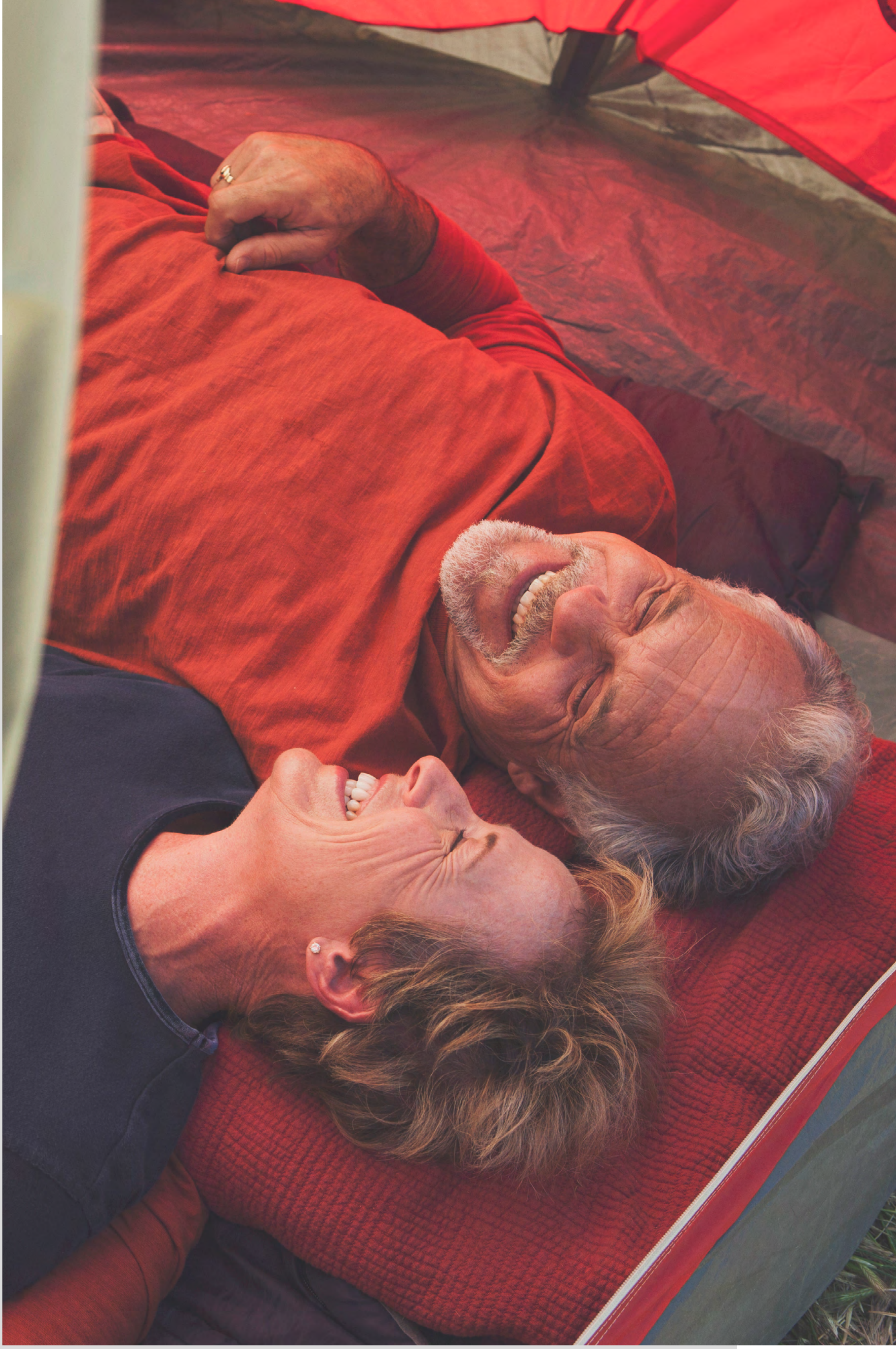
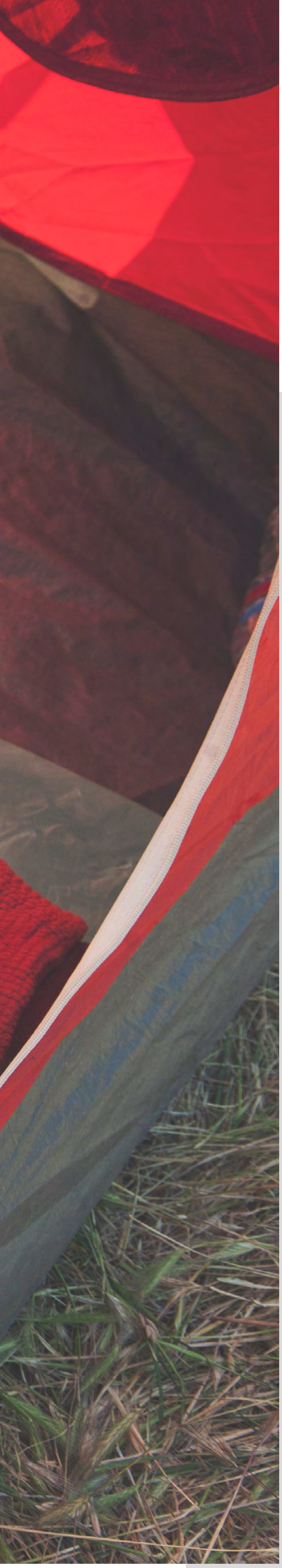


Annual report 2016

KLP BANKEN AS



Contents

Annual report for 2016

Pre-tax profit at KLP-Banken amounted to NOK 91.2 million in 2016. Lending and deposits have grown well and net interest income increased on 2015. The activities in both the retail market and the public sector market contributed positively to the result for the year. The KLP Banken Group was supplied with NOK 250 million in fresh owners' equity in December.

KLP Banken AS is wholly owned 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 overall business of KLP Banken AS and its subsidiaries is divided into the business areas of retail market and public sector loans. Both areas are nationwide, and the companies' head office is in Trondheim.

The KLP Bank Group contributes to KLP's focus on members by offering products and services on competitive terms and conditions. This is intended to reinforce the perception that enterprises that have chosen KLP as a pension provider are attractive employers. Presence in the market for public lending through KLP Kommunekreditt contributes to competition and thereby to the public sector having access to long-term low-cost financing.

FINANCIAL DEVELOPMENTS IN 2016 FOR KLP BANKEN AS GROUP

Profits (NOK millions)	2016	2015	Change
Profit before tax	91.2	49.6	41.6
Net profit after tax	68.3	40.5	27.8
Net interest income	194.3	187.1	7.3

Statement of financial position (balance sheet) (NOK billions)	2016	2015	Change
Lending disbursments during the year including managed loans	16.3	14.3	2.0
On-balance sheet lending	30.0	26.4	3.6
Lending managed on behalf of KLP	52.7	51.0	1.7

Figures in brackets below are references to the 2015 figures.

Income statement

The KLP Banken Group achieved a profit before tax of NOK 91.2 million in 2016. The profit contribution from the business areas were NOK 31.9 million from the retail market and NOK 59.3 million from the public sector market. In 2015 the equivalent net profit before tax was NOK 49.6 million, of which the retail market contributed NOK 30.4 million and the public sector market contributed NOK 19.2 million. After tax the net profit for 2016 was NOK 68.3 million, against NOK 40.5 million the year before.

The KLP Banken Group's return on equity was 6.1 (3.3) per cent before tax and 4.6 (2.7) per cent after tax. The profit included management fees from KLP of NOK 57.0 (57.6) million.

Total lending in the Group increased by NOK 3.6 billion, i.e. 14 per cent, in 2016. That figure comprises growth in home mortgage loans of NOK 2.0 billion, which is the equivalent of 19 per cent, and growth in public sector loans of NOK 1.7 billion, equalling 11 per cent. Stable margins on lending have contributed to a 4 per cent increase in interest income in 2016 compared with 2015. 65 per cent of the KLP Banken Group's net interest income in 2016 derives from the retail market, against 63 per cent in 2015. The Board of Directors considers the underlying profit development to be good.

In 2016 credit premiums in the securities market dropped compared with autumn 2015. The value of the KLP Banken Group's liquidity placements has therefore increased. This has brought about a contribution to the result in 2016 of NOK 18.4 million, of which NOK 15.3 million in KLP Kommunekreditt AS. At the end of 2015 the income statement showed a net loss on securities of NOK 30.1 million.

KLP Banken AS carries out regular adjustments in the duration of borrowing in order to reduce liquidity risk and meet regulatory requirements for liquidity indicators and capital adequacy (Basel III and CRD IV). Refinancing the borrowing side in the subsidiaries thereby produces a need for buybacks of its own issuances and this produces an effect on profits. In 2016 several loans were repurchased and this resulted in higher costs than in 2015. NOK 10.2 was charged to the result for 2016 in relation to buyback of inward loans, whilst the equivalent figures for 2015 was NOK 5.1 million.

KLP Banken AS to a limited extent charges a fee for its banking services in the retail market. Net fees and commission income make up NOK 9.4 (10.2) million for 2016, which is an 8 per cent reduction on the year before.

Operating costs and depreciation amounted to NOK 179.5 million in 2016 compared with NOK 170.2 million the year before. This is a cost growth of 5 per cent. The difference in excess of the normal price rise is in 2016 mainly linked to investments in IT technology and digitalization, and streamlining processes for the customers and in-house.

Lending losses accounted for NOK 1.1 million in 2016 and are entirely linked to engagements in the retail market. The equivalent figure for 2015 was NOK 1.0 million. The Board considers the losses to be at a low level and believes the loss provisions to be sufficient.

Preparing for new requirements in the Norwegian accounting regulations adapted to accounting standards (IFRS 9) from 2018, KLP Banken has acquired a risk classification system to analyse mortgage customers' migration between risk classes. Based on that analysis, collective write-downs of NOK 0.7 million were carried out on mortgages in 2016. This provision is included in the losses on lending mentioned above. The public sector market has not had any losses on lending. KLP Banken AS has not carried out any collective write-downs on lending before.

The lending management in total

The KLP Banken Group manages a lending portfolio totalling NOK 82.4 (76.9) billion for KLP and for own account.

Outstanding loans (principal) per company in the KLP Banken Group as at 31 December 2016:

Company / NOK billions	Mortgage	Public sector/ company	Total lending
KLP Banken AS (parent)	8.0		8.0
KLP Boligkreditt AS	4.7		4.7
KLP Kommunekreditt AS	-	17.0	17.0
KLP (Management agreement)	3.2	49.5	52.7
Total	**15.9**	**66.5**	**82.4**

Of the managed loans to the public sector/companies NOK 9.1 (10.1) billion is in the form of pure management assignments for KLP Banken AS, where the entry into loan agreements, documentation and their follow-up is carried out by KLP. In the rest of the management for KLP, KLP Banken AS is also responsible for offers, entry into agreements and loan documentation as mandated by KLP.

THE RETAIL MARKET

KLP Banken's retail market was once again able to refer to the greatest lending growth since the Bank was established six years ago. During 2016, a proportion of the housing stock was transferred to KLP Boligkreditt AS, a subsidiary. KLP Boligkreditt AS is mainly financed by mortgage-backed covered bonds being issued, and this is an important part of the KLP Banken Group's financing. However, the growth in KLP Banken's financial position statement is a result both of its own new sales and the purchase of mortgages from KLP.

Lending

KLP Banken AS is an internet-based bank without a physical branch network. The online bank offers simple and competitive savings and loans products. By the end of 2016 on-balance sheet lendings to the retail market amounted to NOK 12.7 (10.7) billion.

At the end of the year, KLP's total housing mortgage portfolios stood at NOK 15.9 (14.1) billion. A large and important customer group is people employed by local government and health enterprises that are members of KLP's pension schemes. Gross new payments totalled NOK 6.2 (5.8) billion. The portfolio is secured within conserative valuations, and in addition a thorough assessment is made of the borrower's ability to pay and loan-servicing record before a loan is granted.

At the end of the year, KLP Banken AS and KLP combined had 12,089 (11,494) mortgage customers, of whom approximately 84 (81) per cent were members. Fixed-interest mortgages made up 8 (9) per cent of loans outstanding. Other loans were at floating interest rates.

Losses on mortgages in the banking companies were booked at NOK 1.1 (1.0) million in 2016. Defaults in excess of 90 days amounted to NOK 22.2 (29.3) million at the end of 2016, which is 0.18 (0.27) per cent of KLP Banken's total loans outstanding. Defaults and losses for mortgages is thus at a low level.

The loan products KLP Banken AS offers in the retail market include normal mortgages, flexible loans (Fleksilån), mortgages for young people (Boliglån Ung), bridge financing in connection with house purchases, mortgages for the purchase of holiday homes and senior loans (Litt Extra).

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

Borrowings and deposits financing the Retail Market

KLP Banken's product is pricewise particularly aimed at those employed by KLP's owners or those receiving pensions from an occupational pension scheme in the company. The marketing of KLP Banken AS is also largely aimed at members of the pension schemes. Through 2016 the number of active deposit customers in the retail market increased from 36,700 to 42,400. Members make up 71 (69) per cent of the deposit customers. The total volume of deposits from retail customers stood at NOK 7.0 (6.0) at the end of 2016.

KLP Banken AS also provides a deposit product for corporate customers. At the end of 2016 deposits from companies make up NOK 1.7 (1.4) billion, which is the equivalent of 20 (19) per cent of total deposits. The total volume of deposits increased in 2016 from NOK 7.4 billion to NOK 8.7 billion by the end of the year.

The financing of KLP Banken AS in excess of deposits and owners' equity takes place in the form of certificate and bond debt. At the end of 2016, the Bank's outstanding debt in certificates and bonds amounted to NOK 2.4 (2.9) billion. This is also used to partly finance the subsidiaries

KLP Banken AS uses KLP Boligkreditt AS, a subsidiary, to finance part of the lending activity in the retail market with mortgaged-backed covered bonds. In 2016 mortgaged-backed covered bonds were issued in the amount of NOK 1.4 (1.6) billion. Outstanding bond debt in KLP Boligkreditt AS amounted to NOK 3.7 (2.8) billion at the end of 2016. The company has achieved best rating for its borrowing programme.

