KLP BANKEN AS

Annual Report 2018

The business of KLP Banken AS is divided into the Private Market and Public Lending business areas.

The target group for the Private Market are members of the pension schemes in Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). The Bank aims to provide products and services on competitive terms in order to help companies that have chosen KLP as a pension provider to be viewed as attractive employers.

Its presence in the market for public sector lending through KLP Kommunekreditt AS contributes to competition and so provides municipal and county authorities and companies with access to favourable long-term financing with public guarantees.

KLP Banken AS is owned by KLP through KLP Bankholding AS and has two wholly owned subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS.

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KLP Banken had historically high growth in mortgage lending in 2018, at almost 16 per cent. The Bank can also state that other credits in the retail market and deposits are developing positively. Net interest income increased compared to last year, on higher lending volume. Loan margins, on the other hand, fell somewhat due to increased money market interest rates. The profit before tax in the KLP Banken Group was NOK 83.4 million in 2018.

ABOUT KLP BANKEN

KLP Banken AS is owned 100 per cent by Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) through KLP Bankholding AS. KLP Banken AS has two wholly owned subsidiaries: KLP Kommunekreditt AS and KLP Boligkreditt AS.

The collective operations of KLP Banken AS and its subsidiaries are divided into the Retail and Public Sector business areas. Both areas are nation-wide in scope. The companies' head office is in Trondheim.

KLP Banken AS is an internet-based bank without a physical branch network, which offers simple and competitive savings and loan products and digital solutions to manage these.

KLP Banken AS is intended to be a direct bank for customers seeking a long-term and predictable partner. In this way, it aims to be the preferred bank for retail customers who are members of KLP's pension schemes and find the Bank's services and values attractive.

The Bank aims to provide products and services on competitive terms in order to help companies that have chosen KLP as a pension provider to be viewed as attractive employers. At the end of 2018, this target group made up 72 per cent of KLP Banken customers.

Its presence in the market for public sector lending through KLP Kommunekreditt AS and KLP contributes to competition and so provides the target group of municipal and county municipal authorities and companies with public-sector guarantees access to favourable long-term financing.

INCOME STATEMENT

The KLP Banken Group made a profit before tax of NOK 83.4 (103.1) [1] million in 2018. The financial contributions from the business areas were NOK 48.3 (42.4) million from the retail market and NOK 35.1 (60.7) million from the public sector. After tax, the net profit totalled NOK 62.2 (77.2) million.

The KLP Banken Group achieved a return on equity of 4.0 (5.6) per cent before tax and 3.1 (4.3) per cent after tax.

[1] Figures in brackets refer to last year's figures.

FINANCIAL PERFORMANCE IN 2018 - KLP BANKEN GROUP

EARNINGS

NOK MILLIONS	2018	2017	Change
Profit before tax	83.4	103.1	-19.6
Net profit after tax	62.2	77.2	-15.0
Net interest income	248.5	241.6	6.9

BALANCE-SHEET

NOK BILLIONS	2018	2017	Change
Lending including managed loans:	21.1	16.8	4.3
On-balance sheet lending	33.5	30.8	2.7
Lending managed on behalf of KLP	61.7	57.0	4.7

The lending balance in the KLP Banken Group increased by NOK 2.7 (0.8) billion, or 9 per cent, in 2018. This figure includes growth in home mortgage loans of NOK 2.3 (1.7) billion, or 16 per cent, and moderate growth in public-sector lending of NOK 0.4 (-0.9) billion, or 3 per cent. Managed public-sector loans for KLP continued to show good growth in 2018, increasing by NOK 5.5 (3.4) billion, or 9 (6) percent.

Money market interest rates increased through 2018. In the first instance, this brought increasing financing costs for the Bank's borrowing and hence falling margins on loans compared to last year. On the other hand, growth in lending volume contributed to a 15 per cent increase in net interest income in the retail market. In the public-sector market, stable volume and declining margins resulted in about 20 per cent lower net interest income compared with last year.

74 per cent of the KLP Banken Group's net interest income in 2018 came from the retail market, against 66 per cent in 2017. The Board considers this trend to be in line with the Bank's business strategy.

Gains or losses on financial instruments had a greater impact on the Bank's performance in 2018 than the year before. This applies particularly to the value of the Bank's securities and accounting effects from loan buybacks.

Changes in value of the KLP Banken Group's liquidity investments had a negative effect on profits in 2018 because of increased credit spreads in the securities market. This affected earnings to the tune of NOK -1.5 million in 2018. For 2017, the income statement showed a corresponding net profit on securities of NOK 7.3 million.

During the term of its borrowing agreements, the KLP Banken Group makes regular adjustments to reduce its liquidity risk and meet regulatory requirements with respect to liquidity indicators and capital adequacy (Basel III and CRD IV). Restructuring of borrowings in the subsidiaries then results in a need to buy back own issues, and this effects profit . In 2018, there were several repurchases of own debt, which resulted in expenses of NOK 12.2 (9.3) million.

The accounting item for net gains/losses on financial instruments contains not only the effects of changes in value for securities and buyback of loans taken but also the effects of amended pension estimates and changes in fair value of loans made. In total, financial instruments show a cost of NOK 13.5 (3.4) million for the financial year.

KLP Banken AS charge fees to a limited extent for its banking services in the retail market. Changes in the Bank's earnings from fees are thus mainly a result of changes in credit volume.

Net fees and commission income amounted to NOK 17.3 (11.2) million for 2018. Operating costs and depreciation totalled NOK 220.1 (200.2) million in 2018. This implies a rise in costs of 10 (12) per cent. The increase in excess of normal inflation is largely related to investments in IT technology and digitalisation and to efficiency improvements of processes for customers and internally within the Bank.

From 2018, loss provisions are calculated according to new rules, which means that group level loss provisions are calculated according to a different model than the one used by KLP Banken up to 2017. Total group level loss provisions had a limited effect on profits due to the modified calculation method. The transition to estimated loss provisions according to IFRS 9 in addition to individual losses and loss provisions, produced an effect on profits of NOK 0.8 million in 2018. Group level loss provisions have been calculated on commitments both in the retail and on public-sector loans (see note 18).

Individual losses and loss provisions totalled NOK 6.0 (3.2) million in 2018, all associated with investments in the retail market. Of the booked loss and loss provisions, NOK 1.7 (0.8) million related to housing loans and NOK 4.4 (2.3) million to credit cards and other lending. The Board considers that the Bank's losses are still low and consider the loss provisions sufficient. The

OUTSTANDING LOANS (PRINCIPAL) PER COMPANY IN THE KLP BANKEN AS GROUP AS AT 31.12.18

COMPANY / NOK BILLIONS	Mortgage loans	Public/business	Total lending
KLP Banken AS (parent)	9.4	-	9.4
KLP Boligkreditt AS	7.2	-	7.2
KLP Kommunekreditt AS	-	16.6	16.6
KLP (Management agreement)	3.0	58.7	61.7
Total	**19.6**	**75.4**	**95,0**

public-sector market has not incurred any losses on lending.

OVERALL LENDING MANAGEMENT

On behalf of KLP and on its own account, the KLP Banken Group manages a lending portfolio totalling NOK 95.0 (87.5) billion.

Outstanding loans (principal) per company in the KLP Banken AS Group as at 31 December 2018 is shown below.

Of the managed loans to the public sector enterprises, NOK 7.7 (7.8) billion derives from a pure management agreement for KLP, under which loan agreements, documentation and follow-up of loans are handled by KLP. With regard to the remaining management activities on behalf of KLP, KLP Banken is also responsible for making offers, entering into agreements and producing loan documentation in accordance with a mandate. In addition to mortgages in the retail market drawn amount on credit cards was NOK 68 (61) million.

THE RETAIL MARKET

Number of customers

KLP Banken and KLP together have a total of 62,000 retail customers with banking products. The distribution of these customers by product area is shown in the table below.

A customer may have one or more products.

Products

KLP Banken's main products in the retail market are mortgage loans and deposits. The mortgage products that KLP Banken AS offers in the retail market include ordinary mortgages, flexible loans (Fleksilån), mortgages for young people (Boliglån Ung), bridge financing of house purchases, mortgages for the purchase of holiday homes and Senior Loans. In 2018 it is also introduced green mortgages, which offer lower interest rates on loans for energy-friendly homes.

Other banking products in the retail market include current accounts, savings accounts, young home-buyer savings accounts (BSU), and debit and credit cards.

Lending to the retail market

KLP's combined home mortgage portfolios increased in 2018 from NOK 17.6 billion to NOK 19.6 billion. Net growth in 2018 was thus 2.0 (1.7) billion, or 11 (11) per cent. New payouts totalled NOK 8.1 (7.4) billion gross. Mortgages are pledged within cautious valuations and all borrowers are assessed with respect to the solvency and willingness to pay before loan approval. Fixed interest loans accounted for 8 (7) per cent of outstanding loans. The remaining loans were at floating interest rates.

At the end of 2018, mortgage loans to the retail market on the KLP Banken Group's balance-sheet amounted to NOK 16.7 (14.4) billion.

At the end of 2018, the mortgage portfolios in the banking companies had an average loan-to-value ratio (LTV - debt as a percentage of the estimated value of the property) of 58 (59) percent.

NOK 1.7 (1.1) million in individual mortgage write-downs were recognised in 2018. Defaults in excess of 90 days totalled NOK 40.1 (22.2) million at the end of 2018, corresponding to 0.24 (0.15) per cent of the total amount outstanding to KLP Banken. Defaults and losses on mortgages thus increased in 2018, but are still at a low level compared to most other banks in the same market.

Credit cards

The outstanding volume of drawn credit at year-end was NOK 66.4 (57.9) million, across 7,400 (6,500) cards issued. The proportion of active cards increased from 78 per cent to 83 per cent through the year. Travel insurance is included in the product, and deductible cover on car rentals may be selected as an additional product.

PUBLIC SECTOR

Public sector lending and the role of the Bank

Loans to the public sector are provided by KLP and KLP Kommunekreditt AS and managed by KLP Banken.

KLP Kommunekreditt AS, together with KLP, has a good position in the market for long-term financing of municipal and county authorities and companies that perform public tasks.

Total lending to public-sector borrowers stood at NOK 67.7 (62.1) billion at the

CUSTOMERS

PRODUCT	2018	Proportion of members	2017	Proportion of members
Lending	13 319	86 %	12 681	85 %
Deposits	60 854	72 %	52 498	70 %
Credit cards	8 177	94 %	6 955	93 %

end of 2018, an increase of NOK 5.5 billion, or 9 per cent, from 2018. Fixed interest rate loans accounted for 40 (38) per cent of total lending at the end of 2018.

New loans amounting to NOK 13.5 (9.3) billion were paid out in 2018 to the public sector by companies within the KLP Group. Instalment payments and loan redemptions totalled NOK 8.1 (4.6) billion during the year.

Requests for loans amounting to around NOK 74 (74) billion were received during 2018. The demand for new financing and refinancing in the public-sector market thus appears to be at roughly the same level in 2018 as the year before. The acceptance rate was around 19 (10) per cent of all requests in 2018.

The credit risk associated with lending to municipal and county authorities in Norway is limited to deferral of payment and does not provide for cessation of payment obligations. This is a result of Norwegian legislation, which indemnifies the lender against losses if a local authority is unable to meet its payment obligations. In the event that payment is deferred, the lender is also assured under Norwegian law of compensation for accrued interest, late-payment interest and debt collection costs. KLP and the KLP Banken Group have not incurred any credit losses on loans to municipal or county authorities.

KLP Banken's public-sector lending

The KLP Banken Group's lending activities in KLP Kommunekreditt AS are primarily based on the sale of new loans directly from the Company. In recent years the refinancing of loans in KLP has had no material impact on the development of lending operations.

Total lending in KLP Kommunekreditt AS amounted to NOK 16.8 (16.3) billion at the end of 2018, an increase over the year at around 3 per cent. However, the average loan volume was lower than the previous year. The proportion of loans at fixed interest rates decreased from 26 per cent in 2017 to 20 per cent in 2018.

KLP Kommunekreditt AS paid out new loans for 1.8 (0.8) billion in 2018. The lending portfolio comprises direct loans to Norwegian municipal and county authorities or to companies performing public services which have guarantees from municipal or county authorities. The risk associated with the lending portfolio is considered very low.

At the end of 2018, KLP Kommunekreditt AS had no loans in default over 90 days. There were also no individual losses in the financial year. The switch to estimated loss provisions under IFRS 9 had an effect on profits in the company of NOK 5 thousand in 2018.

BUSINESS FUNDING

Funding of the retail market

The KLP Banken Group's business in the retail market is funded with deposits, borrowing and equity. Total deposits in KLP Banken AS increased from NOK 9.7 to 10.7 billion in 2018. The Bank's deposits represent 31 (29) percent of the bank group's total financing. Of this, deposits from retail customers amounted to NOK 8.7 (7.7) billion at the end of the year, with the remainder coming from deposits from municipalities and businesses.

At the end of 2018 the Bank's outstanding debt of issued securities was NOK 1.0 (1.5) billion. This is also used to part-finance the subsidiaries.

KLP Banken AS uses the subsidiary KLP Boligkreditt AS to finance part of its lending activities in the retail market by issuing covered bonds secured by mortgages. In 2018, mortgage-backed covered bonds for NOK 2.8 (0.6) billion were issued. Outstanding bond debt in KLP Boligkreditt AS totalled NOK 6.1 (4.3) billion at the end of 2018. The Company has achieved the top rating for its borrowing programme.

During 2018, KLP Boligkreditt AS purchased mortgage loans worth NOK 4.9 (2.2) billion from KLP Banken AS. At year-end, mortgages totalling NOK 7.2 (5.1) billion were financed through KLP Boligkreditt's balance sheet and NOK 9.5 (9.4) billion financed through the parent company's balance sheet. No mortgages were sold from KLP Banken to KLP in the financial year.

Public-sector financing

The subsidiary KLP Kommunekreditt AS issues bonds covered by a collateral pool consisting mainly of loans to municipal and municipal county

BALANCE SHEET AND CAPITAL ADEQUACY

TOTAL ASSETS NOK BILLIONS	KLP Banken Group	Change in 2018
Public sector loans/municipal guarantees	16.8	0.4
Lending to private individuals	16.7	2.3
Securities and liquidity	3.5	-0.6
Other assets	0.1	-0.0
Total	**37.1**	**2.1**

authorities as well as companies with municipal guarantees. Cost-effective financing is intended to ensure that the KLP Banken Group can offer long-term lending on favourable terms. KLP Kommunekreditt AS has received the top rating for its borrowing programme.

In the Norwegian market, covered bonds secured by public sector loans worth NOK 17.7 (17.9) billion were issued in 2018. New issues in 2018 totalled NOK 3.3 (4.5) billion. There have been no issues outside Norway.

KLP Banken AS also offers deposit products for municipalities and corporate customers which are partly used to finance public sector loans. At the end of 2018 deposits from municipalities and businesses came to NOK 1.9 (2.0) billion, equivalent to 18 (20) per cent of total deposits.

BALANCE SHEET AND CAPITAL ADEQUACY

The KLP Banken AS Group had total assets of NOK 37.1 (35.0) billion at the end of 2018. The table on page 7 shows a breakdown of this amount.

The Group's subordinated capital, based on the Board of Directors' proposal for the allocation of the Group companies' profit, was NOK 2.1 (2.1) billion at the end of 2018. Core capital is identical with subordinated capital. This gives a capital adequacy and core capital adequacy of 20.1 (21.3) per cent. The current capital requirement, including capital buffers, is 14.1 per cent core capital adequacy and 17.6 per cent capital adequacy.

KLP Banken AS has a Pillar II supplement of 2.1 per cent, which is included in KLP Banken's capital requirements at the end of 2018.

KLP Banken will also maintain a buffer of at least 0.5 per cent of the actual capital requirement for Pillar I and Pillar II risks, so the Bank's capital target is 18.1 per cent.

The countercyclical capital buffer will increase by 0.5 percent at the end of 2019, so the new capital target will then be 18.6 per cent.

The risk-weighted balance came to NOK 10.0 (9.2) billion at the end of 2018.

Unweighted capital adequacy in the KLP Banken Group was 5.6 (5.7) per cent. The requirement for unweighted capital coverage for KLP Banken AS is 3 per cent. Capital adequacy is considered good.

LIQUIDITY

The year-end statement of cash flow shows that the KLP Banken Group's liquidity situation is satisfactory, as the Company has obtained more funding than required to meet its operational needs.

Surplus liquidity is invested in other banks and in interest-bearing securities. Investments in credit institutions, including financing of subsidiaries, totalled NOK 1.4 (1.3) billion. The book value of the interest-bearing securities portfolio was NOK 2.0 (2.8) billion in the KLP Banken Group at the end of the year. The portfolio is entirely composed of Norwegian high-rated covered bank bonds and bonds issued by Norwegian municipalities.

The Bank reports the liquidity reserve (LCR) for the KLP Banken Group as a whole each month, and for the individual companies in the Group each quarter. At the end of 2018, LCR for the Group stood at 402 (470) per cent, and for KLP Banken AS, it was 172 (398) per cent.

ABOUT THE FINANCIAL STATEMENTS

The Board of Directors believes that the financial statements provide a true and fair picture of the Company's assets and liabilities, financial position and results. The preconditions exist for continuation as a going concern, and it is on this assumption that the financial statements have been prepared.

Application of the year's profit

KLP Banken AS's financial statements for 2018 show a total net profit of NOK 26.9 (116.4) million after tax. The Board of Directors proposes that a group contribution of NOK 46.0 (29.5) million be paid to KLP. NOK 34.5 (22.1) million will be received from KLP in return as a group contribution without any tax effect. Net profit and group contribution will be transferred to other owners' equity.

RATING

The rating agencies' assessment of the companies in the KLP Banken Group has a major bearing on the borrowing terms available to the companies. The companies use and Moody's for credit rating of their bonds. All issues of covered bonds have been given the top rating, Aaa.

RISK MANAGEMENT

KLP Banken AS and its subsidiaries are exposed to various types of risk. The Bank has a well established risk management framework whose purpose is to ensure that risks are identified, analysed and managed by means of policies, limits, routines and instructions.

It has established its own guidelines for the most important individual risks (liquidity, credit, market, operational and compliance risk) and an overall policy for risk management, which includes principles, organisation, limits, etc. for the bank group's overall risk. The risk policies are adopted by the Board of Directors and are reviewed at least once a year. The policies are of an overarching nature and are complemented by procedures, rules, and instructions determined at the administrative level.

The overarching risk management policy covers, among other things, roles in the Company's risk management, including requirements and guidelines for the risk auditing function. One purpose of the risk control function is to check that the guidelines are being followed.

Stress testing is used as a method for risk assessment, and as a tool for communication and risk discussions. In this context, stress testing includes both sensitivity analyses and scenario analyses.

The policies include tolerance for the individual risks and for the overall risk. Risk tolerances are defined on the basis of various stress scenarios, and various forms of stress testing are regularly carried out to measure whether actual exposure is within the predefined tolerance limits.

KLP Banken AS should have a prudent risk profile, and earnings should largely be the result of borrowing and lending activities as well as liquidity management. This means that KLP Banken should have a low market risk, and that interest and foreign exchange risks which occur in the course of borrowing and lending activities should be reduced through hedging using simple derivatives. KLP Banken AS should have an adequate, long-term financing structure, and limits have been set to ensure that this objective is achieved. Credit risk in the KLP Banken Group is low, and lending is limited to loans with municipal risk and loans secured through mortgages on residential and holiday property. Management of KLP Banken's liquidity is undertaken in the form of investments which meet requirements for credit quality and securities in line with credit lines approved by the Board of Directors.

KLP Banken aims to maintain a low level of operational risk, and to be characterised by a high level of professional competence, solid routines and efficient operations.

The boards of KLP Banken, KLP Bankholding, KLP Kommunekreditt and KLP Boligkreditt have appointed a joint risk committee. Based on the total assets, this is not required by law. The risk committee deals mainly with matters relating to the companies' different risks and has an advisory function vis-à-vis the board.

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors held seven board meetings in 2018. For an overview of remuneration to members of the Bank's board and management see Note 28.

CORPORATE GOVERNANCE

The Company's articles of association and applicable legislation provide guidelines for corporate governance, and define a clear division of roles between governing bodies and day-to-day management.

The Board of Directors sets the policies for the Company's activities.

The CEO is in charge of the day-to-day management of the Company in accordance with instructions issued by the Board of Directors.

A description of KLP Banken's corporate governance is available on the KLP website (klp.no/om-klp).

WORKING ENVIRONMENT AND ORGANISATION

KLP Banken AS and its subsidiaries had 68 (70) permanent employees at the end of 2018. All employment contracts are with KLP Banken AS. Two employees have additional functions with the subsidiaries; KLP Kommunekreditt AS and KLP Boligkreditt AS. In addition to the Bank's own balance-sheet, employees of KLP Banken AS also manage lending portfolios financed by KLP and by its subsidiaries under contract.

KLP Banken's most important resource is its employees, most of whom are highly experienced in both the private market and the public sector and have acquired considerable credit and market expertise. New products, services and regulatory requirements with respect to the companies in the KLP Banken Group lead to constant changes in the business and demand reorganisation and new skills. Further development of the organisation, with a view to stronger market orientation and skills development, is therefore an important element in the Company's plans and activities.

Surveys are regularly performed among all employees to measure their commitment and level of job satisfaction, the extent to which KLP's values are complied with and the overall working environment. These surveys show that the vast majority of employees are highly committed and enjoy working for KLP. The companies have works councils (SAMU), made up of representatives from management, KLP's HR department and elected employee representatives. The board's considers that cooperation between the management of KLP Banken and the employees is working well.

The KLP Group aims to achieve a sickness absence rate of under 4 per cent. In 2018 KLP Banken had a sickness absence rate of 4.8 (4.3) per cent. Long-term absence totalled 3.2 (2.6) per cent, while short-term absence totalled 1.6 (1.7) per cent. The absence is followed up by managers and the HR department as well as the Board where it increases over time. There were no work-related injuries or accidents in 2018 either.

As part of the KLP Group, KLP Banken AS complies with the Group's guidelines on equality and diversity, whose objectives, initiatives and activities take account of the basis for discrimination described in the legislation. A central working group has drawn up internal targets for equality and diversity.

In connection with recruitment, the Company routinely states its desire to be contacted by all qualified job applicants irrespective of age, gender, disability, political opinions, sexual orientation or ethnic background.

The Board of Directors in KLP Banken AS.
From the left: Aina Iren Slettedal Eide, Aage E. Schaanning, Ingrid Aune, Kjell Fosse, Sverre Thornes, Christin Kleppe and Espen Trandum.

Photo: Glenn Slydal Johansen

KLP Banken's Board of Directors recognises the activity and reporting requirements arising from the combined Equality and Non-Discrimination Acts. Active work for diversity, equality, equal pay and reduced sickness absence are part of corporate social responsibility.

KLP Banken AS also complies with the KLP Group's code of conduct and guidelines for the reporting of suspected wrongdoing in the workplace.

Women make up 51 (55) per cent of the workforce in the KLP Banken Group. Efforts are made to achieve a balance between women and men at all levels. Women hold 50 (50) per cent of management positions. At the end of 2018 the Board of Directors of KLP Banken AS comprised three women and three men, with one woman and one man having been elected from among the employees.

EXTERNAL ENVIRONMENT

KLP and KLP Banken have been contributing to sustainable development in the community for a long time through loan financing of projects throughout Norway, such as roads, schools, kindergartens, swimming pools, sports facilities, care homes, cultural centres and many other socially beneficial projects. KLP aims to use it lending business to influence people, the environment and the community around us in a positive way. Lending to Norwegian municipalities is used for purposes that help to reduce national greenhouse gas emissions, and benefit society as a whole. Over three-quarters of KLP's owners have loans from KLP or the Bank. KLP Banken AS, as an office business, is environmentally certified.

