Annual Report 2016

# Safe Deposit Bank of Norway
# ”SDBN”

sdbn

Safe
Deposit
Bank
of Norway

# Annual Report 2016

Safe Deposit Bank of Norway AS ("SDBN") is a Norwegian bank licensed by the Norwegian Ministry of Finance as a commercial bank with the sole purpose of placing NOK deposits with Norges Bank. For a limited number of Clients, SDBN is a cash diversification and capital preservation tool. SDBN is a wholly owned subsidiary of Safe Deposit Holding ASA ("SDH"), jointly the Group.

We are here to serve and provide our Clients with a "gold" cash alternative and in time earn a fair profit for our shareholders.

Our Clients value daily liquidity and security, it is important for them to know exactly where their cash is, which with SDBN can only be at Norges Bank, the Norwegian Central Bank. Our operations are purposefully streamlined and restricted to minimize financial and operational risk. We work with well positioned, highly regarded firms, whose respective partners and their teams provide SDBN with solid support. We actively pursue our commitment to always operate at the lowest level of aggregate risk.

Our company's operating results for 2016 show a loss of NOK16,632,444- reflecting the operating and salary costs incurred in the start-up phase until we opened our first Client accounts end of 2016. The net result for the period is transferred to other equity. Future income from operations is expected to cover total start-up costs of NOK30,922,342- (including costs carried forward from 2013-2015) within a few years.

Commensurate with our conservative approach, the Deferred Tax Asset of NOK7,420,462- as of 31 December 2016- is not recognized in the balance sheet. The Board is of the opinion that the prerequisites for the going concern assumption exist, and the Board confirms that the financial statements were prepared on the basis of the going concern assumption. Our capital is held mostly at the Norwegian Central Bank with the remainder at our House bank, a AA-rated commercial bank.

SDBN continues to build its core team for business operations ending 2016 with four employees. Our small size means that the bank expects exceptional commitment, adaptation and breadth of execution skills from our growing core team, as well as very active and frequent input from individual Members of our Board. SDBN benefits from the continuity of the uninterrupted involvement of many of the same individuals with our service providers, which are key to our growing business. It has been the dedication, thoughtfulness and perseverance of our employees, service providers and Board that made the opening of the bank possible. We are fortunate to have the engaged support and solid backing of our shareholders. We are hopeful that even in this exceedingly difficult low interest rate environment, SDBN will steadily grow to establish its place as the ultimate cash preservation option of choice for its Clients.

Oslo,
March 22, 2017

Olga Godinho
*Chairman of the Board*

Christian A. Horneman Wist
*Board Member*

Gudrun Bugge Andvord
*Board Member*

Morten Frode Meland
*CEO*

# Income Statement

| NOK | Notes | 2016 | 2015 |
|---|---|---|---|
| Interest income | | 350 166 | 179 364 |
| Interest expenses | | 0 | 0 |
| **Net interest income** | | **350 166** | **179 364** |
| Commission income | | 3 187 | 0 |
| Commission expenses | | 330 361 | 10 637 |
| **Net fee and commission income** | | **-327 175** | **-10 637** |
| **Change in value of financial investments** | | **0** | **0** |
| **Total income** | | **22 991** | **168 728** |
| Employee remuneration | 9 | 6 729 966 | 3 148 340 |
| Other operating expenses | 10 | 9 925 470 | 3 726 748 |
| **Total operating expenses** | | **16 655 436** | **6 875 088** |
| **Profit before impairment on loans and taxes** | | **-16 632 444** | **-6 706 360** |
| **Profit before income tax** | | **-16 632 444** | **-6 706 360** |
| Income tax | 11 | 0 | 0 |
| **Profit for the year** | | **-16 632 444** | -6 706 360 |

# Other Comprehensive Income

| NOK | 2016 | 2015 |
|---|---|---|
| Profit for the year | -16 632 444 | -6 706 360 |
| | | |
| **Items that will not be reclassified to profit/loss** | | |
| Total | 0 | 0 |
| | | |
| **Items that will be reclassified to profit/loss** | | |
| Total | 0 | 0 |
| **Total comprehensive income** | **-16 632 444** | -6 706 360 |

