DNB

2017

Annual report

DNB GROUP

Creating value for customers, shareholders, employees and society at large.

Our purpose

Your first bike ride, your first day at university, your first drive in your own car, your first home, the new business you are starting, the dream trip you are going on or the senior residence you look forward to moving into – all these things have at least one thing in common: It is about meeting needs.

Some of the needs are basic, such as food on the table and a roof over your head, while others are about fulfilling dreams or ambitions.

A bank plays a role in many of them. A good bank helps meet your needs. A better bank anticipates your needs before you even realise that you have them. A really good – and responsible – bank also makes sure that you can afford to meet the needs as they occur.

That is why DNB has set the following purpose for its activities:

We are here. So you can stay ahead.

DNB's annual report for 2017 is an integrated report that shows how we work to create value for our employees, our shareholders and society at large. The report is also available in a digital version and can be downloaded as a PDF file (ir.dnb.no/press-and-reports). On dnb.no/en/csr you will find more information on DNB's corporate responsibility, including our sustainability library and GRI index.

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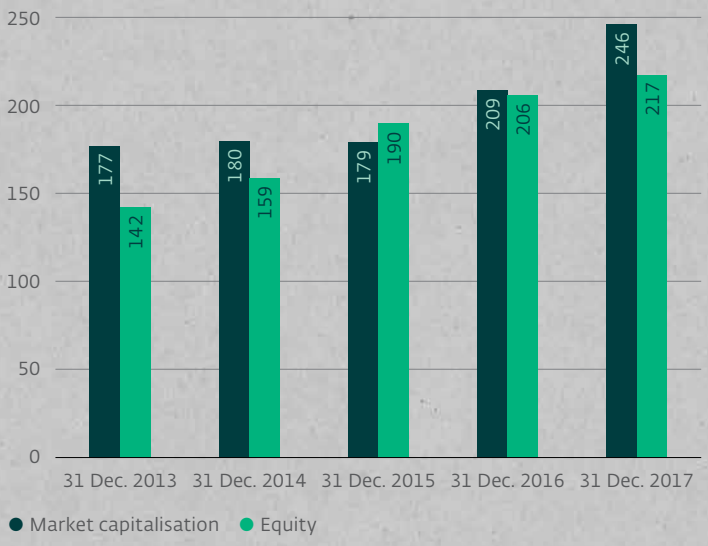
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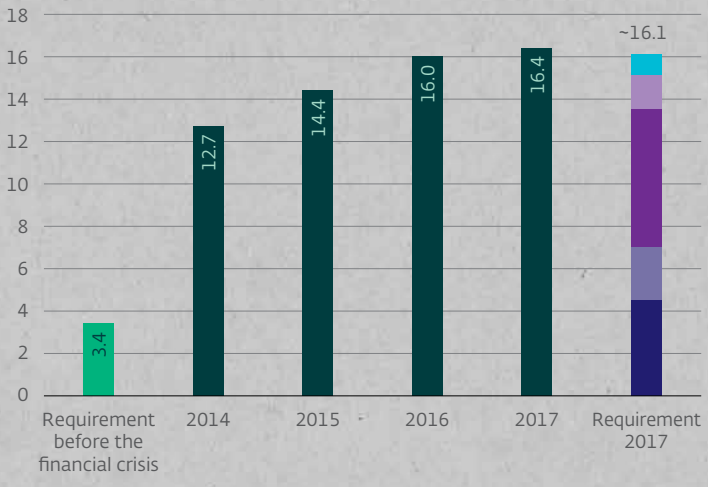
The DNB Group's market capitalisation and equity

NOK billion



Common equity Tier 1 capital ratio (incl. management buffer)[1)]

Per cent



Requirement · Common equity Tier 1 capital ratio DNB · Management buffer · Pillar 2 requirement · Additional buffers (O-SII, counter-cyclical, systemic risk) · Conservation buffer · CET 1 minimum

1) Based on transitional rules

10.8 (10.1)

Return on equity in per cent

16.4 (16.0)

Common equity Tier 1 capital ratio

85 (84)

Engagement index score

66.3 (64.0)

Reputation score[1)]

69.5 (70.2)

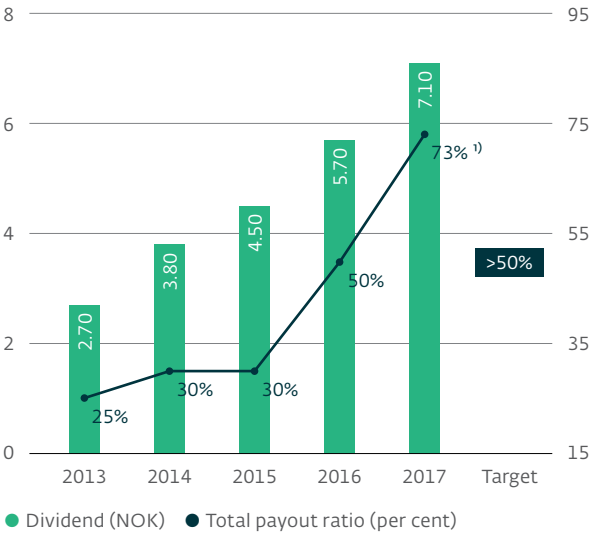
Customer satisfaction score

(The figures in parentheses refer to 2016)

1) According to RepTrak's reputation survey in Norway in the fourth quarter

Share dividend and payout ratio

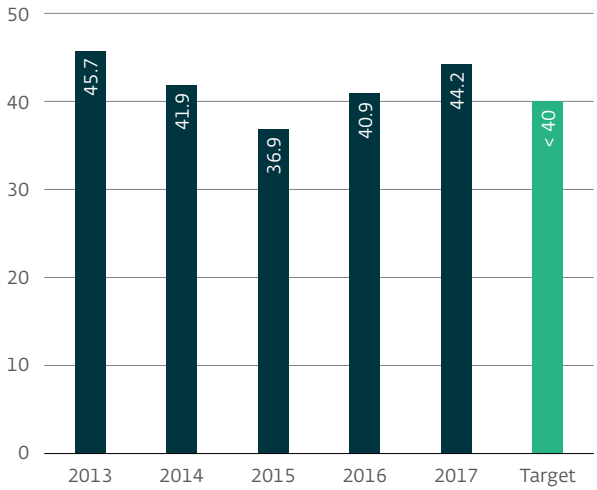
Dividend in NOK *Payout ratio in per cent*



1) The payout ratio of 73 per cent of profits includes a cash dividend (55 per cent) and a share buy-back programme representing 1.5 per cent of outstanding shares.

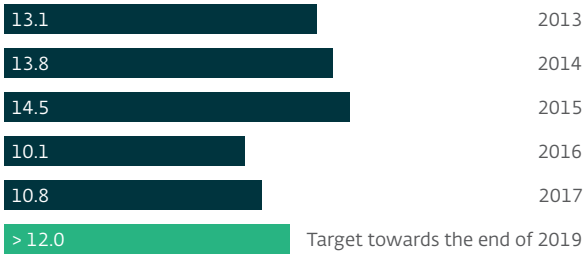
Cost/income ratio

Per cent



Return on equity

Per cent



Female representation at management levels 1–4

Per cent



Key figures

Financial key figures
Page 8

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Share-related key figures
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Key figures for responsible operations.
dnb.no/en/about-us/csr/sustainability-library.html

Staying ahead

2017 was a good year for DNB. The Norwegian economy rebounded from the oil slump, there was a gradual increase in GDP, the unemployment rate was further reduced, and optimism returned to the market. This was reflected in higher activity, lower impairment losses on loans and higher profitability for DNB. 2017 was also another year with digitalisation and technology high on the agenda. A wave of regulatory and technological changes swept across the Norwegian financial services industry. 2017 was the year when Norwegian banks joined forces to support the Vipps payment app, and Vipps was spun off as a separate company. 2017 was a year characterised by major changes. I don't think 2018 will be less eventful.

→



Digitalisation and major technological advances hit all parts of our value chains at a pace we have never seen before. When I assumed the position as group chief executive of DNB in 2007, the competitive situation was fairly concentrated and static. We were competing against five Nordic commercial banks and around a hundred savings banks. In the course of 2017, we saw furniture shops, telephone operators, airline companies and social networks open banks, and we got an average of three new competitors every day. Throughout the year, we saw that traditional industry boundaries were dissolved, new value chains and business models were emerging, and the rules of the game were changing.

To meet the changes in the competitive situation and regulatory framework, we saw Nordic banks investing record amounts in digitalisation and technology, and in the development of new products and services. Never before has DNB invested as much in IT development as in 2017. We also expect having to invest significant amounts in IT development and digitalisation in the time ahead. For us, it is all about developing the simplest, safest and best solutions, and thus earning the customer relationships – with corporate customers as well as private individuals. One of the solutions that definitely meets these criteria, is our fully digital home mortgage process. In 2017, we managed for the first time to grant digital pre-qualification letters for the purchase of housing. The entire process took two minutes. The next step is to automate the disbursement of home mortgages. Digitised tax returns, maps and business registers helped make it possible. We are fortunate to be a Norwegian bank. Norway was recently voted the world's most digital country by the European Commission and Etlatieto. Both the political authorities and the business community deserve much of the credit for this. Not to mention the users – they are the ones who actually put the technology to use.

Competence development and skills enhancement were key concepts in 2017. To successfully develop new digital services, DNB is dependent on promoting new skills among its employees, and at the same time bringing in new competencies through recruitment. The share of new DNB employees with a background in IT rose from 29 per cent in 2016 to more than 50 per cent in 2017.

During the first half of the year, the Norwegian authorities gave the thumbs up to establishing Vipps AS as a separate company. Just like that, Vipps was no longer part of DNB. 105 Norwegian banks teamed up with DNB on the ownership side, and another four banks signed distribution agreements. During the second half of the year, a letter of intent was signed to merge Vipps, BankAxept and BankID. Just like that, 62 per cent of Norway's population above the age of 15 were Vipps users. Just like that, Norwegian banks secured a good starting point to meet international competition. Just like that, the payment app had become the Nordic region's leader within payment and identification solutions. And what is most exciting about this, is that we have only just begun.

During the first half of the year, we launched the savings app 'Spare' (Save). In the course of six months, we passed NOK 320 million in mutual fund investments, and 50 000 savings targets were established, totalling almost NOK 3.5 billion. All of a sudden, the mobile phone became our most important sales channel for mutual funds. The second half of the year saw the biggest novelty in years within savings, through the launch of IPS (individual pension savings) and share savings account. By the end of the year, 59 300 customers had established share savings accounts in DNB, with total savings of NOK 20.2 billion. Making it easier for customers to get started with saving is an important part of our contribution to society. Saving money gives our customers the opportunity to realise their dreams and be prepared for unforeseen events. Financial security and freedom are important to our customers, and therefore important to us.

For large parts of the Norwegian business community, 2017 was an encouraging year. Activity picked up, and the rate of unemployment fell steadily across the country. At the end of the year, all Norwegian counties had a lower unemployment rate than a year earlier. GDP growth reached an all-time low in 2016 at 1.0 per cent, and is expected to end at 1.8 per cent for 2017. The experts predict a further rise to 2.4 per cent towards 2020. In the course of the year, both companies and consumers became more optimistic with regard to their own finances and the country's economy.

Norway still has an excellent starting point to meet macroeconomic challenges and has considerable scope of action in both fiscal and monetary policy. In 2017, the Norwegian petroleum fund passed NOK 8 000 billion for the first time, and once again, the annual return on the fund exceeded the net cash flow from the petroleum industry. In the period ahead, the fund's growth will be less dependent on the activity on the Norwegian continental shelf and more dependent on developments in the global economy. DNB was positively affected by the healthy trend in the Norwegian economy in 2017. Norwegian-based customers account for more than 80 per cent of DNB's loan portfolio. Our impairment losses on loans in 2017 were significantly lower than in 2016, which can largely be ascribed to active counselling and follow-up of high-risk customer groups.

DNB's share price went up from NOK 128.40 to NOK 152.10 during the year. In addition, a dividend of NOK 5.70 per share was paid. The rise in the share price was driven by a general improvement in DNB's performance, including lower impairment losses, solid capital levels and the prospect of increased dividends.

DNB has built up in excess of NOK 100 billion in common equity Tier 1 capital since 2007. Our strong capital level means that we are well positioned for future Basel regulations. Now we have a chance to change our focus and spend more time exploring new and exciting business opportunities. The Group's overriding financial target is a return on equity above 12 per cent. Despite a stronger capital base, DNB achieved a higher return on equity in 2017. Efficient use of capital and rebalancing of the portfolio are high-priority measures to reach our target of above 12 per cent. DNB also has an ambition to increase the nominal dividend per share each year, and to return all surplus capital to its shareholders. Therefore, we started repurchasing own shares in 2017. It is important for DNB to have trust and credibility in the capital markets.

> "We must earn our customer relationships every single day."

In 2017, we experienced a healthy increase in customer activity, higher customer satisfaction scores in the personal customer segment and an improvement of the bank's reputation. Our reputation score picked up somewhat during 2017, but we still have a way to go. Therefore, we will continue to work actively to enhance our reputation in the time ahead. Our ability to maintain and build trust is essential to meet the competition from players that we do not yet know, and that we can expect to compete with in the battle for customers.

In 2017, we continued the efforts to rebalance our large corporate portfolio. Over the past two years, we have reduced our cyclical exposure by NOK 100 billion. The released funds will be channelled to new projects or other segments where the profitability is higher. Both loan volumes and our market share of home mortgages increased in 2017. We recorded strong growth in lending to small and medium-sized businesses, and strengthened our market position within investment banking. We have helped more than 11 000 innovative dreamers start their own business through our NXT programme and entrepreneurial initiatives. We had more pension funds under management in defined-contribution schemes at the end of 2017 than ever before.

In 2017, we launched a new strategy, new values and a new purpose. Technological, regulatory and behavioural changes require us to think anew. We must earn our customer relationships every single day by creating the best customer experiences. We believe that there are four areas which will be crucial if we are to succeed in creating the best customer experiences: we must increase our innovative power, we must become better at using customer insight, we must focus on skills enhancement, and we must integrate corporate responsibility in our processes.

Our new purpose is: "We are here. So you can stay ahead." This will help clarify our role in society as Norway's largest bank. We will help solve the challenges, big or small, faced by both the business community and private individuals.

Even though we are a bank with most of our operations in Norway, we must also take into account the constant changes in the world around us, and the global challenges facing the world community. Therefore, we endorse the United Nations' Sustainable Development Goals. We have identified goal number five on gender equality, and eight on decent work and economic growth, as the areas in which we have the best chance of making a difference, and where we will face the greatest challenges in the future. We will naturally continue to support the UN Global Compact initiative, the world's largest network of companies that commit to integrating sustainability in their strategies and daily operations.

We will continue on our journey to become a bank for the future. We are here. So you can stay ahead.



Rune Bjerke
Group chief executive

Financial highlights

Income statement

Amounts in NOK million	2017	2016	2015	2014	2013
Net interest income	35 422	34 110	35 358	32 487	30 192
Net commissions and fees	8 448	8 280	8 862	8 969	8 537
Net gains on financial instruments at fair value	4 548	6 513	8 683	5 317	5 032
Net financial and risk result, DNB Livsforsikring	1 295	664	(389)	609	1 021
Net insurance result, DNB Forsikring	683	648	534	491	418
Other operating income	744	1 948	959	1 490	1 420
Net other operating income, total	15 718	18 053	18 648	16 877	16 427
Total income	51 140	52 163	54 006	49 363	46 619
Operating expenses	(21 429)	(20 693)	(21 068)	(20 452)	(20 186)
Restructuring costs and non-recurring effects	(1 165)	(639)	1 157	(223)	(1 690)
Pre-tax operating profit before impairment	28 547	30 830	34 096	28 689	24 744
Net gains on fixed and intangible assets	738	(19)	45	52	151
Impairment of loans and guarantees	(2 428)	(7 424)	(2 270)	(1 639)	(2 185)
Pre-tax operating profit	26 858	23 387	31 871	27 102	22 709
Tax expense	(5 054)	(4 140)	(7 048)	(6 463)	(5 202)
Profit from operations held for sale, after taxes	(1)	4	(51)	(22)	4
Profit for the year	**21 803**	**19 251**	**24 772**	**20 617**	**17 511**

Balance sheet

Amounts in NOK million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014	31 Dec. 2013
Total assets	2 698 268	2 653 201	2 598 530	2 649 341	2 405 507
Loans to customers	1 545 415	1 509 078	1 542 744	1 438 839	1 340 831
Deposits from customers	971 137	934 897	944 428	941 534	867 904
Total equity	216 897	206 423	190 425	159 059	141 944
Average total assets	2 856 988	2 841 117	2 946 119	2 711 624	2 542 535

Key figures and alternative performance measures

	2017	2016	2015	2014	2013
Return on equity, annualised (per cent)[1)]	10.8	10.1	14.5	13.8	13.1
Earnings per share (NOK)	12.84	11.46	14.99	12.67	10.75
Combined weighted total average spread for lending and deposits (per cent)[1)]	1.30	1.32	1.33	1.31	1.31
Average spread for ordinary lending to customers (per cent)[1)]	2.07	2.04	2.17	2.33	2.34
Average spread for deposits from customers (per cent)[1)]	0.17	0.21	0.01	(0.25)	(0.31)
Cost/income ratio (per cent)[1)]	44.2	40.9	36.9	41.9	45.7
Ratio of customer deposits to net loans to customers at end of period[1)]	62.8	62.0	61.2	65.4	64.7
Net non-performing and net doubtful loans and guarantees, per cent of net loans[1)]	0.98	1.49	0.76	0.96	1.38
Impairment relative to average net loans to customers (per cent)[1)]	(0.15)	(0.48)	(0.15)	(0.12)	(0.17)
Individual impairment relative to average net loans to customers (per cent)[1)]	(0.24)	(0.34)	(0.13)	(0.14)	(0.18)
Common equity Tier 1 capital ratio, transitional rules, at end of period (per cent)	16.4	16.0	14.4	12.7	11.8
Tier 1 capital ratio, transitional rules, at end of period (per cent)	17.9	17.6	15.3	13.0	12.1
Capital ratio, transitional rules, at end of period (per cent)	20.0	19.5	17.8	15.2	14.0
Leverage ratio (per cent)	7.2	7.3	6.7	n/a	n/a
Share price at end of period (NOK)	152.10	128.40	109.80	110.70	108.50
Price/book value[1)]	1.23	1.10	0.98	1.13	1.24
Dividend per share (NOK)	7.10	5.70	4.50	3.80	2.70
Score from RepTrak's reputation survey in the fourth quarter (points)	66.3	64.0	70.1	67.8	71.0
Meetings with companies undertaken by the responsible investment team to discuss CSR issues (number)	176	72	27	30	39
Customer satisfaction index, CSI, personal customers in Norway (score)	69.5	70.2	73.9	71.1	72.5
Number of full-time positions at end of period	9 144	11 007	11 380	11 643	12 016
Female representation at management levels 1–4 (%)	37.0	33.5	31.3	30.5	29.4

1) Defined as an alternative performance measure (APM). APMs are described on ir.dnb.no.

For additional key figures and definitions, please see the Fact Book on ir.dnb.no.

Global systemically important bank and indicator values

DNB Bank ASA has been defined by the EBA (European Banking Authority) as a potential global systemically important bank, as its total on and off-balance sheet exposures exceed EUR 200 billion. As a result, DNB Bank ASA delivers data to the EBA for the calculation of defined indicator values. See bis.org/bcbs/gsib/ for more information. DNB's indicator values as at 31 December 2017 will be available on ir.dnb.no in April 2018.





DNB in brief

1

One year of operation in Norway's largest bank affects millions of people, tens of thousands of small and large companies and a number of local communities both in and outside Norway.

This chapter gives you a quick overview of our main results and of the values we created together in 2017.

12 Purpose and values

13 Strategy and organisation

22 Important events

24 We are here

Purpose and values

For almost 200 years, we in DNB have been here for customers, employees and society in general.

We are Norwegian and we are international. We are tradition and innovation. We are a partner in your single life, family life, daily life, business life and community life. We are here to help with the small details and the big questions. Every day we bring together people and ideas with knowledge and capital.

Our purpose is to make your everyday life easier. As Norway's largest bank and one of the largest financial services groups in the Nordic region, we offer a complete range of financial services through mobile solutions, 24/7 customer service centres, online banking, branch offices, in-store postal outlets, real estate brokers and international offices.

PURPOSE:

We are here.
So you can stay ahead.

This is our purpose and the answer to why DNB is here for customers, society and employees. The purpose sets the direction for our choices and priorities. It inspires innovation and drives change. Everything we do must be in line with our purpose.

We are curious, bold and responsible. Everything we do should be in line with these values.

Our values describe how we will deliver our purpose, both as an organisation and as colleagues. Our values describe what we expect from each other and what customers, our owners and society in general can expect from us.

VALUES:

Curious

Being curious means that we seek new knowledge and learn from our experiences, so that we continuously gain new insight. We are genuinely interested in and curious about how we can make everyday life better for our customers and colleagues. We find good solutions together.

Bold

Being bold means that we challenge established truths and make decisions even though the picture is unclear. We take responsibility for our actions, admit when we make mistakes and then learn from them. We face challenges and new competition with an unshakeable conviction that we will become even better at developing the best ideas and solutions.

Responsible

We create values in a sustainable way. We are transparent and contribute positively to society. We listen to those who have opinions and insight about what society expects of us. We use simple language and are predictable in our actions.

Strategy and organisation

DNB's overarching goals are to create the best customer experiences and to reach its financial targets. Four strategic priorities have been identified to ensure that the Group succeeds with this.



OVERARCHING GOALS

CREATE THE BEST CUSTOMER EXPERIENCES

Today's society is characterised by persistent low interest rates, high capital requirements, ever-increasing price transparency and a fragmentation of value chains in traditional banks. New regulations open the way for new competitors. It is likely that global players like Facebook, Google and Amazon will offer banking services in DNB's markets in the future. There is a risk that these, and other smaller players, may come between DNB and its customers, reducing DNB to an infrastructure provider which will become increasingly less visible. Strong customer relationships are therefore essential in order to retain customers and ensure continued profitability. With a gradually more open infrastructure and declining switching costs and customer loyalty, it will be increasingly difficult to "own" the customer relationship. DNB will have to earn it again and again through each experience the Group offers its customers.

REACHING FINANCIAL TARGETS

Long-term profitability is the underlying premise for all of the Group's activities. The overriding financial target for DNB is a return on equity, ROE, above 12 per cent. At the same time, DNB aspires to maintain a cost/income ratio below 40 per cent, meet the authorities' capital requirements and deliver a dividend of more than 50 per cent of profits. To reach these goals, DNB must continue to improve, develop and streamline its current operations, while actively phasing out that which is no longer profitable. Change is essential in order to position the bank for the future, but the traditional business will continue to be the main contributor to the financial results for the foreseeable future.

To succeed, the Group needs to accelerate its pace of innovation while balancing scarce resources such as capital, development funds and people.

Financial ambitions

	FINANCIAL AMBITIONS	ACHIEVED 2017
Return on equity (ROE) (Overriding target)	> 12.0% (towards the end of 2019)	10.8%
Cost/income ratio (Key performance indicator)	< 40.0%	44.2%
Common equity Tier 1 capital ratio[1] (Capitalisation level)	~ 16.1% (requirement 2017)	16.4%
Payout ratio (Dividend policy)	> 50.0%	54.6% 72.9% [2]

1) Based on transitional rules and including a management buffer as at 31 December 2017.
2) 72.9 per cent includes the share buy-back programme of 1.5 per cent.

FOUR STRATEGIC PRIORITIES

DNB defined a new purpose, new values and a new strategy in 2017. Over the last few years, several factors and development trends have contributed to the need for a new strategy and corresponding measures:

- Changes in the regulatory framework have made it easier to switch banks.
- New consumption patterns and digital innovation have re-shaped customer expectations to the Group.
- New regulations open the way for completely new competitors. DNB no longer "owns" its customers, and must earn the customer relationships every day by offering the best customer experiences.

The Board of Directors has identified four areas as critical to the Group's success in creating the best customer experiences:

1. Increase innovative power
2. Increase the use of customer insight
3. Drive skills enhancement
4. Incorporate corporate responsibility in all processes

Long-term profitability is the underlying premise for all of the Group's activities. DNB's unique position as Norway's leading financial institution will be cultivated. However, in the long term, this will not be enough to maintain and strengthen the Group's market position. Therefore, the Group must seek to acquire some of the strengths of its new competitors, which involves implementing significant changes and making tough decisions.

This means that DNB must think and act like a technology company in areas such as customer experience, innovation, automation, working methodology, new business models, third party collaboration, use of data and obtaining the right skills mix. The four priorities shall help DNB develop in this direction. A suitable technology platform is a fundamental premise for realising the Group's strategic priorities.

Today, DNB is a traditional bank with digital products, services and channels. DNB will continue to be a bank in the future. However, being a bank will entail something else in the future than it does today.

An initiative has been launched to define appropriate KPIs to follow up on the work in the four areas. Implementation is scheduled for the beginning of 2018.

→



Did you know that DNB Markets gained close to 20 000 new online equity trading customers in 2017?

STRATEGY, MATERIALITY ANALYSIS AND INTEGRATED REPORTING

The four priority areas are described in greater detail in the subsequent chapters of the annual report. The descriptions are linked with the materiality analysis from last year, with corresponding measures under each priority area.

The integrated reporting[1] has been continued and further enhanced, with descriptions of ambitions and goals, as well as measures, within the individual business areas and staff units where this is relevant. Combined, this gives a prioritisation of the long-term challenges facing the Group as the material topics and strategic measures provide a comprehensive overview of the topics that have the greatest impact on DNB's future value creation, and how the Group is and will be working with this in the times ahead.

The reporting is based on the prioritised topics and strategic areas in the materiality analysis in the annual report for 2017, as presented below. The materiality analysis will be updated in 2018, based on the new strategy.

THE MATERIALITY ANALYSIS

The analysis was first presented to a number of external and internal stakeholders in a structured dialogue where they were given the opportunity to speak freely about the challenges that have the greatest impact on DNB's future value creation. The challenges were thereafter ranked in order of priority based on their relative importance to long-term value creation for DNB and for society. Contributions from the stakeholders were weighted differently. Customers and shareholders were given the highest weight, then the authorities, employees and society at large. The complete analysis and the most important challenges have been considered and approved by the group management team and the Board of Directors, and provide the basis for the work on integrated reporting.

Read more about stakeholder dialogue and the materiality analysis in the sustainability library (dnb.no/en/about-us/csr/sustainability-library.html).

1

Increase innovative power

- Keep up the pace of innovation and secure the ability to meet new customer needs
- Ensure privacy protection[2]
- Ensure information security[2]

(*Read more in chapter 2*)

2

Increase the use of customer insight

- Ensure good customer experiences
- Provide ethical products and services

(*Read more in chapter 3*)

3

Drive skills enhancement

- Ensure engaged employees
- Promote adaptability and change capacity
- Attract and develop talents
- Ensure equality and diversity[2]
- Ensure safe working conditions and a positive working environment[2]

(*Read more in chapter 4*)

4

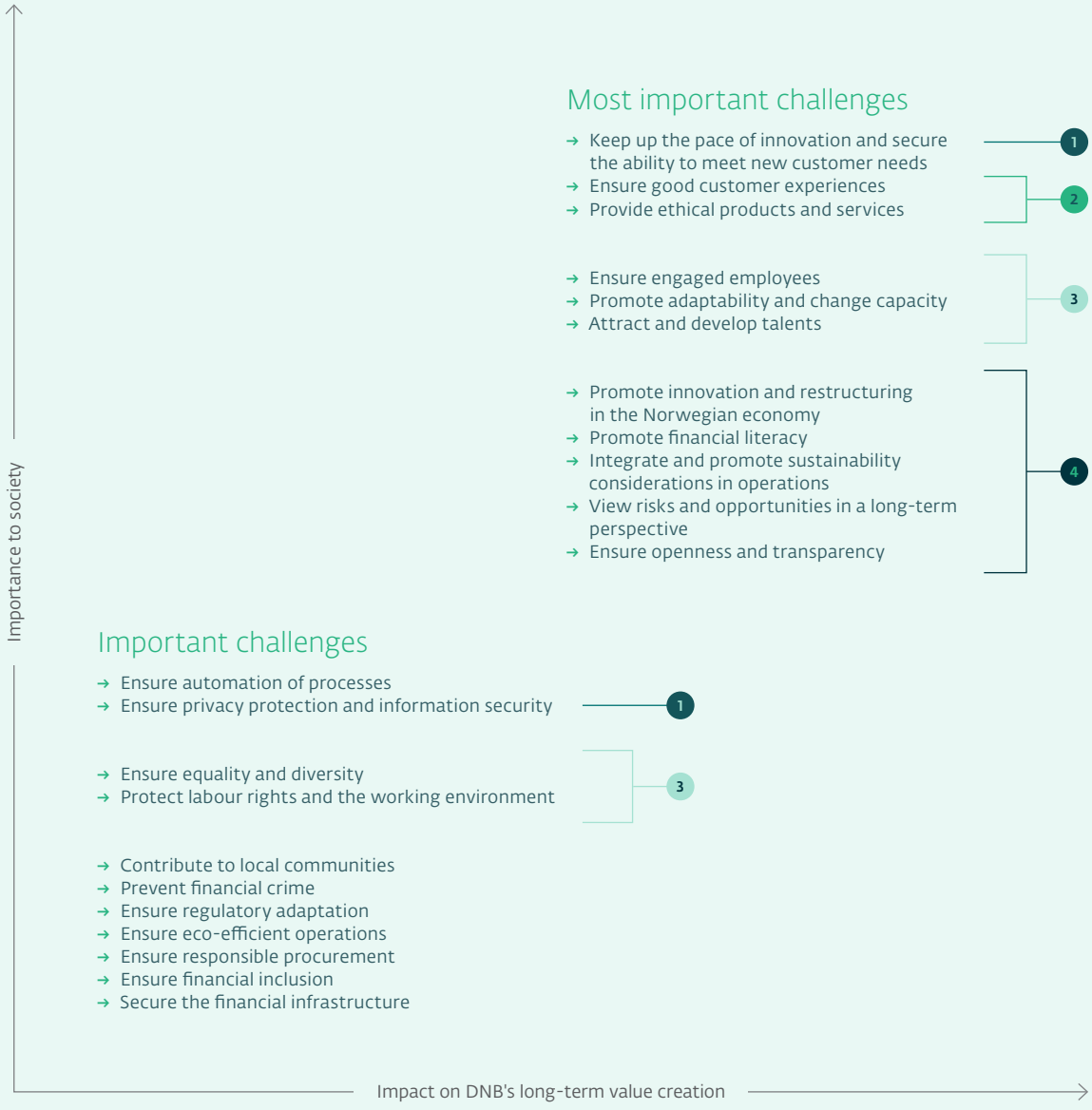
Incorporate corporate responsibility in all processes

- Promote innovation and restructuring in the Norwegian economy
- Promote financial literacy
- Integrate and promote sustainability considerations in operations
- View risks and opportunities in a long-term perspective
- Ensure openness and transparency

(*Read more in chapter 5*)

1) Based on the framework for integrated reporting established by the International Integrated Reporting Council (IIRC).
2) Not defined as one of the most important challenges in the materiality analysis from 2016.

Materiality analysis



Support to global initiatives

→ DNB has chosen, in addition to following Norwegian standards, to support and participate in a number of global initiatives and international guidelines to ensure responsible operations. Such initiatives are important for learning, knowledge sharing and influencing.

Read more about all the initiatives DNB supports and participates in at dnb.no/en/about-us.

The UN Sustainable Development Goals were reviewed in connection with the work on the new strategy in 2017. DNB will generally support all 17 goals. Based on discussions in the Board of Directors and the group management team, DNB has identified two goals that are particularly relevant in view of the Group's risks and opportunities:



GOAL 5

Achieve gender equality and empower all women and girls. DNB will promote gender equality within the Group, in the financial services industry in general and in society at large. Read more about DNB's gender equality efforts on page 50.



GOAL 8

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. DNB will contribute to increasing economic productivity by arranging capital for innovation and restructuring in Norway, among other things by supporting entrepreneurs. Read more about how DNB connects ideas with capital on page 59.

In addition to specifying concrete measures related to the different goals, DNB has an ambition to report results within all the most relevant topics for 2018.

See also the GRI index for a mapping of all the Sustainable Development Goals relative to the main challenges faced by DNB in the sustainability library:
→ dnb.no/en/about-us/csr/sustainability-library.html

The United Nations' 17 Sustainable Development Goals



DNB ASA supports the United Nations' Sustainable Development Goals.

THE BUSINESS AREAS AND THEIR STRATEGIC PRIORITIES

PERSONAL BANKING

Personal customers are served by the Personal Banking business area. DNB is a market leader in the Norwegian personal customer market and has more than 2 million personal customers in Norway. Customers are offered a wide range of services through a modern distribution network, which comprises mobile solutions, 24/7 customer service centres and online banking, branch offices, post offices, in-store postal outlets and real estate brokers.

Group executive vice president Ingjerd Blekeli Spiten: *"Each customer should think 'DNB is my bank'. From a bank for everyone to a bank just for you. This is what the personal customer strategy is all about."*



CORPORATE BANKING

Small and medium-sized enterprises are served by the business area Corporate Banking. DNB promotes the development of active and well-functioning businesses in Norway. Small and medium-sized enterprises are the bedrock of the Norwegian business community and contribute to significant value creation for society.

Group executive vice president Benedicte Schilbred Fasmer: *"We will be more than a bank and gather all the services companies need on a digital platform so that they can fully focus on their business. The combination of good digital platforms and our unique expertise and networks makes us the best adviser for the companies of tomorrow."*



LARGE CORPORATES AND INTERNATIONAL

Large corporates and international customers are served by the Large Corporates and International business area. The segment includes the Group's largest Norwegian corporate customers, the public sector, all international customers, as well as financial institutions. DNB's ambition in the large corporate segment is to maintain its number one position in Norway, and to strengthen its leading position within selected industries internationally. The large corporate segment is characterised by strong customer relations and sound banking and industry expertise. High-quality customer service is assured through DNB's financial strength, a broad international network, competitive services and the ability to adapt quickly to new customer needs.

Group executive vice president Harald Serck-Hanssen: *"New digital solutions enable us to act faster and free up time to provide better advice and guidance for the benefit of our customers. This, combined with our unique insight into various industries, enables us to ensure not only increased profitability, but also better customer experiences."*



WEALTH MANAGEMENT & INSURANCE

Wealth Management & Insurance serves high net worth individuals through its Private Banking unit. In addition, the business area is responsible for the further development of the Group's savings and insurance products and delivers defined-contribution pension schemes to all DNB customers in cooperation with the customer areas.

Group executive vice president Trond Bentestuen: *"We safeguard our customers' values and invest them so that they contribute positively to society. Customers will get personal advice, either digitally or from one of us, so that they reach their goals – today, tomorrow, or in 40 years' time."*



MARKETS

DNB Markets is Norway's leading investment firm and offers investment banking services, including risk management, investment and financing products in the capital markets, to the Group's customers. By working in customer teams and applying good digital solutions, the employees provide advice and develop tailor-made solutions for the various customer segments. Markets' market making and other trading support customer activities with products and prices.

Group executive vice president Ottar Ertzeid: *"DNB Markets will strengthen its position as Norway's leading investment firm. In cooperation with the rest of the bank, we will deliver the best customer experiences based on our expertise and ability to adapt to changing conditions and customer behaviour. Our products will be responsible, capital-light and profitable."*



NEW BUSINESS

New Business will create increased competitive power and growth for DNB by designing new solutions and business models for the Group and strengthening the delivery capacity of existing segments. This will be achieved through a more unified strategy and consistent management of data and customer insight, payments and payment infrastructure, open banking, the use of technology, and partnerships.

Group executive vice president Rasmus Figenschou: *"New Business will ensure value-adding use of payment data streams and the bank's data. The unit will also generate new income based on the existing infrastructure and through its open banking initiatives, as well as through completely new products and business models that can be developed in partnership with external players or through the bank's own development process."*





Did you know that DNB in the period from 2014 to 2017 reduced its paper consumption by 277 tonnes by sending digital letters to its customers? This corresponds to 6 658 trees.

THE ORGANISATION HAS BEEN ADJUSTED TO REACH THE GROUP'S TARGETS AND STRATEGY

As a consequence of the Group's new strategy, organisational changes were implemented at the end of 2017. DNB's organisation and operational structure will ensure that the Group quickly and effectively adapts to changes in customer behaviour and develops products and services that meet customer needs.

OPERATIONAL STRUCTURE

Customer areas are responsible for customer relationships and customer service, while product areas are responsible for product development. Operational tasks and group services are carried out by the Group's support and staff units, which provide infrastructure and cost-efficient services for the business units.

REPORTING STRUCTURE

Financial management in DNB is adapted to the different segments. The income statements and balance sheets for the segments are presented in accordance with internal financial reporting principles, according to which revenues, costs and capital requirements are allocated to the segments based on a number of assumptions. Reported figures for the different segments thus reflect the Group's total sales of products and services to the relevant segments. The follow-up of total customer relationships and segment profitability are two important dimensions when making strategic priorities and deciding on where to allocate the Group's resources.

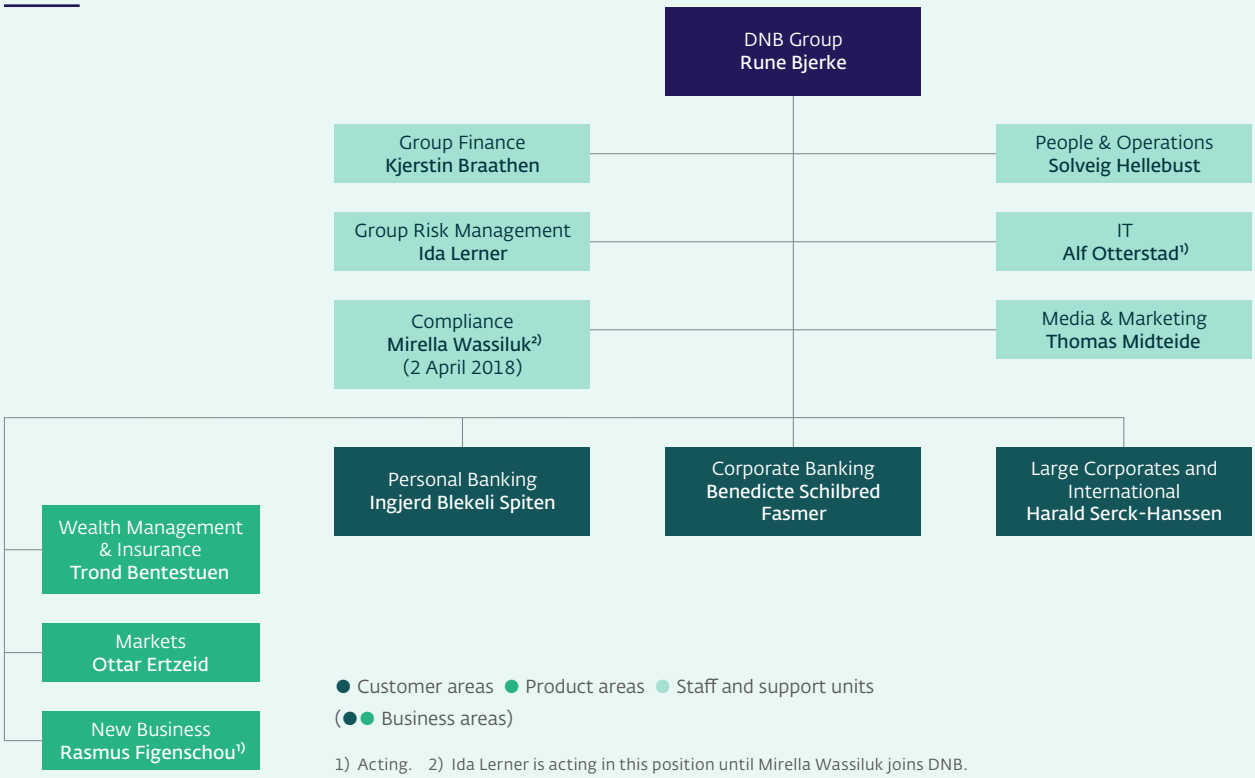
Margin income on loans and deposits is calculated using internal transfer rates based on observable market rates, which in most cases roughly correspond to 3-month NIBOR. Additional costs relating to the Group's long-term funding are also charged to the segments.

Services provided by staff and support units will as far as possible be scaled and priced according to use. The pricing of such intra-group transactions is regulated by internal agreements based on market terms. Joint expenses incurred by group staff units and other group expenditures that cannot be debited according to use, are charged on the basis of relevant distribution formulas. Costs relating to the Group's equity transactions, including strategic investments, and direct shareholder-related expenses and costs related to the Group's governing bodies are not charged to the segments.

The Group's total common equity Tier 1 capital is allocated to the segments. Allocated capital reflects the Group's long-term capitalisation ambition, and the distribution formula is based on an adaption to the Basel III regulations. Return on allocated capital represents profits after tax relative to average allocated capital.

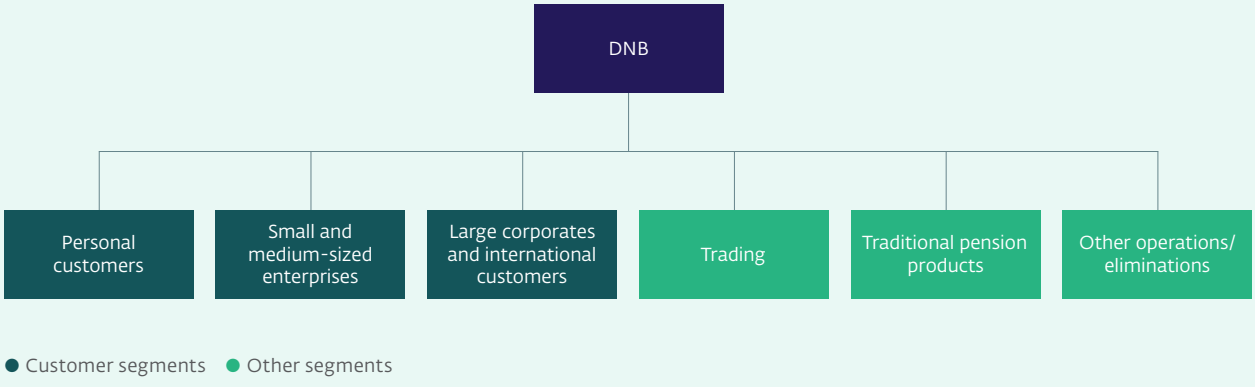
The segment reporting is presented in note 2 to the annual accounts. An overview of the Group's legal structure can be found on dnb.no/en/about-us/about-the-group.html.

Operational structure as at 7 March 2018



1) Acting. 2) Ida Lerner is acting in this position until Mirella Wassiluk joins DNB.

Reporting structure



Important events

Q1

→ DNB decided to sell its share of a loan to the Dakota Access Pipeline. DNB had reviewed various options for its involvement in the project financing since November 2016.

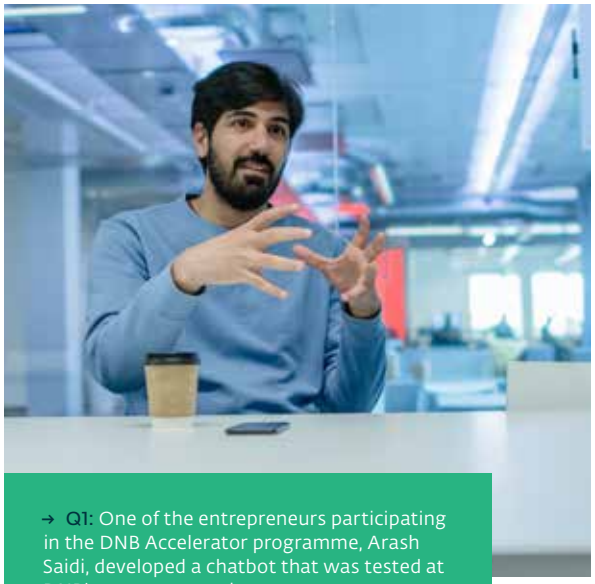
→ For the third consecutive year, DNB Wealth Management was named "Best Fixed-Income Fund House" at the Morningstar Fund Awards.

→ According to Prospera's 2016 annual customer satisfaction survey, DNB Markets was ranked best among Norwegian bond investors within both government and corporate bonds. For the first time, Swedish bond investors considered DNB Markets to be number one within high-yield bonds in Sweden.

→ DNB finalised a new, fully automated solution for extending existing home mortgages.

→ Standard & Poor's improved its long-term debt rating outlook for DNB Bank, partly due to stronger capitalisation.

→ On 1 January 2017, financial activities tax was introduced in Norway, and new mortgage regulations entered into force.



→ Q1: One of the entrepreneurs participating in the DNB Accelerator programme, Arash Saidi, developed a chatbot that was tested at DNB's customer service centre.

Q2

→ VippsGO was introduced, a new service in the Vipps app that makes both purchases and sales easier by setting up your own shop in the app.



→ DNB launched the app "Spare", a new tool for saving in accounts, equities or mutual funds.

→ The crowdfunding service "startskudd.no" was launched as part of DNB's initiatives to focus on start-up companies. As an extension to the NXT Conference held in the autumn of 2016, DNB also launched NXT Community, a new digital meeting place where entrepreneurs and investors can meet and get access to expertise and advice offered by DNB. The aim is that the meeting place will help ensure that more good business ideas are realised and that this will also result in sound projects for investors.

→ The banking agreement with NorgesGruppen expired, but DNB will continue to offer banking services in post offices and shops across Norway. DNB thus still has the best availability in the market for manual banking services.

→ In a survey carried out by Universum, DNB was ranked as the most attractive employer in Norway among business students for the fourth year in a row and climbed from eighth to third place among IT students.

→ DNB's Travel Insurance "Best" was voted Norway's best travel insurance for the fourth year in a row.

Q3

→ DNB gathered all employees in the Nordic region to an all-day event at Telenor Arena outside Oslo to mark the launch of the Group's new purpose, new value platform and new strategy. During the autumn, similar events were held at a number of the Group's international offices.

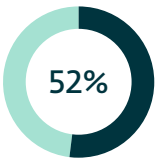
→ DNB repeated the previous year's success and arranged the NXT Conference, a meeting place for investors and entre-



→ **Q1:** DNB entered into an alliance with 105 Norwegian savings banks to win the battle for the mobile wallet, by establishing Vipps as a separate company. From the left: Rune Garborg (DNB), Rune Bjerke (DNB), Hege Toft Karlsen (Eika), Finn Haugan (SpareBank 1/mCASH), Elisabeth Haug (SpareBank 1) and Geir Bergskaug (Sparebanken Sør). The companies they represent in parentheses.

preneurs. Eight regional conferences were held in addition to the main event in Oslo during Oslo Innovation Week.

→ DNB Global Lavkarbon was launched, a diversified global factor fund that is "fossil free" and has a low carbon footprint, which is in line with DNB's sustainability profile.



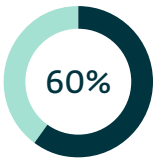
→ The demerger of Vipps from DNB was finalised, leaving DNB with an ownership interest in the new legal entity (Vipps AS) of close to 52 per cent.

→ New rules were introduced by the Norwegian authorities and Finanstilsynet for the marketing of credit cards and consumer loans. The new rules aim to protect consumers against irresponsible borrowing.

Q4

→ Vipps entered into cooperation agreements on distribution with players across the Norwegian market, and Vipps, BankAxept and BankID Norway signed a letter of intent to merge the three companies. The transaction is subject to approval by the Norwegian authorities, and the new company is expected to start operations during the second half of 2018.

→ DNB and Nordea combined their operations in Estonia, Latvia and Lithuania into the new company Luminor Group AB. DNB's ownership interest in Luminor Group AB is approximately 44 per cent.



→ DNB climbed the rankings of the Norwegian ethical bank guide ("Etisk bankguide"), and increased its total score from 40 to 60 per cent for 2017. "Etisk bankguide" is an assessment of banks' and asset managers' published guidelines concerning corporate responsibility, ethics and environmental issues. DNB's improved score reflected a systematic review of the bank's framework for responsible investment and responsible credit in the course of 2017.

→ As the only Nordic financial institution, DNB achieved an A score from CDP (Carbon Disclosure Project) for its reporting in 2016. The UK-based CDP is the largest independent collection of environmental data from large companies, and one-fifth of the world's carbon emissions are reported through CDP. In order to obtain a high score, the company must document past reductions in its own greenhouse gas emissions and plans for future reductions. In addition, a clear climate strategy and climate reporting ensure a better score.

→ DNB launched an option to apply digitally for new home mortgages, with a processing time of less than two minutes.

→ DNB's group management team was reorganised to meet changes in the market and reinforce the Group's strategic priorities.

→ Oslo District Court found in favour of DNB in the group action the Norwegian Consumer Council brought against DNB Asset Management for the management of the DNB Norge funds. The Consumer Council has announced that the judgment will be appealed to the Court of Appeal.

→ In accordance with the authorisation given at the Annual General Meeting in April 2017, DNB repurchased shares corresponding to 0.66 per cent of the share capital up to end-December.

→ According to Prospera's annual customer satisfaction survey, DNB Markets was ranked best among Norwegian equity investors within domestic equity, execution and corporate access.

→ The Ministry of Finance increased the countercyclical capital buffer requirement for banks from 1.5 to 2 per cent with effect from 31 December 2017.

→ The final Basel regulations on capital adequacy were adopted. The regulations aim to limit differences in capital requirements between countries, and thus enable comparisons of banks' capital adequacy. The regulations will be introduced in 2022 and phased in until 2027.

We are here

As Norway's largest bank and one of the largest financial services groups in the Nordic region, DNB offers a complete range of financial services through mobile solutions, 24/7 customer service centres, online banking, branch offices, in-store postal outlets, real estate brokers and international offices.

Norway's leading financial services group with 2 million personal customers and 210 000 corporate customers.

DNB Forsikring had 218 337 non-life insurance customers at year-end 2017.

DNB Livsforsikring had just over 1.2 million personal customers with individual and group agreements and approximately 25 000 agreements with companies at year-end 2017.

DNB carried out 260 million payment transactions in 2017. This provides insight that DNB can transform into new value for the customers.

DNB has the world's fastest digital home mortgage application process. It takes 2 minutes.

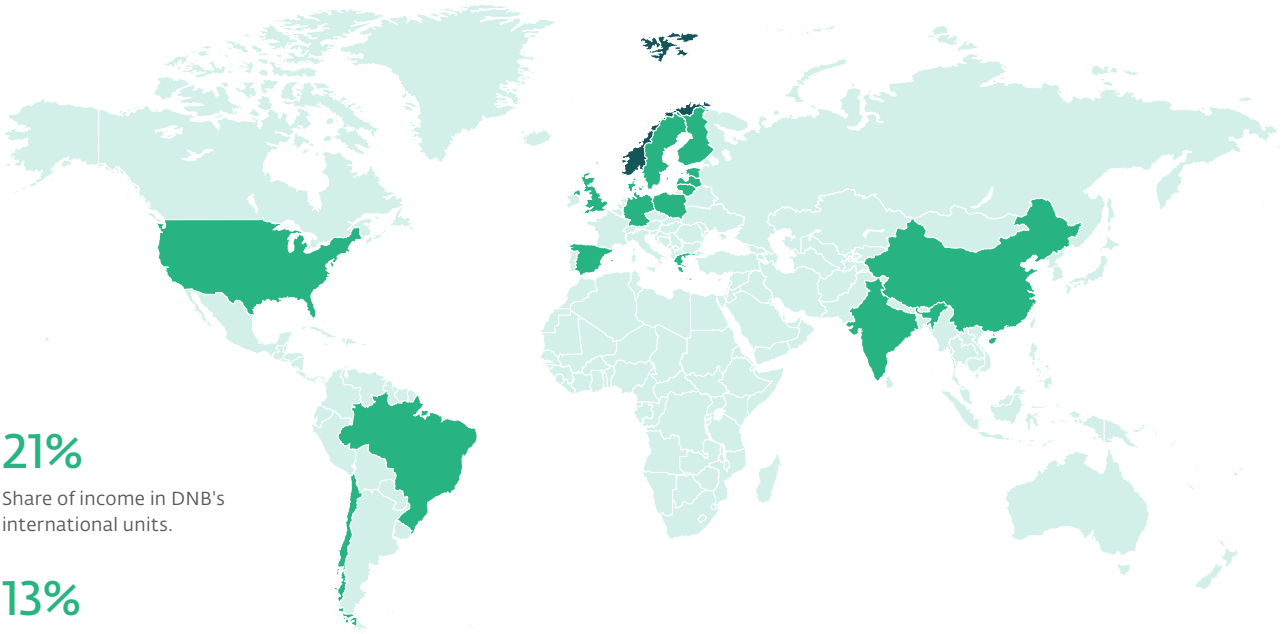
3 213

entrepreneurs got help from DNB's start-up pilots in 2017 to start their own business.

Financial contracts worth over NOK 1 000 billion are traded every day in DNB Markets.

The savings app 'Spare' (Save) was launched in June 2017, and by the end of the year, 39 000 short-term savings agreements and 12 200 long-term savings agreements had been established through the app.

DNB Eiendom sold 22 907 residential properties in 2017. This represents a market share of 19.7 per cent.



21%

Share of income in DNB's international units.

13%

Share of lending in DNB's international units.

24/7

DNB is open 24 hours a day, 365 days a year.

Personal Banking

The customer centre handled approximately 4 100 000 phone calls and approximately 1 300 000 chat conversations

Corporate Banking

The customer centre handled approximately 490 000 phone calls and approximately 175 000 chat conversations

On Facebook, 37 000 unique messages received a response, with 550 000 responses to responses.

Market shares in Norway

Personal customer market as at 31 December 2017

25% Loans from financial institutions

30% Deposits

28% Home mortgages

43% Policyholders' funds[1)]

33% Mutual fund investments

Corporate customer market as at 31 December 2017

22% Loans from financial institutions

37% Deposits

20% Policyholders' funds[1) 2)]

28% Mutual fund investments

1) Figures as at 30 September 2017. 2) Includes the public sector.

Source: Statistics Norway and Finance Norway


OSLO



Innovative power

2

Hardly ever before has the world seen such a display of creative power. What would previously have been called a revolution, is now characterised as evolution. Small and large advances are made all the time.

This means that the needs of individuals, businesses and society are also constantly changing. In DNB, we believe there is one success criterion that will be more important than anything else in the coming period: **Staying ahead**.

29
Keep up the pace of innovation and secure the ability to meet new customer needs

31
Ensure privacy protection

32
Ensure information security

Innovative power

A more rapid pace of innovation is important to inspire customers and lay the grounds for future profitable growth. By combining unique customer insight with deep sector expertise and external data and services, DNB wishes to provide favourable conditions for innovation to be able to offer customers something which goes far beyond what they receive today.

Innovative power in DNB is not only about ideas, but also about increased implementation capacity and higher speed. Through cooperation with others, the Group will also leverage external innovative power to gain access to new ideas, technology, solutions, expertise, data or distribution.

KEEP UP THE PACE OF INNOVATION AND SECURE THE ABILITY TO MEET NEW CUSTOMER NEEDS

Increasing the pace of innovation is both about ensuring adequate access to new ideas and about being effective in the implementation. Effective implementation is achieved by only realising ideas that are proven to give customer value and making the time from idea to realisation as short as possible. To accomplish this, DNB must have development teams that quickly introduce new products to the market, collect experience from customers, adjust and further develop the products based on this and, if appropriate, repeat the process.

POLICY AND APPROACH

In DNB's corporate governance system, innovation is covered by the group standard for products and services. The standard and instructions for compliance shall support effective product development and approval, and contribute to innovation and change capacity.

The individual business areas and support units within the Group are responsible for increasing the pace of innovation within their respective units.

As innovation and development affect everyone in DNB, this topic is included in the quarterly employee surveys, PULSE, through the statement "In our unit, we actively search for new and better solutions to benefit the customer and DNB". The employees' perception of the innovation status in the organisation gives an indication of how well this is rooted in all parts of the Group. Both the influx of ideas and the ability to execute them are highly dependent on whether the employees find that their employer encourages improvement and challenges the status quo.

EVALUATION OF RESULTS IN 2017

The employee survey in the fourth quarter of 2017 showed a score on change and innovation of 82 points, a drop of 1 point from the previous survey and unchanged from the end of 2016, so the results are at a stable level. There was no defined target for this parameter for 2017.

DNB implemented several major initiatives in 2017 to ensure an increased pace of innovation and the ability to meet new customer needs. One of the most important initiatives was to strengthen skills and capacity within digitalisation and innovation methodology by establishing separate units responsible for digital innovation in each business area. DNB has a special unit for Digitalisation and Business Development, DAB, working with time-limited digitalisation activities, mainly in the start-up phase. DAB is located on DNB's Digital Floor, which is an entire floor of DNB's main office designed for commercial digital development and interaction on innovative and digital projects.

At group level, DNB continues its work to increase the general interest in and expertise within innovation. In December 2017, DNB announced the establishment of a new business area with its own group executive vice president: New Business. New Business will boost DNB's competitive power and growth by designing new solutions and business models for the Group, while strengthening the delivery capacity of existing segments through new technology and new partnerships. This will be ensured through a more unified strategy and consistent management of data and customer insight, payments and payment infrastructure, open banking and new technology.

MEASURES

Beat the Bank

In the spring of 2017, DNB arranged "Beat the Bank", an internal competition and mini-accelerator for innovators across DNB. Employees were challenged to present ideas and solutions for how to get more satisfied customers. Through Beat the Bank, they were given the opportunity to explore and test whether the customers were interested in their ideas – in other words, to test whether innovative employees could solve a customer problem better than the bank itself. The ideas were presented to a jury, and the winning team was allowed three months on DNB's Digital Floor to further develop and realise the idea. Close to 250 ideas were submitted in the first round in Oslo, and the competition continued in other locations in Norway. The winning concept in Beat the Bank 2017 was "Super easy online banking", and the team is now looking at the possibilities for creating an Internet bank adapted to the non-digital part of the population. The idea is to create an extremely simple online bank that will enable customers to make extended use of self-service solutions and reduce their need for help from the customer service centre and branch offices.

Fintech, ventures and partnerships

Cooperation with external players, partnerships and "corporate venture capital" are sources of new skills, technology and ideas, and can boost the innovative power of DNB. In 2017, the Group established a separate partnership unit in DAB. The unit supports the business areas by identifying candidates and entering into partnerships, while facilitating a group-wide approach. Furthermore, in the spring of 2017, the Board of Directors approved a framework for corporate venture capital, and a committee was established to make decisions about investment candidates. Candidates are selected by the unit Group Investments in cooperation with the business areas. →

There is an ongoing process for defining KPIs (key performance indicators) for innovative power, and the following KPIs were approved by DNB's Board of Directors on 6 December 2017:

- **New and strategic income**
  Measuring income from completely new sources, as well as from strategic investments and priorities. This KPI measures DNB's ability to transform ideas, concepts and strategic priorities into income, and therefore provides an indication of the Group's overall innovative power.
- **Active users on DNB's platforms**
  Building platforms that create network effects is a major innovative challenge. This KPI measures whether DNB's platform business model has active users where this is an important value driver.
- **Progress in strategic development areas**
  Progress and target attainment according to plan is essential for innovation development in the various business areas. This KPI measures the bank's ability to drive key strategic development areas according to plans and objectives.

Pace of innovation in Personal Banking

Digitisation of the home mortgage process

As part of DNB's innovation initiatives, continuous efforts are made to digitise and streamline manual processes in the Group. During the fourth quarter of 2017, the labour-intensive home mortgage application process was digitised. Earlier in 2017, the banks, the Norwegian Tax Administration and the Brønnøysund Register Centre developed a solution that enabled their systems to work together. As a result, DNB customers can now upload all necessary documents in the Internet bank when applying for a mortgage. DNB's innovative power enabled the bank to develop a quick and agile online banking solution, and the application process was reduced to two minutes. As a result of this, there was an increase in the share of DNB customers who refinanced their mortgages automatically. In addition, digital pre-qualification letters were introduced. The ambition is that more than half of all loans to new customers will be granted automatically in the course of one to two years.

Launch of the savings app 'Spare' (Save)

Spare was launched in May 2017 as the spearhead of DNB's savings initiatives, and is an innovative tool for customers. The savings app provides a simple way of depositing money in accounts or mutual funds, and gives a complete overview of the customers' savings. Share savings account with an extended fund selection and individual pension savings (IPS) are all included in the new app, which was downloaded more than 250 000 times in 2017 and contributed to strong growth in the sale of savings agreements. There was a total increase of over 50 per cent in long-term savings agreements[1] compared with 2016, while short-term savings agreements[2] were up approximately 38 per cent. DNB's calculations show that Spare has not replaced other savings tools, but has inspired more customers to start saving.

Pace of innovation in Corporate Banking

The SMEdig initiative was launched in 2017 and is a project for the digitisation of the credit process for corporate customers. In DNB's experience, these customers have the same expectations of functionality and self-service solutions as personal customers, and the objective of SMEdig is to increase customer satisfaction. The new solution differentiates the process through better use of data. Thus, DNB can handle straightforward cases more efficiently and make more thorough risk assessments in cases with higher complexity. A successful test was carried out on customers in 2017, and a series of new launches will come in 2018.

SMEdig works closely with Accelerate (described below), which is a project for digitisation and simplification of the loan process for large corporate clients.

An improved advisory tool has also been launched for DNB's account officers. It shows a complete picture of the customer and the customer relationship to enable them to provide better and more relevant advice. New situational customer satisfaction surveys will give a better understanding of how customers perceive their interaction with DNB, and provide important input to the continuous improvement and innovation process.

Pace of innovation in Large Corporates and International (LCI)

LCI aims to be a digital frontrunner in the large corporate segment, both in Norway and internationally. In 2017, the business area launched the project 'Accelerate – digitalisation of the credit journey in LCI' in order to achieve this goal. During the year, Accelerate initiated several projects in partnership with customers to professionalise and automate credit processes and further develop customer channels and new business models. Other initiatives developed by LCI included a new Portfolio Approval and Management system (PAM) that provides a better overview of customers, and Digital Credit Paper (DCP), which enables increased automation of data.

1) Equity funds, pure endowment insurance and combination and bond funds (more than one year's duration).
2) Savings in accounts and in short-term fixed-income funds (less than one year's duration).



Did you know that DNB Venture is investing NOK 250 million in start-up companies?

Pace of innovation in Markets
Markets focuses on simplifying customers' everyday lives, and in 2017, digital self-service solutions within equity and currency trading were developed. The services can also be integrated with the customers' internal management systems. 2017 also saw the launch of digital investor services in the mobile bank and a new online version of these services.

In the personal customer segment, mobile services play a key role in the further development. The share savings account scheme and DNB's new savings app Spare, as mentioned above, will provide new business opportunities for mutual fund activities in Markets, as it has become easier for customers to save in shares.

The Markets division Securities Services offer investors administrative management and settlement of Norwegian and foreign securities, called custody. This service makes it easier for customers to invest, especially in foreign securities. In 2017, the bank launched 'DNB Custody', which is a self-service solution for professional customers. DNB Custody provides customers with more self-service options, enabling them to perform securities settlement and make choices within corporate actions, while getting reports and overviews in real time.

New financial regulations also affect customers, and Markets will deliver solutions that help them meet the new statutory requirements (including MiFID2 and EMIR). Markets is further developing DNB's APIs (Application Programming Interface) and price aggregators in order to offer the customers the best prices and access to relevant marketplaces.

Large corporates' funding needs are to an increasing extent covered through the capital markets. Throughout 2017, Markets strengthened its activities within capital raising and advisory services, and built an effective Nordic distribution platform for shares, bonds and loans. The platform is also secured through a strong presence in relevant international markets.

THE WAY FORWARD
The Group will continue its efforts to leverage the potential of partnerships and other forms of cooperation. The creation of new solutions will be based on customer needs and customer journeys, and implementation capacity will be strengthened within both incremental and radical innovation. New tools and skills, improved internal procedures and stronger ownership of the IT priorities will be developed in the respective business areas.

The IT strategy in particular specifies what to concentrate on to improve the framework conditions for innovation. This is mainly about ensuring adequate development expertise, improving the infrastructure for development and testing, automating internal processes and making the Group's APIs available to external players.

ENSURE PRIVACY PROTECTION

Privacy protection comprises the fundamental rights of individuals, such as the right to privacy and the right to control the use of one's own personal data[1]. DNB's efforts in the field of privacy protection shall ensure a high degree of trust among customers, employees and society, and form an important part of the Group's corporate responsibility. Moreover, ensuring privacy protection is required by law.

Customers, suppliers, employees and others who have a relationship with DNB, shall feel confident that the Group stores and processes their personal data in a safe and responsible manner, and in line with prevailing laws and regulations. DNB has extensive experience in handling large amounts of information about its customers. →

POLICY AND APPROACH

DNB shall process personal data in accordance with basic privacy protection considerations and principles. This implies making sure that any processing of personal data complies with Norwegian and international requirements.

DNB's governing documents for compliance set the framework for all use of personal data in the Group. The compliance policy, which has been adopted by the Board of Directors, states that DNB shall operate with integrity and honesty, and in keeping with sound business practices. DNB shall operate in compliance with requirements set out in external and internal regulations, and the risk of non-compliance shall be low.

The Group's compliance policy is supported by a separate standard for privacy protection that includes seven guiding principles:

- Personal data shall be collected and processed in a lawful, fair and transparent manner.
- Personal data shall be processed only when DNB has a specific, explicit and legitimate purpose to do so.
- The collection and processing of personal data shall be limited to what is necessary for the legitimate purpose.
- Personal data that is processed shall be correct and must be updated if necessary. Data that is not correct, shall either be deleted or corrected.
- Personal data shall be deleted or anonymised when there is no longer any legal purpose for processing it.
- Personal data shall be processed in a manner that safeguards its integrity, confidentiality and availability. This involves protection against unauthorised or accidental access, destruction, loss of and changes in the personal data.
- DNB shall act in accordance with the principles for the processing of personal data, and shall be able to document that the rights and liberties of the data subjects are safeguarded.

DNB follows up non-compliance with the personal data principles and notifies the Norwegian Data Protection Authority in accordance with legal requirements.

EVALUATION OF RESULTS IN 2017

At the end of 2016, DNB established a privacy protection action plan for the period 2017-2018. The action plan comprises three main areas: improving the governing documents, raising the quality of the processes in which personal data is processed, and enhancing the level of competence in the organisation. The objective is to ensure compliance with both current and future privacy protection regulations. The new General Data Protection Regulation, GDPR, will take effect in the EU in May 2018, and will directly affect the Group's European operations. GDPR will be implemented in Norwegian law as the new Norwegian privacy protection legislation.

The new regulations impose more obligations on companies and tighten information security and internal control requirements. As part of the action plan, a new mandatory and basic e-learning course in privacy protection for all employees was introduced in December 2017. Further courses will be developed in 2018.

THE WAY FORWARD

Work on the privacy protection action plan continues in 2018. The introduction of measures to increase the employees' competence in and awareness of privacy protection is essential, and further training initiatives for all employees will be launched.

To help improve the quality of the different processes, a group-wide framework for the processing of personal data is under development, and will be completed in April. The framework will be used as support in preparing practical procedures and provide guidance on specific issues, thus contributing to consistent privacy protection management across all DNB units.

The process for deviation management will be updated in line with the requirements of GDPR. DNB will establish the role of data protection officer, DPO. The DPO will be an independent second line function providing group management and units in the Group with advice and guidance in privacy protection matters. The DPO will be involved in issues regarding the protection of personal data in a timely and appropriate manner.

ENSURE INFORMATION SECURITY

DNB handles large amounts of customer data of both a personal and business nature. The quantity of information increases in step with the offering of digital products and services. New digital services and an increasingly complex threat scenario require technical security measures and a clear understanding among employees on how to handle customer information and digital services in a safe manner. This is essential to secure safe and stable operations, ensure DNB's innovative power and maintain the customers' trust.

1) Examples of personal data are pieces of information or assessments that can be associated with an individual, such as name, address, telephone number, email address, IP address, car registration number, pictures, finger prints, iris pattern, head shape (for face recognition) and national identity number (including date of birth).

In a global perspective, the digital threat scenario has become more serious. In the course of 2017, there were several serious attacks against both government and private organisations in Norway and internationally. Digital attacks such as espionage, ransomware, denial-of-service attacks and fraud characterise the threat scenario – for DNB and the financial services industry in general. To stay ahead of these challenges, DNB monitors the threat scenario closely.

POLICY AND APPROACH

Security management is part of the Group's overall corporate governance, and the policy for security provides direction for security work in DNB. To support the security policy, the Group has standards on information security and the handling of personal data which shall be taken into consideration in all system solutions, products, processes and services.

The key elements of the security work are:

- Management and control
- Prevention
- Disclosure
- Response

Group Security is DNB's central specialist unit within information security, and is responsible for developing and supporting security efforts across the Group. Group Security is headed by the chief information security officer, CISO, who functionally reports to the group executive vice president for IT and has a secondary reporting line to the group risk officer.

EVALUATION OF RESULTS IN 2017

In 2017, the Group followed up a three-year action plan for information security. DNB has made significant investments and improvements in the area of security. Key elements include having multiple levels of robust security measures, continuously enhancing and upgrading IT solutions, strengthening security competence among employees and further developing national and international cooperation.

During 2017, DNB introduced reinforced protection of all PCs, improved user and access management, training in information security for all employees in the Group, separate training for managers and enhanced defence against digital fraud. The group management team and the Board of Directors completed training in information security, and several security drills were carried out.

Communication with and training of employees is key to reducing risk. DNB developed an interactive training programme in 2017. As in previous years, National Security Month events were held in October. This is a comprehensive campaign across the entire Group covering various topics within the field of information security. The activities are measured and evaluated, and DNB will continue to work strategically with security communication and training in 2018.

DNB wishes to help customers be protected against cybercrime. In 2017, DNB held customer seminars where advice was given on information security. Customers have access to information and advice on the safe use of the Internet bank, bank cards, the mobile bank and other services on dnb.no. Customers are notified if they have an Internet banking virus on their computers.

DNB cooperates with private and public institutions, both in Norway and internationally, to prevent crime. Back in 2012, DNB was an initiator of and contributor to the establishment of FinansCERT, an organisation which contributes to the handling of security incidents across the industry. In 2017, DNB played a part in transforming FinansCERT into a Nordic association, Nordic Financial CERT, which is in the process of including members from the other Nordic countries. Furthermore, DNB cooperates closely with the police and reported several incidents in 2017.

THE WAY FORWARD

Security is one of the fundamental prerequisites for responsible financial operations, and forms a natural part of DNB's business activities. DNB seeks to ensure effective security work throughout the Group, while ensuring that it is as simple and unobtrusive as possible.

DNB will continue to monitor the threat scenario closely and familiarise itself with the methods used by criminals. This provides an important foundation for developing suitable security measures. Moreover, the security architecture will be strengthened, and security work will be adapted to reflect the development of new services in the Group. Internal skills enhancement will continue through communication and training initiatives for employees, both generally and for specific functions. DNB follows internationally recognised standards within security and best practices, and the security situation is measured and evaluated.

DNB will maintain internal and external security measures to ensure that DNB will still remain a safe and secure financial institution for customers and society at large.





Customer insight

3

Knowing what people need is not a matter of intuition. It is about personal meetings and about science, measurements, analyses and customer journeys.

It is about understanding customer needs, but also about respecting that we need not know everything. DNB is handling this balancing act with a clear goal in mind: **Offering the best customer experiences**.

37
Ensure good customer experiences

38
Provide ethical products and services

Customer insight

Personalisation and relevance will be important parameters for DNB to earn its customer relationships. The ability to capitalise on data to deliver insight and personalisation is essential if the Group is to be considered relevant for its customers, and DNB will therefore deliver a personalised customer experience in all channels and meetings with its customers.

Customer insight also plays a key role in driving top-line growth, and will be a central tool in the automation of, among other things, credit processes in all segments. To realise its ambitions in this area, DNB will seek to scale up and industrialise the use of data. This means further developing the Group's processes, organisation, expertise and IT infrastructure.

It is essential for the Group to keep in mind that it is the customers who own the data, and that data must always be used in accordance with the customers' consents and expectations.

ENSURE GOOD CUSTOMER EXPERIENCES

Delivering good customer experiences is a prerequisite for DNB's existence. In order to help customers stay ahead, DNB must also understand their needs. This means, among other things, offering simple and relevant solutions, being available and delivering transparent and competitive terms and good customer service. By building trust and offering good customer experiences, DNB will earn the customer relationship.

POLICY AND APPROACH

The individual business areas are responsible for ensuring good customer experiences in their own units. The Marketing & Branding division is responsible for brand experience at group level and supports the work of the business areas. The group standard for products and services applies to all products and services offered by DNB. The purpose of this group standard is to ensure high quality in DNB's portfolio of products and services, and thereby increase the Group's competitiveness, improve its reputation and safeguard its corporate social responsibility. The standard and procedures for compliance shall support effective product development and approval, and contribute to innovation and change capacity.

The key parameter for measuring customer experience is the customer satisfaction index, CSI. In addition, DNB uses reputation surveys, which give an indication of the population's perception of DNB as a company and a brand. The results of these surveys are used in combination with other measurements, such as immediate customer follow-up after the use of services and evaluations of campaigns and events. In-depth analyses of customer segments and product areas are also important to understand underlying customer needs and value drivers. Insight from such activities is essential for deciding which measures to prioritise and how to develop DNB further. The customer satisfaction index and the results of the reputation surveys are published in the Group's quarterly reports.

EVALUATION OF RESULTS IN 2017

The target for the reputation score in 2017 was 70 points, while it was 75 points for the customer satisfaction index. The reputation surveys showed a slightly positive trend in 2017. The reputation score was 64.0 points at year-end 2016 and 66.3 points in the fourth quarter of 2017. The reputation score of a company is composed of seven dimensions covering various aspects of the business, which together define the company's reputation. DNB has a higher score than its competitors when it comes to 'innovation', but a somewhat lower score on the other dimensions. A negative trend is particularly evident within ethics and corporate responsibility. The respondents are attaching ever greater importance to the ethical dimension. This means that DNB's weak score in this dimension has an increasing effect on the Group's overall reputation. Incorporating corporate responsibility as a key element in the new strategy is therefore an important strategic measure.

Customer satisfaction among personal customers was 67.3 points at year-end 2016, whereas it was 70.4 points in the fourth quarter of 2017. Despite the positive increase, the score is still not within the target of 75 points. Personal customers report that excellent customer service and high-quality online banking solutions are the best aspects of DNB. Today, online banking is at the core of the customer relationship. Positive experiences with the bank are founded on simple and fast solutions, favourable terms, sound advice and good customer service in dialogue with the bank. This may be an indication that the negative effect of the closure of a number of branch offices 2016, abated in 2017.The reputation and customer satisfaction scores apply to the Norwegian market and Norwegian customers.

MEASURES

To get a large influx of ideas, DNB also needs other impulses from its surroundings.

During 2017, DNB partnered with start-up companies representing new disciplines, invited committed students to challenge traditional mindsets and arranged a "Hackathon" to explore the possibilities inherent in the innovative and prudent use of customer data.

DNB established a unit for the use and development of robot technology in 2017, in which five employees and ten robots work with 16 different processes. This aim of this division is to automate processes throughout the DNB Group using Robotic Process Automation, RPA. Virtual robots are software installed on designated computers that are given separate identities (employee numbers) and tasks just like a human employee in an existing IT unit. This means, among other things, that customer requests are processed even faster, and that the risk of manual errors is significantly reduced.

In 2017, DNB prioritised the use of agile and customer-oriented working methods, so that products and services to an even greater extent are developed based on customer needs. Various customer-oriented activities have been carried out in the different business areas.

→

Personal Banking
The personal customer segment has started using a new working method called Design Thinking, in which the fundamental idea is that all innovation must be centred on the customer. Through this methodology the bank becomes even more conscious of using customer insight in development and decision-making processes. An example of an initiative that is based on targeted work with customer insight, is a physical service concept for non-digital customers. Read more about this initiative in the section on financial literacy on page 61.

Corporate Banking
One of DNB's key roles in this segment is to connect ideas with capital. Throughout the year, the bank therefore strengthened its focus on startups through initiatives such as:

- DNB NXT Accelerator – a programme for selected start-up companies
- Startskudd.no – DNB's crowdfunding platform
- NXT Community – NXT events across the country and NXT Matcher. DNB facilitated more than 1 500 meetings between start-up companies and potential investors in the course of 2017, both physically and through digital platforms.

Large Corporates and International
To ensure better customer experiences and improved services for corporate customers operating in ocean industries (seafood, offshore and shipping), Large Corporates and International (LCI) established the Ocean division in 2017.

DNB has resolved many challenging situations for customers in the offshore industry who have been through a recession, partly by restructuring their debt. The objective is to balance three aspects, taking into consideration the bank's investors, the bank's customers and the industry as such.

DNB has raised capital in new ways ("originate and distribute"), for instance by helping more real estate customers transfer from the banking market to the bond market. Traditional loan capital has become a scarce resource, and DNB is therefore finding new solutions for its customers.

Another area that experienced growth in 2017, is the market for green bonds. For LCI, this means that new possibilities are opening up for Norwegian and Nordic businesses that need loans to finance climate-friendly projects. This is an area in which both LCI and Markets see great opportunities for growth.

Markets
Markets uses customer satisfaction surveys and customer data to further develop products and services, and provide customers with more tailored solutions. This is especially true for customers using the equity trading solutions. The bank will continue to further increase resources in this area, using customer insight to identify new customers and opportunities, and offer relevant products and services. In the battle for the customers' attention, it is especially important to give them relevant information. Markets has therefore increased the number of activities in social media and through this strengthened its role as a market and product expert in various currency and capital markets.

THE WAY FORWARD

Good customer experiences are reflected in more than a positive development in reputation and customer satisfaction scores, but these factors still give a fair indication. In connection with the new strategy that was launched in the autumn of 2017, new KPIs are to be defined within the four strategic priorities. Combined, these KPIs will indicate how well DNB is doing when it comes to delivering the best customer experiences. In future, it will also be particularly important to be curious about new technologies and sources of information to create even better customer experiences in all customer segments, both for those who need close personal follow-up, and for those who prefer self-service solutions. At the same time, DNB must always act responsibly and in accordance with regulations and the customers' expectations to the processing of data and privacy protection.

PROVIDE ETHICAL PRODUCTS AND SERVICES

DNB has a responsibility to help ensure that the banking industry delivers ethical products and services and has to make conscious choices related to what should be offered, how this is delivered and to whom. The choices DNB makes affect individuals, society, companies, industries and financial stability in Norway, and will in turn affect the confidence the surrounding world has in DNB. DNB's existence is dependent on trust from all of its stakeholders. Trust is earned or damaged when DNB delivers products and services that surpass, or deviate from, what is expected.

POLICY AND APPROACH

DNB's governing principles for corporate responsibility are normative for all product and service development. The governing principles for ethics, the Code of Conduct, shall contribute to increasing awareness of and compliance with the high ethical standards which DNB employees are required



Did you know that DNB Eiendom sold residential properties for a total value of NOK 75.9 billion in 2017?

to observe. A fundamental principle is open, clear and truthful communication which safeguards customer interests in connection with sales and advisory services. Both the principles for corporate responsibility and the Code of Conduct have been approved by DNB's Board of Directors. Read more about this in the chapter on corporate governance from page 76.

The group standard for the approval of products and services is part of the risk management framework and aims to ensure that DNB's portfolio of products and services is of high quality, and thereby boost the Group's competitiveness and customer satisfaction scores, improve its reputation and safeguard its corporate responsibility. The group standard and procedures for compliance shall support effective product development and approval, and contribute to innovation and change capacity.

In addition to DNB's governance documents, Norwegian laws and regulations, as well as stakeholder expectations, must be taken into account.

The Norwegian Financial Services Complaints Board handles disputes concerning private individuals' contractual relationship with banks, finance companies, mortgage institutions or mutual fund management companies. The number of cases in favour or disfavour of DNB will give an indication of DNB's ability to meet customer expectations when it comes to ethical products and services. The annual report of the Complaints Board will not be ready until the spring of 2018, and the figures presented below are therefore from 2016.

EVALUATION OF RESULTS IN 2017

The number of cases in the Complaints Board is an indication of DNB's ability to deliver products and services that meet customer expectations. In 2016, the Complaints Board registered 1 257 new cases related to banking and insurance, and DNB was involved in 309 of these. The Board considered 32 cases from DNB, 23 of which went in favour of DNB and nine in favour of the customer. The number of cases in the Complaints Board is as expected, in light of the number of personal customers in DNB, and in comparison with previous years and with other financial services groups. The results of the cases are also as expected and show that DNB has few cases which end in disfavour of the bank. This is considered a positive outcome.

On 1 April 2017, a new group standard and procedures for the approval of products and services came into force. The group standard applies to all products and services offered by DNB, and includes changes in and the phasing out of products and services. The new standard was implemented as compliance with the existing standards and policies in this field has not been good enough. The group standard clarifies and formalises responsibilities and risk ownership through the value chain and makes it clear that the final decision to establish, change or phase out a product or service shall be made by the group executive vice president who is responsible for the segment to which it is offered.

The group standard requires that each customer segment maintains a complete product catalogue of its products and services. In the product catalogue, each product or service shall be accompanied by a product/service sheet that forms the basis for decision-making. The product/service sheet shall include risk assessments that comprise the entire value chain within the main categories compliance, operational risk, corporate responsibility and reputation, credit risk and insurance/market/liquidity risk. All assessments and decisions shall be verifiable and well documented.

DNB focused on product sheets for new products and services in 2017 and will have a risk-based approach to all existing →

products and services in 2018. By the end of 2018, all new and existing products and services shall comply with the group standard, and thus have their own approved product/service sheet.

In 2017, new ethical principles were prepared in the form of a Code of Conduct. The new Code of Conduct is more comprehensive than the former code of ethics and describes how DNB shall be perceived as a company, and how employees shall act in a business context and as individuals. Ethics and corporate responsibility have also become a part of the group-wide governance principles for all of DNB's operations. DNB received no fines related to marketing or product and service labelling in 2017.

MEASURES

Since 1 April 2017, all new products have been tested by carrying out Shelf Control, and during the course of 2018, the customer segments will check all products – both new and existing – to test whether they really do help customers stay ahead.



Large Corporates and International

In the field of shipping, DNB has joined the Responsible Ship Recycling Standards initiative, RSRS, along with several other banks. RSRS sets requirements for shipping companies that are financed by banks on how to scrap ships in a responsible manner.

In addition, the Group finances renewable energy with about NOK 40 billion.



Markets

DNB Markets plays a key role in the social debate through macro analysts and other experts, and the bank's seminars and conferences are relevant to the market, providing good meeting places and knowledge venues for the business community. Markets delivers in-depth analyses of companies, industries and countries, which form the basis for its customers' investments and decisions. In addition, competitive savings and investment products are developed for various customer segments.

