# annual report 2015

# KLP Banken AS

Coverphoto: Dag Eidstuen **Open**

In 2015 KLP hosted an internal photo contest where the staff were to visualize one of KLP's values Open, Clear, Responsible and Committed or "For the days to come". Olav Storm, photographer, was head of the jury.

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# Annual report 2015

## The KLP Banken Group made a profit before tax of NOK 49.6 million in 2015. Total lending and net interest income were higher than the year before, and both business areas contributed to a good set of results.

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 operations of KLP Banken AS and its subsidiaries are divided into the business areas Private Market and Public Lending. Both areas are nationwide in scope. 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 which 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 performance in 2015 for the KLP Banken AS Group

Figures for 2014 are shown in brackets.

- Profit before tax: NOK 49.6 million (NOK 28.7 million)
- Net profit after tax: NOK 40.5 million (NOK 16.6 million)
- Net interest income: NOK 187.1 million (NOK 133.0 million)
- Lending disbursements during the year, including managed loans: NOK 14.3 billion (NOK 11.8 billion)
- On-balance sheet lending: NOK 26.4 billion (NOK 24.9 billion)
- Lending managed on behalf of KLP: NOK 51.0 billion (NOK 41.6 billion)

### INCOME STATEMENT

The KLP Banken Group made a profit before tax of NOK 49.6 million in 2015. The financial contributions from the business areas were NOK 30.2 million from the private market and NOK 19.4 million from the public sector. The equivalent total net profit before tax in 2014 was NOK 28.7 million, with the private market showing a loss of NOK 13.9 million while the public sector returned a profit of NOK 42.6 million. After tax the net profit for 2015 totalled NOK 40.5 million, against NOK 16.6 million the previous year.

The KLP Banken Group achieved a return on equity of 3.3 per cent (2.2 per cent) before tax and 2.7 per cent (1.3 per cent) after tax The profit figures include management fees from KLP amounting to NOK 57.6 million (NOK 58.0 million).

Total lending in the Group increased in 2015 by NOK 1.4 billion (6 per cent). This figure includes growth in home mortgage loans of NOK 2.1 billion (24 per cent) and a reduction in public lending of NOK 0.6 billion (-4 per cent). Combined with a favourable trend in the Bank's financing costs for home loans, this helped to increase net interest income by NOK 54.0 million (41 per cent) in 2015 compared to 2014. Net interest income from home loans thus contributed to a big improvement in profits, while income from public lending maintained roughly the same level as the previous year. 63 per cent of the Group's net interest income in 2015 came from the private market, against 46 per cent in 2014. The financial contribution of the bank's activities in the private market has therefore acquired a greater significance for the bank's overall profits in recent years. The board considers the underlying trend to be good.

In the second half of 2015, we saw a significant increase in premiums in the securities market. The value of the bank group's liquid investments therefore fell. This brought down profits in 2015 by NOK 30.1 million, of which NOK 27.2 million were in the subsidiary KLP Kommunekreditt AS. At the end of 2014, the income statement included a net gain on securities of NOK 6.6 million.

During the term of its borrowing agreements, the bank makes regular adjustments to reduce its liquidity risk and meet regulatory requirements with respect to liquidity indicators and capital adequacy (Basel III and CRD IV). Restructuring of borrowings in the subsidiaries then results in a need to buy back own issues. These effects are recognized in profit and loss. Borrowings were also repurchased in 2015, but at much lower cost than in 2014. Profits for 2015 were reduced by NOK 5.1 million by loan repurchasing. The corresponding figure for 2014 was NOK 21.5 million.

KLP Banken does not charge high fees for its banking services in the private market. Net fees and commission income amounted to NOK 10.2 million for 2015, an increase of 2 per cent from 2014.
Operating costs and depreciation totalled NOK 170.2 million in 2015, compared with NOK 157.4 million the year before. This corresponds to a rise in costs of 8 per cent. The increase in excess of normal inflation in 2015 is again largely related to investments in IT technology and digitalization and to efficiency improvements in processes for customers and internally.

Losses on lending totalled NOK 1.0 million in 2015, all of which were associated with investments in the private market. The corresponding figure for 2014 was NOK 0.6 million. The Board considers that losses are at a low level and believe that the provisions raised are sufficient. No group-level write-downs were made. The public market has not incurred any losses on lending.

## Lending – total

On behalf of KLP and through its own balance sheet, the KLP Banken AS Group manages a lending portfolio worth NOK 76.9 billion (NOK 66.1 billion), divided between NOK 62.9 billion (NOK 53.5 billion) in loans to public-sector borrowers and enterprises, and NOK 14.1 billion (NOK 12.6 billion) in home loans to private individuals.

Outstanding loans (principal) per company in the KLP Banken AS Group as at 31 December 2015:

| Company / NOK bn | Mortgage loans | Public sector /enterprises | Total lending |
|---|---|---|---|
| KLP Banken AS (parent) | 6.9 | - | 6.9 |
| KLP Boligkreditt AS | 3.7 | - | 3.7 |
| KLP Kommunekreditt AS | - | 15.3 | 15.3 |
| KLP (Management agreement) | 3.4 | 47.6 | 51.0 |
| Total | 14.1 | 62.9 | 76.9 |

Of the managed loans to the public sector enterprises, NOK 10.1 billion derives from a pure management agreement for the Bank, under which the agreement, documentation and follow-up of loans is undertaken by KLP. With regard to the remaining management activities on behalf of KLP, the bank is also responsible for making offers, entering into agreements and producing loan documentation in accordance with a mandate issued by KLP.

In consideration for the management agreement, KLP Banken AS received NOK 57.6 million in 2015, NOK 0.4 million less than the previous year.

## Private market

For 2015, the Bank's private market business unit can once again point to strong growth in lending volumes and stable margins. The net result for the year for the business area was positive for the first time since the Bank was established in 2010. During the year, part of the Bank's mortgage portfolio was transferred to its subsidiary KLP Boligkreditt AS. This company is financed largely through the issue of mortgage-backed covered bonds. This helps to reduce the bank group's financing costs. In the first half of the year especially, there was a sharp increase in sales of new home loans, which went on to be the largest in the history of the bank. Overall growth, however, arises both from new sales and from the purchase of home loans from KLP.

### LENDING

KLP Banken AS is an online bank without a network of physical branches. The online bank is a retail bank with simple, competitive savings and loan products. At the end of 2015, on-balance sheet lending to the private market totalled NOK 10.7 billion, an increase of NOK 2.1 billion compared with 2014. The increase in outstanding volume is a combination of new sales and the purchase of loans from KLP for the sum of NOK 0.7 billion.

During 2015 managed mortgages on KLP's balance sheet decreased from NOK 4.1 billion to NOK 3.4 billion. The reduction is a result of the bank's purchase of home loans from KLP, as well as the fact that new mortgages through the year were financed by the Bank. The managed portfolio has subsequently been reduced by ordinary instalments and loan redemptions.

At the end of the year, KLP's combined mortgage portfolios comprised NOK 14.1 billion in loans to private customers, a large and important group of whom is made up of municipal and health service employees who are members of KLP's pension schemes. Net growth in 2015 was NOK 1.4 billion. New payouts totalled NOK 5.8 billion gross. The mortgage lending portfolio has a conservative valuation, with careful assessments also being made of the potential borrowers' willingness and ability to pay before any loan is granted.

There are more than 11,500 mortgage customers, with members accounting for around 80 per cent. The average loan per customer came to NOK 1.2 million. Fixed-interest mortgages accounted for 9 per cent of the lending volume at the end of the year, the same as in 2014. The remaining loans were at floating interest rates. NOK 1.0 million in mortgage write-downs were recognised in 2015. Defaults in excess of 90 days totalled NOK 29.3 million gross at the end of 2015, corresponding to 0.27 per cent of the outstanding amount. The corresponding figures for 2014 were NOK 26.1 million and 0.30 per cent. Defaults and losses therefore remain extremely small.

The loan products that KLP Banken AS offers in the private market include ordinary 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 private market include current accounts, savings accounts, young home-buyer savings accounts (BSU), and debit and credit cards.

### BORROWING AND DEPOSITS THAT FINANCE THE PRIVATE MARKET

KLP Banken's products are priced to appeal to people who are employed by KLP's owners or are drawing a pension from an occupational pension scheme in the company. The Bank's marketing is also largely directed at members of the pension schemes. Through 2015 the number of active deposit customers in the private market area increased from 33,100 to 36,700. Members make up 67 per cent of the deposit customers. Deposits from retail customers totalled NOK 6.0 billion (NOK 5.1 billion) at the end of 2015.

KLP Banken also offers a deposit product to corporate customers. At the end of 2015 deposits from businesses came to NOK 1.4 billion (NOK 1.2 billion), which is 19 per cent of total deposits. The overall volume of funds held on deposit rose by 19 per cent in 2015, from

NOK 6.2 billion in 2014 to NOK 7.4 billion at the end of the year.

The subsidiaries' activities are partially funded through KLP Banken AS's certificate and bond debt. At the end of 2015, the Bank's outstanding certificate and bond debt totalled NOK 2.9 billion (NOK 3.2 billion).

In 2014 KLP Banken AS established the subsidiary KLP Boligkreditt AS. Lending activities in the private market could then be partially funded by covered bonds. The establishment of the company was intended to finance continued growth in the private market through favourable funding. In 2015 covered bonds in the amount of NOK 1.6 billion were issued. Outstanding bond debt in KLP Boligkreditt AS totalled NOK 3.4 billion at the end of 2015. The company has achieved the best rating for its borrowing programme.

During 2015, KLP Boligkreditt AS purchased home loans worth NOK 2.6 billion from KLP Banken AS. At year-end, mortgages totalling NOK 3.7 billion were financed through KLP Boligkreditt's balance sheet, while mortgages totalling NOK 7.0 billion were financed through KLP Banken's balance sheet.

## Public sector market

### LENDING

The KLP Banken Group's lending to the public sector is financed through its subsidiary KLP Kommunekreditt AS, mainly by the issue of bonds covered by a pool of loans to municipal and county authorities or companies with public guarantees.

The Bank also has a management agreement on behalf of KLP, which means that a significant proportion of the bank's activities in the public sector comprise loans which are financed by KLP.

KLP Banken's management agreement also involves the management of loans to companies and operations that lie outside KLP Kommunekreditt's area of responsibility. At the end of 2015 this lending volume totalled NOK 10.1 billion, compared with NOK 5.2 billion a year before. This area of lending is not discussed in any more detail below.

New loans amounting to NOK 8.5 billion (NOK 9.1 billion) were paid out in 2015 to, or with guarantees from, the public sector by companies within the KLP Group. Instalment payments and loan redemptions totalled NOK 4.1 billion (NOK 3.2 billion) during the year.

Total lending to public-sector borrowers stood at NOK 52.7 billion at the end of 2015, an increase of NOK 4.4 billion (8 per cent) from 2014. The increase is largely associated with lending financed by KLP, while lending through the company's own balance sheet decreased by NOK 0.6 billion.

Fixed-interest loans accounted for 35 per cent of total lending at the end of 2015, down from 43 per cent the year before.

Requests for loans amounting to around NOK 45 billion (NOK 35 billion) were received during 2015. The increase from 2014 is due to a rise in demand for loans for new road projects, in addition to the borrowing needs of Norwegian local authorities. The acceptance rate was 22 per cent in 2015, compared with 23 per cent in 2014.

The credit risk associated with lending to municipal and county authorities in Norway is limited to the deferment of payment and not to the cessation of payment obligations. This is a result of Norwegian legislation, which indemnifies the lender against losses if a local authority is unable to meet its payment obligations. In the event that payment is deferred, the lender is also, pursuant to Norwegian legislation, secured compensation for accrued interest, late-payment interest and debt collection costs. Neither the KLP Banken Group nor other specialised lenders have previously incurred credit losses on loans to municipal or county authorities.

### BORROWING TO FINANCE PUBLIC LENDING

KLP Kommunekreditt AS issues bonds covered by a pool of loans to municipal and county authorities or companies with public guarantees. Cost-effective financing is intended to ensure that the KLP Banken AS Group can offer long-term loans on favourable terms. The company has received the highest rating for its borrowing programme.

At the end of 2015 NOK 16.1 billion (NOK 16.4 billion) in bonds covered by public-sector loans had been issued in the Norwegian market. New issues in 2015 totalled NOK 2.9 billion. No bonds have been issued outside Norway.

## Balance sheet and capital adequacy

The KLP Banken AS Group had total bank assets of NOK 31.3 billion (NOK 29.8 billion) at the end of 2015. The table below shows a breakdown of this amount:

| Total bank assets / NOK bn | KLP Banken Group |
|---|---|
| Public lending/municipal guarantee | 15.6 |
| Lending to private individuals | 10.7 |
| Securities and liquidity | 4.8 |
| Other assets | 0.2 |
| Total | 31.3 |

In June 2015, the general meeting of KLP Banken AS approved a share issue worth NOK 200 million. The capital injection was paid in July.

The Group's equity and subordinated loan capital, based on the board of directors' proposal for the allocation of the group companies' profit, was NOK 1.5 billion at the end of 2015. Core capital is identical with equity and subordinated loan capital. This gives a capital adequacy and core capital adequacy of 17.6 per cent. The corresponding figures for 2014 were NOK 1.3 billion and 16.9 per cent. The current capital requirement, including capital buffers, is 11 per cent core capital adequacy and 14.5 per cent capital adequacy. The risk-weighted balance came to NOK 8.0 billion. Unweighted capital adequacy in the bank group was 4.7 per cent. Capital adequacy is considered good.

## Liquidity

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

Surplus liquidity is invested in other banks and in interest-bearing securities. Investments in credit institutions totalled NOK 1.0 billion, and the book value of the interest-bearing securities portfolio was NOK 3.8 billion at the end of the year. The investments in interest-bearing securities are largely recognized in KLP Kommunekreditt AS. The liquidity portfolio is entirely composed of Norwegian high-rated covered bank bonds and bonds issued by Norwegian municipalities. KLP Banken reports the liquidity reserve (LCR) for the bank group as a whole each month, and for the individual companies in the Group each quarter. At the end of 2015, LCR for the Group stood at 212 per cent; for KLP Banken AS, it was 71 per cent.

