

# Quarterly Report

Financial Statement Q3 2013



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# Key figures group

| <b>Amounts in NOK million and in % of average assets</b>  |    | 30.09.13 | %        | 30.09.12 | %        | 31.12.12 | %        |
|---|----|----------|----------|----------|----------|----------|----------|
| <b>From the profit and loss account</b>   |    |          |          |          |          |          |          |
| Net interest income   |    | 930      | 1.64 %   | 859      | 1.58 %   | 1 166    | 1.60 %   |
| Net fee-, commission and other operating income   |    | 669      | 1.18 %   | 454      | 0.84 %   | 656      | 0.90 %   |
| Net income from financial investments   |    | 261      | 0.46 %   | 230      | 0.42 %   | 260      | 0.36 %   |
| Total income  |    | 1 860    | 3.28 %   | 1 543    | 2.84 %   | 2 082    | 2.86 %   |
| Total costs   |    | 882      | 1.56 %   | 825      | 1.52 %   | 1 120    | 1.54 %   |
| Result before losses  |    | 978      | 1.73 %   | 718      | 1.32 %   | 962      | 1.32 %   |
| Losses  |    | 122      | 0.22 %   | 163      | 0.30 %   | 195      | 0.27 %   |
| Result before tax   |    | 856      | 1.51 %   | 555      | 1.02 %   | 767      | 1.05 %   |
| Tax   |    | 164      | 0.29 %   | 118      | 0.22 %   | 172      | 0.24 %   |
| Minority interests  |    | 0        | 0.00 %   | 0        | 0.00 %   | 0        | 0.00 %   |
| Result after tax  |    | 692      | 1.22 %   | 437      | 0.81 %   | 595      | 0.82 %   |
| <b>Profitability</b>  |    |          |          |          |          |          |          |
| Return on equity capital  | 1  | 12.9 %   |          | 8.9 %    |          | 9.0 %    |          |
| Interest margin   | 2  | 1.64 %   |          | 1.58 %   |          | 1.60 %   |          |
| Cost/income   | 3  | 47.4 %   |          | 53.5 %   |          | 53.8 %   |          |
| <b>Balance sheet figures *)</b>   |    |          |          |          |          |          |          |
| Gross lending   |    | 56 605   |          | 53 493   |          | 54 551   |          |
| Gross lending and advances to customers incl SpareBank 1 Boligkreditt and Næringskreditt                            |    | 79 083   |          | 74 665   |          | 75 914   |          |
| Growth in loans and advances to customers past 12 months  |    | 5.8 %    |          | 2.0 %    |          | 5.6 %    |          |
| Growth in loans and advances to cust. incl. SpareBank 1 Boligkreditt and Næringskreditt past 12 months              |    | 5.9 %    |          | 11.9 %   |          | 11.6 %   |          |
| Deposits from customers   |    | 43 938   |          | 42 266   |          | 43 588   |          |
| Growth in deposits from customers past 12 months  |    | 1.6 %    |          | -2.5 %   |          | -1.3 %   |          |
| Deposits as a percentage of gross lending   | 4  | 77.6 %   |          | 76.5 %   |          | 75.6 %   |          |
| Deposits as a percentage of gross lending including SpareBank 1 Boligkreditt and Næringskreditt                     |    | 55.6 %   |          | 54.8 %   |          | 54.3 %   |          |
| Average assets  | 5  | 75 561   |          | 72 336   |          | 72 921   |          |
| Total assets  |    | 75 670   |          | 74 251   |          | 75 329   |          |
| <b>Losses on loans and commitments in default *)</b>  |    |          |          |          |          |          |          |
| Losses on loans to customers as a percentage of gross loans incl.SpareBank 1 Boligkreditt and Næringskreditt        |    | 0.21 %   |          | 0.29 %   |          | 0.26 %   |          |
| Commitments in default as a percentage of gross loans incl.SpareBank 1 Boligkreditt and Næringskreditt              |    | 0.71 %   |          | 0.65 %   |          | 0.52 %   |          |
| Commitments at risk of loss as a percentage of gross loans incl.SpareBank 1 Boligkreditt and Næringskreditt         |    | 0.36 %   |          | 0.67 %   |          | 0.78 %   |          |
| Net comm. in default and at risk of loss as a per. of gross loans incl. SpareBank 1 Boligkreditt and Næringskreditt |    | 0.73 %   |          | 0.92 %   |          | 0.90 %   |          |
| <b>Solidity</b>   |    |          |          |          |          |          |          |
| Total regulatory Capital %  | 6  | 11.72 %  |          | 10.65 %  |          | 13.19 %  |          |
| Tier I Capital %  | 7  | 11.14 %  |          | 10.14 %  |          | 12.11 %  |          |
| Tier I capital  |    | 6 431    |          | 5 767    |          | 6 672    |          |
| Equity and related capital resources  |    | 6 765    |          | 6 056    |          | 7 270    |          |
| Adjusted risk-weighted assets base  |    | 57 704   |          | 56 849   |          | 55 098   |          |
| <b>Branches and full-time employees</b>   |    |          |          |          |          |          |          |
| Branches  |    | 74       |          | 74       |          | 74       |          |
| Manyear   |    | 883      |          | 877      |          | 881      |          |
| <b>Equity Certificates **)</b>  |    |          |          |          |          |          |          |
|   |    | 30.09.13 | 31.12.12 | 31.12.11 | 31.12.10 | 31.12.09 | 31.12.08 |
| Equity Certificate ratio overall  | 8  | 41.59 %  | 42.07 %  | 38.74 %  | 34.54 %  | 34.54 %  | 34.54 %  |
| Quoted/market price NONG as at  |    | 30.90    | 27.75    | 32.30    | 45.00    | 41.25    | 16.50    |
| Quotation value   | 9  | 2 046    | 1 837    | 2 139    | 2 149    | 1 970    | 788      |
| Equity capital per Equity Certificate (NOK)   | 10 | 39.13    | 35.58    | 33.73    | 31.03    | 31.19    | 27.13    |
| Equity capital per Equity Certificate - Group (NOK)   | 10 | 46.82    | 43.34    | 40.42    | 41.27    | 37.77    | 32.89    |
| Result per Equity Certificate   | 11 | 4.66     | 3.27     | 2.55     | 4.32     | 5.19     | 1.55     |
| Result per Equity Certificate (Group)   | 11 | 4.35     | 3.78     | 3.07     | 5.90     | 6.20     | 2.52     |
| Cash dividend per Equity Certificate to be paid   | 12 |          | 1.15     | 1.40     | 2.16     | 2.53     | 1.13     |
| P/E (Price/Earnings)  | 13 | 5.0      | 8.5      | 12.7     | 10.4     | 7.9      | 10.7     |
| P/E (Price/Earnings) - Group  | 13 | 5.3      | 7.3      | 10.5     | 7.6      | 6.6      | 6.6      |
| P/V (Price/Book Value)  | 14 | 0.8      | 0.8      | 1.0      | 1.5      | 1.3      | 0.6      |
| P/V (Price/Book Value) - Group  | 14 | 0.7      | 0.6      | 0.8      | 1.1      | 1.1      | 0.5      |

\*) Agency loans includes loans transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

\*\*) All key figures are recalculated due to new total of EC's

- 1 Profit for the period as a percentage of average total equity, calculated as average amount of quarterly equity and per 01.01. and 31.12.
- 2 Total interest margin as a percentage of average total assets
- 3 Total costs as a percentage of total net income
- 4 Deposits from customers as a percentage of gross lending
- 5 Average assets are calculated as average assets each quarter and at 01.01. and 31.12.
- 6 Net subordinated capital as a percentage of calculated risk-weighted balance
- 7 Core capital as a percentage of calculated risk-weighted balance
- 8 EC holders share of equity capital as at 01.01.
- 9 Quoted price on Oslo Stock Exchange multiplied by numbers of EC's outstanding
- 10 EC-capital + Premium Fund + Dividend Equalisation Fund + Equity Certificates holders' share of the equity capital as at 01.01. x (other equity capital + Result for the period, divided by number of EC's outstanding
- 11 Profit for the period (group) multiplied by Equity Certificates holders' share of the equity capital as at 01.01., in relation to total number of EC's
- 12 Cash dividend per EC for the accounting year. Resolution made by Main Board of Directors
- 13 Market price on Oslo Stock Exchange at end of period, divided by result for the period per EC
- 14 Market price on Oslo Stock Exchange at end of period, divided by book value of equity capital per EC

## Interim report for Q3 2013 – Group

(Figures in brackets are for the same period in 2012)

### Highlights:

- Pre-tax profit NOK 856 million (NOK 555 million)
- Profit after tax NOK 692 million (NOK 437 million)
- Return on equity after tax of 12.9% (8.9%). Return on equity last quarter: 15,8 %.
  - Earnings per equity certificate (Group) of NOK 4.35 (NOK 2.78).
- Good and further improved underlying banking operations for the quarter with profit before losses of NOK 717 million (NOK 488 million).
- Net income from financial assets of NOK 261 million (NOK 230 million)
- Cost/income ratio 47.4% (53.5%)
- Loan losses NOK 122 million (NOK 163 million)
- Lending growth last 12 months 5.9% (11.9%), including intermediary loans
  - Retail market 8.4% (11.2%).
  - Corporate market 0.6% (13.5%).
- Growth in deposits in last 12 months 1.6% (3.1%)
  - Retail market 6.1 % (8.9%).
  - Corporate market 0.9% (9.9%).
  - Public sector market -10.0% (-16.5%)
- Deposit coverage ratio 77.6% (76.5%)
- Very good liquidity
- Satisfactory financial strength: Group's core tier 1 capital ratio 10.0% (10.1%)
- In order to satisfy future capital requirements and to participate in the region's profitable growth, a successful NOK 750 million rights issue and a NOK 22.8 million private placement for employees have been completed. The issues will be recognised in the accounts at the beginning of the fourth quarter 2013.

**Macroeconomic trends**

Northern Norway has been enjoying a period of strong growth since 2010. This growth has been broadly based. The region's access to natural resources has become more important internationally and has created a basis for increased exports. Population, employment and real earnings growth have resulted in increasing demand from local businesses. So has growth in public sector consumption and investments. The level of investment in the region is also expected to remain high. The increasing uncertainty that now characterises the Norwegian economy is expected to have less impact in the north. This is partly due to the fact that the Northern Norwegian economy is less dependent on oil than the rest of the country. Moreover, the brighter international outlook will result in better conditions for industries such as seafood, tourism and the minerals sector. Furthermore, the region has lower house prices compared to the country as a whole, and a large, stabilizing public sector. Nonetheless, uncertainty has increased to some degree in the north as well.

Seafood is the region's strongest industry. Northern Norway is now responsible for 40% of the country's salmon farming production. Volume growth and high prices mean that 2013 has been a very good year. Catches have been high in the cod segment, but prices low. The traditional fishing industry must rationalise production so it can compete profitably. Tourism is undergoing a change in which organised experiences/adventures throughout the year are replacing the traditional summer coach tourism. Maritime services are growing because more oil and gas fields are coming in production and exploration activities are increasing. Activity in the building and construction sector is high because of increased house building and several major construction projects. The minerals industry has made promising finds, but is awaiting public permits that will allow it to extract the deposits.

Northern Norwegian household finances are strong. Lasting low unemployment, growth in real earnings and low interest rates have resulted in good, balanced growth in private consumption and savings. This trend is reflected in the bank's financial statements through the good growth in loans and deposits in the retail market. Lower demand in the corporate market and increased restraint on the part of the bank have resulted in markedly lower lending growth.

**Financial performance**

The financial statements as of the third quarter 2013 show a pre-tax operating profit of NOK 856 million (NOK 555 million). Underlying banking operations before losses have further improved and show a profit of NOK 717 million, compared with NOK 488 million for the same period last year. Underlying banking operations are viewed as very good.

The Group's return on equity after tax as of 30 September 2013 was 12.9% (8.9%). Its earnings per equity certificate were NOK 4.35 (NOK 2.78). The Group's return on equity for the third quarter in isolation was 15.8%.

**Net interest income**

Net interest income as of 30 September 2013 amounted to NOK 930 million. This is NOK 71 million higher than for the same period in 2012. The accounts has been charged NOK 26 million for the Norwegian Banks Guarantee Fund. This was classified as an interest cost in the third quarter 2013. This charge was waived for the banks in 2012. SpareBank 1 Nord-Norge will recognise costs of around NOK 35 million for this in 2013.

Net interest income represents 1.64% of average total assets, which is 0.06 percentage points higher than last year.

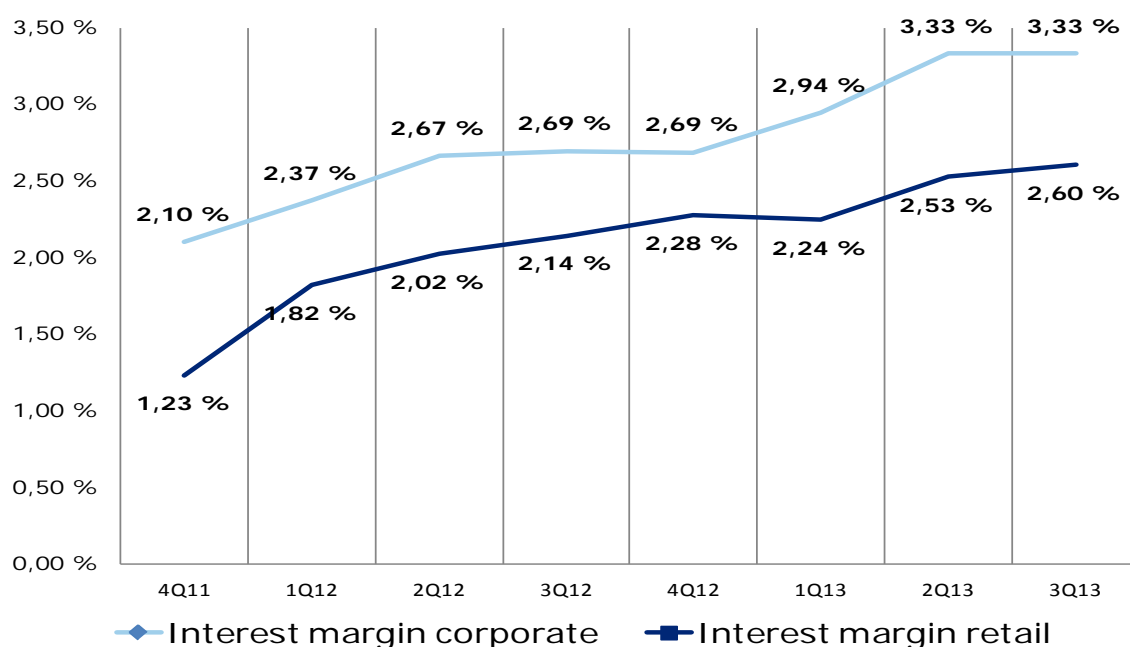
Income from the loan portfolio transferred to SpareBank 1 Boligkreditt (SP1BK) and SpareBank 1 Næringskreditt (SP1NK) is booked as commissions. These commissions totalled NOK 241 million at the end of the third quarter 2013. The corresponding figure for the same period in 2012 was NOK 113 million. Net interest income including the above-mentioned commissions for the third quarter in isolation show an increase of NOK 38 million compared with the second quarter 2013.

At the end of the third quarter 2013, home mortgages worth NOK 22 billion has been transferred to SpareBank 1 Boligkreditt (NOK 21 billion). As of 30 September 2013, loans amounting to NOK 0.3 billion had been transferred to SpareBank 1 Næringskreditt.

Compared with the second quarter 2013, net interest income, including commissions from the transferred loan portfolio, have developed as shown below:

| Amounts in NOK million                                      | Q3 2013 | Change | Q2 2013 |
|---|---------|--------|---------|
| Net interest income, incl. commissions from SB1BK and SP1NK | 431     | 38     | 393     |
| Lending and deposit volume                                  |         | 7      |         |
| Margin effects  |         | 23     |         |
| Effect of 2 fewer days                                      |         | 4      |         |
| Other effects   |         | 4      |         |

#### Development of deposit and lending margins (measured against average 3 month NIBOR)



Stricter regulatory requirements for liquidity and equity have resulted in higher capital costs and higher earnings requirements for banks. Some of this must be recouped by increasing prices for the bank's products, primarily loans. Based on this, the bank implemented various pricing measures within both the retail and the corporate markets. Together with lower funding costs due to reduced money market rates, this has resulted in a significant increase in the Group's net interest margin and net interest income throughout 2012 and in the year-to-date 2013.

