

2016

ANNUAL REPORT



Photo: Marius Fiskum

Cover photo

Fisheries for generations

Ingvard Lorentzen is a fourth generation fish buyer at Brensholmen outside Tromsø. The company was established by his great grandfather in 1896. Ingvard succeeded his father in 2002. The company Ivan Lorentzen Fiskeforretning AS is particularly well-known for its award-winning lutefisk.

ANNUAL REPORT 2016

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IT STARTED HERE: SpareBank 1 Nord-Norge's history started with the establishment of Tromsø Sparebank in 1836 – the first savings bank in the region. Today's SpareBank 1 Nord-Norge is the result of the merger of about 40 savings banks in Northern Norway. The picture shows director Just Quigstad in the Bank's customer premises, with accountant Einar Olsen and others.

HISTORICAL BACKGROUND

38

SpareBank 1 Nord-Norge has 38 offices spread across 36 municipalities in Northern Norway and Svalbard. Over 80% of the population of Northern Norway therefore have at least one of the bank branches in their municipality.

40

SpareBank 1 Nord-Norge is the result of the merger of 40 savings banks in Nordland, Troms and Finnmark.

1836

SpareBank 1 Nord-Norge's history started with the establishment of Tromsø Sparebank in 1836. Many of the region's small savings banks merged in the 1960s and 1970s.

1989

The wave of mergers culminated with the establishment of Sparebanken Nord-Norge on 1 July 1989, when Tromsø Sparebank and Sparebanken Nord came together. Later on, Nordkapp Sparebank (1991) and Sparebanken Nordland (1992) also became part of the regional bank.

1996

In 1996 the Bank became part of the SpareBank 1 Alliance - a group of four regional banks and 16 smaller savings banks. These banks collectively own SpareBank 1 Gruppen AS, which is a supplier of various financial products and services.

The SpareBank 1 Alliance and SpareBank 1 Gruppen have played a very important role in SpareBank 1 Nord-Norge growing into a solid, strong bank with its vision 'For Northern Norway'.

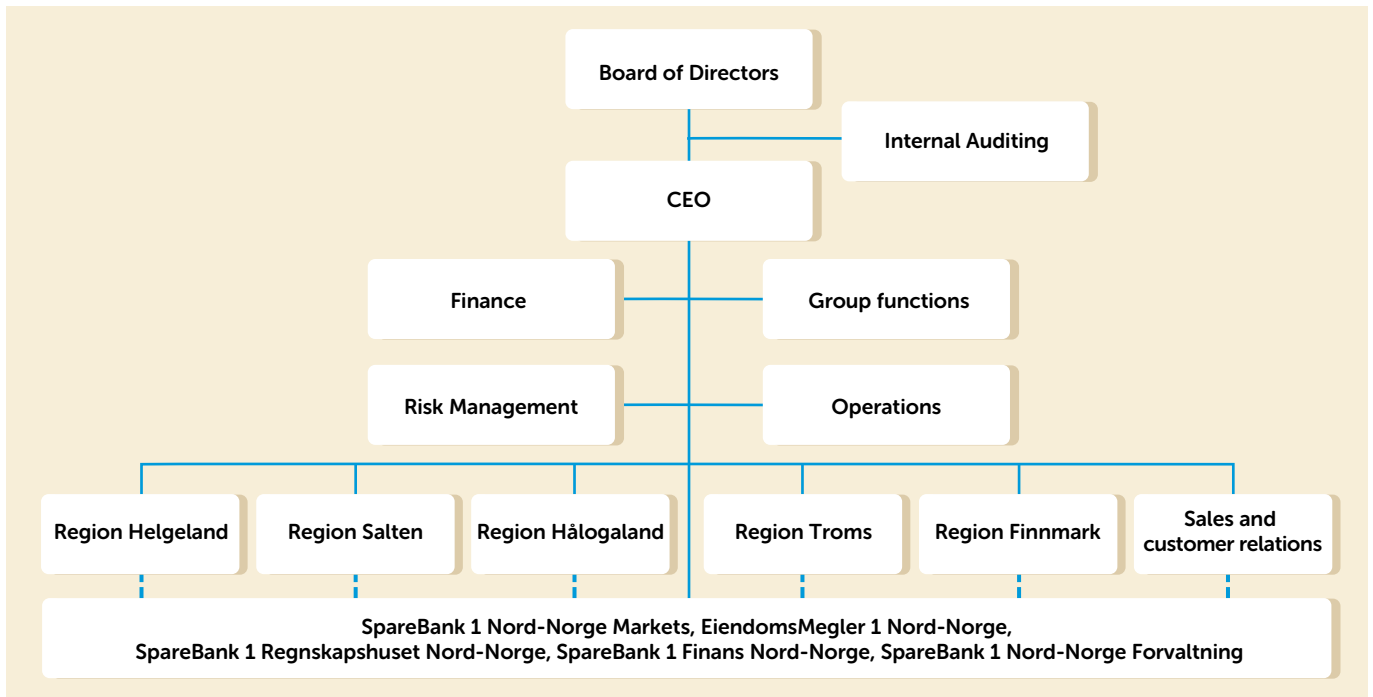
2014

In 2014, the history of SpareBank 1 Nord-Norge was published by Orkana Forlag. The two volumes were written by historians Oddvar Svendsen and Ketil Zachariassen.

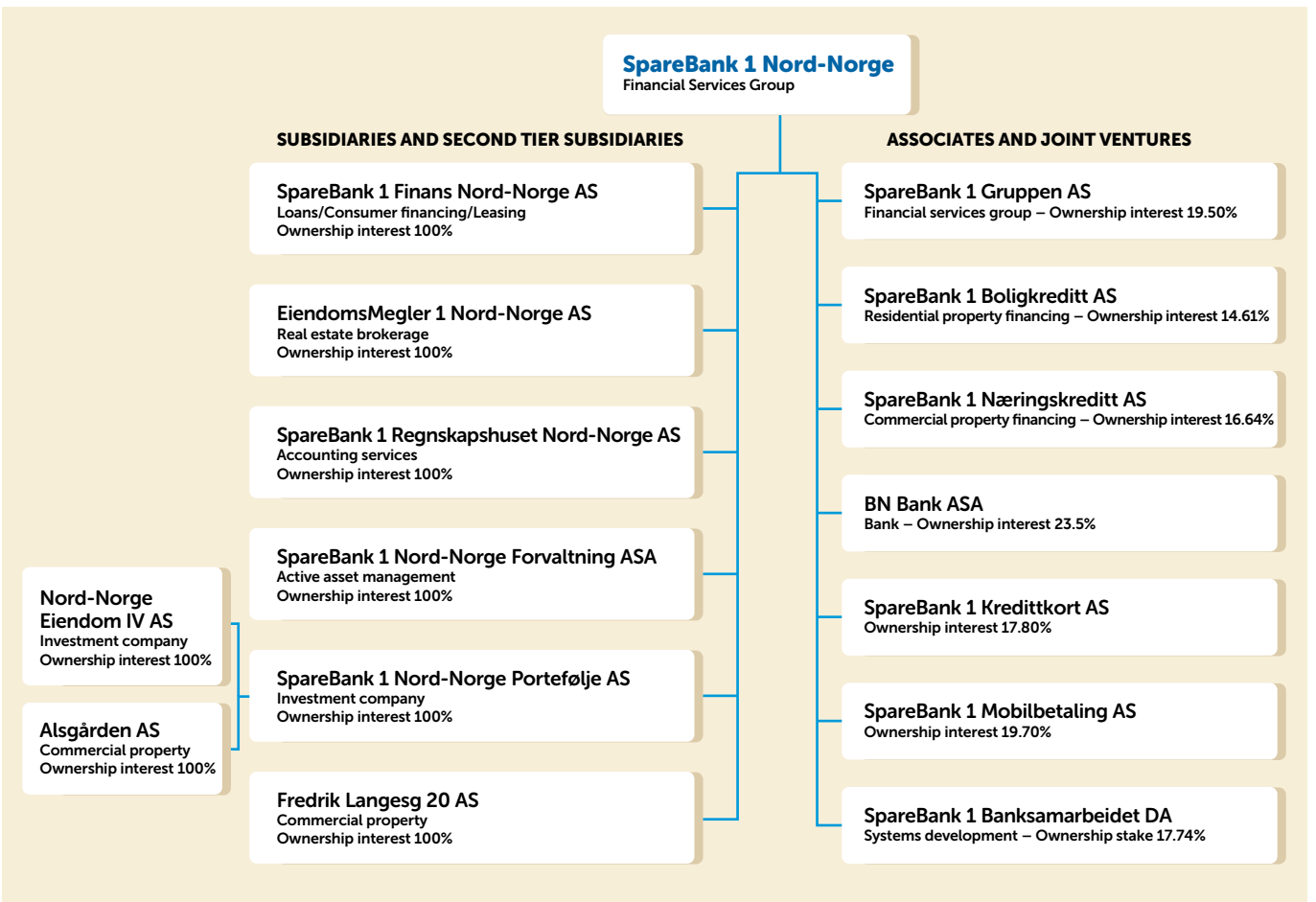
2016

2016 brought SpareBank 1 Nord-Norge's first digital robots, which the Group calls digital assistants. These now perform tasks that used to be done manually, and reduce the time spent while maintaining quality.

ORGANISATIONAL CHART



ORGANISATION OF THE FINANCIAL SERVICES GROUP



ANNUAL REPORT

FINANCIAL RESULTS

Amounts in NOK million	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net interest income	1 075	1 320	1 173	1 129	1 129	1 166	1 285	1 426	1 512	1 644
Commission income and other income	416	411	462	513	506	656	931	966	933	924
Net return on financial investments	175	-84	524	404	184	260	346	602	249	509
Total income	1 666	1 647	2 159	2 046	1 819	2 082	2 562	2 994	2 694	3 077
Personnel costs	457	463	508	477	514	581	638	704	850	689
Other operating expenses	415	508	464	480	522	539	571	624	611	631
Total operating expenses	872	971	972	957	1 036	1 120	1 209	1 328	1 461	1 320
Result before losses	794	676	1 187	1 089	783	962	1 353	1 666	1 233	1 757
Loss on loans, guarantees etc.	65	183	185	87	101	195	172	321	200	213
Result before tax	729	493	1 002	1 002	682	767	1 181	1 345	1 033	1 544
Tax charge	172	143	143	186	157	172	214	223	163	291
Result non-current assets held for sale								-27	-5	
Minority interests							1	-1	-7	
Net profit	557	350	859	816	525	595	966	1 096	872	1 253

BALANCE SHEET

Amounts in NOK million	31.12.07	31.12.08	31.12.09	31.12.10	31.12.11	31.12.12	31.12.13	31.12.14	31.12.15	31.12.16
Cash and loans to and claims on credit institutions	980	3 433	3 067	3 294	2 866	2 142	2 047	4 405	2 398	2 721
CDs, bonds and other interest-bearing securities	4 511	7 228	9 453	12 178	11 841	12 997	11 919	12 314	13 693	11 860
Loans and advances to customers	41 638	51 268	48 180	49 046	51 642	54 551	57 282	61 249	64 053	70 763
Individual write-downs for impaired value	264	201	228	271	206	303	244	171	169	154
Collective write-downs for impaired value	217	204	238	200	226	198	209	236	247	373
Other assets	1 501	3 578	3 539	4 262	4 683	5 639	6 272	5 627	5 675	5 684
Total assets	48 630	65 507	64 239	68 780	71 032	75 329	77 520	83 188	85 403	90 501
Deposits from credit institutions	1 773	3 708	6 868	6 123	6 446	4 295	4 284	2 758	1 816	818
Deposits from customers	25 350	34 572	34 877	39 389	41 765	43 588	44 940	45 761	48 087	53 870
Debt securities in issue	15 668	19 746	14 162	14 477	13 342	16 534	16 336	21 116	21 470	21 165
Other liabilities	1 603	1 562	1 564	1 774	1 767	1 936	2 008	2 861	2 719	2 287
Subordinated loan capital	1 289	1 461	1 608	1 347	1 356	2 095	1 450	1 350	1 350	1 350
Total equity	2 947	4 458	5 160	5 670	6 356	6 881	8 502	9 342	9 961	11 011
Total liabilities and equity	48 630	65 507	64 239	68 780	71 032	75 329	77 520	83 188	85 403	90 501

KEY FIGURES

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Return on equity capital	20.5 %	8.1 %	18.2 %	15.3 %	8.5 %	9.0 %	13.0 %	12.2 %	9.1 %	12.0 %
Cost/income group	52.3 %	59.0 %	45.0 %	46.8 %	57.0 %	53.8 %	47.2 %	44.4 %	54.2 %	42.9 %
Cost/income group, ex. financial inv.	58.5 %	56.1 %	59.4 %	58.3 %	63.4 %	61.5 %	54.6 %	55.5 %	59.8 %	42.1 %
Cost/income Parent Bank	51.6 %	62.6 %	46.8 %	50.1 %	57.6 %	51.8 %	44.0 %	46.4 %	52.4 %	35.4 %
Cost/income Parent Bank, ex. financial inv.	54.4 %	50.0 %	54.8 %	53.3 %	58.8 %	57.3 %	46.5 %	48.7 %	50.0 %	34.5 %
12-month cost growth	9.5 %	0.9 %	0.1 %	-1.5 %	8.3 %	8.1 %	7.9 %	8.2 %	1.4 %	-2.4 %
Gross loans to customers*	41 638	56 806	59 061	63 334	68 034	75 914	80 581	84 980	88 403	96 287
Growth in loans last 12 months*	9.8 %	8.0 %	4.0 %	7.2 %	7.4 %	11.6 %	6.1 %	5.5 %	4.0 %	8.9 %
Growth in loans last 12 months	9.8 %	2.1 %	-6.0 %	1.8 %	5.3 %	5.6 %	5.0 %	6.9 %	4.6 %	10.5 %
Deposits from customers	25 350	34 572	34 877	39 389	41 765	43 588	44 940	45 761	48 087	53 870
Growth in deposits last 12 months	10.2 %	7.9 %	0.9 %	12.9 %	6.0 %	-1.3 %	3.1 %	1.8 %	5.1 %	12.0 %
Share of loans transferred to Sp 1 Boligkreditt of total loans to retail customers		14.7 %	26.7 %	32.3 %	35.0 %	41.1 %	40.8 %	39.7 %	38.2 %	36.7 %
Share of loans transferred to Sp 1 Boligkreditt of total loans to customers		9.8 %	18.4 %	22.6 %	24.1 %	28.1 %	28.5 %	27.9 %	27.5 %	26.5 %
Deposits as a percentage of gross lending*	60.9 %	60.9 %	59.1 %	62.2 %	61.4 %	54.3 %	55.8 %	53.8 %	54.4 %	55.9 %
Deposits as a percentage of gross lending	60.9 %	67.4 %	72.4 %	80.3 %	80.9 %	75.6 %	78.5 %	74.7 %	75.1 %	76.1 %
Total assets	48 630	65 507	64 239	68 780	71 032	75 329	77 520	83 188	85 403	90 501
Average assets	44 911	61 267	65 169	66 245	70 291	72 921	75 952	80 191	84 039	89 168
Branches	85	81	76	75	75	74	74	74	62	38
Number of man-years (Group)	778	821	778	788	794	881	922	927	830	774
Number of man-years (Parent Bank)	714	724	690	675	670	672	647	639	618	510
Number of man-years (subsidiaries)	64	97	88	113	124	209	275	288	212	264
Net other operating income as % of total income	25.0 %	25.0 %	21.4 %	25.1 %	27.8 %	31.5 %	36.3 %	32.3 %	34.6 %	30.0 %
Common equity Tier 1 Capital (CET 1 Capital)								7 752	8 367	9 155
Common equity Tier 1 Capital (CET 1 Capital) %								12.5 %	13.9 %	15.0 %
Tier I capital	3 037	4 229	4 846	5 334	6 002	6 672	7 783	8 439	9 110	9 951
Tier I Capital %	9.6 %	9.5 %	10.7 %	10.9 %	11.6 %	12.1 %	13.4 %	13.6 %	15.1 %	16.3 %
Equity and related capital resources	3 464	4 789	5 776	5 849	6 465	7 270	8 069	9 680	10 358	11 229
Total regulatory Capital %	10.9 %	10.8 %	12.8 %	11.9 %	12.5 %	13.2 %	13.9 %	15.6 %	17.2 %	18.4 %
Total risk-weighted assets	35 594	44 565	45 250	48 966	51 704	55 098	57 989	61 925	60 328	61 120
Leverage ratio								5.9 %	6.1 %	7.0 %
Losses on loans to customers as % of gross loans incl. agency loans*	0.16 %	0.32 %	0.31 %	0.14 %	0.15 %	0.26 %	0.21 %	0.19 %	0.22 %	0.20 %
Non-perf. commitm. as % of gross loans*	0.60 %	0.80 %	0.97 %	0.78 %	0.69 %	0.52 %	0.60 %	0.34 %	0.30 %	0.31 %
Other doubtful commitm. as % of gross loans*	1.71 %	0.53 %	0.39 %	0.60 %	0.50 %	0.78 %	0.46 %	0.27 %	0.27 %	0.22 %
Net commitments in default and at risk of loss as % of gross loans*		0.96 %	0.96 %	0.93 %	0.87 %	0.89 %	0.75 %	0.41 %	0.39 %	0.37 %
Loan loss provision ratio	46.89 %	26.59 %	28.39 %	34.15 %	25.46 %	30.64 %	28.41 %	32.82 %	32.82 %	30.08 %

*) Gross loans to customers includes SpareBank 1 Boligkreditt and Næringskreditt.

Otherwise we refer to the section of the annual report "Ownership" where all key figures related to ECs emerges.

ANNUAL REPORT - GROUP PROFIT ANALYSIS

Amounts in NOK million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
FROM PROFIT AND LOSS ACCOUNT										
Interest income	2 548	2 702	2 998	2 990	2 845	2 823	2 549	2 763	4 334	3 250
Interest costs	904	1 190	1 572	1 705	1 679	1 694	1 420	1 590	3 014	2 044
Net interest income	1 644	1 512	1 426	1 285	1 166	1 129	1 129	1 173	1 320	1 206
Dividend and other income from investments	440	407	469	330	227	209	294	304	293	242
Fees and commissions receivable	871	908	940	892	686	567	590	526	478	502
Fees and commissions payable	85	75	74	75	74	80	85	88	84	65
Net gain/loss on securities and foreign exchange	69	-158	133	16	33	-25	110	220	-377	-41
Other operating income	138	100	100	114	44	19	8	24	17	28
Net overall contribution	3 077	2 694	2 994	2 562	2 082	1 819	2 046	2 159	1 647	1 872
Wages, salaries and general administration costs	1 066	1 218	1 053	975	900	827	758	792	767	766
Depreciation etc. on fixed- and intangible assets	60	56	97	53	54	47	45	49	62	55
Other operating costs	194	187	178	181	166	162	154	131	142	134
Result before losses	1 757	1 233	1 666	1 353	962	783	1 089	1 187	676	917
Losses on loans and guarantees	213	200	321	172	195	101	87	185	183	17
Profit before tax	1 544	1 033	1 345	1 181	767	682	1 002	1 002	493	900
Tax	291	163	223	214	172	157	186	143	143	193
Result non-current assets held for sale	0	-5	-27							
Profit for the year	1 253	865	1 095	967	595	525	816	859	350	707
Minority interests	0	-7	-1	1	0	0	0	1	2	4
Majority interests	1 253	872	1 096	966	595	525	816	858	348	703

In % of average assets										
FROM PROFIT AND LOSS ACCOUNT										
Interest income	2.86 %	3.22 %	3.74 %	3.94 %	3.90 %	4.02 %	3.85 %	3.91 %	4.51 %	5.61 %
Interest costs	1.01 %	1.42 %	1.96 %	2.24 %	2.30 %	2.41 %	2.14 %	2.18 %	2.60 %	3.53 %
Net interest income	1.84 %	1.80 %	1.78 %	1.69 %	1.60 %	1.61 %	1.70 %	1.73 %	2.15 %	2.08 %
Dividend and other income from investments	0.49 %	0.48 %	0.58 %	0.43 %	0.31 %	0.30 %	0.44 %	0.47 %	0.50 %	0.42 %
Fees and commissions receivable	0.98 %	1.08 %	1.17 %	1.17 %	0.94 %	0.81 %	0.89 %	0.81 %	0.86 %	0.87 %
Fees and commissions payable	0.10 %	0.09 %	0.09 %	0.10 %	0.10 %	0.11 %	0.13 %	0.14 %	0.14 %	0.11 %
Net gain/loss on securities and foreign exchange	0.08 %	-0.19 %	0.17 %	0.02 %	0.05 %	-0.04 %	0.17 %	0.17 %	0.36 %	-0.07 %
Other operating income	0.15 %	0.12 %	0.12 %	0.15 %	0.06 %	0.03 %	0.01 %	0.04 %	0.04 %	0.05 %
Net overall contribution	3.45 %	3.21 %	3.73 %	3.37 %	2.86 %	2.59 %	3.09 %	3.14 %	2.69 %	3.23 %
Wages, salaries and general administration costs	1.20 %	1.45 %	1.31 %	1.28 %	1.23 %	1.18 %	1.14 %	1.22 %	1.29 %	1.32 %
Depreciation etc. on fixed- and intangible assets	0.07 %	0.07 %	0.12 %	0.07 %	0.07 %	0.07 %	0.07 %	0.08 %	0.08 %	0.09 %
Other operating costs	0.22 %	0.22 %	0.22 %	0.24 %	0.23 %	0.23 %	0.23 %	0.20 %	0.21 %	0.23 %
Result before losses	1.97 %	1.47 %	2.08 %	1.78 %	1.32 %	1.11 %	1.64 %	1.82 %	1.10 %	1.58 %
Losses on loans and guarantees	0.24 %	0.24 %	0.40 %	0.23 %	0.27 %	0.14 %	0.13 %	0.28 %	0.30 %	0.03 %
Profit before tax	1.73 %	1.23 %	1.68 %	1.55 %	1.05 %	0.97 %	1.51 %	1.54 %	0.80 %	1.55 %
Tax	0.33 %	0.19 %	0.28 %	0.28 %	0.24 %	0.22 %	0.28 %	0.22 %	0.23 %	0.33 %
Result non-current assets held for sale		-0.01 %								
Profit for the year	1.41 %	1.03 %	1.37 %	1.27 %	0.82 %	0.75 %	1.23 %	1.32 %	1.40 %	1.22 %
Minority interests	0.00 %	-0.01 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.01 %
Majority interests	1.41 %	1.04 %	1.37 %	1.27 %	0.82 %	0.75 %	1.23 %	1.32 %	1.40 %	1.21 %

IMPORTANT EVENTS IN 2016



North West 1 Alliance Bank sold

In January, SpareBank 1 Nord-Norge sold all of its shares in North West 1 Alliance Bank in Russia. The Group entered the Russian banking market in 2008. The intention was to support companies from Northern Norway with operations in the neighbouring country. Under new management, and as a part of a new strategy, SpareBank 1 Nord-Norge decided in 2013 to scale down these activities. Following the sale of North-West 1 Alliance Bank, SpareBank 1 Nord-Norge has ceased its banking operations in Russia.



Enhanced Business Barometer for Northern Norway

The Business Barometer for Northern Norway has provided knowledge of the region for 20 years. In April, SpareBank 1 Nord-Norge invited the Confederation of Norwegian Enterprise (NHO) and the Norwegian Confederation of Trade Unions (LO) to form a partnership to run the Barometer. The same players own Agenda Nord-Norge and aim to promote greater knowledge of Northern Norway. The three owners have tasked Agenda Nord-Norge with managing the Barometer for the next three years.



Bodøfest

Bodø celebrated its bicentenary in May. SpareBank 1 Nord-Norge's gift to the city was to organise the Bodøfest – an anniversary concert right in the centre of Bodø. 34,000 people came to celebrate the city's birthday together with artists including the Arctic Philharmonic, Travis, Sondre Justad Halvdan Sivertsen, Kari Bremnes and Marcus & Martinus.

Oppdrag Nord-Norge

Over the same weekend, 650 SpareBank 1 Nord-Norge employees travelled to Bodø to attend the internal gathering 'Oppdrag Nord-Norge' ('Project Northern Norway'). The Group's staff contributed to the birthday party by hosting the Bodøfest and doing voluntary work in and for the city. Among other things, the Group's employees organised separate birthday celebrations in some of the city's nursing homes.



Closing the smallest branches

In March, SpareBank 1 Nord-Norge announced that 21 of the smallest branches would close. Most of them had been staffed with one full-time equivalent or less, and had limited opening hours in recent years. No staff lost their jobs as a result of the closures.

This left 38 offices in 35 municipalities, which are home to 82% of the population of Northern Norway. The Bank has established 16 financial centres with defined market sectors and associated banking offices. The financial centres cover the whole of the Group's product portfolio, and have been granted extended powers.



Prize for putting finance on the timetable

In August SpareBank 1 Nord-Norge won the 'Finansstafetten 2016', awarded by Finance Norway, after teaching record numbers of school pupils about personal finance. The prize was presented at Finance Norway's school conference for finance companies.

In the 2015/2016 school year, employees from SpareBank 1 Nord-Norge presented to 1,584 9th grade pupils in Troms. Employees from the Bank have been going out into the schools since 2011 to talk about career choices, budgets, banking and insurance.



VISION AND BUSINESS CONCEPT

The region's own bank

SpareBank 1 Nord-Norge is a leading provider of financial services within the retail banking and corporate banking markets in Northern Norway. The company's corporate vision and business concept is set out below.

The Bank's vision is
For Northern Norway!

This means that SpareBank 1 Nord-Norge wants to be known as:

- The region's own bank
- A Group that creates value in, and invests it back into,
- Northern Norway
- Close and competent
 - with decisions taken on a local level
- Financially sound, generous and people-oriented - rich in tradition, yet modern
- A driving force behind the development of Northern Norway
 - we care about you!

Business concept

SpareBank 1 Nord-Norge provides comprehensive, modern financial solutions to customers based in the northern Norwegian market.

SpareBank 1 Nord-Norge wants to be a bank that renews itself for the benefit of the people and businesses in Northern Norway. A bank that will be aggressive and thought of as a clear alternative to national and international competitors.

SpareBank 1 Nord-Norge is an attractive workplace with a corporate culture characterised by dynamic training, a will to win, and a willingness to work together towards a common goal. The Bank's operations are based on strict requirements concerning integrity and business ethics.

SpareBank 1 Nord-Norge is an independent financial services Group within the SpareBank 1 Alliance.

SpareBank 1 Nord-Norge has two shareholder groups: 46.4 % is owned via the Oslo Stock Exchange, while 53.6 % is owned by the North Norwegian community. This ownership model underpins the company's North Norwegian profile and strong position in the region, including through the allocation of dividends to the North Norwegian community.



Photo: Marius Fiskum

FROM THE CEO

2016 was a very good year for SpareBank 1 Nord-Norge. At the same time, the Group took some tough measures. 2016 was the year when SpareBank 1 Nord-Norge completed the journey back to its core business. The Group put its Russian adventure behind it, selling its interest in the Nord II investment fund. It also completed the headcount reductions that started in 2015 and led to the removal of 150 posts. In the course of the year, 21 local bank branches were closed, while 16 financial centres were set up. The changes mean that the Group is even better equipped to face the future.

There is no doubt that this journey has been challenging. But we have completed it with the help of a clear strategy and motivated and skilled staff. The fact that the Group can report total absence through sickness of 2.7% in 2016 underlines the strength that we have in the organisation.

2016 was also the year when Northern Norway took a serious step forward from being a fringe region to become a net contributor to the Norwegian treasury – a change which can be measured both in terms of cash and in increased self-confidence. Norway is in the midst of a process of transformation. We need to promote new industries to safeguard the income base for the nation, as the contribution from the oil and gas sector gradually diminishes. Northern Norway has a part to play in this process. With the natural conditions in the region to produce the world's best and cleanest food, and attractions unmatched anywhere else, we have exceptional opportunities in seafood and tourism. At the same time, the region has great untapped potential. At sea, we have large areas available for aquaculture, and rich stocks of wild fish. There are also both unexploited resources and the potential to discover completely new raw materials in the chilly seas off our coasts. On land, there are great development opportunities, including energy and untapped mineral deposits.

In a Northern Norway where the arrows are all pointing upwards, SpareBank 1 Nord-Norge is a particularly important player. We engage with this as a financial services group, and are present in 38 offices across the region. We provide the region with both capital and financial services. But we are also a major contributor to society in other areas. Through our social engagement, we help to implement large and small projects that attract people to the area and build vibrant local communities. Our Business Barometer for Northern Norway offers knowledge of economic development and long-term economic forecasts for the region. The Barometer was computerised in 2016, and now produces many smaller and more specialised issues during the year. It is facilitated by Agenda Nord-Norge AS (ANN), the company we own together with the Norwegian Confederation of Trade Unions (LO) and the Confederation of Norwegian Enterprise (NHO). This enables ANN to create meeting places for industry, politics, bureaucracy and the academic world, and to add knowledge to support long-term economic development in the region.

Computerising and automating work processes was a major priority area in 2016. The Group already has its first robots in operation, and is investing heavily in adapting processes to these. The benefits are huge, in terms of both time and money. We are seeing computerisation gathering speed in other areas too. While the number of visits to local banks is falling, the number of customer meetings via mobile, tablet and PC is increasing. For payment processing too, 2016 was a breakthrough year for digital innovations. mCASH was downloaded 584,000 times, and a number of shops, clubs and associations have started to use the solution. At the beginning of 2017, it was decided that mCash should be combined with Vipps to produce a standard Norwegian payment app, backed by over 100 Norwegian banks.

At the same time, we are very aware at SpareBank 1 Nord-Norge that local presence is still important, and that this differentiates us from the industry as a whole. The project 'Ett konsern – én kundeopplevelse' ('One group – one customer experience') started in the autumn of 2016. The chief motivation is to create a unique customer experience. An experience customers will not find with our competitors in the region. In this project, local presence is an essential factor. Where we have worked over the years to drive customers away from our branches, we are now starting to bring them back. The project is also intended to tear down the walls between the Parent Bank and our other companies. The strength of our service portfolio is formidable and, together with the community dividend and local presence, will form the foundation of what we are now building.

A large proportion of the Group's profit stays in Northern Norway. In 2016, we contributed more than NOK 60 million to cultural, sports and knowledge projects throughout Northern Norway. Special projects to make our region a better place to live in, which lay the foundations for future value creation,

are close to our hearts. In 2016 we set out a new strategy for the community dividend. We aim to engage our customers more and make to active use of the community dividend to recruit customers and enhance our reputation. The community dividend can differentiate us from others in the battle for market share, and contribute to increased value creation for the Group and for its shareholders.

In May 2016, the Group organised the 'Bodøfest' to celebrate the bicentenary of the city of Bodø. The event was in two parts. One was a large-scale concert involving more than 30,000 residents. Ticket receipts, at a modest NOK 5 per seat, all went to charity. The other part, 'Oppdrag Nord-Norge' ('Project Northern Norway'), took the form of all of the Group's staff working for the city of Bodø on a voluntary basis. We painted and cleaned, set up play parks and visited local nursing homes with coffee, cakes and live music.

The project was the embodiment of our DNA, and we actually donated 1.5 person/years in the course of one day. The municipality later filled a whole page of the newspaper Avisa Nordland with the simple text 'Thank-you', underlining the external impact of this sort of action, on top of the internal team-building effect and the pride it inspires.

The authorities have tightened the capital requirements for Norwegian banks. A strategic goal for SpareBank 1 Nord-Norge is to have indisputable financial strength. The Group has therefore enhanced its financial strength in recent years, putting us in a position to cope with economic downturns, while equipping us to follow up and encourage further growth in the region.

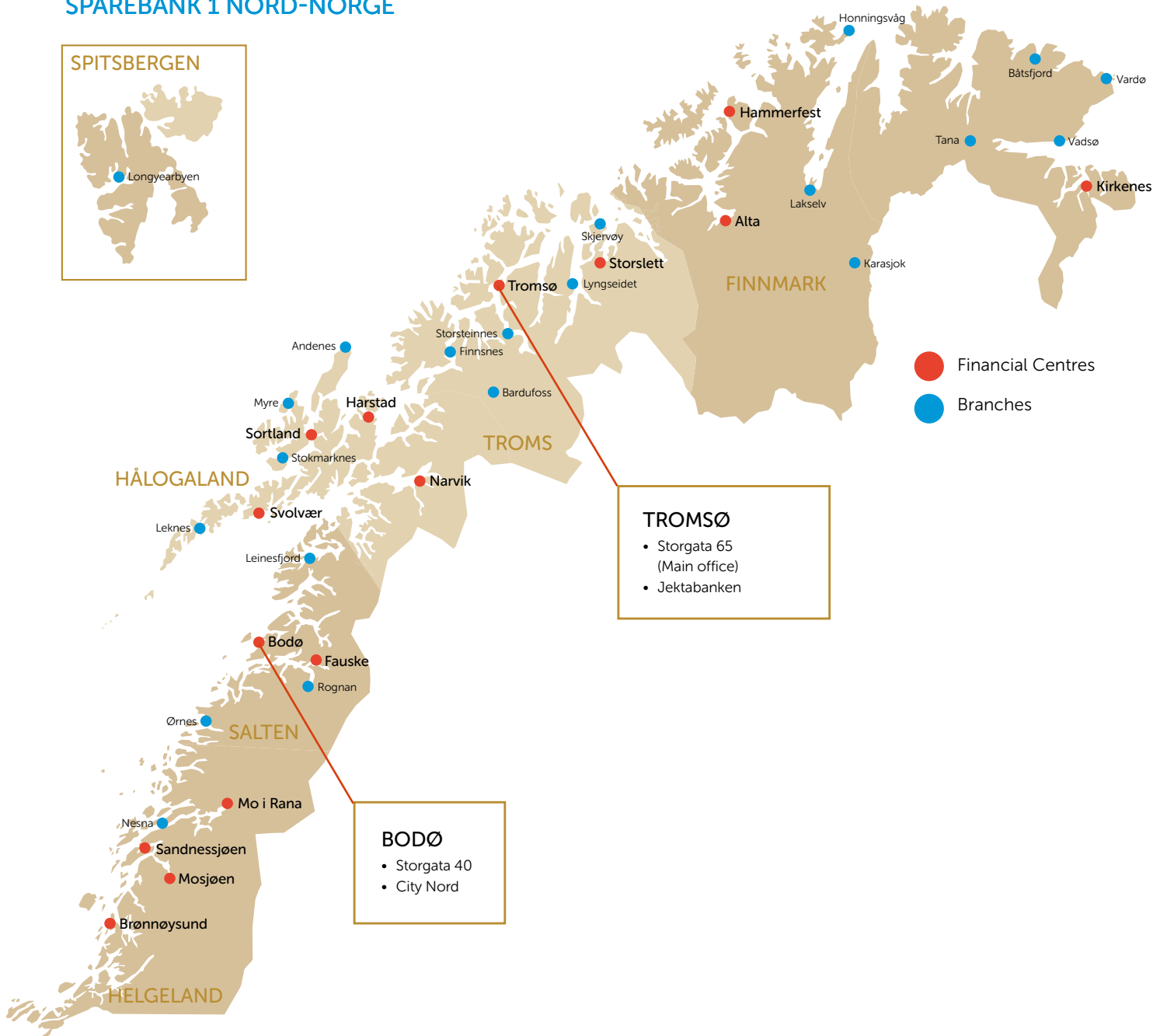
SpareBank 1 Nord-Norge has a unique ownership model, with both private and community-based ownership. The model is profitable for both groups of owners. The figures for 2016 endorse this. We have completed the journey back to our core business. Now the journey continues. Our ambitions are bold – we must dare to differentiate ourselves from our competitors. We need to see our customers more as members and think about customer needs ahead of sales. We need to cover all the needs a customer has in relation to his or her bank. At the same time, the customer experience should reflect our distinct character.

As a group, SpareBank 1 Nord-Norge should combine the traditional with the modern and digital. And we should do this in Northern Norway. Because we stand by our corporate vision: For Northern Norway!



Jan-Frode Janson
CEO

SPAREBANK 1 NORD-NORGE

**FINNMARK**

Hammerfest
Honningsvåg
Alta
Karasjok
Kirkenes
Tana
Vadsø
Vardø
Båtsfjord
Lakselv

TROMS

Storslett
Lyngseidet
Skjervøy
Tromsø
Storsteinnes
Finnsnes
Bardufoss
Longyearbyen

HÅLOGALAND

Harstad
Narvik
Svolvær
Leknes
Sortland
Myre
Stokmarknes
Andenes

SALTEN

Bodø
Leinesfjord
Fauske
Rognan
Ørnes

HELGELAND

Mo i Rana
Mosjøen
Sandnessjøen
Brønnøysund
Nesna



Building and Construction

The estimated growth in GDP in northern Norway during 2016 was around four per cent. Growth means increased activity in the building and construction industry. Econor is one of the biggest contractors in the region. They won the battle for the contract to develop the 'Rødbankenkvartalet' - the distinctive red brick premises owned by the bank in Tromsø . Work on SpareBank 1 Nord-Norge's new head office will commence in 2017.

Photo: Marius Fiskum

ANNUAL REPORT FROM THE BOARD 2016

Key figures for 2016

(Same period in 2015)

- Income for the year: NOK 1,253 million (NOK 872 million).
- Return on equity (Group): 12.0% (9.1%).
- Earnings per equity certificate (Group): NOK 5.82 (NOK 4.11)
- Very good underlying banking operations for the year with profit before losses of NOK 1,274 million (NOK 1,119 million), taking account of restructuring costs.
- Net income from financial investments: NOK 509 million (NOK 249 million).
- Lending losses: NOK 213 million (NOK 200 million).
- Growth in lending in last 12 months: 8.9% (4.0%) including intermediary loans.
- Growth in deposits in last 12 months: 12.0% (5.1%).
- Deposit coverage ratio: 76.1% (75.1%).
- Common equity tier 1 capital ratio, Group: 15.0% (13.9%).
- Allocated dividend: NOK 3.45 (NOK 2.00).

The northern Norwegian economy remains in good shape, and the Group's earnings for 2016 are very good. The Group has implemented several strategic measures in the last few years, including:

- Significantly building up equity and financial strength: almost doubling the Group's equity in the last 6 years. The Group's targeted financial strength has been achieved.
- The cultivation of core business is almost complete:
 - The Nord II investment fund has been sold and SpareBank 1 Nord-Norge Invest wound up.
 - The phasing out of corporate market business in BN Bank is proceeding as planned.
 - The venture in Russia has been sold.
 - The Bank's share in Bank 1 Oslo was sold.
- Significant work concerned with improving the Group's profitability has been carried out, including:
 - Adaptation of the Bank's presence based on customer use of banking services. The Group's accessibility has been increased via the concentration on 16 financial centres. At the same time, the number of branches has decreased from 71 in 2012 to 38 in 2016.
 - Cost-reducing measures, including adaptations to customer behaviour through voluntary redundancies of 150 employees and taking on 60 new staff to bring necessary skills into the business.
 - Measures relating to greater capital efficiency were carried out.

STRATEGIC GOALS AND TARGET ATTAINMENT

Strategic financial goals	Targets	Group 2016	Parent Bank 2016
Profitability			
Return on equity	Top international class banking operations	12.0%	16.8%
Efficiency			
Cost growth	Maximum annual average growth in costs of 0% exclusive of restructuring costs and business expansions	-2.5%	-4.1%
Financial strength			
Common equity tier 1 capital ratio	Indisputably strong. Common equity tier 1 capital ratio of 14.5% or higher in 2016	15.0%	19.2%

The Group's long-term profitability target is to operate a world-class bank. To evaluate the actual current target for return on equity, the Board makes an assessment of the profitability expectations of the capital markets using forecasts from banking analysts. Other banks' profitability targets and actual profitability are also compared. A return on equity of 12% for 2016 is considered to exceed the target.

The target of 0% growth in costs, excluding restructuring costs and business expansions, is subordinate to the Group's strategic profitability target. The Board believes that developments in the financial sector necessitate tight cost control and a constant search for efficiency improvements through simplified processes and digitalisation. The target of 0% growth in costs matches that of many other banks in the market.

The Group's overall strategic goal is to have financial strength that is beyond dispute. The target of a common equity tier 1 capital ratio of 14.5% arises out of regulatory requirements, with an added administrative buffer of 1.5 percentage points. Following the announcement of an increase in the countercyclical buffer to 2% with effect from 31/12/2017, the additional administrative buffer will be 1 percentage point.

No target level has been set for losses on loans. However, the Board has indicated that it expects a moderate level of losses in 2016 and in the immediate future. The level of losses in 2016 is considered moderate.

As can be seen from the table, the Parent Bank and the Group met all their strategic targets for the 2016 financial year ending 31/12/2016.

SpareBank 1 Nord-Norge in brief

SpareBank 1 Nord-Norge's history stretches back to 1836 when the region's first savings bank was established. All of the Group's work is based on its vision, 'For Northern Norway'. Today, SpareBank 1 Nord-Norge is the leading financial institution in the region and provides a full range of services, including estate agency, asset management, leasing and accounting. Customers are served via a broad network of branches, modern digital solutions, and a customer service centre that is open every day from 07:00 – 24:00.

2016 – continued focus on the core business and modernising the Group

In 2016 the banking sector was once again marked by digitalisation and changes in customer behaviour. For SpareBank 1 Nord-Norge this raises a need to modernise the Group – both through updated business models and more efficient internal processes. The change processes are driven by a clear focus on the vision 'For Northern Norway', and are combined with a focus on increased profitability through cost reductions and increased earnings.

The Group took several steps in 2016 to focus on the core business, including the sale of its share in the Nord II IS investment fund. The headcount reductions that star-

ted in 2015 were also completed. At the same time, the Group has welcomed 60 new colleagues who bring new skills into the business.

SpareBank 1 Nord-Norge believes in maintaining a physical presence in the region, and increased its investment in 16 financial centres during 2016. In all, the Bank closed 21 branches which had very restricted opening hours and few customers, or were difficult to staff with the required skills.

SpareBank 1 Nord-Norge is proud of the way in which the processes of downsizing and branch closures have been handled. Good cooperation with staff representatives, and clear and inclusive communication with employees, customers and other stakeholders have resulted in tidy and effective processes.

2016 also brought the Group's first digital robots, which the Group calls digital assistants. These now perform tasks that used to be done manually, both reducing time spent and optimising quality. Digital assistants also free up more time for the advisers to spend with customers.

In order for this initiative to succeed, many processes have been redefined to ensure that correct data is fed into the digital assistants. The work with the digital assistants will continue in 2017, and they will play a major role in the Bank's work on digitalisation and automation.

The Group met the regulatory requirements for financial strength in the course of 2016.

Overall, SpareBank 1 Nord-Norge is very well-equipped to reinforce its position as a regional bank for Northern Norway that is rich in tradition, yet modern.

Goals and strategy

SpareBank 1 Nord-Norge enjoys a unique position in the region with a strong network of branches and almost half of the population as customers. The customer service centre is open till midnight, while the online bank and mobile and digital solutions provide customers with access to the Bank 24 hours a day.

Our corporate vision is
For Northern Norway!

SpareBank 1 Nord-Norge aims to be known as the region's own bank:

- A business that creates value and re-invests it in Northern Norway
- Close and competent - with decisions taken on a local level
- Financially sound, generous and people-oriented - rich in tradition, yet modern
- An actor that is helping Northern Norway develop – we care about you!

Business concept

As the region's own bank, SpareBank 1 Nord-Norge provides comprehensive, modern financial solutions to customers based in the northern Norwegian market. The Bank's ownership model, with an exchange-listed, privately-owned portion, and a community-owned portion, has shown itself over time to help place the Group in a leading position in the regional market. The ownership model does not prevent the Group having a profitability on a par with, or better than, comparable banks – rather the reverse. This benefits both ownership groups.

Being the regional bank also means that most of the profits generated in the Group

remain in the region: either in the form of the community dividend which is designed to help in the development of various projects in Northern Norway, or through dividends to equity certificate holders in the region, or by strengthening the Group's equity as a basis for further growth.

The Group runs its core business through 16 local financial centres that offer advice and services from the Group's entire product range. Each financial centre may have multiple branches. SpareBank 1 Nord-Norge believes in local presence as part of the unique character that differentiates the Group from its competitors in an increasingly uniform financial services market.

The Group wants to increase its social engagement as a competitive advantage through its presence and local knowledge. SpareBank 1 Nord-Norge wants to be an actor within knowledge development, a regional and national forum builder, and a supporter of the region's business sector.

SpareBank 1 Nord-Norge is an independent financial services Group within the SpareBank 1 Alliance. As part of a national alliance, the Bank can be sure that its modern services, products and solutions are developed efficiently and on competitive terms.

SpareBank 1 Nord-Norge is an attractive workplace with a corporate culture characterised by dynamic learning, a will to win and a willingness to work together towards a common goal. The Group's operations are based on strict requirements concerning integrity and business ethics as laid down in the SNN Code of Conduct. The SNN Code of Conduct focuses on attitudes and ethics, as well as how SpareBank 1 Nord-Norge does business with its customers and other associates, and is intended to support a good, positive corporate culture.

The Group has to renew itself continuously to ensure that the Bank can always offer the best financial solutions and services to the

people and companies of Northern Norway. The business aims to be proactive and wants to be seen as a clear alternative to national and international competitors.

With a clear vision, a unique ownership model and a strong culture and values – shared by the whole Group – the ambition is for SpareBank 1 Nord-Norge to be the obvious choice for all customers with a connection to the region.

Strategic goals

SpareBank 1 Nord-Norge's strategic goals:

- Number one in Northern Norway!
- The most satisfied customers
- The most attractive place to work with the most capable and committed employees
- Indisputably strong, with top international class banking operations
- Quality in everything we do

Subsidiaries

SpareBank 1 Nord-Norge's customers are offered a complete portfolio of services from the Parent Bank and the other companies that make up the Group.

SpareBank 1 Finans Nord-Norge AS

The company is 100% owned by SpareBank 1 Nord-Norge and bears commercial responsibility for the leasing and secured loan financing product areas, with Northern Norway as its primary market area. The company also offers consumer financing. The Parent Bank and capital goods suppliers are important distribution channels for the company.

At the end of the year, the company had a good earnings base and managed leasing, consumer loan and vendor's security agreements with a total value of NOK 4,713 million (NOK 4,401 million).

The company is co-located with the Bank in Bodø and Tromsø, and had 35 employees as of 31/12/2016.

EiendomsMegler 1 Nord-Norge AS

The company is a member of a nationwide alliance with other real estate companies owned by SpareBank 1 banks. The company is wholly owned by SpareBank 1 Nord-Norge and is engaged in real estate brokerage in 13 different offices in Northern Norway, many of them co-located with the Bank.

The company sold 3,063 (2,775) units in 2016, with total commission income of NOK 176 million (NOK 159 million).

At the end of the year, EiendomsMegler 1 Nord-Norge had 78 employees.

SpareBank 1 Nord-Norge Portefølje (formerly SpareBank 1 Nord-Norge Invest)

As part of the Group's greater focus on core activities, the company's former activities are being restructured/wound up. SpareBank 1 Nord-Norge Portefølje was nevertheless retained as a legal entity for legal and practical reasons. The object of the company is to "manage stakes owned by the SpareBank 1 Nord-Norge Group and business naturally associated with this".

SNN Portefølje AS owns 100% of the shares in Sic Processing Property AS (SPP) – factory buildings related to earlier solar cell production in Glomfjord, Nordland) – and Nord-Norge Eiendom IV AS. The companies are reported under IFRS 5 as available for sale and are therefore not consolidated in the financial statements like ordinary subsidiaries.

There are no employees in the company, which is administered by the Bank.

SpareBank 1 Nord-Norge Forvaltning ASA

The company is a northern Norwegian knowledge-based asset management company, 100% owned by SpareBank 1 Nord-Norge. Its core business is discretionary¹ asset management, primarily for customers in Northern Norway. Through proximity to customers and prudent management, the company aims to be customers' first choice, ahead of the competitors. The cooperation between the investment advisers in the Parent Bank and the managers in SNN Forvaltning is intended to help achieve the target of increasing the amount of capital under management.

The primary target groups for the company's products are private and institutional investors from Northern Norway. The private target group primarily consists of high net worth private individuals and investment firms. The institutional target group consists mainly of companies, larger investment firms, foundations, pension funds and public sector customers such as municipalities. Both groups want advice and traditional exposure within bonds and equities, including equity certificates.

At the end of the year, the company had 3 employees and a portfolio worth NOK 2.6 billion under management.

SpareBank 1 Regnskapshuset Nord-Norge AS

The Bank started operations within financial management and accounting in 2011. The SpareBank 1 Regnskapshuset Nord-Norge AS venture is motivated by a desire to exploit synergy effects with the Group's other activities, such as through extra sales, improved customer satisfaction and payment services.

Since the establishment, more companies in the industry have been acquired. As of 31/12/2016, the company had a total of 133 employees and branches in Hammerfest, Alta, Tromsø, Balsfjord, Finnsnes, Harstad, Bodø, Mo i Rana, Sandnessjøen and Mosjøen/Trofors. The focus on this sector is part of a collaboration with a number of the banks in the Alliance with similar activities. The cooperation takes place in areas such as branded goods, IT, expertise, quality and work processes.

SpareBank 1 Alliance

The Bank's participation in the SpareBank 1 Alliance and its stake in SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet DA form an important part of the Group's strategy. This participation has been important for SpareBank 1 Nord-Norge's positive development and has greatly contributed to the fact that the Bank has become a financially sound, strong bank 'For Northern Norway'.

The SpareBank 1 banks run the Alliance and develop the product companies through the jointly-owned SpareBank 1 Banksamarbeidet DA and SpareBank 1 Gruppen, the holding company. The purpose of the SpareBank 1 Alliance is to procure and provide competitive financial products and services, and to achieve economies of scale in the form of lower costs and/or higher quality. This allows the Alliance to offer retail and corporate customers local roots, expertise and easier day-to-day banking. The Alliance should also help to ensure the creation of value by the banks for the benefit of their region and the banks' owners.

Please also see the special report on companies in the SpareBank 1 Alliance later on in this annual report.

¹ Discretionary, subject to personal judgment; including managers' right to take decisions on the basis of their own assessment and judgment. Discretionary management; also called active asset management.

COMMENTS ON THE ANNUAL FINANCIAL STATEMENTS

In accordance with the provisions of the Norwegian Accounting Act, the financial statements for 2016 have been prepared on the assumption that the Group is a going concern. SpareBank 1 Nord-Norge's consolidated financial statements have been prepared in accordance with Section 3-9 of the Norwegian Accounting Act, and in compliance with IFRS, as approved by the EU.

FINANCIAL PERFORMANCE

Beløp i mill kroner	GROUP		PARENT BANK	
	2016	2015	2016	2015
Net interest income	1 644	1 512	1 452	1 320
Net commissions and other operating income	924	933	646	682
Net income from financial investments	509	249	800	248
Operating costs	1 320	1 461	1 026	1 178
Losses	213	200	158	216
Profit before tax	1 544	1 033	1 714	856
Taxes	291	163	258	126
Non-current assets held for sale	0	-5		
Minority interests		7		
Profit for the year	1 253	872	1 456	730

While the Group's results for 2015 were affected by restructuring costs and write-downs due to increased risk premiums in the securities market, the Group posted good earnings for 2016. This also applies to the Bank's core business. The Group and Parent Bank are financially very strong, have satisfactory liquidity, and have a good deposit coverage ratio. In the opinion of the Board, the Group is very well placed to satisfy the region's need for financial services in the years ahead.

Net interest income

The competition for loan customers remains strong with particular pressure on interest

terms. The Group's total net interest income still increased by NOK 132 million from 2015 to 2016. Lending margins decreased slightly in the course of 2016, but this was offset by increased deposit margins and lower financing costs in the money markets.

Lending growth amounted to 9.0% in the retail market and 8.6% in the corporate market, higher than the general growth in lending in the market. The relatively strong growth in the corporate market, especially with respect to SMEs, was due in part to the strategic prioritisation of this segment and in part to positive market opportunities arising from competitors' branch closures.

The latter has also had a positive effect on lending growth in the retail market. Lending growth in 2016 is considered to be good.

The overall effect of the above has contributed to growth in net interest income.

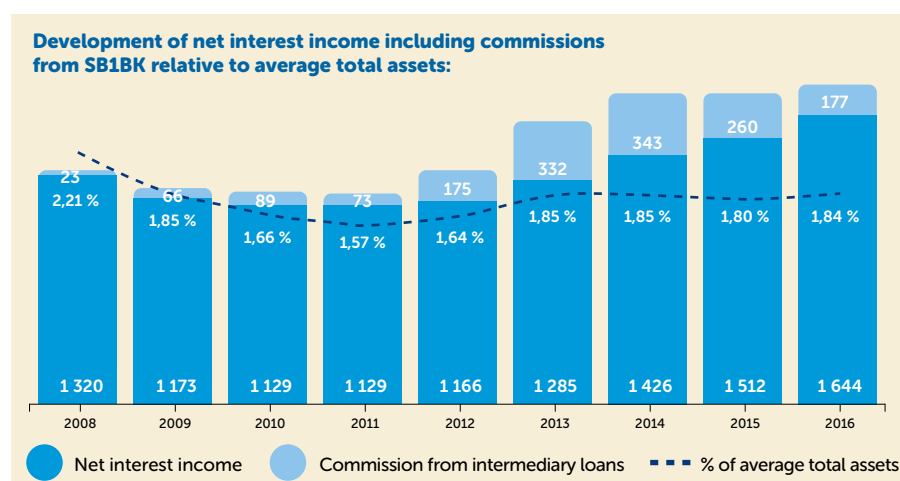
Net interest income is also affected by loans transferred to SpareBank 1 Boligkreditt (SB1BK). Income of NOK 177 million from the transferred portfolio has been recognised under commissions. The corresponding figure for 2015 was NOK 260 million. The reduction in commissions from SB1BK was due to tighter margins for home mortgages in 2016 than in 2015.

Norges Bank left the key policy rate unchanged at its monetary policy meeting on 15/12/2016, and signalled that the benchmark rate will most probably remain at the current level in 2017. Assuming stable conditions in the capital markets, the Bank's average borrowing costs are expected to decrease during 2017. The Bank announced a rise in rates for existing lending effective from 16/01/2017.

Net commissions and other operating income

SpareBank 1 Nord-Norge is aiming to increase its income through a broad range of products within areas other than traditional credit activities that involve no credit risk, such as savings, investments and insurance. In 2016, net commissions and other operating income accounted for 36% of total income, compared with 35% in 2015.

As mentioned earlier, commission income from SB1BK dropped slightly in 2016. Net interest income, including commission income from the transferred loan portfolio, increased by NOK 47 million in the last year.



Company	2016	2015	2016	2015
Amounts in NOK million	Profit sharing in the consolidated financial statements	Profit sharing in the consolidated financial statements	Dividends in the Parent Bank's financial statements	Dividends in the Parent Bank's financial statements
SpareBank 1 Gruppen AS	307	251	486	189
SpareBank 1 Boligkreditt AS	-16	66	15	30
SpareBank 1 Næringskreditt AS	16	19	21	26
BN Bank ASA	61	29	40	62
SpareBank 1 Kredittkort AS	23	20		
SpareBank 1 Mobilbetaling AS	-26			
SpareBank 1 Banksamarbeidet	1			
SpareBank 1 Markets AS		14		
TOTAL	366	399	562	307

In the second quarter of 2016, SpareBank 1 Nord-Norge sold a bank building in Tromsø at a profit of NOK 18 million, which is reported under other operating income.

Net income from financial investments

Net income from financial investments totalled NOK 509 million in 2016.

Dividends

Under an agreement between Visa Europe Ltd. (VE) and Visa Inc. in which the latter will purchase all of the shares in Visa Europe Ltd., the Bank posted NOK 70 million in dividends to the income statement in 2016. A further NOK 4 million was received in dividends from other companies.

A new estimate was made on 31/12/2016 concerning the remainder of the settlement in the form of a future conditional payment

(3 years), as well as the value of preferred shares in Visa Inc. Altogether, this amounts to NOK 20 million, which was recognised as other comprehensive income (OCI) and transferred to equity as at 31/12/2016.

Profit sharing from joint ventures

Result contributions from associated companies and joint ventures are recognised in the consolidated financial statements in proportion to the Bank's stake, using the equity method. According to the cost method, only dividends received are recognised in the Parent Bank's financial statements.

As a means of optimising the capital situation in the company, SpareBank 1 Gruppen undertook to pay NOK 1,150 in extraordinary dividends to shareholders in November 2016. SpareBank 1 Nord-Norge's

share of NOK 224 million is included in the Parent Bank's profit for the year for 2016. SpareBank 1 Boligkreditt's net loss in 2016 is due to negative value changes (which were positive in 2015) in the company's holdings of hedging instruments in the form of basis swaps. The accounting treatment of these makes no difference to ongoing cash flows, and the total effect on the bottom line over time is 0.

Part of SpareBank 1 Mobilbetaling's net loss in 2014 was attributable to costs of acquiring and developing the mobile app mCash. The app allows users to use their mobile phones to pay in shops and online, as well as to make payments to friends. In February 2017, the SpareBank 1 Alliance announced that more than 100 banks would combine to establish one Norwegian operator for mobile payment services with an even better Vipps system. mCash will be part of the new company, in which SpareBank 1 is the second biggest shareholder. The new Vipps will be well equipped for the battle against major Nordic and international players.

In 2015, a share of the profits from SpareBank 1 Markets was incorporated into the consolidated results. After the restructuring

This income can be broken down as follows:

Dividend	NOK 74 million
Profit sharing from joint ventures	NOK 366 million
Net income from securities	NOK 69 million
• Equities	NOK - 21 million
• Certificates, bonds, currency and derivatives	NOK 90 million

of SpareBank 1 Markets, this holding was reclassified in the autumn of 2015 from 'investments in associated companies and joint ventures' to 'shares stated at fair value'. In light of this, no profit share was taken from the company in 2016. SpareBank 1 Nord-Norge's stake in SpareBank 1 Markets was 9.99% as of 31/12/2016.

Net income from securities

The Bank recognised a net loss/devaluation in relation to the Group's share portfolio of NOK 21 million in 2016. In line with the Group's strategy of concentrating on its core business, the stake in the investment company Nord II was wound up in the second quarter of 2016, and a realised loss of NOK 40 million was recorded in the subsidiary SpareBank 1 Nord-Norge Portefølje. The value of the Parent Bank's equities portfolio grew by NOK 24 million in 2016.

The Group's equities portfolio at 31/12/2016 amounted to NOK 306 million (NOK 569 million).

As at 31/12/2016, the Group's holdings of certificates and bonds amounted to NOK 10,164 million, compared with NOK 11,178 million at the same time the year before. The total net change in value in 2016 in this portfolio amounted to NOK 96 million. The contribution to profits is mainly due to an improvement in credit spreads from the levels observed in 2015.

Subsidiaries

The Group's subsidiaries reported a combined profit for the year of NOK 77 million before tax. The profit contribution of NOK 66 million after tax has been consolidated into the consolidated financial statements.

Only dividends received from the subsidiaries are recognised, in accordance with the cost method, in the Parent Bank's financial statements.

