

# 2017

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ANNUAL REPORT



# «When the region does well, the Bank does well»

This is an oft heard saying in SpareBank 1 Nord-Norge. And there is a lot of truth to it. SpareBank 1 Nord-Norge is the region's bank. And in many ways the Group reflects the region's people and businesses.

2017 was another good year for Northern Norway. The high investment rate and low interest rates are affecting both the building and construction industry and the housing market. The rising global demand for Arctic products and experiences, combined with a persistently low NOK exchange rate, has also produced very positive outcomes for the region's travel and export-oriented industries. This of course affects SpareBank 1 Nord-Norge as well. The results, which are duly described in the report you are reading, are very good.

But of course, simply pointing to interest rates and exchange rates is not enough to explain the results. In recent years, SpareBank 1 Nord-Norge has followed a simple but effective strategy where focusing on the core operations, automating processes, introducing robots, renewing skills and staffing, and continuously striving to create good customer experiences have been our guiding stars. This work has, together with the favourable external general conditions, contributed to the Group's good results in recent years.

"What we say we will do, we do" is another mantra in SpareBank 1 Nord-Norge. A few years ago, investors were given expectations of a high, international-level return. 2017 produced a return on equity of 12.9%. The proposed dividend of NOK 4 per equity certificate is equivalent to a dividend payout rate of no less than 60%. The ambition of a top, international-level return has been achieved in recent years – and by a good margin for 2017.

When dividends are high, the community owners can celebrate as well. Collectively, the people of Northern Norway are the Group's largest owner with a stake of 53.6%. That means almost NOK 500 million will be paid out as community dividends. The money will go to projects large and small that, among other things, are helping to build skills, encouraging people to settle down here, and stimulating business development. These are publicly beneficial causes that through value creation and development will help to further boost Northern Norway.

"When the region does well, the Bank does well." The saying is just as true today as it ever was. But perhaps it could also be put another way: "When the Bank does well, the region also does well."

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# From the CEO

SpareBank 1 Nord-Norge can look back on a year of considerable financial and market success and today ranks right at the top of comparable groups with respect to its return and valuation.

This success follows several years of cultivating our core activities, rationalising and renewing staffing, adapting distribution, and systematic culture and brand building.

At the same time, 2017 was a year characterised by preparing for the future because the financial services industry is experiencing radical changes in its framework conditions. These are being driven by new technology, new regulations and new competition. In parallel with this, greater customer expectations are being created that require new solutions. Substantial efforts, both financial and administrative, have therefore been made to ensure we are equipped for the future.

The northern Norwegian economy has been, and still is, robust. However, the lead the region has enjoyed over the rest of the country appears to be shrinking due to the Norwegian economy experiencing renewed growth at the same time as growth in the north is being limited by scant resources. The labour supply is the greatest limitation. Today, Northern Norway is completely dependent on labour migration and it is estimated that 25 000 new employees will be needed in the north in the period up to 2030.

## SpareBank 1 Nord-Norge has a unique ownership model, with both private and community-based ownership!

CEO Jan-Frode Janson

Northern Norway has formidable potential. At the same time, we know that most of it remains untapped. Oil and gas, minerals, tourism, fishing and other blue resources are some of the areas where the region is just starting to fulfil its value creation potential. For oil and gas, low prices and high production costs have put a dampener on the pace of extraction, but in 2017 the price of oil rose to a level that again makes the deposits commercially viable.

As far as seafood is concerned, high quality and a low Norwegian kroner exchange rate is still driving export growth up. The low exchange rate is also a contributory factor to why the region is almost overflowing with tourists. Northern Norway and the Arctic are exotic and thus an attractive destination for very many people. Consolidation and professionalisation will be important and necessary here, especially for the many young companies that have been established in the last few years.

SpareBank 1 Nord-Norge plays an important role in the work of building a sustainable and long-term resource utilisation model in the north. The region needs a northern Norwegian finance house with a business model based both on local presence and local knowledge. It is also important that the Group, through its involvement in Agenda Nord-Norge, can contribute knowledge about the region and bring together the people who require this knowledge.

In 2017, the Group also systemically worked on restructuring the use of the social dividend, previously called the endowment fund. The goal is for these funds to make a greater contribution to unleashing Northern Norway's potential. This will be done together with the region's residents and based on the knowledge we possess.

In 2017, SpareBank 1 Nord-Norge also focused on physically bringing the Group together to take advantage of the power that exists in a complete finance house with respect to economies of scale and creating better customer experiences. The process of co-locating the Group's companies is continuing apace and during the course of 2018 they will be under the same roofs in Svolvær, Mo i Rana, Bodø, Alta and Finnsnes.

The Group's rapid pace of change makes demands on both the organisation and form of management and therefore a great deal of weight is placed on clear framework management, short decision chains and local efficiency. The Group has described its strategic compass, which is designed to ensure good, long-term value creation. This is

a management tool for the individual employee's everyday work and consists of ambition, vision, DNA, values and main strategic goals.

The pace of innovation in the Group continued unabated in 2017 as well. SpareBank 1 Nord-Norge brought its first digital assistant, Aurora, online in autumn. Responding to more than 200 customer queries per day and with a hit rate of more than 90%, Aurora is helping to improve the customer experience. Not least, the fact that this frees up the time of people in the Group to provide value-increasing advice is an important contribution.

In parallel with the ongoing work of organising the social dividend in a new way, SpareBank 1 Nord-Norge contributed more than NOK 100 million to rural and urban cultural, sports and knowledge projects around the region in 2017. At the same time, a great deal of work has been done on spreading knowledge about our ownership model. Surveys show that the ownership model and social dividends are important advantages in the fight for customers. The ownership model has therefore gained a key place in the new business strategy that was adopted in December 2017.

SpareBank 1 Nord-Norge's ownership model, which involves a combination of private and community-based ownership, is highly profitable for both ownership groups. The figures delivered in 2017 confirm this; as does the interest the Group experiences from international investors. International ownership has increased from 10% in 2012 to 35% at year end 2017. Naturally, the growth is mostly due to our ability to deliver on our promises. But perhaps Northern Norway and the Arctic also attract investors and not just tourists?

SpareBank 1 Nord-Norge's journey will continue with a clear goal; the Group wants to be number one for customers, employees and owners. And we will deliver with Northern Norway in focus, because we mean it when we say that our vision is "For Northern Norway".



Jan-Frode Janson  
CEO



# Strategic compass

SpareBank 1 Nord-Norge – number 1 for customers, employees and owners

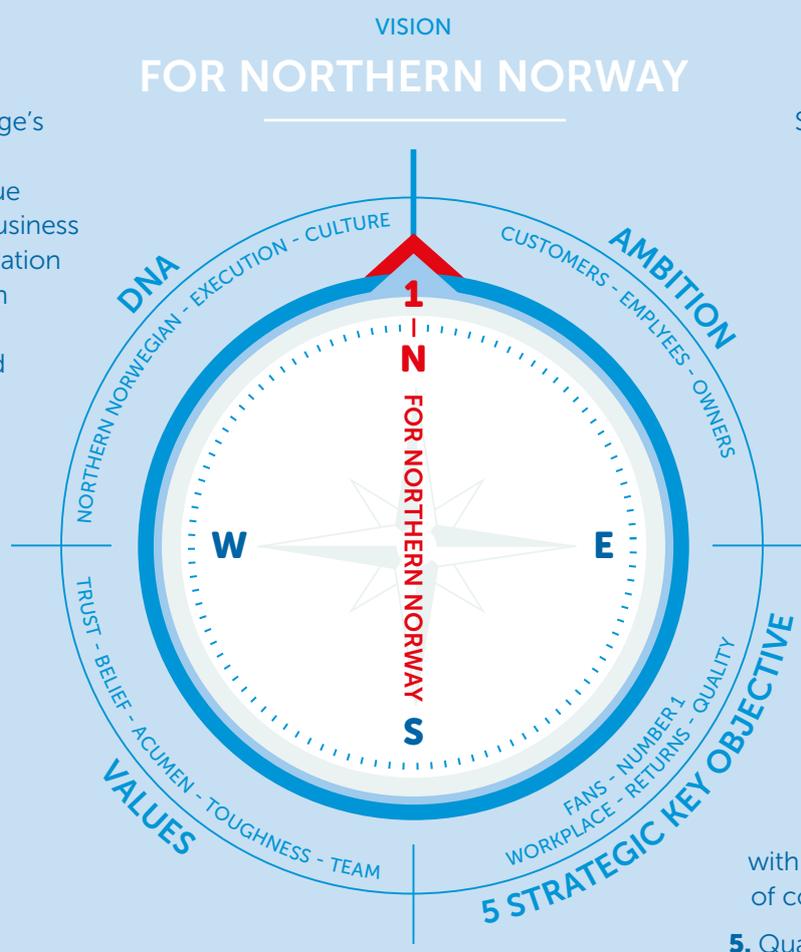
## DNA

SpareBank 1 Nord-Norge's distinctive feature is a combination of a unique northern Norwegian business model, with an organization that excels in execution and which has a proud and customer-oriented culture

## VALUES

5 values:

- Trust
- Belief
- Acumen
- Toughness
- Team



## AMBITION

SpareBank 1 Nord-Norge shall be number 1 for customers, employees and owners

## STRATEGIC KEY OBJECTIVE

1. Northern Norway's most enthusiastic customers
2. Number 1 in all business areas and areas in the region
3. Northern Norway's most attractive and engaging workplace
4. Undisputedly solid, with returns among the best of comparable corporations
5. Quality in everything we do

SpareBank 1 Nord-Norge enjoys a unique position in the region with a strong network of branches and almost half the population as customers. Nonetheless, the fast pace of change is making considerable demands on both the organisation and its form of management. The Group is therefore focusing on framework management, short decision chains and local energy. Key to the framework management is the Group's strategic compass that is designed to ensure good, long-term value creation.

The strategic compass metaphor is used to illustrate what should guide the Group's management, including when the market and framework conditions change.

The compass has five elements. The first is the ambition. This is that we should be number one for our customers. This obligates us and can only be achieved if the Group is number one for our employees. Success with respect to these two elements logically dictates that we will gain the number one position for our owners.

The DNA describes our distinctive character, what makes us unique, while our values describe how the Group's employees should conduct themselves.

Finally, the compass states the Group's five main strategic goals, which are the same as in the previous strategy period, although

they are in a slightly different order. This was done to make it absolutely clear that customers come first. Good customer experiences are the key to creating value for the Group.

If we follow the compass, we will fulfil our vision – For Northern Norway. The vision sits at the centre of the compass, pointing north.

For a further description of the Group's business strategy, reference is made to page 20-21 in the Board's report.



**IT STARTED HERE:** SpareBank 1 Nord-Norge's history started with the establishment of Tromsø Sparebank in 1836, the region's first savings bank. Today's SpareBank 1 Nord-Norge is a result of the merger of 40 northern Norwegian savings banks. The photo shows director Just Quigstad in the Bank's office premises together with, among others, bookkeeper Einar Olsen.

## Historical background

38

SpareBank 1 Nord-Norge has 38 local branches in 36 municipalities in Northern Norway and on Svalbard. More than 80% of the northern Norwegian population therefore have at least one of our branches in their municipality.

1989

The wave of mergers culminated with the establishment of Sparebanken Nord-Norge on 1 July 1989 following the merger of Tromsø Sparebank and Sparebanken Nord. Nordkapp Sparebank (1991) and Sparebanken Nordland (1992) were subsequently also merged into the regional bank.

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.

40

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

1996

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

2016

2016 brought with it SpareBank 1 Nord-Norge's first digital robots, which the Group calls *digital assistants*. These now perform tasks that used to be carried out manually thus reducing the time spent on them while maintaining the level of quality.

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.

# Important events in 2017

From Vipps cooperation and smart car insurance to a northern Norwegian chatbot and the UN Global Compact. SpareBank 1 Nord-Norge is always evolving. Here are some of the highlights from 2017.

## Q1

**In January,** SpareBank 1 Nord-Norge established SNN Nyhetscenter, a website focusing on personal finance and society. SNN Nyhetscenter has attracted 207 000 unique readers since its launch.

**In January,** SpareBank 1 Nord-Norge expanded its distribution with a new direct bank. Customers could thus be offered comprehensive advice via the telephone and a video link.

**In February,** SpareBank 1 Nord-Norge joined forces with more than 100 other banks in the new Vipps partnership. SpareBank 1's mCASH and DNB's Vipps were merged to create a single Norwegian actor for mobile phone payments. Vipps was spun off as a separate company with SpareBank 1 as the second largest owner.

**In March,** SpareBank 1 Nord-Norge changed its regional structure. Salten and Helgeland were merged into one region with Trude Glad as its chief regional officer. The new region was named the Helgeland and Salten region.

**In March,** Hanne Karoline Kræmer was appointed the managing director of SpareBank 1 Finans Nord-Norge. She has worked at SpareBank 1 Nord-Norge since 1995 and succeeded Hermod Bakkejord who joined the ranks of the retired.



## Q2

**In April,** SpareBank 1 launched smart car insurance. A smart plug in the car and a phone app register driving patterns. If customers drive smoothly and help to reduce the risk of damage, they will reap the benefits.

**In April,** SpareBank 1 Nord-Norge granted the country's first loan application with Altinn integration, where the documentation on debt and income is retrieved directly from Altinn.

**In May,** SpareBank 1 was named the industry winner within non-life insurance in the Norwegian Customer Barometer. Every year, the survey reports which companies Norwegian consumers are most satisfied with. SpareBank 1 came top in both satisfaction and loyalty.

**In May,** a major renovation and development project started in SpareBank 1 Nord-Norge's head office in Tromsø. The new Rødbanken quarter will be completed in 2019.

**In June,** SpareBank 1 Nord-Norge launched a new service that lets bank customers transfer money using only their voice. This is the first voice-operated banking service in Norway. The service enables iPhone's voice-activated assistant Siri to transfer money between a customer's accounts in their mobile bank.



## Q3

**In September**, SpareBank 1 Nord-Norge signed the UN Global Compact. This is the world's largest initiative within corporate social responsibility. The Global Compact's principles will be used as a basis for the Group's corporate social responsibility strategy and be incorporated into the Group's other strategies.

**In September**, SpareBank 1 Nord-Norge launched its chatbot Aurora – Northern Norway's first digital guide that simulates human conversation using artificial intelligence.

## Q4

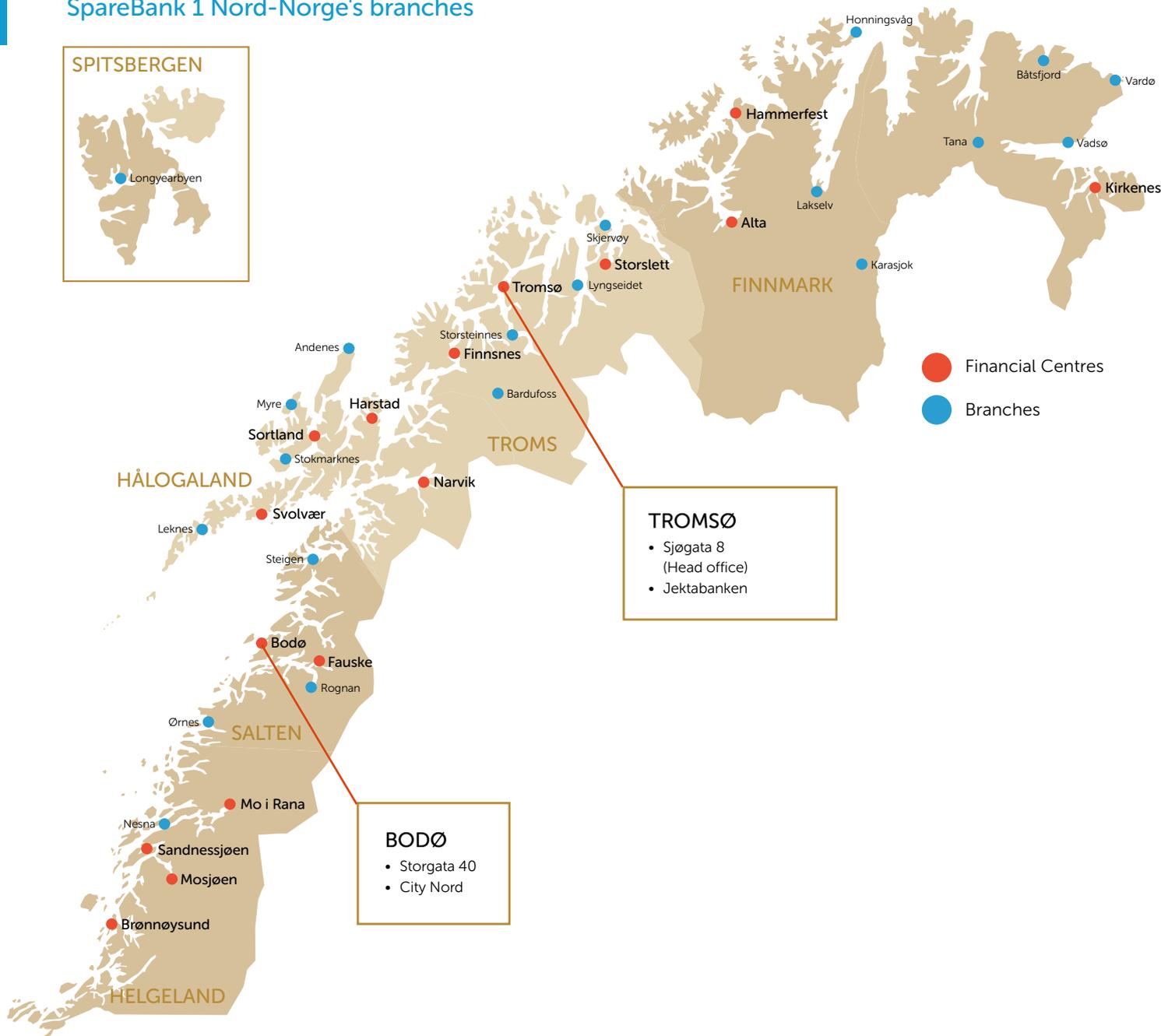
**In October**, organisational changes were made to the Group. Among other things, Process and IT were established and elevated to a focus area. At the same time, a number of customer functions were brought together into a unit for Sales and Customer Relations. A new unit for Compliance and Corporate Governance was established with Nina Wihuri as its head and as part of the Group's executive management team.

**In December**, SpareBank 1 Nord-Norge established 15 000 share savings account agreements. This represented a national market share of about 7.5%

**In December**, SpareBank 1 Regnskapshuset Nord-Norge strengthened its presence in Nordland with the acquisition of four companies: Bluecon Brønnøysund, Bluecon Sandnessjøen, Bluecon Mosjøen and Bluecon Rana. This resulted in around 30 employees gaining a new employer and more than 600 corporate customers gaining a new provider of accounting services.



## SpareBank 1 Nord-Norge's branches



### FINNMARK

54 man-years

**Hammerfest**  
Honningsvåg  
**Alta**  
Karasjok  
**Kirkenes**  
Tana  
Vadsø  
Vardø  
Båtsfjord  
Lakselv

### TROMS

96 man-years

**Storslett**  
Lyngseidet  
Skjervøy  
**Tromsø**  
Storsteinnes  
Longyearbyen  
**Finnsnes**  
Bardufoss

### HÅLOGALAND

63 man-years

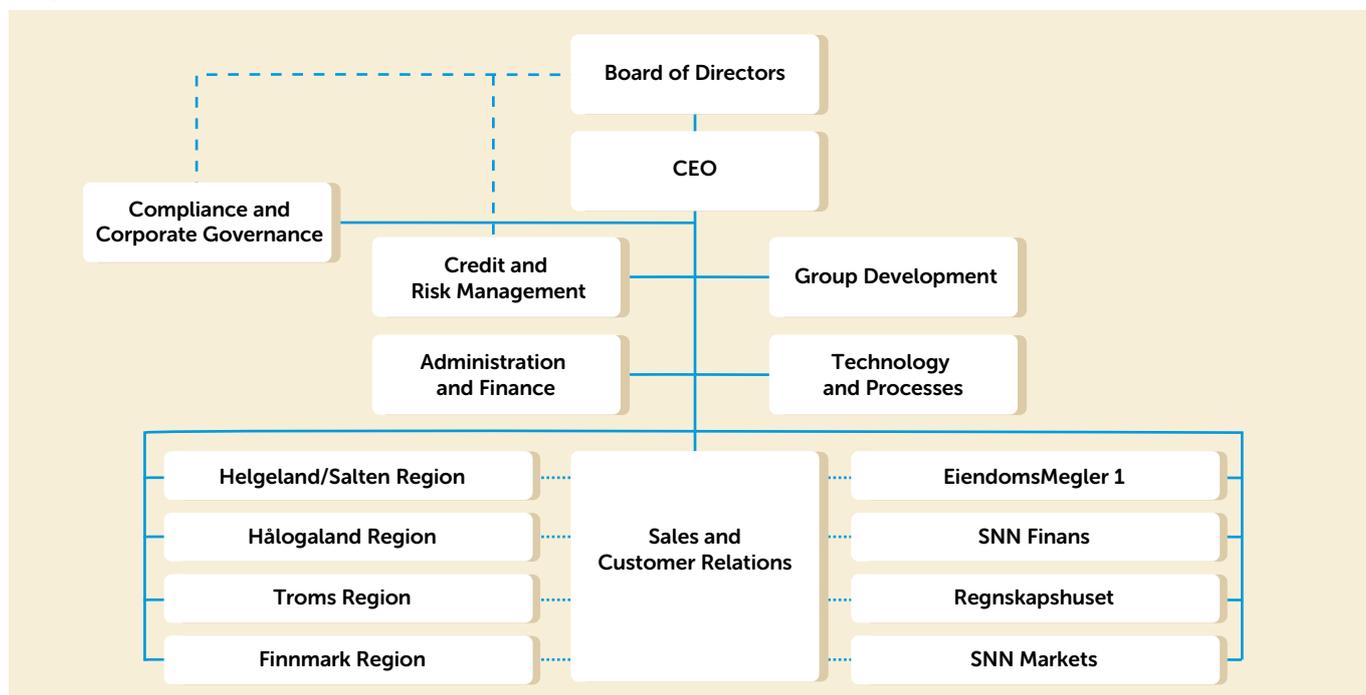
**Harstad**  
**Narvik**  
**Svolvær**  
Leknes  
**Sortland**  
Myre  
Stokmarknes  
Andenes

### HELGELAND OG SALTEN

93 man-years

**Bodø**  
Steigen  
**Fauske**  
Rognan  
Ørnes  
**Mo i Rana**  
**Mosjøen**  
**Sandnessjøen**  
**Brønnøysund**  
Nesna

## Organisation Chart



## Company Structure

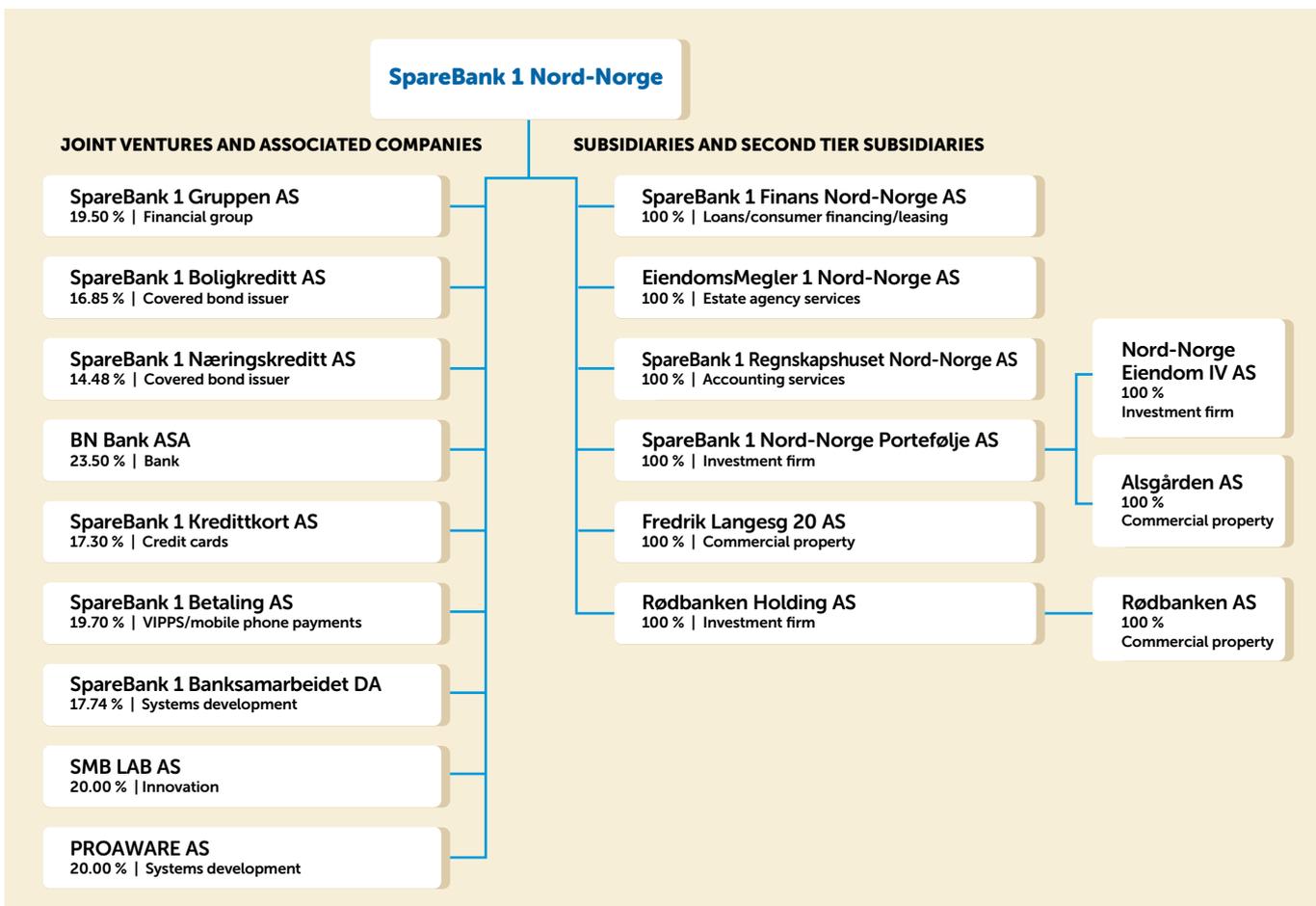




Photo: Andreas Kleiberg

# Annual report

## FINANCIAL RESULTS

Amounts in NOK million	Note	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net interest income	20	<b>1 770</b>	1 644	1 512	1 426	1 285	1 166	1 129	1 129	1 173	1 320
Commission income and other income	21	<b>992</b>	924	933	966	931	656	506	513	462	411
Net return on financial investments	22	<b>552</b>	509	249	602	346	260	184	404	524	-84
<b>Total income</b>		<b>3 314</b>	3 077	2 694	2 994	2 562	2 082	1 819	2 046	2 159	1 647
Personnel costs	23	<b>708</b>	689	850	704	638	581	514	477	508	463
Other operating expenses	24	<b>658</b>	631	611	624	571	539	522	480	464	508
<b>Total operating expenses</b>		<b>1 366</b>	1 320	1 461	1 328	1 209	1 120	1 036	957	972	971
<b>Result before losses</b>		<b>1 948</b>	1 757	1 233	1 666	1 353	962	783	1 089	1 187	676
Loss on loans, guarantees etc.	14	<b>184</b>	213	200	321	172	195	101	87	185	183
<b>Result before tax</b>		<b>1 764</b>	1 544	1 033	1 345	1 181	767	682	1 002	1 002	493
Tax charge	26	<b>324</b>	291	163	223	214	172	157	186	143	143
Result non-current assets held for sale	31			-5	-27						
Minority interests				-7	-1	1					
<b>Net profit</b>		<b>1 440</b>	1 253	872	1 096	966	595	525	816	859	350

## BALANCE SHEET

Amounts in NOK million	Note	31.12.17	31.12.16	31.12.15	31.12.14	31.12.13	31.12.12	31.12.11	31.12.10	31.12.09	31.12.08
Cash and loans to and claims on credit institutions	10	<b>3 431</b>	2 721	2 398	4 405	2 047	2 142	2 866	3 294	3 067	3 433
CDs, bonds and other interest-bearing securities	29,30	<b>11 811</b>	10 470	11 747	10 193	11 919	12 997	11 841	12 178	9 453	7 228
Loans and advances to customers	11	<b>75 003</b>	70 763	64 053	61 249	57 282	54 551	51 642	49 046	48 180	51 268
Individual write-downs for impaired value	14	<b>-216</b>	-154	-169	-171	-244	-303	-206	-271	-228	-201
Collective write-downs for impaired value	14	<b>-300</b>	-373	-247	-236	-209	-198	-226	-200	-238	-204
Other assets	34	<b>7 457</b>	7 074	7 621	7 748	6 725	6 072	5 122	4 733	4 005	3 983
<b>Total assets</b>		<b>97 186</b>	90 501	85 403	83 188	77 520	75 261	71 039	68 780	64 239	65 507
Deposits from credit institutions	10	<b>434</b>	818	1 816	2 758	4 284	6 663	6 446	6 123	6 868	3 708
Deposits from customers	35	<b>57 849</b>	53 870	48 087	45 761	44 940	41 220	41 765	39 389	34 877	34 572
Debt securities in issue	36	<b>23 552</b>	21 165	21 470	21 116	16 336	16 534	13 342	14 477	14 162	19 746
Other liabilities	37	<b>2 202</b>	2 287	2 719	2 861	2 008	1 917	1 709	1 774	1 564	1 562
Subordinated loan capital	39	<b>850</b>	1 350	1 350	1 350	1 450	2 095	1 356	1 347	1 608	1 461
Hybrid capital	42	<b>530</b>									
Total equity	42	<b>11 769</b>	11 011	9 961	9 342	8 502	6 832	6 421	5 670	5 160	4 458
<b>Total liabilities and equity</b>		<b>97 186</b>	90 501	85 403	83 188	77 520	75 261	71 039	68 780	64 239	65 507

## KEY FIGURES

Amounts in NOK million	Note	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Return on equity capital <sup>1)</sup>	42	<b>12.9%</b>	12.0%	9.1%	12.2%	13.0%	9.0%	8.5%	15.3%	18.2%	8.1%
Cost/income Group <sup>2)</sup>	24	<b>41.2%</b>	42.9%	54.2%	44.4%	47.2%	53.8%	57.0%	46.8%	45.0%	59.0%
Cost/income Parent Bank <sup>2)</sup>	24	<b>36.9%</b>	35.4%	52.4%	46.4%	44.0%	51.8%	57.6%	50.1%	46.8%	62.6%
Gross loans to customers incl comission loans <sup>4)</sup>	11	<b>105 485</b>	96 287	88 403	84 980	80 581	75 914	68 034	63 334	59 061	56 806
Growth in loans incl comission loans last 12 months <sup>4)</sup>	11	<b>9.6%</b>	8.9%	4.0%	5.5%	6.1%	11.6%	7.4%	7.2%	4.0%	8.0%
Growth in loans last 12 months	11	<b>6.0%</b>	10.5%	4.6%	6.9%	5.0%	5.6%	5.3%	1.8%	-6.0%	2.1%
Deposits from customers	35	<b>57 849</b>	53 870	48 087	45 761	44 940	43 588	41 765	39 389	34 877	34 572
Growth in deposits last 12 months		<b>7.4%</b>	12.0%	5.1%	1.8%	3.1%	-1.3%	6.0%	12.9%	0.9%	7.9%
Share of loans transferred to SpareBank 1 Boligkreditt of total loans to retail customers	11	<b>40.0%</b>	36.7%	38.2%	39.7%	40.8%	41.1%	35.0%	32.3%	26.7%	14.7%
Share of loans transferred to SpareBank 1 Boligkreditt of total loans to customers	11	<b>28.9%</b>	26.5%	27.5%	27.9%	28.5%	28.1%	24.1%	22.6%	18.4%	9.8%
Deposits as a percentage of gross lending incl comission loans <sup>6)</sup>	35	<b>54.8%</b>	55.9%	54.4%	53.8%	55.8%	54.3%	61.4%	62.2%	59.1%	60.9%
Deposits as a percentage of gross lending <sup>5)</sup>	35	<b>77.1%</b>	76.1%	75.1%	74.7%	78.5%	75.6%	80.9%	80.3%	72.4%	67.4%
Total assets		<b>97 186</b>	90 501	85 403	83 188	77 520	75 329	71 032	68 780	64 239	65 507
Average assets <sup>3)</sup>		<b>93 905</b>	89 168	84 039	80 191	75 952	72 921	70 291	66 245	65 169	61 267
Branches		<b>38</b>	38	62	74	74	74	75	75	76	81
Number of man-years Group	23	<b>784</b>	774	830	927	922	881	794	788	778	821
Number of man-years Parent Bank	23	<b>538</b>	510	618	639	647	672	670	675	690	724
Number of man-years subsidiaries	23	<b>246</b>	264	212	288	275	209	124	113	88	97
Net other operating income of total income	21	<b>29.9%</b>	30.0%	34.6%	32.3%	36.3%	31.5%	27.8%	25.1%	21.4%	25.0%
Common equity Tier 1 capital (CET 1 capital)	5	<b>9 992</b>	9 155	8 367	7 752						
Common equity Tier 1 capital (CET 1 capital) %	5	<b>14.9%</b>	15.0%	13.9%	12.5%						
Tier 1 capital	5	<b>10 857</b>	9 951	9 110	8 439	7 783	6 672	6 002	5 334	4 846	4 229
Tier 1 capital %	5	<b>16.2%</b>	16.3%	15.1%	13.6%	13.4%	12.1%	11.6%	10.9%	10.7%	9.5%
Equity and related capital resources	5	<b>12 141</b>	11 229	10 358	9 680	8 069	7 270	6 465	5 849	5 776	4 789
Total regulatory Capital %	5	<b>18.1%</b>	18.4%	17.2%	15.6%	13.9%	13.2%	12.5%	11.9%	12.8%	10.8%
Total risk-weighted assets base	5	<b>67 222</b>	61 120	60 328	61 925	57 989	55 098	51 704	48 966	45 250	44 565
Leverage ratio	5	<b>7.2%</b>	7.0%	6.1%	5.9%						
Losses on loans to customers as a percentage of gross loans incl comission loans <sup>4)</sup>	14	<b>0.17%</b>	0.22%	0.22%	0.19%	0.21%	0.26%	0.15%	0.14%	0.31%	0.32%
Non-perf. commitm. as % of gross loans incl comission loans <sup>4)</sup>	14	<b>0.25%</b>	0.31%	0.30%	0.34%	0.60%	0.52%	0.69%	0.78%	0.97%	0.80%
Other doubtful commitm. as % of gross loans incl comission loans <sup>4)</sup>	14	<b>0.60%</b>	0.22%	0.27%	0.27%	0.46%	0.78%	0.50%	0.60%	0.39%	0.53%
Net commitments in default and at risk of loss as a percentage of gross loans incl comission loans	14	<b>0.65%</b>	0.37%	0.39%	0.41%	0.75%	0.89%	0.87%	0.93%	0.96%	0.96%
Loan loss provision ratio <sup>7)</sup>	14	<b>23.76%</b>	30.08%	32.82%	32.82%	28.41%	30.64%	25.46%	34.15%	28.39%	26.59%

1. The profit after tax in relation to average equity, calculated as a quarterly average of equity and as at 01.01. and 31.12.  
The Bank's Tier 1 capital instruments issued in 2017 are classified as equity in the financial statements. However, when calculating the return on equity, hybrid Tier 1 capital of NOK 530 million is not included and the associated interest costs of NOK 9 million are adjusted for in the result.
2. Total costs in relation to total net income.
3. Average total assets is calculated as an average of the opening balance on 01.01., quarterly total assets, and the closing balance on 31.12.
4. Intermediary loans include loans transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS amounting to NOK 30,482 million, which have been derecognised from the balance sheet.
5. Customer deposits as a percentage of gross lending.
6. Customer deposits as a percentage of gross lending, inclusive of intermediary loans.
7. Individual loss provisions in relation to total non-performing and impaired commitments.

## Key figures ECC NONG

Hybrid Tier 1 capital issued in SpareBank 1 Nord-Norge amounting to NOK 530 million is not covered by the definition of debt in the IFRS regulations and is therefore classified as equity.

Based on this, NOK 9 million in accrued interest on the hybrid Tier 1 capital has not been recognised as a cost in the income statement but has been charged directly against equity.

When calculating key figures for equity and the equity certificates, accrued interest on hybrid Tier 1 capital is thus deducted from the accounting result. At the same time, hybrid Tier 1 capital is deducted from the equity on the balance sheet.

This ensures that the key figures relevant to the Bank's owners are calculated on the basis of the result and the equity that actually belong to the owners. Also see note 43.

	Note	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NONG Quoted/market price <sup>1)</sup>		<b>62.25</b>	52.25	36.70	39.90	35.50	24.70	28.90	37.76	34.62	13.85
Number of Equity Certificates (EC) issued <sup>2)</sup>	42	<b>100 398 016</b>	100 398 016	100 398 016	100 398 016	100 398 016	74 398 269	73 996 116	56 918 659	56 918 659	56 918 659
Allocated dividend per EC <sup>3)</sup>	43	<b>4.00</b>	3.45	2.00	1.90	1.10	1.02	1.25	1.81	2.12	0.94
Equity capital per EC Group <sup>4)</sup>		<b>54.34</b>	50.84	46.00	44.05	40.08	38.19	36.43	34.41	31.31	27.05
Result per EC Group, adjusted for interest on hybrid Tier 1 capital <sup>5)</sup>	42	<b>6.61</b>	5.54	5.10	4.64	4.14	4.01	2.72	5.26	4.95	2.09
P/E (Price/Earnings per EC Group) <sup>6)</sup>		<b>9.4</b>	9.0	8.9	7.7	8.6	7.3	10.5	7.6	6.6	6.6
P/B (Price/Book Value per EC Group) <sup>7)</sup>		<b>1.1</b>	1.0	0.8	0.9	0.9	0.6	0.8	1.1	1.1	0.5
Pay-out ratio Group <sup>8)</sup>	43	<b>60.50%</b>	59.63%	48.65%	36.77%	26.62%	11.80%	19.74%	33.14%	29.65%	45.39%
EC ratio overall as at 01.01. used for allocation of result	42	<b>46.36%</b>	46.36%	46.36%	47.33%	47.33%	42.07%	38.74%	34.54%	34.54%	34.22%

1. Quoted/market price adjusted for equity issues, fund issues, dividend issues and splits.
2. Number of certificates issued
3. Allocated dividend
4. Equity excl. hybrid Tier 1 capital Group x EC ratio overall x 1000/(Number of EC/1000)
5. Annualised result after tax Group x EC ratio overall/Number of EC
6. Market price/Result per EC Group adjusted for interests on hybrid Tier 1 capital
7. Market price/Book value per EC Group
8. Dividend per EC/Result per EC Group

# Group Profit Analysis

## FROM PROFIT AND LOSS ACCOUNT

Amounts in NOK million	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Interest income	<b>2 611</b>	2 548	2 702	2 998	2 990	2 845	2 823	2 549	2 763	4 334
Interest costs	<b>841</b>	904	1 190	1 572	1 705	1 679	1 694	1 420	1 590	3 014
Net interest income	<b>1 770</b>	1 644	1 512	1 426	1 285	1 166	1 129	1 129	1 173	1 320
Dividend and other income from investments	<b>438</b>	440	407	469	330	227	209	294	304	293
Fees and commissions receivable	<b>931</b>	871	908	940	892	686	567	590	526	478
Fees and commissions payable	<b>85</b>	85	75	74	75	74	80	85	88	84
Net gain/loss on securities and foreign exchange	<b>114</b>	69	-158	133	16	33	-25	110	220	-377
Other operating income	<b>146</b>	138	100	100	114	44	19	8	24	17
Net overall contribution	<b>3 314</b>	3 077	2 694	2 994	2 562	2 082	1 819	2 046	2 159	1 647
Wages, salaries an general administration costs	<b>1 101</b>	1 066	1 218	1 053	975	900	827	758	792	767
Depreciation etc. on fixed- and intangible assets	<b>65</b>	60	56	97	53	54	47	45	49	62
Other operating costs	<b>200</b>	194	187	178	181	166	162	154	131	142
Result before losses	<b>1 948</b>	1 757	1 233	1 666	1 353	962	783	1 089	1 187	676
Losses on loans and guarantees	<b>184</b>	213	200	321	172	195	101	87	185	183
Profit before tax	<b>1 764</b>	1 544	1 033	1 345	1 181	767	682	1 002	1 002	493
Tax	<b>324</b>	291	163	223	214	172	157	186	143	143
Result non-current assets held for sale			-5	-27						
Profit for the year	<b>1 440</b>	1 253	865	1 095	967	595	525	816	859	350
Minority interests			-7	-1	1	0	0	0	1	2
Majority interests	<b>1 440</b>	1 253	872	1 096	966	595	525	816	858	348

## FROM PROFIT AND LOSS ACCOUNT

In% of average assets	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Interest income	<b>2.78%</b>	2.86%	3.22%	3.74%	3.94%	3.90%	4.02%	3.85%	3.91%	4.51%
Interest costs	<b>0.90%</b>	1.01%	1.42%	1.96%	2.24%	2.30%	2.41%	2.14%	2.18%	2.60%
Net interest income	<b>1.88%</b>	1.84%	1.80%	1.78%	1.69%	1.60%	1.61%	1.70%	1.73%	2.15%
Dividend and other income from investments	<b>0.47%</b>	0.49%	0.48%	0.58%	0.43%	0.31%	0.30%	0.44%	0.47%	0.50%
Fees and commissions receivable	<b>0.99%</b>	0.98%	1.08%	1.17%	1.17%	0.94%	0.81%	0.89%	0.81%	0.86%
Fees and commissions payable	<b>0.09%</b>	0.10%	0.09%	0.09%	0.10%	0.10%	0.11%	0.13%	0.14%	0.14%
Net gain/loss on securities and foreign exchange	<b>0.12%</b>	0.08%	-0.19%	0.17%	0.02%	0.05%	-0.04%	0.17%	0.17%	0.36%
Other operating income	<b>0.16%</b>	0.15%	0.12%	0.12%	0.15%	0.06%	0.03%	0.01%	0.04%	0.04%
Net overall contribution	<b>3.53%</b>	3.45%	3.21%	3.73%	3.37%	2.86%	2.59%	3.09%	3.14%	2.69%
Wages, salaries an general administration costs	<b>1.17%</b>	1.20%	1.45%	1.31%	1.28%	1.23%	1.18%	1.14%	1.22%	1.29%
Depreciation etc. on fixed- and intangible assets	<b>0.07%</b>	0.07%	0.07%	0.12%	0.07%	0.07%	0.07%	0.07%	0.08%	0.08%
Other operating costs	<b>0.21%</b>	0.22%	0.22%	0.22%	0.24%	0.23%	0.23%	0.23%	0.20%	0.21%
Result before losses	<b>2.07%</b>	1.97%	1.47%	2.08%	1.78%	1.32%	1.11%	1.64%	1.82%	1.10%
Losses on loans and guarantees	<b>0.20%</b>	0.24%	0.24%	0.40%	0.23%	0.27%	0.14%	0.13%	0.28%	0.30%
Profit before tax	<b>1.88%</b>	1.73%	1.23%	1.68%	1.55%	1.05%	0.97%	1.51%	1.54%	0.80%
Tax	<b>0.35%</b>	0.33%	0.19%	0.28%	0.28%	0.24%	0.22%	0.28%	0.22%	0.23%
Result non-current assets held for sale			-0.01%	-0.03%						
Profit for the year	<b>1.53%</b>	1.41%	1.03%	1.37%	1.27%	0.82%	0.75%	1.23%	1.32%	1.40%
Minority interests	<b>0.00%</b>	0.00%	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Majority interests	<b>1.53%</b>	1.41%	1.04%	1.37%	1.27%	0.82%	0.75%	1.23%	1.32%	1.40%

Average total assets is calculated as the average of quarterly total assets (total assets) as at 01.01. and 31.12.

Calculated average total assets for 2017 was NOK 93,905 million. Total assets correspond to the total of capitalised assets for the Group.

# Annual report from the Board

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*Those who say there is something rather special about Northern Norway are quite right. Nothing from here can be duplicated elsewhere. Not the landscape, not the culture and not the people. And neither can the way we operate banking, estate agency, financing and accounting services.*

# Annual report from the Board 2017

## Main features 2017 (same period 2016)

- **Result for the year**  
NOK 1 440 million (NOK 1 253 million)
- **Return on equity (Group)**  
12.9% (12.0%) <sup>1)</sup>
- **Earnings per equity certificate (Group)**  
NOK 6.65 (NOK 5.79)
- **Net income from financial assets**  
NOK 552 million (NOK 509 million)
- **Lending growth last 12 months**  
9.6% (8.9%) including negotiated loan
- **Growth in deposits in last 12 months**  
7.4% (12.0%).
- **Deposit coverage ratio**  
77.1% (76.1%)
- **Tier 1 capital ratio, Group**  
14.9% (15.0%)
- **Provisions for dividends**  
NOK 4.00 (NOK 3.45)

The Northern Norway economy continues to run well, and the Group's earnings for 2017 are very good. The Group has made several strategic moves over the past few years, including:

- Significant build-up of equity and solvency:  
The Group's targeted solvency has been achieved by a good margin.
- Cultivation of the core business is completed.
- Considerable work related to the improvement of the Group's profitability has been completed or is in process, including:
  - Adaptation and strengthening of the Bank's presence – suited to today's customers' use of banking services. The Group has concentrated operations around 16 financial centres and their branches, in order to provide a wide range of services throughout the region. The number of branches decreased from 71 in 2012 to 38 in 2017, but the Group is still represented at more locations in the region than all other banks combined.
  - Cost-cutting measures, including adaptation to customer behaviour by a combination of voluntary workforce reductions (170 employees) and the intake of about 70 new employees who have added necessary competence to the group.
  - Income-improvement measures, including measures specifically aimed at increased risk-free income (commission earnings).
  - Measures related to increased capital efficiency have been implemented.

<sup>1)</sup> The Bank's issued subordinated bonds are reclassified per 31.12.17 from liabilities to equity in the financial statements. However, when calculating the return on equity, hybrid Tier 1 securities are treated as liabilities.

## STRATEGIC OBJECTIVES AND GOAL ACHIEVEMENT

Strategic objectives	Target figures	Group 2017
<b>Profitability</b>		
Return on equity	Banking operations on top level among comparable financial groups, currently 12% or higher.	12.9%
<b>Efficiency</b>		
Costs	Annual average cost growth should be a maximum of 0%, exclusive restructuring costs, company expansion, and financial activity tax. *	4.5%
<b>Solvency</b>		
Core Tier 1 capital ratio	Undisputedly solvent. Core Tier 1 capital ratio one percentage point above regulatory minimum requirements. Currently 14.5% or higher.	14.9%
<b>Dividends</b>		
Dividend payout ratio	50% or higher.	60%

\* The cost target has changed from 2018 – see next page

The Group's long-term profitability target is to have a banking operation at the top of comparable financial groups. By evaluating the concrete, ongoing targets for return on equity, a comparison is made with other banks' profitability targets and actual profitability. In addition, an assessment is made of the capital market's profitability expectations from forecasts from bank analysts. Currently, this assumes an ROE target of 12%.

The target of maximum cost growth of 0% exclusive restructuring costs and corporate expansion, is secondary to the Group's strategic profitability targets. The Board's assessment is that developments in the financial sector suggest that strict cost control and a continuous endeavour to improve efficiency are needed through digitization and simplification of processes. One of the main reasons for a somewhat higher cost growth than targeted is the increased usage of resources associated with digitization, automation, and CRM solutions (Customer Relationship Management systems). From 2018, the Group's long-term cost target has been changed so that the cost share of total revenue (cost percentage – C/I) should be 40% or lower. The background for changing the cost target was a wish for an efficiency target that is better suited to comparison with other market players. In addition, a relative target also takes into account the income aspect, which is particularly important at a time of significant restructuring in the business. C/I for 2017 and 2016 were 41.2% and 42.9%, respectively.

The Group has an overall strategic goal of being undisputedly solvent, and with a core Tier 1 capital ratio of one percentage point above the regulatory minimum requirements. Per 31.12.17 this results in a target of a core Tier 1 capital ratio of 14.5%.

The Board has indicated an anticipated moderate loss level in 2017 and the immediate future. As in 2016, the loss levels for 2017 are characterized as moderate.

The Parent Bank and the Group meet all strategic objectives for the fiscal year 2017 and per 31.12.17 – aside from the target of maximum cost growth of 0% excluding restructuring costs, business expansion, and financial activity tax.

### Preparations for new times

Focus on core business is still central to the Group's strategy. But also the core business faces major changes in 2018, such as that the introduction of many regulatory changes will entail an ongoing need for modernizing the group. In addition, there is a continuous need for more and increasingly better digital services to meet customers' changing behaviour. The Group has also been characterised by high internal pace of change in 2017, and both business models and internal processes have been put under the microscope. The main effort has been concentrated on the application of transaction data in customer dialogues and overall process efficiency improvement through automation, digitizing, and improvement of digital customer media – including mobile banking, internet banking and Vipps. At the same time, new products and new distribution ability have been worked on. The change work has resulted in both strong sales growth in all product areas and distribution channels, and a substantial increase in service transactions that the customer carries out itself digitally.

In 2017 SpareBank 1 Nord-Norge put into operation its first digital assistant, named Aurora. She is under continuous training, but is already responding to more than 200 customer inquiries per day. Aurora's hit rate is over 90, and she is still learning.

The development of Aurora significantly improves the efficiency of customer service and customer experience, with immediate and correct answers around the clock.

Another subject on which there is placed great emphasis in 2017 is the ownership model and the power of attraction this has. It is the Board's assessment that society's shareholding in the Group, of almost 54%, represents a significant competitive advantage, if communicated properly. Therefore work has been initiated with the aim of creating both involvement and legitimacy around the distribution of social dividends. In this connection several processes will be viewed as to how the Group and the region's inhabitants will together arrive at priority areas that can help realize the Northern Norway potential. This work will be continued in 2018.

At the beginning of 2017 efforts started to build an analysis-based customer communication that would strengthen the Group's customer relations through relevant sales and service initiatives, adapted to the individual customer's situation. This has been carried out in all distribution channels (office channel, direct banking and digital banking). The aim has been to strengthen the Group's position as the relational and super-local bank. The results of the work have been good, with a sales increase for risk-free core products of 51% from 2016 to 2017 in the retail market and significant increases in the corporate market.

The effort to strengthen the customer dialogue based on customer data from incoming and outgoing inquiries, will also be one of the priority areas in 2018.

SpareBank 1 Nord-Norge is very well equipped to reinforce its position as a traditional and modern regional bank for Northern Norway.

### Strategic compass: SpareBank 1 Nord-Norge – number one for customers, employees and owners

SpareBank 1 Nord-Norge enjoys a unique position in the north, with a strong network of branches and almost half the population as customers. Nonetheless, the fast pace of change is placing considerable demands to both the organisation and its form of management. The Group therefore places great emphasis on framework management, locally-based decision-making and local energy. Key to the framework management is the Group's strategic compass that is designed to ensure good, long-term value creation. The compass consists of ambition, vision, DNA, values and strategic main objectives.

**Ambition:** Sparebank 1 Nord-Norge shall be number 1 for customers, employees and owners.

#### Vision: For Northern Norway

**DNA:** Sparebank 1 Nord-Norge's distinctive feature is the combination of a unique northern Norwegian business model, with an organization that excels in achievement and which has a proud and customer-oriented culture.

#### Values:

Trust, Belief, Acumen, Toughness, Team

#### Strategic key objectives:

1. Northern Norway's most enthusiastic customers
2. Number 1 in all business areas and geographic areas in the region
3. Northern Norway's most attractive and exciting workplace
4. Undisputedly solvent, with yields among the best of comparable groups
5. Quality in everything we do

### Strategic choices

SpareBank 1 Nord-Norge is a strong total supplier of financial services. The Group has simultaneously started on a necessary modernization through the program "One Group – one customer experience". This means the Group shall provide the customer with the same good customer experience regardless of which channel the customer uses (physical meeting, direct bank or digital) and which part of the Group the customer meets. Important key words for this work are implement available technology, take advantage of local presence, and enhance the distinctive character of the Group. In this context, the term "#super-lokal" is used, with the meaning that the Group endeavours to adapt its contact and communication with existing and prospective customers to make it relevant to each customer – and designed in a north Norwegian context.

