SPAREBANK 1 NORD-NORGE ANNUAL REPORT

2018

SpareBank 1 NORD-NORGE

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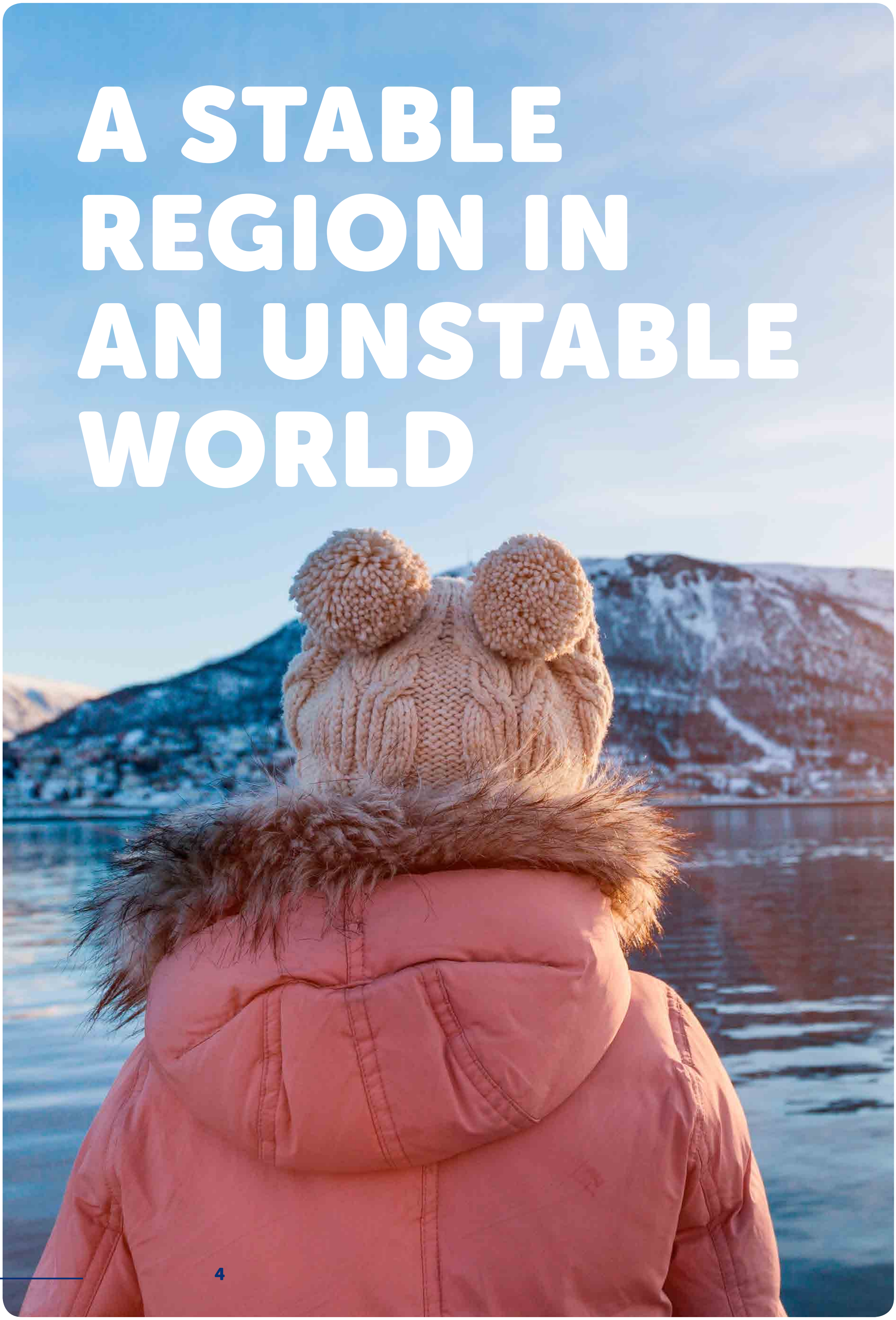
Photo annual report 2018: Edvard Kristiansen, Marius Fiskum, Tom Benjaminsen and Perspektivet Museum.

A STABLE REGION IN AN UNSTABLE WORLD



2018 was a year characterised by global instability. Climate change, trade wars, Brexit and #metoo have filled our news channels.

Political instability in normally stable countries such as Sweden were symptoms that completed the picture. Despite this, Norway and Northern Norway have been a stable region in an unstable world. This has had an effect on SpareBank 1 Nord-Norge's results.

The growth Northern Norway has seen in recent years continued in 2018, albeit at a somewhat slower pace than before. Continued high investment rates and low interest rates are still having an effect on both the building and construction industry as well as the housing market. The weak exchange rate for Norwegian kroner is boosting a region known for exporting products and importing tourists.

Naturally, a flourishing economy has the potential to have a positive impact on the results of SpareBank 1 Nord-Norge, and the figures in this report confirms this. Meanwhile, the Group's high level of growth cannot be explained by macroeconomic figures alone. SpareBank 1 Nord-Norge's growth is mainly due to the Group having succeeded in capturing market share in all business areas, all segments and all local markets.

But nothing comes from nothing. New competitors and stricter regulatory requirements present challenges. Meeting the higher expectations of customers and the region concerning simplification, accessibility and better customer experiences requires the right focus. SpareBank 1 Nord-Norge has a bold ambition: we aim to be number one for our customers, our owners and our staff. The simplicity of the Group's strategy has an impact on our results. At the same time, we approach culture from a long-term perspective and our vision "For Northern Norway" is an integral part of the Group's DNA. The sum of all this has an impact on both the top and the bottom line.

Our owners obviously benefit from good results. Equity certificate holders will receive a dividend of NOK 4 per equity certificate. This is among the best in the industry. This is possible because the Group is delivering a return on equity capital (ROE) of 12.9%. At the same time, the dividend results in large payouts for our largest owner: the society of Northern Norway. That is why we launched *Samfunnsløftet* as our Corporate Social Responsibility Strategy in 2018» Following the 2018 financial year, a further MNOK 265 can be provided for *Samfunnsløftet* and thus help to develop northern Norway's society further.

At the same time, the continued work to provide the best customer experience help us in securing returns for our owners in the future as well. Customer experience is our main focus. Advice and consultation face-to-face is and will be our comparative advantage. We are present locally with local knowledge and we are among the best at digital solutions. It is this combination that provides the basis for a customer experience that our competitors cannot emulate.

SpareBank 1 Nord-Norge operates in a stable place, in an unstable world. At the same time, we are aware that this instability can impact us as well. Not even Northern Norway is immune from trade wars, climate change, or political instability – and the economic downturns that often accompany such things. It is during the good times that one have the opportunity to prepare for the bad ones. The best way of doing this is to build robust structures, both with respect to capitalisation and with respect to satisfied customers.

SpareBank 1 Nord-Norge reinforced the high and profitable growth in all of the Group's business areas throughout 2018. The Group is soundly capitalised and has delivered world-class returns in the last few years.

Our ownership model and social position were clarified during the year through the award winning launch of *Samfunnsløftet*, our Corporate Social Responsibility Strategy for 2018. The Group has a number 1 position in Northern Norway and has an active role in the development of the region through financing, offering a full range of financial services and social responsibility.

The Group has invested heavily in IT to develop new sales channels and optimise existing ones. We have also invested in improving and simplifying internal processes using digital tools. Our motto is everything that can be automated will be automated. We are investing in our physical presence in parallel with our digitalisation. New branches were opened in Alta, Finnsnes and Mo i Rana in 2018. During 2019 there will be an opening in Bodø, as well as moving into a new head office in Tromsø.

The combination of physical presence and use of digital services is called "phygital". This has resulted in SpareBank 1 Nord-Norge achieving a dominant position in the region with 38 branches. This principle, combined with efficient operations, is an important cornerstone of the Group's strategy.

Another cornerstone of the strategy is collaboration. Products, technology and marketing are developed in a national collaboration via the SpareBank 1-alliance. More than 20 years' experience in collaboration have also been valuable in relation to new collaborative groupings, an area where the Group has been active. One of these is Vipps, which in a short space of time has become a leading payment solution in Norway and also has international ambitions. Another example is the establishment of Fremtind, an insurance merger between SpareBank 1 and DNB. This new company will play a leading role among the insurance companies in Norge. Competitors who find areas for collaboration has also been assigned a special term, "frenemies".

The economic situation in Northern Norway continues to be characterised by optimism and good growth. The region is export-oriented and the Norwegian kroner's continuing weak exchange rate has stimulated strong growth in the industries that are traditionally strong in the north. Fisheries have always been very important in Northern Norway. The world needs food and fish from the north is eaten all over the world. The flow of tourists is growing in parallel with increasing exports. Unemployment remains at a record low. The challenge now is the supply of labour. Declining population growth is a nationwide challenge, but it is even more visible in the north. This is because it is in the north that our greatest wealth exists as far as natural resources are concerned: pristine nature, clean food, clean energy, the maritime industry and untapped oil and gas potential. Northern Norway needs skilled labour to make the most of the opportunities these natural resources offer. SpareBank 1 Nord-Norge illuminates and analyses such topics in its work on the Konjunkturbarometer for Nord-Norge (KB). Work on an expansion that will produce an even clearer knowledge base for the region has been ongoing since autumn 2018. The ambition is to turn the Business Barometer into an important basis for making decisions in or about Northern Norway.

FROM THE **CEO**

2018 was also the year SpareBank 1 Nord-Norge launched *Samfunnsløftet*. The Bank's ownership model has always resulted in large dividends for the local community. What we previously called the Donations Fund has now been systemised, which allows people in the north to submit suggestions on how the dividend could be used to achieve the biggest possible impact for the community of Northern Norway. Six different «samfunnsløft» – themes – were launched in the autumn, which will see an initial investment of MNOK 300. *Samfunnsløftet* encouraged people to get engaged, which resulted in, among other things, 10,000 submitted suggestions. The launch increased awareness of the Bank's ownership model, where 53.6% is owned by the community. The ownership model and social responsibility are considered very valuable competitive advantages.

In September, we gathered the entire Group together in Harstad. This highlighted to an even greater extent how the Group stands out. The gathering was split into two parts: "Mission Northern Norway" involved all of the Group's staff doing voluntary work, which we have done before at such gatherings. This time we cleared beaches, equipped sports parks and visited the city's nursing homes with coffee, cake and live music. The project was an embodiment of our DNA and in practice we donated 1.5 man-years of voluntary work in the space of a single day. The second part of the event was the concert "Glød", an homage to the enthusiasts of the north. More than 20,000 children and adults came to the concert, as many people as live in Harstad.

The work on sustainability has gained momentum in the past year. There are two reasons for this: firstly, it is natural for the Group to take greater responsibility as an important business actor in a vulnerable region. Secondly, our customers, our staff and the rest of our community expect us to focus on sustainability, which means this can be turned into a competitive advantage. SpareBank 1 Nord-Norge has signed up to the Global Compact and now reports on sustainability based on the GRI standard. Through our collaboration with the Nordic Investment Bank (NIB) we offer favourable financing for green projects. The work on integrating sustainability into our strategy and day-to-day operations is proceeding at full steam and will continue in 2019.

2018 ended with a cold blast from a distant past when our local branch in Longyearbyen was the target of an armed robbery as the rest of the country prepared for Christmas. Luckily nobody was physically injured and the robber was arrested a short time after. Although the incident was dramatic, it was good to see that both our security measures and the care aspect of crisis management worked as they should. The robbery was the first in the Group for 13 years. I hope we will never experience one again. At the same time, we will continue to face challenges from new forms of crime in digital channels. Our efforts in this area will therefore continue. We will also face challenges adapting to extensive new regulations such as the new Norwegian Money Laundering Act, PSD2 and GDPR. We have already invested significant amount of resources to this area, and will continue to do so.

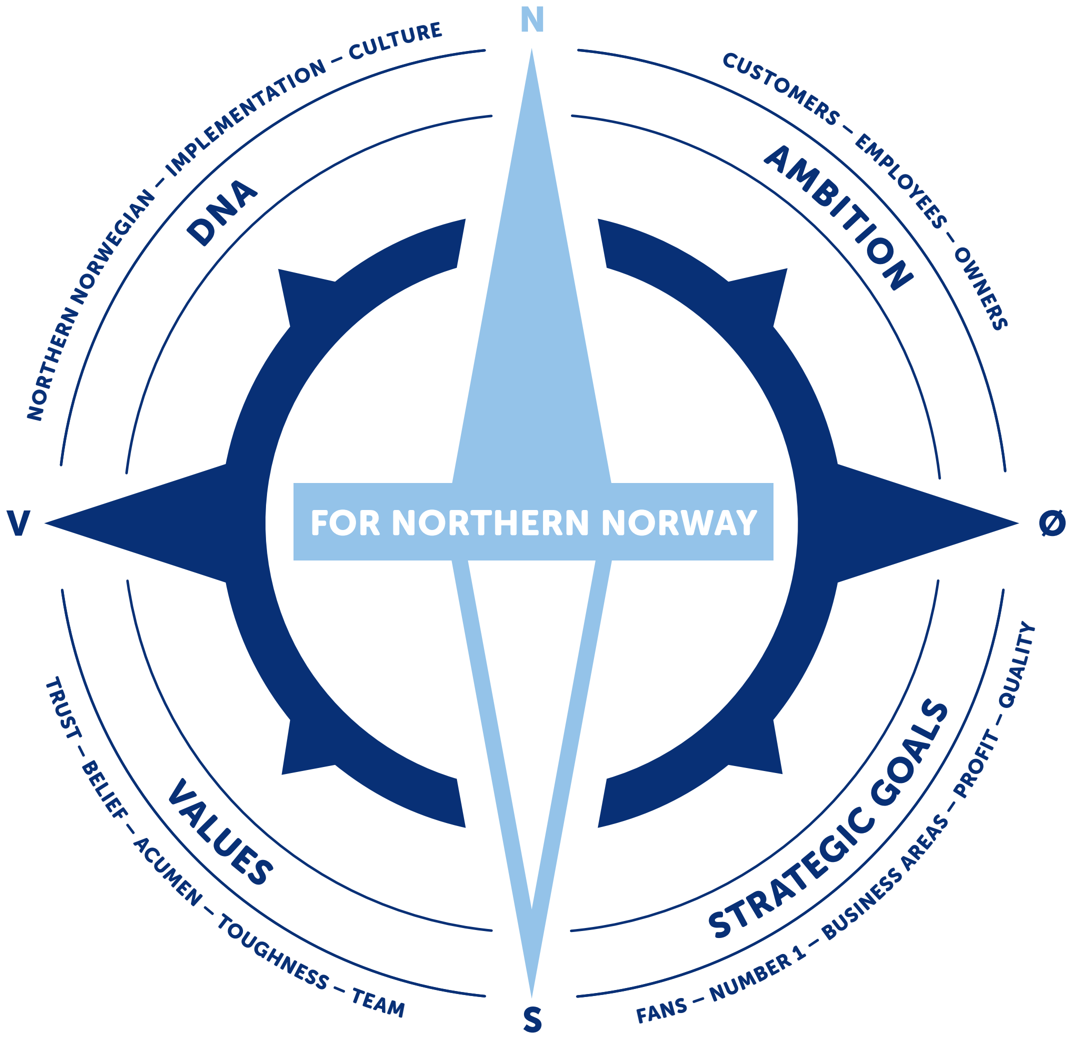
In October, I submitted my notice after six years as CEO. Therefore, this is my last annual report. In many ways it feels sad. At the same time, I am proud of the condition the Group is in and the organisation we have; an organisation that is robust enough to tackle both changes in leadership and the far greater changes taking place in the financial services industry. Changes that present many challenges, but that, if managed properly, will present even greater opportunities. Continue with our clear vision, "For Northern Norway".

Jan-Frode Janson, CEO

THE GROUP HAS A CLEAR NUMBER 1 POSITION IN NORTHERN NORWAY

STRATEGIC COMPASS

Number 1 for customers, employees and owners.

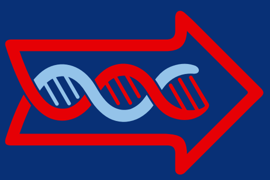


Managing according to a strategic compass enables you to make good decisions, including when the environment and market conditions are changing fast.

The compass has three components: a right side, a left side and a compass dial.

The right side contains the Group's strategic objectives and ambitions. If the Group continuously achieves its five strategic objectives, its number one position will also be achieved and maintained, for customers, staff and owners.

How the Group's results are achieved is also important. This is described on the left side of the strategic compass. The Group should be a recognisably northern Norwegian alternative: with a great ability to follow through and a strong cultural side. This is our unique DNA. And in their contact with customers and the community, each and every member of staff must conduct themself as a bearer of the Group's values, the five Ts. If both the right side and the left side of the compass are complied with, our vision will also be fulfilled, "For Northern Norway". The vision is the compass's third component and is placed on the compass dial, pointing north. For a further description of the Group's business strategy see the annual report.



DNA and values
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.

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

HISTORY

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.

1995
Started to publish The Business Barometer of Northern Norway twice a year

1996
In 1996, Sparebanken Nord-Norge helped to establish the SpareBank 1-alliance, an association that at the time consisted of four regional banks and 16 smaller savings banks. These banks collectively own SpareBank 1 Gruppen AS, which is a supplier of various financial products and services.

1915
Rødbanken has been the main office since 1915

1989
The wave of mergers culminated with the establishment of Sparebanken Nord-Norge on 01.07.89, when Tromsø Sparebank and Sparebanken Nord merged. Nordkapp Sparebank (1991) and Sparebanken Nordland (1992) were subsequently also merged into the regional bank.

2009
Mobile apps/bank apps were introduced and used by 89% of the public over 15 years old

2018

IMPORTANT EVENTS

Q1

Q2

January

Renewed its main sponsorship agreement with Norway's national cross-country skiing team. The new agreement includes support for Norwegian Paralympic team athletes. Initiatives aimed at children and recreational sports are also central.

Helped 180 employees who suddenly lost their jobs when a construction company in Bodø, M3 Anlegg, went bankrupt. A joint effort between SpareBank 1 Nord-Norge, LO in Nordland, the Norwegian Union of General Workers and the official receiver made it possible to pay the claims fast.

338 employees joined a savings scheme which enables them to purchase equity certificates through regular monthly deductions. In total, employees will purchase MNOK 5.8 worth of equity certificates via this savings scheme in 2018.

February

SpareBank 1 Regnskapshuset Nord-Norge strengthened its presence in Troms through the acquisition of the company Regnskapscentralen Nord AS. Ten employees gained a new employer and more than 200 corporate customers gained a new provider of accounting services..

April

Arranged the Children's Norwegian Sprint Championships (Barnas NM-sprint) during the Norwegian Cross-Country Skiing Championships in Alta. 750 children took to the tracks in the city centre.

Asked the region to submit suggestions on how the Group's community dividends could best be used. During the space of a few weeks, more than 10,000 suggestions were submitted.

May

The Nordic Investment Bank (NIB) and SpareBank 1 Nord-Norge signed a new loan agreement for BNOK 1 in connection with the Bank's financing of loans for small and medium-sized enterprises, as well as environmental projects, in Northern Norway.

Around 50 of almost 800 employees were brought out on strike as a consequence of a conflict between LO Finans and Finance Norway. The parties reached agreement after a week.

June

SpareBank 1 and DNB signed a letter of intent to merge their insurance businesses. The merger was approved during the year, which involved the formal establishment of a new company called Fremtind.

From the launch of *Samfunnsløftet* and the insurance merger to the Children's Norwegian Sprint Championships (Barnas NM-sprint) and a special debit card for fishermen. Here are some of the highlights from 2018

Q3

Q4

September

SpareBank 1 launched a simple solution for paying paper invoices. Customers can now take a photo of the invoice and automatically have it filled out in their mobile bank.

Moved into brand new premises in Mo i Rana. The new financial centre was opened with cake, champagne, music and ribbon cutting. During the year, the Group also moved into new premises in Alta and Finnsnes.

650 employees met at the gathering in Harstad, where they carried out voluntary work in the city, including visiting nursing homes, washing windows and clearing up rubbish. The Bank also arranged a free concert, "Glød", for more than 20,000 people.

SpareBank 1 Nord-Norge launched *Samfunnsløftet* – the Group's new strategy for how community dividends from SpareBank 1 Nord-Norge can be used in the region.

October

it was announced that Bengt Olsen would become SpareBank 1 Nord-Norge's new CFO.

Jan-Frode Janson submitted his notice as CEO of SpareBank 1 Nord-Norge. He had accepted an offer to become the new CEO of SpareBank 1 SMN.

The Norwegian Fishermen's Sales Organisation chose SpareBank 1 Nord-Norge as its bank. In addition to ordinary banking services, the agreement entails SpareBank 1 Nord-Norge creating a "Fishermen's Sales Organisation's card" – a special debit card.

November

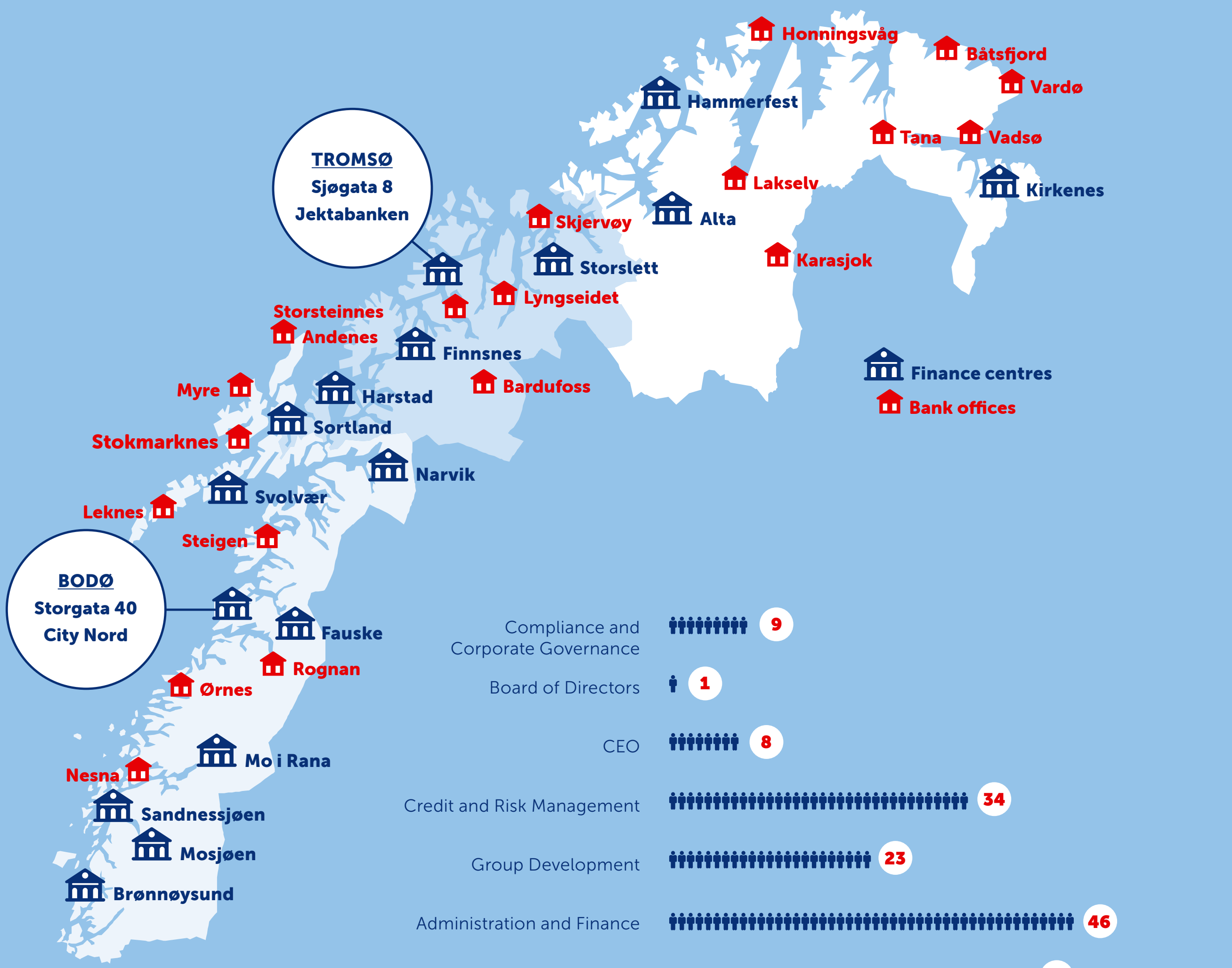
Was awarded the "Northern Norwegian Communication Award" for its work with *Samfunnsløftet*. The jury said that the project had managed to involve, engage and bring together people from across the region.

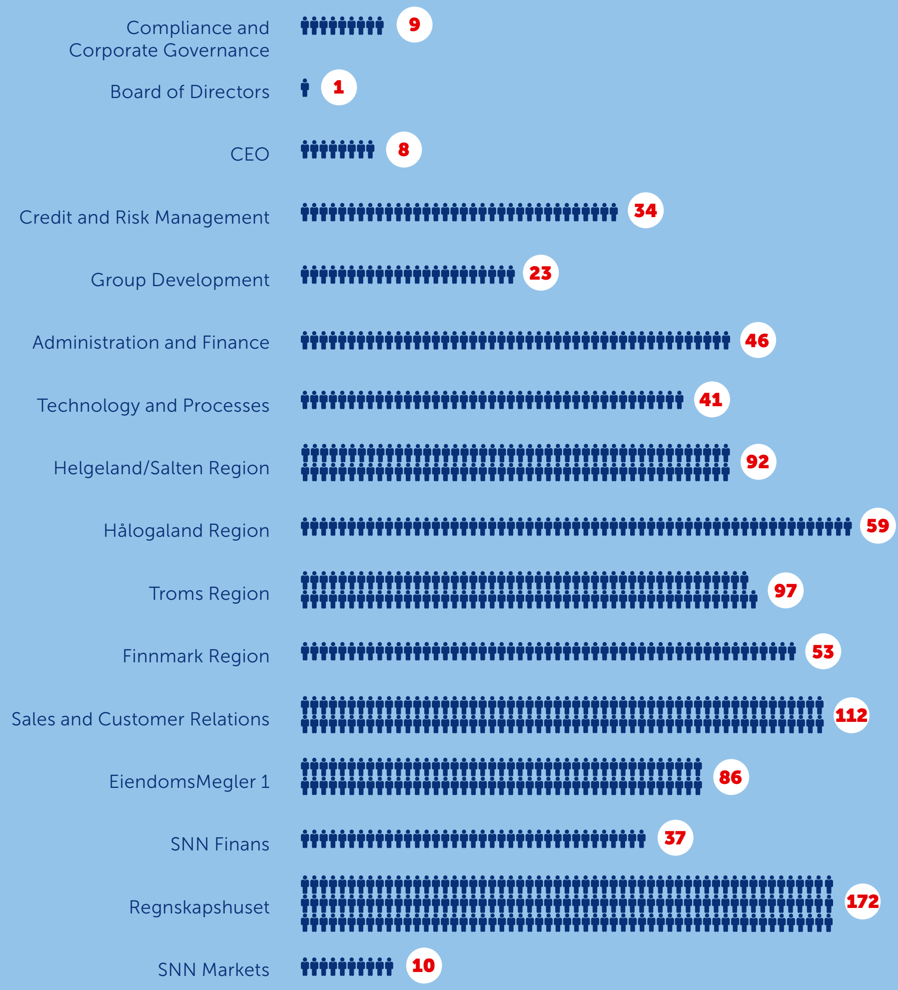
The new corporate agreement was signed. The agreement applies to employees of the Bank and SpareBank 1 Finans Nord-Norge, and replaced the old agreement from 2014.

December

The office on Svalbard was the target of a robbery. An armed man made his escape with a sum of money, but was arrested a short time after by the police. No employees were physically injured in the robbery.

BRANCHES


TROMSØ
Sjøgata 8
Jektabanken
BODØ
Storgata 40
City Nord
Honningsvåg
Båtsfjord
Vardø
Hammerfest
Tana
Vadsø
Lakselv
Kirkenes
Skjervøy
Alta
Storslett
Karasjok
Lyngseidet
Storsteinnes
Andenes
Finnsnes
Bardufoss
Myre
Harstad
Sortland
Stokmarknes
Narvik
Svolvær
Leknes
Steigen
Fauske
Rognan
Ørnes
Mo i Rana
Nesna
Sandnessjøen
Mosjøen
Brønnøysund
Finance centres
Bank offices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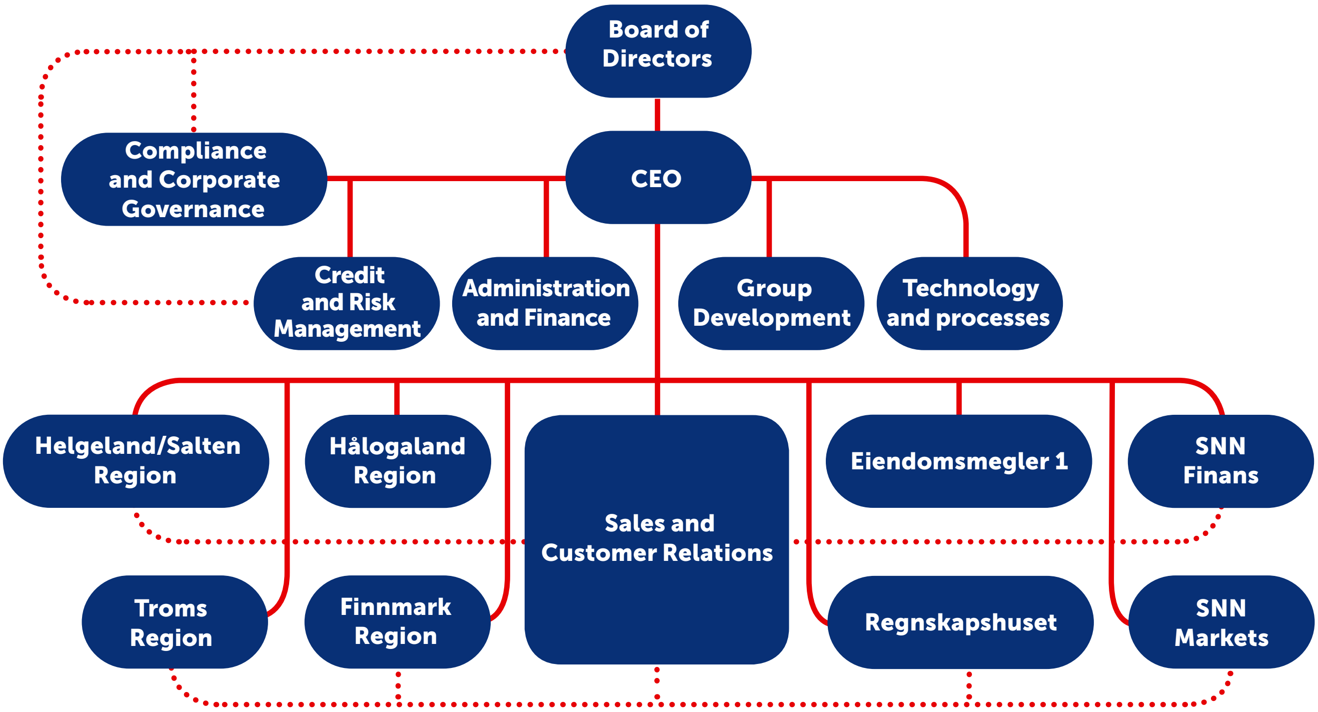
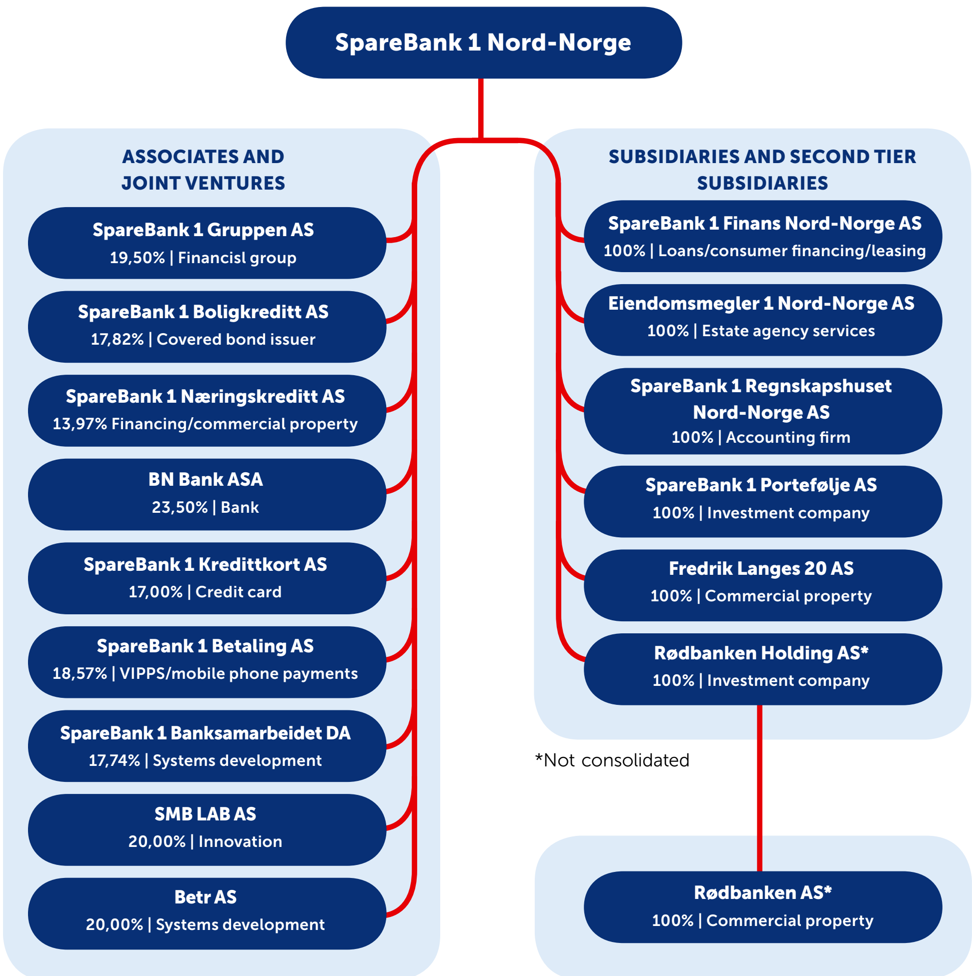
ORGANISATION CHART



COMPANY STRUCTURE



ANNUAL REPORT

Financial results

Amounts in NOK million	Notes	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net interest income	20	**1,896**	1,770	1,644	1,512	1,426	1,285	1,166	1,129	1,129	1,173
Commission income and other income	21	**1,057**	992	924	933	966	931	656	506	513	462
Net return on financial investments	22	**463**	552	509	249	602	346	260	184	404	524
Total income		**3,416**	3,314	3,077	2,694	2,994	2,562	2,082	1,819	2,046	2,159
Personnel costs	23	**748**	708	689	850	704	638	581	514	477	508
Other operating expenses	24	**726**	658	631	611	624	571	539	522	480	464
Total operating expenses		**1,474**	1,366	1,320	1,461	1,328	1,209	1,120	1,036	,957	,972
Result before losses		**1,942**	1,948	1,757	1,233	1,666	1,353	,962	,783	1,089	1,187
Loss on loans, guarantees etc.	14	**22**	184	213	200	321	172	195	101	87	185
Result before tax		**1,920**	1,764	1,544	1,033	1,345	1,181	,767	,682	1,002	1,002
Tax charge	26	**374**	324	291	163	223	214	172	157	186	143
Result non-current assets held for sale	31	**-4**			-5	-27					
Minority interests					-7		1				
Net profit		**1,542**	1,440	1,253	872	1,096	966	595	525	816	859

Balance sheet

Amounts in NOK million	Notes	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Cash and loans to and claims on credit institutions	10	**3,786**	3,431	2,721	2,398	4,405	2,047	2,142	2,866	3,294	3,067
CDs, bonds and other interest-bearing securities	29,30	**14,565**	11,811	10,470	11,747	10,193	11,919	12,997	11,841	12,178	9,453
Loans and advances to customers	11	**82,145**	75,003	70,763	64,053	61,249	57,282	54,551	51,642	49,046	48,180
Individual write-downs for impaired value	14		-216	-154	-169	-171	-244	-303	-206	-271	-228
Collective write-downs for impaired value	14		-300	-373	-247	-236	-209	-198	-226	-200	-238
Provision for credit losses - stage 3	14	**-162**									
Provision for credit losses - stage 2	14	**-157**									
Provision for credit losses - stage 1	14	**-192**									
Other assets	34	**6,171**	7,457	7,074	7,621	7,748	6,725	6,072	5,122	4,733	4,005
Total assets		**106,156**	97,186	90,501	85,403	83,188	77,520	75,261	71,039	68,780	64,239
Deposits from credit institutions	10	**187**	434	818	1,816	2,758	4,284	6,663	6,446	6,123	6,868
Deposits from customers	35	**63,985**	57,849	53,870	48,087	45,761	44,940	41,220	41,765	39,389	34,877
Debt securities in issue	36	**25,135**	23,552	21,165	21,470	21,116	16,336	16,534	13,342	14,477	14,162
Other liabilities	37	**2,591**	2,202	2,287	2,719	2,861	2,008	1,917	1,709	1,774	1,564
Subordinated loan capital	39	**1,200**	,850	1,350	1,350	1,350	1,450	2,095	1,356	1,347	1,608
Hybrid capital	42	**780**	530								
Total equity	42	**12,278**	11,769	11,011	9,961	9,342	8,502	6,832	6,421	5,670	5,160
Total liabilities and equity		**106,156**	97,186	90,501	85,403	83,188	77,520	75,261	71,039	68,780	64,239

Key figures

Amounts in NOK million	Notes	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Return on equity capital 1)	42	**12.9%**	12.9%	12.0%	9.1%	12.2%	13.0%	9.0%	8.5%	15.3%	18.2%
Cost/income group 2)	24	**43.1%**	41.2%	42.9%	54.2%	44.4%	47.2%	53.8%	57.0%	46.8%	45.0%
Cost/income parent bank 2)	24	**38.8%**	36.9%	35.4%	52.4%	46.4%	44.0%	51.8%	57.6%	50.1%	46.8%
Gross loans to customers incl comission loans 4)	8,11	**115,399**	105,485	96,287	88,403	84,980	80,581	75,914	68,034	63,334	59,061
Growth in loans incl comission loans last 12 months 4)	8,11	**8.2%**	9.6%	8.9%	4.0%	5.5%	6.1%	11.6%	7.4%	7.2%	4.0%
Growth in loans last 12 months	8,11	**7.8%**	6.0%	10.5%	4.6%	6.9%	5.0%	5.6%	5.3%	1.8%	-6.0%
Deposits from customers	35	**63,985**	57,849	53,870	48,087	45,761	44,940	43,588	41,765	39,389	34,877
Growth in deposits last 12 months	35	**10.6%**	7.4%	12.0%	5.1%	1.8%	3.1%	-1.3%	6.0%	12.9%	0.9%
Share of loans transferred to Sp 1 Boligkreditt of total loans to retail customers	8,11	**40.0%**	40.0%	36.7%	38.2%	39.7%	40.8%	41.1%	35.0%	32.3%	26.7%
Share of loans transferred to Sp 1 Boligkreditt of total loans to customers	8,11	**28.9%**	28.9%	26.5%	27.5%	27.9%	28.5%	28.1%	24.1%	22.6%	18.4%
Deposits as a percentage of gross lending incl comission loans 6)	35	**56.1%**	54.8%	55.9%	54.4%	53.8%	55.8%	54.3%	61.4%	62.2%	59.1%
Deposits as a percentage of gross lending 5)	35	**79.1%**	77.1%	76.1%	75.1%	74.7%	78.5%	75.6%	80.9%	80.3%	72.4%
Total assets		**106,156**	97,186	90,501	85,403	83,188	77,520	75,329	71,032	68,780	64,239
Average assets 3)		**101,855**	93,905	89,168	84,039	80,191	75,952	72,921	70,291	66,245	65,169
Branches		**38**	38	38	62	74	74	74	75	75	76
Number of man-years (Group)	23	**841**	784	774	830	927	922	881	794	788	778
Number of man-years (parent bank)	23	**559**	538	510	618	639	647	672	670	675	690
Number of man-years (subsidiares)	23	**282**	246	264	212	288	275	209	124	113	88
Net other operating income of total income	21	**30.9%**	29.9%	30.0%	34.6%	32.3%	36.3%	31.5%	27.8%	25.1%	21.4%
Common equity Tier 1 Capital (CET 1 Capital)	5	**10,334**	9,992	9,155	8,367	7,752					
Common equity Tier 1 Capital (CET 1 Capital) %	5	**14.5%**	14.9%	15.0%	13.9%	12.5%					
Tier I capital	5	**11,396**	10,857	9,951	9,110	8,439	7,783	6,672	6,002	5,334	4,846
Tier I Capital %	5	**16.0%**	16.2%	16.3%	15.1%	13.6%	13.4%	12.1%	11.6%	10.9%	10.7%
Equity and related capital resources	5	**12,904**	12,141	11,229	10,358	9,680	8,069	7,270	6,465	5,849	5,776
Total regulatory Capital %	5	**18.1%**	18.1%	18.4%	17.2%	15.6%	13.9%	13.2%	12.5%	11.9%	12.8%
Total risk-weighted assets base	5	**71,167**	67,223	61,120	60,328	61,925	57,989	55,098	51,704	48,966	45,250
Leverage ratio	5	**7.2%**	7.2%	7.0%	6.1%	5.9%					
Losses on loans to customers as a percentage of gross loans incl comission loans 4)	14	**0.02%**	0.17%	0.22%	0.22%	0.19%	0.21%	0.26%	0.15%	0.14%	0.31%
Non-perf. commitm. as % of gross loans incl commission loans 4)	14	**0.22%**	0.25%	0.31%	0.30%	0.34%	0.60%	0.52%	0.69%	0.78%	0.97%
Other doubtfull commitm. as % of gross loans incl commission loans 4)	14	**0.16%**	0.60%	0.22%	0.27%	0.27%	0.46%	0.78%	0.50%	0.60%	0.39%
Net commitments in default and at risk of loss as a percentage of gross loans incl commission loans	14	**0.25%**	0.65%	0.37%	0.39%	0.41%	0.75%	0.89%	0.87%	0.93%	0.96%
Loan loss provision ratio 7)	14	**37.00%**	23.76%	30.08%	32.82%	32.82%	28.41%	30.64%	25.46%	34.15%	28.39%

1) The profit after tax in relation to average equity, calculated as a quarterly average of equity and as at 1 January and 31 December. The Bank's tier 1 capital instruments issued in 2018 are classified as equity in the financial statements. However, when calculating the return on equity, hybrid tier 1 capital of NOK 780 million is not included and the associated interest costs of NOK 20 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 1 January, quarterly total assets, and the closing balance on 31 December.
4) Intermediary loans include loans transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS amounting to NOK 33.254 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) Stage 3 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 780 million is not covered by the definition of debt in the IFRS regulations and is therefore classified as equity.

Based on this, NOK 20 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.

	Notes	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
NONG Quoted/market price 1)		**62.80**	62.25	52.25	36.70	39.90	35.50	24.70	28.90	37.76	34.62
Number of Equity Certificates (EC) issued 2)	42	**100,398**	100,398	100,398	100,398	100,398	100,398	74,398	73,996	56,918	56,918
Allocated dividend per EC 3)	43	**4.00**	4.00	3.45	2.00	1.90	1.10	1.02	1.25	1.81	2.12
Equity capital per EC Group 4)		**56.70**	54.34	50.84	46.00	44.05	40.08	38.19	36.43	34.41	31.31
Result per EC Group, adjusted for interest hybrid capital 5)	42	**7.03**	6.61	5.54	5.10	4.64	4.14	4.01	2.72	5.26	4.95
P/E (Price/Earnings per EC Group) 6)		**8.9**	9.4	9.0	8.9	7.7	8.6	7.3	10.5	7.6	6.6
P/B (Price/Book Value per EC Group) 7)		**1.1**	1.1	1.0	0.8	0.9	0.9	0.6	0.8	1.1	1.1
Pay-out ratio Group 8)	43	**56.90%**	60.50%	59.63%	48.65%	36.77%	26.62%	11.80%	19.74%	33.14%	29.65%
EC ratio overall as at 01.01. used for allocaton of result	42	**46.36%**	46.36%	46.36%	46.36%	47.33%	47.33%	42.07%	38.74%	34.54%	34.54%

1) Quoted/market price ajusted for equity issues, fund issues, dividend issues and splits
All key figures are adjusted with the same factor as the quoted/market price
2) Number of certificates issued
3) Allocated dividend
4) Equity excl. hybrid capital Group*EC ratio overall/Number of EC
5) Anualised result after tax Consern*EC ratio overall/Number of EC
6) Market price/Result per EC Group adjusted for interests hybrid capital
7) Market price/Book value per EC Group
8) Dividend per EC/Result per EC Group

GROUP PROFIT ANALYSIS

From the income statement

Amounts in NOK million	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Interest income	**2,795**	2,611	2,548	2,702	2,998	2,990	2,845	2,823	2,549	2,763
Interest costs	**899**	841	904	1,190	1,572	1,705	1,679	1,694	1,420	1,590
Net interest income	**1,896**	1,770	1,644	1,512	1,426	1,285	1,166	1,129	1,129	1,173
Dividend and other income investments	**380**	438	440	407	469	330	227	209	294	304
Fees and commissions receivable	**978**	931	871	908	940	892	686	567	590	526
Fees and commissions payable	**95**	85	85	75	74	75	74	80	85	88
Net gain/loss on securities and foreign exchange	**83**	114	69	-158	133	16	33	-25	110	220
Other operating income	**174**	146	138	100	100	114	44	19	8	24
Net overall contribution	**3,416**	3,314	3,077	2,694	2,994	2,562	2,082	1,819	2,046	2,159
Wages, salaries and general administration costs	**1,202**	1,101	1,066	1,218	1,053	975	900	827	758	792
Depreciation, etc. on fixed and tangible assets	**61**	65	60	56	97	53	54	47	45	49
Other operating costs	**211**	200	194	187	178	181	166	162	154	131
Profit/result before losses	**1,942**	1,948	1,757	1,233	1,666	1,353	962	783	1,089	1,187
Losses on loans and guarantees	**22**	184	213	200	321	172	195	101	87	185
Profit/result before tax	**1,920**	1,764	1,544	1,033	1,345	1,181	767	682	1,002	1,002
Tax	**374**	324	291	163	223	214	172	157	186	143
Profit/result from non-current assets held for sale	**-4**			-5	-27					
Profit/result for the year	**1,542**	1,440	1,253	865	1,095	967	595	525	816	859
Minority interests				-7	-1	1	0	0	0	1
Majority interests	**1,542**	1,440	1,253	872	1,096	966	595	525	816	858

From the income statement

As a % of average total assets	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Interest income	**2.74%**	2.78%	2.86%	3.22%	3.74%	3.94%	3.90%	4.02%	3.85%	3.91%
Interest costs	**0.88%**	0.90%	1.01%	1.42%	1.96%	2.24%	2.30%	2.41%	2.14%	2.18%
Net interest income	**1.86%**	1.88%	1.84%	1.80%	1.78%	1.69%	1.60%	1.61%	1.70%	1.73%
Dividend and other income investments	**0.37%**	0.47%	0.49%	0.48%	0.58%	0.43%	0.31%	0.30%	0.44%	0.47%
Fees and commissions receivable	**0.96%**	0.99%	0.98%	1.08%	1.17%	1.17%	0.94%	0.81%	0.89%	0.81%
Fees and commissions payable	**0.09%**	0.09%	0.10%	0.09%	0.09%	0.10%	0.10%	0.11%	0.13%	0.14%
Net gain/loss on securities and foreign exchange	**0.08%**	0.12%	0.08%	-0.19%	0.17%	0.02%	0.05%	-0.04%	0.17%	0.17%
Other operating income	**0.17%**	0.16%	0.15%	0.12%	0.12%	0.15%	0.06%	0.03%	0.01%	0.04%
Net overall contribution	**3.35%**	3.53%	3.45%	3.21%	3.73%	3.37%	2.86%	2.59%	3.09%	3.14%
Wages, salaries and general administration costs	**1.18%**	1.17%	1.20%	1.45%	1.31%	1.28%	1.23%	1.18%	1.14%	1.22%
Depreciation, etc. on fixed and tangible assets	**0.06%**	0.07%	0.07%	0.07%	0.12%	0.07%	0.07%	0.07%	0.07%	0.08%
Other operating costs	**0.21%**	0.21%	0.22%	0.22%	0.22%	0.24%	0.23%	0.23%	0.23%	0.20%
Profit/result before losses	**1.91%**	2.07%	1.97%	1.47%	2.08%	1.78%	1.32%	1.11%	1.64%	1.82%
Losses on loans and guarantees	**0.02%**	0.20%	0.24%	0.24%	0.40%	0.23%	0.27%	0.14%	0.13%	0.28%
Profit/result before tax	**1.89%**	1.88%	1.73%	1.23%	1.68%	1.55%	1.05%	0.97%	1.51%	1.54%
Tax	**0.37%**	0.35%	0.33%	0.19%	0.28%	0.28%	0.24%	0.22%	0.28%	0.22%
Profit/result from non-current assets held for sale	**0.00%**			-0.01%	-0.03%					
Profit/result for the year	**1.51%**	1.53%	1.41%	1.03%	1.37%	1.27%	0.82%	0.75%	1.23%	1.32%
Minority interests	**0.00%**	0.00%	0.00%	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Majority interests	**1.51%**	1.53%	1.41%	1.04%	1.37%	1.27%	0.82%	0.75%	1.23%	1.32%

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 2018 was MNOK 101,855. Total assets correspond to the total of capitalised assets for the Group.


ACPC

ANNUAL REPORT FROM THE BOARD 2018

Main features 2018 (same period 2017)

Result for the year: MNOK 1,542 (MNOK 1,440)

Return on equity (Group): 12.9% (12.9%)[1]

Earnings per equity certificate (Group): NOK 7.03 (NOK 6.61).

Net income from financial assets: MNOK 463 (MNOK 552)

Lending growth in last 12 months: 8.2% (9.6%) including intermediary loans

Growth in deposits in last 12 month: 10.6% (7.4%)

Deposit coverage ratio: 79% (77%).

Core Tier 1 capital ratio (Group): 14,5% (14,9%).

Provisions for dividend: NOK 4.00 (NOK 4.00)

1)The Bank's issued hybrid Tier 1 instruments are classified as equity in the accounts. However, hybrid Tier 1 instruments are excluded when calculating the return on equity.

Strategic objectives and goal achievement

Strategic objectives	Targets	2018	2017	2016	2015	2014	2013
Profitability							
Return on equity	Banking operations that are among the best for comparable financial groups, currently 12% or higher	**12.9%**	12.9%	12.0%	9.1%	12.2%	12.9%
Efficiency							
Costs	From 2017: Long-term objective: Cost/income ratio 40% or lower	**43.1%**	41.2%	42.9%	54.2%	44.4%	47.2%
	Before 2017: Objective for maximum cost growth[1]		0%	0%	1%	2%	2%
	2017: Actual cost growth		4.5%	-2.5%	1.4%	9.8%	7.8%
Financial strength							
Core Tier 1 capital ratio	Indisputable financial strength. Core Tier 1 capital ratio one percentage point above regulatory minimum requirement. Currently 14.5% or higher.	**14.5%**	14.9%	15.0%	13.9%	12.6%	13.4%
Dividends							
Payout ratio, Group	50% or higher. Before 2017: up to 50%.	**56.9%**	60.5%	59.6%	48.7%	36.8%	28.1%

1) Exclusive of restructuring costs, business expansions, and financial activity tax.

The Group has met its long-term profitability objective in each of the last six years except for 2015. That year, significant provisions were made for profitability improving measures, including staffing reductions. The profitability objective is to achieve banking operations that are among the best for comparable financial groups. When considering the current fixed target for return on equity (ROE), comparisons are made with other banks' target profitability and actual profitability. The capital market's expectations regarding profitability are also assessed based on bank analysts' forecasts. Based on the above the ROE target for 2018 has remained 12%, and this also applies for 2019.

The objective of a maximum long-term cost/income ratio of 40% is secondary to the Group's strategic profitability objective. In the opinion of the Board of Directors, developments in the financial services sector suggest that the Group should focus on strict cost control and continuously improving efficiency through digitalising and simplifying processes. The cost target is considered ambitious, but achievable.

The cost target was changed from 2018 because the Group wanted a measure of efficiency that provided a better basis for comparisons with other market players. A relative target also takes into account the income aspect, which is particularly important at a time when operations are undergoing significant restructuring. The cost/income ratios for 2018 and 2017 were 43.1% and 41.2% respectively.

The Group's overarching strategic objective is to be indisputably strong and have a core Tier 1 capital ratio of one percentage point above the regulatory minimum. As at 31.12.18, this entails a target core Tier 1 capital ratio of 14.5%.

Apart from achieving the cost target, the Group meets all of its the strategic objectives for the 2018 accounting year. The Group is also making progress towards achieving the long-term cost objective. The result for 2018 is characterised as good and the Group's financial strength is also good.

Focus on the future

The core activities are still central to the Group's strategy. At the same time, changed regulatory requirements and the evolving expectations of both customers and society mean that the SpareBank 1 Nord-Norge Group has to constantly develop and adapt. This places great demands on the Group in terms of the pace of change required, and both business models and internal processes are far less static than before.

2018 saw the introduction of several new EU directives, including: the Markets in Financial Instruments Directive (MIFID) II and the General Data Protection Regulation (GDPR). These regulatory changes have required changes in both expertise and processes. Both areas are important because of the trust the financial group depends on, and the work on integrating these as part of the business strategy will continue in the coming years.

The Group is still investing considerable sums in the area of IT in order to develop new sales channels and optimise existing ones. It has also invested heavily in digitally improving and simplifying internal processes. The Group's motto is everything that can be automated will be automated. In parallel with this digitalisation, the Group continues to invest in its physical presence. In 2018, the Bank refurbished and/or moved into new premises in Alta, Finnsnes and Mo i Rana. In 2019, the Group will also open and move into new premises in Bodø, as well as a new head office in Tromsø. The co-location of the companies in the Group is intended to make it more effective, which in turn should improve the customer experience.

The combination of a physical presence and the use of digital services is often called "phygital". With 38 physical branches – combined with good digital solutions – SpareBank 1 Nord-Norge has a dominant presence in the region.

Another topic that was the subject of much attention in 2018 was the Bank's ownership model. The model, with its large proportion of community ownership, is attractive. *Samfunnsløftet* was launched in September and SpareBank 1 Nord-Norge set itself a number of objectives. Two of these were to make the ownership model more widely known and to generate positive engagement, internally and externally. An especially high cash dividend in 2017, with community dividends of no less than MNOK 465, enabled a greater commitment than before. The Group also wanted to introduce a clearer structure for its ambitions for the community dividends. The Group therefore went out and asked the people of Northern Norway how the community's share of the cash dividends (now called community dividends) should be used to develop northern Norwegian society in the best possible way. *Lifting Northern Norway further* was the slogan chosen. The submitted suggestions were analysed and categorised together with a group of representatives of northern Norwegian society – a community committee. This resulted in five categories: *Ungdomsløftet (youth), kunnskapsløftet (knowledge), innovasjonsløftet (innovation), arenaløftet (arenas) and lokalsamfunnsløftet (local community).* It was decided that the categories would apply for the Group's entire strategy period, up to 2021. A theme category, temaløfte, was also defined, which can be changed each year during the strategy period. In 2018, this became plastløftet (plastic), which has started work on preventing plastic granulate from artificial grass pitches ending up as microplastics in the ocean. This will be continued in 2019.

The Group's ownership model, with its partial community ownership, benefits both the community as an owner and the Bank's equity certificate holders.

Overall, SpareBank 1 Nord-Norge is well-equipped to strengthen its position as the number 1 bank for customers, owners and employees in Northern Norway – For Northern Norway.

Strategic compass: SpareBank 1 Nord-Norge – number 1 for customers, amployees and owners

SpareBank 1 Nord-Norge enjoys a unique position in the region with a strong network of branches and almost half of the population as customers. Nonetheless, the fast pace of change is placing considerable demands on both the organisation and its form of management. The Group, therefore, focuses heavily on framework management, locally-based decision-making and local energy. The Group's *strategic compass* is central to its framework management. The strategic compass describes both what the Group wants to achieve, its strategic objectives and ambitions, and how it will be achieved, through the Group's DNA and values. Managing according to a strategic compass enables you to make good decisions, including when the environment and market conditions are changing fast. In 2018, the strategic compass established itself as a clear guide for the Group. It provides a basis for efficient operations and development work, which in turn ensure good, long-term value creation.

Please see the annual report's section on the strategic compass.

Strategic choices

SpareBank 1 Nord-Norge is a full-service provider of financial products and services. Central to the Group's strategy is ensuring that customers have the same good customer experience irrespective of which channel they use (face-to-face meeting, direct bank or digital) and with which part of the Group they are in contact. In this work, the Group is adopting the available technology, taking advantage of its local presence and, at the same time, trying to enhance the Group's distinctive character.

The strategy covers 2018-2021 and will thus be continued in 2019. In the areas below, the Group will focus on accepting the consequences of the strategic choices that have been made and reinforcing compliance. Among other things, this entails:

- *Cultivating the distinctive qualities of the brand and culture:* developing and taking advantage of the northern Norwegian brand. Building on the pride that characterises the organisation

- *Focusing on core activities:* this is defined geographically as Northern Norway and people/businesses with ties to Northern Norway. Includes banking, real estate brokerage, accounting, and object financing. The business areas can be expanded as the boundaries of the financial services industry change.

- *Utilising corporate power and synergies:* using and taking advantage of the Group's financial, market and skills-based power in all parts of the Group. Ensuring seamless transitions between business areas and channels.

- *Streamlining and renewing staffing:* continually improving operational efficiency, while the Group attracts and develops relevant competencies. The supply of qualified employees is expected to be a significant challenge that will require new measures.

- *Taking a leading position in developing the SpareBank 1-alliance:* developing the competitive advantage that lies in being part of Norway's strongest financial alliance.

The strategy emphasises continuing and reinforcing those elements with which the Group has had success. The following priorities will be continued:

- *Redesigning the distribution and service strategy:* designing and implementing a new service strategy. This includes strong financial centres, expanded capacity and expertise in digital and direct sales, as well as investment in new customer relationship management (CRM) systems.