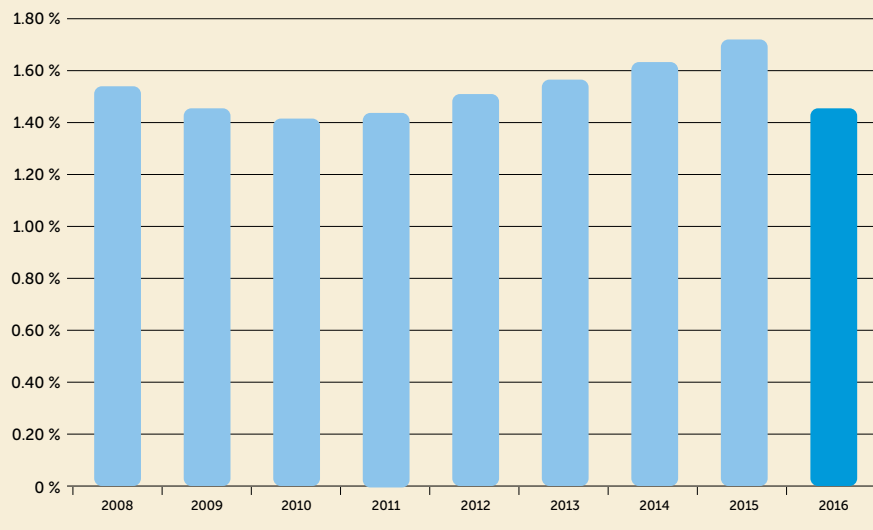
Subsidiaries Amounts in whole NOK 1,000	Share of the result for 2016 after tax	Dividends for 2016 in the Parent Bank's financial statements	Write-downs in 2016 in the Parent Bank's financial statements
SpareBank 1 Finans Nord-Norge AS	86 012	95 801	0
SpareBank 1 Portefølje AS	-49 254	0	-38 364
Nord-Norge Eiendom IV AS	-1 589	0	0
Alsgården AS	-1 507	0	0
EiendomsMegler 1 Nord-Norge AS	20 445	13 000	0
SpareBank 1 Nord-Norge Forvaltning ASA	1 980	1 740	0
Fredrik Langesg 20 AS	404	0	0
SpareBank 1 Regnskapshuset Nord-Norge AS*	9 926	0	0
SUM	66 417	110 541	-38 364

* Consolidated result, excluding write-downs in goodwill

As mentioned earlier, SNN Portefølje AS took over businesses to be sold. The transferred assets and liabilities are shown on separate lines in the balance sheet. The income statement shows operations for the year on a separate result line: 'Non-current assets held for sale, after tax' This had no effect on profits in 2016.

Operating costs

Development of costs relative to average total assets: (2008-16)



In response to increased digitisation and changes in customer behaviour, SpareBank 1 Nord-Norge has started to reorganise the business to improve profitability within the Group. The measures encompass increased earnings, reduced costs and a better return on capital. The work has resulted in significant result-improving effects.

The Group's goal is to hold average annual cost increases to a maximum of 0%, excluding restructuring costs and possible business expansions. Based on 2015, the Board has communicated expectations of negative cost growth in 2016 and 2017, but without taking account of cost increases as a result of the approved financial tax.

In 2016, NOK 17 million was recognised as restructuring costs in connection with the winding up of the scheme for early retirement at age 62 for most of the members of the Group management team. NOK 9 million

associated with future costs for closed branches was also recognised. Exclusive of the provisions for restructuring costs, the costs at the end of 2016 were NOK 32 million lower than in 2015, in spite of the new financial tax of NOK 6 million.

Ordinary operating costs for 2016 amounted to NOK 1,320 million, a decrease of NOK 141 million. Costs amounted to 1.48% of average total assets, a decrease of 0.26 percentage points from the previous year. Taking account of restructuring costs, this is a decrease of 0.13 percentage points.

The cost/income ratio in the 2016 consolidated financial statements is 42.9%, a reduction from 54.2% in 2015.

Wealth tax of NOK 9 million has therefore been recognised under other operating costs in accordance with IFRS.

Losses and defaults on loans

The Group's net loan losses as of the fourth quarter of 2016 amounted to NOK 213 million (NOK 200 million): NOK 194 million of the losses were in the corporate market and NOK 19 million in the retail market.

Gross non-performing and doubtful commitments amounted to NOK 358 million as of 31/12/2016 (NOK 346 million), which represents 0.4% of gross lending including intermediary loans.

The Group's total provisions for individual loss write-downs for loans to customers as at 31/12/2016 were NOK 216 million (NOK 231 million). Parts of the reduction in individual write-downs are attributable to a commitment whereby mortgage objects were carried forward as transferred property as of 31/12/2016.

Group write-downs as of 31/12/2016 amounted to NOK 373 million (NOK 247 million), an increase of NOK 126 million compared with the previous year. The increase in collective write-downs relates to the manufacturing, oil-related industry, and fisheries segments. The increase within the manufacturing and oil-related industry segments is based on underlying risk, while the increase within fisheries is based on greater exposure. Group write-downs totalled 0.5% of the Group's combined gross lending as of 31/12/2016 (0.4% of gross lending including intermediary loans).

In the opinion of the Board, the quality of the Bank's loan portfolio remains good, and the Bank is doing high quality work in connection with commitments in default and doubtful commitments in the Group. There will continue to be a strong focus on this work going forward. The general level of losses is expected to remain moderate for the immediate future.

New IFRS 9 Financial instruments

From 2018 there will be new international accounting rules for the classification and measurement of financial instruments, write-downs of financial assets and hedge accounting, including provisions for losses on loans. The Group has started preparing for implementation and an impact assessment of this. In 2016 work therefore started on modelling and clarifying the valuation and classification etc. of loans. Work on the models and assessing the financial consequences will continue in 2017. The Group does not expect significant effects on the balance sheet or equity due to the new standard.

Please refer also to a separate note to the financial statements.

Taxes

The Group's tax cost for 2016 is estimated to be NOK 291 million. The tax basis has been reduced by permanent differences and the effects of the exemption model.

Allocation of profit for the year

The Parent Bank's profit after tax is distributed between the equity certificate holders and the Bank's community-owned capital. The distribution accords with the relative distribution of equity capital between the owner groups in the Parent Bank.

The Bank's ownership and dividend policy states that the Bank aims to provide a good and competitive long-term return for the Bank's owners. The earlier limit on the payout ratio to a maximum of 50% of the Group's profit for the year has been removed. The Board is proposing to the Bank's Supervisory Board a cash dividend of NOK 3.45 (NOK 2.00) per equity certificate, for a total of NOK 346.4 million (NOK 200.8 million), and an allocation of NOK 328.6 million (NOK 135.1 million) to the dividend equalisation fund. In addition, a combined transfer of NOK 400.8 million (NOK 60 million) to socially beneficial purposes is proposed. The proposed allocation of the profit entails an equal payout ratio for the Bank's equity certificate holders and community-owned capital. The payout ratio amounts to 59.6% of the Group's profit and 51.3% of the Parent Bank's profit. The payout ratio is considered to be especially high and above the normal level. The high payout ratio is due to the Group's capital targets having been exceeded and the extraordinary dividend received from SpareBank 1 Gruppen in the fourth quarter of 2016.

Dividends will be distributed to those registered as equity certificate holders as at 28/03/2017. The Bank's equity certificates will be traded ex dividend as at 29/03/2017.

Please refer also to the separate section on ownership later in this report and in the annual report.

The Bank's Supervisory Board has approved the annual accounts and appropriation of the profit.

Profit allocations 2016	TOTAL
Parent Bank's profit for the year after tax	1 456.1
Distribution/dividend	747.2
Retained profit	708.9
of which to dividend equalisation fund	328.6
of which to Savings Banks Fund	380.3
Total allocations	1 456.1
Retained portion, Parent Bank's profit	48.7%
Retained portion, Group profit	40.4%

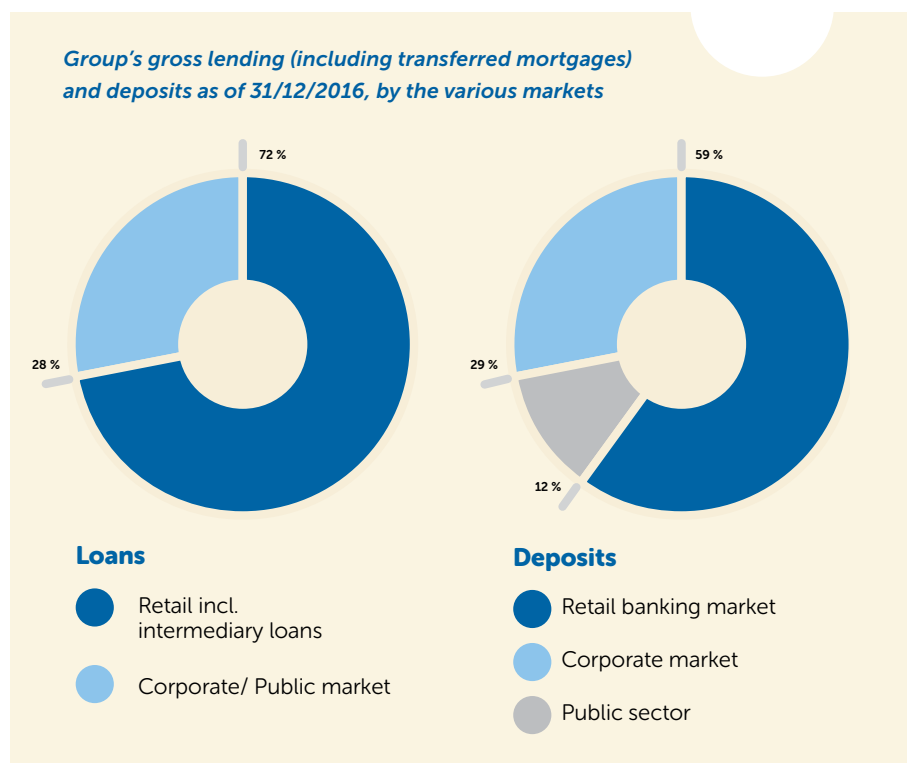
Balance sheet performance

Amounts in NOK million	31.12.16	31.12.15	Change (NOK)	Change (%)
Total assets	90 501	85 403	5 098	6 %
Gross lending	70 763	64 053	6 710	10 %
Lending to customers incl. intermediary loans	96 287	88 403	7 884	9 %
Deposits from customers	53 870	48 087	5 783	12 %

As of 31/12/2016, loans totalling NOK 26 billion (NOK 24 billion) had been transferred to SpareBank 1 Boligkreditt. 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 amounted to NOK 96 billion as of 31/12/2016. Compared with 31/12/2015, this is an increase of 8.9% (4.0%). The growth was distributed as follows: 9.0% (6.5%) in the retail market and 8.6% (-2.9%) in the corporate market and public sector.

The Group's exposure in the oil and gas sector is low. Its total exposure as at 31/12/2016 was NOK 1,790 million, or 1.86% of gross lending (inclusive of intermediary loans). In the Board's opinion, the risk in this part of the portfolio is clear and manageable. Around 43% of the portfolio consists of commitments to supply bases with extremely long contracts and solid actors. Supply ship-owners with activities within platform supply vessels (PSVs) and anchor handlers (AHTSs) still face challenges. However, the Group's portfolio within this subsector has good contract coverage and cash flow. The Group's customers within this segment of the oil and gas sector can expect reductions in turnover and profit due to a significant decrease in investments in this sector.



The Bank's portfolio of fixed-rate loans in Norwegian kroner amounted to NOK 7.5 billion (NOK 7.6 billion) as of 31/12/2016. This portfolio is measured at fair value in the financial statements, although changes in interest rates and risk premiums can entail value changes. Greater volatility must therefore be expected in the income statement due to the measurement of this portfolio of loans. Please also refer to the more detailed description in note 11 to the annual financial statements.

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 to ensure that the credit risk is maintained at an acceptable level.

Liquidity

Customer deposits are the most important source of funding for the Group. At the end of the fourth quarter of 2016, the deposit coverage ratio (excluding intermediary loans) was 76% (75%). Apart from equity and subordinated capital and deposits from customers, the Group's financing is mainly long-term funding from the capital markets. The Bank's access to liquidity and the key figures for liquidity are satisfactory. The Group's goal is to keep liquidity risk at a low level. The LCR (liquidity coverage ratio) as at 31/12/2016 has been calculated as 121% (95%).

The Group's deposits from customers totalled NOK 53,870 million as at 31/12/2016. The increase over the past 12 months was NOK 5,783 million, or 12.0% (5.1%). The increase in deposits broke down into growth of 6.8% (6.2%) from the retail market, 8.8% (-0.5%) from corporate deposits, and 43.5% (13.3%) from the public sector.

SpareBank 1 Nord-Norge has a licence to establish a 100% owned home mortgage company, SNN Boligkreditt. This company will be able to act as a supplement to SpareBank 1 Boligkreditt, which will remain the Alliance banks' main tool for raising loans through covered bonds.

The Bank's long-term ratings at the rating agencies Moody's and Fitch are A1 and A respectively, with stable outlooks.

Capital adequacy

On 01/01/2007, SpareBank 1 Nord-Norge received permission from the Financial Supervisory Authority of Norway to use internal calculation methods (IRB - Internal Rating Based Approach) for credit risk.

SpareBank 1 Nord-Norge's goal is to maintain unquestionable financial strength and satisfy the statutory minimum equity requirements for capital adequacy. The Group's goal for the common equity tier 1 capital ratio is currently 14.5%.

Capital adequacy	GROUP		PARENT BANK	
	31.12.16	31.12.15	31.12.16	31.12.15
Common equity tier 1 capital ratio	15.0 %	13.9 %	19.2 %	17.2 %
Tier 1 capital ratio	16.3 %	15.1 %	20.3 %	18.3 %
Tier 2 capital ratio	2.1 %	2.1 %	1.8 %	1.8 %
Total capital adequacy ratio	18.4 %	17.2 %	22.1 %	20.1 %

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

In November 2016, SpareBank 1 Nord-Norge received the Financial Supervisory Authority of Norway's decision concerning the Group's capital requirements. This decision concludes that the Pillar 2 requirement should be 1.5% of the risk-weighted balance sheet. The Group's regulatory minimum requirement for common equity tier 1 capital ratio is therefore 13.0% as of 31/12/2016. The current requirement for the countercyclical capital buffer is 1.5%. On 15/12/2016, the Ministry of Finance decided that this should be increased by 0.5 percentage points to 2.0% effective from 31/12/2017. The purpose of the countercyclical capital buffer is to make the banks more robust and more capable of withstanding loan losses, and to ensure more stable lending in an economic downturn.

On 20/12/2016, the Ministry of Finance set new requirements for the leverage ratio effective from 01/01/2017. New requirements have been included in the regulations concerning capital requirements that specify that an institution must have a leverage ratio equal to at least 3% of its exposure at any given time. All banks must also have an unweighted tier 1 capital buffer amounting to 2% of the institution's exposure. Systemically important banks must have an unweighted tier 1 capital buffer amounting to at least 3%.

The unweighted tier 1 capital ratio (leverage ratio) as at 31/12/2016 was calculated at 6.8% (6.1%).

The Bank's financial strength is considered good based on the current regulatory requirements.

Please refer to the special section on 'Capital management and new regulatory requirements' later in the report.

Corporate Governance

The governance of SpareBank 1 Nord-Norge is based on the Norwegian Accounting Act and the principles stated in the Norwegian Code of Practice for Good Corporate Governance. Please see the special section in the annual report on 'Corporate governance' which also covers the requirements of section 3-3b of the Norwegian Accounting Act. It provides a detailed description of SpareBank 1 Nord-Norge's compliance with the Code of Practice.

Good corporate governance in SpareBank 1 Nord-Norge encompasses the aims, targets and overall principles in accordance with which the Bank is managed and controlled. Its purpose is to safeguard the interests of the owners and other groups in the Bank. The Group's corporate governance principles shall ensure the sound and appropriate management of the Bank's assets and liabilities, providing additional assurance that all agreed targets, aims and strategies are met and adhered to.

The Bank's equity certificate is listed on the Oslo Stock Exchange. The Articles of Association include no regulations that limit their negotiability. The Board is not aware of any agreements between the equity certificate holders that limit their negotiability or the exercising of the voting rights they represent.

Those who wish to make an acquisition that entails becoming the owner of a qualifying stake in SpareBank 1 Nord-Norge must send advance notice of this to the Financial Supervisory Authority of Norway. A qualifying stake is defined as a stake that represents 10% or more of the capital or votes in a financial undertaking or which enables the buyer to exercise material influence on the management of an undertaking and its operations.

SpareBank 1 Nord-Norge's Articles of Association contain special ownership rights that protect the interests of equity certificate

holders. These stipulate that a number of decisions by the Supervisory Board of the Bank require the agreement of two-thirds of equity certificate holders.

No equity issues were implemented in 2016.

In 2016, SpareBank 1 Nord-Norge entered into liquidity guarantee agreements for the Bank's equity certificates with SpareBank 1 Markets AS.

Risk and capital management – General comments

One of the Board's priority areas is to maintain a risk and capital management function which supports the Group's strategic ambitions, goals and development. The Group stresses the importance of good risk management that ensures financial stability and prudent asset management over time. It aims to manage all significant risks in accordance with the best practices for comparable banks.

The Group's control and management model clearly defines responsibilities and roles. SpareBank 1 Nord-Norge invests a great deal of resources in establishing, following up and developing the Group's quality and risk management systems and processes.

The Group's principles and limits for risk management and internal control are enshrined in a special framework. This is reviewed and approved by the Board each year. The framework provides guidelines for the Group's overall approach towards risk management, and is intended to ensure that the Group has an effective and appropriate process for this.

The risk-adjusted capital is calculated for all the significant risk areas. This is an important prerequisite for assessments related to risk exposure, capital buffers and financial strength targets. These factors are meant to secure the Group's operations even under stressed market conditions.

The principal aim is to ensure that the Group's overall risk level is moderate and within the limits set by the Group's risk strategy. The goal is for good risk management to ensure the Group's earnings and profit performance are within acceptable stability and predictability limits.

Risk and capital management – Important functions

Internal control

The Board reviews the framework for management and control and the ongoing follow-up of the development of key quality and risk indicators annually. The Group has established a control model whereby a separate risk management department bears the overall responsibility for ensuring that management and reporting systems are used actively by managers to monitor business areas and disciplines. Each year, the Board discusses a summary report on internal control in the Group.

Internal Audit and the Group's external auditor report to the Board on a regular basis with independent assessments of the Group's risks, and whether internal control is working in an appropriate and satisfactory manner.

Risk management

Financial activities entail a need to control and manage risk. SpareBank 1 Nord-Norge's Board stresses the importance of good risk management as a strategic tool for increasing value creation, and is responsible for monitoring the Group's risk exposure. This Board sets limits for all the key business and risk areas, which in turn are measured and reported on in accordance with the adopted framework.

The Board discusses quarterly summary of the risk picture for the Group. This forms the basis for the Board's discussions and evaluations of necessary measures. A key part of this review is an assessment of the Group's financial strength, profitability and efficiency based on developments in the underlying portfolios and risks.

Business risk

The Group's business risk arises from potential falls in earnings, significant changes in capital requirements due to new regulatory requirements, and/or declining confidence or damage to its reputation in the market due to serious events.

Business risk can arise as a result of various risk factors and the Group makes use of a broad range of tools (both quantitative and qualitative) to identify and report such risks.

Good strategic planning is the most important tool for reducing business risk and involves both preventive measures and plans for how incidents should be managed. The Board considers business strategies and business plans each year. The Group's limits and guidelines for good corporate governance and the SNN Code of Conduct are important elements in the commercial management of its operations.

Credit risk

The Group's credit portfolio in the corporate market has a moderate level of risk, while the risk in the retail market portfolio is considered to be low. The risk development in both portfolios is good, with increased proportions in the low and medium risk classes and reduced percentages in the high and highest classes. This development reflects the development in the region where the macroeconomic situation remains good. The Bank's direct exposure to oil-dependent sectors is relatively low. Most of the loans to retail customers are secured by mortgages on real property and the collateral coverage is good. The level of non-performing loans was lower in 2016 than in 2015, and is considered to be at the level that economic trends in the region would indicate.

The losses in 2016 come mainly from increased Group-level loss write-offs and a standalone commitment. The increase in collective write-downs relates to the manufacturing, oil-related industry, and fisheries and hunting segments. The increase within

the manufacturing and oil-related industry segments is based on underlying risk, while the increase within fisheries is based on greater exposure. Analyses of the existing portfolio and provisional criteria under IFRS 9 suggest that implementing a new standard will not have any significant effect on the level of Group-level loss write-offs.

The credit strategy emphasises the establishment of limits for the ongoing management of credit risk. The Bank's rules and regulations relating to the granting of credit and the associated authorisations are linked to the probability of default and collateral coverage, and they apply within the credit strategy and overall credit policy guidelines. The rules and regulations relating to the granting of credit are reviewed annually by the Board.

The Board continuously monitors the risk in the Bank's loan portfolio. This is done to ensure that trends are uncovered as early as possible and any necessary adjustments can be made to the credit policy.

Market risk

The Group's market risk is classified as moderate. Exposure to market risk largely arises due to activities that are intended to support other parts of the Group's operations. The portfolio of assets that are directly exposed to market fluctuations thus represents a small part of total assets, and the Bank is involved in securities trading for own account to a limited degree only.

Stress tests for market risk show that the Bank and the Group have the capacity to keep the level of risk within the approved limits.

Liquidity risk

Although the Group's liquidity risk is considered low, the Bank focuses heavily on this area. Debt arising from the issuance of securities and debt to credit institutions was NOK 21,165 million as at 31/12/2016, a reduction of NOK 880 million compared

with 2015. The Group's deposit coverage ratio was 76.1% as of 31/12/2016, compared with 75.1% in 2015 and 74.7% in 2014. A good deposit coverage ratio and stable customer deposits are important for the Bank's liquidity management, and the Bank expects new liquidity buffer requirements and monitoring of liquidity risk to increase the competition for stable customer deposits. The refinancing need in the capital markets in 2017 is within a band which is considered normal for the Group. The refinancing need is not therefore expected to create any liquidity problems.

The Group's funding strategy must take different considerations into account, including a balance between the lowest possible borrowing costs in the capital market and costs related to diversification of the Bank's funding with regard to terms to maturity and funding sources. The Board reviews the Group's liquidity strategy and contingency plans at least once a year.

New requirements for prudent liquidity management are regulated by, among other things, minimum requirements for Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). SpareBank 1 Nord-Norge's funding has been adapted to satisfy these new requirements.

Operational risk

The management of operational risk is an important part of overall risk management. A special system for monitoring, documenting and reporting risk and improvement areas has therefore been developed.

The operational risk in the Group is constantly monitored. The risk management department coordinates this work and reports to management and the Board.

Internal Audit conducts independent reviews and tests of the security level in the Group, covering both physical and IT security. The Group pays particular attention to the most relevant threats at any given time, including IT crime, fraud and other types of threat to the Group and its customers. Incidents that have affected, or could affect, the Group's profitability, reputation or customers are followed up in the Group's risk management system. SpareBank 1 Nord-Norge also works closely with the SpareBank 1 Alliance to ensure good and stable operations and a high level of security.

In the opinion of the Board, the area is satisfactorily supervised but constant vigilance is required.

Ownership risk

The stakes in joint ventures are significant and important for the Group's overall profitability. On the other hand, these stakes can lead to greater volatility in the results and also affect capital adequacy.

The risk in the various companies is moderate, but the Bank is indirectly exposed to considerable market risk, especially through its stake in SpareBank 1 Gruppen.

Capital management

The capital adequacy regulations set minimum requirements for common equity tier 1 capital, core capital and total regulatory capital. These regulations cover credit risk, market risk and operational risk. Financial institutions must also carry out an internal capital adequacy assessment process (ICA-AP). The Financial Supervisory Authority of Norway has provided guidelines for the process, and the capital adequacy assessment shall include all significant risks, including risks beyond the regulatory minimum requirement. The assessment must also be forward-looking and based on satisfactory methods and data. Uncertainty relating to the calculations, methods and data must also be taken into account. The Group's risk and capital situation is assessed and summed up in a separate report to the Board every quarter.

The Financial Supervisory Authority of Norway announced its methods to determine the Pillar 2² requirements early in 2016, along with principles for discussions with individual banks. The Pillar 2 measures for the individual banks were published in the autumn, as an element of this increased transparency. The Group has established processes to assess capital requirements in light of the risk profile and the quality of the established risk management and control systems in line with the Financial Supervisory Authority of Norway's methods. In November 2016, the Financial Supervisory Authority of Norway approved the Group's Pillar 2 mark-up of 1.5%. This tallies with the Group's own calculations.

The Group's financial strength targets are included as key figures in the strategy and planning process.

Further information about corporate governance can be found in the chapters on risk management, capital management, and corporate governance in the annual report.

New regulatory requirements

A number of new rules were proposed and/or introduced in the financial markets area in 2016 and a considerable amount of regulatory work is still being done in the area, both internationally and in Norway. Central changes in 2016 and changes to the rules announced for 2017 may be summarised as:

- Increase in the counter-cyclical capital buffer (2% from 31/12/2017)
- Determination of Pillar 2 requirement (1.5% for SpareBank 1 Nord-Norge).
- Leverage ratio requirement (5% from 30/06/2017)
- Retention and tightening of the Mortgage Regulation (effective to 30/06/2018)
- Introduction of financial tax (estimated annual increase in costs of around NOK 30 million)
- IFRS 9 – new impairment model for loans in banks (to be implemented from 01/01/2018)
- The Norwegian Ministry of Finance has announced
 - a proposal to introduce the SME discount in Norway
 - Assessment of today's Basel I floor
 - Proposal to legislate for a liquidity reserve in significant currencies.

For a more detailed discussion, refer to the section on 'Risk management, internal control and capital management' elsewhere in the annual report.

Auditing

The Group's external auditor is KPMG. Internal auditing is performed by Ernst & Young, which reports to the Board.

² Pillar 2: Capital over and above the minimum requirement and buffer requirements for risks to which the Group is exposed and which are only partly covered, if at all, by the minimum requirement within Pillar 1 (Pillar 2 requirements). The Pillar 2 requirement should be covered by common equity tier 1 capital.

Research and development activities

SpareBank 1 Nord-Norge carries out business development on its own behalf and also participates in extensive joint development within the SpareBank 1 Alliance.

Some of the development work was concerned with new products and services. A good example of development work in the SpareBank 1 Alliance is mobile payment (mCash) and other services such as a simple way to set up savings agreements through mobile banking.

Development in SpareBank 1 Nord-Norge is also about improving processes and working methods. During 2016 the Bank commissioned its first robot – a digital assistant. Using digital assistants makes case-handling quicker and eliminates errors.

SpareBank 1 Nord-Norge does development work in the social arena too. Together with the Norwegian Federation of Trade Unions (LO) and the Confederation of Norwegian Enterprise (NHO), the Bank has set up 'Agenda Nord-Norge', which has grown into the region's most important forum for economic development. Both public-sector and private operators are involved in this, across geographical areas, industries and party politics.

The Group does not engage in activities that can be characterised as research. However, the Group does grant funds for new knowledge and research purposes in the region through the SNN Fund and thus contributes to research that develops new knowledge in important areas.

Organisation and HR

Capable and committed employees are the key to creating value for SpareBank 1 Nord-Norge's customers and shareholders and for Northern Norway. This means that the Group has to be an attractive employer for committed and capable co-workers. The rapid changes taking place in the financial sector, in customer behaviour and regulatory matters, mean that the Group needs to be a flexible organisation with staff who can constantly develop their skills to meet new expectations and requirements.

SpareBank 1 Nord-Norge has many applicants for vacant posts and a level of sick leave which is among the lowest in the country, at just 2.7%. The Group also inspires great commitment and pride among its employees, as documented in its own annual staff surveys with anonymous feedback from its employees. This testifies to the Group's success as an attractive place to work.

In 2016 there was an extensive headcount reduction process and major organisational changes. These were necessary restructuring measures which together help to equip the Group for the future. In parallel with the lay-offs, the Group also took on over 60 new employees. SpareBank 1 Nord-Norge's staff have therefore said good-bye to 150 good colleagues, welcomed new ones, and handled big organisational changes including office closures and changes to Group functions.

Equal opportunities and diversity

SpareBank 1 Nord-Norge promotes equality among all its employees, regardless of gender, orientation, language, ethnicity, national origin, skin colour, religion and beliefs. The Group has employees from different nations and many of them are multilingual. In our region, it has been especially important to employ people who can speak Sami and Russian. In contacts with customers and in many other functions, employees need to have good English skills.

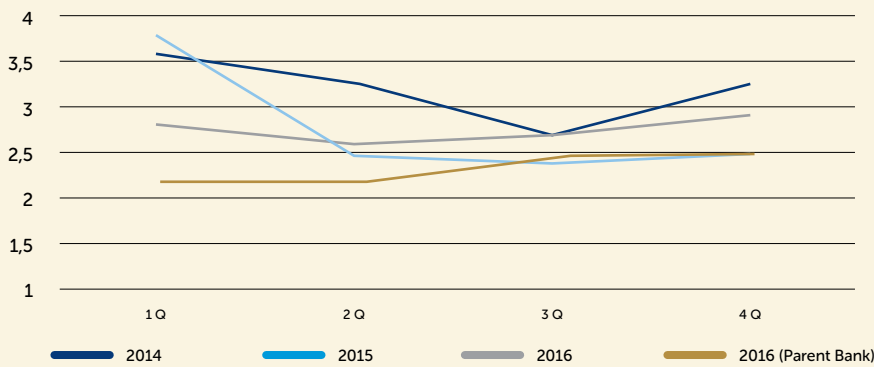
The gender distribution for the Group is 53% women and 47% men. When it comes to women in management, the ratio is 35% for the Group and 37% for the banking business. This is an improvement, but the ambition is to increase the proportion of women in management to 40%. So far, both qualitative and individual measures have been taken to attain this target, particularly through internal careers guidance.

Health and safety and the environment

Meaningful work and a good working environment with team spirit and shared goals are the basis for enjoyment, economic growth and optimum productivity. The Group takes a proactive approach to health, safety and the environment (HSE). One active measure which contributes to a good working environment is that all managers and staff representatives attend HSE courses which comply with the recommendations from the Norwegian Labour Inspection Authority in content and scope. 12 managers took the course in 2016. With regard to safety, several smaller courses were run during the year on selected topics. The members of the Group's crisis management group also underwent training in crisis management and methods together with the SpareBank 1 Alliance.

As part of the restructuring process, a risk assessment was drawn up in collaboration with Health and Safety personnel. The risk assessment included risk-reduction measures both before, during and after the downsizing and the major organisational changes. The Board believes that this work helped to bring about a successful restructuring process. This is also clearly shown by working environment indicators in the staff survey mentioned earlier.

Trend in sick leave in SNN



Note: For 2014 and 2015 the figures for the Group are excluding SNN Regnskaphuset; it is included in the figures for 2016.

The Group's SPOR concept focuses on daily physical activity and a healthy diet. SPOR has become a natural part of the Group's investment in HSE and an important element in building the corporate culture. As many as 87% of the staff are taking part in the programme, and the Group is easily exceeding the recommendations of the Norwegian Directorate of Health on physical activity for employees.

SpareBank 1 Nord-Norge strives to prevent harm from robberies, threats or other unwanted incidents. The Group had no attempted robberies in 2016. There were three reported cases of threats to employees, and two accidents connected with work. Both accidents were of a less serious nature.

Sick leave and Care in the Workplace (CW)

All of the companies in the Group are CW businesses. The agreement on 'Care in the workplace' (CW) runs to 2018. SpareBank 1 Nord-Norge has worked systematically and broadly in recent years to reduce absence through sickness. Participation in the research project run by SINTEF Nord on sick leave in the region has provided good knowledge and awareness of this issue. As mentioned earlier, the Group's absence rate, with and without a doctor's certificate, was 2.7% in 2016

Compared to the financial services industry as a whole (as of the 3rd quarter of 2016), which only reports sick-leave with a doctor's certificate, SpareBank 1 Nord-Norge is one percentage point to the good.

Ownership

SpareBank 1 Nord-Norge has two owner groups: The Bank's equity certificate holders' calculated ownership of the Bank's equity (equity certificate fraction) was 46.36% as at 01/01/2016, while 53.64% of the equity was community-owned.

As at 31/12/2016, SpareBank 1 Nord-Norge's equity certificate capital was NOK 1,807 million. On the same date, the number of equity certificates was 100,398,016, each with a nominal value of NOK 18, fully paid-up.

There were 7,465 equity certificate holders as of 31/12/2016 (7,641), 18.1% of whom were from Northern Norway (19%).

The earnings per equity certificate (Group) amounted to NOK 5.82 (NOK 4.11). As of 31/12/2016, the price was NOK 52.25 (NOK 36.20). Price/earnings and price/book were 9.0 (8.9) and 1.0 (0.8), respectively, as of 31/12/2016.

The Bank's ownership and dividend policy states that the Bank aims to provide a competitive return for the Bank's owners. The earlier limit on the payout ratio to a maximum of 50% of the Group's profit for the year has been removed. The payout ratio for 2016 of 59.6% of the Group's profits is considered to be exceptionally high. The reason for the high payout ratio is that the Group's capital targets have been exceeded and because of the extraordinary dividend received from SpareBank 1 Gruppen in the fourth quarter of 2016. For 2017 we are aiming at a dividend rate of at least 50%.

The Parent Bank's net profit for the period is distributed between the equity certificate holders and the Bank's community-owned capital based on the relative distribution of equity capital between these groups of owners.

The dividend equalisation fund totals NOK 1,656.3 million as of 31/12/2016, after the allocation of NOK 328.6 million from the profit for the year. The dividend equalisation fund also includes the amount set aside for the distribution of a cash dividend of NOK 346.4 million (NOK 3.45 per equity certificate). In accordance with IFRS, this is treated as equity in the financial statements until the proposed cash dividend has been approved by the Supervisory Board. The dividend for the community-owned capital is distributed through the allocation of funds for socially beneficial purposes. This totalled NOK 400.8 million for 2016.

Reference is also made to a more detailed section on ownership later in the Annual Report.

Corporate social responsibility

SpareBank 1 Nord-Norge considers how the Group's activities affect people, the environment and society. This social responsibility should be reflected in all parts of the business. Among other things, this means maintaining a high ethical standard and truthful dealings with customers, suppliers, authorities and the community of which the Bank is a part. The social responsibility is governed by rules laid down in Norwegian laws and regulations, and by SpareBank 1 Nord-Norge's own guidelines, strategy and policies.

In 2016, SpareBank 1 Nord-Norge started work on both clarifying and publicising its own guidelines for social responsibility across the business. This work will continue in 2017. For more detailed information on corporate social responsibility, see separate section of the annual report.

Social engagement – Together we make things happen

For SpareBank 1 Nord-Norge, social engagement is an important part of the Group's corporate social responsibility. Since 2006 SpareBank 1 Nord-Norge has made grants of over NOK 700 million from the SNN Fund. The money goes to projects that help to develop culture, sports, education and voluntary work in the region. These are projects to improve the quality of life, create jobs and develop the region.

Environment and climate

SpareBank 1 Nord-Norge continued its efforts to be even more efficient with respect to the environment and saving resources in 2016. Among other things, this is done by placing requirements on suppliers and business partners, and also on procedures and on our own staff within the Group. SpareBank 1 Nord-Norge is Eco-Lighthouse certified, and complies with the obligations in the certification scheme. The right environmental measures in day-to-day operations and in the Group's investments will be sustainable in an environmental and

economic perspective in the short and long term. In 2016 the Group focused on optimising and reducing time spent, costs and the environmental impact of travel by employees. The Group also closed 21 local offices in 2016, indirectly contributing to a reduced need for heating, cleaning, travel and consumption of paper and energy.

SpareBank 1 Nord-Norge produces energy and climate accounts that document the Group's consumption, recycling rate and energy use. The accounts follow the international standards set out in the Greenhouse Gas Protocol and ISO 14064-1. The energy and climate accounts for 2016 show that SpareBank 1 Nord-Norge produced total greenhouse gas emissions of 1,070 tonnes of CO₂ equivalents (tCO₂e). This is a reduction of 326.2 tCO₂e, or 23.4%, compared to 2015. In 2016, the Group used 7,729 MWh of electricity from the power grid/district heating. This represents a decrease of 36% from 2015.

The Group launched the project 'Jobb smartere, reis mindre' ('Work smarter – travel less') in the autumn of 2016. The aim of the project is for employees to make greater use of online meetings and so reduce the need for travel through active use of new technology such as videoconferencing and Skype. The results are good, and emissions from flights in 2016 total 524 tCO₂e. This is a reduction of 15% from 2015 and is due to less travel.

More detailed information on the energy and climate accounts for 2016 is included in the section of the annual report on 'Corporate social responsibility'.

Sparebankstiftelsen SpareBank 1 Nord-Norge

The Bank established Sparebankstiftelsen SpareBank 1 Nord-Norge in 2011. The foundation's primary purpose is to exercise long-term and stable ownership of SpareBank 1 Nord-Norge, including the management of equity certificates that were transferred to the foundation at the time of its establishment, and, insofar as it is able, to participate in SpareBank 1 Nord-Norge's equity issues. The foundation also makes donations for socially beneficial purposes from its returns on the capital it manages.

The foundation was established due to a new Financial Institutions Act that came into force in 2009 and laid down regulations for the equal treatment of the two groups of owners of savings banks: the community and the equity certificate holders. This solved the previous challenges associated with the so-called dilution of equity certificate holders in connection with high distributions of dividends to equity certificate holders. The Bank therefore adopted a dividend policy which established equal treatment of the groups of owners with – in a normal situation – the same payout ratio of net profit as dividends and donations. This could, however, have led to very large distributions of dividends/donations to the community as an owner – an owner that cannot participate in future equity issues. Over time, this could have resulted in the crumbling of the Bank's community ownership, which was not considered to be in the interests of either the Bank or community owners.

SpareBank 1 Nord-Norge intends to ensure that a proportion of the annual dividends for the local community are made to the Foundation. Thus, the Foundation will be able to build up capital that can be used in connection with future equity issues by the Bank.

The Foundation has received a number of donations from the Bank since its establishment and managed a total of NOK 439 mil-

lion as of 31/12/2016. The Board's proposed appropriation of profits for 2016 allows for a further allocation of funds to the foundation.

Donations

The Foundation's articles of association stipulate that it shall make donations for socially beneficial purposes within SpareBank 1 Nord-Norge's market area. Donations totalling NOK 11 million were made to 83 projects in 2016. Among these, 10 grants were made to promising artists in Northern Norway.

Sparebankstiftelsen's website and Facebook page are regularly updated with relevant news: www.snnstiftelsene.no/sparebankstiftelsen.

Sparebankstiftelsen has two part-time employees: a business manager in a 20% position and an office manager in a 50% position.

SpareBank 1 Nord-Norge's Cultural Business Development Foundation

SpareBank 1 Nord-Norge's Cultural Business Development Foundation was established in 2012 by the Bank's Board. Its purpose is to contribute to the publicly beneficial development of the arts in the region. This will be done by the foundation making financial contributions (grants or investments) to cultural activities or promotions. Its overall objective is to help create more jobs.

Priorities when assessing suitability for funding will include:

- diversity within the arts
- developing the arts in SpareBank 1 Nord-Norge's market area
- opportunities for developing sustainable structures that can eventually create the basis for increased employment in the culture industry

The Cultural Business Development Foundation distributed a total of NOK 15.5 million to 123 projects in 2016.

The foundation's most important means are application-based grants within music, literature, film, and the dramatic and visual arts. The project grants ranged from NOK 15,000 to NOK 250,000, with an average of around NOK 100,000.

In 2016 the Cultural Business Development Foundation embarked on two major structural cooperation projects. One is the establishment of the regional investment fund Filmfond Nord in collaboration with county councils in Nordland, Troms and Finnmark, which received a grant of NOK 1.5 million from the fund. The other is the establishment of the 'Artica Svalbard' foundation in partnership with the Ministry of Culture and Fritt Ord, with a grant of NOK 1 million from the fund. Similar grants will be made to Filmfond Nord and Artica Svalbard in 2017 and 2018.

The Cultural Business Development Foundation actively seeks to influence opinion and decision-makers to move them in the direction of focusing on the arts more strongly. In connection with this a series of talks in workshops and conferences were given and feature articles written in northern Norwegian newspapers.

The foundation has been heard in matters it has got involved in, both nationally and regionally.

See also the Cultural Business Development Foundation's website www.snnstiftelsene.no/kulturnaeringsstiftelsen for regular news updates.

SpareBank 1 Nord-Norges kunststiftelse

SpareBank 1 Nord-Norge's arts foundation was established in 2007 by the Bank's Board. The primary objective of the foundation is to assemble and administer a collection of artworks of importance to the region. The artworks are displayed in the Bank's premises or are held in public institutions. The collection currently numbers 835 works, 131 of which have been purchased since it was established.

The board of the foundation is working on developing the quality and accessibility of the art collection. It particularly focuses on visual art and other works of art with links to the Bank's market area and sphere, the region and northern areas, when making acquisitions. At the same time, it is important that the collection reflects national and international trends. Another important area of work is showing the collection in public.

Board and executive management team

The Chairman of the Board of SpareBank 1 Nord-Norge is Karl Eirik Schjøtt-Pedersen. The Supervisory Board meetings in March 2016 made three changes to the Board. Board member and former CEO of the Norwegian Broadcasting Corporation (NRK) Hans-Tore Bjerkaas was elected as the new Deputy Chairman. Kjersti Terese Stormo, director of BE Kraftsalg AS and CFO of Bodø Energi, and Bengt Olsen, CFO of DIPS ASA, were elected as new members.

16 board meetings were held in 2016.

The Board has the following subcommittees:

The Audit Committee prepares matters that will be reviewed by the Board concerning the monitoring of financial information and internal control and risk management. The CEO is responsible for making information and recommendations available to the committee as required and upon request. The Board has chosen a solution whereby the committee consists of the Chairman of the Board and two other members. These are independent according to the definition in the Norwegian Code of Practice for Corporate Governance.

The Risk Committee prepares matters that will be reviewed by the Board concerning ensuring that the Group's overall risk and assessments of the management and control arrangements suit the level and scope of risk. The Risk Committee has the same composition and the same members as the Audit Committee.

The Remuneration Committee prepares matters that will be reviewed by the Board concerning remuneration arrangements and assesses the remuneration of the CEO, and suggests any changes to this. In SpareBank 1 Nord-Norge, the committee consists of the Chairman of the Board and two other members, and is independent of any executive personnel. The Group is adapting its practices to the provisions stipulated in the new regulations relating to remuneration in the financial sector, and the Remuneration Committee's mandate satisfies these provisions.

See also the section on corporate governance elsewhere in the annual report.

The Group CEO of SpareBank 1 Nord-Norge is Jan-Frode Janson. Group management is made up of 11 persons in 2016, after Ronni Møller Pettersen was appointed to the position of Senior Group General Manager for Sales and Customer Relations. Hanne Johansen Nordgaard stepped down as Senior Group

General Manager for the Helgeland region on 31/12/2016, to take up a new position as CEO of Helgeland Sparebank. Trude Glad was appointed as Senior Group General Manager for the Helgeland region, and will look after both this and the Salten region until further notice.

Macroeconomic conditions – status and outlook for 2017

The beginning of 2016 saw both unrest and violent fluctuation in the financial markets. This was driven by fears of a downturn in China and emerging economies and the collapse of some European banks. Global growth in 2016 appears to be around 3.1%, a marginal drop from 3.2% in 2015. Growth for 2017 looks likely to pick up a little. It is still the emerging economies that are contributing most to the growth, but there are also signs of improvement in the industrialised countries. Unemployment is falling, and there are signs that inflation is on its way up. The risk of deflation has subsided, which means that stimulus from central banks should not be as necessary as it was. Interest rates will probably increase slightly in the near future.

In light of this, there are grounds for a relatively positive view of the prospects for the global economy in 2017. After the financial crisis, the government debt crisis and a substantial fall in oil prices, there are now hopes of a more stable year. Despite a growing optimism, there is still a lot of uncertainty in the global economy. The risk of a trade war and increased protectionism, uncertainly surrounding forthcoming elections in Europe, and the Brexit negotiations, are all factors that could reduce global growth. There are also concerns about the build-up of debt in China and the possibility of a major recession in the Chinese economy.

Norway and the Norwegian economy are still affected by the fall in oil prices. This is reflected in the weak economic growth

we have seen in recent years. GDP growth for mainland Norway was weaker in 2016 than either Statistics Norway (SSB) or Norges Bank foresaw at the beginning of the year. The estimate prior to publication of the 4th quarter figures shows a growth of 0.7% in 2016. There are some signs that the Norwegian economy is improving, but progress is slow. Mainland Norway's GDP is expected to grow by just under 2% in 2017. This growth will primarily be driven by private consumption and high levels of investment in housing and the public sector.

Growth in household disposable income was much lower than expected in 2016. SSB estimated that it would rise by 1.4%, but the reality seems to be around 0%. Despite the decline in real income in 2016, private consumption grew roughly as expected by 1.5%. The reason is that people are saving less. Residential investments increased sharply in 2016. The construction of new homes was at its highest for 30 years, and the figures will remain strong in the new year.

House prices and household debt continued to rise in 2016. In December 2016, house prices for the whole country were 12.8% higher than in December the year before. The regional differences are big: from a 23.3% growth in prices in Oslo to a fall of 2.3% in Stavanger. In Northern Norway, price growth in Tromsø and Bodø stood at 7.5% and 10.1% respectively, while the rest of the region saw price growth of 10.2%. This is slightly lower than the growth for the whole country, but still represents a high growth in prices. In the market, house prices are expected to ease further in 2017. This is because the growth in recent times is not sustainable in the long term, and because the effect of low interest rates has largely played itself out. There is also a lot of building going on at present, which will increase the supply of homes.

Northern Norwegian households generally have healthy economies. Nevertheless, and

especially in the largest towns in the region, rising house prices have caused a high level of debt in many households. If interest rates should increase more than expected, some households could face problems. The authorities have been concerned about the development of house prices for a long time, especially as it is contributing to the growth in household debt. In order to curb this growth, the Ministry of Finance decided to tighten the requirements in the residential mortgage lending regulations effective from 01/01/2017. The changes include a maximum lending limit equivalent to five times gross income, and more restrictive rules for Oslo. SpareBank 1 Nord-Norge shares the authorities' concern about the growth in debt and aims to practise a prudent lending policy in its day-to-day credit work, which does not contribute to a further rise in prices.

The downturn in the petroleum sector led to a marked increase in unemployment in the course of 2015. In 2016 the trend was more stable. By Norwegian standards, unemployment is high, and most analysts expect it to stay relatively unchanged at around 5% in 2017. Northern Norway has lower unemployment than the country as a whole, and there are often problems in finding enough skilled workers.

The northern Norwegian economy remains good and is enjoying significantly higher growth than the rest of the country. While mainland Norway as a whole has projected growth of 0.7% in 2016, the Business Barometer for Northern Norway suggests around 4% for the region. This is largely due to robust growth in the seafood and tourism industries, increasing exports from the processing industry, and the fact that Northern Norway is not particularly affected by the downturn in the oil industry. The impacts of the weak Norwegian krone and low energy prices have also been positive for the energy-intensive industries in Nordland. Another reason why growth is higher in Northern Norway than in the co-

untry as a whole is that private consumption is growing faster in the north than elsewhere in the country.

Seafood is one of the region's most important industries in terms of value creation. The export value of seafood from Northern Norway rose by 22% from 2015 to NOK 24.5 billion in 2016. It is worth noting that this growth arises not from greater volumes but from higher prices. The future of the seafood industry in the north still looks bright, with great opportunities for increasing the production of salmon along the coast and a cod sector with sustainable stocks and high quotas.

Tourism in the region saw around 9% more overnight stays as of November 2016 than for the corresponding period in 2015. At the same time, the number of foreign overnight stays increased by 18%. An increasing proportion of the traffic is for winter tourism. For example, Troms saw 33% more foreign overnight stays in November 2016 than in November 2015.

The growth in building and construction has slowed somewhat, but remains just above 4%.

Oil and gas represent substantial value creation for the region. This is despite the fact that the sector is still in an early phase in the north with only the Norne, Snøhvit, Skarv and Goliat fields in operation. The Aasta Hansteen gas field is also under development. Combined with new finds on the Johan Castberg, Gotha and Alta fields, and the opening up of new areas for exploration, the oil sector in the north is making more of a mark. The drop in oil prices will have a limited effect on the level of activity in the short-term. The low oil price also helped companies with their cost reduction efforts. This will make it easier to implement future projects in the north too. One example is the development of the Johan Castberg field, where significant cost savings have been made. This was a major

reason why it was decided to look further at expanding this field in the Barents Sea.

The macroeconomic conditions are therefore in place for 2017 to provide growth opportunities for Northern Norway and for SpareBank 1 Nord-Norge. At the same time, there are uncertainty factors in relation to both the international macro picture and how the Norwegian krone exchange rate will develop in the future. With a substantial element of exports in the economy of Northern Norway relative to the rest of the country, the exchange rate is very important, particularly for export industries and tourism. A stronger krone will therefore have a negative influence for the development of the regional economy.

Greater protectionism and less global trade will not be good for the northern Norwegian economy either. Many places and industries are finding it hard to recruit skilled workers. A tight labour market could therefore pose a challenge to growth in Northern Norway. The same is true of an infrastructure that is not efficient enough. Overall, however, Northern Norway's macroeconomic prospects still look somewhat better than those for the country as a whole.

One of SpareBank 1 Nord-Norge's roles is to ensure that good projects receive the right financing. The Group also wants to use its expertise to help ensure that the region can implement measures and investments that improve value creation. The partnership with the Confederation of Norwegian Enterprise (NHO) and the Norwegian Confederation of Trade Unions (LO) on Agenda Nord-Norge and the Business Barometer for Northern Norway are important contributions in this context.

Concluding remarks

Despite great uncertainty internationally, the Bank believes the growth outlook for the northern Norwegian economy is relatively good. The Business Barometer for Northern Norway forecasts economic growth of 3% in 2017. Exports and tourism are important to the region, so the competitiveness of Northern Norway will be compromised by a stronger krone. A world with less trade and more protectionism could also have a negative impact on the region.

The project 'Ett konsern – én kundeopplevelse' ('One group – one customer experience') started in the autumn of 2016. The focus of this project is to ensure that the SpareBank 1 Nord-Norge Group puts the customer centre-stage. Customers should receive the best offers and the best individually tailored advice at all times, whenever they make contact with the Group. With a combination of good, seamless digital solutions, physical presence, the best advisers, and a culture that puts customers' needs first, SpareBank 1 Nord-Norge aims to offer a world-class customer experience in Northern Norway.

The annual financial statements have been prepared on the assumption that the Bank and the Group are going concerns. This assumption is based on the Group's long-term strategic plans and earnings forecasts for the coming years.

The Group has healthy finances and is in a strong financial position. SpareBank 1 Nord-Norge will therefore continue to be an active partner in the region's development in the years ahead and is still well-equipped to strengthen its leading position in Northern Norway.

As mentioned at the beginning of the report, the Group has taken a number of strategic measures in recent years to ensure future profitability in line with the Group's profitability targets. The measures have been effective and the Group's results for 2016 are characterised as very good. The work of developing the Bank goes on.

The Board would like to thank all of the Group's employees for their efforts and commitment over the past year. These are important contributions to the development of the SpareBank 1 Nord-Norge Group.

The Board would also like to thank the Group's customers and other business associates for their contributions in 2016.

Tromsø, 01 March 2017

The Board of SpareBank 1 Nord-Norge



Karl Eirik Schjøtt-Pedersen
(Chairman of the Board)



Hans-Tore Bjerkaas
(Deputy Chairman)



Ingvild Myhre



Kjersti Terese Stormo



Greger Mannsverk



Bengt Olsen



Sonja Dønne



Vivi-Ann Pedersen
(Employee-elected)



Jan-Frode Janson
(CEO)



Machine contracting

More than 25,300 North Norwegian businesses are SpareBank 1 Nord-Norge customers. Among them is Harald Nilsen, a machine contracting firm. Harald was born into Tromsø Sparebank and has been a customer since 1959.

Photo: Lars Åke Andersen

ANNUAL ACCOUNTS

2016

ANNUAL REPORT - INCOME STATEMENT

PARENT BANK				GROUP	
2015	2016	Amounts in NOK million	Notes	2016	2015
2 520	2 359	Interest income	20	2 548	2 702
1 200	907	Interest costs	20	904	1 190
1 320	1 452	Net interest income		1 644	1 512
739	682	Fee- and commission income	21	871	908
72	78	Fee- and commission costs	21	85	75
15	42	Other operating income	21	138	100
682	646	Net fee- commission and other operating income		924	933
8	74	Dividend	22	74	8
354	612	Income from investments	22	366	399
-114	114	Gain/losses and net value changes from investments in securities	22	69	-158
248	800	Net income from investments		509	249
2 250	2 898	Total income		3 077	2 694
670	503	Personnel costs	23,25	689	850
508	523	Other operating costs	24,32	631	611
1 178	1 026	Total costs		1 320	1 461
1 072	1 872	Result before losses		1 757	1 233
216	158	Losses	14	213	200
856	1 714	Result before tax		1 544	1 033
126	258	Tax	26	291	163
		Result non-current assets held for sale	30		-5
		Minority interests			-7
730	1 456	Result for the year (majority)		1 253	872
Result per Equity Certificates (majority)					
3.44	6.72	Result per EC *		5.79	4.11
3.44	6.72	Diluted result per EC*		5.79	4.11
Comprehensive income, IAS 1					
730	1 456	Result for the period (majority)		1 253	872
		Value adjustment of property, plant and equipment			-10
8	10	Effective part of change in fair market value in cash flow hedging		10	8
80	-60	Net change in fair value of financial assets available for sale		-60	80
		Reclassification adjustments			30
		Net change in fair value of investment in joint-venture		0	34
61	-5	Actuarial gains (losses) on benefit-based pension schemes		-1	58
-18	-1	Tax on other comprehensive income		-2	-17
131	-56	Other comprehensive income for the period		-53	183
861	1 400	Total comprehensive income for the period (majority)		1 200	1 055
		Minority interest of total comprehensive income			-7
Total result per Equity Certificate (majority)					
4.06	6.47	Result per EC *		5.55	4.94
4.06	6.47	Diluted result per EC*		5.55	4.94
Tax on other comprehensive income:					
-2	-2	Effective part of change in fair market value in cash flow hedging		-2	-2
-16	1	Actuarial gains (losses) on benefit-based pension schemes		0	-15
-18	-1	Tax on other comprehensive income		-2	-17

* Result multiplied by ECs' share of result, divided by number of ECs

ANNUAL REPORT - BALANCE SHEET

PARENT BANK			GROUP		
31.12.15	31.12.16	Amounts in NOK million	Notes	31.12.16	31.12.15
ASSETS					
274	775	Cash and balances with Central Banks		775	274
5 683	5 871	Loans and advances to credit institutions	10	1 946	2 124
59 487	65 670	Net loans and advances to customers	11	70 236	63 637
388	291	Shares	30	306	569
11 178	10 164	Bonds and certificates	29	10 164	11 178
1 946	1 390	Financial derivatives	17	1 390	1 946
626	728	Investment in Group companies	31,41		
2 836	2 849	Investment in associated companies and joint ventures	31,41	4 370	4 424
443	361	Property, plant and equipment	32	501	553
		Non-current assets held for sale	30	30	28
		Intangible assets	33	63	51
522	425	Other assets	34	720	619
83 383	88 524	Total assets		90 501	85 403
LIABILITIES					
1 829	833	Liabilities to credit institutions	10	818	1 816
48 115	53 924	Deposits from customers	35	53 870	48 087
21 470	21 165	Debt securities in issue	36	21 165	21 470
1 525	985	Financial derivatives	17	985	1 525
750	846	Other liabilities	37,25	1 128	956
		Non-current assets held for sale	30		
146	83	Deferred tax liabilities	26	174	238
1 350	1 350	Subordinated loan capital	39	1 350	1 350
75 185	79 186	Total liabilities		79 490	75 442
EQUITY					
1 807	1 807	Equity Certificates	42	1 807	1 807
843	843	Premium Fund		843	843
1 179	1 657	Dividend Equalisation Fund		1 657	1 179
4 074	4 459	Saving Bank's Fund		4 459	4 074
180	521	Donations		521	180
80	20	Fund for unrealised gains		20	80
35	31	Other equity		1 704	1 798
8 198	9 338	Total equity exclusive minority interests		11 011	9 961
		Minority interests			
8 198	9 338	Total equity		11 011	9 961
83 383	88 524	Total liabilities and equity		90 501	85 403

Tromsø, 1. March 2017


Karl-Eirik Schjøtt Pedersen
(Chairman of the Board)

Hans-Tore Bjerkaas
(Deputy Chairman)


Ingvild Myhre



Sonja Dønne



Kjersti Terese Stormo



Bengt Olsen



Greger Mannsverk


Vivi-Ann Pedersen
(Employee-elected)

Jan-Frode Janson
(CEO)

ANNUAL REPORT - CHANGES IN EQUITY

Amounts in NOK million	EC capital	Premium Fund	Dividend Equalisation Fund	Saving Bank's Fund	Fair value reserve	Donations Fund	Other equity	Total Majority interests	Minority interests	Total equity
PARENT BANK										
Equity at 01.01.15	1 807	843	1 020	3 745		332	-12	7 735		7 735

Total comprehensive income for the period

Period result			346	324		60		730		730
<i>Other comprehensive income:</i>										
Net change in fair value of financial assets available for sale					80			80		80
Effective part of change in fair market value in cash flow hedging							61	61		61
Actuarial gains/losses on benefit-based pension schemes			4	4				8		8
Tax on other comprehensive income			-1	-1			-16	-18		-18
Total other comprehensive income			3	3	80	0	45	131		131
Total comprehensive income for the period			349	327	80	60	45	861		861

Transactions with owners

Equity issue										
Set aside for dividend payments			-201					-201		-201
Reversal of dividend payments			201					201		201
Dividend paid 2014/other distribution			-191			-212		-403		-403
Other equity transactions			1	2			2	5		5
Total transactions with owners			-190	2	0	-212	2	-398		-398
Equity at 31.12.15	1 807	843	1 179	4 074	80	180	35	8 198		8 198

Total comprehensive income for the period

Period result			675	380		401		1 456		1 456
<i>Other comprehensive income:</i>										
Actuarial gains/losses on benefit-based pension schemes							-5	-5		-5
Net change in fair value of financial assets available for sale					-60			-60		-60
Effective part of change in fair market value in cash flow hedging			4	6				10		10
Tax on other comprehensive income				-2			1	-1		-1
Total other comprehensive income			4	4	-60	0	-4	-56		-56
Total comprehensive income for the period			679	384	-60	401	-4	1 400		1 400

Transactions with owners

Equity issue										
Set aside for dividend payments								0		0
Reversal of dividend payments								0		0
Dividend paid 2015/other distribution			-201			-60		-261		-261
Other equity transactions				1				1		1
Total transactions with owners			-201	1	-60	0	0	-260		-260
Equity at 31.12.16	1 807	843	1 657	4 459	20	521	31	9 338	0	9 338

Amounts in NOK million	EC capital	Premium Fund	Dividend Equalisation Fund	Saving Bank's Fund	Fair value reserve	Donations Fund	Other equity	Total Majority interests	Minority interests	Total equity
GROUP										
Equity at 01.01.15	1 807	843	1 020	3 745	-30	332	1 611	9 328	15	9 343
Total comprehensive income for the period										
Period result			346	324		60	141	871	-7	864
<i>Other comprehensive income</i>										
Reclassification adjustments					30			30		30
Value adjustment of property, plant and equipment							-10	-10		-10
Net change in fair market value of investment in joint ventures							34	34		34
Net change in fair value of financial assets available for sale					80			80		80
Actuarial gains/losses on benefit-based pension schemes							58	58		58
Effective part of change in fair market value in cash flow hedging			4	4				8		8
Tax on other comprehensive income			-1	-1			-15	-17		-17
Total other comprehensive income			3	3	110	0	67	183	0	183
Total comprehensive income for the period			349	327	110	60	208	1 054	-7	1 047
Transactions with owners										
Equity issue								0		0
Set aside for dividend payments			-201					-201		-201
Reversal of dividend payments			201					201		201
Dividend paid 2014/other distribution			-191			-212		-403		-403
Changes in minority interests							-11	-11	-8	-19
Other equity transactions			1	2			-10	-7		-7
Total transactions with owners	0	0	-190	2		-212	-21	-421	-8	-429
Equity at 31.12.15	1 807	843	1 179	4 074	80	180	1 798	9 961	0	9 961
Total comprehensive income for the period										
Period result			675	380		401	-203	1 253		1 253
<i>Other comprehensive income</i>										
Reclassification adjustments								0		0
Value adjustment of property, plant and equipment								0		0
Net change in fair market value of investment in joint ventures								0		0
Net change in fair value of financial assets available for sale					-60			-60		-60
Actuarial gains/losses on benefit-based pension schemes								0		0
Effective part of change in fair market value in cash flow hedging			4	6				10		10
Tax on other comprehensive income				-2				-2		-2
Total other comprehensive income			4	4	-60	0	0	-52	0	-52
Total comprehensive income for the period			679	384	-60	401	-203	1 201	0	1 201
Transactions with owners										
Equity issue										
Set aside for dividend payments								0		0
Reversal of dividend payments								0		0
Dividend paid 2015/other distribution			-201			-60		-261		-261
Changes in minority interests								0		0
Other equity transactions				1			109	110		110
Total transactions with owners			-201	1		-60	109	-151	0	-151
Equity at 31.12.16	1 807	843	1 657	4 459	20	521	1 704	11 011	0	11 011

ANNUAL REPORT - CASH FLOW STATEMENT

PARENT BANK		Amounts in NOK million	GROUP	
31.12.15	31.12.16		31.12.16	31.12.15
856	1 714	Profit before tax	1 544	1 033
48	50	+ Ordinary depreciation	60	56
2	-20	+ Write-downs, gains/losses fixed assets	-20	2
216	158	+ Losses on loans and guarantees	213	200
126	258	- Tax/Result non-current assets held for sale	291	163
403	261	- Dividend paid on ECs	261	403
593	1 383	Provided from the year's operations	1 245	725
167	-563	Change in sundry liabilities: + increase/ - decrease	-374	191
173	653	Change in various claims: - increase/ + decrease	440	178
-2 703	-6 341	Change in gross lending to and claims on customers: - increase/ + decrease	-6 837	-2 860
-1 605	1 111	Change in short term-securities: - increase/ + decrease	1 277	-1 554
2 379	5 779	Change in deposits from and debt owed to customers: + increase/ - decrease	5 778	2 351
-935	-965	Change in debt owed to credit institutions: + increase/ - decrease	-967	-942
-1 931	1 057	A. Net liquidity change from operations	562	-1 911
-47	-40	- Investment in fixed assets	-80	-52
20	92	+ Sale of fixed assets	92	37
-154	-115	Change in holdings of long-term securities: - increase/ + decrease	54	-237
-181	-63	B. Liquidity change from investments	66	-252
158	-305	Change in borrowings through the issuance of securities: + increase/ - decrease	-305	156
		Change in PCC/subordinated loan capital: + increase/ - decrease		
158	-305	C. Liquidity change from financing	-305	156
-1 954	689	A + B + C. Total change in liquidity	323	-2 007
7 911	5 957	+ Liquid funds at the start of the period	2 398	4 405
5 957	6 646	= Liquid funds at the end of the period	2 721	2 398

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ANNUAL REPORT - NOTES

NOTE 1 - GENERAL INFORMATIONS

Description of the business

SpareBank 1 Nord-Norge is an independent Norwegian financial services group within the SpareBank 1 Alliance, with Equity Certificates registered on Oslo Stock Exchange. The Bank knows Northern Norway and is a leading provider of financial services within the retail and corporate markets in the region. SpareBank 1 Nord-Norge provides comprehensive, modern financial solutions to customers with a basis in the Northern Norway market.