## Application of the year's profit

KLP Banken AS's financial statements for 2015 show a total net profit of NOK 48.6 million. The board of directors proposes that a group contribution of NOK 0.3 million be paid to KLP Bankholding and NOK 23.7 million to KLP. The same amount will be received from KLP in return as a group contribution without any tax effect. Net profit and net group contribution will be transferred to other owners' equity.

## About the financial statements

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

KLP Banken AS prepares its financial statements in accordance with the international accounting standards IFRS, as approved by the EU with associated interpretations. See Note 2 for further details.

## Rating

The rating agencies' assessment of the companies in the KLP Banken Group has a major bearing on the borrowing terms available to the companies. The companies use Fitch Ratings and Moody's for credit rating of their bonds. All issues of covered bonds (OMF) have received an AAA rating, which is the best achievable rating. The companies KLP Banken AS and KLP Kommunekreditt AS are rated A- by Fitch Ratings.

## 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, among other things, roles in the company's risk management, including requirements and guidelines for the risk auditing function. The purpose of the risk control function is to check that the risk policies and other guidelines for risk management are being followed.

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

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

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

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

The bank has established an annual process to assess and quantify material risks and calculate its capital requirement (ICAAP). The capital requirement assessment is forward-looking, and in addition to calculating needs based on current exposure (and, if appropriate, limits), an assessment is made in light of planned growth, determined strategic changes, etc. The bank's board of directors takes an active part in these assessments and, in addition to the capital requirement assessment, determines a desired level for total capital. This level is termed the 'target capital'.

The board of directors of KLP Banken AS has established a risk committee. The risk committee deals with matters specifically related to risk and has an advisory function to the Board.

## The work of the board of directors

The board of directors held seven board meetings in 2015. For an overview of the remuneration paid to members of the company's board and management, see Note 28 to the year-end financial statements.

## Corporate governance

The company's articles of association and applicable legislation provide guidelines for corporate governance, and define a clear division of roles between governing bodies and day-to-day management. It falls to the board of directors to issue guidelines for the company's operations. Binding contracts may be signed by the CEO or the chairman of the board alone.

The CEO is in charge of the day-to-day management of the company in accordance with instructions issued by the board of directors.

An account of the management of the bank can be found on KLP's website.

## Working environment and organisation

The bank's most important resource is its employees, most of whom are highly experienced in both the private market and the public sector and have acquired considerable credit and market expertise. New products, services and regulatory requirements with respect to the bank lead to operational changes and demand reorganisation and new competences. 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 2015, KLP Banken AS and its subsidiaries had the equivalent of 59 full-time employees, compared with 55 at the same point in 2014. All employment contracts are with KLP Banken AS. Two employees have additional functions with the subsidiaries; KLP Kommunekreditt AS and KLP Boligkreditt AS. In addition to the bank's own balance-sheet, employees of KLP Banken AS also manage lending portfolios financed by KLP and by the subsidiaries, under contract.

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

The KLP Group aims to achieve a sickness absence rate of under 4 per cent. In 2015 the bank had a sickness absence rate of 4.2 per cent (4.3 per cent). Long-term absence totalled 2.5 per cent (2.7 per cent), while short-term absence totalled 1.1 per cent (1.1 per cent). Absence is being followed up by managers and the HR department. Once again, there were no serious injuries or accidents in 2015.

As part of the KLP Group, KLP Banken AS complies with the Group's guidelines on equality and diversity, whose objectives, initiatives and activities take account of the basis for discrimination described in the legislation. A central working group has drawn up internal targets for equality and diversity. In connection with recruitment, the company routinely states its desire to be contacted by all qualified job applicants irrespective of age, gender, disability, political opinions, sexual orientation or ethnic background.

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

Women make up 51 per cent of the bank group's workforce. Efforts are made to achieve a balance between women and men at all levels. Women hold 50 per cent of management positions. At the end of 2015 the board of directors of KLP Banken AS comprised three women and three men, with one woman director having been elected from among the employees.

## External environment

Through its social responsibility strategy KLP has pledged to maintain good routines for the measurement and reduction of its companies' environmental impact. Like the rest of the KLP Group, KLP Banken AS takes its environmental impact seriously. As an office-based company, it has greatest control over energy consumption, transport, waste management and procurement.KLP Banken AS is environmentally certified.

## Social responsibility

The KLP Group, including KLP Banken AS, aims to contribute to sustainable investments and responsible business operations. Social responsibility is of strategic importance for KLP. This is manifested through actions linked to the Group's business. KLP has signed the UN Global Compact, and is thereby committed to working for human rights, workers' rights and the environment, and against corruption. KLP's work on social responsibility focuses on four areas: responsibility in investments and products, responsible environmental solutions, sharing of knowledge and local engagement. Social responsibility is also included in governing documents, including codes of conduct and guidelines for environmental protection and responsible investment. More extensive descriptions of objectives, initiatives and results in this area are available from KLP's website.

## Outlook

Members of the pension schemes in KLP total more than half a million individuals, so the potential for further growth in this target group is considered substantial. Around 69 per cent of those making use of the bank's overall portfolio of products are members.

In the coming year the Norwegian economy is expected to see continuing low interest rates and inflation. Norwegian households' average level of indebtedness is historically high, and some groups will therefore be vulnerable in the event of higher interest and unemployment rates. Residential property prices continued to rise in 2015, and there is uncertainty arising from fears that this trend could turn into a fall in prices. Unemployment increased in 2015 in those parts of the country that have a high proportion of workers in the oil industry. The board of directors assumes that the servicing level for home loans in the bank's most important customer groups, which are mainly made up of public-sector employees, will remain satisfactory into the future and will help to keep defaults at a low level. The board believes it will be important to continue pursuing a conservative credit policy in order to maintain the low risk profile of the bank's mortgage portfolios.

Technological solutions and digitalisation in general are intended to make the organisation more customer-friendly, efficient and accessible. New technology will be exploited commercially to offer customers attractive products and to improve internal processes. This involves substantial investment costs, but over time will contribute to achieving the bank's growth and profitability targets.

After several years of falling borrowing costs, loan mark-ups went up sharply in the autumn of 2015. Marginal costs are above average in current borrowing, which means that average financing costs will increase as loans are refinanced. This is an issue for most Norwegian banks. It is reasonable to assume that this will later be reflected in lending rates.

KLP Boligkreditt AS is an important part of the bank group's financing structure through its ability to issue mortgage covered bonds on favourable terms. An even larger proportion of the bank's mortgage lending could potentially be financed through this company. This will provide flexibility in the choice of different sources of financing for lending growth.

Deposits from individuals and companies account for an important part of the bank's financing. Bank deposits are the foundation for its operating licence, and are important as part of the total offering to members and customers. Not all customers are in a position to borrow money, or wish to do so, and it is important for the bank to competitive savings products available. The bank's deposit growth was slightly lower last year than the previous year. At the same time, the costs of alternative financing have increased relative to deposits. We may therefore assume that competition for deposit customers will increase in the future, and that the bank will then have to offer attractive deposit interest rates.

For many years, Norwegian municipalities have been developing a good and extensive range of services to the population. Combined with increasing longevity and population growth, there is every reason to expect a continued need for high public sector investment. It is highly likely that demand for loans in the municipal sector and for projects with municipal guarantees and ownership will continue to grow in the years ahead, whatever the changes in local government structure or responsibilities.

KLP Kommunekreditt has a good position in the market for public lending. Its presence in the market contributes to competition and so improves access to long-term, low-cost financing. Customer surveys show that borrowers want competition with regard to municipal lending. This is also underscored by the relatively strong growth that KLP has had in 2015.

The bank has a sound capital base that meets regulatory requirements. Combined with low credit risk in its lending business, this is a good starting point for accessing the best possible financing in the capital markets. The board of directors believes the bank to be well positioned for further development and growth.

Trondheim, 9 March 2016

Sverre Thornes
Chair

Aage Schaanning
Deputy Chair

Aina Slettedal Eide

Eva M. Salvesen

Jan Otto Langmoen

Christin Kleppe
Elected among the employees

Espen Trandum
Elected among the employees

Leif Magne Andersen
CEO

THE BOARD OF DIRECTORS OF KLP BANKEN AS AAGE E. SCHAANNING (Deputy Chair),
AINA SLETTEDAL EIDE, SVERRE THORNES (Chair), CHRISTIN KLEPPE (elected among the employees),
EVA M. SALVESEN, JAN OTTO LANGMOEN OG ESPEN TRANDUM (elected among the employees).

# Income Statement

| KLP Banken AS | | | | | KLP Banken AS Group | |
|---|---|---|---|---|---|---|
| 2014 | 2015 | Note | NOK thousands | Note | 2015 | 2014 |
| 290 560 | 294 752 | | Interest income and similar income | | 817 991 | 841 945 |
| -243 653 | -224 809 | | Cost of interest and similar costs | | -630 928 | -708 899 |
| 46 907 | 69 944 | 10 | Net interest income | 10 | 187 063 | 133 046 |
| 11 174 | 11 280 | | Commission income and income from banking services | | 11 280 | 11 174 |
| -1 176 | -1 074 | | Commission costs and costs of banking services | | -1 074 | -1 176 |
| 9 998 | 10 205 | 11 | Net charges and commission income | 11 | 10 205 | 9 998 |
| 30 600 | 38 452 | | Income from ownership interests in Group companies | | 0 | 0 |
| 58 025 | 57 648 | | Other fee income | | 57 648 | 58 025 |
| 1 051 | -3 437 | 5 | Net gain/(loss) on financial instruments | 5 | -34 111 | -14 399 |
| 89 676 | 92 663 | | Total other operating income | | 23 537 | 43 626 |
| -48 976 | -60 824 | 30 | Salary and administrative costs | 30 | -60 824 | -48 976 |
| -2 677 | -3 396 | 23,24 | Depreciation | 23,24 | -3 396 | -2 677 |
| 0 | -1 338 | | Write-downs | | -1 338 | 0 |
| -74 352 | -56 229 | 34 | Other operating expenses | 34 | -104 595 | -105 738 |
| -126 005 | -121 787 | | Total operating expenses | | -170 153 | -157 391 |
| -607 | -1 034 | 18 | Loss on loans issued, guarantees etc. | 18 | -1 034 | -607 |
| 19 968 | 49 990 | | Operating profit/loss before tax | | 49 618 | 28 672 |
| 2 763 | -6 534 | 26 | Tax on ordinary income | 26 | -14 240 | -7 849 |
| 22 732 | 43 456 | | Income for the year | | 35 378 | 20 823 |
| | | | Items that will not be reclassified to income | | | |
| -5 722 | 7 012 | | Estimate difference, pension obligations and assets | | 7 012 | -5 722 |
| 1 545 | -1 893 | 26 | Tax on estimate difference, pension obligations and assets | 26 | -1 893 | 1 545 |
| -4 177 | 5 119 | | Other comprehensive income for the year after tax | | 5 119 | -4 177 |
| 18 554 | 48 575 | | COMPREHENSIVE INCOME FOR THE YEAR | | 40 497 | 16 646 |
| -13 331 | -48 575 | | Allocated to/from retained earnings | | | |
| -5 223 | 0 | | Allocated to/from share premium fund | | | |
| -18 554 | -48 575 | | TOTAL ALLOCATION OF INCOME | | | |

## Balance sheet

| KLP Banken AS | | | | | KLP Banken AS Group | |
|---|---|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | Note | NOK thousands | Note | 31.12.2015 | 31.12.2014 |
| | | | ASSETS | | | |
| 3 785 790 | 3 414 796 | 17,36 | Loans to and receivables from credit institutions | 17,36 | 973 591 | 1 113 949 |
| 5 636 190 | 6 969 731 | 17 | Loans to and receivables from customers | 17 | 26 359 449 | 24 945 746 |
| 410 720 | 559 114 | 16 | Fixed-income securities | 16 | 3 783 373 | 3 486 756 |
| 265 | 265 | | Shares, holdings and primary capital certificates | | 265 | 265 |
| 925 470 | 925 470 | 22 | Holdings in Group companies | | 0 | 0 |
| 29 125 | 25 475 | 7 | Financial derivatives | 7 | 148 375 | 187 413 |
| 9 449 | 7 475 | 26 | Deferred tax assets | 26 | 9 542 | 1 120 |
| 499 | 468 | 23 | Tangible fixed assets | 23 | 468 | 499 |
| 18 503 | 17 784 | 24 | Intangible assets | 24 | 17 784 | 18 503 |
| 10 585 | 12 180 | 31 | Other assets | 31 | 1 593 | 1 852 |
| 10 826 596 | 11 932 759 | | TOTAL ASSETS | | 31 294 440 | 29 756 104 |
| | | | | | | |
| | | | LIABILITIES AND OWNERS' EQUITY | | | |
| | | | LIABILITIES | | | |
| 3 240 841 | 2 932 206 | 20 | Liabilities created on issuance of securities | 20 | 21 901 660 | 21 687 168 |
| 6 250 873 | 7 426 181 | 21 | Deposits | 21 | 7 426 181 | 6 250 873 |
| 27 176 | 21 401 | 7 | Financial derivatives | 7 | 366 706 | 448 146 |
| 0 | 6 453 | 26 | Deferred tax | 26 | 24 514 | 9 141 |
| 43 129 | 31 432 | 32 | Other liabilities | 32 | 29 643 | 38 821 |
| 35 043 | 36 976 | 32 | Provision for accrued costs and liabilities | 32 | 37 920 | 36 737 |
| 9 597 061 | 10 454 649 | | TOTAL LIABILITIES | | 29 786 624 | 28 470 886 |
| | | | | | | |
| | | | OWNERS' EQUITY | | | |
| 750 000 | 855 000 | | Share capital | | 855 000 | 750 000 |
| 440 000 | 535 000 | | Share premium | | 535 000 | 440 000 |
| 39 535 | 88 110 | | Retained earnings | | 117 816 | 95 218 |
| 1 229 535 | 1 478 110 | | TOTAL OWNERS' EQUITY | | 1 507 816 | 1 285 218 |
| | | | | | | |
| 10 826 596 | 11 932 759 | | TOTAL LIABILITIES AND OWNERS' EQUITY | | 31 294 440 | 29 756 104 |