# Statement of Financial Position

| NOK | Notes | 31.12.16 | 31.12.15 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 6,7,12 | 277 415 397 | 59 043 635 |
| Loans to and receivables from credit institutions | 6,7,12 | 6 441 960 | 24 199 383 |
| Loans to and receivabels from group company | 12,15 | 0 | 0 |
| Property, plant and equipment | | 44 648 | 56 828 |
| Intangible assets | 13,15 | 4 299 588 | 6 881 250 |
| Other assets | | 0 | 1 310 |
| **Total assets** | **1,2,3,4** | **288 201 592** | **90 182 406** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| Deposits from and debt to Clients | 8 | 220 153 633 | 0 |
| Debt to group companies | 8,12,15 | 7 516 213 | 7 611 441 |
| Other liabilities | 8,14 | 1 363 754 | 6 770 529 |
| **Total liabilities** | | **229 033 600** | **14 381 970** |
| | | | |
| Share capital | 16 | 40 100 000 | 40 100 000 |
| Share premium | | 49 990 334 | 50 000 000 |
| Other paid-in capital | | 0 | -9 666 |
| Other equity | | -30 922 342 | -14 289 898 |
| **Total equity** | | **59 167 992** | **75 800 436** |
| **Total liabilities and equity** | **17** | **288 201 592** | 90 182 406 |

**Oslo, March 22, 2017**

Olga Godinho
*Chairman of the Board*

Christian A. Horneman Wist
*Board Member*

Gudrun Bugge Andvord
*Board Member*

Morten Frode Meland
*CEO*

# Statement of Changes in Equity

| NOK | Issued equity | | | | |
|---|---|---|---|---|---|
| | Share capital | Share premium | Other paid in capital | Other equity | Total equity |
| **Equity as at 1 January 2015** | **100 000** | | **-9 666** | **-7 583 538** | **-7 493 204** |
| Profit for the year | | | | -6 706 360 | -6 706 360 |
| Other comprehensive income | | | | | 0 |
| Total comprehensive income | 0 | 0 | 0 | -6 706 360 | -6 706 360 |
| Issue of share capital and premium | 40 000 000 | 50 000 000 | | | 90 000 000 |
| **Equity as at 31 December 2015** | **40 100 000** | **50 000 000** | **-9 666** | **-14 289 898** | **75 800 436** |
| **Equity as at 1 January 2016** | **40 100 000** | **50 000 000** | **-9 666** | **-14 289 898** | **75 800 436** |
| Profit for the year | | | | -16 632 444 | -16 632 444 |
| Other comprehensive income | | | | | 0 |
| Total comprehensive income | 0 | 0 | 0 | -16 632 444 | -16 632 444 |
| Transfer | | -9 666 | 9 666 | | 0 |
| **Equity as at 31 December 2016** | **40 100 000** | **49 990 334** | **0** | **-30 922 342** | **59 167 992** |

# Statement of Cash Flows

| NOK | Notes | 2016 | 2015 |
|---|---|---|---|
| Profit before income tax | | -16 632 444 | -6 706 360 |
| + Depreciation and write-downs | | 3 475 359 | 4 060 |
| **Net cash increase from ordinary operations** | | **-13 157 085** | **-6 702 300** |
| | | | |
| Decrease/(increase) other receivables | | 1 310 | 1 133 |
| Increase/(decrease) short term debt | | -5 502 003 | 4 744 288 |
| Increase/(decrease) deposits and debt to Clients | 8 | 220 153 633 | 0 |
| **A) Net cash flow from operations** | | **201 495 855** | **-1 956 879** |
| | | | |
| Increase in intangible and tangible fixed assets | | -881 517 | -4 912 763 |
| **B) Net cash flow from investment** | | **-881 517** | **-4 912 763** |
| | | | |
| Increase/(decrease) in equity | | 0 | 90 000 000 |
| **C) Net cash flow from financial activities** | | **0** | **90 000 000** |
| | | | |
| **A) + B) + C) Net changes in cash and cash equivalents** | | **200 614 338** | **83 130 358** |
| | | | |
| Cash and cash equivalents at 01.01 | | 83 243 018 | 112 660 |
| Cash and cash equivalents at 31.12 | 6,7,12 | 283 857 356 | 83 243 018 |
| **Net changes in cash and cash equivalents** | | **200 614 338** | 83 130 358 |