Business address

The SpareBank 1 Nord-Norge Group's head office is located in Tromsø, and its business address is Storgata 65, 9008 Tromsø.

Date of adoption of the group accounts

The 2016 preliminary annual accounts were adopted by the Parent Bank's Board on 07/02/2017. The 2016 final annual accounts were adopted by the Parent Bank's Board on 01/03/2017. The 2016 final annual accounts will be adopted by the Parent Bank's Supervisory Board on 28/03/2017.

NOTE 2 - ACCOUNTING PRINCIPLES

Basis for preparation of the annual accounts

The 2016 Group and Parent Bank accounts for SpareBank 1 Nord-Norge have been prepared in accordance with EU-approved IFRS (International Financial Reporting Standards), IAS (International Accounting Standards) and the associated interpretations that can be applied as of 31/12/2016, as well as Norwegian information requirements pursuant to the Accounting Act as of 31/12/2016.

If nothing distinctly are defined precisely the same accounting principles are used in the Group and Parent Bank accounts. The financial statements are based on the historic cost principle, with the exception of financial assets available for sale and financial assets and liabilities (including derivatives) measured at fair value through profit and loss.

The accounting policies that are applied are consistent with the policies applied in the previous accounting period, with the exception of the IFRS amendments that have been implemented in the Group in the current accounting period. Below is a list of the relevant IFRS amendments that came into effect for the 2016 financial statements and the effects that they have had on the Group's annual financial statements.

- *IFRS 9 – Financial Instruments*
The standard will replace IAS 39. New loss model, implementation and accounting impact are discussed in Note 44.
- *IAS 12 Income Tax*
The change clarifies the accounting treatment of deferred tax assets linked to investments in debt instruments measured at fair value.
- *IAS 7 Statement of Cash Flows*
Requirements for Notes information are being introduced to make it possible to evaluate changes in obligations resulting from financing activities, including changes arising from cash flows and other events.
- *IFRS 12 Disclosure of Interests in Other Entities*
Clarifies the scope of application of the standard. The Notes information requirements in IFRS 12 (with some exceptions) apply where ownership interests in other companies are classified as held for sale or as discontinued operations in line with IFRS 5.

The proposed annual financial statements were adopted by the Main Board of Directors and the Bank's CEO at the time indicated by the dated and signed balance sheet.

The annual financial statements have been approved by the Supervisory Board on 28/03/2017.

Presentation currency

The presentation currency is Norwegian kroner (NOK), which is also the Bank's functional currency. All amounts are presented in NOK million unless otherwise stated.

Consolidation

The consolidated accounts comprise the Bank and all its subsidiaries that are not planned to be sold in the near future, which are therefore to be classified as held for sale in accordance with IFRS 5. Subsidiaries are defined as companies in which the Bank has a controlling interest, i.e. the power to govern the company's financial and operational policies for the purpose of gaining benefits from the company's activities. Subsidiaries are consolidated from the date the Bank gains a controlling interest, and they will be eliminated from the consolidation on the date when such control is relinquished.

As at 31/12/2016 following subsidiaries are consolidated: SpareBank 1 Finans Nord-Norge AS (100 %), SpareBank 1 Nord-Norge Portefølje AS (100 %), SpareBank 1 Nord-Norge Forvaltning ASA 100 %, EiendomsMegler 1 Nord-Norge AS (100 %), SpareBank 1 Regnskapshuset Nord-Norge AS (100%), Nord-Norge Eienendom IV AS (100 %), Alsgården AS (100 %), and Fredrik Langes gate 20 AS (100 %).

On achieving a controlling interest in a company (business combinations), all identifiable assets and liabilities will be recognised at fair value in accordance with IFRS 3. Any positive differences between the cost of acquisition and fair value of identifiable assets and liabilities are recognised as goodwill, whereas any negative differences are recognised as income. The accounting of goodwill after the initial recognition is commented on under the section on intangible assets. In the Parent Bank's balance sheet, equity stakes in group companies are recognised at cost price in accordance with IFRS.

Only the annual dividends received and any write-down on the value of the shares are stated in the Parent Bank's profit and loss account. In the IFRS-based group accounts, the equity method of accounting is applied, which entails that profit/loss attributable to joint ventures and associated companies is included in the Group's profit and loss account by the equity stake, and they are taken into account in the book value of the assets in the balance sheet. Profit/loss attributable to subsidiaries are consolidated into the accounts. This means that the book value of subsidiaries in the Parent Bank's balance sheet represents historical cost. The book values are tested for impairment. Intra-group transactions, open accounts and unrealised profit between group companies have been eliminated. The minority interest's share of the Group's profit/loss is presented on a separate line in the profit and loss account. Under equity capital, the minority interest's share is also presented on a separate line.

Book values are tested for falls in value and possible impairment.

Associated companies

An associated company is defined as a company in which the Bank has significant influence, but not a controlling interest. An influence is normally significant when the ownership interest is between 20% and 50%. Associated companies are included in the group accounts according to the equity method of accounting. The investment is recognised initially at historical cost in the balance sheet and subsequently adjusted for changes in the Bank's share of the net assets of the associated company. The Bank's share of the associated company's profit/loss is incorporated in the group accounts, whereas the equity stake is recognised according to the cost method in the Parent Bank's accounts, in the same manner as for group companies.

As at 31/12/2016 the following associated companies are applied with equity method of accounting: SpareBank 1 Boligkreditt AS (14,61 %), SpareBank 1 Næringskreditt AS (16,64 %), BN Bank AS (23,5 %), SpareBank 1 Kredittkort AS (17,80 %), and SpareBank 1 Mobilbetaling AS (19,70 %).

Joint ventures

A joint venture may comprise jointly controlled operations, assets and/or companies. Joint control implies that the Bank exercises control jointly with other parties, as governed by an agreement. Jointly controlled operations and assets are recognised in the Bank's group accounts as the Bank's proportional share of the assets, liabilities and other balance sheet items.

Joint ventures are recognised in the group accounts according to the equity method of accounting. In the Parent Bank's accounts, the cost method of accounting is used.

As at 31/12/2016 the following joint ventures are applied with equity method of accounting: SpareBank 1 Gruppen AS (19,5 %) and SpareBank 1 Banksamarbeidet DA (17,74 %). In the Parent Bank's accounts, equity stakes in joint ventures recognised at cost price in accordance with IFRS.

Operations held for sale

The Group classifies operations as held for sale under IFRS 5 once the executive management group has approved a plan for their disposal. Subsidiaries that are acquired with a view to selling them on, including companies that are taken over as part of restructuring loans if the Group expects to dispose of the company within a reasonable amount of time.

Classification and valuation of balance sheet items

The Group's balance sheet items are classified in relation to whether they are financial assets and liabilities or other items.

Financial instruments are classified as being in one of the following categories:

- held for sale
- at fair value through profit or loss
- loans and receivables
- investments held to maturity
- financial instruments at amortised cost

After first time recognition the financial instruments are presented as described below.

	Financial asset or liabilities	CLASS				Amortised cost (effective interest method)	Acquisition cost	Hedge accounting	
		Criteria that allows a financial asset or liability to follow the rules for fair value through profit and loss						Fair value hedging	Cash flow hedging
		Held for sale	Stated at fair value for first time	Loans and receivables	Available for sale				
Assets									
Cash and deposits with central banks	Yes	x							x
Lending to financial institutions	Yes			x		x			x
Lending to customers	Yes		x	x		x			x
Shares	Yes	x	x		x		x		
Certificates and bonds	Yes	x	x			x			
Financial derivatives	Yes	x							
Property	No								
Plant and equipment	No								
Intangible assets	No								
Other assets	No								
Liabilities									
Liabilities to financial institutions	Yes					x			
Deposits from customers	Yes					x			
Securities issued/funding	Yes					x		x	
Financial derivatives	Yes	x							
Other liabilities	No								
Hybrid Tier 1 capital	Yes					x			
Subordinated loan capital	Yes					x			

Measuring of financial instruments at fair value:

	Financial asset or liabilities	Fair value option		Stated at:				
		Held for sale	Stated at fair value for first time	Fair value through profit IFRS 7.25-26	Fair value option	Fair value hierarchy IFRS 13.93 (b), BC216		
						Level 1 Listed prices in active market IFRS 13.76	Level 2 Observable market IFRS 13.81	Level 3 Other IFRS 13.86
Assets								
Cash and deposits with central banks	Yes	x		x		x	x	
Lending to financial institutions	Yes							
Lending to customers	Yes		x		x			x
Shares	Yes	x		x		x		x
Certificates and bonds	Yes	x	x	x		x	x	
Financial derivatives	Yes	x		x			x	
Liabilities								
Financial derivatives	Yes	x		x			x	

Recognition and derecognition

The Bank has agreements concerning the legal sale of loans with very good collateral and property mortgages to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. According to the administration contracts concluded with these two alliance companies, the Bank administers the loans and remains responsible for customer contact. The Bank receives remuneration in the form of commissions for the duties that arise from administering the loans. There is some residual involvement associated with sold loans with the possible, limited settlement of losses against commissions. The mortgage companies can sell on loans purchased from the Bank, but the Bank's right to administer the customers and receive commissions continues.

If the Bank is unable to serve the customers, the right to serve them and receive commissions lapses. The Bank also has the option to buy back loans, subject to certain conditions. The Bank has, therefore, neither retained nor transferred the most material risks or returns associated with sold loans. The Bank recognises the amount associated with the residual involvement as an asset or liability. Reference is also made to note 13.

When it repurchases its own bonds, the repurchased bonds are derecognised and the difference between the payment for and book value of the repurchased bond is recognised.

Loans and losses on loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised at fair value, plus direct marginal transaction costs, upon initial recognition, and at amortised cost using the effective interest rate method in subsequent periods. When calculating the effective interest, the cash flows are estimated and all the contractual terms relating to the financial instrument are taken into account.

In the periods after the initial measurement, the loan is assessed at amortised cost using the effective interest rate method. Upon initial recognition, fixed rate loans are designated as being measured at fair value with value changes through profit and loss. Fair value is determined by actual cash flows from customers being discounted in accordance with the Group's own set required rate of return in relation to the actual term to maturity of the loan. Credit risk is also taken into account in the required rate of return. Gains and losses that are attributable to changes in fair value are recognised as changes in value in the income statement. Earned interest and any premium/discount is recognised as interest. The interest rate risk in fixed rate loans is managed via interest rate swaps, which are booked at fair value.

If there is objective evidence of an impairment in value for individual loans or groups of loans, the loans are written down. The write-down amount is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted by the loan's effective interest rate. The effective

interest rate used for discounting is not adjusted due to changes in the loan's credit risk and loan terms. Write-downs are classified as losses on loans. Interest income is recognised using the effective interest rate method.

Objective evidence of an impairment in value for individual loans includes:

- the debtor experiencing a significant financial problem
- non-payment or other type of significant breach of contract
- granted payment deferment or new credit to pay the instalment, agreed changes to the interest rate or other agreement terms due to the debtor experiencing financial problems
- it is deemed likely that the debtor will commence debt settlement proceedings, other financial restructuring, or that the debtor's dwelling will be included in bankruptcy proceedings

Loans that have not been subject to individual impairment assessments are assessed together in groups. Loans that are assessed individually, but where no write-down has taken place, are also assessed in groups. The groups are defined as loans with equal risk and value attributes based on the classification of customers by primary sector and risk class.

Groups of loans are written down for impairments in value if objective evidence exists like:

- negative changes in national or local economic conditions for the Group
- proportion of the group classified as high-risk, and negative migration of risk/servicing ability

Defaulted and doubtful commitments

A commitment is deemed to be in default if it has been due for more than 90 days and the amount is over NOK 1,000. A commitment is deemed to be doubtful when objective proof exists, showing that one or more loss incidents have occurred and that this has an impact on the expected future cash flow which can be estimated in a reliable manner.

Securities and derivatives

The Group's securities consist of shares and equity instruments, certificates and bonds. Derivatives are currency, interest rate and commodity instruments. Equities and units are classified either at fair value through profit and loss or as available for sale. Certificates, bonds and derivatives are classified at fair value. The Group uses the trading date price when it initially recognises securities.

All financial instruments that are classified at fair value through profit and loss are measured at fair value, and any change in value from the opening balance is recognised as income or costs from other financial investments. In the opinion of the Group, this provides the most relevant information. Equities and units classified as available for sale are also measured at fair value, but any changes in value in relation to the opening balance are recognised directly against equity.

When it has proven impossible to determine the fair value of unlisted equities, the cost price is used.

Derivatives designated as hedging instruments are recognised at fair value on the balance sheet. The criteria for, and treatment of, hedge accounting is described below.

Intangible assets

Intangible assets consist of goodwill. Intangible assets are recognised in the balance sheet when the criteria have been satisfied. Goodwill arises as a positive difference between the cost of acquisition of a company and the fair value of identifiable assets and liabilities, with reference to the section on consolidation principles. Goodwill is not amortised; it is subjected to an annual impairment test aimed at identifying possible impairments in value in accordance with IAS 36. When the carrying amount of an asset or a cash flow generating unit exceeds its recoverable amount, the asset or unit will be written down. Write-downs are recognised through profit and loss. Write-downs of goodwill cannot be reversed.

Property, plant and equipment

Property, plant and equipment, with the exception of investment property and owner-occupied property are recognised at the cost of acquisition and depreciated on a straight-line basis over their estimated useful life. When determining a plan of depreciation, the separate assets are split up into components with different useful lives to the extent that this is regarded as necessary, taking into account estimated residual value. Property, plant and equipment, which individually are regarded as insignificant, for example PCs and other office equipment, are not assessed individually for residual value, useful life or impairment, but are considered as groups. When implementing IFRS on 01/01/2004, all properties were value-adjusted to fair market value. According to IAS 16, these properties are deemed to have an estimated acquisition cost that corresponds to the value-adjusted amount at the time of such value adjustment. Property, plant and equipment that are depreciated are subject to a write-down test in accordance with IAS 36 whenever indicated by the circumstances.

Reposessed assets

In connection with the legal recovery of claims under outstanding loans and guarantees, the Bank will repossess assets that have been pledged as security for such commitments in some cases. At the time of acquisition, the assets are valued at their assumed realisation value. Reposessed assets that are to be sold are classified in the balance sheet as current assets or as fixed assets held for sale and are recognised in accordance with IAS 2 and IFRS 5. Any losses/gains on the sale or reassessment of the value of such assets are recognised as additions to or deductions from losses on loans.

Liabilities

Funding is initially recorded at its original cost, which is the fair value of the proceeds received after deducting transaction costs. Variable rate loans are thereafter measured at amortised cost, and any discount/premium is accrued over the term of the loan. Fixed rate loans are included in hedge accounting and discounted according to the current interest rate curve.

No fair value option is applied to the Group's liabilities. Deposits from customers are stated at amortised cost.

Contingent liabilities

The Group issues financial guarantees as part of its ordinary business. Latent liabilities are specified in note 38. Loans are assessed for impairment as part of assessing loan losses and on the same basis, and are reported with these, ref. note 11. Provisions are made for other contingent liabilities if it is more probable than not that the liability will materialise and the financial consequences can be reliably calculated.

Subordinated loans and hybrid tier 1 capital

Subordinated loans have priority after all other liabilities, are classified as subordinated loan capital on the balance sheet, and are stated at amortised cost. Hybrid tier 1 capital is a bond with a specified interest rate, but the Group is under no obligation to pay interest for a period in which no dividend is paid, and an investor has no subsequent claim to the unpaid interest. Hybrid tier 1 capital is classified as subordinated loan capital on the balance sheet and is stated at amortised cost.

Interest income and expenses

Interest income and expenses related to assets and liabilities that are valued at amortised cost are recognised in the profit and loss account in accordance with the effective interest rate method. All fees related to interest-bearing loans and borrowings are included in the calculation of an effective interest rate and are amortised over the expected life of the financial instrument. The market interest rate on debt instruments assessed at fair value is classified as interest income or interest expenses, whereas the effect of interest rate fluctuations is classified as income from financial investments.

Commission income and expenses

Commission income and expenses are generally accrued in accordance with the delivery of a service. Fees related to interest-bearing instruments are not recognised as commissions; they are included in the calculation of the effective interest rate and recognised accordingly. Advisory fees are accrued in accordance with the agreement, typically at the time the service is delivered. The same applies to day-to-day administrative services. Fees and charges related to the sale or brokerage of financial instruments, property or other investment objects that do not generate balance sheet items in the Bank's accounts, are recognised in the profit and loss account when the transaction is finalised.

Realised losses

When it is highly probable that losses are final, they are classified as realised losses. Realised losses that are covered by previous individual loan loss provisions are booked against those provisions. Realised losses without cover by way of loan loss provisions and over or under coverage in relation to previous loan loss provisions are recognised through profit or loss.

Foreign currency transactions and holdings

Transactions in foreign currencies are converted into Norwegian kroner using exchange rates prevailing at the time of the transaction. Gains and losses related to completed transactions or to the conversion of holdings of cash or cash equivalents at the balance sheet date are included in the profit and loss account, unless they are adjusted directly against equity in accordance with the principles of hedging. Gains and losses on non-monetary items are included in the income statement in the same way as the corresponding balance sheet item.

Hedge accounting

The Group utilises derivatives for operational hedging purposes in order to minimise interest risk from fixed rate instruments. The Bank assesses and documents the effectiveness of hedging, both at the time of initial classification and on an ongoing basis. In the case of fair value hedging, changes in value in the hedged risk are recognised and changes in these values from the opening balance are recognised in the income statement. The Bank has also, to a very minor extent, utilised cash flow hedging.

Taxes

Taxes recognised in the profit and loss account comprise tax payable for the period and deferred taxes. Tax payable for the period is calculated tax on the current year's taxable profit.

Wealth tax is calculated and recognised as other operating expenses in the profit and loss account. Deferred taxes are accounted for by means of the liability method in accordance with IAS 12. Deferred tax liabilities or assets are recognised in respect of all temporary differences, which arise as a difference between the carrying amount and taxable value of assets and liabilities at the balance sheet date. However, no liabilities or assets are calculated for deferred taxes on goodwill that do not give a tax deduction or items that are recognised for the first time and do not affect the financial or taxable profit. Deferred tax assets are calculated with respect to accumulated tax losses carried forward at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that the taxable profit will be available and unused tax losses can be utilised. See note 26.

Pensions

SpareBank 1 Nord-Norge is required pursuant to the Mandatory Company Pension Act to provide an occupational pension schemes for its employees. The Bank's pension schemes satisfy the requirements of the aforementioned act. The Group has a defined contribution scheme and a closed defined benefit scheme. The defined contribution scheme is with SpareBank 1 Forsikring. The defined benefit pension scheme is administered by a separate pension fund, SpareBank 1 Nord-Norges Pensjonskasse, which manages the pension fund's assets pursuant to the guidelines that apply for pension funds. On 01/07/2006 the Group established a defined contribution pension scheme. All new staff after this date have been, and will be enrolled in this scheme. Pensions are accounted for in accordance with international accounting standards for the calculation and accounting of pensions (IAS 19). See note 25.

Segment reporting

Ordinary banking operations, involving private and business customers, represent the Bank's primary reporting format, with leasing as the Bank's secondary reporting format. See also note 4.

Events after the date of the balance sheet

The annual accounts are deemed to be approved for publication when the Board has approved the accounts. The Supervisory Board and regulatory authorities may refuse to approve the published annual accounts after this, but they cannot change the accounts. Events occurring up to the time when the financial statements are approved for publication involving issues that were already known on the date of the balance sheet will form part of the information basis for determining estimates and will thereby be fully reflected in the annual accounts. Events that were not known on the balance sheet date will be reported if they are significant. Such circumstances are mentioned in note 44.

The annual accounts have been prepared on the basis that the Group will continue as a going concern. This assumption was valid in accordance with the Boards opinion at the time the financial statements were approved for publication.

The Boards dividend proposal is stated in the annual report. Proposed dividends and distributions for charitable purposes are classified as equity until final approval has been granted.

NOTE 3 - CRITICAL ESTIMATES AND ASSESSMENTS REGARDING THE USE OF ACCOUNTING PRINCIPLES

Losses on loans and guarantees

The Bank assesses its entire portfolio of business customers annually. Large and especially risk commitments are examined on a quarterly basis. Loans to private customers are assessed when more than 55 days have elapsed since a default or when there is a particularly bad payment history. For each customer, a likelihood of default is calculated, based on historical financial data and credit report remarks and correspondingly for retail banking customers based on tax assessment figures and credit report remarks. The Bank currently has nine categories for healthy commitments and two categories for commitments in default, based on the likelihood of default for each customer. These eleven categories are divided into groups based on low, medium, high, highest risk, and default an loss based on likelihood of default. The entire portfolio is scored on a monthly basis using automatic data acquisition based on objective data. Individual write-downs are made due to impairment for loans where there is objective evidence that the loan in question is doubtful.

Individual write-downs for impaired value are calculated as the difference between the loan's book value and the present value of the discounted cash flow based on the effective interest rate at the time of the initial write-down. Subsequent changes in interest rates are taken into account for loan agreements with adjustable interest rates.

Group write-downs for impaired value are calculated for subgroups of loans, where there is objective information showing an increase in the credit risk after the credit has been approved, but where it is not possible to examine all the commitments on an individual basis or where it is not possible to specify the information at the commitment level. Such information can consist of a negative development in the credit risk classification or information about a negative development in the value of assets pledged as collateral security, the profitability in a particular industry, or the solvency of groups of debtors.

The assessment of loss write-offs will always be based on a considerable degree of subjective judgment. Predictions based on historical information may prove to be wrong because one can never be certain about the relevance of historical data as a basis for decision-making. In many cases, assets pledged as collateral security are not sold in highly effective markets and the determination of fair market value may therefore be subject to considerable uncertainty.

Fair value of equity capital instruments

Financial assets assessed at fair value through the profit and loss account will normally be traded in active markets and the fair value can thus be determined with reasonable certainty. For financial assets classified as available for sale this is not necessarily the case. Correspondingly, the market values for assets and liabilities that are carried at amortised and appear in notes may be estimates based on discounted future cash flows, multiplier analysis or other calculation methods. Such methods could be subject to significant uncertainty. With the exception of a few shares, the Norwegian stock market is considered to have poor liquidity. Share prices will in most circumstances be the last known transaction price. In some cases where the liquidity is poor and there is a great deal of unexplained fluctuations in the share price, the share price might be determined based on the weighted average over a specified time period, usually December.

In cases where there are no representative transactions, other valuation methods have been used in accordance with the valuation hierarchy in IAS 39.

Fair value of financial derivatives

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

Intangible assets

Intangible assets are subject to an impairment test which is mainly based on the discounting of expected future cash flows. There will always be considerable uncertainty related to estimated cash flows, and in some cases there will also be uncertainty with regard to the methods for allocating cash flows to various assets.

Pensions

Net pension liabilities and pension costs for the year are based on a number of estimates, including the yield on pension assets, future interest and inflation rates, wage growth, turnover, development of the Norwegian National Insurance basic amount (G) and the general development in the number of persons receiving disability benefits and life expectancy. Uncertainty is to a great extent related to gross liabilities and not to net liabilities as shown in the balance sheet.

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).

Acquisitions

Acquisitions of other companies are recognised in the accounts using the acquisition method, ref. IFRS 3. In the acquisition method, an acquisition analysis is carried out with full purchase price allocation, where the purchase price is allocated to identifiable assets and liabilities in the acquired company. A positive difference between the fair value of the purchase sum paid and the fair value of the identifiable assets and liabilities is recognised as goodwill. Any goodwill can, subject to certain criteria, be recognised as income in the income statement in the acquisition year. The acquisition analysis can be regarded as preliminary or final.

Acquisition analyses contain both concrete calculations and the exercising of best judgement. Estimated items are always associated with some uncertainty, but they are, to the extent possible, supported by calculations of expected cash flows, comparable transactions, etc. Please also see notes 33 and 40.

NOTE 4 - BUSINESS AREAS

Management has made an assessment of which business areas are deemed reportable with respect to the 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 retail banking sector, corporate sector, Markets and wholly-owned subsidiaries. The Bank's own investment activities are not a separately reportable segment and appear under the item "unallocated" together with activities which cannot be allocated to either the retail or corporate business sectors.

The Bank operates in a limited geographical area and reporting along the lines of geographic secondary segments provides little additional information. Significant types of assets (loans) allocated geographically are included in a separate note under loans.

31.12.16

Amounts in NOK million	Retail banking sector	Corporate sector	Leasing	Markets	Unallocated	Total
Net interest income	779	493	195	2	175	1 644
Net fee- and commission income	366	21			382	769
Other operating income	273	75		52	264	664
Operating costs	888	118	54	20	240	1 320
Profit before losses	530	471	141	34	581	1 757
Net losses on loans and guarantees	19	139	55			213
Profit before income tax	511	332	86	34	581	1 544

Loans and advances to customers	44 123	21 865	4 775			70 763
Individual write-down for impaired value	-12	-96	-46			-154
Group write-down for impaired value	-49	-308	-16			-373
Other assets	0	1 758	220		18 287	20 265
Total assets per business area	44 062	23 219	4 933		18 287	90 501

Liabilities to- and deposits from customers	30 651	23 219				53 870
Other liabilities and equity	13 411		4 933		18 287	36 631
Total equity and liabilities per business area	44 062	23 219	4 933		18 287	90 501

31.12.15

Amounts in NOK million	Retail banking sector	Corporate sector	Leasing	Markets	Unallocated	Total
Net interest income	713	456	188	6	149	1 512
Net fee- and commission income	442	7			384	833
Other operating income	247	89		51	-38	349
Operating costs	1 014	154	86	29	178	1 461
Profit before losses	388	398	102	28	317	1 233
Net losses on loans and guarantees	10	131	11	2	46	200
Profit before income tax	378	267	91	26	271	1 033

Loans and advances to customers	39 495	20 128	4 430			64 053
Individual write-down for impaired value	-25	-129	-15			-169
Group write-down for impaired value	-40	-194	-13			-247
Other assets			39		21 727	21 766
Total assets per business area	39 430	19 805	4 441		21 727	85 403

Liabilities to- and deposits from customers	28 686	15 929	3 472			48 087
Other liabilities and equity	10 742	3 878	969		21 727	37 316
Total equity and liabilities per business area	39 428	19 807	4 441		21 727	85 403

NOTE 5 - EQUITY AND CAPITAL ADEQUACY RATIO

The Group follows the EU's capital adequacy rules for banks and investment companies, CRD IV/CRR (the Capital Requirements Directive/Capital Requirements Regulation). The use of IRB (the Internal Rating Based approach) places great demands on the Bank's organisation, competence, risk models and risk management systems.

Since 2015, SpareBank 1 Nord-Norge has been authorised by the Financial Supervisory Authority of Norway to use the Advanced Internal Rating Based approach, which means that the Bank can use internal models for loss levels in the corporate market portfolio to calculate the necessary requirements for tied-up capital.

The Financial Supervisory Authority of Norway has issued transitional rules for IRB banks that do not get the full effect of reduced regulatory capital requirements where the risk-weighted

calculation basis under the new rules is lower than the calculation basis under the old capital calculation (Basel I). The calculation basis can then be adjusted upwards (a correction for the 'floor') to 80% of calculation basis according to Basel I.

In the calculation of capital adequacy, the same rules do not apply to consolidation of associates or joint ventures as for the accounts. The Group uses proportional consolidation for its capital adequacy reporting of the participations in SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt and BN Bank.

SpareBank 1 Nord-Norge's capital goal is to maintain unquestionable financial strength and satisfy the official minimum requirements for capital adequacy. The Group's goal for the common equity tier 1 capital ratio is 14.5%.

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
EQUITY AND RELATED CAPITAL RESOURCES				
Tier 1 Capital				
1 807	1 807	Equity Certificate capital	1 807	1 807
843	843	Equity Certificate premium reserve	843	843
4 074	4 459	The Saving Bank's Fund	4 459	4 074
1 179	1 657	Dividend Equalisation Fund	1 657	1 179
180	521	Donations	521	180
80	20	Fair Value Reserve	20	80
35	31	Other equity capital	1 704	1 798
8 198	9 338	Total equity	11 011	9 961
		Adjusted Tier 1 capital from consolidated financial institutions	-116	-48
-260	-750	Allocated dividends	-750	-260
-22	-21	Adjustments to CET 1 due to prudential filters	-33	-23
		Goodwill and other intangible assets	-67	-55
-95		IRB shortfall of credit risk adjustments to expected losses	-64	-309
-82	-95	Defined benefit pension fund assets gross amount	-99	-82
		CET 1 instruments of financial sector entities where the institution does not have significant investment		
-81	-26	CET 1 instruments of financial sector entities where the institution have significant investment over 10% threshold limit	-727	-817
7 658	8 446	Common equity Tier 1 Capital (CET 1 Capital)	9 155	8 367
500	500	Hybrid Tier 1 bonds	800	756
		Own hybrid Tier 1 bonds	-4	-13
500	500	Additional Tier 1 Capital (AT 1)	796	743
8 158	8 946	Tier 1 Capital	9 951	9 110

NOTE 5 - EQUITY AND CAPITAL ADEQUACY RATIO

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
Tier 2 Capital (T2 Capital)				
850	850	Subordinated loans eligible as T2 Capital	1 361	1 341
		Own subordinated loans		
	1	Deduction for expected losses on IRB, net of writedowns (50 %)		
		T2 instruments of financial sector entities where the institution does not have significant investment		
-61	-61	T2 instruments of financial sector entities where the institution have significant investment	-83	-93
		Other T2 instruments		
789	790	Tier 2 Capital	1 278	1 248
8 947	9 736	Equity and related capital resources	11 229	10 358
Total risk exposure amount				
31 713	32 096	Credit risk internal rating based approach (IRB)	33 805	33 670
6 964	5 650	Credit risk standardised based approach	12 095	15 573
1 984	2 118	AT1 and T2 instruments of fincial sector entities where the institution have significant investment	2 470	2 358
40 661	39 864	Total credit risk	48 370	51 601
157	150	Traded debt instruments	150	156
39	75	Equity	75	219
		Foreign Exchange		
3 422	3 675	Operational Standarised indicator approach (STA)	3 700	3 536
278	299	Credit Valuation Adjustment (CVA)	588	751
44 557	44 063	Total risk exposure amount (IRB)	52 882	56 263
		Transitional rule Basel I	8 238	4 064
44 557	44 063	Total risk exposure amount	61 120	60 327
20,0 %	20,0 %	Transitional rule Basel I	20,0 %	20,0 %
Capital requirements				
717	778	Corporates - specialised lending	878	850
125	96	Corporates - other	123	165
406	359	Corporate - small and medium entities (SME)	367	413
855	898	Retail - secured by real estate	1 253	1 215
39	69	Retail - other	71	40
395	368	Equity IRB	12	12
2 537	2 568	Total IRB capital requirements	2 704	2 695
557	452	Total standardised capital requiremetns	968	1 246
159	169	AT1 and T2 instruments of financial sector entities where the institution have significant investment	198	189
3 253	3 189	Capital requirements credit risk	3 870	4 129

31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
13	12	Traded debt instruments	12	12
3	6	Equity	6	18
		Foreign Exchange		
274	294	Operational Standardised indicator approach (STA)	296	283
22	24	CVA	47	60
		Transitional rule Basel I	659	325
3 565	3 525	Capital requirements	4 890	4 827
18.3 %	20.3 %	Tier 1 Capital	16.3 %	15.1 %
1.8 %	1.8 %	Tier 2 Capital	2.1 %	2.1 %
20.1 %	22.1 %	Capital Adequacy	18.4 %	17.2 %
17.2 %	19.2 %	Common Equity Tier 1 Capital	15.0 %	13.9 %
18.3 %	20.3 %	Tier 1 Capital IRB	18.8 %	16.2 %
20.1 %	22.1 %	Capital Adequacy IRB	21.2 %	18.4 %
17.2 %	19.2 %	Common Equity Tier 1 Capital IRB	17.3 %	14.9 %

		Capital Requirements Directive (CRD IV)	2013	2014	2015	2016		
2 005	1 983	Minimum common Tier 1 Equity Capital	2.0 %	4.5 %	4.5 %	4.5 %	2 750	2 715
		Capital buffers						
1 337	1 322	Systemic risk buffer		3.0 %	3.0 %	3.0 %	1 834	1 810
446	661	Countercyclical capital buffer			1.0 %	1.5 %	917	603
1 114	1 102	Capital conservation buffer		2.5 %	2.5 %	2.5 %	1 528	1 508
4 901	5 067	Total Tier 1 Capital after buffers	2.0 %	10.0 %	11.0 %	11.5 %	7 029	6 636
	661	Pillar II requirements				1.5 %	917	
2 757	2 057	Available Common Equity Tier 1 Capital	2.0 %	10.0 %	11.0 %	13.0 %	1 209	1 731

Leverage Ratio

On 20/12/2016, the Ministry of Finance set new requirements for the leverage ratio effective from 30/06/2017. New requirements have been included in the regulations concerning capital requirements that specify that an institution must have a leverage ratio equal to at least 3 % of the institution's exposure at any given time. All banks must also have a tier 1 capital buffer amounting to 2 % of the institution's exposure, totally at least 5%.

93 701	89 550	Exposure measure	142 564	152 116
8.7 %	10.0 %	Leverage Ratio	7.0 %	5.5 %

NOTE 6 - FINANCIAL RISK MANAGEMENT

Risk management at SpareBank 1 Nord-Norge should support the Group's strategic development and achievement of targets, and it shall contribute to ensuring financial stability and safe and secure asset management through:

- A strong organisational structure characterised by high risk management awareness
- Striving towards an optimal application of capital within the adopted business strategy
- Striving for an equal risk-adjusted return on customers over time within the adopted business strategy
- Exploitation of synergy and diversification effects
- Having sufficient Tier 1/Tier 2 capital according to the chosen risk profile

The principal aim is to ensure that the Group's aggregate risk level is moderate and within the limits set by the Group's subordinated capital and other provisions. Through good risk management, the Group should have a stable and predictable earnings and profit performance. A business strategy and overall targets represent the Board of Directors' instruments for managing the Group's risk profile and financial development. The Chief Executive Officer is responsible for presenting this to the Board of Directors at least once a year, or whenever other circumstances indicate such a presentation. The Group's minimum goal is to maintain its current international rating in order to ensure a long-term ample supply of ordinary borrowing from the capital markets. The Group's risk is quantified for example through calculation of:

- Expected losses that describe the amount that the Bank must statistically expect to lose during a 12-month period.
- Unexpected losses that describe how much capital (risk-adjusted) the Group must have in order to cover the actual risk involved.

The risk-adjusted capital should cover 99.9% of possible, unexpected losses. Statistical methods are used as a basis for the calculations involved, but qualitative evaluations are also applied in some cases. The Group also uses models for fully allocating book equity to the business areas in which regulatory and internal risk models provide a basis for allocation. This ensures that the business areas' profit contributions can be aggregated up to the Group's overarching profitability target. The return on the fully allocated capital is an important strategic result-related target for the internal management of the Group. Significant business areas are allotted capital in relation to the calculated risk relating to the activities, and the return on capital is followed up.

The calculation of risk-adjusted capital enables the comparison of risk across risk groups and business areas. In addition, risk is measured and followed up through the reporting of the use of limits and important portfolio risk targets.

In order to ensure an effective and appropriate process for risk and capital management, the framework has been based on the following elements, which reflect the manner in which the Board of Directors and the management manage the Group:

- Strategy
- Organisation and organisational culture
- Risk and capital management
- Reporting
- Follow-up
- Contingency plans
- Compliance

For further information, reference is made to the "Pillar III Report" on the Group's website.

A more detailed description of financial risk management relating to the credit risk, liquidity risk and market risk is provided below.

Credit risk

Credit risk is defined as the risk of loss due to customers or other contracting parties not having the ability or willingness to fulfil their obligations to the Group. Credit risk is managed through the Group's credit strategy, limits for the credit activities, guidelines for the granting of credit and the internal rules and regulations relating to power of attorney/delegated lending authority.

SpareBank 1 Nord-Norge applies internal measuring methods IRB (Internal Rating Based Approach) for calculation of the statutory minimum capital adequacy requirements for credit risk. The minimum requirements are thus more risk-sensitive and will correspond to a greater extent with the risk in the underlying portfolios.

The credit strategy and limits for the credit activities are established by the Board of Directors and revised and updated at least once a year. The Group's credit strategy sets out the overall principles for the granting of credit and how the credit risk should be managed and priced at SpareBank 1 Nord-Norge. SpareBank 1 Nord-Norge bases itself on the principles that have been recommended by the Basel Committee in the document, "Principles for the Management of Credit Risk", and on the new capital adequacy rules and regulations (Basel II). In addition, it is assumed that the management of credit risk is carried out within the framework of relevant laws, rules and regulations.

The strategic credit targets consist of targets for:

- Return on capital and growth
- Risk profile
- Concentration risk
- Operative credit targets

The strategic credit targets are reported regularly to the Bank's senior management and Board of Directors.

The Board of Directors is responsible for the Group's loan and credit approvals. The rules and regulations in this respect, which have to be approved by the Board of Directors, set out the principles for the granting of credit-related powers of attorney/delegated lending authority and the principles for credit decisions, and describe the decision structure. The Board of Directors delegates the powers of attorney/delegated lending authority to the CEO, who, according to the rules and regulations relating to the granting of credits, delegates his powers of attorney to others. The delegated powers of attorney/delegated lending authority are related to the size of the commitment in question and to the probability of default. Credit staff work in accordance with credit-related powers of attorney/delegated lending authority, the credit policy and credit handling routines that stipulate clear quality requirements for the credit handling process.

The management and control of the portfolio takes place through the risk classification of individual customers, risk pricing model and a portfolio management system to manage the lending portfolio in accordance with the adopted limits and guidelines. The risk models on which management and control are based on principle on statistical calculations, and they are subject to ongoing further development and testing.

The models are based on three main components:

1. **Probability of default.** Customers are classified in risk classes according to the likelihood of the customers defaulting on their commitments during a 12-month period. The probability of default is calculated based on historical data series for key financial figures, as well as non-financial criteria such as behaviour and age. In order to classify customers according to the probability of default, nine risk classes (A–I) are used. In addition, the Group has two risk classes (J and K) for customers with commitments in default and/or commitments that have been written down.
2. **Expected exposure in the case of default.** This is the estimate of what the exposure will be if a customer defaults.
3. **The degree of loss in the case of default.** This is an assessment of how much the Group could potentially lose if the customer defaults on his/her/its commitments. The assessment takes into consideration the value of the assets that the customers have pledged as security, and the costs incurred by the Group in connection with recovering the commitment in default. These figures are estimated based on the Bank's own experience over time. Seven different classes are used (1–7) for classification according to the degree of loss in the event of default.

The three aforementioned components also form the basis for the Group's portfolio classification and statistically based computations of expected losses and the need for risk-adjusted capital. The purpose of the portfolio classification is to provide in-

formation about the level and development with regard to the aggregate credit risk in the entire portfolio, which is therefore divided into five different risk groups: lowest, low, medium, high and highest. The classification into different risk groups is performed on the basis of a statistical computation of the likelihood, in the case of each individual commitment, of default, exposure in the case of default, and the degree of loss involved when a default occurs.

The Group endeavours to price its commitments according to risk exposure, so that the commitments with the highest risk are priced the highest. The price model is based on the Group's required rate of return on risk-adjusted capital.

For further information, reference is made to the "Pillar III Report" on The Group's website and to notes 7, 8, 9, 11 and 14. The Group also has credit risk relating to investments in interest-bearing securities. Such credit risk is primarily noticeable through ongoing changes in the prices/values for the different securities. This is described in more detail under the section "Market risk" below.

Liquidity risk

Funding risk is defined as the risk of the Group being unable to fund increases in assets and being unable to meet its obligations as its financial obligations fall due.

The Executive Board focuses strongly on predictability and stability, and at least once a year it reviews the Group's liquidity strategy and the management of the Group's financing structure in particular. The liquidity strategy reflects the Group's conservative risk profile, and it is important that random events do not have serious consequences for the Group's ability to meet its financial obligations. This capability is defined by everyday stress test of liquidity risk.

The Group's Treasury department is responsible for liquidity management, whereas the department for risk management and compliance monitors and reports on the utilisation of the limits in accordance with the liquidity strategy. The liquidity risk is reduced by the diversification of loans in different markets, funding sources, instruments and maturity periods.

Liquidity coverage ratio (LCR) is one of the liquidity area's most important limits and management parameters. The key figure was formulated using the Basel III regulations and implemented in Norwegian law on 25/11/2015 by a new regulation issued by the Ministry of Finance. The LCR requirement means that an undertaking must at all times have liquidity reserves of at least 100%, in other words that the holding of liquid assets must be at least equal to the net liquidity outflow in a given stress period of 30 calendar days. The undertakings can phase in the liquidity reserve

requirement, with 70% from and including 31/12/2015, 80% from and including 31/12/2016, and 100% from and including 31/12/2017. Total LCR as of 31/12/2016 was reported as 121.

The Financial Supervisory Authority of Norway calculates group relationship between stable funding with maturity over 1 year/ 1 month and illiquid assets, through Liquidity Indicator 1/2. The administration has set target to Liquidity Indicator I to be all time over 110, and Indicator II to 112. As 31/12/2016 reported Liquidity Indicator 1 and 2, respectively 113.3 and 120.9. The figures are reported on a consolidated basis.

The credit ratings issued by the international credit rating agencies, Moody's and Fitch Ratings, are regarded as important in relation to international sources of funding loans. The Bank's long-term rating by Moody's is A1 with "stable outlook", while the long-term rating by Fitch is A with "stable outlook".

SpareBank 1 Nord-Norge is seeking a financing structure that is well diversified within certain limits in terms of both market product and maturity. The Bank shall have an active policy (Investor Relations) for Norwegian and international investors. In SpareBank 1 Alliance there is established a Euro Medium Term Notes (the default program for loans in EUR), a residential mortgage company for issuing Bond with security; SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The Bank shall in its liquidity management actively use these tools, in line with peers.

Customer deposits are the Bank's main source of funding. The ratio between deposits from customers and loans was 76.1% as at 31/12/ 2016, compared with 75.1% and 74.7%, respectively, one and two years ago.

The Group's liquidity and funding management is considered to be very satisfactory. For further information, reference is made to the "Pillar III Report" and to notes 18 and 19.

Market risk

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

Market risk arises mainly from the Group's investment in bonds, certificates and shares, and as a result of activities that are performed to support the banking operations – such as funding, interest rate and foreign exchange trading.

The market risk is measured and monitored based on limits that are adopted by the Board. The limits are reviewed and renewed on an annual basis. The limits are determined based on stress tests and the analysis of negative market movements.

The department for risk management and compliance is responsible for the ongoing, independent monitoring of market risk.

Interest rate risk is the risk of loss as a result of interest rate fluctuations. It's measured by delta vector analysis, based on 2% pure shift and monitored on the basis of the framework described above. The Group's interest rate risk is mainly short and considered low.

Currency risk is the risk of loss due to currency rate fluctuations. The limits for currency risk are expressed by limits for the maximum aggregate currency position and maximum position in individual currencies. The Group's foreign exchange risk is well within the position limit stated in the applicable rules and regulations.

The price risk for securities is defined as the risk of loss occurring after changes in the value of bonds, certificates and equity capital instruments in which the Group has invested. The Group's exposure to this type of risk is regulated through limits for maximum investments in various portfolios.

The Group's market risk largely arises due to activities that support other parts of the Group's operations. The exposure to market risk has been assessed to be limited. For further information, reference is made to the "Pillar III Report" and to notes 15 and 16.

NOTE 7 - CREDIT RISK EXPOSURE FOR EACH INTERNAL RISK RATING

SpareBank 1 Nord-Norge applies its own risk classification system for the monitoring of credit risk in the portfolio. The classification of risk classes is done on the basis of the probability of default for each individual commitment. In addition to the probability of default, the Bank applies estimated value of collateralised assets pledged as security as an element when putting

customers into different groups according to risk. The allocation is done by linking the collateral assets to the individual loans in question. Each customer is then put into risk groups according to probability of default and security class, as is shown below. The classification matrix comprises 77 risk classes in relation to probability of default and security coverage.

PARENT BANK

Amounts in NOK million	Average unsecured exposure - %	Total amount	Average unsecured exposure - %	Total amount
	2016	2016	2015	2015
Very low risk	0.5 %	29 266	0.1 %	20 572
Low risk	2.1 %	20 665	2.0 %	15 894
Medium risk	0.5 %	15 826	0.4 %	22 122
High risk	0.1 %	2 108	0.1 %	2 701
Very high risk	0.1 %	2 248	0.2 %	3 192
In default and written down	0.0 %	990	0.1 %	632
Total	3.4 %	71 103	2.9 %	65 113

GROUP

Amounts in NOK million	Average unsecured exposure - %	Total amount	Average unsecured exposure - %	Total amount
	2016	2016	2015	2015
Very low risk	0.5 %	30 770	0.1 %	22 076
Low risk	2.0 %	21 401	1.8 %	16 630
Medium risk	0.5 %	17 194	0.4 %	23 490
High risk	0.1 %	2 594	0.1 %	3 187
Very high risk	0.1 %	2 527	0.2 %	3 471
In default and written down	0.0 %	1 046	0.1 %	688
Total	3.3 %	75 532	2.7 %	69 542

NOTE 8 - MAXIMUM CREDIT EXPOSURE

The table below shows maximum exposure to credit risk for the various components in the balance sheet, including financial derivatives. Exposure is shown on a gross- and net basis, before- and after any assets pledged as security and before allowable set-offs. For maximum credit exposure in the balance sheet taking into account secured debt, this is shown net for 2016.

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
Maximum on balance credit exposure				
274	775	Cash and balances with central banks	775	274
5 683	5 871	Loans and advances to credit institutions	1 946	2 124
52 439	58 677	Loans and advances to customers measured at amortised cost	63 143	56 315
7 610	7 489	Loans and advances to customers measured at fair value	7 593	7 738
11 178	10 164	Certificates and bonds	10 164	11 178
1 946	1 390	Financial derivatives	1 390	1 946
79 130	84 366	Maximum on balance credit exposure	85 011	79 575
Maximum off balance credit exposure				
2 222	1 577	Contingent liabilities	1 556	2 222
5 703	5 294	Unutilised credits	5 304	6 545
2 431	1 571	Loan approvals	1 604	2 431
10 356	8 442	Maximum off balance credit exposure	8 464	11 198
89 486	92 807	Maximum credit exposure	93 475	90 773
Net balance credit exposure				
274	775	Cash and balances with central banks	775	274
5 683	5 871	Loans and advances to credit institutions	1 945	2 124
4 713	3 363	Loans and advances to customers	4 211	5 229
11 178	10 164	Certificates and bonds	10 164	11 178
1 946	1 390	Financial derivatives	1 390	1 946
23 794	21 563	Maximum on balance credit exposure	18 485	20 751
Banking activities by geography				
27 806	35 723	Northern Norway, including Svalbard	34 178	30 030
38 146	36 832	Other regions	39 020	36 367
54	257	International	259	54
66 006	72 812	Total	73 457	66 451
Capital Market activity by geography				
10 614	9 066	Norway	9 066	10 614
2 471	2 488	Europe/Asia	2 488	2 471
39		USA		39
13 124	11 554	Total	11 554	13 124
79 130	84 366	Total maximum credit exposure (recognised)	85 011	79 575

NOTE 9 - CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

PARENT BANK

NEITHER IN DEFAULT NOR WRITTEN DOWN

Amounts in NOK million	Very low risk	Low risk	Medium risk	High risk	Very high risk	In default or individually written down	Total
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2016

Loans and advances to financial institutions	5 809					62	5 871
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Loans and advances to customers

Retail market	22 588	13 698	5 136	364	417	128	42 330
Corporate market	3 976	5 343	10 349	1 557	2 191	419	23 836
Total	32 373	19 041	15 485	1 920	2 609	609	72 037

Financial investments

Listed government bonds	1 137						1 137
Listed other bonds	7 258	153	655	27	30		8 123
Unlisted other bonds	1 284	55	520	7	1		1 867
Total	9 679	209	1 175	34	31		11 127

Total	42 052	19 250	16 659	1 954	2 639	609	83 163
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Amounts in NOK million	Very low risk	Low risk	Medium risk	High risk	Very high risk	In default or individually written down	Total
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2015

Loans and advances to financial institutions	5 620					63	5 683
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Loans and advances to customers

Retail market	15 413	10 397	10 517	548	822	134	37 831
Corporate market	3 165	4 560	9 732	2 026	2 179	556	22 218
Total	24 198	14 957	20 249	2 574	3 001	753	65 732

Financial investments

Listed government bonds	1 137						1 137
Listed other bonds	7 309	153	655	27	30		8 174
Unlisted other bonds	1 284	55	520	7	1		1 867
Total	9 730	208	1 175	34	31		11 178

Total	33 928	15 165	21 424	2 608	3 032	753	76 910
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NOTE 9 - CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

GROUP

NEITHER IN DEFAULT NOR WRITTEN DOWN

Amounts in NOK million	Very low risk	Low risk	Medium risk	High risk	Very high risk	In default or individually written down	Total
2016							
Loans and advances to financial institutions	1 884					62	1 946
Loans and advances to customers							
Retail market	23 893	13 935	5 255	410	487	144	44 123
Corporate market	4 501	6 266	11 223	1 806	2 475	369	26 640
Total	30 278	20 201	16 478	2 216	2 962	574	72 709
Financial investments							
Listed government bonds	1 137						1 137
Listed other bonds	7 309	153	655	27	30		8 174
Unlisted other bonds	1 284	55	520	7	1		1 867
Total	9 730	208	1 175	34	31		11 178
Total	40 008	20 409	17 653	2 250	2 993	574	83 887
Amounts in NOK million	Very low risk	Low risk	Medium risk	High risk	Very high risk	In default or individually written down	Total
2015							
Loans and advances to financial institutions	2 124						2 124
Loans and advances to customers							
Retail market	16 539	10 773	10 751	598	835	134	39 630
Corporate market	3 541	5 093	10 338	2 462	2 390	599	24 423
Total	22 204	15 866	21 089	3 060	3 225	733	66 177
Financial investments							
Listed government bonds	1 137						1 137
Listed other bonds	7 309	153	655	27	30		8 174
Unlisted other bonds	1 284	55	520	7	1		1 867
Total	9 730	208	1 175	34	31		11 178
Total	31 934	16 074	22 264	3 094	3 256	733	77 355

NOTE 10 - FINANCIAL INSTITUTIONS - LOANS AND ADVANCES

PARENT BANK									GROUP			
31.12.15	Average interest rate %*	31.12.16	Average interest rate %*	Amounts in NOK million	31.12.16	Average interest rate %*	31.12.15	Average interest rate %*				
Loans and advances to financial institutions												
970	0.55 %	918	0.30 %	Loans and advances without agreed maturity or notice of withdrawal	918	0.30 %	970	0.55 %				
4 713	1.91 %	4 953	2.09 %	Loans and advances with agreed maturity or notice of withdrawal	1 028	1.71 %	1 154	0.81 %				
5 683	1.84 %	5 871	1.80 %	Total	1 946	1.15 %	2 124	0.68 %				
Broken down by the most important foreign currencies												
4 867		5 449		NOK	1 800		1 308					
41		0		GBP	0		41					
451		115		EUR	115		451					
298		300		USD	24		298					
5		1		SEK	1		5					
21		6		Other foreign currencies	6		21					
5 683		5 871		Total	1 946		2 124					
Deposits from credit institutions												
15	1.22 %	16	8.19 %	Loans and deposits from financial institutions without agreed maturity or notice of withdrawal	16	9.23 %	15	1.22 %				
1 814	2.30 %	817	0.91 %	Loans and deposits from credit institutions with agreed maturity or notice of withdrawal	802	0.91 %	1 801	2.40 %				
1 829	2.30 %	833	1.22 %	Total	818	1.23 %	1 816	2.40 %				
Broken down by the most important foreign currencies												
1 825		827		NOK	812		1 812					
1		0		USD	0		1					
3		4		EUR	4		3					
		2		Other foreign currencies	2							
1 829		833		Total	818		1 816					

* Average interest rate/(yield) is calculated as the sum of interest expense divided by average volume

NOTE 11 - LOANS AND ADVANCES TO CUSTOMERS

As is evident from note 2, the Parent Bank and Group have loans to customers that are measured at amortised cost and a fixed rate portfolio measured at fair value. Amortised cost involves valuation according to the originally agreed cash flows, adjusted for any loss in value.

Fixed rate loans are assessed at their actual value in accordance with IFRS 13. See also the description later on in the note.

Total commitments are defined as the total of gross loans, guarantees, unutilised credits and accrued interest.

PARENT BANK		Amounts in NOK million	GROUP	
31.12.15	31.12.16		31.12.16	31.12.15
Loans broken down by method of measurement				
52 439	58 677	Gross loans to customers measured at amortised cost	63 143	56 315
7 610	7 489	Fixed rate portfolio measured at fair value	7 593	7 738
60 049	66 166	Gross loans to and advances to customers	70 736	64 053
Loans broken down by different types				
		Financial leasing	2 442	2 352
6 113	6 627	Overdraft- and working capital facilities	6 627	5 958
1 666	1 638	Building loans	1 638	1 666
52 270	57 901	Repayment loans	60 056	54 077
60 049	66 166	Gross loans to and advances to customers	70 763	64 053
328	139	Individual write-downs for impaired value	154	169
234	357	Collective write-downs for impaired value	373	247
59 487	65 670	Net loans and advances to customers	70 236	63 637
Loans broken down by markets				
37 921	42 330	Retail banking market	44 123	39 617
21 886	23 713	Corporate market	26 505	24 180
242	123	Public sector	135	256
60 049	66 166	Gross loans and advances	70 763	64 053
562	496	Individual and collective write-downs for impaired value	527	416
59 487	65 670	Net loans and advances	70 236	63 637
Of this, subordinated loan capital accounted for				
50	62	Subordinated loan capital in financial institutions	62	50
50	62	Subordinated loan capital shown under loans to customers	62	50
Loans to employees				
1 038	1 071	Loans to employees	1 071	1 038

PARENT BANK

GROUP

LOANS BROKEN DOWN BY GEOGRAPHICAL AREAS

31.12.15		31.12.16			31.12.16		31.12.15	
Gross share	Loans	Gross share	Loans		Loans	Gross share	Loans	Gross share
17 %	9 707	17 %	11 230	Finmark	12 128	17 %	10 608	17 %
30 %	18 117	31 %	20 425	Troms incl Svalbard	22 133	31 %	19 425	30 %
40 %	24 244	40 %	26 187	Nordland	27 651	39 %	25 353	40 %
13 %	7 927	13 %	8 276	Other counties	8 801	12 %	8 613	13 %
0 %	54	0 %	48	International	50	0 %	54	0 %
100 %	60 049	100 %	66 166	Gross loans broken down by geographic areas	70 763	100 %	64 053	100 %

LOANS BROKEN DOWN BY DIFFERENT COMMERCIAL, INDUSTRIAL AND OTHER SECTORS

31.12.15	31.12.16		31.12.16	31.12.15
Total commitments				
33	12	Mining and quarrying	34	65
1 104	1 007	Construction	1 429	1 500
16	22	Building of ships and boats	24	18
1 079	908	Electricity, gas, steam and air conditioning supply	913	1 083
618	603	Professional, scientific and technical activities	863	818
2 451	3 501	Fishing	3 538	2 481
437	492	Marine aquaculture	789	712
372	428	Other business support activities	707	762
1 148	1 216	Activities auxiliary to financial services and insurance activities	1 216	939
1 195	814	County municipalities and municipalities	815	1 209
2 291	2 224	Manufacturing	2 421	2 421
77	91	Information and communication	97	82
1 040	1 137	Crop and animal production	1 234	1 116
7 333	8 353	Real estate activities	8 394	7 635
527	561	Accommodation and food service activities	578	540
10	9	Forestry and logging	15	15
	0	Central government and social security funds	0	0
		Support activities for petroleum and natural gas extraction	13	15
924	819	Other service industries	917	1 006
2 814	2 890	Transportation and storage	3 575	3 495
953	822	International shipping and pipeline transport	822	955
1 135	737	Development of building projects	738	1 137
233	235	Water supply; sewerage, waste management and remediation activities	317	307
1 132	1 126	Wholesale and retail trade; repair of motor vehicles and motorcycles	1 384	1 343
39 116	44 155	Retail banking market - domestic	46 103	40 813
55	49	Retail banking market - international	49	55
66 093	72 211	Total	76 985	70 522

NOTE 11 - LOANS AND ADVANCES TO CUSTOMERS

31.12.15	31.12.16		31.12.16	31.12.15
Gross loans				
28	9	Mining and quarrying	45	61
686	562	Construction	994	1 082
15	21	Building of ships and boats	23	17
684	760	Electricity, gas, steam and air conditioning supply	765	688
700	694	Professional, scientific and technical activities	944	900
2 239	3 351	Fishing	3 379	2 269
387	364	Marine aquaculture	657	662
318	347	Other business support activities	619	707
919	1 014	Activities auxiliary to financial services and insurance activities	1 017	710
242	123	County municipalities and municipalities	135	256
1 803	1 734	Manufacturing	1 944	1 933
64	60	Information and communication	66	70
944	999	Crop and animal production	1 081	1 019
6 515	7 513	Real estate activities	7 559	6 392
486	532	Accommodation and food service activities	550	499
10	8	Forestry and logging	13	15
	0	Central government and social security funds	0	0
		Support activities for petroleum and natural gas extraction	0	15
752	758	Other service industries	840	834
3 151	3 173	Transportation and storage	3 858	3 832
284	260	International shipping and pipeline transport	260	286
939	636	Development of building projects	637	941
196	182	Water supply; sewerage, waste management and remediation activities	264	270
767	736	Wholesale and retail trade; repair of motor vehicles and motorcycles	990	978
37 868	42 284	Retail banking market - domestic	44 077	39 563
53	46	Retail banking market - international	46	53
60 049	66 166	Total	70 763	64 053

LOANS AND ADVANCES TO CUSTOMERS RELATING TO FINANCIAL LEASING

Gross advances relating to financial leasing

- Maturities of less than 1 year	80	71
- Maturities of more than 1 year but not more than 5 years	1 577	1 617
- Maturities of more than 5 years	917	777
Total	2 575	2 464
Income received, not yet earned, relating to financial leasing	-158	-123
Net investments relating to financial leasing	2 417	2 341

Net investments in financial leasing may be analysed in the following way:

- Maturities of less than 1 year	76	67
- Maturities of more than 1 year but not more than 5 years	1 480	1 536
- Maturities of more than 5 years	861	738
Total	2 417	2 341

The Bank uses a classification system for monitoring credit risk in the commercial portfolio. Defaults are defined as overdrawn amounts/arrears of more than 90 days, or a situation in which objective evidence exists that indicates a customer will default. For each customer, a likelihood of default is calculated, based on historical financial data and credit report remarks and correspondingly for retail customers based on tax assessment figures and credit report remarks. The Bank has nine categories for healthy commitments based on the likelihood of each customer defaulting, as well as two separate categories for commitments in default or that have been written down.