Trondheim, 9 March 2016

Sverre Thornes
Chair

Aage Schaanning
Deputy Chair

Aina Slettedal Eide

Eva M. Salvesen

Jan Otto Langmoen

Christin Kleppe
Elected among the employees

Espen Trandum
Elected among the employees

Leif Magne Andersen
CEO

## Statement of owners' equity KLP Banken AS

| 2015<br>NOK thousands | Share capital | Share premium | Retained earnings | 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 |

| 2014<br>NOK thousands | Share capital | Share premium | Retained earnings | Total owners' equity |
|---|---|---|---|---|
| Owners' equity 1 January 2014 | 750 000 | 435 193 | 25 788 | 1 210 981 |
| Income for the year | 0 | 4 807 | 17 924 | 22 732 |
| Other comprehensive income | 0 | 0 | -4 177 | -4 177 |
| Comprehensive income for the year | 0 | 4 807 | 13 747 | 18 554 |
| Total transactions with the owners | 0 | 0 | 0 | 0 |
| Owners' equity 31 December 2014 | 750 000 | 440 000 | 39 535 | 1 229 535 |

| | Number of shares | Nominal value in whole NOK | Share premium | Total |
|---|---|---|---|---|
| As at 1 January 2015 | 7 500 000 | 100 | 440 000 | 1 190 000 |
| Changes during the period, increase in nominal value and new share premium | 7 500 000 | 14 | 95 000 | 200 000 |
| As at 31 December 2015 | 7 500 000 | 114 | 535 000 | 1 390 000 |
| Accumulated income | | | | 88 110 |
| Owners' equity as at 31.12.2015 | | | | 1 478 110 |

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

## **Statement of owners' equity** KLP Banken AS Group

| 2015<br>NOK thousands | Share capital | Share premium | Retained earnings | 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 |

| 2014<br>NOK thousands | Share capital | Share premium | Retained earnings | Total owners' equity |
|---|---|---|---|---|
| Owners' equity 1 January 2014 | 750 000 | 440 000 | 100 172 | 1 290 172 |
| Income for the year | 0 | 0 | 20 823 | 20 823 |
| Other comprehensive income | 0 | 0 | -4 177 | -4 177 |
| Comprehensive income for the year | 0 | 0 | 16 646 | 16 646 |
| Group contribution received during the period | 0 | 0 | 8 500 | 8 500 |
| Group contribution paid during the period | 0 | 0 | -30 100 | -30 100 |
| Total transactions with the owners | 0 | 0 | -21 600 | -21 600 |
| Owners' equity 31 December 2014 | 750 000 | 440 000 | 95 218 | 1 285 218 |

## Statement of cash flows

| KLP Banken AS 2014 | KLP Banken AS 2015 | NOK thousands | KLP Banken AS Group 2015 | KLP Banken AS Group 2014 |
|---|---|---|---|---|
| | | **Operating activities** | | |
| 283 813 | 292 993 | Payments received from customers – interest, commission & charges | 776 367 | 764 555 |
| -154 170 | -150 819 | Payments to customers – interest, commission & charges | -150 819 | -154 170 |
| -1 939 220 | -1 132 594 | Net receipts/disbursements on loans customers & credit institutions | -1 614 588 | -3 573 398 |
| 1 843 929 | 1 175 318 | Net receipts on customer deposits banking | 1 175 318 | 1 843 929 |
| -78 992 | -59 016 | Net receipts/disbursements on operations | -106 447 | -103 940 |
| -39 411 | -59 268 | Payments to staff, pension schemes, employer's social security contribution etc. | -59 268 | -39 411 |
| 55 261 | 69 680 | Net interest investment accounts | 18 517 | 26 105 |
| 12 523 | 9 077 | Net receipts/disbursements from operating activities | 70 349 | 70 594 |
| 0 | 0 | Income tax paid | 0 | 0 |
| -16 267 | 145 371 | Net cash flow from operational activities | 109 429 | -1 165 735 |
| | | **Investment activities** | | |
| -407 607 | -348 135 | Payments on the purchase of securities | -2 804 539 | -1 939 590 |
| 127 725 | 198 527 | Receipts on the sale of securities | 2 474 691 | 1 382 690 |
| 2 097 | 3 643 | Receipts of interest from securities | 53 267 | 66 298 |
| 0 | -3 320 | Payments on the purchase of tangible fixed assets | -3 320 | 0 |
| 30 600 | 38 452 | Receipts on shares in subsidiaries | 0 | 0 |
| -249 470 | 0 | Disbursement of capital to subsidiaries | 0 | 0 |
| -496 655 | -110 833 | Net cash flow from investment activities | -279 901 | -490 602 |
| | | **Financing activities** | | |
| 471 404 | -298 969 | Net receipts/disbursements on loans from credit institutions | 310 301 | 1 828 609 |
| -84 935 | -77 973 | Net payment of interest on loans | -437 823 | -555 043 |
| 0 | 0 | Group contributions made | -27 080 | -33 305 |
| 0 | 200 000 | Receipts from owners' equity | 200 000 | 0 |
| 386 469 | -176 942 | Cash flows from financing activities | 45 398 | 1 240 261 |
| -126 453 | -142 404 | Net cash flow during the period | -125 074 | -416 076 |
| 665 362 | 538 909 | Cash and cash equivalents at start of period | 1 070 349 | 1 486 425 |
| 538 909 | 396 505 | Cash and cash equivalents at end of period | 945 275 | 1 070 349 |
| -126 453 | -142 404 | Net receipts/disbursements (-) of cash | -125 074 | -416 076 |

## 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 2015 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.

Trondheim, 9 March 2016

Sverre Thornes
Chair

Aage Schaanning
Deputy Chair

Aina Slettedal Eide

Eva M. Salvesen

Jan Otto Langmoen

Christin Kleppe
Elected among the employees

Espen Trandum
Elected among the employees

Leif Magne Andersen
CEO

## Note 1 General information

KLP Banken AS was formed on 25 February 2009. KLP Banken AS group 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. KLP Banken AS is registered and domiciled in Norway. 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 2015

No standards, changes or interpretations that came into effect during 2015 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.

A range of new standards, changes to standards and interpretations on for future annual financial statements. Amongst those the Group has chosen not to apply in advance, the most significant are declared below.

IFRS 9 Financial Instruments governs classification, measurement and recognition of financial assets and financial liabilities as well as hedge accounting. The complete version of IFRS 9 was published in July 2014. It replaces those parts of IAS 39 that relate to the classification and measurement of financial instruments. According to IFRS 9, financial assets are to be classified in three categories: fair value through other comprehensive income; fair value through profit or loss; and amortized cost. The measurement category is decided when the assets are recognized for the first time. Classification depends on the entity's business model for managing its financial instruments and the characteristics of the individual instrument's cash flows. Investments in equity instruments are required to be measured at fair value through profit or loss. The enterprise may choose to present the value changes over other comprehensive income, but the choice is binding and, on later sale, gain/loss cannot be reclassified through profit or loss. Impairment resulting from credit risk is now to be recognized based on expected loss instead of the current model where losses must have been incurred. For financial liabilities the standard generally continues the requirements in IAS 39. The greatest change is that in instances in which the fair value option is adopted for a financial liability, changes in fair value resulting from change in the entity's own credit risk are recognized in other comprehensive income. IFRS 9 simplifies the requirements for hedge accounting through the hedging effect's closer linkage to the management's risk management providing greater scope for discretion. At the same time hedging documentation continues to be required. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group has still to fully assess the effect of IFRS 9.

IFRS 15 Revenue from Contracts with Customers deals with revenue recognition. The standard calls for analysis of the customer contract, identifying the individual performance obligations. A performance obligation may be a good or service. Income is recognized when a customer achieves control over a good or service, and thus has the opportunity to decide on the use of and may receive the advantages from the good or the service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated interpretations. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group has still to fully assess the effect of IFRS 15.

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

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 PENSION OBLIGATIONS - OWN EMPLOYEES
The present value of the Company's net pensions liability in regard to its employees depends on a range of economic and demographic assumptions. The Company complies with the "Guidance for determining pension assumptions" published by the Norwegian Accounting Standards Board (NASB). Updated guidance published on 5 January 2016 has been used as the basis for updated measurement of best-estimate accrued obligations and assets as at 31 December 2015.

In accounting for pension schemes in accordance with IAS 19 and NRS 6, a range of actuarial assumptions must be specified. This specification involves significant elements of judgement and practical approaches. Weight has been placed on the assumptions being mutually consistent. Those parameters that are of the greatest significance for net pension liabilities are the discount rate, assumptions on future salary growth, assumptions on future adjustment of the National Insurance basic amount (G adjustment), pension adjustments, assumptions on future longevity and future likely take-up of the contractual early retirement scheme (AFP).

The Company uses the option given by the "Guidance for determining pension assumptions" to use the interest rate for covered bonds (OMF) as the discount rate based on the belief that a liquid market exists for covered bonds of long duration. In this evaluation, account is taken of market volume; bid/ask spread; price reliability; trading volume and frequency; and issuance volume. As at 31 December 2015 a discount rate of 2.7 per cent has been used.

New mortality assumptions have been used in measuring accrued pension obligations (best estimate) as at 31 December 2015. The Company 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.

Future take-up of contractual early retirement scheme (AFP) has been assumed at 45 per cent, i.e. 45 per cent will take AFP on reaching the age of 62.

3.2 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.

3.3 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.

3.4 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

KLP Banken AS has no division of its income by products or services. The Company has only the retail market segment and has only Norwegian customers. The Company has no external customers who represent more than 10 per cent of the Company's total income.

## Note 5 Net gain/loss on financial instruments

| KLP Banken AS 2014 | KLP Banken AS 2015 | NOK thousands | KLP Banken AS Group 2015 | KLP Banken AS Group 2014 |
|---|---|---|---|---|
| 1 968 | -1 985 | Net gain/loss on fixed-income securities | -30 077 | 6 607 |
| 0 | -416 | Net gain/loss financial derivatives and realized amortization linked to lending | 2 054 | 1 598 |
| 0 | 0 | Net gain/loss financial derivatives and realized repurchase of own debt | -5 051 | -21 686 |
| 180 | -202 | Net value change lending and borrowing, hedge accounting | -202 | 180 |
| -1 097 | -834 | Other financial income and expenses | -834 | -1 097 |
| 1 051 | -3 437 | Total | -34 111 | -14 399 |

## Note 6 Categories of financial instruments

| KLP Banken AS 31.12.2015 | | NOK thousands | KLP Banken AS Group 31.12.2015 | |
|---|---|---|---|---|
| Book value | Fair value | | 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 |
| 9 995 864 | 9 995 864 | Total financial assets at amortized cost | 21 386 207 | 21 378 393 |
| 10 969 383 | 10 960 229 | 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 | 9 811 121 | 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)

| KLP Banken AS 31.12.2014 | | NOK thousands | KLP Banken AS Group 31.12.2014 | |
|---|---|---|---|---|
| Book value | Fair value | | Book value | Fair value |
| | | **Financial assets at fair value held for trading** | | |
| 410 720 | 410 720 | Fixed-income securities | 3 486 756 | 3 486 756 |
| 410 720 | 410 720 | Total financial assets at fair value held for trading | 3 486 756 | 3 486 756 |
| | | **Financial assets for fair value hedging** | | |
| 365 713 | 347 239 | Loans to and receivables from retail customers | 365 713 | 347 239 |
| 0 | 0 | Loans to Norwegian local administrations | 6 066 133 | 6 111 821 |
| 29 125 | 29 125 | Financial derivatives | 187 413 | 187 413 |
| 394 838 | 376 364 | Total financial assets for fair value hedging | 6 619 259 | 6 646 473 |
| | | **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** | | |
| 566 893 | 566 893 | Loans to and receivables from credit institutions | 1 113 949 | 1 113 949 |
| 3 218 897 | 3 218 897 | Loans to Group companies | 0 | 0 |
| 5 270 477 | 5 270 477 | Loans to retail customers | 8 241 773 | 8 241 773 |
| 0 | 0 | Loans to Norwegian local administrations | 10 272 128 | 10 262 529 |
| 9 056 267 | 9 056 267 | Total financial assets at amortized cost | 19 627 848 | 19 618 251 |
| 9 862 090 | 9 843 616 | Total financial assets | 29 734 128 | 29 751 745 |
| | | **Financial liabilities for fair value hedging** | | |
| 531 024 | 545 516 | Liabilities created on issuance of securities | 2 985 895 | 3 023 096 |
| 27 176 | 27 176 | Financial derivatives | 448 147 | 448 147 |
| 558 200 | 572 692 | Total financial liabilities for fair value hedging | 3 434 042 | 3 471 243 |
| | | **Financial liabilities at amortized cost** | | |
| 2 709 817 | 2 722 272 | Liabilities created on issuance of securities | 18 701 274 | 18 776 903 |
| 6 250 873 | 6 250 873 | Deposits from customers | 6 250 873 | 6 250 873 |
| 8 960 690 | 8 973 145 | Total financial liabilities at amortized cost | 24 952 146 | 25 027 776 |
| 9 518 890 | 9 545 837 | Total financial liabilities | 28 386 187 | 28 499 018 |

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. Oslo Børs (Stock Exchange) provides the price (via Bloomberg). The prices are compared with the prices from Bloomberg to reveal any errors.

Fixed-income securities - other than government
Other Norwegian fixed-income securities are generally priced using prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. In theoretical pricing a zero-coupon curve is used as well as yield spread curves for the pricing. Reuters is used as the source for the zero-coupon curve from 0 to 10 years. From 12 years and over, Bloomberg is used as the source since Reuters does not provide prices over 10 years. The spread curves are received from the Norwegian Fund and Asset Management Association. These are based on yield spread curves collected from several different market operators and converted to an average curve.

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. Lending with fixed interest is valued using a valuation model, including relevant credit spread adjustments obtained from the market.