# Note 1 - General information

**Description of the business**
The head office is at Haakon VII's street no 1 in Oslo and includes the parent company Safe Deposit Holding ASA and the subsidiary Safe Deposit Bank of Norway AS.

Safe Deposit Bank of Norway is consolidated with the parent company Safe Deposit Holding and the consolidated financial statements are available at the head office's address in Oslo.

The Financial statements for 2016 were approved by the Board of Directors on March 22, 2017.

# Note 2 - Accounting policies

**Basis for preparing the annual accounts**
The accounts for 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and approved by the EU. The measurement base for the Company accounts is historical cost with the modifications described below. The accounts are presented based on IFRS standards and interpretations mandatory for accounts presented as at 31 December 2016.

**New or revised accounting standards approved but not implemented in 2016**

**IFRS 9 –** Financial Instruments regulates the classification, measurement and recognition of financial assets and financial liabilities and replaces the existing IAS 39. The classification of a financial instrument is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments for principal and interest. Under the new standard, financial assets are to be divided into two categories based on measurement method: fair value or amortised cost. . For financial liabilities the requirements are broadly identical to the current standard. The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. The implementation of the new standard is expected to have no material impact on the accounts. The standard is endorsed by the EU and the implementation date is 1 January 2018.

**IFRS 15 –** Revenue from Contracts with Clients. This is a new common standard for revenue recognition and replaces all existing standards and interpretations for recognition. The standard applies to all revenue contracts and contains a model for recognition and sale of certain non-financial assets. The implementation of the new standard is expected to have no material impact on the accounts. The standard is endorsed by the EU and the implementation date is 1 January 2018.

**IFRS 16 –** Leases. The standard requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets. The implementation of the new standard is expected to have minimal impact on the accounts. The standard is not yet endorsed by the EU. Expected implementation: 1 January 2019 at the earliest.

# Note 2 - continued

**Presentation currency**
The presentation currency is the Norwegian Krone NOK, which is also the Bank's functional currency.

**Financial instruments**
Financial assets and liabilities are recognised in the statement of financial position on the trading date, i.e. at the date the Company becomes a party to the contractual provisions of the financial instruments. Financial assets are derecognised when the right to receive and retain cash flows from the asset has expired. If the Company enters into agreements whereby assets are transferred to counterparties, though parts of or the entire risk and returns associated with the ownership are retained by the Company. If the major part of risk and returns is retained, the financial asset is not derecognised, but recognised at a value limited to the Company's continuing involvement. Financial liabilities are derecognised at the time the rights to the contractual obligations have been fulfilled, cancelled or have expired.

**Impairment**
Amounts recorded on the statement of financial position are reviewed on the balance sheet date for any indications of value impairment. Should such indications be present, an estimate is made of the asset's recoverable amount. Write-down is undertaken when the recorded value of an asset or cash-flow-generating entity exceeds the recoverable amount. Write-downs are recognised in profit/loss and are reversed where there is a change in estimates used to compute the recoverable amount.

**Intangible assets**
Software expenses recognised in the statement of financial position are depreciated according to a straight line principle over their expected useful life and are subject to a depreciation test when indications of impairment exists.