In several areas, the strategy is a continuation and reinforcement of the Group's previous strategy. For these areas, emphasis will be placed on taking the consequences of the strategic choices and tightening up the experience, including;

- **Cultivate character in brand and culture;** develop and exploit the northern Norwegian brand. Build on the pride that characterizes the organization.
- **Focus on core business;** defined geographically as Northern Norway and people/businesses with ties to Northern Norway. Include bank, real estate, accounting, and object financing. Business areas can be extended as the boundaries of the financial industry are changed.
- **Utilizing corporate power and synergies;** apply and exploit the Group's financial, market and skills-based power in all parts of the group. Appear as seamless between business areas and channels.

- **Streamline and renew staffing;** continuous improvement of operational efficiency, while the company attracts and develops relevant competencies. The supply of qualified employees is expected to be a significant challenge that requires new measures.
- **Take a front position in developing the SpareBank 1-alliansen;** develop the advantage of being part of Norway's strongest financial alliance.

The new strategy emphasises the continuation and enhancement of the areas the Group has had success with. The new strategy also represents new priorities:

- **Redesign distribution and service strategy;** design and implement new service strategy. This includes strong financial centres, expanded capacity and expertise in digital- and direct sales and investment in new customer relation systems (CRM). Key principles are that it is the customer who chooses the channel and also should be able to access the competence of the entire Group at all meeting points. Emphasis is placed on having a continued broad geographical distribution in Northern Norway. At the same time, service- and production tasks should be streamlined and focus directed on proactivity, advisory services and sales. Work should be carried out systematically to ensure that customers, based on trust, will consent to the relevant application of customer data.
- **Establish and adapt the Group to new ecosystems;** develop third-party collaboration for enhancing the business model and customer experience. This includes further development of the ownership in Vipps, as well as preparing a specific infrastructure to include third parties as partners.
- **Automate all processes that can be automated;** streamlining through process optimization with active use of digital assistants (robots) and artificial intelligence.

- **Build the organization and network for innovation;** enhance innovation skills and capacity for developing new products, processes and channels. This is true for both the Group, the SpareBank 1-alliansen and in cooperation with other partners.
- **Actively invite consolidation within the northern Norwegian finance industry;** encourage consolidation within all business areas where it can strengthen the Group's offerings, create synergies and ensure continued northern Norwegian presence of a full-service finance group.
- **Upgrade work with compliance and ethics;** develop processes and frameworks that meet sharpened regulatory requirements, including further developing sustainability as a perspective.
- **Strengthen management and application of community ownership;** develop models and processes that increment values, apply and visualize the unique owner model. Create a northern Norwegian "society lift", which also supports the Group's operations.

The "Society Lift" is a term that implies that the Bank will ensure that the cash dividend that is distributed annually to the community, will contribute to value creation and further development of the region. Furthermore, the community dividend will support the Group's operations. This is to create the basis for future dividends to society from the Group's business.

Furthermore, strategies have been set up for the various main segments of the Group. Reference is made furthermore to the chapter on the business report which appears elsewhere in the annual report.

### Subsidiary companies

SpareBank 1 Nord-Norge's customers are offered a complete service portfolio from the Parent Bank and the other companies that form part of the group.

The main subsidiaries are referred to briefly in the following:

#### SpareBank 1 Finans Nord-Norge AS

The company is owned 100% by SpareBank 1 Nord-Norge and has business responsibilities for the product areas of leasing and secured financing, with Northern Norway as the primary market area. In addition, the company offers consumer financing. The Parent Bank and external retailers are important distribution channels for the company.

The company has a good earnings base and managed at year-end consumer loans, lease and sales pledge contracts for a total of NOK 5,404 million (NOK 4,713 million). The company's posted equity was NOK 857 million (NOK 730 million) as of 31.12.17. Loss of a single investment characterizes earnings in 2017. The equity return for 2017 is estimated at 0.7% (8.8%). The prospects are good for increased future activity and satisfactory returns in the company.

The company is co-located with the bank in Bodø, Mo i Rana and Tromsø, and had 38 (35) permanent employees as of 31.12.17.

#### 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 owned 100% by SpareBank 1 Nord-Norge and carries out real estate operations at 16 different locations in Northern Norway. At several of the locations the company is co-located with the bank.

EiendomsMegler 1 Nord-Norge AS is market leader in Northern Norway and in 2017 had in a market share of 35.8% (34.6%). In recent years, the company has fortified its position in the largest northern Norwegian housing markets, and is the market leader in Bodø and Tromsø, with a market share of 32.8% and 31.2% respectively. This is a good starting point for further growth in the northern Norwegian housing market.

The company traded 2,976 units in 2017 (3,063) with a total commission turnover of NOK 169 million (NOK 176 million). The number of traded units is about 3% lower than the year before, and the average commission in NOK per sold property declined by 1% compared to 2016.

At the end of the year, there were 87 employees in EiendomsMegler 1 Nord-Norge.

Subsidiary company Figures in whole NOK 1,000	The Bank's posted equity in the company	Result percentage 2017 after tax	Dividend 2017 in Parent Bank accounts	Write-downs in the 2017 Parent Bank accounts
SpareBank 1 Finans Nord-Norge AS	775 000	5 251	64 484	0
EiendomsMegler 1 Nord-Norge AS	29 636	13 770	20 400	0
SpareBank 1 Regnskapshuset Nord-Norge AS	43 610	12 518	0	0
SpareBank 1 Nord-Norge Portefølje AS	25 000	-1 043	0	0
Nord-Norge Eiendom IV AS **	0	-796	0	0
Alsgården AS **	31 081	-453	0	0
Fredrik Langes gate 20 AS	50 392	-505	0	0
SpareBank 1 Nord-Norge Forvaltning AS *		1 240	1 983	0
<b>TOTAL</b>	<b>954 719</b>	<b>29 982</b>	<b>86 867</b>	

\* Sold in the middle of 2017    \*\* Written-down amount in parent company

### **SpareBank 1 Regnskapshuset Nord-Norge AS**

The Bank started operations in 2011 in the fields of financial management and accounting. The reason for the focus on SpareBank 1 Regnskapshuset Nord-Norge AS is a desire to exploit the synergy effects with the Group's other activities. These include through incremental sales across the Group, increased customer satisfaction and more efficient payment services such as increased automation and integration of customers' invoicing systems, payment solutions and bookkeeping.

Several companies within the industry have been acquired following the establishment. Per 31.12.17 the company had 135 employees, and branches in Hammerfest, Alta, Tromsø, Balsfjord, Finnsnes, Harstad, Narvik, Bodø, Mo i Rana, Sandnessjøen and Mosjøen/Trofors. The commitment to this sector takes place in cooperation with several of the alliance's banks that have similar activities. Cooperation is carried out in areas such as branding, IT, competence, quality and work processes.

The company took over ownership in Bluecon Brønnøysund, Bluecon Sandnessjøen, Bluecon Mosjøen and Bluecon Rana on 01.01.18. It is expected that SpareBank 1 Regnskapshuset Nord-Norge AS will have close to 170 employees and a total turnover of approximately NOK 150 million in 2018. It is noted that the company is in a change- and development period, in which rapid digitization requires that the organisation has both the will and the ability to change.

### **SpareBank 1 Nord-Norge Portefølje AS**

As part of the Group's increased focus on core business, this company's previous operations are undergoing restructuring/closing down. However, for legal and practical reasons, SpareBank 1 Nord-Norge Portefølje is still being continued as a legal entity. The purpose of the company is to operate with "management of ownership stakes owned by the SpareBank 1 Nord-Norge Group and the

activities which naturally belong thereto". Parts of the business include the management of ownership stakes that date from previous customer involvement in the bank.

The market value of SpareBank 1 Nord-Norge Portefølje's investments was NOK 48.1 million per 31.12.17, divided between NOK 13.3 million in equity investments and NOK 34.8 million in responsible loans, while the company's equity amounted to NOK 13.1 million. The return on equity for the year is negative and must be seen in connection with the company's area of operations.

SpareBank 1 Nord-Norge Portefølje AS owns 100% of the shares in Sic Processing Property AS (SPP – Industrial building associated with previous solar cell production in Glomfjord, Nordland) and Nord-Norge Eienendom IV AS. The companies are evaluated according to IFRS 5 (IFRS – International Financial Reporting Standards) as available for sale, and are therefore not consolidated into the accounts as an ordinary subsidiary.

The company is administered by the Bank and has no employees.

### **SpareBank 1 Nord-Norge Forvaltning ASA**

The company was 100% owned by SpareBank 1 Nord-Norge, but in the course of 2017 was sold to SpareBank 1 Nord-Norge Markets. The core business is discretionary<sup>2</sup> asset management, primarily for customers from Northern Norway. The company is amalgamated into the company SpareBank 1 Forvaltning, which is a subsidiary of SpareBank 1 Markets. A significant part of the business in SpareBank 1 Forvaltning will in the future be operated with base in Tromsø.

### **SpareBank 1-alliansen**

The Bank's participation in the SpareBank 1-alliansen and the ownership of SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet DA is an important part of the Group's strategy. Participation has meant a great deal for SpareBank 1 Nord-Norge's

positive development, and has been a major contributor to the Bank's becoming a solid and strong bank – For Northern Norway.

The SpareBank 1 banks operate the cooperative alliance and the development of product companies through jointly-owned SpareBank 1 Banksamarbeidet DA and the holding company SpareBank 1 Gruppen. The purpose of the SpareBank 1-alliansen is to acquire and supply competitive financial services and products, and achieve economies of scale in terms of lower costs and/or higher quality. This is how the alliance contributes to offering individuals and businesses competence, a local foundation and a simpler banking experience. The alliance is also going to help secure the Banks' value creation, to the advantage of their own region and the Bank's owners.

The alliance banks have opted to unite their ownership in the Norwegian financial sector's infrastructure in the SpareBank 1 Gruppen. This applies first and foremost to Vipps, BankAxept and BankID. The overall ownership allows the alliance banks to emerge as a major player in both the Norwegian bank cooperation and in respect of foreign players.

SpareBank 1 Nord-Norge owns 19.5% of SpareBank 1 Gruppen AS. Due to the size of the Bank, this constitutes a proportionately higher ownership share than that of the other owner banks. This makes the SpareBank 1-alliansen particularly important for the SpareBank 1 Nord-Norge Group, also because the underlying values in the alliance companies are presumed to be significant.

Profits from, and equity returns and capital bonding in the various affiliate companies in the alliance are stated in the section dealing with net income from financial investments below.

Also see a separate review of the companies in the SpareBank 1-alliansen later in the annual report.

<sup>2</sup> Discretionary, which is subject to discretion; including an administrator's right, by agreement, to make decisions according to his own judgment and discretion. Discretionary management; also called active management.

## Account of financial statements

In accordance with the requirements of Norwegian accounting legislation, the financial statements of 2017 are presented on the assumption of continuing operations. SpareBank 1 Nord-Norge's consolidated accounts have been presented in accordance with paragraph 3-9 of the Accounting Act, and in accordance with IFRS, approved by the European Union.

FINANCIAL PERFORMANCE	GROUP		PARENT BANK	
	2017	2016	2017	2016
Figures in NOK million				
Net interest income	<b>1 770</b>	1 644	<b>1 563</b>	1 452
Net commissions and other income	<b>992</b>	924	<b>725</b>	646
Net income from financial investments	<b>552</b>	509	<b>573</b>	800
Operating costs	<b>1 366</b>	1 320	<b>1 055</b>	1 026
Losses	<b>184</b>	213	<b>46</b>	158
Pre-tax income	<b>1 764</b>	1 544	<b>1 760</b>	1 714
Tax	<b>324</b>	291	<b>316</b>	258
Business earnings held for sale	<b>0</b>	0		
<b>Result for the year:</b>	<b>1 440</b>	1 253	<b>1 444</b>	1 456

The Group and the Parent Bank have good earnings, good solvency, satisfactory liquidity and good deposit coverage.

### Net interest income

The competition for loan customers remains strong, with particular pressure on lending rates.

The Group's total net income increased by NOK 126 million from 2016 to 2017. Loan margins are somewhat reduced during 2017, which is compensated by increased deposit margins and lower financial costs in the money market.

The lending growth in the retail- and corporate market was 9.3% and 10.1% respectively, and is considered higher than the overall loan growth in the market. The reason behind the relatively strong growth in the corporate market is partly a strategic prioritization of this segment, and partly the positive market opportunities that have emerged when competitors have closed down offices in the region. The latter has also had a positive effect on lending growth in the retail market. The lending growth in 2017 is considered as good and the above has in total contributed to growth in net interest income.

The development in net interest income is also affected by transferred loans to SpareBank 1 Boligkreditt AS. Earnings of NOK 245 million from the transferred portfolio are posted under commission earnings. The corresponding figure for 2016 was NOK 177 million.

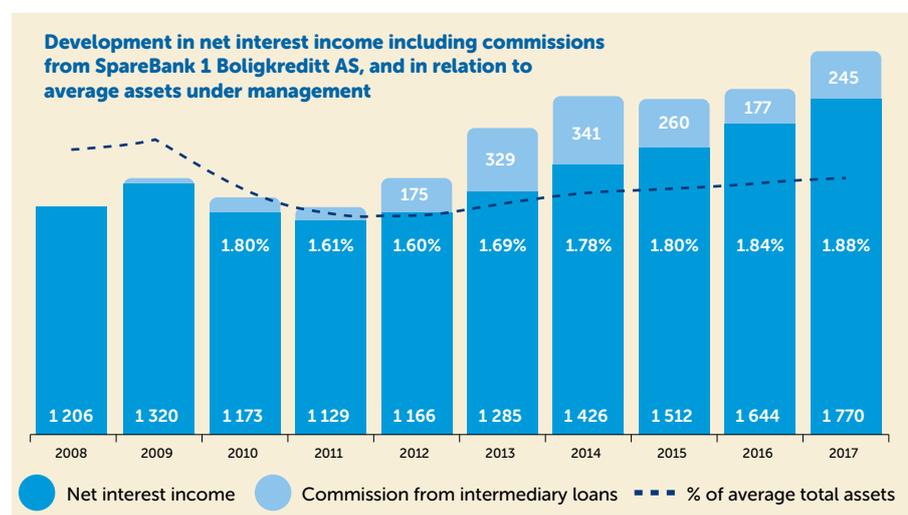
Norges Bank has maintained the official bank interest unchanged in 2017. Assuming stable and unchanged conditions in the capital market, the Bank's average borrowing costs are expected to fall by a further 0.1 percentage points from the 4th quarter of 2017 to the first quarter of 2018 before levelling off for the remainder of the year. The development of net interest income will also depend in part on the competition situation and volume growth.

### Net commissions and other income

SpareBank 1 Nord-Norge has, in addition to traditional credit operations, an ambition to increase revenues through a broad range of products within areas without credit risks, such as savings, placement and insurance. In addition, subsidiary companies will contribute to increased revenues from object financing, real estate and accounting services. For 2017, net commissions and other income amounted to 36% of the total revenues, as in 2016, while they accounted for 35% in 2015.

Commission revenues from SpareBank 1 Boligkreditt AS increased by NOK 68 million in 2017 while net interest income, including commission revenues from the transferred loan portfolio, increased by NOK 194 million.

As part of the process surrounding the development and construction of a new head office in Tromsø, SpareBank 1 Nord-Norge sold parts of its Rødbanken bank building in Tromsø at the end of the year and recogni-



sed a profit of NOK 17 million under other operating income. The sale is made to Rød-banken AS, a non profit company founded by SpareBank 1 Nord-Norge. The company's purpose is to own parts of the building to be used for non-profit purposes.

A NOK 11 million loss was also registered in connection with the sale of the Bank's building in Bodø. This is recorded as write-downs under the line other operating costs on the income statement.

### Net income from financial investments

Net income from financial investments in 2017 constitutes NOK 552 million.

#### These are distributed as follows:

Dividends from other companies	NOK 4 million
Income shares from joint undertakings	NOK 434 million
Net income securities	NOK 114 million
• Shares	NOK 73 million
• Certificates, bonds, currency and derivatives	NOK 41 million

Company	2017	2017	2016	2017	2016
Amount in NOK million	Bank's posted value of equity	Earnings share in the Group accounts	Earnings share in the Group accounts	Dividends in Parent Bank's accounts	Dividends in Parent Bank's accounts
SpareBank 1 Gruppen AS	715	353	307	228	486
SpareBank 1 Boligkreditt AS	1 713	-26	-16	17	15
SpareBank 1 Næringskreditt AS	264	10	16	18	21
BN Bank ASA	209	70	61	94	40
SpareBank 1 Kredittkort AS	155	15	23		
SpareBank 1 Mobilbetaling AS		1	-26		
SpareBank 1 Betaling AS	63	-7			
SpareBank 1 Banksamarbeidet DA	18	1	1		
SMB LAB AS	20	0			
Proaware AS	3	0			
<b>TOTAL</b>	<b>3 160</b>	<b>434</b>	366	<b>357</b>	562

### Income shares from joint undertakings

Income shares from affiliated companies and jointly controlled businesses are posted in the consolidated accounts according to the Bank's stake in equity according to the equity method. In accordance with the cost price method, only received dividends are posted in the Parent Bank's accounts.

SpareBank 1 Boligkreditt's deficit in 2017 (and 2016) is due to negative value change (positive in 2015) in the company's inventory of hedging transactions in the form of basis swaps. The cost accounting of this does not entail change in running cash flows, and the overall result effect overtime will be 0.

The SpareBank 1-alliansen owns, via the holding company SpareBank 1 Betaling AS, 25% of Vipps AS as at 31.12.17. As of 28.09.17,

this became a freestanding company with almost 100 Norwegian banks as owners and DNB as the largest owner with a 52% stake. SpareBank 1 Betaling AS was established as a continuation of the former alliance company SpareBank 1 Mobilbetaling AS, which operated the mCash payment concept.

In November 2017, a plan to merge Vipps, BankAxept and BankID Norge was announced. The merger is scheduled for completion on 01.08.18. The banks have signed a letter of intent to further develop current payment and identification solutions. The aim is to create even better customer experiences and to stand stronger in the competition against the major global technology companies. The share of the result from SpareBank 1 Betaling AS was NOK -7 million for 2017.

### Net income securities

The Group's equities portfolio as at 31.12.17 amounted to NOK 270 million (NOK 306 million). The portfolio has had a net positive income contribution of NOK 73 million in the last year.

- NOK 17 million relates to the remaining settlement for the sale of the Bank's stake in Visa/Nets (Visa Norway and Visa Europe) and the allocation of preference shares (C shares) in Visa.
- A profit of NOK 21 million on the sale of shares in SpareBank 1 Østlandet.
- NOK 15 million gain on the sale of the Bank's subsidiary SpareBank 1 Nord-Norge Forvaltning AS
- Positive change in value of NOK 20 million in the Group's remaining stock portfolio.

In 2016, NOK 70 million was recognized as dividends in connection with the sale of shares in Visa Europe Ltd. In addition an estimate was made as of 31.12.16 of a residual settlement of NOK 20 million in the form of a future conditional consideration (three years) and the value of preference shares in Visa Inc. This was taken to income as OCI (enhanced result post – Other Comprehensive income) and injected equity per 31.12.16. A new valuation of this post has been made per 31.12.17, whereby the value is increased by NOK 15 million to NOK 35 million. This value increase is also posted as OCI.

As of 31.12.17, the Group's holdings of certificates and bonds amounted to NOK 11,541 million, compared with NOK 10,164 million at the same time the year before. The total net change in the value of this portfolio comprises a profit of NOK 47 million in 2017.

### Subsidiaries

The Group's subsidiaries have a total result for the year of NOK 51 million before tax that has been consolidated into the Group's accounts. In the Parent Bank's accounts, only dividends received from the subsidiaries are posted in accordance with the

cost price method. An overview of the financial results and dividends from the various subsidiaries appears in a separate section at the beginning of the report.

As mentioned earlier, SpareBank 1 Nord-Norge Portfolio AS has taken over businesses to be sold. Repossessed assets and liabilities appear on separate lines on the balance sheet. In the profit and loss accounts, operations for the year appear on a separate result line. In 2017 this has not affected earnings.

### Operating costs

Until 2017, the Group's aim has been to hold average annual cost increases to a maximum of 0%, exclusive of reorganisation costs, financial activity tax and any business expansions. As mentioned earlier, this is changed as of 2018.

The costs as of the end of 2017, excluding provisions for restructuring costs and financial taxes, are NOK 57 million higher than in 2016. NOK 16 million of the increase are attributable to expansion of operations in the Group's subsidiary and NOK 41 million from higher costs in the Parent Bank.

The latter is due to the disposal of operating assets and higher rent expenses in connection with the construction of the new headquarters in Tromsø. A NOK 11 million write-down was also made in connection with the sale of the bank's building in Bodø. In addition to this, higher costs were incurred due to increased activity within digitization, automation and new customer relations systems.

Costs are expected to rise slightly in 2018 compared with 2017. This is mainly due to the rental costs of temporary premises in Tromsø and Bodø, and a continued growth in the investment in digitization, automation and new customer relation systems. The latter will eventually result in both cost savings and increased revenues, but not before 2019. New business acquired by the subsidiary SpareBank 1 Regnskapshuset Nord-Norge AS will increase costs by around NOK 30 million in 2018, but is also anticipated to contribute to increased profitability.

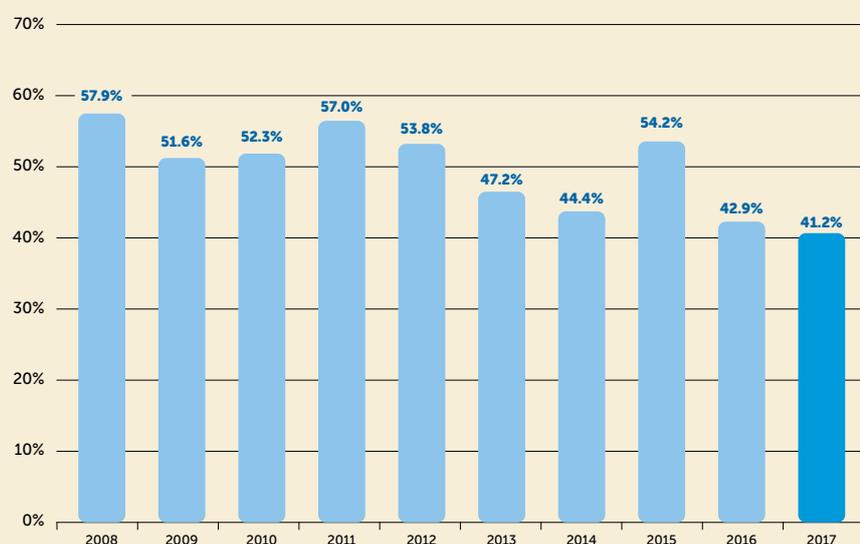
Work continues on income-growth and cost streamlining measures, which are expected to produce effects towards the end of 2018/beginning of 2019.

Ordinary operating expenses amount to NOK 1,366 million for 2017, an increase of NOK 46 million from last year. In terms of the average total assets, costs comprised 1.45%, a decrease of 0.03 percentage points from the previous year.

As stated, the Group's costs target was changed so that the long-term cost percentage (C/I) should be 40% or lower. For 2017, this ratio was 41.2% (42.9%) for the Group and 36.9% for the Parent Bank.

Wealth tax of NOK 8 million (NOK 9 million) is, in accordance with IFRS, posted as part of other operating costs.

### Cost development in relation to net income (2008-17)



### Loss and defaults on loans

The Group's net loan loss for 2017 amounts to NOK 184 million (NOK 213 million). The loss is distributed with NOK 149 million in the corporate market and NOK 35 million in the retail market.

Net non-performing and doubtful commitments total NOK 693 million as at 31.12.17 (NOK 358 million), equivalent to 0.7% of gross lending inclusive of intermediary loans. The increase is due to the individual marking with write-down, of a single commitment where the loss was previously assessed as part of group provisions in the industrial sector. The loss marking has thereby also reduced group allocations and increased individual loss allocations. The level of non-performing commitments is regarded as moderate.

The Group's total allocations for individual loss write-downs on loans to customers is NOK 321 million per 31.12.17 (NOK 216 million). The NOK 105 million increase applies to a great extent to a single commitment.

Group write-downs comprise NOK 300 million as of 31.12.17 (NOK 373 million), a reduction of NOK 73 million from the previous year. Group write-downs totalled 0.4% of the Group's total gross lending as of 31.12.17 (0.3% of gross lending including intermediary loans).

In the opinion of the Board, the quality of the Group's loan portfolio is still good and the Group is working well in connection with non-performing 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 on financial instruments

IASB (International Accounting Standards Board) has decided that a new IFRS 9 Financial Instruments (International Financial Reporting Standards) should replace the existing IAS 39 Financial Instruments: Recognition and Measurement (International Accounting Standards).

IFRS 9 entails changes in relation to the current standard with respect to the classification and measurement of financial instruments, write-down of financial assets, and hedge accounting. The standard will come into force from 01.01.18.

Since 2016 the Group has participated in a project in the SpareBank 1-alliansen to develop a common model for estimating the anticipated loss and monitoring of its financial consequences. The work is now finalized, and an estimate of the implementation effects of IFRS 9 per 01.01.18 shows no significant effects on key target figures such as return on equity. Total effects are estimated to yield a negative change of NOK 30-50 million on core Tier 1 equity. This is expected to have a positive effect on the return on equity of up to 0.05 percentage points, as well as a reduction of up to 0.1 percentage points in core Tier-1 capital ratio.

Further reference is made to separate notes in the financial statements.

### Tax

The Group's tax cost for 2017 has been estimated at NOK 324 million. The basis of tax is reduced by permanent differences and effects of the exemption model.

### Allocation of profits

Before allocation of the year's profits to the owners, the Parent Bank's accounting surplus income after tax of NOK 1,444 million is adjusted by NOK 9 million. This represents an interest rate return (adjusted for tax) to issued fund debenture loans which in the accounts is recognized as direct reduction of the equity. After this, the remaining surplus, NOK 1,436 million, is distributed between the equity proof owners and the Bank's societal capital. The distribution corresponds to the relative equity distribution between the owner groups in the Parent Bank.

The Bank's dividend policy sets out a targeted dividend payout ratio of at least 50%.

The Board of Directors proposes to the Bank's Supervisory Board a cash dividend of NOK 4.00 (NOK 3.45) per equity certificate, in total NOK 402 million (NOK 346 million), and a provision for the dividend equalization fund of NOK 264 million (NOK 329 million). A total provision of NOK 460 million (NOK 401 million) is further proposed for purposes of public benefit. The proposed allocation of profits entails an equal payout ratio to the Bank's equity certificate holders and community-owned capital. The payout ratio amounts to 60.5% (59.6%) of the Group's earnings and 60.3% (51.3%) of the Parent Bank's earnings. The degree of distribution is considered particularly high and above a normal level. The high degree of distribution is due to a good result for 2017 and that the Group's capital goals are met.

Reference is also made to the particular section dealing with ownership later in the report and in the annual report.

Distribution of earnings 2017	TOTAL
<b>Result Parent Bank after tax</b>	1 444
Interest expenses subordinated bonds posted against equity	-9
Earnings for distribution	1 435
Distribution to EC holders	402
Community dividend	465
Withholding surplus	569
- of which to dividend equalization fund	264
- of which to Sparebanken's fund	305
Total allocated	1 435
Withheld share, Parent Bank result	<b>39,7%</b>
Withheld share, Group result	<b>39,5%</b>

Dividends will be distributed to those registered as equity certificate holders as at 22.03.2018.

The Bank's equity certificates will be traded excl. dividend as of 23.03.18.

## Cash Flow Analysis

Total cash flow from operations in the Group was NOK 710 million (NOK 323 million). Cash flow from operations was NOK -1,301 million (NOK 562 million), while earnings after tax were NOK 1,440 million (NOK 1,253 million). The difference is mainly due to loan growth as well as increased holding of certificates and bonds. The total investment in the Group was NOK -407 million (NOK 66 million). This year's investments have mainly gone to an increase in shares of jointly-controlled business in the alliance.

The Group's liquidity balance per 31.12.17 was NOK 3,431 million (NOK 2,721 million). The Group's ability to self-financing of investments is good.

Reference is also made to the cash flow analysis which forms part of the financial statements.

## Balance sheet performance

As at 31.12.17, lending totalling NOK 30 billion (NOK 26 billion) had been transferred to SpareBank 1 Boligkreditt. These loans do not appear as lending on the Bank's balance sheet.

The Group's exposure in the oil and gas sector is low. Its total exposure as at 31.12.17 was NOK 1,264 million, corresponding to 1.25% of gross lending (inclusive of intermediary loans). In the Board's opinion, the risk in this part of the portfolio is clear and manageable.

In the case of new loans, particular emphasis is placed on ability to pay and satisfactory level of collateral and other security to ensure that the credit risk is maintained at an acceptable level.

## Liquidity

Customer deposits represent the Bank's main source of funding. The deposit coverage on own balance sheet is good with 77% (76%) coverage at the end of the 4th quarter of 2017. The Bank's remaining funding, apart from equity and subordinated loan capital and deposits from customers, is mainly long-term funding from the capital markets. The Bank's access to liquidity and the key figures for the area are satisfactory.

The Bank's strategic aim is to keep liquidity risk at a low level. The LCR (liquidity coverage ratio) as at 31.12.17 was calculated as 126% (121%).

The Bank's long-term ratings at the rating agencies Moody's and Fitch are A1 (negative outlook) and A (stable).

## Capital Coverage

After the countercyclical capital buffer requirement rose from 1.5% to 2.0% from 31.12.17, the Group's regulatory minimum requirement for the common equity Tier 1 capital ratio is 13.5% from 31.12.17. The purpose of the countercyclical capital buffer is to make banks more sturdy and robust for loan losses, as well as ensuring more stable lending operations in an economic downturn.

SpareBank 1 Nord-Norge's goal is to maintain unquestionable financial strength and satisfy the statutory minimum equity requirements for capital adequacy. The Group has a target for the common equity Tier 1 capital ratio of one percentage point above the minimum requirement, which results in a current target common equity Tier 1 capital ratio of 14.5%.

SpareBank 1 Nord-Norge employs internal measurement methods (IRB-Internal Rating Based Approach) for credit risk, but is nonetheless subject to national rules on "floor calculation" that reduce capital coverage compared to what it would be like when using IRB.

The Group uses proportional consolidation for its capital adequacy reporting for the stakes in SpareBank 1 Boligkreditt AS, SpareBank 1 Næringskreditt AS, BN Bank ASA, and SpareBank 1 Kredittkort AS.

Capital coverage per 31.12.17	GROUP		PARENT BANK	
	2017	2016	2017	2016
Core Tier 1 capital ratio	<b>14.9%</b>	15.0%	<b>18.9%</b>	19.2%
Tier 1 capital ratio	<b>15.9%</b>	16.3%	<b>20.0%</b>	20.3%
Tier 2 capital coverage	<b>1.9%</b>	2.1%	<b>1.7%</b>	1.8%
Total capital coverage	<b>17.8%</b>	17.4%	<b>21.7%</b>	22.1%

Balance sheet performance	Amounts in NOK million	31.12.17	31.12.16	Changes in %	30.09.17	Changes in %
Loans PM		<b>76 158</b>	69 647	9.3%	74 636	2.0%
Loans BM		<b>29 327</b>	26 640	10.1%	27 208	7.8%
Total loans including intermediation loans		<b>105 485</b>	96 287	9.6%	101 844	3.6%
Total loans excluding intermediation loans		<b>75 003</b>	70 736	6.0%	73 902	1.5%
Deposits PM		<b>32 304</b>	30 651	5.4%	32 206	0.3%
Deposits BM		<b>25 545</b>	23 218	10.0%	24 957	2.4%
Total deposits		<b>57 849</b>	53 869	7.4%	57 163	1.2%
Deposit-to-loan ratio including intermediation loans		<b>55%</b>	56%	-1%	56%	-1%
Deposit-to-loan ratio excluding intermediation loans		<b>77%</b>	76%	1%	77%	0%
Total assets		<b>97 239</b>	90 501	7.4%	93 542	4.0%

### **Unweighted capital share (leverage ratio) – new framework conditions**

The Ministry of Finance set new requirements for the leverage ratio from 01.01.17 to minimum 5%. The leverage ratio for core equity (Leverage Ratio) in SpareBank 1 Nord-Norge is per 31.12.17 estimated at 7.0% (6.8%).

The Group's solvency is assessed as good based on current regulatory requirements. Reference is made, furthermore, to a separate section on Capital Management and new regulatory requirements later in the report.

### **Events after the balance sheet date**

No events have occurred after the balance sheet date that are considered to have a significant impact on the Group's profit and/or financial position.

### **Business management and corporate management (Corporate governance)**

The management of SpareBank 1 Nord-Norge is based on the Accounting Act and the principles granted in the Norwegian Code of Practice for Corporate Governance. Reference is made to a separate section in the annual report on business management and corporate governance, which also covers the requirements of the Accounting Act section 3-3b. The section further describes how SpareBank 1 Nord-Norge follows up on the recommendation. The section also contains information about the Board with sub-committees.

### **Risk- and capital management – general remarks**

The Group's overall steering documents are its business strategy (see description at the beginning of the report) and risk strategy. All other strategy documents and policies are derived from these. Risk management in SpareBank 1 Nord-Norge has its primary goal to optimize the relationship between risk and profitability in a long-term perspective. It is an aim to manage all significant risks in line with best practices for comparable banks.

The Group's control- and management model clearly defines responsibilities and roles. SpareBank 1 Nord-Norge uses considerable resources to establish, track and refine the Group's quality systems, risk management systems- and processes.

The Group's principles and frameworks for risk management and internal control are embodied in a separate framework. This is reviewed and approved annually by the Board.

Risk-adjusted capital is calculated for all significant risk areas. This is an important prerequisite for assessments related to risk exposure, capital buffers and financial strength targets. These are factors intended to secure the Group's operation 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 primary capital and other provisions.

### **Internal control**

The Group has established a control model whereby the risk management department has an overall responsibility to ensure that management- and reporting systems are actively used by leaders in tracking business and subject areas.

Throughout the year, the Board has carried out quarterly follow-ups of developments in key quality- and risk indicators, and annually prepares a summary report on internal control within the group. The Board of Directors is also presented annually with a revision of the framework for governance and control.

The internal auditor and the responsible auditor report regularly to the Board of Directors, with independent assessments of the Group's risk, and whether the internal control works appropriately and is reassuring.

### **Risk management**

Risk management supports the Group's strategy, development and objectives.

This is achieved through:

- A well-defined framework for risk management, capital management, internal control and compliance.
- A healthy culture characterised by high awareness of the Group's established risk willingness, risk drivers and risk management in the organisation.

The Board of Directors handles quarterly a summary of the risk picture for the group. This forms the basis for the Board's discussions and assessments of necessary action. Central to this review, are assessments of the Group's financial soundness, profitability and efficiency based on the development of underlying portfolios and risks.

## The most central risk areas

### Business risk

The Group's business risk relates to unexpected income- and cost fluctuations as a result of the Group's operations, and external conditions such as market situation changes or regulatory regulation. This applies in particular in the case of income loss due to increased competition, changes in the framework conditions and the business foundation- or cost increases that cannot be compensated for with cost-cutting or revenue-finding measures.

The Group employs a wide range of quantitative and qualitative tools to identify and report business risks.

Good strategic planning is the primary tool for reducing business risk. The Group's framework and guidelines for good business management (Corporate governance) are key elements in the business management of the enterprise.

The business risk in the Group is considered moderate to low.

### Credit risk

Credit risk is defined as the risk of loss due to customer or counterparties being unable or unwilling to fulfil their obligations to the Group. Credit risks arise as a result of that funding is part of the core business of the Group.

The Group's credit portfolio in the corporate market has moderate risk, while the risk of retail market portfolio is considered very low. The risk development in both portfolios is good, with increased shares of low- and medium risk classes and reduced shares in the high and highest risk classes. This development reflects the good macroeconomic situation in the region. The Group has low direct exposure to oil-dependent sectors. Most of the lending to the retail market is secured with collateral in real estate, and the security coverage is good. The level of defaulted loans is somewhat higher in 2017 than in 2016, but still on a par with what economic development in the country suggests.

The losses in 2017 mainly come from a single commitment within the corporate market and write-downs on repossessed assets. There are still low losses in the private market. Analyses of the current portfolio and criteria according to IFRS 9, suggest that the implementation of IFRS 9 will not entail significant effects on the level of group provisions for bad debts.

In the risk strategy, frameworks are established for the ongoing management of credit risk. The Bank's appropriation regulations and authorizations are based on the probability of default and "the two pairs of eyes principle". The appropriation regulations are evaluated annually by the Board.

The status of the risk frameworks is reported quarterly to the Board, including proposed or implemented measures.

Reference is made furthermore to a further description of credit risk in the notes to the financial statements.

### Market risk

Market risk is defined as risk for value changes on assets/financial positions resulting from market value changes. Typical factors affecting market risk are share prices, property prices, interest rates, exchange rates and commodity prices. Market risk occurs as a result of open positions in the currency-, finance- and otherwise in capital markets.

The Group's market risk is classified as moderate. The portfolio of assets that are directly exposed to market fluctuations constitutes a small part of the total balance sheet, and the Bank carries out little trading with securities and financial instruments.

Stress tests for market risk indicate that the Bank and the Group have the ability to keep risks within the approved framework. Reference is made furthermore to a further description of credit risk in the notes to the financial statements.

### Liquidity risk

Liquidity risk is defined as the risk of the Group being unable to fulfil its obligations when they fall due, as well as the risk of the Group being unable to meet its liquidity obligations without the cost of this increasing significantly.

Although the liquidity risk in the Group is considered moderate to low, the Bank has a significant focus on the area. Liabilities incurred by the issuance of securities and liabilities to credit institutions are at NOK 23,553 million per 31.12.17, an increase of NOK 2,388 million from 2016. The Group's deposit coverage is 77.1% per 31.12.17 versus 76.1% in 2016 and 75.1% in 2015. Good deposit coverage and stable customer deposits are important for the Bank's liquidity management. Current requirements to liquidity buffers and liquidity risk measurement can result in sharpened competition for stable customer deposits.

The demand for refinancing in the capital market is in 2018 within a level that is considered normal for the group, and should not therefore normally entail challenges to liquidity.

The Group's funding strategy to address various considerations, such as comparisons between the lowest possible borrowing cost in the capital market and the costs associated with diversification of the Bank's loans based on maturity and borrowing sources. The Board handles the Group's liquidity strategy and contingency plans at least once a year.

Requirements for proper liquidity management are regulated, among other things, by minimum requirements to LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). SpareBank 1 Nord-Norge's financing is adapted to these new requirements.

Reference is made furthermore to a more detailed description of credit risk in the notes to the financial statements.

### Operational risk

Operational risk is defined as risk that people, processes, systems or external events reduce the Group's ability to meet its objectives. Operational risk also includes reputation, compliance, supervision of third parties, physical security and emergency planning.

Management of operational risk is an important part of the overall risk management. A separate system has therefore been developed for monitoring, documentation and reporting of operational risks and opportunities for improvement in this area.

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

The internal auditing makes independent reviews and tests of the Group's security level. The Group has considerable attention focused on the at any time most current threats, such as IT crime, fraud and other types of threats to the Group and customers. Events that have affected or may affect the Group's profitability, reputation, or customers are followed up in the Group's risk management system. SpareBank 1 Nord-Norge also cooperates with the SpareBank 1-alliansen to ensure good, stable operation and a high level of security.

The Bank established a compliance function at the corporate level in autumn 2017. The feature is still in a startup phase with need for further development. The Board of Directors will follow up that the Group remains at all times within current regulatory requirements. The Group's operational risk is considered to be slightly higher than normal.

### Ownership risk

Ownership risk is defined as the risk that the Group will be inflicted negative results from ownership posts in strategically owned companies. The ownership risk will increase by the supply of increased equity in such companies.

The ownership shares in jointly-controlled companies are significant and important to the Group's total profitability. On the other hand, these equity shares may provide increased volatility in the results and affect the capital coverage. The risk in the different companies is moderate, but the Bank is indirectly exposed to significant ownership risk – especially through the ownership post in the SpareBank 1 Gruppen AS.

### Capital management

Capital coverage regulations set minimum requirements for common equity Tier 1 capital, core capital and primary capital. These regulations include credit risk, market risk and operational risk. In addition, financial institutions are required to conduct an internal capital adequacy assessment process – ICAAP. The financial supervision authority has provided guidance for the process, and the capital assessment should include all significant risks, even beyond the regulatory minimum requirements. The capital assessment should be forward-looking and based on satisfactory methods and data. Account should also be taken for uncertainty in calculations, methods and data. Each quarter the Group's risk- and capital situation is assessed in a separate report to the Board.

Further discussion of business management and corporate governance is included in the sections on risk management and internal control and principles for corporate governance in the annual report.

### New regulatory requirements

Several new rules in the financial market area have been proposed and/or introduced in 2017, and there is still significant regulatory work being carried both internationally and in Norway. Key changes in 2017 and notified regulatory changes in the coming year can be briefly summarized as:

- A number of new standards from the Basel Committee were adopted in December 2017. Implementation in the EU is set to 01.01.22. Time of implementation in Norway, and any distinctively Norwegian adaptations, have not yet been adopted.
- Increase in countercyclical buffer (2% from 31.12.17)
- Requirements to leverage ratio share (5% from 30.06.17)
- Increased requirements related to consumer loans: Guidelines for proper loaning practices for consumer loans
- IFRS 9 – new write-down model for lending in banks (to be implemented from 01.01.18)
- LCR: Minimum requirement to LCR increased from 80% to 100% from 01.01.18. Minimum requirements in significant currency apply from 30.09.17

For a more complete review, refer to the sections on risk management and internal control elsewhere in the annual report.

### Auditing

The Group's external auditor is KPMG. Internal audits are carried out by Ernst & Young. The external and internal auditors report to the Board.

### Research- and development activities

SpareBank 1 Nord-Norge runs business development under its own auspices, and participates in a comprehensive development co-operation within the SpareBank 1-alliansen. The development work relates to new products and services, and in 2017 the payment sector has been central.

SpareBank 1 Nord-Norge does not carry out directly activities that can be characterized as research. But through the social dividend, the Group allocates funds for knowledge- and research purposes in the region, thereby contributing to the development of new knowledge in key areas.

Reference is made furthermore to the mention of research and development activities in the annual report's section on social involvement.

### Organisation and HR

Capable, committed employees are the most important prerequisite for creating value for customers, owners and Northern Norway. Therefore, one of the Group's 5 strategic goals is to be Northern Norway's most attractive and engaging workplaces. The Group's attractiveness is evident from the high number of qualified applicants for vacant positions, internal career choices and feedback from the employees in employer surveys. At the same time, sick leave is low, only 2.9% (doctor-certified and self-certified).

The ability and willingness to change of the Group is very good, giving the organization a strong ability to follow through in an era when the Group is affected by continuous and major changes in the financial industry. In 2017, this ability to change has been demonstrated in particular in the employees' willingness to cope with major changes, as a result of digitization and new customer expectations.

Every company in the Group has the same strategic framework, and year by year the new step is to act as one group and pull the organization together with common goals and activities. An increasing number of the Group's financial centres co-localize employees from the various companies, and a common workplace concept has been designed for all employees of all companies. This is an important step with respect to being able to offer customers a better overall service and create synergies, which in turn is important in achieving the Group's yield target.

The financial industry is rapidly changing. Automation, digitization, changing framework constraints, and changing customer behaviour make the work of organization, management- and employee development more important than ever. Learn more about how SpareBank 1 Nord-Norge is working with changes, with employee involvement and the working environment in the organisation and HR section on page 161 in the annual report.

### Equal opportunities and diversity

SpareBank 1 Nord-Norge promotes equality among all employees, regardless of gender, orientation, ethnicity and life stance. The Group has employees from different nations and many are multilingual. In Northern Norway, it has been especially important to have employees who master the Sámi and Russian languages. In customer reception and several other functions, employees are also required to have good English skills.

There are more women in the Group than men. The proportion of women in the executive management team increased from 2016 and we are now close to achieving our ambition of a share of more than 40%. The Group's pay analyses show that there are no pay differences between employees based on gender.

### Health, safety and the environment

SpareBank 1 Nord-Norge's aggressive focus on health, safety and environment (HSE) continues and is producing the desired results. In the area of security, several smaller courses have been carried out on a selected security topics in 2017, and regular webinars are organised for managers and employees, which highlight common learning on security challenges among other topics.

In 2017, a method was designed for carrying out vulnerability analyses connected to manning vulnerabilities and risks in the short, medium and long term.

The SSN Spor diet- and exercise concept turned 4 years old in autumn 2017 and is just as vital as its age indicates. No fewer than 87% of employees take part and the level of activity still remains well above the Norwegian Directorate of Health's recommendations for physical activity. Spor represents the offensive and preventative part of the Group's health, safety and environment work, and also helps to build corporate culture through internal activation of the Group's social involvement.

SpareBank 1 Nord-Norge strives to prevent harm from robberies, threats or other unwanted incidents. The Group faced no attempted robberies in 2017. Six cases of threats being made to employees were reported: two in the customer service centre and four in the Bank's branches. Two work-related accidents were recorded, both of a less serious nature.

### Sick leave and the inclusive workplace scheme

All companies in the Group are IA companies. The agreement on inclusive employment lasts until the end of 2018. SpareBank 1 Nord-Norge has in recent years worked systematically and broadly to reduce sickness absence. As mentioned, the Group's total doctor-certified and self-certified sickness absence for 2017 was at 2.9% (reported per 31.12.17).

## Environmental- and social responsibility

As Northern Norway's largest financial group, long-term and sustainable value creation is very important for SpareBank 1 Nord-Norge. The Group is concerned about how activities influence people, the environment and society and in 2017 continues to work on becoming an even more resource-saving and environmentally efficient organisation. This includes, among other things, by stipulating requirements to the Group, suppliers and partners.

SpareBank 1 Nord-Norge is a certified environmental lighthouse and has signed up to the UN Global Compact, which implies that the Group must meet all obligations inherent in the certification scheme and Global Compact reporting requirements.

The Group's operations do not affect the external environment to a particular extent.

Social responsibility is reflected in every aspect of the business. Learn more about social responsibility, social involvement, and sustainability in SpareBank 1 Nord-Norge later in the annual report. There is also information about the foundations that are associated with the Group.

## Macroeconomic situation – status and prospects for 2018

Global growth has been very stable in recent years, but was stronger in 2017 than expected by most economists at the start of the year. Growth is good in both rich and emerging economies and the three big driving forces, the US, Europe and China, all saw strong growth in 2017. Despite this, interest rates and inflation remained low and payroll costs have only risen moderately. Company earnings showed good growth in most markets and the price of oil continued to strengthen in 2017. The global economy is thus seeing a relatively strong cyclical upswing that looks like it could continue throughout 2018.

After weak growth in the last few years, caused by a fall in the price of oil that started in 2014, growth in the Norwegian economy rose in 2017. The growth was driven by personal and public consumption and housing investments. Norwegian exports have also increased in 2017, well aided by a relatively weak NOK exchange rate. Despite increased growth in the economy, inflation is low and Norges Bank expects it to remain relatively low in 2018 as well. The Norwegian national bank key interest rate has been at a record low since March 2016, when it was set at 0.5%. Norges Bank increased its forecast for the key interest rate several times in 2017 and its update from December 2017 indicates that the first rate hike will take place towards the end of 2018.

The uncertainty in the Norwegian economy is primarily associated with the development of the housing market. Norway has seen a fall in house prices, after many years of strong growth. If the fall in prices becomes significant, it could have a negative impact on the real economy in Norway.

As far as the pace of investment in the Norwegian economy is concerned, a weaker housing market could reduce investments in housing. A large number of housing projects are expected to be put on hold until

the market has stabilised. On the other hand, higher oil prices and the substantial rationalisation that has taken place in the oil industry provide grounds for new optimism. The fall in investment in the petroleum sector is also being curbed.

The northern Norwegian economy is solid and has over time seen higher growth than the rest of the country. Analyses by the Konjunkturbarometer for Nord-Norge (KB) in October 2017 indicate that growth in the northern Norwegian economy will increase faster in the coming year than otherwise in Norway, but that it will now only be slightly ahead of the rest of the country. This is partly because growth in the Norwegian economy has risen and partly because growth in the northern Norwegian economy is expected to be limited by scarce resources, and in particular the shortage of manpower. Today, Northern Norway is completely dependent on labour migration. There are also significant capacity limitations in seafood production while the airport capacity limits the opportunities to handle the growth in tourism.

In recent years, employment has grown faster in Northern Norway than nationally, but the potential for further growth is now lower. Quite simply, there are too few people to draw on, at the same time as unemployment cannot really fall much lower. KB estimates that 25,000 new employees will be needed in the period up to 2030. This is a need that must largely be met through employment immigration and people moving to the region. One consequence of the scarcity of labour could be extra pressure on wages, and thereby weaker competitiveness in those parts of the economy where wage growth is controlled locally.

Since the summer of 2017, house prices have also shown a slight downwards trend in Northern Norway as well. Tromsø, which has the highest prices in the region, experienced a negative annual growth of 1.8% at the end of the year. The annual growth in Bodø remains positive but is also showing

a downward trend. It is likely that prices will continue to fall somewhat in the coming months, although according to the forecasts of KB, prices will not fall as much in the north as they will in the south, primarily because they are generally lower in the north.

Investment growth in Northern Norway has been significant in 2016 and 2017, and has mainly been supported by high-property investment. The number of new housing projects is expected to fall in the years ahead due to a weaker housing market. In the civil engineering sector, where the activity is largely steered by the construction of roads and other infrastructure, the picture is more positive. Orders on hand are rising and an ambitious national transport plan ensures further growth. As far as companies are concerned, Norges Bank's regional network reports that weak investment growth is expected going forward.

Northern Norwegian exporters are benefiting from a relatively weak Norwegian krone exchange rate and a favourable price development in their products. The value of Norwegian goods exports had good growth in 2017, primarily because of a favourable price development. At the same time, volume growth was weak. The value of seafood exports from Northern Norway increased by a total of 22.5% in 2016 while in 2017 it was considerably lower, approximately 5% higher as of November than for the same period in 2016. KB from October 2017 forecasts a growth of 2.5% in northern Norwegian exports in 2018, measured in terms of fixed prices.

Optimism in the tourism industry remains high. Tourism in the region is experiencing strong growth and in the last few years has generally outpaced the national rate. In 2016, the number of foreign overnight stays rose by 18% and at the end of November 2017 the annual growth was 12%. In 2017, Nordland had the highest growth with 15%, while Troms and Finnmark both ended at 9%. Winter tourism accounts for an increasingly larger proportion of the influx of tourists.

Oil and gas are still at the early stages in the north. Only the Norne, Snøhvit, Skarv and Goliath fields are in operation, while Aasta Hansteen is under development. Here production start is planned for the 4th quarter of 2018. Combined with new finds (Johan Castberg, Gotha and Alta) and the opening up of new areas for exploration, the oil sector is still making more of a mark in the region.

The international, national and regional macroeconomic situations will also present growth opportunities for Northern Norway in 2018. At the same time, uncertainty exists in relation to both the international macro picture and how the Norwegian krone exchange rate will develop in the future and impact export industries and tourism. It is expected that rising growth in Norway together with higher oil prices could result in a stronger Norwegian krone. This would be negative for the region, both for the export industry and for tourism.

Many places and industries in the region are experiencing a lack of qualified labour. A tight labour market thus presents a challenge to growth in the region. An inefficient infrastructure and the current volume limitations in the seafood industry are also considered to be a hindrance to further growth. However, Northern Norway's macroeconomic prospects still look as good or better than those for the country as a whole.

One of SpareBank 1 Nord-Norge's roles is to ensure that good projects get the right financing. The Group also wants to use its expertise to contribute to the region being able to carry out measures and investments that strengthen value creation. The cooperation with NHO and LO on Agenda Nord-Norge and the Business Trends Survey are important contributions in this regard.