In the course of 2016 KLP Boligkreditt AS purchased mortgages for NOK 2.9 (2.6) billion from KLP Banken AS. At the end of the year, mortgages for NOK 4.7 (3.7) billion were financed through KLP Boligkreditt's balance sheet and NOK 8.0 (7.0) billion were financed through KLP Banken's balance sheet.

THE PUBLIC-SECTOR MARKET

Lending

The KLP Banken Group's lending to the public sector is financed through KLP Kommunekreditt AS, a subsidiary, mainly by issuing covered bonds in a security pool made up of loans to municipalities, county administrations or to companies with public guarantees.

In addition, KLP Banken has an assignment for KLP, which means that a substantial part of KLP Banken's lending activity in the public sector includes loans financed by KLP. KLP Banken's management assignment means managing loans for companies and businesses that lie outside KLP Kommunekreditt's area of responsibility. At the end of 2016 this comprises loans in the amount of NOK 9.1 (10.1) billion in foreign currency. This lending area is not mentioned any further below.

In 2016 new loans were disbursed to the public sector for NOK 10.1(8.5) billion altogether from the companies in the KLP Group. Instalments and redemptions over the year made up NOK 5.4 (4.1) billion.

Total lending to public sector borrowers amounted to NOK 57.4 (52.7) billion at the end of 2016, which was an increase of NOK 4.7 billion (9 per cent) on 2015. NOK 1.7 billion of that growth was financed by the Bank, and NOK 3.0 billion was financed by KLP.

Of the total amount lent out, fixed-interest loans accounted for 39 per cent at the end of 2016, as against 35 per cent the year before.

During 2016 approximately NOK 63 (45) billions' worth of requests for loans were received. In addition to the need for loans in Norwegian municipalities, the growth is related to a great demand for new road projects. 16 per cent of the requests were granted in 2016 compared with 20 per cent in 2015.

The credit risk associated with lending to municipalities and county administrations in Norway is limited to a payment deferral and not to the payment obligation being dropped. This follows from Norwegian law, which grants the lender security against loss if a municipality cannot meet its payment obligation. In the event of a payment deferral, the lender is also ensured compensation for interest accrued, penalty interest and recovery costs pursuant to the Local Government Act.

Borrowing to finance the public-sector market

Cost-effective financing is to contribute to the KLP Banken Group being able to offer long-term loans on favourable terms. KLP Kommunekreditt AS has achieved the best rating for its borrowing programme.

Covered bonds had been offered on the Norwegian market in the form of loans to the local government sector for NOK 17.3 (16.1) billion by the end of 2016. There was no issuance abroad.

FINANCIAL POSITION AND SOLVENCY

The KLP Banken Group's total assets at the end of 2016 were NOK 34.4 (31.3) billion. This is broken down as shown in the table below:

Total assets/NOK billions	KLP Banken Group
Public sector lending/local-authority guarantee	17.2
Lending to private individuals	12.7
Securities and liquidity	4.3
Other assets	0.2
Total	**34.4**

In December 2016 the KLP Banken AS's general meeting adopted a capital increase of NOK 250 million, which was paid in December.

The Group's Tier 1 and Tier 2 capital, based on the Board's proposed allocation of the profits of the Group companies, was NOK 1.9 (1.5) billion at the end of 2016. The core capital is identical to the Tier 1 and Tier 2 capital. This produces a capital adequacy ratio and a core capital adequacy ratio of 19.0 (17.6) per cent. The applicable capital requirement including capital buffers is 11.5 per cent core capital adequacy ratio and 15.0 per cent capital adequacy ratio.

In addition to this, KLP Banken AS has been given a Tier 2 supplement of 2.1 per cent, which is to be included in KLP Banken's capital target. KLP will, moreover, have a buffer of at least 0.5 per cent above the actual capital requirement for Tier 1 and Tier 2 risks, such that KLP Banken's capital target is 17.6 per cent.

The risk-weighted balance amounted to NOK 9.2 (8.0) billion. Unweighted capital adequacy at the KLP Banken Group was 5.2 (4.7) per cent. Solvency is considered to be good.

LIQUIDITY

The statement of cash flows in the accounts shows that KLP Banken's liquidity situation is satisfactory as the company has obtained more funding than required to meet its operational needs.

Spare liquidity is deposited in other banks and in interest-bearing securities. Placements in credit institutions amounted to NOK 1.6 (1.0) billion, and book value of the portfolio of interest-bearing securities assessed at fair value was NOK 2.7 (3.8) billion in the KLP Banken Group at the end of the year. The investments in interest-bearing securities are basically booked with KLP Kommunekreditt AS. The liquidity portfolio is entirely comprised of Norwegian high-rated covered bonds and bonds issued by Norwegian local authorities or the Norwegian State.

KLP Banken AS reports the liquidity coverage ratio (LCR) monthly for the KLP Banken Group in total and for the individual companies in the Group. At the end of 2016 LCR was 276 (212) per cent for the Group and 165 (71) per cent for KLP Banken AS.

APPLICATION OF THE YEAR'S PROFIT

The annual financial statements for KLP Banken AS show a total net profit for 2016 of NOK 19.9 million after tax. The Board recommends that a group contribution of NOK 25.3 million be paid to KLP. NOK 19.0 million will be received back from KLP as a group contribution without tax effect. Net profit and net group contribution will be transferred to other owners' equity.

ABOUT THE FINANCIAL STATEMENTS

In the Board of Directors' opinion, the financial statements give a true and fair picture of the company's assets and liabilities, its financial position and result. The going concern assumption is present and this provides the basis for the annual financial statements.

KLP Banken AS is presenting its financial statements in accordance with IFRS (International Financial Reporting Standard), which is approved by the EU with related interpretations. See Note 2 for further information.

RATING

The rating agencies' assessment of the companies in the KLP Banken Group is important for the companies' terms and conditions for borrowing. The companies use Moody's for the credit rating of bonds. All issuances of covered bonds have been rated AAA, which is the best rating achievable.

RISK MANAGEMENT

KLP Banken AS is 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. Risk policies have been drawn up to cover the most important individual risks (liquidity, credit, market and operational risks), as well as an overarching risk policy that covers principles, organisation, limits, etc. for the bank'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 routines, guidelines and instructions determined at the administrative level.

The overarching risk policy covers i.a. roles in the company's risk management, including requirements and guidelines for the risk control function. The purpose of the risk control function is in part to check that the risk policies and other guidelines are being followed.

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

The guidelines include risk tolerance of the individual risks and of the combined risk. The risk tolerances are defined based on various stress scenarios and different forms of stress testing are carried out regularly to measure that actual exposure remains within the adopted tolerance limits.

KLP Banken AS is to have a prudent risk profile, and earnings should largely be the result of borrowing and lending activity as well as liquidity management. This means KLP Banken AS is to have low market risk and that the interest and foreign exchange risk arising within the borrowing and lending activity is reduced using derivatives. KLP Banken AS is to have responsible long-term financing and limits have been established to ensure that this objective is reached. The credit risk in the Bank is low and the company's lending is limited to loans with local government risk and loans secured through mortgages on residential and holiday property. Management of KLP Banken's liquidity is conducted through investments that satisfy credit quality and securities requirements in line with Board-approved credit lines.

The objective is that KLP Banken should have low operational risk and be characterized by a high level of professional competence, good procedures and efficient operation.

KLP Banken has established an annual process for assessing and quantifying significant risks and calculating the capital requirement (ICAAP), and assessing the liquidity and financing (ILAAP). The capital requirement assessment is forward-looking, and in addition to calculating the requirement based on current exposure (or limits), the requirement is assessed in the light of planned growth, strategic changes decided, etc. KLP Banken's Board of Directors participates actively in these assessments and, in conjunction with the capital requirement assessment, the Board adopts a desired level of total capital. This level is known as the «target capital».

The Board of KLP Banken AS has set up a risk committee, which deals with matters that are particularly related to risk and has a consulting function towards the Board.

THE WORK OF THE BOARD OF DIRECTORS

The Board held seven meetings during 2016. For details of remuneration of the Board's members and chair, please see Note 28 to the annual financial statements.

CORPORATE GOVERNANCEE

The company's articles of association and applicable legislation provide suggestions for corporate governance and a clear division of roles between the governing bodies and the day-to-day management.

The Board lays down the guidelines for the company's activities. Binding agreements can be signed by the Managing Director or the Board Chair alone.

The Managing Director has the day-to-day management of the company in accordance with the instructions specified by the Board.

An account of the management of the bank is available at KLP's website (https://www.klp.no/om-klp).

WORKING ENVIRONMENT AND ORGANISATION

The employees are KLP Banken's most important resource and on the whole have considerable experience and credit and market competence, both in relation to the retail market and the public sector. New products, services and regulatory requirements for KLP Banken mean changes in the business and the need for adjustments and new skills. Further development of the organisation, with a view to stronger market orientation and competence enhancement, is an important element in the company's plans and activities.

At the end of 2016 there were 64 (59) FTEs at KLP Banken AS and its subsidiaries. All the employment relationships are at KLP Banken AS. Two employees also have functions at KLP Kommunekredit AS and KLP Boligkreditt AS, the subsidiaries. In addition to the Bank's own financial statements, employees of KLP Banken AS manage lending portfolios financed by KLP and the subsidiaries by agreement.

Regular surveys are conducted among all employees measuring commitment, the working environment, well-being and espousal of KLP's values. These surveys show that the vast majority of employees are highly committed and enjoy working for KLP. The companies have a working environment and cooperation committee (SAMU) made up of representatives of management, KLP's HR department and employee representatives. In the Board's opinion, there is good cooperation between management and employees at KLP Banken, and this also applies to the working environment in the KLP Banken Group.

The KLP Group aims to achieve a sickness absence rate below 4 per cent. Sickness absence at the Bank was 3.7 (4.2) per cent in 2016, of which long-term absence was 1.9 (2.5) per cent and short-term absence was 1.8 (1.1) per cent. Absence is being monitored by managers and the HR department. Once again there were no major injuries or accidents in 2016.

As part of the KLP Group, KLP Banken AS complies with the Group's guidelines for equality and diversity in which targets, measures and activities take account of the discriminatory factors described in 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 their age, gender, functionality, political platform, sexual orientation or ethnic background.

KLP Banken AS also follows the KLP Group's ethical guidelines and the guidelines for whistleblowing.

61 (51) per cent of the KLP Banken Group's employees are women. We are trying to strike a balance between women and men at all levels of position. There was a 50 (50) per cent proportion of women in managerial positions. At the end of 2016 the KLP Banken AS's Board is made up of three women and four men, of whom one woman and one man have been elected among the employees.

THE EXTERNAL ENVIRONMENT

With its corporate social responsibility policy, KLP is committed to having good procedures for measuring and reducing the companies' impact on the environment. As with the KLP Group as such, KLP Banken As takes its impact on the environment seriously. As an office-based company it is above all energy consumption, transport, waste and procurement that may be impacted. KLP Banken AS is environmentally accredited.

(CORPORATE) SOCIAL RESPONSIBILITY (CSR)

The KLP Group, including KLP Banken AS, will contribute to sustainable investments and responsible business practices. This materialises through actions linked to the Group's business. KLP has signed the UN Global Compact and is thereby committed to working for human rights, worker rights, the environment, and anti-corruption. In 2016 «Fremtiden I våre hender» (The Future in Our Hands) and the Consumer Council launched Ethical Bank Guide in Norway. KLP Banken is named the third best bank in the country, based on how the KLP Group works on issues associated with i.a. the climate, corruption, human rights, labour rights, and tax.

Social responsibility is also included in policy management documents through i.a. guidelines for ethics, the environment and responsible investments. In-depth descriptions of targets, measures and results are available at KLP's website (https://www.klp.no/om-klp/samfunnsansvar).

FUTURE PROSPECTS

KLP Banken's primary target group in the retail market is the members of KLP's pension schemes. A large part of the population of Norway are part of this group and the chances of further developing KLP Banken within this segment are considered good. The membership ratio for all the banking products combined, was 71 per cent at 31.12.2016.

The price growth for homes in recent years has produced uncertainty in relation to the way forward. Norwegian households' average debt ratio is historically high and some groups are consequently vulnerable to increased interest rates and unemployment. Unemployment has also increased somewhat in certain regions of the country. The ability to service mortgages in KLP Banken's most important customer groups, who are mainly public sector employees, is assumed to continue to be satisfactory. This helps to keep defaults at a low level. It will also be important to continue a conservative credit policy in order to maintain the low risk profile in the Bank's mortgage portfolios.

After several years of very low interest rates there is indication that interest rates in the market have reached the bottom level for the time being. The adjustment upwards of lending rates at several banks is a sign of this. KLP Banken AS is following the competition very closely and will adjust its interest rates and terms and conditions accordingly.

The banking industry is constantly being challenged by new technology and new players from other industries outside the banking industry. KLP Banken AS's objective is to make use of tested technology in order to be able to offer relevant, customer-friendly and efficient services to its customers. This means that considerable IT investments will be required in the years to come as well, but this will be a major prerequisite for KLP Banken to be able to reach its growth and profitability target.

KLP Boligkreditt AS is an important part of the financing structure in the KLP Banken Group through its ability to issue mortgage covered bonds on favourable terms. This allows for a considerable part of KLP Banken's lending for housing purposes to be able to be financed in the securities market. This provides flexibility in the choice between various financing sources for further growth in lending.

Deposits from people and companies are another important part of KLP Banken's financing. Bank deposits are the basis of KLP Banken's licence and are important as part of the total offer to members and other customers. Not all customers are able to or have a desire to borrow. Therefore it is necessary that the Bank can offer good savings products. The growth in deposits was very encouraging in 2016, and KLP Banken has ambitions for further growth. The cost of securities financing has increased relative to deposits in recent years. It is therefore assumed that competition over deposit customers will increase going forward, and that the Bank will continue having to place great emphasis on competitive deposit interest to achieve further growth

KLP Banken AS still has a relatively limited range of products. Its range of products in the retail market is mainly linked to low-margin products in the mass markets. It is therefore important to maintain focus on the importance of members having good terms and conditions.