CORPORATE SOCIAL RESPONSIBILITY

The KLP Group, including the companies in the KLP Banken Group, aims to contribute to sustainable investments and responsible business operations. This is manifested through actions linked to the Group's business. KLP has signed the UN Global Compact, and is thereby committed to working for human rights, workers' rights and the environment, and against corruption. KLP is working on issues related to climate, corruption, human rights, employment rights and tax. KLP Banken contributes to this work by financing socially beneficial investments in the public and private sectors, such as energy saving measures through green mortgages. Responsible business practice is the key to sustainable development. The aim is to make a difference.

Social responsibility is also included in governing documents, including codes of conduct and guidelines for environmental protection and responsible investment. A more detailed descriptions of targets, measures and results can be found on the KLP website, klp.no/samfunnsansvar (in Norwegian, but see also klp.no/english/corporate-responsibility).

OUTLOOK

A large proportion of the population are included in the Group's target group and the potential for enhancing KLP Banken's position in this segment is considered to be good.

New technologies and new players from other industries are challenging the banking industry. KLP Banken aims to exploit tried and tested technology in order to offer relevant, customer-friendly and efficient services to our customers. This brings a need for substantial IT investments in the years to come, but it will be a significant prerequisite if KLP Banken's growth and profitability goals are to be reached.

KLP Banken will continue its efforts to develop profitable banking products while maintaining the focus on providing members with good and predictable conditions.

Price growth on homes has levelled off in recent years and there is some uncertainty around future developments. The debt burden on households is a worry, particularly the growth in consumer debt , as some groups are vulnerable to increased interest rates and unemployment. The trend in unemployment and economic growth, however, has been positive. The servicing level for home loans in KLP Banken's most important customer groups, which are mainly made up of public-sector employees, is expected remain satisfactory into the future and will help to limit defaults. KLP Banken will continue to take a conservative approach to lending, to maintain low risk in the Bank's loan portfolios.

For many years, the municipalities have been developing a good and extensive range of services to the population. Combined with increasing longevity, income and population growth, there is every reason to expect a continued need for high public sector investment. The demand for loans from municipalities and from projects developing the country's infrastructure and environmental initiatives on behalf of municipalities is therefore expected to remain high in the years ahead.

KLP Kommunekreditt AS is Norway's only mortgage company issuing bonds with collateral in a lending portfolio consisting of loans to the public sector. Customer surveys show that borrowers want competition with regard to municipal lending. The presence of the Bank's subsidiary KLP Kommunekreditt AS, together with KLP, in the market for public sector lending contributes to competition and so improves access to long-term financing on favourable terms.

KLP Banken AS has good financial strength and an equity capital situation that meets ever stricter regulatory requirements. Combined with low credit risk in its lending business, this is a good starting point for accessing the best possible financing in the capital markets. KLP Banken AS is therefore well-equipped for further development and growth.

Oslo, 13 March 2019
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

INGRID AUNE

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director

Income Statement

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018	NOTE		NOTE	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
261 271	271 772		Interest income, amortised cost		757 820	742 594
43 101	26 031		Interest income at fair value		182 646	209 299
304 372	**297 804**	10	**Total interest income**	10	**940 466**	**951 893**
-165 300	-157 291		Interest expense, amortised cost		-507 997	-488 568
-26 038	-12 147		Interest expense at fair value		-183 938	-221 705
-191 339	**-169 438**	10	**Total interest costs**	10	**-691 935**	**-710 273**
113 033	**128 365**	10	**Net interest income**	10	**248 531**	**241 619**
13 452	18 488		Commission income and income from banking services		18 488	13 452
-2 273	-1 174		Commission costs and costs of banking services		-1 174	-2 273
11 179	**17 314**	11	**Net charges and commission income**	11	**17 314**	**11 179**
95 000	0		Income from ownership interests in Group companies		0	0
57 028	58 041		Other fee income		58 041	57 028
1 476	-102	5	Net gain/(loss) on financial instruments	5	-13 524	-3 382
153 503	**57 939**		**Total other operating income**		**44 518**	**53 646**
-66 358	-72 026	30	Salary and administrative costs	30	-72 026	-66 358
-6 423	-8 117	23,24	Depreciation	23,24	-8 117	-6 423
-77 094	-79 048	34	Other operating expenses	34	-139 953	-127 436
-3 152	-6 827	18	Loss on loans issued, guarantees etc.	18	-6 838	-3 152
-153 028	**-166 018**		**Total operating expenses**		**-226 935**	**-203 370**
124 686	**37 601**		**Operating profit/loss before tax**		**83 429**	**103 074**
-7 490	-9 052	26	Tax on ordinary income	26	-19 458	-25 081
117 196	**28 549**		**Income for the year**		**63 970**	**77 993**

Income Statement

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018	NOTE		NOTE	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
-1 145	-2 326	27	Estimate difference, pension obligations and assets	27	-2 326	-1 145
286	581	26	Tax on actuarial gains and losses	26	581	286
-859	**-1 744**		**Items that will not be reclassified to profit and loss**		**-1 744**	**-859**
68	0		Changes in the fair value through profit and loss		0	68
0	171		Changes to expected loss recognised through other comprehensive income		0	0
-17	-43	26	Tax on changes in fair value of available for sale financial assets	26	0	-17
51	**128**		**Items that may be reclassified to profit and loss**		**0**	**51**
-808	**-1 616**		**Other comprehensive income for the period**		**-1 744**	**-808**
116 389	**26 933**		**COMPREHENSIVE INCOME FOR THE YEAR**		**62 226**	**77 185**
			ALLOCATION OF INCOME			
-116 389	-26 933		Allocated to/from retained earnings			
-116 389	**-26 933**		**TOTAL ALLOCATION OF INCOME**			
0.88 %	0.21 %		Income for the year in per cent of total assets		0.17 %	0.22 %
0.88 %	0.19 %		Comprehensive income for the year in per cent of total assets		0.17 %	0.22 %

Balance Sheet

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
31.12.2017	31.12.2018	NOTE		NOTE	31.12.2018	31.12.2017
			ASSETS			
45 140	60 238	6,37	Claims on central banks	6,37	60 238	45 140
1 448 637	2 108 333	6,17,37	Loans to and receivables from credit institutions	6,17,37	1 439 420	1 286 095
9 384 128	9 487 563	6,17	Loans to and receivables from customers	6,17	33 474 004	30 762 782
1 317 592	999 748	6,8,16	Fixed-income securities	6,8,16	2 015 351	2 759 018
461	2 053	6,8	Shares, holdings and primary capital certificates	6,8	2 053	461
3 547	21	6,7,8,19	Financial derivatives	6,7,8,19	62 483	91 394
1 045 470	1 165 470	22	Holdings in Group companies		0	0
7 891	11 561	26	Deferred tax assets	26	8 667	7 392
742	667	23	Tangible fixed assets	23	667	742
27 153	25 299	24	Intangible assets	24	25 299	27 153
4 678	6 947	31	Other assets	31	413	818
13 285 439	**13 867 901**		**TOTAL ASSETS**		**37 088 595**	**34 980 995**
			LIABILITIES AND OWNERS' EQUITY			
			LIABILITIES			
1 477 098	1 014 583	6,20	Liabilities created on issuance of securities	6,20	24 039 968	22 924 274
9 669 046	10 661 749	6,21	Deposits	6,21	10 661 749	9 669 046
11 860	6 552	6,7,8,19	Financial derivatives	6,7,8,19	111 955	188 103
60 477	87 449	32	Other liabilities	32	85 154	74 720
46 397	52 117	32	Provision for accrued costs and liabilities	32	52 117	47 261
11 264 878	**11 822 451**		**TOTAL LIABILITIES**		**34 950 943**	**32 903 404**

Balance Sheet

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
31.12.2017	31.12.2018	NOTE		NOTE	31.12.2018	31.12.2017
			OWNERS' EQUITY			
1 057 500	1 057 500		Share capital		1 057 500	1 057 500
732 500	732 500		Share premium		732 500	732 500
230 561	255 450		Other owners' equity		347 652	287 591
2 020 561	**2 045 450**	25	**TOTAL OWNERS' EQUITY**	25	**2 137 652**	**2 077 591**
13 285 439	**13 867 901**		**TOTAL LIABILITIES AND OWNERS' EQUITY**		**37 088 595**	**34 980 995**

Oslo, 13 March 2019
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

INGRID AUNE

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director

Statement of Owners' Equity KLP Banken AS

KLP BANKEN AS

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 31 December 2017	1 057 500	732 500	230 561	2 020 561
Changes in accounting principles (IFRS 9)	0	0	-2 725	-2 725
Tax effect of change of accounting principle	0	0	681	681
Owners' equity 1 January 2018	**1 057 500**	**732 500**	**228 517**	**2 018 517**
Income for the year	0	0	28 549	28 549
Other comprehensive income	0	0	-1 616	-1 616
Comprehensive income for the year	**0**	**0**	**26 933**	**26 933**
Group contribution received	0	0	22 151	22 151
Group contribution made	0	0	-22 151	-22 151
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2018	**1 057 500**	**732 500**	**255 450**	**2 045 450**

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2017	982 500	657 500	114 172	1 754 172
Income for the year	0	0	117 197	117 197
Other comprehensive income	0	0	-808	-808
Comprehensive income for the year	**0**	**0**	**116 389**	**116 389**
Group contribution received	0	0	18 973	18 973
Group contribution made	0	0	-18 973	-18 973
Paid-up equity in the period	75 000	75 000	0	150 000
Total transactions with the owners	**75 000**	**75 000**	**0**	**150 000**
Owners' equity 31 December 2017	**1 057 500**	**732 500**	**230 561**	**2 020 561**

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2018	7 500 000	0,141	1 057 500	732 500	228 517	2 018 517
Changes in the period 1 January - 31 December			0	0	26 933	26 933
Equity at 31 December 2018	**7 500 000**	**0,141**	**1 057 500**	**732 500**	**255 450**	**2 045 450**

There is one class of shares. All shares are owned by KLP Bankholding AS.

Statement of Owners' Equity KLP Banken AS Group

KLP BANKEN AS GROUP

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 31 December 2017	1 057 500	732 500	287 591	2 077 591
Changes in accounting principles (IFRS 9)	0	0	-2 882	-2 882
Tax effect of change of accounting principle	0	0	717	717
Owners' equity 1 January 2018	**1 057 500**	**732 500**	**285 426**	**2 075 426**
Income for the year	0	0	63 970	63 970
Other comprehensive income	0	0	-1 744	-1 744
Comprehensive income for the year	**0**	**0**	**62 226**	**62 226**
Group contribution received during the period	0	0	78 891	78 891
Group contribution paid during the period	0	0	-78 891	-78 891
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2018	**1 057 500**	**732 500**	**347 652**	**2 137 652**

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2017	982 500	657 500	210 406	1 850 406
Income for the year	0	0	77 993	77 993
Other comprehensive income	0	0	-808	-808
Comprehensive income for the year	**0**	**0**	**77 185**	**77 185**
Group contribution received during the period	0	0	58 624	58 624
Group contribution paid during the period	0	0	-58 624	-58 624
Paid-up equity in the period	75 000	75 000	0	150 000
Total transactions with the owners	**75 000**	**75 000**	**0**	**150 000**
Owners' equity 31 December 2017	**1 057 500**	**732 500**	**287 591**	**2 077 591**

Statement of Cash Flows

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018	NOTE		NOTE	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
			OPERATING ACTIVITIES			
267 668	282 126		Payments received from customers – interest, commission & charges		767 723	748 414
-130 191	-136 600		Payments to customers – interest, commission and charges		-136 600	-130 191
-4 507 001	-3 528 909		Disbursements on loans to customers and credit institutions		-9 521 930	-8 769 573
4 346 185	2 725 293		Receipts on loans to customers		6 657 968	7 819 988
-9 547	0		Payment for the credit card portfolio		0	-9 547
979 913	992 291		Net receipts on customer deposits banking		992 291	979 913
-85 092	-80 841		Disbursements on operations		-140 189	-147 252
-60 901	-64 412		Payments to staff, pension schemes, employer's social security contribution etc.		-64 412	-60 901
5 885	6 739		Interest investment accounts		13 263	11 607
25 851	75 870		Net receipts/disbursements from operating activities		61 620	45 677
0	0		Income tax paid		0	0
832 770	**271 557**		**Net cash flow from operational activities**		**-1 370 266**	**488 135**
			INVESTMENT ACTIVITIES			
-998 046	-1 297 384		Payments on the purchase of securities		-2 667 949	-1 946 683
633 950	1 614 207		Receipts on the sale of securities		3 403 183	1 906 778
14 389	13 981		Receipts of interest from securities		35 101	38 520
-4 279	-6 187		Payments on the purchase of tangible fixed assets		-6 187	-4 279
95 000	0		Receipts on shares in subsidiaries		0	0
-120 000	-120 000		Disbursement of capital to subsidiaries		0	0
-378 986	**204 617**		**Net cash flow from investment activities**		**764 148**	**-5 664**
			FINANCING ACTIVITIES			
0	400 000	20	Receipts on loans	20	6 500 000	4 074 000
-584 694	-617 000	20	Repayment and redemption of loans	20	1 548 000	-731 972
-280 000	-240 000	20	Payment for loan buybacks	20	-6 922 000	-3 805 000
-46 168	-24 354		Net payment of interest on loans		-329 850	-383 886
-6 324	-7 380		Group contributions made		-25 334	-19 541
150 000	0		Receipts from owners' equity		0	150 000
-767 186	**-488 734**		**Cash flows from financing activities**		**770 816**	**-716 399**
-313 402	**-12 560**		**Net cash flow during the period**		**164 698**	**-233 930**
1 008 061	694 659		Cash and cash equivalents at start of period		1 289 315	1 523 245
694 659	682 099	37	Cash and cash equivalents at end of period	37	1 454 013	1 289 315
-313 402	**-12 560**		**Net receipts/disbursements (-) of cash**		**164 698**	**-233 930**

Declaration Pursuant to the Norwegian Securities Trading Act, Section 5-5

KLP BANKEN AS

We hereby declare that, to the best of our knowledge, the annual financial statements for the period from 1 January to 31 December 2018 have been prepared in accordance with applicable accounting standards, and that the information in the financial statements gives a true and fair view of the Company's and the Group's assets, liabilities, financial position and overall profit or loss.

We also declare that the Directors' report provides a true and fair overview of the development, profit or loss and the financial position of the Company and the Group, together with a description of the most significant risk and uncertainty factors the Company and the Group face.

Oslo, 13 March 2019
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

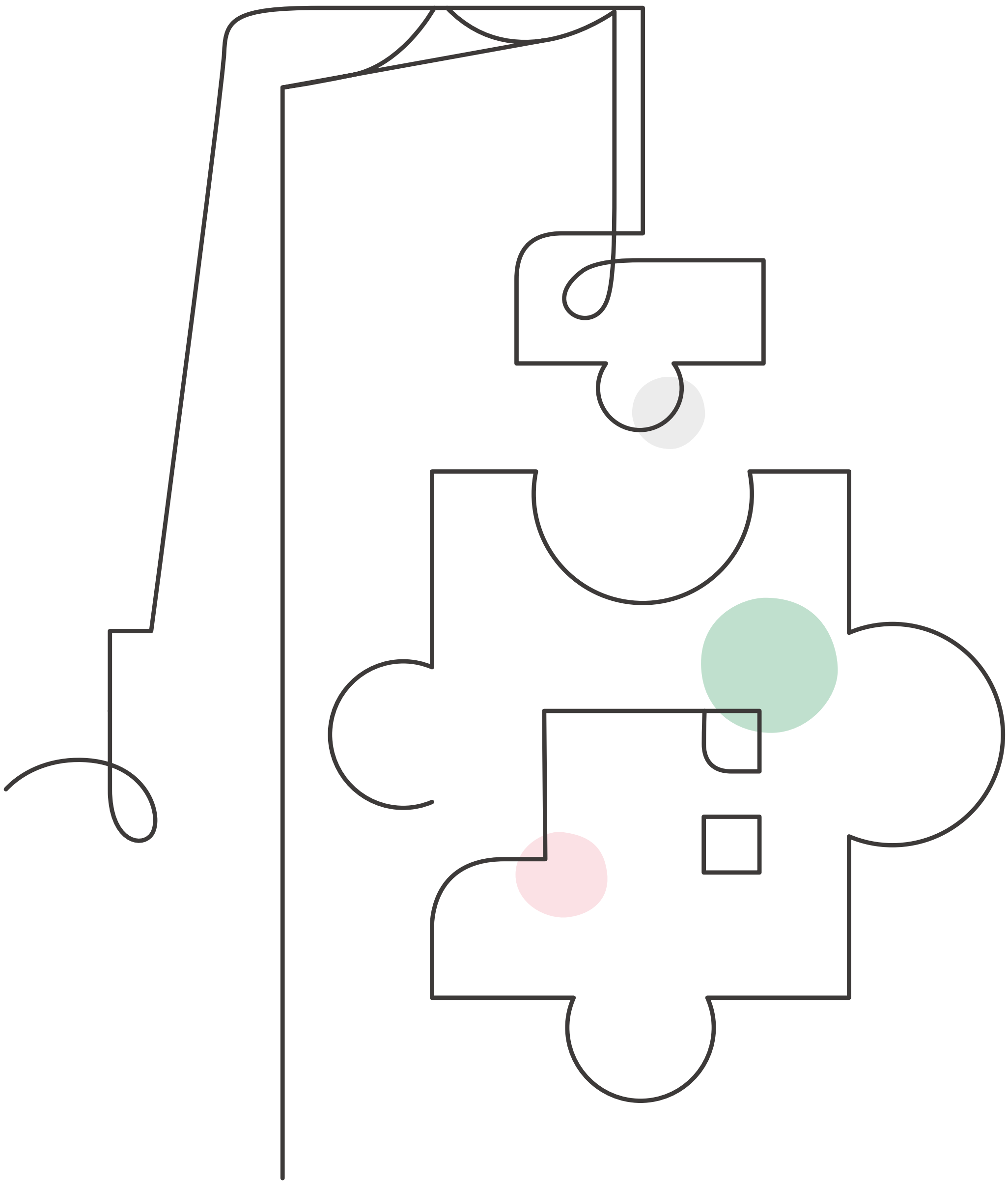
INGRID AUNE

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director



Notes to the Accounts

KLP BANKEN AS

NOTE 1 General information

KLP Banken AS was founded on 25 February 2009. KLP Banken AS and its subsidiaries provide or acquire loans to Norwegian municipalities and county authorities, as well as to companies with a public sector guarantee. The lending activities are principally financed by the issuance of covered bonds. The Group also offers standard banking products to private customers. The Company, KLP Banken AS, is registered as domiciled in Norway. The bank is an online bank without branches. Its head office is at Beddingen 8 in Trondheim. The Company has a branch office in Oslo.

KLP Banken AS owns all the shares in KLP Kommunekreditt AS and KLP Boligkreditt AS. These companies together form the KLP Banken AS Group. The Company, KLP Banken AS, is a subsidiary of KLP Bankholding AS, which is in turn wholly owned by Kommunal Landspensjonskasse (KLP). KLP is a mutual insurance company.

The annual financial statements are available at klp.no.

NOTE 2 Summary of the most important accounting principles

Below is a description of the most important accounting principles used in preparation of the company and group financial statements for KLP Banken AS. These principles are used in the same way in all periods presented unless otherwise indicated.

2.1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Banken AS and the group have been prepared in accordance with international financial reporting standards (IFRS) and interpretations from the IFRS interpretations committee, as adopted by the EU. The Norwegian Accounting Act and the Regulations concerning Annual Accounts for banks, Mortgage Firms and Finance Companies (the Accounting Regulations) contain individual requirements for additional information which is not required under IFRS. These supplementary information requirements have been incorporated into the notes to the financial statements.

To prepare the accounts in accordance with IFRS, management has to make accounting estimates and approximate valuations. This will affect the value of the company's and the group's assets and liabilities, income and expenses recognised in the financial statements. Actual figures may differ from estimates used. Areas in which discretionary valuations and estimates of material significance for the group have been shown are described in Note 3.

All amounts are presented in NOK thousands without decimals unless otherwise stated.

The financial statements have been prepared in accordance with the going concern assumption.

2.1.1. Changes in accounting principles and information

a) New and changed standards adopted by the company/group in 2018

- IFRS 9 Financial Instruments
  For information on the new standard and the effect implementation has had on the company/group, please refer to section 2.6.1.
- IFRS 15 Revenue from Contracts with Customers
  The new standard deals with revenue recognition. The standard calls for analysis of the customer contract, identifying the individual performance obligations. A performance obligation may be a good or service. Income is recognised when a customer acquires control over a good or service, and thus has the opportunity to decide on the use of, and may receive the advantages from, the good or the service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated interpretations. The transition to IFRS 15 has not had any substantial effect on the company/group's accounting because revenues are covered by other standards.

b) Standards, changes to and interpretations of existing standards that have not come into effect and where the company/group has not chosen early application.

- IFRS 16 Leases
  The company is implementing the IFRS 16 standard from 1 January 2019.

The standard will result in more leases than before being capitalised, as the distinction between operational and financial leasing has been removed. Under this standard, the right to use a leased object is an asset, and an obligation to pay a lease is a liability to be shown on the balance sheet. The exceptions are short-term and low-value leases. The accounting treatment for lessors will not be significantly altered. The company has analysed all leasing agreements to make sure they meet the criteria for leases according to IFRS 16, and there is only one lease on an office building that falls under the new standard. The company/group has also chosen a modified retrospective approach and is taking the whole effect of the transition against the opening balance at 1 January 2019.

The discount rate used to determine the present value of assets and liabilities is the best estimate of the marginal loan interest to the company/group. The calculated effect of IFRS 16 on the opening balance at 1 January 2019 will be an estimated increase of NOK 5.1 million in assets and liabilities.

There are no other IFRS standards or IFRIC interpretations not yet in force that are expected to have a significant impact on the company/group's financial statements.

2.2 CONSOLIDATION PRINCIPLES

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. Control over an entity arises when the group is exposed to variation in the profitability from the entity and has the ability to influence this profitability through its power over the entity. Subsidiaries are consolidated from the date control is acquired and are omitted from the consolidated financial statements when control ceases.

Intragroup transactions and accounts between group companies are eliminated. Where group companies present accounts in accordance with principles other than those used by the group, these are converted to correspond to the group's accounting principles before they are consolidated.

2.3 TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

2.3.1 Functional currency and presentation currency

The accounts are presented in NOK, which is the functional currency of the parent company and the presentation currency of the group.

2.3.2 Transactions and statement of financial position items

Transactions in foreign currency are converted to the functional currency at the transaction rate of exchange. Foreign exchange gains or losses realised on settlement and conversion of monetary items in foreign currency at the exchange-rate at the end of the reporting period are taken to profit/loss. Foreign exchange gains and losses are presented net on the line 'Net gain/loss on financial instruments'.

Translation differences on non-monetary items (assets and liabilities) is included as a part of the assessment of fair value. Foreign currency differences associated with non-monetary items, such as shares at fair value through profit or loss, are included as an element of value change recognised through profit or loss.

2.4 TANGIBLE FIXED ASSETS

Tangible fixed assets mainly comprise office machinery and inventory used by the company/group in its business.