The entire portfolio is scored on a monthly basis using automatic data acquisition based on objective data. Monitoring takes place based on the size of the commitment, risk class and migration. The scoring models for the corporate market and the retail market are validated and adjusted annually. This resulted in no material changes in the distribution between risk groups or in the calculation of expected annual losses in 2016.

The classification into risk groups (very low, etc.) is determined by how likely the customer is to default, and collateral coverage. The share of the exposure that was high risk as of 31/12/2016 was 7 %. Non-performing and doubtful commitments accounted for 1.5 % of the Bank's overall exposure at the same point in time. The expected average annual net losses over an economic cycle are set as equal to the expected losses for one year, as estimated by means of the Bank's classification system. In a period of economic expansion the actual annual losses will be less than in a future period of economic recession. In a period of economic recession the losses for an individual year are also expected to exceed the expected average losses. Expected losses are one of the parameters in the bank's pricing model for calculating recommended price.

See also note 44, in which a new method for the calculation of losses on loans (IFRS 9) effective from 2018 is outlined.

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
LOANS BROKEN DOWN BY DIFFERENT RISK GROUPS				
Total contracts				
20 572	29 266	Very low risk	31 099	22 076
16 578	20 665	Low risk	21 825	17 314
22 142	16 790	Medium risk	17 957	23 510
2 887	2 108	High risk	2 403	3 373
3 193	2 835	Very high risk	3 189	3 734
721	547	Commitments in default	512	515
66 093	72 211	Total	76 985	70 522
Gross loans				
18 578	26 564	Very low risk	28 394	19 950
14 957	19 041	Low risk	20 201	15 586
20 249	15 485	Medium risk	16 478	21 472
2 574	1 920	High risk	2 216	3 044
2 970	2 609	Very high risk	2 962	3 486
721	547	Commitments in default (A)	512	515
60 049	66 166	Total	70 763	64 053
328	139	Individual write-down for impaired value (B)	154	169
393	408	Net commitment in default (A+B)	358	346
Expected annual average net loss				
6	7	Very low risk	9	6
12	16	Low risk	18	13
67	63	Medium risk	68	70
45	30	High risk	33	47
121	108	Very high risk	116	126
33	56	Commitments in default	65	45
284	280	Total	309	307

NOTE 11 - LOANS AND ADVANCES TO CUSTOMERS

If there is objective evidence of an impairment in value for individual loans or groups of loans, the loans are written down. The write-down amount is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted by the loan's effective interest rate.

The effective interest rate used for discounting is not adjusted due to changes in the loan's credit risk and loan terms. Write-downs are classified as losses on loans. Interest income is recognised using the effective interest rate method.

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
Individual write-downs for impaired value				
13	16	Construction	20	17
		Building of ships and boats		0
	2	Professional, scientific and technical activities	2	0
1	0	Fishing	0	1
	0	Other business support activities	30	0
		County municipalities and municipalities		0
14	19	Manufacturing	19	15
	10	Information and communication	10	
12	17	Crop and animal production	17	13
187	47	Real estate activities	16	17
3	1	Accommodation and food service activities	1	3
		Forestry and logging		0
10	9	Other service industries	9	10
1	0	Transportation and storage	2	6
54		International shipping and pipeline transport		54
3	5	Development of building projects	5	3
		Water supply; sewerage, waste management and remediation activities		
5	1	Wholesale and retail trade; repair of motor vehicles and motorcycles	1	5
25	12	Retail banking market - domestic	22	26
0	0	Retail banking market - international	0	
328	139	Total	154	169

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
Expected annual average net loss				
0	0	Mining and quarrying	0	2
14	4	Construction	7	18
0	0	Building of ships and boats	0	0
2	2	Electricity, gas, steam and air conditioning supply	2	2
7	8	Professional, scientific and technical activities	9	7
11	23	Fishing	23	11
1	1	Marine aquaculture	2	1
3	3	Other business support activities	4	5
5	15	Activities auxiliary to financial services and insurance activities	15	5
0	0	County municipalities and municipalities	0	0
41	31	Manufacturing	32	42
3	0	Information and communication	0	3
5	3	Crop and animal production	3	5
77	100	Real estate activities	100	77
3	3	Accommodation and food service activities	3	4
0	0	Forestry and logging	0	0
		Central government and social security funds		0
	0	Support activities for petroleum and natural gas extraction	0	0
4	10	Other service industries	11	4
11	8	Transportation and storage	10	13
1	2	International shipping and pipeline transport	2	1
17	6	Development of building projects	6	17
		Extraction of crude oil and natural gas		0
1	0	Water supply; sewerage, waste management and remediation activities	0	1
7	4	Wholesale and retail trade; repair of motor vehicles and motorcycles	5	10
72	57	Retail banking market - domestic	75	79
0	0	Retail banking market - international	0	0
284	280	Total	309	307

Fixed rate loans measured at fair value

The Bank's portfolio of fixed-rate loans in NOK amounted to NOK 7.5 billion as of 31/12/2016. This portfolio is measured at fair value in the financial statements. Fair value is measured by discounting the loans' cash flows by a discount factor based on a swap rate plus a margin requirement. The discount factor is based on an assessment of the market conditions and what an external investor would base an investment on in an equivalent portfolio. In addition to the aforementioned determination of fair value, an assessment is made of any difference between the discount rate and observable market data for equivalent loans.

If this difference is significant, the Bank makes an assessment of why the difference arises and makes any necessary change to the discount rate.

The input factors that are analysed with respect to estimating the value of fixed-rate loans are generally premiums for credit risk. The sensitivity of the valuation (i.e. effect on the result) of this loan portfolio in the event of a 10 basis point change in the discount rate was per +/- NOK 21 million as of 31/12/2016.

NOTE 12 - AGE DISTRIBUTION FOR LOANS DUE, NOT WRITTEN DOWN

Credit risk

The table shows amounts due on loans and overdrafts relating to credit facilities/deposits, broken down by the number of days elapsed since the due date of the loan payment, not due to delays in payments transmission.

PARENT BANK

Amounts in NOK million	Under 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
2016					
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	400	32	12	59	503
Corporate market	59	8	1	11	79
Total	459	40	13	70	582

Amounts in NOK million	Under 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
2015					
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	408	45	12	54	520
Corporate market	374	29	16	42	461
Total	782	74	28	96	981

Of the total amount of gross loans due, but not written down, to financial institutions and customers, the market value of the related assets pledged as security was NOK 516 million as at 31/12/2016 (NOK 681 million as at 31/12/2015). The value of pledged assets is set at the realisation value (fair value less a reduction factor).

GROUP

Amounts in NOK million	Under 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
2016					
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	400	65	18	76	559
Corporate market	59	54	27	27	167
Total	459	119	45	103	726

Amounts in NOK million	Under 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
2015					
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	408	70	17	69	565
Corporate market	374	212	42	66	694
Total	782	282	59	135	1 259

Of the total amount of gross loans due, but not written down, to financial institutions and customers, the market value of the related assets pledged as security was NOK 638 million as at 31/12/2016 (NOK 915 million as at 31/12/2015). The value of pledged assets is set at the realisation value (fair value less a reduction factor).

NOTE 13 - TRANSFERS OF FINANCIAL ASSETS

SpareBank 1 Nord-Norge has agreements concerning the legal sale of loans with very good collateral and property mortgages to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. According to the administration contracts concluded with these two alliance companies, the Bank administers the loans and remains responsible for customer contact. The Bank receives remuneration in the form of commissions for the duties that arise from administering the loans. The Bank has assessed the accounting implications and concluded that the material risk and benefits of ownership associated with the sold loans has been transferred. This entails full derecognition. The remuneration received for the loans that have been transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS matches the book value and is assessed to match the loans fair value at the time of transfer. The Bank recognises all rights and obligations that were generated or retained upon transfer separately as assets or liabilities.

If the mortgage companies experience a loss on transferred loans, they have some entitlement to offset these against commissions from all banks that have transferred loans. A residual involvement associated with the sold loans therefore exists with a possible limited settlement of losses against commissions. However, the nature of this right to offset is not regarded as meaning that it changes the conclusion that the majority of the risk and benefits associated with ownership have been transferred. The Bank's maximum exposure to losses is represented by the highest amount that could be claimed covered under the agreements.

The mortgage companies can resell the loans bought from the Bank, while the Bank's right to manage customers and receive commissions remains attached. Should the Bank be unable to serve customers, the right to serve and commissions may lapse. Furthermore, the Bank has an option to buy back loans under certain conditions.

SpareBank 1 Boligkreditt AS

SpareBank 1 Boligkreditt AS is owned by the savings banks that make up the SpareBank 1 Alliance. The Bank owned a 14.61% stake as at 31/12/2016 (14.45% as at 31/12/2015). SpareBank 1 Boligkreditt AS acquires loans with collateral in housing and issues covered bonds in accordance with the regulations established for this in 2007. Loans sold to SpareBank 1 Boligkreditt AS are secured by collateral in housing up to a ceiling of 75% of their valuation. The sold loans are legally owned by SpareBank 1 Boligkreditt AS and the Bank has, apart from the right to administer them and receive commissions, as well as the right to take over fully or partially written down loans, no right to use the loans. The Bank administers the sold loans and receives commissions based on the net return on the loans the Bank has sold less the company's costs.

Home mortgages worth a net NOK 1.1 billion were sold to SpareBank 1 Boligkreditt AS in 2016. A total of NOK 25.5 billion had been derecognised in home mortgages sold to SpareBank 1 Boligkreditt AS at the end of the financial year.

The remaining involvement is as follows:

REMAINING INVOLVEMENT:

	Book value asset	Fair value asset	Book value liability	Fair value liability	Maximum exposure to losses (last year's commission) NOK million
Remaining involvement	0	0	0	0	177

The average term to maturity in the portfolio is around 3 years.

Liquidity facility

SpareBank 1 Nord-Norge has, together with the other owners of SpareBank 1 Boligkreditt AS, signed an agreement on the establishment of liquidity facilities for SpareBank 1 Boligkreditt AS. This entails an obligation on the part of the banks to buy SpareBank 1 Boligkreditt AS's bonds, limited to the combined value of the amount due in 12 months in SpareBank 1 Boligkreditt AS. In principle, each owner is liable for its share of the need or alternatively twice the primary responsibility under the same agreement. The bonds can be deposited in Norges Bank and thus result in no material increase in risk for the Bank. In accordance with its internal guidelines, SpareBank 1 Boligkreditt AS retains liquidity for the amount due in the next 12 months. This is deducted when valuing the banks' liabilities. Therefore, it is only in the event that the company no longer has liquidity for the amount due in the next 12 months that the Bank will report any commitment in connection with this.

Liquidity facility

Together with the other owners of SpareBank 1 Boligkreditt AS, SpareBank 1 Nord-Norge has also signed an agreement concerning ensuring that SpareBank 1 Boligkreditt AS has a minimum core capital adequacy ratio of 9% at any given time. The shareholders must supply sufficient core capital within 3 months after receiving a written request to do so. The shareholders' obligation to supply such core capital is pro rata and not joint and must correspond to each shareholder's pro rata share of the shares in SpareBank 1 Boligkreditt AS.

NOTE 13 - TRANSFERS OF FINANCIAL ASSETS

SpareBank 1 Næringskreditt AS

SpareBank 1 Næringskreditt AS is owned by the savings banks that make up the SpareBank 1 Alliance. The Bank owned a 16,64% stake as at 31/12/2016 (20.83% as at 31/12/2015). SpareBank 1 Næringskreditt AS acquires loans with security in commercial real estate and issues covered bonds under the regulations for this established in 2007. Loans sold to SpareBank 1 Næringskreditt AS are secured by security in commercial real estate within 60% of its valuation. The sold loans are legally owned by SpareBank 1 Næringskreditt AS, and the Bank has, apart from the right to administer them and receive commissions for this, as well as the right to take over fully or partially written down loans, no right to use the loans. The Bank administers the sold loans and receives commissions based on the net return on the loans the Bank has sold less the company's costs.

No loans were transferred to SpareBank 1 Næringskreditt AS in 2016.

The remaining involvement is as follows::

REMAINING INVOLVEMENT:

	Book value asset	Fair value asset	Book value liability	Fair value liability	Maximum exposure to losses (last year's commission) NOK million
Gjen-værende involvering	0	0	0	0	0

Liquidity facility

SpareBank 1 Nord-Norge has, together with the other owners of SpareBank 1 Næringskreditt AS, concluded agreements that establish liquidity facilities for SpareBank 1 Næringskreditt AS. This means that the banks have committed to purchase covered bonds in the event that SpareBank 1 Næringskreditt AS is unable to refinance its activities in the market. The purchase is limited to the total value of the amount due in the company for the next 12 months at any given time. Previous purchases under this agreement are deducted from future obligations to purchase. In principle, each owner is liable for its share of the need or alternatively twice the primary responsibility under the same agreement. The bonds can be deposited in Norges Bank and thus result in no material increase in risk for the Bank. In accordance with its internal policy, SpareBank 1 Næringskreditt AS retains liquidity for the amount due in the next 12 months. This is deducted when valuing the banks' liabilities. Therefore, it would only be after SpareBank 1 Næringskreditt AS no longer had adequate funding to cover the amount due in the next 12 months that the Bank would report any commitment here in relation to the capital adequacy ratio or major commitments.

Financial strength

Together with the other owners of SpareBank 1 Næringskreditt AS, the Bank has also signed an agreement concerning ensuring that SpareBank 1 Næringskreditt AS has a minimum core capital adequacy ratio of 9% at any given time. The shareholders must supply sufficient core capital within 3 months after receiving a written request to do so. The shareholders' obligation to supply such core capital is pro rata and not joint and must correspond to each shareholder's pro rata share of the shares in SpareBank 1 Næringskreditt AS.

NOTE 14 - WRITE-DOWN FOR IMPAIRED VALUE OF LOAN AND ADVANCES

If there is objective evidence of impairment in value for individual loans or groups of loans, the loans are written down. The write-down amount is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted by the loan's effective interest rate. The effective interest rate used for discounting is not adjusted due to changes in the loan's credit risk and loan terms. Write-downs are classified as losses on loans. Interest income is recognized using the effective interest rate method. Loans that have not been subject to individual impairment assessments are assessed together in groups. Loans that are assessed individually, but where no write-down has taken place, are also assessed in groups.

The groups are defined as loans with equal risk and value attributes, based on the classification of customers by primary sector and risk class.

When it is highly probable that losses are final, they are classified as realized losses. Realized losses that are covered by previous individual loan loss provisions, are booked against those provisions. Realized losses without cover by way of loan loss provisions and over or under coverage in relation to previous loan loss provisions, are recognized through profit or loss.

Please also refer to note 44.

PARENT BANK			GROUP	
2015	2016	Amounts in NOK million	2016	2015
55	-188	Change in individual write-downs for impaired value during the period	-15	-3
51	122	Change in collective write-downs for impaired value during the period	125	54
88	221	Confirmed losses against which individual write-downs for impaired value was previously made	82	92
54	9	Confirmed losses against which no individual write-downs for impaired value was previously made	11	64
-32	-9	Payments received on loans, guarantees etc. previously written down	-11	-7
216	155	Total losses on loans and guarantees	192	200
	3	Other losses	21	
216	158	Total losses	213	200

Individual write-downs for impaired value

273	328	Individual write-downs for impaired value on loans and guarantees as at 01.01	169	171
63	221	- Confirmed losses during the period on loans and guarantees against which individual write-downs for impaired value were previously made	82	132
35	9	- Reversal of previous years' impaired value	11	
65	21	+ Increase in individual write-downs for impaired value of commitments against which individual write-downs for impaired value were previously made	31	38
88	20	+ Individual write-downs for impaired value of commitments where no allowance were raised in previous years	47	92
328	139	Individual write-downs for impaired value on loans and guarantees as at 31.12	154	169
		Individual write-downs to cover losses on loans to financial institutions		
328	139	Individual write-downs to cover losses on loans and guarantees as at 31.12	154	169

Collective write-downs for impaired value

215	234	Collective write-downs for impaired value on loans and guarantees as at 01.01	247	236
19	123	+ Collective write-downs for impaired value on loans and guarantees in the period	126	11
234	357	Collective write-downs for impaired value on loans and guarantees as at 31.12	373	247

NOTE 14 - WRITE-DOWN FOR IMPAIRED VALUE OF LOAN AND ADVANCES

PARENT BANK

GROUP

LOSSES BROKEN DOWN BY SECTOR AND INDUSTRY

2015		2016			2016		2015	
Proportion of losses	Loss	Proportion of losses	Loss		Proportion of losses	Loss	Proportion of losses	Loss
0 %	0	0 %	0	Mining and quarrying	0 %	0	0 %	0
14 %	31	-4 %	-6	Construction	-3 %	-6	15 %	32
0 %	0	0 %	0	Building of ships and boats	0 %	0	0 %	0
0 %		0 %	0	Electricity, gas, steam and air conditioning supply	0 %	0	0 %	0
-5 %	-11	-3 %	-5	Professional, scientific and technical activities	-2 %	-5	-5 %	-11
0 %	0	0 %	0	Financial and insurance activities	0 %	0	0 %	0
-2 %	-4	18 %	29	Fishing	14 %	29	-2 %	-4
0 %	0	-1 %	-2	Marine aquaculture	-1 %	-2	0 %	0
1 %	2	1 %	2	Other business support activities	17 %	34	1 %	2
0 %		0 %		Activities auxiliary to financial services and insurance activities	0 %		0 %	0
0 %		0 %		County municipalities and municipalities	0 %		0 %	0
11 %	23	52 %	86	Manufacturing	42 %	86	11 %	23
1 %	2	5 %	8	Information and communication	4 %	8	1 %	2
3 %	6	4 %	7	Crop and animal production	3 %	6	3 %	7
11 %	24	0 %		Foreign industrial	0 %		0 %	0
21 %	46	-4 %	-6	Real estate activities	-3 %	-6	22 %	46
1 %	2	0 %	0	Accommodation and food service activities	0 %	0	1 %	2
0 %	0	0 %	0	Forestry and logging	0 %	0	0 %	0
0 %		0 %		Central government and social security funds	0 %		0 %	0
0 %		0 %		Support activities for petroleum and natural gas extraction	0 %		0 %	0
5 %	10	1 %	2	Other service industries	1 %	2	5 %	10
1 %	3	5 %	8	Transportation and storage	4 %	8	4 %	8
32 %	70	10 %	17	International shipping and pipeline transport	8 %	17	34 %	70
1 %	2	3 %	5	Development of building projects	3 %	5	1 %	2
0 %		0 %		Extraction of crude oil and natural gas	0 %		0 %	0
0 %		0 %		Unspecified	0 %		0 %	0
0 %		0 %	0	Water supply; sewerage, waste management and remediation activities	0 %	0	0 %	0
0 %	1	-1 %	-1	Wholesale and retail trade; repair of motor vehicles and motorcycles	0 %	-1	0 %	1
5 %	12	12 %	20	Retail banking market	14 %	28	9 %	19
100 %	220	100 %	164	Losses on loans to customers	100 %	203	100 %	209
	-4		-9	Payments received on loans previously written-off as confirmed lost		-11		-9
	216		155	Net losses on loans		192		200
			3	Other losses		21		
	216		158	Net losses on loans to customers		213		200

NET NON-PERFORMING AND IMPAIRED COMMITMENTS - PARENT BANK

	31.12.16	31.12.15	31.12.14	31.12.13	31.12.12	31.12.11
Non-performing commitments, not impaired	267	387	403	444	357	452
Impaired	280	334	356	373	586	322
Non-performing and impaired commitments	547	721	759	817	943	774
Individual write-downs for impaired value	78	203	198	171	104	88
Interest on reversal of discounted impairment of value	61	125	75	50	183	105
Total individual write-downs	139	328	273	221	287	193
Net non-performing and impaired commitments	408	393	486	596	656	581

	2016	2015	2014	2013	2012	2011
Interest on written-down loans, included in Income 1)	3	13	53	58	56	50

NET NON-PERFORMING AND IMPAIRED COMMITMENTS - GROUP

	31.12.16	31.12.15	31.12.14	31.12.13	31.12.12	31.12.11
Non-performing commitments, not impaired	301	270	457	486	397	471
Impaired	211	245	90	373	592	338
Non-performing and impaired commitments	512	515	547	859	989	809
Individual write-downs for impaired value	93	69	218	194	120	96
Interest on reversal of discounted impairment of value	61	100	-47	50	183	112
Total individual write-downs	154	169	171	244	303	208
Net non-performing and impaired commitments	358	346	376	615	686	601

	2016	2015	2014	2013	2012	2011
Interest on written-down loans, included in Income 1)	3	13	53	58	56	50

1) Ordinary effective interest income, reduced by the amortising effect of interest related to individual write-downs, has been included as income. Corresponding inclusion of income has been applied in the case of loans involving collective related write-downs, calculated at an average, effective rate of interest.

NOTE 15 - MARKET RISK RELATING TO INTEREST RATE RISK

Interest rate risk arises through the bank's assets and liabilities having different interest rate lock-in periods.

Interest rate risk is managed within the limits set by the Bank's Board, where the interest rate risk is expressed by a maximum change in value of a 2 percentage points parallel interest rate shift given by a yield curve. Limits for total interest rate risk are given, and within specified time intervals.

This note is a sensitivity analysis conducted on the basis of relevant balance sheet items as of 31/12/2016 and going forward. The Bank's interest rate risk is calculated by simulating a parallel interest rate shift of 2 percentage points for the entire interest rate curve. All the interest rate sensitive balance sheet items on the asset and liability sides are included in the analysis. Off-balance sheet items that are used in the bank's risk management,

including interest rate swaps, are also included. The calculations are made on the basis of the Bank's positions as of 31/12/2016 and market interest rates at the same time.

Interest rate risk was low throughout 2016 and within the overall limit of NOK 60 million established by the Bank's Board. The low exposure means that the market risk associated with interest rate risk has a limited effect on the Bank's profit performance.

In November 2014, SpareBank 1 Nord-Norge issued a bond with a nominal value of CHF 125 million. The loan pays a fixed-rate of 0.875% per year. The interest rate risk for the aforementioned loan is taken into account in the assessment of the total interest rate risk, but is not subject to the general conditions. The interest rate risk for the bond loan is NOK 81.9 million converted to NOK as at 31/12/2016.

INTEREST RATE RISK WITH A 2 PERCENTAGE POINTS INTEREST RATE SHIFT

All amounts are equal for the Parent Bank and Group

Amounts in NOK million	2016	2015
Bonds and certificates	-26	-37
Fixed rate loans to customers	-24	-10
Bond issues	140	160
Other financing and investments	0	-1
Loans/deposits customers	-12	-17
Other derivatives	-4	-4
Total interest rate risk	74	90

A minus sign indicates that the bank will lose if interest rates rise.

The table below shows the interest rate risk within the various time intervals with a 2 percentage points parallel interest rate shift.

INTEREST RATE RISK WITH A 2 PERCENTAGE POINTS INTEREST RATE SHIFT BY TERM TO MATURITY

	2016	2015
0 - 1 month	3	5
1 - 3 months	-15	-19
3 - 6 months	3	-3
6 - 12 months	13	7
1 - 3 years	2	-5
3 - 5 years	72	95
5 - 10 years	-5	11
Total interest rate risk	74	90

INTEREST RATE RISK WITH A 2 PERCENTAGE POINTS INTEREST RATE SHIFT PER CURRENCY

	2016	2015
NOK	-7	-15
EUR	2	-1
USD	-1	-1
CHF	82	107
Other currency	-2	0
Total interest rate risk	74	90

NOTE 16 - MARKET RISK RELATING TO FOREIGN EXCHANGE RISK

Currency risk is the risk of the Group incurring losses due to changes in exchange rates that are unfavourable for the bank's positions. The risk arises from the Group having differences between assets and liabilities in the individual currencies.

The Bank's Board has set limits for currency positions exposed to exchange rates within a day and overnight concerning aggregated position and largest position in a single currency. The currency risk is measured as the net currency exposure for each individual currency, where the long and short positions are set off. The aggregated position is the largest of the absolute sum of the long or short position.

PARENT BANK			GROUP		
Net foreign exchange exposure NOK		Amounts in NOK million	Net foreign exchange exposure NOK		
2015	2016		2016	2015	
Currency					
-0.8	-8.0	USD	-8.0	-0.8	
-7.9	-1.0	EUR	-1.0	-7.9	
0.3	0.4	GBP	0.4	0.3	
1.6	0.2	RUB	0.2	1.6	
2.4	1.0	Other foreign currencies	1.0	2.4	
-4.4	-7.5	Total	-7.5	-4.4	
50.0	50.0	Total foreign exchange limits	50.0	50.0	
40.0	40.0	Total per currency	40.0	40.0	
0.1	0.2	Impact on overall result from a 3 percentage points change	0.2	0.1	
0.4	0.7	Impact on overall result from a 10 percentage points change	0.7	0.4	

NOTE 17 - FINANCIAL DERIVATIVES

SpareBank 1 Nord-Norge concludes hedging transactions with recognised Norwegian and foreign banks to reduce its risk. Derivative transactions are linked to ordinary banking operations and are carried out to reduce the risk associated with the bank's borrowing (funding) in the financial markets, and to reveal and reduce risk related to customer-oriented activities. Only hedges associated with the bank's funding activities are defined as fair value hedging pursuant to IAS 39.

Other hedging is defined as ordinary hedge accounting. The Bank does not utilise cash flow hedging.

The Bank's Board has set limits for the maximum risk for the bank's interest rate positions. Routines have been established that ensure the stipulated positions are kept to.

Currency- and interest rate contracts consist of

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.

PARENT BANK AND GROUP

Amounts in NOK million	31.12.16	31.12.15
Net losses recognised related to hedging instruments for fair value hedging were:	195	133
Total gains on hedged items related to the hedged risk were:	-191	-129
Total, fair value hedges	4	4

**PARENT BANK AND GROUP
FOREIGN CURRENCY- AND INTEREST RATE INSTRUMENTS**

Fair value through profit and loss account Amounts in NOK million	2016			2015		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign currency instruments						
Foreign exchange financial derivatives (forwards)	2 143	14	9	1 610	47	42
Currency swaps	13 468	193	47	2 256	272	208
Total, foreign currency instruments	15 610	207	56	3 866	319	250
Interest rate instruments						
Interest rate swaps (including cross currency)	26 701	685	913	16 409	858	1 193
Other interest rate contracts	480	14	16	30	82	82
Total non-standardized contracts	27 181	700	929	16 439	940	1 275
Standardised interest rate contracts (futures)						
Total, interest rate instruments	27 181	700	929	16 439	940	1 275
HEDGING OF FUNDING						
Interest rate instruments						
Interest rate swaps (including cross currency)	11 963	483	-	28 701	687	-
Total, interest rate instruments	11 963	483	-	28 701	687	-
Total foreign currency- and interest rate instruments						
Total, interest rate instruments	39 144	1 182	929	45 140	1 627	1 275
Total currency swaps and forwards	15 610	207	56	3 866	319	250
Total	54 754	1 390	985	49 006	1 946	1 525

NOTE 18 - REMAINING CONTRACT-RELATED PERIODS FOR LIABILITIES

Liquidity risk

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, except in the case of raising external financing, through the Bank's liquidity reserve/buffer. The tabel shows receipts and payments, including future interest payments, at various points in time.

The Bank proactively manages the Group's liquidity risk on a daily basis. SpareBank 1 Nord-Norge must comply with the regulatory minimum requirements for prudent liquidity management at all times.

The short-term measure of liquidity risk, the Liquidity Coverage Ratio (LCR), measured in NOK, was 121% as of the end of the year.

PARENT BANK

Amounts in NOK million	On demand	Under 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
2016						
Liabilities to credit institutions	270	3	11	234	315	833
Approved unutilised credits and guarantees	8 442					8 442
Deposits from customers	51 886	527	1 511			53 924
Debt securities in issue		737	4 191	12 576	2 137	19 641
Derivatives	985					985
Contract-related outgoing cash flows			347	987	321	1 655
Contract-related incoming cash flows			-272	-386	-105	-1 544
Other liabilities		846				846
Subordinated loan capital		15	1 042	364		1 421
Total liabilities	61 583	1 856	6 716	13 380	2 668	86 203

2015

Liabilities to credit institutions	848	900	9	47	25	1 829
Approved unutilised credits and guarantees	8 543	136	155	1 058	438	10 330
Deposits from customers	46 694	135	1 286			48 115
Debt securities in issue		287	4 684	14 238	1 845	21 054
Derivatives	1	36	110	775	603	1 525
Contract-related outgoing cash flows		0	409	1 234	492	2 135
Contract-related incoming cash flows		-388	-399	-1 026	-340	-2 153
Other liabilities		655				655
Subordinated loan capital		15	44	1 420		1 479
Total liabilities	56 086	1 776	6 298	17 746	3 063	84 969

GROUP

Amounts in NOK million	On demand	Under 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
2016						
Liabilities to credit institutions	255	3	11	234	315	818
Approved unutilised credits and guarantees	8 464					8 464
Deposits from customers	51 832	527	1 511			53 870
Debt securities in issue		737	4 191	12 576	2 137	19 641
Derivatives	985					985
Contract-related outgoing cash flows			347	987	321	1 655
Contract-related incoming cash flows		-272	-386	-781	-105	-1 544
Other liabilities		1 128				1 128
Subordinated loan capital		15	1 042	364		1 421
Total liabilities	61 536	2 138	6 716	13 380	2 668	86 438

2015

Liabilities to credit institutions	835	900	9	47	25	1 816
Approved unutilised credits and guarantees	8 543	136	155	1 058	438	10 330
Deposits from customers	46 666	135	1 286			48 087
Debt securities in issue		287	4 684	14 238	1 845	21 054
Derivatives	1	36	110	775	603	1 525
Contract-related outgoing cash flows		0	409	1 234	492	2 135
Contract-related incoming cash flows		-388	-399	-1 026	-340	-2 153
Other liabilities			652			652
Subordinated loan capital		15	44	1 420		1 479
Total liabilities	56 045	1 121	6 950	17 746	3 063	84 925

NOTE 19 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table shows maturity of assets and liabilities after the balance sheet date.

PARENT BANK

Amounts in NOK million	On demand	Under 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
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31.12.16

Assets

Cash and balances with central banks	775					775
Loans and advances to credit institutions	3 832	1 884	70		147	5 933
Individual write-downs on loans and advances to credit institutions					-62	-62
Loans and advances to customers	9 082	1 623	3 414	9 987	42 060	66 166
Individual write-downs loans and advances to customers					-139	-139
Collective write-downs loans and advances to customers					-357	-357
Shares	115			20	156	291
Bonds and certificates - fair value		523	450	7 969	1 222	10 164
Financial derivatives	1 390					1 390
Investments in Group companies					728	728
Investments in associated companies and joint ventures					2 849	2 849
Property, plant and equipment					361	361
Other assets	48	50	95		232	425
Total assets	15 242	4 080	4 029	17 976	47 197	88 524

Liabilities

Liabilities to credit institutions	266	500			67	833
Deposits from customers	51 886	527	1 511			53 924
Debt securities in issue		284	3 608	13 573	3 700	21 165
Financial derivatives	985					985
Other liabilities		733	81	32		846
Deferred tax				83		83
Subordinated loan capital			1 000	350		1 350
Total liabilities	53 137	2 044	6 200	14 038	3 767	79 186

GROUP

Amounts in NOK million	On demand	Under 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
31.12.16						
Assets						
Cash and balances with central banks	775					775
Loans and advances to credit institutions		2 008				2 008
Individual write-downs on loans and advances to credit institutions					-62	-62
Loans and advances to customers	9 082	1 623	3 414	9 987	46 657	70 763
Individual write-downs loans and advances to customers					-154	-154
Collective write-downs loans and advances to customers					-373	-373
Shares	115			20	171	306
Bonds and certificates - fair value		523	450	7 969	1 222	10 164
Financial derivatives	1 390					1 390
Investments in associated companies and joint ventures					4 370	4 370
Property, plant and equipment					501	501
Non-current assets held for sale	30					30
Goodwill					63	63
Other assets	48	50	384		238	720
Total assets	11 440	4 204	4 248	17 976	52 633	90 501
Liability						
Liabilities to credit institutions	251	500			67	818
Deposits from customers	51 832	527	1 511			53 870
Debt securities in issue		284	3 608	13 573	3 700	21 165
Financial derivatives	985					985
Other liabilities		915	181	32		1 128
Deferred tax				174		174
Subordinated loan capital			1 000	350		1 350
Total liabilities	53 068	2 226	6 300	14 129	3 737	79 490

NOTE 19 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

PARENT BANK

Amounts in NOK million	On demand	Under 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
31.12.15						
Assets						
Cash and balances with central banks	274					274
Loans and advances to credit institutions	3 301	1 566	804	74		5 745
Individual write-downs on loans and advances to credit institutions					-62	-62
Loans and advances to customers	8 865	701	2 698	10 400	37 385	60 049
Individual write-downs for impaired value					-328	-328
Collective write-downs for impaired value					-234	-234
Shares			62	326		388
Bonds - fair value		815	1 712	5 554	2 986	11 067
Bonds - held to maturity				87		87
Bonds - loans and advances					24	24
Financial derivatives		14	354	830	748	1 946
Investments in Group companies					626	626
Investment in associated companies and joint ventures					2 836	2 836
Property, plant and equipment					443	443
Other assets			522			522
Total assets	12 440	3 096	6 152	17 271	44 424	83 383
Liabilities						
Liabilities to credit institutions	848	900	9	47	25	1 829
Deposits from customers	46 694	135	1 286			48 115
Debt securities in issue	681	197	3 786	15 118	1 688	21 470
Financial derivatives	1	36	110	775	603	1 525
Other liabilities		750				750
Deferred tax	146					146
Subordinated loan capital					1 350	1 350
Total liabilities	48 370	2 018	5 191	15 940	3 666	75 185

GROUP

Amounts in NOK million	On demand	Under 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
31.12.15						
Assets						
Cash and balances with central banks	274					274
Loans and advances to credit institutions	84	1 478	550	74		2 186
Individual write-downs on loans and advances to credit institutions					-62	-62
Loans and advances to customers	8 865	701	2 698	10 400	41 389	64 053
Individual write-downs for impaired value					-169	-169
Collective write-downs for impaired value					-247	-247
Shares			62	507		569
Bonds and certifications - fair value		815	1 712	5 554	2 986	11 067
Bonds - hold to maturity				87		87
Bonds - loans and advances					24	24
Financial derivatives		14	354	830	748	1 946
Investment in associated companies and joint ventures					4 424	4 424
Property, plant and equipment					553	553
Non-current assets held for sale		28				28
Goodwill					51	51
Other assets			619			619
Total assets	9 223	3 036	5 995	17 452	49 697	85 403
Liabilities						
Liabilities to credit institutions	835	900		81		1 816
Deposits from customers	46 666	135	1 286			48 087
Debt securities in issue	681	197	3 786	15 118	1 688	21 470
Financial derivatives	1	36	110	775	603	1 525
Other liabilities		956				956
Deferred tax	238					238
Subordinated loan capital					1 350	1 350
Total liabilities	48 421	2 224	5 182	15 974	3 641	75 442

NOTE 20 - NET INTEREST INCOME

PARENT BANK			GROUP	
2015	2016	Amounts in NOK million	2016	2015
Interest income				
120	88	Interest and similar income from loans to and claims on credit institutions	6	20
2 211	2 097	Interest and similar income from loans to and claims on customers	2 371	2 497
189	174	Interest and similar income from certificates, bonds and other interest-bearing securities	171	185
2 520	2 359	Total interest income	2 548	2 702
Interest costs				
53	60	Interest and similar costs on liabilities to credit institutions	59	55
628	395	Interest and similar costs relating to deposits from and liabilities to customers	393	616
425	356	Interest and similar costs related to the issuance of securities	356	425
94	96	Interest and similar costs on subordinated loan capital	96	94
1 200	907	Total interest costs	904	1 190
1 320	1 452	Net interest income	1 644	1 512

NOTE 21 - NET FEE-, COMMISSION- AND OTHER OPERATING INCOME

PARENT BANK			GROUP	
2015	2016	Amounts in NOK million	2016	2015
Fees and commissions receivable				
243	263	Payment facilities	263	244
142	151	Insurance products	157	145
24	19	Guarantee commissions	19	24
		Real estate broking	133	119
36	37	Portfolio commissions	47	45
34	35	Other commissions	75	71
479	505	Commissions ex. SB1 Boligkreditt	694	648
260	177	Commission SB1 Boligkreditt	177	260
739	682	Total commision income	871	908
72	78	Commission costs	85	75
		Accounting services	101	87
15	42	Other income	37	13
15	42	Total other income	138	100
682	646	Total commission- and other income	924	933

NOTE 22 - INCOME FROM FINANCIAL INVESTMENTS

PARENT BANK			GROUP	
2015	2016	Amounts in NOK million	2016	2015
8	74	Dividends from equity capital instruments	74	8
46	72	Income from Group companies		
308	540	Income from joint ventures	366	399
354	612	Total income from equity stakes in Group companies and joint ventures	366	399
-24	14	Certificates and bonds assessed at fair value through the profit and loss account	14	-24
-1	0	Certificates and bonds assessed at amortised cost - loans and advances	0	-1
-25	14	Total income from certificates and bonds	14	-25
-133	4	Net value changes on hedged bonds and financial derivatives	4	-133
-1	-6	Net value changes on fixed rate loans to customers and derivatives	-6	-1
17	52	Value changes on other financial derivatives	48	17
-117	50	Total income from financial derivatives	46	-117
-4	24	Gains/losses on shares - classified at fair value through the profit and loss account	-21	-50
-4	24	Total income from shares	-21	-50
32	26	Total income from currency trading	30	34
-114	114	Net gains/losses and net value changes on financial assets	69	-158
248	800	Income from financial investments	509	249

NOTE 23 - PERSONNEL COSTS, BENEFITS AND LOANS TO- AS WELL AS EQUITY CERTIFICATES OWNED BY LEADING EMPLOYEES AND EMPLOYEE REPRESENTATIVES

The Board's statement on the fixing of salaries and other remuneration for executive personnel

Pursuant to Section 6-16a of the Public Limited Liability Companies Act, the Board sets guidelines for the remuneration of executive personnel. The guidelines must be submitted to the Bank's Supervisory Board in accordance with Section 5-6(3) of the Public Limited Liability Companies Act.

Report on executive pay policy in the preceding financial year

The Board confirms that the guidelines for executive pay for 2016 set forth in last year's statement have been followed.

The guidelines

The Board considered the guidelines for salaries and other remuneration for executive personnel at its meeting on 01/03/2017 and decided to continue following the same guidelines as last year.

The following was adopted for the coming financial year:

1. Definitions

Executive personnel should be understood to mean the chief executive and senior group general managers (Group management). The total remuneration packages of executive personnel include their fixed salary, benefits in kind and collective pension agreements, except for three senior group general managers who have individual early retirement agreements. The Board also has a discretionary right to invite Group management to buy discounted equity certificates.

2. General principles for fixing total remuneration packages

Executive pay in SpareBank 1 Nord-Norge should be competitive within the limits of the remuneration policy, but it should not be a pay leader compared with the rest of the industry.

The principal element of the remuneration package should be the fixed salary. Group management in SpareBank 1 Nord-Norge have no individual or collective bonus agreements.

The Board can decide that group management should be able to buy equity certificates at up to 30% discount within a defined limit, with a tie-in period of 3 years from purchase. The arrangement is intended to help ensure that Group management increase their ownership and have a commonality of interest with the company's stakeholders. The terms of the scheme satisfy the requirements laid down in the Financial Institutions Regulation, Chapter 15.

The Board does not intend to make a special offer to group management to buy discounted equity certificates in 2017 as it did in 2015.

The Board is required to ensure that the remuneration of its executive personnel has no adverse effects on the Group's reputation.

3. Fixing salaries

The Board has to assess the chief executive's overall performance each year and, on this basis, assess his salary and lay down salary conditions.

The chief executive should also assess the performance of group management and make a salary assessment on this basis.

4. Date effective

The guidelines for the fixing of salaries and other remuneration for executive personnel in SpareBank 1 Nord-Norge become effective once the matter has been presented to the Supervisory Board.

PERSONELL COSTS, NUMBER OF STAFF AND MAN-YEARS PARENT BANK

PARENT BANK			GROUP	
2015	2016	Amounts in NOK million	2016	2015
552	378	Wages and salaries	540	713
28	46	Pension costs (note 25)	53	36
90	79	Social costs	96	101
670	503	Total personnel costs	689	850
674	616	Average number of staff	841	809
639	540	Number of man-years as at 31.12	774	830
670	562	Number of staff as at 31.12	807	875

FEES PAID TO MEMBERS OF THE MAIN BOARD OF DIRECTORS IN 2016

Amounts in NOK thousand	Board fees	Fees 2)	Loans	Number of equity certificates 1)
Karl Eirik Schjøtt-Pedersen (Chairman)	450	12	2 000	3 755
Hans-Tore Bjerkaas (Deputy Chairman)	237	90		4 761
Pål Andreas Pedersen (Deputy Chairman, resigned March 2016)	63			
Sonja Djønne	200	10	3 820	5 000
Kjersti Terese Stormo	150			
Greger Mannsverk	200	10		18 219
Bengt Olsen	150	70		
Ingvild Myhre	200	70		
Vivi Ann Pedersen	200		5	19 733
May Britt Nilsen	180		530	7 652
Anita Persen (resigned March 2016)	50			
Total	2 080	262	6 355	59 120
Close associates of board members			9 483	

FEES PAID TO MEMBERS OF THE MAIN BOARD OF DIRECTORS IN 2015

Amounts in NOK thousand	Board fees	Fees 2)	Loans	Number of equity certificates 1)
Karl Eirik Schjøtt-Pedersen (Chairman)	338			
Kjell Olav Pettersen (Chairman, resigned March 2014)	112			
Sonja Djønne	200	10	3 973	5 000
Ingvild Myhre	200	70		
Hans-Tore Bjerkaas	200	10		4 761
Greger Mannsverk	200			14 464
Pål Andreas Pedersen (Deputy Chairman)	250	90		
Vivi Ann Pedersen	200			13 312
Vivi Ann Movik	40			
May Britt Nilsen	135		545	6 714
Anita Persen	200	70		3 081
Total	2 075	250	4 518	47 332
Close associates of board members			2 917	

1) Equity certificates owned by close family members or by companies of which the abovementioned persons are general partners or directors have also been included.

Terms and conditions, collateral and other security are the same as for ordinary customers, with the exception of employees' elected representatives for whom terms and conditions are the same as for other employees. The Chairman of the Board of Directors has no bonus agreements or agreement pertaining to termination benefits.

2) Fees for participation in the Audit Committee, Risk Committee and the Remuneration Committee.

NOTE 23 - PERSONNEL COSTS, BENEFITS AND LOANS TO- AS WELL AS EQUITY CERTIFICATES OWNED BY LEADING EMPLOYEES AND EMPLOYEE REPRESENTATIVES

BENEFITS TO MEMBERS OF THE GROUP MANAGEMENT COMMITTEE 2016

Title/name Amounts in NOK thousand	Salaries and other short-term emoluments	Fees 3)	Bonus	Additional pension agreement	Accrued pension rights / pension savings	Loans	Number of equity certificates 5)
Chief Executive Officer							
Jan-Frode Janson	4 056			1)	481 2)		49 126
Senior group General Manager							
Rolf Eigil Bygdnes	2 730			1)	997 4)		69 897
Senior group General Manager							
Geir Andreassen	2 252			1)	671 4)		75 329
Senior group General Manager							
Liv Bortne Ulriksen	1 989			1)	191 2) 4)	6 620	79 747
Senior group General Manager							
Petter Høiseith	2 194			1)	123 2)	9 483	46 768
Senior group General Manager							
Ronni Møller Pettersen (from March 2016)	1 505			1)	92 2)	2 691	3 755
Senior group General Manager							
Trond Hanssen	1 716			1)	102 2)	3 298	35 848
Senior group General Manager							
Christian Overvaag	1 734			1)	97 2)		64 372
Senior group General Manager							
Lasse Hagerupsen	1 733			1)	95 2)	2 044	35 848
Senior group General Manager							
Trude Glad	2 208			1)	496		46 606
Senior group General Manager							
Hanne J. Nordgaard (resigned 31.12.16)	1 916			1)	108 2)	644	41 970
CEO SpareBank 1 Finans							
Hermod Bakkejord	1 947			1)	329	1 216	33 000
CEO EiendomsMegler 1							
Kristin Amundsen	1 551		288		76 2)		32 394
CEO SNN Forvaltning							
Stig-Arne Pettersen	952		470		48 2)	5 591	40 001
CEO SNN Regnskapshuset							
Tom Robert Aasnes	1 256		25		68 2)	2 685	13 467
Former Chief Executive Officer							
Hans Olav Karde	330						

1) Pension scheme for earnings in excess of 12G

2) Have a defined contribution pension contract

3) Board members' remuneration from subsidiaries

4) Have an early retirement pension contract

5) The figures show the number of equity certificates the person concerned owned in SpareBank 1 Nord-Norge as at 31/12/2016.

They also include equity certificates owned by immediate family members or companies in which the person has a determining influence.

The chief executive and executive personnel all have 3-month mutual periods of notice. No agreements concerning termination benefits exist.

Loans to other employees 1)	1 071 746
------------------------------------	-----------

1) The loan rate is 1% lower than the current best mortgage rate given to ordinary customers at any given time for a maximum loan amount of NOK 4 million. No collateral is pledged on behalf of employees.

The aggregate value of interest rate subsidies relating to loans to employees amounted to approximately NOK 10,7 million in 2016.

BENEFITS TO MEMBERS OF THE GROUP MANAGEMENT COMMITTEE 2015

Title/name	Salaries and other short-term emoluments	Fees 3)	Bonus	Additional pension agreement	Accrued pension rights / pension savings	Loans	Number of equity certificates 5)
Chief Executive Officer							
Jan-Frode Janson	4 095			1)	644 2)		45 371
Senior group General Manager							
Rolf Eigil Bygdnes	2 965			1)	1 024 4)	1 375	66 142
Senior group General Manager							
Geir Andreassen	2 398			1)	688 4)	1 981	71 594
Senior group General Manager							
Liv Bortne Ulriksen	2 382			1)	126 2) 4)		72 237
Senior group General Manager							
Petter Høiseth	2 487			1)	119 2)	3 620	37 002
Senior group General Manager							
Trond Hansen	1 247			1)	44 2)	3 420	35 848
Senior group General Manager							
Christian Overvaag	1 801			1)	91 2)		60 617
Senior group General Manager							
Lasse Hagerupsen	1 731			1)	83 2)	148	35 848
Senior group General Manager							
Trude Glad	2 431			1)	854		42 851
Senior group General Manager							
Hanne J. Nordgaard	2 043			1)	106 2)	578	40 093
CEO SpareBank 1 Finans							
Hermod Bakkejord	2 058			1)	347	375	30 025
CEO EiendomsMegler 1							
Kristin Amundsen	1 430	20	200		76 2)		28 639
CEO SNN Forvaltning							
Stig-Arne Pettersen	829		443		45 2)	8 731	29 963
CEO SNN Regnskapshuset							
Tom Robert Aasnes	1 179				66 2)	1 370	9 712
Former Chief Executive Officer							
Hans Olav Karde	286						

1) Pension scheme for earnings in excess of 12G

2) Have a defined contribution pension contract

3) Board members' remuneration from subsidiaries

4) Have an early retirement pension contract

5) The figures show the number of equity certificates the person concerned owned in SpareBank 1 Nord-Norge as at 31/12/2015.

They also include equity certificates owned by immediate family members or companies in which the person has a determining influence.

The chief executive and executive personnel all have 3-month mutual periods of notice. No agreements concerning termination benefits exist.

Loans to other employees 1)	1 038 674
------------------------------------	-----------

1) The loan rate is 1% lower than the current best mortgage rate given to ordinary customers at any given time for a maximum loan amount of NOK 4 million. No collateral is pledged on behalf of employees.

The aggregate value of interest rate subsidies relating to loans to employees amounted to approximately NOK 10,4 million in 2015.

NOTE 23 - PERSONNEL COSTS, BENEFITS AND LOANS TO- AS WELL AS EQUITY CERTIFICATES OWNED BY LEADING EMPLOYEES AND EMPLOYEE REPRESENTATIVES

FEES PAID TO MEMBERS OF THE CONTROL COMMITTEE 2016

Amounts in NOK thousand	Fees	Loans	Number of equity certificates 1)
Rigmor Abel	23		
Kåre Brynjulfsen	23		2 596
Dag Norvang	23		
Tore Bråthen (Chairman)	38		
Total	107		2 596

1) The above figures show the number of equity certificates held in SpareBank 1 Nord-Norge as at 31/12/2016. Equity certificates owned by close family members or by companies of which the abovementioned persons are general partners or directors have also been included.

SpareBank 1 Nord-Norge discontinued the Control Committee as at 31/12/2015, but fees were paid for the 1st quarter of 2016.

FEES PAID TO MEMBERS OF THE CONTROL COMMITTEE 2015

Amounts in NOK thousand	Fees	Loans	Number of equity certificates 1)
Rigmor Abel	92		
Kåre Brynjulfsen	92		2 596
Dag Norvang	92		
Tore Bråthen (Chairman)	151		
Total	427		2 596

1) The above figures show the number of equity certificates held in SpareBank 1 Nord-Norge as at 31/12/2015. Equity certificates owned by close family members or by companies of which the abovementioned persons are general partners or directors have also been included.

PCCS HELD BY SPAREBANK 1 NORD-NORGE'S ELECTED REPRESENTATIVES AS AT 31.12.16

Supervisory Board members/deputy members:	Numbers 1)
Trond Mohn	2 124 024
Odd Erik Hansen	291 902
Håkon Løbach Willumsen	170 000
Marie M. Fangel	92 012
Berit Berg	46 363
Sissel Ditlefsen	32 098
Einar Frafjord	21 955
Roar Dons	12 852
Ulf Mathisen	12 820
Tom Rømer Svendsen	12 058
Kjell Kolbeinsen	11 046
Asbjørg Jensvoll Strøm	8 404
Åshild Strømmesen	8 203
Ane Engel Røger	7 384
Øyvind Pallesen	5 795
Daniel Nyhagen	5 499
Linn Knudsen	4 326
Tone Marie Myklevoll	3 678
Frode Helgerud	3 050
Hans Olav Gjøvik	2 173
Anne Kathrine Nygaard	270
Hans Johan Lorentzen	189

1) Number of PCCs held in SpareBank 1 Nord-Norge as at 31/12/2016. PCCs owned by close family members and by companies of which the abovementioned persons are general partners or directors have also been included.

PCCS HELD BY SPAREBANK 1 NORD-NORGE' ELECTED REPRESENTATIVES AS AT 31.12.15

Supervisory Board members/deputy members:	Numbers 1)
Trond Mohn	2 124 024
Odd Erik Hansen	291 902
Håkon Løbach Willumsen	170 000
Marie M. Fangel	92 012
Berit Berg	46 363
Sissel Ditlefsen	32 098
Einar Frafjord	21 955
Roar Dons	12 852
Ulf Mathisen	12 820
Tom Rømer Svendsen	12 058
Kjell Kolbeinsen	11 046
Asbjørg Jensvoll Strøm	8 404
Åshild Strømmesen	8 203
Ane Engel Røger	7 384
Øyvind Pallesen	5 795
Daniel Nyhagen	5 499
Linn Knudsen	4 326
Tone Marie Myklevoll	3 678
Frode Helgerud	3 050
Hans Olav Gjøvik	2 173
Anne Kathrine Nygaard	270
Hans Johan Lorentzen	189

1) Number of PCCs held in SpareBank 1 Nord-Norge as at 31/12/2015. PCCs owned by close family members and by companies of which the abovementioned persons are general partners or directors have also been included.

NOTE 24 - OPERATING COSTS

PARENT BANK			GROUP	
2015	2016	Amounts in NOK million	2016	2015
670	503	Personnel costs	689	850
508	523	Administrative costs	631	611
1 178	1 026	Total operating costs	1 320	1 461

BREAKDOWN OF OPERATING COSTS

Personnel costs

552	378	Wages and salaries	540	713
28	46	Pension costs	53	36
90	79	Social costs	96	101
670	503	Total personnel costs	689	850

Administrative costs

119	120	Development costs	120	119
61	71	Electronic data processing costs	75	66
51	52	Marketing costs	71	68
31	26	Travel - and training costs	30	35
27	26	Communications	31	32
35	38	Consultancy services incl external auditor 1)	43	40
48	50	Depreciation	60	56
26	31	Operating cost real estate	37	31
110	109	Other operating costs	164	164
508	523	Administrative costs	631	611

1) Fees external auditor incl VAT (Amounts in NOK thousand)

1 694	1 186	Statutory auditing	1 985	2 308
192	85	Other certification services	258	302
		Other non-audit services	140	
1 886	1 271	Total remuneration for external auditor	2 383	2 610

NOTE 25 - PENSIONS

Up until 01/07/2016, SpareBank 1 Nord-Norge had a defined benefit pension plan for all employees in the form of group pension insurance covered by SpareBank 1 Nord-Norge's pension fund. The pension benefits covered retirement, disability, spouse and child pensions and supplemented benefits from the National Insurance Scheme. A full pension required a qualifying period of 30 years and provided entitlement to a retirement pension of the difference between 70% of salary and the calculated benefits from the National Insurance Scheme. The defined benefit scheme for retirement and disability pension was closed as of 30/06/2006. The pension coverage for spouse pensions ceased as of 01/01/2008. The scheme fulfils the requirements of the Mandatory Occupational Pension Act.

Since 01/07/2006, new employees have been enrolled in a defined contribution scheme for retirement and disability pension taken out with SpareBank 1 Forsikring AS. The premium rates for the defined contribution pension comply with the Act's previous maximums:

- Salary equivalent to one to six times G: 5%
- Salary equivalent to six to twelve times G: 8%

The Group also has liabilities associated with salary above twelve times the National Insurance Scheme's basic amount (G) and agreements on early retirement for executive employees. The pension liabilities associated with salary above 12G are secured through insurance contracts. In 2016, seven employees were covered by this scheme (seven employees in 2015).

The Bank's premium amounted to around NOK 1.6 million in 2016 (NOK 1.2 million in 2015). Early retirement is funded through operations. The bank's early retirement pension scheme for those who are 62 years old was terminated at the end of the year for the majority of members of the group management team. NOK 17 million was recognised in relation to this during 2016.

The Group's companies are members of the private sector tariff-based pension scheme, AFP. The private AFP scheme provides a lifelong supplement to the ordinary pension. The private AFP scheme will be funded through an annual premium that is set as a percentage of salary between 1G and 7.1G. The premium for 2016 was set at 2.5% (2.5% in 2015).

Calculation of defined benefit pension liabilities pursuant to IAS 19

The actuarial calculations are performed by the actuaries Eikos AS. Estimates are used when valuing pension assets and measuring accrued liabilities. These estimates are adjusted each year in the light of actual conditions and the difference between the actual return on pension assets and the recorded return is recognised immediately against OCI (other comprehensive income).

According to IAS 19, the net interest cost for the period 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 values of the pension fund's liabilities, pension insurance in other insurance companies and the unsecured liabilities are included in the calculations below.

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
Net pension liabilities in the balance sheet				
770	721	Present value of future pension liabilities	747	796
912	878	Estimated value of pension resources	910	935
-142	-157	Net pension liabilities in guaranteed schemes	-163	-139
1	0	Social security liabilities	0	1
-141	-157	Net pension liabilities in the balance sheet	-163	-138
3 %	1 %	Deviation between anticipated and actual return on pension funds in %	1 %	3 %

NOTE 25 - PENSIONS

PARENT BANK			GROUP	
2015	2016		2016	2015
Pension costs for the year				
14	9	Pensionable amounts accrued during the year	10	15
18	20	Interest costs of pension liabilities	21	18
-20	-24	Expected rate of return on assets in the scheme	-25	-20
12	5	Net pension cost relating to defined benefit plans excl. social security contributions	6	13
5	4	Employer's social security contributions - subject to accrual accounting	4	5
17	9	Net pension cost relating to defined benefit plans incl. social security contributions	10	18
-7	-1	Curtailment/settlement	-1	-7
12	11	Pension cost - contributions scheme/defined contribution plan	12	13
5	28	Other pension cost	28	5
27	47	Total pension cost incl. social security contributions	49	29
4.8 %	3.5 %	The actual rate of return on pension assets	3.5 %	4.8 %
31.12.15	31.12.16		31.12.16	31.12.15
Change in net pension liabilities in the balance sheet				
-50	-144	Net pension liabilities in the balance sheet as at 01.01	-141	-50
-2	22	Recognised against equity as at 01.01	12	-3
-60	-8	Adjusted equity balance sheet as 31.12	-9	-55
10	8	Net pension cost relating to defined benefit plans	10	11
-4	-4	Charged to the Profit and Loss Account	-5	-4
-38	-30	Benefits paid	-30	-40
-144	-156	Net pension liabilities in the balance sheet as at 31.12	-163	-141
43	32	Other pension liabilities (early retirement pension contract)	32	43
-101	-124	Total pension liabilities in the balance sheet as at 31.12	-131	-98
Actuarial assumptions				
2.70 %	2.60 %	Discount rate	2.60 %	2.70 %
2.70 %	2.60 %	Expected rate of return on scheme's assets	2.60 %	2.70 %
2.25 %	1.50 %	Future wage- and salary developments	1.50 %	2.25 %
2.25 %	2.25 %	Adjustment of basic amount (G)	2.25 %	2.25 %
0.00 %	0.00 %	Increase in current pensions	0.00 %	0.00 %
14.10 %	14.10 %	Social security liabilities	14.10 %	14.10 %
14.10 %	14.10 %	Social security contributions	14.10 %	14.10 %
	5.00 %	Financial tax	5.00 %	
0.00 %	0.00 %	Turnover age over 50 years	0.00 %	0.00 %
0.00 %	0.00 %	Turnover age under 50 years	0.00 %	0.00 %
90.00 %	50.00 %	Staff's average estimated propensity to opt for SRPS at the age of 62	50.00 %	90.00 %
K2013BE	K2013BE	Mortality rate, marriage probability etc.	K2013BE	K2013BE
IR2003	IR2003	Disability	IR2003	IR2003
837	827	Number of members	843	853

31.12.15	31.12.16	COMPOSITION OF PENSION ASSETS	31.12.16	31.12.15
Pension resources broken down on investment categories				
<i>Investment category</i>				
58 %	56 %	Certificates and bonds	56 %	58 %
39 %	41 %	Shares	41 %	39 %
1 %	1 %	Properties	1 %	1 %
2 %	2 %	Other	2 %	2 %
100 %	100 %	Total	100 %	100 %

Sensitivity

The estimates are based on facts and circumstances as at 31/12/2016 assuming that all other parameters are constant. Actual results may differ from these estimates.