For many years, Norwegian municipalities have been developing a good and extensive range of services to the population. Combined with increased longevity, growth in income and in population this gives grounds to expect a continuing high level of investment in the public sector. The demand for loans from the local government sector and for projects with local government guarantees and ownership is therefore expected to remain high in the years to come, although local government structures and tasks may change.

The presence of KLP Kommunekreditt in the market for public sector lending is contributing to competition and so improves access to long-term, low-cost financing. KLP Kommunekreditt AS is this country's only credit undertaking that issues bonds with security in a lending pool consisting of loans to the public sector. Customer surveys show that borrowers want competition with regard to municipal lending.

KLP Banken AS has good solvency and owners' equity that satisfy ever stricter regulatory requirements. Combined with low credit risk in the lending business this is a good starting point for obtaining access to the best possible financing in the capital markets. KLP Banken AS is therefore well positioned for further development and growth.

Oslo, 10 March 2017
The Board of Directors of KLP Banken AS

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Aina Slettedal Eide

Eva M. Salvesen

Kjell Fosse

Christin Kleppe
Elected among the employees

Espen Trandum
Elected among the employees

Leif Magne Andersen
Managing Director

The board of Directors of KLP Banken AS. Aina Slettedal Eide, Aage E. Schaanning, Eva M. Salvensen, Sverre Thornes, Espen Trandum, Christin Kleppe and Kjell Fosse.

Income statement

KLP BANKEN AS

KLP Banken AS					KLP Banken AS Group	
01.01.2015 -31.12.2015	**01.01.2016 -31.12.2016**	**NOTE**	**NOK THOUSANDS**	**NOTE**	**01.01.2016 -31.12.2016**	**01.01.2015 -31.12.2015**
294 752	270 064		Interest income and similar income		765 615	817 991
-224 809	-180 593		Cost of interest and similar costs		-571 301	-630 928
69 944	**89 471**	**10**	**Net interest income**	**10**	**194 314**	**187 063**
11 280	10 966		Commission income and income from banking services		10 966	11 280
-1 074	-1 564		Commission costs and costs of banking services		-1 564	-1 074
10 205	**9 402**	**11**	**Net charges and commission income**	**11**	**9 402**	**10 205**
38 452	0		Income from ownership interests in Group companies		0	0
57 648	57 028		Other fee income		57 028	57 648
-3 437	3 721	5	Net gain/(loss) on financial instruments	5	11 119	-34 111
92 663	**60 748**		**Total other operating income**		**68 146**	**23 537**
-60 824	-57 801	30	Salary and administrative costs	30	-57 801	-60 824
-3 396	-4 146	23,24	Depreciation	23,24	-4 146	-3 396
-1 338	0		Write-downs		0	-1 338
-56 229	-69 887	34	Other operating expenses	34	-117 551	-104 595
-121 787	**-131 834**		**Total operating expenses**		**-179 498**	**-170 153**
-1 034	-1 119	18	Loss on loans issued, guarantees etc.	18	-1 119	-1 034
49 990	**26 668**		**Operating profit/loss before tax**		**91 244**	**49 618**
-6 534	-6 247	26	Tax on ordinary income	26	-22 356	-14 240
43 456	**20 421**		**Income for the year**		**68 888**	**35 378**
7 012	-863		Estimate difference, pension obligations and assets		-863	7 012
-1 893	216	26	Tax on actuarial gains and losses	26	216	-1 893
5 119	**-647**		**Items that will not be reclassified to profit and loss**		**-647**	**5 119**
0	121		Changes in the fair value at available for sale financial assets		121	0
0	-30	26	Tax on changes in fair value of available for sale finansial assets	26	-30	0
0	**91**		**Items that may be reclassified to profit and loss**		**91**	**0**
5 119	**-556**		**Other comprehensive income for the period**		**-556**	**5 119**
48 575	**19 865**		**COMPREHENSIVE INCOME FOR THE YEAR**		**68 332**	**40 497**
			ALLOCATION OF INCOME			
-48 575	-19 865		Allocated to/from retained earnings			
-48 575	**-19 865**		**TOTAL ALLOCATION OF INCOME**			
0,36 %	0,16 %		Income for the year in per cent of total assets		0,20 %	0,11 %
0,41 %	0,15 %		Comprehensive income for the year in per cent of total assets		0,20 %	0,13 %

Balance sheet

KLP BANKEN AS

KLP Banken AS				KLP Banken AS Group		
31.12.2015	**31.12.2016**	**NOTE**	**NOK THOUSANDS**	**NOTE**	**31.12.2016**	**31.12.2015**
			ASSETS			
3 414 796	3 037 848	17,36	Loans to and receivables from credit institutions	17,36	1 548 082	973 591
2 771	*2 891*		*of which are restricted witholdings*		*2 891*	*2 771*
6 969 731	7 994 420	17	Loans to and receivables from customers	17	29 962 467	26 359 449
559 114	949 814	16	Fixed-income securities	16	2 717 513	3 783 373
265	394		Shares, holdings and primary capital certificates		394	265
925 470	925 470	22	Holdings in Group companies		0	0
25 475	15 252	7	Financial derivatives	7	123 179	148 375
7 475	7 742	26	Deferred tax assets	26	6 916	9 542
468	538	23	Tangible fixed assets	23	538	468
17 784	19 955	24	Intangible assets	24	19 955	17 784
12 180	15 002	31	Other assets	31	3 370	1 593
11 932 759	**12 966 434**		**TOTAL ASSETS**		**34 382 412**	**31 294 440**
			LIABILITIES AND OWNERS' EQUITY			
			LIABILITIES			
2 932 206	2 363 375	20	Liabilities created on issuance of securities	20	23 451 374	21 901 660
7 426 181	8 687 859	21	Deposits	21	8 687 859	7 426 181
21 401	13 013	7	Financial derivatives	7	253 615	366 706
6 453	6 335	26	Deferred tax	26	19 552	24 514
31 432	100 189	32	Other liabilities	32	73 431	29 643
36 976	41 490	32	Provision for accrued costs and liabilities	32	46 174	37 920
10 454 649	**11 212 262**		**TOTAL LIABILITIES**		**32 532 006**	**29 786 624**

Balance sheet

KLP BANKEN AS

KLP Banken AS				KLP Banken AS Group		
31.12.2015	**31.12.2016**	**NOTE**	**NOK THOUSANDS**	**NOTE**	**31.12.2016**	**31.12.2015**
			OWNERS' EQUITY			
855 000	982 500		Share capital		982 500	855 000
535 000	657 500		Share premium		657 500	535 000
88 110	114 172		Other owners' equity		210 406	117 816
1 478 110	**1 754 172**		**TOTAL OWNERS' EQUITY**		**1 850 406**	**1 507 816**
11 932 759	**12 966 434**		**TOTAL LIABILITIES AND OWNERS' EQUITY**		**34 382 412**	**31 294 440**

Oslo, 10 March 2017
The Board of Directors of KLP Banken AS

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Aina Slettedal Eide

Eva M. Salvesen

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

2016 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2016	855 000	535 000	88 110	1 478 110
Income for the year	0	0	20 421	20 421
Other comprehensive income	0	0	-556	-556
Comprehensive income for the year	**0**	**0**	**19 865**	**19 865**
Group contribution received	0	0	23 629	23 629
Group contribution made	0	0	-17 431	-17 431
Paid-up equity in the period	127 500	122 500	0	250 000
Total transactions with the owners	**127 500**	**122 500**	**6 198**	**256 198**
Owners' equity 31 December 2016	**982 500**	**657 500**	**114 172**	**1 754 172**

2015 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2015	750 000	440 000	39 535	1 229 535
Income for the year	0	0	43 456	43 456
Other comprehensive income	0	0	5 119	5 119
Comprehensive income for the year	**0**	**0**	**48 575**	**48 575**
Paid-up equity in the period	105 000	95 000	0	200 000
Total transactions with the owners	**105 000**	**95 000**	**0**	**200 000**
Owners' equity 31 December 2015	**855 000**	**535 000**	**88 110**	**1 478 110**

	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2016	7 500 000	0.114	855 000	535 000	88 110	1 478 110
Changes in the period 1 January - 31 December	-	0.017	127 500	122 500	26 062	276 062
Equity at 31 December 2016	**7 500 000**	**0.131**	**982 500**	**657 500**	**114 172**	**1 754 172**

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

Statement of owners' equity

KLP BANKEN AS GROUP

2016 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2016	855 000	535 000	117 816	1 507 816
Income for the year	0	0	68 888	68 888
Other comprehensive income	0	0	-556	-556
Comprehensive income for the year	**0**	**0**	**68 332**	**68 332**
Group contribution received during the period	0	0	90 520	90 520
Group contribution paid during the period	0	0	-66 261	-66 261
Paid-up equity in the period	127 500	122 500	0	250 000
Total transactions with the owners	**127 500**	**122 500**	**24 259**	**274 259**
Owners' equity 31 December 2016	**982 500**	**657 500**	**210 406**	**1 850 406**

2015 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2015	750 000	440 000	95 218	1 285 218
Income for the year	0	0	35 378	35 378
Other comprehensive income	0	0	5 119	5 119
Comprehensive income for the year	**0**	**0**	**40 497**	**40 497**
Group contribution received during the period	0	0	4 980	4 980
Group contribution paid during the period	0	0	-22 879	-22 879
Paid-up equity in the period	105 000	95 000	0	200 000
Total transactions with the owners	**105 000**	**95 000**	**-17 899**	**182 101**
Owners' equity 31 December 2015	**855 000**	**535 000**	**117 816**	**1 507 816**

Statement of cash flow

KLP BANKEN AS

KLP Banken AS			KLP Banken AS Group	
01.01.2015 -31.12.2015	**01.01.2016 -31.12.2016**	**NOK THOUSANDS**	**01.01.2016 -31.12.2016**	**01.01.2015 -31.12.2015**
		OPERATING ACTIVITIES		
292 993	265 594	Payments received from customers – interest, commission & charges	706 238	776 367
-150 819	-119 632	Payments to customers – interest, commission & charges	-119 632	-150 819
-1 132 594	-45 945	Net receipts/disbursements on loans customers & credit institutions	-3 828 660	-1 614 588
1 175 318	1 263 356	Net receipts on customer deposits banking	1 263 356	1 175 318
-59 016	-60 683	Net receipts/disbursements on operations	-103 142	-106 447
-59 268	-54 296	Payments to staff, pension schemes, employer's social security contribution etc.	-54 296	-59 268
69 680	113 386	Net interest investment accounts	13 420	18 517
9 077	7 579	Net receipts/disbursements from operating activities	90 935	70 349
0	0	Income tax paid	0	0
145 371	**1 369 359**	**Net cash flow from operational activities**	**-2 031 780**	**109 429**
		INVESTMENT ACTIVITIES		
-348 135	-1 021 355	Payments on the purchase of securities	3 994 493	-2 804 539
198 527	634 425	Receipts on the sale of securities	-2 917 899	2 474 691
3 643	9 876	Receipts of interest from securities	59 173	53 267
-3 320	-6 386	Payments on the purchase of tangible fixed assets	-6 386	-3 320
38 452	0	Receipts on shares in subsidiaries	0	0
-110 833	**-383 440**	**Net cash flow from investment activities**	**1 129 381**	**-279 901**
		FINANCING ACTIVITIES		
-298 969	-560 197	Net receipts/disbursements on loans from credit institutions	1 618 417	310 301
-77 973	-63 916	Net payment of interest on loans	-387 798	-437 823
0	-250	Group contributions made	-250	-27 080
200 000	250 000	Receipts from owners' equity	250 000	200 000
-176 942	**-374 363**	**Cash flows from financing activities**	**1 480 369**	**45 398**
-142 404	**611 556**	**Net cash flow during the period**	**577 970**	**-125 074**
538 909	396 505	Cash and cash equivalents at start of period	945 275	1 070 349
396 505	1 008 061	Cash and cash equivalents at end of period	1 523 245	945 275
-142 404	**611 556**	**Net receipts/disbursements (-) of cash**	**577 970**	**-125 074**

Declaration

PURSUANT TO THE NORWEGIAN SECURITIES TRADING ACT, SECTION 5-5

We hereby declare that, to the best of our knowledge, the annual financial statements for the period from 1 January to 31 December 2016 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, 10 March 2017
The Board of Directors of KLP Banken AS

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Aina Slettedal Eide

Eva M. Salvesen

Kjell Fosse

Christin Kleppe
Elected among the employees

Espen Trandum
Elected among the employees

Leif Magne Andersen
Managing Director

Notes to the Acconts

KLP BANKEN AS

NOTE 1 General information

KLP Banken AS was formed 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 www.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 Company and Group financial statements for KLP Banken AS have been prepared in accordance with the international accounting standards (IFRS) and interpretations from the IFRS interpretations committee, as adopted by the EU. The Accounting Act contains certain supplementary information requirements not required in accordance with IFRS. These supplementary information requirements have been incorporated into the notes to the financial statements.

The annual accounts have been prepared based on the principle of historic cost, with the following exceptions:

— Financial assets and liabilities (including financial derivatives) are valued at fair value through profit or loss.
— Financial assets and liabilities are valued in accordance with the rules on fair value hedging.

To prepare the accounts in accordance with IFRS, management has to make accounting estimates and approximate valuations. This will affect the value of the Group's assets and liabilities, income and expenses recognized in the financial statements. Actual figures may deviate 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 in 2016.

No standards, changes or interpretations that came into effect during 2016 have been adopted that have had significant effect on the Company's/Group's accounts.

b) Standards, changes and interpretations of existing standards that have not come into effect and where the Company/Group has not elected advanced application.

IFRS 9 *Financial Instruments* governs the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules on hedge accounting and a new impairment model for financial assets. The group will begin using the standard as of 2018. IFRS 9 replaces the classification and measurement models in IAS 39 with a single model which in principle only has two categories: amortized cost and fair value.

The classification of loans will be dependent on the entity's business model for the management of its financial assets and the characteristics of the cash flows of the financial assets. A debt instrument is measured at amortized cost if:

a) the business model is to hold the financial asset to collect the contractual cash flows, and

b) the instrument's contractual cash flows exclusively represent the payment of principal and interest.