Tangible fixed assets are recognised at acquisition including costs that can be attributed directly to acquisition of the fixed asset, with a deduction for depreciation. Subsequent costs relating to fixed assets are capitalised as part of the fixed asset if it is likely that the expenditure will contribute to future financial benefit for the company/group and the cost can be measured reliably. Repair and maintenance are recognised through profit or loss during the period in which the expenses are incurred.

Depreciation is calculated by the straight-line method so the acquisition cost of tangible fixed assets, including subsequent costs, is depreciated to their residual value over the expected service life, which is:

Office machinery	4 years
Inventory	4 years

The service life of current assets is calculated annually. If there are indications of a fall in value below the residual value, the recoverable amount is calculated. If the recoverable amount is less than the residual value, the asset is written down to the recoverable amount.

The profit or loss from disposal is made up of the sale price minus the book value at the date of sale. The profit or loss from disposal is charged to the income statement.

2.5 INTANGIBLE ASSETS

The company/group's intangible assets consist primarily of capitalised IT systems and added value from the acquisition of the credit card portfolio.

On the purchase of a new IT system, directly attributable costs for the system/software and costs of having the system installed and readied for use are capitalised.

On further development of IT systems and software both external and internal costs are capitalised in accordance with the above. System changes regarded as maintenance are taken to expenses as they occur.

When an IT system is operational, the capitalised costs are depreciated by straight line over the expected life. In the event of subsequent capitalisation because of further development, this is depreciated over the original lifetime unless the expenditure increases the total expected life of the system.

If there are indications that the book value of a capitalised IT system is higher than the recoverable amount, an impairment test is carried out. If the book value is higher than the recoverable sum (present value on continued use/ownership), the asset is written down to the recoverable amount.

2.6 FINANCIAL INSTRUMENTS

2.6.1 Changes in accounting principles

The KLP Banken Group has used IFRS 9 and IFRS 7R, which apply for the first time to years beginning 1 January 2018 and after.

As permitted in the transitional provisions in IFRS 9, KLP Banken AS and the group have chosen not to restate comparative figures. The comparative figures for 2017, reported in accordance with IAS 39, are therefore not comparable with the information presented for 2018. Differences arising from the transition to IFRS 9 are charged directly to other equity as of 1 January 2018.

2.6.1.1 Changes in classification and measurement

Classification and measurement of financial assets in accordance with IFRS 9, apart from equity instruments and derivatives, are based on a combination of the unit's business model for the management of assets and the contractual cash flow characteristics of the instrument.

Measurement categories for financial assets according to IAS 39 (fair value through profit and loss, available for sale, held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled through profit or loss on derecognition.
- Equity instruments at fair value through other comprehensive income, without recycling gains or losses on derecognition
- Financial assets at fair value through profit or loss

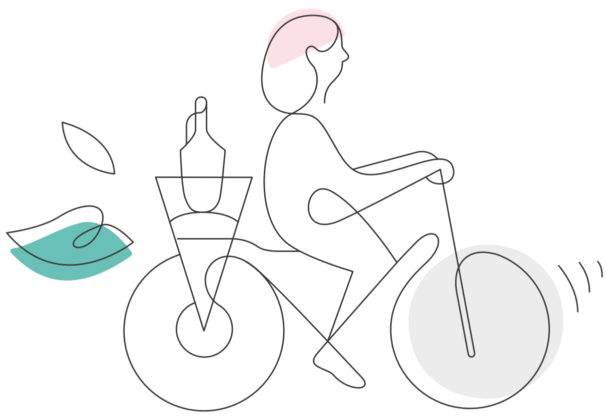
Accounting for financial liabilities is largely unchanged, except that for liabilities specifically recognised at fair value, changes in fair value due to own credit risk are recognised through other income and expenses without recycling. This will be the case unless processing the changes in the credit risk from the liability will cause or aggravate the accounting mismatch in profit/loss.

2.6.1.2 Changes in the impairment model

Earlier rules (IAS 39) meant that the company/group raised provisions for losses based on an 'incurred loss' model, i.e. the loss provisions were conditional on objective evidence of impairment on the reporting date. Under the new rules in IFRS 9, the company/group has to raise provisions for expected losses. The new principles apply to financial assets that are debt instruments, and which are measured at amortised cost or fair value with value changes recognised through other comprehensive income. Loan commitments, financial guarantee contracts and leases due are covered.

The measurement of impairment for expected loss depends on whether the credit risk has increased significantly since initial recognition. Upon initial recognition, and when the credit risk has not increased significantly after initial recognition, provisions are based on 12 months' expected loss (Stage 1). If the credit risk has increased significantly since initial recognition, but there is no objective evidence of impairment, write-downs are based on expected loss over the lifetime (Stage 2). The individual loss provisions under IAS 39 are not affected by the transition to IFRS 9 (Stage 3).

Information on the effects of the transition to IFRS 9 is given in note 2.6.1.3 to 2.6.1.7 below. Note 2.6.2, Summary of significant accounting policies related to financial instruments, sets out the accounting policies for financial instruments applied from 1 January 2018 (as well as previous IAS 39 accounting policies for financial instruments applied in the comparative period).



2.6.1.3 Classification and measurement of financial instruments

The tables below show the measurement category and book value of financial instruments in accordance with IAS 39 and IFRS 9 at the time of transition.

GROUP NOK THOUSANDS	Classification according to IAS 39	Carrying amount according to IAS 39	Carrying amount according to IFRS 9	Carrying amount according to IFRS 9
Receivables from central banks	Loans and receivables	45 140	Amortised cost	45 140
Loans to and receivables from credit institutions	Loans and receivables	1 286 096	Amortised cost	1 286 096
Loans to and receivables from customers	Loans and receivables	26 237 466	Fair value through profit or loss	26 233 924
	Loans and receivables (hedging)	4 525 316	Amortised cost (hedging)	4 525 316
Fixed-income securities	Fair value through profit or loss (FVO)	2 759 018	Fair value through profit or loss	2 759 018
Financial derivatives (assets)	Fair value through profit or loss	91 394	Fair value through profit or loss	91 394
Shares and holdings	Available for sale	461	Fair value through profit or loss	461
Deposits from customers	Amortised cost	-9 669 046	Amortised cost	-9 669 046
Liabilities created on issuance of securities	Amortised cost	-20 798 792	Amortised cost	-20 798 792
	Amortised cost (hedging)	-2 125 483	Amortised cost (hedging)	-2 125 483
Financial derivatives (liabilities)	Fair value through profit or loss	-188 103	Fair value through profit or loss	-188 103
Unused credit, financial gurantees and loan commitments [1]	Amortised cost	0	Amortised cost	0

[1] Unused credit, financial gurantees and loan commitments are contigent liabilities.

KLP BANKEN NOK THOUSANDS	Classification according to IAS 39	Carrying amount according to IAS 39	Carrying amount according to IFRS 9	Carrying amount according to IFRS 9
Receivables from central banks	Loans and receivables	45 140	Amortised cost	45 140
Loans to and receivables from credit institutions	Loans and receivables	673 121	Amortised cost	673 121
Loans to and receivables from customers	Loans and receivables	9 990 176	Fair value through other comprehensive income	9 986 793
	Loans and receivables (hedging)	169 467	Fair value through profit or loss (hedging)	169 467
Fixed-income securities	Fair value through profit or loss (FVO)	1 317 592	Fair value through profit or loss	1 317 592
Financial derivatives (assets)	Fair value through profit or loss	3 547	Fair value through profit or loss	3 547
Shares and holdings	Available for sale	461	Fair value through profit or loss	461
Deposits from customers	Amortised cost	-9 669 046	Amortised cost	-9 669 046
Liabilities created on issuance of securities	Amortised cost	-1 272 655	Amortised cost	-1 272 655
	Amortised cost (hedging)	-204 442	Amortised cost (hedging)	-204 442
Financial derivatives (liabilities)	Fair value through profit or loss	-11 860	Fair value through profit or loss	-11 860
Unused credit, financial gurantees and loan commitments [1]	Amortised cost	0	Amortised cost	0

[1] Unused credit, financial gurantees and loan commitments are contigent liabilities.

The company/group has assessed the classification and measurement of assets and liabilities covered by the new standard. Loans provided with a view to resale to the wholly-owned mortgage companies KLP Boligkreditt AS and KLP Kommunekreditt AS will have a different business model in the consolidated financial statements and the company accounts. In the company accounts, these loans will be made with a view both to receiving the contractual cash flows and to resale, so they are measured at fair value with value changes through other comprehensive income. In the consolidated accounts, these loans will be included in a business model where the intention is to own the loan throughout its life in order to receive the contractual cash flows, and they are measured at amortised cost. Outstanding loans that have not been acquired with a view to resale either in the company or the consolidated accounts, but only with a view to receiving contractual cash flows, are measured at amortised cost.

For the classification and measurement of financial liabilities, there are no significant changes for the company/group.

2.6.1.4 Reconciliation of the book value of financial assets between IAS 39 and IFRS 9

The KLP Banken Group has carried out a review of the business model for the management of financial assets and an analysis of their cash flow characteristics. Please see note 2.6.2 for more detailed information on the new classification requirements under IFRS 9.

The table below reconciles the carrying amounts for financial assets from previous measurement categories under IAS 39 against the new measurement categories at the transition to IFRS 9 from 1 January 2018:

NOTE	GROUP	FIGURES IN NOK THOUSANDS	Carrying amount according to IAS 39 31 December 2017	Change as a result of reclassification	Change as a result of revaluation	Carrying amount according to IFRS 9 1 January 2018
	FINANCIAL ASSETS					
	AMORTISED COST					
	Receivables from central banks		45 140	0	0	45 140
	Loans to and receivables from credit institutions		1 286 096	0	0	1 286 096
	Loans to and receivables from customers		26 237 466	0	-3 542	26 233 924
	Loans to and receivables from customers (hedging)		4 525 316	0	0	4 525 316
	Total effect at amortised cost		**32 094 018**	**0**	**-3 542**	**32 090 476**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS					
A	Loans to and receivables from customers		2 759 018	0	0	2 759 018
	Financial derivatives		91 394	0	0	91 394
B	Shares and holdings		461	0	0	461
	Total effect on fair value through profit or loss		**2 850 873**	**0**	**0**	**2 850 873**
	Total financial assets		**34 944 891**	**0**	**-3 542**	**34 941 349**
	FINANCIAL LIABILITIES					
	AMORTISED COST					
	Deposits from customers		9 669 046	0	0	9 669 046
	Liabilities created on issuance of securities		20 798 792	0	0	20 798 792
	Liabilities created on issuance of securities (hedging)		2 125 483	0	0	2 125 483
	Total effect at amortised cost		**32 593 321**	**0**	**0**	**32 593 321**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS					
	Financial derivatives		188 103	0	0	188 103
	Total effect on fair value through profit or loss		**188 103**	**0**	**0**	**188 103**
	Total financial liabilities		**32 781 424**	**0**	**0**	**32 781 424**

NOTE	KLP BANKEN FINANCIAL ASSETS	FIGURES IN NOK THOUSANDS	Carrying amount according to IAS 39 31 December 2017	Change as a result of reclassification	Change as a result of revaluation	Carrying amount according to IFRS 9 1 January 2018
	AMORTISED COST					
	Receivables from central banks		45 140	0	0	45 140
	Loans to and receivables from credit institutions		673 121	0	0	673 121
C	Loans to and receivables from customers		9 990 176	-9 990 176	0	0
	Loans to and receivables from customers (hedging)		169 467	0	0	169 467
	Total effect at amortised cost		**10 877 904**	**-9 990 176**	**0**	**887 728**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS					
A	Fixed-income securities		1 317 592	0	0	1 317 592
	Financial derivatives		3 547	0	0	3 547
B	Shares and holdings		461	0	0	461
	Total effect on fair value through profit or loss		**1 321 600**	**0**	**0**	**1 321 600**
	FAIR VALUE WITH VALUE CHANGES THROUGH OTHER COMPREHENSIVE INCOME					
C	Loans to and receivables from customers		0	9 990 176	-3 383	9 986 793
	Total effect on fair value through other comprehensive income		**0**	**9 990 176**	**-3 383**	**9 986 793**
	Total financial assets		**12 199 504**	**0**	**-3 383**	**12 196 121**
	FINANCIAL LIABILITIES					
	AMORTISED COST					
	Deposits from customers		9 669 046	0	0	9 669 046
	Liabilities created on issuance of securities		1 272 655	0	0	1 272 655
	Liabilities created on issuance of securities (hedging)		204 442	0	0	204 442
	Total effect at amortised cost		**11 146 143**	**0**	**0**	**11 146 143**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS					
	Financial derivatives		11 860	0	0	11 860
	Total effect on fair value through profit or loss		**11 860**	**0**	**0**	**11 860**
	Total financial liabilities		**11 158 003**	**0**	**0**	**11 158 003**

NOTE A
Interest-bearing securities make up parts of the Bank's liquidity reserve. The portfolio is managed and measured on a fair value basis and has to be classified under IFRS 9 at fair value with changes in value through profit or loss.

NOTE B
The 'Available for sale' category which was used under IAS 39 will be discontinued in IFRS 9. At the transition to the new standard, equity instruments are classified at fair value with value changes through profit or loss.

NOTE C
Under IAS 39, loans to and receivables from customers were measured at amortised cost. The business model for these loans in KLP Banken AS means that they can be resold to the wholly owned subsidiaries KLP Kommunekreditt AS and KLP Boligkreditt AS. Under the rules in IFRS 9, these loans now have to be classified at fair value with value changes through profit/loss.

2.6.1.5 Reconciliation of loss provisions between IAS 39 and IFRS 9

The table below shows a reconciliation between the loan loss provisions measured according to the IAS 39 'incurred loss' model against the IFRS 9 'expected loss' model at 1 January 2018 for the company/group:

GROUP CHANGE IN PROVISIONS	Figures in MNOK	Loss provision according to IAS 39 on 31 December 2017	Change as a result of reclassification	Change as a result of revaluation	Loss provision according to IFRS 9 on 1 January 2018
Loans and receivables under IAS 39 at amortised cost under IFRS 9		3	0	1	4
Unused credit, financial guarantee contracts and loan commitments		0	0	2	2
Total change in loss provisions		**3**	**0**	**3**	**6**

KLP BANKEN AS CHANGE IN PROVISIONS	Figures in MNOK	Loss provision according to IAS 39 on 31 December 2017	Change as a result of reclassification	Change as a result of revaluation	Loss provision according to IFRS 9 on 1 January 2018
Loans and receivables under IAS 39 at amortised cost under IFRS 9		3	-10	0	-7
Loans and receivables at fair value through other comprehensive income		0	10	1	11
Unused credit, financial guarantee contracts and loan commitments		0	0	2	2
Total change in loss provisions		**3**	**0**	**3**	**6**

2.6.1.6 Distribution of loss provisions per group (1 January 2018)

The table below shows the loss provisions (after tax), broken down into the different stages at the transition to IFRS 9:

GROUP SPECIFICATION OF LOSS PROVISIONS	Figures in MNOK	Stage 1	Stage 2	Stage 3	Loss provision according to IFRS 9 on 1 January 2018
Loans and receivables under IAS 39 at amortised cost under IFRS 9		3	0	1	4
Unused credit, financial guarantee contracts and loan commitments		0	0	2	2
Total provisions for losses		**3**	**0**	**3**	**6**

KLP BANKEN AS SPECIFICATION OF LOSS PROVISIONS	Figures in MNOK	Stage 1	Stage 2	Stage 3	Loss provision according to IFRS 9 on 1 January 2018
Loans and receivables under IAS 39 at amortised cost under IFRS 9		1	0	3	4
Unused credit, financial guarantee contracts and loan commitments		2	0	0	2
Total provisions for losses		**3**	**0**	**3**	**6**

2.6.1.7 Effect of the transition to IFRS 9 on equity
For KLP Banken AS, the implementation effect on the company's equity is NOK 2.0 million. This is due to different valuations of loans to and receivables from customers, which were valued at amortised cost under IAS 39, but are measured at fair value under IFRS.
For the KLP Banken Group the implementation effect on the group's equity is NOK 2.2 million.

2.6.2 Summary of important accounting policies related to financial instruments
The most important accounting policies relating to financial instruments used from 1 January 2018 and in the period before 1 January 2018 are described below.

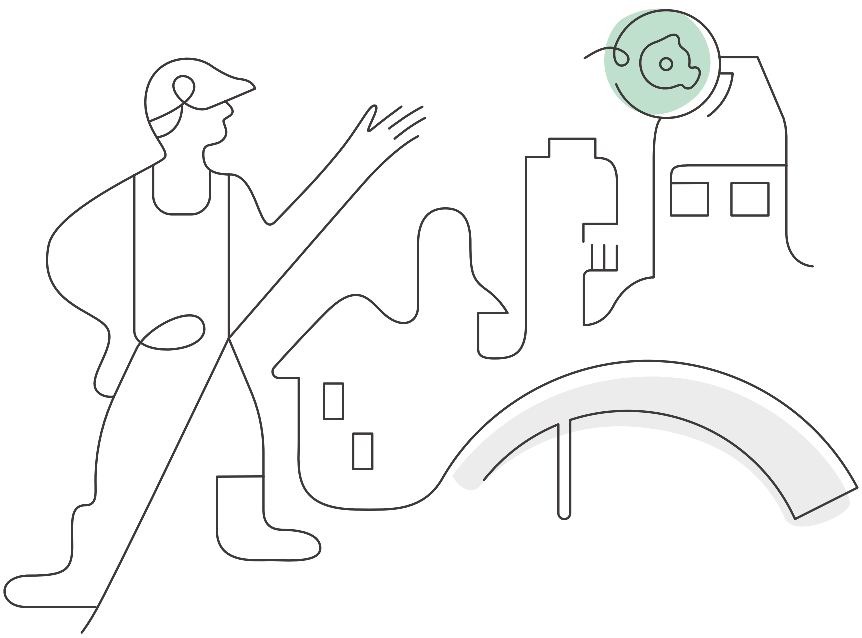
2.6.2.1 Recognition and derecognition
Financial assets and liabilities on the balance sheet on the date when the KLP Banken Group becomes party to the instrument's contractual terms and conditions. Regular purchases and sales of investments are recognised on the date of the agreement. Financial assets are removed from the balance sheet when the rights to receive cash flows from the investment expire or when these rights have been transferred and the KLP Banken Group has essentially transferred the risk and the potential gain from ownership. Financial liabilities are derecognised when the rights to the contractual conditions have been fulfilled or cancelled or have expired.

2.6.2.2 Classification and subsequent measurement
Financial assets – principle applied from 1 January 2018
Financial assets are classified on initial recognition in one of the following categories:
- Amortised cost
- Fair value through profit or loss
- Fair value through other comprehensive income

A financial asset is measured at amortised cost if both of the following criteria are met and the financial asset has not been reported at fair value through profit or loss (the 'fair value option'):
- The financial asset is held in a business model whose purpose is to keep financial assets in order to receive the contractual cash flows (the 'business model criterion'), and
- At certain times, the contractual terms of the financial asset lead to cash flows that only include repayments and interest on the outstanding principal amount (the 'cash flow criterion').

The business model criterion
The company/group assesses the target with a business model in which an asset is held at the portfolio level, because this best reflects the way the business is managed, and information is given to management. The information that is assessed includes:

- Explicit guidelines and goals for the portfolio and operation of these guidelines in practice. In particular, if the management's strategy and goal is to keep the asset in order to collect the contractual cash flows, maintain a specific interest profile, and match duration between financial assets and the corresponding financial liabilities used to finance these assets, or realise cash flows through the sale of the assets;
- How the return on the portfolio is assessed and reported to management;
- The risks that affect the performance of the business model (and the financial assets held within this business



model) and how these risks are managed;
- How the managers are compensated, e.g. whether the compensation is based on the fair value of the managed assets or the total contractual cash flows; and
- Frequency, volume and date of sale in previous periods, the reasons for such sales and expectations of future sales activity. Information about the sales activities is not however assessed in isolation, but as part of an overall assessment of how the company's stated goals for managing the financial assets are achieved and how the cash flows are realised.

Loans provided with a view to resale to the wholly-owned mortgage companies KLP Boligkreditt AS and KLP Kommunekreditt AS will have a different business model in the consolidated financial statements and the company accounts. In the company accounts, these loans will be made with a view both to receiving the contractual cash flows and to resale, so they are measured at fair value with value changes through other comprehensive income. In the consolidated accounts, these loans will be included in a business model where the intention is to own the loan throughout its life in order to receive the contractual cash flows, and they are measured at amortised cost.

Assessment of the business model is based on reasonable future scenarios without regard to 'worst case' or 'stress case' scenarios. If cash flows after initial recognition are realised in a way that is different from the company/group's original expectations, the classification of the remaining financial assets in the relevant business model does not change, but the information is incorporated into the assessment of the newly issued or acquired financial assets in the future.

Cash flow criterion
In this evaluation the principal amount is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as payment for the time value of money and for credit risk related to outstanding principal in a specific period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative expenses), as well as a profit margin.

In assessing whether the contractual cash flows are only repayments and interest on the outstanding principal amount, KLP Banken and the group consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that can change the date or the amount of the contractual cash flows so that it will not meet this condition. In assessing this the company/group considers:

- Contingent events that would change the amount and the date of the cash flows;
- Influence on functions;
- Advance payments and extended terms
- Terms that limit the company's claim to cash flows from specific assets (e.g. 'nonrecourse asset arrangements')
- Terms that change the assessment of the time value of money - e.g. periodic resetting of interest rates.

The company/group has assessed all of its instruments measured at amortised cost against the rules described above and believes the instruments satisfy the criteria. The bank has senior loans on the balance sheet that to some extent expose the bank to the risk of impairment on the homes offered as collateral. The bank has determined that these loans do not pass significant insurance risks from the borrower to the bank as there are no plausible scenarios that result in curtailment of the loan amount. The loans are therefore considered to be within the scope of IFRS 9 in their entirety. These loans are considered to satisfy the cash flow criterion as the bank believes that they will never suffer more than an insignificant curtailment of the loan amounts.

All other financial assets are measured at fair value with changes in value through profit/loss, so:
- Assets with contractual cash flows that do not meet the cash flow criterion; and/or
- Assets held in a different business model than 'held to collect contractual cash flows'; or
- Assets designated at fair value through profit or loss (the 'fair value option').

The company/group may designate a debt instrument that meets the criteria to be measured at amortised cost to be reported at fair value through profit or loss if this eliminates or significantly reduces inconsistencies in measurement ('accounting mismatches'). This option is also available under IAS 39.

Impairment model
The impairment model for losses on loans and receivables is based on expected credit losses. The impairment model defines default as "a payment that is more than 90 days overdue, or an account that is continuously overdrawn for a minimum of 90 days (by at least NOK 500)". How the impairment loss is to be measured is determined for each individual stage and the model uses the effective interest rate method. A simplified approach is allowed for financial assets that do not have a significant financial component (e.g. trade receivables). Upon initial recognition, and in cases where the credit risk has not increased significantly after initial recognition, provision has to be made for credit losses that are expected to occur over the next 12 months (Stage 1). If the credit risk has increased significantly, the provisions should correspond to the expected credit losses over the expected useful life (Stage 2). If there is a loss event, impairments are raised equal to

the expected loss on the commitment throughout its life (Stage 3).

In the bank/group, the assessment of what is considered to be a significant change in credit risk for home mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'.

For the products where the bank/group has not developed its own PD and LGD (loss given default) models, the loss ratio method is used. Here a change in risk rating of at least one grade from initial recognition to the reporting date is considered to be a significant increase in credit risk. This applies to the senior loan and credit card products within the retail market.