- Key principles include the customer choosing the channel and the customer being able to access the Group's entire expertise in every point of contact. The emphasis will be on maintaining broad geographic distribution throughout Northern Norway. At the same time, service and production tasks must be streamlined and the focus should be proactivity, advisory services and sales. The Group should systematically work to ensure that customers consent to the relevant use of customer data based on their trust in the Group.

- *Establishing, and adapting the Group to, new ecosystems:* developing third-party partnerships to reinforce the business model and customer experience. Important milestones in 2018 included the merger of Vipps AS, BankAxept AS and BankID Norge AS, where the merged company, VBB AS, is owned by more than 100 banks. VBB AS will develop the current payment and identification solutions further and create an even better customer experience. The goal is to become stronger in the competition with the global technology giants. Another important milestone in 2018 was the agreement on the insurance merger between SpareBank 1 Skadeforsikring AS and DNB Forsikring AS. SpareBank 1 Nord-Norge wants to play an active role in the development of further third-party partnerships.

- *Automating all of the processes that can be automated:* increasing efficiency by optimising processes through the active use of digital assistants (robots) and artificial intelligence.

- *Building an organisation and network for innovation:* enhancing innovation skills and the capacity to develop new products, processes and channels. This applies to the Group, SpareBank 1-alliance and collaborations with other partners.

- *Actively inviting consolidation within the northern Norwegian financial services industry:* encouraging consolidation within all business areas where this can strengthen what the Group offers, create synergies and ensure the continued presence of a full-service financial group in Northern Norway.

- *Improving the work on compliance and ethics:* developing processes and frameworks that meet stricter regulatory requirements, including further developing sustainability as a perspective.

- *Improving the administration and utilisation of the community's ownership:* developing models and processes that make use of, highlight and increase the value of the Group's unique ownership model. Continuing the work on Samfunnsløftet, which also supports the Group's operations.

Strategies have also been established for the various main segments of the Group. Please also see the annual report's section on operations..

Subsidiaries

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

Subsidiaries *Figures in MNOK*	**The Bank's book equity in the company**	**Share of the result after tax for 2018**	**Dividend in Parent Bank accounts 2018**	**Allocated capital according to internal models**	**Return on allocated capital**
SpareBank 1 Finans Nord-Norge AS	1 114	131	5	1 203	10.9%
EiendomsMegler 1 Nord-Norge AS	43	11	10	30	35.6%
SpareBank 1 Regnskapshuset Nord-Norge AS	53	17		44	39.5%
SpareBank 1 Nord-Norge Portefølje AS	12	-1		7	-10.6%
Nord-Norge Eiendom IV AS*				NA	NA
Alsgården AS*				NA	NA
Fredrik Langesgt. 20 AS	27			NA	NA
TOTAL	**1,250**	**158**	**15**	**1,283**	**12.3%**

*Sold in the middle of 2018

The main subsidiaries are briefly described in the following:

SpareBank 1 Finans Nord-Norge AS

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

At the end of the year, the company had a good earnings base and managed consumer loans, leasing and vendor's security agreements totalling MNOK 6,256 (MNOK 5,475). The company's book equity was MNOK 1,114 (MNOK 857) as at 31.12.18. The return on equity for 2018 has been calculated as 15.8% (0.7%). The prospects for greater future activity and satisfactory returns in the company are good.

The company is co-located with the bank in Bodø and Tromsø, and had 37 (35) full-time employees as at 31.12.18.

EiendomsMegler 1 Nord-Norge AS

EiendomsMegler 1 Nord-Norge AS is a member of a nationwide alliance with other real estate companies owned by SpareBank 1 banks. The company is wholly owned by SpareBank 1 Nord-Norge and operates real estate brokerage in 16 different locations in Northern Norway.

Most branches are co-located with the Bank. At the end of the year, EiendomsMegler 1 Nord-Norge had 86 (87) employees.

The company is a market leader in Northern Norway and most of the cities and towns in the north. The company has consolidated its position in recent years and in 2018 it had a market share of 37%. Its market share has been increasing for several years, from 22% in 2011. EiendomsMegler 1 Nord-Norge AS sold 3,389 properties in 2018, compared with 2,955 the year before. The company delivered a turnover of MNOK 195, which represents an increase of 15% compared with 2017. The supply of new assignments was good and 13% higher than the year before. This is a good starting point for further growth in the northern Norwegian housing market.

The commission income per sold residential unit has been stable since 2011. Over the same period, the average price for a sold residential Unit has risen by MNOK 1 to MNOK 2.8 per sold residential unit in 2018.

SpareBank 1 Regnskapshuset Nord-Norge AS

The Group started operations within financial management and accounting in 2011. The SpareBank 1 Regnskapshuset Nord-Norge AS venture is motivated by a desire to exploit synergy effects with the Group's other activities. 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.

Since its establishment, it has acquired more companies in the sector. As at 31.12.18, the company had a total of 172 (135) employees and branches in Hammerfest, Alta, Tromsø, Balsfjord, Finnsnes, Harstad, Narvik, Bodø, Mo i Rana, Sandnessjøen, Mosjøen/Trofors and Brønnøysund. The focus on this sector is part of a collaboration with a number of the alliance banks with similar activities. The cooperation takes place in areas such as branded goods, IT, expertise, quality and work processes.

The company took over ownership of Bluecon Brønnøysund, Bluecon Sandnessjøen, Bluecon Mosjøen and Bluecon Rana on 01.01.18, and Regnskapscentralen Nord in Harstad on 01.02.18. In 2019, SpareBank 1 Regnskapshuset AS is expected to grow to around 200 employees and deliver a total turnover of around MNOK 180. The company is undergoing a period of change and development, and rapid digitalisation will require substantial measures going forward.

SpareBank 1 Nord-Norge Portefølje AS

As part of the Group's greater focus on its core activities, this company's former business is being restructured/wound up. SpareBank 1 Nord-Norge Portefølje was nevertheless retained as a legal entity for legal and practical reasons. The object of the company is to "manage stakes owned by the SpareBank 1 Nord-Norge Group and business naturally associated with this". Parts of the business include managing ownership stakes that date from previous customer commitments in the Bank.

The market value of SpareBank 1 Nord-Norge Portefølje's investments was MNOK 21.3 as at 31.12.18, divided between MNOK 11.3 in equity investments and MNOK 10.0 in subordinated loans. The company's equity amounted to MNOK 12.5. The return on equity for the year was negative and this must be seen in the context of the company's business area.

SpareBank 1 Nord-Norge Portefølje AS owns 100% of the shares in Bodø-Gruppen ll AS (factory buildings linked to earlier solar cell production in Glomfjord, Nordland). The company is reported under IFRS 5 as available for sale and are therefore not consolidated in the accounts like ordinary subsidiaries.

SpareBank 1 Nord-Norge Portefølje AS is administered by the Bank and has no employees.

SpareBank 1-alliance

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

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

The alliance banks have opted to collect their stakes in the Norwegian financial services industry's infrastructure in SpareBank 1 Gruppen AS and SpareBank 1 Banksamarbeidet DA. This collective ownership allows the alliance banks to act as a major player in both Norwegian banking partnerships and with respect to foreign market players.

SpareBank 1 Nord-Norge owns 19.5% of SpareBank 1 Gruppen AS and 17.74% of SpareBank 1 Banksamarbeidet DA. The Bank owns a proportionately larger stake than the other owner banks because of its size. This makes the SpareBank 1-alliance particularly important for the SpareBank 1 Nord-Norge Group, including the fact that the underlying values in the alliance companies are assessed to be significant. The latter was illustrated by the merger between SpareBank 1 Skadeforsikring AS and DNB Forsikring AS in 2018. Please see it described elsewhere in the annual report.

The result contributions from, and return on equity and capital tied up in the various associated companies in the alliance, are stated in the section dealing with net income from financial investments below.

Please also see the section on SpareBank 1-alliance elsewhere in the annual report.

Review of the annual accounts

SpareBank 1 Nord-Norge's consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS), as approved by the EU, and section 3-9 of the Norwegian Accounting Act. In accordance with the provisions of section 4-5 of the Norwegian Accounting Act, the accounts for 2018 were prepared on the assumption that the Group is a going concern.

FINANCIAL PERFORMANCE

Amounts in NOK million	Group 2018	Group 2017	Parent Bank 2018	Parent Bank 2017
Net interest income	**1,896**	1,770	**1,650**	1,563
Net fee, commission and other operating income	**1,057**	992	**722**	725
Net income from financial investments	**463**	552	**449**	573
Operating costs	**1,474**	1,366	**1,095**	1,055
Losses	**22**	184	**31**	46
Profit/result before tax	**1,920**	1,764	**1,695**	1,760
Tax	**374**	324	**321**	316
Result business held for sale	**4**			
Profit for the year	**1,542**	**1,440**	**1,374**	**1,444**

The Group and Parent Bank are financially very strong and enjoy good earnings, satisfactory liquidity, and a good deposit coverage ratio.

Net interest income

The strong competition for loan customers, with interest conditions under pressure, continued in 2018. Net interest income is also affected by the Bank's borrowing costs (funding costs in the money market), and the growth in lending and deposit volumes.

The Group's total net interest income increased by MNOK 126 from 2017 to 2018.

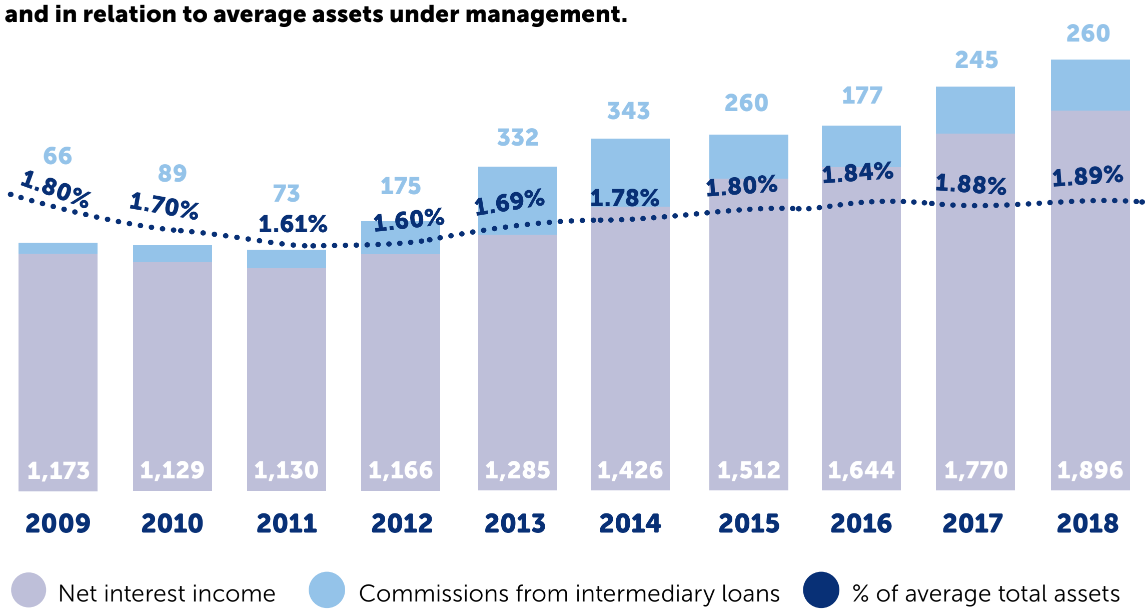
The Bank's founding costs rose throughout the year, primarily as a result of increased money market rates. As a result, the loan margin measured against the money market rate (NIBOR) fell until November. Correspondingly, the deposit margin increased somewhat during the year. After Norges Bank increased the base rate in September, the Bank increased its mortgage rate by 0.25 percentage points with effect from mid-November 2018. Lending rates on other "current rate" conditions and deposit rates also increased. The net effect of the interest rate change has increased the net interest margin for 4th quarter. However, increased money market rates have resulted in the reduction of a substantial proportion of the previous increase in the interest margin.

Assuming stable conditions in the capital market, the Bank's borrowing costs are expected to remain almost unchanged in 2019.

The lending growth in both the retail and the corporate markets was 8.2% in 2018. This is considered to be higher than the general lending growth in the market. The calculation of growth includes new loans granted by the Bank that have been sold to the alliance's covered bond companies. The relatively strong growth within the corporate market was partly due to the strategic prioritisation of this segment and good market opportunities in the region. The lending growth in 2018 is considered good and, overall, this has been an important factor behind the growth in net interest income.

Net interest income was also affected by loans transferred to the alliance's covered bond companies SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. The income of MNOK 260 from the transferred portfolio has been recognised under commission income. The corresponding figure for 2017 was MNOK 245.

Development in net interest income including commissions from SpareBank 1 Boligkreditt AS, and in relation to average assets under management.



Development in net interest income including commissions from SpareBank 1 Boligkreditt, and in relation to average assets under management:

Net fee, commission and other operating income

One of SpareBank 1 Nord-Norge's objectives is to increase income by offering a broad range of products, including in areas with no credit risk such as savings, investments and insurance. In addition, subsidiaries will contribute to increased income within object financing, real estate brokerage and accounting services.

In 2018, net commission and other operating income accounted for 35.8% of total income from the Group's core activities. The corresponding figure for 2017 was 35.9%.

Commission income from SpareBank 1 Boligkreditt increased by MNOK 15 in 2018, while net interest income, including commission income from the transferred loan portfolio, increased by MNOK 141.

Other commission income and other operating income developed as follows in the last year:

NOK Millions	31.12.18	31.12.17	Change
Income, insurance	155	159	-4
Income, payment transfers	282	261	21
Income, real estate brokerage	135	121	14
Income, accounting fees	158	116	42
Net other income	67	90	-23
TOTAL	**797**	**747**	**50**

The Group has been working on various measures aimed at improving earnings in these areas for some time. The increased income from accounting services was affected by several acquisitions of new businesses in 2018. The decrease in net other operating income was primarily attributable to 2017 including the Bank's sale of parts of its bank building, "Rødbanken", in Tromsø in 2017 with a profit of MNOK 17.

Net income from financial investments

The Group's net income from financial investments totalled MNOK 463 in 2018 (MNOK 552). This income can be broken down as follows:

	2018	2017
Dividends from other companies	MNOK 6	MNOK 4
Result contributions from associated companies and joint ventures	MNOK 374	MNOK 434
Net value change in financial assets	MNOK 83	MNOK 114
of which:		
Equities	MNOK 88	MNOK 73
Certificates, bonds, currency and derivatives	MNOK 7	MNOK 42
Change in loans at fair value	MNOK -12	MNOK -1

Resultater fra tilknyttede- og felleskontrollerte selskaper

Result contributions from associated companies and joint ventures are recognised in the consolidated accounts using the equity method. The Group's shares of the respective companies' results are recognised in "Income from investments" in the income statement, with a corresponding adjustment of the value of the stake on the balance sheet in "Investment in associated companies and joint ventures". The Parent Bank's accounts use the costs method, which involves income recognition of the actual dividend received each year from these companies, see overview below:

Associated companies	The Bank's share of the book equity in the company	Share of the result after tax for 2018	Dividends	Allocated capital according to internal models	Return on allocated capital
SpareBank 1 Gruppen AS	715	289	287	1,595	18.1%
SpareBank 1 Boligkreditt AS	1,923	-6	11	NA	NA[1]
SpareBank 1 Næringskreditt AS	284	7	10	NA	NA[1]
BN Bank ASA	209	65		919	7.1%
SpareBank 1 Kredittkort AS	152	22	37	173	12.7%
Other associated companies					
SpareBank 1 Betaling AS	137	-7		NA	
SpareBank 1 Banksamarbeidet	18	0		NA	
SMB LAB AS[2]	20	-2		NA	
Betr AS[3]	3	-1		NA	
Total other	**178**	**-10**		**203**	**-7.7%**
TOtal associated companies	**3,461**	**374**	**343**	**3,342**	**11.5%**

[1]) In the case of SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, the results created are generally returned to the owner banks through commission payments. Therefore, the return on allocated capital is not measured for these companies.
[2]) SMB LAB AS – The company develops products and solutions for the SME market.
[3]) Betr AS – The company delivers quality and operations management software.

SpareBank 1 Gruppen's result for 2018 was slightly lower than its result for 2017. This was primarily due to lower financial income in the insurance companies, although a weaker insurance result in the non-life company because of the harsh winter also contributed. On the other hand, changes to the tax rules for life and non-life companies resulted in a positive tax effect for SpareBank 1 Gruppen. Furthermore, its subsidiaries ODIN Forvaltning, SpareBank 1 Factoring and SpareBank 1 Portefølje all saw better results than their results for 2017.

SpareBank 1 Boligkreditt AS's net loss in the last three years was due to the negative change in the value of the company's holdings of hedging instruments in the form of basis swaps. The effect was positive in 2015. The accounting treatment of this makes no difference to ongoing cash flows, and the total effect on the bottom line over time will be zero.

In autumn 2017, more than 100 Norwegian banks agreed to establish a joint company for the payment concepts Vipps (DNB) and mCash (SpareBank 1 Mobilbetaling AS). The company Vipps and the companies BankAxept and BankID Norge, in which SpareBank 1 Nord-Norge owned stakes, merged in 2018. SpareBank 1-alliance now owns 22% of this new company, VBB AS, via the company SpareBank 1 Betaling AS.

In September 2018, SpareBank 1 Gruppen AS and DNB ASA signed an agreement to merge their insurance operations. The merger was approved by the Financial Supervisory Authority of Norway on 21.12.18 and came into effect on 01.01.19. The merged company is called Fremtind Forsikring AS. As part of the transaction, the plan is to split off the individual personal risk products from SpareBank 1 Forsikring AS (the life insurance company) and DNB Livsforsikring AS, and the employer-funded personal risk cover from SpareBank 1 Forsikring AS, into the merged company. This part of the transaction is scheduled to be completed during the first quarter of 2019.

The transaction agreement assumes ownership shares of approximately 80% for SpareBank 1 Gruppen AS and 20% for DNB ASA. These ownership shares are based on the negotiated market value of the two non-life companies, including the value of the personal risk products in the planned demerger. DNB ASA will then buy up to a 35% stake in the company. DNB has also taken an option to buy up to a 40% interest.

In the transaction, the new non-life company is valued at BNOK 19.75, including the value of personal risk products. Fremtind, without personal risk products, is valued at BNOK 13.5. Based on figures for 31.12.17 and proforma consolidated accounts, the merger and DNB's increase in its stake from 20% to 35% will collectively bring an increase in equity for the SpareBank 1 Group as a whole of approximately BNOK 4.7. The majority (the SpareBank 1 banks and the Norwegian Confederation of Trade Unions (LO) share of this increase will be approximately BNOK 2.5. SpareBank 1 Nord-Norge's share of this increase (19.5%) is approximately MNOK 488, which will be taken to income or posted directly to equity in the first quarter of 2019. However, this produces an almost unchanged core Tier 1 capital ratio for the Group. The latter is because the increased book value of the stake in SpareBank 1 Gruppen AS increases the deduction in core Tier 1 capital and increases the risk-weighted basis for calculation. Overall, this more or less neutralises the effect of increased book values.

Before taking account of the effect of any transfer of the personal risk products, SpareBank 1 Gruppen AS (the parent company) will realise a tax-free gain of approximately BNOK 1.71 as a result of the sale to DNB ASA. SpareBank 1 Gruppen AS has increased its dividend base to match this gain. SpareBank 1 Nord-Norge's share of possible dividends of BNOK 1.71 (19.5%) equals MNOK 334. Such dividends will reduce the book value of the Group's investment in SpareBank 1 Gruppen, and thereby also reduce the deduction in core Tier 1 capital and the amount of the risk-weighted basis for calculation (ref previous paragraph). The Group's capital adequacy will therefore increase. Based on the Group's accounting figures as at 30.09.18, the core Tier 1 capital ratio will increase by an estimated 0.4-0.5 percentage points. Any dividend from SpareBank 1 Gruppen will be contingent on the capital situation and decisions by the company's governing bodies and cannot be implemented until the second quarter of 2019 at the earliest.

In the third quarter of 2018, the Financial Supervisory Authority of Norway published a letter to the Ministry of Finance suggesting changes to the regulations which would prevent financial institutions paying dividends based on interim accounts. If this is passed then the possible dividends from SpareBank 1 Gruppen to the owner banks mentioned above could not be paid until

2020. Similarly, a potential increased dividend to the Bank's owners based on the sale could not be paid until 2021.

The profit share item 'Other' consists of shares in the profits from SpareBank 1 Banksamarbeidet DA, SMB Lab AS and Betr AS.

The earnings figures of the jointly-owned companies in SpareBank 1-alliance are good. In the opinion of the Board, the underlying assets in these companies are also substantial. The planned merger brings these underlying assets somewhat to the fore.

ansen har god inntjening. Etter styrets vurdering foreligger det videre betydelige underliggende verdier i disse selskapene. De planlagte fusjonene synliggjør i noen grad slike underliggende verdier.

Net change in financial assets

Equities
As at 31.12.18, the Group's equities portfolio amounted to MNOK 352 (MNOK 270). The portfolio has seen a net positive result contribution of MNOK 88 in the last year, most of which, MNOK 81, was due to the effects of the merger of BankAxept, BankID Norge and Vipps.

Certificates, bonds, derivatives and currency
As at 31.12.18, the Group's holdings of certificates and bonds amounted to MNOK 12,560 (MNOK 11,541). The total net change in the value of this portfolio represents a gain of MNOK 6 in 2018. Lower credit premiums in the first quarter of 2018 resulted in a positive change in the portfolio, although this was gradually reduced over the year due to an increase in credit premiums in autumn 2018.

Loans at fair value
The Group's portfolios of fixed-rate loans and loans for sale to mortgage companies are classified and measured at fair value. The fixed-rate loan portfolio is hedged using interest rate swaps, which are also measured at fair value. The overall change in value in 2018 in the loan portfolio and associated interest rate hedges resulted in a negative contribution to the result of MNOK 12 due to rising interest rates throughout the year.

Subsidiaries
Dividends received from subsidiaries are recognised in the Parent Bank's accounts using the cost method. An overview of the results and dividends from the various subsidiaries is provided in a separate section at the beginning of this report.

As also indicated earlier in the Annual report from the Board, the Group's subsidiaries delivered a combined result after tax of MNOK 158 in 2018 (MNOK 51), which has been fully consolidated into the group accounts.

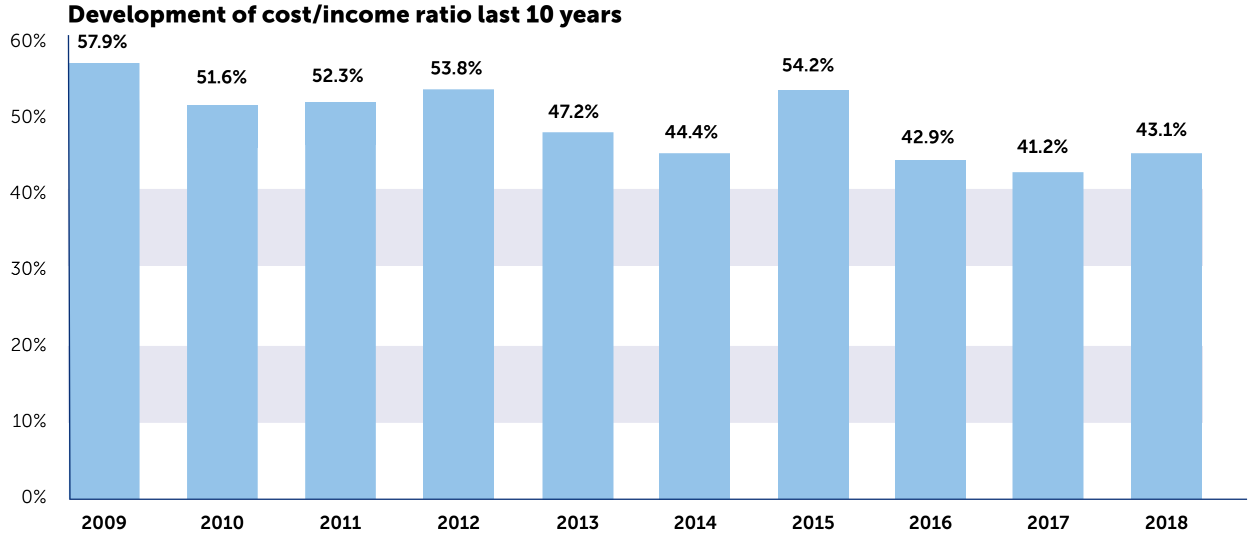
The subsidiary Nord-Norge Eiendom IV and the underlying subsidiary Alsgården AS were sold in 2018. A realised gain of MNOK 6 was recognised in the third quarter of 2018 in connection with this.

Operating costs

The Group's long-term goal for the cost/income ratio (C/I) is 40% or lower. As at 31.12.18, this ratio was 43.2% (41.2%) for the Group and 38.9% (36.9%) for the Parent Bank.

The Group's costs for 2018 were MNOK 108 (8%) higher than in 2017 and are specified in the table

Development of cost/income ratio last 10 years



NOK mill	31.12.18	31.12.17	Change
Wages	578	552	26
Pensions	52	42	10
NI contributions	118	114	4
Administration costs	454	393	61
Deprecation, fixed assets	61	65	-4
Operating costs, properties	19	22	-3
Other operating costs	192	178	14
Total operating costs	**1 474**	**1 366**	**108**

above. Of this increase, MNOK 41 is attributable to the Parent Bank and MNOK 67 to the Group's subsidiaries. Increased costs in the Parent Bank are primarily due to a higher level of activity related to digitalisation, automation and new system solutions. This will produce cost savings and increased income in the future. The rental costs in Tromsø and Bodø were also higher due to the leasing of premises during the relocation and construction of a new head office in Tromsø. Provisions totalling MNOK 12 were made for wealth tax in the fourth quarter of 2018.

New business acquired by the subsidiary SpareBank 1 Regnskapshuset Nord-Norge has increased revenues, costs and profits in the company in 2018. The merge of new business came into being in the second quarter of 2018, with accounting effect from 01.01.18.

The Group had 841 full-time equivalents at the end of 2018 (784). The Parent Bank had 559 full-time equivalents at the end of 2018 (538).

Losses and defaults on loans

The Group's total loan loss provisions were increased by MNOK 51 on 01.01.18 following the implementation of new regulations for writing down financial assets and liabilities, IFRS 9. If the credit risk has increased significantly since the initial recognition of a loan, the loss provision is calculated as the expected credit loss over the entire lifetime of the loan. If the credit risk has not increased significantly since initial recognition, the loss provision is calculated as the expected credit loss over the next 12 months. More detailed information on the new regulations can be found in the annual report's note 14.

The Group's net losses on loans and guarantees to customers in 2018 amounted to MNOK 22 (MNOK 184): MNOK 25 (MNOK 35) from the retail market and MNOK -3 (MNOK 149) from the corporate market. The level of losses is considered very low.

As at 31.12.18, total loss provisions on loans and guarantees were MNOK 546 (MNOK 611). This equates to a loss provision ratio of 121% (60%) of net non-performing and doubtful commitments. As at 31.12.18, total loss provisions for loans amounted to 0.66% (0.79%) of the Group's total gross lending to customers, and 0.48% (0.58%) of gross lending to customers including intermediary loans.

As at 31.12.18, the Group's total loss provisions for loans and guarantees classified as stage 3 pursuant to IFRS 9 amounted to MNOK 166 (MNOK 311). As at 31.12.18, loss provisions for loans and guarantees classified as stage 1 and 2 pursuant to IFRS 9 amounted to MNOK 380 (MNOK 300).

In the opinion of the Board, the quality of the Group's loan portfolio is good and the Group is doing high quality work in connection with non-performing and impaired commitments. There will continue to be a strong focus on this work going forward. The general level of losses is expected to be low for the immediate future.

Tax

The Group's tax cost for 2018 is estimated at MNOK 374 (MNOK 324). The tax base was reduced by permanent differences between the accounting and tax treatment of some balance sheet items, as well as the effects of the exemption method.

As mentioned above, wealth tax is recognised as part of ordinary operating costs

Allocation of profits

Prior to the allocation of the year's profits to the owners, the Parent Bank's accounting profit after tax was MNOK 1,374 (MNOK 1,445). This was adjusted (reduced) by MNOK 20 (MNOK 10). This represents an interest yield (adjusted for tax) for issued hybrid Tier 1 instruments, which are recognised in the accounts as a direct reduction in equity. Following this, the remaining profit amounts to MNOK 1,354 (MNOK 1,436), has been divided between the equity certificate holders and the Bank's community-owned capital. This mirrors the relative distribution of equity capital between the owner groups in the Parent Bank.

The Bank's dividend policy sets a payout ratio target of at least 50% of the Group's result. The Board is proposing to the Bank's Supervisory Board a cash dividend of NOK 4.00 (NOK 4.00) per equity certificate, for a total of MNOK 402 (MNOK 402), and an allocation of MNOK 226 (MNOK 264) to the dividend equalisation fund. In addition, a combined transfer of MNOK 465 (MNOK 465) to community dividends is proposed. The proposed allocation of the profit entails an equal payout ratio for the Bank's equity certificate holders and community-owned capital. The payout ratio amounts to 56.9% (60.5%) of the Group's profit and 64.0% (60.3%) of the Parent Bank's profit.

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

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

Allocation of the result for 2018	Total
Parent Bank´s result after tax	**1,374**
Interest expenses hybrid Tier 1 instruments recognised against equity	**20**
Net profit available for distribution	**1,354**
Dividends for equity certificate holders	**402**
Community dividends	**465**
Retained earnings	**488**
-of which to diidend equalisation fund	**226**
-of which to the Savings Banks´s Fund	**261**
Total allocations	**1,354**
Retained portion, Parent Bank´s profit	**36.0%**
Retained portion, Group profit	**43.1%**

Dividends will be paid to those registered as equity certificate holders as at 21.03.19. The Bank's equity certificate will be listed ex-dividend on 22.03.19.

Cash flow analysis

Total cash flow from operations in the Group amounted MNOK 1,637 (MNOK 710). Cash flow from operations amounted to MNOK -203 (MNOK -1,301), while the Group's profit after tax amounted to MNOK 1,542 (MNOK 1,440). The difference is mainly due to lending growth, as well as increased holdings of certificates and bonds. Total investments in the Group amounted to MNOK -342 in 2018 (MNOK -407). The year's investments were directed at jointly controlled activities in the alliance.

The Group's liquidity holdings as at 31.12.18 amounted to MNOK 5,068 (MNOK 3,431). The Group's ability to self-finance investments is good.

Please also see the cash flow statement included as part of the annual accounts.

Balance sheet development

In the case of new loans, particular emphasis is placed on customers' ability to service and repay their outstanding loans, and on a satisfactory level of collateral and other security in order to ensure that the credit risk is maintained at an acceptable level. Lending growth in the corporate market was strong in the last part of 2017 and the first three quarters of 2018, before levelling off towards the end of the year. There are several distinctive features of the market and the competitive conditions in the north that have contributed to this growth, including:

Amount in NOK million	31.12.18	31.12.17	Changes in %	30.09.18	Changes in %
Loan PM Loan BM	82,381 31,736	76,158 29,327	8.2% 8.2%	81,052 32,687	1.6% -2.9%
Total loans incl. intermediation loans	114,117	105,485	8.2%	113,739	0.3%
Total loans excl. intermediation loans	80 863	75 003	7.8%	81 989	-1.4%
Deposits PM Deposits BM	34,179 29,806	32,304 25,545	5.8% 16.7%	34,188 27,286	0.0% 9.2%
Total deposits	63,985	57,849	10.6%	61,474	4.1%
Deposits-to - loan ration excl. intermediation loans	79%	77%	3%	75%	6%
Total assets	106,156	97,186	9.2%	103,672	2.4%

As at 31.12.18, loans totalling BNOK 33 (BNOK 30) had been transferred to SpareBank 1 Boligkreditt, and BNOK 0.4 (BNOK 0) to SpareBank 1 Næringskreditt. These loans do not appear as lending on the Bank's balance sheet.

- The international banks have lower market shares in Northern Norway than in the country as a whole

- The business world in the north is dominated by small and medium-sized enterprises (SMEs) which emphasise local presence. This is an advantage for the savings banks. For SpareBank 1 Nord-Norge, this effect is reinforced by a series of office closures by competitors. The latter has also had a positive effect on lending growth in the retail market.

- Strong prioritisation of the SME segment by the Group.

Lending growth somewhat above the market growth is expected to go forward. However, lending growth is expected to stay within the Group's growth capacity (assuming a 50% payout ratio and without any weakening of capital coverage), which is indicated to be 3-5% in the corporate market and 7-9% in the retail market.

The percentage of lending to the retail market accounted for 72% of total lending as at 31.12.18 (72%).

Liquidity

The Bank's main source of funding is customer deposits. At the end of 2018, the deposit coverage ratio (excluding intermediary loans) was 79% (77%). The Bank's remaining funding, apart from equity and subordinated 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 liquidity are satisfactory.

The Bank has a strategic aim to maintain the overall liquidity risk at a low level. As at 31.12.18, the liquidity coverage ratio (LCR) has been calculated as 172% (126%).

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

Financial strength and capital adequacy

SpareBank 1 Nord-Norge's goal is to maintain unquestionable financial strength and satisfy the statutory minimum requirements for capital adequacy. The Group has a target core Tier 1 capital ratio of one percentage point above the regulatory minimum, which results in a target core 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 with 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, SpareBank 1 Næringskreditt, BN Bank, and SpareBank 1 Kredittkort.

In connection with the above mentioned merger to form VBB AS, the Financial Supervisory Authority of Norway granted a dispensation from the proportional consolidation requirement for shareholders in the cooperating group who have interests below 10%, against a 100% allowance for the entire book value of their investment in VBB AS in core Tier 1 capital.

The book value of the stake in SpareBank 1 Gruppen is deducted from core Tier 1 capital pursuant to the applicable capital adequacy regulations.

Capital ration as at 31.12.18	Group		Parent bank	
	2018	2017	2018	2017
Core Tier 1 capital ration	14.5%	14.9%	18.9%	18.9%
Tier 1 capital ration	16.0%	16.2%	20.5%	20.0%
Tier 2 capital	2.1%	1.9%	2.2%	1.7%
Total capital ration	18.1%	18.1%	22.6%	21.7%

Equity and subordinated capital increased by MNOK 763 in the last year. Of this, MNOK 342 came from the increase in core Tier 1 capital, MNOK 197 from other Tier 1 capital and MNOK 224 from Tier 2 capital.

Changes in core Tier 1 capital	
Profit for the year 2018	1,542
Profit paid for 2017	-867
Recognised directly against equity	84
New hybrid Tier 1 capital	-250
Increase in deductions	-167
Net change	**342**

The basis for calculation increased by MNOK 3,945. MNOK 3,506 of this is accounted for by the growth in the Group own balance sheet, of which MNOK 2,569 was in the loan portfolio and MNOK 1,139 was due to growth in the consolidated companies' balance sheet.

The total minimum requirement for the leverage ratio is 5%. As at 31.12.18, SpareBank 1 Nord-Norge's leverage ratio was calculated as 7.2% (7.2%) at a group level and 9.5% (9.7%) for the Parent Bank.

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

Please also see the section on risk and capital management later in this report, which also describes the regulatory framework.

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.

Corporate Governance

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

Risk and capital management – general comments

The Group's supreme governing documents are its business strategy (see separate section at the beginning of the report) and its risk strategy. All other governing documents are derived from these. The primary objective of SpareBank 1 Nord-Norge's risk and capital management is to optimise the relationship between risk and profitability in a long-term perspective. The aim is to manage all significant risks in accordance with the best practices for comparable financial groups.

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

The Group's principles and limits for risk management and internal control are enshrined in a special framework. This is reviewed and approved by the Board each year.

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

The principal aim is to ensure that the Group's overall risk level is low to moderate and within the limits set by the Group's risk strategy.

Internal control

The Group has established a control model whereby a risk management department bears overall responsibility for ensuring that management and reporting systems are actively used by managers to monitor business areas and disciplines.

The Board monitors the development of key quality and risk indicators every quarter. It also discusses a summary report on the internal control in the Group ("management confirmation") every year. The framework for management and control is evaluated and updated every year.

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

Risk and capital management

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

- A healthy risk culture characterised by a high awareness of risk and capital management.
- A good understanding of what risks drive earnings.
- Pricing products, to the extent possible, in line with the underlying risk.
- Striving to achieve the optimal allocation of capital within the adopted business strategy.
- Exploiting synergy and diversification effects.
- Preventing individual events causing serious damage to the Group's financial position.

The capital adequacy regulations set minimum requirements for core Tier 1 capital, Tier 1 capital, primary capital and leverage ratio. These regulations cover credit risk, market risk and operational risk (Pillar 1). Financial institutions must also carry out an internal capital adequacy assessment process (ICAAP – Pillar 2). The Financial Supervisory Authority of Norway has provided guidelines for the process, and the capital adequacy assessment shall include all significant risks, including risks beyond the regulatory minimum requirement. The assessment must also be forward-looking and based on satisfactory methods and data. Uncertainty relating to the calculations, methods and data must also be taken into account.

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

The most important risks are:

Business risk

Business risk is defined as the risk of unexpected income and cost fluctuations as a result of the Group's operations or changes to external conditions such as the market situation or government regulations. The latter especially applies to falls in income due to increased competition, changes in framework conditions or other changes in business conditions, as well as changes to the costs picture that one cannot compensate for through other cost cutting or income increasing measures.

The Group makes use of a broad range of both quantitative and qualitative tools to identify and report business risk.

Good strategic planning is the most important tool for reducing business risk. The Group's limits and guidelines for good corporate governance are important elements in the commercial management of its operations.

The business risk in the Group is considered low.

Credit risk

Credit risk is defined as the risk of losses due to customers or counterparties being unable or unwilling to meet their financial obligations in accordance with an agreement. Credit risk arises because funding is part of the Group's core activities.

The risk in the Group's corporate market credit portfolio is moderate, while the risk in the retail market portfolio is considered very low. The risk development in both portfolios is good, with increased proportions in the low and medium risk classes and reduced percentages in the high and highest classes. This development reflects the good macroeconomic situation in the region. The Group's direct exposure to oil-dependent sectors is low. Most of the loans to retail customers are secured by mortgages on real property and the collateral coverage is good. The level of non-performing loans was slightly lower in 2018 than in 2017, but still around where it should be given the economic trends in the region.

The losses in 2018 primarily came from the increase in loss provisions in bands 1 and 2, expected credit loss (ECL), and write-downs in the value of the long-term observation (LTO) portfolio. Losses in band 3 in the retail market remain low. For the corporate market, there was a net reversal in losses in band 3 due to one significant commitment.

The risk strategy establishes limits for the ongoing management of credit risk in the portfolio. The Bank's rules and regulations relating to the granting of credit and authorisations are based on the probability of default and the "two pairs of eyes principle". The rules and regulations relating to the granting of credit are reviewed and approved annually by the Board.

The status regarding the risk limits is reported to the Board every quarter. This also includes suggestions for any measures and the status of previously adopted measures related to risk exposure.

Please also see the more detailed description of credit risk in the notes to the annual accounts.

Market risk

Market risk is defined as the risk of changes in the value of assets/financial positions due to changes in market value. Typical factors that affect market risk are share prices, property prices, interest rates, exchange rates and commodity prices. Market risk arises as a consequence of open positions in the currency, interest rate and capital markets.

The Group's market risk is classified as moderate. The Bank's market risk on its own balance sheet is low. Furthermore, the Bank seldom takes positions in securities and financial instruments with a view to resale or benefiting from price or interest rate variations in the short term.

Stress tests for market risk show that the Bank and the Group have the capacity to keep the level of risk within the adopted limits. Please also see the more detailed description of market risk in the notes to the annual accounts.

Liquidity and funding risk

Liquidity and funding 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 Group's liquidity risk is considered low and the Bank focuses heavily on this area. Securities issued and debt to financial institutions amounted to MNOK 25,135 as at 31.12.18, a reduction of MNOK 1,582 compared with 2017. The Group's deposit coverage ratio was 79% as at 31.12.18 compared with 77% in 2017 and 76% in 2016. Good deposit coverage and stable customer deposits are important for the Bank's liquidity management.

The need for refinancing in the capital markets in 2019 is on a par with what is considered normal for the Group and is not expected to result in liquidity-related challenges.

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

Requirements for prudent liquidity management are regulated by, among other things, regulatory and internal minimum requirements for the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). SpareBank 1 Nord-Norge's funding has been adapted to satisfy these requirements.

Please also see the more detailed description of liquidity risk in the notes to the annual accounts.

Operational risk

Operational risk is defined as the risk of people, processes, systems or external events reducing the Group's ability to meet its objectives. Operational risk is an extensive risk area and includes, among other things: compliance risk, cyber/IT risk, reputational risk, behavioural risk and human capital risk.

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

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

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

The Bank established a compliance function at group level in autumn 2017. Work on establishing and refining the compliance framework continued throughout 2018. The Board will ensure that the Group always complies within the current regulatory requirements.

The Group's operational risk is considered to be slightly higher than normal. This is due to the high pace of change, both internally and externally.

Ownership risk

Ownership risk is defined as the risk of the Group suffering a loss from ownership interests in strategically owned companies, or the Group having to supply new capital to strategically owned companies.

The stakes in wholly and partly owned companies are significant and important for the Group's overall profitability. On the other hand, these stakes can both lead to greater volatility in the results and affect capital adequacy. The risks in the various companies are moderate. The stake in SpareBank 1 Gruppen represents the largest risk driver in this area.

Regulatory framework

Regulatory requirements are changing at a fast pace, and this is expected to continue going forward. The Group identifies, assesses and adapts to regulatory changes on an ongoing basis. This is done to ensure:

- Compliance with the regulatory requirements.

- The proper management of the business-related implications.

The Group has established a system for monitoring regulatory changes closely through, among other things:

- Establishing a compliance committee.

- Establishing joint cooperation in the area across the SpareBank 1 banks.

- Quarterly reporting to the Board of Directors on regulatory changes, including their content, timeline for implementation and implications.

The key changes in 2018 and the regulatory changes that have been announced for the coming years can be briefly summarised as follows:

- **Capital/financial strength**
    - Completion of Basel III, including new standard methods and IRB parameter floor, etc.: expected to be introduced in 2022.
    - CRR/CRD IV (Basel III), including Basel I floor, "SME discount"[2], etc.: expected to be introduced in 2019.
    - Countercyclical capital buffer requirement: increases from 2.0% to 2.5% from 31.12.19.
    - Buffer requirement for SIFI, including possible definition of SpareBank 1 Nord-Norge as a systemically important financial institution (SIFI). Clarification is expected in 2019.
    - Deposit guarantee and crisis management by banks: new rules came into effect on 01.01.19.

- **Liquidity and funding**
    - Revised Payment Services Directive (PSD2): expected to be introduced in 2019.
    - NSFR minimum requirements: expected to be introduced in 2021.

- **Credit**
    - Mortgage Regulations: were continued in 2018 and apply up to 31.12.19.
    - Regulations for consumer financing: expected to be introduced in 2019.
    - Debt Register: expected to be introduced in 2019.

[2]) The SME discount entails lower capital requirements for banks for loans to small and medium-sized enterprises (SMEs) and was introduced in the EU as part of the CRR/CRD regulations.

- **Accounts**

  - IFRS 9: introduced with effect from 01.01.18.
  - IFRS 16: will be introduced with effect from 01.01.19.
  -

- **Other areas**

  - GDPR: introduced in July 2018.
  - New Money Laundering Act: introduced in October 2018.
  - MiFID II: will be introduced with effect from 01.01.19.
  - European Banking Authority (EBA) guidelines: Internal governance (EBA GL/2017/11): Included in supervisory follow-up from 30.06.18.

As far as PSD2 is concerned, this is an EU directive that regulates payment transfer systems in the EU and EEA, which will lead to major changes in payment services. SpareBank 1-alliance has already started work on PSD2 and, in connection with this, customers with accounts in more than one SpareBank 1 bank can now see balances and payment transactions from other SpareBank 1 banks.

As far as the new Money Laundering Act is concerned, SpareBank 1 Nord-Norge has adapted to the new directive by introducing new, updated routines/work processes, training staff, and implementing new control routines. Investments have also been made in system updates.

Please also see the discussion of GDPR, MIFID II, PSD2, and the new money laundering directive in the "Operations" chapter in the annual report.

Overall, the changes in the regulatory landscape are considered comprehensive but manageable. The Group does not expect to have to make significant changes to its business model or strategy, in either the short or medium term, as a result of changes to the regulatory framework.

Auditing

The Group's external auditor is KPMG.

Internal audits are carried out by EY. The external and internal auditors report to the Board.

Research and development activities

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

The development work relates to new products and services. In 2018, the focus was on the payment sector and in particular on participating in the development of the industry collaboration in Vipps and the subsequent merger of Vipps AS, BankAxept AS and BankID Norge AS into VBB AS.

SpareBank 1 Nord-Norge does not directly carry out activities that could be characterised as research. However, the Group does grant funds for new knowledge and research purposes in the region through community dividends and thus contributes to research that develops new knowledge in important areas.

Organisation and HR

The Group's Strategic Compass guides organisational and employee development. The Group's aims to be number one for employees and to be Northern Norway's most attractive and engaging workplace so that it can successfully create value for customers, owners and Northern Norway. Regular organisational surveys measure factors such as the employees' commitment to the work in the Group. This is measured by a so-called commitment index. Over time, the Group has scored more than 80, which is considered very high. The Group's employees are also very interested in the measures that are implemented, both internally and externally.

Public job advertisements attract a large number of qualified applicants. At the same time, the Group's ability to attract the right employees is absolutely key if its strategic objectives are to be achieved. A lot of work therefore goes into conducting good, professional recruitment processes.

The organisation focused heavily on compliance work in 2018. Governing documents and frameworks have been changed in line with new requirements and expectations to the organisation, and the organisation has done good work on enhancing competence and changing work processes in line with the new frameworks. The implementation of a new customer strategy also resulted in changes to the organisation's structure, which in turn led to adjustments to duties and the division of work between employees in contact with customers. So far, this appears to have had a good effect with respect to the Group's customer satisfaction targets.

Samfunnsløftet is one of the Group's important strategic choices. It also affects the organisation through the fulfilment of its social responsibilities via employee activities. The support for these measures is particularly large. Please also see the section of Samfunnsløftet later in the annual report.

Equal opportunities and diversity
Diversity is a cornerstone of success when it comes to promoting innovation and competitiveness in the Group. SpareBank 1 Nord-Norge has drawn up a new recruitment policy that emphasises gender equality and diversity and rejects discrimination.

There are more women in the Group than men. The proportion of female managers at the end of 2018 was 37%. The target is for at least 40% of the managers in SpareBank 1 Nord-Norge to be women. The Group's payroll analyses show there are no pay differences between men and women based on gender.

Health, safety and the environment
The Group has experienced a very low sick leave rate since 2014, less than 3%. In 2018, this increased to 4.0% (doctor certified and self-certified). This is still a low sick leave rate compared with the average for the region. But, nevertheless, the Group is now actively working on identifying the reasons for the increase and new measures. The Group's participation in SINTEF's "Labour in the north" research project is expected to provide good support for making decisions going forward.

The HR Department and the safety service assist management with organisational development measures and following up managers. This work is producing good results and some departments have made major progress in the organisational surveys that have been conducted.

SNN SPOR is the Group's diet and exercise concept and represents the most aggressive part of the Group's systematic HSE work. The Norwegian Working Environment Act instructs employers to consider measures aimed at promoting physical activity among their employees. Through SNN SPOR, intentions have been transformed into action, contributing to healthier lifestyles and more physical activity among the employees. No fewer than 87% of the Group's employees take part and the level of activity still remains well above the Norwegian Directorate of Health's recommendations for physical activity.

The average retirement age in 2018 was 64.4 years old.

All employees took compulsory courses on money laundering and GDPR in 2018. The employees also take shorter courses ("nano learning") on various topics within the area of security.

In December 2018, the Group's branch on Svalbard was the target of an armed robbery. The three staff members were not physically harmed, but are being followed up in line with the Group's preparedness routines.

Two cases of threats against staff and two accidents were registered in 2018.

The environment and sustainability – ESG: Environmental Social and Governance Criteria

As Northern Norway's largest financial group, long-term and sustainable value creation is very important to SpareBank 1 Nord-Norge. The Group is concerned about how its activities affect people, the environment and society. In 2018, the work on making sustainability an integral part of the business strategy was accelerated thanks to the "Green No. 1" project. The aim of the project is to ensure that sustainability is taken into account in all important decisions made by the Group and it is stipulating requirements for the Group itself, for suppliers and for other partners, including customers.

The UN Global Compact's definition of sustainability, with its particular focus on human rights, labour, the environment and combating corruption, provides the basis for the Group's focus on sustainability. The Group signed up to the Global Compact in 2017. The principles have been incorporated into, for example, all credit assessments and supplier agreements. From and including

2018, the Group will report on sustainability in line with the international standard issued by the Global Reporting Initiative (GRI). Through a collaboration with the Nordic Investment Bank (NIB), the Group is also in the process of offering financing for green projects.

The focus on sustainability and climate risk is expected to increase in the future, including in the financial services industry. Even clearer requirements for the work with ESG can therefore be expected from the Group's investors. A steadily growing number of customers also expect it to be easier to choose mutual fund products based on the same parameters.

You can read more about sustainability and *Samfunnsløftet* in the Corporate Social Responsibility chapter in the annual report. The annual report also contains information about the foundations associated with the Group.

Macroeconomic conditions

Global development

After a year of relatively strong global growth in 2017, 2018 was characterised by diminishing growth and increased uncertainty about the future outlook. The latter part of the 2018 was marked by great unrest in the international financial markets, with sharp falls on world stock exchanges. The main explanatory factors were the escalating trade war between China and the US, higher US interest rates, and uncertainty related to Brexit.

The US has seen continued good economic growth, and unemployment was further reduced in 2018 from already historically low levels. Despite this, the US government has chosen to continue with a highly expansive fiscal policy. This has led to increased inflation and higher central bank interest rates. The base rate has been raised nine times since its lowest level in 2015. Market players are now wondering whether this growth will tail off.

After a period of increasing growth in the eurozone as a result of a highly expansive monetary policy, growth declined again during 2018. The uncertainty surrounding the UK's departure from the EU and the budget situation in Italy have been explanatory factors. Growth in Germany, especially towards the end of the year, was also disappointing.

According to the IMF, GDP growth in the emerging economies will probably end up at around 4.7% in 2018, which would be unchanged from the previous year. Growth levels are well above the rate in the developed economies, but there are large variations between countries. Uncertainty about global trade increased through the year. The trade war has mostly concerned the USA and China, but it will also have ripple effects on other economies, particularly countries with a lot of international trade.

The Norwegian economy

2018 was a relatively good year for the Norwegian economy. According to Norges Bank, GDP growth for mainland Norway will probably come to around 2.4%, which is 0.4 percentage points higher than in 2017. The labour market improved further through last year, with employment increasing and unemployment decreasing. Investments also increased last year. For the first time since the oil price drop in 2014, investments in petroleum gave positive returns, while investments in residential property went down after a period of solid growth. The growth in house prices was moderate throughout the year. The growth in household debt was reduced, but still exceeded the growth in incomes. That meant that indebtedness increased further.

Inflation rose substantially in 2018, particularly as a result of higher electricity prices. This, along with relatively good activity in the Norwegian economy, prompted the Executive Board of Norges Bank to raise the base rate from 0.50% to 0.75% in September. This was the first interest rate rise since 2011. Norges Bank has signalled a gradual rise in interest rates in the future, but the Executive Board is inclined to proceed cautiously in setting rates after a long period of low interest rates.

The northern Norwegian economyi

The northern Norwegian economy is solid and has seen higher growth over time than the rest of the country. The business sector has produced good earnings and is building up financial strength, aided by a still weak Norwegian kroner. The growth in the economy is on par with the rest of the country. The Business Barometer for Northern Norway (KB) from November 2018 still expects future growth to be slightly weaker than in the country as a whole. The main reason for this is that Northern Norway will not feel the upswing in oil and gas investments as much as the south. Growth in the export markets is also expected to decline, partly because the Norwegian kroner is set to rise and partly as a result of capacity constraints in the northern Norwegian economy. This applies particularly to restrictions on the supply of labour, but also to capacity constraints in seafood production and metal production which are now at their limits. Today's airport infrastructure is also a limiting factor when it comes to growth in tourism. Companies and consumers are nevertheless optimistic about future prospects.

Northern Norway has a tight labour market, with low unemployment. Meanwhile, population growth in the region is weak and shows a negative trend, which further contributes to the lack of manpower. The region is heavily dependent on non-local labour, and it will be crucial to value creation in the future for the region to attract workers from outside, particularly from abroad.

House prices in Northern Norway showed moderate growth in 2018, with a year-on-year increase of 1.5%. This is lower than the country as a whole, which saw a price increase of 2.8%, and significantly lower than Oslo where the growth was 6.3%. With the exception of Tromsø, house prices in the region are lower than in the country as a whole. That means the fall will not be so remarkable if the housing market deteriorates. Northern Norwegian households are, by and large, financially healthy. However, it still remains the case, especially in the largest towns in the region, that rising house prices have resulted in many households taking on a heavy debt burden. If interest rates were to rise more than expected, this could prove challenging to some households.

After high investment growth in Northern Norway in 2016 and 2017, the growth rate appears to be coming down. Much of the growth was driven by the start-up of new construction projects. The order reserves in the construction sector are now lower, and there are signs that investments in housing will be slightly down, but perhaps not as much as in the rest of the country. Companies are telling Norges Bank's regional network that they have confidence in the future, and northern Norwegian firms have roughly the same investment expectations as the rest of the country. This may be cause for optimism for business investment in 2019.

After strong growth in commodity exports from Northern Norway in the first half of 2018, growth tailed off somewhat after the summer. According to the November's Business Barometer (KB), export growth from Northern Norway will be around 2% in 2018, down from 2.5% in 2017. This is mainly due to a lack of volume growth in fisheries, along with decreased growth in tourism. The export industry is currently benefiting from a weak Norwegian kroner. Most people still expect a stronger Norwegian kroner, which will be unhelpful to exporters and tourism.

The value of seafood exports from Northern Norway increased by 9.3% as of the end of November 2018, compared with the same period in 2017. The industry continues to enjoy relatively high prices and a low exchange rate, although the volume is decreasing. The seafood industries in the north are struggling to increase their volumes. This is especially true in fish farming, where the need to combat salmon lice restricts the scope for increased production. The lice problem has contributed to a halt in the awarding of new licences. The exception is development licenses, but it will take some time before the results of these can be seen in the production statistics.

The growth in the number of overnight stays in Northern Norway has slowed since 2016, and more recently the number has decreased slightly. In recent years, the growth in northern Norwegian tourism has been largely driven by more foreign tourists. In 2017, the number of foreign overnight stays rose by 11%, and at the end of November 2018 the annual growth was 5.6%. The growth in 2018 was mainly in Troms, where winter tourism represents an ever-increasing proportion of the tourist flow. Better times in the global economy suggest that this trend will continue, but the tourism industry may be sensitive to price changes. In that case, a stronger Norwegian kroner could compromise further growth. The industry is also suffering from the limitations presented by the airport infrastructure in the region.

Oil and gas are still in an early phase in the north, with only the Norne, Snøhvit, Skarv, Goliat and Aasta Hansteen fields in operation. Along with new finds (Johan Castberg, Gotha and Alta) and the opening of new exploration areas, there will be a greater focus on this sector in the future. The report "Delivered" from the Kunnskapsparken Bodø stresses that the supplier companies in oil and gas in the Hammerfest region have grounds for optimism about the future. The report does not paint an equally positive picture of the other regions in the north. There is therefore little reason to believe that increased oil activity in the country as a whole will contribute to an immediate upturn for supplier companies in Northern Norway.

The international, national and regional macroeconomic conditions are in place for 2019 to provide further growth opportunities for Northern Norway and for SpareBank 1 Nord-Norge, even though growth will continue to be slightly weaker in the north than in the rest of the country. There is also uncertainty in relation to both the international macroeconomic picture and how the Norwegian kroner exchange rate will develop in the future and impact export industries and tourism. A tight labour market is a challenge for growth in the region. Many places and industries in the region are experiencing a lack of skilled labour. The same applies to infrastructure, which is not efficient enough, as well as current restrictions in the seafood industry. However, the macroeconomic prospects for Northern Norway are judged to be relatively good.

Summary and future prospects

As stated in the introduction, 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 engaging workplace.
4. Indisputably strong, with returns that are among the best for comparable financial groups.
5. Quality in everything we do.

The applicable financial objectives and ambitions remain unchanged, and are as follows:

- Core Tier 1 capital ratio of one percentage point above the regulatory requirement.
- A return on equity of 12% or higher.
- A long-term cost income ratio of 40% or lower.
- A payout ratio of a minimum of 50%.

The international, national and regional macroeconomic conditions are in place for 2019 to provide growth opportunities for Northern Norway and for SpareBank 1 Nord-Norge, even though growth will continue to be slightly weaker in the north than in the rest of the country. There is also uncertainty in relation to both the international macroeconomic picture and how the Norwegian kroner exchange rate will develop in the future and impact export industries and tourism. A tight labour market remains a challenge for growth in the region. However, the macroeconomic prospects for Northern Norway are judged to be relatively good.

The Group's market position and financial position is good. The Group has successfully implemented significant measures in recent years. These include reorganising the distribution apparatus, streamlining the Group's processes and concentrating on core activities. 2018 was also a year with a considerable focus on digitalisation and adaptation to new regulatory conditions. During the year, the Group finished making changes to comply with the new General Data Protection Regulation (GDPR), and the new directive and regulation regulating the market for financial instruments, MiFID II. The new rules impose several obligations on the Group and tighten the requirements for information security and internal control. Measures to increase competence and awareness of data protection among employees have also been taken in 2018 and will continue in 2019.

To preserve and strengthen the Group's leading market position, the pace of development of new products and services has further increased. The ambition is to increase efficiency, strengthen the Group's customer relations, and win new market share. This work further emphasises the Group's local approach to customers and market areas. The measures to increase competitiveness resulted in increased costs in 2018, including new skills brought into the Group in the form of new employees with a technology background. Positive results from this work can be seen in improved customer satisfaction, increased market share especially within lending, and positive customer development in all core product areas. Further payback from this work can be expected in the future. In October 2018, Jan-Frode Janson submitted his notice as CEO of SpareBank 1 Nord-Norge. EVP Corporate Functions Petter Høiseth has been appointed the new CEO and will take up his position on 15.03.19.

The annual accounts for 2018 have been prepared on the assumption that the Group is a going concern. This assumption is based on the Group's long-term strategic plans and earnings forecasts for the coming years.