Loans provided for the purpose of resale to the wholly owned credit institutions KLP Boligkreditt AS and KLP Kommunekreditt AS will have different business models in the Group and Company financial statements. In the Company financial statements, these loans will be acquired for the purpose of resale and hence measured at fair value with value changes recognized through other comprehensive income. In the Group accounts, these loans will be included in a business model where the intention is to hold the loan for the entire term in order to collect the contractual cash flows. Hence the loan will be measured at amortized cost in the Group financial statements.

All other debt and equity instruments, including investments in complex instruments, must be recognized at fair value through profit or loss. There is an exception for investments in equity instruments that are not held for trading. For such investments, the value changes are recognized through other comprehensive income, without subsequent recycling to profit or loss.

For financial liabilities that the entity has chosen to measure at fair value, the share of the value change that is due to a change in the entity's own credit risk must be recognized in other comprehensive income and not in profit or loss.

The new rules for hedge accounting mean that the recognition of hedging better reflects general practice for risk management in the companies. As a general rule, it will be easier to use hedge accounting in the future. The new standard also introduces extended disclosure requirements and changes in the rules on the presentation of hedging.

Other significant changes in classification and measurement include:

— a third measurement category (fair value through other comprehensive income) for certain financial assets that are debt instruments.
— a new impairment model for losses on loans and receivables based on expected credit losses.

The model is based on three stages, depending on the change in credit quality. How the impairment loss is to be measured is laid down for each individual stage and the model uses the effective interest method. A simplified approximation is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, expected losses are included for the first 12 months (or credit losses over the whole lifetime for trade receivables), unless the assets have to be written down.

The KLP Banken Group has launched a project aimed at establishing a new loss provisioning model that complies with the rules in IFRS 9. In connection with this, since the autumn of 2016, the bank has started using a new risk classification system which, among other things, will be used to provide input for the model. Transfer between risk classes will form the basis for migration between the levels in the impairment model. In addition, the bank will work on developing models for probability of default (PD), loss given default (LGD) and exposure at default.

An increase in loss provisions is expected as a result of the introduction of the new model, but work has not yet progressed far enough to be able to put a figure on the increase. The new rules for the classification of financial assets and debt are not expected to have significant consequences for the Group because the classification at fair value and amortized cost can largely be continued. The Group's hedge accounting is not expected to be affected by the changeover to the new standard.

IFRS 15 *Revenue from Contracts* with Customers deals with revenue recognition. The standard calls for a division of the customer contract into the individual performance obligations. A performance obligation may be a good or service. Income is recognized when a customer obtains control over a good or service, and thus has the ability to direct the use of and obtain the benefits from the good or service. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and associated interpretations. The Group will begin applying the standard as of 2018. The changeover to IFRS 15 is not expected to have a significant impact on the Group's accounts.

IFRS 16 *Leases* will result in almost all leases being reported on the financial position statement, as the difference between operating and financial leases has been removed. Under the new standard, the right to use a leased item is an asset and the obligation to pay rent is a liability that must be reported on the financial position statement. The exceptions are short-term leases of low value. The accounting treatment for lessors will not be significantly changed. The Group will begin applying the standard as of 2019. The changeover to IFRS 16 is not expected to have a significant impact on the Group's accounts, as the Group does not have any significant leases, owing to the fact that only small assets are leased.

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

2.2 FUNDAMENTAL PRINCIPLES

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has controlled. Control over an entity arises when the Group is exposed to variability 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 arises and are omitted from the consolidated financial statements when control ceases.

Internal Group transactions and accounts between Group companies are eliminated. Where Group companies present accounts in accordance with principles other than those of the Group, these are converted to correspond to the Group's accounting principles before they are consolidated. The Group's accounts are presented in NOK.

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 financial position statement items

Transactions in foreign currency are converted to the functional currency at the transaction rate of exchange. Foreign exchange gains or losses realized on settlement and conversion of money 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) are 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 recognized through profit/loss.

2.4 TANGIBLE FIXED ASSETS

Tangible fixed assets comprise in the main office machinery, inventory and vehicles used by the Company/Group in its business.

Tangible fixed assets are recognized at cost of acquisition including costs that can be attributed directly to acquisition of the fixed asset, with deduction for depreciation. Subsequent costs relating to fixed assets are capitalized 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 recognized 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 residual value over expected usable life, which is:

Office machinery: 4 years
Inventory: 4 years

The usable 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 depreciated 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 generally comprise capitalized IT systems and software. 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 capitalized.

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

When an IT system is operational the capitalized costs are depreciated by straight line over the expected life. In the event of subsequent capitalization because of further development this is depreciated over the originally set life unless the expenditure increases the total expected life of the system.

If there are indications that the book value of a capitalized 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 depreciated to the recoverable amount.

2.6 FINANCIAL ASSETS

The Company's/Group's financial assets are divided into the following categories: financial assets measured at fair value through profit or loss, and financial assets measured at amortized cost. In addition, hedge accounting is used in accordance with the rules on fair value hedging. The purpose of the asset determines the classification and management undertakes classification on acquisition of the financial asset.

2.6.1 Financial assets at fair value through profit or loss

This category is divided into two sub-categories: held for trading, and voluntarily categorized at fair value through profit or loss on acquisition in accordance with the fair value option.

a) Financial assets held for trading are assets acquired primarily with a view to providing a profit from short-term price fluctuations. The Company's/Group's derivatives are included in this category unless they are included as an element of accounting hedging in accordance with the rules on hedge accounting.

b) Financial assets voluntarily categorized at fair value through profit or loss on acquisition comprise financial assets managed as a group and where their earnings are valued and reported to management on the basis of fair value. The size of the portfolio is decided on the basis of the Group's desired risk exposure to the interest market.

The principles for calculating the fair value of the various instruments are described in Note 6.

Gains or losses from changes in fair value of assets classified as financial assets at fair value through profit or loss are included in the income statement in the period they arise. This is included in the line “Net unrealized gain/loss financial instruments”.

Coupon interest is taken to income as it accrues and is included in the line “Interest income and similar income”.

2.6.2 Loans and receivables at amortized cost

Loans and receivables, with the exception of derivatives, are financial assets with fixed or determinable payments that are not traded in an active market or which the Company/Group intends to sell in the short-term or has earmarked at fair value through profit or loss.

Loans and receivables are initially recognized in the financial position statement at fair value. Subsequent measurement is at amortized cost using the effective interest rate method with write-down for credit losses if appropriate.

Effective interest on loans and receivables in the investment business is taken to income and included in the line “Interest income and similar income”.

2.6.3 Derivatives and hedging

Financial derivatives are capitalized at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognized 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 accounting hedge instrument and in which type of accounting hedge the derivative is included.

For derivatives not included in accounting hedge relationships, gains and losses are recognized through profit or loss as they arise in the line for “Net gain/(loss) on financial instruments”. These fall into the category of financial assets at fair value reported through the income statement.

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

2.6.4 Accounting treatment of financial assets

Purchases and sales of financial assets are recognized on the trading date, i.e. when the Company/Group has committed itself to buying or selling that financial asset. Financial assets are recognized at fair value. Direct costs of purchase are included in acquisition cost except for purchase costs associated with assets at fair value through profit or loss. For these assets purchase costs are taken to expenses directly. Financial assets cease to be recognized when the Company/Group is no longer entitled to receive the cash flow from the asset or the Company has transferred all risk and entitlements associated with its ownership. Recognition of financial liabilities ceases when the underlying obligation in the contract has been met, been cancelled or expired.

2.6.5 Write down of financial assets valued at amortized cost

If there is objective proof of value impairment write-down is carried out. In assessing whether there is value impairment, weight is attached to whether the issuer/debtor has significant financial difficulties and whether there is 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 assessment and loss write-down is 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, write-down is carried out. The write-down is reversed if after the date of write-down events occur that reduce the loss.

2.6.6 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 realize the asset and liability simultaneously.

2.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as receivables from credit institutions without termination date. The amount does not include receivables from credit institutions that are linked to 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 FINANCIAL LIABILITIES

The Company’s/Group’s financial liabilities comprise liabilities to credit institutions, covered bonds issued and deposits from customers.

2.8.1 Liabilities to credit institutions

Liabilities to credit institutions are capitalized at market value on take-up. As a rule, on subsequent measurement the liability is recognized at amortized cost in accordance with the effective interest rate method. The interest costs are included in the amortization and are shown in the line "Interest costs and similar costs" in the income statement.

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

2.8.3 Liabilities to and deposits from customers
Deposits from customers are recognized at fair value in the financial position statement when the deposit is recorded as transferred to the customer's account. In subsequent periods, liabilities to and deposits from customers are recognized at amortized cost in accordance with the effective interest rate method.

2.9 OWNERS' EQUITY
The owners' equity in the Group comprises owners' equity contributed and retained earnings.

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

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

2.10 PRESENTATION OF INCOME
Income on sale of goods and services is valued at fair value of the consideration, net of deductions for VAT and any discounts. Sales internal to the Group are eliminated.

2.10.1 Income from services
Fees for lending management are taken to income in proportion to the management 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.

2.10.2 Interest income/expenses
Interest income and interest expenses associated with all interest-bearing financial instruments valued at amortized cost are taken to income using the effective interest rate method. Setting-up fees for lending are included in the amortization and taken to income over the loan's duration.

For interest-bearing financial investments measured at fair value, interest income is classified as "Interest income and similar income", whereas other value changes are classified as "Net gain or loss on financial investments".

2.11 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 capitalized to the extent it can be shown probable that the companies in the Group will have sufficient taxable profit to exploit the tax asset.

The Group is covered by the new rules on capital activity tax. Financial activity tax is levied on pay etc. in KLP Banken which was earned in 2016, but which will not be paid out until later years. The rules also mean that the company will not be covered by the reduction in the tax rate from 25% to 24% which will apply for other companies as of 2017.

2.12 PENSION OBLIGATIONS - OWN EMPLOYEES
The 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 operation. Pension costs are treated in accordance with IAS 19. The Company has a defined benefits based 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 on future circumstances. These are continuously evaluated and are based on historic data and expectations concerning probable future events considered on the basis of data available at the time of presentation of the financial statements.

It must be expected that the estimates will deviate from the final outcome and the areas where there is significant risk of substantial change in capitalized 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 fixed-income securities. These were initially recognized in the statement of financial position at fair value. 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 valued 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. The Company/Group's lending portfolio is valued individually for loans on which default has been observed. If there is an objective event at the end of the reporting period that has influence on future cash flows, the loan is written down. In addition, lending with uniform risk profile is valued quarterly by group.

The lending portfolio has historically shown insignificant losses and has generally very good security in public sector guarantee or mortgage. The Company/Group has insignificant loss provisions, so any future losses will have a direct effect on the income statement.

3.3 CAPITALIZED SOFTWARE

If impairment is suspected a write-down test is carried out to check whether the book value of capitalized software is 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

	Public sector Market		Retail Market		Other/eliminations		Total	
NOK THOUSAND	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income	68 035	69 850	126 279	117 213	0	0	194 314	187 063
Other operating income	41 070	2 858	36 478	30 884	0	0	77 548	33 742
Operating expenses	-49 806	-53 502	-129 692	-116 650	0	-1	-179 498	-170 153
Loss on lonans issued, gurarantees etc.	0	0	-1 119	-1 034	0	0	-1 119	-1 034
Oprerating profit/loss before tax	**59 299**	**19 206**	**31 946**	**30 413**	**0**	**-1**	**91 244**	**49 618**
Assets as at 31.12.	19 516 233	19 349 331	16 818 504	16 925 576	-1 952 325	-4 980 467	34 382 412	31 294 440
Liabilities as at 31.12.	18 744 369	18 660 115	15 060 554	15 005 444	-1 272 917	-3 878 935	32 532 006	29 786 624

NOTE 5 Net gain/(loss) on financial instruments

KLP Banken AS			KLP Banken AS Group	
01.01.2015 -31.12.2015	01.01.2016 -31.12.2016	NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
-1 985	2 684	Net gain/(loss) on fixed-income securities	18 425	-30 077
-416	0	Net gain/(loss) financial derivatives and realized amortization linked to lending	1 867	2 054
0	0	Net gain/(loss) financial derivatives and realized repurchase of own debt	-10 211	-5 051
-202	-54	Net value change lending and borrowing, hedge accounting	-54	-202
-834	1 091	Other financial income and expenses	1 091	-834
-3 437	**3 721**	**Total**	**11 119**	**-34 111**

NOTE 6 Categories of financial instruments

KLP Banken AS			KLP Banken AS Group	
31.12.2016			31.12.2016	
Book value	Fair value	NOK THOUSANDS	Book value	Fair value
		FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING		
949 814	949 814	Fixed-income securities	2 717 513	2 717 513
949 814	**949 814**	**Total financial assets at fair value held for trading**	**2 717 513**	**2 717 513**
		FINANCIAL ASSETS FOR FAIR VALUE HEDGING		
225 799	219 474	Loans to retail customers	225 799	219 474
0	0	Loans to Norwegian local administrations	5 164 845	5 186 458
15 252	15 252	Financial derivatives	123 179	123 179
241 051	**234 726**	**Total financial assets for fair value hedging**	**5 513 823**	**5 529 111**
		FINANCIAL ASSETS AVAILABLE FOR SALE		
394	394	Shares and holdings	394	394
394	**394**	**Total financial assets available for sale**	**394**	**394**
		FINANCIAL ASSETS AT AMORTIZED COST		
1 018 098	1 018 098	Loans to and receivables from credit institutions	1 548 082	1 548 082
2 019 750	2 019 750	Loans to Group companies	0	0
7 768 622	7 768 622	Loans to retail customers	12 490 815	12 490 815
0	0	Loans to Norwegian local administrations	12 081 008	12 071 700
10 806 470	**10 806 470**	**Total financial assets at amortized cost**	**26 119 905**	**26 110 597**
11 997 728	**11 991 403**	**Total financial assets**	**34 351 634**	**34 357 614**
		FINANCIAL LIABILITIES FOR FAIR VALUE HEDGING		
508 899	520 143	Liabilities created on issuance of securities	2 254 557	2 268 492
13 013	13 013	Financial derivatives	253 615	253 615
521 912	**533 156**	**Total financial liabilities for fair value hedging**	**2 508 172**	**2 522 107**
		FINANCIAL LIABILITIES AT AMORTIZED COST		
1 854 477	1 849 141	Liabilities created on issuance of securities	21 196 817	21 577 190
8 687 859	8 687 859	Deposits from customers	8 687 859	8 687 859
10 542 336	**10 537 000**	**Total financial liabilities at amortized cost**	**29 884 677**	**30 265 049**
11 064 247	**11 070 155**	**Total financial liabilities**	**32 392 849**	**32 787 156**