In the group, the simplified loss rate method for public lending is also used. For the balance sheet items 'Receivables from central banks' and 'Loans to and receivables from credit institutions', the bank/group has made use of the exception for low credit risk. These balance sheet items have a rating that satisfies the presumption in the standard of low credit risk on the balance sheet date, and the bank/group has judged that this combines with low LGD and low exposure to produce insignificant losses. Consequently, the bank/group has not made any loss provisions for with these balance sheet items.

For more information on loan losses, please refer to note 18.

Financial derivatives and hedging
IFRS 9 allows firms to retain the hedging rules under IAS 39, which the bank/group has chosen to do. Financial derivatives are capitalised at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognised at fair value and are presented as an asset if the value is positive and a liability if the value is negative. Recognition of associated gains and losses depends on whether the derivative has been identified as an hedging instrument and in which type of accounting hedge the derivative is included.

For derivatives not included in hedging relationships, gains and losses are recognised as net value changes on derivatives and foreign exchange. In the financial statements, they are included in the line 'Net gain/loss on financial instruments'. These fall into the category of financial assets at fair value reported through profit or loss.

For derivatives included in the accounting hedges, gains and losses are recognised as net changes in value of certificates, bonds and other securities, and are presented in the financial statements under 'Net profit/(loss) on financial Instruments'.

The derivatives which are hedging instruments are used for hedging interest rate risk on fixed-interest borrowing and lending. In its hedging activity, the Group safeguards itself against movements in market interest rates. Changes in the credit spread are not taken into account in the hedging effectiveness. The company/group uses the rules on fair value hedging, so that the book value of the hedged item (asset or liability) is corrected with the value development in the hedged risk. The value change is recognised in the income statement. On entry into a hedging contract, the connection between the hedging instrument and the hedging object is documented, in addition to the purpose of the risk management and the strategy behind the different hedging transactions. The hedging effectiveness is measured regularly to ensure the hedge is effective.

If the hedge no longer fulfils the criteria for hedge accounting, the recognised effect of the hedge for hedging objects recognised at amortised cost is amortised over the period up to the due date of the hedging instrument.

Financial assets – principle applied before 1 January 2018
Financial assets are classified on initial recognition in one of the following categories:

Financial assets:
- Financial assets at fair value through profit or loss
- Lending and receivables recognised at amortised cost

Financial assets at fair value through profit or loss
Within this category it may be mandatory or a deliberate choice to recognise attribution at fair value with value changes through profit or loss. The first category includes the KLP Banken Group's financial derivatives, unless they are part of a hedge. The second category encompasses financial assets designated at fair value through profit or loss (the 'fair value option').

Lending and receivables recognised at amortised cost
Loans and receivables are financial assets that are not derivatives and have fixed or determinable payments and are not traded on an active market. The category includes loans and receivables as well as bonds that are not defined as assets valued at fair value through profit or loss.

Impairment model for assets valued at amortised cost:
If there is objective evidence of impairment, a write-down is carried out. In assessing whether there is impairment, weight is attached to whether the issuer/debtor has significant financial difficulties and whether there is any breach of contract, including default. The write-down is calculated by comparing the new, anticipated cash flows with the original cash flows discounted by the original effective interest rate (assets with fixed interest) or by the effective interest rate at the time of measurement (assets with variable interest).

Loss assessments and write-downs are carried out quarterly on individual loans where there is objective evidence of impairment. Lending is also assessed by group. If there is objective evidence of impairment in a group of loans, a write-down is carried out. The write-down is reversed if events occur after the date of write-down that reduce the loss.

Financial liabilities
Under both IAS 39 and IFRS 9, financial liabilities are measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: This classification applies to derivatives and financial liabilities designated as such upon initial recognition. The company has designated certain liabilities at fair value through the income statement, because this reduces or eliminates inconsistencies in measurement ('accounting mismatches')
- Financial guarantees and loan commitments

Other financial liabilities recognised at amortised cost:
The category includes deposits from customers and credit institutions with no interest rate hedging and other financial liabilities not designated as liabilities measured at fair value through profit or loss.

Presentation, classification and measurement in the balance sheet and the income statement
The tables below show and compare the presentation, classification and subsequent measurement of each balance sheet item under IAS 39 (before 1 January 2018) and under IFRS 9 (from 1 January 2018):

GROUP FINANCIAL INSTRUMENTS	Classification according to IAS 39	Classification according to IFRS 9
Receivables from central banks	Amortised cost (loans and receivables)	Amortised cost
Loans to and receivables from credit institutions	Amortised cost (loans and receivables)	Amortised cost
Loans to and receivables from customers	Amortised cost (loans and receivables)	Amortised cost
	Amortised cost (hedging)	Amortised cost (hedging)
Fixed-income securities	Fair value through profit or loss (FVO)	Fair value through profit or loss
Financial derivatives (assets)	Fair value through profit or loss	Fair value through profit or loss
Shares and holdings	Fair value through other comprehensive income	Fair value through profit or loss
Deposits from customers	Amortised cost	Amortised cost
Liabilities created on issuance of securities	Amortised cost	Amortised cost
	Amortised cost (hedging)	Amortised cost (hedging)
Financial derivatives (liabilities)	Fair value through profit or loss	Fair value through profit or loss

As can be seen from the table, there are no significant changes in presentation, classification and measurement of financial assets or financial liabilities for the group.

KLP BANKEN AS FINANCIAL INSTRUMENTS	Classification according to IAS 39	Classification according to IFRS 9
Receivables from central banks	Amortised cost (loans and receivables)	Amortised cost
Loans to and receivables from credit institutions	Amortised cost (loans and receivables)	Amortised cost
Loans to and receivables from customers	Amortised cost (loans and receivables)	Fair value through other comprehensive income
	Amortised cost (hedging)	Amortised cost (hedging)
Fixed-income securities	Fair value through profit or loss (FVO)	Fair value through profit or loss
Financial derivatives (assets)	Fair value through profit or loss	Fair value through profit or loss
Shares and holdings	Fair value through other comprehensive income	Fair value through profit or loss
Deposits from customers	Amortised cost	Amortised cost
Liabilities created on issuance of securities	Amortised cost	Amortised cost
	Amortised cost (hedging)	Amortised cost (hedging)
Financial derivatives (liabilities)	Fair value through profit or loss	Fair value through profit or loss

For the company there is a change in the classification and subsequent measurement of loans to and receivables from customers. Under IAS 39, these were measured at amortised cost, whereas under IFRS 9 this category is measured at fair value with changes of value through profit/loss.

2.6.2.3 Netting
Financial assets and liabilities are presented net in the statement of financial position when there is an unconditional offsetting entitlement that can be legally enforced and the intention is to settle net, or realise the asset and liability simultaneously. This applies to periods both before and after 1 January 2018.

2.6.2.4 Modification
When the contractual cash flows from a financial asset are renegotiated or otherwise amended, and the renegotiation or change does not lead to derecognition of the financial asset, the gross book value of the financial asset is recalculated and a gain or loss is recognised in the income statement. The gross book value of the financial asset is recalculated as the present value of the renegotiated or amended contractual cash flows, discounted at the original effective interest rate for the financial asset. Any costs or fees incurred adjust the book value of the modified financial asset and are written down over the remaining lifetime of the changed financial asset.

2.7 CASH AND CASH EQUIVALENTS
Cash and cash equivalents are defined as receivables from credit institutions without any termination date. The amount does not include receivables from credit institutions that are linked to the purchase and sale of securities in the management of the securities portfolios. The statement of cash flows has been prepared in accordance with the direct method.

2.8 OWNERSHIP INTERESTS IN GROUP COMPANIES
Investments in group companies are investments for permanent ownership or use and are valued at acquisition cost. Using the cost method, they are written down to fair value if a fall in value is due to factors that cannot be assumed to be transient, and this must be considered necessary according to good accounting practice.

2.9 FINANCIAL LIABILITIES
The company/group's financial liabilities comprise liabilities to credit institutions, covered bonds issued and deposits from customers.

2.9.1 Liabilities to credit institutions
Liabilities to credit institutions are capitalised at market value on take-up. As a rule, on subsequent measurement the liability is recognised at amortised cost in accordance with the effective interest rate method. The interest costs are included in amortisation on the line for 'Interest costs and similar costs, amortised cost' in the income statement.

2.9.2 Covered bonds issued
In the first instance, covered bonds issued are recognised at fair value on take-up adjusted for purchase costs, i.e. nominal value adjusted for any premium/discount on issue. On subsequent valuation the bonds are valued at amortised cost by the effective interest method. The interest costs are shown in the line 'Interest costs and similar costs, amortised cost' in the income statement. Bonds with fixed interest are recognised in accordance with the rules on fair value hedging in as much as they are hedged against change in interest rate level.

2.9.3 Liabilities to and deposits from customers
Deposits from customers are recognised at fair value in the balance sheet when the deposit is recorded as transferred to the customer's account. In subsequent periods, liabilities to and deposits from customers are recognised at amortised cost in accordance with the effective interest rate method. The interest costs are included in the line 'Interest costs and similar costs, amortised cost' in the income statement.

2.10 OWNERS' EQUITY
The owners' equity in the group comprises owners' equity contributed and retained earnings.

2.10.1 Equity contributed
Owners' equity contributed comprises share capital, the share premium fund and other owners' equity contributed.

2.10.2 Accrued equity
Retained earnings comprise other owners' equity. Ordinary company law rules apply for any allocation or use of the retained earnings.

2.11 PRESENTATION OF INCOME IN THE ACCOUNTS
Income from the sale of goods and services is valued at the fair value of the consideration, net of any discounts. Intragroup sales are eliminated in the consolidated financial statements.

2.11.1 Income from services
Fees for lending management are taken to income in proportion to the manage-

ment carried out for the period up to the end of the reporting period. Other services are taken to income by straight line over the contract period.

2.11.2 Interest income/expenses

Interest income and interest expenses associated with all interest-bearing financial instruments valued at amortised cost and fair value through other comprehensive income are taken to income using the effective interest rate method. Setup fees for lending are included in the amortisation and taken to income over the duration of the loan. This is true except for:

- Purchased or credit-impaired financial assets. For these assets, the company/group will apply the credit-adjusted effective interest rate on the amortised cost of the financial asset from initial recognition.
- Financial assets that are not purchased or credit-impaired financial assets, but which have subsequently become such. Here, the effective interest rate is applied to the amortised cost of the financial asset in subsequent reporting periods.

For interest-bearing financial investments and derivatives measured at fair value through the income statement, interest income is classified as “’Interest income and similar income, fair value’, while other value changes are classified as ‘Net gain or loss on financial investments’.

2.12 TAX

Tax costs in the income statement comprise tax payable and changes in deferred tax. Tax is charged to the income statement, apart from tax relating to items reported under ‘Other comprehensive income’. Deferred tax and tax assets are calculated as differences between the accounting and taxation value of assets and liabilities. Deferred tax assets are capitalised to the extent that it can be demonstrated that the company/group will have sufficient taxable profit in the future to exploit the tax asset.

The company is a part of a financial services group and a tax group. With exception for the limitations pursuant to the Financial Institutions Act, any tax-related surplus may be submitted in their entirety to parent company and subsidiaries as group contribution with tax effect.

The company/group is covered by the rules of capital activity tax. Capital activity tax are calculated on the company’s total employer taxable benefits in addition to the salary benefits etc. that were earned in 2018, but were not paid until later years.

2.13 PENSION OBLIGATIONS - OWN EMPLOYEES

The company/group’s pension obligations are partially insurance-covered through KLP’s public sector occupational pensions through membership of the joint pension scheme for municipalities and enterprises (‘Fellesordningen’). Pension liability beyond these schemes is covered through operations. Pension costs are treated in accordance with IAS 19. The company/group has a defined-benefit pension scheme for its employees. The accounting liability for defined-benefit schemes is the present value of the obligation on the reporting date, with deduction for fair value of the pension assets. The gross obligation is calculated using the straight-line method. The gross obligation is discounted to present value using the interest rates on Norwegian high-quality bonds. Gains and losses arising on recalculation of the obligation as a result of known deviation and changes in actuarial assumptions are charged to owners’ equity via other comprehensive income during the period in which they arise. The effect of changes in the scheme’s benefits is taken to profit/loss immediately.

Presentation of the pension costs in the income statement is in accordance with IAS 1. This standard allows the option of classifying the net interest element either as an operating cost or as a financial cost. The option the Company adopts must be followed consistently for later periods. The company has presented the pension costs under the accounting line ‘Salary and administrative costs’, whilst the net interest element is presented in the accounting line ‘Net gain/(loss) on financial instruments’. The estimate deviation has been classified under ‘Items that will not be reclassified to income’ in the accounting line ‘“Estimate deviation pension obligations and pension assets’.

The ‘Fellesordningen’ is a multi-undertaking scheme, which means that the actuarial risk is distributed across all the municipalities and companies included in the scheme. The financial and actuarial assumptions behind the calculation of net pension obligations are therefore based on factors that are representative of the whole group.

NOTE 3 Important accounting estimates and valuations

The company/group prepares estimates and assumptions about future situations. These are continuously evaluated and are based on historical data and expectations concerning probable future events considered on the basis of data available at the time of presentation of the financial statements.

The estimates may be expected to differ from the final outcome and the areas where there is significant risk of substantial change in capitalised values in future periods are discussed below.

3.1 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

During the year the company/group has invested surplus liquidity in income-bearing securities. These were initially recognised at fair value in the statement of financial position. The securities in the portfolio are classified in the category "Financial assets at fair value through profit or loss" as they are managed, and their earnings are measured on the basis of fair value. The principles for calculating the fair value of the various instruments are described in Note 6.

3.2 LOSSES ON FINANCIAL ASSETS

Financial assets not measured at market value are assessed for impairment at the end of the reporting period.

Financial instruments are assessed for impairment for expected losses. The method for measuring impairment for expected loss depends on whether the credit risk has increased significantly since initial recognition. Upon initial recognition, and when the credit risk has not increased significantly after initial recognition, provisions are based on 12 months' expected loss (step 1). If the credit risk has increased significantly since initial recognition, but there is no objective evidence of impairment, write-downs are based on expected loss over the lifetime (step 2). If the credit risk has increased significantly and there is objective evidence of impairment, a provision should be raised for the expected loss over its lifetime (step 3).

In the company/group, the assessment of what is considered to be a significant change in credit risk for home mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'. The most important driver for a significant change in credit risk for home mortgage loans in the group is a change in the probability of default (PD) from the initial recognition up to the reporting date. A relative change in PD of more than 2.5 is considered to be a significant change in credit risk. The change in PD must also be at least 0.6 percentage points for the change to be considered significant.

For the products where the company/group has not developed its own PD and LGD (loss given default) models, the simplified loss ratio method is used. Here a change in risk rating of at least one grade from initial recognition to the reporting date is considered to be a significant increase in credit risk.

The lending portfolio has historically shown low losses and has generally very good security in public sector guarantees or mortgages. For more information about the company's calculation of losses, refer to Note 18.

3.3 CAPITALISED SOFTWARE

If loss of value is suspected, an impairment test is carried out to check whether the book value of capitalised software is still present. In this context the recoverable amount is estimated. There are uncertainties associated with estimating cash flows and discounting factors in connection with calculating a recoverable amount.

NOTE 4 Segment information

NOK THOUSANDS	Public sector Market		Retail Market		Other/eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	65 541	82 135	182 991	159 484	0	0	248 532	241 619
Other operating income	25 516	31 994	36 316	32 830	0	0	61 832	64 825
Operating expenses	-55 908	-53 435	-164 188	-146 781	-1	-1	-220 097	-200 218
Loss on loans issued, guarantees etc.	-5	0	-6 833	-3 152	0	0	-6 838	-3 152
Operating profit/loss before tax	**35 144**	**60 695**	**48 286**	**42 381**	**-1**	**-1**	**83 429**	**103 074**
Assets as at 31.12.	18 206 245	18 338 692	21 536 927	18 473 145	-2 654 577	-1 830 842	37 088 595	34 980 995
Liabilities as at 31.12.	17 456 476	17 617 753	18 983 448	16 071 023	-1 488 982	-785 372	34 950 943	32 903 404

At KLP Banken, only business within the Public sector Market segment.

NOTE 5 Net gain/(loss) on financial instruments

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018		01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
2 843	-279	Net gain/(loss) on fixed-income securities	-1 532	7 250
0	-658	Net gain/(loss) financial derivatives and realized amortization linked to lending	-671	0
0	0	Net gain/(loss) financial derivatives and realized repurchase of own debt	-12 155	-9 265
-392	320	Net value change lending and borrowing, hedge accounting	320	-392
0	1 591	Net gain/(loss) on shares, holdings and primary capital certificates	1 591	0
-975	-1 076	Other financial income and expenses	-1 077	-975
1 476	**-102**	**Total**	**-13 524**	**-3 382**

NOTE 6 Categories of financial instruments

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2018			31.12.2018	
Book value	Fair value		Book value	Fair value
		FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
999 748	999 748	Fixed-income securities	2 015 351	2 015 351
21	21	Financial derivatives	62 483	62 483
2 053	2 053	Shares and holdings	2 053	2 053
1 001 822	**1 001 822**	**Total financial assets at fair value through profit and loss**	**2 079 887**	**2 079 887**
		FINANCIAL ASSETS FAIR VALUE HEDGING		
139 100	135 990	Loans to and receivables from customers	3 568 702	3 600 945
139 100	**135 990**	**Total financial assets fair value hedging**	**3 568 702**	**3 600 945**
		FINANCIAL ASSETS AT AMORTIZED COST		
60 238	60 238	Loans to and receivables from credit institutions	60 238	60 238
641 212	641 212	Loans to and receivables from central banks	1 439 420	1 439 420
1 467 121	1 467 121	Loans to Group companies	0	0
67 655	67 655	Loans to and receivables from customers	29 905 302	29 893 107
2 236 226	**2 236 226**	**Total financial assets at amortized cost**	**31 404 960**	**31 392 765**
		FINANCIAL ASSETS AT FAIR VALUE WITH VALUE CHANGE OVER OTHER COMPREHENSIVE INCOME		
9 280 808	9 280 808	Loans to and receivables from customers	0	0
9 280 808	**9 280 808**	**Total financial assets at fair value with value change over other comprehensive income**	**0**	**0**
12 657 956	**12 654 846**	**Total financial assets**	**37 053 549**	**37 073 597**
		FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS		
6 552	6 552	Financial derivatives	111 955	111 955
6 552	**6 552**	**Total financial liabilities at fair value through profit and loss**	**111 955**	**111 955**
		FINANCIAL LIABILITIES FAIR VALUE HEDGING		
0	0	Liabilities created on issuance of securities	1 886 974	1 904 665
0	**0**	**Total financial liabilities fair value hedging**	**1 886 974**	**1 904 665**
		FINANCIAL LIABILITIES AT AMORTIZED COST		
1 014 583	1 014 693	Liabilities created on issuance of securities	22 152 994	22 243 219
10 661 749	10 661 749	Deposits from customers	10 661 749	10 661 749
11 676 332	**11 676 442**	**Total financial liabilities at amortized cost**	**32 814 743**	**32 904 968**
11 682 884	**11 682 994**	**Total financial liabilities**	**34 813 672**	**34 921 588**

NOTE 6 Categories of financial instruments - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017			31.12.2017	
Book value	Fair value		Book value	Fair value
		FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING		
1 317 592	1 317 592	Fixed-income securities	2 759 018	2 759 018
1 317 592	**1 317 592**	**Total financial assets at fair value held for trading**	**2 759 018**	**2 759 018**
		FINANCIAL ASSETS FOR FAIR VALUE HEDGING		
169 467	164 070	Loans to retail customers	169 467	164 070
0	0	Loans to Norwegian local administrations	4 355 849	4 396 440
3 547	3 547	Financial derivatives	91 394	91 394
173 014	**167 617**	**Total financial assets for fair value hedging**	**4 616 710**	**4 651 904**
		FINANCIAL ASSETS AVAILABLE FOR SALE		
461	461	Shares and holdings	461	461
461	**461**	**Total financial assets available for sale**	**461**	**461**
		FINANCIAL ASSETS AT AMORTIZED COST		
718 261	718 261	Loans to and receivables from credit institutions and central banks	1 331 236	1 331 236
775 515	775 515	Loans to Group companies	0	0
9 214 661	9 214 661	Loans to retail customers	14 271 864	14 271 864
0	0	Loans to Norwegian local administrations	11 965 602	11 961 754
10 708 437	**10 708 437**	**Total financial assets at amortized cost**	**27 568 702**	**27 564 854**
12 199 504	**12 194 107**	**Total financial assets**	**34 944 891**	**34 976 237**
		FINANCIAL LIABILITIES FOR FAIR VALUE HEDGING		
204 442	205 377	Liabilities created on issuance of securities	2 125 483	2 150 405
11 860	11 860	Financial derivatives	188 103	188 103
216 302	**217 237**	**Total financial liabilities for fair value hedging**	**2 313 586**	**2 338 508**
		FINANCIAL LIABILITIES AT AMORTIZED COST		
1 272 655	1 284 440	Liabilities created on issuance of securities	20 798 792	20 927 348
9 669 046	9 669 046	Deposits from customers	9 669 046	9 669 046
10 941 701	**10 953 486**	**Total financial liabilities at amortized cost**	**30 467 838**	**30 596 394**
11 158 003	**11 170 723**	**Total financial liabilities**	**32 781 424**	**32 934 902**

NOTE 6 Categories of financial instruments - cont.

Fair value shall be a representative price based on what a corresponding asset or liability would have been traded for on normal market terms and conditions. A financial instrument is considered to be listed in an active market if the listed price is simply and regularly available from a stock market, dealer, broker, industry grouping, price setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length. If the market for the security is not active, or the security is not listed on a stock market or similar, valuation techniques are used to set fair value. These are based for example on information on recently completed transactions carried out on business terms and conditions, reference to trading in similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

THE DIFFERENT FINANCIAL INSTRUMENTS ARE THUS PRICED IN THE FOLLOWING WAY:

Fixed-income securities - government

Bloomberg is used as a source for pricing Norwegian government bonds. It is Oslo Stock Exchange that provides the price (via Bloomberg). The prices are compared with the prices from Reuters to reveal any errors.

Fixed-income securities - other than government

Norwegian fixed-income securities, except government are priced directly on prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. The theoretical price is based on the assumed present value on the sale of the position. A zero-coupon curve is used for discounting. The zero-coupon curve is adjusted upwards by means of a credit spread, which is to take account of the risk the bond entails. The credit spread is calculated on the basis of a spread curve taking account of the duration of the bond. Nordic Bond Pricing is the main source of spread curves. They provide company-specific curves for Norwegian savings banks, municipalities and energy. Savings banks have various spread curves based on total assets. For companies where Nordic Bond Pricing do not deliver spread curves, the Group use spread curves from three Norwegian banks. When spread curves are available from more than one of these banks, an equal-weighted average is used.

Financial derivatives

These transactions are valued based on the applicable swap curve at the time of valuation. Derivative contracts are to be used only to hedge balance amounts and to enable payments obligations to be met. Derivative contracts may be struck only with counterparties with high credit quality.

Shares and (unlisted)

For liquid shares and units, the closing price on the balance sheet date is used as the basis for measurement at fair value. If the prices are not quoted, the last price traded is used. Illiquid shares are priced on the basis of the Oslo Stock Exchange's index algorithm based on the last traded prices. If the price picture is out of date, a derived valuation is produced from relevant equity indices or other similar securities. If this is also considered unsatisfactory, a discretionary valuation is made in which the Company's financial key figures, broker assessment etc. are used.