**Property, plant and equipment**
Property, plant and equipment along with property used by the owner are accounted for in accordance with IAS 16. The investment is initially measured at its cost and is thereafter depreciated on a linear basis over its expected useful life. When establishing a depreciation plan, the individual assets are to the necessary extent split up into components with differing useful life, with account being taken of estimated residual value. Property, plant and equipment items which individually are of little significance, for example PCs, and other office equipment, are not individually assessed for residual value, useful lifetime or value loss, but are assessed as groups. Property, plant and equipment which are depreciated are subject to a depreciation test in keeping with IAS 36 when indications of impairment exists.

**Interest income and expenses**
Interest income and expenses related to assets and liabilities which are measured at amortised cost are recognised in profit/loss on an ongoing basis using the effective interest rate method. Charges connected to interest-bearing funding and lending are included in the computation of effective interest rate and are amortised over expected lifetime.

**Commission income and expenses**
Commission income and expenses are generally accrued in step with the provision of the service.

**Transactions and holdings in foreign currency**
Transactions in foreign currency are converted to Norwegian kroner at the transaction exchange rate. Gains and losses on executed transactions or on conversion of holdings of monetary items on the balance sheet date are recognised in profit/loss, unless they are recognised directly in equity based on hedging principles. Gains and losses on conversion of items other

# Note 2 - continued

than monetary items are recognised in the same way as the appurtenant balance sheet item.

**Income taxes**
Tax recorded in the profit and loss account comprises tax in the period (payable tax) and deferred tax. Period tax is tax calculated on the taxable profit for the year. Deferred tax is accounted for by the liability method in accordance with IAS 12. The rate of tax in effect at all times is employed when calculating deferred tax. In the case of deferred tax, liabilities or assets are calculated on temporary differences i.e. the difference between balance-sheet value and tax-related value of assets and liabilities. However, liabilities or assets are not calculated in the case of deferred tax on goodwill for which there is no deduction for tax purposes, nor on first-time-recognised items which affect neither the accounting nor the taxable profit. In the case of deferred tax an asset is calculated on a tax loss carryforward.

**Deposits from Clients**
Clients deposits are recognised at amortised cost.

**Provisions, contingent assets and contingent liabilities**
A provision is only recognised when an obligation exists (legal or constructive) as a result of a previous event, and it is likely that an outflow resources embodying economic benefits will be required to fulfill the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are recognised at the amount that expresses the existing obligation. If material the time value of money is taken into account when calculating the size of the provision. Contingent assets or contingent liabilities are not recognised.

**Defined contribution**
Under a defined contribution pension scheme the Company does not provide a future pension of a given size; instead the Company pays an annual contribution to the employees' collection pension savings. The future pension will depend on the size of the contribution and annual return on the pension savings. The Company has no further obligations regarding the labour contribution after the annual contribution has been paid. There is no allocation for accrued pension obligations under such schemes. Defined contribution schemes are directly expensed.

**Dividends**
Dividends are recognised as equity capital until approval by the Annual General Meeting.

**Events after the balance sheet date**
The annual accounts are regarded as approved for publication once they have been considered by the Board of Directors. The Annual General Meeting and regulatory authorities can thereafter refuse to approve the accounts, but not to change them. Events up to the time at which the accounts are approved for publication, and which relate to circumstances already known on the balance sheet date, will be included in the information base for accounting estimates and thus be fully reflected in the accounts. Events concerning circumstances that were not known on the balance sheet date will be disclosed if significant.

The accounts are presented on the going-concern assumption. In the view of the Board of Directors this assumption was met at the time the accounts were approved for presentation.The Board of Directors' proposal for dividends is set out in the Directors' report and in the equity capital statement.

# Note 3 - Critical estimates and assessments concerning the use of accounting principles

In the preparation of the Bank accounts the management makes accounting estimates, discretionary assessments and assumptions that influence the effect of the application of the accounting principles and hence the amounts booked for assets, liabilities, incomes and expenses. Estimates and discretionary assessments are evaluated continuously and are based on empirical experience and expectations of events which, as of the balance sheet date, are deemed likely to occur in the future.