## Summary and prospects

As stated initially, the Group's main strategic objectives are as follows:

1. Northern Norway's most enthusiastic customers
2. Number 1 in all business- and geographical areas in the region
3. Northern Norway's most attractive and exciting workplace
4. Undisputedly solvent, with yields among the best of comparable groups
5. Quality in everything we do

The prevailing financial objectives and ambitions are:

- Tier 1 capital ratio of minimum 14.5%
- Return on equity of 12% or greater
- A long-term cost percent of 40% or lower
- Dividend ratio of minimum 50%

While the beginning of 2017 was characterized by international uncertainty, both international, national and regional macroeconomic conditions are conducive to 2018 also providing growth opportunities for Northern Norway and SpareBank 1 Nord-Norge.

The elements of uncertainty for the northern Norwegian economy are related to several factors. One of them is a possible strengthening of the Norwegian krone exchange rate, which could, among other things, be the result of increased oil prices and a generally increased economic growth in Norway. Another factor is the tight labour market, with a shortage of qualified labour in many places, creating challenges for growth opportunities in the region. An infrastructure that is not efficient enough and the volume limitations of the seafood industry also inhibit growth. However, Northern Norway's macroeconomic prospects still look as good or better than those for the country as a whole.

Focus on core business is still central to the Group's strategy. 2017 has, at the same time been characterized by considerable focus on change, not least as a result of

new regulatory frameworks. In addition, work has been carried out on necessary adaptations of business models and internal processes, also to accommodate customers' changing behaviour. The main effort has been concentrated on the application of transaction data in customer dialogues and overall process efficiency improvement through automation, digitization, and improvement of digital customer media-including mobile banking, internet banking and Vipps. New products and new distribution power have been a focus area also in 2017. This work will be continued in 2018.

The financial statements for 2017 are presented on the assumption of continuing operation. The Group's long-term strategic plan and earnings prognoses for the next few years are the basis for this.

SpareBank 1 Nord-Norge's results for 2017 are considered to be very good, and the Group is in a healthy economic and financial position. SpareBank 1 Nord-Norge will therefore be an active partner in the development of the region in the years to come, and, in the Board's opinion, is very well equipped to reinforce its position as a traditional and modern regional bank – For Northern Norway.

There is good reason to thank all the Group's employees for their outstanding work ethics and efforts in 2017.

The Board also thanks the Group's customers and business associates for their cooperation in the past year.

**Tromsø, 27. February 2018**

Styret for SpareBank 1 Nord-Norge



Karl-Eirik Schjøtt Pedersen  
(chairman)



Hans-Tore Bjerkaas  
(vice-chairman)



Ingvild Myhre



Kjersti Terese Stormo



Greger Mannsverk



Bengt Olsen



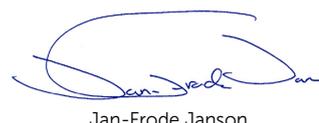
Sonja Dønne



Vivi-Ann Pedersen  
(employee representative)



Kjetil Berntsen  
(employee representative)



Jan-Frode Janson  
(CEO)

# Annual accounts



*The main difference between a savings bank and a commercial bank is the ownership model. 46.4% of SpareBank 1 Nord-Norge's equity is owned in the retail market, while 53.6% is owned by Northern Norway collectively. As an owner, the region receives the largest proportion of the dividends, which we call community dividends.*

## Annual Report - Income statement

PARENT BANK				GROUP	
2016	2017	Amounts in NOK million	Notes	2017	2016
2 359	<b>2 387</b>	Interest income	20	<b>2 611</b>	2 548
907	<b>824</b>	Interest costs	20	<b>841</b>	904
1 452	<b>1 563</b>	<b>Net interest income</b>		<b>1 770</b>	1 644
682	<b>756</b>	Fee- and commission income	21	<b>931</b>	871
78	<b>77</b>	Fee- and commission costs	21	<b>85</b>	85
42	<b>46</b>	Other operating income	21	<b>146</b>	138
646	<b>725</b>	<b>Net fee- commission and other operating income</b>		<b>992</b>	924
74	<b>4</b>	Dividend	22	<b>4</b>	74
612	<b>457</b>	Income from investments	22	<b>434</b>	366
114	<b>112</b>	Gain/losses and net value changes from investments in securities	22	<b>114</b>	69
800	<b>573</b>	<b>Net income from investments</b>		<b>552</b>	509
2 898	<b>2 861</b>	<b>Total income</b>		<b>3 314</b>	3 077
503	<b>511</b>	Personnel costs	23,24,25	<b>708</b>	689
523	<b>544</b>	Other operating costs	24,32	<b>658</b>	631
1 026	<b>1 055</b>	<b>Total costs</b>		<b>1 366</b>	1 320
1 872	<b>1 806</b>	<b>Result before losses</b>		<b>1 948</b>	1 757
158	<b>46</b>	Losses	14	<b>184</b>	213
1 714	<b>1 760</b>	<b>Result before tax</b>		<b>1 764</b>	1 544
258	<b>316</b>	Tax	26	<b>324</b>	291
		Result non-current assets held for sale	31		
1 456	<b>1 444</b>	<b>Result for the year</b>		<b>1 440</b>	1 253
<b>Result per Equity Certificates</b>					
6.72	<b>6.62</b>	Result per EC, adjusted for interests hybrid capital	42	<b>6.61</b>	5.79
<b>Other comprehensive income, IAS 1</b>					
1 456	<b>1 444</b>	Result for the period		<b>1 440</b>	1 253
<b>Items that will not be reclassified to profit/loss</b>					
		Net change in fair value of investment in joint-venture		<b>5</b>	0
-5	<b>61</b>	Actuarial gains (losses) on benefit-based pension schemes		<b>69</b>	-1
1	<b>-15</b>	Tax		<b>-17</b>	
-4	<b>46</b>	<b>Total</b>		<b>57</b>	-1
<b>Items that will be reclassified to profit/loss</b>					
10		Effective part of change in fair market value in cash flow hedging			10
-60	<b>15</b>	Net change in fair value of financial assets available for sale		<b>15</b>	-60
		Net change in fair value of investment in joint-venture		<b>3</b>	0
-2		Tax			-2
-52	<b>15</b>	<b>Total</b>		<b>18</b>	-52
1 400	<b>1 505</b>	<b>Total comprehensive income for the period</b>		<b>1 515</b>	1 200
<b>Totalresult per Equity Certificate</b>					
6.47	<b>6.90</b>	Result per EC, adjusted for interests hybrid capital <sup>1)</sup>	42	<b>6.95</b>	5.55

1) Result, adjusted for interests hybrid capital, multiplied by ECs' share of result, divided by number of ECs

## Annual Report - Balance Sheet

PARENT BANK			GROUP		
31.12.16	31.12.17	Amounts in NOK million	Notes	31.12.17	31.12.16
<b>ASSETS</b>					
775	<b>775</b>	Cash and balances with Central Banks		<b>775</b>	775
5 871	<b>7 081</b>	Loans and advances to credit institutions	10	<b>2 656</b>	1 946
65 670	<b>69 177</b>	Net loans and advances to customers	11,13,14	<b>74 487</b>	70 236
291	<b>255</b>	Shares	30,22	<b>270</b>	306
10 164	<b>11 541</b>	Bonds and certificates	29,22	<b>11 541</b>	10 164
1 390	<b>1 511</b>	Financial derivatives	17,22	<b>1 511</b>	1 390
728	<b>924</b>	Investment in Group companies	31,41		
2 849	<b>3 160</b>	Investment in associated companies and joint ventures	31,41	<b>4 755</b>	4 370
361	<b>234</b>	Property, plant and equipment	32	<b>453</b>	501
		Non-current assets held for sale	31	<b>30</b>	30
		Intangible assets	33	<b>68</b>	63
425	<b>499</b>	Other assets	34	<b>640</b>	720
<b>88 524</b>	<b>95 157</b>	<b>Total assets</b>		<b>97 186</b>	90 501
<b>LIABILITIES</b>					
833	<b>436</b>	Liabilities to credit institutions	10	<b>434</b>	818
53 924	<b>57 883</b>	Deposits from customers	35	<b>57 849</b>	53 870
21 165	<b>23 552</b>	Debt securities in issue	36	<b>23 552</b>	21 165
985	<b>902</b>	Financial derivatives	17	<b>902</b>	985
846	<b>739</b>	Other liabilities	37,25,26	<b>1 014</b>	1 128
		Non-current assets held for sale	30		
83	<b>178</b>	Deferred tax liabilities	26	<b>286</b>	174
1 350	<b>850</b>	Subordinated loan capital	39	<b>850</b>	1 350
<b>79 186</b>	<b>84 540</b>	<b>Total liabilities</b>		<b>84 887</b>	79 490
<b>EQUITY</b>					
1 807	<b>1 807</b>	Equity Certificates	42	<b>1 807</b>	1 807
843	<b>843</b>	Premium Fund		<b>843</b>	843
	<b>530</b>	Hybrid capital		<b>530</b>	
1 657	<b>1 980</b>	Dividend Equalisation Fund		<b>1 980</b>	1 657
4 459	<b>4 770</b>	Saving Bank's Fund		<b>4 770</b>	4 459
521	<b>585</b>	Donations		<b>585</b>	521
20	<b>35</b>	Fund for unrealised gains		<b>35</b>	20
31	<b>67</b>	Other equity		<b>1 749</b>	1 704
<b>9 338</b>	<b>10 617</b>	<b>Total equity exclusive minority interests</b>		<b>12 299</b>	11 011
<b>88 524</b>	<b>95 157</b>	<b>Total liabilities and equity</b>		<b>97 186</b>	90 501

Tromsø, 27. February 2018



Karl-Eirik Sonjøtt Pedersen  
(chairman)



Hans-Tore Bjerkaas  
(vice-chairman)



Ingvild Myhre



Kjersti Terese Stormo



Greger Mannsverk



Bengt Olsen



Sonja Dønne



Vivi-Ann Pedersen  
(employee representative)



Kjetil Berntsen  
(employee representative)



Jan-Frode Janson  
(CEO)

## Annual Report - Changes in equity

## PARENT BANK

Amounts in NOK million	EC capital	Premium Fund	Hybrid capital	Dividend Equalisation Fund	Saving Bank's Fund	Fair value reserve	Donations Fund	Other equity	Total equity
Equity at 01.01.16	1 807	843		1 179	4 074	80	180	35	8 198

**Total comprehensive income for the period**

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

**Transactions with owners**

Set aside for dividend payments				-346					-346
Reversal of dividend payments				346					346
Dividend paid 2015/other distribution				-201			-60		-261
Other equity transactions					1				1
Total transactions with owners				-201	1		-60		-260
Equity at 31.12.16	1 807	843		1 657	4 459	20	521	31	9 338

**Total comprehensive income for the period**

Period result				669	310		465		1 444
<i>Other comprehensive income:</i>									
Actuarial gains (losses) on benefit-based pension schemes								61	61
Net change in fair value of financial assets available for sale						15			15
Tax on other comprehensive income								-15	-15
Total other comprehensive income						15		46	61
Total comprehensive income for the period				669	310	15	465	46	1 505

**Transactions with owners**

Set aside for dividend payments				-402					-402
Reversal of dividend payments				402					402
Dividend paid 2015/other distribution				-346			-401		-747
Other equity transactions			530		1			-10	521
Total transactions with owners			530	-346	1		-401	-10	-226
<b>Equity at 31.12.17</b>	<b>1 807</b>	<b>843</b>	<b>530</b>	<b>1 980</b>	<b>4 770</b>	<b>35</b>	<b>585</b>	<b>67</b>	<b>10 617</b>

## GROUP

Amounts in NOK million	EC capital	Premium Fund	Hybrid capital	Dividend Equalisation Fund	Saving Bank's Fund	Fair value reserve	Donations Fund	Other equity	Total equity
Equity at 01.01.16	1 807	843		1 179	4 074	80	180	1 798	9 961

**Total comprehensive income for the period**

Period result				675	380		401	-203	1 253
<i>Other comprehensive income:</i>									
Net change in fair value of financial assets available for sale						-60			-60
Actuarial gains (losses) on benefit-based pension schemes								-1	-1
Effective part of change in fair market value in cash flow hedging				4	6				10
Tax on other comprehensive income					-2				-2
<b>Total other comprehensive income</b>				<b>4</b>	<b>4</b>	<b>-60</b>		<b>-1</b>	<b>-53</b>
<b>Total comprehensive income for the period</b>				<b>679</b>	<b>384</b>	<b>-60</b>	<b>401</b>	<b>-204</b>	<b>1 200</b>

**Transactions with owners**

Equity issue									
Set aside for dividend payments				-346					-346
Reversal of dividend payments				346					346
Dividend paid 2015/other distribution				-201			-60		-261
Changes in minority interests									
Other equity transactions					1			110	111
<b>Total transactions with owners</b>				<b>-201</b>	<b>1</b>		<b>-60</b>	<b>110</b>	<b>-150</b>
Equity at 31.12.16	1 807	843		1 657	4 459	20	521	1 704	11 011

**Total comprehensive income for the period**

Period result				669	310		465	-4	1 440
<i>Other comprehensive income:</i>									
Net change in fair market value of investment in joint ventures								8	8
Net change in fair value of financial assets available for sale						15			15
Actuarial gains (losses) on benefit-based pension schemes								69	69
Tax on other comprehensive income								-17	-17
<b>Total other comprehensive income</b>						<b>15</b>		<b>60</b>	<b>75</b>
<b>Total comprehensive income for the period</b>				<b>669</b>	<b>310</b>	<b>15</b>	<b>465</b>	<b>56</b>	<b>1 515</b>

**Transactions with owners**

Set aside for dividend payments				-402					-402
Reversal of dividend payments				402					402
Dividend paid 2015/other distribution				-346			-401		-747
Other equity transactions			530		1			-11	520
<b>Total transactions with owners</b>			<b>530</b>	<b>-346</b>	<b>1</b>		<b>-401</b>	<b>-11</b>	<b>-227</b>
<b>Equity at 31.12.17</b>	<b>1 807</b>	<b>843</b>	<b>530</b>	<b>1 980</b>	<b>4 770</b>	<b>35</b>	<b>585</b>	<b>1 749</b>	<b>12 299</b>

## Annual Report - Cash Flow Statement

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
1 714	<b>1 760</b>	Profit before tax	<b>1 764</b>	1 544
50	<b>51</b>	+ Ordinary depreciation	<b>65</b>	60
-20	<b>-11</b>	+ Write-downs, gains/losses fixed assets	<b>1</b>	-20
158	<b>46</b>	+ Losses on loans and guarantees	<b>184</b>	213
258	<b>316</b>	- Tax/Result non-current assets held for sale	<b>324</b>	291
261	<b>747</b>	- Dividend paid on Ecs/distributions	<b>747</b>	261
1 383	<b>783</b>	Provided from the year's operations	<b>943</b>	1 245
-563	<b>-39</b>	Change in sundry liabilities: + increase/ - decrease	<b>-17</b>	-374
653	<b>-195</b>	Change in various claims: - increase/ + decrease	<b>-46</b>	440
-6 341	<b>-3 553</b>	Change in gross lending to and claims on customers: - increase/ + decrease	<b>-4 435</b>	-6 837
1 111	<b>-1 341</b>	Change in short term-securities: - increase/ + decrease	<b>-1 341</b>	1 277
5 779	<b>3 959</b>	Change in deposits from and debt owed to customers: + increase/ - decrease	<b>3 979</b>	5 778
-965	<b>-397</b>	Change in debt owed to credit institutions: + increase/ - decrease	<b>-384</b>	-967
1 057	<b>-783</b>	A. Net liquidity change from operations	<b>-1 301</b>	562
-40	<b>-40</b>	- Investment in fixed assets	<b>-90</b>	-80
92	<b>123</b>	+ Sale of fixed assets	<b>68</b>	92
-115	<b>-507</b>	Change in holdings of long-term securities: - increase/ + decrease	<b>-385</b>	54
-63	<b>-424</b>	B. Liquidity change from investments	<b>-407</b>	66
-305	<b>2 387</b>	Change in borrowings through the issuance of securities: + increase/ - decrease	<b>2 388</b>	-305
	<b>30</b>	Change in PCC/subordinated loan capital: + increase/ - decrease	<b>30</b>	
-305	<b>2 417</b>	C. Liquidity change from financing	<b>2 418</b>	-305
689	<b>1 210</b>	A + B + C. Total change in liquidity	<b>710</b>	323
5 957	<b>6 646</b>	+ Liquid funds at the start of the period	<b>2 721</b>	2 398
6 646	<b>7 856</b>	= Liquid funds at the end of the period	<b>3 431</b>	2 721

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# Annual report - Notes

## Note 1 - General information

### Description of the business

SpareBank 1 Nord-Norge is an independent Norwegian financial services group within the SpareBank 1-alliansen, with Equity Certificates registered on Oslo Stock Exchange. We know Northern Norway and are 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.

At the end of the year, the Group had 16 financial centres spread across 38 locations in Northern Norway and on Svalbard.

### Business address

The SpareBank 1 Nord-Norge Group's head office is located in Tromsø, and its business address is Sjøgata 8, 9008 Tromsø.

### Date of adoption of the Group accounts

The 2017 preliminary annual accounts were adopted by the Parent Bank's Board on 08.02.18.

The 2017 final annual accounts were adopted by the Parent Bank's Board on 27.02.18.

The 2017 final annual accounts were adopted by the Parent Bank's Supervisory Board on 22.03.18. Dividends will be paid out on 10.04.18.

### Auditor

The Group's auditor is state authorised public accountant Lars-Inge Pettersen at KPMG.

## Note 2 - Accounting principles

### Basis for preparation of the annual accounts

The 2017 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 31.12.17, as well as Norwegian information requirements pursuant to the Accounting Act as of 31.12.17.

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 implemen-

ted in the Group in the current accounting period. Below is a list of the relevant IFRS amendments that came into effect for the 2017 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 01.01.18. New loss model, implementation and accounting impact are discussed in separate notes.
- 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.

Based on the assessments that have been made so far, IFRSs and interpretation statements published prior to the adoption of the proposed annual financial statements, and which it was not mandatory to apply as at 31.12.17, do not have a material effect on the reported figures.

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 will be considered by the Supervisory Board on 22.03.18 for final approval. Prior to final approval, the Board of Directors has the authority to change the annual financial statements.

### 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.

## Subsidiaries

As at 31.12.17 following subsidiaries are consolidated:

SpareBank 1 Finans Nord-Norge AS (100%)  
 SpareBank 1 Nord-Norge Portefølje AS (100%)  
 EiendomsMegler 1 Nord-Norge AS (100%)  
 SpareBank 1 Regnskapshuset Nord-Norge AS (100%)  
 Nord-Norge Eiendom IV AS (100%)  
 Alsgården AS (100%)  
 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.

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 31.12.17 the following associated companies are applied with equity method of accounting:

SpareBank 1 Boligkreditt AS (16,85%)  
 SpareBank 1 Næringskreditt AS (14,48%)  
 BN Bank ASA (23,5%)  
 SpareBank 1 Kredittkort AS (17,29%),  
 SpareBank 1 Betaling AS (19,70%)  
 SMB Lab AS (20%)  
 Proaware AS (20%).

### 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 31.12.17 the following joint ventures are applied with equity method of accounting:

SpareBank 1 Gruppen AS (19,5%)  
 SpareBank 1 Banksamarbeidet DA (17,74%)

### 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. See note 31.

### 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
- stated at fair value at first time recognition
- loans and receivables
- available for sale
- financial liabilities at amortised cost

The table on the next page shows the Group's general policies for balance sheet classification. The valuation methods use for financial instruments are also illustrated. For instruments that are not derivatives or measured at fair value through profit and loss, transaction costs that are directly referable to the acquisition or issuing of the financial asset, or the financial liability, are taken into account.

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

CLASSIFICATION OF BALANCE SHEET ITEMS - AS AT DECEMBER 2017								
Class	Current IFRS/IAS	Financial assets or liabilities	Classification 2017	Fair value hierarchy	Applied in the annual report note	Balance Parent Bank 31.12.17	Balance Group 31.12.17	
<b>Assets</b>								
B	Cash	IAS 39	Yes	FVPL	1	Cash flow statement	203 931	203 932
B	Deposits with central banks	IAS 39	Yes	FVPL	1	Cash flow statement	571 460	571 460
A	Lending to financial institutions	IAS 39	Yes	AC		10	7 173 357	2 747 884
A	Write-downs lending to financial institutions					10,14	-92 426	-92 426
A	Property mortgages for retail customers	IAS 39	Yes	AC		11,28	15 172 143	15 172 144
A	Property mortgages for retail customers available for sale for SpareBank 1 Boligkreditt (webclient)	IAS 39	Yes	AC		11,28	13 997 971	13 997 971
A	Property mortgages for retail customers prepared for sale to SpareBank 1 Boligkreditt (webclient)	IAS 39	Yes	AC	3	11,27,13	4 002 028	4 002 028
C	Fixed rate loans	IAS 39, IFRS 13	Yes	FVPL	3	11,27	6 394 758	6 394 758
A	Other loans for retail customers	IAS 39	Yes	AC		11,28	4 439 817	6 439 818
A	Corporate market loans	IAS 39	Yes	AC		11,28	25 658 505	28 996 141
A	Loan loss provisions					14	-487 535	-516 352
B	Shares, trading	IAS 39, IFRS 13	Yes	FVPL	1	22,30	123 203	123 203
B	Shares, available for sale with value changes through profit/loss	IAS 39	Yes	TFS	3	22,30	17 953	17 954
D	Shares, available for sale with value changes through OCI	IAS 39	Yes	TFS	3	22,30	43 000	43 000
B	Shares, non trading	IAS 39, IFRS 13	Yes	FVPL	3	22,30	71 011	85 548
B	Liquidity portfolios	IAS 39, IFRS 13	Yes	FVPL		22,29	11 292 696	11 292 697
B	Liquidity portfolios, Hybrid Tier 1 capital	IAS 39, IFRS 13	Yes	FVPL		22,30	248 164	248 164
B	Derivatives - interest rate hedging, bonds	IAS 39	Yes	FVPL	2	17,22,27	989 658	989 659
B	Derivatives - interest rate hedging, fixed rate loans	IAS 39	Yes	FVPL	2	17,22,27	27 298	27 298
B	Derivatives - interest rate hedging, funding	IAS 39	Yes	FVPL	2	17,22,27	486 160	486 160
B	Derivatives - commodity hedging	IAS 39	Yes	FVPL	2	17,22,27	7 766	7 767
	<b>Total assets</b>						<b>90 340 318</b>	<b>91 238 808</b>
<b>Liabilities</b>								
A	Liabilities to financial institutions	IAS 39	Yes	AC		10	-435 215	-433 678
A	Deposits from customers, variable rate	IAS 39	Yes	AC		35,20	-56 766 649	-56 732 595
A	Deposits from customers, fixed rate	IAS 39	Yes	AC		35,20	-1 116 192	-1 116 192
A	Debt securities in issue, variable rate	IAS 39	Yes	AC		35,20	-18 909 663	-18 909 664
A	Debt securities in issue, fixed rate	IAS 39	Yes	AC		36,20	-435 240	-435 240
B	Derivatives - interest rate hedging, bonds	IAS 39	Yes	FVPL	2	17,22,27	-377 937	-377 937
B	Derivatives - interest rate hedging, customers	IAS 39	Yes	FVPL	2	17,22,27	-147 598	-147 599
B	Derivatives - interest rate hedging, fixed rate loans	IAS 39	Yes	FVPL	2	17,22,27	-371 579	-371 580
B	Derivatives - interest rate hedging, funding	IAS 39	Yes	FVPL	2	17,22,27	2 644	2 645
B	Derivatives - commodity hedging	IAS 39	Yes	FVPL	2	17,22,27	-7 766	-7 767
A	Subordinated loan capital	IAS 39	Yes	AC		39,28	-850 000	-850 000
	<b>Total Liabilities</b>						<b>-79 415 195</b>	<b>-79 379 607</b>
A	AC - Amortised Cost	Held for receiving contractual cash flows.	Reports according to fair value but invests with an investment horizon that matches the liabilities that will fall due. Repayment of the nominal value or selling immediately prior to due date is used to settle the debt. Never sells before this.					
B	FVPL - Fair Value Profit and Loss	Held for sale.	Invests independent of liabilities, the main goal is to achieve the greatest possible total return in the form of a coupon and changes in value. Makes sales in the portfolio when one needs liquidity to settle liabilities.					
C	FVO - Fair Value Option	Held for sale.	Invests independent of liabilities, the main goal is to achieve the greatest possible total return in the form of a coupon and changes in value.					
D	FVOCI - Fair Value Other Comprehensive Income	Held for receiving contractual cash flows and sales.	Same as A but sells instruments when one believes others can provide a better return up to the due date. Matches average duration in the portfolio with duration of liabilities.					

## 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. Our 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 01.01.04, 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.

### Repossessed 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. Repossessed 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 or 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 equity 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 scheme 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 01.07.06 the Group established a defined contribution pension scheme. All new staff are 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 and markets 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 Board's opinion at the time the financial statements were approved for publication. The Board's 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.

## IFRS 9

IFRS 9 *Financial Instruments* will replace the current IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 deals with recognition, classification and measurement, impairment, derecognition and hedge accounting. IFRS 9 will apply from 01.01.18 and has been approved by the EU. In 2015, the SpareBank 1-alliansen put together a multidisciplinary implementation team with participants from all of the banks that use IFRS. This was tasked with preparing for the implementation of IFRS 9. The project has had a steering group with the following sub-groups:

### 1. Models and methods

Development of calculation solutions and models for establishing unbiased forward-looking estimates of expected losses.

### 2. Strategy, organisation and processes

Defining how the organisation of the ongoing work of accounting in accordance with IFRS 9 will be organised between the cooperating banks.

### 3. Accounts and reporting

Concretising the actual accounting and notes, including policy notes and note templates.

### 4. Classification and measurement

Analysing the Group's financial instruments and classifying instruments in various categories.

## Transitional rules

IFRS 9 must be applied retrospectively, with the exception of hedge accounting. Retrospective application means that SpareBank 1 Nord-Norge must produce the opening balance on 01.01.18 as if the Group has always applied the new principles. This does not mean that the comparison figures for 2017 must be restated in accordance with the new principles and in fact the standard stipulates that the Group is not allowed to restate the comparison figures unless this can be done without the benefit of hindsight. The effects of the new principles on the opening balance for 2018 will be booked against equity.

## Classification and measurement

### Financial assets

According to IFRS 9, financial assets must be classified into three measurement categories: fair value with value changes through profit or loss, fair value with value changes through other comprehensive income (OCI) and amortised cost. In the case of financial assets, one differentiates between debt instruments, derivatives and equity instruments, where debt instruments are all financial assets that are not derivatives or equity instruments.

### Financial assets that are debt instruments

Debt instruments with contractual cash flows that are only payments of interest and principal on given dates and that are held in a business model for the purpose of receiving contractual cash flows and sales shall be measured at amortised cost. Most of the Group's lending is classified in this category.

Instruments with contractual cash flows that are only payments of interest and principal on given dates and that are held in a business model for the purpose of receiving contractual cash flows and sales shall be measured at fair value with value changes through profit or loss. The Group's home mortgages that are sold to SpareBank 1 Boligkreditt AS are included in this category. Instruments that should basically be measured at amortised cost or at fair value with changes through OCI can be designated to be measured at fair value with changes through profit or loss if this eliminates or significantly reduces an "accounting mismatch". The Group's fixed-rate loans are included in this category.

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

Other debt instruments must be measured at fair value with value changes through profit or loss. This applies to instruments with cash flows that are not only payments of normal interest and principal, and instruments that are held in a business model in which the main purpose is not the reception of contractual cash flows. The Group's portfolio of certificates and bonds are included in this category.

### Derivatives and investments in equity instruments

All derivatives in the Group must be measured at fair value with value changes through profit or loss, however derivatives that are designated hedge instruments must be recognised in line with hedge accounting principles.

Investments in equity instruments must be measured on the balance sheet at fair value. Value changes shall as a rule be recognised in the ordinary income statement, but an equity instrument that is not held for trading purposes and that is not a conditional consideration following a business transfer may be designated as measured at fair value with value changes through OCI. All shares in the Group are classified at fair value with value changes through profit or loss.

### Financial liabilities

The rules on financial liabilities are generally the same as those in today's IAS 39. One change from IAS 39 is that where it has been decided that financial liabilities will be recognised at fair value through profit or loss, changes in value that are due to changes in the company's own credit risk will be recognised in OCI. Not in the income statement like today, unless recognition in OCI creates or reinforces an "accounting mismatch". The Group has classified all debt and customer deposits at amortised cost.

**Hedge accounting**

IFRS 9 simplifies the requirement for hedge accounting in that the hedging effect is tied more closely to the management's risk management. The requirement for hedge effectiveness of 80-125% has been eliminated and replaced with a more qualitative requirement, including the fact that there should be a financial connection between the hedging instrument and hedged item, and that the credit risk should not dominate the value changes of the hedging instrument. Hedging documentation is still required.

**Impairment losses on loans**

According to the current rules, impairment losses must only be made when objective evidence exists that a loss event has happened after initial recognition. According to IFRS 9, provisions for losses must be recognised based on expected credit losses (ECL). The general model for impairments of financial assets in IFRS 9 will apply to financial assets that are measured at amortised cost and which had not experienced an observable loss upon initial capitalisation. Loan pledges, financial guarantee contracts that are not measured at fair value through profit or loss, and lease agreement claims are also included.

The measurement of impairments for expected losses in the general model depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, provisions must be made for 12 months' expected losses. 12 months' expected losses are the loss that is expected to occur over the lifetime of the instrument, but which can be linked to events that occurred in the first 12 months. If credit risk has increased substantially after initial recognition, provisions must be made for the expected loss over the entire lifetime. The expected credit loss is calculated based on the present value of all cash flows over the remaining lifetime, i.e. the difference between the contractual cash flows according to the contract and the cash flow that the Bank expects to receive, discounted by an effective interest rate on the instrument.

In addition to the general model, there are separate principles for issued, including renegotiated loans that are treated as new, and purchased loans where there is an accrued credit loss upon initial capitalisation. For these, an effective interest will be calculated that takes into account the expected credit loss, and in the event of changes in expected cash flows the change will be discounted by the originally set effective interest rate and result. Thus, for these assets there is no need to monitor the extent to which there has been a significant increase in credit risk after initial capitalisation since the expected loss over the entire lifetime will be taken into account anyway.

**Recognition and derecognition of financial assets and liabilities**

Financial assets and liabilities are recognised on the trading day, i.e. the day on which the Bank became party to the instruments' contractual conditions.

Financial assets are derecognised upon expiration of the contractual rights to the cash flows from the financial asset or when the rights to the cash flows from the asset have been transferred in such a manner that the risk and return associated with ownership has to all intents and purposes been transferred.

Financial liabilities are derecognised when the contractual conditions have been met, been cancelled or expired.

**Modified assets and liabilities**

If the conditions relating to an existing financial asset or liability are modified or changed, the instrument is treated as a new financial asset if the renegotiated conditions materially differ from the old conditions. If the conditions are materially different, the old financial asset or liability is derecognised, and a new financial asset or liability is recognised. Generally, a loan will be considered a new financial asset if new loan documentation is issued at the same time as a new credit process is carried out with the establishment of new loan conditions.

If the modified instrument is not considered to be materially different from the existing instrument, the instrument is treated in the accounts as a continuation of the existing instrument. In the case of a modification that is recognised as a continuation of an existing instrument, the new cash flows are discounted by the instrument's original effective interest rate and any difference in relation to the existing capitalised amount is recognised through profit or loss.

**The introduction of IFRS 9 has resulted in the following changes to policies and effects**

Descriptions of the various financial instruments and how they are classified pursuant to IAS 39 and IFRS 9 are provided on the next pages together with descriptions of the assessments on which the classifications are based.

Group IFRS 9 classification rules for financial assets and debt as follow:

Transitional IFRS 9			
Instrument	Description	IAS 39	IFRS 9
<b>Assets</b>			
P-t loans (p.t. – pro tempore. P-t loans ; loans with current/ variable interest rate where notification of interest rate changes may be communicated in accordance with public regulations)	The current conditions are normal conditions in Norway for variable rate loans for housing and to parts of the corporate market and the conditions are normally standardised and apply equally to all loans of this type. The borrower's right to repay loans early and the competition between banks mean that the loans' cash flows will not significantly deviate from what are defined as payments of interest and principal on given dates in IFRS 9. Therefore, the Bank's assessment is that the conditions associated with these loans are consistent with measurement at amortised cost.	AC	AC
Loans which can be sold to mortgage company	Some banks in the SpareBank 1-alliansen transfer parts of their loans that qualify for transfer to the mortgage companies. Loans included in business models (portfolios) with loans that qualify for transfer are therefore held both to receive contractual cash flows and for sale.	AC	FVOCI
Loans for sale to mortgage company	SpareBank 1 Nord-Norge transfer selected loans that qualified for transfer to the mortgage companies. These loans are therefore held for sale.	AC	FVP&L
Fixed rate loans	Pursuant to IFRS 9.B4.1.12(b), payment of a reasonable additional compensation for early repayment of a financial instrument is consistent with an instrument's cash flows only being payments of interest and principal. A discount is not an additional compensation for early repayment, but a deduction in the cash flows that would otherwise have been paid. As part of an instrument's contractual conditions the opportunity for payment of a discount therefore means that the instrument should be measured at fair value with value changes through profit or loss.	FVP&L (FVO)	FVP&L (FVO)
Shares, not trading	The available for sale category in IAS 39 has not be continued in IFRS 9.	FVOCI	FVP&L
Bonds	The Bank's holdings of interest-bearing securities are generally held as liquidity reserves. The purpose of liquidity reserves is in many cases to provide security for ordinary repo transactions and/or loans to Norges Bank, and the various portfolios will have a varying degree of turnover. There is a varying degree of turnover in the Group's liquidity portfolio. There is also a varying degree of turnover within different parts of the liquidity portfolio. The purpose of the portfolio is in many cases to provide security for ordinary repo transactions and loans to Norges Bank.  The fact that the portfolio is a liquidity portfolio therefore does not necessary mean that the Group's intention is to sell the instruments included in the portfolio, since the liquidity is secured through collateral and loans in connection with ordinary repo transactions and loans in Norges Bank rather than sales of instruments included in the portfolio.	FVP&L	FVP&L
Other portfolios	The Bank's holdings of interest-bearing securities in excess of portfolios defined as liquidity reserves are generally linked to customer activities through SpareBank 1 Nord-Norge Markets. Any holdings of hybrid Tier 1 capital instruments are treated as equity instruments.	FVP&L	FVP&L
<b>Debt</b>			
Debt securities in issue	The principles for classifying and measuring financial liabilities are generally the same as those under IAS 39, but under certain conditions changes in value due to changes in own credit risk must be recognised through OCI when the fair value option is used.	AC	AC

OCI	Other Comprehensive Income
AC	Amortised cost
FVOCI	Fair Value Other Comprehensive Income
FVP&L	Fair Value Profit and loss
FVP&L (FVO)	Fair Value Option

## GROUP

Financial instruments	Note	IAS 39 Classification	IAS 39 Classification	Booked value IAS 39	Booked value IFRS 9	Booked value IFRS 9
Cash and balances with Central Banks		Fair Value profit and Loss	Fair Value Profit and Loss	775	775	-
Loans and advances to credit institutions	10	Amortized Cost	Amortised Cost	2 655	2 655	-
Loans and advances to customers with fixed rate	11	Fair Value Option	Fair Value Option	6 395	6 395	-
Loans and advances to customers for sale	11	Amortised Cost	Fair Value Profit and Loss	4 002	4 002	-
Other loans and advances to customers	11	Amortised Cost	Amortised Cost	64 090	64 039	-51
Bonds and certificates	29	Fair Value profit and Loss	Fair Value Profit and Loss	11 541	11 541	-
Financial derivatives	17	Fair Value profit and Loss	Fair Value Profit and Loss	1 511	1 511	-
Shares	30	Available for sale	Fair Value OCI	43	43	-
Shares	30	Available for sale	Fair Value Profit and Loss	18	18	-
Shares	30	Fair Value OCI	Fair Value Profit and Loss	123	123	-
Shares	30	Fair Value Profit and Loss	Fair Value Profit and Loss	86	86	-
Liabilities to credit institutions	10	Amortised Cost	Amortised Cost	-434	-434	-
Deposits from customers	35	Amortised Cost	Amortised Cost	-57 849	-57 849	-
Debt securities in issue	36	Amortised Cost	Amortised Cost	-23 553	-23 553	-
Financial derivatives	17	Fair Value profit and Loss	Fair Value Profit and Loss	-902	-902	-
Subordinated loan capital	39	Amortised Cost	Amortised Cost	-850	-850	-
<b>TOTAL</b>				<b>7 651</b>	<b>7 600</b>	<b>-51</b>

Following table shows IFRS 9 transitional effects

#### GROUP

Financial assets	Note	IAS 39 booked value at 31.12.17	Classification effects	Change by new measurement	IFRS 9 booked value at 01.01.18
<b>Amortised Cost</b>					
Cash and balances with Central Banks		0	0	0	0
Loans and advances to credit institutions	10	2 656	0	0	2 656
Loans and advances to customers	11	68 008	-4 002	-51	63 955
Bonds and certificates		0	0	0	0
Financial derivatives		0	0	0	0
Shares		0	0	0	0
Other financial assets		0	0	0	0
<b>Total effect amortised cost</b>		<b>70 664</b>	<b>-4 002</b>	<b>-51</b>	<b>66 611</b>
<b>Fair Value Profit and Loss</b>					
Cash and balances with Central Banks		775	0	0	775
Loans and advances to credit institutions		0	0	0	0
Loans and advances to customers	11	6 479	4 002	0	10 481
Bonds and certificates	29	11 541	0	0	11 541
Financial derivatives	17	1 511	0	0	1 511
Shares	30	209	18	0	227
Other financial assets		0	0	0	0
<b>Total effect fair value profit and loss</b>		<b>20 515</b>	<b>4 020</b>	<b>0</b>	<b>24 535</b>
<b>Fair Value OCI - with reclassification</b>					
Cash and balances with Central Banks		0	0	0	0
Loans and advances to credit institutions		0	0	0	0
Loans and advances to customers		0	0	0	0
Bonds and certificates		0	0	0	0
Financial derivatives		0	0	0	0
Shares		0	43	0	43
Other financial assets		0	0	0	0
<b>Total effect fair value OCI with reclassification</b>		<b>0</b>	<b>43</b>	<b>0</b>	<b>43</b>
<b>Fair Value OCI - without reclassification</b>					
Cash and balances with Central Banks		0	0	0	0
Loans and advances to credit institutions		0	0	0	0
Loans and advances to customers		0	0	0	0
Bonds and certificates		0	0	0	0
Financial derivatives		0	0	0	0
Shares	30	18	-18	0	0
Other financial assets		0	0	0	0
<b>Total effect fair value OCI - without reclassification</b>		<b>18</b>	<b>-18</b>	<b>0</b>	<b>0</b>
<b>Fair Value OCI- available for sale</b>					
Cash and balances with Central Banks		0	0	0	0
Loans and advances to credit institutions		0	0	0	0
Loans and advances to customers		0	0	0	0
Bonds and certificates		0	0	0	0
Financial derivatives		0	0	0	0
Shares	30	43	-43	0	0
Andre finansielle eiendeler		0	0	0	0
<b>Total effect fair value OCI - available for sale</b>		<b>43</b>	<b>-43</b>	<b>0</b>	<b>0</b>
<b>Total financial assets</b>		<b>91 197</b>	<b>43</b>	<b>-51</b>	<b>91 189</b>

## GROUP

Financial debt	Note	IAS 39 booked value at 31.12.17	Classification effects	Change by new measurement	IFRS 9 booked value at 01.01.18
<b>Amortised Cost</b>					
Liabilities to credit institutions		-434	0	0	-434
Deposits from customers		-57 849	0	0	-57 849
Debt securities in issue		-23 553	0	0	-23 553
Financial derivatives		0	0	0	0
Subordinated loan capital		-850	0	0	-850
Other financial liabilities		0	0	0	0
<b>Total effects amortised cost</b>		<b>-82 686</b>	<b>0</b>	<b>0</b>	<b>-82 686</b>
<b>Fair Value Profit and Loss</b>					
Liabilities to credit institutions		0	0	0	0
Deposits from customers		0	0	0	0
Debt securities in issue		0	0	0	0
Financial derivatives		-902	0	0	-902
Subordinated loan capital		0	0	0	0
Other liabilities		0	0	0	0
<b>Total effects Fair Value Profit and Loss</b>		<b>-902</b>	<b>0</b>	<b>0</b>	<b>-902</b>
<b>Total financial debt</b>		<b>-83 588</b>	<b>0</b>	<b>0</b>	<b>-83 588</b>

Change in write-downs	IAS 39 booked value at 31.12.17	Classification effects	Change by new measurement	IFRS 9 booked value at 01.01.18
Loans and financial assets held to maturity in IAS 39 but now to amortised cost after IFRS 9	516		20	536
Financial debt available for sale in IAS 39 but now to amortised cost after IFRS 9	0			0
<b>Total assets and debt to amortised cost after IFRS 9</b>	<b>516</b>		<b>20</b>	<b>536</b>
Loans and financial assets held to maturity in IAS 39 but now to fair value profit and loss after IFRS 9				
Financial debt available for sale in IAS 39 but now to fair value profit and loss after IFRS 9				
<b>Total assets and debt to fair value profit and loss after IFRS 9</b>				
Guarantee liabilities	3		4	7
Loan approvals			27	27
Total guarantee liabilities and loan approvals	3		31	34
<b>Total change write-downs</b>	<b>519</b>		<b>51</b>	<b>570</b>

## 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. If the Bank's risk position is approximately neutral, middle rates will be used. A neutral risk position means for example that the interest rate risk within a repricing interval is approximately zero. In the opposite case, relevant purchase and sale prices will be used to assess the net position.

In the case of a counterparty whose credit rating is weaker than that of the Bank, the price will reflect an underlying credit risk. To the extent that market prices are obtained from transactions with a lower credit risk, this will be taken into account by amortising the original price difference measured against such transactions with a lower credit risk over the maturity period.

### 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 badwill 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

Pursuant to IFRS 8, SpareBank 1 Nord-Norge has the following operating segments: retail market, corporate market, leasing and markets. The segments correspond with the executive management team's internal reporting structure. In SpareBank 1 Nord-Norge, the executive management team is responsible for evaluating and following up the segments' results and is defined as the chief operating decision maker in the sense used in IFRS 8.

The recognition and measurement principles in the Bank's segment reporting are based on accounting policies that comply

with IFRS, as set out in the consolidated financial statements. Any transactions between the segments are carried out at arm's length.

The item "unallocated" contains activities that cannot be allocated to the segments including some subsidiaries and joint ventures/associated companies. The Bank operates in a limited geographic area and reporting geographical information provides little additional information. Nonetheless, important assets classes (loans) are distributed geographically in a separate note 11 in the annual report.

### 31.12.17

Amounts in NOK million	Retail banking sector	Corporate sector	Leasing	Markets	Other	Total
Net interest income	879	518	207	1	165	<b>1 770</b>
Net fee- and commission income	364	29			453	<b>846</b>
Other operating income	289	66		34	309	<b>698</b>
Operating costs	857	131	62	16	300	<b>1 366</b>
Profit before losses	675	482	145	19	627	<b>1 948</b>
Net losses on loans and guarantees	19	27	138			<b>184</b>
<b>Profit before income tax</b>	<b>656</b>	<b>455</b>	<b>7</b>	<b>19</b>	<b>627</b>	<b>1 764</b>

Loans and advances to customers	45 676	23 923	5 404			<b>75 003</b>
Individual write-down for impaired value	-11	-175	-30			<b>-216</b>
Group write-down for impaired value	-73	-198	-29			<b>-300</b>
Other assets		1 995	148		20 556	<b>22 699</b>
<b>Total assets per business area</b>	<b>45 592</b>	<b>25 545</b>	<b>5 493</b>		<b>20 556</b>	<b>97 186</b>

Liabilities to- and deposits from customers	32 304	25 545				<b>57 849</b>
Other liabilities and equity	13 288		5 493		20 556	<b>39 337</b>
<b>Total equity and liabilities per business area</b>	<b>45 592</b>	<b>25 545</b>	<b>5 493</b>		<b>20 556</b>	<b>97 186</b>

### 31.12.16

Amounts in NOK million	Retail banking sector	Corporate sector	Leasing	Markets	Other	Total
Net interest income	779	493	195	2	175	1 644
Net fee- and commission income	366	21			399	786
Other operating income	273	75		52	247	647
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
<b>Profit before income tax</b>	<b>511</b>	<b>332</b>	<b>86</b>	<b>34</b>	<b>581</b>	<b>1 544</b>

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	1 848	220		18 197	20 265
<b>Total assets per business area</b>	<b>44 062</b>	<b>23 309</b>	<b>4 933</b>		<b>18 197</b>	<b>90 501</b>

Liabilities to- and deposits from customers	30 561	23 309				53 870
Other liabilities and equity	13 501		4 933		18 197	36 631
<b>Total equity and liabilities per business area</b>	<b>44 062</b>	<b>23 309</b>	<b>4 933</b>		<b>18 197</b>	<b>90 501</b>

## 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. 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 AS, SpareBank 1 Næringskreditt AS, SpareBank 1 Kredittkort AS and BN Bank ASA.

The capital adequacy regulations stipulate requirements concerning capital buffers beyond the minimum requirements for capital pursuant to Pillar 1. The purpose of the capital buffers is to dampen the impact of economic and financial shocks. The capital buffer consists of two components, a capital conservation buffer where the level is constant over time and a countercyclical capital buffer where the target level depends on economic conditions. In addition to the aforementioned buffer, there are capital requirements for systemic risk buffers. These buffers are intended to protect banks against structural or systemic risk. All of the above buffer requirements must be covered by common equity Tier 1 capital.

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

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
<b>EQUITY AND RELATED CAPITAL RESOURCES</b>				
<b>Tier 1 capital</b>				
1 807	<b>1 807</b>	Equity Certificate capital	<b>1 807</b>	1 807
843	<b>843</b>	Equity Certificate premium reserve	<b>843</b>	843
4 459	<b>4 770</b>	The Saving Bank's Fund	<b>4 770</b>	4 459
1 657	<b>1 980</b>	Dividend Equalisation Fund	<b>1 980</b>	1 657
521	<b>585</b>	Donations	<b>585</b>	521
20	<b>35</b>	Fair Value Reserve	<b>35</b>	20
31	<b>67</b>	Other equity capital	<b>1 749</b>	1 704
	<b>530</b>	Hybrid capital	<b>530</b>	
9 338	<b>10 617</b>	<b>Recorded equity – Tier 1 capital</b>	<b>12 299</b>	11 011
Adjustments in recorded equity				
	<b>-530</b>	Hybrid capital	<b>-530</b>	
		Adjusted Tier 1 capital from consolidated financial institutions	<b>-36</b>	-116
-750	<b>-866</b>	Allocated dividends	<b>-866</b>	-750
-21	<b>-23</b>	Adjustments to CET 1 due to prudential filters	<b>-27</b>	-33
		Goodwill and other intangible assets	<b>-87</b>	-67
	<b>-75</b>	IRB shortfall of credit risk adjustments to expected losses	<b>-36</b>	-64
-95	<b>-130</b>	Defined benefit pension fund assets gross amount	<b>-136</b>	-99
-26		CET 1 instruments of financial sector entities where the institution does not have significant investment over 10% threshold limit	<b>-589</b>	-727
8 446	<b>8 993</b>	<b>Common equity Tier 1 capital (CET 1 Capital)</b>	<b>9 992</b>	9 155
500	<b>530</b>	Hybrid Tier 1 bonds	<b>869</b>	800
		Own hybrid Tier 1 bonds	<b>-4</b>	-4
500	<b>530</b>	<b>Additional Tier 1 capital (AT 1)</b>	<b>865</b>	796
8 946	<b>9 523</b>	<b>Total Tier 1 capital</b>	<b>10 857</b>	9 951

## Note 5 - Equity and capital adequacy ratio

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
<b>Tier 2 capital</b>				
850	<b>850</b>	Subordinated loans eligible as T2 Capital	<b>1 328</b>	1 361
1		Deduction for expected losses on IRB, net of writedowns (50%)		
-61	<b>-61</b>	T2 instruments of financial sector entities where the institution have significant investment	<b>-44</b>	-83
790	<b>789</b>	<b>Tier 2 capital</b>	<b>1 284</b>	1 278
9 736	<b>10 312</b>	<b>Equity and related capital resources</b>	<b>12 141</b>	11 229
<b>Total risk exposure amount</b>				
32 096	<b>35 250</b>	Credit risk internal rating based approach (IRB)	<b>36 969</b>	33 805
5 650	<b>7 694</b>	Credit risk standardised based approach	<b>14 375</b>	12 095
2 118		AT1 and T2 instruments of fincial sector entities where the institution have significant investment		2 470
39 864	<b>42 944</b>	<b>Total credit risk</b>	<b>51 344</b>	48 370
150	<b>94</b>	Traded debt instruments	<b>94</b>	150
75	<b>68</b>	Equity	<b>68</b>	75
3 675	<b>4 112</b>	Operational Standardised indicator approach (STA)	<b>4 026</b>	3 700
299	<b>411</b>	Credit Valuation Adjustment (CVA)	<b>1 036</b>	588
44 063	<b>47 629</b>	<b>Total risk exposure amount (IRB)</b>	<b>56 568</b>	52 882
		Transitional rule Basel I	<b>10 655</b>	8 238
44 063	<b>47 629</b>	<b>Total risk exposure amount</b>	<b>67 223</b>	61 120
20.0%	<b>20.0%</b>	Transitional rule Basel I	<b>20.0%</b>	20.0%
<b>Capital requirements</b>				
778	<b>935</b>	Corporates - specialised lending	<b>1 026</b>	878
96	<b>144</b>	Corporates - other	<b>154</b>	123
359	<b>352</b>	Corporate - small and medium entities (SME)	<b>362</b>	367
898	<b>920</b>	Retail - secured by real estate	<b>1 336</b>	1 253
69	<b>65</b>	Retail - other	<b>66</b>	71
368	<b>405</b>	Equity IRB	<b>13</b>	12
2 568	<b>2 820</b>	<b>Total IRB capital requirements</b>	<b>2 958</b>	2 704
452	<b>616</b>	Total standardised capital requiremetns	<b>1 150</b>	968
169		AT1 and T2 instruments of financial sector entities where the institution have significant investment		198
3 189	<b>3 436</b>	<b>Capital requirements credit risk</b>	<b>4 108</b>	3 870

PARENT BANK				GROUP			
31.12.16	31.12.17	Amounts in NOK million		31.12.17	31.12.16		
12	<b>8</b>	Traded debt instruments		<b>8</b>	12		
6	<b>5</b>	Equity		<b>5</b>	6		
294	<b>329</b>	Operational Standardised indicator approach (STA)		<b>322</b>	296		
24	<b>33</b>	CVA		<b>83</b>	47		
		Transitional rule Basel I		<b>852</b>	659		
3 525	<b>3 810</b>	<b>Capital requirements</b>		<b>5 378</b>	4 890		
20.3%	<b>20.0%</b>	Tier 1 capital		<b>16.2%</b>	16.3%		
1.8%	<b>1.7%</b>	Tier 2 capital		<b>1.9%</b>	2.1%		
22.1%	<b>21.7%</b>	Capital Adequacy		<b>18.1%</b>	18.4%		
19.2%	<b>18.9%</b>	Common Equity Tier 1 capital		<b>14.9%</b>	15.0%		
20.3%	<b>20.0%</b>	Tier 1 capital IRB		<b>19.2%</b>	18.8%		
22.1%	<b>21.7%</b>	Capital Adequacy IRB		<b>21.5%</b>	21.2%		
		<b>Capital Requirements Directive (CRD IV):</b>				2017	2016
1 983	<b>2 143</b>	Minimum common Tier 1 Equity Capital				4.5%	4.5%
		<b>Capital buffers</b>					
1 322	<b>1 429</b>	Systemic risk buffer				3.0%	3.0%
661	<b>953</b>	Countercyclical capital buffer				2.0%	1.5%
1 102	<b>1 191</b>	Capital conservation buffer				2.5%	2.5%
5 067	<b>5 715</b>	<b>Total Tier 1 capital after buffers</b>				12.0%	11.5%
661	<b>714</b>	<b>Pillar II requirements</b>				1.5%	1.5%
2 718	<b>2 563</b>	<b>Available Common Equity Tier 1 capital</b>				13.5%	13.0%

## Leverage Ratio

On 20.12.16, the Ministry of Finance set new requirements for the leverage ratio effective from 30.06.17. 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%.