Fair value of loans to retail customers

The fair value through profit/loss is calculated by discounting contractual cash flows to present values. The discount rate is determined as the market rate, including a suitable risk margin. For loans measured at fair value through other comprehensive income, the fair value is calculated as the recognised principal minus estimated loss provisions on loans classified in Stage 2 and 3 (see note 18 Losses on loans).

Fair value of loans to Norwegian local administrations

The fair value of these loans is considered to be virtually the same as the book value, as the contract terms are constantly adjusted in line with market interest rates. The fair value of fixed rate loans is calculated by discounting contractual cash flows by market interest rates including a suitable risk margin at the end of the reporting period. This is valued at Level 2 in the valuation hierarchy, cf. Note 8.

Fair value of deposits

The fair value of floating rate deposits is taken to be approximately equal to the deposit amount including accrued interest. The fair value of fixed rate deposits is calculated by discounting contractual cash flows by market interest rates including a suitable risk margin. Discounting contractual cash flows by market interest rates including a suitable risk margin. This is valued at Level 2 in the valuation hierarchy, cf. Note 8.

Fair value of loans to and receivables from credit institutions

All receivables from credit institutions (bank deposits) are at variable interest rates. The fair value of these is considered to be virtually the same as the book value, as the contract terms are continuously changed in step with change in market interest rates. This is valued at Level 2 in the valuation hierarchy, cf. Note 8.

Liabilities created on issuance of securities

Fair value in this category is determined on the basis of internal valuation models based on external observable data. This is valued in Level 2 in the valuation hierarchy, cf. Note 8.

NOTE 7 Financial derivatives

KLP Banken AS				NOK THOUSANDS	KLP Banken AS Group			
31.12.2017		31.12.2018			31.12.2018		31.12.2017	
Nominal amount	Fair value	Nominal amount	Fair value		Nominal amount	Fair value	Nominal amount	Fair value
200 000	3 547	0	0	Derivatives related to borrowing	1 250 000	40 222	1 450 000	75 195
0	0	18 400	21	Derivatives related to lending	1 448 242	22 261	827 109	16 199
200 000	**3 547**	**18 400**	**21**	**Total assets**	**2 698 242**	**62 483**	**2 277 109**	**91 394**
0	0	0	0	Derivatives related to borrowing	600 000	-7 367	600 000	-3 899
161 100	-10 791	117 400	-6 552	Derivatives related to lending	2 235 199	-104 588	3 721 530	-180 183
125 000	-1 069	0	0	Derivatives related to investments	0	0	225 000	-4 021
286 100	**-11 860**	**117 400**	**-6 552**	**Total liabilities**	**2 835 199**	**-111 955**	**4 546 530**	**-188 103**

Interest rate agreements are used to correct for imbalances between the Company's lending and borrowing in regard to interest rate exposure. All the agreements struck are hedging deals. The interest rate differences in the agreements are accrued in the same way as the items the hedging contracts are intended to cover.Interest rate swaps are agreements on exchange of interest rate terms in a future period. They do not cover exchange of principal.

NOTE 8 Fair value hierarchy

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
		FINANCIAL ASSETS RECOGNIZED AT FAIR VALUE		
		FIXED-INCOME SECURITIES AND SHARES		
214 800	146 230	Level 1: Value based on prices in an active market	208 129	236 784
1 102 793	853 518	Level 2: Value based on observable market data	1 807 222	2 522 235
461	2 053	Level 3: Value based on other than observable market data	2 053	461
1 318 054	**1 001 801**	**Total fixed-income securities**	**2 017 404**	**2 759 480**
		FINANCIAL DERIVATIVES - FAIR VALUE HEDGING		
0	0	Level 1: Value based on prices in an active market	0	0
3 547	21	Level 2: Value based on observable market data	62 483	91 394
0	0	Level 3: Value based on other than observable market data	0	0
3 547	**21**	**Total financial derivatives**	**62 483**	**91 394**
		ASSETS RECOGNISED AT FAIR VALUE WITH VALUE CHANGE OVER OTHER COMPREHENSIVE INCOME		
0	0	Level 1: Value based on prices in an active market	0	0
0	0	Level 2: Value based on observable market data	0	0
0	9 280 808	Level 3: Value based on other than observable market data	0	0
0	**9 280 808**	**Total mortgage assessed at fair value over other comprehensive income**	**0**	**0**
1 321 601	**10 282 631**	**Total financial assets recognized at fair value.**	**2 079 887**	**2 850 874**
		FINANCIAL LIABILITIES RECOGNIZED AT FAIR VALUE:		
		FINANCIAL DERIVATIVES (LIABILITIES) - FAIR VALUE HEDGING		
0	0	Level 1: Value based on prices in an active market	0	0
11 860	6 552	Level 2: Value based on observable market data	111 955	188 103
0	0	Level 3: Value based on other than observable market data	0	0
11 860	**6 552**	**Total financial derivatives (liabilities)**	**111 955**	**188 103**
11 860	**6 552**	**Total financial assets recognized at fair value.**	**111 955**	**188 103**

NOTE 8 Fair value hierarchy - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017 Book value	31.12.2018 Book value		31.12.2018 Book value	31.12.2017 Book value
		CHANGES IN LEVEL 3 UNLISTED SECURITIES		
394	461	Opening balance 1 January	461	394
0	0	Additions/purchases of shares	0	0
67	1 592	Unrealized changes	1 592	67
461	**2 053**	**Closing balance**	**2 053**	**461**
0	0	Realized gain/losses	0	0
		CHANGES IN LEVEL 3 LOANS TO AND RECEIVABLES FROM CUSTOMERS		
0	9 152 779	Opening balance 1 January		
0	2 784 293	Loans to and receivables from customers		
0	-2 655 329	Overdue/redeemed loans to and receivables from customers		
0	-935	Net other changes		
0	**9 280 808**	**Closing balance**		

Fair value should be a representative price based on what a corresponding asset or liability would have been traded for at normal market terms and conditions. Highest quality in regard to fair value is based on listed prices in an active market. A financial instrument is considered as listed in an active market if listed prices are simply and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

LEVEL 1
Instruments in this level obtain fair value from listed prices in an active market for identical assets or liabilities that the entity has access to at the reporting date. Example instruments at Level 1 are stock market listed securities.

LEVEL 2
Instruments in this level obtain fair value from observable market data. This includes prices based on identical instruments, but where the instrument does not maintain a high enough trading frequency and is not therefore considered to be traded in an active market, as well as prices based on corresponding assets and price-leading indicators that can be confirmed from market information. Example instruments at Level 2 are fixed-income securities priced on the basis of interest rate paths.

LEVEL 3
Instruments at Level 3 contain non-observable market data or are traded in markets considered to be inactive. The price is based generally on discrete calculations where the actual fair value may deviate if the instrument were to be traded.

Note 6 discloses the fair value of financial assets and financial liabilities that are recognized at amortized cost. Financial assets measured at amortized cost comprise lending to and due to credit institutions, Norwegian municipalities and retail customers. The stated fair value of these assets is determined on terms qualifying for level 2.

Financial liabilities recognized at amortized cost consist of debt securities issued and deposits. The stated fair value of these liabilities is determined by methods qualifying for level 2.

There have been no transfers between level 1 and level 2.

NOTE 9 Hedge accounting

NOK THOUSANDS 31.12.2018		Changes in fair value		Book value		Accumulated	
KLP Banken AS KLP Banken AS Group	**Nominal value**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Changed value in hedged risk**	**Effective-ness**
HEDGED OBJECT							
Mortgage loans with fixed interest rates	133 040	-3 875	0	138 906	0	5 866	89.8 %
HEDGING INSTRUMENT							
Interest rate swap loans with fixed interest	135 800	155	4 040	21	-6 552	-6 531	111.3 %

Other hedging relationships in KLP Banken AS Group and which are stated in note 7 are 100% effective. See note 7 for nominal amounts and the fair value of these derivatives. The ineffective proportion of the Group reports hedging recognized through profit or loss amounts to NOK 320.000 in 2018.

NOK THOUSANDS 31.12.2017		Changes in fair value		Book value		Accumulated	
KLP Banken AS KLP Banken AS Group	**Nominal value**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Changed value in hedged risk**	**Effective-ness**
HEDGED OBJECT							
Mortgage loans with fixed interest rates	159 495	-2 259	0	169 236	0	9 741	95.4 %
HEDGING INSTRUMENT							
Interest rate swap loans with fixed interest	161 100	-41	1 908	-134	-10 074	-10 208	104.8 %

The ineffective proportion of the Group reports hedging recognized through profit or loss amounts to NOK 392.000 in 2017.

NOTE 10 Net interest income

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018		01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
255 473	265 030	Interest income on loans to customers, amortised cost	744 554	731 074
5 798	6 742	Interest income on loans to credit institutions, amortised cost	13 266	11 520
14 808	14 366	Interest income on bonds and certificates, fair value	34 883	37 842
28 293	11 665	Other interest income, fair value	147 762	171 457
304 372	**297 804**	**Total interest income**	**940 466**	**951 893**
-128 106	-135 139	Interest expenses on debt to KLP Banken, amortised cost	-135 139	-128 106
-37 194	-22 152	Interest expenses on issued securities, amortised cost	-372 858	-360 462
-26 038	-12 147	Other interest expenses, fair value	-183 938	-221 705
-191 339	**-169 438**	**Total interest costs**	**-691 935**	**-710 274**
113 035	**128 365**	**Net interest income**	**248 531**	**241 619**

NOTE 11 Net commission income

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018		01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
62	80	Interbank commission	80	62
1 166	1 913	Short commission	1 913	1 166
697	564	Payment handling	564	697
11 527	15 931	Other commission income	15 931	11 527
13 452	**18 488**	**Total commission income**	**18 488**	**13 452**
-285	-281	Interbank commission	-281	-285
-874	-780	Payment handling	-780	-874
-1 114	-113	Other commission expenses	-113	-1 114
-2 273	**-1 174**	**Total commission costs**	**-1 174**	**-2 273**
11 179	**17 314**	**Net commission income**	**17 314**	**11 179**

NOTE 12 Financial risk management

ORGANISATION OF RISK MANAGEMENT

The Board of Directors of the Bank has established a risk management framework aimed at ensuring that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The Board has adopted risk policies covering the key individual risks as well as an overarching risk policy that covers principles, organisation, limits etc. for the bank's total risk. The risk policies are of an overarching nature and are complemented by procedures, guidelines and instructions laid down at the senior management level. The policies state which departments are responsible for handling the various risks and also cover the establishment of a separate risk control function. One purpose of the risk control function is to check that the risk policies and other guidelines for risk management are being followed. This function is carried out by the Risk Analysis and Control Department, which is responsible for preparing periodic risk reports to senior management and the Board as well is reporting in the event of breaches of policies or guidelines. The Department, which has an independent role in relation to other departments, also has other tasks associated with the Bank's risk management. The responsibility for the operational direction of the Bank's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department. KLP Banken has established a risk committee, which is a sub-committee of the Board. The risk committee deals with matters specifically related to risk and has an advisory function to the Board.

NOTE 13 Credit risk

Credit risk is defined as the risk of loss associated with loan customers, counterparties in derivatives, issuers of securities and other counterparties being unable or unwilling to settle at the agreed time and in accordance with written contracts, where the collateral established does not cover the outstanding demand. The Group provides loans to retail customers, Norwegian municipalities and county administrations, local government enterprises, intermunicipal companies and loans to companies where the loan is guaranteed by a Norwegian municipality or county administration.

13.1 CONTROL AND LIMITATION OF CREDIT RISK

The Board has determined a policy for credit risk that contain overarching guidelines, requirements and limits associated with credit risk. The policy state that the bank is to have a low credit risk profile and includes limits on types of lending and principles for organisation and operation of the bank's lending activity. The bank has the opportunity to take some higher risk within some products, but loan products to retail

NOTE 13 Credit risk - cont.

customers other than mortgage loans may not amount to more than 10 per cent of the bank's total lending in the retail market. The policy also includes an overarching mandate structure for lending and other counterparty exposure.

The mandates are linked to Board-determined limits for a large number of the Company's individual borrowers and these limits derive from a risk classification in which the individual borrowers are assigned a risk class based on a set of fixed criteria. Furthermore requirements are set for reporting to the Board on usage of the limits.

Credit risk associated with issuers of securities, derivative counterparties and other counterparties in the financial area is also limited by Board-determined limits on individual counterparties. These limits are based on the counterparty's solvency and other assessments of the counterparties' creditworthiness.

In processing all new loan applications in the public sector, checks are made on whether the customer's credit limits are larger than the total of the loan amounts applied for and current lending. In the credit risk policy described above, requirements are set for reporting to the Board on the use of the limits. Any exceeding of the limits is to be reported to the Company's Board regardless. All loans in the public sector market in KLP Banken are provided to municipalities or county administrations, or with a municipal/county administration guarantee. In the retail market, loans are provided with a mortgage on housing or leisure real estate, generally within 75 per cent of the market value of the mortgaged object. In processing loan applications the borrower's servicing ability and the value of the mortgage object is assessed and loans are provided only within set limits and authorizations. In addition, KLP Banken provides unsecured credit to private individuals through credit cards according to credit rating of the customer's ability to pay and debt ratio.

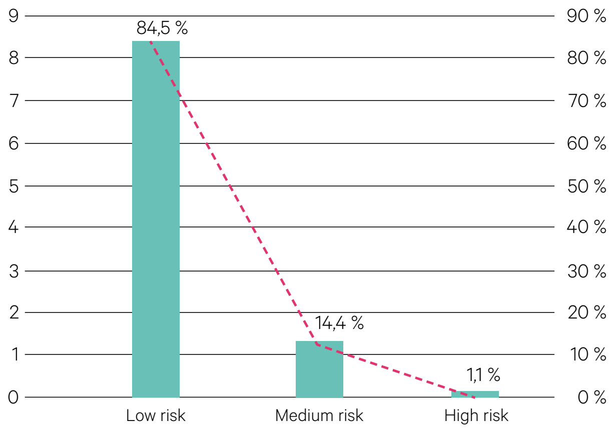
13.2 LOANS ACCORDING TO TYPE OF SECURITY/EXPOSURE (PRINCIPAL)

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Retail mortgage loans	9 410 016	9 307 506	16 629 307	14 357 505
Unsecured retail loans (credit cards)	66 393	57 921	66 393	57 921
Lending to municipalities and county administrations	0	0	14 482 457	13 939 097
Lending with municipal/county administration guarantee	0	0	2 164 226	2 192 402
Total	**9 476 409**	**9 365 427**	**33 342 383**	**30 546 925**
Sums falling due more than 12 months after the end of the reporting period	9 268 568	9 141 353	31 997 745	29 345 212
ALLOCATION OF LOAN TO VALUE (PRINCIPAL) FOR RETAIL MORTGAGE LOANS				
Loan to value ratio up to 50 per cent	2 223 654	2 169 738	5 695 980	4 997 420
Loan to value ratio from 51 to 60 per cent	791 214	872 122	2 526 104	2 068 495
Loan to value ratio from 61 to 75 per cent	2 643 170	2 688 425	4 572 216	3 714 113
Loan to value ratio above 75 per cent	3 751 978	3 577 221	3 835 007	3 577 478
Total	**9 410 016**	**9 307 506**	**16 629 307**	**14 357 506**

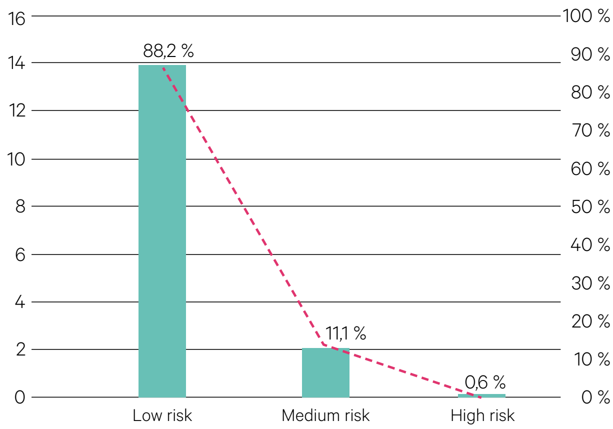
KLP Banken uses a risk classification system to classify retail customers with loans or credits. Customers are classified from A to K, where A indicates very low risk, whereas K is for customers who have incurred losses on the bank. Below is a distribution table where the volume of loans is divided into low, medium and high risk, where low risk is defined as lending to customers with A or B classification, medium risk is defined as lending to customers with C or D classification, and high risk is defined as lending to customers with E to K classification.

NOTE 13 Credit risk - cont.

HOME LOANS IN KLP BANKEN AS
NOK BILLIONS



HOME LOANS IN KLP BANKEN AS GROUP
NOK BILLIONS



The table below shows the total book value of the various risk classes and per stage in the impairment model. Stage 1 is all healthy loans, which must be written down with estimated losses for 12 months. Stage 2 indicates that the engagement has a substantially increased credit risk since the initial recognition on the balance sheet, and means that the loan must be written down with estimated losses throughout the entire term. Stage 3 is all loans with individual loss write-downs, and must be written down with estimated losses throughout the entire term.

LENDING IN KLP BANKEN AS	Stage 1	Stage 2	Stage 3	Total CB book value
Low risk - risk class A	8 572 628	6 860	-	8 579 487
Low risk - risk class B	595 836	19 674	-	615 510
Medium risk - risk class C	146 424	29 514	-	175 937
Medium risk - risk class D	8 116	30 332	-	38 448
High risk - risk class E	106	56 804	-	56 910
High risk - risk class F	-	3 737	-	3 737
High risk - risk class K	-	-	14 986	14 986
Engagements without risk class (new customers)	520		108	628
Total CB book value	**9 323 629**	**146 921**	**15 094**	**9 485 644**

NOTE 13 Credit risk - cont.

LENDING IN KLP BANKEN AS GROUP	Stage 1	Stage 2	Stage 3	Total CB book value
Low risk - risk class A	15 465 138	8 704	-	15 473 842
Low risk - risk class B	879 665	25 101	-	904 766
Medium risk - risk class C	180 864	31 720	-	212 584
Medium risk - risk class D	8 469	32 892	-	41 360
High risk - risk class E	106	60 654	-	60 760
High risk - risk class F	-	3 737	-	3 737
High risk - risk class K	-	-	14 986	14 986
Engagements without risk class (new customers)	16 704 520	-	108	16 704 628
Total CB book value	**33 238 762**	**162 808**	**15 094**	**33 416 664**

UNUSED CREDIT IN KLP BANKEN AS	Stage 1	Stage 2	Stage 3	Total unused credit
Low risk - risk class A	605 402	45	-	605 447
Low risk - risk class B	84 158	34	-	84 192
Medium risk - risk class C	61 670	659	-	62 329
Medium risk - risk class D	6 530	4 591	-	11 121
High risk - risk class E	179	196	-	375
Total unused credit	**757 939**	**5 525**	**-**	**763 465**

LENDING IN KLP BANKEN AS GROUP	Stage 1	Stage 2	Stage 3	Total unused credit
Low risk - risk class A	605 402	45	-	605 447
Low risk - risk class B	84 158	34	-	84 192
Medium risk - risk class C	61 670	659	-	62 329
Medium risk - risk class D	6 530	4 591	-	11 121
High risk - risk class E	179	196	-	375
Total unused credit	**757 939**	**5 525**	**-**	**763 465**

NOTE 13 Credit risk - cont.

The KLP Banken Group also invests in securities issued by the government, municipalities and county administrations and deposits in banks satisfying minimum rating requirements as well as covered bonds issued by Norwegian credit enterprises.

Credit quality of securities, bank deposits and derivatives
Securities with external credit rating (Moody's)

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
AAA	978 311	1 317 592	1 993 914	2 759 018
Aa1-Aa3	21 437	0	21 437	0
Total	**999 748**	**1 317 592**	**2 015 351**	**2 759 018**

Deposits in banks grouped by external credit assessment (Moody's)

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Aaa	60 238	45 140	60 238	45 140
Aa1-Aa3	358 644	454 272	756 269	701 150
A1-A3	282 568	218 849	683 151	584 945
Baa1	-	-	-	-
Total	**701 450**	**718 261**	**1 499 658**	**1 331 235**

The bank Group may also be exposed to credit risk as a result of interest rate derivatives. The purpose of such derivatives is to reduce interest rate risk arising as a result of the Group's borrowing and lending activities. The Group's internal policy sets out the requiremen for the creditworthiness of derivative counterparties. All derivative agreements are entered into with counterparties with a minimum A1 rating (Moody's).

NOTE 13 Credit risk - cont.

13.3 MAXIMUM EXPOSURE TO CREDIT RISK

Maximum exposure is measured as a total of principal and accrued interest. Security in cash or securities is not exchanged, nor are other credit improvements carried out. The table below shows the maximum exposure for the parent bank and the Group.

Maximum exposure to credit risk

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Receivables from central banks	60 238	45 140	60 238	45 140
Loans to and receivables from credit institutions	2 108 333	1 448 637	1 439 420	1 286 096
Loans to and receivables from customers	9 487 563	9 384 128	33 418 583	30 637 072
- of which retail mortgage loans	9 418 948	9 322 955	16 645 968	14 378 700
- of which retail credit cards	68 615	61 173	68 615	61 173
- of which lending to the public sector	0	0	16 704 000	16 197 199
Fixed-income securities	999 748	1 317 592	2 015 351	2 759 018
Financial derivatives	21	3 547	62 482	91 394
Off-balance sheet items (new in 2018 - IFRS 9)	763 465	666 476	763 465	666 476
Loan loss provisions rated at amortized cost	1 059	N/A	1 229	N/A
Loan loss provisons rated at a real value over other comprehensive income (FVOCI)	1 036	N/A	1 036	N/A
Loan loss provisions on off-balance items	2 557	N/A	2 557	N/A
Total	**13 424 020**	**12 865 520**	**37 764 360**	**35 485 196**

NOTE 13 Credit risk - cont.

13.4 LOAN LOSS PROVISIONS

The bank has very low losses, cf. Note 18 and considers all receivables to be satisfactorily secured. All mortgage loans to the retail market in KLP Banken are secured with mortgages generally within 75 per cent of the market value, and any losses will only arise when the value of the mortgaged object falls below the residual amount of the loan. In addition, the bank has issued credit cards to customers in the retail market. These are unsecured receivables with a higher risk of loss than for mortgage- secured loans. Loans in the public sector market are provided to municipalities or county administrations, or to undertakings with a municipal/county administration guarantee. KLP Banken has had no write-downs or losses in the public sector market.

LOANS FALLEN DUE OR WRITTEN DOWN

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Principal on loans with payments 7-30 days past due	165 195	151 738	233 376	220 464
Principal on loans with payments 31-90 days past due	56 038	45 984	56 038	45 984
Principal on loans with payments more than 90 days past due	56 271	24 395	56 271	24 395
Total loans fallen due	**277 504**	**222 117**	**345 685**	**290 843**
Relevant collateral or guarantees	264 669	216 123	332 850	284 849
Principal on lending that has been written down	5 861	6 420	5 861	6 420
- of which written down	973	2 556	973	2 556

13.5 CONCENTRATION OF CREDIT RISK

A large proportion of the Group's lending at the end of the year was linked to public sector financing and the portfolio thus has high concentration against one single sector. The underlying credit risk against this sector is however so low that it is hardly possible to reduce this concentration without increasing total risk in the portfolio. The concentration against the Norwegian public sector is thus considered not to be a risk challenge. The concentration against individual borrowers is limited by individual Board-set limits.

Lending to the Group's largest borrower as at 31 December 2018 was approximately 2.4 per cent of the Group's total lending.

NOTE 14 Market risk

Market risk is understood here as the risk of reduced fair value of the Bank's owners' equity as a result of fluctuations in market prices for the Bank's assets and liabilities. Changes in credit margins are excluded since this comes under the term credit risk.