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 | | | |
|---|---|---|---|---|---|---|---|---|
| 31.12.2014 | | 31.12.2015 | | NOK thousands | 31.12.2015 | | 31.12.2014 | |
| Nominal amount | Fair value | Nominal amount | Fair value | | Nominal amount | Fair value | Nominal amount | Fair value |
| 500 000 | 29 125 | 500 000 | 25 475 | Borrowing in NOK | 1 885 000 | 148 370 | 2 792 000 | 187 413 |
| 0 | 0 | 0 | 0 | Borrowing in currency | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | Lending | 100 000 | 5 | 0 | 0 |
| 500 000 | 29 125 | 500 000 | 25 475 | Total assets | 1 985 000 | 148 375 | 2 792 000 | 187 413 |
| | | | | | | | | |
| 0 | 0 | 0 | 0 | Borrowing in NOK | 0 | 0 | 1 300 000 | 4 592 |
| 0 | 0 | | 0 | Borrowing in currency | 0 | 0 | 0 | 0 |
| 365 000 | 26 419 | 354 700 | 21 078 | Lending | 5 347 461 | 357 631 | 5 997 614 | 432 555 |
| 150 000 | 757 | 100 000 | 323 | Investments | 200 000 | 9 075 | 250 000 | 10 999 |
| 515 000 | 27 176 | 454 700 | 21 401 | Total liabilities | 5 547 461 | 366 706 | 7 547 614 | 448 146 |

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 | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| | | **Financial assets recognized at fair value:** | | |
| | | **Fixed-income securities and shares** | | |
| 149 005 | 99 620 | Level 1: Value based on prices in an active market | 99 620 | 149 005 |
| 261 715 | 459 494 | Level 2: Value based on observable market data | 3 683 753 | 3 337 751 |
| 265 | 265 | Level 3: Value based on other than observable market data | 265 | 265 |
| 410 985 | 559 379 | Total fixed-income securities | 3 783 638 | 3 487 021 |
| | | **Financial derivatives - fair value hedging** | | |
| 0 | 0 | Level 1: Value based on prices in an active market | 0 | 0 |
| 29 125 | 25 475 | Level 2: Value based on observable market data | 148 375 | 187 413 |
| 0 | 0 | Level 3: Value based on other than observable market data | 0 | 0 |
| 29 125 | 25 475 | Total financial derivatives | 148 375 | 187 413 |
| | | | | |
| 440 110 | 584 854 | Total financial assets recognized at fair value. | 3 932 013 | 3 674 434 |
| | | **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 |
| 347 239 | 379 511 | Level 2: Value based on observable market data | 5 905 519 | 6 459 060 |
| 0 | 0 | Level 3: Value based on other than observable market data | 0 | 0 |
| 347 239 | 379 511 | Total financial assets for fair value hedging | 5 905 519 | 6 459 060 |
| | | **Loans at amortized cost** | | |
| 0 | 0 | Level 1: Value based on prices in an active market | 0 | 0 |
| 9 056 267 | 9 995 864 | Level 2: Value based on observable market data | 21 378 393 | 19 618 251 |
| 0 | 0 | Level 3: Value based on other than observable market data | 0 | 0 |
| 9 056 267 | 9 995 864 | Total financial assets at amortized cost | 21 378 393 | 19 618 251 |

# Note 8 Fair value hierarchy (continued)

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| | | **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 |
| 27 176 | 21 401 | Level 2: Value based on observable market data | 366 706 | 448 146 |
| 0 | 0 | Level 3: Value based on other than observable market data | 0 | 0 |
| 27 176 | 21 401 | Total financial derivatives (liabilities) | 366 706 | 448 146 |
| | | **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 |
| 545 516 | 529 548 | Level 2: Value based on observable market data | 2 031 421 | 3 023 096 |
| 0 | 0 | Level 3: Value based on other than observable market data | 0 | 0 |
| 545 516 | 529 548 | Total liabilities created on issuance of securities | 2 031 421 | 3 023 096 |
| | | **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 |
| 8 973 145 | 9 811 121 | Level 2: Value based on observable market data | 27 157 858 | 25 027 776 |
| 0 | 0 | Level 3: Value based on other than observable market data | 0 | 0 |
| 8 973 145 | 9 811 121 | Total financial liabilities at amortized cost | 27 157 858 | 25 027 776 |

| Book value 31.12.2014 | Book value 31.12.2015 | Changes in level 3 unlisted securities | Book value 31.12.2015 | Book value 31.12.2014 |
|---|---|---|---|---|
| 0 | 265 | Opening balance 1 Jan | 265 | 0 |
| 0 | 0 | Sold | 0 | 0 |
| 265 | 0 | Bought | 0 | 265 |
| 0 | 0 | Unrealized changes | 0 | 0 |
| 265 | 265 | Closing balance | 265 | 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 31.12.2015 | | | | KLP Banken AS Group 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".

| KLP Banken AS 31.12.2014 | | | | KLP Banken AS Group 31.12.2014 | | |
|---|---|---|---|---|---|---|
| Nominal value | Changed value in hedged risk | Effectiveness | NOK thousands | Nominal value | Changed value in hedged risk | Effectiveness |
| | | | **Hedged object** | | | |
| 340 140 | 24 912 | 100.73 % | Loans to retail customers fixed interest in NOK | 340 140 | 24 912 | 100.73 % |
| | | | **Hedging instrument** | | | |
| 365 000 | -24 732 | 99.28 % | Interest rate swap lending fixed interest in NOK | 365 000 | -24 732 | 99.28 % |

The ineffective proportion of the Group reports hedging recognized through profit or loss amounts to NOK 180,000 in 2014.
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 | |
|---|---|---|---|---|
| 2014 | 2015 | NOK thousands | 2015 | 2014 |
| 12 572 | 9 136 | Interest on loans to and receivables from credit institutions | 18 578 | 26 157 |
| 275 182 | 280 273 | Interest on lending to customers | 744 398 | 750 040 |
| 2 805 | 5 343 | Interest on securities | 55 015 | 65 748 |
| 290 560 | 294 752 | Total interest income | 817 991 | 841 945 |
| | | | | |
| 0 | 0 | Interest on debt to credit institutions | -480 948 | -463 141 |
| -243 638 | -149 738 | Interest on liabilities to customers | -149 738 | -243 638 |
| 0 | -74 415 | Premium/discount on covered bonds | 414 | -2 105 |
| -15 | -656 | Other interest costs | -656 | -15 |
| -243 653 | -224 809 | Total interest costs | -630 928 | -708 899 |
| | | | | |
| 46 907 | 69 944 | Net interest income | 187 063 | 133 046 |

## Note 11 Net commission income

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 2014 | 2015 | NOK thousands | 2015 | 2014 |
| 38 | 49 | Interbank commission | 49 | 38 |
| 2 325 | 2 591 | Short commission | 2 591 | 2 325 |
| 398 | 584 | Payment handling | 584 | 398 |
| 8 412 | 8 056 | Other commission income | 8 056 | 8 412 |
| 11 174 | 11 280 | Total commission income | 11 280 | 11 174 |
| | | | | |
| -364 | -293 | Interbank commission | -293 | -364 |
| -812 | -781 | Payment handling | -781 | -812 |
| -1 176 | -1 074 | Total commission costs | -1 074 | -1 176 |
| | | | | |
| 9 998 | 10 205 | Net commission | 10 205 | 9 998 |

# 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.

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)

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

| | KLP Banken AS | | KLP Banken AS Group | |
|---|---|---|---|---|
| NOK thousands | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Lending to the retail market with mortgage on housing | 6 940 022 | 5 599 159 | 10 675 668 | 8 563 933 |
| Lending to municipalities and county administrations | 0 | 0 | 13 274 548 | 14 919 871 |
| Lending with municipal/county administration guarantee | 0 | 0 | 2 010 422 | 974 045 |
| Lending with government guarantee | 0 | 0 | 0 | 0 |
| Total | 6 940 022 | 5 599 159 | 25 960 638 | 24 457 849 |
| Sums falling due more than 12 months after the end of the reporting period | 6 781 023 | 5 488 299 | 24 777 910 | 23 115 273 |

## Note 13 Credit risk (continued)

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 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| AAA | 358 000 | 408 000 | 2 827 000 | 3 300 000 |

| Securities without external credit assessment | KLP Banken AS | | KLP Banken AS Group | |
|---|---|---|---|---|
| NOK thousands | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Securities issued by Norwegian municipalities/county administrations | 200 000 | 0 | 945 445 | 105 336 |

| Deposits in banks grouped by external credit assessment (Moody's) | KLP Banken AS | | KLP Banken AS Group | |
|---|---|---|---|---|
| NOK thousands | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Aa1-Aa3 | 259 215 | 903 | 540 941 | 4 238 |
| A1-A3 | 147 922 | 565 990 | 432 651 | 1 109 710 |
| Baa1 | - | - | - | - |
| Total | 407 137 | 566 893 | 973 591 | 1 113 948 |

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 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Loans to and receivables from credit institutions | 3 414 796 | 3 785 790 | 973 591 | 1 113 948 |
| Loans to and receivables from customers | 6 950 088 | 5 611 278 | 26 049 437 | 24 566 770 |
| - of which lending with mortgage on housing | 6 950 088 | 5 611 278 | 10 693 536 | 8 582 574 |
| - of which lending to the public sector | 0 | 0 | 13 355 901 | 15 984 196 |
| Fixed-income securities | 562 175 | 409 794 | 3 789 366 | 3 457 019 |
| Financial derivatives | 25 475 | 29 125 | 148 375 | 187 413 |
| TOTAL | 10 952 534 | 9 835 986 | 30 960 769 | 29 325 150 |

### 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 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Principal on loans with payments with 1-30 days' default | 137 734 | 125 037 | 452 499 | 521 046 |
| Principal on loans with payments with 31-90 days' default | 43 305 | 23 272 | 44 904 | 23 272 |
| Principal on loans with payments with more than 90 days' default | 29 339 | 26 151 | 29 339 | 26 151 |
| Total loans fallen due | 210 378 | 174 460 | 526 742 | 570 468 |
| Relevant security or guarantees | 210 378 | 174 460 | 526 742 | 570 468 |
| Principal on lending that has been written down | 3 481 | 4 323 | 3 481 | 4 323 |
| - of which written down | 1 328 | 573 | 1 328 | 573 |

### 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 2015 was about 2.8 per cent of the Group's total lending.

# Note 14 Market risk

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

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

## 14.1 MEASUREMENT OF MARKET RISK

Interest rate risk is measured as change in value on a one percentage point change in all interest rates. Exchange rate risk is measured as change in value on 10% unfavourable exchange rate change in all currencies.

## 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 2015

| NOK thousands | Total Principal | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | 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 |

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 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | 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 |

Interest risk KLP Banken AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2014

| NOK thousands | Total Principal | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | From 1 year to 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Lending | 5 599 159 | 5 263 712 | 2 354 | 8 491 | 247 134 | 77 468 |
| Securities | 408 000 | 0 | 258 000 | 150 000 | 0 | 0 |
| Cash and receivables from credit institutions | 3 781 893 | 3 781 893 | 0 | 0 | 0 | 0 |
| Total | 9 789 052 | 9 045 605 | 260 354 | 158 491 | 247 134 | 77 468 |
| Liabilities to depositors | 6 250 873 | 6 250 873 | 0 | 0 | 0 | 0 |
| Liabilities to financial institutions | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities created on issuance of securities | 3 200 000 | 300 000 | 2 400 000 | 0 | 500 000 | 0 |
| Total | 9 450 873 | 6 550 873 | 2 400 000 | 0 | 500 000 | 0 |
| Gap | 338 179 | 2 494 732 | -2 139 646 | 158 491 | -252 866 | 77 468 |
| Financial derivatives | 0 | -175 000 | 170 000 | -150 000 | 265 000 | -110 000 |
| Net gap | 338 179 | 2 319 732 | -1 969 646 | 8 491 | 12 134 | -32 532 |

Interest risk KLP Banken AS Group
Repricing dates for interest-bearing assets and liabilities as at 31 December 2014

| NOK thousands | Total Principal | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | From 1 year to 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Lending | 24 457 849 | 18 520 497 | 40 853 | 883 927 | 3 375 834 | 1 636 738 |
| Securities | 3 435 336 | 320 000 | 2 865 336 | 150 000 | 100 000 | 0 |
| Cash and receivables from credit institutions | 1 113 949 | 1 113 949 | 0 | 0 | 0 | 0 |
| Total | 29 007 134 | 19 954 446 | 2 906 189 | 1 033 927 | 3 475 834 | 1 636 738 |
| Liabilities to depositors | 6 250 873 | 6 250 873 | 0 | 0 | 0 | 0 |
| Liabilities to financial institutions | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities created on issuance of securities | 21 452 000 | 1 760 000 | 16 900 000 | 542 000 | 1 500 000 | 750 000 |
| Total | 27 702 873 | 8 010 873 | 16 900 000 | 542 000 | 1 500 000 | 750 000 |
| Gap | 1 304 261 | 11 943 573 | -13 993 811 | 491 927 | 1 975 834 | 886 738 |
| Financial derivatives | 4 311 | -768 253 | 4 132 281 | -481 139 | -1 963 619 | -914 959 |
| Net gap | 1 308 572 | 11 175 321 | -9 861 530 | 10 788 | 12 215 | -28 221 |

The Company's interest rate sensitivity as at 31 December 2015, measured as value change in the event of one percentage point change in all interest rates, was NOK 6.2 million.

### 14.3 EXCHANGE RATE RISK

As at 31 December 2015 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.