	Discounting rate		Pay adjustment		Annual adjustment basic amount (G)		Pension adjustment		Expected remaining useful life	
PARENT BANK	1 %	-1 %	1 %	-1 %	1 %	-1 %	1 %	-1 %	1 år	-1 år
Changes in pensions										
- Benefits-based pension liabilities	-84	103	25	-21	-10	11	85		29	-29
- Net pension costs for the period incl. effects of recognised actuarial gains and losses	-6	5	2	-1	-1	1	3		1	-1
GROUP										
Changes in pensions										
- Benefits-based pension liabilities	-88	108	26	-22	-10	12	89		30	-30
- Net pension costs for the period incl. effects of recognised actuarial gains and losses	-6	5	2	-1	-1	1	3		1	-1

NOTE 26 - TAX

PARENT BANK			GROUP	
2015	2016	Amounts in NOK million	2016	2015
Major components of income tax				
212	323	Current tax costs	355	234
-76	-62	Change in deferred tax	-63	-64
		Tax non-current assets held for sale		2
-10	-3	Shortfall/surplus in respect of accrual for taxation in the previous year/corrections	-1	-9
126	258	Tax	291	163
8	9	Capital (property) tax (presented as other operating costs)	9	8
		Tax non-current assets held for sale		-2
134	267	Income tax for the period	300	169
220	332	Tax payable in balance sheet	364	242
Change in net deferred tax				
-76	-62	Change in deferred tax recognised in the income statement	-63	-64
22		Deferred tax related to new subsidiary as at 01.01		22
		Effects from consolidation		12
15	-1	Changes in principles recognised directly to equity	-1	15
-39	-63	Total change in net deferred tax	-64	-15
31.12.15	31.12.16		31.12.16	31.12.15
Temporary differences and deferred tax				
24	-7	- Tangible fixed assets	285	339
145	157	- Pension liabilities	164	145
413	183	- Other temporary differences	256	471
		Loss carried forward	-11	-5
582	333	Total temporary differences	694	950
-146	-83	Deferred tax in balance sheet - 25%	-174	-238
2015	2016		2016	2015
Change in temporary differences				
8	-31	- Tangible fixed assets	-54	62
95	12	- Pension liabilities	19	95
-206	-230	- Other temporary differences	-215	-152
		Loss carried forward	-6	7
-103	-249	Total temporary differences	-256	12
-26	-62	Change in deferred tax recognised in the income statement - 25%	-64	3
-17	-1	Changes in principles recognised directly to equity		-15
-22		Changes between deferred tax/tax payable as at 31.12		-22
-12		Effect of changed tax rate from 27% to 25%		-18
		Effects from consolidation		-12
-76	-63	Change in deferred tax recognised in the income statement - 25%, after corrections	-64	-64
Reconciliation of tax charge for the period recognised against profit and loss to profit before tax				
233	431	25% of profit before tax	388	281
-86	-170	Non-taxable profit and loss items (permanent differences)	-97	-93
8	9	Capital gains tax	9	8
-10	-3	Shortfall/surplus in respect of accrual for taxation in the previous year		-9
-12		Effect of changed tax rate from 27% to 25%		-18
134	267	Taxation charge for the period	300	169
15.5 %	15.5 %	Effective tax rate (income tax for the period expressed as a percentage of profit before tax)	19.3 %	16.2 %

NOTE 27 - FINANCIAL INSTRUMENTS AT FAIR VALUE

The table below contains financial assets and liabilities that are classified as held for sale or which it has been decided to measure at fair value through profit and loss upon initial recognition. Fair value is the amount an asset can be sold for, or a liability can be settled for, in a transaction between two independent parties.

The value is set using different methods within three levels.

Level 1: Financial instruments that are valued using listed prices in active markets for identical assets or liabilities. The category includes listed shares or fund units, government bonds and certificates traded in active markets. The price used is the price on the balance sheet date. The market is deemed active if it is possible to obtain external, observable prices, exchange rates, or interest rates, and these prices are actual and frequent market transactions.

Level 2: Financial instruments that are valued using information that is not listed prices, but where prices are directly or indirectly observable for assets and liabilities. The category includes listed prices in inactive markets for identical assets and liabilities. The category also includes bonds and interbank derivatives such as interest rate swaps, currency swaps and forward contracts listed on Reuters or Bloomberg, basis swaps between the currencies NOK, EUR, USD and GBP, and interest rate and currency derivatives with customers with insignificant credit spreads.

The value is based on recently observable market data in the form of a transaction in the instrument between informed, willing and independent parties. Alternatively, that the instrument was traded in an active market that is substantially like the relevant instrument.

Level 3: Financial instruments that are valued in manner other than on the basis of observable market data and in which credit margins constitute a material part of the basis for adjusting market value. Instruments in this category are valued using methods that are based on estimated cash flows, assessments of assets and liabilities in companies, models in which material parameters are not based on observable market data, or any industry standards.

When valuation techniques are used, the value is adjusted for credit and liquidity risk. The price of the risk for equivalent instruments is used as the basis for making the assessment. From and including 2013, the Bank has used a model that conforms to IFRS 13 concerning the measurement of fair value, where an 'exit price' assessment is used. The valuation model takes account of credit premiums and changes in credit risk.

PARENT BANK

	Valuation based on listed prices in an active market	Valuation based on observable market data	Valuation based on factors other than observable market data	Total
Amounts in NOK million	Level 1	Level 2	Level 3	
Assets at 31.12.16				
Loans and advances to credit institutions	235	539		775
Loans to customers at fair value			7 489	7 489
Shares at fair value	105		156	261
Bonds at fair value	7 048	3 070		10 118
Financial derivatives at fair value		1 390		1 390
Total assets	7 388	4 999	7 645	20 032

Liabilities as at 31.12.16				
Financial derivatives		985		985
Total liabilities		985		985

Assets at 31.12.15				
Loans and advances to credit institutions	252	22		274
Loans to customers at fair value			7 610	7 610
Shares at fair value	105		194	299
Bonds at fair value	3 385	7 630		11 015
Financial derivatives at fair value		1 946		1 946
Total assets	3 742	9 598	7 804	21 144

Liabilities as at 31.12.15				
Financial derivatives		1 525		1 525
Total liabilities		1 525		1 525

GROUP

	Valuation based on listed prices in an active market	Valuation based on observable market data	Valuation based on factors other than observable market data	
Amounts in NOK million	Level 1	Level 2	Level 3	Total
Assets at 31.12.16				
Loans and advances to credit institutions	235	539		775
Loans to customers at fair value			7 593	7 593
Shares at fair value	105		171	276
Bonds at fair value	7 048	3 070		10 118
Financial derivatives at fair value		1 390		1 390
Total assets	7 388	4 999	7 764	20 151

Liabilities as at 31.12.16

Financial derivatives		985		985
Total liabilities		985		985

Assets at 31.12.15

Loans and advances to credit institutions	252	22		274
Loans to customers at fair value			7 738	7 738
Shares at fair value	105		375	480
Bonds at fair value	3 385	7 630		11 015
Financial derivatives at fair value		1 946		1 946
Total assets	3 742	9 598	8 113	21 453

Liabilities as at 31.12.15

Financial derivatives		1 525		1 525
Total liabilities		1 525		1 525

THIS YEARS CHANGES IN VALUE FOR FINANCIAL INSTRUMENTS IN LEVEL 3

Amounts in NOK million	Financial assets				Financial liabilities
	Loans	Shares	Bonds	Financial derivatives	Financial derivatives
Booked value as at 01.01	7 918	184			
Net gains	-120				
Acquisition	-1 521	157			
Disposals	-1 830	-170			
Booked value as at 31.12	4 447	171			

NOTE 28 - FAIR VALUE FINANCIAL INSTRUMENTS AT AMORTISED COST

Financial instruments at amortised cost

As presented in note 2, the Parent Bank and Group have a number of financial instruments on the balance sheet that are stated at amortised cost. Amortised cost involves valuation according to the originally agreed cash flows, adjusted for any loss in value. The calculations are made on the basis of the individual instrument's characteristics and values on the balance sheet date. Amortised cost will not always result in values that are consistent with the market's assessments of the same financial instruments.

This may be due to factors such as differing perceptions of market conditions, risk factors and required rates of return. The table below provides an overview of estimated fair values for items that are stated in the financial statements at amortised cost. As stated in note 27, the fair is determined by various methods within three levels.

PARENT BANK					GROUP					
2015		2016		Level	Amounts in NOK million		2016		2015	
Booked value	Market value	Booked value	Market value		Assets	Level	Market value	Booked value	Market value	Booked value
5 683	5 683	5 871	5 871	3	Loans and advances to credit institutions	3	1 946	1 946	2 124	2 124
51 877	51 916	59 467	59 571	3	Net loans and advances to customers (amortised cost)	3	70 335	70 231	56 066	55 899
24	23			2,3	Bonds and certificates (loans and advances)	2,3			23	24
139	140			2,3	Bonds and certificates (held to maturity)	2,3			140	139
57 723	57 762	65 338	65 442		Total fair value for assets measured at amortised cost		72 281	72 177	58 353	58 186
Liabilities										
1 829	1 829	833	833	3	Liabilities to credit institutions	3	818	818	1 816	1 816
48 115	48 115	53 924	53 924	3	Deposits from customers	3	53 870	53 870	48 087	48 087
21 470	21 594	21 164	21 456	2	Debt securities in issue (amortised cost)	2	21 456	21 164	21 594	21 470
1 350	1 356	1 350	1 359	2	Subordinated loan capital (amortised cost)	2	1 359	1 350	1 356	1 350
72 764	72 894	77 271	77 572		Total fair value for liabilities measured at amortised cost		77 503	77 202	72 853	72 723
<i>Off balance guarantee liabilities and pledging</i>										
1 893		1 577			Guarantee liabilities		1 577			1 893
<i>Liabilities</i>										
5 089		7 641			Book value of bonds that are in Norges Bank's safe custody		7 641			5 089

NOTE 29 - CERTIFICATES AND BONDS

Bonds and certificate are recognised at fair value.

Previous portfolios defined as loans and receivables and held to maturity were wound up as of 31/12/2016.

CERTIFICATES, BONDS AND OTHER INTEREST-BEARING SECURITIES BROKEN DOWN BY ISSUER SECTOR

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
		Governments		
1 569	2 158	- nominal value	2 158	1 569
1 639	2 248	- market value/fair value	2 248	1 639
1 639	2 248	- booked value	2 248	1 639
		Other public issuer		
2 347	1 293	- nominal value	1 293	2 347
2 359	1 305	- market value/fair value	1 305	2 359
2 359	1 305	- booked value	1 305	2 359
		Financial institutions		
6 390	6 525	- nominal value	6 525	6 390
6 357	6 531	- market value/fair value	6 531	6 357
6 357	6 531	- booked value	6 531	6 357
		Non-financial institutions		
674	38	- nominal value	38	674
660	34	- market value/fair value	34	660
660	34	- booked value	34	660
11 015	10 118	Total certificates and bonds assessed held for trading	10 118	11 015
24		Total certificates and bonds classified as loans and advances		24
87		Total certificates and bonds hold to maturity		87
52	46	Accrued interest	46	52
11 178	10 164	Total certificates and bonds	10 164	11 178

31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
		<i>Held to maturity</i>		
87		Book value		87
88		Nominal value (nominal amount)		88
88		Theoretical market value		88
		<i>Loans and claims</i>		
24		Book value		24
24		Nominal value (nominal amount)		24
23		Theoretical market value		23
111		Total book value		111

NOTE 30 - SHARES AND PARTICIPATIONS

As presented in note 2, it has been decided that SpareBank 1 Nord-Norge's equities portfolios in the held for sale (trading portfolio) will be stated at fair value and available for sale. The value of the trading portfolio is set at the market price on the balance sheet date.

Other equities at fair value are valued using valuation methods based on observable market data, estimated cash flows or assessments of assets and liabilities. Where fair value cannot be measured reliably enough, cost price has been used. Equities in the category available for sale are purchased with the intention of holding them as long-term investments and are valued at cost price.

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
105	105	Fair value through profit and loss account	105	105
194	156	Share will be started at fair value	171	375
89	30	Available for sale	30	89
388	291	Total shares and parts	306	569

SHARES HELD FOR TRADING

Breakdown of shares as at 31.12.16

Company name Amounts in NOK thousand	Number of shares/units	Our equity stake in %	Cost price - our equity stake in NOK	Market value	Booked value
PCCs					
SpareBank 1 Ringerike Hadeland (RING)	5 394	0.039 %	680	992	992
Sparebanken Øst (SPOG)	2 755	0.013 %	109	149	149
SpareBank 1 SMN (MING)	53 496	0.041 %	2 547	3 450	3 450
Sandnes Sparebank (SADG)	1 652	0.007 %	140	67	67
Sparebanken Vest (SVEG)	52 725	0.089 %	1 848	2 552	2 552
Sum equity certificates			5 323	7 211	7 211

NOTE 30 - SHARES AND PARTICIPATIONS

Company name Amounts in NOK thousand	Number of shares/units	Our equity stake in %	Cost price - our equity stake in NOK	Market value	Booked value
Shares					
Statoil ASA (STL)	35 071	0.001 %	4 849	5 590	5 590
Borregaard ASA (BRG)	11 601	0.012 %	719	983	983
Yara International (YAR)	6 247	0.002 %	1 746	2 125	2 125
Schibsted ASA A-Aksjer (SCHA)	2 882	0.003 %	512	569	569
Telenor ASA (TEL)	27 207	0.002 %	3 578	3 521	3 521
DNB ASA (DNB)	20 617	0.001 %	2 105	2 639	2 639
Kongsberg Automotive (KOA)	161 992	0.040 %	950	915	915
TGS Nopec Geophysic (TGS)	4 304	0.004 %	718	829	829
Storebrand ASA (STB)	17 900	0.004 %	573	823	823
Subsea 7 S.A. (SUBC)	13 184	0.004 %	1 155	1 441	1 441
Orkla (ORK)	17 321	0.002 %	1 071	1 364	1 364
Marine Harvest ASA (MHG)	10 930	0.002 %	1 097	1 709	1 709
Norsk Hydro ASA (NHY)	63 314	0.003 %	2 105	2 628	2 628
Petroleum Geo-Service (PGS)	23 250	0.010 %	604	679	679
XXL (XXL)	14 320	0.010 %	1 459	1 403	1 403
Aker Solutions (AKSO)	20 211	0.007 %	749	845	845
Aker ASA (AKER)	2 244	0.003 %	658	723	723
Visa Inc. C-Aksjer (USD)	16 784	0.000 %	7 187	45 384	45 384
Total shares			31 836	74 170	74 170
Units in share-investment funds					
DNB OBX ETF	11 309	0.060 %	542	671	671
DBX MSCI WORLD ETF (EUR)	24 500	0.040 %	5 827	10 066	10 066
MSCI Emerging Markets Index (EUR)	7 500	0.009 %	2 243	2 268	2 268
MSCI Europe Index UCITS ETF (EUR)	22 400	0.040 %	7 229	10 445	10 445
Total units in share investment funds			15 842	23 451	23 451
Total listed PCCs, shares and funds (at fair value) - held for trading			53 001	104 832	104 832
SHARES VALUED AT FAIR VALUE					
Sparebanken Hedmark	1 713 942	1.61 %	107 978	111 589	111 589
SpareBank 1 Markets	226 555	9.99 %	77 148	44 405	44 405
Bank Tavrichesky (RUB)	104 821 999	9.35 %	122 284		
Total shares at fair value			307 410	155 994	155 994
AVAILABLE FOR SALE					
Spama AS	2 312	7.3 %	225	225	225
TIL Holding AS	1 346 293	26.2 %	13 450	3 002	3 002
S.W.I.F.T (EUR)	11		79	90	90
Visa Norge	94 564			26 099	20 000
Trygg Parkering	120		4 200	4 200	4 200
Other minor shares			2 460	2 471	2 471
Total shares available for sale			20 414	36 087	29 988
Parent Bank's total investment in shares and parts			380 825	296 912	290 814

Stakes owned by SpareBank 1 Nord-Norge Portefølje AS as of 31/12/2016

Shares and other equity investments are classified as equities that will be booked at fair value with value changes through profit and loss.

UNLISTED SHARES ASSESSED AT FAIR VALUE

Amounts in NOK thousand	Number of shares/units	Our equity stake in %	Cost price - our equity stake in NOK	Market value	Booked value
Nord I IS	60 900	60.9 %	63 492	4 327	4 327
Viking Venture III IS	9 000	0.9 %	2 307	3 294	3 294
Norinova Invest AS	3 620	8.1 %	2 900	2 756	2 756
Nordisk Areal Invest AS	238 247	4.0 %	5 599	1 549	1 549
Helse Investering AS	611	40.7 %	604	720	720
Saltenposten AS	50	2.6 %	565	565	565
Nord I AS	618 300	61.8 %	1 855	481	481
Kapnord Fond AS	4 842	6.8 %	4 936	283	283
Aksis Eiendom AS	18	0.6 %	51	51	51
Nordkynkraftlag AL	6	6.0 %	10	10	10
Nordavis AS	15	0.2 %	2	2	2
Autosim AS	16 666	0.2 %	1	1	1
Inko Industri og kompetansesenter AS	64	1.8 %	1	1	1
Sentrum Næringshage AS	387	6.3 %	517	0	0
Tromsprodukt AS	10	1.9 %	392	0	0
MariNor AS	60	6.2 %	343	0	0
Kunnskapsparken Nord AS	220	1.2 %	211	0	0
Kunnskapsparken Bodø AS	200	2.5 %	217	0	0
Nord Kapitalforvaltning AS	1 000 000	30.0 %	68	0	0
Bodø Industri AS	12	0.4 %	108	0	0
Målselv Industribygg AS	10	8.6 %	104	0	0
Bodøregionens Utviklingsselskap AS	1 000	0.0 %	100	0	0
Skibotnhallen AS	5	2.0 %	37	0	0
Blåbyen AS (Sortland Næringssselskap)	40	4.2 %	17	0	0
Nordnorsk Reiseliv AS B-Aksjer	12 429	0.3 %	14	0	0
Bodø Boligbyggelag AL	2	2.0 %	4	0	0
Brevoll Inspection Technologies AS	1 150	1.6 %	1 549	0	0
Ibidium AS	105 988	10.5 %	2 449	0	0
Nord Norge Eiendom IV AS	1 685	100.0 %	20 037	0	0
Torgar Næringshage AS	2 208	3.0 %	113	0	0
Meløy Næringsutvikling AS	337	12.5 %	1 452	0	0
Norinova Invest B-Aksjer	332	0.7 %	332	0	0
Norinova Invest AS A-Aksjer	3 288	7.4 %	3 669	0	0
Sic Processing Property AS	105	100.0 %	0	0	0
Total shares SNN Portefølje AS			114 056	14 040	14 040
Shares owned by SNN Regnskapshuset: Other investment (lower than NOK 100 000)				796	796
Shares owned by EiendomsMegler 1 Nord-Norge AS				456	456
Group's total investment in shares and participations/unit trusts			494 880	312 204	306 105

Nord Norge Eiendom IV AS has been consolidated into the Group's financial statements and has therefore not been consolidated into SpareBank 1 Nord-Norge Portefølje AS's financial statements.

The company owns 60.9% stakes in Nord I AS and Nord I IS, and previously owned a 69.7% stake in Nord II IS. The underlying agreements between the shareholders limits voting and influence powers to 50%. The investments are therefore not considered subsidiaries.

Nord II IS was sold in June 2016, and Nord I IS and Nord I AS were liquidated in February 2017.

Nord I and Nord II are managed and classified as venture capital organisations pursuant to IAS 28. The company is therefore exempt from using the equity method for investments/stakes of between 20% and 50%. In other types of companies, such investments would be considered associated companies with a duty to consolidate their share in the financial statements.

NOTE 31 - INVESTMENTS IN GROUP COMPANIES, ASSOCIATED COMPANIES AND JOINT VENTURES

PARENT BANK INVESTMENTS IN GROUP COMPANIES

Amounts in NOK million	31.12.16	31.12.15
Equity stakes in financial institutions	591	476
Equity stakes in other Group companies	137	150
Total investments in Group companies	728	626

SHARES AND EQUITY STAKES INCLUDED IN THE GROUP ACCOUNTS AND SHOWN IN THE PARENT BANK'S ACCOUNTS ACCORDING TO THE COST METHOD OF ACCOUNTING

Company Name	Share capital	Number of shares	Cost	Share of equity and voting capital	Booked value
Amounts in NOK thousand					
SpareBank 1 Finans Nord-Norge AS, Tromsø	532 000	106 400	591 000	100 %	591 000
SpareBank 1 Nord-Norge Portefølje AS, Tromsø	18 227	18 227	67 227	100 %	25 000
EiendomsMegler 1 Nord-Norge AS, Tromsø	21 100	21 100	28 000	100 %	29 636
SpareBank 1 Nord-Norge Forvaltning ASA, Tromsø	3 000	300 000	6 548	100 %	8 261
Fredrik Langesg 20 AS, Tromsø	151	42	30 392	100 %	30 392
SpareBank 1 Regnskapshuset Nord-Norge AS, Tromsø	150	1 500	43 610	100 %	43 610
Total investment shown in the Parent Bank's accounts					727 899

Shares in subsidiaries are not quoted on the stock exchange.

SHARES OWNED BY SUBSIDIARIES

Company Name	Share capital	Number of shares	Cost	Share of equity and voting capital
Amounts in NOK thousand				
Nord-Norge Eiendom IV AS, Tromsø	1 685	1 685	20 037	100 %
Alsgården AS, Bodø	513	513	77 826	100 %

INVESTMENTS IN JOINT VENTURES AND ASSOCIATED COMPANIES

Amounts in NOK million	31.12.16	31.12.15
Equity stakes in financial institutions	1 932	1 928
Equity stakes in other joint ventures	917	908
Total investments in joint ventures	2 849	2 836

SHARES AND EQUITY STAKES IN JOINT VENTURES AND ASSOCIATED COMPANIES, INCLUDED IN THE PARENT BANK'S ACCOUNTS ACCORDING TO THE COST METHOD OF ACCOUNTING

Company Name	Classification	Share of equity and voting capital	Registered office
SpareBank 1 Gruppen AS	Joint venture	19.50 %	Oslo
SpareBank 1 Banksamarbeidet DA	Joint venture	17.74 %	Oslo
SpareBank 1 Mobilbetaling AS	Associated company	19.70 %	Oslo
SpareBank 1 Boligkreditt AS	Associated company	14.61 %	Stavanger
SpareBank 1 Næringskreditt AS	Associated company	16.64 %	Stavanger
BN Bank ASA	Associated company	23.50 %	Trondheim
SpareBank 1 Kredittkort AS	Associated company	17.80 %	Trondheim

Intra-group balances relating to the Bank and the abovementioned companies: Reference is made to note 41.

GROUP
INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

2016	Total share	SpareBank 1 Gruppen AS 19.50%	SpareBank 1 Bank-samarbeidet DA 17.74 %	BN Bank ASA 23.5 %	SpareBank 1 Boligkreditt AS 14.61 %	SpareBank 1 Næringskreditt AS 16.64 %	Other
Amounts in NOK million							
As at 01.01	4 424	1 584	18	823	1 410	395	194
Acquisition/sale	34				80	-77	31
Share of profit - IFRS	434	307	70	61	-16	16	-4
Share of result booked as administrative costs	-69		-69				
Items incorporated directly in equity capital	109	109					
Paid-out dividend	-562	-486		-40	-15	-21	
As at 31.12	4 370	1 514	19	844	1 459	313	221

2015	Total share	SpareBank 1 Gruppen AS 19.50%	SpareBank 1 Bank-samarbeidet DA 17.74 %	BN Bank ASA 23.5 %	SpareBank 1 Boligkreditt AS 14.45 %	SpareBank 1 Næringskreditt AS 20.83 %	Other
Amounts in NOK million							
As at 01.01	4 187	1 488	18	856	1 251	403	171
Acquisition/sale	112				122		-10
Share of profit - IFRS	467	251	68	29	67	19	33
Share of result booked as administrative costs	-68		-68				
Items incorporated directly in equity capital	34	34					
Paid-out dividend	-308	-189		-62	-30	-27	
As at 31.12	4 424	1 584	18	823	1 410	395	194

Included in "Other": SpareBank 1 Kredittkort AS og SpareBank 1 Mobilbetaling AS.

NOTE 31 - INVESTMENTS IN GROUP COMPANIES, ASSOCIATED COMPANIES AND JOINT VENTURES

THE GROUP'S EQUITY STAKES IN ASSOCIATED COMPANIES AND JOINT VENTURES

Name	Assets	Liabilities	Income	Profit/loss	Ownership share
2016					
SpareBank 1 Gruppen AS (Group)	12 302	10 788	2 747	307	19.50 %
SpareBank 1 Mobilbetaling AS	9	4	0	- 27	19.70 %
SpareBank 1 Banksamarbeidet DA	175	150	187	1	17.74 %
SpareBank 1 Boligkreditt AS	39 331	37 911	- 16	- 16	14.61 %
SpareBank 1 Næringskreditt AS	2 270	19 302	20	16	16.64 %
BN Bank ASA	6 532	5 687	139	61	23.50 %
SpareBank 1 Kredittkort AS	962	770	182	23	17.80 %
Total	49 278	63 824	511	365	

SpareBank 1 Mobilbetaling AS was established in autumn 2015. Financial statements produced at 31/12/2016 includes all activity from start-up.

2015

SpareBank 1 Gruppen AS (Group)	11 314	9 762	2 381	251	19.50 %
SpareBank 1 Mobilbetaling AS					19.70 %
SpareBank 1 Banksamarbeidet DA	133	111	167	4	17.74 %
SpareBank 1 Boligkreditt AS	38 900	37 496	95	65	14.45 %
SpareBank 1 Næringskreditt AS	3 308	2 909	28	19	20.83 %
BN Bank ASA	7 671	6 847	109	29	23.50 %
SpareBank 1 Kredittkort AS	934	758	164	20	17.80 %
Total	160 816	48 120	563	388	

Non-current assets held for sale

The bank owns 100% of Bodø-Gruppen AS's shares due to a non-performing commitment. The investment has been measured at fair value under IFRS 5 and presented as available for sale in the consolidated financial statements. Changes in value during the year are presented on a separate line in the income statement and the tax effect has been taken into account. The figures below contain the accounting figures for the company, 100% stake.

2016 Amounts in NOK million	Assets	Liabilities	Income	Profit/loss	Number of shares	Ownership share
Bodø-Gruppen AS	60	60	0	-77	2 000	100 %

NOTE 32 - PROPERTY, PLANT AND EQUIPMENT

PARENT BANK			GROUP			
Buildings and other real property	Machinery and inventory	Total	Amounts in NOK million	Buildings and other real property	Machinery and inventory	Total
2016						
270	898	1 168	Cost of acquisition or adjusted value as at 01.01.16	384	990	1 374
	42	42	Acquisitions	36	51	87
78	18	96	Disposals	78	25	103
192	922	1 114	Cost of acquisition or adjusted value as at 31.12.16	342	1 016	1 358
55	670	725	Accumulated depreciation and write-downs as at 01.01.16	60	761	821
2	48	50	Current period's depreciation	6	54	60
9	13	22	Reversed accumulated depreciation relating to assets which have been sold	9	15	24
48	705	753	Accumulated depreciation and impairment in value as at 31.12.16	57	800	857
144	217	361	Book value as at 31.12.16	285	216	501
2015						
292	851	1 143	Cost of acquisition or adjusted value as at 01.01.15	406	953	1 359
	50	50	Acquisitions		54	54
22	3	25	Disposals	22	17	39
270	898	1 168	Cost of acquisition or adjusted value as at 31.12.15	384	990	1 374
53	625	678	Accumulated depreciation and write-downs as at 01.01.15	56	709	765
2	46	48	Current period's depreciation	4	53	57
	1	1	Reversed accumulated depreciation relating to buildings which have been sold		1	1
55	670	725	Accumulated depreciation and impairment in value as at 31.12.15	60	761	821
215	228	443	Book value as at 31.12.15	324	229	553
1-5 %	10-33 %		Depreciation rates	1-5 %	10-33 %	
0 %			Dwelling units, building plots and sites, works of art	0 %		

Provision of collateralised assets as security

The Bank has not provided collateral security or accepted any other limitations of its rights to use its fixed tangible assets.

The gross value of fully depreciated assets still in use

The gross value of fixed tangible assets which are fully depreciated and still in use was NOK 530 million as at 31/12/2016 (507 million as at 31/12/2015).

Revaluation

The Bank does not make revaluations of fixed tangible assets on an ongoing basis. In connection with the initial implementation of IFRS, buildings were revalued at a total of NOK 39 million. The basis for this revaluation were independent assessments.

Liabilities

The Group has no binding agreements as of 31/12/2016.

Investment property group

The Bank has no properties which are defined as investment properties as at 31/12/2016.

Fixed assets held for sale

The amount for buildings and other real estate includes 14 flats, 2 cabins and 5 lots that are being held for sale with a value of NOK 20.6 million as at 31/12/2016.

NOTE 33 - INTANGIBLE ASSETS

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
0	0	Goodwill	63	51
0	0	Total intangible assets	63	51

Goodwill is primarily attributable to the acquisition of SpareBank 1 Regnskapshuset Nord-Norge AS and acquisition/merger with subordinate accounting firms.

Goodwill and licence items are assessed for impairment each year, and the values are written down if there is a basis for this. Please see note 3 for a description of the valuation model.

NOTE 34 - OTHER ASSETS

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
75	75	Capital contribution to the SpareBank 1 Nord-Norge Pension Fund	75	75
145	157	Pension assets	163	142
47	6	Other debtors	6	47
82	102	Other pre-paid costs, not yet incurred	109	151
126	48	Internal accounts	48	126
		Client account – property brokerage	282	55
47	37	Miscellaneous	37	23
522	425	Other assets	720	619

NOTE 35 - DEPOSITS FROM CUSTOMERS

PARENT BANK				GROUP				
31.12.15		31.12.16		Amounts in NOK million	31.12.16		31.12.15	
Proportion	Deposits	Proportion	Deposits		Proportion	Deposits	Proportion	Deposits
94 %	45 085	93 %	49 992	Deposits from and liabilities to customers, without agreed maturity	93 %	49 938	94 %	45 057
6 %	3 028	7 %	3 932	Deposits from and liabilities to customers, with agreed maturity	7 %	3 932	6 %	3 028
0 %	2			Accrued interest			0 %	2
100 %	48 115	100 %	53 924	Total deposits	100 %	53 870	100 %	48 087
	1,33 %		0,78 %	Average interest rate 1)		0,78 %		1,33 %

1) Average interest rate is calculated as annual total interest/average volume.

DEPOSITS BROKEN DOWN BY SECTOR AND INDUSTRY

1 %	319	1 %	325	Central government- and social security administration	1 %	325	1 %	319
12 %	5 767	16 %	8 410	Counties and municipalities	16 %	8 410	12 %	5 767
1 %	393	1 %	397	Agriculture and related services	1 %	397	1 %	393
0 %	18	0 %	19	Forestry and related services	0 %	19	0 %	18
1 %	695	2 %	1 035	Fishing and hunting	2 %	1 035	1 %	695
0 %	43	0 %	174	Aquaculture (fish farming and hatcheries)	0 %	174	0 %	43
0 %	58	0 %	72	Mining industry and extraction	0 %	72	0 %	58
1 %	618	1 %	617	Industry	1 %	617	1 %	618
0 %	4	0 %	6	Ship and boat building	0 %	6	0 %	4
1 %	489	0 %	249	Electricity, gas, steam and hot water supply	0 %	249	1 %	489
0 %	148	0 %	164	Water supply, sewage and waste services	0 %	164	0 %	148
0 %	212	1 %	317	Development of construction projects	1 %	317	0 %	212
2 %	1 132	2 %	1 181	Other building and construction services	2 %	1 181	2 %	1 132
3 %	1 330	3 %	1 532	Retail trade, repair of motor vehicles	3 %	1 532	3 %	1 330
0 %	5	0 %	2	International shipping and pipeline transport	0 %	2	0 %	5
2 %	874	2 %	966	Other transport and storage	2 %	966	2 %	874
1 %	293	1 %	301	Accommodation and hospitality services	1 %	301	1 %	293
1 %	295	1 %	313	Information and communication	1 %	313	1 %	295
4 %	2 097	4 %	2 303	Sale and management of real estate	4 %	2 303	4 %	2 087
2 %	1 083	2 %	1 202	Professional and financial services	2 %	1 202	2 %	1 073
1 %	528	1 %	420	Business services	1 %	395	1 %	528
5 %	2 640	5 %	2 865	Other service sector industries	5 %	2 835	5 %	2 640
0 %	11	0 %	5	Foreign business	0 %	5	0 %	11
59 %	28 292	56 %	30 271	Retail banking sector	56 %	30 272	59 %	28 293
1 %	391	1 %	380	Foreign sector	1 %	380	1 %	391
1 %	378	1 %	402	Insurance, securities fund and other financial enterprises	1 %	402	1 %	369
0 %	2			Accrued interest			0 %	2
100 %	48 115	100 %	53 924	Total deposits broken down by sector and industry	100 %	53 870	100 %	48 087

DEPOSITS BROKEN DOWN BY GEOGRAPHICAL AREA

93 %	45 109	95 %	50 970	Northern Norway, including Svalbard	95 %	50 916	95 %	45 531
6 %	2 637	5 %	2 567	Other regions	5 %	2 567	4 %	2 163
1 %	367	1 %	387	International	1 %	387	1 %	391
0 %	2			Accrued interest			0 %	2
100 %	48 115	100 %	53 924	Total deposits broken down by geographical areas	100 %	53 870	100 %	48 087

NOTE 36 - DEBT SECURITIES IN ISSUE

As is evident from note 2, SpareBank 1 Nord-Norge has financial debt securities in issue with fixed or determinable payments. Funding is initially recorded at its original cost, which is the fair value of the proceeds received after deducting transaction costs.

Variable rate loans are thereafter measured at amortised cost, and any discount/premium is accrued over the term of the loan. Fixed rate loans are included in hedge accounting and discounted according to the current interest rate curve.

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
10 943	10 340	Bond debt with fixed interest rate	10 340	10 943
10 527	10 825	Bond debt determinable interest rate	10 825	10 527
21 470	21 165	Total debt securities in issue	21 165	21 470
2.17 %	1.76 %	Average interest rate for bond debt *	1.76 %	2.17 %

* Average interest is calculated on the basis of actual interest cost for the year, including any interest rate- and currency swaps, as a percentage of the average securities portfolio.

Bond debt broken down by maturities

3 983		2016		3 983
4 664	3 955	2017	3 955	4 664
3 476	4 128	2018	4 128	3 476
3 647	3 625	2019	3 625	3 647
5 018	3 239	2020	3 239	5 018
	5 726	2021 and later years	5 726	
682	492	Impact from recalculation to market value of bonds - hedging-related accounting	492	682
		Own bonds		
21 470	21 165	Bond debt and other long-term borrowings	21 165	21 470

Broken down by the most important foreign currencies

16 519	15 881	NOK	15 881	16 519
1 111	2 116	CHF	2 116	1 111
1 265	284	SEK	284	1 265
2 575	2 884	EUR	2 884	2 575
21 470	21 165	Total liabilities broken down by major currencies	21 165	21 470

NOTE 37 - OTHER LIABILITIES

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
466	579	Other liabilities	634	489
284	267	Incurred costs / prepaid income	494	467
		Provision for incurred costs / obligations		
750	846	Total other liabilities	1 128	956
Other liabilities				
75	88	Creditors	93	75
220	332	Accrued tax	364	242
22	24	Tax deductions	26	22
41	36	Agreed payments from Donations Fund	36	41
43	32	Pension liabilities (IAS 19)	32	42
65	67	Miscellaneous liabilities	83	67
466	579	Total other liabilities	634	489
Incurred costs / prepaid income				
208	194	Incurred costs / prepaid income	361	271
61	53	Incurred personnel costs	76	120
15	20	Miscellaneous incurred costs	57	76
284	267	Total	494	467

Assets pledged as security

The Bank had no pledged security with the associated liabilities in 2016.

Bonds and certificates are deposited as security for D/F loans from Norges Bank.

Commitments relating to the acquisition of property, plant and equipment:

As at 31/12/2016, the Group did not have any major commitments relating to the acquisition of property, plant and equipment.

Ongoing lawsuits:

As at 31/12/2016, the Group is being sued in three cases. The Bank is not involved in legal disputes that entail a litigation risk of significance to the Bank's operations.

NOTE 38 - GUARANTEES

PARENT BANK			GROUP	
31.12.15	31.12.16	Amounts in NOK million	31.12.16	31.12.15
Breakdown of guarantee liabilities				
965	523	Payment guarantees	523	965
300	322	Contract guarantees	322	300
75	69	Loan guarantees	69	75
527	325	Miscellaneous	325	527
26	26	Guarantees in favour of the Norwegian Banks' Gurantee Fund (NBGF)	26	26
1 893	1 265	Total guarantee liabilities	1 265	1 893
Guarantees broken down by commercial, industrial and other sectors				
8	7	Agriculture, forestry, fisheries, hunting and fish farming	7	8
156	134	Industry and mining	134	156
517	321	Building and construction, power- and water supply	321	517
163	144	Wholesale and retail trade; hotel- and restaurant industry	144	163
300	265	International shipping and pipeline transport	265	300
66	81	Other transport and communication	81	66
136	83	Financing, property management and business services	83	136
11	15	Other service industries	15	11
17	17	Retail banking market	17	17
519	199	Financial institutions	199	519
1 893	1 265	Total guarantees	1 265	1 893
Guarantees broken down by geographical areas				
372	138	Finnmark	138	372
951	601	Troms including Svalbard	601	951
244	219	Nordland	219	244
326	307	Other regions	307	326
1 893	1 265	Total guarantees broken down by geographical areas	1 265	1 893

NOTE 39 - SUBORDINATED LOAN CAPITAL

PARENT BANK		Maturity Structure	GROUP	
31.12.15	31.12.16		31.12.16	31.12.15
Amounts in NOK million				
Subordinated loan capital with definite maturities				
350	350	2024 3 months Nibor + 1.5 (Call option 2019)	350	350
500	500	2022 3 months Nibor + 2.75 (Call option 2017)	500	500
850	850	Total with definite maturities	850	850
Hybrid Tier 1 instruments				
500	500	2099 3 months Nibor + 4.75 (Call option 2017)	500	500
500	500	Total hybrid Tier 1 instruments	500	500
1 350	1 350	Total subordinated loan capital	1 350	1 350
4.55 %	4.30 %	Average interest rate NOK	4.30 %	4.55 %

NOTE 40 - BUSINESS ACQUISITIONS/MERGERS

Acquisitions/merger of accounting office

In July 2016, SpareBank 1 Regnskapshuset Nord-Norge AS (RH) acquired 100% of the shares in KS Finans AS (KSF). KSF provides accounting services and its head office is in Bodø.

As of 10/11/2016, KSF was merged into RH. The merger took place with accounting and tax continuity and accounting effect from 01/07/2016, and tax effect from 01/01/2016.

Acquisition analyses have been prepared in line with IFRS 3, where identifiable assets and liabilities are stated at fair value at the time of acquisition. The difference between the Group's acquisition cost and the book value of the net assets is allocated as goodwill.

NOTE 41 - RELATED PARTIES

Parent Bank	Subsidiaries	Joint ventures/ associated companies
SpareBank 1 Nord-Norge	SpareBank 1 Finans Nord-Norge AS	SpareBank 1 Gruppen AS
	EiendomsMegler 1 Nord-Norge AS	SpareBank 1 Boligkreditt AS
	SpareBank 1 Nord-Norge Forvaltning ASA	SpareBank 1 Banksamarbeidet DA
	SpareBank 1 Nord-Norge Portefølje AS	BN Bank ASA
	SpareBank 1 Regnskapshuset Nord-Norge AS	SpareBank 1 Næringskreditt AS
	Nord-Norge Eiendom IV AS	SpareBank 1 Mobilbetaling AS
	Alsgården AS	SpareBank 1 Kredittkort AS
	Fredrik Langesg 20 AS	

CURRENT ACCOUNT RATIO WITH SUBSIDIARIES

Amounts in NOK million	2016	2015
Income items - Parent Bank		
Interest received and similar income from loans and claims from subsidiaries	78	77
Deposit rate to subsidiaries	6	6
Share dividend	111	98
Accrued commissions from arranging vendor's lien-based loans	3	3
Commissions and income from banking services	3	3
Other operating costs	8	7

The Parent Bank offers some administration of salary services for subsidiaries.

Balance sheet items - Parent Bank

Loans and advances to subsidiaries	4 058	3 810
Due to subsidiaries	524	431
Other liabilities and incurred costs	5	32
Claim on dividends	6	20

As at 31/12/2016, vendor's lien-based loans and lesing arranged for SpareBank 1 Finans totalled NOK 1 664 million.

TRANSACTIONS WITH JOINT VENTURES/ASSOCIATED COMPANIES

Amounts in NOK million	2016	2015
Income items - Parent Bank		
Interest received and similar income from loans and claims from joint ventures	63	75
Deposit interest rate applicable to joint ventures	1	1
Share dividends	562	308
Balance sheet items - Parent Bank		
Loans and advances to joint ventures	3 189	3 161
Deposits from and liabilities to joint ventures	88	979
Bonds	0	121

Transactions with joint ventures

As a participant in the SpareBank 1-alliance, different transactions between the Parent Bank and joint ventures are carried out.

All transactions entered into are done on commercial terms as a part of ordinary business and at market prices.

The most important transactions are as follows:

- A) Purchase of management- and information technology, and development services from SpareBank 1 Banksamarbeidet DA, NOK 120 million (2016) and NOK 119 million (2015).
- B) Commissions from sale of insurance- and savings products with an insurance element for SpareBank 1 Gruppen AS totalled NOK 151 million and NOK 142 million respectively in 2016 and 2015.
- C) Loans sold to SpareBank 1 Boligkreditt AS as at 31/12/2016: NOK 25 524 million
 Accrued commission from SpareBank 1 Boligkreditt AS in 2016: NOK 177 million
 Receivables SpareBank 1 Boligkreditt AS as at 31/12/2016: NOK 0 million
- D) Loans sold to SpareBank 1 Næringskreditt AS as at 31/12/2016: NOK 0 million
 Accrued commission from SpareBank 1 Næringskreditt AS in 2016: NOK 0 million

NOTE 42 - EQUITY CERTIFICATES (EC) AND OWNERSHIP STRUCTURE

The Bank's EC capital amounts to NOK 1 807 164 288 made up of 100 398 016 certificates, each of a nominal value of NOK 18. The voting rights associated with an equity certificate are held by the person who it can be proved is registered with the Norwegian Central Securities Depository (VPS). The Supervisory Board can decide to issued equity certificates that are negoti-

able and entitle the holder to a dividend under the Act of 10 June 1988 No. 40 relating to financial services and financial institutions (Financial Institutions Act). EC holders must be registered with the Norwegian Central Securities Depository (VPS). As at 31/12/2016, the Bank had 7 465 EC holders (7 641 as at 31/12/2015).

CHANGE IN THE BANK'S EC-CAPITAL AND TOTAL CERTIFICATES:

Year	Change	Change in EC capital	Total EC capital	Total number of certificates
2000	Issue earmarked for staff	10 453 101	659 701 800	6 597 018
2001			659 701 800	6 597 018
2002			659 701 800	6 597 018
2003			659 701 800	6 597 018
2004			659 701 800	6 597 018
2005	Bonus issue	131 940 500	791 642 200	7 916 422
2005	EC split		791 642 200	15 832 844
2006			791 642 200	15 832 844
2007	Dividend issue	49 055 400	840 697 600	16 813 952
2008	Dividend issue	54 906 050	895 603 650	17 912 073
2009			895 603 650	17 912 073
2010			895 603 650	17 912 073
2011	EC split and issues	759 621 025	1 655 224 675	66 208 987
2012			1 655 224 675	66 208 987
2013	Rigths issue and private placement for employees	750 029 552	1 807 164 288	100 398 016
2014			1 807 164 288	100 398 016
2015			1 807 164 288	100 398 016
2016			1 807 164 288	100 398 016

NOTE 42 - EQUITY CERTIFICATES (EC) AND OWNERSHIP STRUCTURE

THE 20 LARGEST EC HOLDERS

Name	Number of ECs 31.12.16	Share 31.12.16	Change in number of ECs 2016
Pareto Aksje Norge	3 448 699	3.44 %	-835 443
The Northern Trust Comp	3 151 670	3.14 %	1 028 451
MP Pensjon PK	2 720 503	2.71 %	
FLPS - Princ All Sec Stock Sub	2 494 000	2.48 %	361 300
Verdipapirfondet DNB Norge (IV)	2 194 357	2.19 %	-1 129 623
Merrill Lynch Professional	1 914 360	1.91 %	395 565
Meteva AS	1 614 670	1.61 %	1 614 670
Forsvarets Personellservice	1 561 630	1.56 %	61 700
Pope Asset Management	1 445 501	1.44 %	1 445 501
Morgan Stanley and Co Intl PLC BNY	1 442 490	1.44 %	1 387 573
Sparebankstiftelsen SpareBank 1 Nord-Norge	1 411 606	1.41 %	
State Street Bank and Trust Comp F	1 358 380	1.35 %	-643 452
DNB Livsforsikring ASA	1 026 778	1.02 %	-60 210
Eika Utbytte c/o Eika Kapitalforvaltning AS	1 009 801	1.01 %	-94 990
Perestroika AS	984 609	0.98 %	984 609
Pareto AS	970 659	0.97 %	200 000
JP Morgan Chase Bank	827 968	0.82 %	769 880
Bergen Kommunale Pensjonskasse	817 000	0.81 %	-183 000
State Street Bank and Trust Comp West	816 511	0.81 %	48 632
State Street Bank and Trust Comp OM80	704 668	0.70 %	197 125
20 largest EC-holders	31 915 860	31.79 %	5 548 288
Other EC holders	68 482 156	68.21 %	
ECs issued	100 398 016	100.00 %	

EC ratio

The result for the accounting year is divided between the EC holders and the Bank according to the EC ratio fixed as at 01.01, adjusted for any issues during the accounting year. Excluding set aside for dividends payment and donations as at 31.12.

PARENT BANK

Amounts in NOK thousand	01.01.17	01.01.16	01.01.15	01.01.14
Equity Certificates	1 807 164	1 807 164	1 807 164	1 807 164
Premium Fund	843 268	843 268	843 268	843 268
Dividend Equalisation Fund, excluding fund for unrealised gains	1 678 819	976 302	820 211	684 995
A. Equity attributable to EC holders of the Bank	4 329 251	3 626 734	3 470 643	3 335 427
Saving Bank's Fund, excluding fund for unrealised gains	4 487 697	4 075 650	3 742 061	3 591 627
Donations	520 628	119 861	119 861	119 861
B. Total Saving Bank's Fund	5 008 325	4 195 511	3 861 922	3 711 488
Total equity, excluding fund for unrealised gains	9 337 576	7 822 245	7 332 565	7 046 915
EC ratio (A/ (A+B))	46.36 %	46.36 %	47.33 %	47.33 %

NOTE 43 - PROFIT DISTRIBUTION

DISTRIBUTION OF THE PARENT BANK'S PROFIT AFTER TAX

Amounts in NOK million	2016	2015	2014	2013	2012
Profit after tax	1 456	731	743	915	515
Cash dividend to EC holders	346	201	191	110	76
Dividend Equalization Fund	329	145	161	282	141
To EC holders (amount)	675	346	352	393	217
To EC holders (%)	46.36 %	47.33 %	47.33 %	42.91 %	42.07 %
Donations	401	60	212	43	30
Saving Bank's Fund	380	325	179	479	268
To community owned capital (amount)	781	385	391	522	298
To community owned capital (%)	53.64 %	52.67 %	52.67 %	57.09 %	57.93 %
Total distribution	1 456	731	743	915	515
Dividends per Equity Certificates	3.45	2.00	1.90	1.10	1.15

Dividends will be distributed to registered equity certificate holders as at 28/03/2017.
The Bank's equity certificates will be traded ex dividend as of 29/03/2017.

(EC = Equity Certificates)

NOTE 44 - IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments will replace the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 governs the recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 takes effect from 01/01/2018 and has been approved by the EU. Early application of the standard is allowed, but SpareBank 1 Nord-Norge does not intend to make use of this. Nor will SpareBank 1 Nord-Norge show comparative figures for previous periods when the standard is implemented on 01/01/2018.

In 2015 the SpareBank 1 Alliance assembled an interdisciplinary implementation team with members from all of the banks that use IFRS, to prepare for the launch and implementation of IFRS 9 (the 'Project'). The Project has a steering group and the following sub-groups.

1. **Models and methodology**
Development of calculation solution and models to establish reasonable prospective estimates of expected losses.
2. **Strategy, organisation and processes**
Define how the organisation of day-to-day accounting work under IFRS 9 should be organised among the collaborating banks.
3. **Accounts and reporting**
Specify the actual accounting rules
incl. policy notes and note templates
4. **Classification and measurement**
Analyse the Group's financial instruments and classify instruments into different categories.

SpareBank 1 Nord-Norge has also set up a local project to address the technical changes needed to conform to the new rules and to discuss modifications and effects of the new rules.

A description of new requirements in IFRS 9 and changes from earlier standards is given below. There is also a description of the choices SpareBank 1 Nord-Norge has made, and the status of the implementation project.

Classification and measurement

Financial assets

According to IFRS 9, financial assets are to be classified in three categories: fair value and value changes reported through other comprehensive income (OCI); fair value and value changes through profit/loss; and amortized cost. The measurement category is determined when the asset is posted to the accounts for the first time. For financial assets, there is a distinction between debt instruments, derivatives and equity instruments, where debt instruments are all financial assets that are not derivatives or equity instruments. The classification of financial assets is determined by the contractual terms for those assets and the business model used to manage the portfolio that the assets belong to.

Financial assets which are debt instruments

Debt instruments with contractual cash flows which are just payments of interest and principal on specific dates and which are held in order to receive contractual cash flows, should be measured at amortised cost. Instruments with contractual cash flows which are just payments of interest and principal on specific dates and which are held both in order to receive contractual cash flows and for sale, should be measured at fair value with changes in value reported through OCI and with interest income presented in ordinary profit/loss. Value changes reported through OCI should be reclassified to profit/loss when the assets are sold or otherwise disposed.

Other debt instruments should be measured at fair value with changes reported through profit/loss. This applies to instruments with cash flows that are not just payments of normal interest (time value of money, credit margins and other normal margins on lending and receivables) and principal, and instruments included in portfolios whose purpose is not to receive contractual cash flows.

Our provisional view is that the designation of financial instruments at fair value will be at roughly the same level as today.

Derivatives and investments in equity instruments

All derivatives should be measured at fair value with value changes through profit/loss, but derivatives designated as hedging instruments should be posted in line with the principles for hedge accounting. Investments in capital instruments should be recognized in the statement of financial position at fair value. Value changes should generally be posted to ordinary profit/loss, but an equity instrument may be designated to be measured at fair value with value changes posted against OCI. When equity instruments are measured at fair value with value changes posted against OCI, ordinary dividends should be posted to profit/loss while value changes should not be reclassified as profit/loss either on an ongoing basis or on disposal.

Financial liabilities

For financial liabilities, the rules are essentially unchanged from the current IAS 39. As a general rule, financial liabilities should still be measured at amortised cost apart from financial derivatives measured at fair value, financial instruments included in a trading portfolio and financial liabilities designated for reporting at fair value with value changes recognised in profit/loss.

Hedge accounting

IFRS 9 simplifies the requirements for hedge accounting by linking the hedging effect more closely to management's risk management providing greater scope for discretion. The requirement for hedging effectiveness of 80–125% has been removed and replaced with more qualitative requirements, including the need for an economic relationship between the hedging instrument and the hedged object, and the rule that credit risk should not dominate the value changes in the hedging instrument. According to IFRS 9 a prospective (forward-looking) effectiveness test is sufficient, whereas hedging effectiveness under IAS 39 has to be assessed both retrospectively and prospectively. Hedging documentation is still required. The Bank continues to assess the use of hedge accounting, but the provisional view is that it will continue at roughly the same level as today.

After completing its initial assessment, the Bank has arrived at the following views on selected problems:

Current terms loans (PT loans)

These are variable-interest loans where the banks can adjust borrowers' interest terms to reflect changes in market interest rates, credit exposure, competitive conditions and similar factors. Borrowers may also redeem/repay the loan at face value. The question is whether the terms of these loans are consistent with the idea that the cash flows for the loans are just payments of interest and principal on specific dates, with the interest set on a discretionary basis by the bank. Current terms are normal terms in Norway for housing loans at variable interest, and borrowers' right to repay early and competition between banks mean that the cash flows for the loans may differ slightly from what is defined as payment of interest and principal on specific dates according to IFRS 9. The Project group's view is therefore that the terms of these loans are consistent with measurement at amortised cost. The business model of which the loans are part, i.e. whether the loans are held in order to receive contractual cash flows, therefore has to be assessed to determine the classification according to IFRS 9.

Loans at fixed interest with a right to early redemption

Fixed interest loans can be redeemed before maturity on payment of a premium or discount. Contractual terms that entitle the holder to redeem at a discount may mean that fixed-interest loans have to be measured at fair value with changes reported through profit/loss. This is because such contractual terms are not judged to be consistent with the idea that the cash flows for the instrument are just payments of interest and principal on specific dates. Rights established by law and not by contract can be ignored in assessing the classification. The Bank's provisional view is that, according to IFRS 9, these loans should be measured at fair value with changes reported through profit/loss. The question whether such redemption interest obliges us to measure the instrument at fair value has now been raised with the IASB, and there might be adjustments to the rules in this area.

Sales of loans to wholly-owned or part-owned mortgage companies

The Bank makes use of wholly-owned or part-owned bond-issuing mortgage firms as a financing tool. The banks transfer only parts of the loans that qualify for transfer to the mortgage companies. With wholly-owned mortgage companies reporting on a consolidated basis, the conclusion is that the loans are held in order to receive contractual cash flows as they are not derecognised as a result of the financing transactions. This is a business model which is consistent with amortised cost measurement. In the separate accounts for the company that issues the loans, however, the conclusion is that the loans are not held only to receive contractual cash flows but also for sale. Loans included in business models (portfolios) with loans that qualify for transfer are therefore held both in order to receive contractual cash flows and for sale, a business model which is consistent with measurement at fair value with value changes posted via OCI. The same applies in the consolidated accounts to transfers to part-owned mortgage companies.

Liquidity portfolios

The banks have liquidity portfolios with varying degrees of turnover, which affects whether the portfolio should be measured at fair value with value changes via OCI or profit/loss. The classification of a portfolio depends on whether the instruments included in the portfolio are held in order to receive contractual cash flows or whether they are held both to receive contractual cash flows and for sale, and possibly whether the amount of trading in the portfolio requires it to be measured at fair value with value changes posted through profit/loss.

Financial assets classified as available for sale

IFRS 9 does not include an 'available for sale' category as in IAS 39. Shares classified as 'available for sale' under IAS 39 will therefore be recognised at fair value with value changes through profit/loss after the transition to IFRS 9.

Hybrid Tier 1 perpetual capital

Hybrid Tier 1 perpetual capital with provisions to the effect that the issuer can write down the bonds under certain circumstances ('bail-in' provisions) are considered not to have any contractual cash flows that are just payments of interest and principal on specific dates. The Bank's view is therefore that investments in such instruments should be measured at fair value with changes reported through profit/loss.

Syndicated loans

In cases where the Bank's share in loans to be syndicated is not determined at the date on which the loan is granted and entered in the balance sheet, it will not be possible to determine at the time of recognition whether the loan is being held in order to receive contractual cash flows or for sale. The Bank's view is therefore that syndicated loans in these cases should be measured at fair value with changes reported through profit/loss.

The Bank's provisional view is that the accounting classification will not have any material impact on the balance sheet or profit/loss. The reason for expecting a limited effect is that, based on the intrinsic risk in the balance sheet items, there will be little difference in measurement between amortised cost and fair value.

Impairment losses on loans

According to the current rules, impairment losses must only be made when objective evidence exists that a loss event has occurred. According to IFRS 9 though, impairment losses must be recognised based on expected credit losses (ECL). The measurement of the provisions for expected losses depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, provisions must be made for 12 months' expected losses. 12 months' expected loss is the loss expected to be incurred over the lifetime of the instrument which can be tied to events occurring in the first 12 months. If the credit risk has risen significantly, provisions must be made for expected losses over the entire lifetime.

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

More detailed description of the Bank's future impairment model

An estimate of losses will be made each quarter based on data, which contains a history of account and customer data for the entire credit portfolio. The loss estimates will be calculated on the basis of the 12-month and lifelong probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data warehouse contains a history of observed PD and observed LGD. This will provide the basis for producing good estimates of future values for PD and LGD. In line with IFRS 9, the Bank groups its loans into three stages. All thresholds are provisional and will be adjusted in line with changes in the methodology, and new guidance and observed practice.

Stage 1

This is the starting point for all financial assets covered by the general loss model. All assets that do not have a significantly higher credit risk than they did upon initial recognition, will have a loss provision equal to 12 months' expected losses. This category will contain all assets that have not be transferred to stages 2 or 3.

Stage 2

Stage 2 of the loss model includes assets that have seen a significant rise in credit risk since initial recognition, but that do not have objective evidence of a loss event. For these assets the loss provision must cover expected losses over the lifetime. This group contains accounts with a significant degree of credit deterioration, but which on the balance sheet data belong to customers that are classified as healthy, i.e. their risk class is not J or K. The boundary between stages 2 and 3 is therefore clear. When it comes to the boundary with stage 1, the Bank itself has to define what is a significant worsening of credit. As far as the demarcation with stage 1 is concerned, the Bank bases its definition of a significant degree of credit deterioration.

Stage 3

Stage 3 of the loss model includes assets that have seen a significant rise in credit risk since being granted and where there is objective evidence of a loss event on the balance sheet date. For these assets the loss provision must cover expected losses over the lifetime. The Bank has defined objective evidence of a loss to cover assets in risk class J or K.

Further development of the model

The impairment model is still under development. The Bank is assessing forward-looking information like macroeconomic factors such as unemployment, GDP growth, interest rates and house prices, and economic forecasts in order to provide forward-looking information that is as correct as possible. The model will calculate impairments based on data at the end of the month, and adjustments will be made for important events occurring before the reporting date.

Effect on financial reporting

Any implementation effects will be recognised against equity upon the switch to IFRS 9 on 01/01/2018. The provisional review of the future disclosure requirements indicates there will be some changes in disclosure requirements relating to impairment losses, but little effect in relation to notes for financial instruments.

Quantitative effects of implementing IFRS 9

Based on a preliminary review, the transition to IFRS 9 is not expected to have significant effects. This applies to any effects associated with a change in classification and measurement, as well as a change in methods linked to impairment losses. The effect on the capital adequacy ratio will, according to preliminary calculations, be limited or non-existent as a consequence of the deduction provisions associated with regulatory expected losses since the Group's total impairments are lower than these. Given this, it therefore does not appear that SpareBank 1 Nord-Norge will require a 5-year implementation period, which the capital adequacy regulations allow.

NOTE 45 - EVENTS OCCURRING AFTER THE END OF THE YEAR

The distribution of a cash dividend of NOK 346 million from the profit for the year to the equity capital certificate holders in SpareBank 1 Nord-Norge and NOK 401 million as donations to community-owned capital has been proposed. This proposal has not been adopted at the date of the balance sheet, and it has therefore not been recognised as a liability on the balance sheet, but is still included in the equity.

In the SpareBank 1 Alliance, mobile payment using mCash has been organised into the company SpareBank 1 Mobilbetaling AS, of which the Bank owns 19.7%. On 13/02/2017, it was announced that DNB, the banks in the SpareBank 1 Alliance, the banks in the Eika Alliance, Sparebanken Møre and 15 independent savings banks which are also shareholders in Frende Forsikring, have signed a declaration of intent to the effect that the parties plan to work together to develop Vipps as the mobile payment app for the whole of Norway. Vipps was previously part of the DNB Group, but is now being hived off into a separate company in which DNB is the biggest shareholder with around 52% of the shares while the SpareBank 1 Alliance will own 25%. This means that the mCash brand name will be taken off the market in the course of 2017.

The new company will build on SpareBank 1 Mobilbetaling AS, with new owners in line with the ownership outlined above. The partnership is subject to approval from the Norwegian Competition Authority and the Financial Supervisory Authority of Norway.

As a consequence of the transaction, the Board of SpareBank 1 Mobilbetaling decided on 01/03/2017 to write down the intangible assets of NOK 35.3 million associated with mCash. The Bank's share is NOK 7 million, which will be posted to profit/loss in Q1/2017. On 27/02/2017, SpareBank 1 Markets announced the establishment of an asset management function as a separate business area originating in the asset management environment in Trondheim and Tromsø. SpareBank 1 Markets is purchasing Allegro Kapitalforvaltning in Trondheim and SpareBank 1 Nord-Norge Forvaltning in Tromsø from SpareBank 1 SMN and SpareBank 1 Nord-Norge respectively. The two companies will be merged to spearhead SpareBank 1 Markets' venture into asset management with total assets of close to NOK 10 billion. After the purchase, SpareBank 1 Nord-Norge, which owns 9.99% as of 31/12/2016, will hold around 13% of the shares in SpareBank 1 Markets.