**Intangible assets**
Write-down tests of intangible assets are largely based on discounting of expected future cash flows. Cash flow estimates will invariably be subject to substantial uncertainty, and in some cases the methods used to assign cash flows to different assets will also be encumbered with uncertainty. Assets are depreciated on a straight-line basis over expected lifetime from the date they are ready for use.

# Note 4 - Risks

SDBN started operations in 2016. The Company's Risk Management Strategy provides an effective risk management process that is appropriate to its size and risks.

The Risk Management Strategy describes the overall risk appetite for the Company and stipulates responsibilities for the risk management system and helps ensure adequate and systematic risk management and internal controls within the Company, in order to ensure that the risk profile of the company remains within the risk appetite level deemed appropriate by the Board of Directors.

The Company operates at a low level of aggregate risk. The Company's main risk categories, as outlined below, are operational risk, credit risk and business and strategic risk.

**Operational risk**
The Company's main risk is expected to be operational risk related to operational activities and compliance with regulatory requirements. Key operational risks are identified as:

- Ensuring the highest standard of KYC and AML
- Safeguarding of deposits and withdrawal transactions
- Operational stability / deposit liquidity – client deposits available at all times
- Integrity and confidentiality of client data

The Company has a low tolerance for operational errors and have designed business processes and internal controls to minimize these risks.

**Credit risk**
The Group, SDH, has no credit and counterparty risk related to loans or accounts receivable as SDBN receives their income as a fee of the clients' bank deposits in the Norges Bank.
Credit and counterparty risk is therefore only relevant to the Group's own bank deposits. All own funds are deposited with the Group's main bank (Handelsbanken) or Norges Bank. Credit risk is therefore limited to the funds held with these counterparties. The Group's risk appetite for credit risk is low. The Company has developed detailed guidelines for how to manage credit risk as part of the Risk Management Strategy.

**Business and strategic risk**
The Group, as all operating companies, will be exposed to business and strategic risk.

# Note 4 - continued

**Other risk categories**
The Company is exposed to liquidity and financing risk. Risk exposure and risk tolerance is low as the Company's business model requires and ensures that client deposits are highly liquid assets, as they are placed in overnight deposits with the Central Bank of Norway (Norges Bank). There is also an inherent risk that group companies do not have enough liquidity to fulfill its obligations with regards to operating expenses. SDH Group and SDBN have adequate capital for 2017 and beyond.

The Group will not have any market risk as the company will not hold any investments in financial instruments or assume any foreign currency risk.
Leverage risk is not relevant since no Group companies has any debt.
Systemic risk is inherently low given the business model.

# Note 5 - Capital adequacy

As of 31 December 2016 the capital conservation buffer requirement is 2.5 percent, the systemic risk requirement is 3 percent and countercyclical buffer is 1.5 percent. These requirements are additional to the requirement of 4.5 percent CET1 capital, so that the overall minimum requirement on CET1 capital is 11.5 percent.

As of 1 October 2016, differentiated rates become effective for the countercyclical buffer with 1.5 percent being maintained for exposures in Norway. For exposures in other countries the countercyclical capital buffer rate set by the authorities in the country concerned is used. If the country concerned has not established a rate, the same rate as for exposures in Norway is to be used unless the Ministry of Finance sets another rate.

The Bank's common equity tier 1 capital at year end was NOK 54 868 404,- and risk weighted assets were NOK 20 083 039,-, which gives a CET1 capital ratio of 273.21 %.

# Note 6 - Central Banks and credit institutions - loans and receivables

| NOK | Loans and advances to credit institutions | |
|---|---|---|
| | 2016 | 2015 |
| Cash and balances with central banks | 277 415 397 | 59 043 635 |
| Loans and receivables without agreed maturity or notice of withdrawal, AA rating | 6 441 960 | 24 199 383 |
| **Total** | **283 857 357** | 83 243 018 |

Loans and advances to credit institutions are floating rate.

