetual subordinated capital	2,338	2,254
-43	-43	Deduction for essential investments in financial institutions	-43	-43
1,854	2,054	Total tier 2 capital	2,295	2,211
19,294	20,875	Net primary capital	23,038	21,489
		Credit risk Basel II		
19,218	23,695	SME	23,699	19,220
20,724	23,108	Specialised enterprises	24,477	21,916
6,735	7,956	Other enterprises	8,023	6,868
1,115	1,092	Mass market SME	1,334	1,303
16,019	14,518	Mass market - mortgage on real estate	28,592	27,026
1,905	2,098	Other mass market	2,153	1,942
9,387	9,641	Equity positions	-	-
75,103	82,108	Total credit and counterparty risk IRB	88,278	78,275
51	28	States and central banks	35	51
118	19	Local and regional authorities, state-owned enterprises	93	140
1,803	2,050	Institutions	1,368	1,864
8,903	8,439	Enterprises	9,661	9,474
1 838	2,514	Mass market	3,264	2,531
-	-	Mass market - mortgage on real estate	1,226	1,353
2,330	1,992	Covered bonds	2,218	2,686
4,029	5,029	Equity positions	5,196	5,036
916	796	Other assets	1,789	1,678
19,988	20,867	Total credit and counterparty risk standard method	24,850	24,813
562	570	Risk of weaker creditworthiness at counterparty (CVA)	891	933
5,591	5,968	Operational risk	7,902	7,430
-	-	Transitional scheme	8,948	8,709
101,244	109,513	Risk-weighted balance sheet	130,869	120,160
4,556	4,928	Minimum requirement common equity tier 1 capital 4.5%	5,889	5,407
		Buffer requirement		
2,531	2,738	Capital conservation buffer 2.5%	3,272	3,004
3,037	3,285	System risk buffer 3%	3,926	3,605
2,025	2,190	Countercyclical buffer 2.0%	2,617	2,403
7,593	8,213	Total buffer requirement for common equity tier 1 capital	9,815	9,012
4,344	4,331	Available common equity tier 1 capital after buffer requirement	3,564	3,670
19.06%	19.06%	Capital adequacy	17.60%	17.88%
17.23%	17.19%	tier 1 capital ratio	15.85%	16.04%
1.83%	1.88%	tier 2 capital ratio	1.75%	1.84%
16.29%	15.96%	Common equity tier 1 capital ratio	14.72%	15.05%
19.06%	19.06%	Capital ratio IRB	18.90%	19.28%
17.23%	17.19%	Tier 1 capital ratio, IRB	17.01%	17.30%
16.29%	15.96%	Common equity tier 1 capital ratio, IRB	15.80%	16.23%
9.13%	9.74%	Leverage ratio	7.68%	7.37%

NOTE 6 FINANCIAL RISK MANAGEMENT

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

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

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

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

- The group must carry out comprehensive, periodic risk follow-up and reporting
- The group shall, insofar as it is possible, price activities and products in line with the underlying risk to ensure the right level of risk is assumed
- The group must draw up robust recovery plans so it can manage critical situations in the best possible way should they arise
- The group must have clear, unambiguous definitions of the various types of risk

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

Credit risk: the risk of loss resulting from the customer's inability or unwillingness to fulfil his obligations

Liquidity risk: the risk that the group is unable to refinance its debt or does not have the ability to fund increases in assets without significant additional costs

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

Operational risk: the risk of losses due to weak or inadequate internal processes or systems, human error or external incidents

Ownership risk: the risk of SpareBank 1 SR-Bank suffering negative results from stakes in strategically owned companies or of the group having to inject fresh equity into these companies. Owned companies are defined as companies where SpareBank 1 SR-Bank has a significant stake and influence.

Compliance risk: the risk of the group incurring public sanctions/penalties or financial loss as a result of a failure to comply with legislation and regulations.

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

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

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

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

Pension risk: the risk of increases in future pension liabilities

Climate risk: the risk of indirect and indirect losses due to climate-related conditions

Risk exposure in SpareBank 1 SR-Bank

The risk management department is independent of the business units and reports directly to the chief executive. The department is

(Note 6 cont.)

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

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

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

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

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

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

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

1. Probability of default (PD): Customers are classified into default classes based on the probability of them defaulting during a period of 12 months, based on a long-term outcome in a complete loss cycle. The probability of default is calculated

on the basis of historical series of data for financial key figures related to earnings and deterioration, as well as the basis of non-financial criteria such as conduct and age. When funding commercial property for leasing, a special credit model must be used internally that calculates the probability of default based on the expected cash flow from the leasing activities combined with behavioural criteria. Nine default classes (A – I) are used to classify the customers according to the probability of default. The group has two additional default classes (J and K) for customers with defaulted and/or written-down commitments.

2. Exposure at default (EAD): This is an estimate of what the group's exposure will be were a customer to default. This exposure consists of lending volume, guarantees and approved, but not drawn limits respectively. Approved, but not drawn facilities of a retail market customer has a conversion factor equal to 1. This means that the limit is assumed 100% withdrawn given default. For the corporate market, approved but not drawn facilities are multiplied by a conversion factor that varies between 60-90%, depending on the customer's probability of default. The conversion factor for guarantees is a parameter set by the authorities and is set at 1 for loan guarantees and 0.5 for other guarantees.

3. Loss given default (LGD): This is an estimate of how much the group can potentially lose if the customer defaults on his obligations. The assessment takes into account, among other things, the value of underlying collateral, degree of recovery on unsecured part of the commitment, degree of recovery before realisation and collection costs. The group determines the realisation value of collateral based on statistical data over time, as well as expert assessments in cases where statistical data do not provide an adequate basis. Realisation values are set so that they reflect an assumed realisation value in a recession based on a conservative assessment. Seven different classes are used (1-7 – 7) for classifying commitments in relation to loss given default.

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

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

For further information please see notes 7-14.

(Note 6 cont.)

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

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

For further information see notes 17 and 18.

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

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

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

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

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

The group's risk exposure to this type of risk is regulated by limits for maximum investments in the different portfolios.

For more information see notes 15, 16 and 28.

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

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

SpareBank 1 SR-Bank regards corporate culture as the most important single factor in operational risk management. Therefore, every employee in the organisation is regularly surveyed on risk culture.

Ownership risk is managed through active board participation in a number of the part-owned companies. SpareBank 1 SR-Bank is mainly exposed to ownership risk through its stakes in SpareBank 1 Gruppen AS (19.5%), BN Bank ASA (23.5%), SpareBank 1 Boligkreditt AS (4.8%), SpareBank 1 Næringskreditt AS (14.4%), SpareBank 1 Banksamarbeidet DA (18.0%), SpareBank 1 Kredittkort AS (17.9%), SpareBank 1 Betaling AS (19.8%) and SMB Lab AS (20.0%)

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

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

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

NOTE 7 FINANCIAL INSTITUTIONS - RECEIVABLES AND LIABILITIES

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
Loans to and receivables from financial institutions				
664	746	Receivables at call	746	666
65	3,408	At call	35	64
878	915	With agreed maturities or notice	915	878
1,607	5,069	Total	1,696	1,608
943	4,323	NOK	950	944
664	746	Currency	746	664
1,607	5,069	Total	1,696	1,608
Debt to financial institutions				
4,537	3,200	At call	1,432	2,334
1	1	With agreed maturities or notice	1	1
4,538	3,201	Total	1,433	2,335
3,306	2,985	NOK	1,217	1,103
1,232	216	Currency	216	1,232
4,538	3,201	Total	1,433	2,335
Received securities that can be sold or mortgaged				
Resale agreements				
-	-	Certificates and bonds	-	-
-	-	Total received securities	-	-
Of which received securities that are sold or mortgaged				
-	-	Certificates and bonds	-	-

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

NOTE 8 LOANS AND OTHER FINANCIAL LIABILITIES TO CUSTOMERS

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
124,268	80,035	Loans at amortised cost	183,865	164,930
	45,268	Loans at fair value through OCI		
7,624	8,240	Loans at fair value through profit or loss	8,240	7,624
131,892	133,543	Gross loans	192,105	172,554
	-1,215	- Impairments after amortised cost	-1,227	
	10	- Home mortgages at fair value through OCI	-	
-639		Individual impairments		-639
-674		Impairments on groups of loans		-678
130,579	132,338	Net loans	190,878	171,237
		Distribution by market		
64,099	55,959	Retail market	113,879	104,299
67,458	78,083	Corporate market	78,725	67,883
321	257	Public sector	257	321
116		Excess value of fixed-rate lending/amortisation of front-end fees		116
297		Accrued interest		334
-399	-756	Net corporate accounts currency ¹⁾	-756	-399
131,892	133,543	Gross loans	192,105	172,554
	-1,215	- Impairments after amortised cost	-1,227	
	10	- Home mortgages at fair value through OCI	-	
-639		Individual impairments		-639
-674		Impairments on groups of loans		-678
130,579	132,338	Net loans	190,878	171,237
		Of which subordinated loan capital		
45	45	Primary capital	45	45
45	45	Subordinated loan capital recording as lending	45	45
1,947	2,001	Loans to employees	2,512	2,462
428	332	Of which loans in SpareBank 1 Boligkreditt	403	536
227	902	Of which loans in SR Boligkreditt	1,093	289
		The terms are 1 percentage point lower than the standardised rate set by the Ministry of Finance.		
		Loans sold to mortgage companies		
40,790	58,743	Loans sold to SR-Boligkreditt	-	-
26	34	Received commissions from SR-Boligkreditt	-	-
14,114	8,877	Loans sold to SpareBank 1 Boligkreditt	8,877	14,114
146	84	Received commissions from SpareBank 1 Boligkreditt	84	146
469	417	Loans sold to SpareBank 1 Næringskreditt	417	469
3	3	Received commissions from SpareBank 1 Næringskreditt	3	3
		Total commitment by probability of default (PD) ^{1) 2) 3)}		
77,861	75,519	0.00 - 0.50%	129,144	115,458
56,331	61,177	0.50 - 2.50%	70,017	62,479
15,077	13,869	2.50 - 5.00%	14,352	15,415
8,540	7,634	5.00 - 99.9%	8,291	8,930
2,104	3,076	Commitments in default	3,080	2,104
159,913	161,275	Total commitments	224,884	204,386
-18,978	-18,166	Unused credit lines for customers	-23,152	-22,712
-9,043	-9,566	Guarantees	-9,627	-9,120
131,892	133,543	Gross loans	192,105	172,554

(Note 8 cont.)

Parent bank			Group	
2017	2018	Gross loans by probability of default (PD) ^{1) 2) 3)}	2018	2017
65,049	63,716	0.00 - 0.50%	112,199	98,735
46,790	50,973	0.50 - 2.50%	59,867	52,970
11,216	10,606	2.50 - 5.00%	11,114	11,573
6,900	6,804	5.00 - 99.9%	7,470	7,300
1,923	2,200	Commitments in default	2,211	1,925
413		Accrued interest and excess value of fixed-rate lending/amortisation of front-end fees		450
-399	-756	Net corporate accounts currency ¹⁾	-756	-399
131,892	133,543	Gross loans	192,105	172,554
Expected annual average net impairments by probability of default PD ^{2) 3) 4)}				
10	12	0.00 - 0.50%	14	11
76	90	0.50 - 2.50%	91	77
85	87	2.50 - 5.00%	88	86
137	122	5.00 - 99.9%	123	138
28	12	Commitments in default	12	28
336	323	Total	328	339
Gross loans to customers by industry				
860	1,704	Fishing/fish farming	1,709	860
3,617	3,023	Industry	3,037	3,633
4,711	5,001	Agriculture/forestry	5,183	4,833
8,417	12,041	Service sector	12,142	8,593
2,895	3,159	Wholesale and retail trade, hotels and restaurants	3,249	2,984
3,856	3,134	Energy, oil and gas	3,134	3,856
3,972	3,936	Building and construction	4,074	4,079
606	683	Power and water supply	683	606
27,035	31,699	Real estate	31,713	27,042
9,941	12,064	Shipping and other transport	12,162	9,849
1,869	1,896	Public sector and financial services	1,896	1,869
67,779	78,340	Total industry	78,982	68,204
64,099	55,959	Retail market	113,879	104,299
116		Undistributed (excess value fixed-rate loans and amortised arrangement fees) ⁵⁾		116
297		Earned interest industry and retail customers ⁵⁾		334
-399	-756	Net corporate accounts currency	-756	-399
131,892	133,543	Gross loans	192,105	172,554
	-1,215	- Impairments after amortised cost	-1,227	
	10	- Home mortgages at fair value through OCI	-	
-639		- Individual impairments		-639
-674		- Impairments on groups of loans		-678
130,579	132,338	Loans to customers	190,878	171,237
Financial liabilities ⁶⁾				
9,043	9,566	Guarantees customers	9,627	9,120
18,978	18,166	Unused credit lines for customers	23,152	22,712
4,824	6,072	Approved loan commitments	6,072	4,749
32,845	33,804	Gross financial liabilities	38,851	36,581
Other pledged guarantees and liabilities				
5,000	1,560	Unused credit lines for financial institutions	-	-
588	588	Guarantees others	588	588
45	20	Letters of credit	20	45
5,633	2,168	Total other pledged guarantees and liabilities	608	633

(Note 8 cont.)

Parent bank			Group	
2017	2018		2018	2017
Expected annual average net impairments by sector and industry^{2) 3)}				
2	3	Fishing/fish farming	3	2
30	25	Industry	25	30
4	5	Agriculture/forestry	5	4
53	70	Service sector	70	53
24	26	Wholesale and retail trade, hotels and restaurants	26	24
38	24	Energy, oil and gas	24	38
17	17	Building and construction	17	17
2	1	Power and water supply	1	2
108	102	Real estate	102	108
36	30	Shipping and other transport	30	36
1	1	Public sector and financial services	1	1
315	304	Total industry	304	315
21	19	Retail market	24	24
336	323	Total	328	339
Gross loans by geographic area				
86,335	80,548	Rogaland	124,680	117,332
11,997	11,536	Agder counties	16,994	15,848
22,126	21,004	Hordaland	28,013	26,651
	10,840	Oslo	11,791	
2,565	3,743	International	3,794	2,619
8,869	5,872	Other	6,833	10,104
131,892	133,543	Gross loans	192,105	172,554
Loans and receivables related to financial leasing				
Gross investments related to financial leasing				
1,570	1,650	Up to 1 year	1,650	1,570
2,134	3,889	Between 1 to 5 years	3,889	2,134
1,611	734	Later than 5 years	734	1,611
5,315	6,273	Total	6,273	5,315
Net investments related to financial leasing				
1,432	1,473	Up to 1 year	1,473	1,432
1,976	3,597	Between 1 to 5 years	3,597	1,976
1,540	703	Later than 5 years	703	1,540
4,948	5,773	Total	5,773	4,948

(Note 8 cont.)

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

Parent bank	Gross loans at amortised cost, 31 Dec 2018	Stage 1	Stage 2	Stage 3	Loans at fair value	Net lending 31 Dec 2018
Fishing/fish farming	1,672	-3	-1	-	32	1,700
Industry	2,946	-11	-27	-20	77	2,965
Agriculture/forestry	2,854	-2	-4	-5	2,147	4,990
Service sector	11,436	-59	-72	-56	605	11,854
Wholesale and retail trade, hotels and restaurants	2,945	-13	-32	-15	214	3,099
Energy, oil and gas	3,134	-16	-34	-95	-	2,989
Building and construction	3,626	-8	-22	-8	310	3,898
Power and water supply	679	-1	-2	-	4	680
Real estate	31,428	-74	-95	-38	271	31,492
Shipping and other transport	11,921	-16	-47	-293	143	11,708
Public sector and financial services	1,896	-	-	-	-	1,896
Total industry	74,537	-203	-336	-530	3,803	77,271
Retail market	6,210	-22	-24	-100	49,749	55,813
Net corporate accounts currency	-756					-756
Adjustment for fair value through OCI					10	10
Loans to customers	79,991	-225	-360	-630	53,562	132,338

Group	Gross loans at amortised cost, 31 Dec 2018	Stage 1	Stage 2	Stage 3	Loans at fair value	Net lending 31 Dec 2018
Fishing/fish farming	1,704	-3	-1	-	5	1,705
Industry	3,035	-11	-27	-20	2	2,979
Agriculture/forestry	4,503	-2	-4	-5	680	5,172
Service sector	12,050	-59	-72	-56	92	11,955
Wholesale and retail trade, hotels and restaurants	3,227	-13	-32	-16	22	3,188
Energy, oil and gas	3,134	-16	-34	-95	-	2,989
Building and construction	4,051	-8	-22	-8	23	4,036
Power and water supply	681	-1	-2	-	2	680
Real estate	31,546	-74	-95	-38	167	31,506
Shipping and other transport	12,144	-16	-47	-293	18	11,806
Public sector and financial services	1,896	-	-	-	-	1,896
Total industry	77,971	-203	-336	-531	1,011	77,912
Retail market	106,650	-26	-31	-100	7,229	113,722
Net corporate accounts currency	-756					-756
Loans to customers	183,865	-229	-367	-631	8,240	190,878

(Note 8 cont.)

Gross loans, incremental distribution

Parent bank

Gross loans	Stage 1	Stage 2	Stage 3	Total
Balance 1 Jan 2018 ⁹⁾	115,659	14,241	1,992	131,892
Transferred to Stage 1	-5,480	4,612	868	-
Transferred to Stage 2	2,756	-3,890	1,134	-
Transferred to Stage 3	14	72	-86	-
Net increase/(decrease) balance existing loans	3,316	751	12	4,079
New issued or purchased financial assets	42,182	1,325	33	43,540
Derecognised financial assets	-39,265	-4,874	-1,828	-45,968
Gross loans 31 Dec 2018	119,183	12,235	2,126	133,543

Group

Gross loans	Stage 1	Stage 2	Stage 3	Total
Balance 1 Jan 2018 ⁹⁾	154,621	15,937	1,996	172,554
Transferred to Stage 1	-6,124	5,253	871	-
Transferred to Stage 2	3,371	-4,507	1,136	-
Transferred to Stage 3	15	72	-87	-
Net increase/(decrease) balance existing loans	1,573	790	13	2,376
New issued or purchased financial assets	67,551	2,166	36	69,752
Derecognised financial assets	-45,324	-5,421	-1,831	-52,577
Gross loans 31 Dec 2018	175,683	14,289	2,133	192,105

Gross financial liabilities, incremental distribution

Parent bank

Gross financial liabilities ^{7) 8)}	Stage 1	Stage 2	Stage 3	Total
Financial liabilities 1 Jan 2018 ⁹⁾	27,771	4,980	94	32,845
Net increase/decrease in period	1,204	-952	707	959
Financial liabilities 31 Dec 2018	28,975	4,028	801	33,804

Group

Gross financial liabilities ^{7) 8)}	Stage 1	Stage 2	Stage 3	Total
Financial liabilities 1 Jan 2018 ⁹⁾	31,358	5,128	95	36,581
Net increase/decrease in period	2,467	-904	707	2,270
Financial liabilities 31 Dec 2018	33,825	4,224	802	38,851

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

²⁾ PD = probability of default

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

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

⁵⁾ In 2017, interest was allocated on its own line. In 2018, it is allocated by industry.

⁶⁾ Financial liabilities not on the balance sheet that are the basis for impairments.