STATEMENT FROM THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

Today, the Board of Directors and the Chief Executive Officer have considered and adopted the annual report and the consolidated annual financial statements of SpareBank 1 Nord-Norge for the period from 1 January to 31 December 2016. We confirm to the best of our knowledge that the annual financial statements for the period from 1 January to 31 December 2016 have been prepared in accordance with current applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group taken as a whole. We also confirm that the annual report gives a true and fair view of important events during the accounting period and their influence on the annual financial statements, the most important elements of risk and uncertainty that the group faces in the next accounting period, and a description of related parties' material transactions

Tromsø, 1 March 2017

The Board of SpareBank 1 Nord-Norge



Karl Eirik Schjøtt-Pedersen
(Chairman of the Board)



Hans Tore Bjerkås
(Deputy Chairman)



Ingvild Myhre



Kjersti Terese Stormo



Greger Mannsverk



Bengt Olsen



Sonja Dønne



Vivi Ann Pedersen
(Employee-elected)



Jan-Frode Janson
(CEO)

AUDITOR'S REPORT



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To the General Meeting of SpareBank 1 Nord-Norge

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SpareBank 1 Nord-Norge. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG AS, a Norwegian limited liability company and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

Offices in:

Oslo	Elverum	Mo i Rana	Stord
Alta	Fimnesnes	Molde	Straume
Arendal	Hamar	Skien	Tromsø
Bergen	Haugesund	Sandefjord	Trondheim
Bodø	Knarvik	Sandnessjøen	Tynset
Drammen	Kristiansand	Stavanger	Alesund



Impairment of loans to customers

Refer to note 3 , note 7, note 9, note 11 and note 14 in the financial statements for further information relating to the the Bank's credit risk and impairment of loans.

<i>Key Audit Matter</i>	<i>How we addressed the Key Audit Matter</i>
<p>Accounting for impairment of loans to customers require management's judgement over timing and identification of a loan loss event, and the size of the potential impairment allowance.</p> <p>Management makes allowances for incurred credit losses both on an individual and on a collective basis.</p> <p>Important areas included in management's assessment of impairment of loans to customers relate to :</p> <ul style="list-style-type: none"> • Identification of objective evidence that a loan is impaired. • Identification of loss events, which affect the Bank's collective impairment allowances. • Management's assumptions and estimates, which forms the basis for the individual and collective impairment allowance calculation. <p>Loan loss assessments has a significant impact on the book value of loan to customers.</p>	<p>Our audit approach included a combination of testing of internal controls relating to the impairment of loans and substantive testing.</p> <p>Our audit procedures includes amongst others the following</p> <ul style="list-style-type: none"> • We assessed and tested the design and operating effectiveness of selected controls to identify and assess loans subject to impairment • We have assessed and tested the design and operating effectiveness of selected controls related to loan impairment calculations both on an individual basis and on a collective basis • We tested impairment calculations on a selection of impaired loans, and assessed and challenged management on the timing and size of expected future cash flows. • We assessed the appropriateness of management's assumptions and parameters in the collective impairment models, including historical accuracy the collective loan loss impairments.

Valuation of financial instruments held at fair value through profit and loss

We refer to note 3 and note 27 in the financial statements for further information relating to the Bank's valuation of financial assets and liabilities held at fair value through profit and loss.

<i>Key Audit Matter</i>	<i>How we addressed the Key Audit Matter</i>
<p>Significant portfolios of financial assets and liabilities are valued based on models and certain assumptions that are not observable by third parties.</p> <p>Changes in the models, assumptions or judgements made may have a significant impact on the valuation of these financial assets and liabilities.</p>	<p>Our audit procedures included among the following :</p> <ul style="list-style-type: none"> • Review and assessment of the models used by the Bank for valuation purposes on the financial assets and liabilities, and assessed the methodologies, assumptions and judgement used by the Bank and compared it to our knowledge of current industry practice. • We have performed a valuation on a selection of financial assets and liabilities, and assessed and challenged management's use of assumptions and judgement. • We assessed the classification of financial instruments and related disclosures according to the fair value hierarchy.



Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Auditor's Report - 2016
SpareBank 1 Nord-Norge

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Tromsø, 1 March 2017
KPMG AS

Lars Inge Pettersen
State Authorised Public Accountant
(Translation has been made for information purposes only)



Fisheries

The value of seafood exports from northern Norway rose by 22 % from 2015 to 2016. Ivan Lorentzen Fiskeforretning is a fish buyer with long traditions. The fish processing plant is located close to the fishing grounds and is one of two fish reception facilities in the area. The market is Tromsø and the surrounding area, as well as the export of dried and salted fish to Portugal.

Photo: Marius Fiskum

GROUP MANAGEMENT



CEO
Jan-Frode Janson

Education

Graduate degree in economics and business administration and PhD in Industrial Economics and Technology Management

Experience

- Deputy CEO at Fokus Bank
- General Manager at ABB Installasjon Midt-Norge
- Marketing and product manager at Nidar AS
- Senior consultant/researcher at NTNU/Sintef



COO
Liv B. Ulriksen

Education

Graduate degree in fishery science and economics

Experience

- SpareBank 1 Nord-Norge
 - General Manager, Corporate Accounts Department
 - Business Consultant, Key Accounts Department
 - Senior Group Manager since 2008
- Director of Marine Business Area at Nofima
- Assistant Director, Norwegian Institute of Fisheries and Aquaculture



CRO
Geir Andreassen

Education

Bachelor's degree in auditing

Experience

- SpareBank 1 Nord-Norge
 - Senior Group General Manager Risk Management and compliance since 2007
 - Senior Group General Manager, Finance/Accounting
- Internal Chief Auditor, Sparebanken Nord
- Director of Accounting, Tromsø Sparebank
- Auditor, Noraudit Harstad



CFO
Rolf Eigil Bygdnes

Education

Graduate degree in economics and business administration and MBA

Experience

- SpareBank 1 Nord-Norge
 - Senior Group General Manager, CFO since 2004
 - Managing Director SpareBank 1 Securities
 - Senior Group General Manager, Finance/Accounting
- Internal Chief Auditor, Sparebanken Nord
- Director of Accounting, Tromsø Sparebank



COS
Petter Høiseith

Education

Cand.jur. from the Faculty of Law in Tromsø

Experience

- Associate Attorney at Advokatfirmaet Selmer
- Assistant Professor, Faculty of Law in Tromsø
- Judge at Nord-Troms District Court
- Attorney at Advokatfirmaet BAHR
- Head of Legal Department, SpareBank 1 Nord-Norge



COS
Ronni Møller Pettersen

Education

Studied economics and business administration in Bodø and in fisheries management at the University of Nordland

Experience

- Sales Director for Storebrand
- General manager, Formuesforvaltning Norge
- Partner in Industrifinans Kapitalforvaltning
- CEO, Nordlys



EVP Finnmark region
Trond Hanssen

Education

Bachelor of business administration, specialising in marketing, intermediate course in economics and practical pedagogics

Experience

- Department manager, retail market, West Finnmark, DnB NOR
- Regional manager, retail and corporate markets, Finnmark, DNB
- Regional manager, corporate market, Finnmark, DNB



EVP Troms region
Christian Overvaag

Education

Graduate degree in Business

Experience

- SpareBank 1 Nord-Norge
- General Manager Corporate, Troms
- CEO at Brigg Utvikling
- CEO at Næringsforeningen i Tromsø-regionen
- Senior Corporate Insurance Adviser, Gjensidige



EVP Hålogaland region
Lasse Hagerupsen

Education

Master in Management, Høgskolen i Harstad

Experience

- Settlement Clerk, stockbroker and Risk-Manager Norse Securities ASA
- CEO Interkraft Capital Management ASA
- General Manager DNB/Postbanken
- General Manager SpareBank 1 Nord-Norge



EVP Salten region
Trude Glad

Education

Graduate degree in Business, NHH and Master of Management, BI Oslo

Experience

- SpareBank 1 Nord-Norge
- Regional General Manager, Salten
- General Manager Corporate Banking, Salten
- Senior Corporate Banking consultant
- Investor Relations Manager Rieber & Søn ASA
- Sous Chief Finance at Norgeskreditt/ Vestenfjelske Bykreditt Bergen
- Bond Broker and Financial Analyst at Bergen Fondsmeglerforretning



EVP Helgeland region
Hanne J. Nordgaard

Education

Graduate degree in Business, NHH and Copenhagen Business School

Experience

- CEO and Finance Manager at Søndre Helgeland Miljøverk IKS
- Finance Manager at Nettbuss/Nettlast Helgeland
- Project Manager and Management Trainee at Storebrand Liv, Oslo

BOARD OF DIRECTORS



Chairman of the Board
Karl Eirik Schjøtt-Pedersen

Education

University of Oslo, undergraduate degree in social sciences (Master of Arts), Master of Business Administration, Copenhagen Business School.

Experience

- Member of Parliament
- Minister of Fisheries
- Minister of Finance
- Chief of Staff at the Office of the Prime Minister
- Auditor General - Deputy Chairman of the Board of Auditors General



Deputy Chairman
Hans-Tore Bjerkaas

Education

Cand.mag from University of Tromsø

Experience

- Journalist at NRK
- Regional editor at NRK Troms and Finnmark
- Director television at NRK
- Director broadcasting at NRK
- Director general at NRK



Member
Kjersti Therese Stormo

Education

Business economist, Nord University, Bodø

Experience

- Head of the planning and analysis department at Nordland Hospital
- Finance Manager, Nordland Psychiatric Hospital
- Board member BE Energimontasje AS
- Board member BE Varme AS
- Board member Nordland Bompengeselskap
- Board member Energiselskapenes Fellespensjonskasse
- Board member Nordlandsnett AS



Member
Sonja Dønne

Education

Bachelor of Business Administration

Experience

- Project Analyst ROI Invest
- Purchasing Manager at Helgelandssykehuset HF
- Purchasing Manager at Rana kommune
- HR consultant/officer at Rana trygdekontor
- Employment Director at Rana kommune



Member
Bengt Olsen

Education

Utdannelse: Business economist

Experience

- Auditor associate KPMG
- Finance Manager Nordlandsbanken
- Controller Catch Communications
- Member of the Board of aquaculture company Øyfish AS and Kunnskapsparken Bodo



Member
Ingvild Myhre

Education

Engineer, NTNU Trondheim

Experience

- Product Manager / Export Manager / Vice President STK/Alcatel/Nexans
- CEO Alcatel Telecom AS
- CEO Telenor Mobil AS
- CEO Network Norway AS



Member
Greger Mannsverk

Education

Oslo Maritime Technical School,
College of Engineering, line of marine technology
and marine engineering

Experience

- Head of Division at Kværner Kimek ASS
- Kimek AS
 - Production Manager
 - Sales Engineer/Project Engineer
 - Division engineer
- Constructor/Machine Engineer at A/S Sydvaranger
- Constructor at Munch Internasjonal AS



Employee-elected member
Vivi Ann Pedersen

Education

Banking qualifications

Experience

- SpareBank 1 Nord-Norge
 - Debt advisor in the collection department
 - Regional employee representative for the Troms region
 - Senior/corporate employee representative for Finance
 - Sector Union of Norway at SNN

GOVERNING BODIES

SUPERVISORY BOARD

Roar Dons, Tromsø (Chairman)	2016/2017
Kari Ann Olsen Lind, Stokmarknes (Deputy Chairman)	2016/2017

Members elected from the Bank's depositors

Åshild Strømmesen, Sommarøy	2013/2016
Terje Marius Nilsen, Straumbukta	2014/2017
Arne Hammari, Alta	2014/2017
Hilde Sivertsen, Nordfold	2013/2016
Trine Stenvold, Fauske	2014/2017
Kari Ann Olsen Lind, Stokmarknes	2013/2016
Jon Vegard Strømsnes, Leines	2015/2018
Charlotte Ringkjøb, Bodø	2015/2018
Line Mikkelsen, Tromsø	2016/2019
Rita Myrvang, Rossfjordstraumen	2016/2019
Aina Willumsen, Træna	2016/2019

Substitute members elected from the Bank's depositors

Stig Arne Hansen, Honningsvåg	2016
Kristian Eilertsen, Stokmarknes	2016
Anders J. H. Eira, Kautokeino	2016
Hugo Thode Hansen, Harstad	2016
Thone Bjørklund, Hammerfest	2016
Kjetil Pedersønn Aasen, Moen	2016

Members elected from the county councils

Kurt Jenssen, Tengelfjord	2016/2019
Beate Bø Nilsen, Sortland	2016/2019
Synnøve Søndergaard, Tromsø	2016/2019
Kari Lene Olsen, Honningsvåg	2016/2019

Substitute members elected from the county councils

Hilde Holand, Leknes	2016/2019
Allan Ellingsen, Bodø	2016/2019
Torbjørn Bongo, Krokeldalen	2016/2019
Hanne Iversen, Varangerbotn	2016/2019

Members elected from the Bank's ECC holders

Trond Mohn, Bergen	2014/2017
Frode Helgerud, Oslo	2013/2016
Odd Erik Hansen, Tromsø	2013/2016
Ole-Henrik Hjartøy, Bodø	2013/2016
Roar Dons, Tromsø	2014/2017
Øyvind Rafto, Oslo	2014/2017
Sissel Ditlefsen, Tromsø	2013/2016
Marie M. Fangel, Tromsø	2013/2016
Tom Rømer Svendsen, Oslo	2014/2017
Håkon Løbach Willumsen, Tromsø	2015/2018
Ane Engel Røger, Oslo	2015/2018
Linn Knudsen, Alta	2015/2018
Kjell Kolbeinsen, Tromsø	2016/2019
Erling Dalberg, Tromsø	2016/2019
Gry-Janne Rugås, Fauske	2016/2019
Elin Wintervold, Tromsø	2016/2019

Substitute members elected from the Bank's ECC holders

Trond Vidar Hansen, Tromsø	2014/2017
Toril Ringholm, Tromsø	2016/2019
Rigmor S. Berntsen, Tromsø	2014/2017
John-Oskar Nyvoll, Tromsø	2016/2019
Stig Vonka, Harstad	2015/2018
Jorhill Andreassen, Silsand	2015/2018
Hallgeir Angell, Sørreisa	2015/2018
Erik Tøstrup, Bodø	2015/2018

Members elected from the Bank's employees

Hans Olav Gjøvik, Tromsø	2015/2018
Einar Frafjord, Tromsø	2015/2018
Anne Kathrine Nygaard, Mo i Rana	2015/2018
Hans Johan Lorentzen, Bodø	2015/2018
Ulf Mathisen, Hammerfest	2013/2016
Daniel Nyhagen, Tromsø	2013/2016
Øyvind Pallesen, Tromsø	2013/2016

Substitute members elected from the Bank's employees

Elena Rushfeldt, Tromsø	2015/2016
Cecilie Øvertli, Tromsø	2015/2016
Lisbeth Johansen, Tromsø	2015/2016
Anne Sønvisen, Alta	2015/2016
Therese Isaksen, Mo i Rana	2015/2016
Linda Bornø, Harstad	2015/2016
June Pettersen, Tromsø	2015/2016

NOMINATION COMMITTEE FOR THE SUPERVISORY BOARD

Members

Charlotte Ringkjøb, Bodø (Chairman) (Depositor elected)	2016/2017
Marie M. Fangel, Tromsø (ECC holder elected)	2015/2016
Kjell Kolbeinsen, Tromsø (ECC holder elected)	2016/2017
Synnøve Søndergaard, Tromsø (County council elected)	2016/2017
Einar Frafjord, Tromsø (Employee elected)	2015/2016

Substitute members

Rita Myrvang, Rossfjordstraumen (Depositor elected)	2016/2017
Trond Mohn, Bergen (ECC holder elected)	2015/2016
Sissel Ditlefsen, Tromsø (ECC holder elected)	2016/2017
Kurt Jenssen, Tengelfjord (County council elected)	2016/2017
Ulf Mathisen, Hammerfest (Employee elected)	2015/2016

BOARD OF DIRECTORS

Members

Karl Eirik Schjøtt-Pedersen, Hosle (Chairman)	2015/2016
Hans-Tore Bjerkaas, Tromsø (Deputy Chairman)	2015/2016
Sonja Djønne, Mo i Rana	2016/2017
Greger Mannsverk, Kirkenes	2016/2017
Ingvild Myre, Oslo	2016/2017
Kjersti Terese Stormo, Bodø	2016/2017
Bengt Olsen, Bodø	2016/2017
Vivi Ann Pedersen, Tromsø (Employee elected)	2015/2016

Substitute members

May Britt Nilsen, Sørkjosen (Employee elected)	2016
Vivi Ann Movik, Harstad (Employee elected)	2016

CORPORATE GOVERNANCE

IN SPAREBANK 1 NORD-NORGE

Every year, the executive management team and Board review the corporate governance principles and how they are functioning in the Group. SpareBank 1 Nord-Norge issues a statement on the principles and practice of corporate governance in accordance with Section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Good Corporate Governance of 30 October 2014.

Section 3-3b of the Accounting Act (report on corporate governance)

Below is a description of how Section 3-3b, second paragraph, of the Accounting Act is complied with in SpareBank 1 Nord-Norge. The breakdown refers to the numbering in this section.

1. A statement on the Norwegian Code of Practice for Good Corporate Governance followed by SpareBank 1 Nord-Norge, information about where the Code of Practice may be found, and the reasons for any deviations from the Code of Practice.

SpareBank 1 Nord-Norge's corporate governance structure is based on Norwegian law. SpareBank 1 Nord-Norge complies with the Norwegian Code of Practice for Corporate Governance, issued by the Norwegian Corporate Governance Board (NUES).

2. Information about where the Code of Practice and regulations mentioned in no 1 are publicly available.

The Code of Practice for corporate governance is available at www.nues.no.

3. Reasons for any deviations from the Code of Practice and regulations mentioned in no 1.

Any deviations from the Code of Practice are disclosed in the statement describing how the Code of Practice is complied with in the chapter on 'Corporate governance in SpareBank 1 Nord-Norge'.

4. Description of the principal elements of SpareBank 1 Nord-Norge's systems for internal control and risk management in connection with the financial reporting process.

See point 10 of the Norwegian Code of Practice for Corporate Governance for a description of the internal control and risk management associated with the financial statements reporting process.

5. Provisions of the Articles of Association that fully or partly expand on or deviate from Chapter 5 of the Public Limited Liability Companies Act. SpareBank 1 Nord-Norge complies with the Savings Banks Act.

Please refer to point 6 of the Norwegian Code of Practice for Corporate Governance for a description of SpareBank 1 Nord-Norge's compliance.

6. The composition of governing bodies and a description of the main elements of the current instructions and guidelines for work undertaken by the bodies and committees.

See points 6, 7, 8 and 9 of the Norwegian Code of Practice for Corporate Governance.

7. Provisions in the Articles of Association regulating the appointment and replacement of board members.

See the statement for point 8 of the Code of Practice.

8. Provisions in the Articles of Association and authorisations that permit the Board to decide to buy back or issue the Bank's own equity certificates.

See point 3 of the Norwegian Code of Practice for Corporate Governance.

Norwegian Code of Practice for Corporate Governance

The description below explains how the 15 points of the Norwegian Code of Practice for Corporate Governance of 30 October 2014 are complied with by SpareBank 1 Nord-Norge.

1. Description of corporate governance in SpareBank 1 Nord-Norge

There are no significant deviations between the Code of Practice and SpareBank 1 Nord-Norge's compliance with it.

The Code of Practice applies insofar as it relates to savings banks with equity certificates. Any deviations are explained below.

Corporate governance in SpareBank 1 Nord-Norge is defined as the aims, targets and overall principles in accordance with which the Bank is managed and controlled for the purpose of safeguarding the interests of the owners, depositors and other groups of interested parties in the Bank. Accordingly, the Bank's corporate governance principles shall ensure the sound and appropriate management of the Bank's assets and liabilities, providing additional assurance that all agreed targets, aims and strategies are met and adhered to.

The Bank complies with the Norwegian Code of Practice for Corporate Governance. www.nues.no.

Based on the three main pillars – openness, predictability and transparency – the Bank has defined the following main principles:

- A structure that ensures systematic and independent management and control
- Systems that ensure measurability and accountability.
- Effective risk management
- Full disclosure and effective communication to underpin the trust between owners, the Board and the Bank's executive management team
- Equal treatment of all owners and balanced relations with other interested parties
- Compliance with laws, rules, regulations and ethical standards

The Bank's corporate governance rules were last approved by the Board at its meeting on 14/02/2017. SpareBank 1 Nord-Norge's staff shall be known for their high ethical standards. This means that their conduct should engender trust and be honest and upright, and comply with the standards, regulations and laws that apply in society. The Bank has therefore produced an ethics handbook, the SNN Code of Conduct – Ethical Guidelines. This covers topics such as qualification, customer relationships, suppliers and competitors, securities trading, inside rules and relevant private financial matters. These regulations apply to all employees and elected officers in governing bodies.

All employees and elected officers have, under the law and internal guidelines, a duty of non-disclosure in relation to information about the Group's or customers' affairs that they learn through their work. The duty of non-disclosure does not just apply in relation to outsiders, but also to employees who have no work-related need for the relevant information.

No employees are allowed, via IT systems or in any other manner, to actively search for information about other employees, customers or outsiders when this is not required for their work.

SpareBank 1 Nord-Norge has its own whistleblowing routine for employees who learn about matters that contravene current laws and regulations or material breaches of internal rules. Employees who report unacceptable situations in relation to internal routines, must not be subject to any reprisals due to their reports.

SpareBank 1 Nord-Norge's corporate social responsibility represents an essential part of the Bank's vision and values. This is embedded in the customer-oriented strategy where availability and customer experience are great advantages.

See also the chapter on corporate social responsibility in the annual report.

Deviations from point 1
of the Code of Practice: None

2. Business

SpareBank 1 Nord-Norge is an independent financial services group within the SpareBank 1 Alliance.

The Bank's stated purpose is:
«Sparebank's purpose is to perform services which are normal or natural for a bank to perform, in accordance with the applicable legislation for savings banks at any given time and with the licenses granted at any given time.»

The Bank's corporate vision is:
For Northern Norway!

See also the chapter on vision and business concept in the annual report for more information about the Bank's vision, business concept and overarching financial goals.

Deviations from point 2
of the Code of Practice: None

3. Equity and dividends

The Board continuously assesses the Group's capital situation in light of the targets, strategy and desired risk profile.

SpareBank 1 Nord-Norge's core capital adequacy as at 31/12/2016 was 14.98%. The financial strength of the Bank and Group is considered very good.

The Bank's principal targets, including its financial strength target, are communicated via the Bank's website, periodic presentations of its financial statements and in the Bank's annual report (see the previous point as well). The Bank also conducts periodic reviews of the Bank's risk, which is assessed in relation to risk capital (the ICAAP process). The results are presented to the Bank's Board.

For further information about its equity, see the chapter on risk management, internal control and capital management.

Dividends

The Board has devised a dividend policy which forms the basis for the distribution of dividends proposed to the Supervisory Board. The dividend policy is published on the Bank's website, in periodic presentations of the financial statements and the annual report.

Please see the information about this in the Report of the Board of Directors.

Purchase of own equity certificates

In order to provide flexibility when selling equity certificates to employees and elected officers, the Supervisory Board has previously authorised the Board to buy back or issue the Bank's own equity certificates. To improve the opportunities for this, the Board was granted authorisation by the Supervisory Board on 16/03/2016 to purchase and establish security in the Bank's own equity certificates within the framework stipulated by the law and regulations.

The total holding of equity certificates that the Bank owns and/or has security in may not exceed 5% of the Bank's equity certificate capital. The lowest price that can be paid for the equity certificates is NOK 12.50 and the highest is NOK 75.

The equity certificates must be purchased in the securities market via the Oslo Stock Exchange. Sales shall take place in the same market, or as targeted sales to employees and elected officers in accordance with the applicable law and regulations. Security is pledged through agreements with customers as part of granting credit and any realisation of the security must take place in the securities market via the Oslo Stock Exchange. The authorisation is valid until 16/05/2017.

Deficits

Any deficits are covered by proportionate transfers from primary capital, including the endowment fund and the equity certificate capital that exceeds the stipulated equity certificate capital, including the dividend equalisation fund. Deficits that are not covered by this are covered by proportional transfers from the premium reserve and compensation reserve, and then by reducing the stipulated equity certificate capital.

Capital increases

Board authorisations for capital increases are granted on the basis of concrete and defined purposes. As of 31/12/2016, the Board has granted no authorisations for capital increases in SpareBank 1 Nord-Norge. No issues were implemented in 2016.

Deviations from point 3 of the Code of Practice: None

4. Equal treatment of shareholders and transactions with close associates

The Bank must ensure that owners and other stakeholder groups are given an opportunity to express their views on the Bank's strategic and business-related development through an ongoing dialogue. The Bank must project an image of reliability and predictability as far as the equity capital market is concerned.

SpareBank 1 Nord-Norge has a single class of equity certificates. The emphasis in the Articles of Association and the work of the Board and executive management team is on ensuring that all equity certificate holders are treated equally and have the same opportunity to exercise influence. All equity certificates have equal voting rights. The Bank complies with the rules in the Financial Institutions Act on owners and voting right limitations insofar as they apply to savings banks with equity certificates.

In the event of an increase in equity certificate capital, existing owners have preemptive rights, unless special circumstances dictate that these rights be waived. The background for such a waiver would then have to be explained.

SpareBank 1 Nord-Norge has on occasion conducted sales of equity certificates and/or issues for employees involving discounts and lock-in periods. Such transactions are conducted to strengthen the employees' ownership of their place of work, interest in the Bank's profitability and future, and the Bank's equity instrument.

In 2016 the employees were offered equity certificates at a 30% discount from a minimum of NOK 10,000 up to a maximum of NOK 100,000 (after discount). The lock-in period is 3 years from the date of purchase. A total of 210 employees took up the offer.

Transactions with close associates

The board instructions in SpareBank 1 Nord-Norge stipulate that board members must not take part in discussions or decisions about matters that are of such great importance to the member or a close associate that the member must be regarded as having a personal financial interest in the matter. Members have an obligation to ensure that they should not be disqualified.

The Board must, as representatives of the Bank, not do anything that may provide someone with an unreasonable advantage at the expense of the Bank.

Board members have a duty to disclose, unsolicited, any interest the individual or a close associate may have in the determination of a matter the Board is discussing. This applies regardless of whether it can be regarded as a special interest that disqualifies them according to the previous point.

The Board shall determine whether not the person concerned must withdraw from dis-

cussing and deciding the matter unless the board member withdraws of his or her own volition. In such an assessment, weight must be given to all forms of personal financial and other interests vis-à-vis the member and the need for public trust in the Board's decisions and the Bank's activities. The Board's assessment of the question of qualification must be minuted.

The Board must approve agreements between the Bank and board members. The same applies to agreements between the Bank and a third party where a board member or close associate might have a special interest. An exemption applies in the case of credit agreements within the Bank's ordinary activities.

Deviations from point 4 of the Code of Practice: None

5. Freely negotiable shares

The Bank's equity certificate is listed on the Oslo Stock Exchange and is freely negotiable. The Articles of Association contain no form of trading restriction.

Deviations from point 5 of the Code of Practice: None

6. General meetings**General meeting (Supervisory Board)**

The Bank is a savings bank and its management structure and composition of management bodies differ from those of a private limited company, cf. Chapter 8 of the Financial Institutions Act on general meetings and management and control bodies. SpareBank 1 Nord-Norge therefore has the following bodies: the general meeting (Supervisory Board), Board, general manager (CEO), internal audit, auditor, Audit Committee and Risk Committee.

The Bank's supreme body is comprised of equity certificate holders, depositors, employees and public representatives.

The Supervisory Board must ensure that the Bank is fit for purpose and complies with the law, Articles of Association and the Supervisory Board's resolutions.

The Supervisory Board is the Bank's supreme governing body and performs the following main tasks:

- Supervising the Board's management of the company
- Adopting the annual report and annual financial statements
- Electing members of the Bank's Board, Control Committee and Nomination Committee
- Appointing the Bank's responsible auditor and determining the auditor's remuneration
- Distributing the amount that, according to Section 10-17 of the Financial Institutions Act, may be donated for socially beneficial purposes
- Raising subordinated loan capital

For meetings of the Supervisory Board, the Bank shall ensure that all members receive written notice and access to agenda documents, including the Nomination Committee's recommendations, at least 21 days in advance. The documents shall be available on the Bank's website at least 21 days in advance of such meetings. The Supervisory Board cannot make decisions on any matters other than those stated in the notice convening the meeting.

The Supervisory Board consists of 40 members and 26 substitute members, whose composition is as follows:

- Sixteen members and eight substitute members elected from among the equity certificate holders
- Troms, Finnmark and Nordland – four members and four substitute members elected by the county councils in question
- Twelve members and six substitute members from among the Bank's depositors
- Eight members and eight substitute members from among the Bank's employees

The Supervisory Board normally meets twice a year.

The Supervisory Board has substitute members. Equity certificate holders can thus not be represented by a proxy.

Deviations from the Code of Practice's point 6: SpareBank 1 Nord-Norge complies with the provisions of the Financial Institutions Act with respect to the composition of bodies. These deviations are not deemed to entail any real difference in relation to the Code of Practice.

7. Nomination committees

Nomination Committee for the Supervisory Board

The Nomination Committee shall consist of 5 members and 5 substitute members, with representatives from all four of the groups represented on the Supervisory Board. The Nomination Committee shall make the necessary preparations for the election of:

- members of the Supervisory Board, the Board of Directors and the Nomination Committee, excluding the employees' representatives

Guidelines for the aforementioned nomination committee are established by the Bank's Supervisory Board.

Nomination committee for the employees' election

Pursuant to the Financial Institutions Act, the election must be organised by a nomination committee containing representatives appointed by the Board. The nomination committee must comprise at least three members and both the employees and management must be represented.

Deviations from point 7 of the Code of Practice:

All members of the Nomination Committee for the Supervisory Board are elected from the groups represented on the Supervisory Board. At this time expanding the committee by one member from outside the Supervisory Board has not been considered.

8. Supervisory Board and board of directors: composition and independence

Please refer to point 6 for information about general meetings/the Supervisory Board.

In 2016, the Board consisted of eight permanent members, seven of them elected by the Supervisory Board and one elected from among the employees. Four of the Board's eight members are women, three of whom are elected by the Supervisory Board and one by the employees. One substitute member for the employees also regularly attends board meetings. The members are elected for two years at a time.

The chief executive is not a member of the Board. None of the board members elected by the Supervisory Board have any employee or contractor relationship with the Group beyond their position as an elected officer. The independence of board members has been assessed by the Nomination Committee and they are deemed independent, with the exception of the employee elected board members. The chairman and deputy chairman are elected by the Supervisory Board in a special election and for 2 years at a time.

The composition of the Board is based on expertise, capacity and diversity and complies with the Bank's Articles of Association. The Nomination Committee has produced a specification of requirements as a basis for the Board's composition. The Board meets a minimum of twelve times a year and the members' participation in board meetings is described in the annual report. Their holdings of equity certificates in Spare-Bank 1 Nord-Norge are reported in the notes to the financial statements, the presentation of the Board in the annual report and on the Bank's website. The individual board member's background is also described in the annual report and on the Bank's website www.snn.no.

Deviations from point 8 of the Code of Practice: None

9. The work of the board of directors

The Board's function

The Board manages the Bank's operations in accordance with the applicable law, Articles of Association and any other rules and regulations introduced by the Supervisory Board. The Board is responsible for ensuring the Bank's available resources are managed in a prudent and appropriate manner. The Board also has an obligation to ensure that all accounting and management of assets and liabilities are satisfactorily supervised.

In addition, the Board has the following main responsibilities:

- To appoint the chief executive
- To provide instructions for the day-to-day management of the Bank
- To determine the Bank's strategy, budget, market-related and organisational targets
- The Board appoints and dismisses the manager of the internal audit department

The Board normally holds twelve meetings a year.

Qualification/disqualification

The Board's members are defined as primary insiders and must comply with the Bank's rules and regulations for acquiring equity certificates in the Bank and banks in the SpareBank 1 Alliance. The same applies to the purchasing of shares in companies that are customers of the Bank.

In the case of discussions concerning commitments involving companies in which a board member has an interest or holds a position, the member in question must declare himself/herself disqualified and withdraw from the meeting. Board members and executive personnel must inform the Board if they have, directly or indirectly, a significant interest in an agreement entered into by the Bank.

Evaluation of the Board

Each year, the Board conducts a self-evaluation of its work with regard to competence, working methods, the way in which it deals with the matters presented to it, meeting structure and the way in which various tasks are prioritised.

Remuneration Committee

SpareBank 1 Nord-Norge's Remuneration Committee consists of the chairman of the Board and two board members.

The Bank's company secretary fulfils the function of secretary. The committee's mandate is to:

- prepare and present proposals concerning the remuneration of the chief executive
- prepare and present proposals concerning the statement on the fixing of the salaries and other remuneration of executive personnel in line with the Financial Institutions Act, Section 15-2, cf. Public Limited Liability Companies Act, Sections 5-6 (3) and 6-16a
- prepare matters for the Board relating to the remuneration arrangements

The Board has set out the Remuneration Committee's mandate.

The committee convenes when it deems it necessary, but at least once a year.

Audit committee

The Audit Committee's duties pursuant to Section 8-18 of the Financial Institutions Act are to:

- a. prepare the Board's follow-up of the financial statements reporting process
- b. monitor the systems for internal control and risk management, as well as the Bank's internal audit if such a function has been established
- c. issue a statement on the choice of auditor
- d. maintain ongoing contact with the Bank's elected auditor about the auditing of the annual financial statements

- e. evaluate and monitor the auditor's independence, ref. the Auditors Act, Chapter 4, especially including the degree to which services other than auditing that are provided by the auditor or audit firm constitute a threat to their independence

Section 8-19, letter b, of the Financial Institutions Act is regarded as being satisfied by the Risk Committee's mandate and the Audit Committee receives the Risk Committee's review for their information.

The committee's duties include the following:

- Assessing and making recommendations to the Board in relation to the election of an external auditor, and recommending to the Board, for their approval, the external auditor's remuneration.
- Following up and monitoring the auditor's or the audit firm's independence, with a particular focus on the provision of additional services, ensuring that the external audit acts independently, and discussing the scope and plan for the audit work with the auditor.
- Supervising the process of compiling and presenting the financial statements.
- Examining the statutory auditing of the annual financial statements and the consolidated financial statements, including reviewing and assessing the Group's interim and annual financial statements reporting with a special focus on:
 - changes in accounting policies and accounting practices
 - important discretionary valuations and estimates
 - significant adjustments as a result of requirements and recommendations from the auditor
 - compliance with laws, regulations and accounting standards
- Reviewing and discussing points where the auditor disagrees with the management and/or where a high degree of uncertainty has been pointed out by the auditor and/or other matters that the auditor wants to discuss.

- Assessing other matters as determined by the Board and/or the Audit Committee itself, or that the auditor wishes to discuss.

The Risk Committee comprises three members of the Board. They must be independent according to the definition in the Norwegian Code of Practice for Corporate Governance.

The Audit Committee convenes as often as it finds necessary, but at least four times a year. A meeting and work plan is prepared for the committee each year. This must be approved by the Board.

Risk Committee

The committee has the following duties:

- Ensuring that the Bank has good systems for internal control and risk management, and that the compliance function and internal audit function satisfactorily.
- Ensuring that the risk management is in line with best practice and the Board's level of ambition.
- Making recommendations to the Board concerning the Group's overall risk strategy, including assessing the Group's risk capacity and willingness, and advising the Board on establishing a framework for future risk exposure, including ensuring a satisfactory risk and capital assessment process (ICAAP).
- Supervising that the Group's capital adequacy is satisfactory and striving for optimum capital allocation within the Group's adopted strategy.
- Following up the Group's funding strategy, including monitoring and checking the factors that directly and/or indirectly affect the Bank's funding and refinancing risk.
- Ensuring that the IRB system is well integrated into the organisation and that it satisfactorily calculates risk levels and capital requirements.
- Monitoring the degree to which the prices the institution charges customers for products reflects the risk the institution is carrying and, if the opposite is true, recommending improvements.

- Assessing the extent to which the incentives that follow from the Bank's remuneration arrangements take sufficient account of risk, capital, funding and earnings.
- Ensuring that the Group has satisfactory contingency plans.
- Assessing and making recommendations to the Board concerning the election of the internal auditor. Assessing the internal auditor's annual plan and remuneration and making recommendations to the Board about approving these.
- Ensuring that the Group has good systems and processes for internal control and compliance, and ensuring that these function effectively.
- Assessing other matters as determined by the Board and/or the Risk Committee itself, or that the internal auditor wishes to discuss.
- Staying up-to-date and providing advice to the Board in relation to current and future amendments to laws and regulations.

The Risk Committee comprises three members of the Board. They must be independent according to the definition in the Norwegian Code of Practice for Corporate Governance.

The Remuneration Committee convenes as often as it finds necessary, but at least four times a year. A meeting and work plan is prepared each year. This must be approved by the Board.

Reporting

The Board receives periodic reports on the following:

- financial performance
- market trends
- management, personnel and organisational development
- development of the overall risk situation and the Bank's risk exposure

In addition to the above, there will be periodic presentations of the Bank's scorecard, which contains financial, organisational, market-related and quality-related targets.

Central business and other related areas are looked at least once a year with the evaluation and determination of limits and guidelines.

Internal audit

The internal audit is a tool the Board and executive management team uses to ensure that the risk management process is result-oriented, efficient and functions as intended. Ernst & Young are responsible for providing internal audit services to the Group. The services cover the Parent Bank, subsidiaries subject to the Regulations on Risk Management and Internal Control and other subsidiaries. The internal audit's main task is to confirm that the established internal control functions as intended and ensure that the established risk management measures are sufficient in relation to the Bank's risk profile.

The internal audit reports to the Board every quarter, which adopts annual plans and budgets for the internal audit. Reports and recommendations issued by the audit department concerning improvements to the Bank's risk management are continuously reviewed and implemented.

An audit plan is prepared. This is discussed with the executive management team, considered in the Risk Committee and approved by the Board. The audit's risk assessments determine which areas will be reviewed.

Special audit reports are prepared and contain results and proposed improvements. These are presented to the responsible manager and the Group's executive management team. A summary of the reports is sent every quarter to the Risk Committee and the Board. Any consultancy work is carried out within the standards and recommendations that apply for internal auditors (IIA/NIRF).

Risk management section

This function is independent of the customer units and bears overall responsibility for comprehensive risk management, internal control and compliance with rules and provisions, including responsibility for the Group’s risk models and the further development of effective risk management systems.

Deviations from point 9 of the Code of Practice: None

10. Risk management and internal control

The Bank’s management structure is based on the Bank’s vision, established goals, strategies and core values. It is intended to ensure goal-oriented and independent management and control that covers all processes and control measures implemented by the Bank’s management to ensure effective business management and implementation of the Bank’s strategies.

A number of independent control bodies have been established that are intended to ensure that owners and other interested parties receive correct information about commercial and financial matters. The control bodies have different duties and purposes. The various bodies’ general roles and responsibilities are defined by the law, regulations and the Articles of Association.

Effective target-oriented management is a prerequisite for continuously measuring the Bank’s strategic goal attainment. The Bank uses strategic scorecards and rolling prognoses as management tools. Accountability is ensured by clearly communicating business plans and agreed targets to the employees. This is operationalised through clearly defined roles, responsibilities and expectations, and managers who are responsible for achieving targets within the various areas of responsibility.

The Group’s principles and limits for internal control and risk management are contained in a special ‘Risk Management Policy’, which is reviewed annually by the Board. The policy for risk management and compliance provides the Group’s internal framework for good management and control. The policy provides guidelines for the Group’s overall approach towards risk management, and is intended to ensure that the Group has an effective and appropriate process for this. Risk management is an integral part of the executive management team’s decision-making processes, and a key element for organisation, routines and systems.

The Board must follow up all agreed framework arrangements, principles and quality and risk targets through:

- quarterly reports from the chief executive and the risk management department
- half-yearly and annual reports from the Bank’s internal auditor

The Bank’s internal control and risk management systems also encompass the Bank’s core values and guidelines for ethics and corporate social responsibility.

Every manager must prepare an annual statement confirming that the framework, guidelines and routines have been observed, and that systems are used actively to follow up each manager’s profit centre.

SpareBank 1 Nord-Norge’s Board bears primary responsibility for monitoring and setting limits for the Group’s risk exposure. SpareBank 1 Nord-Norge’s risks are measured and reported in accordance with the principles and policy adopted by the Board.

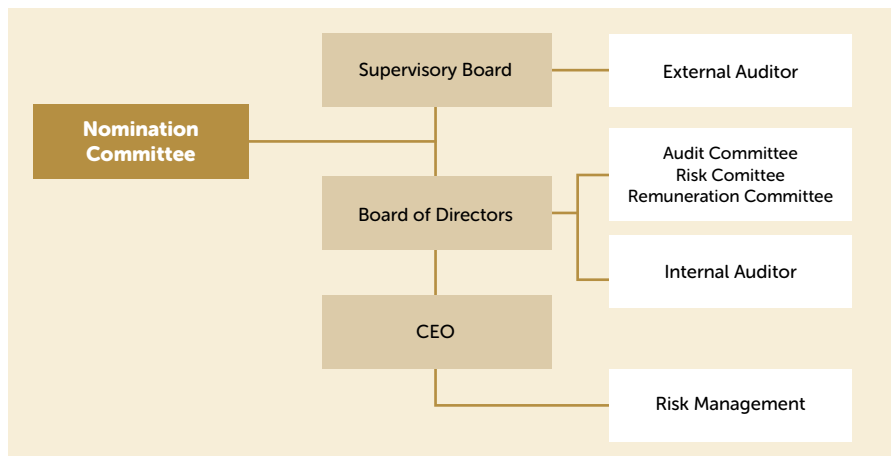
The principal aim is to ensure that the Group’s overall risk level is moderate and within the limits set by the Group’s primary capital and other provisions. Through good risk management, the Group should have a stable and predictable earnings and profit performance.

Significant risks are analysed, managed and followed up through the Bank’s ongoing risk management process. This is to ensure that the Bank operates in accordance with the approved risk profile and adopted strategies. The Board and the executive management team review the Bank’s risk profile based on strategic, operational and transaction-related factors at least once a year. Developments in the risk picture are periodically reported to the chief executive and the Board.

Each year, the Board receives an independent report from the Bank’s internal auditor and the responsible auditor containing an assessment of the Group’s risks and whether internal control is functioning in an appropriate and satisfactory manner.

Internal control - financial reporting

The Group complies with current statutory requirements and helps to ensure relevant, reliable, timely and equal information for the Bank’s equity capital holders and the



rest of the securities market. This also applies to the Group's contact with investors outside the Supervisory Board. The Finance/Accounting unit is headed by Senior Group General Manager Rolf-Eigil Bygdnes (CFO), and is organised independently of the business areas. Finance/Accounting is responsible for the financial reporting, at both a Parent Bank and Group level. The unit sets guidelines for monthly, quarterly and annual reporting from all business areas and most of the subsidiaries based on internal and external requirements. The CFO continuously assesses the business area's financial results and goal attainment, and ensures that all the units are performing in line with the Group's overall economic goals. The CFO reports directly to the chief executive.

The Group's Finance/Accounting department prepares financial reports for the SpareBank 1 Nord-Norge Group. The unit ensures that the reporting complies with current legislation, accounting standards, the Group's accounting policies and the Board's guidelines.

The Finance/Accounting department has established processes that ensure that the financial statements reporting is quality assured and that any errors and deficiencies are immediately followed up and rectified. Control measures have been established for all financial reporting. This is to ensure correct, current and complete reporting. The measures include fairness and probability controls in each individual centre within the business areas and on a more aggregated level. In addition to this, detailed reconciliation checks are carried out on a daily and monthly basis. The Group has established good assessment systems for all business areas in the Group, where the most important target figures for each area are followed up. Every business area is responsible for this sort of monthly financial reporting and follow-up, and works closely with the Finance/Accounting department on developing and improving assessment systems. The design and effectiveness of the established control activities are regularly evaluated.

The external auditor conducts a full annual audit of the Group's annual financial statements.

Ethics and reporting

A Code of Conduct has been drawn up for the Group and its employees. The core values and ethical values are well communicated and known throughout the entire organisation. Clear guidelines have been established for internal communication should an employee learn about matters that conflict with external or internal rules or other matters that could harm the Group's reputation or financial situation.

More information about risk management and internal control can be found in the Report of the Board of Directors and special chapter on risk management, internal control and capital management.

Deviations from point 10 of the Code of Practice: None

11. Remuneration of the board of directors

The members of the Board receive a fixed annual remuneration. This remuneration is not based on performance and no options have been issued to the members of the Board.

The Board has also established guidelines for the remuneration of members of the Bank's executive management team in accordance with the relevant laws. These guidelines are submitted to the Bank's Supervisory Board. The Remuneration Committee issues an annual recommendation on the chief executive's fixed salary and any bonuses to the Board.

Deviations from point 11 of the Code of Practice: None

12. Remuneration of executive personnel

The Group has established a remuneration policy that conforms to the Group's overall goals, risk tolerance and long-term interests. It is intended to help promote and provide incentives for good management and control of the Group's risk, discourage excessive or unwanted risk taking, avoid conflicts of interest and ensure compliance with current laws and regulations.

The Group's remuneration policy contains special rules for executive personnel, other employees and elected officers with tasks that are important in relation to the Group's risk exposure. The same is true for employees and elected officers with control duties.

The Board has established a Remuneration Committee as a preparatory body for matters relating to the assessment and setting of the chief executive's remuneration. The committee shall also make recommendations to the Board about guidelines for the remuneration for executive personnel (executive management team). The Remuneration Committee's mandate is set by the Board. The guidelines are presented to the Supervisory Board. The Board's statement on executive pay is a special case document for the Supervisory Board. The notes to the financial statements specify the remuneration of the chief executive and executive personnel.

Please also see the section on the Board's Remuneration Committee under point 9.

As far as options for executive personnel are concerned, please refer to the arrangements discussed earlier under point 4 concerning discounted equity certificates.

Deviations from point 12 of the Code of Practice: None

13. Information and communications

Comprehensive information and effective communication underpin the relationship of trust between owners, the Board and the Bank's executive management team, and provide the Bank's stakeholder groups with an ongoing opportunity to assess and relate to the Bank. The Bank's information policy therefore emphasises an active dialogue with the Bank's various stakeholder groups, in which the focus is on openness, predictability and access.

The Bank also attaches importance to the fact that correct, relevant and timely information on the Bank's performance and results will inspire the confidence of the investor market. Information is distributed to the market through the Bank's quarterly investor presentations, website, stock exchange disclosures and press releases. Regular presentations are also arranged for the Bank's international partners, lenders, investors and other stakeholder groups.

The open information practices conform to the current non-disclosure rules at any given time.

SpareBank 1 Nord-Norge's financial calendar is published on the Bank's website.

Deviations from point 13 of the Code of Practice: None

14. Take-overs

Those who wish to make an acquisition that will entail becoming the owner of a qualifying stake in a savings bank must send advance notice of this to the Financial Supervisory Authority of Norway, cf. Section 6-1 of the Financial Institutions Act. The same applies to acquisitions that would entail a qualifying stake increasing such that it would equal or exceed 20, 30 or 50%, respectively, of the capital or votes in a financial undertaking, or such that the stake provides a determining influence in the financial undertaking as described in Section 1-3 of the Public Limited Liability Companies Act.

An overview of the 20 largest equity certificate holders in SpareBank 1 Nord-Norge can be found in the notes to the financial statements and on the Bank's website.

Deviations from point 14 of the Code of Practice: Statutory ownership limitations.

15. Auditor

External auditor

The external auditor is elected by the Supervisory Board based on the recommendation of the Audit Committee. The Bank uses the same auditor for the Parent Bank and all of the subsidiaries.

The external auditor presents an annual plan to the Audit Committee containing the main features of the implementation of the audit work.

The auditor participates in board meetings are discussed and in the Audit Committee's meetings where the financial statements are discussed. The Group also undergoes internal control, including identifying weaknesses and proposals for improvements. The Board holds at least one meeting with the auditor a year without the chief executive or others from the executive management team being present.

The external auditor presents a report on these matters to the Bank's Supervisory Board and Control Committee.

Guidelines have been set for the executive management team's ability to use the auditor for services other than auditing.

Deviations from point 15 of the Code of Practice: None

RISK MANAGEMENT, INTERNAL CONTROL AND CAPITAL MANAGEMENT

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

It is important for SpareBank 1 Nord-Norge that its external and internal reporting maintains a high level of quality. The Group is dependent on a good reputation and trust among its customers, owners, the authorities and other business associates in order to be an attractive partner and a natural first choice. In order to achieve this, the Group must have a clear and efficient structure for the division of responsibility and management.

SpareBank 1 Nord-Norge shall, at any given time, operate in accordance with the relevant laws, regulations and internal guidelines, including the Group's core values and ethical guidelines (SNN Code of Conduct).

SpareBank 1 Nord-Norge's risk and capital management should support the Group's strategic development and achievement of targets, and at the same time ensure financial stability and proper asset management.

This should be achieved through:

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

The Group aims to maintain a moderate risk profile and at least keep its present international rating. This will ensure a long-term, good supply of funding from the capital markets.

The Group's control and management model

The Group's control and management model aims to ensure the independence of risk reporting, in which responsibilities and roles in day-to-day risk management are stressed in particular.

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

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



An important foundation for effective risk management is a strong risk culture with a high degree of risk awareness and risk management throughout the entire Group. To achieve this every employee must have a good understanding of their own activities and actions, as well as the associated risks.

Responsibility for ongoing risk management is divided between the Board, boards of the subsidiaries, executive management team, specialist advisers and line management. Risk management and control are part of SpareBank 1 Nord-Norge's corporate governance, which is described in the chapter 'Corporate governance'. The emphasis is on responsibility through personal authority and independence between the business areas and the departments and people who monitor them.

The Board of SpareBank 1 Nord-Norge is responsible for approving a prudent risk profile, return targets, and the overall framework for risk and capital management, including the IRB system and risk models in general. The Board is also responsible for approving risk limits, authorities and the internal capital adequacy assessment

process (ICAAP), with the associated assessments of prudent financial strength and liquidity in relation to the Group's risk profile and regulatory requirements.

The Board must assure itself that the framework for risk and capital management has been adequately communicated and implemented throughout the Group. The Board must also assure itself that the framework is being followed up with adequate authority and resources.

In order to ensure an effective and adequate process for risk and capital management, the framework is based on elements that reflect the manner in which the Board and the executive management team run the Group.

- Strategic goals
- Organisation and organisational culture
- Identification of risk
- Risk analysis
- Risk strategies
- Capital management (including return and capital adequacy)
- Reporting
- Follow-up
- Contingency plans
- Compliance

In the risk and capital management process, corporate culture provides the foundation for the other elements. The corporate culture includes management philosophy, management style and the integrity, core values and ethical attitudes of the people in the organisation. It is difficult to compensate for an inadequate corporate culture using other control and management measures. SpareBank 1 Nord-Norge has therefore established clear core values and a code of conduct, and made the entire organisation aware of them.

The Board's duties are set out in a special annual plan that is revised every year. This ensures that the Board has sufficient time for, and focus on, their key assigned duties.

The chief executive officer is responsible for overall risk management. This means that the chief executive is responsible for ensuring that effective risk management systems are implemented in the Group and that its risk exposure is monitored. The chief executive is also responsible for delegating authority and reporting to the Board.



The heads of business and support areas and employees are responsible for day-to-day risk management within their areas of responsibility. They must at all times ensure that the risk management and risk exposure comply with the limits and general management principles determined by the Board or chief executive.

The Risk Management department must be independent of the business units and report directly to the chief executive. The senior group general manager for risk management can also report directly to the Board should extraordinary situations so require. The department is responsible for refining the framework for risk and capital management, including risk models and risk management systems. The department is also responsible for following up and reporting risk exposure and limit utilisation.

The Credit Department is responsible for the preparation and maintenance of targets, strategies, guidelines and routines, operative management and follow-up of the Group's credit operations and credit risk management. The department performs an independent role in relation to the business areas and local banks.

Internal Audit monitors that the risk management process is targeted, effective, and functioning as expected. Internal Audit reports to the Board of Directors. Internal Audit's reports and recommendations concerning improvements have to be followed up by the organisation.

The credit committees are responsible for issuing independent recommendations to holders of a power of attorney. In this recommendation, the credit committees assess loan and credit applications in relation to the current credit strategy, credit policy, granting rules, and credit processing routines. The credit committees particularly focus on revealing risk associated with the individual application and making an independent assessment of credit risk.

The management forum for risk and capital management handles the overall monitoring of the Group's risk profile, funding, liquidity, financial strength and compliance with relevant laws and regulations. The committee also discusses draft risk strategies, capital allocation (capital planning) and validation reports and recommends new risk models. The management forum for risk and capital management should be broad-based, with executives from business units and from risk and capital management.

Internal control and manager confirmation

The Group's internal control is based on the COSO framework (Committee of Sponsoring Organizations of the Treadway Commissions). COSO is a framework with five levels:

1. **Control environment**
2. **Risk management:** assessment of internal and external factors that affect goal attainment
3. **Control activities:** guidelines and procedures that are intended to ensure that risks are reduced and managed efficiently
4. **Information and communication:** Processes that ensure that relevant information is identified and communicated on time
5. **Monitoring:** Processes for ensuring that internal control is appropriately defined and performed, and that it is effective and adaptable



The five levels are meant to help the Group achieve its strategic goals through good risk management and administration. The COSO framework has been established in line with the Group's general principles for risk and capital management, which emphasise continuous improvement, efficient operation, reliable financial reporting and compliance with laws and regulations.

Directors, bank executives, specialist managers and department managers shall report upwards in the organisation on how risk management has been carried out in their areas of responsibility in relation to the approved framework and risk exposure. This is intended to provide the chief executive and the Board with a basis for determining whether risk management is being carried out properly. The confirmation from management (internal control reporting) is produced once a year. This work is coordinated by the Risk Management Department.

The purpose of the annual confirmation from managers is primarily:

- to analyse the Group's strengths and weaknesses within internal control and risk management, and ensure that the necessary improvements can be made
- to lay the foundations for active engagement in and understanding of internal control and risk management among managers at all levels in the Group

The reporting should be used actively in a management development process that increases the understanding of the importance of good risk management and quality.

The CobiT framework (Control Objectives for Information and Related Technology) is used in the area of IT as a basis for internal control and risk management. CobiT is a framework intended to ensure comprehensive management and control within three key areas:

- Internal and regulatory requirements and checks
- Technical issues and challenges
- IT risk

Business goals and strategic goals must be linked to IT goals within these areas. Good management is ensured through ongoing calculations and following up goals and performance, and by making process owners accountable within business areas and the area of IT. The framework unifies recognised IT standards and best practice with other general and strategic goals.

Risk areas

SpareBank 1 Nord-Norge identifies and manages risk in the following general risk areas:



Comprehensive risk management is important in order to illustrate what risks the Group is exposed to, and how great the exposure is. Please also see the more detailed information in the notes to the financial statements and the Group’s pillar 3 report on www.snn.no.

The most important risks:

Strategic risk

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

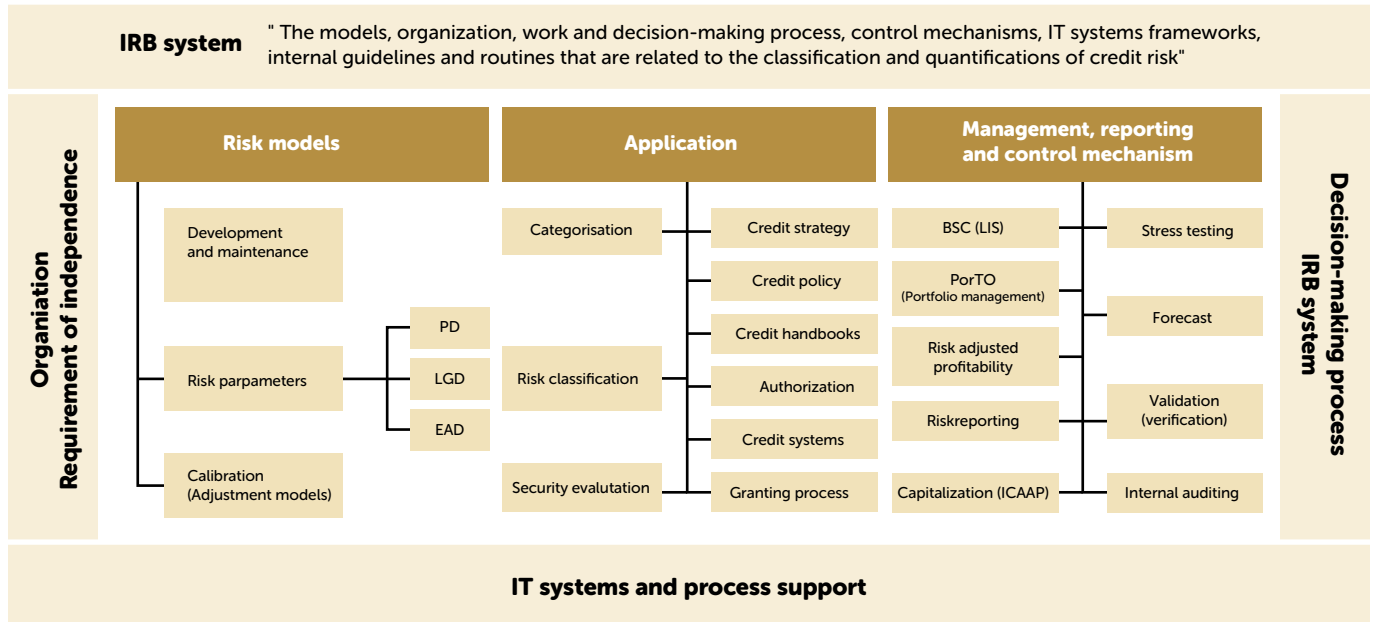
SpareBank 1 Nord-Norge regularly assesses the Group’s strategy by reviewing changes in general conditions, including the competition situation, the public authorities’ requirements, changes in customer behaviour, and requirements for competence and organisation.

Reputation risk

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

The Group’s limits and guidelines for good corporate governance and the SNN Code of Conduct play an important role in the commercial management of its operations. In addition to complying with the laws and regulations that are applicable to the Group’s areas of activity at any given time, the guidelines focus on attitudes and ethics, and how SpareBank 1 Nord-Norge does business with customers and others.

The Group’s corporate social responsibility strategy facilitates the strategic use of communication and strengthens external and internal relationships. Corporate social responsibility should be a means of strengthening the reputation among all relevant stakeholder groups.



Credit risk

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

Credit risk is the dominant risk in the Bank's operations. The Bank must have good capacity in the area of credit and offer good customers credit on competitive terms. Good credit risk management requires a high level of expertise among everyone who works with granting credit. The Bank has a comprehensive framework for managing the area of credit. The use of credit score models for granting credit, portfolio management and in the calculation of capital requirements places great demands on structure, follow-up and reporting.

In the framework and principles for good credit management, SpareBank 1 Nord-Norge has stressed the following main principles:

- **Completeness:** there must be provisions that regulate the business operations.
- **Reporting:** all actions and decisions must be traceable, and compliance with provisions, routines and authorisations shall be reported.
- **Independence;** a distinction is made between the business units that grant

credits; the credit department, which is responsible for support and monitoring compliance with the guidelines and routines; and the risk management department, which is responsible for monitoring credit risk.

- **'Arm's length distance';** the criteria for granting credit shall be objective.
- **The Board's and the executive management team's** responsibilities and duties.

Data and analytical tools are an integral part of risk management. SpareBank 1 Nord-Norge is constantly refining the classification system together with the banks in the SpareBank 1 Alliance. The system provides important support for the credit process, and the calculation of expected losses and the risk-adjusted capital (unexpected losses) is used as an integral part of the credit decision process.

Credit risk is managed through:

The credit strategy

The credit strategy sets out general principles for granting credit and how the credit risk should be managed and priced. This includes the structure of the Bank's governing documents, organisation of the credit function (division of responsibility and roles), general principles for granting credit and credit strategy framework.