There is an increasing focus on the development of sustainable and responsible investment products in DNB. This includes "green bonds", where the issuers are required to ensure that the funds in a "green" bond issue are earmarked for climate-friendly activities. Markets will continue to offer trading in various carbon credits and certificates.

THE WAY FORWARD

The new group standard for the approval of products and services will be implemented in 2018 and will:

- include a wide range of assessment and decision points for the approval, but also for the ongoing monitoring, of products and services (including corporate responsibility, ethics and reputation, etc.)
- ensure that the assessments of products and services always take into account the customer segment to which they are offered
- support development processes with swift time-to-market and rapid changes in products and services after the launch
- clearly place the responsibility for products and services offered to the various customer segments

By the end of 2018, all DNB products and services shall have a clear follow-up plan which ensures that they will be evaluated. Moreover, the product approval process shall be part of a new IT system that will facilitate a more efficient, systematic and documented approval process.

In order to succeed in the future, it is important to monitor the implementation of the new procedures for the approval and follow-up of products and services. In addition, competence enhancement must continuously be on the agenda. Ever-new combinations of technology and financial services are challenging the established norms related to responsible products and services, for example privacy protection, information security and availability. In line with the new strategy, suitable KPIs shall also be established within this area.

The Norwegian Consumer Council has instituted legal proceedings against DNB Asset Management AS for the management of the DNB Norge funds. They claim that the funds have been managed according to a passive investment strategy, tracking the stock exchange index, while being priced as active funds. The case was tried in the Oslo District Court in November. The court delivered its judgment at the beginning of 2018, and DNB was acquitted on all counts. The Consumer Council has announced that it will appeal the case to the Court of Appeal.

Read more about responsible products and services in the section on risks and opportunities in a long-term perspective on page 69.

Mutual funds with a distinct sustainability profile

An increasing number of customers, both institutional and personal, show an interest in investing in products with a distinct sustainability profile. All of DNB's mutual funds are assessed based on ESG criteria (environmental, social and governance) to meet the expectations of the customers. At the same time, the bank also offers special products with a particular focus on sustainability.

→ In 2017, DNB expanded its offering of sustainable mutual funds with a low carbon factor fund called DNB Global Lavkarbon. The fund is managed by Ole Jacob Wold in DNB Asset Management.

"For the first time, I have been allowed to create a product in direct response to customer demand. It is very satisfying. A large bank such as DNB has extensive contact with its customers, and this is something the market wants. Sustainability is important to people, and this is reflected both in politics and in the business community," says Wold. One of the criteria for the portfolio is that the fund as a whole shall have less than half of the average emissions of all the companies in the world index (MSCI). So it is not carbon-free, but has as little exposure as possible to companies with operating models based on fossil fuels.

"The definition of fossil-free varies. We have chosen to call the fund 'low carbon' to indicate that it is also important to us that the companies in the portfolio have low CO_2 emissions. However, there will be some emission of CO_2 associated with all production processes."

The fund is one of three DNB funds with a distinct sustainability profile and is available in the share savings account and in the fund list on dnb.no. In addition to DNB Global Lavkarbon, it is possible to save sustainably in the mutual funds DNB Grønt Norden and DNB Miljøinvest.

DNB Miljøinvest is a global thematic fund that invests in companies applying new technology to generate and use cleaner energy, increase efficiency and promote the growth of renewable energy. DNB Grønt Norden is a broad-based Nordic mutual fund which excludes fossil energy and invests in companies that contribute to solving environmental problems.



↑

Ole Jakob Wold, responsible for the management of DNB Global Lavkarbon.

Data and customer insight

More data was generated in 2017 alone than in the previous 5 000 years of humanity.

→ Digital adoption and technical innovation is driving an explosive growth of data – creating new challenges, and opportunities, in deriving commercial insight from large volumes of structured, unstructured and fast-moving data.

So what does the future hold? The advent of the on-demand, frictionless mobile economy has dramatically reshaped customers' expectations of digital service excellence.

DIGITAL IS NOT MERELY A 'THING' — IT IS A NEW WAY OF 'DOING THINGS'

DNB has recognised the need to develop a digital strategy that integrates digital concepts into all aspects of doing business: from channels, processes and data into the operating model and culture of the organisation.

This is reflected in DNB's recently launched new strategy to create a focus on digital customer insight. The customer insight initiatives will seek to enhance customer interactions through advanced data-driven analytics to deliver value to the consumer – the right offer through the right channel, at the right price, at the right time.



> 90% of the data in the history of the world was created in the last two years.



40% projected growth in data volumes per year.



30% of managers do not trust data used to make decisions.

1%

of the data today is analysed by organisations.

Source: IBM survey

The bank has recently appointed a chief data officer, CDO, to assist in defining measures to support this strategic priority. The CDO mandate includes exploiting advances in predictive analytics, cognitive analytics and machine learning capabilities to understand customer needs and deliver highly-tailored customer value.

The bank's business areas are well aware of the opportunities to leverage data and are already exploring solutions that will unlock the potential of existing data. Exciting opportunities are opening up to capitalise on these first steps and establish robust foundations for a leading edge data-centric bank of tomorrow.

The CDO function will design and deploy the enabling technologies, processes and organisational frameworks to underpin the next generation, data driven, digital consumer experience platforms (Grow the Bank) while also addressing important regulatory reporting needs (Protect the Bank).

Q&A with CDO Aidan Millar

Why is data so important?
Digital adoption is driving explosive growth in data. The digital exhaust of customer data generated (chat logs, voice, transactions) is vitally important to enable the bank to connect with customers at a personalised level through real time data-driven insights.

How can DNB leverage data to deliver value to its customers?
By simply 'listening' and 'deriving insight' from the data, the bank can optimise and deliver a more relevant interaction with the customer – delivering the right offer, through the right channel, at the right price, at the right time. This is customer value.

How do you see data being able to support regulatory demands?
Regulations should not be perceived as a burden, they can easily be reframed as enforcing good practices. The General Data Protection Regulation, GDPR, and the Basel Committee standard number 239, BCBS239, are good examples. GDPR is about understanding the data we hold and how it is used – and ensuring it is adequately protected. As custodians of our customer's data we should do this anyway. BCBS239 is in addition encouraging the deployment of systematic solutions to better monitor data lineage and data quality for critical risk analysis and reporting – an important priority for any bank.



↑ DNB made history by employing its own chief data officer for the very first time. Aidan Millar will be in charge of the efforts to create value from the Group's data.





Human resources

4

A company's DNA is created by its history, values and will to make a difference to society. However, in a world where change is happening at a dizzying speed, a strong will must be accompanied by the ability to turn around more quickly than ever before.

DNB is therefore not the same as it was last year or five years ago. Instead, strategies, employees and the organisation are adapted to the only thing the future is guaranteed to bring: **Change**.

47 Ensure engaged employees

48 Promote adaptability and change capacity

49 Attract and develop talents

50 Ensure equality and diversity

52 Ensure safe working conditions and a positive working environment

54 Key figures

Human resources

Today, DNB is a traditional bank with digital products, services and channels. DNB will continue to be a bank in the future, but being a bank will entail something else than it does today. It is necessary to think and act like a technology company in areas such as customer experiences, innovation, working methods, new business and cooperation models, use of data and skills mix.

Rapid changes require that all employees are proactive to make themselves relevant for tomorrow. Managers in DNB must dare to let go and give their employees more flexibility and latitude, while placing greater trust in specialists to bring out the best ideas.

Employees who learn faster than competitors will be one of the Group's biggest competitive advantages.

ENSURE ENGAGED EMPLOYEES

To remain competitive in the future, the Group will need to attract new expertise and, not least, further develop the expertise it already has. Tomorrow's employees will also require more of their employers. These factors must be taken into account when organising various tasks, and to ensure that the Group will continue to be an attractive employer.

POLICY AND APPROACH

Being employed in DNB should entail a safe and predictable work situation, which, among other things, is governed by the group policy for human resources and its associated standards.

In order to achieve its business goals and succeed in realising its new strategy, the Group is dependent on an organisation that understands the desired direction, and that actively takes responsibility to move in this direction. DNB needs highly engaged and motivated employees, an open culture and a flexible organisation that creates the most favourable conditions for reaching its goals as quickly as possible. The staff and support unit People & Operations has the main responsibility for this.

One of the measures which particularly contributed to a high level of engagement and a sound understanding of the Group's strategic direction in 2017, was the introduction of the new purpose, new values and new strategy. These were launched at a common event for all employees in the Nordic region and Riga in September, with subsequent international events in London, New York and Singapore. The events, followed by extensive communication in physical meeting places as well as digital channels, have established a sound understanding of the new direction. The subsequent implementation activities have been instrumental in ensuring that all employees have a common understanding of future challenges and opportunities, and not least how they must work together to reach the Group's goals.

DNB offers business-critical training in areas such as IT security, insurance and risk management to relevant units of the Group. The Group has also joined authorisation schemes according to industry requirements set by Finance Norway within financial advisory services and the sale of savings and non-life insurance products. DNB attaches great importance to strengthening employee knowledge and awareness of ethics, anti-money laundering and counter-terrorist financing.

The employees' expertise will be an important competitive advantage in the times ahead, along with the ability to learn quickly and apply the learning in their daily work. DNB expects that each individual employee takes responsibility for his/her own development, and actively promotes the employees' efforts to improve their skills through internal and external training activities and, not least, through knowledge sharing at work. Opportunities for skills enhancement will be crucial for both employee engagement and long-term value creation. However, the most important arena for learning and ensuring that the Group has the right competences is each employee's daily work tasks.

To ensure that all employees perform at the best possible level, a system is in place to facilitate a regular dialogue between managers and employees. It is expected that everyone in the organisation has a minimum of two annual meetings related to their targets and development. Regular dialogue is strongly encouraged to make sure that everyone is working towards common goals, and to stimulate individual development.

EVALUATION OF RESULTS IN 2017

The Group's employee engagement, change capacity and innovative power are measured three times a year through the PULSE employee survey. The results show that DNB generally has a high level of employee engagement, and that managers communicate well. The organisation has a high score when it comes to confidence in the group management team and shows clear progress in questions concerning perceived ethical standards and corporate responsibility. The PULSE surveys for 2017 paint a picture of a robust organisation that has fared well through significant restructuring. The employee engagement score was 85 on a scale with 100 as the maximum score. This is a satisfactory increase from the preceding year (84), and in line with the target set for 2017 (85). It is confirmed through the surveys that the involvement of individual employees increases motivation and engagement. 93 per cent of employees reported that they completed a performance dialogue with their immediate superior in 2017.

THE WAY FORWARD

In 2018, DNB will continue to work with competence, culture and leadership, which are firmly ingrained in the new strategy. It will be neither possible nor desirable to cover the extensive need for future changes in the Group's skills mix through recruitment alone. Therefore, systematic skills enhancement among existing employees will be a prioritised area.

To succeed with the strategy, DNB is dependent on managers who stand united and take a particular responsibility for ensuring that the priorities are in line with the new direction, and it will be necessary to make changes in how the manager role is performed. The Group needs managers who give their employees more flexibility and latitude, and who help →

make sure that decisions are made at the appropriate level. DNB aspires to cultivate a learning culture within the Group, and key organisational tools will be developed in order to further support the new direction. In 2018, this will include a new process for employee development, a new organisational survey and a new management development scheme.

The goal is to develop an organisation that is learning-oriented, focuses on customer needs and succeeds in motivating all employees to be curious, bold and responsible. By working together across units and making use of new working methods, DNB will succeed in reducing the time to market for new products.

PROMOTE ADAPTABILITY AND CHANGE CAPACITY

The speed and complexity of the changes that are currently hitting the industry, challenge DNB's ability to drive development and skills enhancement fast enough, and makes it necessary to be fundamentally innovative.

Digitalisation increases the need for new knowledge in the period ahead. Technology forms the basis for changes in customer behaviour and creates a need for expertise within new technologies and new working methods, products and services.

POLICY AND APPROACH

The group policy for human resources is guiding for the work to promote adaptability and change capacity. This is elaborated on in the regulations for reorganisation and assignment processes, as well as in the standards for leadership and competence development and international assignments.

Learning takes place primarily through the employees' daily tasks, i.e. by performing challenging tasks and projects, as well as through feedback on performance. In addition, learning is facilitated through digital learning tools and communication channels, giving everyone the opportunity to acquire relevant competence for the future. Managers are responsible for facilitating learning and ensuring that the competence acquired is used in the best interests of the individual and DNB. This is done systematically through DNB's initiatives for competence development.

All activities related to working culture and competence development will underpin the group strategy, the new values and the new purpose. In practice, this means that DNB is working actively to develop the change capacity of the organisation to be as well prepared as possible to meet coming changes in the form of new customer expectations, a new competition climate, new regulations and new technologies. The values curious, bold and responsible will be guiding for the employees' behaviour towards both customers and colleagues.

The rapid changes faced by the Group require that everyone is proactive in making themselves relevant for tomorrow. All employees must raise their level of digital expertise as required to carry out their work tasks. Efforts shall be made to ensure that all employees get the opportunity to develop relevant skills and expertise, but it is up to each individual to seize opportunities and be curious.

DNB's Job Centre promotes mobility within the Group and helps and supports employees in their efforts to increase their change capacity and enhance their skills to further develop their career. The Job Centre helps employees become aware of their own skills and enables them to apply for relevant vacant positions in and outside DNB. The employees are offered guidance and coaching in connection with the choices they need to make, and internal and external periods of secondment are facilitated so that they can acquire new skills.

EVALUATION OF RESULTS IN 2017

The development of competence and talents is the responsibility of the individual units, and is also facilitated internally through seminars, events and digital channels. On average, NOK 1 170 was spent on competence development per employee in 2017, which is half the amount spent in 2016. This can be explained by increased use of digital training. A total of 9 061 employees participated in the Group's training initiatives, which is on a level with 2016. In addition to training, the Group arranged a number of seminars, podcasts and lectures, which were also streamed internally, as well as theme weeks linked to key topics such as emerging technologies and corporate responsibility. It is also emphasised that the most important learning takes place in the daily work and through extensive sharing of expertise across the Group. Many contribute actively to this, not least through the interaction platform Workplace (Facebook for companies). This enables individual employees to take responsibility for their own learning.

During 2017, a total of 236 employees visited the Job Centre to receive help and support. 45 employees chose to leave the Group, while 43 were offered a new job in DNB. The Job Centre assisted 395 employees with health-related challenges and is considered to be a positive initiative for strengthening employees' change capacity.

The share of people leaving the Group by voluntary resignation in Norway, was 4.9 per cent. This shows a normal

development, and is the same percentage as the previous year. 662 new employees were recruited in Norway, and 780 employees in total.

THE WAY FORWARD

Skills enhancement is one of the main objectives of the new group strategy, which was launched in the autumn of 2017. In 2018, it will be particularly important to develop competence within critical areas such as data analysis, IT project management, security and various forms of design. Furthermore, it is essential to improve the digital expertise of all employees, and in 2018, a mobile learning tool was launched to facilitate efficient distribution of training and communicate relevant knowledge to all employees.

ATTRACT AND DEVELOP TALENTS

The Group's total competency profile is changing. This will affect those who already work in DNB, and also incites the Group to attract people with expertise in fields such as service design and new technological areas. DNB must become a more attractive employer for people with various specialist skills who do not have banking as their preferred sector. There is great demand for this type of competence.

POLICY AND APPROACH

The group policy for human resources describes the principles for how DNB will attract and develop talent, and this is elaborated on in the group standards for hiring new employees, leadership and competence development, performance management and remuneration.

DNB has gone new ways to attract new and business-critical expertise by, for example, arranging competitions among students that have resulted in new full-time and part-time employees and "summer interns". In addition, DNB hosts and participates in venues for promoting innovation and development, among other things to meet people whose background matches the Group's desired profiles.

2017 was the first year that DNB recruited candidates for a graduate programme instead of trainees. The candidates were employed directly in the business areas and support units, attending a one-year, group-wide programme. In total, 30 candidates were recruited through the programme and employed in all the Group's business areas and support units. The graduate programme has attracted highly qualified talents, and is considered a success for both the candidates and DNB's business areas. DNB had 72 students as "summer interns" in 2017, and has so far recruited 42 for the summer of 2018. →



Did you know that DNB is constantly seeking to increase the competence of its employees through measures such as special DNBtalks, podcasts and a competence app?

DNB is committed to retaining and developing competent employees. Talent reviews are conducted on an ongoing basis where performance and potential are evaluated in order to develop managers and employees to make them able to meet new challenges and tasks. The talent reviews are considered expedient to assess future potential. In the coming period, it will be even more important to succeed in developing own employees to meet the competence needs of tomorrow.

The Group is dependent on having sufficient access to both specialist professionals and good managers who succeed in creating change and developing their own units. DNB has facilitated development programmes aimed at both managers and management talents. The participants in these programmes have been evaluated and show a greater ability to take on more responsibility both during and after the programmes.

Remuneration schemes in DNB are designed in line with the Group's standards and underpin the strategy, financial targets and values. It is a guiding principle in DNB that all remuneration should be based on an overall assessment of the individual employee's contribution to the attainment of the Group's, the unit's and individual goals. Read more about the Group's remuneration schemes in the chapter on corporate governance.

EVALUATION OF RESULTS IN 2017

DNB is considered one of the most attractive employers in Norway and is rated among the top ten in three categories among those who have a few years of work experience. DNB is rated as the third most attractive employer for IT students and the fifth for those with some years' work experience in IT. This shows that DNB has gained a stronger appeal for the new competence profiles the Group needs. DNB was also ranked number one by business students for the third consecutive year. DNB's measures to attract and develop talent ensure that the Group generally has ample access to competence.

THE WAY FORWARD

DNB's ambition for 2018 is to remain the most attractive employer for students and for those with a few years of work experience, as well as for talents with digital expertise. The efforts to identify, retain and attract these profiles will continue in 2018.A programme called Aspire has been established, in which 32 selected management talents have undergone a process to identify their strengths and development areas. This is followed up with individual development initiatives and coaching throughout 2018.

ENSURE EQUALITY AND DIVERSITY

DNB believes that diversity is essential for ensuring innovation and value creation. Focusing on equality and diversity provides opportunities to attract and hire the best talents. As Norway's largest bank and a major Norwegian employer, DNB also has a corporate responsibility to be at the forefront of the development and ensure equality and diversity at all levels of the organisation.

POLICY AND APPROACH

Equality and diversity are followed up in all parts of the company, and the Group's regulations ensure diversity and equal treatment in recruitment and selection processes. Discrimination is not accepted. DNB complies with the local regulatory requirements of each country in which it has operations, and is committed to equal pay, regardless of gender, for the same work and performance. The Group will continue to differentiate pay based on performance, but works continuously to identify and close wage gaps that may be due to gender or other diversity aspects.

As in the previous year, DNB set aside an 'equal pay pool' of NOK 17 million in the 2017 wage settlement to equalise imbalances in the Norwegian part of the Group. A plan of action for equal pay has been drafted in cooperation with the trade unions. The action plan addresses, among other things, a balanced gender ratio as one of the job assignment criteria in reorganisation and employment processes, internal mentor and network schemes for women, mapping and analysis of pay levels and pay differences in units, instructions for the implementation of wage and bonus settlements and quality assurance in wage settlements.

DNB has great diversity in the Group's international operations, and concrete measures have been initiated to increase diversity in the Group's Norwegian operations. In recruitment initiatives targeting students, gender and ethnic background are emphasised. DNB is also working actively to attract employees from a broad selection of educational institutions and disciplines.

DNB has several targets to ensure gender equality in management and sufficient access to talented women managers: minimum 50 per cent female representation in internal management development and talent programmes, and minimum 40 per cent women candidates on lists for succession planning. Managers are required to identify potential talented women managers and use performance dialogues to motivate these to seek management challenges. Internal mentor and network schemes for talented women managers have also →

Cheering on women with technology backgrounds in DNB

The financial services industry has undergone a massive digitalisation in recent years. DNB is competing with large and small technology companies across national borders to create the best customer experiences. The development of new products and services requires more technology competence, and even though the bank is developing such expertise internally, it must also join in the competition to recruit people with this highly sought-after background.

→ The pursuit of technology expertise presents new challenges when it comes to reaching gender equality goals. Among experienced IT professionals there is a predominance of men, who also make up the majority of the applicants for these positions.

There are currently not enough IT graduates, and the girls are in a clear minority in these studies, despite the fact that the demand for technologists is expected to be even stronger in the coming years. According to DNB Markets, an upswing is expected in oil investments. This may lead to a drastic increase in the demand for technologists in this sector. In addition, many technologists are behind the establishment of fin-tech companies.

Against this background, it is especially gratifying that DNB in 2017 was rated Norway's third most attractive workplace for IT students, up as much as five places from 2016.

The Group is already benefiting from the fact that many students regard DNB as one of the top IT workplaces. Most of the 30 graduates who were recruited in the autumn of 2017, had an IT background. 15 of these are women, of whom 13 have a scientific or technological education.

DNB has managed to generate interest and engagement among technology students and especially among female IT engineer students on social media, where their opportunities in the bank are clearly shown. The bank has also succeeded in promoting the bank as an IT workplace through meeting places for female IT engineers such as "Girl Geek dinners".

In addition, DNB has hired three people who specialise in recruiting technologists with previous work experience. The level of engagement among technology students led to over 800 applicants to the graduate programme, and this allowed DNB to choose between a number of highly qualified candidates, many of whom were women.

So although there are still clearly fewer women than men among graduating technologists, DNB is succeeding in attracting almost as many female as male graduates with a technology background.

been established. In recruitment processes for management positions, the best qualified male and female candidates must be identified before the final choice is made. When recruiting managers, procedures must be in place to ensure that female candidates are identified, and these should be actively encouraged to apply for the positions. A balanced gender ratio should be one of the job assignment criteria in restructuring processes. When changing the composition of management teams, particular emphasis should be placed on achieving a better gender balance.

EVALUATION OF RESULTS IN 2017

As a result of the follow-up of wage and bonus settlements and the use of the 'equal pay pool', more women than men have been given individual raises in the last two years.

DNB has set a female representation target at the top four management levels of minimum 40 per cent. At the end of 2017, the percentage of women in management positions was 37.0 per cent, a rise from 33.5 per cent in 2016. The Group focused on measures to improve the gender balance at the various management levels in 2017, and they are well established in the business areas. The organisation is positive to the implementation of the measures, which has become reinforced by the positive attention received both in the media and from other businesses and research institutions.

THE WAY FORWARD

DNB will increase its initiatives to promote individual development of leadership skills among selected women managers and management talents, and ensure a gender balance among managers and profiled key persons who speak on behalf of the company internally and externally. Important future targets will be to develop strategies and measures to ensure equal opportunities for men and women, and to increase diversity among employees and managers. This is especially true in the Norwegian part of the Group's operations.

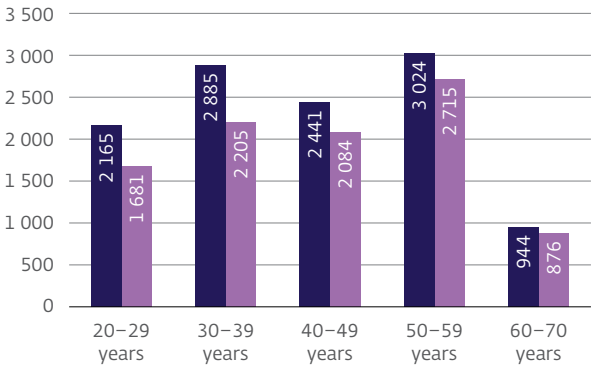
There is a zero-tolerance approach to discrimination on the basis of, for example, gender, ethnic background or functional ability, and DNB shall ensure good working conditions in all countries where the Group has operations.

ENSURE SAFE WORKING CONDITIONS AND A POSITIVE WORKING ENVIRONMENT

Safe working conditions and a positive working environment are essential to prevent and reduce health risk factors. Health, safety and environment (HS&E) are therefore important elements in the DNB Group's policy for human resources. DNB

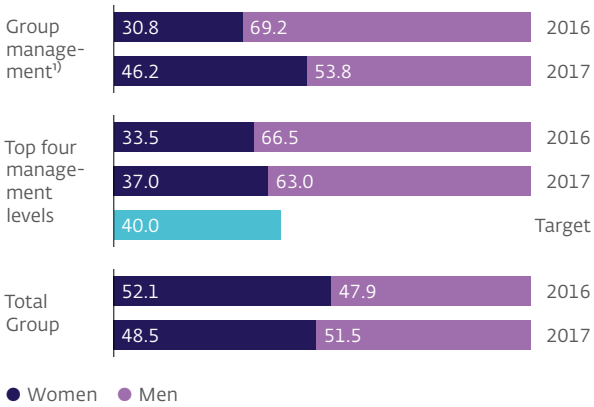
Employees according to age

Number



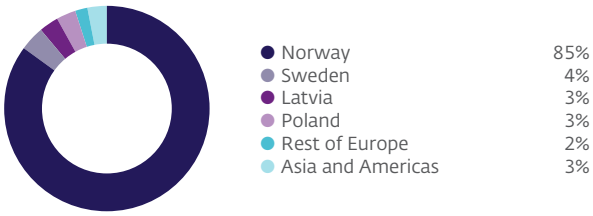
Gender distribution

Per cent



1) The figure for 2017 reflects the new management team established on 11 December 2017.

Employees according to country



is committed to preventive working environment measures that promote employees' safety, health, well-being and job satisfaction.

POLICY AND APPROACH

The governing document is the group policy for human resources. The policy is elaborated on in the group standard for health, environment and safety. Cooperation between management, safety representatives and employees shall ensure that efforts to improve the working environment are future-oriented and an integral part of daily operations.

DNB managers shall be updated on HS&E issues. In addition, managers are trained in how to handle sickness absence. DNB has a separate specialist unit that supports managers in the follow-up of employees who are absent due to sickness. First aid expertise is continually assured among the employees through courses and films.

DNB places importance on having an inclusive working environment. DNB's targets specified in the inclusive workplace agreement are: sickness absence reductions, special adaptation for employees with reduced capacity for work and an increase in the average retirement age. The targets are regularly discussed with the Norwegian Labour and Welfare Administration (NAV). The inclusive workplace agreement applies until the end of 2018.

In DNB's operations in Norway, the physical and ergonomic working environment is surveyed annually, together with knowledge related to the Group's environmental goals and physical security. Through this HS&E survey, employees can provide feedback about their own working environment.

To counteract the consequences of sedentary work, there is good access to adjustable height desks and the possibility for ergonomic advice via the company health service. In Oslo, Bergen and Trondheim, facilitating physical activity through DNB training and exercise classes is an important preventive measure.

DNB makes special adaptations for employees with reduced capacity for work. The number of disabled parking spaces has been adapted to the actual requirements in each building. The Group has procedures for the handling of bullying, sexual harassment and other improper conduct. The procedures shall ensure that a reported event is assessed swiftly, predictably and consistently.

The risk of robbery has been practically eliminated due to the transition to cashless branch offices, however, there has been an increase in the number of threats and violence against employees. These cases are handled by DNB Group Security.

EVALUATION OF RESULTS IN 2017

DNB is still working actively to ensure that managers and safety representatives have relevant HS&E expertise. Knowledge of working environment factors, special adaptation and preventive measures are fundamental elements in the Group's systematic HS&E work. Safety representatives in the Norwegian part of the Group's operations are given HS&E training, and in 2017, a total of 43 new safety representatives completed the HS&E training programme. The inclusive workplace agreement is upheld through good cooperation with NAV, and the follow-up of sickness absence has high priority.

A survey is carried out among the employees every year concerning the physical working environment, external environment and security situation, as well as procedures related to these. As in preceding years, the 2017 results showed a very high degree of satisfaction with the psychosocial working environment. Workplace accidents in 2017 were reported in a structured manner, and it was ensured that occupational injuries were reported to NAV and DNB Livsforsikring where applicable.

24 employees in the Norwegian part of the Group were exposed to threats or violence in 2017, and witness support was given to three employees.

210 employees participated in courses on threat management, security and fire protection during the year.

Nine accidents and injuries during working hours or in connection with travel to or from work were recorded, but none were serious. Workplace accidents are recorded in the Group's incident database and reported to NAV as occupational injuries. The incidents are reported to the Group's working environment committee, and serious incidents are reported to the Norwegian Labour Inspection Authority.

THE WAY FORWARD

DNB will continue its efforts to develop health-promoting and preventive working environment measures that contribute to the employees' safety, health, well-being and job satisfaction. The Group will continue to use the social media platform Workplace (Facebook for companies) and nano-learning (short intensive courses) to create a good working environment, provide training in specific areas such as ergonomics and offer general training within HS&E.

Key figures

	2017	2016
General		
Total number of employees in the Group	9 561	11 459
→ number of employees in Norway	8 097	8 244
Engagement index	85	84
Recruitment and mobility		
Total number of external employees recruited	780	816
→ number of women	321	401
Total number of external employees recruited in Norway	662	641
→ number of women	263	306
Average age of new employees	32	30
Number of employees who changed jobs within DNB in Norway	581	642
Number of employees who left DNB due to natural attrition in Norway	420	409
Percentage of employees who left due to natural attrition in Norway (%)	4.9	4.7
Organisational adjustments		
Reduction in the number of full-time positions from the previous year	(1 923)	(373)
Number of severance packages	198	583
Number of employees transferred to the Job Centre	67	135
Sickness absence and an inclusive workplace, Norway		
Sickness absence (%)	4,49	4,51
Sickness absence in the form of man-days	77 896	83 608
Average retirement age	60.8	60.2
→ including severance packages for employees over the age of 62	62.0	62.0
Number of employees under the age of 62 retiring on a disability pension	28	38
Competence development in Norway		
Percentage of employees who completed a performance dialogue (%)	92	94
Average competence training costs per employee (NOK)	1 170	2339
Number of days of classroom teaching completed	3 733	n/a
Number of e-learning course sessions completed	117 655	n/a

	2017	2016
Equality and diversity		
Average age, men	43.2	42.5
Average age, women	43.4	41.7
Percentage of women working part-time (%)	5.7	5.0
Percentage of men working part-time (%)	2.6	2.3
Average salary in Norway, women (part-time positions converted to full-time)	593 914	568 952
Average salary in Norway, men (part-time positions converted to full-time)	728 598	707 309
Average number of weeks parental leave for women in Norway	31	32
Average number of weeks parental leave for men in Norway	12	11
Percentage of women, total (%)	48.5	52.1
Female representation in the group management team (%)[1)]	46.2	30.8
Female representation at management level 3 (%)	31.7	29.3
Female representation at management level 4 (%)	38.4	34.9
Female representation at management level 5 (%)	40.3	34.9
Female representation at management levels 1–4 (%)	37.0	33.5
Female representation at management levels 1–5 (%)	38.6	39.1
Women's salary relative to men's in the group management team, excluding the group chief executive (%)	80.5	74.3
Women's salary relative to men's at management level 3 (%)	87.8	88.9
Women's salary relative to men's at management level 4 (%)	89.9	90.3
Women's salary relative to men's at management level 5 (%)	86.9	96.1

1) The figure for 2017 reflects the new management team established on 11 December 2017.



Did you know that DNB is recruiting 30 new graduates in 2018, the majority of whom are engineers, not business graduates?





Role in society

5

For nearly two hundred years, we have acquired and shared knowledge, developed global networks and adapted to modern everyday life.

Through our role in society, we show how Norway's largest and one of the world's best capitalised financial services groups is working relentlessly to **combine profitability with responsibility**.

59
Promote innovation and restructuring

60
Promote financial literacy

62
Integrate sustainability considerations in operations
→ Responsible investment
→ Responsible credit
→ Responsible insurance

69
View risks and opportunities in a long-term perspective

71
Ensure openness and transparency

Role in society

Companies that want to maintain their competitiveness must take responsibility for making society a better place. Corporate responsibility in DNB is about how the Group creates value by considering both risks and opportunities in a long-term perspective. As Norway's largest bank, DNB will help ensure that start-up companies have greater chances of succeeding, and that personal customers are able to make sound financial choices. The bank will invest in and lend money to companies that are future-oriented, and both DNB and society at large will benefit when sustainable solutions gain ground.

DNB has established four pillars for the work on corporate responsibility:

1 **DNB generates long-term and sustainable financial value creation for its owners**. This means that in DNB's operations, corporate responsibility is emphasised along with other relevant considerations in all decision-making processes.
2 **DNB contributes positively to society**. This means that specific goals and measures related to selected United Nations Sustainable Development Goals shall be defined, and that systematic efforts shall be made to reach these goals.
3 **DNB is honest and trustworthy**. This means that products and services are always tailored to customer needs. DNB wants the best for its customers In a world with new market entrants and major change, DNB shall be a bank that customers trust.
4 **DNB is transparent about its operations**. This means being open about the dilemmas faced when balancing short-term and long-term considerations. The Group shall be attentive to the needs of customers and society, recognising when expectations change and engaging in dialogue with relevant stakeholders. This does not imply acting on all expectations, but listening to those who may have relevant insight into the business decisions made by the Group.

PROMOTE INNOVATION AND RESTRUCTURING

WHY THIS IS MATERIAL

As Norway's largest bank, DNB contributes to the development of an active and well-functioning business sector. DNB promotes innovation and restructuring and contributes to long-term value creation in Norway by acting as a competent partner which provides good advice, helps companies gain access to equity and debt capital and ensures efficient settlement solutions.

Today, there are approximately 500 000 small and medium-sized enterprises (SMEs) in Norway. They are the bedrock of the Norwegian business community, representing 99 per cent of all companies in the country and accounting for around half of all value creation. SMEs are very important growth engines and a vital driving force for restructuring and innovation in the Norwegian business community. Although most of them remain small, some grow to be strong and create many jobs. In the transition to a low carbon society, DNB also plays an important part by financing the companies that help fulfil the objectives of the Paris Agreement and meet the 2°C target.

POLICY AND APPROACH

The pace of change in society is escalating, and the average life span of companies has been reduced considerably over the past few years. At the same time, new and innovative companies create growth and new jobs. This is why entrepreneurs are playing an increasingly important role in maintaining today's welfare society. Approximately 60 000 new companies are established in Norway each year, and only about three in ten get past the first five years. DNB has helped entrepreneurs and start-up companies over many years. For DNB, it is important to be there from the start and ensure that as many start-up companies as possible succeed. DNB aims to help more people dare to take the plunge and succeed in creating jobs for themselves and others. The focus has mainly been on making things easier for them and on being a good sparring partner and adviser. The commitment to promoting innovation and restructuring in the Norwegian economy involves the entire Group. DNB implements measures that are related to both services and meeting places, and to cooperation with other key players. The initiatives to support start-up companies are founded on DNB's governance principles, and are in accordance with the Group's purpose and values.

The restructuring of Norway also requires that private capital is put to work to promote future growth and value creation. DNB has Norway's largest network of entrepreneurs and start-up companies. At the same time, the Group has the largest network of investors. DNB wishes to facilitate venues where these parties can meet. It is when ideas and capital meet that future value and jobs are created.

The Board of Directors and DNB's group management team follow the start-up initiatives and participate in the social debate about what are the correct and important measures to promote innovation and restructuring. Reports are regularly sent to the group management team and the Board of Directors regarding the measures initiated. The group management team actively participates in arenas and events which are relevant for entrepreneurs and for companies that are in a restructuring or growth phase.

EVALUATION OF RESULTS IN 2017

As Norway's largest bank, DNB has an important role to play in helping the Norwegian business community gain access to capital. Business loans are an important source of growth and profitability for companies. DNB increased its lending to small and medium-sized enterprises in Norway by 10 per cent from 2016 to 2017 (5.3 per cent from 2015 to 2016).

→

DNB launched the NXT initiative in 2016. DNB NXT is Norway's largest meeting place for entrepreneurs and investors, and in 2017, events were held in ten different locations throughout Norway, with a total of more than 2 500 participants. This resulted, among other things, in about 2 000 meetings between start-up companies and potential investors. DNB's NXT initiative is part of a long-term strategy to help ensure that more private capital is invested in exciting growth companies.

The entrepreneurial company Startupmatcher and DNB joined forces to develop NXT Matcher during the course of 2017. This is a digital platform that connects entrepreneurs and investors. More than 3 000 entrepreneurs and investors found their way to NXT Matcher during the autumn of 2017, and the number is rising. The platform enables companies to easily find potential business partners, investors or investment objects, and gives them the opportunity to make direct contact.

Towards the end of 2016, the Group launched DNB NXT Accelerator, a three-month programme for technology companies, to which DNB and StartupLab invited promising startups. The purpose of the programme is to help the selected companies reduce the time to market for their products. The programme provides financing, expertise, networks, advisory services and support. In 2017, there were 109 applicants, and five companies were selected and completed the three-month programme in the spring of 2017.

In April 2017, DNB launched Startskudd.no – a crowdfunding platform where entrepreneurs, clubs and associations with a customer relationship in DNB can present their projects to a Norwegian audience. It is up to the customers' networks and other interested parties to decide whether they want to help realise the ideas. In 2017, nearly 150 projects were presented on the platform. Crowdfunding has enabled many entrepreneurs to start manufacturing their first products. Examples of successful projects include MovieMask, Bergh Watches and Heat Experience, all of which have managed to raise substantially more capital than they had aimed for.

In 2017, a total of 3 213 potential entrepreneurs received help and advice from DNB's start-up pilots, both in physical meetings and over the phone. This was an increase of 16 per cent from 2016. In addition, the start-up pilots make webinars, hold courses and are present at entrepreneurial events across Norway. Since their introduction, the DNB start-up pilots have registered more than 11 000 inquiries from entrepreneurs or potential entrepreneurs.

THE WAY FORWARD

DNB's ambition for the corporate market in Norway is: "By cooperating with us, our customers will have a greater chance of success." DNB will assist everyone who starts their own business and pave the way for more people to do the same. DNB plays an important role as an intermediary between ideas and capital. The Group will highlight promising entrepreneurial companies and help ensure that they get the best growth conditions. Some will be customers in the years to come, others will become business partners, and some may perhaps become future competitors. All of them will make a positive contribution to society, both through their own activity and indirectly through subcontractors. This creates ripple effects which, in total, amount to a significant social contribution. In 2018, DNB will therefore highlight Norwegian small companies through the project "Ringvirkninger" (ripple effects). Read more about this on dnb.no.

PROMOTE FINANCIAL LITERACY

WHY THIS IS MATERIAL

With two million personal customers in Norway, DNB has a special responsibility to ensure that as many people as possible have the possibility to make good financial decisions. Research shows that poor financial habits are passed down from one generation to the next, and DNB regards it as its corporate responsibility to help as many people as possible develop good financial habits. Customers who are financially literate are also able to make good financial choices. This is beneficial for society, customers and DNB.

POLICY AND APPROACH

The responsibility for promoting personal financial literacy is embodied in the bank's governing principles, which state that the bank shall support socially beneficial causes and secure important social values in those areas and industry sectors where the Group has operations. One of the bank's main initiatives to promote financial literacy is the learning programme A Valuable Lesson, developed in partnership with the Norwegian Red Cross. A Valuable Lesson is a digital learning tool consisting of five modules within personal finances. The programme complements the learning targets for the fifth to seventh grade (10 to 12-year-olds). DNB believes it is important that children learn about personal finances at an early age so that they can make sound financial choices, irrespective of background. The division for Corporate Responsibility and Public Affairs is responsible for A Valuable Lesson.

In a society that is becoming increasingly digitalised, and where manual services are gradually being removed and/or becoming



Did you know that around ten nurses and four doctors are employed in DNB Livsforsikring?

fee-based, it is important for the bank's customers to have a minimum level of knowledge about digital banking services in order to be able to manage their own financial affairs. At the same time, DNB has realised that some customer groups will never be fully digital. DNB will also offer banking services to non-digital customers, and therefore implemented various measures for this customer group in 2017.

To simplify the learning process for these customers and enable them to use the knowledge at home, DNB has developed a "Guide for digital banking services", both for the Internet bank on PCs and tablets and for the mobile bank. This is available to all customers in all branch offices across Norway and can be sent by post if requested by calling DNB's customer centre.

For younger customers, the bank has relaunched a book called "Skikk og bank" (in Norwegian only). This is a book for those who have just left home, containing tips and advice especially related to personal finances. It is intended to provide young people with a good foundation for developing sound financial habits, thereby preventing them from getting into financial problems.

In addition to these specific measures, DNB regularly holds seminars for customers to help them make better financial choices. This may be seminars on pensions, shares, savings or macroeconomic trends. Markets offers training courses via webinars and web TV broadcasts for private individuals, and is also present in different social media. The courses deal with everything from equity trading, analyses, market updates and macro events to company presentations. In addition, Markets offers training to companies and institutions within foreign exchange, fixed-income and commodities, and arranges thematic seminars on markets, products, funding opportunities, risk management and regulations.

EVALUATION OF RESULTS IN 2017

As a follow-up to last year's course for older customers, DNB has worked on a project called "Bank uten nett" (offline banking). Based on various criteria, the bank has identified around 65 000 customers with whom communication has not been satisfactory because they are not digital. They should nevertheless be able to have a functional and effective customer relationship with DNB.

To identify the challenges faced by these customers and what can make it easier for them to perform everyday financial tasks, the bank has conducted in-depth interviews, user tests and workshops with people in the target group. Based on the insight gained in this way, DNB has prepared a booklet to be sent to these customers at the beginning of 2018. The booklet describes services which are mainly used by non-digital customers: BrevGiro (giro sent by regular mail), Avtalegiro (direct debit), SMS services and SMS alerts, Kontofon (telephone banking service), deposit/withdrawal notebook and account statements by regular mail. A separate phone number has also been established for calling directly to advisers with everyday banking as their area of expertise. →

In addition to distributing information about relevant manual self-service solutions and products, the bank will also make a few adjustments in the customer service for this target group. The goal is still to enable as many customers as possible to use self-service solutions, but not necessarily with the help of digital tools.

As the customers in this group are not digital, their opinions about the bank have not been recorded through the regular user surveys. Efforts are therefore being made to develop a system for measuring customer satisfaction in this group by phone.

2017 was also defined as a "Savings Year" in DNB, where particular importance was placed on giving customers access to products and services which make it easier to save. The savings app 'Spare' provides a simple way for the customers to deposit money in accounts or mutual funds and have a complete overview of their own savings. Share savings account with an extended fund selection and individual pension savings (IPS) are all included in the new app, which was downloaded more than 250 000 times in 2017 and contributed to strong growth in the sale of savings agreements.

A separate campaign aimed at young adults (aged 18-33) has also been launched, as young people today want guidance and are looking for information on matters such as personal finances when they are leaving home. DNB will be there for this customer group to build trust in the bank as a sound long-term adviser. This is defined as the 'young segment'.

No new campaigns were launched to recruit more teachers to A Valuable Lesson in 2017. The number of registered teachers is still around 1 300. The tool has been evaluated, and a relaunch is planned in the first half of 2018.

THE WAY FORWARD

In 2018, DNB will continue work on further developing A Valuable Lesson, especially linking it to the prioritised families and young segments. Further measures for the non-digital customers are also under preparation.

In connection with the update of the materiality analysis, new methods will be worked out to measure the bank's efforts to raise the financial literacy of the population.

INTEGRATE SUSTAINABILITY CONSIDERATIONS IN OPERATIONS

RESPONSIBLE INVESTMENT

Responsible and sustainable investment implies taking environmental, social and economic conditions into account and ensuring sound corporate governance in investment management. The main purpose is to achieve long-term returns with an acceptable level of risk, contribute to sustainable development and avoid contributing to the violation of fundamental rights. Customers on behalf of whom DNB makes investments, expect the Group's investment activities to be responsible. Responsible investment is important for DNB's life insurance company, the Group's equity investments, management of mutual funds and the active management of investors' portfolios of financial instruments.

POLICY AND APPROACH

DNB has responsible investment guidelines for its investment operations to ensure that the Group does not contribute to the infringement of human and labour rights, corruption, climate change, serious environmental harm or other acts which can be perceived to be irresponsible. The guidelines for responsible investments cover all asset classes and financial investments through DNB Livsforsikring and Group Investments in DNB. They also apply to the business area Wealth Management & Insurance and the companies established under DNB Asset Management Holding AS.

The work on responsible investment in DNB is based on internationally recognised principles. The measures used are mainly positive screening, active ownership through dialogue and voting, negative screening and exclusion. According to DNB's guidelines for responsible investment, companies will be excluded from the investment universe if they themselves or entities they control produce tobacco or pornography. Nor does DNB invest in companies involved in anti-personnel mines or cluster weapons, as described in the Anti-Personnel Mine Ban Convention and the Convention on Cluster Munitions, or in companies which develop and produce central components for use in weapons of mass destruction. The guidelines include a coal criterion, whereby mining companies and power producers which themselves, or consolidated with entities they control, derive 30 per cent or more of their income from thermal coal, or base 30 per cent or more of their operations on thermal coal, may be excluded from the investment universe. In addition, emphasis shall be placed on forward-looking assessments of the companies, including any plans to reduce the share of their income or operations derived from thermal coal and/or increase the share of their income or operations derived from renewable energy sources. →

Measuring the carbon footprint of equity funds

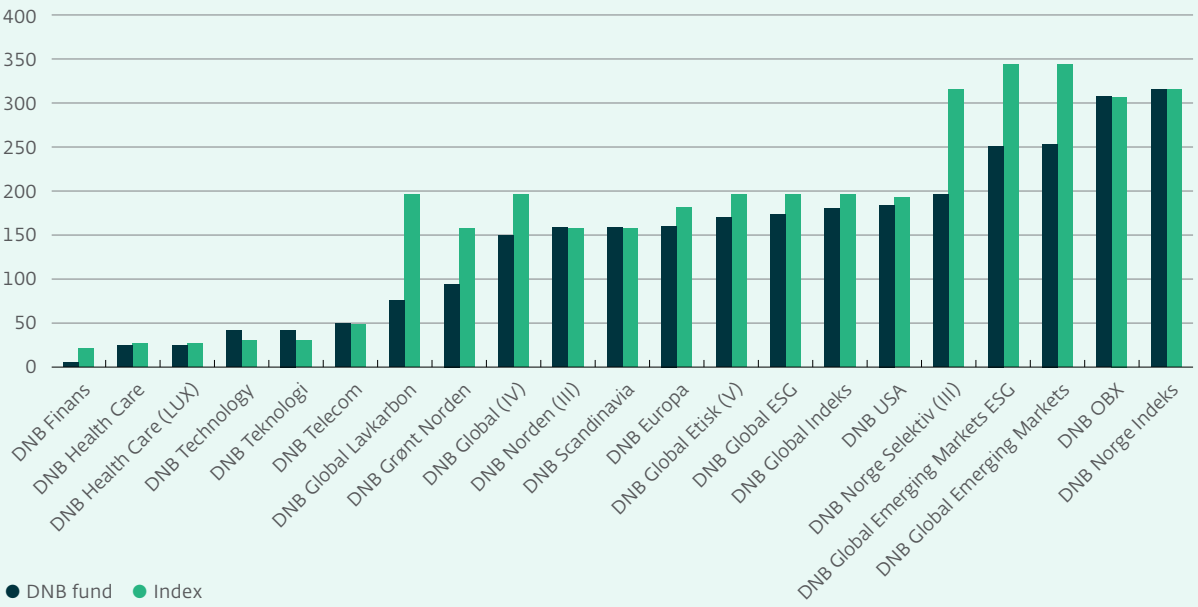
→ As part of efforts to reduce exposure to companies with high climate risk, in 2016 DNB started to measure the carbon footprint of all equity funds. Carbon footprint, also called carbon intensity, is the measure of a company's greenhouse gas emissions relative to the company's turnover.

DNB uses information from MSCI ESG Research about companies' emissions. The companies' carbon footprint is weighted by the respective holding in the portfolios. The same is done for the index. In the calculation, any cash in the portfolios is distributed proportionately between the other companies. For companies without emission data, the average figure for companies in the portfolio with emission data has been used in the calculation. DNB reports CO_2 equivalents, as defined by the Greenhouse Gas Protocol. Scope 1 includes direct emissions from sources that are owned or controlled by the organisation, and scope 2 includes indirect emissions associated with purchased energy. Scope 3, which covers indirect emissions associated with purchased goods and services, is not included, as the companies have not reported such data.

The graph shows 21 equity funds and their respective indices where data on greenhouse gas emissions for more than 90 per cent of the funds' investments are specified. These 21 funds represent about 80 per cent of the total market value of all of DNB's equity funds. The graph is a snapshot of the portfolio as at 31 December 2017 and shows that compared with the respective indices, the majority of the funds had a lower or equal carbon footprint.

Greenhouse gas emissions from DNB's equity funds relative to reference indices

Tonnes of CO_2 equivalent for every USD 1 million of revenue



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Did you know that the staff cafeteria and the employees at DNB's head office in Bjørvika reduced food waste by 10 tonnes in 2017? This is a reduction of 28 per cent from 2016.

DNB's Ethical Investment Committee monitors compliance with the guidelines. The Committee has five meetings each year, where information about companies and relevant topics relating to environmental and social issues and corporate governance are presented and discussed. If a company is involved in controversial weapons or the production of tobacco or pornography, or violates the coal criterion, all securities will be sold, and the company will be excluded from the investment universe. When a company is suspected of violating other criteria in the guidelines, DNB will principally try to influence the company through active ownership and dialogue. Active ownership is based on the UN Global Compact and the OECD Guidelines for Multinational Enterprises and is in line with the United Nations' Guiding Principles on Business and Human Rights. In cases where companies in which DNB has holdings on behalf of customers are suspected of acting contrary to DNB's guidelines and internationally recognised standards and conventions, DNB will encourage them to correct their actions. Companies that act contrary to DNB's guidelines or over time show no willingness to rectify the situation, may be excluded.

DNB's ambition is to offer its customers equity and fixed-income funds investing in companies which excel in environmental and social performance and corporate governance. Consequently, DNB puts considerable resources into ensuring that the Group's responsible investments are of high quality. The work is undertaken by a dedicated sustainability team that is working closely both internally with investment management, and externally with the companies. Their assessments are supported by two external consulting firms that monitor companies in the portfolio, prepare sustainability analyses and engage in dialogue with companies in cooperation with and on behalf of DNB and the Group's customers. The purpose of the dialogue is to nudge the companies in a sustainable direction and contribute to value creation. The contact with the companies is often triggered by special issues relating to environmental and social aspects and ownership administration, but may also reflect a wish to improve the companies' general sustainability performance. Event-based dialogue is based on the severity of the suspected violation of the guidelines, the size of the Group's holding in the company and the probability that the dialogue will influence the situation. DNB also takes an active stance on selected topics. These topics are constantly revised, and in 2017, special attention was paid to sustainable ship recycling, shale oil and gas extraction, corruption and requirements for subcontractors in emerging markets. DNB has, on behalf of its customers, been engaged

in several dialogues with Norwegian and global companies on these topics and is working continuously to strengthen the companies' efforts to become more sustainable.

EVALUATION OF RESULTS IN 2017

DNB works continuously with sustainability and climate issues. As a step in reducing environmental and climate risks and carbon footprint in the portfolios, in 2016, climate and coal criteria were included in DNB's guidelines for responsible investments. In 2016, 44 companies were excluded based on the coal criterion. In 2017, an additional 25 companies were excluded, 24 based on the coal criterion and one based on the environmental criterion. As at 31 December 2017, a total of 154 companies were excluded.

The carbon footprint, measured in terms of carbon intensity, is the measure of a company's greenhouse gas emissions relative to the company's turnover, and is one of several factors that say something about the company's climate risk and impact. Since 2016, DNB has measured the carbon footprint of equity funds as part of efforts to reduce exposure to companies with high climate risk. In 2017, the carbon footprint at company level and portfolio level was integrated in the portfolio and investment management system as part of the process to integrate the work on climate issues in investment management. In April 2017, DNB Asset Management signed the Montréal Carbon Pledge and has thus committed to measuring and publishing the carbon footprint of equity funds.

DNB currently offers three mutual funds with a strategy for sustainability and climate issues that goes beyond the general guidelines. DNB Miljøinvest is a thematic fund that invests in companies that contribute to reducing climate-related emissions, such as renewable energy. In 2017, DNB launched the equity fund DNB Global Lavkarbon, which has a positive screening strategy whereby the sustainability rating of the fund must be higher than the rating of the reference index. In addition, the fund has a negative screening strategy whereby companies with a direct exposure to fossil fuels or a high level of greenhouse gas emissions are excluded. The same applies to DNB Grønt Norden, which also selects companies with an environmental profile.

DNB primarily exercises active ownership on behalf of its customers through dialogue with individual companies and by using its voting rights. DNB is in dialogue with board chairmen, management, election committees and other relevant persons in the companies. During 2017, DNB's responsible investment analysts had 81 meetings with 59 companies to discuss various environmental and social issues, as well as sound corporate governance. In many of the meetings, various topics relating to environmental and social issues and corporate governance were discussed. Through GES Investment Services, DNB conducted 112 dialogues with 97 companies concerning seemingly reprehensible incidents or suspected breaches of international standards or conventions. The dialogues are structured processes with clear targets for the desired outcome. In addition, milestone attainment is measured.

In 2017, DNB voted at 122 general meetings in Norway and six general meetings internationally. At 29 of these meetings, voting was contrary to recommendations made by the board of directors in at least one matter. DNB is in continuous dialogue with the companies to be able to influence them so that cases presented at general meetings are in line with what the Group considers to be good corporate governance.

In the work on responsible investments, the Group's interpretation of the guidelines for human rights, labour rights and serious harm to the environment has been clarified by preparing in-depth documents. The efforts to show stakeholders how DNB works, on behalf of its customers, will continue in 2018.

THE WAY FORWARD

DNB will continue to refine processes to include environmental and social aspects, as well as topics related to corporate governance, in investment operations. In 2017, DNB intensified its active ownership administration and its efforts to influence companies' work on sustainability. This is also a key priority for 2018, and in the period up to 2019, the Group will focus on further integrating environmental and social aspects in investment decisions, with emphasis on significant risks and opportunities, as well as active ownership administration. Efforts to further develop mutual funds investing in companies which distinguish themselves with respect to sustainability, will continue.

See a complete overview of excluded companies and read more about responsible and sustainable investments, company dialogue and other stakeholder dialogue in the sustainability library (link below).

RESPONSIBLE CREDIT

DNB wishes to contribute to sustainable development in society. Responsible business operations that emphasise environmental and social aspects, corporate responsibility and business ethics are essential to DNB. The Group's resources shall be used to meet customer needs without violating laws and international conventions. This is done because it is →

morally and ethically correct, but also because it represents sound risk management. The financing of activities in legal or ethical grey areas represents unacceptable risk.

POLICY AND APPROACH

DNB's credit policy states that risk factors associated with corporate responsibility shall be analysed on a par with other possible risk drivers and be of decisive importance with respect to whether or not applications for credit should be approved.

DNB has a separate group standard for corporate responsibility within credit activities for corporate customers. The standard describes how DNB's business areas should assess corporate customers' corporate responsibility (CR) performance and risk associated with environmental, social and governance factors (ESG risk). The standard shall ensure that DNB considers CR/ESG risk for all customers and contributes to promoting responsible and sustainable business operations.

In 2017, DNB established a new document hierarchy with a new structure and new names for the governing documents. The former group guidelines for corporate responsibility were replaced by governing principles for corporate responsibility. Most of the content in the guidelines was transferred to the credit manual. This has helped clarify how corporate responsibility and ESG risk should be assessed, documented and taken into account in credit activities, with adaptations for the various corporate customers.

Responsible ship recycling

How can banks contribute to more responsible ship recycling? One answer is by including requirements for responsible dismantling of ships in loan agreements.

→ In June 2017, DNB joined the Responsible Ship Recycling Standard (RSRS). In September 2017, DNB's Ocean Industries and Corporate Responsibility divisions hosted an event on RSRS with participation from nine Nordic and international institutions.

With RSRS, the signatories underline the importance of the EU Ship Recycling Regulation and their intention to contribute to a responsible ship recycling environment.

Why is RSRS important? In 2016, more than 600 ships were dismantled on the beaches of South Asia. Ship recycling practices can have negative environmental and social (E&S) consequences in jurisdictions with limited E&S regulations. Negative impacts of ship recycling include environmental damage due to hazardous materials, occupational health and safety risks, as well as community health and safety exposure. Improvements along the whole shipping sector value chain are necessary to make a positive impact.

DNB's commitment to RSRS entails that the bank has, in partnership with several other international banks and financial institutions, taken steps towards a much needed change. As a large financial institution and financial adviser for customers within the maritime industry, DNB has an open dialogue with industry players on RSRS issues. These topics include occupational health and safety, social governance and how the industry meets requirements set by international regulations. If DNB's partners and customers deliver on the recommendations set out by RSRS, it also decreases financial and non-financial risks for DNB.

RSRS gained momentum in 2017, as more international banks joined the initiative. Changing industry practice will take time, but DNB believes joint efforts across the shipping industry can move the market in the right direction.

DNB has adopted the Equator Principles. In Large Corporates and International (LCI), all advice in connection with project financing, project-related corporate loans and bridge loans shall be assessed based on the Equator Principles. The principles serve as a guide for considering whether and ensuring that the financed projects are developed and operated in an environmentally and socially responsible manner. Financial institutions which have adopted the Equator Principles, have undertaken to provide project-related financing only to customers who comply with these principles.

In DNB, each customer team first evaluates whether a project complies with the Equator Principles. DNB's internal Equator Team reviews the summary, follows up and clarifies any outstanding issues and unidentified risks, and determines the final risk category. A memo and minutes from the Equator Team's meeting are attached to the credit proposal when it is due to be considered by the relevant credit committee. As part of the annual loan review, compliance with the Equator Principles should be evaluated, confirmed and reported to the relevant credit-approval body for each credit commitment.

Personal Banking and Corporate Banking generally use a portfolio approach to responsible credit.

EVALUATION OF RESULTS IN 2017

DNB acknowledges that some industries may have a greater negative impact on the environment, people and health than others. This could lead to conflicts of interest, as well as financial and legal risk. LCI has therefore developed special sector guidance notes for CR/ESG to ensure that decisions are well-founded and in accordance with DNB's governing principles for corporate responsibility and commitment to deliver responsible financial services.

In 2016, such sector guidance notes were introduced for the following industries: energy, weapons and defence, seafood, metals and mining, and forestry. In 2017, DNB initiated a process to update the existing sector guidance notes and establish new guidance notes for shipping, packaging and logistics.

LCI has also started to revise the risk assessment tool for CR/ESG risk, which includes extending the discussion points related to human and labour rights. In 2017, a help tool was also introduced for the assessment of industry-specific CR/ESG risk related to financing of companies involved in shale oil and shale gas. The tool will help identify relevant risk aspects of such activities and ensure a good dialogue with the customers about improvement areas.

In addition, DNB is in the process of changing the template for credit proposals in order to emphasise the importance of corporate responsibility and ESG risk. The template now includes a dedicated field for risk aspects related to CR, which must be completed in all credit proposals, with adaptations for the various corporate customers.

Moreover, DNB has started a process to get a better overview of customers who are considered to represent high ESG risk. Manual procedures have been established to keep the overview continuously updated. Parallel to this, efforts are being made to find system solutions for reporting and following up environmental and social risks in the credit process. An e-learning program on how to integrate corporate responsibility and ESG in the credit manual is under preparation, using a new development platform for e-learning, which will also be adapted to the various corporate customers. The program will reflect the changes resulting from the new document structure (see above).

E-learning in the Equator Principles (provided by the Equator Principles Association) has been made available to the relevant DNB units. During 2017, all employees should have completed this training. In addition, the Group's employees in the US participated in a special review of and training in the principles in May 2017.

In December 2017, DNB acquired a solution that ensures access to relevant ESG analyses of companies, portfolios and industries with which the Group is actively involved. Supplemented by DNB's own evaluations, the solution will enhance the quality of, and ensure a greater degree of objectivity in, the assessment of customers' ESG risk as part of the credit process.

In 2017, three projects were processed in accordance with the Equator Principles. The projects can be found in DNB's sustainability library.

THE WAY FORWARD

DNB will continue to refine its processes to integrate CR/ESG risk in credit assessments and place greater emphasis on describing risks and measures to reduce ESG risk. These processes are intended to determine the overall ESG risk and decision-making level for credits.

Efforts to make it easier to report and monitor environmental and social risks in the credit process will continue. Processes and systems will be adapted so that the estimated consequences and the probability that CR/ESG risk will occur, can be recorded, stored and used for reporting. →

E-learning in the chapter on environmental aspects, ethics and corporate responsibility in DNB's credit manual will be made available to all employees in 2018. Specialised and topic-based training will also be developed and implemented as needed.

Group Credit Risk Management and LCI have appointed resource persons in discussions on issues concerning corporate responsibility. These persons will help ensure that the bank is updated on the subject at all times.

In the course of 2018, DNB will take the initiative to engage in more extensive dialogue with customers about the risks and opportunities associated with ESG and climate issues. In LCI, the objective is to carry out more than 100 customer meetings during 2018, in which ESG and climate are the only topics on the agenda, in order to increase the understanding of risks and opportunities, let the customers know how important this is to DNB and position the Group as a sparring partner and adviser with respect to new business opportunities.

RESPONSIBLE INSURANCE

Sustainability considerations in the field of insurance are mainly related to environmental aspects. Climate change is resulting in more single, large claims of greater scope. DNB aims to offer products and services which are relevant and transparent for customers. DNB Forsikring offers both property insurance and personal insurance to customers in the personal banking market in Norway. Non-life and personal insurance products cover important needs in people's lives by protecting their material values in the event of damage and unforeseen circumstances, such as illness or accidents. Insurance operations in DNB are organised in DNB Forsikring AS, a separate limited liability company.

POLICY AND APPROACH

Operations are governed by DNB's governing principles for corporate responsibility and underlying standards, and the company aims not to contribute to the infringement of human and labour rights, corruption, serious environmental harm or other acts which could be regarded as grossly unethical. DNB's standard on combating corruption states that DNB has zero tolerance for corruption and is to have a robust defence against corruption based on openness and verifiability. DNB Forsikring is committed to preventing corruption and fraud, and this is a continual process.

The sale of insurance products in Norway primarily takes place through personal contact with customers at physical offices, on the telephone, or in connection with sales processes for the insured objects. DNB has adopted the approval scheme for sellers and advisers in the non-life insurance industry. This is a national scheme to promote and ensure that sellers and advisers have the necessary knowledge and skills and the right attitudes. It is important for DNB Forsikring to ensure the quality of its sales and advisory services so that customers can make the right choices.

DNB Forsikring has a number of agreements with suppliers of insurance services which are offered to customers. It is important for the company that it is as certain as possible that the suppliers with whom it enters into agreements act in an ethical and sustainable manner. When entering into supplier agreements with DNB Forsikring, suppliers must sign DNB's code of responsible business conduct for suppliers. This document contains requirements for environmental management, ethical business practices, human rights and labour standards on a par with other contracts entered into by the Group. Read more about responsible purchasing in the sustainability library (link below).

The actuary function in DNB Forsikring is head of FUAS – the Specialist Actuary Committee for Non-life Insurance in Finance Norway. Through its role in FUAS, DNB Forsikring has participated in Finance Norway's environmental work since 2009 by, among other things, participating in a pilot project where the company contributes with detailed data on insurance claims. The aim has been to achieve a better understanding of risk and to identify the need for more preventive work.

EVALUATION OF RESULTS IN 2017

As at 31 December 2017, DNB Asset Management managed a capital portfolio of NOK 2.6 billion on behalf of DNB Forsikring. The company has its own asset management strategy with separate risk limits for insurance, and otherwise complies with DNB's group guidelines for responsible investments. Read more about the operationalisation of the guidelines in the responsible investment section.

In 2017, DNB Forsikring went through a phase of restructuring and streamlining. During the year, a new core system from the supplier TIA was introduced. The new core system offers much greater opportunities for developing smart and simple digital solutions for customers, and forms the foundation for the insurance company of the future, offering products that are easy to find, easy to understand and easy to buy. A shift towards sales through digital channels is expected in 2018, which will also ensure lower prices for customers. In 2017, DNB launched a scheme called "Bonusbulken" (the bonus bump) for car insurance policyholders, challenging the existing bonus system in the insurance industry. The company covers one

bump per year without loss of bonus. This marks the start of a period during which innovative products, product simplifications and improvements will be launched at a much faster pace than in the past, to the benefit of customers.

Again in 2017, the company was audited by DNB's auditor, DNV GL, in connection with the ISO 14001 certification held by DNB. The audit did not result in any follow-up items. DNB Forsikring will continue to work with environmental issues, which will particularly affect the company's claims settlement processes.

THE WAY FORWARD

DNB Forsikring will continue to provide ever-better data to be used in environmental work. Related claims data will be used to enable the insurance industry, the public authorities and society to make the right decisions. This work will also clarify the roles and responsibilities of the municipalities and the government.

The future ambition of DNB Forsikring will be to further incorporate corporate responsibility and sustainability in all of the company's relevant processes. Increased focus on preventing damage by means of information and notification systems is a logical consequence of a future scenario where climate risk is increasing due to factors such as more frequent and stronger storms and heavier precipitation.

VIEW RISKS AND OPPORTUNITIES IN A LONG-TERM PERSPECTIVE

The rapid changes in global and national development trends underline how important it is for DNB to view risks and opportunities in a long-term perspective. To DNB's owners it is essential that long-term challenges are reflected in the Group's corporate governance, something which is also specified in the State Ownership Report. For the Group, a long-term strategy will contribute to stability and profitability over time.

POLICY AND APPROACH

The new strategy clearly states that DNB will generate long-term and sustainable financial value creation for its owners. The Group's corporate responsibility is about creating value by considering both risks and opportunities in a long-term perspective. This means that long-term aspects must be prioritised over short-term aspects in strategic choices.

DNB's governance system shall contribute to maintaining a long-term perspective in addition to ensuring balanced monitoring of the company's performance. This is done →



Did you know that you can get DNB account statements in Braille? In 2017, DNB delivered more than 2 500 such statements.

by, among other things, establishing financial, operational and strategic KPIs, in addition to health and risk indicators. In this way, targets are set which do not solely rate the financial performance of the Group, but also non-financial values.

To ensure that risk management is integrated in the Group's governance processes, the risk appetite framework is included as part of DNB's governance system. The framework represents an operationalisation of the Group's policy and guidelines for risk management, whose purpose is to contribute to a strong and long-term risk culture.

In order to operationalise the risk targets, appurtenant boundary indicators are set, and in the aforementioned governance system, separate KPIs are established which define acceptable risk. The framework distinguishes between different risk categories, including profitability and earnings, capital adequacy, market risk, credit risk, liquidity risk, operational risk, compliance risk and reputational risk. Over the last few years, greater emphasis has been placed on the three latter risk categories, and this contributes to a balanced approach to the long-term risk scenario.

The indicators are first set at group level before they are distributed or implemented in the rest of the organisation. Monitoring takes place through a dashboard system to help ensure that the risks which have been identified as most significant at group level, are also subject to monitoring and discussion in operative units in the organisation. Follow-up via the dashboard also helps to highlight developments and trends.

Risk appetite is reported monthly to the group management team and is also a significant part of the quarterly risk report, which is presented to the Board of Directors. Other measures to develop the risk culture in the Group include training programmes for employees within risk management and assessment.

The group executive vice president for Group Risk Management is the premise provider for the group policy for risk management in DNB. Security risk is included in the policy for security, which is owned by the group executive vice president for IT. All group executive vice presidents have executing responsibility, and compliance is monitored according to three lines of defence. All managers are responsible for reporting non-compliance with the principles in the policy.

Climate risk and efforts to ensure DNB's value creation in a long-term climate risk scenario have gained increased attention in the bank. In July 2017, DNB decided to sign a letter of support to TCFD (Task Force on Climate-related Financial Disclosures). The TCFD aims to strengthen the reporting of climate-related financial information in order to promote the capital markets' shift to a low carbon economy. Read more about DNB's efforts related to the TCFD on page 95.

DNB's incentive structure is meant to safeguard the Group's risks and opportunities. The variable remuneration scheme is performance-based without exposing the Group to unwanted risk, and it also aims to counter excessive risk-taking, as well as promote healthy and effective risk management in DNB. This is secured through a strong link between individual target setting and the Group's governance model.

DNB does not offer other long-term incentive schemes for its employees. Read more about risk management and the remuneration scheme in Corporate governance on page 92.

EVALUATION OF RESULTS IN 2017

In 2017, DNB implemented a new group standard for the development of new products and services. The purpose of this standard is to ensure high quality in DNB's portfolio of products and services, and thereby increase the Group's competitiveness, improve its reputation and safeguard its corporate responsibility. The standard and procedures for compliance shall support effective product development and approval, and contribute to innovation and change capacity. Thus, the standard helps reduce risk in connection with individual commitments and services, as well as at group level.

The standard was launched under the name "Shelf Control" and has been very well received in the bank. It is the first standard ever to be presented by the group chief executive at a special event. The launch was also streamed, enabling all employees to follow the happening. The ambition is that all products and services which DNB offers its customers go through the same process, the Shelf Control. A status report on the Shelf Control process will be ready in the course of 2018.

The elements in the delivery of a product or service often span business areas and support units, legal entities and external parties. The group standard uses different roles to allocate responsibility and is therefore independent of the organisational structure. All roles have an independent responsibility for making sure that sound assessments and decisions are made in the best interests of customers and DNB.

THE WAY FORWARD

The process of reviewing all existing products and services according to the new group standard has been started and is expected to be completed in 2018.

DNB's planned TCFD efforts include setting more specific goals for the Group's work on climate risk.

2018 will also see an increased focus on strengthening the connection between the Group's overriding risk appetite principles and the implementation of these in the Group's various business areas and support units.

ENSURE OPENNESS AND TRANSPARENCY

DNB aims to ensure confidence in the bank's intentions and future prospects through openness about the Group's opinions and activities, as this contributes towards building trust. The information DNB communicates to its stakeholders, particularly through reporting, must be reliable, complete and relevant. By openness, DNB means being open about its own operations and corporate governance, having open communication and opening up to new players as a result of the introduction of the Payment Services Directive PSD2.

POLICY AND APPROACH

DNB's Code of Conduct describes how the Group shall communicate openly, honestly and unambiguously. This is important to make the right decisions and create a good working environment. The communication shall be timely and correct without compromising confidentiality, privacy protection or other obligations.

The group guidelines for compliance also apply in this area, in addition to the guidelines for combating corruption. DNB has zero tolerance for corruption and aims to have a robust defence against corruption based on openness and verifiability. DNB's efforts against corruption are based on six fundamental principles: a risk-based framework, top level commitment, risk assessment, integrity due diligence, communication and training, as well as follow-up. The responsibility for implementing the guidelines lies with the managers. Each business area, support unit and international unit shall ensure that relevant risk analyses are conducted, and that the anti-corruption work is monitored, regularly evaluated and followed up with relevant measures. All employees must complete the mandatory "Know: risk" training course on anti-money laundering and counter-terrorist financing.

DNB supports initiatives in the financial services industry which promote openness and transparency. Through integrated reporting, the bank will provide good and complete information about the company's ability to achieve long-term value creation, including how macroeconomic, social and environmental factors affect the company. DNB bases this work on the regulatory framework International Integrated Reporting Council, IIRC, and uses an "input-output" model to describe its business model and value creation. The model clarifies which input factors are used and shows dependencies and connections in the business model and the values created.

EVALUATION OF RESULTS IN 2017

In connection with the launch of the Group's new strategy, a description of what is inherent in DNB's corporate responsibility has been prepared. Openness and transparency are key aspects. This means being open about the dilemmas faced by DNB when balancing short-term and long-term considerations. The Group shall be attentive to the needs of its customers and society, recognising when expectations change and engaging in dialogue with relevant stakeholders. This does not imply taking into account all expectations, but to listen to those who may have relevant insight into the business decisions that are made. See also the sustainability library for an overview of the stakeholder dialogue for 2017 (link below).

Integrated reporting helps ensure transparency about the overall value creation in DNB, and it is especially important to make information available online. It was therefore very gratifying that DNB won the award for the best digital annual report for companies, the Farmand Award, in 2017.

One area in which transparency is becoming increasingly important, is taxes. In 2017, DNB prepared and delivered its first country-by-country report to the tax authorities. The report is an important tool for achieving greater tax transparency vis-à-vis the tax authorities in the countries where DNB has operations. In Norway, the requirement to deliver an annual country-by-country report is based on OECD recommendations. The tax authorities will exchange the report with other countries in which DNB has operations. The purpose of the country-by-country report is to give the tax authorities greater insight into companies' global operations, and thus gain a better basis for assessing the risk of incorrect pricing and the allocation of profits.

DNB has chosen to publish the main features of the country-by-country report that is sent to the tax authorities (see the report in the sustainability library, link below). DNB provides financial services to customers from branch offices and →

companies in several countries, and thus contributes to the tax income in the relevant countries through the payment of taxes, duties and other fiscal charges. In addition, DNB contributes through tax deductions for employees and withholding tax deductions in several countries. Therefore, DNB has also included other tax-related contributions in addition to taxes paid in the overview on the next page.

In addition to publishing the main features of the country-by-country report, DNB has published its tax strategy in accordance with legal requirements in the United Kingdom.

DNB aims to have a culture in which it is encouraged to speak up about conditions that are not acceptable. If raising a concern through official channels does not lead anywhere, employees can submit a notification through an anonymous whistleblowing channel. A new whistleblowing channel operated by a third party is scheduled for release in 2018.

THE WAY FORWARD

The stakeholder dialogue will be further formalised, and more units in the bank will be involved in the process to listen to different voices. This includes setting up more regular meetings with stakeholders and involving them in both quantitative and qualitative surveys in connection with the updating of the materiality matrix. DNB will also continue to adapt and further develop relevant tax information for increased tax transparency.

In the time ahead, transparency will also be critical for the bank's competitiveness in the face of new and unknown market players. To meet new regulations, such as the EU's new Payment Services Directive (PSD2), and the increased demand from external players for the direct integration of customers' banking data, DNB has established DNB Open Bank. Open Bank is organised in DNB's unit for the development of new business models, New Business, and aims to give new and existing customers easier access to the bank's data, thus allowing them to develop new and innovative digital solutions based on DNB's existing data and infrastructure. The world surrounding DNB is rapidly changing, and the Group wishes to contribute to innovation and value creation in the financial services industry by opening up and inviting others in. To succeed with this, the Open Bank team is focusing on delivering a top-quality experience for developers through access to DNB's APIs and developer platform. Read more about PSD2 on page 105.

Link to the sustainability library:
dnb.no/en/about-us/csr/sustainability-library.html

DNB's tax contribution

→ DNB contributes to society in a number of ways in the countries where the Group is represented. Tax is one of the areas where DNB makes a significant contribution to society, and the country-by-country report shows taxes paid in the countries in which DNB has operations (see the report in the sustainability library, link below).

The overview below includes other tax-related contributions in addition to taxes paid.

In 2017, the total tax contribution amounted to NOK 17 282 million, of which NOK 13 766 million was paid to the authorities and NOK 3 516 million was tax collected on behalf of the authorities.

HOW MUCH TAX DID THE DNB GROUP PAY IN 2017?



- Income tax: 10 697
- Non-deductible VAT: 1 361
- Employer's national insurance contributions: 1 346
- Financial activities tax[1]: 355
- Other tax: 6

1) Financial activities tax in 2017 is only related to employer's national insurance contributions. Additional income tax will not be paid until 2018.

Taxes paid constitute a cost for the Group and include:

● Income tax
The Group pays tax on income generated in the individual countries in which it has operations based on national tax rules in the country where the respective units are resident for tax purposes. Paid income tax means actual tax paid during the year regardless of which fiscal year the tax is related to.

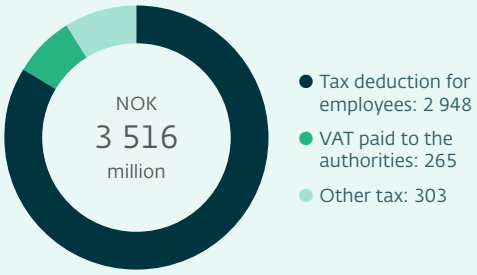
● Non-deductible value added tax (VAT)
DNB pays VAT on purchases of goods and services. The Group is only allowed partial deductions for input VAT, which means that a large part of the VAT constitutes a cost for the Group. The amount includes all non-deductible input VAT on the purchase of goods and services.

● Employer's national insurance contributions
As an employer, DNB is obliged to pay employer's national insurance contributions and other social security contributions based on the employees' salary and other remunerations.

● Financial activities tax
The financial activities tax was introduced in 2017 and is an additional tax imposed on companies within the financial services sector. This tax consists of two elements: the tax rate for financial institutions at 2016 level (25 per cent), and an additional tax of 5 per cent for employers, based on the payroll of companies in the financial services industry.

● Other tax
This may be withholding tax on interest and dividends that DNB cannot subtract from other tax.

HOW MUCH TAX DID THE DNB GROUP COLLECT ON BEHALF OF THE AUTHORITIES IN 2017?



In addition to taxes paid by the Group itself, DNB collects the following tax on behalf of the authorities through its operations:

● Tax deductions for employees
In many countries, employers are required to withhold taxes and other social security contributions when paying salaries to employees.

● VAT paid to the authorities
DNB must report and collect VAT on the purchase and sale of taxable goods and services. In addition, DNB calculates and pays VAT on purchases of goods and services from abroad. Net tax is reported and paid to the local tax authorities in the individual countries.

● Other tax
This could be withholding tax deducted from interest and dividend payments and collected on behalf of the authorities.



Governance

6

Governing Norway's leading bank and one of the country's largest employers requires well-organised structures and good decision-making systems – all the way from the top management to each individual employee.

In DNB, we are committed to sound control, risk management and governance, which should be strict enough to ensure that we always know what the different units in the Group are doing, without preventing people and ideas from thriving. It is vital that we master this balancing act in order to ensure **responsible corporate governance and operations**.

76 Corporate governance

96 Board of Directors

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Corporate governance

Corporate governance in DNB is about how the Board of Directors and group management govern and manage the company to preserve and develop the company's values in an optimal manner. Sound corporate governance and good leadership is a prerequisite for ensuring sustainable operations. The governance of DNB shall ensure that DNB's business operations are conducted in a responsible and profitable manner, in the best interests of customers, shareholders, employees and other stakeholders.

DNB's management and Board of Directors annually review the principles for corporate governance and how they are implemented in the Group. DNB hereby gives an account of the Group's corporate governance principles and practice pursuant to Section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

The review is divided into three parts:

A

Describes the main priorities of the Board of Directors in 2017.

B

Accounts for DNB's compliance with section 3-3b, second subsection of the Norwegian Accounting Act. DNB does not deviate from the requirements in any way.

C

Accounts for how DNB follows up the Norwegian Code of Practice for Corporate Governance. DNB complies with the Code of Practice. A minor deviation is accounted for in section 14.

A

Main priorities of the Board of Directors in 2017

The key topics on the Board of Directors' agenda in 2017 were the Group's new strategic platform, a review and update of the Group's governing documents and follow-up of the so-called Panama Papers case. These topics are elaborated on below. No cases of significant control failure were identified during 2017, and in the Board's view, there are appropriate systems, procedures and measures in place to ensure sound corporate governance and internal control.

Sections 9 and 10 of part C provide a more detailed and comprehensive overview of the Board's work, risk management, and internal control.

Moreover, there are no significant changes in the Board's corporate governance compared with previous years.

NEW STRATEGIC PLATFORM

2017 was a year characterised by the efforts to develop and obtain endorsement for DNB's new strategy. The Board was closely involved in the process and approved the value platform, the strategies for the various segments and the implementation plan.

Read more about DNB's new strategy in chapter 1, DNB in brief.

In order to reach the goals of the new strategy, the Board adopted a new group structure in December. The changes included the establishment of New Business and Compliance as new areas reporting to the group chief executive. At the same time, new meeting places were introduced to speed up decision-making within the bank's strategic priority areas. During the first half of 2018, the new group structure will also lead to changes at lower levels in the organisation.

REVIEW AND UPDATE OF GOVERNING DOCUMENTS

DNB has a four-level hierarchy for governing documents. As a result of the ongoing work with corporate governance, reinforced by the so-called Panama Papers case in 2016, the Board asked group management to review and update all of the Group's governing documents. Processes and activities related to implementation and compliance were also reviewed. The Board was continuously informed about the process and during 2017 approved updates and changes to all the governing documents at the two upper levels.

The governance principles are further explained in part C, section 1.

STATUS OF THE BOARD'S MEASURES FOLLOWING THE PANAMA PAPERS CASE

As a consequence of the Panama papers case, the Board decided to implement a number of measures. The following provides a status on these.

→ **External whistleblowing channel**. An internal process for the establishment of an external whistleblowing channel through which employees can report reprehensible conduct has been completed, but requires external approval. Implementation will start as soon as such approval is in place.
→ **Management and control of subsidiaries**. New instructions for subsidiaries have been prepared and implemented in all affected units.
→ **Introduction of new guidelines for the approval of new products**. The guidelines have been adopted and implemented.
→ **Group Audit's competencies and resources**. An internal and external evaluation of Group Audit's competencies and resources has been conducted. The Board finds Group Audit's work satisfactory, and some improvement measures have been proposed, for instance strengthening the expertise within IT and digitalisation.
→ **IT tools to support the operationalisation of and compliance with external requirements and internal guidelines**. The Group has acquired a GRC system (Governance, Risk, Compliance). This is a tool to support the implementation of operational risk management, compliance, and internal control over financial reporting. The Group implemented a new incident database in 2017. This represented the first module of the GRC system. The implementation of the other modules will be highly prioritised in 2018. The project for the implementation of the GRC tool is managed by Group Risk Management in cooperation with Group Finance and relevant business areas and support units.

B Section 3-3b, second subsection of the Norwegian Accounting Act (statement on corporate governance)

The description accounts for DNB's compliance with Section 3-3b, second subsection of the Norwegian Accounting Act. The numbers refer to the section's numerical order.

①–③

Specification of the recommendations complied with by DNB, information on where the recommendations are available and reasons for any non-conformance with the recommendations

The DNB Group's corporate governance structure is based on Norwegian legislation. DNB complies with the Norwegian Code of Practice for Corporate Governance dated 30 October 2014 issued by the Norwegian Corporate Governance Board, NUES. The Code of Practice is available on nues.no/english. Any deviations from the Code of Practice are accounted for under the description of DNB's compliance with the Code of Practice.

④

A description of the main elements in the Group's internal control and risk management systems linked to the financial reporting process

See section 10 under part C The Norwegian Code of Practice for Corporate Governance.

⑤

Articles of Association that completely or partially extend or depart from provisions stipulated in Chapter 5 of the Public Limited Companies Act

DNB ASA's Articles of Association do not deviate from Chapter 5 of the Public Limited Companies Act, which governs general meetings.

⑥

The composition of governing bodies and a description of the main elements in prevailing instructions and guidelines for the work of these bodies and any committees

See sections 6, 7, 8 and 9 under part C The Norwegian Code of Practice for Corporate Governance.