⁷⁾ Other financial liabilities include guarantees, unused credit lines and loan commitments.

⁸⁾ Financial liabilities provide the basis for impairments under IFRS 9. See also note 11.

⁹⁾ Historical figures have been changed as a result of updated source data.

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

Loans sold to SpareBank 1 Boligkreditt AS

SpareBank 1 Boligkreditt AS is owned by the savings banks that make up the SpareBank 1 Alliance and shares premises with SpareBank 1 Næringskreditt AS in Stavanger. The bank owned a 4.8% stake as at 31 December 2018 (8.0% as at 31 December 2017).

The purpose of the mortgage company is to ensure the alliance banks access to stable, long-term funding for home mortgages at competitive prices. Covered bonds issued by SpareBank 1 Boligkreditt AS have an Aaa and AAA rating from Moody's and Fitch, respectively. SpareBank 1 Boligkreditt AS also issues bonds with a

(Note 9 cont.)

lower rating that are not covered bonds. SpareBank 1 Boligkreditt AS acquires loans with collateral in housing and issues covered bonds in accordance with the regulations established for this in 2007.

As part of the SpareBank 1 Alliance, the bank can offer SpareBank 1 Boligkreditt AS the opportunity to buy loans and the bank sells loans to SpareBank 1 Boligkreditt AS as part of its funding strategy. Loans sold to SpareBank 1 Boligkreditt AS are secured by collateral in housing up to a ceiling of 75% of their valuation. The sold loans are legally owned by SpareBank 1 Boligkreditt AS and the bank has, apart from the right to administer them and receive commissions, as well as the right to take over fully or partially written down loans, no right to use the loans. At the end of December 2018, the value of transferred loans amounted to NOK 8.9 billion (NOK 14.1 billion). The bank administers the sold loans and receives commissions based on the net return on the loans the bank has sold less the company's costs.

Loans sold to SpareBank 1 Næringskreditt AS

SpareBank 1 Næringskreditt AS was established in 2009 and has a licence from the Financial Supervisory Authority of Norway to operate as a mortgage company that issues covered bonds. Cover bonds issued by SpareBank 1 Næringskreditt AS have an Aaa rating from Moody's. The company is owned by savings banks that are part of the SpareBank 1 alliance and shares premises with SpareBank 1 Boligkreditt AS in Stavanger. The bank owned a 14.4% stake as at 31 December 2018 (19.2% as at 31 December 2017). The purpose of the mortgage company is to ensure the alliance

banks access to stable, long-term funding for commercial property at competitive prices. SpareBank 1 Næringskreditt AS acquires loans with collateral in commercial property and issues covered bonds in accordance with the regulations established for this in 2007. As part of the SpareBank 1 Alliance, the bank can offer the company the opportunity to buy loans and the bank sells loans as part of its funding strategy. Loans sold to SpareBank 1 Næringskreditt AS are secured by collateral in commercial properties up to a ceiling of 60% of their valuation. The sold loans are legally owned by SpareBank 1 Næringskreditt AS and the bank has, apart from the right to administer them and receive commissions for this and the right to take over fully or partially written down loans, no right to use the loans. At the end of December 2018, the value of sold loans amounted to NOK 0.42 billion (NOK 0.47 billion). The bank administers the sold loans and receives commissions based on the net return on the loans the bank has sold less the company's costs.

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

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

NOTE 10 AGE DISTRIBUTION OF DUE BUT NOT WRITTEN DOWN LOANS

(Figures in NOK millions)

The table below shows amounts due on loans, overdrafts/deposits and by number of days after their due date that are not due to delays in money-transfer services.

Parent bank

2018	Less than 30 days	31 - 60 days	61 - 90 days	More than 91 days	Total
Allocation not relevant under IFRS 9					

Parent bank

2017					
Loans to customers					
- Retail market	950	104	33	125	1,212
- Corporate market	1,381	180	3	68	1,632
Total	2,331	284	36	193	2,844

Group

2018					
Allocation not relevant under IFRS 9					

Group

2017					
Loans to customers					
- Retail market	1,079	120	33	125	1,357
- Corporate market	1,381	180	3	68	1,632
Total	2,460	300	36	193	2,989

NOTE 11 IMPAIRMENTS ON LOANS AND FINANCIAL LIABILITIES

(Figures in NOK millions)

Parent bank

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

Presented as:

Impairments on loans	1,287	-72	-	1,215
Financial liabilities – impairments on guarantees, unused credit lines, loan commitments	127	-	-20	107
Total impairments on loans and financial liabilities	1,414	-72	-20	1,322

Total capitalised impairments on loans	Stage 1	Stage 2	Stage 3	Total
Balance 1 Dec 2018	189	397	701	1,287
Changes 1 Jan - 31 Dec 2018				
Transferred to (from) Stage 1	-133	128	5	-
Transferred to (from) Stage 2	10	-15	5	-
Transferred to (from) Stage 3	-	5	-5	-
Net new measurement of impairments	118	-44	-25	49
New issued or purchased loans	86	45	4	135
Loans that have been derecognised	-45	-156	-22	-223
Changes due to modifications that have not resulted in derecognition	-	-	-	-
Realised losses in the period	-	-	456	456
Realised losses on commitments previously written down in the period	-	-	-397	-397
Changes to models/risk parameters	-	-	-	-
Other movements	-	-	-92	-92
Impairments on loans 31 Dec 2018	225	360	630	1,215

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

(Note 11 cont.)

Group

Impairments on loans and financial liabilities	1 Jan 2018	Change in impairments on loans	Change in impairments on financial liabilities	Total 31 Dec 2018
Impairments after amortised cost - corporate market	1,236	-48	-20	1,168
Impairments after amortised cost - retail market	187	-21	-	166
Home mortgages at fair value through OCI	-	-	-	-
Total impairments on loans and financial liabilities	1,423	-69	-20	1,334
Presented as:				
Impairments on loans	1,296	-69	-	1,227
Financial liabilities – impairments on guarantees, unused credit lines, loan commitments	127	-	-20	107
Total impairments on loans and financial liabilities	1,423	-69	-20	1,334
Total capitalised impairments on loans	Stage 1	Stage 2	Stage 3	Total
Balance 1 Dec 2018	192	402	702	1,296
Changes 1 Jan - 31 Dec 2018				
Transferred to (from) Stage 1	-135	130	5	-
Transferred to (from) Stage 2	10	-15	5	-
Transferred to (from) Stage 3	-	5	-5	-
Net new measurement of impairments	119	-52	-25	42
New issued or purchased loans	89	48	4	141
Loans that have been derecognised	-46	-151	-22	-219
Changes due to modifications that have not resulted in derecognition	-	-	-	-
Realised losses in the period	-	-	456	456
Realised losses on commitments previously written down in the period	-	-	-397	-397
Changes to models/risk parameters	-	-	-	-
Other movements	-	-	-92	-92
Impairments on loans 31 Dec 2018	229	367	631	1,227
Total capitalised impairments on financial liabilities	Stage 1	Stage 2	Stage 3	Total
Balance 1 Dec 2018	42	70	15	127
Changes 1 Jan - 31 Dec 2018				
Transferred to (from) Stage 1	-14	14	-	-
Transferred to (from) Stage 2	1	-1	-	-
Transferred to (from) Stage 3	-	-	-	-
Net new measurement of impairments	4	-10	-	-6
New issued or purchased loans	13	5	-	18
Loans that have been derecognised	-15	-21	-	-36
Changes due to modifications that have not resulted in derecognition	-	-	-	-
Realised losses in the period	-	-	4	4
Realised losses on commitments previously written down in the period	-	-	-	-
Changes to models/risk parameters	-	-	-	-
Other movements	-	-	-	-
Impairments on financial liabilities 31 Dec 2018	31	57	19	107

NOTE 12 CREDIT RISK EXPOSURE FOR EACH INTERNAL RISK CLASS

(Figures in NOK millions)

Probability of default (PD) ¹⁾	Average unse- cured exposure	Total commitments	Average unse- cured exposure	Total commitments
Parent bank	2018		2017	
0.00 - 0.50%	21.6%	75,519	23.6%	77,861
0.50 - 2.50%	28.8%	61,177	28.6%	56,331
2.50 - 5.00%	37.9%	13,869	37.9%	15,077
5.00 - 99.9%	37.7%	7,634	37.7%	8,540
Non-performing and written down	53.8%	3,076	53.9%	2,104
TOTAL		161,275	27.9%	159,913
Group				
0.00 - 0.50%	16.5%	129,144	18.2%	115,458
0.50 - 2.50%	26.8%	70,017	26.9%	62,479
2.50 - 5.00%	37.3%	14,352	36.9%	15,415
5.00 - 99.9%	36.3%	8,291	36.9%	8,930
Non-performing and written down	53.6%	3,080	54.2%	2,104
Total		224,884	23.4%	204,386

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

NOTE 13 MAXIMUM CREDIT RISK EXPOSURE

(Figures in NOK millions)

Maximum exposure to credit risk for balance sheet components, including derivatives.

Exposure is shown gross before assets pledged as security and permitted offsetting.

Parent bank			Group	
2017	2018		2018	2017
		Assets		
13	587	Receivables from the central bank	587	13
1,607	5,069	Loans to and receivables from financial institutions	1,696	1,608
130,579	132,338	Loans to and receivables from customers	190,878	171,237
32,203	27,815	Certificates and bonds	29,340	31,909
6,033	5,574	Derivatives	5,268	5,541
170,435	171,383	Total credit risk exposure balance sheet items	227,769	210,308
		Financial guarantees and loan commitments		
9,043	9,566	Guarantees customers	9,627	9,120
588	588	Guarantees others	588	588
5,000	1,560	Unused credit lines for financial institutions	-	-
18,978	18,166	Unused credit lines for customers	23,152	22,712
4,824	6,072	Loan commitments	6,072	4,749
38,433	35,952	Total financial guarantees and loan commitments	39,439	37,169
208,868	207,335	Total credit risk exposure	267,208	247,477

Credit risk exposure related to financial assets by geographic area

Parent bank			Group	
2017	2018		2018	2017
		Banking operations		
112,722	106,197	Rogaland	150,207	141,545
14,882	14,408	Agder counties	20,380	19,096
27,306	26,209	Hordaland	33,563	32,256
	13,576	Oslo	14,167	
3,821	5,358	International	5,228	3,880
11,901	8,198	Other	9,055	13,250
170,632	173,946	Total banking operations	232,600	210,027
		Market activities		
15,447	10,136	Norway	11,661	15,153
16,179	16,413	Europe/Asia	16,413	16,179
577	1,266	North America/Oceania	1,266	577
32,203	27,815	Total market activities	29,340	31,909
6,033	5,574	Derivatives	5,268	5,541
208,868	207,335	Total by geographic area	267,208	247,477

NOTE 14 CREDIT QUALITY PER CLASS OF FINANCIAL ASSET

(Figures in NOK millions)

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

Parent bank

2018	0.00 - 0.50%	0.50 - 2.50%	2.50 - 5.00%	5.00 - 99.99%	Commitments in default	Impairments	Total
Net loans							
Loans to and receivables from financial institutions	5,069	-	-	-	-	-	5,069
Loans to and receivables from customers							
- Retail market	41,563	12,003	768	1,242	361	-1,069	54,866
- Corporate market	21,795	38,684	9,778	5,524	1,827	-136	77,472
Total net loans	68,426	50,686	10,546	6,765	2,188	-1,205	137,407
Financial investments							
Norwegian government bonds	316	-	-	-	-		316
Listed certificates and bonds	27,091	93	-	100	-		27,284
Unlisted certificates and bonds	173	-	-	30	12		215
Total financial investments	27,580	93	-	130	12	-	27,815
Total loan-related assets	96,006	50,779	10,546	6,895	2,200	-1,205	165,222

Parent bank

2017							
Net loans							
Loans to and receivables from financial institutions	1,607						1,607
Loans to and receivables from customers							
- Retail market	48,495	13,215	846	1,349	396	-156	64,145
- Corporate market	16,668	33,510	10,354	5,541	1,518	-1,157	66,434
Total net loans	66,770	46,725	11,200	6,890	1,914	-1,313	132,186
Financial investments							
Norwegian government bonds	-						-
Listed certificates and bonds	31,450	156	1	94	2		31,703
Unlisted certificates and bonds	500	-	-	-			500
Total financial investments	31,950	156	1	94	2	-	32,203
Total loan-related assets	98,720	46,881	11,201	6,984	1,916	-1,313	164,389

(Note 14 cont.)

Group

2018	0.00 - 0.50%	0.50 - 2.50%	2.50 - 5.00%	5.00 - 99.99%	Commitments in default	Impairments	Total
Net loans							
Loans to and receivables from financial institutions	1,696						1,696
Loans to and receivables from customers							
- Retail market	89,385	20,813	1,292	1,909	377	-1,070	112,707
- Corporate market	22,375	38,819	9,778	5,532	1,825	-157	78,171
Total net loans	113,456	59,632	11,070	7,440	2,203	-1,227	192,574
Financial investments							
Norwegian government bonds	316	-	-	-	-	-	316
Listed certificates and bonds	28,616	93	-	100	-	-	28,809
Unlisted certificates and bonds	173	-	-	30	12	-	215
Total financial investments	29,105	93	-	130	12	-	29,340
Total loan-related assets	142,561	59,725	11,070	7,570	2,215	-1,227	221,914

Group

2017							
Net loans							
Loans to and receivables from financial institutions	1,608						1,608
Loans to and receivables from customers							
- Retail market	81,885	19,330	1,218	1,738	403	-160	104,414
- Corporate market	16,908	33,634	10,354	5,562	1,522	-1,157	66,823
Total net loans	100,401	52,964	11,572	7,300	1,925	-1,317	172,845
Financial investments							
Norwegian government bonds	-	-	-	-	-	-	-
Listed certificates and bonds	31,146	156	1	94	2		31,399
Unlisted certificates and bonds	500	10	-	-	-		510
Total financial investments	31,646	166	1	94	2	-	31,909
Total loan-related assets	132,047	53,130	11,573	7,394	1,927	-1,317	204,754

Classification of financial investments:

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

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

NOTE 15 MARKET RISK RELATED TO INTEREST RATE RISK

(Figures in NOK millions)

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

Parent bank			Group	
2017	2018		2018	2017
-45	-39	Certificates and bonds	-42	-45
-16	-24	Fixed-rate loans to customers	-24	-16
-39	-36	Other loans and deposits	-90	-83
67	56	Securities issued	129	121
1	9	Other	9	1
-32	-34	Total interest rate risk	-18	-22
Maturity bands				
-21	-37	0 - 3 months	-21	-11
-	3	3 - 6 months	3	-
-3	1	6 - 9 months	1	-3
2	-1	9 - 12 months	-1	2
-1	1	12 - 18 months	1	-1
-2	4	18 - 24 months	4	-2
-7	-6	2 - 10 years	-6	-7
-	1	10 years +	1	-
-32	-34	Total interest rate risk	-18	-22
Currency				
7	-16	NOK	-	17
-27	-13	EUR	-13	-27
-11	-	USD	-	-11
-1	-1	CHF	-1	-1
-	-4	Other	-4	-
-32	-34	Total interest rate risk	-18	-22

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

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

NOTE 16 MARKET RISK RELATED TO CURRENCY RISK

(Figures in NOK millions)

The table shows net foreign currency exposure including financial derivatives as at 31 December, calculated in accordance with section 38-3 of the Capital Requirements Regulations.

Parent bank			Group	
2017	2018		2018	2017
Currency				
-31	-96	EUR	-96	-31
1	-	USD	-	1
-	-27	CHF	-27	-
-	-	GBP	-	-
3	-2	SEK	-2	3
-38	-48	DKK	-48	-38
2	2	Other	2	2
-63	-171	Total	-171	-63
-1.9	-5.1	Effect on result of 3% change before tax	-5.1	-1.9

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

The group has defined limits for the net exposure in each currency, as well as limits for aggregated net currency exposure (expressed as the highest of the sum of long and short positions). The overnight price risk for spot trading in currencies must not exceed NOK 100 million per individual currency, and NOK 175 million in aggregate.

NOTE 17 LIQUIDITY RISK

(Figures in NOK millions)

The table shows cash flows including contractual interest maturity.

Parent bank ¹⁾

2018	Upon request	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Debt to financial institutions	3,201	-	-	-	-	3,201
Deposits from customers	99,119	-	-	-	-	99,119
Securities issued	-	5,157	2,297	38,090	4,405	49,949
Subordinated loan capital	-	13	110	196	2,989	3,308
Total liabilities	102,320	5,170	2,407	38,286	7,394	155,577
Derivatives						
Contractual cash flows out	-	-43,925	-10,058	-44,850	-27,135	-125,968
Contractual cash flows in	-	44,956	10,305	44,688	27,844	127,793

2017

Debt to financial institutions	3,422	1,116	-	-	-	4,538
Deposits from customers	95,635	-	-	-	-	95,635
Securities issued	-	999	10,618	33,598	9,604	54,819
Subordinated loan capital	-	10	102	491	2,875	3,478
Total liabilities	99,057	2,125	10,720	34,089	12,479	158,470
Derivatives						
Contractual cash flows out	-	-41,109	-19,686	-30,862	-14,823	-106,480
Contractual cash flows in	-	42,138	20,230	31,923	14,311	108,602

Group ¹⁾

2018	Upon request	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Debt to financial institutions	1,433	-	-	-	-	1,433
Deposits from customers	98,814	-	-	-	-	98,814
Securities issued	-	5,261	7,777	72,805	22,170	108,013
Subordinated loan capital	-	13	110	196	2,989	3,308
Total liabilities	100,247	5,274	7,887	73,001	25,159	211,568
Derivatives						
Contractual cash flows out	-	-43,883	-9,931	-20,493	-11,146	-85,453
Contractual cash flows in	-	44,790	9,800	20,265	12,005	86,860

2017

Debt to financial institutions	1,219	1,116	-	-	-	2,335
Deposits from customers	95,384	-	-	-	-	95,384
Securities issued	-	1,073	10,899	61,465	22,078	95,515
Subordinated loan capital	-	10	102	491	2,875	3,478
Total liabilities	96,603	2,199	11,001	61,956	24,953	196,712
Derivatives						
Contractual cash flows out	-	-40,975	-19,287	-12,226	-3,886	-76,374
Contractual cash flows in	-	42,063	19,944	13,347	2,820	78,174

¹⁾ Also see note 6 financial risk management.

NOTE 18 MATURITY ANALYSIS OF ASSETS AND DEBT/LIABILITIES

(Figures in NOK millions)

Parent bank

31 Dec 2018	On request ¹⁾	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Assets						
Cash and receivables from the central bank	130	587	-	-	-	717
Loans to and receivables from financial institutions	4,155	35	861	-	18	5,069
Gross loans to customers	19,878	1,110	5,351	41,478	65,726	133,543
- Impairments after amortised cost	-1,215	-	-	-	-	-1,215
- Home mortgages at fair value through OCI	10	-	-	-	-	10
Loans to customers	18,673	1,110	5,351	41,478	65,726	132,338
Certificates and bonds	-	891	4,692	21,469	763	27,815
Financial derivatives	842	1,245	277	2,026	1,184	5,574
Equities, units and other equity interests	517	-	-	-	-	517
Investments in ownership interests	2,099	-	-	-	-	2,099
Investments in group companies	6,128	-	-	-	-	6,128
Tangible fixed assets and intangible assets	303	-	-	-	-	303
Other assets	331	-	-	-	-	331
Total assets	33,178	3,868	11,181	64,973	67,691	180,891
Liabilities						
Debt to financial institutions	3,200	1	-	-	-	3,201
Deposits from customers	99,119	-	-	-	-	99,119
Securities issued	-	4,915	1,722	35,817	5,659	48,113
Financial derivatives	2,390	167	164	2,120	1,393	6,234
Payable tax	779	-	-	-	-	779
Deferred tax liabilities	146	-	-	-	-	146
Other liabilities	746	-	-	-	-	746
Subordinated loan capital	-	-	-	-	2,951	2,951
Total liabilities	106,380	5,083	1,886	37,937	10,003	161,289

(Note 18 cont.)