89 550	<b>98 505</b>	Exposure measure	<b>151 654</b>	142 564
10.0%	<b>9.7%</b>	Leverage Ratio	<b>7.2%</b>	7.0%

## Note 6 - Financial risk management

SpareBank 1 Nord-Norge's risk management should support the Group's strategic development and achievement of targets, and at the same time ensure financial stability and prudent asset management through:

- A healthy organisational structure characterised by a high awareness of risk management
- Striving for optimal capital application within the adopted business strategy
- Trying to achieve a similar risk-adjusted return on customers over time within the agreed business strategy
- Exploiting synergy and diversification effects
- Sufficient Tier 1 capital/primary capital in relation to the chosen risk profile

The principal aim is to ensure that the Group's overall risk level is within the limits of the Group's risk appetite as defined by the Board and within the limits set by the Group's capital and other limits. Through good risk management, the Group should have a stable and predictable earnings and profit performance. Business strategies and risk strategies are the Board's means of managing the Group's risk profile and financial development. The chief executive is responsible for ensuring these are presented to the Board at least once a year or as circumstances dictate. The Group's aims as a minimum to maintain its present international rating and ensure good, long-term access to ordinary borrowing in the capital markets.

The Group's risk is quantified in a number of ways, including by calculating:

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

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 must ensure 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 reporting on the use of limits and key figures for risk areas.

In order to ensure an effective and adequate process for risk and capital management, the framework is based on the following elements that reflect the manner in which the Board and the executive management team run the Group.

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

For further information, please refer to the "Pillar III Document", which is available from the Bank's website.

The financial risk management associated with credit risk, liquidity risk and market risk is described in more detail below.

### Credit risk

Credit risk is defined as the risk of loss due to customer or counterparty being unable or unwilling to fulfil their obligations to the Group. Credit risk is managed via the Group's credit strategy, framework for credit activities, guidelines for granting credit and authorisation rules.

SpareBank 1 Nord-Norge uses an IRB (Internal Rating Based Approach) when calculating capital requirements for credit risk. The minimum requirement is thus more risk sensitive and will correspond to a greater degree with the risk in the underlying portfolios.

Risk strategies, including limits for credit activities, are determined by the Board and revised and updated at least annually. The Group's credit strategy sets out the general principles for granting credit and how the credit risk should be managed and priced in SpareBank 1 Nord-Norge. SpareBank 1 Nord-Norge bases its work on the principles recommended by the Basel Committee in the "Principles for the Management of Credit Risk" and on the capital adequacy regulations (Basel II). It also ensures that its credit risk management takes place with the framework of relevant laws and regulations.

The strategic credit targets consist of targets for:

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

The strategic credit targets are the subject of regular reports to the executive management team and the Board.

The Board is responsible for the Group's granting of loans and credit. The rules that govern this, which are approved by the Board, set out the principles for delegating credit authorisations, set out the principles for making decisions about credit, and describe the decision-making structure. The Board delegates authorisations to the chief executive, who delegates their authorisations further within the provisions of the rules governing the granting of loans and credit. Delegated credit authority is linked to a commitment's size, probability of default and collateral. Credit staff operate in accordance with credit authorisations, credit policies and credit processing routines, which stipulate clear requirements concerning the quality of the credit management process.

The portfolio is managed and controlled through risk classification of individual customers, a risk pricing model and a portfolio management system for managing the loan portfolios in line with established frameworks and guidelines. The risk models used for management and control are based on statistical calculations, and they are subject to continuous development and testing.

The models are based on three main components:

1. **Probability of default.** Customers are classified into risk classes according to the probability that the customer will default 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. Nine risk classes (A – I) are used to classify customers according to their probability of default. 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 at default.** This is the calculated magnitude of the expected exposure if the customer defaults on their commitments.
3. **Loss given default.** This is an assessment of how much the Group could potentially lose if the customer defaults on their commitments. The assessment takes into consideration the realisation value of the assets that the customers have pledged as security, and the costs incurred by the Group in connection with recovering commitments in default. These magnitudes are established on the basis of own experience over time. Seven different classes (1 – 7) are used for classification in relation to security coverage.

The three aforementioned components also provide the basis for the Group's portfolio classification and statistics-based calculations of expected losses and need for risk-adjusted capital. The purpose of the portfolio classification is to provide information about the level and development of the overall credit risk in the total portfolio and the portfolio has therefore been divided into six risk groups: very low, low, medium, high, very high and de-

faulted. Assignment to a risk group is made on the basis of a statistical calculation of each individual commitment's probability of default and its security coverage.

The Group strives to price commitments on the basis of risk exposure so that commitments with the highest risk have the highest price. The price model is based on the Group's required rate of return on risk-adjusted capital.

For further information please refer to the aforementioned "Pillar III Document", as well as notes 7, 8, 9, 11 and 14. The Group also has credit risk associated with investments in interest-bearing securities. Such credit risk is primarily apparent from changed prices/values for the various securities. This is described in more detail in the section on market risk below.

### Liquidity risk

Liquidity risk is defined as the risk of the Group being unable to fulfil its obligations when they fall due, as well as the risk of the Group being unable to meet its liquidity obligations without the cost of this increasing significantly.

The Board focuses heavily on predictability and stability and at least once a year reviews the Group's liquidity strategy in which controlling the Group's funding structure is key. The Parent Bank's policy for managing liquidity risk should reflect a low risk profile and help to achieve strategic targets. It follows from the Group's risk strategy that neither a single incident nor the sum of several single incidents should seriously damage the Group's liquidity.

The Group's Treasury Department is responsible for liquidity management, while the Risk Management and Compliance Department monitors and reports on the utilisation of limits in accordance with the liquidity strategy. Liquidity risk is managed by using the Group's liquidity management model and is reduced by continuously following up the composition of the consolidated balance sheet.

The liquidity coverage ratio (LCR) is one of the liquidity area's most important limits and management parameters. The LCR requirement means that an institution must at all times have liquidity reserves of at least 100%, i.e. holdings of liquid assets must at least be equal to the net liquidity outflow in a given stress period of 30 calendar days. The minimum requirement for LCR has been phased in gradually and was 80% for total LCR from and including 31.12.16 and 100% from and including 31.12.17.

As at 31.12.17, total LCR was reported to be 126%.

## Note 6 - Financial risk management

The net stable funding ratio (NSFR) key figure is used to assess the extent to which the Group has adequate long-term funding in relation to borrowing, investments and other assets. NSFR is formally defined as available stable funding relative to necessary stable funding and it has been proposed that a minimum requirement be introduced in 2018. The management has defined the framework for NSFR as a minimum requirement for 100%.

As at 31.12.17, total NSFR was reported to be 119%.

The credit assessments carried out by the international ratings agencies Moody's and Fitch Ratings are regarded as important in relation to international borrowing sources. The Bank's long-term rating with Moody's is A1 with a "negative outlook", while Fitch's rating is A with a "stable outlook".

SpareBank 1 Nord-Norge strives for a funding structure that is well-diversified within given limits with respect to the market, product and due dates.

SpareBank 1 Nord-Norge must have a conscious and active relationship with Norwegian and foreign actors in the capital markets (Investor Relations), including owners, potential investors, analysts and others with an interest in the Group.

SpareBank 1 Nord-Norge has, together with SpareBank 1 SMN and SpareBank 1 Østlandet, a joint EMTN programme (standard programme for taking up senior unsecured debt in currency). The SpareBank 1-alliansen has also two joint ventures that issue covered bonds: SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. SpareBank 1 Nord-Norge utilises these tools actively in its liquidity management.

Customer deposits represent the Bank's main source of funding. The ratio between customer deposits and loans was 77.1% at year end 2017, compared with 76.1% and 75.1% 1 year and 2 years ago, respectively. The Group's liquidity situation and liquidity management are considered satisfactory. For further information, please see the "Pillar III Document", as well as notes 18 and 19.

### Market risk

Market risk is defined as the risk of changes in the value of assets/financial positions due to changes in market value, including changes in the prices of bonds/certificates, share prices, interest rates and exchange rates.

Market risk arises as a consequence of the Bank's open positions in the currency, interest rate and capital markets, and is measured and monitored based on limits approved by the Board. The framework is reviewed and renewed on an annual basis and the size of the limits is determined on the basis of stress tests and analyses of negative market movements.

The Group's Treasury Department is responsible for administering and managing the Group's market risk. The Risk Management and Compliance Department is responsible for the ongoing, independent monitoring of market risk.

Interest rate risk is the risk of loss due to changes in interest rates. It is measured by simulating a 2 percentage point parallel interest rate shift and is monitored based on the framework described above. The Group's interest rate risk is generally short and regarded as low. The credit spread risk is defined as the risk of loss due to an expansion of credit spreads for interest-bearing papers in which the Group has invested. The Group is primarily exposed to credit spread risk through the administration of the liquidity portfolio, which consists of low-risk bonds and certificates. The potential loss associated with credit spread risk is calculated using the method described in the Financial Supervisory Authority of Norway's module for market risk and is monitored on the basis of limits approved by the Board.

Currency risk is the risk of loss due to changes in exchange rates. The framework for exchange rate risk is expressed by limits for the total net currency position and maximum positions in individual currencies. The Group's currency risk is well within the position limits specified in the Regulation.

Equity risk is the risk of loss due to changes in the value of equity positions in which the Group has invested. The Group's equity exposure has gradually been reduced due to the cultivation of its core activities.

SpareBank 1 Nord-Norge's result is affected by changes in the market variables interest rates, exchange rates, and security prices that have occurred during the year.

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, please see the "Pillar III Document", as well as 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 - %	Average unsecured exposure - %	Total amount	Total amount
	2017	2016	2017	2016
Very low risk	0.4%	0.4%	30 977	29 266
Low risk	1.5%	1.9%	21 766	20 665
Medium risk	1.5%	1.8%	18 720	16 790
High risk	0.1%	0.1%	2 151	2 108
Very high risk	0.2%	0.2%	1 504	2 835
In default and written down	0.0%	0.0%	951	547
<b>Total</b>	<b>3.8%</b>	<b>4.4%</b>	<b>76 069</b>	<b>72 211</b>

### GROUP

Amounts in NOK million	Average unsecured exposure - %	Average unsecured exposure - %	Total amount	Total amount
	2017	2016	2017	2016
Very low risk	0.5%	0.5%	33 013	31 099
Low risk	1.7%	2.1%	22 865	21 647
Medium risk	1.7%	1.9%	20 231	17 957
High risk	0.1%	0.2%	2 505	2 403
Very high risk	0.2%	0.2%	1 762	3 189
In default and written down	0.4%	0.1%	909	512
<b>Total</b>	<b>4.6%</b>	<b>5.0%</b>	<b>81 285</b>	<b>76 807</b>

## 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 2017.

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
<b>Maximum on balance credit exposure</b>				
775	<b>775</b>	Cash and balances with central banks	<b>775</b>	775
5 871	<b>7 081</b>	Loans and advances to credit institutions	<b>2 656</b>	1 946
58 677	<b>63 271</b>	Loans and advances to customers measured at amortised cost	<b>68 524</b>	63 143
7 489	<b>6 395</b>	Loans and advances to customers measured at fair value	<b>6 479</b>	7 593
10 164	<b>11 541</b>	Certificates and bonds	<b>11 541</b>	10 164
1 390	<b>1 511</b>	Financial derivatives	<b>1 511</b>	1 390
84 366	<b>90 574</b>	<b>Maximum on balance credit exposure</b>	<b>91 486</b>	85 011
<b>Maximum off balance credit exposure</b>				
1 265	<b>1 259</b>	Contingent liabilities	<b>1 152</b>	1 189
5 294	<b>5 908</b>	Unutilised credits	<b>5 991</b>	5 304
1 571	<b>3 102</b>	Loan approvals	<b>3 110</b>	1 604
8 130	<b>10 269</b>	<b>Maximum off balance credit exposure</b>	<b>10 253</b>	8 097
92 496	<b>100 843</b>	<b>Maximum credit exposure</b>	<b>101 739</b>	93 108
<b>Net balance credit exposure</b>				
775	<b>775</b>	Cash and balances with central banks	<b>775</b>	775
5 871	<b>7 081</b>	Loans and advances to credit institutions	<b>2 656</b>	1 946
3 363	<b>3 557</b>	Loans and advances to customers	<b>4 148</b>	4 211
10 164	<b>11 541</b>	Certificates and bonds	<b>11 541</b>	10 164
1 390	<b>1 511</b>	Financial derivatives	<b>1 511</b>	1 390
21 563	<b>24 465</b>	<b>Maximum on balance credit exposure</b>	<b>20 631</b>	18 486
<b>Banking activities by geography</b>				
11 248	<b>11 536</b>	Finnmark	<b>12 542</b>	12 145
26 226	<b>27 290</b>	Nordland	<b>29 201</b>	27 690
10 657	<b>11 183</b>	Other regions	<b>11 766</b>	11 182
24 148	<b>27 202</b>	Troms, including Svalbard	<b>24 611</b>	21 906
533	<b>311</b>	International	<b>314</b>	534
72 812	<b>77 522</b>	<b>Total</b>	<b>78 434</b>	73 457
<b>Capital Market activity by geography</b>				
9 066	<b>10 049</b>	Norway	<b>10 049</b>	9 066
2 488	<b>2 996</b>	Europe/Asia	<b>2 996</b>	2 488
	<b>7</b>	USA	<b>7</b>	
11 554	<b>13 052</b>	<b>Total</b>	<b>13 052</b>	11 554
84 366	<b>90 574</b>	<b>Total maximum credit exposure (recognised)</b>	<b>91 486</b>	85 011

## 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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#### 2017

Loans and advances to financial institutions	7 058				23		7 081
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#### Loans and advances to customers

Retail market	22 992	13 641	5 876	299	375	185	43 368
Corporate market	5 363	6 104	11 678	1 377	856	766	26 144
Public sector		154					154
<b>Total</b>	<b>35 413</b>	<b>19 899</b>	<b>17 554</b>	<b>1 676</b>	<b>1 254</b>	<b>951</b>	<b>76 747</b>

#### Financial investments

Listed government bonds	821						821
Listed other bonds	9 708		10	54			9 772
Unlisted other bonds	757		132	59			948
<b>Total</b>	<b>11 286</b>	<b>0</b>	<b>142</b>	<b>113</b>	<b>0</b>		<b>11 541</b>

<b>Total</b>	<b>46 699</b>	<b>19 899</b>	<b>17 696</b>	<b>1 789</b>	<b>1 254</b>	<b>951</b>	<b>88 288</b>
Share	53%	23%	20%	2%	1%	1%	100%

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	22 586	13 698	5 136	364	417	128	42 329
Corporate market	3 978	5 220	10 349	1 557	2 191	419	23 714
Public sector		123					123
<b>Total</b>	<b>32 373</b>	<b>19 041</b>	<b>15 485</b>	<b>1 921</b>	<b>2 670</b>	<b>547</b>	<b>72 037</b>

#### Financial investments

Listed government bonds	1 137						1 137
Listed other bonds	6 295	153	655	27	30		7 160
Unlisted other bonds	1 284	55	520	7	1		1 867
<b>Total</b>	<b>8 716</b>	<b>208</b>	<b>1 175</b>	<b>34</b>	<b>31</b>		<b>10 164</b>

<b>Total</b>	<b>41 089</b>	<b>19 249</b>	<b>16 660</b>	<b>1 955</b>	<b>2 701</b>	<b>547</b>	<b>82 201</b>
Share	50%	24%	20%	2%	3%	1%	100%

## 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
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## 2017

Loans and advances to financial institutions	2 656						<b>2 656</b>
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## Loans and advances to customers

Retail market	24 464	13 994	6 201	349	455	213	<b>45 676</b>
Corporate market	5 986	6 902	12 865	1 680	1 034	696	<b>29 163</b>
Public sector		164					<b>164</b>
<b>Total</b>	<b>33 106</b>	<b>21 060</b>	<b>19 066</b>	<b>2 029</b>	<b>1 489</b>	<b>909</b>	<b>77 659</b>

## Financial investments

Listed government bonds	821						<b>821</b>
Listed other bonds	9 708		10	54			<b>9 772</b>
Unlisted other bonds	757		132	59			<b>948</b>
<b>Total</b>	<b>11 286</b>	<b>0</b>	<b>142</b>	<b>113</b>	<b>0</b>		<b>11 541</b>

<b>Total</b>	<b>44 392</b>	<b>21 060</b>	<b>19 208</b>	<b>2 142</b>	<b>1 489</b>	<b>909</b>	<b>89 200</b>
Share	50%	24%	21%	2%	2%	1%	100%

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	6 131	11 223	1 806	2 475	369	26 505
Public sector		135					135
<b>Total</b>	<b>30 278</b>	<b>20 201</b>	<b>16 478</b>	<b>2 216</b>	<b>3 024</b>	<b>512</b>	<b>72 709</b>

## Financial investments

Listed government bonds	1 137						1 137
Listed other bonds	6 295	153	655	27	30		7 160
Unlisted other bonds	1 284	55	520	7	1		1 867
<b>Total</b>	<b>8 716</b>	<b>208</b>	<b>1 175</b>	<b>34</b>	<b>31</b>		<b>10 164</b>

<b>Total</b>	<b>38 994</b>	<b>20 409</b>	<b>17 653</b>	<b>2 250</b>	<b>3 055</b>	<b>512</b>	<b>82 873</b>
Share	47%	25%	20%	3%	4%	1%	100%

## Note 10 - Financial institutions - loans and advances

PARENT BANK				GROUP				
31.12.16	Average interest rate % 1)	31.12.17	Average interest rate % 1)	Amounts in NOK million	31.12.17	Average interest rate % 1)	31.12.16	Average interest rate % 1)
<b>Loans and advances to financial institutions</b>								
918	0.30%	<b>520</b>	<b>0.70%</b>	Loans and advances without agreed maturity or notice of withdrawal	<b>520</b>	<b>0.70%</b>	918	0.30%
4 953	2.09%	<b>6 561</b>	<b>1.99%</b>	Loans and advances with agreed maturity or notice of withdrawal	<b>2 136</b>	<b>1.90%</b>	1 028	1.71%
5 871	1.80%	<b>7 081</b>	<b>1.82%</b>	<b>Total</b>	<b>2 656</b>	<b>1.53%</b>	1 946	1.15%
<b>Broken down by the most important foreign currencies</b>								
5 449		<b>6 601</b>		NOK	<b>2 176</b>		1 800	
0		<b>4</b>		GBP	<b>4</b>		0	
115		<b>348</b>		EUR	<b>348</b>		115	
300		<b>123</b>		USD	<b>123</b>		24	
1		<b>1</b>		SEK	<b>1</b>		1	
6		<b>4</b>		Other foreign currencies	<b>4</b>		6	
5 871		<b>7 081</b>		<b>Total</b>	<b>2 656</b>		1 946	
<b>Deposits from credit institutions</b>								
16	8.19%	<b>11</b>	<b>13.78%</b>	Loans and deposits from financial institutions without agreed maturity or notice of withdrawal	<b>11</b>	<b>12.50%</b>	16	9.23%
817	0.91%	<b>424</b>	<b>0.41%</b>	Loans and deposits from credit institutions with agreed maturity or notice of withdrawal	<b>423</b>	<b>0.41%</b>	802	0.91%
833	1.22%	<b>435</b>	<b>0.88%</b>	<b>Total</b>	<b>434</b>	<b>0.88%</b>	818	1.23%
<b>Broken down by the most important foreign currencies</b>								
827		<b>0</b>		NOK	<b>0</b>		812	
0		<b>4</b>		USD	<b>4</b>		0	
4		<b>1</b>		EUR	<b>1</b>		4	
2		<b>430</b>		Other foreign currencies	<b>429</b>		2	
833		<b>435</b>		<b>Total</b>	<b>434</b>		818	
1) Average interest rate/(yield) is calculated as the sum of interest expense divided by average volume								
<i>Collateral</i>								
878		<b>480</b>		The balance sheet value of loans and advances to financial institutions pledged as collateral for derivatives trading	<b>480</b>		878	

## 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				GROUP			
31.12.16		31.12.17		31.12.17		31.12.16	
Amounts in NOK million							
<b>Loans broken down by method of measurement</b>							
58 677		<b>63 271</b>		Gross loans to customers measured at amortised cost	<b>68 524</b>		63 143
7 489		<b>6 395</b>		Fixed rate portfolio measured at fair value	<b>6 479</b>		7 593
66 166		<b>69 666</b>		Gross loans to and advances to customers	<b>75 003</b>		70 736
<b>Loans broken down by different types</b>							
				Financial leasing	<b>2 782</b>		2 442
6 627		<b>6 148</b>		Overdraft- and working capital facilities	<b>6 150</b>		6 627
1 638		<b>1 770</b>		Building loans	<b>1 770</b>		1 638
57 901		<b>61 748</b>		Repayment loans	<b>64 301</b>		60 056
66 166		<b>69 666</b>		Gross loans to and advances to customers	<b>75 003</b>		70 763
139		<b>217</b>		Individual write-downs for impaired value	<b>216</b>		154
357		<b>272</b>		Collective write-downs for impaired value	<b>300</b>		373
65 670		<b>69 177</b>		<b>Net loans and advances to customers</b>	<b>74 487</b>		70 236
<b>Loans broken down by markets</b>							
42 330		<b>43 368</b>		Retail banking market	<b>45 676</b>		44 123
23 713		<b>26 144</b>		Corporate market	<b>29 163</b>		26 505
123		<b>154</b>		Public sector	<b>164</b>		135
66 166		<b>69 666</b>		Gross loans and advances	<b>75 003</b>		70 763
496		<b>489</b>		Individual and collective write-downs for impaired value	<b>516</b>		527
65 670		<b>69 177</b>		<b>Net loans and advances</b>	<b>74 487</b>		70 236
<b>Of this, subordinated loan capital accounted for:</b>							
62		<b>61</b>		Subordinated loan capital in financial institutions	<b>45</b>		62
62		<b>61</b>		Subordinated loan capital shown under loans to customers	<b>45</b>		62
<b>Loans to employees</b>							
1 071		<b>1 205</b>		Loans to employees	<b>1 205</b>		1 071

### LOANS BROKEN DOWN BY GEOGRAPHICAL AREAS

PARENT BANK				GROUP				
31.12.16		31.12.17		31.12.17		31.12.16		
Gross share	Loans	Gross share	Loans	Loans	Gross share	Loans	Gross share	
17%	11 230	<b>16%</b>	<b>11 308</b>	Finmark	<b>12 314</b>	<b>16%</b>	12 128	17%
30%	20 425	<b>39%</b>	<b>26 789</b>	Troms, including Svalbard	<b>28 713</b>	<b>39%</b>	22 133	32%
40%	26 187	<b>34%</b>	<b>23 781</b>	Nordland	<b>25 602</b>	<b>34%</b>	27 651	39%
13%	8 276	<b>11%</b>	<b>7 688</b>	Other regions	<b>8 271</b>	<b>11%</b>	8 801	12%
0%	48	<b>0%</b>	<b>100</b>	International	<b>103</b>	<b>0%</b>	50	0%
100%	66 166	<b>100%</b>	<b>69 666</b>	<b>Gross loans to and advances to customers</b>	<b>75 003</b>	<b>100%</b>	70 763	100%

## LOANS BROKEN DOWN BY DIFFERENT COMMERCIAL, INDUSTRIAL AND OTHER SECTORS

PARENT BANK			GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
<b>Total commitments</b>				
9 091	<b>11 778</b>	Real estate	<b>11 585</b>	8 952
1 488	<b>1 648</b>	Financial and insurance activities	<b>1 665</b>	1 748
3 993	<b>4 241</b>	Fishing and aquaculture	<b>4 597</b>	4 328
2 258	<b>2 233</b>	Manufacturing	<b>2 443</b>	2 457
1 145	<b>1 193</b>	Agriculture and forestry	<b>1 288</b>	1 247
2 150	<b>1 953</b>	Power and water supply and construction	<b>2 531</b>	2 684
816	<b>606</b>	Government	<b>616</b>	816
44 203	<b>45 304</b>	Retail market	<b>47 579</b>	46 151
1 321	<b>1 803</b>	Service industries	<b>2 390</b>	1 718
4 059	<b>3 461</b>	Transportation	<b>4 331</b>	4 744
1 687	<b>1 849</b>	Commodity trade, hotel and restaurant industry	<b>2 260</b>	1 962
72 211	<b>76 069</b>	<b>Total</b>	<b>81 285</b>	76 807
<b>Gross loans</b>				
8 075	<b>10 306</b>	Real estate	<b>10 234</b>	8 405
1 367	<b>1 605</b>	Financial and insurance activities	<b>1 607</b>	1 600
3 721	<b>3 870</b>	Fishing and aquaculture	<b>4 205</b>	4 001
1 784	<b>1 713</b>	Manufacturing	<b>1 960</b>	1 956
1 032	<b>1 089</b>	Agriculture and forestry	<b>1 185</b>	1 112
1 524	<b>1 330</b>	Power and water supply and construction	<b>1 951</b>	1 930
123	<b>154</b>	Government	<b>164</b>	135
42 329	<b>43 368</b>	Retail market	<b>45 676</b>	44 123
1 158	<b>1 489</b>	Service industries	<b>2 080</b>	1 571
3 773	<b>3 313</b>	Transportation	<b>4 132</b>	4 435
1 280	<b>1 429</b>	Commodity trade, hotel and restaurant industry	<b>1 809</b>	1 495
66 166	<b>69 666</b>	<b>Total</b>	<b>75 003</b>	70 763

## LOANS AND ADVANCES TO CUSTOMERS RELATING TO FINANCIAL LEASING

**Gross advances relating to financial leasing**

- Maturities of less than 1 year	<b>114</b>	80
- Maturities of more than 1 year but not more than 5 years	<b>1 624</b>	1 577
- Maturities of more than 5 years	<b>1 198</b>	918
<b>Total</b>	<b>2 936</b>	2 575
Income received, not yet earned, relating to financial leasing	<b>-179</b>	-158
<b>Net investments relating to financial leasing</b>	<b>2 757</b>	2 417

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

- Maturities of less than 1 year	<b>107</b>	76
- Maturities of more than 1 year but not more than 5 years	<b>1 525</b>	1 480
- Maturities of more than 5 years	<b>1 125</b>	861
<b>Total</b>	<b>2 757</b>	2 417

## Note 11 - Loans and advances to customers

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 2017.

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 31.12.17 was 5%. Non-performing and doubtful commitments accounted for 1.2% 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 2, in which a new method for the calculation of losses on loans (IFRS 9) effective from 2018 is outlined.

### LOANS BROKEN DOWN BY DIFFERENT RISK GROUPS

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
<b>Total commitments</b>				
29 266	<b>30 977</b>	Very low risk	<b>33 013</b>	31 099
20 665	<b>21 766</b>	Low risk	<b>22 865</b>	21 647
16 790	<b>18 720</b>	Medium risk	<b>20 231</b>	17 957
2 108	<b>2 151</b>	High risk	<b>2 505</b>	2 403
2 835	<b>1 504</b>	Very high risk	<b>1 762</b>	3 189
547	<b>951</b>	Commitments in default	<b>909</b>	512
72 211	<b>76 069</b>	<b>Total</b>	<b>81 285</b>	76 807
<b>Gross loans</b>				
26 564	<b>28 356</b>	Very low risk	<b>30 451</b>	28 394
19 041	<b>19 899</b>	Low risk	<b>21 060</b>	20 201
15 485	<b>17 554</b>	Medium risk	<b>19 066</b>	16 478
1 920	<b>1 675</b>	High risk	<b>2 029</b>	2 216
2 609	<b>1 231</b>	Very high risk	<b>1 489</b>	2 962
547	<b>951</b>	Commitments in default	<b>909</b>	512
66 166	<b>69 666</b>	<b>Total</b>	<b>75 003</b>	70 763
-139	<b>-217</b>	Individual write-downs for impaired value	<b>-216</b>	-154
408	<b>734</b>	<b>Net commitments in default</b>	<b>693</b>	358
<b>Expected annual average net loss</b>				
7	<b>8</b>	Very low risk	<b>9</b>	7
16	<b>17</b>	Low risk	<b>19</b>	17
63	<b>80</b>	Medium risk	<b>86</b>	66
30	<b>31</b>	High risk	<b>34</b>	32
108	<b>61</b>	Very high risk	<b>70</b>	114
56	<b>66</b>	Commitments in default	<b>81</b>	64
280	<b>263</b>	<b>Total</b>	<b>299</b>	300

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	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
<b>Individual write-downs for impaired value</b>				
52	<b>42</b>	Real estate	<b>11</b>	22
0		Financial and insurance activities		
0		Fishing and aquaculture		
19	<b>120</b>	Manufacturing	<b>122</b>	19
17	<b>16</b>	Agriculture and forestry	<b>16</b>	17
16	<b>17</b>	Power and water supply and construction	<b>25</b>	20
		Government		
12	<b>11</b>	Retail market	<b>26</b>	22
17	<b>9</b>	Service industries	<b>13</b>	47
1	<b>1</b>	Transportation	<b>2</b>	2
5	<b>1</b>	Commodity trade, hotel and restaurant industry	<b>1</b>	5
139	<b>217</b>	<b>Total</b>	<b>216</b>	154
<b>Expected annual average net loss</b>				
107	<b>119</b>	Real estate	<b>120</b>	107
19	<b>19</b>	Financial and insurance activities	<b>19</b>	19
24	<b>12</b>	Fishing and aquaculture	<b>14</b>	25
31	<b>13</b>	Manufacturing	<b>15</b>	32
2	<b>3</b>	Agriculture and forestry	<b>4</b>	3
7	<b>11</b>	Power and water supply and construction	<b>15</b>	10
0	<b>0</b>	Government	<b>0</b>	0
56	<b>57</b>	Retail market	<b>74</b>	65
16	<b>8</b>	Service industries	<b>12</b>	19
11	<b>11</b>	Transportation	<b>14</b>	12
7	<b>10</b>	Commodity trade, hotel and restaurant industry	<b>12</b>	8
280	<b>263</b>	<b>Total</b>	<b>299</b>	300

### Fixed rate loans measured at fair value

The Bank's portfolio of fixed-rate loans in NOK amounted to NOK 6.4 billion as of 31.12.17. 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 14 million as of 31.12.17.

## 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
<b>2017</b>					
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	512	24	13	67	<b>616</b>
Corporate market	78	5	3	20	<b>105</b>
<b>Total</b>	<b>590</b>	<b>29</b>	<b>16</b>	<b>86</b>	<b>721</b>

Amounts in NOK million	Under 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
<b>2016</b>					
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
<b>Total</b>	<b>459</b>	<b>40</b>	<b>13</b>	<b>70</b>	<b>582</b>

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 623 million as at 31.12.17 (NOK 516 million as at 31.12.16). 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
<b>2017</b>					
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	512	46	24	91	<b>673</b>
Corporate market	78	66	6	34	<b>184</b>
<b>Total</b>	<b>590</b>	<b>112</b>	<b>30</b>	<b>125</b>	<b>857</b>

Amounts in NOK million	Under 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
<b>2016</b>					
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
<b>Total</b>	<b>459</b>	<b>119</b>	<b>45</b>	<b>103</b>	<b>726</b>

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 738 million as at 31.12.17 (NOK 638 million as at 31.12.16). The value of pledged assets is set at the realisation value (fair value less a reduction factor).

## Notes 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-alliansen. The Bank owned a 16,85% stake as at 31.12.17 (14.61% as at 31.12.16). 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 4,9 billion were sold to SpareBank 1 Boligkreditt AS in 2017. A total of NOK 30,5 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	245

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.

#### Financial strength

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 11% 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.

## Notes 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-alliansen. The Bank owned a 14,48% stake as at 31.12.17 (16,64% as at 31.12.16). 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 2017.

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	0

### Remaining involvement

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 11% 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 - Losses on loans and guarantees

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.

PARENT BANK			GROUP	
2016	2017	Amounts in NOK million	2017	2016
-188	<b>81</b>	Change in individual write-downs for impaired value during the period	<b>66</b>	-15
122	<b>-90</b>	Change in collective write-downs for impaired value during the period	<b>-77</b>	125
221	<b>27</b>	Confirmed losses against which individual write-downs for impaired value was previously made	<b>52</b>	82
9	<b>7</b>	Confirmed losses against which no individual write-downs for impaired value was previously made	<b>9</b>	11
-9	<b>-9</b>	Payments received on loans, guarantees etc. previously written down	<b>-10</b>	-11
155	<b>16</b>	<b>Total losses on loans and guarantees</b>	<b>40</b>	192
3	<b>30</b>	Other losses	<b>144</b>	21
158	<b>46</b>	<b>Total losses</b>	<b>184</b>	213
<b>Individual write-downs for impaired value</b>				
328	<b>139</b>	Individual write-downs for impaired value on loans and guarantees as at 01.01	<b>139</b>	169
-221	<b>-34</b>	Confirmed losses during the period on loans and guarantees against which individual write-downs for impaired value were previously made	<b>-49</b>	-82
-9	<b>-17</b>	Reversal of previous years' impaired value	<b>-17</b>	-11
21	<b>10</b>	Increase in individual write-downs for impaired value of commitments against which individual write-downs for impaired value were previously made	<b>22</b>	31
20	<b>119</b>	Individual write-downs for impaired value of commitments where no allowance were raised in previous years	<b>121</b>	47
139	<b>217</b>	<b>Individual write-downs for impaired value on loans and guarantees as at 31.12</b>	<b>216</b>	154
<b>Collective write-downs for impaired value</b>				
234	<b>357</b>	Collective write-downs for impaired value on loans and guarantees as at 01.01	<b>373</b>	247
123	<b>-85</b>	Collective write-downs for impaired value on loans and guarantees in the period	<b>-73</b>	126
357	<b>272</b>	<b>Collective write-downs for impaired value on loans and guarantees as at 31.12</b>	<b>300</b>	373

## Note 14 - Losses on loans and guarantees

### LOSSES BROKEN DOWN BY SECTOR AND INDUSTRY

PARENT BANK				GROUP			
2016		2017		2017		2016	
Proportion of losses	Loss	Proportion of losses	Loss	Proportion of losses	Loss	Proportion of losses	Loss
-1%	-1	<b>12%</b>	<b>3</b>	<b>6%</b>	<b>3</b>	-1%	-1
-4%	-7	<b>20%</b>	<b>5</b>	<b>10%</b>	<b>5</b>	-3%	-7
16%	27	<b>-104%</b>	<b>-26</b>	<b>-52%</b>	<b>-26</b>	13%	27
52%	85	<b>-40%</b>	<b>-10</b>	<b>-20%</b>	<b>-10</b>	42%	85
4%	7	<b>8%</b>	<b>2</b>	<b>4%</b>	<b>2</b>	3%	7
-3%	-5	<b>12%</b>	<b>3</b>	<b>16%</b>	<b>8</b>	-2%	-5
8%	13	<b>-20%</b>	<b>-5</b>	<b>2%</b>	<b>1</b>	6%	13
16%	27	<b>84%</b>	<b>21</b>	<b>42%</b>	<b>21</b>	30%	60
0%	-1	<b>4%</b>	<b>1</b>	<b>2%</b>	<b>1</b>	0%	-1
12%	19	<b>124%</b>	<b>31</b>	<b>90%</b>	<b>45</b>	12%	25
100%	164	<b>100%</b>	<b>25</b>	<b>100%</b>	<b>50</b>	100%	203
	-9		<b>-9</b>		<b>-10</b>		-11
	3		<b>30</b>		<b>144</b>		21
	158		<b>46</b>		<b>184</b>		213

### NET NON-PERFORMING AND IMPAIRED COMMITMENTS - PARENT BANK

	31.12.17	31.12.16
Non-performing commitments, not impaired	<b>238</b>	267
Impaired	<b>713</b>	280
Non-performing and impaired commitments	<b>951</b>	547
Individual write-downs for impaired value	<b>59</b>	78
Interest on reversal of discounted impairment of value	<b>158</b>	61
Total individual write-downs	<b>217</b>	139
<b>Net non-performing and impaired commitments</b>	<b>734</b>	408

Interest recognised as income from non-performing and impaired commitments amounted to NOK 48.5 million (NOK 24 million) for the Parent Bank.

### NET NON-PERFORMING AND IMPAIRED COMMITMENTS - GROUP

	31.12.17	31.12.16
Non-performing commitments, not impaired	<b>265</b>	301
Impaired	<b>644</b>	211
Non-performing and impaired commitments	<b>909</b>	512
Individual write-downs for impaired value	<b>58</b>	93
Interest on reversal of discounted impairment of value	<b>158</b>	61
Total individual write-downs	<b>216</b>	154
<b>Net non-performing and impaired commitments</b>	<b>693</b>	358

Interest recognised as income from non-performing and impaired commitments amounted to NOK 49.3 million (NOK 25,7 million) for the Group.

## 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 if all market rates rise by 2 percentage points. 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 at 31.12.17 and going forward. 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 at 31.12. and market interest rates at the same point in time.

Interest rate risk was low throughout 2017 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.

All interest-bearing instruments are included in the limit.

### 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	2017	2016
Bonds and certificates	-35	-26
Fixed rate loans to customers	-21	-24
Bond issues	70	140
Other financing and investments	1	0
Loans/deposits customers	-16	-12
Other derivatives	-4	-4
<b>Total interest rate risk</b>	<b>-5</b>	<b>74</b>

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 IN TIME TO MATURITY

	2017	2016
0 - 1 month	8	3
1 - 3 months	-20	-15
3 - 6 months	8	3
6 - 12 months	10	13
1 - 3 years	-1	2
3 - 5 years	-7	72
5 - 10 years	-2	-5
<b>Total interest rate risk</b>	<b>-5</b>	<b>74</b>

## 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. The risk arises from the Group having differences between assets and liabilities in the individual currencies.

The Board has approved limits for net positions in individual currencies and aggregated positions. The table shows net currency exposure as at 31.12.17.\*

PARENT BANK			GROUP	
Net foreign exchange exposure NOK			Net foreign exchange exposure NOK	
2016	2017	Amounts in NOK million	2017	2016
<b>Currency</b>				
24.6	<b>55.4</b>	USD	<b>55.4</b>	24.6
25.7	<b>26.3</b>	EUR	<b>26.3</b>	25.7
-2.5	<b>-1.9</b>	GBP	<b>-1.9</b>	-2.5
3.1	<b>1.2</b>	RUB	<b>1.2</b>	3.1
6.6	<b>1.2</b>	Andre	<b>1.2</b>	6.6
57.6	<b>82.2</b>	<b>Total</b>	<b>82.2</b>	57.6

\* The method for calculating net currency exposure was changed in 2017 and the figures for 2016 therefore differ from the figures reported in the annual report for 2016.

## 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 pur-

suant 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	31.12.17	31.12.16
Net losses recognised related to hedging instruments for fair value hedging	30	195
Total gains on hedged items related to the hedged risk	-44	-191
<b>Total, fair value hedges</b>	<b>-14</b>	<b>4</b>

## FOREIGN CURRENCY- AND INTEREST RATE INSTRUMENTS

Foreign currency- and interest rate instruments	2017			2016		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities

## Foreign currency instruments

Foreign exchange financial derivatives (forwards)	1 630	28	11	2 143	14	9
Currency swaps	16 497	357	128	13 468	193	47
<b>Total, foreign currency instruments</b>	<b>18 127</b>	<b>385</b>	<b>139</b>	<b>15 610</b>	<b>207</b>	<b>56</b>

## Interest rate instruments

Interest rate swaps (including cross currency)	24 757	675	746	26 701	685	913
Other interest rate contracts	353	8	9	480	14	16
Total non-standardized contracts	25 110	683	755	27 181	699	929
Standardised interest rate contracts (futures)						
<b>Total, interest rate instruments</b>	<b>25 110</b>	<b>683</b>	<b>755</b>	<b>27 181</b>	<b>699</b>	<b>929</b>

## SECURING OF FUNDING

## Interest rate instruments

Interest rate swaps (including cross currency)	14 816	443	8	11 963	483	-
<b>Total, interest rate instruments</b>	<b>14 816</b>	<b>443</b>	<b>8</b>	<b>11 963</b>	<b>483</b>	<b>-</b>

## Total foreign currency- and interest rate instruments

Total, interest rate instruments	39 926	1 126	763	39 144	1 182	929
Total currency swaps and forwards	18 127	385	139	15 610	207	56
<b>Total</b>	<b>58 053</b>	<b>1 511</b>	<b>902</b>	<b>54 754</b>	<b>1 390</b>	<b>985</b>

## 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 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 (total LCR) was 126% as of the end of the year.

The table below shows receipts and payments, including future interest payments, at various points in time.

### PARENT BANK

Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
<b>2017</b>						
Liabilities to credit institutions	376	3	9	48		<b>436</b>
Deposits from customers						
Debt securities in issue	57 883					<b>57 883</b>
Liabilities relating to deferred tax	1 454	243	3 495	14 427	3 933	<b>23 552</b>
Derivatives	902					<b>902</b>
Liabilities to credit institutions		322	435	1 480	689	<b>2 926</b>
Deposits from customers		-553	-280	-1 102	-324	<b>-2 259</b>
Other liabilities		739				<b>739</b>
Subordinated loan capital		5	15	830		<b>850</b>
<b>Total liabilities</b>	<b>60 615</b>	<b>759</b>	<b>3 674</b>	<b>15 683</b>	<b>4 298</b>	<b>85 029</b>
<b>2016</b>						
Liabilities to credit institutions	270	3	11	234	315	833
Deposits from customers	8 442					8 442
Debt securities in issue	51 886	527	1 511			53 924
Liabilities relating to deferred tax	1 524	737	4 191	12 576	2 137	21 165
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		846				846
Subordinated loan capital		15	1 042	364		1 421
<b>Total liabilities</b>	<b>63 107</b>	<b>1 856</b>	<b>6 716</b>	<b>13 380</b>	<b>2 668</b>	<b>87 727</b>

## GROUP

Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
<b>2017</b>						
Liabilities to credit institutions	374	3	9	48		<b>434</b>
Deposits from customers						<b>0</b>
Debt securities in issue	57 849					<b>57 849</b>
Liabilities relating to deferred tax	1 455	243	3 495	14 427	3 933	<b>23 553</b>
Derivatives	235					<b>235</b>
Contract-related outgoing cash flows		322	435	1 480	689	<b>2 926</b>
Contract-related incoming cash flows		-553	-280	-1 102	-324	<b>-2 259</b>
Other liabilities		1 233				<b>1 233</b>
Subordinated loan capital		5	15	896		<b>916</b>
<b>Total liabilities</b>	<b>59 913</b>	<b>1 253</b>	<b>3 674</b>	<b>15 749</b>	<b>4 298</b>	<b>84 887</b>

## 2016

Liabilities to credit institutions	255	3	11	234	315	818
Deposits from customers	8 464					8 464
Debt securities in issue	51 832	527	1 511			53 870
Liabilities relating to deferred tax		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
<b>Total liabilities</b>	<b>61 536</b>	<b>2 138</b>	<b>6 716</b>	<b>13 380</b>	<b>2 668</b>	<b>86 438</b>

## Note 19 - Maturity analysis of assets and liabilities

The table shows whether assets and liabilities have maturity dates within one year after the balance sheet date.

### PARENT BANK

Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
<b>31.12.17</b>						
<b>Assets</b>						
Cash and balances with central banks	775					<b>775</b>
Loans and advances to credit institutions	4 191	2 075		831	46	<b>7 143</b>
Individual write-downs on loans and advances to credit institutions					-62	<b>-62</b>
Loans and advances to customers	8 038	835	2 727	12 653	45 412	<b>69 665</b>
Individual write-downs loans and advances to customers					-217	<b>-217</b>
Collective write-downs loans and advances to customers					-271	<b>-271</b>
Shares	137			43	75	<b>255</b>
Bonds and certificates - fair value		719	764	9 040	1 017	<b>11 541</b>
Financial derivatives	1 511					<b>1 511</b>
Investments in Group companies					924	<b>924</b>
Investment in associated companies and joint ventures					3 160	<b>3 160</b>
Property, plant and equipment					234	<b>234</b>
Other assets	48	50	95		306	<b>499</b>
<b>Total assets</b>	<b>14 700</b>	<b>3 679</b>	<b>3 586</b>	<b>22 567</b>	<b>50 624</b>	<b>95 157</b>
<b>Liabilities</b>						
Liabilities to credit institutions	408			28		<b>436</b>
Deposits from customers	55 038	1 116	1 729			<b>57 883</b>
Debt securities in issue		168	3 283	16 372	3 729	<b>23 552</b>
Financial derivatives	902					<b>902</b>
Other liabilities		668	71			<b>739</b>
Deferred tax				178		<b>178</b>
Subordinated loan capital			350	500		<b>850</b>
<b>Total liabilities</b>	<b>56 348</b>	<b>1 952</b>	<b>5 433</b>	<b>17 078</b>	<b>3 729</b>	<b>84 540</b>

## GROUP

Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
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## 31.12.17

## Assets

Cash and balances with central banks	775					<b>775</b>
Loans and advances to credit institutions	94	1 747		831	46	<b>2 718</b>
Individual write-downs on loans and advances to credit institutions					-62	<b>-62</b>
Loans and advances to customers	8 038	835	2 727	12 653	50 750	<b>75 003</b>
Individual write-downs loans and advances to customers					-216	<b>-216</b>
Collective write-downs loans and advances to customers					-300	<b>-300</b>
Shares	137			43	90	<b>270</b>
Bonds and certificates - fair value		719	764	9 040	1 017	<b>11 541</b>
Financial derivatives	1 511					<b>1 511</b>
Investment in associated companies and joint ventures					4 755	<b>4 755</b>
Property, plant and equipment					453	<b>453</b>
Non-current assets held for sale	30					<b>30</b>
Goodwill					68	<b>68</b>
Other assets	48	50	95		447	<b>640</b>
<b>Total assets</b>	<b>10 633</b>	<b>3 351</b>	<b>3 586</b>	<b>22 567</b>	<b>57 048</b>	<b>97 186</b>

## Liability

Liabilities to credit institutions	406			28		<b>434</b>
Deposits from customers	55 004	1 116	1 729			<b>57 849</b>
Debt securities in issue		168	3 283	16 372	3 729	<b>23 552</b>
Financial derivatives	902					<b>902</b>
Other liabilities		943	71			<b>1 014</b>
Deferred tax				286		<b>286</b>
Subordinated loan capital			350	500		<b>850</b>
<b>Total liabilities</b>	<b>56 312</b>	<b>2 226</b>	<b>5 433</b>	<b>17 186</b>	<b>3 730</b>	<b>84 887</b>

## Note 19 - Maturity analysis of assets and liabilities

### PARENT BANK

Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
<b>31.12.16</b>						
<b>Assets</b>						
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 for impaired value					-139	-139
- Collective write-downs for impaired value					-357	-357
Shares	115			20	156	291
Bonds - fair value		523	450	7 969	1 222	10 164
Financial derivatives	1 390					1 390
Investments in Group companies					728	728
Investment in associated companies and joint ventures					2 849	2 849
Property, plant and equipment					361	361
Other assets	48	50	95		232	425
<b>Total assets</b>	<b>15 242</b>	<b>4 080</b>	<b>4 029</b>	<b>17 976</b>	<b>47 197</b>	<b>88 524</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>53 137</b>	<b>2 044</b>	<b>6 200</b>	<b>14 038</b>	<b>3 767</b>	<b>79 186</b>

## GROUP

Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
<b>31.12.16</b>						
<b>Assets</b>						
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 for impaired value					-154	-154
Collective write-downs for impaired value					-373	-373
Shares	115			20	171	306
Bonds and certifications - fair value		523	450	7 969	1 222	10 164
Financial derivatives	1 390					1 390
Investment 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
<b>Total assets</b>	<b>11 440</b>	<b>4 204</b>	<b>4 248</b>	<b>17 976</b>	<b>52 633</b>	<b>90 501</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>53 068</b>	<b>2 226</b>	<b>6 300</b>	<b>14 129</b>	<b>3 767</b>	<b>79 490</b>

## Note 20 - Net interest income

PARENT BANK			GROUP	
2016	2017	Amounts in NOK million	2017	2016
<b>Interest income</b>				
88	<b>89</b>	Interest and similar income from loans to and claims on credit institutions	<b>26</b>	6
2 097	<b>2 143</b>	Interest and similar income from loans to and claims on customers	<b>2 433</b>	2 371
174	<b>155</b>	Interest and similar income from certificates, bonds and other interest-bearing securities	<b>152</b>	171
2 359	<b>2 387</b>	Total interest income	<b>2 611</b>	2 548
<b>Interest costs</b>				
60	<b>61</b>	Interest and similar costs on liabilities to credit institutions	<b>82</b>	59
395	<b>370</b>	Interest and similar costs relating to deposits from and liabilities to customers	<b>366</b>	393
356	<b>314</b>	Interest and similar costs related to the issuance of securities	<b>314</b>	356
96	<b>79</b>	Interest and similar costs on subordinated loan capital	<b>79</b>	96
907	<b>824</b>	Total interest costs	<b>841</b>	904
1 452	<b>1 563</b>	<b>Net interest income</b>	<b>1 770</b>	1 644

## Note 21 - Net fee-, commission- and other operating income

PARENT BANK			GROUP	
2016	2017	Amounts in NOK million	2017	2016
<b>Fees and commissions receivable</b>				
263	<b>261</b>	Payment facilities	<b>261</b>	263
151	<b>153</b>	Insurance products	<b>159</b>	157
19	<b>15</b>	Guarantee commissions	<b>15</b>	19
		Real estate broking	<b>121</b>	133
37	<b>43</b>	Portfolio commissions	<b>48</b>	47
35	<b>39</b>	Other commissions	<b>82</b>	75
505	<b>511</b>	<b>Commissions ex. SpareBank 1 Boligkreditt</b>	<b>686</b>	694
177	<b>245</b>	SpareBank 1 Boligkreditt	<b>245</b>	177
682	<b>756</b>	<b>Total commission income</b>	<b>931</b>	871
78	<b>77</b>	<b>Commission costs</b>	<b>85</b>	85
		Accounting services	<b>116</b>	101
42	<b>46</b>	Other income	<b>30</b>	37
42	<b>46</b>	<b>Total other income</b>	<b>146</b>	138
646	<b>725</b>	<b>Total commission- and other income</b>	<b>992</b>	924

## Note 22 - Income from financial investments

PARENT BANK			GROUP	
2016	2017	Amounts in NOK million	2017	2016
74	4	Dividends from equity capital instruments	4	74
72	103	Income from Group companies		
540	354	Income from joint ventures	434	366
612	457	Total income from equity stakes in Group companies and joint ventures	434	366
14	44	Certificates and bonds assessed at fair value through the profit and loss account	44	14
0	0	Certificates and bonds assessed at amortised cost - loans and advances	0	0
14	44	Total income from certificates and bonds	44	14
4	-16	Net value changes on hedged bonds and financial derivatives	-16	4
-6	-1	Net value changes on fixed rate loans to customers and derivatives	-1	-6
52	-17	Value changes on other financial derivatives	-17	48
50	-35	Total income from financial derivatives	-35	46
24	71	Gains/losses on shares - classified at fair value through the profit and loss account	73	-21
24	71	Total income from shares	73	-21
26	31	Total income from currency trading	31	30
114	112	Net gains/losses and net value changes on financial assets	114	69
800	573	<b>Income from financial investments</b>	<b>552</b>	509

## Note 23 - Personnel costs, benefits and loans to- as well as equity certificates owned by leading employees and employee representatives

### The Board's declaration regarding determination of salary and other remuneration for senior employees

Pursuant to section 15-6 of the Financial Institutions Act, cf. section 6-16a of the Public Limited Liability Companies Act, the Board shall set guidelines for the remuneration of senior employees. The guidelines must be submitted to the Bank's Supervisory Board, cf. section 5-6 (3) of the Public Limited Liability Companies Act.