### 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)

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 2015:

| NOK thousands | Total | Undefined | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | 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 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | 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 |

Liquidity risk KLP Banken AS
Maturity analysis for assets and liabilities as at 31 December 2014:

| NOK thousands | Total | Undefined | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | From 1 year to 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| Lending | 6 483 446 | 0 | 24 095 | 44 509 | 204 235 | 1 099 572 | 5 111 034 |
| Securities | 429 011 | 0 | 0 | 1 374 | 154 122 | 273 515 | 0 |
| Receivables from credit institutions | 3 803 203 | 0 | 574 272 | 3 228 931 | 0 | 0 | 0 |
| Total | 10 715 661 | 0 | 598 368 | 3 274 814 | 358 357 | 1 373 087 | 5 111 034 |
| | | | | | | | |
| Liabilities to depositors | 6 250 873 | 6 250 873 | 0 | 0 | 0 | 0 | 0 |
| Liabilities created on issuance of securities | 3 410 021 | 0 | 4 928 | 11 612 | 664 419 | 2 729 062 | 0 |
| Financial derivatives | 542 | 0 | 2 507 | 835 | -1 934 | -5 673 | 4 808 |
| Liabilities to credit institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 9 661 436 | 6 250 873 | 7 435 | 12 446 | 662 485 | 2 723 389 | 4 808 |
| | | | | | | | |
| Net cash flow | 1 054 225 | -6 250 873 | 590 933 | 3 262 368 | -304 127 | -1 350 302 | 5 106 227 |

Liquidity risk KLP Banken AS Group
Maturity analysis for assets and liabilities as at 31 December 2014:

| NOK thousands | Total | Undefined | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | From 1 year to 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| Lending | 31 810 382 | 0 | 127 685 | 268 589 | 1 645 024 | 6 713 726 | 23 055 358 |
| Securities | 3 664 154 | 0 | 246 | 121 358 | 253 505 | 3 030 798 | 258 248 |
| Receivables from credit institutions | 1 113 949 | 0 | 1 113 949 | 0 | 0 | 0 | 0 |
| Total | 36 588 485 | 0 | 1 241 880 | 389 947 | 1 898 529 | 9 744 523 | 23 313 607 |
| | | | | | | | |
| Liabilities to depositors | 6 250 873 | 6 250 873 | 0 | 0 | 0 | 0 | 0 |
| Liabilities created on issuance of securities | 22 688 891 | 0 | 12 126 | 79 319 | 2 592 935 | 18 597 228 | 1 407 283 |
| Financial derivatives | 247 177 | 0 | 8 535 | 10 911 | 52 892 | 126 273 | 48 566 |
| Liabilities to credit institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 29 186 941 | 6 250 873 | 20 661 | 90 230 | 2 645 827 | 18 723 501 | 1 455 849 |
| | | | | | | | |
| Net cash flow | 7 401 544 | -6 250 873 | 1 221 219 | 299 716 | -747 298 | -8 978 978 | 21 857 758 |

## Note 16 Fixed-income securities

| KLP Banken AS 31.12.2015 | | | | NOK thousands | KLP Banken AS Group 31.12.2015 | | | |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost | Unreal. gain/loss | Accr. int. not due | Market value | Debtor categories | Acquisition cost | Unreal. gain/loss | Accr. int. not due | Market value |
| 99 346 | 274 | 0 | 99 620 | Government/social security administration | 99 346 | 274 | 0 | 99 620 |
| 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 %

| KLP Banken AS 31.12.2014 | | | | NOK thousands | KLP Banken AS konsern 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost | Unreal. gain/loss | Accr. int. not due | Market value | Debtor categories | Acquisition cost | Unreal. gain/loss | Accr. int. not due | Market value |
| 148 197 | 808 | 0 | 149 005 | Government/social security administration | 148 197 | 808 | 0 | 149 005 |
| 261 117 | 118 | 480 | 261 715 | Credit enterprises | 3 098 815 | 15 735 | 5 646 | 3 120 196 |
| 0 | 0 | 0 | 0 | Local government administration | 203 391 | 13 194 | 970 | 217 555 |
| 409 314 | 926 | 480 | 410 720 | Total fixed-income securities | 3 450 403 | 29 737 | 6 616 | 3 486 756 |

Effective interest rate: 1.74 %

Effective interest rate: 1.74

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 31.12.2014 | KLP Banken AS 31.12.2015 | NOK thousands | KLP Banken AS Group 31.12.2015 | KLP Banken AS Group 31.12.2014 |
|---|---|---|---|---|
| | | **Loans to and receivables from credit institutions** | | |
| 566 893 | 407 137 | Bank deposits | 973 591 | 1 113 949 |
| 3 215 000 | 3 005 000 | Principal on loans to Group companies | 0 | 0 |
| 3 897 | 2 659 | Accrued interest on loans to Group companies | 0 | 0 |
| 3 785 790 | 3 414 796 | Loans to and receivables from credit institutions | 973 591 | 1 113 949 |
| | | **Loans to and receivables from customers** | | |
| 5 603 722 | 6 943 294 | Principal on loans to customers | 25 963 911 | 24 462 411 |
| 468 | 482 | Overdraft current account | 482 | 468 |
| -573 | -1 328 | Individual write-downs | -1 328 | -573 |
| 7 661 | 7 640 | Accrued interest | 83 956 | 104 463 |
| 0 | 0 | Premium/discount | -20 440 | 32 870 |
| 24 912 | 19 644 | Fair value hedging | 332 869 | 346 107 |
| 5 636 190 | 6 969 731 | Loans to and receivables from customers | 26 359 449 | 24 945 746 |

## Note 18 Losses on lending in the retail market

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 2014 | 2015 | NOK thousands | 2015 | 2014 |
| 23 | 278 | Known losses | 278 | 23 |
| -9 | -562 | Reversal of previous write-downs | -562 | -9 |
| 593 | 1 318 | Change in individual write-downs | 1 318 | 593 |
| 0 | 0 | Change in write-downs by group | 0 | 0 |
| 607 | 1 034 | Total loss on lending | 1 034 | 607 |

| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|
| 9 | 573 | Balance of write-down losses on lending 1 January | 573 | 9 |
| -42 | -562 | Reversal of write-down on individual loans for the period | -562 | -42 |
| 607 | 1 318 | Write-down on individual loans for the period | 1 318 | 607 |
| 573 | 1 329 | Total write-down on individual loans 31 December | 1 329 | 573 |
| 26 151 | 29 339 | Gross default exceeding 90 days | 29 339 | 26 151 |
| 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 31.12.2015 | | | | | | Related sums that are not presented net |
|---|---|---|---|---|---|---|
| NOK thousands | 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 | | | | | | Related sums that are not presented net |
|---|---|---|---|---|---|---|
| NOK thousands | 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 |

| KLP Banken AS 31.12.2014 | | | | | | Related sums that are not presented net |
|---|---|---|---|---|---|---|
| NOK thousands | Gross financial assets/liabilities | Gross assets/liabilities presented net | Book value | Financial instruments | Security in cash | Net book value |
| ASSETS | | | | | | |
| Financial derivatives | 29 125 | 0 | 29 125 | -24 645 | -3 101 | 1 379 |
| Total | 29 125 | 0 | 29 125 | -24 645 | -3 101 | 1 379 |
| LIABILITIES | | | | | | |
| Financial derivatives | 27 176 | 0 | 27 176 | -24 645 | -2 239 | 291 |
| Total | 27 176 | 0 | 27 176 | -24 645 | -2 239 | 291 |

| KLP Banken AS Group 31.12.2014 | | | | | | Related sums that are not presented net |
|---|---|---|---|---|---|---|
| NOK thousands | Gross financial assets/liabilities | Gross assets/liabilities presented net | Book value | Financial instruments | Security in cash | Net book value |
| ASSETS | | | | | | |
| Financial derivatives | 187 413 | 0 | 187 413 | -187 413 | -3 101 | 0 |
| Total | 187 413 | 0 | 187 413 | -187 413 | -3 101 | 0 |
| LIABILITIES | | | | | | |
| Financial derivatives | 448 146 | 0 | 448 146 | -187 413 | -2 239 | 258 494 |
| Total | 448 146 | 0 | 448 146 | -187 413 | -2 239 | 258 494 |

## Note 20 Securities liabilities - stock exchange listed covered bonds and certificates

| KLP Banken AS 31.12.2014 | KLP Banken AS 31.12.2015 | NOK thousands | KLP Banken AS Group 31.12.2015 | KLP Banken AS Group 31.12.2014 |
|---|---|---|---|---|
| 3 200 000 | 2 900 000 | Bonds, nominal value | 22 355 000 | 21 452 000 |
| 22 793 | 17 717 | Revaluations | 122 014 | 155 222 |
| 18 048 | 14 489 | Accrued interest | 54 646 | 79 946 |
| 0 | 0 | Own funds, nominal value | -630 000 | 0 |
| 3 240 841 | 2 932 206 | Total liabilities created on issuance of securities | 21 901 660 | 21 687 168 |

| NOK thousands<br>KLP Banken AS | Balance 31.12.2015 | Issued | Fallen due/redeemed Repurchased | Others changes | Balance 31.12.2014 |
|---|---|---|---|---|---|
| Change in liabilities created on issuance of securities | | | | | |
| Bonds, nominal value | 2 900 000 | 300 000 | -600 000 | 0 | 3 200 000 |
| Revaluations | 17 717 | 0 | 0 | -5 076 | 22 793 |
| Accrued interest | 14 489 | 0 | 0 | -3 559 | 18 048 |
| Total liabilities created on issuance of securities | 2 932 206 | 300 000 | -600 000 | -8 635 | 3 240 841 |

| NOK thousands<br>KLP Banken AS konsern | Balance 31.12.2015 | Issued | Fallen due/redeemed Repurchased | Others changes | Balance 31.12.2014 |
|---|---|---|---|---|---|
| Change in liabilities created on issuance of securities | | | | | |
| Bonds, nominal value | 22 355 000 | 4 820 000 | -3 917 000 | 0 | 21 452 000 |
| Revaluations | 122 014 | 0 | 0 | -33 208 | 155 222 |
| Accrued interest | 54 646 | 0 | 0 | -25 300 | 79 946 |
| Own funds, nominal value | -630 000 | 0 | -630 000 | 0 | 0 |
| Total liabilities created on issuance of securities | 21 901 660 | 4 820 000 | -4 547 000 | -58 508 | 21 687 168 |

## Note 21 Deposits from customers

| KLP Banken AS 31.12.2014 | KLP Banken AS 31.12.2015 | NOK thousands | KLP Banken AS Group 31.12.2015 | KLP Banken AS Group 31.12.2014 |
|---|---|---|---|---|
| 6 250 873 | 7 426 181 | Deposits from customers without agreed duration | 7 426 181 | 6 250 873 |
| 6 250 873 | 7 426 181 | Total deposits from customers without agreed duration | 7 426 181 | 6 250 873 |
| | | Customer deposits divided by customer groups | | |
| 5 072 277 | 6 043 518 | Deposits from customers, retail market | 6 043 518 | 5 072 277 |
| 1 178 596 | 1 382 663 | Deposits from customers, public sector market | 1 382 663 | 1 178 596 |
| 6 250 873 | 7 426 181 | Total deposits from customers | 7 426 181 | 6 250 873 |

## Note 22 Shares in Group companies

| KLP Banken AS<br>NOK thousands | Ownership % | Acquisition cost | Bokført verdi 31.12.2015 | Bokført verdi 31.12.2014 |
|---|---|---|---|---|
| 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 | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| 777 | 777 | Acquisition cost 01.01 | 777 | 777 |
| 0 | 0 | Acquired during the period | 0 | 0 |
| 0 | 0 | Disposals during the period | 0 | 0 |
| 777 | 777 | Acquisition cost 31.12 | 777 | 777 |
| -196 | -278 | Acc. depreciation previous years | -278 | -196 |
| -82 | -32 | Annual depreciation | -32 | -82 |
| -278 | -309 | Acc. depreciation | -309 | -278 |
| 0 | 0 | Annual write-downs | 0 | 0 |
| 499 | 468 | Book value | 468 | 499 |

## Note 24 Intangible assets

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| 29 142 | 29 142 | Acquisition cost 01.01 | 29 142 | 29 142 |
| 0 | 3 984 | Additions | 3 984 | 0 |
| 0 | 0 | Disposals | 0 | 0 |
| 29 142 | 33 126 | Acquisition cost 31.12 | 33 126 | 29 142 |
| -8 044 | -10 639 | Accumulated depreciation previous years | -10 639 | -8 044 |
| -2 595 | -3 365 | Ordinary depreciation for the year | -3 365 | -2 595 |
| 0 | -1 338 | Write-downs | -1 338 | 0 |
| 18 503 | 17 784 | Book value | 17 784 | 18 503 |
| | 7 years | Depreciation period | 7 years | |

As of 30 November 2015, intangible assets were written down by NOK 1,338,435. The reason for this is that KLP Banken plans to start up a project in 2016 with the aim of replacing the present Mobilbank application with a new version. The existing Mobilbank is expected to be phased out in the second half of 2016. The remaining book value is NOK 377,143 as of 31 December 2015, and this is considered to be the utility value.