NOTE 6 Categories of financial instruments - continued

KLP Banken AS			KLP Banken AS Group	
31.12.2015			31.12.2015	
Book value	Fair value	NOK THOUSANDS	Book value	Fair value
		FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING		
559 114	559 114	Fixed-income securities	3 783 373	3 783 373
559 114	**559 114**	**Total financial assets at fair value held for trading**	**3 783 373**	**3 783 373**
		FINANCIAL ASSETS FOR FAIR VALUE HEDGING		
388 664	379 511	Loans to retail customers	388 664	379 511
0	0	Loans to Norwegian local administrations	5 558 168	5 526 008
25 475	25 475	Financial derivatives	148 375	148 375
414 139	**404 986**	**Total financial assets for fair value hedging**	**6 095 207**	**6 053 894**
		FINANCIAL ASSETS AVAILABLE FOR SALE		
265	265	Shares and holdings	265	265
265	**265**	**Total financial assets available for sale**	**265**	**265**
		FINANCIAL ASSETS AT AMORTIZED COST		
407 137	407 137	Loans to and receivables from credit institutions	973 591	973 591
3 007 659	3 007 659	Loans to Group companies	0	0
6 581 067	6 581 067	Loans to retail customers	10 324 515	10 324 515
0	0	Loans to Norwegian local administrations	10 088 101	10 080 287
9 995 863	**9 995 863**	**Total financial assets at amortized cost**	**21 386 207**	**21 378 393**
10 969 383	**10 960 228**	**Total financial assets**	**31 265 052**	**31 215 925**
		FINANCIAL LIABILITIES FOR FAIR VALUE HEDGING		
509 669	529 548	Liabilities created on issuance of securities	2 018 823	2 031 421
21 401	21 401	Financial derivatives	366 706	366 706
531 070	**550 949**	**Total financial liabilities for fair value hedging**	**2 385 529**	**2 398 127**
		FINANCIAL LIABILITIES AT AMORTIZED COST		
2 422 537	2 384 941	Liabilities created on issuance of securities	19 882 837	19 731 677
7 426 181	7 426 181	Deposits from customers	7 426 181	7 426 181
9 848 718	**9 811 122**	**Total financial liabilities at amortized cost**	**27 309 017**	**27 157 858**
10 379 788	**10 362 071**	**Total financial liabilities**	**29 694 546**	**29 555 985**

NOTE 6 Categories of financial instruments - continued

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. 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. If the market for the security is not active, or the security is not listed on a stock market or similar, the Group uses valuation techniques 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 Børs (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
Interest rate swaps 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.

Fair value of loans to Norwegian local administrations, loans to retail customers and deposits
Fair value of lending and deposits without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Fair value of fixedrate loans is calculated by discounting contractual cash flows by the marked rate including a relevant risk margin on the reporting date.

Fair value of loans to and receivables from credit institutions
All receivables from credit institutions (bank deposits) are at variable interest rates. Fair value of these is considered virtually the same as book value since the contract terms are continuously changed in step with change in market interest rates.

Fair value of 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.

Fair value of liabilities to credit institutions
These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market.

NOTE 7 Financial derivatives

KLP Banken AS					KLP Banken AS Group			
31.12.2015		31.12.2016			31.12.2016		31.12.2015	
Nominal amount	Fair value	Nominal amount	Fair value	NOK THOUSANDS	Nominal amount	Fair value	Nominal amount	Fair value
500 000	25 475	500 000	15 252	Borrowing in NOK	1 565 000	99 922	1 885 000	148 370
0	0	0	0	Borrowing in currency	0	0	0	0
0	0	0	0	Lending	1 292 583	23 257	100 000	5
500 000	**25 475**	**500 000**	**15 252**	**Total assets**	**2 857 583**	**123 179**	**1 985 000**	**148 375**
0	0	0	0	Borrowing in NOK	600 000	-7 930	0	0
0	0	0	0	Borrowing in currency	0	0	0	0
354 700	-21 078	178 500	-13 013	Lending	4 080 102	-240 277	5 347 461	-357 631
100 000	-323	0	0	Investments	100 000	-5 408	200 000	-9 075
454 700	**-21 401**	**178 500**	**-13 013**	**Total liabilities**	**4 780 102**	**-253 615**	**5 547 461**	**-366 706**

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			KLP Banken AS Group	
31.12.2015	31.12.2016	NOK THOUSANDS	31.12.2016	31.12.2015
		Financial assets recognized at fair value:		
		Fixed-income securities and shares		
99 620	149 818	Level 1: Value based on prices in an active market	200 701	99 620
459 494	799 996	Level 2: Value based on observable market data	2 516 812	3 683 753
265	394	Level 3: Value based on other than observable market data	394	265
559 379	**950 208**	**Total fixed-income securities**	**2 717 907**	**3 783 638**
		Financial derivatives - fair value hedging		
0	0	Level 1: Value based on prices in an active market	0	0
25 475	15 252	Level 2: Value based on observable market data	123 179	148 375
0	0	Level 3: Value based on other than observable market data	0	0
25 475	**15 252**	**Total financial derivatives**	**123 179**	**148 375**
584 854	**965 460**	**Total financial assets recognized at fair value.**	**2 841 086**	**3 932 013**

NOTE 8 Fair value hierarchy - continued

KLP Banken AS			KLP Banken AS Group	
31.12.2015	**31.12.2016**	**NOK THOUSANDS**	**31.12.2016**	**31.12.2015**
		Financial assets recognized at fair value in Note 6:		
		Lending - fair value hedging		
0	0	Level 1: Value based on prices in an active market	0	0
379 511	219 474	Level 2: Value based on observable market data	5 405 932	5 905 519
0	0	Level 3: Value based on other than observable market data	0	0
379 511	**219 474**	**Total financial assets for fair value hedging**	**5 405 932**	**5 905 519**
		Loans at amortized cost		
0	0	Level 1: Value based on prices in an active market	0	0
9 995 864	10 806 469	Level 2: Value based on observable market data	26 110 597	21 378 393
0	0	Level 3: Value based on other than observable market data	0	0
9 995 864	**10 806 469**	**Total financial assets at amortized cost**	**26 110 597**	**21 378 393**
		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
21 401	13 013	Level 2: Value based on observable market data	253 615	366 706
0	0	Level 3: Value based on other than observable market data	0	0
21 401	**13 013**	**Total financial derivatives (liabilities)**	**253 615**	**366 706**
		Financial liabilities recognized at fair value in Note 6:		
		Liabilities created on issuance of securities - fair value hedging		
0	0	Level 1: Value based on prices in an active market	0	0
529 548	520 143	Level 2: Value based on observable market data	2 268 492	2 031 421
0	0	Level 3: Value based on other than observable market data	0	0
529 548	**520 143**	**Total liabilities created on issuance of securities**	**2 268 492**	**2 031 421**
		Liabilities created on issuance of securities - deposits from customers at amortized cost		
0	0	Level 1: Value based on prices in an active market	0	0
9 811 121	10 537 000	Level 2: Value based on observable market data	30 265 049	27 157 858
0	0	Level 3: Value based on other than observable market data	0	0
9 811 121	**10 537 000**	**Total financial liabilities at amortized cost**	**30 265 049**	**27 157 858**

NOTE 8 Fair value hierarchy - continued

KLP Banken AS			KLP Banken AS Group	
31.12.2015 Book value	31.12.2016 Book value	NOK THOUSANDS	31.12.2016 Book value	31.12.2015 Book value
		Changes in level 3 unlisted securities		
265	265	Opening balance 1 Jan	265	265
0	0	Sold	0	0
0	7	Bought	7	0
0	121	Unrealized changes	121	0
265	**394**	**Closing balance**	**394**	**265**
0	0	Realized gains/losses	0	0

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 9 Hedge accounting - ineffectiveness recognized through profit or loss

KLP Banken AS				KLP Banken AS Group		
31.12.2016				31.12.2016		
Nominal value	Changed value in hedged risk	Effectiveness	NOK THOUSANDS	Nominal value	Changed value in hedged risk	Effectiveness
			HEDGED OBJECT			
213 480	11 999	99.37 %	Loans to retail customers fixed interest in NOK	213 480	11 999	99.37 %
			HEDGING INSTRUMENT			
178 500	-12 075	100.63 %	Interest rate swap lending fixed interest in NOK	178 500	-12 075	100.63 %

The ineffective proportion of the Group reports hedging recognized through profit or loss amounts to NOK 54,000 in 2016. This amount has been taken to income in KLP Banken AS under "Net gain/(loss) on financial instruments".

KLP Banken AS				KLP Banken AS Group		
31.12.2015				31.12.2015		
Nominal value	Changed value in hedged risk	Effectiveness	NOK THOUSANDS	Nominal value	Changed value in hedged risk	Effectiveness
			HEDGED OBJECT			
368 330	19 644	99.89 %	Loans to retail customers fixed interest in NOK	368 330	19 644	99.89 %
			HEDGING INSTRUMENT			
354 700	-19 666	100.11 %	Interest rate swap lending fixed interest in NOK	354 700	-19 666	100.11 %

The ineffective proportion of the Group reports hedging recognized through profit or loss amounts to NOK 202,000 in 2015. This amount has been taken to income in KLP Banken AS under "Net gain/(loss) on financial instruments".

NOTE 10 Net interest income

KLP Banken AS			KLP Banken AS Group	
01.01.2015 -31.12.2015	01.01.2016 -31.12.2016	NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
9 136	7 820	Interest on loans to and receivables from credit institutions	13 661	18 578
280 273	252 543	Interest on lending to customers	695 605	744 398
5 343	9 701	Interest on securities	56 349	55 015
294 752	**270 064**	**Total interest income**	**765 615**	**817 991**
0	0	Interest on debt to credit institutions	-451 241	-480 948
-149 738	-118 045	Interest on liabilities to customers	-118 044	-149 738
-74 415	-63 077	Amotization of premium/discount on covered bonds	-2 544	414
-656	528	Other interest costs	528	-656
-224 809	**-180 593**	**Total interest costs**	**-571 301**	**-630 928**
69 944	**89 471**	**Net interest income**	**194 314**	**187 063**

NOTE 11 Net commission income

KLP Banken AS			KLP Banken AS Group	
01.01.2015 -31.12.2015	01.01.2016 -31.12.2016	NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
49	64	Interbank commission	64	49
2 591	742	Short commission	742	2 591
584	668	Payment handling	668	584
8 056	9 492	Other commission income	9 492	8 056
11 280	**10 966**	**Total commission income**	**10 966**	**11 280**
-293	-289	Interbank commission	-289	-293
-781	-948	Payment handling	-948	-781
0	-328	Other commission expenses	-328	0
-1 074	**-1 564**	**Total commission costs**	**-1 564**	**-1 074**
10 205	**9 402**	**Net commission**	**9 402**	**10 205**

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 understood here to mean 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, and the securities established not covering 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, county administration, the state or a bank.

13.1 Measurement of credit risk
The Board has determined a credit policy that contains overarching guidelines, requirements and limits associated with credit risk. The policy lays down 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 policy also includes an overall 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.

NOTE 13 Credit risk - continued

13.2 Control and limitation of credit risk

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 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 only provided with 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.

13.3 Loans according to type of security/exposure (principal)

	KLP Banken AS		KLP Banken AS Group	
NOK THOUSANDS	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Lending to the retail market with mortgage on housing	7 977 248	6 940 022	12 691 541	10 675 668
Lending to municipalities and county administrations	0	0	14 637 875	13 274 548
Lending with municipal/county administration guarantee	0	0	2 368 255	2 010 422
Lending with government guarantee	0	0	0	0
Total	**7 977 248**	**6 940 022**	**29 697 671**	**25 960 638**
Sums falling due more than 12 months after the end of the reporting period	7 762 139	6 781 023	28 386 669	24 777 910

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)

	KLP Banken AS		KLP Banken AS Group	
NOK THOUSANDS	31.12.2016	31.12.2015	31.12.2016	31.12.2015
AAA	**945 000**	**358 000**	**2 698 000**	**2 827 000**

Securities without external credit assessment

	KLP Banken AS		KLP Banken AS Group	
NOK thousands	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Securities issued by Norwegian municipalities/county administrations	**0**	**200 000**	**0**	**945 445**

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

	KLP Banken AS		KLP Banken AS Group	
NOK THOUSANDS	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Aa1-Aa3	787 726	259 215	1 029 037	540 941
A1-A3	248 831	147 922	537 505	432 651
Baa1	-	-	-	-
Total	**1 036 557**	**407 137**	**1 566 542**	**973 591**

NOTE 13 Credit risk - continued

The Bank Group may also be exposed to credit risk as a result of derivative agreements struck. The purpose of such agreements is to reduce risks arising as a result of the Group's borrowing and lending activities. The Group's internal guidelines specify creditworthiness requirements for derivative counterparties. All derivative agreements are entered into with counterparties with a minimum A1 rating (Moody's).