Group

31 Dec 2018	Upon request ¹⁾	Less than 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
Assets						
Cash and receivables from the central bank	130	587	-	-	-	717
Loans to and receivables from financial institutions	782	35	861	-	18	1,696
Gross loans to customers	35,343	1,115	5,363	41,742	108,542	192,105
- Impairments after amortised cost	-1,227	-	-	-	-	-1,227
- Home mortgages at fair value through OCI	-	-	-	-	-	-
Loans to customers	34,116	1,115	5,363	41,742	108,542	190,878
Certificates and bonds at fair value	-	899	4,860	23,320	261	29,340
Financial derivatives	842	1,245	277	1,787	1,117	5,268
Equities, units and other equity interests	868	-	-	-	-	868
Operations that will be sold	-	-	-	-	-	-
Investments in ownership interests	3,713	-	-	-	-	3,713
Investments in group companies	-	-	-	-	-	-
Tangible fixed assets and intangible assets	893	-	-	-	-	893
Other assets	688	-	-	-	-	688
Total assets	42,032	3,881	11,361	66,849	109,938	234,061
Liabilities						
Debt to financial institutions	1,433	-	-	-	-	1,433
Deposits from customers	98,814	-	-	-	-	98,814
Securities issued	-	4,915	6,729	74,365	17,476	103,485
Financial derivatives	2,390	167	164	842	326	3,889
Payable tax	896	-	-	-	-	896
Deferred tax liabilities	124	-	-	-	-	124
Other liabilities	884	-	-	-	-	884
Subordinated loan capital	-	-	-	-	2,951	2,951
Total liabilities	104,541	5,082	6,893	75,207	20,753	212,476

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

NOTE 19 NET INTEREST INCOME

(Figures in NOK millions)

Parent bank						Group					
2017			2018			2018			2017		
Measured at fair value	Measured at amortised cost	Total	Measured at fair value	Measured at amortised cost	Total	Total	Measured at amortised cost	Measured at fair value	Total	Measured at amortised cost	Measured at fair value
Interest income											
-	57	57	-	61	61	Interest on receivables from financial institutions	50	50	-	51	51
286	3,980	4,266	1,570	2,932	4,502	Interest on lending to customers	5,680	5,429	251	5,160	4,874
433	35	468	394	64	458	Interest on certificates and bonds	450	66	384	464	35
-	72	72	-	94	94	Interest on written down loans	94	94	-	72	72
719	4,144	4,863	1,964	3,151	5,115	Total interest income	6,274	5,639	635	5,747	5,032
Interest costs											
610	41	651	400	52	452	Interest on debt to financial institutions	669	22	647	826	35
-	835	835	-	997	997	Interest on deposits from customers	992	992	-	830	830
-608	1,049	441	-372	935	563	Interest on securities issued	1,007	1,389	-382	761	1,370
-36	139	103	-23	126	103	Interest on subordinated loan capital	103	126	-23	103	139
-	65	65	-	64	64	Fee to the Norwegian Banks Guarantee Fund	64	64	-	65	65
-34	2,129	2,095	5	2,174	2,179	Total interest costs	2,835	2,593	242	2,585	2,439
753	2,015	2,768	1,959	977	2,936	Net interest income	3,439	3,046	393	3,162	2,593

NOTE 20 NET COMMISSIONS AND OTHER OPERATING INCOME

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
107	108	Guarantee commissions	108	107
6	5	Interbank commissions	5	6
15	6	Securities trading	6	15
-	-	Management	100	98
121	131	Brokerage commissions	96	89
175	122	Commissions from mortgage companies	88	149
318	324	Money-transfer services	324	318
208	187	Insurance services	187	208
-	-	Fee accounting	99	96
119	119	Other commissions	124	122
-	-	Property sales	382	389
1,069	1,002	Total commissions	1,519	1,597
4	3	Interbank commissions	3	4
62	71	Money-transfer services	71	62
10	10	Other commission costs	13	13
76	84	Total commission costs	87	79
6	6	Operating income from investment properties	3	4
2	2	Other operating income	2	2
8	8	Total other operating income	5	6
1,001	926	Net commissions and other operating income	1,437	1,524

NOTE 21 NET INCOME/LOSSES FROM FINANCIAL INSTRUMENTS

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
92	-2	Net gain/loss on equity instruments	91	136
-140	-231	Net gain/loss on bonds and certificates	-249	-152
143	151	Net derivatives, bonds and certificates	151	143
-	74	Net derivatives, equities	72	-
2	-	Net counterparty risk, inclusive of CVA	-	2
-2	15	Net derivatives, fixed-rate	15	-2
-28	10	Net derivatives, debt	14	-1
67	-11	Net derivatives, basis swap spread	-38	-32
104	141	Net gain currency	135	104
238	147	Net income/loss from financial investments	191	198

NOTE 22 REMUNERATION STATEMENT, PERSONNEL COSTS AND BENEFITS FOR EXECUTIVE PERSONNEL AND ELECTED REPRESENTATIVES

Information about the remuneration scheme

The Financial Institutions Act and the Financial Institutions Regulations regulate remuneration schemes for financial companies. The company shall disclose information about its remuneration scheme, including information on the main principles for determining remuneration, criteria for determining possible variable remuneration, and quantitative information on remuneration for executive personnel, employees with significant tasks for the company's risk exposure, employee representatives and employees with control tasks.

Disclosure of information about the company's remuneration scheme, including the board's statement of salary determination and other remuneration to executive personnel, is given in this note in accordance with applicable rules.

SpareBank 1 SR-Bank's remuneration policy

SpareBank 1 SR-Bank has an established remuneration scheme that applies to all employees. The guidelines cover fixed salaries, variable remuneration and employee benefits (pensions, insurance cover and other employee benefits).

The group's remuneration scheme shall:

- be consistent with the group's overall objectives, risk tolerance and long-term interests
- help promote and encourage good management and control of the group's risk
- counter overly high or undesirable risk taking
- help to avoid conflicts of interest
- comply with the Financial Business Regulations, chapter 15

The total remuneration shall be competitive, but the group shall not be a wage leader. It shall ensure that the group attracts, develops and retains competent employees over time. The arrangements will ensure a reward model that is perceived to be fair, predictable and future-oriented and motivating.

Variable remuneration shall reflect/be associated with extraordinary results that employees, departments, divisions and the group deliver. Variable remuneration must support the group's vision, strategic position and core values, as well as prevent the employee from incurring undesirable risks in accordance with the regulations.

Separate special arrangements for variable remuneration for SR-Bank Markets and its subsidiaries have been adopted, based on adaptation to industry standards.

Decision process

The board of SpareBank 1 SR-Bank has a remuneration committee consisting of the chairman, one board member and one elected board member.

The remuneration committee prepares matters for the board and is mainly responsible for:

- annually reviewing and proposing the total salary and remuneration for the chief executive
- annually considering proposals for corporate scorecard (CEO's scorecard)
- annually considering the group's remuneration scheme, including the guiding principles for variable remuneration
- advising the chief executive on matters relating to salary and other remuneration and other personnel-related issues for the group's executive personnel
- ensuring that the practice of the group's remuneration arrangements are reviewed annually by an independent control function
- preparing a statement on the fixing of salaries and other remuneration to executive personnel (ref. section 6-16a of the Public Limited Liability Companies Act)
- considering other conditions as determined by the board and/or remuneration committee
- evaluating remuneration schemes in relation to reputation risk

(Note 22 cont.)

Guidelines for the coming financial year

Performance bonus

The group has a bonus scheme which includes all employees with the exception of SpareBank 1 Regnskapshuset SR AS and FinStart Nordic AS. Performance bonuses are set at an equal percentage of salary, and can, as a maximum, amount to 10.0% fixed salary. The performance bonus is set by the board based on the financial targets achieved. The performance bonus is paid entirely in cash.

CEO's remuneration

The chief executive's total remuneration consists of a fixed salary (main element), variable remuneration, benefits in kind, and pension and insurance plans. The chief executive's fixed salary and variable remuneration are set annually by the board based on the recommendation of the remuneration committee.

Assessment of the fixed salary is based on results achieved, stock price development, reputation considerations and wage developments in comparable positions.

Variable remuneration for 2019 will be set based on the achievement of objectives related to the following main criteria: long-term financial targets, financial and non-financial targets related to the fiscal year and a discretionary bonus element after review by the board.

The chief executive can receive performance bonuses on a par with other employees. Any variable remuneration, including performance bonuses, may amount to up to 35% of fixed salary including holiday pay. No performance-based benefits are paid over and above the said schemes. Variable remuneration is not included in pensionable salary. Variable remuneration cannot be awarded to the chief executive if no performance bonus is paid.

The chief executive may also receive benefits in kind to the extent that the benefits are related to the chief executive's function in the group and are in line with market practice in general.

A lifelong pension agreement has been concluded with the chief executive in which the retirement age is at the end of the year in which the chief executive turns 64. The annual service pension up until when the chief executive turns 67 amounts to 67% of pensionable pay. From the age of 67, the chief executive will receive a supplementary retirement pension which, together with other pension rights, will constitute 67% of pensionable pay, assuming full earning period.

The chief executive has no agreement concerning termination benefits if he leaves his post prior to reaching retirement age.

Remuneration to other members of the group's executive management team

The chief executive determines the fixed remuneration of the group's executive management team based on the limits discussed by the remuneration committee and guidelines adopted

by the board. The remuneration is fixed based on an assessment of performance and conditions in the market for the various areas and should promote good performance and ensure that the group achieves strategic goals. The remuneration arrived at must not damage the group's reputation nor shall the group be a market leader.

The variable part of the remuneration to the group's executive management team follows the same measurement as the chief executive. The EVP, Risk Management, EVP, HR and Business Support and EVP, Compliance and AML do not receive variable remuneration beyond a performance bonus.

Benefits in kind can be offered to the group's executive management team members to the extent that benefits are linked to each function in the group and are in line with market practice in general.

The pension scheme should be seen in the context of other remuneration and should provide competitive terms. New members of the group executive management team have after 2011 been included in the defined contribution pension scheme with a retirement age of 70 and pension basis limited to 12G. The deposit rates are 7% of the pension basis up to 7.1G, and 22% of the pension basis between 7.1G and 12G. Four members of the group executive management team currently have this pension scheme. Members of the group executive management team who have a retirement age of 62 years, and are between the ages of 62 and 67, are entitled to a pension equivalent to 70% of pensionable income in the form of service pension. From the age of 67, they will receive a supplementary retirement pension which, together with the SpareBank 1 SR-Bank's pension fund, pension from the National Insurance Scheme and statutory early retirement pension (AFP), will constitute 70% of pensionable pay, assuming full earning period.

No members of the group's executive management team have an agreement concerning termination benefits upon leaving his/her post prior to reaching retirement age.

Goal structure 2018

The board shall annually discuss and adopt the group's remuneration scheme including a strategy and guiding principles for variable remuneration. For the financial year 2018, the board has resolved that the following criteria shall be decisive for the group's executive management team including the chief executive: Three-year measurement related to returns on equity after tax against targets and returns measured against comparable financial institutions. One-year measurement related to selected goals related to financial and non-financial key strategic goals at group and/or division level. In addition to this, an assessment will also be made relating to the individual's performance of his/her own role. For the chief executive, the board in this assessment will emphasise the ability to change management in accordance with strategy and value base. In order for a bonus to be achieved, selected thresholds related to liquidity, solvency and return must be achieved in the last 2 years.

(Note 22 cont.)

Maximum bonus achievement is 35.0% of fixed salary. Earned bonus shares, taking into account tax deductions, will be distributed in full the year after the year of employment with a one-year binding period for a third, two years for a third and three years for a third.

Separate rules for the remuneration for executive personnel, employees with important tasks for the company's risk exposure, employees with control tasks and elected representatives

SpareBank 1 SR-Bank has adopted its own guidelines for executive personnel, employees with important tasks for the company's risk exposure, employees with control tasks and employee representatives.

As set out in the Financial Institutions Act and the Financial Institutions Regulations, the group has defined who is covered by the separate rules based on the defined criteria.

The remuneration is fixed based on an assessment of performance and conditions in the market for the various areas and should promote good performance and ensure that the group achieves strategic goals. The remuneration arrived at must not damage the group's reputation nor shall the group be a market leader. The remuneration should ensure that the group has the ability to attract and retain executive personnel with the desired expertise and experience.

The remuneration paid to executive personnel with supervision duties must be independent of the results of the operations they supervise. Employees with control functions do not receive variable remuneration beyond performance bonuses.

Variable remuneration to executive personnel, employees with important tasks for the company's risk exposure and employee representatives are measured on performance over two years.

Half of variable remuneration, with the exception of the performance bonus, is paid in the form of shares in SpareBank 1 SR-Bank. The shares are distributed in full year after the bonus year, but with a binding period of one third of the shares each year over three years. That part of the variable remuneration that is paid in shares can be reduced if subsequent performance and developments indicate it was based on incorrect assumptions.

Binding guidelines for shares, subscription rights, options, etc. for the coming financial year

The chief executive and executive management team are able to participate in private placements/share saving programmes for employees on an equal footing with other employees.

Of the variable remuneration for the chief executive, executive personnel and risk-takers, a proportion equal to 50% of earned variable remuneration, taking into account tax deductions, will be paid in the form of shares in SpareBank 1 SR-Bank. These will be subject to lock-in periods of one year for one third, two years for the second third, and three years for the final third.

Report on executive pay policy in the preceding financial year

The board confirms that the guidelines provided in last year's statement on executive personnel pay for 2018 have been followed.

Personnel costs

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
686	694	Salaries	951	930
89	98	Pension costs (note ²⁴)	116	106
127	129	National insurance costs	170	166
50	47	Other personnel costs	60	61
952	968	Total personnel costs	1,297	1,263
917	919	Average no. of employees	1,251	1,243
842	868	No. of FTEs as at 31 Dec	1,178	1,142
911	929	No. of employees as at 31 Dec	1,271	1,238
155,223	162,598	Outstanding no. of shares from bonus share programme	164,493	155,633
-	-	Outstanding hybrid tier 1 capital instruments from bonus programme	602	492

(Note 22 cont.)

Remuneration to group executive management team

(Amounts in NOK 1000)

		Salary ¹⁾	Other remuneration ¹⁾	Accrued bonus current year ¹⁾	Total benefits	Accrued pension rights	Pension costs	Loans	Number of shares ²⁾	Outstanding number of shares from bonus share programme
2018										
Arne Austreid	Chief Executive Officer	3,526	241	915	4,682	24,703	3,547	1,784	100,006	8,669
Inge Reinertsen	Chief Financial Officer	2,153	288	520	2,961	11,095	729	9,000	83,529	4,802
Tore Medhus	Executive Vice President, Corporate Market	2,153	202	550	2,905	15,635	716	4,659	49,147	4,802
Jan Friestad	Executive Vice President, Retail Market	2,135	212	514	2,861	3,270	157	6,500	40,814	4,727
Glenn Sæther	Executive Vice President, Strategy, Innovation and Development	1,850	286	452	2,588	8,006	963	7,881	22,861	4,107
Thor-Christian Haugland	Executive Vice President, Communications and Sustainability	1,610	277	393	2,280	9,712	573	6,084	20,707	3,652
Frode Bø ³⁾	Executive Vice President, Risk Management	1,879	339	50	2,268	12,644	803	640	17,242	-
Ella Skjørestad (from 15 February 2018)	Executive Vice President, Customer Services and Marketing	1,422	125	358	1,905	-	144	4,414	3,937	1,345
Gro Tveit ³⁾ (from 9 June 2018)	Executive Vice President, Human Resources and Business Support	800	348	44	1,192	-	93	4,731	20,029	-
2017										
Arne Austreid	Chief Executive Officer	3,508	239	710	4,457	25,950	1,912	1,965	94,156	10,526
Inge Reinertsen	Chief Financial Officer	2,096	270	420	2,786	12,678	755	9,100	80,433	5,555
Tore Medhus	Executive Vice President, Corporate Market	2,096	195	420	2,711	17,848	734	4,949	46,051	5,555
Jan Friestad	Executive Vice President, Retail Market	2,069	248	413	2,730	4,146	153	7,834	37,768	5,466
Glenn Sæther	Executive Vice President, Strategy, Innovation and Development	1,793	266	359	2,418	8,729	974	7,341	20,213	4,751
Thor-Christian Haugland	Executive Vice President, Communications and Sustainability	1,557	242	333	2,132	11,003	582	6,128	18,450	4,049
Frode Bø ³⁾	Executive Vice President, Risk Management	1,840	333	43	2,216	13,461	784	693	17,242	-
Inglen Haugland ³⁾ (until 31 October 2017)	Executive Vice President, Organisation and HR	1,472	176	37	1,685					

For further information on the remuneration of executive personnel, reference is made to the board's statement on the remuneration of executive personnel.

¹⁾ Benefits are recognised as costs in the current year.

²⁾ No. of shares the person owns in SpareBank 1 SR-Bank as at 31 December. The figures also include shares belonging to immediate family members and known companies in which the person has a controlling influence, ref. section 1-2 of the Limited Liability Companies Act.

³⁾ Employees with control functions do not receive variable remuneration beyond performance bonuses.

(Note 22 cont.)

Remuneration of the board

(Amounts in NOK 1000)

2018		Fees	Other remuneration	Loans	No. of shares ⁴⁾
Dag Mejdell	Chair of the board	543	95	-	25,000
Kate Henriksen	Board member	245	45	-	-
Birthe Cecilie Lepsøe	Board member	245	90	-	-
Tor Dahle ⁵⁾	Board member	245	1,204	1,165	72,456,358
Therese Log Bergjord	Board member	245	35	-	-
Jan Skogseth	Board member	245	40	1,500	6,100
Sally Lund-Andersen	Board member (employee representative)	245	837	3,061	1,414
Kristian Kristensen	Board member (employee representative)	245	653	2,908	3,020

2017		Fees	Other remuneration	Loans	No. of shares ⁴⁾
Dag Mejdell	Chair of the board	497	66	-	25,000
Kate Henriksen	Board member	229	91	-	-
Jorunn Johanne Sæthre (until 20 April 2017)	Board member	62	10	-	-
Birthe Cecilie Lepsøe	Board member	229	88	-	-
Odd Torland (until 20 April ²⁰¹⁷)	Board member	62	10	-	-
Tor Dahle ⁵⁾	Board member	229	1,175	3,345	72,456,358
Therese Log Bergjord (from 20 April 2017)	Board member	166	27	-	-
Jan Skogseth (from 20 April 2017)	Board member	166	29	2,054	3,600
Sally Lund-Andersen	Board member (employee representative)	229	761	3,041	941
Kristian Kristensen	Board member (employee representative)	229	612	3,010	3,020

⁴⁾ Number of shares the person owns in SpareBank 1 SR-Bank as at 31 December. The figures also include shares belonging to immediate family members and known companies in which the person has a controlling influence, ref. section 1-2 of the Limited Liability Companies Act. In addition to this, the shares of the institution the individual representative was elected on behalf of are included.