⑦

Articles of Association that regulate the appointment and replacement of members of the Board of Directors

See section 8 under part C The Norwegian Code of Practice for Corporate Governance.

⑧

Articles of Association and authorisations that allow the board to decide that the enterprise is to repurchase or issue the enterprise's own shares or equity certificates

See section 3 under part C The Norwegian Code of Practice for Corporate Governance.

C Norwegian Code of Practice for Corporate Governance

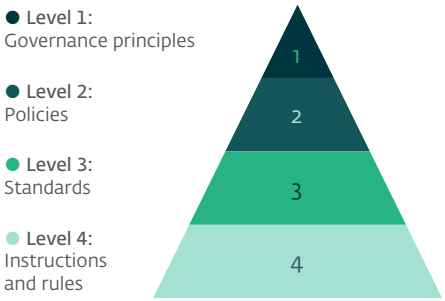
The description accounts for DNB's compliance with the 15 sections in the Code of Practice.

SECTION 1

IMPLEMENTATION OF AND REPORTING ON CORPORATE GOVERNANCE

There are no significant deviations between the Code of Practice and the way it is complied with in DNB. One deviation in section 14 has been accounted for below.

DNB has a four-level hierarchy for governing documents.



Level 1: Governance principles

The governance principles represent the highest governance level in the Group. In these principles, the Board of Directors provides the main framework for all governance of operations. They can be defined by legal requirements or include areas that are of special importance to the Group, and they define the desired culture, behaviour and distribution of responsibility at group level.

DNB's governance principles include:

- purpose and values, see further description of the new strategic platform in chapter 1
- governance model and authorisation structure, see further description in chapter 1
- instructions for the Board of Directors and group management, available at ir.dnb.no/about-dnb/corporate-governance/board-directors
- Code of Conduct, further described below
- corporate responsibility principles, further described below
- risk appetite principles, see further description in section 10
- the company's Articles of Association, available at ir.dnb.no/about-dnb/corporate-governance

Code of Conduct

DNB shall be characterised by high ethical standards. The Group's Code of Conduct describes what is expected of all elected officers, managers, employees, consultants and others who represent DNB. In the course of 2017, the Group's code of ethics was updated and expanded to include more topics, and the ethical principles are now included in the Group's Code of Conduct. Non-compliance with the ethical principles may have consequences for the employment relationship.

The Code of Conduct is divided into four chapters:

1. The introduction describes the principal expectations and scope.
2. "Our workplace" describes how DNB should be as a company. Representatives of DNB shall treat others with respect and be open, honest and unambiguous in their communication. It is emphasised that speaking up and reporting reprehensible conduct is both important and the right thing to do.
3. "Business conduct" describes how representatives of DNB shall act in a business context. DNB's customer service shall be characterised by a high level of integrity, accessibility and transparency, as well as compliance with laws and regulations.
4. "Personal behaviour" describes how representatives of DNB shall act as individuals. DNB has zero tolerance for all forms of corruption and misuse of inside information. Should any conflicts of interest arise, representatives

of DNB shall be open about them and solve them in an appropriate manner.

The Code of Conduct is published in full on the Group's website dnb.no/en/csr.

Whistleblowing

The Group's Code of Conduct states that employees without delay shall report reprehensible conduct to their immediate superior, his or her superior or the relevant specialist unit. If this is does not lead anywhere, employees can submit a notification through DNB's whistleblowing channel. Internal notifications are made to the group chief audit executive. In addition to the internal notification procedure, DNB decided in 2016 to implement a solution for anonymous, electronic notification to an external party. An internal process for the establishment of an external whistleblowing channel has been completed, but requires external approval. Implementation will start as soon as such approval is in place.

In 2017, the whistleblowing procedures were expanded to include external employees. In connection with whistleblowing cases, the person making the notification shall have access to personal support and guidance from an independent party.

Corporate responsibility

Working with corporate responsibility represents sustainability in practice. By connecting capital, labour and expertise, DNB helps create values that constitute a significant contribution to society and the community. Corporate responsibility is also about how DNB creates values, both for shareholders and for other stakeholders (employees, customers and society at large). Corporate responsibility is an integral part of corporate governance and shall be taken into account in decision-making processes.

DNB has the following approach to corporate responsibility:

1. **DNB generates long-term and sustainable financial value creation for its owners**. This means that employees in DNB's operations shall emphasise corporate responsibility together with other relevant considerations in all decision-making processes.
2. **DNB contributes to a better society**. This means that DNB defines specific goals and measures related to selected United Nations Sustainable Development Goals, and works systematically to reach these goals.
3. **DNB is honest and trustworthy**. This means that the Group's products and services are always tailored to customer needs. DNB wants the best for its customers. In a world with new market entrants and major change, DNB shall be a bank that customers trust.
4. **DNB is transparent about its operations**. This means that DNB shall be open about the dilemmas that occur when balancing short-term and long-term considerations. DNB shall be attentive to the needs of its customers and society, recognising when expectations change and engaging in dialogue with relevant stakeholders.

Read more in chapter 5 Role in society.

Level 2: Policies

The Board has adopted policies for the DNB Group to support corporate governance in eight key areas:

1. Supplier management
2. Risk management
3. Compliance
4. Operational excellence
5. Financial governance and reporting
6. Human resources
7. Communication
8. Security

The policy for communication sets the framework for the guidelines for shareholder relations

The communication shall be open, truthful and clear, and reflect a high ethical standard. DNB's target groups shall receive equal treatment through complete, timely and understandable communication. All information about the Group's financial position and development shall be given to all stakeholders at the same time. Information practices shall continually be further developed based on what is perceived to be best practice. See also section 13.

Level 3: Standards

All the documents at level three are linked to one or more policies, and the responsibility for ensuring that these are based on the overarching governance documents adopted by the Board, is delegated to the group executive vice presidents. This way, the Board and the group chief executive can make sure that all important processes in the Group are covered through underlying documents and "ground rules". This helps create consistent corporate governance.

Level 4: Instructions and rules

The lowest level in the hierarchy of governing documents comprises instructions and rules. The credit manual, the personnel manual and the accounting manual are examples of documents at this level.

No deviations from the Code of Practice. →

SECTION 2

BUSINESS

The object of DNB is to engage in banking, insurance and financing and any related activities within the scope of Norwegian legislation in force at any time. The complete Articles of Association of DNB ASA can be found on the Group's website, dnb.no/en/agm. The directors' report describes the Group's targets and strategies, and the market is kept updated through investor presentations in connection with quarterly financial reporting, capital markets days and presentations on special subjects.

In the strategy processes, the Board of Directors considers whether goals and guidelines are unambiguous, adequate, well operationalised and easily comprehensible for all employees. All key guidelines are available to the employees through DNB's intranet or by other means.

No deviations from the Code of Practice.

SECTION 3

EQUITY AND DIVIDENDS

The Board of Directors continually reviews the capital situation in light of the company's targets, strategies and intended risk profile. See the Group's report on risk and capital management (Pillar 3) for a further description of the rules on capital adequacy, the principles applied by DNB to estimate capital requirements, as well as a further specification of the Group's capital adequacy ratio. The report is available on the Group's website, ir.dnb.no.

The EU capital requirements directive CRD IV introduces requirements for both equity, long-term funding and liquidity reserves. See the chapter on the new regulatory framework for a further description of the regulations and how they have been implemented in Norway.

The Board of Directors considers the Group to be well capitalised in relation to current regulatory requirements. DNB is continuing its adaptations to the new liquidity and capital requirements which have already been introduced or are expected to be introduced over the next few years.

Dividends

DNB's primary objective is to create long-term value for shareholders, partly through a positive share price development and partly through a predictable dividend policy. The Group's long-term dividend policy is to have a payout ratio of more than 50 per cent of profits, which will be a combination of a cash dividend and a share buy-back programme.

Repurchase of shares

To ensure flexibility in the Group's capital management, the Board of Directors has on previous occasions asked the annual general meeting for an authorisation to repurchase own shares. An agreement has previously been signed with the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, for the redemption of a proportional share of government holdings to ensure that the government's percentage ownership remains unchanged. In order to ensure an optimal level of capital in the company, on 25 April 2017, the general meeting authorised the Board of Directors to acquire own shares for a total face value of up to NOK 325 759 772, corresponding to 2 per cent of the company's share capital. The authorisation was used. For more information about the repurchases, see the chapter on the DNB share.

Increases in share capital

At the present time, no authorisation had been granted to the Board of Directors for an increase in the share capital of DNB ASA.

No deviations from the Code of Practice.

SECTION 4

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

DNB ASA has one class of shares. In the Articles of Association and in the work carried out by the Board of Directors and group management, the strong protection of minority shareholders is emphasised in the form of equal treatment, requirements for majority votes and the obligation to disclose transactions with close associates. All shares carry equal voting rights. In connection with increases in share capital, existing shareholders will be given pre-emptive rights, unless such rights are derogated from due to special circumstances. In such case, the reasons for such a derogation will be specified. In cases when the Board of Directors asks the Annual General Meeting for an authorisation to repurchase own shares, shares will be purchased through the stock market at market price.

Largest shareholder

The Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, is DNB ASA's largest shareholder, owning 34 per cent of the shares. According to the State Ownership Report (White Paper no. 27 2013-2014 Diverse and value-generating ownership), the purpose of the government's ownership in DNB ASA is to retain a large and highly competent financial services group headquartered in Norway. The company is to be run on commercial terms, with an aim to

generate a competitive return. The government points out that a holding that gives negative control contributes to this end. The government will thus maintain its holding in DNB ASA and has come to the conclusion that the holding will not be reduced below 34 per cent.

The shares held by the Ministry are managed by the Department of Ownership, subject to special management guidelines which among other things stipulate that the Norwegian government cannot have representatives on the boards of directors of financial institutions, but that the government, through participation in election committees, must ensure that the governing bodies include representatives from all shareholder groups. The guidelines require that the Ministry act in a manner conducive to equal treatment of DNB's shareholders.

Transactions with close associates

Instructions for the Board of Directors of DNB ASA state that a board member cannot participate in deliberations or decisions on issues where he or she personally or his or her close associates would be seen as having a direct or indirect personal or financial interest in the matter. The same principle is embodied in the Group's code of ethics. It is the duty of each board member to ensure that he or she is without prejudice in deliberations of specific matters. The Board of Directors must approve agreements between the company and a board member or the group chief executive. The Board must also approve agreements between the company and third parties where a board member or the group chief executive can be perceived to have a significant interest in the matter.

Board members must inform the Board of Directors if they have a direct, significant interest in an agreement entered into by the company or another company in the DNB Group. The same applies if such agreement is signed by a company outside the DNB Group in which the board member either has an ownership interest, serves on the board or has a senior management position. A notification should be sent to the board chairman, with a copy to the Group Secretariat.

Board members, or companies with which they are associated, should not take on special assignments for companies in the DNB Group other than their board membership. If this occurs, however, the entire Board of Directors must be informed. Remuneration for such assignments is subject to approval by the Board of Directors.

With respect to the Group's other employees and elected officers, the Group's code of ethics lays down detailed rules regulating transactions with close associates. As a general rule, an employee or elected officer will be considered disqualified if circumstances exist that may lead others to believe that he or she promotes interests other than those of the DNB Group. Employees must be aware of potential conflicts of interest if they combine positions of trust with other roles in the Group.

Where a transaction is not immaterial for either the DNB Group or the close associate involved, unless it is a matter for consideration by the general meeting according to stipulations in the Public Limited Companies Act, the Board of Directors will ensure that a valuation is made by an independent third party. This also applies to any transactions between companies in the DNB Group where minority shareholders are involved. Not immaterial transactions with close associates are described in a separate note to the annual accounts.

No deviations from the Code of Practice.

SECTION 5

FREELY NEGOTIABLE SHARES

The shares in DNB ASA are listed on Oslo Børs (the Oslo Stock Exchange) and are freely negotiable. The Articles of Association include no form of restriction on negotiability.

No deviations from the Code of Practice.

SECTION 6

GENERAL MEETING

The general meeting exercises the highest authority in DNB and represents the company's shareholders. According to the Articles of Association, the annual general meeting shall be held before the end of April each year. The notice and the registration form will be sent to shareholders and be published on the Group's website no later than 21 days prior to the date of the general meeting. The procedure for voting and for proposing resolutions is described in the notice of the general meeting.

The general meeting elects shareholder representatives on the Board of Directors and members of the Election Committee. The general meeting also selects the statutory auditor.

The minutes from the general meetings are available on dnb.no/en/agm.

No deviations from the Code of Practice.

→

SECTION 7

ELECTION COMMITTEE

In accordance with DNB ASA's Articles of Association, the general meeting has established an Election Committee consisting of four members. The Election Committee submits justified recommendations to the general meeting for the election of members to the Board or Directors and the Election Committee. The general meeting has laid down instructions for how the Election Committee should carry out its duties. The members of the Election Committee shall be shareholders or representatives for shareholders and shall, as far as possible, represent all shareholders. No member of the Board of Directors or representative from group management is a member of the Election Committee.

According to instructions for the Election Committee, there should be rotation among the committee members.

The Election Committee held 14 meetings during 2017. The Committee proposed candidates for election to the Board of Directors and the Election Committee and also carried out preparatory work related to issues to be considered in 2018.

Information about the Election Committee and closing dates for proposing candidates can be found on dnb.no/en/agm.

No deviations from the Code of Practice.

SECTION 8

BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The governance and management of the company will be undertaken by the Board of Directors and the general meeting.

The Board of Directors has up to seven members, up to five of whom are elected by the shareholders and two are representatives for the employees. No member of the group management team is a member of the Board of Directors. When electing members to the Board of Directors, the need for both continuity and independence should be met, while ensuring a balanced board composition. No one may be a member or chairman of the Board of Directors for a consecutive period of more than 12 years. A new 12-year period will start if an ordinary board member is elected board chairman or vice versa. No one may hold a position as an ordinary board member and/or board chairman for a total period exceeding 20 years. Members are elected for terms of up to two years. As at 31 December 2017, the Board had seven members, five of whom were elected by the shareholders and two were representatives for the employees. Three of the members were women, two of whom were elected by the shareholders and one represented the employees.

The curricula vitae of the individual board members and board meeting attendance in 2017 are found in the presentation of the board members in this chapter and on the Group's website. The Board of Directors will consider the independence of its members, and their conclusion is presented in the listing of governing bodies. When new board members are nominated, their suitability is assessed, including their independence. The assessment is followed up on an annual basis by requesting a written confirmation from the board members. The Group has initiated processes to continually monitor which other assignments are held by the board members. See also the description under section 4 above, Transactions with close associates. The presentation of the Board of Directors lists any assignments for the Group and any significant appointments or assignments in other companies and organisations held by the members of the Board.

Board members are encouraged to hold shares in the company. The presentation of governing bodies specifies the number of DNB shares held by members of governing bodies and their close associates as at 31 December 2017.

No deviations from the Code of Practice.

SECTION 9

THE WORK OF THE BOARD OF DIRECTORS

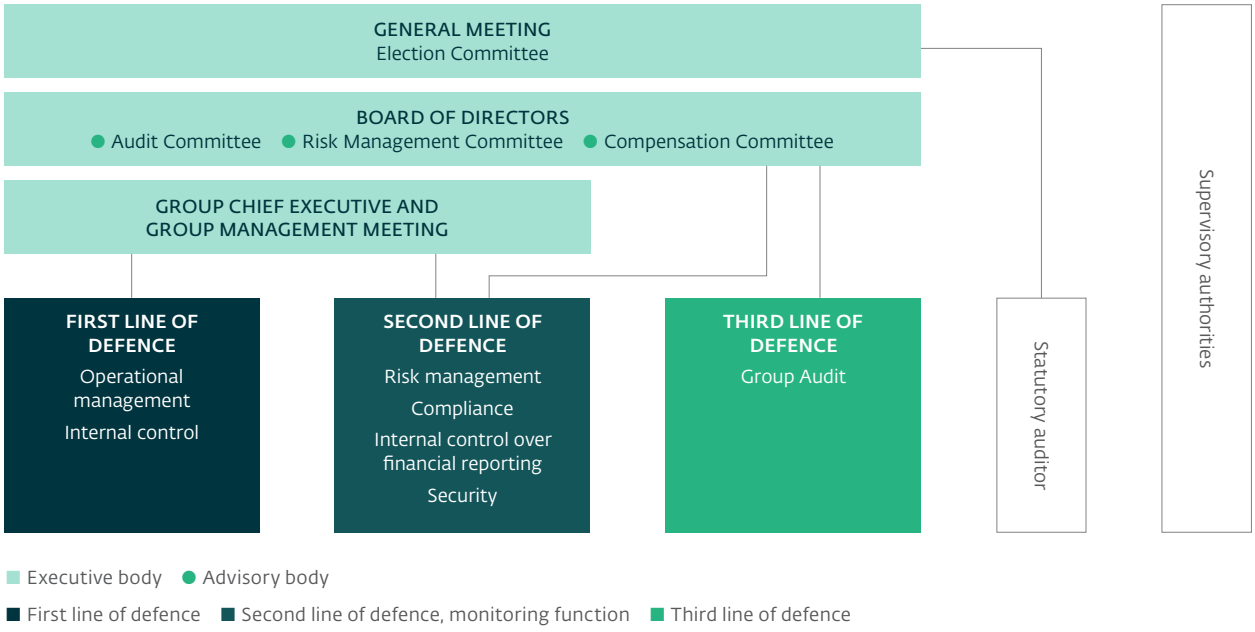
The duties of the Board of Directors

Part A in this chapter accounts for the main topics on the Board of Directors' agenda in 2017: the new strategy, a review of governing documents and follow-up of the Panama Papers case. Other topics in 2017 were the Group's financial performance, risk management and digitalisation. See an illustration of matters considered by the Board of Directors on the next page.

The Group's governing bodies and lines of defence are illustrated on the next page. See a further description of the lines of defence on page 88.

The Board of Directors has approved instructions governing its work and administrative procedures, including matters to be considered by the Board, the group chief executive's tasks and obligations towards the Board and rules on convening and conducting meetings. Instructions for the Board of Directors are available at dnb.no/en/about-us/about-dnb/board-of-

Governing bodies in the DNB Group



directors.html. The Board of Directors draws up an annual plan for its activities, covering duties stipulated in laws, regulations, resolutions passed by the authorities, the Articles of Association and decisions made by the general meeting. The Board of Directors also issues instructions for the group chief executive.

The Board evaluates its own work and work methods annually, and the evaluation forms the basis for adjustments and measures. In addition, the Board's competencies, overall and those of each board member, are evaluated.

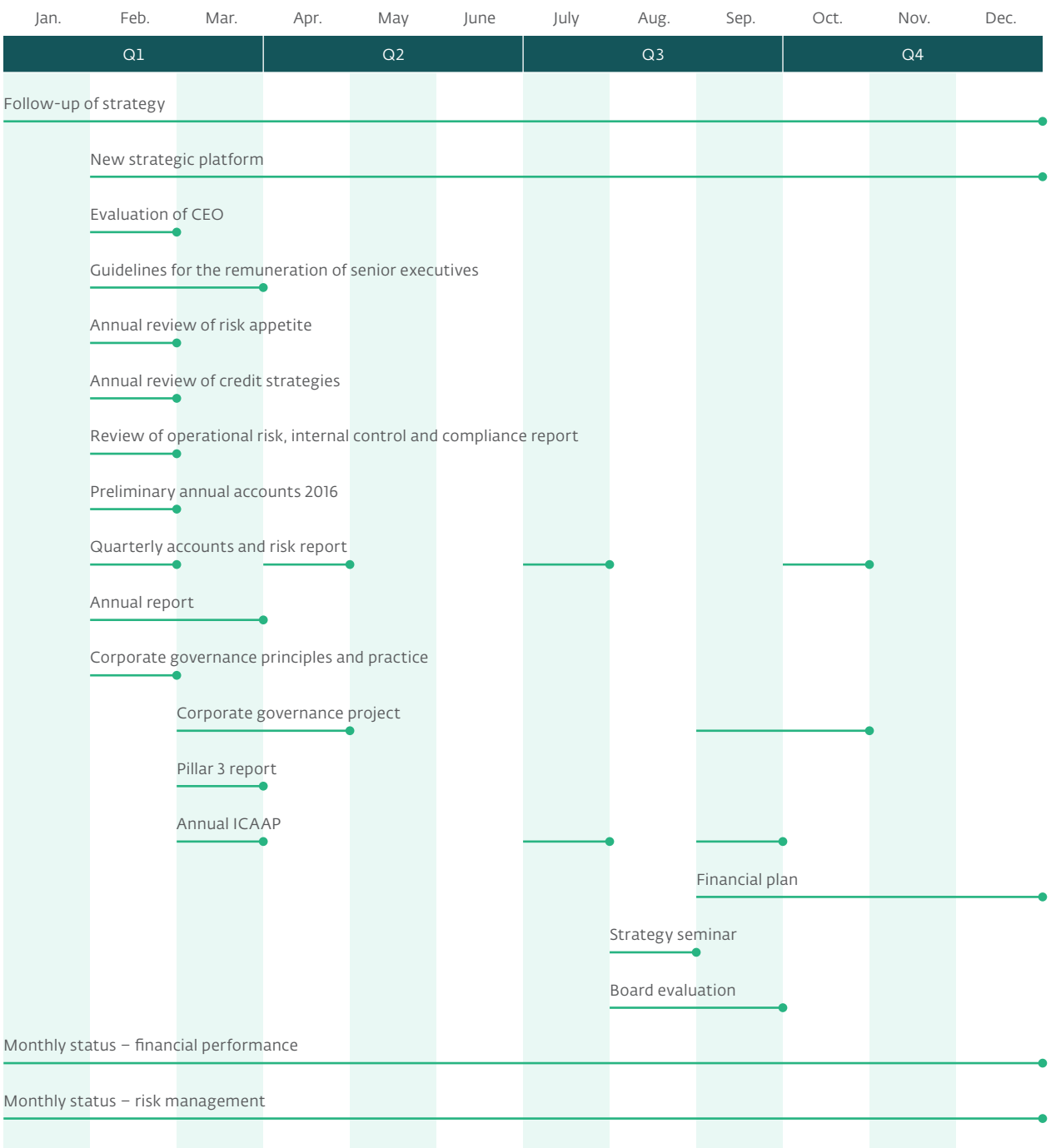
The Board of Directors has the ultimate responsibility for the management of DNB. Through the group chief executive, the Board shall ensure a sound organisation of business activities. The Board determines principal goals, strategic choices and financial plans for the Group. The Board is continually updated on DNB's financial position and development by approving quarterly and annual reports and through a monthly review of the Group's financial position and development. Furthermore, the Board shall ensure that operations are subject to adequate control and that the Group's capital position is satisfactory relative to the risk and scale of operations. The Board of Directors' responsibilities and implementation and monitoring of risk management and internal control are described in section 10 below. The Board also presents a statement to the general meeting proposing guidelines for remunerations to senior executives. See section 12 below.

The Board of Directors held a total of 11 board meetings in 2017. The number of meetings attended by the various board members is shown in the presentation of the board members on page 96.

Audit Committee and Risk Management Committee
In 2017, the Audit Committee and the Risk Management Committee consisted of four of the independent board members.

The committees are working committees for the Board of Directors, preparing matters and acting in an advisory capacity. Members are elected for a term of up to two years among the external members of the Board of Directors, and the chairman is appointed for a term of one year at a time. The committee members must have the overall competence required to fulfil their duties based on the organisation and operations of the →

Work of the Board of Directors in 2017



Group. At least one of the members of the Audit Committee must have accounting and/or auditing expertise. At least one of the members of the Risk Management Committee must have experience from identifying, assessing and managing risk exposures in large, complex companies. The members of the committees are included in the presentation of the Group's governing bodies. The objectives, responsibilities and functions of the committees are in compliance with international rules and standards and are described in group standard procedures. The committees normally have seven to eight meetings each year. See the Pillar 3 report for a further description of the committees' duties under Financial reports and presentations on ir.dnb.no.

Compensation Committee

The Board of Directors of DNB ASA has a Compensation Committee consisting of four members of the company's Board of Directors. The committee normally meets six to seven times a year. One of the members is a board member elected by the employees. The committee puts forth a recommendation for the Board of Directors' guidelines for remuneration to senior executives in accordance with Section 6-16a in the Public Limited Companies Act. The committee draws up proposals and issues recommendations to the Board of Directors regarding the remuneration awarded to the group chief executive and acts in an advisory capacity to the group chief executive with respect to the remuneration and other important personnel-related matters concerning members of the group management team and any others reporting to the group chief executive.

No deviations from the Code of Practice.

SECTION 10

RISK MANAGEMENT AND INTERNAL CONTROL

Sound corporate governance is a prerequisite for creating long-term value for DNB's shareholders, and for ensuring sustainable business over time. The Group aspires to have a low risk profile and will only assume risk which is understood and can be followed up. DNB shall not be associated with activities that can harm its reputation.

Corporate governance provides a framework for business operations, and will help DNB implement the Group's strategy and reach its business targets. Corporate governance enables interaction between processes and structures used for governance and control in the Group. These set requirements for the conduct of the Board of Directors, management and employees. Everyone in DNB must all act in line with these requirements. →



Did you know that DNB stopped fraud-related transactions in the online bank totalling NOK 70 million in 2017?

Risk appetite

The risk appetite framework is part of the strategic governance of the Group and comprises basic principles and principal limits for risk management. The Board of Directors uses the framework to determine DNB's long-term risk profile. It is thus an important tool to help ensure consistent risk management and operationalisation thereof.

The Group's risk appetite framework contains a set of explicit statements for risk types and dimensions that are considered to be of particular importance to DNB. Each statement specifies evaluation principles that define acceptable risk levels.

Risk types and dimensions that are covered by the framework:

- profitability and earnings
- capital adequacy
- credit risk
- market risk
- liquidity risk
- operational risk
- anti-money laundering
- reputational risk

The framework should serve as a point of reference for evaluating the organisation's strategic and financial plans.

Each statement and the related limits have a designated owner who is responsible for establishing follow-up routines, and for monitoring changes in the utilisation of limits.

The current risk appetite status is reported along with periodic financial reporting to group management and the Board of Directors.

All risk appetite statements should be implemented further in the organisation, for example through more specific risk tolerance levels for each risk type. This process is owned by the person responsible for each statement, and may include both qualitative and quantitative elements. Operationalisation through the governance system is an important element to ensure that the risk appetite framework functions as an effective governance tool.

INTERNAL CONTROL FRAMEWORK

Risk management and internal control in DNB are based on the framework from the Committee of Sponsoring Organizations of the Treadway Commission, COSO. COSO is a framework consisting of five components:

1. **Control environment:** principles, processes and structures which form the basis for sound internal control throughout the organisation
2. **Risk assessment:** assessment of internal and external factors which affect target attainment
3. **Control activities:** policies and procedures to mitigate risk and ensure that risk responses are effectively carried out
4. **Information and communication:** processes to ensure that relevant information is identified and communicated in a timely manner
5. **Monitoring:** processes to ensure that the internal control is appropriately defined, implemented, effective and flexible

These five components should help the Group reach its targets relating to operational efficiency, reliable financial reporting and compliance with laws and regulations.

The framework is illustrated on the next page.

Responsibility for risk management and internal control is divided between three lines of defence:

- **The first line of defence** is the operational management's governance and internal control, including processes and activities to reach defined goals relating to operational efficiency, reliable financial reporting and compliance with laws and regulations. The operational management is responsible for all risk associated with the unit's activities and processes.
- **The second line of defence** is an independent function which monitors and follows up the operational management's governance and internal control. The second line of defence is responsible for setting the premises for risk management, coordination across organisational units and risk reporting. The Group's second line of defence functions are mainly organised in Group Risk Management.
- **The third line of defence** is Group Audit, which reviews and evaluates group management's overall governance and internal control. Group Audit is independent of the Group's executive management and reports to the Board of Directors of DNB ASA.

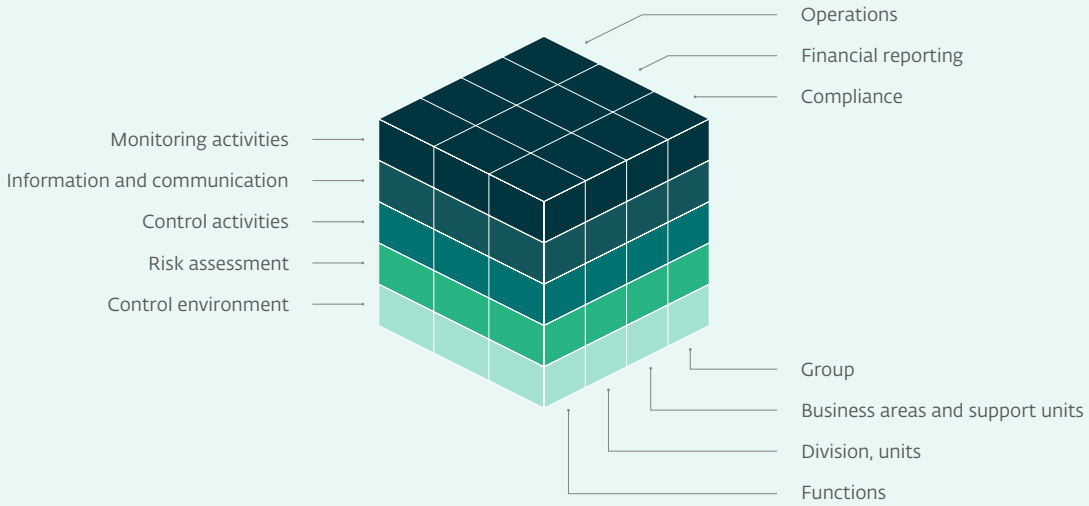
The Group's report on capital requirements and risk management, the Pillar 3 report, includes a description of risk management and internal control in DNB, capital management and calculation and an assessment and follow-up of various risk categories. The report is available on the Group's website ir.dnb.no.

INTERNAL AUDIT

Organisation and responsibilities

Independent and effective audits will help ensure satisfactory risk management and internal control, as well as reliable risk and financial reporting. Group Audit receives its mandate from the Board of Directors of DNB ASA, which also approves the department's annual plans and budgets.

COSO framework



Group Audit's responsibilities can broadly be divided in two:

- On behalf of the Board of Directors of DNB ASA, the group chief executive and the Boards of Directors of major subsidiaries verify that adequate and effective risk management and internal control are in place
- Assess whether risk identification, established management processes and control measures effectively contribute to strengthening the Group's ability to reach its targets

Implementation and monitoring

Group Audit carries out audits of units in the DNB Group. An audit plan is prepared, which is discussed with group management, reviewed by the Audit Committee and approved by the Board of Directors. Group Audit's risk assessments form the basis for determining which units should be given priority in the auditing process. After the audits have been completed, audit reports are prepared, which include the results of the audit, a description of any identified weaknesses or deficiencies and proposed measures, specifying responsible persons and deadlines for implementation of the measures. The audit reports are sent to the heads of the relevant audited units. An audit summary, reviewing all of the units in the DNB Group, is presented to the Boards of Directors of DNB ASA and DNB Bank ASA once every six months. The Boards of Directors also receive a monthly summary of the audit reports for all units in the Group.

Information about the statutory auditor can be found in section 15 below.

SUPERVISORY AUTHORITIES

The operations of the DNB Group are supervised by Finanstilsynet (the Financial Supervisory Authority of Norway). Among other things, Finanstilsynet reviews annual and interim reports and the Group's Internal Capital Adequacy Assessment Process, ICAAP. Finanstilsynet reviews the Group's recovery plan. The Board of Directors aims to have an open and constructive dialogue with Finanstilsynet.

THE BOARD OF DIRECTORS' REPORTING OF THE KEY COMPONENTS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial reporting in the Group shall be in compliance with relevant laws and regulations and internal guidelines for operations. DNB aims to have low operational risk, and the group standard for internal control over financial reporting set explicit requirements for processes and procedures to ensure high-quality reporting. →

More about the standard for internal control over financial reporting
DNB's financial reporting shall ensure long-term value creation for shareholders.

Ongoing risk assessments are made of processes that entail a risk of errors in financial reporting. The assessments include an end-to-end process mapping that clarifies roles and responsibilities in the entire financial value chain. Key controls are established to ensure internal control of all aspects that imply a risk of serious errors. These controls are subject to special documentation requirements. Risk-mitigating measures are established for all processes that continue to involve high or medium risk after the key controls have been implemented.

The results of the internal control over financial reporting are reported to Group Financial Reporting each quarter and followed up on an ongoing basis. The group management team and the Audit Committee receive annual updates.

Process for internal control over financial reporting in the DNB Group



BOARDS OF DIRECTORS

Organisation and responsibilities
The Board of Directors of DNB ASA, represented by the Audit Committee, reviews the financial reporting process and ensures that the Group's internal control, including the internal audit and risk management systems, functions effectively. In addition, the committee shall ensure that the Group has independent and effective external audit procedures. The Board of Directors has prepared guidelines to ensure reliable, relevant, timely and uniform reporting to shareholders and other capital market participants. The guidelines also cover internal needs. Together, these are called guidelines for financial reporting. The guidelines set quality assurance requirements for the financial reporting process applying to all units in the Group, including requirements to avoid any manipulation of the accounts.

Implementation and monitoring
The Audit Committee reviews quarterly financial reporting for the DNB Group. The Committee makes a thorough review of discretionary assessments and estimates in addition to any changes in accounting practice.

The Committee monitors the Group's internal control systems and the internal audit, making sure that they function effectively, and considers changes in systems and procedures which are presented to the Board of Directors for approval.

In connection with its review, the Committee has discussions with management, Group Audit and the statutory auditor. The statutory auditor provides a report to the Committee on the main features of the audit carried out in the previous accounting year, including a special review of any material weaknesses identified in internal control relating to the financial reporting process.

The Committee considers group management's annual self-assessment of the level of and effectiveness of the internal control over financial reporting.

At least once each quarter, the Committee has separate meetings with the statutory auditors on behalf of the Board of Directors without any representatives from management present. In addition, the Committee has meetings with the group chief audit executive at least once a year without any representatives from management present.

The Audit Committee considers the quarterly accounts and the proposed annual accounts for DNB ASA and the DNB Group. After the quarterly accounts and proposed annual accounts for the respective companies have been reviewed by the executive management and the Audit Committee, they are considered by the Boards of Directors of DNB ASA and DNB Bank ASA. The annual accounts are approved by the general meeting.

The Audit Committee also considers the proposed statutory and consolidated accounts of DNB Bank ASA and DNB Livsforsikring AS and the statutory accounts of DNB Boligkreditt AS. The Board of Directors of DNB Livsforsikring AS considers

the quarterly accounts and the proposed annual accounts. The annual accounts are approved by the respective companies' general meetings.

GROUP CHIEF EXECUTIVE AND EXECUTIVE BODIES

Organisation and responsibilities

Group Finance is headed by the chief financial officer, CFO, and is organised outside the business areas. The CFO appoints the heads of the Group Financial Reporting and Financial Management divisions.

The Group Financial Reporting division prepares, processes, consolidates, quality assures and reports financial information at group level. The division will implement reporting tools and processes that are harmonised with prevailing requirements for the Group's financial reporting.

The Group Financial Management division sets the premises and requirements for the Group's financial management model and tax (including value-added tax). The division sets the premises for the requirements to be met by accounting systems and other relevant systems for financial reporting.

The heads of reporting units are responsible for ongoing financial monitoring and reporting. All these units have management teams and accounting units adapted to their organisation and operations. Managers must ensure that adequate and effective internal control is implemented in accordance with established requirements, and are responsible for complying with these requirements.

Implementation and monitoring

Reporting units

The heads of the business areas and staff and support units are responsible for implementing adequate and effective internal control in accordance with established requirements, as well as for ensuring compliance with these requirements. The units will assess internal control of financial reporting each quarter and report the results of their assessment to the head of the Group Financial Management division. Every year, a comprehensive evaluation of compliance with external and internal regulations concerning internal control over financial reporting is made. The results, along with planned improvement measures, are reported to the head of the Group Financial Management division.

Group Finance

Group Finance prepares financial reports for the DNB Group and ensures that such reporting is in line with prevailing legislation, accounting standards, current accounting →



Did you know that DNB has its own internal, three-year education programme called Architect Greenhouse to educate more IT architects?

principles and guidelines from the Board of Directors. The head of the Group Financial Reporting division prepares guidelines which explain the requirements to be fulfilled by the local units. Processes and a number of control measures have been prepared to ensure that financial reporting is of high quality. The measures include rules concerning authorisations, the division of responsibilities, reconciliation, change management, IT controls and management reviews.

Group management team

The group chief executive and the chief financial officer will continually consider the financial results and target attainment of the business areas as well as critical aspects and events which will affect their future performance and optimal resource utilisation. A review covering, inter alia, these subjects will be made in cooperation with the individual business areas at least on a quarterly basis. If required, the risks associated with financial reporting, both in the short and the long term, are assessed at the meetings. The group chief executive, the chief financial officer, managers in the relevant unit and relevant experts participate in the meetings, which are chaired by the group chief executive. The chief financial officer reviews such matters with the support units in special meetings.

The group management team will review monthly financial reporting and risk appetite, including trends in profit and loss and balance sheet items, the current status relative to statutory enactments, results for legal units and analyses of and comments to the financial performance of business areas and support units.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Organisation and responsibilities

The Financial Management division functions as the second line of defence for internal control over financial reporting and has a direct reporting line to the Audit Committee. The unit sets requirements for the design of and monitors internal control over financial reporting in the Group.

Implementation and monitoring

On behalf of the chief financial officer, the unit for internal control over financial reporting identifies, assesses and monitors the risk of errors in the Group's financial reporting in cooperation with the heads of the reporting units.

A process has been established for self-assessments of the level of and effectiveness of the internal control over financial reporting. The units' quarterly assessment of internal control over financial reporting is discussed with the head of Group Financial Reporting in special meetings when and as required, and a summary is presented to the chief financial officer, group management, the Audit Committee and the Board of Directors of DNB ASA if required in connection with their review of the Group's quarterly and annual accounts.

AUDIT

Organisation and responsibilities

See description of the internal audit above.

Implementation and monitoring

The annual accounts of all the companies in the DNB Group are audited by the statutory auditors, who, within the limits stipulated in international standards on auditing and quality control, ISA, cooperate with Group Audit.

As part of the audit, Group Audit assesses the established internal control over financial reporting in selected processes. Every year, the statutory auditor prepares a report which summarises the results of the financial audit. The report accounts for any weaknesses and deficiencies in the internal control over financial reporting. The report is sent to those who are responsible for financial reporting in the audited units and companies for comment before being considered by the Audit Committee and the Board of Directors of DNB ASA. The results of the audit of financial reporting are described in Group Audit's semi-annual report to the Boards of Directors of DNB ASA and DNB Bank ASA and the Audit Committee.

SECTION 11

REMUNERATION OF THE BOARD OF DIRECTORS

Remuneration paid to members of the Board of Directors, which is proposed by the Election Committee and approved by the general meeting, is not performance-based or linked to options in DNB ASA. The Board of Directors must approve any remuneration from the company to members of the Board of Directors other than ordinary remuneration for their service on the Board of Directors, the Audit Committee, the Risk Management Committee and the Compensation Committee. Note 47 to the annual accounts for the DNB Group shows remunerations to senior executives and elected officers in DNB ASA.

No deviations from the Code of Practice.

SECTION 12

REMUNERATION OF THE EXECUTIVE PERSONNEL

Guidelines for executive pay

DNB's guidelines for determining remunerations to the group chief executive and other members of the group management team should, at all times, support prevailing strategy and values,

while contributing to the attainment of the Group's targets. The total remuneration to the group chief executive and other senior executives consists of basic salary (main element), benefits in kind, variable salary, pension and insurance schemes. When determining the variable remuneration of the group chief executive and other senior executives for 2017, strong emphasis was once again placed on group measurement parameters for financial key figures, customer satisfaction and corporate reputation.

DNB's variable remuneration scheme is in accordance with the regulations on remuneration schemes in financial institutions, investment firms and management companies for mutual funds. The Group has identified senior executives, risk takers and independent control functions, referred to as other senior executives below.

Group chief executive
The total remuneration to the group chief executive is determined on the basis of a total evaluation of performance, in addition to comparisons with remuneration levels for corresponding positions in the market. The remuneration should be competitive, but not market-leading.

The variable remuneration of the group chief executive is performance-based and determined on the basis of the Group's return on equity, Tier 1 capital ratio and cost/income ratio, in addition to developments in customer satisfaction, DNB's reputation and internal measurement parameters related to corporate culture and innovation. The variable remuneration of the group chief executive cannot exceed 50 per cent of fixed salary. Payment of minimum 50 per cent of variable remuneration is deferred and conditional in the form of DNB shares. The remuneration paid in the form of shares is divided into three, subject to minimum holding periods (deferred and conditional), with one-third payable each year over a period of three years.

Other senior executives
The total remuneration to other senior executives is determined based on the same framework as the remuneration to the group chief executive. The total remuneration should ensure that DNB attracts and retains senior executives with the desired skills and experience. The level of variable remuneration in DNB is considered to be moderate relative to prevailing levels in international financial institutions and other large Norwegian groups of companies.

Variable remuneration is awarded to individual employees within limits allocated to each unit and an overall assessment of the individual's attainment of predetermined financial and non-financial targets.

The variable remuneration scheme is performance-based without exposing the Group to unwanted risk. This is ensured by the strong correlation between individual targets and the Group's governance model. Payment of minimum 50 per cent of variable remuneration is deferred and conditional in the form of DNB shares. The remuneration paid in the form of shares is divided into three, subject to minimum holding periods (deferred and conditional), with one-third payable each year over a period of three years. Variable remuneration cannot exceed 50 per cent of fixed salary for senior executives.

The Board of Directors' statement concerning executive remunerations
The Board of Directors presents a statement to the general meeting proposing guidelines for remunerations to senior executives. The statement and information about remunerations paid to the individual members of the group management team can be found in note 47 to the annual accounts for the DNB Group.

Other aspects
No employees in the DNB Group have any outstanding subscription rights etc. See also the description of the Board of Directors' Compensation Committee in Section 9 above.

No deviations from the Code of Practice.

SECTION 13

INFORMATION AND COMMUNICATIONS

The Group presents the Norwegian and international markets with extensive analytical information in connection with the quarterly reporting of financial information and presentations on particular topics. Parallel to this, the same information is made available to all interested parties on the websites of Oslo Børs and the Group.

Guidelines have been drawn up for the reporting of financial information to shareholders, investors and analysts. The guidelines also cover the Group's contact with shareholders other than through general meetings. The guidelines are based on openness and take into account the requirement for equal treatment of all participants in the market. They can be found on the Group's website ir.dnb.no/about-dnb.

An overview of the dates for major events such as the annual general meeting, the publication of interim reports, public presentations and dividend payments is published on the Group's website.

→

All DNB employees have access to the guidelines for financial reporting, including requirements for the internal control over financial reporting. Group Finance holds regular meetings with units in the Group to give information about and increase the understanding of the requirements for internal control over financial reporting.

No deviations from the Code of Practice.

SECTION 14

CORPORATE TAKE-OVERS

The Board of Directors of DNB ASA will handle any take-over bids in compliance with the principle of equal treatment of shareholders. Parallel to this, the Board will help ensure that shareholders are given as complete information as possible in all situations that will affect shareholder interests. Cf. section 4, which gives an account of the Norwegian government's intention to retain its 34 per cent holding in DNB ASA, as required by the Norwegian parliament.

Deviations from the Code of Practice: The Board of Directors has chosen not to determine explicit guiding principles on how to act in the event of a take-over bid. The background for this exception is that the Norwegian government owns 34 per cent of the shares in DNB ASA, making such principles not very relevant. The Board of Directors otherwise endorses the wording in this section of the Code.

SECTION 15

STATUTORY AUDITOR

DNB's statutory auditor is EY. The statutory auditor annually submits a plan for the audit to the Audit Committee. Guidelines have been drawn up in respect of relations with the statutory auditor, including restrictions on what additional services can be undertaken, approval of fees and guidelines to invite tenders for external audit services. The audit partner responsible for carrying out the audit can hold this responsibility for maximum seven years, and tenders will normally be invited every seventh year.

The Audit Committee submits a recommendation regarding the choice of statutory auditor to the Board of Directors, which submits a recommendation to the general meeting. At least once each quarter, the Committee has separate meetings with the auditors on behalf of the Board of Directors without any representatives from management present.

The Committee submits a recommendation regarding the statutory auditor's remuneration to the Board of Directors,



Did you know that nine people from Syria with a refugee background and technology expertise worked with IT projects in DNB in the autumn of 2017? Diversity creates innovation.

which presents the remuneration proposal to the Annual General Meeting for approval.

The statutory auditor must provide a report to the Audit Committee on the main features of the audit carried out in the previous accounting year, including particular mention of any material weaknesses identified in internal control relating to the financial reporting process. The auditor must also provide the committee with:

- an annual written confirmation of the auditor's independence
- information on services other than statutory audit provided to the company during the course of the financial year
- information on any threats to the auditor's independence, and documentary evidence of the measures implemented to combat such threats.

The Audit Committee evaluates the work performed by the statutory auditor on an annual basis.

No deviations from the Code of Practice.

Tools for managing climate risk

→ Through DNB's commitment to the TCFD (Task Force on Climate-related Financial Disclosures), the bank focuses on both how climate change affects the environment and what it means for companies' performance and financial stability. Good insight into the risks and opportunities associated with climate change is necessary to ensure that financially sustainable decisions can be made.

The Paris Agreement, signed by 175 countries in 2016, seeks to keep global warming below the 2°C target. Rising global temperatures caused by climate change could lead to financial uncertainty and enormous costs.

The TCFD is a working group appointed by the G20 countries' Financial Stability Board, FSB, with a mandate to consider the financial uncertainty caused by climate risk. The TCFD's mission is to facilitate better and more comparable climate reporting in, among others, the financial sector. Better information will enable investors, lenders, insurance companies and other stakeholders to make informed choices in a long-term climate risk perspective.

In June 2017, the TCFD presented its concrete recommendations, which are supported by DNB. The recommendations cover four relevant areas for companies across sectors, countries and regions. These are governance, strategy, risk management and metrics and targets. In addition, special recommendations are given to various financial and industry sectors that are considered to be especially vulnerable to climate risk.

PILOT PROJECT UNDER THE UNITED NATIONS ENVIRONMENT PROGRAMME, UNEP

Based on the TCFD's recommendations, DNB has joined 16 other international banks in a pilot project led by the United Nations Environment Programme, UNEP, to develop tools for future climate reporting.

The tools will be used in the banks' credit risk assessment of industries that are particularly vulnerable to climate change in the form of both physical risks (such as extreme weather, flooding and drought) and transition risk (such as new regulatory requirements). DNB thus seeks to incorporate climate risk in the traditional credit risk associated with lending. The UNEP working group started its pilot project in July 2017. It will be accounted for in a United Nations report to be published in 2018.

Understanding climate risk will make DNB better equipped to invest in the winners of tomorrow, and ensure the Group's competitiveness in a low-carbon economy.

Board of Directors

As at 7 March 2018

The Board of Directors of DNB ASA is the Group's supreme governing body. Through the group chief executive, the Board shall ensure a sound organisation of business activities. The Board has three sub-committees: the Risk Management Committee, the Audit Committee and the Compensation Committee.



ANNE CARINE TANUM

Born 1954

Board chairman in DNB and DNB Bank since 2008 (board member since 1999) and chairman of the Compensation Committee.

Background: Law degree from the University of Oslo. Long-standing managing director and owner of Tanum AS. Former board member in DnB Holding, Den norske Bank and Vital Forsikring.

Other key positions of trust: Board chairman in the Norwegian National Opera and Ballet, E-CO Energi Holding AS, E-CO Energi AS and Nordisk Film Kino AS. Vice-chairman of the board of Oslo University Hospital. Board member in Cappelen Damm AS, Try AS and the Abel Prize. Former board chairman in the Norwegian Broadcasting Corporation, NRK, and board member in Europris AS.

No. of board meetings : 10/11
No. of shares[1)]: 400 000



TORE OLAF RIMMEREID

Born 1962

Board vice-chairman in DNB since 2012 (board member since 2008). Chairman of the Audit Committee and member of the Risk Management Committee and the Compensation Committee.

Background: Master's degree in business administration and authorised financial analyst from the Norwegian School of Economics. President and CEO of E-CO Energi. Former head of the Finance and Administration Department in the Norwegian Broadcasting Corporation, NRK, and group executive vice president, Financial Reporting and Finance, in the SpareBank 1 Alliance. Experience from Kreditkassen.

Other key positions of trust: Board chairman in Oslo Lysverker and Opplandskraft DA. Former board chairman in Energy Norway and political adviser for the Conservative Party's parliamentary group.

No. of board meetings: 10/11
No. of shares[1)]: 10 611



KARL-CHRISTIAN AGERUP

Born 1962

Board member in DNB since April 2017. Member of the Audit Committee and the Risk Management Committee.

Background: Graduate of the Copenhagen Business School, and Master of Science in Management from the Massachusetts Institute of Technology. Managing director of Oslotech AS. Former founder and partner of Northzone Ventures, founder and managing director of Hugin ASA, and background as a project manager in McKinsey & Co.

Other key positions of trust: Board chairman in Startuplab AS and Founders Fund AS. Board member in Zalaris ASA and the Norwegian Board of Technology. Former board member in several companies, including Schibsted ASA, Aftenposten AS, Admincontrol AS and Norfund.

No. of board meetings: 7/7
No. of shares[1)]: 6 400



CARL A. LØVVIK

Born 1952

Board employee representative in DNB since 2011.

Background: Employee representative in DNB. Employed as an insurance agent in 1988 and worked within marketing in DNB Livsforsikring and as a manager at DNB Livsforsikring's Customer Service Centre.

No. of board meetings: 11/11
No. of shares[1)]: 1 295



VIGDIS MATHISEN

Born 1958

Board employee representative in DNB and DNB Bank since 2012.

Background: Business graduate from and several courses in management at BI Norwegian Business School. Employed in DNB since 1983 and elected chief employee representative for the Group in the Finance Sector Union DNB in 2012.

Other key positions of trust: Former board member in DNB Bank, Den norske Bank and DnB Holding.

No. of board meetings: 10/11
No. of shares[1]: 654



JAAN IVAR SEMLITSCH

Born 1971

Board member in DNB since June 2014. Chairman of the Risk Management Committee and member of the Audit Committee.

Background: Graduate of the Norwegian School of Economics. CEO in Elkjøp Nordic AS. Former Chief Operating Officer of Statoil – Retail Europe and CEO of Plantasjen ASA and Rema Industrier AS.

Other key positions of trust: Former and current board chairman and board member in several Norwegian enterprises. Chairman of the Board of Elkjøp Norge AS and Lefdal Elektromarked AS. Former chairman of the Board of Statoil Norge AS.

No. of board meetings: 11/11
No. of shares[1]: 12 300



BERIT SVENDSEN

Born 1963

Board member in DNB since 2012 (former member of the Board in DNB Bank 2010–2012). Member of the Compensation Committee, the Audit Committee and the Risk Management Committee.

Background: Graduate engineer with a Master of Technology Management degree from the Norwegian University of Science and Technology (NTNU). Executive vice president in Telenor and Telenor Scandinavia and CEO of Telenor Norway. Former chief technology officer in Telenor and head of Telenor's fixed network business in Norway, and CEO of Conax.

Other key positions of trust: Board member in SAS. Former board chairman in Data Respons and board member in EMGS, Ekornes and Bisnode AB, as well as a member of the European Commission Advisory Group on ICT matters.

No. of board meetings: 11/11
No. of shares[1]: 0

1) Shareholdings in DNB ASA as at 31 December 2017. Shares held by the immediate family and companies in which the shareholder has decisive influence are also included.

Group management

As at 7 March 2018

The group management meeting is the group chief executive's collegiate body for management at group level. All important decisions are made in consultation with the group management team.



RUNE BJERKE

Born 1960

Group chief executive since 2007.

Key positions of trust: Board chairman in Vipps and board member in Finance Norway and Finance Norway's Service Office.

Other professional experience: Former president and CEO of Hafslund ASA and president and CEO of Scancem International. Has held a number of board positions in large companies. Served as finance commissioner of the Oslo City Council and as a political adviser in Norway's Ministry of Petroleum and Energy.

Education: Economics degree from the University of Oslo and a Master's degree in public administration from Harvard University.

No. of shares[1]: 57 387



KJERSTIN BRAATHEN

Born 1970

Chief financial officer since 2017.

Prior positions in DNB: Former group executive vice president Corporate Banking Norway. Has many years' experience from Shipping, Offshore and Logistics, SOL, in Oslo. Joined DNB in 1999.

Other professional experience: Hydro Agri International.

Education: Master in Management degree from Ecole Supérieure de Commerce de Nice-Sophia Antipolis.

No. of shares[1]: 25 486



TROND BENTESTUEN

Born 1970

Group executive vice president Wealth Management & Insurance since 2017.

Prior positions in DNB: Former group executive vice president Personal Banking and head of Marketing, Communications and eBusiness. Joined DNB in 2008.

Other professional experience: Expert and Telenor.

Education: Bachelor of Arts degree in journalism and political science from Temple University, California, and training from the Armed Forces.

No. of shares[1]: 23 660



OTTAR ERTZEID

Born 1965

Group executive vice president Markets since 2003.

Key positions of trust: Board chairman in the Norwegian Banks' Guarantee Fund, board vice-chairman in the Norwegian Investor Compensation Scheme and DNB Livsforsikring, board member in Oslo Børs AS and Oslo Børs VPS Holding, etc.

Prior positions in DNB: Former head and deputy head of DnB Markets. Held various positions within the FX/Treasury area. Former chief financial officer in DnB Boligkreditt and head of finance in Realkreditt. Joined DNB in 1989.

Education: Graduate of BI Norwegian Business School.

No. of shares[1]: 227 316



BENEDICTE SCHILBRED FASMER

Born 1965

Group executive vice president Corporate Banking since 2016.

Key positions of trust: Board member in Vipps.

Prior positions in DNB: Former head of DNB's operations in Bergen and head of Corporate Banking in Western Norway. Joined DNB in 2015.

Other professional experience: Executive positions in Sparebanken Vest, Rieber & Søn, Argentum Asset Management and Citibank.

Education: Graduate of the Norwegian School of Economics.

No. of shares[1]: 4 054



RASMUS FIGENSCHOU

Born 1979

Acting group executive vice president New Business since 2017.

Prior positions in DNB: Former head of Strategy and Corporate Development and head of division in Corporate Banking Norway for the counties of Rogaland and Agder. Management experience from DNB's offices in Tallinn, Estonia, Singapore and New York. Joined DNB in 2005.

Other professional experience: Analyst at Simmons & Company International.

Education: MBA from IMD Business School in Switzerland, Bachelor of Arts in Economics from Tufts University, College of Liberal Arts, Medford, Massachusetts.

No. of shares[1]: 6 207



SOLVEIG HELLEBUST

Born 1967

Group executive vice president People and Operations since 2017.

Prior positions in DNB: Former group executive vice president HR since 2009.

Other professional experience: Former vice president of Human Resources and Communications at Pronova BioPharma ASA. Several years' experience from HR at Telenor and at BI Norwegian Business School as an associate professor in economics.

Education: PhD in international economics from the Norwegian University of Life Sciences, an MSc in agricultural economics from the University of Illinois, and an MSc in business and economics from BI Norwegian Business School.

No. of shares[1]: 19 731



IDA LERNER

Born 1975

Group executive vice president Group Risk Management since 2017. Acting group executive vice president Compliance since 2017[2].

Prior positions in DNB: Former head of DNB CEMEA (Central Europe, Middle East and Africa) and head of customer analysis for Northern Europe, the Middle East and Africa at DNB's London office. Joined DNB in 2007.

Other professional experience: Previous experience from HSBC and Nordea.

Education: Bachelor of Arts from the University of Stockholm.

No. of shares[1]: 0



THOMAS MIDTEIDE

Born 1974

Group executive vice president Media & Marketing since 2013.

Prior positions in DNB: Former executive vice president External Communication. Joined DNB in 2009.

Other professional experience: Head of Communications in SAS Norge, communications officer in VISA Norway and TV reporter and presenter in the Norwegian Broadcasting Corporation, NRK.

Education: Journalist degree from Oslo University College. Subsidiary subject in political science and criminology at the University of Oslo.

No. of shares[1]: 10 168



ALF OTTERSTAD

Born 1965

Acting group executive vice president IT since 2017.

Prior positions in DNB: Executive vice president ITOP Customer Solutions since 2014. Experience as a section head in ITOP Relationship and Requirements Specifications under Customer Solutions. Joined DNB in 2013.

Other professional experience: Broad experience in IT, especially within IT program and project management. Also has experience from consultancy companies and consulting activities in his own companies.

Education: Graduate engineer in IT from the University of Manchester Institute of Science and Technology (UMIST), England.

No. of shares[1]: 0



HARALD SERCK-HANSSEN

Born 1965

Group executive vice president Large Corporates and International since 2013.

Prior positions in DNB: Former head of the Shipping, Offshore and Logistics division, SOL. Joined DNB in 1998.

Other professional experience: Stolt-Nielsen Shipping and Odfjell Group.

Education: BA (Hons) degree in business studies from the University of Stirling and Advanced Management Programme at INSEAD Fontainebleau.

No. of shares[1]: 34 960



INGJERD BLEKELI SPITEN

Born 1971

Group executive vice president Personal Banking since January 2018.

Key positions of trust: Holds a number of board positions.

Prior positions in DNB: Former head of eBusiness.

Other professional experience: SVP Global Products at Telenor. Previously worked as COO in Microsoft Norway. Former owner and strategic adviser in Poio AS.

Education: Graduate of BI Norwegian Business School.

No. of shares[1]: 500

1) Shareholdings in DNB ASA as at 31 December 2017. Shares held by the immediate family and companies in which the shareholder has decisive influence are also included.
2) Mirella Wassiluk will assume the position as group executive vice president Compliance on 2 April 2018.

Governing bodies in DNB ASA

As at 31 December 2017

	No. of shares as at 31 Dec. 2017[1]	No. of shares as at 31 Dec. 2016[1]
BOARD OF DIRECTORS		
Members		
Anne Carine Tanum, Rømskog (chairman)	400 000	400 000
Tore Olaf Rimmereid, Oslo (vice-chairman)	10 611	10 611
Karl-Christian Agerup, Oslo	6 400	0
Carl A. Løvvik, Bergen[2]	1 295	1 191
Vigdis Mathisen, Asker[2]	654	481
Jaan Ivar Semlitsch, Stabekk	12 300	12 300
Berit Svendsen, Oslo	0	0
Deputies for the employee representatives		
Jorunn Løvaas, Kristiansund[2]	0	0
Stian Samuelsen, Svelvik[2]	480	480
ELECTION COMMITTEE		
Eldbjørg Løwer, Kongsberg (chairman)	200	200
Camilla Grieg, Bergen	0	0
Karl Moursund, Oslo	0	0
Mette Wikborg, Oslo	0	0
RISK MANAGEMENT COMMITTEE		
Jaan Ivar Semlitsch, Stabekk (chairman)	12 300	12 300
Karl-Christian Agerup, Oslo	6 400	0
Tore Olaf Rimmereid, Oslo	10 611	10 611
Berit Svendsen, Oslo	0	0
AUDIT COMMITTEE		
Tore Olaf Rimmereid, Oslo (chairman)	10 611	10 611
Karl-Christian Agerup, Oslo	6 400	0
Jaan Ivar Semlitsch, Stabekk	12 300	12 300
Berit Svendsen, Oslo	0	0
COMPENSATION COMMITTEE		
Anne Carine Tanum, Rømskog (chairman)	400 000	400 000
Vigdis Mathisen, Oslo	654	481
Tore Olaf Rimmereid, Oslo	10 611	10 611
Berit Svendsen, Oslo	0	0

	No. of shares as at 31 Dec. 2017[1]	No. of shares as at 31 Dec. 2016[1]
GROUP MANAGEMENT		
Group chief executive		
Rune Bjerke	57 387	52 964
Chief financial officer		
Kjerstin Braathen	25 486	22 931
Acting group executive vice president Personal Banking[3]		
Hans Olav Rønningen	5 738	4 999
Group executive vice president Corporate Banking		
Benedicte Schilbred Fasmer	4 054	2 000
Group executive vice president Large Corporates and International		
Harald Serck-Hanssen	34 960	31 770
Group executive vice president Wealth Management & Insurance		
Trond Bentestuen	23 660	20 692
Group executive vice president Markets		
Ottar Ertzeid	227 316	220 140
Acting group executive vice president New Business		
Rasmus Figenschou	6 207	4 897
Group executive vice president People & Operations		
Solveig Hellebust	19 731	17 560
Group executive vice president Group Risk Management and acting group executive vice president Compliance[4]		
Ida Lerner	0	0
Acting group executive vice president IT		
Alf Otterstad	0	0
Group executive vice president Media & Marketing		
Thomas Midteide	10 168	7 928
GROUP AUDIT		
Tor Steenfeldt-Foss	0	0
EXTERNAL AUDITOR		
Ernst & Young AS	0	0

1) Shareholdings in DNB ASA, shares held by the immediate family and companies in which the shareholder has such influence as stated in Section 7-26 of the Act relating to annual accounts etc.
2) Not independent, see page 84 under "Corporate governance".
3) Ingjerd Blekeli Spiten assumed the position as group executive vice president Personal Banking on 9 January 2018.
4) Mirella Wassiluk will assume the position as group executive vice president Compliance on 2 April 2018.





New regulatory framework

7

When the world around us changes, so does our regulatory framework. Thus, we are faced with anything from new laws and regulations to changes in tax regimes and liquidity requirements.

DNB's ambition is to live up to the requirements and expectations of society at all times. This means that we must have an organisation with two fundamental abilities: **Flexibility and adaptability.**

105 The EU's revised Payment Services Directive, PSD2

105 New Personal Data Act will strengthen consumer rights

106 Capital and liquidity requirements

110 MiFID II and MiFIR to be implemented in Norway from 2018

110 Debt register and marketing of consumer loans

111 Savings and pensions

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New regulatory framework

Over the last few years, DNB has adapted to a number of new regulations and requirements that go a long way in changing banks' business models. At the same time, the financial services industry is being hit by a technological revolution and radical changes in customer behaviour, which in turn result in new regulations and requirements.

In the period ahead, established financial services will be challenged by new companies with new business models. The EU's revised Payment Services Directive, PSD2, opens up for giving competing banks, technology companies and other players that do not offer bank accounts themselves, direct access to banks' payment infrastructure and the opportunity to aggregate account information and debit accounts on behalf of customers. This liberalisation will pave the way for a strong increase in the number of new service providers in several areas of banks' operations, which will intensify competition in the market, while giving consumers greater freedom of choice.

The financial services industry is subject to strict regulatory control and a number of requirements. The growth in financial service production outside the established financial services industry raises complex questions related to everything from deposit guarantees, measures against money laundering and the financing of terrorism, equity capital requirements to ensure financial stability and privacy protection requirements. These are important tasks in society which the financial services industry is loyally complying with, and which will become even more critical when completely new players enter the scene. It is important that the authorities facilitate competition based on fair regulatory parameters in the best interest of the customers. The promotion of competition on equal terms is positive, but must not be at the expense of consumer protection and confidence in financial services and their infrastructure.

THE EU'S REVISED PAYMENT SERVICES DIRECTIVE, PSD2

PSD2 entered into effect in the EU on 13 January 2018 and will have a profound impact on the regulatory framework for the payment services market. The directive has not yet been formally incorporated in the EEA Agreement, and no deadline has thus been set for its implementation in Norway.

The directive regulates payments in general, including online payments, and goes a long way in defining new rules of the game for payment service providers. Among other things, banks have to give third party providers direct access to customers' account balances and transaction history, and the opportunity to transfer money to and from accounts, subject to customer approval. Such third party providers may be other banks, players in the retail industry, pure payment service providers, large IT companies or fintech companies that do not offer accounts themselves. Banks cannot charge a higher price than the ordinary price charged to the end customer.

Allowing third parties to access account information and initiate payments is more common in other countries than in Norway, such as in Sweden, the United Kingdom, China and the US. Based on experience from these markets, there is reason to believe that many consumers will want to take such services into use now that they are regulated and made generally available throughout the European Economic Area.

The directive also introduces strict security regulations through requirements for customer authentication, protection against fraud and enhanced consumer rights. The guidelines of the European Banking Authority, EBA, for the security of payments initiated by customers through third party providers are of great importance to public trust in payment services and the security of funds deposited in accounts. These regulations are expected to enter into force in September 2019.

PSD2 could pose a threat to traditional banks, as the banks' value chain and customer base will be opened up to new players. However, the changes also give banks the opportunity to develop new products, services and business models. Technology is changing the industry fast, and customer expectations are changing even faster.

The Norwegian Ministry of Finance has circulated for public comment amendments to the Financial Institutions Act, the Financial Supervision Act and the Payment System Act, which will implement the public law aspects of PSD2. Correspondingly, the Ministry of Justice and Public Security has circulated for public comment a proposal for a new Financial Contracts Act, which will implement the private law aspects of the directive. PSD2 will be introduced in Norway in the autumn of 2018 at the earliest, but many players will probably adapt their operations in accordance with the effective date in the EU. DNB is actively following the Norwegian authorities' work to implement PSD2 and is making a considerable effort to adapt the bank's operations to the new regulations and exploit new opportunities.

NEW PERSONAL DATA ACT WILL STRENGTHEN CONSUMER RIGHTS

The Ministry of Justice and Public Security has circulated a draft for a new Personal Data Act for public comment. The Act will implement the EU's General Data Protection Regulation (GDPR) in Norwegian law. One of the main drivers behind the need for new regulations is the fact that digital channels have led to a significant increase in the amount of personal data that is stored about individuals. The new Act implies major changes for almost everyone engaged in business operations. DNB is well prepared, as the bank has long experience in safeguarding large amounts of information about its customers. →

The purpose of GDPR is to strengthen and harmonise privacy protection when processing personal data. In addition, the free flow of digital services in the European market will be facilitated, and information processing will generally be more transparent and predictable for consumers. Among other things, a new right will be introduced for consumers to receive all personal data companies have stored about them and to have the information corrected, deleted or transferred from one service provider to another. The Norwegian Data Protection Authority will be given the opportunity to levy high non-compliance fees.

GDPR will be implemented in Norwegian law through a referral provision in the new Personal Data Act. This is in line with the EEA Agreement and implies that the regulation will be introduced "as is". The new regulation enters into force in the EU on 25 May 2018. DNB is working to ensure compliance with future requirements.

CAPITAL AND LIQUIDITY REQUIREMENTS

CAPITAL ADEQUACY REQUIREMENTS FOR BANKS

The EU capital requirements regulations, called the CRR/CRD IV regulations, entered into force on 1 January 2014. CRR is the regulation, while CRD IV is the directive. The regulations are based on the Basel Committee's recommendations from December 2010 on capital and liquidity standards, Basel III. The CRR/CRD IV regulations include requirements for own funds, long-term funding and liquidity reserves. The regulations apply to all banks within the EEA and will be implemented gradually up to 2019.

The CRR/CRD IV regulations are EEA relevant, but have not yet been included in the EEA Agreement. The requirements in CRR/CRD IV have nevertheless generally been implemented in Norwegian law in the Financial Institutions Act including regulations. The EEA/EFTA countries and the EU are working on formally incorporating CRR and CRD IV in the EEA Agreement. In the National Budget for 2018, the Ministry of Finance stated that the Norwegian government will seek to get permission to retain Norwegian rules that in some areas differ from the EU regulations.

Three pillars

The capital adequacy regulations are based on three so-called pillars. Pillar 1 encompasses minimum requirements and buffer requirements determined by the political authorities. Pillar 2 contains requirements which come in addition to the other requirements and are intended to reflect institution-specific capital requirements relating to risks which are not covered, or are only partly covered, by Pillar 1. The Pillar 2 requirements are individual and depend on an assessment made by Finanstilsynet (the Financial Supervisory Authority of Norway) regarding risk in the relevant bank. Pillar 3 is about the disclosure of information.

As of 31 December 2017, DNB has a total Pillar 1 requirement for common equity Tier 1 capital of 13.6 per cent. The counter-cyclical buffer requirement is the weighted average of the buffer rates for the countries where the bank has credit exposures. The rate in Norway is 2.0 per cent, but several countries where DNB has exposures, have set the requirement at zero per cent. For DNB, the effective counter-cyclical buffer requirement is thus reduced to approximately 1.6 per cent. Finanstilsynet has set the Pillar 2 requirement for DNB at 1.6 per cent. Overall, this gave a common equity Tier 1 capital requirement for DNB of approximately 15.2 per cent under Pillar 1 and 2 at year-end 2017.

It is necessary to have a margin over the total common equity Tier 1 capital requirement to take into account fluctuations in exchange rates and market prices. In the opinion of Finanstilsynet, DNB should have a margin of approximately 1 percentage point, which means that the Group needed to have a common equity Tier 1 capital ratio of approximately 16.1 per cent at year-end 2017. The reason why Finanstilsynet has set this margin is that DNB must be able to retain normal lending growth during a downturn while the capitalisation of the Group must help ensure access to the capital markets even under difficult market conditions. At end-December 2017, the DNB Group had a common equity Tier 1 capital ratio of 16.4 per cent.

Basel I floor to be replaced

The capital adequacy requirements to be met by banks are formulated as minimum requirements for own funds in per cent of the bank's assets. The assets must be risk-weighted based on the assumed risk of losses. The former Basel I regulations included standardised risk weights for different types of assets. With effect from 2007, the Basel II standards allowed banks to use their own models to calculate risk weights (the IRB approach). To avoid that the models used would give too low risk weights, a floor was specified for how low the total value of risk-weighted assets could be. The value could not be lower than 80 per cent of what it would have been under the Basel I regulations. This is the so-called Basel I floor.

Norway is the only country that has chosen to retain such a floor for risk-weighted assets. One of the implications of this is that Norwegian banks appear less capitalised in international comparisons than if the EU regulations had been used.

In December 2017, the Basel Committee adopted changes in several parts of the Basel III standards for capital adequacy

assessments, aiming, among other things, to ensure greater consistency between banks' reported capital adequacy figures and capital requirements. The changes include adjustments to the standardised approach and the IRB approach, and the introduction of a new capital floor. The new capital floor requirement will reduce differences in risk weights and result in more harmonised capital requirements across national borders. However, the changes in Basel III are not planned to take effect until 1 January 2022, with a five-year phase-in period. The EU is expected to adopt the recommendations by amending its legislation. This legislation will also be applicable in Norway through the EEA agreement.

Norwegian legislation does not fully reflect the requirements in CRR and CRD IV. The Norwegian Ministry of Finance has therefore given Finanstilsynet a mandate to propose how the remaining parts of CRR and CRD IV should be implemented in Norway. As part of this process, Finanstilsynet will also consider a new capital floor based on the Basel Committee's proposed new standardised approach. The new floor requirement will probably replace the Basel I floor, but it is unclear how it will be designed and coordinated with the EU regulations. Finanstilsynet has been given a deadline in mid-April 2018 to present its recommendations.

Lower capital requirements for corporate loans
In March 2017, the Norwegian government announced that the EU regulations on reduced capital requirements for loans to small and medium-sized enterprises (the SME supporting factor) will be introduced in Norway. However, this will not happen until CRR/CRD IV has been included in the EEA Agreement. The SME supporting factor implies that the ordinary capital requirement for loans to SMEs of up to EUR 1.5 million will be reduced by 23.8 per cent. The European Commission has proposed to continue and extend the SME supporting factor by reducing the capital requirement by a further 15 per cent for amounts in excess of EUR 1.5 million. On the assumption that the SME supporting factor will have effect for all Norwegian banks, its introduction will have a positive impact on the access to capital and value generation in the business community.

Non-risk based capital requirement, leverage ratio
As a supplement to the risk-weighted capital requirements and as a measure to counter adjustments and gaps in the regulations, the EU will introduce a non-risk based capital requirement, "leverage ratio". The European Commission has, based on a recommendation from the European Banking Authority, EBA, proposed the introduction of a minimum requirement of 3 per cent. →



Did you know that DNB prioritises law firms focusing on diversity in leadership and partnership when purchasing legal services?

In Norway, the Ministry of Finance has set the minimum leverage ratio requirement at 3 per cent as of 30 June 2017. All Norwegian banks must have a buffer on top of the minimum requirement of minimum 2 per cent. Systemically important banks (O-SIIs) must have an additional buffer of minimum 1 per cent. As a systemically important bank in Norway, the total requirement for DNB will thus be 6 per cent. At end-December 2017, DNB had a leverage ratio of 7.2 per cent.

LIQUIDITY REQUIREMENTS FOR BANKS

The EU capital requirements regulations include stipulations on two quantitative liquidity requirements, the Liquidity Coverage Ratio, LCR, and the Net Stable Funding Ratio, NSFR. The LCR regulations came into effect in the EU as of 1 October 2015, with a gradual phase-in up to 2018. In November 2016, the European Commission presented its proposal for the calculation of the NSFR requirement. It is not yet clear when the NSFR requirement will be introduced.

In Norway, the LCR has been introduced ahead of the EU schedule. The O-SIIs were required to meet the 100 per cent LCR requirement as early as from 31 December 2015. For other banks, the LCR had to be minimum 80 per cent as of 31 December 2016, and 100 per cent as of 31 December 2017.

As of 30 September 2017, the Ministry of Finance introduced an LCR requirement for significant currencies. Currencies are considered significant if the aggregate liabilities denominated in that currency amount to 5 per cent or more of the bank's total liabilities. Banks whose significant currency is euro or US dollars, including DNB, must have a liquidity reserve in NOK of at least 50 per cent. The changes came into effect on 30 September 2017.

Finanstilsynet has given its recommendation to the Ministry of Finance, stating that the NSFR should be introduced as a minimum requirement for the O-SIIs and other enterprises with total assets in excess of NOK 20 billion as soon as a final decision on the NSFR has been reached in the EU. Until the NSFR has been introduced in Norway, Finanstilsynet will continue to use liquidity indicator 1 when monitoring the bank's long-term funding. Liquidity indicator 1 will be phased out in 2018 and replaced by the NSFR.

NEW RULES ON CRISIS MANAGEMENT

The financial crisis demonstrated the need for better solutions for the winding-up and restructuring of banks. The EU has introduced extensive regulations in this field, the Bank Recovery and Resolution Directive, BRRD.

The purpose of the directive is to establish a crisis management system which ensures financial stability by giving banks and the authorities the tools required to prevent and handle crises at an early stage. The crisis management system shall ensure that large banks can be wound up or refinanced without threatening financial stability, while deposits and public funds are protected.

Resolution fund and deposit guarantee fund

Under the BRRD, each country will establish a national resolution fund to be used by the resolution authorities as a crisis management tool. In accordance with the revised Deposit Guarantee Directive, DGSD, each country must also have a deposit guarantee fund.

The Norwegian deposit guarantee scheme currently covers NOK 2 million per depositor per bank. DGSD basically implies that Norway must lower its guarantee to EUR 100 000. The government is in talks with the EU to continue to retain Norway's high deposit guarantee level when the revised DGS directive is implemented in the EEA Agreement.

Internal recapitalisation (bail-in)

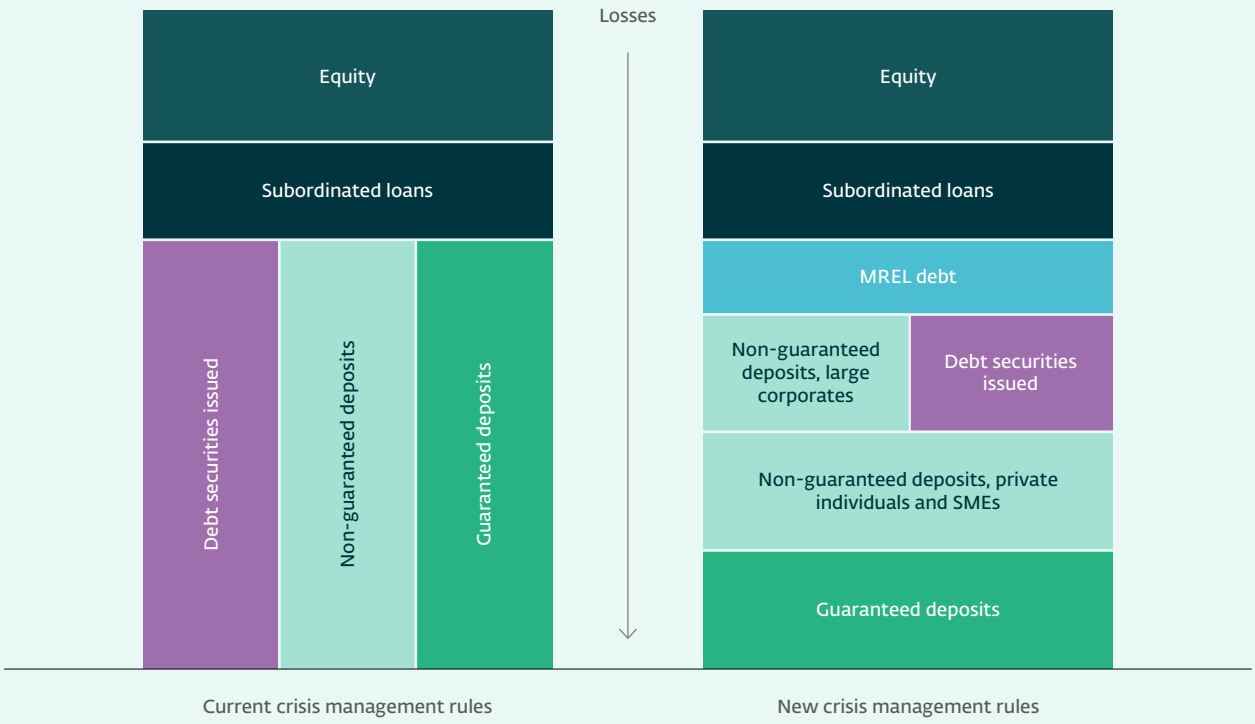
A key element in the BRRD is that any losses in connection with the liquidation or recapitalisation of a bank shall be borne by the bank's investors and not by the taxpayers. Thus, the directive opens up for internal recapitalisation, so called "bail-in", of banks' liabilities. This means that unsecured creditors may experience, as part of a crisis solution, that their debt is written down and/or converted into equity. Losses will thus be covered, and the bank will be recapitalised and able to continue its operations. In such a situation, investors cannot demand that a bank be wound up in accordance with general liquidation rules, and thus lose leverage with the authorities in cases where the continued operation of a bank is considered to be important to financial stability and the economy.

According to the BRRD, bail-in should be the final alternative, and such measures should not be initiated until the bank is close to insolvency. An underlying principle is that investors, as a minimum, should receive the same financial return as if the bank had been liquidated according to normal insolvency proceedings. Deposits covered by the deposit guarantee will normally be protected from losses.

Minimum requirements for subordinated liabilities

All banks in the EU must have a minimum level of own funds and eligible liabilities (Minimum Requirement for Own Funds and Eligible Liabilities, MREL) that can be written down or converted into equity (bail-in) when a bank is close to liquidation. The requirement consists of a component to →

The new regulations will ensure better protection of deposits



cover the need for write-downs and a component to cover the need for recapitalisation. Initially, each component should equal the bank's total capital requirement including buffers, whereby the MREL will be twice the total capital requirement. However, the MREL will be determined individually for each bank, and there is significant national scope of action with respect to how the regulations are formulated. No Norwegian regulations have yet been proposed.

Crisis plans

The BRRD sets a number of other requirements. Among other things, banks must prepare recovery plans describing how they will strengthen their capital adequacy and improve their liquidity and funding if their position is significantly impaired. The plans must be approved by the national supervisory authorities. The authorities, on the other hand, must prepare resolution plans for the banks. This will be resource-demanding for the finance industry and entail new, extensive processes vis-à-vis the supervisory authorities.

The legal process in Norway

The Ministry of Finance has put forward a proposal to the Norwegian parliament (Stortinget) on the implementation of BRRD and DGSD in Norwegian law. Among other things, the Ministry proposes that plans be drawn up for the recovery and crisis management of individual banks, and that Finanstilsynet be given new tools to intervene at an early stage when banks have or may get financial problems. Internal recapitalisation and improved protection of deposits are the most significant changes compared with prevailing law.

Norway currently has one of the best capitalised deposit guarantee funds in Europe. At year-end 2016, the fund amounted to NOK 32.5 billion, equivalent to 2.75 per cent of total guaranteed deposits. In line with the EU directives, the Ministry of Finance proposes to transfer these funds to two new funds that will finance the deposit guarantee and resolution measures. The directives require that the two funds in total constitute minimum 1.8 per cent of guaranteed deposits by 2024. Consequently, the two Norwegian funds will, already on the effective date, be capitalised to a level that exceeds the target set by the EU several years ahead in time.

The Ministry of Finance proposes to retain the requirement of annual payments from the banks to the funds. Payments from DNB to the funds will be higher than today. This is mainly due to the fact that DNB Boligkreditt and DNB Næringskreditt will also be required to contribute to the resolution fund. Today, these companies do not pay levies to the Norwegian Banks' Guarantee Fund.

IMPORTANT REGULATIONS PENDING INCORPORATION IN THE EEA AGREEMENT

In 2016, the Norwegian parliament agreed to connect Norway to the EU supervisory authority for banking, insurance and securities. This connection is necessary to get the framework conditions in place in order to ensure that the Norwegian financial services industry will still have access to the entire EEA market. However, a lot of work still remains. At the start of 2018, more than 250 directives and regulations on financial services had still not been incorporated in the EEA Agreement, including PSD2, CRR/CRD IV, BRRD and DGSD. The financial services industry is interested in speeding up this process. In order to ensure equal competitive terms, it is important that new regulations are introduced at the same time in the EU and in the EEA/EFTA countries in the future.

MIFID II AND MIFIR TO BE IMPLEMENTED IN NORWAY FROM 2018

The EU's new regulations on securities markets (MiFID II and MiFIR) entered into force in the EU on 3 January 2018, but had not yet been incorporated in the EEA agreement at year-end 2017. The new regulations aim to strengthen investor protection, reduce risks, increase efficiency, and ensure more transparent financial markets. Through the EEA agreement, the Norwegian securities markets are part of the single market and closely integrated with the European market. In order to have a well-functioning securities market, it is important that Norwegian rules conform to EU rules. Finanstilsynet has therefore adopted regulations that place Norwegian investment firms under the same requirements as their counterparts in the EU. The objective is to ensure that Norwegian investment firms are subject to the same regulatory framework and can be treated in line with investment firms in the EU. The regulations entered into force on 1 January 2018.

DEBT REGISTER AND MARKETING OF CONSUMER LOANS

During 2017, the Norwegian government and Finanstilsynet introduced a number of measures to ensure sound credit assessments in banks and protect consumers against irresponsible lending practices, including guidelines for consumer loans, regulations on the marketing of credit, regulations on the invoicing of credit card debt and a new Act whereby private players can be granted licences to provide credit information in connection with credit scoring.