13.4 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

	KLP Banken AS		KLP Banken AS Group	
NOK THOUSANDS	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans to and receivables from credit institutions	3 056 308	3 414 796	1 566 542	973 591
Loans to and receivables from customers	7 994 420	6 950 088	29 794 859	26 049 437
- of which lending with mortgage on housing	7 994 420	6 950 088	12 716 613	10 693 536
- of which lending to the public sector	0	0	17 078 246	13 355 901
Fixed-income securities	949 814	562 175	2 717 513	3 789 366
Financial derivatives	15 252	25 475	123 179	148 375
TOTAL	**12 015 794**	**10 952 534**	**34 202 093**	**30 960 769**

13.5 Loans fallen due or written down

The Bank has very low losses (see Note 18) and considers all receivables to be satisfactorily secured. All 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. 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

	KLP Banken AS		KLP Banken AS Group	
NOK THOUSANDS	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Principal on loans with payments with 7-30 days' default	150 523	137 734	224 762	452 499
Principal on loans with payments with 31-90 days' default	30 074	43 305	79 466	44 904
Principal on loans with payments with more than 90 days' default	22 230	29 339	22 230	29 339
Total loans fallen due	**202 827**	**210 378**	**326 458**	**526 742**
Relevant security or guarantees	202 827	210 378	326 458	526 742
Principal on lending that has been written down	3 166	3 481	3 166	3 481
- of which written down	1 545	1 328	1 545	1 328

13.6 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 2016 was about 2.3 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.

Note 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. Exchange rate risk is measured as change in value on 10% unfavourable exchange rate change in all currencies.

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 limits are set in relation to Tier 1 and 2 capital and the level of the limits should ensure that the low market risk profile policy is 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 2016

NOK THOUSANDS	Total Principal	Up to 1 month	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	7 977 931	7 767 620	9 340	37 240	128 165	35 566
Securities	945 000	45 000	875 000	25 000	0	0
Cash and receivables from credit institutions	3 056 308	3 056 308	0	0	0	0
Total	**11 979 239**	**10 868 928**	**884 340**	**62 240**	**128 165**	**35 566**
Liabilities to depositors	8 687 859	8 687 859	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	2 343 000	800 000	1 043 000	300 000	200 000	0
Total	**11 030 859**	**9 487 859**	**1 043 000**	**300 000**	**200 000**	**0**
Gap	**948 380**	**1 381 069**	**-158 660**	**-237 760**	**-71 835**	**35 566**
Financial derivatives	0	38 500	-175 000	100 000	56 500	-20 000
Net gap	**948 380**	**1 419 569**	**-333 660**	**-137 760**	**-15 335**	**15 566**

NOTE 14 Market risk - continued

Interest risk KLP Banken AS Group

Repricing dates for interest-bearing assets and liabilities as at 31 December 2016

NOK THOUSANDS	Total Principal	Up to 1 month	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	29 699 037	24 684 061	85 187	742 157	3 199 705	987 927
Securities	2 698 000	439 000	2 084 000	75 000	100 000	0
Cash and receivables from credit institutions	1 567 862	1 567 862	0	0	0	0
Total	**33 964 899**	**26 690 923**	**2 169 187**	**817 157**	**3 299 705**	**987 927**
Liabilities to depositors	8 687 859	8 687 859	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	23 316 000	7 343 000	13 808 000	615 000	1 550 000	0
Total	**32 003 859**	**16 030 859**	**13 808 000**	**615 000**	**1 550 000**	**0**
Gap	**1 961 039**	**10 660 063**	**-11 638 813**	**202 157**	**1 749 705**	**987 927**
Financial derivatives	0	229 865	3 052 053	-339 770	-1 692 343	-1 249 806
Net gap	**1 961 039**	**10 889 929**	**-8 586 760**	**-137 613**	**57 362**	**-261 879**

Interest risk KLP Banken AS

Repricing dates for interest-bearing assets and liabilities as at 31 December 2015

NOK THOUSANDS	Total Principal	Up to 1 month	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	6 940 022	6 586 953	10 429	127 170	131 246	84 224
Securities	558 000	0	258 000	300 000	0	0
Cash and receivables from credit institutions	3 412 137	3 412 137	0	0	0	0
Total	**10 910 159**	**9 999 090**	**268 429**	**427 170**	**131 246**	**84 224**
Liabilities to depositors	7 426 181	7 426 181	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	2 900 000	0	2 400 000	0	500 000	0
Total	**10 326 181**	**7 426 181**	**2 400 000**	**0**	**500 000**	**0**
Gap	**583 978**	**2 572 909**	**-2 131 571**	**427 170**	**-368 754**	**84 224**
Financial derivatives	0	29 700	100 000	-475 000	455 300	-110 000
Net gap	**583 978**	**2 602 609**	**-2 031 571**	**-47 830**	**86 546**	**-25 776**

NOTE 14 Market risk - continued

Interest risk KLP Banken AS Group

Repricing dates for interest-bearing assets and liabilities as at 31 December 2015

NOK THOUSANDS	Total Principal	Up to 1 month	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	25 960 638	20 929 877	47 785	977 697	2 534 971	1 470 308
Securities	3 772 445	300 000	2 327 000	1 045 445	100 000	0
Cash and receivables from credit institutions	973 591	973 591	0	0	0	0
Total	**30 706 674**	**22 203 468**	**2 374 785**	**2 023 142**	**2 634 971**	**1 470 308**
Liabilities to depositors	7 426 181	7 426 181	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	22 355 000	2 370 000	18 100 000	0	1 885 000	0
Total	**29 781 181**	**9 796 181**	**18 100 000**	**0**	**1 885 000**	**0**
Gap	**925 493**	**12 407 287**	**-15 725 215**	**2 023 142**	**749 971**	**1 470 308**
Financial derivatives	0	572 247	2 907 984	-1 231 818	-433 912	-1 814 501
Net gap	**925 493**	**12 979 534**	**-12 817 231**	**791 324**	**316 059**	**-344 193**

The Company's interest rate sensitivity as at 31 December 2016, measured as value change in the event of one percentage point change in all interest rates, was NOK 6.5 million.

14.3 Exchange rate risk

As at 31 December 2016 the Group had no borrowing in foreign currency.

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.

Note 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 - continued

Note 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 2016:

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	7 926 092	0	26 693	54 434	248 141	1 346 119	6 250 706
Securities	974 341	0	181	128 036	91 320	654 607	100 197
Receivables from credit institutions	3 056 308	0	3 056 308	0	0	0	0
Total	**11 956 741**	**0**	**3 083 182**	**182 470**	**339 460**	**2 000 726**	**6 350 903**
Liabilities to depositors	8 687 859	8 687 859	0	0	0	0	0
Liabilities created on issuance of securities	2 427 494	0	3 833	447 136	340 196	1 636 329	0
Financial derivatives	4	0	-1 806	-2 103	12 809	-8 429	-466
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**11 115 357**	**8 687 859**	**2 027**	**445 033**	**353 005**	**1 627 900**	**-466**
Net cash flow	**841 384**	**-8 687 859**	**3 081 155**	**-262 563**	**-13 545**	**372 826**	**6 351 369**

Liquidity risk KLP Banken AS Group

Maturity analysis for assets and liabilities as at 31 December 2016

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	35 538 111	0	106 619	388 027	1 356 038	7 236 822	26 450 605
Securities	2 792 734	0	1 646	134 023	497 632	2 059 235	100 197
Receivables from credit institutions	1 566 542	0	1 566 542	0	0	0	0
Total	**39 897 388**	**0**	**1 674 807**	**522 050**	**1 853 671**	**9 296 057**	**26 550 802**
Liabilities to depositors	8 687 859	8 687 859	0	0	0	0	0
Liabilities created on issuance of securities	24 561 857	0	41 672	483 091	1 567 250	22 469 844	0
Financial derivatives	171 269	0	1 557	9 527	46 362	100 611	13 212
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**33 420 986**	**8 687 859**	**43 228**	**492 618**	**1 613 613**	**22 570 455**	**13 212**
Net cash flow	**6 476 402**	**-8 687 859**	**1 631 579**	**29 432**	**240 058**	**-13 274 398**	**26 537 591**

NOTE 15 Liquidity risk - continued

Liquidity risk KLP Banken AS

Maturity analysis for assets and liabilities as at 31 December 2015:

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	7 316 433	0	23 459	49 577	226 946	1 233 657	5 782 794
Securities	576 127	0	0	1 030	305 799	218 573	50 725
Receivables from credit institutions	3 426 659	0	412 169	3 014 490	0	0	0
Total	**11 319 219**	**0**	**435 628**	**3 065 097**	**532 745**	**1 452 230**	**5 833 519**
Liabilities to depositors	7 426 181	7 426 181	0	0	0	0	0
Liabilities created on issuance of securities	3 029 418	0	2 048	8 798	849 871	2 168 701	0
Financial derivatives	-426	0	1 797	1 246	-3 042	-3 510	3 083
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**10 455 173**	**7 426 181**	**3 845**	**10 044**	**846 829**	**2 165 191**	**3 083**
Net cash flow	**864 046**	**-7 426 181**	**431 783**	**3 055 053**	**-314 084**	**-712 961**	**5 830 436**

Liquidity risk KLP Banken AS Group

Maturity analysis for assets and liabilities as at 31 December 2015:

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	31 938 821	0	100 080	277 218	1 424 978	6 616 180	23 520 365
Securities	3 932 488	0	1 104	9 906	1 243 872	2 576 156	101 450
Receivables from credit institutions	978 623	0	978 623	0	0	0	0
Total	**36 849 932**	**0**	**1 079 807**	**287 124**	**2 668 850**	**9 192 336**	**23 621 815**
Liabilities to depositors	7 426 181	7 426 181	0	0	0	0	0
Liabilities created on issuance of securities	22 779 148	0	8 795	64 907	3 207 749	18 287 247	1 210 450
Financial derivatives	224 368	0	6 997	15 327	45 688	112 094	44 262
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**30 429 697**	**7 426 181**	**15 792**	**80 234**	**3 253 437**	**18 399 341**	**1 254 712**
Net cash flow	**6 420 235**	**-7 426 181**	**1 064 015**	**206 890**	**-584 587**	**-9 207 005**	**22 367 103**

NOTE 16 Fixed-income securities

KLP Banken AS					KLP Banken AS Group			
31.12.2016					31.12.2016			
Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value	NOK THOUSANDS Debtor categories	Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value
149 706	112	0	149 818	Government/social security administration	200 587	114	0	200 701
700 242	-1 117	1 203	700 327	Credit enterprises	2 304 722	2 207	4 308	2 311 237
0	0	0	0	Local government administration	98 050	7 427	429	105 906
99 845	-285	109	99 668	Multilateral development banks (not banks)	99 845	-285	109	99 669
949 793	**-1 291**	**1 312**	**949 814**	**Total fixed-income securities**	**2 703 204**	**9 463**	**4 846**	**2 717 513**

Effective interest rate: 1.34% Effective interest rate: 1.41%

KLP Banken AS					KLP Banken AS Group			
31.12.2015					31.12.2015			
Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value	NOK THOUSANDS Debtor categories	Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value
				Government/social security administration				
210 786	-2 749	347	208 384	Credit enterprises	2 538 807	-16 152	4 353	2 527 008
199 903	-53	1466	201 316	Local government administration	1 043 540	10 034	3 582	1 057 156
50 265	-532	61	49 794	Multilateral development banks (not banks)	100 530	-1 064	123	99 589
560 300	**-3 060**	**1 874**	**559 114**	**Total fixed-income securities**	**3 782 223**	**-6 908**	**8 058**	**3 783 373**

Effective interest rate: 1.51% Effective interest rate: 1.69%

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			KLP Banken AS Group	
31.12.2015	**31.12.2016**	**NOK THOUSANDS**	**31.12.2016**	**31.12.2015**
		LOANS TO AND RECEIVABLES FROM CREDIT INSTITUTIONS		
407 137	1 018 098	Bank deposits	1 548 082	973 591
3 005 000	2 018 431	Principal on loans to Group companies	0	0
2 659	1 319	Accrued interest on loans to Group companies	0	0
3 414 796	**3 037 848**	**Loans to and receivables from credit institutions**	**1 548 082**	**973 591**
		LOANS TO AND RECEIVABLES FROM CUSTOMERS		
6 943 294	7 977 103	Principal on loans to customers	29 698 209	25 963 911
482	654	Overdraft current account	654	482
-1 328	-1 545	Individual write-downs	-1 545	-1 328
0	-706	Change in write-downs by group	-706	0
7 640	6 915	Accrued interest	84 310	83 956
0	0	Premium/discount	-17 094	-20 440
19 644	11 999	Fair value hedging	198 639	332 869
6 969 731	**7 994 420**	**Loans to and receivables from customers**	**29 962 467**	**26 359 449**

NOTE 18 Losses on lending in the retail market

KLP Banken AS			KLP Banken AS Group	
01.01.2015 -31.12.2015	**01.01.2016 -31.12.2016**	**NOK THOUSANDS**	**01.01.2016 -31.12.2016**	**01.01.2015 -31.12.2015**
278	196	Known losses	196	278
-562	-12	Reversal of previous write-downs	-12	-562
1 318	229	Change in individual write-downs	229	1 318
0	706	Change in write-downs by group	706	0
1 034	**1 119**	**Total loss on lending**	**1 119**	**1 034**

KLP Banken AS			KLP Banken AS Group	
31.12.2015	**31.12.2016**	**NOK THOUSANDS**	**31.12.2016**	**31.12.2015**
573	1 329	Balance of write-down losses on lending 1 January	1 329	573
-562	-12	Reversal of write-down on individual loans for the period	-12	-562
1 318	229	Write-down on individual loans for the period	229	1 318
0	706	Write-down by group loans for the period	706	0
1 329	**2 252**	**Total write-down on individual loans 31 December**	**2 252**	**1 329**
29 339	22 230	Gross default exceeding 90 days	22 230	29 339
0	0	Gross other doubtful loans	0	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

31.12.2016 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	15 252	0	15 252	-12 721	-900	1 631
Total	**15 252**	**0**	**15 252**	**-12 721**	**-900**	**1 631**
LIABILITIES						
Financial derivatives	13 013	0	13 013	-12 721	0	292
Total	**13 013**	**0**	**13 013**	**-12 721**	**0**	**292**

KLP Banken AS Group

31.12.2016 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	123 179	0	123 179	-123 179	-900	0
Total	**123 179**	**0**	**123 179**	**-123 179**	**-900**	**0**
LIABILITIES						
Financial derivatives	253 615	0	253 615	-123 179	0	130 436
Total	**253 615**	**0**	**253 615**	**-123 179**	**0**	**130 436**