### Report on executive pay policy

The Board confirms that the guidelines for executive pay for 2017 set forth in last year's statement have been followed. The executive management team was not offered any exclusive discounts on purchases of equity certificates in 2017. All employees, including the executive management team, were given an opportunity to purchase equity certificates at a discount. 291 employees spent a total of NOK 16.4 million subscribing to such equity certificates.

### The guidelines

The Board considered the guidelines for salaries and other remuneration for senior employees in its meeting on 08.02.18 and decided to retain the same guidelines as last year.

The following was adopted for the coming financial year:

#### 1. Definitions

Senior employees shall be understood to mean the chief executive and senior group general managers (the executive management team). The total remuneration packages for senior employees consist of their fixed salary, benefits in kind and collective pension agreements, with the exception of three senior group general managers who have individual early retirement agreements. The other senior group general managers have waived their entitlement to 12 months' severance pay in the event of termination (18 months for the chief executive) after the 3-month period of notice, or the applicable periods of notice in the Working Environment Act at any given time. Senior employees with defined contribution pensions also have a savings arrangement for amounts above 12 G with the following rates:

- Senior group general manager 15%
- CEO 23%

The Board can also offer the executive management team discounted purchases of equity certificates at its discretion.

PARENT BANK			GROUP	
2016	2017	Amounts in NOK million	2017	2016
<b>Personell costs, number of staff and man-years</b>				
378	<b>380</b>	Wages and salaries	<b>562</b>	544
47	<b>31</b>	Pension costs (see note 25)	<b>32</b>	49
78	<b>100</b>	Social costs	<b>114</b>	96
503	<b>511</b>	<b>Total personnel costs</b>	<b>708</b>	689
616	<b>556</b>	Average number of staff	<b>809</b>	841
540	<b>538</b>	Number of man-years as at 31.12.	<b>784</b>	774
562	<b>550</b>	Number of staff as at 31.12.	<b>810</b>	807

#### 2. General principles for fixing total remuneration packages

Executive pay in SpareBank 1 Nord-Norge should be competitive, within the framework set by 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. The executive management team in SpareBank 1 Nord-Norge has no individual or collective bonus agreements. The Board may decide that the executive management team is entitled to purchase equity certificates at a discount of up to 30% subject to a specific limit and lock-in period. This arrangement is intended to help ensure that the executive management team increase their ownership and strengthen their commonality of interest with the Bank's shareholders. The terms of the arrangement satisfy the requirements stipulated in chapter 15 of the Financial Institutions Regulation.

The Board must ensure that the remuneration of its senior employees has no adverse effects on the Group's reputation.

The executive management team is covered by a savings scheme that covers permanent employees. For every second equity certificate one buys, SpareBank 1 Nord-Norge will give one further free equity certificate. These "bonus equity certificates" are awarded 2 years after one starts saving, and the employee must still own the originally saved equity certificates and still be employed by the Group.

#### 3. Determination of salaries

The Board will review the chief executive's overall performance each year and, based on this, review their pay and determine their pay conditions.

Similarly, the chief executive will review the performance of the executive management team and review their pay based on this.

#### 4. The Remuneration Committee's declaration

The Remuneration Committee must issue an annual recommendation on the chief executive's fixed salary and any other remuneration to the Board. The committee must prepare a declaration regarding determination of salary and other remuneration for the chief executive and other senior employees in accordance with section 15-6 of the Financial Institutions Act, cf. the provisions of the Public Limited Liability Companies Act. The declaration must be approved by the Board and presented to the Supervisory Board.

#### 5. Date effective

The guidelines for the determination of salary and other remuneration for senior employees in SpareBank 1 Nord-Norge become effective once the matter has been presented to the Supervisory Board.

## FEES PAID TO MEMBERS OF THE MAIN BOARD OF DIRECTORS IN 2017

Amounts in NOK thousand	Board fees	Fees	Fees Audit Committee	Fees Risk Committee	Total Fees	Loans	Number of equity certificates <sup>1)</sup>
Karl Eirik Schjøtt-Pedersen (Chairman)	472	12			<b>484</b>	<b>2 000</b>	<b>6 150</b>
Hans-Tore Bjerkaas (Deputy Chairman)	262		47	47	<b>356</b>		<b>10 911</b>
Sonja Djøanne	210	10			<b>220</b>	<b>3 663</b>	<b>7 395</b>
Kjersti Terese Stormo	210				<b>210</b>		<b>479</b>
Greger Mannsverk	210	10			<b>220</b>		<b>60 522</b>
Bengt Olsen	210		37	37	<b>284</b>		
Ingvild Myhre	210		37	37	<b>284</b>		
Vivi Ann Pedersen	210				<b>210</b>		<b>23 848</b>
May Britt Nilsen (resigned 2017)	53				<b>53</b>		<b>10 100</b>
Kjetil Berntsen (new 2017)	158				<b>158</b>	<b>4 000</b>	<b>189</b>
<b>Total</b>	<b>2 205</b>	<b>32</b>	<b>121</b>	<b>121</b>	<b>2 479</b>	<b>9 663</b>	<b>119 594</b>
<b>Close associates of board members</b>						<b>1 249</b>	

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

Amounts in NOK thousand	Board fees	Fees 2)	Fees Audit Committee	Fees Risk Committee	Total Fees	Loans	Number of equity certificates <sup>1)</sup>
Karl Eirik Schjøtt-Pedersen(Chairman)	450	12			462	2 000	3 755
Hans-Tore Bjerkaas (Deputy Chairman)	237		45	45	327		4 761
Pål Andreas Pedersen (Deputy Chairman) (resigned March 2016)	63				63		
Sonja Djøanne	200	10			210	3 820	5 000
Kjersti Terese Stormo	150				150		
Greger Mannsverk	200	10			210		18 219
Bengt Olsen	150		35	35	220		
Ingvild Myhre	200		35	35	270		
Vivi Ann Pedersen	200				200	5	19 733
May Britt Nilsen	180				180	530	7 652
Anita Persen (resigned March 2016)	50				50		
<b>Sum</b>	<b>2 080</b>	<b>32</b>	<b>115</b>	<b>115</b>	<b>2 342</b>	<b>6 355</b>	<b>59 120</b>
<b>Close associates of board members</b>						<b>9 483</b>	

1) The above figures show the number of equity certificates held in SpareBank 1 Nord-Norge as at 31.12. Equity certificates owned by immediate 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.

## 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 2017

Title/name Amounts in NOK thousand	Salaries and other short-term emoluments	Fees 3)	Compensations	Bonus	Total pay and benefits	Accrued pension rights / pension savings	Pension agreement	Loans	Number of equity certificates 5)
<b>Chief Executive Officer</b>									
Jan-Frode Janson	4 718		6) 5 844		10 562	921	1) 2)		116 876
<b>Senior group General Manager</b>									
Rolf Eigil Bygdnes	3 042				3 042	685	1) 4)		72 292
<b>Senior group General Manager</b>									
Geir Andreassen	2 591				2 591	491	1) 4)		77 724
<b>Senior group General Manager</b>									
Liv Bortne Ulriksen	2 285				2 285	289	1) 2) 4)	485	84 537
<b>Senior group General Manager</b>									
Petter Høiseith	2 237		6) 2 847		5 084	292	1) 2)	9 232	79 793
<b>Senior group General Manager</b>									
Ronni Møller Pettersen	2 249		6) 2 597		4 846	270	1) 2)	75	35 198
<b>Senior group General Manager</b>									
Trond Hanssen	1 797		6) 2 442		4 239	238	1) 2)	672	63 159
<b>Senior group General Manager</b>									
Christian Overvaag	1 824		6) 2 307		4 131	262	1) 2)		102 563
<b>Senior group General Manager</b>									
Lasse Hagerupsen	1 798		6) 2 284		4 082	226	1) 2)	1 916	68 788
<b>Senior group General Manager</b>									
Trude Glad	2 557		6) 2 676		5 233	277	1)	1 100	78 918
<b>CEO SpareBank 1 Finans</b>									
Hanne Karoline Kræmer (from July 2017)	782	20			802	225		2 735	16 265
<b>CEO SpareBank 1 Finans</b>									
Hermod Bakkejord (resigned August 2017)	1 322		7) 2 918		4 240	171	1)	23	31 395
<b>CEO EiendomsMegler 1</b>									
Kristin Amundsen	1 569			300	1 869	99	2)		34 789
<b>CEO SNN Forvaltning</b>									
Stig-Arne Pettersen (sluttet August 2017)	1 306				1 306		2)	1 676	33 457
<b>CEO SNN Regnskapshuset</b>									
Tom Robert Aasnes	1 597				1 597	70	2)	3 241	15 862
<b>Total benefits executive management team and senior employees</b>	<b>31 674</b>	<b>20</b>	<b>23 915</b>	<b>300</b>	<b>55 909</b>	<b>4 516</b>		<b>21 155</b>	<b>911 616</b>

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

<b>Loans to other employees 8)</b>								<b>1 205 190</b>	
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The aggregate value of interest rate subsidies relating to loans to employees amounted to approximately NOK 13 million in 2017.

- 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 31.12.17. They also include equity certificates owned by immediate family members or companies in which the person has a determining influence.
- 6) This includes compensation for the winding up of the early retirement pension scheme, received in 2017.
- 7) Severance pay
- 8) The loan rate is 1 percentage point lower than the current best mortgage rate given to our ordinary customers at any given time for a maximum loan amount of NOK 4 million. No collateral is pledged on behalf of employees.

## BENEFITS TO MEMBERS OF THE GROUP MANAGEMENT COMMITTEE 2016

Title/name Amounts in NOK thousand	Salaries and other short-term emoluments	Fees 3)	Bonus	Total pay and benefits	Accrued pension rights / pension savings	Pension agreement	Loans	Number of equity certificates 5)
<b>Chief Executive Officer</b>								
Jan-Frode Janson	4 056			4 056	481	1) 2)		49 126
<b>Senior group General Manager</b>								
Rolf Eigil Bygdnes	2 730			2 730	997	1) 4)		69 897
<b>Senior group General Manager</b>								
Geir Andreassen	2 252			2 252	671	1) 4)		75 329
<b>Senior group General Manager</b>								
Liv Bortne Ulriksen	1 989			1 989	191	1) 4)	6 620	79 747
<b>Senior group General Manager</b>								
Petter Høiseith	2 194			2 194	123	1) 2)	9 483	46 768
<b>Senior group General Manager</b>								
Ronni Møller Pettersen (from 01.03.16)	1 505			1 505	92	1) 2)	2 691	3 755
<b>Senior group General Manager</b>								
Trond Hanssen	1 716			1 716	102	1) 2)	3 298	35 848
<b>Senior group General Manager</b>								
Christian Overvaag	1 734			1 734	97	1) 2)		64 372
<b>Senior group General Manager</b>								
Lasse Hagerupsen	1 733			1 733	95	1) 2)	2 044	35 848
<b>Senior group General Manager</b>								
Trude Glad	2 208			2 208	496	1)		46 606
<b>Senior group General Manager SpareBank 1 Finans</b>								
Hanne J. Nordgaard (resigned 31.12.16)	1 916			1 916	108	1) 2)	644	41 970
<b>CEO SpareBank 1 Finans</b>								
Hermod Bakkejord	1 947			1 947	329	1)	1 216	33 000
<b>CEO EiendomsMegler 1</b>								
Kristin Amundsen	1 551		288	1 839	76	2)		32 394
<b>CEO SNN Forvaltning</b>								
Stig-Arne Pettersen	952		470	1 422	48	2)	5 591	40 001
<b>CEO SNN Regnskapshuset</b>								
Tom Robert Aasnes	1 256		25	1 281	68	2)	2 685	13 467
<b>Former CEO</b>								
Hans Olav Karde	330			330				
<b>Total benefits executive management team and senior employees</b>	<b>30 069</b>	<b>0</b>	<b>783</b>	<b>30 852</b>	<b>3 974</b>		<b>34 272</b>	<b>668 128</b>

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

<b>Loans to other employees 6)</b>							1 071 746	
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The aggregate value of interest rate subsidies relating to loans to employees amounted to approximately NOK 10,7 million in 2016.

- 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 31.12.16. They also include equity certificates owned by immediate family members or companies in which the person has a determining influence.
- 6) The loan rate is 1 percentage point lower than the current best mortgage rate given to our ordinary customers at any given time for a maximum loan amount of NOK 4 million. No collateral is pledged on behalf of employees.

## Note 23 - Personnel costs, benefits and loans to- as well as equity certificates owned by leading employees and employee representatives

### EQUITY CERTIFICATES HELD BY SPAREBANK 1 NORD-NORGE'S ELECTED REPRESENTATIVES AS AT 31.12.17

	Numbers <sup>1)</sup>
Lars Martin Lunde	2 697 811
Trond Mohn	2 124 024
Odd Erik Hansen	330 400
Håkon Løbach Willumsen	170 000
Eirik Fosland	146 491
Marie M Fangel	102 312
Gry-Janne Rugås	27 483
Ann Kirsten Larsen	24 848
Einar Frafjord	23 105
Elin Wintervold	18 078
Sissel Ditlefsen	16 666
Roar Dons	12 852
Kjell Kolbeinsen	11 042
Aud Jorunn Skaret	7 841
Vivi Ann Movik	6 869
Linn Knudsen	4 362
Hans Olav Gjøvik	3 370
Ane Engel Røger	2 000
Tom Rømer Svendsen	1 000
Kjetil Fjellgaard	824
Anne Kathrine Nygaard	270
Hans Johan Lorentzen	189
Kenneth Normann	189
Synnøve Søndergård	25

1) Number of equity certificates held in SpareBank 1 Nord-Norge as at 31.12.17. Equity certificates owned by close family members and by companies of which the abovementioned persons are general partners or directors have also been included.

### EQUITY CERTIFICATES HELD BY SPAREBANK 1 NORD-NORGE'S ELECTED REPRESENTATIVES AS AT 31.12.16

	Numbers <sup>1)</sup>
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 equity certificates held in SpareBank 1 Nord-Norge as at 31.12.16. Equity certificates 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	
2016	2017	Amounts in NOK million	2017	2016
503	<b>511</b>	Personnel costs	<b>708</b>	689
523	<b>544</b>	Administrative costs	<b>658</b>	631
1 026	<b>1 055</b>	<b>Total operating costs</b>	<b>1 366</b>	1 320
<b>Personnel costs</b>				
378	<b>380</b>	Wages and salaries	<b>553</b>	540
46	<b>31</b>	Pension costs	<b>42</b>	53
79	<b>100</b>	Social costs	<b>113</b>	96
503	<b>511</b>	<b>Total personnel costs</b>	<b>708</b>	689
<b>Administrative costs</b>				
120	<b>115</b>	Development costs	<b>115</b>	120
71	<b>80</b>	Electronic data processing costs	<b>90</b>	75
52	<b>40</b>	Marketing costs	<b>61</b>	71
26	<b>30</b>	Travel - and training costs	<b>38</b>	30
26	<b>27</b>	Communications	<b>31</b>	31
38	<b>44</b>	Consultancy services incl external auditor 1)	<b>52</b>	43
50	<b>51</b>	Depreciation	<b>65</b>	60
31	<b>19</b>	Operating cost real estate	<b>22</b>	37
109	<b>138</b>	Other operating costs	<b>184</b>	164
523	<b>544</b>	<b>Total administrative costs</b>	<b>658</b>	631
1) <b>Remuneration fo external audit incl VAT</b> (Amounts in NOK thousand)				
1 186	<b>1 287</b>	Statutory audit	<b>2 095</b>	1 985
85	<b>334</b>	Other certification services	<b>680</b>	258
	<b>5</b>	Tax advisory services	<b>70</b>	
		Other non-audit services	<b>47</b>	140
1 271	<b>1 626</b>	<b>Total remuneration for external audit</b>	<b>2 892</b>	2 383

## Note 25 - Pensions

SpareBank 1 Nord-Norge has two pension schemes for its employees.

A *defined contribution pension scheme* for retirement and disability pensions taken out with SpareBank 1 Forsikring AS.

The current saving rates for defined contribution pensions are:

- Salary equivalent to 0 to 7.1 G: 7%
- Salary equivalent to 7.1 to 12 G: 15%

*Defined benefit pension scheme* for retirement and disability pensions that was closed in 2006, covered by SpareBank 1 Nord-Norge's pension fund. A full pension requires a qualifying period of 30 years and provides entitlement to a retirement pension of the difference between 70% of salary and the calculated benefits from the National Insurance Scheme.

The schemes satisfy the requirements of the Defined Benefit Occupational Pension Act. The Group also has liabilities associated with salary above 12 G (the National Insurance Scheme's basic amount) and early retirement agreements for senior employees. In 2017, three employees were covered by this scheme (seven employees in 2016). Early retirement is funded through operations.

Most of the companies in the Group 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 will be set as a percentage of salary between 1 and 7.1 G. The premium for 2017 was set at 2.5% (2.5% in 2016).

### Calculation of defined benefit pension liabilities pursuant to IAS 19

Estimates are used when valuing pension assets and measuring accrued liabilities. These estimates are corrected every year in accordance with the statement of the pension assets' transfer value and actuarial calculations of the size of the liabilities. The value of the pension fund's liabilities, pension insurance in other insurance companies and the unsecured liabilities are included in the calculations below. All estimate deviations are recognised in the statement covering other operating income and costs under comprehensive income items, so-called OCI (Other Comprehensive Income). The Group has previously used the corridor method for recognising unamortised estimate deviations.

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

Actuarial calculations have been made using the changed mortality tariff, K2013BE (best estimate).

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
<b>Net pension liabilities in the balance sheet</b>				
721	<b>712</b>	Present value of future pension liabilities	<b>738</b>	747
878	<b>953</b>	Estimated value of pension resources	<b>994</b>	910
-157	<b>-241</b>	<b>Net pension liabilities in guaranteed schemes</b>	<b>-256</b>	-163
0	<b>0</b>	Social security liabilities	<b>0</b>	0
-157	<b>-241</b>	<b>Net pension liabilities in the balance sheet</b>	<b>-256</b>	-163
1%	<b>8%</b>	Deviation between anticipated and actual return on pension funds in %	<b>8%</b>	1%

PARENT BANK			GROUP	
2016	2017		2017	2016
<b>Pension costs for the year</b>				
9	7	Pensionable amounts accrued during the year	7	10
20	18	Interest costs of pension liabilities	18	21
-24	-22	Expected rate of return on assets in the scheme	-22	-25
5	3	<b>Net pension costs relating to defined benefit plans excl social security contributions</b>	3	6
4	1	Employer's social security contributions - subject to accrual accounting	1	4
9	4	<b>Net pension cost relating to defined benefit plans incl social security combinations</b>	4	10
-1	-5	Curtailment/settlement	-5	-1
11	22	Pension cost - contributions scheme/defined contribution plan	23	12
28	10	Other pension costs	10	28
47	31	<b>Total pension costs incl social security contributions</b>	32	49
3.5%	10.0%	The actual rate of return on pension assets	10.0%	3.5%
<b>Change in net pension liabilities in the balance sheet</b>				
31.12.16	31.12.17		31.12.17	31.12.16
-144	-156	Net pension liabilities in the balance sheet as at 01.01.	-163	-141
22	-11	Recognised against equity as at 01.01.	-16	12
-8	-56	Adjusted equity balance sheet as 31.12.	-57	-9
8	1	Net pension cost relating to defined benefit plans	1	10
-4	-2	Charged to the Profit and Loss Account	-2	-5
-30	-18	Benefits paid	-19	-30
-156	-242	<b>Net pension liabilities in the balance sheet as at 31.12.</b>	-256	-163
32	33	Other pension liabilities (early retirement pension contract)	33	32
0	0	Adjustment of pension liabilities against equity		0
-124	-209	<b>Total pension liabilities in the balance sheet as at 31.12.</b>	-223	-131
<b>Actuarial assumptions</b>				
2.60%	2.40%	Discount rate	2.40%	2.60%
2.60%	2.40%	Expected rate of return on scheme's assets	2.40%	2.60%
1.50%	1.00%	Future wage- and salary developments	1.00%	1.50%
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%	5.00%	Financial tax	5.00%	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%
50.00%	50.00%	Staff's average estimated propensity to opt for SRPS at the age of 62	50.00%	50.00%
K2013BE	K2003BE	Mortality rate, marriage probability etc.	K2003BE	K2013BE
IR2003	IR2003	Disability	IR2003	IR2003
827	765	<b>Number of members</b>	780	843

## Note 25 - Pensions

## COMPOSITION OF PENSION ASSETS IN SPAREBANK 1 NORD-NORGES PENSJONSKASSE

31.12.16	31.12.17		31.12.17	31.12.16
<b>Pension resources broken down on investment categories</b>				
<i>Investment category</i>				
55%	<b>58%</b>	Certificates and bonds	<b>58%</b>	55%
41%	<b>37%</b>	Shares	<b>37%</b>	41%
1%	<b>2%</b>	Properties	<b>2%</b>	1%
3%	<b>3%</b>	Other	<b>3%</b>	3%
100%	<b>100%</b>	<b>Total</b>	<b>100%</b>	100%

## Sensitivity

The estimates are based on facts and circumstances as at 31.12.17 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	
	+1%	-1%	+1%	-1%	+1%	-1%	+1%	-1%	+1 year	-1 year
<b>PARENT BANK</b>										
<b>Changes in pensions</b>										
Benefits-based pension liabilities	-80 697 505	98 763 940	12 986 604	-11 716 875	-5 764 387	6 066 510	87 052 641	N/A	29 813 631	-29 141 045
Net pension costs for the period incl. effects	-5 949 419	4 779 385	744 389	-671 097	-333 584	350 743	2 668 911	N/A	903 476	-887 011
<b>GROUP</b>										
<b>Changes in pensions</b>										
Benefits-based pension liabilities	-84 140 577	103 080 081	13 186 291	-11 907 913	-5 867 084	6 169 551	91 134 234	N/A	30 774 342	-30 108 527
Net pension costs for the period incl. effects	-6 244 774	5 023 356	756 360	-682 398	-339 355	356 623	2 786 089	N/A	932 954	-916 661

## Note 26 - Tax

PARENT BANK			GROUP	
2016	2017	Amounts in NOK million	2017	2016
<b>Major components of income tax</b>				
323	<b>233</b>	Current tax costs	<b>244</b>	355
-62	<b>95</b>	Change in deferred tax	<b>112</b>	-63
	<b>-12</b>	Recognised directly to equity	<b>-15</b>	
-3	<b>0</b>	Shortfall/surplus in respect of accrual for taxation in the previous year/corrections	<b>-17</b>	-1
258	<b>316</b>	<b>Tax</b>	<b>324</b>	291
9	<b>8</b>	Capital (property) tax (presented as other operating costs)	<b>8</b>	9
		Tax non-current assets held for sale		
267	<b>324</b>	<b>Income tax for the period</b>	<b>332</b>	300
332	<b>241</b>	<b>Tax payable in balance sheet</b>	<b>252</b>	364
<b>Change in net deferred tax</b>				
-62	<b>95</b>	Change in deferred tax recognised in the income statement	<b>112</b>	-63
		Deferred tax related to new subsidiary as at 01.01.		
		Effects from consolidation		
-1	<b>-12</b>	Changes in principles recognised directly to equity	<b>-32</b>	-1
-63	<b>83</b>	<b>Total change in net deferred tax</b>	<b>80</b>	-64
<b>31.12.16</b>	<b>31.12.17</b>		<b>31.12.17</b>	<b>31.12.16</b>
<b>Temporary differences and deferred tax</b>				
-7	<b>-63</b>	Tangible fixed assets	<b>399</b>	285
157	<b>241</b>	Pension liabilities	<b>256</b>	164
183	<b>535</b>	Other temporary differences	<b>552</b>	256
		Loss carried forward	<b>-65</b>	-11
333	<b>713</b>	<b>Total temporary differences</b>	<b>1 142</b>	694
-83	<b>-178</b>	<b>Deferred tax in balance sheet - 25%</b>	<b>-286</b>	-174
<b>2016</b>	<b>2017</b>		<b>2017</b>	<b>2016</b>
<b>Change in temporary differences</b>				
-31	<b>-56</b>	Tangible fixed assets	<b>114</b>	-54
12	<b>84</b>	Pension liabilities	<b>92</b>	19
-230	<b>352</b>	Other temporary differences	<b>296</b>	-215
		Loss carried forward	<b>-54</b>	-6
-249	<b>380</b>	<b>Total temporary differences</b>	<b>448</b>	-256
-62	<b>95</b>	Change in deferred tax recognised in the income statement - 25%	<b>112</b>	-64
-1	<b>-12</b>	Changes in principles recognised directly to equity	<b>-15</b>	
0	<b>0</b>	Changes between deferred tax/tax payable as at 31.12.	<b>-17</b>	
-63	<b>83</b>	<b>Change in deferred tax recognised in the income statement - 25%</b>	<b>80</b>	-64
<b>Reconciliation of tax charge for the period recognised against profit and loss to profit before tax</b>				
431	<b>442</b>	25% of profit before tax	<b>443</b>	388
-170	<b>-126</b>	Non-taxable profit and loss items (permanent differences)	<b>-119</b>	-97
9	<b>8</b>	Capital gains tax	<b>8</b>	9
-3	<b>0</b>	Shortfall/surplus in respect of accrual for taxation in the previous year		
267	<b>324</b>	<b>Taxation charge for the period</b>	<b>332</b>	300
15.5%	<b>18.3%</b>	<b>Effective tax rate (income tax for the period expressed as a percentage of profit before tax)</b>	<b>18.7%</b>	19.3%

## 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, including listed prices in inactive markets for identical assets and liabilities. The category 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 listed prices in an active market	Valuation based on listed prices in an active market	
Amounts in NOK million	Level 1	Level 2	Level 3	Total
<b>Assets at 31.12.17</b>				
Loans and advances to credit institutions	775			775
Loans to customers at fair value			6 395	6 395
Shares at fair value	123		80	203
Bonds at fair value	7 774	3 767		11 541
Financial derivatives at fair value		1 511		1 511
<b>Total assets</b>	<b>8 672</b>	<b>5 278</b>	<b>6 475</b>	<b>20 425</b>
<b>Liabilities as at 31.12.17</b>				
Financial derivatives		902		902
<b>Total liabilities</b>		<b>902</b>		<b>902</b>

<b>Assets at 31.12.16</b>				
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
<b>Total assets</b>	<b>7 388</b>	<b>4 999</b>	<b>7 645</b>	<b>20 032</b>
<b>Liabilities as at 31.12.16</b>				
Financial derivatives		985		985
<b>Total liabilities</b>		<b>985</b>		<b>985</b>

## PARENT BANK - THIS YEAR'S 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.	7 489	156	0	0	0
Net gains	-3				
Acquisition	758	35			
Disposals	-1 849	-111			
<b>Booked value as at 31.12.</b>	<b>6 395</b>	<b>80</b>	<b>0</b>	<b>0</b>	<b>0</b>

## GROUP

Amounts in NOK million	Valuation based on listed prices in an active market	Valuation based on listed prices in an active market	Valuation based on listed prices in an active market	Total
	Level 1	Level 2	Level 3	
<b>Assets at 31.12.17</b>				
Loans and advances to credit institutions	775			775
Loans to customers at fair value			6 479	6 479
Shares at fair value	123		95	218
Bonds at fair value	7 774	3 767		11 541
Financial derivatives at fair value		1 511		1 511
<b>Total assets</b>	<b>8 672</b>	<b>5 278</b>	<b>6 574</b>	<b>20 524</b>

**Liabilities as at 31.12.17**

Financial derivatives		902		<b>902</b>
<b>Total liabilities</b>		<b>902</b>		<b>902</b>

**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
<b>Total assets</b>	<b>7 388</b>	<b>4 999</b>	<b>7 764</b>	<b>20 151</b>

**Liabilities as at 31.12.16**

Financial derivatives		985		985
<b>Total liabilities</b>		<b>985</b>		<b>985</b>

## GROUP - THIS YEAR'S 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.	7 593	171	0	0	0
Net gains	-5				
Acquisition	760	35			
Disposals	-1 869	-111			
<b>Booked value as at 31.12.</b>	<b>6 479</b>	<b>95</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Note 28 - Fair value financial instruments at amortised cost

### Financial instruments at amortised cost

As is evident from 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					
2016		2017		Level	Amounts in NOK million	Level	2017		2016	
Booked value	Market value	Booked value	Market value				Market value	Booked value	Market value	Booked value
5 871	5 871	<b>7 081</b>	<b>7 081</b>	3	Total loans and advances to credit institutions	3	<b>2 656</b>	<b>2 656</b>	1 946	1 946
59 467	59 571	<b>63 247</b>	<b>63 348</b>	3	Net loans and advances to customers (amortised cost)	3	<b>75 083</b>	<b>74 979</b>	70 335	70 231
30	30	<b>52</b>	<b>52</b>	3	Shares	3	<b>52</b>	<b>52</b>	30	30
65 368	65 472	<b>70 380</b>	<b>70 478</b>		<b>Total fair value for assets measured at amortised cost</b>		<b>77 791</b>	<b>77 687</b>	72 311	72 207
<b>Liabilities</b>										
833	833	<b>436</b>	<b>436</b>	3	Liabilities to credit institutions	3	<b>434</b>	<b>434</b>	818	818
53 924	53 924	<b>57 883</b>	<b>57 883</b>	3	Deposits from customers	3	<b>57 849</b>	<b>57 849</b>	53 870	53 870
21 164	21 456	<b>23 552</b>	<b>23 737</b>	2	Debt securities in issue (amortised cost)	2	<b>23 737</b>	<b>23 552</b>	21 456	21 165
1 350	1 359	<b>850</b>	<b>857</b>	2	Subordinated loan capital (amortised cost)	2	<b>857</b>	<b>850</b>	1 359	1 350
77 271	77 572	<b>82 721</b>	<b>82 913</b>		<b>Total fair value for liabilities measured at amortised cost</b>		<b>82 877</b>	<b>82 685</b>	77 503	77 202
<i>Off balance guarantee liabilities and pledging</i>										
1 577		<b>1 259</b>			Guarantee liabilities and other liabilities (off balance)		<b>1 152</b>			1 577
					Assets pledged as security					
<i>Liabilities</i>										
7 641		<b>8 601</b>			Book value of bonds that are in Norges Bank's safe custody		<b>8 601</b>			7 641
0		<b>0</b>			Of which pledged as security for D/F loan		<b>0</b>			0

## 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 31.12.17.

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

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
Governments				
2 158	<b>2 720</b>	- nominal value	<b>2 720</b>	2 158
2 248	<b>2 807</b>	- market value/fair value	<b>2 807</b>	2 248
2 248	<b>2 807</b>	- booked value	<b>2 807</b>	2 248
Other public issuer				
1 293	<b>1 847</b>	- nominal value	<b>1 847</b>	1 293
1 305	<b>1 873</b>	- market value/fair value	<b>1 873</b>	1 305
1 305	<b>1 873</b>	- booked value	<b>1 873</b>	1 305
Financial institutions				
6 525	<b>6 774</b>	- nominal value	<b>6 774</b>	6 525
6 531	<b>6 821</b>	- market value/fair value	<b>6 821</b>	6 531
6 531	<b>6 821</b>	- booked value	<b>6 821</b>	6 531
Non-financial institutions				
38	<b>41</b>	- nominal value	<b>41</b>	38
34	<b>40</b>	- market value/fair value	<b>40</b>	34
34	<b>40</b>	- booked value	<b>40</b>	34
46		Accrued interest		46
10 164	<b>11 541</b>	<b>Total certificates and bonds</b>	<b>11 541</b>	10 164

## Note 30 - Shares

As is evident from 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 and estimated cash flows. Equities in the category available for sale are purchased with the intention of holding them as long-term investments and at stated at cost price.

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
105	<b>123</b>	Fair value through profit and loss account	<b>123</b>	105
156	<b>80</b>	Share will be started at fair value	<b>94</b>	171
30	<b>52</b>	Available for sale	<b>47</b>	30
291	<b>255</b>	<b>Total shares and parts</b>	<b>264</b>	306

### SHARES HELD FOR TRADING

#### Breakdown of shares as at 31.12.17

Company name Amounts in NOK thousand	Number of shares/units	Equity stake %	Cost	Market value	Booked value
<b>PCCs</b>					
SpareBank 1 Østlandet (SPOL)	4 870	0.005%	380	440	440
Sparebanken Øst (SPOG)	2 755	0.013%	109	149	149
Sparebank 1 SMN (MING)	33 298	0.026%	1 585	2 772	2 772
Sparebank 1 Buskerud Vestfold (SBVG)	8 000	0.013%	269	269	269
Sparebanken Vest (SVEG)	42 725	0.072%	1 498	2 318	2 318
<b>Sum equity certificates</b>			<b>3 841</b>	<b>5 947</b>	<b>5 947</b>

**Breakdown of shares as at 31.12.17**

Company name Amounts in NOK thousand	Number of shares/units	Equity stake %	Cost	Market value	Booked value
<b>Shares</b>					
Statoil ASA (STL)	29 335	0.001%	4 111	5 181	5 181
Aker BP ASA (AKERBP)	1 837	0.001%	274	374	374
Yara International (YAR)	6 514	0.002%	1 988	2 477	2 477
Schibsted ASA B-shares (SCHB)	5 971	0.005%	1 212	1 296	1 296
Telenor ASA (TEL)	9 330	0.001%	1 227	1 664	1 664
DNB ASA (DNB)	19 159	0.001%	2 055	2 935	2 935
Saferoad Holding ASA (SAFE)	13 615	0.020%	393	343	343
Axactor AB (AXA)	218 530	0.014%	647	636	636
TGS Nopec Geophysic (TGS)	5 654	0.006%	1 008	1 104	1 104
Storebrand ASA (STB)	13 495	0.003%	618	903	903
Subsea 7 S.A. (SUBC)	8 953	0.003%	904	1 117	1 117
Orkla (ORK)	22 200	0.002%	1 611	1 930	1 930
Marine Harvest ASA (MHG)	8 257	0.002%	912	1 140	1 140
Norsk Hydro ASA (NHY)	28 882	0.001%	1 056	1 795	1 795
Petroleum Geo-Service (PGS)	37 948	0.011%	874	609	609
XXL (XXL)	9 725	0.007%	915	824	824
Atea ASA (ATEA)	6 350	0.006%	678	737	737
Aker ASA (AKER)	3 014	0.004%	967	1 209	1 209
Visa Inc. C-shares (USD)	16 784	0.000%	7 187	63 120	63 120
<b>Total shares</b>			<b>28 639</b>	<b>89 394</b>	<b>89 394</b>
<b>Units in share-investment funds</b>					
DNB OBX ETF	21 679	0.142%	1 405	1 547	1 547
DBX MSCI WORLD ETF (EUR)	31 953	0.040%	9 163	15 392	15 392
MSCI Emerging Markets Index (EUR)	7 250	0.009%	2 171	2 876	2 876
MSCI Europe Index UCITS ETF (EUR)	14 335	0.040%	4 637	8 029	8 029
<b>Total units/participations in share investment funds/unit trusts</b>			<b>17 375</b>	<b>27 844</b>	<b>27 844</b>
<b>Total listed shares and participations - held for trading</b>			<b>49 856</b>	<b>123 185</b>	<b>123 185</b>
<b>SHARES VALUED AT FAIR VALUE</b>					
SpareBank 1 Markets	386 516	12.92%	110 148	79 738	79 738
Bank Tavrichesky (RUB)	104 821 999	9.35%	122 284	0	0
<b>Total shares at fair value</b>			<b>232 432</b>	<b>79 738</b>	<b>79 738</b>
<b>SHARES OTHER</b>					
Sparebankmaterieel 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	98	98
Trygg Parkering	120		4 200	4 200	4 200
Diverse mindre aksjer			1 710	1 721	1 721
<b>Total shares available for sale - long-term investments</b>			<b>19 664</b>	<b>9 246</b>	<b>9 246</b>
Claim preference shares Visa Inc.			43 000	43 000	43 000
<b>Parent Bank's total investment in shares and parts:</b>			<b>344 951</b>	<b>255 169</b>	<b>255 169</b>

## Note 30 - Shares

### Stakes owned by SpareBank 1 Nord-Norge Portefølje AS as of 31.12.17

The shares are classified as shares designated at fair value with changes in value over profit.

#### SHARES VALUED AT FAIR VALUE:

Beløp i hele 1 000 kroner	Number of shares/units	Equity stake %	Cost	Market value	Booked value
Lytix Biopharma AS	151 820		5 914	3 796	3 796
Såkorinvest Nord UA	16 250	17.5%	3 000	0	0
Viking Venture III IS	37 025	0.9%	2 324	3 242	3 242
Norinnova AS	16 250	17.5%	3 000	2 755	2 755
Nordisk Areal Invest AS	238 247	4.0%	5 599	0	0
Helse Investerings AS	611	40.7%	604	2 458	2 458
Saltenposten AS	50	2.6%	565	565	565
Sentrum Næringshage AS	387	6.3%	517	0	0
Tromsprodukt AS	10	1.9%	392	0	0
MariNor AS	60	13.2%	343	0	0
Kapnord Fond AS	4 145	6.8%	4 936	557	557
Kunnskapsparken Nord AS			560	0	0
Bodø Industrier AS	12	0.4%	108	0	0
Målseiv Industribygg AS	10	8.6%	104	0	0
AKSIS EIENDOM AS	18	0.6%	51	51	51
Skibotnhallen AS	5	2.0%	37	0	0
Nordnorsk Reiseliv AS B-shares	12 429	0.3%	14	0	0
Nordkynkraftlag AL	10	10.0%	10	10	10
Bodø Boligbyggelag AL	2		4	0	0
Nordavis AS	15	0.2%	2	2	2
Autosim AS	16 666	0.01%	1	1	1
Inko AS	64	1.8%	1	1	1
Breivoll Inspection Technologies AS	1 150	1.6%	1 549	0	0
Ibidium AS	115 865	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
Norinnova Invest B-shares	332	6.6%	332	0	0
Norinnova Invest AS A-shares	3 288	8.3%	3 669	0	0
Sic Processing Property AS	105	100.0%	0	0	0
Bodø Gruppen Invest AS	1 210	33.3%	1 222	0	0
<b>Total shares SNN Portefølje AS</b>			<b>57 457</b>	<b>13 437</b>	<b>13 437</b>
Shares owned by SNN Regnskapshuset: Other investment (lower than NOK 100 000)				643	643
Shares owned by EiendomsMegler 1 Nord-Norge AS				456	456
<b>Group's total investment in shares and participations/unit trusts</b>			<b>402 408</b>	<b>269 705</b>	<b>269 705</b>

Nord Norge Eiendom IV AS has been consolidated into SpareBank 1 Nord-Norge's consolidated 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 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.

## Note 31 - Investments in Group companies, associated companies and joint ventures

### PARENT BANK

#### INVESTMENTS IN GROUP COMPANIES

Amounts in NOK million	31.12.17	31.12.16
Equity stakes in financial institutions	775	591
Equity stakes in other Group companies	149	137
<b>Total investments in Group companies</b>	<b>924</b>	728
Off which hybrid capital in financial institutions	84	

#### 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	632 000	126 400	691 000	100%	691 000
SpareBank 1 Nord-Norge Portefølje AS, Tromsø	1 000	1 000	25 000	100%	25 000
EiendomsMegler 1 Nord-Norge AS, Tromsø	21 100	21 100	28 000	100%	29 636
Fredrik Langesg 20 AS, Tromsø	20 151	42	50 392	100%	50 392
SpareBank 1 Regnskapshuset Nord-Norge AS, Tromsø	150	1 500	43 610	100%	43 610
<b>Total investment shown in the Parent Bank's accounts</b>					<b>839 638</b>

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	31.12.17	31.12.16
Equity stakes in financial institutions	2 186	1 932
Equity stakes in other joint ventures	974	917
<b>Total investments in joint ventures</b>	<b>3 160</b>	2 849

#### 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 Betaling AS	Associated company	19.70%	Oslo
SpareBank 1 Boligkreditt AS	Associated company	16.85%	Stavanger
SpareBank 1 Næringskreditt AS	Associated company	14.48%	Stavanger
BN Bank ASA	Associated company	23.50%	Trondheim
SpareBank 1 Kredittkort AS	Associated company	17.29%	Trondheim
SMB LAB AS	Associated company	20.00%	Trondheim
Proaware AS	Associated company	20.00%	Tromsø

In autumn 2017, the shares in SpareBank 1 Mobilbetaling AS was paid in as a contribution in kind into SpareBank 1 Betaling AS. The remuneration was shares in SpareBank 1 Betaling AS representing a corresponding stake.

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

## Note 31 - Investments in Group companies, associated companies and joint ventures

## GROUP

## INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

2017 Amounts in NOK million	Total share	SpareBank 1 Gruppen AS 19.5%	SpareBank 1 Bank-samarbeidet DA 17.74%	BN Bank ASA 23.5%	SpareBank 1 Boligkreditt AS 16.85%	SpareBank 1 Nærings-kreditt AS 14.48%	Other
As at 01.01.	4 370	1 514	19	844	1 459	313	221
Acquisition/sale	314				294	-39	59
Share of profit - IFRS	479	353	63	70	-26	10	9
Share of result booked as administrative costs	-60		-60				
Items incorporated directly in equity capital	8	8					
Paid-out dividend	-356	-228		-94	-16	-18	
<b>As at 31.12.</b>	<b>4 755</b>	<b>1 647</b>	<b>22</b>	<b>820</b>	<b>1 711</b>	<b>266</b>	<b>289</b>

Included in "Other ": SpareBank 1 Kredittkort AS. SpareBank 1 Betaling AS. SMB Lab AS and Proaware AS.

2016 Amounts in NOK million	Total share	SpareBank 1 Gruppen AS 19.5%	SpareBank 1 Bank-samarbeidet DA 17.74%	BN Bank ASA 23.5%	SpareBank 1 Boligkreditt AS 14.61%	SpareBank 1 Nærings-kreditt AS 16.64%	Other
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	
<b>As at 31.12.</b>	<b>4 370</b>	<b>1 514</b>	<b>19</b>	<b>844</b>	<b>1 459</b>	<b>313</b>	<b>221</b>

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

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

Name	Assets	Liabilities	Income	Profit/ loss	Ownership share
<b>2017</b>					
SpareBank 1 Gruppen AS (Group)	13 777	12 165	3 493	353	19.50%
SpareBank 1 Betaling AS	57	0	0	-7	19.70%
SpareBank 1 Banksamarbeidet DA	197	168	199	3	17.74%
SpareBank 1 Boligkreditt AS	44 180	42 281	-35	-30	16.85%
SpareBank 1 Næringskreditt AS	1 807	1 510	13	9	14.48%
BN Bank ASA	6 150	5 237	151	70	23.50%
SpareBank 1 Kredittkort AS	1 033	831	87	15	17.29%
SMB LAB AS	20	1	0	0	20.00%
Proaware AS	4	0	0	0	20.00%
<b>Total</b>	<b>53 422</b>	<b>50 027</b>	<b>416</b>	<b>412</b>	

**2016**

SpareBank 1 Gruppen AS (Group)	12 302	10 788	2 747	307	19.50%
SpareBank 1 Mobilbetaling AS	0	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	17.42%
<b>Total</b>	<b>49 269</b>	<b>63 824</b>	<b>511</b>	<b>365</b>	

SpareBank 1 Mobilbetaling AS was established in autumn 2015. Financial statements produced at 31.12.16, includes all activity from start-up.

**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.

2017 Amounts in NOK million	Assets	Liabilities	Income	Profit/ loss	Number of shares	Ownership share
Bodø-Gruppen AS	40	67	0	-26	2 000	100%

## Note 32 - Property, plant and equipment

PARENT BANK				GROUP		
Buildings and other property	Machinery, fixtures, fittings and vehicles	Total	Amounts in NOK million	Buildings and other property	Machinery, fixtures, fittings and vehicles	Total
<b>2017</b>						
192	922	<b>1 114</b>	Cost of acquisition or adjusted value as at 01.01.17	342	1 016	<b>1 358</b>
	47	<b>47</b>	Additions	41	63	<b>104</b>
67	136	<b>203</b>	Disposals	41	99	<b>140</b>
125	833	<b>958</b>	Cost of acquisition or adjusted value as at 31.12.17	342	980	<b>1 322</b>
48	705	<b>753</b>	Accumulated depreciation and write-downs as at 01.01.17	57	800	<b>857</b>
2	49	<b>51</b>	Current period's depreciation	6	59	<b>65</b>
			Current period's impairment		0	<b>0</b>
36	44	<b>80</b>	Reversed accumulated depreciation related to disposals	32	21	<b>53</b>
14	710	<b>724</b>	Accumulated depreciation and impairment in value as at 31.12.17	31	838	<b>869</b>
111	123	<b>234</b>	<b>Book value as at 31.12.17</b>	311	142	<b>453</b>
<b>2016</b>						
270	898	1 168	Cost of acquisition or adjusted value as at 01.01.16	384	990	1 374
	42	42	Additions	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 related to disposals	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
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 138 million as at 31.12.17 (530 million as at 31.12.16).

### Liabilities related to property, plant and equipment

As at 31.12.17, the Group has an ongoing project involving the construction of a new head office in Tromsø. Also see note 37 concerning other liabilities.

### Investment property group

The Bank has no properties which are defined as investment properties as at 31.12.17.

## Note 33 - Intangible assets

PARENT BANK		Amounts in NOK million	GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
		Goodwill	<b>66</b>	63
		Other intangible assets	<b>2</b>	
		<b>Total intangible assets</b>	<b>68</b>	63

Goodwill is primarily attributable to the acquisition of Spare-Bank 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		Amounts in NOK million	GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
75	<b>75</b>	Capital contribution to the SpareBank 1 Nord-Norge Pension Fund	<b>75</b>	75
157	<b>241</b>	Pension assets	<b>256</b>	163
6	<b>32</b>	Other debtors	<b>32</b>	6
102	<b>47</b>	Other pre-paid costs, not yet incurred	<b>101</b>	109
48	<b>62</b>	Internal accounts	<b>62</b>	48
		Client account – property brokerage	<b>57</b>	67
37	<b>42</b>	Miscellaneous	<b>57</b>	252
425	<b>499</b>	<b>Other assets</b>	<b>640</b>	720
21	<b>10</b>	Hereof acquired assets listed for sale	<b>29</b>	153

### Other assets listed for sale

The value for acquired assets includes the following assets which is listed for sale: seven apartments, six properties and one helicopter.

## Note 35 - Deposits from customers

PARENT BANK				GROUP				
31.12.16		31.12.17		Amounts in NOK million	31.12.17		31.12.16	
Proportion	Deposits	Proportion	Deposits		Proportion	Deposits	Proportion	Deposits
93%	49 992	<b>91%</b>	<b>52 929</b>	Deposits from and liabilities to customers. without agreed maturity	<b>91%</b>	<b>52 895</b>	93%	49 938
7%	3 932	<b>9%</b>	<b>4 954</b>	Deposits from and liabilities to customers. with agreed maturity	<b>9%</b>	<b>4 954</b>	7%	3 932
100%	53 924	<b>100%</b>	<b>57 883</b>	Total deposits	<b>100%</b>	<b>57 849</b>	100%	53 870
	0.78%		<b>0.70%</b>	Average interest rate <sup>1)</sup>		<b>0.70%</b>		0.78%

### DEPOSITS BROKEN DOWN BY SECTOR AND INDUSTRY

5%	2 608	<b>5%</b>	<b>2 753</b>	Real estate	<b>5%</b>	<b>2 753</b>	5%	2 608
1%	699	<b>2%</b>	<b>1 123</b>	Financial and insurance activities	<b>2%</b>	<b>1 123</b>	1%	699
2%	1 228	<b>3%</b>	<b>1 595</b>	Fishing and aquaculture	<b>3%</b>	<b>1 595</b>	2%	1 228
1%	700	<b>2%</b>	<b>1 002</b>	Manufacturing	<b>2%</b>	<b>1 002</b>	1%	700
1%	440	<b>1%</b>	<b>489</b>	Agriculture and forestry	<b>1%</b>	<b>489</b>	1%	440
3%	1 636	<b>3%</b>	<b>1 721</b>	Power and water supply and construction	<b>3%</b>	<b>1 721</b>	3%	1 636
7%	3 812	<b>8%</b>	<b>4 499</b>	Service industries	<b>8%</b>	<b>4 465</b>	7%	3 758
3%	1 635	<b>3%</b>	<b>1 716</b>	Transportation	<b>3%</b>	<b>1 716</b>	3%	1 635
3%	1 870	<b>3%</b>	<b>1 724</b>	Commodity trade, hotel and restaurant industry	<b>3%</b>	<b>1 724</b>	3%	1 870
27%	14 628	<b>29%</b>	<b>16 622</b>	Total public market	<b>30%</b>	<b>16 588</b>	26%	14 574
57%	30 561	<b>56%</b>	<b>32 304</b>	Total retail market	<b>55%</b>	<b>32 304</b>	58%	30 561
16%	8 735	<b>14%</b>	<b>8 957</b>	Total government	<b>15%</b>	<b>8 957</b>	16%	8 735
100%	53 924	<b>100%</b>	<b>57 883</b>	<b>Total gross lending to customers</b>	<b>100%</b>	<b>57 849</b>	100%	53 870

### DEPOSITS BROKEN DOWN BY GEOGRAPHICAL AREA

17%	9 121	<b>17%</b>	<b>9 702</b>	Finnmark	<b>17%</b>	<b>9 702</b>	17%	9 121
36%	19 462	<b>37%</b>	<b>21 300</b>	Nordland	<b>36%</b>	<b>21 300</b>	36%	19 462
5%	2 594	<b>5%</b>	<b>2 771</b>	Other regions	<b>5%</b>	<b>2 771</b>	5%	2 594
41%	22 360	<b>41%</b>	<b>23 567</b>	Troms, including Svalbard	<b>41%</b>	<b>23 533</b>	41%	22 306
1%	387	<b>1%</b>	<b>543</b>	International	<b>1%</b>	<b>543</b>	1%	387
100%	53 924	<b>100%</b>	<b>57 883</b>	<b>Total deposits broken down by geographical areas</b>	<b>100%</b>	<b>57 849</b>	100%	53 870

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

## Note 36 - Debt securities in issue

As is evident from note 2, SpareBank 1 Nord-Norge has financial debt securities in issue with floating or fixed interest rate. Variable rate funding is recorded at amortised cost. Funding with fixed interest rate is also recorded at amortised cost, but with fair value hedging.

Fixed rate funding is hedged through interest rate swaps. The recorded value is reported in accordance with the fair value of the interest rate hedge. The fair value of the interest rate hedge does not include credit risk.