Consumer finance is a highly relevant topic in DNB in light of the bank's new strategy for consumer loans, credit cards

and purchase financing. DNB aims to earn the customer relationship by taking a clear position as a responsible supplier of such services.

Guidelines for the treatment of consumer loans and credit cards
The guidelines aim to reduce the risk that customers incur levels of debt that they are later unable to service, while contributing to sound banks. The guidelines apply to all unsecured credit to consumers, including credit and payment cards. Among other things, the guidelines set requirements for debt servicing capacity, maximum loan-to-income ratio and instalment payments.

Regulation governing the marketing of credit
The purpose of the regulation is to prevent persistent and aggressive marketing that turns customers' attention away from the potential negative consequences of high borrowing. The marketing of credit shall not highlight how readily available it is. In addition, the opportunity to highlight additional benefits such as miles, discounts, recruitment gifts and insurance will be restricted. Also, there is a ban on marketing credit through door-to-door sales. The regulation entered into force on 1 July 2017.

Regulation on invoicing of credit card debt
The regulation requires, among other things, that the amount field on invoices from financial undertakings show the overall outstanding credit. The purpose is to ensure that customers are given adequate information about their actual debt and on how it can be repaid. Financial undertakings were required to adapt to the regulation no later than 15 June 2017.

New Act on credit information companies
As of 1 November 2017, private players can get a licence to establish companies providing credit information in connection with credit scoring. Banks are thus given the opportunity to check how much credit and consumer debt a new loan applicant already has, and can make a better credit scoring of the customer. Credit information companies must have a licence from the authorities and be subject to public supervision. According to the Act, all financial undertakings that provide consumer credit have a duty to report or make available information about all unsecured debt to credit information companies.

SAVINGS AND PENSIONS

Share savings account
As of 1 September 2017, a scheme has been introduced which allows private individuals to establish a share savings account. The purpose is to make it easier and more flexible for individuals to save in shares, in order to increase private ownership in Norwegian companies. Norwegians will thus to a greater extent than today take part in the value creation in the Norwegian business community. A share savings account will allow private individuals to reinvest in other shares and mutual funds without triggering tax. Gains are not taxed until at a later date when the funds are withdrawn from the share savings account. To facilitate the transition to a share savings account, the Norwegian parliament has adopted a transitional rule which will remain in force throughout 2018, whereby customers can transfer shares and mutual funds to the share savings account without taxation.

New pension saving scheme
For many employees, the total pension entitlements earned through occupational pension schemes and the National Insurance Scheme provide a retirement pension which is insufficient. Thus, there is a need for supplementary private pension savings. In connection with the consideration of the Revised National Budget for 2017, the Norwegian parliament decided to replace the former scheme for tax-favoured individual pension savings, IPS, with a new scheme. The former scheme was little used, mainly because the rate of income tax on pension payments was higher than the tax deduction at the time money was deposited in the scheme.

The new IPS scheme came into force on 1 November 2017 and implies tax deductions on ordinary income for deposits of maximum NOK 40 000 per year. The balance is exempt from wealth tax, and returns are not subject to general taxation. Pension payments will not be taxed as pension income with bracket tax and social security contributions, but as ordinary income. The money can be withdrawn at the age of 62 at the earliest. Payments must be spread over a period of at least ten years, and can as a rule not be terminated until the customer turns 80.

Own pension account
A large majority of employees in the private sector have defined-contribution occupational pension schemes. The product in itself is transparent. However, it gets more complicated as employees receive a pension capital certificate every time they change jobs and must keep track of and take responsibility for these certificates themselves.

In the autumn of 2017, the Ministry of Finance circulated for public comment draft legislation to introduce an Own Pension Account. The proposal implies that pension capital certificates from previous employers are combined and transferred to the current employer's pension scheme, unless the employee →

reserves the right to deny this. Gathering all the money in one place will be favourable for most employees. Very many people currently have several small pension capital certificates from previous employers in different companies. Through the Own Pension Account, the individual employee can combine all accumulated pension entitlements, achieve lower costs, get a better overview of and be more actively involved in the management of the funds. The government is expected to present draft legislation to the Norwegian parliament after the wage settlement in the spring of 2018.

TAXES AND FEES FOR THE FINANCIAL SERVICES INDUSTRY

INTERNATIONAL DEVELOPMENTS

International developments in the regulatory framework concerning tax affect all companies with international operations. Through the project "Base Erosion and Profit Shifting", BEPS, the OECD has given recommendations that will lead to greater correlation between local tax rules, increased transparency and taxation where values are created. BEPS will be implemented by changing local tax rules and tax treaties, as well as the OECD Transfer Pricing Guidelines.

Within the EU, a directive has been adopted to implement BEPS in a consistent manner. The Anti-Tax Avoidance Directive includes several requirements to counter tax avoidance and aggressive tax planning, and will be implemented in the EU by 1 January 2019.

Norway has signalled that the measures recommended in BEPS will be implemented in Norwegian law as soon as possible. Interest limitation rules and country-by-country reporting to the tax authorities are examples of changes based on the BEPS recommendations.

OECD Transfer Pricing Guidelines

In 2017, the OECD Transfer Pricing Guidelines were updated to include stricter and more detailed documentation requirements, adjusted rules for pricing internal transactions and a new reporting requirement, including country-by-country reporting to the tax authorities.

Country-by-country reporting to the tax authorities

In accordance with the BEPS recommendation, Norway has introduced country-by-country (CbC) reporting from 2017 for multinational companies with a consolidated turnover of over EUR 750 million for the 2016 fiscal year. The ultimate parent company reports to the tax authorities in its home country. Country-by-country reports shall be exchanged automatically between tax authorities in all countries where the company has subsidiaries or permanent operation facilities. The purpose is to ensure increased transparency and give the tax authorities a basis for assessing whether a company is taxed where values are created, and thus identify where there is a need for closer inspection. The report shall include total turnover, both internal and external, pre-tax profits, tax paid and accrued, capital, tangible assets and the number of employees in each country where the company has operations.

Multilateral treaty for effective amendments to tax treaties

In 2017, a multilateral treaty was signed by more than 70 countries, including Norway. The treaty provides a new and efficient way to amend tax treaties, which is otherwise a very time-consuming process, as amendments generally require renegotiation of each tax treaty. The treaty is intended to ensure effective implementation of BEPS recommendations that require changes in the wording of tax treaties. There are more than 3 000 such treaties worldwide. The treaty will enter into force subject to specific terms that are likely to be fulfilled in 2018, and will thereby be effective from 2019.

EXPANSION OF THE INTEREST LIMITATION RULE

In 2017, a consultation paper was issued to extend the current interest limitation rule to include interest on external loans. At the same time, an exception rule was proposed to shield ordinary loans. It has been announced that the new rules will probably not take effect until from the 2019 fiscal year.

FINANCIAL ACTIVITIES TAX

The financial activities tax is unchanged for 2018 at 5 per cent on companies' payroll and 25 per cent on profits. The tax rate for companies that are not liable to financial activities tax has been reduced to 23 per cent, which means that the tax burden for companies subject to financial activities tax increases compared with other companies.

WITHHOLDING TAX ON INTEREST PAID OUT OF NORWAY

In 2016, the Norwegian government announced that it would review a proposal to introduce withholding tax on cross-border interest payments. It is not known when a concrete proposal may be circulated for public comment. Withholding tax on cross-border interest payments will be a Norwegian tax on international creditors.

TAXATION OF INSURANCE AND PENSION COMPANIES

A proposal has been circulated for public comment to restrict insurance and pension companies' access to claim deductions



Did you know that DNB has a department that works exclusively with robotics?

for provisions. Furthermore, it has been proposed that income and expenses in the common or investment choice portfolios of life insurance and pension companies should be taxed in accordance with the accounting treatment of these items. In the Ministry's opinion, the current rules do not function as intended, as they give non-life insurance companies a tax advantage in the form of deductions for provisions. For life insurance and pension companies, the opportunity to claim deductions for provisions has had unintended effects in the form of large losses carried forward and low payable taxes. The rules will enter into force immediately, with effect from the 2018 fiscal year. Transitional rules have been proposed.

AMERICAN TAX REFORM

The US has adopted an extensive tax reform that will apply from 2018. The corporate income tax rate will be reduced, while the tax base will be broadened. Here are some of the changes:

The nominal corporate income tax rate, the federal rate, is reduced from 35 to 21 per cent. Rules have been introduced to limit the deductibility of net interest expenses. In addition, an "additional tax", Base Erosion Anti-Abuse Tax (BEAT), has been introduced on certain payments to foreign (non-US) related companies. BEAT may lead to double taxation for, among others, foreign banks that have operations in the United States.





The share

8

41 500 small and large shareholders all own a piece of DNB. All of these 41 500 wish to contribute to creating something – whether it is security and growth for their own savings or an investment which can help establish new businesses and new jobs.

We have the utmost respect for these ambitions, and this makes us all the more committed to what is our number one priority: **Creating value**.

116
The share

126
Taxation of share-holders according to Norwegian law for the 2017 income year

The share

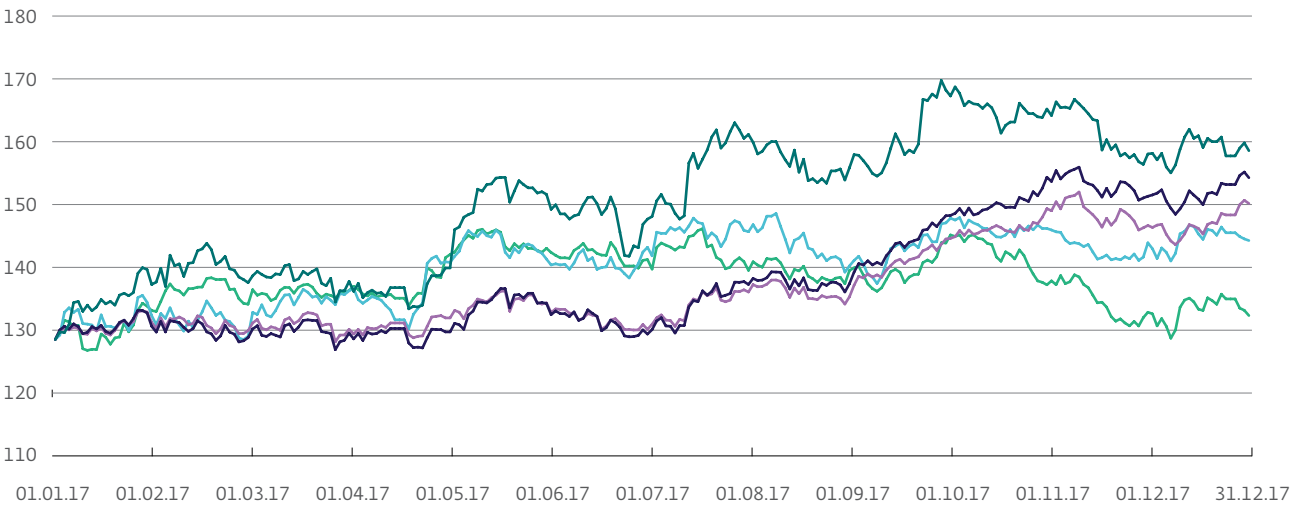
During 2017, the DNB share price rose by 18.5 per cent, from NOK 128.40 to NOK 152.10. The dividend per share increased by 25 per cent, from NOK 5.70 to NOK 7.10. In the course of the year, two share buy-back programmes were completed, representing a total of 0.66 per cent of outstanding shares[1]. The share price increased slightly during the spring and rose significantly from the beginning of May. This trend continued through the summer and autumn. The increase was driven by an improvement in net interest income, lower impairment losses and a strong capital level.

1) In addition, the proportional share of the Norwegian government's holding will be redeemed after the Annual General Meeting in 2018. Including government holdings, the repurchases completed in 2017 totalled 1 per cent. Shares representing an additional 0.5 per cent, including government holdings, were repurchased up to 7 March 2018.

Relative share price development 2017

DNB compared with OBX, OSEFX, SX7GR and Nordic financial services groups

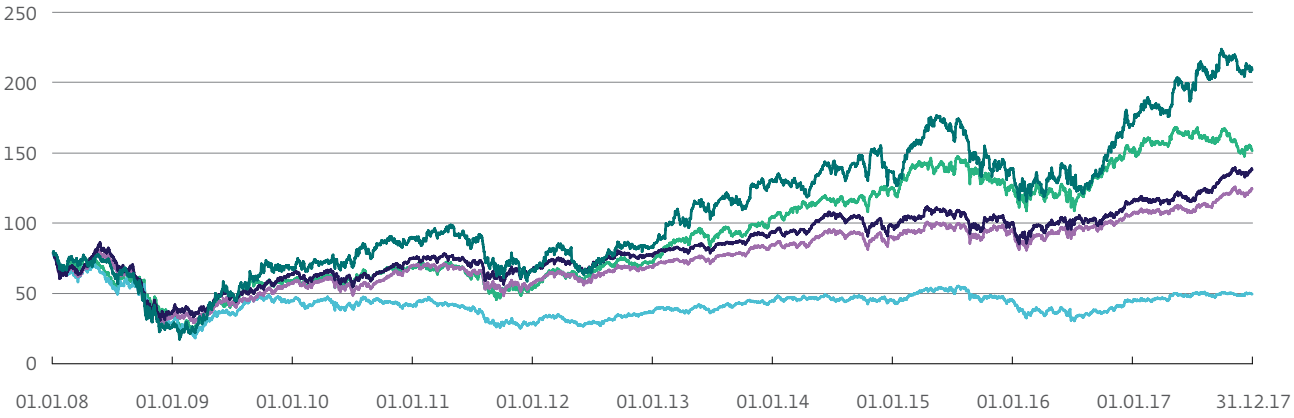
Local currency 1 January 2017 = NOK 128.40 = DNB opening price in 2017



Relative share price development last ten years

DNB compared with OBX, OSEFX and Nordic financial services groups

Local currency 1 January 2008 = NOK 78.82 = DNB opening price in 2008



● DNB incl. dividend[1)] ● OBX[2)] ● OSEFX[3)] ● SX7GR[4)] ● Nordic financial services groups[5)]

1) The DNB share price has been adjusted for dividends (gross).
2) Index comprising the 25 most traded shares on Oslo Børs.
3) The Oslo Børs Mutual Fund Index is a value-weighted version of OSEBX, the Oslo Børs Benchmark Index.
4) STOXX Europe 600 Banks Gross Return is an index comprising European banks. The index shows total gross return.
5) Unweighted average in local currency of Nordic bank shares (Nordea, Svenska Handelsbanken, SEB, Swedbank and Danske Bank).

Source: Bloomberg

RETURN AND SHARE PRICE DEVELOPMENT

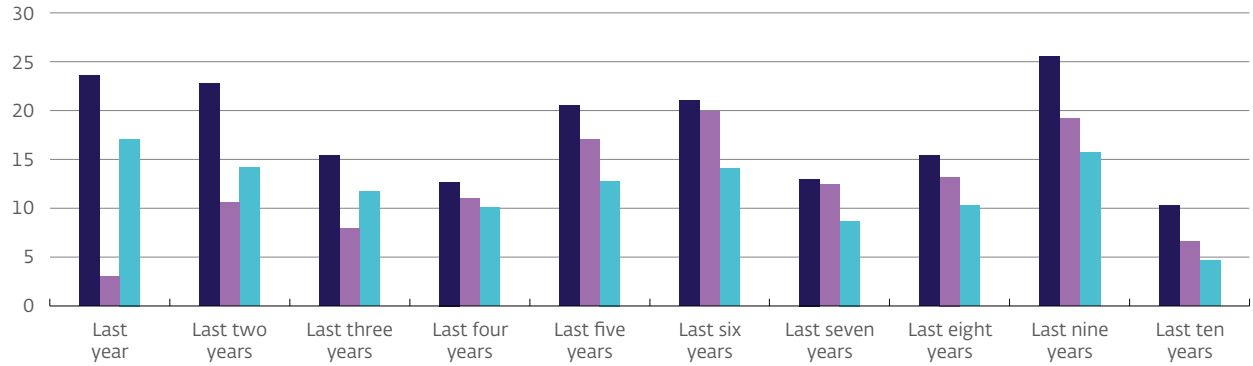
The total return on the DNB share, including dividends, was 22.4 per cent in 2017, while the Oslo Børs Benchmark Index rose by 19.1 per cent. Only three of the other large Nordic financial services groups had a positive share price development in 2017. DNB generated a higher total return than both the OSEFX and the unweighted average for the other Nordic financial services groups in 2017.

Over the past ten years, the DNB share has generally been priced higher than the Group's recorded equity. Through 2017, this ratio increased, and at the end of the year, the share was traded at 1.2 times recorded equity.

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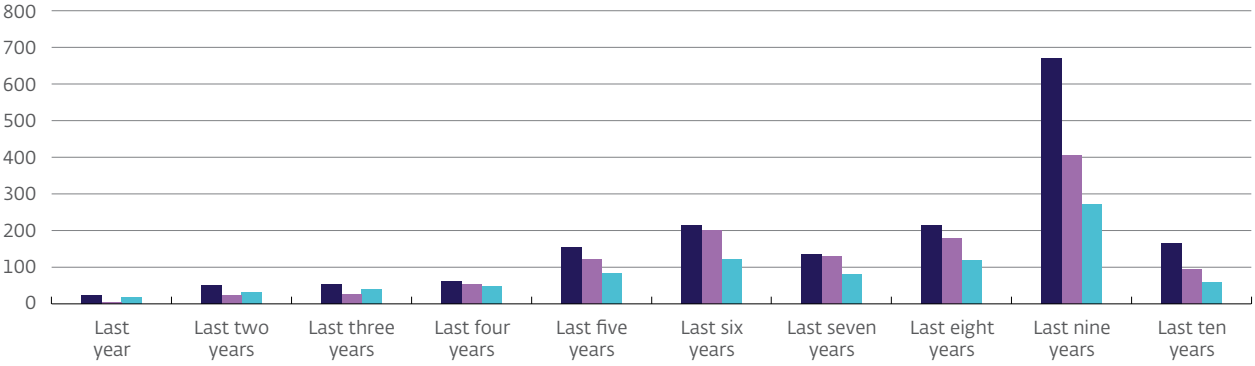
Annualised total return as at 31 December 2017

Per cent



Cumulative total return as at 31 December 2017

Per cent



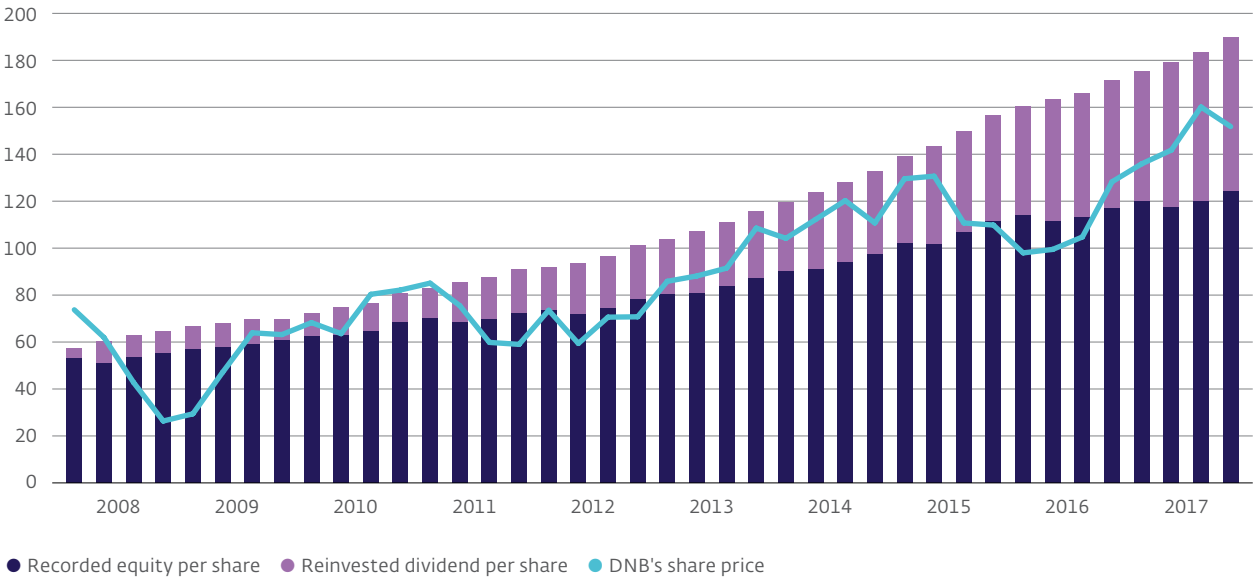
● DNB ● Nordic financial services groups[1] ● OSEFX[2]

1) Unweighted average in local currency of Nordic bank shares (Nordea, Svenska Handelsbanken, SEB, Swedbank and Danske Bank).
2) The Oslo Børs Mutual Fund Index is a value-weighted version of OSEBX, the Oslo Børs Benchmark Index.

Source: Bloomberg

Developments in DNB's share price and recorded equity per share including reinvested dividend[1)]

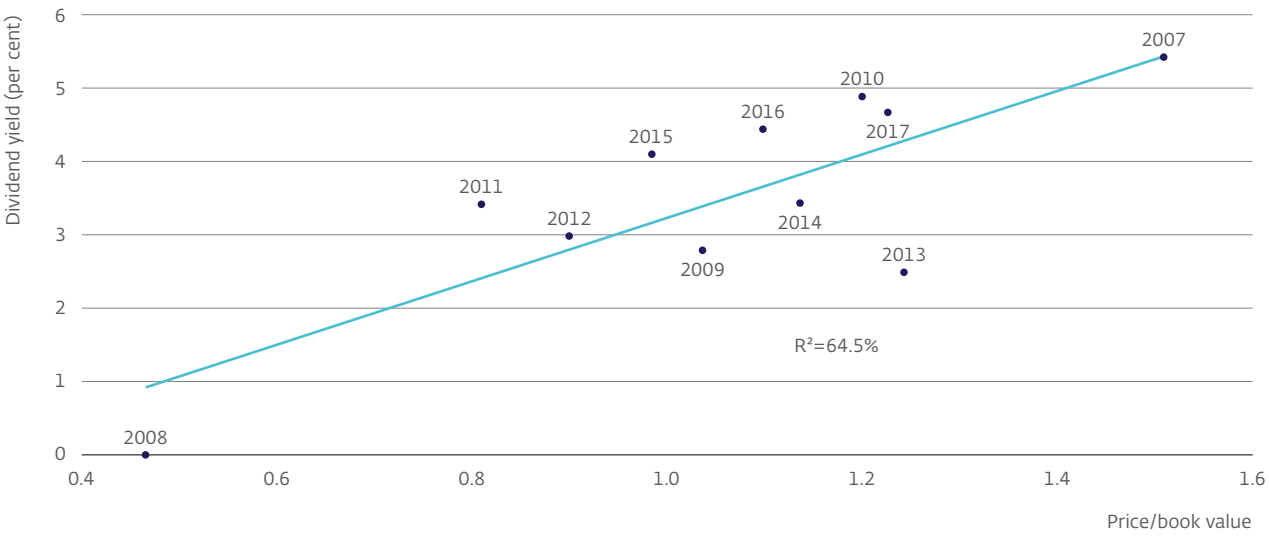
NOK



1) Recorded equity and the share price for the period 2008–2009 have been adjusted for the share issue in the autumn of 2009. Return on equity, which is used to calculate reinvested dividends, has not been adjusted for the share issue.

Source: DNB, Oslo Børs

Dividend yield relative to P/B



Source: DNB, Oslo Børs

MARKET CAPITALISATION AND TURNOVER

DNB was the third largest primary listed company on Oslo Børs at year-end 2017 and the third largest financial services group in the Nordic region, with a market capitalisation of NOK 248 billion, up NOK 39 billion from end-December 2016.

Trading volume in the DNB share was reduced in 2017, for the first time in five years. The share is still highly liquid, and the decline in trading volume was partly due to a higher share of long-term investors. Trading volume in 2017 was down 36 per cent to 6.9 million shares per day, representing a total of 1 735 million shares. There was also a reduction in trading on open markets, mainly Oslo Børs, of 41 per cent to 825 million shares. Moreover, there was a significant decline in trading on private exchanges ("dark pools"). Off-exchange trading (OTC or "over-the-counter") was down 39 per cent.

The value of all traded DNB shares was reduced by NOK 31 billion to NOK 250 billion. The value of OTC trading declined from NOK 108.5 billion to NOK 107.6 billion. There was a reduction on open markets, such as Oslo Børs, from NOK 146 billion to NOK 120 billion. These market places' share of total trading was down 3.87 percentage points to 48.07 per cent. Trading on private exchanges declined by NOK 4.4 billion to NOK 22.1 billion, which represented 8.9 per cent of total trading.

Key figures[1)]

	2017	2016	2015	2014	2013
Number of shares at year-end (million)	1 629	1 629	1 629	1 629	1 629
Number of shares at year-end, adjusted for buybacks (million)	1 618	1 629	1 629	1 629	1 629
Number of shares traded (million)	1 736	2 714	2 555	2 011	1 740
Total value of shares traded per day (NOK million)	995	1 111	1 277	886	643
Share of total value traded on public market places, e.g. Oslo Børs (%)	48.1	52.0	38.6	49.4	54.5
Share of total value traded in dark pools (%)	8.9	9.5	6.0	9.6	9.0
Share of total value traded over-the-counter (OTC) (%)	43.1	38.6	55.4	41.1	36.5
Average number of shares traded per day (million)	6.9	10.7	10.2	8.0	6.9
Number of trading days	251	253	251	250	249
Earnings per share (NOK)	12.84	11.46	14.98	12.67	10.75
Return on equity (%)	10.8	10.1	14.5	13.8	13.1
Share price at year-end (NOK)	152.10	128.40	109.80	110.70	108.50
Highest closing price (NOK)	162.90	136.90	142.20	126.50	110.80
Lowest closing price (NOK)	129.50	91.40	102.90	98.90	71.00
Price/earnings ratio	11.8	11.2	7.3	8.7	10.1
Price/book value	1.23	1.10	0.98	1.14	1.25
Dividend per share (NOK)	7.10	5.70	4.50	3.80	2.70
Payout ratio (%)	55.3	49.8	30.0	30.0	25.1
Dividend yield (%)	4.67	4.44	4.10	3.43	2.49
Equity per share including allocated dividend at year-end (NOK)	124.06	116.94	111.57	97.45	87.15

1) Includes Alternative Performance Measures, APM. See supplementary information on Alternative Performance Measures on ir.dnb.no.

DNB's ADR programme (American Depositary Receipts) for shares issued in the US was converted in May from an exchange rate where an ADR had the same value as ten shares to reflect the price one-to-one in order to make the ADRs more liquid.

INDICES

At the beginning of 2018, the DNB share was weighted on all relevant Oslo Børs indices, with 10.1, 11.9, 14.6 and 8.8 per cent, respectively, on the Benchmark, All-share, OBX and Mutual Fund Indices. DNB was also represented on global indices, but with relatively low weights.

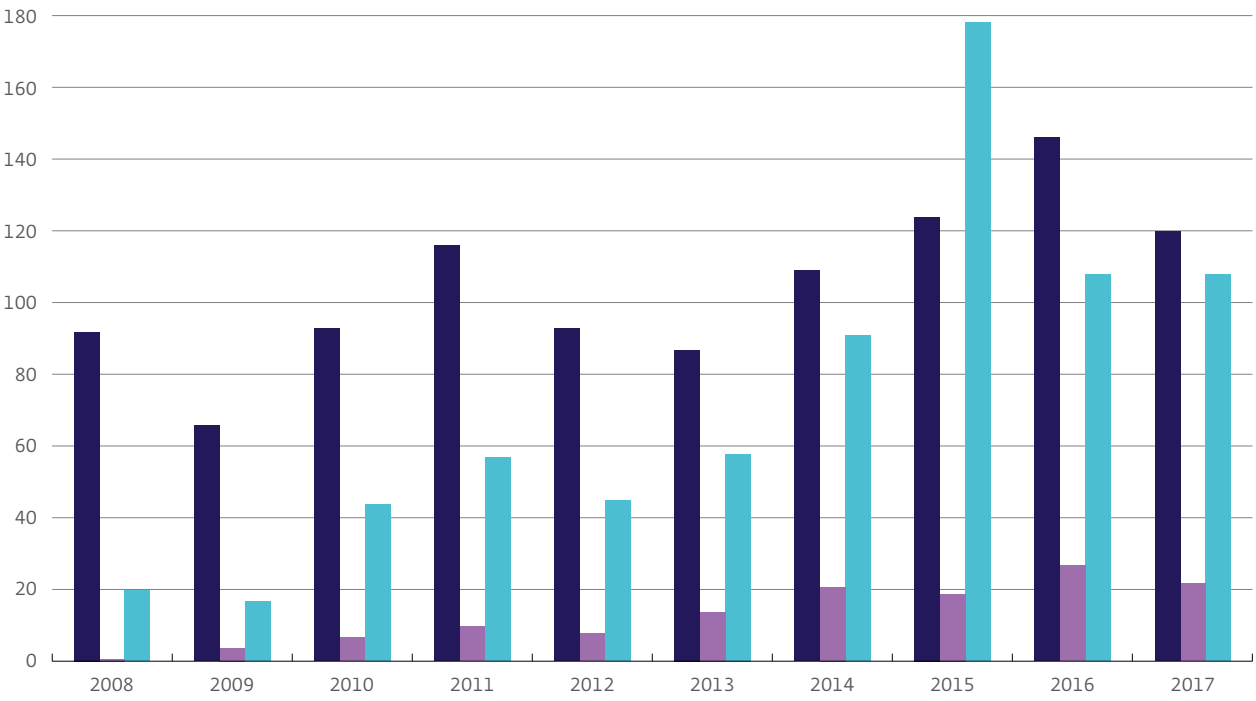
DIVIDEND POLICY

DNB's Board of Directors has approved a dividend policy which aims to create value for shareholders through both increases in the share price and dividend payments. Overall, this will ensure an attractive and competitive return.

The Group's long-term dividend policy is to have an ordinary dividend payout ratio of more than 50 per cent. The Group aims to increase nominal ordinary dividends per share each year. In addition to dividend payments, DNB will consider share buy-back programmes. This will be a flexible way to allocate any surplus capital to the Group's shareholders. →

Trading volume per market[1)]

NOK billion



1) Including market places other than Oslo Børs in Europe as from 1 May 2008 and from outside Europe as from 26 July 2010.

Source: DNB, Oslo Børs, Fidessa

20 largest shareholders as at 31 December 2017[1)]

	Number of shares in 1 000	Ownership in per cent	Change from 2016
Norwegian Government/Ministry of Trade, Industry and Fisheries[2)]	553 792	34.23	0.00
DNB Savings Bank Foundation	130 001	8.03	(11.29)
Folketrygdfondet	99 893	6.17	(0.57)
Fidelity International	30 055	1.86	(27.95)
BlackRock	28 526	1.76	17.79
The Vanguard Group	27 252	1.68	18.13
Deutsche Asset Management	26 705	1.65	24.25
Schroder Investment	18 908	1.17	(24.74)
Capital World Investors	18 043	1.12	New among top 20
MFS Investment Management	16 538	1.02	(30.65)
T. Rowe Price Group	15 846	0.98	(9.97)
Storebrand Kapitalforvaltning	15 646	0.97	3.79
KLP	15 395	0.95	(2.22)
DNB Asset Management	14 467	0.89	(5.74)
Janus Henderson Investors	13 489	0.83	New among top 20
SAFE Investment Company	13 217	0.82	(2.14)
State Street Global Advisors	12 900	0.80	(4.41)
Nordea Funds	11 209	0.69	New among top 20
Edinburgh Partners Limited	11 086	0.69	New among top 20
Columbia Threadneedle Investments	11 067	0.68	(13.35)
Other shareholders	534 014	33.00	(5.30)
Total	**1 618 049**	**100.00**	

1) The beneficial owners of shares in nominee accounts are determined on the basis of third-party analyses.
2) According to an agreement, the Norwegian government will redeem shares on a proportional basis so that its current holding will remain at 34 per cent.

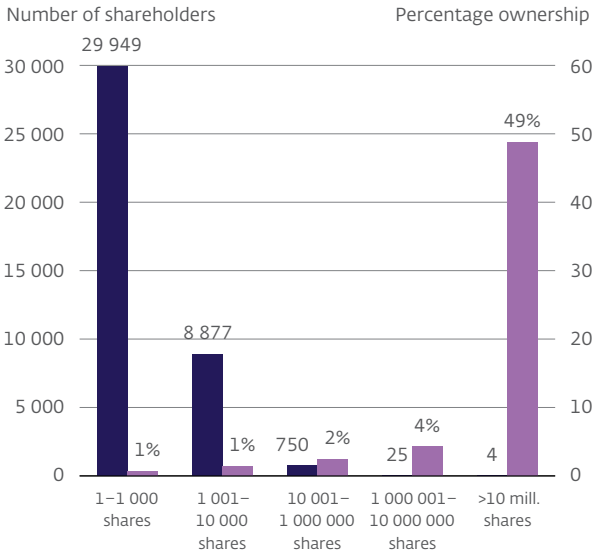
Source: DNB, Norwegian Central Securities Depository, Nasdaq



Did you know that around 35 per cent of DNB's individual shareholders are women?

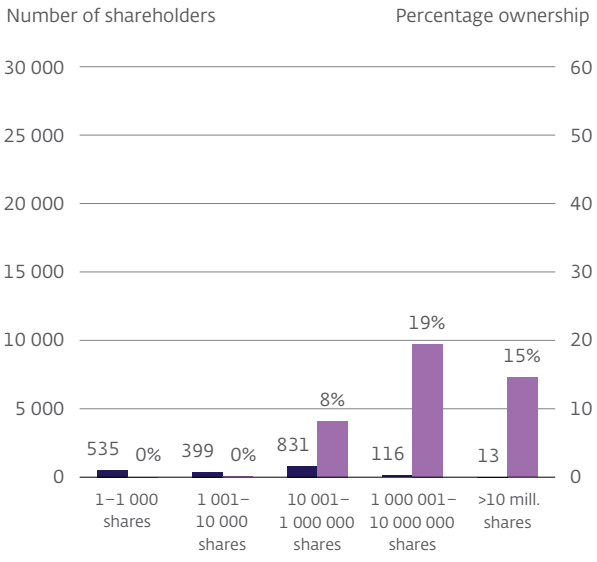
Norwegian shareholders and percentage ownership

As at 31 December 2017



International shareholders and percentage ownership

As at 31 December 2017



● Number of shareholders ● Percentage ownership

Source: DNB, Norwegian Central Securities Depository

SHARE BUY-BACK PROGRAMME

The Annual General Meeting held on 25 April 2017 approved an authorisation to purchase up to 2 per cent of DNB's outstanding shares. Of this, 1.5 per cent can be used for ordinary repurchases, while the remaining 0.5 per cent is reserved for DNB Markets for hedging purposes.

In the course of the year, DNB completed two share buy-back programmes representing a total of 0.66 per cent of outstanding shares. Including the Norwegian government's holding of repurchased shares, the completed repurchases represented 1 per cent of the total number of outstanding shares at the beginning of 2018. The Annual General Meeting to be held on 24 April 2018 will be asked to approve the redemption of the repurchased shares, along with a proportional share of the government's holding. As at 31 December 2017, DNB had a total of 1 618 048 793 outstanding shares. Adjusted for the shares held by the government, the number of shares was 1 612 510 879.

SHARE CAPITAL AND SHAREHOLDER STRUCTURE

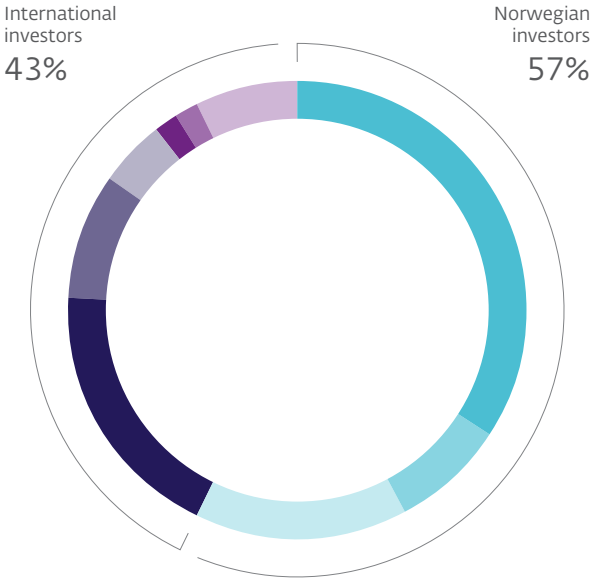
At end-December 2017, DNB's share capital was NOK 16 289 million divided into 1 628 798 861 shares, each with a nominal value of NOK 10.

Adjusted for completed repurchases and government holdings, there were a total of 1 612 510 872 outstanding shares. DNB has approximately 41 500 private and institutional shareholders, of which the two largest are the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, and Sparebankstiftelsen DNB (the DNB Savings Bank Foundation). A further description of the government's ownership can be found in the chapter "Corporate governance", section 4, about equal treatment of shareholders. The object of the Savings Bank Foundation is to manage its long-term ownership interests in DNB and support the company in its efforts to continue the savings bank tradition. The Foundation may donate a portion of annual profits to non-profit causes. The Foundation's governing body is the general meeting, with members elected among the bank's depositors and by county councils in eastern Norway. The general meeting has elected a board with six members.

→

Ownership according to nationality as at 31 December 2017

Per cent



- Norwegian Government/Ministry of Trade, Industry and Fisheries 34.2%
- DNB Savings Bank Foundation 8.0%
- Other Norwegian 15.0%
- US 18.7%
- UK 8.9%
- Luxembourg 4.8%
- Japan 1.5%
- Sweden 1.7%
- Other international 7.2%

Source: DNB, Norwegian Central Securities Depository

ANALYST COVERAGE

It is in the interests of DNB that high-quality equity analyses are published on a regular basis, reflecting the information that is distributed to the stock market. The DNB share is covered by 32 brokerage houses, of which 13 are Nordic-based. Emphasis is thus placed on providing relevant and complete information and on ensuring that all analysts receive equal treatment at all times. A list of analysts following the share can be found on ir.dnb.no. Daily contact with investors and analysts is handled by the Investor Relations department.

Early in 2017, analyst price targets for the DNB share were on a level with the actual share price. The price target was gradually increased during the year. Most recommendations were between buy and hold throughout 2017. As the autumn progressed, the share price and the price targets gradually increased. While the share price declined somewhat towards the end of the year, the price targets stabilised.

INVESTOR RELATIONS

DNB Investor Relations provides information to and communicates with capital market participants, including shareholders, potential investors, analysts, portfolio managers, investment banks and others that are interested in the company's shares. Investor relations activity is primarily aimed at giving the market a correct picture of the company's activities and future prospects. All price-sensitive information must be given simultaneously to all market participants. DNB thus complies with Oslo Børs' recommendation on the reporting of IR information issued in June 2014.

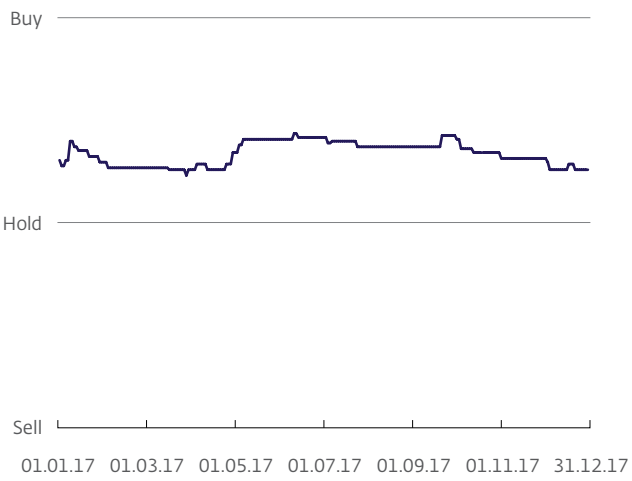
In connection with the release of DNB's quarterly financial results, Investor Relations arranges presentations to help promote greater understanding of the Group's business operations. In addition, the department holds meetings, with or without representatives from group management, with existing and potential investors in and outside Norway. Investor Relations maintains contact with investors in both equity and debt capital markets. Presentations used in meetings with individual investors are not different from the ones that have previously been published by the Group. Nor are individual investors given verbal information that is not disclosed to the rest of the market. Information about events of a price-sensitive nature which will have an extraordinary impact on profits, must be released when it is known to ensure that all market participants receive the information at the same time.

Investor Relations helps the Group ensure that the company's shares are priced effectively on the stock exchange, manage market expectations with respect to share price performance and ensure sound liquidity.

A further description of equal treatment of shareholders can be found in the chapter "Corporate governance", section 4 on page 82. →

Average analyst recommendations in 2017

Recommendation



● Weighted average

Source: DNB, Oslo Børs, Bloomberg

Average price targets and share price development in 2017

NOK



● DNB's share price ● Analysts' price target

Source: DNB, Oslo Børs, Bloomberg



Did you know that DNB Markets is ranked as number one among investment firms in Norway by both equity and bond investors?

FUNDING AND RATING

There are two companies in the DNB Group that issue commercial paper. DNB Bank ASA issues senior and subordinated loans, while the subsidiary DNB Boligkreditt AS issues covered bonds. Norwegian regulations require that covered bonds are issued by a separate legal entity.

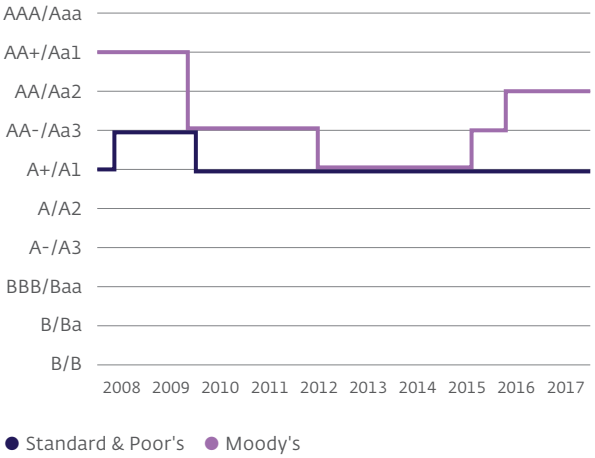
As the Norwegian capital market is of limited size, DNB has to cover parts of its total funding requirement in international capital markets. The Group obtains a significant share of its international funding in the euro market, but has also established funding programmes in the US and Japan.

DNB continuously seeks to improve the bank's credit rating. This is important, as a higher credit rating will result in lower funding costs over time.

The creditworthiness of DNB Bank ASA is assessed by the rating agencies Moody's and Standard & Poor's (S&P). DNB Bank ASA had the following ratings as at 31 December 2017: Aa2 from Moody's and A+ from S&P. The rating from Moody's had a negative outlook and was unchanged throughout the year. During 2017, rating from was changed from a negative to a stable outlook.

Covered bonds issued by DNB Boligkreditt are rated AAA by S&P and Aaa by Moody's, both with a stable outlook.

Credit ratings for DNB Bank ASA



Source: DNB, Standard & Poor's and Moody's

Taxation of shareholders according to Norwegian law for the 2017 income year

LIMITED LIABILITY COMPANIES AND CORRESPONDING COMPANIES AS SHAREHOLDERS

The tax exemption method, cf. Section 2-38 of the Norwegian Taxation Act, implies that shareholders organised as limited companies etc. as a rule are exempt from tax on dividends received and capital gains on shares, mutual fund holdings and financial instruments with shares comprised by the tax exemption method as underlying assets. Losses on the sale of shares and holdings comprised by the tax exemption method are not tax deductible. With respect to dividends comprised by the tax exemption method and dividends from businesses assessed as partnerships, 3 per cent of such income is liable to tax.

NATURAL PERSONS AS SHAREHOLDERS

The shareholder model applies to shareholders who are natural persons resident in Norway. When the tax rate for companies was reduced in 2017, the taxation of shareholder income (capital gains and dividends) was adjusted upward by a factor of 1.24. The tax rate for personal shareholders was thus 29.76 per cent (24 per cent x 1.24) in 2017 in excess of a shielded amount (the shielding deduction). There is a corresponding deduction right for losses on the sale of shares.

The shielding rules shall ensure that an amount of income corresponding to the normal return on a shareholder's investment in a company is not taxed as dividends. Each year, a shielding deduction is computed, forming the basis for the dividend personal shareholders can receive free of tax. The annual shielding deduction is calculated by multiplying the shielding basis for the share by a shielding interest. The shielding basis represents the amount the shareholder has paid for the share, with the addition of any unused shielding deduction carried forward from previous years.

FOREIGN SHAREHOLDERS

Gains/losses on the sale of shares are, as a rule, taxable in the country where the shareholder is resident for tax purposes.

As a general rule, dividends received by foreign shareholders are subject to tax in Norway if the dividends are distributed by a limited company domiciled in Norway (withholding tax).

For shareholders who are natural persons resident outside Norway, withholding tax should be assessed and deducted. The company distributing the dividends is responsible for making advance tax deductions to cover the income tax on such dividends at a rate of 25 per cent. However, Norway has entered into tax treaties with a number of countries, whereby the withholding tax rate is often reduced, normally to 15 per cent. Shareholders who are tax resident in other EEA countries are entitled to a shielding deduction. If the deducted tax is higher than the tax payable on dividends after the shielding deduction, the shareholder may advance a claim for a refund of excess withholding tax. All such matters must be handled by the Central Tax Office for Foreign Tax Affairs.

Dividends paid to companies that are eligible for exemption according to the tax exemption method and domiciled in an EEA country will as a rule be exempted from withholding tax in Norway. The tax exemption is conditional on the company being the real beneficial owner of the share dividends.

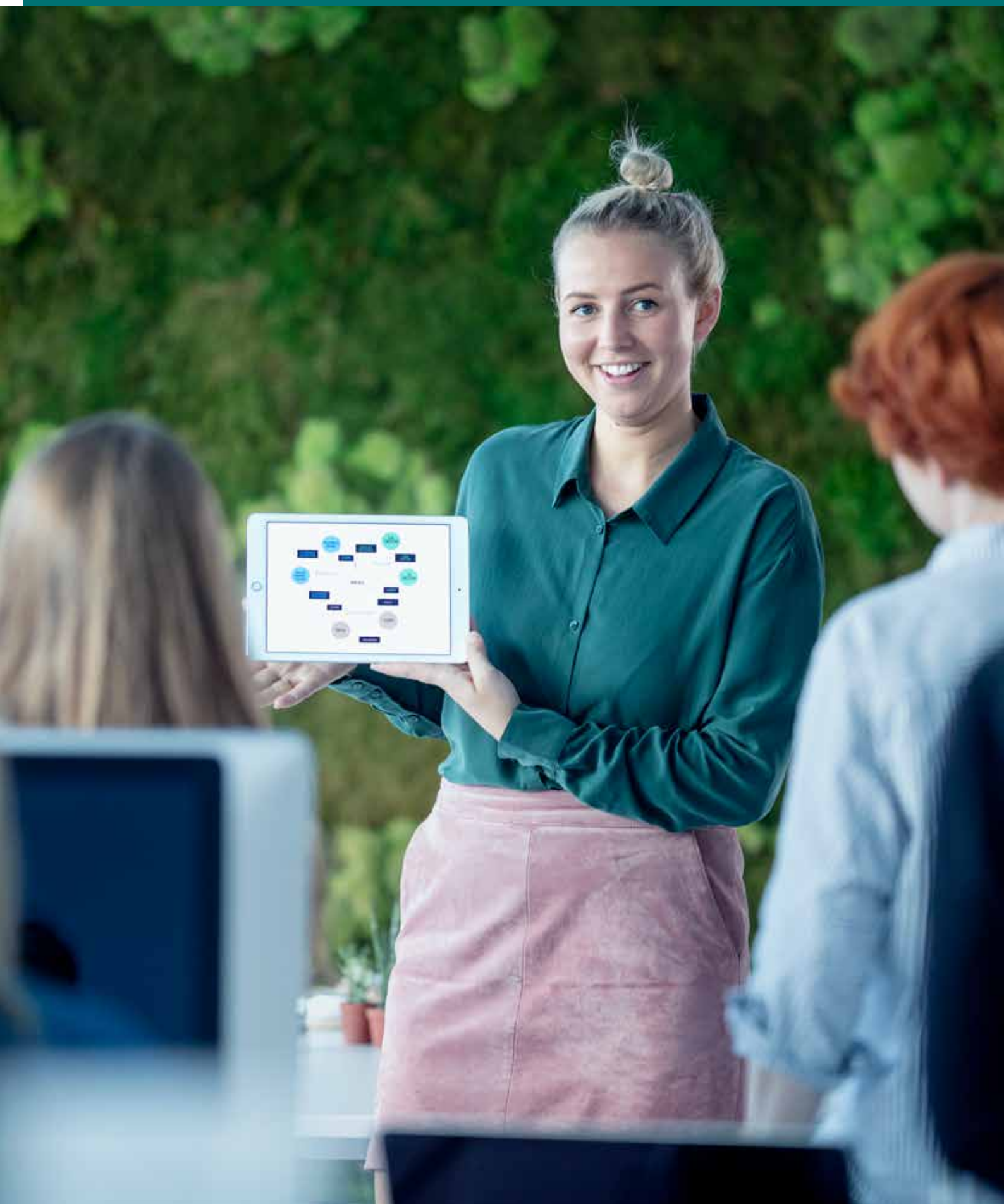
CHANGES IN SHAREHOLDER INCOME AS FROM THE 2018 INCOME YEAR

In consequence of a reduction in the tax rate from 24 to 23 per cent, the upward adjustment factor has been increased to 1.33 per cent for shareholder income. This means that the effective tax rate for personal shareholders on dividends and capital gains will be 30.59 per cent (23 per cent x 1.33) as from the 2018 income year.

SHARE SAVINGS ACCOUNT

As of 1 September 2017, new rules for share savings accounts entered into force. The purpose is to encourage more small depositors to invest in equity funds (mutual funds with a more than 80 per cent equity exposure) and listed shares in companies resident in EEA countries, without being subject to ongoing taxation of transactions. This is made possible as gains on the realisation of shares and mutual fund holdings in the share savings account do not trigger taxation. Moreover, the rules allow depositors to withdraw funds up to the deposited amount (total acquisition cost) without triggering taxation. Gains are not taxed until they are withdrawn from the account, excluding any shielding deduction.

The share savings account thus opens up for tax-exempt reinvestments. Dividends are not encompassed by the rules for share savings accounts with respect to deferred tax, and are taxed according to ordinary tax rules. According to a transitional rule, it is possible for investors to transfer instruments they own themselves to a share savings account by year-end 2018 without triggering taxation.





Directors' report and annual accounts

9

It is when you take stock of where you are that you will know how well you have succeeded. The accounts tell you where you are heading, what you can reap from what you have sowed and what are the parameters for further success.

For us in DNB, this means recording healthy profits and having sound justifications for everything we do, which is essential if we are to deliver on our promise to you: **We are here. So you can stay ahead**.

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→ Review of the annual accounts
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Directors' report

Operations in 2017

DNB delivered a strong performance in 2017. Profits were NOK 21 803 million, an increase of NOK 2 552 million from 2016, driven by strong net interest income and lower impairment losses on loans and guarantees.

Earnings per share were NOK 12.84, up from NOK 11.46 in 2016. The common equity Tier 1 capital ratio was 16.4 per cent at end-December 2017, an increase from 16.0 per cent a year earlier.

The leverage ratio for the Group was 7.2 per cent, a slight reduction from 7.3 per cent a year earlier, but still well above the minimum requirement of 6 per cent.

Return on equity was 10.8 per cent, compared with 10.1 per cent in 2016.

Net interest income increased by NOK 1 313 million from 2016, reflecting lower long-term funding costs, higher volumes and wider lending spreads, excluding the Baltic portfolio. There were rising volumes in the personal customers and small and medium-sized enterprises segments, and a planned reduction in volumes to large corporates and international customers.

Net other operating income was NOK 15 718 million, down NOK 2 335 million compared with 2016. In 2016, income was positively affected by the sale of Visa Norge's holdings in Visa Europe, providing a gain of NOK 1 128 million. Excluding this non-recurring item, net operating income decreased by NOK 1 207 million, mainly due to a negative contribution from exchange rate effects on additional Tier 1 capital and net gains on other financial instruments due to reduced volatility in the financial markets.

Operating expenses were up NOK 1 261 million compared with 2016. The increase was mainly due to provisions for financial activities tax, a higher level of digitalisation, IT projects and non-recurring effects. Non-recurring items represented goodwill impairment, value added tax on an IT system and changes in pension schemes in 2016.

Impairment losses on loans and guarantees decreased by NOK 4 996 million during the year due to lower individual and collective impairment in the shipping, oil and offshore segments. The reduction in collective impairment reflected more favourable economic conditions and positive migration in some industries. Excluding the sale of non-performing portfolios during 2016, impairment losses decreased by NOK 5 664 million.

Following the establishment of Vipps AS as a separate company, DNB recorded a gain which gave a NOK 754 million rise in profits in the third quarter of 2017.

The Board of Directors has proposed a dividend for 2017 of NOK 7.10 per share, which corresponds to 54.6 per cent of profits. When considering the dividend proposal, the Board of Directors took the regulatory capital adequacy requirements into account. The payout ratio is in accordance with the Group's ambition to increase dividend payments.

Read more about important events for DNB in chapter 1.

Strategy and targets

DNB's overarching goals are to create the best customer experiences and to reach its financial targets.

Strong customer relationships are essential in order to retain customers and ensure continued profitability. With a gradually more open infrastructure and declining switching costs and customer loyalty, it will be increasingly difficult to "own" the customer relationship. Instead, DNB will have to earn it through each experience the Group offers its customers. In

order to succeed, DNB has formulated a purpose in relation to its customers: We are here. So you can stay ahead. The group values – curious, bold and responsible – will underpin the purpose.

The Board of Directors has identified four areas as critical to the Group's success in creating the best customer experiences:

- **Increase innovative power:** To help its customers stay ahead, DNB must also make sure to stay ahead of developments, and this requires increased innovative power.
- **Increase the use of customer insight:** To meet the needs of its customers, the Group must have insight into who they are and which products they need.
- **Drive skills enhancement:** To meet the needs of the future, DNB's employees must ensure that they have relevant expertise.
- **Incorporate corporate responsibility in all processes:** To generate long-term and sustainable financial value creation for its owners, DNB must contribute positively to society and be honest and transparent about its operations.

Long-term profitability is the underlying premise for all of the Group's activities and a prerequisite for being perceived as an attractive market participant. Consequently, DNB's long-term ambition to achieve a return on equity above 12 per cent was retained as the overriding target on the Capital Markets Day in November 2017. Cost effectiveness is a prerequisite for achieving satisfactory profitability, and the Group therefore aspires to have a cost/income ratio below 40 per cent. At the same time, DNB must meet the authorities' capital requirements and has an ambition to deliver a dividend of minimum 50 per cent.

Due to strong growth in equity over several years as a result of higher capital requirements as well as persistent low interest rates, the long-term ambition of 12 per cent return on equity is not expected to be reached until towards the end of 2019. In 2017, DNB achieved a return on equity of 10.8 per cent. The cost/income ratio of 44.2 per cent did not meet the target. The need to invest in digital solutions to ensure future competitiveness and meet development needs related to regulatory requirements, resulted in increased costs.

Adequate capitalisation is a prerequisite for the Group's operations. In line with the authorities' requirements, DNB raised the target for its common equity Tier 1 capital ratio to approximately 16.1 per cent from year-end 2017. The target consists of a requirement of approximately 15.2 per cent and a recommended buffer of around 1 per cent. The Group achieved a common equity Tier 1 capital ratio of 16.4 per cent at end-December 2017, which fulfils the authorities' requirement and provides a sound basis for its future dividend capacity. The target for the common equity Tier 1 capital ratio was thus reached after taking the proposed dividend payout ratio of 54.6 per cent into account. In addition, DNB completed buy-back programmes representing 1.0 per cent of the Group's outstanding shares in the course of 2017.[1)]

Read more about the Group's strategy and targets in chapter 1.

Review of the annual accounts

In accordance with the provisions of the Norwegian Accounting Act, the Board of Directors confirms that the accounts have been prepared on a going concern basis and that the going concern assumption applies.

Pursuant to Section 3-9 of the Norwegian Accounting Act, DNB prepares consolidated annual accounts in accordance with IFRS, International Financial Reporting Standards, approved by the EU. The statutory accounts of DNB ASA have been prepared in accordance with Norwegian IFRS regulations.

Net interest income

Amounts in NOK million	2017	Change	2016
Net interest income	35 422	1 313	34 110
Long-term funding costs		485	
Other net interest income		463	
Lending and deposit volumes, customer segments		386	
Interest income on loans subject to impairment provisions		174	
Guarantee fund fee		103	
Lending and deposit spreads, customer segments		57	
Amortisation effects and fees		50	
Exchange rate movements		(96)	
Deconsolidation of Baltic operation		(309)	

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1) In addition, the proportional share of the Norwegian government's holding will be redeemed after the Annual General Meeting in 2018. Including government holdings, the repurchases completed in 2017 totalled 1 per cent. Shares representing an additional 0.5 per cent, including government holdings, were repurchased up to 7 March 2018.

Net interest income was up NOK 1 313 million from 2016. The increase was mainly attributable to lower long-term funding costs and higher volumes, excluding the Baltic portfolio.

Average lending spreads widened by 0.03 percentage points from 2016, while deposit spreads contracted by 0.05 percentage points. Average loans increased by NOK 13.5 billion, while average deposits rose by NOK 37.1 billion compared with 2016.

Net other operating income

Amounts in NOK million	2017	Change	2016
Net other operating income	15 718	(2 335)	18 053
Net financial and risk result from DNB Livsforsikring[1)]		630	
Net commissions and fees		242	
Net gains on investment property		136	
Deconsolidation of Baltic operation		(32)	
Other operating income		(305)	
Exchange rate effects additional Tier 1 capital		(811)	
Net gains on other financial instruments		(1 067)	
Sale of holdings in Visa		(1 128)	

1) Guaranteed returns and allocations to policyholders deducted.

Net other operating income decreased by NOK 2 335 million from 2016. There was a strong increase in the net financial and risk result from DNB Livsforsikring and net gains on investment property. Commissions and fees also showed solid growth. Profits from the sale of Visa Norway's holding in Visa Europe gave a NOK 1 128 million rise in income in 2016. Net gains on other financial instruments had a negative effect of NOK 1 067 million compared with the same period in 2016 due to volatility in the currency, commodity and interest rate markets.

Operating expenses

Amounts in NOK million	2017	Change	2016
Operating expenses	(22 593)	(1 261)	(21 333)
Deconsolidation of Baltic operation		270	
Pension expenses		(39)	
Travel expenses		(47)	
Other costs		(134)	
Salaries and other personnel expenses (excl. restructuring costs)		(197)	
Provisions for financial activities tax		(248)	
IT expenses		(340)	
Restructuring costs (non-recurring effects)		511	
Other non-recurring effects		(1 037)	

Total operating expenses were up 5.9 per cent from 2016. Excluding non-recurring effects, there was a 3.6 per cent increase in expenses. The increase was mainly due to the introduction of financial activities tax in 2017, a higher level of digitalisation and other IT projects. Non-recurring items represented impairment of goodwill related to the external distribution of credit cards under the Cresco brand, changes in pension schemes in 2016 and value added tax on an IT system.

IMPAIRMENT OF LOANS AND GUARANTEES

Impairment losses on loans and guarantees totalled NOK 2 428 million in 2017, down NOK 4 996 million from 2016 and down NOK 5 664 million excluding the sale of non-performing portfolios in 2016.

Impairment losses for 2017 were mainly related to shipping, offshore and energy in the large corporate and international customers segment.

The reduction in collective impairment primarily reflected positive migration in some industries and more favourable economic conditions in the shipping, offshore and energy industries. The other credit portfolios are still of high quality and the difficult situation in the oil-related industries has had no material spillover effects on these portfolios.

Net non-performing and doubtful loans and guarantees amounted to NOK 17.3 billion at end-December 2017, down from NOK 25.7 billion at year-end 2016. This represented 0.98 per cent of the loan portfolio, a reduction of 0.51 percentage points from end-December 2016. The decrease in non-performing

and doubtful loans and guarantees reflects more favourable conditions within shipping, offshore and energy in the large corporate and international customers segment.

TAXES

The DNB Group's tax expense for 2017 was NOK 5 054 million, representing 19 per cent of pre-tax operating profits. The tax rate was lower than the anticipated rate of 22 per cent, mainly due to equity sales under the tax exemption model and Norwegian taxation rules for the allocation of interest expenses between Norway and the US.

Funding, liquidity and balance sheet

The short-term funding markets were generally sound throughout the year. New regulatory reforms for US money market funds were introduced, and the short-term funding market normalised during 2017 compared with 2016. Due to an increase in short-term interest rates, prices rose somewhat during the year, which resulted in slightly higher short-term funding costs for banks. As the markets stabilised, investors regarded an increasing number of banks as attractive. DNB had ample access to short-term funding throughout 2017.

The markets for long-term funding proved to be better than many assumed at the start of 2017. The first quarter of the year showed the highest level of activity in the market, as most issuers wanted to enter the market before the political elections in Europe. However, the long-term funding market generally functioned well throughout 2017. The market for covered bonds was still dominated by the asset purchase programme of the European Central Bank, ECB. In November, the ECB announced a gradual reduction in its asset purchases, which was well received in the market, as many had feared a more aggressive de-escalation plan beforehand. Total issue volumes of covered and senior bonds were somewhat lower in 2017 than in 2016. In particular the latter have largely been replaced by so-called non-preferred senior bonds in order to adapt to the coming MREL regulations (minimum requirement of own funds and eligible liabilities). There was a considerably higher level of activity in the market for subordinated loans than in 2016, partly due to regulatory requirements and partly due to favourable prices for the issuers. DNB had good access to long-term funding in 2017, and funding costs on covered bonds and ordinary senior debt were further reduced during the year. →



Did you know that DNB operates one of Norway's largest payroll offices for pension payments, making more than 200 000 payments each month?

The nominal value of long-term debt securities issued by the Group was NOK 596 billion at end-December 2017, compared with NOK 580 billion a year earlier. The average remaining term to maturity for these debt securities was 4.0 years at year-end 2017, up from 3.9 years at end-December 2016.

The short-term liquidity requirement, Liquidity Coverage Ratio, LCR, remained stable at above 100 per cent throughout the year. At end-December 2017, the LCR was 117 per cent.

Total combined assets in the DNB Group were NOK 3 026 billion at year-end 2017, up from NOK 2 931 billion a year earlier. Total assets in the Group's balance sheet were NOK 2 698 billion at year-end 2017 and NOK 2 653 billion a year earlier. Of this, total assets in DNB Livsforsikring amounted to NOK 317 billion and NOK 299 billion, respectively.

In the DNB Bank Group, loans to customers increased by NOK 39.1 billion or 2.6 per cent from end-December 2016. Customer deposits were up NOK 34.7 billion or 3.7 per cent during the same period. For the banking group, the ratio of customer deposits to net loans to customers was up from 63.4 per cent at end-December 2016 to 64.0 per cent a year later. The Group's ambition is to have a ratio of customer deposits to net loans, for the banking group, of minimum 60 per cent.

Corporate governance

The management of DNB is based, inter alia, on the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. Read more about the Group's corporate governance principles and practice on page 76 in the Governance chapter.

Risk and capital adequacy

ORGANISATION AND MONITORING

The Board of Directors continually monitors the Group's capital situation.

DNB has established two policies within risk management, the policy for risk management and the policy for compliance. The policies are elaborated on in standards, which provide more detailed governance principles in these two areas. The policies serve as a guide for the Group's overall risk management and compliance and describe the ambitions for, attitudes to and work on risk. Read more about risk aspects and the capitalisation of the Group from page 87 under Corporate governance and in the Group's Pillar 3 report at ir.dnb.no.

RISK DEVELOPMENTS IN 2017

The DNB Group quantifies risk by measuring economic capital. Changes were implemented in the model for measuring economic capital in December 2017, which gave a reduction in economic capital of approximately 20 per cent. Figures for previous periods have been updated based on the new model. Net economic capital was down NOK 0.7 billion from year-end 2016, to NOK 56.2 billion at year-end 2017.

Economic capital for the DNB Group

Amounts in NOK billion	31 Dec. 2017	31 Dec. 2016
Credit risk	40.2	43.7
Market risk	7.8	5.9
Market risk in life insurance	3.5	4.2
Insurance risk	1.4	1.4
Operational risk	8.5	9.0
Business risk	6.1	5.9
Gross economic capital	67.5	70.1
Diversification effect[1)]	(11.2)	(13.2)
Net economic capital	56.2	56.9
Diversification effect in per cent of gross economic capital[1)]	16.6	18.8

1) The diversification effect refers to the risk-mitigating effect achieved by the Group by having operations which are affected by different types of risk where unexpected losses are unlikely to occur at the same time.

Economic capital for credit risk declined by NOK 3.5 billion through 2017. The reduction was a result of active rebalancing of the large corporate portfolio throughout the year, whereby credit volume in this portfolio was reduced by approximately NOK 107 billion in terms of exposure at default, EAD.

Just under half of the reduction in EAD can be attributed to the deconsolidation of the Group's Baltic operation. The subsidiaries in the Baltics were previously included in credit risk, operational risk and business risk, while the ownership interest in Luminor is defined as market risk.

The quality of DNB's credit portfolio is generally good and was stable throughout the year. There are still some challenges in the offshore portfolio, but customers within this segment are closely followed up.

Housing prices declined by 2.1 per cent in the course of the year. Home mortgages represent approximately half of the Group's loan portfolio. This portfolio is of high quality, with very low losses over several years, even in periods with strong lending growth. There was a 5.7 per cent increase in DNB's home mortgage portfolio during the year.

In June, Finanstilsynet (the Financial Supervisory Authority of Norway) published new guidelines for responsible lending practices for consumer loans. DNB has initiated the necessary measures to ensure that the bank complies with the guidelines. The bank's portfolio of unsecured consumer loans totalled NOK 1 billion at the end of 2017, while the credit card portfolio represented just below NOK 19 billion in terms of the total amount drawn.

Economic capital for market risk in DNB Livsforsikring declined by NOK 0.8 billion during the year, reflecting higher buffers. The reduction in economic capital was somewhat limited by larger positions in Norwegian and international equities. The company's solvency capital increased by NOK 1.2 billion in 2017. DNB Livsforsikring's solvency margin, without applying the transitional rules, was 146 per cent at year-end 2017.

Economic capital for market risk rose by NOK 1.9 billion in the course of the year. The ownership interest in Luminor is the main factor behind the increase.

The transition from a defined-benefit to a defined-contribution scheme for the bank's employees has given a reduction in economic capital. DNB has chosen to establish a compensation scheme for the employees whose pensions have been transferred to a defined-contribution scheme. Consequently, there is still risk associated with the Group's pension commitments.

The operational risk situation in 2017 was satisfactory. There was a stable, low level of losses, which was well below the limit in the risk appetite framework. In the banking industry, there is high risk of data fraud, whereby confidential information goes astray or the bank is exposed to digital attacks and data vandalism. Measures to strengthen information security in DNB have been identified in order to meet an ever-more serious threat scenario.

Within compliance, DNB's main focus areas were anti-money laundering, privacy protection, international tax reporting and corruption. In the course of 2017, training programmes for all employees were implemented or planned in key compliance areas, such as anti-money laundering (AML), the General Data Protection Regulation (GDPR), and anti-corruption. Clearly defined roles, a high level of expertise and a strong compliance culture are key elements in DNB's compliance work.

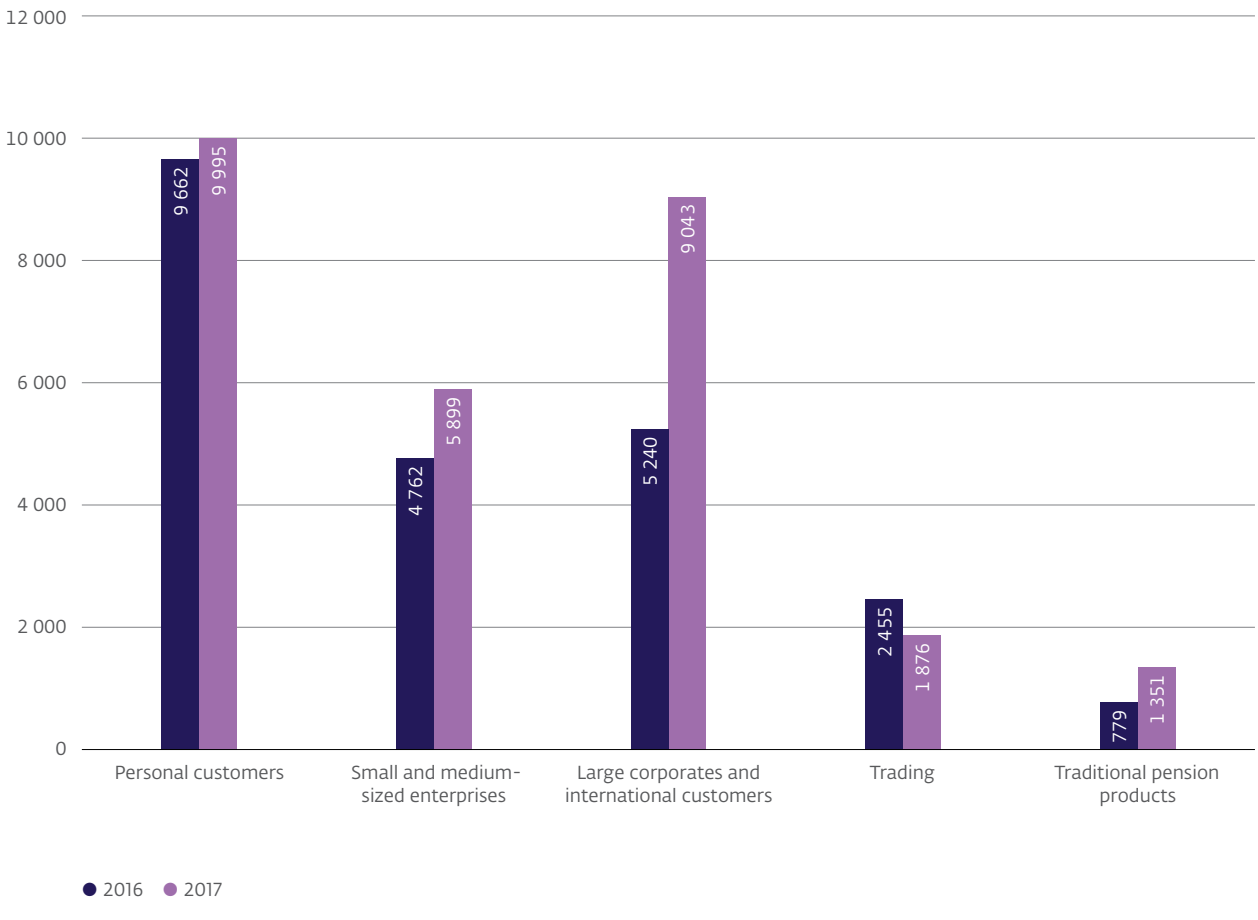
Calculated according to transitional rules, risk-weighted assets were NOK 1 043 billion, down from NOK 1 051 billion at end-December 2016. The common equity Tier 1 capital ratio was 16.4 per cent, while the capital adequacy ratio was 20.0 per cent.

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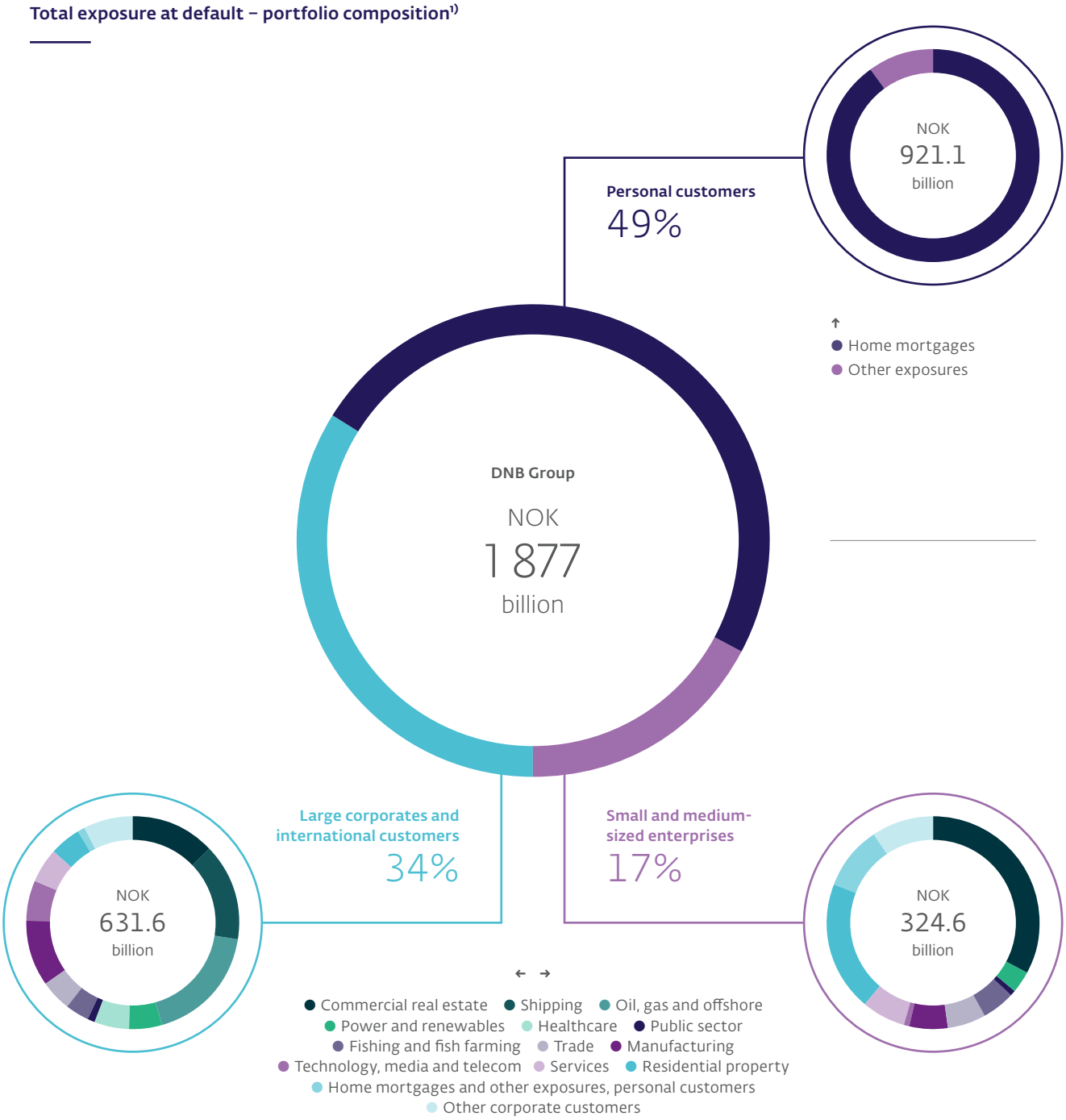
Segments

Financial governance in DNB is adapted to the different customer segments. The follow-up of total customer relationships and segment profitability are important dimensions when making strategic priorities and deciding where to allocate the Group's resources. Reported figures reflect the Group's total sales of products and services to the relevant segments.

Pre-tax operating profit
NOK million



Total exposure at default – portfolio composition[1)]



1) Portfolio composition in terms of exposure at default.

Personal customers

This segment includes the Group's more than 2 million personal customers in Norway. The personal customer segment showed strong profitability in 2017. Pre-tax operating profits were up NOK 918 million compared with 2016, driven by a strong trend in net interest income and reduced restructuring expenses. The return on allocated capital increased by 0.6 percentage points to 18.9 per cent.

Net interest income increased by 4.4 per cent from 2016, reflecting rising volumes combined with a widening of the volume-weighted spread of 0.01 percentage points. Net loans to customers showed a satisfactory trend, rising by 5.3 per cent on average from 2016 to 2017. After adjusting for an internal transfer of deposits to the SME segment in December 2016, deposits were up 2.3 per cent during the same period.

Net other operating income increased by 2.6 per cent from 2016. Income from payment services declined as a consequence of the regulation of interchange fees introduced in the fourth quarter of 2016, while other income from payment transfers were on a level with 2016. Price adjustments on manual services during the year compensated for rising costs related to the SAS Eurobonus agreement and discounts on card usage. The level of income from real estate broking was retained in spite of a small reduction in the number of residential properties sold. Increased focus on savings gave a boost in income from asset management and the sale of pension products.

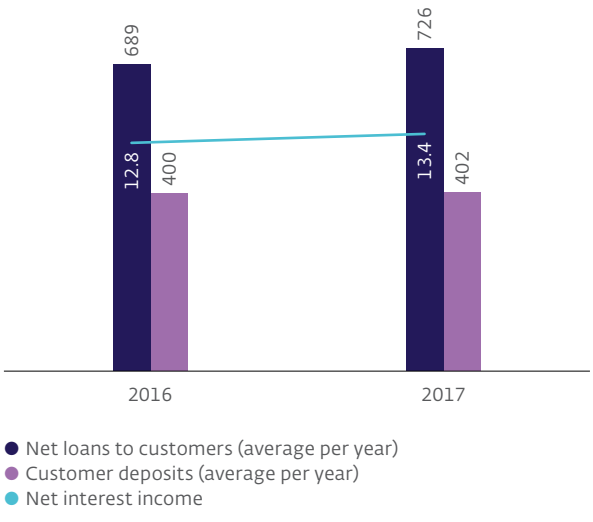
Expenses were reduced by 2.7 per cent from 2016. Adjusted for a high level of restructuring expenses in 2016, however, expenses were up 3.7 per cent. A high level of activity, increased IT development and the financial activities tax contributed to the increase, while implemented restructuring measures gave a reduction in salary costs during the period.

Net impairment losses on loans were at a low level in both 2016 and 2017. There is low risk in the home mortgage portfolio. The sale of portfolios of non-performing loans resulted in net reversals on loans in 2016, while such sales had a more limited effect in 2017. There was a stable level of impairment losses on consumer loans during the year.

The market share of credit to households stood at 24.7 per cent at end-December 2017, down from 25.0 per cent at end-December 2016. The market share of total household savings was 31.0 per cent. DNB Eiendom increased its average market share to 19.7 per cent during the year.

Income statement in NOK million	**2017**	**2016**
Net interest income	13 367	12 804
Net other operating income	5 113	4 984
Total income	18 480	17 788
Operating expenses	(8 279)	(8 504)
Pre-tax operating profit before impairment	10 201	9 284
Impairment of loans and guarantees	(207)	379
Pre-tax operating profit	9 995	9 662
Profit for the year	7 496	7 246
Average balance sheet items in NOK billion		
Net loans to customers	725.6	689.4
Deposits from customers	402.2	400.5
Key figures in per cent		
Return on allocated capital	18.9	18.3

Developments in loans, deposits and net interest income
NOK billion



DNB aspires to achieve continued profitable growth in the personal customer segment and is continuing its efforts to adapt products, service concepts and cost levels to the future competitive situation. Customers increasingly use self-service options, not least on their mobile phones. The communication between the customer and the bank is also

changing, and fewer customers visit DNB in person while an increasing number use the chat service.

DNB is continuing its work to automate and digitise products and services to meet customer needs and expectations. Automation of the home mortgage process is a ground-breaking innovation for the bank. In 2017, DNB customers were given the opportunity to refinance their home mortgages automatically, and in October, DNB launched a fully automated application process whereby customers who meet given criteria, receive binding pre-qualification letters within two minutes. The process to digitise the mortgage process will be continued in 2018, when automated solutions for taking up home mortgages will be introduced for new borrowers.

DNB also took a strong position within savings in 2017. Important contributing factors were the launch of the 'Spare' (Save) app, which gives customers an overview of their total savings in DNB, the share savings account, an account for trading in shares and mutual funds with deferred taxation, and a new product for individual pension savings, IPS. Spare was downloaded more than 250 000 times in 2017 and contributed to strong growth in the sale of savings agreements.

Small and medium-sized enterprises

This segment includes sales of products and advisory services to the Group's small and medium-sized corporate customers in Norway. Strong growth in both net interest income and other operating income, combined with lower impairment losses, helped raise pre-tax operating profits by as much as 23.9 per cent from 2016. The return on allocated capital in the segment was 16.9 per cent, up from 13.3 per cent in 2016.

Average net loans to customers rose by 7.2 per cent from 2016. Deposits were up 11.7 per cent during the same period, adjusted for a customer portfolio transferred from the personal customer segment at the end of 2016. Lending growth was 9.5 per cent from year-end 2016 to year-end 2017. Higher volumes and wider lending and deposit spreads contributed to an 8.0 per cent rise in net interest income compared with 2016.

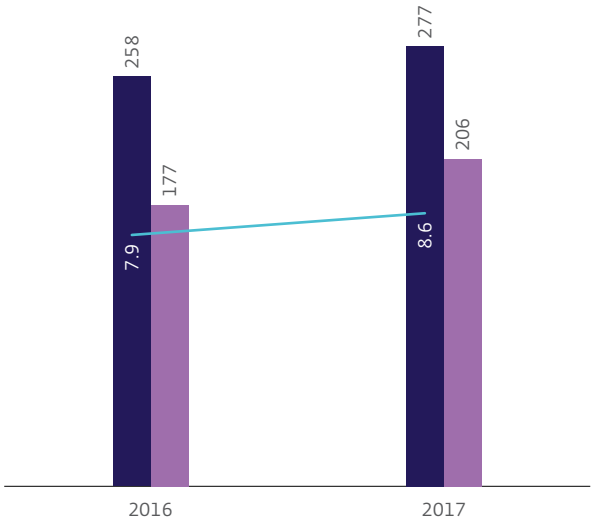
Net other operating income rose by 3.4 per cent from 2016, reflecting increased sales of pension products and higher income from payment transfers. There was also a rise income from the sale of foreign exchange products compared with 2016, while income from interest rate hedging products and capital market activities was somewhat reduced from the previous year. →



Did you know that DNB Markets' recommended weekly equity portfolio has outperformed the market for 11 of the last 13 years?

Income statement in NOK million	2017	2016
Net interest income	8 578	7 941
Net other operating income	2 101	2 031
Total income	10 678	9 972
Operating expenses	(4 380)	(4 130)
Pre-tax operating profit before impairment	6 298	5 842
Net gains on fixed and intangible assets	(1)	2
Impairment of loans and guarantees	(413)	(1 088)
Profit from repossessed operations	14	6
Pre-tax operating profit	5 899	4 762
Profit for the year	4 424	3 572
Average balance sheet items in NOK billion		
Net loans to customers	276.8	258.2
Deposits from customers	205.6	177.3
Key figures in per cent		
Return on allocated capital	16.9	13.3

Developments in loans, deposits and net interest income
NOK billion



Operating expenses were up 6.0 per cent from 2016, reflecting higher IT development and restructuring costs. In addition, the financial activities tax and higher pension costs due to transitional schemes caused a higher cost level.