At the start of 2013, the bank announced it would pursue a targeted increase in corporate market lending margins of at least 0.80 percentage points. For the part of the loan portfolio that has been covered by the price increase, the Bank has increased margins with more than the targeted level. However, the Bank has experienced pricing pressure especially within corporate real estate lending with low risk. Altogether, the above has resulted in a margin increase on the portfolio by approximately 0.65 percentage points. The future margin development within corporate market lending is expected, overall, to increase slightly, while the work related to correct risk pricing will continue and be intensified.

Within the retail market the development in lending margins is contingent on the competitive situation and the development of funding costs. The introduction of higher capital requirements, including increased risk weights on home mortgages, indicates, in isolation, further price increases, including for home mortgages.

### Net commissions and other operating income

Net commissions and other operating income at the end of the third quarter 2013 amounted to NOK 669 million, an increase of NOK 215 million compared with the same quarter last year.

| <i>Amounts in NOK million</i>                             | as of Q3 2013 | Change | Q3 2012 |
|---|---------------|--------|---------|
| Net commissions and other operating income                | 669           | + 215  | 454     |
| Increased commissions from SP1BK and SP1NK                |               | +128   |         |
| Increased commissions EiendomsMegler 1 Nord-Norge         |               | +11    |         |
| Increased income from accountancy firm SNN Regnskapshuset |               | +42    |         |
| Increase in other commissions and other operating income  |               | + 34   |         |

### Income from financial investments

Total net income from financial investments as of the third quarter 2013 amounts to NOK 261 million (NOK 230 million). This has developed as follows:

| <i>Amounts in NOK million</i>                             | Q3 2013 | Change | Q3 2012 |
|---|---------|--------|---------|
| Net income from financial investments                     | 261     | +31    | 230     |
| Result from SpareBank 1 Gruppen                           | 152     | +48    | 104     |
| Result from SpareBank 1 Boligkreditt                      | 18      | -9     | 27      |
| Result from Bank 1 Oslo Akershus                          | 0       | -31    | 31      |
| Result from BN Bank                                       | 54      | +24    | 30      |
| Result from SpareBank 1 Næringskreditt                    | 4       | 0      | 4       |
| Result from SpareBank 1 Kredittkort                       | -2      | -2     | 0       |
| Result from SpareBank 1 VP-service                        | -2      | -2     | 0       |
| Result from SpareBank 1 Markets                           | 2       | +2     | 0       |
| Share dividends   | 27      | +9     | 18      |
| Net change in value of equities                           | 34      | +139   | -105    |
| Net change in value of bonds                              | -24     | -72    | 48      |
| Net change in value of currency and financial derivatives | -2      | -75    | 73      |

### Profit contribution from joint ventures

#### *SpareBank 1 Gruppen*

SpareBank 1 Gruppen's profit after tax as of the third quarter 2013 totalled NOK 820 million (NOK 491 million). The SpareBank 1 Nord-Norge Group's share of the result, amounting to NOK 152 million (NOK 104 million), has been incorporated into the financial statements. SpareBank 1 Livsforsikring and SpareBank 1 Skadeforsikring made the greatest contribution to SpareBank 1 Gruppen's profit. SpareBank 1 Gruppen sold its stake in SpareBank 1 Markets AS in the third quarter.

#### *SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt*

SpareBank 1 Boligkreditt was set up by the banks in the SpareBank 1 Alliance to benefit from capital market funding through the use of covered bonds. The banks transfer mortgages with very good security to this company. This reduces funding costs and increases the competitiveness of the SpareBank 1-banks.

The Bank owns a 13.46% stake in SpareBank 1 Boligkreditt and the share of its profit as of the third quarter 2013 was NOK 18 million (NOK 27 million).

The SpareBank 1 banks established SpareBank 1 Næringskreditt in 2009 based on the same model and with the same management as SpareBank 1 Boligkreditt. SpareBank 1 Nord-Norge owns a 18.28% stake in the company and the share of its profit as of the third quarter 2013 was NOK 4 million (NOK 4 million).

#### *Bank 1 Oslo Akershus*

On 31 December 2012, SpareBank 1 Nord-Norge owned a 19.5% stake in Bank 1 Oslo Akershus.

In January 2013, the bank signed an agreement to reduce its stake in Bank 1 Oslo Akershus to 4.8%. This agreement was signed together with SpareBank 1 SR-Bank and SpareBank 1 SMN, with Sparebanken Hedmark as the buyer. The transaction's sale price matched the book value of Bank 1 Oslo Akershus AS as of 30 September 2012. The agreement has been approved by the Financial Supervisory Authority of Norway and the Norwegian Ministry of Finance. The transaction was formally executed in the second quarter 2013. Shares of the profit were not incorporated as of the third quarter 2013 (NOK 30 million).

#### *BN Bank*

SpareBank 1 Nord-Norge owned a 23.5% stake in BN Bank as of 1 January 2013. The share of profit as of the third quarter 2013 amounts to NOK 54 million (NOK 30 million) including the effect of amortisation from the date of purchase.

#### *Other companies*

The alliance companies SpareBank 1 Verdpapirservice and SpareBank 1 Kundesenter were established at the end of the second quarter 2012. SpareBank 1 Nord-Norge owns stakes of 24.9% and 23.5% respectively in these two companies. Shares of the results from these totalling NOK -2.2 million have been incorporated as of the third quarter 2013. The 19.83% stake in SpareBank 1 Kredittkort and share of the result as of the third quarter amounting to NOK -2.3 million has also been incorporated.

#### *Stronger owner focus in SpareBank 1 Markets*

SpareBank 1 Markets, which previously had SpareBank 1 Gruppen AS as its principal shareholder, now has a new ownership structure after SpareBank 1 Gruppen AS sold its stake in the company. SpareBank 1 Markets is now directly owned by SpareBank 1 SMN (24%), SpareBank 1 Nord Norge (24%), Sparebanken Hedmark (15%), Samspar (24 %), the Norwegian Federation of Trade Unions (12%) and employees (2%).

Work on strengthening the cooperation between the banks and SpareBank 1 Markets is ongoing. This is intended to contribute to increase profitability in the company and the banks.

#### *The Group's equities portfolio*

The Group's equities portfolio as of 30 September 2013 amounted to NOK 663 million. A net NOK 34 million increase in the value of this portfolio was recognised as income in the third quarter 2013. The bank's equities portfolio increased by NOK 57 million, while its subsidiary SpareBank 1 Nord-Norge Invest saw a net change in value of NOK -23 million. Write-downs in the investment funds Nord I IS and Nord II IS constitute NOK 11 million of this write-down. The stake in Nord-Norge Eiendom IV was written down by NOK 8 million in the first quarter of 2013. The shares in Nordisk Areal Invest AS were written down by NOK 3 million, but this must be seen in the context of received dividends from the company of NOK 3 million.

#### *Certificates and bonds*

As of 30 September 2013, the Group's holdings of certificates and bonds amounted to NOK 10,909 million, compared with NOK 12,477 million at the same time last year. The holdings of interest-bearing securities include covered bonds issued under the government's swap scheme.

On 1 July 2008, the bank reclassified large parts of its interest-bearing securities in the trading portfolio from the category "at fair value through profit or loss" to categories that are assessed at amortised cost. The effects of this reclassification appear in a note to the interim financial statements. The reclassified portfolio is continuously assessed with regard to the need for permanent impairment in value. As per 1 December 2012, such write-downs totalling NOK 80 million had been executed. A further write-down of NOK 7.6 million was executed in the first quarter of 2013. No write-downs were executed on this part of the portfolio in the third quarter 2013.

The total net change in value in this portfolio as of the end of the third quarter amounted to NOK -24 million. This was primarily attributable to the write-down in value of two individual securities in the first quarter of 2013, one of which is in the reclassified portfolio, see preceding paragraph. The parent bank also reduced its holdings of short-term papers by around NOK 2 billion in the last quarter.

#### *Currency and derivatives*

The net change in value from currency and financial derivatives as of the third quarter amounted to NOK -1 million. This includes part of the income from the Bank's Markets operations, as well as changes in the value of the bank's own positions in currency and financial derivatives.

## Subsidiaries

| <i>(Amounts in whole NOK 1000)</i> | Stake in % | Pre-tax profit |          |
|------------------------------------|------------|----------------|----------|
|                                    |            | 30.09.13       | 30.09.12 |
| SpareBank 1 Finans Nord-Norge AS   | 100        | 72,051         | 51,649   |
| SpareBank 1 Nord-Norge Invest AS   | 100        | -25,337        | -130,216 |
| EiendomsMegler 1 Nord-Norge AS     | 100        | 15,435         | 8,726    |
| EiendomsMegler 1 Lofoten AS        | 60         | 112            | 0        |
| SpareBank 1 Forvaltning AS         | 100        | 1,546          | 809      |
| SpareBank 1 Regnskapshuset AS      | 100        | 5,733          | -899     |
| North-West 1 Alliance Bank         | 75         | 164            | 485      |

The Group's subsidiaries have a combined result before tax as of the third quarter 2013 of NOK 70 million (NOK -70 million), which has been fully consolidated in the consolidated financial statements.

SpareBank 1 Finans Nord-Norge's pre-tax profit as of the third quarter 2013 was NOK 72 million (NOK 52 million). The company has a good earnings base and total earnings in the year to date amount to NOK 108 million (NOK 84 million). Losses on leasing and loan commitments as of the third quarter 2013 amounted to NOK 5 million (NOK 3 million). At the end of the quarter, the company managed leasing, consumer loan and vendor's security agreements to a total value of NOK 3,429 million.

North West 1-Alliance Bank in St. Petersburg, Russia (75% stake) had a pre-tax profit as of the third quarter 2013 of NOK 0.2 million (NOK 0,5 million).

SpareBank 1 Nord-Norge Invest has a portfolio of unlisted equities and investments in funds. The company's result before tax as of the third quarter was NOK -25 million (NOK -130 million). The write-down in the company's equities portfolio has been commented on above in the section "The Group's equities portfolio". The plan is to restructure/liquidate SpareBank 1 Nord-Norge Invest.

EiendomsMegler 1 Nord Norge had a pre-tax profit as of the third quarter 2013 of NOK 15.4 million (NOK 8.7 million). The number of units sold as of 30 September 2013 is 1,376 (1,183), representing a total sales value of NOK 62.4 million, an increase of 20 % compared with the same period in 2012. EiendomsMegler 1 Nord-Norge owned 60% of EiendomsMegler 1 Lofoten AS as of 30 September 2013. The share of the profit during the ownership period of NOK 0.1 million has been incorporated.

SpareBank 1 Nord-Norge Forvaltning, which manages a portfolio of NOK 1.8 billion, had a pre-tax profit of NOK 1.5 million as of the third quarter 2013 (NOK 0.8 million).

SpareBank 1 Regnskapshuset Nord-Norge operates accounting firms in Northern Norway. The company's profit contribution before tax was NOK 5.7 million as of the third quarter 2013 (NOK -0.9 million).

## Operating costs

Ordinary operating costs as of the third quarter 2013 totalled NOK 882 million. Compared with the same period in 2012, this represents an increase of NOK 57 million.

The changes in costs were as follows:

| <i>Amounts in NOK million</i> | Q3 2013 | Change | Q3 2012 |
|-------------------------------|---------|--------|---------|
| Operating costs               | 882     | +57    | 825     |
| Personnel costs               | 464     | +36    | 428     |
| Admin. costs                  | 250     | +14    | 236     |
| Depreciation                  | 40      | +2     | 38      |
| Other costs                   | 128     | +5     | 123     |

Costs amounted to 1.56% of average total assets as of the third quarter 2013, an increase of 0.04 percentage points compared with the same period in 2012. The Group's cost/income ratio was 47.4% as of the third quarter 2013, compared with 50.5% as of the second quarter 2013 and 53.5% as of the third quarter 2012.

The higher costs compared with the same period in 2012 were attributable to higher personnel costs, including general pay rises and higher payroll costs for new employees compared with the average for all employees. At the end of the third quarter 2013, the number of full time equivalents was 6 higher than at the same time last year: there were 32 more in subsidiaries and 27 fewer in the parent bank. The increase in the number of employees in the subsidiaries mainly relates to the Group's subsidiary in Russia (11 full time equivalents) and the acquisition of accountancy firms (10 full time equivalents). The parent bank's costs at the end of third quarter 2013 are amounted to NOK 721 million (NOK 710 million). The increase was related to development and IT costs, as well as increased brand activities and new services. The parent bank's costs are reduced last quarter.

The Group had 883 full time equivalents at the end of the third quarter 2013, 653 of whom were accounted for by the parent bank. The corresponding figures for last year were 877 and 679 respectively.

The parent bank's goal is to hold average annual cost increases to a maximum of 2% for the period 2013-2016. A cost-reduction programme was started in the parent bank in 2012 and will continue in 2013. This includes rationalisation measures in both staffing and other cost areas.

### **Net losses and non-performance**

The Group's net loan losses as of the third quarter 2013 amounted to NOK 122 million (NOK 163 million): NOK 102 million from the corporate market and NOK 20 million from the retail market.

Net non-performing and doubtful commitments totalled NOK 581 million (NOK 698 million) as of 30 September 2013, which represents 0.71% of gross lending, including intermediary loans. This is 0.06 percentage points higher than as of 30 September 2012.

The Group's total individual loss write-downs as of 30 September 2013 were NOK 267 million (NOK 287 million). The provisions have not changed in the last quarter.

Group write-downs as of 30 September 2013 amounted to NOK 202 million (NOK 210 million) and have increased by NOK 1 million compared with the previous quarter. Group write-downs totalled 0.35 % of the Group's combined gross lending as of 30 September 2013 (0.25% of gross lending including intermediary loans).

The Group's risk classification system shows that the total credit risk in the loan portfolio has improved during 2013. In the opinion of the Main Board of Directors, the quality of the bank's loan portfolio remains good, and the bank is doing high quality work in connection with Group's non-performing and doubtful commitments. There will still be a strong focus on this work. The general level of losses is expected to be moderate in the near future.

### **Tax**

The Group's tax cost is estimated at NOK 164 million as of the third quarter 2013. In the parent bank's accounts, the tax base has been reduced by permanent differences and effects of the exemption model.

### **Total assets**

The Group's total assets amounted to NOK 75,670 million as of 30 September 2013. Total assets have increased by NOK 1,419 million, or 1.9%, in the last 12 months.

### **Lending**

As of 30 September 2013, loans totalling NOK 22.3 billion (NOK 21 billion) had been transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not appear as lending on the bank's balance sheet. Comments that deal with the growth in lending include these intermediary loans.

The Group's gross lending to customers including intermediary loans totalled NOK 79,083 as of 30 September 2013. This represents an increase of 5.9% compared with 30 September 2012. Retail loans showed growth of 8.4%, while corporate and public sector loans showed growth of 0.6%.

In the case of new loans, particular emphasis is placed on customers' ability to service and repay their outstanding loans, and on a satisfactory level of collateral and other security. This is to ensure that credit risk is maintained at an acceptable level.

The bank's portfolio of fixed-rate loans amounted to NOK 7.4 billion as of 30 September 2013. The average term to maturity of this portfolio of loans is 3.5 years. These loans are assessed in the bank's balance sheet at market value (fair value). Following the implementation of margin changes for new fixed-rate loans in 2013, an estimate of fair value of this part of the loan portfolio will be evaluated more closely. This work is ongoing and is expected to be concluded in connection with the annual financial statements for 2013. Any accounting write-down of fair value will involve no changes in expected cash flows from the loan portfolio and a possible write-down will be recognised as income over the portfolio's remaining term to maturity.

### **Saving and investments**

The Group's deposits from customers totalled NOK 43,938 million as of 30 September 2013. The increase over the past 12 months was NOK 672 million, or 1.6%. Retail deposits showed growth of 3.4%, corporate sector deposits showed growth of 6.2% and public sector a 10.0% decrease. At the end of the third quarter 2013, the deposit coverage ratio (excluding intermediary loans) was 77.6%, which is 1.2 percentage points higher than at the same time last year.