KLP Banken AS

31.12.2015 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	25 475	0	25 475	-20 306	-2 900	2 268
Total	**25 475**	**0**	**25 475**	**-20 306**	**-2 900**	**2 268**
LIABILITIES						
Financial derivatives	21 401	0	21 401	-20 306	-1 020	75
Total	**21 401**	**0**	**21 401**	**-20 306**	**-1 020**	**75**

KLP Banken AS Group

31.12.2015 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	148 375	0	148 375	-148 375	-2 900	0
Total	**148 375**	**0**	**148 375**	**-148 375**	**-2 900**	**0**
LIABILITIES						
Financial derivatives	366 706	0	366 706	-148 375	-1 020	217 311
Total	**366 706**	**0**	**366 706**	**-148 375**	**-1 020**	**217 311**

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

KLP Banken AS			KLP Banken AS Group	
31.12.2015	31.12.2016	NOK THOUSANDS	31.12.2016	31.12.2015
2 900 000	2 400 000	Bonds, nominal value	26 685 000	22 355 000
17 717	6 725	Revaluations	66 385	122 014
14 489	13 650	Accrued interest	68 990	54 646
0	-57 000	Own funds, nominal value	-3 369 000	-630 000
2 932 206	**2 363 375**	**Total liabilities created on issuance of securities**	**23 451 374**	**21 901 660**
1.90 %	**1.95 %**	**Interest rate on borrowings through the issuance of securities at the reporting date**	**1.59 %**	**1.51 %**

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 31.12.2016	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance sheet 31.12.2015
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	2 400 000	300 000	-800 000	0	2 900 000
Revaluations	6 725	0	0	-10 992	17 717
Accrued interest	13 650	0	0	-839	14 489
Own funds, nominal value	-57 000	0	-57 000	0	0
Total liabilities created on issuance of securities	**2 363 375**	**300 000**	**-857 000**	**-11 831**	**2 932 206**

KLP Banken AS Group

NOK THOUSANDS	Balance sheet 31.12.2016	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance sheet 31.12.2015
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	26 685 000	8 795 000	-4 465 000	0	22 355 000
Revaluations	66 385	0	0	-55 629	122 014
Accrued interest	68 990	0	0	14 344	54 646
Own funds, nominal value	-3 369 000	0	-2 739 000	0	-630 000
Total liabilities created on issuance of securities	**23 451 374**	**8 795 000**	**-7 204 000**	**-41 285**	**21 901 660**

NOTE 21 Deposits from customers

KLP Banken AS			KLP Banken AS Group	
31.12.2015	31.12.2016	NOK THOUSANDS	31.12.2016	31.12.2015
7 426 181	8 687 859	Deposits from customers without agreed duration	8 687 859	7 426 181
7 426 181	**8 687 859**	**Total deposits from customers without agreed duration**	**8 687 859**	**7 426 181**
		CUSTOMER DEPOSITS DIVIDED BY CUSTOMER GROUPS		
6 043 518	6 952 946	Deposits from customers, retail market	6 952 946	6 043 518
1 382 663	1 734 913	Deposits from customers, public sector market	1 734 913	1 382 663
7 426 181	**8 687 859**	**Total deposits from customers**	**8 687 859**	**7 426 181**
1.49 %	**1.40 %**	**Interest rate on customer deposits, at the reporting date**	**1.40 %**	**1.49 %**

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 31.12.2016	Book value 31.12.2015
ENTERPRISES IN THE SAME GROUP:				
KLP Boligkreditt AS	100	250 470	250 470	250 470
KLP Kommunekreditt AS	100	675 000	675 000	675 000
Total		**925 470**	**925 470**	**925 470**

NOTE 23 Fixed assets

KLP Banken AS			KLP Banken AS Group	
31.12.2015	31.12.2016	NOK THOUSANDS	31.12.2016	31.12.2015
777	777	Acquisition cost 01.01	777	777
0	87	Acquired during the period	87	0
0	0	Disposals during the period	0	0
777	864	Acquisition cost 31.12	864	777
-278	-309	Acc. depreciation previous years	-309	-278
-32	-17	Annual depreciation	-17	-32
-309	-326	Acc. depreciation	-326	-309
468	**538**	**Book value**	**538**	**468**

NOTE 24 Intangible assets

KLP Banken AS			KLP Banken AS Group	
31.12.2015	31.12.2016	NOK THOUSANDS	31.12.2016	31.12.2015
29 142	33 126	Acquisition cost 01.01	33 126	29 142
3 984	6 299	Additions	6 299	3 984
0	0	Disposals	0	0
33 126	**39 425**	**Acquisition cost 31.12**	**39 425**	**33 126**
-10 639	-15 342	Accumulated depreciation previous years	-15 342	-10 639
-3 365	-4 128	Ordinary depreciation for the year	-4 128	-3 365
-1 338	0	Write-downs	0	-1 338
17 784	**19 955**	**Book value**	**19 955**	**17 784**
3-7 years		Depreciation period	3-7 years	

NOTE 25 Capital adequacy

KLP Banken AS			KLP Banken AS Group	
31.12.2015	**31.12.2016**	**NOK THOUSANDS**	**31.12.2016**	**31.12.2015**
1 390 000	1 640 000	Share capital and share premium	1 640 000	1 390 000
88 110	114 172	Other owners' equity	210 406	117 816
1 478 110	**1 754 172**	**Total owners' equity**	**1 850 406**	**1 507 816**
-17 784	-19 955	Deduction goodwill and other intangible assets	-19 955	-17 784
-7 475	-7 742	Deferred tax assets	-6 916	-9 542
1 452 851	**1 726 475**	**Core capital/Tier 1 capital**	**1 823 535**	**1 480 490**
0	0	Supplementary capital/Tier 2 capital	0	0
0	**0**	**Supplementary capital/Tier 2 capital**	**0**	**0**
1 452 851	1 726 475	Total own funds (eligible Tier 1 and Tier 2 capital)	1 823 535	1 480 490
679 507	763 392	Capital requirement	767 775	672 968
773 344	**963 083**	**Surplus of own funds (eligible Tier 1 and Tier 2 capital)**	**1 055 760**	**807 522**
		CALCULATION BASIS CREDIT RISK:		
4 460 661	4 802 573	Institutions	337 586	229 347
0	0	Local and regional authorities	3 491 045	3 339 625
2 770 615	3 386 460	Investments with mortgage security in real estate	5 038 937	4 079 989
96 078	65 763	Investments fallen due	65 763	98 091
25 777	70 033	Covered bonds	231 124	262 689
926 369	956 650	Other holdings	31 180	899
8 279 500	**9 281 479**	**Calculation basis credit risk**	**9 195 634**	**8 010 640**
662 360	742 518	Credit risk	735 651	640 851
17 147	20 848	Operational risk	31 957	32 117
0	26	Credit valuation adjustments (CVA)	168	0
679 507	**763 392**	**Total capital requirement assets**	**767 775**	**672 968**
17.1 %	18.1 %	Core capital adequacy ratio	19.0 %	17.6 %
0.0 %	0.0 %	Supplementary capital ratio	0.0 %	0.0 %
17.1 %	**18.1 %**	**Capital adequacy ratio**	**19.0 %**	**17.6 %**
4.7 %	**5.0 %**	**Unweighted capital adequacy**	**5.2 %**	**4.7 %**

Capital requirement as at 31.12.2016	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	1.5 %	0.0 %	1.5 %
Pilar 2-requirement	2.1 %	0.0 %	2.1 %
Applic. cap. req'ment incl. buffers	**13.6 %**	**3.5 %**	**17.1 %**

NOTE 26 Tax

KLP Banken AS			KLP Banken AS Group	
31.12.2015	**31.12.2016**	**NOK THOUSANDS**	**31.12.2016**	**31.12.2015**
49 990	26 667	Accounting income before taxes	91 244	49 619
		Other income components:		
7 012	-863	Estimate difference, pension obligations and assets	-863	7 012
0	121	Change in value of financial assets aviailable for sale	121	0
		Differences between accounting and tax income:		
-38 452	-1 886	Other deductions (dividends received during the year)	-1 886	0
3 986	-1 891	Reversal of value increase financial assets	-16 491	36 644
165	331	Other permanent differences	90	138
1 199	2 861	Change in differences between book and taxable income	5 994	-2 622
23 900	**25 340**	**Taxable income**	**78 209**	**90 791**
10 152	0	Group contribution received with tax effect	0	0
34 052	**25 340**	**Base for tax payable in tax expenses**	**78 209**	**90 791**
-21	0	Deficit carry-forward allowable from previous years	0	-21
0	0	Change for the year in carry-forward deficit	0	0
-21	**0**	**Total allowable carry-forward deficit as at 31 December**	**0**	**-21**
34 052	**25 340**	**Tax surplus**	**78 210**	**90 791**
		Reconciliation of basis for deferred tax/tax assets		
		Deferred tax assets linked to:		
-23	-15	Fixed assets	-15	-23
-1 405	-1 686	Financial instruments	-25 008	-47 333
-4 377	-1 828	Hedging of borrowing	-20 751	-35 113
-5 626	-6 570	Pension obligation	-6 570	-5 626
-948	-643	Other differences	-643	-2 003
-12 379	**-10 742**	**Total deferred tax assets**	**-52 987**	**-90 098**
		Deferred tax linked to:		
4 910	3 000	Lending to customers and credit enterprises	46 069	80 562
4 910	**3 000**	**Total deferred tax**	**46 069**	**80 562**
-7 469	**-7 742**	**Net deferred tax/tax assets**	**-6 918**	**-9 536**
-21	0	Carry-forward deficit	0	-21
-6	**0**	**Deferred tax on carry-forward deficit**	**0**	**-6**
-7 475	-7 742	Deferred tax/tax asset	-6 918	-9 542
-7 475	**-7 742**	**Capitalized deferred tax asset**	**-6 918**	**-9 542**
6 453	6 335	Tax on Group contribution payment made	19 552	24 514
6 453	**6 335**	**Capitalized deferred tax**	**19 552**	**24 514**

NOTE 26 Tax - continued

KLP Banken AS			KLP Banken AS Group	
31.12.2015	31.12.2016	NOK THOUSANDS	31.12.2016	31.12.2015
		Summary of tax expense for the year:		
35	-5	Tax charged to the income statement for previous years	-5	42
-802	-267	Change in deferred tax taken to income	2 624	-8 423
2 741	0	Tax on Group contribution received	0	0
6 453	6 335	Tax on Group contribution payment made	19 552	24 514
8 427	**6 061**	**Capitalized tax**	**22 170**	**16 133**
6 534	6 247	Tax on ordinary income	22 356	14 240
1 893	-186	Corr. for tax on direct capitalized diffs incl. in calcul. deferred tax	-186	1 893
8 427	**6 061**	**Total tax costs**	**22 170**	**16 133**
14.8 %	23.5 %	Effective tax percentage	24.5 %	28.5 %
		Reconciliation of tax percentage:		
49 990	26 667	Accounting income before taxes	91 244	49 619
7 012	-742	Items in other comprehensive income	-742	7 012
57 002	25 925	Total profit before tax	90 502	56 631
15 391	6 481	Income taxs expense, nominal tax rate	22 626	15 290
8 427	6 089	Income tax expense, effective tax rate	22 170	16 133
6 964	**392**	**Difference between effective and nominal tax rate**	**456**	**-843**
-35	-5	Recognised tax relating to previous years	-5	-42
-45	-83	Tax effects of permanent differences	-23	-37
7 641	472	Tax on dividends and group contributions received	472	0
-598	8	Effect of change in tax rate on deferred tax	13	-764
6 964	**392**	**Total**	**456**	**-843**

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 Note 2.

NOK THOUSANDS	Joint scheme	Via operation	2016	Joint scheme	Via operation	2015
PENSION COSTS						
Present value of accumulation for the year	6 538	377	6 915	6 691	573	7 264
Administration cost	183	0	183	172	0	172
Social security contributions - Pension costs	948	53	1 001	968	81	1 048
Pension costs incl. social security and administration costs taken to income	**7 669**	**430**	**8 099**	**7 831**	**654**	**8 484**
NET FINANCIAL COSTS						
Interest costs	1 171	258	1 429	961	231	1 192
Expected return	-777	0	-777	-562	0	-562
Management costs	96	0	96	101	0	101
Net interest costs	490	258	748	500	231	731
Social security contributions - Net interest cost	69	36	105	71	33	103
Net interest cost including social security contributions	**559**	**295**	**853**	**571**	**263**	**834**
ESTIMATE DIFFERENCE, PENSIONS						
Actuarial gains (losses)	-425	214	-210	-5 245	-900	-6 145
Social security contributions	-60	30	-30	-740	-127	-867
Capital activity tax	604	499	1 103	0	0	0
Actuarial gains (losses) incl. social security contributions	**120**	**744**	**863**	**-5 984**	**-1 027**	**-7 012**
Total pension costs including interest costs and estimate difference	**8 347**	**1 468**	**9 815**	**2 417**	**-110**	**2 307**
PENSION OBLIGATIONS						
Gross accrued pension obligation	45 869	9 978	55 848	37 332	9 244	46 576
Pension assets	33 783	0	33 783	26 852	0	26 852
Net liability before SSC	12 087	9 978	22 065	10 480	9 244	19 724
Social security contributions	1 704	1 407	3 111	1 478	1 303	2 781
Capital activity tax	604	499	1 103	0	0	0
Gross accrued obligations incl. social security costs	48 178	11 884	60 062	38 810	10 548	49 357
Net liability incl. social security costs	**14 395**	**11 884**	**26 279**	**11 958**	**10 548**	**22 505**
RECONCILIATION OF PENSION OBLIGATIONS						
Capitalized net liability/(asset) 01.01	11 958	10 548	22 505	14 452	10 929	25 381
Pension costs taken to profit/loss	7 669	430	8 099	7 831	654	8 484
Finance costs taken to profit/loss	559	295	853	571	263	834
Actuarial gains and losses incl. social security contributions	120	744	863	-5 984	-1 027	-7 012
Social security contributions paid in premiums/supplement	-730	-16	-747	-607	-33	-640
Premium/supplement paid-in including admin	-5 180	-115	-5 295	-4 304	-237	-4 542
Capitalized net liability/(asset) 31.12	**14 395**	**11 884**	**26 279**	**11 958**	**10 548**	**22 505**