Net impairment losses on loans were significantly reduced compared with 2016. Impairment losses represented 0.15 per cent of average net loans in 2017, a reduction from 0.42 per cent the previous year. The impairment losses in 2017 stemmed primarily from a few exposures, and the quality of the loan portfolio is considered to be satisfactory. Developments are closely monitored, and preventive measures are continually considered and implemented to retain the strong portfolio quality.

DNB aspires to achieve profitable growth in the SME segment in the coming period. It will become easier to become a customer, and both large and small businesses will be given even better advisory services. This means being present in both physical and digital channels, offering a wide range of traditional banking services. There is a strong focus on automating and digitising products and services to meet customer needs and expectations in the period ahead. Parallel to this, DNB is developing new services to make customers' everyday lives easier, such as accounting and invoice services.

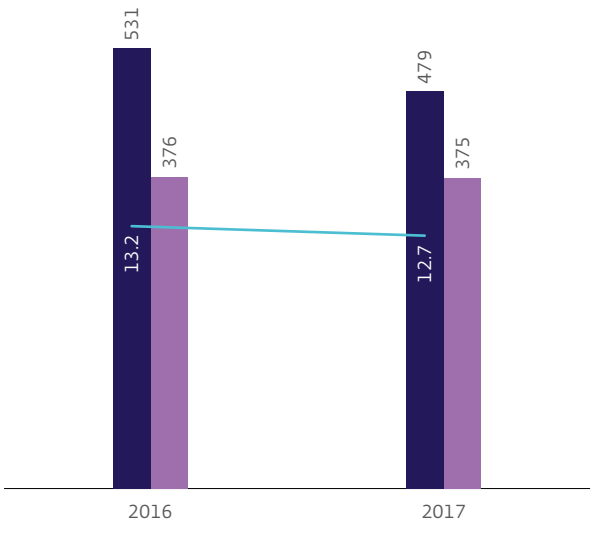
Large corporates and international customers

This segment includes the Group's largest Norwegian corporate customers and all international corporate customers. On 1 October 2017, DNB and Nordea combined its operations in the Baltics and established Luminor Group AB. Operations in the Baltic countries were part of this segment until the cooperation agreement entered into force and are thus reflected in the figures up until this date. Lower volumes gave a reduction in income, while a decline in impairment losses on loans helped increase pre-tax operating profits compared with 2016.

The trend in volumes over the past two years has been affected by measures to rebalance operations, which includes restructuring the portfolios and reducing exposure within shipping, oil and offshore-related segments. In addition, DNB sold some loans and entered into guarantee contracts relating to other exposures during the year to help strengthen the Group's capital adequacy ratios.

Income statement in NOK million	**2017**	**2016**
Net interest income	12 683	13 183
Net other operating income	5 730	6 016
Total income	18 413	19 200
Operating expenses	(7 572)	(7 276)
Pre-tax operating profit before impairment	10 842	11 924
Net gains on fixed and intangible assets	20	23
Impairment of loans and guarantees	(1 800)	(6 715)
Profit from repossessed operations	(19)	8
Pre-tax operating profit	9 043	5 240
Profit for the year	6 511	3 829
Average balance sheet items in NOK billion		
Net loans to customers	478.8	530.5
Deposits from customers	375.2	375.8
Key figures in per cent		
Return on allocated capital	8.0	4.5

Developments in loans, deposits and net interest income
NOK billion



Average loans to customers were down 9.4 per cent from 2016, while there was a reduction of 21.3 per cent from year-end 2016 to year-end 2017. Adjusted for the operations in the Baltics, there was a reduction of 13.9 per cent. Average deposits declined by 0.2 per cent from 2016, while deposit volumes were down 14.2 per cent from year-end 2016 to year-end 2017. After adjusting for the Baltic operation, there was a 5.1 per cent decline in deposits.

Due to the reduction in volumes and lower fee income, there was a decline in net interest income in spite of wider deposit spreads. Volume-weighted spreads contracted by 0.02 percentage points from 2016, to 1.2 per cent in 2017.

Net other operating income was reduced by 4.8 per cent compared with 2016. A strong focus on using the entire product range and a shift towards reducing final hold on DNB's books helped raise income from arranging debt capital issues. Costs related to measures to reduce risk-weighted assets had a negative effect on income towards the end of the year.

Total operating expenses were up 4.1 per cent from 2016. The number of full-time positions was reduced by 51 from end-December 2016, adjusted for positions in the Baltic operation. The reductions took place in both Norwegian and international operations.

There was a reduction in net impairment losses on loans compared with 2016, partly due to successful efforts to restructure the portfolio. Net impairment represented 0.38 per cent of average loans in 2017, down 0.89 percentage points from the previous year. There was a 0.23 percentage point reduction in individual impairment losses, to 0.63 per cent in 2017. More favourable economic conditions combined with lower volumes of high-risk loans and positive migration in the portfolios gave reversals on collective impairment losses in 2017. Net non-performing and doubtful loans and guarantees totaled NOK 11.9 billion at end-December 2017, compared with NOK 20.0 billion a year earlier.

DNB is operating in highly competitive markets, and one of the challenges facing the Group is different capital requirements for banks. The main aim for the Large Corporates and International business area is to strengthen profitability and contribute to fulfilling DNB's long-term ambitions. Active portfolio management in the large corporate segment will continue in 2018 by channeling capital and resources to segments, customers and transactions that will ensure higher profitability in the longer term. An 'originate and distribute' approach, which gives higher turnover in the portfolio, →

will ensure lower final hold on DNB's books and increase ancillary income. DNB will continue to focus on utilising in-depth industry expertise, offering a wide product range and up-to-date technological solutions to priority customers. Through close relations with leading companies, DNB is well-positioned to enter into dialogue with customers to meet their extensive financial needs. This will form the basis for increasing the contribution from non-lending products, such as investment banking, trade finance, leasing, factoring and defined-contribution pensions.

Trading



This segment comprises market making and other trading in foreign exchange, fixed-income, equity and commodity products, including the hedging of market risk inherent in customer transactions. Customer activities are supported by trading activities, which are undertaken by Markets.

Income statement in NOK million	2017	2016
Net interest income	(76)	28
Net other operating income	2 453	2 976
Total income	2 377	3 004
Operating expenses	(502)	(548)
Pre-tax operating profit	1 876	2 455
Profit of the year	1 444	1 841
Key figures in per cent		
Return on allocated capital	21.1	25.4

Low volatility in the markets contributed to the reduction in income from money market activities and foreign exchange trading. A weaker than expected Norwegian krone also had a more negative impact on income from foreign exchange. There was a high level of income from trading in Norwegian interest rate instruments. Income from bonds was positively affected by narrower credit spreads.

Sound risk management ensured a continued high level of income from market making and other trading.

Traditional pension products



This segment comprises the portfolio of traditional defined-benefit pension products in DNB Livsforsikring. DNB no longer offers such products to new customers.

Income statement in NOK million	2017	2016
Upfront pricing of risk and guaranteed rate of return	130	288
Owner's share of administration result	210	241
Owner's share of risk result	133	177
Owner's share of interest result	143	(366)
Return on corporate portfolio	736	439
Pre-tax operating profit	1 351	779
Profit for the year	1 359	783
Average balance sheet items in NOK billion		
Assets under management	203.3	203.2
Key figures in per cent		
Cost/income ratio	21.5	35.9
Return on allocated capital	6.5	4.0

There was a strong level of profits in 2017 despite reduced income from upfront pricing. The decline in income reflected the conversion from defined-benefit to defined-contribution pension schemes. The rise in profits was primarily attributable to a healthy return on the corporate portfolio and a reduction in the owner's share of provisioning for higher life expectancy.

The prolonged low interest rate level could make it challenging for life insurance companies to achieve a satisfactory level of earnings over the coming years. DNB Livsforsikring has adapted to the low interest rate level by holding a large portfolio of long-term bonds at amortised cost, fixed-rate home mortgages and real estate investments. The structure of the portfolios will help ensure that returns will cover the guaranteed rate of return over the next years.

Each quarter, DNB Livsforsikring carries out a test to assess whether the company has adequate premium reserves. In the test, insurance provisions calculated on the basis of market rates and insurance liabilities calculated on the basis of the contracts' guaranteed rate of return are compared. The test showed positive margins as at 31 December 2017.

In consequence of higher life expectancy, it has been necessary to strengthen the premium reserve for group pension insurance. DNB Livsforsikring started to strengthen its reserves in 2012. At year-end 2017, the reserves required to reflect new life expectancy assumptions were fully financed. The reserves have been increased by a total of NOK 12.9 billion, of which 20 per cent has been financed by the company's equity and 80 per cent by the policyholders' interest result. There was a NOK 0.6 billion increase in reserves in 2017, and the financing of reserves has thus been completed. This increased the company's flexibility to build buffer capital, continue to generate strong profits and pay dividends to the parent company DNB ASA.

The Solvency II directive stipulates regulatory solvency capital requirements. DNB Livsforsikring has been given permission to use the transitional rules for insurance provisions, which ensures a controlled and predictable implementation of Solvency II. The solvency margin, calculated according to the transitional rules, was 190 per cent as at 31 December 2017. Without the transitional rules, DNB Livsforsikring had a solvency margin of 146 per cent. At year-end 2016, the solvency margins were 211 per cent and 152 per cent, respectively. Dividend payments of NOK 1.5 billion from DNB Livsforsikring to DNB ASA have been proposed for the 2017 accounting year, which corresponds to 75 per cent of annual profits after tax. This will give an 8 percentage point reduction in the solvency margin both with and without the transitional rules, which has been reflected in the solvency margin at year-end 2017. Adjusted for dividend payments, there was no material change in the solvency margin without the transitional rules through 2017. The effects of a somewhat lower yield curve are offset by higher buffer capital and the effects of model improvements implemented during the year.

Corporate responsibility

As Norway's largest bank, DNB wants to promote sustainable value creation by integrating ethical, environmental and social aspects into its business operations. The principles for corporate responsibility provide the main framework for the governance of DNB's operations. Corporate responsibility is an integral part of corporate governance and is taken into account in decision-making processes.

DNB meets the authorities' requirements for reporting relating to human rights, labour rights and social conditions, the external environment and the fight against corruption in its business strategies, daily operations and in the relationships with →



Did you know that more women than men work in the Private Equity Department in DNB Asset Management?

stakeholders through integrated annual reporting and through reporting according to the Global Reporting Initiative, GRI.

Read more about how DNB meets its corporate responsibility commitments and the challenges the Group considers to be most important to meet to ensure long-term value creation and responsible operations in the chapter Strategy and organisation on page 15, the chapter Role in society on page 58 and at dnb.no/en/csr.

Employees and competence

Adapting to the new banking reality, with rapid changes in customer behaviour, digitalisation and stricter capital adequacy requirements, characterised organisational and leadership development in 2017. Systematic efforts were made to ensure that the Group has the right competencies and to promote change capacity and employee engagement. The engagement index in the employee survey remained high at 85 points. This paints a picture of a robust organisation that has coped well through extensive restructuring. Sickness absence in DNB's Norwegian operations was 4.5 per cent in 2017, in line with 2016.

Read more about the priorities that are considered to be essential to ensuring the right competencies, and about the working environment, equality and discrimination in the chapter Human resources on page 46 and a more detailed description in note 22 Salaries and other personnel expenses in the annual accounts.

New regulatory framework

Over the last few years, a number of new regulations setting stricter requirements for the financial services industry have been introduced or announced. The Norwegian authorities have introduced more stringent capital adequacy requirements and earlier implementation compared with the EU. Following the adoption of the latest Basel regulations, the requirements now look set to be harmonised.

Read more about the new regulations and the regulatory framework in the chapter New regulatory framework on page 104.

Macroeconomic developments

Global GDP growth is expected to be 3.5 per cent in 2017, up from 3.0 per cent in 2016, reflecting higher growth in both industrialised countries and emerging economies. Persistent strong growth in demand from China and widespread optimism have contributed to a synchronous boost in growth across countries and sectors. Global growth is expected to increase further in 2018 due to a higher level of growth in emerging economies. In China, however, growth is expected to slow down somewhat as a result of retrenchment measures implemented by the authorities. Economic growth in industrialised countries is expected to remain at around 2 per cent. This is higher than the normal growth rate and will contribute to a further decline in unemployment. Parallel to this, wage growth is restrained by national and global factors in a number of countries. This puts a damper on inflation and limits the rise in interest rates.

The upturn in the US economy has lasted for nine years, and there are still no clear signs of a slowdown. GDP growth is assumed to be 2.3 per cent in 2017 and 2.4 per cent in 2018. The US tax reform is expected to have a limited effect on consumption, as it primarily affects high-income groups. Although it will probably contribute to a certain rise in corporate investment, the effect is expected to be moderate. The unemployment rate dropped to 4.1 per cent and is expected to decline further in 2018. As a consequence, the Federal Reserve is likely to raise interest rates an additional three times in 2018, in spite of the fact that inflation is somewhat lower than the 2 per cent target. In addition, the Federal Reserve will probably start to scale down its balance sheet by reducing reinvestments in Treasury bills and mortgage-backed securities (MBS).

In the eurozone, GPD growth is estimated at 2.3 per cent in 2017 and is expected to remain a the same level in 2018. The recovery is broad-based across countries and sectors, with strong growth in large member countries such as Germany and Spain. Confidence indexes for households and businesses indicate a further recovery in the eurozone, but the cool-down in China is expected to dampen the upturn from the second half of 2018. Growth will nevertheless be higher than normal, which is expected to lead to lower unemployment. Wage and price growth is also assumed to increase somewhat, reflecting less slack in the economy. In consequence of this, the European Central Bank will begin to gradually depart from its expansionary policy by finalising its asset purchases

by the end of the year and gradually increasing interest rates from the second quarter of 2019.

The British 'No' to further EU membership had fewer negative consequences than expected in the short term. Growth slowed down, however, from 1.8 per cent in 2016 to an estimated 1.5 per cent in 2017, and is expected to decline to 1.1 per cent in 2018, reflecting a reduction in consumption and investment due to the uncertainty surrounding Brexit. A significant weakening of the British pound has caused a temporary increase in inflation, which made the Bank of England raise its key policy rate to 0.5 per cent in November 2017. Inflation is expected to decline due to weaker growth and higher unemployment, and the key policy rate is therefore expected to remain at 0.5 per cent over the coming years. Uncertainty regarding the process around Brexit and the results thereof makes future prospects more unpredictable than normal.

GDP for Mainland Norway was up 1.8 per cent in 2017, after increasing by only 1.0 per cent in 2016. The rise was due to a less negative effect of oil investments, higher consumption and a marked increase in housing investment. Growth is anticipated to rise further to 2 per cent in 2018, driven by corporate and petroleum investment. Over the next few years, the upswing in the Norwegian economy will probably be curbed by lower housing investment and a more neutral contribution from fiscal policy. Higher manufacturing growth has also been reflected in lower unemployment. The unemployment rate has declined gradually since the summer of 2016, mainly due to a lower labour force participation rate. Throughout 2017, employment growth also picked up and contributed to a further drop in the unemployment rate. A slight rise in employment is expected in the period ahead, resulting in a certain reduction in the unemployment rate.

The seasonally adjusted housing price index fell after reaching a peak in March, and annual growth rates in December 2017 were negative at -1.1 per cent for Norway and -10.5 per cent for Oslo. Low interest rates and a more positive situation in the Norwegian economy, with falling unemployment and rising income growth, will limit the downward trend in housing prices, which are expected to show modest growth from 2019.

Inflation, in terms of annual growth in the consumer price index, declined more than expected in 2017. The core inflation rate ended at 1.4 per cent, while total inflation was 1.8 per cent. In 2018, core inflation is expected to be 1.5 per cent, which is well below Norges Bank's inflation target. In light of continued low inflation and a weak housing market, Norges Bank is not expected to raise its key policy rate until September 2019. In its monetary policy report from December 2017, the central bank indicated that the policy rate hike may be implemented in December 2018.

Future prospects

DNB presented updated financial ambitions towards year-end 2019 at its Capital Markets Day in November 2017. The Group's overriding financial target is a return on equity above 12 per cent towards the end of 2019. Several factors will contribute to reaching the return on equity target, including strong growth in capital-light products, increasing lending volumes, greater cost efficiency through the automation of internal processes, and optimal use of capital.

The Group has set a target for its common equity Tier 1 capital ratio of 16.1 per cent, and the common equity Tier 1 capital ratio achieved at year-end 2017 was 16.4 per cent. DNB is well-positioned for new regulatory requirements resulting from the implementation of IFRS 9 and the revised Basel regulations. The latter is expected to have minimal effects for DNB. The implementation effect of IFRS 9 is estimated at NOK 2 billion after tax and is expected to reduce the common equity Tier 1 capital ratio by approximately 28 basis points.

DNB's ambition is to have a cost/income ratio below 40 per cent. DNB's dividend policy remains unchanged, with a payout ratio of more than 50 per cent and an increase in the nominal dividend per share each year. In addition to dividend payments, DNB will use repurchases of own shares as a flexible tool to allocate excess capital to its owners. The dividend payout ratio for 2017 is 54.6 per cent. Including the share buy-back programmes, the total distribution to shareholders in 2017 is 72.9 per cent of profits for 2017.

Volume-weighted spreads are expected to be stable, while the annual increase in lending volumes is anticipated to be 3 to 4 per cent in 2018 and 2019. During this period, higher growth in lending volumes is expected for personal customers and small and medium-sized enterprises, while the Group will continue to actively reduce its lending volumes to large corporates and international customers in cyclical industries.

For the full year 2018, impairment losses are expected to represent approximately 17 basis points of exposure at default, or around NOK 3.2 billion.

→

Dividends and allocation of profits

DNB's Board of Directors has approved a dividend policy which aims to provide an attractive and competitive return for shareholders through a combination of increases in the share price and dividend payments. DNB is well capitalised and fulfills the statutory requirements in addition to having an adequate buffer. The significant build-up of capital through 2017 provides for a normalisation of dividends to a level above 50 per cent in the form of a cash dividend combined with a share buy-back programme also in 2018.

When considering the dividend proposal for 2017, the Board of Directors has taken into account the capital adequacy requirements and the Group's ambition to have a dividend payout ratio of more than 50 per cent. The Board of Directors has thus proposed a dividend for 2017 of NOK 7.10 per share. The proposed dividend gives a dividend yield of 4.7 per cent based on a share price of NOK 152.10 as at 31 December 2017 and implies that DNB ASA will distribute a total of NOK 11 392 million in dividends for 2017. The payout ratio represents 54.6 per cent of profits. A dividend of NOK 5.70 per share was paid for 2016.

In connection with the satisfactory attainment of the Group's financial targets, the Board of Directors has decided to make allocations of NOK 219 million to the Group's employees.

ALLOCATIONS

Profits for 2017 in DNB ASA came to NOK 18 419 million, compared with NOK 10 472 million in 2016. The profits for 2017 attributed mainly to the transfer of group contributions and dividends from subsidiaries.

Amounts in NOK million	**2017**	**2016**
Profit for the year	18 419	10 472
Proposed dividend per share (NOK)	7.10	5.70
Share dividend	11 392	9 284
Transfers to other equity	7 027	1 188
Total allocations	18 419	10 472

The Board of Directors proposes allocating a group contribution of NOK 450 million after tax to DNB Livsforsikring AS. At the same time, DNB ASA will receive a group contribution of NOK 1 950 million after tax from DNB Livsforsikring AS.

In view of the DNB Group's capital adequacy ratio of 20.0 per cent and common equity Tier 1 capital ratio of 16.4 per cent at year-end 2017, the Board of Directors is of the opinion that, following the proposed allocations, DNB ASA will have adequate financial strength and flexibility to provide sufficient support to operations in subsidiaries and meet the Group's expansion requirements and changes in external parameters.

Oslo, 7 March 2018
The Board of Directors of DNB ASA



Anne Carine Tanum
(chairman)



Tore Olaf Rimmereid
(vice-chairman)



Karl-Christian Agerup



Carl A. Løvvik



Vigdis Mathisen



Jaan Ivar Semlitsch



Berit Svendsen



Rune Bjerke
(group chief executive)

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INCOME STATEMENT

		DNB Group	
Amounts in NOK million	Note	2017	2016
Total interest income	18	53 865	52 424
Total interest expenses	18	(18 442)	(18 314)
Net interest income	18	**35 422**	**34 110**
Commission and fee income	20	12 279	11 452
Commission and fee expenses	20	(3 831)	(3 172)
Net gains on financial instruments at fair value	21	4 548	6 513
Net financial result, DNB Livsforsikring [1)]	1	804	(72)
Net risk result, DNB Livsforsikring		491	736
Net insurance result, DNB Forsikring [1)]	1	683	648
Profit from investments accounted for by the equity method	37	(112)	1 189
Net gains on investment properties	36	143	(35)
Other income		713	795
Net other operating income		**15 718**	**18 053**
Total income		**51 140**	**52 163**
Salaries and other personnel expenses	22	(12 184)	(11 904)
Other expenses	23	(7 878)	(7 251)
Depreciation and impairment of fixed and intangible assets	24	(2 531)	(2 177)
Total operating expenses		**(22 593)**	**(21 333)**
Pre-tax operating profit before impairment		**28 547**	**30 830**
Net gains on fixed and intangible assets		738	(19)
Impairment of loans and guarantees	9, 10	(2 428)	(7 424)
Pre-tax operating profit		**26 858**	**23 387**
Tax expense [1)]	1, 26	(5 054)	(4 140)
Profit from operations held for sale, after taxes		(1)	4
Profit for the year		**21 803**	**19 251**
Portion attributable to shareholders		20 865	18 656
Portion attributable to additional Tier 1 capital holders		938	595
Profit for the year		**21 803**	**19 251**
Earnings/diluted earnings per share (NOK)	49	12.84	11.46

1) In consequence of the introduction of the Solvency II regulations on 1 January 2016, certain minor changes in the regulations on annual accounts for non-life and life insurance companies were approved, effective as of 1 January 2016. Cf. Note 1 Accounting principles.

COMPREHENSIVE INCOME STATEMENT

	DNB Group	
Amounts in NOK million	2017	2016
Profit for the year	**21 803**	**19 251**
Actuarial gains and losses	(104)	(183)
Property revaluation	(35)	47
Items allocated to customers (life insurance)	35	(47)
Items that will not be reclassified to the income statement	(104)	(183)
Currency translation of foreign operations	1 190	(6 476)
Currency translation reserve reclassified to the income statement [1)]	(1 306)	(43)
Hedging of net investment	(515)	4 346
Hedging reserve reclassified to the income statement [1)]	886	
Investments according to the equity method [2)]	160	(25)
Investments according to the equity method, reclassified to the income statement [2)]		(855)
Items that may subsequently be reclassified to the income statement	414	(3 052)
Other comprehensive income for the year (net of tax)	**311**	**(3 236)**
Comprehensive income for the year	**22 113**	**16 015**

1) *In the fourth quarter of 2017, currency translation reserves (accumulated gains) of NOK 1 307 million and hedging reserves (accumulated losses) of NOK 1 224 million relating to the Baltics were reclassified to the income statement and recognised in "Net gains on fixed and intangible assets". Tax relating to the Baltics hedging reserve amounted to NOK 338 million, which was reclassified to the income statement and recognised in "Tax expense".*

2) *DNB had indirect ownership interests in Visa Europe through its membership in Visa Norge. In connection with the valuation of the holdings in Visa Europe as at 31 March 2016 an accumulated gain of NOK 855 million was recognised in other comprehensive income. Upon the completion of the acquisition of Visa Europe by Visa Inc in the second quarter of 2016, this amount was reclassified to profit and a total gain of NOK 1 128 million was recognised as "Profit from investments accounted for by the equity method" in the income statement.*

BALANCE SHEET

		DNB Group	
Amounts in NOK million	Note	31 Dec. 2017	31 Dec. 2016
Assets			
Cash and deposits with central banks	27, 28, 29	151 595	208 263
Due from credit institutions	6, 7, 27, 28, 29, 30	239 328	176 442
Loans to customers	6, 7, 27, 28, 29, 30	1 545 415	1 509 078
Commercial paper and bonds at fair value	27, 29, 33	338 713	296 642
Shareholdings	27, 29, 31, 33	28 220	22 512
Financial assets, customers bearing the risk	27, 29, 34	75 206	60 220
Financial derivatives	15, 27, 29, 30	132 349	157 940
Commercial paper and bonds, held to maturity	27, 28, 35	83 894	94 008
Investment properties	36	16 306	15 912
Investments accounted for by the equity method	37	15 609	7 768
Intangible assets	38	5 600	5 814
Deferred tax assets	26	769	1 404
Fixed assets	39	8 704	7 949
Assets held for sale			52 541
Other assets	41	56 559	36 709
Total assets		**2 698 268**	**2 653 201**
Liabilities and equity			
Due to credit institutions	27, 28, 29, 30	224 107	212 882
Deposits from customers	27, 28, 29, 30, 42	971 137	934 897
Financial derivatives	15, 27, 29, 30	110 262	130 161
Debt securities issued	27, 28, 29, 43	780 247	765 869
Insurance liabilities, customers bearing the risk	17, 34	75 206	60 220
Liabilities to life insurance policyholders in DNB Livsforsikring	17	208 500	208 160
Insurance liabilities, DNB Forsikring	17	2 043	1 892
Payable taxes	26	4 599	8 874
Deferred taxes	26	2 574	3 816
Other liabilities	27, 45	68 078	44 568
Liabilities held for sale			41 243
Provisions		1 812	2 094
Pension commitments	25	3 267	2 756
Subordinated loan capital	27, 28, 29, 44	29 538	29 347
Total liabilities		**2 481 371**	**2 446 779**
Share capital		16 180	16 286
Share premium		22 609	22 609
Additional Tier 1 Capital		16 159	15 952
Other equity		161 948	151 576
Total equity	46	**216 897**	**206 423**
Total liabilities and equity		**2 698 268**	**2 653 201**

Due to changes in principles, some comparative figures have been restated. See note 1 Accounting principles.

STATEMENT OF CHANGES IN EQUITY

DNB Group

Amounts in NOK million	Share capital [1]	Share premium	Additional Tier 1 capital	Actuarial gains and losses	Currency translation reserve [2]	Net investment hedge reserve [2]	Other equity [1]	Total equity [1] [2]
Balance sheet as at 31 December 2015 restated	**16 257**	**22 609**	**8 353**	**(525)**	**18 317**	**(11 848)**	**137 263**	**190 425**
Profit for the year			595				18 656	19 251
Other comprehensive income (net of tax)				(183)	(6 519)	4 346	(880)	(3 236)
Comprehensive income for the year			595	(183)	(6 519)	4 346	17 775	16 015
Additional Tier 1 capital issued			7 520				(43)	7 477
Interest payments additional Tier 1 capital			(505)					(505)
Currency movements taken to income			(11)				11	
Defined-benefit pension scheme discontinued				17			(17)	
AGDL provisions in Luxembourg reclassified to equity							13	13
Dividends paid for 2015 (NOK 4.50 per share)							(7 330)	(7 330)
Net purchase of treasury shares	29						297	326
Balance sheet as at 31 December 2016	**16 286**	**22 609**	**15 952**	**(692)**	**11 798**	**(7 502)**	**147 971**	**206 423**
Profit for the year			938				20 865	21 803
Other comprehensive income (net of tax)				(104)	(117)	371	160	311
Comprehensive income for the year			938	(104)	(117)	371	21 026	22 113
Repurched under share buy-back programme	(108)						(1 552)	(1 659)
Interest payments additional Tier 1 capital			(724)					(724)
Currency movements taken to income			(7)				7	
Dividends paid for 2016 (NOK 5.70 per share)							(9 284)	(9 284)
Net purchase of treasury shares	2						26	28
Balance sheet as at 31 December 2017	**16 180**	**22 609**	**16 159**	**(795)**	**11 681**	**(7 131)**	**158 193**	**216 897**

1) Of which treasury shares, held by DNB Markets for trading purposes:

Balance sheet as at 31 December 2016	*(2)*						*(26)*	*(28)*
Net purchase of treasury shares	*2*						*26*	*28*
Balance sheet as at 31 December 2017	*0*						*0*	*0*

2) Of which OCI related to the Baltics:

Balance sheet as at 31 December 2016					*1 015*	*(712)*		*304*
Other comprehensive income for the period January - September 2017					*291*	*(174)*		*117*
Other comprehensive income reclassifiend to the income statement					*(1 307)*	*886*		*(421)*
Balance sheet as at 31 December 2017					*0*	*0*		*0*

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CASH FLOW STATEMENT

	DNB Group	
Amounts in NOK million	2017	2016
Operating activities		
Net payments on loans to customers	(33 528)	(41 244)
Interest received from customers	47 196	46 858
Net receipts on deposits from customers	36 283	42 821
Interest paid to customers	(4 382)	(3 656)
Net receipts/payments on loans to credit institutions	(39 774)	166 440
Interest received from credit institutions	2 450	1 258
Interest paid to credit institutions	(2 430)	(1 661)
Net receipts/payments on the sale of financial assets for investment or trading	(19 697)	20 955
Interest received on bonds and commercial paper	4 449	4 488
Net receipts on commissions and fees	8 627	8 303
Payments to operations	(20 023)	(20 032)
Taxes paid	(10 771)	(2 918)
Receipts on premiums	14 875	15 599
Net receipts/payments on premium reserve transfers	1 666	(1 512)
Payments of insurance settlements	(15 183)	(14 745)
Other receipts/payments	5 586	(5 583)
Net cash flow from operating activities	**(24 657)**	**215 372**
Investment activities		
Net payments on the acquisition of fixed assets	(2 305)	(1 540)
Net receipts/payments, investment properties	382	(1 512)
Receipts on the sale of long-term investments in shares	238	861
Acquisition of long-term investments in shares	(324)	
Dividends received on long-term investments in shares	7	66
Net cash flow from investment activities	**(2 001)**	**(2 124)**
Funding activities		
Receipts on issued bonds and commercial paper (see note 43)	1 849 030	8 995 908
Payments on redeemed bonds and commercial paper (see note 43)	(1 856 373)	(9 000 786)
Interest payment on issued bonds and commercial paper	(13 853)	(16 016)
Receipts on the raising of subordinated loan capital (see note 44)	10 106	738
Redemptions of subordinated loan capital (see note 44)	(10 544)	(3)
Interest payments on subordinated loan capital	(784)	(923)
Receipts on issued additional Tier 1 capital		7 520
Interest payments on additional Tier 1 capital	(724)	(516)
Repurchased shares	(1 659)	
Dividend payments	(9 284)	(7 330)
Net cash flow from funding activities	**(34 085)**	**(21 408)**
Effects of exchange rate changes on cash and cash equivalents	**3 827**	**(272)**
Net cash flow	**(56 916)**	**191 567**
Cash as at 1 January	214 807	23 239
Amount of cash in subsidiaries which control is lost	(3 768)	
Net receipts/payments of cash	(56 916)	191 567
Cash as at 31 December *)	154 122	214 807
*) *Of which: Cash and deposits with central banks*	*151 595*	*211 908*
Deposits with credit institutions with no agreed period of notice 1)	*2 527*	*2 899*

1) Recorded under "Due from credit institutions" in the balance sheet.

NOTE 1 Accounting principles

1. Corporate information
2. Basis for preparation
3. Changes in accounting principles
4. Consolidation
5. Segment information
6. Recognition in the income statement and in other comprehensive income
7. Financial instruments
8. Investment property and fixed assets
9. Intangible assets
10. Impairment of fixed and intangible assets
11. Liabilities to policyholders
12. Pensions
13. Income tax
14. Provisions
15. Leasing
16. Cash flow statements
17. Dividends
18. Approved standards and interpretations that have not entered into force
19. Important accounting estimates, judgments and assumptions

1. Corporate information

DNB ASA is a Norwegian public limited company listed on the Oslo Stock Exchange (Oslo Børs). The consolidated financial statements for 2017 were approved by the Board of Directors on 7 March 2018.

The DNB Group offers banking services, securities and investment services and insurance and asset management services in the Norwegian and international retail and corporate markets.

The visiting address to the Group's head office is Dronning Eufemias gate 30, Bjørvika, Oslo, Norway.

2. Basis for preparation

DNB has prepared the consolidated financial statements for 2017 in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

The consolidated financial statements are based on the historic cost principle, with the following exceptions: financial assets and liabilities measured at fair value and investment properties. The consolidated financial statements are presented in Norwegian kroner. Unless otherwise specified, all amounts are rounded to the nearest million.

The Group's consolidated balance sheets are primarily based on an assessment of the liquidity of the assets and liabilities.

3. Changes in accounting principles

There have not been made any changes to the accounting principles during the year.

4. Consolidation

The consolidated financial statements for DNB ASA ("DNB") include DNB Bank ASA, DNB Livsforsikring AS, DNB Asset Management Holding AS and DNB Forsikring AS, all including subsidiaries.

The accounting principles are applied consistently when consolidating ownership interests in subsidiaries and are based on the same reporting periods as those used for the parent company.

When preparing the consolidated financial statements, intra-group transactions and balances, along with gains and losses on transactions between group units, are eliminated.

Subsidiaries

Subsidiaries are defined as companies in which DNB, directly or indirectly, has control. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity. When assessing whether to consolidate an entity the Group evaluates a range of control factors, including

- the purpose and design of the entity,
- the relevant activities and how these are determined,
- whether the Group's rights result in the ability to direct the relevant activities
- whether the Group has exposure or right to variable returns
- whether the Group has the ability to use its power to affect its return

Where voting rights are relevant, the Group is deemed to have control where it holds, directly or indirectly, more than half of the voting rights in an entity, unless DNB through agreements does

not have corresponding voting rights in relevant decision-making bodies. With respect to companies where the Group's holding represent less than half of the rights, DNB makes an assessment of whether other factors indicate de facto control.

Subsidiaries are fully consolidated from the date on which control is obtained and until control ceases.

The non-controlling interests that do not meet the definition of equity are classified as financial liabilities in the balance sheet (Other liabilities).

Consolidation of structured entities

The Group engages in various business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

DNB (represented by DNB Livsforsikring) invests in both investment funds where DNB Asset Management is the fund manager and investment funds managed by unrelated asset managers. The principal uses of structured entities are to provide customers with access to specific portfolios of assets, especially in the insurance business. Fund managers apply various investment strategies to accomplish their respective investment objectives. Most of the investment funds finance their operations by issuing redeemable shares which are redeemable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets. DNB's investment strategy entails trading in funds on a regular basis, with the objective to achieve long-term capital growth.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entities indicate that the structured entities are controlled by the Group due to contractual arrangements.

See note 31 Shareholdings for information about unconsolidated structured entities.

Associated companies and joint arrangements

Associated companies are companies in which DNB has a significant influence, that is the power to participate in the financial and operating policy decisions of the companies, but is not in control or joint control of the companies. DNB assumes that significant influence exists when the Group holds between 20 and 50 per cent of the voting share capital or primary capital in another entity. Associated companies are recognised in the consolidated financial statements according to the equity method.

Joint arrangements are classified as either joint ventures or joint operations. When accounting for joint ventures, the equity method is applied. For joint operations, the parties recognise their rights to assets and liabilities in their balance sheets and recognise their share of income and costs incurred jointly in their income statements. DNB's joint arrangements are determined to be joint ventures.

Under the equity method of accounting, the investment is recognised at cost at the time of acquisition and is adjusted for subsequent changes in the Group's share of equity in the associated company or joint venture. Any goodwill is included in the acquisition cost. The Group's share of profits or losses is recognised in the income statement and added to the cost price of the investment along with other changes in equity which have not been reflected in the income statement. The Group's share of losses is not reflected in the income statement if the carrying amount of the investment will be negative, unless the Group has taken on commitments or issued guarantees for the commitments of the associated company or joint venture.

At the end of each reporting period the Group assess whether any indication of impairment exists. If such indication exists, the investment will be tested for impairment. The carrying value of the investment will be compared with the recoverable amount (the higher of fair value less costs to sell and value in use). If necessary, the carrying value will be written down to the recoverable amount.

The Group's share of unrealised gains on transactions between the Group and its associated companies or joint ventures is eliminated. The same applies to unrealised losses unless the transaction indicates an impairment of the transferred assets.

Conversion of transactions in foreign currency

The presentation currency in the Group's consolidated financial statements is Norwegian kroner. The most significant subsidiary in the Group, DNB Bank ASA, has Norwegian kroner as its functional currency. Balance sheet items of foreign branches and subsidiaries in other functional currencies are translated into the presentation currency, Norwegian kroner, according to the exchange rates prevailing on the balance sheet date, while profit or loss items are translated according to exchange rates on the transaction date. Changes in net assets resulting from exchange rate movements are recognised in other comprehensive income.

Monetary assets and liabilities in foreign currency are translated into the entities' functional currency at the exchange rates prevailing on the balance sheet date. Changes in the carrying amount of such assets due to exchange rate movements between the transaction date and the balance sheet date are recognised in the income statement.

5. Segment information

Financial governance in DNB is adapted to the different customer segments. The follow-up of total customer relationships and segment profitability are two important dimensions when making strategic priorities and deciding where to allocate the Group's resources. Reported figures for the various segments reflect the Group's total sales of products and services to the specific segment.

The segment information has been prepared on the basis of internal financial reporting to the group management team (chief operating decision-making body) for an assessment of developments and the allocation of resources. Figures for the operating segments are based on DNB's management model and the Group's accounting principles. The figures are based on a number of assumptions, estimates and judgmental distribution.

According to DNB's management model, the operating segments are independent profit centres that are fully responsible for their profit after tax and for achieving the targeted returns on allocated capital. All of the Group's customer activities are divided among the operating segments, along with the related balance-sheet items, income and expenses.

Excess liquidity and liquidity deficits in the operating segments are placed in or borrowed from the Group Treasury at market terms, where interest rates are based on duration and the Group's financial position.

When operating segments cooperate on the delivery of financial services to customers, internal deliveries are based on market prices.

Services provided by group services and staff units are charged to the operating segments in accordance with service agreements. Joint expenses which are indirectly linked to activities in the operating segments, are charged to the operating segments on the basis of distribution formulas.

A number of key functions and profits from activities not related to the operating segments' strategic operations are presented within Other operations. This item comprises income and expenses relating to the Group's liquidity management, income from investments in equity instruments not included in the trading portfolio, interest income assigned to the Group's unallocated capital, ownership-related expenses and income from the management of the bank's real estate portfolio.

Net profits from repossessed operations which are fully consolidated in the Group are presented as ”Profit from repossessed operations” in the segment reporting. The effect of consolidation of the repossessed companies is presented within the Other operations.

Return on capital is estimated on the basis of internal measurement of risk-adjusted capital requirements. See note 2 Segments for further information about the principles for allocation of capital.

6. Recognition in the income statement and in other comprehensive income

Interest income is recognised using the effective interest method. This implies that interest is recognised when incurred, with the addition of amortised front-end fees and any other fees which are regarded as an integral part of the effective interest rate.

The effective interest rate is set by discounting contractual cash flows based on the expected life of the asset. Cash flows include front-end fees and direct transaction costs which are not paid directly by the customer.

Interest is recognised according to the effective interest method with respect to both balance sheet items carried at amortised cost and balance sheet items carried at fair value in the income statement, with the exception of front-end fees on loans at fair value, which are recognised when earned. Interest on impaired loans corresponds to the effective interest rate on the book value, net of impairment.

"Net other operating income" includes, among others, fees and commissions relating to money transfers, asset management, including performance/success fees, credit broking, real estate broking, corporate finance, securities services, insurance products and lease income from investment properties. Credit broking commissions include syndication income in the form of fees and commissions from transactions where DNB arranges the loans without retaining parts of the loan itself or participates in a loan syndicate and receives compensation in excess of the effective interest received by the other participants. Fees which are not included in effective interest rate calculations, as well as commissions, are recognised during the period when the services are rendered or the transactions are completed.

Performance/ success fees are recognised when the fees with a high degree of certainty have been earned and can be measured in a reliable manner.

Fees that are incurred when establishing financial guarantees are recognised over the term of the contract within the line item “Net gains on financial instruments at fair value”.

Dividends on investments are recognised from the date the dividends are approved at the general meeting.

Income from financial instruments carried at fair value through profit or loss is described under Financial instruments while net income from investment property is described under Investment property and fixed assets.

Items of income and expense in other comprehensive income are grouped based on whether or not they can be reclassified to the income statement, at a future date.

7. Financial instruments

Recognition and derecognition

Recognition of assets and liabilities

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Settlement date accounting is applied for financial assets classified as loans and receivables, while trade date accounting is applied for the other classification categories.

Derecognition of financial assets

Financial assets are derecognised when the right to receive and retain cash flows from the asset has expired or been transferred. The Group enters into certain transactions where it transfers assets recognised on its balance sheet, but retains either all or parts the risks and rewards of the transferred asset. If all or substantially all of the risks and rewards are retained, the transferred financial asset is not derecognised from the balance sheet, but reclassified to separate assets or liabilities reflecting the rights and obligations created or retained in the transfer. Such transactions could entail the transfer of a loan portfolio where the Group retains the risks and returns associated with the transferred portfolio by guaranteeing for all risks in the portfolio or entering into a total return swap.

Derecognition of financial liabilities

Financial liabilities are derecognised when the contractual obligations have been discharged, cancelled or have expired.

Repurchase and reverse repurchase agreements

Securities purchased under agreements to resell are generally not recognised in the financial statements as the risk and returns are normally not taken over by the Group. This is done irrespective of whether the Group has the right to sell or repledge the securities. Upon the sale of securities received, the Group recognises an obligation in the balance sheet. For more information, see note 33 Securities received which can be sold or repledged.

Securities sold under agreements to repurchase are generally not derecognised as the risk and returns are normally not transferred. This is done irrespective of whether the recipient is entitled to sell or repledge the securities. These securities are presented as securities in the Group's balance sheet and are specified in note 32 Transferred assets or assets with other restrictions.

Securities borrowing and lending agreements

Transactions mainly include equity borrowing or lending. Agreements on securities borrowing and lending are generally based on collateral in the form of cash or securities.

Equities which have been received or transferred in such transactions, are generally not recognised or derecognised, as risks and returns associated with ownership of the assets are normally not taken over or transferred.

Equities received, including equities received as collateral, are registered off the balance sheet irrespective of whether the Group has the right to sell or repledge the securities. Upon the sale of securities received, the Group will recognise an obligation in the balance sheet. For more information, see note 33 Securities received which can be sold or repledged.

NOTE 1 Accounting principles (continued)

Transferred equities and collateral which the recipient is entitled to sell or repledge, are presented as equities or securities in the Group's balance sheet and are specified in note 32 Transferred assets or assets with other restrictions.

Classification and presentation

On initial recognition financial assets are classified in one of the following categories according to the type of instrument and the purpose of the investment:

- financial assets held for trading and derivatives carried at fair value with changes in value recognised in profit or loss (trading portfolio)
- financial assets designated as at fair value with changes in value recognised in profit or loss
- financial derivatives designated as hedging instruments
- loans and receivables, carried at amortised cost
- held-to-maturity investments, carried at amortised cost
- financial assets available for sale carried at fair value with changes in value recognised in other comprehensive income

On initial recognition financial liabilities are classified in one of the following categories:

- financial liabilities held for trading and derivatives carried at fair value with changes in value recognised in profit or loss (trading portfolio)
- financial liabilities designated as at fair value with changes in value recognised in profit or loss
- financial derivatives designated as hedging instruments
- other financial liabilities carried at amortised cost

Guidelines for classification in the various portfolios of the DNB Group are given below.

Financial assets and liabilities in the trading portfolio

Financial instruments in the trading portfolio are initially recognised at fair value.The fair value corresponds to the transaction price, unless another value can be justified based on observable market transactions. See the paragraph below on determining fair value at subsequent valuation.

Changes in the fair value of the financial instruments are presented within "Net gains on financial instruments at fair value" in the income statement. Interest income and interest expenses from interest-bearing securities are presented within "Net interest income".

Financial derivatives are presented as an asset if the fair value is positive and as a liability if the fair value is negative.

The trading portfolio mainly includes financial assets and liabilities in Markets and financial derivatives not used for hedge accounting purposes. In addition, the portfolio includes securities borrowing and deposits that are used actively in interest rate and liquidity management and have a short remaining maturity.

Financial assets and liabilities designated as at fair value with changes in value recognised in profit or loss

Financial instruments in the portfolio are recognised at fair value. See the paragraph below on determining fair value at subsequent valuation. Financial instruments are classified in this category if one of the following criteria is fulfilled:

- The classification eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring financial assets or liabilities or recognising the gains and losses on them on different bases
- The financial instruments are part of a portfolio that is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Changes in fair value of the financial instruments are presented within "Net gains on financial instruments at fair value" in the income statement. Interest income and interest expenses on loans designated as at fair value and other fixed-income securities are presented within "Net interest income".

Changes in fair value of financial instruments within life insurance are presented within the line item "Net financial result, DNB Livsforsikring".

The portfolios include commercial paper, bonds, equities, fixed-rate loans in Norwegian kroner, financial assets - customers bearing the risk, current financial assets within life insurance, fixed-rate securities issued in Norwegian kroner, such as index-linked bonds and equity-linked bank deposits and other fixed-rate deposits in Norwegian kroner.

Financial derivatives designated as hedging instruments

The Group enters into hedging transactions to manage interest rate risk on long-term borrowings and deposits in foreign currencies. These transactions are recognised as fair value hedges. See item Hedge accounting.

Loans and receivables carried at amortised cost

Loans and receivables carried at amortised cost are recognised at the transaction price plus direct transaction expenses. Subsequent measurement follows the effective interest method, less any impairment charges. The effective interest method is described under Recognition in the income statement and in other comprehensive income.

Interest income on financial instruments classified as lending is presented within "Net interest income" using the effective interest method.

A decrease in value on the balance sheet date based on objective indications of impairment for loans valued at amortised cost and in the portfolios of fixed-rate loans measured at fair value, are presented within "Impairment of loans and guarantees".

Held-to-maturity investments carried at amortised cost

Held-to-maturity investments are carried at amortised cost and recognised at the transaction price plus direct transaction expenses. Subsequent measurement follows the effective interest method, less any impairment charges. The effective interest method is described under Recognition in the income statement and in other comprehensive income.

This category mainly comprises the international bond portfolio in DNB Markets and investments in bonds in DNB Livsforsikring.

Interest income relating to the instruments is presented within "Net interest income" and “Net financial result, DNB Livsforsikring” respectively.

Financial assets available for sale carried at fair value with changes in value recognised in other comprehensive income

Financial assets in the available for sale category are recognised at fair value with the subsequent change in fair value presented in other comprehensive income. See the paragraph below about the determination of fair value. At the time of realisation the change in fair value shall be included as a part of the gain that is presented in the income statement. Financial assets are classified in this

NOTE 1 Accounting principles (continued)

category if they do not meet the criteria for being classified in any of the other categories presented above.

Other financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are recognised at the transaction price plus direct transaction expenses.

Interest expenses on such instruments are presented within "Net interest income" using the effective interest method.

This category includes deposits from customers and credit institutions, commercial paper issued, bonds, subordinated loan capital and perpetual subordinated loan capital securities.

Issued financial guarantees

Contracts resulting in the Group having to reimburse the holder for a loss incurred because a specific debtor fails to make payment when due, are classified as issued financial guarantees.

On initial recognition, issued financial guarantees are recognised at the consideration received for the guarantee. Issued financial guarantees are subsequently measured at the higher of the consideration received for the guarantee excluding any amortised amounts recognised in the income statement and the best estimate of the payment due if the guarantee is honoured.

When issuing financial guarantees, the consideration for the guarantee is presented within the line item "Provisions" in the balance sheet. Changes in the carrying amount of financial guarantees are recognised within the line item "Net gains on financial instruments at fair value", except for changes related to guarantees which are part of loans which are individually impaired. Changes in the value of such guarantee contracts are recognised within the line item "Impairment of loans and guarantees".

Financial instruments with the characteristics of equity

Issued additional Tier 1 capital instruments are instruments where DNB has a unilateral right not to repay interest or the principal to the investors. As a consequence of these terms, the instruments do not meet the requirements for a liability and are therefore presented on the line Additional Tier 1 capital within the Group's equity. Transaction expenses and accrued interest are presented as a reduction in Other equity, while the advantage of the tax deduction for the interest will give an increase in Other equity.

Equity in foreign currency shall be converted to Norwegian kroner based on the exchange rate on the transaction date and is not subject to subsequent revaluation.

Offsetting

Financial assets and financial liabilities are offset and presented net in the balance sheet when the Group has a legally enforceable right to offset recognised amounts and has agreed to settle the balances on a net basis or to realise the asset and settle the liability simultaneously. Master netting agreements or similar agreements give the right to offset in the event of default. Such agreements reduce the Group's exposure in the event of default, but do not on their own qualify for offsetting in accordance with IFRS, as there also needs to be an intention to settle the contractual cash flows net on an ongoing basis. See note 30 Offsetting for details about the financial assets and financial liabilities subject to offsetting agreements.

Determination of fair value

Fair value is the price that would be received by selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities in active markets are measured at the price within the bid-ask spread that is most representative of the fair value at the measurement date. In most cases bid or asking prices for these instruments are the most representative price for assets and liabilities respectively. Derivatives which are carried net are recognised at midmarket prices at the balance sheet date.

Financial instruments measured at fair value are valued on a daily basis with the exception of a few financial instruments that are valued on a monthly or quarterly basis. As far as possible, directly observable market prices are used. Valuations of the various types of financial instruments are based on well-acknowledged techniques and models. The prices and input parameters used are controlled and assessed based on established routines and control procedures.

The control environment for fair value measurement of financial instruments is an integrated part of the company's financial reporting. A number of controls are carried out on a daily basis, including controls of the day-one results on traded positions and controls of the key input parameters in the valuation. At the end of each month and quarter, extended controls are carried out to ensure that the valuations are consistent with the accounting policy for fair value including variation analyses. Special emphasis is placed on valuations in the level 3 in the valuation hierarchy, where the effects may be significant or particularly challenging.

Instruments traded in an active market

With respect to instruments traded in an active market, quoted prices are used, obtained from a stock exchange, a broker or a price-setting agency.

A market is considered active if it is possible to obtain external, observable prices, exchange rates or interest rates and these prices represent actual and frequent market transactions.

Some investments in equities and commercial paper and bonds are traded in active markets.

Instruments not traded in an active market

Financial instruments not traded in an active market are valued according to different valuation techniques and are divided into two categories:

Valuation based on observable market data:

- recently observed transactions in the relevant instrument between informed, willing and independent parties
- instruments traded in an active market which are substantially similar to the instrument that is valued
- other valuation techniques where key parameters are based on observable market data.

Valuation based on other factors than observable market data:

- estimated cash flows
- valuation of assets and liabilities in companies
- models where key parameters are not based on observable market data
- possible industry standards

In the valuation of OTC derivatives, a fair value adjustment is made for the counterparty's credit risk (CVA) and for the Group's own credit risk (DVA). In addition, an adjustment is made for expected funding costs (FVA).

The Group estimates CVA as a function of a simulated expected positive exposure, the counterparty's probability of default and loss given default. The majority of the Group's derivative counterparties have no market-implied credit spread and no external rating. Internal ratings are therefore combined with

historical credit default swap (CDS) spreads as well as current CDS index prices to arrive at the counterparty's estimated CDS spreads. This means that the Group uses its own credit models and their discriminatory power, but calibrates against pricing levels for similar credit risk in the market. The DVA is based on the same approach, using an assessment of DNB's credit spread.

FVA reflects the estimated present value of the future funding costs associated with funding uncollateralised derivative exposures. It is calculated by applying a market funding spread to the expected exposure. Funding benefits are not estimated for positions for which DNB calculates DVA.

For financial instruments measured by using valuation techniques, a gain or loss might from time to time occur at initial recognition when the estimated fair value is different from the actual transaction price. When the measurement is based on non-observable input parameters (level 3), the gain or loss is deferred and therefore not recognised at day one. Fair value changes in later period are only recognised to the extent the change is caused by factors that market participants would take into account.

Impairment of financial assets

At end of each reporting period, the Group considers whether any objective evidence of impairment exist as a result of one or more events have taken place after initial recognition (loss event) and the loss event has impact on the estimated future cash flows . A financial asset or group of financial assets is impaired if there is any objective evidence of impairment. Objective indications of impairment include an assessment of the following loss events:

- serious financial problems on the part of the debtor,
- non-payment or other serious breaches of contract,
- the probability that the debtor will enter into debt negotiations or
- other special circumstances that have occurred.

Renegotiation of loan terms to ease the position of the borrower qualifies as a loss event.

Individual impairment of loans

If objective evidence of impairment exists, impairment of loans is calculated as the difference between the carrying amount and the net present value of estimated future cash flows discounted by the original effective interest rate.

The business areas calculate estimated future cash flows based on developments in the exposure, past experience with the debtor, the probable outcome of negotiations and expected macroeconomic trends that will influence the customer's cash flow. In addition, the probability of debt settlement proceedings and bankruptcies is taken into consideration, including the probability that assets provided as collateral will be taken over. When measuring collateral, recognised methods for measuring underlying assets are used.

Individual impairment of loans reduces the carrying amount of loans and guarantees. Impairment during the period is recognised as "Impairment of loans and guarantees" in profit or loss.

Collective impairment of loans

Loans which are not individually impaired are assessed collectively for impairment. The assessment is based on whether objective evidence of impairment exists that can be related to a group of financial assets.

Loans are grouped on the basis of similar credit risk characteristics and in accordance with the division of customers into sectors or industries and risk categories. Impairment is estimated per group of financial assets based on estimates of the general economic situation and loss experience for the respective groups.

Collective impairment reduces the carrying amount of the line item "Loans to customers" in the balance sheet. Changes during the period are recognised within the line item "Impairment of loans and guarantees" in the income statement. Like individual impairment, collective impairment is discounted. The discount factor is based on statistics derived from individual impairment.

Repossession of assets

Assets which are repossessed as part of the management of non-performing and impaired loans are recognised at fair value at the time of acquisition. Such assets are recognised in the balance sheet according to the nature of the asset. Any difference between the carrying amount of the loan and the fair value of the asset is presented within the line item "Impairment of loans and guarantees" in the income statement. Subsequent valuations and presentation of the impact to the income statement follow the principles for the relevant balance sheet item.

Hedge accounting

When instruments are individually hedged, there is a clear, direct and documented correlation between changes in the value of the hedged item resulting from the hedged risk and changes in the value of the financial derivative (hedging instrument).

Upon entering into the hedging relationship, the correlation between the hedged item and the hedging instrument is documented. In addition, the underlying risk management objective and strategy are documented. Changes in fair value related to the hedged risk of the hedged item and instrument are evaluated periodically to ensure the necessary hedge effectiveness. Hedging instruments are recognised at fair value in the financial statements and changes in the fair value are presented within "Net gains on financial instruments at fair value" in the income statement.

For fair value hedging, the changes in the fair value of the hedged item attributable to the hedged risk will be recognised as an addition to or deduction from the balance sheet value of financial liabilities and assets and presented within "Net gains on financial instruments at fair value" in the income statement.

If the hedge relationship ceases or adequate hedge effectiveness cannot be verified, the accumulated change in fair value of the hedged item is amortised over the remaining maturity.

The Group undertakes hedging of investments in foreign subsidiaries to eliminate the currency risk on the invested amount. Hedging transactions are in the form of currency swaps or long-term borrowings in foreign currency. In the consolidated financial statement, the hedge relationships are presented as hedging of net investments in international operations.

8. Investment property and fixed assets

Properties held to generate profits through rental income or for an increase in value, are presented in the balance sheet as investment property. Properties which are mainly used for own operations, are presented as owner-used properties.

Other tangible assets are presented as fixed assets in the balance sheet.

On initial recognition, investment properties and owner-used properties are measured at cost including acquisition costs.

In subsequent periods, investment properties are measured at fair value. Therefore, no annual depreciation is made on an investment property. Fair value is determined by using well-acknowledged valuation techniques. Internal and external expertise is

used for valuations. A selection of external appraisals are obtained and compared with internal valuations for control purposes. In addition, analyses are made of changes from the previous period, as well as sensitivity analyses of key assumptions which are included in the overall evaluation of the fair value measurement. Providers of valuations are also followed up on an ongoing basis through dialogue and enquiries concerning the valuation of individual properties. Changes in fair value of investment property within life insurance are recognised within the line item "Net financial result, DNB Livsforsikring". Changes in fair value of other investment property in the Group are presented within the line item "Net gains on investment property" in the income statement.

Buildings which are owned by DNB Livsforsikring as part of the company's common portfolio and used by the Group, are recognised according to the revaluation model.

Other tangible assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenses directly related to the acquisition of the asset. Subsequent expenses are capitalised on the relevant assets when it is probable that future economic benefits associated with the expenditure will flow to the Group and can be measured reliably. Expenses for repairs and maintenance are recognised in the income statement as they occur.

The residual values and useful lives of the assets are reviewed annually and adjusted if required. Gains and losses on the sale of fixed assets are recognised within the line item "Net gain on fixed and intangible assets" in the income statement.

9. Intangible assets

Goodwill

Goodwill is initially measured at the acquisition date, as the excess of the aggregate of the consideration transferred and the amount recognised for any non-controlling interest over the fair value of the identifiable assets acquired and liabilities assumed in a business combination. Goodwill acquired is allocated to each cash generating unit, or group of units, expected to benefit from the combination's synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Development of IT systems and software

Acquired software is recognised at cost with the addition of expenses incurred to make the software ready for use. Identifiable costs for internally developed software controlled by the Group where it is probable that economic benefits will cover development expenses at the balance sheet date, are recognised as intangible assets. When assessing balance sheet values, the economic benefits are evaluated on the basis of profitability analyses. Development expenses include expenses covering pay to employees directly involved in the project, materials and a share of directly related overhead expenses. Expenses relating to maintenance of software and IT systems are charged to the income statement as they occur. Software expenses recognised in the balance sheet are depreciated according to a straight line principle over their expected useful life, usually five years. The assessment for whether there is a need for impairment is considered according to the principles described below.

10. Impairment of fixed and intangible assets

At end of each reporting period the Group considers whether any indication of impairment of fixed or intangible assets exists. If such indication exists, the recoverable amount of the asset is calculated to estimate possible impairment. Goodwill and intangible assets with an indefinite useful life are tested for impairment minimum once a year even if no indication of impairment exists. DNB has chosen to perform this annual test in the fourth quarter.

The recoverable amount represents the higher of an asset's fair value less costs to sell and its value in use. If the asset's carrying amount exceeds the estimated recoverable amount, the asset is written down to its recoverable amount. See note 38 Intangible assets for description of impairment testing.

The following relevant criteria are considered when assessing whether indications of impairment exists:

- a decline in the asset's market value
- changes in the long-term return requirement which may affect the discount rate used in the calculation of the asset's value in use
- plans to restructure or liquidate the asset
- the asset generates less income than anticipated.

Calculations of value in use are based on historical results and plan figures approved by management. On the basis of plan figures for the cash-generating units, a future cash flow is estimated, defined as the potential return to the owner. The return includes profits from the cash-generating unit adjusted for the need to build sufficient capital to meet expected future capital adequacy requirements. Higher capital requirements due to expanded operations could make it necessary to retain part of the profits or to inject more capital from the owner, if profits from the cash-generating unit are not adequate to build the necessary capital. Beyond the plan period, which is three years, cash flow trends are assumed to reflect market expectations for the type of operations carried out by the cash-generating unit. Future expected cash flows are established for a ten year period where the Gordons growth formula is used to estimate the terminal value to be included.

The required rate of return is based on an assessment of the market's required rate of return for the type of operations carried out by the cash-generating unit. The required rate of return reflects the risk of the operations.

11. Liabilities to policyholders

Products offered by DNB Livsforsikring include group pension insurance, group association insurance, individual endowment insurance, individual annuity and pension insurance, products with a choice of investment profile, group life insurance and occupational injury insurance. In addition, DNB Livsforsikring offers individual risk non-life insurance, mainly statutory occupational injury insurance and appurtenant coverage.

Technical insurance reserves in life insurance

Technical insurance reserves, as defined in the Act on Insurance Activity, include the premium reserve, additional allocations, the market value adjustment reserve, the claims reserve, the risk equalisation fund and other technical reserves. In addition, the premium fund, deposit fund and the pensioners' surplus fund are included in insurance pro-visions. Apart from the risk equalisation fund, which is classified as equity, all insurance provisions are classified as liabilities to policyholders.

The premium reserve is a reserve to secure future insurance liabilities to policyholders and insured persons. The premium reserve represents the technical cash value, i.e. the net present value, of the company's total insurance liabilities including costs, less the cash value of future agreed premiums.

NOTE 1 Accounting principles (continued)

Additional allocations are a conditional allocation to policyholders where changes during the year are recognised in the income statement. The Insurance Act includes stipulations on the use and volume of additional allocations. According to these stipulations, maximum additional allocations per contract cannot exceed 12 per cent of the premium reserve for the contract. Actual allocations for the individual years are determined in connection with year-end adjustments. Additional allocations can be used to cover any rate-of-return shortfall if the annual return is lower than the guaranteed return.

The market value adjustment reserve represents the sum total of unrealised gains on current financial assets included in the common portfolio. If the portfolio of current financial assets shows a net unrealised loss, the market value adjustment reserve is set at zero. Unrealised gains and losses arising from exchange rate movements on derivatives used for currency hedging of properties, loans and held-to-maturity bonds in foreign currency are not included in the market value adjustment reserve.

The claims reserve shall cover the company's anticipated indemnity payments for insurance claims which have not been settled or advanced against the company at the end of the accounting year. The claims reserve represents only the funds that would have been disbursed during the accounting year if the processing of the insurance claims had been completed.

The risk equalisation fund can be used to cover negative risk results and to strengthen premium reserves in connection with changes in demographic assumptions in the calculation base. Each year, up to 50 per cent of the company's total risk result can be allocated to the risk equalisation fund for the products defined-benefit pension and paid-up policies. The annual return is reviewed in connection with year-end adjustments. The risk equalisation fund is classified as equity in the balance sheet.

The premium fund contains premiums prepaid by policyholders within individual and group pension insurance. A share of annual profits is allocated to the pensioners' surplus fund. The fund is used to strengthen the premium reserve for pensioners in connection with adjustments in pension payments.

Liabilities, customers bearing the risk

Allocations relating to insurance liabilities for which customers bear the risk represent the market value of invested policyholders' funds at any given time. The reserve covers a share of the surplus on the risk result and the guaranteed rate of return on the portfolio of products with a choice of investment profile and should correspond to expected payments from the company to customers reaching retirement age.

Assessment of liabilities to policyholders

Liabilities should be in reasonable proportion to the associated risk. This is ensured through continual monitoring of existing contracts. Furthermore, all premium rates prepared by the company shall be reported to the Financial Supervisory Authority of Norway (Finanstilsynet), which has overall responsibility for controlling that adequate premiums are applied. Prevailing premium rates are continually reviewed.

With respect to group pension insurance, the company has over several years increased reserves to reflect higher life expectancy. The financing has consisted of surplus from the interest rate result and risk result, as well as utilisation of the risk equalisation fund and equity. All contracts became fully reserved in 2017.

The basis for calculating disability risk is more recent, taking account of the increase in disability registered in society at large. The base rate is used to calculate the present value of future premiums, payments and insurance provisions. The maximum base rate is stipulated by Finanstilsynet, based on the yield on long-term government bonds. The maximum base rate within pension products will be 2.0 per cent for new rights earned.

Adequacy test

The Group carries out a quarterly adequacy test to assess whether its premium reserves are adequate to cover its liabilities to policyholders. The adequacy test is susceptible to changes in the interest rate curve as well as to assumptions for increased reserves to reflect higher life expectancy. The test is described in more detail in note 17 Insurance risk.

Recognition of changes in liabilities to policyholders

Insurance premiums and insurance settlements are recognised by the amounts earned and accrued during the year. Accrual of premiums earned takes place through allocations to the premium reserve in the insurance fund.

Insurance contracts transferred from other companies are recognised at the time the insurance risk is transferred. If the risk is transferred as at 31 December, it is reflected in the financial statement for the subsequent year. Transfer amounts include the policies' shares of additional allocations, the market value adjustment reserve and profits for the year.

Recognition in the income statement

The line item "Net financial result, DNB Livsforsikring" includes returns and gains less all losses, adjusted for allocations to or elimination of the market value adjustment reserve. In addition, it includes the company's guaranteed rate of return on policyholders' funds, increases in reserves to reflect higher life expectancy within group insurance, plus policyholders' share of profits including changes in additional allocations. If changes in the value of owner-used properties owned by DNB Livsforsikring as part of the company's common portfolio are recognised in other comprehensive income, a corresponding share of changes in liabilities to policyholders is recognised in other comprehensive income.

The line item "Net risk result, DNB Livsforsikring" includes risk premiums and the cost of claims for own account, plus claims handling costs. Claims include gross claims payments and changes in gross claims reserves, excluding the reinsurance share.

Administrative expenses are charged to policyholders through premium payments, returns and the dissolution of reserves. Total charges for policyholders are included in "Commission and fee income etc.". Operating expenses and commission expenses are recognised in the consolidated financial statements according to type of expense.

Technical insurance reserves in non-life insurance

Technical insurance reserves are presented in the financial statement pursuant to the Act on Insurance Activity with appurtenant regulations. This implies that the technical insurance reserves in the financial statement represent the gross unearned premium reserve in the annul accounts.

The gross unearned premium reserves represent accrual accounting of gross premiums written. The reserve corresponds to that part of gross premiums written which represents the remaining term of insurance policies on the balance sheet date.

The claims reserve shall cover anticipated future compensation payments for claims which have been incurred, but not fully settled on the balance sheet date. This includes both reported but

not settled claims (RBNS) and incurred but not reported claims (IBNR). Reserves relating to known claims are assessed individually by the claims settlement team, while IBNR reserves are based on empirical data, using statistical models to estimate the scope of subsequent claims. In addition, there is a reserve for future claims processing costs linked to the RBNS and IBNR reserves. The accuracy of the model is measured by estimating differences between previous subsequent claims estimated by the model. The claims reserve is discounted by using industry-specific inflation assumptions, such as developments in the basic amount (G), KPI and the risk-free interest rate from EIOIPA.

Recognition in the income statement

"Net insurance result, DNB Forsikring" includes premium income for own account. Insurance premiums are recognised as income in accordance with the insurance period. In addition, it includes the cost of claims for own account and costs related to the processing of claims. The cost of claims comprises paid gross compensation payments and changes in gross claims reserves, excluding the reinsurance share.

12. Pensions

DNB has country-specific pension schemes for its employees. In Norway, DNB has a defined-contribution pension scheme. In 2015 and 2016, the pension scheme was by and large converted from a defined-benefit pension scheme to defined-contribution pension scheme. In that connection, an unfunded compensation scheme was established. See note 25 Pensions for more information.

Defined-contribution pension schemes

Under defined-contribution pension schemes, the Group does not commit itself to paying specified future pension benefits, but makes annual contributions to the employees' pension savings. Future pensions will depend on the size of annual contributions and the annual return on pension savings. After paying annual contributions, the Group has no further commitments linked to employees' work performance. The expenses following from the defined-contribution pension schemes are recognised in the income statement

Defined-benefit pension schemes

Pension expenses are calculated based on a linear distribution of pension entitlements measured against estimated accumulated commitments at the time of retirement. Pension commitments are matched against the pension funds in the schemes. Pension commitments are estimated based on the present value of estimated future pension payments at the balance sheet date. The calculation of the pension commitments is based on actuarial and economic assumptions about life expectancy, rise in salaries and early retirement. The discount rate used is determined by reference to the yield on covered bonds at the balance sheet date, plus an add-on that reflects the relevant duration of the pension commitments.

13. Income tax

Taxes for the year comprise payable taxes for the financial year, any payable taxes for previous years and changes in deferred taxes on temporary differences. Temporary differences are differences between the carrying amount of an asset or liability and the taxable value of the asset or liability. The most significant temporary differences refer to changes in the fair value of financial assets and liabilities, changes in the fair value of investment properties, pension obligations, depreciation of fixed assets and properties and impairment losses for goodwill. Deferred taxes on investment property are based on the expectation that the value of the property will be recovered through a sale of the property. Deferred taxes are calculated on the basis of tax rates and tax rules that are applied on the balance sheet date or are highly likely to be approved and are expected to be applicable when the deferred tax asset is realised or the deferred tax liability settled.

Deferred tax assets are recognised in the balance sheet to the extent that it is probable that future taxable income will be available against which they can be utilised. Deferred taxes and deferred tax assets within the same tax group are presented net in the balance sheet.

Taxes payable and deferred taxes relating to elements of other comprehensive income are presented net along with the related income or cost in the comprehensive income statement.

14. Provisions

Provisions are recognised when it is probable that the DNB Group will need to settle a present obligation in connection with a past event, and it can be reliably estimated.

If restructuring plans that change the scope of DNB's operations or the way DNB carries out its operations are approved and communicated to the affected employees, the need for restructuring provisions is considered. This includes provisions for agreements on severance packages with employees when used as part of the restructuring.

Provisions are measured at best estimate, reviewed on each reporting date and adjusted as necessary.

15. Leasing

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Other leases are classified as operating leases.

DNB as lessor

Operating leases

Operating leases are leases where not an insignificant share of the risk and rewards relating to the investment in the leased object accrues to DNB at the end of the lease period. Operating assets are recognised as fixed assets in the balance sheet. Income from operating leases is recognised over the lease term on a straight-line basis. Depreciation of the fixed assets is presented as ordinary depreciation in the income statement.

Financial leases

Financial leases are presented as lending in the balance sheet, and at inception the lease is measured at an amount equal to the net investment in the lease. The net investment represents minimum lease payments, unguaranteed residual values and any direct expenses incurred by the lessor in negotiating the lease, discounted by the implicit interest rate (internal rate of return). Leasing income is recognised in the income statement according to the annuity method, where the interest component is recognised within the line item "Net interest income" while instalments reduce the balance sheet value of the loan.

DNB as lessee

Operating leases

Lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term unless

another systematic basis is more representative of the time pattern of DNB's use of the asset.

16. Cash flow statements

The cash flow statements show cash flows grouped according to source and use. The cash flows are presented as operating activities, investment activities or funding activities. Cash is defined as cash, deposits with central banks and deposits with credit institutions with no agreed period of notice. The cash flow statement has been prepared in accordance with the direct method.

17. Dividends

Proposed dividends are part of equity until approved by the general meeting. At that time, the dividend is presented as liability in the financial statement. Proposed dividends are not included in capital adequacy calculations.

18. Approved standards and interpretations that have not entered into force

By the end of 2017, the IASB had published a number of amendments to current regulations which have not entered into force. Below is a description of the amendments which may have impact on the Group's future reporting.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the new standard for financial instruments IFRS 9 Financial Instruments. The new standard is effective from 1 January 2018 and replaces the current IAS 39.

The IFRS 9 accounting principles and disclosures on transition are presented in note 52.

IFRS 15 Revenue from contracts with customers

IFRS 15 was published by the IASB in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Contracts with customers that will be accounted for in accordance with the IFRS 9 Financial instruments shall however follow the requirements in IFRS 9 as they are scoped out of IFRS 15.

IFRS 15 will be effective as of 1 January 2018 and the standard was endorsed by the EU in September 2016. The Group has analysed the impact of the new rules. No significant changes have been identified in the way the Group recognises revenues. The Group will apply the standard from 2018.

IFRS 16 Leases

In January 2016, the IASB issued the new standard IFRS 16 "Leases". The new standard will have large implications for lessees, as all leases (with the exception of short-term leases and small asset leases) will be recognised in the balance sheet as a right-of-use asset with a corresponding liability. At initial recognition, the lease liability and the right-of-use asset are measured at the present value of future lease payments. Lease payments shall be recognised as interest expenses and amortisations. The accounting requirements for lessors are unchanged.

IFRS 16 was endorsed by the EU in October 2017 and will be effective from 1 January 2019. The Group has started to analyse the consequences of the new standard. The major part of DNB's lease liabilities arises from leases on commercial real estate and IT equipment. It is too early to give a reliable estimate of the effects on the Group's financial statements when the Group acts as lessee. DNB will apply the standard from 2019.

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts will replace IFRS 4 Insurance contracts and establishes principles for recognition, measurement, presentation and disclosure of insurance contracts. The objective of the new standard is to eliminate inconsistent accounting practices for insurance contracts.

In principle, IFRS 17 shall be applied retrospectively, but a modified retrospective approach or the fair value approach may be applied if retrospective application is impracticable.

The standard has been approved by the IASB and is effective from 1 January 2021. DNB will apply the standard from 2021. The standard has not yet been endorsed by the EU.

DNB has started the process of implementing IFRS 17, but it is too early to give a reliable estimate of the expected implementation effect on the Group's financial statements.

19. Important accounting estimates, judgments and assumptions

When preparing the consolidated financial statements, management makes estimates, judgment and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date.

Impairment of loans

Estimates of future cash flows are based on empirical data and management's judgment of future macroeconomic developments and developments in the performance of the actual loans, and on the situation at the balance sheet date. The estimates are the result of a process which involves the business areas and central credit units, and represents management's best estimate.

When considering impairment of loans, there will be several elements of uncertainty with respect to the identification of objective evidence of impairment, the estimation of amounts and the timing of future cash flows, including the valuation of collateral. See note 5 Credit risk for information about the management and follow-up of credit risk.

Individual impairment

When estimating impairment of individual loans and guarantees, both the current and the future financial positions of the customer are considered. For corporate customers, the prevailing market situation is also reviewed, along with market conditions within the relevant industry and general market conditions which could affect the customers' ability to repay the loans. In addition, the probability and outcome of restructuring, refinancing and re-capitalisation are taken into account, as well as the probability of bankruptcies and the possible foreclosure of assets provided as collateral. There is uncertainty related to the valuation of collateral for which no observable market data are available. An overall assessment of these factors forms the basis for estimating the future cash flow. In the event of a prolonged weak economic trend in certain industries and/or geographical areas, the application of judgement and esti-

NOTE 1 Accounting principles (continued)

mations are more demanding. The discount period is estimated on an individual basis or based on empirical data about the period it normally takes to reach a solution to the problems that caused the objective indication of impairment.

Collective impairment

The expected future cash flow is estimated on the basis of expected losses and the anticipated economic situation for the respective groups. Expected losses are based on historical loss experience for the relevant groups. The economic situation is assessed by means of economic indicators for each group based on external information about the markets. Various parameters are used depending on the group in question. Key parameters are production gaps, which give an indication of capacity utilisation in the economy, housing prices, oil prices, salmon prices and shipping freight rates. The economic indicators that are used show a high degree of correlation with historical impairment. To estimate the net present value of expected future cash flows for loans subject to collective impairment, a discount factor based on observed empirical data from individually evaluated loans is used.

Fair value of financial derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using different valuation techniques. The Group considers and chooses techniques and assumptions that as far as possible are based on observable market data representing the market conditions on the balance sheet date. When measuring financial instruments for which observable market data are not available, the Group makes assumptions regarding what market participants would use as the basis for valuing similar financial instruments. The valuations require application of significant judgment when calculating liquidity risk, credit risk and volatility among others. Changes in these factors would affect the estimated fair value of the Group's financial instruments. For more information see note 29 Financial instruments at fair value.

Measurement of liabilities under insurance contracts in DNB Livsforsikring

With respect to technical insurance reserves in DNB Livsforsikring, risks and uncertainties are mainly related to the likelihood of death and disability, as well as the interest rate level. Higher life expectancy affects future expected insurance payments and provisions. For more information see note 17 Insurance risk.

Valuation of properties within DNB Livsforsikring

Investment property is measure at fair value by discounting the expected net future cash flows to its presented value. Establishment of the future cash flows requires high degree of judgment and the fair value depend to a large extent upon the selection of assumption about the future, as example required rate of return and the level of future rental rates. The assumptions used in calculating the fair value of the property portfolio in DNB Livsforsikring can be found in note 36 Investment properties.

Income taxes, including deferred tax assets and uncertain tax liabilities

The Group is subject to income taxes in a number of jurisdictions. Significant judgment is required in determining the income tax in the consolidated financial statements, including assessments of recognised deferred tax assets and uncertain tax liabilities.

Deferred tax assets are recognised to the extent it is probable that the Group will have future taxable income against which they can be utilised. Extensive assessments must be made to determine the amount which can be recognised, included the expected time of utilisation, the level of profits computed for tax purposes as well as strategies for tax planning and the existence of taxable temporary differences.

There will be uncertainty related to the final tax liability for many transactions and calculations. The Group recognises liabilities related to the future outcome of tax disputes based on estimates of changed income taxes. When assessing the uncertain tax liabilities to be recognised in the balance sheet, the probability of the liability arising is considered. If the final outcome of the tax disputes deviates from the amounts recognised in the balance sheet, the deviations will impact the income tax expense in the income statement for the applicable period.

NOTE 2 Segments

Financial governance in DNB is geared to the different customer segments. The follow-up of total customer relationships and segment profitability are two important dimensions when making strategic priorities and deciding where to allocate the Group's resources. Special product areas are responsible for production and development for parts of the product range and for ensuring that the Group meets the needs of the various customer segments. Reported figures for the different segments will reflect the Group's total sales of products and services to the relevant customer segments. DNB's Baltic operation became part of a joint venture with Nordea from 1 October 2017. The Baltic operation was part of the Large corporates and international customers segment up until this date. Following the reorganisation announced in September 2016, the DNB Group has changed its distribution of the profit from DNB Finans' operations between the three customer segments. As of 1 January 2017, profit from DNB Finans' operations in Sweden are divided between the personal customer segment, the small and medium-sized enterprises segment and the large corporates and international customers segment. Profit from DNB Finans' operations in Denmark are divided between the small and medium-sized enterprises segment and the large corporates and international customers segment. Previously, profits from these operations were included in the large corporates and international customers segment. The distribution of profit from DNB Finans' operations in Norway on the various segments has also been changed. Figures for 2016 have been adjusted correspondingly.

Personal customers	-	includes the Group's total products and activities to private customers in all channels, both digital and physical, with the exception of home mortgages recorded under Traditional pension products, where returns accrue to the policyholders. DNB offers a wide range of products through Norway's largest distribution network, comprising branches, telephone banking (24/7), digital banking, real estate broking as well as external channels (post offices and in-store postal and banking outlets). Credit cards and consumer financing in Sweden are also included in this business area.
Small and medium-sized enterprises	-	is responsible for product sales and advisory services to small and medium-sized enterprises in Norway. Customers in this segment range from small businesses and start-up companies to relatively large corporate customers, and the product offerings are adapted to the customers' different needs. Small and medium-sized enterprises are served through the Group's physical distribution network throughout Norway as well as digital and telephone banking (24/7). Factoring, leasing and asset financing for small and medium-sized enterprises in Sweden and Denmark are also included in this business area.
Large corporates and international customers	-	includes large Norwegian and international corporate customers. Operations are based on sound industry expertise and long-term customer relationships.
Trading	-	includes market making and other trading activities in fixed income, currencies and commodities (FICC) as well as equities, including risk management of the risk inherent in customer transactions. Markets' trading activities support the customer activities.
Traditional pension products	-	includes traditional defined-benefit pension products in DNB Livsforsikring and assets related to these products. DNB no longer offers such products to new customers.

The income statement and balance sheet for the segments have been prepared on the basis of internal financial reporting for the functional organisation of the DNB Group into segments, as reported to group management (chief operating decision maker) for an assessment of current developments and the allocation of resources. Figures for segments are based on the group's accounting principles and DNB's management model. Allocation of costs and capital between segments involves a number of assumptions, estimates and discretionary distributions.

Capital allocated to the segments is calculated on the basis of the DNB Group's common equity Tier 1 capital and long-term capitalisation ambition. There are special capital adequacy regulations for insurance operations, and in these companies, allocated capital corresponds to recorded equity. For other group operations, the allocation of capital to all units is based on the DNB Group's adaptation to Basel III with capital requirement related to credit risk, market risk and operational risk. The allocation of capital for credit risk is based on the DNB Group's internal measurement of risk-adjusted capital requirements for credit. Capital requirements for market risk are allocated directly in accordance with risk-weighted volume, and operational risk is allocated based on the respective units' total income.