# Note 7 - Credit quality per class of financial assets

The table below shows credit quality per class of financial assets on the balance sheet.
Cash and balances with the Norwegian Central Bank, loans and claims on other Norwegian banks and intercompany loans are considered as lowest risk assets.

| NOK | Neither defaulted nor written down | | |
|---|---|---|---|
| **2016** | Lowest risk | Defaulted or written down | Total |
| Cash and balances with central banks | 277 415 397 | - | 277 415 397 |
| Loans to and receivables from credit institutions | 6 441 960 | - | 6 441 960 |
| **Total** | **283 857 357** | **0** | **283 857 357** |

| NOK | Neither defaulted nor written down | | |
|---|---|---|---|
| **2015** | Lowest risk | Defaulted or written down | Total |
| Cash and balances with central banks | 59 043 635 | - | 59 043 635 |
| Loans to and receivables from credit institutions | 24 199 383 | - | 24 199 383 |
| **Total** | **83 243 018** | **0** | **83 243 018** |

# Note 8 - Liquidity risk

Liquidity risk is the risk that the group will be unable to refinance its debt or unable to finance increases in its assets.

| NOK<br>At 31 December 2016 | On demand | Below 3 months | 3-12 months | 1-5 years | Above 5 years | Total |
|---|---|---|---|---|---|---|
| **Cash flows related to liabilities** | | | | | | |
| Deposits from and debt to Clients | 220 153 633 | | | | | 220 153 633 |
| Loans to and receivabels from group company | 7 516 213 | | | | | 7 516 213 |
| Other commitments | 1 363 754 | | | | | 1 363 754 |
| **Total cash flow liabilities** | **229 033 600** | **0** | **0** | **0** | **0** | **229 033 600** |

| NOK<br>At 31 December 2015 | On demand | Below 3 months | 3-12 months | 1-5 years | Above 5 years | Total |
|---|---|---|---|---|---|---|
| **Cash flows related to liabilities** | | | | | | |
| Loans to and receivabels from group company | 7 611 441 | | | | | 7 611 441 |
| Other commitments | 6 770 529 | | | | | 6 770 529 |
| **Total cash flow liabilities** | **14 381 970** | **0** | **0** | **0** | **0** | **14 381 970** |

# Note 9 - Employee remuneration

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:

According to the SDBN Remuneration Policy, SDBN will offer their employees remuneration that is fair, motivating and in line with the Risk and Management Strategy. This Policy shall ensure that SDBN will comply with regulations concerning remuneration in Financial Institutions.The Policy applies to all forms of remunerations and to all employees.

| NOK | | 2016 | 2015 |
|---|---|---|---|
| Wages | | 5 399 344 | 1 813 182 |
| Accrued wages | | 238 200 | 966 667 |
| Pension costs | | 121 552 | 41 295 |
| Employer's contribution | | 907 617 | 256 745 |
| Social costs | | 63 253 | 70 451 |
| **Total personnel** | | **6 729 966** | **3 148 340** |

SDBN had 4 employees as of December 31 2016 which implies FTE of 3.8.

| **CEOs** | **Period** | **2016** | **2015** |
|---|---|---|---|
| Morten Meland | 4.4.2016 - 31.12.2016 | 1 603 176 | 0 |
| Kjetil Agnar Rivelsrud | 25.11.2015 - 3.4.2016 | 1 354 830 | 300 000 |

| **Compensation to board members** | | **2016** | **2015** |
|---|---|---|---|
| Olga Godinho | | 300 000 | |
| Christian A. Horneman Wist | | 100 000 | |
| Gudrun Bugge Andvord | | 25 000 | |
| Harry Konterud | | 100 000 | |
| Henning Lassen | | 75 000 | |
| Morten Meland | | 100 000 | |

No additional bonus or variable remunerations were paid to board members or management.
There are no loans or guarantees to board members or management.
The SDBN compensation committee consists of all members of the SDBN Board.
It is the opinion of the SDBN Board that the SDBN Remuneration for management in 2016 is in accordance with the SDBN Remuneration Policy.