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
10 340	<b>10 522</b>	Bond debt with fixed interest rate	<b>10 522</b>	10 340
10 825	<b>13 030</b>	Bond debt determinable interest rate	<b>13 030</b>	10 825
21 165	<b>23 552</b>	<b>Total debt securities in issue</b>	<b>23 552</b>	21 165
1.76%	<b>1.44%</b>	Average interest rate for bond debt <sup>1)</sup>	<b>1.44%</b>	1.76%

1) 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

3 955		2017		3 955
4 128	<b>3 465</b>	2018	<b>3 465</b>	4 128
3 625	<b>4 138</b>	2019	<b>4 138</b>	3 625
3 239	<b>4 262</b>	2020	<b>4 262</b>	3 241
5 725	<b>3 187</b>	2021	<b>3 187</b>	5 727
	<b>8 023</b>	2022 and later years	<b>8 023</b>	
		Impact from recalculation to market value of bonds - hedging-related accounting	<b>478</b>	
20 672	<b>23 075</b>	<b>Bond debt and other long-term borrowings</b>	<b>23 553</b>	20 676

### Broken down by the most important foreign currencies

15 881	<b>14 131</b>	NOK	<b>14 131</b>	15 881
2 116	<b>2 206</b>	CHF	<b>2 206</b>	2 116
	<b>742</b>	USD	<b>742</b>	
284	<b>911</b>	SEK	<b>911</b>	284
2 884	<b>5 562</b>	EUR	<b>5 562</b>	2 884
21 165	<b>23 552</b>	<b>Total liabilities broken down by major currencies</b>	<b>23 552</b>	21 165

## Note 37 - Other liabilities

PARENT BANK			GROUP	
31.12.16	31.12.17	Amounts in NOK million	31.12.17	31.12.16
579	<b>593</b>	Other liabilities	<b>625</b>	634
267	<b>143</b>	Incurred costs / prepaid income	<b>360</b>	494
	<b>3</b>	Provision for incurred costs / obligations	<b>29</b>	
846	<b>739</b>	<b>Total other liabilities</b>	<b>1 014</b>	1 128
<b>Other liabilities</b>				
88	<b>137</b>	Creditors	<b>153</b>	93
332	<b>241</b>	Accrued tax	<b>241</b>	364
24	<b>22</b>	Tax deductions	<b>29</b>	26
36	<b>73</b>	Agreed payments from Donations Fund	<b>73</b>	36
32	<b>33</b>	Pensionliabilities (IAS 19)	<b>33</b>	32
67	<b>87</b>	Miscellaneous liabilities	<b>96</b>	83
579	<b>593</b>	<b>Total other liabilities</b>	<b>625</b>	634
<b>Incurred costs / prepaid income</b>				
194	<b>70</b>	Incurred costs / prepaid income	<b>228</b>	361
53	<b>73</b>	Incurred personnel costs	<b>92</b>	76
20		Miscellaneous incurred costs	<b>40</b>	57
267	<b>143</b>	<b>Total</b>	<b>360</b>	494
<b>Provision of accrued expenses / obligations</b>				
	<b>3</b>	Specified write-down guarantee	<b>29</b>	
	<b>3</b>	<b>Total provision of accrued expenses / obligations</b>	<b>29</b>	

### Binding agreements concerning acquisitions of property, plant and equipment

As at 31.12.17, the Group has an ongoing project involving the construction of a new head office in Tromsø. The planned completion date for the building is sometime in the fall of 2019. The investments will be capitalised under way and depreciation will not commence before the building is completed. Per 31.12.17 NOK 50 million is capitalised on the balance sheet. Also see note 32 concerning property, plant and equipment.

### Ongoing lawsuits

As at 31.12.17, the Group is being sued in one case. 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		Amounts in NOK million	GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
<b>Breakdown of guarantee liabilities</b>				
523	<b>500</b>	Payment guarantees	<b>393</b>	447
322	<b>281</b>	Contract guarantees	<b>281</b>	322
69	<b>67</b>	Loan guarantees	<b>67</b>	69
325	<b>385</b>	Miscellaneous	<b>385</b>	325
26	<b>26</b>	Guarantees in favour of the Norwegian Banks' Gurantee Fund (NBGF)	<b>26</b>	26
1 265	<b>1 259</b>	<b>Total guarantee liabilities</b>	<b>1 152</b>	1 189
<b>Guarantees broken down by commercial, industrial and other sectors</b>				
289	<b>288</b>	Construction	<b>288</b>	289
32	<b>21</b>	Real estate	<b>21</b>	32
276	<b>255</b>	Other business support activities	<b>148</b>	200
5	<b>5</b>	Financial and insurance activities	<b>5</b>	5
134	<b>126</b>	Manufacturing	<b>126</b>	134
7	<b>59</b>	Agriculture and forestry	<b>59</b>	7
16	<b>15</b>	Retail market	<b>15</b>	16
15	<b>12</b>	Service industries	<b>12</b>	15
82	<b>77</b>	Transportation and storage	<b>77</b>	82
265	<b>253</b>	Water supply; sewerage, waste management and remediation activities	<b>253</b>	265
144	<b>148</b>	Commodity trade, hotel and restaurant industry	<b>148</b>	144
1 265	<b>1 259</b>	<b>Total guarantees broken down by commercial, industrial and other sectors</b>	<b>1 152</b>	1 189
<b>Guarantees broken down by geographical areas</b>				
138	<b>143</b>	Finnmark	<b>143</b>	138
601	<b>614</b>	Troms including Svalbard	<b>507</b>	525
219	<b>199</b>	Nordland	<b>199</b>	219
307	<b>303</b>	Other regions	<b>303</b>	307
1 265	<b>1 259</b>	<b>Total guarantees broken down by geographical areas</b>	<b>1 152</b>	1 189

## Note 39 - Subordinated loan capital

PARENT BANK			GROUP	
31.12.16	31.12.17	Maturity structure Amounts in NOK million	31.12.17	31.12.16
<b>Subordinated loan capital with definite maturities</b>				
350	<b>350</b>	2024 3 months Nibor + 1,5 (Call option 2019)	<b>350</b>	350
500	<b>500</b>	2022 3 months Nibor + 2,75 (Call option 2017)	<b>500</b>	500
850	<b>850</b>	<b>Total with definite maturities</b>	<b>850</b>	850
<b>Hybrid Tier 1 instruments</b>				
500		2099 3 months Nibor + 4,75 (Call option 2017)		500
500		<b>Total hybrid Tier 1 instruments</b>		500
1 350	<b>850</b>	<b>Total subordinated loan capital</b>	<b>850</b>	1 350
4.30%	<b>2.89%</b>	Average interest rate NOK	<b>2.89%</b>	4.30%

### Hybrid Tier 1 capital

As at 31.12.17, SpareBank 1 Nord-Norge has two outstanding perpetual Tier 1 capital instruments for NOK 350 million and NOK 180 million, respectively. One loan was issued on 04.04.17 for NOK 350 million and is subject to interest of 3-month NIBOR + 330 bp. The second loan was issued on 10.10.17 for NOK 180 million and is subject to interest of 3-month NIBOR + 315 bp. Both loans are classified as equity and presented on the line Tier 1 capital instru-

ments under equity. This means that the interest is not presented on the line for interest costs but is recognised directly against equity. The contract terms for both hybrid Tier 1 capital loans mean that the loans are included in the Bank's Tier 1 capital for capital adequacy purposes.

## Note 40 - Business acquisitions/mergers

### Acquisitions/merger of accounting office

In March 2017, SpareBank 1 Regnskapshuset Nord-Norge AS (RH) acquired 100% of the shares in Exacto AS. Exacto AS provides accounting services and its head office is in Narvik. As of 20.06.17, Exacto was merged into RH. The merger took place with accounting and tax continuity and accounting and tax effect from 01.01.17.

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 Portefølje AS	SpareBank 1 Banksamarbeidet DA
	SpareBank 1 Regnskapshuset Nord-Norge AS	BN Bank ASA
	Nord-Norge Eiendom IV AS	SpareBank 1 Næringskreditt AS
	Alsgården AS	SpareBank 1 Betaling AS
	Fredrik Langes gate 20 AS	SpareBank 1 Kredittkort AS
		SMB Lab AS
		Proaware AS

### CURRENT ACCOUNT RATIO WITH SUBSIDIARIES

Amounts in NOK million	2017	2016
<b>Income items - Parent Bank</b>		
Interest received and similar income from loans and claims from subsidiaries	77	78
Deposit rate to subsidiaries	5	6
Share dividend	87	111
Accrued commissions from arranging vendor's lien-based loans	3	3
Commissions and income from banking services	2	3
Other operating costs	10	8

The Parent Bank offers some administration services for subsidiaries, such as salary.

Amounts in NOK million	2017	2016
<b>Balance sheet items - Parent Bank</b>		
Loans and advances to subsidiaries	4 339	4 058
Due to subsidiaries	483	524
Other liabilities and incurred costs	22	5
Claim on dividends	0	6

As at 31.12.17, vendor's lien-based loans and leasing arranged for SpareBank 1 Finans totalled NOK 1 856 million.

### TRANSACTIONS WITH JOINT VENTURES/ASSOCIATED COMPANIES

Amounts in NOK million	2017	2016
<b>Income items - Parent Bank</b>		
Interest received and similar income from loans and claims from joint ventures	57	63
Deposit interest rate applicable to joint ventures	0	1
Share dividends	357	562
<b>Balance sheet items - Parent Bank</b>		
Loans and advances to joint ventures	2 081	3 189
Deposits from and liabilities to joint ventures	30	88
Bonds	84	0

### Transactions with joint ventures

As a participant in the SpareBank 1-alliansen, 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 115 million (2017) and NOK 120 million (2016).
- B) Commissions from sale of insurance- and savings products with an insurance element for SpareBank 1 Gruppen AS totalled NOK 153 million and NOK 151 million respectively in 2017 and 2016.
- C) Loans sold to SpareBank 1 Boligkreditt AS as at 31.12.17 NOK 30 464 million  
Accrued commission from SpareBank 1 Boligkreditt AS in 2017 NOK 245 million  
Receivables SpareBank 1 Boligkreditt AS as at 31.12.17 NOK 0 million
- D) Loans sold to SpareBank 1 Næringskreditt AS as at 31.12.17 NOK 0 million  
Accrued commission from SpareBank 1 Næringskreditt AS in 2017 NOK 0 million

## Note 42 - Equity Certificates and ownership structure

According to the statutes section 2-2 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 is registered as owner in the Norwegian Central Securities Depository (VPS).

The Supervisory Board can decide to issued equity certificates that are negotiable and entitle the holder to dividend under the Act of 10 June 1988 No. 40 relating to financial services and financial institutions (Financial Institutions Act). Equity certificate holders must be registered with the Norwegian Central Securities Depository (VPS). As at 31.12.17, the Bank had 7 939 EC-holders (7 465 as at 31.12.16).

### 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	Rights 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
<b>2017</b>			<b>1 807 164 288</b>	<b>100 398 016</b>

## THE 20 LARGEST EC-HOLDERS

Name	Number of ECs 31.12.17	Share 31.12.17	Change in number of ECs 2017
Pareto Aksje Norge	3 069 150	3.06%	-379 549
MP Pensjon PK	2 697 811	2.69%	-22 692
The Northern Trust Comp, Non-treaty Account	2 655 981	2.65%	-495 689
FLPS - Princ All Sec Stock Sub	2 592 616	2.58%	1 234 236
Verdipapirfondet DNB Norge (IV) v/DNB Asset Management	2 389 900	2.38%	-104 100
State Street Bank and Trust Comp A/C Client Omnibus F	2 074 940	2.07%	632 450
Morgan Stanley and Co Intl PLC BNY Mellon SA/NV	1 793 280	1.79%	1 793 280
Geveran Trading CO LTD	1 772 126	1.77%	-422 231
Meteva AS	1 614 670	1.61%	
Pope Asset Management, LLC BNY Mellon SA/VN	1 518 259	1.51%	1 071 697
Sparebankstiftelsen SpareBank 1 Nord-Norge	1 411 606	1.41%	
Forsvarets personellservice	1 391 630	1.39%	-170 000
Skandinaviska Enskilda Banken AB SEB AB, UVITS V	1 373 754	1.37%	-71 747
VPF Eika Egenkapitalbevis C/O Eika Kapitalforvaltning AS	1 241 971	1.24%	1 241 971
Pareto AS	970 659	0.97%	
State Street Bank and Trust Comp A/C West Non-treaty ACC	946 988	0.94%	130 477
State Street Bank and Trust Comp A/C Client Omnibus D Non-treaty ACC	850 000	0.85%	300 000
JP Morgan Bank Luxembourg	790 379	0.79%	177 932
State Street Bank and Trust Comp S/A SSB Client Omni E	777 631	0.77%	234 791
State Street Bank and Trust Comp S/A Client OM80	774 000	0.77%	724 000
<b>20 largest EC-holders</b>	<b>32 707 351</b>	<b>32.58%</b>	<b>5 874 826</b>
Other EC-holders	67 690 665	67.42%	
<b>ECs issued</b>	<b>100 398 016</b>	<b>100.00%</b>	

## Note 42 - Equity Certificates and ownership structure

### EC ratio

The result for the accounting year is divided between the EC-holders and the Bank according to the EC-ratio 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	01.01.18	01.01.17
Equity Certificates	<b>1 807 164</b>	1 807 164
Premium Fund	<b>843 268</b>	843 268
Dividend Equalisation Fund, excluding fund for unrealised gains	<b>1 574 293</b>	1 310 132
Other equity	<b>50 866</b>	22 314
<b>A. Equity attributable to EC holders of the Bank</b>	<b>4 275 591</b>	3 982 878
Saving Bank's Fund, excluding fund for unrealised gains	<b>4 765 146</b>	4 459 602
Donations	<b>119 858</b>	119 858
Other equity	<b>61 011</b>	28 195
<b>B. Total Saving Bank's Fund</b>	<b>4 946 015</b>	4 607 655
<b>Total equity, excluding dividends</b>	<b>9 221 606</b>	8 590 533
<b>EC ratio ( A/ (A+B))</b>	<b>46.36%</b>	46.36%

#### RESULT PER EC

2016	2017		2017	2016
		<b>Result for the year</b>		
1 456	<b>1 444</b>	Result for the year	<b>1 440</b>	1 253
	<b>-9</b>	Net interests hybrid capital <sup>1)</sup>	<b>-9</b>	
1 456	<b>1 435</b>	<b>Adjusted resultat for the year</b>	<b>1 431</b>	1 253
675	<b>665</b>	EC-holders share of result for the year (46.36%)	<b>663</b>	581
6.72	<b>6.62</b>	<b>Result per EC</b>	<b>6.61</b>	5.79
1 400	<b>1 505</b>	Total comprehensive income	<b>1 515</b>	1 200
	<b>-9</b>	Net interests hybrid capital <sup>1)</sup>	<b>-9</b>	
1 400	<b>1 496</b>	<b>Adjusted total comprehensive income</b>	<b>1 506</b>	1 200
649	<b>694</b>	EC-holders share of result for the year (46.36%)	<b>698</b>	556
6.47	<b>6.90</b>	Total comprehensive income per EC	<b>6.95</b>	5.55

1) Interest on Tier 1 capital instruments that are classified as equity was recognised directly against equity in the amount of NOK 12 million, reduced by a tax effect of NOK 3 million.

## Note 43 - Profit distribution

### DISTRIBUTION OF THE PARENT BANK'S PROFIT AFTER TAX

Amounts in NOK million	2017	2016
Profit after tax	<b>1 444</b>	1 456
Cash dividend to EC holders	<b>402</b>	346
Dividend Equalization Fund	<b>267</b>	329
Total EC holders (amount)	<b>669</b>	675
To EC holders (per cent)	<b>46.36%</b>	46.36%
Donations	<b>465</b>	401
Saving Bank's Fund	<b>310</b>	380
Total community owned capital (amount)	<b>775</b>	781
To community owned capital (per cent)	<b>53.64%</b>	53.64%
<b>Total distribution</b>	<b>1 444</b>	1 456

Two Tier 1 capital instruments issued by the Bank are not covered by the IFRS regulations' definition of debt and are therefore classified as equity. Based on this, accrued interest on the hybrid Tier 1 capital has not been recognised as a cost in the income statement but has been charged directly against equity. When calculating key figures for equity and the equity certificates, accrued interest on hybrid Tier 1 capital is thus deducted from the accounting result.

At the same time, hybrid Tier 1 capital is deducted from the equity on the balance sheet. This ensures that the key figures relevant to the Bank's owners are calculated on the basis of the result and the equity that actually belong to the owners.

Amounts in NOK million	2017	2016
Net profit available for distribution	<b>1 444</b>	1 456
Net interest on Tier 1 capital instruments booked directly against equity	<b>-9</b>	
Total net profit used to calculate dividend	<b>1 435</b>	1 456
Payout rate for the result for the Parent Bank	<b>60.3%</b>	48.7%
Payout rate for the result for the Group	<b>60.5%</b>	40.4%
<b>Dividend per equity certificate</b>	<b>4.00</b>	3.45

Dividends will be distributed to registered equity certificate holders as at 22.03.18. The Bank's equity certificates will be traded ex dividend as of 23.03.18. Dividends will be paid out on 10.04.18.

## Note 44 - Events occurring after the end of the year

The distribution of a cash dividend of NOK 402 million from the profit for the year to the equity capital certificate holders in Spare-Bank 1 Nord-Norge and NOK 465 million as donations to community-owned capital has been proposed. This proposal has not been adopted as 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.

## Declaration by the Board of Directors and CEO

The Board and chief executive have today discussed and approved the annual report and consolidated financial statements for SpareBank 1 Nord-Norge for the period 1 January 2017 to 31 December 2017.

We hereby confirm that the financial statements for the period 1 January 2017 to 31 December 2017 have, to the best of our knowledge, been prepared in accordance with applicable accounting standards, and that the information provided presents a true and fair picture of the Group's assets, liabilities, financial position and performance as a whole. We also confirm that the annual report provides a true and fair picture of important events during the accounting period and their effect on the annual financial statements, the most important risk and uncertainty factors the Group faces in the next accounting period, and material transactions with close associates.

**Tromsø, 27. February 2018**

Styret i SpareBank 1 Nord-Norge



Karl Eirik Schjøtt-Pedersen  
(Chair)



Hans Tore Bjerkås  
(Deputy)



Ingvild Myhre



Kjersti Terese Stormo



Greger Mannsverk



Bengt Olsen



Sonja Dønne



Kjetil Berntsen  
(employee elected)



Vivi Ann Pedersen  
(employee elected)



Jan-Frode Janson  
(CEO)

## Auditor's report



**KPMG AS**  
Stakkevollvegen 41  
Postbox 6262  
NO-9292 Tromsø

Telephone +47 04063  
Fax+47 77 64 30 10  
Internet www.kpmg.no  
Enterprise 935 174 627 MVA

To the Board of Representatives of SpareBank 1 Nord-Norge

## Independent auditor's report

### Statement concerning the audit of the annual financial statements

#### Opinion

We have audited the annual financial statements of SpareBank 1 Nord-Norge, comprising:

- The company's financial statements, which consist of the balance sheet as at 31 December 2017, the statement of income, the statement of changes in equity and the cash flow statement for the financial year ending as of this date, as well as the notes, including a summary of key accounting policies; and
- The consolidated accounts, comprising the balance sheet as at 31 December 2017, the statement of income, the statement of changes in equity and the cash flow statement for the financial year ending as of this date, as well as the notes, including a summary of key accounting policies.

In our opinion:

- The annual financial statements are presented in accordance with statutory and regulatory provisions;
- The company's financial statements give a true and fair view of the financial position of SpareBank 1 Nord-Norge as at 31 December 2017 and of the company's results and cash flows for the financial year which ended as of this date, in accordance with the International Financial Reporting Standards as adopted by the EU;
- The accompanying consolidated accounts give a true and fair view of the financial position of the SpareBank 1 Nord-Norge Group as at 31 December 2017 and of the Group's results and cash flows for the financial year which ended as of this date, in accordance with the International Financial Reporting Standards as adopted by the EU.

#### Basis for our opinion

We conducted our audit in accordance with statutory and regulatory provisions, and good auditing practices in Norway, including the International Standards on Auditing (the ISAs). Our tasks and duties in accordance with these standards are described in the auditors' tasks and duties for the auditing of the annual financial statements. We are independent of the company and the Group as required by law and in regulatory provisions, and have complied with our other ethical obligations in accordance with these requirements. In our view, the audit evidence obtained is sufficient and appropriate as the basis for our opinion.

#### Key aspects of the audit

Key aspects of the audit are the conditions we believe to be of greatest significance to the auditing of the annual financial statements for 2017. These conditions were considered on the performance of the audit and when we formed our opinion concerning the overall annual financial statements. We do not give any separate opinion concerning these conditions.

#### The value of lending to customers

See Note 3, Note 7, Note 9, Note 11 and Note 14 to the accounts for a description of the bank's credit risk and impairment of lending to customers.

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.

State-authorised public accountants - members of the Norwegian Institute of Public Accountants

#### Offices in:

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



<i>Description of the relationship</i>	<i>Our audit approach</i>
<p>The handling in the accounts of lending to customers requires the use of estimates both with regard to the time of identification of any loss events and estimation of the size of any write-down. The management of the bank assesses write-down for impairment on any loss events occurring on an individual basis and overall for groups of loans.</p> <p>Key elements included in the management's assessment of whether impairment should be made or not are:</p> <ul style="list-style-type: none"> <li>• Identification of the specific lending that has an objective loss event</li> <li>• Identification of loss events affecting grouped loss assessments</li> <li>• Assumptions and discretionary assessments used by the management to underpin the calculation of individual and group impairment.</li> </ul> <p>Loss assessments have a material effect on the recognised value of lending to customers.</p>	<p>Our auditing approach includes a combination of audit actions, consisting of testing of the bank's established internal controls of the impairment of lending to customers, as well as substantive actions.</p> <p>Our audit actions include, among other things, the following:</p> <ul style="list-style-type: none"> <li>• We assessed and tested the design and effectiveness of selected controls to identify and evaluate loss exposures.</li> <li>• We reviewed and tested the design and effectiveness of selected controls for the calculation of impairment of lending on an individual basis and at group level.</li> <li>• We tested the calculation of impairment of a selection of identified loss exposures and assessed and challenged the management concerning the assumptions of the size and timing of cash flows.</li> <li>• We assessed the reasonableness of the assumptions and estimates that are the basis used by the management in the model to calculate the overall impairment of groups of loans; including in terms of the historical accuracy of the estimates.</li> </ul>

*Valuation of financial assets and liabilities recognised at fair value to profit or loss*

See Note 3 and Note 27 to the accounts for a description of the bank's valuation of financial assets and liabilities recognised at fair value to profit or loss.

<i>Description of the relationship</i>	<i>Our audit approach</i>
<p>Significant portfolios of financial assets and liabilities are valued at fair value based on model calculations, with the use of individual assumptions that are not directly observable in a market.</p> <p>Changes in the model and the use of assumptions and estimates can have a significant impact on the accounting value of these financial assets and liabilities.</p>	<p>Our audit actions include, among other things, the following:</p> <ul style="list-style-type: none"> <li>• Review and assessment of the models that the bank has used for the valuation of financial assets and liabilities at fair value to profit or loss, including the assessed method used, as well as the assumptions and estimates which are applied and compared with our knowledge of practice in the industry.</li> <li>• We tested the valuation made for a selection of financial assets and liabilities and also assessed and challenged the management concerning the assumptions and estimated evaluations applied.</li> <li>• We assessed and tested the bank's classification of levels in the valuation hierarchy and related note information.</li> </ul>



#### Other information

The management is responsible for other information. Other information consists of the annual report, but does not include the annual financial statements and the audit report.

Our statement concerning the audit of the annual financial statements does not include other information, and we do not certify the other information.

In connection with the audit of the annual financial statements, it is our responsibility to read the other information for the purpose of assessing whether there is any substantial inconsistency between the other information and the annual financial statements, and the knowledge we have gained during our audit, or whether it may contain material misstatements.

If we conclude that the other information contains material misstatements, we are required to report this. We have nothing to report in this respect

#### The responsibility of the Board of Directors and the general manager for the annual financial statements

The Board of Directors and the general manager (management) are responsible for preparing the annual financial statements in accordance with statutory and regulatory provisions, including in order to give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU. The management is also responsible for such internal controls as it deems necessary in order to prepare annual financial statements that do not contain material misstatement, neither as a result of fraud nor error.

On the preparation of the annual financial statements, the management is responsible for considering the company's and the Group's ability to continue as a going concern, and for the due disclosure of any circumstances of significance to its continuation as a going concern. The going concern assumption must be the basis for the annual financial statements unless the management either intends to liquidate the Group or to discontinue the activities, or has no realistic alternative to this.

#### The auditor's tasks and duties on the audit of the annual financial statements

Our objective with the audit is to achieve reasonable assurance that the overall annual financial statements do not contain material misstatements, neither as a result of fraud nor inadvertent error, and to present an audit report which includes our opinion. Reasonable assurance is a high degree of certainty, but no guarantee that an audit conducted in accordance with statutory and regulatory provisions, and good auditing practices in Norway, including the ISAs, will always reveal any material misstatement that exists. Incorrect information may arise as a consequence of fraud or inadvertent error. Incorrect information is assessed to be significant if it can individually or overall be reasonably expected to influence economic decisions by the users on the basis of the annual financial statements.

As part of an audit in accordance with statutory and regulatory provisions, and good auditing practice in Norway, including the ISAs, we exert professional discretion and demonstrate professional scepticism throughout the audit. Furthermore:

- We identify and assess the risk of material misstatement in the financial statements, whether this is due to fraud or inadvertent error. We design and implement audit actions to handle such risks, and collect audit evidence that is sufficient and appropriate as the basis for our opinion. The risk that material misstatement as a consequence of fraud is not discovered is greater than for incorrect information due to inadvertent error, since fraud may involve collaboration, forgery, deliberate omissions, misrepresentations or overriding of internal control.
- We gain an understanding of the internal control that is relevant for the audit, in order to design audit actions which are appropriate to the circumstances, but not to express any opinion on the effectiveness of the company's and the Group's internal control.
- We evaluate whether the accounting policies applied are appropriate and whether the accounting estimates and related notes prepared by the management are reasonable.
- We form an opinion concerning the appropriateness of the management's application of the going concern assumption on the preparation of the accounts, based on the audit evidence obtained, and whether there is material uncertainty concerning events or circumstances that



*Auditor's report - 2017*  
*SpareBank 1 Nord-Norge*

may raise doubts concerning the significance of the company's and the Group's ability to continue to operate as a going concern. If we conclude that material uncertainty exists, in our audit report we are required to draw attention to the supplementary information in the financial statements, or, if such supplementary information is not sufficient, to modify our opinion concerning the annual financial statements and the annual report. Our opinions are based on audit evidence obtained up to the date of the audit report. However, subsequent events or circumstances may result in the company and the Group not continuing to operate.

- We evaluate the overall presentation, structure and content, including the supplementary information, and whether the annual financial statements represent the underlying transactions and events in a way that gives a true and fair view.
- We obtain adequate and appropriate audit evidence regarding the financial information of the entities or business areas in the Group, in order to express an opinion on the consolidated financial statements. We are responsible for leading, following up and conducting the audit of the Group. We alone are responsible for our audit opinion.

We communicate with the Board of Directors concerning, among other things, the planned scope of the audit and the time at which the audit work is to be performed. We also exchange information concerning significant matters that we have discovered in the course of the audit, including about any significant weaknesses in the internal control.

We give the Board of Directors a statement that we have complied with relevant ethical requirements concerning impartiality, and that we have communicated and will communicate to them all relations and other matters that might reasonably influence our impartiality, and, where relevant, concerning related precautions.

Concerning the matters we have communicated to the Board of Directors, we consider which of them were of greatest significance to the audit of the annual financial statements during the period in question, and are therefore key aspects of the audit. We describe these issues in the audit report, unless statutory and regulatory provisions prevent the publication of the case, or if we, in extremely rare circumstances, decide that a case should not be addressed in the report, since the negative consequences of such disclosure must be reasonably expected to offset the public's interest in discussion of the case.

### Statement concerning other statutory requirements

#### Opinion concerning the Annual Report

On the basis of our audit of the annual financial statements as described above, we believe that the information in the annual report concerning the annual financial statements, the going concern assumption, and the proposal for the application of profits is consistent with the annual financial statements and in accordance with statutory and regulatory provisions.

#### Opinion concerning registration and documentation

Based on our audit of the annual financial statements as described above, and the control actions we found necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, we believe that the management has fulfilled its obligation to provide proper and straightforward registration and documentation of the company's accounting information in accordance with statutory and provisions and good bookkeeping practice in Norway.

Tromsø 28 February 2018  
KPMG AS

Lars Inge Pettersen  
State authorised  
public accountant

# Operations

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*The more customers SpareBank 1 Nord-Norge has, the more money that comes back to enthusiasts and projects, for dreams and visions. We want to make Northern Norway an even better place to live; we want to create value and develop together with those who live here. Because that is why we exist – For Northern Norway.*

# Group Management

The corporate executive management is the CEO's corporate body for general management in SpareBank 1 Nord-Norge. All significant decisions are made in consultation with the corporate executive management.



## FROM THE LEFT

**1** EVP Technology and Process  
**Geir Andreassen****Background**

Andreassen has a bachelor degree in auditing, and has previously worked as the Finance Manager and Audit Manager at Sparebank 1 Nord-Norge. He has also worked as an auditor in Noraudit.

**No. of equity certificates** 77 724

**2** EVP Credit and Risk Management  
**Liv Bortne Ulriksen****Background**

Bortne Ulriksen has a bachelor degree in Fisheries and aquaculture with specialisation in economics. She is a former bank manager at Fokus Bank/Dansk Bank, and has management experience from Fiskerforskning and Nofima AS.

**No. of equity certificates** 84 537

**3** EVP Troms  
**Christian Overvaag****Background**

Overvaag is a graduate of diploma economist, and former Managing Director of the Industrial Association in the Tromsø region. He also has management experience from several commercial and residential projects, and has worked as a business insurance underwriter at Gjensidige Forsikring.

**No. of equity certificates** 102 563

**4** EVP Helgeland og Salten  
**Trude Glad****Background**

Glad has a degree in economics and business administration and has a master of management from the BI School of Economics & Business Administration in Oslo. Former corporate market manager at Sparebanken Nord-Norge, Investor Relations Manager at Rieber & Søn ASA, and Assistant Manager at Norgeskreditt/Vestenfjelske Bykreditt.

**No. of equity certificates** 78 918

**5** EVP Corporate Functions  
**Petter Høiseeth****Background**

Høiseeth has a Master of Laws (cand.jur.) degree from the legal faculty in Tromsø, and has previously worked as a lawyer at law firms Selmer and BAHR.

**No. of equity certificates** 79 793

**6** CEO  
**Jan-Frode Janson****Background**

Janson has a master's degree in economics and business administration and a PhD in Industrial Economics and Technology Management. He is a former Deputy Managing Director of the Fokus Bank/Danske Bank, and has management experience from both ABB and Nidar/Orkla.

**No. of equity certificates** 116 876

**7** EVP Sales and Customer Relations  
**Ronni Møller Pettersen****Background**

Mills-Fuller has a degree in fisheries economics and a masters in economics and business administration. He is a former Managing Director of Nordlys Magazine and a partner in Industrifinans Kapitalforvaltning. He has also been General Manager of Formuesforvaltning Norge and Sales Director at Storebrand.

**No. of equity certificates** 35 198

**8** EVP Hålogaland  
**Lasse Hagerupsen****Background**

Hagerupsen has a master's in management and is a former bank manager for the retail market at both SpareBank 1 Nord-Norge and Postbanken bank. He has also previously been Managing Director of Interkraft Capital Management, and Risk Manager and stockbroker at Norse Securities.

**No. of equity certificates** 63 788

**9** EVP Finnmark  
**Trond Hanssen****Background**

Hanssen has a bachelor degree in economics with specialization in marketing. He is a former regional bank manager at DNB and Marketing Manager at Altaposten.

**No. of equity certificates** 63 159

**10** EVP Economy and Finance (CFO)  
**Rolf-Eigil Bygdnes****Background**

Bygdnes has a degree in economics and business administration and has an MBA. He also has extensive national and international experience from banking and business, and management experience from the Barlinghaug group.

**No. of equity certificates** 72 292



# Board of Directors

The Board of SpareBank 1 Nord-Norge is the Group's supreme governing body and ensures sound organization of operations through the CEO. The Board has three subcommittees: The Risk Committee, Audit Committee and Remuneration Committee.



Chairman of the Board  
**Karl Eirik Schjøtt-Pedersen**

#### Background

Schjøtt-Pedersen holds a bachelor's degree in Social Sciences from the University of Oslo and an MBA from Copenhagen Business School. He was a Storting representative for Finnmark (Labour) 1985-2009, and has been Minister of Fisheries, Minister of Finance and Minister of State at the Prime Minister's Office. Schjøtt-Pedersen is currently the CEO of the Norwegian Oil and Gas Association.

**No. of equity certificates** 6 150



Deputy Chairman  
**Hans-Tore Bjerkaas**

#### Background

Bjerkaas has a bachelor's degree (cand.mag) from the University of Tromsø. During his long and wide-ranging career at the Norwegian Broadcasting Corporation (NRK) he served a Presenter, Journalist, District Editor, Director of Television, and Head of Broadcasting.

**No. of equity certificates** 10 911



Board Member  
**Kjersti Therese Stormo**

#### Background

Stormo has a master's degree in business and economics (siviløkonom) from Nord University in Bodø. She is currently Port Director of the Port of Bodø, and has previously been Director of the power sales company BE Kraftsalg and Finance Manager at the Bodø Energy Group, the waste company Østbø AS and Nordland Psychiatric Hospital.

**No. of equity certificates** 479



Board Member  
**Sonja Dønne**

**Background**

Dønne has a Master of Management specialising in business administration, financing and investing from BI-Norwegian Business School. She is currently the founder and General Manager of Heymat. She has managerial experience from public and private sector activities, such as Helgeland Hospital, Rana Municipality and IT Partner Helgeland.

**No. of equity certificates** 7 395



Board Member  
**Bengt Olsen**

**Background**

Olsen has a master's degree in business and economics (siviløkonom) from Nord University in Bodø, with additional studies in international finance from the University of Mannheim University in Germany. He is currently CFO of DIPS ASA, and has comprehensive experience as an Auditor Associate at KPMG, Controller at Catch Communications and Finance Manager at Nordlandsbanken.

**No. of equity certificates** 0



Board Member  
**Ingvild Myhre**

**Background**

Myhre has a master's degree in engineering (sivilingeniør) from NTNU in Trondheim. She is currently self-employed and has previously been the Chief Executive Officer of both Alcatel Telecom AS and Telenor Mobil AS, and Chief Executive of Network Norway AS.

**No. of equity certificates** 0



Board Member  
**Greger Mannverk**

**Background**

Mannverk has a degree in maritime technology and marine engineering from Oslo Technical Maritime School. He is currently Chief Executive Officer of Kimek AS, where he was previously Production Manager, Staff Engineer and Sales and Project Engineer. He has also worked as an engineer at AS Sydvaranger and Munch International AS.

**No. of equity certificates** 20 614



Employee representative  
**Kjetil Berntsen**

**Background**

Berntsen has a bachelor's degree (cand.mag) from the University of Bergen. He has broad experience in financial consulting from SpareBank 1 SR-Bank and in his current position as Financial Adviser RM at SpareBank 1 Nord-Norway. He is also regional representative for Troms of the Finance Sector Union of Norway.

**No. of equity certificates** 189



Employee representative  
**Vivi Ann Pedersen**

**Background**

Pedersen studied banking and has worked in various departments at SpareBank 1 Nord-Norway for many years. She is currently and has been the main union representative for the Finance Sector Union of Norway at SpareBank 1 Nord-Norway and a member of the board for many years.

**No. of equity certificates** 23 848

# Governing bodies

## SUPERVISORY BOARD

Board chairman Roar Dons, Tromsø (Chairman)	2017/2018
Head of culture Kari Ann Olsen Lind, Stokmarknes (Deputy Chairman)	2016/2017

### Members elected by depositors

Craftsman Terje Marius Nilsen, Straumbukta	2014/2017
General manager Arne Hammari, Alta	2014/2017
General manager Trine Stenvold, Fauske	2014/2017
Fisherman Jon Vegard Strømsnes, Leines	2015/2018
Senior legal adviser Charlotte Ringkjøb, Bodø	2015/2018
Finance and personnel officer Kjetil Fjellgaard, Lovund	2017/2018
Fisheries science graduate Line Mikkelsen, Tromsø	2016/2019
General Manager Rita Myrvang, Rossfjordstraumen	2016/2019
Accountant Aina Willumsen, Træna	2016/2019
Shop/company owner Mona Abelsen, Tromsø	2017/2020
Entrepreneur Kim Daniel Arthur, Tromsø	2017/2020
Head of culture Kari Ann Olsen Lind, Stokmarknes	2017/2020

### Substitute members elected by depositors

Senior executive officer Åshild Strømnesen, Sommarøy	2017/2020
General manager Stig Arne Hansen, Honningsvåg	2017/2020
IT architect Jørn Vollen, Lødingen	2017/2020
HSE manager Ørjan Rasmussen, Kirkenes	2017/2020
Purchasing manager Thone Bjørklund, Hammerfest	2017/2020
General manager Ricardo Raul Clarke, Bodø	2017/2020

### Members elected by county councils

Deputy mayor/operations manager Kurt Jenssen, Tengelfjord	2016/2019
Marketing and communications manager Beate Bø Nilsen, Sortland	2016/2019
District secretary Synnøve Søndergaard, Tromsø	2016/2019
General manager Kari Lene Olsen, Honningsvåg	2016/2019

### Substitute members elected by county councils

Nurse/project manager Hilde Holand, Leknes	2016/2019
Politician Allan Ellingsen, Bodø	2016/2019
Officer Torbjørn Bongo, Krokeldalen	2016/2019
Project worker/physiotherapist Hanne Iversen, Varangerbotn	2016/2019

### Members elected by equity certificate holders

CEO Trond Mohn, Bergen	2014/2017
Board chairman Roar Dons, Tromsø	2014/2017
Adviser Øyvind Rafto, Oslo	2014/2017
Financial analyst Tom Rømer Svendsen, Oslo	2014/2017
General manager Håkon Løbach Willumsen, Tromsø	2015/2018
Assistant lawyer Ane Engel Røger, Oslo	2015/2018
Financial consultant Linn Knudsen, Alta	2015/2018
Board chairman Kjell Kolbeinsen, Tromsø	2016/2019
Executive vice president Erling Dalberg, Tromsø	2016/2019
Finance manager Gry-Janne Rugås, Fauske	2016/2019
Goldsmith Elin Wintervold, Tromsø	2016/2019
Director Odd Erik Hansen, Tromsø	2017/2020
Optician Sissel Ditlefsen, Tromsø	2017/2020
Artisan-craftsman Marie M. Fangel, Tromsø	2017/2020
CEO Eric Fosland, London	2017/2020
CEO Lars Martin Lunde, Oslo	2017/2020

### Substitute members elected by equity certificate holders

General manager Trond Vidar Hansen, Tromsø	2014/2017
Senior researcher Toril Ringholm, Tromsø	2016/2019
Office manager Rigmor S. Berntsen, Tromsø	2014/2017
General manager John-Oskar Nyvoll, Tromsø	2016/2019
Project manager Stig Vonka, Harstad	2015/2018
General manager Jorhill Andreassen, Silsand	2015/2018
General manager Hallgeir Angell, Sørreisa	2015/2018
General manager Erik Tostrup, Bodø	2015/2018

### Members elected by employees

Senior adviser Hans Olav Gjøvik, Tromsø	2015/2018
Senior adviser Einar Fråfjord, Tromsø	2015/2018
Authorised financial adviser Anne Kathrine Nygaard, Mo i Rana	2015/2018
Authorised financial adviser Hans Johan Lorentzen, Bodø	2015/2018
Authorised financial adviser Ann Kirsten Larsen, Tromsø	2017/2020
Authorised financial adviser Vivi Ann Movik, Harstad	2017/2020
Authorised financial adviser Aud Skaret, Meløy	2017/2020
Authorised financial adviser Kenneth Normann, Brønnøysund	2017/2020

### Substitute members elected by employees

Chief safety representative Irina S. Miller, Kirkenes	2017/2020
Authorised financial adviser Dag Inge Lund, Stokmarknes	2017/2020
Authorised financial adviser Laila Hansen, Hammerfest	2017/2020
Business consultant Marte Punsvik Lagesen, Tromsø	2017/2020
Technical manager Øyvind Pallesen, Tromsø	2017/2020
Senior financial officer Monica Dønland, Tromsø	2017/2020
Adviser Kjetil Ask Olsen, Tromsø	2017/2020
Authorised financial adviser Ann-Kristin Berg, Alta	2017/2020

## NOMINATION COMMITTEE FOR THE SUPERVISORY BOARD

### Members

Lawyer Charlotte Ringkjøb, Bodø (Chairman) (Depositor elected)	2016/2017
Optician Sissel Ditlefsen, Tromsø (ECC holder elected)	2017/2018
Board chairman Kjell Kolbeinsen, Tromsø (ECC holder elected)	2016/2017
District secretary Synnøve Søndergaard, Tromsø (County council elected)	2016/2017
Senior adviser Einar Frafjord, Tromsø (Employee elected)	2017/2018

### Substitute members

General manager Rita Myrvang, Rossfjordstraumen (Depositor elected)	2016/2017
CEO Trond Mohn, Bergen (ECC holder elected)	2017/2018
Goldsmith Elin Wintervold, Tromsø (ECC holder elected)	2017
Deputy mayor/operations manager Kurt Jenssen, Tengelfjord (County council elected)	2016/2017
Financial adviser Anne Kathrine Nygaard, Mo i Rana (Employee elected)	2017/2018

## BOARD OF DIRECTORS

### Members

Former minister Karl Eirik Schjøtt-Pedersen, Hosle (Chairman)	2017/2018
Retiree Hans-Tore Bjerkaas, Tromsø (Deputy Chairman)	2017/2018
General manager Sonja Djønne, Mo i Rana	2016/2017
CEO Greger Mannsverk, Kirkenes	2016/2017
Partner Ingvild Myre, Oslo	2016/2017
Finance manager Kjersti Terese Stormo, Bodø	2016/2017
CFO Bengt Olsen, Bodø	2016/2017
Chief employee representative Vivi Ann Pedersen, Tromsø (Employee elected)	2017/2018
Authorised financial adviser Kjetil Berntsen, Tromsø (Employee elected)	2017/2018

### Substitute members

Chief employee representative May Britt Nilsen, Storslett (Employee elected)	2017/2018
Insurance specialist Cecilie Bjølgerud Wirkola, Tromsø (Employee elected)	2017/2018
Senior adviser Daniel Nyhagen, Tromsø (Employee elected)	2017/2018
Financial adviser Leif Gunnar Kristiansen, Tromsø (Employee elected)	2017/2018

# Corporate governance

## in SpareBank 1 Nord-Norge

The executive management team and Board annually 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 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 classifications refer to the numbering in the paragraph.

#### 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 on [www.nues.no](http://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 under 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 or deviate from chapter 5 of the Public Limited Liability Companies Act. SpareBank 1 Nord-Norge complies with the Financial Undertakings Act.

Please refer to point 6 under 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 under 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 the Code of Practice's point 8.

#### 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 under 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.

### OVERVIEW OF RECOMMENDATIONS AND DEVIATIONS

	Code of Practice	Deviations
1	Implementation and reporting on corporate governance	None
2	Business	None
3	Equity and dividends	None
4	Equal treatment of shareholders and transactions with close associates	None
5	Freely negotiable shares	None
6	General meetings	SpareBank 1 Nord-Norge complies with the Financial Undertakings Act's provisions with respect to the composition of bodies.
7	Nomination committees	All members of the Nomination Committee for the Supervisory Board are elected from the groups represented on the Supervisory Board. Expanding the committee by one member from outside the groups represented on the Supervisory Board has not been considered yet.
8	Supervisory Board and Board of Directors: composition and independence	None
9	The work of the Board of Directors	None
10	Risk management and internal control	None
11	Remuneration of the Board of Directors	None
12	Remuneration of executive personnel	None
13	Information and communications	None
14	Take-overs	Statutory ownership limitations
15	Auditor	None

## 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 applies 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](http://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 goal-oriented 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 08.02.18. 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.

Employees are not allowed, via IT systems or in some 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 whistle-blowing 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.

Also see 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-alliansen.

The Bank's stipulated purpose is: «*The objective of the savings bank is to provide those services that are common or natural for banks to perform pursuant to the applicable legislation for savings banks and the licences granted at any given time.*»

The Bank's corporate vision is: *For Northern Norway!*

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 31.12.17 was 14.9%. 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 and internal control.

**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 28.03.17 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 28.05.18.

**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 at 31.12.17, the Board has granted no authorisations for capital increases in SpareBank 1 Nord-Norge. No issues were implemented in 2017.

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 Financial Undertakings Act's rules 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 2017, employees were able to purchase equity certificates with a 30% discount. The minimum purchase sum was NOK 10,000 and the maximum was NOK 100,000 (after the discount). The lock-in period was 3 years from the moment of purchase. 288 employees took advantage of 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 discussing 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 20 substitute members who represent the following:

- Equity certificate holders: sixteen members and six substitute members
- Troms, Finnmark and Nordland – elected by the respective county councils: four members and four substitute members
- Depositors: ten members and five substitute members
- Employees: ten members and five substitute members

The Supervisory Board normally meets once or twice a year. The Supervisory Board has substitute members. Equity certificate holders can thus not be represented by a proxy.

Deviations from Code of Practice's point 6: SpareBank 1 Nord-Norge complies with the Financial Undertakings Act's provisions 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 five members and five substitute members, with representatives from all four of the groups represented on the Supervisory Board. The Nomination Committee shall prepare elections for

- Members and substitute members of the Supervisory Board, Board and Nomination Committee, except for the employee representatives

Guidelines for the aforementioned Nomination Committee have been established by the Bank's Supervisory Board.

### *Nomination committee for the employees' election*

Pursuant to the Financial Undertakings 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 2017, the Board consisted of nine permanent members, seven of whom were elected by the Supervisory Board and two by the employees. Four of the Board's nine members were women, three of whom are elected by the Supervisory Board and one by the employees. The nine members were elected for terms of 2 years.

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 chair and deputy chair 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 minimum 12 times a year and the members' participation in board meetings is described in the annual report. Their holdings of equity certificates in SpareBank 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](http://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-alliansen. 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*

Members:

- Chair of the Board and three board members, of which one must be an employee representative.
- The secretarial functions are performed by Compliance and Corporate Governance.

The Remuneration Committee is the same for those covered by the Financial Undertakings Act.

Remit:

- Prepare and present matters to the Board to do with the remuneration system, including
  - a. The remuneration policy
  - b. The reports on the implementation of the remuneration system
  - c. The Board of Directors' statement on the fixing of salaries and other remuneration for executive personnel that is presented to the Supervisory Board
  - d. Establish frameworks for variable remuneration
  - e. The Remuneration Committee considers and makes its recommendations on the variable remuneration of executive personnel covered by the Financial Undertakings Act
  - f. Control function
  - g. CEO's remuneration

The Remuneration Committee's remit is established by the Board. 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 remit 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 points 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.
- 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 they 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 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).

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.

A revision 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

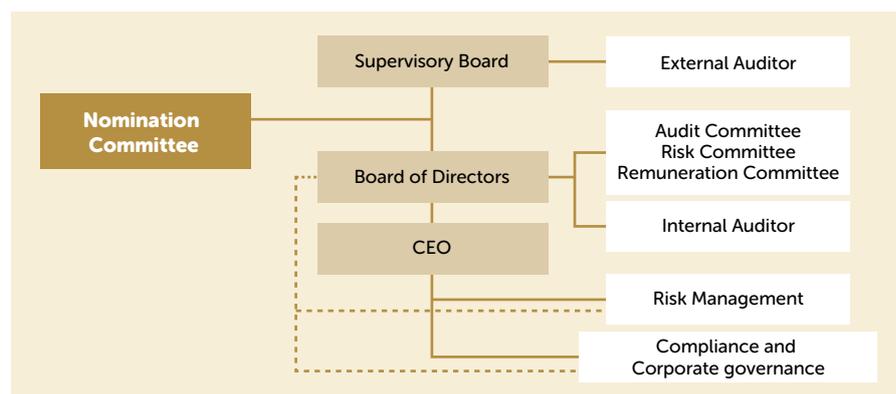
The Bank's management structure is based on the Bank's vision, established goals, strategies and core values. It is intended to ensure goal-oriented and independent management and control that covers all processes and control measures implemented by the Bank's management to ensure effective business 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 scorecards, rolling prognoses and the accounts 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 policy, which is reviewed annually by the Board. The Group's supreme steering documents are its business strategy and risk strategy. All other strategy documents and policies are derived from these. 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.

All managers 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.

The ongoing risk management process in the Bank involves analysing, controlling and following up material risks. The objective is to ensure that the Bank is operated in line with its 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-Egil 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 to ensure correct, valid 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 im-

proving 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 and internal control.

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 who perform control tasks.

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 remit 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 discounted equity certificate scheme described under point 4.

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 wishing 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 Undertakings 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.

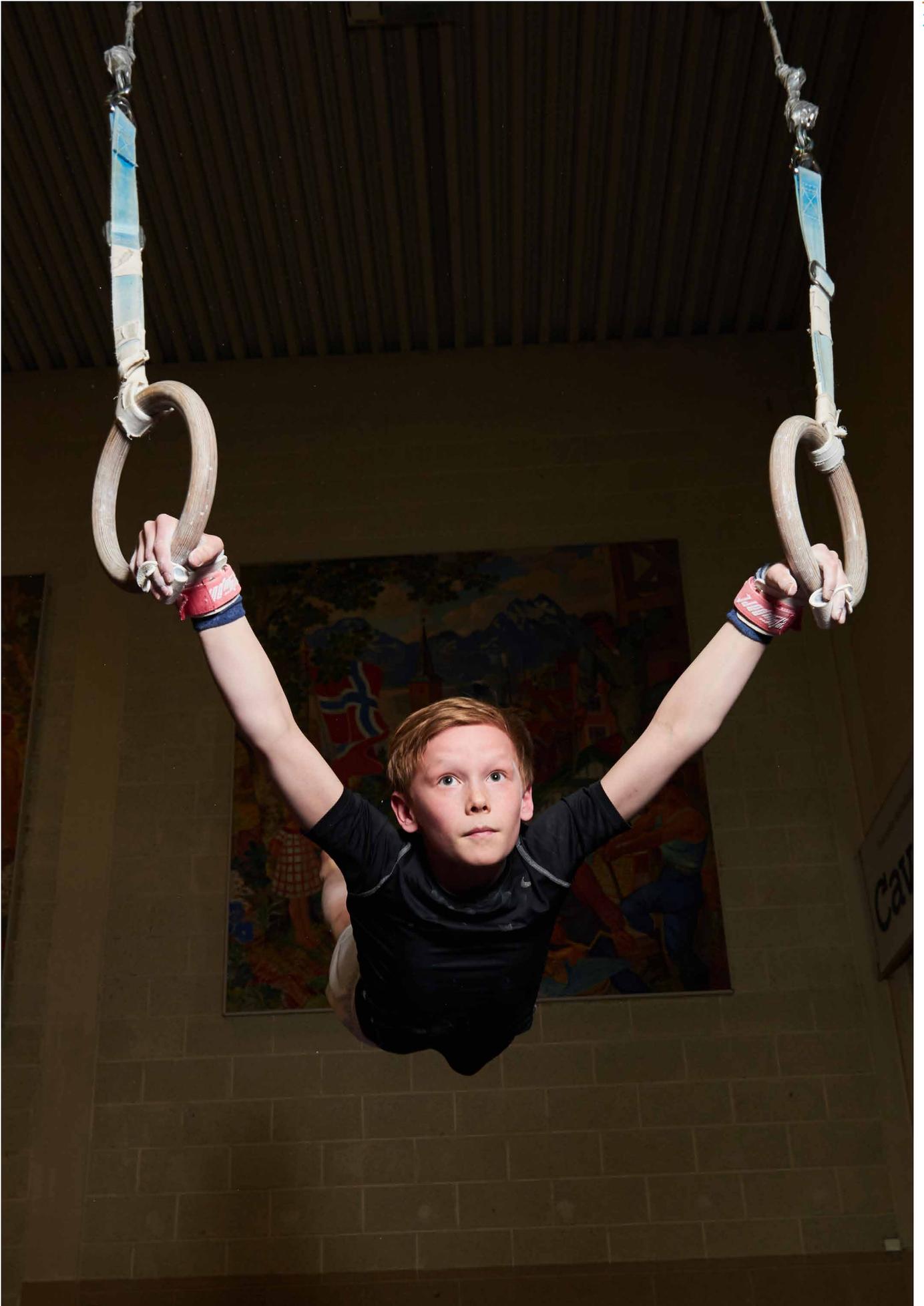
The external auditor presents an annual plan to the Audit Committee containing the main features of the implementation of the audit work.

The auditor participates in board meetings in which the annual financial statements 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 and internal control

The risk strategy is a guideline for working with risks within SpareBank 1 Nord-Norge. It describes ambitions and attitudes that are to be the basis for working with risks in the bank.

The risk strategy will provide an integral and balanced overview of the risks of the business. It will establish the Group's risk profile, based on risk capacity and risk willingness, and will be constructed according to the Group's strategic primary goal. In addition, it will provide guidance for strategic choices within the various types of risk that the Group is exposed to.