NOTE 2 Segments (continued)

Income statement

DNB Group

Amounts in NOK million	Personal customers 2017	Personal customers 2016	Small and medium-sized enterprises 2017	Small and medium-sized enterprises 2016	Large corporates and international customers 2017	Large corporates and international customers 2016	Trading 2017	Trading 2016	Traditional pension products 2017	Traditional pension products 2016	Other operations/ eliminations [1] 2017	Other operations/ eliminations [1] 2016	DNB Group 2017	DNB Group 2016
Net interest income	13 367	12 804	8 578	7 941	12 683	13 183	(76)	28			869	153	35 422	34 110
Net other operating income	5 113	4 984	2 101	2 031	5 730	6 016	2 453	2 976	1 721	1 214	(1 399)	831	15 718	18 053
Total income	18 480	17 788	10 678	9 972	18 413	19 200	2 377	3 004	1 721	1 214	(529)	984	51 140	52 163
Total operating expenses	(8 137)	(8 408)	(3 686)	(3 393)	(6 840)	(6 545)	(501)	(547)	(360)	(421)	(539)	159	(20 062)	(19 155)
Deprecation and impairment of fixed and intangible assets	(142)	(96)	(694)	(737)	(731)	(731)	(1)	(1)	(10)	(14)	(953)	(598)	(2 531)	(2 177)
Total operating expenses	(8 279)	(8 504)	(4 380)	(4 130)	(7 572)	(7 276)	(502)	(548)	(370)	(435)	(1 492)	(438)	(22 593)	(21 333)
Pre-tax operating profit before impairment	10 201	9 284	6 298	5 842	10 842	11 924	1 876	2 455	1 351	779	(2 021)	546	28 547	30 830
Net gains on fixed and intangible assets	(0)	(0)	(1)	2	20	23					719	(44)	738	(19)
Impairment of loans and guarantees [2]	(207)	379	(413)	(1 088)	(1 800)	(6 715)					(8)	(0)	(2 428)	(7 424)
Profit from repossessed operations			14	6	(19)	8					4	(14)		
Pre-tax operating profit	9 995	9 662	5 899	4 762	9 043	5 240	1 876	2 455	1 351	779	(1 305)	488	26 858	23 387
Tax expense	(2 499)	(2 416)	(1 475)	(1 191)	(2 532)	(1 415)	(431)	(614)	9	4	1 874	1 491	(5 054)	(4 140)
Profit from operations held for sale, after taxes		(1)			(0)	3					(1)	2	(1)	4
Profit for the year	7 496	7 246	4 424	3 572	6 511	3 829	1 444	1 841	1 359	783	568	1 981	21 803	19 251

1) *See the tables below for more information about Other operations/eliminations.*
2) *See note 10 Impairment of loans and guarantees for principal customer groups for an analysis of the gross change in impairment for the Group.*

Balance sheets

DNB Group

Amounts in NOK billion	Personal customers 31.12.17	Personal customers 31.12.16	Small and medium-sized enterprises 31.12.17	Small and medium-sized enterprises 31.12.16	Large corporates and international customers 31.12.17	Large corporates and international customers 31.12.16	Trading 31.12.17	Trading 31.12.16	Traditional pension products 31.12.17	Traditional pension products 31.12.16	Other operations/ eliminations 31.12.17	Other operations/ eliminations 31.12.16	DNB Group 31.12.17	DNB Group 31.12.16
Loans to customers [1] [2]	747	706	291	266	410	500	39	30	40	39	19	(31)	1 545	1 509
Assets held for sale						0						52		53
Other assets	29	35	12	10	83	136	1 269	1 240	165	163	(406)	(492)	1 153	1 092
Total assets	776	741	303	276	492	636	1 308	1 270	205	202	(387)	(471)	2 698	2 653
Assets under management	55	47	26	20	218	179					29	22	328	267
Total combined assets	831	787	330	296	710	814	1 308	1 270	205	202	(358)	(449)	3 026	2 921
Deposits from customers [1] [2]	403	397	207	190	326	379	44	14			(9)	(45)	971	935
Liabilities held for sale												41		41
Other liabilities	332	305	70	59	94	172	1 257	1 249	184	182	(427)	(496)	1 510	1 471
Total liabilities	736	702	277	249	419	552	1 302	1 263	184	182	(436)	(500)	2 481	2 447
Allocated capital [3]	40	39	26	27	73	84	6	7	22	20	49	30	217	206
Total liabilities and equity	776	741	303	276	492	636	1 308	1 270	205	202	(387)	(471)	2 698	2 653

1) *DNB's Baltic operation became part of a joint venture with Nordea from 1 October 2017. The Baltic operation was part of the Large corporates and international customers segment up until this date. Loans to and deposits from customers in the Baltics were included under Large corporates and international customers as at 31 December 2016 in spite of being reclassified as assets and liabilities held for sale in August 2016. The reclassification as at 31 December 2016 was reflected under Other operations/eliminations.*
2) *Loans to customers include accrued interest, impairment and value adjustments. Correspondingly, deposits from customers include accrued interest and value adjustments. In November 2016, a portfolio of home mortgages amounting to approximately NOK 5 billion was sold from DNB Boligkreditt to DNB Livsforsikring. In the fourth quarter of 2016, commercial mortgages amounting to NOK 2.6 billion and 4.5 billion, respectively, were sold from DNB Næringskreditt and DNB Bank to DNB Livsforsikring.*
3) *Allocated capital for the segments is calculated based on the external capital adequacy requirement (Basel III/Solvency II) which must be met by the Group. The capital allocated in 2017 corresponds to a common equity Tier 1 capital ratio of 16.0 per cent compared to 17.2 per cent in 2016. Recorded capital is used for the Group.*

Key figures

DNB Group

Per cent	Personal customers 2017	Personal customers 2016	Small and medium-sized enterprises 2017	Small and medium-sized enterprises 2016	Large corporates and international customers 2017	Large corporates and international customers 2016	Trading 2017	Trading 2016	Traditional pension products 2017	Traditional pension products 2016	Other operations/ eliminations 2017	Other operations/ eliminations 2016	DNB Group 2017	DNB Group 2016
Cost/income ratio [1]	44.8	47.8	41.0	41.4	41.1	37.9	21.1	18.3	21.5	35.9			44.2	40.9
Ratio of deposits to loans as at 31 December [2]	54.0	56.3	70.9	71.3	79.5	75.9							62.8	62.0
Return on allocated capital [3]	18.9	18.3	16.9	13.3	8.0	4.5	21.1	25.4	6.5	4.0			10.8	10.1

1) *Total operating expenses relative to total income.*
2) *Deposits from customers relative to loans to customers.*
3) *Allocated capital for the segments is calculated based on the external capital adequacy requirement (Basel III/Solvency II) which must be met by the Group. Recorded capital is used for the Group.*

NOTE 2 Segments (continued)

Other operations/eliminations

Other operations/eliminations include IT, People & Operations, Group Finance including Group Treasury, Risk Management, Media & Marketing, Compliance, New Business, the partially owned company Eksportfinans and investments in IT infrastructure and shareholder-related costs. In addition, Other operations/eliminations include that part of the Group's equity that is not allocated to the segments. Profits from repossessed operations which are fully consolidated in the DNB Group are presented net under "Profit from repossessed operations" in the internal reporting of segments. The acquired companies and all intra-group eliminations are included in Other operations/eliminations.

In the third quarter of 2017 NOK 754 million was recognised as Net gains on fixed and intangible assets and presented within the Other operations/eliminations following the establishment of Vipps AS and the agreement DNB entered into with 105 other Norwegian banks. DNB will have an ownership interest in the new legal entity (Vipps AS) of close to 52 per cent. However, due to the terms and conditions in the shareholder agreement, it has been decided to define Vipps AS as an associated company and the company is consolidated in DNB according to the equity method. DNB can vote for 49.9 per cent at the General Meeting and has three of seven board members.

Pre-tax operating profit — **DNB Group**

Amounts in NOK million	2017	2016
Unallocated interest income.	146	(265)
Guarantee fund levy	(78)	(2)
Income from equity investments (see note 21)	81	52
Gain on fixed and intangible assets	719	(44)
Mark-to-market adjustments on financial instruments (see note 21)	(369)	436
Basis swaps (see note 21)	(672)	(542)
Profit from associated companies	(112)	1 190
Net gains on investment properties	185	34
Profit from repossessed operations	4	(14)
Ownership-related expenses (costs relating to shareholders, investor relations, strategic planning etc.)	(352)	(465)
Unallocated personell expenses (see note 22)	(281)	(136)
Unallocated IT and Operations expenses	74	205
Impairment lossess for goodwill relating to Cresco	(502)	
Other	(149)	41
Pre-tax operating profit	(1 305)	488

Geographic areas

Income statement — **DNB Group**

	International operations		Norway		DNB Group	
Amounts in NOK million	2017	2016	2017	2016	2017	2016
Net interest income	6 086	7 863	29 336	26 246	35 422	34 110
Net other operating income	2 600	2 851	13 119	15 202	15 718	18 053
Total income	8 686	10 714	42 455	41 449	51 140	52 163

Balance sheet items — **DNB Group**

	International operations		Norway		DNB Group	
Amounts in NOK billion	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16
Loans to customers	201	218	1 345	1 291	1 545	1 509
Total assets	237	308	2 461	2 345	2 698	2 653
Guarantees	32	35	65	63	98	99

Product information

See note 18 Net interest income, note 19 Interest rates on selected balance sheet items, note 20 Net commission and fee for further information on products.

NOTE 3 Capitalisation policy and capital adequacy

The DNB Group aims to maintain a management buffer of approximately 1.0 percentage point in addition to the total regulatory common equity Tier 1 (CET1) capital ratio. The object of the management buffer is to cushion against fluctuations in risk-weighted assets and earnings that can occur as a result of, for example, exchange rate movements or changes in credit spreads, and thereby enable the Group to maintain normal growth in lending and a predictable dividend policy. At year-end 2017, the total regulatory CET1 capital ratio requirement was 15.2 per cent. DNB's internal target was 16.1 per cent. The capitalisation targets relate to the Group's risk-weighted assets at any given time. Norwegian banks are subject to a transitional rule for capital adequacy calculations, which stipulates that total risk-weighted assets cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.

At year-end 2017, the DNB Group had a CET1 capital ratio of 16.4 per cent and a capital adequacy ratio of 20.0 per cent, compared with 16.0 per cent and 19.5 per cent, respectively, a year earlier. Risk-weighted assets came to NOK 1 043 billion at year-end 2017, compared with NOK 1 051 billion the year before.

The DNB Bank Group had a CET1 capital ratio of 16.2 per cent and a capital adequacy ratio of 20.6 per cent at year-end 2017, compared with 15.7 and 20.0 per cent, respectively, a year earlier.

DNB Bank ASA had a CET1 capital ratio of 17.7 per cent at year-end 2017, compared with 19.1 per cent a year earlier. The capital adequacy ratio was 23.0 per cent at year-end 2017, compared with 24.8 per cent a year earlier.

At year-end 2017, DNB Boligkreditt AS had a CET1 capital ratio of 16.6 per cent and a capital adequacy ratio of 18.5 per cent, calculated according to the transitional rules for risk-weighted assets. If the transitional rules were not applied, DNB Boligkreditt's CET1 capital ratio and capital adequacy ratio would have been 21.4 and 24.0 per cent, respectively, at year-end 2017.

As a supplement to the risk-weighted capital adequacy regime, the Basel Committee introduced a new capital measure, "leverage ratio" or non-risk based CET1 capital ratio. The Norwegian Ministry of Finance has set a minimum requirement for the leverage ratio in credit institutions and investment firms in Norway that entered into effect as of 30 June 2017, calculated on the basis of CET1 capital including additional Tier 1 capital. The basis of calculation consists of assets and off-balance sheet items converted by means of the conversion factors used in the standardised approach for calculating ordinary capital adequacy. In addition, some special adjustments are made for derivatives and repo transactions. The definitions of capital and the basis of calculation are in conformity with international rules. The Norwegian leverage ratio requirement consists of a minimum requirement of 3 per cent that will apply to all credit institutions, a mandatory 2 per cent buffer for banks and an additional mandatory buffer of 1 per cent for systematically important banks. DNB is the only institution in Norway that will be required to have a leverage ratio of 6 per cent.

The DNB Group calculates its leverage ratio in accordance with the revised article 429 of the CRR, and the European Commission Regulation that entered into force on 18 January 2015. At year-end 2017, the Group's leverage ratio was 7.2 per cent, compared with 7.3 per cent a year earlier. DNB meets the minimum requirement of 6 per cent by a wide margin.

NOTE 3 Capitalisation policy and capital adequacy (continued)

Capital adequacy

Capital adequacy is calculated and reported in accordance with Norwegian regulations, which are broadly in line with the EU capital requirements regulations for credit institutions and investment firms (CRD IV/CRR). The regulatory consolidation deviates from consolidation in the accounts and comprises the parent company, subsidiaries and associated companies within the financial sector, excluding insurance companies. DNB Livsforsikring and DNB Forsikring are thus not included in the calculations, see note 17 Insurance risk. Associated companies are consolidated pro rata.

Primary capital	**DNB Bank ASA**		**DNB Bank Group**			**DNB Group**
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017 [1]	31 Dec. 2016
Total equity	169 720	168 104	203 685	190 078	216 897	206 423
Effect from regulatory consolidation			183	(181)	(6 328)	(5 795)
Non-eligible capital, insurance						
Additional Tier 1 capital instruments included in total equity	(15 574)	(15 574)	(15 574)	(15 574)	(15 574)	(15 574)
Net accrued interest on additional Tier 1 capital instruments	(439)	(284)	(439)	(284)	(439)	(284)
Common equity Tier 1 capital instruments	153 708	152 246	187 856	174 039	194 557	184 770
Deductions						
Pension funds above pension commitments						
Goodwill	(2 404)	(2 900)	(2 559)	(2 951)	(4 264)	(4 656)
Deferred tax assets that are not due to temporary differences	(584)	(224)	(454)	(482)	(454)	(482)
Other intangible assets	(1 110)	(699)	(1 984)	(946)	(1 984)	(946)
Dividends payable etc.			(15 804)	(5 084)	(13 529)	(9 284)
Significant investments in financial sector entities					(363)	
Expected losses exceeding actual losses, IRB portfolios	(951)	(6)	(1 915)	(153)	(1 915)	(153)
Value adjustments due to the requirements for prudent valuation (AVA)	(449)	(479)	(720)	(786)	(720)	(786)
Adjustments for unrealised losses/(gains) on debt recorded at fair value	123	107	123	(90)	123	(90)
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(481)	(580)	(113)	(159)	(113)	(159)
Common Equity Tier 1 capital	147 851	147 467	164 431	163 389	171 339	168 214
Additional Tier 1 capital instruments	15 574	17 471	15 574	17 471	15 574	17 471
Non-eligible Tier 1 capital, DNB Group [2]					(56)	(176)
Tier 1 capital	163 425	164 938	180 005	180 860	186 856	185 509
Perpetual subordinated loan capital	5 361	5 602	5 361	5 602	5 361	5 602
Term subordinated loan capital	23 897	21 249	23 897	21 249	23 897	21 249
Deduction of holdings of Tier 2 instruments in DNB Livsforsikring and DNB Forsikring					(5 750)	(5 750)
Non-eligible Tier 2 capital, DNB Group [2]					(1 813)	(1 440)
Tier 2 capital	29 258	26 851	29 258	26 851	21 696	19 661
Total eligible capital	192 683	191 789	209 263	207 711	208 552	205 170
Risk-weighted volume, transitional rules	835 986	773 244	1 014 683	1 040 888	1 042 601	1 051 498
Minimum capital requirement, transitional rules	66 879	61 860	81 175	83 271	83 408	84 120
Common Equity Tier 1 capital ratio, transitional rules (%)	17.7	19.1	16.2	15.7	16.4	16.0
Tier 1 capital ratio, transitional rules (%)	19.5	21.3	17.7	17.4	17.9	17.6
Capital ratio, transitional rules (%)	23.0	24.8	20.6	20.0	20.0	19.5

1) As from the first quarter of 2017, significant investments in financial sector, that are not deducted common equity Tier 1 capital, are given a risk weight of 250 per cent in the risk-weighted volume.

2) Tier 1 and Tier 2 capital in DNB Bank ASA not included in consolidated own funds, in accordance with Articles 85–88 of the CRR.

NOTE 3 Capitalisation policy and capital adequacy (continued)

Basel III

The majority of the credit portfolios are reported according to the IRB approach. However, one portfolio, banks and financial institutions (DNB Bank) is still subject to final IRB approval from Finanstilsynet.

Specification of risk-weighted volume and capital requirements **DNB Group**

Amounts in NOK million	Nominal exposure 31 Dec. 2017	EAD [1] 31 Dec. 2017	Average risk weights in per cent 31 Dec. 2017	Risk-volume 31 Dec. 2017	Capital requirements 31 Dec. 2017	Capital requirements 31 Dec. 2016
IRB approach						
Corporate	964 724	790 118	55.7	439 960	35 197	32 619
Specialised Lending (SL)	11 582	10 645	53.3	5 676	454	356
Retail - mortgage loans	748 668	748 668	22.1	165 245	13 220	12 465
Retail - other exposures	99 660	85 663	25.5	21 812	1 745	1 901
Securitisation	9 613	9 613	81.4	7 827	626	937
Total credit risk, IRB approach	1 834 246	1 644 706	38.9	640 519	51 241	48 279
Standardised approach						
Central government	107 116	76 481	0.1	74	6	7
Institutions	266 642	122 434	30.5	37 361	2 989	1 989
Corporate	174 279	140 798	87.0	122 454	9 796	8 767
Retail - mortgage loans	58 925	56 340	49.0	27 588	2 207	1 805
Retail - other exposures	117 871	47 773	77.0	36 765	2 941	2 939
Equity positions	20 203	20 201	231.5	46 771	3 742	3 623
Securitisation						41
Other assets	13 760	13 760	51.6	7 098	568	848
Total credit risk, standardised approach	758 796	477 787	58.2	278 110	22 249	20 018
Total credit risk	2 593 042	2 122 493	43.3	918 629	73 490	68 297
Market risk						
Position risk, debt instruments				13 997	1 120	1 169
Position risk, equity instruments				262	21	25
Currency risk						-
Commodity risk				23	2	6
Credit value adjustment risk (CVA)				5 855	468	491
Total market risk				20 137	1 611	1 690
Operational risk				88 463	7 077	6 670
Total risk-weighted volume and capital requirements before transitional rule				1 027 228	82 178	76 657
Additional capital requirements according to transitional rule [2]				15 372	1 230	7 463
Total risk-weighted volume and capital requirements				1 042 601	83 408	84 120

1) *EAD, exposure at default.*
2) *Due to transitional rules, the minimum capital adequacy requirements cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.*

NOTE 4 Risk management

Risk management in DNB

The Board of Directors of DNB ASA has a clearly stated goal to maintain a low overall risk profile and to maintain an AA level rating for ordinary long-term debt. The profitability of DNB will depend on the ability to identify, manage and accurately price risk arising in connection with financial services.

Organisation and authorisation structure

- *Board of Directors.* The Board of Directors of DNB ASA sets long-term targets for the Group's risk profile. The risk profile is operationalised through the risk management framework, including the establishment of authorisations. Risk-taking should take place within established limits.

  Authorisations. Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas. All authorisations are personal. Authorisations and group limits are determined by the Board of Directors and can be delegated in the organisation, though any further delegation requires approval by an immediate superior.
- *Annual review of limits.* Risk limits are reviewed at least annually in connection with budget and planning processes.
- *Independent risk management functions.* Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas.

Roles and responsibilities

Risk management in DNB is based on a model with three lines of defence:

- *The first line of defence* is the operational management's governance and internal control, including processes and activities to reach defined goals relating to operational efficiency, reliable financial reporting and compliance with laws and regulations. The operational management is responsible for all risk associated with the unit's activities and processes.
- *The second line of defence* is an independent function which monitors and follows up the operational management's governance and internal control. The second line of defence is responsible for setting the premises for risk management, coordination across organisational units and risk reporting.
- *The third line of defence* is Group Audit, which reviews and evaluates group management's overall governance and internal control. Group Audit is independent of the Group's executive management and reports to the Board of Directors of DNB ASA.

Monitoring and use

- *Accountability.* All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times.
- *Risk reporting.* Risk reporting in the Group ensures that all executives have the necessary information about current risk levels and future developments. To ensure high-quality, independent risk reports, responsibility for reporting is assigned to units that are independent of the operative units.
- *Capital assessment.* A summary and analysis of the Group's capital and risk situation is presented in a quarterly risk report to DNB ASA's Board of Directors.
- *Use of risk information.* Risk is an integral part of the management and monitoring of business areas. Risk-adjusted return is reflected in product pricing, profit calculations and in monitoring performance in the business areas.

Relevant risk measures

- *Risk appetite.* DNB monitors risk through defined targets and limits. The risk appetite framework consists of 16 statements covering the risk dimensions which are considered to be significant for the DNB Group, and which added up give a good view of the total risk. Developments in the target figures are monitored and reported monthly to the group management team and quarterly to DNB's Board of Directors. See separate paragraph on risk appetite.
- *A common risk measure for the Group.* The Group's risk is measured in the form of economic capital, calculated for all of the Group's business areas and main risk categories, with the exception of liquidity risk. See separate paragraph on economic capital.
- *Supplementary risk measure.* In addition, risk is followed up through supplementary risk measures adapted to operations in the various business areas, for example monitoring of positions relative to limits, key figures and portfolio risk targets.

Risk categories

In DNB, risk is divided into six main categories which are subject to special measurement and monitoring.

- Credit risk is the risk of financial losses due to failure on the part of the Group's customers to meet their payment obligations. Credit risk refers to all claims against customers, principally loans, but also obligations related to other approved credits, guarantees, fixed-income securities, undrawn credits and interbank deposits. Credit risk also includes residual value risk and concentration risk. Residual value risk is the risk that the value of collateral securing the exposure is lower than expected. Concentration risk includes risk associated with large exposures to a single customer and clusters of loans in geographical areas or industries, or with homogeneous customer groups. Counterparty risk is also a type of credit risk and arises through derivative trading. There are significant elements of counterparty risk relating to payment transfers and the settlement of contracts, but these are not included in the definition of credit risk.

NOTE 4 Risk management (continued)

- *Market risk* is the risk of losses due to unhedged positions in the foreign exchange, interest rate, commodity and equity markets. The risk arises in consequence of fluctuations in profits due to changes in market prices or exchange rates. Market risk includes both risk that arises through ordinary trading activities and risk that arises as part of banking activities and other business operations. In addition, market risk arises in DNB Livsforsikring AS, reflecting the risk that the return on financial assets will not be sufficient to meet the obligations specified in insurance policies.
- *Operational risk* is the risk of losses due to deficiencies or errors in internal processes and systems, human errors or external events. Operational risk also includes compliance risk, legal risk, conduct risk and IT risk, including information security. It does not include strategic risk or reputational risk. Operational risk applies to the entire organisation, and an operational risk event can affect different parts of the organisation in various ways. Compliance risk is the risk of losses in consequence of the violation of laws and regulations. Legal risk is related to the documentation and interpretation of contracts and different legal practices in countries where the bank has operations. Conduct risk is defined as the existing or potential risk of losses related to improper deliveries of financial services or losses resulting from generally reprehensible conduct.
- *Insurance risk* is incurred by DNB Livsforsikring AS and DNB Forsikring AS and is related to changes in future insurance obligations. Within life insurance, such risk reflects changes in policyholders' life expectancy and disability rates. Within non-life insurance, insurance risk is related to the frequency and size of future claims payments.
- *Liquidity risk* is the risk that the Group will be unable to meet its obligations as they fall due, and the risk that the Group will be unable to meet its liquidity obligations without a substantial rise in appurtenant costs. Liquidity is vital to financial operations. This risk category will often be conditional in the respect that it will not materialise until other events give rise to concern regarding the Group's ability to meet its obligations.
- *Business risk* relates to fluctuations in profits due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. Reputational risk is often a consequence of other risk categories. The Group's business risk is primarily handled through the strategy process and ongoing efforts to safeguard and improve the Group's reputation. When determining and following up the Group's risk appetite, reputational risk is defined as a separate risk dimension. Reputational risk is followed up by monitoring media coverage, while the competitive situation is followed up by analysing market trends and developments in market shares.

In addition to the above-mentioned risk categories the Group is exposed to strategic risk, which can be defined as the risk of a decline in profits if the Group fails to exploit existing strategic opportunities. The Group's strategic risk is not measured or reported individually, but is discussed as part of the annual strategy process.

Risk appetite

The Board of Directors of DNB ASA sets long-term targets for the risk profile through the risk appetite framework. The risk appetite framework aims to ensure that risk is managed and integrated with the Group's governance processes. The risk appetite framework should provide a holistic and balanced view of the risk in the business. In 2017, the framework consisted of 16 statements. To support the framework a set of governance principles and operational procedures and responsibilities within the DNB Group have been defined. The targeted risk profile will also be reflected in other parts of the risk management, including the establishment of authorisations and business limits. The risk appetite framework will be reviewed at least annually. The Board of Directors also regularly reviews risk levels, the framework structure and the reporting of relevant risk categories.

The limits in the risk appetite framework are operationalised in the business areas and support units. In the Group's governance system, the risk appetite framework is implemented in the form of target figures for selected risk indicators. The risk indicators will typically take the form of limits (for quantifiable risk) or qualitative assessments of the risk level. They do not need to be based on the same measurement parameters as the ones used at group level, though they must support the same risk types and show the same trend. Continual monitoring of these target figures will ensure that the risks that are considered to be the most significant are also subject to monitoring and discussion in operative units in the organisation.

Economic capital for the DNB Group

DNB quantifies economic capital for all main risk categories. A simulation model, the total risk model, is used to calculate unexpected losses for both the various risk categories and in total for the Group. Calculations are made for all significant profit centres, customers and products. The quantification is based on statistical probability calculations for the various risk categories on the basis of historical data. In cases where historical data is of inadequate quality, discretionary assessments are also made. The model initially simulates the risk of losses associated with the various risk categories separately, whereafter the total risk is estimated. A diversification effect arises when the various risks are considered together, as it is unlikely that all losses will occur at the same time. The diversification effect between risk categories and business areas implies that the Group's economic capital will be much lower than if the business areas had been independent companies.

DNB has stipulated that economic capital shall cover 99.9 per cent of potential unexpected losses with a one-year horizon. The confidence level has been adjusted down from 99.97 per cent in 2017 to be more comparable with regulatory capital.

NOTE 4 Risk management (continued)

More about risk in DNB Livsforsikring AS

Risk in DNB Livsforsikring AS includes market, insurance, credit, operational and business risk. Market and insurance risk in life insurance comprises the risk that the return on financial assets will not be sufficient to meet the obligations specified in insurance policies and the risk related to changes in future insurance payments due to changes in life expectancy and disability rates.

According to current parameters for life insurance operations in Norway, DNB Livsforsikring carries the risk of fulfilling the company's commitments in contracts with policyholders. The return on financial assets must be sufficient to meet the guaranteed annual return to the company's policyholders. If this is not the case, additional allocations will have to be used, representing buffer capital built up from profits in previous years. Alternatively, the shortfall could be charged to equity.

Risk management in DNB Livsforsikring is part of the company's strategy, which has been approved by the Board of Directors. Through regular assessments by the Group's Asset and Liability Committee, ALCO, the risk situation in DNB Livsforsikring is reviewed relative to the Group's overall risk profile. DNB Livsforsikring's chief executive officer and Board of Directors are to help ensure that DNB Livsforsikring's risk management and strategy are consistent with the Group's risk profile. The Risk Analysis and Control unit is responsible for reporting, monitoring and follow-up of total risk in DNB Livsforsikring and is organised independent of the Group's financial management and business areas.

Concentrations of risk

Concentrations of financial risk arise when financial instruments with identical characteristics are influenced in the same way by changes in economic or other factors. The identification of risk concentrations is subject to discretionary assessment. The general purpose of risk management in the Group is to reduce and control risk concentrations. The Group aims to avoid large credit risk concentrations, including large exposures to a customer or customer group as well as clusters of loans in high-risk categories, industries and geographical areas, see notes 2, 6 and 7. Total credit risk as at 31 December 2017 is presented in note 5. With respect to market risk, concentration risk is restricted by limits ensuring that exposure is divided among a number of instruments, securing sound diversification to meet changes in share prices, exchange rates, commodity prices and interest rate levels. Concentrations of interest rate risk are presented in note 13. Currency risk is specified in note 14. The Group's largest investments in shares, mutual funds and equity certificates are specified in note 31. The Group has not identified material risk concentrations apart from in its core operations, including strategic priority areas, which are referred to above.

NOTE 5 Credit risk

Credit risk or counterparty risk is the risk of financial losses due to failure on the part of the Group's customers/counterparties to meet their payment obligations towards DNB. Credit risk refers to all claims against customers/counterparties, mainly loans, but also commitments in the form of other extended credits, guarantees, interest-bearing securities, unutilised credit lines, derivative trading and interbank deposits. Credit risk also includes residual value risk and concentration risk. Residual value risk is the risk that the value of collateral securing exposure is lower than expected. Concentration risk includes risk associated with large exposures to a single customer and clusters of commitments in geographical areas or industries, or with homogeneous customer groups.

Credit risk management and measurement is described in further detail in the Risk and Capital Management (Pillar 3) report. The group guidelines for credit activity are approved by the Boards of Directors of DNB. The principal objective of credit activity is to ensure that the quality and composition of the loan portfolio provide a good basis for the Group's short and long-term profitability. The quality of the portfolio should be consistent with DNB's aim of maintaining a low risk profile. See also note 4 Risk management, in which credit risk for the Group is quantified in the form of risk-adjusted economic capital.

The maximum credit risk exposure will be the carrying amount of financial assets plus unrecorded exposure, which mainly includes guarantees, unutilised credit lines and loan offers. Guarantees, unutilised credit lines and loan offers are specified in note 51 Off-balance sheet transactions and contingencies. The maximum credit risk exposure and related collateral are shown below.

NOTE 5 Credit risk (continued)

Credit risk exposure and collateral as at 31 December 2017 **DNB Group**

Amounts in NOK million	Maximum exposure to credit risk	Secured by real estate	Collateralised by securities	Other collateral [1]
Deposits with central banks	150 569			
Due from credit institutions	239 328		192 707	39
Loans to customers	1 545 415	963 926	63 698	298 284
Commercial paper and bonds	422 606			
Financial derivatives	132 349		1 753	93 643
Other assets	55 752			
Total maximum exposure to credit risk reflected on the balance sheet	2 546 019	963 926	258 158	391 967
Guarantees	86 557	9 999	185	36 952
Unutilised credit lines and loan offers	589 027	85 699	218	76 721
Other commitments	6 719			
Total maximum exposure to credit risk not reflected on the balance sheet	682 303	95 697	403	113 673
Total	3 228 322	1 059 624	258 560	505 640

Credit risk exposure and collateral as at 31 December 2016 **DNB Group**

Amounts in NOK million	Maximum exposure to credit risk	Secured by real estate	Collateralised by securities	Other collateral [1]
Deposits with central banks	207 279			
Due from credit institutions	176 442		153 938	23
Loans to customers	1 509 078	923 366	50 295	331 562
Commercial paper and bonds	390 649			
Financial derivatives	157 940		919	124 059
Other assets	35 653			
Total maximum exposure to credit risk reflected on the balance sheet	2 477 041	923 366	205 152	455 644
Guarantees	91 874	8 753	162	33 708
Unutilised credit lines and loan offers	606 055	79 219	92	78 869
Other commitments	5 345			18
Total maximum exposure to credit risk not reflected on the balance sheet	703 274	87 972	255	112 595
Total	3 180 314	1 011 338	205 407	568 239

1) *Other collateral includes the assessed fair value of movables, sureties, ships and cash as well as other credit enhancements, such as netting agreements and guarantees received.*

The table above includes on and off-balance sheet items which entail credit risk and the assessed value of related collateral. If available, fair values are used. In general, fair values are estimated according to different techniques depending on the type of collateral. With respect to properties, models estimating the value of collateral based on market parameters for similar properties, are used. Corresponding techniques are used for other non-financial collateral. In order to reflect the effective available collateral value, the fair value of collateral included in the table is limited to the maximum credit exposure of the individual loan or exposure.

Comments to the main items as at 31 December 2017:

- *Deposits with central banks:* Deposits with Norges Bank totalled NOK 3 251 million. DNB engages only in short-term transactions with central banks outside Norway, mainly in OECD countries.
- *Loans to customers:* See further description under "Guidelines for credit activity".
- *Commercial paper and bonds:* See further description under "Credit exposure of other financial assets".
- *Financial derivatives:* Other collateral represents netting opportunities against other outstanding balances with customers and cash collateral received.
- *Guarantees:* See further description under "Guidelines for credit activity".
- *Unutilised credit lines and loan offers:* Offers of loans, credits and credit lines totalling NOK 111 669 million were included in the maximum credit exposure. No formal collateral has been established for such exposure, and the assessed value is not included in the table. Collateral is established once the offers are accepted by the customers. The assessment of the value of any collateral established in connection with such offers follows the procedure and criteria described under "Guidelines for credit activity".

NOTE 5 Credit risk (continued)

Credit risk exposure of loans and commitments

Notes 6 and 7 show the Group's credit risk exposure for principal customer groups and according to geographic location. Notes 8 through 11 show impaired loans and guarantees and impairment of loans and guarantees.

Classification of loans and commitments

DNB's internal models for risk classification of customers are subject to continual improvement and testing. The models are adapted to different industries and segments and are updated if calibrations show that their explanatory power has diminished over time. DNB has been granted permission to use IRBA models in capital adequacy calculations for the corporate portfolio, for other portfolios IRB is being used. The same models are used in calculations of capital requirements and in risk management.

All corporate customers granted credit must be classified according to risk in connection with every significant credit approval and, unless otherwise decided, at least once a year. In the personal banking market, where there is a large number of customers, the majority of credit decisions should be made on the basis of automated scoring and decision support systems. Risk classification should reflect long-term risk associated with each customer and the customer's credit commitment.

The risk classification systems are used as decision support, monitoring and reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing risk monitoring, including the follow-up of credit strategies.

Probability of default, PD, is used to measure quality. The bank divides its portfolio into ten risk classes based on the probability of default for each credit commitment.

DNB's risk classification [1)]

	Probability of default (per cent)		External rating	
Risk class	As from	Up to	Moody's	Standard & Poor's
1	0.01	0.10	Aaa – A3	AAA – A-
2	0.10	0.25	Baa1 – Baa2	BBB+ – BBB
3	0.25	0.50	Baa3	BBB-
4	0.50	0.75	Ba1	BB+
5	0.75	1.25	Ba2	BB
6	1.25	2.00		
7	2.00	3.00	Ba3	BB-
8	3.00	5.00	B1	B+
9	5.00	8.00	B2	B
10	8.00	impaired	B3, Caa/C	B-, CCC/C

1) DNB's risk classification system, where 1 represents the lowest risk and 10 the highest risk.

Loans and commitments according to risk classification — **DNB Group**

Amounts in NOK million	Gross loans to customers	Guarantee commitments	Unutilised credit lines	Total loans and commitments
Risk category based on probability of default				
1 - 4	1 027 531	58 810	469 155	1 555 496
5 - 7	372 414	14 091	70 838	457 343
8 - 10	88 886	9 946	29 563	128 395
Non-performing and impaired loans and commitments	30 561	1 903	1 702	34 167
Total loans and commitments as at 31 December 2016 [1)]	1 519 392	84 751	571 258	2 175 401
Risk category based on probability of default				
1 - 4	1 098 493	51 405	456 088	1 605 986
5 - 7	359 489	18 830	68 609	446 927
8 - 10	71 794	6 903	24 784	103 481
Non-performing and impaired loans and commitments	24 464	1 586	1 523	27 574
Total loans and commitments as at 31 December 2017 [1)]	1 554 241	78 724	551 004	2 183 969

1) Based on nominal amounts.

Loan-loss level [1)]

	2017	2016
Normalised losses including loss of interest income in per cent of net loans	0.23	0.27

1) The calculation of the loan-loss level is based on an evaluation of the probability of future losses (default frequency), exposure at default and the size of the estimated loss (loss ratio). Calculations are based on a certain level of discretion and estimation.

NOTE 5 Credit risk (continued)

Guidelines for credit activity

DNB's guidelines and processes for approving credits are described in the group guidelines for credit activity. The guidelines describe how DNB shall grant and follow up credit exposures in the various segments. Detailed descriptions are given of the assessment of new customers, follow-up of healthy credit exposures, follow-up of customers in financial difficulty and procedures for handling doubtful and non-performing loans.

The granting of credit in DNB is based on authorisation and approval matrices. As a fundamental principle, one person makes a recommendation and another one approves it, which takes place through the authorisation and approval matrices. The matrices are differentiated on the basis of volume, risk and, if relevant, industry. While only two persons may be involved in (recommending and approving) a low-risk exposure in the form of a home mortgage, recommendations for large/complex exposures must be endorsed by a senior credit officer. In addition, advice will be sought from credit committees, and the involvement of industry specialists may be required.

A decisive element when granting credit is the customers' debt servicing capacity in the form of ongoing future cash flows, such as earned income or income from the business operations which are being financed. The bank seeks to further mitigate the risk of losses in connection with a possible future reduction in cash flows or default by requiring that collateral be furnished.

Collateral can be in the form of physical assets, guarantees, cash deposits or netting agreements. As a rule, physical collateral shall be insured. Negative pledges, whereby customers undertake to keep their assets free from encumbrances vis-à-vis other lenders, are also used as a risk-mitigating measure.

In addition to collateral, most corporate credit agreements will include financial covenants, which represent an additional risk-mitigating element to ensure that DNB becomes aware of and involved in any financial challenges at an early stage. Examples of financial covenants are minimum net cash flow and equity ratio requirements.

Monitoring credit risk

Performing customers

According to the guidelines for credit activity for corporate customers, a credit assessment shall be made of all customers at least once a year. This is a complete review of all risks identified by DNB relating to the customer. A new evaluation of all collateral (provided) is an integral part of the annual review. The decision-making and authorisation matrices shall also be used in connection with the renewal of all existing credits and thus ensure that persons with relevant expertise are always involved when considering large and complicated exposures.

Personal customers are followed up through a systematic portfolio management system. Exposures are followed up individually if heightened risk has been identified.

Watchlist

The watchlist is the Group's primary tool for following up corporate customers when a risk has arisen which requires special monitoring. If customers breach financial covenants or a loss event requiring special monitoring has occurred, it will be considered whether to place the exposure on the watchlist. Loss events include serious financial problems or major changes in market conditions. In addition, all customers in the high-risk segment (risk grades 8-10) will be watchlist candidates. It is an integral part of credit activity to consider whether to place high-risk customers on the watchlist. Watchlisted customers are subject to special monitoring. More frequent, often quarterly risk assessments are required, including an updated valuation of collateral. In addition, an action plan must be prepared to get out of the risk situation that has arisen. The particularly close follow-up of customers facing greater challenges is based on the bank's experience that special monitoring both reduces the risk that losses will occur and minimises the losses that actually materialise. Each time watchlisted exposures are reviewed, the need for impairment losses will be considered.

Granting concessionary treatment of customers

If a customer gets into financial difficulties, DNB may in some cases grant voluntary concessions in the form of less stringent financial covenants or reduced/deferred interest and instalment payments. Such measures are offered in accordance with the Group's credit guidelines, thus aiming to help customers through a tough financial period when it is expected that they will meet their obligations on a later date. This is part of DNB's strategy to reduce losses. The DNB Group's total forbearance exposures, in accordance with the definition of forbearance in CRD IV, totalled approximately NOK 44 billion at year-end 2017.

Loss and non-performing portfolio

In the event of losses or non-performance, customers are closely monitored. In the bank's experience, other supplementary resources are required during this stage than for performing customers. Customer exposures which fall into this category will either be transferred in their entirety to a separate unit with special expertise in this field, or persons from this unit will join the customer team.

Repossessed companies and assets

In connection with the follow-up of impaired and non-performing exposures, DNB will in some cases take over assets provided as collateral for loans and guarantees. All acquired companies are followed up by the Group Investment unit, whose main target is to secure/recover values for DNB's shareholders through financial restructuring when companies and properties are repossessed due to default. See separate paragraph below for details on repossessed assets.

NOTE 5 Credit risk (continued)

Past due loans not subject to impairment

The table below shows overdue amounts on loans and overdrafts on credits/deposits and the total residual debt for these loans broken down on the number of days after the due date, assuming a deterioration of customer solvency or unwillingness to pay. Past due loans and overdrafts on credits/deposits are subject to continual monitoring. Loans and guarantees where any objective evidence of impairment exists are reviewed for impairment. Such reviews have also been carried out for the loans included in the table for which no need for impairment has been identified. Past due loans subject to impairment are not included in the table but are included in tables showing impaired loans and guarantees, see note 8 Impaired loans and guarantees for principal customer groups.

DNB Group

	31 December 2017		31 December 2016	
Amounts in NOK million	Past due/ overdrawn	Outstanding balance on past due loans	Past due/ overdrawn	Outstanding balance on past due loans
10-29 days	765	8 579	753	7 210
30-59 days	496	1 121	467	1 149
60-89 days	34	349	14	430
> 90 days	130	3 503	222	3 265
Total	1 425	13 552	1 456	12 054

Credit exposure of other financial assets

The Group's investments in other financial assets, including commercial paper and bonds, are within market risk limits approved by the Board of Directors. See note 35 Commercial paper and bonds, held to maturity, for a description of Markets' international bond portfolio and DNB Livsforsikring's portfolio of held-to-maturity bonds.

Counterparty risk for derivatives

DNB enters into derivative transactions on the basis of customer demand and to hedge positions resulting from such activity. In addition, derivatives are used to hedge positions in the trading portfolio and take positions in the interest rate, currency, commodity and equity markets. In addition, derivatives are used to hedge currency and interest rate risk arising in connection with funding and lending. Derivatives are generally traded "over the counter" (OTC), which means that individual contracts are agreed upon by the parties. The credit risk that arises in connection with derivative trading is included in the DNB Group's overall credit risk measurement.

In order to minimise counterparty risk for individual counterparties, netting agreements and bilateral guarantee agreements have been entered into. Such agreements make it possible to net all positive and negative market values related to contracts entered into against one single counterparty. CSA (Credit Support Annex) agreements are another type of risk-mitigating measure. CSA agreements have been entered into with most major bank counterparties and other financial counterparties, as well as a steadily increasing number of non-financial counterparties. Under these agreements, the market value of all derivative contracts between DNB and the counterparty is settled either daily or weekly, which largely eliminates counterparty risk. These transactions are mostly settled in cash, though government bonds and covered bonds are used as well.

The different interest rate products (interest rate swaps and Forward Rate Agreements (FRAs) in different currencies) are cleared through clearing houses like LCH Clearnet. DNB's counterparty risk on an individual counterparty is thus transferred to the clearing house. Equity forward contracts, securities loans and currency trading for personal customers are monitored and increases/decreases in value are settled daily.

NOTE 5 Credit risk (continued)

Repossessed properties and other assets – carrying amount

Repossessed assets are assets acquired by units within the Group as part of the management of non-performing and impaired loans and guarantees. At the time of acquisition, such assets are valued at their estimated realisable value. Any deviation from the carrying amount of non-performing and impaired loans and guarantees at the time of acquisition is classified as impairment on loans. Repossessed assets are recorded in the balance sheet according to the type of asset. When acquiring shares or mutual fund holdings, the assets are evaluated according to the principles described in note 1 Accounting principles. Upon final sale, the difference relative to carrying amount is recognised in the income statement according to the type of asset.

	DNB Group	
Amounts in NOK million	2017	2016
Repossessed properties and other repossessed assets as at 1 January	1 122	2 330
Property additions	3	217
Other asset additions		1
Reclassified as held for sale [1)]		(1 087)
Property disposals	(382)	(335)
Other asset disposals		(3)
Net gains/losses resulting from adjustment to fair value (investment properties)	168	(1)
Repossessed properties and other repossessed assets as at 31 December	911	1 122

1) Includes assets in the Baltics, reclassified as held for sale in August 2016.

Loans and deposits designated as at fair value

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Loans and deposits designated as at fair value	75 101	93 798
Total exposure to credit risk	75 101	93 798
Value adjustment from credit risk [1)]	99	135
Value adjustment from change in credit risk [1)]	(36)	(113)

1) Credit risk reflected in fair value measurements is based on normalised losses and changes in normalised losses in the relevant portfolio.

Effects of changes in credit margins

Changes in credit margins affected a number of items in the DNB Group's balance sheet:

The DNB Group's fixed-rate loans in Norwegian kroner and parts of the portfolio of margin loans in Norwegian kroner are carried at fair value through profit or loss. Unrealised gains, measured relative to swap rates on these loans, came to NOK 65 million at year-end 2017, compared with unrealised losses of NOK 144 million at end-December 2016 reflecting reduced margin requirements. The unrealised gains will be reversed over the remaining term to maturity, provided that there are no changes in the credit status of the loans.

As part of ongoing liquidity management, Markets invests in an international bond portfolio. The holding of such bonds totaled to NOK 80 billion end-December 2017. Unrealised gains in this portfolio amounted to NOK 281 million at end-December 2017, compared with unrealised gains of NOK 45 million at year-end 2016. There was considerable turnover in the portfolio in 2017.

Unrealised gain on the portfolio of Norwegian bonds used for liquidity management came to NOK 410 million at year-end 2017 compared with an unrealised gain of NOK 310 million at end-December 2016.

The DNB Group's long-term borrowings in Norwegian kroner are carried at fair value through profit or loss. Margin requirements were reduced in 2017: At end-December 2017, there were unrealised losses of NOK 600 million on long-term borrowings, compared with unrealised losses of NOK 317 million at year-end 2016. Unrealised losses on the DNB Group's liabilities will be reversed over the remaining term to maturity.

NOTE 6 Loans and commitments for principal customer groups

Loans and commitments as at 31 December 2017

DNB Group

Amounts in NOK million	Loans and receivables	Guarantees	Unutilised credit lines	Total loans and commitments
Private individuals	796 559	216	224 399	1 021 173
Transportation by sea and pipelines and vessel construction	78 314	10 135	28 454	116 902
Real estate	215 631	4 387	33 775	253 793
Manufacturing	77 177	18 596	59 998	155 771
Services	91 620	5 946	44 396	141 963
Trade	40 370	4 667	26 055	71 091
Oil and gas	22 599	5 792	28 927	57 319
Transportation and communication	59 740	8 741	28 454	96 935
Building and construction	61 946	10 482	34 068	106 495
Power and water supply	25 601	7 859	22 058	55 518
Seafood	20 390	139	5 546	26 074
Hotels and restaurants	7 389	365	1 219	8 973
Agriculture and forestry	4 867	43	1 912	6 822
Central and local government	15 895	168	8 759	24 822
Other sectors	30 478	677	2 985	34 140
Total customers, nominal amount after individual impairment	1 548 577	78 213	551 004	2 177 794
– Collective impairment, customers	(3 162)			(3 162)
+ Other adjustments		(408)		(408)
Loans to customers	**1 545 415**	**77 805**	**551 004**	**2 174 224**
Credit institutions, nominal amount after individual impairment	239 328	8 344	38 023	285 695
+ Other adjustments				
Loans to and due from credit institutions	**239 328**	**8 344**	**38 023**	**285 695**

Loans and commitments as at 31 December 2016 [1)]

DNB Group

Amounts in NOK million	Loans and receivables	Guarantees	Unutilised credit lines	Total loans and commitments
Private individuals	753 817	272	241 774	995 862
Transportation by sea and pipelines and vessel construction	106 148	9 871	34 523	150 542
Real estate	202 681	2 888	26 910	232 479
Manufacturing	78 922	23 413	68 529	170 864
Services	87 293	5 688	31 325	124 305
Trade	39 343	4 928	28 283	72 553
Oil and gas	29 074	5 034	33 219	67 327
Transportation and communication	62 638	9 885	27 711	100 234
Building and construction	53 226	13 332	31 553	98 111
Power and water supply	31 179	7 186	24 014	62 378
Seafood	16 979	202	6 484	23 664
Hotels and restaurants	7 451	420	2 178	10 049
Agriculture and forestry	4 869	60	2 212	7 141
Central and local government	14 213	279	9 732	24 224
Other sectors	25 736	765	2 812	29 312
Total customers, nominal amount after individual impairment	1 513 566	84 222	571 258	2 169 046
– Collective impairment, customers	(4 488)			(4 488)
+ Other adjustments		(455)		(455)
Loans to customers	**1 509 078**	**83 766**	**571 258**	**2 164 102**
Credit institutions, nominal amount after individual impairment	176 430	7 653	34 796	218 879
+ Other adjustments	11			11
Loans to and due from credit institutions	**176 442**	**7 653**	**34 796**	**218 891**

1) Loans and receivables in the Baltics are reclassified to assets and liabilities held for sale. Guarantees and unutilised credit lines include the Baltics.

The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

NOTE 7 Loans and commitments according to geographical location

Loans and commitments as at 31 December 2017 **DNB Group**

Amounts in NOK million	Loans to customers	Loans to and receivables from credit institutions	Guarantees	Unutilised credit lines	Total loans and commitments
Oslo	303 294	8 941	11 280	209 094	532 609
Eastern and southern Norway	519 459	2	16 767	120 203	656 432
Western Norway	202 254	85	8 059	49 110	259 508
Northern and central Norway	212 966	100	7 390	44 501	264 958
Total Norway	1 237 973	9 128	43 496	422 909	1 713 506
Sweden	91 354	27 446	6 611	49 932	175 343
United Kingdom	18 770	87 948	4 127	15 762	126 607
Other Western European countries	80 441	97 711	5 792	34 223	218 167
Poland	17 595	29	1 535	2 468	21 627
Other Eastern European countries	1 203	922	1 002	253	3 380
Total Europe outside Norway	209 363	214 056	19 068	102 637	545 124
USA and Canada	32 645	992	14 138	48 770	96 546
Bermuda and Panama [1)]	21 392	1	4 104	4 878	30 374
Other South and Central American countries	14 116	1 352	1 868	3 731	21 068
Total America	68 153	2 345	20 110	57 379	147 988
Singapore [1)]	4 253	92	675	184	5 204
Hong Kong	1 588	62		3	1 653
Other Asian countries	5 893	13 391	1 196	1 205	21 685
Total Asia	11 735	13 545	1 871	1 391	28 542
Other African countries	5 910	241	1 708	982	8 841
Oceania [1)]	15 443	13	303	3 728	19 488
Commitments	1 548 577	239 328	86 557	589 027	2 463 489
– Collective impairment	(3 162)				(3 162)
+ Other adjustments			(408)		(408)
Net loans and commitments	**1 545 415**	**239 328**	**86 149**	**589 027**	**2 459 919**

1) Represents shipping loans and commitments.

Based on the customer's address.

NOTE 7 Loans and commitments according to geographical location (continued)

Loans and commitments as at 31 December 2016 [1] **DNB Group**

Amounts in NOK million	Loans to customers	Loans to and receivables from credit institutions	Guarantees	Unutilised credit lines	Total loans and commitments
Oslo	280 330	7 896	11 357	211 000	510 583
Eastern and southern Norway	492 918	484	18 864	124 944	637 210
Western Norway	194 435	10	8 588	53 872	256 906
Northern and central Norway	205 516	112	6 984	42 930	255 543
Total Norway	1 173 199	8 502	45 794	432 746	1 660 242
Sweden	82 015	5 039	6 355	34 497	127 907
United Kingdom	17 943	69 164	2 519	16 360	105 986
Other Western European countries	84 458	82 387	5 634	31 587	204 067
Poland	16 444	323	813	2 355	19 935
Other Eastern European countries	969	885	1 425	5 483	8 761
Total Europe outside Norway	201 830	157 798	16 746	90 282	466 656
USA and Canada	43 767	1 090	16 953	67 207	129 017
Bermuda and Panama [2]	26 794	86	3 904	3 629	34 413
Other South and Central American countries	18 744	1 569	2 291	4 697	27 301
Total America	89 306	2 745	23 148	75 533	190 731
Singapore [2]	8 683	39	1 021	217	9 960
Hong Kong	2 525	37		180	2 742
Other Asian countries	6 681	6 614	2 766	1 988	18 049
Total Asia	17 889	6 690	3 787	2 386	30 752
Other African countries	9 964	500	2 002	552	13 018
Oceania [2]	18 638	27	397	4 556	23 618
Commitments	1 510 826	176 262	91 874	606 054	2 385 017
– Collective impairment	(4 488)				(4 488)
+ Other adjustments	2 740	179	(455)		2 464
Net loans and commitments	**1 509 078**	**176 442**	**91 419**	**606 054**	**2 382 993**

1) Loans and receivables in the Baltics are reclassified to assets and liabilities held for sale. Guarantees and unutilised credit lines include the Baltics.
2) Represents shipping loans and commitments.

Based on the customer's address.

NOTE 8 Impaired loans and guarantees for principal customer groups

DNB Group

Amounts in NOK million	Gross impaired loans and guarantees 31 Dec. 2017	Gross impaired loans and guarantees 31 Dec. 2016	Total individual impairment 31 Dec. 2017	Total individual impairment 31 Dec. 2016	Net impaired loans and guarantees 31 Dec. 2017	Net impaired loans and guarantees 31 Dec. 2016
Private individuals	2 732	3 907	(695)	(1 617)	2 037	2 290
Transportation by sea and pipelines and vessel construction	2 787	4 995	(1 407)	(2 247)	1 381	2 748
Real estate	1 220	2 760	(531)	(934)	689	1 826
Manufacturing	2 892	5 800	(1 112)	(1 814)	1 780	3 986
Services	947	1 508	(477)	(712)	469	797
Trade	2 177	1 255	(779)	(465)	1 398	790
Oil and gas	3 805	4 368	(1 038)	(744)	2 767	3 625
Transportation and communication	3 334	5 528	(1 391)	(1 623)	1 943	3 905
Building and construction	1 049	1 446	(494)	(697)	556	749
Power and water supply	2 571	539	(1 228)	(154)	1 343	386
Seafood	27	61	(16)	(16)	11	44
Hotels and restaurants	48	104	(24)	(43)	24	61
Agriculture and forestry	68	157	(31)	(50)	38	107
Central and local government	0	0		(0)	0	0
Other sectors	2	30	(1)	(10)	1	19
Total customers	23 660	32 458	(9 225)	(11 127)	14 435	21 331
Credit institutions						
Total impaired loans and guarantees	23 660	32 458	(9 225)	(11 127)	14 435	21 331
Non-performing loans and guarantees not subject to impairment	2 842	4 322			2 842	4 322
Total non-performing and impaired loans and guarantees	26 502	36 781	(9 225)	(11 127)	17 277	25 654

Includes loans and guarantees subject to individual impairment and total non-performing loans and guarantees not subject to impairment. The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

Figures for 2016 includes volumes in the Baltics, reclassified as assets held for sale in August 2016, of which net non-performing and net doubtful loans and guarantees totalled NOK 2 256 million at end-December 2016.

NOTE 9 Impairment of loans and guarantees

DNB Group

Amounts in NOK million	2017 Loans [1]	2017 Guarantees	2017 Total	2016 Loans [1]	2016 Guarantees	2016 Total
Write-offs	(1 662)		(1 662)	(1 359)		(1 359)
New/increased individual impairment	(4 227)	(218)	(4 445)	(5 490)	(420)	(5 910)
Total new/increased individual impairment	(5 889)	(218)	(6 106)	(6 849)	(420)	(7 269)
Reassessed individual impairment previous years	1 950	212	2 162	913	76	990
Recoveries on loans and guarantees previously written off [2]	249		249	999		999
Net individual impairment	(3 690)	(6)	(3 696)	(4 937)	(344)	(5 280)
Changes in collective impairment of loans	1 268		1 268	(2 144)		(2 144)
Impairment of loans and guarantees	**(2 422)**	**(6)**	**(2 428)**	**(7 080)**	**(344)**	**(7 424)**
Write-offs covered by individual impairment made in previous years	3 232	54	3 286	2 803		2 803

1) Including impairment of loans at fair value.

2) Recoveries in 2016 largely reflected the effects of the agreement with Lindorff Capital AS on the sale of portfolios of non-performing loans in Norway.

NOTE 10 Impairment of loans and guarantees for principal customer groups

DNB Group

	2017				2016			
Amounts in NOK million	New individual impairment	Reassessed individual impairment	Recoveries on loans and guarantees previously written off	Net impairment	New individual impairment	Reassessed individual impairment	Recoveries on loans and guarantees previously written off[1)]	Net impairment
Private individuals	(715)	401	174	(140)	(845)	210	942	308
Transportation by sea and pipelines and vessel construction	(782)	294	12	(476)	(1 555)	52	12	(1 491)
Real estate	(176)	203	23	50	(227)	180	14	(33)
Manufacturing	(308)	487	6	186	(1 258)	153	2	(1 104)
Services	(387)	233	11	(143)	(344)	158	5	(181)
Trade	(896)	122	2	(772)	(145)	53	10	(82)
Oil and gas	(435)	84		(352)	(819)	0		(819)
Transportation and communication	(1 331)	216	11	(1 104)	(1 554)	38	4	(1 512)
Building and construction	(132)	102	4	(26)	(325)	55	4	(266)
Power and water supply	(926)	2	5	(920)	(148)	52	6	(90)
Seafood	(2)	3	0	2	(10)	1	0	(9)
Hotels and restaurants	(9)	5	1	(4)	(7)	7	1	1
Agriculture and forestry	(7)	8	1	1	(30)	27	0	(3)
Central and local government	(0)			(0)	(0)	0		(0)
Other sectors	(1)	2	0	0	(2)	2	0	1
Total customers	(6 106)	2 162	249	(3 696)	(7 269)	990	999	(5 280)
Credit institutions								
Changes in collective impairment of loans				1 268				(2 144)
Impairment of loans and guarantees	**(6 106)**	**2 162**	**249**	**(2 428)**	**(7 269)**	**990**	**999**	**(7 424)**
Of which individual impairment of guarantees	*(218)*	*212*		*(6)*	*(420)*	*76*		*(344)*

1) Recoveries in 2016 largely reflected the effects of the agreement with Lindorff Capital AS on the sale of portfolios of non-performing loans in Norway.

The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

NOTE 11 Developments in impairment of loans and guarantees

DNB Group

	2017				2016			
Amounts in NOK million	Loans to credit institutions	Loans to customers	Guarantees	Total	Loans to credit institutions	Loans to customers	Guarantees	Total
Impairment as at 1 January		(13 548)	(529)	(14 077)		(11 667)	(181)	(11 848)
New impairment		(1 855)	(105)	(1 960)		(4 012)	(403)	(4 415)
Increase in impairment		(2 173)	(112)	(2 285)		(1 478)	(17)	(1 495)
Reassessed impairment		1 765	212	1 977		913	76	990
Write-offs covered by previous impairment		3 232	54	3 286		2 803		2 803
Changes in individual impairment of accrued interest and amortisation								
Changes in collective impairment		1 271		1 271		(2 144)		(2 144)
Baltics, reclassified as assets held for sale						1 649		1 649
Changes due to exchange rate movement		(568)	(30)	(598)		388	(4)	384
Impairment as at 31 December		(11 875)	(511)	(12 386)		(13 548)	(529)	(14 077)
Of which: Individual impairment		*(8 234)*	*(511)*	*(8 745)*		*(8 566)*	*(529)*	*(9 095)*
Individual impairment of accrued interest and amortisation		*(480)*		*(480)*		*(494)*		*(494)*
Collective impairment		*(3 162)*		*(3 162)*		*(4 488)*		*(4 488)*

NOTE 12 Market risk

Market risk is the risk of losses or reduced future income due to fluctuations in market prices or exchange rates. The risk arises as a consequence of the Group's unhedged transactions and exposure in the foreign exchange, property, interest rate, commodity, credit and equity markets. The risk level reflects market price volatility and the positions taken.

DNB quantifies risk by calculating economic capital for individual risk categories and for the DNB Group's overall risk, see note 4 Risk management. Economic capital for market risk should, at a confidence level of 99.9 per cent, cover all potential losses related to market risk. The model has a one-year time horizon. Exposure included in the model could be either actual exposure or limits.

Calculations of economic capital for market risk in the Group represent an assessment of the risk associated with financial instruments in life insurance. For DNB Livsforsikring, the calculation also takes account of the obligations resulting from the guaranteed rate of return, equity buffers and dynamic portfolio management. Economic capital for total market risk in the DNB Group at year-end 2017 was NOK 10.6 billion, compared with NOK 9.1 billion in 2016. The increase was mainly due to the fact that the investment in Luminor Group AB is treated as market risk, while economic capital for DNB's former activities in the Baltics was divided between market risk, credit risk, business risk and operational risk. Market risk represented 15.9 per cent of total economic capital at year-end 2017, which is well within the 20 per cent limit.

NOTE 13 Interest rate sensitivity

Interest rate sensitivity for different time intervals

The value of items on and off the balance sheet is affected by interest rate movements. The table shows potential losses for DNB Group excluding DNB Livsforsikring, Baltics and Poland resulting from parallel one percentage point changes in all interest rates. The calculations are based on a hypothetical situation where interest rate movements in all currencies are unfavourable for DNB relative to the Group's positions. Also, all interest rate movements within the same interval will be unfavourable for the Group. The figures will thus reflect maximum losses for DNB.

The calculations are based on the Group's positions as at 31 December and market rates on the same date. The table does not include administrative interest rate risk and interest rate risk tied to non-interest-earning assets.

DNB Group [1)]

Amounts in NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
31 December 2017						
NOK	392	117	350	175	194	94
USD	51	47	52	23	53	77
EUR	42	117	48	7	2	129
GBP	3	6	10	1	2	3
SEK	33	14	6	27	5	21
Other currencies	17	20	13	7	12	46
31 December 2016						
NOK	494	152	227	765	653	227
USD	91	14	357	19	82	179
EUR	72	3	32	2	20	22
GBP	2	38	11	6	1	55
SEK	15	6	36	33	22	28
Other currencies	8	15	35	9	16	55

1) Applies to the DNB Group excluding DNB Livsforsikring and Baltics and Poland.

Interest rate sensitivity for different time intervals – DNB Livsforsikring

The table shows interest rate sensitivity associated with financial assets in DNB Livsforsikring, excluding commercial paper and bonds held to maturity. The interest rate sensitivity of a security shows potential changes in the security's value resulting from a one percentage point change in interest rates.

DNB Livsforsikring

Amounts in NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
31 December 2017						
NOK	3	40	83	495	227	848
USD	1	11	1	17	148	154
EUR	6	7	0	19	88	106
GBP		0	0	2	16	19
Other currencies	0	1	10	2	3	7
31 December 2016						
NOK	8	71	45	366	269	759
USD	2	1	4	23	140	164
EUR	1	2	3	9	121	123
GBP	0	0	0	3	12	15
Other currencies	0	1	0	2	0	2

Interest rate sensitivity – liabilities to insurance policyholders

DNB Livsforsikring carries the risk of meeting liabilities in relation to policyholders. The return on financial assets must be sufficient to meet the guaranteed rate of return specified in insurance policies. Otherwise, inadequate returns will have to be covered by applying the market value adjustment reserve, additional allocations, equity or subordinated loan capital.

The guaranteed rate of return must be complied with on a yearly basis. Measured in relation to customer funds the company's total guaranteed rate of return averages 3.1 per cent.

Note 17 Insurance risk gives a description of a liability adequacy test prepared in compliance with IFRS 4 Insurance Contracts concerning liabilities to policyholders as at 31 December 2017.

NOTE 14 Currency positions

The table shows net currency positions as at 31 December, including financial derivatives as defined by Norges Bank. Net positions in individual currencies may represent up to 15 per cent of eligible primary capital. Aggregate currency positions must be within 30 per cent of the eligible primary capital. Foreign exchange risk related to investments in subsidiaries is included in the currency position by the amount recorded in the accounts.

In DNB Livsforsikring foreign currency exposure arises when the company invests parts of its securities portfolio and property portfolio in the international securities market. Under DNB Livsforsikring's current foreign currency hedging strategy, the total foreign currency exposure is reduced to a minimum.

	DNB Livsforsikring		DNB Group excl. DNB Livsforsikring	
	Net currency positions		Net currency positions	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
USD	63	231	1 213	1 068
EUR	(169)	76	140	(316)
GBP	34	24	52	(16)
SEK	378	214	7	19
DKK			(13)	20
CHF	9	2	4	14
JPY	25	41	9	6
NOK [1)]	58	61		
Other	41	110	165	122
Total foreign currencies	439	760	1 575	916

1) Equity and bond funds denominated in NOK with foreign currency exposure, including EUR, GBP, JPY, KRW and USD.

NOTE 15 Financial derivatives

General information on application of financial derivatives

Financial derivatives are contracts stipulating financial values in the form of interest rate terms, exchange rates and the value of equity instruments for fixed periods of time. Corresponding contracts stipulating prices on commodities and indexes are also defined as financial derivatives. Derivatives include swaps, forward contracts and options as well as combinations thereof, including forward rate agreements (FRAs), financial futures and agreements on the transfer of securities. Financial derivatives in DNB are traded to manage liquidity and market risk arising from the Group's ordinary operations. In addition, the Group employs financial derivatives in its own account trading.

"Over the counter" (OTC) derivatives are contracts entered into outside an exchange. The contracts are tailor-made according to investor requirements with respect to the underlying object, quantity, price, expiration terms and maturity. The advantage of OTC derivatives is that customers are not limited to standardised contracts and can buy the precise position they wish. The disadvantage compared with the standardised market is that it can be difficult to find other contracting parties and to sell the contracts in the secondary market.

The following derivatives are employed for both trading and hedging purposes in the DNB Group:

- *Forward contracts:* a contract to buy or sell interest rate terms, amounts in foreign currencies, shares or commodities on a specified future date at a fixed price. Forward contracts are tailor-made contracts traded between counterparties in the OTC market.
- *FRAs:* agreements that fix the interest rate for a future period for an agreed amount. When the contract matures, only the difference between the agreed interest rate and the actual market interest rate is exchanged.
- *Interest rate futures:* standardised contracts where the counterparties agree to exchange specific interest rate instruments at a fixed price on a specified date. The contracts are traded on an exchange. The value of interest rate futures follows the price trend on underlying interest rate instruments.
- *Swaps:* transactions where two parties exchange cash flows on a fixed amount over an agreed period. The majority of swaps are tailor-made and traded outside exchanges. The most important types of swaps traded by DNB are:
  - interest rate swaps in which fixed interest rates are exchanged for floating rates or floating rates are exchanged for fixed rates
  - cross-currency interest rate swaps in which parties exchange both currency and interest payments
  - equity swaps in which interest rate returns are exchanged for equity returns.
- *Options:* agreements giving the buyer the right, but not the obligation, to either buy (call option) or sell (put option) a specific quantity of a financial instrument or commodity at a predetermined and fixed price. The buyer pays a premium to the seller for this right. Options are traded both as OTCs (tailor-made) and as standardised contracts.

The table shows nominal values on financial derivatives according to type of derivative as well as positive and negative market values. Positive market values are entered as assets in the balance sheet, whereas negative market values are entered as liabilities. See note 1 Accounting principles for a more detailed description of measurement of financial derivatives.

NOTE 15 Financial derivatives (continued)

DNB Group

Amounts in NOK million	31 December 2017 Total nominal values	Positive market value	Negative market value	31 December 2016 Total nominal values	Positive market value	Negative market value
Interest rate contracts						
FRA-contracts	1 010 066	208	276	868 943	415	363
Swaps	2 829 128	66 054	8 986	2 778 612	83 170	39 945
OTC options	49 133	597	591	45 882	757	725
Other OTC contracts	57	8	8			
Total interest rate contracts	3 888 385	66 867	9 861	3 693 438	84 342	41 033
Foreign exchange contracts						
Forward contracts	26 207	6 791	5 622	80 277	2 712	1 117
Swaps	874 241	17 493	54 573	1 344 431	30 818	47 977
OTC options	25 929	1 454	1 158	32 597	533	330
Total foreign exchange contracts	926 377	25 738	61 354	1 457 304	34 063	49 424
Equity-related contracts						
Forward contracts	4 928	2 068	1 291	2 057	2 156	1 528
OTC options	1 336	344	22	2 104	163	2
Total OTC derivatives	6 264	2 412	1 314	4 161	2 319	1 530
Futures	14 861		0	13 071		0
Options	3 423	126	91	4 573	106	77
Total exchange-traded contracts	18 283	126	91	17 644	106	77
Total equity-related contracts	24 547	2 538	1 405	21 805	2 425	1 607
Commodity-related contracts						
Swaps and options	33 235	2 669	2 334	30 473	3 541	2 707
Total commodity related contracts	33 235	2 669	2 334	30 473	3 541	2 707
Collateral pledged/received						
Total collateral pledged/received		34 537	35 309		33 570	35 389
Total financial derivatives	**4 872 544**	**132 349**	**110 262**	**5 203 020**	**157 940**	**130 161**
Of which: Applied for hedging purposes	*466 911*	*26 331*	*3 265*	*453 134*	*33 038*	*2 195*
- Interest rate swaps		*25 781*	*2 794*		*32 275*	*1 546*
- Cross-currency interest rate swaps		*551*	*471*		*762*	*648*

Use of financial derivatives

Markets acts as market maker and is obliged to furnish both offer and bid prices for specified option, forward or futures series with a maximum differential between the offer and bid price, together with a minimum volume. Market makers always trade for their own account. The purpose of own account trading, in addition to being a market maker, is position taking, which means intentional risk-taking within the foreign exchange, interest rate and equity markets to achieve profits arising from favourable price, exchange rate and index fluctuations. Arbitrage, that is profit taking from fluctuations in prices, exchange rates and indices for the same product in various markets, is also part of own-account trading.

Customer trading entails structuring and marketing financial derivatives for customers, enabling them to transfer, modify, take or reduce prevailing or expected risk. The majority of derivative transactions relate to customer trading.

DNB uses interest rate and currency swaps to convert foreign currency borrowings into the desired currency. As a typical example, the bank raises a loan in euro, which is swapped to US dollars through a basis swap. In this case, the bank will pay a US dollar interest rate based on a swap curve and receive a euro interest rate reduced or increased by a margin. These derivatives are carried at fair value. There may be significant variations in the value of the basis swaps from day to day, due to changes in basis swap spreads. This unhedged risk causes unrealised gains and losses. For the year 2017, there was a NOK 672 million decrease in value (negative effect on profits), compared with a NOK 542 million decrease in value in 2016.

Use of financial derivatives in DNB Livsforsikring

The purpose of employing financial derivatives in DNB Livsforsikring is to be able to invest and allocate funds in accordance with the company's expectations of market trends, through swift and cost-effective asset and market exposure. In addition, the application of derivatives facilitates active risk management and adjustments in equity, interest rate and foreign exchange risk. See notes 13 Interest rate sensitivity and 14 Currency positions for a further description.

NOTE 15 Financial derivatives (continued)

Risk related to financial derivatives

Derivatives are traded in portfolios which also include balance sheet products. The market risk on derivatives is handled, monitored and controlled as an integral part of the market risk of these portfolios. See notes 4 Risk management and 12 Market risk. Derivatives are traded with many different counterparties and most of these are also engaged in other types of business with DNB. The credit risk arising in connection with derivatives trading is included in the total credit risk of the DNB Group. Netting agreements or bilateral agreements on collateral are entered into with a number of counterparties, thus reducing credit risk. The authorities' capital adequacy requirements take into account such agreements, resulting in a reduction of capital adequacy requirements. See note 5 Credit risk for a description of counter-party risk.

NOTE 16 Liquidity risk

Liquidity risk is the risk that the DNB Group will be unable to meet its payment obligations. Overall liquidity management in the Group implies that DNB Bank ASA is responsible for funding domestic and international group entities. Liquidity risk is managed and measured by means of various measurement techniques.

The Board of Directors has approved internal limits which restrict the short-term maturity of liabilities within different time frames. The various maturities are subject to stress testing based on a bank-specific crisis, a systemic crisis and a combination thereof, and a contingency plan has been established to handle market events. In addition, limits have been set for structural liquidity risk, which implies that lending to customers should largely be financed through customer deposits, subordinated capital and long-term funding. Ordinary senior bond debt and covered bonds are the major sources of long-term funding. For the purpose of liquidity management, the measure ratio of deposits to net loans is more relevant for the banking group than the for the DNB Group, due to the fact that some loans in the DNB Group are investments on behalf of insurance clients. The banking group's ratio of deposits to net loans was 64.0 per cent at end-December 2017, up from 63.4 per cent a year earlier. The ratio of deposits to net loans in DNB Bank ASA was 130.9 per cent at end-December 2017.

The short-term funding markets were generally sound throughout the year. New regulatory reforms for US money market funds were introduced, and the short-term funding market normalised during 2017 compared with 2016. Due to an increase in short-term interest rates, prices rose somewhat during the year, which resulted in slightly higher short-term funding costs for banks. As the markets stabilised, investors regarded an increasing number of banks as attractive. DNB had ample access to short-term funding throughout 2017.

The markets for long-term funding proved to be better than many assumed at the start of 2017. The first quarter of the year showed the highest level of activity in the market, as most issuers wanted to enter the market before the political elections in Europe. However, the long-term funding market generally functioned well throughout 2017. The market for covered bonds was still dominated by the European Central Bank's, ECB, asset purchase programme. In November, the ECB announced a gradual reduction in its asset purchases, which was well received in the market, as many had feared a more aggressive de-escalation plan beforehand. Total issue volumes of covered and senior bonds were somewhat lower in 2017 than in 2016. In particular the latter have largely been replaced by so-called non-preferred senior bonds in order to adapt to the coming MREL regulations (minimum requirement of own funds and eligible liabilities). There was a considerably higher level of activity in the market for subordinated loans than in 2016, partly due to regulatory requirements and partly due to favourable prices for the issuers. DNB had good access to long-term funding in 2017, and funding costs on covered bonds and ordinary senior debt were further reduced during the year.

The short-term liquidity requirement, Liquidity Coverage Ratio (LCR), remained stable at above 100 per cent throughout the year. At end-December, the total LCR was 117 per cent, with an LCR of 191 per cent for EUR, 137 per cent for USD and 93 per cent for NOK.

The average remaining term to maturity for the portfolio of senior bond debt and covered bonds was 4.0 years at end-December 2017, up from 3.9 a year earlier. The DNB Group aims to maintain a sound and stable maturity structure for funding over the next five years.

NOTE 16 Liquidity risk (continued)

Residual maturity as at 31 December 2017 [1)]

DNB Group

Amounts in NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	Total
Assets							
Cash and deposits with central banks	151 593						151 593
Due from credit institutions	99 696	75 955	38 440	17 556	7 671		239 318
Loans to customers	242 800	76 971	58 738	283 916	885 641	(3 162)	1 544 904
Commercial paper and bonds at fair value	143 786	8 154	19 295	157 807	21 154		350 196
Commercial paper and bonds, held to maturity	695	1 500	2 574	32 792	46 520		84 082
Shareholdings						153 527	153 527
Other assets		2 042		11			2 053
Total	638 570	164 621	119 048	492 081	960 986	150 366	2 525 673
Liabilities							
Due to credit institutions	78 042	63 038	68 308	14 699			224 087
Deposits from customers	971 105						971 105
Debt securities issued	98 491	71 535	77 254	417 539	95 536		760 355
Other liabilities etc.	458	4 362	195				5 015
Subordinated loan capital					29 456		29 456
Total	1 148 096	138 935	145 757	432 238	124 992		1 990 018
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cash flows	663 489	376 719	216 187	383 067	213 472		1 852 934
Outgoing cash flows	661 310	378 009	221 220	393 219	213 788		1 867 546
Financial derivatives, net settlement	812	2 103	3 205	19 652	9 787		35 559
Total financial derivatives	2 991	813	(1 828)	9 500	9 471		20 947

Residual maturity as at 31 December 2016 [1)]

DNB Group

Amounts in NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	Total
Assets							
Cash and deposits with central banks	208 252		11				208 263
Due from credit institutions	121 167	42 861	5 270	7 116			176 415
Loans to customers	175 874	92 654	83 915	323 491	837 874	(4 488)	1 509 320
Commercial paper and bonds at fair value	82 426	9 906	32 536	151 702	20 493		297 063
Commercial paper and bonds, held to maturity		574	6 234	29 651	57 550		94 008
Shareholdings						30 280	30 280
Other assets		3 217					3 217
Total	587 720	149 211	127 966	511 960	915 917	25 792	2 318 566
Liabilities							
Due to credit institutions	138 291	23 535	22 922	28 125			212 872
Deposits from customers	934 790						934 790
Debt securities issued	79 915	61 693	104 264	394 184	98 984		739 040
Other liabilities etc.	1 574	4 113	275				5 962
Subordinated loan capital		10 898		17 467	738		29 102
Total	1 154 570	100 239	127 461	439 775	99 721		1 921 766
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cash flows	458 963	224 167	247 951	388 303	231 798		1 551 182
Outgoing cash flows	456 644	226 589	248 396	404 368	238 077		1 574 076
Financial derivatives, net settlement	1 074	2 357	3 434	20 229	9 296		36 390
Total financial derivatives	3 393	(65)	2 989	4 164	3 017		13 496

1) Nominal future interest payments in excess of accrued interest are not included on the balance sheet date.

Credit lines, commitments and documentary credit

DNB Group

Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Unutilised credit lines etc. under 1 year	388 560	390 001
Unutilised credit lines etc. over 1 year	208 950	216 295

NOTE 17 Insurance risk

Insurance risk in life insurance

Risk in DNB Livsforsikring AS includes financial risk and insurance risk, in addition to operational risk and business risk. Financial risk comprises credit and market risk, which is the risk that the return on financial assets will not be sufficient to meet the obligations specified in insurance policies (see description in notes 12-14). Insurance risk relates to changes in future insurance payments due to changes in life expectancy and disability rates.

Analysis of insurance liabilities, customers bearing the risk, and liabilities to policyholders

		DNB Group [1)]
Amounts in NOK million	Insurance liabilities, customers bearing the risk	Liabilities to policyholders
Balance sheet as at 31 December 2015	**49 679**	**208 949**
Deposits	7 889	4 670
Return	4 069	8 811
Inflow of reserves	1 571	926
Outflow of reserves	(1 201)	(2 160)
Insurance payments	(1 287)	(12 196)
Other changes	(499)	(840)
Balance sheet as at 31 December 2016	**60 220**	**208 160**
Deposits	8 572	3 427
Return	7 019	10 030
Inflow of reserves	3 190	462
Outflow of reserves	(1 799)	(164)
Insurance payments	(1 427)	(12 698)
Other changes	(568)	(717)
Balance sheet as at 31 December 2017	**75 206**	**208 500**

1) Refers only to DNB Livsforsikring.

Description of the insurance products

The company offers traditional life and pension insurance, unit-linked insurance and non-life insurance. A calculation rate is used to determine provisions and premiums. The calculation rate is the annual guaranteed rate of return on policyholders' funds. In most unit-linked insurance products, policyholders bear the financial risk. Non-life insurance policies are products generating payments related to policyholders' life and health. These products are not subject to profit sharing and are repriced annually.

Group contracts

Under group defined-benefit pensions, pension payments are disbursed from an agreed age and until the death of the policyholder. It can also be agreed that the pension payments cease at a certain age. A defined-benefit pension may include a retirement pension, disability pension, spouse's pension, cohabitant's pension and child's pension. Policyholders pay an annual premium for interest rate risk, insurance risk and administration in advance. The company is entitled to change the premium annually. Interest in excess of the guaranteed rate of return is awarded to policyholders in its entirety. If the interest is between zero and the guaranteed rate of return, the company can use additional allocations to meet the guaranteed rate of return, otherwise the company must cover the deficit. A positive risk result may either be used to increase the risk equalisation fund or be distributed to the policyholders. No more than 50 per cent of annual profits may be allocated from the risk result to the risk equalisation fund. The company must cover any remaining losses after the risk equalisation fund has been used. The administration result is allocated in its entirety to the company. For one year agreements with disability pensions and dependent's pensions without savings, the risk result is transferred directly to the company.

When a member terminates a pension agreement or a pension agreement ends, he or she is entitled to a paid-up policy. Rights earned on the termination date are continued in paid-up policies. Paid-up policies have a separate profit model where a minimum of 80 per cent of the interest result is distributed to policyholders. Any surplus on the risk result can be used either to increase the risk equalisation fund or be allocated to policyholders. No more than 50 per cent of annual profits can be transferred from the risk result to the risk equalisation fund. The administration result is allocated in its entirety to the company.

Group association insurance is pension insurance taken out by associations for their members. Association insurance can comprise retirement pensions, disability pensions, spouse's pensions and child's pensions. Profits for distribution between policyholders and the company include the interest result, the risk result and the administration result. No less than 65 per cent of annual profits must be distributed to policyholders.

Individual contracts

Individual annuity and pension insurance policies are savings schemes whereby the company disburses monthly amounts up until the death of the policyholder, or until the policyholder reaches an agreed age. This usually comprises a retirement pension, disability pension, spouse's pension and child's pension.

Individual endowment insurance policies are contracts whereby the company disburses an agreed amount upon the death of the policyholder or when the policyholder attains an agreed age. Individual endowment insurance may also include disability cover, which is a one-off benefit for permanent disability.

NOTE 17 Insurance risk (continued)

For individual contracts sold prior to 1 January 2008, total profits are distributed between policyholders and the company. Profits for distribution include the interest result, the risk result and the administration result. No less than 65 per cent of total profits must be distributed to policyholders. The new regulations apply to contracts sold after 1 January 2008, with annual pricing of each profit element, which is in accordance with the regulations for group defined-benefit pensions.

Contracts in the unit-linked portfolio

Defined-contribution pensions are group pension schemes where the employees bear the financial risk. However, full or partial hedging of the paid amount can be bought.

Individual unit-linked insurance policies are endowment insurance policies or annuity insurance policies where policyholders bear the financial risk.

Other sectors

Group life insurance policies are life level term insurance policies taken out by employers or associations for their employees or members and, where applicable, also for their spouses and children. The amount recoverable under the policy is disbursed upon the death of the policyholder. Group life insurance may also comprise disability cover, which is a one-off benefit for permanent disability.

Employer's liability insurance is a one-year risk product which companies link to their pension agreements. This may be corporate group life insurance or accident insurance. Occupational injury insurance is mandatory for all enterprises.

Personal risk products for personal customers are one-year risk products which include monthly disability benefits and lump-sum compensation payments in the event of death, disability or critical illness. DNB Livsforsikring also offers child and youth insurance, which ensures financial security in the event of accidents, serious illness or incapacity for work.

Specification of liabilities to policyholders recorded in the balance sheet as at 31 December 2017 — DNB Group [1]

	Group life insurance - defined-benefit pensions		Individual annuity and pension insurance					
Amounts in NOK million	Private sector	Group association insurance	Annuity and pension insurance	Endowment insurance	Group life insurance	Non-life insurance	Total 2017	Total 2016
Premium reserve	212 483	3 293	32 174	21 330	643	1 242	271 165	257 386
Additional allocations	5 819	145	1 043	657			7 664	6 752
Market value adjustment reserve	2 318	64	521	357	1	1	3 262	2 424
Premium fund	839	7	77				923	1 152
Pensioners' profit fund	663						663	631
Other technical reserves						29	29	35
Liabilities to policyholders	**222 122**	**3 509**	**33 814**	**22 345**	**644**	**1 273**	**283 706**	**268 380**
Unrealised gains on bonds held to maturity [2]							7 863	8 975

1) Refers only to DNB Livsforsikring.

2) Unrealised gains on bonds held to maturity are not included in balance sheet values.

Insurance risk

Within life insurance, insurance risk is mainly related to the likelihood of death and disability.

Insurance risk in DNB Livsforsikring is divided, in varying degrees, between policyholders and the company. With respect to the non-life insurance products employers' liability insurance and certain pure risk products, the company is exposed to insurance risk. For individual pension and endowment insurance products sold after 1 January 2008 and group pension agreements, the company's risk represents its obligation to cover a possible negative risk result. The company is credited up to 50 per cent of any positive risk result in the form of allocations to the risk equalisation fund.

The risk result arises when empirical data for mortality, disability and exit risk deviate from the assumptions underlying the calculation base for premiums and provisions. When the risk result generates a surplus, the surplus can be allocated to the risk equalisation fund. The risk equalisation fund cannot exceed 150 per cent of the company's total risk premiums for the accounting year. If there is a deficit on the risk result, the risk equalisation fund can be used. The risk equalisation fund does not apply to risk contracts with a maximum term of one year, disability pensions and dependent’s pensions with no accrued entitlement or individual contracts sold prior to 1 January 2008.

Risk for DNB Livsforsikring related to changes in mortality rates is twofold. With respect to mortality risk coverage, mainly spouse’s and child's pensions, lower mortality rates will give an improved risk result and a more limited need for provisions. For pensions that are currently payable, lower mortality rates will result in extended disbursement periods and thus require greater provisions, called pure endowment risk. It will be possible to cover the required increase in reserves relating to insurance risk by future surpluses on investment results. The company’s insurance risk mainly comprises pure endowment risk and disability risk.

In consequence of higher life expectancy, the company is required to increase premium reserves. DNB Livsforsikring increased premium reserves by a total of NOK 0.6 billion in 2017, of which NOK 0.1 billion was financed by equity and NOK 0.5 billion by policyholder surpluses. DNB Livsforsikring has now completed the build-up of reserves. The premium reserves for the existing portfolio as at 31 December 2017 have been increased by a total of NOK 11.2 billion, of which NOK 9.0 billion has been financed by policyholder surpluses and NOK 2.2 million by equity.