⁵⁾ Tor Dahle is the general manager in Sparebankstiftelsen SR-Bank.

NOTE 23 OTHER OPERATING COSTS

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
300	316	IT costs	332	317
57	70	Marketing	88	73
71	82	Other administrative costs	98	88
68	66	Depreciation (notes 30 and ³¹⁾)	74	74
-	-	Impairments (notes 30 and ³¹⁾)	6	-
31	30	Operating costs real estate	33	34
71	74	Rent premises	87	92
78	77	External fees	87	87
-	-	Assignment costs real estate	48	54
48	37	Other operating costs	79	85
724	752	Total other operating costs	932	904
2,943	3,055	Statutory audit	4,514	4,079
88	89	Tax advice ¹⁾	190	162
249	226	Other certification services	696	656
396	4,176	Other non-auditing services ¹⁾	4,369	792
3,676	7,546	Total	9,769	5,689
13	577	¹⁾ Fees for Advokatfirmaet PricewaterhouseCoopers that are included in tax advice and other non-auditing services	618	307

All figures are inclusive of VAT

NOTE 24 PENSIONS

SpareBank 1 SR-Bank Group has, as at 31 December 2018, defined benefit based and defined contribution based pension schemes for its employees. The company's and group's pension schemes comply with the requirements of the Mandatory Occupational Pension Act.

The group previously had a secured defined benefit pension scheme covered by the group's pensions fund. This scheme was wound up in 2015 and employees who were in the defined benefit scheme were issued a paid-up policy for their earned rights in the defined benefit scheme.

Paid-up policies will be managed by the pension fund, which from 1 January 2016 became a paid-up fund. A framework agreement has been established between SpareBank 1 SR-Bank and the pension fund that covers things such as financing, asset management, etc. Because of the responsibilities SpareBank 1 SR-Bank still has, future liabilities will have to be incorporated in the financial statements. The board of the pension fund must consist of representatives of the group and pension

scheme participants in accordance with the pension fund's articles of association.

In addition to the pension liabilities linked to paid-up policies that are managed via the pension fund, the group has uncovered pension liabilities. The liabilities apply to people that were not enrolled in the insurance schemes, supplementary pensions in excess of 12G (G = the National Insurance basic amount), ordinary early retirement pensions and statutory early retirement pension (AFP).

The AFP scheme, which applies with effect from 1 January 2011, should be regarded as a defined benefit multi-company scheme, but will be recognised as a defined contribution scheme until adequate reliable information is available to allow the bank and the group to recognise their proportional shares of the pension costs, the pension liabilities and the pension funds in the scheme. Thus, the bank's and the group's liabilities are not recognised on the balance sheet as liabilities as at 31 December 2018.

The following economic assumptions are made when calculating pension liabilities:

	2018	2017
Discount rate	2.60%	2.40%
Expected return on assets	2.60%	2.40%
Future salary growth rate	2.75%	2.50%
Adjustment of NI basic amount (G)	2.50%	2.25%
Pension adjustment	0.80%	2.00%
Adjustment of paid-up policies	0.80%	1.60%
Employer's NI contribution/financial tax	19.10%	19.10%
Voluntary retirement before 45 – unfunded scheme	5.00%	5.00%
Voluntary retirement after 45 – unfunded scheme	2.00%	2.00%
The remaining average accrual time (in number of years) for members of the unfunded defined benefit plans has been calculated as approx.	8.01	8.13
The average life expectancy (no. of years) for a person who turns 65 on the balance sheet date is as follows:		
Man	21.50	21.40
Woman	24.70	24.60
The average life expectancy (no. of years) for a person who 20 years after the balance sheet date turns 65 is as follows:		
Man	23.30	23.20
Woman	26.60	26.50
The mortality table that has been adjusted for opening mortality and the decline in the mortality rate.	K2013BE	K2013BE
Disability	IR73	IR73

The pension liabilities are calculated annually by an independent actuary using a straight line accrual method. The present value of the defined benefits are determined by discounting estimated future payments by a discount rate based on the interest rate for a bond issued by the company with a high credit rating (corporate bond or covered bond rate) in the same currency and with a maturity that is almost the same as the maturity of the related pension liabilities. Use of the corporate bond rate as the basis for the discount rate requires the existence of corporate bonds with long maturities and high quality in the same currency, as well as a deep market for such bonds. Market players have asserted that the covered bond market is sufficiently deep and that pricing in the market is reliable. Analyses conducted by an actuary, Gabler AS, and the bank's own analyses, which take into account interest rate swap agreements, support the assertion that a deep and liquid market exists for corporate bonds with a high credit rating, concentrated on covered bonds. The Norwegian covered bond market has become better developed after the financial crisis and has a high credit rating. The bank and the group have therefore chosen the covered bond rate as their discount rate for calculating pension liabilities.

(Note 24 cont.)

Parent bank			Group	
2017	2018		2018	2017
		Capitalised liabilities		
197	-	Pension benefits – funded scheme	-	207
186	164	Pension benefits – unfunded scheme	175	195
383	164	Total capitalised liabilities	175	402
		Costs charged to income statement		
6	3	Pension benefits – funded scheme	4	6
11	14	Pension benefits – unfunded scheme	14	12
17	17	Total costs charged to income statement	18	18
		Pension liabilities related to defined benefit pensions		
1,440	1,548	Present value pension liabilities 1 Jan	1,594	1,521
38	-	Present value pension liabilities merger SR-Finans	-	-
6	8	Pension benefits accrued in the period	8	7
37	38	Interest costs on pension liabilities	39	38
		Effect of recalculation:		
57	-281	- Change in financial assumptions	-295	59
11	34	- Experience gains and losses	41	11
-41	-41	Payments/redemption from fund	-43	-42
1,548	1,306	Present value pension liabilities 31 Dec	1,344	1,594
1,392	1,168	of which fund-based	1,200	1,430
156	138	of which not fund based	144	164
		Pension assets		
1,146	1,227	Pension assets 1 Jan	1,256	1,204
30	-	Present value pension liabilities merger SR-Finans	-	-
29	32	Interest income	32	30
58	-24	Actual return on assets in relation to booked interest income	-24	59
5	4	Employer's NI contributions	4	5
-41	-42	Payments/redemption from fund	-43	-42
-	-	Transfer from premium fund to contribution fund	-	-
1,227	1,197	Pension assets 31 Dec	1,225	1,256
		Net pension liabilities on the balance sheet		
1,548	1,306	Present value pension liabilities 31 Dec	1,344	1,594
1,227	1,197	Pension assets 31 Dec	1,225	1,256
321	109	Net pension liabilities 31 Dec	119	338
	29	Upper limit for capitalisation of the asset ¹⁾	29	
62	26	Employer's NI contributions	27	64
383	164	Net pension liabilities on the balance sheet	175	402
		Pension costs for the period		
6	8	Accrued defined benefit-based pensions	8	7
37	38	Interest costs on pension liabilities	39	38
-29	-32	Interest income	-32	-30
-	-	Curtailments and settlements	-	-
14	14	Net defined benefit-based pension costs without employer's NI contributions	15	15
3	3	Accrued employer's NI contributions	3	3
17	17	Net defined benefit-based pension costs recognised through profit or loss	18	18
72	81	Contribution based pension costs and joint AFP scheme	98	88
89	98	Pension costs in the period recognised in the income statement	116	106

¹⁾ The group has overcoverage (the value of the pension funds exceeds the calculated pension liabilities) related to the closed defined benefit pension scheme which has not been capitalised since the overcoverage does not entail financial benefits in the future in the form of reduced premium payments or repayments.

(Note 24 cont.)

Composition of the group's pension assets	2018	2017
Real estate	-	6
- of which used by the bank	-	-
of shares	270	316
Other assets	955	934
Total pension assets	1,225	1,256

Development during the last five years for the group's defined benefit pension plan	2018	2017	2016	2015	2014
Present value pension liabilities 31 Dec	1,344	1,594	1,521	1,520	1 838
Pension assets 31 Dec	1,225	1,256	1,204	1,290	1,247
Net pension liabilities	119	338	317	230	591

Sensitivity in calculation of pension liabilities when weighted assumptions change as follows:

	Change in assumption	Change in liabilities	Effect on pension liabilities
			Change in liabilities
Discount rate	+/- 0.50%	-7.9%	9.0%
Wage growth	+/- 0.50%	0.2%	-0.2%
Pension adjustment	+/- 0.25%	4.4%	-4.1%
Expected lifetime	1 year	4.0%	-4.3%

The sensitivity analysis above is based on a change in one of the assumptions, given that all other assumptions remain constant. This is improbable in practice and changes in some of the assumptions may correlate. Sensitivity calculations are executed using the same method as actuarial calculations for calculating the pension liabilities on the balance sheet.

NOTE 25 TAX (figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
2,298	2,597	Pre-tax profit	2,892	2,610
-551	-694	Permanent differences ¹⁾	-573	-534
-25	-2	Group contribution	-	-
-139	986	Change in temporary differences	1,062	-116
-12	230	- of which recognised directly against equity	230	-12
1,571	3,117	Tax base/taxable income for the year	3,611	1,948
393	779	Of which payable tax	896	487
6	1	Tax effect of group contribution	-	-
38	-304	Change in deferred tax	-300	36
1	3	Tax payable on hybrid capital booked against equity	3	1
1	-	Excess/insufficient payable tax allocation in previous years	-3	-
439	479	Total tax cost	596	524
Explanation of why the tax cost for the year is not 25% of the year's pre-tax profit				
574	649	Tax on pre-tax profit	723	653
-138	-174	Tax on permanent differences ¹⁾	-134	-131
1	-	Change in deferred tax from previous years	-	1
1	3	Tax payable on hybrid capital booked against equity	3	1
-	-	Effect of change in nominal tax rate	5	-
1	1	Excess/insufficient tax allocation in previous years	-1	-
439	479	Calculated tax cost	596	524
-156	-67	Deferred tax asset	-95	-179
-	-19	- deferred tax asset that reverses in more than 12 months	-31	-7
-156	-86	Total deferred tax asset	-126	-186
567	231	Deferred tax	250	579
6	1	- deferred tax that reverses in more than 12 months	-	-
573	232	Total deferred tax	250	579
417	146	Net deferred tax/deferred tax asset	124	393
Change in deferred tax				
99	-271	Year's change in deferred tax on the balance sheet	-269	33
	20	Change in deferred tax upon transition to IFRS 9 not recognised through profit or loss	28	
-60	-	Change deferred tax merger SR-Finans	-	-
-4	5	Change in deferred tax for group contributions on the balance sheet	-	-
3	-58	- of which change not recognised in income statement	-59	3
38	-304	- of which change recognised in income statement	-300	36
Specification of temporary differences				
-10	105	Gains and loss account	105	-28
1,751	473	Differences related to financial items	367	1,693
-	-77	Loans	-78	-1
-383	-164	Pension liabilities	-174	-401
11	1	Accounting provisions	49	42
313	264	Leasing operating equipment	264	313
-41	-20	Tangible fixed assets	-29	-33
25	2	Group contribution paid	-	-
-	-	Losses carried forward	-18	-12
1,666	584	Total temporary differences	486	1,573
25%	25%	Tax rate applied	22% - 25%	23% - 25%

¹⁾ Includes tax-exempted dividends, non-tax-deductible costs, net tax-exempt gains on the realisation of equities in the European Economic Area (EEA), and tax allowances for profit attributable to associated companies (the percentage of the profit is extracted as it has already been taxed in the individual company).

NOTE 26 CLASSIFICATION OF FINANCIAL INSTRUMENTS

(Figures in NOK millions)

Group	Financial instruments at fair value through profit or loss			Financial assets and liabilities assessed at amortised cost	Financial assets available for sale ¹⁾	Financial assets held to maturity	Total
	Held for sale	Recognised at fair value	Financial derivatives as hedging instruments				
2018							
Assets							
Cash and receivables from the central bank				717			717
Loans to and receivables from financial institutions				1,696			1,696
Loans to customers		8,240		182,638			190,878
Certificates and bonds at fair value	23,344					5,996	29,340
Financial derivatives		3,439	1,829				5,268
Equities, units and other equity interests	868						868
Operations that will be sold							-
Other assets				688			688
Total assets	24,212	11,679	1,829	185,739	-	5,996	229,455
Liabilities							
Debt to financial institutions				1,433			1,433
Deposits from customers				98,814			98,814
Securities issued ²⁾				103,485			103,485
Financial derivatives		3,751	138				3,889
Other liabilities							-
Subordinated loan capital ²⁾				2,951			2,951
Total liabilities		3,751	138	206,683			210,572
2017							
Assets							
Cash and receivables from the central bank				207			207
Loans to and receivables from financial institutions				1,608			1,608
Loans to customers		7,610		163,627			171,237
Certificates and bonds at fair value	28,703					3,206	31,909
Financial derivatives		3,579	1,962				5,541
Equities, units and other equity interests	655				62		717
Operations that will be sold							-
Other assets				778			778
Total assets	29,358	11,189	1,962	166,220	62	3,206	211,997
Liabilities							
Debt to financial institutions				2,335			2,335
Deposits from customers				95,384			95,384
Securities issued ²⁾				90,497			90,497
Financial derivatives		3,552	235				3,787
Other liabilities							-
Subordinated loan capital ²⁾				2,764			2,764
Total liabilities		3,552	235	190,980			194,767

¹⁾ Category only applicable for 2017.

²⁾ Securities and subordinated loans issued contain secured debt.

(Note 26 cont.)

**Information about fair value
Group**

The table below shows financial instruments at fair value according to their valuation method. The different levels are defined as follows:

Listed price in an active market for an identical asset or liability (level 1). Valuation based on observable factors other than listed price (used in level 1) either direct (price) or indirect (deduced from prices) for the asset or liability (level 2). Valuation based on factors not obtained from observable markets (non-observable assumptions) (level 3).

	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
2018				
Assets				
Loans to customers			8,240	8,240
Certificates and bonds at fair value	17,210	6,134		23,344
Financial derivatives		5,268		5,268
Equities, units and other equity interests	412	25	431	868
Liabilities				
Financial derivatives		3,889		3,889

No transfers between levels 1 and 2

2017				
Assets				
Loans to customers			7,610	7,610
Certificates and bonds at fair value	21,711	6,992		28,703
Financial derivatives		5,541		5,541
Equities, units and other equity interests	419	27	271	717
Liabilities				
Financial derivatives		3,787		3,787

No transfers between levels 1 and 2

Change in holding during the financial year of assets valued on the basis of factors other than observable market data

	Loans to custo- mers	Equities, units and other equity interests
Group 2018		
Balance 1 Jan	7,610	271
Additions	2,814	73
Disposals	-2,122	-2
Transferred from or to measurement according to prices in an active market or observable market data		
Change in value ²⁾	-62	89
Balance 31 Dec	8,240	431
Nominal value/cost price	8,125	302
Fair value adjustment	115	129
Balance 31 Dec	8,240	431
Group 2017		
Balance 1 Jan	9,336	197
Additions	996	58
Disposals	-2,687	-31
Transferred from or to measurement according to prices in an active market or observable market data	-	-
Change in value ²⁾	-35	47
Balance 31 Dec	7,610	271
Nominal value/cost price	7,433	231
Fair value adjustment	177	40
Balance 31 Dec	7,610	271

(Note 26 cont.)

Sparebanken Hedmark acquired Bank 1 Oslo Akershus in the second quarter of 2016. For SpareBank 1 SR-Bank, this means that its previous stake in Bank 1 Oslo Akershus has been realised with settlement in equity certificates in Sparebanken Hedmark. The analysis environment in SpareBank 1 Gruppen has conducted a valuation of Sparebanken Hedmark up to and including the first quarter of 2017. The valuation is based on a combination of two methods: multiple pricing and the dividend discounting model. The valuation is used by all of the SpareBank 1 banks with stakes in Sparebanken Hedmark. The merger between Sparebanken Hedmark and Bank 1 Oslo Akershus was completed in April 2017 and the bank subsequently changed its name to SpareBank 1 Østlandet. In June 2017 SpareBank 1 Østlandet was listed and SpareBank 1 SR-Bank sold its shares in the bank.

SpareBank 1 SR-Bank was a member of Visa Norge FLI. Visa Norge FLI was, as a group member of Visa Europe, also a shareholder in Visa Europe Ltd. In November 2015, an agreement was announced concerning the sale of Visa Europe Ltd to Visa Inc. The transaction will significantly increase the equity in Visa Norge IFS. SpareBank 1 SR-Bank's ownership interest in Visa Norge IFS was, up to 31 December 2017, considered a financial asset in the available for sale category (AFS investment) and therefore had to be recognised at fair value as long as it could be reliably measured. The remuneration consisted of shares in Visa Inc., a cash settlement and a postponed cash payment. On 31 December 2015, the estimated value of the shares resulted in income in other comprehensive income of NOK 95 million. SpareBank 1 SR-Bank received the cash payment in the second quarter of 2016. This amounted to NOK 94 million, compared with the amount calculated at the end of 2015 of NOK 72 million. The cash settlement was posted as dividends via the income statement in the second quarter of 2016. In the fourth quarter of 2017, a further proportion of shares with a value of NOK 19 million were recognised, where NOK 15 million was recognised through profit or loss. As at 31 December 2017, SpareBank 1 SR-Bank had an ownership item related to a delayed cash payment and shares in Visa Norge totalling NOK 60 million, which was mainly recognised via OCI and which would, after the transition to IFRS 9 on 1 January 2018, not affect the result upon realisation. Following the transition to IFRS 9 on 1 January 2018, the ownership interest in Visa Norge is considered a financial asset measured at fair value with changes through profit or loss. In the

second quarter of 2018, Visa Norge FLI was converted into VN Norge AS. The ownership item linked to the delayed cash payment and shares in the former Visa Norge are now owned via VN Norge AS and Visa Norge Holding AS. As at 31 December 2018, SpareBank 1 SR-Bank still had an ownership item linked to the postponed cash payment and shares in VN Norge AS and Visa Norge Holding AS totalling NOK 77 mill kroner.

The transaction in which the SpareBank 1 Alliance's mCASH payment solution was merged with Vipps AS was completed in the third quarter of 2017. Following the transaction, SpareBank 1 SR-Bank owned 19.8% of SpareBank 1 Betaling AS, which in turn owned 22% of VBB AS. The value of the stake provided the basis for the transaction with Vipps AS and the analysis group in SpareBank 1 Gruppen has conducted an evaluation of the stake. The evaluation was based on a business case that was produced in connection with the negotiations surrounding Vipps and the expected value of the stake as an independent company. The value calculated was considered to be almost equal to SpareBank 1 SR-Bank's share of the equity in SpareBank 1 Betaling AS following the transaction, and the group recognised income of NOK 4 million in 2017 due to the transaction. In connection with the merger of Vipps AS, BankAxept AS and BankID Norge AS in the third quarter of 2018, an evaluation was made of the latter two companies. As a consequence of this, the group's recognised book value in SpareBank 1 Betaling AS was written up by NOK 72 million due to the transaction, with the corresponding effect on the pre-tax profit in the second quarter of 2018. SpareBank 1 SR-Bank's 19.8% stake in SpareBank 1 Betaling AS is included in the group as an associated company.