Key concepts that define the Group's risk strategy:

- **Risk capacity:** The risk exposure that the company is able to withstand before it lands in a possible recovery situation and must implement significant corrective and/or restrictive measures, and/or carry out a necessary change of business model.
- **Risk willingness:** The maximum desired risk exposure from an earnings and loss perspective. The risk willingness is lower than the risk capacity.
- **Risk profile:** Is defined by calculating the group's risk capacity and determining the risk willingness at significant areas of risk.

The risk profile will be reflected in other sections of the framework, including sub-strategies, policies, routines, and guidelines etc. at various areas of risk.

Risk management and internal control are key areas within financial activities. The management and administration of risk is a strategic tool for increasing value creation in SpareBank 1 Nord-Norge.

SpareBank 1 Nord-Norge should be of high quality in all external and internal reporting. In order to be an attractive partner and a natural first choice for our customers, the Group depends on a good reputation and trust from our customers, owners, authorities and other business relations. In order to achieve this, the Group must have a clear and effective structure for the distribution and management of responsibility.

SpareBank 1 Nord-Norge should, at any given time, run the activities in accordance with relevant laws, regulations and internal guidelines, including the Group's core values and ethics rules embodied in the SNN code.

Risk management in SpareBank 1 Nord-Norge has its primary goal to optimize the relationship between risk and profitability in a long-term perspective. Risk management should support the Group's strategic ambition, development and goal accomplishment. This is achieved through:

- A well-defined framework for risk management, capital management, internal control and compliance.
- A healthy culture characterised by high awareness of the group's established risk willingness, risk drivers and risk management in the organisation.

The Group should have a moderate risk profile and a minimum goal of maintaining the current international rating. This will ensure long-term and positive access to borrowing from the capital markets.

## Organisation, implementation and follow-up

The Group's control and management model aims at independence in risk reporting, where responsibility and roles in the daily risk management are especially emphasised.

For several years, SpareBank 1 Nord-Norge has, both in its own governing and through cooperation with the SpareBank 1-alliansen, established major resources in developing effective processes to identify, measure and manage risk.

At any time, all managers in the Group are responsible for having full insight into the risk picture within their own business and/or professional area. In order to satisfy the Group's overall objectives, the Group has chosen to separate the risk management process into five parts.

An important foundation for effective risk management is a strong risk culture, with high awareness of risk and risk management throughout the entire Group. This requires that all employees have a good understanding of their own role and actions, and risks associated with this.

The responsibility for ongoing risk management is divided between the Board, the boards of the subsidiaries, group management, professional executives and line management. Risk management and control are part of SpareBank 1 Nord-Norge's business management, which is described in the chapter Corporate Governance. Emphasis has been placed on responsibility through personal powers, as well as independence between the business areas and departments, and the people who monitor them.



**The Board** of SpareBank 1 Nord-Norge is responsible for approving a justifiable risk profile, yield targets, overall risk and capital management frameworks, including the IRB system, and risk models in general. Furthermore, the Board is responsible for authorising risk frameworks and proxies as well as ICAAP (Internal Capital Adequacy assessment Process) with the associated assessment of justifiable solvency and liquidity seen in relation to the Group's risk profile and regulatory requirements.

The Board shall ensure that the framework is sufficiently communicated and implemented throughout the Group. The Board shall further ensure that the framework is followed up with sufficient authority and resources.

The Board's tasks are embodied in a separate annual plan that is revised annually. This should ensure that the Board has adequate time and focus on added central tasks.

**The CEO** is responsible for the overall risk management. This means that the CEO is responsible for implementing effective risk management systems within the Group, and monitoring risk exposure. The CEO is also responsible for delegation of proxies and reporting to the Board.

**Managers of the business and support areas and staff** are responsible for the daily risk management within their areas of responsibility. At all times, the managers will ensure that risk management and risk exposure are within the framework and overall management principles that are decided by the Board or CEO.

**The risk management department** is organised independently from the business units and reports directly to the CEO. The general manager for risk management also has the opportunity to report directly to the Board in extraordinary situations that require this. The department is responsible for the further development of the risk and

capital management framework, including risk models and risk management systems. The department is also responsible for the following up and reporting of risk exposure and framework utilisation.

**Compliance** is a function that identifies, assesses, monitors, and reports the Group's compliance risks. A separate, independent and dedicated entity for the area has been established in 2017 and is still under construction. The unit is responsible for the reporting of compliance risks and any breach of regulations that the Group is subject to.

**The credit department** is the Group's central department within the credit area, responsible for the preparation and maintenance of goals, strategies, policies and procedures, operational management, and monitoring of the Group's credit operations and credit risk management. The department has a stand-alone role in relation to the business areas and local banks.

**The internal audit** monitors that the risk management process is target-driven, effective and functioning as intended. The internal audit reports to the Board. The internal audit's reports and recommendations for improvements should be followed up by the organisation. The Group's internal audit is handled by EY.

**The credit boards** are responsible for making an independent proposal to the proxy. In the proposal, the credit boards make an assessment of your loan and credit applications according to your current credit policy, appropriation regulations and credit management procedures. The credit boards put special emphasis on detecting risks associated with each application and making a separate, independent assessment of credit risk.

**The Asset and Liability Committee** safeguards the overall follow-up of the Group's risk profile, funding, liquidity, solvency and ensures that the Group complies with current laws and regulations. The committee also handles drafting of risk strategies, capital plans, validation reports, and recommends new risk models. The Asset and Liability Committee is broadly formulated with executive employees from the business units and the units responsible for risk and capital management.

### Internal control and manager verification

The Group's internal control is based on the framework for the Committee of sponsoring organisations of the Treadway Commissions (COSO).

COSO is a five-level framework:

1. **Control environment**
2. **Risk Assessment:** Assessment of internal and external circumstances that affect the attainment of goals
3. **Control activities:** Policies and procedures to ensure that risks are minimised and managed effectively
4. **Information and communication:** Processes that ensure that relevant information is identified and communicated on time
5. **Monitoring:** Processes to ensure that internal control is appropriately defined and implemented, and that it is effective and adaptable

The five levels will help the Group reach its strategic goals through positive risk and business management. The COSO framework has been established in line with the Group's other principles of risk and capital management, where continuous improvement, operational efficiency, reliable financial reporting and compliance with laws and regulations are important aspects.

Directors, bank managers, professional executives and departmental managers should

report upwards in the organisation, how risk management within their areas of responsibility has been implemented against approved frameworks and risk exposure. This will give the CEO and the Board a basis for ensuring that risk management is justifiably safeguarded. Manager verification (internal control reporting) is carried out once a year. This work is coordinated by the risk management department.

The purpose of the annual manager verification is primarily

- to map the group's strengths and weaknesses within internal control and risk management so that necessary improvement measures can be implemented
- to lay the groundwork for an active engagement and understanding around internal control and risk management among managers at every level of the Group

The reporting is to be actively utilised in a leadership development process that creates a better understanding of the importance of good risk management and quality.

The Information Technology (IT) area uses the Control Objectives for Information and Related Technology (COBIT) framework as the basis for internal control and risk management. COBIT is a framework that ensures holistic management and control within three key areas:

- Internal and regulatory requirements and controls
- Technical issues and challenges
- IT risks

Business goals and strategic objectives are connected to IT goals within these areas. Good management is ensured through ongoing calculations and follow-ups on goals and achievements, and through the accountability of process owners within the business areas and IT area. The framework unites renowned IT standards and best practices with other overall and strategic objectives.





# Ownership

## The Bank's equity – ownership composition

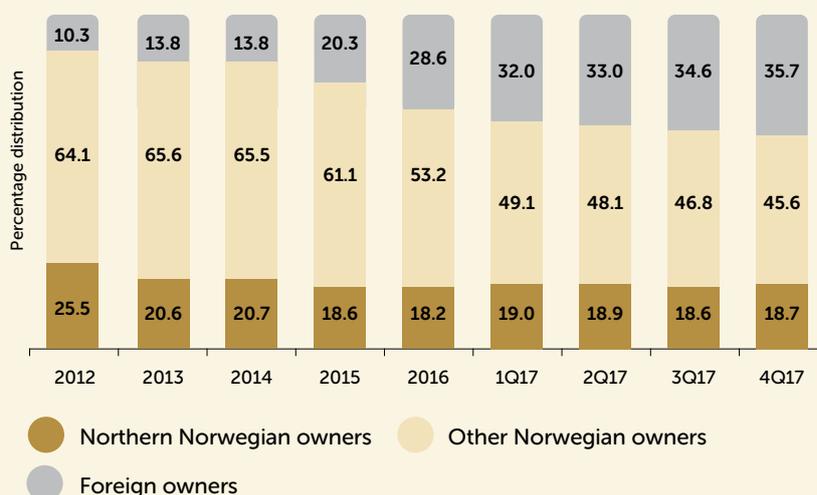
SpareBank 1 Nord-Norge has two groups of owners: holders of its listed equity certificates and the community-owned capital. As of 01.12.17, the Bank's equity certificate holders held 46.36% (equity capital ratio) of the Bank's equity via the equity certificate capital, while 53.64% was community-owned. 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. It had 7,939 equity certificate holders as at 31.12.17, compared with 7,465 as at 31.12.16.

The number of equity certificate holders from Northern Norway rose from 2,440 at the end of 2016 to 2,570 at the end of 2017. They accounted for 18.7% (18.2%) of total equity certificate capital. The Bank hopes to increase the number and percentage owned by northern Norwegian equity certificate holders, and has, for many years, also promoted employees' ownership of the Bank. This has involved selling equity certificates to employees at a discount and private placements to employees. A savings programme has been launched in 2018 in which all employees can save up to NOK 2,000 per month in the form of equity certificate purchases. If the savings programme is completed, the individual employee will after 2 years also receive one free equity certificate for every two equity certificates purchased.

The percentage of equity certificates belonging to foreign owners has increased over the last few years to 35.7% as at 31.12.17.

Note 23 includes a summary of the equity certificates owned by the Bank's managers and elected officers. The table below provides a summary of the 20 largest equity certificate holders and changes in equity certificate holdings last year.

Percentage geographical ownership – equity certificate holders



Equity Certificate holders	Number of Equity Certificates	Share of total Equity Certificate capital	Change in number of ECs 2017
Pareto Aksje Norge	3 069 150	3.06%	<b>-379 549</b>
MP Pensjon PK	2 697 811	2.69%	<b>-22 692</b>
The Northern Trust Comp. London BR non-treaty account	2 655 981	2.65%	<b>-495 689</b>
State Street Bank and Trust Comp A/C Client Omnibus	2 592 616	2.58%	<b>1 234 236</b>
FLPS - Princ All Sec Stock Sub	2 389 900	2.38%	<b>-104 100</b>
Morgan Stanley and Co Intl PLC BNY Mellon SA/NV	2 074 940	2.07%	<b>632 450</b>
Geveran Trading CO LTD	1 793 280	1.79%	<b>1 793 280</b>
Verdipapirfondet DNB Norge (IV) v/DNB Asset Management	1 772 126	1.77%	<b>-422 231</b>
Meteva AS	1 614 670	1.61%	<b>0</b>
Skandinaviska Enskilda Banken AB SEB AB	1 518 259	1.51%	<b>1 071 697</b>
Sparebankstiftelsen SpareBank 1 Nord-Norge	1 411 606	1.41%	<b>0</b>
Forsvarets personellservice	1 391 630	1.39%	<b>-170 000</b>
Pope Asset Management. LLC BNY Mellon SA/NV	1 373 754	1.37%	<b>-71 747</b>
VPF Eika Egenkapitalbevis C/O Eika Kapitalforvaltning AS	1 241 971	1.24%	<b>1 241 971</b>
Pareto AS	970 659	0.97%	<b>0</b>
State Street Bank and Trust Comp A/C	946 988	0.94%	<b>130 477</b>
Landkreditt	850 000	0.85%	<b>300 000</b>
State Street Bank and Trust Comp A/C	790 379	0.79%	<b>177 932</b>
State Street Bank and Trust Comp S/A	777 631	0.77%	<b>234 791</b>
JP Morgan Securities PLC BNY Mellon SA/NV	774 000	0.77%	<b>724 000</b>
<b>The 20 largest EC holders</b>	<b>32 707 351</b>	<b>32.58%</b>	<b>5 874 826</b>

The Bank hopes that its ownership and dividend policy will help ensure that its equity certificate is viewed as an attractive and liquid financial instrument. It aims to ensure that the management of the Group's resources results in a good, long-term and competitive return on the Bank's equity in relation to comparable investments and given the Bank's risk profile. For the Bank's equity certificate holders, this return will take the form of cash dividends and price changes of the equity certificates.

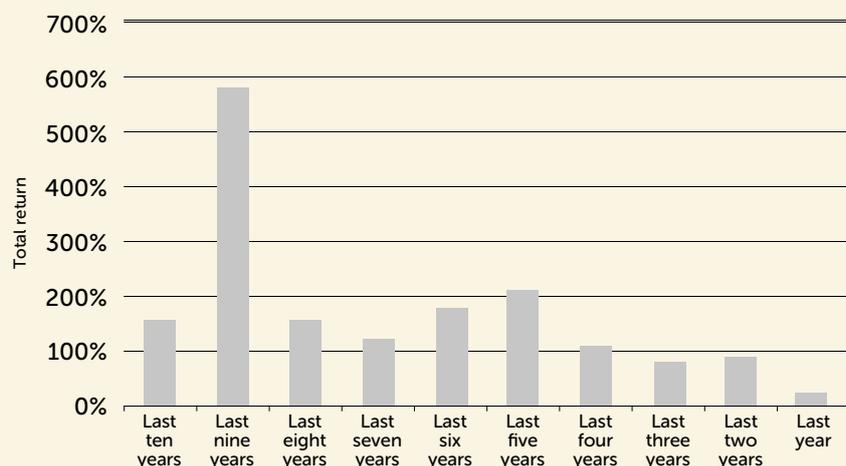
The Bank aims to ensure that it remains a savings bank with a significant share of community ownership. Furthermore, it aims to treat the Bank's two groups of owners equally in accordance with the intentions of the current legislation. This means the Bank will seek to avoid unwanted dilution effects as a result of treating the two groups of owners differently.

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 in the Bank's Supervisory Board require the agreement of two-thirds of equity certificate holders, including issues of equity.

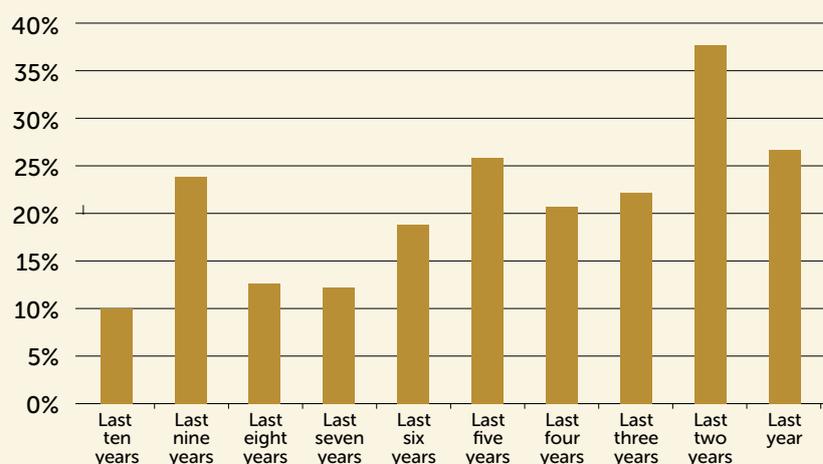
The profit for individual years is divided between the groups of owners according to their relative share of the Bank's equity. Dividends will, insofar as it is possible, be set such that each group of owners receives a proportionally equal share of the profit as dividends. These will consist of cash dividends for equity certificate holders and community dividends for non-profit purposes.

The previous limit of a maximum dividend payout rate of 50% has been dropped from the Bank's dividend policy. The target dividend payout rate from 2018 is a minimum of 50%.

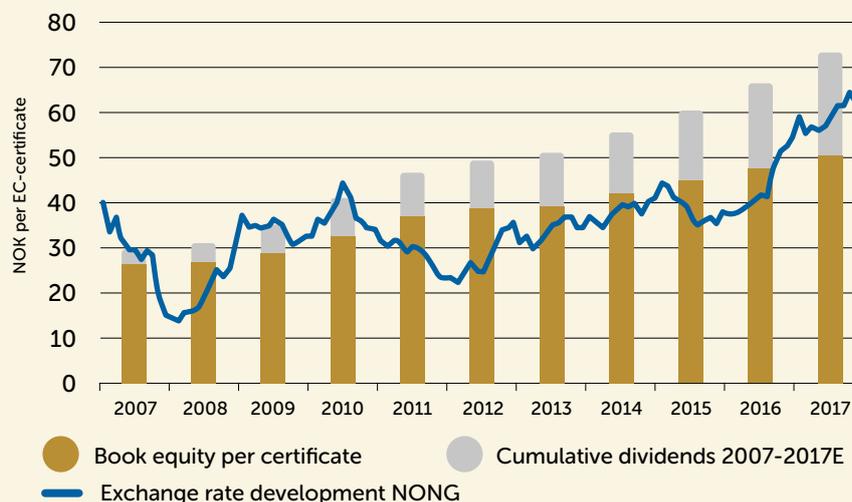
#### Total return (cumulative) up to 31 December 2017 from buying NONG in:

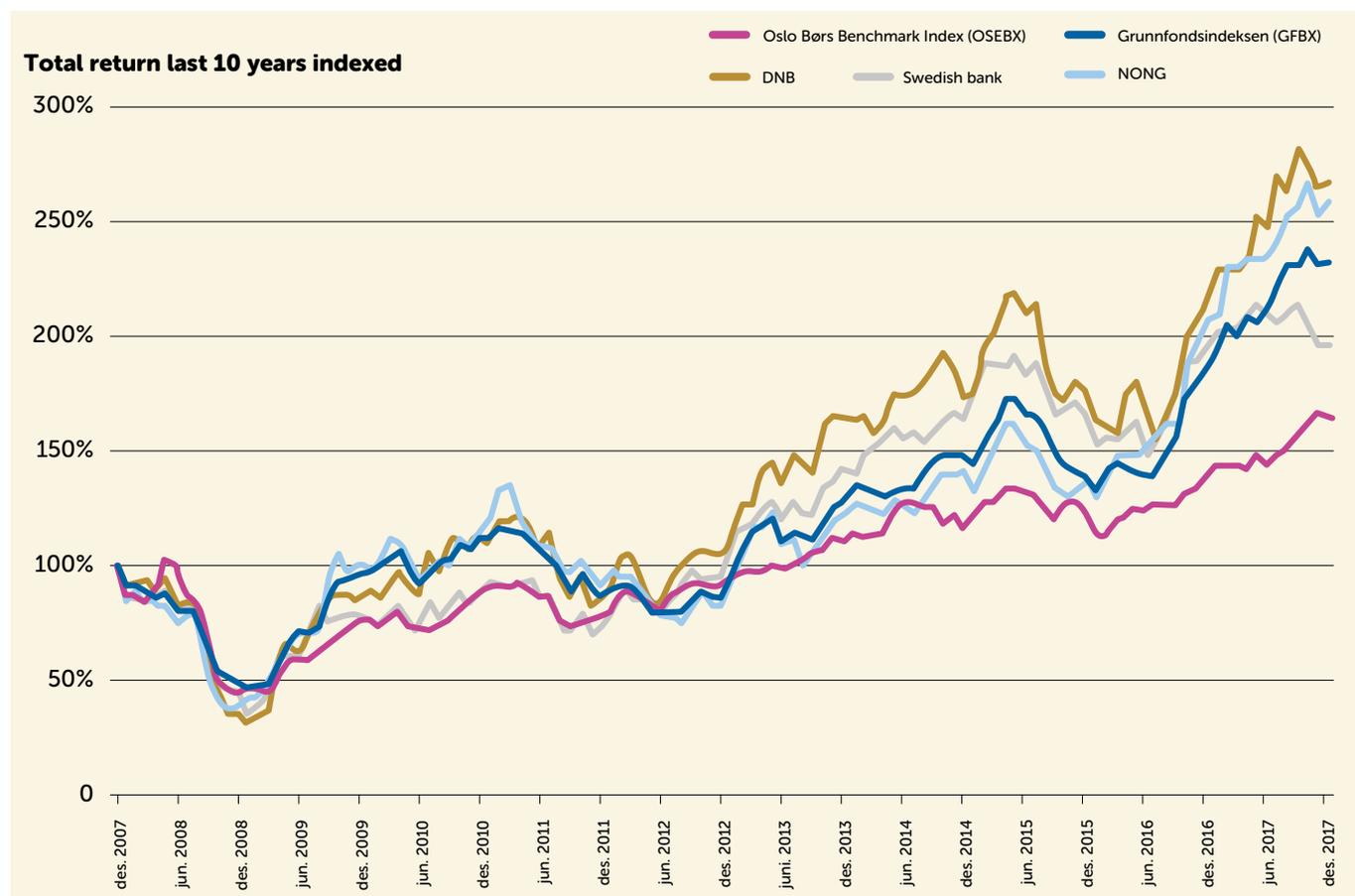


#### Annualized total yield as at 31.12.17



#### Cumulative value creation the last 10 years per equity certificate





For the 2017 financial year, an equal pay-out rate will be used for both groups of owners.

The equity certificate holders' share of the equity (ownership fraction) of 46.36% will thus remain the same as at 01.01.17.

Sparebankstiftelsen SpareBank 1 Nord-Norge is a non-profit 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 over several years been allocated funds from the Bank through parts of the cash dividends for community-owned capital.

The highest and lowest prices for the Bank's equity certificate were NOK 64.75 and NOK 52.00, respectively, in 2017. Around 26.5 million equity certificates were traded on the Oslo Stock Exchange in 2017. Around 39 million were traded if you include other trading forums.

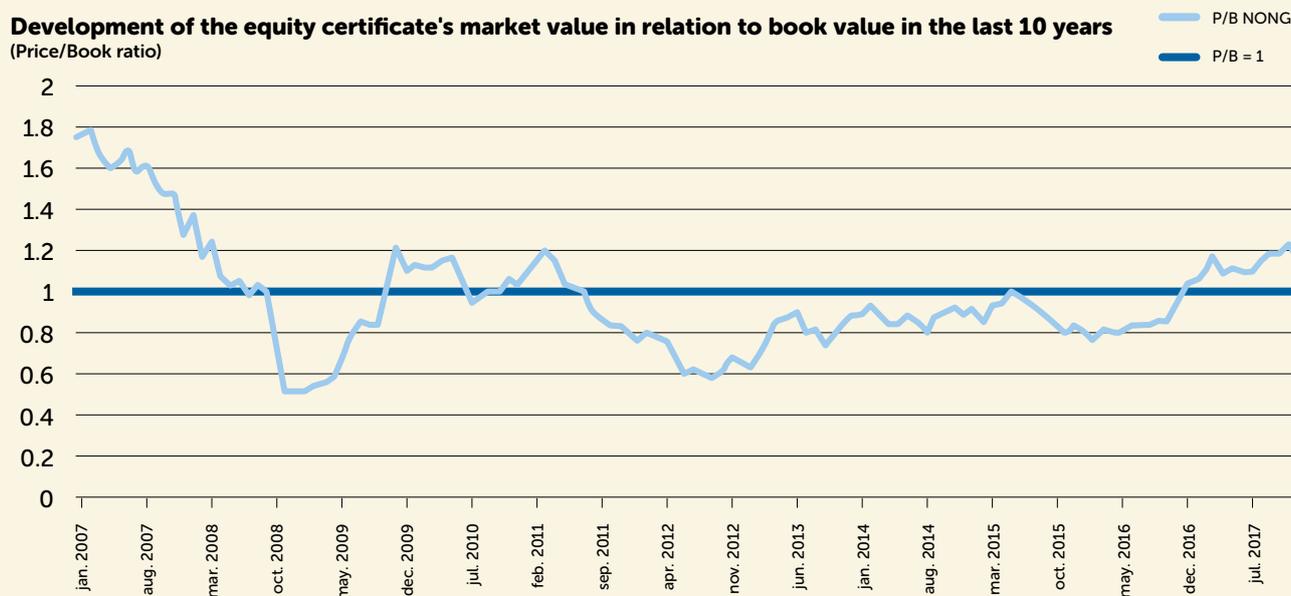
SpareBank 1 Nord-Norge Markets has pledged a liquidity guarantee agreement (market making) for the equity certificate since 02.01.17.

In the opinion of the Board, the Bank's ownership model supports the Group's business model that currently entails SpareBank 1 Nord-Norge being a northern Nor-

wegian, partly community owned, financial group with strong local roots. The ownership model is not replicable. The community ownership also entails a community dividend (cash dividend) which is deemed to represent an important marketing advantage for the Group. Experience of the ownership model with partly listed equity so far indicates that this does not represent a limitation with respect to access to borrowing or other equity in the capital markets.

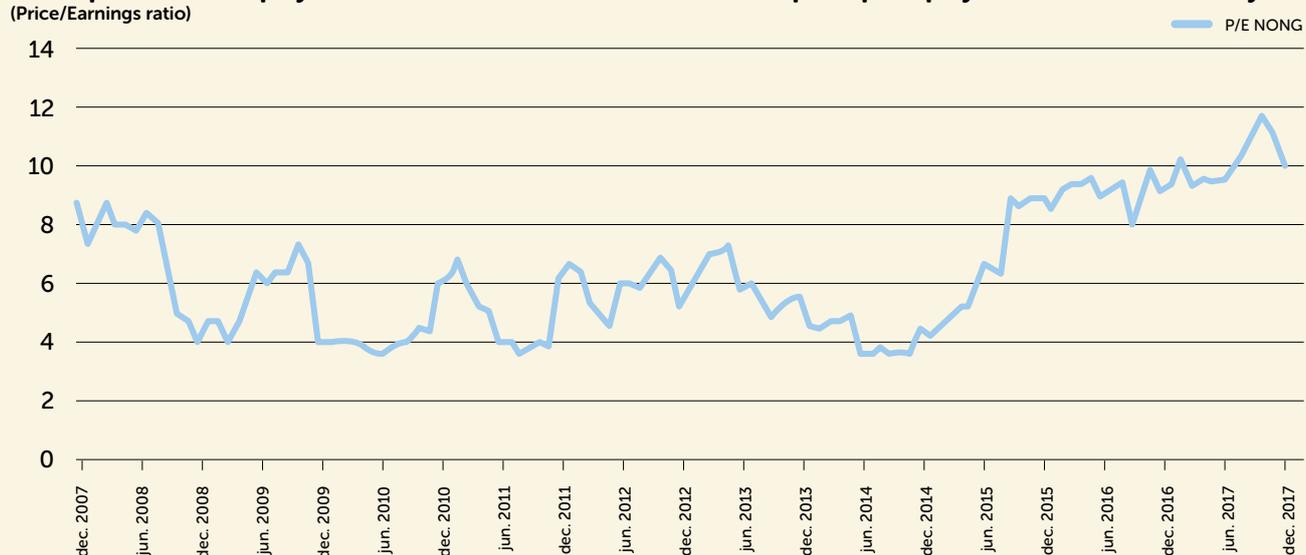
### Development of the equity certificate's market value in relation to book value in the last 10 years

(Price/Book ratio)



### Development of the equity certificate's market value in relation to the profit per equity certificate in the last 10 years

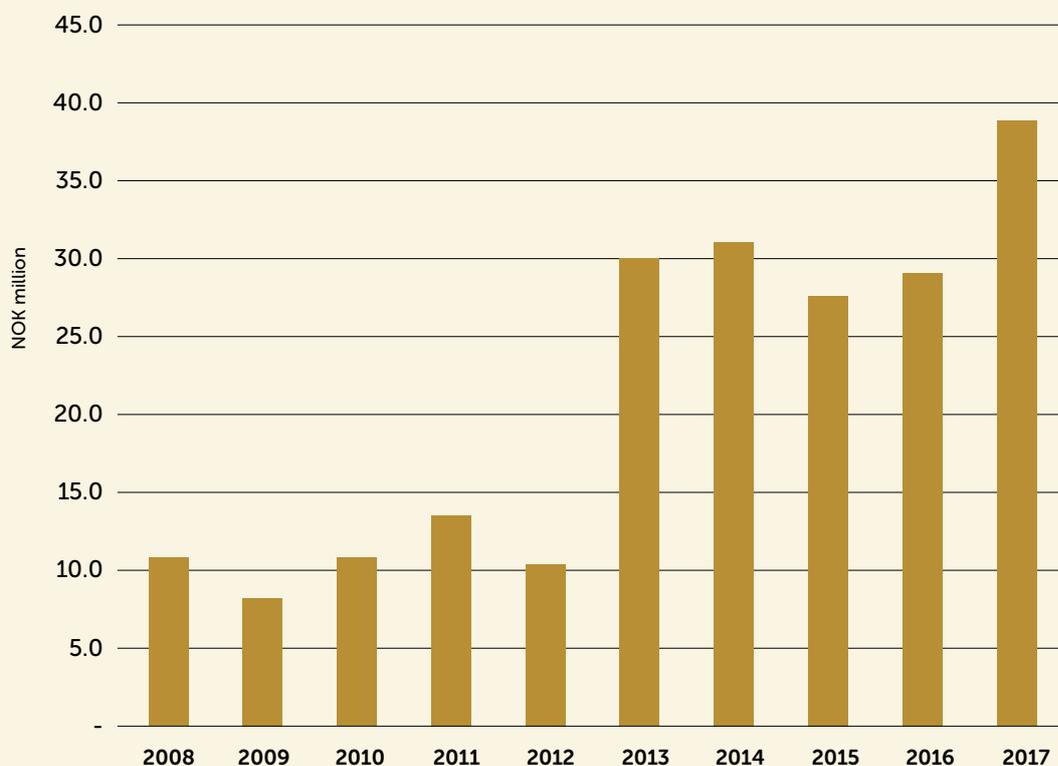
(Price/Earnings ratio)



#### Development of P/B and P/E in the period 2007-2017

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>P/B</b>	<b>1.15</b>	1.03	0.8	0.91	0.89	0.65	0.79	1.1	1.11	0.51	1.58
<b>P/E</b>	<b>9.42</b>	9.03	8.93	7.73	8.59	7.34	10.51	7.63	6.64	6.62	8.88

### Overview of trades in all markets, plus the highest and lowest price per year since 2008.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
● Number of equity certificates traded	10,854.7	8,291.7	10,880.5	13,542.9	10,405.9	30,043.0	31,156.4	27,631.8	29,113.5	<b>39,008.9</b>
Price HIGH	32.73	37.45	38.08	44.22	31.5	37.40	40.70	45.00	53.75	<b>65.75</b>
Price LOW	11.64	12.27	28.40	26.84	21.30	24.34	32.40	33.20	31.50	<b>51.25</b>

The equity certificate appears to be attractive to a steadily expanding investor base. The significant increase in the proportion of foreign owners of the Bank should especially be mentioned. The relative liquidity of the equity certificate is good for both SpareBank 1 Nord-Norge and the other larger equity certificate banks. The size of the Group – more than the equity certificate as

an instrument – is primarily considered to represent a limitation with respect to access to some larger, foreign investors.

The pricing of shares and equity certificates is primarily regarded as depending on the companies' earnings and profitability. Measured in terms of the key figure P/B (Price/Book – the ratio between the equity cer-

tificate's market value and book value per equity certificate) the pricing of SpareBank 1 Nord-Norge has been rising in the last few years and at the start of 2018 it was almost at the level of Norway's largest banking group.

The Board currently has no plans concerning conversion to a limited liability bank.

Key figures – equity certificates	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
1) Market price NONG	<b>62.25</b>	52.25	36.70	39.90	35.50	24.70	28.90	37.76	34.62	13.85
2) Number of equity certificates issued	<b>100.40</b>	100.40	100.40	100.40	100.40	74.40	74.00	56.92	56.92	56.92
3) Market capitalisation of issued equity certificates (MNOK)	<b>6 250</b>	5 246	3 685	4 006	3 564	1 837	2 139	2 149	1 970	788
4) Market capitalisation of total equity	<b>13 481</b>	11 315	7 948	8 464	7 530	4 418	5 083	6 223	5 704	2 282
5) Allocated dividend per equity certificate	<b>4.00</b>	3.45	2.00	1.90	1.10	1.02	1.25	1.81	2.12	0.94
Dividend paid per equity certificate	<b>3.45</b>	2.00	1.90	1.10	1.02	1.25	1.81	2.12	0.94	2.99
6) Direct return	<b>6.4%</b>	6.6%	5.4%	4.8%	3.1%	4.1%	4.3%	4.8%	6.1%	6.8%
7) Total return	<b>25.7%</b>	47.8%	-3.3%	15.5%	47.9%	-10.2%	-18.7%	15.2%	156.8%	-57.9%
Book equity, Parent Bank NOK millions	<b>10 617</b>	9 336	8 198	7 735	7 200	5 589	5 264	4 547	4 247	3 656
Book equity, Group NOK millions	<b>12 299</b>	11 011	9 961	9 343	8 502	6 832	6 408	5 670	5 160	4 458
8) Book equity per equity certificate, Group	<b>54.34</b>	50.84	46.00	44.05	40.08	38.19	36.43	34.41	31.31	27.05
9) Earnings per equity certificate, Group, adjusted for interest on Tier 1 capital instruments	<b>6.61</b>	5.54	5.10	4.64	4.14	4.01	2.72	5.26	4.95	0.00
10) Total comprehensive income per equity certificate, Group, adjusted for interest on Tier 1 capital instruments	<b>6.95</b>	5.79	4.11	5.17	4.13	3.36	2.75	4.95	5.21	2.09
11) P/E - Price/Earnings, Group	<b>9.42</b>	9.03	8.93	7.72	8.59	7.34	10.51	7.63	6.64	6.62
12) P/B - Price/Book, Group	<b>1.15</b>	1.03	0.80	0.91	0.89	0.65	0.79	1.10	1.11	0.51
13) Payout ratio for equity certificates (Group)	<b>60.50%</b>	59.63%	48.65%	36.77%	26.62%	11.80%	19.74%	33.14%	29.65%	45.39%
Equity capital ratio 31.12.	<b>46.36%</b>	46.36%	46.36%	47.33%	47.33%	41.59%	42.07%	34.54%	34.54%	34.54%
Equity capital ratio 01.01. used to allocate profits	<b>46.36%</b>	46.36%	47.33%	47.33%	42.91%	42.07%	38.74%	34.54%	34.54%	34.22%

#### Comments/definitions:

- 1) Market price adjusted for issues, bonus issues, dividend issues and splits  
Other key figures are adjusted by the same factor as market price
- 2) Number of equity certificates issued
- 3) Market price x number of equity certificates
- 4) Market price x number of equity certificates / equity capital ratio
- 5) Allocated dividend
- 6) Allocated dividend/price equity certificate as at 31.12.c
- 7) Price of equity certificate as at 31.12. - price of equity certificate as at 31.12. previous year + dividend paid)/price of equity
- 8) Equity excl. Tier 1 capital instruments, Group x equity capital ratio/number of equity certificates
- 9) Annualised profit after tax, Group x equity capital ratio/number of equity certificates
- 10) Annualised other comprehensive income after tax, Group x equity capital ratio/number of equity certificates
- 11) Market price/earnings per equity certificate, adjusted for Tier 1 capital instruments
- 12) Market price/book value per equity certificate, Group
- 13) Dividend per equity certificate/earnings per equity certificate (Group)

# Operations

SpareBank 1 Nord-Norge has enjoyed strong growth in both the corporate and retail markets in 2017. The growth includes all product- and business areas. Local presence at 38 locations in northern Norway, competitive digital media and customer service centre in close interaction have been key factors in the development. The Group's ability to take advantage of its strong position in banking, accounting and real estate, both separately and collaboratively, also contributes to the good development.

At the same time, the Group's development rate increases to meet new customer needs, new competition and new EU directives. Throughout 2017, the Group has had a special focus on developing new digital customer media, digitizing the loan process, new customer concepts, automation of manual processes, new distribution ability, and a powerful channel interaction. At the beginning of 2017 the Group established its new direct bank – a new advisory unit offering comprehensive advice by telephone/video to both the corporate- and retail markets. Efforts to improve the customer experience and enhance customer base loyalty also continues in the new year, while the Group is well positioned for further growth.

## Retail Market

SpareBank 1 Nord-Norge is a leader in the northern Norway retail market, with 350 000 private customers in Norway. Customers have access to advisory services and a full range of products through strong financial centres, direct bank, customer services centre and modern digital services.

### Sales and Advisory Service:

#### Systematic, analytical and proactive

Stronger focus on a more systematic, analytical and proactive approach to the sales of core products have provided very good results in the existing customer base. The priority areas have been to increase proactive customer contact through the creation of a new direct bank and by utilizing digital and analogue inbound traffic streams. With dedicated analysis resources and a new analysis-based customer communications model, in 2017 SpareBank 1 Nord-Norge has gradually adapted customer communications to the individual customer's situation.

### New customer behaviour

#### - new customer solutions

In 2017, the Group had a strong focus on developing services and products to meet changed customer behaviour and digitization. At the same time, work has been carried out quickly and systematically to simplify and improve the customer experience through automating production- and service processes. The effects have so far been expressed in increased proactive customer contact in direct channels and office channels.

As the first bank in the country, in April the Bank launched the digital loan application with integration with the tax administration. Since then, 26% of all loan applications are run through the digital loop, either supervised by the advisor, or directly from the customer. In the same month, a customer solution for digital loan preapproved letters was released. During 2017, 10 000 customers made use of the solution.

## BALANCE SHEET DEVELOPMENT

Balance sheet development (Amount in NOK million)	31.12.17	31.12.16	Changes	Changes in %
Total assets	<b>97 186</b>	90 501	6 685	7.4%
Gross lending	<b>75 003</b>	70 763	4 240	6.0%
Loans to customers incl. Intermediation loans	<b>105 485</b>	96 287	9 198	9.6%
Customer deposits	<b>57 849</b>	53 870	3 979	7.4%

## LOAN- AND DEPOSIT GROWTH PM

Growth in percentage	2017	2016	2015	2014
Loans PM	<b>9.3%</b>	9.0%	6.5%	6.1%
Deposits PM	<b>5.7%</b>	6.8%	6.2%	9.1%

## LOAN- AND DEPOSIT GROWTH BM

Growth in percentage	2017	2016	2015	2014
Loans BM	<b>10.1%</b>	8.6%	-2.9%	4.6%
Deposits BM	<b>13.8%</b>	8.8%	-0.5%	6.1%

The Group has had a strong focus on increasing the product range for existing customers. Product sales within savings, insurance, credit card and car financing showed an increase of 52% from 2016. The sales increase has occurred in all distribution channels, where digital sales increased by 74%, direct sales 61% and the office channel by 32%.

This focus on savings products resulted in 19% more customers saving regularly at the end of 2017 than at the same time in 2016. After the launch in the autumn of the share savings account, 15 000 customers established such an account in SpareBank 1 Nord-Norge, corresponding to a national market share of about 7.5%.

SpareBank 1 Nord-Norge has had a positive net growth in all core products in 2017.

At the end of 2017, the Group had about 86 000 users of VIPPS mobile payment application, which is 33% more than in 2016.

#### **#Superlokal:**

##### **News Centre and digital marketing**

The Group has worked goal-oriented to increase relevance in customer communications, and has developed a dedicated news service that deals with private economy. Following its creation in January 2017, 207 000 unique users have read articles in the News Centre. The articles are distributed through social media and newsletters to defined target audiences, based on analyses, testing and evaluation of messages and image use. The content of the News Centre is produced mainly by the marketing and communication department and specialists, and is clad in the form and colour of northern Norway. Throughout the year, there has proved to be a strong correlation between traffic in the News Centre and the sale of core products.

##### **Self-service customer solutions**

In 2017, SpareBank 1 Nord-Norge's private customers logged in 33 million times to the various digital solutions. In the mobile bank, the customer contact increased by 23%, measured by the number of unique users, while the use of online banking was unchanged.

The development of digital self-service solutions has been prioritized throughout the year. The retail market customers have carried out about 350 000 service operations themselves. At the same time, traffic has increased to the customer service centre, which in 2017 dealt with about 540 000 service enquiries by phone, chat and email.

SpareBank 1 Nord-Norge continues the ongoing work on improving efficiency and improvement in general, increased systematics, analysis and proactive customer communication through strong financial centres. Work also continues to increase both capacity and competence in digital solutions and direct sales.

##### **VIPPS**

Together with major sectors of the Norwegian finance industry, SpareBank 1 Nord-Norge is part of a comprehensive payment partnership through ownership of VIPPS. With its hitherto 2.7 million users in Norway, the new payment alliance, which also includes Bank ID and BankAxept, provides the Norwegian banks with a competitive edge through expansion of the service. The VIPPS friend payment service is already dominant in Norway, whilst efforts in 2018 will be directed more towards payment in shops and online and payment of invoices. SpareBank 1 Nord-Norge follows developments closely, including the CEO acting as SpareBank 1-alliansen's representative on the company's Board of Directors.

**Number of VIPPS users PM 86 000**

**Number of VIPPS users BM 1 350\***

(\* Distributed by SpareBank 1 Nord-Norge in the period May-December 2017)

##### **Corporate Market**

###### **Strong customer growth**

SpareBank 1 Nord-Norge, with its strong presence in the region, has built up close relations with the business community in the north. Presence through strong financial centres, new direct banking and good digital solutions has proven to be very successful in terms of strong customer growth in 2017.

The region gained 2 277 new limited liability companies in 2017 and 35.9% of these have established a customer relationship with SpareBank 1 Nord-Norge.

###### **Systematic and proactive work has yielded results**

An increasingly systematic approach to existing customer base, where customers are given relevant advice through proactive initiatives – while at the same time meeting strong local knowledge and expertise – has contributed to increased sales and customer growth in all product areas. Growth has been strongest in pensions, with an increase in sales premium of 238% compared with 2016.

The systematic work of taking more initiative, supplying relevant advice and providing leading expertise in an overall perspective, is expected to help ensure an increase in customer loyalty.

###### **New solutions for new customer needs**

Companies' needs change rapidly in line with new technology. As a result of changing customer behaviour, combined with increased digitization, the alliance banks have joined forces to develop a new service aimed at smaller companies. The service is called Driv, and is developed by SMB LAB – a company owned jointly by the SpareBank 1 banks. With Driv, the customer will obtain a better overview, be better at planning operations and find the right funding solutions by combining data from banking and accounting. The service is a pilot project, which is expected to be launched in the market in the first half of 2018.

### THE BANK'S INVOLVEMENT IN THE MUNICIPAL SECTOR IN NORTHERN NORWAY

Region	Number of municipalities/county municipalities	SNN as main bank	Market share
Finnmark	20	17	85%
Troms	21	18	86%
Hålogaland	19	13	68%
Salten	12	10	83%
Helgeland	18	2	11%
<b>Totalt</b>	<b>90</b>	<b>60</b>	<b>67%</b>

#### Public sector market

The Group maintained its strong position in the public sector and increased its market share from last year. Competitive prices on deposits are essential in order to maintain and increase the market share. The deposit rates, which have been declining in recent years, levelled out during 2017 – before increasing again in the autumn. Within the public sector, profitability is further improved in 2017, compared with the previous year.

#### County municipalities

By the end of 2017, all three county municipalities in Northern Norway had SpareBank 1 Nord-Norge as their main bank.

#### State enterprises

At the end of 2017, SpareBank 1 Nord-Norge is the main bank for 11 state enterprises. The agreement period runs until the end of 2018.

#### Increased rate of development requires new skills

The high rate of development in the financial industry sets continuous demands to new and increased competence in SpareBank 1 Nord-Norge. For this reason, the work of creating positive customer experiences at all levels, from developing simple digital services to products and new service- and purchasing solutions. The commitment to strengthening the overall competence in the fields of data, technology and innovation will also be continued with equal pressure.

#### New EU directives sharpen competition

##### *New payment directive – PSD2*

The original payment service directive (PSD1) was implemented in 2009. The aim was to promote a well-functioning common market for payment services and make it easier to pay across national borders within the European Union and EEA. Through PSD1, it was also possible for non-banks to register as a payment company so that they could offer payment transmission services. A new payment service directive (PSD2) was implemented in the EU on 13.01.18. As an EEA country, Norway will implement the directive in Norwegian legislation later in 2018.

PSD2 makes the banking infrastructure even more accessible to third parties who wish to engage in payment-related services. Banks must, if the customer wishes and consents, provide account information with transaction history to authorized third parties. These market operators may be either competing banks or other companies. They will, on behalf of the customer and with the customer's consent, also be able to initiate payments directly from the customer's account.

SpareBank 1 Nord-Norge will actively take advantage of these changes, and facilitate new and better solutions for existing and new customers.

##### *EU personal privacy regulation – GDPR*

The EU regulation on personal privacy, The General Data Protection Regulation (GDPR), will be incorporated in Norwegian law in

2018. This means that we will have new personal privacy regulations in Norway. The new regulations give businesses new obligations, and individuals new rights.

SpareBank 1 Nord-Norge has over longer time had a strong focus on personal privacy and data security. Personal data is often referred to as a new currency, or "the new oil". In 2017, the Group, with the consent of affected customers, has to a greater extent applied customer data as the basis for increasing the accuracy and relevance of customer communications. This is an effort that has given good business results – and probably increased customer satisfaction as well. The work of meeting the requirements of the new regulation has been attended to, both from the standpoint of security and possibilities, and the Group considers market confidence as a key competitive advantage in a more open financial market.

In connection with this work, SpareBank 1 Nord-Norge has also appointed a special data protection officer.

##### *New directive regulating the market for financial instruments – MiFIDII*

MiFID II, the Markets in Financial Instruments Directive, was urgently introduced in Norway from January 2018. It is expected that the new directive will be incorporated into the Securities Trading Act during 2018. The urgent introduction has meant that the entire financial industry is working on the implementation of the directive in the first half of 2018. SpareBank 1 Nord-Norge has worked to meet the new requirements since 2016, so that the bank was well-prepared when it was decided on an urgent introduction of the directive.

The directive is a continuation of MiFID I, which was introduced in Norway in 2007. The regulations introduce more stringent requirements to investor protection and organization of a securities firms, in addition to new requirements for transaction reporting. The new rules affect SpareBank 1 Nord-Norge Markets, the Bank's investment advisors and customers' funds savings.

# SpareBank 1 Nord-Norge Markets

## Organisation of investment firm

In 2010, SpareBank 1 Nord-Norge's Board decided to establish SpareBank 1 Nord-Norge Markets as a division of the Bank.

### The division's customer-oriented operations consist of the following focus areas:

- Advice on risk in the corporate market
- Hedging instruments and trading in interest rate and currency instruments
- Hedging instruments in the commodity derivatives market
- Sale of Norwegian bonds and certificates, as well as bond market issues
- Purchase and sale of equities and fund units
- Corporate services through a cooperation with SpareBank 1 Markets
- Order driven trade and investment advice

The division works closely with the Group's other customer-oriented operations, especially within the corporate customer segment and the affluent savers segment.

All settlement and controller functions are provided by Operations Support Capital Markets, which is also responsible for support and controller functions for SpareBank 1 Nord-Norge Forvaltning ASA and Treasury. Operations Support Capital Markets is organised as a department separate from SpareBank 1 Nord-Norge Markets.

Following the establishment of SpareBank 1 Nord-Norge Markets, the investment firm has been assigned a bigger role. The division of responsibilities between SpareBank 1 Nord-Norge 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.

SpareBank 1 Nord-Norge Markets works with SpareBank 1 Markets on trading systems and equity analyses.

### Interest rates, currency and securities

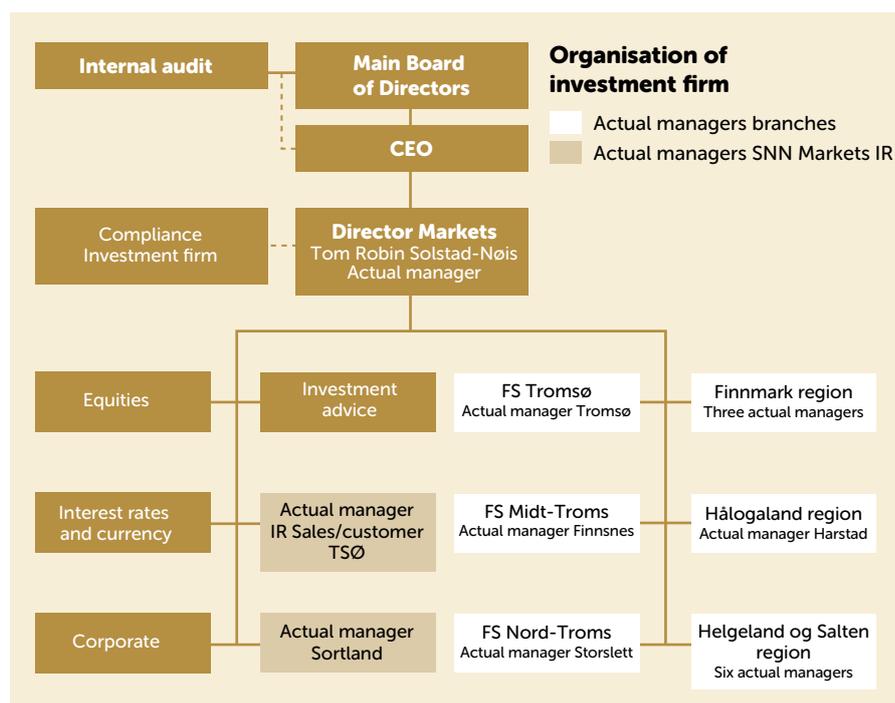
SpareBank 1 Nord-Norge Markets' trading desk for currency, interest rates and securities consists of eight people. The area's total income rose by NOK 3.12 million from 2016 to NOK 53.2 million in 2017. While the currency area experienced a fall in income of 16%, income from the interest rate derivatives/bonds and equities business areas rose by 42% and 36%, respectively.

One important focus area for SpareBank 1 Nord-Norge Markets is providing risk advice within the area of interest rates/currency and commodities. The goal is to increase the activity within this area over time. Within currency trading there was a particular focus on fundamental analysis of the market as a basis for providing advice.

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. SpareBank 1 Nord-Norge Markets does not have its own equities analysis function, but works closely with SpareBank 1 Markets' analysis services. A joint settlement function for all equities trading in the SpareBank 1-alliansen 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.

In 2018, SpareBank 1 Nord-Norge Markets will restart a dedicated department for corporate financial services targeted at the northern Norwegian corporate market.

In 2017, there was also a heavy focus on adapting to new regulatory requirements, including those associated with MiFID II.



# SpareBank 1-alliansen

## SpareBank 1-alliansen

The SpareBank 1-alliansen was established in 1996. It is a banking and product alliance in which the SpareBank 1 banks in Norway cooperate through the jointly-owned companies SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet DA.

The SpareBank 1-alliansen represents Norway's second largest financial group. The alliance consists of 14 independent banks that are complete providers of financial products and services for personal customers, companies and organisations

### These 14 independent banks are part of SpareBank 1-alliansen

SpareBank 1 BV
SpareBank 1 Gudbrandsdal
SpareBank 1 Hallingdal Valdres
SpareBank 1 Lom og Skjåk
SpareBank 1 Modum
SpareBank 1 Nord-Norge
SpareBank 1 Nordvest
SpareBank 1 Ringerike Hadeland
SpareBank 1 SMN
SpareBank 1 SR-Bank ASA
SpareBank 1 Søre Sunnmøre
SpareBank 1 Telemark
SpareBank 1 Østfold Akershus
SpareBank 1 Østlandet

Customers should feel that the SpareBank 1-alliansen is best when it comes to proximity, local roots and expertise. The alliance employs around 7,000 people. Around 1,200 of these work for SpareBank 1 Gruppen AS, SpareBank 1 Banksamarbeidet DA or their subsidiaries.

The companies in SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet DA together constitute what is called "alliansen". The alliance's vision is to be attractive to customers and the banks and its core values are Close and Capable.

## SpareBank 1 Gruppen AS

SpareBank 1 Gruppen AS is the parent company of eight subsidiaries that all develop and supply products to the alliance banks, which in turn offer them to their customers in their local markets.

The company also develops and provides products to trade unions affiliated with the Norwegian Confederation of Trade Unions (LO) and union members through the LO-favor advantage programme.

In autumn 2017, SpareBank 1 Factoring AS and SpareBank 1 Portefølje AS became separate companies – spun off from SpareBank 1 Gruppen Finans AS, which was wound up.