SpareBank 1 Nord-Norge's results for 2018 are considered good and the Group maintains a healthy economic and financial position. Given this, and the relatively good macroeconomic situation in the region, the Group's future prospects are still considered good.

As mentioned earlier in this report, the regulatory requirements for capital adequacy are changing. Nevertheless, the Board's objective for 2019 is to remain within the Group's target for this area. The Group's profitability target is ambitious, but is considered achievable for 2019. The cost target is also demanding, but is secondary to the profitability target. However, the Group will continue to work on efficiency enhancing measures. A payout ratio of more than 50% is also considered achievable.

SpareBank 1 Nord-Norge will continue to be an active partner in the region's development in the years ahead and, in the opinion of the Board, it is very well-equipped to reinforce its position as a long-established, yet modern, regional bank – For Northern Norway.

The Board would like to thank all of the Group's employees for their efforts and commitment in 2018. These are important contributions to the development of SpareBank 1 Nord-Norge. The Board would also like to thank the Group's customers and other business associates for their contributions in 2018.

Tromsø, 28. February 2019

The Board of SpareBank 1 Nord-Norge

Karl Eirik Schjøtt-Pedersen (Chair) | Hans Tore Bjerkås (Deputy Chair) | Ingvild Myhre

Kjersti Terese Stormo | Greger Mannsverk

Sonja Djønne | Kjetil Berntsen (employee elected) | Vivi Ann Pedersen (employee elected) | Jan-Frode Janson (CEO)

ANNUAL ACCOUNTS

Annual Report - Income statement

PARENT BANK				GROUP	
2017	**2018**	Amounts in NOK million	**Notes**	**2018**	**2017**
2 387	**2 558**	Interest income	20	**2 795**	2 611
824	**908**	Interest costs	20	**899**	841
1 563	**1 650**	**Net interest income**		**1 896**	1 770
756	**782**	Fee- and commission income	21	**978**	931
77	**82**	Fee- and commission costs	21	**95**	85
46	**22**	Other operating income	21	**174**	146
725	**722**	**Net fee- commission and other operating income**		**1 057**	992
4	**6**	Dividend	22	**6**	4
457	**364**	Income from investments	22	**374**	434
112	**79**	Gain/losses and net value changes from investments in securities	22	**83**	114
573	**449**	**Net income from investments**		**463**	552
2 861	**2 821**	**Total income**		**3 416**	3 314
511	**517**	Personnel costs	23,24,25	**748**	708
544	**578**	Other operating costs	24,32	**726**	658
1 055	**1 095**	**Total costs**		**1 474**	1 366
1 806	**1 726**	**Result before losses**		**1 942**	1 948
46	**31**	Losses	14	**22**	184
1 760	**1 695**	**Result before tax**		**1 920**	1 764
316	**321**	Tax	26	**374**	324
		Result non-current assets held for sale	31	**4**	0
1 444	**1 374**	**Result for the year**		**1 542**	1 440
		Result per Equity Certificates			
6,62	**6,25**	Result per EC, adjusted for interests hybrid capital 1)	42	**7,03**	6,61
		Other comprehensive income, IAS 1			
1 444	**1 374**	**Result for the period**		**1 542**	1 440
		Items that will not be reclassified to profit/loss			
		Net change in fair value of investment in joint-venture		**-30**	5
61	**-35**	Actuarial gains (losses) on benefit-based pension schemes		**-36**	69
-15	**9**	Tax		**9**	-17
46	**-26**	**Total**		**-57**	57
		Items that will be reclassified to profit/loss			
15	**7**	Net change in fair value of financial assets available for sale		**7**	15
		Net change in fair value of investment in joint-venture		**1**	3
		Tax			
15	**7**	**Total**		**8**	18
1 505	**1 355**	**Total comprehensive income for the period**		**1 493**	1 515
		Totalresult per Equity Certificate			
6,90	**6,16**	Result per EC, adjusted for interests hybrid capital 1)	42	**6,80**	6,95

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	
31.12.17	31.12.18	Amounts in NOK million	Notes	31.12.18	31.12.17
		Assets			
775	**3 786**	Cash and balances with Central Banks		**3 786**	775
7 081	**5 976**	Loans and advances to credit institutions	10	**1 282**	2 656
69 177	**74 409**	Net loans and advances to customers	11,13,14	**80 352**	74 487
255	**340**	Shares	30.22	**352**	270
11 541	**12 560**	Bonds and certificates	29.22	**12 560**	11 541
1 511	**1 653**	Financial derivatives	17.22	**1 653**	1 511
924	**1 073**	Investment in Group companies	31.41		
3 160	**3 461**	Investment in associated companies and joint ventures	31.41	**4 990**	4 755
234	**216**	Property, plant and equipment	32	**499**	453
		Non-current assets held for sale	31	**25**	30
		Intangible assets	33	**95**	68
499	**428**	Other assets	34	**562**	640
95 157	**103 902**	**Total assets**		**106 156**	97 186
		Liabilities			
436	**188**	Liabilities to credit institutions	10	**187**	434
57 883	**64 005**	Deposits from customers	35	**63 985**	57 849
23 552	**25 135**	Debt securities in issue	36	**25 135**	23 552
902	**874**	Financial derivatives	17	**874**	902
739	**1 015**	Other liabilities	37,25,26	**1 440**	1 014
		Non-current assets held for sale	30		
178	**173**	Deferred tax liabilities	26	**277**	286
850	**1 200**	Subordinated loan capital	39	**1 200**	850
84 540	**92 590**	**Total liabilities**		**93 098**	84 887
		Equity			
1 807	**1 807**	Equity Certificates	42	**1 807**	1 807
843	**843**	Premium Fund		**843**	843
530	**780**	Hybrid capital		**780**	530
1 980	**2 200**	Dividend Equalisation Fund		**2 200**	1 980
4 770	**5 024**	Saving Bank's Fund		**5 024**	4 770
585	**585**	Donations		**585**	585
35	**42**	Fund for unrealised gains		**42**	35
67	31	Other equity		**1 777**	1 749
10 617	**11 312**	**Total equity**		**13 058**	12 299
95 157	**103 902**	**Sum egenkapital og gjeld**		**106 156**	97 186

Tromsø, 28. February 2019

The Board of SpareBank 1 Nord-Norge

Karl Eirik Schjøtt-Pedersen (Chair) | Hans Tore Bjerkås (Deputy Chair) | Ingvild Myhre

Kjersti Terese Stormo | Greger Mannsverk

Sonja Djønne | Kjetil Berntsen (employee elected) | Vivi Ann Pedersen (employee elected) | Jan-Frode Janson (CEO)

ANNUAL ACCOUNTS 2018

Annual Report - Changes in equity

MORBANK

Amounts in NOK million	EC capital	Premium Fund	Hybrid capital	Dividend Equalisa-tion Fund	Saving Bank's Fund	Fair value reserve	Donations Fund	Other equity	Total equity
Equity at 01.01.17	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
Other comprehensive income:									
Net change in fair value of financial assets available for sale								61	61
Actuarial gains (losses) on benefit-based pension schemes						15			15
Tax on other comprehensive income								-15	-15
Total other comprehensive income				0	0	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 2016/other distribution				-346			-401		-747
Other equity transactions			530		1			-10	521
Total transactions with owners			530	-346	1		-401	-10	-226
Equity at 31.12.17	1 807	843	530	1 980	4 770	35	585	67	10 617
Total comprehensive income for the period									
Period result				637	272		465		1 374
Other comprehensive income:									
Net change in fair value of financial assets available for sale								-35	- 35
Actuarial gains (losses) on benefit-based pension schemes						7			7
Tax on other comprehensive income								9	9
Total other comprehensive income						7		-26	-19
Total comprehensive income for the period				637	272	7	465	-26	1 355
Transactions with owners									
Set aside for dividend payments				-402					-402
Reversal of dividend payments				402					402
Dividend paid 2017/other distribution				-402			-465		-867
Other equity transactions			250	-15	-18			-10	207
Total transactions with owners			250	-417	-18		-465	-10	660
Equity at 31.12.18	**1 807**	**843**	**780**	**2 200**	**5 024**	**42**	**585**	**31**	**11 312**

GROUP

Amounts in NOK million	EC capital	Premium Fund	Hybrid capital	Dividend Equalisa-tion Fund	Saving Bank's Fund	Fair value reserve	Donations Fund	Other equity	Total equity
Equity at 01.01.17	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
Other comprehensive income:									
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
Actuaroal gains (losses) on benefit-based pension schemes								69	69
Tax on other comprehensive income								-17	-17
Total other comprehensive income				0	0	15	0	60	75
Total comprehensive income for the				669	310	15	465	56	1 515
Transactions with owners									
Set aside for dividend payments				-402					-402
Reversal of dividend payments				402					402
Dividend paid 2016/other distribution			530	-346					184
Other equity transactions					1		-401	-11	-411
Total transactions with owners			530	-346	1		-401	-11	-227
Equity at 31.12.17	1 807	843	530	1 980	4 770	35	585	1 749	12 299
Total comprehensive income for the period									
Period result				637	272		465	168	1 542
Other comprehensive income:									
Net change in fair market value of investment in joint ventures								-29	-29
Net change in fair value of financial assets available for sale						7			7
Actuaroal gains (losses) on benefit-based pension schemes								-36	-36
Tax on other comprehensive income								9	9
Total other comprehensive income				0	0	7	0	-56	-49
Total comprehensive income for the period				637	272	7	465	112	1 493
Transactions with owners									
Set aside for dividend payments				-402					-402
Reversal of dividend payments				402					402
Dividend paid 2017/other distribution				-402			-465		-867
Other equity transactions			250	-15	-18		0	-84	133
Total transactions with owners			250	-417	-18		-465	-84	-734
Equity at 31.12.18	**1 807**	**843**	**780**	**2 200**	**5 024**	**42**	**585**	**1 777**	**13 058**

Annual Report - Cash Flow Statement

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
1 760	**1 695**	Profit before tax	**1 920**	1 764
51	**48**	+ Ordinary depreciation	**61**	65
-11	**1**	+ Write-downs, gains/losses fixed assets	**1**	1
46	**30**	+ Losses on loans and guarantees	**22**	184
316	**321**	- Tax/Result non-current assetes held for sale	**374**	324
747	**867**	- Dividend paid on Ecs/distributions	**867**	747
783	**586**	**Provided from the year's operations**	**763**	943
-39	**181**	Change in sundry liabilities: + increase/ - decrease	**219**	-17
-195	**-71**	Change in various claims: - increase/ + decrease	**-86**	-46
-3 553	**-5 262**	Change in gross lending to and claims on customers: - increase/ + decrease	**-5 887**	-4 435
-1 341	**-1 104**	Change in short term-securities: - increase/ + decrease	**-1 101**	-1 341
3 959	**6 122**	Change in deposits from and debt owed to customers: + increase/ - decrease	**6 136**	3 979
-397	**-248**	Change in debt owed to credit institutions: + increase/ - decrease	**-247**	-384
-783	**204**	**A. Net liquidity change from operations**	**-203**	-1 301
-40	**-80**	- Investment in fixed assets	**-169**	-90
123	**49**	+ Sale of fixed assets	**62**	68
-507	**-450**	Change in holdings of long-term securities: - increase/ + decrease	**-235**	-385
-424	**-481**	**B. Liquidity change from investments**	**-342**	-407
2 387	**1 583**	Change in borrowings through the issuance of securities: + increase/ - decrease	**1 582**	2 388
30	**600**	Change in PCC/subordinated loan capital: + increase/ - decrease	**600**	30
2 417	**2 183**	**C. Liquidity change from financing**	**2 182**	2 418
1 210	**1 906**	A + B + C. Total change in liquidity	**1 637**	710
6 646	**7 856**	+ Liquid funds at the start of the period	**3 431**	2 721
7 856	**9 762**	**= Liquid funds at the end of the period**	**5 068**	3 431

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

Annual Report - Notes

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-alilance 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 centers 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 2018 preliminary annual accounts were adopted by the Parent Bank's Board on 07.02.19.
- The 2018 final annual accounts were adopted by the Parent Bank's Board on 28.02.19.

Dividends will be paid out on 11.04.19.

Audit

The Group's auditor is state authorized public accountant Stig-Tore Richardsen at KPMG.

Note 2 – Accounting principles

Basis for preparation of the annual accounts

The 2018 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 December 2018, as well as Norwegian information requirements pursuant to the Accounting Act as of 31 December 2018.

If nothing distinctly are defined precisely the same accounting principles are used in the Group and parent bank accounts.

The financial statements are based on the historic cost principle, with the exception of financial assets available for sale and financial assets and liabilities (including derivatives) measured at fair value through profit and loss.

The accounting policies that are applied are consistent with the policies applied in the previous accounting period, with the exception of the IFRS amendments that have been implemented in the Group in the current accounting period. Below is a list of the relevant IFRS amendments that came into effect for the 2018 financial statements and the effects that they have had on the Group's annual financial statements.

- IFRS 9 Financial instruments
- IFRS 15 Revenue form contracts with customers

IFRS 9 has been implemented since 01.01.18. Please refer to the section below, the tables regarding the effects of implementation at the end of this note and the description of the loss provisions model on note 14.

IFRS 15 came into effect on 01.01.18. The standard introduces a new model for recognising income from customer contracts, but has had no material effect on the Group's accounts for 2018.

IFRS 16 Leases will be implemented with effect from 01.01.19. The standard has been approved by the EU.

Pursuant to the new standard, there will be no differentiation between operational and financial leasing where leases that have been entered into transfer the right of use to a specific assets from the lessor to the lessee for a specific period. As far as the lessor is concerned, the rules in IAS 18 will largely continue to apply. In SpareBank 1 Nord-Norge's case, the standard will largely impact leases for branch/office premises.

The effect of its implementation produces a right-of-use asset of around MNOK 430 million and a corresponding lease liability. The effect of implementation will be a reduction in the core Tier 1 capital ratio of approximately -0.09 percentage points. Please also see note 45.

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 March 2018 for final approval. Prior to final approval, the Board of Directors has the authority to change the annual financial statements.

IFRS 9

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement from 01.01.18. IFRS 9 deals with recognition, classification and measurement, impairment, derecognition and hedge accounting. IFRS 9 has been approved by the EU.

The Group has been preparing for the implementation of IFRS 9 for several years.

The work has been extensive and has mainly entailed developing calculation solutions and models for arriving at estimates of future expected credit losses and reviewing processes for the classification and measurement of financial instruments.

Transitional rules

IFRS 9 is applied retrospectively, with the exception of hedge accounting. Retrospective application means that SpareBank 1 Nord-Norge produced the opening balance on 01.01.18 as if the Group has always applied the new principles. The accounting effects of the new regulations on the opening balance for 2018 were recognised directly against equity.

IFRS 9 (6.1.3) provides the option of continuing to apply the hedge accounting requirements in IAS 39 for a fair value hedge of interest rate risk of a portfolio of financial assets or liabilities. The Group has chosen to exercise this option.

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.

Subsidaries

As at 31.12.18 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%)
- 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 31.12.18 the following associated companies are applied with equity method of accounting:

- SpareBank 1 Boligkreditt AS (17.82%)
- SpareBank 1 Næringskreditt AS (13.97%)
- BN Bank AS (23.5%)
- SpareBank 1 Kredittkort AS (17.00%)
- SpareBank 1 Betaling AS (18.57%)
- SMB Lab AS (20%)
- Betr AS (tidligere Proaware) (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 31.12.18 the following joint ventures are applied with equity method of accounting:

- SpareBank 1 Gruppen AS (19.5%)
- SpareBank 1 Banksamarbeidet DA (17.74%)

Operations hold 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 assets

Pursuant to IFRS 9, financial assets must be classified into one of three measurement categories:

- fair value with changes through profit or loss
- fair value with changes through other comprehensive income (OCI)
- amortised cost

For financial assets, there is a distinction between debt instruments, derivatives and equity instruments, where debt instruments are all financial assets that are not derivatives or equity instruments.

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.

Note 2 – Accounting principles

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 changes through profit or loss. The Group's mortgages that are sold to SpareBank 1 Boligkreditt 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 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 changes through OCI, with interest income, currency translation effects, and any impairments presented in the ordinary income statement. Changes recognised through OCI should be reclassified to profit or loss when the assets are sold or otherwise disposed of. The Group had no such items as at 31.12.18.

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

Investments in capital instruments should be recognised on the balance sheet at fair value. Value changes should 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 changes through OCI.

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 and not in the income statement like today, unless recognition in OCI creates or reinforces an "accounting mismatch".

Meanwhile, the Group has classified all debt and customer deposits at amortised cost.

Hedging

There are three types of hedging situations:

- Fair value hedge: A hedge of the exposure to changes in the fair value of a recognised asset or liability, or a binding commitment that has not been recognised, or an identified proportion of such an asset, liability or binding commitment that is attributable to a particular risk, and that may affect the result.
- Cash flow hedge: A hedge of the exposure to variability in cash flows that is i) attributable to a particular risk associated with a recognised asset or liability (e.g. all or some future interest payments at variable interest) or a highly probable expected transaction, and ii) may affect the result.
- Hedging of a net investment in foreign business, as defined in IAS 21.

Hedge accounting calculates the offsetting effects on the result associated with changes in the fair value of the hedging instrument and hedge object. However, IAS 39 stipulates strict requirements for the use of hedge accounting.

IFRS 9 simplifies the requirements 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 per cent 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. The Group has not used such hedge accounting in 2018.

Classification of balance sheet items - As at Desember 2018

	Assets Amounts in NOK million	Current IFRS/IAS	Financial assets or liabilities	Classification 2018	Fair value hierarchy	Applied in the annual report note	Balance Parent bank 31.12.18	Balance Group 31.12.18
B	Cash	IFRS 9	Yes	FVPL	1	Cash flow statement	160	160
B	Deposits with central banks	IFRS 9	Yes	FVPL	1	Cash flow statement	3 626	3 626
A	Lending to financial institutions	IFRS 9	Yes	AC		10	5 976	1 282
A	Write-downs lending to financial institutions	IFRS 9	Yes	AC		10,14	-	-
A	Property mortgages for retail customers	IFRS 9	Yes	AC		11,28	13 898	13 898
A	Property mortgages for retail customers available for sale for SpareBank 1 Boligkreditt (webclient)	IFRS 9	Yes	AC		11,28	18 337	18 337
B	Property mortgages for retail customers prepared for sale to SpareBank 1 Boligkreditt (webclient)	IFRS 9	Yes	FVPL	3	11,27,13	1 963	1 963
C	Fixed rate loans	IFRS 9, IFRS 13	Yes	FVPL	3	11,27	7 652	7 693
A	Other loans for retail customers	IFRS 9	Yes	AC		11,28	5 991	8 540
A	Corporate market loans	IFRS 9	Yes	AC		11,28	27 039	30 436
A	Loan loss provisions	IFRS 9	Yes	AC		14	-470	-511
B	Shares, trading	IFRS 9, IFRS 13	Yes	FVPL	1	22,30	143	143
B	Shares, available for sale with value changes through profit/loss	IFRS 9	Yes	FVPL	3	22,30	-	-
D	Shares, available for sale with value changes through OCI	IFRS 9	Yes	FVOCI	3	22 30	40	40
B	Shares, non trading	IFRS 9, IFRS 13	Yes	FVPL	2.3	22,30	4 540	5 092
B	Shares, non trading Hybrid Tier 1 Capital	IFRS 9, IFRS 13	Yes	FVPL	2.3	22,30	151	67
B	Liquidity portfolios	IFRS 9, IFRS 13	Yes	FVPL	1.2	22,29	12 493	12 493
B	Liquidity portfolios, Hybrid Tier 1 capital	IFRS 9, IFRS 13	Yes	FVPL	1.2	22,30	67	67
B	Derivatives - interest rate hedging, bonds	IAS 39	Yes	FVPL	2	17,22,27	503	503
B	Derivatives - interest rate hedging, fixed rate loans	IAS 39	Yes	FVPL	2	17,22,27	39	39
B	Derivatives - interest rate hedging, funding	IAS 39	Yes	FVPL	2	17,22,27	1 070	1 070
B	Derivatives - commodity hedging	IAS 39	Yes	FVPL	2	17,22,27	40	40
	Total assets						**103 258**	**104 978**
	Liabilities							
A	Liabilities to financial institutions	IFRS 9	Yes	AC		10	188	187
A	Deposits from customers, variable rate	IFRS 9	Yes	AC		35 20	62 752	62 732
A	Deposits from customers, fixed rate	IFRS 9	Yes	AC		35,20	1 253	1 253
A	Debt securities in issue, variable rate	IFRS 9	Yes	AC		35,20	11 535	11 535
A	Debt securities in issue, fixed rate	IFRS 9	Yes	AC		36,20	13 600	13 600
B	Loss provisions, guarantees, credit limits, committed loans	IFRS 9	Yes	AC		14	35	35
B	Derivatives - interest rate hedging, bonds	IAS 39	Yes	FVPL	2	17,22,27	423	423
B	Derivatives - interest rate hedging, customers	IAS 39	Yes	FVPL	2	17,22,27	159	159
B	Derivatives - interest rate hedging, fixed rate loans	IAS 39	Yes	FVPL	2	17,22,27	2	2
B	Derivatives - interest rate hedging, funding	IAS 39	Yes	FVPL	2	17,22,27	252	252
B	Derivatives - commodity hedging	IAS 39	Yes	FVPL	2	17,22,27	39	39
A	Subordinated loan capital	IFRS 9	Yes	AC		39.28	1 200	1 200
	Total liabilities						**91 438**	**91 417**

A	AC - Amortisized 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. Makes sales in the portfolio when one needs liquidity to settle liabilities.
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.

Note 2 – Accounting principles

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 event of a fair value hedge, the change in value of the hedged risk is recognised and changes from the opening balance are recognised in the income statement. The Bank has also, to a very minor extent, utilised cash flow hedging.

Other balance sheet asset and liability items

All other asset and liability items on the balance sheet, that are not financial, are covered by other IFRS rules, not IFRS 9, and are measured at amortised cost.

After first time recognition the financial instruments are presented as described on previous page.

Recognition, derecognition and measurement of financial assets and liabilities

"Fair value" is the price that would have been obtained upon the sale of an asset, or paid for the transfer of a liability, in a well-ordered transaction between market players at the time of measurement.

"A financial asset's or a financial liability's amortised cost" is the amount that the financial asset or the financial liability is measured at upon initial recognition, minus repayments of the principal, plus or minus cumulative amortisation using an effective interest rate method of any difference between the initial amount and the amount due, and minus any reduction (direct or through the use of an appropriation account) for falls in value or exposure to loss.

"An effective interest rate method" is used to calculate amortised cost for a financial asset or a financial liability (or a group of financial assets or financial liabilities) and for allocating interest income or interest costs over a relevant period. The "effective interest rate" is the interest rate that exactly discounts estimated future cash receipts or payments over the financial instrument's expected lifetime, or over a shorter period if this is appropriate, to the net capitalised value of the financial assets or the financial liability. When calculating the effective interest rate, an institution must estimate cash flows and take into account all of the contractual terms and conditions associated with the financial instrument (e.g. early repayment, purchase options and similar options), but should not take account of future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see AG8A – AG8B), transaction costs and all other additional payments or discounts. It is assumed that the cash flows and expected lifetime of a group of similar financial instruments can be estimated reliably. However, in those rare cases where it is not possible to estimate the cash flows or expected life of a financial instrument (or a group of financial instruments) reliably, the institution must use the contractual cash flows throughout the period of maturity agreed for the financial instrument (or the group of financial instruments).

"Derecognition" is the elimination of a previously recognised financial asset or financial liability from an institution's balance sheet. 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, cancelled or expired.

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.

Impairment losses on loans
According to IAS 39, impairment losses should 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 applies to financial assets measured at amortised cost and that 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 rate 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 recognised through profit or loss. 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.

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 excists, 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.

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 1 January 2004, all properties were value-adjusted to fair market value. According to IAS 16, these properties are deemed to have an estimated acquisition cost that corresponds to the value-adjusted amount at the time of such value adjustment. Property, plant and equipment that are depreciated are subject to a write-down test in accordance with IAS 36 whenever indicated by the circumstances.

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.

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.

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. Realisedlossesthat 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.

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

Pensions
SpareBank 1 Nord-Norge is required pursuant to the Mandatory Company Pension Act to provide an occupational pension schemes for its employees. The bank';s pension schemes satisfy the requirements of the aforementioned act. The Group has a defined contribution scheme and a closed defined benefit scheme. The defined contribution scheme is with SpareBank 1 Forsikring.The defined benefit pension scheme is administered by a separate pension fund, SpareBank 1 Nord-Norge Pensjonskasse, which manages the pension fund's assets pursuant to the guidelines that apply for pension funds. On 1 July 2006 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

Note 2 – Accounting principles

Transitional IFRS 9

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

ASSETS

Instrument	Description	IAS 39	IFRS 9
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 Alliance 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	FVPL
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.	FVPL (FVO)	FVPL (FVO)
Shares, not trading	The available for sale category in IAS 39 has not be continued in IFRS 9.	FVPL	FVPL
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.	FVPL	FVPL
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 tier 1 capital instruments are treated as equity instruments.	FVPL	FVPL

DEBT

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	Amortisized cost
FVOCI	Fair Value Other Comprehensive Income
FVPL	Fair Value Profit and loss
FVPL (FVO)	Fair Value Option

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

The annual accounts have been prepared on the basis that the group will continue as a going concern. This assumption was valid in accordance with the Boards opinion at the time the financial statements were approved for publication. The Boards dividend proposal is stated in the annual report. Proposed dividends and distributions for charitable purposes are classified as equity until final approval has been granted.

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 below together with descriptions of the assessments on which the classifications are based.

Transitional IFRS 9

Følgende tabell viser effekter ved implementering av IFRS 9

GROUP

Financial instruments	Notes	IAS 39 Classification	IFRS 9 Classification	Booked value IAS 39	Booked value IFRS 9	Transitional effects
Cash and balances with Central Banks		Fair Value profit and Loss	Fair Value Profit and Loss	775	775	0
Loans and advances to credit institutions	10	Amortisezed Cost	Amortisized Cost	2 655	2 655	0
Loans and advances to customers with fixed rate	11	Fair Value Option	Fair Value Option	6 395	6 395	0
Loans and advances to customers for sale	11	Amortisized Cost	Fair Value Profit and Loss	4 002	4 002	0
Other loans and advances to customers	11	Amotisized Cost	Amortisized Cost	64 090	64 039	-51
Bonds and certificates	29	Fair Value profit and Loss	Fair Value Profit and Loss	11 541	11 541	0
Financial derivatives	17	Fair Value profit and Loss	Fair Value Profit and Loss	1 511	1 511	0
Shares	30	Available for sale	Fair Value OCI	43	43	0
Shares	30	Available for sale	Fair Value Profit and Loss	18	18	0
Shares	30	Fair Value OCI	Fair Value Profit and Loss	123	123	0
Shares	30	Fair Value Profit and Loss	Fair Value Profit and Loss	86	86	0
Liabilities to credit institutions	10	Amortisized Cost	Amortisized Cost	-434	-434	0
Deposits from customers	35	Amortisized Cost	Amortisized Cost	-57 849	-57 849	0
Debt securities in issue	36	Amortisized Cost	Amortisized Cost	-23 553	-23 553	0
Financial derivatives	17	Fair Value profit and Loss	Fair Value Profit and Loss	-902	-902	0
Subordinated loan capital	39	Amortisized Cost	Amortisized Cost	-850	-850	0
TOTAL				**7 651**	**7 600**	**-51**

Transitional IFRS 9

Following table shows IFRS 9 transitional effects

GROUP					
Financial assets	**Notes**	**IAS 39 booked value at 31.12.17**	**Classification effects**	**Change by new measurement**	**IFRS 9 booked value at 01.01.18**
Amortisized Cost					
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**
Total effect amortized cost		**70 664**	**-4 002**	**-51**	**66 611**
Fair Value Profit and Loss					
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**
Total effect fair value profit and loss		**20 515**	**4 020**	**0**	**24 535**
Fair Value OCI- with reclassification					
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**
Total effect fair value OCI with reclassification		**0**	**43**	**0**	**43**
Fair Value OCI- without reclassification					
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**
Total effect fair value OCI- without reclassifiaction		**18**	**-18**	**0**	**0**
Fair Value OCI- available for sale					
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**
Total effect fair value OCI- available for sale		**43**	**-43**	**0**	**0**
Total financial assets		**91 197**	**43**	**-51**	**91 189**

Transitional IFRS 9

Following table shows IFRS 9 transitional effects

GROUP

Financial debt	IAS 39 booked value at 31.12.17	Classification effects	Change by new measurement	IFRS 9 booked value at 01.01.18
Amortisized Cost				
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**
Total effects amortisized cost	**-82 686**	**0**	**0**	**-82 686**
Fair Value Profit and Loss				
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**
Total effects Fair Value Profit and Loss	**-902**	**0**	**0**	**-902**
Total financial debt	**-83 588**	**0**	**0**	**-83 588**

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 hold to maturity in IAS 39 but now to amortisized cost after IFRS 9	516		20	**536**
Finacial debt avaiable for sale in IAS 39 but now to amortisized cost after IFRS 9	0			**0**
Total assets and debt to amortisized cost after IFRS 9	**516**		**20**	**536**
Loans and financial assets hold to maturity in IAS 39 but now to fair value profit and loss after IFRS 9				
Finacial debt avaiable for sale in IAS 39 but now to fair value profit and loss after IFRS 9				
Total assets and debt to fair value profit and loss after IFRS 9				
Guarantee liabilities	3		4	**7**
Loan approvals			27	**27**
Total guarantee liabilities and loan approvals	**3**		**31**	**34**
Total change write-downs	**519**		**51**	**570**

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.

The Bank makes loss provisions in band 3 for loans that have seen a significant increase in credit risk since granting and for which objective evidence of a loss exists. The loss provision consists of the expected loss over the lifetime of the loan based on the increased credit risk due to non-performance. Such loss provisions 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 loss provision. Subsequent changes in interest rates are taken into account for loan agreements subject to a variable interest rate.

Loss provisions in bands 1 and 2 are calculated for all new loans and loans without significantly higher credit risk than upon granting in the form of 12-month expected loss (band 1) and for all loans where there has been a significant increase in credit risk since granting, even if no loss event has occurred (band 2). An expected loss in phase 2 consists of the expected loss over the loan’s entire lifetime.

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 IFRS 9.

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 are 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. 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.

Note 4 – Business Areas

GROUP

31.12.18 Amounts in NOK million	Retail	Corporate	Markets	Sparebank 1 Regnskapshuset Nord-Norge	Eiendomsmegler 1 Nord-Norge	Sparebank 1 Finans Nord-Norge	Unspecified	Total
Net interest income	1 038	635	10	0	0	247	-34	**1 896**
Net fee-, commision and other operating income	644	73	4	159	195	6	-24	**1 057**
Net income from financial investments	4	13	33	0	0	0	413	**463**
Total costs	923	134	21	137	181	81	-4	**1 474**
Result before losses	762	587	26	22	14	172	359	**1 942**
Losses	17	8	0	0	0	-3	0	**22**
Result before tax	745	579	26	22	14	175	359	**1 920**
Total lending	49 553	25 053	0	0	0	6 257	1 282	**82 145**
Loss provision stage 3	-32	-96	0	0	0	-34	0	**-162**
Loss provision stage 2	-28	-106	0	0	0	-23	0	**-157**
Loss provision stage 1	-23	-149	0	0	0	-20	0	**-192**
Other assets	0	5 125	0	94	94	56	19 153	**24 522**
Total assets per business area	49 470	29 827	0	94	94	6 236	20 435	**106 156**
Deposits from customers	34 179	29 806	0	0	0	0	0	**63 985**
Other liabilities and equity capital	15 306	0	0	94	94	6 236	20 441	**42 171**
Total equity and liabilities per business area	49 485	29 806	0	94	94	6 236	20 441	**106 156**

GROUP

31.12.17 Amounts in NOK million	Retail	Corporate	Markets	Sparebank 1 Regnskapshuset Nord-Norge	Eiendomsmegler 1 Nord-Norge	Sparebank 1 Finans Nord-Norge	Unspecified	Total
Net interest income	1 049	566	13	0	0	208	-65	1 770
Net fee-, commision and other operating income	624	60	7	62	82	0	157	992
Net income from financial investments	4	10	28	0	0	0	511	552
Total costs	864	135	-24	49	71	-63	333	1 366
Result before losses	813	500	71	13	11	271	269	1 948
Losses	24	22	0	0	0	138	0	184
Result before tax	789	478	71	13	11	133	269	1 764
Total lending	45 676	23 923	0	0	0	5 404	2 748	77 751
Loss provision stage 3	-11	-267	0	0	0	-30	0	-308
Loss provision stage 1 and 2	-73	-198	0	0	0	-29	0	-300
Other assets	0	2 087	0	69	80	148	17 659	20 043
Total assets per business area	45 592	25 545	0	69	80	5 493	20 407	97 186
Deposits from customers	32 304	25 545	0	0	0	0	0	57 849
Other liabilities and equity capital	13 288	0	0	69	80	5 493	20 407	39 337
Total equity and liabilities per business area	45 592	25 545	0	69	80	5 493	20 407	97 186

Note 5 – Equity and capital adequacy ratio

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

In January 2007, SpareBank 1 Nord-Norge was authorised to use IRB models to calculate capital requirements for credit risk. In February 2015, the Bank was also authorised to use the advanced IRB method for the corporate portfolio. The use of IRB places great demands on the Bank's organisation, competence, risk models and risk management systems.

SpareBank 1 Nord-Norge, and other Norwegian IRB banks, are subject to transitional rules regarding the magnitude of the risk-weighted calculation basis. The transitional rules mean that the risk-weighted calculation basis cannot be lower than 80 per cent of the risk-weighted calculation basis under Basel I. This is referred to as the "Basel I floor". As far as SpareBank 1 Nord-Norge is concerned, the "Basel I floor" is actualised at the Group level, but not at the Parent Bank level as at 31.12.18.

Egulatory capital requirements
As at 31.12.18, the regulatory minimum requirement for the core Tier 1 capital ratio was 13.5 per cent. This included the minimum requirement of 4.5 per cent, the total buffer requirement of 7.5 per cent, and the Pillar 2 requirement of 1.5 per cent.

The Financial Supervisory Authority of Norway has postponed the planned SREP from 2018 to 2019, and a new SREP is expected to be scheduled for 2019. The Pillar 2 decision from SREP 2016 (1.5 per cent) therefore still applies.

Capital targets
SpareBank 1 Nord-Norge's goal is to maintain indisputable financial strength and satisfy the regulatory minimum requirements for capital adequacy at all times. The Group has a target core Tier 1 capital ratio of 1 percentage point above the regulatory minimum requirement, which results in a target core Tier 1 capital ratio of 14.5 per cent.

Treatment of associated companies and joint ventures
The Group uses proportional consolidation for its capital adequacy reporting for the stakes in SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, BN Bank, and SpareBank 1 Kredittkort.

SpareBank 1 ID and SpareBank 1 Axept were merged into SpareBank 1 Betaling in 4Q 2018. The book value of the ownership interest in the merged company was deducted in its entirety from the core Tier 1 capital. This accounting treatment is in line with the Ministry of Finance's decision (June 2018).

The book value of the stake in SpareBank 1 Gruppen is deducted from core Tier 1 capital pursuant to the applicable capital adequacy regulations.

Changes to the capital adequacy regulations
In December 2018, the Ministry of Finance decided that the countercyclical buffer requirement will increase to 2.5 per cent with effect from 31.12.19. This will increase the regulatory minimum requirement for the core Tier 1 capital ratio by 0.5 percentage points.

The "Basel I floor" is expected to be eliminated in 2019 and the so-called "SME discount" is expected to be implemented. The latter entails lower capital requirements for loans to small and medium-sized enterprises. The deadline for implementing the changes has not yet been confirmed.

In October 2018, the Financial Supervisory Authority of Norway published proposed amendments to the rules for identifying systemically important financial institutions (SIFIs). The proposed changes will result in SNN being deemed systemically important. The requirement for the core Tier 1 capital ratio will thus increase by 2 percentage points and the requirement for the leverage ratio will increase by 1 percentage point to 6 per cent. As at 31.12.18, the overall effect of eliminating the "Basel I floor" and introducing the SIFI requirement for the Group is expected, absent any other changes, to entail an increased buffer between the reported core Tier 1 capital ratio and the regulatory minimum requirement. Final confirmation of the proposed changes is expected in 2019.

In December 2017, the Basel Committee finalised the "Basel III regulations". The regulations will be introduced in the EU in 2022, with transitional rules in place until 2027. The final date for implementing them in Norway has still to be confirmed.

Note 5 – Equity and capital adequacy ratio

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
1 807	**1 807**	Equity Certificate capital	**1 807**	1 807
843	**843**	Equity Certificate premium reserve	**843**	843
1 980	**2 200**	Dividend Equalisation Fund	**2 200**	1 980
4 770	**5 024**	The Saving Bank's Fund	**5 024**	4 770
585	**585**	Donations	**585**	585
35	**42**	Fair Value Reserve	**42**	35
67	**31**	Other equtiy capital	**1 777**	1 749
530	**780**	Hybrid capital	**780**	530
10 617	**11 312**	**Total book equity**	**13 058**	12 299
-530	**-780**	Hybrid capital	**-780**	-530
		Tier 1 Capital		
-866	**-866**	Allocated dividends	**-866**	-866
		Adjusted Tier 1 capital from consolidated financial institutions	**-100**	-36
		Goodwill and other intangible assets	**-113**	-87
-23	**-25**	Adjustments to CET 1 due to prudential filters	**-28**	-27
-130	**-144**	Defined benefit pension fund assets gross amount	**-154**	-136
-75	**-4**	IRB shortfall of credit risk adjustments to expected losses	**-49**	-36
		CET 1 instruments of financial sector entities where the institution does not have significant investment over 10% threshold limit	**-511**	-589
	-137	Deduction for non-significant investments in the financial sector	**-123**	
8 993	**9 356**	**Common equity Tier 1 capital**	**10 334**	9 992
530	**780**	Hybrid Tier 1 bonds	**1 062**	869
		Own hybrid Tier 1 bonds	**0**	-4
9 523	**10 136**	**Tier 1 capital**	**11 396**	10 857
		Tier 2 Capital		
850	**1 200**	Subordinated loans eligible as T2 Capital	**1 644**	1 328
		Deduction for expected losses on IRB		
-61	**-136**	T2 instruments of financial sector entities where the institution have significant investment	**-136**	-44
789	**1 064**	**Tier 2 capital ratio**	**1 508**	1 284
10 312	**11 200**	**Total eligible capital**	**12 904**	12 141

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PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Total risk exposure amount		
35 250	**36 289**	Credit risk internal rating based approach (IRB)	**38 238**	36 969
7 694	**8 147**	Credit risk standardised based approach	**15 997**	14 375
42 944	**44 436**	**Total credit risk IRB**	**54 235**	51 344
94	**66**	Traded debt instruments	**66**	94
68	**99**	Equity	**99**	68
4 112	**4 604**	Operational Standarised indicator approach (STA)	**5 210**	4 026
		Credit Valuation Adjustment (IRB)		
411	**262**	Credit Valuation Adjustment (CVA)	**1 081**	1 036
47 629	**49 467**	**Total risk exposure amount (IRB)**	**60 691**	56 568
		Transitional rule Basel I	**10 476**	10 655
47 629	**49 467**	**Total risk exposure amount**	**71 167**	67 223
		Transitional rule Basel I	**15 %**	16 %
		Capital requirements		
935	**936**	Corporates - specialised lending	**1 042**	1 026
144	**72**	Corporates - other	**77**	154
352	**363**	Corporate - small and medium entities (SME)	**380**	362
920	**1,026**	Retail - secured by real estate	**1 496**	1 336
65	**66**	Retail - other	**63**	66
405	**441**	Equity IRB	**2**	13
2 820	**2 903**	**Total IRB capital requirements**	**3 059**	2 958
616	**652**	Total standardised capital requiremetns	**1 280**	1 150
3 436	**3 555**	**Capital requirements credit risk**	**4 339**	4 108
8	**5**	Traded debt instruments	**5**	8
5	**8**	Equity	**8**	5
329	**368**	Operational Standarised indicator approach (STA)	**417**	322
33	**21**	CVA	**86**	83
		Transitional rule Basel I	**838**	852
3 810	**3 957**	**Capital requirements**	**5 693**	5 378

Note 5 – Equity and capital adequacy ratio

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Capital ration		
20.0%	**20.5%**	Tier 1 Capital ratio	**16.0%**	16.2%
1.7%	**2.2%**	Tier 2 Capital ratio	**2.1%**	1.9%
21.7%	**22.6%**	Capital Adequacy ratio	**18.1%**	18.1%
18.9%	**18.9%**	Common Equity Tier 1 Capital ratio	**14.5%**	14.9%
20.0%	**20.5%**	Tier 1 Capital IRB ratio	**18.8%**	19.2%
21.7%	**22.6%**	Capital Adequacy IRB ratio	**21.3%**	21.5%
18.9%	**18.9%**	Core Tier 1 capital ratio IRB, incl. retained share of the profit	**17.0%**	17.3%
		Capital Requirements Directive (CRD IV):		
2 143	**2 226**	Minimum common Tier 1 Equity Capital 4.5%	**3 203**	3 025
		Capital buffers		
1 429	**1 484**	Systemic risk buffer 3%	**2 135**	2 017
953	**989**	Countercyclical capital buffer 2%	**1 423**	1 344
1 191	**1 237**	Capital conservation buffer 2.5%	**1 779**	1 681
5 715	**5 936**	**Total Tier 1 Capital after buffers 7.5%**	**8 540**	8 067
714	**742**	Pilar II requirements 1.5%	**1 068**	1 008
6 430	**6 678**	**Total requirements Common Equity Tier 1 capital 13.5%**	**9 608**	9 075
2 563	**2 678**	**Available Common Equity Tier 1 Capital**	**726**	917

Leverage Ratio

31.12.17	31.12.18	Exposure target	31.12.18	31.12.17
95 337	**104 042**	Balance sheet items	**153 058**	147 202
3 168	**3 174**	Off balance sheet items	**4 652**	4 486
-21	**-25**	Other adjustments	**-33**	-34
98 484	**107 191**	**Total exposure target**	**157 677**	151 654
9 523	**10 136**	Tier 1 capital	**11 396**	10 857
9.7%	**9.5%**	**Leverage ratio**	**7.2%**	7.2%

Note 6 – Financial risk management

Risk exposure: Definition and origin

SpareBank 1 Nord-Norge is exposed to various types of risk through its activities. The most important risks are:

Credit risk

The risk of losses due to customers or counterparties being unable or unwilling to meet their financial obligations in accordance with an agreement. In a loan situation, the credit risk is that the borrower will not comply with the loan agreement.

Credit risks arise as a result of and are primarily related to:

- Financing/loans in the retail market.
- Financing/loans in the business market.

The Group is also exposed to credit risk from investments in interest-bearing securities. This is described in more detail under "Market risk" below.

Liquidity and financing risk

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.

Liquidity and financing risks arise as a result of and are primarily related to:

- Different periods of maturity and due dates for assets and liabilities.
- Dependence on the capital market.
- Regulatory changes.

Market risk

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 risks arise as a result of and are primarily related to::

- The management (including also holdings) of liquidity reserves.
- Changes in interest rates that affect both assets and liabilities.
- Changes in exchange rates that affect both assets and liabilities.
- Changes in shares prices that affect assets.
- Customer business within interest rate and currency trading.

Ownership risk

The risk of the Group suffering a loss from ownership interests in strategically owned companies, or the Group having to supply new capital to strategically owned companies.

Ownership risks arise as a result of, and are related to, the ownership of strategically important companies.

Operational risk (including compliance risk, reputational risk, etc.)

The risk of people, processes, systems or external events hindering the Group's ability to meet its objectives. Operational risk is a function of internal controls, employee behaviour, process effectiveness, supervision by third parties, physical security and crisis and continuity planning, etc.

Operational risks arise as a result of, and are related to, among other things, (not exhaustive):

- Processes and systems.
- Technology risk (cyber and IT).
- Regulatory requirements.

Insurance risk:

The risk arising from insurance activities in the Group and the fluctuations these cause in the Group's result.

Insurance risks arise due to the ownership interest in SpareBank 1 Gruppen.

Pension risk

The risk that arises due to changes in variables that affect the Group's liabilities associated with future pension payments.

Pension risks arise as a result of the Group's defined benefit pension schemes..

Systemic risk

The risk that financial instability will disrupt the provision of financial services to such an extent that it could result in significant negative effects for production and employment.

Systemic risks arise as a result of the characteristics of the financial system in which the Group operates.

Excessive debt accumulation
The risk that the proportion of outside financing on the Group's balance sheet becomes too high in relation to the Group's equity.

The risk of excessive debt accumulation can occur as a result of the Group's credit models estimating risk weightings too low in relation to the actual risks in the credit engagements.

Business risk
The risk of unexpected income and cost fluctuations as a result of the Group's operations or changes to external conditions such as the market situation or government ´regulations. The latter especially applies to falls in income due to increased competition, changes in framework conditions or other changes in business conditions, as well as changes to the costs picture that one cannot compensate for through other cost cutting or income increasing measures.

Business risks arise as a result of, and are related to, among other things, (not exhaustive):

- The business model.
- The market situation.
- Strategic ventures.
- The macroeconomic situation.
- The regulatory framework conditions.

Management and control of the Group's risk exposure

Risk and capital management at SpareBank 1 Nord-Norge
SpareBank 1 Nord-Norge's risk and capital management should support the Group's strategic development and achievement of targets, and at the same time ensure financial stability and proper asset management. This should be achieved through:

- A healthy risk culture characterised by a high awareness of risk and capital management.
- A good understanding of what risks drive earnings.
- Pricing products, as far as possible, in line with the underlying risk.
- Striving to achieve the optimal allocation of capital within the adopted business strategy.
- Exploiting synergy and diversification effects.
- Preventing individual events causing serious damage to the Group's financial position.

Management and control framework
A framework has been established for managing and controlling the Group's risk exposure. This covers both individual risks and overall risk exposure, and comprises:

- Governing documents.
- Organisation and the division of responsibilities.
- System support and measurement methods.
- Monitoring and reporting

Risk strategy
The Group's risk strategy defines the risk the Group is willing to assume in order to achieve its strategic objectives, as well as how the risk will be managed and monitored. The risk strategy is adopted by the Board of Directors and is based on the following:

- Monitoring and assessing the Group's risk exposure.
- Calculating the Group's risk capacity.

Defining the Group's risk willingness
It is a fundamental principle that the Group's level of risk must be within the limits for the Group's risk capacity and willingness. The Group must never breach the levels set for risk willingness when these are defined as risk limits. The risk strategy defines the direction for underlying strategies, policies, routines and guidelines in each area of risk.

A more detailed description is provided below of the management and monitoring within those areas of risk that have the largest explicit effect on the accounts as at 31.12.18.

Credit risk
Credit risk is managed via the Group's frameworks for granting credit, commitment monitoring and portfolio management. These include risk limits, targets, industry-specific policy requirements, authority structures, credit models, continuous measurement, monitoring and reporting. The Group particularly focuses on concentration risk and the quality of the loan portfolio, which includes monitoring this both when credit is granted and during ongoing portfolio management. The established management and monitoring must support the Group's risk willingness in the area.

SpareBank 1 Nord-Norge has, in partnership with SpareBank 1-alliansen, developed its own credit models that are used for::

- Calculating capital requirements for credit risk (IRB)
- Granting credit.
- Monitoring commitments.
- Portfolio management.
- Calculating expected credit loss (ECL).

The models are based on three main components:

1) Probability of default (PD):
   Customers are classified in risk classes according to the likelihood of the customers defaulting on their commitments during a 12-month period. The probability of default is calculated based on historical data series for key financial figures, as well as non-financial criteria such as behaviour and age. In order to classify customers according to the probability of default, nine risk classes (A–I) are used. In addition, the Group has two risk classes (J and K) for customers with commitments in default and/or commitments that have been written down.
2) Expected exposure at default (EAD):
   A calculated magnitude that indicates the expected exposure to the customer in the event of default.
3) Loss given default (LGD): A calculated magnitude that indicates 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 figures are estimated based on the Bank's own experience over time. Seven different classes (1-7) are used for classification in relation to security coverage.

The credit models are verified (validated) and continuously being improved. Quantitative and qualitative validation processes are conducted every year. In the quantitative validation process, an assessment is made of whether the model's estimates and assumptions are functioning as intended. In the *qualitative* validation process, an assessment is made of whether the IRB system is well-integrated throughout the organisation and is being used as an important component in the Group's risk management and decision-making.

For further information, please see the related notes and the Group's Pillar 3 report.

Liquidity and financing risk

Liquidity and financing risks are managed using the Group's framework for this area. This includes risk limits, targets, continuous measurement, monitoring and reporting. The Group particularly focuses on predictability and stability in relation to liquidity and financing. The established management and monitoring must support the Group's risk willingness in the area.

Customer deposits are the most important source of funding for the Group. As at 31.12.18, the deposit coverage rate (excl. commission loans) was 79%. Other funding consists of borrowing in the form of covered bonds through SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, senior unsecured bonds, subordinated loans and hybrid Tier 1 instruments.

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

The proportion of funding in foreign currency has increased in recent years. The Group has good capacity for funding in Norwegian kroner, but periodically low liquidity in the Norwegian market means that the Group finds being active in other markets for issuing securities reduces risk. The Bank has ratings from Moody's and Fitch in order to secure good access to these capital markets. 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". The Bank also has a joint EMTN loan programme with SpareBank 1 Østlandet and SpareBank 1 SMN for borrowing in foreign currency.

The liquidity coverage ratio (LCR) is one of the liquidity area's most important management parameters. The LCR requirement means that the Group must at all times have liquidity reserves of at least 100%; in other words, that the holding of liquid assets must be at least equal to the net liquidity outflow in a given stress period of 30 calendar days. The regulatory minimum requirement for total LCR is 100%. As at 31.12.18, the Group's total LCR was 172%.

The net stable funding ratio (NSFR) key figure is used to assess the extent to which the Group has adequate long-term funding. NSFR is defined as available stable funding relative to required stable funding. No regulatory minimum requirement has been introduced for NSFR in Norway, but the Financial Supervisory Authority of Norway expects Norwegian banks to have an NSFR of at least 100 per cent. As at 31.12.18, the Group's total NSFR was 111%.

For further information, please see the related notes and the Group's Pillar 3 report.

Market risk

Market risks are managed using the Group's framework for this area. This includes risk limits, continuous measurement, monitoring and reporting. The Group takes a conservative approach to risk exposure in this area. This means the Group seldom takes positions in securities and financial instruments with a view to resale or benefiting from price or interest rate variations in the short term. The Group's general rule is that it should limit market risk through the active use of hedging instruments. Uncovered risks should only occur within specially allotted limits. The established management and monitoring must support the Group's risk willingness in the area.

Interest rate risk is the risk of loss as a result of interest rate fluctuations. Interest rate risk is measured by simulating how various distortions to the interest rate curve affect the Group's positions. 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 methodology described in the Financial Supervisory Authority of Norway's circular 12/2016.

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 potential loss associated with currency risk is calculated using methodology described in the Financial Supervisory Authority of Norway's circular 12/2016.

Equity risk is the risk of loss due to changes in the value of equity positions in which the Group has invested. The potential loss associated with equity risk is calculated using methodology described in the Financial Supervisory Authority of Norway's circular 12/2016.

The Group's equity exposure has been gradually reduced in recent years due to the cultivation of its core activities.

For further information, please see the related notes and the Group's Pillar 3 report.

Ownership risk

Ownership risk is managed by active board participation in a number of part-owned companies. SpareBank 1 Nord-Norge is primarily exposed to ownership risk through ownership interests in SpareBank 1 Gruppen AS (19.5%), BN Bank ASA (23.5%), SpareBank 1 Boligkreditt AS (17.82%), SpareBank 1 Næringskreditt AS (13.97%), Sparebank 1 Banksamarbeidet DA (17.74%), SpareBank 1 Kredittkort AS (17.00%), SpareBank 1 Betaling AS (18.57%), SMB Lab AS (20.0%) and SpareBank 1 Markets (12.2%).

The potential loss associated with ownership risk is calculated using various approaches, some of which are based on methodology for ownership risk and equity risk described in the Financial Supervisory Authority of Norway's circular 12/2016.

For further information, please see the related notes and the Group's Pillar 3 report.

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. The exposures are grouped according to total commitments. Total commitments are the total of gross loans, guarantees, unutilised credit and accrued interest.

Parent Bank	Average unsecured exposure - %	Average unsecured exposure - %	Total amount	Total amount
Amounts in NOK million	2018	2017	2018	2017
Very low risk	**0.3%**	0.4%	**38 701**	38 150
Low risk	**1.1%**	1.4%	**23 054**	21 766
Medium risk	**1.7%**	1.4%	**21 112**	18 720
High risk	**0.1%**	0.1%	**2 504**	2 151
Very high risk	**0.1%**	0.2%	**1 513**	1 504
In default and written down	**0.0%**	0.0%	**400**	951
Total	**3.3%**	3.5%	**87 284**	83 242

Group	Average unsecured exposure - %	Average unsecured exposure - %	Total amount	Total amount
Amounts in NOK million	2018	2017	2018	2017
Very low risk	**0.3%**	0.4%	**36 584**	35 761
Low risk	**1.0%**	1.4%	**24 503**	22 865
Medium risk	**1.9%**	1.6%	**22 263**	20 416
High risk	**0.1%**	0.1%	**2 886**	2 505
Very high risk	**0.2%**	0.2%	**1 823**	1 762
In default and written down	**0.0%**	0.0%	**449**	909
Total	**3.5%**	3.7%	**88 508**	84 218

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 2018. For further information, please see the Pilar 3-report..

PARENT BANK			GROUP	
31.12.17	**31.12.18**	Amounts in NOK million	**31.12.18**	**31.12.17**
		Maximum on balance credit exposure		
775	**3 786**	Cash and balances with central banks	**3 786**	775
7 173	**5 976**	Loans and advances to credit institutions	**1 282**	2 748
62 731	**65 265**	Loans and advances to customers measured at amortised cost	**71 207**	68 068
6 935	**9 615**	Loans and advances to customers measured at fair value	**9 656**	6 935
11 541	**12 560**	Certificates and bonds	**12 560**	11 541
1 511	**1 653**	Financial derivatives	**1 653**	1 511
90 666	**98 855**	**Maximum on balance credit exposure**	**100 144**	91 578
		Maximum off balance credit exposure		
1 259	**1 171**	Contingent liabilities	**1 171**	1 152
5 144	**5 258**	Unutilised credits	**5 193**	5 315
3 102	**2 074**	Loan approvals	**2 092**	3 110
9 505	**8 503**	**Maximum off balance credit exposure**	**8 456**	9 577
100 171	**107 358**	**Maximum credit exposure**	**108 600**	101 155
		Net balance credit exposure		
775	**3 786**	Cash and balances with central banks	**3 786**	775
7 173	**5 976**	Loans and advances to credit institutions	**1 282**	2 748
3 557	**4 808**	Loans and advances to customers	**4 748**	4 148
11 541	**12 560**	Certificates and bonds	**12 560**	11 541
1 511	**1 653**	Financial derivatives	**1 653**	1 511
24 557	**28 783**	**Maximum on balance credit exposure**	**24 029**	20 723
		Banking activities by geography		
11 536	**13 372**	Finnmark	**14 548**	12 542
27 290	**30 973**	Nordland	**33 177**	29 201
11 183	**11 625**	Øvrige Norge	**12 244**	11 766
27 202	**28 583**	Troms inkl Svalbard	**25 856**	24 611
403	**88**	Utlandet	**105**	406
77 614	**84 642**	**Total**	**85 931**	78 526
		Capital Market activity by geography		
10 049	**10 433**	Norway	**10 433**	10 049
2 996	**3 771**	Europe/Asia	**3 771**	2 996
7	**9**	USA	**9**	7
13 052	**14 213**	**Total**	**14 213**	13 052
90 666	**98 855**	**Total maximum credit exposure (recognised)**	**100 144**	91 578

SpareBank 1 Nord-Norge uses collateral to reduce its credit risk. The most common collateral in the retail market is real estate. Means of collateral in the corporate market are commercial property, ships and vessels, as well as collateral in other assets.

The following table stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments for abtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on the change in house price indices. This tabel is only provided at the parent bank.

LTV - Mortgage loan customer		
Ratio Amounts in NOK million	**2018**	**2017**
< 50%	**7 194**	7 457
50% - 70%	**15 173**	14 312
70% - 90%	**21 890**	19 123
90% - 100%	**1 193**	1 071
> 100%	**1 517**	1 405
Total gross lending (retail marked)	**46 967**	43 368

Concentration risk

Concentration risk is the risk that arises from high cumulative exposure to a single counterparty or issuer of security. The concentration risk may also be linked to counterparties with operations within the same industry or geographical area. For more information please refer to SpareBank 1 Nord-Norge's Pillar 3. Intermediary loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are sold and derecognised from the balance sheet.

IAS 39	IFRS 9	IFRS 9	Loans broken down by different types	IFRS 9	IFRS 9	IAS 39
31.12.17	**01.01.18**	**31.12.18**	Amounts in NOK million	**31.12.18**	**01.01.18**	**31.12.17**
			Financial leasing [1])	**3 220**	2 782	2 782
6 148	6 148	**6 581**	Overdraft- and working capital facilities	**6 657**	6 150	6 150
1 770	1 770	**1 690**	Building loans	**1 690**	1 770	1 770
68 921	68 921	**72 585**	Repayment loans	**70 578**	67 049	67 049
76 839	76 839	**80 856**	**Gross loans to and advanves to customers**	**82 145**	77 751	77 751
			Of this, subordinated loan capital accounted for:			
61	61	**136**	Subordinated loan capital in financial institutions	**136**	45	45
61	61	**136**	Subordinated loan capital shown under loans to customer	**136**	45	45
			Loans to emplyees			
1 205	1 205	**1 222**	Loans to employees	**1 222**	1 205	1 205
			Intermediary loan			
30 482	30 482	**32 828**	Loans transfered to SpareBank 1 Boligkreditt	**32 828**	30 482	30 482
		426	Loans transfered to SpareBank 1 Næringskreditt	**426**		
30 482	30 482	**33 254**	**Total intermediary loans**	**33 254**	30 482	30 482
107 321	107 321	**114 110**	**Total lending incl. intermediary loans**	**115 399**	108 233	108 233

1) See next page for financial leasing.