NOTE 17 Insurance risk (continued)

Disability risk is more exposed to short-term changes. Allocations covering incurred, unsettled insurance claims are under continuous review. No further needs for strengthening existing provisions relating to disability pensions or other disability products have been identified.

With respect to existing contracts, insurance risk is subject to continual review by analysing and monitoring risk results within each business sector. In addition, the company applies reinsurance as an instrument to reduce insurance risk. The company's current reinsurance contracts cover catastrophes and significant individual risks within group and individual insurance. The reinsurance agreements imply that DNB Livsforsikring is responsible for risk up to a certain level while the reinsurer covers excess risk up to a maximum defined limit.

In order to reduce insurance risk exposure, it is mandatory that policyholders undergo a health check before entering into a contract for individual risk products. Individual health checks are also required under small-scale group schemes. In connection with the sale of disability pensions, policyholders are divided into risk categories based on a concrete risk assessment in each individual case.

DNB Livsforsikring's operations are concentrated in Norway.

Risk result

The table shows the effect on the risk result for 2017 of given changes in empirical mortality or disability data.

DNB Livsforsikring

	Group life insurance - defined-benefit pensions			Individual annuity and pension insurance				
Amounts in NOK million	Private sector	Public sector	Group association insurance	Annuity and pension insurance	Endow-ment insurance	Other sectors	Total 2017	Total 2016
Risk result								
Risk result in 2017 *)	311		6	52	126	(3)	491	
Risk result in 2016	453	27	12	89	129	26		736
Sensitivites - effect on risk result in 2017								
5 per cent reduction in mortality rate	(28)		(1)	(10)	2	1	(36)	(33)
10 per cent increase in disability rate	(112)		(1)	(9)	(6)	(11)	(139)	(127)
*) *Of which: Mortality risk*	*(26)*		*6*	*2*	*63*	*14*	*59*	*73*
Longevity risk	*1*		*(7)*	*9*	*0*	*(3)*	*1*	*7*
Disability rate	*219*		*4*	*37*	*53*	*(16)*	*297*	*510*
Employer's liability insurance	*63*				*4*	*2*	*68*	*119*
Other	*54*		*3*	*3*	*6*	*0*	*65*	*27*

Permanent changes in the calculation assumptions will require changes in premiums and provisions. Higher premium reserve requirements can be financed by the risk result for the year or by the year's and future required rates of return. When calculation assumptions are changed, the company's financing plan must be approved by Finanstilsynet.

Calculation assumptions

The table shows the effect of changes in key calculation assumptions on gross premium reserves.

DNB Livsforsikring

Amounts in NOK million	Change in per cent	Effect on gross premium reserve
Mortality	(5)	+1 474
Disability	10	+928

Mortality and disability

The table shows the net annual risk premium for a sum assured of NOK 100 000. For spouse's pensions, the premium shown is for an annual spouse's pension of NOK 10 000 paid from the death of the primary policyholder until the spouse reaches the age of 77. For disability pensions, the premium shown is for an annual disability pension of NOK 10 000, payable after a 12-month waiting period, until 67 years of age. All premiums relating to individual schemes are gender neutral.

DNB Livsforsikring

	Men			Women		
Amounts in NOK million	30 years	45 years	60 years	30 years	45 years	60 years
Individual life insurance	84	216	924	84	216	924
Individual disability lump sum	260	892		260	892	
Individual disability pension	490	1 433	4 301	490	1 433	4 301
Spouse's pensions in group schemes	15	109	447	13	65	184
Disability pensions in group schemes	280	452	1 296	401	1 117	2 209

NOTE 17 Insurance risk (continued)

Interest rate sensitivity – liabilities to policyholders

DNB Livsforsikring carries the risk of fulfilling the company's commitments in contracts with policyholders. The return on financial assets must be sufficient to meet the guaranteed rate of return specified in insurance policies. Otherwise, inadequate returns will have to be covered by applying the market value adjustment reserve, additional allocations, equity or subordinated loan capital. The guaranteed rate of return must be complied with on a yearly basis. Measured in relation to customer funds, the company's total guaranteed rate of return averages 3.1 per cent.

The table shows long-term developments in the average guaranteed rate of return for each sector. The guaranteed rate of return is shown as a percentage of the premium reserve, premium fund and additional allocations, and is measured as at 31 December. The interest rate guarantee is gradually reduced each year.

			DNB Livsforsikring	
Per cent	2017	2016	2015	2014
Group pension insurance, private sector	3.1	3.1	3.1	3.2
Group pension insurance, public sector	2.7	2.7	2.7	2.9
Individual pension insurance	3.4	3.4	3.4	3.4
Individual endowment insurance	2.2	2.3	2.3	2.3
Group association insurance	4.0	4.0	4.0	4.0
Total	3.1	3.1	3.1	3.2

Liability adequacy test

In accordance with IFRS 4, the company has assessed whether its premium reserves are adequate to cover its liabilities. If the test shows that the premium reserves are too low to bear the future liabilities of the company, the difference should be recorded on the test date. Adequacy tests are performed each quarter.

All premium rates used by the company are based on the company's past experience within product segments or business sectors. Thus, products may have different technical rates of interest, mortality and disability assumptions, and may incur different costs. The adequacy test assesses the margins in the premium rates and the future required increase in reserves to reflect higher life expectancy.

Adequacy tests are calculated based on the net present value of all future cash flows generated by the insurance contracts, discounted by a spot interest rate curve. The interest rate curve is calculated based on observable Norwegian swap rates. The Smith Wilson-model is used to estimate the interest rate curve over a 10-year period, and it is assumed that the spot interest rate will converge against a long-term macro-economic target rate. The adequacy test is susceptible to changes in the interest rate curve.

The adequacy test indicated no need for further provisions covering liabilities to policyholders as at 31 December 2017.

Solvency capital

The solvency capital consists of the market value adjustment reserve, additional allocations, risk equalisation fund, equity, subordinated loan capital and perpetual subordinated loan capital securities and unrealised gains on bonds held to maturity. All these elements, with the exception of the risk equalisation fund, can be used to meet the guaranteed rate of return on policyholders' funds.

	DNB Livsforsikring	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Market value adjustment reserve	3 262	2 424
Additional allocations	7 664	6 752
Risk equalisation fund	516	407
Equity	24 062	22 165
Subordinated loan capital and perpetual subordinated loan capital securities	5 500	5 500
Unrealised gains on bonds held to maturity	7 863	8 975
Total available capital	48 867	46 223
Guaranteed return on policyholders' funds [1)]	6 437	6 414

1) One-year guaranteed rate of return on insurance contracts at end of period.

NOTE 17 Insurance risk (continued)

Capital requirements and solvency capital

New regulatory capital requirements for European insurance companies are specified in the Solvency II Directive, which entered into force on 1 January 2016. The directive has been implemented in Norwegian law in the Financial Institutions Act and the Solvency II regulations. In addition to capital and capital requirements, the directive includes rules for capital management and internal control, supervisory review and evaluation, and market discipline in the form of requirements for public disclosure and supervisory reporting. The Solvency II regulations set a minimum requirement for primary capital to cover the solvency capital requirement (SCR) and the minimum capital requirement (MCR). The solvency capital requirement is set at a level to ensure that there is a 99.5 per cent probability that total losses, including insurance and financial losses, over a period of 12 months do not exceed the estimated capital requirement. The calculations take risk-mitigating measures and systems into consideration. The minimum requirement is set at a level to ensure that there is an 85 per cent probability that total losses over a period of 12 months will not exceed the estimated capital requirement. The capital is divided into three groups according to quality. Minimum 50 per cent of the SCR must be covered by capital group 1. Capital group 3 cannot cover more than 15 per cent of the solvency capital requirement. Capital group 1 must constitute minimum 80 per cent of the MCR requirement. The new regulations allow the use of transitional rules when calculating solvency capital. In December 2015, DNB Livsforsikring was given permission by Finanstilsynet to use the transitional rules for insurance provisions. Thus, the company is allowed to use recorded insurance provisions instead of the market value of the liabilities. The transitional rules apply for 16 years, and will be reduced linearly, initially on 1 January 2017. As at 31 December 2017, DNB Livsforsikring had a solvency margin according to the transitional rules of 190 per cent. Without the transitional rules, the solvency margin was 146 per cent. The solvency margin has been calculated after the payment of dividends of NOK 1.5 billion.

Solvency capital	DNB Livsforsikring	
Amounts in NOK million	31 Dec. 2017	1 Jan. 2017
Capital group 1		
Share capital	1 750	1 750
Share premium reserve	6 016	6 016
Reconciliation reserve [1]	20 520	21 106
Total capital group 1	28 286	28 872
Capital group 2		
Subordinated loan capital	5 500	5 500
Risk equalisation fund	516	407
Total capital group 2	6 016	5 907
Capital group 3		
Deferred taxes	0	0
Total capital group 3	0	0
Total solvency capital	**34 302**	**34 779**
Effect of the transitional rules [2]	(7 162)	(8 798)
Total solvency capital without the transitional rules	**27 140**	**25 981**

1) *Retained earnings are included in the reconciliation reserve. In addition, changes in capital due to the transition to market values for assets and liabilities will be a part of the reconciliation reserve.*
2) *In addition to using recorded provisions when calculating liabilities, DNB Livsforsikring avails itself of the opportunity to apply reduced stress for equities acquired prior to 1 January 2016. Such reduced equity stress applies for a period of seven years, with a linear increase in the stress from 22 per cent to 39 per cent. According to the solvency capital regulations, government bonds issued in the home country are not subject to spread risk. During a transitional period, this also applies to government bonds issued by EEA states. The exception applies through 2018, while there will be an escalation period in 2019, and the exception will no longer apply as of 1 January 2020.*

Solvency capital requirement	DNB Livsforsikring	
Amounts in NOK million	31 Dec. 2017	1 Jan. 2017
Market and counterparty risk	29 554	27 639
Insurance risk	11 328	11 220
Operational risk	1 123	1 095
Diversification [1]	(7 423)	(7 174)
Loss absorption, deferred taxes	(5 126)	(4 637)
Loss absorption, technical insurance reserves	(11 376)	(11 625)
Solvency capital requirement [2]	18 079	16 518
Minimum capital requirement	7 908	7 356

1) *Diversification between market and counterparty risk and insurance risk.*
2) *As at 31 December 2017, the solvency capital requirement without transitional rules represented NOK 18 647 million.*

Solvency margin	DNB Livsforsikring	
Figures in per cent	31 Dec. 2017	1 Jan. 2017
Solvency margin with transitional rules	190	211
Solvency margin without transitional rules	146	152

NOTE 17 Insurance risk (continued)

Insurance risk in non-life insurance

The non-life insurance products offered by DNB Forsikring AS are distributed mainly through the DNB Group's sales channels. The premium portfolio totalled NOK 2 272 million at year-end 2017, of which the greater part represented insurance coverage for individual customers.

Risk in DNB Forsikring comprises insurance, market, counterparty, operational and business risk. Insurance risk includes the risk of losses if insurance premiums fail to cover future claims payments, in addition to the risk that the company has not set aside adequate claims reserves for incurred claims. Indemnity payments are influenced by a number of factors, including catastrophic losses, claims frequency and inflation. An increase in claims frequency can be due to seasonal variations or reflect more lasting effects. A permanent change in claims frequency due to, for example, changes in customer behaviour and new types of claims, will have the most pronounced effect on profitability. Insufficient risk diversification with respect to risk categories and sums insured and the geographic locations and types of operations covered by the insurance policies could also have a negative effect on insurance risk.

DNB Forsikring has established a reinsurance programme to ensure a more predictable profit performance and to meet the capital requirements for the company and the Group. The programme is adapted to the company's overall risk, which is the sum of insurance risk, market risk, counterparty risk and operational risk.

During 2017, DNB Forsikring had a reinsurance programme (excess of loss programme) covering large individual losses and incidents above chosen own-risk limit within the individual product groups. The programme was adapted to the risk profile of the portfolio and was divided between several reinsurers with a minimum rating of A- to reduce counterparty risk.

Insurance risk is subject to continual review by monitoring the profitability of all products and quarterly risk measurement.

NOTE 18 Net interest income

DNB Group

	2017			2016		
Amounts in NOK million	Recorded at fair value	Recorded at amortised cost [1]	Total	Recorded at fair value	Recorded at amortised cost [1]	Total
Interest on amounts due from credit institutions	2 287	426	2 713	1 105	235	1 340
Interest on loans to customers	2 164	42 282	44 447	2 556	41 673	44 229
Interest on impaired loans and guarantees	4	1 169	1 172	1	909	911
Interest on commercial paper and bonds at fair value	4 030		4 030	4 439		4 439
Interest on commercial paper and bonds, held to maturity		170	170		188	188
Front-end fees etc.	2	298	300	5	289	294
Other interest income	(1 939)	2 973	1 033	(2 327)	3 350	1 024
Total interest income	**6 547**	**47 318**	**53 865**	**5 779**	**46 645**	**52 424**
Interest on amounts due to credit institutions	(2 212)	(254)	(2 465)	(1 542)	(163)	(1 705)
Interest on deposits from customers	(799)	(6 720)	(7 519)	(567)	(6 077)	(6 645)
Interest on debt securities issued	(3 758)	(7 381)	(11 139)	(3 502)	(8 883)	(12 385)
Interest on subordinated loan capital	(75)	(377)	(452)	(35)	(496)	(532)
Guarantee fund levy		(637)	(637)		(768)	(768)
Other interest expenses [2]	3 873	(104)	3 770	3 893	(174)	3 720
Total interest expenses	**(2 970)**	**(15 472)**	**(18 442)**	**(1 753)**	**(16 561)**	**(18 314)**
Net interest income	**3 577**	**31 846**	**35 422**	**4 026**	**30 084**	**34 110**

1) Includes hedged items.
2) Other interest expenses include interest rate adjustments resulting from interest rate swaps. Derivatives are recorded at fair value.

NOTE 19 Interest rates on selected balance sheet items

DNB Group [1]

	Average interest rate in per cent [2]		Average volume in NOK million	
	2017	2016	2017	2016
Assets				
Due from credit institutions	0.51	0.23	531 618	579 668
Loans to customers	3.05	3.02	1 495 287	1 494 382
Commercial paper and bonds	1.90	2.03	212 149	218 227
Liabilities				
Due to credit institutions	0.88	0.60	280 012	284 606
Deposits from customers	0.73	0.64	1 023 376	1 033 895
Debt securities issued	1.45	1.49	768 830	832 793

1) Applies to the DNB Group excluding DNB Livsforsikring.
2) Average interest rate in per cent is calculated as total interest in NOK for the specific products in relation to the appurtenant average capital.

NOTE 20 Net commission and fee income

	DNB Group	
Amounts in NOK million	2017	2016
Money transfers	3 949	3 725
Asset management services	1 719	1 267
Custodial services	346	315
Securities broking	789	616
Corporate finance	820	767
Interbank fees	19	23
Credit broking	453	491
Sale of insurance products	2 243	2 418
Real estate broking	1 150	1 121
Other commissions and fees	791	708
Total commission and fee income	**12 279**	**11 452**
Money transfers	(2 109)	(1 795)
Asset management services	(421)	(104)
Custodial services	(181)	(172)
Securities broking	(151)	(177)
Corporate finance	(135)	(73)
Interbank fees	(49)	(57)
Credit broking	(13)	(26)
Sale of insurance products	(194)	(202)
Other commissions and fees	(577)	(567)
Total commission and fee expenses	**(3 831)**	**(3 172)**
Net commission and fee income	**8 448**	**8 280**

NOTE 21 Net gains on financial instruments at fair value

	DNB Group	
Amounts in NOK million	2017	2016
Foreign exchange and financial derivatives	3 262	7 898
Commercial paper and bonds	(294)	(1 185)
Shareholdings	92	431
Other financial assets	(40)	55
Financial liabilities	182	71
Net gains on financial instruments, trading	3 202	7 270
Loans at fair value	152	(465)
Commercial paper and bonds	(326)	(624)
Shareholdings	40	(75)
Financial liabilities	93	52
Net gains on financial instruments, designated as at fair value	(41)	(1 111)
Financial derivatives, hedging	(9 750)	(4 245)
Financial assets, hedged items	(1)	(1)
Financial liabilities, hedged items	10 149	3 867
Net gains on hedged items [1) 2)]	397	(380)
Financial guarantees	907	595
Dividends	84	140
Net gains on financial instruments at fair value	**4 548**	**6 513**

1) *With respect to hedged liabilities, the hedged risk is recorded at fair value, while the rest of the instrument is recorded at amortised cost. Derivatives used for hedging are recorded at fair value. Changes in fair value arising from hedged risk are presented under Financial derivatives, hedging. Net gains on hedged financial liabilities include amortization of fair values on discontinued hedging relationships.*

2) *The DNB Group uses hedge accounting for long-term borrowings in foreign currency in DNB Boligkreditt and DNB Bank ASA. Loans are hedged 1:1 through external contracts where there is a correlation between currencies, interest rate flows and the hedging instrument. At the time the loans are raised, Markets considers whether to enter into a hedging transaction for the relevant loan based on the Group's foreign currency positions and the underlying interest rate exposure for the loan.*

NOTE 22 Salaries and other personnel expenses

	DNB Group	
Amounts in NOK million	2017	2016
Salaries *)	(8 316)	(8 190)
Employer's national insurance contributions	(1 546)	(1 301)
Pension expenses	(1 347)	(1 035)
Restructuring expenses	(346)	(720)
Other personnel expenses	(629)	(658)
Total salaries and other personnel expenses	**(12 184)**	**(11 904)**
**) Of which: Ordinary salaries*	*(6 632)*	*(6 660)*
Performance-based pay	*(1 396)*	*(1 369)*

Number of employees/full-time positions

	DNB Group	
	2017 1)	2016 1)
Number of employees as at 31 December	9 561	11 459
- of which number of employees abroad	1 404	3 215
Number of employees calculated on a full-time basis as at 31 December	9 144	11 007
- of which number of employees calculated on a full-time basis abroad	1 384	3 176
Average number of employees	10 895	11 492
Average number of employees calculated on a full-time basis	10 449	11 057

1) 1 796 employees in the Baltics who were included in the figures at year-end 2016 were transferred to Luminor during the fourth quarter of 2017.

NOTE 23 Other expenses

	DNB Group	
Amounts in NOK million	2017	2016
Fees 1)	(2 043)	(1 631)
IT expenses	(2 089)	(2 107)
Postage and telecommunications	(209)	(238)
Office supplies	(62)	(76)
Marketing and public relations	(810)	(815)
Travel expenses	(284)	(237)
Reimbursement to Norway Post for transactions executed	(204)	(198)
Training expenses	(65)	(62)
Operating expenses on properties and premises 2)	(1 174)	(1 191)
Operating expenses on machinery, vehicles and office equipment	(82)	(93)
Other operating expenses	(857)	(604)
Total other expenses	**(7 878)**	**(7 251)**

1) Systems development fees totalled NOK 1 388 million in 2017 and NOK 1 039 million in 2016.
2) Costs relating to leased premises were NOK 925 million in 2017 and NOK 927 million in 2016.

NOTE 24 Depreciation and impairment of fixed and intangible assets

	DNB Group	
Amounts in NOK million	2017	2016
Depreciation of machinery, vehicles and office equipment	(1 458)	(1 477)
Other depreciation of tangible and intangible assets	(453)	(527)
Impairment of capitalised systems development	(68)	(28)
Impairment losses for goodwill [1)]	(545)	(5)
Other impairment of fixed and intangible assets	(8)	(140)
Total depreciation and impairment of fixed and intangible assets	**(2 531)**	**(2 177)**

1) Impairment losses for goodwill of NOK 502 million relating to Cresco were recorded in 2017.

See note 38 Intangible assets and note 39 Fixed assets.

NOTE 25 Pensions

Description of the pension schemes

The DNB Group has a defined-contribution pension scheme for all employees in Norway, with the exception of around 330 employees from the former Postbanken who are covered by a closed group pension plan in the Norwegian Public Service Pension Fund.

The contribution rates are:

- Salary representing 0-7.1 times the National Insurance basic amount, G: 7 per cent
- Salary representing 7.1-12 times G: 15 per cent
- The Group has no defined-contribution pension scheme for salaries exceeding 12G (apart from the closed scheme)

The employees who were enrolled in the former defined-benefit occupational pension schemes (terminated between 2015 and 2017) are also covered by a compensation scheme that is structured as a supplementary, contribution-based direct pension scheme.

Based on the terms and conditions approved at the time of conversion, the savings plan in the compensation scheme aims to give the individual employee a total pension capital when reaching the age of 67 corresponding to what he or she would have received if the defined-benefit pension scheme had been retained. Both the pension entitlements and the return on the pension funds are funded through operations.

The DNB Group has a disability pension scheme for all employees in Norway. The disability pension represents:

- 3 per cent of pensionable income up to 12G
- 25 per cent of G, maximum 6 per cent of pensionable income, up to 12G
- 66 per cent of pensionable income in the interval between 6G and 12G

The Norwegian companies in the Group are part of the contractual pension (CPA) scheme for the private sector. In addition, the Group has an agreement on contractual pensions according to public sector rules for employees who are members of the Public Service Pension Fund.

The private CPA scheme will be funded by an annual premium representing a percentage of salaries between 1 and 7.1G.

Employer's contributions are included in pension expenses and commitments.

Subsidiaries and branches outside Norway have separate schemes for their employees, mainly in the form of defined-contribution schemes. Pension expenses for employees outside Norway represented NOK 172 million.

NOTE 25 Pensions (continued)

Economic assumptions applied in calculating pension expenses and commitments are in accordance with the guidance from the Norwegian Accounting Standards Board per 31 December 2017.

Pension expenses		**DNB Group**
Amounts in NOK million	2017	2016
Net present value of pension entitlements	(518)	(454)
Interest expenses on pension commitments	(123)	(149)
Calculated return on pension funds	84	90
Curtailment	(46)	237
Administrative expenses	(1)	(1)
Total defined benefit pension schemes	(604)	(276)
Contractual pensions, new scheme	(104)	(106)
Risk coverage premium	(46)	(46)
Defined contribution pension schemes	(593)	(607)
Net pension expenses	(1 347)	(1 036)

Pension commitments		**DNB Group**
Amounts in NOK million	2017	2016
Opening balance	5 410	5 393
Accumulated pension entitlements	518	454
Interest expenses	123	149
Actuarial losses/(gains), net	110	220
Changes in the pension schemes	22	
Curtailments	53	(382)
Pension payments	(289)	(257)
Exchange rate differences	20	(167)
Closing balance	5 967	5 410

Pension funds		**DNB Group**
Amounts in NOK million	2017	2016
Opening balance	2 654	2 896
Expected return	84	90
Actuarial gains/(losses), net	(2)	(13)
Curtailments	7	(144)
Excess pension funds that cannot be carried forward	(36)	(62)
Premium paid	81	111
Pension payments	(134)	(118)
Administrative expenses	(1)	(1)
Exchange rate differences	47	(106)
Closing balance	2 700	2 654
Net defined benefit obligation	3 267	2 756

Sensitivity analysis for pension calculations

The following estimates are based on facts and conditions prevailing per 31 December 2017, assuming that all other parameters are constant. Actual results may deviate significantly from these estimates.

DNB Group

	Discount rate		Annual rise in salaries/basic amount		Annual rise in pensions		Life expectancy	
Change in percentage points	+1%	-1%	+1%	-1%	+1%	0% reg.	+1 year	-1 year
Percentage change in pensions								
Pension commitments	8-16	15-17	33-34	26-27	10-11	5 - 8	2	2
Net pension expenses for the period	10-20	22-23	34-35	26-27	10-11	5 - 8	2	2

NOTE 26 Taxes

Tax expense on pre-tax operating profit		DNB Group
Amounts in NOK million	2017	2016
Current taxes	(5 767)	(8 358)
Changes in deferred taxes	713	4 218
Tax expense	**(5 054)**	**(4 140)**

Reconciliation of tax expense against nominal tax rate		
Amounts in NOK million		
Pre-tax operating profit	26 858	23 387
Estimated tax expense at nominal tax rate 24 per cent (25 per cent in 2016)	(6 446)	(5 847)
Tax effect of financial tax in Norway	(151)	
Tax effect of different tax rates in other countries	(165)	7
Tax effect of debt interest distribution with international branches	749	357
Tax effect of tax-exempt income from shareholdings [1)]	725	531
Tax effect of other tax-exempt income and non-deductible expenses	353	496
Tax effect of tax losses carried forward not recognised in the balance sheet [2)]	(23)	123
Tax effect of changed tax rate for deferred taxes recognised in the balance sheet	(47)	18
Excess tax provision previous year	(49)	175
Tax expense	**(5 054)**	**(4 140)**
Effective tax rate	19%	18%

Income tax on other comprehensive income		
Amounts in NOK million		
Pensions	(10)	53
Hedges of net investments	171	(1 449)
Total income tax on other comprehensive income	**161**	**(1 396)**

1) *In Norway, a company's income from share investments is normally exempt from tax. As a rule, this applies to investments in companies domiciled in the EU/EEA. The tax exemption applies to both dividends and gains/ (losses) upon realisation. However, 3 per cent of dividends from tax-exempt investments is included in taxable income.*

2) *Deferred taxes for tax-deductible differences (mainly losses carried forward) in subsidiaries are not recognised in the balance sheet unless the Group can prove that these tax positions will be utilised in the future.*

Tax effect of different tax rates in other countries

The Group has operations in a number of countries whose tax rates are different from that in Norway (24 per cent).

Tax effect of debt interest distribution with international branches

According to Norwegian tax legislation, external interest expenses shall be distributed proportionally among operations in Norway and international branches based on the respective units' total assets. This could result in additions or deductions from income in Norway.

Expectations regarding the effective tax rate

The nominal tax rate in Norway was 24 per cent in 2017. Business operations outside Norway are subject to local tax rates in their country of operation, and nominal tax rates range from 12 to 45 per cent. The effective taxation of operations outside Norway depends on both local tax rules and on whether it is possible to avoid double taxation. Tax-exempt income from share investments contributes to a lower expected tax rate than 24 per cent. In some periods, tax losses carried forward that are not recognised in the balance sheet have caused variations in the effective tax rate. In periods when such assets have not been recognised, the effective tax rate has been higher than the long-term expectation, whereas it has been lower in periods when tax losses not recognised as assets have been utilised.

NOTE 26 Taxes (continued)

Deferred tax assets/(deferred taxes) — DNB Group

Amounts in NOK million	2017	2016
The year's changes in deferred tax assets/(deferred taxes)		
Deferred tax assets/(deferred taxes) as at 1 January	(2 412)	(6 521)
Changes recorded against profits	713	4 218
Changes recorded against comprehensive income	(10)	53
Currency translation differences on deferred taxes	(38)	(29)
Changes recorded against equity	(58)	
Transferred to assets held for sale		(133)
Deferred tax assets/(deferred taxes) as at 31 December	(1 805)	(2 412)

Deferred tax assets and deferred taxes in the balance sheet relates to the following temporary differences

	Deferred tax assets		Deferred taxes	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Fixed assets and intangible assets	5	(2)	1 608	1 535
Commercial paper and bonds			1 827	3 000
Debt securities issued			(5 099)	(6 937)
Financial derivatives	(4)	(39)	5 181	6 426
Net pension liabilities	67	106	(775)	(644)
Net other tax-deductable temporary differences	260	857	397	602
Tax losses and tax credits carried forward	441	482	(565)	(166)
Total deferred tax assets/deferred taxes	**769**	**1 404**	**2 574**	**3 816**

1) *A significant share of the financial instruments are carried at fair value in the accounts, while for tax purposes, the same instruments are recorded on an accrual basis in accordance with the realisation principle. This gives rise to large differences between profits stated in the accounts and profits computed for tax purposes for the individual accounting years, especially in years with significant fluctuations in interest rate levels and exchange rates. These differences are offset in the longer term.*

2) *Due to large exchange rate fluctuations in 2017 and 2016, there were significant changes in unrealised gains and losses on financial instruments used in managing the Group's currency and interest rate risk. Financial instruments are recorded in accordance with the realisation principle, while the current rate method is used for receivables and liabilities in foreign currency. These differences are expected to be reversed within a short period of time.*

Overview over deferred tax assets from tax losses and tax credits carried forward — DNB Group

	31 December 2017			31 December 2016		
Amounts in NOK million Tax losses carried forward	Total tax losses carried forward	Of which basis for tax assets	Recognised tax asset	Total tax losses carried forward	Of which basis for tax assets	Recognised tax assets
Norway	412	412	103	119	119	30
Singapore	660	660	113	517	517	88
Denmark	2 005	1 491	329	2 311	1 577	394
Total of tax losses and tax assets	3 077	2 563	545	2 947	2 213	512
Tax credits carried forward [1)]			461			136
Total of deferred tax assets from tax losses and tax credits carried forward			**1 006**			**648**

1) *All tax credits carried forward relates to tax payers in Norway.*

Recognition of deferred tax

Deferred tax assets are capitalised to the extent it is probable that the Group will have taxable income against which temporary differences can be utilised. Net deferred taxes on temporary differences within the same tax group are assessed and entered net in the accounts.

NOTE 27 Classification of financial instruments

As at 31 December 2017 — **DNB Group**

Amounts in NOK million	Financial instruments at fair value through profit and loss: Trading	Financial instruments at fair value through profit and loss: Designated as at fair value	Financial derivatives designated as hedging instruments	Financial instruments carried at amortised cost [1]	Financial instruments held to maturity	Total
Cash and deposits with central banks	143 463	3 251		4 881		151 595
Due from credit institutions	199 288			40 041		239 328
Loans to customers	55 839	75 101		1 414 475		1 545 415
Commercial paper and bonds at fair value	169 059	169 653				338 713
Shareholdings	6 304	21 917				28 220
Financial assets, customers bearing the risk		75 206				75 206
Financial derivatives	106 018		26 331			132 349
Commercial paper and bonds, held to maturity					83 894	83 894
Other assets				56 559		56 559
Total financial assets	679 971	345 128	26 331	1 515 956	83 894	2 651 279
Due to credit institutions	182 335	4 657		37 115		224 107
Deposits from customers	41 692	14 090		915 356		971 137
Financial derivatives	106 997		3 265			110 262
Debt securities issued	158 693	81 823		539 731		780 247
Other liabilities	6 214			61 865		68 078
Subordinated loan capital		2 873		26 666		29 538
Total financial liabilities [2]	495 930	103 443	3 265	1 580 732		2 183 370

1) *Includes hedged liabilities.*
2) *Contractual obligations of financial liabilities designated as at fair value totalled NOK 101 444 million.*

As at 31 December 2016 — **DNB Group**

Amounts in NOK million	Financial instruments at fair value through profit and loss: Trading	Financial instruments at fair value through profit and loss: Designated as at fair value	Financial derivatives designated as hedging instruments	Financial instruments carried at amortised cost [1]	Financial instruments held to maturity	Total
Cash and deposits with central banks	187 462	15 824		4 977		208 263
Due from credit institutions	160 828	45		15 569		176 442
Loans to customers	42 974	93 753		1 372 351		1 509 078
Commercial paper and bonds at fair value	148 026	148 616				296 642
Shareholdings	5 130	17 382				22 512
Financial assets, customers bearing the risk		60 220				60 220
Financial derivatives	124 903		33 038			157 940
Commercial paper and bonds, held to maturity					94 008	94 008
Other assets				36 709		36 709
Total financial assets	669 322	335 841	33 038	1 429 605	94 008	2 561 813
Due to credit institutions	178 047	1 196		33 639		212 882
Deposits from customers	43 210	11 599		880 088		934 897
Financial derivatives	127 966		2 195			130 161
Debt securities issued	153 485	85 521		526 863		765 869
Other liabilities	516			44 052		44 568
Subordinated loan capital		1 254		28 093		29 347
Total financial liabilities [2]	503 223	99 570	2 195	1 512 736		2 117 724

1) *Includes hedged liabilities.*
2) *Contractual obligations of financial liabilities designated as at fair value totalled NOK 97 363 million.*

NOTE 28 Fair value of financial instruments at amortised cost

DNB Group

	31 December 2017		31 December 2016	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Cash and deposits with central banks	4 881	4 881	4 977	4 977
Due from credit institutions	40 041	40 041	15 569	15 569
Loans to customers	1 414 475	1 416 002	1 372 351	1 376 269
Commercial paper and bonds, held to maturity	83 894	91 542	94 008	102 411
Total financial assets	1 543 290	1 552 465	1 486 904	1 499 226
Due to credit institutions	37 115	37 115	33 639	33 639
Deposits from customers	915 356	915 356	880 088	880 088
Securities issued	539 731	548 082	526 863	533 874
Subordinated loan capital	26 666	26 378	28 093	28 065
Total financial liabilities	1 518 867	1 526 931	1 468 684	1 475 666

DNB Group

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1 [1)]	Valuation based on observable market data Level 2 [1)]	Valuation based on inputs other than observable market data Level 3 [1)]	Total
Assets as at 31 December 2017				
Cash and deposits with central banks		4 881		4 881
Due from credit institutions		40 041		40 041
Loans to customers			1 416 002	1 416 002
Commercial paper and bonds, held to maturity		81 960	9 581	91 542
Liabilities as at 31 December 2017				
Due to credit institutions		37 115		37 115
Deposits from customers		915 356		915 356
Securities issued		519 955	28 127	548 082
Subordinated loan capital		11 081	15 297	26 378

1) See note 29 Financial instruments at fair value for a definition of the levels.

NOTE 28 Fair value of financial instruments at amortised cost (continued)

Financial instruments at amortised cost

Most assets and liabilities in the DNB Group's balance sheet are carried at amortised cost. This primarily applies to loans, deposits and borrowings in the banking group's balance sheet, but also investments in bonds held to maturity. Long-term borrowings in Norwegian kroner are carried at fair value, while long-term borrowings in other currencies are carried at amortised cost. Hedge accounting may be applied.

Recording balance sheet items at amortised cost implies that the originally agreed cash flows are used, possibly adjusted for impairment. Such valuations will not always give values which are consistent with market assessments of the same instruments. Discrepancies may be due to diverging views on macro-economic prospects, market conditions, risk aspects and return requirements, as well as varying access to accurate information. The above table shows estimated fair values of items carried at amortised cost.

Valuations are based on the individual instruments' characteristics and values on the balance sheet date. However, these values do not include the total value of customer relationships, market access, brands, organisational aspects, employees and structural capital. Consequently, such intangible assets are generally not recorded in the accounts. In addition, most transactions with customers are assessed and priced collectively for several products, and products recorded in the balance sheet are considered along with other products and services used by the customer. Individual assets and liabilities recorded in the balance sheet thus give no adequate reflection of the total value of the Group's operations.

Due from credit institutions and loans to customers

When valuing loans, the loan portfolio has been divided into the following categories: personal customers, small and medium-sized enterprises, Nordic corporates, international corporates, shipping, offshore and logistics and energy. In addition, separate calculations have been made for DNB Finans and Poland.

The valuations are based on average margins in December, considered relative to the business units' best estimate of the potential margin requirement at year-end 2016 if the loans had been extended at that time. Differentiated margin requirements have been calculated for each category, as specified above, based on estimated costs related to lending. The margin requirement includes costs covering normalised losses, which, as opposed to impairment recorded in the annual accounts, represent a long-term assessment of loss levels.

Retail loans carried at amortised cost are mainly loans with floating interest rate. The fair value of the retail loans has been set at amortised cost.

With respect to impaired loans, an assessment has been made of potential cash flows for the loans discounted by the effective rate of interest adjusted for changes in market conditions for corresponding non-impaired loans. Loan rates prior to provisions being made reflect the increased credit risk of the commitment. Given the general uncertainty in fair value measurements, it is evaluated that the impaired value gives a good reflection of the fair value of these loans.

Customers will often use loan products which are carried partly at amortised cost and partly at fair value. The profitability of a customer relationship is considered on an aggregate basis, and prices are set based on an overall evaluation. Correspondingly, a possible reduction in the customer relationship value is based on an overall assessment of all products. Any decline in value apart from price changes on specific products is included in the overall assessment of credits in the relevant customer relationship. Any reduction in the total customer relationship value is measured on the basis of amortised cost and reported under impairment on loans.

Commercial paper and bonds, held to maturity

The valuation in level 2 is primarily based on observable market data in the form of interest rate curves, exchange rates and credit margins related to the individual credit and the characteristics of the bond or commercial paper. For papers classified as level 3, the valuation is based on models. See note 35 Commercial paper and bonds, held to maturity for more information.

Due to credit institutions and deposits from customers

The estimated fair value equals the balance sheet value for credit institutions. With respect to deposits from customers, fair value is assessed to equal amortised cost.

Securities issued and subordinated loan capital

The valuation in level 2 is based on observable market data in the form of interest rate curves and credit margins when available. Securities and subordinated loan capital in level 3 are valued based on models. The items consist mainly of funding in foreign currency.

NOTE 29 Financial instruments at fair value

DNB Group

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on inputs other than observable market data Level 3	Total
Assets as at 31 December 2017				
Deposits with central banks		146 714		146 714
Due from credit institutions		199 288		199 288
Loans to customers		55 839	75 101	130 940
Commercial paper and bonds at fair value	53 391	284 994	328	338 713
Shareholdings	7 482	16 240	4 498	28 220
Financial assets, customers bearing the risk		75 206		75 206
Financial derivatives	131	130 149	2 069	132 349
Liabilities as at 31 December 2017				
Due to credit institutions		186 993		186 993
Deposits from customers		55 782		55 782
Debt securities issued		240 516		240 516
Subordinated loan capital		2 873		2 873
Financial derivatives	150	108 363	1 749	110 262
Other financial liabilities [1)]	6 153	61		6 214
Assets as at 31 December 2016				
Deposits with central banks		203 286		203 286
Due from credit institutions		160 873		160 873
Loans to customers		42 974	93 753	136 727
Commercial paper and bonds at fair value	55 303	240 963	375	296 642
Shareholdings	5 756	11 633	5 122	22 512
Financial assets, customers bearing the risk		60 220		60 220
Financial derivatives	0	156 621	1 319	157 940
Liabilities as at 31 December 2016				
Due to credit institutions		179 243		179 243
Deposits from customers		54 809		54 809
Debt securities issued		239 006		239 006
Subordinated loan capital		1 254		1 254
Financial derivatives	0	129 098	1 062	130 161
Other financial liabilities [1)]	516	0		516

1) Short positions, trading activities.

The levels

Financial instruments are categorised within different levels based on the quality of the market data for the individual instruments. With respect to financial instruments categorised as level 2, the quality of market data may vary depending on whether the relevant instrument has been traded. Thus, it will be natural that some instruments are moved between level 2 and level 3. This applies primarily to commercial paper and bonds.

Level 1: Valuation based on quoted prices in an active market

Classified as level 1 are financial instruments valued by using quoted prices in active markets for identical assets or liabilities. Instruments in this category include listed shares and mutual funds, Treasury bills and commercial paper traded in active markets.

Level 2: Valuation based on observable market data

Classified as level 2 are financial instruments which are valued by using inputs other than quoted prices, but where prices are directly or indirectly observable for the assets or liabilities, including quoted prices in non-active markets for identical assets or liabilities.

Included in this category are, among others, interbank derivatives such as interest rate swaps, currency swaps and forward contracts with prices quoted on Reuters or Bloomberg, basis swaps between the currencies NOK, EUR, USD and GBP and cross-currency interest rate derivatives with customers with insignificant credit margins. Exchange-traded options are classified as level 2 if it is possible to scan or interpolate/extrapolate implicit volatility based on observable prices.

NOTE 29 Financial instruments at fair value (continued)

Level 3: Valuation based on other than observable market data

Classified as level 3 are financial instruments which cannot be valued based on directly observable prices. For these instruments other valuation techniques are used, such as valuation of assets and liabilities in companies, estimated cash flows and other models where key parameters are not based on observable market data.

Included in this category are loans to customers and instruments where credit margins constitute a major part of adjustments to market value.

Gains or losses, that occur when the estimated fair value is different from the transaction price (day-one gain/loss) have not had significant impact to the financial statement neither for 2017 or 2016.

The instruments in the different levels

Due from credit institutions (level 2)

The item is primarily relevant for Markets. The valuation of loans to and deposits with credit institutions is mainly based on agreed interest rate terms measured against a swap curve. The fixed-rate period is relatively short.

Loans to customers (level 3)

Loans consist primarily of fixed-rate loans in Norwegian kroner and parts of the portfolio of margin loans in Norwegian kroner. The value of fixed-rate loans is determined by discounting agreed cash flows over the term of the loan, using a discount factor adjusted for margin requirements. A margin requirement is calculated for margin loans, and the difference between the margin requirement and the agreed margin is discounted over the average expected time to the repricing of the loan.

Commercial paper and bonds (levels 2 and 3)

The valuation in level 2 is primarily based on observable market data in the form of interest rate curves, exchange rates and credit margins related to the individual credit and the characteristics of the bond or commercial paper. For paper classified as level 3, the valuation is based on indicative prices from third parties or comparable paper.

Equities including mutual fund holdings (levels 2 and 3)

Equities in level 2 comprise mutual fund holdings where the underlying investments are quoted equities, as well as a small volume of other mutual funds. Instruments which are classified as level 3 essentially comprise property funds, limited partnership units, private equity investments, as well as hedge fund units and investments in unquoted equities.

When determining the fair value of private equity, PE, investments, an industry standard prepared by the European Private Equity & Venture Capital Association, EVCA, is used. The method is considered to represent the best basis for the best estimate of fair values for investments in not very liquid equity instruments. The value of the PE funds on the balance sheet date is reported by the fund managers after the Group has finalised its accounts. Valuations in the consolidated accounts are thus based on valuations received for previous periods, adjusted for a reporting lag of approximately three months. The time lag is determined based on developments in a weighted index consisting of a stock market parameter, using MSCI World as reference index, along with a parameter for anticipated long-term returns on PE investments.

Financial assets, customers bearing the risk (level 2)

The item applies to unit-linked products in DNB Livsforsikring, and the value development of the underlying funds is available on a daily basis.

Financial derivatives (levels 2 and 3)

Financial derivatives classified as level 2 are primarily currency forward contracts and interest rate and currency swaps. The valuation is based on swap curves, and credit margins constitute a minor part of the value. In addition, the item comprises derivatives related to commodities and forward rate agreements. These are valued based on observable market prices. Derivatives classified as level 2 also comprise equity derivatives used in Markets' market-making activities. Most of these derivatives are related to the most traded equities on Oslo Børs, and the valuation is based on the price development of the relevant/underlying equity and observable or estimated volatility. Financial derivatives classified as level 3 are primarily connected to currency options, interest rate options in Norwegian kroner, as well as index derivatives. The valuation is based on indicative prices from third parties.

Due to credit institutions (level 2)

See "Due from credit institutions" above.

Deposits from customers (level 2)

Deposits carried at fair value include special-term deposits. The valuation is primarily based on measurement in relation to a swap curve, and changes in credit margins have an insignificant effect.

Debt securities issued (level 2)

The valuation is primarily based on observable market data in the form of interest rate curves and credit margins. The item consists mainly of funding in Norwegian kroner. For foreign currency funding, hedge accounting is used where hedges are entered into. In all other respects, debt securities issued are carried at amortised cost.

Subordinated loan capital (level 2)

Subordinated loans carried at fair value consist of one loan in Norwegian kroner, and the valuation is based on observable interest rate curves and credit margins.

NOTE 29 Financial instruments at fair value (continued)

Financial instruments at fair value, level 3 **DNB Group**

	Financial assets				Financial liabilities
Amounts in NOK million	Loans to customers	Commercial paper and bonds	Share-holdings	Financial derivatives	Financial derivatives
Carrying amount as at 31 December 2015	**108 687**	**734**	**6 297**	**1 504**	**1 144**
Net gains recognised in the income statement	(525)	(97)	5	(201)	(122)
Additions/purchases	13 669	308	396	802	797
Sales		(657)	(1 539)		
Settled	(27 975)	0		(772)	(751)
Transferred from level 1 or level 2		698			
Transferred to level 1 or level 2		(576)			
Other	(103)	(35)	(36)	(14)	(6)
Carrying amount as at 31 December 2016	**93 753**	**375**	**5 122**	**1 319**	**1 062**
Net gains recognised in the income statement	104	(63)	608	(75)	(99)
Additions/purchases	5 041	331	439	1 422	1 349
Sales		(291)	(1 672)		
Settled	(23 713)			(592)	(578)
Transferred from level 1 or level 2		100			
Transferred to level 1 or level 2		(132)			
Other	(84)	8		(5)	15
Carrying amount as at 31 December 2017	**75 101**	**328**	**4 498**	**2 069**	**1 749**

Loans to customers

The portfolio of loans carried at fair value consists primarily of fixed-rate loans in Norwegian kroner and a share of margin loans in Norwegian kroner.

Fixed-rate loans

The value of fixed-rate loans is determined by discounting agreed interest flows over the term of the loan, using a discount factor adjusted for margin requirements. The discount factor used has as a starting point a swap rate based on a duration equal to the average remaining lock-in period for the relevant fixed-rate loans. The assumptions underlying the calculation of the margin requirement are based on a review of the market conditions on the balance sheet date and on an assessment of the deliberations made by external investors when investing in a corresponding portfolio. Fixed-rate loans carried at fair value totalled NOK 66 332 million at year-end 2017.

Margin loans carried at fair value

A margin loan has an agreed interest rate consisting of a reference interest rate and a margin add-on. Reference rates will normally be set for a period of three months, but the margin can be determined for considerably longer periods. In times of significant interest rate fluctuations and reduced liquidity in the market, as has been the case during the financial turmoil, long-term funding costs increased. This is of significance for the margin requirements used by the bank in its calculations. The margin requirements are measured against agreed margins, and discrepancies are discounted over the average period up until the expected margin adjustment. This period is based on assessments from the Group's business areas, but will require significant judgment based on past experience. The period up until the actual adjustment of the margin represents the largest element of uncertainty in these calculations. Margin loans carried at fair value totalled NOK 8 769 million at year-end 2017.

Commercial paper and bonds

Investments classified as level 3 primarily consist of corporate high-yield bonds with limited liquidity.

Equities including mutual fund holdings

Investments classified as level 3 consist of private equity funds, property funds, limited partnerships, unquoted hedge funds and unquoted equities. A common denominator for these investments is that there is a lag in the access to information from the units. In times of financial market turmoil, there may be considerable uncertainty related to the valuation of these investments.

Financial derivatives, assets and liabilities

Items classified as level 3 are primarily currency options, interest rate options in Norwegian kroner and derivatives related to developments in the consumer price index.

NOTE 29 Financial instruments at fair value (continued)

Breakdown of fair value, level 3

DNB Group

	31 December 2017		
Amounts in NOK million	Loans to customers	Commercial paper and bonds	Share-holdings
Principal amount/purchase price	73 745	355	3 821
Fair value adjustment [1)]	1 225	(27)	677
Accrued interest	131		
Carrying amount	75 101	328	4 498

1) Changes in the fair value of customer loans mainly result from changes in swap rates. A corresponding negative adjustment is made in the fair value of financial instruments used for economic hedging.

Breakdown of shareholdings, level 3

DNB Group

Amounts in NOK million	Property funds	Hedge-funds	Unquoted equities	Private Equity (PE) funds	Other	Total
Carrying amount as at 31 December 2017	375	946	602	2 564	12	4 498

Sensitivity analysis, level 3

DNB Group

Amounts in NOK million	Carrying amount 31 Dec. 2017	Effect of possible assumptions
Loans to customers	75 101	(162)
Commercial paper and bonds	328	(1)
Shareholdings	4 498	
Financial derivatives, net	320	

In order to show the sensitivity of the loan portfolio, the discount rate on fixed-rate loans and the margin requirement on margin-based loans have been increased by 10 basis points

Level 3 bonds mainly represent investments in Norwegian industries, offshore and power companies. A 10 basis point increase in the discount rate has had insignificant effects.

Level 3 equities represent a total of NOK 3 687 million in private equity investments, property funds, hedge funds and unquoted equities in DNB Livsforsikring. The fair values of the funds are largely based on reported values from the fund managers. For private equity and property funds, the fund managers use cash flow-based models or multiples when determining fair values. The Group does not have full access to information about all elements in these valuations and thus has no basis for determining alternative values for alternative assumptions. The use of alternative values will have a limited effect on the Group's profits, as the investments are included in DNB Livsforsikring's common portfolio.

NOTE 30 Offsetting

The table below presents the potential effects of the group's netting arrangements on financial assets and financial liabilities. See note 1 Accounting principles for more information.

						DNB Group
Amounts in NOK million	Gross amount	Amounts offset in the statement of financial position	Carrying amount	Netting agreements	Other collateral [1]	Amounts after possible netting
Assets as at 31 December 2017						
Due from credit institutions [2]	192 707		192 707		192 707	
Loans to customers [2]	56 430		56 430		56 430	
Financial derivatives [3]	132 349		132 349	23 797	71 599	36 953
Liabilities as at 31 December 2017						
Due to credit institutions	30 922		30 922		30 922	
Deposits from customers [2]	1 552		1 552		1 552	
Financial derivatives [3]	110 262		110 262	23 797	70 801	15 664

						DNB Group
Amounts in NOK million	Gross amount	Amounts offset in the statement of financial position	Carrying amount	Netting agreements	Other collateral [1]	Amounts after possible netting
Assets as at 31 December 2016						
Due from credit institutions [2]	153 938		153 938		153 938	
Loans to customers [2]	43 496		43 496		43 496	
Financial derivatives [3]	157 940		157 940	54 603	70 375	32 963
Liabilities as at 31 December 2016						
Due to credit institutions	20 375		20 375		20 375	
Deposits from customers [2]	1 185		1 185		1 185	
Financial derivatives [3]	130 161		130 161	54 603	57 613	17 945

1) *Includes cash collateral and securities received/transferred from/to counterparties and securities received/placed as collateral in depositories in Clearstream or Euroclear.*
2) *Includes repurchase and reverse repurchase agreements, securities borrowing and lending transactions.*
3) *Gross amounts represent the market value of the derivatives subject to master netting agreements or collateralised by cash or securities under Credit Support Annex.*

NOTE 31 Shareholdings

Investments in shares, mutual funds and equity certificates [1]		DNB Group
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Total investments in shares, mutual funds and equity certificates, excluding DNB Livsforsikring	7 917	6 520
Total investments in shares, mutual funds and equity certificates, DNB Livsforsikring	20 304	15 992
Total investments in shares, mutual funds and equity certificates	**28 220**	**22 512**

1) *Equity certificates represent investments in savings banks.*

NOTE 32 Transferred assets or assets with other restrictions

Transferred assets still recognised in the balance sheet		DNB Group
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Repurchase agreements		
Commercial paper and bonds	2 688	11 079
Derivatives		
Commercial paper and bonds	2 698	3 648
Securities lending		
Shares	178	215
Total repurchase agreements, derivatives and securities lending	5 564	14 941

Liabilities associated with the assets		DNB Group
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Repurchase agreements		
Due to credit institutions	1 808	10 446
Deposits from customers	877	1 185
Derivatives	2 698	3 648
Securities lending	187	225
Total liabilities	5 570	15 505

Restricted assets

Local statutory capital requirements might restrict the ability of the Group to access or transfer assets freely to or from other entities within the Group and to settle liabilities within the Group.

Restrictions affecting the Group's ability to use assets:

- The Group has pledged assets to collateralise its obligations (pledged securities) and issued covered bonds (cover pool), see note 51 Off-balance sheet transactions and contingencies for further information.
- The Group has pledged collateral in connection with derivative instruments, see note 15 Financial derivatives for further information.
- The assets of consolidated structured entities (investment funds) are held for the benefit of the parties that have bought the notes issued by these entities. At year-end 2017 and 2016, assets related to holdings outside the Group represented NOK 46 685 million and NOK 27 009 million, respectively, which is reflected as a corresponding liability in the balance sheet.
- Assets held by insurance subsidiaries are primarily held to satisfy the obligations to the companies' policy holders. At year-end 2017 assets held by the insurance subsidiaries amounted to NOK 320 339 million, compared to NOK 302 667 million at year-end 2016. These assets are related to DNB Livsforsikring AS and DNB Forsikring AS, and include Financial assets, customers bearing the risk.

NOTE 33 Securities received which can be sold or repledged

Securities received		DNB Group
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Reverse repurchase agreements		
Commercial paper and bonds	243 010	190 083
Securities borrowing		
Shares	45 801	31 121
Total securities received	288 811	221 204
Of which securities received and subsequently sold or repledged:		
Commercial paper and bonds	*11 616*	*4 203*
Shares	*9 199*	*10 084*

NOTE 34 Financial assets and insurance liabilities, customers bearing the risk

		DNB Group
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Mutual funds	36 384	27 620
Bond funds	24 443	19 929
Money market funds	8 482	7 232
Combination funds	4 369	3 844
Bank deposits	1 528	1 595
Total financial assets, customers bearing the risk	**75 206**	**60 220**
Total insurance liabilities, customers bearing the risk	**75 206**	**60 220**

NOTE 35 Commercial paper and bonds, held to maturity

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
International bond portfolio	9 613	12 760
DNB Livsforsikring AS	75 798	82 664
Other units [1]	(1 517)	(1 416)
Commercial paper and bonds, held to maturity	**83 894**	**94 008**

1) Including eliminations of DNB Livsforsikring's investments in bonds issued by DNB Boligkreditt.

As part of ongoing liquidity management, DNB Bank has invested in a portfolio of securities. The portfolio can be used to regulate the liquidity requirement and as a basis for furnishing collateral for operations in various countries. Among other things, the securities serve as collateral for short and long-term borrowing in a number of central banks and as a basis for liquidity buffers to meet regulatory requirements. With effect from 1 July 2008, the international bond portfolio was reclassified from the category "fair value through profit or loss" to "held-to-maturity investments". In the period following the reclassification some additional investments were classified as held-to-maturity. Portfolios in this category are recorded at amortised cost and written down if there is objective evidence of a decrease in value.

Effects of the reclassifications of the international bond portfolio

By measuring the portfolio at amortised cost, the value of the portfolio as at 31 December 2017 was NOK 36 million higher than if the previous valuation principle had been retained. On the reclassification date, the carrying amount of the portfolio was NOK 88.0 billion, compared with NOK 8.7 billion at end-December 2017. The average term to maturity of the portfolio was 4.9 years, and the change in value resulting from a credit spread adjustment of one basis point was NOK 4.1 million at end-December 2017.

Effects on profits of the reclassification

	DNB Group	
Amounts in NOK million	2017	2016
Recorded amortisation effect	98	84
Net gain, if valued at fair value	409	448
Effects of reclassification on profits	(311)	(364)

Effects on the balance sheet of the reclassification

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Recorded, unrealised losses	220	318
Unrealised losses, if valued at fair value	256	665
Effects of reclassification on the balance sheet	36	347

Development in the portfolio after the reclassification

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Reclassified portfolio, carrying amount	8 668	10 414
Reclassified portfolio, if valued at fair value	8 631	10 067
Effects of reclassification on the balance sheet	36	347

DNB Livsforsikring

Bonds held-to-maturity totalled NOK 74.1 billion in DNB Livsforsikring AS's as at 31 December 2017, mainly comprising bonds issued by highly creditworthy borrowers. Only in exceptional cases does DNB Livsforsikring invest in bonds issued by traditional manufacturing companies.

	DNB Group	
	Per cent 31 Dec. 2017	NOK million 31 Dec. 2017
Asset class		
Government/government-guaranteed	20.50	15 190
Guaranteed by supranational entities	2.43	1 800
Municipalities/county municipalities	2.56	1 900
Bank and mortgage institutions	21.88	16 213
Covered bonds	35.22	26 099
Other issuers	17.41	12 905
Total bond portfolio DNB Livsforsikring, held to maturity, nominal values	100.00	74 106
Accrued interest, amortisation effects and fair value adjustments		1 692
Total bond portfolio DNB Livsforsikring, held to maturity		75 798

NOTE 36 Investment properties

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
DNB Livsforsikring	16 106	15 565
Properties for own use	(790)	(827)
Other investment properties [1)]	990	1 175
Total investment properties	**16 306**	**15 912**

1) Other investment properties are mainly related to acquired companies.

Fair value

Investment properties in DNB Livsforsikring are part of the common portfolio and are owned with the intention to achieve long-term returns for policyholders. The property portfolio is recorded at fair value on the balance sheet date. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants ("exit price").The Norwegian properties are valued by using an internal valuation model, and is thus classified at level three in the valuation hierarchy. As a supplement, external appraisals are obtained for a representative selection of properties in the portfolio at regular intervals throughout the year. This selection represents close to 95 per cent of the values in the portfolio. During the fourth quarter of 2017, external appraisals were obtained for a total of ten properties, representing 43 per cent of portfolio value in Norway. The purpose of the external appraisals is to benchmark the internal valuations against independent references. Internal calculations and the values recorded in the balance sheet are 1.4 per cent lower than average external appraisals. The Swedish properties in the portfolio and partially owned properties are valued based on external appraisals.

Internal valuation model

In the internal model, fair value is calculated as the present value of future cash flows during and after the contract period. The required rate of return stipulated in the model reflects market risk. At the end of 2017, a required rate of return of 7.6 per cent was generally used. However, certain individual assessments of the required rate of return are made at segment level. The model uses the same required rates of return for cash flow both during and after the contract period.

Specific property risk is reflected in the cash flow through contractual rent, future market rent, operating expenses, required investments, adaptations for new tenants upon expiry of the contract, vacancy risk and adjustments for future price inflation, CPI (Norges Bank's inflation target).

Developments in market and contractual rents

During 2017, total contractual rent for the wholly-owned portfolio in Norway increased by NOK 21 million to NOK 736 million, while the estimated market rent was down NOK 13 million to NOK 768 million. Adjusted for changes in the portfolio, contractual rent rose by NOK 41 million, while market rent increased by NOK 17 million.

Value development and sensitivity

The valuations resulted in a NOK 745 million positive revaluation of the property portfolio in 2017.

Valuations are particularly sensitive to changes in required rates of return and assumptions regarding future income flows. Other things equal, a 0.25 percentage point reduction in the required rate of return will change the value of the property portfolio by approximately 4.9 per cent or NOK 628 million. Correspondingly, a 5 per cent change in future contractual rents will change the value of the property portfolio by approximately 1.4 per cent or NOK 173 million.

Vacancy

At year-end 2017, economic vacancy in the portfolio was 5.1 per cent, compared with 8.6 per cent a year earlier.

Other investment properties

The Group's other investment properties are mainly related to acquired companies and are classified at level 3 in the valuation hierarchy.

NOTE 36 Investment properties (continued)

Investment properties according to geographical location

DNB Livsforsikring

Type of building	Location	Fair value *NOK million*	Gross rental area *m^2*	Average rental period *No. of years*
Office buildings	Eastern Norway	3 755	104 150	5.0
Office buildings	Rest of Norway	2 883	122 381	4.8
Shopping centres	Norwegian cities	4 061	111 685	3.7
Hotels	Norwegian cities	2 095	64 176	10.9
Abroad	Stockholm/Gothenburg	3 312	77 002	8.6
Total investment properties as at 31 December 2017		16 106	479 394	6.0
Total investment properties as at 31 December 2016		15 565	511 694	6.2
Change in 2017		541	(32 301)	(0.2)
Total investment properties as at 31 December 2017		16 106	479 394	6.0

Projects, expected completion

DNB Livsforsikring

Amounts in NOK million	2018	2019
Contractual obligations for property purchases and development	21	187

Amounts included in the income statement

DNB Group

Amounts in NOK million	2017	2016
Rental income from investment properties	893	863
Direct expenses (including repairs and maintenance) related to investment properties generating rental income	(175)	(197)
Direct expenses (including repairs and maintenance) related to investment properties not generating rental income	(12)	(20)
Total	705	646

Changes in the value of investment properties

DNB Group

Amounts in NOK million	Investment properties
Carrying amount as at 31 December 2015	**16 734**
Additions, purchases of new properties	84
Additions, capitalised investments	263
Additions, acquired companies	1 259
Net gains	510
Disposals	(2 577)
Exchange rate movements	(361)
Carrying amount as at 31 December 2016	**15 912**
Additions, purchases of new properties	
Additions, capitalised investments	161
Additions, acquired companies	
Net gains [1)]	947
Disposals	(888)
Exchange rate movements	173
Carrying amount as at 31 December 2017	**16 306**

1) Of which NOK 171 million represented a net loss on investment properties which are not owned by DNB Livsforsikring.

NOTE 37 Investments accounted for by the equity method

	DNB Group	
Amounts in NOK million	2017	2016
Carrying amount as at 1 January	7 768	9 525
Share of profits after tax	(587)	771
Impairment of the ownership interest in Eksportfinans AS		144
Share of other comprehensive income [1]	175	(880)
Additions/disposals	8 254	(1 793)
Carrying amount as at 31 December [2]	**15 609**	**7 768**

					DNB Group		
	Assets	Liabilities			Ownership share (%)	Carrying amount	Carrying amount
	31 Dec.	31 Dec.	Income	Profit	31 Dec.	31 Dec.	31 Dec.
Amounts in NOK million	2017 [3]	2017 [3]	2017 [3]	2017 [3]	2017	2017	2016
Luminor Group AB [4]	148 505	131 586	848	27	44	7 387	
DNB Scandinavian Property Fund	8 540	332	349	547	35	2 914	2 753
Eksportfinans AS	22 398	15 595	(224)	(261)	40	2 721	3 219
Sørlandssenteret DA	2 624	25	132	94	50	1 300	1 257
Vipps AS [5]	380	135	(15)	(131)	52	525	
Visa Norge [1]						443	283
Other associated companies						320	256
Total						**15 609**	**7 768**

1) *DNB has indirect ownership interests in Visa Europe through its membership in Visa Norway. In connection with the valuation of the holdings in Visa Europe as at 31 March 2016 an accumulated gain of NOK 855 million was recognized in other comprehensive income. Upon the completion of the acquisition of Visa Europe by Visa Inc in the second quarter of 2016, this amount was reclassified to profit and a total gain of NOK 1 128 million was recognized as "Profit from investments accounted for by the equity method" in the income statement.*
2) *Include deferred tax positions and value adjustments not reflected in the company's balance sheet.*
3) *Values in the accounts of associated companies. Preliminary and unaudited accounts have been used.*
4) *DNB and Nordea combined their operations in Estonia, Latvia and Lithuania into the new company Luminor Group AB in the fourth quarter of 2017. DNB's ownership interest in Luminor Group AB is approximately 44 per cent. Luminor Group AB is consolidated in DNB according to the equity method.*
5) *In the third quarter of 2017, Vipps AS was established as a separate company and DNB entered into an agreement with 105 other Norwegian banks. DNB will have an ownership interest in the new legal entity (Vipps AS) of close to 52 per cent. However, due to the terms and conditions in the shareholder agreement, it has been decided to define Vipps AS as an associated company. DNB can vote for 49.9 per cent at the General Meeting, and has three of seven board members. Vipps AS is consolidated in DNB according to the equity method.*

NOTE 38 Intangible assets

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Goodwill	4 292	4 765
Capitalised systems development	1 203	948
Other intangible assets	105	100
Total intangible assets	**5 600**	**5 814**

				DNB Group
Amounts in NOK million	Goodwill	Capitalised systems development	Other intangible assets	Total
Cost as at 1 January 2016	9 240	4 921	1 000	15 161
Additions	19	285	346	650
Additions from the acquisition/establishment of other companies				
Increase/reduction in cost price	(41)			(41)
Disposals	(29)	(569)	(461)	(1 059)
Exchange rate movements	(56)	(55)	(40)	(150)
Cost as at 31 December 2016	9 134	4 582	845	14 561
Total depreciation and impairment as at 1 January 2016	(4 406)	(3 879)	(801)	(9 086)
Depreciation		(283)	(43)	(326)
Impairment	(5)	(21)		(26)
Disposals		489	70	559
Exchange rate movements	43	60	29	132
Total depreciation and impairment as at 31 December 2016	(4 368)	(3 634)	(745)	(8 747)
Carrying amount as at 31 December 2016	**4 765**	**948**	**100**	**5 814**
Cost as at 1 January 2017	9 134	4 582	845	14 561
Additions	45	535	28	609
Additions from the acquisition/establishment of other companies		2		2
Increase/reduction in cost price			(0)	(0)
Disposals [1)]	(703)	(43)	(0)	(745)
Exchange rate movements	22	147	79	248
Cost as at 31 December 2017	8 498	5 223	952	14 673
Total depreciation and impairment as at 1 January 2017	(4 368)	(3 634)	(745)	(8 747)
Depreciation		(254)	(69)	(323)
Impairment	(5)	(45)		(50)
Disposals [1)]	160	43	0	203
Exchange rate movements	7	(130)	(34)	(156)
Total depreciation and impairment as at 31 December 2017	(4 206)	(4 020)	(847)	(9 073)
Carrying amount as at 31 December 2017	**4 292**	**1 203**	**105**	**5 600**

1) Impairment losses for goodwill in 2017 of NOK 502 million was related to Cresco.

Goodwill

The risk-free interest rate is set at 3 per cent, the market risk premium is set at 5 per cent, and the long-term growth factor is set at 2.5 per cent for all cash-generating units. Beta values are estimated separately for each cash-generating unit. Required rate of return is before tax. For a detailed description of methods and assumptions used in the calculation of the recoverable amount for goodwill, see note 1 Accounting principles.

NOTE 38 Intangible assets (continued)

Goodwill per unit as at 31 December 2017 — **DNB Group**

	Growth factor (per cent)	Required rate of return (per cent)	Recorded (NOK million)
DNB Asset Management	2.5	13.1	1 679
Personal customers	2.5	11.9	982
Small and medium sized enterprises	2.5	11.9	483
DNB Finans - car financing	2.5	11.9	791
Other	2.5	11.9	357
Total goodwill			**4 292**

Goodwill per unit as at 31 December 2016 — **DNB Group**

	Growth factor (per cent)	Required rate of return (per cent)	Recorded (NOK million)
DNB Asset Management	2.5	13.7	1 679
Personal customers	2.5	12.4	982
Small and medium sized enterprises	2.5	12.4	483
DNB Finans - car financing	2.5	12.4	791
Other	2.5	12.4	830
Total goodwill			**4 765**

DNB Asset Management

The unit includes asset management operations, mainly in Norway and Sweden. Total goodwill from units in the operational area is assessed collectively, and the cash-generating unit represents the entire operational area. Operations are integrated, and synergies and rationalisation effects have been realised throughout the organisation. The operational area is the lowest level at which cash flows can be identified. The most critical assumptions for cash flows during the plan period are developments in the securities markets, net sales of mutual funds and margins.

Personal customers – parent bank

This unit encompasses banking operations (loans and deposits) for personal customers in the regional network in Norway, and recorded goodwill mainly stems from the merger between DnB and Gjensidige NOR and the acquisition of Nordlandsbanken. In addition, some goodwill remains from previously acquired offices in Gjensidige NOR. Key assumptions for cash flows during the plan period are developments in margins, volumes and impairment of loans.

Small and medium-sized enterprises – parent bank

This unit encompasses banking operations (loans and deposits) for corporate customers in the regional network in Norway, and recorded goodwill mainly stems from the merger between DnB and Gjensidige NOR. Key assumptions for cash flows during the plan period are developments in margins, volumes and impairment of loans.

DNB Finans – car financing

The unit encompasses DNB's car financing operations in Norway and Sweden, and goodwill stems from DNB's acquisition of Skandiabanken's car financing operations with effect from 2008. Critical assumptions for cash flows during the plan period are car sales figures and DNB Finans' ability to retain customer relations with important car dealers, along with long-term margin developments and the level of impairments of loans.

NOTE 39 Fixed assets

						DNB Group
Amounts in NOK million	Real property at historic cost	Real property at fair value	Machinery, equipment and vehicles	Fixed assets operational leases	Other fixed assets	Total
Accumulated cost as at 31 December 2015	798	951	3 683	8 648	174	14 255
Reclassified fixed assets	7		(7)			
Additions	19		235	2 333	27	2 614
Revaluation	0	47	0			48
Fixed assets, reclassified as held for sale	(419)		(280)		(100)	(799)
Disposals	(198)		(303)	(2 667)	(27)	(3 196)
Exchange rate movements	(35)		(25)	(296)	(7)	(364)
Cost as at 31 December 2016	173	998	3 302	8 018	67	12 558
Total depreciation and impairment as at 31 December 2015	(210)	(157)	(1 996)	(2 928)	(104)	(5 395)
Fixed asssets, reclassified as held for sale	113		209		62	384
Disposals	78		247	1 584	20	1 929
Depreciation [1)]	(20)	(14)	(347)	(1 252)	(13)	(1 646)
Impairment	(13)					(13)
Exchange rate movements	12		13	103	5	132
Total depreciation and impairment as at 31 December 2016	(39)	(171)	(1 875)	(2 493)	(31)	(4 609)
Carrying amount as at 31 December 2016	133	827	1 427	5 525	36	7 949
Value of property classified at fair value according to the historic cost principle		168				
Accumulated cost as at 31 December 2016	173	998	3 302	8 018	67	12 558
Reclassified fixed assets					(22)	(22)
Additions	3		388	2 883	3	3 277
Revaluation	0	(38)	(0)			(38)
Disposals	(11)		(56)	(2 272)	(4)	(2 343)
Exchange rate movements	2		0	228	5	235
Cost as at 31 December 2017	168	961	3 634	8 857	50	13 668
Total depreciation and impairment ast at 31 December 2016	(39)	(171)	(1 875)	(2 493)	(31)	(4 609)
Disposals			5	900	(1)	904
Depreciation [1)]	(9)		(311)	(853)	(4)	(1 177)
Reversal of previous impairment losses	0				2	2
Exchange rate movements	(1)		1	(81)	(4)	(84)
Total depreciation and impairment as at 31 December 2017	(49)	(171)	(2 179)	(2 528)	(37)	(4 965)
Carrying amount as at 31 December 2017	118	790	1 454	6 329	12	8 704
Value of property classified at fair value according to the historic cost principle		168				

1) Based on cost less any residual value, other assets are subject to straight-line depreciation over their expected useful life within the following limits:

Technical installations	*10 years*
Machinery	*3-10 years*
Fixtures and fittings	*5-10 years*
Computer equipment	*3-5 years*
Means of transport	*5-7 years*

The DNB Group has not placed any collateral for loans/funding of fixed assets, including property.

NOTE 40 Leasing

Financial leases (as lessor)		DNB Group
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Gross investment in the lease		
Due within 1 year	12 500	13 472
Due in 1-5 years	32 515	35 624
Due in more than 5 years	3 850	3 335
Total gross investment in the lease	48 865	52 431
Present value of minimum lease payments		
Due within 1 year	12 113	12 930
Due in 1-5 years	25 726	28 883
Due in more than 5 years	2 553	2 226
Total present value of lease payments	40 392	44 039
Unearned financial income	8 473	8 393
Unguaranteed residual values accruing to the lessor	72	65
Accumulated loan-loss provisions	2 100	1 918
Variable lease payments recognised as income during the period	56	117

Operational leases (as lessor)		DNB Group
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Future minimum lease payments under non-cancellable leases		
Due within 1 year	268	343
Due in 1-5 years	2 126	1 726
Due in more than 5 years	17	35
Total future minimum lease payments under non-cancellable leases	2 410	2 103

Operational leases (as lessee)		DNB Group
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Minimum future lease payments under non-cancellable leases		
Due within 1 year	49	89
Due in 1-5 years	447	436
Due in more than 5 years	5 481	5 457
Total minimum future lease payments under non-cancellable leases	5 977	5 982
Total minimum future sublease payments expected to be received under non-cancellable subleases	322	234

		DNB Group
Amounts in NOK million	2017	2016
Leases recognised as an expense during the period		
Minimum lease payments	784	806
Variable lease payments	13	
Total leases recognised as an expense during the period	797	806
Impairment of leases	(0)	(0)

NOTE 41 Other assets

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Accrued expenses and prepaid revenues	807	1 056
Amounts outstanding on documentary credits and other payment services	1 743	1 809
Unsettled contract notes	2 693	1 219
Past due, unpaid insurance premiums	220	235
Investment funds owned by non-controlling interests	46 685	27 009
Other amounts outstanding	4 411	5 381
Total other assets	**56 559**	**36 709**

NOTE 42 Deposits from customers for principal customer groups

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Private individuals	361 969	348 263
Transportation by sea and pipelines and vessel construction	46 559	51 347
Real estate	48 056	43 307
Manufacturing	59 951	68 738
Services	142 878	129 567
Trade	33 808	28 408
Oil and gas	34 110	27 267
Transportation and communication	50 750	52 650
Building and construction	22 815	26 435
Power and water supply	16 527	19 469
Seafood	8 445	7 582
Hotels and restaurants	3 078	3 071
Agriculture and forestry	2 362	2 465
Central and local government	55 114	57 715
Finance	84 434	68 264
Total deposits from customers, nominal amount	970 858	934 548
Adjustments	279	349
Deposits from customers	**971 137**	**934 897**

The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

NOTE 43 Debt securities issued

Changes in debt securities issued

DNB Group

Amounts in NOK million	Balance sheet 31 Dec. 2017	Issued 2017	Matured/ redeemed 2017	Exchange rate movements 2017	Other adjustments 2017	Balance sheet 31 Dec. 2016
Commercial paper issued, nominal amount	158 675	1 771 171	(1 767 362)	1 451		153 415
Bond debt, nominal amount [1]	596 377	77 859	(89 010)	27 906		579 622
Adjustments	25 195				(7 636)	32 832
Total debt securities issued	**780 247**	**1 849 030**	**(1 856 373)**	**29 357**	**(7 636)**	**765 869**

Maturity of debt securities issued recorded at amortised cost as at 31 December 2017 [1) 2)]

DNB Group

Amounts in NOK million	NOK	Foreign currency	Total
2018		74 913	74 913
2019		56 174	56 174
2020		85 082	85 082
2021		85 067	85 067
2022		87 648	87 648
2023		34 873	34 873
2024 and later		93 019	93 019
Total bond debt, recorded at amortised cost, nominal amount		516 777	516 777
Total debt securities issued recorded at amortised cost, nominal amount		516 777	516 777

Maturity of debt securities issued recorded at fair value as at 31 December 2017 [1)]

DNB Group

Amounts in NOK million	NOK	Foreign currency	Total
2018	17	158 658	158 675
Total commercial paper issued, nominal amount	17	158 658	158 675
2018	8 669		8 669
2019	18 085		18 085
2020	20 001		20 001
2021	19 557		19 557
2022	11 013		11 013
2023	257		257
2024 and later	2 017		2 017
Total bond debt, nominal amount	79 600		79 600
Total debt securities issued recorded at fair value, nominal amount	79 618	158 658	238 275
Adjustments	2 212	22 983	25 195
Debt securities issued	81 830	698 417	780 247

1) *Minus own bonds. Nominal amount of outstanding covered bonds in DNB Boligkreditt totalled NOK 450.4 billion as at 31 December 2017. The cover pool market value represented NOK 617.8 billion.*
2) *Includes hedged items.*

NOTE 44 Subordinated loan capital and perpetual subordinated loan capital securities

Changes in subordinated loan capital and perpetual subordinated loan capital securities — DNB Group

Amounts in NOK million	Balance sheet 31 Dec. 2017	Issued 2017	Matured/ redeemed 2017	Exchange rate movements 2017	Other adjustments 2017	Balance sheet 31 Dec. 2016
Term subordinated loan capital, nominal amount	23 897	10 106	(6 812)	1 189		19 415
Perpetual subordinated loan capital, nominal amount	5 361			(241)		5 602
Perpetual subordinated loan capital securities, nominal amount			(3 732)			3 732
Adjustments	280				(319)	599
Total subordinated loan capital and perpetual subordinated loan capital securities	**29 538**	**10 106**	**(10 544)**	**948**	**(319)**	**29 347**

DNB Group

Year raised	Carrying amount in foreign currency		Interest rate	Maturity	Call date	Carrying amount in NOK
Term subordinated loan capital						
2012	EUR	750	3.00% p.a.	2023	2018	7 375
2013	NOK	1 250	3-month NIBOR + 1.70%	2023	2018	1 250
2015	SEK	1 000	1.97% p.a.	2025	2020	999
2015	SEK	3 000	3-month STIBOR + 1.40%	2025	2020	2 997
2016	JPY	10 000	1.00% p.a.	2026	2021	729
2017	JPY	11 500	1.04% p.a.	2027	2022	838
2017	NOK	1 400	3-month NIBOR + 1.75%	2027	2022	1 400
2017	NOK	170	3.08% p.a.	2027	2022	170
2017	SEK	750	3-month STIBOR + 1.70%	2027	2022	749
2017	SEK	1 000	1.98% p.a.	2027	2022	999
2017	EUR	650	1.25% p.a.	2027	2022	6 391
Total, nominal amount						23 897
Perpetual subordinated loan capital						
1985	USD	215	3-month LIBOR + 0.25%			1 763
1986	USD	150	6-month LIBOR + 0.15%			1 230
1986	USD	200	6-month LIBOR + 0.13%			1 640
1999	JPY	10 000	4.51% p.a.		2029	729
Total, nominal amount						5 361

NOTE 45 Other liabilities

DNB Group

Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Short-term funding	458	1 574
Short positions trading	6 214	516
Accrued expenses and prepaid revenues	4 362	4 113
Documentary credits, cheques and other payment services	2 053	2 831
Unsettled contract notes	2 828	2 943
Accounts payable	2 004	1 587
General employee bonus	219	246
Non-controlling interests	46 685	27 009
Other liabilities	3 256	3 749
Total other liabilities [1]	**68 078**	**44 568**

1) Other liabilities are generally of a short-term nature.

NOTE 46 Equity

Share capital

The share capital of DNB ASA at 31 December 2017 and 31 December 2016 was NOK 16 287 988 610 divided into 1 628 798 861 shares, each with a nominal value of NOK 10.

DNB ASA has one class of shares, and all shares carry voting rights. Shareholders are entitled to receive the dividend proposed at any time and have one voting right per share at the company's general meeting.

The Board of Directors of DNB ASA has proposed that the general meeting to be held in April 2018 approve a dividend of NOK 7.10 per share for 2017.

Own shares

The Annual General Meeting held on 25 April 2017 authorised the Board of Directors of DNB ASA to acquire own shares for a total face value of up to NOK 244 319 829, corresponding to 1.5 per cent of the company's share capital. The shares shall be purchased in a regulated market. Each share may be purchased at a price between NOK 10 and NOK 200 per share. The authorisation is valid for a period of 12 months from 25 April 2017. DNB ASA has signed an agreement with the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries for the redemption of a proportional share of government holdings to ensure that the government's percentage ownership does not change as a result of the redemption of repurchased shares. DNB ASA repurchased a total of 10 750 068 shares in the open market under this authorisation during 2017, representing 0.66 per cent of its registered shares, at an average price of NOK 154.33 per share. The total price of repurchased shares was NOK 1 659 026 411. In addition, the government's proportional share, representing 5 537 914 shares, will be redeemed.

Additional Tier 1 capital

The Additional Tier 1 capital is issued by DNB Bank ASA.

Changes in additional Tier 1 capital — **DNB Group**

Amounts in NOK million	Balance sheet 31 Dec. 2017	Issued 2017	Interest paid 2017	Interest accrued 2017	Exchange rate movements 2017	Balance sheet 31 Dec. 2016
Additional Tier 1 capital, nominal amount	15 574					15 574
Adjustments	585		(724)	938	(7)	379
Additional Tier 1 capital	**16 159**		**(724)**	**938**	**(7)**	**15 952**

DNB Group

Year raised	Carrying amount in foreign currency		Interest rate	Carrying amount in NOK
2015	NOK	2 150	3-month NIBOR + 3.25%	2 150
2015	USD	750	5.75% p.a.	5 903
2016	NOK	1 400	3-month NIBOR + 5.25%	1 400
2016	USD	750	6.50% p.a.	6 120
Total, nominal amount				15 574

NOTE 47 Remunerations etc.

Pursuant to Section 6-16a of the Norwegian Public Limited Companies Act, the Board of Directors will present the following statement on remunerations to the Annual General Meeting for voting:

"Information about DNB's remuneration scheme

Pursuant to the Financial Institutions Regulations adopted by the Norwegian Ministry of Finance on 9 December 2016, companies are required to publish information about the main principles for determining remunerations, criteria for the stipulation of any variable remunerations and quantitative information on remuneration to senior executives. The information in this note, including the Board of Directors' statement on the stipulation of salaries and other remunerations to senior executives below, represents such information, as stipulated in the Financial Institutions Reguations.

The standard for remuneration in the DNB Group applies to the total remuneration to all permanent employees in the DNB Group and has been approved by the Board of Directors. The standard comprises total remuneration (fixed salary, short and long-term incentives) and employee benefits (pensions, employer's liability insurance and other employee benefits). According to the standard, total remuneration is to be based on a total evaluation of the performance of the Group, as well as the unit's and each individual's contributions to value creation. Total remuneration should be structured to ensure that it does not expose the Group to unwanted risk. The remuneration should be competitive, but also cost-effective for the Group.

Furthermore, the total remuneration shall consist of fixed salary, any supplementary pay related to the relevant position and a variable part where this is appropriate. Fixed salary should be a compensation for the responsibilities and requirements assigned to each position, as well as its complexity, while variable remuneration should encourage strong performance and desired conduct.

Variable remuneration

The group standards shall ensure that variable remuneration is granted in accordance with the provisions in the Financial Institutions Regulations and the circular from Finanstilsynet on remuneration schemes in financial institutions, investment firms and management companies for mutual funds, DNB has had separate group standards for variable remuneration since 2011, including special rules for variable remuneration to senior executives, employees with responsibilities which are of great importance to the company's risk exposure (”risk takers”) and employees who are responsible for independent control functions.

The purpose of variable remuneration is to reward conduct and develop a corporate culture which ensures long-term value generation.

Variable remuneration is based on an overall assessment of the results achieved within defined target areas for the Group, the unit and the individual, as well as compliance with the Group's purpose, values, Code of Conduct and leadership principles. The variable remuneration should be performance-based without exposing the Group to unwanted risk. Furthermore, it should counteract excessive risk taking and promote sound and effective risk management in DNB. Variable remuneration (bonus) cannot exceed 50 per cent of fixed salary for senior executives and 100 per cent for other risk takers.

DNB's variable remuneration scheme applies globally, though non-Norwegian branches and subsidiaries will also be required to comply with local legislation, regulations and guidelines. There may be challenges of a legal nature in cases where the Norwegian regulations do not correspond to local legislation and local rules concerning remunerations in financial institutions. In such cases, the Group will seek advice from the relevant authorities and international experts to ensure that the Group's practices are in compliance with both Norwegian and local regulations.

The Board of Directors' statement on the stipulation of salaries and other remunerations to senior executives

DNB's standard for determining remunerations to the group chief executive and other members of the group management team should, at all times, support prevailing strategy and values, while contributing to the attainment of the Group's targets. The remuneration should inspire conduct to build the desired corporate culture with respect to performance and profit orientation. No changes have been made in the principles for the stipulation of variable remunerations compared with the statement for the previous year.