# Note 25 Capital adequacy

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| 1 190 000 | 1 390 000 | Share capital and share premium | 1 390 000 | 1 190 000 |
| 39 535 | 88 110 | Other owners' equity | 117 816 | 95 218 |
| 1 229 535 | 1 478 110 | Total owners' equity | 1 507 816 | 1 285 218 |
| -18 503 | -17 784 | Deduction goodwill and other intangible assets | -17 784 | -18 503 |
| -9 449 | -7 475 | Deferred tax assets | -9 542 | 0 |
| 1 201 583 | 1 452 851 | Core capital/Tier 1 capital | 1 480 490 | 1 266 715 |
| 0 | 0 | Supplementary capital/Tier 2 capital | 0 | 0 |
| 0 | 0 | Supplementary capital/Tier 2 capital | 0 | 0 |
| 1 201 583 | 1 452 851 | Total own funds (eligible Tier 1 and Tier 2 capital) | 1 480 490 | 1 266 715 |
| 622 455 | 679 507 | Capital requirement | 672 968 | 598 438 |
| 579 128 | 773 344 | Surplus of own funds (eligible Tier 1 and Tier 2 capital) | 807 522 | 668 277 |
| | | Calculation basis credit risk: | | |
| 4 420 525 | 4 460 661 | Institutions | 229 347 | 265 665 |
| 0 | 0 | Local and regional authorities | 3 339 625 | 3 311 173 |
| 2 140 746 | 2 770 615 | Investments with mortgage security in real estate | 4 079 989 | 3 180 713 |
| 78 758 | 96 078 | Investments fallen due | 98 091 | 78 758 |
| 26 124 | 25 777 | Covered bonds | 262 689 | 311 967 |
| 926 534 | 926 369 | Other holdings | 899 | 1 064 |
| 7 592 687 | 8 279 500 | Calculation basis credit risk | 8 010 640 | 7 149 339 |
| 607 415 | 662 360 | Credit risk | 640 851 | 571 947 |
| 15 040 | 17 147 | Operational risk | 32 117 | 26 491 |
| 622 455 | 679 507 | Total capital requirement assets | 672 968 | 598 438 |
| 15.4 % | 17.1 % | Core capital adequacy ratio | 17.6 % | 16.9 % |
| 0.0 % | 0.0 % | Supplementary capital ratio | 0.0 % | 0.0 % |
| 15.4 % | 17.1 % | Capital adequacy ratio | 17.6 % | 16.9 % |
| 4.1 % | 4.7 % | Unweighted capital adequacy | 4.7 % | 4.4 % |

| Capital requirement as at 31.12.2015 | Core capital/ Tier 1 capital | Supplementary capital/ Tier 2 capital | Own funds (eligble Tier 1 and 2 capital) |
|---|---|---|---|
| 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 | 1.0 % | 0.0 % | 1.0 % |
| Applic. cap. req'ment incl. buffers | 11.0 % | 3.5 % | 14.5 % |

## Note 26 Tax

| KLP Banken AS 2014 | KLP Banken AS 2015 | NOK thousands | KLP Banken AS Group 2015 | KLP Banken AS Group 2014 |
|---|---|---|---|---|
| 19 968 | 49 990 | Accounting income before taxes | 49 619 | 28 671 |
| | | Other income components: | | |
| -5 722 | 7 012 | Estimate difference, pension obligations and assets | 7 012 | -5 722 |
| | | Differences between accounting and tax income: | | |
| -30 600 | -38 452 | Other deductions (dividends received during the year) | 0 | 0 |
| 88 | 3 986 | Reversal of value increase financial assets | 36 644 | 294 |
| 386 | 165 | Other permanent differences | 138 | 386 |
| 5 598 | 1 199 | Change in differences between book and taxable income | -2 622 | 10 229 |
| -10 282 | 23 900 | Taxable income | 90 791 | 33 858 |
| 10 282 | 10 152 | Group contribution received with tax effect | 0 | 0 |
| 0 | 0 | Group contribution paid with tax effect | 0 | -33 849 |
| 0 | 34 052 | Base for tax payable in tax expenses | 90 791 | 9 |
| -21 | -21 | Deficit carry-forward allowable from previous years | -21 | 30 |
| 0 | 0 | Change for the year in carry-forward deficit | 0 | -9 |
| -21 | -21 | Total allowable carry-forward deficit as at 31 December | -21 | 21 |
| 0 | 34 052 | Tax surplus | 90 791 | 0 |
| | | Reconciliation of basis for deferred tax/tax assets | | |
| | | Deferred tax assets linked to: | | |
| -25 | -23 | Fixed assets | -23 | -25 |
| -950 | -1 405 | Financial instruments | -47 333 | -61 805 |
| -5 815 | -4 377 | Hedging of borrowing | -35 113 | -45 426 |
| -6 853 | -5 626 | Pension obligation | -5 626 | -6 853 |
| 0 | -948 | Other differences | -2 003 | 0 |
| -13 643 | -12 379 | Total deferred tax assets | -90 098 | -114 109 |
| | | Deferred tax linked to: | | |
| 6 726 | 4 910 | Lending to customers and credit enterprises | 80 562 | 104 967 |
| 250 | 0 | Financial instruments | 0 | 8 029 |
| 6 976 | 4 910 | Total deferred tax | 80 562 | 112 996 |
| -6 667 | -7 469 | Net deferred tax/tax assets | -9 536 | -1 113 |
| -21 | -21 | Carry-forward deficit | -21 | 21 |
| -6 | -6 | Deferred tax on carry-forward deficit | -6 | 6 |
| -6 673 | -7 475 | Deferred tax/tax asset | -9 542 | -1 120 |
| -2 776 | 0 | Tax on Group contribution received | 0 | 0 |
| -9 449 | -7 475 | Capitalized deferred tax asset | -9 542 | -1 120 |
| 0 | 6 453 | Tax on Group contribution payment made | 24 514 | 9 141 |
| 0 | 6 453 | Capitalized deferred tax | 24 514 | 9 141 |
| | | Summary of tax expense for the year: | | |
| 0 | 35 | Tax charged to the income statement for previous years | 42 | 0 |
| -4 308 | -802 | Change in deferred tax taken to income | -8 423 | -2 837 |
| 0 | 2 741 | Tax on Group contribution received | 0 | 0 |
| 0 | 6 453 | Tax on Group contribution payment made | 24 514 | 9 141 |
| -4 308 | 8 427 | Capitalized tax | 16 133 | 6 304 |
| -2 763 | 6 534 | Tax on ordinary income | 14 240 | 7 849 |
| -1 545 | 1 893 | Corr. for tax on direct capitalized diffs incl. in calcul. deferred tax | 1 893 | -1 545 |
| -4 308 | 8 427 | Total tax costs | 16 133 | 6 304 |
| -21,6 % | 14,7 % | Effective tax percentage | 33 % | 22 % |
| | | Reconciliation of tax percentage: | | |
| -30 126 | 295 | Permanent differences | 322 | 386 |
| 0 | -28 300 | Dividends | 0 | 0 |
| -30 126 | -28 005 | Total permanent differences | 322 | 386 |
| -8 134 | -7 561 | Tax permanent differences | 87 | 108 |
| 3 826 | 15 988 | Corrected tax | 16 046 | 6 196 |
| 0 | -598 | Change in deferred tax benefit as a result of changed tax rate | -764 | 0 |
| 27 % | 27 % | Tax percentage | 27 % | 27 % |

## Note 27 Pension obligations, own employees

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

The accounting treatment of pension obligations is described in more detail in Notes 2 and 3.

| NOK thousands | Joint scheme | Via operation | 2015 | Joint scheme | Via operation | 2014 |
|---|---|---|---|---|---|---|
| **Pension costs** | | | | | | |
| Present value of accumulation for the year | 6 691 | 573 | 7 264 | 5 500 | 523 | 6 023 |
| Administration cost | 172 | 0 | 172 | 170 | 0 | 170 |
| Social security contributions - Pension costs | 968 | 81 | 1 048 | 799 | 74 | 873 |
| Plan change taken to profit/loss | 0 | 0 | 0 | -2 537 | -297 | -2 834 |
| Pension costs incl. social security and administration costs taken to income | 7 831 | 654 | 8 484 | 3 933 | 300 | 4 232 |
| **Net financial costs** | | | | | | |
| Interest costs | 961 | 231 | 1 192 | 1 210 | 339 | 1 549 |
| Expected return | -562 | 0 | -562 | -800 | 0 | -800 |
| Management costs | 101 | 0 | 101 | 212 | 0 | 212 |
| Net interest costs | 500 | 231 | 731 | 622 | 339 | 961 |
| Social security contributions - Net interest cost | 71 | 33 | 103 | 88 | 48 | 136 |
| Net interest cost including social security contributions | 571 | 263 | 834 | 710 | 387 | 1 097 |
| **Estimate difference, pensions** | | | | | | |
| Actuarial gains (losses) | -5 245 | -900 | -6 145 | 4 119 | 895 | 5 015 |
| Social security contributions | -740 | -127 | -867 | 581 | 126 | 707 |
| Actuarial gains (losses) incl. social security contributions | -5 984 | -1 027 | -7 012 | 4 700 | 1 022 | 5 722 |
| Total pension costs including interest costs and estimate difference | 2 417 | -110 | 2 307 | 9 343 | 1 709 | 11 052 |

| NOK thousands | Joint scheme | Via operation | 2015 | Joint scheme | Via operation | 2014 |
|---|---|---|---|---|---|---|
| **Pension obligations** | | | | | | |
| Gross accrued pension obligation | 37 332 | 9 244 | 46 576 | 35 709 | 9 578 | 45 288 |
| Pension assets | 26 852 | 0 | 26 852 | 23 043 | 0 | 23 043 |
| Net liability before social security costs | 10 480 | 9 244 | 19 724 | 12 666 | 9 578 | 22 244 |
| Social security contributions | 1 478 | 1 303 | 2 781 | 1 786 | 1 351 | 3 136 |
| Gross accrued obligations incl. social security costs | 38 810 | 10 548 | 49 357 | 37 495 | 10 929 | 48 424 |
| Net liability incl. social security costs | 11 958 | 10 548 | 22 505 | 14 452 | 10 929 | 25 381 |

| NOK thousands | Joint scheme | Via operation | 2015 | Joint scheme | Via operation | 2014 |
|---|---|---|---|---|---|---|
| **Reconciliation of pension obligations** | | | | | | |
| Capitalized net liability/(asset) 01.01 | 14 452 | 10 929 | 25 381 | 10 345 | 9 544 | 19 889 |
| Pension costs taken to profit/loss | 7 831 | 654 | 8 484 | 3 933 | 300 | 4 232 |
| Finance costs taken to profit/loss | 571 | 263 | 834 | 710 | 387 | 1 097 |
| Actuarial gains and losses incl. social security contributions | -5 984 | -1 027 | -7 012 | 4 700 | 1 022 | 5 722 |
| Social security contributions paid in premiums/supplement | -607 | -33 | -640 | -647 | -40 | -687 |
| Premium/supplement paid-in including admin | -4 304 | -237 | -4 542 | -4 588 | -284 | -4 873 |
| Capitalized net liability/(asset) 31.12 | 11 958 | 10 548 | 22 505 | 14 452 | 10 929 | 25 381 |

| NOK thousands | Joint scheme | Via operation | 2015 | Joint scheme | Via operation | 2014 |
|---|---|---|---|---|---|---|
| **Change in pension obligations** | | | | | | |
| Gross pension assets 1 January before plan change | 37 495 | 10 929 | 48 424 | 28 803 | 9 544 | 38 347 |
| Plan change | 0 | 0 | 0 | -2 537 | -297 | -2 834 |
| Gross pension obligation after plan change | 37 495 | 10 929 | 48 424 | 26 266 | 9 247 | 35 514 |
| Present value of accumulation for the year | 6 691 | 573 | 7 264 | 5 500 | 523 | 6 023 |
| Interest costs | 961 | 231 | 1 192 | 1 210 | 339 | 1 549 |
| Actuarial losses (gains) gross pension obligation | -5 559 | -1 027 | -6 586 | 5 406 | 1 022 | 6 427 |
| Social security contributions - pension costs | 968 | 81 | 1 048 | 799 | 74 | 873 |
| social security contributions - net interest costs | 71 | 33 | 103 | 88 | 48 | 136 |
| Social security contributions paid in premiums/supplement | -607 | -33 | -640 | -647 | -40 | -687 |
| Payments | -1 210 | -237 | -1 448 | -1 127 | -284 | -1 411 |
| Gross pension obligation 31.12 | 38 810 | 10 548 | 49 357 | 37 495 | 10 929 | 48 424 |

## Note 27 Pension obligations, own employees (continued)

| NOK thousands | Joint scheme | Via operation | 2015 | Joint scheme | Via operation | 2014 |
|---|---|---|---|---|---|---|
| **Change in pension assets** | | | | | | |
| Pension assets 01.01 | 23 043 | 0 | 23 043 | 18 458 | 0 | 18 458 |
| Expected return | 562 | 0 | 562 | 800 | 0 | 800 |
| Actuarial loss (gain) on pension assets | 426 | 0 | 426 | 705 | 0 | 705 |
| Administration cost | -172 | 0 | -172 | -170 | 0 | -170 |
| Financing cost | -101 | 0 | -101 | -212 | 0 | -212 |
| Premium/supplement paid-in including admin | 4 304 | 237 | 4 542 | 4 588 | 284 | 4 873 |
| Payments | -1 210 | -237 | -1 448 | -1 127 | -284 | -1 411 |
| Pension assets 31.12 | 26 852 | 0 | 26 852 | 23 043 | 0 | 23 043 |

| NOK thousands | Joint scheme | Via operation | 2015 | Joint scheme | Via operation | 2014 |
|---|---|---|---|---|---|---|
| **Over/under-financing of the pension scheme** | | | | | | |
| Present value of the defined-benefit pension obligation | 38 810 | 10 548 | 49 357 | 37 495 | 10 929 | 48 424 |
| Fair value of the pension assets | 26 852 | 0 | 26 852 | 23 043 | 0 | 23 043 |
| Net pension obligation | 11 958 | 10 548 | 22 505 | 14 452 | 10 929 | 25 381 |

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Financial assumptions (common to all pension schemes)** | | |
| Discount rate | 2.70 % | 2.30 % |
| Salary growth | 2.50 % | 2.75 % |
| National Insurance basic amount (G) | 2.25 % | 2.50 % |
| Pension increases | 1.48 % | 1.73 % |

The assumptions as at 31 December 2014 have been applied to measurement of the cost of pensions for 2015, whilst for calculation of the pension obligation on 31 December 2015, the assumptions and membership numbers as at 31 December 2015 have been applied. The assumptions are based on the market situation as at 31 December 2015 and are in accordance with the recommendations of the Norwegian Accounting Standards Board (NASB).

**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) for 2015 (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 45 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 i 2015 (in %)

| Age (years) | <20 | 20-23 | 24-29 | 30-39 | 40-50 | 51-55 | >55 |
|---|---|---|---|---|---|---|---|
| Turnover | 20 % | 15 % | 10 % | 7,5 % | 5 % | 2 % | 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 | 2015 | Joint scheme | Via operation | 2014 |
|---|---|---|---|---|---|---|
| **Membership status** | | | | | | |
| Number active | 57 | 3 | 60 | 56 | 3 | 59 |
| Number deferred (previous employees with deferred entitlements) | 16 | 4 | 20 | 9 | 4 | 13 |
| Number of pensioners | 11 | 1 | 12 | 8 | 2 | 10 |

## Note 27 Pension obligations, own employees (continued)

| | 2015 | 2014 |
|---|---|---|
| Composition of the pension assets: | | |
| Property | 12.8 % | 11.1 % |
| Lending | 12.3 % | 10.9 % |
| Shares | 19.8 % | 20.4 % |
| Long-term/HTM bonds | 26.9 % | 27.6 % |
| Short-term bonds | 20.6 % | 21.4 % |
| Liquidity/money market | 7.6 % | 8.7 % |
| 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 3.6 per cent in 2015 and 6.9 per cent in 2014.