Note 8 – Maximum credit exposure

Financial leasing

1) Loans and advances to customers relating to financial leasing	31.12.18	31.12.17
– Maturities of less than 1 year	**470**	114
– Maturities of more than 1 year but no more than 5 years	**786**	1 649
– Maturities of more than 5 years	**2 177**	1 198
Total	**3 433**	2 961
Income received, not yet earned, relating to financial leasing	**-213**	-179
Net investments relating to financial leasing	**3 220**	2 782
Net investments in financial leasing may be analysed in the following way:		
– Maturities of less than 1 year	**441**	107
– Maturities of more than 1 year but no more than 5 years	**737**	1 550
– Maturities of more than 5 years	**2 042**	1 125
Total	**3 220**	2 782

31.12.17		31.12.18		Loans broken down by geographical areas	31.12.18		31.12.17	
Gross share	Loans	Gross share	Loans	Amounts in NOK million	Loans	Gross share	Loans	Gross share
15%	11 308	**15%**	**12 461**	Finnmark	**13 630**	**17%**	12 314	16%
44%	33 962	**39%**	**31 644**	Troms incl. Svalbard	**28 947**	**35%**	31 461	40%
31%	23 781	**36%**	**28 831**	Nordland	**31 021**	**38%**	25 602	33%
10%	7 688	**10%**	**7 834**	Other regions in Norway	**8 444**	**10%**	8 271	11%
0%	100	**0%**	**86**	Utlandet	**103**	**0%**	103	0%
100%	76 839	**100%**	**80 856**	**Sum brutto utland**	**82 145**	**100%**	77 751	100%

Note 9 – Credit quality by class of financial assets

SpareBank1 Nord-Norge uses its own classification system for monitoring credit risk in the portfolio. The exposures are grouped according to gross loans and financial investments. For further information, see the Pilar 3 report.

PARENT BANK

2018 Amounts in NOK million	**Very low risk**	**Low risk**	**Medium risk**	**High risk**	**Very high risk**	**In default or individually written down**	**Total**
Loans and advances to financial institutions	5 976						5 976
Loans and advances to customers							
Retail market	23 998	16 397	5 681	337	415	139	46 967
Corporate market	6 218	5 118	13 386	1 849	957	261	27 789
Public sector	37	87				0	124
Sum	**36 229**	**21 602**	**19 067**	**2 186**	**1 372**	**400**	**80 856**
Financial investments							
Listed government bonds	703						703
Listed other bonds	11 584	0	11	20	-		11 615
Unlisted other bonds	125	0	115	2	-		242
Total	**12 412**	**0**	**126**	**22**	**0**		**12 560**
Total	**48 641**	**21 602**	**19 193**	**2 208**	**1 372**	**400**	**93 416**
Share	52%	23%	21%	2%	2%	0%	100%

PARENT BANK

2017 Amounts in NOK million	**Very low risk**	**Low risk**	**Medium risk**	**High risk**	**Very high risk**	**In default or individually written down**	**Total**
Loans and advances to financial institutions	7 058				23	92	7 173
Loans and advances to customers							
Privatmarked	22 992	13 641	5 876	299	375	185	43 368
Bedriftsmarked	5 363	6 104	11 678	1 469	856	674	26 144
Offentlig		154					154
Sum	35 413	19 899	17 554	1 768	1 254	951	76 839
Financial investments							
Listed government bonds	821						821
Listed other bonds	9 708		10	54			9 772
Unlisted other bonds	757		132	59			948
Total	8 716	208	1 175	34	31		11 541
Total	44 129	20 107	18 729	1 802	1 285	951	88 380
Share	50%	23%	21%	3%	2%	1%	100%

Note 9 – Credit quality by class of financial assets

GROUP

2018 Amounts in NOK million	Very low risk	Low risk	Medium risk	High risk	Very high risk	In default or individually written down	Total
Loans and advances to financial institutions	1 282						1 282
Loans and advances to customers							
Retail market	25 719	16 777	5 969	388	492	208	49 553
Corporate market	6 970	6 187	14 410	2 179	1 189	241	31 176
Public sector	48	86				0	134
Total	**34 019**	**23 050**	**20 379**	**2 567**	**1 681**	**449**	**82 145**
Financial investments							
Listed government bonds	703						703
Listed other bonds	11 584	0	11	20			11 615
Unlisted other bonds	125	0	115	2			242
Total	**12 412**		**126**	**22**			**12 560**
Total	**46 431**	**23 050**	**20 505**	**2 589**	**1 681**	**449**	**94 705**
Share	49%	24%	22%	3%	2%	0%	100%

GROUP

2017 Amounts in NOK million	Very low risk	Low risk	Medium risk	High risk	Very high risk	In default or individually written down	Total
Loans and advances to financial institutions	2 656					92	2 748
Loans and advances to customers							
Retail market	24 464	13 994	6 201	349	455	213	45 676
Corporate market	6 078	6 902	12 865	1 680	1 034	604	29 163
Public sector		164					164
Total	33 198	21 060	19 066	2 029	1 489	909	77 751
Financial investments							
Listed government bonds	821						821
Listed other bonds	9 708		10	54			9 772
Unlisted other bonds	757		132	59			948
Total	11 286	0	142	113	0		11 541
Total	44 484	21 060	19 208	2 142	1 489	909	89 292
Share	50%	24%	22%	2%	1%	1%	100%

Note 10 – Financial institutions - Loans and advances

Loans to financial institutions are measured at amortised cost in accordance with IFRS 9. Amortised cost involves valuation based on the originally agreed cash flows, adjusted for expected loss in the ECL model.

PARENT BANK					GROUP			
31.12.17	Average interest rate % *	31.12.18	Average interest rate % *	Amounts in NOK million	31.12.18	Average interest rate % *	31.12.17	Average interest rate % *
				Loans and advances to financial institutions				
520	0.70%	**450**	**0.39%**	Loans and advances without agreed maturity or notice of withdrawal	**450**	**0.39%**	520	0.70%
6 561	1.99%	**5 526**	**1.82%**	Loans and advances with agreed maturity or notice of withdrawal	**832**	**1.82%**	2 136	1.90%
7 081	1.82%	**5 976**	**1.70%**	**Total**	**1 282**	**1.70%**	2 656	1.53%
				Broken down by the most important foreign currencies				
6 601		**5 765**		NOK	**1 071**		2 176	
4		**10**		GBP	**10**		4	
348		**185**		EUR	**185**		348	
123		**6**		USD	**6**		123	
1		**2**		SEK	**2**		1	
4		**8**		Other foreign currencies	**8**		4	
7 081		**5 976**		**Total**	**1 282**		2 656	
				Deposits from credit institutions				
11	13.78%	**13**	**10.39%**	Loans and deposits from financial institutions without agreed maturity or notice of withdrawal	**13**	**10.39%**	11	12.50%
425	0.41%	**175**	**0.95%**	Loans and deposits from credit institutions with agreed maturity or notice of withdrawal	**174**	**0.95%**	423	0.41%
436	0.88%	**188**	**1.87%**	**Total**	**187**	**1.87%**	434	0.88%
				Broken down by the most important foreign currencies				
0		**174**		NOK	**173**		0	
4		**1**		USD	**1**		4	
1		**5**		EUR	**5**		1	
431		**8**		Other foreign currencies	**8**		429	
436		**188**		**Total**	**187**		434	

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

				Collateral				
480		**398**		The balance sheet value of loans and advances to finacial institutions pledged as collateral for derivatives trading	**398**		480	

Note 11 – Loans and advances to customers

Mortgages for sale to housing credit companies

Mortgages to be sold to mortgage credit companies over the next 12 months are valued at the agreed value at which these loans are to be assigned.

Fixed-rate loans

Actual value is determined by the loans' actual cash flows discounted by a discounting factor based on the swap rate, with the addition of a margin requirement. The margin requirement includes credit markup, administrative markup, anticipated loss, and a liquidity premium. The bank considers on a continual basis changes in observable market rates that can affect the value of these loans. There is also a continuous assessment of possible differences between discount rates and observable market rates for similar loans. The Bank makes appropriate adjustments to the discount rate, if this difference becomes significant. Value changes on loans are included in full in the result of the line - net value changes on financial assets.

Loans at amortised cost

For all loans at amortised cost there has been calculated expected losses and provisions according to IFRS 9. Please also see note 14

PARENT BANK				GROUP		
IAS 39	IFRS 9	IFRS 9	Loans broken down by method of measurement	IFRS 9	IFRS 9	IAS 39
31.12.17	01.01.18	31.12.18	Amounts in NOK million	31.12.18	01.01.18	31.12.17
			Loans at fair value through profit and loss			
6 935	6 935	**7 652**	Loans to customers at fixed interest rates	**7 693**	6 935	6 935
	4 002	**1 963**	Mortgages to customers for sale, housing credit company	**1 963**	4 002	
6 935	10 937	**9 615**	**Total loans at fair value through profit and loss**	**9 656**	10 937	6 935
			Loans at amortized cost			
7 173	7 173	**5 976**	Loans to credit institutions	**1 282**	2 748	2 748
62 731	58 729	**65 265**	Other loans to customers	**71 207**	64 066	68 068
69 904	65 902	**71 241**	**Total loans at amortized cost**	**72 489**	66 814	70 816
76 839	76 839	**80 856**	**Gross loans to and advances to customers**	**82 145**	77 751	77 751
			Provision for credit losses			
	-333	**164**	Provision for credit losses - stage 3	**-162**	-365	
	-100	**-134**	Provision for credit losses - stage 2	**-157**	-112	
	-149	**-172**	Provision for credit losses - stage 1	**-192**	-151	
-309			Individual write-downs as reduction of assets			-308
-271			Collective write-downs for impaired value as reduction of assets			-300
76 259	76 257	**80 386**	**Net loans**	**81 634**	77 123	77 143

As at 31.12.18, contracted outstanding amounts for financial assets that have been written down and that are still subject to enforcement activities amounted to MNOK 147 (MNOK 150 as at 31.12.17). Of this, write-downs from 2018 account for MNOK 22.

Loans broken down by sector/industry

The Bank's total commitments are defined as the total of gross loans, guarantees, unutilised credits and accrued interest. The difference between total commitments and gross loans is not the capitalised assets. Pursuant to IFRS 9, these commitments are also included when calculating loss provisions.

The implementation effect of write-downs for impaired value for capitalised assets is arrived at as the difference between net loans as at 31.12.17 and net loans as at 01.01.18 after IFRS 9 write-downs for impaired value.

PARENT BANK 31.12.18

Loans broken down by sector/industry (IFRS 9) Amounts in NOK million	**Total commit-ments**	**Off - balance sheet**	**Gross loans**	**Provision for credit losses - balance sheet**	**Net loans**	**Provision for credit losses - off blance sheet**
Real estate	12 230	578	11 652	-159	11 481	-14
Financial and insurance activities	7 761	108	7 653	-40	7 613	-2
Fishing and aquaculture	4 265	472	3 793	-17	3 776	-1
Manufacturing	2 630	663	1 967	-53	1 914	-5
Agriculture and forestry	1 238	86	1 152	-20	1 132	0
Power and water supply and construction	2 505	615	1 890	-32	1 858	-6
Government	529	405	124	0	124	0
Retail market	49 093	2 126	46 967	-83	46 896	0
Service industries	2 232	771	1 461	-24	1 437	-3
Transportation	2 764	64	2 700	-17	2 683	-2
Commodity trade, hotel and reastaurant industry	2 037	540	1 497	-25	1 472	-2
Total	**87 284**	**6 428**	**80 856**	**-470**	**80 386**	**-35**

GROUP 31.12.18

Loans broken down by sector/industry (IFRS 9) Amounts in NOK million	**Total commit-ments**	**Off - balance sheet**	**Gross loans**	**Provision for credit losses - balance sheet**	**Net loans**	**Provision for credit losses - off blance sheet**
Real estate	12 253	801	11 452	-136	11 316	-14
Financial and insurance activities	3 214	252	2 962	-40	2 922	-2
Fishing and aquaculture	4 742	514	4 228	-20	4 208	-1
Manufacturing	2 880	597	2 283	-58	2 225	-5
Agriculture and forestry	1 355	68	1 287	-21	1 266	0
Power and water supply and construction	2 992	371	2 621	-47	2 574	-6
Government	535	401	134	0	134	0
Retail market	52 015	2 462	49 553	-106	49 447	0
Service industries	2 496	395	2 101	-34	2 067	-3
Transportation	3 578	64	3 514	-21	3 493	-2
Commodity trade, hotel and reastaurant industry	2 448	438	2 010	-28	1 982	-2
Total	**88 508**	**6 363**	**82 145**	**-511**	**81 634**	**-35**

Note 11 – Loans and advances to customers

PARENT BANK 31.12.17

Loans broken down by sector/industry (IAS 39) Amounts in NOK million	**Total commit-ments**	**Off - balance sheet**	**Gross loans**	**Provision for credit losses - balance sheet**	**Net loans**	**Provision for credit losses - off balance sheet**	**01.01.18 Net loans IFRS 9**
Real estate	11 778	1 472	10 306	-107	10 199		10 199
Financial and insurance activities	8 821	43	8 778	-102	8 676		8 676
Fishing and aquaculture	4 241	371	3 870	-10	3 860		3 860
Manufacturing	2 233	520	1 713	-138	1 575		1 575
Agriculture and forestry	1 193	104	1 089	-20	1 069		1 069
Power and water supply and construction	1 953	623	1 330	-22	1 308	-3	1 308
Government	606	452	154	0	154		154
Retail market	45 304	1 936	43 368	-80	43 288		43 28
Service industries	1 803	314	1 489	-15	1 474		1 474
Transportation	3 461	148	3 313	-76	3 237		3 237
Commodity trade, hotel and reastaurant industry	1 849	420	1 429	-10	1 419		1 419
Total	83 242	6 403	76 839	-580	76 259	-3	76 257

GROUP 31.12.17

Loans broken down by sector/industry (IAS 39) Amounts in NOK million	**Total commit-ments**	**Off - balance sheet**	**Gross loans**	**Provision for credit losses - balance sheet**	**Net loans**	**Provision for credit losses - off balance sheet**	**01.01.18 Net loans IFRS 9**
Real estate	11 769	1 535	10 234	-76	10 158		10 158
Financial and insurance activities	4 413	58	4 355	-102	4 253		4 253
Fishing and aquaculture	4 597	392	4 205	-10	4 195		4 192
Manufacturing	2 444	484	1 960	-138	1 822		1 817
Agriculture and forestry	1 288	103	1 185	-20	1 165		1 164
Power and water supply and construction	2 531	580	1 951	-31	1 920	-3	1 914
Government	616	452	164	0	164		164
Retail market	47 569	1 893	45 676	-105	45 571		45 561
Service industries	2 401	321	2 080	-39	2 041		2 053
Transportation	4 330	198	4 132	-77	4 055		4 050
Commodity trade, hotel and reastaurant industry	2 260	451	1 809	-10	1 799		1 797
Total	84 218	6 467	77 751	-608	77 143	-3	77 123

In order to calculate the expected credit losses according to IFRS 9, the asset must first be categorized into one of three so-called "buckets" or stags:

1. Not significantly higher credit risk than on granting
2. Substantial increase in credit risk since granting, but no objective proof of losses
3. Substantial increase in credit risk since granting, and objective proof of losses

The conditions for migrating between the stages are specified in note 14.

Total commitments broken down by stage of the credit risk assessment

PARENT BANK					GROUP			
Stage 1	Stage 2	Stage 3	Total	Amounts in NOK million	Total	Stage 1	Stage 2	Stage 3
70 923	4 480	904	**76 307**	**Total commitments loans to amortised cost 31.12.17**	**77 283**	909	4 979	71 395
				Changes in the period due to loans migrated between the stages				
1 657	-1 630	-27	**0**	to (-from) stage 1	**0**	-27	-1 821	1 848
-2 241	2 609	-368	**0**	to (-from) stage 2	**0**	-369	2 893	-2 524
- 48	-63	111	**0**	to (-from) stage 3	**0**	167	-75	-92
-5 466	-333	-25	**-5 824**	Net new measurement of losses	**-6 629**	-25	-428	-6 176
7 270	128	-212	**7 186**	Net increase/decrease in blance	**8 198**	-223	211	8 210
72 095	5 191	383	**77 669**	**Total commitments loans to amortised cost 31.12.18**	**78 852**	432	5 759	72 661
			9 615	Loans at fair value through profit and loss	**9 656**			
72 095	5 191	383	**87 284**	**Total commitments**	**88 508**	432	5 759	72 661
-5 598	-813	-17	**-6 428**	Off-balance sheet	**-6 363**	-17	-813	-5 533
66 497	4 378	366	**80 856**	**Gross loans**	**82 145**	415	4 946	67 128

Total commitments by risk category based on SpareBank 1 Nord-Norge's classification system. Stage 1, 2 and 3 are loans measured at amortised cost pursuant to IFRS 9. See note 14 for more information. Loans at fair value consist of fixed-rate loans and mortgage loans for sale to the mortgage company.

PARENT BANK

Risk group 31.12.18 Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value through profit and loss	Total	IAS 39 31.12.17
Very low risk	32 753	41		5 907	**38 701**	38 150
Low risk	19 532	805		2 717	**23 054**	21 766
Medium risk	17 475	2 799		838	**21 112**	18 720
High risk	1 614	841		49	**2 504**	2 151
Very high risk	721	705		87	**1 513**	1 504
Commitments in default			383	17	**400**	951
Total commitments	72 095	5 191	383	9 615	**87 284**	83 242
Share	83%	6%	0%	11%	**100%**	

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Risk group 31.12.18 Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value through profit and loss	Total	IAS 39 31.12.17
Very low risk	30 585	51		5 948	**36 584**	35 761
Low risk	20 923	863		2 717	**24 503**	22 865
Medium risk	18 426	2 999		838	**22 263**	20 416
High risk	1 846	991		49	**2 886**	2 505
Very high risk	881	855		87	**1 823**	1 762
Commitments in default			432	17	**449**	909
Total commitments	72 661	5 759	432	9 656	**88 508**	84 218
Share	82%	7%	0%	11%	**100%**	

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

2018 Amounts in NOK million	5 - 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	453	58	10	14	**535**
Corporate market	315	8	13	77	**413**
Total	**768**	**66**	**23**	**91**	**948**

2017 Amounts in NOK million	5 - 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	512	24	13	67	616
Corporate market	78	5	3	20	105
Total	590	29	16	86	721

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 657 million as at 31.12.18 (NOK 623 million as at 31.12.17). The value of pledged assets is set at the realisation value (fair value less a reduction factor).

GROUP

2018 Amounts in NOK million	5 - 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	453	83	18	48	**602**
Corporate market	315	116	20	117	**568**
Total	**768**	**199**	**38**	**165**	**1 170**

2017 Amounts in NOK million	5 - 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans and advances to financial institutions					
Loans and advances to customers					
Retail banking market	512	46	24	91	673
Corporate market	78	66	6	34	184
Total	590	112	30	125	857

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 845 million as at 31.12.18 (NOK 738 million as at 31.12.17). The value of pledged assets is set at the realisation value (fair value less a reduction factor).

Note 13 – Transfers of financial assets

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

In connection with the introduction of IFRS 9, the Bank has changed its how it recognises those parts of the loan portfolio that are eligible for sale to the mortgage companies. Based on the Group's funding plan for the next 12 months, the loans that are expected to be sold to the mortgage companies are flagged. These loans are recognised at fair value through profit or loss. The Bank recognises all of the rights and obligations generated or retained upon transfer separately, as assets or liabilities.

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

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

SpareBank 1 Boligkreditt AS

SpareBank 1 Boligkreditt AS is owned by the savings banks that make up the SpareBank 1 Alliance. The Bank owned a 17,82% stake as at 31 December 2018 (16,85% as at 31 December 2017). 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 per cent 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 2 billion were sold to SpareBank 1 Boligkreditt AS in 2018. A total of NOK 33 billion had been derecognized in home mortgages sold to SpareBank 1 Boligkreditt AS at the end of the financial year.

The remaining involvement is as follows:

	Book value asset	Fair value asset	Book value liability	Fair value liability	Maximum exposure to losses (last year's commission) NOK million
Remaining involvement	3 NOK million	3 NOK million	0	0	0

The average term to maturity in the portfolio is per 31.12.19 calculated to 3,7 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.

Note 13 – Transfers of financial assets

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 bank's 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.

Per 31.12.18 the commitment is NOK 47,5 million.

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 shareholder's obligation to supply such core capital is pro rata and not joint and must correspond to each shareholde's pro rata share of the shares in SpareBank 1 Boligkreditt AS.

SpareBank 1 Næringskreditt
SpareBank 1 Næringskreditt AS is owned by the savings banks that make up the SpareBank 1 Alliance. The Bank owned a 13,97 % stake as at 31 December 2018 (14,48% as at 31 December 2016). 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.

Loans worth a net NOK 0,43 billion NOK were sold to SpareBank 1 Næringskreditt AS in 2018.

The remaining involvement is as follows:

	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

Liquidity facility
SpareBank 1 Nord-Norge has, together with the other owners of SpareBank 1 Næringskreditt AS, concluded agreements that establish liquidity facilities for SpareBank 1 Næringskreditt AS. This means that the banks have committed to purchase covered bonds in the event that SpareBank 1 Næringskreditt AS is unable to refinance its activities in the market. The purchase is limited to the total value of the amount due in the company for the next 12 months at any given time.

Previous purchases under this agreement are deducted from future obligations to purchase. In principle, each owner is liable for its share of the need or alternatively twice the primary responsibility under the same agreement. The bonds can be deposited in Norges Bank and thus result in no material increase in risk for the Bank. In accordance with its internal policy, SpareBank 1 Næringskreditt AS retains liquidity for the amount due in the next 12 months. This is deducted when valuing the bank's 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.

Per 31.12.18 the commitment is NOK 0.

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 shareholder's obligation to supply such core capital is pro rata and not joint and must correspond to each shareholder's pro rata share of the shares in SpareBank 1 Næringskreditt AS.

Note 14 – Write down for impaired value of loan and advances

The general rule of IFRS 9 is that the loss provision should be calculated as expected credit losses (ECL) over the next 12 months, or as expected credit losses over the entire lifetime of the asset. In order to calculate the expected credit losses according to this, the asset must first be categorized into one of three so-called "buckets" or stags:

1. Not significantly higher credit risk than on granting

2. Substantial increase in credit risk since granting, but no objective proof of losses

3. Substantial increase in credit risk since granting, and objective proof of losses

In stage 1, provision for losses is the expected loss for the next 12 months. In stages 2 and 3, provisions for losses are expected loss over the asset's lifetime.

SpareBank 1 Nord-Norge uses a loss model developed in collaboration with the other banks in SpareBank 1-alliansen to calculate expected credit loss (ECL). The loss model is based on the Bank's credit models (IRB), including estimates for PD, LGD and EAD. The model uses PD and other objective events to group the assets into the different bands, while LGD is used to calculated expected loss. Unlike how the credit models are used for capital adequacy purposes, the model for loss provisions is a "point-in-time" model and unbiased at a point in time.

Expected credit loss is calculated on a monthly basis throughout the year based on an objective and probability-weighted analysis of alternative outcomes, where account is also taken of the time value of the expected cash flows. The analysis is based on relevant information that is available at the time of reporting and builds on macroeconomic scenarios in order to take account of non-linear aspects of expected loss. The different scenarios are used to adjust relevant parameters for calculating expected loss and a probability-weighted average of expected loss according to the respective scenarios is recognised as a loss.

Provisions for losses also include expected losses on assets not posted to the balance sheet; guarantees, untapped credit frames, and granted, but not paid out, loans.

Loss provisions consist of:

Stage 1: This is the default for all financial assets covered by the loss model. All assets whose credit risk has not increased significantly since initial "recognition will be allocated a loss provision equal to 12 months' expected loss. This stage contains all financial assets that have not been moved to stage 2 or stage 3.

Stage 2: This band contains all financial assets whose credit risk has increased significantly since initial recognition, but where there is no objective indication of default or loss. The expected loss here is calculated over the lifetime of the loan. The Group defines a significant increase in credit risk as the commitment's calculated probability of default (PD) having increased. Both absolute and relative changes in PD are used as criteria to move a commitment to stage 2. The most important factor for a significant change in credit risk is a quantitative change in PD on the balance sheet date compared with PD upon initial recognition. The threshold for a significant change in PD has been set at 150 per cent. The PD must also be higher than 0.60%. Commitments where payments are more than 30 days late will always be moved to stage 2. A qualitative assessment is also made of whether the asset has experienced a significant change in credit risk if it is placed under special monitoring or more lenient payment terms are granted.

Stage 3: This stage contains all financial assets whose credit risk has increased significantly since being granted, but where there is objective evidence of default on the balance sheet date. The expected loss over the loan's term is calculated. This stage includes financial assets that were defined as in default and commitments with write-downs for impaired value pursuant to the previous rules (IAS 39).

Note 14 – Write down for impaired value of loan and advances

An asset is moved from stage 2 to stage 1 when:

- The customer's risk has improved meaning that the increase in credit risk since granting is no longer significant.
- The customer is removed from "special monitoring".
- The commitment is restructured with terms and conditions that take account of the factors that caused the customer to be placed under "special mongering".

An asset is moved from stage 3 to stage 2 when:

- There is no longer objective evidence of default or loss, but the increase in credit risk since granting remains significant.

An asset is moved from band 3 to band 1 when:

- There is no longer objective evidence of default or loss and the increase in credit risk since granting is no longer significant.

Pursuant to IFRS 9, loss provisions for financial assets in bands 1, 2, and defaulted band 3 are calculated as the present value of exposure at default (EAD) multiplied by probability of default (PD) multiplied by loss given default (LGD).

Loss provisions for loans posted on the balance sheet are presented as a reduction of the asset, and loss provisions on assets not posted on the balance sheet.

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Losses incorporated in the accounts		
-9	**-111**	Period's change in lending loss provisions	**-116**	103
64	**149**	Period's confirmed losses	**162**	91
-9	**-7**	Recoveries, previously confirmed losses	**-24**	-10
46	**31**	**Losses on loans to customers**	**22**	184

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Losses broken down by sector and industry		
3	**10**	Real estate	**5**	3
5	**15**	Financial an dinsurance activities	**15**	5
-26	**7**	Fishing and aquaculture	**6**	-26
-10	**-77**	Manufacturing	**-76**	-10
2	**2**	Agriculture and forestry	**3**	2
1	**10**	Power and water supply and construction	**11**	6
-5	**9**	Service industries	**-5**	1
21	**4**	Transportation	**3**	21
1	**15**	Commodity trade, hotel and restuarant industry	**16**	1
-8	**-5**	Total public market	**-22**	3
24	**17**	Total retail market	**25**	37
16	**12**	**Losses on loans to customers**	**3**	40
30	**19**	Other losses	**19**	144
46	**31**	**Total losses**	**22**	184

Changes in lending loss provisions

PARENT BANK					GROUP			
Stage 1	**Stage 2**	**Stage 3**	**Total**	**Changes in lending loss provisions on loans to amortised cost** Amounts in NOK million	**Total**	**Stage 3**	**Stage 2**	**Stage 1**
			-583	Loss provisions on balance sheet 31.12.17	**-611**			
			-580	- Of which presented as a reduction of the assets	**-608**			
			-3	- Of which presented as other debt	**-3**			
-149	-100	216	**-33**	Implementation effect 01.01.18	**-51**	243	-127	-167
-149	-100	-367	**-616**	**Loss provisions on balance sheet 01.01.18**	**-662**	-368	-127	-167
			-582	- Of which presented as reduction of the assets	**-628**			
			-34	- Of which presented as other debt	**-34**			
				Changes in the period due to loans migrated between the stages				
-45	42	3	**0**	to (-from) stage 1	**0**	3	42	-45
7	-8	1	**0**	to (-from) stage 2	**0**	1	-8	7
0	2	-2	**0**	to (-from) stage 3	**0**	-2	2	0
	-85	197	**111**	Net increase/decrease in balance	**116**	200	-81	-3
-188	-149	-168	**-505**	**Total lending and guaranteed loss provisions 31.12.18**	**-546**	-166	-172	-208
				Loss provisions segmented in markets				
-23	-28	-32	**-83**	- Retail	**-118**	-52	-38	-28
-165	-121	-136	**-422**	- Corporate	**-428**	-114	-134	-180
-188	-149	-168	**-505**	**Total lending and guaranteed loss provisions 31.12.18**	**-546**	-166	-172	-208
			-470	- Of which presented as a reduction of the assets	**-511**			
			-35	- Of which presented as other debt	**-35**			

Note 14 – Write down for impaired value of loan and advances

SpareBank 1 Nord-Norge has its own models that score customers based on probability of default. The sum of risk class (PD) and security class (security coverage) defines which risk category the commitments are placed in. The following table provides information about which risk category loss provisions are scored in pursuant to the ECL model (IFRS 9).

PARENT BANK

Credit risk - Loss provisions broken down by risk category	12 month ECL	ECL lifetime - no objective proof of losses	ECL lifetime - no objective proof of losses	Provision for credit losses 31.12.18
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Very low risk	9	0		**9**
Low risk	22	2		**24**
Medium risk	87	53		**140**
High risk	35	38		**73**
Very high risk	35	56		**91**
Commitments in default			168	**168**
Total	**188**	**149**	**168**	**505**
Share	37%	30%	33%	**100%**

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Credit risk - Loss provisions broken down by risk category	12 mnd ECL	ECL lifetime - no objective proof of losses	ECL lifetime - no objective proof of losses	Provision for credit losses 31.12.18
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Very low risk	11	0		**11**
Low risk	26	2		**28**
Medium risk	95	58		**153**
High risk	38	40		**78**
Very high risk	38	72		**110**
Commitments in default			166	**166**
Total	**208**	**172**	**166**	**546**
Share	38%	32%	30%	**100%**

Expected loss (EL) is the amount that the Bank may statistically expect to lose on the lending portfolio during a 12-month period. The expected loss is calculated by multiplying PD, EAD and LGD. PD is the probability of default, i.e. the estimated likelihood that a customer will default on its commitment. EAD is the exposure at default, i.e. the expected size of the commitment in the event of a default. The expected amount depends on the budget/credit/funding granted, the balance and the type of commitment. LDG is the loss given default. The central element of the LGD model is the relationship between commitment and realisable value (security). See the Group's Pilar 3 report for a further description of models for calculating expected loss (EL), including differences between the models for expected loss (EL) and expected credit loss (ECL).

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Expected annual average net loss		
8	**9**	Very low risk	**10**	9
17	**17**	Low risk	**19**	19
80	**84**	Medium risk	**90**	86
31	**38**	High risk	**42**	34
61	**53**	Very high risk	**61**	70
66	**29**	Commitments in default	**58**	81
263	**230**	**Total**	**280**	299

31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Expected annual average net loss by sector/industry		
119	**77**	Real estate	**78**	120
19	**18**	Financial and insurance activities	**18**	19
12	**14**	Fishing and aquaculture	**16**	14
13	**14**	Manufacturing	**17**	15
3	**2**	Agriculture and forestry	**3**	4
11	**12**	Power and water supply and construction	**16**	15
0	**0**	Public sector	**0**	0
57	**59**	Public market	**79**	74
8	**11**	Service industries	**23**	12
11	**8**	Transportation	**13**	14
10	**15**	Commodity trade, hotel and restaurant industry	**17**	12
263	**230**	**Total**	**280**	299

Note 14 – Write down for impaired value of loan and advances

Defaults

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. The balance of non-performing and impaired commitments in this table includes all types of loans and is therefore greater than in the ECL calculation pursuant to IFRS 9, which only includes loans at amortised cost.

Net bad and doubtful commitments						
PARENT BANK				GROUP		
31.12.17	01.01.18	31.12.18	Amounts in NOK million	31.12.18	01.01.18	31.12.17
238	238	**210**	Non-performing commitments	**259**	265	265
713	713	**190**	Other doubtful commitments	**190**	644	644
951	951	**400**	**Total commitments in default and doubtful commitments**	**449**	909	909
	-367	**-168**	Stage 3 - loss provisions (IFRS 9)	**-166**	-368	
-59			Individual write-downs on non performing commitments (IAS 39)			-57
-250			Other doubtful individual write-downs (IAS 39)			-251
-309	-367	**-168**	**Total lending and guaranteed loass provisions - stage 3**	**-166**	-368	-308
642	584	**232**	**Net commitments in default and doubtful commitments**	**283**	541	601
32%	39%	**42%**	**Lending loss provision ratio**	**37%**	40%	34%

Note 15 – Market risk related 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.

The calculations made in the table below is based on the Bank's positions and market interest rates per 31.12.18. The analysis includes all interest-sensitive balance sheet items on the asset and liability side. Off-balance sheet items used in the bank's risk management, including interest rate swaps, are also included. The analysis shows that the interest rate risk is within the total limit of NOK 60 million in 2018. 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.

All amounts are equal for the Parent Bank and Group and in NOK million

Interest rate risk with a 2 percentage points interest rate shift	2018	2017
Bonds and certificates	**-40**	-35
Fixed rate loans to customers	**-26**	-21
Bond issues	**68**	70
Other financing and investments	**-1**	1
Loans/deposits customers	**-41**	-16
Other derivatives	**-2**	-4
Total interest rate risk	**-41**	-5

Interest rate risk with a 2 percentage points interest rate shift in maturity buckets	2018	2017
0 - 1 month	**-10**	8
1 - 3 months	**-22**	-20
3 - 6 months	**2**	8
6 - 12 months	**7**	10
1 - 3 years	**-9**	-1
3 - 5 years	**-6**	-7
5 - 10 years	**-2**	-2
Total interest rate risk	**-41**	-5

Interest rate risk with a 2 percentage points interest rate shift per currency	2018	2017
NOK	**-46**	-28
EUR	**5**	17
USD	**-0**	1
CHF	**1**	5
Other	**-0**	0
Total interest rate risk	**-41**	-5

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 in NOK millions as of 31.12.18.

PARENT BANK			GROUP	
2017	**2018**	Amounts in NOK million	**2018**	**2017**
		Currency		
55	**91**	USD	**91**	55
26	**1**	EUR	**1**	26
-2	**-2**	CHF	**-2**	-2
1	**2**	SEK	**2**	1
1	**1**	Andre	**1**	1
82	**94**	**Net exposure**	**94**	82

Note 17 – Financial derivatives

SpareBank 1 Nord-Norge concludes hedging transactions with recognised Norwegian and foreign banks to reduce its risk. Derivative transactions are linked to ordinary banking operations and are carried out to reduce the risk associated with the bank's borrowing (funding) in the financial markets, and to reveal and reduce risk related to customer-oriented activities. Only hedges associated with the bank's funding activities are defined as fair value hedging pursuant to IAS 39. Other hedging is defined as ordinary hedge accounting. The Bank does not utilise cash flow hedging.

The bank's Board has set limits for the maximum risk for the bank's interest rate positions. Routines have been established that ensure the stipulated limits are adhered 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 and at an agreed rate.
- *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 relating to 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.

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Amounts in NOK million	31.12.18	31.12.17
Net losses recognised related to hedging instruments for fair value hedging	**24**	30
Total gains on hedged items related to the hedged risk	**-18**	-44
Total, fair value hedges	**6**	-14

Foreign currency- and interest rate instruments by Fair value through profit and loss account	**2018**			**2017**		
Amounts in NOK million	**Contract/ notional amount**	**Fair value**		Contract/ notional amount	Fair value	
Foreign currency instruments		**Assets**	**Liabilites**		Assets	Liabilites
Foreign exchange financial derivatives (forwards)	**1 843**	**24**	**17**	1 630	28	11
Currency swaps	**15 687**	**459**	**194**	16 497	357	128
Total foreign currency instruments	**17 530**	**483**	**210**	18 127	385	139
Interest rate instruments						
Interest rate swaps (including cross currency)	**26 388**	**733**	**625**	24 757	675	746
Other interest rate contracts	**474**	**40**	**39**	353	8	9
Total non-standardized contracts	**26 862**	**773**	**664**	25 110	683	755
Standardised interest rate contracts (futures)						
Total interest rate instruments	**26 862**	**773**	**664**	25 110	683	755

Securing of funding	2018			**2017**		
Amounts in NOK million	**Contract/ notional amount**	**Fair value**		Contract/ notional amount	Fair value	
Interest rate instruments		**Assets**	**Liabilites**		Assets	Liabilites
Interest rate swaps (including cross currency)	**16 918**	**396**	**-**	14 816	443	8
Total interest rate instruments	**16 918**	**396**	**-**	14 816	443	8
Total foreign currency- and interest rate instruments						
Total, interest rate instruments	**43 779**	**1 169**	**664**	39 926	1 126	763
Total currency swaps and forwards	**17 530**	**483**	**210**	18 127	385	139
Total	**61 310**	**1 653**	**874**	58 053	1 511	902

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 (LCR), measured in NOK, was 172% 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

2018 Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
Liabilities to credit institutions	140	3	9	36		**188**
Deposits from customers						
Debt securities in issue	64 005					**64 005**
Liabilities relating to deferred tax		827	2 741	18 138	3 429	**25 135**
Derivatives	874					**874**
Contract-related outgoing cash flows		442	358	1 570	750	**3 120**
Contract-related incoming cash flows		-583	-307	-1 270	-279	**-2 439**
Other liabilities		1 015				**1 015**
Subordinated loan capital		8	369	823		**1 200**
Total liabilities	**65 019**	**1 712**	**3 170**	**19 297**	**3 900**	**93 098**

2017 Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
Liabilities to credit institutions	376	3	9	48		436
Deposits from customers						
Debt securities in issue	57 883					57 883
Liabilities relating to deferred tax	1 454	243	3 495	14 427	3 933	23 552
Derivatives	902					902
Contract-related outgoing cash flows		322	435	1 480	689	2 926
Contract-related incoming cash flows		-553	-280	-1 102	- 324	-2 259
Other liabilities		739				739
Subordinated loan capital		5	15	830		850
Total liabilities	60 615	759	3 674	15 683	4 298	85 029

GROUP

2018 Amounts in NOK million	**On demand**	**Under 3 months**	**3-12 months**	**1 - 5 year**	**Over 5 years**	**Total**
Liabilities to credit institutions	139	3	9	36		**187**
Deposits from customers						
Debt securities in issue	63 985					**63 985**
Liabilities relating to deferred tax		827	2 741	18 138	3 429	**25 135**
Derivatives	874					**874**
Contract-related outgoing cash flows		442	358	1 570	750	**3 120**
Contract-related incoming cash flows		-583	-307	-1 270	- 279	**-2 439**
Other liabilities		1 440				**1 440**
Subordinated loan capital		8	369	823		**1 200**
Total liabilities	**64 998**	**2 137**	**3 170**	**19 297**	**3 900**	**93 502**

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

Note 19 – Maturity analysis of assets and liabilities

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

PARENT BANK

31.12.18 Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
Assets						
Cash and balances with central banks	3 786					**3 786**
Loans and advances to credit institutions	450	5 425	46	55		**5 976**
Loans and advances to customers	8 385	296	1 562	6 504	58 132	**74 879**
Provision for credit losses - stage 3					-164	**-164**
Provision for credit losses - stage 2					-134	**-134**
Provision for credit losses - stage 1					-172	**-172**
Shares	105	3	1	146	85	**340**
Bonds and certificates - fair value		197	1 336	10 383	643	**12 560**
Financial derivatives	1 653					**1 653**
Investments in Group companies					1 073	**1 073**
Investment in associated companies and joint ventures					3 461	**3 461**
Property, plant and equipment					216	**216**
Other assets	6	49	72		301	**428**
Total assets	**14 385**	**5 970**	**3 017**	**17 088**	**63 442**	**103 902**
Liabilities						
Liabilities to credit institutions	188					**188**
Deposits from customers	60 793	1 254	1 958			**64 005**
Debt securities in issue		677	2 075	18 559	3 824	**25 135**
Financial derivatives	874					**874**
Other liabilities	1 015					**1 015**
Deferred tax					173	**173**
Subordinated loan capital					1 200	**1 200**
Total liabilities	**62 870**	**1 931**	**4 033**	**18 559**	**5 197**	**92 590**

GROUP

31.12.18 Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
Assets						
Cash and balances with central banks	3 786					**3 786**
Loans and advances to credit institutions	450	731	46	55		**1 282**
Individual write-downs on loans and advances to credit institutions	8 385	296	1 562	6 504	64 116	**80 863**
Provision for credit losses - stage 3					-162	**-162**
Provision for credit losses - stage 2					-157	**-157**
Provision for credit losses - stage 1					-192	**-192**
Shares	117	3	1	146	85	**352**
Bonds and certificates		197	1 336	10 383	643	**12 560**
Financial derivatives	1 653					**1 653**
Investment in Group companies						
Investment in associated companies and joint ventures					4 990	**4 990**
Property, plant and equipment					499	**499**
Non-current assets held for sale	25					**25**
Intangible assets	95					**95**
Other assets	6	49	72		435	**562**
Total assets	**14 517**	**1 276**	**3 017**	**17 088**	**70 258**	**106 156**
Liability						
Liabilities to credit institutions	187					**187**
Deposits from customers	60 773	1 254	1 958			**63 985**
Debt securities in issue		677	2 063	18 558	3 837	**25 135**
Financial derivatives	874					**874**
Other liabilities	1 440					**1 440**
Deferred tax					277	**277**
Subordinated loan capital					1 200	**1 200**
Total liabilities	**63 274**	**1 931**	**4 021**	**18 558**	**5 314**	**93 098**

Note 19 – Maturity analysis of assets and liabilities

PARENT BANK

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

GROUP

31.12.17 Amounts in NOK million	On demand	Under 3 months	3-12 months	1 - 5 year	Over 5 years	Total
Assets						
Cash and balances with central banks	775					775
Loans and advances to credit institutions	94	1 747		831	46	2 718
Individual write-downs on loans and advances to credit institutions					-62	-62
Loans and advances to customers	8 038	835	2 727	12 653	50 750	75 003
Individual write-downs loans and advances to customers					-216	-216
Collective write-downs loans and advances to customers					-300	-300
Shares	137			43	90	270
Bonds and certificates - fair value		719	764	9 040	1 017	11 541
Financial derivatives	1 511					1 511
Investment in associated companies and joint ventures					4 755	4 755
Property, plant and equipment					453	453
Non-current assets held for sale	30					30
Goodwill					68	68
Other assets	48	50	95		447	640
Total assets	10 633	3 351	3 586	22 567	57 048	97 186
Liability						
Liabilities to credit institutions	406			28		434
Deposits from customers	55 004	1 116	1 729			57 849
Debt securities in issue		168	3 283	16 372	3 729	23 552
Financial derivatives	902					902
Other liabilities		943	71			1 014
Deferred tax				286		286
Subordinated loan capital			350	500		850
Total liabilities	56 312	2 227	5 433	17 186	3 729	84 887

Note 20 – Net interest income

PARENT PARK			GROUP	
2017	**2018**	Amounts in NOK million	**2018**	**2017**
		Interest income on financial assets at fair value		
204	**255**	Interest and similar income from loans to and claims on customers	**255**	204
155	**174**	Interest and similar income from certificates, bonds and other interest-bearing securities	**171**	152
359	**429**	Total interest income at fair value	**426**	356
		Interest income on financial assets at amortized cost		
89	**101**	Interest and similar income from loans to and claims on credit institutions	**15**	26
1 939	**2 028**	Interest and similar income from loans to and claims on customers	**2 354**	2 229
2 028	**2 129**	Total interest income at amortized cost	**2 369**	2 255
2 387	**2 558**	**Total interest income**	**2 795**	2 611
		Interest expenses on financial liabilities at fair value		
0	**22**	Interest and similar costs related to the issuance of securities	**22**	0
0	**22**	Total interest cost at fair value	**22**	0
		Interest expenses on financial liabilities at amortized cost		
61	**67**	Interest and similar costs on liabilities to credit institutions	**68**	82
370	**417**	Interest and similar costs relating to deposits from and liabilities to customers	**407**	366
314	**338**	Interest and similar costs related to the issuance of securities	**338**	314
42	**25**	Interest and similar costs on subordinated loan capital	**25**	42
37	**39**	Guarantee fund levy	**39**	37
824	**886**	**Total interest costs at amortized cost**	**877**	841
824	**908**	**Total interest expenses**	**899**	841
1 563	**1 650**	**Net interest income**	**1 896**	1 770

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

PARENT BANK			GROUP	
2017	**2018**	Amounts in NOK million	**2018**	**2017**
		Fees and commissions receivable		
261	**282**	Payment facilities	**282**	261
153	**149**	Insurance products	**155**	159
15	**15**	Guarantee commissions	**14**	15
		Real estate broking	**135**	121
43	**44**	Portefolio commissions	**44**	48
39	**32**	Other commissions	**88**	82
511	**522**	**Commissions ex. SpareBank 1 Boligkreditt**	**718**	686
245	**260**	SpareBank 1 Boligkreditt	**260**	245
756	**782**	**Total commision income**	**978**	931
-77	**-82**	Commission costs	**-95**	-85
		Accounting services	**158**	116
46	**22**	Other income	**16**	30
46	**22**	**Total other income**	**174**	146
725	**722**	**Total commission- and other income**	**1 057**	992

Note 22 – Gains from other financial investments

Financial instruments in the table below are recognised at fair value with changes in fair value through profit-and-loss, in accordance with IFRS 9.

PARENT BANK			GROUP	
2017	**2018**	Amounts in NOK million	**2018**	**2017**
4	**6**	**Dividends from equity capital instruments**	**6**	4
103	**20**	Income from Group companies	**6**	
354	**344**	Income from joint ventures	**368**	434
457	**364**	**Total income from group companies and joint ventures**	**374**	434
44	**-30**	Gains/losses from certificates and bonds	**-32**	44
44	**-30**	**Total income from certificates and bonds**	**-32**	44
-16	**4**	Gains/losses from hedged bonds and financial derivatives	**4**	-16
-1	**-12**	Gains/losses from fixed rate loans to customers and hedge derivatives	**-12**	-1
-17	**1**	Gains/losses from other financial derivatives	**1**	-17
-35	**-7**	**Total income from financial derivatives**	**-7**	-34
71	**82**	Gains/losses from shares	**88**	73
71	**82**	**Total income from shares**	**88**	73
31	**34**	**Total income from currency trading**	**34**	31
111	**79**	Net gains/losses from financial assets	**83**	114
573	**449**	**Income from financial investments**	**463**	552

Note 23 – Personnel costs, benefits, loans and equity certificates – executive personnel and elected officers

The Board of Directors' declaration regarding the determination of salary and other remuneration for executive personnel

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

The Board of Directors hereby confirms that the guidelines for the remuneration of executive personnel for 2018, set out in last year's declaration, have been followed. The members of Group Management received no special offers regarding purchases of discounted equity certificates in 2018. All employees, including the members of Group Management, were given an opportunity to purchase equity certificates at a discount. 338 employees subscribed to equity certificates for a total amount of MNOK 5.8.

The guidelines

The Board of Directors considered the guidelines for salaries and other remuneration for executive personnel at its meeting on 28.02.18 and decided to apply the same guidelines as last year.

The following was adopted for the coming financial year:

1. Definitions

In this context, executive personnel means the CEO, members of Group Management, Markets Director and the head of Compliance and Corporate Governance. The total remuneration packages for executive personnel consist of their fixed salary, benefits in kind and collective pension agreements, with the exception of three members of Group Management who have individual early retirement agreements. Executive personnel with defined contribution pensions also have a savings arrangement for amounts above 12 G with the following rates:

- Group Management members 15%
- CEO 23%

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 members of Group Management in SpareBank 1 Nord-Norge have no individual or collective bonus agreements. The Board of Directors may decide that Group Management members are entitled to purchase equity certificates at a discount of up to 30 per cent subject to a specific limit and lock-in period. This arrangement is intended to help ensure that the members of Group Management 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 of Directors must ensure that the remuneration of its executive employees has no adverse effects on the Group's reputation.

The members of Group Management are covered by a savings scheme that covers full-time employees. For every equity certificate one buys, SpareBank 1 Nord-Norge will grant a further one free of charge. 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 of Directors has to assess the CEO's overall performance each year and, on this basis, assess his salary and lay down salary conditions.

The CEO must also assess the performance of the members of Group Management and review their salary based on this.

4. Date effective

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

Personnel cost, number of employees and man-years

PARENT BANK			GROUP	
2017	**2018**	Amounts in NOK million	**2018**	**2017**
380	**378**	Wages and salaries	**578**	552
31	**35**	Pension cost (note 25)	**52**	42
100	**104**	Social cost	**118**	114
511	**517**	**Total Personnel cost**	**748**	708
556	**555**	Average number of employees	**826**	809
538	**550**	Number of man-years as at 31.12.	**810**	784
550	**559**	Number of employees as at 31.12.	**841**	810

Fees paid to members of the Board of Directors in 2018 Amounts in NOK thousand	**Board fees**	**Fee Remu-neration Committee**	**Fees Audit Committee**	**Fees Risk Committee**	**Total Fees**	**Loans**	**Number of equity certificates [1])**
Karl Eirik Schjøtt-Pedersen (Chairman)	473	13			**486**	**2 000**	**6 532**
Hans-Tore Bjerkaas (Deputy Chairman)	263		47	47	**357**		**19 293**
Sonja Djønne	210	11			**221**	**4 268**	**7 777**
Kjersti Terese Stormo	210				**210**		**861**
Greger Mannsverk	210	11			**221**		**60 904**
Bengt Olsen	210		37	37	**284**		**7 000**
Ingvild Myhre	210		37	37	**284**		
Vivi Ann Pedersen	210				**210**	**230**	**24 230**
Kjetil Berntsen	210				**210**	**3 860**	**571**
Total	**2 206**	**35**	**121**	**121**	**2 483**	**10 358**	**127 168**
Fees paid to members of the main Board of Directors in 2017							
Karl Eirik Schjøtt-Pedersen (Chairman)	472	12			484	2 000	6 150
Hans-Tore Bjerkaas (Deputy Chairman)	262		47	47	356		10 911
Sonja Djønne	210	10			220	3 663	7 395
Kjersti Terese Stormo	210				210		479
Greger Mannsverk	210	10			220		60 522
Bengt Olsen	210		37	37	284		
Ingvild Myhre	210		37	37	284		
Vivi Ann Pedersen	210				210		23 848
May Britt Nilsen (resigned 2017)	53				53		10 100
Kjetil Berntsen (new 2017)	158				158	4 000	189
Total	2 205	32	121	121	2 479	9 663	119 594

[1]) The above figures show the number of equity certificates held in SpareBank 1 Nord-Norge as at 31.12. Equity certificates held by close family members or by companies of which the abovementioned persons are general partners or directors are alos included.

Terms and conditions, collateral and other security are the same as for ordinary customers, with the exeption 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, loans and equity certificates – executive personnel and elected officers

Benefits to group management team and leading positions 2018 Amounts in NOK thousand	Salaries and other short-term emoluments	Fees [3]	Bonus	Total pay and benefits	Accrued pension rights / pension savings	Pension agree-ment	Loans	Number of equity certificates [5]
Jan-Frode Janson. Chief Executive Officer	4 826	60		4 886	881	[1] [2]		116 876
Rolf Eigil Bygdnes, Chief Financial Officer	2 486			2 486	965	[1] [4]	1 958	77 174
Geir Andreassen, Chief Technology Officer	2 249			2 249	894	[1] [4]	1 925	78 106
Liv Bortne Ulriksen Chief Risk Officer	2 369			2 369	597	[1] [2] [4]	6 874	84 537
Petter Høiseth. Chief of staff	2 394			2 394	249	[1] [2]	8 883	80 557
Ronni Møller Pettersen, Chief Commercial Officer	2 239			2 239	210	[1] [2]	4 495	35 580
Trond Hanssen Chief Regional Officer Finnmark	1 865			1 865	196	[1] [2]	3 048	63 159
Christian Overvaag Chief Regional Officer Troms	1 941			1 941	212	[1] [2]	5 951	102 945
Lasse Hagerupsen Chief Regional Officer Hålogaland	1 871			1 871	185	[1] [2]	3 451	79 170
Trude Glad Chief Regional Officer Helgeland and Salten	2 476			2 476	125	[2]	3 652	79 300
Nina Wihuri Head of Compliance and Corporate governance	1 024			1 024	87	[2]	3 755	1 197
Tom Robin Solstad-Nøis Director of SNN Markets	1 217		600	1 817	128	[2]	3 115	51 097
Total benefits executive manage-ment team and senior employees	**26 957**	**60**	**600**	**27 617**	**4 729**		**47 107**	**849 698**

The chief executive and certain executive personnel have renounced their employment protection against a severance pay.

Total loans to employees	**1 222 383**

The aggregate value of interest rate subsidies relating to loans to employees amounted to approximately NOK 12,3 million in 2018.

[1] Pension scheme for earnings in excess of 12G.
[2] Have a defined contribution pension scheme
[3] Board members' remuneration from subsidiaries
[4] Have an early retirement pension agreement
[5] The figures show the number of equity certificates the person concerned owned in SpareBank 1 Nord-Norge as at 31.12.18. 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 pont 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 group management team and leading positions 2017 Amounts in NOK thousand	Salaries and other short-term emoluments	Fees [3]	Bonus	Total pay and benefits	Accrued pension rights / pension savings	Pension agree-ment	Loans	Number of equity certificates [5]
Jan-Frode Janson Chief Executive Officer	4 718	[6] 5 844		10 562	921	[1] [2]		116 876
Rolf Eigil Bygdnes Chief Financial Officer	3 042			3 042	685	[1] [4]		72 292
Geir Andreassen Chief Technology Officer	2 591			2 591	491	[1] [4]		77 724
Liv Bortne Ulriksen Chief Risk Officer	2 285			2 285	289	[1] [2] [4]	485	84 537
Petter Høiseth Chief of staff	2 237	[6] 2 847		5 084	292	[1] [2]	9 232	79 793
Ronni Møller Pettersen, Chief Commercial Officer	2 249	[6] 2 597		4 846	270	[1] [2]	75	35 198
Trond Hanssen Chief Regional Officer Finnmark	1 797	[6] 2 442		4 239	238	[1] [2]	672	63 159
Christian Overvaag Chief Regional Officer Troms	1 824	[6] 2 307		4 131	262	[1] [2]		102 563
Lasse Hagerupsen Chief Regional Officer Hålogaland	1 798	[6] 2 284		4 082	226	[1] [2]	1 916	68 788
Trude Glad Chief Regional Officer Helgeland and Salten	2 557	[6] 2 676		5 233	277	[1] [2]	1 100	78 918
Nina Wihuri, Head of Compliance og Corporate governance	781			781	64	[2]		1 197
Tom Robin Solstad-Nøis, Director of SNN Markets	1 237		361	1 597	126	[2]		45 208
Total benefits executive manage-ment team and senior employees	27 115	20 997	361	48 473	4 141		13 480	826 253

The chief executive and certain executive personnel have renounced their employment protection against a severance pay.

Total loans to employees	1 205 190

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 scheme
[3] None of the board members' recieved remuneration from subsidiaries
[4] Have an early retirement pension agreement
[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] The loan rate is 1 percentage pont 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 24 – Operating costs

PARENT BANK			GROUP	
2017	**2018**	Amounts in NOK million	**2018**	**2017**
511	**517**	Personnel costs	**748**	708
544	**578**	Administrative costs	**726**	658
1 055	**1 095**	**Total operating costs**	**1 474**	1 366
		Personnel costs		
380	**378**	Wages and salaries	**577**	553
32	**35**	Pension costs	**52**	42
99	**104**	Social costs	**119**	113
511	**517**	**Total personnel costs**	**748**	708
		Administrative costs		
115	**136**	Development costs	**140**	115
80	**89**	Electronic data processing costs	**101**	90
40	**44**	Marketing costs	**67**	61
30	**32**	Travel - and training costs	**38**	38
27	**30**	Communications	**35**	31
44	**54**	Consultancy services incl external auditor 1)	**72**	52
51	**48**	Depreciation	**61**	65
19	**18**	Operating cost real estate	**25**	22
46	**55**	Rental cost premises	**71**	59
92	**72**	Other operating costs	**116**	125
544	**578**	**Administrative costs**	**726**	658
		1) Hereof external auditor's fees incl VAT (Amounts in NOK thousand)		
1 287	**1 330**	Statutory auditing	**2 118**	2 095
334	**342**	Other certification services	**748**	680
5	**0**	Tax advisory services	**0**	70
0	**24**	Other non-audit services	**24**	47
1 626	**1 696**	**Total remuneration for external auditor**	**2 890**	2 892

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 was closed in 2006, and is 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 per cent 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 2018, three employees were covered by this scheme (three employees in 2017).

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 2018 was set at 2.5 percent (2.5 per cent in 2017).

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 asset's 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).

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 against OCI to equity.

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

Note 25 – Pensions

PARENT BANK		Amounts in NOK million	GROUP	
31.12.17	**31.12.18**	**Net pension liabilities in the balance sheet**	**31.12.18**	**31.12.17**
712	**702**	Present value of future pension liabilities	**728**	738
953	**928**	Estimated value of pension resources	**967**	994
-241	**-226**	**Net pension liabilities in guaranteed schemes**	**-239**	-256
0	**0**	Social security liabilities	**0**	0
-241	**-226**	**Net pension liabilities in the balance sheet**	**-239**	-256
8%	**-4.1%**	Deviation between anticipated and actual return on pension funds in %	**-4.1%**	8%
2017	**2018**	**Pension costs for the year**	**2018**	**2017**
7	**5**	Pensionable amounts accrued during the year	**5**	7
18	**17**	Interest costs of pension liabilities	**17**	18
-22	**-23**	Expected rate of return on assets in the scheme	**-23**	-22
3	**-1**	**Net pension costs relating to defined benefit plans excl social security contributions**	**-1**	3
1	**3**	Employer's social security contributions - subject to accrual accounting	**3**	1
4	**2**	**Net pension cost relating to defined benefit plans incl social security combinations**	**2**	4
-5		Curtailment/settlement		-5
32	**35**	Other pension costs	**52**	42
31	**37**	**Total pension costs incl social security contributions**	**54**	41
10.0%	**-1.5%**	**The actual rate of return on pension assets**	**-1.5%**	10.0%
31.12.17	**31.12.18**	**Change in net pension liabilities in the balance sheet**	**31.12.18**	**31.12.17**
-156	**-242**	Net pension liabilities in the balance sheet as at 01.01	**-256**	-163
-11		Recognised against equity as at 01.01	**0**	-16
-56	**32**	Adjusted equity balance sheet as 31.12	**33**	-57
1	**2**	Net pension cost relating to defined benefit plans	**2**	1
-2	**0**	Charged to the Profit and Loss Account	**0**	-2
-18	**-18**	Benefits paid	**-19**	-19
-242	**-226**	**Net pension liabilities in the balance sheet as at 31.12.**	**-240**	-256
33	**34**	Other pension liabilities (early retirement pension contract)	**34**	33
-209	**-192**	**Total pension liabilities in the balance sheet as at 31.12.**	**-206**	-223
		Actuarial assumptions		
2.40%	**2.60%**	Discount rate	**2.60%**	2.40%
2.40%	**2.60%**	Expected rate of return on scheme's assets	**2.60%**	2.40%
1.00%	**1.00%**	Future wage- and salary developments	**1.00%**	1.00%
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%	**90.00%**	Staff's average estimated propensity to opt for SRPS at the age of 62	**90.00%**	50.00%
K2013BE	**K2003BE**	Mortality rate. marriage probability etc.	**K2003BE**	K2013BE
IR2003	**IR2003**	Disability	**IR2003**	IR2003
765	**725**	**Number of members**	**737**	780

Composition of pension assets in SpareBank 1 Nord-Norges Pensjonskasse

Pension resources broken down on investment categories:

2017	2018	Investment category	2018	2017
58%	**56%**	Certificates and bonds	**56%**	58%
37%	**33%**	Shares	**33%**	37%
2%	**2%**	Properties	**2%**	2%
3%	**9%**	Other	**9%**	3%
100%	**100%**	Total	**100%**	100%

Sensitivity

The estimates are based on facts and circumstances as at 31.12.18 assuming that all other parameters are constant. Actual results may differ from these estimates.