# Note 10 - Other operating expenses

| NOK | 2016 | 2015 |
|---|---|---|
| Ordinary depreciation | 3 475 359 | 4 060 |
| Operating expenses, real properties | 746 812 | 203 372 |
| Purchased services | 1 520 709 | 2 866 159 |
| Other operating expenses | 4 182 589 | 653 157 |
| **Other operating expenses** | **9 925 470** | **3 726 748** |
| **Audit fees** | | |
| Statutory audit services | 62 500 | 15 625 |
| Other attestation services | 0 | 10 000 |
| Tax-related services | 71 910 | 0 |
| Other non-audit services | | 0 |
| **Total incl value added tax** | **134 410** | 25 625 |

# Note 11 - Income tax

The following is a specification of the difference between the accounting profit before tax, the year's tax base and the year's tax charge.

| NOK | 2016 | 2015 |
|---|---|---|
| Profit before tax | -16 632 444 | -6 706 360 |
| +/- permanent differences | 12 000 | 676 |
| +/- change in temporary differences as per specification | 3 656 | -14 206 |
| **Income subject to tax** | **-16 616 788** | **-6 719 890** |
| **Payable tax** | **0** | **0** |
| **Net change in deferred tax** | **0** | **0** |
| **Income tax** | **0** | **0** |

| NOK<br>Composition of deferred tax carried in the balance sheet and deferred tax recognised in the income statement | Deferred tax in balance sheet<br>2016 | <br>2015 |
|---|---|---|
| Temporary differences: | | |
| Property, plant and equipment | 10 550 | 14 206 |
| **Total tax-increasing temporary differences** | **10 550** | 14 206 |
| **Deferred tax** | **2 638** | **3 552** |
| | | |
| Temporary differences: | | |
| Deficit carried forward | -30 918 593 | -14 301 805 |
| **Total tax-decreasing temporary differences** | **-30 918 593** | **-14 301 805** |
| **Deferred tax asset** | **-7 729 648** | **-3 575 451** |
| **Net** | **-7 727 011** | -3 571 900 |

The above table comprises temporary differences shown gross. At the company level tax-increasing and tax-reducing temporary differences are shown net.

Deferred tax asset is not recognised in the statement of financial position at year end 2015 or 2016.

# Note 12 - Financial instruments

**Fair value of financial instruments at amortised cost**
Amortised cost entails valuing items in the statement of financial position after initially agreed cash flows, adjusted for impairment. Measurement at fair value will invariably be encumbered with uncertainty. For loans to and claims on credit institutions, as well as debt to credit institutions, fair value is estimated as equal to book value.

Financial instruments at fair value are classified at various levels.

**Level 1: Valuation based on quoted prices in an active market**
Fair value of financial instruments that are traded in the active markets is based on market price on the balance sheet date. A market is considered active if market prices are easily and regularly available from a stock exchange, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring market transactions at an arm's length. This category also includes quoted shares and Treasury bills.

**Level 2: Valuation based on observable market data**
Level 2 consists of instruments that are valued by the use of information that does not consist in quoted prices, but where the prices are directly or indirectly observable for the assets or liabilities concerned, and which also include quoted prices in non-active markets.

**Level 3: Valuation based on other than observable data**
If valuation data are not available for level 1 and 2, valuation methods are applied that are based on non-observable information.

| NOK | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|
| | Classification | Book value | Fair value | Level | Book value | Fair value | Level |
| **Assets** | | | | | | | |
| Cash and balances with central banks | Amortised cost | 277 415 397 | 277 415 397 | 2 | 59 043 635 | 59 043 635 | 2 |
| Loans to and receivables from credit institutions | Amortised cost | 6 441 960 | 6 441 960 | 2 | 24 199 383 | 24 199 383 | 2 |
| **Total financial assets** | | **283 857 357** | **283 857 357** | | **83 243 018** | **83 243 018** | |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Debt to group companies | Amortised cost | 7 516 213 | 7 516 213 | 2 | 7 611 442 | 7 611 442 | 2 |
| Deposits from and debt to Clients | Amortised cost | 220 153 633 | 220 153 633 | 2 | 0 | 0 | 2 |
| **Total financial liabilities** | | **227 669 846** | **227 669 846** | | **7 611 442** | **7 611 442** | |