Expected payment into benefit plans after cessation of employment for the period 1 January 2016 – 31 December 2016 is NOK 14.3 million.

| Sensitivity analysis as at 31 December 2015 | |
|---|---|
| Discount rate reduced by 0.5% | Increase |
| Gross pension obligation | 9.9 % |
| Accumulation for the year | 13.5 % |
| Salary growth increases by 0.25% | Increase |
| Gross pension obligation | 1.3 % |
| 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.

| 2015 | Paid from KLP Banken AS | | | | | | | Paid from another company in the same group | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NOK thousands | Salaries, fees etc. | Other benefits | Annual pension accumulation | Plan change pension benefits | Loans | Interest rate as at 31.12.2015 | Repayment plan [1] | Salaries, fees etc. | Other benefits | Annual pension accumulation | Plan change pension benefits | Loans | Interest rate as at 31.12.2015 | Repayment plan [1] |
| **Senior employees** | | | | | | | | | | | | | | |
| Leif Magne Andersen, Managing Director of KLP Banken AS | 1 968 | 154 | 734 | - | 4 035 | 2,25-2,45 | A44 | - | - | - | - | 702 | 2,45 | A42 |
| Arnulf Arnøy, Director Public Sector Market [2] | 1 161 | 86 | 430 | - | - | - | - | - | - | - | - | 919 | 2,25 | A28 |
| Christopher A. Steen, Head of Finance Department | 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 | Flexi-loan | 6 | - | - | - | - | - | - |
| Eva M. Salvesen | 110 | - | - | - | - | - | - | 48 | - | - | - | - | - | - |
| Christin Kleppe, elected by and from the employees | 100 | - | - | - | - | - | - | 6 | - | - | - | - | - | - |
| **Control Committee** | | | | | | | | | | | | | | |
| Ole Hetland | 20 | - | - | - | - | - | - | 78 | - | - | - | - | - | - |
| Bengt P. Johansen | 18 | - | - | - | - | - | - | 65 | - | - | - | - | - | - |
| Dordi E. Flormælen | 18 | - | - | - | - | - | - | 65 | - | - | - | - | - | - |
| Berit Bore | 22 | - | - | - | - | - | - | 65 | - | - | - | - | - | - |
| Thorvald Hillestad | 18 | - | - | - | - | - | - | 65 | - | - | - | - | - | - |
| **Supervisory Board** | | | | | | | | | | | | | | |
| Total Supervisory Board | 74 | - | - | - | 4 303 | - | - | - | - | - | - | 9 488 | - | - |
| **Employees** | | | | | | | | | | | | | | |
| Total loans to employees of KLP Banken AS | - | - | - | - | 43 415 | - | - | - | - | - | - | 53 156 | - | - |

# Note 28 Salary and obligations to senior management etc. (continued)

| 2014 | Paid from KLP Banken AS | | | | | | | Paid from another company in the same group | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NOK thousands | Salaries, fees etc. | Other benefits | Annual pension accumulation | Plan change pension benefits 3) | Loans | Interest rate as at 31.12.2014 | Repayment plan 1) | Salaries, fees etc. | Other benefits | Annual pension accumulation | Plan change pension benefits 3) | Loans | Interest rate as at 31.12.2014 | Repayment plan 1) |
| **Senior employees** | | | | | | | | | | | | | | |
| Leif Magne Andersen, Managing Director of KLP Banken AS | 1 927 | 149 | 667 | -64 | 801 | 3,15 | A44 | - | - | - | - | 4 086 | 2,90-3,15 | A42 |
| Arnulf Arnøy, Director Public Sector Market | 1 474 | 110 | 582 | -276 | - | - | - | - | - | - | - | 1 242 | 2,90 | A31 |
| Christopher A. Steen, Head of Finance Department | 1 067 | 17 | 196 | -116 | 290 | 3,15 | A38 | - | - | - | - | 2 700 | 2,90 | A42 |
| **Board of Directors** | | | | | | | | | | | | | | |
| Sverre Thornes, Chair | - | - | - | - | - | - | - | 3 569 | 164 | 1 257 | -1 133 | 7 211 | 2,70-3,15 | A41 |
| Aage E. Schaanning | - | - | - | - | 942 | 3,15 | A22 | 3 190 | 149 | 1 085 | -1 048 | 2 483 | 2,70-3,15 | A31 |
| Mette-Jorunn Meisland | - | - | - | - | - | - | - | 1 348 | 149 | 452 | -433 | 5 987 | 2,90-3,15 | A38 |
| Jan Otto Langmoen | 102 | - | - | - | - | - | - | 6 | - | - | - | - | - | - |
| Eva M. Salvesen | 102 | - | - | - | - | - | - | 36 | - | - | - | - | - | - |
| Christin Kleppe, elected by and from the employees | 49 | - | - | - | - | - | - | 23 | | | | | | |
| Mette Rinde, elected by and from the employees 2) | 48 | - | - | - | - | - | - | 3 | - | - | - | - | - | - |
| **Control Committee** | | | | | | | | | | | | | | |
| Ole Hetland | 22 | - | - | - | - | - | - | 75 | - | - | - | - | - | - |
| Bengt P. Johansen | 18 | - | - | - | - | - | - | 63 | - | - | - | - | - | - |
| Dordi E. Flormælen | 18 | - | - | - | - | - | - | 63 | - | - | - | - | - | - |
| Irene Mathilde Skiri 2) | 9 | - | - | - | - | - | - | 31 | - | - | - | - | - | - |
| Berit Bore | 9 | - | - | - | - | - | - | 31 | - | - | - | - | - | - |
| Thorvald Hillestad | 18 | - | - | - | - | - | - | 63 | - | - | - | - | - | - |
| **Supervisory Board** | | | | | | | | | | | | | | |
| Total Supervisory Board | 75 | - | - | - | 5 191 | - | - | - | - | - | - | 9 092 | - | - |
| **Employees** | | | | | | | | | | | | | | |
| Total loans to employees of KLP Banken AS | - | - | - | - | 25 032 | - | - | - | - | - | - | 37 978 | - | - |

1) S= Serial loan, A=Annuity loan, last payment.
2) Resigned during the year.
3) Plan change pension benefits shows the effect of longevity adjustment for the year groups from 1954 adopted in 2008, as well as changes in the disability pension regulations adopted in 2014. Both these plan changes were incorporated in the calculation of the pension obligation in 2014.

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, like other employees in the banking group, no agreement on performance pay (bonus) or guaranteed salary. He is pensionable aged 65.

The Director Public Sector Market moved to another position in KLP Banken in Octoober. The benefits shown relate to the period before he changed jobs. He was also Managing Director of the subsidiary KLP Kommunekreditt until he changed jobs. He received no remuneration for that appointment. He has no agreement on performance pay, but has a salary guarantee of 21 months in the event of dismissal/agreed termination. He is also entitled to full retirement pension on reaching the age of 62.

The Head of the Finance Department 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 Supervisory Board. The Company shares a Supervisory Board with the rest of the companies in the KLP Bankholding Group. 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 | |
|---|---|---|---|---|
| 2014 | 2015 | | 2015 | 2014 |
| 55 | 59 | Number of FTEs | 59 | 55 |
| 58 | 61 | Number of employees as at 31 December | 61 | 58 |
| 56,5 | 60 | Average number of employees | 60 | 56,5 |

## Note 30 Pay and general management costs

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 2014 | 2015 | NOK thousands | 2015 | 2014 |
| -38 582 | -45 935 | Salaries | -45 935 | -38 582 |
| -5 609 | -6 683 | Social security contributions | -6 683 | -5 609 |
| -4 232 | -7 887 | Pensions including social security contributions | -7 887 | -4 232 |
| -553 | -320 | Other benefits | -320 | -553 |
| -48 976 | -60 824 | Total | -60 824 | -48 976 |

## Note 31 Other assets

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| 10 282 | 11 973 | Receivables between companies in the same Group | 437 | 492 |
| 303 | 207 | Prepaid expenses | 1 156 | 1 360 |
| 10 585 | 12 180 | Total | 1 593 | 1 852 |

## Note 32 Other liabilities and provision for accrued costs

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| 32 161 | 26 888 | Receivables between companies in the same Group | 25 025 | 27 573 |
| 7 020 | 1 514 | Creditors | 1 583 | 7 296 |
| 3 948 | 3 030 | Miscellaneous liabilities | 3 035 | 3 952 |
| 43 129 | 31 432 | Total other liabilities | 29 643 | 38 821 |
| | | | | |
| 2 647 | 2 738 | Withholding tax | 2 738 | 2 647 |
| 1 869 | 1 982 | Social security contributions | 1 982 | 1 869 |
| 4 173 | 4 499 | Holiday pay | 4 499 | 4 173 |
| 25 381 | 22 505 | Pension obligations | 22 505 | 25 381 |
| 60 | 77 | VAT | 170 | 301 |
| 913 | 5 174 | Provisioned costs | 6 027 | 2 366 |
| 35 043 | 36 976 | Total accrued costs and liabilities | 37 920 | 36 737 |

## Note 33 Transactions with related parties

| KLP Banken AS 2014 | KLP Banken AS 2015 | NOK thousands | KLP Banken AS Group 2015 | KLP Banken AS Group 2014 |
|---|---|---|---|---|
| | | **Income statement items** | | |
| 58 000 | 57 620 | KLP, fees lending management | 57 620 | 58 000 |
| 12 715 | 14 168 | KLP Kommunekreditt AS, administrative services (at cost) | 0 | 0 |
| 7 941 | 25 611 | KLP Boligkreditt AS, administrative services (at cost) | 0 | 0 |
| 59 388 | 48 269 | KLP Kommunekreditt AS, interest lending | 0 | 0 |
| 11 549 | 31 191 | KLP Boligkreditt AS, interest lending | 0 | 0 |
| -120 | -101 | KLP Kapitalforvaltning AS, fees for services provided | -422 | -434 |
| -3 557 | -3 692 | KLP, rent | -3 692 | -3 557 |
| -3 603 | -7 887 | KLP, pension premium | -7 887 | -3 603 |
| -42 214 | -46 386 | KLP, staff services (at cost) | -46 386 | -42 214 |
| 1 584 | 492 | KLP Group companies, subsidised interest employee loans | 1 065 | 1 856 |
| 101 683 | 119 286 | Total | 298 | 10 048 |

| KLP Banken AS 31.12.2014 | KLP Banken AS 31.12.2015 | NOK thousands | KLP Banken AS Group 31.12.2015 | KLP Banken AS Group 31.12.2014 |
|---|---|---|---|---|
| | | **Financial position statement items** | | |
| 2 207 657 | 2 181 927 | KLP Kommunekreditt AS, lending Group short-term | 0 | 0 |
| 1 011 240 | 825 732 | KLP Boligkreditt AS, lending Group short-term | 0 | 0 |
| -4 441 | -302 | KLP Kommunekreditt AS, loan settlement | 0 | 0 |
| -239 | -1 640 | KLP Boligkreditt AS, loan settlement | 0 | 0 |
| -17 051 | -16 448 | KLP, loan settlement | -16 448 | -17 051 |
| | | **Net internal accounts to:** | | |
| -10 430 | -8 498 | KLP | -8 498 | -10 430 |
| 3 647 | 4 494 | KLP Kommunekreditt AS, net internal accounts | 0 | 0 |
| 6 305 | 7 229 | KLP Boligkreditt AS, net internal accounts | 0 | 0 |
| 330 | 251 | KLP Group companies, net other internal accounts | 358 | 400 |
| 3 197 018 | 2 992 744 | Total | -24 588 | -27 081 |

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 | |
|---|---|---|---|---|
| 2014 | 2015 | NOK thousands | 2015 | 2014 |
| 350 | 402 | Ordinary audit | 1 118 | 1 012 |
| 0 | 8 | Certification services | 179 | 355 |
| 196 | 0 | Tax advisory services | 0 | 255 |
| 5 | 0 | Non-audit services | 0 | 14 |
| 551 | 410 | Total auditor's fee | 1 297 | 1 636 |

The sums above include VAT.

## Note 35 Contingent liabilities

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| 240 585 | 351 309 | Credit facilities for lending not utilized | 351 309 | 240 585 |
| 298 118 | 77 699 | Promised loans | 273 714 | 482 834 |
| 16 452 000 | 15 975 000 | Credit facility KLP Kommunekreditt AS | 0 | 0 |
| 1 800 000 | 2 850 000 | Credit facility KLP Boligkreditt AS | 0 | 0 |
| 18 790 703 | 19 254 008 | Total contingent liabilities | 625 023 | 723 419 |

## Note 36 Cash and cash equivalents

| KLP Banken AS | | | KLP Banken AS Group | |
|---|---|---|---|---|
| 31.12.2014 | 31.12.2015 | NOK thousands | 31.12.2015 | 31.12.2014 |
| 566 893 | 407 137 | Cash and bank deposits | 973 591 | 1 113 949 |
| 566 893 | 407 137 | Total cash and bank deposits | 973 591 | 1 113 949 |

In the statement of cash flows, cash and cash equivalents comprise the following:

| | | | | |
|---|---|---|---|---|
| 566 893 | 407 137 | Cash and bank deposits | 973 591 | 1 113 949 |
| -27 984 | -10 632 | Bank accounts for use for acquisition and sale of securities | -28 316 | -43 599 |
| 538 909 | 396 505 | Cash and cash equivalents at end of period | 945 275 | 1 070 349 |

To the Annual Shareholders' Meeting of KLP Banken AS

# Independent auditor's report

## Report on the Financial Statements

We have audited the accompanying financial statements of KLP Banken AS, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2015, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

*The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for the parent company and the group KLP Banken AS as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

*Opinion on Registration and Documentation*

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

Trondheim, 9 March 2016
**PricewaterhouseCoopers AS**

Rune Kenneth S. Lædre
State Authorised Public Accountant (Norway)

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

KLP PROVIDES PRODUCTS AND SERVICES WITHIN THE FOLLOWING AREAS:

- PENSIONS AND PENSION FUND SERVICES
- BANKING
- INSURANCE
- INVESTMENT FUNDS AND CAPITAL MANAGEMENT

KLP'S VALUES

open clear committed responsible

# This is KLP

## Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) is Norway's largest life insurance company.