The Group is exposed to market risk as a result of the Group's borrowing and lending activity and management of the Group's liquidity. The exposure is however limited to interest rate risk and exchange rate risk. Interest rate risk arises as a result of differences in timing of interest rate adjustment for the Company's assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. All of the Company's borrowing is in NOK, and the whole of the lending portfolio comprises loans in NOK.

14.1 MEASUREMENT OF MARKET RISK

Interest rate risk is measured as change in value on a one percentage point change in all interest rates.

NOTE 14.2 INTEREST RATE RISK

The market risk policy is the Group's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Group should not actively take positions that expose the Group to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12-month periods. The risk limits are set to ensure that low market risk profile policy in complied with. The operational responsibility for managing the Company's market risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

Interest rate risk arises because the fixed interest periods for the Bank's assets and liabilities are not the same. The gap in the table below shows the difference between assets and liabilities that can be interest-adjusted within the given time intervals. The repricing date shows the time to the next agreed interest adjustment date. Floating-rate loans and deposits, and cash, and receivables from credit institutions, fall into the time interval up to one month, while fixed-interest loans, securities and liabilities created on issuance of securities fall into the time interval for which interest adjustment has been agreed.

INTEREST RISK KLP BANKEN AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	9 410 016	2 644 715	6 633 501	20 071	96 769	14 960
Securities	989 000	199 000	790 000	0	0	0
Cash and receivables from central banks and credit institutions	2 158 835	2 158 835	0	0	0	0
Total	**12 557 851**	**5 002 550**	**7 423 501**	**20 071**	**96 769**	**14 960**
Liabilities to depositors	10 661 749	10 661 749	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	1 013 000	285 000	728 000	0	0	0
Total	**11 674 749**	**10 946 749**	**728 000**	**0**	**0**	**0**
Gap	**883 102**	**-5 944 199**	**6 695 501**	**20 071**	**96 769**	**14 960**
Financial derivatives	0	27 400	108 400	-17 900	-108 700	-9 200
Net gap	**883 102**	**-5 916 799**	**6 803 901**	**2 171**	**-11 931**	**5 760**

NOTE 14 Market risk - cont.

INTEREST RISK KLP BANKEN AS GROUP

Repricing dates for interest-bearing assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	33 275 990	13 033 103	16 333 316	1 187 843	2 216 277	505 451
Securities	1 998 381	501 688	1 496 693	0	0	0
Cash and receivables from central banks and credit institutions	1 490 765	1 490 765	0	0	0	0
Total	**36 765 136**	**15 025 556**	**17 830 009**	**1 187 843**	**2 216 277**	**505 451**
Liabilities to depositors	10 661 749	10 661 749	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	23 942 000	10 085 000	10 929 000	1 078 000	1 350 000	500 000
Total	**34 603 749**	**20 746 749**	**10 929 000**	**1 078 000**	**1 350 000**	**500 000**
Gap	**2 161 387**	**-5 721 193**	**6 901 009**	**109 843**	**866 277**	**5 451**
Financial derivatives	0	-5 918	1 781 751	-766 027	-820 509	-189 297
Net gap	**2 161 387**	**-5 727 111**	**8 682 760**	**-656 184**	**45 768**	**-183 846**

INTEREST RISK KLP BANKEN AS

Repricing dates for interest-bearing assets and liabilities as at 31 December 2017

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	9 307 506	2 299 681	6 860 686	14 440	116 213	16 486
Securities	1 526 494	351 494	1 125 000	50 000	0	0
Cash and receivables from central banks and credit institutions	1 264 485	1 264 485	0	0	0	0
Total	**12 098 485**	**3 915 660**	**7 985 686**	**64 440**	**116 213**	**16 486**
Liabilities to depositors	9 669 046	9 669 046	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	1 470 000	737 000	533 000	200 000	0	0
Total	**11 139 046**	**10 406 046**	**533 000**	**200 000**	**0**	**0**
Gap	**959 439**	**-6 490 386**	**7 452 686**	**-135 560**	**116 213**	**16 486**
Financial derivatives	0	37 300	123 800	-13 700	-137 800	-9 600
Net gap	**959 439**	**-6 453 086**	**7 576 486**	**-149 260**	**-21 587**	**6 886**

NOTE 14 Market risk - cont.

INTEREST RISK KLP BANKEN AS GROUP

Repricing dates for interest-bearing assets and liabilities as at 31 December 2017

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	30 489 004	11 314 662	14 488 387	1 314 025	2 864 953	506 977
Securities	2 954 494	576 494	2 228 000	150 000	0	0
Cash and receivables from central banks and credit institutions	1 102 458	1 102 458	0	0	0	0
Total	**34 545 956**	**12 993 614**	**16 716 387**	**1 464 025**	**2 864 953**	**506 977**
Liabilities to depositors	9 669 046	9 669 046	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	22 816 000	7 237 000	13 529 000	200 000	1 350 000	500 000
Total	**32 485 046**	**16 906 046**	**13 529 000**	**200 000**	**1 350 000**	**500 000**
Gap	**2 060 910**	**-3 912 432**	**3 187 387**	**1 264 025**	**1 514 953**	**6 977**
Financial derivatives	0	211 798	2 401 937	-929 820	-1 456 578	-227 337
Net gap	**2 060 910**	**-3 700 634**	**5 589 324**	**334 205**	**58 375**	**-220 360**

The Company's interest rate sensitivity as at 31 December 2018 (2017), measured as value change in the event of one percentage point change in all interest rates, was NOK 0.2 million (6.1).

NOTE 15 Liquidity risk

Liquidity risk means the risk that the Bank does not manage to meet its obligations and/or finance increases in its assets without substantial additional costs arising in the form of price falls in assets that must be realized, or in the form of more costly financing.

15.1 MANAGEMENT OF LIQUIDITY RISK

A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy contains various requirements and limits in order to comply with the desired liquidity risk profile, including targets for deposit cover, limits for refinancing needs for various timeframes and liquidity buffer requirements. The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for subsidiaries, including requirements for continuously positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The operational responsibility for managing the Company's liquidity risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

NOTE 15 Liquidity risk - cont.

15.2 MATURITY ANALYSIS

The tables below show the maturity analysis of the Group's assets and liabilities including stipulated interest rates.

LIQUIDITY RISK KLP BANKEN AS
Maturity analysis for assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	8 811 199	0	30 894	62 386	285 339	1 532 633	6 899 946
Credit Card issued	67 246	67 246	0	0	0	0	0
Securities	1 039 705	0	852	127 847	11 251	899 755	0
Receivables from credit institutions	2 148 298	0	642 912	3 373	15 723	1 486 290	0
Deposits in central banks	60 238	0	60 238	0	0	0	0
Total	**12 126 685**	**67 246**	**734 895**	**193 606**	**312 314**	**3 918 678**	**6 899 946**
Liabilities to depositors	10 661 749	10 661 749	0	0	0	0	0
Liabilities created on issuance of securities	1 039 195	0	86 177	3 249	536 247	413 522	0
Financial derivatives	7 813	0	339	-272	2 432	5 266	48
Total	**11 708 757**	**10 661 749**	**86 516**	**2 977**	**538 678**	**418 788**	**48**
Net cash flow	**417 928**	**-10 594 504**	**648 379**	**190 629**	**-226 365**	**3 499 890**	**6 899 899**

LIQUIDITY RISK KLP BANKEN AS GROUP
Maturity analysis for assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	37 592 652	0	117 925	319 369	1 608 410	8 168 513	27 378 435
Credit Card issued	67 246	67 246	0	0	0	0	0
Securities	2 095 671	0	2 011	192 737	98 215	1 802 708	0
Receivables from credit institutions	1 439 420	0	1 439 420	0	0	0	0
Deposits in central banks	60 238	0	60 238	0	0	0	0
Total	**41 255 227**	**67 246**	**1 619 594**	**512 106**	**1 706 625**	**9 971 221**	**27 378 435**
Liabilities to depositors	10 661 749	10 661 749	0	0	0	0	0
Liabilities created on issuance of securities	25 108 274	0	126 611	47 756	2 423 104	21 962 802	548 000
Financial derivatives	50 553	0	2 486	9 305	9 622	42 852	-13 713
Total	**35 820 576**	**10 661 749**	**129 097**	**57 062**	**2 432 727**	**22 005 654**	**534 287**
Net cash flow	**5 434 651**	**-10 594 504**	**1 490 497**	**455 044**	**-726 101**	**-12 034 433**	**26 844 148**

NOTE 15 Liquidity risk - cont.

LIQUIDITY RISK KLP BANKEN AS
Maturity analysis for assets and liabilities as at 31 December 2017

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	9 379 599	0	32 010	64 891	297 383	1 600 298	7 385 017
Credit Card issued	60 537	60 537	0	0	0	0	0
Securities	1 353 619	0	15 172	168 101	108 092	1 062 254	0
Receivables from credit institutions	1 461 446	0	674 090	1 787	8 328	777 241	0
Deposits in central banks	45 140	0	45 140	0	0	0	0
Total	**12 300 341**	**60 537**	**766 412**	**234 779**	**413 803**	**3 439 793**	**7 385 017**
Liabilities to depositors	9 669 046	9 669 046	0	0	0	0	0
Liabilities created on issuance of securities	1 499 111	0	3 157	1 757	675 417	818 780	0
Financial derivatives	13 703	0	1 268	901	1 310	10 061	163
Total	**11 181 860**	**9 669 046**	**4 425**	**2 659**	**676 727**	**828 841**	**163**
Net cash flow	**1 118 480**	**-9 608 509**	**761 987**	**232 120**	**-262 923**	**2 610 952**	**7 384 854**

LIQUIDITY RISK KLP BANKEN AS GROUP
Maturity analysis for assets and liabilities as at 31 December 2017

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	36 014 238	0	106 929	303 304	1 420 858	7 353 353	26 829 794
Credit Card issued	60 537	60 537	0	0	0	0	0
Securities	2 828 752	0	18 936	193 035	255 373	2 341 261	20 147
Receivables from credit institutions	1 286 096	0	1 286 096	0	0	0	0
Deposits in central banks	45 140	0	45 140	0	0	0	0
Total	**40 234 763**	**60 537**	**1 457 102**	**496 339**	**1 676 231**	**9 694 614**	**26 849 941**
Liabilities to depositors	9 669 046	9 669 046	0	0	0	0	0
Liabilities created on issuance of securities	23 814 274	0	33 990	31 636	2 006 490	21 182 159	560 000
Financial derivatives	1 383 845	0	2 849	11 538	119 980	1 213 283	36 195
Total	**34 867 165**	**9 669 046**	**36 838**	**43 174**	**2 126 470**	**22 395 442**	**596 195**
Net cash flow	**5 367 598**	**-9 608 509**	**1 420 263**	**453 165**	**-450 239**	**-12 700 828**	**26 253 746**

NOTE 16 Fixed-income securities

KLP Banken AS				NOK THOUSANDS	KLP Banken AS Group			
31.12.2018					31.12.2018			
Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value	Debtor categories	Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value
124 829	-33	0	124 796	Government/social security administration	186 732	-37	0	186 695
730 661	-441	1 358	731 578	Credit enterprises	1 683 541	-1 451	3 193	1 685 282
21 440	-127	117	21 434	Foreign credit institutions (not banks)	21 444	-127	117	21 434
121 314	466	161	121 940	Multilateral development banks (not banks)	121 314	466	161	121 940
998 243	**-134**	**1 635**	**999 748**	**Total fixed-income securities**	**2 013 031**	**-1 149**	**3 471**	**2 015 351**

Effective interest rate: 1.41 %

Effective interest rate: 1.44 %

KLP Banken AS				NOK THOUSANDS	KLP Banken AS Group			
31.12.2017					31.12.2017			
Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value	Debtor categories	Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value
214 298	502	0	214 800	Government/social security administration	236 283	500	0	236 783
1 000 203	984	1169	1 002 356	Credit enterprises	2 308 494	6 718	3 179	2 318 391
0	0	0	0	Local government administration	98 050	4 929	429	103 408
99 845	511	80	100 436	Multilateral development banks (not banks)	99 845	511	80	100 436
1 314 346	**1 997**	**1 249**	**1 317 592**	**Total fixed-income securities**	**2 742 672**	**12 658**	**3 688**	**2 759 018**

Effective interest rate: 1.03 %

Effective interest rate: 1.01 %

Effective interest is calculated as a yield-to-maturity, i.e. it is the constant interest rate level at which one may discount all the future cash flows from the securities to obtain the securities' total market value.

NOTE 17 Lending and receivables

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
		LOANS TO AND RECEIVABLES FROM CREDIT INSTITUTIONS		
673 120	641 212	Bank deposits (of which are restricted witholdings 3 241)	1 439 420	1 286 095
775 000	1 466 279	Principal on loans to Group companies	0	0
516	842	Accrued interest on loans to Group companies	0	0
1 448 636	**2 108 333**	**Loans to and receivables from credit institutions**	**1 439 420**	**1 286 095**
		LOANS TO AND RECEIVABLES FROM CUSTOMERS		
9 307 454	9 406 977	Principal on loans to customers	33 272 780	30 488 951
60 538	67 757	Credit portfolio	67 757	60 538
684	436	Overdraft current account	436	684
-2 556	-990	Write-downs step 3 (Individual write-downs)	-990	-2 556
-658	-1 604	Write-downs step 1 and 2 (Change in write-downs by group)	-1 774	-658
8 924	9 121	Accrued interest	74 167	80 370
0	0	Premium/discount	-9 970	-13 045
9 741	5 866	Fair value hedging	71 598	148 497
9 384 128	**9 487 563**	**Loans to and receivables from customers**	**33 474 004**	**30 762 782**

NOTE 18 Loan loss provision

The new accounting standard IFRS 9 has changed the methodology for provisions for losses on financial instruments in the accounts. The measurement of the provision for expected credit losses on financial assets depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased significantly, the provision should equal 12-month expected credit losses (stage 1). If the credit risk has increased significantly from the initial recognition (stage 2) or if the asset is classified as impaired (stage 3), the provision should equal lifetime expected credit losses.

Expected credit loss (ECL) is calculated as the exposure at default (EAD) multiplied by the probability of default (PD) multiplied by the loss given default (LGD).

In KLP Banken/the Group, the assessment of what is considered to be a significant change in credit risk for home mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'. The most important driver for a significant change in credit risk for home mortgage loan is a change in the probability of default (PD) from the initial recognition up to the reporting date. A relative change in 12 month PD of more than 2.5 is considered a significant change in credit risk. In addition, the change in 12 month PD must also be at least 0.6 percentage points for the change to be considered significant. Exposures that are more than 30 days past due will automatically be placed in Stage 2, and exposures more than 90 days past due will be placed in Stage 3.The loans go back to Stage 2 and Stage 1 when the criteria for significant change in credit risk and default are no longer fulfilled.

Default is defined as "a payment that is more than 90 days past due, or an account that is continuously overdrawn for at least 90 days (by at least NOK 500)".

For products where the bank has not developed PD and LGD (loss given default) models, a simplified loss ratio method is used. Here a change in risk rating of at least one grade from initial recognition to the reporting date is considered to be a significant increase in credit risk. This applies to the senior loan and credit card products within the retail market. For credit cards, the bank has calculated a loss ratio based on the average estimated PD for the credit card portfolio obtained from an external credit information agency and the average LGD for credit cards for the period 2005-2014 calculated by a debt collection agency. For senior loans, a loss ratio of 0.001 percent is used based on the fact that senior loans cannot, in principle, go into default since the product is such that no interest or instalments are to be paid on the loan before the home is sold or the customer dies.

For public lending in KLP Kommunekreditt AS the simplified loss rate method is used, but here with the exception for low credit risk so that all loans are in stage 1. For these loans, a loss rate of 0.001 per cent is used.

FOLLOW-UP OF DEFAULTED AND DOUBTFUL COMMITMENTS

Mortgages in arrears are handled by a special commitments department in the bank.KLP Banken/Group currently uses its own collection process up to and including legally enforced recovery and execution of sale/compulsory sale. If a repayment agreement is not reached, any residual debt after realisation of the collateral is transferred to a collection agency for further follow-up.

For credit cards, KLP Banken/ Group has an agreement with a debt collection agency where unpaid instalments are followed up with pre-collection. The debt collection agency also handles unpaid claims with termination, legally enforced recovery and, if applicable, monitoring in cases where legally enforced recovery has so far been in vain.

Individual loss write-downs

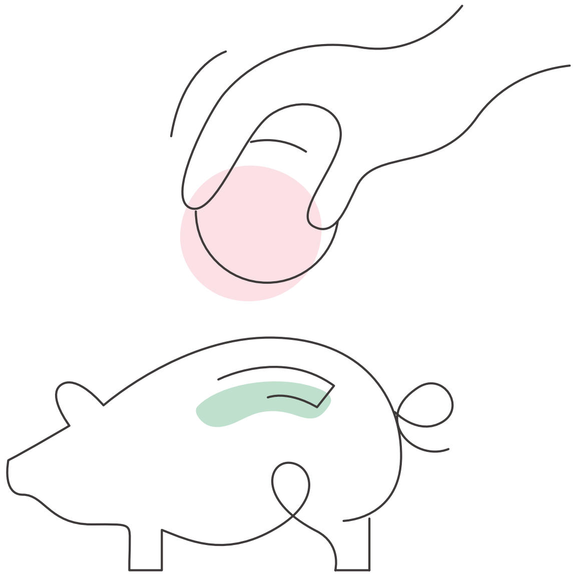
Mortgages over 90 days past due are reviewed and followed up regularly. In addition, exposures are also reviewed when the bank receives information about debt negotiations or other conditions that would indicate increased risk. A loss assessment is carried out for all such exposures. The collateral is assessed on the basis of previously determined value, in addition to new information about the bank's collateral, for example from a broker if a sales/compulsory sale has already been initiated. If the realisation value proves to be lower than the residual debt of the commitment, a loss write-down of the exposure is carried out.

Exposures with individual loss write-downs are followed up with a view to the realisation of the collateral. This can be undertaken by agreement on an ordinary sale or legally by means of a compulsory sale. In some cases, a payment agreement to repay the full amount of residual debt is reached. In these cases, the loss write-down will be maintained for a minimum of 1 year after the loan has been satisfactorily served, before the exposure is considered cured.

Determination of loss

For mortgages, the determination of loss will only occur after the security has been realised and further legal proceedings have not succeeded, that is after an application for distraint has not yielded a result. The case is then monitored by a debt collection agency and followed up on a regular basis.

Credit cards are recognised as established losses when a case is closed due to insolvency, or passed for monitoring by the debt collection company. A case is primarily monitored after legal action has not succeeded. Closure/waiver of a



case occurs when there is nothing to be obtained in the estate after death, for bankruptcy or by debt negotiation.

DESCRIPTION OF INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES IN THE MODEL FOR EXPECTED LOSSES (ECL MODEL)

In connection with the transition to IFRS 9 and new methods for loss calculation, KLP Banken/Group has developed PD and LGD models for the bank's/group's mortgage loan portfolio. A PD model has been developed for new mortgage customers and a PD model for existing mortgage customers. The first model uses data that is available at the time of application and is valid for 3 months after the mortgage is granted. The second model begins after 3 months, and also uses data that depends on the customer's behaviour (for example the number of days in arrears). Explanatory variables are age, income, number of payment reminders sent in the last 12 months, total number of days in arrears in the last 12 months, loan-to-value ratio, co-borrower, default in the last 12 months and product type.

Logistical regression was used to create the PD model. This method is considered an industry standard for PD models, it is easy to interpret and analyse the output from the model and it can provide high coefficient of determination given that certain assumptions are met. The method also makes it possible to combine pure quantitative analyses with expert assessments, which was useful when the data was somewhat limited. A thorough manual analysis of a relatively small sample of potential variables (due to limited data) was carried out to arrive at an optimal combination of variables.

The most important measure for a PD model is the model's ability to discriminate, i.e. the ability to distinguish bad customers from good customers. The ability to discriminate is measured using ROC (Receiver Operating Characteristic), which provides some information about the proportion of predictions that are correct. The model is recalibrated at least yearly and the coefficient values can then be updated and the updated prediction level adjusted.

The lifetime probability of default (Lifetime PD)

is used for all mortgage loans in KLP Banken excluding senior loans. The lifetime probability of default (LTPD) of an exposuer is calculated based on aggregated figures for historically observed default rates for each year of all exposures and each exposure's probability of default 12 months after start. The results from model development show that the default rate increases slightly in year 2 before then decreasing, so that the PD in year 2 is higher than in year 1. This is in line with the expected result, since it is expected that it will take some time before a newly granted mortgage loan experiences problems. A customer will typically seek to avoid default on a mortgage loan, and will typically default on other debts before he goes into default on the mortgage loan. The reduction in PD after year 2 can be explained by a "survivalship effect", i.e. the contracts that have not defaulted in the first 2 years are typically of better credit quality, and as the loans are repaid the risk becomes lower. Experience from the industry is that contracts that have existed for a certain period of time converge towards a stable observed default rate. For KLP Banken/Group's mortgage loan portfolio, 3 years has been set as the parameter for when the default level converges towards a long-term PD level. The long-term PD level is set at 0.3 per cent, which corresponds to the average PD for the best contracts in the portfolio.

Exposure at default (EAD)

is used for all mortgages in KLP Banken/Group excluding senior loans. The EAD model has the same data sample as the LTPD model. If an exposureis in default, the exposure's balance at the time will be the bank's/group's exposure at default. EAD can be expressed for an exposure as a function of the likelihood that the contract will not be repaid within the time t. For repayment loans, EAD at time t is estimated as the exposure's balance at the time pursuant to the repayment schedule multiplied by the likelihood of the contract not being repaid within time t. The probability of a contract being terminated early within the year t is calculated as a percentage for each year in the future from 1 to 7 years.

Loss given default (LGD)
When estimating future credit loss it is important to look at the proportion of customers in default whose accounts become cured. The bank/group has examined at all historical defaults over 90 days and analysed the outcomes of these defaults. The results of the analysis show a very high level of defaults becoming cured. KLP Banken/Group has, since its inception, handled defaults and debt collection internally within the bank/group, and has one dedicated employee who handles exposures in default. The cases are followed closely, and there has been a limited number of defaults since the bank's inception. The analysis shows that the bank has had minimal losses, and most defaults have been reported as cured.

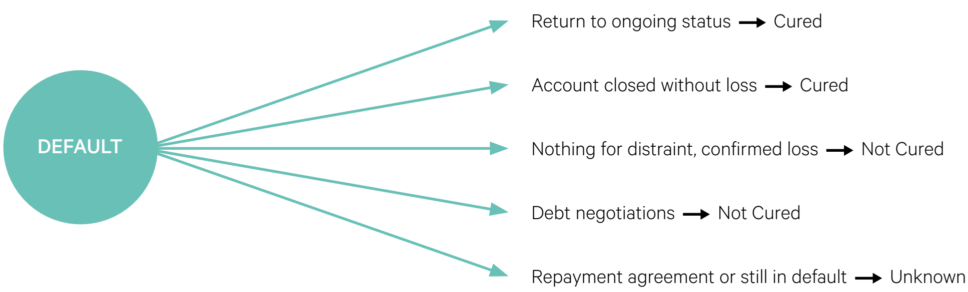
Cured default is defined as the account returning to ongoing status (no longer 90 days past due/90 days overdrawn over the bank's significant amount), or that the account is terminated without loss (typically through voluntary sale of collateral or refinancing in another bank). Non-cured default is defined as where the recovery process has resulted in the account having an established loss, or that an application for distraint has been made against the customer (forced sale of the property or recovery of guarantee). Customers with status "nothing for distraint" also belong in this category). If the customer has entered into debt negotiations, this is also defined as non-cured default. One last possibility is that we do not know the final outcome of the default due to a short time horizon between the default date and modelling date. The figure below illustrates the various outcomes for a default.