SpareBank 1 Spleis AS was founded in January 2017 and subsequently taken over by SpareBank 1 Gruppen Finans AS with the aim of launching the Spleis personal fundraising service on the market. From 01.01.18, SpareBank 1 Spleis AS will be operated as an independent subsidiary of SpareBank 1 Gruppen AS.

SpareBank 1 Gruppen AS is wholly owned by the SpareBank 1 banks and the Norwegian Confederation of Trade Unions (LO), with 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%), SpareBank 1 Østlandet (12.4%), and the Norwegian Confederation of Trade Unions (LO) and affiliated trade unions (9.6%).

### As at 01.01.18, SpareBank 1 Gruppen AS owns all of the shares in the following subsidiaries:

- SpareBank 1 Forsikring AS (life insurance)
- SpareBank 1 Skadeforsikring AS
- ODIN Forvaltning AS
- SpareBank 1 Medlemskort AS (owns 51% – administers LO-favor)
- Conecto AS (debt recovery)
- SpareBank 1 Factoring AS
- SpareBank 1 Portefølje AS
- SpareBank 1 Spleis AS

## SpareBank 1 Banksamarbeidet DA

SpareBank 1 Banksamarbeidet DA is administratively responsible for the cooperation processes and deliveries of services to the SpareBank 1-alliansen. The company delivers business platforms and common management and development services to the alliance banks. The company contributes to joint activities that provide the banks with benefits in the form of economies of scale and expertise.

The company also owns and manages the alliance's intellectual property rights under the joint brand name: SpareBank 1.

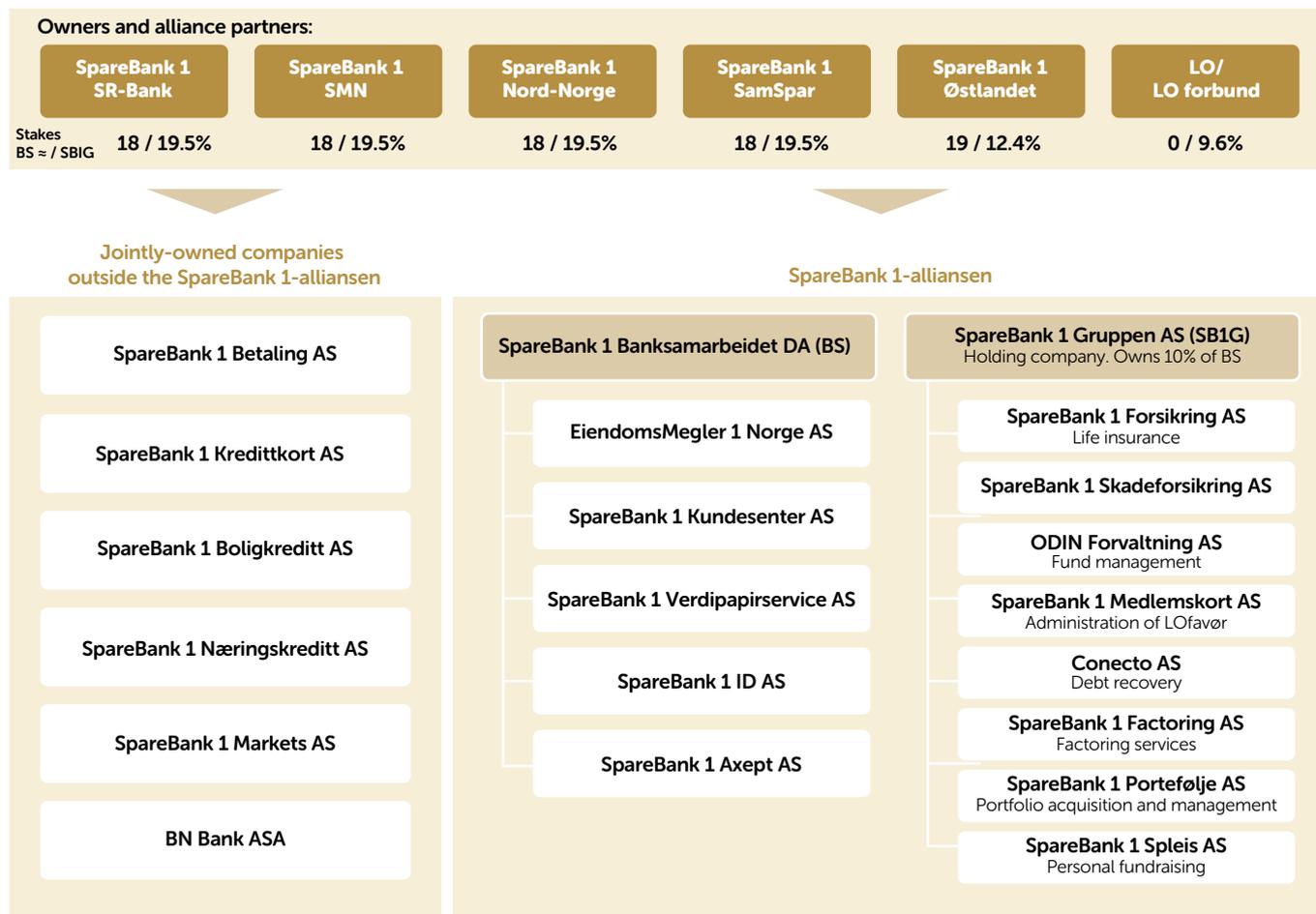
SpareBank 1 Banksamarbeidet DA is wholly owned by the SpareBank 1 banks and SpareBank 1 Gruppen, with the following stakes:

SpareBank 1 SR-Bank ASA (17.74%), SpareBank 1 SMN (17.74%), SpareBank 1 Nord-Norge (17.74%), Samarbeidende Sparebanker Utvikling AS (17.74%), SpareBank 1 Østlandet (19.04%) and SpareBank 1 Gruppen AS (10%).

### SpareBank 1 Banksamarbeidet DA owns all of the shares in the following subsidiaries:

- EiendomsMegler 1 Norge AS
  - management and administration of the real estate cooperation in the alliance
- SpareBank 1 Kundesenter AS
  - shared customer service centre for the banks after 16:00
- SpareBank 1 Verdipapirservice AS
  - common trading platform for securities
- SpareBank 1 ID AS
  - administers stakes in BankID Norge AS
- SpareBank 1 Asept AS
  - administers stakes in BankAsept AS

## Ownership and company structure in the SpareBank 1-alliansen



Jointly-owned companies outside the SpareBank 1-alliansen	SpareBank 1 SR-Bank	SpareBank 1 SMN	SpareBank 1 Nord-Norge	SpareBank 1 SamSpar	SpareBank 1 Østlandet	BN Bank ASA
SpareBank 1 Betaling AS	19.7%	19.7%	19.7%	19.7%	21.2%	
SpareBank 1 Kredittkort AS	17.9%	17.9%	17.3%	27.3%	19.6%	
SpareBank 1 Boligkreditt AS	7.9%	19.8%	16.9%	27.6%	21.0%	6.6%
SpareBank 1 Næringskreditt AS	19.2%	33.5%	14.5%	20.3%	12.4%	
SpareBank 1 Markets AS		73.0%	10.0%	11.0%	9.2%	
BN Bank ASA	23.5%	33.0%	23.5%	20.0%		

- **SpareBank 1 Boligkreditt AS, SpareBank 1 Næringskreditt AS and SpareBank 1 Kredittkort AS**  
So-called dynamic ownership where the stakes vary depending on the portfolio..
- **SpareBank 1 Betaling AS, BN Bank ASA and SpareBank 1 Markets**  
Static ownership with fixed stakes.



Photo: Anders Asheim

# The Foundations

## SpareBank 1 Nord-Norge's Kulturnæringsstiftelse

SpareBank 1 Nord-Norge's Kulturnæringsstiftelse was established in 2012 by the Bank's Board of Directors. It aims to contribute to the non-profit development of the cultural industry in the region. This will happen by the foundation providing financial contributions (gifts or investments) to cultural activities or cultural commercial activities. The overall goal is to help create more jobs.

Regarding grants, emphasis is placed on, amongst others, the

- diversity within the cultural sector
- development of the cultural sector in the market area of SpareBank 1 Nord-Norge
- possibilities for developing sustainable structures that over time, can form the basis for increased employment within the cultural sector.

The foundation's main tool is application-based grants in music, literature, film, performing arts and visual arts. During 2017, the foundation has allocated a total of NOK 13,068,500 to a total of 111 projects.

Kulturnæringsstiftelsen's website and Facebook pages are updated regularly with current news: [www.snnstiftelsene.no/kulturnaeringsstiftelsen](http://www.snnstiftelsene.no/kulturnaeringsstiftelsen). There are also detailed overviews of the grants.

## Sparebankstiftelsen SpareBank 1 Nord-Norge

The Bank established the foundation Sparebankstiftelsen SpareBank 1 Nord-Norge in 2011. The main objective of the foundation is to exercise a long-term and stable ownership in SpareBank 1 Nord-Norge, including the management of the equity certificates that were added to the foundation when it was established, and so far as it is possible, to take part in issues within SpareBank 1 Nord-Norge. The foundation will also provide donations to the non-profit purpose of the return on the capital it administers.

The background of the establishment was the new Finance Act in 2009, which facilitated the equal treatment of the two ownership groups in savings banks; community and equity certificate holders. Previous challenges related to the so-called dilution of equity certificate holders, with high distribution of dividends to equity certificate holders, were resolved with this. Therefore, the Bank adopted a dividend policy, which established the equal treatment of the owner groups, including an initially equivalent distribution rate of the surplus of dividends and gifts. However, this could result in very large distributions of dividends/gifts to the community that owns them – an owner who cannot participate in future issues. Over time, this could lead to a weathering of the Bank's community ownership, which was considered to be neither in the interest of the bank or the community ownership.

SpareBank 1 Nord-Norge's intention is that parts of the annual community dividends are to be assigned to the foundation. The foundation will then be able to build capital that can be used in future issues in the Bank.

Since its creation, the foundation has received several awards from the bank and administers a total of NOK 643 million, as of 31.12.17.

### Gift allocation

The foundation's regulations state that it may provide donations for non-profit purposes within the SpareBank 1 Nord-Norge's market area. In 2017, donations have been made totalling NOK 9,750,968, distributed among 84 projects. Measures to promote outdoor activities were prioritised, and have received a total of NOK 3,246,210.

The foundation's website and Facebook pages are updated regularly with current news: [www.snnstiftelsene.no/sparebankstiftelsen](http://www.snnstiftelsene.no/sparebankstiftelsen). They also provide information about all gift allocations.

Sparebankstiftelsen SpareBank1 Nord-Norge has two part-time employees; a general manager in a 20% position and an office manager in 50%.

## SpareBank 1 Nord-Norge's Kunststiftelse

SpareBank 1 Nord-Norge's Kunststiftelse was established in 2007 by the Bank's Board of Directors. The main purpose is to develop and manage a collection of works of art that are of significance to the region. The works are displayed at the bank's premises or deposited in public institutions. The collection now amounts to 835 works, of which 131 were purchased after its creation.



*Much has changed over SpareBank 1 Nord-Norge's history. But our responsibility and commitment to Northern Norway has endured. It means a lot to our employees that the biggest share of the profits remains in the region.*

# Organisation and HR

Capable, committed employees are the most important prerequisite for creating value for customers, owners and Northern Norway. Therefore, one of the Group's five strategic goals is to be Northern Norway's most attractive and engaging workplace. The Group's attractiveness is evident from the high number of qualified applicants for vacant positions, internal career choices and feedback from the employees in employer surveys. As at 31.12.17, the sick leave rate was still low at just 2.9% (doctor certified and self-certified).

In 2017, the Group's employees tackled major changes to their working day due to digitalisation, new customer expectations and collocation. The Group is demonstrating great willingness and ability to adapt at a time of continuous and major changes in the financial services industry. These were two key areas in the year's employer survey, where both willingness and ability to adapt scored high at 77 and 75 out of a possible 100, respectively.

The 2017 employee survey was a new type of survey with a greater focus on job commitment, willingness and ability to adapt and management. The survey showed a continued high level of commitment among employees with a score of 85, well above the organisation's target of 80. The employee survey also included measurements linked to our values: Belief, Acumen, Toughness, Team and Trust. The results are uplifting and indicate the Group has committed employees who believe in its values.

Every year, new measures are implemented to ensure we act as a single group with shared goals and activities based on the Group's strategic framework. More financial centres are now collocating employees from the various companies. This is important with respect to being able to offer customers a better overall service and create synergies, which in turn is important in achieving the Group's target return.

## KEY FIGURES

Number of	2016		2017	
	Employees	FTEs	Employees	FTEs
SpareBank 1 Nord-Norge (total)	798	773	813	785
SpareBank 1 Nord-Norge (Bank)	553	539	550	536
EiendomsMegler 1 Nord-Norge	78	77	88	87
SpareBank 1 Finans Nord-Norge	35	34	37	37
SpareBank 1 Forvaltning	3	3		
SpareBank 1 Regnskapshuset Nord-Norge <sup>1</sup>	129	119	138	125

Recruitment	2016	2017
SpareBank 1 Nord-Norge (totalt)	124	93
SpareBank 1 Nord-Norge (bankdelen)	96	56
EiendomsMegler 1 Nord-Norge	12	10
SpareBank 1 Finans Nord-Norge	4	12
SpareBank 1 Forvaltning	1	
SpareBank 1 Regnskapshuset Nord-Norge	11	15

No. of leavers	2016	2017
SpareBank 1 Nord-Norge (total)	171	49

Sick leave, doctor certified and self-certified	2016		2017	
	In %	No. of days	In %	No. of days
SpareBank 1 Nord-Norge (total)	2.8%	4 891	2.9%	5 358
SpareBank 1 Nord-Norge (Bank)	2.3%	3 201	2.6%	3 528
EiendomsMegler 1 Nord-Norge	3.3%	511	2.5%	450
SpareBank 1 Finans Nord-Norge	1.9%	168	2.3%	203
SpareBank 1 Regnskapshuset Nord-Norge	4.5%	1 011	3.9%	1 177

Management of SpareBank 1 Nord-Norge	2016		2017	
	Number	Women/ Men	Number	Women/ Men
SpareBank 1 Nord-Norge (Bank)				
- Executive management team	11	3 / 8	11	2 / 9
- Other management	72	27 / 45	63	23 / 40
EiendomsMegler 1 Nord-Norge	14	3 / 11	16	5 / 11
SpareBank 1 Finans Nord-Norge	8	4 / 4	5	5 / 0
SNN Forvaltning	1	0 / 1		
SpareBank 1 Regnskapshuset Nord-Norge	10	4 / 6	12	5 / 7
<b>Total</b>	<b>116</b>	<b>41 / 75</b>	<b>107</b>	<b>40 / 67</b>
<b>Ratio</b>	<b>100%</b>	<b>35 / 65%</b>	<b>100%</b>	<b>37 / 63%</b>

<sup>1</sup> The increase in employees in SpareBank 1 Regnskapshuset Nord-Norge in 2017 was primarily due to the acquisition of Exacto AS in Narvik.

The collaboration with elected officers and safety representatives is valuable for the organisation's development. They take part in regular managerial seminars and webinars to ensure openness and good information flow. In 2017, they were also represented in working groups in the "One Group – one customer experience" development programme.

The Group also has an active pensioner and staff associations that organise social events for employees and pensioners.

### Equal opportunities and diversity

SpareBank 1 Nord-Norge promotes equality and diversity among all its employees, irrespective of gender, age, orientation, language, ethnicity, national origin, religion and life philosophy.

There are more women in the Group than men. The proportion of women in the executive management team increased from 2016 and we are now close to achieving our ambition of more than 40%. The Group's payroll analyses show there are no pay differences between the employees based on gender.

### Health, safety and the environment

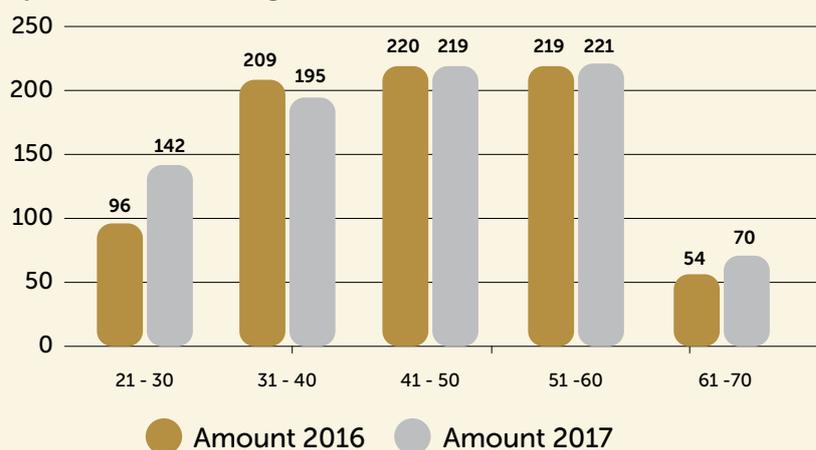
The Group's aggressive focus on health, safety and the environment (HSE) continues and is producing the desired results. During the year, there were a number of courses on selected safety topics and regular webinars for managers and employees with a focus on safety challenges, following up and documenting incidents.

SpareBank 1 Nord-Norge strives to prevent harm from robberies, threats or other unwanted incidents. The Group faced no attempted robberies in 2017. Six cases of threats being made to employees were reported: two in the customer service centre and four in the Bank's branches. Two work-related accidents were recorded, both of a less serious nature.

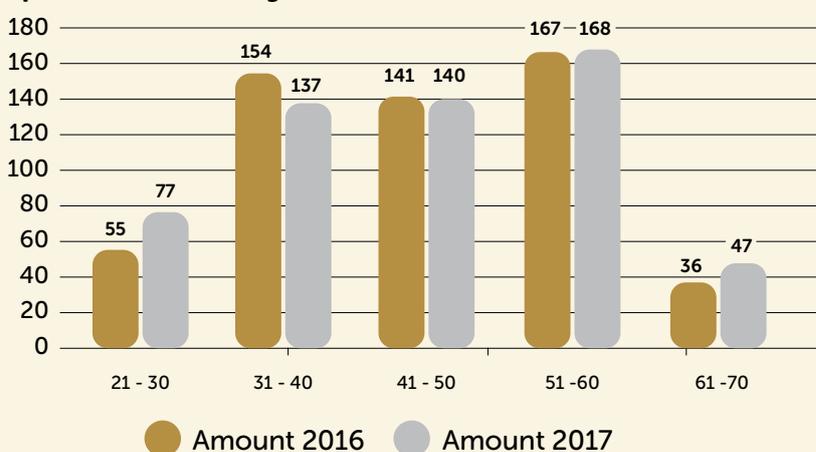
### KEY FIGURES

Age composition	Average age		
	2015	2016	2017
SpareBank 1 Nord-Norge (Total)	46.7	44.6	44.5
SpareBank 1 Nord-Norge (Bank)	47.9	45.1	45.2
EiendomsMegler 1 Nord-Norge	40.2	39.9	39.3
SpareBank 1 Finans Nord-Norge	38.6	40.1	38.9
SpareBank 1 Regnskapshuset Nord-Norge	46.5	46.9	46.5

### Age composition in 2016 og 2017 SpareBank 1 Nord-Norge



### Age composition in 2016 og 2017 SpareBank 1 Nord-Norge (Bank)



In 2017, the Group designed a method for analysing staff vulnerabilities and risks in the short, medium and long term. The vulnerability analysis produced many interesting findings which have resulted in new priorities, including the concept of substitutes and long-term replacements, new recruitment models and the production of employee profiles.

The SNN Spor diet and exercise concept turned 4 years old in autumn 2017 and is just as vital as its age indicates. No fewer than 87% of employees take part and the level of activity still remains well above the Norwegian Directorate of Health's recommendations for physical activity. At the same time, Spor helps to build our corporate culture and pride through the internal activation of our social engagement.

### Sick leave and the inclusive workplace scheme

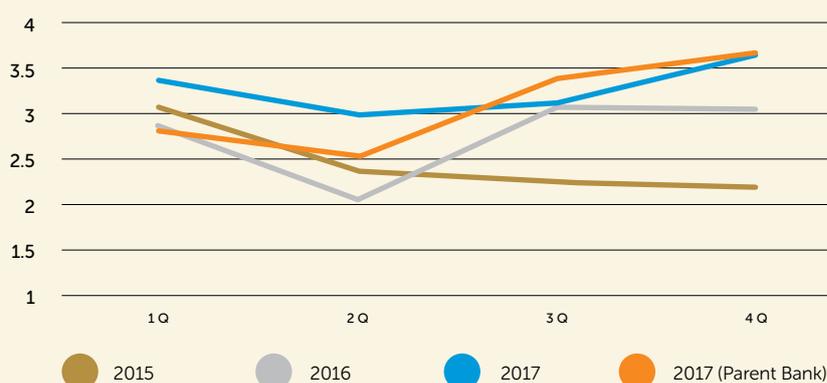
All of the companies in the Group are IW companies and the current inclusive workplace agreement runs until the end of 2018. In the last few years, SpareBank 1 Nord-Norge has taken a wide-ranging and systematic approach to reducing its sick leave rate and, given the combined doctor certified and self-certified sick leave rate of 2.9% for 2017 (reported as at 31.12.17), it has been very successful.

### Recruitment and careers

SpareBank 1 Nord-Norge's attractiveness as an employer is evident when new positions are advertised. As a rule, the number of applicants is high and they attract both internal and external candidates. In 2017, 1,089 applications were received for 94 positions and the Group is generally satisfied with the candidates' backgrounds and qualifications. However, finding enough qualified personnel for some of the Group's smaller locations has become more challenging.

In 2017, SpareBank 1 Nord-Norge had three upper secondary school clerical apprentices.

### Sick leave trend in SpareBank 1 Nord-Norge



Note: The Group's 2015 figures do not include SNN Regnskapshuset, the figures for 2016 and 2017 do.

### Employee development and management

One of SpareBank 1 Nord-Norge's strategic goals is to be number 1 for customers, employees and owners. To succeed, the managers have a special responsibility to ensure their employees and units develop. The development of the managers' own skills is focused on in various management seminars and webinars. A bespoke Master's programmes in development-oriented management, is also offered, especially to new managers. The programme is provided in collaboration with BI Norwegian Business School and the SpareBank 1-alliansen.

The need for continuous learning is clearer than ever. It is therefore important that SpareBank 1 Nord-Norge builds up new and relevant competence, including among existing employees.

All new employees undergo an induction programme to familiarise them with the Group, our culture and our strategic framework. 68 new employees completed various parts of the induction programme in 2017.

SpareBank 1 Nord-Norge's customers meet capable advisers both via the branch channel and the digital channels. The financial

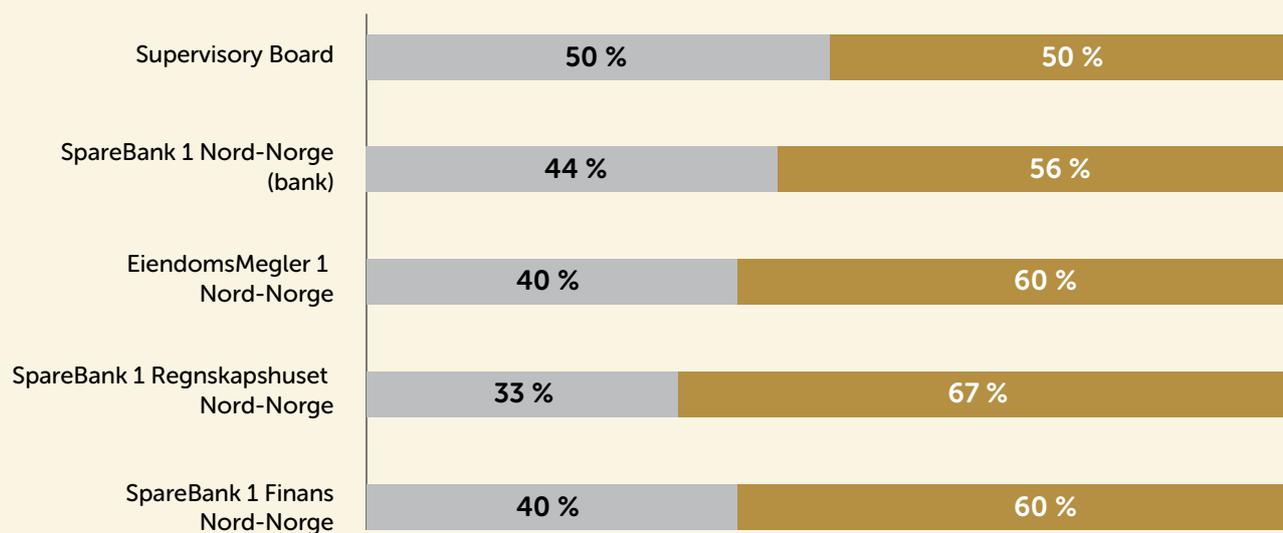
services industry has established authorisation schemes for advisers. These are intended to ensure advisers possess the necessary knowledge, skills and attitudes. 256 advisers are authorised financial advisers. 222 of them are also authorised via the authorisation scheme for non-life insurance.

The Group's focus on learning in the workplace is demonstrated by the procurement of a new learning platform. The entire Group now has access to a total learning service. The platform will result in better reporting and documentation and help to steer the work on skills based on goals.

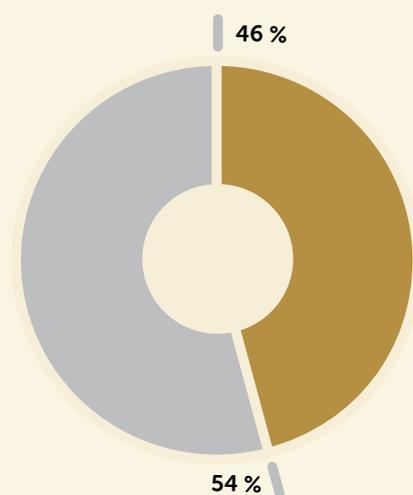
Ethics and ethical dilemmas were also on the agenda in 2017. The SNN Code (ethical guidelines and guidelines for managing breaches) provided the starting point for this work. Several measures such as blog articles, meetings with managers and departmental courses were implemented.

### Gender ration 2017 on Supervisory Board and other boards

● Women ● Men

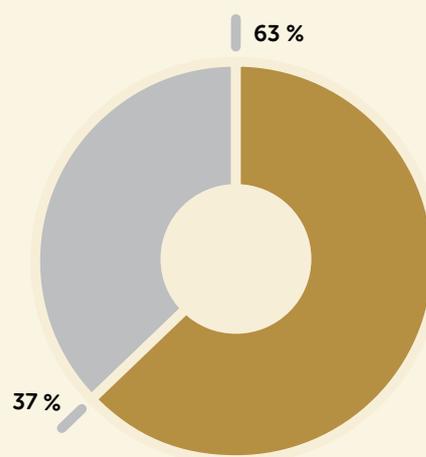


### Gender ration in SpareBank 1 Nord-Norge 2017



● Women ● Men

### Gender ration, managers in SpareBank 1 Nord-Norge 2017



● Women ● Men

A man and two children are standing in a stadium, wearing blue and yellow football kits. The man is in the center, wearing a blue long-sleeved shirt with yellow accents. The girl is on the left, and the boy is on the right. They are all smiling. The background shows red and blue stadium seats.

# Corporate social responsibility

*Almost NOK 2 billion has been paid out as community dividends to various projects and initiatives in just the last 10 years alone. These funds have gone to support innumerable local activities, diversity, happiness and the further development of Northern Norway. The community dividends amounted to no less than NOK 464 million in 2017.*

# Sustainability

As a regional bank, SpareBank 1 Nord-Norge's vision is: For Northern Norway. Corporate social responsibility (CSR) is reflected in every part of its operations, with a particular focus on the people, community and environment of Northern Norway.

## Sustainability

As an important business actor in Northern Norway, SpareBank 1 Nord-Norge has a special responsibility to focus on sustainability. The Group wishes to be known for its high ethical standards and credibility in its work with customers, suppliers, the authorities and society in general. It is constantly striving to reduce its consumption of resources and become a more environmentally efficient organisation. Much of this is regulated by Norwegian laws and regulations and these form a vital part of the Group's basis for shaping strategy.

In 2017, the Group was focused on developing and communicating a clearer sustainability profile and therefore signed up the UN Global Compact's ten principles concerning human rights, working life, the environment and combating corruption. These will guide the Group's future work CSR work.

As an extension of this, a materiality analysis project was started that will summarise the expectations of the Group's most important stakeholders with respect to ethics and sustainability. The materiality analysis will be completed in 2018 and will be used as a starting point for future CSR strategy work. The priority is to establish a sustainability profile tailored to SpareBank 1 Nord-Norge's operations, business areas and market area.

In 2017, the Group became a partner in Klimapartner Troms, which aims to reinforce the impact of an organisation's environmental awareness and improve knowledge about climate and environmental challenges. The Group's ambition is to ensure that SpareBank 1 Nord-Norge's sustainability work benefits other business in the region.

In 2017, SpareBank 1 Nord-Norge's expanded the range of ethical and green funds customers can choose as savings products.

In addition to the applicable legislation at any given time, SpareBank 1 Nord-Norge works on sustainability through its policies, guidelines, the SNN Code and the Ethics Committee. More information is also available on *snn.no*.

## The environment

SpareBank 1 Nord-Norge continued its work on becoming even more efficient with respect to the environment and saving resources in 2017. This involves, among other things, stipulating requirements for the Group, suppliers and partners. As a regional bank, the Group has a responsibility to help achieve Norway's targets for reducing greenhouse gas emissions. In 2017, the Group set itself a target of reducing its greenhouse gas emissions by 10% in the period 2016-2026. It is also working on making parts of the Group paperless from and including 2020.

SpareBank 1 Nord-Norge is Eco-Lighthouse certified and takes a systematic approach to environmental measures. The goal is to ensure that all employees are mindful of consumption, travel, waste management and energy consumption in general.

In 2017, the Group worked on a number of large projects aimed at establishing new locations in the next few years. These property projects emphasise the use of sustainable materials with a high reuse factor and measures that ensure buildings achieve the best possible energy class.

Digital developments are helping to ensure the Group can continuously offer customers better and more efficient digital solutions. The fact that this reduces the need for employees and customers to travel and the consumption of paper thereby lowering the overall impact on the environment is another positive outcome of this.

SpareBank 1 Nord-Norge produces its own energy and climate accounts. These accounts comply with the international standards set out in the Greenhouse Gas Protocol and ISO 14064-1. The Energy and Climate Accounts for 2017 show total greenhouse gas emissions for SpareBank 1 Nord-Norge of 1,088 tonnes of CO<sub>2</sub> equivalents (tCO<sub>2</sub>e). This represents an increase of 18 tCO<sub>2</sub>e, or 1.7%. Part of this increase was due to the start-up of a major renovation project at the Group's head office in 2017. This work has also contributed to the generation of a greater quantity of waste than in previous years. Emissions from the Group's business travel were on a par with the level in 2016.

## Human rights

SpareBank 1 Nord-Norge respects fundamental human rights and all conventions ratified in Norwegian law such as the Universal Declaration of Human Rights, the ILO's core conventions, the UN Convention against Corruption and the UN's environmental conventions. These cover the fundamental rights of all people and are regulated by national and international legislation. The requirements this involves apply to all operations in SpareBank 1 Nord-Norge, to the Group's suppliers and when granting credit.

Category	Explanation	2015	2016	2017	Change in % compared to last year
<i>Transport</i>					
Diesel (B5)		10.5	10.5	16.9	60.9%
Gasoline		4.6	4.6	11.1	142.4%
<b>Scope 1 Emissions</b>		<b>15.0</b>	<b>15.0</b>	<b>27.9</b>	<b>85.6%</b>
<i>District heating/cooling Nordic loc.</i>					
District heating Norwegian mix		22.0	6.2	6.5	5.1%
<i>Electricity *</i>					
Electricity Nordic mix		653.1	420.5	327.5	-22.1%
<b>Scope 2 Emissions</b>		<b>675.1</b>	<b>426.7</b>	<b>334.0</b>	<b>-21.7%</b>
<i>Flights</i>					
Flights continental		91.6	22.6	125.3	454.5%
Flights intercontinental		17.1	35.7	14.0	-60.9%
Fights Nordic		504.8	465.4	482.5	3.7%
<i>Waste</i>					
Glass, recycling		-	-	-	-
Hazardous waste, recycling			-	0.1	52.9%
Metal recycling		0.1			-
Organic, recycling		0.1	0.4	0.5	18.5%
Paper, recycling		0.9	0.4	0.7	87.1%
Special waste	Plane glass		0.1		-100.0%
Residual waste, combustion		6.8	28.9	39.7	37.5%
EE waste, recycling		0.1			-
<i>Business trips</i>					
Km remuneration car (NO)		84.6	74.9	63.1	-15.8%
<b>Scope 3 Emissions</b>		<b>706.0</b>	<b>628.3</b>	<b>725.8</b>	<b>15.5%</b>
Total		1 396.2	1 070.0	1 087.7	1.7%
Percent change			-23.4%	1.7%	
* Alternative calculation of emissions from electricity (Market-based method)		2 990.1	2 169.9	2 166.6	
Percent change			-27.4%	-0.2%	

### Scope 1

**Transport:** Actual consumption of fossil fuel by the Group's vehicles (owned, leased and rented). The consumption of diesel (B5) and petrol in 2017 accounts for emissions corresponding to 28 tCO<sub>2</sub>e. This is an increase of 2.6% compared with the year before.

### Scope 2

**Electricity:** Measured consumption of electricity in owned or leased premises/buildings. The table shows greenhouse gas emissions from electricity calculated using the location-based emissions factor Nordic Mix. The emissions from electricity consumption were reduced by 22% compared with 2016. Please note that the emissions factor Nordic Mix has been reduced by 7% since 2016.

The tables in this report present electricity using a market-based factor. Since SpareBank 1 Nord-Norge did not buy guarantees of origin for the electricity it consumed in 2017, the Nordic Residual Mix factor has been used. In 2017, the emissions from electricity consumption amounted to 2,166.6 tCO<sub>2</sub>e using a market-based factor.

**District heating:** Consumption of district heating in owned/leased buildings. Total emissions from district heating increased by 5% due to the increased consumption of district heating and amounted to 6.5 tCO<sub>2</sub>e in 2017.

### Scope 3

**Air travel:** Measured person kilometres (pkm) travelled per region. Emissions from air travel correspond to 622 tCO<sub>2</sub>e and accounted for 57% of total emissions in 2017.

**Km allowance:** In 2017, allowances were granted for 438,000 km. This corresponds to emissions of 63 tCO<sub>2</sub>e, which represents a reduction of 16% compared with 2016.

**Waste:** Reported waste in kg by various waste fractions, as well as treatment method (recycled, energy recovered, or landfill). Waste accounted for emissions of 41 tCO<sub>2</sub>e in 2017 or 4% of total greenhouse gas emissions. Emissions increased by 11.2 tCO<sub>2</sub>e from 2016 to 2017. Emissions associated with glass waste were under 0.1 tCO<sub>2</sub>e. This is a relatively small amount and only marked by a line in the table.

## Sami regions

SpareBank 1 Nord-Norge's market area is part of the Sami regions. The Group wants to have a presence in local Sami communities and be a good bank for Sami businesses and Sami retail customers. The telephone bank and advice are available to customers in the Northern Sami language.

## Working conditions

SpareBank 1 Nord-Norge's operations take place in Norway and are subject to Norwegian laws and international conventions ratified in Norwegian law. Taking account of labour rights and fundamental social needs are requirements that apply to all of its operations and to all of its suppliers. The Group promotes equality among its employees, irrespective of gender, orientation, language, ethnicity, national origin, religion and life philosophy.

## Responsible management

The Group's direct exposure as an investor is primarily in the Norwegian and Nordic markets, largely the bond markets. Its investment activities comply with Norwegian laws and regulations, which are intended to ensure that the Group does not contribute to violations of human and labour rights, corruption, serious environmental damage or other actions likely to be deemed unethical by the general public.

All of its management must take into account risks associated with the environment, social conditions, human rights and corporate governance (environmental, social and governance risk = ESG risk) as defined by, among other things, the reports of the Government Pension Fund Global.

Direct investments are not made in companies: that are involved in the production of tobacco, pornography, anti-personnel mines or cluster bombs; in which the development and production of key compo-

nents for weapons of mass destruction represents a material part of their operations; or which contribute to serious or systematic violations of human and labour rights such as forced labour, serious environmental damage or corruption.

SpareBank 1 Nord-Norge also offers customers third-party funds. To be included in its product range, the fund provider must satisfy minimum requirements concerning ethics, sustainability, CSR, transparency and good corporate governance.

## Suppliers

A special purchasing policy stipulates requirements for the following core areas: human rights, working conditions, the environment and fair operating practices. As a minimum, suppliers must satisfy and comply with local, national and international laws and regulations.

## Responsible credit

SpareBank 1 Nord-Norge's market area within granting credit is limited to Northern Norway and Norway, and it does not finance projects or operations abroad. Credit is not provided to companies involved in the production of tobacco, pornography, anti-personnel mines or cluster bombs, or companies that develop or produce key components for weapons of mass destruction. Furthermore, credit is not provided to companies that contribute to serious or systematic violations of human and labour rights such as forced labour, serious environmental damage or corruption, or other activities contrary to the Group's ethical guidelines.

## Money laundering and terrorism funding

Financial crime, including laundering the proceeds of crime, represents a serious threat to individuals and structures in the business sector and undermines the legal economy of any society. SpareBank 1 Nord-Norge will comply with legal requirements

and implement measures aimed at combating financial crime and acts of terrorism. One key means in this work is to know your customer and the origin of the money that passes through your systems thanks to good routines and establishing and continuously following up customer relationships.

Attempts may be made to use the Group's infrastructure as a tool in criminal acts. Expertise and knowledge in the organisation must ensure that it meets legal requirements and the expectations of customers, suppliers and society. In addition to training in the regulations, training in ethics and dilemma training are vital.

SpareBank 1 Nord-Norge actively works to prevent, uncover and report transactions involving the proceeds of criminal acts or linked to acts of terrorism, including corruption. In 2017, it started work on developing an anti-corruption programme. This is expected to be completed in 2018.

SpareBank 1 Nord-Norge neither evades tax nor provides services or advice that helps others do so.

## Future measures

SpareBank 1 Nord-Norge will maintain a strong focus on CSR. The Group's ambition is to be a leader when it comes to being a sustainable financial institution in Northern Norway.

The following measures are planned for 2018:

1. Complete the materiality analysis
2. Develop a CSR strategy
3. Introduce GRI reporting
4. Increase the focus on financing sustainable projects



In 2017, SpareBank 1 Nord-Norge signed up to the UN Global Compact, which is the world's largest initiative for CSR in business.



SpareBank 1 Nord-Norge is Eco-Lighthouse certified and complies with the certification scheme's obligations.



In 2017, SpareBank 1 Nord-Norge joined Klimapartner Troms together with fifteen other partner companies.

# Social responsibility

SpareBank 1 Nord-Norge has a burning commitment to northern Norwegian society. Together with firebrands across the region, SpareBank 1 Nord-Norge has helped to realise hundreds of important projects in Northern Norway with grants from community dividends or collaborations via sponsorship agreements.

## Community dividends

53.6% of SpareBank 1 Nord-Norge is owned by the northern Norwegian society and, as an owner, the region receives the largest share of the dividends. These are called community dividends and are distributed to projects large and small that contribute to value creation and development in and for Northern Norway. SpareBank 1 Nord-Norge is thus helping to lift up the region. In 2017, NOK 100 million will be returned to northern Norwegian society via the SNN-fund.

## Sponsorship portfolio

Sponsorship is the commercial part of the Group's corporate social responsibility and forms part of SpareBank 1 Nord-Norge's marketing and brand building. The sponsorship portfolio amounted to NOK 28 million.

## Distribution of funds 2017

### The SNN-fund | NOK 100 million

Distributed to 526 projects within sports, culture and knowledge

### Sponsorships | NOK 28 million

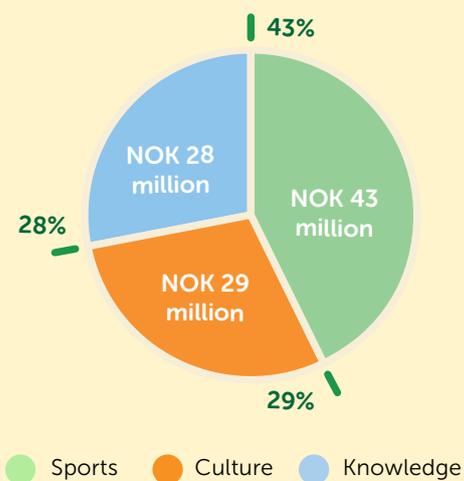
Distributed via 239 agreements with actors within sports, culture and knowledge

### Foundations

SpareBank 1 Nord-Norges  
Kulturnæringsstiftelse NOK 13 million

Sparebankstiftelsen  
SpareBank 1 Nord-Norge NOK 9,8 million

### Allocations from the SNN-fund 2017 NOK 100 million (100%)



# Creating a ski festival for young and old

While the international stars took part in the Reistadløpet ski race, the stars of tomorrow tested themselves in the children's ski race Barnas Reistadsprint.

Around 300 children lined up at the start of the the Barnas Reistadsprint one Friday in April in the municipality of Bardu in Troms.

«That's almost 10% of everyone who lives in the municipality, so that must qualify as a public party,» says bank executive Tonje Vik of SpareBank 1 Nord-Norge.

She was at the finish line to hand out medals to the children who completed the 900-metre race in the centre of Setermoen.

«The Barnas Reistadsprint is an informal ski meet that everyone can take part in. SpareBank 1 Nord-Norge is the organiser and its staff do all the work themselves. Everything from rigging up the course to handing out start numbers, medals and squash,» explains the bank executive.

## Wanted to create a public party

The children's ski meet was arranged in connection with the Reistadløpet, with the aid of community dividends from SpareBank 1 Nord-Norge, becoming one of the Visma Ski Classics – the world cup for cross-country skiing, which includes the Vasaloppet, Marcialonga and Birkebeinerøppet races in its programme.

«After all, when the biggest stars on the cross-country circuit come to Indre Troms we had to help create a public party. The children's ski race is therefore perfect,» explains Christian Larsen, who is responsible for social engagement in SpareBank 1 Nord-Norge.

## Securing recruitment

The Reistadløpet was held for the first time in 1958 and is one of Norway's most tradition-rich ski races. The race was established to commemorate Colonel Ole Reistad. He was a skier and athlete, best known for leading the Norwegian ski patrol to victory at the Olympics in St. Moritz in 1928.

«We think it's great that community dividends from SpareBank 1 Nord-Norge are being used to create a ski festival for both the big and the small arenas. Hopefully some of the participants in the Barnas Reistadsprint will be on the starting line of the Reistadløpet in a few years' time. Given its status as a Ski Classics race, we hope that the Reistadløpet will become even more popular, both here in the north and in the rest of the country; perhaps even outside Norway's borders,» says bank executive Tonje Vik.



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The Barnas Reistadsprint is an informal ski meet that everyone can take part in. SpareBank 1 Nord-Norge is the organiser and our staff do all the work themselves. Everything from rigging up the course to handing out start numbers, medals and squash.

Bank Manager, Tonje Vik





## Hoping for more blue northern Norwegian business ideas

In 2017, MABIT was awarded a NOK 3 million grant, spread over 3 years, from community dividends. The hope is to commercialise even more good ideas within blue biotechnology in the north.

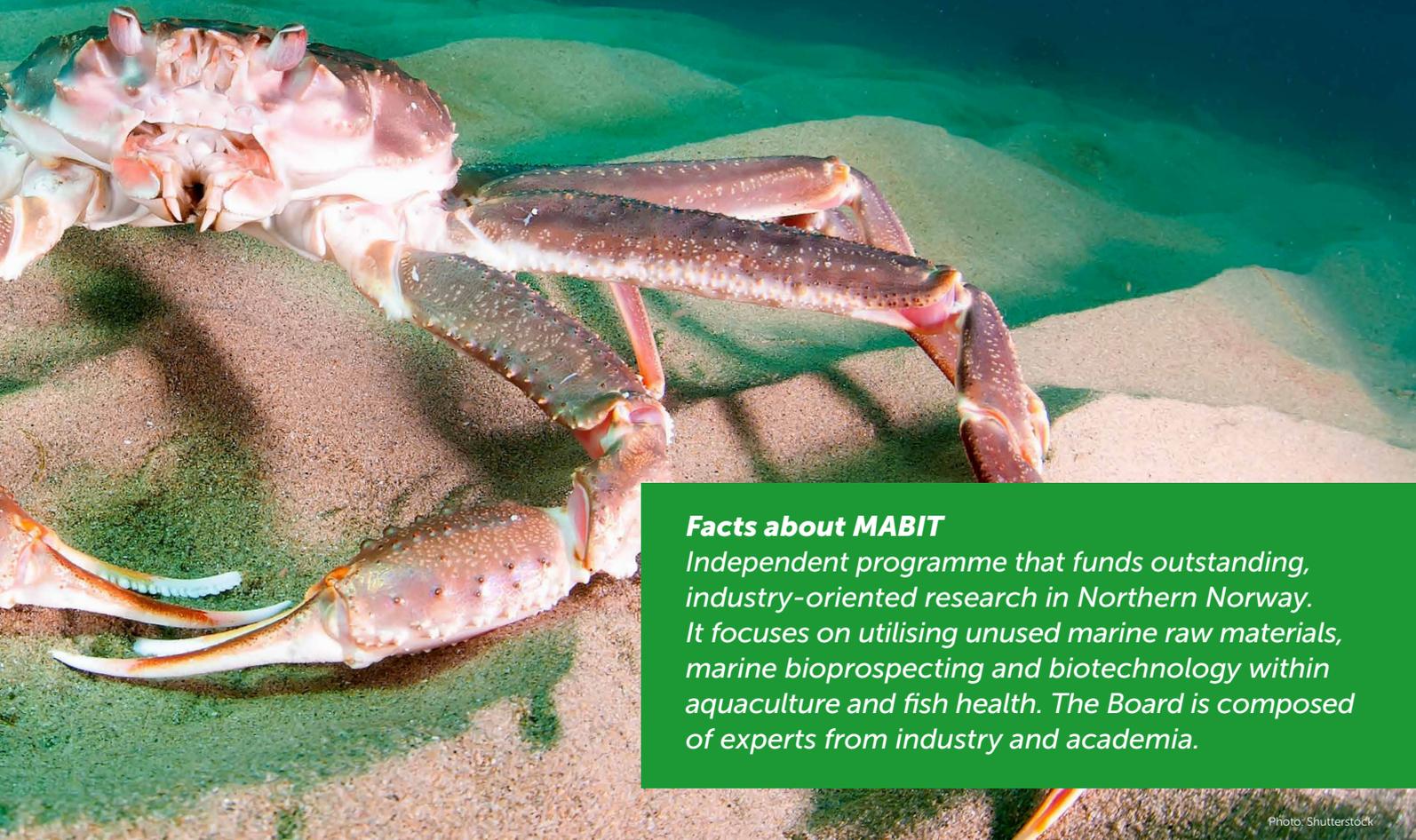
### Supporting innovation

MABIT contributes to innovation and value creation within blue biotechnology. The programme provides startup help for good ideas from Northern Norway and focuses on the jobs and value creation being created and remaining in the north. This is a good fit with SpareBank 1 Nord-Norge's vision of focusing on the entire region.

«We contribute funds from community dividends because it is important for Northern Norway to speed up the pace of innovation. Our marine resources and blue biotechnology are part of what

we will live off in the future,» says Stein Vidar Loftås, SpareBank 1 Nord-Norge's communications director.

The support has also helped to release funds from the county authorities of Finnmark and Nordland which, together with Troms County Authority, are contributing a total of NOK 3.45 million to the project. This joint effort means that the startup helpers in MABIT now have even more resources to draw on.



### **Facts about MABIT**

*Independent programme that funds outstanding, industry-oriented research in Northern Norway. It focuses on utilising unused marine raw materials, marine bioprospecting and biotechnology within aquaculture and fish health. The Board is composed of experts from industry and academia.*

Photo: Shutterstock

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The funds are very important for us and for the projects and business development in the north. Now we can realise even more of the good ideas on the drawing board.

**MABIT Program Coordinator, Victoria Schjønning**

«The funds are very important for us and for the projects and business development in the north. Even more of the good ideas on the drawing board can now be realised,» says MABIT's programme manager, Victoria Schjønning Paulsen.

#### **Getting innovation moving**

MABIT supports business-oriented research and is vital when it comes to ensuring that good commercial ideas can get off to a good start with access to capital and leading expertise that would

otherwise be unavailable. The funds allow researchers and industry to test risky ideas on a smaller scale without having to start larger, high-risk projects.

«We need support for projects in the north and within marine biotechnology since we do not have a robust industry sector to lean on. When SpareBank 1 Nord-Norge contributes funds, development speeds up,» says Victoria Schjønning Paulsen.

# Hackathon for the Northern Norway of tomorrow

17 socially engaged students were invited to Bodø for a weekend with the aim of coming up with solutions for the labour market of the future in the north.

Would you like to help develop solutions for the future? This is the question we asked the region's students in autumn 2017. 17 of those who answered yes were invited to a weekend of innovation in January at which the hackathon method was employed.

A hackathon is an event where various people meet and work together on one concrete challenge within a given time frame. The method involves working intensively on a problem in groups. At the end of the hackathon, a prototype or proposed solution must be presented. The purpose is not to come up with a final answer but to create ideas and a basis for further development.

"We want to meet the labour force of tomorrow by being close to the educational institutions and students. If the region does well, SpareBank 1 Nord-Norge will do well, and access to enough labour and the right skills are vital for both the region and us. That's why we want to listen to the students," says SpareBank 1 Nord-Norge's HR director, Turid Aspenes.

During this weekend in January in Bodø, the students produced proposals concerning what it would take for the region to be seen as the natural choice in the future. On the Sunday, the groups presented four fantastic ideas for the development of Northern Norway. The prize for the winning group was summer jobs with the Group so they could continue working on their proposal.

“ We want to meet the labour force of tomorrow by being close to the educational institutions and students.

HR Manager at SpareBank 1 Nord-Norge, Turid Aspenes





**OPPORTUNITIES:**

Students Tamara Sisykh and Varvara Alekseeva, CEO Jan-Frode Janson, pro-rector at UiT Wenche Jakobsen and student Jørgen Eiane are pleased students can now apply for funds to develop good business ideas.

# Northern Norwegian entrepreneurship fund launched at UiT

2017 was the year we funded a new entrepreneurship fund at UiT, Norway's Arctic university. 15 000 students can now apply for funds to develop their business ideas.

The goal is to establish more student companies and speed up the pace of innovation so that the region can become more competitive in the years ahead. The chief executive Jan-Frode Janson believes the students can find solutions to the challenges.

«The region needs 25 000 employees by 2030 to meet the growth in coming years. In order to become even more competitive in the north, we must cultivate the good ideas and realise them. This will create strong companies that provide us with the necessary competitiveness. It is because of the entrepreneurs at UiT that we can look forward to an exciting future,» says the chief executive.

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The region needs 25 000 employees by 2030 to meet the growth in coming years. In order to become even more competitive in the north, we must cultivate the good ideas and realise them.

CEO, Jan-Frode Janson

**Developing app**

At the launch in September, he met app developers Jørgen Eiane, Tamara Sisykh and Varvara Alekseeva; three students who have received funds from the entrepreneurship fund to develop their business idea. Their app, Pop-up Adventure, is an augmented-reality entertainment platform and builds further on concepts seen in, for example, Pokémon Go. You have to complete lots of tasks in the app within an hour, such as riddles or puzzles, while walking through a virtual course in a physical world.

**Impressed chief executive**

Jan-Frode Janson was impressed with the app and the students, who in 2017 came third in the Venture Cup, the national competition for the best business plan.

«These students are my heroes,» he says.

Students from all of the campuses can apply for up to NOK 25 000 each, although it is not as simple as just submitting an application on paper and waiting for approval. They have to present their project to a jury composed of representatives of UiT and SpareBank 1 Nord-Norge, and the best ideas will win through.

When the region does well,  
SpareBanken 1 Nord-Norge does well

Mefjord