KLP's main objective is to be Norway's leading provider of pensions to the public sector. KLP's most important task is to pay the right pension at the right time, and to manage the pension assets for its policy holders in an effective and secure manner. The return on the pension capital should be competitive, maintaining good service and efficient operation while keeping costs down.

The company provides services to employers and employees in municipal and county administrations, health trusts and businesses in the public and private sectors.

Its main product is public-sector occupational pensions; these pension schemes are stipulated in collective agreements and by law. The Group is also a major provider of non-life insurance, banking services and investment products. KLP Eiendom is the third-largest property management company in the Nordic region.

### Market leader – public sector pensions

KLP is the dominant provider of funded public-sector occupational pensions, after three years of exceptional growth following its competitors' decision to withdraw from the market for insured schemes.

At the start of 2016, 419 municipal and county authorities had pension schemes with the company. 29 of the 30 health enterprises and the four regional health enterprises have one or more pension agreements with KLP. Around 2,500 companies also have pension schemes with KLP. The company's pension schemes cover more than 440,000 people in work and 248,000 pensioners. 200,000 members also have a pension entitlement with KLP deriving from previous jobs.

### Good returns and low costs

KLP has had good returns and low costs for many years. This has taken KLP to a strong position in the market for occupational pensions. The confidence that comes with this position is an opportunity KLP intends to exploit to develop the core business and expand its other business activities.

### Successful focus on members

KLP also offers finance and insurance-related products and services to the retail market, mainly to members of KLP. The products are aimed at employees and pensioners of clients and owners whose pension schemes are managed by KLP. Almost 47,000 members are now customers in one or more business areas. Together with the other customers, the total is 67,500.

The products offered to members in the areas of banking, non-life insurance and investment funds are competitive both in terms of price and content, as shown by the growth in volumes and number of customers. Their ranking on Finansportalen and other market comparison sites shows that these membership products are well up among the best. The increase in new customers also shows that the benefits available to members are starting

KLP aims to deliver secure and competitive financial and insurance services to the public sector and enterprises associated with the public sector and their employees.

KLP'S BUSINESS CONCEPT

THE VAST MAJORITY OF MUNICIPAL AND COUNTY AUTHORITIES ARE KLP CLIENTS. KLP'S HEAD OFFICE IS IN OSLO. KLP ALSO HAS AN OFFICE IN BERGEN, WHICH LOOKS AFTER LIFE INSURANCE AND PENSION SERVICES. THE PROPERTY COMPANY HAS OFFICES IN OSLO, TRONDHEIM, COPENHAGEN AND STOCKHOLM. THE BANK HAS OFFICES IN TRONDHEIM AND OSLO.


to become known, which can largely be attributed to a series of marketing campaigns.

Excellent personal treatment and service are characteristic of KLP's customer relations. This was confirmed through a customer satisfaction survey undertaken among private customers in the autumn of 2015. The results were extremely positive, with both Banking and Insurance achieving a score of 74 or more. This also compares very well with other financial institutions in Norway. Customers are particularly happy with our level of service, responsiveness and personal treatment.

## Good reputation

KLP experienced strong growth in reputation in 2015, improving from 46 to 53 points in the TNS annual reputation survey. This places KLP among the best-regarded finance companies in the country; only Skandiabanken rates higher. Local government employees have improved their perception of KLP, which explains much of the development. The perception of KLP has improved in all aspects of reputation, but particularly with regard to financial soundness. The numbers who feel KLP is doing well financially rose from 28 to 39 per cent. As many as 76 per cent have great trust in KLP.

## Company structure

Customers with public sector occupational pensions in KLP own the company. The mutual company model is economically efficient and helps to ensure that all added value goes to these customers, without the need to pay external investors for providing capital to the business.

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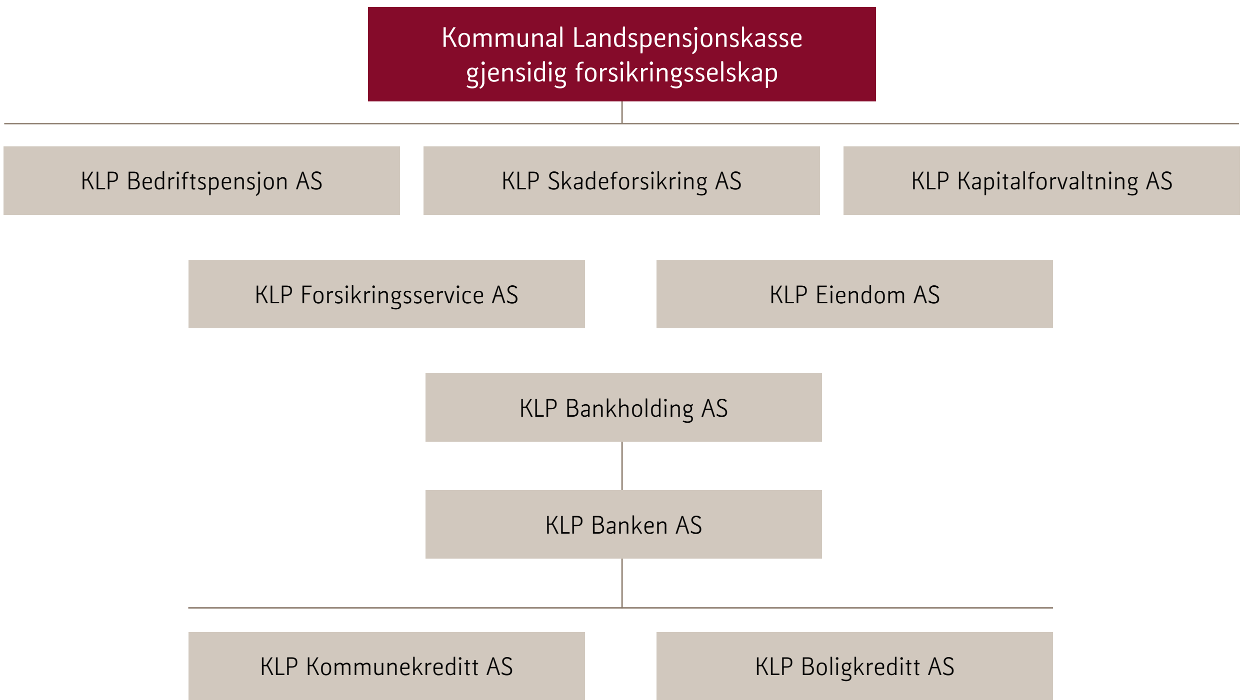
EMPLOYEES IN THE KLP GROUP
31.12.15

KLP has seven wholly-owned subsidiaries, which are organized as limited companies. The subsidiaries were created to support KLP's core business, and to offer secure and competitive services to KLP's owners and their employees.

At the end of 2015 the KLP Group employed more than 900 people, and managed total assets of NOK 540 billion.

KLP provides products and services within the following areas:
- Pensions and pension fund services
- Banking
- Insurance
- Investment funds and capital management




**KLP BANKEN AS** is an online bank, offering home mortgage lending and deposits. This provides the basis for efficient operations and low costs. At the start of the year the bank had over 36,700 active retail customers. At the end of 2015, the Bank and its subsidiaries had a lending volume of NOK 26.4 billion; home mortgages accounted for NOK 10.7 billion, while NOK 15.7 billion went to local authorities and municipal companies.

The overall business of KLP Banken AS and its subsidiaries is divided into the retail market and public sector business areas. The business is nationwide and the companies' head office is in Trondheim.

**KLP Boligkreditt AS** is a subsidiary of KLP Banken, and was licensed as a mortgage lender in 2014. A proportion of the group's lending in the consumer market has been transferred to this company. The business is funded largely through the issue of mortgage-backed covered bonds.

**KLP Kommunekreditt AS** is also a subsidiary of KLP Banken. The company aims to be a key financing partner for the public sector. KLP Kommunekreditt finances a broad spectrum of local administrations' needs, from schools, kindergartens and sheltered housing to projects related to the administrations' climate and energy plans. KLP also finances some council-run infrastructure.

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NOK BILLION MANAGED TOTAL ASSETS
AT THE END OF 2015

KLP's vision is to be the best partner for the days to come.

**KLP SKADEFORSIKRING AS** offers insurance solutions to the public sector and enterprises, and also to the consumer market, with particular benefits for KLP members. At the end of 2015 the company had 318 municipal and 14 county authorities on its client list, as well as 2,914 enterprises including 29 health trusts. The company had 33,250 customers in the retail market.

**KLP FORSIKRINGSSERVICE AS** has specialist expertise with regard to public sector pension schemes, and offers a full range of pension fund services.

**KLP BEDRIFTSPENSJON AS** offers defined-contribution occupational pensions, including the management of pension capital certificates, for public and private sector enterprises. The company manages total capital assets of NOK 2,943 million.

**KLP KAPITALFORVALTNING AS** manages investment funds on behalf of the KLP Group's insurance business and other clients through the KLP Funds. KLP Kapitalforvaltning AS holds a licence from the Financial Supervisory Authority of Norway to manage securities funds and alternative investment funds, and to provide active asset management and associated services. At the end of last year the company managed assets worth approx. NOK 398 billion.

**KLP EIENDOM AS** is one of Norway's largest property companies, with 1,780,000 m$^2$ of floor space and 373,000 m2 of leasehold land under management, along with several major property development projects. As at 31 December 2015, the properties were worth a total of NOK 55,4 billion. KLP Eiendom has operations in Norway, Sweden, Denmark, Luxembourg and the UK (London). Its properties have excellent locations, a high standard of construction and effective utilization of space. KLP Eiendom only manages the Group's own properties, and does not provide real estate services to external customers.

## Social responsibility

KLP aims to contribute to a sustainable public sector and to integrate sustainability and responsibility into all its business processes. We find that our owners and other stakeholders are more and more concerned with this.

KLP's social responsibility work can be grouped into four areas:
1. Responsibility in investments and products
2. Environmental solutions
3. Sharing of knowledge
4. Local engagement

These are topics identified by employees, management and other stakeholders as areas of great importance.

### RESPONSIBILITY IN INVESTMENTS AND PRODUCTS

KLP aims to be among the leading financial institutions in the area of responsible investment in Norway. The tools that KLP uses in this connection are active ownership, exclusion and investments in sustainable development.

### ENVIRONMENTAL SOLUTIONS

In KLP's business, it is the property company that has the greatest direct impact on the environment. KLP Eiendom manages and operates almost two million m2, mainly within the office, shopping centre and hotel sectors. KLP places great stress on optimizing the operation of the buildings so as to provide both a good indoor climate and working environment for the users and the lowest possible energy consumption.

The whole group is Miljøfyrtårn-certified, except for KLP Eiendom which is ISO 140001-certified. The Group's premises in Trondheim and Oslo were re-certified under the Miljøfyrtårn scheme in 2015.

### SHARING OF KNOWLEDGE

KLP has information and knowledge on the causes of claims and disability, and on effective preventive measures. Sharing this knowledge is an important part of KLP's social responsibility. KLP has HSE teams which can assist both pension and insurance customers with their HSE projects. KLP offers courses, information days and inspections covering a wide range of topics such as damage prevention in buildings, fire safety, working environment development, seniors policy and measures to increase the average leaving age.

### LOCAL ENGAGEMENT

All projects that KLP provides knowledge to are locally based. Local engagement is also fostered through KLP's Community Volunteering Fund, which provides financial support to local projects implemented on a voluntary basis. In 2015, 23 voluntary projects out of a total of 107 applications from all over Norway were given support.

### OPENNESS AND SUSTAINABILITY REPORTING

The cornerstone of KLP's social responsibility work is the company's openness. More detailed descriptions of objectives, initiatives and results are available from klp.no/samfunnsansvar. This also contains details of companies that KLP has excluded, KLP's voting history and ownership.

### INTERNATIONAL STANDARDS

KLP signed the UN Global Compact in 2003. The UN Global Compact encompasses ten principles which the signatories undertake to work towards.

KLP also endorses the UN principles for responsible investments, promoting concern for the environment, society and corporate governance.

# History
# 1949-2016

**1949**
The Union of Norwegian Cities and the Norwegian Association of Rural Municipalities (forerunners to the Norwegian Association of Local and Regional Authorities - KS) resolve to establish Kommunal Landspensjonkasse. KLP was established as a «managed» pension scheme under Norsk Kollektiv Pensjonskasse.

**1950**
KLPs Harald Bastiansen develops an average premium system for hospital doctors.

**1961**
The Nurses' Scheme with average premiums is introduced. The Norwegian Act concerning Pension Scheme for Nurses came into force in 1962.

**1967**
The Norwegian parliament, the Storting, passed a resolution to introduce National Insurance.

**1974**
The Transfer Agreement, to which KLP contributes, secures pension rights in the event of a change of job within the public sector.

**1974**
KLP obtains its own licence as an insurance company and establishes a joint local authority pension scheme.

**1986**
KLP achieves breakthrough pensions to be indexed in line with the National Insurance Basic Amount («G»).

**1988**
Contractual early retirement (AFP) is introduced.


**1990**
KLP establishes scheme with equity capital contribution i.a.w. the Norwegian Insurance Act.

**1995-1996**
Competition over the local authority pension schemes becomes fiercer.

**2003**
The Banking Act Commission delivers reports on competition in local government occupational pension schemes, and gender and age neutrality in group pension schemes.

**2004**
KLP's premium system becomes part of the industry norm and is incorporated into the Norwegian Insurance Act.

**2008**
The Norwegian Insurance Act is amended. Differentiation is made between customer assets and corporate assets.

**2011**
Public sector occupational pension is adjusted to the changes in the Pension Reform.

**2013**
KLP's principal competitors in the market for public sector occupational pensions opt to withdraw.

**2014**
The Storting adopts new disability pension in the public sector from 1 January 2015.

**2016**
New Solvency II regulations

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