### **Liquidity**

Deposits from customers are the bank's main source of funding. The bank's remaining funding, apart from equity and subordinated capital and deposits from customers, is mainly from long-term funding from the capital markets. The bank's liquidity situation and access to liquidity is very good. The bank's aim is to maintain liquidity risk at a low level.

### **Financial strength and capital adequacy – implemented equity issues**

SpareBank 1 Nord-Norge uses an Internal Rating Based Approach for credit risk. The statutory minimum capital adequacy requirement for credit risk is based on the bank's internal risk assessment and approved regulatory risk models. The regulations make the statutory minimum requirement for capital adequacy more risk-sensitive, so that the capital requirement corresponds, to a larger extent, to the risk in the underlying portfolios. The use of internal measuring methods places great demands on the bank's organisation, competence, risk models and risk management systems.

The Group uses proportional consolidation for its capital adequacy reporting for SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt and BN Bank.

As a result of the transitional rules in the new regulations, the IRB banks were to benefit in full from the reduced regulatory capital adequacy requirements starting in 2010. This has been postponed until 2015, and the transitional rules therefore also apply in 2013.

The European Parliament passed CRD IV on 16 April 2013, and the final CRD IV text was approved by the Council of Europe on 20 June 2013. CRD IV will be effective from 1 January 2014 and consists of one directive and one regulation and replaces the current capital adequacy directives. CRD IV will apply in Norway because of the EEA Agreement. On 10 June 2013, the Norwegian Ministry of Finance approved that the capital and buffer requirements shall apply to Norwegian institutions starting on 1 July 2013, though with a phasing in period up to 2016. This means most Norwegian banks will be expected to satisfy a pure core capital requirement of at least 14.5% by 1 July 2016.

The Ministry of Finance recently presented changed capital requirements for IRB banks. These include continuing the transitional rules ('the floor') when calculating the risk-weighted balance sheet (RWA). Stricter requirements for the calculation models the banks use to calculate capital requirements for home mortgages have also been presented. These include adjusting the minimum requirement for the calculated loss given default (LGD) for home mortgages from 10% to 20%. This corresponds to a minimum risk-weighting for home mortgages of around 20%. The authorities are also indicating that they intend to introduce stricter requirements for the bank's calculation models for establishing the probability of default (PD) for home mortgages. The Bank estimate that the proposals will not result in changes in the Group's capital adequacy. This is due to the continuation of the transitional rules for the calculation of risk weighted assets. At the same time the effects of the transitional floor exceed the negative effect of the change in the LGD-floor.

SpareBank 1 Nord-Norge submitted an application for IRB A approval to the Financial Supervisory Authority of Norway in mid-June 2013. This application is expected to be processed by the Financial Supervisory Authority of Norway in 12 months. Permission for the use of IRB A in the calculation of capital requirements for lending to the corporate market is important in the context of the bank's ongoing adaptation to new capital requirements for Norwegian financial institutions.

As mentioned above, new requirements from the authorities for banks' capital adequacy needs entail a considerable improvement in the banks' financial strength. SpareBank 1 Nord-Norge has already implemented – and will continue to implement - a number of measures to improve the bank's capital adequacy, including:

- various measures to increase earnings, including higher margins on loans
- reduced dividend pay-out ratio
- reduced lending growth, especially in the corporate market
- application for IRB A approval
- measures to increase capital utilisation
- selling down the bank's stake in SpareBank 1 Oslo Akershus (completed)
- utilisation of capital allocated to the Sparebankstiftelsen SpareBank 1 Nord-Norge (Savings bankfoundation)

In the bank's opinion it would be possible to achieve the new capital requirements with the measures mentioned above. However, this would require heavily restricting the Group's lending growth - especially within the corporate market. Continuing to significantly restrict lending growth would impact short-term and long-term earning opportunities and the Group's long-term market position. In addition, profitable participation in the growth in Northern Norway is an important part of the bank's socio-economic role as the region's own bank. Based on this, on 9 September 2013 the bank's Supervisory Board decided to strengthen the bank's equity through a rights issue of up to NOK 750 million. A successful rights issue for the same amount was thus carried out at the end of September. At the same time, a private placement for the Group's employees was carried out on the basis of previous authorisations granted by the Supervisory Board. The latter raised gross proceeds of NOK 22.8 million. The due date for payments for the new equity was 8 October 2013 and the new capital will thus be recognised in the fourth quarter 2013.

As of 30 September 2013, the Group's tier 1 capital ratio amounted to 11.14% (10.14%) of the calculation basis. The total capital adequacy ratio was 11.72% (10.65%). The total capital adequacy ratio are below the 12.5 % minimum requirement from Financial Supervisory Authority of Norway, but taken into account the equity issue, the total capital adequacy exceed the minimum requirement. The Group's core tier 1 capital ratio without profit shares as of the third quarter 2013 was 10.01%. Including the share of profit, the core tier 1 capital ratio was 10.79 %. With full IRB effect (without a 'floor') the core tier 1 capital ratio including the share of profit would be 12.74 %. Please also refer to the note to the interim report.

The bank's financial strength as of 30 September 2013 is deemed good.

#### **The bank's equity certificate holders**

As of 30 September 2013, the parent bank's equity certificate capital was NOK 1,655 million. The number of equity certificates as of 30 September 2013 was 66,208,987 each with a nominal value of NOK 25, fully paid-up. Following the implemented issue, the new equity certificate capital in SpareBank 1 Nord-Norge will amount to NOK 1,807,164,288 divided by 100,398,016 equity certificates, each with a nominal value of NOK 18.

The equity certificate ratio as of 1 January 2013 was 41.59%. The number of equity certificate holders was 7,673 as of 30 September 2013 (prior to the issue), a reduction of 419 in the past 12 months. The proportion of equity certificate holders from Northern Norway was 24%. A summary of the bank's 20 largest equity certificate holders is provided in the notes to the interim report.

The book value per equity certificate as of 30 September 2013 was NOK 39.13 and earnings per equity certificate were NOK 4.35. As of 30 September 2013, the price was NOK 30.90. Price/Earnings was 5.3 and Price/Book 0.7 as of 30 September 2013.

Two-twelfths of the proceeds will be included in the equity certificate holders' share of the parent bank's equity (ownership fraction) for 2013. The ownership fraction as of 1 January 2013 is estimated at approximately 42.90%, and is estimated to be 48.7% as of 1 January 2014.

**Concluding remarks and outlook**

The bank's core operations show very good and further improved earnings. The region's business sector remains optimistic. As mentioned in the introduction, this development is reflected in the Bank's financial statements through good growth in loans and deposits in the retail market. As a result of stricter regulatory requirements for banks' core capital, the Bank has shown increased restraint with regard to corporate lending growth. In combination with decreased loan demand from the corporate sector, this leads to reduced corporate lending growth compared with 2012. The bank's deposit coverage ratio is expected to remain good. It is the bank's ambition to maintain a strong position in the public sector. Deposit and lending margins are expected to be affected by competition, but with some strengthening of the net interest margin.

It should be mentioned that continued international economic uncertainty may lead to reduced consumption and the postponement of investments, also in Northern Norway.

The bank has initiated several measures to further improve profitability. Such measures include income increasing activities and various cost-cutting measures.

Tromsø, Norway, 30 October 2013

**The Main Board of Directors of SpareBank 1 Nord-Norge**

Kjell Olav Pettersen  
(Chairman of the Board)

Pål Andreas Pedersen  
(Deputy Chairman)

Sonja Djønnne

Hans Tore Bjerås

Greger Mannsverk

Ann-Christine Nybacka

Anita Persen

Vivi-Ann Pedersen  
(employee elected)

Jan-Frode Janson  
(CEO)

# Statement of income

Parent Bank

Group

(Amounts in NOK million)

| 31.12.12 | 3Q12 | 3Q13 | 30.09.12 | 30.09.13 |   | 30.09.13     | 30.09.12     | 3Q13       | 3Q12       | 31.12.12     |
|----------|------|------|----------|----------|---|--------------|--------------|------------|------------|--------------|
| 2 722    | 686  | 696  | 2 057    | 2 030    | Interest income                                       | 2 151        | 2 139        | 740        | 707        | 2 845        |
| 1 688    | 423  | 401  | 1 287    | 1 226    | Interest costs  | 1 221        | 1 280        | 399        | 414        | 1 679        |
| 1 034    | 263  | 295  | 770      | 804      | <b>Net interest income</b>                            | <b>930</b>   | <b>859</b>   | <b>341</b> | <b>293</b> | <b>1 166</b> |
| 590      | 154  | 210  | 417      | 570      | Fee- and commission income                            | 659          | 489          | 238        | 179        | 686          |
| 72       | 18   | 18   | 57       | 51       | Fee- and commission costs                             | 52           | 59           | 19         | 19         | 74           |
| 22       | 3    | 4    | 10       | 11       | Other operating income                                | 62           | 24           | 14         | 12         | 44           |
| 540      | 139  | 196  | 370      | 530      | <b>Net fee-, commision and other operating income</b> | <b>669</b>   | <b>454</b>   | <b>233</b> | <b>172</b> | <b>656</b>   |
| 16       | 1    | 0    | 16       | 23       | Dividend  | 27           | 18           | 4          | 1          | 17           |
| 81       | - 34 | 0    | 100      | 239      | Income from investments                               | 225          | 196          | 109        | 76         | 210          |
| 175      | 62   | - 2  | 139      | 112      | Net gain from investments in securities               | 9            | 16           | - 7        | 2          | 33           |
| 272      | 29   | - 2  | 255      | 374      | <b>Net income from financial investments</b>          | <b>261</b>   | <b>230</b>   | <b>106</b> | <b>79</b>  | <b>260</b>   |
| 1 846    | 431  | 489  | 1 395    | 1 708    | <b>Total income</b>                                   | <b>1 860</b> | <b>1 543</b> | <b>680</b> | <b>544</b> | <b>2 082</b> |
| 471      | 117  | 116  | 355      | 354      | Personnel costs                                       | 464          | 428          | 151        | 147        | 581          |
| 291      | 63   | 73   | 215      | 225      | Administration costs                                  | 250          | 236          | 83         | 69         | 319          |
| 51       | 12   | 13   | 35       | 38       | Ordinary depreciation                                 | 40           | 38           | 13         | 13         | 54           |
| 141      | 30   | 33   | 105      | 104      | Other operating costs                                 | 128          | 123          | 39         | 37         | 166          |
| 954      | 222  | 235  | 710      | 721      | <b>Total costs</b>                                    | <b>882</b>   | <b>825</b>   | <b>286</b> | <b>266</b> | <b>1 120</b> |
| 892      | 209  | 254  | 685      | 987      | <b>Result before losses</b>                           | <b>978</b>   | <b>718</b>   | <b>394</b> | <b>278</b> | <b>962</b>   |
| 224      | 150  | 29   | 195      | 105      | Losses  | 122          | 163          | 35         | 115        | 195          |
| 668      | 59   | 225  | 490      | 882      | <b>Result before tax</b>                              | <b>856</b>   | <b>555</b>   | <b>359</b> | <b>163</b> | <b>767</b>   |
| 153      | 23   | 62   | 107      | 140      | Tax   | 164          | 118          | 69         | 25         | 172          |
| 515      | 36   | 163  | 383      | 742      | <b>Result after tax</b>                               | <b>692</b>   | <b>437</b>   | <b>290</b> | <b>138</b> | <b>595</b>   |
|          |      |      |          |          | Majority interest                                     | 692          | 437          | 290        | 139        | 595          |
|          |      |      |          |          | Minority interests                                    | 0            | 0            | 0          | - 1        | 0            |
|          |      |      |          |          | <b>Result per Equity Certificate</b>                  |              |              |            |            |              |
| 3.27     | 0.23 | 1.02 | 2.43     | 4.66     | Result per Equity Certificate                         | 4.35         | 2.78         | 1.82       | 0.88       | 3.78         |
| 3.27     | 0.23 | 1.02 | 2.43     | 4.66     | Diluted result per Equity Certificate                 | 4.35         | 2.78         | 1.82       | 0.88       | 3.78         |

## Other comprehensive income

|      |      |      |      |      |  |            |            |            |            |            |
|------|------|------|------|------|--|------------|------------|------------|------------|------------|
| 515  | 36   | 163  | 383  | 742  | <b>Result after tax</b>  | <b>692</b> | <b>437</b> | <b>290</b> | <b>138</b> | <b>595</b> |
| 0    | 0    | 0    | 0    | 0    | Recalculation differences  | 0          | 0          | 0          | 0          | 1          |
| -1   | -2   | 2    | -2   | 5    | Effective part of change in fair market value in cash flow hedging | 5          | -2         | 0          | 0          | -1         |
| 153  | 0    | 0    | 0    | 0    | Actuarial gains (losses) on benefit-based pension schemes          | 0          | 0          | 0          | 0          | 158        |
| -43  | 0    | 0    | 0    | -1   | Tax on other comprehensive income                                  | -1         | 0          | 0          | 0          | -44        |
| 109  | -2   | 2    | -2   | 4    | Other comprehensive income for the period                          | 4          | -2         | 0          | 0          | 114        |
| 624  | 34   | 165  | 381  | 746  | <b>Total comprehensive income for the period</b>                   | <b>696</b> | <b>435</b> | <b>290</b> | <b>138</b> | <b>709</b> |
|      |      |      |      |      | Majority interest  | 696        | 435        | 290        | 138        | 709        |
|      |      |      |      |      | Minority interests   | 0          | 0          | 0          | 0          | 0          |
|      |      |      |      |      | <b>Total result per Equity Certificate</b>                         |            |            |            |            |            |
| 3.27 | 0.22 | 1.04 | 2.42 | 4.69 | Total result per Equity Certificate                                | 4.37       | 2.76       | 1.82       | 0.88       | 3.78       |
| 3.27 | 0.22 | 1.04 | 2.42 | 4.69 | Diluted total result per Equity Certificate                        | 4.37       | 2.76       | 1.82       | 0.88       | 3.78       |
|      |      |      |      |      | <b>Tax on other comprehensive income:</b>                          |            |            |            |            |            |
| -43  | 0    | 0    | 0    | 0    | Actuarial gains (losses) on benefit-based pension schemes          | 0          | 0          | 0          | 0          | -44        |
| -43  | -1   | 1    | 0    | -1   | <b>Tax on other comprehensive income</b>                           | <b>-1</b>  | <b>0</b>   | <b>0</b>   | <b>0</b>   | <b>-44</b> |