Parent Bank Amounts in NOK thousand	**Discounting rate**		**Pay adjustment**		**Annual adjustment basic amount (G)**		**Pension adjustment**		**Expected remaining useful life**	
	+1%	-1%	+1%	-1%	+1%	-1%	+1%	-1%	+1 år	-1 år
Changes in pensions										
Benefits-based pension liabilities	-82 683	100 910	21 226	-18 037	-8 531	9 630	90 343	N/A	29 171	-29 246
Net pension costs for the period incl. effects of recognised actuarial gains and losses	-5 922	4 743	1 267	-1 074	-506	576	2 988	N/A	930	-936

Group Amounts in NOK thousand	**Discounting rate**		**Pay adjustment**		**Annual adjustment basic amount (G)**		**Pension adjustment**		**Expected remaining useful life**	
	+1%	-1%	+1%	-1%	+1%	-1%	+1%	-1%	+1 år	-1 år
Changes in pensions										
Benefits-based pension liabilities	-85 588	104 455	21 972	-18 670	-8 830	9 968	93 517	N/A	30 195	-30 274
Net pension costs for the period incl. effects of recognised actuarial gains and losses	-6 199	4 977	1 306	-1 107	-523	593	3 086	N/A	961	-966

Note 26 – Tax

PARENT BANK			GROUP	
2017	**2018**	Amounts in NOK million	**2018**	**2017**
		Major components of income tax		
233	**303**	Current tax costs	**355**	244
95	**-5**	Change in deferred tax	**-9**	112
-12	**23**	Recognised directly to equity	**28**	-15
0	**0**	Shortfall/surplus in respect of accrual for taxation in the previous year/corrections	**0**	-17
316	**321**	Tax	**374**	324
8	**12**	Capital (property) tax (presented as other operating costs)	**12**	8
324	**333**	Income tax for the period	**386**	332
241	**314**	Tax payable in balance sheet	**367**	252
		Change in net deferred tax		
95	**-5**	Change in deferred tax recognised in the income statement	**-9**	112
-12	**23**	Changes in principles recognised directly to equity	**28**	- 32
83	**18**	**Total change in net deferred tax**	**19**	80

31.12.17	**31.12.18**		**31.12.18**	**31.12.17**
		Temporary differences and deferred tax		
-63	**-65**	Tangible fixed assets	**364**	399
241	**226**	Pension liabilities	**239**	256
535	**529**	Other temporary differences	**527**	552
		Loss carried forward	**-22**	-65
713	**690**	**Total temporary differences**	**1 108**	1 142
-178	**-173**	**Deferred tax in balance sheet - 25%**	**-277**	-286

2017	**2018**		**2018**	**2017**
		Change in temporary differences		
-56	**-2**	Tangible fixed assets	**-35**	114
84	**-15**	Pension liabilities	**-17**	92
352	**-6**	Other temporary differences	**-25**	296
		Loss carried forward	**43**	-54
380	**-23**	**Total temporary differences**	**-34**	448
95	**-6**	Change in deferred tax recognised in the income statement - 25%	**-9**	112
-12	**23**	Changes in principles recognised directly to equity	**28**	-15
0	**1**	Changes beetween deferred tax/tax payable as at 31.12.		-17
83	**18**	**Change in deferred tax recognised in the income statement - 25%**	**19**	80
		Reconciliation of tax charge for the period recognised against profit and loss to profit before tax		
442	**427**	25% of profit before tax	**483**	443
-126	**-106**	Non-taxable profit and loss items (permanent differences)	**-109**	-119
8	**12**	Capital gains tax	**12**	8
0	**0**	Shortfall/surplus in respect of accrual for taxation in the previous year		
324	**333**	**Taxation charge for the period**	**386**	332
18.3%	**19.5%**	**Effective tax rate (income tax for the period expressed as a percentage of profit before tax)**	**20.0%**	18.7%

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.

Note 27 – Financial instruments at fair value

MORBANK

Amounts in NOK million	Valuation based on listed prices in an active market	Valuation based on observable market data	Valuation based on factors other than observable market data	
	Level 1	Level 2	Level 3	Total
Assets 31.12.18				
Fixed-rate loans at fair value			7 652	**7 652**
Loans held for sale to mortgage company			1 963	**1 963**
Shares at fair value	143	67	131	**340**
Bonds at fair value	9 545	3 014		**12 560**
Derivatives at fair value		1 653		**1 653**
Total assets	**9 688**	**4 734**	**9 746**	**24 168**
Liabilities 31.12.18				
Derivatives at fair value		874		**874**
Total liabilities		**874**		**874**
Assets 31.12.17				
Fixed-rate loans at fair value			6 935	6 935
Loans held for sale to mort-gage company				0
Shares at fair value	123	43	89	255
Bonds at fair value	7 774	3 767		11 541
Derivatives at fair value		1 511		1 511
Total assets	7 897	5 321	7 024	20 242
Liabilites 31.12.17				
Derivatives at fair value		902		902
Total liabilities		902		902

Changes in value for financial instruments in level 3

	Assets			
Amounts in NOK million	Fixed-rate loans	Shares	Mortgages to customers for sale	Bonds
Booked value as of 01.01.	6 935	89		0
Net gains	- 64	5		
Acquisitions	3 302	37	4 002	
Disposals	-2 521		-2 039	
Bookved value as of 31.12.	**7 652**	**131**	**1 963**	**0**

GROUP

Amounts in NOK million	Valuation based on listed prices in an active market	Valuation based on observable market data	Valuation based on factors other than observable market data	
	Level 1	Level 2	Level 3	Total
Assets 31.12.18				
Fixed-rate loans at fair value			7 693	**7 693**
Loans held for sale to mortgage company			1 963	**1 963**
Shares at fair value	143	67	143	**352**
Bonds at fair value	9 545	3 014		**12 560**
Derivatives at fair value		1 653		**1 653**
Total assets	**9 688**	**4 734**	**9 799**	**24 220**
Liabilities 31.12.18				
Derivatives at fair value		874		**874**
Total liabilities		**874**		**874**
Assets 31.12.17				
Fixed-rate loans at fair value			6 935	6 935
Loans held for sale to mort-gage company				0
Shares at fair value	123	123	104	350
Bonds at fair value	7 774	3 767		11 541
Derivatives at fair value		1 511		1 511
Total assets	7 897	5 401	7 039	20 337
Liabilites 31.12.17				
Derivatives at fair value		902		902
Total liabilities		902		902

Changes in value for financial instruments in level 3

	Assets			
Amounts in NOK million	Fixed-rate loans	Shares	Mortgages to customers for sale	Bonds
Booked value as of 01.01.	6 935	104		0
Net gains	- 68	2		
Acquisitions	3 352	37	4 002	
Disposals	-2 526		-2 039	
Booked value as of 31.12.	**7 693**	**143**	**1 963**	**0**

Note 28 – Fair value financial instruments at amortised cost

Financial instruments at amortised cost

As stated in note 2, the default classification for financial assets and liabilities in the Bank and the Group is “at amortised cost”. The Group seeks to minimise income statement volatility by applying the same measurement policy to both assets and liabilities.

Amortised cost entails measurement based on 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.

PARENT BANK							GROUP			
2017		2018			Amounts in NOK million		2018		2017	
Booked value	Market value	Booked value	Market value	Level	Assets	Level	Market value	Booked value	Market value	Booked value
7 173	7 173	**5 976**	**5 976**	3	Total loans and advances to credit institutions	3	**1 282**	**1 282**	2 656	2 656
62 151	62 731	**64 795**	**65 265**	3	Net loans and advances to customers (amortised cost)	3	**71 207**	**70 696**	68 068	67 460
52	52	**0**	**0**	3	Shares	3	**0**	**0**	52	52
69 376	69 956	**70 771**	**71 241**		**Total fair value for assets measured at amortised cost**		**72 489**	**71 978**	**70 776**	**70 168**
					Liabilities					
436	436	**188**	**188**	3	Liabilities to credit institutions	3	**187**	**187**	434	434
57 883	57 883	**64 005**	**64 005**	3	Deposits from customers	3	**63 985**	**63 985**	57 849	57 849
23 553	23 737	**25 136**	**24 971**	2	Debt securities in issue (amortised cost)	2	**24 971**	**25 136**	23 737	23 552
850	857	**1 200**	**1 196**	2	Subordinated loan capital (amortised cost)	2	**1 196**	**1 200**	857	850
82 722	82 913	**90 529**	**90 360**		**Total fair value for liabilities measured at amortised cost**		**90 339**	**90 508**	82 877	82 685
					Off balance guarantee liabilities and pledging					
1 259		1 171			Guarantee liabilities and other liabilities (off balance)			1 253		1 152
					Assets pledged as security					
					Liabilities					
8 601		10 374			Book value of bonds that are in Norges Bank’s safe custody			10 374		7 641
0		0			Of which pledged as security for D/F loan			0		0

Note 29 – Certificates and bonds

After transitioning to IFRS 9, all bonds and certificates are measured at fair value with changes through profit or loss. Previous portfolios defined as loans, receivables and held to maturity were wound up as at 31.12.17.

Certificates, bonds and other interest-bearing securities broken down by issuer sector				
PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Governments		
2 720	**2 510**	– nominal value	**2 510**	2 720
2 807	**2 577**	– market value/fair value	**2 577**	2 807
2 807	**2 577**	– booked value	**2 577**	2 807
		Other public issuer		
1 847	**1 433**	– nominal value	**1 433**	1 847
1 873	**1 449**	– market value/fair value	**1 449**	1 873
1 873	**1 449**	– booked value	**1 449**	1 873
		Financial institutions		
6 774	**8 456**	– nominal value	**8 456**	6 774
6 821	**8 511**	– market value/fair value	**8 511**	6 821
6 821	**8 512**	– booked value	**8 512**	6 821
		Non-financial institutions		
41	**23**	– nominal value	**23**	41
40	**22**	– market value/fair value	**22**	40
40	**22**	– booked value	**22**	40
11 541	**12 560**	**Total certificates and bonds held for trading**	**12 560**	11 541

Note 30 – Shares

As is evident from note 2, SpareBank 1 Nord-Norge's trading portfolio will be stated at fair value using market prices as of the balance date. Other equities at fair value are valued using valuation methods based on observable market data and estimated cash flows. These equities are valued at fair value with changes in fair value recognized in profit and loss as they arise (FVPL), or at fair value through other comprehensive income (FVOCI).

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Fair value through profit and loss (FVPL):		
122	**143**	Trading assets	**143**	122
80	**90**	Shares designated as fair value		95
	67	Hybrid capital classified to fair value	**67**	
		Fair value through other comprehensive income (FVOCI):		
53	**40**	Shares designated as fair value		53
255	**340**	**Total shares and equities**	**352**	270

Breakdown of shares as at 31.12.18

Company name Amounts in NOK thousand	Number of shares/units	Our equity stake %	Cost	Market value	Booked value
PCCs					
SpareBank 1 SMN	33 298	<0.05%	1 585	2 820	**2 820**
Sparebanken Telemark	522	<0.05%	60	61	**61**
SpareBank 1 BV	8 000	<0.05%	269	282	**282**
Sparebank 1 Østlandet	18 870	<0.05%	1 603	1 566	**1 566**
Sparebanken Vest	22 725	<0.05%	797	1 200	**1 200**
Total PCCs			**4 314**	**5 929**	**5 929**
Listed shares					
Aker ASA	2 128	<0.05%	745	990	**990**
Atea ASA	5 778	<0.05%	663	645	**645**
B2 Holding ASA	25 533	<0.05%	499	314	**314**
DNB ASA	17 076	<0.05%	2 021	2 374	**2 374**
Elkem ASA	26 440	<0.05%	966	587	**587**
Equinor ASA	24 536	<0.05%	3 908	4 508	**4 508**
Gjensidige Forsikring	3 717	<0.05%	490	503	**503**
Marine Harvest ASA (Mowi)	6 962	<0.05%	971	1 280	**1 280**
Norsk Hydro	48 881	<0.05%	2 176	1 922	**1 922**
ORKLA	11 968	<0.05%	850	819	**819**
Schibsted ASA B-aksjer	3 933	<0.05%	822	1 017	**1 017**
Storebrand ASA	13 683	<0.05%	781	843	**843**
Subsea 7 S.A.	13 764	<0.05%	1 493	1 155	**1 155**

Telenor ASA	15 654	<0.05%	2 410	2 628	**2 628**
TGS-NOPEC Geophysical Company	3 926	<0.05%	849	809	**809**
XXL ASA	13 185	<0.05%	995	345	**345**
Yara International	5 993	<0.05%	1 958	1 994	**1 994**
VISA INC. C	16 784	<0.05%	7 187	77 066	**77 066**
Visa Pref Stock C	1 175	<0.05%	17 000	16 103	**16 103**
Total listed shares			**46 784**	**115 900**	**115 900**

Investment fund certificates					
Fondsfinans Global Energi	422		1 222	951	**951**
Holberg Rurik A	10 058		2 087	1 818	**1 818**
KLP AkjseGlobal Indeks 2	3 936		9 593	8 657	**8 657**
Odin Europa C	6 328		1 206	1 034	**1 034**
Storebrand Global Multifactor	2 055		4 680	4 251	**4 251**
Sector Healthcare Value B NOK	2 743		3 429	3 274	**3 274**
Skagen Kon-Tiki A	1 223		1 012	938	**938**
Total certificates investment funds			**23 230**	**20 921**	**20 921**
Total shares held for trading			**74 327**	**142 751**	**142 751**

Shares at fair value (FVPL)	Number of shares/units	Our equity stake %	Cost	Market value	Booked value
Sparebankmateriell AS	2 312	7.3%	225	225	**225**
S.W.I.F.T	11		79	98	**98**
Trygg Parkering	120		4 200	4 200	**4 200**
SpareBank 1 Markets	386 516	12.2%	110 148	84 260	**84 260**
Bank Tavrichesky	104 821 999	9.3%	122 284	0	**0**
Diverse mindre aksjer			1 710	1 721	**1 721**
Total shares at fair value (FVPL)			**238 646**	**90 504**	**90 504**

Shares at fair value (FVOCI)	Number of shares/units	Our equity stake %	Cost	Market value	Booked value
VN Norge AS	28 778 208		46 214	39 999	**39 999**
Total shares at fair value (FVOCI)			**46 214**	**39 999**	**39 999**

Hybrid capital classified to fair value	Number of shares/units	Our equity stake %	Cost	Market value	Booked value
Hybrid capital SNN Markets			30 500	30 520	**30 520**
Hybrid capital SNN Treasury			36 500	36 150	**36 150**
Sum hybrid capital				**66 670**	**66 670**
Parent bank's total shares and equity investments			**359 187**	**339 924**	**339 924**

Note 30 – Shares

Shares valued at fair value: Amounts in NOK thousand	**Number of shares/units**	**Our equity stake %**	**Cost**	**Market value**	**Booked value**
Shares owned by SpareBank 1 Nord-Norge Portefølje AS as of 31.12.18					
Aksis Eiendom AS	18	0.59%	51	0	**0**
Bodø Industrier AS	12	0.38%	108	0	**0**
Bodø-Gruppen Invest AS	1 210	33.33%	1 222	0	**0**
Breivoll Inspection Technologies AS	1 150	2.61%	1 549	0	**0**
Helse Investering AS	611	40.73%	604	2 458	**2 458**
Lytix Biopharma AS (transfered from Nord I IS)	151 820	0.00%	5 914	1 139	**1 139**
MariNor AS	60	13.22%	343	0	**0**
Meløy Næringsutvikling AS	337	12.48%	1 452	0	**0**
Møteplass Salten AS	1 000	10.00%	100	0	**0**
Målselv Industribygg AS	10	8.62%	104	0	**0**
Norinnova AS	613	3.70%	2 900	2 756	**2 756**
Norinnova Invest AS - A shares	3 288	8.30%	3 669	0	**0**
Norinnova Invest AS - B shares	332	6.60%	332	0	**0**
Saltenposten AS	50	2.50%	565	100	**100**
Sentrums Næringshage AS	387	6.25%	517	0	**0**
Såkorninvest Nord AS u.a.	16 250	17.52%	3 000	0	**0**
Ressurs Tromsø AS	10	1.92%	392	0	**0**
Viking Venture III LP	37 025	0.90%	2 255	4 858	**4 858**
Total shares owned by SNN Portefølje			**25 078**	**11 311**	**11 311**
Shares owned by Eiendomsmegler 1 Nord-Norge AS and SNN Regnskapshuset			126	1 079	**1 079**
Total shares and equity investments			**384 392**	**352 313**	**352 313**

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Note 31 – Investments in Group companies, associated companies and joint ventures

PARENT BANK

Investments in Group companies Amounts in NOK million	31.12.18	31.12.17
Equity stakes in financial institutions	**924**	775
Equity stakes in other Group companies	**149**	149
Total investments in Group companies	**1 073**	924
Off which hybrid capital in financial institutions	**84**	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 Amounts in NOK thousand	Share capital	Number of shares	Cost	Share of equity and voting capital	Booked value
Company Name					
SpareBank 1 Finans Nord-Norge AS, Tromsø	781 000	156 200	840 000	100%	840 000
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 Langes gate 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
Total investment shown in the Parent Bank`s accounts					**988 638**

Shares in subsidiaries are not quoted on the stock exchange.

Investments in joint ventures and associated companies Amounts in NOK million	31.12.18	31.12.17
Equity stakes in financial institutions	**2 416**	2 186
Equity stakes in other joint ventures	**1 045**	974
Total investments in joint ventures	**3 461**	3 160

Shares and equity stakes in joint ventures and assosiated companies, included in the Parent Bank's accounts according to the cost method of accounting	Classification	Share of equity and voting capital	Registered office
Company names			
SpareBank 1 Gruppen AS	Joint venture	19.50%	Oslo
SpareBank 1 Banksamarbeidet DA	Joint venture	17.74%	Oslo
SpareBank 1 Betaling AS	Associated company	18.57%	Oslo
SpareBank 1 Boligkreditt AS	Associated company	17.82%	Stavanger
SpareBank 1 Næringskreditt AS	Associated company	13.97%	Stavanger
BN Bank ASA	Associated company	23.50%	Trondheim
SpareBank 1 Kredittkort AS	Associated company	17.00%	Trondheim
SMB LAB AS	Associated company	20.00%	Trondheim
Betr AS	Associated company	20.00%	Tromsø

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

2018 Amounts in NOK million	Total share	Spare-Bank 1 Gruppen AS 19,5%	SpareBank 1 Banksamar-beidet DA 17,74 %	BN Bank ASA 23,5 %	SpareBank 1 Boligkreditt AS 17,82 %	SpareBank 1 Nærings-kreditt AS 13,97 %	Other
Investments in associated companies and joint ventures							
As at 1 January	4 755	1 647	22	820	1 711	266	289
Acquisition/sale	300				210	20	70
Share of profit - IFRS	442	289	75	65	-6	7	12
Share of result booked as administrative costs	-74		-74				
Items incorporated directly in equity capital	-87	-54			-34	1	
Paid-out dividend	-346	-287		-1	-11	-10	-37
As at 31 December	**4 990**	**1 595**	**23**	**884**	**1 870**	**284**	**334**

Included in "Other": SpareBank 1 Kredittkort AS, SpareBank 1 Betaling AS, SMB Lab AS and Betr AS (Proaware AS).

2017 Amounts in NOK million	Total share	Spare-Bank 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
Investments in associated companies and joint ventures							
As at 1 January	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	
As at 31 December	4 755	1 647	22	820	1 711	266	289

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

GROUP

2018 Amounts in NOK million	Assets	Liabilities	Income	Profit/ loss	Ownership share
The Group's equity stakes in associated companies and joint ventures					
SpareBank 1 Gruppen AS (konsern)	14 700	13 100	2 675	289	19.50%
SpareBank 1 Betaling AS	122	0	0	-11	18.57%
SpareBank 1 Banksamarbeidet DA	206	177	222	0	17.74%
SpareBank 1 Boligkreditt AS	43 752	41 688	7	1	17.82%
SpareBank 1 Næringskreditt AS	1 867	1 577	10	7	13.97%
BN Bank ASA	6 820	5 814	155	69	23.50%
SpareBank 1 Kredittkort AS	1 011	827	96	22	17.00%
SMB LAB AS	19	2	0	-2	20.00%
Betr AS	2	0	1	-1	20.00%
Totalt	**68 499**	**63 185**	**3 166**	**375**	

2017 Amounts in NOK million	Assets	Liabilities	Income	Profit/ loss	Ownership share
The Group's equity stakes in associated companies and joint ventures					
SpareBank 1 Gruppen AS (konsern)	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%
Totalt	67 223	62 193	3 909	412	

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. Amounts in NOK millions.

2018 Amounts in NOK million	Assets	Liabilities	Income	Profit/ loss	Number of shares	Ownership share
Bodø-Gruppen AS	18	69	0	-24	2 000	100%

Note 32 – Property, plant and equipment

PARENT BANK				GROUP		
Buildings and other property	Machinery, fixtures, fittings and vehicles	Total	**2018** Amounts in NOK million	Buildings and other property	Machinery, fixtures, fittings and vehicles	Total
125	833	**958**	Cost of acquisition or adjusted value as at 01.01.18	342	980	**1 322**
4	82	**86**	Additions	87	90	**177**
55	23	**79**	Disposals	55	36	**92**
74	892	**966**	Cost of acquisition or adjusted value as at 31.12.18	374	1 033	**1 407**
14	710	**724**	Accumulated depreciation and write-downs as at 01.01.18	31	838	**869**
0	47	**48**	Current period's depreciation	0	60	**61**
			Current period's impairment			
7	14	**22**	Reversed accumulated depreciation related to disposals	7	14	**22**
7	743	**750**	Accumulated depreciation and impairment in value as at 31.12.18	24	884	**908**
67	148	**216**	Book value as at 31.12.18	350	149	**499**
			2017 Amounts in NOK million			
192	922	1 114	Cost of acquisition or adjusted value as at 01.01.17	342	1 016	1 358
	47	47	Additions	41	63	104
67	136	203	Disposals	41	99	140
125	833	958	Cost of acquisition or adjusted value as at 31.12.17	342	980	1 322
48	705	753	Accumulated depreciation and write-downs as at 01.01.17	57	800	857
2	49	51	Current period's depreciation	6	59	65
			Current period's impairment			
36	44	80	Reversed accumulated depreciation related to disposals	32	21	53
14	710	724	Accumulated depreciation and impairment in value as at 31.12.17	31	838	869
111	123	234	Book value as at 31.12.17	311	142	453
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 175 million as at 31.12.18 (138 million as at 31.12.17).

Liabilities related to property, plant and equipment
As at 31 December 2018, 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 31.12.18.

Note 33 – Intangible assets

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Goodwill	**92**	66
		Other intangible assets	**3**	2
		Total intangible assets	**95**	68

Goodwill is primarily attributable to the acquisition of SpareBank 1 Regnskapshuset Nord-Norge AS and acquisition/merger with subordinate accounting firms. Goodwill and licence items are assessed for impairment each year, and the values are written down if there is a basis for this. Please see note 3 for a more detailed description.

Note 34 – Other assets

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
75	**75**	Capital contribution to the SpareBank 1 Nord-Norge Pension Fund	**75**	75
241	**226**	Pension assets	**240**	256
32	**10**	Other debtors	**10**	32
47	**72**	Prepaid expenses	**70**	101
62	**6**	Internal accounts	**6**	62
		Client account – property brokerage	**79**	57
42	**39**	Other assets	**82**	57
499	**428**	**Total other assets**	**562**	640
10	**7**	Hereof acquired assets listed for sale	**7**	29

Other assets listed for sale

The acquired assets listed for sale include six apartments and six properties.

Note 35 – Deposits from customers

SpareBank 1 Nord-Norge classifies deposits from customers to amortised cost according to IFRS 9. For more information please see note 2 regarding accounting principles and note 20 regarding intrest cost for deposits.

PARENT BANK					GROUP			
31.12.17		31.12.18		Amounts in NOK million	31.12.18		31.12.17	
Proportion	Deposits	Proportion	Deposits		Proportion	Deposits	Proportion	Deposits
91%	52 929	**92%**	**58 624**	Deposits from and liabilities to customers, without agreed maturity	**92%**	**58 604**	91%	52 895
9%	4 954	**8%**	**5 381**	Deposits from and liabilities to customers, with agreed maturity	**8%**	**5 381**	9%	4 954
100%	57 883	**100%**	**64 005**	**Total deposits**	**100%**	**63 985**	100%	57 849
	0.70%		**0.76 %**	Average interest rate [1]		**0.76%**		0.70%
				Deposits broken down by sector and industry				
5%	2 753	**5%**	**3 416**	Real estate	**5%**	**3 416**	5%	2 753
2%	1 123	**2%**	**1 342**	Finanicial and insurance activities	**2%**	**1 342**	2%	1 123
3%	1 595	**3%**	**1 727**	Fishing and aquaculture	**3%**	**1 727**	3%	1 595
2%	1 002	**2%**	**1 252**	Manufacturing	**2%**	**1 252**	2%	1 002
1%	489	**1%**	**478**	Agriculture and forestry	**1%**	**478**	1%	489
3%	1 721	**3%**	**2 021**	Power and water supply and construction	**3%**	**2 021**	3%	1 721
8%	4 499	**8%**	**4 885**	Service industries	**8%**	**4 866**	8%	4 465
3%	1 716	**3%**	**1 902**	Transportation	**3%**	**1 902**	3%	1 716
3%	1 724	**3%**	**2 208**	Commodity trade, hotel and restaurant industry	**3%**	**2 208**	3%	1 724
30%	16 622	**30%**	**19 231**	Total public market	**30%**	**19 212**	30%	16 588
56%	32 304	**53%**	**34 180**	Total retail market	**53%**	**34 179**	55%	32 304
14%	8 957	**17%**	**10 594**	Total government	**17%**	**10 594**	15%	8 957
100%	57 883	**100%**	**64 005**	**Total gross lending to customers**	**100%**	**63 985**	100%	57 849
				Deposits broken down by geographical area				
17%	9 702	**17%**	**10 608**	Finnmark	**17%**	**10 608**	17%	9 702
36%	21 300	**36%**	**23 312**	Nordland	**36%**	**23 312**	36%	21 300
5%	2 771	**4%**	**2 558**	Other regions	**4%**	**2 558**	5%	2 771
41%	23 567	**41%**	**26 491**	Troms inkl Svalbard	**41%**	**26 471**	41%	23 533
1%	543	**2%**	**1 036**	International	**2%**	**1 036**	1%	543
100%	57 883	**100%**	**64 005**	**Total deposits broken down by geographical areas**	**100%**	**63 985**	100%	57 849

[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. The group applies the rules for IAS 39 when assessing interest rate hedges.

PARENT BANK			GROUP	
31.12.17	**31.12.18**	Amounts in NOK million	**31.12.18**	**31.12.17**
10 523	**13 350**	Bond debt with fixed interest rate	**13 350**	10 523
13 029	**11 785**	Bond debt determinable interest rate	**11 785**	13 029
23 552	**25 135**	**Total debt securities in issue**	**25 135**	23 552
1.44%	**1.43%**	Average interest rate for bond debt [1)]	**1.43%**	1.44%
		Bond debt broken down by maturities		
3 464		2018		3 464
4 138	**2 752**	2019	**2 752**	4 138
4 262	**4 755**	2020	**4 755**	4 262
3 187	**4 595**	2021	**4 595**	3 187
8 023	**4 417**	2022 and later years	**4 417**	8 023
	8 156	2023 and later years	**8 156**	
478	**460**	Impact from recalculation to market value of bonds - hedging-related accounting	**460**	478
		Own bonds		
23 552	**25 135**	**Bond debt and other long-term borrowings**	**25 135**	23 552
		Broken down by the most important foreign currencies		
14 130	**16 214**	NOK	**16 214**	14 131
2 206	**2 208**	CHF	**2 208**	2 206
742	**783**	USD	**783**	742
911	**436**	SEK	**436**	911
5 563	**5 494**	EUR	**5 494**	5 562
23 552	**25 135**	**Total liabilities broken down by major currencies**	**25 135**	23 552

[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.

Note 37 – Other liabilities

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
593	**883**	Other liabilities	**982**	625
143	**96**	Incurred costs / prepaid income	**395**	360
3	**36**	Provision for incurred costs / obligations	**63**	29
739	**1 015**	**Total other liabilities**	**1 440**	1 014
		Other liabilities:		
137	**156**	Creditors	**170**	153
241	**314**	Accrued tax	**367**	252
22	**22**	Tax deductions	**64**	29
73	**239**	Agreed payments from Donations Fund	**239**	73
32	**35**	Pensionliabilities (IAS 19)	**52**	42
88	**117**	Miscellaneous liabilities	**90**	76
593	**883**	**Total other liabilities**	**982**	625
		Incurred costs / prepaid income:		
70	**25**	Incurred costs / prepaid income [1)]	**324**	228
73	**71**	Incurred personnel costs	**71**	92
		Miscellaneous incurred costs		40
143	**96**	**Total**	**395**	360
		Provision of accrued expenses / obligations		
3	**36**	Specified write-down guarantee	**63**	29
3	**35**	**Total provision of accrued expenses / obligations**	**63**	29

[1)] The amount primarily consists of accrued leasing fees

Binding agreements concerning acquisitions of property, plant and equipment

As at 31.12.18, 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. Also see note 32 concerning property, plant and equipment.

Ongoing lawsuits

As at 31.12.18, 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.

Provision for accrued costs/liabilities

Classified as liabilities pursuant to IFRS 9. See note 14.

Note 38 – Guarantees

PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Breakdown of guarantee liabilities		
500	**327**	Payment guarantees	**327**	393
281	**266**	Contract guarantees	**266**	281
67	**58**	Loan guarantees	**58**	67
385	**494**	Miscellaneous	**494**	385
26	**26**	Guarantees in favour of the Norwegian Banks' Guarantee Fund (NBGF)	**26**	26
1 259	**1 171**	**Total guarantee liabilities**	**1 171**	1 152
		Guarantees broken down by commercial, industrial and other sectors		
288	**272**	Construction	**272**	288
21	**16**	Real estate	**16**	21
255	**174**	Other business suppoert activities	**174**	148
5	**5**	Finanicial and insurance activities	**5**	5
126	**171**	Manufacturing	**171**	126
59	**60**	Agriculture and forestry	**60**	59
15	**13**	Retail market	**13**	15
12	**10**	Service industries	**10**	12
77	**79**	Transportation and storage	**79**	77
253	**234**	Water supply; sewerage, waste management and remeditation activities	**234**	253
148	**136**	Commodity trade, hotel and restaurant industry	**136**	148
1 259	**1 171**	**Total guarantees broken down by commercial, industrial and other sectors**	**1 171**	1 152
		Guarantees broken down by geographical areas		
143	**158**	Finnmark	**158**	143
614	**503**	Troms including Svalbard	**503**	507
199	**232**	Nordland	**232**	199
303	**278**	Other regions	**278**	303
1 259	**1 171**	**Total guarantees broken down by geographical areas**	**1 171**	1 152

Note 39 – Subordinated loan capital and hybrid capital

The contract terms and conditions for hybrid Tier 1 instruments mean they are included in the Bank's tier 1 capital for capital adequacy purposes, see note 5.

Hybrid Tier 1 instruments are classified as equity and presented on the line hybrid Tier 1 instruments under equity. They are subsequently measured at amortised cost. This means that the interest is not presented on the line for interest costs but is recognised directly against equity.

Maturity structure				
PARENT BANK			GROUP	
31.12.17	31.12.18	Amounts in NOK million	31.12.18	31.12.17
		Subordinated capital with definite maturity		
350	**350**	2024 3m NIBOR + 1.50% (Call option 2019)	**350**	350
500	**500**	2027 3m NIBOR + 1.54% (Call option 2022)	**500**	500
	350	2028 3m NIBOR + 1.40% (Call option 2023)	**350**	
850	**1 200**	**Total subordinated capital with definite maturity**	**1200**	850
2.73%	**2.51%**	Average interest subordinated capital	**2.51%**	2.73%
		Perpetual hybrid Tier 1		
350	**350**	2099 3m NIBOR + 3.30% (Call option 2022)	**350**	350
180	**180**	2099 3m NIBOR + 3.15% (Call option 2022)	**180**	180
	250	2099 3m NIBOR + 3.30% (Call option 2023)	**250**	
530	**780**	**Total perpetual hybrid Tier 1**	**780**	530
5.14%	**4.23%**	Average interest perpetual hybrid Tier 1	**4.23%**	5.14%
3.69%	**3.18%**	Average interest subordinated and hybrid capital	**3.18%**	3.69%

Note 40 – Business acquisitions/mergers

Acquisitions/merger of accounting office

During 2018, SpareBank 1 Regnskapshuset Nord-Norge AS (RH) acquired 100% of the shares in four Bluecon-companies located in Helgeland (Mosjøen, Sandnessjøen, Brønnøysund og Mo i Rana) and Regnskapssentralen Nord AS located in Harstad . All companies provides accounting services.

During 2018, the companies was merged into RH. The merger took place with accounting and tax continuity and accounting and tax effect from 1 January 2018.

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
	Fredrik Langesg 20 AS	SpareBank 1 Næringskreditt AS
	Rødbanken AS [1)]	SpareBank 1 Betaling AS
	Rødbanken Holding AS [1)]	SpareBank 1 Kredittkort AS
		SMB Lab AS
		Betr AS

[1)] Ideal organisations are not consolidated in the group accounts.

Share of equity is specified in note 31.

Current account ratio with subsidiaries		
Amounts in NOK million	**2018**	**2017**
Income items - Parent Bank:		
Interest received and similar income from loans and claims from subsidiaries	**82**	77
Deposit rate to subsidiaries	**8**	5
Share dividend	**15**	87
Accrued commissions from arranging vendor's lien-based loans	**1**	3
Commisions and income from banking services	**5**	2
Other operating costs	**6**	10

The Parent Bank offer administrative services for the subssidiaries, including salary and other Human Relations services.

Balance sheet items - Parent Bank		
Loans and advances to subsidiaries	**4 615**	4 339
Subordinated loan capital	**306**	206
Hybrid capital	**84**	84
Due to subsidiaries	**942**	483
Other liabilities and incurred costs	**10**	22
Claim on dividends	**0**	0

As at 31.12.18, vendor's lien-based loans and lesing arranged for SpareBank 1 Finans totalled NOK 1 923 million.

Note 41 – Related parties

Current account ratio with joint ventures/associated companies		
Amounts in NOK million	**2018**	**2017**
Income items - Parent Bank		
Interest received and similar income from loans and claims from joint ventures	**72**	57
Deposit interest rate applicable to joint ventures	**1**	0
Share dividends	**343**	357
Balance sheet items - Parent Bank:		
Loans and advances to joint ventures	**1 798**	2 081
Deposits from and liabilities to joint ventures	**81**	30
Bonds	**84**	84

Transactions with joint ventures

Being a participant in the SpareBank 1-alliance, several transactions between the Parent Bank and joint ventures are carried out. All transactions entered into are completed on commercial terms as a part of ordinary business and at market prices.

Amounts in NOK million	**2018**	**2017**
The most important transactions are as follows:		
a) Purchase of management- and information technology, and development services from SpareBank 1 Banksamarbeidet DA	**125**	115
b) Commisions from sale of insurance- and savings products with an insurance element for SpareBank 1 Gruppen AS	**149**	153
c) Loans sold to SpareBank 1 Boligkreditt AS (as at 31.12)	**32 799**	30 464
Accrued commission from SpareBank 1 Boligkreditt AS	**257**	245
Receivables SpareBank 1 Boligkreditt AS (as at 31.12)	**0**	0
d) Loans sold to SpareBank 1 Næringskreditt AS (as at 31.12)	**427**	0
Accrued commission from SpareBank 1 Næringskreditt AS	**3**	0

Note 42 – Equity Certificates (EC) and ownership structure

According to the statutes § 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 31.12.18, the Bank had 8 491 EC-holders (7 939 as at 31.12.17).

Change in the Bank's EC-capital and total certificates:

Year	Change	Change in EC capital	Total EC capital	Total number of vertificates
2000	Issue earmarked for staff	10 453 101	659 701 800	6 597 018
2001			659 701 800	6 597 018
2002			659 701 800	6 597 018
2003			659 701 800	6 597 018
2004			659 701 800	6 597 018
2005	Bonus issue	131 940 500	791 642 200	7 916 422
2005	EC split		791 642 200	15 832 844
2006			791 642 200	15 832 844
2007	Dividend issue	49 055 400	840 697 600	16 813 952
2008	Dividend issue	54 906 050	895 603 650	17 912 073
2009			895 603 650	17 912 073
2010			895 603 650	17 912 073
2011	EC split and issues	759 621 025	1 655 224 675	66 208 987
2012			1 655 224 675	66 208 987
2013	Rigths issue and private placement for employees	750 029 552	1 807 164 288	100 398 016
2014			1 807 164 288	100 398 016
2015			1 807 164 288	100 398 016
2016			1 807 164 288	100 398 016
2017			1 807 164 288	100 398 016
2018			**1 807 164 288**	**100 398 016**

Note 42 – Equity Certificates (EC) and ownership structure

The 20 largest EC-Holders

Equity Certificate holders	Number of ECs	Share	Change in number
	31.12.18	31.12.18	2018
Pareto aksje Norge verdipapirfond ved/ Pareto Asset Management AS	3 260 063	3.25%	
State Street Bank and Trust Comp A/C Client Omnibus F	3 058 928	3.05%	190 913
Geveran Trading CO LTD	2 693 280	2.68%	466 312
MP Pensjon PK	2 584 322	2.57%	900 000
The Northern Trust Comp, London Br	2 382 129	2.37%	-113 489
FLPS - Prins All Sec Stock Sub	2 311 392	2.30%	-273 852
J.P. Morgan Securities PLC	1 785 104	1.78%	-78 508
Meteva AS	1 614 670	1.61%	1 767 025
Sparebankstiftelsen SpareBank 1 NO	1 411 606	1.41%	0
VPF Eika Egenkapitalbevis C/O Eika Kapitalforvaltning AS	1 398 129	1.39%	0
Forsvarets personalservice	1 391 630	1.39%	156 158
Morgan Stanley and Co. Int. PLC.	1 215 105	1.21%	0
Euroclear Bank S.A./N.V. 25% clients	1 033 413	1.03%	847 787
Landkreditt Utbytte	1 000 000	1.00%	964 971
SEB Europafond Småbolag SEB Investor World Global Custody	986 425	0.98%	150 000
State Street Bank and Trust Comp A/C Client Omnibus D	956 239	0.95%	986 425
Pareto Invest AS	945 976	0.94%	855 957
Lannebo Europa Småbolag Skandinaviska Enskilda Banken AB	804 230	0.80%	945 976
State Street Bank and Trust Comp S/A SSB Cliet Omni E	666 798	0.66%	804 230
Clearstream Banking S.A.	648 843	0.65%	-110 833
20 largest EC-holders	**32 148 282**	**32.02%**	**8 459 072**
Other EC-holders	68 249 734	67.98%	
ECs issued	**100 398 016**	**100.00%**	

EC ratio

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

PARENT BANK		
Amounts in NOK million	01.01.19	01.01.18
Equity Certificates	**1 807**	1 807
Premium Fund	**843**	843
Dividend Equalisation Fund, excluding fund for unrealised gains	**1 798**	1 574
Other equity	**34**	52
A. Equity attributable to EC holders of the Bank	**4 482**	4 276
Saving Bank's Fund, excluding fund for unrealised gains	**5 024**	4 765
Donations	**120**	120
Other equity	**40**	61
B. Total Saving Bank`s Fund	**5 184**	4 946
Total equity, excluding hybrid capital	**9 666**	9 222
EC ratio (A/ (A+B))	**46.36%**	46.36%
Reconciliation Balance Sheet		
Total equity, excluding hybrid capital	**9 666**	9 222
Hybrid capital	**780**	530
Set aside for dividens payment	**402**	402
Set aside for donations	**465**	465
Total equity, Parent Bank	**11 313**	10 619

Result per EC

2017	2018		2018	2017
1 444	**1 374**	Result for the year	**1 542**	1 40
-9	**-20**	Net interests hybrid capital [1)]	**-20**	-9
1 435	**1 354**	**Adjusted resultat for the year**	**1 522**	1 431
665	**628**	EC-holders share of result for the year (46,36 %)	**706**	663
6.62	**6.25**	**Result per EC**	**7.03**	6.61
1 505	**1 355**	Total comprehensive income	**1 493**	1 515
-9	**-20**	Net interests hybrid capital [1)]	**-20**	-9
1 496	**1 335**	**Adjusted total comprehensive income**	**1 473**	1 506
694	**619**	EC-holders share of result for the year (46,36 %)	**683**	698
6.90	**6.16**	total comprehensive income per EC	**6.80**	6.95

1) Interest on tier 1 capital instruments that are classified as equity was recognised directly against equity in the amount of NOK 27 (12) million, reduced by a tax effect of NOK 7 (3) million.

Note 43 – Profit distribution

Distribution of the Parent Bank's profit after tax:		
Amounts in NOK million	2018	2017
Profit after tax	**1 374**	1 444
Cash dividend to EC holders	**402**	402
Dividend Equalization Fund	**235**	267
To EC holders (amount)	**637**	669
To EC holders (per cent)	**46.36%**	46.36%
Donations	**465**	465
Saving Bank`s Fund	**272**	310
To community owned capital (amount)	**737**	775
To community owned capital (per cent)	**53.64%**	53.64%
Total distribution	**1 374**	1 444

Three 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	2018	2017
Net profit available for distribution	**1 374**	1 444
Net interest on tier 1 capital instruments booked directly against equity	**-20**	-9
Net profit used to calculate dividend	**1 354**	1 435
Payout rate for the result for the Parent Bank	**64.0%**	60.3%
Payout rate for the result for the Group	**56.9%**	60.5%
Dividend per equity certificate	**4.00**	4.00

Dividends will be distibuted to registered equity certificate holders as at 21 March 2019. The Bank's equity certificates will be traded ex dividend as of 22 March 2019. Dividends will be paid out on 11 April 2019. (EC = Equity Certificates)

Note 44 – Events occurring after the end of the year

Dividend

The proposed distribution of a cash dividend from the profit of the year is 402 MNOK to the equity capital certificate holders in SpareBank 1 Nord-Norge and 465 MNOK as donations to community-owned capital. This proposal has not been declared as the date of the balance sheet, and has therefore not been recognised as a liability on the balance sheet. It is still included in the equity.

Insurance merger

The planned merger between the two non-life insurance companies SpareBank 1 Skadeforsikring AS and DNB Forsikring AS has now been approved by Finanstilsynet (the Financial Supervisory Authority of Norway). The merger will come into force with effect from 1 January 2019. The name of the merged company will be Fremtind Forsikring AS.

Based on figures as at 31 December 2017 and pro forma consolidated financial statements, the merger and DNB's acquisition from 20% to 35% ownership interest will in aggregate result in an increased equity capital for SpareBank 1 Gruppen of approximately NOK 4.7 billion at Group level. The majority's (i.e.the SpareBank 1 banks and the Norwegian Confederation of Trade Unions) share of this increase is approx. NOK 2.5 billion. SpareBank 1 Nord-Norge's share of the increase (19.5%) amounts to approximately NOK 488 million and will be recognised in the income statement or entered directly against equity in the Group accounts. The Group's common equity Tier 1 (CET1) capital ratio will, however, remain virtually unchanged. The latter is due to the fact that the increased book value of the ownership interest in SpareBank 1 Gruppen AS results in a larger deduction from the CET1 ratio and increases risk weighted assets. Overall, this virtually neutralises the effect of the increase in book assets.

SpareBank 1 Gruppen AS (the parent company) will, before the effect of a potential transfer of the personal risk products is taken into account, receive a tax-free capital gain of approximately NOK 1.71 billion, as a result of the sale of shares to DNB ASA. SpareBank 1 Gruppen AS will have a corresponding increase in its basis for dividend payment. SpareBank 1 Nord-Norges's share of a potential dividend of NOK 1.71 billion (19.5%) constitutes NOK 334 million. The dividend will reduce the book value of the Group's investment in SpareBank 1 Gruppen, thereby also reducing both the deduction from CET1 capital and the size of RWA in the calculation of the capital ratio (ref. preceding paragraph). The Group's capital ratio will accordingly rise. Based on the Group's accounting figures as at 30 September 2018, this would entail an increase in the CET1 ratio of an estimated 0.4 - 0.5 percentage points. Any dividend from SpareBank 1 Gruppen AS will be conditional on the capital situation and decisions by the company's governing bodies and cannot be implemented until the second quarter of 2019 at the earliest.

Further information has been given in notification to Oslo Stock Exchange as at 21 Desember 2018.

Note 45 – Implementation and accounting impact of IFRS 16

IFRS 16 came into force on 1 January 2019 and replaces IAS 17 Leases. This transition results in significant leases no longer being expensed on an ongoing basis. Instead, they are activated on the balance sheet as if the assets had been purchased and financed by borrowing. IFRS 16 stipulates principles for the recognition, measurement, presentation and disclosure of leases, and instructs the lessee to provide an account of all leases in a simple balance sheet model similar to the recognition of financial leases pursuant to IAS 17.

On a lease's start date, the lessee will recognise a liability to pay rent and an asset that represents the right to use the underlying asset during the lease period ("right-of-use asset"). The standard contains a number of optional practical exceptions linked to recognition and initial application. Lessees will be required to recognise interest costs for the lease liability and depreciation costs for the right-of-use asset separately.

When implementing IFRS 16, one can either use the full retrospective method in line with IAS 8 or the modified retrospective method. SpareBank 1 Nord-Norge will adopt IFRS 16 from 1 January 2019 using the modified retrospective method, which entails no requirement to change comparable information. Using this method, the cumulative effect of implementing the standard will be recognised against equity at the start of the first year in which standard is applied.

A summary of the changes and applied practical exceptions that have been used in the transition to IFRS 16 is presented below:

Determining whether a contact is or contains a lease

We will only apply IFRS 16 to contracts that have previously been identified as leases. Contracts that have not previously been identified as leases will not be reassessed to determine whether they contain a lease.

Practical exceptions

The Group will make us of the following practical exceptions for leases that were previously classified as operational leases, on the date of initial application:

- exception for short-term leases (defined as 12 months or shorter)
- exception for low value assets (less than USD 5,000)

As far as leases covered by these exceptions are concerned, the Group will recognise rent payments like other operating costs in the income statement when they occur.

The Group as lessee

On the date of the initial application of IFRS 16, the Group will recognise a lease liability for leases that were previously classified as operational leases pursuant to IAS 17, in line with the transitional rules. The Group sets the lease liabilities at the present value of the remaining rent payments, discounted with the aid of the Group's marginal loan rate.

The Group also recognises a right-of-use asset from lease to lease measured at the capitalised value as if IFRS 16 had been used since the start date, but discounted with the aid of the marginal loan rate.

The Group as lessor

The Group is not obliged to make any adjustments during the transition for leases where the Group is a lessor, with the exception of subleasing. Where the Group shares premises, Sparebank 1 Nord-Norge (parent) subleases parts of its premises to subsidiaries. These leases were previously classified as operational leases. The exception is leases that are shorter than 12 months, which are still regarded as operational.

If a sublease was classified as an operational lease pursuant to IAS 17, but is classified as a financial lease pursuant to IFRS 16, the Group has recognised the sublease as a new financial lease signed on the date of initial application.

Identification of leases

At the start of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in return for remuneration. The Group assesses the following to determine whether a contract conveys the right to control the use of an identified object:

- The contract creates legally binding rights to payments and liabilities.
- The identified asset is physically separate.
- The Group has the right to achieve almost all of the financial benefits from the use of the asset.
- It has the right to steer the use of the asset.
- The supplier does not have a material right to replace the asset during the period of use.

Method for measurement and recognition

Measuring the lease liability

The lease liability is measured as the present value of the rent payments for the right to use the underlying assets during the contract period. The lease period represents the period that cannot be annulled. Options for extending the lease period must also be included, as long as it is reasonably certain that an option will be exercised. The same applies if there is an option to terminate the contract as long as it is reasonably certain that the option will be exercised.

The rent payments included in the measurement consist of:

- fixed rent payments (including payments that are essentially fixed)
- variable rent payments that rely on an index or interest rate, originally measured using an index or interest rate on the start date
- the price for exercising a purchase option if it is reasonably certain that the Group will exercise this option
- payment of penalties for terminating the lease if the lease reflects the fact that the Group is exercising an option to terminate the lease

The Group does not include variable rent payments in the lease liability that arise from contractual index adjustments subject to future events, such as inflation. Instead, the Group recognises these costs in the income statement in the period the event or situation that triggers the payments occurs.

Thereafter, the lease liability is measured by increasing the capitalised value such that it reflects interest on the lease liability, reducing the capitalised value such that it reflects the paid rent and measuring the capitalised value anew such that it reflects any new assessments or rent modification, or such that it reflects adjustments in rent payments due to the adjustment of an index or rate.

The Group presents the lease liability together with other liabilities, while the right-of-use asset is presented together with property, plant and equipment in the consolidated balance sheet.

Recognition and discount rate

IFRS 16 refers to two different methods for determining the discount rate for rent payments:

- Implicit interest rate in the lease
- The lessee's marginal loan rate, if the implicit rate cannot easily be determined.

The leases covered by IFRS 16 vary with respect to term to maturity and option structure. Furthermore, one must make assumptions about the initial value of the underlying assets. Both of these conditions make calculating an implicit interest rate more complicated than calculating a marginal loan rate.

SpareBank 1 Nord-Norge has a framework for intercompany accounting that is intended to provide the most accurate picture possible of how different balance sheet items, business areas, segments or regions in the Bank contribute to the Bank's profitability. The starting point for interest on intercompany receivables is the Bank's historical cost of funding. The Group's cost of funding can be divided into a cost linked to senior unsecured debt and a cost linked to capital (hybrid Tier 1 instruments and subordinated loans). The latter cost of funding will, like other equity, be distributed across assets based on risk weights. The cost associated with primary capital (hybrid Tier 1 instruments and subordinated loans) thus appears as a further addition to interest on intercompany receivables for loans.

The Bank also has indirect liquidity costs linked to liquidity reserves. These are reserves the Bank is required to hold by the authorities, as well as reserves of surplus liquidity that the Bank holds for shorter periods. The liquidity reserves have a significantly negative return measured against the Bank's cost of funding. This cost is allocated between balance sheet items that generate a need for liquidity reserves and appears as a deduction from interest on intercompany receivables for deposits and an addition for loans.

Interest on intercompany receivables
= cost of funding (CoF)
+ addition for liquidity reserve cost
+ addition for capital cost

The intercompany receivables are allocated to the Bank's liquidity cost or cost of funding for assets and liabilities, and are actively used in internal accounts. Intercompany receivables are thus a well-established tool in the management of the Bank and are updated regularly.

The interest on intercompany receivables for an asset and corresponding underlying item, in this case commercial property, will therefore be a good representation of the marginal loan rate. This discount rate will include the significant additions to the cost of funding, which provides a more correct picture of the alternative cost for the Bank. It is suggested that this interest rate be used as the discount rate for the Group's leases covered by IFRS 16.

Accounting effect

A discount rate of 2.09 per cent has been set for 2019.

Based on figures from 31.12.18, the implementation of IFRS 16 will entail a reduction in core Tier 1 capital of 0.09 per cent.

PARENT BANK			GROUP	
01.01.19	**31.12.19**	Amounts in NOK million	**01.01.19**	**31.12.19**
		Balance sheet		
337	302	Lease liabilites	430	381
338	298	Right-of-use asset	432	377
		Income statement		
	42	Depreciation		58
	7	Interest		8
	49	**Total**		**66**
		Expected effects IFRS 16		
	-44	Reduction in operating costs pursuant to IAS 17		-59
	49	Increase in costs pursuant to IFRS 16		66
	5	**Changes in the profit before tax**		**7**

Decleration 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, 28. February 2019
The Board of SpareBank 1 Nord-Norge

Karl Eirik Schjøtt-Pedersen
(Chair)

Hans Tore Bjerkås
(Deputy Chair)

Ingvild Myhre

Kjersti Terese Stormo

Greger Mannsverk

Sonja Djønne

Kjetil Berntsen
(employee elected)

Vivi Ann Pedersen
(employee elected)

Jan-Frode Janson
(CEO)

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To the Supervisory Board of SpareBank 1 Nord-Norge

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SpareBank 1 Nord-Norge, which comprise:

- The financial statements of the parent company SpareBank 1 Nord-Norge (the Company), which comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of SpareBank 1 Nord-Norge and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

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

1. Expected credit loss on loans and guarantees where no objective evidence of loss has occured (Stage 1 and 2)

Reference is made to Note 3 Critical estimates and assessments regarding the use of accounting principles, Note 7 Credit exposure for each internal risk rating, Note 8 Maximum credit exposure, not allowing for assets pledged as security, Note 9 Credit quality per class of financial assets, Note 11 Loans and advances to customers, Note 12 Breakdown of periods for loans due, not written down, Note 14 Losses on loans and guarantees and the Board's annual report, section losses and defaults on loans and sections on credit risk.

The key audit matter	*How the matter was addressed in our audit*
Expected credit loss on loans and guarantees that are not credit-impaired is MNOK 337 for the parent company and MNOK 380 for the Group as of 31.12.2018. This corresponds to 0.42% of gross lending for the parent company and 0.47% of gross lending for the Group. IFRS 9 has resulted in changes in the recognition criteria and measurement of expected credit losses on loans, receivables and guarantees compared with previous regulations. According to previous regulations, IAS 39, only loss events that had occurred would be considered. IFRS 9 requires the bank to recognise expected credit losses (ECL) already when establishing loans and guarantees. To determine the expected credit loss, management exercises judgement, particularly related to the following parameters; • Probability of default (PD), • Loss given default (LGD), • Exposure by default (EAD), • Definition of significant increase in credit risk, • Identification and assessment of credit-impaired loans and guarantees, including realisation values of the collaterals. SpareBank 1 Nord-Norge has developed an application for calculating expected credit losses. The application is based on the Sparebank 1 alliance's jointly developed model for calculating expected credit losses. Expected credit losses will largely be influenced by management's expectations and estimates, and we therefore consider the item as a key audit matter.	We have formed an understanding of how the Group has implemented the new standard for recognition and measurement of expected credit losses and evaluated the accounting interpretations for compliance with IFRS 9. We have assessed the bank's definition of a significant increase in credit risk and have considered how it has been implemented in the model. Calculated expected credit losses from the bank's own application are controlled against calculated expected credit losses from the Sparebank 1 alliance's joint model. We also tested that the data input and the parameters in the calculations are the same. We have obtained an assurance report from an independent auditor who has considered the Sparebank 1 alliance model. Conditions included in the assurance report include: • whether PD, LGD and EAD included in the model are correctly calculated, • whether the data input used in the calculations is correct, and • whether the model calculates losses in accordance with the requirements of IFRS 9. We have assured ourselves of the auditor's competence and objectivity, as well as evaluated the report to assess possible deviations and consequences for our audit. In order to challenge management's estimates and expectations that have been used in the calculations of expected credit losses, we have, among other things; • formed an understanding of how management follows up and approves the model's calculations, • assessed management's probability-weighted analysis of alternative forward-looking scenarios and parameters in the model calculation,

	• performed analysis of key figures, and assessed model-calculated expected credit losses against comparable banks and our knowledge of the industry.

2. Expected credit loss on credit-impaired loans and guarantees (Stage 3)

Reference is made to Note 3 Critical estimates and assessments regarding the use of accounting principles, Note 7 Credit exposure for each internal risk rating, Note 8 Maximum credit exposure, not allowing for assets pledged as security, Note 9 Credit quality per class of financial assets, Note 11 Loans and advances to customers, Note 12 Breakdown of periods for loans due, not written down, Note 14 Losses on loans and guarantees and the Board's annual report, section losses and defaults on loans and sections on credit risk.

The key audit matter	*How the matter was addressed in our audit*
Expected credit losses on loans and guarantees that are impaired are MNOK 168 for the parent company and MNOK 166 for the Group as of 31.12.2018. This corresponds to 0.21% of gross lending for the parent company and 0.20% of gross lending for the Group. IFRS 9 requires that, for credit-impaired loans and guarantees, an expected credit loss is calculated over the entire lifetime of the assets. Determining the expected credit losses entails a high degree of management's judgment. Key factors in management's reviews are; • identification of credit-impaired loans and guarantees, • assumptions for determining the size and timing of expected cash flows including valuation of collaterals. Based on the size of gross lending, inherent credit risk, the size of the write-downs and the relevant estimates, we consider expected credit losses to be a key audit matter.	In connection with our audit of loss provisions relating to credit-impaired loans and guarantees, we have formed an understanding of how the Group identifies and monitors loans and guarantees that are in default. We have tested that selected controls work as intended, including; • the Group's controls that have been established to ensure that all credit-impared loans and guarantees are identified, • the Group's control over registration and monitoring of collateral values, • the Group's control for model-calculated expected credit losses. For a selection of high-risk and credit-impaired loans and guarantees, we have challenged management's assessments by; • testing a selection of high-risk loans and guarantees in order to assess whether they should have been treated as credit-impaired, • assessing the expected size and timing of cash flows for credit-impaired loans and guarantees, • reperforming the bank's calculation of expected credit losses.