The observed cure rate is calculated and validated at least yearly in the same way as during model development. If the observed cure rate deviates by more than 10 percentage points from the estimate used in the IFRS 9 model, an assessment shall be made of whether measures are needed, e.g. a re-estimation of the model.

Forward-looking information
A part of the assessment of future losses is the assessment of how the future will look with regard to the macroeconomic conditions that affect the bank's credit losses, e.g. interest rates, housing prices, unemployment rates etc. To calculate the expected credit loss (ECL), the bank has assumed three different scenarios, which are weighted for probability based on an assessment of the probability of each of the three outlined scenarios occurring. The scenarios used by the bank are one expected outcome, one pessimistic outcome and one optimistic outcome for expected credit loss, where the three scenarios have a factor for outcome and a probability that the scenario occurs. The sum of the weighted scenarios constitutes the expected credit loss, and the probability that each scenario will occur will thus affect the expected credit loss. In the negative scenario, a house price fall of 30 percent and an increase in average PD of 165 per cent are assumed. This scenario is assigned 15 percent probability. In the positive scenario, the bank has assumed that house prices will increase by 5 percent and that the average PD will be halved. This scenario is assigned 20 percent probability. The expected scenario is thus weighted with a 65 percent probability.

If one only assumes a pessimistic scenario, the expected credit losses will roughly double, and if one only assumes an optimistic scenario, the expected losses will more than halve.

KLP Banken's risk forum assesses hese scenarios and their weighting on a quarterly basis, based on changes in macroeconomic factors or other factors that may affect expected credit loss in the bank.



NOTE 18 Loan loss provision - cont.

Expected credit loss (ECL) - loans to customers, all segments

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Transfer to Stage 1	2 806	524	2 639	5 970
Transfer to Stage 2	185	-185	0	0
Transfer to Stage 3	-150	150	0	0
Net changes	0	-21	21	0
New losses	-197	403	-1 618	-1 411
Write-offs	784	144	0	928
New losses	-146	-136	-53	-335
Closing balance ECL 31.12.2018	**3 283**	**879**	**990**	**5 151**
Changes (01.01.2018 - 31.12.2018)	476	354	-1 649	-818

Expected credit loss (ECL) - loans to customers, amortized cost

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Opening balanse ECL 01.01.2018	612	209	331	1 153
Transfer to Stage 1	54	-54	0	0
Transfer to Stage 2	-66	66	0	0
Transfer to Stage 3	0	0	0	0
Net changes	-13	124	-180	-69
New losses	146	49	0	194
Write-offs	-37	-130	-53	-220
Closing balance ECL 31.12.2018	**696**	**264**	**99**	**1 059**
Changes (01.01.2018 - 31.12.2018)	84	55	-233	-94

NOTE 18 Loan loss provision - cont.

Expected credit loss (ECL) loans to customers, rated at fair value over other comprehensive income (FVOCI)

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balanse ECL 01.01.2018	65	304	2 308	2 677
Transfer to Stage 1	128	-128	0	0
Transfer to Stage 2	-13	13	0	0
Transfer to Stage 3	0	-21	21	0
Net changes	-57	217	-1 438	-1 277
New losses	47	88	0	135
Closing balance ECL 31.12.2018	**170**	**474**	**891**	**1 536**
Change (01.01.2018 - 31.12.2018)	105	170	-1 417	-1 142

Losses on unused credit

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balanse ECL 01.01.2018	2 020	5	0	2 025
Transfer to Stage 1	4	-4	0	0
Transfer to Stage 2	-71	71	0	0
Transfer to Stage 3	0	0	0	0
Net changes	-127	62	0	-65
New losses	591	6	0	598
Closing balance ECL 31.12.2018	**2 416**	**141**	**0**	**2 557**

Individual loss write-downs on mortgages are evaluated independently based on its default status and collateral of the mortgage. For example, if a defaulted loan has progressed to compulsory sale and it is founds that the loan's collateral will not cover the loan's remaining debt, the 'difference' is recognised as an individual loss write-down. When the mortgage is realised and attempts at further recovery have been unsuccessful, the residual claim is added to long-time monitoring (we currently use Lindorff for long-term monitoring). The residual loan is then posted as an established loss and is removed from the balance sheet. This is what primarily happened in Q4. A large residual loan after the foreclosure (approx. NOK 1.9 million) has been transferred to established losses. Individual loss write-downs have thus decreased while established losses have increased accordingly.

If funds can be recovered on established losses in the future, these will be recorded as recovery on past losses.

NOTE 18 Loan loss provision - cont.

Value of lending and receivables for customers recognised in the balance sheet - all segments

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Gross lending 01.01.2018	4 889 411	577 960	57 289	5 524 660
Transfer to Stage 1	273 508	-270 739	-295	2 473
Transfer to Stage 2	-40 166	40 166	0	0
Transfer to Stage 3	-927	-6 132	7 060	0
Net change	-75 388	-1 330	221	-76 498
New lending	4 277 191	46 479	0	4 323 671
Write-offs	0	-280 660	-8 003	-288 663
Gross lending 31.12.2018	**9 323 629**	**105 744**	**56 271**	**9 485 644**

Losses on lending and receivables from customers rated at amortised cost

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Gross lending 01.01.2018	185 787	47 998	45 516	279 302
Transfer to Stage 1	8 413	-8 413	0	0
Transfer to Stage 2	-6 211	6 211	0	0
Transfer to Stage 3	0	0	0	0
Net change	-6 535	620	-142	-6 056
New lending	363 481	1 932	0	365 413
Write-offs	0	-78 950	-4 089	-83 040
Gross lending 31.12.2018	**544 936**	**-30 602**	**41 285**	**555 619**

Book value of loans and receivables for customers rated at fair value over other comprehensive income (FVOCI)

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Gross lending 01.01.2018	4 703 624	330 868	11 773	5 046 264
Transfer to Stage 1	265 095	-262 326	-295	2 473
Transfer to Stage 2	-33 955	33 955	0	0
Transfer to Stage 3	-927	-6 132	7 060	0
Net change	-68 853	-1 950	362	-70 441
New lending	3 913 710	44 547	0	3 958 258
Write-offs	0	-2 615	-3 914	-6 529
Gross lending 31.12.2018	**8 778 693**	**136 346**	**14 986**	**8 930 025**

NOTE 18 Loan loss provision - cont.

Exposure - unused credit

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Gross lending 01.01.2018	608 092	1 830	0	609 922
Transfer to Stage 1	34 517	-1 787	0	32 730
Transfer to Stage 2	-6 735	6 735	0	0
Transfer to Stage 3	0	0	0	0
Net change	-21 896	-1 503	0	-23 399
New lending	143 961	250	0	144 212
Gross lending 31.12.2018	**757 939**	**5 525**	**0**	**763 465**

Accrued interest is not included in the book value.

Losses recognised in the profit and loss account consist of

KLP BANKEN AS NOK THOUSANDS	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
Change in loss provisions in Stage 1, 2 and 3	-6 371	-962
Established losses	-512	-2 190
Recovery for previously established losses	56	0
Total losses in the income statement	**-6 827**	**-3 152**

NOTE 18 Loan loss provision - cont.

Expected credit loss (ECL) - loans to customers, all segments

KLP BANKEN AS GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balanse ECL 01.01.2018	2 964	524	2 639	6 128
Transfer to Stage 1	185	-185	0	0
Transfer to Stage 2	-150	150	0	0
Transfer to Stage 3	0	-21	21	0
Net changes	-203	403	-1 618	-1 418
New losses	812	144	0	955
Write-offs	-156	-136	-53	-344
Closing balance ECL 31.12.2018	**3 452**	**879**	**990**	**5 321**
Changes (01.01.2018 - 31.12.2018)	488	354	-1 649	-807

Expected credit loss (ECL) - loans to customers, amortized cost

KLP BANKEN AS GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balanse ECL 01.01.2018	835	514	2 639	3 988
Transfer to Stage 1	182	-182	0	0
Transfer to Stage 2	-79	79	0	0
Transfer to Stage 3	0	-21	21	0
Net changes	-76	341	-1 618	-1 352
New losses	220	137	0	358
Write-offs	-47	-130	-53	-229
Closing balance ECL 31.12.2018	**1 036**	**738**	**990**	**2 764**
Changes (01.01.2018 - 31.12.2018)	200	225	-1 649	-1 224

NOTE 18 Loan loss provision - cont.

Losses on unused credit

KLP BANKEN AS GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Opening balanse ECL 01.01.2018	2 020	5	0	2 025
Transfer to Stage 1	4	-4	0	0
Transfer to Stage 2	-71	71	0	0
Transfer to Stage 3	0	0	0	0
Net changes	-127	62	0	-65
New losses	591	6	0	598
Closing balance ECL 31.12.2018	**2 416**	**141**	**0**	**2 557**

Value of lending and receivables for customers recognised in the balance sheet - all segments

KLP BANKEN AS GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Opening balanse ECL 01.01.2018	26 070 908	577 960	57 289	26 706 157
Transfer to Stage 1	273 508	-270 739	-295	2 473
Transfer to Stage 2	-48 660	48 660	0	0
Transfer to Stage 3	-927	-6 132	7 060	0
Net changes	-969 177	-1 476	221	-970 432
New losses	10 269 425	54 018	0	10 323 443
Write-offs	-2 356 315	-280 660	-8 003	-2 644 978
Closing balance ECL 31.12.2018	**33 238 762**	**121 631**	**56 271**	**33 416 664**

Losses on lending and receivables from customers rated at amortised cost

KLP BANKEN AS GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Gross lending 01.01.2018	26 070 908	378 866	57 289	26 507 064
Transfer to Stage 1	273 508	-270 739	-295	2 473
Transfer to Stage 2	-48 660	48 660	0	0
Transfer to Stage 3	-927	-6 132	7 060	0
Net change	-969 177	-1 476	221	-970 432
New lending	10 269 425	54 018	0	10 323 443
Write-offs	-2 356 315	-81 566	-8 003	-2 445 884
Gross lending 31.12.2018	**33 238 762**	**121 631**	**56 271**	**33 416 664**

NOTE 18 Loan loss provision - cont.

Exposure - unused credit

KLP BANKEN AS GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Gross lending 01.01.2018	608 092	1 830	0	609 922
Transfer to Stage 1	34 517	-1 787	0	32 730
Transfer to Stage 2	-6 735	6 735	0	0
Transfer to Stage 3	0	0	0	0
Net change	-21 896	-1 503	0	-23 399
New lending	143 961	250	0	144 212
Gross lending 31.12.2018	**757 939**	**5 525**	**0**	**763 465**

Accrued interest is not included in the book value.

Losses recognised in the profit and loss account consist of

KLP BANKEN AS GROUP NOK THOUSANDS	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Change in loss provisions in Stage 1, 2 and 3	-6 382	-962
Established losses	-512	-2 190
Recovery for previously established losses	56	0
Total losses in the income statement	**-6 838**	**-3 152**

KLP Banken AS	NOK THOUSANDS	KLP Banken AS Group
01.01.2017 -31.12.2017		01.01.2017 -31.12.2017
120	Known losses, mortgage	120
2 070	Known losses, credit card	2 070
-105	Reversal of previous write-downs	-105
1 116	Change in individual write-downs	1 116
-48	Change in write-downs by group	-48
3 152	**Total loss on lending**	**3 152**

KLP Banken AS	NOK THOUSANDS	KLP Banken AS Group
31.12.2017		31.12.2017
2 252	Balance of write-down losses on lending 1 January	2 252
-105	Reversal of write-down on individual loans for the period	-105
1 116	Write-down on individual loans for the period	1 116
-48	Write-down by group loans for the period	-48
3 214	**Total write-down on individual loans 31 December**	**3 214**
21 741	Gross default exceeding 90 days	21 741
0	Gross other doubtful loans	0

This applies to housing loans. Losses or write-downs are not expected on loans in default in the public sector.

NOTE 19 Financial assets and liabilities subject to net settlement

KLP BANKEN AS

31.12.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	21	0	21	-21	0	0
Total	**21**	**0**	**21**	**-21**	**0**	**0**
LIABILITIES						
Financial derivatives	6 552	0	6 552	-21	-8 893	0
Total	**6 552**	**0**	**6 552**	**-21**	**-8 893**	**0**

KLP BANKEN AS GROUP

31.12.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	62 483	0	62 483	-62 483	0	0
Total	**62 483**	**0**	**62 483**	**-62 483**	**0**	**0**
LIABILITIES						
Financial derivatives	111 955	0	111 955	-62 483	-8 892	40 580
Total	**111 955**	**0**	**111 955**	**-62 483**	**-8 892**	**40 580**

NOTE 19 Financial assets and liabilities subject to net settlement - cont.

KLP BANKEN AS

31.12.2017 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	3 547	0	3 547	-3 547	0	0
Total	**3 547**	**0**	**3 547**	**-3 547**	**0**	**0**
LIABILITIES						
Financial derivatives	11 860	0	11 860	-3 547	0	8 313
Total	**11 860**	**0**	**11 860**	**-3 547**	**0**	**8 313**

KLP BANKEN AS GROUP

31.12.2017 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	91 394	0	91 394	-91 394	0	0
Total	**91 394**	**0**	**91 394**	**-91 394**	**0**	**0**
LIABILITIES						
Financial derivatives	188 103	0	188 103	-91 394	-11 251	85 458
Total	**188 103**	**0**	**188 103**	**-91 394**	**-11 251**	**85 458**

NOTE 20 Securities liabilities - stock exchange listed covered bonds and certificates

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
1 600 000	1 225 000	Bonds, nominal value	25 876 000	23 846 000
2 421	-246	Revaluations	29 847	52 942
4 677	1 829	Accrued interest	68 121	55 332
-130 000	-212 000	Own funds, nominal value	-1 934 000	-1 030 000
1 477 098	**1 014 583**	**Total liabilities created on issuance of securities**	**24 039 968**	**22 924 274**
1.52 %	**1.75 %**	**Interest rate on borrowings through the issuance of securities at the reporting date**	**1.61 %**	**1.28 %**

The interest rate is calculated as a weighted average of the act/360 basis. It includes interest rate hedges and amortization costs.

KLP BANKEN AS

NOK THOUSANDS	Balance Sheet 31.12.2017	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance Sheet 31.12.2018
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	1 600 000	400 000	-775 000	0	1 225 000
Revaluations	2 421	0	0	-2 667	-246
Accrued interest	4 677	0	0	-2 848	1 829
Own funds, nominal value	-130 000	0	-82 000	0	-212 000
Total liabilities created on issuance of securities	**1 477 098**	**400 000**	**-857 000**	**-5 515**	**1 014 583**

KLP BANKEN AS GROUP

NOK THOUSANDS	Balance Sheet 31.12.2017	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance Sheet 31.12.2018
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	23 846 000	6 500 000	-4 470 000	0	25 876 000
Revaluations	52 942	0	0	-23 095	29 847
Accrued interest	55 332	0	0	12 789	68 121
Own funds, nominal value	-1 030 000	0	-904 000	0	-1 934 000
Total liabilities created on issuance of securities	**22 924 274**	**6 500 000**	**-5 374 000**	**-10 306**	**24 039 968**

NOTE 21 Deposits from customers

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
9 669 046	10 661 749	Deposits from customers without agreed duration	10 661 749	9 669 046
9 669 046	**10 661 749**	**Total deposits from customers without agreed duration**	**10 661 749**	**9 669 046**
		CUSTOMER DEPOSITS DIVIDED BY CUSTOMER GROUPS		
7 713 393	8 747 851	Deposits from customers, retail market	8 747 851	7 713 393
1 955 653	1 913 898	Deposits from customers, public sector market	1 913 898	1 955 653
9 669 046	**10 661 749**	**Total deposits from customers**	**10 661 749**	**9 669 046**
1.38 %	**1.41 %**	**Interest rate on customer deposits, at the reporting date**	**1.41 %**	**1.38 %**

The interest rate is calculated as a weighted average of the act/360 basis.

NOTE 22 Shares in Group companies

KLP BANKEN AS

NOK THOUSANDS	Ownership %	Acquisition cost	Book value 31.12.2018	Book value 31.12.2017
KLP Boligkreditt AS	100	490 470	490 470	370 470
KLP Kommunekreditt AS	100	675 000	675 000	675 000
Total		**1 165 470**	**1 165 470**	**1 045 470**

NOTE 23 Fixed assets

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
864	1 172	Acquisition cost 01.01	1 172	864
307	72	Acquired during the period	72	307
0	0	Disposals during the period	0	0
1 171	1 244	Acquisition cost 31.12	1 244	1 171
-326	-430	Acc. depreciation previous years	-430	-326
-103	-148	Annual depreciation	-148	-103
-429	-577	Accumulated depreciation	-577	-429
742	**667**	**Book value**	**667**	**742**

NOTE 24 Intangible assets

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
39 425	52 944	Acquisition cost 01.01	52 944	39 425
13 518	6 115	Additions	6 115	13 518
0	0	Disposals	0	0
52 943	**59 058**	**Acquisition cost 31.12**	**59 058**	**52 943**
-19 470	-25 790	Accumulated depreciation previous years	-25 790	-19 470
-6 320	-7 969	Ordinary depreciation for the year	-7 969	-6 320
27 153	**25 299**	**Book value**	**25 299**	**27 153**
3-7 years		Depreciation period	3-7 years	

NOTE 25 Capital adequacy

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
1 790 000	1 790 000	Share capital and share premium fund	1 790 000	1 790 000
230 561	255 450	Other owners' equity	347 652	287 591
2 020 561	**2 045 450**	**Total owners' equity**	**2 137 652**	**2 077 591**
-1 318	-1 000	Adjustments due to requirements for proper valuation	-2 015	-2 759
-27 153	-25 299	Deduction goodwill and other intangible assets	-25 299	-27 153
-7 891	-11 561	Deferred tax assets	-8 667	-7 392
1 984 200	**2 007 590**	**Core capital/Tier 1 capital**	**2 101 671**	**2 040 287**
0	0	Supplementary capital/Tier 2 capital	0	0
0	**0**	**Supplementary capital/Tier 2 capital**	**0**	**0**
1 984 200	2 007 590	Total own funds (eligible Tier 1 and Tier 2 capital)	2 101 671	2 040 287
775 942	845 266	Capital requirement	837 802	767 527
1 208 258	**1 162 324**	**Surplus of own funds (eligible Tier 1 and Tier 2 capital)**	**1 263 869**	**1 272 760**
		CALCULATION BASIS CREDIT RISK		
4 668 122	5 352 003	Institutions	299 070	283 326
0	4 287	Local and regional authorities	3 384 588	3 296 369
3 337 608	3 393 128	Investments with mortgage security in real estate	5 922 925	5 107 629
73 419	82 717	Retail	82 717	73 419
67 215	63 181	Investments fallen due	63 181	67 215
100 236	60 964	Covered bonds	156 334	231 839
1 153 266	1 228 184	Other holdings	62 714	107 796
9 399 866	**10 184 464**	**Calculation basis credit risk**	**9 971 529**	**9 167 593**

NOTE 25 Capital adequacy - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
751 989	814 757	Credit risk	797 722	733 407
23 951	30 507	Operational risk	39 956	33 967
2	2	Credit valuation adjustments (CVA)	124	153
775 942	**845 266**	**Total capital requirement assets**	**837 802**	**767 527**
20.5 %	19.0 %	Core capital adequacy ratio	20.1 %	21.3 %
0.0 %	0.0 %	Supplementary capital ratio	0.0 %	0.0 %
20.5 %	**19.0 %**	**Capital adequacy ratio**	**20.1 %**	**21.3 %**
5.5 %	**5.2 %**	**Unweighted capital adequacy**	**5.6 %**	**5.7 %**

CAPITAL REQUIREMENT AS AT 31.12.2018	Core capital/ Tier 1 capital	Supplementary capital/Tier 2 capital	Own funds
Minimum requirement without buffers	4.5 %	3.5 %	8.0 %
Protective buffers	2.5 %	0.0 %	2.5 %
System risk buffers	3.0 %	0.0 %	3.0 %
Counter-cyclical buffers	2.0 %	0.0 %	2.0 %
Pilar 2-requirement	2.1 %	0.0 %	2.1 %
Current capital requirement incl. buffers	**14.1 %**	**3.5 %**	**17.6 %**
Minimum requirement in leverange ratio	3.0 %	0.0 %	3.0 %
Requirement with buffer in core capital	0.0 %	0.0 %	0.0 %
Capital requirement leverage ratio	**3.0 %**	**0.0 %**	**3.0 %**

KLP Banken has been granted exemption from the buffer requirement for the unweighted tier 1 capital ratio in accordance with Section 5 of the CRR/CRD IV regulations.

NOTE 26 Tax

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018		01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
124 687	37 601	Accounting income before taxes	83 429	103 074
		Other income components:		
-1 145	-2 326	Estimate difference, pension obligations and assets	-2 326	-1 145
68	0	Change in value of financial assets aviailable for sale	0	68
0	171	Value adjustment for instruments other than shares through OCI	171	0
		Differences between accounting and tax income:		
-95 000	0	Other deductions (dividends received during the year)	0	0
-592	2 703	Reversal of value increase financial assets	-44 813	-33 656
383	-4 135	Other permanent differences	-4 293	383
1 117	11 977	Change in differences between book and taxable income	48 316	35 453
29 519	**45 991**	**Taxable income**	**80 484**	**104 178**
0	0	Group contribution received with tax effect	0	0
29 519	**45 991**	**Base for tax payable in tax expenses**	**80 484**	**104 178**
0	0	Deficit carry-forward allowable from previous years	0	0
0	0	Change for the year in carry-forward deficit	0	0
0	**0**	**Total allowable carry-forward deficit as at 31 December**	**0**	**0**
29 519	**45 991**	**Tax surplus**	**80 484**	**104 178**
		RECONCILIATION OF BASIS FOR DEFERRED TAX/TAX ASSETS		
		Deferred tax assets linked to:		
-8	-608	Fixed assets	-608	-8
-1 573	-2 214	Financial instruments	-4 250	-16 219
-670	0	Hedging of borrowing	-8 693	-15 554
-7 860	-9 566	Pension obligation	-9 566	-7 860
-214	0	Other differences	-505	-1 285
-10 326	**-12 388**	**Total deferred tax assets**	**-23 621**	**-40 927**
		Deferred tax linked to:		
2 435	828	Lending to customers and credit enterprises	14 954	33 535
2 435	**828**	**Total deferred tax**	**14 954**	**33 535**
-7 891	**-11 561**	**Net deferred tax/tax assets**	**-8 667**	**-7 392**
0	0	Carry-forward deficit	0	0
0	**0**	**Deferred tax on carry-forward deficit**	**0**	**0**
-7 891	-11 561	Deferred tax/tax asset	-8 667	-7 392
-7 891	**-11 561**	**Capitalized deferred tax asset**	**-8 667**	**-7 392**

NOTE 26 Tax - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018		01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
		SUMMARY OF TAX EXPENSE FOR THE YEAR		
-10	4	Tax charged to the income statement for previous years	4	-12
-149	-3 670	Change in deferred tax taken to income	-1 275	-474
0	681	Changes to deferred tax recognised directly in equity	718	0
7 380	11 498	Tax on Group contribution payment made	19 431	25 298
7 221	**8 513**	**Capitalized tax**	**18 877**	**24 812**
5.9 %	24.0 %	Effective tax percentage	23.2 %	24.3 %
		RECONCILIATION OF TAX PERCENTAGE		
124 698	37 601	Accounting income before taxes	83 429	103 074
-1 077	-2 155	Items in other comprehensive income	-2 326	-1 077
123 610	35 446	Total profit before tax	81 103	101 997
30 903	8 862	Income taxs expense, nominal tax rate	20 276	25 499
7 231	8 513	Income tax expense, effective tax rate	18 838	24 812
23 672	**349**	**Difference between effective and nominal tax rate**	**1 439**	**687**
0	-4	Recognised tax relating to previous years	-4	0
-79	1 034	Tax effects of permanent differences	1 073	-79
0	-681	Tax recognised directly in equity	-718	0
23 750	0	Tax on dividends and group contributions received	0	0
0	0	Effect of change in tax rate on deferred tax	1 088	766
23 671	**349**	**Total**	**1 439**	**687**

NOTE 27 Pension obligations, own employees

The majority of the pension obligation is covered through KLP's joint pension scheme for local authorities and enterprises ("Fellesordningen"). The Company also offers a pension scheme in addition to Fellesordningen. This obligation is covered through operation.Fellesordningen is a defined-benefit pension scheme that satisfies the requirements for mandatory occupational pensions ("obligatorisk tjenestepensjon", or OTP). The Company has a contract pension (AFP) scheme.