# Statement of financial position

## Parent Bank

## Group

(Amounts in NOK million)

| 31.12.12           | 30.09.12 | 30.09.13 |  | 30.09.13      | 30.09.12      | 31.12.12      |
|--------------------|----------|----------|--|---------------|---------------|---------------|
| <b>Assets</b>      |          |          |  |               |               |               |
| 244                | 189      | 188      | Cash and balances with central banks                   | 210           | 230           | 271           |
| 4 761              | 4 864    | 4 681    | Loans and advances to credit institutions              | 1 572         | 2 015         | 1 871         |
| 50 670             | 49 804   | 52 433   | Net loans and advances to customers                    | 56 136        | 52 996        | 54 050        |
| 382                | 358      | 534      | Shares   | 663           | 510           | 553           |
| 12 442             | 12 439   | 10 905   | Certificates and bonds                                 | 10 909        | 12 477        | 12 444        |
| 1 240              | 1 273    | 1 165    | Financial derivatives                                  | 1 161         | 1 273         | 1 234         |
| 402                | 350      | 553      | Investments in Group Companies                         | 0             | 0             | 0             |
| 2 407              | 2 333    | 2 360    | Investments in associated companies and joint ventures | 3 410         | 3 428         | 3 514         |
| 504                | 514      | 487      | Property, plant and equipment                          | 497           | 526           | 515           |
| 0                  | 0        | 0        | Intangible assets                                      | 78            | 55            | 53            |
| 782                | 693      | 943      | Other assets   | 1 034         | 741           | 824           |
| 73 834             | 72 817   | 74 249   | <b>Total assets</b>                                    | <b>75 670</b> | <b>74 251</b> | <b>75 329</b> |
| <b>Liabilities</b> |          |          |  |               |               |               |
| 4 294              | 3 239    | 5 022    | Deposits from credit institutions                      | 5 006         | 3 243         | 4 295         |
| 43 550             | 43 250   | 43 900   | Deposits from customers                                | 43 938        | 43 266        | 43 588        |
| 16 534             | 17 321   | 15 386   | Debt securities in issue                               | 15 386        | 17 321        | 16 534        |
| 713                | 731      | 663      | Financial derivatives                                  | 663           | 731           | 713           |
| 839                | 1 479    | 1 376    | Other liabilities                                      | 1 546         | 1 655         | 1 021         |
| 173                | 51       | 173      | Deferred tax liabilities                               | 208           | 75            | 202           |
| 2 095              | 1 338    | 1 450    | Subordinated loan capital                              | 1 450         | 1 338         | 2 095         |
| 68 198             | 67 409   | 67 970   | <b>Total liabilities</b>                               | <b>68 197</b> | <b>67 629</b> | <b>68 448</b> |
| <b>Equity</b>      |          |          |  |               |               |               |
| 1 655              | 1 655    | 1 655    | Equity Certificate capital                             | 1 655         | 1 655         | 1 655         |
| 245                | 245      | 245      | Equity Certificate premium reserve                     | 245           | 245           | 245           |
| 456                | 240      | 382      | Dividend Equalisation Fund                             | 382           | 240           | 456           |
| 3 083              | 2 815    | 3 086    | The Savings Bank's Fund                                | 3 086         | 2 815         | 3 083         |
| 150                | 133      | 120      | Donations  | 120           | 133           | 150           |
| 0                  | 0        | 0        | Fund for unrealised gains                              | - 3           | - 4           | - 3           |
| 47                 | - 63     | 49       | Other equity capital                                   | 1 274         | 1 079         | 1 273         |
| 0                  | 383      | 742      | Result after tax                                       | 692           | 437           | 0             |
|                    |          |          | Minority interests                                     | 22            | 22            | 22            |
| 5 636              | 5 408    | 6 279    | <b>Total equity</b>                                    | <b>7 473</b>  | <b>6 622</b>  | <b>6 881</b>  |
| 73 834             | 72 817   | 74 249   | <b>Total liabilities and equity</b>                    | <b>75 670</b> | <b>74 251</b> | <b>75 329</b> |

## Changes in equity

(Amounts in NOK million)

| Group  | PCC capital  | Premium Fund | Dividend Equalisation Fund | Saving Bank's Fund | Donations Fund | Fair value reserve | Other equity | Period result | Total Majority interests | Minority interests | Total equity |
|--|--------------|--------------|----------------------------|--------------------|----------------|--------------------|--------------|---------------|--------------------------|--------------------|--------------|
|  |              |              |                            |                    |                |                    |              |               |                          |                    |              |
| Equity at 01.01.12   | 1 655        | 245          | 333                        | 2 898              | 133            | - 4                | 1 083        | 6 343         | 13                       | 6 356              |              |
| <b>Total comprehensive income for the period</b>                   |              |              | 216                        | 268                | 30             | 1                  | 80           | 595           |                          | 595                |              |
| <i>Other comprehensive income:</i>                                 |              |              |                            |                    |                |                    |              |               |                          |                    |              |
| Recalculation differences  |              |              |                            |                    |                |                    |              |               |                          |                    |              |
| Actuarial gains (losses) on benefit-based pension schemes          |              |              |                            |                    |                |                    | 158          | 158           |                          | 158                |              |
| Tax on other comprehensive income                                  |              |              |                            |                    |                |                    | - 44         | - 44          |                          | - 44               |              |
| Total other comprehensive income                                   |              |              |                            | - 1                |                |                    | 114          | 113           |                          | 113                |              |
| <b>Total comprehensive income for the period</b>                   |              |              | 216                        | 267                | 30             | 1                  | 194          | 708           |                          | 708                |              |
| <b>Transactions with owners</b>                                    |              |              |                            |                    |                |                    |              |               |                          |                    |              |
| Set aside for dividend payments                                    |              |              | - 76                       |                    |                |                    |              | - 76          |                          | - 76               |              |
| Reversal of dividend payments                                      |              |              | 76                         |                    |                |                    |              | 76            |                          | 76                 |              |
| Dividend paid  |              |              | - 93                       | - 83               |                |                    |              | - 176         |                          | - 176              |              |
| Other transactions   |              |              |                            | 1                  |                |                    | - 4          | - 3           | 9                        | 6                  |              |
| Payments from Donations Fund                                       |              |              |                            |                    | - 13           |                    |              | - 13          |                          | - 13               |              |
| Total transactions with owners                                     |              |              | - 93                       | - 82               | - 13           |                    | - 4          | - 192         | 9                        | - 183              |              |
| <b>Equity at 31.12.2012</b>  | <b>1 655</b> | <b>245</b>   | <b>456</b>                 | <b>3 083</b>       | <b>150</b>     | <b>- 3</b>         | <b>1 273</b> | <b>6 859</b>  | <b>22</b>                | <b>6 881</b>       |              |
| Equity at 01.01.13   | 1 655        | 245          | 456                        | 3 083              | 150            | - 3                | 1 273        | 6 859         | 22                       | 6 881              |              |
| <b>Total comprehensive income for the period</b>                   |              |              |                            |                    |                |                    |              | 692           |                          | 692                |              |
| <i>Other comprehensive income:</i>                                 |              |              |                            |                    |                |                    |              |               |                          |                    |              |
| Recalculation differences  |              |              |                            |                    |                |                    |              |               |                          |                    |              |
| Effective part of change in fair market value in cash flow hedging |              |              | 1                          | 3                  |                |                    |              | 4             |                          | 4                  |              |
| Tax on other comprehensive income                                  |              |              |                            |                    |                |                    |              |               |                          |                    |              |
| Total other comprehensive income                                   | 0            | 0            | 1                          | 3                  | 0              | 0                  | 0            | 4             |                          | 4                  |              |
| <b>Total comprehensive income for the period</b>                   |              |              | 1                          | 3                  |                |                    |              | 692           |                          | 696                |              |
| <b>Transactions with owners</b>                                    |              |              |                            |                    |                |                    |              |               |                          |                    |              |
| Dividend paid  |              |              | - 76                       |                    |                |                    |              | - 76          |                          | - 76               |              |
| Other transactions   |              |              | 1                          |                    |                |                    | 1            | 2             |                          | 2                  |              |
| Payments from Donations Fund                                       |              |              |                            |                    | - 30           |                    |              | - 30          |                          | - 30               |              |
| Total transactions with owners                                     |              |              | - 75                       |                    | - 30           |                    | 1            | - 104         |                          | - 104              |              |
| <b>Equity at 30.09.13</b>  | <b>1 655</b> | <b>245</b>   | <b>382</b>                 | <b>3 086</b>       | <b>120</b>     | <b>- 3</b>         | <b>1 274</b> | <b>692</b>    | <b>22</b>                | <b>7 473</b>       |              |

## ECC ratio overall

### Parent Bank

(Amounts in NOK million)

|  | 31.12.08 | 31.12.09 | (01.01.11)<br>31.12.10 | (01.01.12)<br>31.12.11 | (01.01.13) (adjusted)<br>31.12.12 | (adjusted)<br>01.01.13 | 31.12.13 |
|--|----------|----------|------------------------|------------------------|-----------------------------------|------------------------|----------|
| Equity Certificate capital                     | 896      | 896      | 1 275                  | 1 655                  | <b>1 655</b>                      | <b>1 681</b>           | 1 807    |
| Equity Certificate premium reserve             | 123      | 123      | 184                    | 245                    | <b>245</b>                        | <b>344</b>             | 840      |
| Dividend Equalisation Fund                     | 277      | 471      | 408                    | 319                    | <b>453</b>                        | <b>380</b>             | 380      |
| Set aside dividend                             | - 54     | - 121    | - 103                  | - 93                   | <b>- 76</b>                       | <b>0</b>               | 0        |
| Share Fund Fair Value Options                  | - 5      | - 30     | - 3                    | - 14                   | <b>- 33</b>                       | <b>-33</b>             | -33      |
| A. Equity attributable to Equity Certificate h | 1 237    | 1 339    | 1 761                  | 2 112                  | <b>2 244</b>                      | <b>2 372</b>           | 2 994    |
| The Savings Bank's Fund                        | 2 221    | 2 623    | 2 811                  | 2 902                  | <b>3 107</b>                      | <b>3 081</b>           | 3 081    |
| Allocated dividends to ownerless capital       | 0        | - 161    | - 154                  | - 107                  | <b>- 30</b>                       | <b>0</b>               | 0        |
| Donations                                      | 133      | 133      | 133                    | 133                    | <b>120</b>                        | <b>120</b>             | 120      |
| Share Fund Fair Value Options                  | - 10     | - 57     | - 5                    | - 20                   | <b>- 45</b>                       | <b>-45</b>             | -45      |
| B. Total ownerless capital                     | 2 344    | 2 538    | 2 785                  | 2 908                  | <b>3 152</b>                      | <b>3 156</b>           | 3 156    |
| Equity Certificate Ratio overall (A/(A+B))     | 34.54 %  | 34.54 %  | 38.74 %                | 42.07 %                | <b>41.59 %</b>                    | <b>42.90 %</b>         | 48.68 %  |

# Statement of cash flows

## Parent Bank

## Group

(Amounts in NOK million)

| 31.12.12 | 30.09.12 | 30.09.13      |   | 30.09.13      | 30.09.12 | 31.12.12 |
|----------|----------|---------------|---|---------------|----------|----------|
| 668      | 490      | <b>882</b>    | Result before tax   | <b>856</b>    | 555      | 767      |
| 51       | 35       | <b>38</b>     | + Ordinary depreciation   | <b>40</b>     | 38       | 54       |
| - 4      | 0        | <b>0</b>      | + Write-downs, gains/losses fixed assets  | <b>0</b>      | 0        | - 4      |
| 224      | 195      | <b>105</b>    | + Losses on loans and guarantees  | <b>122</b>    | 163      | 195      |
| 153      | 107      | <b>140</b>    | - Tax   | <b>164</b>    | 118      | 172      |
| 189      | 176      | <b>106</b>    | - Dividends/donations   | <b>106</b>    | 176      | 189      |
| 597      | 437      | <b>779</b>    | Provided from the year's operations   | <b>748</b>    | 462      | 651      |
| 184      | 685      | <b>494</b>    | Change in sundry liabilities: + increase/ - decrease                            | <b>487</b>    | 698      | 213      |
| - 393    | - 411    | <b>- 86</b>   | Change in various claims: - increase/ + decrease                                | <b>- 162</b>  | - 480    | - 448    |
| -2 549   | -1 654   | <b>-1 868</b> | Change in gross lending to and claims on customers: - increase/ + decrease      | <b>-2 208</b> | -1 949   | -3 035   |
| -1 238   | -1 211   | <b>1 385</b>  | Change in short term-securities: - increase/ + decrease                         | <b>1 425</b>  | -1 146   | -1 156   |
| - 566    | - 866    | <b>2 718</b>  | Change in deposits from and debt owed to customers: + increase/ - decrease      | <b>2 718</b>  | - 867    | - 545    |
| 212      | - 843    | <b>-1 640</b> | Change in debt owed to credit institutions: + increase/ - decrease              | <b>-1 657</b> | - 835    | 217      |
| -3 753   | -3 863   | <b>1 782</b>  | A. Net liquidity change from operations   | <b>1 351</b>  | -4 117   | -4 103   |
| - 53     | - 47     | <b>- 21</b>   | - Investment in fixed assets (incl merger effects)                              | <b>- 22</b>   | - 56     | - 61     |
| 4        | 0        | <b>0</b>      | + Sale of fixed assets  | <b>0</b>      | 0        | 4        |
| - 470    | - 344    | <b>- 104</b>  | Change in holdings of long-term securities: - increase/ + decrease              | <b>104</b>    | - 409    | - 495    |
| - 519    | - 391    | <b>- 125</b>  | B. Liquidity change from investments  | <b>82</b>     | - 465    | - 552    |
| 3 192    | 3 979    | <b>-1 148</b> | Change in borrowings through the issuance of securities: + increase/ - decrease | <b>-1 148</b> | 3 979    | 3 192    |
| 739      | - 18     | <b>- 645</b>  | Change in Equity Certificate/subordinated loan capital: + increase/ - decrease  | <b>- 645</b>  | - 18     | 739      |
| 3 931    | 3 961    | <b>-1 793</b> | C. Liquidity change from financing  | <b>-1 793</b> | 3 961    | 3 931    |
| - 341    | - 293    | <b>- 136</b>  | A + B + C. Total change in liquidity  | <b>- 360</b>  | - 621    | - 724    |
| 5 346    | 5 346    | <b>5 005</b>  | + Liquid funds at the start of the period                                       | <b>2 142</b>  | 2 866    | 2 866    |
| 5 005    | 5 053    | <b>4 869</b>  | = Liquid funds at the end of the period   | <b>1 782</b>  | 2 245    | 2 142    |

Liquid funds are defined as cash-in-hand, claims on central banks, plus loans to and claims on credit institutions.

## Result from the Group's quarterly accounts

(Amounts in NOK million)

|  | 3Q13       | 2Q13       | 1Q13       | 4Q12       | 3Q12       | 2Q12       | 1Q12       | 4Q11         | 3Q11       |
|--|------------|------------|------------|------------|------------|------------|------------|--------------|------------|
| Interest income  | 740        | 717        | 694        | 706        | 707        | 708        | 724        | 749          | 739        |
| Interest costs   | 399        | 408        | 414        | 399        | 414        | 423        | 443        | 467          | 443        |
| <b>Net interest income</b>                             | <b>341</b> | <b>309</b> | <b>280</b> | <b>307</b> | <b>293</b> | <b>285</b> | <b>281</b> | <b>282</b>   | <b>296</b> |
| Fee- and commission income                             | 238        | 230        | 191        | 197        | 179        | 169        | 141        | 143          | 146        |
| Fee- and commission costs                              | 19         | 23         | 10         | 15         | 19         | 19         | 21         | 24           | 19         |
| Other operating income                                 | 14         | 31         | 17         | 20         | 12         | 6          | 6          | 6            | 0          |
| <b>Net fee-, commission and other operating income</b> | <b>233</b> | <b>238</b> | <b>198</b> | <b>202</b> | <b>172</b> | <b>156</b> | <b>126</b> | <b>125</b>   | <b>127</b> |
| Dividend   | 4          | 22         | 1          | - 1        | 1          | 15         | 2          | - 3          | 7          |
| Income from investments                                | 109        | 27         | 89         | 14         | 76         | 39         | 81         | 63           | 30         |
| Net gain from investments in securities                | - 7        | 15         | 1          | 17         | 2          | - 52       | 66         | - 222        | 9          |
| <b>Net income from financial investments</b>           | <b>106</b> | <b>64</b>  | <b>91</b>  | <b>30</b>  | <b>79</b>  | <b>2</b>   | <b>149</b> | <b>- 162</b> | <b>46</b>  |
| <b>Total income</b>                                    | <b>680</b> | <b>611</b> | <b>569</b> | <b>539</b> | <b>544</b> | <b>443</b> | <b>556</b> | <b>245</b>   | <b>469</b> |
| Personnel costs  | 151        | 162        | 151        | 153        | 147        | 148        | 133        | 141          | 131        |
| Administration costs                                   | 83         | 83         | 84         | 83         | 69         | 83         | 84         | 85           | 75         |
| Ordinary depreciation                                  | 13         | 13         | 14         | 16         | 13         | 12         | 13         | 13           | 11         |
| Other operating costs                                  | 39         | 44         | 45         | 43         | 37         | 34         | 52         | 38           | 35         |
| <b>Total costs</b>                                     | <b>286</b> | <b>302</b> | <b>294</b> | <b>295</b> | <b>266</b> | <b>277</b> | <b>282</b> | <b>277</b>   | <b>252</b> |
| <b>Result before losses</b>                            | <b>394</b> | <b>309</b> | <b>275</b> | <b>244</b> | <b>278</b> | <b>166</b> | <b>274</b> | <b>- 32</b>  | <b>217</b> |
| Losses   | 35         | 47         | 40         | 32         | 115        | 6          | 42         | 53           | 23         |
| <b>Result before tax</b>                               | <b>359</b> | <b>262</b> | <b>235</b> | <b>212</b> | <b>163</b> | <b>160</b> | <b>232</b> | <b>- 85</b>  | <b>194</b> |
| Tax  | 69         | 56         | 39         | 54         | 25         | 55         | 38         | 23           | 48         |
| Minority interests                                     | 0          | 0          | 0          | 0          | - 1        | 1          | 0          | 0            | 0          |
| <b>Result after tax</b>                                | <b>290</b> | <b>206</b> | <b>196</b> | <b>158</b> | <b>139</b> | <b>104</b> | <b>194</b> | <b>- 108</b> | <b>146</b> |