3. Valuation of fixed rate loans recognized at fair value through profit or loss

Reference is made to Note 11 Loans and advances to customers and note 27 Financial instruments at fair value for a description of the bank's valuation of fixed-rate loans recognized at fair value through profit or loss.

The key audit matter	*How the matter was addressed in our audit*
SpareBank 1 Nord-Norge has fixed-rate loans totaling NOK 7,693 million that are measured at fair value through profit or loss. The valuation of	We have assessed the model used for valuation of fixed-rate loans.

these financial instruments are based on the bank's own valuation techniques which rely on input data that are not observable in the market place. The portfolio of fixed-rate loans is categorised as level 3 in the IFRS valuation hierarchy. Management uses a significant degree of judgment when esimtating the fair value of these financial instruments, especially with regards to the discount rate applied in the valuation, and we therefore consider the item a key audit matter.	We have controlled that all fixed-rate loans with associated cash flows are included in the calculation, and we have considered the various components of the discount rate used by the bank. We have considered the bank's assessment of the discount rate against observable market interest rates for similar loans from other banks. We have used KPMG's financial risk specialist to reperform the bank's calculation of fair value.

4. IT systems and application controls

The key audit matter	*How the matter was addressed in our audit*
SpareBank 1 Nord-Norge is dependent on the IT infrastructure in the bank functioning as intended. The bank uses a standard core system delivered and operated by an external service provider. Sound governance and control over the IT systems is critical to ensure accurate, complete and reliable financial reporting. Furthermore, the IT systems support regulatory compliance for financial reporting to authorities, which is central to licensed businesses. The system calculates interest rates on borrowing and lending and the bank's internal control systems are based on system-generated reports. Due to the importance of the IT systems for the bank's operations, the IT environment supporting the financial reporting process is considered a key audit matter.	In connection with our audit of the bank's IT-system, we have gained an understanding of the control environment and tested that selected general IT controls are functioning as intended and support important application controls. In our control testing, we have focused on access management controls. The independent auditor of the external service provider has assessed and tested the effectiveness of internal controls related to the IT systems outsourced to external service provider. We have obtained the attestation report (ISAE 3402) from the independent auditor to evaluate whether the external service provider has satisfactory internal control in areas of significant importance to SpareBank 1 Nord-Norge. We have assured ourselves of the independent auditor's competence and objectivity, as well as evaluated the report in order to assess possible deviations and consequences for our audit. We have requested the independent auditor at the service provider to test a selection of standard reports and key functionalities in the core-system to assess whether: • selected standard system reports contain all relevant data, and • the key functionalities, including controls related to interest rate-, annuity- and fee calculations, work as intended. We have used our IT audit specialist in the work to understand the control environment, test controls and examine the reports.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Tromsø, 1 March 2019
KPMG AS

Stig-Tore Richardsen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

OP
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EVP
Technology and Process

Geir Andreassen

Education
Bachelor's degree in auditing

Experience
He is the former Finance Manager and Audit Manager at SpareBank 1 Nord-Norge. He has also worked as an auditor in Noraudit.

Number of equity certificates 78 106

EVP Troms

Christian Overvaag

Education
Bachelor's degree in economics

Experience
He is the former Managing Director of the Business Association for 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.

Number of equity certificates 102 945

EVP Corporate Functions

Petter Høiseth

Education
Lawyer

Experience
He has previously worked as a lawyer at the law firms Selmer and BAHR.

Number of equity certificates 80 557

EVP Sales and Customer Relations

Ronni Møller Pettersen

Education
Degree in fisheries economics and a master's degree in economics and business administration.

Experience
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.

Number of equity certificates 70 778

EVP
Credit and Risk Management

Liv Bortne Ulriksen

Education
Bachelor's degree in fisheries and aquaculture with specialisation in economics.

Experience
She is a former bank manager at Fokus Bank/Dansk Bank, and has management experience from Fiskeriforskning and Nofima AS.

Number of equity certificates 84 537

EVP Helgeland og Salten

Trude Glad

Education
Degree in economics and business administration and a master's degree in management.

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

Number of equity certificates 79 300

CEO

Jan-Frode Janson

Education
Master's degree in economics and business administration and a PhD in industrial economics and technology management.

Experience
He is a former Deputy Managing Director of Fokus Bank/Danske Bank, and has management experience from both ABB and Nidar/Orkla.

Number of equity certificates 116 876

EVP Hålogaland

Lasse Hagerupsen

Education
Master's degree in management

Background
He is a former bank manager for the reta market at both SpareBank 1 Nord-Norge and Postbanken. He has also previously been Managing Director of Interkraft Capital Management, and Risk Manager and stockbroker at Norse Securities.

Number of equity certificates 79 170

EVP Finnmark

Trond Hanssen

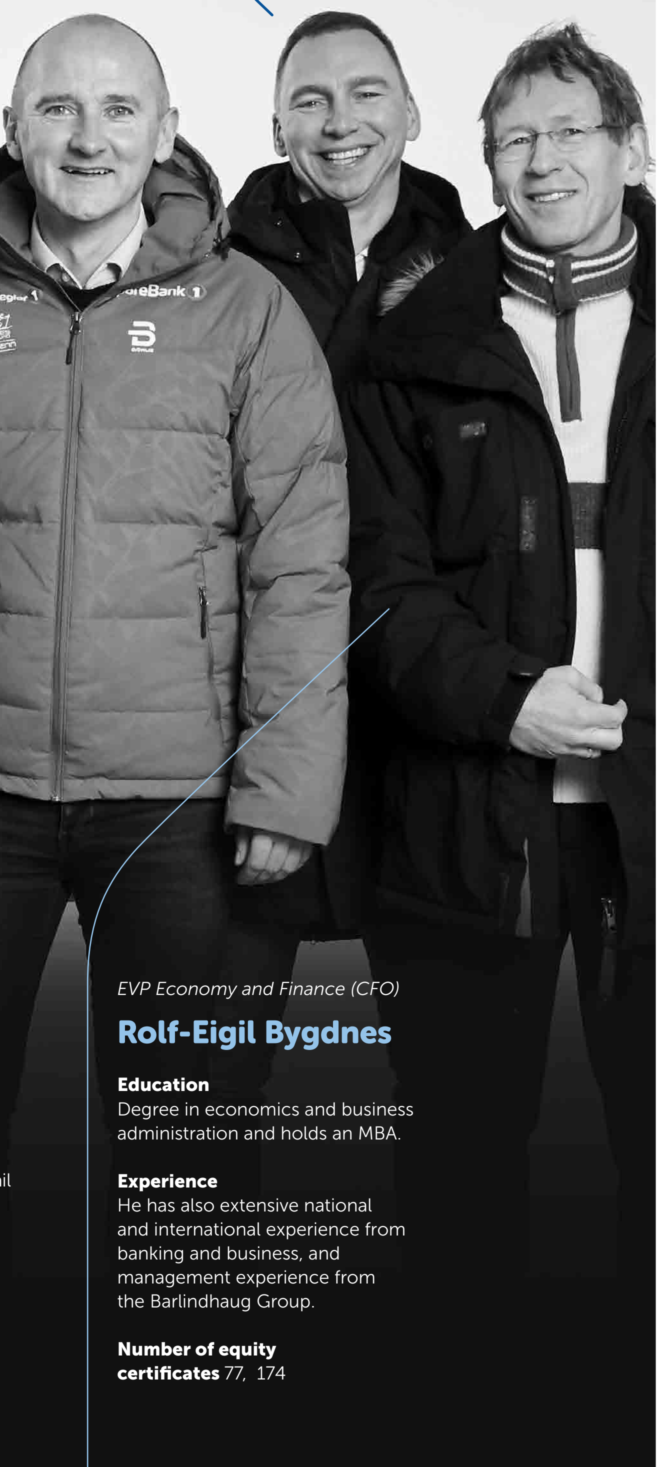
Education
Bachelor's degree in economics with specialisation in marketing.

Experience
He is a former regional bank manager at DNB and Marketing Manager at Altaposten.

Number of equity certificates 63 159

GROUP MANAGEMENT

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



EVP Economy and Finance (CFO)

Rolf-Eigil Bygdnes

Education
Degree in economics and business administration and holds an MBA.

Experience
He has also extensive national and international experience from banking and business, and management experience from the Barlindhaug Group.

Number of equity certificates 77, 174

The Board of Directors of SpareBank 1 Nord-Norge is the Group's supreme governing body and ensures the proper organisation of the business via the CEO. The Board of Directors has three subcommittees: The Risk Committee, Audit Committee and the Remuneration Committee.

Chairman of the Board

Karl Eirik Schjøtt-Pedersen

Education
Undergraduate degree in social sciences and an MBA.

Experience
He has long political experience from the Office of the Norwegian Prime Minister as a chief of staff and cabinet minister, and has been both the Minister of Finance and the Minister of Fisheries. He is currently the CEO of the Norwegian Oil and Gas Association.

Board meetings 13/13
Number of equity certificates 6 532

Deputy Chairman

Hans-Tore Bjerkaas

Education: Master Cand.mag.

Experience
He has a long, rich career in the media industry behind him in which he has been a presenter, journalist, district editor, director of television and director of broadcasting.

Board meetings 13/13
Number of equity certificates 19 293

Board Member

Kjersti Therese Stormo

Education: Business economics

Experience
She is the director of Bodø Havn KF and has previously been a director at BE Kraft Sales AS and the finance manager at Bodø Energi and at the Nordland Psychiatric Hospital. She has long and broad experience from various boards.

Board meetings 12/13
Number of equity certificates 861

Board Member

Sonja Djønne

Education
Master of Management Specialising in business administration, financing and investing

Experience
She is the founder and general manager of Heymat and has management experience from IT Partner Helgeland, Helgelandssykehuset HF and the municipality of Rana.

Board meetings 13/13
Number of equity certificates 7 777

BOARD OF DIRECTORS

Board Member

Bengt Olsen

Education: Business economics

Experience
He has comprehensive experience as an accountant's assistant at KPMG, Controller at Catch Communications and CFO at Nordlandsbanken and CFO at DIPS ASA. From 2019, he will step down from the Board of Directors and take up the position of CFO in SpareBank 1 Nord-Norge.

Board meetings 12/13
Number of equity certificates 7 000

Board Member

Ingvild Myhre

Education: Civil engineer

Experience
She is now self-employed and has previous experience as the CEO of Telecom AS and Telenor Mobile AS, as well as the CEO of Network Norway AS.

Board meetings 12/13
Number of equity certificates 0

Board Member

Greger Mannsverk

Education: Degree in maritime technology and marine engineering

Experience
He is currently the CEO of Kimek AS, where he was previously a production manager, staff engineer and sales and project Engineer. He has also worked as an engineer at AS Sydvaranger and Munch Internasjonal AS.

Board meetings 13/13
Number of equity certificates 60 904

Employee Representative

Kjetil Berntsen

Education: Cand.Mag.

Experience
He has broad experience in financial consulting from SpareBank 1 SR-Bank and in his current position as a financial adviser in the retail market at SpareBank 1 Nord-Norway. He is also regional representative for Troms of the Finance Sector Union of Norway.

Board meetings 13/13
Number of equity certificates 571

Employee Representative

Vivi Ann Pedersen

Education: Graduate in banking

Experience
She has worked in various departments in the Group for a number of years. She is currently the senior union representative for the Finance Sector Union of Norway at SpareBank 1 Nord-Norge and has been an employee representative on the Board of Directors for a number of years.

Board meetings 13/13
Number of equity certificates 24 230

GOVERNING BODIES

Supervisory board

Board chairman Roar Dons, Tromsø (Chairman of the Board)	2017/2018
Head of culture Kari Ann Olsen Lind, Stokmarknes (Deputy Chairman)	2018/2019

Members elected from the Bank's depositors

Lawyer Charlotte Ringkjøb, Bodø	2018/2021
Cabinet maker Kim Daniel Arthur, Tromsø	2018/2021
Shop/company owner Mona Abelsen, Tromsø	2018/2021
Head of culture Kari Ann Olsen Lind, Stokmarknes	2018/2021
General manager Rita Myrvang, Rossfjordstraumen	2018/2021
Artist/cultural worker Marit Hætta Øverli, Alta	2018/2021
Finance consultant Johanne Marie Olaussen, Storslett	2018/2021
CEO Bjørn-Ronald Olsen, Honningsvåg	2018/2021
Finance and personnel officer Kjetil Fjellgaard, Lovund	2018/2021
Adviser Lisa Friborg, Tromsø	2018/2021

Subsitute members elected from the Bank's depositors

General manager Pål Blix-Johansen, Hammerfest	2018/2021
Self-employed John Isaac Sara, Kautokeino	2018/2021
Organisation employee Henning A. P. Bråten, Bjørnevatn	2018/2021
Communications manager Tore Bratt, Mo i Rana	2018/2021
General manager Ricardo Raul Clarke, Bodø	2018/2021

Members elected from 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, Tromsø	2016/2019
Adviser Hanne Iversen, Varangerbotn	2016/2019

Members elected by equity certificate holders

CEO Trond Mohn, Bergen	2018/2021
Board chairman/owner Roar Dons, Tromsø	2018/2021
Financial analyst Tom Rømer Svendsen, Oslo	2018/2021
General manager Håkon Løbach Willumsen, Tromsø	2018/2021
Assistant lawyer Ane Engel Røger, Oslo	2018/2021
Financial consultant Linn Knudsen, Alta	2018/2021
Board chairman Kjell Kolbeinsen, Tromsø	2018/2021
CEO Erling Dalberg, Tromsø	2018/2021
Finance manager Gry-Janne Rugås, Fauske	2018/2021
Goldsmith Elin Wintervold, Tromsø	2018/2021
Odd Erik Hansen, Tromsø	2018/2021
Optician Sissel Ditlefsen, Tromsø	2018/2021
Marie M. Fangel, Tromsø	2018/2021
CEO Lars Martin Lunde, Oslo	2018/2021
Self-employed Rigmor S. Berntsen, Tromsø	2018/2021
Board chairman/owner Birger Dahl, Bodø	2018/2021

Substitute members elected from the Bank's ECC holders

General manager John-Oskar Nyvoll, Tromsø	2018/2021
General manager Hallgeir Angell, Sørreisa	2018/2021
General manager Erik Tostrup, Bodø	2018/2021
Senior adviser Arvinn Eikeland Gadgil, Oslo	2018/2021
CEO Rita Karlsen, Husøy i Senja	2018/2021
Civil engineer Frøydis Rørtveit Stensvik, Henningsvær	2018/2021

Members elected from the Bank's employees

Chief safety representative Irina S. Miller, Kirkenes	2018/2021
Adviser Kjetil Ask Olsen, Krokelvdalen	2018/2021
Authorised financial adviser Ann Kirsten Larsen, Tromsø	2018/2021
Head of department Chris Magne Martinsen, Hammerfest	2018/2021
Technical manager Ole Jørgen Ørjavik, Tromsø (left)	2018/2021
Senior adviser Hans Olav Gjøvik, Tromsø	2018/2021
Head of department Tor Magne Oppheim, Tromsdalen	2018/2021
Business adviser Eivind Bergmo, Storslett	2018/2021
Authorised financial adviser Dag Inge Lund, Sortland	2018/2021
Business adviser Svein Borhaug, Finnsnes	2018/2021

Substitute members elected from the Bank's employees

Authorised financial adviser Anne Kathrine Nygaard, Mo in Rana	2018/2021
Bank manager Siri Lund, Finnsnes	2018/2021
Authorised financial adviser Aud Skaret, Meløy	2018/2021
Authorised financial adviser Kenneth Normann, Brønnøysund	2018/2021
Adviser Marianne Nyhagen, Tomasjord	2018/2021

The supervisory board's election committee

Members

Lawyer Charlotte Ringkjøb, Bodø (Chair) – depositor elected	2018/2019
Optician Sissel Ditlefsen, Tromsø – equity certificate holder elected	2017/2018
Board chairman Kjell Kolbeinsen, Tromsø – equity certificate holder elected	2018/2019
District secretary Synnøve Søndergaard, Tromsø – county council elected	2018/2019
Business adviser Svein Borhaug, Finnsnes – employee representative	2018

Substitute members

General manager Rita Myrvang, Rossfjordstraumen – depositor elected	2018/2019
CEO Trond Mohn, Bergen – equity certificate holder elected	2017/2018
Goldsmith Elin Wintervold, Tromsø – equity certificate holder elected	2018/2019
Deputy mayor/operations manager Kurt Jenssen, Tengelfjord – county council elected	2018/2019
Authorised financial adviser Ann Kirsten Larsen, Tromsø – employee repr.	2018/2019

Board of directors

Members

CEO Karl Eirik Schjøtt-Pedersen, Hosle (Chairman of the Board)	2017/2018
Retiree Hans-Tore Bjerkaas, Tromsø (Deputy Chairman)	2017/2018
General manager Sonja Djønne, Mo i Rana	2018/2019
CEO Greger Mannsverk, Kirkenes	2018/2019
Partner Ingvild Myhre, Oslo	2018/2019
Port director Kjersti Terese Stormo, Bodø	2018/2019
CFO Bengt Olsen, Bodø	2018/2018
Senior employee representative Vivi Ann Pedersen, Tromsø – employee repr.	2017/2018
Authorised financial adviser Kjetil Berntsen, Tromsø – employee repr.	2017/2018

Substitute members

Senior employee representative May Britt Nilsen, Storslett – employee repr.	2017/2018
Insurance specialist Cecilie Bjølgerud Wirkola, Tromsø – employee repr.	2017/2018
Authorised financial adviser Leif Gunnar Kristiansen, Tromsø – employee repr.	2017/2018
Adviser Daniel Nyhagen, Tromsø (left) – employee repr.	2017/2018

Meeting participation in 2018

Body	No. of meetings	No. of partici-pants	No. times full attendance	No. of meetings with absences
Board of Directors	13	9	10	3
Supervisory Board	1	40	0	1
Supervisory Board's Nomination Committee	9	5	2	7

CORPORATE GOVERNANCE

IN SPAREBANK 1 NORD-NORGE

The Group Management and Board of Directors conduct an annual review of the corporate governance principles and how they are functioning in the Group.

SpareBank 1 Nord-Norge issues a statement on the principles and practice of corporate governance in accordance with Section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance of 17.10.18.

Section 3-3b of the Accounting Act (report on corporate governance)

A description of how section 3-3b, second paragraph of the Norwegian Accounting Act is covered in Sparebank 1 Nord-Norge follows below. The classifications refer to the numbering in the paragraph.

1. A statement on the Norwegian Code of Practice for 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 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 accounts 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 Institutions 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 of Directors 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 06.02.19 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	Shares and negotiability	None
6	General meetings	SpareBank 1 Nord-Norge complies with the provisions of the Financial Institutions Act 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	The Board of Directors participates in the Group's savings scheme for equity certificates.
12	Remuneration of executive personnel	None
13	Information and communications	None
14	Take-overs	Statutory ownership limitations.
15	Auditor	None

1. Explanation of corporate governance in SpareBank 1 Nord-Norge
(point 1 of the Code of Practice)

There are no significant deviations between the Code of Practice and SpareBank 1 Nord-Norge's The Code of Practice applies insofar as it relates to savings banks with equity certificates. Any deviations are explained below.

Corporate governance in SpareBank 1 Nord-Norge is defined as the aims, targets and overall principles in accordance with which the Bank is managed and controlled for the purpose of safeguarding the interests of the owners, depositors and other stakeholder groups in the Bank. Accordingly, the Bank's principles of corporate governance 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. http://www.nues.no

Based on the three main pillars – openness, predictability and transparency – the Bank has defined the following main principles:

- A structure which ensures systematic and independent management and control
- Systems that ensure measurability and accountability
- Effective risk management
- Full disclosure and effective communication to underpin the trust between owners, the Board of Directors and Group Management.
- Equal treatment of all owners and balanced relations with other stakeholder groups
- Compliance with laws, rules, regulations and ethical standards

Deviations from point 1 of the Code of Practice: None

2. Business
(Point 2 of the Code of Practice)

SpareBank 1 Nord-Norge is an independent financial services group within SpareBank 1-alliance.

The Bank's stated 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 Nord-Norge*

See also the part "Strategic Compass" in the annual report for more information about the Bank's vision, business concept and overarching financial objectives.

The Board of Directors adopts clear objectives, strategies and risk profiles for the business. The aim is to ensure that the Bank creates value for its owners.

The Bank's corporate governance rules were last approved by the Board of Directors at its meeting on 06.02.19. 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. 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 whistleblowing routine for employees who learn about matters that contravene current laws and regulations or material breaches of internal rules. Employees who report unacceptable situations in relation to internal routines, must not be subject to any reprisals due to their reports. It is also possible to report anonymously.

Social responsibility is an integral part of SpareBank 1 Nord-Norge's vision and values and ensures that social considerations are taken into account in the value creation.

See also the chapter on Coperate social responsibility in the annual report.

The Board of Directors evaluates objectives, strategies and risk profiles at least once a year.

Deviations from point 2 of the Code of Practice: None

3. Equity and dividends
(Point 3 of the Code of Practice)

The Board of Directors continuously assesses the Group's capital level and composition in light of its objectives, strategy and desired risk profile.

SpareBank 1 Nord-Norge Group's core Tier 1 capital ratio was 14.5% as at 31.12.18. 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 accounts 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 of Directors.

For further information about its equity, see the chapter on risk management and internal control.

Dividends

The Board of Directors 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 accounts and the annual report.

Please see the information about this in the Annual Report from the Board.

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 of Directors to buy back or issue the Bank's own equity certificates. To improve the opportunities for this, the Board of Directors was granted authorisation by the Supervisory Board on 22.03.18 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 22.05.19.

Deficits

Any deficits are covered by proportionate transfers from primary capital, including the donations 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 31.12.18, the Board of Directors has granted no authorisations for capital increases in SpareBank 1 Nord-Norge. No issues were implemented in 2018. Hybrid Tier 1 instruments and subordinated loans were issued in 2018 to increase the Group's primary capital (capital adequacy).

Deviations from point 3 of the Code of Practice: None

4. Equal treatment of shareholders and transactions with close associates
(Point 4 of the Code of Practice)

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.

The emphasis in the Articles of Association and the work of the Board of Directors and Group Management 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 Institutions 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 pre-emptive 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 for several years 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 2018, employees were given an opportunity to purchase equity certificates via an agreement involving saving NOK 500, NOK 1,000, NOK 1,500 or NOK 2,000 per month, which is deducted from their pay. Every quarter, the savings are spent on equity certificates. For every second equity certificate the employee purchases via the savings scheme, SpareBank 1 Nord-Norge gives the employee one extra free equity certificate. The "bonus equity certificates" are awarded two years after they start saving and are contingent on the employee still owning the originally saved equity certificates and still being an employee of the Group. Board members are also able to participate in the savings scheme.

A total of 338 employees took advantage of the offer in 2018.

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.

Deviations from point 4 of the Code of Practice: None

5. Shares and negotiability
(Point 5 of the Code of Practice)

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
(Point 6 of the Code of Practice)

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, governing and control bodies, etc. SpareBank 1 Nord-Norge therefore has the following bodies: the general meeting (Supervisory Board), Board of Directors, general manager (CEO), Internal Audit, auditor, Audit Committee, Remuneration Committee and Risk Committee. The Bank's supreme body, the Supervisory Board, is comprised of equity certificate holders, depositors, employees and representatives of the public.

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 has the following main tasks:

- Supervising the Board's management of the company
- Adopting the annual report and annual accounts
- Electing members of the Bank's Board of Directors, 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 the Code of Practice's point 6: SpareBank 1 Nord-Norge complies with the provisions of the Financial Institutions Act with respect to the composition of bodies. These deviations are not deemed to entail any real difference in relation to the Code of Practice.

7. Nomination committees
(Point 7 of the Code of Practice)

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 make the necessary preparations for the election of the following members:

- members of the Supervisory Board, the Board of Directors and the Nomination Committee, excluding the employee representatives.

Guidelines for the aforementioned nomination committee are established by the Bank's Supervisory Board.

Nomination committee for the employees' election
Pursuant to the Financial Institutions Act, the election must be organised by a nomination committee containing representatives appointed by the Board of Directors. 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
(Point 8 of the Code of Practice

Please refer to point 6 for information about general meetings/the Supervisory Board.

In 2018, the Board of Directors consisted of nine permanent members, seven of them elected by the Supervisory Board and two elected from among the employees. Four of the Board of Directors' 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 two years.

The CEO is not a member of the Board of Directors. None of the board members elected by the Supervisory Board have any employee or contractor relationship with Group beyond their position as an elected officer. The independence of board members has been assessed by the Nomination Committee and they are deemed independent, with the exception of the employee elected board members. The Chairman of the Board and Deputy Chairman are elected by the Supervisory Board in a special election and for two years at a time.

The composition of the Board of Directors 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 of Directors' composition. The Board of Directors meets a minimum of twelve times a year and the members' participation in board meetings is described in the annual report. Their holdings of equity certificates in SpareBank 1 Nord-Norge are reported in the notes to the accounts, the presentation of the Board of Directors in the annual report and on the Bank's website. The individual board member's background is also described in the annual report and on the Bank's website www.snn.no.

Deviations from point 8 of the Code of Practice: None

9. The work of the Board of Directors

(Point 9 of the Code of Practice)

The Board of Directors' function

The Board of Directors 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 of Directors is responsible for ensuring the Bank's available resources are managed in a prudent and appropriate manner. The Board of Directors 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 CEO
- 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 of Directors appoints and dismisses the manager of the internal audit department.

The Board of Directors normally holds twelve meetings a year.

Significant interests

The Board of Directors 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 executive employee or a close associate may have in the determination of a matter being considered by the Board of Directors. This applies regardless of whether it can be regarded as a special interest that disqualifies them according to the previous point.

The Board of Directors 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 of Directors' decisions and the Bank's activities. The Board of Directors' assessment of the question of qualification must be minuted.

The Board of Directors 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, executive employee or close associate might have a special interest. An exemption applies in the case of credit agreements within the Bank's ordinary activities.

Board members are defined as primary insiders and must comply with the Bank's rules and regulations for acquiring equity certificates in the Bank and banks in the SpareBank 1-alliance. The same applies to the purchasing of shares in companies that are customers of the Bank.

In the case of discussions concerning commitments involving companies in which a board member has an interest or holds a position, the member in question must declare himself/herself disqualified and withdraw from the meeting. Board members and executive personnel must inform the Board of Directors if they have, directly or indirectly, a significant interest in an agreement entered into by the Bank.

Evaluation of the Board of Directors

Each year, the Board of Directors 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:

- Chairman 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 covers all of the companies in the Group that are subject to the Financial Institutions Regulations.

Remit:

- Prepare and present matters to the Board of Directors 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 it recommendations on the variable remuneration of executive personnel covered by the Financial Institutions Act

f) Control function

g) CEO's remuneration

The Remuneration Committee's remit is established by the Board of Directors. The committee convenes when it deems it necessary, but at least once a year.

Audit committee
The Audit Committee's duties pursuant to Section 8–19 of the Financial Institutions Act are to:

a) prepare the Board of Directors' follow-up of the accounts 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 accounts

e) evaluate and monitor the auditor's independence, 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

The committee's duties include the following:

- Assessing and making recommendations to the Board of Directors in relation to the election of an external auditor, and recommending to the Board of Directors, 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 accounts.

- Examining the statutory auditing of the annual accounts and the group accounts. including reviewing and assessing the Group's interim and annual accounts reporting with a special focus on:

a) changes to accounting policies and accounting practices

b) important discretionary valuations and estimates

c) significant adjustments as a result of requirements and recommendations from the auditor

d) compliance with laws, regulations and accounting standards

- Reviewing and discussing points where the auditor disagrees with the management and/or where a high degree of uncertainty has been pointed out by the auditor and/or other matters that the auditor wants to discuss.

- Assessing other matters as determined by the Board of Directors and/or the Audit Committee itself, or that the auditor wishes to discuss.

The Risk Committee comprises three members of the Board of Directors. 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.

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 of Directors' level of ambition.
- Making recommendations to the Board of Directors concerning the Group's risk strategy, including assessing the Group's risk capacity and willingness, and advising the Board of Directors on establishing a framework and objectives for future risk exposure, including ensuring a satisfactory risk and capital assessment process (ICAAP).
- Supervising that the Group's capital adequacy is satisfactory and striving for optimum capital allocation.
- 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 of Directors concerning the election of the internal auditor. Assessing the internal auditor's annual plan and remuneration and making recommendations to the Board of Directors 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 of Directors and/or the Risk Committee itself, or that the internal auditor wishes to discuss.
- Staying up-to-date and providing advice to the Board of Directors in relation to current and future amendments to laws and regulations.

The Risk Committee comprises three members of the Board of Directors. 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.

Reporting
The Board of Directors receives periodic reports on the following:

- Financial performance
- Market development
- 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 function the Board of Directors and Group Management use to ensure that the risk management process is result-oriented, efficient and functioning as intended. EY are responsible for providing internal audit services to the Group. The services cover the parent group, which is subject to risk management and internal control regulations. 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 of Directors every quarter, which adopts annual plans and budgets for the internal audit. Reports and recommendations issued by the audit department concerning improvements to the Bank's risk management are continuously reviewed and implemented.

An audit plan is prepared. This is discussed with the Group Management, considered in the Risk Committee and approved by the Board of Directors. 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 submitted to the Risk Committee and the Board of Directors every quarter. Any consultancy work is carried out within the standards and recommendations that apply for internal auditors (IIA/NIRF).

Risk management – the function
This function is independent of the business units and bears overall responsibility for comprehensive risk management and internal control, including responsibility for the Group's risk models and the further development of effective risk management systems.

The compliance function
The compliance function is independent of the business units and is responsible for checking compliance with the regulations and routines. The function covers the entire Group and has reports directly to the Board of Directors.

Deviations from point 9 of the Code of Practice: None

10. Risk management and internal control

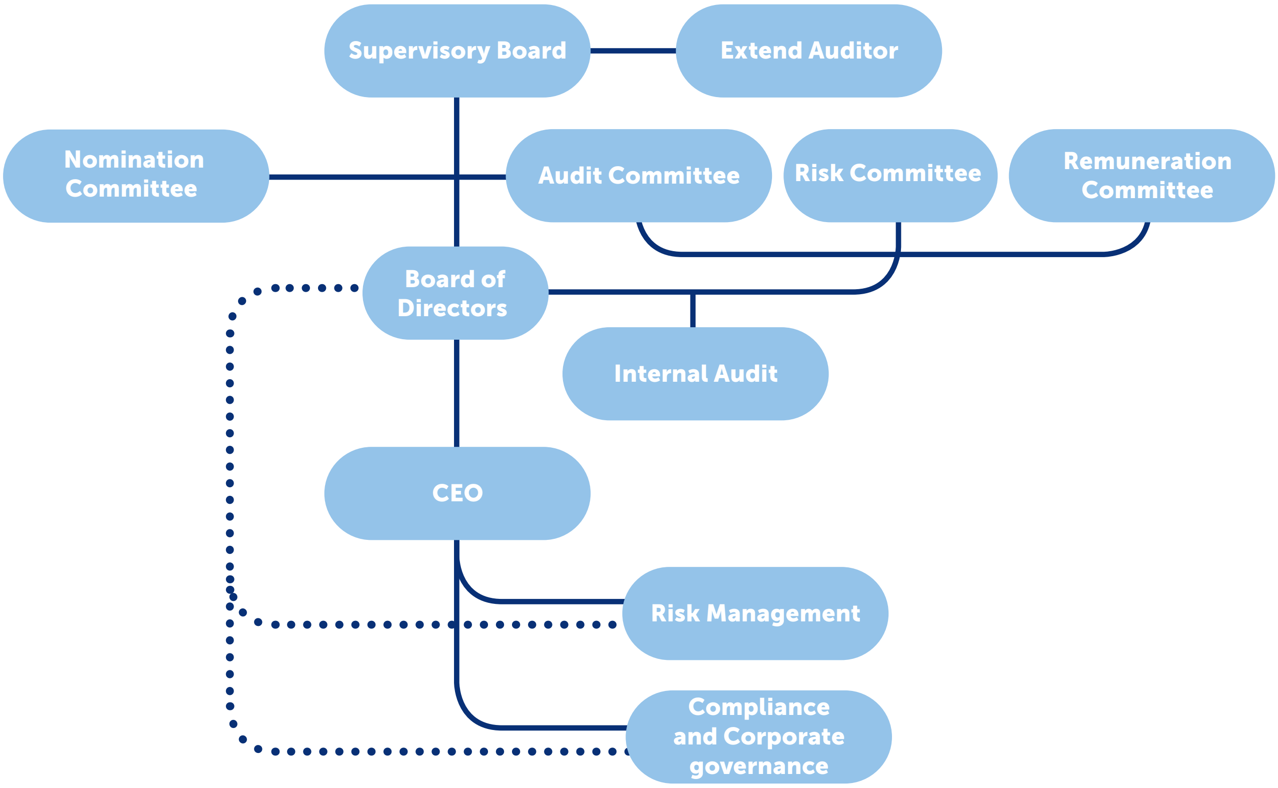
(Point 10 of the Code of Practice)

The Bank's management structure is based on the Bank's vision, established objectives, 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, see the figure below, 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 of Directors. The Group's supreme governing documents are its business strategy and risk strategy. All other strategy documents and policies are derived from these. The policy for risk management and policy for compliance constitute the Group's internal framework for good management and control. The policies provide guidelines for the Group's overall approach towards risk management and are intended to ensure that the Group has effective and appropriate processes for this. Risk management is an integral part of the management's decision-making processes, and a key element for organisation, routines and systems.



The Board of Directors must follow up all agreed framework arrangements, principles and quality and risk targets through:

- quarterly reports from the CEO and the Risk Management Department
- Annual report from Compliance
- Tertiary reports from the internal auditor

The Bank's internal control and risk management systems also include guidelines on how the Bank ensures that social considerations are taken into account in the value creation.

Every manager must prepare an annual statement confirming that the framework, guidelines and routines have been observed, and that systems are used actively to follow up each manager's profit centre.

SpareBank 1 Nord-Norge's Board of Directors 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 of Directors.

The principal aim is to ensure that the Group's overall risk level is low to moderate and within the limits set by the Group's primary capital and provisions. The Group should achieve stable and predictable earnings and profit performance through good risk management.

Significant risks are analysed, managed and followed up through the Bank's ongoing risk management process. This is to ensure that the Bank operates in accordance with the approved risk profile and adopted strategies. The Board of Directors and Group Management 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 CEO and the Board of Directors.

Each year, the Board of Directors 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 Administration and Finance unit is headed by the Chief Financial Officer (CFO) and organised independently of the business areas. Administration and Finance 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 financial objectives. The CFO reports directly to the CEO.

The Group's Administration and Finance unit 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 of Directors' guidelines.

Administration and Finance has established processes that ensure that the accounts 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 Administration and Finance on developing and improving assessment systems. The design and effectiveness of the established control activities are regularly evaluated.

The external auditor conducts a full annual audit of the Group's annual accounts. From and including 3Q 2018, interim reports were also subject to simplified auditor checks.

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 chapter "Risk management and internal control".

Deviations from point 10 of the Code of Practice: None

11. Remuneration of the Board of Directors

(Point 11 of the Code of Practice)

The members of the Board of Directors receive a fixed annual remuneration. Remuneration is not performance based. Some of the board members have enrolled in the Group's savings scheme. The scheme is the same as in 2017 and involves agreements to save NOK 500, NOK 1,000, NOK 1,500 or NOK 2,000 per month. For every second equity certificate purchased via the savings scheme, SpareBank 1 Nord-Norge gives one extra equity certificate. The "bonus equity certificates" are awarded two years after they start saving and are contingent on them still owning the originally saved equity certificates.

The Board of Directors 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 CEO's fixed salary and any bonuses to the Board of Directors.

Deviations from point 11 of the Code of Practice: savings scheme for equity certificates.

12. Remuneration of executive personnel

(Point 12 of the Code of Practice)

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 of Directors has established a Remuneration Committee as a preparatory body for matters relating to the assessment and setting of the CEO's remuneration. The committee shall also make recommendations to the Board of Directors about guidelines for the remuneration for executive personnel (Group Management). The Remuneration Committee's remit is set by the Board of Directors. The guidelines are presented to the Supervisory Board. The Board of Directors' statement on executive pay is a special case document for the Supervisory Board. The notes to the accounts specify the remuneration of the CEO and executive personnel.

Please also see the section on the Board of Directors' Remuneration Committee under point 9.

Deviations from point 12 of the Code of Practice: None

13. Information and communications

(Point 13 of the Code of Practice)

Information and effective communication underpin the relationship of trust between owners, the Board of Directors and the Group Management, 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

(Point 14 of the Code of Practice)

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 Institutions Act. The same applies to acquisitions that would entail a qualifying stake increasing such that it would equal or exceed 20%, 30% or 50%, respectively, of the capital or votes in a financial institution, or such that the stake provides a determining influence in the financial institution 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 accounts and on the Bank's website.

Deviations from point 14 of the Code of Practice: Statutory ownership limitations.

15. Auditor

(Point 15 of the Code of Practice)

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 company 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 accounts are discussed and in the Audit Committee's meetings where the accounts are discussed. The Group also undergoes internal control, including identifying weaknesses and proposals for improvements. The Board of Directors holds at least one meeting with the auditor a year without the CEO or others from the Group Management being present.

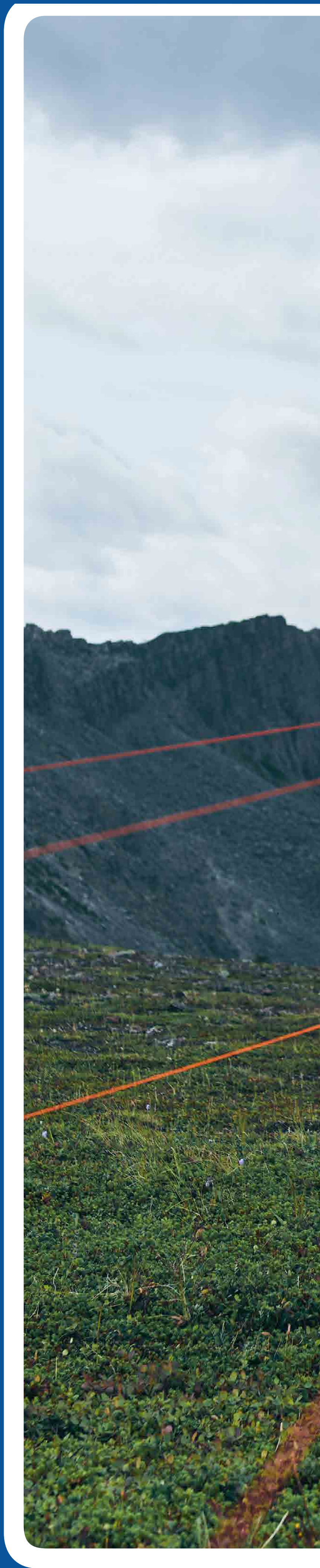
The external auditor presents a report on these matters to the Bank's Supervisory Board and Control Committee.

Guidelines have been set for the Group Management'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

OPERATIONS



The risk strategy provides guidelines for working with risk in SpareBank 1 Nord-Norge. It describes ambitions and attitudes on which the Group's work with risk must be based.

The risk strategy is intended to provide an integral and balanced overview of operational risks. It must establish the Group's risk profile, based on risk capacity and risk willingness, and support the Group's primary strategic objectives. In addition, it must provide guidance for strategic choices within the various types of risk to which the Group is exposed.

Key concepts that define the Group's risk strategy:

Consept	Definition/description
Risk capacity	The total exposure to risk the Group can withstand before entering into a recovery situation and having to: • Implement material corrective and/or mitigating measures. • Implement an unwanted change to the business model.
Risk willingness	The maximum desired risk exposure from a profitability and loss perspective. • Risk willingness is lower than risk capacity. • Risk willingness can apply to both the aggregated risk exposure and individual risks.

The purpose of the risk strategy is summarised in the table below:

Topic	Description of purpose
Overwiev	To provide a comprehensive and balanced overview of the Group's risks.
RIsk capacity	Specifies the Group's risk capacity.
Risk willigness	Defines the risk the Group is willing to assume to achieve strategic objectives as they are defined in the business strategy..
Management and control	Define how risks must be managed and followed up.
Roles and responsbilities	Define roles and responsibilities.

Scope

The risk strategy covers the entire Group, including the parent bank, subsidiaries, associated companies and joint ventures. The risk strategy is monitored continuously. Guidelines related to follow-up include:

- Roles and responsibilities.
- Action in the event of negative developments related to risk limits and target figures.
- Managing breaches of risk limits.
- Reporting.

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.

It is important for SpareBank 1 Nord-Norge that its external and internal reporting maintains a high level of quality. In order to be an attractive partner and a natural first choice for our customers, the Group depends on a good reputation and the trust of our customers, our owners, the authorities and other business associates. In order to achieve this, the Group must have a clear and efficient structure for the division of responsibility and management.

SpareBank 1 Nord-Norge's operations must always comply with the currently applicable laws, regulations and internal guidelines, including the Group's core values and code of ethics embodied in the SNN code.

SpareBank 1 Nord-Norge's risk and capital management should support the Group's strategic development and achievement of objectives, and at the same time ensure financial stability and proper asset management. This should be achieved through:

- A good risk culture characterised by a high awareness of risk and capital management
- A good understanding of what risks drive earnings.
- Pricing products, to the extent possible, in line with the underlying risk.
- Striving to achieve the optimal allocation of capital within the adopted business strategy.
- Taking advantage of synergy and diversification effects.
- Preventing individual events causing serious damage to the Group's financial position.

Principles for, and descriptions of how, the defined risk willingness should be measured are documented in operational routines in the Risk Management Department.

OVERVIEW OF QUALITATIVE RISK WILLINGNESS

#	Risk area	Risk willingness, normal scenario
1	Business risk (including strategic risk)	Low
2	Credit risk	Low to moderate
3	Market risk	Low
4	Liquidity and financing risk	Low
5	Owner risk	Low to moderate
6	Operational risk (including related risks)	Low
7	Insurance risk	Low to moderate
8	Pension risk	Low
9	Systemic risk	Not applicable
10	Excessive debt accumulation	Low

The Group aims to maintain a low to moderate risk profile and, as a minimum, maintain its current international rating. This will ensure a long-term and good supply of funding from the capital markets.

Organisation, implementation and follow-up

The Group's management and control model aims to ensure the independence of risk reporting, in which responsibilities and roles in day-to-day risk management are stressed in particular. SpareBank 1 Nord-Norge has for many years, both on its own and in collaboration with the SpareBank 1-alliance, invested a great deal of resources in developing effective risk management processes for the identification, measurement and management of risk.

All managers in the Group are responsible for maintaining a full overview of the risk picture in their business area and/or area of expertise at all times. In order to satisfy the Group's primary objectives, the Group has chosen to separate the risk management process into five parts.

1	2	3	4	5
Business areas and specialist departments	**Risk Management and Compliance**	**Group Management**	**Internal Audit**	**Board of Directors**
Have primary responsibility for identifying, managing, controlling and reporting risks. The basic principle is that quality must be ensured the first time tasks are performed	Advise and assist with facilitation so the first line of defence can establish and implement good management and control Independent measuring and reporting of risk exposure in relation to adopted risk tolerance and risk frameworks Test, check and assess whether the established internal control/ risk management is satisfactory, report any discrepancies and advise on improvements	Implements and carries out the strategy and risk management based on the principles adopted by the Board of Directors. Role execution is adapted to the rest of the staff. The CEO plays the key role in management. The CEO's management style must be tailored to the objectives, strategy and employees The management must be based on a good insight into, and understanding of, the business activities and risk exposure. Culture and attitudes	Independent assessments that ensure management and control comply with the framework. Provides advice on the basis of its findings Proactively helps the organisation achieve its objectives	Determines goals and strategies, and establishes both ethical guidelines and the company's risk tolerance Must actively take the company's overall organisation into account Ensures that strategies are implemented and risk limits are complied with Has a good insight into, and understanding of, the business activities and risk exposure

An important foundation for effective risk management is a strong risk culture with a high degree of risk awareness and risk management throughout the entire Group. To achieve this, every employee must have a good understanding of their role and actions, as well as the associated risks.

Responsibility for ongoing risk management is shared by the Board of Directors, the boards of subsidiaries, Group Management, specialist advisers and line management. Risk management and control is part of SpareBank 1 SR-Bank's corporate governance, which is described in the "Corporate Governance" section. The emphasis is on responsibility through personal authority, as well as independence between the business areas and the departments and people who monitor them.

The Board of Directors of SpareBank 1 Nord-Norge is responsible for approving a prudent risk profile, return targets and an overall framework for risk and capital management, including the IRB system and risk models in general. The Board is also responsible for approving risk limits, authorities and the internal capital adequacy assessment process (ICAAP), with the associated assessments of prudent financial strength and liquidity in relation to the Group's risk profile and regulatory requirements.

The Board of Directors must assure itself that the framework has been adequately communicated and implemented throughout the Group. The Board must also assure itself that the framework is being followed up with adequate authority and resources.

The Board of Directors' duties are set out in a special annual plan that is revised every year. This is intended to ensure that the Board has sufficient time for, and focus on, their key assigned duties.

The Risk Committee, one of the Board of Directors' working committees, is responsible for the initial consideration of matters such as ICAAP, the risk strategy and risk reports prior to final board consideration and approval.

Internal Audit verifies that the risk management process is targeted, effective and functioning as expected. Internal Audit reports to the Board of Directors. Internal Audit's reports and recommendations concerning improvements must be followed up by the organisation. The Group's internal audit is handled by EY.

The CEO is responsible for 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 delegating authorities and reporting to the Board of Directors.

The Asset and Liability Committee handles the overall monitoring of the Group's risk profile, funding, liquidity, financial strength and compliance with relevant laws and regulations. The committee handles also the drafting of risk strategies, capital allocation (capital plans) and validation reports, and recommends new risk models. The Asset and Liability Committee is broadly composed, with executive employees from the business units and the units responsible for risk and capital management.

Managers of business and support areas and employees are responsible for day-to-day risk management within their areas of responsibility. The managers must at all times ensure that the risk management and risk exposure comply with the limits and general management principles determined by the Board of Directors or CEO.

The Risk Management Department is independent of the business units and reports directly to the CEO. The Chief Risk Officer (CRO) can also report directly to the Board of Directors should extraordinary situations so require. The department is responsible for refining the framework for risk and capital management, including risk models and risk management systems. The department is also responsible for continuously monitoring and reporting on risk limits and target figures to the Board of Directors.

Compliance is a function that identifies, assesses, monitors, and reports the Group's compliance risks. A separate, independent and dedicated entity for the area was established in 2017. The unit is responsible for monitoring and reporting on compliance risks and any breaches of regulations to which the Group is subject.

The Credit Department is the Group's key department within the area of credit and responsible for preparing and maintaining targets, strategies, guidelines and routines, as well as the operational management and follow-up of the Group's credit operations and credit risk management. The department performs an independent role in relation to the business areas and local banks.

The Credit Committees are responsible for issuing independent recommendations to holders of powers of attorney. In such a recommendation, the credit committees assess loan and credit applications in relation to the current credit policy, granting rules, and credit processing routines. The credit committees focus especially on identifying risk associated with the individual application and make an independent assessment of credit risk.

Internal control and management confirmation

The Group's internal control is based on the COSO framework (Committee of Sponsoring Organisations of the Treadway Commissions). COSO is a five-level framework:

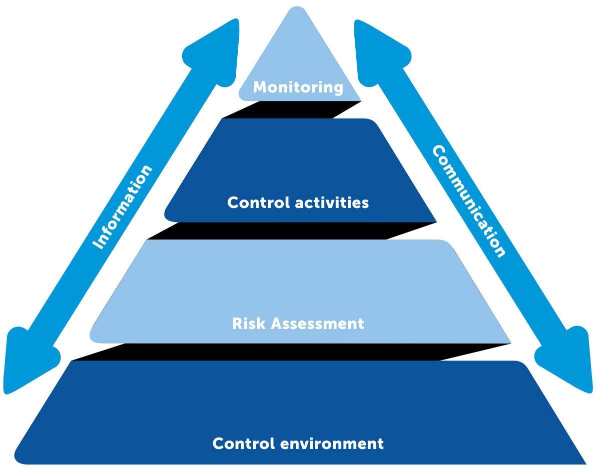
1) **Control environment**

2) **Risk Assessment:** Assessment of internal and external factors that affect goal attainment

3) **Control activities**
guidelines and procedures that are intended to ensure that risks are reduced and managed efficiently

4) **Information and communication**
processes that ensure that relevant information is identified and communicated on time

5) **Monitoring**
processes for ensuring that internal control is appropriately defined and performed, and that it is effective and adaptable



The five levels are intended to help the Group achieve its strategic objectives through good risk management and administration. The COSO framework has been established in line with the Group's general principles for risk and capital management, which emphasise continuous improvement, efficient operation, reliable financial reporting and compliance with laws and regulations.

Directors, bank executives, specialist managers and department managers must report upwards in the organisation on how risk management has been carried out in their areas of responsibility in relation to the approved framework and risk exposure. This is intended to provide the CEO and Board of Directors with a basis for determining whether risk management is being carried out properly. 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 active engagement and understanding around internal control and risk management among managers at every level of the Group

The reporting must be used actively in a management development process that increases the understanding of the importance of good risk management and quality.

The information technology (IT) area the uses control objectives for information and related technology (COBIT) framework as its 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 linked to IT goals within these areas. Good management is ensured through ongoing calculations and following up objectives and performance, and by making process owners accountable within business areas and the area of IT. The framework unifies recognised IT standards and best practice with other general and strategic goals.

OWNERSHIP

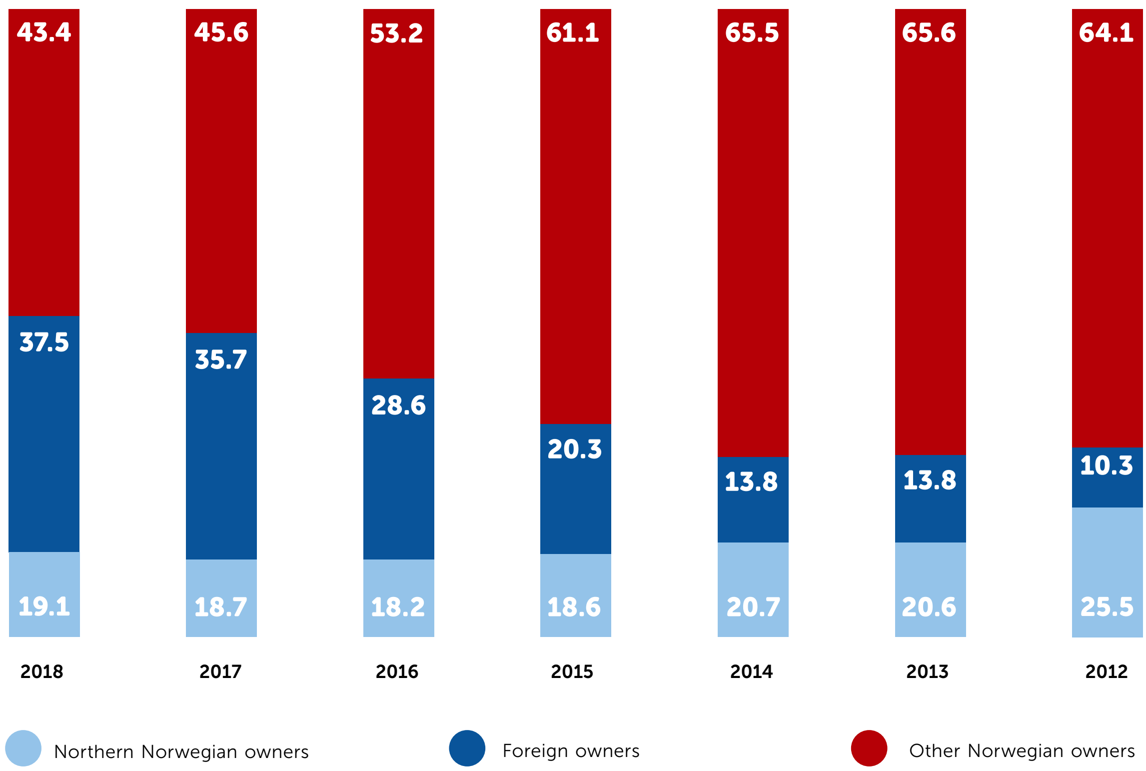
The Bank's equity – ownership composition

SpareBank 1 Nord-Norge has two groups of owners: holders of its listed equity certificates and the community-owned capital. As at 01.01.19, the Bank's equity certificate holders owned 46.36% (equity certificate ratio) of the Bank's equity capital through the equity certificate capital, while 53.64% was community-owned. SpareBank 1 Nord-Norge's equity certificate capital totals MNOK 1,807, 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 8,491 equity certificate holders as at 31.12.18, compared with 7,939 as at 31.12.17.

The number from Northern Norway increased from 2,570 at the end of 2017 to 2,671 at the end of 2018. At that time, they accounted for 19.1% (18.7%) of total equity certificate capital. The Bank still hopes to increase the number and percentage owned by Northern Norwegian equity certificate holders, and has for many years also promoted employee ownership of the Bank. The Bank's employee savings scheme will be continued in 2019. The scheme allows all employees to save up to NOK 2,000 per month through purchasing the Bank's equity certificates. If the savings scheme is completed, the employee will after two years receive one equity certificate free of charge for every two they have purchased.

The proportion of equity certificates held by foreign investors has increased in recent years, to 37.5% (35.7%) at the end of 2018.

Geographic distribution of owner composition of equity certificates by %



OPERATIONS

Geographic distribution of owner composition of equity certificates

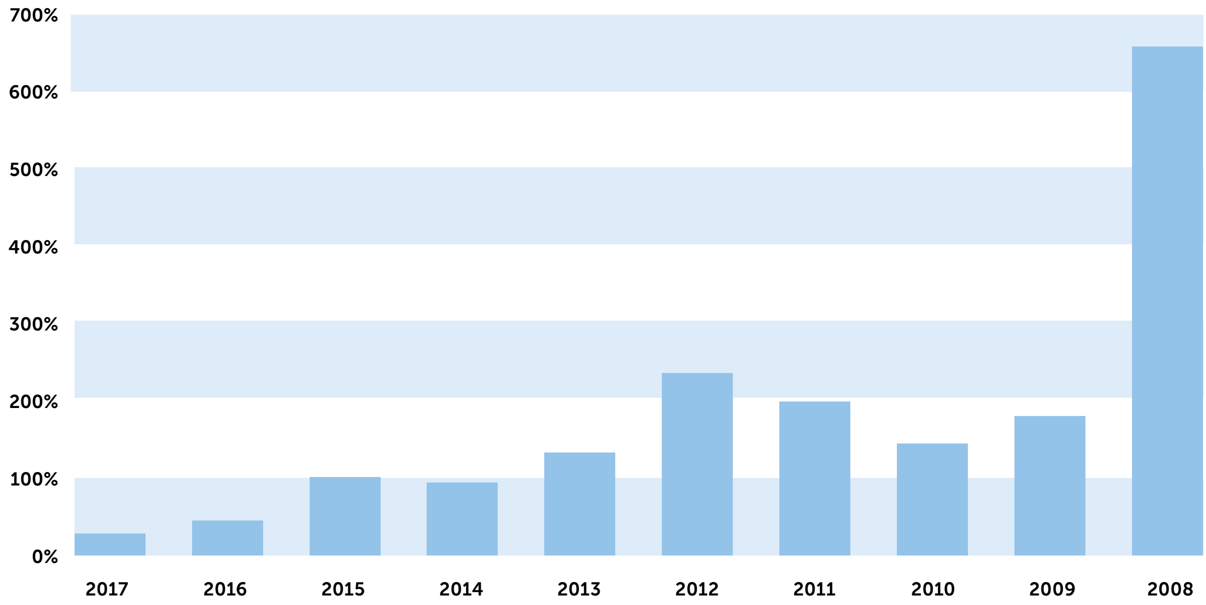
Note 23 includes a summary of the equity certificates owned by the Bank's executives and elected officers. The table below provides an overview of the 20 largest equity certificate holders and the change in the number of certificates in the last year.