The management of credit risk is based on the principles that have been recommended by the Basel Committee in the document, 'Principles for the Management of Credit Risk', the new capital adequacy rules and relevant laws and regulations.

Objects and value base

The guidelines describe the value base, market value and reduction factors for the various objects that have been pledged. This is intended to ensure consistent standards for valuation, maintain quality and accuracy in valuation and provide for consistent use of object names. The guidelines affect expected and unexpected losses, so they are important for capital allocation.

Guidelines for portfolio management

Describes the limits and guidelines for managing the credit portfolio. This applies to the division of responsibilities and roles in connection with the measurement and reporting of risk and profitability in the portfolio, as well as measures for strengthening the portfolio within the limits in the credit strategy and credit policy.

The portfolio's composition is managed by adopting principles and limits for granting new credit or by changing existing commitments.

Credit policy for corporate market and retail market (CM and RM)

The documents describe how the credit strategy shall be implemented through the adoption of detailed criteria for the granting of credit to the retail market and corporate market, respectively. The preparation and maintenance of the credit policy is the responsibility of the chief executive.

Rules and regulations for granting credit – exercising of credit authorities

In the retail market all authorisations are personal and allocated according to the size and risk of the commitment. Credit authorisations in the CM are generally exercised through credit committees. The decision-making basis must accord with the Bank’s credit strategy and credit policy, and must be characterised by completeness, good quality and professionalism. This is documented using the Bank’s ordinary administrative support system.

Classification and risk models

The Bank’s risk classification system is based on a rating model for calculating the probability of defaults or credit losses. The Bank’s risk assessment of individual customers is based on the customer’s capacity to service loans, the customer’s behaviour, and the amount of credit and the collateral for it.

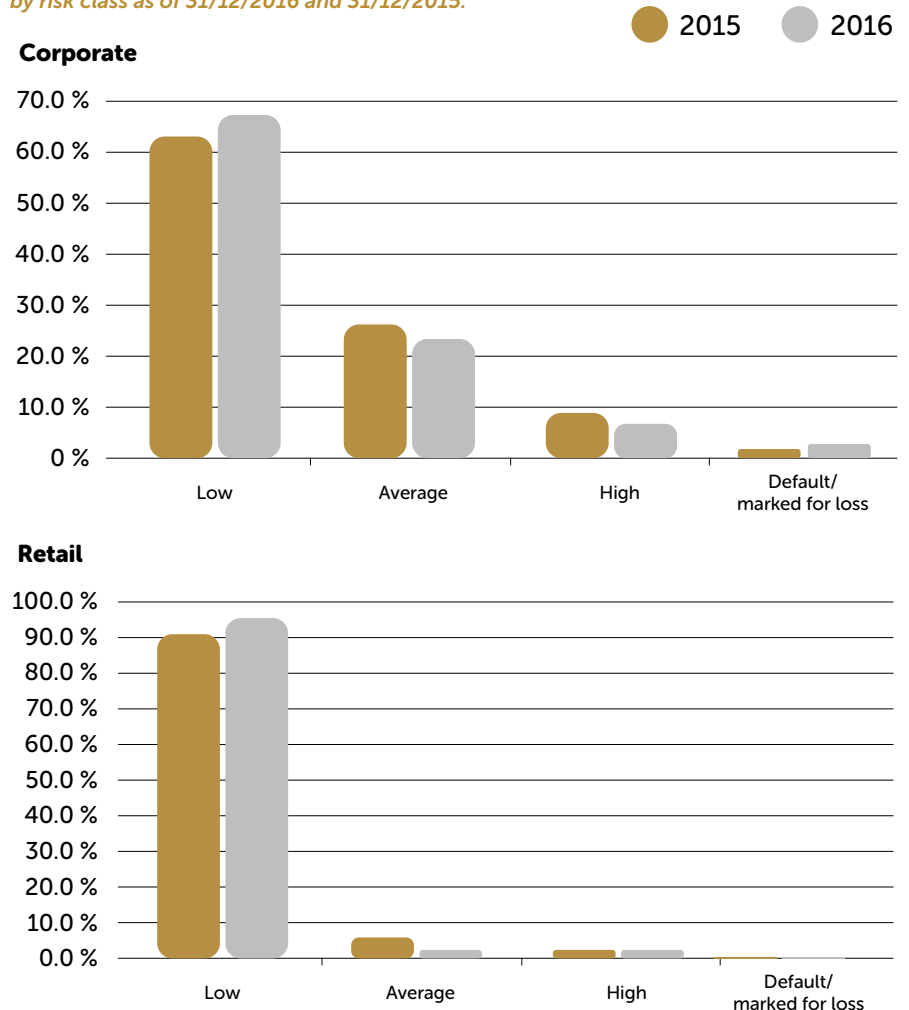
Probability of default (PD)

Customers are classified into risk classes according to their probability of defaulting on commitments in a 12-month period. The probability of default is calculated based on historical data series for key financial figures, as well as non-financial criteria such as behaviour and age. In order to classify customers according to the probability of default, nine risk classes (A–I) are used for the healthy portfolio. In addition, the Group has two risk classes (J and K) for customers with commitments in default and/or commitments that have been written down.

Intervals for probability of default in each risk class

Risk classes of default (PD)			
Risk class(PD)	Risk group	Lower level	Upper level
A	Low	-	0.10 %
B		0.10 %	0.25 %
C		0.25 %	0.50 %
D		0.50 %	0.75 %
E		0.75 %	1.25 %
F	Medium	1.25 %	2.50 %
G		2.50 %	5.00 %
H	High	5.00 %	10.00 %
I		10.00 %	99.99 %
J	Non-performing commitments without individual write downs	100 %	100 %
K	Non-performing commitments, with individual write-downs	100 %	100 %

Total exposure by risk class. Percentage of volume by risk class as of 31/12/2016 and 31/12/2015.



The credit models are validated at least once annually with regard to the ability to rank the customers and estimate the PD level. The validation results confirm that the model's accuracy is within the internal measurements and international requirements.

Expected exposure at default (EAD)

The Group estimates exposure at the time of default by taking the expected draw-down on committed credit limits into consideration.

Loss given default (LGD)

The Group estimates the loss given default for each loan based on the expected realisation value (RE value) of the underlying collateral, recovery percentage for the unsecured part of the loans and direct costs for collection. The values are stipulated in accordance with fixed models, and the actual realisation values are validated in order to test the models' reliability.

Based on the collateral coverage (RE value/EAD) the commitment is classified into seven classes, where the best collateral class has collateral coverage of more than 120%, and the lowest coverage of less than 20%.

These parameters (PD, EAD and LGD) provide the basis for the Group's portfolio classification and statistical calculation of expected losses (EL) and the need for necessary capital/risk-adjusted capital (UL). Portfolio classification provides information on the level and development of the overall credit risk in the total portfolio.

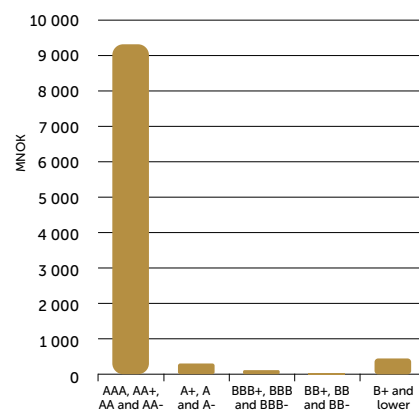
Market risk

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

Market risk arises primarily in connection with the Bank's investments in bonds, certificates and shares, and as a consequence of activities carried out to support ordinary banking operations, such as funding and interest rate and currency trading.

Market risk is primarily controlled through the daily follow-up of risk exposure based on the limits stipulated by the Main Board of Directors and an ongoing analysis of outstanding positions. The exposure limits are reviewed and renewed at least once a year. SpareBank 1 Nord-Norge's market risk exposure is moderate.

Bonds and certificates by rating:



Papers with a higher rating than AA- account for 92% of the portfolio, and 95% of the portfolio has BBB or better (investment-grade).

Within the Board's adopted limits for currency risk, the exposure is minor. The aggregate currency position totals NOK 9.2 million as of 31/12/2016 (NOK 10 million in 2015). The Bank also has some holdings in foreign currency.

The Group's portfolio of equities and units as of 31/12/2016 was somewhat lower than at year-end 2015. The book value of the holding of equities, units and equity certificates was NOK 306 million as of 31/12/2016, NOK 263 million less than at the previous year-end.

The Board has decided to keep the Bank's interest rate risk low. The risk, measured as the change in value with a 2 percentage point interest rate change per currency, was distributed as follows at the end of 2015 and 2016:

	2016	2015
NOK	-7,5	-15
EUR	1,7	-0,5
USD	-0,6	-1
CHF	81,9	106
Others	-2,1	0
Total interest rate risk	73,4	89,5

Operational risk

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

Operational risk is a risk category that encompasses most of the costs associated with quality flaws in the Bank's ongoing operations. The identification, management and control of operational risk form an integral part of managerial responsibility at all levels. The manager's most important tools in this work are professional insight, management expertise, action plans, control routines and good follow-up systems.

The systematic work on risk assessment and management measures contributes to increased knowledge and awareness of the need for improvements within the individual business areas and areas of expertise.

The Bank has implemented a special registration and follow-up tool to improve the structure and follow-up of risk, incidents and improvement areas in the Group.

The risk management department is responsible for the ongoing, independent monitoring of the operational risk.

The Board receives an annual independent assessment of the Group's risks, and whether internal control is working in an appropriate and satisfactory manner from Internal Audit and the responsible auditor.

The Bank experienced no material operational events in 2016 with losses that exceeded the willingness to assume risk as defined in the risk strategy.

Liquidity risk

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

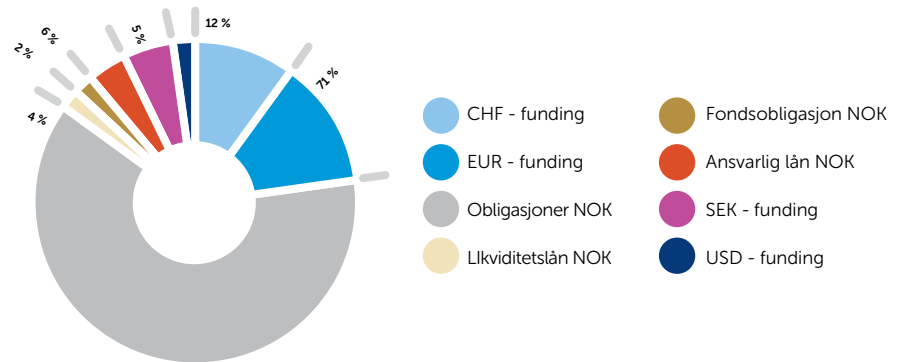
Management of the Group's financial structure is based on an overall liquidity strategy that is reviewed and approved by the Board at least annually. Liquidity risk is reduced by the diversification of funding over several markets, funding sources, instruments and maturities. Funding exposure increases as the concentration of maturity dates increases. An attempt is made to limit this risk through defined limits.

At year-end 2016, the Group had obtained 72% of its funding from the Norwegian market and 28% from the international market.

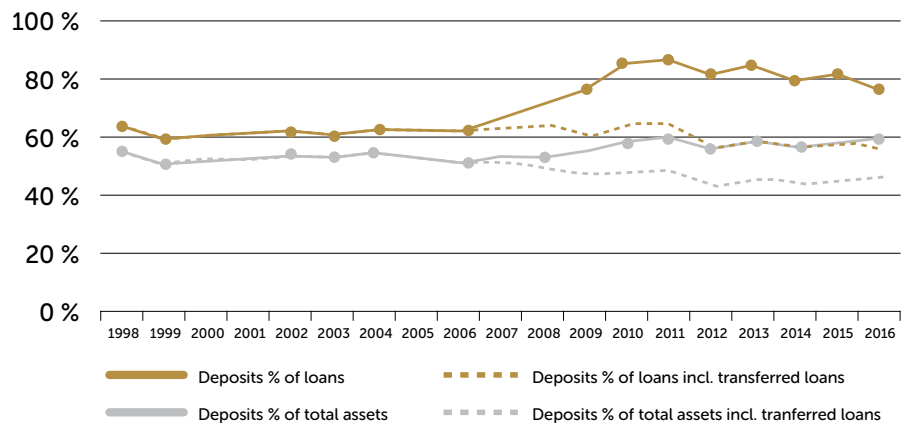
The Group's most important source of funding is customer deposits. The deposit coverage ratio was 76.1% for Group as at 31/12/2016, compared with 75.1% and 74.7% one and two years ago, respectively.

The Parent Bank is responsible for the funding of all activities in the Group. Good growth in deposits and the utilisation of the covered bond scheme, with the transfer of

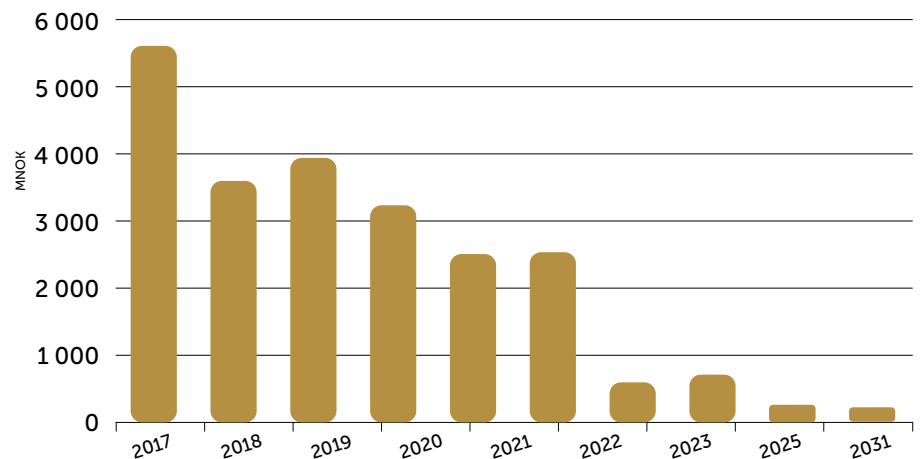
The Group's funding sources by type of borrowing



Development of internally generated funding, Parent Bank



The funding portfolio's maturity structure by maturity



home mortgages with good security to SpareBank 1 Boligkreditt AS, have proved a great help in significantly improving the Parent Bank's self-funding in recent years.

The Group's liquidity situation as of 31/12/2016 was deemed good. Between year-end 2015 and year-end 2016, transfers of home mortgages to SpareBank 1 Boligkreditt increased by around NOK 1,200 million and provided a correspondingly positive liquidity effect. At the year-end, the Bank had transferred NOK 25.5 billion to SpareBank 1 Boligkreditt AS. The Bank's ability to transfer well-secured home mortgages to SpareBank 1 Boligkreditt AS will also have a positive effect on funding requirements in the future.

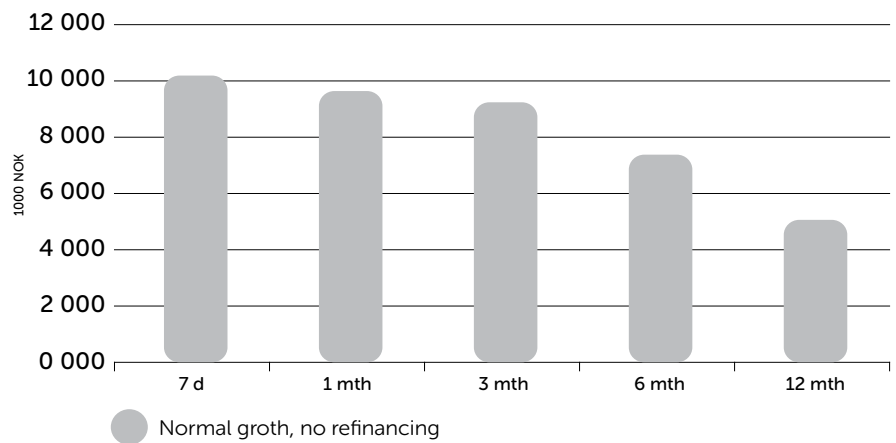
The actual surplus liquidity at the end of the year was NOK 20.3 billion, defined as cash and cash equivalents in Norges Bank, Level I and Level II papers, and home mortgage loans ready for transfer to SpareBank 1 Boligkreditt AS. Of the Group's total funding volume of NOK 22.5 billion at the end of the year, NOK 5.6 billion will be refinanced in 2017. As of 31/12/2016, the Bank's capital market funding had a weighted term to maturity of 2.87 years.

The Board focuses heavily on predictability and stability. One important goal is to prevent random events having serious consequences for the Group's ability to meet payments. The Group's goal is to ensure that the Bank can, under normal circumstances, survive for 12 months without new, external funding. The Group has a contingency plan for handling bank-specific and market-related crisis scenarios.

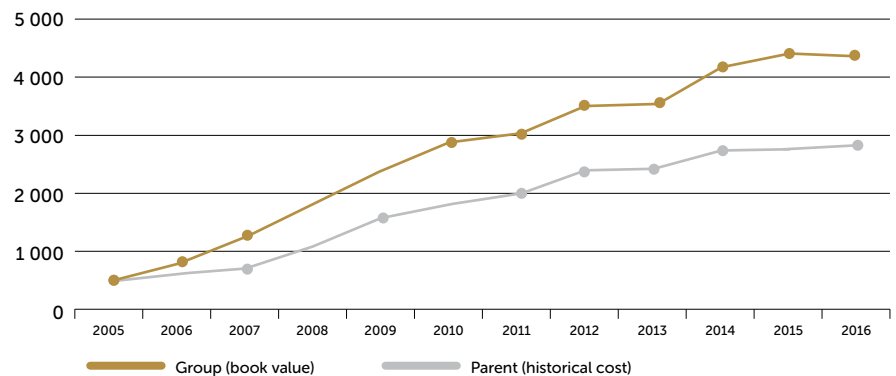
The objective in the case of 'failing refinancing' is survival for 12 months without access to external funding. The result of the test shows positive liquidity per 12 months of NOK 5.1 billion.

The Group uses the Financial Supervisory Authority of Norway's definition as its basis for calculating Liquidity Indicators 1 and 2.

Refinance Net



Development associates



These are ratios that state how large a proportion of the Bank's liquid assets have long-term financing with maturity of more than one year or one month. The indicators are calculated on a consolidated level, i.e. the model takes account of the volume transferred to the mortgage companies, covered bond swap scheme with the government, and long F-loans from Norges Bank. As at 31/12/2016, Liquidity Indicators 1 and 2 amounted to 113.3% and 120.9%, respectively.

The Group's Treasury Department is responsible for liquidity management, whereas the Risk Management Department monitors compliance with the limits. The status of the limits adopted by the Board is reported to the Board every month.

Ownership risk

The risk of losses in associated companies is related to the risk that the individual company assumes in its operations, as well as the risk of a need for the injection of fresh capital into one or more of these companies.

The risk related to stakes in associated companies is significant. This entails an increased risk of volatility in the Bank's earnings and effects on the capital adequacy ratio.

Associated companies are important to the Bank's overall business model, and the Bank continuously assesses which stakes are strategically important and which interests can be classified as financial investments. The Group's income from these

companies was recognised at NOK 369 million for 2016. The result for 2015 was NOK 399 million.

The book value of stakes in associated companies is substantial, and the figure below shows the development of the book value for the Parent Bank and the Group. Underlying values in the SpareBank 1 Group are well above book value in the Group's financial position statement.

The risk in the various companies is moderate, but the Bank is indirectly exposed to a higher market risk through its stake in the SpareBank 1 Group.

Business risk

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

Business risk manifests itself by an unexpected weakening in earnings. This decline may be attributed to competitive conditions that result in lower volumes and pressure on the prices, competitors that introduce new products, government regulations or negative media coverage. A loss arises if the Group is unable to adapt its costs to such changes.

Good strategic planning is the most important tool for reducing business risk. Reputation risk is governed through policies and business activities, including compliance.

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

Compliance risk

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

The Group stresses the importance of good processes to ensure compliance with the current laws and regulations. Effective means include:

- clear values that are clearly communicated and understood throughout the organisation
- a process to identify, communicate and implement changes in acts and regulations
- a process to follow-up and report compliance with laws and regulations

Comprehensive external laws and regulations, new directives and rules, and increased digitalisation require a high focus on the part of the Group to ensure good implementation and compliance. The task of the Group's Compliance Committee is to ensure that new regulatory framework conditions are caught and distributed to the responsible managers in the organisation. The committee must also ensure the implementation and follow-up of the measures required to ensure that the Group is in compliance when the new framework conditions come into force. The Compliance Committee works with the Compliance Department and the Risk Management Department to ensure good, comprehensive management. Status and progress are regularly reported to the executive management team and the Board.

Capital management

SpareBank 1 Nord-Norge's capital management process shall ensure to the greatest possible extent:

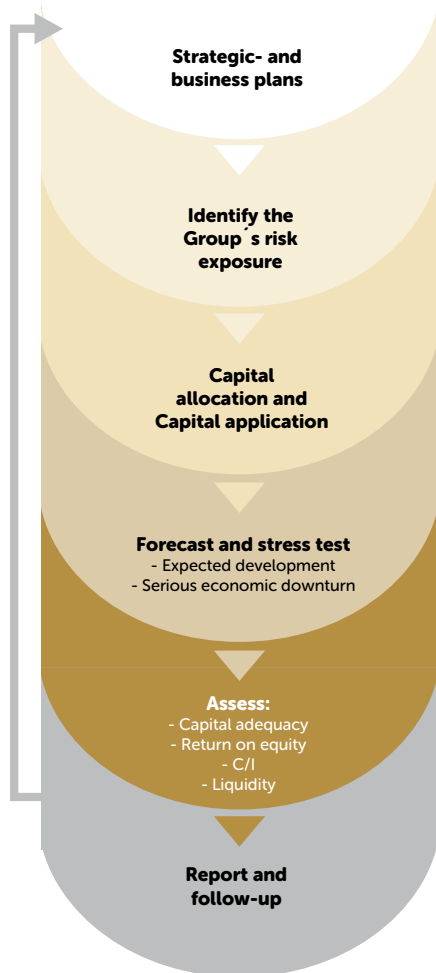
- efficient procurement and application of capital in relation to the Group's strategic target and adopted business strategy
- a competitive return
- a satisfactory capital adequacy ratio based on the chosen risk profile
- competitive terms and a good long-term supply of funding from the capital markets
- that the Group manages at least to maintain its current international ratings
- exploitation of growth opportunities in the Group's defined market area, and
- that no single incident is able to seriously damage the Group's financial position

It is a long-term goal in the adopted business strategy that the risk-adjusted capital should, insofar as it is possible, be allocated to areas that provide a satisfactory risk-adjusted return. Prudent capital allocation is a result of, and basis for, the Group's other targets (for growth, profitability and financial strength; often expressed as 'healthy growth' or return on risk adjusted capital).

SpareBank 1 Nord-Norge is subject to minimum capital adequacy and financial strength regulations through legislation. The EBA (European Banking Authority) has issued guidelines for supervisory authorities on when they are to assess the institutions' processes for the management of risk and capital requirements in the form of an internal capital adequacy assessment process (ICAAP).

The Board is responsible for initiating the ICAAP process and capital planning, as well as approving the structure and methods chosen. The Board is also responsible for setting targets for the Group's capital level that are tailored to the risk profile and commercial framework conditions.

This process is an integral part of the Group's overall risk management:



The capital management process shall:

- be risk driven and encompass all significant types of risk in the Group
- Be an integral part of the business strategy, management processes and decision-making structure
- be forward-looking
- be based on recognised and reassuring methods and procedures for the measurement of risk
- be reviewed at regular intervals, at least once a year, by the Board

Forecasts and stress tests

Processes and models for stress tests are key in the assessment of the Group's long-term capital requirements. The purpose of this is to identify conditions that can negatively affect the risk picture and capital adequacy. The stress tests shall include all significant elements of the risk picture and an assessment of the impact on the Group's financial strength.

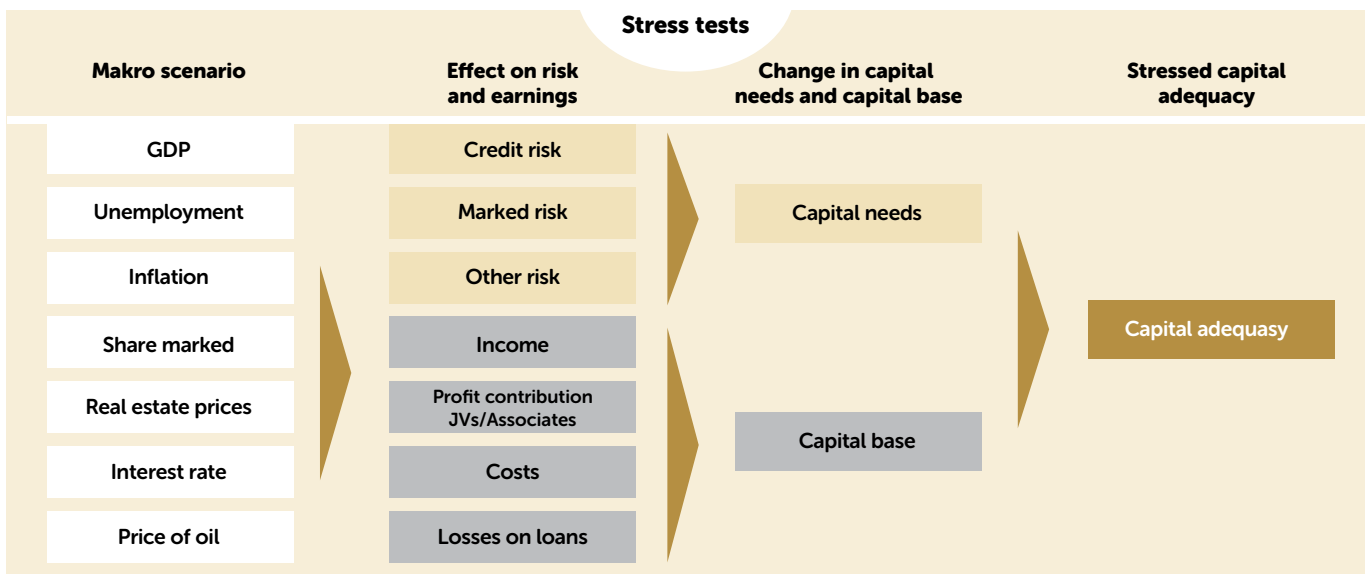
The stress tests should represent conditions that may occur and which SpareBank 1 Nord-Norge should make allowances for with respect to long-term operations. The assessment and determination of the necessary capital requirements and analyses of future growth plans and strategies are included in an overall risk assessment.

Risk measurement and risk-adjusted capital

Internally the Group uses risk-adjusted capital as a measure for calculating risk.

Risk-adjusted capital indicates how great a loss an enterprise may incur under extreme conditions. The calculation of the risk-adjusted capital is a key element in the assessment of the Group's need for equity to operate in a responsible manner. Risk-adjusted capital allows risk to be compared across types of risk and business areas.

SpareBank 1 Nord-Norge's goal is to maintain unquestionable financial strength and satisfy the statutory minimum equity requirements for capital adequacy. The Group's goal for the common equity tier 1 capital ratio is currently 14.5%. This includes a management buffer of one and a half percentage points relative to the regulatory minimum requirements as at 31/12/2016. The common equity tier 1 capital ratio is 15.0% as at 31/12/2016, and the Group's financial strength is considered good in relation to the current regulatory minimum requirements.



New regulatory requirements

A number of new rules were proposed and/or introduced in the financial markets area in 2016 and a considerable amount of regulatory work is still being done in the area, both internationally and in Norway. The following areas were subject to new or revised regulations:

Leverage ratio

On 20/12/2016, the Ministry of Finance set new requirements for the leverage ratio effective from 30/06/2017. If the requirement is breached, a plan for the capital increase has to be sent to the Financial Supervisory Authority of Norway. A general minimum requirement of 3% is being introduced, in line with the Basel Committee recommendation and the European Commission proposal. Norwegian banks must also have an unweighted tier 1 capital buffer of at least 2%, and the systemically important banks have to maintain an equivalent buffer of 3%. The overall requirement of 5 or 6% also has to be met at the consolidated level. Unweighted capital shares also have to be reported where they are consolidated into 'cooperating groups'.

Continuation of tighter mortgage regulation

The earlier guidelines from the Financial Supervisory Authority of Norway for loans secured against residential property were replaced in June 2015 by regulatory provisions. This entered into force on 01/07/2015 and was to run until 31/12/2016. Based on a proposal from the Financial Supervisory Authority of Norway, the Ministry of Finance decided on 14/12/2016 to continue with a tighter mortgage regulation from 01/01/2017 to 30/06/2018. Requirements have been introduced to the effect that total debt may not exceed five times gross annual income, and mandatory deductions come in where the loan to value ratio exceeds 60% (previously 70%). The flexibility quota of up to 10% of new lending volume every quarter is retained, but for loans secured against residential property in Oslo, the quota has been reduced to 8%. The loan to value ratio may not exceed 60% for repayment loans secured against second homes in Oslo either.

SMB discount

Finance Minister Siv Jensen announced in December that the so-called SMB discount would be introduced in Norway. The SMB discount means that banks' capital requirements for commitments up to EUR 1.5 million with small and medium-sized enterprises (businesses with turnover not exceeding EUR 50 million) are reduced by 23.81%. For banks that use internal models to calculate their capital requirement (IRB banks), the SMB discount will however have no practical impact because the capital requirement according to the Basel I floor exceeds the capital requirement calculated from the internal models. No proposals for Norwegian regulatory provisions or implementation dates have been published as yet. Within the EU, the SMB discount was originally intended as a temporary arrangement, but the European Commission proposed in November to retain the discount and to extend it to cover a reduction in the capital requirement of 15% for the part of the commitments over EUR 1.5 million.

Counter-cyclical capital buffers

Norwegian rates will be applied for countries that have not defined a counter-cyclical capital buffer. On 15/12/2016, the Ministry of Finance decided, in keeping with advice from Norges Bank and the Financial Supervisory Authority of Norway, that the level of the counter-cyclical capital buffer requirement for banks should be increased to 2% from 31/12/2017. The increase is a response to increased systemic risk resulting from growth in house prices and household debt. It is worth noting that the reference values for the buffer requirement, which are based on the ratio between total credit and GNP and the gap between this value and its long-term trend (cf. EU 'buffer guide'), viewed in isolation, produce a reduced counter-cyclical capital buffer. The administration finds that Norway is the country with the biggest gap between the actual counter-cyclical capital buffer and the calculated reference value.

Financial Institutions Regulation

The Financial Institutions Regulation was adopted in December. This is a consolidated regulation to 'tidy up' the existing regulations following the new Financial Institutions Act. A number of existing regulations have now been repealed.

Banking Law Commission report on guarantee schemes and crisis management

At the end of December, the Banking Law Commission submitted its report on new draft legislation on deposit guarantee schemes and crisis management in the banking sector. Along with provisions in deposit guarantee schemes, the new rules also include provisions on crisis funds, contingency and disaster recover plans and rules on writing down or converting primary capital and normal liabilities ('bail-in').

Pillar 2

Capital requirements arising from pillar 2 have steadily gained in importance. Norwegian banks have therefore worked actively together with Norwegian authorities for a long time to ensure satisfactory and transparent processes in this area. The Financial Supervisory Authority of Norway announced its methods for the pillar 2 process early in 2016, along with principles for discussions with individual banks. The pillar 2 measures for the individual banks were published in the autumn, as an element of this increased transparency. At the end of 2016, 29 such individual measures had been announced.

For SpareBank 1 Nord-Norge, it was decided that the pillar 2 requirement should be 1.5% of the risk-weighted balance sheet. Although there are still a few major improvements desired by the industry, particularly in relation to the individual bank's access to the Financial Supervisory Authority's calculations and base data, we believe that the practice as implemented has improved both predictability and transparency in the pillar 2 process.

Debt register

Consumer loans were high on the agenda with the media, authorities and politicians in the autumn and winter. Before the new year, the Ministry of Children and Equality ran a consultation process on a proposed law establishing a debt register. The proposed debt register will only cover unsecured debt. It is proposed that the debt register should be privately-run, based on a licence from the Ministry and possibly also from the Norwegian Data Protection Authority. All unsecured debt must be registered, and the registration requirement applies to anyone who offers such unsecured credit in Norway.

Liquidity requirements in significant currencies

The Ministry of Finance has circulated a proposal for consultation to legislate for a liquidity reserve in significant currencies. In brief, it is proposed that:

- Firms that have 'only or principally' Norwegian kroner as a significant currency (commitments in a currency making up more than 5% of the firm's total debt) will have a requirement in NOK equal to the minimum requirement at the total level, i.e. 70% this year, 80% from 31/12/2016 and 100% from 31/12/2017. For systemically important institutions, the requirement is already set at 100%.
- The Supervisory Authority also proposes that firms that have the euro and/or the dollar as significant currencies should have a liquidity coverage ratio (LCR) in NOK of at least 50%. Any shortfall in NOK must be covered with liquid assets in EUR and/or USD.
- For other significant currencies, the LCR requirement should follow the minimum requirement at the total level.

Changes in the consolidation rules for the Basel I floor

Before Christmas, the Ministry of Finance adopted changes to the consolidation rules for IRB banks that have interests in insurance companies. The new rules mean that, when determining the basis for calculating the Basel I floor, one should reduce this by the same amount by which tier 1 capital has been reduced to reflect the shareholding in the insurance company. The portion of the holding that has not been deducted from tier 1 capital should be risk-weighted at 250%. In practice, this means that such holdings will be treated in the same way under both Basel III and Basel I.

Proposal for a new Money Laundering Act

The Money Laundering committee published its latest interim report before Christmas. Among other things, the proposal for a new Money Laundering Act and an Act to establish a register of beneficial owners provides for stricter rules on risk assessments and procedures, customer measures and processing of personal data.

Financial tax

There is agreement in the Norwegian Parliament (Storting), as part of the 'fiscal consensus', to introduce a financial tax because financial services are not subject to VAT. The financial tax, which was adopted as part of the national budget, will be introduced as an increased employers' contribution and as a higher tax rate on profits. For more detailed comments, refer to the report of the Board of Directors.

Shadow rating

The European Securities and Markets Authority (ESMA) has strongly indicated that the practice of publishing so-called 'shadow ratings' may conflict with the Credit Rating Agencies Regulation (CRAR). Most Norwegian banks and securities firms have therefore dropped this practice already.

CRD V/CRR II (Capital Requirements Directive/Capital Requirements Regulation)

In November, the European Commission presented a package (CRD V and CRR II) of proposed amendments to the Capital Requirements Directive and the Capital Requirements Regulation. On the one hand, this covers the implementation of outstanding parts of Basel III and the introduction of updated Basel standards in many areas. This part of the package includes a requirement for a minimum 3% leverage ratio, a requirement for a 100% net stable financing ratio (NSFR), and the introduction of new Basel standards for counterparty risk, market risk, equity investments in securities funds and exposures to key counterparties. Changes are also proposed such that the threshold for large commitments should only be calculated from tier 1 capital.

The package also included a number of proposed changes in other areas:

- The requirement for minimum total loss-absorbing capital (TLAC) will be introduced for European G-SIBs
- The SMB discount will be retained and extended (see notes above)
- Infrastructure investments will attract a 25% capital requirements discount
- The principles for pillar 2 and the maximum percentage of profits that can be distributed will be clarified
- IFRS 9: transitional arrangements for implementation effects
- Simplifications for smaller banks in the areas of market risk, counterparty risk, pillar 3 and remuneration

OWNERSHIP

The Bank's equity – ownership breakdown

SpareBank 1 Nord-Norge has two owner groups: As at 01/01/2016, the Bank's equity certificate holders owned 46.36% (equity certificate fraction) of the Bank's equity capital through equity certificate capital, while 53.64% was community-owned. SpareBank 1 Nord-Norge's equity certificate capital totals NOK 1,807 million, divided into 100,398,016 equity certificates, each with a nominal value of NOK 18. The Bank's equity certificate is listed on the Oslo Stock Exchange. The number of shareholders was 7,465 as of 31/12/2016, against 7,641 on 31/12/2015.

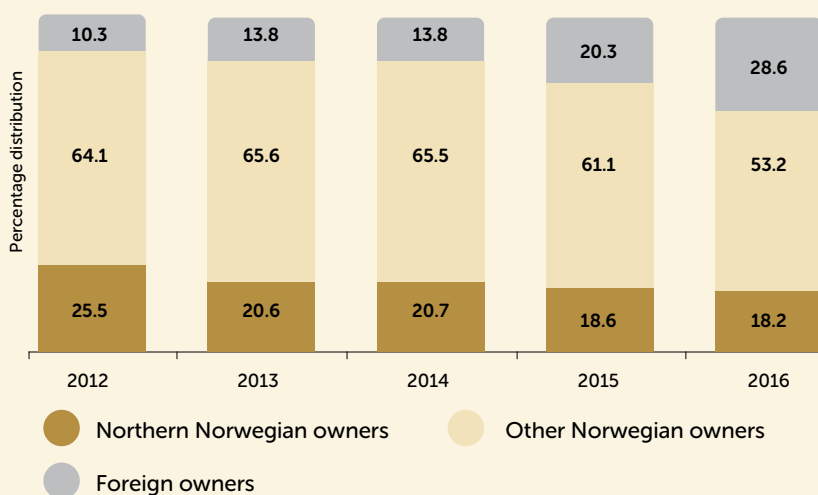
The number of shareholders from Northern Norway decreased from 2,580 at the end of 2015 to 2,440 at the last year-end. These then accounted for 18.2% (18.6%) of the total equity certificate capital. The Bank still hopes to increase the number and percentage owned by northern Norwegian equity certificate holders, and has for many years also promoted employee ownership of the Bank. This has been accomplished through the sale of equity certificates to employees at a discount, and by private placements to employees.

The proportion of equity certificates belonging to foreign investors has increased in recent years to 28.6% as of 31/12/2016.

Note 23 includes a summary of the equity certificates owned by the Bank's managers and elected officers. The table provides an overview of the 20 largest equity certificate holders and the change in the number of certificates in the last year.

With its ownership and dividend policy, the Bank wants the equity certificates to be viewed as an attractive and liquid financial instrument. It aims to ensure that the management of the Group's resources results in a good and competitive long-term return on the Bank's equity in relation to comparable investments and given

Percentage geographical ownership – equity certificate holders



Equity Certificate holders	Number of Equity Certificates	Share of total Equity Certificate capital	Change in number of ECs
Pareto Aksje Norge	3 448 699	3.44 %	-835 443
The Northern Trust Comp	3 151 670	3.14 %	1 028 451
MP Pensjon PK	2 720 503	2.71 %	0
FLPS - Princ All Sec Stock Sub	2 494 000	2.48 %	361 300
Verdipapirfondet DNB Norge (IV)	2 194 357	2.19 %	-1 129 623
Merrill Lynch Professional	1 914 360	1.91 %	395 565
Meteva AS	1 614 670	1.61 %	1 614 670
Forsvarets Personellservice	1 561 630	1.56 %	61 700
Pope Asset Management	1 445 501	1.44 %	1 445 501
Morgan Stanley and Co Intl PLC BNY	1 442 490	1.44 %	1 387 573
Sparebankstiftelsen	1 411 606	1.41 %	0
SpareBank 1 Nord-Norge	1 358 380	1.35 %	-643 452
State Street Bank and Trust Comp F	1 358 380	1.35 %	-643 452
DNB Livsforsikring ASA	1 026 778	1.02 %	-60 210
Eika Utbytte c/o	1 009 801	1.01 %	-94 990
Eika Kapitalforvaltning AS	1 009 801	1.01 %	-94 990
Perestroika AS	984 609	0.98 %	984 609
ParetoO AS	970 659	0.97 %	200 000
JP Morgan Chase Bank	827 968	0.82 %	769 880
Bergen Kommunale Pensjonskasse	817 000	0.81 %	-183 000
State Street Bank and Trust Comp West	816 511	0.81 %	48 632
State Street Bank and Trust Comp OM80	704 668	0.70 %	197 125
The 20 largest EC holders	31 915 860	31.79 %	5 548 288

the Bank's risk profile. For the Bank's equity certificate holders, the return will be in the form of a cash dividend and price appreciation.

The Group's total value creation in the same period is shown as the sum of the book value per equity certificate and cumulative dividend (adjusted for new issues and splits).

The Bank aims to ensure that it remains a savings bank with a significant share of community ownership. Furthermore, it aims to treat the Bank's two groups of owners equally in accordance with the intentions of the current legislation. This means that the Bank will seek to avoid unwanted sa

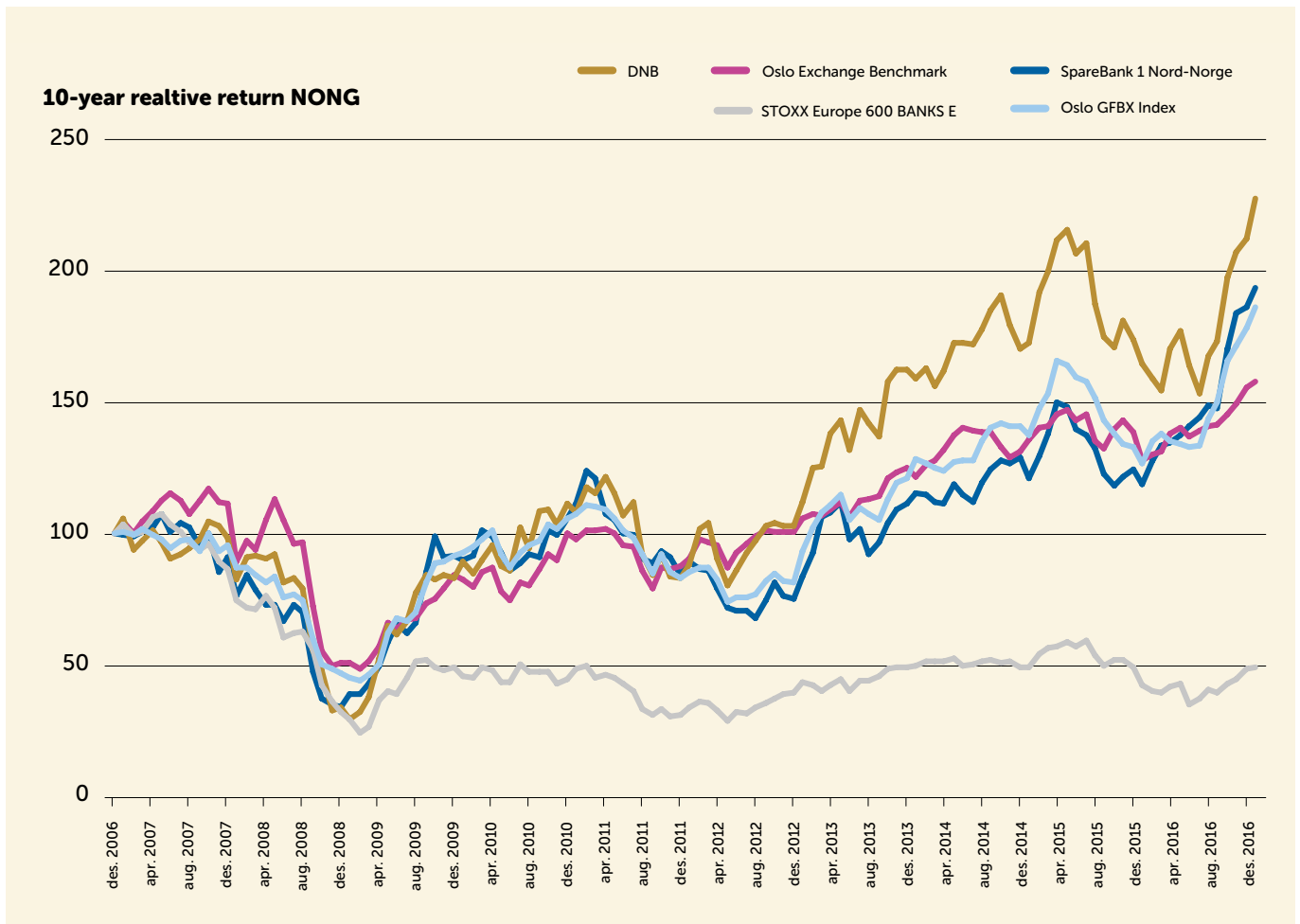
turation and dilution effects as a result of treating the two groups of owners differently.

The profit for the individual year will be divided between the ownership groups in accordance with their relative share of the Bank's equity. As far as possible, dividends will be fixed so that each group of owners receives a proportionally equal share of the profit as dividends. This will consist of cash dividends for equity certificate holders and funds /grants for socially beneficial purposes.

The previous maximum dividend rate of 50% has been removed from the Bank's dividend policy. The target dividend rate for 2017 is at least 50%.

For the 2016 financial year, an equal distribution rate will be applied to both groups of owners. The equity certificate holders' proportion of the equity (ownership fraction) of 46.36% therefore remains unchanged from 01/01/2016.

Sparebankstiftelsen SpareBank 1 Nord-Norge is a charitable foundation, and is also one of the Bank's largest equity certificate holders. The main purpose of the foundation is to be a long-term and stable owner of SpareBank 1 Nord-Norge, and it has been allocated funds from the Bank through shares in the cash dividend to social capital for many years. Please refer also to the section about the foundation in the Report of the Board of Directors.

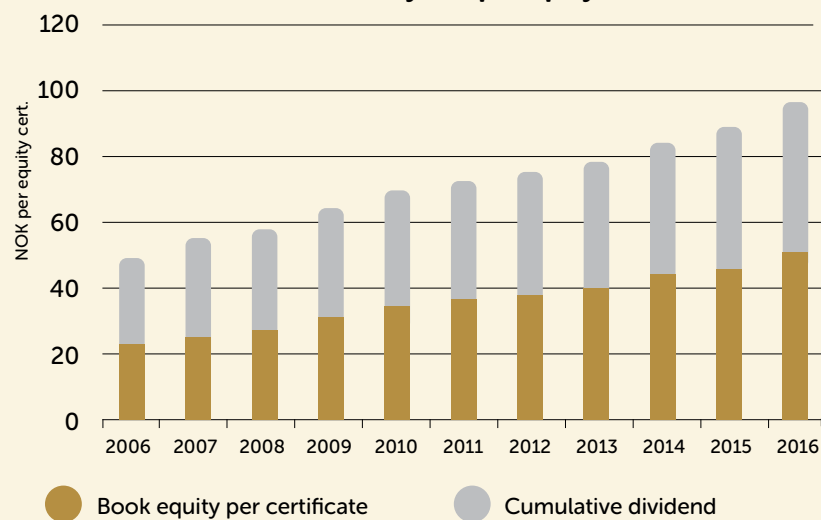


The highest and lowest prices for the Bank's equity certificate in 2016 were NOK 53.75 and NOK 31.50 respectively.

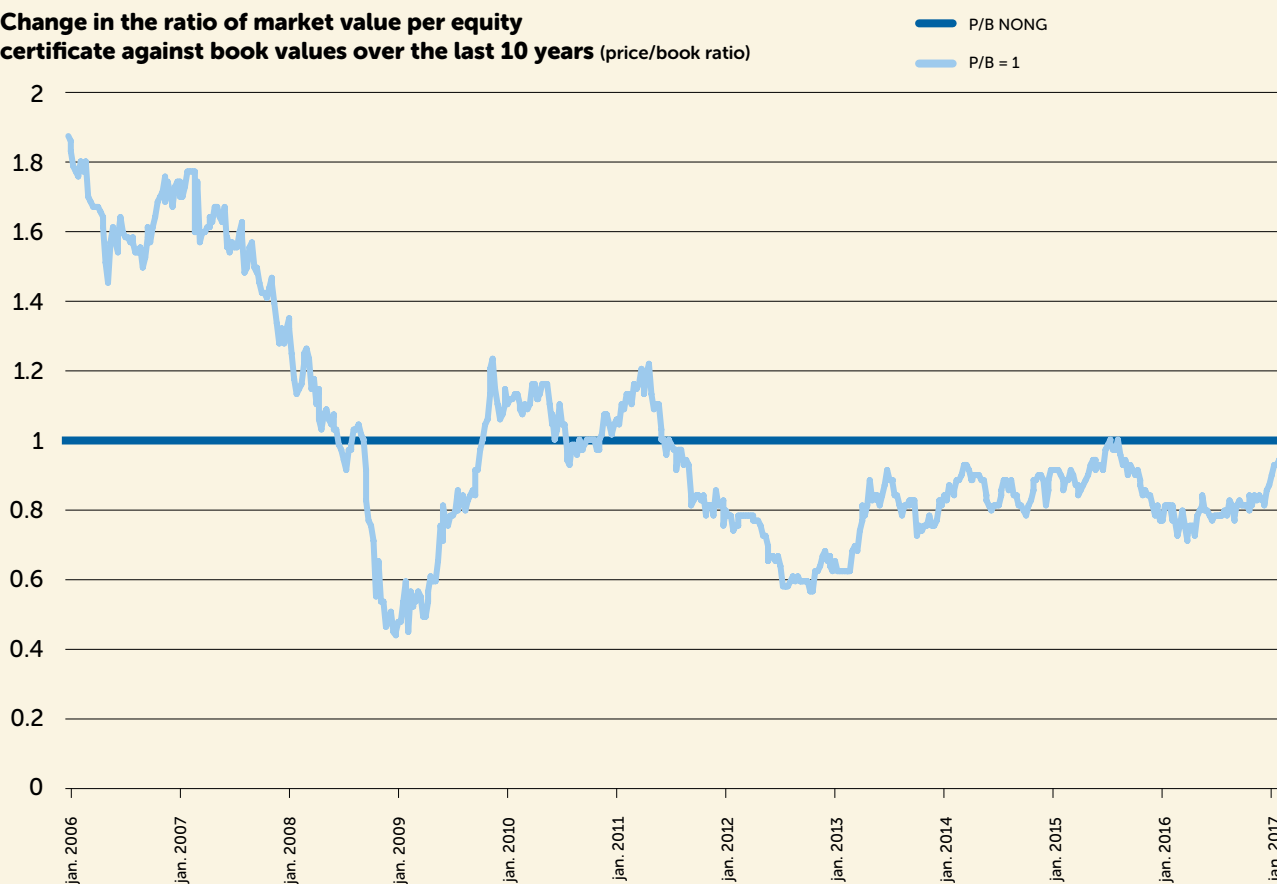
29,228,359 equity certificates were traded on the Oslo Stock Exchange in 2016, against 39,280,941 in 2015. An increasing number of equity certificates are also traded in other marketplaces.

In autumn 2016, SpareBank 1 Nord-Norge entered into a pilot agreement with SpareBank 1 Markets on a liquidity facility for the equity certificate.

Cumulative value creation, last 10 years, per equity certificate



Change in the ratio of market value per equity certificate against book values over the last 10 years (price/book ratio)



Key figures	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Quoted/market price as at 31.12 (adjusted) (1)	39.97	13.85	34.62	37.76	28.90	24.70	35.50	39.90	36.70	52.25
Number of Equity Certificates (EC) issued (mill) (2)	53.43	56.92	56.92	56.92	74.00	74.40	100.40	100.40	100.40	100.40
Quoted/market price EC issued (mill) (3)	2 135	788	1 970	2 149	2 139	1 837	3 564	4 006	3 685	5 246
Quoted/market price total equity (4)	6 494	2 282	5 704	6 223	5 083	4 418	7 530	8 464	7 948	11 315
Allocatde dividend per EC (5)	2.99	0.94	2.12	1.81	1.25	1.02	1.10	1.90	2.00	3.45
Paid-out dividend per EC	3.15	2.99	0.94	2.12	1.81	1.25	1.02	1.10	1.90	2.00
Dividend yield (6)	7.5 %	6.8 %	6.1 %	4.8 %	4.3 %	4.1 %	3.1 %	4.8 %	5.4 %	6.6 %
Total yearly return (7)	-8.4 %	-57.9 %	156.8 %	15.2 %	-18.7 %	-10.2 %	47.9 %	15.5 %	-3.3 %	47.8 %
Total equity capital Parent bank	3 566	3 656	4 247	4 547	5 264	5 589	7 200	7 735	8 198	9 336
Total equity capital Group, NOK mill	4 104	4 458	5 160	5 670	6 408	6 832	8 502	9 343	9 961	11 011
Equity capital per EC Parent bank (8)	29.43	27.87	31.09	34.59	29.93	31.24	33.94	36.46	37.86	43.11
Equity capital per EC Group (9)	25.26	27.05	31.31	34.41	36.43	38.19	40.08	44.05	46.00	50.84
Result per EC Parent bank (10)	4.39	2.08	5.41	4.93	2.28	2.91	3.91	3.50	3.44	6.72
Result per EC Group (11)	4.50	2.09	5.21	4.95	2.75	3.36	4.13	5.16	4.11	5.83
P/E (Price/Earnings per EC Group) (12)	8.88	6.62	6.64	7.63	10.51	7.34	8.59	7.73	8.93	8.96
P/B (Price/Book Value per EC Group) (13)	1.58	0.51	1.11	1.10	0.79	0.65	0.89	0.91	0.80	1.03
Pay-out ratio Group (14)	68.06 %	45.39 %	39.29 %	36.69 %	54.88 %	35.14 %	26.62 %	36.81 %	48.65 %	59.16 %
EC ratio overall as at 31.12 (15)	32.8 %	34.54 %	34.54 %	34.54 %	42.07 %	41.59 %	47.33 %	47.33 %	46.36 %	46.36 %
EC ratio overall as at 01.01 used for allocaton of result (16)	34.19 %	34.22 %	34.54 %	34.54 %	38.74 %	42.07 %	42.91 %	47.33 %	47.33 %	46.36 %

* Calculation per quarter end.

Comments/definitions:

1) Quoted/market price	Quoted/market price adjusted for equity issues, fund issues, dividend issues and splits. All key figures are adjusted with the same factor as the quoted/market price
2) Number of Equity Certificates (EC) issued (mill)	Number of certificates issued as of 31.12 adjusted as 1)
3) Quoted/market price EC issued (mill)	Market price * number of ECs
4) Quoted/market price total equity	Market price * number of ECs/ EC ratio overall
5) Allocated dividend per EC	Allocated dividend adjusted as 1)
6) Dividend yield	Allocated dividend/Market price EC as at 31.12
7) Total yearly return	(Market price EC 31.12 - market price EC 31.12 previous year + paid dividend)/Market price EC 31.12
8) Equity capital per EC Parent Bank	Book equity Parent Bank*EC ratio overall/Number of EC 31.12
9) Equity capital per EC Group	Book equity Group*EC ratio overall/Number of EC 31.12
10) Result per EC Parent Bank	Anualised result after tax Parent Bank*EC ratio overall 1.1/Number of EC 31.12.
11) Result per EC Group	Anualised result after tax Consern*EC ratio overall 1.1/Number of EC 31.12
12) P/E (Price/Earnings per EC Group)	Market price 31.12/Result per EC Group
13) P/V (Price/Book Value per EC Group)	Market price 31.12/Book value per EC Group
14) Pay-out ratio per EC Group	Dividend per EC/Result per EC Group
15) EC ratio overall as at 31.12	EC-owners share of equity capital (Parent Bank), calculated at year end
16) EC ratio overall as at 01.01 used for allocation of result	EC-owners share of equity capital (Parent Bank), used for allocation of result of the year

OPERATIONS

SpareBank 1 Nord-Norge provides comprehensive, modern financial solutions to customers based in the northern Norwegian market. The Group runs its core business through 16 local financial centres and 20 bank branches that offer advice and services from the Group's entire product range.

SpareBank 1 Nord-Norge is an independent financial services group and part of the SpareBank 1 Alliance. Being part of a national alliance ensures effective technological development and competitive terms and conditions.

In 2016 the Group acquired its first digital assistants. These perform tasks that used to be manual, and contribute to greater efficiency and free up more time to advise customers.

Lending- and deposit growth

The competition for loan customers remains strong and puts pressure on interest terms. Nevertheless, the Group's total interest income increased by NOK 132 million compared to 2015. Lending margins decreased slightly in the course of 2016, but this was offset by increased deposit margins and lower financing costs in the money markets.

The establishment of sixteen complete financial centres has improved the capacity and expertise at the branches. Here we have brought together the Group's subsidiaries and the day-to-day banking functions. They provide expertise, products and solutions at the local level. The Group has become even more accessible to its customers.

RETAIL BANKING MARKET

Savings and insurance

The Group is making determined efforts to increase the proportion of income from products other than ordinary loans and credits. At the same time, customers are becoming increasingly interested in accessing the entire range of financial services via a single provider.

Savings and investment advice is becoming increasingly important for the Group's customers. The Alliance launched a number of different savings and investment products during 2016. The need for good advice on different forms of saving is increasing, especially with respect to long-term saving for pensions.

The Bank has been very successful at selling P&C and personal insurance, even though the insurance market remains highly competitive. There is a rapidly growing trend in which customers buy some products digitally themselves. In order to satisfy this demand, many new and simple, digital purchasing solutions have been adopted. Customers are increasingly interacting with the Bank via their mobile phones.

Lending and deposit growth

Northern Norwegian household credit has grown by 6-7% in the last few years, roughly the same as the rest of the country. Based on developments in the housing market, the growth in 2016 has been estimated at around 6.4%. The annual growth in the Group's retail market lending, including loans transferred to SpareBank 1 Boligkreditt, was 9.0% in 2016.

There is strong competition for the best retail customers; however, the Bank remained competitive in this market throughout 2016. The Bank's borrowing costs were reduced during the year. Earnings in the retail market remain good.

Deposit growth in households across the whole country has stood at 4 to 6% for many years, but in Northern Norway it has been well above this level for the last three years. The Group's bank deposits from retail customers have been developing well for many years and grew by 6.8% in 2016. Loyalty to the Bank appears strong. Even though the competition is intense, customers are choosing to stick to 'their' bank as long as it offers the right terms in relation to the market.

Interest rates were low and stable throughout 2016. Good private finances and very little unemployment have contributed to defaults and losses staying at a stably low level. The loan portfolio in the retail market carries very low risk. It is nevertheless worrying that retail customers in Norway are continuing to increase their personal debt. However, customers are well equipped to handle both slightly higher interest rates and a fall in housing prices.

BALANCE-SHEET CHANGES

Balance-sheet changes (Amount in NOK million)	31.12.16	31.12.15	Changes	Changes in %
Total assets	90 501	85 403	5 098	6 %
Gross lending	70 763	64 053	6 710	10 %
Lending to customers incl. intermediary loans	96 287	88 403	7 884	9 %
Deposits from customers	53 870	48 087	5 783	12 %

The Group's gross lending (including transferred mortgages) and deposits as of 31/12/2016.

LENDING AND DEPOSIT GROWTH

Percentage growth	2013	2014	2015	2016
Retail market lending	8.40 %	6.10 %	6.50 %	9.0 %
Retail market deposits	6.10 %	9.10 %	6.20 %	6.80%

CARD USE

Number of transactions in millions	2011	2012	2013	2014	2015	2016	Change in %
Cards used in payment terminals	40.70 %	44.40 %	48.10 %	50.90 %	49.10 %	45.80 %	-6.70 %
Card transactions abroad			4.60 %	5.30 %	5.90 %	6.80 %	16.30 %
Withdrawals from the Bank's ATMs	3.30 %	3 %	2.80 %	2.60 %	2.40 %	2.10 %	-12.50 %

More efficient payment solutions and payments using mobile phones

The prevalence of payment and credit cards is very high in the retail market. Using cards as a means of payment is increasing year-on-year, but the pace of growth is not as fast as before.

The proportion of redeemed transactions at the Bank's merchants continues to fall. The number of card transactions abroad is growing significantly due to both increased card use and a greater desire to travel. Cash withdrawals from the Bank's ATMs are falling steadily.

The digital solutions are seeing the strongest growth; customers are increasingly using self-service payment solutions online and via mobile phone.

mCASH

At the end of 2016 there were 510,000 unique users of the mCASH mobile payment service. On 13/02/2017, the SpareBank 1 Alliance announced that more than 100 banks would combine to establish one Norwegian operator for mobile payment services with an even better Vipps system.

Public sector

The Bank maintained its strong position in the public sector in 2016, although its market share was slightly down on 2015. Competition is particularly strong in the area of deposits, and prices have been falling in recent years. Profitability within the public sector still improved substantially in the course of 2016.

State-owned enterprises

At year-end 2016, SpareBank 1 Nord-Norge was the main bank for 13 state-owned enterprises. The agreement period expires in 2018.