|   |         |         |         |         |         |         |         |          |         |
|---|---------|---------|---------|---------|---------|---------|---------|----------|---------|
| <b>Profitability</b>  |         |         |         |         |         |         |         |          |         |
| Return on equity capital  | 15.83 % | 11.62 % | 11.29 % | 9.35 %  | 8.40 %  | 6.40 %  | 12.07 % | -6.63 %  | 8.92 %  |
| Interest margin   | 1.79 %  | 1.63 %  | 1.50 %  | 1.64 %  | 1.58 %  | 1.58 %  | 1.59 %  | 1.57 %   | 1.65 %  |
| Cost/income   | 42.06 % | 49.43 % | 51.67 % | 54.73 % | 48.90 % | 62.53 % | 50.72 % | 113.06 % | 53.73 % |
| <b>Balance sheet figures</b>  |         |         |         |         |         |         |         |          |         |
| Loans and advances to customers   | 56 605  | 54 561  | 53 441  | 54 551  | 53 493  | 52 792  | 50 941  | 51 642   | 52 465  |
| Growth in loans and advances to cust. incl. SpareBank 1 Boligkreditt and Næringskreditt past 12 months              | 5.9 %   | 6.8 %   | 8.5 %   | 11.6 %  | 11.9 %  | 11.5 %  | 10.1 %  | 7.4 %    | 6.4 %   |
| Deposits from customers   | 43 938  | 46 006  | 43 232  | 43 588  | 43 266  | 43 745  | 39 675  | 41 765   | 41 952  |
| Growth in deposits from customers past 12 months  | 1.6 %   | 5.2 %   | 9.0 %   | -1.3 %  | -2.5 %  | 6.0 %   | 0.7 %   | 6.0 %    | 12.5 %  |
| Deposits as a percentage of gross lending   | 77.6 %  | 84.3 %  | 80.9 %  | 75.6 %  | 76.5 %  | 82.9 %  | 77.9 %  | 80.9 %   | 80.0 %  |
| Deposits as a percentage of gross lending including SpareBank 1 Boligkreditt and Næringskreditt                     | 55.6 %  | 59.5 %  | 56.9 %  | 54.3 %  | 54.8 %  | 60.5 %  | 56.7 %  | 61.4 %   | 62.9 %  |
| Average assets  | 75 561  | 75 524  | 74 907  | 72 921  | 72 336  | 71 696  | 70 526  | 70 291   | 70 104  |
| Total assets  | 75 670  | 76 759  | 74 484  | 75 329  | 74 251  | 74 029  | 69 997  | 71 032   | 72 402  |
| <b>Losses on loans and commitments in default</b>   |         |         |         |         |         |         |         |          |         |
| Losses on loans to customers as a percentage of gross loans incl. SpareBank 1 Boligkreditt and Næringskreditt       | 0.18 %  | 0.25 %  | 0.21 %  | 0.17 %  | 0.63 %  | 0.03 %  | 0.24 %  | 0.31 %   | 0.14 %  |
| Commitments in default as a percentage of gross loans incl. SpareBank 1 Boligkreditt and Næringskreditt             | 0.71 %  | 0.77 %  | 0.79 %  | 0.52 %  | 0.65 %  | 0.72 %  | 0.62 %  | 0.69 %   | 0.86 %  |
| Commitments at risk of loss as a percentage of gross loans incl. SpareBank 1 Boligkreditt and Næringskreditt        | 0.36 %  | 0.36 %  | 0.52 %  | 0.78 %  | 0.67 %  | 0.24 %  | 0.38 %  | 0.50 %   | 0.51 %  |
| Net comm. in default and at risk of loss as a per. of gross loans incl. SpareBank 1 Boligkreditt and Næringskreditt | 0.73 %  | 0.79 %  | 0.88 %  | 0.90 %  | 0.92 %  | 0.71 %  | 0.69 %  | 0.88 %   | 0.96 %  |
| <b>Solidity</b>   |         |         |         |         |         |         |         |          |         |
| Total regulatory Capital %  | 11.72 % | 12.36 % | 12.63 % | 13.19 % | 10.65 % | 11.59 % | 12.52 % | 12.50 %  | 12.02 % |
| Tier I Capital %  | 11.14 % | 11.35 % | 11.88 % | 12.11 % | 10.14 % | 10.88 % | 11.67 % | 11.61 %  | 11.08 % |
| Tier I capital  | 6 431   | 6 478   | 6 586   | 6 672   | 5 767   | 6 081   | 6 099   | 6 002    | 5 806   |
| Equity and related capital resources  | 6 765   | 7 052   | 7 005   | 7 270   | 6 056   | 6 474   | 6 541   | 6 465    | 6 299   |
| Adjusted risk-weighted assets base  | 57 704  | 57 053  | 55 450  | 55 098  | 56 849  | 55 882  | 52 253  | 51 704   | 52 399  |

# Notes

## Note 1 - Accounting policies

The Group's interim financial statements for the second quarter 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by EU, including IAS 34 relating to interim reporting.

The Group's accounting policies and calculation methods remain essentially unchanged from the accounting year 2012.

The interim financial statements do not cover all the information required in complete financial statements and should be read in conjunction with the annual financial statements for 2012.

A revised IAS 19 R Employee Benefits applies from 1 January 2013 and means that the previously used corridor solution for estimate deviations of net future pension liabilities may no longer be used. Since the start of the year, estimate deviations have been booked against equity. Please see note 15 on pensions and the table of changes in equity.

The key figures for 2012 have not been restated because of the adjustment in relation to the annual financial statements as presented for 2012.

In accordance with the regulations laid down by the Ministry of Finance of 16 October 2008, permission was given to reclassify securities in the trading portfolio from the category "at fair value through profit or loss" to categories "held to maturity" and "loans and receivables". The Group decided to reclassify large parts of the interest-bearing portfolio "held for sale" on 1 July 2008. Future measurements in these categories will be calculated at amortised cost, which means that earlier write-downs and interest will be amortised and recognised as interest income over the remaining term to maturity. Please see the separate note.

The interim financial statements have not been audited.

## Note 2 - Important accounting estimates and discretionary judgements

In preparing the consolidated financial statements the management makes estimates, discretionary judgements and assumptions that influence the application of the accounting policies. These could thus affect the stated amounts for assets, liabilities, income and costs. Note 3 to last year's annual financial statements provides a fuller explanation of the items subject to important estimates and judgements.

## Note 3 - Changes in group structure

SNN Økonomihus AS has changed its name to SpareBank 1 Regnskapshuset Nord-Norge AS.

In 2013 the company acquired the following accounting firms, which will be merged with SpareBank 1 Regnskapshuset Nord-Norge AS:

- Økonomen Rana AS (100%)
- Økonomen Mosjøen AS (100%)
- Duett AS (100%)
- Helgeland Økonomi AS (100%)

Folk i husan AS has changed its name to EiendomsMegler 1 Lofoten AS.

### Acquisition of business

In the third quarter, SpareBank 1 Nord-Norge acquired 23.89% of the shares in SpareBank 1 Markets AS. The bank previously indirectly owned 19.23% of SpareBank 1 Markets through its ownership in SpareBank 1 Gruppen. A final acquisition analysis has been conducted in accordance with IFRS 3 in which the acquisition cost, NOK 35.3 million, was allocated to the fair value of assets and liabilities. The previous stake has been continued to continuity. The difference between the identifiable net assets and the acquisition cost of the increased stake, NOK 1.5 million, was recognised as income in the third quarter in accordance with IAS 28.

**Note 4 - Business Areas**

The management has made an assessment of which business areas are deemed reportable with respect to form of distribution, products and customers. The primary format of reporting takes as a starting point risk and yield profiles of various assets and reporting is divided into private customers (Retail Banking Market), Corporate / Public Market, leasing and Markets. Apart from what is included in this list, the Group does not have any companies or segments which are of significant importance. The Bank operates mainly in a limited geographical area and reporting along the lines of geographic segments provides little additional information.

|  |                |                   |         |         |             | <b>30.09.13</b> |
|--|----------------|-------------------|---------|---------|-------------|-----------------|
|  | Retail Banking | Corporate Banking | Leasing | Markets | Unallocated | <b>Total</b>    |
| <i>(Amounts in NOK million)</i>  |                |                   |         |         |             |                 |
| Net interest income  | 641            | 150               | 106     | 13      | 20          | <b>930</b>      |
| Net fee- and commission income   | 423            | 99                | 0       | 32      | 116         | <b>670</b>      |
| Other operating income   | 0              | 0                 | 0       | 0       | 261         | <b>261</b>      |
| Operating costs  | 575            | 135               | 29      | 21      | 123         | <b>883</b>      |
| Result before losses   | 489            | 114               | 77      | 24      | 274         | <b>978</b>      |
| Losses   | 13             | 92                | 5       | 0       | 12          | <b>122</b>      |
| Result before tax  | 476            | 22                | 72      | 24      | 262         | <b>856</b>      |
| Loans and advances to customers  | 33 086         | 19 772            | 3 747   | 0       | 0           | <b>56 605</b>   |
| Individual write-downs for impaired value on loans and advances to customers | - 32           | - 209             | - 26    | 0       | 0           | <b>- 267</b>    |
| Collective write-downs for impaired value on loans and advances to customers | - 36           | - 148             | - 18    | 0       | 0           | <b>- 202</b>    |
| Other assets   | 0              | 229               | 0       | 0       | 19 305      | <b>19 534</b>   |
| Total assets per business area   | 33 018         | 19 644            | 3 703   | 0       | 19 305      | <b>75 670</b>   |
| Deposits from customers  | 24 294         | 19 644            | 0       | 0       | 0           | <b>43 938</b>   |
| Other liabilities and equity capital   | 8 724          | 0                 | 3 703   | 0       | 19 305      | <b>31 732</b>   |
| Total equity and liabilities per business area                               | 33 018         | 19 644            | 3 703   | 0       | 19 305      | <b>75 670</b>   |
| <b>30.09.12</b>  |                |                   |         |         |             |                 |
| Net interest income  | 624            | 136               | 82      | 10      | 7           | 859             |
| Net fee- and commission income   | 335            | 73                | 0       | 0       | 22          | 430             |
| Other operating income   | 0              | 0                 | 0       | 54      | 200         | 254             |
| Operating costs  | 575            | 126               | 27      | 23      | 74          | 825             |
| Result before losses   | 384            | 83                | 55      | 41      | 155         | 718             |
| Losses   | - 2            | 162               | 3       | 0       | 0           | 163             |
| Result before tax  | 386            | - 79              | 52      | 41      | 155         | 555             |
| Loans and advances to customers  | 29 820         | 20 522            | 3 151   | 0       | 0           | 53 493          |
| Individual write-downs for impaired value on loans and advances to customers | - 29           | - 281             | - 10    | 0       | 33          | - 287           |
| Collective write-downs for impaired value on loans and advances to customers | - 46           | - 147             | - 9     | 0       | - 8         | - 210           |
| Other assets   | 0              | 0                 | 0       | 0       | 21 255      | 21 255          |
| Total assets per business area   | 29 745         | 20 094            | 3 132   | 0       | 21 280      | 74 251          |
| Deposits from customers  | 23 497         | 17 401            | 0       | 0       | 0           | 40 898          |
| Other liabilities and equity capital   | 0              | 0                 | 3 132   | 0       | 30 221      | 33 353          |
| Total equity and liabilities per business area                               | 23 497         | 17 401            | 3 132   | 0       | 30 221      | 74 251          |

## Note 5 - Capital Adequacy

New capital adequacy rules and regulations (Basel II – EU's new directives for capital adequacy) were implemented in Norway with effect from 1 January 2007. SpareBank 1 Nord-Norge has received permission from The Financial Supervisory Authority of Norway (FSAN) to apply internal calculation methods (Internal Rating-Based Approach) for credit risk from 1 January 2007. With effect from 2007, therefore, the statutory minimum capital adequacy requirement for credit risk will be based on the Bank's internal assessment of risk. This will make the statutory minimum capital adequacy requirement more risk-sensitive, which means that the capital requirement will to a larger extent correspond to the risk contained in the underlying portfolios in question. The use of internal calculation methods will involve comprehensive demands on the Bank's organisation, competence, risk models and risk management systems. As a result of transitional rules relating to the new directive mentioned above, IRB-banks would not experience the full impact of the reduced regulatory capital requirements until 2010. Until 2010, banks had to report on a parallel basis, both according to the old capital adequacy calculations and Basel II. During the period 2007-2010, an annual adjustment of the risk-adjusted calculation basis in relation to the old method (so-called correction of 'floor') was permitted. A resolution has now been reached to postpone this issue. The calculation basis in 2013 therefore amounts to 80 per cent of the calculated basis according to the Basel I rules and regulations.

### Parent Bank

### Group

(Amounts in NOK million)

| 31.12.12 | 30.09.12 | 30.09.13 |   | 30.09.13 | 30.09.12 | 31.12.12 |
|----------|----------|----------|---|----------|----------|----------|
| 1 655    | 1 655    | 1 655    | Equity certificates   | 1 655    | 1 655    | 1 655    |
| 0        | 0        | 0        | - Own equity certificates   | 0        | 0        | 0        |
| 245      | 245      | 245      | Premium reserve   | 245      | 245      | 245      |
| 456      | 240      | 382      | Equalisation reserve  | 382      | 240      | 456      |
| 3 083    | 2 815    | 3 086    | Savings bank's reserve  | 3 086    | 2 815    | 3 083    |
| 150      | 133      | 120      | Endowment fund  | 120      | 133      | 150      |
| 0        | 0        | 49       | Other equity  | 1 274    | 1 079    | 1 224    |
| 0        | 0        | 0        | Deduction Fund for unrealised gains                                     | - 3      | - 4      | - 3      |
| 0        | 0        | 0        | Minority interests  | 22       | 22       | 22       |
| 0        | 383      | 742      | Period result   | 692      | 437      | 0        |
| 5 589    | 5 471    | 6 279    | Total equity  | 7 473    | 6 622    | 6 832    |
| 0        | 0        | 0        | Minority interests  | -22      | - 22     | - 22     |
| 0        | - 383    | - 742    | Period result   | - 692    | - 437    | 0        |
|          |          |          | <b>Tier 1 Capital</b>   |          |          |          |
| 0        | 0        | 0        | Adjusted Tier 1 Capital from consolidated financial institutions        | - 3      | - 3      | - 59     |
| - 30     | 8        | - 97     | Intangible assets   | - 197    | - 76     | - 94     |
| 0        | 0        | 0        | Fund for unrealised gains   | 41       | 45       | 41       |
| - 106    | 0        | 0        | Deduction for allocated dividends                                       | 0        | 0        | - 106    |
| - 542    | - 544    | - 478    | 50 % deduction for subordinated capital in other financial institutions | - 172    | - 98     | - 106    |
| - 95     | - 89     | - 85     | 50 % deduction for expected losses on IRB, net of writedowns            | - 74     | - 110    | - 97     |
| 0        | 0        | 0        | 50 % Total regulatory capital reserve                                   | - 576    | - 714    | - 706    |
| 836      | 342      | 500      | Hybrid Tier 1 bonds   | 653      | 495      | 989      |
| 5 652    | 4 789    | 5 377    | Total Tier 1 Capital  | 6 431    | 5 767    | 6 672    |
|          |          |          | <b>Tier 2 Capital</b>   |          |          |          |
| 1 259    | 996      | 950      | Nonperpetual subordinated capital                                       | 1 156    | 1 211    | 1 507    |
| - 542    | - 544    | - 478    | 50% deduction for subordinated capital in other financial institutions  | - 172    | - 98     | - 106    |
| - 95     | - 89     | - 85     | 50% deduction for expected losses on IRB, net of writedowns             | - 74     | - 110    | - 97     |
| 0        | 0        | 0        | 50% Total regulatory capital reserve                                    | - 576    | - 714    | - 706    |
| 622      | 363      | 387      | Total Tier 2 Capital  | 334      | 289      | 598      |
| 6 274    | 5 152    | 5 764    | <b>Equity and related capital resources</b>                             | 6 765    | 6 056    | 7 270    |
|          |          |          | <b>Minimum requirements subordinated capital, Basel I I</b>             |          |          |          |
| 921      | 906      | 912      | Specialised lending exposure  | 912      | 906      | 921      |
| 646      | 654      | 647      | Other corporations exposure   | 647      | 654      | 646      |
| 18       | 15       | 21       | SME exposure  | 25       | 18       | 21       |
| 277      | 264      | 282      | Property retail mortgage exposure                                       | 470      | 430      | 456      |
| 32       | 33       | 45       | Other retail exposure   | 48       | 35       | 34       |
| 318      | 289      | 392      | Equity investments  | 0        | 0        | 0        |
| 2 212    | 2 161    | 2 299    | Total credit risk IRB   | 2 102    | 2 043    | 2 077    |
| 890      | 839      | 597      | Credit risk standardised approach                                       | 1 601    | 1 779    | 1 867    |
| 12       | 8        | 19       | Debt risk   | 22       | 12       | 11       |
| 11       | 11       | 12       | Equity risk   | 35       | 35       | 38       |
| 32       | 31       | 39       | Currency risk   | 39       | 32       | 32       |
| 226      | 226      | 223      | Operational risk  | 235      | 265      | 265      |
| 0        | 0        | 3        | Transitional arrangements   | 706      | 518      | 256      |
| - 88     | - 87     | - 77     | Deductions  | - 124    | - 136    | - 139    |
| 3 295    | 3 189    | 3 115    | Minimum requirements subordinated capital                               | 4 616    | 4 548    | 4 408    |
| 15.23 %  | 12.92 %  | 14.80 %  | Total regulatory Capital  | 11.72 %  | 10.65 %  | 13.19 %  |
| 13.72 %  | 12.01 %  | 13.81 %  | Tier 1 Capital  | 11.14 %  | 10.14 %  | 12.11 %  |
| 1.51 %   | 0.91 %   | 1.00 %   | Tier 2 Capital  | 0.58 %   | 0.51 %   | 1.08 %   |
| 11.69 %  | 11.78 %  | 13.76 %  | Common Equity Tier I IRB- incl share og period result                   | 12.74 %  | 11.03 %  | 10.95 %  |