Owners	31.12.18	31.12.17	Change in last year
PARETO AKSJE NORGE VERDIPAPIRFOND V/PARETO ASSET MNGT.AS	3,260,063	3,069,150	**190,913**
STATE STREET BANK AND TRUST COMP A/C CLIENT OMNIBUS F, OM06	3,058,928	2,074,940	**983,988**
GEVERAN TRADING CO LTD	2,693,280	1,772,126	**921,154**
MP PENSJON PK	2,584,322	2,697,811	**-113,489**
THE NORTHERN TRUST COMP, LONDON BR NON-TREATY ACCOUNT	2,382,129	2,655,981	**-273,852**
FLPS - PRINC ALL SEC STOCK SUB	2,311,392	2,592,616	**-281,224**
J.P. MORGAN SECURITIES PLC	1,785,104	752,987	**1,032,117**
METEVA AS	1,614,670	1,614,670	**0**
SPAREBANKSTIFTELSEN SPAREBANK 1 NO ADMINISTRATION AND FINANCE	1,411,606	1,411,606	**0**
VPF EIKA EGENKAPITALBEVIS C/O EIKA KAPITALFORVALTNING AS	1,398,129	1,241,971	**156,158**
FORSVARETS PERSONELLSERVICE	1,391,630	1,391,630	**0**
MORGAN STANLEY & CO. INT. PLC. MS & CO INTL PLC MSIP IPB CL AC NO	1,215,105	1,793,280	**-578,175**
EUROCLEAR BANK S.A./N.V. 25% CLIENTS	1,033,413	68,442	**964,971**
LANDKREDITT UTBYTTE	1,000,000	850,000	**150,000**
SEB EUROPAFOND SMÅBOLAG SEB INVESTOR WORLD GLOBAL CUSTODY	986,425	1,373,754	**-387,329**
STATE STREET BANK AND TRUST COMP A/C CLIENT OMNIBUS D, OM04	956,239	946,988	**9,251**
PARETO INVEST AS	945,976	970,659	**-24,683**
LANNEBO EUROPA SMÅBOLAG SKANDINAVISKA ENSKILDA BANKEN AB	804,230	0	**804,230**
STATE STREET BANK AND TRUST COMP S/A SSB CLIENT OMNI E, OM06	666,798	777,631	**-110,833**
CLEARSTREAM BANKING S.A.	648,843	481,332	**167,511**
	32,148,282	28,537,574	**3,610,708**

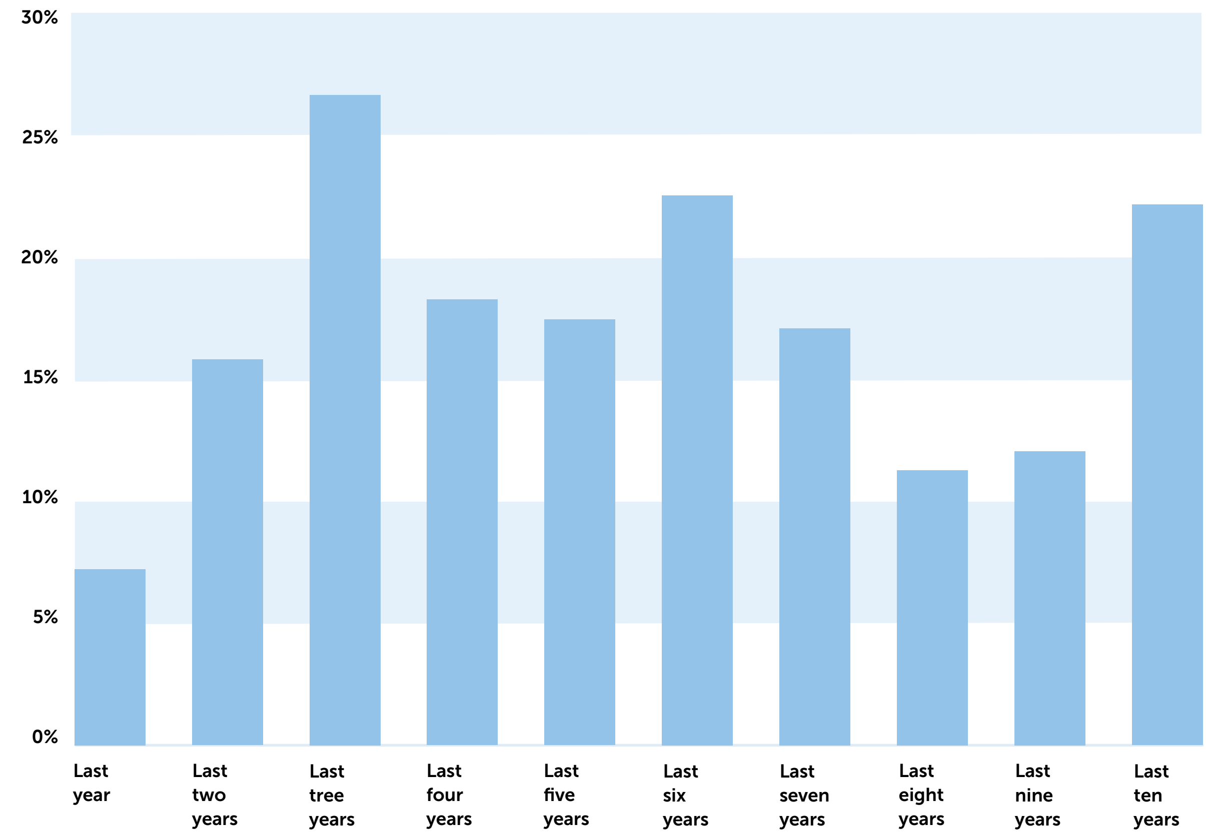
The Bank hopes that its ownership and dividend policy will help ensure that its equity certificate is viewed as an attractive and liquid financial instrument. It aims to ensure that the management of the Group's resources results in a good, long-term and competitive return on the Bank's equity in relation 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 appreciation.

The Bank's dividend policy calls for a minimum of 50% of the Group's profit to be paid to the owners. The proposed payout ratio for 2018 is 56.9%. The payout ratio is the same for both groups of owners and reflects the equity capital ratio.

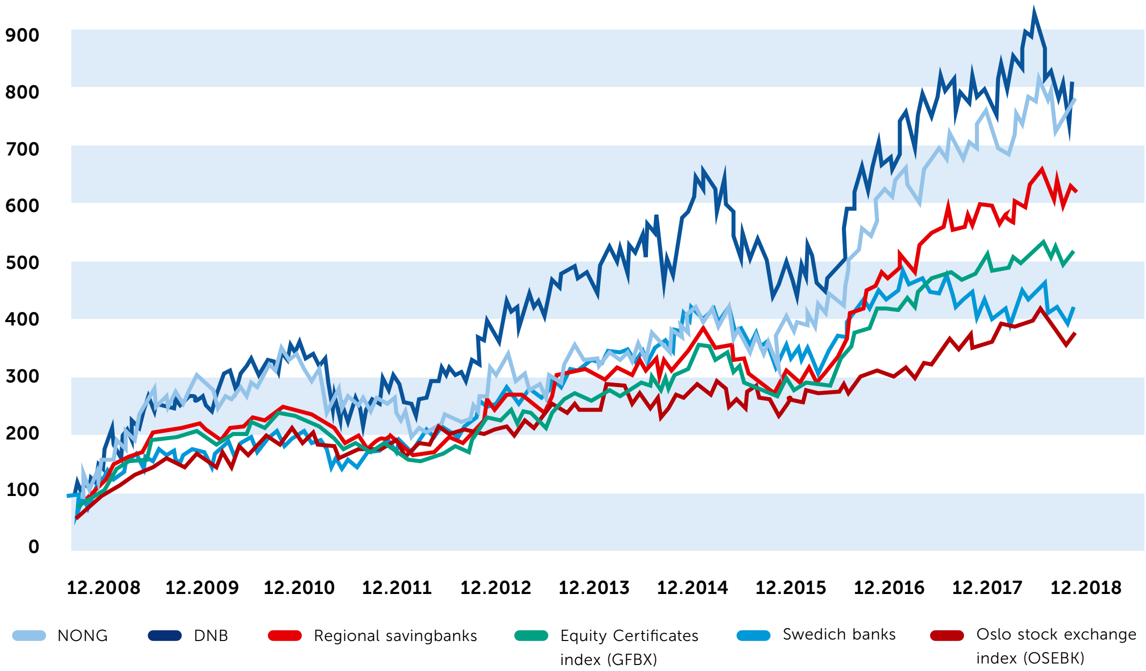
Cumulative total returns (%) up to 31.12.2018 from buying NONG at the end of each year



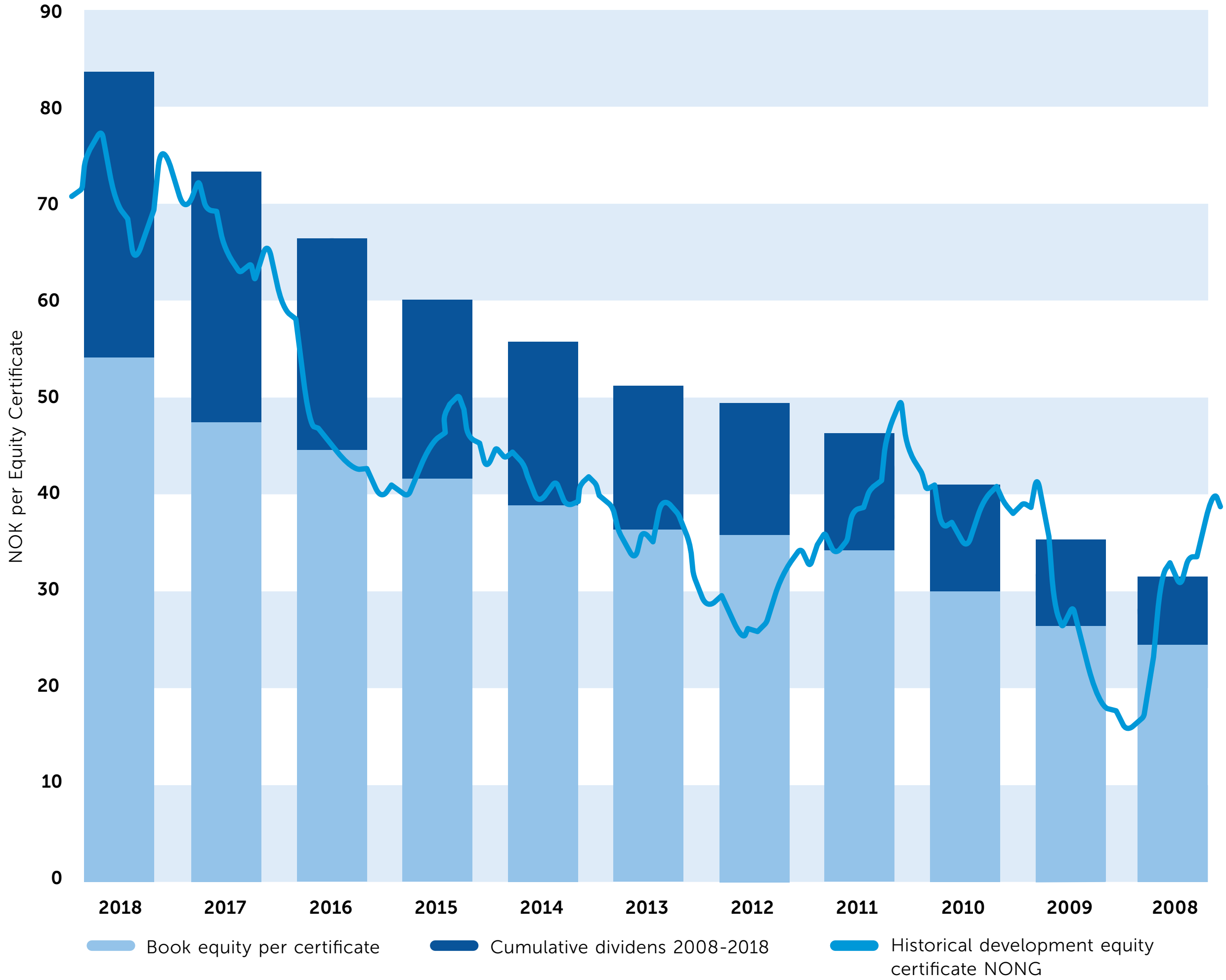
Annualised total returns for investor as at 31.12.2018 (assuming continuous reinvestments of dividends)



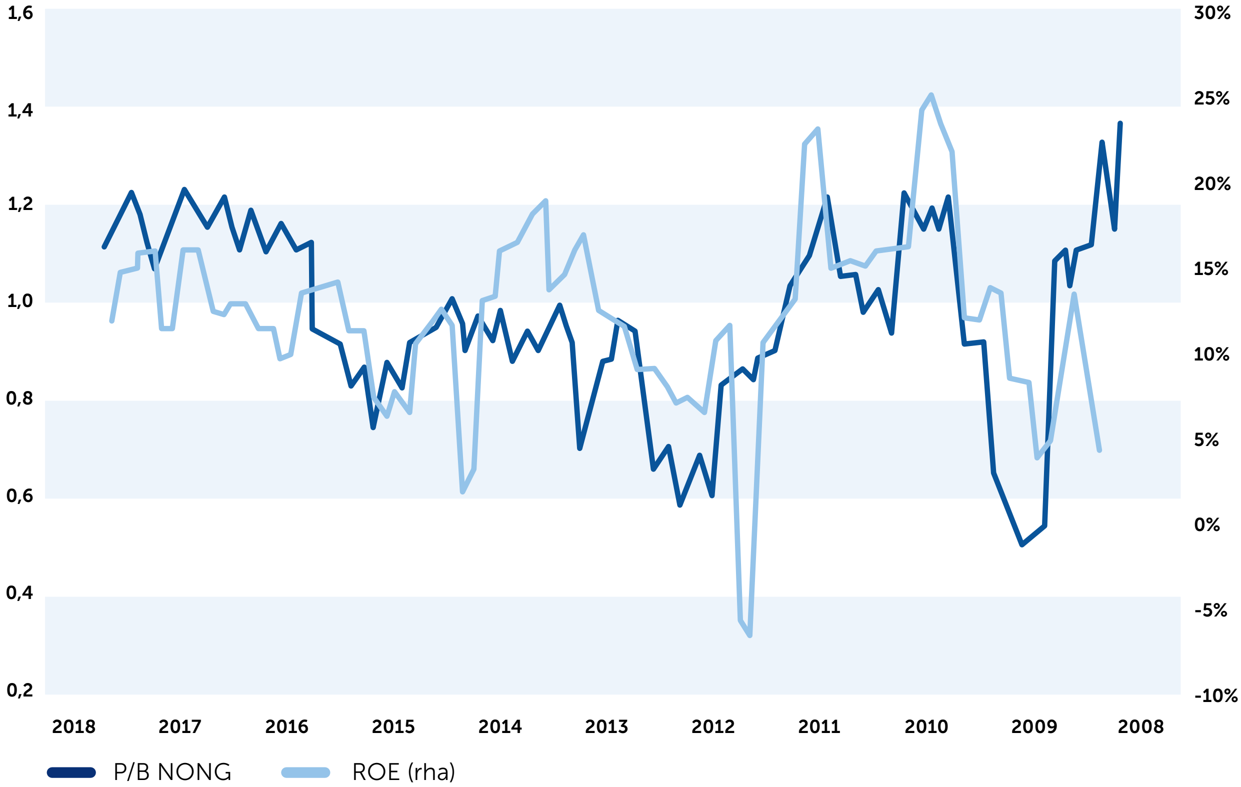
Total equity certificate holder return in the last 10 years against comparable indices



Accumulated value creation in the last 10 years given book values and accumulated dividends per equity certificate, as well as performance of NONG during the same period



Market performance of equity certificate against book values in last 10 years (P/B), plus reported return book value of equity (return on equity - ROE)



Market performance of equity certificate against profit market value in relation to earnings per equity certificate in the last 10 years (Price/Earnings ratio)

OPERATIONS

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

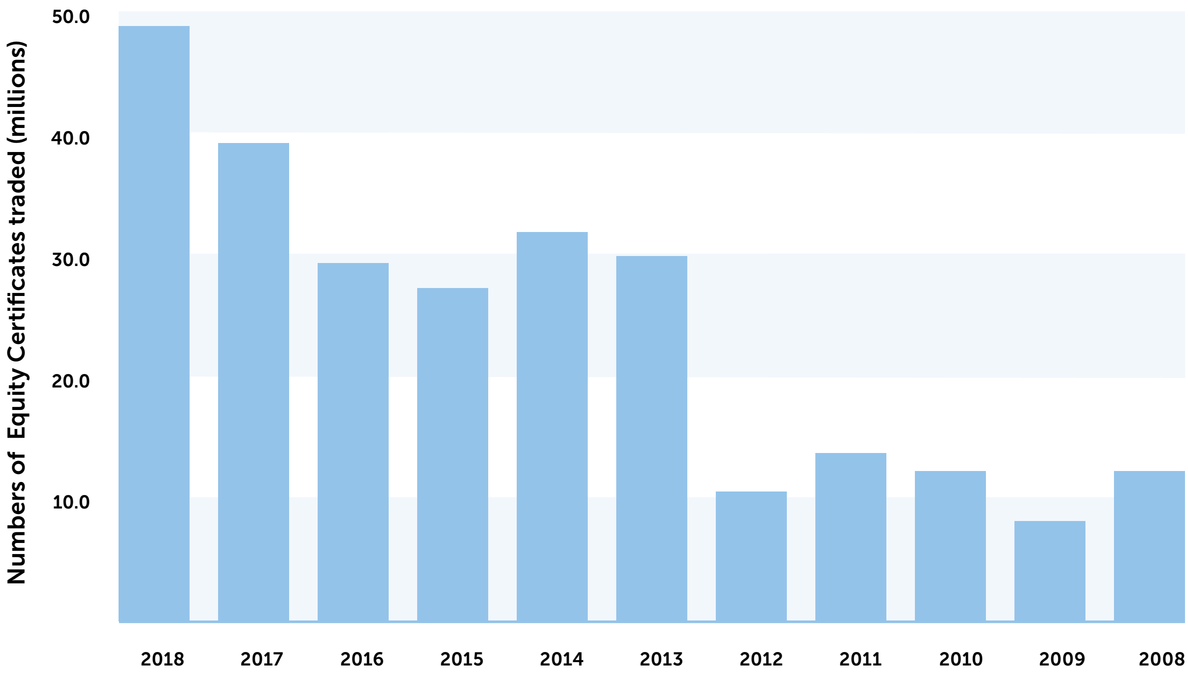
SpareBank 1 Nord-Norge's Articles of Association contain special ownership rights that protect the interests of equity certificate holders. These stipulate that a number of decisions in the Bank's Supervisory Board require the agreement of two thirds of equity certificate holders, including issues of 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.

Sparebankstiftelsen SpareBank 1 Nord-Norge is a charitable foundation, and is also one of the Bank's largest equity certificate holders. The main purpose of the foundation is to be a long-term and stable owner of SpareBank 1 Nord-Norge, and it has been allocated funds from the Bank through shares in the cash dividend to social capital for many years.

The highest and lowest prices for the Bank's equity certificate in 2018 were NOK 70.00 and NOK 55.90 respectively. In 2018, approximately 48.2 million equity certificates were traded on the stock exchange, up from 39 million in 2017.

Overview of number of equity certificates traded on stock exchange in past 10 years, and annual highest and lowest price



	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Price HIGH	70.0	65.8	53.8	45.0	40.7	37.4	31.0	44.2	38.1	37.4	32.7
Price LOW	55.9	51.3	31.5	33.2	32.4	24.3	21.3	26.8	28.4	12.3	11.6

OPERATIONS

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

In the opinion of the Board of Directors, the Bank's ownership model supports the Group's business model that currently entails SpareBank 1 Nord-Norge being a northern Norwegian, 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, while promoting growth and the desire to live in the region. 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.

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 (also see the graph above). 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 certificate's market value and book value per equity certificate) the pricing in the last few years stabilised at above Price/Book = 1. The pricing measured by P/B has further been aligned with comparable banks – both share-based banks and equity certificate-based banks.

The Board of Directors and Management Group believe that the current ownership model benefits both groups of owners. Given this, there are currently no plans to change it.

OPERATIONS

SpareBank 1 Nord-Norge is Northern Norway's largest financial group and offers a full range of financial services, as well as real estate brokerage and accounting services to people and businesses in Northern Norway. The Group has 38 branches, digital channels and an efficient customer service centre. SpareBank 1 Nord-Norge's primary objectives are to create the best customer experiences and achieve its financial targets, with the most enthusiastic employees in the market.

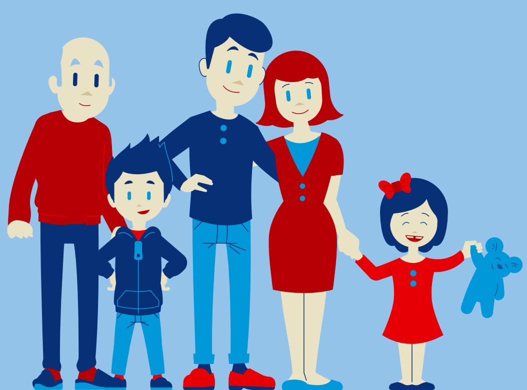
The Group saw strong growth in both the retail and corporate markets in 2018. This growth included lending to the retail and corporate markets, as well as all other product and business areas, measured in terms of unique customers and volumes of business. At the same time, 2018 was another year in which digitalisation and adapting to new directives were high on the agenda. Therefore, in order to maintain and strengthen the Group's leading position in the market, there was a greater focus on developing new services and products in 2018. Our ambition is to develop and strengthen our customer relationships, streamline our processes and win new market shares. At the same time, the Group has been strengthened with new skills in the form of new employees with technology/data analysis backgrounds.

During the year, the Group finished adapting to the new General Data Protection Regulation (GDPR), the new money laundering directive, and the new directive and regulation that regulate the market for financial instruments, MiFID II.

Retail market

SpareBank 1 Nord-Norge is a market leader in terms of lending to the retail market in Northern Norway. With lending growth of 8.2%, the Group took market shares in the retail market in 2018 and further strengthened its position. Customer growth, measured as the number of unique customers, was in excess of 7%, and the trend among young customers aged 18-34 years was particularly positive. The growth was seen in all product areas.

This positive development is a result of greater proactivity in the market, local presence, good digital services and a strong focus on analysis-based marketing with a "super local" twist. Gross interest income from the retail market is increasing due to lending growth more than compensating for contracting interest margins. The credit quality is considered very good. Sensitivity analyses show that lending growth, changes in interest margins and losses have the greatest impact on the return on equity capital. The Group has therefore taken steps to increase the interest margin for loans to the retail market. The positive development of the margin for deposits and deposit growth of 5.8% made positive contributions to the Group's interest income. Commission income from sales and portfolio fees from other products increased overall for the year. Sales and product commission income from insurance increased in 2018 due to good activity and growth in the portfolio. However, total commission income from insurance developed negatively. This was due to lower profitability commission income due to increased claims payments in the portfolio. Claims payments rose because of the high incidence of vehicle insurance claims and more weather-related claims for buildings and homes.



No. of retail market customers 2017

343,408

No. of retail market customers 2018

367,939

Corporate market

With lending growth of 8.2% in the corporate market, the Group is strengthening its position in the market for small and medium-sized enterprises. 48% of all new companies that were established in Northern Norway during the year opened accounts with SpareBank 1 Nord-Norge, and 30% of northern Norwegian companies (active customers who have submitted financial accounts in the last 36 months) use SpareBank 1 Nord-Norge as their main bank. This positive development in the corporate market comes from greater proactivity, local presence and a significant focus on developing new, customer-friendly ,digital solutions. The positive development in the margin for deposits from the corporate market made a positive contribution to the Group's interest income. The Group is increasing its income from sales of defined-contribution pensions and seeing positive overall growth from products in the area of insurance.

The main focuses in the next few years will be continuing to improve and develop the range of services for the corporate market, expanding the interest margin for loans, and exploiting the potential for cross-sales between the various units in the Group, including SpareBank 1 Nord-Norge, EiendomsMegler 1 Nord-Norge, Sparebank 1 Regnskapshuset Nord-Norge and SpareBank 1 Finans Nord-Norge.

No. of corporate customers 2017

37,078

No. of corporate customers 2018*

33,644

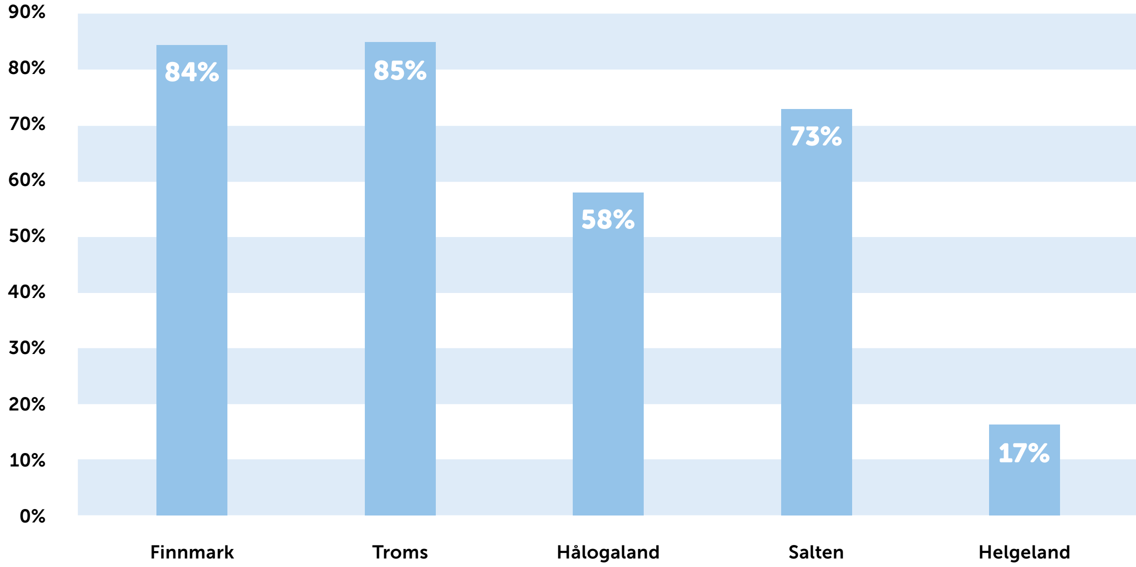
*'The quality of customer data was systematically reviewed and comprehensively improved during 2018. This means that the customer numbers are not directly comparable. The decrease was due to the elimination of notional organisation numbers, etc. from the customer register.

Key figures for the public sector market

SpareBank 1 Nord-Norge enjoys a strong position in the public sector market. All three county authorities in Northern Norway use the Group as their main bank, while the market share among northern Norwegian municipalities is 64%.

As 31.12.18	No. of municipalities/ county authorities	SNN 1 as main bank	Market share
Finnmark	19	16	84%
Troms	20	17	85%
Hålogaland	19	11	58%
Salten incl. Værøy and Røst	11	8	73%
Helgeland	18	3	17%
Total municipicaties	87	55	63%
County authorities	3	3	100%
Total incl county authorities	**90**	**58**	**64%**

Market share



Customer relationships strengthened throughout 2018

Efforts aimed at strengthening the Group's customer relationships continued throughout 2018, primarily through the implementation of a new customer strategy. One important principle in this is to put the customer's needs first and provide services that meet their needs. Comprehensive and continuous customer surveys and customer data analysis have provided the Group with a good insight into how customers prefer to use the various channels to fulfil their need for financial services. Customer feedback shows that local presence, advice, availability, good self-service solutions and an ability to resolve customer enquiries quickly are valued highly. The aim of the new customer strategy is to strengthen the Group's number one position in the region and become one of the country's premier financial groups in terms of customer satisfaction.

The main measures have been:

Digitalisation and automation of manual customer processes

Labour-intensive processes, such as Bli kunde and the process of arranging financing in both the retail and the corporate markets, have been fully or partially digitized/automated during the year. The new, flexible solutions in the retail market have contributed to:

- 87% of new customers establishing their customer relationship unaided.
- 91% of new accounts being established by customers themselves.
- 63% of existing customers requiring increased loans doing this themselves.
- 77% of corporate customers establishing their customer relationship unaided.
- 76% of new accounts being opened in the same way.

The Group's target is for 100% of financing cases to be started digitally by the end of 2Q 2019, while 80% of cases in the retail market should be handled completely digitally by the end of 2020. The corresponding target for the corporate market is that 50% of financing cases should be handled completely digitally by 2020. The positive contributions this work makes to the results in the form of cost and income effects are expected to be going forward.

New service model for customers

In the first half of 2018, the Group implemented a new customer service model. This is designed to increase availability for customers and improve advice and service capacity in all of our distribution channels. The aims are to satisfy the customers' steadily greater demands and to improve the Group's capacity to win new customers and grow its customer portfolio. The impact this work has had can be seen in the increased resolution rate in the first paragraph, the better availability measured in response times, more advisory meetings in all channels, and the higher number of proactive enquiries directed at existing and new customers. At the same time, the Group has introduced immediate customer satisfaction surveys after advisory meetings and contact with customer services. All of the process changes are monitored continuously via the Group's newly established control centre and a new set of key performance indicators (KPIs). The results show that the changes are having the desired effect and have significantly helped to improve customer satisfaction, customer growth and increased sales of the Group's core products. The changes to the Group's distribution system are expected to provide even greater market power and efficiency benefits in the years to come.

Northern Norwegian language and style appreciated by the customers

One of SpareBank 1 Nord-Norge's most important competitive advantages is the Group's physical proximity to the market thanks to its widespread presence, and the trust shown thanks to this proximity. In a financial services market where most services can be provided digitally, the Group has focused on maintaining and developing its proximity, including in digital channels and market communication, through a special language and imagery project. The aim of the project is to reinforce the Group's customer relationships through the use of northern Norwegian language and imagery. The term we use for this concept is "super local". The effects of this work can be clearly measured by the better response to the Group's marketing and customer communication. We are also receiving positive attention from both customers and the market. The project is central to cultivating the distinct qualities that are intended to help us achieve the overall target of increased customer satisfaction of 90% . A northern Norwegian profile will also strengthen our position as the preferred service provider in the market.

Developing new services

The new requirements and expectations of customers are forcing SpareBank 1 Nord-Norge to accelerate the pace of development. The goal of the Group's development work is to maintain and develop the Group's strong market position. The main goal of the work on developing new products and services, and improving processes, is to simplify and improve the everyday lives of people and companies in the region, such that the Group can always offer a comprehensive and competitive range of products and services. New products and services are partly developed locally and partly through collaborations in the SpareBank 1-alliance.

Norway's best mobile bank is being developed in partnership with customers

By talking and listening closely to thousands of mobile bank customers, the Group has developed the mobile bank with the highest score in the App Store. More than one hundred thousand customers have awarded the mobile bank an overall score of 4.6 out of 5. Examples of improvements include a new summary page, a simpler way of paying bills and an improved way of handling savings. Customer friendly advice paths are built into most areas of the mobile bank. As a rule, new services are developed through a close dialogue with the customers. The use of the mobile bank increased significantly in 2018 and in November the mobile bank was, for the first time, used by more unique customers than the online bank.

Spink

In spring 2018, the Group launched Spink, the new mobile bank for children and young people under 15. The Spink app offers balances, an overview of spending, saving and friend-to-friend payments designed for children's needs. The app has been downloaded and installed by 7,100 customers and the customer feedback indicates that the new service is a good fit for the market.

DRIV

The Group developed DRIV in collaboration with the banks in the SpareBank 1-alliance in 2018. This is an everyday tool for small and medium sized enterprises. DRIV collates and presents fresh figures from banks and accounts in an easy to understand manner. The services is intended to help company managers gain a better overview, improve their ability to plan, and understand the potential of their company. The tool has undergone pilot tests and will be launched in 2019. The service will be available on PC and mobile to both existing and potential customers. The goal is for DRIV to help increase cross sales between SpareBank 1 Regnskaphuset Nord-Norge and Sparebank 1 Nord-Norge.

Digital pathway for establishing a company

In autumn 2018, the Group launched a new service for establishing a company. The solution is integrated with the Brønnøysund Register Centre and Altinn.

Payments

The Visa debit card's platform was modernised in 2018. Visa Direct was launched in the autumn as a replacement for Visa Electron, and can be used in more areas than Visa Electron. New designs were also introduced for the entire card portfolio. Work on adapting cards for use with various smart, digital tools, such as smart clocks, is ongoing. These have been tested and piloted on FitBit and Garmin fitness watches, and are expected to be launched in 2019. Modernising the card platform allows people to use the payment methods they want when they want, as well as for the implementation of the future Internet of Things (IoT).

The eBilling (eFaktura) service for private individuals has been enhanced and customers can now receive and pay eBills in Vipps just like they can in the online and mobile bank.

SpareBank 1 Nord-Norge supplies cash in around 70 locations in the region.

Use of customer data and technology

Value-enhancing data analysis and campaign management

In 2018, the Group implemented new, efficient tools that increase sales power and improve campaign follow-up. The new tools make it possible to communicate in a far more pinpoint and targeted manner across the Group's sales channels.

The solution is based on algorithms developed by the Group that ensure customers are presented with the most relevant range of products and services when they contact the Group. The accuracy of customer communication increased significantly throughout the year thanks to the development of new methods and machine learning.

The value enhancing use of customer data will be central to SpareBank 1 Nord-Norge's development work in the year ahead. The ambition is to significantly improve customer services by combining our unique customer insights with wide ranging local expertise and external data and services.

New digital desktop

Just before the end of the year, the Group signed an agreement for the development of a new operational CRM system based on Microsoft Dynamics 365. This, together with the implementation of tools in the Office 365 suite, will provide the basis for the Group new desktop. Subcomponents will be delivered throughout 2019 and 2020, and together these will become role specific desktops for all employees. First out will be the banking unit, which will start using the first generation in 2Q/3Q 2019. The development of the new operational CRM system is a collaboration between several of the SpareBank 1 banks.

The way ahead

In 2019, the main focus will be on increasing the impact of the reforms that have been started, as well as continuing and implementing new development measures. Central to this is the development of new digital services in connection with the introduction of PSD2, further investments in data analysis and machine learning, as well as continuing to explore local/national partnerships/ecosystems. SpareBank 1 Nord-Norge's development power was boosted throughout the year due to greater investment, new expertise, and methods that will help increase execution capacity and speed.

New directives

GDPR – data protection in SpareBank 1 Nord-Norge

SpareBank 1 Nord-Norge manages large volumes of business and personal information about its customers. The amount of information has increased in line with the use of new technology and digitalisation. During 2018, the Group completed its adaptation to the General Data Protection Regulation (GDPR) and the revised data protection rules. The rules impose a number of obligations on the Group and tighten the requirements for information security and internal control. The governing documents that set the framework for the collection, storage and use of personal data have been updated in line with the new regulations. Measures to increase data protection competence and awareness among employees were also taken in 2018, and will continue in 2019. At the same time, the areas of compliance and information security were strengthened in 2018.

MiFID II

SpareBank 1 Nord-Norge operates in the savings and investments markets. A new directive that regulates the market for financial instruments was introduced in 2018, MiFID II. The goal of the changed European regulations is to strengthen investor protections further by, among other things, creating greater transparency in the financial services market and making it simpler to compare investment services. The directive was incorporated into Norwegian law through amendments to the Securities Trading Act. The Group has adapted to the new directive by introducing new, updated routines/work processes, training staff, and implementing new control routines.

PSD2

On 13 January 2018, the Revised Payment Services Directive (PSD2) was introduced in Europe. This EU directive regulates payment transfer systems in the EU and EEA, which will lead to major changes in payment services. As an EEA member, Norway is also covered by the regulations. They will be incorporated into Norwegian law in 2019 at the earliest. The banks in the SpareBank 1-alliance have already started work on PSD2. In connection with this, customers with accounts in more than one SpareBank 1 Bank can now see balances and payment transactions from other banks in the alliance. SpareBank 1 Nord-Norge has signed an equivalent agreement with Sbanken. The purpose is to obtain valuable experience in relation to the new regulations. The continued focus on the Group's mobile surfaces, the Vipps collaboration, the development of DRIV, and the development of smart car insurance have provided valuable experience for the work on maintaining and improving the Group's position in a more open financial services market. In parallel with this, SpareBank 1 Nord-Norge is working on improving sales of its services through external companies, such as financing and insurance via car dealers. The Group is taking a proactive approach to a more open financial services market and this work will continue unabated in 2019.

New money laundering directive

Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing entered into force on 15 October 2018 through amendments to the Norwegian Money Laundering Act. The law builds on previous Norwegian legislation to prevent money laundering and terrorist financing, but expands the regulation to cover new groups of businesses (providers of gaming services) and tightens the requirements in some areas. SpareBank 1 Nord-Norge has adapted to the new directive by introducing new, updated routines/work processes, training staff, and implementing new control routines. Investments have also been made in system updates.

FACTS ABOUT CUSTOMERS, MARKETS AND SALES

34% — Digital sales of main products in the retail market accounted for 34% in 2018. The figure in 4Q was 38%.

48% — 48% of all newly established limited companies established an account with SpareBank 1 Nord-Norge.

85% — 85% of the customers who were in contact with the Bank's customer services said they were very happy with the service they received.

90% — 90% of the customer who have received advice in the retail market said they were very happy with the advice.

500,000 — In 2018, the Group's customer service centre answered 500,000 phone calls, chat requests and emails.

328,300 — 328,300 unique uses visited our news website.

SPAREBANK 1 NORD-NORGE MARKETS

In 2010, the Board of SpareBank 1 Nord-Norge decided to establish SpareBank 1 Nord-Norge Markets as a division of the Bank.

Organisation of the investment firm

The division's customer-facing activity comprises the following focus areas:

- Risk advice aimed at 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
- A dedicated department for Corporate Finance was established on 01.03.18
- Order-driven trading and investment advice

The division works closely with the Group's other customer-facing 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 control 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 more important 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's work and internal control.

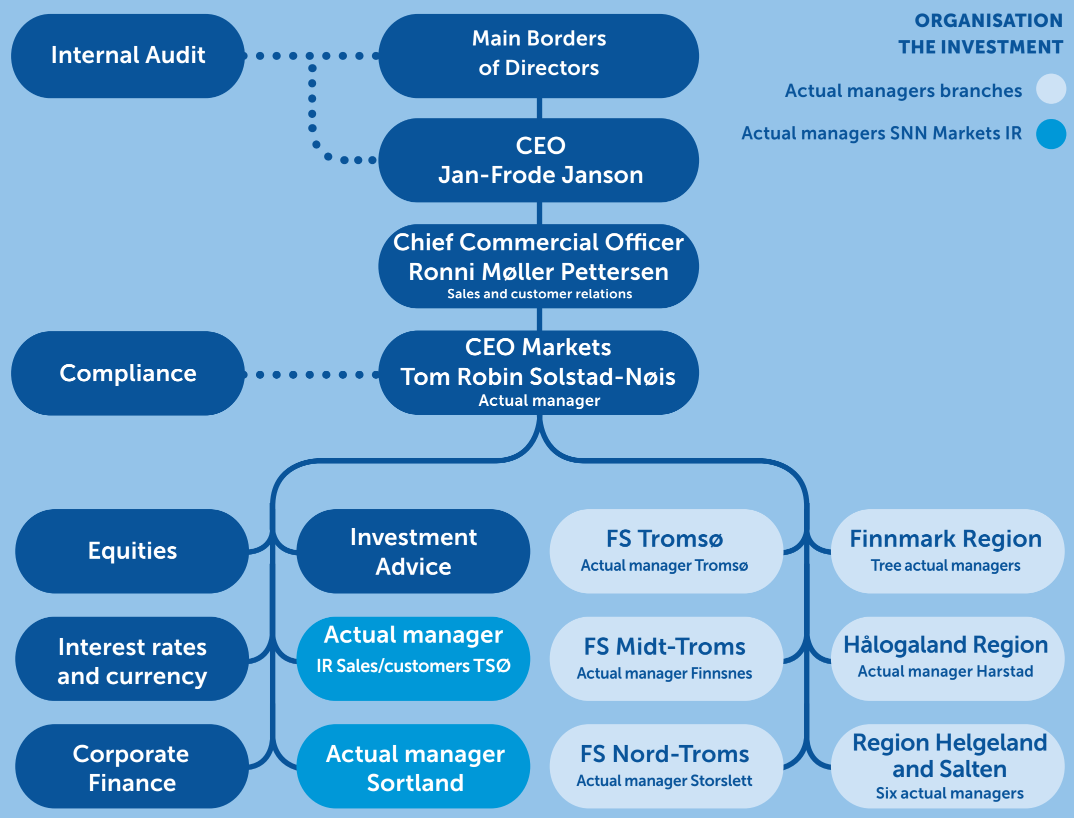
SpareBank 1 Nord-Norge Markets works with SpareBank 1 Markets on trading systems and securities and macro analyses. For more information about SpareBank 1 Markets, please see the comments in the Annual Report from the Board.

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 SpareBank 1 Nord-Norge Markets and actual manager of the investment firm's licensed investment services since June 2013. The Financial Supervisory Authority of Norway approved SpareBank 1 Nord-Norge's new organisation of the investment firm on 19.11.18, as noted in figure 1.

Interest rates, currency and securities

SpareBank 1 Nord-Norge Markets expanded its staff numbers and range of services throughout 2018. A new business area was established, Corporate Finance. Corporate Finance will generally target its advice, capital raising and business sales services at investors and businesses with roots in Northern Norway. At the end of 2018, eight persons worked in SpareBank 1 Nord-Norge Markets' currency, interest rate and securities trading desk, and two persons worked in Corporate Finance. The trading desk

Organisation of the investment services firm in the investment



was also reinforced with a further senior trader on 14.01.19.

The area's total income amounted to MNOK 46.9 in 2018. This represents a reduction of MNOK 6.3 compared with 2017. This was primarily due to lower income from secondary trading in equities and bonds, despite an increase in income from assignments involving investing in offerings. Income from the areas of currency and commodities increased by approx. MNOK 3.8.

One important focus area has been 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 analyses of the market as a basis for providing advice. In 2018, the total income in this business area increased by 21.36% (MNOK 3.1) compared with 2017.

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 collaborates with SpareBank 1 Markets' analysis services. A joint settlement function for all equities trading in the SpareBank 1-alliance has also been delegated to SpareBank 1 Markets. Such trading is channelled through SpareBank 1 Markets' broker identity on the Oslo Stock Exchange. The collaboration is working well and reducing vulnerability on the systems and settlement side.

Like 2017, 2018 was also characterised by a heavy focus on the implementation of new regulatory requirements due to MiFID II. The work on good compliance and further improving the department's services will continue in 2019. There will also be a significantly greater focus on customer capture. Provisional analyses of market potential indicate that good growth in demand for the devision's services is a realistic assumption.

The SpareBank 1-alliance was formed in 1996. This 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 – ALLIANCE

The SpareBank 1-alliance is Norway's second-largest finance group. SpareBank 1-alliance consists of 14 independent banks that are complete providers of financial products and services for personal customers, companies and organisations.

Customers should view the SpareBank 1-alliance as the best in terms of closeness, local identity and expertise. The alliance employs around 7,000 people in total. 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 make up what is called the alliance. 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

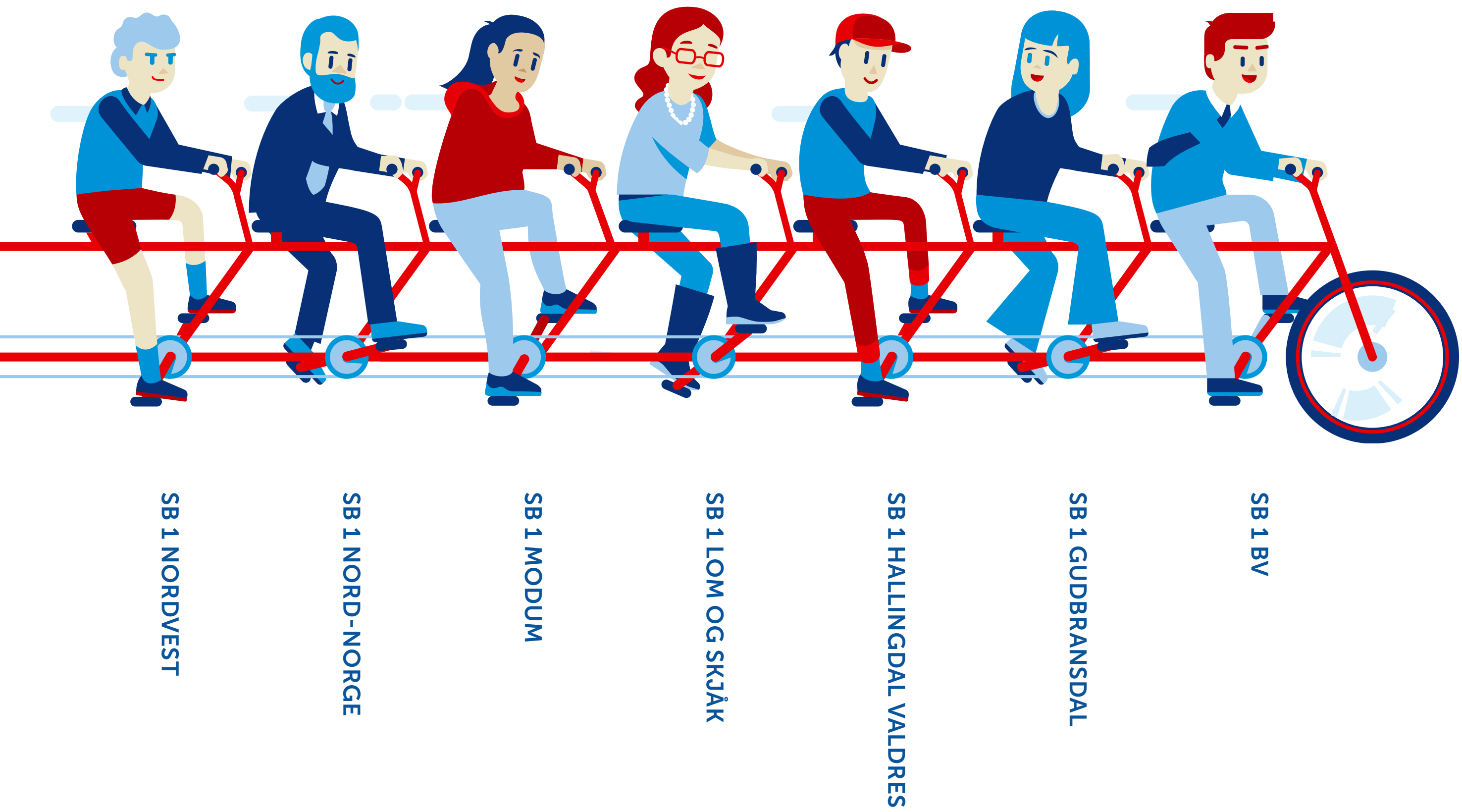
SpareBank 1 Gruppen AS is the parent company of eight subsidiaries that all develop and supply products to the alliance banks, which in turn offer them to their customers in their local markets.

The company also develops and provides products to trade unions affiliated with the Norwegian Confederation of Trade Unions (LO) and union members through the LOfavør advantage programme.

In September 2018, SpareBank 1 Gruppen AS and DNB ASA signed an agreement to merge their insurance operations. The merger was approved by the Financial Supervisory Authority of Norway on 21.12.18 and came into effect on 01.01.19. The merged company is called Fremtind Forsikring AS. SpareBank 1 Gruppen AS owns 65% and DNB ASA 35%.

One important reason behind the merger is to build up the volume necessary to further strengthen insurance distribution via the banks. At the same time, the merger will enhance the capacity to develop innovative and customer-friendly solutions, maintain competitive prices and launch new products for customers onto the market even faster.

Fremtind will distribute its products via the banks' local branches nationwide, via customer call centres and via digital channels. SpareBank 1 banks will market insurance products under the SpareBank



1-brand, while DNB will market insurance products under the DNB brand. The company will also continue SpareBank 1's agreement to provide products to the 930,000 members of the Norwegian Confederation of Trade Unions (LO) through the LOfavør brand.

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 ASA (19.5%), SpareBank 1 Nord-Norge (19.5%), SpareBank 1 SMN (19.5%), Samarbeidende Sparebanker AS/Samspar (19.5%), SpareBank 1 Østlandet (12.4%) and LO and affiliated trade unions (9.6%)

SpareBank 1 Banksamarbeidet DA

SpareBank 1 Banksamarbeidet DA bears administrative responsibility for the SpareBank 1-alliance collaboration processes and delivery of services. The company delivers business platforms and common management and development services to the SpareBank 1-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 SpareBank 1-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 AS 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/Samspar (17.74%), SpareBank 1 Østlandet (19.04%) and SpareBank 1 Gruppen AS (10%).

SpareBank 1 Banksamarbeidet DA owns 100% of the shares in the following subsidiaries

- EiendomsMegler 1 Norge AS
  – management and administration of the real estate cooperation in the SpareBank 1-alliance
- SpareBank 1 Kundesenter AS – shared customer call centre for the banks after 16:00
- SpareBank 1 Verdipapirservice AS – common trading platform for securities

Jointly-owned companies outside the SpareBank 1-alliance	SpareBank 1 SR-Bank	SpareBank 1 SMN	SpareBank 1 Nord-Norge	SpareBank 1 SamSpar	SpareBank 1 Østlandet	BN Bank ASA/others
SpareBank 1 Betaling AS	19.8%	21.5%	18.6%	21.0%	18.7%	0.45%
SpareBank 1 Kredittkort AS	17.9%	17.4%	17.0%	25.6%	20.5%	1.4%
SpareBank 1 Boligkreditt AS	4.8%	20.7%	18.0%	28.5%	21.6%	6.5%
SpareBank 1 Næringskreditt AS	14.4%	33.0%	14.0%	25.3%	13.4%	
SpareBank 1 Markets AS	5.6%	66.7%	12.2%	4.4%	6.0%	5.0%
BN Bank ASA	23.5%	33%	23.5%	20.0%		
SMB Lab	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Betr AS	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%

- SpareBank 1 Boligkreditt AS, SpareBank 1 Næringskreditt AS og SpareBank 1 Kredittkort AS
  So-called dynamic ownership where the stakes vary depending on the portfolio.
- SpareBank 1 Betaling AS, BN Bank ASA og SpareBank 1 Markets
  Static ownership with fixed stakes.

Ownership and company structure in the SpareBank 1-alliance

OWNERS AND ALLIANCE PARTNERS:

SpareBank 1 SR-Bank	SpareBank 1 SMN	SpareBank 1 Nord-Norge	SpareBank 1 SamSpar	SpareBank 1 Østlandet	LO/ LO forbund
18/19,5%	18/19,5%	18/19,5%	18/19,5%	19/12,4%	0/9,6%

Stakes BS≈/SBIG

JOINTLY OWNED COMPANIES OUTSIDE THE SPAREBANK 1-ALLIANCE

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

SPAREBANK 1-ALLIANCE

SpareBank 1 Banksamarbeidet DA (BS)

- Eiendomsmegler 1 Norge AS
- SpareBank 1 Kundesenter AS
- SpareBank 1 Verdipapirservice AS

SpareBank 1 Gruppen AS (SB1G)
Holding company. Owns 10% SB

- SpareBank 1 Forsikring AS (life insurance)
- Fremtind Forsikring AS (P&C insurance) (DNB owns 35%)
- ODIN Forvaltning AS (Fund management)
- LOfavør AS (LO owns 49%)
- Conecto AS (Debt recovery)
- SpareBank 1 Factoring AS
- SpareBank 1 Portefølje AS (Portfolio acquisition and management)
- SpareBank 1 Spleis AS (Public fundraising)

THE FOUNDATIONS

SpareBank 1 Nord-Norges Kulturnæringsstiftelse

SpareBank 1 Nord-Norge's Kulturnæringsstiftelse was established in 2012 by the Bank's Main Board of Directors. 2018 was the foundation's last ordinary year of operations. Over the six-year period, it has distributed around MNOK 95 to a total of 600 projects.

Its purpose has been to contribute to cultural business development in the region for the benefit of the public by making financial contributions (grants or investments) in cultural businesses or activities that promote cultural business development. The overall objective has been to help to create more jobs.

As far as the distribution of funds is concerned, there has been an emphasis on:

- Diversity within the cultural industry
- Development of the cultural industry in SpareBank 1 Nord-Norge's market area
- Opportunities for developing sustainable structures that may over time create a basis for increased employment within the cultural industry

In 2018, Kulturnæringsstiftelsen distributed a total of MNOK 8.7 to a 42 projects.

The foundation's most important means have been application-based grants within music, literature, film and the dramatic and visual arts. MNOK 2.7 was awarded to 27 projects in the spring application round in 2018. The project grants ranged from NOK 20,000 to NOK 200,000, with an average of around NOK 100,000.

As part of a three-year collaboration, Kulturnæringsstiftelsen provided MNOK 1.5 in fund capital to the regional Filmfond Nord investment fund, which is owned by the Nordland, Troms and Finnmark county authorities. Similarly, the foundation provided MNOK 1 in fund capital to Artica Svalbard, a foundation that was established in 2016 in collaboration with the Norwegian Ministry of Culture and the Fritt Ord

Foundation. In 2018, Kulturnæringsstiftelsen was also involved in a total of nine talent programmes in collaboration with Talent Norge.

Kulturnæringsstiftelsen has been active in influencing opinion and decision-makers in the direction of making a stronger commitment to the cultural industry. In connection with this, a series of talks in workshops and conferences were given and feature articles written in northern Norwegian newspapers. As part of its final reporting, Kulturnæringsstiftelsen is publishing its own inspirational magazine, which will showcase the diversity and importance of cultural businesses in the region. The magazine will be physically distributed from February 2019 and a web version will also be available on www.detduser.now.

Sparebankstiftelsen SpareBank 1 Nord-Norge

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

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

SpareBank 1 Nord-Norge intends to ensure that a proportion of the community dividends are distributed to the foundation. This will enable the foundation to build up capital that can be used in connection with future equity issues by the Bank.

Since its creation, the foundation has received several donations from the Bank and administers a total of MNOK 750 as at 31.12.18.

Donations
The foundation's articles of association stipulate that it shall make donations for socially beneficial purposes within SpareBank 1 Nord-Norge's market area. Donations totalling MNOK 13.5 were made to 132 projects in 2018. Projects aimed at children, young people and senior citizens were prioritised and have received a total of MNOK 8.

Sparebankstiftelsen's website, Facebook page and Instagram page are updated regularly with current news: www.snnstiftelsene.no/sparebankstiftelsen. They also provide information about all gift allocations.

Sparebankstiftelsen has two part-time employees: a business manager in a 20% position and an office manager in a 70% position.

SpareBank 1 Nord-Norges kunststiftelse

SpareBank 1 Nord-Norge's Kunststiftelse was established in 2007 by the Bank's Board of Directors. Its 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.

ORGANISATION AND HR

The Group aims to be number 1 for employees and Northern Norway's most attractive and engaging workplace.

In parallel with the introduction of a new business and risk strategy, the Group has prepared three employee profiles covering managers, employees in contact with customers and employees in corporate functions. The employee profiles provide a consistent and unifying translation of the strategy for each type of employee and help to reinforce the Group's local decisions and local vigour.

The Group's objective of being an attractive and engaging workplace has been achieved. Engagement continues to score above its target of 80 and employees endorse the Group's measures aimed at promoting an engaging and sustainable working environment. The Group receives high numbers of qualified applicants for vacant positions. In 2018, new and exciting projects were commenced that are intended to help increase the availability of labour in the region. It is also worth noting that the Group has stabilised as an internal career path for employees, both between and within the Group's companies. Meanwhile, sick leave increased in 2018, from a low of 2.8% (self-certified and doctor-certified) in 2017 to 4.02% as at 31.12.18.

The organisation focused on compliance work in 2018. This has impacted employees, including through new guidelines and privacy declarations that affect their routines. The implementation of a new customer strategy also resulted in changes to the organisation's structure, which in turn led to adjustments to duties and the division of work between employees in contact with customers. So far, this appears to have had a good effect with respect to the Group's customer satisfaction targets.

Samfunnsløftet is one of the Group's strategic choices. It also affects our organisation through our fulfilment of our social responsibilities via employee activities. In 2018, this was demonstrated by the employees' support and voluntary work in connection with events such as the Arctic Race of Norway and Glød concert in Harstad. The latter brought almost all of the employees together in one place. And it was also demonstrated, not least, by committed employees who took part in the job of collecting suggestions regarding *Samfunnsløftet*.

In 2018, 58% of the SpareBank 1 Nord-Norge Group's employee were unionised. This provides the Group's employees with a clear voice and helps to safeguard their working conditions. The employer also benefits from having professional employee representatives as liaisons between the Management Group and employees. The safety service is working well across the companies in the Group, which is vital as ever more co-locations are becoming a reality.

The Group has active retiree and staff associations that organise social events for staff and retirees.

Equal opportunities and diversity

Diversity is a cornerstone of success when it comes to promoting innovation and competitiveness in the Group. SpareBank 1 Nord-Norge has drawn up a new recruitment policy whose provisions are permeated by gender equality and diversity, and which rejects discrimination.

There are more women in the Group than men. At the end of 2018, 37% of the managers in the Group were women, on a par with 2017. The ambition is to achieve at least 40% women in the management of SpareBank 1 Nord-Norge. The Group's payroll analyses show there are no pay differences between men and women based on gender. In 2018, the Group had qualified managers working on pay negotiations and performance development, which should, for example, result in correct and understandable pay settlements and ensure that we continue not to see pay differences based on gender.


SpareBank 1
NORD-NORGE
SpareBank 1
NORD-NORGE

Female managerial talents are identified and will, among other things, take part in the "LederLab" as part of the systematic effort to increase the number of female managers.

Health, safety and the environment

A sustainable and engaging working environment is vital if the Group's employees are to perform and flourish at work. Managers must and will maintain a constant focus on this. The employee survey, which includes questions about the working environment, is an important driver for identifying and initiating measures aimed at remedying any weaknesses in the working environment. It supplements employees, employee representatives and the safety service reporting their concerns to management. A good indicator of our working environment is that the average retirement age in 2018 was 64.4 years old.

HR and the safety service help management with organisational development measures and following up managers. This work has produced clear results and some departments have made major progress in the survey.

SNN Spor is the Group's diet and exercise concept and represents the most aggressive part of our systematic HSE work. The Norwegian Working Environment Act instructs employers to consider measures aimed at promoting physical activity among their employees. Through SNN Spor, intentions have been transformed into action, contributing to healthier lifestyles and more physical activity among the Group's employees. No fewer than 87% of the Group's employees take part and the level of activity still remains well above the Norwegian Directorate of Health's recommendations for physical activity.

All employees took compulsory courses on money laundering and GDPR in 2018. The employees also took shorter courses ("nano learning") on various topics within the area of security.

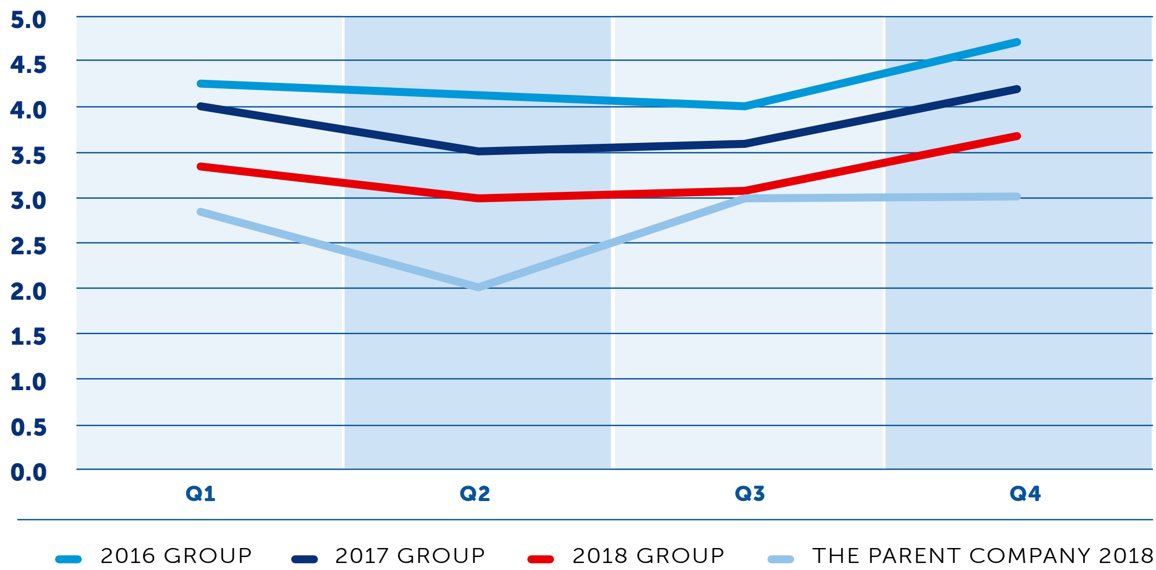
In December 2018, the Group's branch on Svalbard was the target of an armed robbery. The three staff members were not physically harmed and are being followed up in line with the Group's preparedness routines.