# Note 13 - Intangible assets

| NOK | 2016 | 2015 |
|---|---|---|
| **Intangible assets** | | |
| Cost as at 1 January | 6 881 250 | 2 029 375 |
| Intragroup acquisitions/disposals | 0 | 390 625 |
| Acquisitions/disposals | 881 518 | 4 461 250 |
| **Cost as at 31 December** | **7 762 768** | **6 881 250** |
| Total depreciation and impairment as at 1 January | 0 | 0 |
| Depreciation | 3 463 179 | 0 |
| **Total depreciation and impairment as at 31 December** | **3 463 179** | **0** |
| **Carrying amount as at 31 December** | **4 299 588** | **6 881 250** |

Intangible assets concerns IT systems and licenses. The IT systems are amortised on a straight-line basis over two years in accordance with the remaining period of the agreement. Amounts recorded above are reviewed on the date of the statement of financial position for any indications of value impairment. No write-downs has been made in 2015 or 2016.

# Note 14 - Other debt and liabilities

| NOK<br>Other debt and recognised liabilities | 2016 | 2015 |
|---|---|---|
| Creditors | 262 315 | 497 791 |
| Other | 1 101 439 | 6 272 738 |
| **Total other debt and recognised liabilities** | **1 363 754** | **6 770 529** |
| Guarantee commitments | - | - |
| **Total guarantee commitments** | **-** | **-** |
| Other commitments, not recognised | - | - |
| **Total other commitments** | - | - |
| **Total commitments** | **1 363 754** | 6 770 529 |

There are no securities pledged at year end 2015 or 2016.

## Note 15 - Investments in subsidiaries and transactions with related parties

**Significant transactions with group companies**

| NOK | 2016 | 2015 |
|---|---|---|
| Loan (Safe Deposit Holding ASA) | 7 516 213 | 7 611 442 |
| Interest income/expence | 0 | 0 |
| Intragroup acquisition/ disposal of intangible assets | 0 | **390 625** |

## Note 17 - Subsequent events

No significant events affecting the Bank's accounts have been recorded after the balance sheet date.



## Note 16 - Share capital

| NOK<br>Share capital | Number of shares | Nominal value | Book value |
|---|---|---|---|
| Ordinary shares 1 January 2015 | 1 000 | 100 | 100 000 |
| Issue new shares | 400 000 | 100 | 40 000 000 |
| Ordinary shares 31 December 2015 | 401 000 | 100 | 40 100 000 |
| Issue new shares | 0 | | 0 |
| **Ordinary shares 31 December 2016** | **401 000** | **100** | **40 100 000** |

| Shareholders | Number of shares | Ownership in percent |
|---|---|---|
| Safe Deposit Holding ASA | 401 000 | 100 % |

Safe Deposit Bank
of Norway AS

Haakon VIIs gate 1
P.O.Box 1667 Vika
NO–0120 Oslo
Norway

post@sdbn.com

Org.no. 999 644 392

sdbn

Safe
Deposit
Bank
of Norway

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
Medlemmer av den norske revisorforening

Building a better working world

# INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Safe Deposit Bank of Norway AS

## Report on the audit of the financial statements

### Opinion

We have audited the accompanying financial statements of Safe Deposit Bank of Norway AS, which comprise the statement of financial position as at 31 December 2016, 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 of Safe Deposit Bank of Norway AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance 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 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.

### 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 CEO (management) is 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 the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determine 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.

Building a better
working world

## 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;
- 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.

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.

Building a better
working world

## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report 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.

### 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 have fulfilled their 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, 30 March 2017
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)