**Note 6 - Net bad and doubtful commitments**
*(Amounts in NOK million)*

| <b>Parent Bank</b> |          |                 |  | <b>Group</b>    |          |          |
|--------------------|----------|-----------------|--|-----------------|----------|----------|
| 31.12.12           | 30.09.12 | <b>30.09.13</b> |  | <b>30.09.13</b> | 30.09.12 | 31.12.12 |
| 357                | 446      | <b>505</b>      | Non-performing commitments                                   | <b>563</b>      | 488      | 397      |
| 586                | 497      | <b>285</b>      | + Other doubtful commitments                                 | <b>285</b>      | 497      | 592      |
| 943                | 943      | <b>790</b>      | + Total commitments in default and doubtful commitments      | <b>848</b>      | 985      | 989      |
| 104                | 132      | <b>193</b>      | - Individual write-downs in default                          | <b>219</b>      | 130      | 120      |
| 183                | 178      | <b>48</b>       | - Other doubtful individual write-downs                      | <b>48</b>       | 157      | 183      |
| 287                | 310      | <b>241</b>      | + Total individual write-downs *                             | <b>267</b>      | 287      | 303      |
| 656                | 633      | <b>549</b>      | = <b>Net commitments in default and doubtful commitments</b> | <b>581</b>      | 698      | 686      |
| 30 %               | 33 %     | <b>31 %</b>     | Loan loss provision ratio                                    | <b>31 %</b>     | 29 %     | 31 %     |

\*Individual write-downs for impaired value on guarantees are not included here, but as liabilities under 'Other liabilities'.

**Note 7 - Losses incorporated in the accounts**

| 31.12.12 | 30.09.12 | <b>30.09.13</b> |   | <b>30.09.13</b> | 30.09.12 | 31.12.12 |
|----------|----------|-----------------|---|-----------------|----------|----------|
| 94       | 121      | <b>- 58</b>     | + Period's change in individual write-down for impaired value                             | <b>- 49</b>     | 88       | 97       |
| - 40     | - 25     | <b>4</b>        | + Period's change in collective write-down for impaired value                             | <b>7</b>        | - 25     | - 40     |
| 141      | 104      | <b>161</b>      | + Period's confirmed losses against which individual write-downs were previously made     | <b>165</b>      | 105      | 144      |
| 40       | 3        | <b>3</b>        | + Period's confirmed losses against which individual write-downs were previously not made | <b>4</b>        | 4        | 5        |
| 11       | 8        | <b>5</b>        | - Recoveries in respect of previously confirmed losses                                    | <b>5</b>        | 9        | 11       |
| 224      | 195      | <b>105</b>      | = <b>Total losses on loans</b>  | <b>122</b>      | 163      | 195      |

**Note 8 - Losses broken down by sector and industry**
*(Amounts in NOK million)*

| Parent Bank |          |          |  | Group    |          |          |
|-------------|----------|----------|--|----------|----------|----------|
| 31.12.12    | 30.09.12 | 30.09.13 |  | 30.09.13 | 30.09.12 | 31.12.12 |
| 1           | - 4      | - 1      | Mining and quarrying   | - 1      | - 5      | - 1      |
| 3           | 4        | 5        | Construction   | 5        | 5        | 4        |
| 1           | 0        | - 1      | Building of ships and boats  | - 1      | 0        | 1        |
| 0           | 0        | 4        | Electricity, gas, steam an air conditioning supply                   | 4        | 0        | 1        |
| 4           | 2        | 7        | Professional, scientific and technical activities                    | 7        | 2        | 4        |
| 35          | 33       | 0        | Financial and insurance activities                                   | 0        | - 3      | - 1      |
| - 1         | 2        | 3        | Fishing  | 3        | 1        | 0        |
| 1           | 0        | 0        | Marine aquaculture   | 0        | 0        | 1        |
| - 3         | - 4      | 0        | Other business support activities                                    | 5        | - 4      | - 1      |
| 0           | 0        | 0        | Activities auxiliary to financial services and insurance activities  | 0        | 0        | 0        |
| 0           | 0        | 0        | County municipalities and municipalities                             | 0        | 0        | 0        |
| 4           | 3        | 31       | Manufacturing  | 33       | 3        | 3        |
| 2           | 2        | 0        | Information and communication  | 0        | 2        | 2        |
| 4           | 5        | 2        | Crop and animal production   | 2        | 5        | 4        |
| 0           | 0        | 16       | Foreign industrial   | 16       | 0        | 0        |
| 96          | 117      | - 2      | Real estate activities   | - 2      | 118      | 96       |
| 0           | - 3      | 0        | Accommodation and food service activities                            | 0        | - 3      | 0        |
| 0           | 0        | 0        | Forestry and logging   | 0        | 0        | 0        |
| 0           | 0        | 0        | Central government and social security funds                         | 0        | 0        | 0        |
| 0           | 0        | 0        | Support activities for petroleum and natural gas extraction          | 0        | 0        | 0        |
| - 1         | - 4      | - 1      | Other service industries   | - 1      | - 4      | 1        |
| - 2         | 3        | 8        | Transportation and storage   | 9        | 4        | - 1      |
| 10          | 0        | 11       | International shipping and pipeline transport                        | 11       | 0        | 10       |
| 49          | 12       | 10       | Development of building projects                                     | 10       | 12       | 49       |
| - 3         | - 4      | - 8      | Extraction of crude oil and natural gas                              | - 8      | - 4      | - 3      |
| 0           | 0        | 0        | Unspecified  | 0        | 0        | 0        |
| 40          | 30       | 0        | Water supply; sewerage, waste management and remediation activities  | 0        | 31       | 39       |
| - 2         | 7        | 8        | Wholesale and retail trade; repair of motor vehicles and motorcycles | 8        | 8        | - 1      |
| - 3         | 2        | 18       | Retail banking market - domestic                                     | 27       | 3        | - 1      |
| 235         | 203      | 110      | Losses on loans to customers   | 127      | 171      | 206      |
| 11          | 8        | 5        | Recoveries from previously written off losses                        | 5        | 8        | 11       |
| 224         | 195      | 105      | <b>Net losses</b>  | 122      | 163      | 195      |

**Note 9 - Loans broken down by sector and industry**
*(Amounts in NOK million)*

| Parent Bank |          |          |  | Group         |               |               |
|-------------|----------|----------|--|---------------|---------------|---------------|
| 31.12.12    | 30.09.12 | 30.09.13 |  | 30.09.13      | 30.09.12      | 31.12.12      |
| 54          | 58       | 53       | Mining and quarrying   | 82            | 83            | 81            |
| 724         | 736      | 511      | Construction   | 827           | 1 043         | 1 037         |
| 10          | 120      | 4        | Building of ships and boats  | 6             | 123           | 12            |
| 1 429       | 1 301    | 1 319    | Electricity, gas, steam an air conditioning supply                   | 1 323         | 1 307         | 1 434         |
| 678         | 560      | 652      | Professional, scientific and technical activities                    | 711           | 582           | 705           |
| 0           | 0        | 0        | Financial and insurance activities                                   | 0             | 0             | 0             |
| 1 609       | 1 689    | 1 155    | Fishing  | 1 168         | 1 700         | 1 619         |
| 144         | 160      | 137      | Marine aquaculture   | 279           | 280           | 257           |
| 356         | 283      | 396      | Other business support activities                                    | 612           | 501           | 577           |
| 978         | 930      | 963      | Activities auxiliary to financial services and insurance activities  | 799           | 684           | 807           |
| 176         | 151      | 150      | County municipalities and municipalities                             | 173           | 173           | 199           |
| 1 532       | 1 434    | 1 637    | Manufacturing  | 1 757         | 1 571         | 1 677         |
| 145         | 149      | 139      | Information and communication  | 146           | 154           | 150           |
| 876         | 839      | 867      | Crop and animal production   | 958           | 937           | 971           |
| 37          | 37       | 0        | Foreign industrial   | 162           | 224           | 286           |
| 7 026       | 7 035    | 7 027    | Real estate activities   | 7 090         | 7 092         | 7 081         |
| 345         | 354      | 351      | Accommodation and food service activities                            | 363           | 370           | 359           |
| 6           | 9        | 4        | Forestry and logging   | 9             | 13            | 11            |
| 0           | 0        | 0        | Central government and social security funds                         | 1             | 1             | 1             |
| 0           | 0        | 0        | Support activities for petroleum and natural gas extraction          | 21            | 0             | 0             |
| 682         | 650      | 662      | Other service industries   | 742           | 735           | 766           |
| 2 119       | 2 120    | 2 951    | Transportation and storage   | 3 502         | 2 671         | 2 689         |
| 671         | 682      | 667      | International shipping and pipeline transport                        | 667           | 682           | 671           |
| 703         | 671      | 687      | Development of building projects                                     | 689           | 671           | 704           |
| 0           | 126      | 0        | Extraction of crude oil and natural gas                              | 0             | 126           | 0             |
| 0           | 0        | 0        | Unspecified  | 0             | 0             | 0             |
| 210         | 228      | 211      | Water supply; sewerage, waste management and remediation activities  | 286           | 283           | 290           |
| 1 239       | 1 372    | 858      | Wholesale and retail trade; repair of motor vehicles and motorcycles | 1 146         | 1 667         | 1 527         |
| 29 344      | 28 563   | 31 414   | Retail banking market - domestic                                     | 32 739        | 29 683        | 30 506        |
| 46          | 50       | 43       | Retail banking market - international                                | 347           | 137           | 134           |
| 29 390      | 28 613   | 31 457   | Total retail market  | 33 086        | 29 820        | 30 640        |
| 21 573      | 21 543   | 21 251   | Total public market  | 23 345        | 23 499        | 23 711        |
| 176         | 151      | 150      | Total government   | 174           | 174           | 200           |
| 51 139      | 50 307   | 52 858   | Total gross lending to customers                                     | 56 605        | 53 493        | 54 551        |
| 287         | 310      | 241      | Individual write-downs for impaired value                            | 267           | 287           | 303           |
| 182         | 193      | 184      | Collective write-downs for impaired value                            | 202           | 210           | 198           |
| 50 670      | 49 804   | 52 433   | <b>Net loans to customers</b>  | <b>56 136</b> | <b>52 996</b> | <b>54 050</b> |

## Note 10 - SpareBank 1 Boligkreditt

In the third quarter 2010, SpareBank 1 Nord-Norge agreed, together with the other shareholders of SpareBank 1 Boligkreditt, to provide a liquidity facility to SpareBank 1 Boligkreditt. This involves the banks committing themselves to buying residential mortgage bonds with a maximum net value of SpareBank 1 Boligkreditt's debt maturing over the next twelve months. The agreement means that each shareholder has principal responsibility for his share of the requirement, and secondary responsibility for double the value of his principal responsibility. The bonds can be deposited with Norges Bank, which means that they do not significantly increase the Bank's risk exposure.

The bank has concluded agreements concerning the sale of loans with good security and collateral in real estate to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. For more information about the accounting treatment of the agreements see note 2 and note 13 to the annual financial statements.

## Note 11 - Investment in bonds

As a result of extraordinary market conditions, parts of the Bank's ordinary securities portfolio became illiquid in 2008. Following the changes in international accounting standards in October 2008 (see note 1), the SNN Group decided to reclassify parts of the Bank's bond portfolio as at 01.07.08 from the category 'Market value with inclusion of value changes over the profit and loss account' to the categories 'Hold until maturity' and 'Loans and claims' as the securities in question no longer was expected to be sold before maturity. In the category 'Hold until maturity' the Bank includes quoted securities, whereas unquoted securities has been put into the category of 'Loans and claims.'

In the categories 'Hold until maturity' and 'Loans and claims' the securities are assessed at amortized cost. After the reclassification, the writedowns made earlier will be reversed over the portfolio's remaining life, which on average is 2.1 year as at 30.09.13, and included in the profit and loss account as interest income. For the period 01.01.13-30.09.13 such reversed writedowns has been included in the profit and loss account with NOK 0.9 million. Total inclusion of income are NOK 76,5 million for the period 01.07.08-31.12.12. If this reclassification had not been made, the Group would have charged NOK 212 million to the profit and loss account in the third and fourth quarter of 2008 due to increased credit spreads. This would have been an unrealised gain NOK 5.5 million as at 30.09.13. It was necessary to apply a NOK 80 million write-down due to the permanent impairment of value in this portfolio as at 31.12.12. Further writedowns has been made in 2013 with NOK 8 million.

| <i>(Amounts in NOK million)</i> | 01.07.08     | 31.12.09     | 31.12.10     | 31.12.11     | 31.12.12   | <b>30.09.13</b> |
|---------------------------------|--------------|--------------|--------------|--------------|------------|-----------------|
| <b>Hold until maturity</b>      |              |              |              |              |            |                 |
| Book value                      | 3 109        | 2 650        | 1 624        | 858          | 355        | <b>179</b>      |
| Nominal value (nominal amount)  | 3 182        | 2 689        | 1 644        | 869          | 366        | <b>183</b>      |
| Theoretical market value        | 3 109        | 2 623        | 1 615        | 842          | 355        | <b>181</b>      |
| <b>Loans and claims</b>         |              |              |              |              |            |                 |
| Book value                      | 698          | 629          | 464          | 262          | 142        | <b>99</b>       |
| Nominal value (nominal amount)  | 737          | 656          | 489          | 279          | 156        | <b>114</b>      |
| Theoretical market value        | 698          | 599          | 443          | 250          | 134        | <b>98</b>       |
| <b>Total book value</b>         | <b>3 807</b> | <b>3 279</b> | <b>2 088</b> | <b>1 120</b> | <b>497</b> | <b>278</b>      |

## Note 12 - Financial derivatives

### Parent Bank and Group

(Amounts in NOK million)

#### Interest rate swaps:

Commitments to exchange one set of cash flow for another over an agreed period.