Other assets are measured using various methods such as last known transaction price, earnings per share, dividend per share, EBITDA and discounted cash flows.

Fixed-rate loans are measured on the basis of the interest rate agreed with the customer. Loans are discounted using the applicable interest curve, having taken into account a market premium, which is adjusted for the profit margin. The conducted sensitivity analyses indicate an increase in the discount rate of 10 basis points would have a negative effect on the result amounting to NOK 22 million.

Group

Fair value of financial instruments at amortised cost (Figures in NOK millions)	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Assets				
Cash and receivables from the central bank	717	717	207	207
Loans to and receivables from financial institutions ¹⁾	1,696	1,696	1,608	1,608
Loans to customers ¹⁾	182,638	182,638	163,627	163,627
Certificates and bonds held to maturity ²⁾	5,996	6,011	3,206	3,229
Total assets at amortised cost	191,047	191,062	168,648	168,671
Liabilities				
Debt to financial institutions ¹⁾	1,433	1,433	2,335	2,335
Deposits from customers ¹⁾	98,814	98,814	95,384	95,384
Securities issued ³⁾	103,484	103,592	90,497	91,279
Subordinated loan capital ³⁾	2,951	2,835	2,764	2,652
Total liabilities at amortised cost	206,682	206,674	190,980	191,650

¹⁾ For loans and deposits at amortised cost, the book value constitutes the best estimate of fair value.

²⁾ Changes are recognised in net income from financial instruments.

³⁾ Fair value is mainly based on quoted market prices in an active market.

NOTE 27 CERTIFICATES AND BONDS

(Figures in NOK millions)

Parent bank		Certificates and bonds	Group	
2017	2018		2018	2017
28,996	22,694	Certificates and bonds at fair value	23,344	28,702
3,207	5,121	Certificates and bonds held to maturity	5,996	3,207
32,203	27,815	Total certificates and bonds	29,340	31,909
Government				
547	299	Nominal value	299	547
578	316	Fair value	316	578
Other public issuers				
2,673	2,292	Nominal value	2,292	2,673
2,716	2,339	Fair value	2,339	2,716
Covered bonds				
23,120	18,767	Nominal value	19,756	22,720
23,347	18,941	Fair value	19,936	22,942
Other financial enterprises				
5,079	5,821	Nominal value	6,321	5,179
5,279	5,984	Fair value	6,503	5,379
Non-financial enterprises				
315	249	Nominal value	266	331
283	235	Fair value	246	294
31,734	27,428	Total certificates and bonds at nominal value	28,934	31,450
32,203	27,815	Total certificates and bonds	29,340	31,909

NOTE 28 FINANCIAL DERIVATIVES

General description:

The fair value of financial derivatives is determined using valuation methods where the price of the underlying object, for example interest and currency rates, are obtained from the market. If the group's risk position is relatively neutral, normal rates will be used in pricing. A neutral risk position means, for example, that the interest rate risk within a re-pricing interval is approximately zero. Otherwise, the relevant purchase or sales price is used to assess the net position. The credit valuation adjustment (CVA) for derivative transactions is assessed on the basis of the net positive market values per counterparty. The CVA risk for counterparties that regularly exchange collateral and Norwegian municipalities is considered marginal. For other counterparties, the CVA calculation is based on the probability of default compared with the remaining term to maturity of the derivative positions and loss given default.

The group hedges fixed-rate loans. Each hedge is documented with a reference to the group's risk management strategy, a clear identification of the item being hedged, the hedging instrument used, a description of the hedged risk, a description of why hedging is regarded as highly probable and a description of how and when the group shall determine the efficiency of the hedge during the accounting period and that it is expected to be very effective during the next accounting period. The group has defined the hedged risk as value changes linked to the NIBOR component of the hedged fixed interest rates in NOK and value changes linked to the LIBOR components of the hedged fixed interest rates in foreign currencies.

When a basis swap is designated as a hedging instrument for hedging a specifically identified loan, changes in the value of the hedging instrument linked to changes in the "basis spread" are recognised through OCI.

As at 31 December 2018, the net fair value of the hedging instruments was NOK 1,691 million (NOK 1,829 million in assets and NOK 138 million in liabilities). The corresponding figures for 2017 were NOK 1,727 million (NOK 1,962 million in assets and NOK 235 million in liabilities). There was no ineffective result for hedging instruments in 2018.

Central clearing and ISDA agreements with CSA supplements regulate the counterparty risk through payments of margins in relation to exposure limits. Such agreements represent a contract sum of NOK 190.7 billion and security of NOK 843 million and NOK 2,390 million has been pledged and received as at 31 December 2018. The group has no financial instruments that are booked net.

(Note 28 cont.)

Group

(Figures in NOK millions)

At fair value through profit or loss	2018			2017		
	Contract amount	Fair value Assets	Liabilities	Contract amount	Fair value Assets	Liabilities
Currency instruments						
Currency futures (forwards)	7,000	194	101	3,839	76	31
Currency swaps	47,154	1,142	197	53,373	1,441	99
Currency swaps (basis swap)	28,384	678	175	7,647	234	54
Currency swaps (basis swap hedging)	2,751	52	-	-	-	-
Currency options	-	-	-	49	-	-
Total currency instruments	85,289	2,066	473	64,908	1,751	184
Interest rate instruments						
Interest rate swaps	51,767	529	887	44,250	687	1,122
Other interest rate contracts	72	1	1	96	1	1
Total interest rate instruments	51,839	530	888	44,346	688	1,123
Interest rate instruments, hedging						
Interest rate swaps	78,374	1,829	138	77,348	1,962	235
Total interest rate instruments, hedging	78,374	1,829	138	77,348	1,962	235
Collateral						
Collateral		843	2,390		1,140	2,245
Total collateral	-	843	2,390	-	1,140	2,245
Total currency instruments	85,289	2,066	473	64,908	1,751	184
Total interest rate instruments	130,213	2,359	1,026	121,694	2,650	1,358
Total collateral		843	2,390		1,140	2,245
Total currency and interest rate instruments	215,502	5,268	3,889	186,602	5,541	3,787

NOTE 29 EQUITIES, UNITS AND OTHER EQUITY INTERESTS

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
		At fair value through profit or loss		
191	192	- Listed	192	191
139	135	- Securities funds	135	139
90	85	- Hybrid capital	85	90
26	105	- Unlisted	456	235
446	517	Total at fair value through profit or loss	868	655
		Available for sale		
61	-	- Unlisted	-	62
61	-	Total available for sale	-	62
		Total equities, units and other equity interests	868	717
507	517			

Equities, units and other equity interests are classified as fair value through profit or loss.

(Note 29 cont.)

Investments in equities, units and other equity interests

Parent bank (Amounts in NOK 1000)	The company's share capital	Stake in %	No. of equities/units	Acquisition cost	Book value/ market value
At fair value through profit or loss					
Sandnes Sparebank	230,149	15.1%	3,485,009	149,476	191,675
Listed companies				149,476	191,675
SR-Bank 50			30,000	30,000	42,791
SR-Bank Kreditt			57,754	57,548	57,750
SR-Bank Utbytte D			36,998	20,000	34,905
Securities funds				107,548	135,446
Hybrid capital				84,332	85,134
SpareBank 1 Markets	529,221	5.6%	176,341	37,102	20,000
VN Norge AS					77,113
Other unlisted companies				12,700	7,966
Total unlisted companies				49,802	105,079
Total at fair value through profit or loss equities, units and other equity interests				391,158	517,334

Investments in equities, units and other equity interests

Group (Amounts in NOK 1000)	The company's share capital	Stake in %	No. of equities/units	Acquisition cost	Book value/ market value
At fair value through profit or loss					
Listed companies, parent bank				149,476	191,675
Securities funds, parent bank				107,548	135,446
Hybrid capital, parent bank				84,332	85,134
Total unlisted companies, parent bank				49,802	105,079
HitecVision Asset Solutions, L.P		1.19		23,441	38,899
HitecVision Private Equity IV LP		2.00		23,244	20,903
Offshore Merchant Partners Asset Yield Fund, LP		1.31		24,363	27,778
SR PE-Feeder III KS		40.50		28,726	33,333
SR PE-Feeder IV AS		25.21		15,020	18,677
Boost AI AS		13.59		8,333	47,565
Monner AS		43.83		38,000	38,000
Optimarin AS		14.75		23,588	23,622
Other unlisted companies in subsidiaries				112,979	102,065
Total unlisted in subsidiaries				297,694	350,842
Total unlisted in group				347,496	455,921
Total at fair value through profit or loss equities, units and other equity interests				688,852	868,176

NOTE 30 INTANGIBLE ASSETS

(Figures in NOK millions)

Parent bank				Group		
Customer contracts	Goodwill	Total		Total	Goodwill	Customer contracts
3	-	3	Acquisition cost 1 Jan 2018	104	88	16
-	-	-	Additions	1	1	-
-	-	-	Disposals	-	-	-
3	-	3	Acquisition cost 31 Dec 2018	105	89	16
3	-	3	Accumulated depreciation and impairments 1 Jan 2018	8	-	8
-	-	-	Year's disposals	-	-	-
-	-	-	Year's depreciation and impairments	2	-	2
3	-	3	Accumulated depreciation and impairments 31 Dec 2018	10	-	10
-	-	-	Carrying amount 31 Dec 2018	95	89	6
Distribution of carrying amount						
-	-	-	SR-Forvaltning – acquisition of 33.3% of the shares in May 2009	20	20	-
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of SpareBank 1 Regnskapshuset Østland's Rogaland branches in 2015	25	24	1
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in ODB-Regnskap AS in 2015	11	9	2
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in Advis AS in 2016	30	29	1
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in Regnskaps Partner AS in 2017	8	6	2
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in Reto Regnskap AS in 2017	1	1	-
-	-	-	Carrying amount 31 Dec 2018	95	89	6
2017						
3	-	3	Acquisition cost 1 Jan 2017	95	81	14
-	-	-	Additions	9	7	2
-	-	-	Disposals	-	-	-
3	-	3	Acquisition cost 31 Dec 2017	104	88	16
3	-	3	Accumulated depreciation and impairments 1 Jan 2017	6	-	6
-	-	-	Year's disposals	-	-	-
-	-	-	Year's depreciation and impairments	2	-	2
3	-	3	Accumulated depreciation and impairments 31 Dec 2017	8	-	8
-	-	-	Carrying amount 31 Dec 2017	96	88	8
Distribution of carrying amount						
-	-	-	SR-Forvaltning – acquisition of 33.3% of the shares in May 2009	20	20	-
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of SpareBank 1 Regnskapshuset Østland's Rogaland branches in 2015	26	24	2
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in ODB-Regnskap AS in 2015	11	9	2
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in Advis AS in 2016	30	28	2
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in Regnskaps Partner AS in 2017	8	6	2
-	-	-	SpareBank 1 Regnskapshuset SR - acquisition of 100% of the shares in Reto Regnskap AS in 2017	1	1	-
-	-	-	Carrying amount 31 Dec 2017	96	88	8

The amounts are the differences between identifiable assets inclusive of excess values and the cost price of the identifiable assets. The elements in the goodwill item relate to future earnings in the company supported by the calculations of the present value of expected future earnings, which document a future economic benefit from acquiring the company. The goodwill item's elements are valued annually and written down if a there is a basis for this following a concrete assessment.

NOTE 31 TANGIBLE FIXED ASSETS

(Figures in NOK millions)

Parent bank			2018	Total	Group		
Buildings and real estate	Machinery, fixtures, and vehicles	Total			Machinery, fixtures, and vehicles	Buildings and real estate ¹⁾	Total
246	646	892	Acquisition cost 1 Jan 2018	1,214	740	474	
2	82	84	Additions	349	95	254	
102	5	107	Disposals	107	5	102	
146	723	869	Acquisition cost 31 Dec 2018	1,456	830	626	
120	443	563	Accumulated depreciation and impairments 1 Jan 2018	642	520	122	
2	64	66	Year's depreciation	72	68	4	
-	-	-	Year's impairments	6	6	-	
59	4	63	Year's disposals	63	4	59	
63	503	566	Accumulated depreciation and impairments 31 Dec 2018	657	590	67	
83	220	303	Carrying amount 31 Dec 2018	798	239	559	
248			Fair value ¹⁾			406	
2017							
251	834	1,085	Acquisition cost 1 Jan 2017	1,301	921	381	
5	45	50	Additions	156	52	104	
10	233	243	Disposals ²⁾	243	233	10	
246	646	892	Acquisition cost 31 Dec 2017	1,214	740	475	
120	612	732	Accumulated depreciation and impairments 1 Jan 2017	807	685	122	
4	64	68	Year's depreciation	72	68	4	
-	-	-	Year's impairments	-	-	-	
4	233	237	Year's disposals ²⁾	237	233	4	
120	443	563	Accumulated depreciation and impairments 31 Dec 2017	642	520	122	
126	203	329	Carrying amount 31 Dec 2017	572	219	353	
399			Fair value			399	

¹⁾ In the group, construction costs of NOK 197 million related to the new build Finansparken Bjergsted are included in additions in 2018 in buildings and real estate. In the carrying amount, construction costs for Finansparken Bjergsted are included in the amount of NOK 429 million. The fair value is exclusive of the new build Finansparken Bjergsted.

²⁾ Last year's disposals include NOK 233 million related to decommissioned operating assets.

Collateral

The group has not mortgaged/pledged or accepted any other disposal restrictions on its tangible fixed assets.

Reassessments/depreciation

The group does not make regular revaluations of tangible fixed assets. In connection with the initial implementation of IFRS, buildings were valued at cost less accumulated depreciation in accordance with current Norwegian legislation. Percentage rate of depreciation is 10% to 33% for machinery, equipment and vehicles, and 2% for bank buildings, investment property and other real estate.

Buildings and real estate

Of the total book value of buildings and real estate NOK 88 million is for use in the banking business. The fair value of buildings is determined by appraisal.

Operational leases

The group has no significant operational leases.

NOTE 32 OTHER ASSETS

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
11	6	Income earned but not received from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	6	11
14	33	Prepaid costs	43	18
1	1	Over funding of pension liabilities	1	1
200	200	Paid in capital SR-Bank Pension Fund	200	200
-	1	Unsettled trades	1	-
169	90	Other assets	437	548
395	331	Total other assets	688	778

NOTE 33 DEPOSITS FROM CUSTOMERS

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
79,553	81,968	Deposits from and liabilities to customers, at call	81,681	79,317
16,082	17,151	Deposits from and liabilities to customers with agreed maturity	17,133	16,066
95,635	99,119	Total deposits from customer	98,814	95,384
Deposits by sector and industry				
464	485	Fishing/fish farming	485	464
1,144	1,262	Industry	1,262	1,144
1,200	1,173	Agriculture/forestry	1,173	1,200
9,005	10,150	Service sector	9,845	8,754
2,262	2,427	Wholesale and retail trade, hotels and restaurants	2,427	2,262
739	1,205	Energy, oil and gas	1,205	739
2,210	1,775	Building and construction	1,775	2,210
544	492	Power and water supply	492	544
6,249	6,918	Real estate	6,918	6,249
1,989	2,203	Shipping and other transport	2,203	1,989
25,970	26,135	Public sector and financial services	26,135	25,970
51,776	54,225	Total industry	53,920	51,525
44,258	45,650	Retail market	45,650	44,258
-399	-756	Net corporate accounts currency ¹⁾	-756	-399
95,635	99,119	Total deposits by sector and industry	98,814	95,384
Deposits by geographic area				
69,951	71,706	Rogaland	71,401	69,700
8,532	8,027	Agder counties	8,027	8,532
9,660	11,398	Hordaland	11,398	9,660
-	3,335	Oslo	3,335	-
2,072	1,669	International	1,669	2,072
5,420	2,984	Other	2,984	5,420
95,635	99,119	Total deposits by geographic area	98,814	95,384

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

NOTE 34 SECURITIES ISSUED

(Figures in NOK millions)

Parent bank				Group		
NOK	Currency	Total		Total	Currency	NOK
431	131	562	Certificate debt	562	131	431
-	2,430	2,430	Other long-term borrowing	2,430	2,430	-
15,040	30,081	45,121	Bond debt ¹⁾	100,493	69,442	31,051
15,471	32,642	48,113	Total securities issued	103,485	72,003	31,482

Maturity date of securities issued						
NOK	Currency	Total	Maturity	Total	Currency	NOK
1,539	5,099	6,638	2019	11,645	5,101	6,544
1,725	7,004	8,729	2020	18,702	11,977	6,725
4,671	8,405	13,076	2021	20,568	15,896	4,672
4,016	5,041	9,057	2022	14,044	10,027	4,017
3,520	1,434	4,954	2023	15,950	7,426	8,524
-	101	101	2024	5,101	5,101	-
-	357	357	2025	7,957	7,957	-
-	5,201	5,201	2026 and maturity after	9,518	8,518	1,000
15,471	32,642	48,113	Total securities issued	103,485	72,003	31,482

¹⁾ Own certificates and bonds have been deducted.

Group	Balance sheet 31 Dec 2018	Issued 2018	Matured/ redeemed 2018	Exchange rate and other changes 2018	Balance sheet 31/12/2017
Change in securities issued					
Other long-term borrowing, nominal value	2,420	-	-	84	2,336
Bonds and certificates, nominal value	99,062	22,535	-11,051	1,430	86,148
Value adjustments and accrued interest	2,003			-10	2,013
Total securities issued	103,485	22,535	-11,051	1,504	90,497

NOTE 35 OTHER DEBT AND OTHER LIABILITIES

(Figures in NOK millions)

Parent bank				Group	
2017	2018	Other liabilities		2018	2017
383	164	Pension liabilities (note ²⁴⁾)		175	402
13	107	Impairments on financial liabilities		107	13
115	121	Accounts payable		129	142
40	43	Tax deducted		60	55
-	-	Unsettled trades		-	-
155	149	Other liabilities		167	133
66	70	Accrued holiday pay		97	92
188	92	Other accrued costs		149	245
960	746	Total other liabilities		884	1,082
Security pledged					
		Securities prepared for pledges of security in Norges Bank			
19,920	16,214	No pledges of security were used per year end		16,214	19,920

Ongoing legal disputes

The group is a party in a number of court cases with a total financial scope that is not considered to be significant, inasmuch as the group has made provisions for losses in those cases where it is assumed more likely than not that the group will incur a loss as a result of the cases.

Operational lease payments

The group's operational leases have terms of 3-5 years. The annual cost is approximately NOK 3 million.