NOTE 27 Pension obligations, own employees - continued

NOK THOUSANDS	Joint scheme	Via operation	2016	Joint scheme	Via operation	2015
CHANGE IN PENSION OBLIGATIONS						
Gross pension obligation after plan change	38 810	10 548	49 357	37 495	10 929	48 424
Present value of accumulation for the year	6 538	377	6 915	6 691	573	7 264
Interest costs	1 171	258	1 429	961	231	1 192
Actuarial losses (gains) gross pension obligation	2 389	744	3 133	-5 559	-1 027	-6 586
Social security contributions - pension costs	948	53	1 001	968	81	1 048
Social security contributions - net interest costs	69	36	105	71	33	103
Social security contributions paid in premiums/supplement	-730	-16	-747	-607	-33	-640
Payments	-1 017	-115	-1 132	-1 210	-237	-1 448
Gross pension obligation 31.12	**48 178**	**11 884**	**60 062**	**38 810**	**10 548**	**49 357**
CHANGE IN PENSION ASSETS						
Pension assets 01.01	26 852	0	26 852	23 043	0	23 043
Expected return	777	0	777	562	0	562
Actuarial loss (gain) on pension assets	2 270	0	2 270	426	0	426
Administration cost	-183	0	-183	-172	0	-172
Financing cost	-96	0	-96	-101	0	-101
Premium/supplement paid-in including admin	5 180	115	5 295	4 304	237	4 542
Payments	-1 017	-115	-1 132	-1 210	-237	-1 448
Pension assets 31.12	**33 783**	**0**	**33 783**	**26 852**	**0**	**26 852**
OVER/UNDER-FINANCING OF THE PENSION SCHEME						
Present value of the defined-benefit pension obligation	48 178	11 884	60 062	38 810	10 548	49 357
Fair value of the pension assets	33 783	0	33 783	26 852	0	26 852
Net pension obligation	**14 395**	**11 884**	**26 279**	**11 958**	**10 548**	**22 505**

	31.12.2016	31.12.2015
FINANCIAL ASSUMPTIONS (common to all pension schemes)		
Discount rate	2.60 %	2.70 %
Salary growth	2.50 %	2.50 %
National Insurance basic amount (G)	2.25 %	2.25 %
Pension increases	1.48 %	1.48 %
Social security contributions	14.10 %	14.10 %
Capital activity tax	5.00 %	5.00 %[1]

1) It is calculated 5% capital activity tax on the part of the obligation pr. 31.12.2015 unpaid in 2016

For the measurement of pension expense for 2016 used assumptions as of 31.12.2015, while for calculating pension liabilities 31.12.2016 used assumptions and population per 31.12.2016. The assumptions are based on market conditions per 31.12.2016 and in accordance with the recommendation from the Norwegian Accounting Standards Board.

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	2016	Joint scheme	Via operation	2015
MEMBERSHIP STATUS						
Number active	62	3	65	57	3	60
Number deferred (previous employees with deferred entitlements)	17	4	21	16	4	20
Number of pensioners	11	1	12	11	1	12

	2016	2015
COMPOSITION OF THE PENSION ASSETS:		
Property	12.5 %	12.8 %
Lending	11.6 %	12.3 %
Shares	20.1 %	19.8 %
Long-term/HTM bonds	26.8 %	26.9 %
Short-term bonds	20.0 %	20.6 %
Liquidity/money market	8.9 %	7.6 %
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 5.9 per cent in 2016 and 3.6 per cent in 2015.

Expected payment into benefit plans after cessation of employment for the period 1 January 2017 – 31 December 2017 is NOK 7.6 million.

Sensitivity analysis as at 31 December 2016	
Discount rate reduced by 0.5%	Increase
Gross pension obligation	9.9 %
Accumulation for the year	13.9 %
Salary growth increases by 0.25%	Increase
Gross pension obligation	1.2 %
Accumulation for the year	3.1 %
Mortality increases by 10%	Increase
Gross pension obligation	2.5 %
Accumulation for the year	1.9 %

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.

NOTE 28 Salary and obligations to senior management etc.

2016 NOK THOUSANDS	Paid from KLP Banken AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accu-mulation	Loans	Interest rate as at 31.12.2016	Repay-ment plan[1]	Salaries, fees etc.	Other ben-efits	Annual pension accu-mulation	Loans	Interest rate as at 31.12.2016	Repay-ment plan[1]
Senior employees												
Leif Magne Andersen, Managing Director	2 018	159	665	3 889	1.95-2.20	A44	-	-	-	683	2.20	A42
Carl Steinar Lous, Department Manager Public Market[3]	354	103	90	-	-	-	-	-	-	2 532	1.95	A31
Christopher A. Steen, Department Manager Finance	1 151	23	212	290	3.15	A38	-	-	-	2 899	1.95-2.20	A31/A42
Board of Directors												
Sverre Thornes, Chair	-	-	-	11 840	1.95-2.35	A46	3 807	206	1 413	-	-	-
Aage E. Schaanning	-	-	-	5 680	1.95	HC	3 338	164	1 193	-	-	-
Aina Iren Slettedal Eide	-	-	-	-	-	-	-	-	-	-	-	-
Jan Otto Langmoen[2]	51	-	-	1 085	2.45	HC	3	-	-	-	-	-
Eva M. Salvesen	102	-	-	-	-	-	50	-	-	-	-	-
Kjell Fosse	52						3					
Christin Kleppe, elected by and from the employees	102	-	-	-	-	-	6	-	-	-	-	-
Espen Trandum, elected by and from the employees	77	-	-	-	-	-	5	-	-	-	-	-
Employees												
Total loans to employees of KLP Banken AS				38 135	-	-				60 994	-	-

2015 NOK THOUSANDS	Paid from KLP Banken AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accu-mulation	Loans	Interest rate as at 31.12.2015	Repay-ment plan[1]	Salaries, fees etc.	Other ben-efits	Annual pension accu-mulation	Loans	Interest rate as at 31.12.2015	Repay-ment plan[1]
Senior employees												
Leif Magne Andersen, Managing Director	1 968	154	734	4 035	2.25-2.45	A44	-	-	-	702	2.45	A42
Carl Steinar Lous, Department Manager Public Market[3]	1 161	86	430	-	-	-	-	-	-	919	2.25	A28
Christopher A. Steen, Department Manager Finance	1 140	24	251	290	3.15	A38	-	-	-	2 939	2.25-2.45	A34/A42
Board of Directors												
Sverre Thornes, Chair	-	-	-	10 017	2.25	A45	3 694	167	1 509	-	-	-
Aage E. Schaanning	-	-	-	-	-	-	3 264	150	1 301	3 127	2.25-2.45	A22/A23
Mette-Jorunn Meisland[2]	-	-	-	-	-	-	795	90	256	5 925	2.25-2.45	A38
Aina Iren Slettedal Eide	-	-	-	-	-	-	-	-	-	-	-	-
Jan Otto Langmoen	110	-	-	1 085	2.45	HC	6	-	-	-	-	-
Eva M. Salvesen	110	-	-	-	-	-	48	-	-	-	-	-
Christin Kleppe, elected by and from the employees	100	-	-	-	-	-	6	-	-	-	-	-
Employees												
Total loans to employees of KLP Banken AS				43 415	-					53 156	-	-

1) S= Serial loan, A= Annuity loan, last payment, HC=House Credit. 2) Resigned during the year. 3) Acceded on 1st October

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

NOK THOUSANDS	2016	2015
Period expenses related to interest subsidies on loans to employees	223	59

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 acceded 1 October. He 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 pensinable 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.

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.

KLP Banken AS has a joint Control Committee with the rest of the KLP Group and a joint Supervisory Board with the rest of the companies in the banking group.

All benefits are shown without the addition of social security costs.

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

NOTE 29 Number of employees

KLP Banken AS			KLP Banken AS Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
59	64	Number of FTEs	64	59
61	70	Number of employees as at 31 December	70	61

NOTE 30 Pay and general management costs

KLP Banken AS			KLP Banken AS Group	
01.01.2015 -31.12.2015	01.01.2016 -31.12.2016	NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
-45 935	-42 948	Salaries	-42 948	-45 935
-6 683	-7 288	Social security contributions	-7 288	-6 683
-7 887	-7 442	Pensions including social security contributions	-7 442	-7 887
-320	-123	Other benefits	-123	-320
-60 824	**-57 801**	**Total**	**-57 801**	**-60 824**

NOTE 31 Other assets

KLP Banken AS			KLP Banken AS Group	
31.12.2015	**31.12.2016**	**NOK THOUSANDS**	**31.12.2016**	**31.12.2015**
11 973	12 243	Receivables between companies in the same Group	610	437
0	2 487	Miscellaneous receivables	2 487	0
207	272	Prepaid expenses	273	1 156
12 180	**15 002**	**Total**	**3 370**	**1 593**

NOTE 32 Other liabilities and provision for accrued costs

KLP Banken AS			KLP Banken AS Group	
31.12.2015	**31.12.2016**	**NOK THOUSANDS**	**31.12.2016**	**31.12.2015**
26 888	93 065	Receivables between companies in the same Group	65 801	25 025
1 514	4 511	Creditors	5 013	1 583
3 030	2 614	Miscellaneous liabilities	2 617	3 035
31 432	**100 189**	**Total other liabilities**	**73 431**	**29 643**
2 738	2 837	Withholding tax	2 837	2 738
1 982	2 090	Social security contributions	2 090	1 982
4 499	4 914	Holiday pay	4 914	4 499
22 505	26 279	Pension obligations	26 279	22 505
77	0	VAT	264	170
5 174	5 370	Provisioned costs	9 790	6 027
36 976	**41 490**	**Total accrued costs and liabilities**	**46 174**	**37 920**

NOTE 33 Transactions with related parties

KLP Banken AS			KLP Banken AS Group	
01.01.2015 -31.12.2015	**01.01.2016 -31.12.2016**	**NOK THOUSANDS**	**01.01.2016 -31.12.2016**	**01.01.2015 -31.12.2015**
		INCOME STATEMENT ITEMS		
57 620	57 000	KLP, fees lending management	57 000	57 620
14 168	12 830	KLP Kommunekreditt AS, administrative services (at cost)	0	0
25 611	26 794	KLP Boligkreditt AS, administrative services (at cost)	0	0
48 269	37 215	KLP Kommunekreditt AS, interest lending	0	0
31 191	9 309	KLP Boligkreditt AS, interest lending	0	0
-101	-63	KLP Kapitalforvaltning AS, fees for services provided	-438	-422
-3 692	-5 454	KLP, rent	-5 454	-3 692
-7 887	-7 442	KLP, pension premium	-7 442	-7 887
-46 386	-53 717	KLP, staff services (at cost)	-53 717	-46 386
492	999	KLP Group companies, subsidised interest employee loans	2 233	1 065
119 286	**77 471**	**Total**	**-7 818**	**298**

KLP Banken AS			KLP Banken AS Group	
31.12.2015	**31.12.2016**	**NOK THOUSANDS**	**31.12.2016**	**31.12.2015**
		FINANCIAL POSITION STATEMENT ITEMS		
2 181 927	1 170 823	KLP Kommunekreditt AS, lending Group short-term	0	0
825 732	848 927	KLP Boligkreditt AS, lending Group short-term	0	0
-302	-24 060	KLP Kommunekreditt AS, loan settlement	0	0
-1 640	-3 295	KLP Boligkreditt AS, loan settlement	0	0
-16 448	-50 525	KLP, loan settlement	-50 525	-16 448
		NET INTERNAL ACCOUNTS TO:		
-8 498	-15 185	KLP	-14 895	-8 498
4 494	4 018	KLP Kommunekreditt AS, net internal accounts	0	0
7 229	8 096	KLP Boligkreditt AS, net internal accounts	0	0
251	129	KLP Group companies, net other internal accounts	228	358
2 992 744	**1 938 928**	**Total**	**-65 192**	**-24 588**

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 allocated at cost. Allocation is based on actual use. All internal receivables are settled as they arise.

NOTE 34 Auditor's fee

KLP Banken AS			KLP Banken AS Group	
01.01.2015 -31.12.2015	01.01.2016 -31.12.2016	NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
402	375	Ordinary audit	829	1 118
8	0	Certification services	330	179
0	0	Tax advisory services	0	0
0	19	Non-audit services	19	0
410	**394**	**Total auditor's fee**	**1 178**	**1 297**

The sums above include VAT.

NOTE 35 Contingent liabilities

KLP Banken AS			KLP Banken AS Group	
31.12.2015	31.12.2016	NOK THOUSANDS	31.12.2016	31.12.2015
351 309	452 389	Credit facilities for lending not utilized	452 389	351 309
77 699	217 716	Promised loans	424 652	273 714
15 975 000	17 230 000	Credit facility KLP Kommunekreditt AS	0	0
2 850 000	3 743 000	Credit facility KLP Boligkreditt AS	0	0
19 254 008	**21 643 105**	**Total contingent liabilities**	**877 041**	**625 023**

NOTE 36 Cash and cash equivalents and other loans and receivables from credit institutions

KLP Banken AS			KLP Banken AS Group	
31.12.2015	31.12.2016	NOK THOUSANDS	31.12.2016	31.12.2015
396 505	1 008 061	Bank deposits operations	1 523 245	945 275
0	0	Cash	0	0
396 505	**1 008 061**	**Total cash and cash equivalents (liquidity)**	**1 523 245**	**945 275**
10 632	10 037	Bank accounts to be used for the purchase and sale of securities	24 837	28 316
407 137	**1 018 098**	**Loans and receivables from credit institutions**	**1 548 082**	**973 591**

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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. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016 and income statement, statement of changes in equity, cash flow 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 parent company as at 31 December 2016, 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 financial statements give a true and fair view of the financial position of the group as at 31 December 2016, 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, included 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 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.

Other information

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Auditor's Report - 10 March 2017 - KLP Banken AS

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management 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, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

We communicate with 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 statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

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Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to 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.

Trondheim, 10 March 2017
PricewaterhouseCoopers AS

Rune Kenneth S. Lædre
State Authorised Public Accountant

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

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