#### Foreign exchange derivatives:

Agreements to buy or sell a fixed amount of currency at an agreed future date at a rate of exchange which has been agreed in advance

#### Currency swaps:

Agreements relating to the swapping of currency- and interest rate terms and conditions, periods and amounts having been agreed in advance.

#### Interest rate- and currency swap agreements:

Agreements involving the swapping of currency- and interest rate terms and conditions, periods and amounts having been agreed in advance.

#### Options:

Agreements where the seller gives the buyer a right, but not an obligation to either sell or buy a financial instrument or currency at an agreed date or before, and at an agreed amount.

SpareBank 1 Nord-Norge enters into hedging contracts with respected Norwegian and foreign banks in order to reduce its own risk. Financial derivatives transactions are related to ordinary banking operations and are done in order to reduce the risk relating to the Bank's funding loans from the financial markets, and in order to cover and reduce risk relating to customer-related activities. Only hedging transactions relating to the Bank's funding loan operations are defined as 'fair value hedging' in accordance with IFRS standard IAS 39. Other hedging transactions are defined as ordinary accounts-related hedging. The Bank does not use cash flow hedging.

| Fair value hedging transactions   | 30.09.13 | 30.09.12   | 31.12.12   |
|---|----------|------------|------------|
| Net loss charged to the statement of comprehensive income in respect of hedging instruments in connection with actual value | 114      | 266        | 266        |
| Total gain from hedging objects relating to the hedged risk   | - 113    | - 267      | - 267      |
| <b>Total fair value hedging transactions</b>  | <b>1</b> | <b>- 1</b> | <b>- 1</b> |

The Bank's main Board of Directors has determined limits for maximum risk for the Bank's interest rate positions. Routines have been established to ensure that positions are maintained within these limits.

(Amounts in NOK million)

| Fair value through statement of comprehensive income | 30.09.13      |              |             | 30.09.12      |              |             | 31.12.12      |              |             |
|--|---------------|--------------|-------------|---------------|--------------|-------------|---------------|--------------|-------------|
|  | Contract      | Assets       | Liabilities | Contract      | Assets       | Liabilities | Contract      | Assets       | Liabilities |
| <b>Foreign currency instruments</b>                  |               |              |             |               |              |             |               |              |             |
| Foreign exchange financial derivatives (forwards)    | 3 375         | 40           | 34          | 2 152         | 59           | 20          | 1 678         | 39           | 6           |
| Currency swaps                                       | 10 328        | 260          | 118         | 6 107         | 147          | 82          | 4 996         | 146          | 67          |
| Currency options                                     |               |              |             |               |              |             |               |              |             |
| Total non-standardised contracts                     | 13 703        | 300          | 152         | 8 259         | 206          | 102         | 6 674         | 185          | 73          |
| Standardised foreign currency contracts (futures)    |               |              |             |               |              |             |               |              |             |
| Total foreign currency instruments                   | 13 703        | 300          | 152         | 8 259         | 206          | 102         | 6 674         | 185          | 73          |
| <b>Interest rate instruments</b>                     |               |              |             |               |              |             |               |              |             |
| Interest rate swaps (including cross currency)       | 25 534        | 380          | 509         | 23 149        | 451          | 597         | 23 275        | 448          | 618         |
| Short-term interest rate swaps (FRA)                 |               |              |             |               |              |             |               |              |             |
| Other interest rate contracts                        | 37            | 2            | 2           | 2 411         | 7            | 11          | 1 811         | 8            | 7           |
| Total non-standardised contracts                     | 25 571        | 382          | 511         | 25 560        | 458          | 608         | 25 086        | 456          | 625         |
| Standardised interest rate contracts (futures)       |               |              |             |               |              |             |               |              |             |
| Total interest rate instruments                      | 25 571        | 382          | 511         | 25 560        | 458          | 608         | 25 086        | 456          | 625         |
| <b>Hedging of funding loans</b>                      |               |              |             |               |              |             |               |              |             |
| <b>Foreign currency instruments</b>                  |               |              |             |               |              |             |               |              |             |
| Foreign exchange financial derivatives (forwards)    |               |              |             |               |              |             |               |              |             |
| Currency swaps                                       |               |              |             |               |              |             |               |              |             |
| Total, non-standardised contracts                    |               |              |             |               |              |             |               |              |             |
| Standardised foreign currency contracts (futures)    |               |              |             |               |              |             |               |              |             |
| Total foreign currency instruments                   |               |              |             |               |              |             |               |              |             |
| <b>Interest rate instruments</b>                     |               |              |             |               |              |             |               |              |             |
| Interest rate swaps (including cross currency)       | 8 322         | 479          |             | 9 026         | 609          | 21          | 8 318         | 593          | 15          |
| Short-term interest rate swaps (FRA)                 |               |              |             |               |              |             |               |              |             |
| Other interest rate contracts                        |               |              |             |               |              |             |               |              |             |
| Total, non-standardised contracts                    | 8 322         | 479          |             | 9 026         | 609          | 21          | 8 318         | 593          | 15          |
| Standardised interest rate contracts (futures)       |               |              |             |               |              |             |               |              |             |
| Total interest rate instruments                      | 8 322         | 479          |             | 9 026         | 609          | 21          | 8 318         | 593          | 15          |
| Total interest rate instruments                      | 33 893        | 861          | 511         | 34 586        | 1 067        | 629         | 33 404        | 1 049        | 640         |
| Total foreign currency instruments                   | 13 703        | 300          | 152         | 8 259         | 206          | 102         | 6 674         | 185          | 73          |
| <b>Total</b>   | <b>47 596</b> | <b>1 161</b> | <b>663</b>  | <b>42 845</b> | <b>1 273</b> | <b>731</b>  | <b>40 078</b> | <b>1 234</b> | <b>713</b>  |

**Note 13 - Net accounting of financial derivatives and related set-off agreements.**

Financial derivatives are presented as gross on the balance sheet. As a result of ISDA agreements that have been entered into with contracting parties with regard to financial derivatives transactions, set-off rights are obtained if the contracting party defaults on the cash flow.

At 30.09.13 the net figures were:

| Category/counterpart                | Gross amount | Offset amount | Net amount | Net amount to be posted at bankruptcy or default | Net credit exposure |
|-------------------------------------|--------------|---------------|------------|--|---------------------|
| <i>(Amounts in NOK million)</i>     | A            | B             | C=A+B      | D  | E=C-D               |
| Financial derivatives - assets      | 11 014       | 10 664        | 350        | 0  | <b>350</b>          |
| Financial derivatives - liabilities | 19 675       | 19 328        | 347        | 0  | <b>347</b>          |

**Note 14 - Liquidity risk**

Liquidity risk is the risk that the bank will be unable to meet its payment obligations, and/or the risk of not being able to fund a desired growth in assets. SpareBank 1 Nord-Norge prepares an annual liquidity strategy that encompasses, for example, the bank's liquidity risk.

The Group's liquidity risk is revealed through the bank's liquidity reserve/buffer.

The principal objective for SpareBank 1 Nord-Norge is to maintain the bank's ability to survive in a normal situation without any external funding for a period of 12 months. In addition, the bank should be able to survive for a minimum of 90 days in a "major stress" situation, where no funding is available from the capital markets. The bank's day-to-day management is guided by the above goal.

The average remaining maturity of the bank's borrowings in senior unsecured bond issues and covered bonds was at 30.09.2013 2,33 years .

## Note 15 Pensions

The SpareBank 1 Nord-Norge Group has two types of pension agreements for its employees: defined benefit-based and defined contribution-based plans. The plans are described in more detail in the note 25 to the annual financial statements.

From 1 January 2013 IAS 10 "Employee Benefits" was revised with respect to the basis for calculating pension liabilities and pension costs. IAS 19 shall be applied retrospectively and comparative figures must be restated if necessary.

The Group has previously used the corridor method for recognising unamortised estimate deviations. The corridor method is no longer permitted and all estimate deviations must be recorded in the statement covering other operating income and costs under comprehensive income items, so-called OCI (Other Comprehensive Income). The corridor, which amounted to NOK 89 million for groups, was zeroed as of 1 January 2012. Pension liabilities increased correspondingly as of 1 January 2012, while equity was reduced by NOK 64 million after tax. The change was made with retroactive effect so that figures in 2013 would be comparable.

Previously the return on pension assets was calculated using a long-term expected return on pension assets. Due to the application of the revised IAS 19, the period's net interest cost is now calculated by applying the discount rate for the liabilities at the beginning of the period to the net liabilities. Therefore, net interest costs consist of the interest on liabilities and the return on assets, both calculated using the discount rate. Changes in net pension liabilities due to premium payments and pension payments are taken into account. The difference between the actual return on pension assets and the recorded return is recognised immediately against OCI.

The Group's pension costs for defined benefit-based plans in 2012 according to the previous policy amounted to NOK 17 million. Due to the revised policy for the treatment of unamortised estimate deviations and the calculation of the net interest costs, the recognised pension costs increased to NOK 24 million. The change is not regarded as material and the pension costs recognised in 2012 were not changed.

As is evident from note 25 to the annual financial statements, the Group's basis for the discount rate used in pension calculations changed at year-end 2012 to the covered bonds rate. The Group's net pension assets as of 31 December 2012 increased to NOK 89 million. Changes in estimate deviations throughout 2012 are now set up under comprehensive income items and recognised against equity in the fourth quarter 2012.

The following assumptions were made for defined benefit-based plans:

|  | 3Q13    | 2Q13    | 3Q12    |
|--|---------|---------|---------|
| <i>Assumptions</i>   | 3.90 %  | 3.90 %  | 3.90 %  |
| Discount rate  | 3.90 %  | 3.90 %  | 3.90 %  |
| Expected return on pension assets  | 2.50 %  | 2.50 %  | 2.50 %  |
| Future salary growth rate  | 3.25 %  | 3.25 %  | 3.25 %  |
| Adjustment of NI basic amount (G)  | 0.20 %  | 0.20 %  | 0.20 %  |
| Pension adjustment   | 6.00 %  | 6.00 %  | 6.00 %  |
| Employer's NI liability  | 6.00 %  | 6.00 %  | 6.00 %  |
| Employer's NI cost   | 0.00 %  | 0.00 %  | 0.00 %  |
| Voluntary leaving over 50 years old                                      | 2.00 %  | 2.00 %  | 2.00 %  |
| Voluntary leaving up to 50 years old                                     | 60.00 % | 60.00 % | 60.00 % |
| Expected statutory early retirement pension (AFP) acceptance from age 62 | K2005   | K2005   | K2005   |
| Mortality, marriage probability, etc.                                    | IR2003  | IR2003  | IR2003  |

| Group  |                 |            | (recalculated) | (recalculated) |
|--|-----------------|------------|----------------|----------------|
| Amounts in NOK million   | 30.09.13        | 30.09.12   | 31.12.12       | 31.12.12       |
| <b>Net pension liabilities in the balance sheet</b>  |                 |            |                |                |
| Present value of future pension liabilities  | 660             | 800        | 660            | 660            |
| Estimated value of pension assets  | 750             | 750        | 750            | 758            |
| Net pension liabilities in fund-based plans  | -90             | 50         | -90            | -98            |
| Unrecognised estimate deviations (possible actuarial gains and losses)                         | 0               | 0          | 0              | -69            |
| Employer's NI contributions  | 1               | 1          | 1              | 1              |
| <b>Net pension liabilities/assets in the balance sheet</b>                                     | <b>-89</b>      | 51         | -89            | -28            |
| <b>Pension costs for the period</b>  | <b>3Q13</b>     | 3Q12       | 2012           | 2012           |
| Accrued defined benefit-based pensions   | 12              | 15         | 21             | 21             |
| Interest costs on pension liabilities  | 18              | 15         | 20             | 20             |
| Expected return on pension assets  | -21             | -15        | -19            | -36            |
| Estimate deviations recognised in the period   |                 |            |                | 11             |
| Effect of changed pension plan   |                 |            |                |                |
| Net defined benefit-based pension costs without employer's NI contributions                    | 9               | 15         | 22             | 16             |
| Accrued employer's NI contributions  | 2               | 1          | 1              | 1              |
| Net defined benefit-based pension costs recognised through profit or loss                      | 11              | 16         | 23             | 17             |
| Curtailed/settlement   |                 |            |                |                |
| Other pension costs  | 15              | 13         | 17             | 17             |
| <b>Total pension costs including employer's NI Insurance contribution</b>                      | <b>26</b>       | 29         | 40             | 34             |
| <b>Movement in net pension liabilities from benefit-based plan recognised in balance sheet</b> | <b>30.09.13</b> | 30.96.2012 | 31.12.12       | 31.12.12       |
| Net pension liabilities in the balance sheet as of 01.01                                       | -89             | -7         | -7             | -7             |
| Correction against equity OB   |                 | 90         |                | 90             |
| Correction against equity CB   |                 |            | -157           |                |
| Net defined benefit-based pension costs recognised through profit or loss                      | 4               | 1          | 23             | 17             |
| Curtailed/settlement   |                 |            |                |                |
| Paid directly from operations  | -1              | -2         | -7             | -7             |
| Receipts - pension premiums defined benefit-based plans  | -11             | -31        | -31            | -31            |
| Net pension liabilities/assets in the balance sheet  | -97             | 51         | -89            | -28            |
| Other pension liabilities (early retirement pensions)  | 46              | 45         | 41             | 41             |
| <b>Net total pension liabilities</b>   | <b>-51</b>      | 96         | -48            | 13             |

## Note 16 Classification of financial instruments stated at fair value

Financial instruments at fair value are classified at different levels:

Level 1 covers financial instruments that are valued using listed prices in active markets for identical assets and liabilities. This level includes listed equities, units, commercial paper and bonds that are traded in active markets.

Level 2 covers instruments that are valued using information that is not listed prices, but where prices are directly or indirectly observable for assets and liabilities, and which also include listed prices in inactive markets. This level includes instruments for which Reuters or Bloomberg publish prices.

Level 3 covers instruments that are valued in manner other than on the basis of observable market data. This includes instruments in which credit margins constitute a material part of the basis for adjusting market value.