CORPORATE MARKET

SpareBank 1 Nord-Norge wants to build a strong position as the preferred bank of the region's business sector. In 2016 the strategy paid off with substantial growth in deposits and lending. The relatively strong lending growth in the corporate market, especially with respect to the SME market, was in part due to the strategic prioritisation of this segment and in part due to positive market opportunities in the wake of competitors' branch closures. More than 25,300 companies now have a customer relationship with SpareBank 1 Nord-Norge. The majority are small and medium-sized companies. The Bank also has more than 14,800 clubs and associations in its customer portfolio.

In recent years, the Group has systematically focused on more efficient services and complete product packages for small and medium-sized companies. This focus generated good results in 2016. The proportion of large individual customers has fallen, while the growth has exclusively come from customers with lower borrowing needs. Profitability within the SMB market is satisfactory.

Good growth in deposits

The growth in deposits from companies in the region has been good for a number of years. After a decline in 2015, the Bank saw a significant growth of 8.8% in deposits in 2016. For Norway as a whole, growth was 7.7%. Businesses have built up their stocks of liquidity once more and are able to make investments.

THE BANKS PARTICIPATION IN THE LOCAL AUTHORITY SECTOR IN NORTHERN NORWAY

Region	Numer of municipal/country councils	SNN as the main bank	Marked share
Finnmark	20	16	79 %
Troms	21	18	85 %
Hålogaland	19	11	58 %
Salten	12	10	82 %
Helgeland	18	2	11 %
Total	90	57	63 %

The Group is also seeing positive results from offering alternative saving and investment opportunities in the corporate market.

Public sector deposits increased by 43.5% in 2016.

High lending growth in the corporate market (incl. public sector market)

Many industries in the region are generally experiencing a high rate of investment. House building and public investments have contributed to an especially high level of activity in the building and construction sector. The tourist industry and sectors with a high proportion of exports have seen both record sales and good profitability, helped in part by a weak Norwegian krone.

The Group's lending increased by 8.6% in 2016.

Risk trends

Business in Northern Norway has steadily improved its financial results over many years, which also has a positive effect on the calculated risk in the lending portfolio.

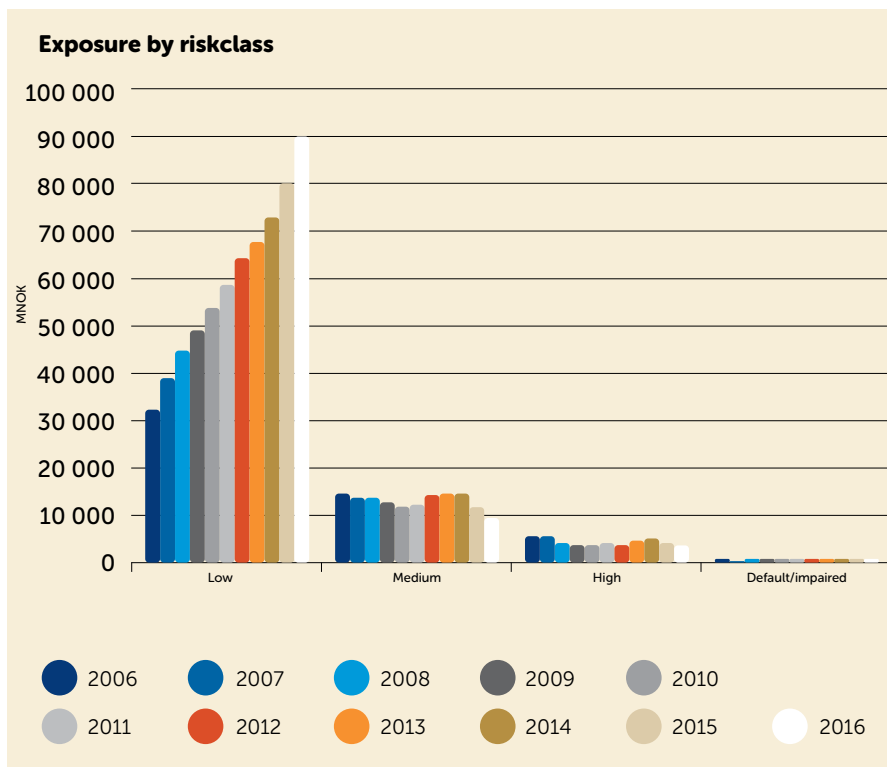
The Group's risk classification system indicates that the overall credit risk in the portfolio remains low. The general level of losses is expected to be moderate for the immediate future.

Loss trends

The Group's net losses on loans in 2016 totalled NOK 213 million, approximately NOK 13 million higher than the year before. The change is mainly due to a NOK 71 million increase in collective write-downs from 2015. For 2016, losses are equal to 0.22% of gross lending. Considering the general problems in the market resulting from low oil prices and the fact that most of the Group's losses are related to collective write-downs, the loss level for 2016 is regarded as moderate.

GOOD DEPOSITS GROWTH

Percentage growth	2013	2014	2015	2016
Corporate market lending (incl. pub.)	1.60 %	4.60 %	-2.90 %	8.60 %
Corporate market deposits	5.00 %	6.10 %	-0.50 %	8.80 %



Occupational pensions for the corporate market in 2016

The Bank enjoyed good growth in sales of pension-related products in 2016. New sales in the form of annual pension premiums totalling NOK 54.3 million represent growth of 15% compared to 2015. The increase comes from new defined-contribution contracts, increased savings or more savings agreements linked to existing agreements, and growth in the number of pension capital policies.

The Bank saw a net increase of 7 new defined contribution agreements in 2016 and a decrease of 20 defined benefit agreements, and now has 2,549 companies with occupational pension agreements. The growth in annual premium volume for contribution based pensions was NOK 27 million, an increase of 13% year-on-year. In 2016 there was an increase in conversion and cancellation in the occupational pension portfolio.

A total of 16,409 employees of northern Norwegian companies have occupational pensions through SpareBank 1 Nord-Norge; 920 more than in 2015. There is a growth of 6% in the number of members. Its market share among companies in Northern Norway is 23%. Many small and medium-sized businesses prefer SpareBank 1 Nord-Norge when choosing their occupational pensions provider.

The growth in the defined contribution pensions portfolio, measured by premium reserves, was 20%. This is equivalent to NOK 200 million. In addition to increased saving and new customers, the satisfactory return in the portfolio is one important reason for the good growth. The total portfolio has passed NOK 1.2 billion for defined contribution pensions and NOK 200 million for defined benefit schemes.

SPAREBANK 1 NORD-NORGE MARKETS

Organisation of the investment firm

In 2010, SpareBank 1 Nord-Norge's Board decided to establish SpareBank 1 Nord-Norge Markets (SNN Markets) as a division of the Bank.

The division's customer-facing activity comprises the following focal areas:

- Risk advice aimed at the corporate market
- Interest rate and currency trading
- Sale of Norwegian bonds and certificates, as well as bond market issues
- Purchase and sale of equities and fund units
- Trading in commodity derivatives
- Corporate services through a cooperation with SpareBank 1 Markets
- Order-driven trading and investment advice

The division works closely with the Group's other customer-facing operations. This is particularly true within the business customer segment and towards the wealthy savings segment.

All settlement and controlling functions are provided by Operations Support Capital Markets, which is also responsible for support and controller functions for SNN Forvaltning ASA and Treasury.

Following the establishment of SNN Markets, the investment firm has been assigned a bigger role. The division of responsibilities between SNN Markets and investment services in the regional offices has been clarified. At the same time, the establishment of Operations Support Capital Markets (back and middle office), actual managers and an independent compliance function, have strengthened the division of work and internal control.

In 2011, the Financial Supervisory Authority of Norway approved the organisation of the investment service business as an investment firm. Tom Robin Solstad-Nøis has been the director of Markets and actual manager of the investment firm's licensed investment services since June 2013.

SNN Markets works with SpareBank 1 Markets on trading systems and equity analyses. For more information about SpareBank 1 Markets, please see the comments in the Report of the Board of Directors.

2016 was a very active year with improved earnings in most areas. Total profits for the business areas within SNN Markets improved by around 26% to end at NOK 38 billion. Growth in the area of bonds contributed most to the increase in profits from the previous year.

Interest rates, currency and securities

SNN Markets' trading desk for currency, interest rates and securities consists of six people. The area's total income fell by NOK 11.2 million from 2015 to 2016. The most important reason for the big improvement in results was the positive development in the trade book for interest-bearing instruments. The other areas showed stable growth through the year, except for commodity hedging, where revenues were significantly lower than last year. The reason for this was the limited customer potential in this product area, making it especially vulnerable to fluctuations in the level of activity.

The securities business area comprises sales of Norwegian listed equities and exchange traded funds, bonds, primarily issued by Norwegian companies, nominated in NOK, and foreign equities. SNN Markets does not have its own equities analysis fun-

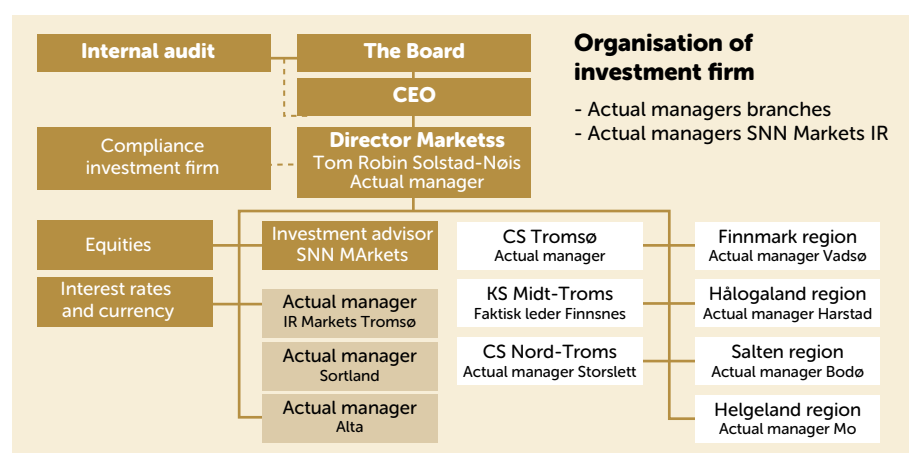
ction, but works closely with SpareBank 1 Markets' analysis services. A joint settlement function for all equities trading in the SpareBank 1 Alliance, except for SR-Bank, has also been delegated to SpareBank 1 Markets. Such trading is channelled through SpareBank 1 Markets' broker identity on the Oslo Stock Exchange. This collaboration is expected to result in cost savings and reduced vulnerability on the system and settlement sides.

The turnover of bonds was lower in 2016 than in the year before. This is due partly to regulatory factors and partly to an increased focus on fund-related products within investment advice.

There is still great interest in interest-bearing investments among high net worth retail and corporate customers in the region. The potential for good activity among the Group's customers should still be present in the future.

The activities take place in the following main areas:

- Currency hedging and spot trading
- Currency trading
- Currency financing
- Interest rate hedging instruments
- Raw materials hedging
- Interest-bearing securities such as bonds and certificates
- Securities (bonds and equities)



SPAREBANK 1 ALLIANCE AND SPAREBANK 1 GRUPPEN

The SpareBank 1 Alliance

The SpareBank 1 Alliance was formed in 1996. This is a banking and product partnership, in which the SpareBank 1 banks in Norway cooperate through the jointly-owned companies SpareBank 1 Gruppen and SpareBank 1 Banksamarbeidet DA.

The SpareBank 1 Alliance is Norway's second-largest finance group. The Alliance is made up of independent banks which are complete providers of financial products and services to private individuals, companies and organisations.

Customers should regard the SpareBank 1 Alliance as the best in terms of closeness, local identity and expertise. In all, the Alliance has approximately 7,000 employees. Around 1,200 of these are employed in SpareBank 1 Gruppen and SpareBank 1 Banksamarbeidet and their subsidiaries.

SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet collaborate within the Alliance. The aim of the collaboration within the Alliance is to provide attractive products and services focusing on a good customer experience. This should contribute to the SpareBank 1 banks' competitiveness and profitability, enabling them to remain strong and independent. The Alliance's vision is: Attractive for customers and for the banks.

SpareBank 1 Gruppen

SpareBank 1 Gruppen AS is wholly owned by the SpareBank 1 banks and the Norwegian Confederation of Trade Unions (LO), which own the following stakes:

SpareBank 1 SR-Bank (19.5%), SpareBank 1 Nord-Norge (19.5%), SpareBank 1 SMN (19.5%), Samarbeidende Sparebanker AS (19.5%), Sparebanken Hedmark (11%), SpareBank 1

Oslo Akershus (1.4%) and the Norwegian Confederation of Trade Unions (LO) and its affiliated unions (9.6%).

SpareBank 1 Gruppen owns 100% of the shares in the following subsidiaries:

- SpareBank 1 Forsikring
- SpareBank 1 Skadeforsikring
- ODIN Forvaltning
- SpareBank 1 Medlemskort
- SpareBank 1 Gruppen Finans
- Conecto (inkasso)

The companies develop and supply products to the Alliance banks, which then offer them to customers in their local markets.

Owners and alliance partners

SpareBank 1
SR-Bank

SpareBank 1
SMN

SpareBank 1
Nord-Norge

SpareBank 1
SamSpar

SpareBank 1
Hedmark

SpareBank 1
Oslo Akershus

LO/
LO forbund

SpareBank 1 Mobilbetaling AS
mCASH

SpareBank 1 Kredittkort AS
Credit card

SpareBank 1 Boligkreditt AS
Covered bond issuer

SpareBank 1 Næringskreditt AS
Covered bond issuer

SpareBank 1 Markets AS

BN Bank AS

SpareBank 1 Gruppen AS (SB1G)

SpareBank 1 Forsikring AS
Life insurance

SpareBank 1 Skadeforsikring AS
Non-life insurance

ODIN Forsikring AS
Fund management

SpareBank 1 Medlemskort AS
LOfavør

Conecto AS
Debt collection

SpareBank 1 Gruppen Finans AS
Factoring - Portfolio

Banksamarbeidet DA (BS)

EiendomsMegler 1 Norge AS

SpareBank 1 Kundesenter AS

SpareBank 1 Verdipapirservice AS

SpareBank 1 ID AS

SpareBank 1 Asept AS

SpareBank 1 Banksamarbeidet

SpareBank 1 Banksamarbeidet DA is owned by SpareBank 1 SR-Bank (18%), SpareBank 1 Nord-Norge (18%), SpareBank 1 SMN (18%), Samarbeidende Sparebanker AS (18%), Sparebanken Hedmark (11%), SpareBank 1 Gruppen (10%) and SpareBank 1 Oslo Akershus (7%).

SpareBank 1 Banksamarbeidet supplies business platforms and shared management and development services to the Alliance banks and their customers, and helps to ensure that joint development and activities provide the banks with benefits of scale and shared expertise. The company also owns and manages the Alliance's intellectual property rights under the shared brand name SpareBank 1.

SpareBank 1 Banksamarbeidet develops and delivers common IT/mobile solutions, brand and marketing concepts, business concepts, expertise, analyses, processes, best practice solutions, and purchasing.

SpareBank 1 Banksamarbeidet DA owns 100% of the shares in the following subsidiaries:

- EiendomsMegler 1 Norge AS
- SpareBank 1 Kundesenter AS
- SpareBank 1 Verdipapirservice AS
- SpareBank 1 ID AS
- SpareBank Asept AS

SpareBank 1 Mobilbetaling AS

The SpareBank 1 banks bought the Norwegian part of the company mCash in 2015. The company allows users to use their mobile phones to pay in shops and online, as well as to make payments to friends. The Bank's stake in the company is 19.7%.

On 13/02/2017, the Alliance announced that more than 100 banks would combine to establish one Norwegian operator for mobile payment services with an even better Vipps system. SpareBank 1 will be second-largest shareholder in the new company.

mCash currently has over 10,000 sales outlets and 530,000 users. All of them are invited to join the new company. Here we will strive to maintain the same facilities that customers and users had in mCash, and all of them will have access to exciting new and innovative services in the future.

The new company will build on SpareBank 1 Mobilbetaling AS.

SpareBank 1 Kredittkort AS

The company was established in autumn 2012, is based in Trondheim, and offers credit card services to Alliance customers. The company is owned by the Alliance banks. SpareBank 1 Nord-Norge's stake was 17.8% as of 31/12/2016.

SpareBank 1 Boligkreditt AS

SpareBank 1 Boligkreditt's (SB1BK) object is to fund first priority mortgage loans for the banks in the SpareBank 1 Alliance. The banks transfer mortgages to SB1BK and the company borrows in the Norwegian and international capital markets by issuing covered bonds. SB1BK's covered bonds are rated Aaa and AAA respectively by Moody's and Fitch. As at 31/12/2016, SpareBank 1 Nord-Norge owned 14.61% of SB1BK.

SpareBank 1 Næringskreditt AS

SpareBank 1 Næringskreditt's purpose is to fund first priority commercial property mortgages for the banks in SpareBank 1 Alliance. The banks transfer first priority commercial property mortgages to SpareBank 1 Næringskreditt and the company borrows in the Norwegian and international capital market. SpareBank 1 Næringskreditt's bonds are rated AAA by Moody's rating agency. As of 31/12/2016, SpareBank 1 Nord-Norge owns 16.64% of SpareBank 1 Næringskreditt.

SpareBank 1 Markets AS

SpareBank 1 Markets AS is one of the leading bank-run capital markets environments in Norway, and provides highly qualified services within analysis, financial advice, raising of capital and brokering shares, borrowing and interest-bearing products.

The company can supply the whole capital structure at the national level through its work within the SpareBank 1 Alliance, which is Norway's second-largest banking group with more than NOK 880 billion under management. The company has around 100 experienced employees. With branches in Oslo, Trondheim and New York, it covers all customer segments, from retail customers and small to medium-sized enterprises to large exchange-listed groups and institutional investors.

SpareBank 1 Markets is owned by SpareBank 1 SMN (73%), SpareBank 1 Nord Norge (9.9%), Samarbeidende Sparebanker (9.9%), Sparebanken Hedmark (6.1%) and others (1.1%).

BN Bank

BN Bank is a nationwide bank for corporate and private customers. With efficient and simple self-service solutions, BN Bank aims to make banking services easy for ordinary people.

A decision was made in 2015 to wind up activities in the corporate market with a winding up period of several years. It is a purely online bank in the retail market. SpareBank 1 Nord-Norge owns 23.5% of BN Bank.

For the results for the individual companies in 2016, refer to the table in the report on the annual accounts, page 19.



EMPLOYEES

Sparebank 1 Nord-Norge engages in systematic recruitment, skills development and culture-building to ensure that we have the best finance staff in Northern Norway. The employees' own evaluations, as expressed through the company survey, score highly under the headings of management, working environment and engagement. There are many factors that contribute to these good results, including communication, involvement and social activities.

This can be seen in a further reduction in sick leave in 2016, close and regular communication between management and staff, and a clear desire for broad employee involvement.

A separate guide has been drawn up for involvement, for example. The Group's information channels are open for employees' own input, and they are frequently used.

Elected representatives and the health and safety function participate in statutory committees and are represented in project groups, including the working group which drew up proposals in 2016 for new pension and insurance schemes for the staff. This collaboration adds value and has contributed to good solutions both for the company and for the staff.

The Group also has pensioners' and staff associations which organise social events for past and present employees.

Recruitment and careers

The aim of the headcount reductions in SpareBank 1 Nord-Norge last year was to reduce the number of employees and make room to recruit new skills. New employee profiles for all roles in the organisation set out clear expectations for the individual, and are actively used for recruitment purposes. The employee profiles focus a lot on values and expectations of actual behaviour from day to day, as well as formal qualifications.

KEY FIGURES

Number of employees in:	2015		2016	
	Number	No of FTEs	Number	No of FTEs
Group	874	830	798	773
SpareBank 1 Nord-Norge	652	618	553	539
EiendomsMegler 1 Nord-Norge	68	68	78	77
SpareBank 1 Finans Nord-Norge	39	39	35	34
SNN Forvaltning	3	3	3	3
SpareBank 1 Regnskapshuset Nord-Norge ¹	112	101	129	119

Recruitment	Internal	External	Total
Group	25	99	124
SpareBank 1 Nord-Norge	24	72	96
EiendomsMegler 1 Nord-Norge	0	12	12
SpareBank 1 Finans Nord-Norge	1	3	4
SNN Forvaltning	0	1	1
SpareBank 1 Regnskapshuset Nord-Norge	0	11	11

Number leaving SpareBank 1 Nord-Norge, broken down into severance packages and other voluntary redundancy	Severance packages	Voluntary redundancy	Total
	140	31	171

Sick leave, with doctor's certificate and self-certified	2015		2016	
	%	Number of days	%	Number of days
Group	3,2 %	5 968	2,8 %	4891
SpareBank 1 Nord-Norge	2,8 %	4 099	2,3 %	3 201
EiendomsMegler 1 Nord-Norge	1,6 %	226	3,3 %	511
SpareBank 1 Finans Nord-Norge	3,2 %	292	1,9 %	168
SpareBank 1 Regnskapshuset Nord-Norge	5,1 %	1 351	4,5 %	1011

The management of SpareBank 1 Nord-Norge	2015		2016	
	Number	Women/men	Number	Women/men
Executive management team	10	3 / 7	11	3 / 8
Other management in the Bank	48	13 / 35	72	27 / 45
EiendomsMegler 1 Nord-Norge	17	6 / 11	14	3 / 11
SpareBank 1 Finans Nord-Norge	5	2 / 3	8	4 / 4
SNN Forvaltning	1	0 / 1	1	0 / 1
SpareBank 1 Regnskapshuset Nord-Norge	12	4 / 8	10	4 / 6
Total	96	29 / 67	116	41 / 75
Percentage distribution	100 %	30 / 70 %	100 %	35 / 65 %

¹ Note 1 The increase in employees of SpareBank 1 Regnskapshuset Nord-Norge is mainly due to the acquisition of KS Finans in Bodø, which brought 20 employees (18 FTEs) into the company.

The attractiveness of SpareBank 1 Nord-Norge as an employer is evident in the large numbers of applications – from both internal and external candidates – for most of the Group’s advertised positions. In 2016, the Group had 1,288 applicants for 111 jobs, and it is well satisfied with the candidates’ background and skills.

SpareBank 1 Nord-Norge takes on regional trainees and office juniors from upper secondary schools as part of the Group’s corporate social responsibility.

Staff development and management

Managers are expected to help to realise the desired results. This calls for managers who are task-focused and relationship- and development-oriented. This last is becoming more and more important with the rapid pace of change in and around the Group. SpareBank 1 Nord-Norge has focused heavily on its role as an agent of change, and started the year with a management meeting for the whole Group.

The managers spent the spring working on attributes from the employee profiles, expressed through the 5 T’s (truthfulness, toughness, tenacity, trust and teamwork). The whole Group came to the Bodøfest to celebrate and train in the 5 T’s in practice. All of the employees did voluntary work in the daytime, and an unforgettable birthday party was organised for the town. The event made news all over Norway, and SpareBank 1 Nord-Norge was nominated for ‘Internal event of the year’ in the Norwegian Sponsoring and Event Association prizes.

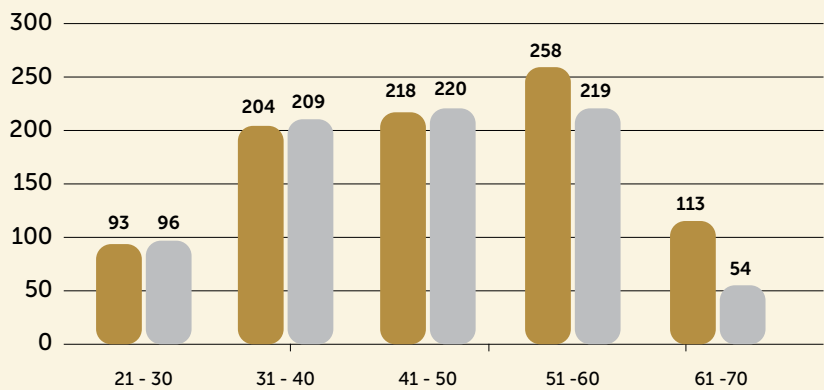
The Group has also compiled an internal masters programme in development-oriented management in partnership with the Norwegian School of Management and the SpareBank 1 Alliance.

Alongside this, the Group has done a lot of work on communication training, running its own meetings and monitoring sales managers. Improving performance has been a priority for the whole Group, ranging from

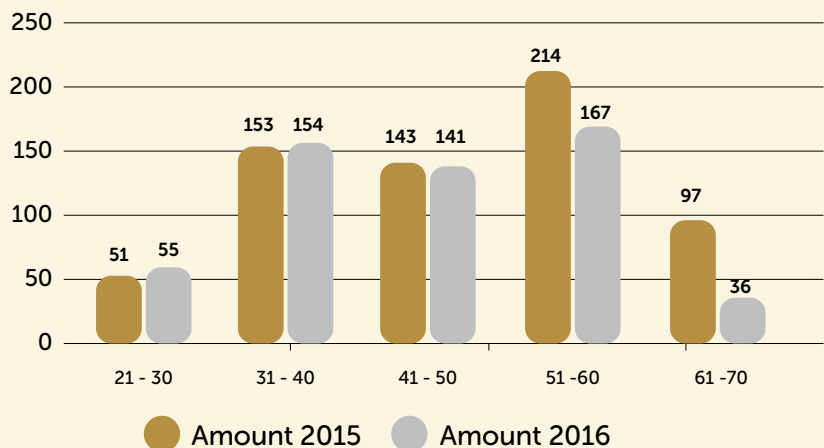
KEY FIGURES

Age distribution:	Average age	
	2015	2016
Group	46,7	44,6
SpareBank 1 Nord-Norge	47,9	45,1
Eiendomsmegler 1 Finans Nord-Norge	40,2	39,9
SpareBank 1 Finans Nord-Norge	38,6	40,1
SpareBank 1 Regnskapshuset Nord-Norge	46,5	46,9

Age distribution in 2015 and 2016 for the Group



Age distribution in 2015 and 2016 for the parent bank



● Amount 2015 ● Amount 2016

systematic work on performance monitoring to a special agreement with 'Olympiatoppen Northern Norway'.

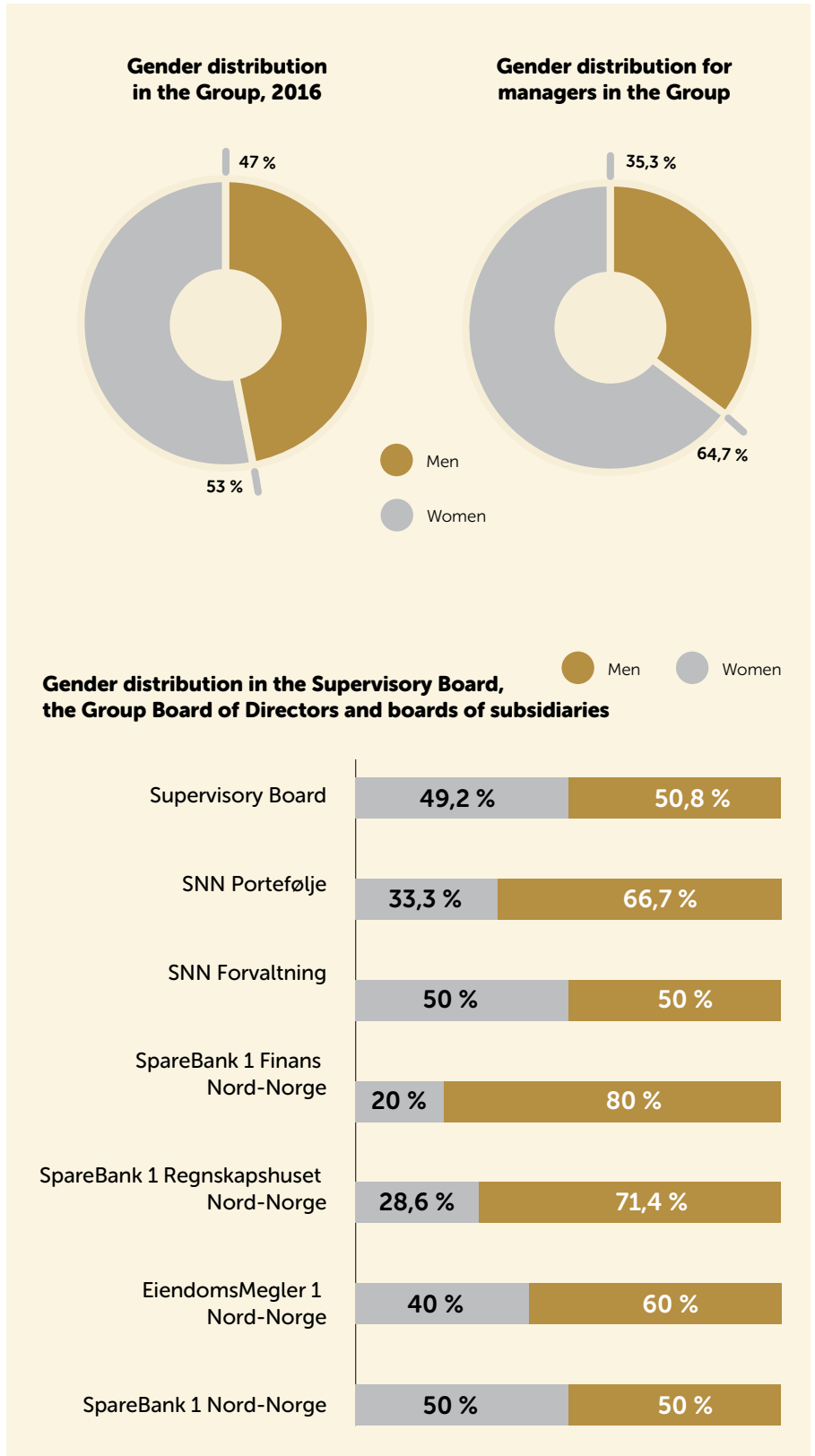
SpareBank 1 Nord-Norge's customers are served by expert advisers both in the branches and through the digital channels. The finance industry has established authorisation schemes for advisers, which should ensure that they have the necessary knowledge, skills and attitudes. The aim is to enhance the quality of all customer advice. 252 consultants are authorised financial advisers; 246 of them are also approved through the accreditation scheme for non-life insurance. In addition, the Bank has 12 employees at the customer centre who are also approved insurance advisers.

Building new and relevant expertise, among existing employees too, is crucial and will remain so in the future. As well as attending various courses and seminars, 13 employees received training grants. Here, the Group has focused in the last two years on studies that build innovation skills and knowledge of digital business models, for example.

All new employees undergo an induction programme in order to become familiar with and contribute to a common culture, business understanding, confidence and quality in their interactions with customers. 62 new staff completed different parts of the induction programme in 2016.

Ethics and ethical dilemmas were also on the agenda throughout the year. The new SNN code of practice – ethical guidelines and guidelines for handling breaches – has been at the heart of this work. Several measures have been taken, including blog posts, meetings with managers and mandatory departmental learning rooms.

For more information about HSE, sick leave, diversity and equality, please see the comments in the Report of the Board of Directors.



Tourism on the rise

More and more people visit northern Norway. The growth in the number of guest nights was nine per cent last year alone. Ida Rishaug is among those to establish themselves in the tourism industry with the company Momet Norway. Tailored packages with unique experiences in Northern Norway are offered to customers from all over the world.



CORPORATE SOCIAL RESPONSIBILITY

SpareBank 1 Nord-Norge considers how the Group's activities affect people, the environment and society. Among other things, this means maintaining a high ethical standard and truthful dealings with customers, suppliers, authorities and the community of which the Bank is a part. This social responsibility should be reflected in all parts of the Group's business.

SpareBank 1 Nord-Norge is a provider of financial services to customers in the retail and corporate banking markets in Northern Norway. All business in SpareBank 1 Nord-Norge is conducted at all times in accordance with the laws and regulations in force in Norway. This document explains how SpareBank 1 Nord-Norge displays social responsibility in its strategies, policies and rules.

Ownership structure

SpareBank 1 Nord-Norge's principal owner is the community, with a 54% holding. When the Group generates profits, dividends are also paid to the community. These provide money for projects that help to develop culture, sports, education and voluntary work in the region. Projects that enhance quality of life and create jobs, and which help to build and develop the region. The vision, 'For Northern Norway', is strategically rooted in the whole Group. The fact that the community is the biggest shareholder in SpareBank 1 Nord-Norge places demands on how to manage the social responsibility and engagement.

For more information, see separate section on social engagement.

Human rights

SpareBank 1 Nord-Norge respects fundamental human rights. This includes all conventions ratified in Norwegian law, such as the UN Convention on Human Rights, the ILO Core Conventions and the UN's environmental and anti-corruption conventions.

Indigenous people

SpareBank 1 Nord-Norge's market is part of the Sami territory, so it is also a bank for the Sami people. The Bank is anxious to be present in the local Sami community and to be a good bank for Sami businesses. SpareBank 1 Nord-Norge offers advice in Sami language for its customers. The Group's annual reports are also translated into Northern Sami.

Employee rights

SpareBank 1 Nord-Norge's activities in Norway are subject to Norwegian laws and international conventions ratified in Norwegian law. Employee rights are therefore not subject to any internal policies or guidelines in the Group. With regard to supplies from companies that have their operations abroad, see separate section on suppliers and management.

Ethical guidelines

The Group's ethical guidelines are set out in the SNN Code of Conduct. The purpose of the guidelines is to enable people to act in line with the Group's values and to clarify the ethical standards for business practice and personal conduct.

The guidelines provide the basis for the Group's commercial activities and strategic goals.

The ethical guidelines apply to parts of the Group's operations, including all employees and members of boards, committees and the Supervisory Board. In the case of subsidiaries such as Regnskapshuset AS and EiendomsMegler 1, industry-specific ethical guidelines also apply.

The SNN Code of Conduct defines several areas that particularly relate to social responsibility:

- *Securities and insider trading*
- *Qualification and confidentiality*
- *Money laundering*
- *Corruption*
- *Nature and the environment*
- *Employee behaviour*

The whole of the SNN Code of Conduct can be read at www.snn.no

Ethics committee

SpareBank 1 Nord-Norge has established an ethics committee that keeps the Group's ethical guidelines up-to-date on an ongoing basis.

Ethical management

SpareBank 1 Nord-Norge's investment activities comply with Norwegian laws and regulations intended to ensure that the Group does not contribute to violations of human and employment rights, corruption, serious environmental damage or other actions that could be perceived as generally unethical.

SpareBank 1 Nord-Norge aims to be a committed and serious player in society, with sustainable management. This is expected to add value over time. Responsible management and responsible investments apply to all asset classes.

Responsible management of direct investments means that risks linked to the environment, social issues and human rights and corporate governance have to be taken into account.

(ESG risk = environmental, social and governance), as defined in the reports to the Government Pension Fund (Global).

Odin Forvaltning AS

SpareBank 1 Nord-Norge provides asset management through ODIN Forvaltning AS (Odin), Schrodgers and Alfred Berg.

- ODIN Forvaltning AS is 100% owned by the SpareBank 1 Group. ODIN has signed the UN's Principles for Responsible Investment (PRI). ODIN's ethical investment profile can be seen at www.odinfond.no
- Schrodgers' ethical investment profile can be seen at www.schrodgers.com
- Alfred Berg's ethical investment profile can be seen at www.alfredberg.no

Suppliers

Most of SpareBank 1 Nord-Norge's purchases are made through the SpareBank 1 Group. The Group has its own purchasing policy, which is also the governing document for local purchasing.

The SpareBank 1 Group's purchasing policy requires all purchasing agreements to include a standard annex on corporate social responsibility. This lays down requirements in the following core areas: Human rights, working conditions, environment and honest business practice.

As a minimum, suppliers should comply with and be guided by local, national and international laws, rules and principles, including provisions on matters such as pay, working hours and HSE (health and safety and the environment) and the environment and anti-corruption.

Human rights in the supply chain

Human rights encompass the fundamental rights that all people have, and are regulated by national and international law. When it comes to dealing with human rights, the following points are especially important to SpareBank 1:

- Suppliers must not benefit from any kind of forced labour. Work by prison inmates may only be used if they have been sentenced by a court and reasonable working conditions can be documented.
- Suppliers must not make use of child labour. Child labour means work that deprives children of access to schooling and education. The prohibition of child labour applies in the following cases:
 - For all children under 15 years of age
 - For children under 14 in countries with underdeveloped economies or educational provision
 - For children who have not completed compulsory schooling
- Work of a kind that could be harmful to children's health or pose a risk to their safety may not be done by employees under 18 years of age.
- Suppliers must not discriminate against employees at work, e.g. in connection with recruitment or dismissal, based on factors such as gender, race, nationality, religion, sexual orientation, membership of employee organisations or political convictions.

The standard annex on corporate social responsibility requires suppliers to give notice and entitles SpareBank 1 to inspect and audit its suppliers. Suppliers are also required to monitor their sub-contractors. Violations of the provisions on social responsibility will be regarded as breach of contract and may constitute grounds for termination of the agreement.

Environment and climate

SpareBank 1 Nord-Norge strives constantly to be a resource-efficient and environmentally-friendly organisation by placing requirements on the Group, its suppliers and business partners. SpareBank 1 Nord-Norge is Eco-Lighthouse certified, and complies with the obligations in the certification scheme. The Eco-Lighthouse is one of Norway's most frequently used certification schemes for enterprises that wish to document their environmental efforts and social responsibility. Being certified as an Eco-Lighthouse enterprise entails systematic work on environmental measures.

Environmental requirements for the supply chain

SpareBank 1 Nord-Norge sets environmental requirements for its suppliers when making major purchases. An HSE declaration must be submitted when a contract is signed. This obliges the supplier to fulfil statutory requirements for health, safety and the environment in Norway. The supplier must also document its environmental policy and environmental programme for its products, as well as its 'green' waste management of packaging. The provider must also be ISO-certified or have implemented an equivalent quality control system. The emphasis on the environment during competitive tendering varies depending on the products the Group is seeking to purchase.

Reduced travel

SpareBank 1 Nord-Norge's car scheme is intended to promote the purchase of low-emission cars. Car use is at a stable low level and produces relatively low greenhouse gas emissions. The project 'Jobb smartere, reis mindre' ('Work smarter – travel less') started in the autumn of 2016. The aim of the project is to make active use of new technology to increase the use of online meetings and so reduce the need for travel. The results so far are good, and in 2016, emissions of greenhouse gases from flights were reduced by 15% compared to 2015.

Energy-saving measures

SpareBank 1 Nord-Norge's company-owned and leased offices are energy-certified. The Group stepped up its work on these measures in 2016. The Group has also focused on connecting to district heating, switching from incandescent bulbs to LED lamps, and insulating buildings. Projects that involve new building, alterations, or redecoration focus on measures that will move buildings into a high energy class. The Group also requires extensive use of materials that are sustainable and have a high level of reuse.

Digitalisation reduces environmental impact

Advances in digital technology help in the Group's efforts to provide customers with good and effective digital solutions. These result in a lower environmental impact through reduced transport needs for employees and customers, and a decrease in paper consumption. One example of this is the decreased number of letters we send out, which reduces paper and transport consumption.

Energy and climate accounts

The Group prepares energy and climate accounts and follows the international standards set out in the Greenhouse Gas Protocol and ISO 14064-1. The accounts for 2016 show a decrease in greenhouse gas emissions of 23.4% from the year before.

In 2016, Sparebank 1 Nord-Norge produced total greenhouse gas emissions of 1,070 tonnes of CO₂ equivalents (tCO₂e). This is a reduction of 326.2 tCO₂e, or 23.4%, compared to 2015.

Energy consumption by area was reduced by 26% and total energy consumption by 26%. There were also reductions in emissions per FTE and per million kroner in revenue.

Money laundering and financing of terrorism

Financial crime, including laundering proceeds, undermines the legal economy of any society. SpareBank 1 Nord-Norge supports measures aimed at combating financial crime and financing of terrorism. SpareBank 1 Nord-Norge complies with legal requirements and takes measures aimed at combating financial crime and financing of terrorism.

This means that SpareBank 1 Nord-Norge should produce good risk assessments, and have good knowledge of customers and the purpose of the customer relationship. Employees of SpareBank 1 Nord-Norge have the knowledge needed to recognise customer dealings and transactions that could be intended to exploit financial systems for money laundering and terrorist financing. This is laid down in the SNN Code of Conduct.

SpareBank 1 Nord-Norge's systems should run checks against international sanctions lists and implement any freezes.

Credit

SpareBank 1 Nord-Norge essentially finances customers in all sectors in Northern Norway. The Bank has no business abroad. Everyone who works in the credit area has to follow the Group's guidelines and qualification rules. This is handled through SpareBank 1 Nord-Norge's credit strategy and policy authorisations and the SNN Code of Conduct.

SpareBank 1 Nord-Norge should not finance companies or projects that conflict with the SNN Code of Conduct. This means undertakings that could be perceived to be incompatible with a normal interpretation of the law, be considered offensive or otherwise liable to have a negative effect on SpareBank 1 Nord-Norge.

We should produce good risk assessments and take great care not to give loans to companies in non-transparent or complicated ownership structures that SpareBank 1 Nord-Norge does not consider well-founded. The same applies to companies where the corporate structure seriously complicates any assessment of the risk in the commitment.

Any risk linked to pollution of the external environment should be assessed as part of the credit assessment of the individual customer. Environment-related risk should be assessed in the same way as other risk factors. Key to this assessment is the customer's attitude to compliance with any environmental requirements that have been or may be imposed.

Future measures

SpareBank 1 Nord-Norge intends to focus heavily in corporate social responsibility in the coming year. The Group aims to be a pioneer when it comes to safeguarding nature and the environment, both by minimising its own impact on the environment and by introducing environmentally-friendly solutions.

The following measures are planned for 2017:

- Become a member of Klimapartner Troms
- Draw up a strategy for social responsibility
- Carry out a materiality analysis for SpareBank 1 Nord-Norge
- Consider subscribing to recognised international standards within CSR

Kategori	Forklaring	2014	2015	2016	% endring fra forrige år
<i>Stasjonær forbrenning</i>					
Lett fyringsolje		13,9			-
<i>Transport</i>					
Diesel (B5)		5,2	10,5	10,5	- %
Bensin		16,5	4,6	4,6	0,1 %
Scope 1 Utslipp		35,7	15,0	15,0	- %
<i>Fjernvarme/kjølning Nordiske lok.</i>					
Fjernvarme Norsk miks		22,6	22,0	6,2	-71,9 %
<i>Elektrisitet*</i>					
Elektrisitet Nordisk miks		992,2	653,1	420,5	-35,6 %
Scope 2 Utslipp		1 014,8	675,1	426,7	-36,8 %
<i>Flyreiser</i>					
Fly kontinentalt		65,7	91,6	22,6	-75,3 %
Fly interkontinentalt		13,7	17,1	35,7	108,1 %
Fly nordisk		525,9	504,8	465,4	-7,8 %
<i>Avfall</i>					
Glass, gjenvinning		-	-		-
Farlig avfall, gjenvinning				-	-
Metall gjenvinning		0,1	0,1		-100,0 %
Organisk, gjenvinning		0,1	0,1	0,4	338,0 %
Papir, gjenvinning		0,9	0,9	0,4	-56,8 %
Spesialavfall	Planglass			0,1	100,0 %
Restavfall, forbrenning		6,7	6,8	28,9	325,7 %
EE-avfall, gjenvinning		0,1	0,1		-100,0 %
<i>Forretningsreiser</i>					
KM-godtgjørelse bil (NO)		98,1	84,6	74,9	-11,4 %
Scope 3 Utslipp		711,2	706,0	628,3	-11,0 %
Total		1 761,7	1 396,2	1 070,0	-23,4 %
Prosentvis endring			-20,7 %	-23,4 %	
* Alternativ beregning utslipp fra el (markedsbasert metode)			2 990,1	2 169,9	
Prosentvis endring			-	-27,4 %	

Scope 1

Transport: Actual consumption of fossil fuels in the Group's vehicles (owned, rented, leased). Use of diesel (B5) and petrol accounted for emissions totalling 15 tCO₂e in 2016. The consumption is broken down from total data for 2015 and 2016, spread equally across the two years. Emissions have been reduced by 58% from 2014 levels.

Heating oil: Use of light heating oil to heat buildings. SpareBank 1 Nord-Norge did not use any heating oil in 2015 and 2016.

Scope 2

Electricity: Metered consumption of electricity in owned or rented offices/buildings. The table shows greenhouse gas emissions from electricity calculated using the location-based 'Nordic mix' emission factor. Emissions from electricity consumption have been reduced by 36% from 2015 levels.

District heating: Use of district heating in owned/rented buildings. Total emissions from district heating decreased by 72% and accounted for 6.2 tCO₂e in 2016.

Scope 3

Flights: Measured number of trips per region. Emissions from flights in 2016 total 524 tCO₂e. Emissions from flights have been reduced by 15% from 2015 levels because of reduced travel.

Per-kilometre rate: In 2016, payments were made for 506,000 km. This produced emissions of 75 tCO₂e, a reduction of 11.4% from 2015.

Waste: Reported waste in kg broken down into different waste fractions and treatment methods. The waste figures are from the head office in Tromsø. Waste accounts for emissions of 30 tCO₂e in 2016, and makes up 3% of total greenhouse gas emissions. The emissions have almost tripled since 2015. The big increase in the quantity of waste comes from the fact that the Bank refurbished its head office in Tromsø in 2016, when a lot of waste was removed. Emissions linked to glass and hazardous waste are under 0.1 tCO₂. This is relatively low and marked only with a dash in the table.

The energy and climate accounts were drawn up by CO2Focus AS on behalf of SpareBank 1 Nord-Norge and can be read in full at www.snn.no



Teams and associations

14,844 teams and associations are SpareBank 1 Nord-Norge customers. One of them, Blåmann IL, is represented here by one of its driving forces, Elin Sagerup. They do a fantastic job on behalf of their local community and for North Norway as a whole.

Photo: Lars Åke Andersen

CORPORATE SOCIAL RESPONSIBILITY

TOGETHER WE MAKE THINGS HAPPEN

SpareBank 1 Nord-Norge is the region's local bank, and it is important for our region to have an exciting and diverse sporting and cultural life. These activities help to attract enhance quality of life and help our local communities to grow and develop, and also draw attractive skills to the region.

The SNN Fund

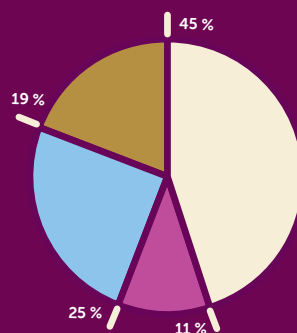
SpareBank 1 Nord-Norge creates value through its operations that stays in the region. The Bank is owned by two groups. 46.4% is owned by equity certificate holders and 53.6% is owned by the community.

Dividends from the Bank's profit from the community-owned capital can be allocated and distributed to socially beneficial causes in the Bank's market area.



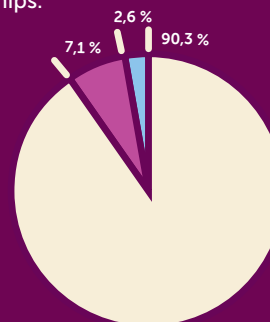
Donations in 2016

In 2016, the Bank distributed community dividends to 432 good causes. 153 cultural projects, 218 sports projects, 10 knowledge-based projects, and 51 charitable projects received a total of NOK 60.1 million. Most of the grants went to projects aimed at children and young people.



Sponsorship portfolio

Sponsorship is the commercial part of the Bank's corporate social responsibility, and forms part of SpareBank 1 Nord-Norge's marketing and brand building. The Bank's sponsorship portfolio amounted to NOK 32.4 million in 2016, distributed through agreements with 321 sports clubs, 26 cultural groups and 22 knowledge-based sponsorships.





MOTIVATION: Former star player Morten Pedersen inspired and coached 28 footballers aged 13-15 at Nordkjosbotn stadium.

“ THIS IS WORTH A LOT TO US

Since 2010, the SNN Academy has visited 50 clubs.
You can't have an elite without the grassroots.”

”

The elite level is important because it supports the grassroots. But the grassroots are also vital if we are to produce the best elite players.

Bank manager Per Olaf Persen

The SNN Academy is made up of players and trainers from the professional club Tromsø IL (TIL) who travel to clubs all over Northern Norway to help with player coaching and development in clubs and associations. One of the places they went to in 2016 was Nordkjosbotn.

“Of course Tromsø IL has more expertise than small clubs like ours. The fact that they travel around and teach new methods and things they know are effective is worth a lot to us,” says the head of Nordkjosbotn IL, Davy Øverås.

Support from the local bank

After the session there is a separate seminar where coaches are helped with problems and structure and ways of creating a training bank. In each place, the bank manager attends the seminar to talk about the SNN fund and the Bank's social engagement.

“This is a great project which is appreciated out in the districts. We got really good feedback from both adults and children in Kirkenes and Vadsø,” recalls bank manager Per Olaf Persen.

Grassroots support the elite

For SpareBank 1 Nord-Norge, the SNN Academy is a great project which has been a hit with children and young people and also adds to the quality of life in the north.

“Tromsø IL has a lot of expertise in football and training methods and how to build a club through collaboration and the right organisation. We want more clubs to benefit from this, because it strengthens the region in this area. The elite level is important because it supports the grassroots. But the grassroots are also vital if we are to produce the best elite teams,” explains Persen

Player development in Northern Norway

Visiting the clubs on their home grounds is also something TIL gets a lot out of.

“We are a development club with half of our squad made up of players from Northern Norway. That is why we depend on good work around the clubs in the region. Their efforts help to enable TIL to play at this level, so it is natural for us to give something back and help them on their home grounds,” says Morten Pedersen.

TEAMING UP WITH SKIING IN NORTHERN NORWAY

From Wednesday races to local and regional teams. SpareBank 1 Nord-Norge is an important partner to winter sports in the region.

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We see the importance of all the links, from the little Wednesday races all the way up to the national team. An active local community and enjoyment of skiing are just as important to us as seeing the national team do well in championships.

Christian Larsen,
responsible for corporate
social responsibility in
SpareBank 1 Nord-Norge.

“The involvement of SpareBank 1 Nord-Norge is incredibly important if we are to provide good facilities for skiers both young and old,” says Birgitte Gustavsen, administration manager for Troms Skikrets, citing the longstanding partnership between the Bank and the skiing association. The latest collaborative project on the list, the SNN Cup, helped to boost interest in the traditional club races.

“The Cup, which was an initiative from the Bank, has been very popular with both contestants and organisers,” says Gustavsen, mentioning the increased interest and wider participation in the local races that form part of the Cup. The association and the clubs are both very happy with this.

The partnership between the Bank and the association also enables Troms Skikrets to provide good opportunities for junior and senior skiers in Northern Norway.

“Our regional teams, Team SpareBank 1 Nord-Norge and Team Veidekke Nord-Norge, which SpareBank 1 Nord-Norge also supports, include skiers from Nordland and Finnmark as well. This allows the leading racers from Northern Norway to practise the sport without having to move down south,” says Gustavsen.

From grassroots to elite

As well as the skiing association in Troms, SpareBank 1 Nord-Norge is partner to Finnmark Skikrets and some 20 skiing clubs in the region.

“The skiing clubs do a brilliant job of bringing enthusiasm for skiing to children and young people. They also enable the gifted skiers to develop. We are happy to be able to contribute to this important work,” says Christian Larsen, who is responsible for corporate social responsibility in SpareBank 1 Nord-Norge.

Through the SpareBank 1 Alliance, the Bank acts as the main business partner to the national team – a partnership which Larsen says is not just about the elite.

“The grassroots and the elite go together. The grassroots activities in Norwegian skiing are important for recruitment to winter sports, and the national team at the top of the development pyramid is a major source of inspiration and motivation for them. We are talking about a mutual dependence,” says Larsen.

The contract with the national team makes SpareBank 1 Nord-Norge an important partner to winter sports in the region – on a national scale. Wednesday races, clubs, skiing associations, regional teams and the national team are all part of the Bank’s sponsorship portfolio.

“We see the importance of all the links, from the little Wednesday races all the way up to the national team. An active local community and enjoyment of skiing are just as important to us as seeing the national team do well in championships. And as the contract with the national team helps us to bring more young people into skiing, including sales of used skiing gear through our ‘Byttehelgen’ events, we believe we will see more good ski racers in the future – not least from Northern Norway,” says Larsen.

Support for infrastructure

Organising activities often entails major investment for the sports clubs. This is apparent from the applications received by the SNN Fund.

“We often see how challenging it is for clubs and associations to finance the infrastructure and equipment which are essential to creating good arenas for leisure and development. With the SNN Fund, we can contribute project support to this important work, and it is incredibly pleasing to see that the Fund can help to implement large and small projects all over the region,” says Larsen.

In 2016, the SNN Fund allocated NOK 3.6 million to 25 cross-country, Alpine and ski-jumping projects in the region.



GRASSROOTS TO ELITE: Children got to meet skiing star Finn Hågen Krogh at the 'Barnas NM Sprint' event sponsored by SpareBank 1 Nord-Norge.



**CELEBRATING
THE PRIZE:**

Jan Tore Olsen,
Katrine Eilertsen,
Einar Seiness,
Mari Johnsen,
Linda Tofteng Eliassen
and Lars Nymo Trulsen.

PRIZE FOR PUTTING FINANCE ON THE TIMETABLE

More than 80% of 9th grade pupils in Troms were taught by employees from SpareBank 1 Nord-Norge in 2016.

The 'Finance and career choices' programme has been developed by Ungt Entreprenørskap (part of Junior Achievement Worldwide). Across Norway, almost 27,000 pupils attended these sessions in the last school year, including a record 1,584 in Troms.

"We have had incredibly good feedback from the pupils. They find it educational, enjoyable and useful in their everyday lives, and the engagement is huge. SpareBank 1 Nord-Norge displays great social responsibility here," says MD Anne Grete Johansen of Ungt Entreprenørskap Troms.

Won the prize

The Group won the 'Finansstafetten' prize at the school conference run by Finance Norway in 2016.

"This year's winner of Finansstafetten is a bank which focuses on its social responsibility by giving children and young people lessons in personal finance. The Bank has impressed us with a huge number of initiatives and a big group of instructors. The Bank displays social responsibility along with great capacity for action in a spread-out county, which also included Svalbard," reads the jury's citation.



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Personal finance is seriously neglected in schools, so many people grow up without a basic understanding of finances. This is part of our social role.

Bank manager Lars Nymo Trulsen

Important knowledge

Employees from the Bank have been going out into the schools for five years to talk about career choices, budgets, banking and insurance.

“I am extremely proud of the prize and would like to applaud all of my colleagues who played a part in it. Personal finance is seriously neglected in schools, so many people grow up without a basic understanding of finances. It is important for us, as the regional bank, to promote greater knowledge of budgets, expenditure and future planning,” says the Bank’s retail market manager in Tromsø, Lars Nymo Trulsen.

Committed young people

Total debt on credit and debit cards in Troms has passed a billion kroner, and over 8,000 people in the county have late payment notices.

“Our surveys show that one in six young people are poor payers. This suggests that there is a big need for more knowledge of personal finances. This is part of our social role. I find that the young people are engaged, a surprising number know what they want to do in life, and they find budgeting such fun that the discussion often continues in the breaks. We look forward to talking to even more young people,” Nymo Trulsen concludes.

UNFORGETTABLE PARTY IN BODØ

All of the staff of SpareBank 1 Nord-Norge helped to organise a birthday party for Bodø to celebrate its bicentenary.

SpareBank 1 Nord-Norge's gift to the town was Bodøfest – an anniversary concert right in the centre of Bodø.

"As the region's own bank, we care about the people in Northern Norway and the local communities we are a part of. We have run a bank in Bodø for almost 160 years. The town is celebrating its 200th anniversary, and it is only natural for us to take part in the celebrations. We are doing this by arranging Bodøfest," says Trude Glad, senior group general manager for Salten.

All of Bodø was invited to celebrate the town's birthday. And 'the whole town' came: In all, 31,000 tickets were sold, making Bodøfest probably the biggest concert ever held in Northern Norway.

The audience got to see and hear both Norwegian and international stars: The teenage idols Marcus & Martinus, Halvdan Sivertsen, Sandra Lyng, Sondre Justad, Kari Bremnes and Travis, to name just a few.

Memories for life

"Bodøfest helped to build pride and a sense of identity in Bodø, the region and the district. The event was the highlight of the whole bicentenary year, not just the anniversary weekend."

So says Thomas Lønsetteig, who headed the work of marking the town's anniversary through the organisation 'Bodø 2016'.

"We made memories for life. Many people are still talking about Bodøfest. We have never seen so many people assembled for a single event in Bodø," says Lønsetteig.

He explains that Bodøfest is a major element in positioning Bodø as a candidate for European Capital of Culture in 2024 and for 2017 City of Culture.

"And last but not least, we believe that SpareBank 1 Nord-Norge and Bodøfest were a major reason why Bodø was named as Norway's most attractive city in 2016," says Lønsetteig.

Voluntary work

In parallel with Bodøfest, SpareBank 1 Nord-Norge brought all of the staff together to the Group's new meeting place 'Oppdrag Nord-Norge' ('Project Northern Norway'). This was no accident. In fact, 620 employees had the opportunity to contribute to the birthday party on a voluntary basis.

"Many of them contributed directly to running Bodøfest, including arranging activities for children. Others cleared the streets, served coffee, built a mobile skateboard park and football pitch, repainted Nyholmen Skandse, tidied and installed waste bins, planted flowers and served cakes and entertainment in the city's nursing homes," recalls the Bank's project manager Christian Larsen.

In all, the Group's employees did one and half man-years of voluntary work to make Bodø's birthday as good as it could be.

'Project Northern Norway' and Bodøfest were also among the nominations for 'Internal event of the year' at the annual awards ceremony of the Norwegian Sponsoring and Event Association.

"After a period of downsizing, office closures and organisational changes, Bodøfest was a great opportunity to focus on the Bank's social engagement and to build team spirit among the employees. By engaging the staff as volunteers during the festival, the Bank makes people aware of the new staff platform, which includes spending more time with customers," reads the jury's note on the nomination.

TEENAGE IDOLS:
Marcus & Martinus were definitely the most popular guys in Bodø on 21 May 2016.



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The town is celebrating its 200th anniversary, and it is only natural for us to take part in the celebrations. We are doing this by arranging Bodøfest.

Trude Glad, Senior Group General Manager for Salten

A SEA OF PEOPLE:
31,000 people came to Rådhusparken in Bodø in the course of Bodøfest. Here we see DJ Matoma rounding off the anniversary concert.

SOMETHING FOR EVERYONE:
In the daytime there was a special family event with activities for children of all ages. Among other things, the Science Centre of Northern Norway presented 'Cool inventions'.



COMMENDABLE CYCLING EVENT

Not only did 8,000 children ride in the SNN Mini Arctic Race. The ripple effect also raised millions for the economy.

The Arctic Race of Norway has established itself as a popular festival in Northern Norway. SpareBank 1 Nord-Norge runs its own family festival with free bike rides for children and young people. The members of the Norwegian Sponsoring and Event Association nominated the children's ride for the year's industry prize.

"The partnership between the Arctic Race of Norway and SpareBank 1 Nord-Norge is an inspiration to everyone in the industry to show how targeted and strategic planning produces internal and external benefits for both sponsors and recipients," wrote the jury in its citation.

Boost for the towns

The Association also stressed that the employees themselves organise the children's ride, which visited Fauske, Sandnessjøen, Mo i Rana, Nesna and Bodø in 2016. Around 2,000 children have taken part in the SNN Mini Arctic Race each year.

"Children have to be involved if it is to be a public celebration. It was striking for me what a boost it gave to our town's self-confidence. We prepared for a long time and we hope to do this again. There are lots of great stages to cycle in Helgeland," says the bank manager in Mo i Rana, Hans-Petter Skjæran.

Spin-off worth millions

SpareBank 1 Nord-Norge wants to help encourage activity and diversity in the region. So support for sport and culture is at the heart of the Bank's social engagement.

"It is great to see that local ideas can develop into major international events. The Arctic Race of Norway is a good example of this, and we are proud to have been part of the team from the very start," says chief executive Jan-Frode Janson.

A report from Bedriftskompetanse AS shows that the bike ride had a ripple effect worth over NOK 80 million to the Norwegian economy in 2014 alone. There are also invaluable marketing benefits as the TV broadcasts from the Arctic Race bring the region to viewers in 180 countries.

” It was striking what a boost it gave to our town's self-confidence

Bank manager in Mo i Rana, Hans-Petter Skjæran





YOUNG CYCLISTS: Since 2013, 8,000 children have taken part in the children's bike ride during the Arctic Race of Norway.