Decision-making process

The Board of Directors in DNB ASA has established a compensation committee consisting of four members: the chairman of the Board, the vice-chairman, one board member and one board member elected by the employees.

The Compensation Committee prepares matters for the Board of Directors and has the following main responsibilities:

- Annually evaluate and present its recommendations regarding the total remuneration awarded to the group chief executive
- Annually prepare recommended targets for the group chief executive
- Based on suggestions from the group chief executive, decide the remuneration and other key benefits awarded to the group executive vice president, Group Audit and the group executive vice president, Group Risk Management
- Act in an advisory capacity to the group chief executive regarding remunerations and other key benefits for members of the group management team and, when applicable, for others who report to the group chief executive
- Consider other matters as decided by the Board of Directors and/or the Compensation Committee
- Evaluate other personnel-related issues which can be assumed to entail great risk to the Group's reputation

NOTE 47 Remunerations etc. (continued)

A. Standards for the coming accounting year

Remuneration to the group chief executive

The total remuneration to the group chief executive consists of fixed salary (main element), benefits in kind, variable remuneration, and pension and insurance schemes. The total remuneration is determined based on a total evaluation, and the variable part of the remuneration is primarily based on the Group's financial targets. In addition to the financial targets, strategic targets have been established, whereby developments in the Group's competence, innovative power and corporate responsibility are assessed. In addition, the total evaluation will reflect compliance with the Group's purpose, values, Code of Conduct and leadership principles.

The fixed salary is subject to an annual evaluation and is determined based on salary levels in the labour market in general and in the financial industry in particular, and on remuneration levels for comparable positions.

Variable salary to the group chief executive is determined based on an overall assessment of the results achieved within defined target areas. Variable salary cannot exceed 50 per cent of fixed salary. The group chief executive is not awarded performance-based payments other than the stated variable remuneration.

In addition to variable remuneration, the group chief executive can be granted benefits in kind such as company car, newspapers/periodicals and telephone/ other communication. Benefits in kind should be relevant to the group chief executive's function or in line with market practice, and should not be significant relative to the group chief executive's fixed salary.

The group chief executive is a member of the defined-contribution pension scheme pursuant to the Norwegian Defined-contribution Pension Act in line with all other employees in Norway.

As of 1 January 2017, the group chief executive also has a defined-contribution direct pension agreement. In connection with the conversion from a defined-benefit to a defined-contribution direct pension scheme, the group chief executive was ensured entitlements which, calculated on the conversion date, were estimated to correspond to the technical insurance value of the former defined-benefit agreement. Based on the calculation assumptions, this agreement will have the same value as the former defined-benefit agreement would have had at retirement age, which is 60 years. After the age of 60, no further contributions will be earned under the direct pension agreement.

According to the agreement, the group chief executive is entitled to a termination payment for two years if employment is terminated prior to the age of 60. If, during this period, the group chief executive receives income from other employment, the termination payment will be reduced by an amount corresponding to the salary received from this employment. Benefits in kind will be maintained for a period of three months.

Remuneration to senior executives

The group chief executive determines the remunerations to senior executives in agreement with the chairman of the Board of Directors. The Board of Directors will honour existing binding agreements.

The total remuneration to senior executives consists of fixed salary (main element), benefits in kind, variable salary, and pension and insurance schemes. The total remuneration is determined based on the need to offer competitive terms in the various business areas. The remunerations should promote the Group's competitiveness in the relevant labour market, as well as the Group's profitability, including the desired trend in income and costs. The total remuneration should take DNB's reputation into consideration and ensure that DNB attracts and retains senior executives with the desired skills and experience.

The fixed salary is subject to an annual evaluation and is determined based on salary levels in the labour market in general and in the financial industry in particular.

The variable remuneration to senior executives is determined based on an overall assessment of the results achieved within defined target areas. Variable salary cannot exceed 50 per cent of fixed salary.

Benefits in kind may be offered to senior executives to the extent the benefits have a relevant connection to the employee's function in the Group or are in line with market practice. The benefits should not be significant relative to the employee's fixed salary.

Target structure 2018

The Compensation Committee approves principal criteria, principles and limits for variable remuneration. The Board of Directors has decided that the Group's return on equity, risk-adjusted return on equity and cost/income ratio will constitute the financial target figures for 2018. In addition to the financial targets, strategic targets have been established, whereby developments in the Group's competence, innovative power and corporate responsibility are assessed. The Group's financial target figures have been broken down into relevant targets for the various business areas and staff and support units.

The above targets will be key elements when calculating and paying out the variable remuneration for 2018. All targets have been defined and communicated to the relevant business areas and staff and support units as part of the work with and follow-up of the targets for 2018.

NOTE 47 Remunerations etc. (continued)

Determination of variable remuneration for 2018

The variable remuneration for 2018 will be determined by means of an overall assessment of performance, based on a combination of quantitative attainment of pre-set performance targets and qualitative assessments of how the targets were achieved.

The Board of Directors will determine a maximum limit for total bonuses for the Group, excluding DNB Markets, DNB Eiendom and investment managers in DNB Asset Management, based on the attainment of group targets over the last two years, combined with a general assessment of other important parameters and the Group's financial capacity. The total limit will be allocated to the organisation based on the individual units' target attainment and contributions to the Group's performance. With respect to DNB Markets and investment managers in DNB Asset Management, special limits will be determined for variable remuneration based on the profits achieved by the unit and an overall assessment, which is in line with market practice for these types of operations. Correspondingly, the remuneration model in DNB Eiendom is consistent with market practice, with a high share of variable remuneration based on individual performance.

Special rules for senior executives, identified risk takers and employees responsible for independent control functions

DNB has prepared and implemented special rules for identified risk takers, employees responsible for independent control functions and senior executives, hereinafter called risk takers. The special rules supplement the general group standard for remuneration and have been formulated in compliance with the Financial Institutions Regulations and the related circular from Finanstilsynet.

In accordance with prevailing requirements, DNB has surveyed the entire organisation to identify risk takers based on the criteria resulting from the circular and the EU regulation.

For risk takers, the following main principles apply to variable remuneration:

- The remuneration is earned over a period of two years.
- Variable remuneration cannot exceed the agreed fixed remuneration.
- Senior executives in independent control functions will receive no variable remuneration as from the 2018 income year.

There will be a deferred and conditional payment of minimum 50 per cent of the earned variable remuneration in the form of DNB shares. The remuneration paid in the form of shares will be divided into three, subject to minimum holding periods (deferred and conditional), with one-third each year over a period of three years. The deferred and conditional payments will be in compliance with the stipulations in the Financial Institutions Regulations.

Pensions etc.

Pension schemes and any agreements on termination payments etc. should be considered relative to other remuneration and should ensure competitive terms. The various components in pension schemes and severance pay, either alone or together, must not be such that they could pose a threat to DNB's reputation.

All employees in Norway are members of the defined-contribution pension scheme pursuant to the Norwegian Defined-contribution Pension Act. Up to 31 December 2016, most senior executives in the Group had agreements entitling them to a defined-benefit pension at the age of 65, subject to certain adaptations, which at all times have been in accordance with government guidelines for remunerations to senior executives. Pension entitlements were not to exceed 70 per cent of fixed salary and should constitute maximum 12 times the National Insurance basic amount. However, the DNB Group has honoured existing agreements. As of 1 January 2017, these agreements have been replaced by defined-contribution direct pension agreements based on the same calculation assumptions and principles as those used in connection with the conversion of the Group's defined-benefit occupational pension scheme in 2016 pursuant to the Norwegian Occupational Pension Act.

The pension entitlements of the senior executives, calculated on the conversion date, are estimated to correspond to the technical value of the former defined-benefit scheme. Future capital entitlements now comprise annual contributions and the return on the entitlements earned. The annual contributions are calculated individually to ensure that, based on the calculation assumptions, the defined-contribution direct pension scheme will have the same value as the former defined-benefit agreement would have had at the agreed retirement age.

As a main rule, no termination payment agreements will be signed. However, the Group will honour existing agreements.

When entering into new agreements, the group standards generally apply and comprise all senior executives.

See table of remunerations for senior executives below.

B. Binding standards for shares, subscription rights, options etc. for the coming accounting year

An amount corresponding to 50 per cent of the earned variable remuneration of the group chief executive, senior executives and other risk takers is invested in shares in DNB ASA. The minimum holding periods are one year for one-third of the shares, two years for one-third of the shares and three years for the final one-third of the shares.

No additional shares, subscription rights, options or other forms of remuneration only linked to shares or only to developments in the share price of the company or other companies within the Group, will be awarded to the group chief executive or senior executives. The group chief executive and senior executives are, however, given the opportunity to participate in a share subscription scheme on the same terms as other employees in the DNB Group.

C. Statement on the senior executive salary policy in the previous account year

The group standards determined in 2011, including changes effective as from 2015, have been followed.

NOTE 47 Remunerations etc. (continued)

D. Statement on the effects for the company and the shareholders of remuneration agreements awarding shares, subscription rights, options etc.

An amount corresponding to 50 per cent of the gross variable remuneration earned by the group chief executive, senior executives and other risk takers in 2017 is invested in shares in DNB ASA. The Board of Directors believes that the awarding of shares to senior-executives, in view of the total number of shares in the company, will have no negative consequences for the company or the shareholders."

Terms for the chairman of the Board of Directors

Anne Carine Tanum received a remuneration of NOK 559 000 in 2017 as chairman of the Board of Directors of DNB ASA, compared with NOK 548 000 in 2016. In addition, she received NOK 450 000 as chairman of the Board of Directors of DNB Bank ASA, compared with NOK 437 000 in 2016.

Terms for the group chief executive

Rune Bjerke received an ordinary salary of NOK 5 957 000 in 2017, compared with NOK 5 794 000 in 2016. The Board of Directors of DNB ASA stipulated the group chief executive's variable remuneration for 2017 at NOK 2 272 000, compared with NOK 2 010 000 in 2016. The variable remuneration for 2017 will be paid in 2018. There wil be a deferred and conditional payment of 50 per cent of the earned variable remuneration in the form of DNB shares. The remuneration paid in the form of shares will be divided into three, subject to minimum holding periods of up to three years. Benefits in kind were estimated at NOK 301 000, compared with NOK 322 000 in 2016.

Costs in connection with the group chief executive’s pension scheme of NOK 5 105 000 were recorded for the 2017 accounting year, compared with NOK 3 871 000 in 2016. Costs are divided between DNB ASA and DNB Bank ASA. The costs recorded in the 2016 accounts consisted of two elements: pension entitlements earned during the year (NOK 4 989 000) and a deduction for the effect of the conversion of the pension scheme for salaries in excess of 12G (NOK 1 118 000).

NOTE 47 Remunerations etc. (continued)

The table has been designed to show rights earned during the period.

Remunerations etc. in 2017 — **DNB Group**

Amounts in NOK 1 000	Fixed annual salary as at 31 Dec. 2017 [1]	Remune-ration earned in 2017 [2]	Paid salaries in 2017 [3]	Variable remunera-tion earned in 2017 [4]	Benefits in kind and other benefits in 2017	Total remunera-tion earned in 2017	Loans as at 31 Dec. 2017 [5]	Specially agreed retire-ment age [9]	Accrued pension expenses in 2017 [6]
Board of Directors of DNB ASA									
Anne Carine Tanum (chairman) [7]		1 009				1 009			
Tore Olaf Rimmereid (vice-chairman) [7] [8]		575				575			
Karl-Christian Agerup (from 25.04.17) [8]		284				284			
Jarle Bergo (until 25.04.17)		253			1	254			
Carl A. Løvvik	725	327	734	22	22	1 105	553		173
Vigdis Mathisen [7]	796	417	795	22	30	1 265	2 015		167
Jaan Ivar Semlitsch [8]		478				478	4		
Berit Svendsen [7] [8]		482				482	13 348		
Group management									
Rune Bjerke, CEO	5 695		5 957	2 272	301	8 530	9 620	60	5 105
Bjørn Erik Næss, CFO (until 01.03.17)			2 045	250	3 308	5 603	957		19
Kjerstin Braathen, CFO (from 01.03.17)	4 000		3 881	1 522	216	5 618	12	65	707
Trond Bentestuen, group EVP	3 560		3 675	1 362	263	5 300	6 144	65	881
Ottar Ertzeid, group EVP	9 020		9 419	3 822	238	13 479	21	62	781
Benedicte S. Fasmer, group EVP	2 950		3 179	1 122	270	4 571	6 014		115
Rasmus Aage Figenschou, group EVP (from 11.12.17)	2 340		2 130	647	163	2 940	11 666		115
Liv Fiksdahl, group EVP (until 11.12.17)	3 200		3 347	1 222	245	4 814	1 113	62	1 235
Rune Garborg, group EVP (until 01.09.17)	2 950		2 179	950	214	3 343	6 401		175
Solveig Hellebust, group EVP	3 200		2 693	1 022	234	3 950	18	65	400
Ida Lerner, group EVP (from 11.12.17) [10]	3 992		2 162	1 477	2 376	6 015			
Bengt Olav Lund, group EVP (from 01.05.17 until 11.12.17)	2 950		3 232	1 072	255	4 558	6 592		115
Thomas Midteide, group EVP	2 500		2 568	1 022	251	3 840	2 186	65	269
Kari Olrud Moen, group EVP (until 11.12.17)	2 880		3 021	1 000	234	4 255	21	62	1 441
Alf Otterstad, group EVP (from 11.12.17)	1 840		1 664	622	150	2 436	3 124		115
Tom Rathke, group EVP (until 01.05.17)	3 480		3 795	872	245	4 912	6 078	62	2 454
Hans Olav Rønningen, group EVP (from 11.12.17)	1 650		1 714	822	180	2 716	4 880		206
Harald Serck-Hanssen, group EVP	4 175		4 368	1 422	258	6 048	5 130	65	1 217
Terje Turnes, group EVP (until 11.12.17)	4 010		4 143	582	242	4 967	92		709
Loans to other employees							20 766 087		

1) *Fixed annual salary at year-end for employees who were members of the Board of Directors or the group management team during the year.*
2) *Includes remuneration received from all companies within the DNB Group for service on Boards of Directors and committees. Board remuneration from DNB ASA was NOK 3 267 000 in 2017. Some persons are members of more than one body.*
3) *Includes salary payments for the entire year and holiday pay on bonuses. Some employees were members of the Board of Directors or the group management team for only parts of the year.*
4) *Variable remuneration earned excluding holiday pay.*
5) *Loans to shareholder-elected representatives are extended on ordinary customer terms. Loans to DNB employees are extended on special terms, which are close to ordinary customer terms.*
6) *Pension rights earned during the year (SCC). The calculation of pension entitlements is based on the same economic and actuarial assumptions as those used in note 25 Pensions.*
7) *Also a member of the Compensation Committee.*
8) *Also a member of the Audit Committee and the Risk Management Committee.*
9) *The agreed retirement age is specified when a special agreement has been entered into which includes related defined-contribution pension entitlements deviating from stipulations in the company's general standards.*
10) *Ida Lerner is on international assignment from Sweden to Norway. Prior to joining DNB's management team on 11 December 2017, she was head of DNB CEMEA in London, also on an international assignment contract. In accordance with DNB's international assignment policy, she has assignment-related benefits in kind, such as accommodation and children's school costs. Both her salary and benefits in kind are provided as net entitlements. The amounts have been grossed up with Norwegian taxes by an external service provider. As she is not a member of the Norwegian National Insurance Scheme, no social security contributions have been included in the gross amounts. In her new role as head of an independent control function, Ida Lerner will receive no variable remuneration as from the 2018 income year.*

NOTE 47 Remunerations etc. (continued)

The table has been designed to show rights earned during the period.

Remunerations etc. in 2016 **DNB Group**

Amounts in NOK 1 000	Fixed annual salary as at 31 Dec. 2016 [1]	Remuneration earned in 2016 [2]	Paid salaries in 2016 [3]	Variable remuneration earned in 2016 [4]	Benefits in kind and other benefits in 2016	Total remuneration earned in 2016	Loans as at 31 Dec. 2016 [5]	Accrued pension expenses [6]
Board of Directors of DNB ASA								
Anne Carine Tanum (chairman) [7]		985			2	987		
Tore Olaf Rimmereid (vice-chairman) [7] [8]		605			6	611	19	
Jarle Bergo [8]		710			6	717		
Carl A. Løvvik	721	319	728	20	30	1 096	545	171
Vigdis Mathisen	756	319	754	20	48	1 141	2 098	154
Jaan Ivar Semlitsch [8]		427				427	53	
Berit Svendsen [7] [8]		473				473	13 905	
Group management								
Rune Bjerke, CEO	5 556		5 794	2 010	322	8 126	8 845	4 989
Bjørn Erik Næss, CFO (until 01.03.17)	3 880		4 071	1 520	234	5 825	956	5 224
Kjerstin Braathen, CFO (from 01.03.17)	3 010		3 150	1 150	234	4 534	40	619
Trond Bentestuen, group EVP	3 560		3 204	1 290	268	4 763	6 301	706
Ottar Ertzeid, group EVP	8 820		9 205	3 800	235	13 240	23	623
Benedicte S. Fasmer, group EVP (from 26.09.16)	2 950		2 383	870	205	3 459	7 476	113
Liv Fiksdahl, group EVP	3 050		3 196	1 110	243	4 549	1 236	1 014
Rune Garborg, group EVP (from 26.09.16)	2 950		2 423	1 420	229	4 072	6 634	321
Solveig Hellebust, group EVP	2 450		2 571	930	232	3 733	3	379
Thomas Midteide, group EVP	2 500		2 098	930	259	3 287	4 482	256
Kari Olrud Moen, group EVP	2 810		2 945	1 020	232	4 197	18	1 320
Tom Rathke, group EVP	3 400		3 733	1 020	276	5 030	6 221	2 613
Bengt Olav Lund, EVP [9]	2 610		1 982	1 260	204	3 445	7 115	113
Harald Serck-Hanssen, group EVP	4 090		4 279	1 400	252	5 931	5 372	1 004
Terje Turnes, group EVP	3 930		4 119	580	235	4 935		575
Loans to other employees							19 575 838	

1) *Fixed annual salary at year-end for employees who were members of the Board of Directors or the group management team during the year.*
2) *Includes remuneration received from all companies within the DNB Group for service on Boards of Directors and committees. Board remuneration from DNB ASA was NOK 3 082 000 in 2016. Some persons are members of more than one body.*
3) *Includes salary payments for the entire year and holiday pay on bonuses. Some employees were members of the Board of Directors or the group management team for only parts of the year.*
4) *Variable remuneration earned excluding holiday pay.*
5) *Loans to shareholder-elected representatives are extended on ordinary customer terms. Loans to DNB employees are extended on special terms, which are close to ordinary customer terms.*
6) *Pension rights earned during the year (SCC). The calculation of pension entitlements is based on the same economic and actuarial assumptions as those used in note 25 Pensions. Pension rights earned during the year exclude the effect of the pension scheme conversion, see table in the 2016 annual report.*
7) *Also a member of the Compensation Committee.*
8) *Also a member of the Audit and Risk Management Committee.*
9) *Acting head of Wealth Management from May 2016. Fixed salary includes acting pay.*

NOTE 47 Remunerations etc. (continued)

Changes in the group management team

Bjørn Erik Næss retired on 1 March 2017 and thus left the group management team. Tom Rathke left the group management team on 1 May 2017, but is still employed in DNB with other responsibilities. As of the same date, Bengt Olav Lund became a permanent member of the group management team.

In connection with the establishment of Vipps as a separate limited company, Rune Garborg left the group management team as of 1 September 2017. His employment relationship in DNB was transferred to Vipps AS in connection with the demerger.

The new group structure effective on 11 December 2017 resulted in changes in the composition of the group management team. Ida Lerner and Ingjerd Blekeli Spiten (as of 9 January 2018) became new permanent members. In addition, Rasmus Aage Figenschau and Alf Otterstad became acting members of the group management team. Bengt Olav Lund, Liv Fiksdahl and Terje Turnes left the group management team, but are still employed in DNB with other responsibilities. Kari Olrud Moen chose to terminate her employment in DNB parallel to leaving the group management team and was granted a 12-month severance agreement. The other group executive vice presidents remained members of the group management team, some of whom were given other responsibilities.

Other information on pension agreements

The pension schemes of all senior executives were changed as of 1 January 2017, as described in the annual report for 2016. Changes in the pension agreements did not entail any changes in previously agreed age limits.

Bjørn Erik Næss' pension agreement entitled him to a pension representing 70 per cent of pensionable income from the age of 62. When he reached the agreed age, it was decided to extend his period of employment up until 1 March 2017. In the same way as for other senior executives, his pension agreement was also converted with effect from 31 December 2016, with a capital value corresponding to the technical insurance reserves on the original retirement date. No contributions were paid under the direct pension scheme in the period up to his final retirement on 1 March 2017.

See the annual report for 2016 for a specification of the pension expenses recorded in the accounts in 2016.

Subscription rights programme for employees

There was no subscription rights programme for employees in the DNB Group at year-end 2017.

Remuneration to the statutory auditor	**DNB ASA**		**DNB Group**	
Amounts in NOK 1 000, excluding VAT	2017	2016	2017	2016
Statutory audit [1]	(578)	(558)	(28 370)	(31 136)
Other certification services			(2 407)	(1 806)
Tax-related advice [2]			(12 679)	(12 875)
Other services			(7 078)	(3 933)
Total remuneration to the statutory auditor	(578)	(558)	(50 534)	(49 750)

1) Includes fees for interim audit and auditing funds managed by DNB.
2) Mainly refers to tax-related advice to employees on international assignments.

NOTE 48 Information on related parties

The largest owner of the DNB Group is the Norwegian government, represented by the Ministry of Trade and Industry, which owns and controls 34 per cent of the shares in the parent company DNB ASA. See note 50 largest shareholders.

A large number of bank transactions are entered into with related parties as part of ordinary business transactions, comprising loans, deposits and foreign exchange transactions. These transactions are based on market terms. The table below shows transactions with related parties, including balance sheets at year-end and related expenses and income for the year. Related companies are associated companies plus DNB Savings Bank Foundation. See note 37 for a specification of associated companies. Loans to board members and their spouses/ partners and under-age children are extended on ordinary customer terms. Loans to group management, like loans to other group employees, are extended on special terms, which are close to ordinary customer terms.

Transactions with related parties **DNB Group**

	Group management and Board of Directors		Related companies	
Amounts in NOK million	2017	2016	2017	2016
Loans as at 1 January	82	69	1 125	913
New loans/repayments during the year	14	(9)	(48)	(37)
Changes in related parties	(17)	21	21 238	249
Loans as at 31 December	**79**	**82**	**22 316**	**1 125**
Interest income	**3**	**2**	**25**	**24**
Deposits as at 1 January	287	245	899	1 000
Deposits/withdrawals during the year	64	37	372	(102)
Changes in related parties	(65)	5	334	1
Deposits as at 31 December	**285**	**287**	**1 605**	**899**
Interest expenses	**(1)**	**(1)**	**(8)**	**(9)**
Guarantees [1)]	**-**	**-**	**3 543**	**5 951**

1) DNB Bank ASA had issued guarantees for other loans in Eksportfinans. The total guarantee commitment is included in the table above.

No impairments were made on loans to related parties in 2016 and 2017. Reference is made to note 47 for information on loans to group management members and directors. Transactions with deputy members of the Board of Directors are not included in the table above. In general, DNB employee loans should be paid by automatic debit in monthly instalments in arrears. Employee loans are within the term limits applying to general customer relationships. Security is furnished for employee loans in accordance with legal requirements.

NOTE 49 Earnings per share

	DNB Group	
	2017	2016
Profit for the year (NOK million) [1]	20 865	18 656
Profit attributable to shareholders (NOK million)	20 865	18 656
Profit attributable to shareholders excluding operations held for sale (NOK million)	20 866	18 652
Profit from operations and non-current assets held for sale, after taxes (NOK million)	(1)	4
Average number of shares (in 1 000)	1 628 799	1 628 799
Average number of own shares (in 1 000)	3 541	1 064
Average number of outstanding shares (in 1 000)	1 625 258	1 627 735
Average number of outstanding shares, fully dilluted (in 1 000)	1 625 258	1 627 735
Earnings/diluted earnings per share (NOK)	12.84	11.46
Earnings/dilutet earnings per share excluding operations held for sale (NOK)	12.84	11.46
Earnings/diluted earnings per share, operations held for sale (NOK)	(0.00)	0.00

1) Portion attributable to shareholders.

The main purpose of the financial ratio earnings per share is to show the return for the Group's ordinary shareholders. Accumulated interest for the period, which will be paid to those investing in the additional Tier 1 capital instruments, has therefore been deducted from Profit for the period in the calculation of the period's earnings per share.

NOTE 50 Largest shareholders

Shareholder structure in DNB ASA as at 31 December 2017	Shares in 1 000	Ownership in per cent
Norwegian Government/Ministry of Trade, Industry and Fisheries	553 792	34.2
DNB Savings Bank Foundation	130 001	8.0
Folketrygdfondet	99 893	6.2
Fidelity International	30 055	1.9
BlackRock	28 526	1.8
The Vanguard Group	27 252	1.7
Deutsche Asset Management	26 705	1.7
Schroder Investment	18 908	1.2
Capital World Investors	18 043	1.1
MFS Investment Management	16 538	1.0
T. Rowe Price Group	15 846	1.0
Storebrand Kapitalforvaltning	15 646	1.0
KLP	15 395	1.0
DNB Asset Management	14 467	0.9
Janus Henderson Investors	13 489	0.8
SAFE Investment Company	13 217	0.8
State Street Global Advisors	12 900	0.8
Nordea Funds	11 209	0.7
Edinburgh Partners Limited	11 086	0.7
Columbia Threadneedle Investments	11 067	0.7
Total largest shareholders	1 084 035	67.0
Other shareholders	534 014	33.0
Total	**1 618 049**	**100.0**

The owners of shares in nominee accounts are determined on the basis of third-party analyses.

Share buy-back programmes

In the course of 2017, DNB completed two buy-back programmes totalling 0.66 per cent of outstanding shares. According to an agreement, the Norwegian government will redeem shares on a proportional basis so that its current holding will remain at 34 per cent. Including the Norwegian government's holding of repurchased shares, the completed repurchases represented 1 per cent of the total number of outstanding shares at the beginning of 2018. For further information about the share buy-back programme, see the chapter on the DNB share.

NOTE 51 Off-balance sheet transactions and contingencies

Off-balance sheet transactions and additional information

	DNB Group	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Performance guarantees	28 534	30 824
Payment guarantees	31 602	34 411
Loan guarantees	17 525	17 898
Guarantees for taxes etc.	6 254	6 557
Other guarantee commitments	3 153	2 713
Total guarantee commitments	87 068	92 403
Support agreements	10 735	6 106
Total guarantee commitments etc. *)	97 803	98 509
Unutilised credit lines and loan offers	589 027	606 055
Documentary credit commitments	4 170	3 948
Other commitments	2 549	1 397
Total commitments	595 746	611 399
Total guarantee and off-balance commitments	693 549	709 908
Pledged securities		
*) *Of which counter-guaranteed by financial institutions*	*295*	*326*

DNB Bank ASA is a member and shareholder of the settlement system Continuous Linked Settlement (CLS). As a shareholder, DNB Bank ASA has an obligation to contribute to cover any deficit in CLS Bank's central settlement account for member banks, even if the default is caused by another member bank. Initially, such deficit will be sought covered by other member banks based on transactions the respective banks have had with the member bank which has caused the deficit in CLS Bank. Should there remain an uncovered deficit in CLS Bank, this will be covered pro rata by the member banks in CLS, according to Article 9 "Loss Allocations" of CLS Bank's International Rules. According to the agreements between CLS and the member banks, the pro rata payment obligations related to such coverage of any remaining deficit are limited to USD 30 million per member bank. At the end of 2017, DNB had not recorded any obligations in relation to CLS.

DNB Boligkreditt AS

At end-December 2017, DNB Boligkreditt had issued covered bonds with a nominal value of NOK 450 billion. In the event of bankruptcy, the bondholders have preferential rights to the company's cover pool.

Covered bonds	DNB Boligkreditt	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Total listed covered bonds	379 635	355 932
Total private placements under the bond programme	70 812	59 859
Adjustment		
Accrued interest	3 033	3 581
Unrealised gains/losses	14 757	19 701
Total debt securities issued	468 236	439 072

Cover pool	DNB Boligkreditt	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Pool of eligible loans	617 756	599 579
Market value of derivatives	52 878	38 527
Supplementary assets		
Total collateralised assets	670 634	638 106
Debt securities issued, carrying value	468 236	439 072
Less valutation changes attributable to changes in credit risk on debt carried at fair value	(465)	(192)
Debt securities issued, valued according to regulation 1)	467 771	438 880
Collateralisation (per cent)	143.4	145.4

1) *The debt securities issued are bonds with preferred rights in the appurtenant cover pool. The composition and calculation of values in the cover pool are defined in Sections 11-8 and 11-11 of the Financial Institutions Act with appurtenant regulations.*

NOTE 51 Off-balance sheet transactions and contingencies (continued)

Contingencies

Due to its extensive operations in Norway and abroad, the DNB Group will regularly be party to a number of legal actions. None of the current disputes are expected to have any material impact on the Group's financial position.

The DNB Group is subject to a number of complaints and disputes relating to structured products and other investment products.

On 21 June 2016, the Norwegian Consumer Council instituted legal proceedings before the Oslo District Court against DNB Asset Management AS, a wholly-owned subsidiary of DNB ASA offering asset management services. The Norwegian Consumer Council instituted a class action to pursue compensation of up to NOK 690 million on behalf of current and former investors in a fund managed by DNB Asset Management AS, as well as two funds merged into that fund. The Consumer Council alleged that the funds were charging high fees for active management, but were actually tracking an index. The Oslo District Court passed its judgment on 12 January 2018, whereby the claim was rejected and DNB Asset Management was acquitted. On 12 February 2018, the Norwegian Consumer Council launched an appeal to the Borgarting Court of Appeal and reduced the compensation claim to approximately NOK 450 million.

NOTE 52 Transition to IFRS 9

In July 2014, the IASB issued the new standard for financial instruments IFRS 9 Financial Instruments, which replaces the current IAS 39. The new standard introduces a business model oriented approach for classification of financial assets, an expected loss model for impairment and a new general hedge accounting model. IASB is still working on a new requirement related to macro hedge accounting. This work has been established as a separate project and is expected to be finalised at a later point in time.

IFRS 9 is effective from 1 January 2018. The standard was endorsed by the EU in November 2016.

Subsequently IFRS 9 disclosures will be presented in the following order: Accounting principles, Transition disclosures for Classification and Measurement as well as Impairment, Methodology used for expected credit loss measurement and lastly the impact on regulatory capital.

References to line items refer to the financial statements under IFRS 9.

ACCOUNTING PRINCIPLES IFRS 9

Classification and presentation

Financial assets are classified in one of the following measurement categories:

- amortised cost
- fair value through other comprehensive income
- fair value through profit or loss (FVTPL).

The classification of financial assets depends on two factors:

- the business model of the portfolio to which the financial asset belongs
- the contractual cash flow characteristics of the financial asset.

When determining the business model, the Group assesses at portfolio level how the business is managed, sales activities, risk management and how information is provided to the executive management. The business model assessment has been performed for each business area. The portfolios belonging to the customer areas are held within a business model whose objective is to hold the assets and collect the contractual cash flows, while there are several different business models for the portfolios belonging to the product area Markets. For instance, the business model for the liquidity portfolio in Markets is to both hold the assets to collect the contractual cash flows and to sell the assets. However, the portfolio is designated at fair value through profit or loss in order to reduce an accounting mismatch.

A contractual cash flow characteristics test is performed on initial recognition of financial assets. Financial assets with cash flows that are solely payments of principal and interest pass the test if the interest only compensates for the time value of money, credit risk, liquidity risk, servicing and administrative costs and a profit margin.

Financial liabilities are classified at amortised cost, except for financial liabilities that are required to be measured at fair value through profit or loss or designated at fair value through profit or loss.

Financial assets may irrevocably be designated at fair value through profit or loss on initial recognition if the following criterion is met:

- the classification eliminates or significantly reduces measurement or recognition inconsistency that otherwise would arise from measuring financial assets or recognising the gains and losses on them on different bases.

Financial liabilities may also irrevocably be designated at fair value through profit or loss on initial recognition if the criterion above is fulfilled or one of the following:

- the financial instruments are part of a portfolio that is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- the host contract contains one or more embedded derivatives.

Financial assets measured at amortised cost

Investments in debt instruments, which are not designated at fair value through profit or loss, are measured at amortised cost if both of the following conditions are met:

- the assets are held within a business model whose objective is to hold the asset and collect the contractual cash flows
- the contractual cash flows represent solely payment of principal and interest.

Debt instruments are initially recognised at fair value plus any directly attributable transaction costs. Subsequent measurement follows the effective interest method, less impairment. Impairment losses and reversals are measured based on a three-stage expected credit loss model. This model is described under Expected credit loss measurement.

A change in value based on an expected credit loss allowance for debt instruments measured at amortised cost on the balance sheet date is presented under “Impairment of financial instruments” in the income statement.

Interest income on financial instruments classified in this category is presented under “Interest income, amortised cost” using the effective interest method.

NOTE 52 Transition to IFRS 9 (continued)

This category mainly comprises loans to customers, cash and deposits, receivables, reverse repurchase agreements and bond investments.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are initially recognised at fair value minus any directly attributable transaction costs. Interest expenses on such instruments are presented under "Interest expense, amortised cost" using the effective interest method.

This category includes deposits from customers and credit institutions, repurchase agreements, issued commercial paper and bonds, subordinated loan capital and perpetual subordinated loan capital securities.

Financial instruments measured at fair value through profit or loss

The following instruments are recognised in this category:

- derivatives
- equity instruments
- financial instruments held for trading
- financial assets managed at fair value
- financial instruments designated at fair value through profit or loss on initial recognition
- debt instruments with contractual cash flows that do not represent solely payment of principal and interest.

Instruments in this category are initially recognised at fair value, with transaction costs recognised in profit or loss as they occur. Subsequent measurement is fair value with gains and losses recognised in the income statement.

Changes in the fair value of the financial instruments are presented under "Net gains on financial instruments at fair value" in the income statement. Changes in the fair value of financial instruments within life insurance are presented under the line item "Net financial result, DNB Livsforsikring". Financial derivatives are presented as an asset if the fair value is positive and as a liability if the fair value is negative.

Interest income and interest expenses from interest-bearing financial instruments including financial derivatives are presented under "Net interest income", except for interest income and interest expenses from financial instruments belonging to the trading portfolio.

The trading portfolio consists of instruments, which are acquired primarily for the purpose of selling or repurchasing in the near term. This includes financial derivatives and bond portfolios. Interest income and interest expenses from financial instruments belonging to the trading portfolio are presented as "Net gains on financial instruments at fair value".

Financial assets designated at fair value through profit or loss on initial recognition, mainly consist of bonds and fixed-rate mortgage loans in Norwegian kroner. Financial liabilities designated at fair value through profit or loss on initial recognition mainly consist of fixed-rate securities issued in Norwegian kroner.

For financial liabilities designated at fair value through profit or loss, the change in fair value related to changes in the Group's credit risk is calculated using relevant credit spread curves from Nordic Bond Pricing. The changes in credit spreads on fixed-rate securities issued in Norwegian kroner do not create or enlarge an accounting mismatch and are therefore separated and recognised in other comprehensive income.

Issued financial guarantees

Contracts resulting in the Group having to reimburse the holder for a loss incurred because a specific debtor fails to make payments when due, are classified as issued financial guarantees.

On initial recognition, issued financial guarantees are recognised at the consideration received for the guarantee. Issued financial guarantees are subsequently measured at the higher of the amount of loss allowance and the amount initially recognised less the cumulative amount of any revenue recognised in the income statement.

When issuing financial guarantees, the consideration for the guarantee is presented under the line item "Provisions" in the balance sheet. Income from issued financial guarantees and expenses from bought financial guarantees, are amortised over the duration of the instruments and presented as "Commission and fee income" or "Commission and fee expense".

Change in expected credit loss is recognised under the line item "Impairment of financial instruments" in the income statement.

Loan commitments

An expected credit loss is calculated for loan commitments and presented under the line item "Provisions" in the balance sheet. Any change in the expected credit loss allowance is recognised under the line item "Impairment of financial instruments" in the income statement.

For instruments containing both a drawn and an undrawn component, the expected credit loss will be split pro rata between the loss allowance and provisions based on the relative parts of the exposure.

Financial instruments with the characteristics of equity

Issued additional Tier 1 capital instruments are instruments where DNB has a unilateral right not to repay interest or the principal to the investors. As a consequence of these terms, the instruments do not meet the requirements for a liability and are therefore presented on the line

NOTE 52 Transition to IFRS 9 (continued)

"Additional Tier 1 Capital" within the Group's equity. Transaction expenses and accrued interest are presented as a reduction in "Other equity", while the advantage of the tax deduction for the interest will give an increase in "Other equity".

Equity in foreign currency shall be converted to Norwegian kroner based on the exchange rate on the transaction date and is not subject to subsequent revaluation.

Reclassifications
Debt instruments are only reclassified when there is a significant change in the business model for those assets. Such changes are expected to be very infrequent. Financial liabilities are not reclassified.

Initial recognition
Financial assets are recognised in the balance sheet either on the trade date or the settlement date. Trade date accounting is applied for financial assets measured at fair value through profit or loss, while settlement date accounting is applied for financial assets measured at amortised cost.

Financial liabilities are recognised in the balance sheet on the date when the Group becomes a party to the contractual provisions of the instrument.

Derecognition
Derecognition of financial assets
Financial assets are derecognised when the right to receive and retain cash flows from the asset has expired or been transferred, and also if modifications lead to derecogntion. The Group enters into certain transactions where it transfers assets recognised on its balance sheet, but retains either all or parts of the risks and rewards of the transferred asset. If all or substantially all of the risks and rewards are retained, the transferred financial asset is not de-recognised from the balance sheet, but reclassified to separate assets or liabilities reflecting the rights and obligations created or retained in the transfer. Such transactions could entail the transfer of a loan portfolio where the Group retains the risks and returns associated with the transferred portfolio by guaranteeing for all risks in the portfolio or entering into a total return swap.

Derecognition of financial liabilities
Financial liabilities are de-recognised when the contractual obligations have been discharged, cancelled or have expired.

Modifications
An assessment of whether or not a modification of a financial asset at amortised cost leads to de-recognition and recognition of new asset is based on the following considerations:

- Differentiation between changes in the cash flows or other terms within the original contract and modifications of the contract
- An assessment of whether or not a modification is substantial. A substantial modification is defined as a full credit process, a pricing decision and the signing of a new contract
- An assessment of whether the modification is caused by distress or made on commercial terms.

Expected credit loss measurement (ECL)
The IFRS 9 expected credit loss model replaces the incurred loss model from IAS 39. The ECL model estimates impairment on the following instruments that are not measured at fair value through profit and loss:

- financial assets that are debt instruments
- lease receivables
- financial guarantee contracts issued
- loan commitments.

A simplified model will be used for measuring expected credit loss on trade receivables.

The Group measures ECL at each reporting date for these instruments, reflecting

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group measures a loss allowance at an amount reflecting lifetime ECL for all instruments that have been subject to a significant increase in credit risk. Instruments for which there has been no significant change in risk, a 12-month expected credit loss is recognised.

Hedge accounting
The Group has chosen to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

NOTE 52 Transition to IFRS 9 (continued)

IMPLEMENTATION IMPACT

The application of the accounting policies under IFRS 9 has resulted in the reclassifications set out in the tables below upon transition to the new standard.

In the table below, the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets are shown.

Financial assets as at 1 January 2018 **DNB Group**

Amounts in NOK million	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount IAS 39	New carrying amount IFRS 9
Cash and deposits with central banks	FVTPL (held for trading)	Amortised cost	143 463	143 461
	FVTPL (designated)	Amortised cost	3 251	3 251
	Amortised cost	Amortised cost	4 881	4 881
Due from credit institutions	FVTPL (held for trading)	Amortised cost	199 288	199 277
	Amortised cost	Amortised cost	40 041	40 034
Loans to customers	FVTPL (held for trading)	Amortised cost	55 839	55 837
	FVTPL (designated)	Amortised cost	75 101	10 085
		FVTPL (designated)		64 989
	Amortised cost	Amortised cost	1 414 475	1 414 163
Commercial paper and bonds	FVTPL (held for trading)	FVTPL (held for trading)	169 059	166 835
		FVTPL (designated)		2 224
	FVTPL (designated)	FVTPL (mandatory)	169 653	162 489
		Amortised cost		7 156
	Held-to-maturity	FVTPL (held for trading)	83 894	9 581
		Amortised cost		74 276
Shareholdings	FVTPL (held for trading)	FVTPL (held for trading)	6 304	5 508
		FVTPL (mandatory)		795
	FVTPL (designated)	FVTPL (mandatory)	21 917	21 917
Financial assets, customers bearing the risk	FVTPL (designated)	FVTPL (mandatory)	75 206	75 206
Financial derivatives	FVTPL (held for trading)	FVTPL (held for trading)	106 018	106 018
	FVTPL (hedging derivatives)	FVTPL (mandatory)	26 331	26 331
Other assets	Amortised cost	Amortised cost	56 559	56 559
Total			**2 651 279**	**2 650 875**

Based on the business model assessment, certain portfolios in Markets have been reclassified from fair value through profit and loss to amortised cost. This includes portfolios presented as cash and deposits with central banks and reverse repurchase agreements presented as due from credit institutions and loans to customers. The assessment of the business model under IFRS 9 has been made in connection with the assessment of the new regulations following the Fundamental Review of the Trading Book (FRTB) introduced by the Basel Committee. Under IAS 39, the instruments, which are of a very short-term nature, have been presented as held for trading and measured at fair value. Based on the analysis made of the instruments in the banking book, the business model will be hold to collect going forward as the instruments typically are held to collect cash flows at maturity and not managed on a fair value basis.

Furthermore, as a result of the business model assessment of the bond portfolios in Markets some reclassifications have been made. Part of the liquidity portfolio classified as held for trading under IAS 39 has been reclassified as designated at fair value through profit and loss, since fair value measurement significantly reduces an accounting mismatch. The bond portfolio classified as held-to-maturity under IAS 39 has been reclassified to fair value through profit or loss due to a held for trading business model.

The held-to-maturity portfolio in DNB Livsforsikring AS has been classified as measured at amortised cost due to a hold to collect business model.

Certain bond portfolios and financial assets where the customer bears the risk are managed based on fair value. Under IAS 39, these instruments were designated at fair value using the fair value option, but are mandatorily measured at fair value through profit or loss under IFRS 9.

A portfolio of margin loans that was designated at fair value using the fair value option under IAS 39, has been reclassified to amortised cost under IFRS 9 since fair value measurement does not significantly reduce an accounting mismatch.

Shareholdings are mandatorily measured at fair value through profit and loss under IFRS 9.

NOTE 52 Transition to IFRS 9 (continued)

As a consequence of the reclassifications of financial assets, certain financial liabilities have also been reclassified in order to prevent accounting inconsistencies. The reclassified financial liabilities include cash, deposits and repurchase agreements presented as due to credit institutions and deposits from customers. Furthermore, a portfolio of commercial paper liabilities in Markets has been reclassified from fair value through profit or loss (held for trading) to amortised cost based on an assessment of the sales activities in the portfolio.

In the table below, the measurement categories in accordance with IAS 39 and IFRS 9 for the Group's financial liabilities are shown.

Financial liabilities as at 1 January 2018 **DNB Group**

Amounts in NOK million	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount IAS 39	New carrying amount IFRS 9
Due to credit institutions	FVTPL (held for trading)	Amortised cost	182 335	182 316
	FVTPL (designated)	Amortised cost	4 657	4 657
	Amortised cost	Amortised cost	37 115	37 115
Deposits from customers	FVTPL (held for trading)	Amortised cost	41 692	39 827
		FVTPL (designated)		1 895
	FVTPL (designated)	Amortised cost	14 090	192
		FVTPL (designated)		13 897
	Amortised cost	Amortised cost	915 356	915 356
Financial derivatives	FVTPL (held for trading)	FVTPL (held for trading)	106 997	106 997
	FVTPL (hedging derivatives)	FVTPL (mandatory)	3 265	3 265
Debt securities issued	FVTPL (held for trading)	FVTPL (held for trading)	158 693	(12)
		Amortised cost		158 701
	FVTPL (designated)	FVTPL (designated)	81 823	81 823
	Amortised cost	Amortised cost	539 731	539 731
Other liabilities	FVTPL (held for trading)	FVTPL (held for trading)	6 214	6 214
	Amortised cost	Amortised cost	61 865	61 865
Subordinated loan capital	FVTPL (designated)	FVTPL (designated)	2 873	2 873
	Amortised cost	Amortised cost	26 666	26 666
Total			**2 183 370**	**2 183 377**

NOTE 52 Transition to IFRS 9 (continued)

In the table below, reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 upon transition is shown.

Financial assets **DNB Group**

Amounts in NOK million	IAS 39 carrying amount 31 Dec. 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 Jan. 2018
Amortised cost				
Cash and deposits with central banks, opening balance	4 881			
From FVTPL		146 712		
Closing balance				151 593
Due from credit institutions, opening balance	40 041		(6)	
From FVTPL		199 277		
Closing balance				239 312
Loans to customers, opening balance	1 414 475		(310)	
From FVTPL		65 922	(2)	
Closing balance				1 480 085
Commercial paper and bonds, opening balance				
From FVTPL		7 156	(0)	
From commercial paper and bonds, held-to-maturity		74 281	(5)	
Closing balance				81 432
Commercial paper and bonds, held-to-maturity, opening balance	83 894			
To Commercial paper and bonds, FVTPL		(9 613)		
To Commercial paper and bonds, amortised cost		(74 281)		
Closing balance				0
Other assets	56 559			56 559
Total amortised cost	**1 599 850**	**409 454**	**(323)**	**2 008 981**
Fair value through profit and loss (FVTPL)				
Cash and deposits with central banks, opening balance	146 714			
To amortised cost		(146 712)	(2)	
Closing balance				0
Due from credit institutions, opening balance	199 288			
To amortised cost		(199 277)	(10)	
Closing balance				0
Loans to customers, opening balance	130 940			
To amortised cost		(65 922)	(29)	
Closing balance				64 989
Commercial paper and bonds, opening balance	338 713			
To amortised cost		(7 156)	(8)	
From Commercial paper and bonds, held-to-maturity		9 613	(32)	
Closing balance				341 129
Shareholdings	28 220			28 220
Financial assets, customers bearing the risk	75 206			75 206
Financial derivatives	132 349			132 349
Total FVTPL	**1 051 429**	**(409 454)**	**(81)**	**641 894**

NOTE 52 Transition to IFRS 9 (continued)

Financial liabilities **DNB Group**

Amounts in NOK million	IAS 39 carrying amount 31 Dec. 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 Jan. 2018
Amortised cost				
Due to credit institutions, opening balance	37 115			
From FVTPL		186 974		
Closing balance				224 089
Deposits from customers, opening balance	915 356			
From FVTPL		40 019		
Closing balance				955 375
Debt securities issued, opening balance	539 731			
From FVTPL		158 701		
Closing balance				698 432
Other liabilities	61 865			61 865
Subordinated loan capital	26 666			26 666
Total amortised cost	**1 580 732**	**385 694**		**1 966 426**
Fair value through profit and loss (FVTPL)				
Due to credit institutions, opening balance	186 993			
To amortised cost		(186 974)	(19)	
Closing balance				(0)
Deposits from customers, opening balance	55 782			
To amortised cost		(40 019)	30	
Closing balance				15 792
Debt securities issued, opening balance	240 516			
To amortised cost		(158 701)	(4)	
Closing balance				81 811
Other liabilities	6 214			6 214
Subordinated loan capital	2 873			2 873
Financial derivatives	110 262			110 262
Total FVTPL	**602 638**	**(385 694)**	**7**	**216 951**

NOTE 52 Transition to IFRS 9 (continued)

In the table below, the classification of financial instruments under IFRS 9 is shown.

As at 1 January 2018	Mandatorily at FVTPL				DNB Group
Amounts in NOK million	Trading	Other [1]	Designated as at FVTPL [2]	Amortised cost [3]	Carrying amount IFRS 9
Cash and deposits with central banks				151 593	151 593
Due from credit institutions				239 312	239 312
Loans to customers			64 989	1 480 085	1 545 075
Commercial paper and bonds	176 416		164 713	81 432	422 561
Shareholdings	5 508	22 712			28 220
Financial assets, customers bearing the risk		75 206			75 206
Financial derivatives	106 018	26 331			132 349
Other assets				56 559	56 559
Total financial assets	287 942	124 249	229 702	2 008 981	2 650 875
Due to credit institutions				224 089	224 089
Deposits from customers			15 792	955 375	971 167
Financial derivatives	106 997	3 265			110 262
Debt securities issued	(12)		81 823	698 432	780 243
Other liabilities	6 214			61 865	68 078
Subordinated loan capital			2 873	26 666	29 538
Total financial liabilities	113 198	3 265	100 488	1 966 426	2 183 377

1) Including derivatives used as hedging instruments.
2) For liabilities designated as at FVTPL, changes in fair value due to credit risk are recognised in other comprehensive income.
3) Including hedged liabilities.

The DNB Group's long-term borrowings in Norwegian kroner are designated at fair value through profit or loss using the fair value option. The presentation of changes in credit risk in other comprehensive income neither creates nor enlarges an accounting mismatch.

In the table below financial assets and financial liabilities that are no longer designated at fair value are shown.

				DNB Group
Amounts in NOK million	Classification under IAS 39	Classification under IFRS 9	Reason for reclassification	IAS 39 carrying amount 31 Dec. 2017
Cash and deposits with central banks	Fair value option	Amortised cost	Required by IFRS 9	3 251
Loans to customers	Fair value option	Amortised cost	Elected to reclassify	8 764
Loans to customers	Fair value option	Amortised cost	Required by IFRS 9	1 321
Loans to customers, total				10 085
Commercial paper and bonds	Fair value option	Amortised cost	Elected to reclassify	7 165
Shareholdings	Fair value option	FVTPL	Required by IFRS 9	21 917
Financial assets, customers bearing the risk	Fair value option	FVTPL	Required by IFRS 9	75 206
Total financial assets				**117 623**
Due to credit institutions	Fair value option	Amortised cost	Elected to reclassify	4 657
Deposits from customers	Fair value option	Amortised cost	Elected to reclassify	192
Total financial liabilities				**4 850**

NOTE 52 Transition to IFRS 9 (continued)

Accumulated impairments

In the table below, the effect of reclassification and remeasurment of accumulated impairment following the implementation of IFRS 9 is presented.

DNB Group

	Balance as at 31 December 2017			Balance as at 1 January 2018			
Amounts in NOK million	IAS 39 and IAS 37	Reclassi-fication	Remeasure-ment	IFRS 9	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired
Accumulated impairment due from credit institutions			(6)	(6)	(6)		
Accumulated impairment loans to customers	(11 875)	11	(310)	(12 174)	(382)	(3 082)	(8 710)
Accumulated impairment commercial papers and bonds			(5)	(5)	(5)		
Accumulated impairment loan commitments and guarantees	(919)		(1 891)	(2 810)	(171)	(2 128)	(511)
Total accumulated impairments	(12 795)	11	(2 212)	(14 996)	(565)	(5 210)	(9 221)

Accumulated impairments customer segments

In the table below, the effect on each business segment of reclassification and remeasurment of the total accumulated impairment following the implementation of IFRS 9 is presented.

DNB Group

	Balance as at 31 December 2017			Balance as at 1 January 2018			
Amounts in NOK million	IAS 39	Reclassi-fication	Remeasure-ment	IFRS 9	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired
Personal customers	(718)		(227)	(945)	(115)	(269)	(561)
Small and medium-sized enterprises	(2 602)	(2)	260	(2 344)	(32)	(115)	(2 197)
Large corporates and international customers	(9 009)	13	(2 702)	(11 698)	(410)	(4 826)	(6 462)
Traditional pension products	(6)		(3)	(9)	(7)	(1)	
Other operations/eliminations [1)]	(460)		460				
Total accumulated impairments, customer segments	(12 795)	11	(2 212)	(14 996)	(565)	(5 210)	(9 221)

1) Provisions on guarantees, which are not part of loans that are individually impaired, where not allocated to segments as at 31 December 2017 but have been allocated as at 1 January 2018.

NOTE 52 Transition to IFRS 9 (continued)

Expected credit loss (ECL)

DNB applies a three-stage approach when assessing ECL on loans to customers, loan commitments, financial guarantees and other financial instruments subject to the IFRS 9 impairment rules:

- A financial instrument that is not purchased or originated credit impaired is classified as stage 1 with 12-month ECL.
- If a significant increase in credit risk since initial recognition is identified the financial instrument is moved to stage 2 with lifetime ECL measurement.
- An increase in credit risk reflects both customer-specific circumstances and developments in relevant macro risk drivers for the segment where the customer belongs. The assessment of what is considered to be a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and backstops.
- If credit risk deteriorates further and the financial instrument is assessed to be credit impaired, the financial instrument is moved to stage 3 with lifetime ECL measurement. As opposed to stage 1 and 2, the effective interest rate is calculated on amortised cost instead of the gross carrying amount.

The loan loss measurement is based on the following principles:

- 12-month ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months.
- The loss provision for financial assets in stage 1 and stage 2 is calculated as the present value of exposure at default (EAD) multiplied by the probability of default (PD) multiplied by loss given default (LGD). PD, LGD and EAD use the IRB framework as a starting point, but are converted into being point in time and forward-looking as opposed to through the cycle and conservative.
- Past, present and forward-looking information is used to estimate ECL. For this purpose, DNB's loan portfolio is split into 22 segments based on geography and industry. All customers within a segment are exposed to the same risk drivers.
- For stage 3 individual assessments are performed for credit impaired financial instruments.

For stage 1 and 2, a model is used to calculate ECL. The model follows five steps: Segmentation, determination of macro scenarios, determination of credit cycle index, calculation of ECL and staging.

In the following each step will be described in more detail.

Segmentation, macro scenarios and credit cycle index

The assessment of significant increase in credit risk and the calculation of ECL incorporate past, present and forward-looking information. In order to reflect the effect of macro drivers in a reasonable and supportable manner DNB's portfolio has been divided into 22 segments with shared credit risk characteristics. The segmentation is based on industry and geographical location, but about half of the industry segments are exposed to global markets and will primarily be influenced by global risk drivers.

Based on a statistical regression analysis key risk drivers impacting PD, LGD and EAD are identified for the different segments. Relevant macro drivers and their impact on ECL will vary by financial instrument. Forecasts of each of the relevant risk drivers (the base economic scenario) are primarily provided by DNB Markets on a quarterly basis and provide the best estimate of developments in the risk drivers for the forecast period. DNB Markets bases its forecast on a range of information sources, primarily external market information, but also internal sources. The forecast period varies between three and four years.

The macro forecasts are incorporated in the credit cycle index (CCI). The CCI shows the relationship between the historically observed defaults and relevant macro factors established from statistical regression analysis. The position on the index indicates whether the current state of the economy for a given segment is better or worse than normal, and the forecasts are used to project the development of the index in the forecast period. After the forecast period, the CCI is assumed to be mean reverting. This means that the credit cycle for each segment returns to the long-term mean or a normal state.

The CCI is further used to generate a base line PD curve for each instrument that follows the development of the CCI. If the CCI moves towards better times, the PD will everything else equal be reduced and vice versa.

Multiple scenarios

IFRS 9 requires the use of multiple scenarios in determining a significant increase in credit risk and measuring ECL in order to capture the non-linear relationship between negative credit risk development and ECL. For DNB this has been solved using the base scenario for each risk driver as a starting point and deriving CCI and PD curves as described above. Alternative scenarios are translated into alternative paths of a probability fan around the baseline. This method means that each scenario represents one percentile on a probability fan with each percentile representing a possible development in credit risk depending on the macroeconomic development.

The width of the fan is determined by the past volatility in the correlation between developments in the risk drivers and developments in credit risk and ECL. This results in a correlation where the higher the volatility in a segment resulting form changes in the risk drivers, the larger the gap between the baseline and the outer percentiles of the fan.

NOTE 52 Transition to IFRS 9 (continued)

Calculation of expected credit loss

The determination of a significant increase in credit risk and the measurement of ECL is based on parameters already used in credit risk management and for capital adequacy calculations: PD, LGD and EAD. The parameters have been adjusted in order to give an unbiased estimate of ECL.

Probability of default (PD)

DNB applies a range of different models to determine a customer's PD. The choice of model depends on whether it is a personal or corporate customer and on which industry the customer operates in. PD models are a key component both in calculating the ECL and in assessing whether a significant increase in credit risk has occurred since initial recognition. Therefore, there is a need to generate a PD which is forward-looking and reflects all available relevant data. This is necessary in order to fulfil the IFRS 9 requirement to provide an unbiased probability-weighted estimate of ECL. DNB has been granted permission to use internal ratings based approach, IRBA, models for determining PD in capital adequacy calculations. These models are conservative and only reflect a limited degree of cyclicality. In order to apply these PDs for IFRS 9, four modifications have been made:

- incorporation of macroeconomic scenarios
- conversion to an unbiased, forward-looking PD
- conversion of 12-month PD to lifetime PD
- removal of margin of conservatism in the PD estimate

These modifications imply that the PD used for IFRS 9 reflects management's current view of expected cyclical changes and that all PD estimates are unbiased.

Based on the converted PDs and reflecting the forward looking credit cycle index two types of PDs are generated and used in the ECL calculation:

- A 12-month PD is the probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate the 12-month ECL.
- A lifetime PD is the annualised probability of a default occurring over the remaining life of the financial instrument. This is used to evaluate if there has been a significant increase in credit risk since initial recognition and to calculate lifetime ECL.

Please refer to note 5 Credit risk for a description of the Group's risk classification.

Loss given default (LGD)

LGD represents the percentage of EAD which the Group expects to lose if the customer fails to meet his obligations, taking the collateral provided by the customer, future cash flows and other relevant factors into consideration.

Similar to PDs, DNB uses IRBA LGDs for capital adequacy calculations. In order to convert the IRB LGDs to IFRS LGDs four modifications have been made:

- incorporation of macroeconomic scenarios
- use of the effective interest rate to discount future estimated cash flows
- removal of the margin of conservatism to produce unbiased projections rather than downturn projections, and to exclude regulatory floors
- removal of the estimated indirect costs of realising collateral.

These modifications imply that the LGDs used for IFRS 9 should reflect management's current view of the cyclical changes and that all LGD estimates are unbiased.

Exposure at default (EAD)

EAD is the share of the approved credit that is expected to be drawn at the time of any future default. The EAD is adjusted to reflect contractual payments of principal and interest and estimated early repayment. The proportion of undrawn commitments expected to have been drawn at the time of default is reflected in the credit conversion factor.

Significant increase in credit risk

The assessment of a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and back stops. A significant increase in credit risk has occurred when one or more of the criteria below are met.

Quantitative criteria

A significant increase in credit risk is determined by comparing the remaining lifetime PD for an instrument at the reporting date, as expected at initial recognition, with the actual lifetime PD at the reporting date. If the actual lifetime PD is higher than what it was expected to be, an assessment is made of whether the increase is significant.

NOTE 52 Transition to IFRS 9 (continued)

An increase in lifetime PD with a factor of 2.5 or more from initial recognition is assessed to be a significant increase in credit risk. This threshold is based on an assessment of the increase in credit risk that would lead to closer customer follow-up in order to ensure that proper credit risk management and business decisions are made.

Further, the change in PD must be a minimum of 0.6 percentage points for the deterioration in credit risk to be considered to be significant. In the high end of the risk scale a change of 7.5 percentage points or more is considered to be a significant deterioration in credit risk even if this is less than a change of 2.5 times lifetime PD. These limits reflect the high sensitivity to change in the low end of the risk scale and the low sensitivity to change in the high end of the scale.

DNB applies a risk scale where all customers and instruments are rated on a coherent scale meaning that a risk grade has the same explanatory power independent of segment, geography and product. DNB therefore uses a common threshold for all financial instruments with respect to what constitute a significant increase in credit risk. For more on DNBs risk scale and classification see note 5.

Qualitative criteria
Qualitative information is normally reflected in the respective PD models for each group of customers.

Back stop
Back stops are used and a significant increase in credit risk has occurred if:

- the customer's contractual payments are 30 days past due
- the customer has been granted forbearance measures due to financial distress, though it not severe enough for the financial instrument to be classified as credit impaired.

Definition of default and credit impaired in stage 3

The definition of credit impaired is fully aligned with the regulatory definition of default.

A commitment is defined to be in default if a claim is more than 90 days overdue, the overdue amount exceeds NOK 2 000 and the default is not due to delays or accidental circumstances on the part of the debtor.

A commitment is also defined to be in default if the bank:

- significantly writes down the commitment as a result of a weakening of the debtor's creditworthiness
- agrees to changes in the terms and conditions because the debtor is having problems meeting payment obligations, and this is assumed to significantly reduce the value of the cash flow
- sells the debt for an amount that is significantly lower than the nominal value as a result of an impairment of the debtor's creditworthiness
- has grounds for assuming that the debtor will be subject to debt settlement or bankruptcy/involuntary liquidation proceedings, or be placed in receivership
- has other grounds for assuming that the payment obligation will not be met (anticipated default).

A commitment is defined to represent anticipated default if it is considered likely that the customer, based on its regular business activities, does not have debt payment ability for its total obligations (unlikeliness to pay).

The principles and estimation techniques for credit impaired financial instruments are not affected by IFRS 9. Please refer to the description of individual impairment in the accounting principles of financial instruments and important accounting estimates, judgements and assumptions for more detail.

Expert credit judgement

The new rules require, to a larger extent than before, that significant professional judgment is applied to many of the input parameters in the ECL-measurement. The assessment of the macro prognoses and the impact to the forecasted credit cycle index is key judgments and DNB has established an advisory forum for the Group's Chief Financial Officer to address this. The forum's purpose is to assess if the predicted Credit Cycle Index for each segment reflect the management's view on the expected future economic development.

IFRS 9 impact on regulatory capital

The implementation effect of IFRS 9 is NOK 2 billion after tax and is recognised as a reduction in "Other equity". This includes the impact of investments accounted for by the equity method. IFRS 9 will affect the capital adequacy ratios through a reduction in equity which to a large extent will be neutralised by cancelling a deduction related to the level of impairment losses. Therefore, the CET1 capital is only marginally changed. However, risk-weighted assets will increase due to the Norwegian Basel 1 floor, which is effective for the DNB Group. The deduction referred to above has reduced, and the cancellation will thus increase risk-weighted assets. The total effects of IFRS 9 reduce the common equity Tier 1 capital ratio by 28 basis points. DNB does not intend to use the transitional rules introduced by Finanstilsynets for capital adequacy purposes.

INCOME STATEMENT

		DNB ASA	
Amounts in NOK million	Note	2017	2016
Total interest income		38	43
Total interest expenses		(392)	(312)
Net interest income		**(353)**	**(268)**
Commissions and fees payable etc.		(6)	(7)
Other income	2	19 280	11 213
Net other operating income		**19 274**	**11 205**
Total income		**18 921**	**10 937**
Salaries and other personnel expenses		(4)	(4)
Other expenses		(348)	(461)
Total operating expenses		**(352)**	**(465)**
Pre-tax operating profit		**18 569**	**10 472**
Tax expense	4	(150)	0
Profit/comprehensive income for the year		**18 419**	**10 472**
Earnings/diluted earnings per share (NOK)		11.38	6.43
Earnings per share excluding operations held for sale (NOK)		11.38	6.43

BALANCE SHEET

		DNB ASA	
Amounts in NOK million	Note	31 Dec. 2017	31 Dec. 2016
Assets			
Due from DNB Bank ASA	6	5 339	6 824
Investments in group companies	5	74 720	74 270
Receivables due from group companies	6	18 580	11 013
Total assets		**98 639**	**92 107**
Liabilities and equity			
Short-term amounts due to DNB Bank ASA	6	10	8
Due to other group companies	6	600	5 290
Other liabilities and provisions	2	11 393	9 285
Long-term amounts due to DNB Bank ASA	6	20 086	16 342
Total liabilities		**32 090**	**30 925**
Share capital		16 180	16 288
Share premium		22 556	22 556
Other equity		27 813	22 337
Total equity		**66 550**	**61 181**
Total liabilities and equity		**98 639**	**92 107**

STATEMENT OF CHANGES IN EQUITY

			DNB ASA	
Amounts in NOK million	Share capital	Share premium	Other equity	Total equity
Balance sheet as at 31 December 2015	**16 288**	**22 556**	**21 149**	**59 994**
Profit for the period			10 472	10 472
Dividends for 2016 (NOK 5.70 per share)			(9 284)	(9 284)
Balance sheet as at 31 December 2016	**16 288**	**22 556**	**22 337**	**61 181**
Repurchase under share buy-back programme	(108)		(1 552)	(1 659)
Profit for the period			18 419	18 419
Dividends for 2017 (NOK 7.10 proposed per share)			(11 392)	(11 392)
Balance sheet as at 31 December 2017	**16 180**	**22 556**	**27 813**	**66 550**

Share premium and Other equity can be used in accordance with stipulations in the Public Limited Companies Act.

The share capital of DNB ASA is NOK 16 180 487 930 divided into 1 618 048 793 shares, each with a nominal value of NOK 10. See note 50 for the DNB Group, which specifies the largest shareholders in DNB ASA.

CASH FLOW STATEMENT

	DNB ASA	
Amounts in NOK million	2017	2016
Operating activities		
Net interest payment to subsidiaries	(351)	(267)
Payments to operations	(813)	(1 883)
Taxes paid		(1 410)
Net cash flow relating to operations	**(1 164)**	**(3 560)**
Investment activities		
Net receipts on long-term investments in shares	700	
Net cash flow relating to investment activities	**700**	
Funding activities		
Group contributions from subsidiaries	5 722	7 069
Dividend payments	(9 284)	(7 330)
Repurchased shares	(1 659)	
Net receipts on loans from other companies	4 200	4 484
Net cash flow relating to funding activities	**(1 021)**	**4 224**
Net cash flow	**(1 485)**	**664**
Cash as at 1 January	6 824	6 160
Net receipts/payments of cash	(1 485)	664
Cash as at 31 December	5 339	6 824

NOTE 1 Accounting principles

Basis for preparation

DNB ASA is the parent company in the DNB Group. DNB ASA has prepared its financial statement according to the Norwegian Ministry of Finance's regulations on annual accounts, Section 1-6, on the use of IFRS, hereinafter called the Norwegian IFRS regulations, which implies that recognition and measurements are in accordance with IFRS. The only exception is that the Norwegian IFRS regulations also give permission to recognise provisions for dividends and group contributions in subsidiaries as income and record the Board of Directors' proposed dividends and group contributions as liabilities on the balance sheet date. According to IFRS, dividends should be classified as equity until approved by the general meeting.

Ownership interests in group companies

Subsidiaries are defined as companies in which DNB ASA, directly or indirectly, has control. Control over an entity is evidenced by DNB ASA's ability to exercise its power in order to affect any variable return that the company is exposed to through its involvement in the entity.

Where voting rights are relevant, DNB ASA is deemed to have control where it holds, directly or indirectly, more than half of the voting rights over an entity, unless DNB ASA through agreements does not have corresponding voting rights in relevant decision-making bodies. For more information see note 5 Investments in subsidiaries as at 31 December 2017.

In the financial statement of DNB ASA, investments in subsidiaries are recognised at cost. At the end of each reporting period the company assess whether any indication of impairment exists. If such indication exists, the investment is tested for impairment.

Transactions with group companies

Transactions with subsidiaries are conducted in accordance with general business conditions and principles.

Dividends and group contributions

Dividends and group contributions from group companies are recognised in DNB ASA in the same year as provisions are made in the relevant companies. Group contributions received are classified as dividends when considered to represent return on invested capital. The Board of Directors proposed dividends and group contributions are recognised as liabilities on the balance sheet date. Provision for dividends is presented within Other liabilities and provisions in the balance sheet.

Taxes

Taxes for the year comprise payable taxes for the financial year and changes in the value of deferred taxes and deferred tax assets.

Deferred taxes are calculated on the basis of differences between the profits stated in the income statement and the profits computed for tax purposes, which will be offset in the future. Evaluations are based on the balance sheet and tax position on the balance sheet date. Taxable and tax-deductible timing differences will be netted against each other within the same time interval. Deferred tax assets can be recognised as assets in the balance sheet when it is considered probable that the tax-deductible timing differences may be realised.

NOTE 2 Dividends/group contributions from subsidiaries

	DNB ASA	
Amounts in NOK million	2017	2016
Group contributions/dividends received from:		
DNB Bank ASA	16 094	9 318
DNB Livsforsikring AS	1 950	1 090
DNB Forsikring AS	386	450
DNB Asset Management Holding AS	150	355
Total group contributions from subsidiaries	**18 580**	**11 213**

As part of transaction where Vipps was demerged from DNB Bank ASA was NOK 700 million received as a non-cash dividend by DNB ASA which is included in other income.

Allocations	DNB ASA	
Amounts in NOK million	2017	2016
Proposed dividends per share (NOK)	7.10	5.70
Share dividend	11 392	9 284
Transfers to other equity	7 027	1 188
Total allocations	**18 419**	**10 472**

NOTE 3 Remunerations etc.

All employees in DNB ASA are also employed in one of the underlying companies within the Group. The holding company purchases services from other units within the Group. The group chief executive and group executive vice presidents are employed in both DNB ASA and one of the subsidiaries in the Group. Personnel expenses and other administrative expenses relating to these individuals are divided between the sub-sidiaries and DNB ASA according to use.

See note 47 for the DNB Group for further details on remunerations etc. See also note 7 for DNB ASA, specifying shares in DNB ASA owned by senior executives and members of governing bodies.

NOTE 4 Taxes

	DNB ASA	
Amounts in NOK million	2017	2016
Tax base		
Pre-tax operating profit in DNB ASA	18 569	10 472
Tax-exempt income, group contribution	(17 269)	(10 473)
Other tax-exempt income and non-deductible expenses	(700)	1
Tax base for the year	600	
Tax expense		
Payable taxes	(150)	
Tax expense	**(150)**	

The effective tax rate in 2017 was 1 per cent. The effective tax rate in 2016 was zero per cent. The difference between the effective tax rate and the nominal tax rate is due to the receipt of tax-exempt group contributions.

NOTE 5 Investments in subsidiaries as at 31 December 2017[1)]

						DNB ASA	
Amounts in 1 000 *Values in NOK unless otherwise indicated*		Share capital	Number of shares		Nominal value	Ownership share in per cent	Carrying amount
DNB Bank		18 255 648	182 556 480		18 255 648	100	54 092 502
DNB Capital [2)]						100	
DNB Invest Denmark	DKK	877 579	877 578 841	DKK	877 579	100	
DNB Bank Polska	PLN	1 257 200	1 257 200 000	PLN	1 257 200	100	
Aksje- og Eiendomsinvest		100	100 000		100	100	
Bryggetorget Holding		3 250	2 500		3 250	100	
DNB Asia [3)]	SGD	20 000	20 000 000	SGD	20 000	100	
DNB Asia [3)]	USD	1 500 000	150 000 000	USD	1 500 000	100	
DNB Boligkreditt		4 157 000	41 570 000		4 157 000	100	
DNB Eiendom		10 003	100 033		10 003	100	
DNB Eiendomsutvikling		91 000	91 000 000		91 000	100	
DNB Luxembourg	EUR	70 000	70 000	EUR	70 000	100	
DNB Markets Inc.	USD	1	1 000	USD	1	100	
DNB Næringskreditt		550 000	550 000		550 000	100	
DNB Næringsmegling		1 000	10 000		1 000	100	
DNB Sweden	SEK	100 000	100 000 000	SEK	100 000	100	
DNB (UK) Limited	GBP	1 154 200	1 154 200 000	GBP	1 154 200	100	
Godfjellet		8 030	8 030		8 030	100	
Godfjorden		1 000	10 000		1 000	100	
DNB Asset Management Holding		274 842	220 050		274 842	100	2 182 107
DNB Asset Management		109 680	548 402		109 680	100	
DNB Asset Management	SEK	3 921	39 206	SEK	3 921	100	
DNB Asset Management	EUR	425	5 000	EUR	425	100	
DNB Forsikring		265 000	265 000		265 000	100	462 790
DNB Livsforsikring		1 750 337	64 827 288		1 750 337	100	17 982 795
DNB Næringseiendom		1 020	20 000		1 020	100	
DNB Eiendomsholding		56 433	1		56 433	100	
Total investments in subsidiaries							**74 720 194**

1) Major subsidiaries and sub-subsidiaries in the DNB Group.
2) DNB Capital LLC, a limited liability company, has paid-in capital of USD 2.4 billion.
3) DNB Asia Ltd has part of its share capital denominated in SGD (due to local requirements) and a part of its share capital denominated in USD.

NOTE 6 Loans and deposits with other DNB Group companies

Transactions with other DNB Group companies	DNB ASA	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Receiveables DNB Group companies		
Deposits with DNB Bank ASA	5 339	6 824
Group contributions	18 580	11 013
Liabilities DNB Group companies		
Receivables due from DNB Bank ASA	20 096	16 350
Group contributions DNB Livsforsikring AS	600	5 290

All transactions with related parties are based on market terms.

NOTE 7 Shares in DNB ASA held by the Board of Directors and senior executives

	Number of shares alloted in 2017	Number of shares 31 Dec. 2017
Board of Directors of DNB ASA		
Anne Carine Tanum, chairman		400 000
Tore Olaf Rimmereid, vice-chairman		10 611
Karl-Christian Agerup		6 400
Carl A. Løvvik		1 295
Vigdis Mathisen		654
Jaan Ivar Semlitsch		12 300
Berit Svendsen		
Senior executives as at 31 December 2017		
Rune Bjerke, group chief executive	4 022	57 387
Kjerstin Braathen, chief financial officer	2 154	25 486
Trond Bentestuen, group EVP	2 567	23 660
Ottar Ertzeid, group EVP	6 775	227 316
Benedicte Schilbred Fasmer, group EVP	1 653	4 054
Rasmus Figenschou, acting group EVP	909	6 207
Solveig Hellebust, group EVP	1 770	19 731
Ida Lerner, group EVP		
Thomas Midteide, group EVP	1 839	10 168
Alf Otterstad, acting group EVP		
Hans Olav Rønningen, acting group EVP	1 516	5 738
Harald Serck-Hanssen, group EVP	2 789	34 960
Group Audit		
Tor Steenfeldt-Foss, group EVP		

The figures also include shares held by the immediate family and companies in which the shareholder has such influence as stated in Section 7-26 of the Act relating to annual accounts, etc. The statutory auditor owns no shares in DNB ASA.

Oslo, 7 March 2018
The Board of Directors of DNB ASA



Anne Carine Tanum
(chairman)



Tore Olaf Rimmereid
(vice-chairman)



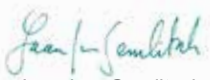
Karl-Christian Agerup



Carl A. Løvvik



Vigdis Mathisen



Jaan Ivar Semlitsch



Berit Svendsen



Rune Bjerke
(group chief executive)

STATEMENT PURSUANT TO SECTION 5-5 OF THE SECURITIES TRADING ACT

We hereby confirm that the annual accounts for the Group and the company for 2017 to the best of our knowledge have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the company taken as a whole.

The directors' report gives a true and fair view of the development and performance of the business and the position of the Group and the company, as well as a description of the principal risks and uncertainties facing the Group.

Oslo, 7 March 2018
The Board of Directors of DNB ASA



Anne Carine Tanum
(chairman)



Tore Olaf Rimmereid
(vice-chairman)



Karl-Christian Agerup



Carl A. Løvvik



Vigdis Mathisen



Jaan Ivar Semlitsch



Berit Svendsen



Rune Bjerke
(group chief executive)



Kjerstin R. Braathen
(chief financial officer)

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNB ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DNB ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2017, the income statement, statements of comprehensive income, cash flows and changes in equity 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 financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Building a better working world

Impairment of loans

Loans to customers represent NOK 1 545 415 million (57 %) of total assets for the Group. Impairment of loans are calculated individually, for individually significant loans where objective evidence of impairment is identified, or collectively for groups of loans which are not assessed individually, and for which objective evidence of impairment is identified on a portfolio basis. The identification and calculation of impairment are processes involving judgement about various assumptions and factors including the financial condition of the counter party, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment of loans. The oilfield services, offshore and oil & gas sectors are still subject to uncertainty due to the effects of a reduced oil price and a general downturn in related markets over the past years. Since the related impairments of loans are material, and subject to estimation uncertainty, we have assessed impairment of loans as a key audit matter.

We have assessed the design and tested the operating effectiveness of internal controls over individual and collective impairments of loans. For individually significant loans our procedures included assessing the identification of loss events and testing of assumptions used in the models, including the forecasted future cash flows and the estimated value of underlying collaterals. We also tested the mathematical accuracy of the models. For impairment of loans calculated on a collective basis, we evaluated the key input variables and assumptions to the models, and where relevant, compared data and assumptions to external benchmarks. We also tested the mathematical accuracy of the models.

See note 5, 6, 7, 8, 9, 10 and 11 in the consolidated financial statements for further information.

Valuation of Financial Instruments

Unlisted or illiquid financial instruments measured at fair value are valued based on models that use assumptions that are not observable in the market place. The valuation of these instruments therefore have a higher risk of errors. Such instruments comprise assets of NOK 81 966 million and liabilities of NOK 1 749 million measured at fair value in the consolidated balance sheet and classified as level 3 instruments within the fair value hierarchy. Due to the materiality of the unlisted or illiquid instruments, and the increased risk of errors, we considered the valuation of these instruments a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over the valuation process including management's determination and approval of assumptions and methodologies used in model-based calculations as well as management's review of valuations provided by internal experts. We also assessed pricing model methodologies against industry practice and valuation guidelines. We performed independent valuations for selected instruments and used external source data where available. We compared results of our valuations to the Group’s valuations.

Level 3 instruments which are presented at fair value on the balance sheet are disclosed in note 29 in the consolidated financial statements.

Hedge accounting - Interest rate risk on long-term debt securities issued

Derivative instruments are used to manage exposure to interest rate risk related to long-term debt securities issued in foreign currencies. Derivatives and borrowings designated at initial recognition as hedging relationships, are accounted for as fair value hedges. The effectiveness of the hedging relationships are assessed at the beginning and end of the relevant period. The application of hedge accounting and ensuring hedge effectiveness can be judgmental and requires close monitoring from management. Due to the materiality of the hedging relationships, we considered hedge accounting of interest rate risk on long-term debt securities issued a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over the designation and ongoing management of hedge accounting relationships, including testing of hedge effectiveness. We examined hedge documentation to assess whether the documentation complied with the

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requirements of the accounting standards. We tested reconciliations between underlying source systems and documents used to manage and document hedging relationships, including testing the mathematical accuracy and calculation of hedge effectiveness.

See note 21 in the consolidated financial statements for further information.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Group Chief Executive Officer (management) are responsible for the other information. 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 management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, 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 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 Company 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 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 the 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 law, regulations and generally accepted auditing principles 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, 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.

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- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, 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 and on the statements on corporate governance and corporate social responsibility

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 proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

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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 ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 7 March 2018
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

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To the Board of Directors of DNB ASA

Independent assurance report – Reporting on corporate social responsibility for 2017

We have performed an independent verification of DNB ASA's reporting on corporate social responsibility (CSR) for 2017, which involves a review of DNB ASA's 11 most material CSR aspects, presented in the company's materiality matrix for CSR. We have assessed if the information being presented in the Reporting on CSR is based on relevant criteria from the guidelines for sustainability reporting from the Global Reporting Initiative Standards option "core" (GRI Standards). Controlled information is shown in the company's overview of reporting on GRI indicators (GRI index, see dnb.no/en/about-us/csr/sustainability-library.html), hereinafter referred to as Reporting on CSR.

Management's responsibility

DNB's management is responsible for the selection of the information and collection of the data for presentation and for the preparation of Reporting on CSR in accordance with the GRI Standards.

Our Independence and Quality Control

We have complied with the independence requirements of the Norwegian Law on Auditors and Auditing and other ethical requirements from the Code of Ethics of the Norwegian Institute of Public Accountants which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We apply International Standard on Quality Control (ISQC1) "Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements" and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's tasks and duties

Our task is to issue an independent report to the Board of Directors on the Reporting on CSR based on our work. Our work is conducted in accordance with ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". The standard requires that we plan and perform procedures to obtain limited assurance that the information in the Reporting on CSR is prepared and presented in accordance with relevant criteria for sustainability reporting in accordance with GRI Standards and does not contain material errors.

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Our work has consisted of the following procedures:

- Review of DNB ASA's process for the preparation and presentation of the Reporting on CSR to provide us with an understanding of how CSR is ensured in practice within the business
- Interviewed those in charge of CSR reporting to develop an understanding of the process for the preparation of the Reporting on CSR
- Verified on a sample basis the information in the Reporting on CSR against source data and other information prepared by DNB ASA
- Assessed the overall presentation of Reporting on CSR against the criteria in GRI Standards including a review of the consistency of information against the GRI index.

In our opinion, the evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the Reporting on CSR, in all material respects, is not prepared and presented in accordance with the GRI Standards, and that the information in the Reporting on CSR contains material misstatements. Indicators covered by our assurance report are listed in the GRI index.

Oslo, 7 March 2018
Ernst & Young AS

Anders Gøbel
State Authorised Public Accountant

(This translation from Norwegian has been made for information purposes only.)

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FINANCIAL CALENDAR 2018

Annual General Meeting	24 April
Distribution of dividends	as of 4 May
First quarter	26 April
Second quarter	12 July
Third quarter	25 October
Capital Markets Day	14 November

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ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 24 April 2018 at 3 p.m. at DNB's premises in Dronning Eufemias gate 30, Bjørvika, Oslo. Information on how to register attendance and items on the agenda can be found at dnb.no/en/agm.

Shareholders registered as owners in DNB ASA with the Norwegian Central Securities Depository, VPS, may opt to receive annual reports and the notice of the Annual General Meeting electronically. For more information about Investor Account Services, please contact your VPS registrar. Shareholders with VPS accounts in DNB who do not wish to receive notices by regular mail and who do not have access to DNB's Internet bank, may register at dnb.no/en/investor-account-services. Select "New user sign-up". Shareholders who have access to DNB's Internet bank can go to the "Savings & Investments" menu. Select "Investor account services" and follow the procedure described on the page. Customers with BankID may also log in via vps.no.

DNB's annual report 2017 has been produced by Group Financial Reporting and Corporate Responsibility and Public Affairs in DNB.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements regarding the future prospects of DNB, including estimates, strategies and objectives. The risks and uncertainties inherent in all forward-looking statements can lead to actual developments and profits differing materially from what has been expressed or implied.

The Group's annual report has been approved by the Board of Directors in the original Norwegian version. This is an English translation.

We are here.
So you can stay ahead.

DNB

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