Two cases of threats against staff and two accidents were registered.

Recruitment and careers

SpareBank 1 Nord-Norge is an attractive workplace in the region, which is evident from the large number of internal and external applicants. In 2018, 1,589 applications were received for 136 positions and the Group was generally satisfied with the candidates' backgrounds and qualifications. In total, new employees were recruited to 144 positions. Eight of the positions were filled in-house.

Sick leave trend in SpareBank 1 Nord-Norge, quarterly from 2016 to 2018



A new trend was noted in 2017 when difficulties were experienced in finding enough qualified personnel for some of the Group's smaller locations. This was also seen in 2018 when the same position has had to be advertised multiple times.

In 2018, we turned the spotlight on young people in the region based on the report on the lack of labour Northern Norway will experience in coming years (The Business Barometer, The Labour Market in Northern Norway, 08.09.17). The measures spanned from arranging a Hackathon (student brainstorming session), internships and training opportunities to focusing on opportunities for young people to take temporary positions and summer jobs.

One of the results of the Hackathon is karrierenord.no. The website aims to connect students and the labour market in Northern Norway. It was created and is managed by students, with the help of employees in the Group, via internships. The work with young people in Northern Norway will continue in 2019 with a new Hackathon and participation in various student events.

In 2018, SpareBank 1 Nord-Norge had three upper secondary school clerical apprentices.

Employee development and management

One of SpareBank 1 Nord-Norge's strategic objectives is to be number 1 for customers, employees and owners. Managers have a particular responsibility to ensure their employees and units develop if we are to be successful. The development of the managers' own skills is focused on in various management seminars and weekly management webinars. A bespoke master's degree programme 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-alliance.

In 2018, the Group developed a new concept for developing managers and management talents, a Manager Lab (LederLab), that will be based on business critical challenges. The work was inspired by the partnership with Olympiatoppen North and the Norwegian Business School (BI), and the organisation will start feeling its full effects in 2019.

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 introduction programme to familiarise them with the Group, our culture and our strategic framework. 83 new staff completed various parts of the induction programme in 2018.

SpareBank 1 Nord-Norge's customers are served by expert advisers both in the physical branches and in the digital channels. The financial services industry has established authorisation schemes for advisers, which are aimed at ensuring they have the necessary knowledge, skills and attitudes. 252 consultants are authorised financial advisors; 214 of them have also been approved by the approval scheme for P&C insurance and 110 of them passed the authorisation scheme for credit in the retail market.

The Group's focus on learning in the workplace is demonstrated by the "Utsikt" learning platform, which is a collaborative project in the SpareBank 1-alliance. The entire Group now has access to a total learning service. The platform provides good reporting and documentation and helps to steer the work on skills based on goals.

Ethics and ethical dilemmas were also on the agenda in 2018. 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.

At the end of 2018, a common electronic induction programme was finalised and published for the use of the entire SpareBank 1-alliance. The programme consists of three parts: Introduction to Finance, SpareBank 1-alliance and Customer Solutions. The programme has to be packaged with the Duty of Confidentiality, Money Laundering and GDPR such that together they feel like a single compulsory package.

Key figures

Number of employees	2017		2018	
	Employees	FTEs	Employees	FTEs
The Group	813	785	871	841.8
SpareBank 1 Nord-Norge	550	536	576	560.4
EiendomsMegler 1 Nord-Norge	88	87	86	85
SpareBank 1 Finans Nord-Norge	37	37	37	37
SpareBank 1 Regnskapshuset Nord-Norge 1	138	125	172	159.4

Recruitment	Total	Total
The Group	93	144
SpareBank 1 Nord-Norge	56	71
EiendomsMegler 1 Nord-Norge	10	8
SpareBank 1 Finans Nord-Norge	12	4
SpareBank 1 Regnskapshuset Nord-Norge	15	61

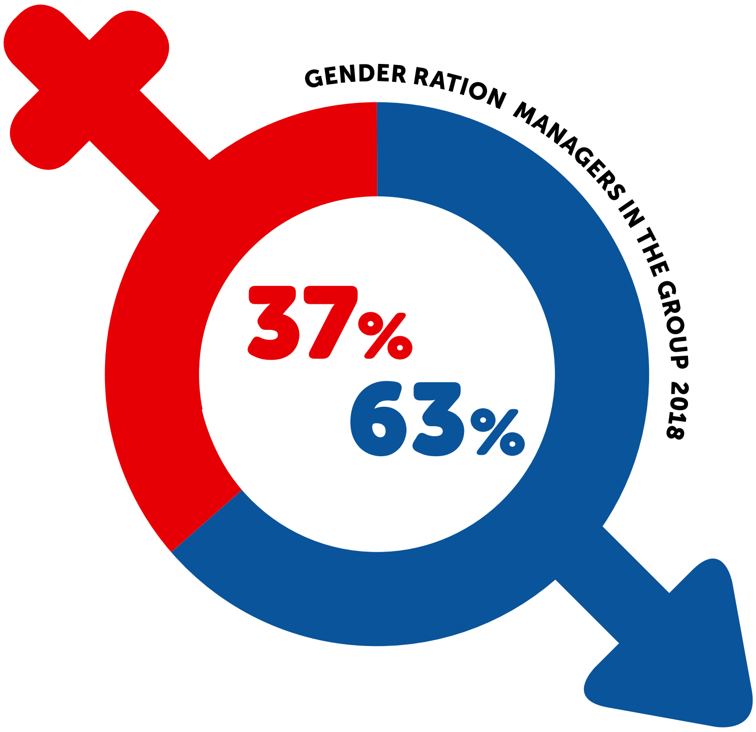
No. of leavers in SpareBank 1 Nord-Norge	Total 2017	Total 2018
	49	102

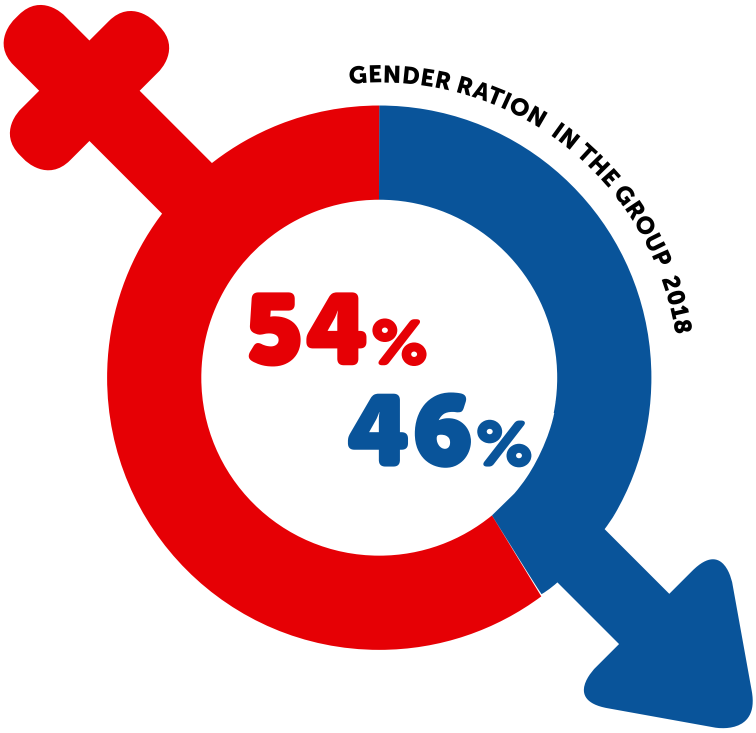
Sick leave, self-certified and doctor-certified	2017		2018	
	In %	No. of days	In %	No. of days
The Group	28%	5,358	4%	7,781.8
SpareBank 1 Nord-Norge	26%	3,528	4.7%	5,913.5
EiendomsMegler 1 Nord-Norge	25%	450	3.3%	669.90
SpareBank 1 Finans Nord-Norge	23%	203	1.85%	168.8
SpareBank 1 Regnskapshuset Nord-Norge	39%	1,177	2.78%	1,029.6

Management of SpareBank 1 Nord-Norge	2017		2018	
	Number	Women/ Men	Number	Women/ Men
Group Management	11	2 / 9	10	2 / 8
Other management in the Bank	63	23 / 40	64	21 / 43
EiendomsMegler 1 Nord-Norge	16	5 / 11	15	5 / 10
SpareBank 1 Finans Nord-Norge	5	5 / 0	6	5 / 1
SpareBank 1 Regnskapshuset Nord-Norge	12	5 / 7	14	8 / 6
Total	**107**	**40 / 67**	**109**	**41 / 69**
Percentage distribution	**100%**	**37 / 63%**	**100%**	**37 / 63%**

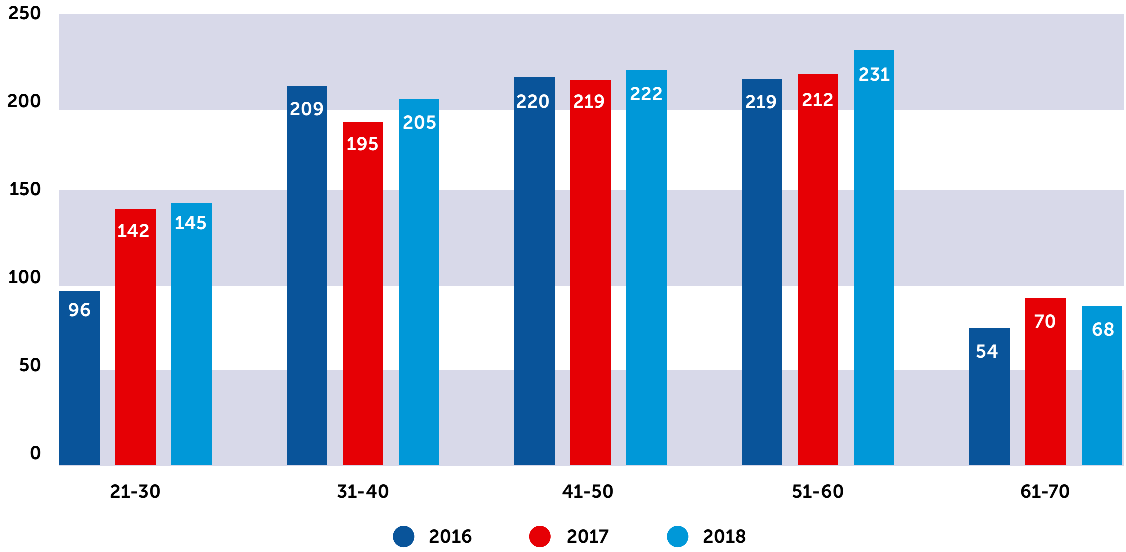
Age composition	Avg. age 2015	Avg. age 2016	Avg. age 2017	Avg. age 2018
Group	46.7	44.6	44.5	44.0
SpareBank 1 Nord-Norge	47.9	45.1	45.2	44.8
EiendomsMegler 1 Nord-Norge	40.2	39.9	39.3	39
SpareBank 1 Finans Nord-Norge	38.6	40.1	38.9	39.8
SpareBank 1 Regnskapshuset Nord-Norge	46.5	46.9	46.5	44.9

Notes: Note 1 The increase in employees in SpareBank 1 Regnskapshuset Nord-Norge in 2018 was primarily due to the acquisition of Bluecon AS and Regnskapscentralen Nord AS.

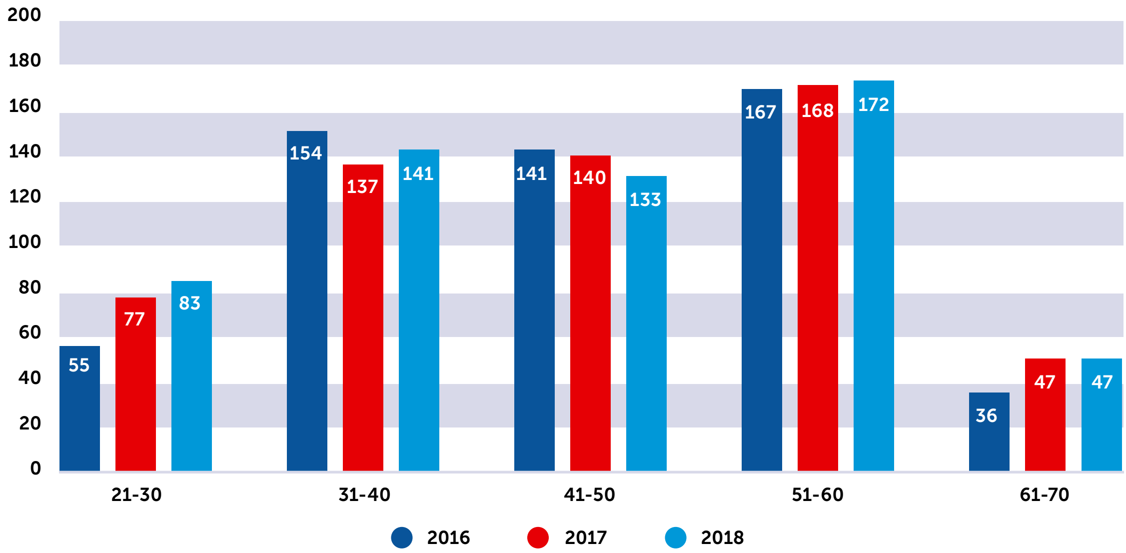

GENDER RATION MANAGERS IN THE GROUP 2018
37%
63%


GENDER RATION IN THE GROUP 2018
54%
46%

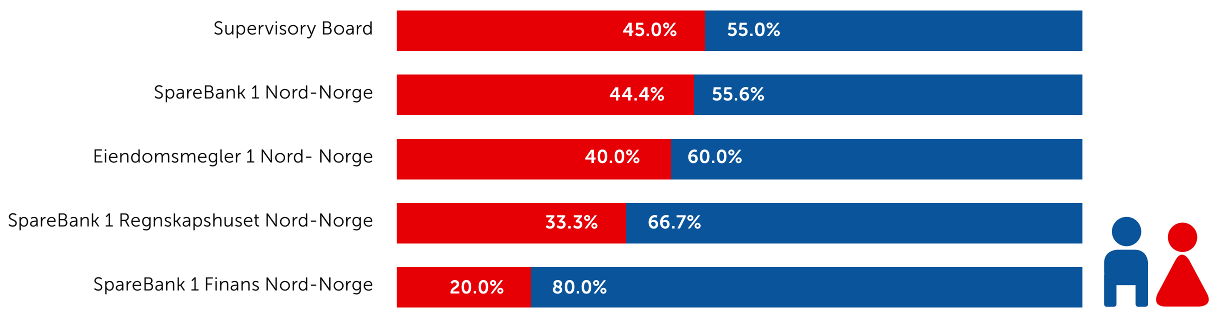
Age composition 2016-2018 The Group



Age composition 2016-2018 for SpareBank 1 Nord-Norge



Gender ration 2018 on Supervisory and other boards

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CORPORATE SOCIAL RESPONSIBILITY

"The work on sustainability has gained momentum in the past year. There are two reasons for this: firstly, it is natural for the Group to take greater responsibility as an important business actor in a vulnerable region. Secondly, our customers, our staff and the rest of our community expect us to focus on sustainability, which means this can be turned into a competitive advantage.

SpareBank 1 Nord-Norge has signed up to the Global Compact and now reports on sustainability based on the GRI standard. Through our collaboration with the Nordic Investment Bank (NIB) we offer favourable financing for green projects. The work on integrating sustainability into our strategy and day-to-day operations is proceeding at full steam and will continue in 2019.

CEO Jan-Frode Janson

Global Reporting Initiative (GRI) Index

General information

GRI-indicator	Description	Location in the report	Reporting directly in the index
ORGANISATORIAL PROFILE			
102-1	Name of the organisation	SpareBank 1 Nord-Norge	
102-2	Activities, brands, products, and services	Operations (191)	
102-3	Location of headquarters		The head office of SpareBank 1 Nord-Norge is located in Tromso.
102-4	Location of operations	Our presence (16) Annual Report - notes (54)	
102-5	Ownership and legal form		SpareBank 1 Nord-Norge is a regional savings bank. 53.6% of the Group is owned by the Northern Norwegian community. 46% is owned through equity certificates (ECs) listed on the Oslo Stock Exchange.
102-6	Markets served	Operations (189)	
102-7	Size of organisation	Operations (189), Annual Report - note 23 SpareBank 1 Nord-Norge Annual Report (18)	
102-8	Information on employees and other workers		**Women / Men** **Permanent employees**: 471 (448.7) / 400 (393.1) **Temporary employees**: 18 (4) / 20 (10) Employee headcount. Man-years in parenthesis. parentes. **Women / Men** **Full-time**: 446 / 391 **Part-time**: 25 / 9 No work in SpareBank 1 Nord-Norge is performed by workers who are not employees. No significant variation in employee headcount during the financial year.
102-9	Supply chain	Sustainability - Suppliers (231)	
102-10	Significant changes to the organisation and its supply chain		No significant changes.
102-11	Precautionary Principle or approach	Sustainability - Sustainability in SpareBank 1 Nord-Norge (231)	SpareBank 1 Nord-Norge is a member of the UN Global Compact and is therefore committed to complying with the precautionary principle.
102-12	External initiatives	Sustainability - Sustainability in SpareBank 1 Nord-Norge (231)	
102-13	Membership of associations	Sustainability - Sustainability in SpareBank 1 Nord-Norge (231)	

STRATEGY AND ANALYSIS			
102-14	Statement from senior decision maker	From the CEO (6,7)	
ETHICS AND INTEGRITY			
102-16	Values, standards, principles and norms	Sustainability - Ethics, anti-corruption and financial crime (221)	
GOVERNANCE			
102-18	Governance structure	Sustainability - SpareBank 1 Nord-Norge's sustainability objectives (224, 225)	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	Sustainability - Stakeholder engagement and materiality analysis (222, 225)	
102-41	Collective bargaining agreements		Parent bank (100%). Group (70%).
102-42	Identifying and selecting stakeholders	Sustainability - Stakeholder engagement and materiality analysis (222, 223)	
102-43	Approach to stakeholder engagement	Sustainability - Stakeholder engagement and materiality analysis (222, 223)	
102-44	Key topics and concerns raised	Sustainability - Stakeholder engagement and materiality analysis (223, 224)	
REPORTING PRACTICES			
102-45	Entities included in the consolidated financial statements	Annual accounts 2018 (27)	
102-46	Defining report content and topic boundaries	Sustainability - Materiality Analysis (221)	
102-47	List of material topics	Sustainability - Materiality Analysis (221)	
102-48	Restatements of information		None
102-49	Changes in reporting		None
102-50	Reporting period		01.01.18-31.12.18
102-51	Date of publication for the previous report		This is SpareBank 1 Nord-Norge's first GRI report.
102-52	Reporting frequency		Annual
102-53	Contact point		Ragnhild Dalheim Eriksen
102-54	Claims of reporting in accordance with the GRI Standards		*This report has been prepared in accordance with the GRI Standards: core option*
102-55	GRI content index		(Annual report, 216)
102-56	External assurance		This report is not externally verified.

Specific information

GRI-indicator	Description	Location in the report	Reporting directly in the index
FINANCIAL PERFORMANCE			
103-1	Explanation of the material topic and its boundary	Annual report (23-46)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
201-1	Direct economic value generated and distributed	Annual accounts 2018 (52)	
201-2	Financial implications and other risks and opportunities due to climate change	Sustainability – Climate risk (221)	
ANTI-CORRUPTION			
103-1	Explanation of the material topic and its boundary	Sustainability – Ethics, anti-corruption and financial crime (222,223)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
205-2	Communication and training about anti-corruption policies and procedures	Organisation and HR, (XX) Sustainability - Ethics, anti-corruption and financial crime (222, 223)	
205-3	Confirmed incidents of corruption and actions taken		No confirmed incidents.
TRAINING AND EDUCATION			
103-1	Explanation of the material topic and its boundary	Sustainability - Organisation and HR (206-213)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
404-1	Average hours of training per year per employee		Partly reported. Retail market (40 hours). Corporate market and technical departments (10 hours).
404-2	Programs for upgrading employee skills and transition assistance programs	Sustainability - Organisation and HR (209)	Provides several courses to upgrade employee knowledge (see p. 209). The annual employee development review covers personal development and lifelong learning.
404-3	Percentage of employees receiving regular performance and career development reviews		Partly reported. All employees receive annual performance and career development reviews. 30% of employees are offered quarterly reviews.

DIVERSITY AND EQUAL OPPORTUNITY

103-1	Explanation of the material topic and its boundary	Sustainability - Organisation and HR (209)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
405-1	Diversity of governance bodies and employees	Sustainability - Organisation and HR (209)	see tables below

	Women	Men	
Management gruoup	2 (+2)	8 (+1)	
Other managers	21 (+16)	43 (+16)	
Regular employees	253 (428)	248 (330)	

Management group: Corporate management. Corporate management + CEO's from subsidiary companies in parenthesis.

Other managers: Bank management. Bank management + management from subsidiary companies in parenthesis.

Regular employees: Bank employees minus corporate management and other managers. Group numbers in parenthesis.

	30 and below	30-50	50+
Management gruoup	0 (0)	4 (2)	6 (1)
Other managers	4 (0)	38 (28)	22 (4)
Regular employees	79 (62)	230 (123)	192 (75)

	Women	Men	
Adminis-tration & Support	122	157	
Primary Divisions	162	153	

	30 and below	30-50	50+
Adminis-tration & Support	54	121	104
Primary Divisions	42	156	117

CORPORATE SOCIAL RESPONSIBILITY

NON-DISCRIMINATION			
103-1	Description and limitation of material topic(s)	Sustainability - Organisation and HR (209)	
103-2	Description of the management system that covers material topic(s)		
103-3	Evaluation of the management system		
406-1	Incidents of discrimination and corrective actions taken		No incidents of discrimination in 2018.
CUSTOMER PRIVACY			
103-1	Explanation of the material topic and its boundary	Sustainability – Privacy (229, 230)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Sustainability – Privacy (230)	
PRODUCT RESPONSIBILITY			
103-1	Explanation of the material topic and its boundary	Sustainability – Responsible bank (226, 227, 228)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose		SpareBank 1 Nord-Norge has no products designed to deliver a specific social benefit.
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	Sustainability - Green products and green innovation (226)	
ACTIVE OWNERSHIP			
103-1	Explanation of the material topic and its boundary	Sustainability – Responsible bank (226, 227, 228)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues.	Sustainability - Responsible investment activities (226)	SpareBank 1 Nord-Norge's policies and guidelines are communicated to the Groups' wholly-owned subsidiaries.
FS11	Percentage of assets subject to positive and negative environmental or social screening	Sustainability - Responsible investment activities (226)	Fund investments: 100% 2019 will see the completion of a project aimed at making sustainability a natural component of the credit assessment process.

SUBSTAINABILITY IN SPAREBANK 1 NORD-NORGE

As a regional bank, SpareBank 1 Nord-Norge's vision is: For Northern Norway. Sustainability is reflected in every part of its operations, with a particular focus on the people, community and environment in the north. As an important business and social actor in the region, SpareBank 1 Nord-Norge has a responsibility to focus on sustainability. The Group wants to be known for its high ethical standards and credibility in its interactions with customers, owners, suppliers, the authorities and the rest of society.

The Group's ethical guidelines – the "SNN Code" – apply to all employees and cover all aspects of ethical behaviour. The SNN Code provides a basis for the Group's business operations and strategic objectives, and these are reviewed every year by a special ethics committee.

As a financial services group, SpareBank 1 Nord-Norge aims to provide ethical and sustainable asset management, responsible lending and green financial products and services. SpareBank 1 Nord-Norge has committed to complying with the UN Global Compact's ten principles, which deal with human rights, labour, the environment and anti-corruption. As part of this work, the Group is currently developing clearer guidelines and means of monitoring the requirements that have been established for its core business. A project called "Green No. 1" commenced in 2018. The aim of this project is to establish clear ambitions, objectives and measures to ensure that sustainability is integrated into all of the Group's activities.

The Group has chosen to base its reporting on the Global Reporting Initiative (GRI) standards to secure a better internal overview and to ensure better transparency for external stakeholders. These standards are leading global standards for reporting on sustainability and are the Oslo Stock Exchange's recommended standards.

Sustainability partners
SpareBank 1 Nord-Norge has signed up to the UN Global Compact, which is the world's largest initiative for sustainability in business

SpareBank 1 Nord-Norge is Eco-Lighthouse certified and complies with the certification scheme's obligations.

SpareBank 1 Nord-Norge is a member of Climate Partner Troms (Klimapartner Troms) together with 15 other partner companies.

Other industry organisations SpareBank 1 Nord-Norge works with:

- The Confederation of Norwegian Enterprise
- Finance Norway
- AEC

Stakeholder engagement and materiality analysis

As part of the effort to improve the Group's work on sustainability, a survey of the most important stakeholders and their views on ethics and sustainability was conducted in 2017. In 2018, the Group conducted a materiality analysis to determine which sustainability themes were important to employees of SpareBank 1 Nord-Norge versus those that were important to external stakeholders.

The Group's key stakeholders
SpareBank 1 Nord-Norge has a number of stakeholders. The following table presents the relevant meeting places and the most important themes for each stakeholder group and presents SpareBank 1 Nord-Norge's strategy and measures.

Stake-holders	Meeting place for dialogue	Key themes	Measures related to themes
Customers	Customer, market and position surveys two or more times a year Digital channels (Snn.no, social media and Nyhetssenter) as well as customer services Interviews with RM customers and CM customers in connection with the materiality analysis for sustainability	These stakeholders are interested in how the Group, and the Group's activities, are perceived by our customers. Sustainability, presence via local branches and cash machines, response to marketing Responsible for investments, credit activities, transparency, trust, local presence.	Development of business strategy Dialogue with customers via responses to enquiries via telephone and social media, and in the media Reporting surrounding sustainability. More dialogue with the community (*Samfunnsløftet*)
Employees	Employee survey twice a year Collaboration with unions every month Workshops and interviews related to the Group's development programme Surveys and workshops on sustainability in connection with the materiality analysis for sustainability	Working environment Working environment Involvement of employees in the development of the Group Financial crime, ethics, privacy, contributions to local communities	Business strategy and *Samfunnsløftet* Starting its own sustainability project
Equity certificate holders	Supervisory Board meeting and election meeting for equity certificate holders Stock Exchange announcements and quarterly reports Investor presentations	Annual accounts and allocation of profit, or other company actions. Election of board members to the Board of Directors. Briefing on trends in the northern Norwegian economy, as well as developments in the Group and financial markets Income statement and goal achievement, returns, briefing on trends in the northern Norwegian economy Financial performance and sustainability	
Authorities	Continuous contact with control and regulatory authorities throughout the year	Operations, security and data protection	Increased focus on compliance with laws and regulations, and protection of personal data. General Data Protection Regulation (GDPR)
Northern Norwegian society	Largest-ever stakeholder engagement process conducted in spring 2018. See the article about *Samfunnsløftet* Dialogue with clubs and associations throughout the region via cooperation agreements and sponsorships. Teaching and talks on personal finances in lower and upper secondary schools once a year. Agenda Nord-Norge conference is arranged each year. A "Business Barometer" for Northern Norway is published several times a year	10,000 suggestions during a six-week campaign Insight into the challenges faced by clubs and associations in the region Personal finance Meeting place for business, the public sector and academia in the region Knowledge about the region's potential and challenges	The suggestions provided the basis for the overall strategy for public relations in the future. Support through community dividends, sponsorships and banking services
Stakeholder organisa-tions	Data collection for the Fair Finance Guide takes place in annual talks with the Future in our hands (Fremtiden i våre hender) and the Norwegian Consumer Council. Interviews with Finance Norway, the Norwegian Confederation of Trade Unions (LO) and the Financial Supervisory Authority of Norway in connection with the materiality analysis for sustainability. Ongoing collaboration with LO through LOfavør and various projects in the region	Influencing external fund providers Responsible for investments, credit activities, transparency, trust, local presence	More comprehensive communication about our own sustainability A special sustainability has been started.

Materiality analysis

The analysis will provide an important basis for the work on sustainability and sustainability. It shows that the focus on sustainability and climate risk will increase in the financial services industry in the future. This means, among other things, clearer requirements for environmental, social and governance (ESG) work in the investor market and fund portfolio. In addition to this, more reporting on the sustainability of one's own operations will be expected and demanded. The most important follow-up to this work is the newly established "Green No. 1" project, which will look at how sustainability can be integrated into the Group's operations.

IMPORTANCE TO INTERNAL STAKEHOLDERS	IMPORTANCE TO THE GROUP: LOW	MEDIUM	HIGH
HIGH	• Active ownership	• Negative screening and exclusion • Requirements to financial suppliers • Policy/guidelines for responsible lending	• Ethics and anti-corruption • Customer privacy • Financial crimes • Local economic development • New green products and green innovation
MEDIUM	• Stakeholder dialogue • Positive screening • Services to customer with special needs	• Supply chain management • Marketing and labelling	• Responsible banking • Employee development • Contributions to the local community
LOW	• Paper consumption • Efforts to include people outside the labour-force • Water consumption • Use of local resources • Indigenous people (Sami engagement)	• Energy efficiency • Greenhouse Gas Emissions (CO_2)	• Diversity and equal opportunity • Waste management • HSE

SpareBank 1 Nord-Norge's sustainability objectives

The materiality analysis points out the areas within sustainability that are of particular importance for SpareBank 1 Nord-Norge. Both the Group's reporting on sustainability in 2018 and its strategy work in 2019 will be based on these areas. Objectives will be set and will be followed up in next year's GRI report.

Sustainability and ethics touch on every aspect of the Group's operations. Sustainability is being focused on in many areas: from supplier agreements, credit policies, borrowing agreements, and managing travel and technical building details to legal and compliance issues. Sustainability is a common theme. Cases requiring special handling are dealt with by the ethics committee or Group Management. The table below shows the departments with formal responsibility.

Key themes	Responsibility	Follow-up in 2019
Ethics, anti-corruption and financial crime	Compliance HR Legal department	Ethics committee. More reporting on sustainability. New framework for ethics and anti-corruption
Data protection and information security	Data protection officer Digitalisation and IT	Data protection training plan
Local business development	Communication CM and RM	Business strategy *Samfunnsløftet*
New green products and green innovation	Treasury Credit Communikation	Green bonds "Green No. 1"

Key activities in 2018 included integrating the UN Global Compact's ten principles into the Group's credit policy, revising the policy to incorporate sustainability as a natural component of credit review processes, and a loan programme via the Nordic Investment Bank (NIB) for green projects.

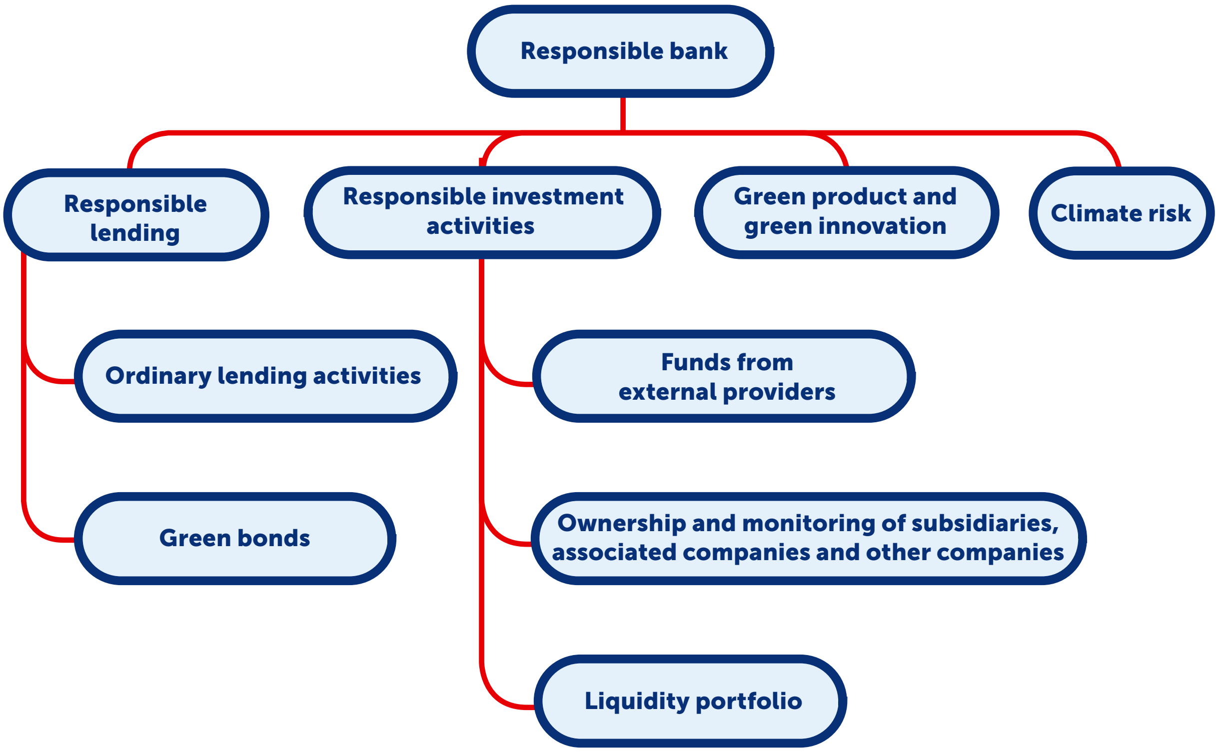
The "Green No. 1" sustainability project will be completed in the first quarter of 2019. The project aims to make it easier for customers to select products and services based on sustainability. The work crosses several departmental boundaries in the Group and includes credit, facility management, the legal department, treasury, digitalisation and IT, sales and customers, and communications.

The main focus and effort in the area in 2019 will include implementing sustainability in credit assessments and the associated training. The Group is also working on improving the employees' general knowledge about sustainability. This especially applies to advisers working with the corporate market, investment advisers and advisers in treasury (borrowing). In addition to this, SpareBank 1 Nord-Norge will participate in a fund providers' project related to sustainability and ESG started by the SpareBank 1-alliance's Savings and Placement Committee (SPU). Improving the reporting on sustainability based on internationally recognised standards will also be an important priority for the Group.

Responsible bank

As a responsible group and an important stakeholder in society, SpareBank 1 Nord-Norge has a special responsibility regarding sustainability. The Group can extend its influence far beyond its own organisation via guidelines and procedures for responsible banking. Sustainability can also be safeguarded outside its home market through responsible investment activities. Sustainable development can be addressed in its home market through responsible lending and green products and services. By stipulating requirements for suppliers and complying with its own guidelines, it can influence many parts of the value chain and simultaneously lead by example.

There will be a greater focus on the following elements in 2019:



CORPORATE SOCIAL RESPONSIBILITY

Responsible lending

Lending is an important part of SpareBank 1 Nord-Norge's operations and is where we have the greatest influence regarding sustainability in our home market. SpareBank 1 Nord-Norge's market area for granting credit is limited to Northern Norway and the rest of Norway and, as a general rule, the Group does not finance projects or operations abroad.

The credit policy stipulates that the Group must not finance activities or projects that breach the Bank's Code of Conduct. According to Global Compact's ten principles for sustainability, the Group must not finance activities that do not comply with the principles. Credit processes involve an assessment of each individual customer's corporate governance, including in relation to the external environment.

A major project started in 2018 aimed at revising the Group's lending guidelines to make assessments of issues related to sustainability a natural component of credit assessment processes. Training will also be provided in connection with this project. The work will be completed in first quarter 2019.

Responsible investment activities

Investment activities in SpareBank 1 Nord-Norge comply with Norwegian laws and regulations. Our compliance efforts 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. All of its management must take into account risks associated with the environment, social conditions, human rights and governance (ESG risk) as defined by, among other things, the reports of the Government Pension Fund Global.

The exposure from investments is primarily in the Norwegian and Nordic markets, largely the bond markets. There are no specific ESG requirements for investments in the liquidity portfolio.

The Group offers customers saving funds via external fund providers. SpareBank 1 Nord-Norge sets requirements for external asset managers. In 2018, it established guidelines stipulating minimum requirements for ethics, sustainability, transparency and good corporate governance. The minimum requirements are that managers must monitor and track breaches of the Government Pension Fund Global's exclusion list and comply with the UN Principles for Responsible Investments (UN PRI). Compliance is monitored by the Savings and Placement Committee (SPU) in SpareBank 1 Gruppen.

The SPU selects and monitors fund agreements on behalf of alliance members and checks ESG requirements so that products can be approved. Closer monitoring of the ESG practices of external fund managers will be considered in 2019. SpareBank 1 Nord-Norge has a representative on the committee.

Active ownership

SpareBank 1 Nord-Norge's policies and guidelines also apply to the Group's wholly-owned subsidiaries: EiendomsMegler 1 Nord-Norge, SpareBank 1 Regnskapshuset Nord-Norge and SpareBank 1 Finans Nord-Norge. The Group Management is represented on all of their boards and the companies are managed according to guidelines that apply to the rest of the Group. More information about the subsidiaries can be found in the Board of Directors' report in the annual report.

The Group owns stakes in various companies in the SpareBank 1-alliance. SpareBank 1 Nord-Norge also owns an insurance company, Fremtind, together with other alliance banks and DNB. Sustainability is high on the agenda in all of these companies. See the "Ownership and company structure" table in the chapter on operations.

Green products and green innovation

The financial services industry helps to steer social development by offering financing, insurance and investments to individuals and businesses. The Group can help to guide this development in a more sustainable direction by offering innovative green financial products.

In 2018, SpareBank 1 Boligkreditt (Spabol) issued the first green covered bond from a Norwegian covered bond institution. The bond was for BEUR 1 with a term of seven years. Spabol is the SpareBank 1-alliance's jointly owned issuer of covered bonds and SpareBank 1 Nord-Norge owned a 17.82% stake in the company at the end of 2018. The loans transferred to Spabol constitute a volume equivalent to approximately 57% of SpareBank 1 Nord-Norge's total borrowing from the capital markets.

In 2018, SpareBank 1 Nord-Norge and the Nordic Investment Bank (NIB) signed a loan agreement for a total of NOK 1 billion. The funds are reserved for small and medium-sized enterprises, as well as for environmental projects in Northern Norway. A total of NOK 100 million in loans based on the NIB agreement has been granted to environmental projects so far. This amounts to just over 0.1% of the total leading portfolio.

SpareBank 1 Nord-Norge will continue to develop green savings and lending products for the retail and corporate markets in 2019 as part of the "Green No. 1" project.

Climate risk

More attention has been paid to the risks presented by climate change in recent years. Rising temperatures and increased precipitation will have a direct impact on many companies. Risk in the form of changes to regulations and requirements for how companies manage and report on climate risk have become important factors that the boards and management of companies must increasingly consider.

Climate risk is a relevant theme for SpareBank 1 Nord-Norge within areas such as financing, insurance and investments. Identifying, managing and reporting climate-related risks are therefore on the agenda for 2019.

Going forward, SpareBank 1 Nord-Norge will adapt to the climate-risk reporting guidelines developed by the Task Force on Climate-related Financial Disclosures (TCFD). This framework includes reporting guidelines for how boards and management approach climate risk and how such work should be reflected in the strategies, risk management and objectives of savings banks.

The Board of Directors and Group Management

Climate risk will be included as part of the assessments for the regular analysis and reporting of the Group's overall risk exposure. The area will be developed further in 2019.

Strategy

The Group will continually adapt to changes in risk exposure, market practices and customer behaviour. No specific measures are deemed to be required in this area currently beyond those already described for 2019.

Risk management

The Group's risk exposure is assessed continuously and periodically, but no specific processes have been established for managing climate-related risks. This area is still under development. In the future, climate risk will be taken into account when updating risk analyses and frameworks.

Measurement

SpareBank 1 Nord-Norge has reported the Group's own GHG emissions based on scopes 1, 2 and 3 of the "Greenhouse Gas Protocol". No management indicators or objectives for climate-related risks and opportunities have been established at this time. Establishment will be considered when the management and control framework is updated in 2019.

Local communities

SpareBank 1 Nord-Norge's ownership model, where 53.6% of the Group is owned by the community of Northern Norway, generates dividends for that same community every year. These are called community dividends and are donated back to the community in Northern Norway to support projects that benefit the community. MNOK 465 was allocated to community dividends in the accounts for both 2017 and 2018. In 2018, a new strategy for distributing these funds was launched. The money must now contribute to regional development via the joint *Samfunnsløftet*. More information can be found on page 233 in the annual report. A special report on the "corporate social responsibility" and its results in 2018 can be read on snn.no.

MNOK 10 Plastløftet

As part of *Samfunnsløftet*, SpareBank 1 Nord-Norge is partnering with the Football Association of Norway to get to grips with the second-largest source of plastic pollution in the region: plastic granulate from artificial grass pitches. The Norwegian Environment Agency points out that granulate pollution could be reduced by 98%. There are two parts to *Plastløftet*: improving the competence of football clubs in the region and supporting measures aimed at collecting granulate from the facilities. MNOK 10 was allocated to *Plastløftet* in 2018.

The first step in the *Plastløftet* is to stop the plastic granulate from spreading. Stakeholders in the region will be invited to take part in a number of measures in 2019 aimed at reducing plastic pollution. Within the categories established for *Samfunnsløftet*, the Group will prioritise applications that address the problem of plastic.

Sami regions

SpareBank 1 Nord-Norge's market area is part of Sápmi. The Group wants to have a presence in local Sami communities and to be a good business partner for Sami businesses and Sami retail customers. The telephone bank and advice are available to customers in the Northern Sami language. Information is also available in Northern Sami on snn.no.

Ethics, anti-corruption and financial crime

SpareBank 1 Nord-Norge is committed to complying with the guidelines for, and norms of, good business practice. The Group manages a huge volume of assets and relies on the trust of all the parties it works with. Its work on ethics, anti-corruption and preventing financial crime is important and the Group is constantly striving to remain ahead of developments in these areas.

Ethical guidelines
Employees of SpareBank 1 Nord-Norge should be known for their high ethical standards. They must act in an honest and fair manner that inspires confidence and must comply with the norms, regulations and laws that apply in society. The Group's ethics manual, the SNN Code, describes how employees should conduct themselves in this context. The ethical guidelines apply to the Group's operations, including its subsidiaries, employees and members of boards, committees and the Supervisory Board. The SNN Code describes the Group's requirements and expectations with respect to how employees deal with ethics, corruption, money laundering and financing terrorism. All employees, elected officers and board members must read and sign the SNN Code when they join the Group.

The Group's ethics committee must ensure that the guidelines are up-to-date and relevant. The committee will, at the request of Group Management, issue statements about situations it has been asked to consider.

Training
Ethics are an integral part of all training in SpareBank 1 Nord-Norge. "The SNN School" is the Group's own training programme and reviews the content of the SNN Code with all employees. An annual refresher on ethics is also provided via the authorisation scheme for financial advisers.

Training relating to ethics and ethical dilemmas was important in 2018 and, in the autumn, special training was provided to staff in SpareBank 1 Nord-Norge's Direktebanken (35 employees in total).

Weekly webinars are conducted for the Group's managers. "Training cards" (see figure) also cover various areas and are distributed to managers and employees in various departments.

SpareBank 1 Nord-Norge's courses

- eLearning course "Ethics and Good Practice" (all employees)
- eLearning course: ***"Anti-money laundering"*** (all employees)
- eLearning course: ***"Money laundering and financing terrorism"*** (authorised financial advisors and sales staff in non-life insurance.)
- eLearning course ***"GDPR and personal data"*** (all employees)
- ***"PassOpp"*** security programmes; 20 courses, including courses on financial crime, data protection and information security (all employees)
- ***Manager webinars*** on financial crime, etics and anticorruption (managers)

Consideration is being given to offering board members a training programme in 2019 that has been developed by the SpareBank 1-alliance

Employees – ethics and anti-corruption
Corruption results in unequal treatment, hinders social justice and distorts competition. Corruption can also cause companies direct financial losses and damage their reputation.

The SNN Code provides general guidelines that the Group and all employees must comply with in relation to corruption and irregularities. The Group practises a policy of zero tolerance for corruption. Both givers and receivers of bribes will be punished, and all employees have a duty to report such actions. The personnel manual describes how to submit such reports and clarifies that no employees should be subject to sanctions for reporting breaches of the ethical guidelines. There were no confirmed cases of corruption in the Group in 2018.

The Group also has procedures for dealing with corruption related to purchasing and has requirements for suppliers. These are based on guidelines issued by the SpareBank 1-alliance.

Risk assessments were conducted in 2018 and work was started on a policy for dealing with internal irregularities, including corruption. Clarifying responsibilities and processes, as well as defining specific checkpoints for managing risk, are key factors. A new framework will be implemented in the first half of 2019.

Customers and partners – financial crime
Financial services can be misused by customers and partners to commit financial crimes such as tax evasion, money laundering and financing terrorism. Such misuse represents serious threats to individuals and the business sector and undermines the legal economies of all countries. The financial services industry is, therefore, subject to strict legal requirements and supervision. SpareBank 1 Nord-Norge will comply with all legal requirements and will implement measures to combat financial crime. The Group shall provide neither advice nor services to customers seeking to evade taxes, launder money, finance terrorism, or commit other types of financial crimes.

Having in-house expertise and knowledge is the most important means of ensuring that the Group meets its legal requirements and the expectations of society. Regular training in the regulations and in ethics through courses and dilemma training is essential. All employees are instructed to combat any form of financial crime and financing of terrorism, as well as to actively work to prevent, uncover and report transactions linked to criminal acts or acts of terrorism.

A key tool in the work against financial crime is knowing the customer and the origin of the funds that pass through the Group's systems. Appropriate awareness is ensured by following good routines when establishing customer relationships and by continually monitoring these relationships. Internationally, SpareBank 1 Nord-Norge works with correspondent banks where topics relating to financing terrorism, money laundering and corruption are followed up every year.

The status of the work on financial crime is reported to the Board of Directors annually. Important events, their scope, trends and measures are reported every quarter. The Norwegian Money Laundering Act has stipulated special requirements for the Board of Directors regarding expertise in this field since October 2018.

An annual risk analysis related to financial crime is conducted and individual customers and groups of customers who have been identified as being potential risks are subject to regular checks. There was a heavy focus in 2018, and there will be an even heavier focus in 2019, on identifying and combating financial crime in the Northern Norwegian business sector.

Privacy

Objectives
SpareBank 1 Nord-Norge processes a number of personal data points that must not fall into the wrong hands or be misused. Employees receive training in the procedures for secrecy and using IT systems. The Group has a data protection policy and a number of procedures aimed at ensuring that customer data is handled properly. The status of the Group's compliance with the regulations, including any non-conformities, is reported to the Board of Directors and Group Management every quarter.

A number of measures were carried out in 2018 to implement and comply with the new General Data Protection Regulation (GDPR). The new regulations, which became Norwegian law in 2018, impose new duties on organisations and give individuals new rights. A GDPR eLearning course was introduced in connection with the implementation of the statutory measures. The course is compulsory for all employees.

The Group carries out a number of training measures aimed at ensuring that employees have the necessary knowledge and skills within data protection. In 2018, 150 employees received training in data protection, among other things, and two management webinars were held on the introduction of GDPR and the training plan for data protection and non-conformity management.

Nine complaints were received in 2018 about breaches of privacy and all the complaints were followed up. Eleven cases of losses of customer data were also registered. The Group did not receive any complaints regarding breaches of privacy from the supervisory authorities in 2018.

The work on implementing the data protection training plan will continue in 2019.

The environment

In 2018, SpareBank 1 Nord-Norge continued its work on becoming an even more resource-efficient and environmentally friendly organisation by, among other things, stipulating requirements for the Group, its suppliers and business partners. As a regional bank, the Group has a responsibility to contribute to the achievement of Norway's targets for cutting greenhouse gas emissions (GHG emissions). In 2016, SpareBank 1 Nord-Norge set itself a goal of cutting GHG emissions from its own operations by 10% in the period 2016–2026. It is also working on making parts of the Group paperless from 2020.

SpareBank 1 Nord-Norge is Eco-Lighthouse certified, a member of Climate Partner Troms (Klimapartner Troms) and takes a systematic approach to environmental measures. We intend to raise the awareness of all of the Group's employees with respect to consumption, travel, waste management and energy consumption in general. All employees have a personal responsibility to focus on sustainability during their workday.

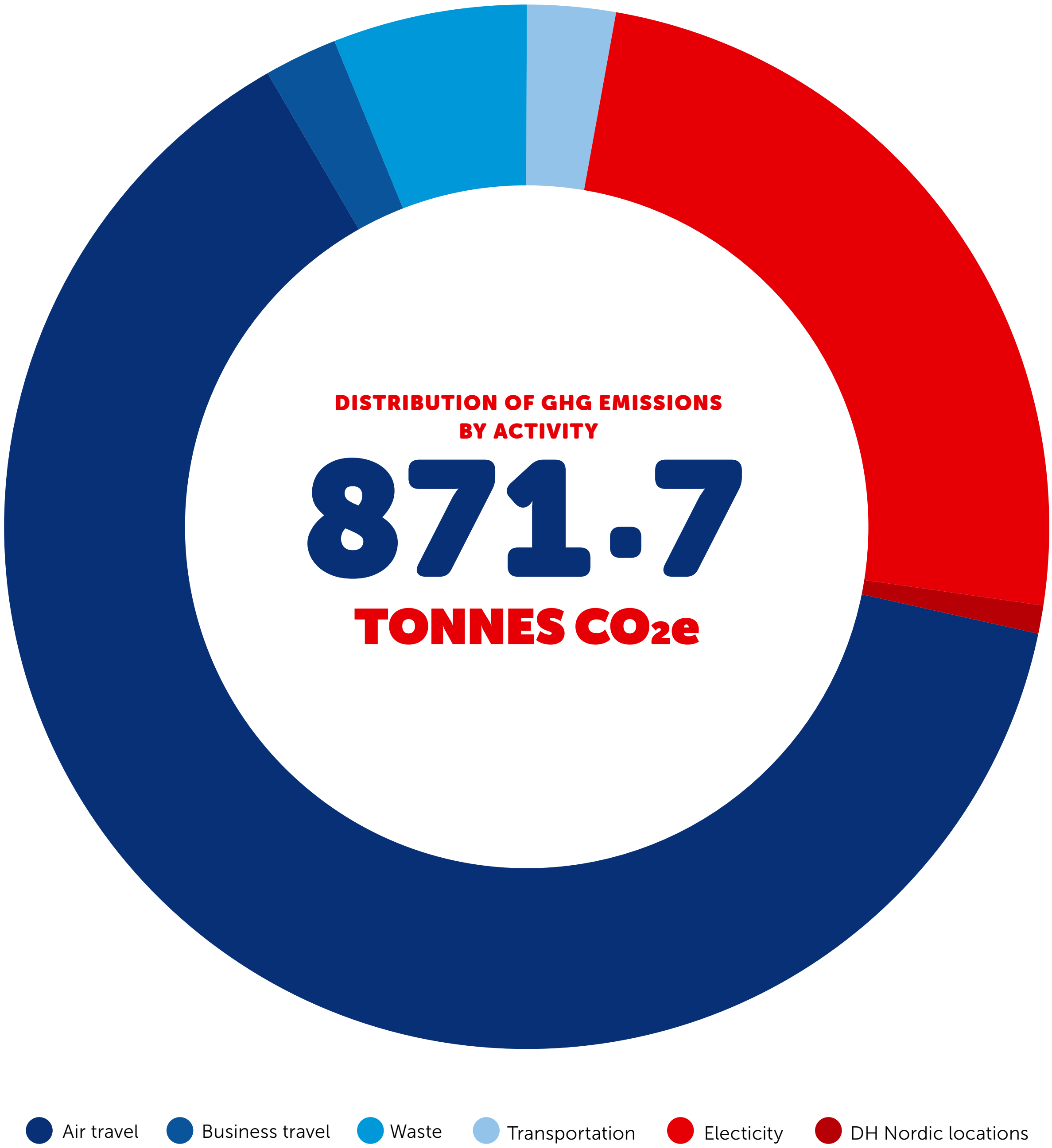
SpareBank 1 Nord-Norge produces energy and climate accounts every year. These accounts comply with the international standards set out in the Greenhouse Gas Protocol and ISO 14064-1. The energy and climate accounts for 2018 show that SpareBank 1 Nord-Norge produced total GHG emissions of 871.7 tonnes of CO2 equivalents (tCO2e). This represents a total reduction of 20% in terms of tCO2e and is in line with the Group's goal of reducing GHG emissions.

Key Figures GHG Emissions:
Scope 1: 3% (24 tCO2e) Transport: actual consumption of fossil fuels by the Group's vehicles (owned, rented and leased). Use of diesel (B5) and petrol accounted for emissions totalling 23.8 tCO2e in 2018. This represents a decrease of 14.6% from 2017.

Scope 2: 25% (222 tCO2e) Measured consumption of electricity in the Group's own or leased premises/buildings. Emissions from electricity use decreased by 34% compared with 2017. This is equivalent to 111.8 tCO2e. One of the reasons for the decrease was the use of electricity from sources with lower GHG emissions than before.

Scope 3: 72% (626 tCO2e) Air travel and mileage allowance: Measured person kilometres (PKM) travelled per region. Emissions from air travel amounted to 553.6 tCO2e and accounted for 63.5% of total emissions in 2018. This is a reduction in emissions from air travel of 11%. In 2018, mileage allowance payments were made for 374,000 km. This corresponds to emissions of 52.4 tCO2e, which represents a reduction of 17% compared with 2017. Waste accounted for total emissions of 19.5 tCO2e in 2018, and for 2.2% of the Group's total GHG emissions. As a waste category, the incineration of residual waste reduced its emissions by 52.4% compared with last year. This represents a reduction of 41,405 kg of residual waste.

	Category	2018
Scope 1	Transport	
	Diesel and bensin	
	Scope 1 emissions	23.8
Scope 2	Electricity	
	Electricity Nordic mix	215.7
	DH Nordic locations Total	6.6
	Scope 2 emissions	222.2
Scope 3	Travel and waste	
	Air travel total	553.7
	Mileage all. car (NO)	52.4
	Waste total	19.5
	Scope 3 emissions	625.6
	Total emissions	871.7
(*Alternative electricity emissions: market-based method (RECs, GoO)		1,385



Suppliers

As a major buyer from a Norwegian and Northern Norwegian perspective, SpareBank 1 Nord-Norge can influence how suppliers approach sustainability. In 2018, it made purchases totalling MNOK 800 from 1,905 different suppliers. One of the largest procurement categories is the procurement of systems and new technology. The Group's purchasing policy stipulates minimum requirements for the following core areas: human rights, working conditions, the environment and fair operating practices.

As a minimum, suppliers should comply with and be guided by local, national and international laws, rules and principles, including provisions on matters such as pay, working hours and health, safety and environment (HSE) and the environment and anti-corruption. The requirements apply to all purchases made by SpareBank 1 Nord-Norge, as well as to purchases made through the SpareBank 1-alliance.

CORPORATE SOCIAL RESPONSIBILITY

SpareBank 1 Nord-Norge's ownership model, where 53.6% of the Group is owned by the community of Northern Norway, generates dividends for that same community every year. This used to be called the Donations Fund and the money was earmarked for non-profit purposes.

In practice, grants were made on the basis of applications and it was impossible to stick to the limits of what could be supported and manage expectations. One often ended up with more disappointed than pleased applicants, while not achieving the impact one could have achieved by focusing on fewer, better defined areas.

SpareBank 1 Nord-Norge has set itself several objectives in *Samfunnsløftet*, the Corporate Social Responsibility Strategy launched in 2018: raising awareness of the ownership model, creating a higher degree of legitimacy and more positive engagement internally and externally. Meanwhile, a steadily increasing dividend made it possible to ensure a greater lift than previously, so putting in place a clearer system was also one of the ambitions. We therefore asked the people of Northern Norway how the community's share of the dividend (now called the community dividends) could best be used to develop northern Norwegian society.

The entire Group got involved in *Samfunnsløftet* and related activities and this resulted in more than 10,000 suggestions. A committee of representatives of northern Norwegian society was then established – a community committee. The committee analysed and categorised all of the suggestions and ended up recommending five categories, called: *ungdomsløftet* (for the youth), *kunnskapsløftet* (knowledge), *innovasjonsløftet* (innovation), *arenaløftet* (arenas) and *lokalsamfunnsløftet* (the local community). It was decided that these would apply for the Group's entire strategy period, up to 2021. A decision was also made to define a theme category, *temaløfte*, which will be changed every year during the strategy period. In 2018, this became *plastløftet* (plastic) and work was immediately started to prevent rubber granulate from artificial turf pitches ending up as microplastics in oceans.

A total of MNOK 300 was allocated to the categories, distributed as follows: *ungdomsløftet* (MNOK 45), *kunnskapsløftet* (MNOK 35), *innovasjonsløftet* (MNOK 40), *arenaløftet* (MNOK 110), *lokalsamfunnsløftet* (MNOK 60) and *plastløftet* (MNOK 10).

Already on the day of its launch, September 27, money was granted to a number of major projects, which represent the core of *Samfunnsløftet*. The work on building a new sports hall in Hammerfest received MNOK 6, Tvibit the youth centre in Tromsø received MNOK 4 for its work on new media and creative technology, while FIRST Scandinavia and the project "Mobile Newton Room" in Bodø was awarded MNOK 5.5.

Following its launch in September, dedicated resources have worked on communicating *Samfunnsløftet* and mapping and coordinating projects and organisations across the region. And, not least, applications have been processed for the six lifts – both reactively and proactively. By the end of the year, we had received almost 800 applications, which were considered on an ongoing basis. 426 projects have received a total of MNOK 91.5.

All applications are treated equally. In most cases, final grant decisions are taken by a committee composed of staff from across the Group. For applications where the applied for sum exceeds MNOK 1, the decision is made by the CEO. If the sum exceeds MNOK 10, it is the Board of Directors that has the final word.

We can already report that SpareBank 1 Nord-Norge has achieved parts of the objectives of *Samfunnsløftet*. Awareness of SpareBank 1 Nord-Norge's ownership model has clearly increased, from 42% in the first quarter of 2018 to 56% in December 2018. The impact survey shows that far more people now know that the Group is owned by the community of Northern Norway and private individuals, unlike banks that are characterised by being exclusively owned by professional investors. This is regarded as a very important point when it comes to explaining how by being a customer of the Group one is contributing to millions being returned to the region.

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