NOTE 36 RESTRICTED FUNDS

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
40	43	Tax deducted	60	55
40	43	Total restricted funds	60	55

NOTE 37 SUBORDINATED LOAN CAPITAL

(Figures in NOK millions)

Parent bank				Group				
2017	2018	Principal	Terms	Maturity	First due date	2018	2017	
Non-perpetual								
301	703	700	NOK 3-month NIBOR + 1.45% p.a.	2029	2024	703	301	
627	628	625	NOK 3-month NIBOR + 1.52% p.a.	2028	-	628	627	
500	-	500	NOK 3-month NIBOR + 1.80% p.a.	-	-	-	500	
-	300	300	NOK 3-month NIBOR + 1.45% p.a.	2028	2023	300	-	
492	498	50	EUR 6 month Euribor + 1.725% p.a.	2030	.	498	492	
1,920	2,129		Total non-perpetual			2,129	1,920	
Hybrid tier 1 capital								
728	706	684	NOK 9.35% per annum until 9 Dec 2019, thereafter 3-month NIBOR + 5.75% per annum		2019	706	728	
116	116	116	NOK 3-month NIBOR + 4.75% per annum until 9 Dec 2019, thereafter NIBOR + 5.75% per annum		2019	116	116	
844	822		Total hybrid tier 1 capital			822	844	
2,764	2,951		Total subordinated loan capital			2,951	2,764	

Subordinated loan capital and hybrid tier 1 capital in foreign currencies are included in the group's total currency position so that there is no currency risk associated with the loans. Of a total of NOK 2,951 million in subordinated loan capital, NOK 798 million counts as tier 1 capital and NOK 2,097 million as term subordinated loan capital. Capitalised costs associated with borrowing are reflected in the calculation of amortised cost.

Change in subordinated loans/ hybrid tier 1 capital issued ¹⁾	Balance 31 Dec 2018	Issued/sale own 2018	Matured/ redeemed 2018	Exchange rate and other changes 2018	Balance 31 Dec 2017
Dated subordinated loan capital, nominal value	2,122	700	-500	5	1,917
Hybrid tier 1 capital instruments, nominal value	800	-		-	800
Value adjustments and interest	29			-18	47
Total subordinated loan capital and hybrid tier 1 capital loans	2,951	700	-500	-13	2,764

¹⁾ This note is identical for the parent bank.

NOTE 38 INVESTMENTS IN OWNERSHIP INTERESTS

Subsidiaries, associated companies and joint ventures

Company	Acquisition date	Registered head office	Ownership in % ¹⁾
Investments in subsidiaries			
Shares held by the parent bank			
EiendomsMegler 1 SR-Eiendom	1990	Stavanger	100.00
SR-Forvaltning	2001	Stavanger	100.00
FinStart Nordic	2005	Stavanger	100.00
SpareBank 1 Regnskapshuset SR	2015	Stavanger	100.00
Finansparken Bjergsted	2014	Stavanger	100.00
Rygir Industrier Group	2012	Stavanger	100.00
SR-Boligkreditt	2015	Stavanger	100.00
Bjergsted Terrasse	2018	Stavanger	100.00
Shares owned by subsidiaries			
Jærmegleren	2007	Stavanger	100.00
Investments in associated companies			
SpareBank 1 Boligkreditt	2005	Stavanger	4.81
SpareBank 1 Næringskreditt	2009	Stavanger	14.41
BN Bank ²⁾	2008	Trondheim	23.50
SpareBank 1 Kredittkort	2012	Trondheim	17.87
Samarbeidende Sparebanker Bankinvest	2010	Oslo	3.27
SpareBank 1 Betaling	2015	Oslo	19.77
SMB Lab	2017	Trondheim	20.00
Investments in joint ventures			
SpareBank 1 Gruppen	1996	Oslo	19.50
SpareBank 1 Banksamarbeidet	2004	Oslo	18.00

¹⁾ Voting rights and ownership share are equal in all companies

²⁾ There is a signed agreement to change the ownership model in BN Bank ASA, and SpareBank 1 SR-Bank will own a 35.02% stake in BN Bank ASA.

(Note 38 cont.)

Subsidiaries

Shares in subsidiaries parent bank

Investments are recognised at the parent bank's acquisition cost. These items are fully consolidated in the consolidated financial statements.

(Amounts in NOK 1000)

2018	The company's share capital	Ownership interest in %	No. of equities	Nominal value	Assets	Liabilities	Total income	Total costs	The com- pany's result for the year	Book value
SR-Boligkreditt	5,000,000	100.00	5,000,000	5,000,000	64,864,971	59,577,727	381,337	3,857	288,381	5,000,150
Total investments in credit institutions				5,000,000	64,864,971	59,577,727	381,337	3,857	288,381	5,000,150
EiendomsMegler 1 SR-Eiendom	1,500	100.00	150	1,500	155,329	85,764	384,827	374,058	7,923	97,205
FinStart Nordic	67,000	100.00	6,700	67,000	390,917	8,159	70,202	10,696	53,554	340,725
SR-Forvaltning	6,000	100.00	6,000	6,000	71,738	23,365	63,775	29,088	26,012	29,018
SpareBank 1 Regnskapshuset SR	900	100.00	9,000	900	113,138	24,555	104,427	100,252	3,121	80,125
Rygir Industrier Group	14,400	100.00	90,000	14,400	267,897	124,360	-2,348	15,532	-16,602	144,490
Finansparken Bjergsted	76,000	100.00	8,000	76,000	586,729	154,289	-1,596	366	-1,540	433,016
Bjergsted Terrasse	3,000	100.00	3,000,000	3,000	45,406	36,648	10,026	2,293	5,758	3,000
Total other investments				168,800	1,631,154	457,140	629,313	532,285	78,226	1,127,579
Total investments in subsidiaries parent bank				5,168,800	66,496,125	60,034,867	1,010,650	536,142	366,607	6,127,729
2017										
SR-Boligkreditt	4,000,000	100.00	4,000,000	4,000,000	44,248,427	40,042,135	276,490	1,960	204,580	4,000,150
Total investments in credit institutions				4,000,000	44,248,427	40,042,135	276,490	1,960	204,580	4,000,150
EiendomsMegler 1 SR-Eiendom	1,500	100.00	150	1,500	172,994	95,878	391,670	365,014	19,784	97,205
FinStart Nordic	47,000	100.00	4,700	47,000	229,982	779	7,065	579	4,640	224,225
SR-Forvaltning	6,000	100.00	6,000	6,000	74,456	31,214	63,747	30,268	25,097	29,018
SpareBank 1 Regnskapshuset SR	900	100.00	9,000	900	112,738	27,276	98,283	94,762	2,401	80,125
Rygir Industrier Group	14,400	100.00	90,000	14,400	305,347	121,626	9,330	28,287	-18,012	164,382
Finansparken Bjergsted	48,000	100.00	8,000	48,000	308,975	49,995	475	184	219	258,016
Total other investments				117,800	1,204,492	326,768	570,570	519,094	34,129	852,971
Total investments in subsidiaries parent bank				4,117,800	45,452,919	40,368,903	847,060	521,054	238,709	4,853,121

(Note 38 cont.)

Investments in associated companies and joint ventures

(Figures in NOK millions)

Parent bank			Group	
2017	2018		2018	2017
2,884	2,363	Carrying amount 1 Jan	3,953	4,460
-521	-338	Additions/disposals	-328	-507
-	74	Recognised value adjustments SpareBank 1 Betaling (note 26)	72	-
-	-	Equity changes	-3	-49
-	-	Share of profit/loss	366	413
-	-	Dividend paid	-347	-364
2,363	2,099	Carrying amount 31 Dec	3,713	3,953
-	-	Share of profit from SpareBank 1 Gruppen	289	349
-	-	Share of profit from SpareBank 1 Boligkreditt	-3	-25
-	-	Share of profit from SpareBank 1 Næringskreditt	9	13
-	-	Share of profit from BN Bank	65	70
-	-	Share of profit from SpareBank 1 Banksamarbeidet	-	3
-	-	Share of profit from Samarbeidene Sparebanker Bankinvest	2	2
-	-	Share of profit from SpareBank 1 Kredittkort	23	15
-	-	Share of profit from SMB Lab	-2	-
-	-	Share of profit from SpareBank 1 Betaling	-17	-14
-	-	Share of profit from Admisenteret	-	-
228	287	Dividend from SpareBank 1 Gruppen	-	-
19	10	Dividend from SpareBank 1 Boligkreditt	-	-
19	11	Dividend from SpareBank 1 Næringskreditt	-	-
94	-	Dividend from BN Bank	-	-
-	39	Share of profit from SpareBank 1 Kredittkort	-	-
4	-	Dividend from Samspar Bankinvest	-	-
12	-	Dividends from Admisenteret	-	12
376	347	Total income	366	425

Investments in all the companies are assessed using the cost method in the parent bank and the equity method in the group.

Investments in joint ventures in the group as at 31 December 2018 includes goodwill amounting to NOK 23 million (2017: NOK 23 million).

The group's ownership interests in associated companies and joint ventures

(Figures in NOK millions)

2018		Assets	Lia- bilities	Income	Costs	Profit or loss	Book value 31 Dec	Stake in %	No. of shares
SpareBank 1 Gruppen	Oslo	14,700	13,100	2,675	2,405	289	1,623	19.50	381,498
SpareBank 1 Banksamarbeidet	Oslo	209	180	223	220	-	29	18.00	
SpareBank 1 Boligkreditt	Stavanger	11,810	11,252	3	2	-3	501	4.81	3,461,175
BN Bank	Trondheim	6,820	5,814	155	64	65	882	23.50	3,317,338
SpareBank 1 Næringskreditt	Stavanger	1,926	1,626	11	1	9	301	14.41	2,340,021
Samarbeidene Sparebanker Bankinvest	Oslo	25	3	2		2	22	3.27	354
SpareBank 1 Kredittkort	Trondheim	1,063	870	101	46	23	193	17.87	516,048
SpareBank 1 Betaling	Oslo	130	-	11	-	11	130	19.77	3,292,715
SMB Lab	Trondheim	19	2	-	3	2	17	20.00	20,000
Other investments							15		
Total		36,702	32,847	3,181	2,741	398	3,713		

2017		Assets	Lia- bilities	Income	Costs	Profit or loss	Book value 31 Dec	Stake in %	No. of shares
SpareBank 1 Gruppen	Oslo	13,777	12,165	3,493	3,062	349	1,634	19.50	381,498
SpareBank 1 Banksamarbeidet	Oslo	200	171	199	196	3	29	18.00	
SpareBank 1 Boligkreditt	Stavanger	20,871	19,974	-28	-5	-25	793	7.96	5,228,563
BN Bank	Trondheim	6,150	5,237	151	58	70	819	23.50	3,317,338
SpareBank 1 Næringskreditt	Stavanger	2,400	2,006	20	3	13	363	19.24	2,808,999
Samarbeidene Sparebanker Bankinvest	Oslo	25	3	2	-	2	20	3.27	354
SpareBank 1 Kredittkort	Trondheim	1,066	858	90	20	15	208	17.85	515,604
SpareBank 1 Betaling	Oslo	58	-	-2	-	-14	63	19.70	1,635
SMB Lab	Trondheim	20	1	-	-	-	19	20.00	20,000
Other investments							5		
Total		44,567	40,415	3,925	3,334	413	3,953		

NOTE 39 MATERIAL TRANSACTIONS WITH CLOSE ASSOCIATES

(Figures in NOK millions)

Close associates means associated companies, joint ventures and subsidiaries and people close to executive personnel and members of the board. The bank's outstanding balances with executive personnel and members of the board are shown in note 22.

Subsidiaries	Loans 31 Dec	Deposits 31 Dec	Interest income	Interest costs	Comm- issions income	Other operating income	Operating costs
2018							
EiendomsMegler 1	-	18	2	3	-	2	-
SR-Forvaltning	-	62	-	1	34	1	-
FinStart Nordic	-	26	1	-	-	-	-
Regnskapshuset SR	-	19	-	-	-	-	5
SR-Boligkreditt ¹⁾	3,440	1,768	23	12	34	-	-
Rygir Industrier Group	87	26	3	-	-	-	-
Finansparken Bjergsted	150	153	3	1	-	-	-
Bjergsted Terrasse	-	-	-	-	-	-	10
Total subsidiaries	3,677	2,072	32	17	68	3	15

¹⁾ Transferred loans, sold NOK 37,586 millions and purchased NOK millions 2,323.

2017							
EiendomsMegler 1	-	45	2	2	-	1	-
SR-Forvaltning	-	64	-	-	32	1	-
FinStart Nordic	-	10	1	-	-	-	-
Regnskapshuset SR	-	18	-	-	-	-	2
SR-Boligkreditt	-	2,203	11	9	26	-	-
Rygir Industrier Group	91	37	3	1	-	-	-
Finansparken Bjergsted	75	77	-	1	-	-	-
Total subsidiaries	166	2,454	17	13	58	2	2

Associated companies and joint ventures

	Loans 31 Dec	Deposits 31 Dec	Interest income	Interest costs	Comm- issions income	Other operating income	Operating costs
2018							
SpareBank 1 Gruppen	1,342	-	30	-	278	-	-
SpareBank 1 Banksamarbeidet	-	-	-	-	-	-	186
SpareBank 1 Boligkreditt ²⁾	-	735	-	3	85	-	-
SpareBank 1 Næringskreditt	-	358	-	3	3	-	-
Samarbeidende Sparebanker Bankinvest	3	-	-	-	-	-	-
SpareBank 1 Kredittkort	878	-	25	-	55	-	-
Total associated companies and joint ventures	2,223	1,093	55	6	421	-	186

²⁾ Transferred loans, sold NOK 3,606 millions and purchased NOK 5,270 millions.

2017							
SpareBank 1 Gruppen	1,942	-	41	-	294	-	-
SpareBank 1 Banksamarbeidet	-	-	-	-	-	-	171
SpareBank 1 Boligkreditt	-	678	-	2	146	-	-
SpareBank 1 Næringskreditt	-	255	-	2	3	-	-
Samarbeidende Sparebanker Bankinvest	3	-	-	-	-	-	-
SpareBank 1 Kredittkort	878	-	23	-	56	-	-
Total associated companies and joint ventures	2,823	933	64	4	499	-	171

(Note 39 cont.)

Transactions with close associates of the group executive management team¹⁾

There were no transactions with close associates of the group executive management team.

Transactions with close associates of the board¹⁾

2018 (Figures in NOK thousands)	Loans 31 Dec ²⁾	Interest income	Other operating income
Birthe Cecilie Lepsøe	814,492	11,508	-

¹⁾ Including transactions with close associates and companies in which close associates are key personnel.

²⁾ Inclusive of loan limits, derivatives and guarantees.

NOTE 40 SHARE CAPITAL AND OWNERSHIP STRUCTURE

Share capital

SpareBank 1 SR-Bank's share capital amounts to NOK 6,393,777,050 divided into 255,751,082 shares, each with a nominal value of NOK 25. The share capital (formerly equity share capital) was raised in the following manner and on the following dates:

Year		Change in share capital	Total share capital	No. of equities
1994	Public issue	744.0	744.0	7,440,000
2,000	Private placement with employees	5.0	749.0	7,489,686
2001	Private placement with employees	4.8	753.8	7,538,194
2004	Bonus issue	150.8	904.6	9,045,834
2005	Bonus issue/split	226.1	1,130.7	22,614,585
2007	Private placement	200.0	1,330.7	26,613,716
2007	Bonus issue/split	443.5	1,774.2	70,969,909
2008	Dividend issue	91.7	1,866.0	74,638,507
2008	Private placement with employees	6.6	1,872.6	74,903,345
2009	Bonus issue/split	374.5	2,247.1	89,884,014
2009	Private placement	776.2	3,023.3	120,933,730
2010	Private placement with employees	7.8	3,031.1	121,243,427
2010	Private placement with Kvinnherad	151.7	3,182.8	127,313,361
2012	Conversion limited savings bank	1,804.4	4,987.2	199,489,669
2012	Private placement	1,406.5	6,393.8	255,751,082

Besides the share capital, the equity consists of the share premium reserve, fund for unrealised gains and other equity.

Dividend policy

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

Trading in own shares in 2018

(Figures in NOK thousands)	No. of equities	Nominal value
Holding as at 31 Dec 2017	206,757	5,169
Traded in 2018	-121,551	-3,039
Holding as at 31 Dec 2018	85,206	2,130

(Note 40 cont.)

20 largest shareholders as at 31 December 2018

Holder	of shares	% ratio
Sparebankstiftelsen SR-Bank	72,419,305	28.3%
National Insurance Scheme Fund	18,930,821	7.4%
State Street Bank and Trust Co, USA	10,346,404	4.0%
SpareBank 1-stiftinga Kvinnherad	6,226,583	2.4%
Vpf Nordea Norge Verdi	4,632,927	1.8%
Danske Invest Norske Instit. II	3,695,998	1.4%
State Street Bank and Trust Co, USA	3,508,462	1.4%
Odin Norge	3,406,393	1.3%
J.P. Morgan Chase Bank N.A., USA	2,870,383	1.1%
Clipper AS	2,565,000	1.0%
Verdipapirfondet DNB Norge (IV)	2,485,463	1.0%
Pareto Aksje Norge	2,428,097	0.9%
JP Morgan Securities plc, U.K.	2,407,452	0.9%
Morgan Stanley & Co, U.K.	2,035,347	0.8%
Danske Invest Norske Aksjer Inst.	1,988,503	0.8%
State Street Bank and Trust Co, USA	1,871,400	0.7%
Verdipapirfondet Alfred Berg Gambak	1,867,194	0.7%
Westco AS	1,701,887	0.7%
KLP Aksjenorge Index	1,696,119	0.7%
KAS Bank NV, The Netherlands	1,624,251	0.6%
Total 20 largest	148,707,989	58.1%
Other holders	107,043,093	41.9%
Shares issued	255,751,082	100.0%

The total number of shareholders as at 31 December 2018 was 10,804. This is 30 fewer than at year end 2017. The proportion of shares held by shareholders residing in Rogaland, Hordaland and the Agder counties was 43.5%, and the proportion held by foreign shareholders was 26.6%. Please also see the overview of shareholders on the board and supervisory board. For more information about SpareBank 1 SR-Bank's share please refer to the special section in the annual report.

20 largest shareholders as at 31 December 2017

Holder	of shares	% ratio
Sparebankstiftelsen SR-Bank	72,419,305	28.3%
National Insurance Scheme Fund	16,987,715	6.6%
State Street Bank and Trust Co, USA	8,913,352	3.5%
SpareBank 1-stiftinga Kvinnherad	6,226,583	2.4%
Vpf Nordea Norge Verdi	5,957,547	2.3%
Danske Invest Norske Instit. II	3,574,538	1.4%
Verdipapirfondet DNB Norge (IV)	3,539,205	1.4%
Odin Norge	3,506,393	1.4%
State Street Bank and Trust Co, USA	3,024,820	1.2%
Clipper AS	2,565,000	1.0%
Pareto Aksje Norge	2,223,764	0.9%
KAS Bank NV, The Netherlands	1,935,270	0.8%
Danske Invest Norske Aksjer Inst.	1,902,194	0.7%
Morgan Stanley and Co Intl plc, UK	1,885,627	0.7%
J.P. Morgan Chase Bank N.A., USA	1,880,641	0.7%
KLP Aksjenorge Index	1,810,920	0.7%
Westco AS	1,662,987	0.7%
Pareto AS	1,640,867	0.6%
Vpf Nordea Norge Avkastning	1,639,620	0.6%
Norwegian Armed Forces' Personnel Service	1,513,556	0.6%
Total 20 largest	144,809,904	56.6%
Other holders	110,941,178	43.4%
Shares issued	255,751,082	100.0%

The total number of shareholders as at 31 December 2017 was 10,834. This is 406 more than at year end 2016. The proportion of shares held by shareholders residing in Rogaland, Hordaland and the Agder counties was 44.7%, and the proportion held by foreign shareholders was 23.5%. Please also see the overview of shareholders on the board and supervisory board. For more information about SpareBank 1 SR-Bank's share, please refer to the special section in the annual report.