The accounting treatment of pension obligations is described in more detail in Notes 2.

NOK THOUSANDS	Joint scheme	Via operation	2018	Joint scheme	Via operation	2017
PENSION COSTS						
Present value of accumulation for the year	8 732	476	9 207	7 448	398	7 845
Administration cost	220	0	220	204	0	204
Social security contributions - Pension costs	1 262	67	1 329	1 079	56	1 135
Capital activity tax - Pension costs	448	24	471	383	20	402
Pension costs incl. social security and administration costs taken to income	**10 661**	**566**	**11 227**	**9 113**	**474**	**9 587**
NET FINANCIAL COSTS						
Interest costs	1 560	271	1 831	1 371	268	1 639
Expected return	-1 051	0	-1 051	-929	0	-929
Management costs	125	0	125	109	0	109
Net interest costs	634	271	905	551	268	819
Social security contributions - Net interest cost	89	38	128	78	38	115
Capital activity tax - Net interest cost	32	14	45	28	13	41
Net interest cost including social security contributions	**755**	**322**	**1 077**	**656**	**320**	**975**
ESTIMATE DIFFERENCE, PENSIONS						
Actuarial gains (losses)	701	1 252	1 953	490	472	961
Social security contributions	99	177	275	69	66	136
Capital activity tax	35	63	98	24	24	48
Actuarial gains (losses) incl. social security contributions	**835**	**1 491**	**2 326**	**583**	**562**	**1 145**
Total pension costs including interest costs and estimate difference	**12 251**	**2 380**	**14 631**	**10 352**	**1 355**	**11 707**
PENSION OBLIGATIONS						
Gross accrued pension obligation	67 148	12 599	79 747	56 909	11 001	67 910
Pension assets	47 619	0	47 619	41 512	0	41 512
Net liability before SSC	19 529	12 599	32 128	15 398	11 001	26 398
Social security contributions	2 754	1 776	4 530	2 171	1 551	3 722
Capital activity tax	976	630	98	770	550	48
Gross accrued obligations incl. social security costs	70 878	15 006	85 884	59 850	13 102	72 952
Net liability incl. social security costs	**23 259**	**15 006**	**38 265**	**18 339**	**13 102**	**31 440**
RECONCILIATION OF PENSION OBLIGATIONS						
Capitalized net liability/(asset) 01.01	18 339	13 102	31 440	14 395	11 884	26 279
Pension costs taken to profit/loss	10 661	566	11 227	9 113	474	9 587
Finance costs taken to profit/loss	755	322	1 077	656	320	975
Actuarial gains and losses incl. social security contributions	835	1 491	2 326	583	562	1 145
Social security contributions paid in premiums/supplement	-6 155	-56	-6 211	-759	-16	-775
Capital activity tax paid-in premium/supplement	-308	-20	-328	-269	-6	-275
Premium/supplement paid-in including admin	-868	-400	-1 267	-5 381	-115	-5 496
Capitalized net liability/(asset) 31.12	**23 259**	**15 006**	**38 265**	**18 339**	**13 102**	**31 440**

NOTE 27 Pension obligations, own employees - cont.

NOK THOUSANDS	Joint scheme	Via operation	2018	Joint scheme	Via operation	2017
CHANGE IN PENSION OBLIGATIONS						
Gross pension assets 01.01	59 850	13 102	72 952	48 178	11 884	60 062
Present value of accumulation for the year	8 732	476	9 207	7 448	398	7 845
Interest costs	1 560	271	1 831	1 371	268	1 639
Actuarial losses (gains) gross pension obligation	1 340	1 491	2 831	3 518	562	4 080
Social security contributions - pension costs	1 262	67	1 329	1 079	56	1 135
Social security contributions - net interest costs	89	38	128	78	38	115
Social security contributions paid in premiums/supplement	-868	-56	-924	-759	-16	-775
Capital activity tax - pension costs	448	24	471	383	20	402
Capital activity tax - net interest costs	32	14	45	28	13	41
Capital activity tax - paid-in premiums/supplement	-308	-20	-328	-269	-6	-275
Payments	-1 259	-400	-1 659	-1 203	-115	-1 318
Gross pension obligation 31.12	**70 878**	**15 006**	**85 884**	**59 850**	**13 102**	**72 952**
CHANGE IN PENSION ASSETS						
Pension assets 01.01	41 512	0	41 512	33 783	0	33 783
Expected return	1 051	0	1 051	929	0	929
Actuarial loss (gain) on pension assets	505	0	505	2 935	0	2 935
Administration cost	-220	0	-220	-204	0	-204
Financing cost	-125	0	-125	-109	0	-109
Premium/supplement paid-in including admin	6 155	400	6 554	5 381	115	5 496
Payments	-1 259	-400	-1 659	-1 203	-115	-1 318
Pension assets 31.12	**47 619**	**0**	**47 619**	**41 512**	**0**	**41 512**
OVER/UNDER-FINANCING OF THE PENSION SCHEME						
Present value of the defined-benefit pension obligation	70 878	15 006	85 884	59 850	13 102	72 952
Fair value of the pension assets	47 619	0	47 619	41 512	0	41 512
Net pension obligation	**23 259**	**15 006**	**38 265**	**18 339**	**13 102**	**31 440**

FINANCIAL ASSUMPTIONS (COMMON TO ALL PENSION SCHEMES)	31.12.2018	31.12.2017
Discount rate	2.60 %	2.40 %
Salary growth	2.75 %	2.50 %
National Insurance basic amount (G)	2.50 %	2.25 %
Pension increases	1.73 %	1.48 %
Social security contributions	14.10 %	14.10 %
Capital activity tax	5.00 %	5.00 %

For the measurement of pension expense for 2018 used assumptions as of 31.12.2017, while for calculating pensjon liabilities 31.12.2018 used assumptions and population per 31.12.2018. The assumptions are based on market conditions per 31.12.2018 and in accordance with the recommendation from the Norwegian Accounting Standards Board.

NOTE 27 Pension obligations, own employees - cont.

Actuarial assumptions
KLP's joint pension scheme for local authorities and enterprises ("Fellesordningen").
An important part of the basis of pension costs and pension obligations is how mortality and disability develop amongst the members of the pension scheme.

KLP has used the K2013BE mortality table based on Finance Norway's analyses of mortality in life insurance populations in Norway and Statistics Norway's extrapolations.

Take-up of contractual early retirement (AFP), (per cent in relation to remaining employees):
The costs of AFP depend on how many in each year-group take AFP. On reaching 62 years there are 42.5 per cent who retire with an AFP pension. It is only those who are employed and working right up until they retire who are entitled to AFP. This is taken into account in the calculation of the AFP obligation.

VOLUNTARY TERMINATION FOR FELLESORDNING (IN %)						
Age (years)	<24	24-29	30-39	40-49	50-55	>55
Turnover	25 %	15 %	7.5 %	5 %	3 %	0 %

PENSIONS VIA OPERATIONS
Take-up of AFP/premature retirement is not relevant to this scheme. In regard to mortality the same variant of K2013BE has been used as for Fellesordningen.

NUMBER	Joint scheme	Via operation	2018	Joint scheme	Via operation	2017
MEMBERSHIP STATUS						
Number active	74	2	76	68	3	71
Number deferred (previous employees with deferred entitleme nts)	36	7	43	22	5	27
Number of pensioners	14	1	15	13	1	14

NUMBER	2018	2017
COMPOSITION OF THE PENSION ASSETS		
Property	12.7 %	12.3 %
Lending	12.1 %	11.6 %
Shares	21.4 %	22.5 %
Long-term/HTM bonds	29.1 %	27.1 %
Short-term bonds	18.4 %	19.2 %
Liquidity/money market	6.3 %	7.3 %
Total	**100.0 %**	**100.0 %**

The pension funds are based on KLP's financial funds in the common portfolio. The table shows percentage placing of the pension funds administered by KLP at the end of the year. Value-adjusted return on the assets was 1.45 per cent in 2018 and 6.7 per cent in 2017.

Expected payment into benefit plans after cessation of employment for the period 1 January 2019 – 31 December 2019 is NOK 10.6 million.

NOTE 27 Pension obligations, own employees - cont.

SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2018	
Discount rate reduced by 0.5%	Increase
Gross pension obligation	9.66 %
Accumulation for the year	14.40 %
Salary growth increases by 0.25%	Increase
Gross pension obligation	1.42 %
Accumulation for the year	3.19 %
Mortality increases by 10%	Increase
Gross pension obligation	2.50 %
Accumulation for the year	1.90 %

The sensitivity analysis above is based on all other assumptions being unchanged. In practice that is an unlikely scenario and changes in some assumptions are correlated. The calculation of gross pension obligation and accumulation for the year in the sensitivity analysis has been done using the same method as in calculating gross pension obligation in the financial statement position.

The duration in the joint scheme is estimated at 17.1 years.

NOTE 28 Salary and obligations to senior management etc.

2018 NOK THOUSANDS	Paid from KLP Banken AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2018	Repayment plan [1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2018	Repayment plan [1]
SENIOR EMPLOYEES												
Leif Magne Andersen, Managing Director	2 110	162	765	2 995	2,30	A42	-	-	-	1 235	2.40	A42/A44
Carl Steinar Lous, Department Manager Public Market	1 311	27	376	-	-	-	-	-	-	2 211	2.30	A20/A32
Christopher A. Steen, Department Manager Finance	1 256	62	227	-	-	-	-	-	-	2 002	2.30	A36
BOARD OF DIRECTORS												
Sverre Thornes, Chair	-	-	-	-	-	-	4 016	201	1 496	11 939	2.30-2.40	A45
Aage E. Schaanning	-	-	-	5 779	2.30	Fleksilån	3 498	163	1 255	-	-	-
Aina Iren Slettedal Eide	-	-	-	-	-	-	-	-	-	-	-	-
Kjell Fosse	119	-	-	-	-	-	7	-	-	-	-	-
Ingrid Aune	108	-	-	-	-	-	53	-	-	-	-	-
Christin Kleppe, elected by and from the employees	108	-	-	-	-	-	7	-	-	-	-	-
Espen Trandum, elected by and from the employees	108	-	-	-	-	-	7	-	-	-	-	-
EMPLOYEES												
Loans to employees of KLP Banken AS for employee terms			-	22 235	-	-	-	-	-	38 422	-	-
Loans to employees of KLP Banken AS under ordinary terms			-	12 588	-	-	-	-	-	18 906	-	-

2017 NOK THOUSANDS	Paid from KLP Banken AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2017	Repayment plan [1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2017	Repayment plan [1]
SENIOR EMPLOYEES												
Leif Magne Andersen, Managing Director	2 059	164	713	3 740	2.10-2.35	A44	-	-	-	663	2.35	A42
Carl Steinar Lous, Department Manager Public Market	1 234	24	369	-	-	-	-	-	-	2 376	2.10	A20/A31
Christopher A. Steen, Department Manager Finance	1 221	28	221	3 476	2.35	A47	-	-	-	2 882	2.0-2.35	A31/A42
BOARD OF DIRECTORS												
Sverre Thornes, Chair	-	-	-	4 041	2.35	A47	3 900	205	1 457	9 515	2.10	A45
Aage E. Schaanning	-	-	-	5 991	2.10	Fleksilån	3 413	167	1 224	-	-	-
Aina Iren Slettedal Eide	-	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen [2]	57	-	-	-	-	-	25	-	-	-	-	-
Kjell Fosse	116	-	-	-	-	-	6	-	-	-	-	-
Ingrid Aune	53	-	-	-	-	-	26	-	-	-	-	-
Christin Kleppe, elected by and from the employees	105	-	-	-	-	-	6	-	-	-	-	-
Espen Trandum, elected by and from the employees	105	-	-	-	-	-	6	-	-	-	-	-
EMPLOYEES												
Loans to employees of KLP Banken AS for employee terms			-	24 638	-	-	-	-		44 946	-	-
Loans to employees of KLP Banken AS under ordinary terms			-	18 862	-	-	-	-		29 323	-	-

[1] A= Annuity loan, last payment, HC=House Credit.
[2] Resigned during the year.

NOTE 28 Salary and obligations to senior management etc - Cont.

NOK THOUSANDS	2018	2017
Period expenses related to interest subsidies on loans to employees	251	282

The KLP Board of Directors has laid down principles and guidelines for remuneration that apply for the entire Group and set up a remuneration committee as a subcommittee of the Board. The committee reports on and carries out checks that the remuneration schemes in the Group are in line with the Board's principles and guidelines.

The Managing Director of KLP Banken AS has no agreement on performance pay (bonus) or guaranteed salary. He is pensionable aged 65.

Department Manager Public Sector Market also holds the position as the Managing Director of the subsidiary KLP Kommunekreditt AS, but he receives no remuneration for that appointment. He has no agreement on performance pay, but has a salary guarantee in the event of dismissal/agreed termination. He is pensionable aged 70.

The Department Manager Finance holds the post of Managing Director of the subsidiary KLP Boligkreditt AS. He receives no remuneration for this appointment, and has no agreement on performance pay (bonus) or guaranteed salary. He is pensionable aged 70.

All employees of the KLP Group in Norway are registered in KLP's pension scheme for municipalities and companies. The employees earn pension rights in this scheme for salaries up to 12G.

Employees in the KLP Group with salaries above 12 G and for lower retirement age than 67 years, also earn pension benefits for salaries above 12G. Full retirement pension in this additional cover amounts to 66% of salary above 12G, and is achieved after at least 30 years of earnings in the scheme. Employees with a special agreement for a lower pension age than 67 years are ensured an old-age pension corresponding to 66% of all pensionable salary up to 67 years. This add-on was closed May 2, 2013 and does not apply to employees who started after that date. Nor does the scheme apply to employees who were employed at this time in KLP, but who only receive salary above 12G after this date.

There are no obligations to provide the Chair of the Board of Directors with special consideration or other benefits on termination or change in employment contract or appointment.

Directors' fees are set by the General Assembly.

Board members employed in the KLP Group, not having been elected by and from the employees, do not receive a fee for the Board appointment. Benefits in addition to Directors' fees for Board members employed in the KLP Group are stated only if they are included in the senior management group employed in the KLP Group. The same applies to information about lending.

All benefits are shown without the addition of social security costs and capital activity taxes.

Attention is drawn otherwise to the description of the main principles on determination of remuneration in the KLP Group that may be found at klp.no.

NOTE 29 Number of employees

KLP Banken AS			KLP Banken AS Group	
2017	2018		2018	2017
70	68	Number of permanent employees 31.12.	68	70
6	9	Number of temporary employees 31.12.	9	6
76	**77**	**Total number of employees 31.12.**	**77**	**76**
66	66	Number of full time equivalents permanent employees	66	66
6	8	Number of full time equivalents temporary employees	8	6
72	**74**	**Total number of full time equivalents**	**74**	**72**

NOTE 30 Pay and general management costs

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018		01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
45 417	49 400	Salaries	49 400	45 417
7 734	7 212	Social security contributions	7 212	7 734
2 970	2 560	Capital activity tax	2 560	2 970
8 651	11 368	Pensions including social security contributions	11 368	8 651
1 586	1 486	Other benefits	1 486	1 586
66 358	**72 026**	**Total pay and general management costs**	**72 026**	**66 358**

NOTE 31 Other assets

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
4 310	6 824	Receivables between companies in the same Group	289	450
368	121	Miscellaneous receivables	122	368
0	2	Prepaid expenses	2	0
4 678	**6 947**	**Total other assets**	**413**	**818**

NOTE 32 Other liabilities and provision for accrued costs

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
49 636	62 447	Receivables between companies in the same Group	52 187	45 857
3 045	7 796	Creditors	7 825	3 147
416	5 708	Miscellaneous liabilities	5 710	418
7 380	11 498	Tax payable	19 431	25 298
60 477	**87 449**	**Total other liabilities**	**85 154**	**74 720**
3 208	3 227	Withholding tax	3 227	3 208
2 299	2 486	Social security contributions	2 486	2 299
817	900	Capital activity tax	900	817
5 110	5 322	Holiday pay	5 322	5 110
31 440	38 265	Pension obligations	38 265	31 440
0	0	VAT	0	246
3 522	1 917	Provisioned costs	1 917	4 140
46 397	**52 117**	**Total accrued costs and liabilities**	**52 117**	**47 261**

NOTE 33 Transactions with related parties

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018		01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
		INCOME STATEMENT ITEMS		
57 000	58 000	KLP, fees lending management	58 000	57 000
14 392	12 823	KLP Kommunekreditt AS, administrative services (at cost)	0	0
31 178	43 084	KLP Boligkreditt AS, administrative services (at cost)	0	0
7 303	4 871	KLP Kommunekreditt AS, interest lending	0	0
5 431	10 471	KLP Boligkreditt AS, interest lending	0	0
-52	-66	KLP Kapitalforvaltning AS, fees for services provided	-226	-294
-3 976	-4 150	KLP, rent	-4 150	-3 976
-1 519	-1 554	KLP Skipsbygget AS, rent	-1 554	-1 519
-108	-101	KLP Bassengtomten AS, rent	-101	-108
-386	-473	KLP Eiendomsdrift AS, rent	-473	-386
-8 651	-11 368	KLP, pension premium	-11 368	-8 651
-57 666	-67 616	KLP, staff services (at cost)	-67 616	-57 666
1 115	-759	KLP Group companies, subsidised interest employee loans	2 173	2 552
44 061	**43 161**	**Total**	**-25 316**	**-13 048**

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
		FINANCIAL POSITION STATEMENT ITEMS		
275 170	430 208	KLP Kommunekreditt AS, lending Group short-term	0	0
500 345	1 036 913	KLP Boligkreditt AS, lending Group short-term	0	0
-3 503	-8 122	KLP Kommunekreditt AS, loan settlement	0	0
-538	-2 166	KLP Boligkreditt AS, loan settlement	0	0
-42 910	-49 214	KLP, loan settlement	-49 214	-42 910
-2 207 037	-4 871 955	KLP Boligkreditt AS, transferred loans	0	0
		NET INTERNAL ACCOUNTS TO		
-2 574	-2 935	KLP	-2 773	-2 321
1 296	1 672	KLP Kommunekreditt AS, net internal accounts	0	0
2 956	5 089	KLP Boligkreditt AS, net internal accounts	0	0
-53	52	KLP Group companies, net other internal accounts	23	-175
-1 476 848	**-3 460 457**	**Total**	**-51 964**	**-45 406**

Transactions with related parties are carried out on general market terms, with the exception of the Company's share of common functions (staff services), which are full cost price. Allocation is based on actual use. All internal receivables are settled as they arise.

NOTE 34 Auditor's fee

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2017 -31.12.2017	01.01.2018 -31.12.2018		01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
235	525	Ordinary audit	1 003	588
144	0	Certification services	278	324
531	465	Non-audit services	470	550
910	**990**	**Total auditor's fee**	**1 752**	**1 462**

The audit fee is expensed according to received invoice. The amounts above include VAT.

NOTE 35 Contingent liabilities

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
673 459	561 905	Credit facilities for lending not utilized	561 905	673 459
98 797	115 924	Loan commitment	616 318	212 769
189 223	201 584	Credit facilities issued credit card	201 584	189 223
17 046 000	17 743 000	Credit facility KLP Kommunekreditt AS	0	0
4 300 000	6 908 000	Credit facility KLP Boligkreditt AS	0	0
22 307 479	**25 530 413**	**Total contingent liabilities**	**1 379 807**	**1 075 451**

NOTE 36 Written-down assets

KLP Banken AS KLP Banken AS Group 31.12.2018 NOK THOUSANDS		1. Contract amount of loans that have been written down, but which can still be recovered	2. Written down in the accounts	3. Amount outstanding that can be recovered	4. Estimated value of collateral for amount that can be recovered	5. Point 3-4 exposure without collateral	6. Point 4 in % of point 3
	Sector	Gross exposure	Written down	Continued	Value of security	Net exposure	Guarantee ratio
WRITE-DOWNS OF FINANCIAL ASSETS							
Mortgages with collateral	Collateral	5 723	-827	5 723	4 896	827	85.5 %
Mortgage loans with realised collateral (established losses)	None	3 039	-3 039	3 039	0	3 039	0.0 %
Credit cards (established losses)	None	4 179	-4 179	4 110	0	4 110	0.0 %
Total		**12 941**	**-8 045**	**12 872**	**4 896**	**7 976**	**38.0 %**

	31.12.2018
Defaulted loans with individual write-downs	2 528
Defaulted loans in the balance sheet (without individual write-downs)	53 743
Total defaults (over 90 days)	**56 271**
Mortgage loans secured by collateral	47 606
Defaults over 90 days without collateral security	8 665
Other doubtful loans with individual write-downs	3 333

KLP Banken follows up commitments that defaulted when instalments and interest are not paid on time and the reason is that the customer cannot or will not pay. Arrears over 90 days are always reported as defaults. The need to reduce individual defaults is assessed against the value of available security for the commitment. Loans/credit where losses have been established are passed for monitoring by the debt collection agency for further recovery and are followed up on a regular basis.

Loans/credit with individual loss write-downs, primarily mortgage loans, are followed up with agreement on ordinary voluntary sale or through the use of legally-enforced recovery such as compulsory sale or an application for distraint. After the collateral has been realised and if any agreement on repayment/redemption of the residual loan is not met, the case is transferred to the debt collection agency for further follow-up.

NOTE 37 Cash and cash equivalents and other loans and receivables from credit institutions

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2017	31.12.2018		31.12.2018	31.12.2017
45 140	60 238	Claims on central banks	60 238	45 140
649 519	621 861	Bank deposits operations	1 393 775	1 244 175
0	0	Cash	0	0
694 659	**682 099**	**Total cash and cash equivalents (liquidity)**	**1 454 013**	**1 289 315**
23 603	19 351	Bank accounts to be used for the purchase and sale of securities	45 645	41 919
775 515	1 467 121	Receivable on group coppanies	0	0
1 493 777	**2 168 571**	**Loans and receivables from credit institutions**	**1 499 658**	**1 331 235**

To the General Meeting of KLP Banken AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KLP Banken AS, which comprise:

- The financial statements of the parent company KLP Banken AS (the Company), which comprise the balance sheet as at 31 December 2018, the income statement, statement of owners' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of KLP Banken AS and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, the income statement, statement of owners' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

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

Basis for Opinion

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

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Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 13 March 2019
PricewaterhouseCoopers AS

Erik Andersen
State Authorised Public Accountant

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

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