### Group

| <i>(Amounts in NOK million)</i>  | Level 1      | Level 2      | Level 3      | Total         |
|--|--------------|--------------|--------------|---------------|
| <b>Assets 30.09.13</b>   |              |              |              |               |
| Loans to and receivables from customers at fair value (fixed-rate loans) |              |              | 7 772        | <b>7 772</b>  |
| Shares   | 77           |              | 339          | <b>416</b>    |
| Bonds  | 4 891        | 5 710        | 30           | <b>10 631</b> |
| Financial derivatives  |              | 1 166        |              | <b>1 166</b>  |
| <b>Total assets</b>  | <b>4 968</b> | <b>6 876</b> | <b>8 141</b> | <b>19 985</b> |

|                                   |  |            |  |            |
|-----------------------------------|--|------------|--|------------|
| <b>Liabilities as of 30.09.13</b> |  |            |  |            |
| Financial derivatives             |  | 689        |  | <b>689</b> |
| <b>Total liabilities</b>          |  | <b>689</b> |  | <b>689</b> |

| <i>Assets 30.09.12</i>   |              |               |            |               |
|--|--------------|---------------|------------|---------------|
| Loans to and receivables from customers at fair value (fixed-rate loans) |              | 6 592         |            | 6 592         |
| Shares   | 70           |               | 171        | 241           |
| Bonds  | 3 590        | 5 352         | 30         | 8 972         |
| Financial derivatives  |              | 1 111         |            | 1 111         |
| <b>Total assets</b>  | <b>3 660</b> | <b>13 055</b> | <b>201</b> | <b>16 916</b> |

| <i>Liabilities as of 30.09.12</i> |          |            |          |            |
|-----------------------------------|----------|------------|----------|------------|
| Financial derivatives             |          | 557        |          | 557        |
| <b>Total liabilities</b>          | <b>0</b> | <b>557</b> | <b>0</b> | <b>557</b> |

| <i>(Amounts in NOK million)</i>       | Financial assets |            |           |                       | Financial liabilities<br>Financial derivatives |
|---------------------------------------|------------------|------------|-----------|-----------------------|--|
|                                       | Fixed-rate loans | Shares     | Bonds     | Financial derivatives |  |
| Carrying amount as of 30.09.12        |                  | 171        | 30        |                       | 0  |
| Net gains on financial instruments    | 38               | 56         |           |                       |  |
| Additions/acquisitions                | 1 990            | 112        |           |                       |  |
| Disposals                             | - 848            |            |           |                       |  |
| Transferred from level 1 or level 2   | 6 592            |            |           |                       |  |
| <b>Carrying amount as of 30.09.13</b> | <b>7 772</b>     | <b>339</b> | <b>30</b> | <b>0</b>              | <b>0</b>                                       |

**Note 17 - Subsidiaries**
*(Amounts in NOK 1 000)*

|  | Share of Eq.% | Profit from ordinary operations<br>before tax |          |          | Equity         |          |          |
|--|---------------|---|----------|----------|----------------|----------|----------|
|  |               | 30.09.13                                      | 30.09.12 | 31.12.12 | 30.09.13       | 30.09.12 | 31.12.12 |
| SpareBank 1 Finans Nord-Norge AS   | 100           | <b>72 051</b>                                 | 51 649   | 75 575   | <b>489 357</b> | 324 074  | 374 038  |
| SpareBank 1 Nord-Norge Invest AS   | 100           | <b>-25 337</b>                                | -130 216 | -147 523 | <b>13 519</b>  | -35 767  | 17 378   |
| EiendomsMegler 1 Nord-Norge AS   | 100           | <b>15 435</b>                                 | 8 726    | 7 291    | <b>35 801</b>  | 30 307   | 29 236   |
| SpareBank 1 Nord-Norge Forvaltning ASA   | 100           | <b>1 546</b>                                  | 809      | 1 259    | <b>6 794</b>   | 6 262    | 6 589    |
| SpareBank 1 Regnskapshuset Nord-Norge AS<br>(including result from subsidiaries) | 100           | <b>5 733</b>                                  | - 899    | -1 163   | <b>17 311</b>  | 6 453    | 6 401    |
| North-West 1 Alliance Bank   | 75            | <b>164</b>                                    | 485      | 647      | <b>64 026</b>  | 62 774   | 62 774   |
| EiendomsMegler 1 Lofoten AS (owned by EM1 60%)                                   | 60            | <b>112</b>                                    | 0        | - 285    | <b>811</b>     | 992      | 1 109    |
| <b>Total</b>   |               | <b>69 704</b>                                 | -69 446  | -64 199  | <b>627 619</b> | 395 095  | 497 525  |

**Note 18 - Other assets**
*(Amounts in NOK million)*

| Parent Bank |          |            |                           | Group        |          |          |
|-------------|----------|------------|---------------------------|--------------|----------|----------|
| 31.12.12    | 30.09.12 | 30.09.13   |                           | 30.09.13     | 30.09.12 | 31.12.12 |
| 7           | 7        | <b>10</b>  | Reposessed assets         | <b>10</b>    | 0        | 7        |
| 323         | 348      | <b>277</b> | Accrued income            | <b>316</b>   | 385      | 357      |
| 159         | 57       | <b>172</b> | Prepayments               | <b>183</b>   | 65       | 167      |
| 293         | 281      | <b>484</b> | Other assets              | <b>525</b>   | 291      | 293      |
| 782         | 693      | <b>943</b> | <b>Total other assets</b> | <b>1 034</b> | 741      | 824      |

**Note 19 - Other liabilities**

| 31.12.12 | 30.09.12 | 30.09.13     |   | 30.09.13       | 30.09.12     | 31.12.12 |
|----------|----------|--------------|---|----------------|--------------|----------|
| 426      | 930      | <b>909</b>   |   | Costs incurred | <b>1 056</b> | 1 072    |
| 0        | 84       | <b>0</b>     | Provisioning against incurred liabilities and costs | <b>12</b>      | 89           | 4        |
| 413      | 465      | <b>467</b>   | Other liabilities                                   | <b>478</b>     | 494          | 460      |
| 839      | 1 479    | <b>1 376</b> | <b>Total other liabilities</b>                      | <b>1 546</b>   | 1 655        | 1 021    |

**Note 20 - Deposits broken down by sector and industry**
*(Amounts in NOK million)*

| Parent Bank |          |          |  | Group         |          |          |
|-------------|----------|----------|--|---------------|----------|----------|
| 31.12.12    | 30.09.12 | 30.09.13 |  | 30.09.13      | 30.09.12 | 31.12.12 |
| 33          | 33       | 33       | Mining and quarrying   | 33            | 33       | 33       |
| 948         | 890      | 1 032    | Construction   | 1 032         | 890      | 948      |
| 1           | 2        | 2        | Building of ships and boats  | 2             | 2        | 2        |
| 853         | 804      | 740      | Electricity, gas, steam an air conditioning supply                   | 740           | 804      | 853      |
| 1 155       | 1 131    | 1 095    | Professional, scientific and technical activities                    | 1 095         | 1 131    | 1 155    |
| 0           | 0        | 0        | Financial and insurance activities                                   | 0             | 0        | 0        |
| 731         | 662      | 599      | Fishing  | 599           | 662      | 731      |
| 45          | 16       | 15       | Marine aquaculture   | 15            | 16       | 45       |
| 325         | 342      | 346      | Other business support activities                                    | 346           | 342      | 325      |
| 397         | 442      | 422      | Activities auxiliary to financial services and insurance activities  | 420           | 459      | 412      |
| 5 873       | 5 914    | 5 364    | County municipalities and municipalities                             | 5 364         | 5 914    | 5 871    |
| 447         | 444      | 379      | Manufacturing  | 379           | 444      | 447      |
| 229         | 287      | 241      | Information and communication  | 241           | 287      | 229      |
| 353         | 373      | 371      | Crop and animal production   | 371           | 373      | 353      |
| 27          | 31       | 27       | Foreign industrial   | 42            | 31       | 50       |
| 1 360       | 1 465    | 1 562    | Real estate activities   | 1 562         | 1 465    | 1 360    |
| 235         | 288      | 261      | Accommodation and food service activities                            | 261           | 287      | 235      |
| 11          | 11       | 12       | Forestry and logging   | 12            | 11       | 11       |
| 2 378       | 2 384    | 2 102    | Central government and social security funds                         | 2 102         | 2 384    | 2 378    |
| 0           | 0        | 0        | Support activities for petroleum and natural gas extraction          | 0             | 0        | 1        |
| 2 228       | 2 261    | 2 224    | Other service industries   | 2 224         | 2 260    | 2 228    |
| 522         | 610      | 753      | Transportation and storage   | 753           | 610      | 522      |
| 15          | 17       | 46       | International shipping and pipeline transport                        | 46            | 17       | 15       |
| 173         | 397      | 187      | Development of building projects                                     | 187           | 197      | 173      |
| 450         | 195      | 450      | Extraction of crude oil and natural gas                              | 450           | 395      | 450      |
| 0           | 0        | 0        | Unspecified  | 0             | 0        | 0        |
| 211         | 179      | 198      | Water supply; sewerage, waste management and remediation activities  | 198           | 179      | 211      |
| 1 235       | 1 176    | 1 170    | Wholesale and retail trade; repair of motor vehicles and motorcycles | 1 170         | 1 176    | 1 235    |
| 23 014      | 22 608   | 23 938   | Retail banking market - domestic                                     | 23 938        | 22 608   | 23 014   |
| 301         | 288      | 331      | Retail banking market - international                                | 356           | 289      | 301      |
| 23 315      | 22 896   | 24 269   | Total retail market  | 24 294        | 22 897   | 23 315   |
| 11 984      | 12 056   | 12 165   | Total public market  | 12 178        | 12 071   | 12 024   |
| 8 251       | 8 298    | 7 466    | Total government   | 7 466         | 8 298    | 8 249    |
| 43 550      | 43 250   | 43 900   | <b>Total deposits</b>  | <b>43 938</b> | 43 266   | 43 588   |

**Note 21 - Securities issued and subordinated loan capital**
**Parent Bank and Group**
*(Amounts in NOK million)*
**Securities issued**

|  | 31.12.12 | 30.09.12 | 30.09.13 |
|--|----------|----------|----------|
| Certificates and other short-term borrowings |          |          |          |
| Bond debt                                    | 16 534   | 17 321   | 15 386   |
| <b>Total debt securities in issue</b>        | 16 534   | 17 321   | 15 386   |

|  | Statement of financial position<br>31.12.12 | Issued<br>30.09.13 | Matured/<br>redeemed<br>30.09.13 | Exchange rate<br>movements<br>30.09.13 | Other<br>adjustments<br>30.09.13 | Statement of financial position<br>30.09.13 |
|--|---|--------------------|----------------------------------|--|----------------------------------|---|
| Changes in securities issued                 |   |                    |                                  |  |                                  |   |
| Certificates and other short-term borrowings |   |                    |                                  |  |                                  |   |
| Bond debt                                    | 16 534                                      | 2 056              | -3 287                           | 131                                    | - 48                             | 15 386                                      |
| <b>Total debt securities issued</b>          | 16 534                                      | 2 056              | -3 287                           | 131                                    | - 48                             | 15 386                                      |

**Subordinated loan capital and hybrid Tier 1 instruments**

|  | 31.12.12 | 30.09.12 | 30.09.13 |
|--|----------|----------|----------|
| <b>Hybrid Tier 1 instruments</b>                                     |          |          |          |
| 2033 6 mnd Nibor + 2,30 (USD 60 mill.) (Call opsj 2013)              | 370      | 370      |          |
| 2099 3 mnd Nibor + 4,75 (Call opsjon 2017)                           | 500      |          | 500      |
| Hybrid Tier 1 instruments - foreign currency                         | - 34     | - 11     |          |
| Total hybrid Tier 1 instruments                                      | 836      | 359      | 500      |
| <b>Subordinated loan capital</b>                                     |          |          |          |
| Subordinated loan capital with definite maturities                   | 1 259    | 996      | 950      |
| Total subordinated loan capital                                      | 1 259    | 996      | 950      |
| <b>Total subordinated loan capital and hybrid Tier 1 instruments</b> | 2 095    | 1 355    | 1 450    |

|  | Statement of financial position<br>31.12.12 | Issued<br>30.09.13 | Matured/<br>redeemed<br>30.09.13 | Exchange rate<br>movements<br>30.09.13 | Other<br>adjustments<br>30.09.13 | Statement of financial position<br>30.09.13 |
|--|---|--------------------|----------------------------------|--|----------------------------------|---|
| Changes in subordinated loan capital and hybrid Tier 1 instruments   |   |                    |                                  |  |                                  |   |
| Subordinated loan capital with definite maturities                   | 1 259                                       |                    | - 309                            |  |                                  | 950   |
| Hybrid Tier 1 instruments  | 836   |                    | - 370                            | 34                                     |                                  | 500   |
| <b>Total subordinated loan capital and hybrid Tier 1 instruments</b> | 2 095                                       |                    | - 679                            | 34                                     |                                  | 1 450                                       |

## Note 22 - Equity Certificates (ECs)

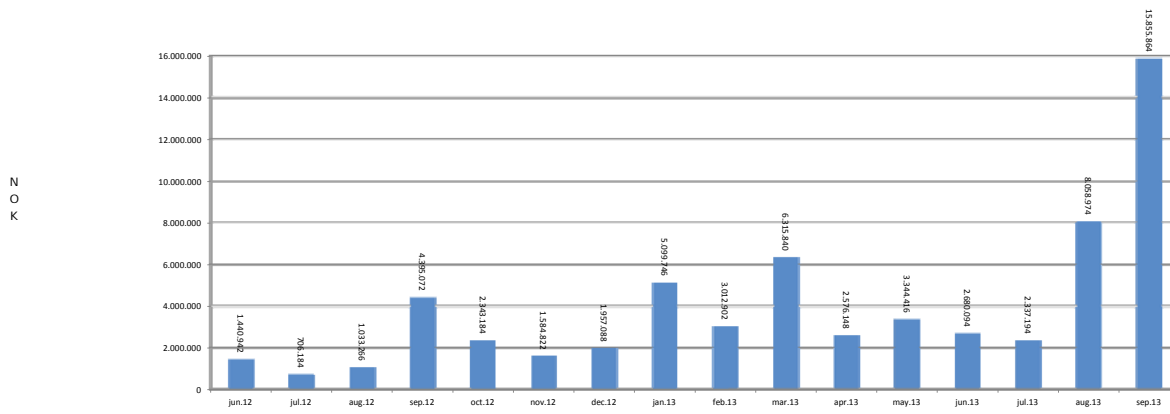
The 20 largest EC holders as at 30.09.13

| EC Holders                                 | Number of ECs     | Share of EC Capital |
|--|-------------------|---------------------|
| Pareto Aksje Norge                         | 3 489 005         | 5.19%               |
| MP Pensjon PK                              | 1 766 431         | 2.67%               |
| Pareto Aktiv                               | 1 458 279         | 2.20%               |
| Citibank N.A.                              | 1 410 210         | 2.09%               |
| Frank Mohn A/S                             | 1 355 745         | 2.05%               |
| Tonsenhagen Forretningssentrum AS          | 1 134 493         | 1.99%               |
| Sparebankstiftelsen Sparebank 1 Nord-Norge | 916 561           | 1.71%               |
| Framo Developments AS                      | 848 925           | 1.38%               |
| Morgan Stanley & Co LLC                    | 804 081           | 1.28%               |
| Pareto Verdi VPF                           | 745 324           | 1.16%               |
| Forsvarets Personellservice                | 694 554           | 0.94%               |
| Sparebank 1 SR-Bank Pensjonskasse          | 590 946           | 0.89%               |
| Sparebankstiftelsen DnB NOR                | 545 614           | 0.82%               |
| Mohn, Trond                                | 509 354           | 0.77%               |
| Renterisiko AS                             | 507 151           | 0.75%               |
| Consept Eiendom AS                         | 480 169           | 0.73%               |
| Ditlefsen, Karl                            | 459 243           | 0.70%               |
| Norges Råfisklag                           | 438 587           | 0.69%               |
| Troms Kraft AS                             | 409 224           | 0.66%               |
| Nordenfjelske Bykreditts Stiftelse         | 370 708           | 0.66%               |
| <b>TOTAL</b>                               | <b>18 934 604</b> | <b>28.60%</b>       |

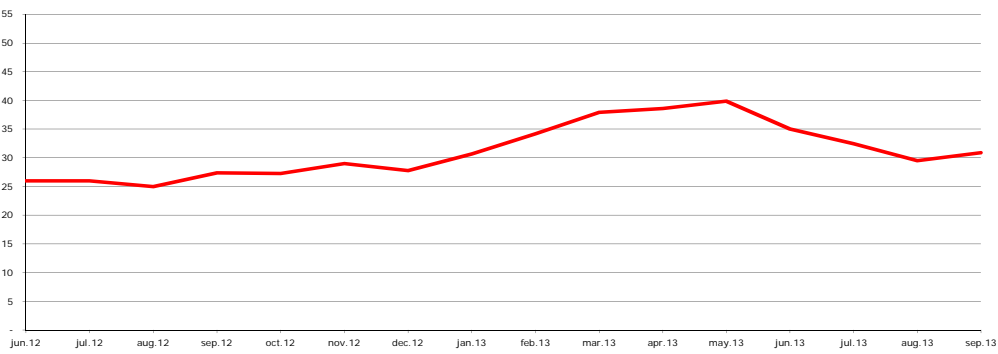
### Dividend policy

In consideration of the Bank's solidity, the Bank anticipates that up to 50% of the profit for the year can be distributed as a dividend (cash dividends and donations to charitable causes). In years to come dividend most likely will be lower due to increased regulatory requirements.

Trading statistics



Price trend NONG



Note 23 - Events occurring after the end of the quarter

On 9 September 2013, the bank's Supervisory Board decided to strengthen the bank's equity through a rights issue of up to NOK 750 million. A successful rights issue for the same amount was thus carried out at the end of September. At the same time, a private placement with a discount was carried out with the Group's employees. The latter raised gross proceeds of NOK 22.8 million. The due date for payments for the new equity was 8 October 2013 and the new capital will be recognised in the fourth quarter 2013.