Hybrid capital

(Figures in NOK millions)

Group ¹⁾

	Principal		Terms	Maturity	First maturity date	2018	2017
Hybrid capital	150	NOK	3-month NIBOR + 3.20%	No due date	2022	150	150
Hybrid capital	400	NOK	3-month NIBOR + 3.50%	No due date	2023	400	-
<hr/>							
Change of hybrid capital	Balance sheet 31 Dec 2018		Issued 2018	Matured/ redeemed 2018	Exchange rate and other changes 2018	Balance sheet 31/12/2017	
Hybrid capital	550		400	-	-	150	

¹⁾ This note is identical for the parent bank

NOTE 41 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments has replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 deals with the recognition, classification, measurement, impairment and derecognition of financial assets and liabilities, as well as hedge accounting. IFRS 9 applied from 1 January 2018 and has been approved by the EU.

In 2015, the SpareBank 1 Alliance put together a multidisciplinary implementation team with participants from all of the banks that use IFRS, which prepared for the implementation of IFRS 9 ("the project"). The project had a steering group with the following sub-groups:

1. Models and methodology

Development of calculation solution and models to establish anticipated forward-looking estimates of expected losses

2. Strategy, organisation and processes

Defining how the organisation of the ongoing work of accounting in accordance with IFRS 9 will be organised between the cooperating banks

3. Accounting and reporting

Concretising the actual accounting and notes, including policy notes and note templates

4. Classification and measurement

Analysing the group's financial instruments and classifying instruments in various categories

At the same time, SpareBank 1 SR-Bank established a local project for resolving the technical adaptations of new regulations, as well as discussing and deciding on adaptations and the effects of new regulations.

A description of the new requirements in IFRS 9 and changes from the earlier standard is provided in note 2.

Transitional rules

IFRS 9 shall be applied retrospectively, except for hedge accounting. Retrospective application means that SpareBank 1 SR-Bank created the opening balance as at 1 January 2018 as if it has always applied the new principles. This does not mean that the comparative figures for 2017 need to be reworked according to the new principles. The standard states that comparisons may not be restated unless this can be done without the need for hindsight. SpareBank 1 SR-Bank will not show comparable figures for earlier periods upon implementation of the standard on 1 January 2018. The effects of new principles in the opening balance for 2018 are recognised against equity.

SpareBank 1 SR-Bank has chosen to introduce hedge accounting under IFRS 9. This implies that hedge accounting is to be conducted in accordance with the principles of IFRS 9 prospectively from date of transition to IFRS 9.

Effect on financial reporting

Any implementation effects have been recognised against equity upon the switch to IFRS 9 on 1 January 2018.

The introduction of IFRS 9 has resulted in the following principles and effects

A description of the various financial instruments and how they are classified in accordance with IAS 39 and IFRS 9 is provided below, together with a description of the assessments on which the classification was based.

Detailed description of the impairment model according to IFRS 9 follows in the tables below.

(Note 41 cont.)

Implementation IFRS 9

(Figures in NOK millions)

Parent bank	Classification according to IAS 39	Classification according to IFRS 9	Capitalised amount according to IAS 39, 31 Dec 2017	Change due to reclassification	Change due to new measurement	Capitalised amount according to IFRS 9, 1 Jan 2018
Assets						
Amortised cost						
Cash and receivables from the central bank	Amortised cost	Amortised cost	207	-	-	207
Loans to and receivables from financial institutions	Amortised cost	Amortised cost	1,607	-	-	1,607
Loans to customers	Amortised cost	Amortised cost	122,969	-54,606	61	68,424
Certificates and bonds	Amortised cost	Amortised cost	3,201	-	-	3,201
Investments in ownership interests	Amortised cost	Amortised cost	2,363	-	-	2,363
Investments in group companies	Amortised cost	Amortised cost	4,853	-	-	4,853
Other financial assets	Amortised cost	Amortised cost	724	-	-	724
Total effect amortised cost			135,924	-54,606	61	81,379
Fair value through profit or loss						
Loans to customers	Fair value	Fair value	7,610	-	-	7,610
Certificates and bonds	Fair value	Fair value	29,002	-	-	29,002
Financial derivatives	Fair value	Fair value	6,033	-	-	6,033
Equities, units and other equity interests	Fair value	Fair value	446	61	-	507
Total fair value through profit or loss			43,091	61	-	43,152
Fair value over OCI with recycling						
Loans to customers	Amortised cost	Fair value	-	54,606	-22	54,584
Total effect fair value over OCI with recycling			-	54,606	-22	54,584
Fair value over OCI without recycling (equity instruments)						
Equities, units and other equity interests	Available for sale	Fair value	61	-61	-	-
Total effect fair value over OCI without recycling			61	-61	-	-
Total assets			179,076	-	39	179,115
Liabilities						
Amortised cost						
Debt to financial institutions	Amortised cost	Amortised cost	4,538	-	-	4,538
Deposits from customers	Amortised cost	Amortised cost	95,635	-	-	95,635
Securities issued	Amortised cost	Amortised cost	51,307	-	-	51,307
Subordinated loan capital	Amortised cost	Amortised cost	2,764	-	-	2,764
Payable tax	Amortised cost	Amortised cost	393	-	-19	374
Deferred tax liabilities	Amortised cost	Amortised cost	417	-	-	417
Impairments on financial liabilities	Amortised cost	Amortised cost	13	-	114	127
Other financial liabilities	Amortised cost	Amortised cost	947	-	-	947
Total effect amortised cost			156,014	-	95	156,109
Fair value through profit or loss						
Financial derivatives	Fair value	Fair value	5,013	-	-	5,013
Total fair value through profit or loss			5,013	-	-	5,013
Total liabilities			161,027	-	95	161,122
Equity						
Share capital			6,394	-	-	6,394
Share premium reserve			1,587	-	-	1,587
Allocated dividend			1,087	-	-	1,087
Fund for unrealised gains			43	-	-	43
Hybrid capital			150	-	-	150
Other equity			8,788	-	-56	8,732
Total equity			18,049	-	-56	17,993
Total liabilities and equity			179,076	-	39	179,115

(Note 41 cont.)

(Figures in NOK millions)

Group	Classification according to IAS 39	Classification according to IFRS 9	Capitalised amount according to IAS 39, 31 Dec 2017	Change due to reclassification	Change due to new measurement	Capitalised amount according to IFRS 9, 1 Jan 2018
Assets						
Amortised cost						
Cash and receivables from the central bank	Amortised cost	Amortised cost	207	-	-	207
Loans to and receivables from financial institutions	Amortised cost	Amortised cost	1,608	-	-	1,608
Loans to customers	Amortised cost	Amortised cost	163,627	-	22	163,649
Certificates and bonds	Amortised cost	Amortised cost	3,201	-	-	3,201
Investments in ownership interests	Amortised cost	Amortised cost	3,953	-	-	3,953
Investments in group companies	Amortised cost	Amortised cost	0	-	-	0
Other financial assets	Amortised cost	Amortised cost	1,446	-	-	1,446
Total effect amortised cost			174,042	-	22	174,064
Fair value through profit or loss						
Loans to customers	Fair value	Fair value	7,610	-	-	7,610
Certificates and bonds	Fair value	Fair value	28,708	-	-	28,708
Financial derivatives	Fair value	Fair value	5,541	-	-	5,541
Equities, units and other equity interests	Fair value	Fair value	656	61	-	717
Total fair value through profit or loss			42,515	61	-	42,576
Fair value over OCI with recycling						
Loans to customers	Amortised cost	Fair value	-	-	-	-
Total effect fair value over OCI with recycling			-	-	-	-
Fair value over OCI without recycling (equity instruments)						
Equities, units and other equity interests	Available for sale	Fair value	61	-61	-	-
Total effect fair value over OCI without recycling			61	-61	-	-
Total assets			216,618	-	22	216,640
Liabilities						
Amortised cost						
Debt to financial institutions	Amortised cost	Amortised cost	2,335	-	-	2,335
Deposits from customers	Amortised cost	Amortised cost	95,384	-	-	95,384
Securities issued	Amortised cost	Amortised cost	90,497	-	-	90,497
Subordinated loan capital	Amortised cost	Amortised cost	2,764	-	-	2,764
Payable tax	Amortised cost	Amortised cost	487	-	-23	464
Deferred tax liabilities	Amortised cost	Amortised cost	393	-	-	393
Other financial liabilities	Amortised cost	Amortised cost	1,082	-	114	1,196
Total effect amortised cost			192,942	-	91	193,033
Fair value through profit or loss						
Financial derivatives	Fair value	Fair value	3,787	-	-	3,787
Total fair value through profit or loss			3,787	-	-	3,787
Total liabilities			196,729	-	91	196,820
Share capital			6,394	-	-	6,394
Share premium reserve			1,587	-	-	1,587
Allocated dividend			1,087	-	-	1,087
Fund for unrealised gains			43	-	-	43
Hybrid capital			150	-	-	150
Other equity			10,628	-	-69	10,559
Total equity			19,889	-	-69	19,820
Total liabilities and equity			216,618	-	22	216,640

(Note 41 cont.)

Transitional note impairments from IAS 39 to IFRS 9

Parent bank		1 Jan 2018			31/12/2017			
	12 months' ECL	Lifetime ECL - no objective evidence of loss	Lifetime ECL - objective evidence of loss	Purchased or issued loans with objective proof of loss	Total	Individual	Group	Total
Total capitalised impairments								
Impairments on groups of loans (note 8)							674	674
Individual impairments on loans (note ⁸⁾)						652	-	652
Individual impairments on guarantees (note ⁸⁾)						13	-	13
Total impairments 31 Dec 2017						665	674	1,339
Impairments on loans	189	397	701	-	1,287			
Impairments on guarantees, loan commitments and unused credit lines	42	70	15	-	127			
Total impairments 1 Jan 2018	231	467	716	-	1,414	-	-	-

Group		1 Jan 2018			31/12/2017			
	12 months' ECL	Lifetime ECL - no objective evidence of loss	Lifetime ECL - objective evidence of loss	Purchased or issued loans with objective proof of loss	Total	Individual	Group	Total
Total capitalised impairments								
Impairments on groups of loans (note 8)							678	678
Individual impairments on loans (note ⁸⁾)						640	-	640
Individual impairments on guarantees (note ⁸⁾)						13	-	13
Total impairments 31 Dec 2017						653	678	1,331
Impairments on loans	192	402	702	-	1,296			
Impairments on guarantees, loan commitments and unused credit lines	42	70	15	-	127			
Total impairments 1 Jan 2018	234	472	717	-	1,423	-	-	-

Statement of Changes in Equity

	Share capital	Share premium reserve	Hybrid capital	Other equity	Fund for unrealised gains	Total equity
Parent bank						
Equity as at 31 Dec 2017	6,394	1,587	150	9,875	43	18,049
Total impairments pursuant to IAS 39				1,339		1,339
Total impairments pursuant to IFRS 9				-1,414		-1,414
Net change in impairments				-75		-75
Change in tax as a result of change IFRS 9				19		19
Total change in equity 31 Dec 2017				-56		-56
Equity as at 1 Jan 2018	6,394	1,587	150	9,819	43	17,993
Group						
Equity as at 31 Dec 2017	6,394	1,587	150	11,715	43	19,889
Total impairments pursuant to IAS 39				1,331		1,331
Total impairments pursuant to IFRS 9				-1,423		-1,423
Net change in impairments				-92		-92
Change in tax as a result of change IFRS 9				23		23
Total change in equity 31 Dec 2017				-69		-69
Equity as at 1 Jan 2018	6,394	1,587	150	11,646	43	19,820

(Note 41 cont.)

Change in impairments

Parent bank	Impairments pursuant to IAS 39 31 Dec 2017	Change due to reclassification	Change due to new measurement	Impairments pursuant to IFRS 9 1 January 2018
Loans and receivables and instruments held to maturity under IAS 39 that must be measured at amortised cost under IFRS 9	1,325	-46	-61	1,218
Debt instruments classified as available for sale under IAS 39 that must be measured at amortised cost under IFRS 9	13	-	114	127
Total instruments measured at amortised cost under IFRS 9	1 338	-46	53	1,345
Loans and receivables and instruments held to maturity under IAS 39 to be measured at fair value over OCI under IFRS 9	-	46	23	69
Debt instruments classified as available for sale under IAS 39 that must be measured at fair value through OCI under IFRS 9	-	-	0	0
Total instruments measured at fair value through OCI under IFRS 9	-	46	23	69
Total changes in relation to classification rules	1 338	-	76	1,414

Group

Loans and receivables and instruments held to maturity under IAS 39 that must be measured at amortised cost under IFRS 9	1,318		-22	1,296
Debt instruments classified as available for sale under IAS 39 that must be measured at amortised cost under IFRS 9	13		114	127
Total instruments measured at amortised cost under IFRS 9	1,331	-	92	1,423
Loans and receivables and instruments held to maturity under IAS 39 to be measured at fair value over OCI under IFRS 9	-	-	-	-
Debt instruments classified as available for sale under IAS 39 that must be measured at fair value through OCI under IFRS 9	-	-	-	-
Total instruments measured at fair value through OCI under IFRS 9	-	-	-	-
Total changes in relation to classification rules	1,331	-	92	1,423

NOTE 42 EVENTS AFTER THE BALANCE SHEET DATE

On 28 February 2019, the SpareBank 1 banks signed an agreement to change the ownership model in BN Bank ASA. Once the transaction has been completed, SpareBank 1 SR-Bank will own a 35.02% stake in BN Bank ASA.

No material events have been registered after 31 December 2018 that affect the annual financial statements as prepared.

The proposed dividend is NOK 4.50 per share and will total NOK 1,151 million.



To the General Meeting of Sparebank 1 SR-Bank ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebank 1 SR-Bank ASA, which comprise:

- The financial statements of the parent company Sparebank 1 SR-Bank ASA (the Company), which comprise the balance sheet as at 31 December 2018, the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Sparebank 1 SR-Bank ASA and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
 - The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
 - The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
-

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The company's business activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or events that qualified as new Key Audit Matters. The implementation of IFRS 9 has altered the way we audited the valuation of loans to customers, but our focus areas have been the same for 2018 as the previous year.

Key Audit Matter

How our audit addressed the Key Audit Matter

Valuation of loans to customers

Loans to customers represents a considerable part of the Group's total assets. The bank's procedures and control systems related to credit rating and their monitoring process are central to the valuation of loans. The framework is complex and includes a considerable volume of data and judgemental parameters.

The use of estimates may affect profit before tax. Estimates may also affect the compliance with the Capital Requirements Regulation due to the risk classification of loans. We focused on this area due to the significance of the impairment considerations for the value of loans in the financial statements, and the fact that the use of judgement has a potential to affect the profit for the period. Furthermore there is an inherent risk of errors because of the complexity and quantity of data involved in the modelling.

Assessment of write down is based on a model based framework including elements that require management to use their best estimate. The framework is complex and includes significant amount of data and judgemental parameters.

IFRS 9 took effect on 1 January 2018. The most significant change compared to the previous regime is the fact that the impairment model now is based on expected credit losses rather than incurred losses.

The use of models to determine expected credit losses entails judgement, specifically with respect to:

- classification of the various credit portfolios by risk and asset type;
- identification of impaired loans or loans presenting a significant increase in credit risk;

We addressed and tested controls related to valuation of loans to customers. The objective of these controls are to identify whether loans have objective evidence of impairment, and how the impairment losses should be calculated when objective evidence exists. We concluded that we could rely on these controls in our audit.

Throughout 2018, we held meetings with the credit and legal department in the bank. The financial statement show that total non-performing and impaired loans are at a somewhat lower level compared to last year. In these meetings, we challenged the bank's assessments, including possible impairment indicators on loans where there is not yet objective evidence that impairment exists. This included loans that were assessed by the bank and loans selected based on industry, size, risk and haphazardly. We assured that the bank had particular attention on loans in the petroleum related industry. For loans where objective evidence exists, we challenged the bank and examined the relevance and the reasonableness of the assumptions and the method used in the calculation of realisable value. Our procedures indicate that the bank's assumptions and methods were reasonable.

We performed credit assessments for a sample of loans, where we evaluated whether objective evidence for impairment losses exist. We also assessed the realisable value the bank had calculated. These values are calculated by using internal and external appraisals. The financial statement show that the loan loss provision ratios is somewhat increased this year. The loan-loss provision ratio is defined as individual write-downs in percent of non-performing and impaired loans. The results of our testing of individual impairment losses show that management had used reasonable assumptions in the calculation of the impairment amounts.

For loans considered on a collective basis the calculation is based on a framework model. We tested the model and considered the relevance and the reasonableness of important assumptions used in the calculation.

As for the internal control environment, we obtained a detailed understanding of the processes and tested the

- how the loans are categorised in stages;
- the use of concepts such as macroeconomic scenarios, expected lifetime, etc; and
- the use of parameters such as the probability of default and loss given default and scenarios. .

According to accounting standards, the bank shall assess, at the end of each reporting period, whether there is objective evidence that impairment exists for the loans. If there are, the losses should be calculated as the residual of the book value less the present value of future cash flows. Both assessments involve significant judgements.

In our audit, we gave special attention to:

- Managements' process to identify loans with objective evidence that impairment exists.
- Managements' process to monitor engagements that are particularly exposed due to the decline in the petroleum related industry.
- Management's assumptions used in calculating the impairment amount for loans where impairment exists.

Refer to note 6, 8, 10, 11, 12, 13 and 14 in the annual report for a description of the group's credit risk and managements process related to impairment of loans to customers and assumptions for valuation.

IT systems supporting processes over financial reporting

We have addressed this area because it is important for the bank's financial reporting systems, and their business model is dependent on complex IT systems. Weaknesses in automated processes and controls can potentially lead to a significant risk in the daily operations

controls associated with:

- the calculation and methodologies used;
- whether the Management-approved internal models worked as intended;
- the reliability of the sources of the data used for calculation purposes;

Our testing of the internal controls did not give any indication of material misstatements in the model or non-compliance with IFRS 9.

The financial statement show that the loan-loss provision ratio, measured as collective impairment losses in percent of gross loans, is stable compared to last year. The level of collective losses were among others compared to other comparable banks and analysed towards the bank's other loan portfolio. We concluded that the assumptions used in the calculation of the impairment amounts were reasonable.

We satisfied ourselves that disclosures regarding valuation of loans and guarantees, appropriately describes risks in the portfolio, and that the disclosures are in accordance with the requirement.

The bank uses external service providers to operate some of the important IT systems. The auditor at the relevant service organisation evaluates the design and efficiency of the established control systems, and tests the controls designed to ensure the integrity of the IT system and cash handling that are relevant to financial reporting.

and risk of misstatements.

We satisfied ourselves regarding the auditor's objectivity and competence and examined the reports, and evaluated possible misstatement and improvements. Furthermore, our own IT specialists have tested access controls to the IT systems and the segregation of duties where necessary for our audit.

Our work gave us sufficient evidence to enable us to rely on the operation of the Group's IT systems relevant for our audit.

Completeness and valuation of derivatives

Derivatives consist mainly of interest- and currency instruments. The bank uses derivatives to reduce interest and exchange risk related to fixed-rate funding and loans to customers, bonds (assets and liabilities) and certificates (assets and liabilities). The bank has also a significant trade of derivatives on behalf of customers. There is a risk of errors in the financial statements if derivatives are not accurately registered in the banks systems.

Derivatives are measured at fair value, and the valuation techniques depends partly on management judgement as described in note 28. The use of assumptions (interest rates and credit spread) can therefore potentially affect the income statement.

Refer to notes 2, 3, 6, 15, 16, 21 and 26 for a more complete description of the Groups risk governance and use of derivatives.

The bank has established processes and controls to ensure accurate registration and measurement of derivative contracts.

We tested the bank's control over the entering into and closing of derivative contracts, including the registration in the banks systems. Our audit also includes tests to ensure that the bank reconciles transactions with counterparties on a daily basis. Furthermore, we have tested the banks methodology and controls regarding pricing models. We concluded that we could rely on these controls in our audit.

Interest and exchange curves were on a daily basis fed into the bank's portfolio system as basis for pricing of derivatives. We tested the pricing by recalculating the pricing of different derivatives by using the same interest and exchange curves as the bank. We compared these prices to external sources. The result of our testing show that management used reasonable assumptions when calculating the fair value of the derivatives.

We satisfied ourselves that disclosures regarding derivatives were appropriate.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 7 March 2019

PricewaterhouseCoopers AS

Torbjørn Larsen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Statement by the Board of Directors and Chief Executive Officer

We hereby confirm that the financial statements for the period 1 January to 31 December 2018 have, to the best of our knowledge, been prepared pursuant to applicable accounting standards, and that the information provided presents a true and fair picture of the company's and the group's assets, liabilities, financial positions and profit as a whole.

We also confirm that the board of directors' report provides a true and fair presentation of the performance, result and position of the company and group, together with a description of the most important risk and uncertainty factors that the company and the group face.

Stavanger 7 March 2019



Dag Mejdell
Chair of the board



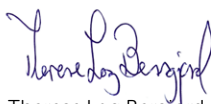
Kate Henriksen



Tor Dahle



Birthe Cecilie Lepsøe



Therese Log Bergjord



Jan Skogseth



Sally Lund-Andersen
Employee representative



Kristian Kristensen
Employee representative



Arne Austreid
Chief Executive Officer

GRI Index SpareBank 1 SR-Bank

GENERAL INFORMATION

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
Organisational profile			
102-1	Name of the organisation		SpareBank 1 SR-Bank
102-2	Most important brands, products and/or services	SpareBank 1 SR Bank (8)	
102-3	Location of the organisation's head office		Stavanger
102-4	Number of countries in which the organisation operates		Norway
102-5	Ownership and legal form of business organisation	SpareBank 1 SR Bank (8, 9)	
102-6	Description of the markets served by the organisation	SpareBank 1 SR Bank (8)	
102-7	Size and scope of the organisation	SpareBank 1 SR Bank (8) Employees (12) Annual financial statements (50, 51)	
102-8	Total number of employees by type of employment, employment contract and region, broken down by gender	Employees (14)	
102-9	Description of the organisation's supply chain	Annual Report (42, 43, 44)	
102-10	Significant changes during the reporting period regarding the size, structure or ownership		No major changes
102-11	Description of whether and how the precautionary principle is used within the organisation		SR-Bank is a member of the Global Compact and thus has committed to practising the "precautionary principle".
102-12	External initiatives, charters or principles in the financial, environmental or social area that the organisation supports or has acceded to	Sustainability (20, 26, 27)	
102-13	Membership in industry organisations or other associations, and national/international lobby organisations	Sustainability (26)	
Strategy and analysis			
102-14	Statement from the CEO	Nearly 180 years of long-term thinking and sustainable operations (6)	
Ethics and integrity			
102-16	The organisation's values, principles, standards and norms of behaviour	Sustainability (23)	
Governance			
102-18	The organisation's management structure, including the highest authority and committees who are responsible for decision-making on financial, environmental and social topics	SpareBank 1 SR-Bank (11)	

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
Stakeholder engagement			
102-40	Stakeholder groups that the organisation is in dialogue with	Sustainability (21, 22)	
102-41	Percentage of employees who are covered by collective bargaining agreements		54% of employees are members of a trade union 92% of employees covered by collective bargaining agreements
102-42	Description of how the organisation chooses relevant stakeholders	Sustainability (21)	
102-43	Approach to stakeholder engagement, including frequency of engagement by type and stakeholder group	Sustainability (21, 22)	
102-44	Important topics and questions raised through stakeholder dialogue and the organisation's response	Sustainability (21, 22)	
Practices for reporting			
102-45	Overview of all the units that are encompassed by the organisation's annual financial statements or similar documents	Annual financial statements (55, 56)	
102-46	Description of the process for defining the report's content and limitations, as well as the implementation of the reporting principles	Annual Report (3) Sustainability (21)	
102-47	List of all the topics that have been identified as material		<ul style="list-style-type: none"> - Financial crime - Ethics and anti-corruption - Data protection and information security - Negative screening - Guidelines for responsible credit
102-48	Change of historical data from earlier reports		None
102-49	Significant changes from the previous report with regard to the scope of the content, limitation of the report or the measurement methods		None
102-50	Reporting period		01.01.18-31.12.18
102-51	Date of publication for the previous report		This is SpareBank 1 SR-Bank's first GRI report
102-52	Reporting frequency		Annual
102-53	Contact person for questions about the report or its content		Thor-Christian Haugland
102-54	Reporting level		This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI Index		Annual Report 2018, page 128-131
102-56	Current practices for external verification of the reporting		The report is not externally verified

SPECIFIC INFORMATION

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
Financial performance			
103-1	Description and limitation of material topic(s)	Sustainability (27)	See GRI 102-47
103-2	Description of the management system that covers material topic(s)	Annual Report (44) Sustainability (27)	
103-3	Evaluation of the management system	Corporate governance (35)	
201-1	Direct financial value created and distributed	Annual financial statements (50)	
201-2	Financial implications, risks and opportunities due to climate change	Sustainability (27)	
Indirect financial impacts			
103-1	Description and limitation of material topic(s)	Sustainability (27)	See GRI 102-47
103-2	Description of the management system that covers material topic(s)	Sustainability (20)	
103-3	Evaluation of the management system	Sustainability (20)	
203-1	Infrastructure investments and services supported	Sustainability (27)	
203-2	Significant, indirect financial impacts of the organisation's operations	Sustainability (27)	
Ethics and anti-corruption			
103-1	Description and limitation of material topic(s)	Sustainability (23, 24)	
103-2	Description of the management system that covers material topic(s)	Sustainability (23, 24)	
103-3	Evaluation of the management system	Sustainability (23, 24)	
205-2	Communication and training about anti-corruption policies and procedures	Sustainability (23)	
205-3	Confirmed incidents of corruption and corrective actions	Sustainability (24)	No registered cases of corruption
Energy			
103-1	Description and limitation of material topic(s)	Sustainability (24)	
103-2	Description of the management system that covers material topic(s)	Sustainability (24)	
103-3	Evaluation of the management system	Sustainability (24)	
302-1	Energy consumption within the organisation	Sustainability (25)	
Supplier environmental assessment			
103-1	Description and limitation of material topic(s)	Sustainability (25)	
103-2	Description of the management system that covers material topic(s)	Sustainability (25)	
103-3	Evaluation of the management system	Sustainability (25)	
308-1	Percentage of new suppliers that were screened using environmental criteria	Sustainability (25)	
308-2	Significant actual and potential negative environmental impacts of work practices in the supply chain and actions taken	Sustainability (25)	Partially reported. In 2019, SR-Bank will develop new guidelines for responsible purchasing.
Training and education			
103-1	Description and limitation of material topic(s)	Employees (12, 13)	
103-2	Description of the management system that covers material topic(s)	Employees (12, 13)	
103-3	Evaluation of the management system	Employees (12, 13)	
404-1	Average hours of training per year per employee by position category	Employees (12)	Partially reported. SR-Bank will submit a full report on this indicator for the 2019 financial year.
404-2	Programmes for personal development and lifelong learning that develop the employee's value in the labour market	Employees (12)	
404-3	Percentage of employees who receive regular performance and career development reviews	Employees (12)	

GRI indicator	Description	Location in the report (chapter, page)	Reporting directly in the index
Diversity and equal opportunity			
103-1	Description and limitation of material topic(s)	Employees (12, 13)	
103-2	Description of the management system that covers material topic(s)	Employees (12, 13)	
103-3	Evaluation of the management system	Employees (12, 13)	
405-1	Diversity of governance bodies and in different employee categories	Employees (14)	
405-2	Pay differences between men and women	Employees (14)	
Supplier social assessment			
103-1	Description and limitation of material topic(s)	Sustainability (25)	
103-2	Description of the management system that covers material topic(s)	Sustainability (25)	
103-3	Evaluation of the management system	Sustainability (25)	
414-1	Percentage of new suppliers that were screened using social criteria	Sustainability (25)	
414-2	Significant actual and potential negative social impacts in the supply chain and actions taken	Sustainability (25)	Partially reported. In 2019, SR-Bank will develop new guidelines for responsible purchasing.
Responsible marketing of products and services			
103-1	Description and limitation of material topic(s)	Sustainability (24)	
103-2	Description of the management system that covers material topic(s)	Sustainability (24)	
103-3	Evaluation of the management system	Sustainability (24)	
417-1	Requirements for product and service information and labelling	Sustainability (24)	
417-2	Incidents of non-compliance concerning product and service information and labelling	Sustainability (24)	
417-3	Incidents of non-compliance concerning marketing communications	Sustainability (24)	
Data protection and information security			
103-1	Description and limitation of material topic(s)	Sustainability (24)	
103-2	Description of the management system that covers material topic(s)	Sustainability (24)	
103-3	Evaluation of the management system	Sustainability (24)	
418-1	Number of documented complaints related to breaches of privacy or losses of customer data	Sustainability (24)	
Compliance with social regulations			
103-1	Description and limitation of material topic(s)	Sustainability (26)	
103-2	Description of the management system that covers material topic(s)	Sustainability (26)	
103-3	Evaluation of the management system	Sustainability (26)	
FS8	Monetary value of products and services designed to deliver a specific environmental benefit	Sustainability (26)	
Responsible credit			
103-1	Description and limitation of material topic(s)	Sustainability (26)	
103-2	Description of the management system that covers material topic(s)	Sustainability (26)	
103-3	Evaluation of the management system	Sustainability (26)	
FS10	Percentage and number of companies in the portfolio that the organisation has interacted with on environmental or social issues.		Guidelines for responsible ownership linked to our own investments will be prepared in 2019.
FS11	Percentage of companies in the portfolio subject to positive and negative environmental or social screening	Sustainability (26)	

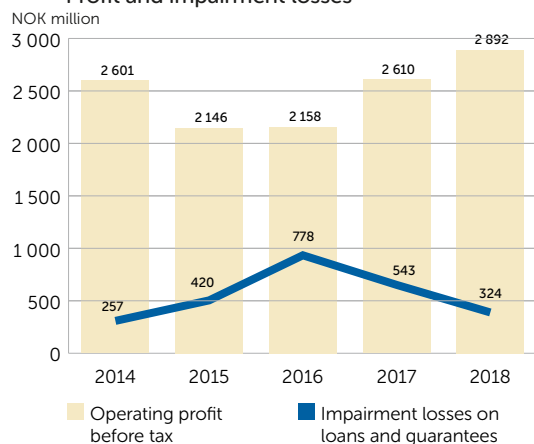
KEY FIGURES LAST 5 YEARS

(Figures in NOK millions)

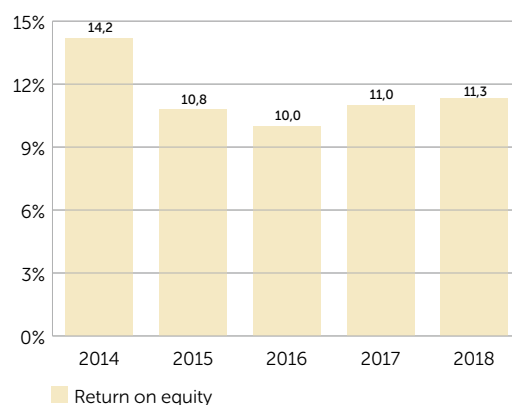
SpareBank 1 SR-Bank Group	2018	2017	2016	2015	2014
Summary of results					
Net interest income	3,439	3,162	2,871	2,593	2,404
Net commissions and other operating income	1,437	1,524	1,443	1,532	1,732
Net income from financial investments	569	634	654	304	778
Total net income	5,445	5,320	4,968	4,429	4,914
Total operating costs	2,229	2,167	2,032	1,863	2,056
Operating profit before impairments	3,216	3,153	2,936	2,566	2,858
Impairments on loans and financial liabilities	324	543	778	420	257
Pre-tax profit	2,892	2,610	2,158	2,146	2,601
Taxes	596	524	403	400	506
Net profit for the year	2,296	2,086	1,755	1,746	2,095
Balance Sheet figures					
Lending to retail market	113,879	104,299	91,171	87,229	77,651
Lending to retail market, incl. SB1 Boligkreditt	122,756	118,413	115,348	115,397	109,939
Lending to corporate market	78,725	67,883	66,497	66,705	62,880
Lending to corporate market, incl. SB1 Næringskreditt	79,142	68,352	67,014	67,243	63,464
Retail market deposits	45,650	44,258	42,908	42,101	39,545
Corporate market deposits	53,920	51,525	43,741	47,341	41,942
Lending growth in retail market, excl. SB1 Boligkreditt %	9.2	14.4	4.5	12.3	29.7
Lending growth in corporate market, excl. SB1 Næringskreditt %	16.0	2.1	-0.3	6.1	6.3
Percentage growth in retail market deposits	3.1	3.1	1.9	6.5	9.3
Percentage growth in corporate market deposits	4.6	17.8	-7.6	12.9	18.2
Total assets	234,061	216,618	193,408	192,049	174,926
Average total assets	223,838	207,562	194,264	182,768	166,017
Impairments on loans and loans in Band 3 ¹⁾					
Impairments as a % of gross loans	0.18	0.33	0.50	0.28	0.20
incl. loans SB1 Boligkreditt and SB1 Næringskreditt	0.17	0.29	0.42	0.23	0.15
Loans in Band 3 as a % of gross loans	1.53				
incl. loans SB1 Boligkreditt and SB1 Næringskreditt	1.46				
Non-performing commitments as a % of gross loans		0.32	0.68	0.55	0.30
incl. loans SB1 Boligkreditt and SB1 Næringskreditt		0.30	0.59	0.46	0.24
Other impaired commitments as a % of gross loans		0.91	0.72	0.35	0.36
incl. loans SB1 Boligkreditt and SB1 Næringskreditt		0.83	0.62	0.30	0.29
Equity					
Share capital	6,394	6,394	6,394	6,394	6,394
Share premium reserve	1,587	1,587	1,587	1,587	1,587
Other equity	13,054	11,758	10,307	8,933	7,422
Hybrid capital	550	150			
Total equity	21,585	19,889	18,288	16,914	15,403
Profitability, financial strength and staffing					
Return on equity %	11.3	11.0	10.0	10.8	14.2
Cost/income ratio	40.9	40.7	40.9	42.1	41.8
Operating costs as a % of average total assets	1.00	1.04	1.05	1.02	1.24
Average interest margin	1.54	1.52	1.48	1.42	1.45
Common equity tier 1 capital ratio %	14.72	15.05	14.70	13.26	11.50
Tier 1 capital ratio %	15.85	16.04	15.63	14.17	12.34
Capital ratio %	17.60	17.88	17.52	16.73	14.53
No. of FTEs	1,178	1,142	1,127	1,161	1,106

¹⁾ Loans and financial liabilities in Band 3 as a % of gross loans. Figures prior to 1 January 2018 are total non-performing and impaired commitments pursuant to IAS 39 as a % of gross loans.

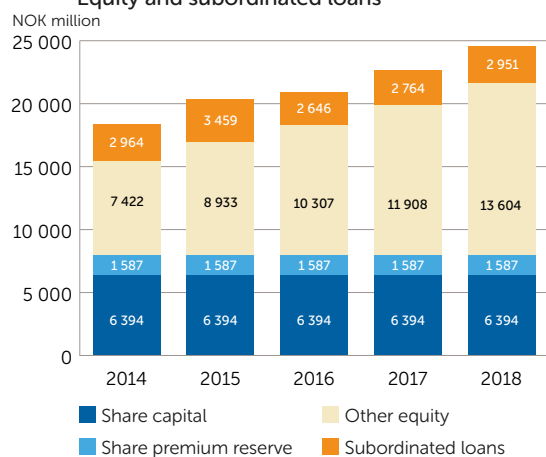
Profit and impairment losses



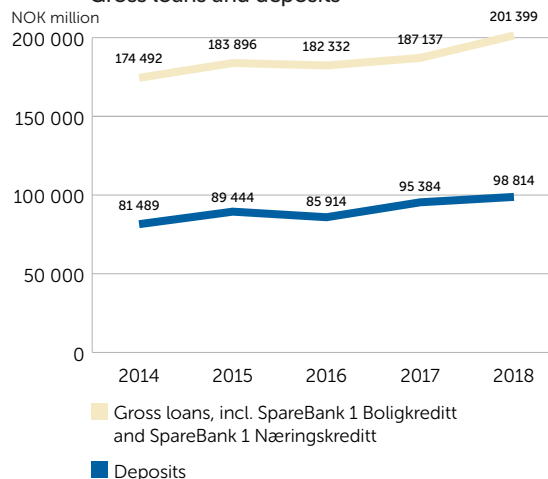
Return on equity



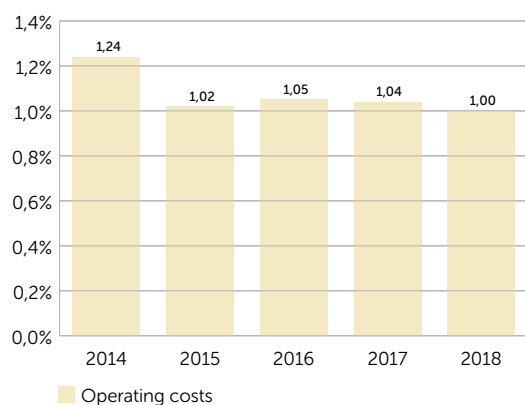
Equity and subordinated loans



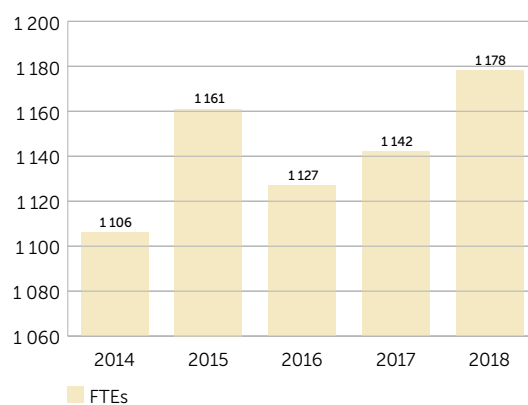
Gross loans and deposits



Operating costs as % of average total assets



FTEs, Group





Our aim is to stimulate growth and developement

Photo: Greater Stavanger

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4066 Stavanger, Norway

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4066 Stavanger, Norway

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